

Perspectives

FOR RETIRED
MEMBERS
OF THE
NORTH DAKOTA
PUBLIC
EMPLOYEES
RETIREMENT
SYSTEM

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In this issue...

- **Retirees to Receive a Supplemental Benefit Payment**
- **BCBSN Switching to New Formulary**
- **Retiree Health Insurance Premium Adjustment**
- **Important Notice About Your Prescription Drug Coverage and Medicare**
- **Tax-free Distribution of Medical Premiums for Public Safety Officers**



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Retirees to Receive a Supplemental Benefit Payment

We are happy to report that as of June 30, 2007, the PERS fund surpassed the required return of 9.06%. Therefore, members who have a retirement effective date on or before November 30, 2007 will receive a one-time supplemental payment, equal to 75% of their gross monthly benefit which will be paid in January 2008. The supplemental payment does not apply to members of the Judges, TFFR, TIAA-CREF or Job Service retirement programs.

BCBSND Switching to New Formulary in 2008

On January 1, 2008, your Blue Cross Blue Shield of North Dakota MedicareBlueRx plan will switch to a new formulary called the Ideal Formulary. Use of the new formulary will result in lower health insurance premiums due to reduced administrative expenses and greater rebates from drug manufacturers.

A total of 660 medications with therapeutic or chemical equivalents are being removed from the formulary. If you are currently taking a drug that is being removed from the formulary in 2008, you will receive a letter from MedicareBlueRx in a few weeks. The letter will explain the formulary change, outline the drug(s) you are currently taking and provide alternatives for that medication.

It is important that you review any changes with your doctor or pharmacist. They can prescribe a therapeutic equivalent that could reduce your out-of-pocket expense.

Current members will be "grandfathered" with their current prescriptions through 2008. New prescriptions obtained in 2008 must be in the Ideal Formulary or they will not be paid. The formulary appeals process will continue to be available to all members.

NDPERS Medicare retirees will receive notice of the formulary change and other important information in the coming weeks.

Retiree Health Insurance Premium Adjustment

The following information applies only to members entitled to Medicare that are currently enrolled in the Dakota Retiree Plan.

Your NDPERS Dakota Retiree Plan includes coverage for both health and prescription drug benefits. The NDPERS Dakota Retiree Plan is a "Carve-Out" plan that pays secondary to Medicare. While it is not a supplemental plan, it does provide coverage on unpaid claims by Medicare

Part A and Part B and provides prescription drug coverage under Medicare Part D.

Your current Prescription Drug Program (PDP) was implemented January 1, 2006 in order to satisfy Medicare Part D requirements. The plan receives a subsidy from the Federal government which is used to offset the actual premium amount for retirees who are enrolled in the PDP. A subsidy is

Continued inside

Tax-free Distribution of Medical Premiums for Safety Officers

On August 17th, 2006, President Bush signed The Pension Protection Act of 2006 (PPA '06). Section 845 of the PPA '06 permits eligible retired public safety officers to transmit up to \$3,000 of their benefits from certain governmental retirement plans (such as NDPERS) each year, tax free, to cover their qualified medical insurance premiums. Qualified medical insurance premiums include health, dental, and vision and qualified long-term care plans. The medical insurance premiums must be deducted from a pension benefit. This article is for information purposes only. While we can advise you of this new provision, we cannot give tax advice. Therefore, you may want to consult a tax advisor.

Definition of Public Safety Officer:

The term "public safety officer" includes individuals serving a public agency in an official capacity, with or without compensation, such as the following:

1. a law enforcement officer (including a person involved in enforcement of criminal laws, such as police, corrections, probation, parole, and judicial officers);
2. a firefighter;
3. a member of a rescue squad or ambulance crew; or
4. a chaplain.

Eligibility:

Eligible retired public safety officers are permitted to transmit up to \$3,000 of their benefits from certain governmental retirement plans each year, tax free, to cover their qualified medical insurance premiums if they retire at normal retirement age or due to disability. Normal retirement age is determined by NDPERS plan provisions.

Continued on back page

Retiree Health Insurance Credit (RHIC) Now Credits May Be Combined

Senate Bill 2045 provided that as of August 1, 2007, spouses who both have earned a RHIC may combine their respective credits and apply it toward the premium for your NDPERS' group health insurance coverage. This provision does not apply to members of the TFFR or TIAA-CREF retirement programs.

Who is eligible for this provision?

1. Members and spouses receiving retirements benefits from the:
 - a. Defined Benefit Hybrid Retirement Plan
 - b. National Guard Retirement Plan
 - c. Law Enforcement Retirement Plan
 - d. Highway Patrol Retirement Plan
 - e. Judges Retirement Plan
 - f. Job Service Retirement Plan
 - g. Defined Contribution Retirement Plan
2. Surviving spouses receiving retirement benefits may be eligible to use the credit of a deceased spouse that was receiving benefits from one of the above referenced plans.

When are you eligible for this provision?

1. August 1, 2007 and thereafter
2. Upon completion of a "Request to Combine Retiree Health Insurance Credits SFN 58591." Any request received prior to the 15th of the month will be effective the first of the following month.

Can this option be changed at a later date?

Yes. However, members are responsible for notifying NDPERS if they want to elect or discontinue this option by completing either a "Request to Combine Retiree Health Insurance Credits SFN 58591" or "Request to Cancel Combined Retiree Health Insurance Credits SFN 58592."

Under this option, can you add additional family members to you and your spouse's coverage?

No. The decision to combine credits is not a qualifying event that allows you to add additional eligible family members to your contract.

Retiree Health Insurance Premium Adjustment

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allowed for each person enrolled for coverage on the contract. Due to a change to the annual Medicare subsidy and the annual renewal, you will have a premium adjustment effective January 1, 2008. Specifically, the premium for this coverage will be going down by \$3.70 per month for each person on the contract (i.e. for a single contract the premium will be reduced by \$3.70 per month and for a family contract with two people the premium will be reduced by \$7.40 per month).

In late November, you will receive a notice at your address of record informing you of the new rate effective January 1, 2008. If you are residing at a different address during the winter months, be sure to update

your mailing address or your forwarding order. Address changes must be in writing and include your social security number, signature and effective date of the change.

In addition, the drug formulary will be changing effective January 1, 2008. This change will result in some drugs being removed from the formulary and will affect about 9% of the members on the plan. Without the formulary change, the premiums would have increased by \$11.65 per person per month for each person on the contract. For additional information about this change, refer to the article titled "BCB-SND Switching to New Formulary in 2008".

IMPORTANT NOTICE

About Your Prescription Drug Coverage and Medicare

PLEASE READ THIS information carefully before making a decision about your prescription drug and medical coverage.

This notice may or may not apply to you. However we are providing it in order to inform you about the Medicare Prescription Drug Improvement Modernization Act of 2003 and how it may affect you or any other family member who is covered under the plan and who may be eligible for Medicare Part D coverage.

Effective January 1, 2006, new Medicare prescription drug coverage was made available to everyone with Medicare. Referred to as Medicare Part D, this coverage is in addition to Medicare Parts A and B medical coverage. Because of this change in Federal law, you have new choices for getting prescription drug coverage. All Medicare prescription drug plans must provide at least a standard level of coverage set by Medicare.

The NDPERS Dakota Retiree plan available through the North Dakota Public Employees Retirement System (NDPERS) provides both medical and prescription drug coverage to eligible members entitled to Medicare. With the change in Federal law, the NDPERS Board of Directors elected to implement a private Prescription Drug Program (PDP) on behalf of its Medicare eligible members. However, Medicare prescription drug coverage will also be available through private companies. As you think about whether you want to enroll with one of these prescription plans, a Medicare Advantage plan (which is a company such as an HMO that contracts with the federal government to provide your Medicare benefits) or a Medigap policy, there are certain things you need to consider.

- Because it has been determined that the PDP provided by NDPERS is on average at least as good as the standard Medicare prescription drug coverage, you can keep this coverage and not pay extra if you later decide to enroll in Medicare coverage.

- The NDPERS plan also provides medical coverage in addition to prescription drugs. If you choose to enroll in another Medicare prescription drug plan, a Medicare Advantage plan or a Medigap policy, you will not be eligible to enroll in or retain your medical and prescription drug coverage in the Dakota Retiree Plan. Your coverage with NDPERS will be cancelled. Be aware that you may not have an opportunity to get the NDPERS coverage back.

- You are required to be enrolled in Medicare Parts A & B in order to be eligible to enroll in the Dakota Retiree plan. If you drop your Medicare A & B coverage to enroll in a Medicare Part C plan, you will no longer meet the NDPERS requirements and your retiree medical and prescription drug coverage through the Dakota Retiree plan will be cancelled.

Before making your decision, please examine all your options to be sure you understand the plan coverages.

If you drop your NDPERS coverage, you will only be able to re-enroll if you apply for coverage within 31 days from any one of the following "qualifying events":

1. Date of retirement, defined as either:
 - The last day of active employment if member does not defer his/her retirement benefit or take a lump-sum refund of his/her retirement account, or
 - Date of first retirement check if member deferred his/her retirement benefit.

2. Member's 65th birthday or eligibility for Medicare;

3. Member's spouse or eligible dependent's 65th birthday or eligibility for Medicare;

4. The loss of coverage in a health plan sponsored or provided by member's employer or member's spouse's employer, if covered through spouse's employer group plan. This includes loss of coverage due to the death of, or divorce from a spouse as well as completion of COBRA continuation coverage.

5. Marriage

6. Birth, adoption, or appointment of children for legal guardianship.

For individuals with limited income and resources, assistance is available to help pay for a Medicare prescription drug plan. Information about this assistance is available from the Social Security Administration (SSA). For more information, visit SSA online at www.socialsecurity.gov, or call them at 1-800-772-1213 (TTY 1-800-325-0778).

More detailed information about Medicare plans that offer prescription drug coverage is available from the following resources:

- Visit www.medicare.gov for personalized help,
- Call Senior Health Insurance Counseling (SHIC), a program of the North Dakota Insurance Department, at 1-800-247-0560, or
- Call 1-800-MEDICARE (1-800-325-4227). TTY users should call 1-877-486-048.

Date: October 1, 2007
 Name of Entity: North Dakota Public Employees Retirement System
 Address: 400 E Broadway Ave., Suite 505, Bismarck, ND 58502
 Phone Number: 701-328-3900 or 800-803-7377



Tax-Free Distribution of Medical Premiums for Public Safety Officers

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Retirement benefits attributable to service other than as a public safety officer will be eligible for this tax-free distribution provided the employee separates from service as a public safety officer.

The following employees are ineligible for the tax-free distribution:

- Those who leave before normal retirement age and who are not disabled
- Those who do not work as a public safety officer immediately prior to retirement (even if they work for the relevant governmental agency)
- Those who pay for their health insurance through automatic premium deduction
- Those who pay by personal check (direct bill)

Tax Reporting:

• It is the responsibility of the retired officer to claim the premium payments that were subtracted from their pension as a reduction in taxable income on their Form 1040 up to the eligible amount of \$3,000 per year.

NDPERS will not be doing any systematic changes for pre-taxing or any additional reporting on the form 1099R. According

to federal requirements, the responsibility of claiming the tax credit is up to the retiree. Retired public safety officers will need to retain the information they are already provided through check statements or quarterly statements and report this information on their Form 1040.

Questions about tax reporting should be directed to a professional tax consultant.

The articles and opinions in this publication are for general information only and are not intended to provide specific advice or recommendations for any individual. We suggest that you consult your attorney, accountant, financial or tax advisor with regard to your individual situation. This newsletter is available in alternate formats upon request. Printed on recycled paper.

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