

Perspectives

FOR RETIRED
MEMBERS
OF THE
NORTH DAKOTA
PUBLIC
EMPLOYEES
RETIREMENT
SYSTEM

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PERS Retirement Plan Financial Update Part 2

In the last issue of this newsletter, we introduced this topic to provide you with an update about the effect the financial market downturn had on the PERS retirement system funds. We shared with you the results of the most recent actuarial report which indicated that our investment returns were a negative 24.5% for the fiscal year ending June 30, 2009.

We provided historical data on past year's returns and gave an overview of the funded status of the plan from both an actuarial and market perspective. We discussed the estimated projections from our actuary that outlined the contribution deficiency we may be facing in the future as a result of the negative returns and the NDPERS Board's plan of action to review and address this issue.

To address this challenge, the Board determined that one option available to mitigate the funding deficiency would be to increase the contribution rate. At its March meeting, the Board approved three bill drafts each depicting a different scenario based on an increase in the current employee and/or employer contribution. The bills will be introduced to the Legislative Employee Benefits Committee (LEBC) which starts a process of consideration that includes assessing the technical and actuarial effects of each bill. The committee will prepare a report of its findings to include along with the bill(s) if they are submitted for the Legislature's consideration at the next

session. The following is a summary of the three options proposed:

1. An 8% increase in employer contributions phased in over 4 years beginning in January of 2012.
2. An 8% increase in employee contributions phased in over 4 years beginning in January of 2012. The bill provides that the employee contribution increase would be pre-taxed pursuant to section 404(h).
3. A 4% increase in employee contributions and a 4% increase in employer contributions phased in equally over 4 years beginning in January of 2012. Similar to #2, the state employee contribution increase would be pre-taxed pursuant to section 404(h).

For further information, we have the following video presentations on our website at www.nd.gov/ndpers:
Retirement Plan Update Webcast

- Part One: The Challenge
- Part Two: The Considerations
- Part Three: To be released in May

In addition to the above, the site also includes a link to a *Grand Forks Herald* news article about the PERS retirement system that is a question and answer interview with our Executive Director, Sparb Collins.

We encourage you to view the webcasts for a more detailed explanation of the status of the PERS retirement system funds. Each presentation is approximately 15 minutes in duration and requires Windows Media Player®. We will also keep this site updated with additional news and related information as it becomes available.

Please remember to keep you address current with NDPERS. If you have a change in address, NDPERS cannot accept this order over the phone. A request must be in writing and contain your signature.

Income Tax Withholding for Pension Payments

The Internal Revenue Service (IRS) has issued new tax withholding tables effective February 1, 2010 that are used to calculate the federal income tax withholding for pension payments.

In summary, the automatic withholding threshold has been decreased. Therefore, the amount of federal tax withheld from your payments (if any) may change. NDPERS has adjusted its system to incorporate the new withholding requirements.

If you wish to adjust your withholding you must file a new W-4P with the PERS office. You may obtain the form from our web site at www.nd.gov/ndpers under the "New Tax Tables" notice on our home page which contains links to the W-4P form, 2010 tax tables and the IRS on-line withholding calculator. If you use the IRS on-line calculator, do not check the box inquiring about a non-government pension. Forms are also available by calling the NDPERS office at 701-328-3900 or 1-800-803-7377.

Withholding is one way for you to pay a portion of your income tax. If no tax or not enough tax is withheld from your benefits, you may have to pay estimated taxes during the year or a tax penalty at the end of the year. Of course, whether you have to pay federal income tax on your benefit payments depends on the total amount of your taxable income. Remember, for many people, Social Security benefits are not taxable.

Your decision on withholding is an important one. You may wish to discuss it with a qualified tax adviser.

Patient Protection and Affordable Care Act Passed March 21, 2010

On March 21, 2010, the House of Representatives passed the Patient Protection and Affordable Care Act. The Act (HR 3590) was passed by the Senate on December 24, 2009. The Act became law when it was signed by President Obama on March 23, 2010. Following is a summary of the Act as passed by the House and Senate:

Changes effective in 2010/2011

Although existing group health plans will be "grandfathered," that is, exempt from certain requirements, several requirements will now be effective for plan years beginning six months after the date of enactment. For the NDPERS plan this will be July 1, 2011.

- No lifetime benefit limits and only limited annual benefit limits.
- Coverage for dependent children up to age 26, as long as they do not have access to other employer-sponsored health coverage.
- No preexisting conditions for children under age 19.

In 2011, Health Flexible Spending Arrangements, Health Reimbursement Arrangements, and Health Savings Accounts can only reimburse participants

for over-the-counter drugs with a prescription written by their health care provider. Beginning in 2013, the Act will cap health FSA contributions at \$2,500 per year (indexed).

Additional reforms would be effective for plan years beginning on or after January 1, 2014, including a ban on waiting periods over 90 days.

Changes affecting retiree health plans

- Retiree reinsurance program: A program that will take effect within 90 days of enactment will reimburse plan sponsors for 80% of claims between \$15,000 - \$90,000 for pre-Medicare retirees age 55-64. The program is funded with \$5 billion and is designed to be a bridge to the Exchanges in 2014.
- Medicare Part D: Beneficiaries who are in a Prescription Drug Plan and who reach the doughnut hole in 2010 would receive a one-time \$250 rebate. In 2011, the reconciliation bill provides a 50% discount on brand-name drugs in doughnut hole for retirees in a Prescription Drug Plan; 75% discount on generics. The measure is designed to eliminate the doughnut hole by 2020.

2009 Comprehensive Annual Financial Report

NDPERS prepares a Comprehensive Annual Financial Report as of June 30 of each year. This report contains detailed financial, investment, actuarial and statistical information for the plans administered by NDPERS. You can view, download or print the report from the NDPERS website at www.nd.gov/ndpers under Forms and Publications. If you have any questions on the report, contact Sharon Schiermeister.

Mastectomy-related Services Are Covered

Did you know that your health plan, as required by the Women's Health and Cancer Rights Act of 1998, provides benefits for mastectomy-related services? These services include all stages of reconstruction and surgery to achieve symmetry between the breasts, and prostheses and treatment for complications, such as lymphedemas, resulting from a mastectomy. Call the telephone number on the back of your BCBSND identification card for more information.

Summary of Legislative Proposals

The following summarizes the bills submitted to date to the interim Legislative Employee Benefits Committee for the 2011 legislative session.

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Bill No. 51 Increase employee contributions under the Highway Patrolmen's plan and the PERS defined benefit and defined contribution retirement plans by 8% beginning with a 2% increase in January of 2012 and 2% increase annually thereafter with the final increase effective for the reporting period beginning January of 2015.

Increase employee contributions under the Law Enforcement Plan by 4% beginning with a 1% increase in January of 2012 and 1% increase annually thereafter with the final increase effective for the reporting period beginning January of 2015. *(Sponsored by PERS)*

Bill No. 52 Increase employer contributions under the Highway Patrolmen's Plan and the PERS defined benefit and defined contribution retirement plans by 8% beginning with a 2% increase in January of 2012 and 2% increase annually thereafter with the final increase effective for the reporting period beginning January of 2015. *(Sponsored by PERS)*

Bill No. 53 Increase employer contributions by 4% and employee contributions by 4% for the Highway Patrolmen's plan and the PERS defined benefit and defined contribution retirement plans; increase employer contributions by 4% beginning with a 1% increase in January of 2012 and a 1% increase annually thereafter with the final increase effective for the reporting period beginning January of 2015; increase employee contributions by 4% beginning with a 1% increase in January of 2012 and a 1% increase annually thereafter with the final increase effective for the reporting period beginning January of 2015.

Increase employee contributions for the Law Enforcement Plan by 2% beginning with a .5% increase beginning in January of 2012 and a .5% increase annually thereafter with the final increase effective for the reporting period beginning January of 2015. *(Sponsored by PERS)*

Bill No. 59 Special annuity purchases in the alternate retirement program for University System employees, surviving spouse payment options under the Highway Patrolmen's retirement plan, calculation of member service credit under the Highway Patrolmen's retirement plan, election of members to the PERS Board, calculation of normal retirement date for peace officers and correctional officers under PERS, payment of member account balances under PERS, purchase of sick leave credit under PERS, spousal elections to participate in the uniform group insurance program, reporting of employer pickups under the defined contribution retirement plan, and Internal Revenue Code compliance under the Highway Patrolmen's retirement plan and PERS. *(Sponsored by PERS)*

Bill No. 80 Defined contribution plan for new state employees first employed after July 31, 2011. *(Rep. Wald)*

UNIFORM GROUP INSURANCE PROGRAM

Bill No. 60 Formation of subgroups under the uniform group insurance program to allow another coverage option for retired employees not eligible for Medicare. *(Sponsored by PERS)*

Bill No. 1 Retiree health insurance credit benefits for members of the Legislative Assembly. *(Sen. Mathern)*

Bill No. 9 Public Employees Retirement System medical benefits coverage for autism spectrum disorders. *(Sen. Nelson, Sen. Wardner)*

Bill No. 36 Expansion of the uniform group insurance program to allow participation by permanent and temporary employees of private sector employers and by certain other individuals who are otherwise without health insurance coverage. *(Sen. Mathern)*

Bill No. 38 Negotiate with state and federal entities to purchase public employees retirement system health insurance coverage for each Medicaid-eligible person in lieu of Medicaid coverage. *(Sen. Mathern)*

State Investment Board Update

Submitted by the Retirement & Investment Office (RIO)

It is with deep sadness that we share with you that Steve Cochrane, Executive Director and Chief Investment Officer (CIO) for the ND Retirement and Investment Office (RIO) and ND State Investment Board (SIB), recently passed away. Steve was a talented and well-respected investment professional who served as the state’s CIO for over 13 years, and our agency’s director for 11 years. His expertise and friendship will be greatly missed.

In the meantime, please be assured that the SIB has a long-term strategic investment program in place. Investment operations continue to run smoothly and without disruption. Pension and insurance trust fund investment policies are implemented by outside managers hired by the SIB; no funds are managed internally. Those outside investment managers will continue to be monitored by experienced SIB staff and external investment consultant, with appropriate action taken by the SIB as needed.

Decisions on selecting a new Executive Director/CIO rest with the SIB. At their meeting on April 23, the SIB:

- Established an Executive Committee to search for an interim Executive Director/CIO until a permanent replacement can be found.
- Established a Search Committee to look for a permanent Executive Director/CIO.
- Authorized a special audit to verify the assets and controls of the program. Assigned SIB Audit Committee with responsibility for selecting independent audit firm and defining scope of audit.
- Affirmed Fay Kopp as Acting Executive Director for agency operations. Connie Flanagan, Fiscal & Investment Officer, will continue to handle investment program operations, with additional assistance from the SIB’s investment consultant, Callan Associates, as needed.

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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