NORTH Dakota | State Investment Board
Be Legendary. RETIREMENT & INVESTMENT

Friday, January 27, 2023, 8:30 a.m.
Virtual Only
Click here to join the meeting

AGENDA

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA
A. Welcome of Lt. Governor Miller
B. Executive Summary

II. ACCEPTANCE OF MINUTES (December 16, 2022)

III. ELECTIONS (5 minutes)
A. Election of Chair – Vice Chair Dr. Lech

IV. EDUCATION (30 minutes)
A. Risk/Return – Mr. Anderson

V. INVESTMENTS (10 minutes)
A. Investment Policy Statements – Mr. Anderson
1. ND Public Employees Retirement System (PERS)
2. PERS Retiree Health Insurance Credit Fund
3. PERS Group Insurance Account Investment Policy Statements

VI. GOVERNANCE (95 minutes)
A. 2023 Legislative Session Update – Ms. Murtha

(Break)

B. Investment Committee Update – Treasurer Beadle, Mr. Anderson
C. Governance & Policy Review Committee Update – Dr. Lech, Ms. Murtha
D. Board Self-Assessment – Ms. Seiler

VII. Quarterly Monitoring Reports (60 minutes)
A. Annual TFFR Ends – Mr. Roberts
B. Quarterly Investment Ends (12/31) - Mr. Chin
C. Compliance Report – Mr. Posch
D. Executive Limitations/Staff Relations – Ms. Murtha
1. Engagement Survey Results

VIII. OTHER (5 minutes)
Resolution in Appreciation for Lt. Governor Sanford

Next Meetings:
Investment Committee – February 10, 2023, at 9:00 a.m.
Audit Committee – February 15, 2023, at 2:30 p.m.
TFFR Board Meeting (Tentative) – February 16, 2023, TBD
SIB Meeting – February 17, 2023, at 8:30 a.m.

IX. ADJOURNMENT

Any individual requiring an auxiliary aid or service, please contact the Retirement and Investment Office (701) 328- 9885 at least three (3) days prior to the scheduled meeting.

EXECUTIVE SUMMARY

SIB Regular Meeting

January 27, 2023 – 8:30am CT

I. **Agenda:** The **January Board Meeting will be Virtual Only; a link will be provided so that Board members and the public may join via video conference.** The board member video link is included in the email with the Board materials.

- The meeting will begin with the welcome of Lt. Governor Miller.

II. **Minutes (Board Action):** The December 16, 2022, Board meeting minutes are included for review and approval.

III. **Election of Chair (Board Action):** The Board must elect a Chair to fill the vacancy created by the departure of Lt. Governor Sanford.

IV. **Board Education – Risk/Return (Information Only):** Mr. Anderson will present a discussion regarding return and risk with a focus on liquidity risk at the asset class level and the portfolio level.

V. **Investments – Investment Policy Statements (Board Action):** The PERS Board approved updates to three investment policy statements. Mr. Anderson will review the proposed changes with the Board for SIB approval.

VI. **A. Governance – 2023 Legislative Session Update (Board Action):** Ms. Murtha will review information relating to the status of bills under consideration by the legislature that are impactful to the SIB program and the GPR Committee recommendations regarding board position on these bills. Ms. Murtha will seek the boards guidance regarding position testimony.

B. Governance – Investment Committee Update (Information Only): The Committee Chair and Mr. Anderson will provide the Board with an overview of discussion items from the most recent committee meeting.

C. Governance – Governance & Policy Review Committee Update (Information Only): Dr. Lech will provide an update on GPR committee activities. The update will be added after the GPR Committee meets on January 26, 2023.

D. Governance – Board Self-Assessment (Board Action): Ms. Seiler, Supervisor of Internal Audit, will present the Board Self-Assessment survey for approval and distribution.

VII. **A-D. Reports (Board Action):** Staff will provide monitoring reports on annual TFFR ends, quarterly investment ends, investment compliance, and executive limitations/staff relations.

Adjournment.

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
DECEMBER 16, 2022, BOARD MEETING (VIRTUAL)

MEMBERS PRESENT:	Brent Sanford, Lt. Governor, Chair Dr. Rob Lech, TFFR Board, Vice Chair Thomas Beadle, State Treasurer Glenn Bosch, Legacy/Budget Stab. Adv. Board Rep Joseph Herringer, Commissioner of Unv & School Lands Cody Mickelson, TFFR Board Adam Miller, PERS Board Claire Ness, PERS Board, Parliamentarian Mel Olson, TFFR Board Yvonne Smith, PERS Board Art Thompson, Director of WSI
MEMBERS ABSENT:	Jon Godfread, Insurance Commissioner
STAFF PRESENT:	Scott Anderson, CIO Eric Chin, Deputy CIO Derek Dukart, Investment Officer Jecca Geffre, Communications & Outreach Dir. Rachel Kmetz, Accounting Mgr. Missy Kopp, Exec Assistant George Moss, Sr. Investment Officer Jan Murtha, Exec Dir. Ann Nagel, Investment Accountant Matt Posch, Sr. Investment Officer Emmalee Riegler, Contracts/Records Admin. Chad Roberts, DED/CRO Sara Sauter, Internal Audit Supvr. Ryan Skor, CFO/COO Dottie Thorsen, Internal Auditor Tami Volkert, Compliance Spec. Susan Walcker, Sr. Financial Accountant Jason Yu, Risk Officer
GUESTS:	Nick Archuleta, ND United Jace Beehler, Governor's Office Alex Browning, Callan Rebecca Fricke, PERS Kelvin Hullet, BND Brenna Jessen, Securities Commission Candace Johnson, Securities Commission Bryan Klipfel, Retiring Director of WSI Rachel Kriege, Insurance Dept Scott Miller, PERS Adam Montgomery, Securities Commission Colton Schulz, Insurance Department Members of the Public

<u>CALL TO ORDER</u>:

Lt. Gov. Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 8:53 a.m. on Friday, December 16, 2022. The meeting was held virtually.

The following members were present representing a quorum: Treasurer Beadle, Commissioner Heringer, Dr. Lech, Mr. Mickelson, Mr. Miller, Ms. Ness, Lt. Gov. Sanford, Ms. Smith, and Mr. Thompson.

Mr. Olson was in attendance via Microsoft Teams but was not able to unmute for votes.

<u>ACCEPTANCE OF AGENDA</u>:

The Board considered the agenda for the December 16, 2022, meeting.

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA AS DISTRIBUTED.

AYES: COMMISSIONER HERINGER, TREASURER BEADLE, MR. MILLER, MR. THOMPSON, MR. MICKELSON, MS. NESS, DR. LECH, MS. SMITH, AND LT. GOV. SANFORD
NAYS: NONE
ABSENT: COMMISSIONER GODFREAD AND MR. OLSON
MOTION CARRIED

<u>MINUTES</u>:

The Board considered the minutes of the November 18, 2022, SIB meeting.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MS. NESS AND CARRIED BY A VOICE VOTE TO APPROVE THE NOVEMBER 18, 2022, MINUTES AS DISTRIBUTED.

AYES: MR. MICKELSON, COMMISSIONER HERINGER, MS. SMITH, MR. THOMPSON, TREASURER BEADLE, DR. LECH, MS. NESS, MR. MILLER, AND LT. GOV. SANFORD
NAYS: NONE
ABSENT: COMMISSIONER GODFREAD AND MR. OLSON
MOTION CARRIED

<u>INVESTMENTS</u>:

<u>Legacy Fund Investment Policy Statement (IPS)</u>:

Mr. Anderson reviewed the updated Legacy Fund IPS. The Legacy and Budget Stabilization Advisory Board has been working with RVK to update the IPS to help with the implementation of the in-state investment program. The Advisory Board did not change the asset allocation because of market turbulence but plans to reassess the allocation in the spring of 2023. An error was noted on the second page. Staff will correct the error. The IPS has been approved by the Advisory Board and now requires approval from the SIB. Board discussion followed.

IT WAS MOVED BY COMMISSIONER HERINGER AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE LEGACY FUND IPS AS AMENDED.

AYES: MR. MICKELSON, COMMISSIONER HERINGER, MR. THOMPSON, TREASURER BEADLE, DR. LECH, MS. NESS, MR. MILLER, AND LT. GOV. SANFORD
NAYS: NONE
ABSENT: COMMISSIONER GODFREAD, MR. OLSON, AND MS. SMITH
MOTION CARRIED

GOVERNANCE:

2023 Legislative Session Update:

Ms. Murtha provided an update on the SIB composition bill that was submitted by RIO. Mr. Anderson reviewed the implementation of three bills from the 2021 Legislative Session. HB 1425 created an in-state manager preference and an in-state investment program. With almost $300 million committed, ND has one of the largest in-state investment programs in the nation. Staff have been reaching out to in-state managers to find out their capabilities and desire as the staff works to implement investment mandates.

For HB 1380 we have created the Legacy Earnings Fund and a percent of market value (POMV) spending rule without amending the definition of earnings. The POMV of 7% for the current biennium is $486 million. The earnings include realized gains and losses. The amount of earnings available for transfer will be in flux through May of 2023.

SB 2291 prohibits social investing. SIB client funds are managed by external managers. Staff meet with all managers at least twice per year as part of their due diligence process. All managers are asked if they are managing the funds for the exclusive benefit of the beneficiaries. Managers know they are required to follow the prudent investor rule and their incentives are aligned with this rule. Managers are instructed to vote proxies to maintain or improve shareholder value for the exclusive benefit of the client fund. Staff take this process very seriously.

Board discussion followed.

QUARTERLY MONITORING REPORTS:

Quarterly Budget/Expense Report:

Mr. Skor provided the Budget & Expense report for the quarter ended on September 30, 2022. There is a significant appropriation amount related to the TFFR PAS project which skews the available budget amount. Mr. Skor reviewed the expenditure summary and PAS project status. Board discussion followed.

Quarterly TFFR Ends:

Mr. Roberts reviewed the TFFR Ends Report for the period ended September 30, 2022. The Communications and Outreach Director and Accounting Intern positions were posted. RIO's NDIT Business Analyst resigned, and Mr. Roberts participated with NDIT in the hiring process for that position. The TFFR GPR Committee established a workplan to complete a full review of the TFFR Policy Manual. Ms. Murtha provided testimony to the Retirement Committee regarding impacts to the TFFR plan relating to the proposal to close the PERS defined benefit plan. Board discussion followed.

Quarterly Internal Audit Report:

Ms. Seiler provided the Quarterly IA Report. The SIB Audit Committee met on November 15, 2022, and approved the first quarter IA Activities Report and received an update on current IA activities. CliftonLarsonAllen (CLA) presented the FY 2022 Financial Statement Audit which had an unmodified "clean" opinion. The GASB 68 Schedule Audit included testing of 12 employers and 137 employees. There was one employer finding which was immaterial. IA completed a payroll audit for the agency which resulted in one recommendation. The TFFR File Maintenance Audit was completed, and IA provided two recommendations. A Request for Proposals (RFP) was issued to evaluate internal audit and the agency's future needs in this area. The bid was awarded to Weaver & Tidwell, LLP and a kickoff took place in November 2022. Board discussion followed.

Executive Limitations/Staff Relations:

Ms. Murtha provided the Executive Limitations/Staff Relations Report. The reorganization of the TFFR Compliance Specialist and Retirement Accountant positions was the final phase of the reorganization of the Retirement Services

Division. The Retirement Accountant position has been posted. Three new investment staff started in November and the fourth position has been filled with an expected start date of January. Staff have been conducting interviews for the Chief Risk Officer position. The new Accounting Intern started earlier in December. Board discussion followed.

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO ACCEPT THE QUARTERLY BUDGET/EXPENSE, TFFR ENDS, INTERNAL AUDIT, AND EXECUTIVE LIMITATIONS/STAFF RELATIONS REPORTS.

AYES: MS. NESS, COMMISSIONER HERINGER, MR. MICKELSON, MS. SMITH, MR. MILLER, TREASURER BEADLE, MR. THOMPSON, DR. LECH, AND LT. GOV. SANFORD
NAYS: NONE
ABSENT: COMMISSIONER GODFREAD AND MR. OLSON
MOTION CARRIED

ADJOURNMENT:

With no further business to come before the SIB, Lt. Gov. Sanford adjourned the meeting at 9:55 a.m.

Prepared by:

Missy Kopp, Assistant to the Board

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MEMORANDUM

TO:	**SIB**
FROM:	**Jan Murtha, Executive Director**
DATE:	**January 20, 2023**
RE:	**Elections of Chair**

Pursuant the Governance Manual By-Laws Chapter 3 (G-3), the SIB must elect a Chair and Vice Chair at the first meeting of each fiscal year and fill any vacancy within that year at the first meeting following the vacancy. For the 2022-23 year, the Board had elected Lt. Governor Sanford as Chair. Lt. Governor Sanford resigned subsequent to the December 2022 SIB meeting. Lt. Governor Miller will replace Lt. Governor Sanford on the SIB. The Board will need to now elect a Chair:

- **SIB Chair**
(Vacant)

- **SIB Vice Chair**
(Currently Dr. Lech – TFFR Trustee)

Either the Chair or Vice-Chair must be a member of the TFFR or PERS Board per Section 3.1 of the SIB By-Laws.

The relevant By-Laws and Governance Policy of the SIB are included below:

By-Laws Chapter 3:

Section 3-1. The officers of the SIB are a Chair and Vice Chair, one of which must be an appointed or elected member of the TFFR or PERS Board. The officers will be elected by the SIB to a one-year term at the first regularly scheduled meeting following July 1 of each year. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy.

Section 3-2. Chair. The Chair will preside at all meetings of the SIB.

Section 3-3. Vice Chair. In the absence of the Chair, the Vice Chair will perform the duties of the Chair.

Policy B-4(1)(D): The chairperson shall appoint a Parliamentarian.

BOARD ACTION. Nominate and elect Chair.

RETURN AND RISK – LIQUIDITY RISK

Scott M Anderson, CFA

January 27, 2022

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TIME, DIVERSIFICATION AND UNCERTAINTY

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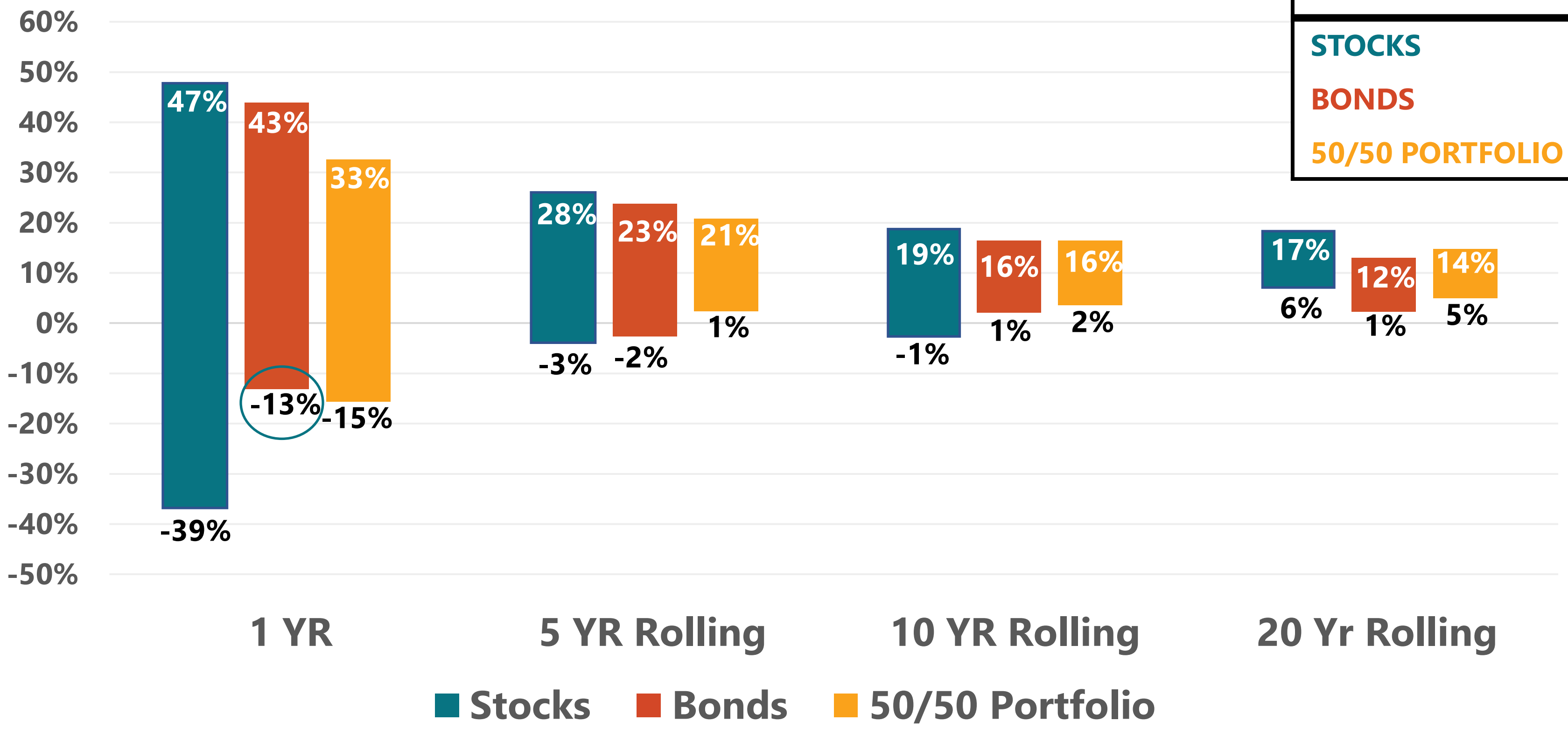
THE HIGHS AND LOWS ARE SLOW TO CHANGE!

RANGE OF STOCK, BOND AND BLENDED RETURNS[1]

(Annual Total Returns, 1950 – 2021)



	ANNUAL AVERAGE TOTAL RETURN
STOCKS	11.1%
BONDS	5.5%
50/50 PORTFOLIO	8.7%

1. JPM Guide to Markets – Factset, Blomberg, Federal Reserve, Robert Shiller and Strategis/Ibbotson

VALUE OF AN INVESTMENT

$$\text{Value} = \frac{\textbf{CASH FLOW (Year 1)}}{\textbf{COST OF CAPITAL} - \textbf{GROWTH RATE}}$$

CASH FLOW(YEAR 1)	**INVESTABLE CASH AFTER EXPENSES AND MAINTENANCE EXPENDITURES EACH YEAR**
COST OF CAPITAL	**REQUIRED RETURN FOR AN EQUAL RISK INVESTMENT**
GROWTH RATE	**GROWTH RATE OF THE CASH FLOW IN TIME**

VALUE OF AN INVESTMENT - EXAMPLE

VALUE OF $225 OF CASH FLOW (YEAR 1) THAT GROWS AT THE GROWTH OF CASHFLOW RATE

COST OF CAPITAL	GROWTH OF CASHFLOW	VALUE
10%	0%	$2250
11%	6%	$4500
5%	0%	$4500
20%	10%	$2250

EXAMPLE CASH FLOW GROWING AT A 6% RATE

YR 1	YR 2	YR 3	YR 4	YR 5
$225	$236	$248	$260	..... (forever)

MARKET RISK – UNCERTAINTY OF RETURN

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VALUATION UNCERTAINTY DRIVES RETURN UNCERTAINTY!

$$\text{RETURN} = \frac{\text{Value Before?} - \text{Value After?}}{\text{Value Before?}}$$

UNCERTAINTY OF RETURN OUTCOME OR <u>RISK</u>

HIGH RETURN

17%

EXPECTED RETURN

7%

-3%

LOW RETURN

$$\frac{\text{CASH FLOW (Year 1)}_{\text{After}}\,?}{\text{COST OF CAPITAL}_{\text{After}}\,? - \text{GROWTH RATE}_{\text{After}}\,?}$$

1. Market Risk is the uncertainty of the actual return compared to what is expected. Investment returns have a higher probability of being near the expectation and lower probabilities away from the expectation, like a normal distribution.

RETURN EFFICIENCY

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$$\text{RETURN EFFICIENCY} = \frac{\text{Return} - \mathit{RISK\ FREE\ RATE}}{\text{Risk (Range of Returns)}} \quad \frac{5\%}{10\%} \text{ IS BETTER THAN } \frac{5\%}{20\%}$$

EXAMPLE:

1 YEAR EXPECTED RETURN	RISK FREE RATE	RISK	EFFICIENCY	AVERAGE COMPOUND RETURN (MANY YEARS)
8.1%	3.1%	10%	.5	7.6%
8.1%	3.1%	20%	.25	6.1%

33% LOWER LONG-TERM RETURN BECAUSE OF THE DOUBLING OF RISK!

TYPICAL RETURN/RISK ASSUMPTIONS[2]

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ILLUSTRATION

ASSET CLASS	ARITHMETIC RETURN	COMPOUND RETURN	RISK	EFFICIENCY[1]	
IG FIXED INCOME	4.30%	4.20%	4.10%	0.29	LOW LIQUIDITY RISK
DOMESTIC EQUITIES	8.80%	7.20%	18.00%	0.32	
WORLD ex US	9.50%	7.20%	21.30%	0.30	
IG CREDIT (INTERMEDIATE)	5.40%	5.10%	7.20%	0.32	
REAL ESTATE	6.60%	5.60%	14.20%	0.25	
PRIVATE EQUITY	12.00%	8.20%	27.60%	0.32	HIGH LIQUIDITY RISK

1. Assumes a 3.1% risk free rate
2. Callan capital market assumptions

THE LIQUIDITY OF A SECURITY DEPENDS ON PRICE AGREEMENT

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$$\text{RETURN} = \frac{\text{Value Before?} - \text{Value After?}}{\text{Value Before?}}$$

UNCERTAINTY OF RETURN OUTCOME OR RISK **INCREASES WITH ILLIQUIDITY**

HIGH RETURN

17%

EXPECTED RETURN

7%

-3%

LOW RETURN

VALUE DETERMINED IN A NEGOTIATION BETWEEN A BUYER AND SELLER

NARROW BID/ASK

EASY TO TRANSACT

Price

BID ↔ ASK

WIDE BID/ASK

DIFFICULT TO TRANSACT

Price

BID ↔ ASK

MORE LIQUID ↔ LESS LIQUID

PRICE CAN GAP DOWN WHEN SELLER NEEDS TO LIQUIDATE

LIQUIDITY RISK REQUIRES COMPENSATION MUCH LIKE MARKET RISK

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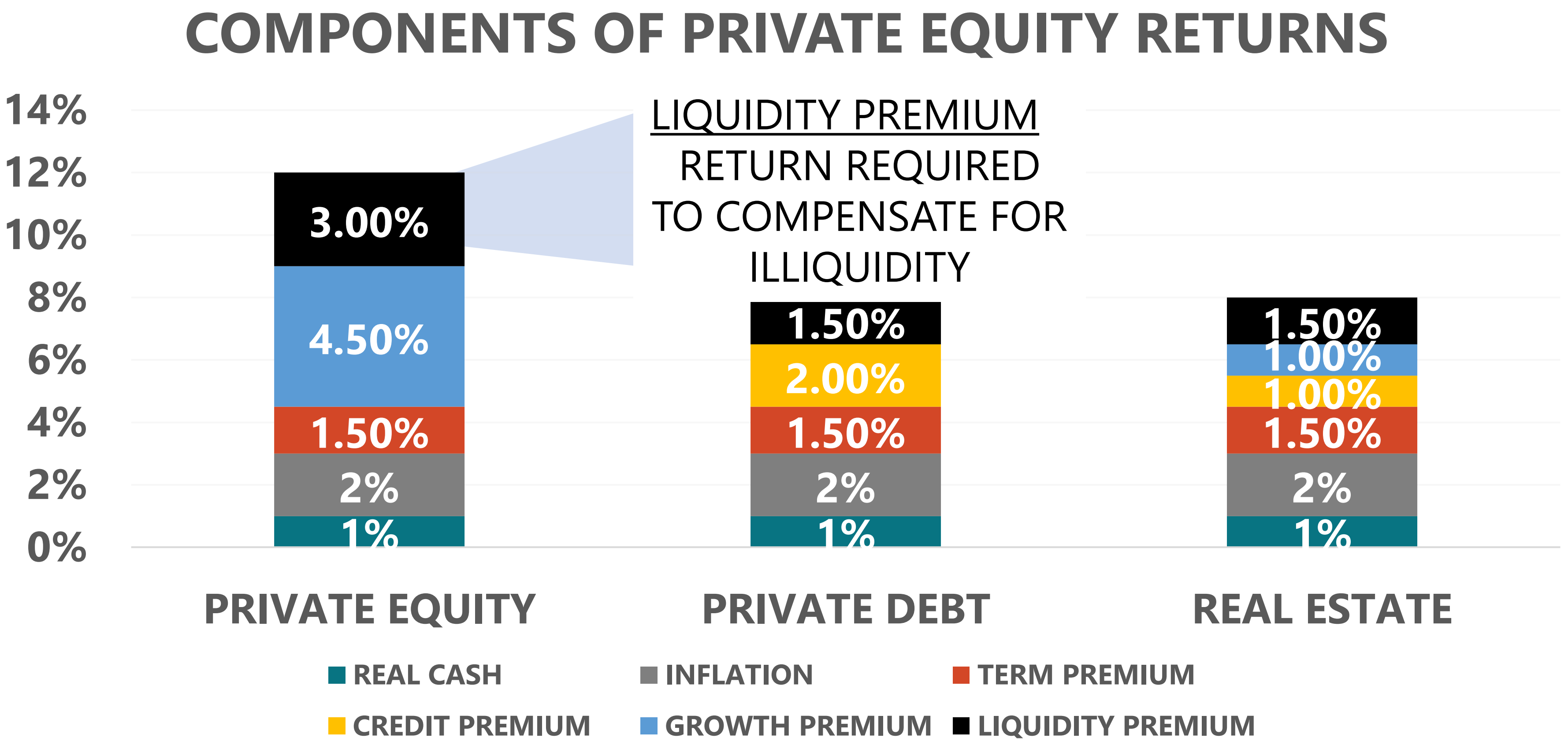
STYLIZED
ILLUSTRATION



LIQUIDITY PREMIUM COMPENSATES FOR MARKET ILLIQUIDITY

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PRIVATE EQUITY LIQUIDITY RISK

ILLUSTRATION

LIQUIDITY PREMIUM

3.0%[1]

1.5% FUNDING RISK — RISK OF FUNDING NOT AVAILABLE WHEN THERE IS A NEED TO REFINANCE OR RAISE MORE CAPITAL

1.5% LIQUIDATION RISK — RISK OF NOT FINDING A BUYER WHEN FORCED TO SELL – WIDE BID/ASK SPREAD FOR SELLING INTEREST

THE RISK SHOWS UP IN TIMES OF MARKET STRESS – LOTS OF BUYERS AND NOT MANY SELLERS

1. Private Equity Performance and Liquidity – Franzoni, Nowak, Phalippo 2012

PRIVATE MARKETS ARE A STRATEGY

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PRIVATE EQUITY RETURN EFFICIENCY

STYLIZED ILLUSTRATION

	RETURN	**EFFICIENCY[1]**
ASSET CLASS	9.0%	0.21
LIQUIDITY	3.0%	0.11
ACTIVE	2.0%	0.07
TOTAL	14.0%	0.39

1. Return less the return for cash per unit of risk

LIQUIDITY OF ALLOCATIONS

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STYLIZED
<u>ILLUSTRATION</u>

LIQUID ALLOCATION

ASSET CLASS	WEIGHT	RETURN	RISK	
EQUITY	60.0%	9.0%	20.0%	LIQUID ASSETS
FIXED INCOME	40.0%	5.0%	6.0%	
PRIVATE MARKETS	0.0%	10.0%	20.0%	ILLIQUID ASSETS
TOTAL		7.4%	12.0%	

ABILITY TO LIQUIDATE ASSETS FOR FUND OUTFLOWS WITH LITTLE IMPACT TO MARKET VALUES

LESS LIQUID ALLOCATION

	ASSET CLASS	WEIGHT	RETURN	RISK
LIQUID ASSETS	EQUITY	22.5%	9.0%	20.0%
	FIXED INCOME	27.5%	5.0%	6.0%
ILLIQUID ASSETS	PRIVATE MARKETS	50.0%	10.0%	20.0%
	TOTAL		8.4%	14.2%

LESS ABLE TO LIQUIDATE ASSETS FOR FUND OUTFLOWS WITH LITTLE IMPACT TO MARKET VALUES

MORE LIQUID ⟷ LESS LIQUID

INSURANCE — PENSION — ENDOWMENT

VISUALIZING LIQUIDITY

- WATER IN = CASH-IN/CONTRIBUTIONS
- SOME WATER FROZEN (CAN'T FLOW OUT) = ILLIQUID ASSETS THAT ARE DIFFICULT OR EXPENSIVE TO SELL
- SOME WATER NOT FROZEN AND IS ABLE TO FLOW OUT = SPENDING

LIQUIDITY RISK =	CASH-IN PLUS LIQUID ASSETS IS NOT ENOUGH TO MEET CASH OUT REQUIREMENTS

STATEMENT OF INVESTMENT GOALS, OBJECTIVES AND POLICIES FOR THE NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS

The North Dakota Public Employees Retirement System (NDPERS) and the Highway Patrol Retirement System (HPRS) are pension benefit plans established to provide retirement income to state employees and employees of participating political subdivisions. The plans are administered by a nine member Board of Trustees (the Board). The Chair is appointed by the governor, three members are elected by the active members of the plans, one member is elected by the retired members, one is appointed by the Attorney General, one member is the State Health Officer or their designee and two are legislative appointees.

The NDPERS plan is a multi-employer hybrid benefit public pension plan that provides retirement benefits, disability retirement benefits, and survivor benefits, in accordance with Chapter 54-52 of the North Dakota Century Code (NDCC). Monthly retirement benefits for the Main, State Law Enforcement (BCI) and Public Safety Plans are based on the formula: number of Years of Service times 2.0% times the final average salary. For the Main 2020 Plan the retirement formula is: number of Years of Service times 1.75% times the final average salary. For the NDPERS Judges Plan the retirement formula is: for the first ten years of service of the formula is final average salary times 3.5%, for the second ten years of service the formula is final average salary times 2.80% and for all remaining years of service the formula is final average salary times 1.25%.

The Highway Patrol plan is a single employer plan that provides retirement benefits, disability benefits, and survivor benefits in accordance with Chapter 39-03.1 of the North Dakota Century Code. Monthly retirement benefits are based upon on the formula: first 25 years of credit service times 3.25% and all remaining years of service times 1.75%.

Funding for the NDPERS plan is provided by monthly employee contributions and employer contributions with the amount varying based upon which NDPERS plan the member participates in. For the Main NDPERS plan the employee contribution is 7% and the employer contribution is 7.12%, for the Main 2020 NDPERS plan the employee contribution is 7% and the employer contribution is 8.26%, for the Judges Plan the employee contribution is 8% and employer contribution is 17.52%, for the BCI employee contribution is 6.0% and employer contribution is 9.81%, for the Public Safety Plan with prior service the employee contribution is 5.5% and the employer contribution is 9.81% and for the Public Safety Plan without prior service the employee contribution rate is 5.5% and the employer rate is 7.93%.

Funding for the Highway Patrol plan is provided by a monthly employee contribution of 13.8% and an employer contribution of 20.2% for 2022, 14.3% employee and 20.7% employer contribution for 2023, and a 14.8% employee and 21.2% employer contribution for 2024.

Each year the Board has an actuarial valuation performed. The current actuarial assumed rate of return on assets for all plans is 6.5%.

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 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 goals of the Fund have been established by the NDPERS Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

Goal# 1 — Accumulate sufficient wealth through a diversified portfolio of investments which will enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund.

Goal #2 — To obtain an investment return in excess of that needed to allow for increases in a retiree's annuity to maintain the purchasing power of their retirement benefit.

The Board acknowledges the material impact that funding the pension plan has on the State's financial performance. To enable the State to continue offering secure pension benefits to plan participants, the Board believes that the Fund should pursue the following **secondary goals:**

1. Stabilize the employee and employer contributions needed to fund the Plan over the long term.
2. Avoid both substantial volatility in contributions and sizable fluctuations in the funding status of the Plan.

These two secondary goals affect the Fund's investment strategies and often represent conflicting goals. That is, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The Board places greater emphasis on the strategy of stabilizing the employee and employer contribution needed to fund the plan over the long term as it assists our participating employers by having a predictable contribution for budgeting.

5. INVESTMENT PERFORMANCE OBJECTIVE

The Board's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

1. The fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2. The fund's risk, measured by the standard deviation of net returns, should not exceed **115%** of the policy benchmark over a minimum evaluation period of five years.
3. The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

6. ASSET ALLOCATION

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the NDPERS Board has established the following asset allocation:

Asset Class	Policy Target(%)	Rebalancing Range(%)
Global Equity	58	46-66
Public Equity	51	42-57
Private Equity	7	4-9
Global Fixed Income	23	16-30
Investment Grade	16	11-21
Non-Investment Grade	7	5-9
Global Real Assets	19	10-25
Global Real Estate	11	5-15
Other (Infrastructure/Timber)	8	0-10
Global Alternatives		0-10
Cash	0	0-2

The Board does not endorse tactical asset allocation, therefore, it is anticipated the portfolio be managed as close to the policy target as is prudent and practicable while minimizing re-balancing costs. Any allocation to Global Alternatives shall not increase the expected volatility of the portfolio as measured in Section #5, and all other targets will be adjusted pro-rata.

PERS requires that in implementing this asset allocation that the State Investment Board seek to maximize return within the scope of these policies while limiting investment costs.

7. RESTRICTIONS

A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers

C. No transaction may be made which threatens the tax exempt status of the Fund.

D. No unhedged short sales or speculative margin purchases may be made.

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."*

E. 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 investing 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.*

F. 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.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

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.

A report on investment fees and the SIB's effort relating to Section 6. To measure investment cost PERS requires as part of the annual review information from Callan, CEM or other acceptable source showing the value added versus the cost.

Changes/additions to benchmarks utilized to monitor the funds.

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.

Scott Miller
Executive Director
North Dakota Public Employees Retirement System

Date: December 13, 2022

Scott Anderson
Chief Investment Officer
North Dakota Retirement and Investment Office

Date: ______________________________

NDPERS RETIREE HEALTH INSURANCE CREDIT FUND

STATEMENT OF INVESTMENT GOALS, OBJECTIVES AND POLICIES

1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS

The North Dakota Public Employees Retirement System (NDPERS) Retiree Health Insurance Credit Fund was established in 1989 to provide for prefunding of premiums for medical coverage to state employees and employees of participating political subdivisions in accordance with Chapter 54-52.1 of the North Dakota Century Code. The plan is administered by a nine member Board of Trustees (the Board). The Chair is appointed by the governor, three members are elected by the active members of the plans, one member is elected by the retired members, one is appointed by the Attorney General, one member is the State Health Officer or their designee and two are legislative appointees.

The NDPERS plan is a defined benefit program that provides for a partial payment of a retiree's medical insurance premium based on the number of years of service.

Funding for the NDPERS plan is provided by a monthly employer contribution of 1.14 percent of payroll. On a monthly basis, benefit payments are netted out against contributions and the balance forwarded to the trust's custodian for investment.

Each year the NDPERS Board has an actuarial valuation performed. The current actuarial assumed rate of return on assets for the plan is 5.75%.

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, 21-10-02, 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 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 goals of the Fund have been established by the NDPERS Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

Goal # 1 Accumulate sufficient wealth through a diversified portfolio of investments which will enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund.

Goal # 2 To obtain an investment return in excess of that needed to allow for increases in a retiree's credit to maintain the purchasing power of their benefit.

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.

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 by more than 15% as measured by standard deviation.

6. ASSET ALLOCATION

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the NDPERS Board has established the following asset allocation:

Date of Last Asset Allocation Study: December 2020 – Callan Corporation

Broad US Equity	39%
Global ex-US Equity	26%
Fixed Income	35%
Expected Return	6.1%
Standard Deviation	11.7%

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

PERS requires that in implementing this asset allocation that the State Investment Board seek to maximize return within the scope of these policies while limiting investment costs.

7. RESTRICTIONS

A. No transaction may be made which threatens the tax exempt status of the Fund.

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."*

B. 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 investing 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.

C. 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.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

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.
- A report on investment fees and the SIB's effort relating to Section 6. To measure investment cost PERS requires as part of the annual review information from Callan, CEM or other acceptable

source showing the value added versus the cost.

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.

Scott Miller	Scott Anderson
Executive Director	Chief Investment Officer
North Dakota Public Employees Retirement System	North Dakota Retirement and Investment Office
Date: December 13, 2022	Date:

NDPERS GROUP INSURANCE ACCOUNT
INVESTMENT OBJECTIVES AND POLICY GUIDELINES

1. FUND CHARACTERISTICS AND CONSTRAINTS.

The ND Public Employees Retirement System (PERS) Group Insurance Account (Fund) was established to hold insurance premiums collected from employers until paid to the insurance carrier.

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

PERS has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of PERS to establish policies on investment goals and asset allocation of the Funds. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Funds in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

3. INVESTMENT OBJECTIVES.

Premiums are collected throughout the month at PERS and will be forwarded to the Fund investment account on approximately the 5th of each month. The premiums transferred into the investment account will be transferred back to PERS on approximately the 20th of each month so they may be remitted to the insurance carrier. The investment objective of the Fund is to maximize the return on the deposits within the short-term time-frame involved.

4. STANDARDS OF INVESTMENT PERFORMANCE.

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as the 90-day Treasury bill.

b. The Fund annual standard deviation of total returns should not materially exceed that of the policy portfolio.

5. POLICY AND GUIDELINES.

The asset allocation of the Fund is established by PERS, with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Short Term Fixed Income	95%
Cash Equivalents	5%

This cash will be held in an enhanced money market account at the Fund's custodian.

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 managers.

c. No transaction shall be made which threatens the tax exempt status of the Fund.

d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

e. No unhedged short sales or speculative margin purchases shall be made.

f. 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.

   For the purpose of this document, 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."*

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

   For the purpose of this document 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.

   Also, for the purpose of this document, 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.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

6. EVALUATION AND REVIEW.

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

Approved by:

NDPERS	STATE INVESTMENT BOARD
Scott Miller	Scott Anderson
Executive Director, NDPERS	Chief Investment Officer, RIO
Date: December 13, 2022	Date: ____________________

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MEMORANDUM

TO: **SIB**
FROM: **Jan Murtha, Executive Director**
DATE: **January 20, 2023**
RE: **2023 Legislative Session Update**

Please find following this memorandum the bill tracker prepared by RIO staff for the week of January 16, 2023. An updated bill tracker will be provided to the Board and replace the enclosed in the Board packet prior to the SIB meeting on January 27, 2023. Staff will review relevant legislation impacting investment operations with the SIB GPR Committee at its meeting on January 26, 2023, for position recommendations to the full SIB. Staff will present SIB GPR recommendations and highlight other bills where RIO has already offered testimony during the SIB meeting on January 27, 2023.

Testimony offered by RIO staff on behalf of both the SIB and TFFR Board thus far this session is included as an appendix to the Board packet. This includes testimony on HB1039, HB 1040, HB 1088, HB 1150, HB 1219, HB 1227, and SB 2022.

ACTION REQUESTED: Provide staff guidance on position for testimony.

2023-2025 Legislative Session RIO Bill Tracker

Bill #	Topic	Description	Sponsor	Hearing Date	Committee	Status
HB 1039	Closing DB Plan	Closing DB Plan (eff. 12/31/23)	Legislative Management: Weisz, Bosch, Boschee, Lefor, Mitskog, Vigesaa, Burckhard, Klein, Piepkorn, Schaible, Wanzek	1/13 - 9:15am	House GVA	
HB 1040	Closing DB Plan	Closing DB Plan (eff. 12/31/24)	Legislative Management: Weisz, Bosch, Boschee, Lefor, Mitskog, Vigesaa, Burckhard, Klein, Piepkorn, Schaible, Wanzek	1/13 - 8:30a.m.	House GVA	
HB 1088	SIB	SIB Membership changes	Government and Veterans Affairs: Schauer, Satrom, Bahl, Cory, Hoverson, Johnson, Karls, Louser, McLeod, Rohr, Schneider, Steiner, Vetter	1/12 - 10:15am	House GVA	Amended by House GVA on 1/19/22. Passed Committee 13-0. Reduced experts to 1 from 2, changed experience language; Legacy Advisory Board would be a voting member; and two legislative members.
HB 1147	Legacy Earnings	Creating a county and township bridge fund from legacy earnings	Rep. Thomas, Rep. Anderson, Rep. Hagert, Rep. Lefor, Rep. Mitskog, Rep. Monson, Sen. Myrdal, Rep. Pyle, Sen. Sorvaag, Rep.	1/18 - 10:30am	House Approps	
HB 1150	Veteran Exemption for TFFR	Allows veterans with at least 20 years of military service to opt out of the TFFR in their first year of teaching	Thomas, Bekkedahl, Heinert, Meyer, O'Brien, Pyle, Richter, Ruby, Schaible, Schreiber-Beck, Vedaa	1/16 - 4:00pm	House Education	Passed House 1/19 54 yeas/ 37 nays
HB 1201	Employee recruiting	Prohibiting a state entity from employing an individual under contract with a school district	Reps. Heinert, Hauck, Koppelman, Meier, Porter, M. Ruby, Toman Sens. Larsen, Meyer, Schaible	1/18 - 2:00pm (3rd)	House Education	
HB 1216	ND Development Fund	Commerce Dept. funds to promote economic development.	Rep, Nathe	1/16- 9:00am	House IBL	
HB 1219	TFFR	TFFR Changes	Reps. Kempenich, Conmy, Kreidt Sen. Schaible	1/20 - 9:15am	House GVA	
HB 1227	Legacy Fund	Requiring a cost-benefit analysis for a measure or policy affecting the Legacy Fund.	Reps. Kempenich, Bosch, Cory, Mock, Swiontek, Thomas, Vigesaa Sens. Klein, Meyer, Patten	1/18 - 9:00am	House Finance & Tax	Passed House 1/20 89 yeas/ 0nays
HB 1251	Salaries for school superintendents	Capping salaries for school superintendents	Rep. Ruby, Sen. Cleary, Rep. Heilman, Rep. Heinert, Sen. Hogue, Sen. Krebsbach, Sen. Kreun, Rep. Lefor, Sen. Meyer, Rep. Schreiber-Beck	1/25 - 10:00am	House Education	

HB 1271	TFFR	Opt-out for retired teachers returning to service from having to contribute to TFFR	Reps. Schatz, Hauck, D. Ruby, Strinden Sen. Myrdal	1/23 - 3:00pm	House Education	
HB 1278	SIB	Requiring contracts with custodians/managers include required written support of fossil fuel and ag industries in state.	Reps. Satrom, Grueneich, Headland, Lefor, S. Olson, Ostlie, Schauer, Steiner Sens. Conley, Wanzek		House GVA	
HB 1283	Financial Industry	Impacting and creating a list of banks that develop stances on ESG	Rep. Novak, Rep. Dyk, Rep. Kempenich, Rep. Lefor, Sen. Myrdal, Sen. Rummel, Rep. Steiner, Rep. Tveit	1/24- 8:00am	House IBL	
HB 1285	Agency	Prohibiting executive branch agency bill submissions without legislator or legislative committee sponsor.	Reps. Toman, Christensen, Heilman, Henderson, Prichard		House GVA	
HB 1321	PERS Board	Changing PERS Board makeup	Reps. Kasper, Dockter, Lefor, Louser, D. Ruby, M. Ruby, Steiner, Vigesaa, Weisz Sen. Hogue	1/18 - 2:30pm	House IBL	
HB 1345	Procurement	All contracts between a state entity and a vendor must include a provision of the vendor supporting the state's agriculture and energy industries	Reps. Satrom, Grueneich, Hagert, Headland, Kiefert, Ostlie, Steiner Sen. Conley, Erbele, Lemm, Wanzek	1/20 - 9:00am	House Agriculture	
HB 1347	Banking	State treasurer and financial institutions engaged in boycotts of energy companies	Reps. Satrom, Grueneich, Ostlie, Schauer, Strinden Sens. Clemens, Conley	1/18 - 2:30pm (4th)	House IBL	
HB 1368	Investments	Prohibiting investments and contracts with companies that boycott Israel.	Reps. K. Anderson, Bellew, M. Ruby, Strinden, Timmons, Tveit Sens. Clemens, Kannianen, Myrdal	1/23 - 9:00a.m.	House IBL	Moved to GVA
HB 1372	Teacher Permitting	Foreign practitioners			House Education	
HB 1379	Legacy Earnings Streams	Modifies Legacy Fund Earnings streams	Reps. Lefor, Bosch, Dockter, Headland, Nathe, Novak, O'Brien Sens. Bekkedahl, Hogue, Rummel, Sorvaag		House Approps	
HB 1400	Investing Land Assets	Allows Land to use SIB for Investment purposes		1/24 - 8:00a.m.	House IBL	
SB 2015	Budget bill	OMB Budget Bill	Senate Appropriations	1/20 - 8:30am	Senate Approps - Gov't Ops	
HB 1420	Economic Development	Small Business Diversity revolving Loan fund		1/23 - 9:00a.m.	House IBL	

HB 1429	SIB	ESG Boycott/ Contract Restrictions/SIB list	Reps. Novak, Koppelman, Louser, J. Olson, S. Olson, M. Ruby, Thomas, Sen. Elkin, Magrum, Rummel	01/23 - 9:00a.m.	House IBL	
HB 1469	SIB	Restrictions on Investment Operations	Reps. Novak, Dyk, J. Olson, S. Olson, Porter, Schauer, Weisz, Sen. Bekkedahl, Rust		House IBL	
HB1486	NDPERS	Specifies a lump sum deposit from the GF, special funds and municipalities for the closing of the DB plan	Kasper	1/26 - 8:30a.m.	House GVA	
SB 2022	Budget bill	RIO's Budget	Senate Appropriations	1/19 - 10:00am	Senate Approps - Human Resources	Committee Work 1/23
SB 2070	Teacher Permitting	Extends the length of time non-certified teachers can be permitted	Senate State and Local Govt - Roers, Barta, Braunberger, Cleary, Estenson, Lee	1/17 - 2:00pm	Senate Education	Amended.
SB 2164	PERS Board	Changing how legislative members of PERS Board are appointed	Sen. Dever Reps. Brandenburg, Hatlestad, D. Johnson, Monson, Schauer	1/19 - 9:30am	Senate State & Local	
SB 2165	Energy Commission	Funds to clean sustainable engery fund/ BND	Sen. Patten, Rep. Bosch, Sen. Kannianen, Sen. Kessel, Rep. Novak, Rep. Porter	1/19-10am	Senate Energy and Natural Resources	
SB 2196	Infrastructure Revolving Loan Fund	Resets terms of the infrastructure revolving loan fund.	Sen. Patten, Sen. Beard, Sen. Bekkedahl, Sen. Kannianen, Rep. Olson, Rep. Richter	1/19-10:30am	Senate Energy and Natural Resources	
SB 2220	Legacy Earnings	Adding a Housing Incentive Fund bucket to Legacy stream	Sens. Kreun, Barta, Hogan, Mathern Reps. Ista, O'Brien	1/23 - 9:30a.m.	Senate Finance & Taxation	
SB 2233	BND	Auditing practices of certain funds under management of BND	Sen. Klein, Sen. Bekkedahl, Sen. Hogue, Rep. Lefor, Rep. Vigesaa	1/23 - 10:15a.m.	Senate IBL	
SB 2239	PERS Plan	Changing PERS contribution rates and appropriating $250M to the fund	Sens. Cleary, Dever Rep. Boschee	1/27 - 9:45a.m.	Senate State & Local	
SB 2258	TFFR	Expands scope of Critical Shortage area qualification for rehired retirees	Sens. Paulson, Beard Reps. Heilman, Hoverson, Louser	1/23 - 10:30a.m.	Senate Education	
SB 2330	Legacy Fund	Legacy earnings definition and change in Legacy Fund IPS percentages.	Sens. Klein, Hogan, Meyer Reps. Bosch, Kreidt		Senate IBL	
SB 2346	Legacy Earnings	Using $160M of Legacy Earnings school funding formula	Sens. Larsen, Vedaa Reps. Fisher, Toman		Senate Finance & Taxation	

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MEMORANDUM

TO: SIB
FROM: Scott Anderson, Chief Investment Officer
DATE: January 13, 2022
RE: Investment Committee Update

The Investment Committee met Friday January 13, 2022. The meeting was called to order and there was an acceptance of the agenda followed by an acceptance of the minutes from the December 9, 2022, meeting. Mr. Moss discussed the private markets portfolio followed by a closed session topic. Mr. Posch then reviewed a summary of the annual compliance review of the RIO portfolios. Lastly, Mr. Anderson led a discussion of current legislation potentially impacting the RIO portfolios. There was a call for discussion followed by a call for adjournment.

https://www.rio.nd.gov/sites/www/files/documents/PDFs/SIB%20Investment/Board/Materials/sibinvestmat20230113.pdf

BOARD ACTION REQUESTED: Information Only.

Agenda item VI. C: GPR Committee Update

The SIB GPR Committee meets on January 26, 2023, so a verbal update will be provided at the SIB meeting.

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MEMORANDUM

TO: **State Investment Board**

FROM: **Sara Seiler, Supervisor of Internal Audit**

DATE: **January 27, 2023**

SUBJECT: **SIB Board Self-Evaluation**

The Executive Review and Compensation Committee will be conducting the Board Self-Evaluation. The Board Self-Evaluation will be sent out **Friday, January 27, 2023,** and will be due **Monday, February 6, 2023**.

The Board Self-Evaluation will be sent out via SurveyMonkey by the Supervisor of Internal Audit, Sara Seiler. Attached is a copy of the survey questions that will be asked.

The results will be presented at the February SIB meeting.

2023 State Investment Board Self-Evaluation
Introduction

The State Investment Board (SIB) has appointed the Executive Review and Compensation Committee to administer a board self-evaluation.

As a member of the SIB you are being asked to participate in the board self-evaluation. There are five categories, for both the self-assessment and board assessment portions. The first 15 questions are self-assessment, followed by 12 questions for the board assessment portion, and ending with 2 open ended questions. After each category there is a comment section available to give explanation on your ratings or to make comments.

Please contact the Supervisor of Internal Audit, Sara Seiler, at 701-328-9896 or sseiler@nd.gov if you have any questions.

Survey responses are due by midnight on **Monday, February 6, 2023**.

Thank you in advance for your participation.

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2023 State Investment Board Self-Evaluation

Self-Assessment

Board & Staff Roles

1. I believe I have the skills and training necessary to fulfill my responsibilities as SIB member.

Strongly Agree	Agree	Disagree	Strongly Disagree
○	○	○	○

2. I understand the authority that has been retained by the SIB and what duties have been delegated to staff.

Strongly Agree	Agree	Disagree	Strongly Disagree
○	○	○	○

3. I actively engage in Board meetings by contributing to the discussions in a meaningful way, listening to others (i.e., board members, staff, guests) and communicate my points concisely.

Strongly Agree	Agree	Disagree	Strongly Disagree
○	○	○	○

4. I make an effort to be educated on the aspects of the investment program that I do not understand.

Strongly Agree	Agree	Disagree	Strongly Disagree
○	○	○	○

Comments for Board & Staff Roles

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2023 State Investment Board Self-Evaluation

Self-Assessment

Board & Committee Structure

5. I understand board conduct, abide by it, and avoid conflicts of interest.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

6. I find my participation on the Board to be stimulating and rewarding.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

7. I am comfortable with the amount of time I devote as a Board member.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

8. If I am not able to attend the SIB meeting, I make appropriate notifications to staff and review the information presented at the meeting.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

Comments for Board and Committee Structure

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2023 State Investment Board Self-Evaluation

Self-Assessment

Board Meetings

9. I am aware of an effective new member orientation program which outlined responsibilities and important organizational information.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

10. I am prepared for Board meetings, reading information in advance, so I can make informed decisions.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

Comments for Board Meetings

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2023 State Investment Board Self-Evaluation

Self-Assessment

Policy Making & Reviews

11. I fully understand the policies of the SIB.

Strongly Agree	Agree	Disagree	Strongly Disagree
○	○	○	○

12. I review board policies as necessary to fulfill my role as a board member.

Strongly Agree	Agree	Disagree	Strongly Disagree
○	○	○	○

Comments for Policy Making & Reviews

NORTH Dakota | State Investment Board
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2023 State Investment Board Self-Evaluation

Self-Assessment

Financial Management & Investment Practices

13. I understand the legal duties and responsibilities required of me as a fiduciary.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

14. I sufficiently understand all financial reports and seek clarification when necessary.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

15. I am familiar with the annual report by the independent auditors and understand any findings or recommendations.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

Comments for Financial Management & Investment Practices

North Dakota | State Investment Board
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2023 State Investment Board Self-Evaluation

Board Assessment

Board & Staff Roles

16. The Board members are consistently prepared for meetings and stays engaged.

Strongly Agree	Agree	Disagree	Strongly Disagree
○	○	○	○

17. The Board has healthy discussions on a topic before making a well-informed decision.

Strongly Agree	Agree	Disagree	Strongly Disagree
○	○	○	○

18. The Board recognizes the authority it has retained and what has been delegated to staff.

Strongly Agree	Agree	Disagree	Strongly Disagree
○	○	○	○

Comments for Board & Staff Roles

2023 State Investment Board Self-Evaluation

Board Assessment

Board and Committee Structure

19. All Board members regularly attend board meetings.

Strongly Agree	Agree	Disagree	Strongly Disagree
○	○	○	○

20. Standing and ad hoc committees complete their tasks in an effective and timely way.

Strongly Agree	Agree	Disagree	Strongly Disagree
○	○	○	○

21. Standing and ad hoc committees communicate to the full board in an effective and timely manner.

Strongly Agree	Agree	Disagree	Strongly Disagree
○	○	○	○

Comments for Board and Committee Structure

2023 State Investment Board Self-Evaluation

Board Assessment

Board Meetings

22. Board meetings are generally well-run and make good use of members' time.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

23. Board meetings allow the right allocation of time between Board discussions and presentations.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

Comments for Board Meetings

2023 State Investment Board Self-Evaluation

Board Assessment

Policy Making & Reviews

24. The Board reviews policies on a regular basis and updates them as needed.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

25. If a new policy is needed for the SIB, the policy is clearly presented to and discussed by the Board.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

Comments for Policy Making & Reviews

NORTH Dakota | State Investment Board
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2023 State Investment Board Self-Evaluation

Board Assessment

Financial Management & Investment Practices

26. The Board regularly reviews the financial, investment, and portfolio performance of the agency.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

27. The Board is regularly informed of economic trends or conditions that can effect investment performance.

Strongly Agree	Agree	Disagree	Strongly Disagree
◯	◯	◯	◯

Comments for Financial Management & Investment Practices

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2023 State Investment Board Self-Evaluation

Overall Assessment

* 28. Any final comments, observations, or suggestions for the board self-evaluation?

29. Please let the Executive Review Committee know if there are any areas in the board self-evaluation that you would like to see addressed in the future?

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MEMORANDUM

TO: State Investment Board
FROM: Chad R. Roberts, DED/CRO
DATE: January 24, 2023
RE: FY2022 Annual Ends Report

Summary

Attached is the Annual Ends Report for TFFR for the 2022 Fiscal Year. The report summarizes and provides metrics for performance of the program in order to demonstrate the program is adhering to policies and expectations of the TFFR Board and the SIB.

The report addresses four key areas: membership data and contributions, member services, account claims, and trust fund evaluation and monitoring.

BOARD ACTION REQUESTED: Acceptance

TFFR Ends
Annual Review
Year Ended June 30, 2022

The information provided in the following report reflects performance indicators and measures that the TFFR ends policies formally adopted by the TFFR Board and accepted by the SIB are being implemented. The report covers the areas of membership data and contributions, member services, account claims, and trust fund evaluation/monitoring. The data in the report reflects the best available data as available on June 30, 2022.

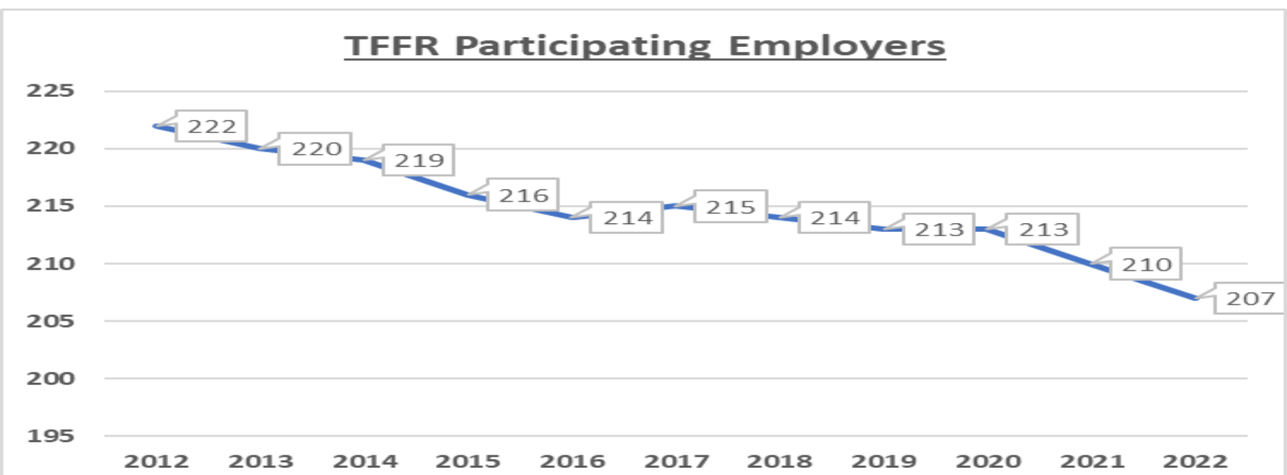
Membership Data and Contributions

Ends: Ensure the security and accuracy of the members' permanent records and the collection of member and employer contributions from every governmental body employing a TFFR member.

- **Collections and Payments**

Collected employer contributions totaling $100,331,347 from 207 employers for the fiscal year ending 06/30/2022. The ADEC for employer contributions for the same period was $97,341,070.

The number of participating employers decreased to 207 in FY2022 from 210 in FY2021. This decrease was the result of two pairs of school consolidations and the last eligible member from ND United retiring.



Collected employee contributions totaling $92,462,223 for the fiscal year ending 06/30/2022.

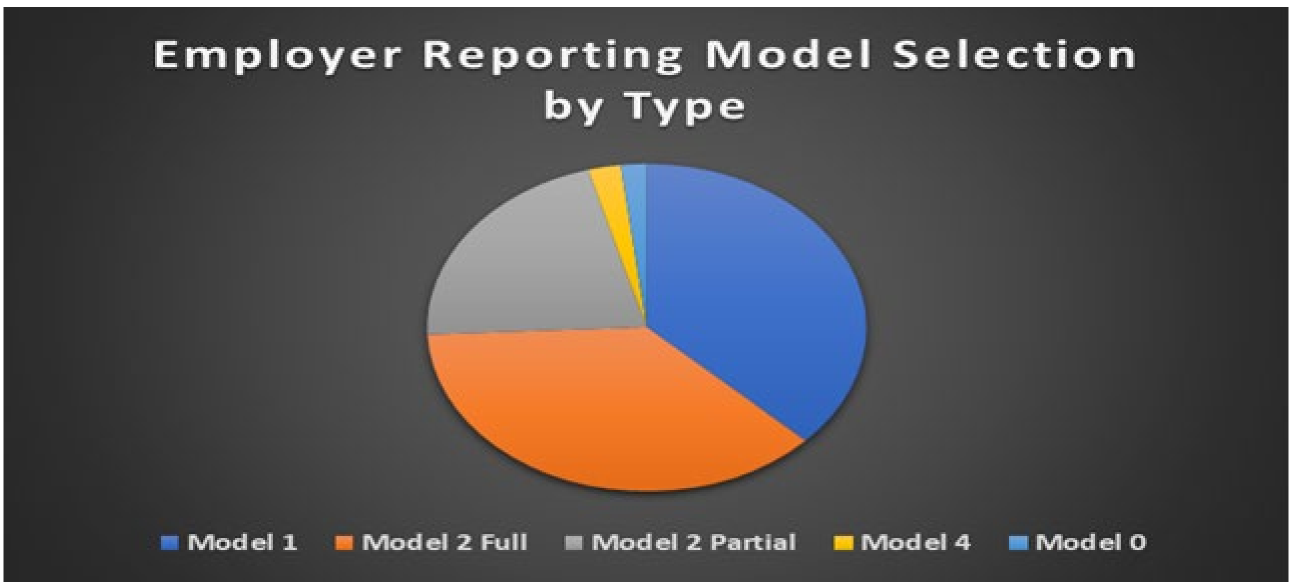
Paid out $244,069,172 in pension benefits and $7,142,359 in refunds and rollovers totaling $251,847,455 for the year. There was a noticeable increase in refunds in FY2022, increasing nearly 19% over FY2021.

About 86% of employers electronically report contributions to TFFR. These reports contained the reporting data for almost 98% of active participants.

As of June 30, 2022, there are 177 employers reporting using the TFFR Employer Online Services.

There were no reporting penalties assessed and TFFR did not withhold foundation payments from any school districts. Employer reporting penalties include late reporting of contributions and failure to provide documentation in a timely manner (e.g. new member forms, return to teach forms, employer compliance audit documentation.)

9 employers modified employer payment plan model election. Of those model changes, three employers changed from a model 1 to a model 2. The remainder of the changes were model 2 schools changing their employer paid portion of the employee share.



- **Employer Summary Report and Member Statements**

  Mailed 9,261 annual statements to retired members in December 2021.

  Mailed FY2022 Employer Summary Report to each employer in August 2022.

  Prepared 15,024 Annual Statements for non-retiree's online accounts in September 2022.

- **Employer Outreach Programs & Communications**

  TFFR staff participated in the 2021 School Board and School Business Manager Association Annual Conference in October 2021. At this conference the DED/CRO, Retirement Programs Manager and Employer Services Coordinator did a presentation on changes with TFFR including the upcoming pension administration system project.

One new business manager training workshop was conducted virtually in the March of 2022. We had a total of 68 business managers registered for the workshop and 45 of those registered attended.

There were six business manager info mixers held in the 2022 fiscal year. Topics covered at those learning sessions covered areas such as the retirement process, employer payment plan models and year end reporting. A total of 174 business managers attended these events.

GASB 68 2021 data updated and added to website.

Briefly employer newsletter (3 publications sent electronically). The newsletter was produced and sent out in October 2021, February 2022 and June 2022.

Member Services

Ends: Provide direct services and public information to members of TFFR.

- **Outreach Program Statistics**

  339 members attended outreach programs

  Retirement Services staff traveled 0 miles

- **Retirement Education Workshops**

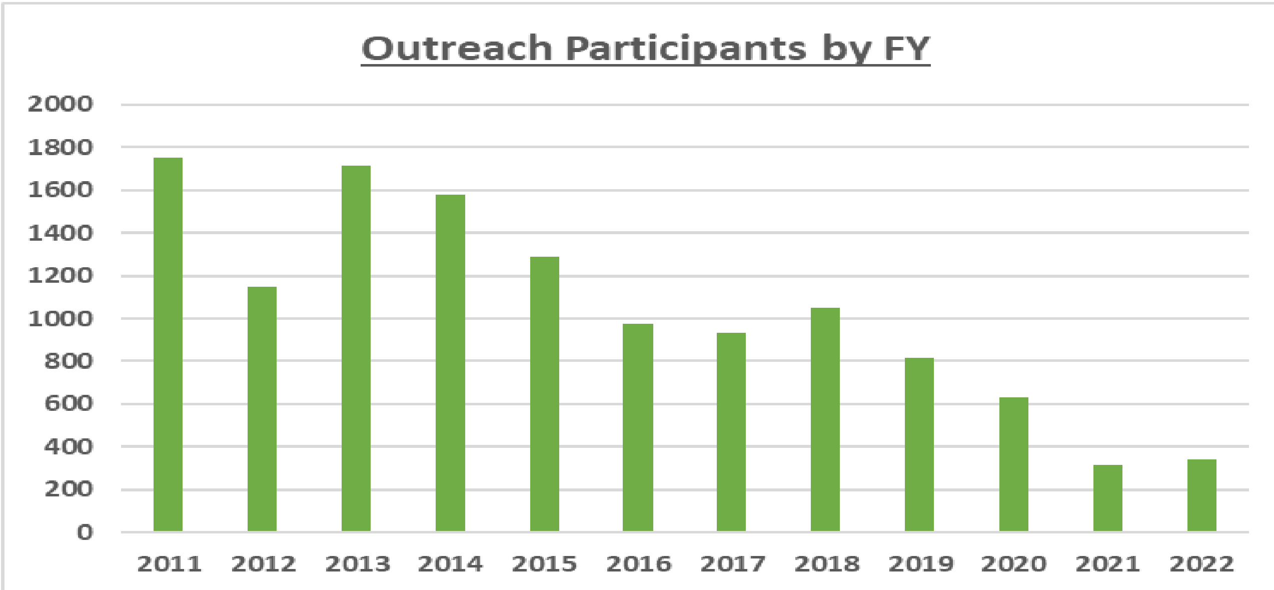
  32 members attended the single Retirement Education Workshop conducted in Bismarck

- **Retirement 101 Workshops**
  None requested in fiscal year 2022

- **Group and Individual Counseling Sessions**
  All sessions were conducted virtually

  18 group sessions were conducted with a total of 229 members attending

  78 individual sessions were conducted



- **Member Communications**

  Updated TFFR Fast Facts handout
  Marketed Member Online with email blasts

- **TFFR Member Online**

  As of June 30, 2022, there are 7,851 members who have signed up for TFFR Member Online Services. That is a 16% increase in registrations over June 30, 2021.

Account Claims

Ends: Ensure the payment of benefit claims to members of TFFR.

- **Annuity Payments**

  Distributed $251,874,262 in pension benefits to 9,438 retired members and beneficiaries.

  The average age of pensioners in TFFR as of July 1, 2022, was 79.267 years.

  The average pension benefit paid as of July 1, 2022, was $2,224.63

- **Member Account Activity**

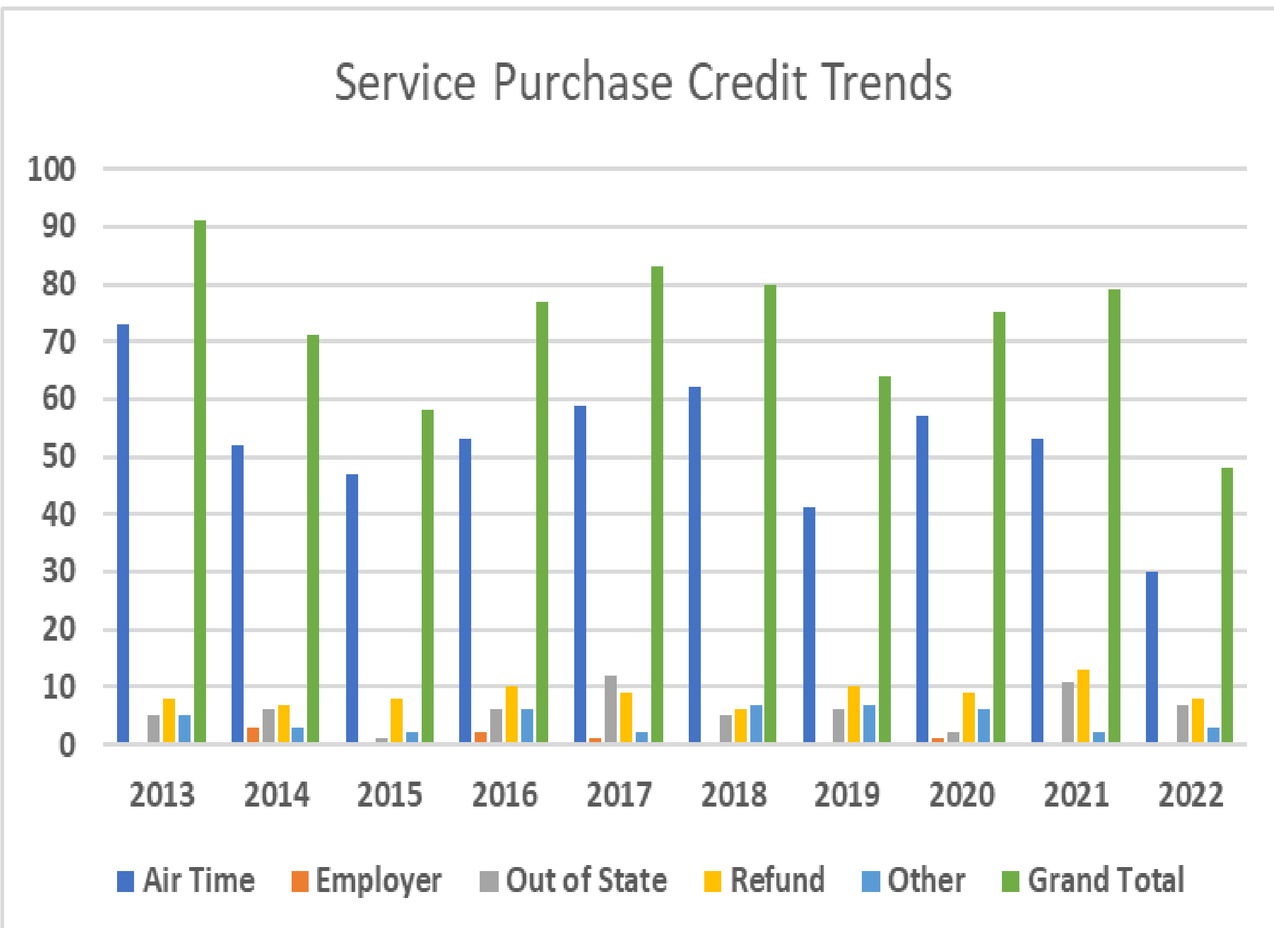
New members	965
Deaths	169
Service Purchases	48

- **Refunds, Rollovers & Transfers**

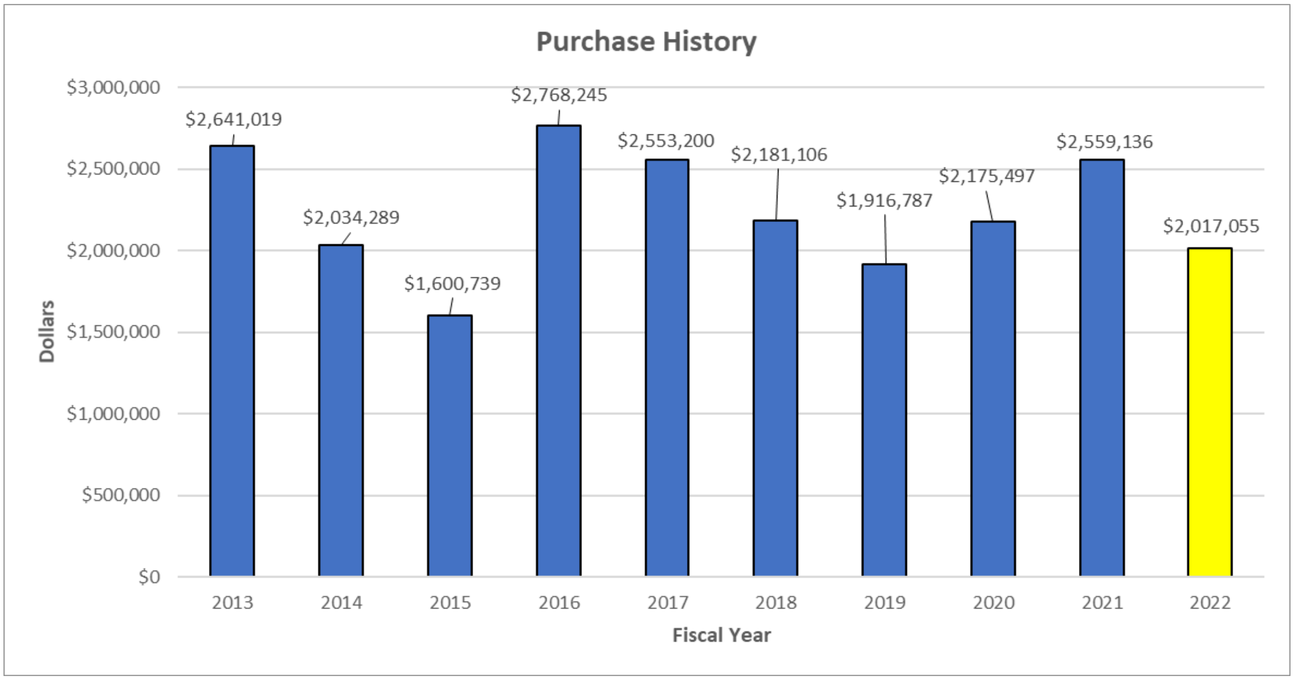
Distributed refund and rollover payments of $7,142,359 to 197 participants during the fiscal year.

- **Service Credit Purchases**

There were 48 service credit purchases in FY2022. Of those, 30 were for airtime, 7 were out of state, 8 were refunded service and 3 were other. The total dollar value of those purchases was $2,017,055. This was a decrease of both the total value and the total number of service credit purchases from FY2021.

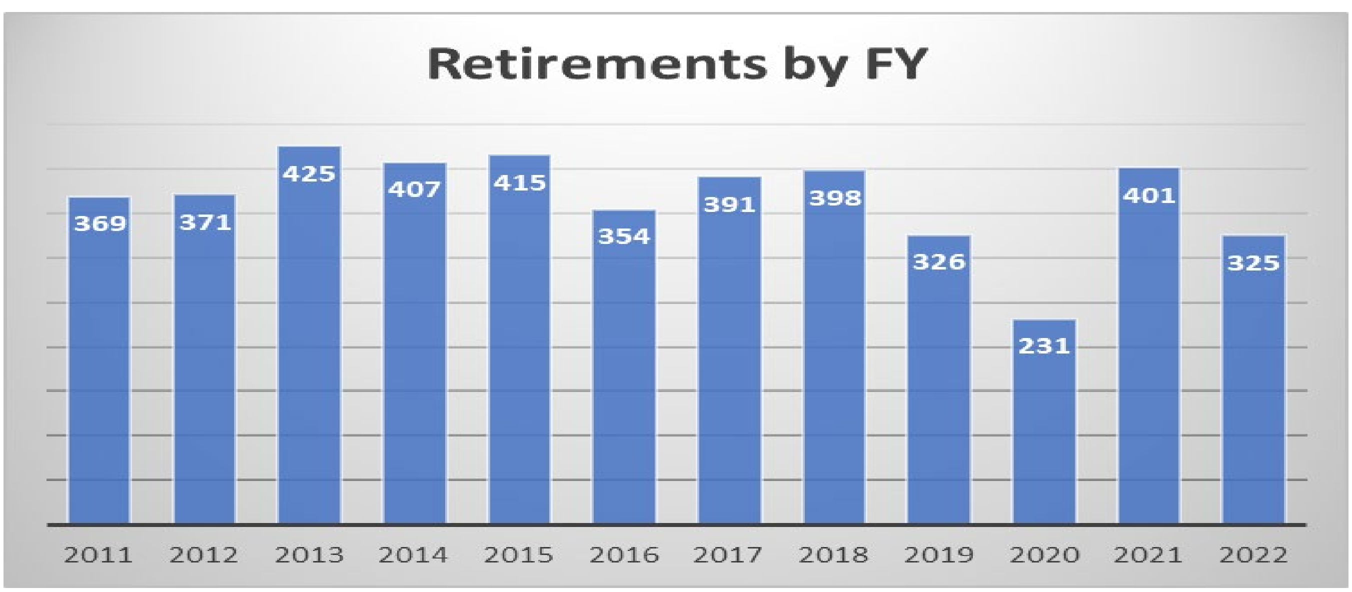


TFFR Ends
Annual Review
Year Ended June 30, 2022

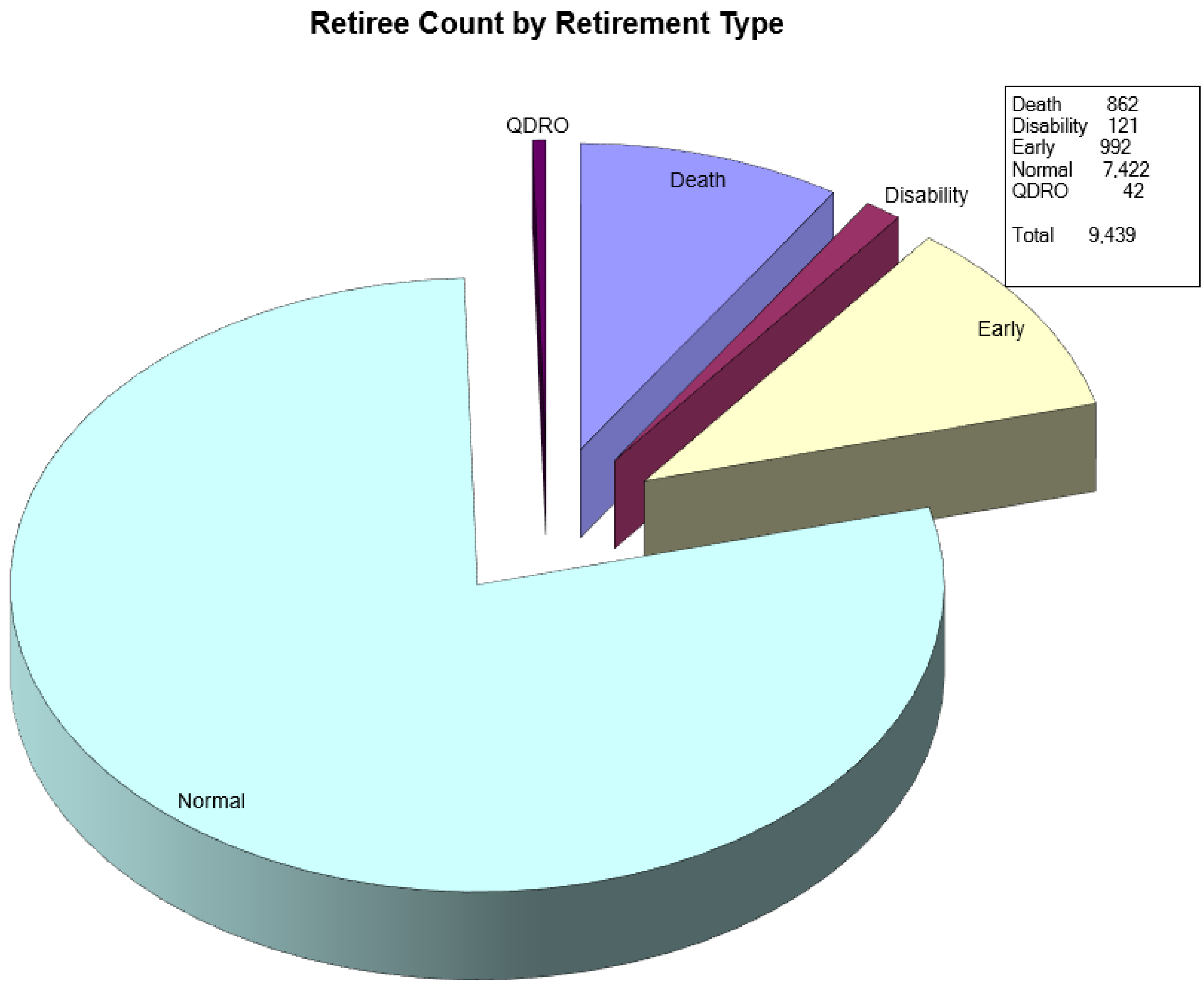


- **Processed Claims for Benefits**

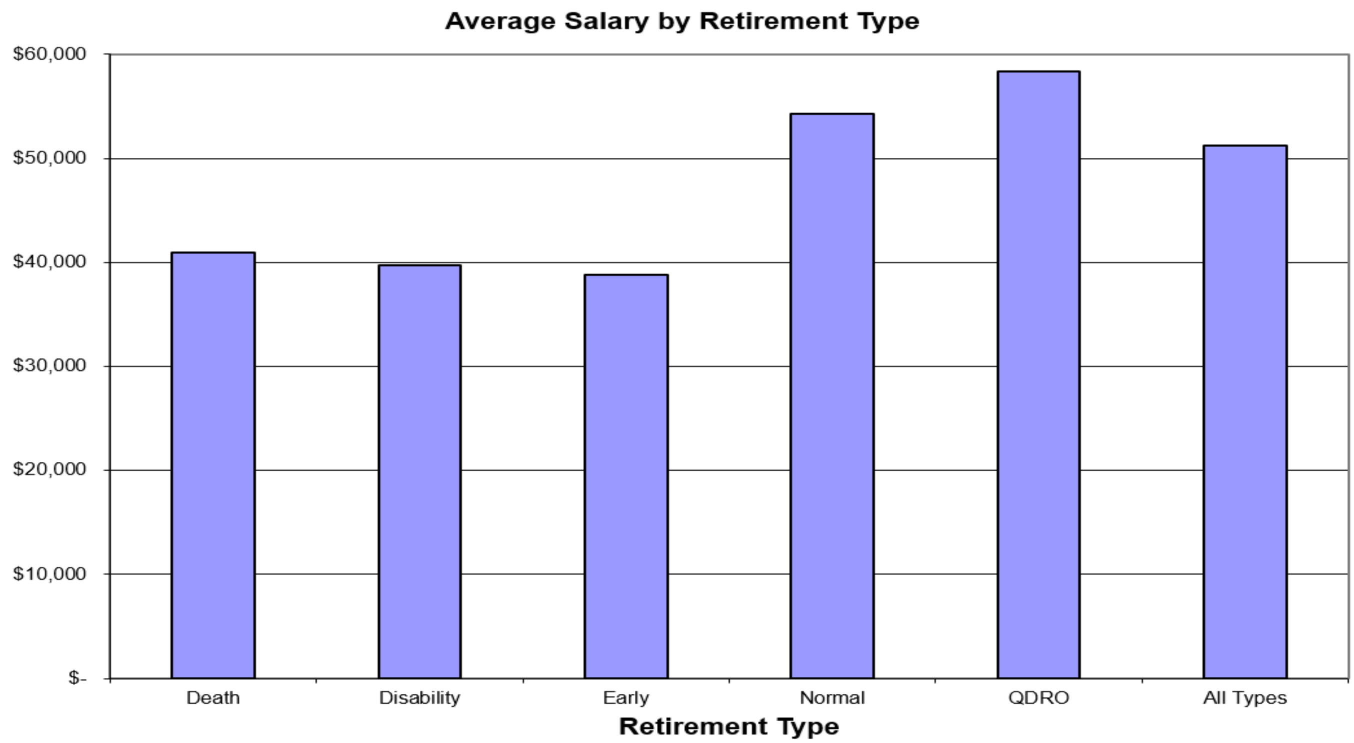
Refunds	171
Rollovers	26
Retirements	325
Disabilities	1
Survivor annuitants	3

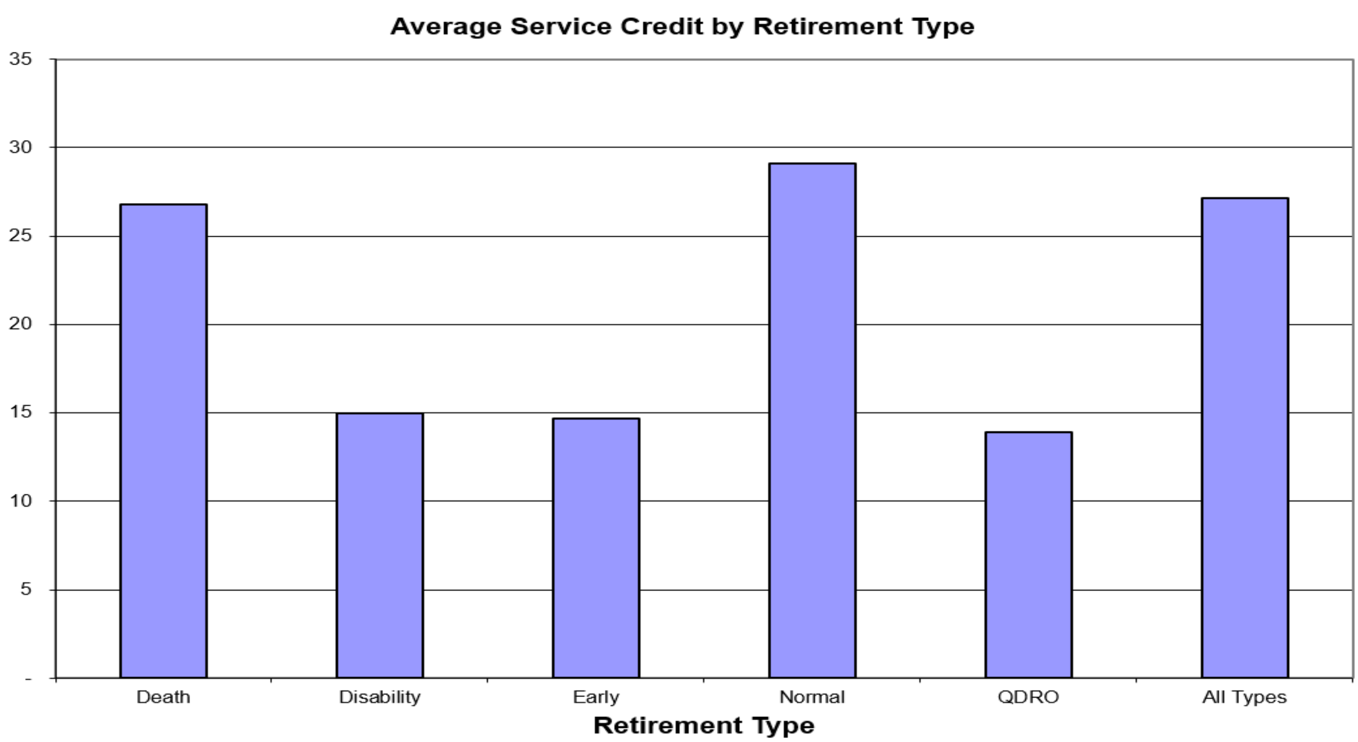


As of July 1, 2022, there are 9,439 retirees in the TFFR program. The following charts break out the retirements by type. Chart one is total retirement counts by type. Chart two is average salary by retirement type. Chart three is average service credit by retirement type. The last and final chart, chart four, is the average pension by formula.

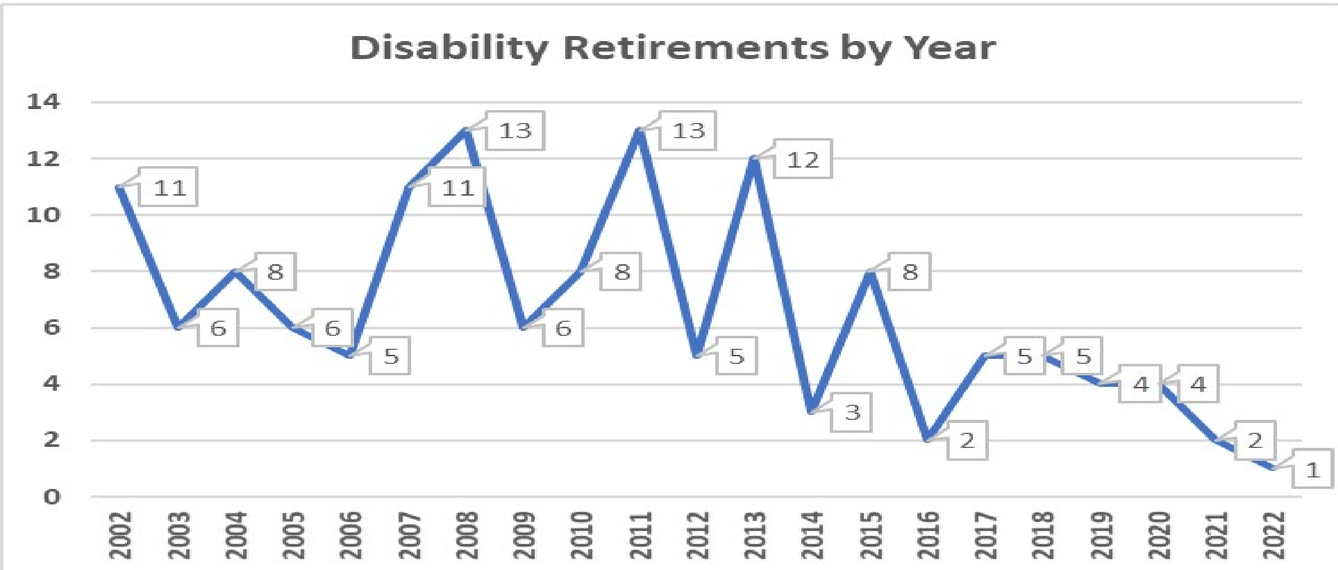


TFFR Ends
Annual Review
Year Ended June 30, 2022





Disabilities are trending downward for the previous five years, with only one disability retirement in FY2022.



Trust Fund Evaluation/Monitoring

Ends: Ensure actuarial consulting and accounting services are provided to the retirement program. The TFFR Board of Trustees will select the independent actuary for consulting and actuarial purposes and direct a contract to be executed by the Deputy Directory/Chief Retirement Officer.

- **Actuarial Services**

  The annual actuarial valuation for July 1, 2022, was presented to the TFFR Board by Segal on November 17, 2022.

- **External Audit**

  An unqualified opinion was issued by independent auditors, CliftonLarsonAllen, LLP, regarding RIO's financial statements for the year ending June 30, 2022. CliftonLarsonAllen, LLP presented the report to the SIB Audit Committee on November 15, 2022.

- **Internal Audit**

  The annual audit activities report was presented to the TFFR Board on September 22, 2022. The report included information on the executive limitations audit, SIB self-evaluation and governance, succession planning, strategic planning, TFFR benefit payment audit, TFFR salary verification audit, and pension administration system.

- **Other**

  Received Certificate of Achievement in Financial Reporting from GFOA for June 30, 2022, Annual Financial Report.

Quarterly Report on Ends
Quarter ending December 31, 2022

Investment Program

Quarter Highlights

During the quarter, the Investment Team welcomed three new staff members: Senior Investment Officer, George Moss, Investment Officer, Derek Dukart, and Risk Officer, Jason Yu. The department also extended offers to a Chief Risk Officer and another Senior Investment Officer who have both accepted and intend to start in Q1 2023.

Staff completed a $3.3 bn equity portfolio transition which harmonized equity strategies across pools and clients. Staff has begun work on phase 2.0 of the equity implementation. Staff also started to work on a fixed income transition with the goal of creating a single fixed income implementation across the three pools.

The new Northern Trust compliance and performance applications went live at the end of the quarter.

Portfolio Changes & Investment Consultant

There were no notable changes to the portfolio aside from the previously mentioned equity transition.

Other

- Staff continues to conduct preliminary due diligence on prospect managers/products for future consideration.
- Staff continues to monitor each client's asset allocation monthly and makes rebalancing decisions based on rebalancing policy and cash flow requirements.
- Staff attended meetings with many SIB client boards, sub-committees and/or legislative committees or representatives including TFFR, PERS, and WSI.
- There are currently no managers on the watch list.

NDRIO Investment Due Diligence
Quarterly Monitoring Report

Oct-01-2022 to Dec-31-2022

Date	Firm	Reason For Call	Location	RIO Attendees
10/6/2022	DFA	Annual review meeting	Bismarck	All Investment Staff
10/11/2022	Clearwater	Software Overview	Call	All Investment Staff
10/11/2022	HFRRF	TIR Discussion	Call	Eric Chin,Matt Posch
10/14/2022	Acadian	Firm update	Call	Matt Posch
10/19/2022	Callan	PE Pacing Model	Call	All Investment Staff
10/21/2022	SEI	RFI Follow Up	Call	Eric Chin
10/26/2022	Barings	Annual review meeting	Bismarck	All Investment Staff
10/27/2022	Arrowstreet	Annual review meeting	Bismarck	All Investment Staff
10/27/2022	Western Asset Management	Annual review meeting	Bismarck	All Investment Staff
10/31/2022	First International Bank and Trust	RFI Follow Up	Call	Eric Chin
11/1/2022	Goldman Sachs	GS Update	NY	Eric Chin
11/3/2022	Prudential Annual Review Meeting	Annual review meeting	Bismarck	Eric Chin,Matt Posch
11/3/2022	BlackRock	BlackRock Update	NY	Eric Chin
11/3/2022	Adams Street	Introduction Meeting	Call	Matt Posch
11/4/2022	Epoch	Prospect Manager	NY	Eric Chin
11/16/2022	Allspring	Annual review meeting	Bismarck	Eric Chin,Matt Posch,Scott Anderson,Derek Dukart

11/17/2022	BlackRock	Introduction & Update	Call	George Moss
11/17/2022	JP Morgan	Annual review meeting	Bismarck	Eric Chin,Matt Posch,Scott Anderson
11/17/2022	Preqin	Research Demo	Call	George Moss
11/22/2022	TIR	Springbank extension	Call	George Moss,Matt Posch
11/22/2022	Adams Street	Introduction & Update	Call	George Moss
11/29/2022	NASDAQ - eVestment/TopQ	Platform Demo	Call	George Moss
11/29/2022	RCP Advisors	Update Call	Call	Matt Posch
12/1/2022	Manulife	Annual review meeting	Bismarck	All Investment Staff
12/5/2022	50 South & Gener8ter	Gener8ter Event	Bismarck	Eric Chin,Matt Posch,George Moss,Derek Dukart,Jason Yu
12/7/2022	HFRRF	TIR Discussion	Call	George Moss
12/7/2022	Loomis Sayles	Annual review meeting	Bismarck	All Investment Staff
12/13/2022	BlackRock - Aladdin/eFront	Platform Demo	Call	George Moss,Derek Dukart,Matt Posch
12/13/2022	Jackson Walker	TIR Strategy	Call	Eric Chin,Matt Posch,George Moss
12/13/2022	NASDAQ - Solovis	Platform Demo	Call	George Moss
12/14/2022	LA Capital	Proxy process	Call	Matt Posch
12/15/2022	PIMCO	Annual review meeting	Call	All Investment Staff
12/15/2022	Ares	Introduction & Update	Call	George Moss
12/16/2022	Macquarie	Introduction & Update	Call	George Moss
12/20/2022	50 South Capital	Introduction & Update	Call	George Moss,Scott Anderson
12/22/2022	Fiera	Introduction	Call	Matt Posch
12/29/2022	Burgiss - Private i / Caissa	Platform Demo	Call	George Moss

COMPLIANCE REVIEW

INVESTMENT STAFF
JANUARY 27, 2023

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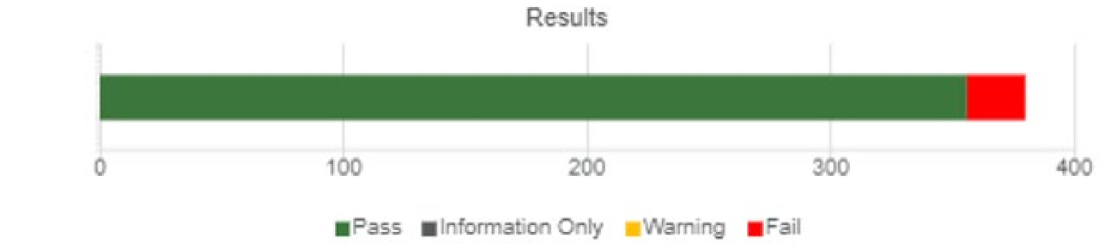
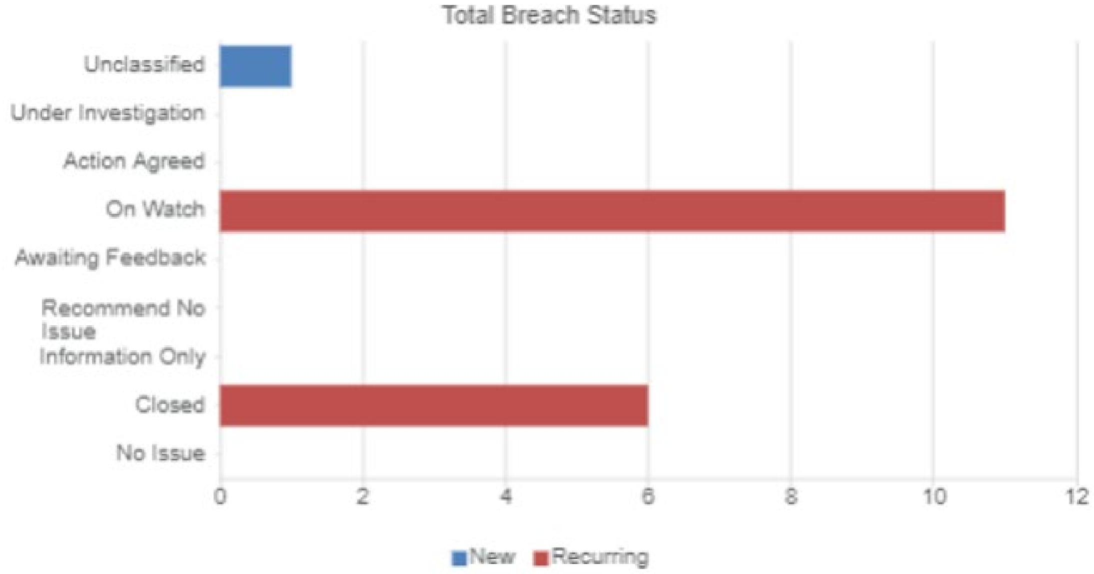
PORTFOLIO COMPLIANCE MONITORING

- NORTHERN TRUST TOOL WENT LIVE AT THE BEGINNING OF THIS YEAR
- MONITORS DAILY POSITIONS OF PUBLIC MARKET PORTFOLIOS
- IDENTIFIES BREACHES OF PORTFOLIO GUIDELINES
- CURRENTLY 380 RULES ARE IMPLEMENTED
- FINAL REVIEW OF RULES TO ENSURE THEY ARE ACCURATELY CODED





FOR ILLUSTRATIVE PURPOSES

INVESTMENT MANAGER NOTIFICATIONS

NORTH Dakota Be Legendary.™

- MANAGERS ARE REQUIRED TO NOTIFY STAFF WHEN POSITIONS FALL OUT OF PORTFOLIO GUIDELINES
- NOTIFICATIONS WERE PREDOMINANTLY RELATED TO FIXED INCOME SECURITIES
- OVER THE PAST YEAR MANAGERS IDENTIFIED 21 ITEMS FOR REVIEW

INVESTMENT MANAGER	SECURITY DEFAULTS	RATING DOWNGRADES	SECTOR LIMIT BREACH	TOTAL	APPROVED/ WAIVED	ADDITIONAL ACTION
LOOMIS SAYLES	15	-	-	15	15	0
BARINGS	-	3	-	3	3	0
PRUDENTIAL	2	-	-	2	2	0
ARES	-	-	1	1	1	0
TOTAL	**17**	**3**	**1**	**21**	**21**	**0**

ANNUAL DOCUMENT REVIEW

- ON AN ANNUAL BASIS, STAFF REVIEWS DOCUMENTS FOR EACH INVESTMENT MANAGER. THESE INCLUDE:
  - AUDITED FINANCIALS
  - SOC-1 REPORT
  - FORM ADV BROCHURES
  - UPDATED DUE DILIGENCE QUESTIONNAIRE
  - SIGNED CONFIRMATION INDICATING PORTFOLIOS HAVE BEEN MANAGED TO GUIDELINES

- TWO ITEMS WERE DISCLOSED ON THE SIGNED GUIDELINE CONFIRMATION
  - SECTOR LIMIT BREACH
  - TRADING ERROR ON A PORTFOLIO FOR WHICH IT WAS REIMBURSED

- NO MATERIAL ISSUES FOUND IN THE DOCUMENT REVIEW

- OTHER ITEMS:
  - A PRIVATE EQUITY FUND ENTERED BANKRUPTCY IN 2021. THE FUND HAS BEEN MOSTLY LIQUIDATED AND THE OUTCOME OF THE BANKRUPTCY WILL HAVE MINIMAL IMPACT ON THE PENSION POOL.

FUTURE COMPLIANCE PROJECTS

NORTH Dakota Be Legendary.™

- REVIEW AND UPDATE INVESTMENT GUIDELINES FOR EACH MANAGER
- DEVELOP A CONSISTENT FRAMEWORK FOR GUIDELINES PARAMETERS
- COMPLETE THE ONBOARDING OF THE NORTHERN TRUST COMPLIANCE TOOL
  - REVIEW FAILING RULES TO ENSURE THEY ARE IMPLEMENTED CORRECTLY
  - INTEGRATE NORTHERN'S PEEK-THROUGH SERVICE FOR CO-MINGLED FUNDS
- INTEGRATE THE COMPLIANCE PROCESS WITH THE EXISTING DOCUMENT MANAGEMENT PLATFORM "TAMALE"

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MEMORANDUM

TO: **SIB**
FROM: **Jan Murtha, Executive Director**
DATE: **January 20, 2023**
RE: **Executive Limitations/Staff Relations**

Ms. Murtha will provide a verbal update at the meeting on agency efforts to address current and future organizational risk through strategic planning. Including updates on the following topics:

1. **Retirements/Resignations/FTE's/Temporary Assistance**:

Employee Title	Status
Retirement Accountant.	The Retirement Accountant was posted externally and filled by an internal candidate in January 2023.
Chief Risk Officer	Offer accepted. Start date TBD, expected Q1 2023.
Investment Accountant	Vacancy due to team member accepting Retirement Acct. position. Posted and set to close 1/30/23.
Sr. Investment Officer	Offer accepted. Start date TBD, expected Q1 2023.
Accounting Intern	Started December 2022.

2. **Current Project Activities/Initiatives:**

- **Legacy Fund Asset Allocation Study –** RVK continues its work on the Legacy Fund Asset Allocation Study. The changes to the Investment Policy Statement recommended by RVK were approved by both the Advisory Board and the SIB in December 2022. At the last meeting, it was discussed that RVK, and the Advisory Board intend to meet in Q2 2023 to review recommendations for updates to the Legacy Fund asset allocation and discuss a pacing schedule.
- **TFFR PAS Project** (hereinafter TFFR "Pioneer Project")– The TFFR Pioneer Project continues with implementation consistent with the project plan. Currently the project is in an elaboration phase involving review of system components. The amount of time spent on the project by various staff members currently varies from 5 to 25 hours or more per week.
- **Northern Trust Initiative** – In an effort to enhance the infrastructure for the investment program the Investment and Fiscal teams are leading an initiative to coordinate with Northern Trust for additional functionality/capabilities.
- **Audit Consultant RFP:** In September staff issued an RFP for Audit consultant services to assist with the development of additional internal audit business practices to support program evolution consistent with the agencies strategic plan. Procurement concluded, the contract is finalized, and work is currently underway with the expectation that recommendations will be presented to the SIB Audit Committee in May 2023. Weaver Consultants was awarded the contract.

3. Engagement Survey Results

Following this memorandum are the 2022 Gallup Engagement Survey results for the agency. Ms. Murtha will review the results with the Board at the meeting.

BOARD ACTION REQUESTED: Board Acceptance.

GALLUP

EMPLOYEE ENGAGEMENT REPORT

Q12 Engagement Survey - trending - Regular staff - October 2022

Agency - 19000

Oct 17, 2022 - Nov 07, 2022 | Total Respondents : 12

Mean

Change

↑ +0.20

Respondents

12

Percentile Rank

76th

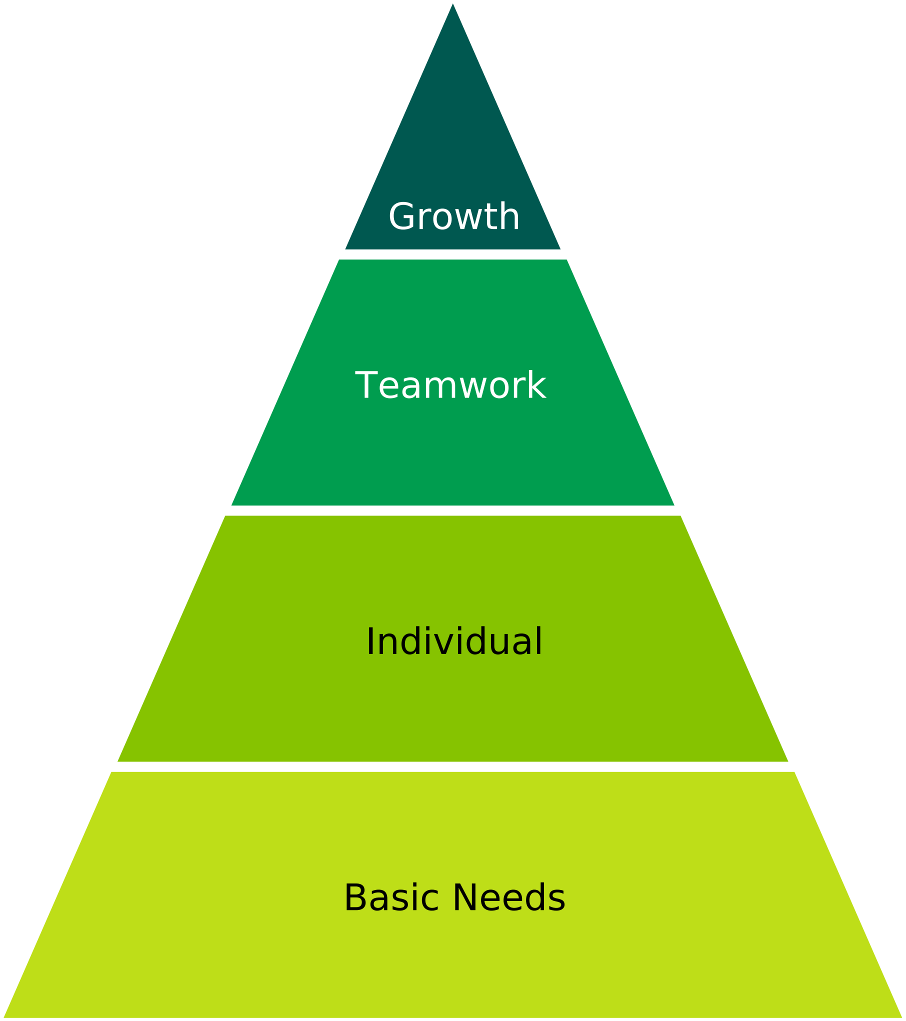
The mean is greater than 76% of those in the Gallup Overall database.

Mean Scores compared to Gallup Overall Database: < 25th Percentile 25-49th Percentile 50-74th Percentile 75-89th Percentile >= 90th Percentile

Q12 Mean	Respondents	Engagement Mean	Change	Mean Percentile Rank - Gallup Overall	Engagement Index
The Gallup Q12 score represents the average, combined score of the 12 elements that measure employee engagement. Each element has consistently been linked to better business outcomes.	12	4.42	↑ +0.20	76	Engagement Index is unavailable for the currently selected scorecard.

	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q00: On a five-point scale, where 5 means extremely satisfied and 1 means extremely dissatisfied, how satisfied are you with your agency as a place to work?	12	4.17	4.00	0.17	53	3.72
Q01: I know what is expected of me at work.	12	4.25	4.08	0.17	30	4.21
Q02: I have the materials and equipment I need to do my work right.	12	4.33	4.33	0.00	58	4.04
Q03: At work, I have the opportunity to do what I do best every day.	12	4.17	3.92	↑ +0.25	48	3.90
Q04: In the last seven days, I have received recognition or praise for doing good work.	12	4.42	4.17	↑ +0.25	80	3.37
Q05: My manager, or someone at work, seems to care about me as a person.	12	4.92	4.58	↑ +0.34	90	4.08
Q06: There is someone at work who encourages my development.	12	4.42	4.17	↑ +0.25	71	3.77
Q07: At work, my opinions seem to count.	12	4.00	4.00	0.00	56	3.54
Q08: The mission or purpose of my agency makes me feel my job is important.	12	4.58	4.92	↓ -0.34	77	3.92
Q09: My coworkers are committed to doing quality work.	12	4.67	4.42	↑ +0.25	82	3.96
Q10: I have a best friend at work.	11	3.91	3.55	↑ +0.36	59	3.22
Q11: In the last six months, someone at work has talked to me about my progress.	12	4.58	4.08	↑ +0.50	77	3.65
Q12: This last year, I have had opportunities at work to learn and grow.	12	4.83	4.42	↑ +0.41	91	3.90

Engagement Hierarchy



Growth - How can I grow?

Employees need to be challenged to learn something new and find better ways to do their jobs. They need to feel a sense of movement and progress as they mature in their roles.

Teamwork - Do I belong here?

Employees need to feel like they belong and are a good fit with their team. They need to know they are part of something bigger than themselves. As a manager, encourage opportunities for teamwork and a sense of belonging.

Individual - What do I give?

Employees want to know about their individual contributions and their worth to the organization. Manager support is especially important during this stage because managers typically define and reinforce value.

Basic Needs - What do I get?

Employees need to have a clear understanding of what excellence in their role looks like so they can be successful. Groups with high scores on the first element are more productive, cost-effective, creative and adaptive.

ENGAGEMENT HIERARCHY

Basic Needs - What do I get?

Respondents	Current Mean	Change	Mean Percentile Rank - Gallup Overall
12	4.29	0.08	44

	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q01: Know What's Expected I know what is expected of me at work.	12	4.25	4.08	0.17	30	4.21
Q02: Materials and Equipment I have the materials and equipment I need to do my work right.	12	4.33	4.33	0.00	58	4.04

ENGAGEMENT HIERARCHY

Individual - What do I give?	Respondents	Current Mean	Change	Mean Percentile Rank - Gallup Overall
	12	4.48	↑ +0.27	74

	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q03: Opportunity to do Best At work, I have the opportunity to do what I do best every day.	12	4.17	3.92	↑ +0.25	48	3.90
Q04: Recognition In the last seven days, I have received recognition or praise for doing good work.	12	4.42	4.17	↑ +0.25	80	3.37
Q05: Cares About Me My manager, or someone at work, seems to care about me as a person.	12	4.92	4.58	↑ +0.34	90	4.08
Q06: Development There is someone at work who encourages my development.	12	4.42	4.17	↑ +0.25	71	3.77

ENGAGEMENT HIERARCHY

Teamwork - Do I belong here?	Respondents	Current Mean	Change	Mean Percentile Rank - Gallup Overall
	12	4.29	0.07	67

	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q07: Opinions Count At work, my opinions seem to count.	12	4.00	4.00	0.00	56	3.54
Q08: Mission/Purpose The mission or purpose of my agency makes me feel my job is important.	12	4.58	4.92	↓ -0.34	77	3.92
Q09: Committed to Quality My coworkers are committed to doing quality work.	12	4.67	4.42	↑ +0.25	82	3.96
Q10: Best Friend I have a best friend at work.	11	3.91	3.55	↑ +0.36	59	3.22

ENGAGEMENT HIERARCHY

Growth - How can I grow?

Respondents	Current Mean	Change	Mean Percentile Rank - Gallup Overall
12	4.71	↑ +0.46	83

	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q11: Progress In the last six months, someone at work has talked to me about my progress.	12	4.58	4.08	↑ +0.50	77	3.65
Q12: Learn and Grow This last year, I have had opportunities at work to learn and grow.	12	4.83	4.42	↑ +0.41	91	3.90

Engagement Index

There is a powerful link between employees who are engaged in their jobs and the achievement of crucial business outcomes.

Engagement Index is unavailable for the currently selected scorecard.

FOOTNOTES

* - Scores are not available due to data suppression.

Questions with zero responses for the selected team and/or reporting group do not appear on the report.

Respondents can select multiple responses for multi-select questions.

Not shown if n < 4 for Mean, Top Box, Verbatim Responses, and Sentiment, n < 10 for Frequency, or data is unavailable.

Meaningful change is represented by a green or red arrow if the score changes by 0.2 or more between survey periods.

Percentile Rank in Gallup Overall Database ■ < 25th Percentile ■ 25-49th Percentile ■ 50-74th Percentile ■ 75-89th Percentile ■ >= 90th Percentile

Percent Engaged available when n ≥ 30. All categories available when n ≥ 100.

All text analytics are machine generated. Because we use machine learning to generate sentiments, results may not be 100% accurate.

GLOSSARY

The glossary provides high-level definitions of terms within the engagement report. Because of the dynamic nature of this site, not all terms will be applicable to or displayed on your report. Please use the terms that are relevant to your team when discussing and interpreting the data.

ENGAGEMENT DEFINED

EMPLOYEE ENGAGEMENT: Employee engagement refers to how committed an employee is to their organization, their role, their manager and their co-workers. Engagement drives performance. Gallup's research shows that more highly engaged employees give more discretionary effort at work and have higher productivity, profitability and customer service, as well as reduced turnover and safety incidents.

THE SURVEY ITEMS/QUESTIONS

OVERALL SATISFACTION: Overall Satisfaction is a measure of how content your team is with the overall company as a place to work. Overall Satisfaction is not included in the Overall Workgroup Engagement (GrandMean) score. Being a satisfied employee does not equate with being engaged, though the two are highly related.

Q01-Q12: These items are Gallup's proprietary workgroup engagement questions (commonly referred to as the Q$^{12®}$). These items were selected for their strong connection to performance outcomes and the ability to take action at the workgroup level.

INDICES: In addition to the Q$^{12®}$ items, Gallup has created a number of empirically-derived sets of indices, which are comprised of 3-4 questions each. Individual scores of each index item are provided, along with a combined index score, which measures the strength of the core index construct. These indices help companies strategically pinpoint and improve specific focus areas relevant to their current situation.

CUSTOM ITEMS: These items are unique to your company and can vary across companies and surveys. While these "additional" questions link to the Gallup Engagement hierarchy, they are not always within the power of the workgroup to influence or change. These questions can provide additional insights into employees' perceptions, the situational workplace environment or company-specific initiatives.

EMPLOYEE ENGAGEMENT RESULTS

GRANDMEAN: The GrandMean measures overall Workgroup Engagement, which is an average of the 12 Workgroup Engagement items (Q01-Q12). The higher your score (with a maximum possible score of 5), the more engaged your fellow employees are.

ENGAGEMENT INDEX: The Engagement Index (EI) is a macro-level indicator of an organisation's health that allows leaders to track the engagement levels of employees. This analysis identifies the percentage of participants who are engaged, not engaged and actively disengaged based on their responses to the Q$^{12®}$ survey items. You must have 100 employees participate to receive the full spectrum of responses for the EI. If you have 30<100 employees, the report will include the percentage of engaged employees only.

ENGAGEMENT HIERARCHY: Every employee has a distinct set of needs that follows a hierarchy, with basic needs at the foundation and growth at the top. Employees feel more or less engaged depending on how well they believe their needs are being met in the workplace.

UNDERSTANDING THE SCORES

THE SURVEY SCALE: The engagement survey utilises a 5-point scale with 1=Strongly Disagree and 5=Strongly Agree. For each question, employees have the option to also select

"Don't know" or "Does not apply".

TOTAL N: The total number of employees who responded to the survey.

MEAN SCORES: The average score using the 5-point survey scale, with 5.00 being the highest score and 1.00 being the lowest.

TOP BOX/%5: The percentage of employees who responded "5 – Strongly Agree" to the survey item.

DISTRIBUTION OF RESPONSES: The percentage of employees who responded "1", "2", "3", "4" or "5" to an item. If 10 or more employees respond to the survey, the report could display a full distribution of responses. Otherwise, only the percentage of employees who responded with a "5" (TopBox) and item means will display.

SUPPRESSED DATA: Confidentiality of responses is extremely important to Gallup. If too few employees respond to a survey item, the data will be suppressed (not published) and an asterisk ("*") will appear in its place.

COMPARISONS

EXTERNAL BENCHMARKING: (Gallup Overall): Used as a benchmark to determine how your team's results compare to other workgroups within the Gallup Overall of clients.

PERCENTILE RANKING: The 25th percentile indicates 75% of workgroups fell above this score; the 50th percentile indicates 50% of workgroups fell above and below this score; the 75th percentile indicates only 25% of workgroups fell above this score. The higher your percentile, the stronger the item is in relation to the database. Used as a benchmark to determine how your team's results compare to internal and external workgroups.

ND State Investment Board Resolution
In Appreciation of
Lt. Governor Brent Sanford

WHEREAS, Brent Sanford has served as the Lieutenant Governor and chair of the State Investment Board since 2016 through 2022; and

WHEREAS, Lt. Governor Brent Sanford diligently carried out his duties and responsibilities as a member of the SIB and fiduciary of the SIB Program; and

WHEREAS, Lt. Governor Brent Sanford has been a valued and dedicated member of the SIB in helping maintain the integrity and stability of the SIB Program.

NOW THEREFORE, BE IT RESOLVED that former Lt. Governor Brent Sanford be duly recognized by the SIB for his years of unselfish dedication to the State of North Dakota through his service on the State Investment Board.

DATED this 27^{th} day of January 2023

On Behalf of the SIB

____

Lt. Governor Tammy Miller, Chair

____

Votes

____

Date

Board Leadership

January–February 2023 • No. 185

Innovative Approaches to Governance

EDITOR: NICHOLAS KING

Three Levers for Exemplary Governance

By Jannice Moore

Jannice Moore is the founder of The Governance Coach. In this article, she explores some key concepts and tools that can help boards bolster their effectiveness.

'Give me a lever long enough and a fulcrum on which to place it, and I shall move the world.' Archimedes

Governing boards have a huge role to play, maybe not in moving the world but definitely in shaping the future of the world—one board at a time shaping the future for those it serves. The future each of us faces is impacted in some way by the actions of many different governing boards: public boards, not-for-profit boards, and corporate boards. There are far too many examples of boards whose actions have a negative impact. How can they govern in an exemplary way that has a positive impact for good in the world? What are the levers, if you will, that can help a governing board do its work with excellence and positive impact? What can make its job easier?

To explore this idea, we need to take a step back and examine just what *is* the job of the board? The word *governance* comes from the Latin *gubernare*, "to steer or pilot" as in a ship, which in turn originates from the ancient Greek *kubernaein*. In ancient Greece, the *kubernetes* was the pilot of a ship. The pilot was accountable for setting the ship in a direction that ensured it would arrive at the desired destination, without running aground on rocks or encountering other dangers. In other words, he was accountable for direction and protection. At the most basic level, this is still the job of a board: be accountable to those on whose behalf it governs to ensure direction for appropriate results, and protection from danger, such as unethical or imprudent organizational situations or conditions.

I suggest there are three key levers that provide the lifting power to help a board excel.

Lever 1: A Principles-Based Organizing System for Governance

Let's look first at the responsibilities to be accountable and set direction. Accountability must begin with clarity about roles—what is the role of the board, and what is the role of management? Without that clarity, it's impossible for the board to hold a CEO accountable or for the board to be accountable to those on whose behalf it governs. To set clear and meaningful direction, the lion's share of board time needs to be future focused.

A principles-based system of governance is the lever that enables both the clarity of roles and a way to free up time to consider the future, rather than supervising day-to-day operational activities, which many not-for-profit boards, in particular, tend to focus on. A key word in this lever is *system*. Most approaches to governance tend to be a grab bag of best practices. While there's nothing wrong with best practices in and of themselves, governing this way lacks a coherent, systematic approach.

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Inside This Issue

Los Angeles Board of Water and Power Commissioners Lead Transformation of Nation's Largest Municipal Utility

By Mia Lehrer and Nicole Neeman Brady

Mia Lehrer and Nicole Neeman Brady are both on the all-female Board of Commissioners for the Los Angeles Department of Water and Power (LADWP). In this article, they discuss their experiences instituting governance approaches and board engagement strategies and initiatives in both the conservation of resources and the elevation of women in the traditionally male-dominated utility fields.

Water and power are essential natural resources that sustain life and connect people to their environment. As members of LADWP's first all-female Board of Water and Power Commissioners, we have the extraordinary opportunity and immense responsibility of setting policy for the nation's largest municipal water and power utility during one of the most transformative periods of its history.

The diversity, talent, and experience of all our Board members have created the synergy to get things done on behalf of the city of Los Angeles, our customers, and the communities we serve. Right now, we are working to build a stronger Los Angeles by achieving a 100% carbon-free energy supply at an accelerated pace. We are creating a sustainable local water supply that protects our customers from the impacts of climate change as drought years are becoming more prolonged and intense. We are investing in modernizing water and power infrastructure, catalyzing the green economy, and diversifying our workforce to better reflect the communities we serve. Throughout these efforts, our Board has adopted innovative approaches and leaned into the challenges that face our city.

When We Say…

Board Leadership's mission is "to discover, explain and discuss innovative approaches to board governance with the goal of helping organizations achieve effective, meaningful and successful leadership to fulfill their missions."

Board Leadership aims to fulfill this mission by engaging its readers in a lively and illuminating inquiry into how board governance can be made more effective. This inquiry is based on three key assumptions:

- Boards exist to lead organizations, not merely monitor them.
- Effective board governance is not about either systems, structures, processes, theories, practices, culture, or behaviors—it is about all of them.
- Significant improvements are likely to come only through challenging the status quo and trying out new ideas in theory and in practice.

Uniquely among regular publications on board governance, *Board Leadership* primarily focuses on the job of board leadership as a whole, rather than on individual elements of practice within the overall job.

Over time, *Board Leadership* will provide a repository of different approaches to governance created through its regular "One Way to Govern" feature. Here's what a few of the key terms we use mean to us:

- **Innovative:** Creating significant positive change
- **Approaches:** Principles, theories, ideas, methodologies and practices.
- **Board governance:** The job of governing whole organizations.

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Clean Energy for L.A.

The unprecedented Los Angeles 100% Renewable Energy Study (LA100), conducted independently by the U.S. Department of Energy's National Energy Laboratory (NREL), affirmed that LADWP could be fully powered by 100% renewable and carbon-free energy by 2045, and even by 2035 in the fastest scenario. Based on this, our Board has set a goal to be 100% carbon free by 2035—10 years earlier than required by California state law—and 80% renewable energy by 2030. This will not be easy, and there are many hurdles to overcome.

Since the LA100 study was completed, LADWP's power organization has developed an aspirational road map to achieve 100% clean energy by 2035 by modeling scenarios that analyze the build-out of resources, infrastructure, strategies, and costs to achieve the target, incorporating significant stakeholder input through a robust Advisory Group process.

The 2022 Power Strategic Long-Term Power Plan, which will be published later this year, recommends the most viable scenario that will meet our core principals of reliability and resiliency, sustainability, affordability, and equity for our customers.

While developing the long-term pathway, we have been fast-tracking ongoing efforts and implementing new projects to meet the accelerated clean energy target. These strategies include:

- **Rapidly expanding renewables** by deploying 3,000 MW of new renewable energy projects.
- **Upgrading and expanding transmission** to deliver power to where it is needed within the city, and leverage existing transmission that will be needed to bring more renewable power into the L.A. Basin from outside the city.
- **Transforming local generation** with quick-start turbines powered by renewable fuel, and taking steps to ascertain viable options for green hydrogen power.
- **Accelerating energy storage capacity** within and outside of the city to ensure reliability as we expand variable energy sources such as solar and wind.
- **Ensuring equity** as we deploy more rooftop solar and other distributed resources in the city so that all customers benefit and no customers are unfairly burdened by the costs or the environmental impacts.

Paving the Green Hydrogen Highway

While all of these strategies are extremely complex, and require significant investment in financial and human resources, probably the most technically challenging approach involves transforming local power generation. As we increase variable renewables, such as wind and solar power, we still need to ensure that the power system is both clean *and* reliable.

The LA100 study showed that in the future, L.A. can rely upon clean energy technologies like wind, solar, and batteries for most of our everyday power demand. However, the study pointed to the need for combustion turbines—driven by renewable fuels—for limited periods to maintain reliability in the city during critical situations. While this type of power generation would be used infrequently, it is considered essential for keeping the lights on during the most extreme situations, such as a wildfire or earthquake causing the loss of transmission lines bringing power into the city.

Right now, green hydrogen fueled by renewable energy is our best option for fulfilling the need for clean, dispatchable power. This is in stark contrast to gray hydrogen (sometimes called black hydrogen), which is often produced from coal with significantly higher CO2 emissions per unit of hydrogen produced. LADWP is already planning the nation's first-ever green hydrogen generation and storage system at the Intermountain Power Project (IPP) in Utah. LADWP and our partners in the Intermountain Power Agency (IPA), which owns IPP, are developing a new state-of-the-art, 840 MW combined-cycle generating system that will use green hydrogen as a fuel source. This facility will be capable of operating with a fuel blend of 30% green hydrogen and 70% natural gas starting on Day 1 of operation, expected in mid-2025, and up to 100% by 2045.

Closer to home, we issued a request for information (RFI) to develop green hydrogen generating and storage facilities to replace or augment power plants within the L.A. Basin. The RFI aimed to learn from the industry what technologies and pathways are possible. Building green hydrogen within the city would be no small feat given the fact that technology is still new and not yet cost effective. But building any new power generation or transmission facilities is a long-term prospect. Planning must begin now if we are to achieve reliable and clean power in the future.

Armed with the industry responses to our green hydrogen RFI, our Board took the bold step of approving an ordinance that will pave the way for developing a small, green hydrogen pilot project at one of our existing natural gas power plants serving a major population center in Los Angeles. This action, pending the approval of our full City Council, will be a first step to ensuring that our customers will continue to receive reliable electricity service even when the wind isn't blowing and the sun isn't shining either because of weather factors or an emergency situation impacting the transmission lines that bring energy into the city.

Energy Equity and Environmental Justice

Throughout the 3 ½ year LA100 study, we worked closely with a passionate and dedicated stakeholder Advisory Group to incorporate and respond to community input. One concern that came up repeatedly was, how will LADWP ensure that environmental justice and disadvantaged communities

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A Matter of Organizational Resiliency

by Scott Konrad

Scott Konrad is the North American Nonprofit Practice Leader at the leading insurance brokerage Hub International. In this article, he explores current issues in enterprise risk management for nonprofit organizations.

Nonprofits are increasingly being held to stringent standards of sound governance, prudent stewardship, and transparency. And, like their for-profit counterparts, many are bringing enterprise-wide risk management (ERM) to the boardroom table. It's a strategy to ensure resiliency, even amid the greatest crises.

Yet some nonprofit leaders hear about ERM at conferences, in publications like this one, and from their peers, and flirt only briefly with the initiative before they're overcome by analysis paralysis. "This is too complex a project for us," they say. Or, "We don't have the bandwidth to do the job." "We're short-staffed as it is … and we're coming into budget season." Excuses abound—and the mission-critical work of ERM never gets done, leaving organizations exposed and vulnerable.

This article focuses on how to succeed whether others have given up.

A Glimpse at the World of Risk

In textbook terms, risk comes in two flavors: *speculative risk*, as in a game of chance that the player can win or lose; and *pure risk*, which holds only the potential for harm, as in a fire. In the world of risk and insurance, we focus on pure risk—threats to individual and organizational well-being.

Taking a step further, we can categorize pure risk. For simplicity, let's think in terms of *Hazard and Operational risks*, typically the subjects of commercial insurance; *Financial risk*, which has direct negative consequence to one's treasury; and *Strategic risk*, an overarching category of mega-threats that can bring an organization to its knees. Hazard risks, financial risks, and some operational ones have traditional markets to hedge or transfer them, along with robust data in most instances. Consider commercial insurance, for example.

Enterprise risk management is the process of sifting through the many risks on an organization's landscape; weighing their impact in terms of frequency and severity; and developing strategies to avoid or reduce the handful of greatest threats. It's especially useful when an organization is considering expansion of programmatic services, geographic expansion, or amid significant leadership or funding changes.

ERM in Practice: A Recent Illustration

A nationwide nonprofit insurance and employee benefits client recently engaged us to help implement an ERM initiative. The organization has a moderately complex risk profile combining elements of real estate development, commercial lending, and human services, and an external rating agency had suggested it consider enterprise risk management in view of recent growth and projected expansion.

After initial discernment conversations with several C-suite executives and reviewing the organization's five-year strategic plan, our project team roughed out an Excel-based "risk bank" of 35 big-picture threats, specifically focusing on those that could impair the achievement of the strategic plan. They ranged from factors such as natural/human-made disaster, construction defect, and employee misconduct to capital volatility, loss of key staff, and revocation of tax-exempt status.

We then shared our draft with the organization's executive leadership and asked it to empanel a cross-section of senior colleagues from key operating departments—executive, finance, operations, lending, development, IT, human resources, and others—and to invite their input on our first-pass risk inventory. This process generated additions and revisions from 13 participants, which we then distilled into a master matrix for further exploration.

The first major project milestone was a seven-hour workshop with all constituents to discuss the 35-line risk register, drive for consensus on the greatest threats, and then triage that handful by relative magnitude. This process included examining:

- Current risk drivers
- Future triggering events
- Consequences
- Current risk mitigation strategies
- Perceived impact rating (1–10)
- Perceived likelihood rating (1–10)

Multiplying the average numerical impact rating by likelihood rating for each threat, we derived combined risk scores that neatly fell into order—from data breach at the high end to loan portfolio loss at the bottom. We weren't seeking absolute values, but *relative* ones that showed how specific risks stacked up against each other.

The next phase of our work will turn to risk mitigation strategy, empaneling the same constituents to brainstorm practical, cost-effective actions to eliminate or reduce the short list of triaged risks. We'll condense that input into a comprehensive management report documenting our collective work throughout the project and confirming concrete action steps, timelines, and departmental/individual ownership for each.

The entire run time from engagement to completion should be about three months, allowing for time on the front end to gather necessary information and syncing participants' busy competing schedules—swift progress as many consulting engagements go.

Key Benefits

The case study above, like others, will yield concrete benefits to the organization:

• A deeper appreciation of major threats and the interrelationships between them

• Realistic perspectives from all functional segments of the enterprise

• A coordinated approach to understanding and managing risks

• A collection of institutional knowledge to focus efforts and uncover risks that individuals may have overlooked

4 Tips to Success

Enterprise risk management is within the grasp of any nonprofit entity, regardless of size. By following four simple tips, you can position your organization ahead of risk—and stay there.

• **Don't overcomplicate.** Many ERM novices fall into the trap of developing exhaustive risk registers that catalog innumerable threats, only to find themselves overwhelmed by the daunting prospect of quantifying and remediating each risk. While there's no harm in taking broad inventory of the various contingencies that could affect the enterprise, focus on the top five or six greatest threats—the ones that could spell the death knell for the organization. They're where the ERM team will realize the greatest return on its investment of time and brainpower.

• **Consensus is crucial.** The business' key functions must work collaboratively to reach a cross-disciplinary consensus in an organization's key risks before ranking them by magnitude. Engaging a wide group of thoughtful, collegially vocal individuals with different functional areas can also help flush out risks that may have been overlooked.

• **Consider external guidance.** Sometimes even the best of leaders become immune to the threats around them simply because of familiarity; they live with them day-in-and-day-out, unwittingly developing blind spots. Outside experts bring a fresh lens on the subject, helping to facilitate team discussions and probe issues that haven't previously been considered. Choose an external ERM consultant with broad operational experience and a pragmatic approach to problem-solving that's tailored to the organization's specific needs. Think twice whether the organization really needs exhaustive analytics, modeling, and heat-mapping—all of which come at a cost—or whether the nonprofit can achieve the same impact through a leaner approach that drives it more quickly to the finish line. Avoid cookie-cutter, off-the-shelf solutions.

As it gains experience and confidence, the organization should take on all ERM activities itself, leveraging outside expertise sparingly when it needs a fresh assessment, when adding downstream ERM activities, or if the overall initiative becomes stale.

• **ERM is never done.** Risk is as dynamic as an organization and its operating environment—so ERM is anything but a one-and-done proposition. Organizational leadership must periodically review and adjust the ERM profile and strategies for current and future circumstances. The more often a nonprofit revisits and refreshes its ERM framework, the easier it becomes—and the greater the likelihood enterprise risk management will become embedded within the fabric of the organization's culture.

Scott Konrad is the North American Nonprofit Practice Leader at Hub International, a leading global insurance brokerage.

Webinar offers tips on keeping board members engaged

Nonprofit resources website *Charityhowto.com* will host a webinar titled How to Create an Engaged Board of Directors: A Step-by-Step Guide on Feb. 7 at 3:00 PM EST.

According to organizers, this workshop will explore a range of tools and strategies for creating a highly effective and impactful board of directors.

The workshop will discuss:

• How to identify the best candidates for your nonprofit board of directors.

• How to screen your prospective board candidates to ensure a good match.

• How to organize and support the board.

• How to onboard and orient your new board members.

• How to hold engaging board meetings.

• How to monitor board performance.

Registration fees for this event are $79.

For more information, visit https://bit.ly/2Dk25RP. ■

GOVERNANCE

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The British Standards Institution is known as the leader in the development of many of the world's most popular management systems standards. BS 13500:2013 "Code of Practice for Delivering Effective Governance of Organizations"1 is a coherent international standard on delivering effective governance. One of its key points (Standard 3.2) is that effective governance should "be integrated into a single, holistic, open, forward-looking, effective, efficient and empowering system that starts and ends with accountability." Notice the words *holistic* and *system*. The recently developed Guidance document ISO 37000,2 released by the International Standards Association in 2022 with input from experts from over 70 countries, also indicates that "oversight by the governing body includes ensuring that an internal control system is implemented and assuring itself that the *governance system* is appropriately designed and operating as intended" [emphasis added].

Where does one find such a system? While a variety of approaches to governance call themselves systems, the only one of which I am aware that truly meets the scientific definition of *system* as a group of related elements that function together interdependently to produce a certain outcome—think cardiovascular system, for example—is the Policy Governance model developed by Dr. John Carver. Having worked with this model for over 30 years, I can attest that it is applicable to any governing board. It is purpose-designed to effectively and efficiently fulfill the board's job as described earlier. Because it is a system, and all of its 10 principles are interdependent, when used as intended they work together to enable clear accountability and position the board to be able to focus on future direction setting.

Lever 2: Empowering Policies

Considering again the responsibility to be accountable, and the necessary role clarity for that to happen, along with the board's responsibility to protect the organization's assets, a second lever is empowering policies. While most organizations have policies, often it's unclear whether the board or management owns them. It's common to see a board approving voluminous operational policies that it doesn't truly understand. In addition, policies are frequently developed as a reaction to some organizational problem or issue.

There *is* a better way. A comprehensive framework for policies—a policy architecture—can ensure that everything the board needs to address about the organization is covered. This includes what the board needs to say about its own processes and what it needs to say to management.

A comprehensive set of policies set out unambiguous expectations. Expected results are clear. It's also clear what organizational situations or conditions are not acceptable. This latter set of policies is critical to the board's responsibility to protect the organization. At the same time, they free the CEO, and subsequently employees reporting to the CEO, to be innovative in designing the best ways to achieve the expected results without first having to ask permission of the board. The CEO knows what situations must be avoided, so can also be nimble in adjusting to changing circumstances.

Having this set of policies is important, but unless the board monitors to ensure they are being followed, they are not worth much. Rigorous monitoring is part of the package. Boards need to expect the CEO to provide the measures that, if achieved, would demonstrate the policies are being followed, along with verifiable evidence that the measures indeed have been achieved.

Finally, having these processes for optimizing delegation codified in policy enables both present and future boards to be able to safely empower the CEO.

Lever 3: Context 'Awareness

The last lever to examine enables both the board's role in protecting the organization and its role in setting direction. As noted in the discussion of the second lever, a comprehensive set of empowering policies are the *mechanism* to fulfill both those roles. However, unless the content of the policies demonstrates wisdom, they won't achieve the desired effect. The ability to develop wise policies and to exercise strategic foresight is based on awareness of the context in which the organization operates. In order to develop policies that protect the organization, the board must consider the risk environment, which includes current risks but also those that might develop in the longer term. Similarly, to set a wise strategic direction, the board must consider what alternative futures may evolve and what course to set for the organization in light of that information. Only with that background can it create a compelling vision of organizational purpose.

All Three Levers Are Needed

Therefore, we have come full circle. In order to have the time to spend on context awareness, the board needs to have a comprehensive set of empowering policies that set direction and the parameters within which management can address the day-to-day operations. While compliance with those policies must be monitored, a systematic approach allows monitoring to take only a small proportion of the board's meeting time. Having a principles-based governance system is key to enabling both the comprehensiveness of policies and context awareness. The three levers are rather like a three-legged stool. If you are missing a leg, sooner or later you'll fall over. Rather than governing from a tipsy stool, consider these levers. Boards may not be able to move the world with them, but they will be able to contribute to shaping a better future. ■

Jannice Moore is the founder of The Governance Coach, a consulting firm that has been coaching boards in the implementation of policy governance since 1994. She can be reached at jannice@governancecoach.com.

References

[1] BS 13500:2013 Code of Practice for Delivering Effective Governance of Organizations. BSI Standards Limited, August 2013, p. 9.

[2] https://bit.ly/3Cr6xxG.

TRANSFORMATION

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share in the benefits of L.A.'s clean energy transition? From a high-level perspective, LA100 found that "all communities will share in the benefits of the clean energy transition." But, the study said, improving equity in participation and outcomes would require "intentionally designed policies and programs" that were beyond the scope of the LA100 study.

Based on this conclusion, our Board instituted the LA100 Equity Strategies project to work closely with environmental justice communities to ensure that our path to 100% clean energy is equitable *and* achievable. Now in its second year, a team of researchers from the National Renewable Energy Laboratory (NREL) and University of California, Los Angeles (UCLA) is analyzing ways to improve, change, and expand customer-focused programs, as well as LADWP services and operations, to create tangible energy equity as part of our clean energy transformation. The early findings of LA100ES have already sparked a new cooling program that aims to address weather-related health impacts for low-income, older adults and medically vulnerable customers to keep them safe during heat storms. We recognized that there was an urgent need to provide access to cooling programs, and we acted quickly to put this program in place before the end of summer.

"Cool LA" marked an important first step in our efforts to achieve an equitable transition to a clean energy future for all of L.A. Through Cool LA, qualified LADWP customers can receive significant rebates and direct discounts on room air conditioners. The program also includes a new level-pay billing program that enables customers to pay their utility bills at an even level every month over a 12-month period.

Beyond LA100 Equity Strategies, our Board has made equity of our programs, services, and workforce a high priority. We are investing in more charging stations located in environmental justice communities, and providing grants to communities for innovative clean air programs, such as electric bicycle sharing. We are looking for opportunities to leverage the empty spaces below power lines in disadvantaged communities to create revitalized public green infrastructure and public open spaces for equitable access to recreation, habitat, and mobility.

We are fueling the economy through over $1 billion contracts each year and employ a workforce of over 11,000 people reflecting the diverse communities of Los Angeles. We have targeted recruitment to local high schools and trade schools within disadvantaged communities. We are making efforts to keep water and power affordable by streamlining low-income discount programs for eligible customers.

Creating a Sustainable Water Supply

The dry climate that impacts our water supply continues to worsen due to global warming. Our water system planners and other forecasters agree that the extreme drought will continue and that we are heading into a fourth consecutive year of critical dry conditions. (Water agencies plan their water supply and water budgets for the next 12 months starting October 1st of each year.)

With no end to the drought in sight, we can no longer consider the dry years as outliers. We cannot conquer nature. We must all learn to live in concert with her and within our water means. We are fortunate that Los Angeles residents and businesses have historically embraced water conservation as a way of life and even stepped up their water-saving efforts in recent months. Since our Board implemented two-days-a-week watering restrictions on June 1, 2022, residential customers' average daily water use has continued dropping. Our customers achieved record-low water use for three consecutive months from June through August. In August 2022, L.A.'s water demand was 10% lower than the previous two years, despite hotter than average temperatures.

Our customers are doing their part to conserve. From our side, the utility has been working to secure a sustainable local water supply and reduce dependence on limited supplies of imported water, through three key strategies: Expanding the capacity to capture and repurpose stormwater runoff, remediating groundwater contamination to restore the full capacity of the San Fernando Groundwater Basin, and increasing the use of recycled water for irrigation, industry, and other environmentally beneficial uses.

Operation NEXT

Ensuring a sustainable water supply will require innovative efforts by the utility in partnership with our customers and other agencies in the city, region, and state. We are spearheading a bold and visionary new water supply program, called Operation NEXT, that will help ensure the water security of Los Angeles by creating a reliable and pure new water source. In partnership with LA Sanitation and Environment (LASAN) and other city and regional agencies, this initiative has the potential to meet up to 40% of our customers' water needs.

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The goal of Operation NEXT is to maximize the supply of advanced purified recycled water from a large city reclamation plant to replenish our groundwater basins. While LASAN upgrades the water purification technology, LADWP will build new conveyance pipes and other infrastructure connecting the treatment plant to the groundwater basins. Eventually, the water will be extracted and blended into our water distribution system.

Through Operation NEXT, we expect to produce up to 217 million gallons per day, sustaining 972,000 Los Angeles homes! In addition to recharging the groundwater water, we are planning to design the system so that the purified recycled water can also be directly blended into the drinking water distribution system if that process becomes sanctioned by state regulators. We are confident that L.A. residents understand the magnitude of the water supply shortage, and that they will accept new and safe methods of expanding our drinking water.

We are eagerly looking for new incentives and programs to encourage customers to save water. We recently launched a new pilot program where customers can purchase a smart home water monitoring device at a deep discount and then monitor their real-time water usage on their smartphone or tablet. Known as the Flume, this device enables customers to stay on top of their water use and identify leaks early on. We also recently raised the rebate from $3.00 to $5.00 per square foot for customers to replace their lawns with sustainable landscaping. We are proud to say we have seen a tenfold increase in applications for the turf replacement program, indicating that our customers are finally falling out of love with their lush lawns and choosing beautiful, climate-appropriate planting and landscapes.

As we know, climate change is not "in the future." We are, in fact, living the emergency now. We are continuously seeking conventional and unconventional solutions to address the serious challenges facing LADWP and other water and power utilities today. We recognize that some of our initiatives may be viewed as controversial or uncomfortable—nonetheless we believe they have potential to provide truly innovative solutions. But, we must also be realistic and recognize there are limitations to what any organization can accomplish alone. That's why we are eager to create critical partnerships with our communities and with other utilities and agencies across local, regional, state, and national levels. These partnerships and collaborations are generating robust and clever ideas that would not have even been possible a few years ago.

All of this work requires us to continue to engage with our customers to hear their concerns and to meet them where they need us to be. Through our Board's leadership—working together with LADWP's smart, talented, and dedicated employees—we will embrace the uncomfortable and lean into challenges to ensure clean, safe, and reliable water and power that is affordable and beneficial for everyone. ■

Tips for overcoming board burnout after tumultuous two years

The chaotic operating environments that nonprofits have been faced with the last couple years have undoubtedly led to burnout among one or many board members. Having to adapt and revise their work schedules to work around social distancing restrictions have likely pushed some boards and individual members to the breaking point.

However, experts say, now is not the time to let things slip. According to SBI Association Management, a Seattle-based nonprofit association management consultancy, there are several ways that nonprofits can help their boards get past burnout and reengage with their duties. In a blog post on this topic, the company makes the following recommendations:

• **Acknowledge that the burnout exists.** As the saying goes, the first step in resolving any problem is acknowledging that it exists.

• **Prepare for hard conversations with your board.** If you are seeing the signs of burnout, you have to be prepared to have tough conversations with your board about the issue and what's needed to address it. But when you have that discussion, don't be confrontational—instead, take an empathetic approach, SBI said.

That's because the reason for their burnout might have nothing to do with their service as board members—it could derive from any number of personal matters or professional challenges that they have been faced with.

• **Facilitate some personal goal setting for board members.** Keep in mind, your board members joined up because they wanted to serve their community and help the organization in its mission. But the minutiae involved—which can amount to hours and years spent attending meetings, following Robert's Rules, can "suck the meaning right out of the idea of service," SBI said.

Ask them what impact they wanted to have or help achieve, and then help the director set some measurable goals they can work toward during their remaining time on the board, the company said.

• **Shake things up a little bit.** Try to help refresh your board and reengage them by changing things up during your board meetings, SBI said.

For more information and tips on helping reengage a burnt-out board, visit https://bit.ly/3InFN1Q. ■

House Bill 1039 & 1040
North Dakota Retirement and Investment Office (RIO) on behalf of the Teachers' Fund for Retirement Board of Trustees
Neutral Testimony related to HB 1039 & 1040 before the House Government and Veterans Affairs Committee
Representative Austen Schauer, Chair
Representative Bernie Satrom, Vice Chair

Janilyn Murtha, JD, MPAP – Executive Director

I. Introduction

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven-member board of trustees which consists of the State Treasurer, State Superintendent, two active teachers, two retired teachers and one school administrator all appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions (43%) and investment earnings (57%). During the past decade, active membership has increased 16.4% from 10,138 to over 11,800 participants, while retirees and beneficiaries have increased 26.0% from 7,489 to over 9,400.

Our 2022 actuarial valuation projects the TFFR plan to reach 100% fully funded status by 2044. The successful funding path is largely attributable to the statutory changes to the plan, including the creation of a tiered benefit structure and increase in contributions passed by the Legislature in 2011.[1]

II. Neutral Testimony relating to HB 1039 & HB 1040

The TFFR Board of Trustees believes that defined benefit plans provide a valuable recruitment and retention tool for government entities when managed correctly and funded appropriately. TFFR employers are largely school districts which employ both TFFR and Public Employee Retirement System (PERS) members. From a public policy perspective, the TFFR Board is concerned that closing the PERS Main Defined Benefit plan will have a negative impact on the recruitment and retention efforts for the non-teaching employees of its school district employers.

[1] H.B. 1134, 62nd N.D. Legislative Assembly (2011-2013).

The TFFR Board does recognize, however, that the PERS Main Defined Benefit Plan and the TFFR plan are currently on distinctly different funding paths. While the TFFR plan is projected to reach fully funded status by 2044,[2] the PERS Main Defined Benefit Plan is not projected to reach 100% fully funded status.[3] The TFFR Board recognizes that TFFR's funding success is largely attributable to the plan design and contribution changes adopted by the Legislature through H.B. 1134 in 2011; whereas the version of S.B. 2108, the PERS funding bill, which was ultimately approved in 2011, removed the final contribution increase needed for the PERS Main Defined Benefit plan. The TFFR Board observes that the legislature must pursue some type of change to address the PERS Main Defined Benefit Plan funding shortfall. The TFFR Board is therefore not opposed to either HB 1039 or HB 1040 in their current form so long as the public policy of closing defined benefit plans does not extend to defined benefit plans that are on a correct funding path, such as the TFFR plan.

III. Summary

The changes proposed by HB 1039 and HB 1040 reflect an attempt to correct a funding shortfall for the PERS Main Defined Benefit Plan and to the extent that the public policy implications of these bills do not extend to defined benefit plans that are projected to reach 100% fully funded status the TFFR Board of Trustees takes a neutral position on this legislation.

[2] 10-26-22 ND Legislature Employee Benefits Programs Committee meeting, Presentation by the Segal Group, Inc. regarding the July 1, 2022, actuarial valuation of TFFR, p. 28, 29.

[3] 10-26-22 ND Legislature Employee Benefits Programs Committee meeting, Presentation by GRS regarding the July 1, 2022, actuarial valuation of PERS Main System, p. 33.

House Bill 1088
North Dakota Retirement and Investment Office (RIO)
Testimony in support of HB 1088 before the House Government and Veterans Affairs Committee
Representative Austen Schauer, Chair
Representative Bernie Satrom, Vice Chair

Janilyn Murtha, JD, MPAP – Executive Director

I. Introduction

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

During this past biennium RIO underwent a strategic review and plan initiative to evolve both programs and the agency to better serve the needs of our clients, members, stakeholders, and the State of North Dakota. This review has resulted in changes to our board and agency governance, identifying and implementing improvements to our infrastructure, and a concerted focus on the development of our workforce.

The RIO team worked closely with the SIB and TFFR Boards to evolve the governance structure of both Boards and Board staff relations to establish a foundation of governance that supported program growth. During this past biennium the State Investment Board established two new committees to support this growth including a Governance and Policy Review Committee as well as an Investment Committee to better support the needs of the program. These changes in particular occurred over the course of many meetings as through board discussion the SIB recognized the need to evolve its own governance to provide the agility and ability needed to manage a growing amount of assets in complex investment strategies.

Review of SIB membership was referred to the Governance and Policy Review Committee and recommendations were brought forward to the full SIB. The SIB discussion focused on whether the current membership appropriately represented the funds under management and included fiduciaries with sufficient expertise in institutional investing given the complexity of the program. HB 1088 is submitted as a result of the review and discussion conducted by the State Investment Board.

II. State Investment Board (SIB) Member Composition

The State Investment Board has the statutory responsibility to administer the investment program for 27 funds including the Legacy Fund, TFFR, PERS, and WSI. It also maintains contractual relationships for the investment management of multiple political subdivisions and governmental funds. Currently SIB is responsible for the investment of the Legacy Fund, seven pension funds and 19 other non-pension funds for a total of 27 separate client funds with an overall fund value of roughly $18 billion as of October 31, 2022.

These assets under management have grown from about $4 billion in 2010 and continue to grow from investment returns and contributions to the Legacy Fund, pension plans, and insurance funds. The combination of the growth of AUM, the number of individually managed funds, and the complexity of mandates such as the Legacy Fund have increased the need for staff resources, infrastructure and new scalable investment processes that can enhance the performance of client funds while reducing the net cost of management of those funds when manager fees are considered. Throughout this program growth the composition of the SIB has remained largely unchanged.

Currently the following members comprise the SIB:

The Lt. Governor, in place of the Governor, the State Treasurer, the Commissioner of University and School Lands, the Director of Workforce Safety and Insurance (WSI), the Insurance Commissioner, three representatives of the TFFR Board, three representatives of the Public Employees Retirement System (PERS) Board, and one member of the Legacy and Budget Stabilization Fund Advisory Board as a nonvoting member.

At the time the RIO agency was established in 1989, the SIB composition appropriately reflected the governance needed to serve the assets under management in many ways. For example, fiduciary boards comprised of lay persons, as opposed to professionals within the investment industry, are common when the AUM is relatively small. In addition, having much of the board comprised of pension trustees reflects that pension funds, up until recently, have been the largest type of funds under management by the board. As the program complexity, AUM, and type of funds evolved the board membership has not. H.B. 1088 reflects the SIB's desire to evolve board membership in a manner consistent with the needs of the investment program as it is today.

The changes proposed in H.B. 1088 accomplish two goals: 1) to introduce experienced industry professionals onto the Board in order to address program growth and complexity; and 2) to adjust current board member composition to reflect a change in the type of assets under management.

H.B. 1088 proposed the addition of two members to the SIB that are appointed by the Governor and have experience with institutional investments. This board archetype reflects not only the growth but the evolving complexity of the investment program and the need for fiduciaries with a specific type of industry experience to participate in discussions and decisions.

H.B. 1088 further adjusts board membership by reducing the number of pension trustees from three TFFR and PERS representatives to two, respectively. This adjustment is intended to reflect the change in the type of assets under management as pension funds are now the second largest type of funds under management.

Finally, HB 1088 replaces the Insurance Commissioner with the Director of the Office of Management and Budget (OMB). The Insurance Commissioner has been a vocal advocate for this change indicating that Insurance fund interests are adequately represented by the WSI Director. The addition of the OMB Director reflects the fact that until November 2021 the OMB Director had served on the Legacy and Budget Stabilization Fund Advisory Board and offers representation and coordination in administration of those funds.

III. Summary

The changes proposed in H.B. 1088 reflect a critical self-assessment by the current members of the SIB and a desire to support investment program growth by enhancing the SIB governance structure. The SIB believes the proposed changes to the SIB membership will enhance the program by including industry experts and rebalancing fiduciary representatives across client funds to better reflect the type of assets under management.

House Bill 1150
North Dakota Retirement and Investment Office (RIO) on behalf of the Teachers' Fund for Retirement Board of Trustees
Opposition Testimony related to HB 1150 before the House Education Committee
Representative Pat. D. Heinert, Chair
Representative Cynthia Schreiber-Beck, Vice Chair

Janilyn Murtha, JD, MPAP – Executive Director

I. Introduction

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven-member board of trustees which consists of the State Treasurer, State Superintendent, two active teachers, two retired teachers and one school administrator all appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions (43%) and investment earnings (57%). During the past decade, active membership has increased 16.4% from 10,138 to over 11,800 participants, while retirees and beneficiaries have increased 26.0% from 7,489 to over 9,400.

Our 2022 actuarial valuation projects the TFFR plan to reach 100% fully funded status by 2044. The successful funding path is largely attributable to the statutory changes to the plan, including the creation of a tiered benefit structure and increase in contributions passed by the Legislature in 2011.[1]

II. Opposition Testimony relating to HB 1150

Opposition to HB 1150 should, in no way, be misconstrued as a lack of support for military veterans. The TFFR Board stands in staunch support of its military veterans and holds them and their service in the highest regard. The opposition of HB 1150 relates only to the concern that creating exemptions to retirement plan participation will erode the viability of the TFFR plan.

The TFFR Board of Trustees believes that defined benefit plans provide a valuable recruitment and retention tool for government entities when managed correctly and funded appropriately.

[1] H.B. 1134, 62nd N.D. Legislative Assembly (2011-2013).

TFFR employers are largely school districts which employ both TFFR and Public Employee Retirement System (PERS) members. The TFFR Board recognizes that public pension reform is a major topic under consideration by the 68th Legislative Assembly. H.B. 1039 and H.B. 1040 have been introduced and involve closing the PERS Main Defined Benefit Plan due to concerns over that plans unfunded liability. During the testimony of several individuals at the hearings on those bills last week it was noted that the PERS Main Defined Benefit Plan and the TFFR plan are currently on distinctly different funding paths. While the TFFR plan is projected to reach fully funded status by 2044,[2] the PERS Main Defined Benefit Plan is not projected to reach 100% fully funded status.[3] The TFFR Board recognizes that TFFR's funding success is largely attributable to the plan design and contribution changes adopted by the Legislature through H.B. 1134 in 2011. We note that the changes proposed by HB 1039 and HB 1040 reflect an attempt to correct a funding shortfall for the PERS Main Defined Benefit Plan and hope that the public policy implications of these bills do not extend to defined benefit plans that are projected to reach 100% fully funded status such as the TFFR plan

The passing of H.B. 1134 in 2011 reflected a concerted effort on the part of our many members, stakeholder groups, and legislators to seek solutions and compromise on plan design changes that would support the TFFR program as a viable and valuable recruitment tool for our North Dakota educators. The success of those compromises is evidenced through TFFR's improved funding status and increased membership. Any exemption, including the one proposed in H.B. 1150, erodes the viability of the plan and the compromises reached in 2011.

In addition to these public policy implications there is an actuarial and fiscal impact to the fund and its administration. So long as the exemptions were not expanded, our actuaries estimated a relatively small group of our members would qualify resulting in a delay of approximately one week to reach fully funded status. Further, we have estimated an increased cost of approximately $5000 in the next biennium to track and administer this exemption.

III. Summary

The TFFR Board observes that the legislature must pursue some type of change to address the PERS Main Defined Benefit Plan funding shortfall due in part to inaction in prior years. No action is needed to address the funding status of TFFR because of the actions taken by this legislature in 2011. We respectfully submit that the introduction of exemptions of any kind to participation in the fund by licensed teachers, regardless of how much we support and value those individuals, will nonetheless erode the work accomplished by the 62nd Legislative Assembly to the detriment of the retirement plan for all North Dakota educators. For these reasons the TFFR Board of Trustee's opposes H.B. 1150.

[2] 10-26-22 ND Legislature Employee Benefits Programs Committee meeting, Presentation by the Segal Group, Inc. regarding the July 1, 2022, actuarial valuation of TFFR, p. 28, 29.
[3] 10-26-22 ND Legislature Employee Benefits Programs Committee meeting, Presentation by GRS regarding the July 1, 2022, actuarial valuation of PERS Main System, p. 33.

House Bill 1219
North Dakota Retirement and Investment Office (RIO)
Testimony on behalf of the Teachers' Fund for Retirement Board of Trustees in support of HB 1219 before the House Government and Veterans Affairs Committee
Representative Austen Schauer, Chair
Representative Bernie Satrom, Vice Chair

Janilyn Murtha, JD, MPAP – Executive Director

I. Introduction

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

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The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions (43%) and investment earnings (57%). During the past decade, active membership has increased 16.4% from 10,138 to over 11,800 participants, while retirees and beneficiaries have increased 26.0% from 7,489 to over 9,400.

Our 2022 actuarial valuation projects the TFFR plan to reach 100% fully funded status by 2044. The successful funding path is largely attributable to the statutory changes to the plan, including the creation of a tiered benefit structure and increase in contributions passed by the Legislature in 2011.[1]

During this past biennium RIO underwent a strategic review and plan initiative to evolve both programs and the agency to better serve the needs of our clients, members, stakeholders, and the State of North Dakota. This review has resulted in changes to our board and agency governance, identifying and implementing improvements to our infrastructure, a concerted focus on the development of our workforce and a focus on improving communication and outreach efforts with our clients, members, employers, and other stakeholders.

The RIO team worked closely with the SIB and TFFR Boards to evolve the governance structure of both Boards and Board staff relations to establish a foundation of governance that supported

[1] H.B. 1134, 62nd N.D. Legislative Assembly (2011-2013).

program growth. During this past biennium the TFFR Board established a new Governance and Policy Review ("GPR") Committee to better support the needs of the program. The TFFR GPR Committee oversaw a review of program plan laws, rules, and policies in anticipation of the implementation of a new pension system modernization project ("Pioneer Project") and made several recommendations to the TFFR Board for consideration in relation to this project.

The Pioneer Project is a large multi-year IT project for the development and deployment of a modernized pension administration system. The project is currently on-time and in the development and implementation of the vendor solution phase (the third and final phase), with an expected completion date of 4th quarter 2024. During the first phase of the project TFFR retained a consultant to perform an analysis of our current business state and provide recommendations for a desired future business state. This analysis served to guide the procurement efforts of the TFFR Board, RIO agency, and Executive Steering Committee (ESC) for the vendor solution. These consultant recommendations identified the need to proactively address clarification needs in current program documents to effectively and efficiently inform how the new vendor solution would be developed, programed, and implemented. Program documents include the state laws, administrative rules, and board policies governing the TFFR plan.

The changes proposed in H.B. 1219 reflect the recommendations and requested changes of the TFFR Board related to clarifying program rules and regulations in anticipation of programing the new pension administration system. It also includes two policy related requests that the TFFR Board is requesting to incentivize retired teachers to return to the classroom as an effort to address teacher shortage in K-12 education in North Dakota.

II. TFFR Board Support of H.B. 1219

A. Sections 1 through 3, and Section 9 of H.B. 1219

Sections 1 through 3 and 9 of H.B. 1219 do not change administration of the TFFR plan, rather the requested changes clarify existing law. Section 1 clarifies the definition of retirement annuity as a payment as opposed to a timing of a payment. Section 2 clarifies that the TFFR Board is not restricted to conveying input to the State Investment Board only through resolution (as opposed to surveys, letters, staff recommendations etc.). Section 3 doesn't remove any requirements of qualified domestic relations orders (QDRO's) under the plan, rather because the model language for QDRO's is found in Title 82 of the North Dakota Administrative Code, the recommended change is an attempt to reduce confusion and provide clarify to the members and attorneys who must draft QDRO's. Section 9 doesn't change but clarifies computation of service by referring to service hours to reflect how school district employers report service hours.

B. Sections 4 through 6 of H.B. 1219

Section 4 through 6 of H.B. 1219 reflect minor adjustments to the TFFR plan design that will provide consistency in administration of the plan so as to aid in the development and programing of the new pension administration system. Section 4 relates to teachers who have withdrawn from the fund and desire to return to teach and buy back their service credit; this section provides that the cost to repurchase that service shall be based on an actuarial determined basis for all members as opposed to differentiating between those that have been out of the fund for more or less than five years. Sections 5 and 6 remove the level retirement income with social security option for members. This option is very rarely selected by members at the time of retirement and was also removed as an option in the PERS Main Defined Benefit Plan several sessions ago.

C. Sections 7 & 8 of H.B. 1219

Sections 7 and 8 of H.B. 1219 reflect the TFFR Boards support of retired teachers returning to the classroom. Section 7 serves to incentive returning retired teachers to work full time under the annual hour limit rule, and whose retirement benefit would be suspended upon returning full time to the classroom, by allowing for a recalculation of the retirement benefit to include any amount of new service upon re-retirement and clarifies that professional development and extracurricular activities do not disqualify a teacher from returning to teach under the critical shortage area rule in the following section. Section 8 merely reflects that the Education Standards and Practices Board (ESPB) does not define critical shortage areas by administrative rule.

III. Summary

The changes proposed in Section 7 of the H.B. 1219 have been reviewed by TFFR plan actuaries and are expected to extend the projected date of reaching 100% fully funded status by one month. To aide in the programming and administration of the new pension administration system, and to incentivize retired teachers to return to the classroom, the TFFR Board supports H.B. 1219.

House Bill 1227
North Dakota Retirement and Investment Office (RIO)
Neutral Testimony relating to HB 1227 before the House Finance & Taxation Committee
Representative Craig Headland, Chair
Representative Jerad Hagert, Vice Chair

Janilyn Murtha, JD, MPAP – Executive Director
Scott Anderson, CFA, MBA – Chief Investment Officer

I. Introduction

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

The State Investment Board has the statutory responsibility to administer the investment program for 27 funds including the Legacy Fund, TFFR, PERS, and WSI. It also maintains contractual relationships for the investment management of multiple political subdivisions and governmental funds. Currently SIB is responsible for the investment of the Legacy Fund, seven pension funds and 19 other non-pension funds for a total of 27 separate client funds with an overall fund value of roughly $18 billion as of October 31, 2022.

II. Neutral Testimony relating to H.B. 1227

SIB assets under management have grown from about $4 billion in 2010 to over $18 billion currently and continue to grow from investment returns and contributions to the Legacy Fund, pension plans, and insurance funds. The combination of the growth of AUM, the number of individually managed funds, and the complexity of mandates such as the Legacy Fund have increased the need for staff resources, infrastructure and new scalable investment processes that can enhance the performance of client funds while reducing the net cost of management of those funds when manager fees are considered.

The Retirement and Investment office does not have any concerns with HB 1227. Providing business cases for proposed legislative, initiated or referred measures is a good practice that can lead to rational decisions and best-case outcomes for the Legacy Fund. Where decision independence is required, the hiring of an independent third party can bring external experience with precedence of similar initiatives implemented in other contexts, a fact-based analysis unencumbered by bias, and a diligent, economically grounded business case.

III. Summary

The Retirement and Investment Office recognizes that the intent of H.B. 1227 provides a foundation for good business practice and due diligence processes relating to investment of the Legacy Fund and has no concerns at this time.

House Bill 1271
North Dakota Retirement and Investment Office (RIO) on behalf of the Teachers' Fund for Retirement Board of Trustees
Opposition Testimony related to HB 1271 before the House Education Committee
Representative Pat. D. Heinert, Chair
Representative Cynthia Schreiber-Beck, Vice Chair

Janilyn Murtha, JD, MPAP – Executive Director

I. Introduction

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven-member board of trustees which consists of the State Treasurer, State Superintendent, two active teachers, two retired teachers and one school administrator all appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions (43%) and investment earnings (57%). During the past decade, active membership has increased 16.4% from 10,138 to over 11,800 participants, while retirees and beneficiaries have increased 26.0% from 7,489 to over 9,400.

Our 2022 actuarial valuation projects the TFFR plan to reach 100% fully funded status by 2044. The successful funding path is largely attributable to the statutory changes to the plan, including the creation of a tiered benefit structure and increase in contributions passed by the Legislature in 2011.[1]

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[1] H.B. 1134, 62nd N.D. Legislative Assembly (2011-2013).

II. Opposition Testimony relating to HB 1271

Attached following this testimony is the analysis performed by the fund actuaries which indicates that if passed, HB 1271 would significantly negatively impact the TFFR plan because instead o being on a path to fully funded status, the fund would never reach 100% funded. The pertinent section of the actuarial analysis may be found on page 2 which states:

"If adopted, HB 23.0374.01000 would increase the active Actuarial Accrued Liability by $130 million (an increase of 3% of AAL). The funded percentage would decrease by 1.9%. Because of the increase in liability and the decrease in expected payroll, the plan is no longer projected to ever reach 100% funding (as indicated by the "infinite" effective amortization period metric)."[2]

The TFFR Board of Trustees believes that defined benefit plans provide a valuable recruitment and retention tool for government entities when managed correctly and funded appropriately. TFFR employers are largely school districts which employ both TFFR and Public Employee Retirement System (PERS) members. The TFFR Board recognizes that public pension reform is a major topic under consideration by the 68th Legislative Assembly. H.B. 1039 and H.B. 1040 have been introduced and involve closing the PERS Main Defined Benefit Plan due to concerns over that plans unfunded liability. During the testimony of several individuals at the hearings on those bills last week it was noted that the PERS Main Defined Benefit Plan and the TFFR plan are currently on distinctly different funding paths. While the TFFR plan is projected to reach fully funded status by 2044,[3] the PERS Main Defined Benefit Plan is not projected to reach 100% fully funded status.[4] The TFFR Board recognizes that TFFR's funding success is largely attributable to the plan design and contribution changes adopted by the Legislature through H.B. 1134 in 2011. We note that the changes proposed by HB 1039 and HB 1040 reflect an attempt to correct a funding shortfall for the PERS Main Defined Benefit Plan and hope that the public policy implications of these bills do not extend to defined benefit plans that are projected to reach 100% fully funded status such as the TFFR plan.

The passing of H.B. 1134 in 2011 reflected a concerted effort on the part of our many members, stakeholder groups, and legislators to seek solutions and compromise on plan design changes that would support the TFFR program as a viable and valuable recruitment tool for our North Dakota educators. The success of those compromises is evidenced through TFFR's improved funding status and increased membership. H.B. 1271 would eliminate the viability of the TFFR plan and negate the compromises reached in 2011.

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[2] 1-18-23 letter from Segal Group, Inc. to ED Jan Murtha, Retirement & Investment Office (TFFR).

[3] 10-26-22 ND Legislature Employee Benefits Programs Committee meeting, Presentation by the Segal Group, Inc. regarding the July 1, 2022, actuarial valuation of TFFR, p. 28, 29.

[4] 10-26-22 ND Legislature Employee Benefits Programs Committee meeting, Presentation by GRS regarding the July 1, 2022, actuarial valuation of PERS Main System, p. 33.

III. Summary

The TFFR Board observes that the legislature must pursue some type of change to address the PERS Main Defined Benefit Plan funding shortfall due in part to inaction in prior years. No action is needed to address the funding status of TFFR because of the actions taken by this legislature in 2011. We respectfully submit that the introduction of HB 1271 will nonetheless erode the work accomplished by the 62nd Legislative Assembly to the detriment of the retirement plan for all North Dakota educators. For these reasons the TFFR Board of Trustee's opposes H.B. 1271.

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Via Email

January 18, 2023

Janilyn Murtha
Deputy Executive Director/Chief Retirement Officer
ND Retirement & Investment Office
3442 E. Century Avenue
Bismarck, ND 58507-7100

Re: Actuarial Impact Analysis of House Bill 23.0374.01000

Dear Jan:

As requested, we have prepared an actuarial impact analysis on the North Dakota Teachers' Fund for Retirement (TFFR or Fund), regarding the proposed modifications to current TFFR provisions if enacted under HB 22.0374.01000. Under current law, a retired member who returns to teaching is required to pay member contributions. Similarly, participating employers are required to pay contributions on behalf of the rehired retirees.

The proposed bill would allow the following:

- Retired members who return to active service would be able to opt to not pay member contributions, and
- If such a member opts to not pay member contributions, the participating employer would not be required to make employer contributions on behalf of the member.

Such changes would apply to both regular and critical shortage retirees returning to active service, as described in Section 15-39.1-19.1 and Section 15-39.1-19.2 of TFFR's ordinances.

Summary of Actuarial Impact

Because the bill would allow for eligible members to retire and immediately return to work while receiving retirement benefits, the effect of HB 22.0374.01 was modeled by assuming all active members eligible for unreduced retirement will retire immediately and projected payroll for the upcoming fiscal year does not reflect salary for new entrants. In addition, we would anticipate that this change would cause the level of total covered payroll to increase at a much slower rate than currently assumed (current assumption is 3.25% increase per year), or potentially even result in year-over-year decreases in covered payroll. As a result, it would be appropriate to change the basis for determining the actuarially determined contribution rate from level percentage of payroll to level dollar; this change is reflected in the actuarially determined contribution rate and effective amortization period illustrated in the table below:

Plan Year Beginning July 1, 2022	Valuation	HB 23.0374.01000	Increase/ (Decrease)
Actuarially determined contribution rate	12.12%	19.62%	7.50%
Actuarial Accrued Liability (AAL)			
Retired participants and beneficiaries	$2,606.5	$2,606.5	$0.0
Inactive vested members	133.5	133.5	-
Active members	1,722.4	1,852.7	130.3
Inactive vested members due a refund of employee contributions	17.6	17.6	-
Total AAL	4,480.0	4,610.3	130.3
Employer normal cost	98.8	95.8	(3.0)
Fair value of assets (FVA)	$3,023.9	$3,023.9	$0.0
Actuarial value of assets (AVA)	3,133.0	3,133.0	-
Unfunded AAL based on FVA	$1,456.1	$1,586.4	$130.3
Funded percentage on FVA basis	67.5%	65.6%	(1.9%)
Unfunded AAL based on AVA	$1,347.0	$1,477.3	$130.3
Funded percentage on AVA basis	69.9%	68.0%	(1.9%)
Effective amortization period on an AVA Basis	19	Infinite	N/A
Projected Annual Payroll for Fiscal Year Beginning July 1	$810.0	$733.4	($76.60)

$ in Millions

Change in Plan Costs

If adopted, HB 23.0374.01000 would increase the active Actuarial Accrued Liability by $130 million (an increase of 3% of AAL). The funded percentage would decrease by 1.9%. Because of the increase in liability and the decrease in expected payroll, the plan is no longer projected to ever reach 100% funding (as indicated by the “infinite” effective amortization period metric). The proposed bill would have a significant impact on ND TFFR’s actuarial valuation.

Note that the analysis of the proposed bill assumes that it will have no actuarial impact on deferred vested participants. That is because the actuarial valuation already assumes that 100% of deferred vested participants retire at their earliest available unreduced retirement age.

Actuarial Assumptions

For purposes of this analysis, the AAL amounts are calculated using the actuarial assumptions and plan provisions as described in the Actuarial Valuation Report and Review as July 1, 2022, for TFFR, dated October 20, 2022, for illustrative purposes unless stated otherwise. Active members as of July 1, 2022, that are currently eligible for unreduced retirement are assumed to retire immediately. Remaining active members are assumed to retire at the first age they reach eligibility for unreduced retirement. Any proposed legislation would not change the July 1, 2022, actuarial valuation results, and these are used as a proxy for the effect on plan costs.

Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

Certification

Use of this information is subject to the caveats and limitations of use described in the July 1, 2022, actuarial valuation report. This report has been prepared in response to a request from the North Dakota Retirement & Investment Office on behalf of the Employee Benefits Programs Committee of the North Dakota Legislature.

The signing actuaries are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please let us know if you have any questions, comments, or concerns.

Sincerely,

Matthew A. Strom

Matthew A. Strom, FSA, MAAA, EA
Senior Vice President and Actuary

Tanya Dybal

Tanya Dybal, FSA, MAAA, EA
Vice President and Actuary

Brad Ramirez, FSA, MAAA, FCA, EA
Vice President and Consulting Actuary

House Bill 1368
North Dakota Retirement and Investment Office (RIO)
Testimony in opposition to HB 1368 before the House Industry, Business, and Labor Committee
Representative Scott Louser, Chair
Representative Mitch Ostlie, Vice Chair

Janilyn Murtha, JD, MPAP – Executive Director
Scott Anderson, CFA, MBA – Chief Investment Officer

I. Introduction

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

The State Investment Board has the statutory responsibility to administer the investment program for 28 funds including the Legacy Fund, TFFR, PERS, and WSI. It also maintains contractual relationships for the investment management of multiple political subdivisions and governmental funds. Currently SIB is responsible for the investment of the Legacy Fund, seven pension funds and 20 other non-pension funds for a total of 28 separate client funds with assets under management (AUM) of roughly $18 billion as of October 31, 2022.

This AUM has grown from about $4 billion in 2010 and continue to grow from investment returns and contributions to the Legacy Fund, pension plans, and insurance funds. The combination of the growth of AUM, the number of individually managed funds, and the complexity of mandates such as the Legacy Fund have increased the need for staff resources, infrastructure and new scalable investment processes that can enhance the performance of client funds while reducing the net cost of management of those funds when manager fees are considered.

Currently, the SIB relies entirely on an external investment manager structure; ie RIO does not have internal investment management authority or operations. RIO contracts with over forty investment managers, vendors, and consultants in the administration of our two programs.

II. Opposition to HB 1368

Opposition to HB 1368 should in no way be construed as opposition to prohibiting commercial activities or investment activities with Israel. On the contrary, RIO implements business practices that would not restrict any investment or business activities with Israel for non-pecuniary reasons. The investment program as a matter of policy and in compliance with North Dakota law as set forth under NDCC Ch. 21-10, only invests for the exclusive benefit of its beneficiaries in a way that seeks to maximize return for a given level of risk. Any restriction of its investment or commercial set of opportunities for non-pecuniary reasons such as restricting investment in Israel is already prohibited by policy and law.

Our concerns relate to the potential conflict this bill may create with other existing or future legislation, or mandated business practices, the cost and complexity of implementing the bill, and the potential that the bill may unintentionally reduce commercial opportunities even with vendors who support Israel because of the cost the bill imposes on the vendor.

The vast majority of RIO's vendor's conduct business in many if not all states, and the regulation and oversight of these vendors is largely concurrent between state and federal regulatory systems, especially within the securities industry. Uniformity among regulatory requirements is therefore a critical issue for both the vendors and for government entities attempting to procure their services. The proposal, though well intentioned, would impose non-uniform conduct requirements on our vendors and require a level of administration from RIO that may be infeasible to implement. The proposal requires that RIO not only negotiate additional contract provisions with every vendor but also monitor the public statements and private contracts that the vendor may engage in with other clients or providers that have no direct business with RIO or the State of North Dakota. It would be infeasible for RIO to monitor public statements of vendors without a significant increase in compliance personnel and cost; and infeasible for RIO to access information related to the private contracts or dealings the vendor may engage in with other private third parties. In the event that outside vendors are unable or unwilling to work with RIO due to these additional requirements RIO would need to internalize functions that are currently contracted out, significantly increasing costs for the agency.

III. Summary

Pursuant to both North Dakota law and SIB policy, RIO implements business practices that would not restrict any investment or business activities with Israel for non-pecuniary reasons. The proposal, though well intentioned, may be infeasible to administer and significantly increase the cost and resources needed to perform compliance monitoring as well as have the unintended consequence of requiring the agency to internalize many functions that are currently performed by external partners. An additional consequence of impairment to contracting with third parties and a subsequent need to internalize operations at a speed beyond our current phased proposal would have a detrimental impact to the investment program and client fund earnings.

House Bill 1400
North Dakota Retirement and Investment Office (RIO)
Neutral Testimony relating to HB 1400 before the House Industry, Business, and Labor Committee
Representative Scott Louser, Chair
Representative Mitch Ostlie, Vice Chair

Scott Anderson, CFA, MBA – Chief Investment Officer
Janilyn Murtha, JD, MPAP – Executive Director

I. Introduction

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

The State Investment Board has the statutory responsibility to administer the investment program for 28 funds including the Legacy Fund, TFFR, PERS, and WSI. It also maintains contractual relationships for the investment management of multiple political subdivisions and governmental funds. Currently SIB is responsible for the investment of the Legacy Fund, seven pension funds and 20 other non-pension funds for a total of 28 separate client funds with an overall fund value of roughly $18 billion as of October 31, 2022.

These assets under management have grown from about $4 billion in 2010 and continue to grow from investment returns and contributions to the Legacy Fund, pension plans, and insurance funds. The combination of the growth of AUM, the number of individually managed funds, and the complexity of mandates such as the Legacy Fund have increased the need for staff resources, infrastructure and new scalable investment processes that can enhance the performance of client funds while reducing the net cost of management of those funds when manager fees are considered.

The RIO team worked closely with the SIB and TFFR Boards to evolve the governance structure of both Boards and Board staff relations to establish a foundation of governance that supported program growth. During this past biennium the State Investment Board established two new committees to support this growth including a Governance and Policy Review Committee as well as an Investment Committee to better support the needs of the program. These changes in particular occurred over the course of many meetings as through board discussion the SIB recognized the need to evolve its own governance to provide the agility and ability needed to manage a growing amount of assets in complex investment strategies.

Anticipating that this question might come before the legislature during the current session, the feasibility of management of the Land Trust was referred by the SIB to the Governance and Policy Review Committee and recommendations were brought forward to the full SIB. The SIB discussion focused on whether there was a business case for management of these assets.

II. <u>Neutral to HB 1400</u>

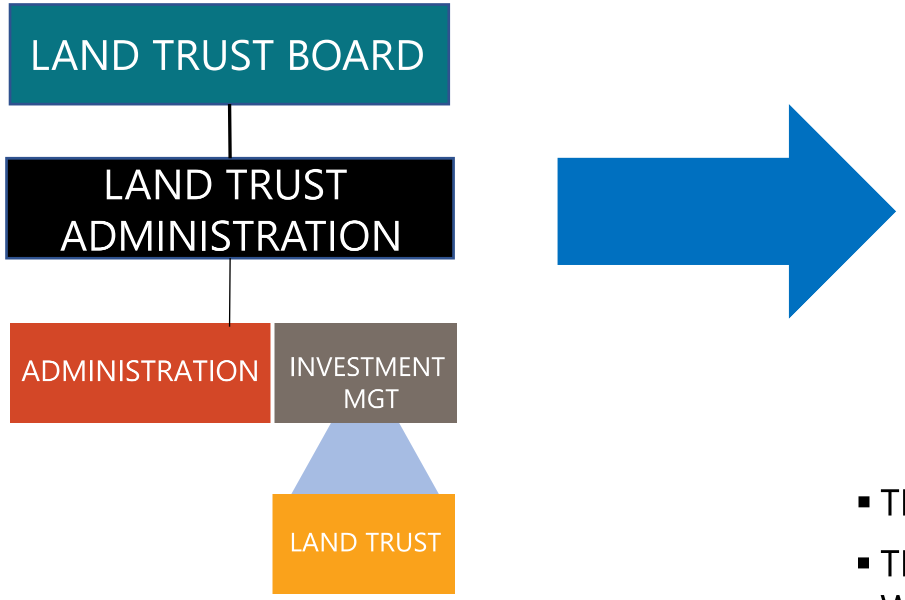
RIO is testifying as a neutral party relating to this bill because we recognize that the decision regarding management of Land Trust assets is a policy decision for the Land Board and the Legislature. We can provide information on the business case prepared by RIO staff relating to management of Land Trust Assets. The attached presentation summarizes this business case. We also recognize that there are existing provisions in NDCC 21-10 that allow the assets of the Land Trust to be outsourced and managed by the SIB. Specifically, NDCC 21-10-06(3) allows any North Dakota government entity to engage the investment services of the SIB. Respectfully, RIO believes that management of the assets of the Land Trust by RIO would have many positive benefits to the State of North Dakota and to the Land Trust itself. The managing of the Land Trust assets by RIO would lower the cost and increase capabilities of the Land Trust by taking advantage of scale benefits as outlined in the attached presentation which will be provided to you.

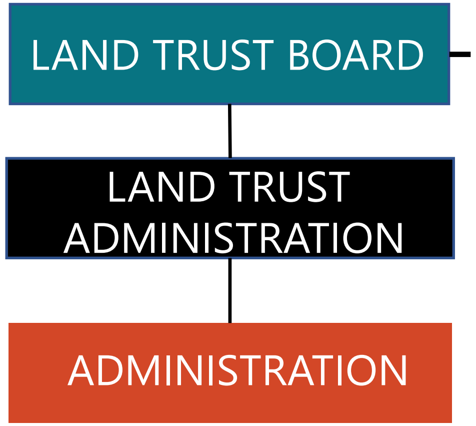
LAND TRUST INVESTMENT OPPORTUNITIES

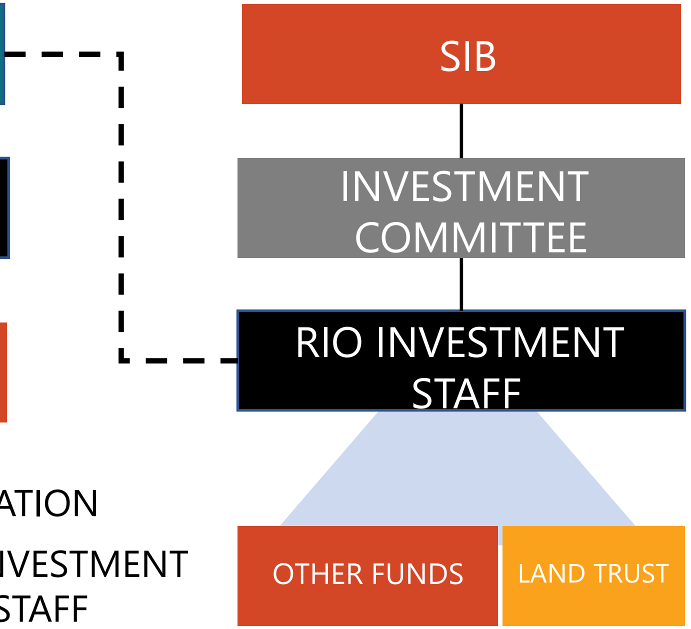
Scott M Anderson, CFA
Ryan Skor, CPA
Jan Murtha, JD, MPAP
October 25, 2022

NORTH Dakota | Retirement & Investment
Be Legendary.

CONCEPT: TRUST FUND OUTSOURCED AS A CLIENT FUND TO THE STATE INVESTMENT BOARD (SIB)







- TRUST BOARD APPROVES ALLOCATION
- TRUST BOARD MONITORS THE INVESTMENT WITH PERIODIC UPDATES FROM STAFF

- RIO MANAGES THE ASSETS
- RIO GOVERNED BY SIB WITH ITS COMMITTEE STRUCTURE
- LAND TRUST BENEFITS FROM THE SCALE AND FOCUS OF THE RIO INVESTMENT GOVERNANCE, OPERATIONS AND INVESTMENT MANAGEMENT

ENABLES A MORE ADVANCED SCALED GOVERNANCE PROCESS AND LOWER GOVERNANCE COSTS

NORTH Dakota
Be Legendary.™

STATE INVESTMENT BOARD

AUDIT

GOVERNANCE

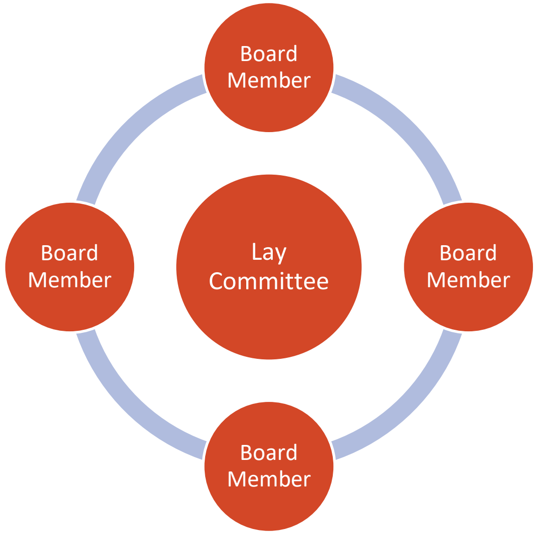
EXECUTIVE REIVIEW AND COMPENSATION

INVESTMENT COMMITTEE

RIO INVESTMENT STAFF

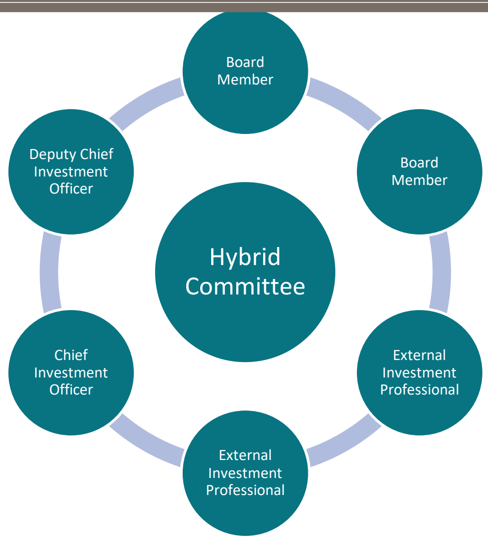
- LAND INVESTMENT PROGRAM CAN GROW WITHOUT NEEDING TO GROW THE SIZE OF THE BOARD AND NUMBER OF COMMITTEES
- SIB GOVERNANCE SPECIALIZES IN ASSET MANAGEMENT AND IS STRUCTURED FOR THAT PURPOSE
- LAND TRUST DOES NOT NEED TO RECREATE OR DUPLICATE ANY GOVERNANCE PROCESSES
- ENHANCEMENTS TO INVESTMENT GOVERNANCE ARE DEVELOPED, RESOURCED AND IMPLEMENTED ACROSS MANY MORE FUNDS AND ASSETS

THREE INVESTMENT COMMITTEE ARCHETYPES



- Operates like the board but can meet more frequently or more quickly
- Able to have focused and in-depth investment conversations
- Able to summarize for full board approval
- Lacks investment expertise
- Most investment decisions are at the board level with little delegation to staff

More Board Level

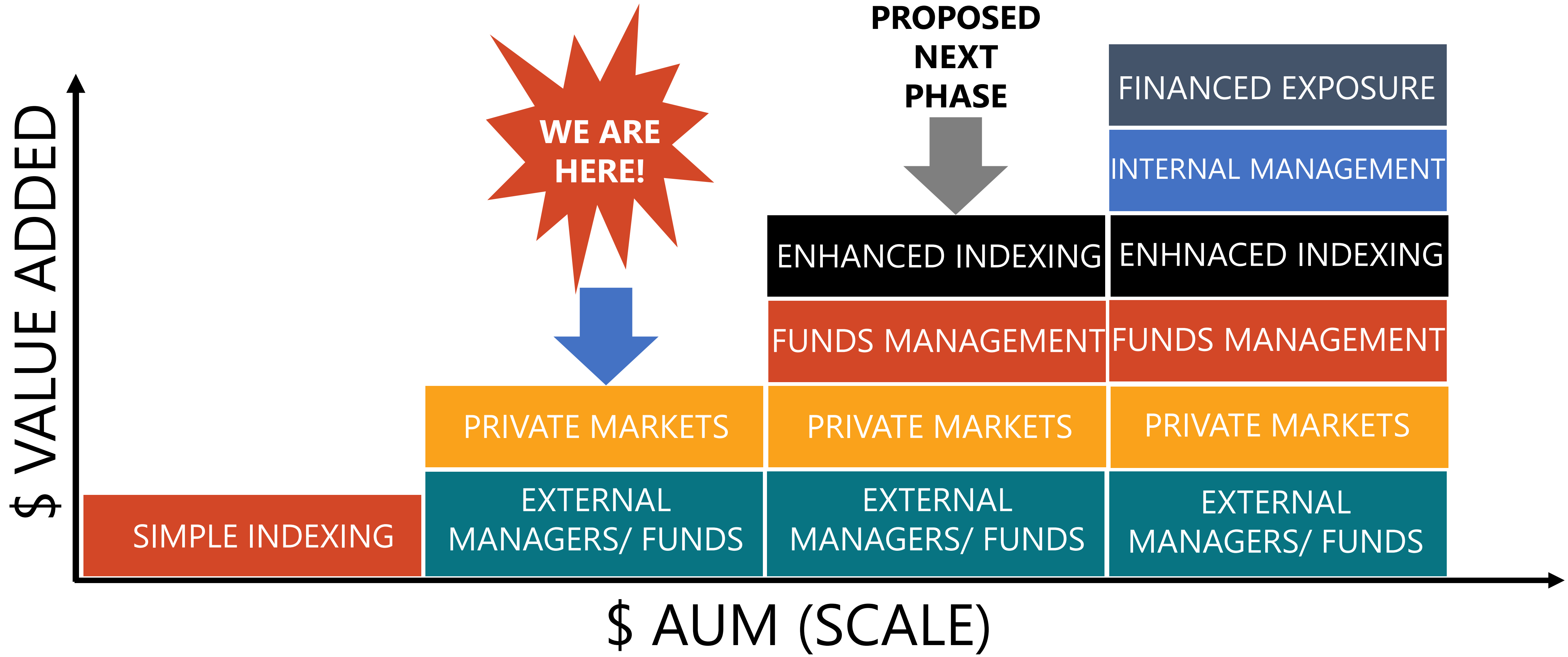


- Able to meet more frequently or more quickly
- Able to have focused and in-depth investment conversations
- Able to summarize for full board approval when necessary but also can delegate decisions to staff
- Staff participation enables delegation, quick decision and better implementation
- Outside and independent investment expertise
- Most investment decisions are at the investment committee or staff level

More Advisory

- Can meet more frequently or more quickly
- Able to have focused and in-depth investment conversations
- Able to summarize for full board approval
- Outside and independent investment expertise but need to ensure shared decision making
- Most investment decisions are at the board level
- Less delegation and associated benefits

UNLOCKS SIGNIFICANT OPPORTUNITY FOR IMPROVED RETURNS AND LOWER COSTS



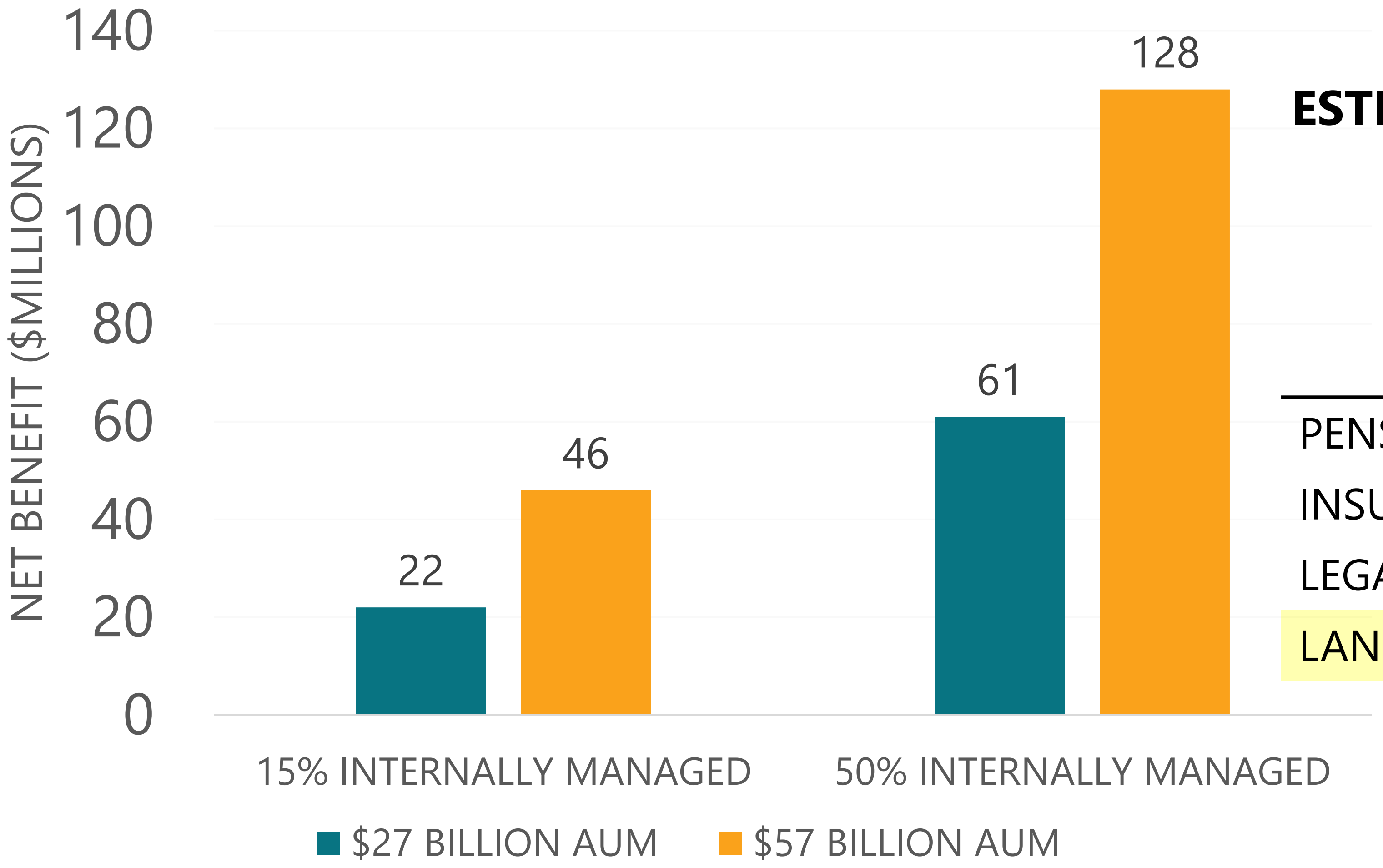
INTERNAL INVESTMENT MANAGEMENT

NORTH Dakota
Be Legendary.™

- LOWER COST THAN WITH EXTERNAL MANGERS
- APPLIED WHERE THERE IS A COST/BENEFIT
- ENABLES ENHANCED LIQUIDITY MANAGEMENT, REBALANCING AND EXPOSURE MANAGEMENT

THE BENEFIT OF INTERNAL INVESTMENT SCALES WITH THE SIZE OF THE COMMITMENT

NORTH Dakota Be Legendary.™



ESTIMATED ANNUAL SAVINGS PER YEAR ($27 BILLION AUM)

	15% OF ASSETS		50% OF ASSETS	
PLAN	$(MIL)	%	$(MIL)	%
PENSION	$6	0.08%	$16	0.23%
INSURANCE	$3	0.10%	$8	0.26%
LEGACY	$7	0.09%	$21	0.25%
LAND TRUST	$7	0.08%	$16	0.23%

THERE ARE OTHER COST AND RETURN/RISK BENEFITS OF COMBINING ASSETS

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1. REDUCED FEES FOR FUND OF FUND MANAGERS, REDUCED FEES ON DIRECT FUND INVESTMENTS FROM SCALE, AND ACCESS TO HIGHER QUALITY MANAGER RELATIONSHIPS FROM A LARGER PORTFOLIO OF COMMITMENTS
2. A DIVERSIFIED PRIVATE MARKETS PORTFOLIO WITH A MORE CONSISTENT ALLOCATION TO MANAGERS, ENCOURAGING ACCESS TO BETTER MANAGERS, HIGHER AVERAGE RETURNS AND LOWER RISK
3. MORE SOPHISTICATED INVESTMENT STRATEGIES ENABLED BY SCALE TO ACHIEVE HIGHER RETURNS PER RISK AT A LOWER COST PER AUM IN BOTH INTERNAL AND EXTERNAL PORTFOLIOS

A COMBINED INVESTMENT PROGRAM COST GROWS AT A LOWER RATE THAN TWO SEPARATE PROGRAMS

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1 PROCUREMENT AND IMPLEMENTATON

EXECUTIVE DIRECTOR/CIO

DEPUTY CIO

CHIEF RISK OFFICER

INVESTMENT ANALYSTS

2 SELECTION AND PORTFOLIO STRUCTURE

CHIEF INVESTMENT OFFICER

CHIEF RISK OFFICER

DEPUTY CIO/FUNDS MANAGEMENT

PRIVATE MARKETS

3 ADVANCED FUNDS MANAGEMENT (RIO + LAND)

CHIEF INVESTMENT OFFICER

CHIEF RISK OFFICER

DEPUTY CIO/FUNDS MANAGEMENT

PRIVATE MARKETS

PUBLIC MARKETS INTERNAL INVESTMENT MANAGEMENT

4 ASSET AND RISK ALLOCATION/ ACTIVE RETURN OPTIMIZATION

CHIEF INVESTMENT OFFICER

ASSET AND RISK ALLOCATION

RESEARCH

EXPOSURE MANAGEMNT

RISK MANAGEMENT

PRIVATE MARKETS/ FUNDS MANAGMENT

CO-INVESTMENT

PUBLIC MARKETS INTERNAL INVESTMENT MANAGEMENT

INDEXING

HIGH YIELD

SMALL CAP

EXAMPLE:
VERSUS
2X PROGRAMS

3 ADVANCED FUNDS MANAGEMENT

CHIEF INVESTMENT OFFICER

CHIEF RISK OFFICER

DEPUTY CIO/FUNDS MANAGEMENT

PRIVATE MARKETS

PUBLIC MARKETS INTERNAL INVESTMENT MANAGEMENT

PLUS
2X PROGRAMS OPERATIONS

A LARGER COMBINED ENDOWMENT STRUCTURE CAN BE MANAGED WITH A UNITIZED POOLED ALLOCATION

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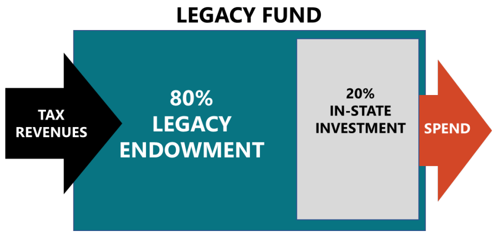

- EARNINGS/3.5% SPENDING
- UP 15% CALL ON ASSETS

Asset Class	Policy Target
DOMESTIC EQUITY	20% – 30%
INTERNATIONAL EQUITY	20%
FIXED INCOME	25% - 35%
REAL ESTATE	5%
DIVERSIFIED REAL ASSETS	10%
IN-STATE FIXED INCOME	0% - 10%
IN-STATE EQUITY	0% - 10%

- 5% SPENDING

Asset Class	Policy Target
DOMESTIC EQUITY	14% – 24%
INTERNATIONAL EQUITY	14% - 24%
FIXED INCOME	17% - 27%
ABSOLUTE RETURN	10% - 20%
REAL ESTATE	10% - 20%
PRIVATE EQUITY	0% - 10%
PRIVATE INFRASTRUCTURE	0% - 10%
OPPORTUNISTIC INVESTMENTS	0% - 5%

ILLUSTRATION

Asset Class	Policy Target
DOMESTIC EQUITY	20% – 30%
INTERNATIONAL EQUITY	14% - 24%
FIXED INCOME	25% - 35%
ABSOLUTE RETURN	0% - 5%
REAL ESTATE	0% - 10%
PRIVATE EQUITY	0% - 10%
PRIVATE INFRASTRUCTURE	0% - 10%
OPPORTUNISTIC INVESTMENTS	0% - 5%
CASH	-15% -0%
IN-STATE FIXED INCOME	0% - 10%
IN-STATE EQUITY	0% - 10%

- OPPORTUNITY TO POOL ALLOCATIONS AND UNITIZE
- UNIQUE SPENDING FEATURES OF EACH PLAN CAN BE ACCOMODATED
- DYNAMIC LEVERAGE MIGHT BE USED TO OFFSET 15% CALL RISK AND ADD ADDITIONAL DIVERSIFICATION TO INCREASE RETURN PER RISK

BENEFITS FROM RIO MANAGING THE INVESTMENTS OF THE LAND TRUST

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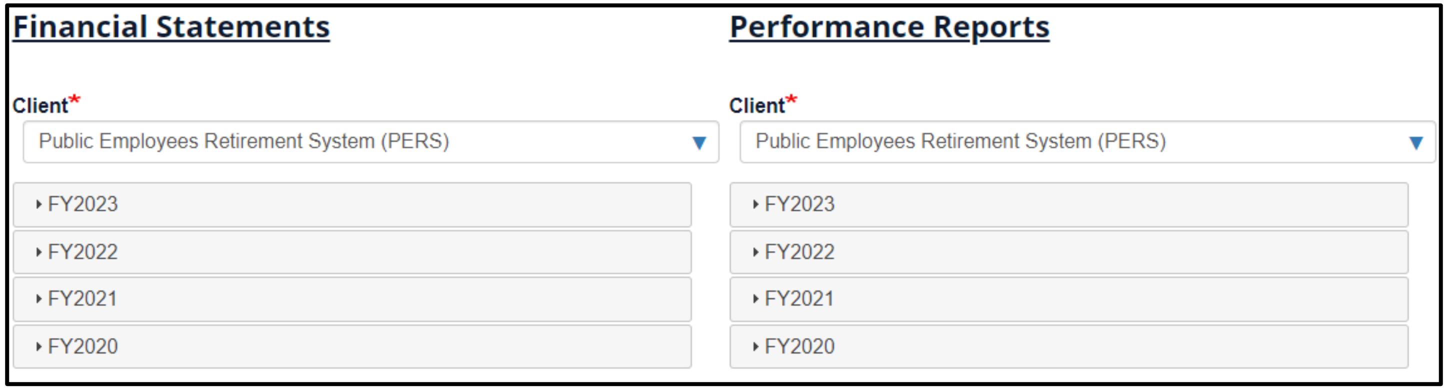
- THE LAND TRUST BOARD OUTSOURCES THE TRUST FUND AS A CLIENT FUND TO THE STATE INVESTMENT BOARD (SIB) AND MAINTAINS THE DISCRETION AND CONTROL OF A CLIENT; **EXISTING STAFF CAN BE TRANSFERRED TO RIO**
- AN SIB GOVERNANCE OF THE INVESTMENT MANAGEMENT ENABLES A MORE ADVANCED SCALED GOVERNANCE PROCESS AND LOWER GOVERNANCE COSTS
- A COMBINED INVESTMENT PROGRAM PROVIDES SCALE ADVANTAGES IN OPERATING COSTS, FEES, OPERATIONS, AND INVESTMENT MANAGEMENT STAFF
- A COMBINED INVESTMENT PROGRAM COST GROWS AT A LOWER RATE THAN TWO SEPARATE PROGRAMS
- A LARGER COMBINED ENDOWMENT STRUCTURE CAN BE MANAGED WITH A UNITIZED POOLED ALLOCATION THAT HAS MORE ADVANCED INVESTMENT FEATURES AND IMPLEMENTATION THAN EITHER STAND-ALONE FUND

INVESTMENT ACCOUNTING & PERFORMANCE REPORTING

NORTH Dakota Be Legendary.™

- RIO CURRENTLY PREPARES AND MAINTAINS SEPARATE ACCOUNTING AND PERFORMANCE REPORTING FOR EACH OF ITS CLIENT FUNDS ON A MONTHLY BASIS.



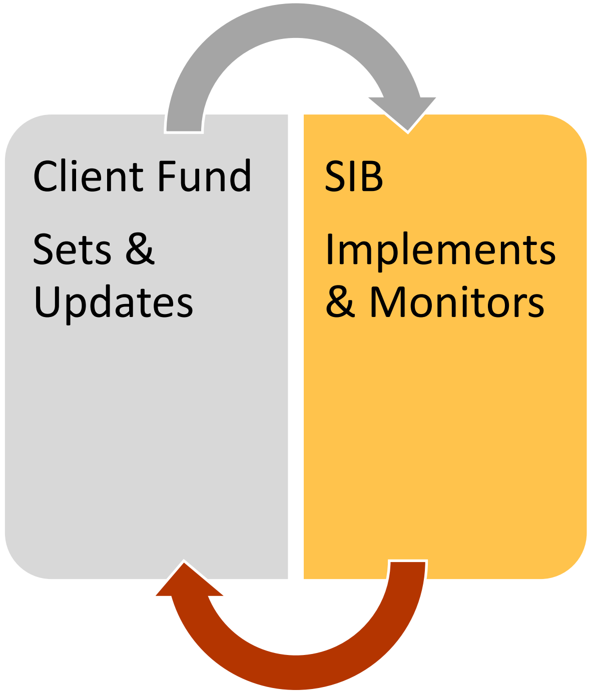
- ABILITY TO ADD LAND TRUST FUNDS TO PORTFOLIO AND SIMILARLY ACCOUNT FOR EACH OF THE 13 PERMANENT TRUSTS AS WELL AS SIIF, CAPITOL BUILDING FUND, COAL DEVELOPMENT TRUST FUND, INDIAN CULTURAL EDUCATION TRUST, AND THEODORE ROOSEVELT PRESIDENTIAL LIBRARY AND MUSEUM ENDOWMENT FUND.

Proposal Summary

- Enhanced Performance Opportunities
- Governance for Growth
- Evolving Operations Support through Collaboration
- ND state government Unification of Efforts

And above all:

- **Control Remains with the Client Board**
  - Per NDCC 21-10-02.1
  - The governing body of each fund… shall establish policies on investment goals and objectives and asset allocation for each respective fund..
  - The asset allocation and any subsequent allocation changes for each fund must be approved by the governing body of that fund and the state investment board.



House Bill 1429
North Dakota Retirement and Investment Office (RIO)
Testimony in opposition to HB 1429 before the House Industry, Business, and Labor Committee
Representative Scott Louser, Chair
Representative Mitch Ostlie, Vice Chair

Janilyn Murtha, JD, MPAP – Executive Director
Scott Anderson, CFA, MBA – Chief Investment Officer

I. Introduction

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

The State Investment Board has the statutory responsibility to administer the investment program for 28 funds including the Legacy Fund, TFFR, PERS, and WSI. It also maintains contractual relationships for the investment management of multiple political subdivisions and governmental funds. Currently SIB is responsible for the investment of the Legacy Fund, seven pension funds and 20 other non-pension funds for a total of 28 separate client funds with assets under management (AUM) of roughly $18 billion as of October 31, 2022.

The AUM has grown from about $4 billion in 2010 and continue to grow from investment returns and contributions to the Legacy Fund, pension plans, and insurance funds. The combination of the growth of AUM, the number of individually managed funds, and the complexity of mandates such as the Legacy Fund have increased the need for staff resources, infrastructure and new scalable investment processes that can enhance the performance of client funds while reducing the net cost of management of those funds when manager fees are considered.

Currently, the SIB relies entirely on an external investment manager structure; ie RIO does not have internal investment management authority or operations. RIO contracts with over forty investment managers, vendors, and consultants in the administration of our two programs.

II. Opposition to HB 1429

Opposition to HB 1429 should in no way be construed as a lack of support for investment in the agriculture or energy sectors. The SIB recognizes the importance of the energy and agriculture sectors for a thriving economy and continues to invest in companies in this sector and implements business practices that would not restrict any investment or business activities within these sectors for non-pecuniary reasons. The investment program as a matter of policy and in compliance with North Dakota law as set forth under NDCC Ch. 21-10, only invests for the exclusive benefit of its beneficiaries in a way that seeks to maximize return for a given level of risk. Any restriction of its investment or commercial set of opportunities for non-pecuniary reasons such as restricting investment in either of these sectors is already prohibited by policy and law.

Our concerns relate to the potential conflict this bill may create with other existing or future legislation, or mandated business practices, the cost and complexity of implementing the bill, and the potential that the bill may unintentionally reduce commercial opportunities with vendors who support these sectors because of the cost the bill imposes on the vendor.

The vast majority of RIO's vendor's conduct business in many if not all states, and the regulation and oversight of these vendors is largely concurrent between state and federal regulatory systems, especially within the securities industry. Uniformity among regulatory requirements is therefore a critical issue for both the vendors and for government entities attempting to procure their services. The proposal, though well intentioned, would impose non-uniform conduct requirements on our vendors and require a level of administration from RIO that may be infeasible to implement. The proposal requires that RIO not only negotiate additional contract provisions with every vendor but also monitor the public statements and private contracts that the vendor may engage in with other clients or providers that have no direct business with RIO or the State of North Dakota. It would be infeasible for RIO to monitor public statements of vendors without a significant increase in compliance personnel and cost; and infeasible for RIO to access information related to the private contracts or dealings the vendor may engage in with other private third parties. In the event that outside vendors are unable or unwilling to work with RIO due to these additional requirements RIO would need to internalize functions that are currently contracted out, significantly increasing costs for the agency.

III. Summary

Pursuant to both North Dakota law and SIB policy, RIO implements business practices that would not restrict any investment or business activities within either the energy and agriculture sectors for non-pecuniary reasons. The proposal, though well intentioned, may be infeasible to administer and significantly increase the cost and resources needed to perform compliance monitoring as well as have the unintended consequence of requiring the agency to internalize many functions that are currently performed by external partners. An additional consequence of impairment to contracting with third parties and a subsequent need to internalize operations at a speed beyond our current phased proposal would have a detrimental impact to the investment program and client fund earnings.

Senate Bill 2022
Senate Appropriations
January 6, 2023
North Dakota Retirement and Investment Office

Jan Murtha, JD, MPAP – Executive Director

Chad Roberts, MAc – Deputy Executive Director/Chief Retirement Officer

Scott M Anderson, CFA, MBA – Chief Investment Officer

Ryan Skor, CPA, MBA – Chief Financial Officer/Chief Operating Officer

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NORTH DAKOTA RETIREMENT AND INVESTMENT SUPPORTS TWO SPECIAL FUND PROGRAMS

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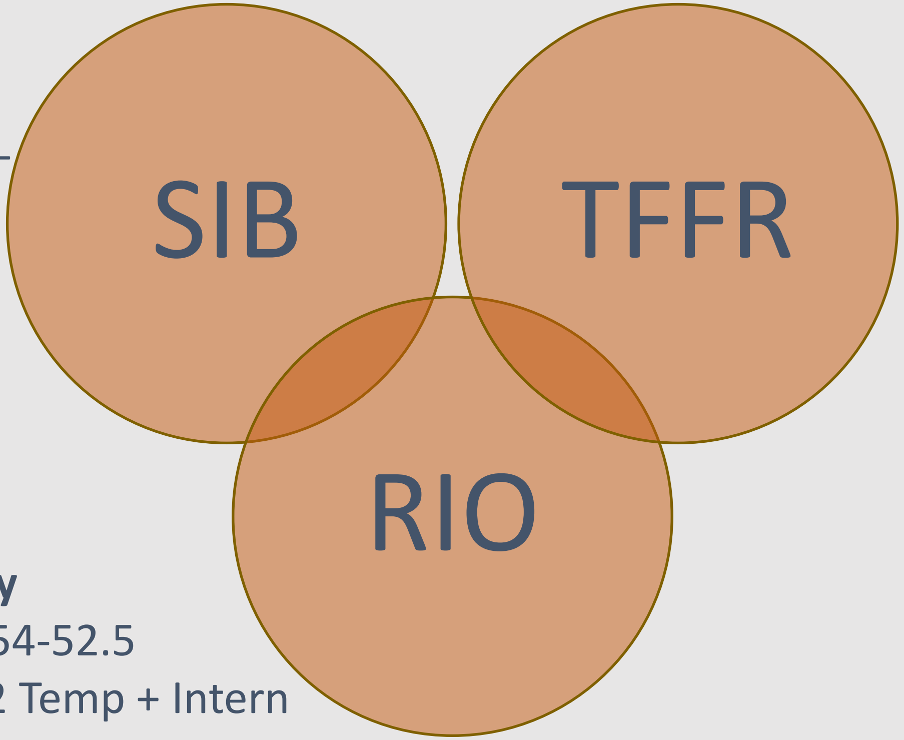
RIO was established in 1989 to coordinate the activities of the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR). The SIB is the oversight board for RIO and TFFR Board is responsible for the administration of the TFFR benefits program.

State Investment Board -
Investment Program
NDCC Ch. 21-10
~$18 Billion in AUM
As of 10/31/22



Teachers' Fund For Retirement –
ND Teachers' Retirement Program
NDCC Ch. 15-39.1
~$3.0 Billion in Fund Assets
Over 21,000 active and retired members and beneficiaries

RIO Agency
NDCC Ch. 54-52.5
25 FTEs + 2 Temp + Intern

WE CHOSE TO LEARN

- Spring 2020: Top 2 Managers in Retirement Program left within 60 days (Including Deputy Executive Director).
- Summer 2021: Top 2 Managers in Investment Program left within 60 days (including Executive Director).
- Fall 2021: additional retirements resulted in a significant staff reduction from 19 to a low of 13 filled FTE’s to support both programs – contributing to *significant operational risk*.
- Fall of 2022: 25 FTE’s (22 filled) + 2 Temp + 1 Intern of which 13 have started since Fall of 2021.

“Kites rise highest against the wind - not with it.”

- Winston Churchill

Courtesy of *www.brainyquote.com*

RETIREMENT AND INVESTMENT'S CORE PRIORITIES

Engaging our Workforce:
Growth Mindset
Remote/Hybrid Office
Governance/Change Initiatives

WE CHOSE TO LISTEN

- Fall 2021 Gallup Results - Increase in team member engagement over the prior year despite strain on agency resources.
- Significant Increase in Mission/Purpose.

Gallup Q[12] Items

Questions	Total N	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q00: Overall Satisfaction	12	4.00	3.69	▲+0.31	46	3.69
Q01: Know What's Expected	12	4.08	4.06	+0.02	18	4.19
Q02: Materials and Equipment	12	4.33	4.31	+0.02	58	4.03
Q03: Opportunity to do Best	12	3.92	4.00	-0.08	31	3.89
Q04: Recognition	12	4.17	4.06	+0.11	68	3.41
Q05: Cares About Me	12	4.58	4.19	▲+0.39	68	4.07
Q06: Development	12	4.17	4.00	+0.17	55	3.75
Q07: Opinions Count	12	4.00	3.69	▲+0.31	54	3.52
Q08: Mission/Purpose	12	4.92	4.19	▲+0.73	93	3.91
Q09: Committed to Quality	12	4.42	4.50	-0.08	66	3.95
Q10: Best Friend	11	3.55	3.63	-0.08	39	3.28
Q11: Progress	12	4.08	3.94	+0.14	49	3.69
Q12: Learn and Grow	12	4.42	4.13	▲+0.29	65	3.88

t shown if n < 4 for Mean, Top Box, Verbatim Responses, and Sentiment, n < 10 for Frequency, or data is unavailable.
Scores are not available due to data suppression. Respondents can select multiple responses for multi-select questions.
centile Rank in Gallup Overall Database ■ < 25th Percentile ■ 25-49th Percentile ■ 50-74th Percentile ■ 75-89th Percentile ■ >= 90th Percentile

WE CHOOSE TO LISTEN

- Fall 2022 Gallup Results -.
- Statistically Significant Increases in 8 of 12 categories.
- Decrease in Mission/Purpose.

- Let’s talk Mission/Vision.

EMPLOYEE ENGAGEMENT REPORT |Q12 ENGAGEMENT SURVEY - TRENDING - REGULAR STAFF - OCTOBER 2022

Q12 Mean	Respondents	Engagement Mean	Change	Mean Percentile Rank - Gallup Overall	Engagement Index
The Gallup Q12 score represents the average, combined score of the 12 elements that measure employee engagement. Each element has consistently been linked to better business outcomes.	12	4.42	↑ +0.20	76	Engagement Index is unavailable for the currently selected scorecard.

	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q00: On a five-point scale, where 5 means extremely satisfied and 1 means extremely dissatisfied, how satisfied are you with your agency as a place to work?	12	4.17	4.00	0.17	53	3.72
Q01: I know what is expected of me at work.	12	4.25	4.08	0.17	30	4.21
Q02: I have the materials and equipment I need to do my work right.	12	4.33	4.33	0.00	58	4.04
Q03: At work, I have the opportunity to do what I do best every day.	12	4.17	3.92	↑ +0.25	48	3.90
Q04: In the last seven days, I have received recognition or praise for doing good work.	12	4.42	4.17	↑ +0.25	80	3.37
Q05: My manager, or someone at work, seems to care about me as a person.	12	4.92	4.58	↑ +0.34	90	4.08
Q06: There is someone at work who encourages my development.	12	4.42	4.17	↑ +0.25	71	3.77
Q07: At work, my opinions seem to count.	12	4.00	4.00	0.00	56	3.54
Q08: The mission or purpose of my agency makes me feel my job is important.	12	4.58	4.92	↓ -0.34	77	3.92
Q09: My coworkers are committed to doing quality work.	12	4.67	4.42	↑ +0.25	82	3.96
Q10: I have a best friend at work.	11	3.91	3.55	↑ +0.36	59	3.22
Q11: In the last six months, someone at work has talked to me about my progress.	12	4.58	4.08	↑ +0.50	77	3.65
Q12: This last year, I have had opportunities at work to learn and grow.	12	4.83	4.42	↑ +0.41	91	3.90

GALLUP 2

STRATEGIC – HORIZON BASED TRANSFORMATION

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Experimental

Public/Private partnerships & Intern development to support agency resource needs & talent development – In Budget Request for 2023.

Governance to Support Growth – 2 new standing committees for SIB, 1 revised committee for SIB, 1 new standing committee for TFFR – Proposal to Adjust SIB composition.

Internal Investment Proposal –Legislature to Determine Q2 2023

Aspirational

Programs facilitate through education & outreach a feedback loop to inform public policy. Recognized leaders in the field and a model for other states.

Communication Plan For Internal & External Partners & Stakeholders –Targeted Q1 2023

In-State Investment Program Roll-Out Continues but currently one of the largest in US

Enhancements to Talent Management Plan – Legislature to Determine Q2 2023

Investment Data Management Project – In Progress

TFFR PAS Project Implementation – Targeted Q4 2024

Incremental

H1

H2

H3

Evolutionary

TEACHERS' FUND FOR RETIREMENT

- Qualified defined benefit public pension plan for North Dakota public school teachers and administrators providing them with a foundation for retirement security.

- 11,800+ Active Members
  - 16.4% increase over past decade
- 9,400+ Retired Members and Beneficiaries
  - 26.0% increase over past decade
- ~$3.0B Fund balance

- On-track to be 100% fully funded by 2044

- New Pension Administration System in development (est. Q4 2024)

STATE INVESTMENT BOARD – INVESTMENT PROGRAM

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- State Investment Board (SIB) has the statutory responsibility for the administration of the investment program of several funds including:
  - TFFR, PERS, WSI, Legacy Fund
- SIB also maintains contractual relationships for investment management with multiple political subdivisions and governmental funds

- Currently ~$18 Billion in Assets Under Management (AUM)
- 27 client funds
- 43 fund managers

Fund/Pool	AUM (10/31/22)
Pension Pool	$6.79B
Insurance Pool	$2.81B
Legacy Fund	$8.12B
Other Funds	$0.23B

BUDGET REQUEST SUMMARY

Line Item	Base Level	Workforce Initiative	Pension System Upgrade	Internal Investment*	Total Request
Salaries & Benefits	$6,785,839	358,756	486,000	1,404,996	$9,035,591
Operating Expenses	1,323,528	300,250	1,116,319	266,840	3,006,937
Contingencies	100,000	100,000	-	-	200,000
Total Special Funds	**8,209,367**	**759,006**	**1,602,319**	**1,671,836**	**12,242,528**
(Included in Exec. Recom.)		349,012	1,552,319	-	
FTEs	25.0	1.0	-	7.0	33.0

* Amounts represent only 2nd year of biennium.
Requires authorization for performance pay within internal investment plan.

Estimated cost savings = $16M+/year

RIO AGENCY INITIATIVES

INCREMENTAL

TO

EVOLUTIONARY

WORKFORCE – ORG CULTURE - CONTINUE

TFFR “PIONEER” PROJECT - COMMIT

INTERNAL INVESTMENT - EVOLVE

ORGANIZATION CULTURE – WORKFORCE INITIATIVE

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SALARIES

- ED/CIO SPLIT AND OTHER AGENCY RE-ORGANIZATION INCLUDING ACCOUNTING MANAGER, CFO-COO.
- Support Intern Program.

SUPPORT

- 1 ADDITIONAL ADMIN TO SUPPORT NEW INVESTMENT FTE'S.
- CURRENTLY HAVE 3 FULL TIME AND 1 TEMP PART-TIME TO SUPPORT 17.

CERTS.

- COST OF PROFESSIONAL CERTIFICATIONS THAT ARE EITHER REQUIRED OR ENCOURAGED TO PERFORM DUTIES
- SUPPORT HIGH PERFORMANCE AND GROWTH MINDSET.

INFLATION

- COST OF TRAVEL, TRAINING, AND SUPPORT OF A HYBRID/REMOTE WORKPLACE.

CONTINGENCY

- REQUEST FOR CONTINGENCY FUNDS.

INFRASTRUCTURE/TECHNOLOGY ENABLED PROCESSES- TFFR PIONEER PROJECT INITIATIVE

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2022

TEMP STAFF TO ASSIST WITH MANUAL PROCESSES UNTIL NEW SYSTEM LAUNCH.

IMPROVED DEATH AUDITING FUNCTION.

2023

START OF SUBSEQUENT ONGOING SYSTEM MAINTENANCE COSTS.

INCREASED NDIT SUPPORT COSTS.

2024

ANTICIPATED LAUNCH IN 4TH QUARTER, 2024.

POST LAUNCH: ROI REALIZED.

ASSETS UNDER MANAGEMENT GROWTH

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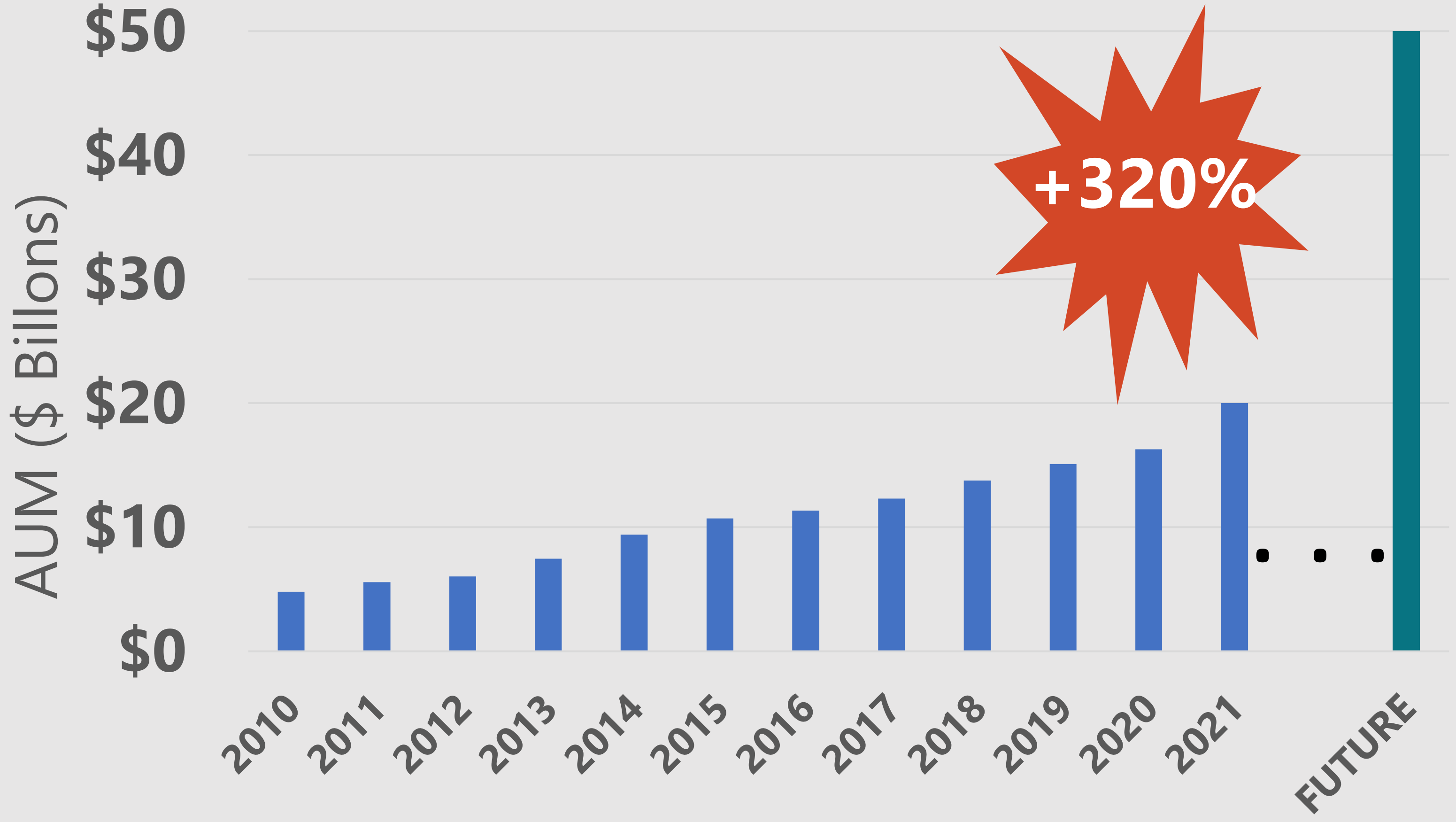
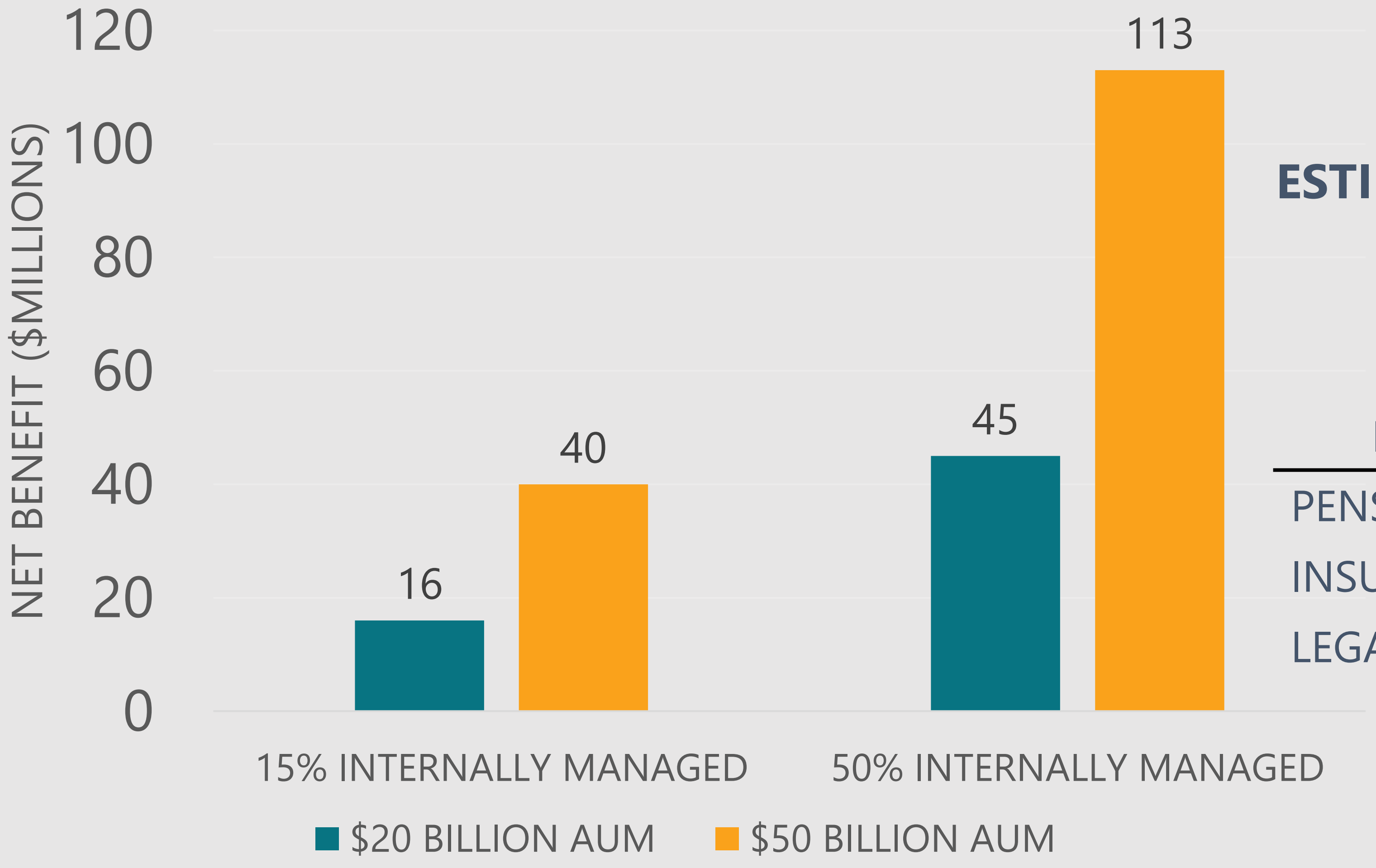


INTERNAL INVESTMENT/ TALENT MANAGEMENT

- LOWER COST THAN WITH EXTERNAL MANAGERS
- APPLIED WHERE THERE IS A COST/BENEFIT
- ENABLES ENHANCED LIQUIDITY MANAGEMENT, REBALANCING AND EXPOSURE MANAGEMENT

THE BENEFIT SCALES WITH THE SIZE OF THE COMMITMENT



ESTIMATED ANNUAL SAVINGS PER YEAR ($20 BILLION AUM)

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INSURANCE	$3	0.10%	$8	0.26%
LEGACY	$7	0.09%	$21	0.25%

THE COST OF THE PROGRAM IS LOW WHEN COMPARED TO THE FEES IT REPLACES

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PROGRAM COST

+0.07%

INCLUDES TOTAL REWARDS AND INFRASTRUCTURE

CURRENT COST

+0.28%

DOMESTIC EQUITY

+0.35%

INVESTMENT GRADE FIXED INCOME

MINIMAL REQUIREMENTS WHEN COMPARED TO THE BENEFITS[1,2,3]

5 INVESTMENT PROFESSIONALS[1]:
2 X SENIOR PORTFOIO MANAGERS
3 X INVESTMENT ANALYSTS
2 X INVESTMENT OPS

TALENT MANAGEMENT:

- ADEQUATE CLASSIFICATION OF ROLES
- INCENTIVE COMPENSATION FUNDED ON A CONTINUING BASIS (Ex: OHIO, WISCONSIN, SOUTH DAKOTA, NORTH CAROLINA)

THE STRATEGY AND STRUCTURE WOULD EVOLVE WITH THE SIZE OF THE PROGRAM

1. The cost of staff is estimated to be approximately 10% of the total net cost savings.
2. Positive Client Fund feedback.
3. Supports greater control over investment strategies.

EXAMPLE STATES WITH INTERNAL INVESTMENT MANAGEMENT AND INCENTIVE COMPENSATION

ARIZONA
FLORIDA
NEW MEXICO
NORTH CAROLINA
OHIO
SOUTH DAKOTA
TEXAS
VIRGINIA
WISCONSIN

Questions?

NORTH Dakota | Retirement & Investment

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Senate Bill 2022
North Dakota Retirement and Investment Office (RIO)
Testimony before the Senate Appropriations Committee
Senator Brad Bekkedahl, Chair
Senator Karen Krebsbach, Vice Chair

Janilyn Murtha, JD, MPAP – Executive Director
Chad Roberts, MAC – Deputy Executive Director/Chief Retirement Officer
Scott Anderson, CFA, MBA – Chief Investment Officer
Ryan Skor, CPA, MBA – Chief Financial Officer/Chief Operating Officer

I. RIO Statutory Authority and Responsibilities

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

During this past biennium RIO underwent a strategic review and plan initiative to evolve both programs and the agency to better serve the needs of our clients, members, stakeholders, and the State of North Dakota. This review has resulted in changes to our board and agency governance, identifying and implementing improvements to our infrastructure, and a concerted focus on the development of our workforce. We are excited to share with you the foundational changes we have already made, the aspirational goals we have for the future, and the path we are asking you to approve.

The State Investment Board is responsible for oversight of approximately $18 billion of investments for 27 different client funds including TFFR and PERS within the nearly $7 billion Pension Pool and WSI in the nearly $3 billion Insurance Pool in addition to more than $8 billion in the Legacy Fund. Funding for administration of the SIB Investment Program comes directly from investment clients' invested assets (both statutory and contracted).

The TFFR Board of Trustees is responsible for oversight and administration of the TFFR retirement program. TFFR is a qualified defined benefit public pension plan for K-12 North Dakota educators. Funding for administration of the TFFR plan comes from member and employer contributions (43%) and investment earnings (57%).

RIO currently has 25 full-time FTEs across the two programs and four divisions along with two temporary positions and an intern. The four divisions include Investment, Retirement Services, Fiscal Services, and Internal Audit. The two temporary positions are directly attributable to additional workforce needs during the development and implementation of a large IT project for the TFFR program. The hiring of an intern position reflects an intent to consciously develop a robust internship program at RIO that will provide an opportunity to college and graduate students studying in North Dakota to participate in investment, accounting, benefit services, and public policy processes within the public sector.

RIO's revised approach to workforce development over the last biennium has resulted in the successful recruitment of highly skilled team members within competitive industries. 13 of our current team members have been onboarded since Q3 2021.

II. <u>RIO's Core Priorities</u>

RIO has undergone many changes during the course of the last biennium. The impetus for these changes was the recognition that while the agency had been doing very well for many years managing the growth in both the investment and retirement programs, future growth couldn't be supported under the current governance structures or with the current infrastructure, technology or processes.

The RIO team worked closely with the SIB and TFFR Boards to evolve the governance structure of both the Boards and Board staff relations to establish a foundation of governance that supported program growth. During this past biennium the State Investment Board established two new committees to support this growth including a Governance and Policy Review Committee as well as an Investment Committee to better support the needs of the program. As well as expanding the scope of the Executive Review Committee to an Executive Review and Compensation Committee. These committees are in addition to a Securities Litigation Committee as well as an Audit Committee that provides internal audit oversight of both the SIB and TFFR programs. The TFFR Board also created a standing Governance and Policy Review Committee. These changes occurred over the course of many meetings of both boards during the biennium; the SIB needed to evolve its own governance to provide the agility and ability needed to manage a growing amount of assets in complex investment strategies; while the TFFR Board recognized changes to governance was needed to respond to increasing membership and information dissemination needs.

One critical change the SIB approved during this time was to approve the split of the Executive Director and Chief Investment Officer (ED/CIO) roles into two different positions. This position had been combined for many years at RIO. Subsequent to the departure of our prior ED/CIO Dave Hunter in June 2021, the SIB recognized that investment program growth over the last 10 years necessitated splitting the roles and allowing a Chief Investment Officer to focus on investments. The Board voted to approve the split of these positions in Q3 2021; filling the Executive Director position permanently in Q4 2021 followed by filling the Chief Investment Officer position in Q1 2022.

While our Board were undertaking a review and evolution of their governance, a similar review was occurring inside the agency. RIO's technology processes, infrastructure, and communications efforts had changed little since agency inception in 1989. The ability to accommodate growth without change was accomplished largely because of the low turnover rate of employees (i.e. the majority of our workforce was comprised of employees with 10 to 25 years of experience within the agency). In Q1 and Q2 2020, however, both the Deputy Executive Director- Chief Retirement Officer, and the Retirement Services manager within 60 days of each after decades of experience with the agency. This was followed by the departure of the Executive Director – Chief Investment Officer and the Deputy Chief Investment Officer in Q2 and Q3 of 2021. In addition to the loss of these team members, many long-term employees became eligible and subsequently retired in 2021. The turnover in team members coincided with the start of major program initiatives. The departures in Retirement Services staff occurred towards the start of a long-term large IT project to modernize our current pension administration system. While the departures in Investment staff occurred at the start of the launch of the in-state investment program.

The loss of institutional knowledge from these departures coinciding with the large of major program initiatives highlighted the need for the agency to establish a strategic planning process. During the course of this biennium, RIO team members across all four divisions participated in planning sessions resulting in the creation of RIO's strategic plan. The strategic plan resulted in the identification of the following core priorities for the agency: Communication, Infrastructure, Organizational Culture, Talent Management, and Technology Enabled Processes. This strategic plan was presented to the Governor's office, the SIB, and TFFR Board in March 2022. Each of the budget initiatives we are submitting for your consideration and approval support these core priorities and are consistent with furthering RIO's strategic plan.

III. State Investment Board (SIB)

The State Investment Board has the statutory responsibility to administer the investment program for 27 funds including the Legacy Fund, TFFR, PERS, and WSI. It also maintains contractual relationships for the investment management of multiple political subdivisions and governmental funds. Currently SIB is responsible for the investment of the Legacy Fund, seven pension funds and 19 other non-pension funds for a total of 27 separate client funds with an overall fund value of roughly $18 billion as of October 31, 2022.

With the passage of H.B. 1425 during the 2021 Legislative Session, an in-state investment program was codified, and RIO has been working on implementing that program during the course of the biennium. Additional FTE's were approved during the November 2021 Special Legislative session to help support investment program growth. With almost $300 million committed, the North Dakota in-state investment program is already one of the largest in-state investment programs in the nation.

IV. Teachers' Fund for Retirement

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven-member board of trustees which consists of the State Treasurer, State Superintendent, two active teachers, two retired teachers and one school administrator all appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. During the past decade, active membership has increased 16.4% from 10,138 to over 11,800 participants, while retirees and beneficiaries have increased 26.0% from 7,489 to over 9,400.

Our 2022 actuarial valuation projects the TFFR plan to reach 100% fully funded status by 2044. The successful funding path is largely attributable to the statutory changes to the plan, including the creation of a tiered benefit structure and increase in contributions passed by the Legislature in 2011.

We are also in the midst of pension system modernization project to replace our current system. This is ongoing and is estimated to be complete in Q4 of 2024. Carry-over funding for the Pension Administration System Modernization Project (TFFR "Pioneer" Project) is included and the anticipated implementation date is 4th quarter 2024. New costs associated with the TFFR "Pioneer" Project are included in an optional request that includes temporary costs due to the increased workload and agency partner assistance (such as Procurement and NDIT unification costs) required to implement along with some new ongoing cost associated with the software solution. Upon completion of the "Pioneer" Project it is anticipated there will be significant efficiencies gained through the leveraging of the new enhanced technology. Through this leveraging, TFFR anticipates being able to hold flat FTE growth due to the reallocation of staff time that are presently required to maintain the antiquated software to upcoming initiatives such as compliance measures that would otherwise require growth in staffing numbers.

V. **Budget Overview**

The salary and benefits line represents funding for 25.0 FTE. 11.15 FTE of that total is dedicated to and responsible for administering the TFFR retirement program, down from 11.70 previously due to agency restructuring and NDIT unification. The remaining 13.85 FTE (up from 8.3 previously) provide all the accounting, financial and administrative support, and investment performance services for the funds under management.

The operating funds are split between TFFR and the investment program. The significant expenditures needed to administer both the TFFR retirement program, and the SIB investment program include NDIT data processing, IT contracts, building rent, staff and board travel and education, and professional development.

Within the investment program, significant resources have been allocated to the in-state investment initiative and management of the Legacy Fund as a result of H.B. 1425 and H.B. 1380 (2021 Legislative Session).

Historically, contingency funds were requested in case of an unexpected budget shortfall, generally related to turnover of executive staff and the need to perform an executive search. As part of our budget request, we are asking to move our base contingency amount into our operating line to cover some of the necessary increases we have identified. Based on recent experience, however, we fully understand the need to have these contingency funds available in specific scenarios and as such we are requesting additional contingency funding as part of an additional ask in Initiative #1.

We will go into much more detail about our additional funding requests, but as you see highlighted on the slide, what we are proposing will conservatively generate cost savings in multiples of any of the additional costs incurred.

VI. RIO Agency Initiatives

As we worked through our strategic planning process, there were several key areas we identified which required changes or enhancements to accomplish the goals we have set out for RIO and support the growth in both programs. We have consolidated our additional asks of the legislature into three key initiatives. As you will see, these three initiatives range from incremental to evolutionary.

A. Initiative #1 – Organizational Culture/Workforce

As an addition to our base budget request, we are requesting specific funding in a few key areas to ensure we are able to continue performing our statutory responsibilities at a very high level. We consider these requests to be a vital part of our organizational culture and workforce initiative.

During the current biennium, RIO went through a thorough reorganization that led to several position changes throughout the agency. The ED/CIO position was split into two positions to reflect the workload more accurately for each position as the investment program continues to grow exponentially. The salary attributable to the previously combined position was assigned to the Chief Investment Officer role, which resulted in a lack of salary budgeted for the Executive Director position. We have been able to pay the ED salary during the current biennium due to roll-up funding resulting from vacancies, but the full salary amount is not covered by the proposed base budget. In addition, the CFO position was restructured into the CFO/COO position, and an accounting was used to create an accounting manager position to support the CFO/COO combine role. We reclassified a vacant position in the Retirement Services division into a retirement accountant position which is now included under the Fiscal division. We also reorganized administrative support services, which had previously been under a separate Administrative Services division and instead assigned each administrative support position to an individual division (i.e. Retirement Services, Fiscal/Investment, and the Executive Administrative Assistant which supports the four executive team members and all the Boards and committees). While the cost of the reorganization of most of these positions could be covered by our base budget request, we are asking for additional salaries and wages to cover board member salaries as well as to support our commitment to a robust internship program within the agency.

An additional FTE for administrative support is requested to provide assistance to the new investment FTEs granted during the last special legislative session. We currently have three full-time and one temporary administrative team members supporting the entire agency. One administrative support FTE currently supports both the entirety of the Fiscal and Investment Divisions and we recognize that with the growth of the investment team, additional administrative support is needed.

Agency reorganization/restructuring and our new strategic plan requires many employees to pursue or maintain professional certifications relevant to the performance of their duties and the associated increase in cost of agency reimbursed certifications is reflected in this proposal as well.

Additional cost for work related travel due to both inflation and the increased need for continuing education of existing FTEs requires an increased allocation to this line item. Work related travel is necessary not only for investment and retirement program operations but also for continuing education for positions to maintain certifications relevant to the performance of their duties.

While the agency is committed to a hybrid work environment, such a work environment does require the availability of some additional office space to support the growing and increasingly collaborative teams during the implementation of aforementioned initiatives for both retirement and investment programs and the cost of some additional equipment and space is included in this proposal.

Finally, within this request, we are asking for contingency funding to support at least two executive searches during a biennium. During the last two biennium's the agency lost its top two managers in both the retirement and investment programs within 60 days of each other (respectively for each program) and while turnover of these positions is not planned in the short term, prudence requires preparing for what is not an unusual event.

The total ask of this package is $760,000. Of which, roughly $350,000 was included in the executive recommendation.

B. Initiative #2 – "Pioneer" Project

The second of our additional funding request packages seeks to support the TFFR Pension System Modernization Project (TFFR "Pioneer" Project) for the development and deployment of the modernized pension administration system pursuant to its authority under NDCC 15-39.1-05.2. The project is currently in the development and implementation of the vendor solution phase (the third and final phase). While our project is currently on time with an expected completion date of 4th quarter 2024, the agency must continue to utilize its current system until the new system is ready and program efficiencies can be realized. This package is intended to provide necessary interim support and resources for the agency until the new system is ready to deploy such as: an increase for personnel costs of existing staff as it relates to additional workload and overtime; continuing cost for temporary FTEs to support the manual processes needed to make the existing system work until it can be retired; and the funding needed for ongoing hosting and support fees associated with the new software vendor solution.

The implementation project will be completed using existing FTEs; however, continued funding for two temporary employees is necessary to sustain operations under the existing pension administration system while the new system is being developed and the time of permanent FTE's can be dedicated to that development and launch. The current system is quite antiquated and requires significant manual data entry; these processes will be significantly improved with the new system and therefore the services of the temporary employees will no longer be needed subsequent to the launch of the new system. Overtime costs are needed for current non-exempt staff, and temporary increases for current exempt staff, due to the increased work hours and workload involved in the development and implementation of the system. It is expected that these additional costs, including limited term employee costs will be eliminated upon implementation of the new pension administration system, while the hosting and support fees will be ongoing.

The total ask of this package is $1,602,319. Of which, $1,552,319 was included in the executive recommendation.

C. Initiative #3 – Internal Investment/Talent Management

The third and final additional request is predicated on the exponential growth of our investment program. The assets under management by the RIO investment division have grown from about $4 billion to nearly $20 billion from the year 2010 to the beginning of the year 2022 and continue to grow from investment returns and contributions to the Legacy Fund, pension plans, and insurance funds. The combination of the growth of AUM, the number of individually managed funds, and the complexity of mandates such as the Legacy Fund have increased the need for staff resources, infrastructure and new scalable investment processes that can enhance the performance of client funds while reducing the net cost of management of those funds when manager fees are considered.

There is an opportunity to create significant benefits from the scale advantages of the growth of $20 billion of assets under management. A typical public fund with similar assets under management as RIO has more internal investment management which creates the opportunity of better investment returns while decreasing costs from the advantages of more internal management versus money placed with external managers.

Generally, investment management costs fall within the scope of continuing appropriation authority granted by the legislature in NDCC 21-10-06.2; however, because this proposal involves cost savings achieved by internalizing investment operations through additional permanent FTE's and infrastructure it falls within the scope of NDCC 54-52.5-03.

Our proposal includes five investment professionals, one fiscal operations professional, and one administrative staff to manage approximately $3 billion of assets internally. Implementing this proposal can lower the net costs for RIO investments by $8 million per year and create opportunities for better liquidity management and rebalancing that may result in up to another $8 million in savings per year, for a conservative estimate of approximately $16 million in savings per year that as a special fund agency directly benefits our client funds. The net costs and opportunities grow with assets under management and with the amount of assets managed internally. We have discussed this proposal with many of our client funds and have received positive feedback and support from our clients for this initiative.

Due to the complexity of this plan, we are only asking for a salary budget for one year of the biennium for these additional staff as we believe it would take significant time to receive the necessary classification approvals and fill the positions.

Additionally, the market for investment professionals shows they typically receive both a market-based salary and incentive compensation even in the public sector. A well-designed incentive compensation system, based on fair criteria, can stimulate employees to deliver quality work, reach set targets, and maintain motivation and productivity. For investment managers, it provides incentives to make smart and risk-appropriate investment choices that result in an appreciation of invested assets. The incentive system also aligns the risk of the investment manager's compensation with the risk of the underlying assets being managed, thus acting as a control mechanism incentivizing good risk/return choices. Lastly, an incentive system is good for investment plan beneficiaries in that the incentive is paid when there is superior investment performance and not paid when there is not superior investment performance. As a result, a well-designed incentive compensation system results in added net investment performance and reduces the overall cost of compensation by paying only when the benefits exceed the cost. The incentive compensation plan would assume a targeted bonus of 50% of salary and a max of 100% of salary and would only pay out when benefits exceed costs. This proposal is contingent on an incentive compensation plan approved by the legislature and administered by the State Investment Board. During our subsequent hearing we would like to request an amendment to our budget that would provide the necessary authority to implement incentive compensation under Initiative #3 if approved.

We estimate the cost of this proposal for the first biennium to be $1,671,836. This includes one year of salaries and benefits for each of the new positions as well as the necessary operational costs to support them. In addition, we would ask for specific statutory language changes to facilitate the incentive compensation plan including exemptions from the state's classified system.

Senate Bill 2022
North Dakota Retirement and Investment Office (RIO)
Testimony before Senate Appropriations – Human Resources Division
Senator Dick Dever, Chair

Janilyn Murtha, JD, MPAP – Executive Director
Chad Roberts, MAc – Deputy Executive Director/Chief Retirement Officer
Scott Anderson, CFA, MBA – Chief Investment Officer
Ryan Skor, CPA, MBA – Chief Financial Officer/Chief Operating Officer

I. RIO Statutory Authority and Responsibilities

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

II. State Investment Board (SIB)

The State Investment Board is responsible for oversight of nearly $19 billion of investments for 28 different client funds including TFFR and PERS within the over $7 billion Pension Pool and WSI in the nearly $3 billion Insurance Pool in addition to more than $8.5 billion in the Legacy Fund. Funding for administration of the SIB Investment Program comes directly from investment clients' invested assets (both statutory and contracted).

SIB members include the Lt. Governor, State Treasurer, State Insurance Commissioner, State Land Commissioner, Workforce Safety & Insurance designee, three PERS board members, and three TFFR board members as voting members; and the Legacy and Budget Stabilization Fund Advisory Board Chair serves as a non-voting member.

Investment guidelines and asset allocations are established by the governing bodies of the individual funds, with assistance from consultants and/or RIO staff, and subject to review and approval by the SIB prior to implementation. The SIB selects investment managers to manage different types of portfolios within each asset class with the goal of maximizing return within the clients' acceptable risk levels.

	Fair Value (as of 11/30/22)
PENSION POOL PARTICIPANTS	
Teachers' Fund for Retirement	$3,020,572,488
Public Employees Retirement System	3,784,833,438
Bismarck City Employee Pension Fund	121,362,655
Bismarck City Police Pension Fund	49,535,582
City of Grand Forks Pension Fund	72,377,252
Grand Forks Park District Pension Fund	8,539,500
Subtotal Pension Pool Participants	$7,057,220,915
INSURANCE POOL PARTICIPANTS	
Workforce Safety & Insurance Fund	$2,024,412,186
State Fire and Tornado Fund	19,634,332
State Bonding Fund	3,583,709
Petroleum Tank Release Fund	5,883,077
Insurance Regulatory Trust Fund	1,187,663
State Risk Management Fund	3,613,522
State Risk Management Workers Comp	2,542,778
Cultural Endowment Fund	538,719
Budget Stabilization Fund	716,784,865
ND Assoc. of Counties (NDACo) Fund	6,886,387
City of Bismarck Deferred Sick Leave	751,278
PERS Group Insurance	57,989,586
State Board of Medicine	3,127,522
City of Fargo FargoDome Permanent Fund	41,125,558
Lewis & Clark Interpretive Center Endowment	804,710
Attorney General Settlement Fund	2,348,881
Veterans' Cemetery Trust Fund	432,423
ND University System Capital Building Fund	1,605,124
Arts Across the Prairie Maintenance Fund	1,002,029
Subtotal Insurance Pool Participants	$2,894,254,350
INDIVIDUAL INVESTMENT ACCOUNTS	
Legacy Fund	8,583,989,914
Retiree Health Insurance Credit Fund	156,903,188
Job Service of North Dakota Pension Fund	84,568,987
TOTAL	$18,776,937,353

(Amounts are unaudited)

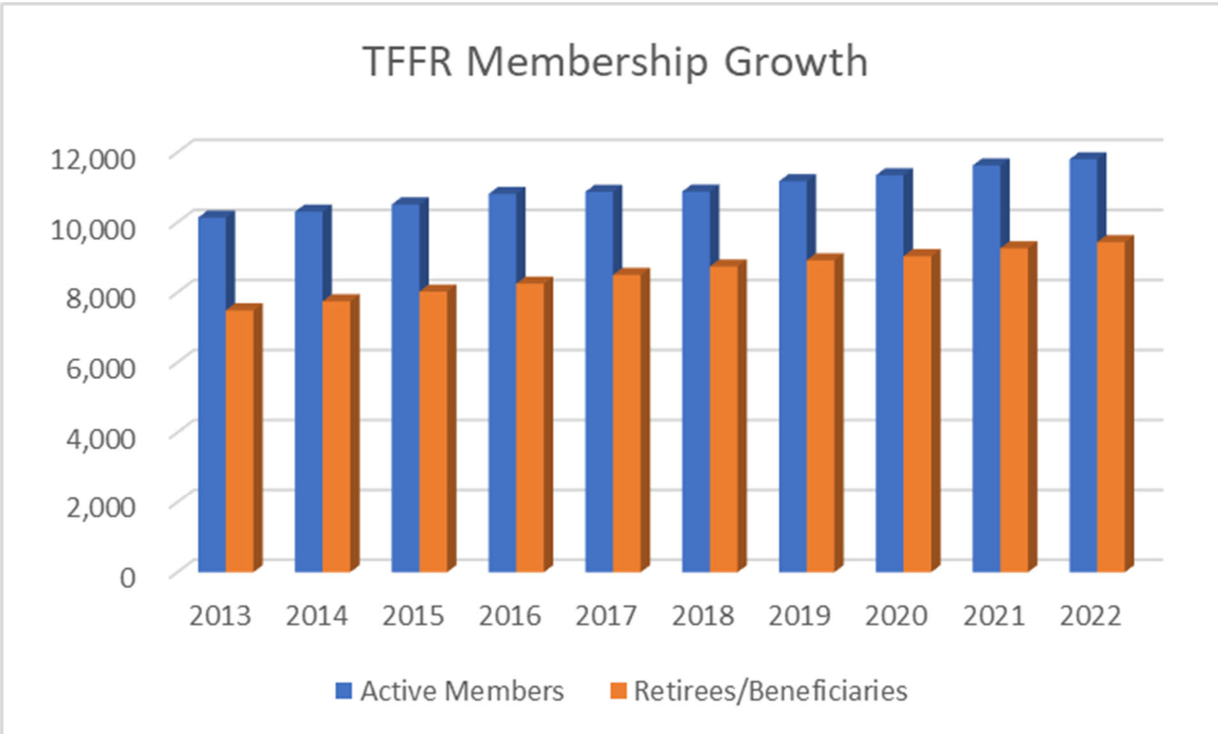
Similar client funds are pooled together when possible to receive lower fees and better terms from investment managers and achieve efficiencies in staff monitoring.

Over the past two decades, the average assets under management (AUM) of the investment program have nearly quadrupled in size. Amounts have grown from an average of roughly $4 billion during the 2003-2005 biennium to an average of over $19 billion during the current 2021-2023 biennium.

III. <u>Teachers' Fund For Retirement (TFFR)</u>

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven-member board of trustees which consists of the State Treasurer, State Superintendent, two active teachers, two retired teachers and one school administrator all appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. During the past decade, active membership has increased 16.4% from 10,138 to over 11,800 participants, while retirees and beneficiaries have increased 26.0% from 7,489 to over 9,400.



The mission of TFFR, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members, North Dakota k-12 educators, in a manner consistent with its fiduciary obligations and approved resource allocation.

The TFFR Board reaffirmed its commitment to evolving governance to respond to program growth by establishing a Governance and Policy Review committee that is tasked with reviewing program policies and public policy affecting statutes and administrative rules to make recommendations to the full Board for making policy or requesting changes from the Legislature.

The TFFR program is currently in Phase 3 of 3 of a multi-year large IT Pension Administration Modernization Project (TFFR "Pioneer" Project) that will provide a better ROI for the agency and improve the member and employer experience with TFFR while aligning with state-wide initiatives to better utilize technology enabled processes.

TFFR plan is designed to provide lifetime normal retirement benefits, disability benefits, and death benefits for ND public school educators and certain state teachers. It provides ND educators with a financial foundation for the future that includes a secure and stable retirement. This is possible due to TFFR's plan design, professional plan management, strong investment performance, and outstanding customer service.

The TFFR plan is an important feature in the recruitment and retention of high-quality teachers and administrators in North Dakota, and not lose these quality individuals to out of state programs.

IV. RIO Organizational Chart

(See attached)

RIO currently has 25 full-time FTEs across the two programs and four divisions along with two temporary positions and an intern. The four divisions include Investment, Retirement Services, Fiscal Services, and Internal Audit. The two temporary positions are directly attributable to additional workforce needs during the development and implementation of a large IT project for the TFFR program. The hiring of an intern position reflects an intent to consciously develop a robust internship program at RIO that will provide an opportunity to college and graduate students studying in North Dakota to participate in investment, accounting, benefit services, and public policy processes within the public sector.

V. Audit Findings

RIO has received no financial audit findings in the past 20+ years.

VI. 2021-23 Accomplishments and Challenges

RIO accomplishments during the 2021-2023 biennium have included:

1. Creating and beginning implementation of a new agency strategic plan identifying core priorities and transformational initiatives.
2. Reorganizing agency to achieve greater economies of scale and support new strategic plan.
3. Developing and implementing intra-agency communication and training plan to support organizational culture as a core agency priority.
4. Posting, filling, and onboarding over ten new employees in the last fiscal year including two interns and three part time employees for an agency with twenty-five approved FTE.
5. Assisting governing boards with the creation of three new standing committees to create governance that supports program growth: a Governance & Policy Review committee of the SIB; an Investment Committee of the SIB; and a Governance & Policy Review committee of the TFFR Board (previously and ad hoc committee, standing committee status pending second reading).
6. Continuing to implement an in-state investment initiative with the creation of the ND Growth Fund, increasing funding of the BND match loan program, and supporting a Legacy Fund Asset Allocation Study project commissioned by the Legacy and Budget Stabilization Advisory Board.
7. Completing two out of three phases of the TFFR Pension Administration System Modernization Project (TFFR “Pioneer” Project), with the third and final phase underway.

VII. 2023-25 Goals and Plans

Goals for RIO during the 2023-2025 biennium include:

TFFR Investment and Funding Goals

1. Improve the Plan’s funding status to protect and sustain current and future benefits.

2. Minimize the employee and employer contributions needed to fund the Plan over the long term.
3. Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.

TFFR Service Goals

1. Create and implement an enhanced Outreach and Communication Plan for our members, employers, and other stakeholder groups related to the program in general and the TFFR "Pioneer" Project specifically.
2. Administer an accurate, efficient, and responsive pension benefits program.
3. Deliver high quality, friendly service to members and employers.

SIB Strategic Investment Plan

1. Reaffirm our organizational commitment to the importance of continuing board education and strong board governance to create and maintain an innovative and agile investment program. The SIB has moved forward with the creation of two new standing committees within the last year to support this goal: a Governance and Policy Review committee and an Investment committee.
2. Enhance understanding of our core goals and beliefs while enhancing overall transparency.
    a. Remain steadfast in our commitment to the prudent use of active investment management.
    b. Expand awareness to downside risk management which is essential to achieving our long-term investment goals.
    c. Given actual and projected growth of SIB client assets and the heightened public awareness of the Legacy Fund, align our investment platforms to promote greater clarity and efficiency in reporting and implementing client investment policies.
3. Expand RIO's influence and ability to create positive and sustainable change by building deeper relationships with existing clients, organizations, and legislative leaders.
    a. Enhance community outreach to build upon public awareness and confidence.
    b. Develop concise presentations which highlight our overall risk, return and cost control framework including our progress towards attaining our long-term goals.
    c. Continue to implement an in-state investment initiative and provide education and outreach efforts consistent with the roll-out of that initiative.
4. Encourage employee participation in staff meetings, offer team members more opportunities to impact RIO's change initiatives and improve the office environment for staff and clients.
5. Enhance our internal control environment by improving use of proven risk management solutions relating to fraud risk assessments, investment risk management and overall enterprise risk management.
    a. A robust risk management framework serves as a foundation to support a sound internal control environment and lessen downside risks.
    b. Broaden stakeholder awareness of the challenges faced in estimating Legacy Fund earnings for future budget planning.
    c. Evaluate and expand the efficient use of technology in our investment program activities including risk management, compliance monitoring, client satisfaction surveys, website design and communications.

RIO Strategic Plan

1. Continue to develop our organization culture as a recruitment and retention tool to develop a growth mindset and encourage employee engagement.
2. Create, develop, and maintain a robust internship program across both programs.
3. Continue to identify additional process areas where efficiencies can be gained through technology enabled processes and implement such processes.

VIII. Comparison between base and request budgets

Line Item Description	2021-23 Base Budget		2023-25 Executive Recommendation		2023-25 Total Agency Request
Salaries and Wages	$ 6,785,839		$ 8,744,148		$ 10,696,123
Operating Expenses	1,323,528		2,570,347		2,869,937
Contingencies	100,000		100,000		200,000
Total Special Funds	**$ 8,209,367**		**$ 11,414,495**		**$ 13,766,060**
			-		-
FTE	25.0		25.0		34.0

During the current 2021-23 biennium, RIO has a base budget of $8.2 million. The vast majority of which consists of salaries and benefits for the 25 FTE and temporary team members.

The 2023-25 executive recommendation leaves the FTE count at 25 but includes cost to continue salary amounts for investment positions that were appropriated during the November 2021 special session and only funded for a portion of the current biennium. It also includes the executive compensation recommendation. The majority of the increase in the operating line is related to the continuation of our pension administration system modernization project and the related IT costs.

The 2023-25 total agency request includes added funding for an additional administrative support FTE as well as a fiscal operations FTE to support the investment team as it is currently structured. It also includes 7 FTE related to our strategic internal investment request package to make up the total 34 FTE.

IX. Budget Summary

The Retirement and Investment Office (RIO) serves two important program boards: the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR) Board. As such, its agency budget is separated into two separate programs, both of which are regarded as special funds.

Investment Program (SIB)
Funding for administration of the SIB Investment Program comes directly from investment clients' invested assets (both statutory and contracted).

Salary and benefits represent funding for 13.85 FTEs, which provide all the accounting, financial and administrative support, and investment performance services for the funds under management.

Operating funds needed to administer the SIB investment program include building rent, staff and board travel and education, and NDIT data processing.

Retirement Program (TFFR)
Funding for administration of the TFFR Pension Plan comes from member and employer contributions and investment earnings.

Salary and benefits represent funding for 11.15 FTEs responsible for administering the TFFR retirement program, down from 11.70 previously due to agency restructuring and NDIT unification.

The operating funds required to administer the TFFR retirement program include NDIT data processing, IT contracts, building rent, staff and board travel and professional development.

Carry-over funding for the Pension Administration System Modernization Project (TFFR "Pioneer" Project) is included and the anticipated implementation date is 4th quarter 2024. New costs associated with the TFFR "Pioneer" Project are included in a decision package including one-time costs due to the increased workload and agency partner assistance (such as Procurement and NDIT unification costs) required to implement and some new ongoing cost associated with the software solution.

Historically contingency funds were requested in case of unexpected budget shortfall, generally related to turnover of executive staff and the need to perform an executive search. No contingency funds are included in the base budget request for 2023-25, though a contingency funding request is included as a decision package request.

Due to restructuring/reorganization of the agency in the last biennium some FTE were reclassified and the corresponding salaries and equity adjustments for other team members increased the salary line in the base budget.

ND RETIREMENT AND INVESTMENT OFFICE
BUDGETED EXPENDITURE REPORT
AS OF DECEMBER 31, 2022

	BIENNIUM TO - DATE INVESTMENT	BIENNIUM TO - DATE RETIREMENT	BIENNIUM TO - DATE TOTAL
BUDGETED EXPENDITURES			
1. SALARIES & BENEFITS			
SALARIES	1,682,575	1,112,627	2,795,202
OVERTIME/TEMPORARY	35,410	72,274	107,684
TERMINATION SALARY & BENEFITS	4,149	3,569	7,718
FRINGE BENEFITS	509,726	425,308	935,034
TOTAL SALARY & BENEFITS	2,231,861	1,613,778	3,845,639
2. OPERATING EXPENDITURES			
TRAVEL	28,171	24,679	52,850
IT - SOFTWARE/SUPPLIES	103	82	185
PROFESSIONAL SUPPLIES & MATERIALS	641	1,680	2,321
MISCELLANEOUS SUPPLIES	1,072	541	1,613
OFFICE SUPPLIES	846	1,370	2,216
POSTAGE SERVICES	3,886	28,140	32,027
PRINTING	410	8,008	8,417
IT EQUIPMENT UNDER $5000	419	385	805
OFFICE EQUIP. & FURNITURE UNDER $5000	524	986	1,509
INSURANCE	1,234	1,198	2,432
BUILDING/LAND RENT & LEASES	69,454	84,998	154,451
REPAIR SERVICE	311	343	654
IT DATA PROCESSING	109,161	384,689	493,850
IT COMMUNICATIONS	7,173	7,299	14,472
IT - CONTRACTUAL SERVICES	3,060	205,173	208,233
DUES & PROF. DEVELOPMENT	7,754	20,818	28,571
OPERATING FEES & SERVICES	23,163	19,284	42,447
PROFESSIONAL SERVICES	1,840	341,841	343,681
TOTAL OPERATING EXPENDITURES	259,221	1,131,514	1,390,736
3. CAPITAL ASSETS	0	1,434,489	1,434,489
4. CONTINGENCY	85,832	0	85,832
TOTAL BUDGETED EXPENDITURES	2,576,914	4,179,781	6,756,695

2023-2025 Budget Request:								
Line Item Description	**Base Budget**	**Cost to Continue/Other Adjustments**	**Executive Recommendation Pay Package**	**Adjusted Base**	**Workforce Initiative #1**	**Pioneer Project #2**	**Internal Investment #3**	**Total Agency Request**
Salaries and Wages	$ 6,785,839	890,933	549,864	$ 8,226,636	578,491	486,000	1,404,996	$ 10,696,123
Operating Expenses	1,323,528	(37,000)	-	1,286,528	200,250	1,116,319	266,840	2,869,937
Contingencies	100,000	(100,000)	-	-	200,000	-	-	200,000
Total Special Funds	**$ 8,209,367**	**753,933**	**549,864**	**$ 9,513,164**	**978,741**	**1,602,319**	**1,671,836**	**$ 13,766,060**
				-				-
FTE	25.0	-	-	25.0	2.0	-	7.0	34.0

Request package #1 - Workforce Initiative

As an addition to our base budget request, we are requesting specific funding in a few key areas to ensure we are able to continue performing our statutory responsibilities at a very high level. We consider these requests to be a vital part of our organizational culture and workforce initiative.

During the current biennium, RIO went through a thorough reorganization that led to several position changes throughout the agency. The ED/CIO position was split into two positions to reflect the workload more accurately for each position as the investment program continues to grow exponentially. The salary attributable to the previously combined position was assigned to the Chief Investment Officer role, which resulted in a lack of salary budgeted for the Executive Director position. We have been able to pay the ED salary during the current biennium due to roll-up funding resulting from vacancies, but the full salary amount is not covered by the proposed base budget. In addition, the CFO position was restructured into the CFO/COO position, and an accounting manager position was created to support the CFO/COO combined role. We reclassified a vacant position in the Retirement Services division into a retirement accountant position which is now included under the Fiscal division. We also reorganized administrative support services, which had previously been under a separate Administrative Services division and instead assigned each administrative support position to an individual division (i.e. Retirement Services, Fiscal/Investment, and the Executive Administrative Assistant which supports the four executive team members and all the Boards and committees). While the cost of the reorganization of most of these positions could be covered by our base budget request, we are asking for additional salaries and wages to cover additional board member salaries as well as to support our commitment to a robust internship program within the agency.

To support the 6 new FTE granted during the November 2021 special session we are requesting two additional FTE. One additional administrative support FTE and one additional fiscal/operations FTE. Currently, one administrative support FTE supports both the entirety of the Fiscal and Investment Divisions and we recognize that with the growth of the investment team, additional administrative support is needed. The onboarding of the new investment team members during the biennium has created abundant opportunities to enhance our investment operations and, subsequently, increase the investment returns for all client funds. However, these enhancements require administrative and operational support to be fully realized. Adding these two FTE will further enhance the ability of the investment team to be more agile and effective in managing investment strategies and provide significant benefit to all of our client funds.

Agency reorganization/restructuring and our new strategic plan requires many employees to pursue or maintain professional certifications relevant to the performance of their duties and the associated increase in cost of agency reimbursed certifications is reflected in this proposal as well.

Additional cost for work related travel due to both inflation and the increased need for continuing education of existing FTE requires an increased allocation to this line item. Work related travel is necessary not only for investment and retirement program operations but also for continuing education for positions to maintain certifications relevant to the performance of their duties.

While the agency is committed to a hybrid work environment, such a work environment does require the availability of some additional office space to support the growing and increasingly collaborative teams during the implementation of aforementioned initiatives for both retirement and investment programs and the cost of some additional equipment and space is included in this proposal.

Finally, within this request, we are asking for contingency funding to support at least two executive searches during a biennium. During the last two biennium the agency lost its top two managers in both the retirement and investment programs within 60 days of each other (respectively for each program) and while turnover of these positions is not planned in the short term, prudence requires preparing for what is not an unusual event.

The total ask of this package is $978,741. Of which, $349,012 was included in the executive recommendation.

	Total Agency					
#1: Workforce Request	**Salaries & Benefits**	**Operating Expenses**	**Contingency**	**Total Special Funds**	**Executive Recommend**	**Difference**
Fully fund salaries after completion of reorganization, compensation for additional board members, fund internship program	203,870	-	-	**203,870**	81,512	122,358
Addition of an administrative support FTE to support investment personnel added during special session	154,886	-	-	**154,886**		154,886
Addition of a fiscal/operations FTE to support investment personnel	219,735	-	-	**219,735**		219,735
Increased travel for board & staff	-	74,000	-	**74,000**	74,000	-
Governance manual codification & update software	-	30,000	-	**30,000**	30,000	-
IT equipment for hoteling	-	5,000	-	**5,000**	5,000	-
Rent for hoteling	-	15,000	-	**15,000**	15,000	-
Staff development/certifications/dues	-	25,750	-	**25,750**	8,000	17,750
Increased SWCAP (as determined by OMB)	-	35,500	-	**35,500**	35,500	-
Communications subscriptions	-	15,000	-	**15,000**		15,000
Contingency for Exec Searches	-	-	200,000	**200,000**	100,000	100,000
	578,491	200,250	200,000	**978,741**	349,012	629,729

NOTES:
- Adds Investment Admin to support new team members added in Special Session
- Adds Fiscal/Operations FTE to support new investment team members added in Special Session
- Additional funding for salaries (fully funds reorganization adjustments, a continuing intership program, and additional board member pay)

Request package #2 - Pioneer Project

The second of our additional funding request packages seeks to support the TFFR Pension System Modernization Project (TFFR "Pioneer" Project) for the development and deployment of the modernized pension administration system pursuant to its authority under NDCC 15-39.1-05.2. The project is currently in the development and implementation of the vendor solution phase (the third and final phase). While our project is currently on time with an expected completion date of 4th quarter 2024, the agency must continue to utilize its current system until the new system is ready and program efficiencies can be realized. This package is intended to provide necessary interim support and resources for the agency until the new system is ready to deploy such as: an increase for personnel costs of existing staff as it relates to additional workload and overtime; continuing cost for temporary FTE to support the manual processes needed to make the existing system work until it can be retired; and the funding needed for ongoing hosting and support fees associated with the new software vendor solution.

The implementation project will be completed using existing FTE; however, continued funding for two temporary employees is necessary to sustain operations under the existing pension administration system while the new system is being developed and the time of permanent FTE can be dedicated to that development and launch. The current system is quite antiquated and requires significant manual data entry; these processes will be significantly improved with the new system and therefore the services of the temporary employees will no longer be needed subsequent to the launch of the new system. Overtime costs are needed for current non-exempt staff, and temporary increases for current exempt staff, due to the increased work hours and workload involved in the development and implementation of the system.

For example, between September 8, 2022, and December 15, 2022, each staff member assigned to the new pension administration project participated in as many as 185 hours of meetings and development sessions directly attributable to the project. Those 185 hours attributed to the project account for 33% of the 552 total normal work hours for that period based on 8-hour days and 69 workdays during the period. Because the work the staff does daily could not be deferred, this required a significant additional effort from the assigned staff. As a further example, for the period of January 9, 2023, through May 11, 2023, there are 86 working days for a total of 688 regular work hours. During this time assigned staff will be participating in as many as 225 hours of meetings and development sessions related to the project. This again represents a 33% increase in required time from staff to complete both their normal work duties and the duties they have on the project. This increased tempo and workload will continue through the end of the project which is scheduled for the 4th quarter of the 2024 calendar year.

It is expected that these additional costs, including limited term employee costs will be eliminated upon implementation of the new pension administration system, while the hosting and support fees will be ongoing. As on offset of the increased hosting and support fees, the one-time increase for NDIT charges for unified staff support should also decrease substantially after the implementation of the project. This expectation is due to the conclusion of the NDIT staff in PAS meetings and development sessions, and due to the modernization and automation of processes that NDIT staff presently support daily in the antiquated system being replaced.

The total ask of this package is $1,602,319. Of which, $1,552,319 was included in the executive recommendation.

#2: Pension System Continuation	Total Agency Salaries & Benefits	Operating Expenses	Contingency	Total Special Funds	Executive Recommend	Difference
Temp Increases & Temp Salaries	270,000	-	-	**270,000**	220,000	50,000
Overtime for Pension Staff	216,000	-	-	**216,000**	216,000	-
Postage for educational mailers	-	5,000	-	**5,000**	5,000	-
Printing for educational mailers	-	1,900	-	**1,900**	1,900	-
Increased NDIT charges for unified staff	-	132,000	-	**132,000**	132,000	-
Increased hosting and support fees	-	937,419	-	**937,419**	937,419	-
New contract to track membership	-	40,000	-	**40,000**	40,000	-
NOTES:	486,000	1,116,319	-	**1,602,319**	1,552,319	**50,000**
- Temp increases and funding for temp positions to finish designing and implementation of new PAS system						
- Increase in hosting/support costs for new system						
- $40K for PBI for death audit solutions						

Request package #3 - Internal Investment

The third and final additional request is predicated on the exponential growth of our investment program. The assets under management by the RIO investment division have grown from about $4 billion to nearly $20 billion from the year 2010 to the beginning of the year 2022 and continue to grow from investment returns and contributions to the Legacy Fund, pension plans, and insurance funds. The combination of the growth of AUM, the number of individually managed funds, and the complexity of mandates such as the Legacy Fund have increased the need for staff resources, infrastructure, and new scalable investment processes that can enhance the performance of client funds while reducing the net cost of management of those funds when manager fees are considered.

There is an opportunity to create significant benefits from the scale advantages of the growth of nearly $20 billion of assets under management. A typical public fund with similar assets under management as RIO has more internal investment management which creates the opportunity of better investment returns while decreasing costs from the advantages of more internal management versus money placed with external managers. Some additional benefits of an internal asset management program include:

- Enhanced liquidity management, better fund rebalancing processes, and the ability to manage risk exposures for improvement of return/risk and lower cost;
- Improved investment capabilities at RIO rather than outsourcing those capabilities;
- Scalable savings that grow with the assets under management or with a larger portion of assets under management
- Additional flexibility and agility to implement new investment strategies or respond to market or international events as the assets are controlled locally;
- Attraction of top talent with a remote hybrid workforce where some senior, more expert investment officers can be located remotely if they choose yet still train more junior talent

that are local. RIO has been able to attract top talent with this approach. Internal investment management will increase the number of professional opportunities with RIO to be the employer of choice.

- Attraction of local talent from universities using internship programs where talent can be trained to be the next generation of leaders, bootstrapping a market for investment talent in North Dakota.

Generally, investment management costs fall within the scope of continuing appropriation authority granted by the legislature in NDCC 21-10-06.2; however, because this proposal involves cost savings achieved by internalizing investment operations through additional permanent FTE and infrastructure it falls within the scope of NDCC 54-52.5-03.

Our proposal includes five investment professionals, one fiscal operations professional, and one administrative staff to manage approximately $3 billion of assets internally. Implementing this proposal can lower the net costs for RIO investments by $8 million per year and create opportunities for better liquidity management and rebalancing that may result in up to another $8 million in savings per year, for a conservative estimate of approximately $16 million in savings per year that as a special fund agency directly benefits our client funds. The net costs and opportunities grow with assets under management and with the amount of assets managed internally. We have discussed this proposal with many of our client funds and have received positive feedback and support from our clients for this initiative.

Additionally, the market for investment professionals shows they typically receive both a market-based salary and incentive compensation even in the public sector. A well-designed incentive compensation system, based on fair criteria, can stimulate employees to deliver quality work, reach set targets, and maintain motivation and productivity. For investment managers, it provides incentives to make smart and risk-appropriate investment choices that result in an appreciation of invested assets. The incentive system also aligns the risk of the investment manager's compensation with the risk of the underlying assets being managed, thus acting as a control mechanism incentivizing good risk/return choices. Lastly, an incentive system is good for investment plan beneficiaries in that the incentive is paid when there is superior investment performance and not paid when there is not superior investment performance. As a result, a well-designed incentive compensation system results in added net investment performance and reduces the overall cost of compensation by paying only when the benefits exceed the cost. The incentive compensation plan would assume a targeted bonus of 50% of salary and a max of 100% of salary and would only pay out when benefits exceed costs. This proposal is contingent on an incentive compensation plan approved by the legislature and administered by the State Investment Board.

Due to the complexity of this plan, we are only asking for a salary budget for one year of the biennium for these additional staff as we believe it would take significant time to receive the necessary classification approvals and fill the positions.

We estimate the cost of this proposal for the first biennium to be $1,671,836 or approximately 10% of the cost savings from implementation. This includes one year of salaries and benefits for each of the new positions as well as the necessary operational costs to support them. In addition, we would ask for specific statutory language changes to facilitate the incentive compensation plan including exemptions from the state's classified system.

#3: Internal Investment Plan	Total Agency					
Item Description	Salaries & Benefits	Operating Expenses	Contingency	Total Special Funds	Executive Recommend	Difference
7 new FTE (5 investment/1 fiscal/1 admin) (1/2 biennium)	1,173,326	-	-	**1,173,326**	-	1,173,326
Equity Increases for current Investment Staff	231,670	-	-	**231,670**	-	231,670
Advertising	-	17,500	-	**17,500**	-	17,500
Travel	-	53,000	-	**53,000**	-	53,000
Software/Data Processing/Telephone	-	44,240	-	**44,240**	-	44,240
Office Furniture/Supplies	-	12,600	-	**12,600**	-	12,600
Rent for new offices	-	86,500	-	**86,500**	-	86,500
Prof Development	-	3,000	-	**3,000**		3,000
Pay Study	-	50,000	-	**50,000**		50,000
NOTES:	1,404,996	266,840	-	**1,671,836**	-	**1,671,836**
- 5 Investment positions (2 Sr. Portfolio Mgrs/2 Inv. Analysts/1Inv. Funds Mgr)						
- 1 Admin to assist investment professionals						
- 1 Investment accountant						
- Operating costs to support additional team members						

X. Purpose and use of one-time funding in current biennium

Although there was no one-time funding specified in our budget for the 2021-2023 biennium, we did request to carryover unexpended one-time funding appropriated in the prior biennium to continue work on our pension administration system (PAS) modernization project. As this project is in progress and not expected to be completed until 2024, we will be requesting to carryover all remaining one-time funding related to this project into the 2023-2025 biennium.

ND RETIREMENT AND INVESTMENT OFFICE
PENSION ADMINISTRATION SYSTEM EXPENDITURE REPORT
AS OF DECEMBER 31, 2022

	2019-2021 Biennium Approved Budget	2019-2021 Biennium Actual	Carryover to 2021-2023 Biennium	2021-2023 Biennium Actual	Total PAS Project to Date	Remaining PAS Budget
TEMPORARY SALARIES	50,000	0	50,000	0	0	50,000
IT - DATA PROCESSING (NDIT PROJECT MGMT)	775,000	34,025	740,975	78,457	112,483	662,517
PROFESSIONAL SERVICES	1,875,000	297,099	1,577,901	444,377	741,476	1,133,524
CAPITAL ASSETS	6,300,000	0	6,300,000	1,434,489	1,434,489	4,865,511
TOTAL PAS PROJECT BUDGET	**9,000,000**	**331,125**	**8,668,875**	**1,957,324**	**2,288,448**	**6,711,552**

XI. Identify and justify need for any one-time funding requested

We are requesting carryover authority for unexpended one-time funding related to our PAS modernization project that is expected to be completed in the 4th quarter of 2024.

In addition, we are requesting one-time funding for temporary salary increases to team members engaged in the development of the new system along with temporary salary dollars for continuation of our temporary employees that are currently supporting TFFR's legacy system while we design and develop the new system. The nature of the building of the new system requires significant institutional knowledge of the plan and current structure such that hiring temporary employees from outside the agency to design the system would not be feasible. This requires current team members to put in extra time and effort into design meetings while still completing their daily duties. Thus, the need for temporary workload increases and overtime.

XII. Agency collections deposited in general or special fund

Not applicable to RIO.

XIII. Need for any other sections requested to be included

As part of our strategic investment plan and our desire to move forward with an internal investment program at RIO, we are requesting to be excluded from the state's classified system. This would require an amendment to NDCC 54-44.3-20 to add "Officers and employees of the state retirement and investment office" to the list of positions excluded from classified service.

Additionally, as discussed in the internal investment request package, we feel an appropriate incentive compensation plan is vital for the success of our investment team. And, as such, we are requesting legislative approval to move forward on designing and implementing a plan that would be annually approved by the SIB.

Finally, we are requesting exemption language be added to our bill similar to last biennium to allow for the carryover of any unexpended funds related to the pension administration system project to allow for the planned implementation of the new system in 2024.

XIV. Any other bills being considered and potential impact on our budget

RIO reviews all submitted bills to monitor for potential impact on the agency. Through the first couple weeks of the session, we have identified several bills that may impact our agency and/or budget including, but not limited to (see attached for complete current list of tracked bills):

- HB 1039/1040 – Closure of the PERS DB Plan
- HB 1088 – SIB Membership Changes
- HB 1150 – Veteran Opt-out from TFFR
- HB 1219 – TFFR Program Changes
- HB 1227 – Legacy Fund/Requiring Cost-Benefit Analysis
- HB 1271 – Retired Teachers Return to Service/TFFR
- HB 1278 – Requiring Contracts to Include Written Support of Fossil Fund and ND Ag Industries
- HB 1368 – Prohibiting Investment and Contracts with Companies that Boycott Israel
- HB 1379 – Legacy Fund Earnings Streams
- HB 1400 – Common Schools Trust Fund Investments
- SB 2239 – Contributions to PERS Main Plan

- SB 2258 – Retired Teachers Benefits if Returning to Teach
- SB 2330 – Legacy Fund Advisory Board/Legacy Fund Earnings Definition

Potential fiscal impacts of these bills are still being determined. Some minor changes may require small amounts of monitoring and compliance and require just a few thousand dollars of temporary salaries. While others may have a more pronounced effect on RIO and require full scale effort on behalf of the investment team requiring upwards of $10 - $15 million in extra agency costs. We will continue to monitor these and numerous other bills to determine if any additional budget action would be necessary.

XV. <u>One-page itemized listing of changes we're requesting to the executive recommendation</u>

(See attached)

XVI. <u>Comparison of major requests to those recommended in executive budget</u>

(See section IX above for specific amounts included in executive budget)

The executive budget included portions of our major requests as follows:

- Workforce initiative (#1)
  - Included:
    - Portion of additional salaries for board members/interns
    - Increased travel for board and staff
    - Increased SWCAP
    - Additional hoteling rent & IT equipment
    - Staff development and certifications
  - Additional request:
    - Fully fund reorganized salaries
    - 2 FTE to support investment team (admin & fiscal)
    - Additional staff development/certifications/dues/subscriptions
    - Additional contingency funds for one more executive search
- Pioneer project (#2)
  - Included:
    - Portion of temporary increases and temporary salaries
    - Overtime for pension staff
    - Postage/Printing for educational mailers on new system
    - NDIT hosting, support, and staff charges
    - Contract for membership death tracking
  - Additional request:
    - $50K of temporary salary dollars
- Internal investment (#3)
  - Included
    - None included in exec recommendation
  - Additional request:
    - 7 FTE (5 investment/1 fiscal/1 admin) for one year of biennium

- Equity increases for current investment staff
- Advertising/travel/professional development costs
- Software and data processing costs
- Office rent/furniture/supplies
- Pay study

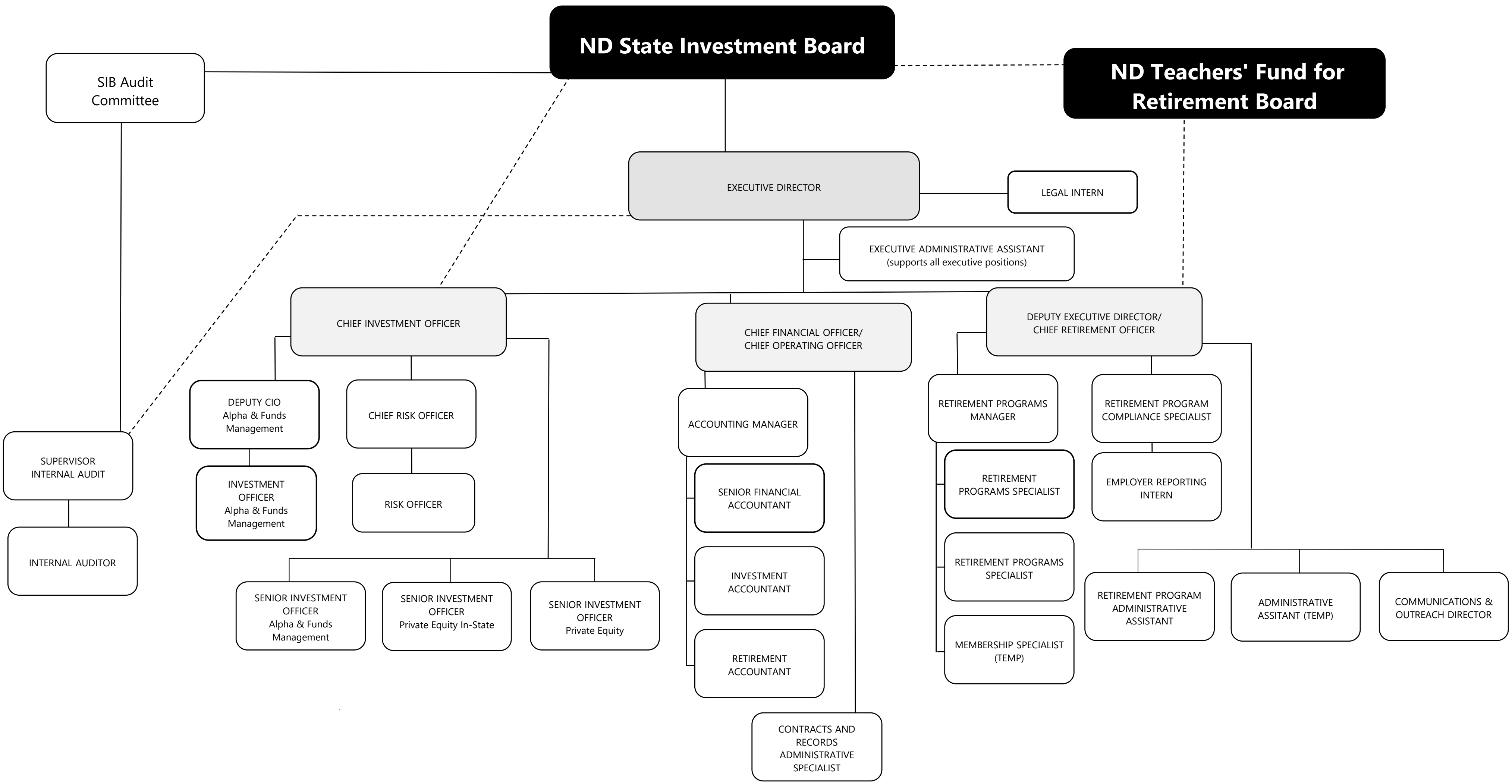
XVII. Federal State Fiscal Recovery Funding

RIO was not appropriated any federal state fiscal recovery funds during the November 2021 special legislative session.

XVIII. Federal Funding available

RIO does not have, nor does it anticipate having any federal funding available for the 2023-2025 biennium.

RETIREMENT AND INVESTMENT OFFICE



North Dakota Retirement and Investment Office
Changes requested in addition to executive recommendation

	Salaries & Benefits	Operating	Contingency	Total	FTE
Legislative Base Budget	**6,785,839**	**1,323,528**	**100,000**	**8,209,367**	**25.0**
Base Budget Changes	**143,721**	**(43,721)**	**(100,000)**	**-**	**-**
Executive Recommendations					
Cost to continue salary increases	41,345			41,345	
Increase funding for FTE approved during special session	506,929			506,929	
Salary package increase	549,864			549,864	
Health insurance increase	128,580			128,580	
Increase funding for salary equity increases	151,870			151,870	
Increase funding for ITD rates		6,721		6,721	
Operating expense inflationary increase (part of optional request #1)		167,500		167,500	
Contingency funds for executive search expenses (part of optional request #1)			100,000	100,000	
Funding for pension administration software fees (optional request #2)		977,419		977,419	
One-Time: Pension administration software implementation (part of optional request #2)	436,000	138,900		574,900	
Total included in executive recommendation	**8,744,148**	**2,570,347**	**100,000**	**11,414,495**	**25.0**
Additional Agency Requests				-	
Remainder of request package #1 (Workforce Initiative)				-	
Fully fund salaries after completion of reorganization, compensation for additional board members, fund internship program	122,358			122,358	
Addition of 2 FTE to support investment personnel added during special session	374,621			374,621	2.0
Additional staff development/certifications/dues		17,750		17,750	
Additional communications subscriptions/ memberships to support strategic communications plan		15,000		15,000	
Contingency funds for one additional executive search			100,000	100,000	
Total additional for request package #1	**496,979**	**32,750**	**100,000**	**629,729**	**2.0**
Remainder of request package #2 ("Pioneer" Pension System continuation)					
Additional funding for temporary increases and temporary salaries	50,000			50,000	
Total additional for request package #2	**50,000**	**-**	**-**	**50,000**	**-**
Request package #3 (Internal Investment Management)					
7 new FTE (5 investment/1 fiscal/1 admin) (1/2 biennium)	1,173,326			1,173,326	7.0
Equity increases for current investment staff	231,670			231,670	
Advertising		17,500		17,500	
Travel		53,000		53,000	
Software/data processing/telephone		44,240		44,240	
Office furniture/supplies		12,600		12,600	
Rent for new offices		86,500		86,500	
Professional development		3,000		3,000	
Pay study		50,000		50,000	
Total additional for request package #3	**1,404,996**	**266,840**	**-**	**1,671,836**	**7.0**
Total Requested Appropriation	**10,696,123**	**2,869,937**	**200,000**	**13,766,060**	**34.0**

SECTION 1. AMENDMENT. Section 54-44.3-20 of the North Dakota Century Code is amended and reenacted as follows:

54-44.3-20. Categories of positions in the state service.

All positions in the state service are included in the classified service, except:

1. Each official elected by popular vote and each person appointed to fill vacancies in an elective office, one principal assistant, and one private secretary.
2. Members of boards and commissions required by law.
3. Administrative heads of departments required by law, other than the superintendent of North Dakota vision services - school for the blind, the superintendent of the school for the deaf, and the state librarian.
4. Officers and employees of the legislative branch of government.
5. Members of the judicial branch of government of the state of North Dakota and their employees and jurors.
6. Persons temporarily employed in a professional or scientific capacity as consultants or to conduct a temporary and special inquiry, investigation, or examination for the legislative branch of government or a department of the state government.
7. Positions deemed to be inappropriate to the classified service due to the special nature of the position as determined by the division and approved by the board.
8. Employees of the institutions of higher education under the control of the state board of higher education.
9. Members and employees of occupational and professional boards.
10. Officers and employees of the North Dakota mill and elevator association.
11. Positions referred to under law as serving at the pleasure of or at the will of the appointing authority.
12. Licensed teachers engaged in teaching at the North Dakota youth correctional center, North Dakota vision services - school for the blind, and the school for the deaf.
13. Officers of workforce safety and insurance.
14. Officers and employees of the department of commerce.
15. Attorneys employed by the insurance commissioner.
16. Engineers, engineering technicians, and geologists employed by the director of mineral resources.
17. Officers and employees of the Bank of North Dakota.
18. Officers and employees of the state retirement and investment office.

SECTION 2. AMENDMENT. Section 54-52.5-03 of the North Dakota Century Code is amended and reenacted as follows:

54-52.5-03. State retirement and investment fund – Cost of operation of agency.

A special fund known as the "state retirement and investment fund" is established for the purpose of defraying administrative expenses of the state retirement and investment office. The actual amount of administrative expenses incurred by the state retirement and investment office must be paid from the respective funds listed under section 21-10-06 and are hereby appropriated to the state retirement and investment fund in proportion to the services rendered for each fund as estimated by the state investment board. The amount necessary to pay all administrative expenses of the state retirement and investment office must be paid from the state retirement and investment fund in accordance with the agency's appropriation authority and earnings lawfully available for such purposes. Any interest income earned on the state retirement and investment fund must be credited to the fund.

SECTION 3. AMENDMENT. Section 54-52.5-04 of the North Dakota Century Code is created and enacted as follows:

For the purposes of this section, “incentive compensation program” means a program approved by the state investment board with provisions that promote profitability, productivity, and responsible fund management. Any incentive compensation program approved by the state investment board must include provisions that ensure no payouts are made unless conditions are met that the investment program has added value when compared to pre-determined opportunity cost policy benchmarks.

2023-2025 Legislative Session RIO Bill Tracker

Bill #	Topic	Description	Sponsor	Hearing Date	Committee	Status
HB 1039	Closing DB Plan	Closing DB Plan (eff. 12/31/23)	Legislative Management: Weisz, Bosch, Boschee, Lefor, Mitskog, Vigesaa, Burckhard, Klein, Piepkorn, Schaible, Wanzek	1/13 - 9:15am	House GVA	
HB 1040	Closing DB Plan	Closing DB Plan (eff. 12/31/24)	Legislative Management: Weisz, Bosch, Boschee, Lefor, Mitskog, Vigesaa, Burckhard, Klein, Piepkorn, Schaible, Wanzek	1/13 - 8:30a.m.	House GVA	
HB 1088	SIB	SIB Membership changes	Government and Veterans Affairs: Schauer, Satrom, Bahl, Cory, Hoverson, Johnson, Karls, Louser, McLeod, Rohr, Schneider, Steiner, Vetter	1/12 - 10:15am	House GVA	
HB 1147	Legacy Earnings	Creating a county and township bridge fund from legacy earnings	Rep. Thomas, Rep. Anderson, Rep. Hagert, Rep. Lefor, Rep. Mitskog, Rep. Monson, Sen. Myrdal, Rep. Pyle, Sen. Sorvaag, Rep. Stemen, Sen. Vedaa	1/18 - 10:30am	House Approps	
HB 1150	Veteran Exemption for TFFR	Allows veterans with at least 20 years of military service to opt out of the TFFR in their first year of teaching	Thomas, Bekkedahl, Heinert, Meyer, O'Brien, Pyle, Richter, Ruby, Schaible, Schreiber-Beck, Vedaa	1/16 - 4:00pm	House Education	
HB 1183	PERS retirement for law enforcement	Amends description of participants.	Rep. Porter, Sen. Axtman, Rep. Dockter, Rep. Heinert, Rep. Karls, Rep. Kasper, Sen. Larson, Rep. Louser, Rep. Motschenbacher, Rep. Ostlie, Rep. Ruby, Rep. Schauer	1/20 - 8:30am	House GVA	
HB 1201	Employee recruiting	Prohibiting a state entity from employing an individual under contract with a school district	Reps. Heinert, Hauck, Koppelman, Meier, Porter, M. Ruby, Toman Sens. Larsen, Meyer, Schaible	1/18 - 2:00pm (3rd)	House Education	
HB 1216	ND Development Fund	Commerce Dept. funds to promote economic development.	Rep, Nathe	1/16- 9:00am	House IBL	
HB 1219	TFFR	TFFR Changes	Reps. Kempenich, Conmy, Kreidt Sen. Schaible	1/20 - 9:15am	House GVA	

HB 1227	Legacy Fund	Requiring a cost-benefit analysis for a measure or policy affecting the Legacy Fund.	Reps. Kempenich, Bosch, Cory, Mock, Swiontek, Thomas, Vigesaa Sens. Klein, Meyer, Patten	1/18 - 9:00am	House Finance & Tax	
HB 1251	Salaries for school superintendents	Capping salaries for school superintendents	Rep. Ruby, Sen. Cleary, Rep. Heilman, Rep. Heinert, Sen. Hogue, Sen. Krebsbach, Sen. Kreun, Rep. Lefor, Sen. Meyer, Rep. Schreiber-Beck		House Education	
HB 1271	TFFR	Opt-out for retired teachers returning to service from having to contribute to TFFR	Reps. Schatz, Hauck, D. Ruby, Strinden Sen. Myrdal		House Education	
HB 1278	SIB	Requiring contracts with custodians/managers include required written support of fossil fuel and ag industries in state.	Reps. Satrom, Grueneich, Headland, Lefor, S. Olson, Ostlie, Schauer, Steiner Sens. Conley, Wanzek		House GVA	
HB 1283	Financial Industry	Impacting and creating a list of banks that develop stances on ESG	Rep. Novak, Rep. Dyk, Rep. Kempenich, Rep. Lefor, Sen. Myrdal, Sen. Rummel, Rep. Steiner, Rep. Tveit	1/17- 2:30pm	House IBL	
HB 1285	Agency	Prohibiting executive branch agency bill submissions without legislator or legislative committee sponsor.	Reps. Toman, Christensen, Heilman, Henderson, Prichard		House GVA	
HB 1309	PERS	Plan design changes for law enforcement	Rep. Boschee, Sen. Braunberger, Sen. Cleary, Sen. Dever, Rep. Heinert, Rep. Martinson, Rep. Nathe, Sen. Roers, Rep. Ruby, Rep. Schneider		House GVA	
HB 1321	PERS Board	Changing PERS Board makeup	Reps. Kasper, Dockter, Lefor, Louser, D. Ruby, M. Ruby, Steiner, Vigesaa, Weisz Sen. Hogue	1/18 - 2:30pm	House IBL	
HB 1345	Procurement	All coontracts between a state entity and a vendor must include a provision of the vendor supporting the state's agriculture and energy industries	Reps. Satrom, Grueneich, Hagert, Headland, Kiefert, Ostlie, Steiner Sen. Conley, Erbele, Lemm, Wanzek	1/20 - 9:00am	House Agriculture	

HB 1347	Banking	State treasurer and financial institutions engaged in boycotts of energy companies	Reps. Satrom, Grueneich, Ostlie, Schauer, Strinden Sens. Clemens, Conley	1/18 - 2:30pm (4th)	House IBL	
HB 1368	Investments	Prohibiting investments and contracts with companies that boycott Israel.	Reps. K. Anderson, Bellew, M. Ruby, Strinden, Timmons, Tveit Sens. Clemens, Kannianen, Myrdal		House IBL	
HB 1379	Legacy Earnings Streams	Modifies Legacy Fund Earnings streams	Reps. Lefor, Bosch, Dockter, Headland, Nathe, Novak, O'Brien Sens. Bekkedahl, Hogue, Rummel, Sorvaag		House Approps	
HB 1400	Investing Land Assets	Allows Land to use SIB for Investment purposes			House IBL	
SB 2022	Budget bill	RIO's Budget	Senate Appropriations	1/19 - 10:00am	Senate Approps - Human Resources	
SB 2070	Teacher Permitting	Extends the length of time non-certified teachers can be permitted	Senate State and Local Govt - Roers, Barta, Braunberger, Cleary, Estenson, Lee	1/17 - 2:00pm	Senate Education	
SB 2164	PERS Board	Changing how legislative members of PERS Board are appointed	Sen. Dever Reps. Brandenburg, Hatlestad, D. Johnson, Monson, Schauer	1/19 - 9:30am	Senate State & Local	
SB 2165	Energy Commission	Funds to clean sustainable engery fund/ BND	Sen. Patten, Rep. Bosch, Sen. Kannianen, Sen. Kessel, Rep. Novak, Rep. Porter	1/19-10am	Senate Energy and Natural Resources	
SB 2196	Infrastructure Revolving Loan Fund	Resets terms of the infrastructure revolving loan fund.	Sen. Patten, Sen. Beard, Sen. Bekkedahl, Sen. Kannianen, Rep. Olson, Rep. Richter	1/19-10:30am	Senate Energy and Natural Resources	
SB 2220	Legacy Earnings	Adding a Housing Incentive Fund bucket to Legacy stream	Sens. Kreun, Barta, Hogan, Mathern Reps. Ista, O'Brien		Senate Finance & Taxation	
SB 2233	BND	Auditing practices of certain funds under management of BND	Sen. Klein, Sen. Bekkedahl, Sen. Hogue, Rep. Lefor, Rep. Vigesaa		Senate IBL	
SB 2239	PERS Plan	Changing PERS contribution rates and appropriating $250M to the fund	Sens. Cleary, Dever Rep. Boschee		Senate State & Local	
SB 2258	TFFR	Expands scope of Critical Shortage area qualification for rehired retirees	Sens. Paulson, Beard Reps. Heilman, Hoverson, Louser		Senate Education	
SB 2330	Legacy Fund	Legacy earnings definition and change in Legacy Fund IPS percentages.	Sens. Klein, Hogan, Meyer Reps. Bosch, Kreidt		Senate IBL	

Senate Bill 2022
Senate Appropriations
Human Resources Division
Senator Dever, Chair

January 19, 2023

Jan Murtha, JD, MPAP – Executive Director
Chad Roberts, MAc – Deputy Executive Director/Chief Retirement Officer
Scott M Anderson, CFA, MBA – Chief Investment Officer
Ryan Skor, CPA, MBA – Chief Financial Officer/Chief Operating Officer

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1

NORTH DAKOTA RETIREMENT AND INVESTMENT SUPPORTS TWO SPECIAL FUND PROGRAMS

NORTH Dakota
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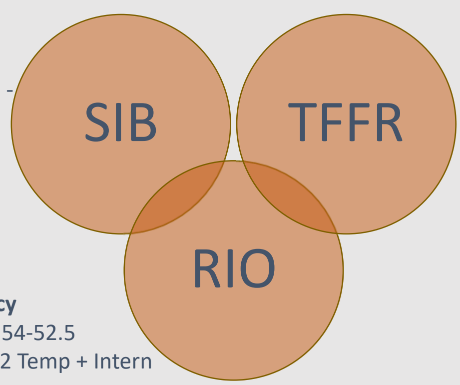
RIO was established in 1989 to coordinate the activities of the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR). The SIB is the oversight board for RIO and TFFR Board is responsible for the administration of the TFFR benefits program.

State Investment Board -
Investment Program
NDCC Ch. 21-10
~$18 Billion in AUM
As of 10/31/22



Teachers' Fund For Retirement –
ND Teachers' Retirement Program
NDCC Ch. 15-39.1
~$3.0 Billion in Fund Assets
Over 21,000 active and retired members and beneficiaries

RIO Agency
NDCC Ch. 54-52.5
25 FTEs + 2 Temp + Intern

2

2

RETIREMENT AND INVESTMENT'S CORE PRIORITIES

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Engaging our Workforce:
Growth Mindset
Remote/Hybrid Office
Governance/Change Initiatives

3

3

STRATEGIC – HORIZON BASED TRANSFORMATION

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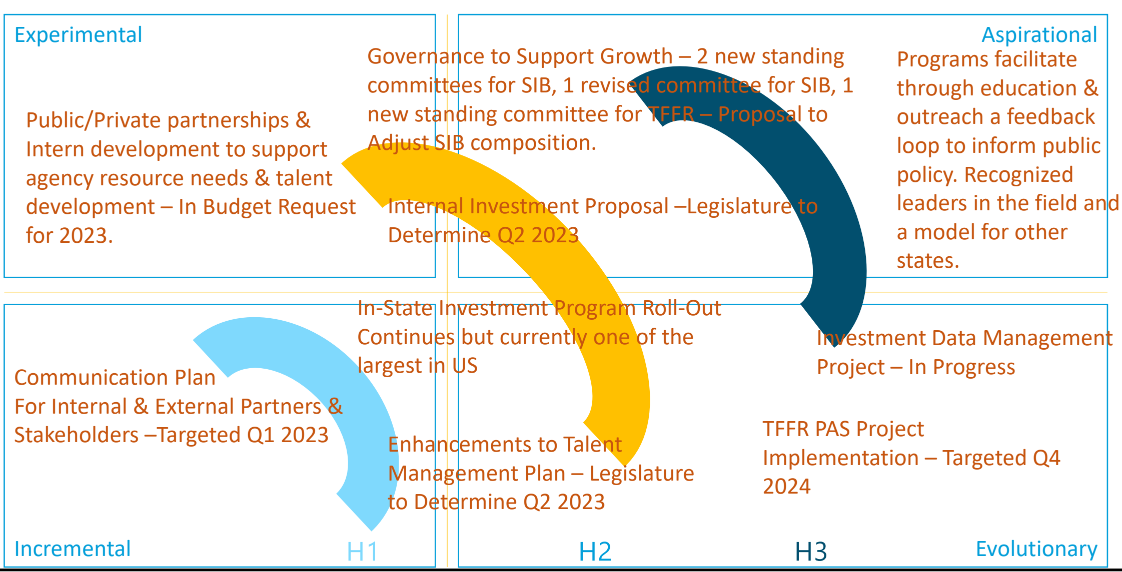

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STATE INVESTMENT BOARD – INVESTMENT PROGRAM

- State Investment Board (SIB) has the statutory responsibility for the administration of the investment program of several funds including:
  - TFFR, PERS, WSI, Legacy Fund
- SIB also maintains contractual relationships for investment management with multiple political subdivisions and governmental funds

- Currently nearly $19 Billion in Assets Under Management (AUM)
- 28 client funds
- 43 fund managers

Fund/Pool	AUM (11/30/22)
Pension Pool	$7.06B
Insurance Pool	$2.89B
Legacy Fund	$8.58B
Other Funds	$0.24B

5

5

TEACHERS' FUND FOR RETIREMENT

- Qualified defined benefit public pension plan for North Dakota public school teachers and administrators providing them with a foundation for retirement security.

- 11,800+ Active Members
  - 16.4% increase over past decade
- 9,400+ Retired Members and Beneficiaries
  - 26.0% increase over past decade
- ~$3.0B Fund balance

- On-track to be 100% fully funded by 2044

- New Pension Administration System in development (est. Q4 2024)

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BUDGET REQUEST SUMMARY

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Line Item	Base Level	Cost to Continue/ Other Adj.	Executive Pay Package	Adjusted Base	Workforce Initiative	Pension System Upgrade	Internal Investment*	Total Request
Salaries & Benefits	$6,785,839	890,933	549,864	8,226,636	578,491	486,000	1,404,996	$9,035,591
Operating Expenses	1,323,528	(37,000)		1,286,528	200,250	1,116,319	266,840	3,006,937
Contingencies	100,000	(100,000)		-	200,000	-	-	200,000
Total Special Funds	**8,209,367**	**753,933**	**549,864**	**9,513,164**	**978,741**	**1,602,319**	**1,671,836**	**12,242,528**
(Included in Exec. Recom.)					349,012	1,552,319	-	
FTEs	25.0	-	-	25.0	2.0	-	7.0	34.0

* Amounts represent only 2nd year of biennium.
Requires authorization for performance pay within internal investment plan.

Estimated cost savings = $16M+/year

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RIO AGENCY INITIATIVES

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INCREMENTAL

TO

EVOLUTIONARY

- WORKFORCE – ORG CULTURE - CONTINUE
- TFFR "PIONEER" PROJECT - COMMIT
- INTERNAL INVESTMENT - EVOLVE

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ORGANIZATION CULTURE – WORKFORCE INITIATIVE

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SALARIES
- ED/CIO SPLIT AND OTHER AGENCY RE-ORGANIZATION INCLUDING ACCOUNTING MANAGER, CFO-COO.
- Support Intern Program.

SUPPORT
- 1 ADDITIONAL ADMIN TO SUPPORT NEW INVESTMENT FTE'S.
- CURRENTLY HAVE 3 FULL TIME AND 1 TEMP PART-TIME TO SUPPORT 17.
- 1 ADDITIONAL FISCAL OPERATIONS POSITION TO FACILITATE INVESTMENT OPERATION ENHANCEMENTS.

CERTS.
- COST OF PROFESSIONAL CERTIFICATIONS THAT ARE EITHER REQUIRED OR ENCOURAGED TO PERFORM DUTIES
- SUPPORT HIGH PERFORMANCE AND GROWTH MINDSET.

INFLATION
- COST OF TRAVEL, TRAINING, AND SUPPORT OF A HYBRID/REMOTE WORKPLACE.

CONTINGENCY
- REQUEST FOR CONTINGENCY FUNDS.

9

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INFRASTRUCTURE/TECHNOLOGY ENABLED PROCESSES- TFFR PIONEER PROJECT INITIATIVE

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2022

TEMP STAFF TO ASSIST WITH MANUAL PROCESSES UNTIL NEW SYSTEM LAUNCH.

IMPROVED DEATH AUDITING FUNCTION.

2023

START OF SUBSEQUENT ONGOING SYSTEM MAINTENANCE COSTS.

INCREASED NDIT SUPPORT COSTS.

2024

ANTICIPATED LAUNCH IN 4TH QUARTER, 2024.

POST LAUNCH: ROI REALIZED.

10

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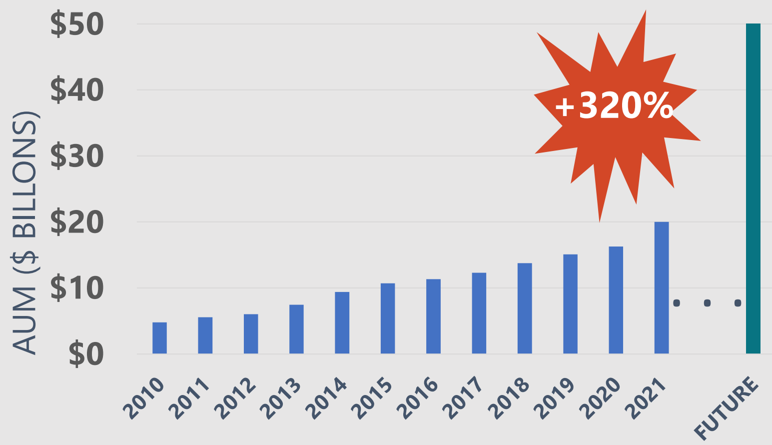
ASSETS UNDER MANAGEMENT GROWTH



11

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INTERNAL INVESTMENT/ TALENT MANAGEMENT

- LOWER COST THAN WITH EXTERNAL MANAGERS
- APPLIED WHERE THERE IS A COST/BENEFIT
- ENABLES ENHANCED LIQUIDITY MANAGEMENT, REBALANCING AND EXPOSURE MANAGEMENT

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THE BENEFIT SCALES WITH THE SIZE OF THE COMMITMENT

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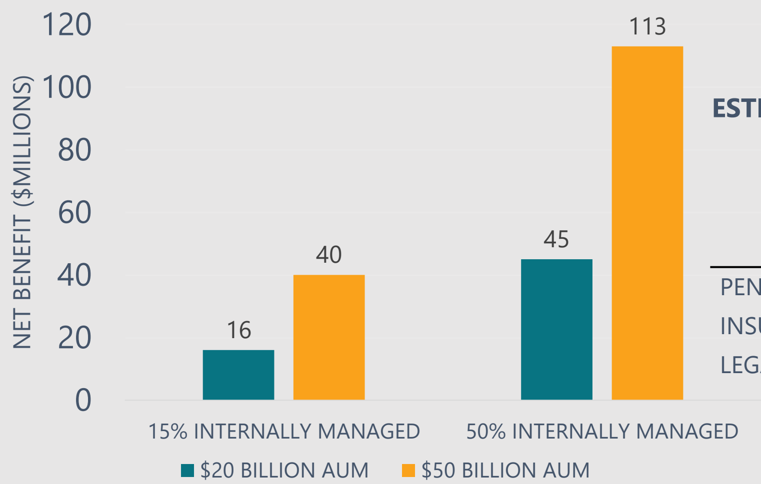

ESTIMATED ANNUAL SAVINGS PER YEAR ($20 BILLION AUM)

	15% OF ASSETS		50% OF ASSETS	
PLAN	$(MIL)	%	$(MIL)	%
PENSION	$6	0.08%	$16	0.23%
INSURANCE	$3	0.10%	$8	0.26%
LEGACY	$7	0.09%	$21	0.25%

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THE COST OF THE PROGRAM IS LOW WHEN COMPARED TO THE FEES IT REPLACES

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PROGRAM COST

+0.07%

INCLUDES TOTAL REWARDS AND INFRASTRUCTURE

CURRENT COST

+0.28%

DOMESTIC EQUITY

+0.35%

INVESTMENT GRADE FIXED INCOME

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MINIMAL REQUIREMENTS WHEN COMPARED TO THE BENEFITS[1,2,3]

5 INVESTMENT PROFESSIONALS[1]:
2 X SENIOR PORTFOLIO MANAGERS
3 X INVESTMENT ANALYSTS
2 X INVESTMENT OPS

+

TALENT MANAGEMENT:

- ADEQUATE CLASSIFICATION OF ROLES
- INCENTIVE COMPENSATION FUNDED ON A CONTINUING BASIS (Ex: OHIO, WISCONSIN, SOUTH DAKOTA, NORTH CAROLINA)

THE STRATEGY AND STRUCTURE WOULD EVOLVE WITH THE SIZE OF THE PROGRAM

1. The cost of staff is estimated to be approximately 10% of the total net cost savings.
2. Positive Client Fund feedback.
3. Supports greater control over investment strategies.

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ESTIMATED TOTAL COSTS FOR INVESTMENTS (INCLUDES CONTINUING APPROPRIATIONS)

	CURRENT		INTERNAL INVESTMENT		TOTAL	
$MILLIONS/BP[1]	$[2]	PER $AUM	$[3]	PER $AUM	$	PER $AUM[4]
SALARIES/BENEFITS	2.6	1.4	1.4	0.7	4	2.1
OPERATING COSTS	0.9	0.5	0.8	0.4	1.7	0.9
TOTAL	3.5	1.9 BP	2.2	1.2 BP	5.7	3.0 BP
NET SAVINGS					16	8.5 BP

1. ONE BASIS POINT (BP) = 0.01%
2. INCLUDE $750,000 OF CONTINUING APPROPRIATIONS
3. INCLUDE ESTIMATED $500,000 OF CONTINUING APPROPRIATIONS
4. THE 3 BP OF TOTAL COST COMPARES TO 60 BP OF FEES TO EXTERNAL MANAGERS

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SOME ADDITIONAL BENEFITS

- IMPROVED INVESTMENT CAPABILITIES VERSUS OUTSOURCING THOSE CAPABILITIES
- SCALABLE SAVINGS THAT GROW WITH THE ASSETS UNDER MANAGEMENT
- ADDITIONAL FLEXIBILITY AND AGILITY TO MARKET OR INTERNATIONAL EVENTS AS THE ASSETS ARE CONTROLLED LOCALLY
- ATTRACTION OF TOP TALENT WITH A REMOTE HYBRID WORKFORCE AND THE ABILITY TO MANAGE SOME ASSETS INTERNALLY
- ATTRACTION OF LOCAL TALENT FROM UNIVERSITIES USING INTERNSHIP PROGRAMS - BOOTSTRAPPING A MARKET FOR INVESTMENT TALENT IN NORTH DAKOTA

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EXAMPLE STATES WITH INTERNAL INVESTMENT MANAGEMENT AND INCENTIVE COMPENSATION

ARIZONA
FLORIDA
NEW MEXICO
NORTH CAROLINA
OHIO
SOUTH DAKOTA
TEXAS
VIRGINIA
WISCONSIN

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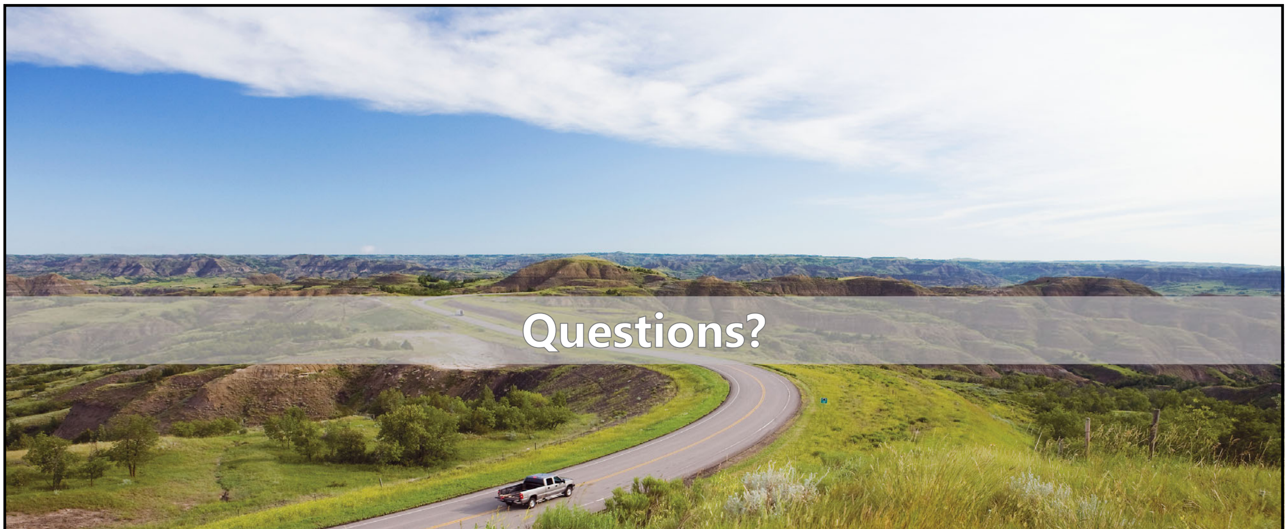

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Senate Bill 2258
North Dakota Retirement and Investment Office (RIO) on behalf of the Teachers' Fund for Retirement Board of Trustees
Neutral Testimony related to SB 2258 before the Senate Education Committee
Senator Jay Elkin, Chair
Senator Todd Beard, Vice Chair

Chad Roberts, MAc – Deputy Executive Director – Chief Retirement Officer

I. <u>Introduction</u>

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers' Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven-member board of trustees which consists of the State Treasurer, State Superintendent, two active teachers, two retired teachers and one school administrator all appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions (43%) and investment earnings (57%). During the past decade, active membership has increased 16.4% from 10,138 to over 11,800 participants, while retirees and beneficiaries have increased 26.0% from 7,489 to over 9,400.

Our 2022 actuarial valuation projects the TFFR plan to reach 100% fully funded status by 2044. The successful funding path is largely attributable to the statutory changes to the plan, including the creation of a tiered benefit structure and increase in contributions passed by the Legislature in 2011.[1]

II. <u>Neutral Testimony relating to SB 2258</u>

The TFFR Board of Trustees believes that defined benefit plans provide a valuable recruitment and retention tool for government entities when managed correctly and funded appropriately. TFFR employers are largely school districts which employ both TFFR and Public Employee Retirement System (PERS) members. The TFFR Board recognizes that public pension reform is a major topic under consideration by the 68th Legislative Assembly. In addition to numerous bills addressing the NDPERS plan, there are several bills currently under consideration in both the House and the Senate to modify and/or alter the TFFR plan. The pending bills affecting TFFR are this bill; S.B. 2258; as well as H.B. 1219, H.B. 1150, and H.B. 1271. Each of these bills address

[1] H.B. 1134, 62nd N.D. Legislative Assembly (2011-2013).

different aspects of the TFFR program. Of note and importance in the consideration of S.B. 2258 is that in each of these bills there is an attempt to address the critical shortage of teachers in North Dakota. However, with each of these bills also comes an impact to the TFFR program and the path to attain fully funded status.

Presently the plan provides two options for retired teachers desiring to return to the classroom. The options may generally be referred to as: 1) the Annual Hour Limit Option and 2) the Critical Shortage area option. Option #1 – the Annual Hour Limit Option, applies to any teacher who retires and and subsequently returns to teach after thirty (30) days and less than one year. Such a teacher may continue to receive their retirement benefit so long as they work under the annual hour limit. In the event they exceed the annual limit set forth in code, their retirement benefit will be suspended until such time as they re-retire. Under Option #2 – the Critical Shortage area option – a teacher must be retired and not return to teach for at least a year to qualify. If they do qualify then after a year, they may return to teach in a critical shortage area without any hour restriction and still receive their retirement benefit. The Education Standard Practices Board (ESPB) defines what areas constitute critical shortage areas every year. Currently ESPB defines all areas of instruction (except administration) as critical shortage areas. Under either option, the employer must contribute the employer portion to the TFFR plan, and the member the member portion. The teacher, upon re-retiring, is not entitled to a recalculation of their monthly benefit based upon additional service credit or the new salary for re-employment period, unless they return to teach full time under Option #1 – Annual Hour Limit, have their retirement benefit suspended, and continue to teach for at least two more years.

This bill, S.B. 2258, will affect the plan by: removing the waiting period of one (1) year prior to qualifying for Option #2 – Critical Shortage Area and returning to teach in a critical shortage area, as defined by ESPB. Upon returning to a critical shortage area, the teacher will continue to receive their monthly benefit in addition to the salary for the position filled. The teacher must contribute the employee portion of the salary to the TFFR Fund. The employer must also contribute the employer portion of the salary to the TFFR fund. Upon returning to retirement, the teacher is not entitled to a recalculation of benefits based on the new service credit time or salary earned.

There is a competing bill to S.B. 2258 in the House of Representatives, H.B. 1219. Under H.B. 1219, which is supported by the TFFR Board of Trustees, a retired teacher electing to return to teach after 30 days under Option #1 – Annual Hour limit, a teacher who exceeds the annual hour limit and has their retirement benefit suspended will get the benefit of all of their additional service upon re-retirement; ie a teacher will not have to work for an additional two years before having their retirement benefit recalculated, rather any additional service will be incorporated and result in an increased benefit upon re-retirement. For example, if a retiree averaging a $60,000/year salary for their last three years of service, and receiving a monthly benefit of $2,500.00, returns to teach for two years at a salary of $70,000.00 under the provision for recalculation in H.B. 1219, then upon re-retirement their monthly benefit may increase to $2,999.99 per month.

When considering the implications of S.B. 2258, it is important to consider the other bills pending this session that will impact the TFFR program. Below is a table summarizing the changes proposed to the TFFR program:

Bill Number	Proposed Changes to TFFR plan	Actuarial Impact of Proposed Changes
SB 2258	• Allows a teacher receiving retirement benefits to return to teaching in a critical shortage area with no waiting period after retirement. • Allows a teacher to continue receiving their monthly benefit payment while re-employed. • Requires teacher to contribute employee portion of earnings to TFFR plan. • Requires employer to contribute employer portion of earnings to TFFR plan. • Does not allow a recalculation of benefits for additional service credit or new salary.	• Increases actuarial determined contribution rate by 0.09% to 12.21% • Increases unfunded accrued actuarial liability by $9.2 million on AVA and FVA basis. • Increases remaining time until reaching fully funded status from 19.4 years to 19.6 years.
HB 1150	• Allows exemption for participation in TFFR plan for qualified teachers with 20+ years of military service. • Qualified teacher must choose to opt out of plan during first year and choice cannot be changed.	• Increased administration cost of $5,000 for biennium to track and administer exempted person. • Increases remaining time until reaching fully funded status by one week. • Reflects a change in public policy that allows for exemptions to participate in TFFR plan.
HB 1219	• Section 7 in the bill allows for a recalculation of benefits upon re-retirement under the Annual Hour Limit option. • Retired teacher must contribute the employee portion of the salary to the TFFR fund. • Employer must contribute employer portion of salary to the TFFR fund • Also contains technical corrections to clarify existing plan provisions.	• Increases remaining time until reaching fully funded status by one month. • Incentivizes retired teachers to return to the classroom and continue to work for an increased benefit.

HB 1271	• Allows retired teachers returning to teach to **opt out** of contributing to the TFFR plan, as a result of a teacher opting out employers also **do not** contribute to the plan on behalf of the teacher. •	• Significant negative impact to the TFFR plan; actuarial analsysi indicates that if HB 1271 were to pass then the TFFR plan would never achieve 100% fully funded status.

In addition to these public policy implications there is an actuarial and fiscal impact to the fund and its administration. Our actuaries estimate that the enactment of S.B. 2258 as it is written would result in adding $9.2 million to the unfunded liability of the plan and an additional 0.2 years until reaching fully funded status.

III. Summary

The TFFR Board recognizes the need to attract retired teachers back to the classroom to assist in mitigating vacancies in critical shortage areas. In H.B. 1219, a bill supported by the TFFR Board, the importance of providing an incentive to retired teachers was evidenced by the recommended changes in the program to allow a recalculation of monthly benefits to include additional service credit and the new salary for the reemployment period. If S.B. 2258 progresses through the legislative process, H.B. 1219 would need to be amended to remove the language changes in section 7 addressing this area. The TFFR Board has taken a neutral position on S.B. 2258.

Segal

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Via Email

January 21, 2023

Janilyn Murtha
Deputy Executive Director/Chief Retirement Officer
ND Retirement & Investment Office
3442 E. Century Avenue
Bismarck, ND 58507-7100

Re: Actuarial Impact Analysis of Senate Bill No. 2258

Dear Jan:

As requested, we prepared an actuarial impact analysis for the North Dakota Teachers' Fund for Retirement (TFFR or Fund), regarding the proposed modifications to current TFFR provisions under Senate Bill No. 2258 (SB 2258). Under current law, a retired teacher may return to active service in a critical shortage area without losing any benefits after receiving a retirement annuity for at least one year. This bill would allow to return to active employment in critical shortage areas and disciplines immediately (under certain conditions) without losing any benefit if a school district has an unfilled position in a critical shortage area.

The proposed bill requires the retired teachers to pay the member contributions under Section 15-39.1-09. These member contributions will be included in the retired member's account value and may not be refunded except as provided under Section 15-39.1-17. In addition, the period of service will not be considered an additional benefit accrual. Also, the participating employers are required to pay contributions on behalf of the rehired retirees.

Summary of Actuarial Impact

The actuarial cost associated with SB 2258 will depend on the retirement behavior and demographics of eligible active teachers who choose to retire earlier than expected in order to return to work with no suspension of retirement benefits while receiving a salary. Approximately 100 unfilled positions, on average, in critical shortage areas and disciplines exist each school year. The effect of SB 2258 is modeled by assuming active members eligible for unreduced retirement retire at higher rates to fill these open positions over a number of years. For purposes of this analysis, we assumed the number of expected retirements increases by approximately 100 in the first year, with a slight increase in additional retirements per year thereafter, assuming that the bulk of these positions remain filled going forward.

As of July 1, 2022, the estimated impact is shown in the table below.

	Valuation	SB 2258	Increase/ (Decrease)
Actuarially determined contribution rate	12.12%	12.21%	0.09%
Actuarial Accrued Liability (AAL)			
Retired participants and beneficiaries	$2,606.5	$2,606.5	$0.0
Inactive vested members	133.5	133.5	-
Active members	1,722.4	1,731.6	9.2
Inactive vested members due a refund of employee contributions	17.6	17.6	-
Total AAL	4,480.0	4,489.2	9.2
Total normal cost	98.8	98.9	0.1
Fair value of assets (FVA)	$3,023.9	$3,023.9	$0.0
Actuarial value of assets (AVA)	3,133.0	3,133.0	-
Unfunded AAL based on FVA	$1,456.1	$1,465.3	$9.2
Funded percentage on FVA basis	67.5%	67.4%	(0.1%)
Unfunded AAL based on AVA	$1,347.0	$1,356.2	$9.2
Funded percentage on AVA basis	69.9%	69.8%	(0.1%)
Effective amortization period on an AVA Basis	19.4	19.6	+0.2 years
Projected Annual Payroll for Fiscal Year Beginning July 1	$810.0	$810.0	$0.0

$ in Millions

Change in Plan Costs

If adopted, SB 2258 would slightly increase the active Actuarial Accrued Liability (AAL) by $9.2 million (an increase of 0.5% of active AAL). The funded percentage on an AVA basis would decrease by 0.1%. The Fund's Normal Cost increases, from $98.8 million to $98.9 million. Because the magnitude of the increase in liabilities is relatively minor, the proposed bill would not have a significant impact on TFFR's actuarial valuation.

The analysis of the proposed bill assumes that it will have no actuarial impact on deferred vested participants. That is because the actuarial valuation already assumes that 100% of deferred vested participants retire at their earliest available unreduced retirement age.

Data, Methods and Actuarial Assumptions

The ND Retirement & Investment Office provided information that there are approximately 100 unfilled positions, on average, in critical shortage areas and disciplines each school year.

To reflect the anticipated changes in retirement behavior, adjusted retirement rates were developed based on professional judgement. Rates of unreduced retirement for active members were adjusted uniformly in the first year after the valuation date to estimate the additional expected retirements (and subsequent return to active status) necessary to fill approximately 100 unfilled positions in critical shortage areas. In the second year and beyond, the rates of unreduced retirement were increased uniformly by a factor of 1.01 for all years to approximate additional expected retirements over time.

For purposes of this analysis, the impacts on plan liabilities and funding ratios are calculated using the actuarial assumptions and plan provisions described in the Actuarial Valuation Report and Review as of July 1, 2022, for TFFR, dated October 20, 2022, unless stated otherwise. The proposed legislation would not change the July 1, 2022, actuarial valuation results, and the impacts as of July 1, 2022, are used as a proxy for the effect on plan costs.

Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

Risk

This analysis uses one set of actuarial assumptions. Actual results will vary from the assumptions. The July 1, 2022, actuarial valuation report includes a discussion of various risks that apply to the Fund, and those risks also apply to this analysis.

Caveats and Certification

Use of this information is subject to the caveats and limitations of use described in the July 1, 2022, actuarial valuation report. This report has been prepared in response to a request from the North Dakota Retirement & Investment Office on behalf of the North Dakota Legislature.

The signing actuaries are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please let us know if you have any questions, comments, or concerns.

Sincerely,

Matthew A. Strom, FSA, MAAA, EA
Senior Vice President and Actuary

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Vice President and Actuary

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