

Senate Bill 2022
North Dakota Retirement and Investment Office (RIO)
Testimony before House Appropriations – Government Operations Division
Representative David Monson, Chair

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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. Organization of RIO

A. State Investment Board (SIB)

The State Investment Board is responsible for oversight of over \$19.2 billion of investments for 28 different client funds including TFFR and PERS within the over \$7.1 billion Pension Pool and WSI in the nearly \$3 billion Insurance Pool in addition to more than \$8.9 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.

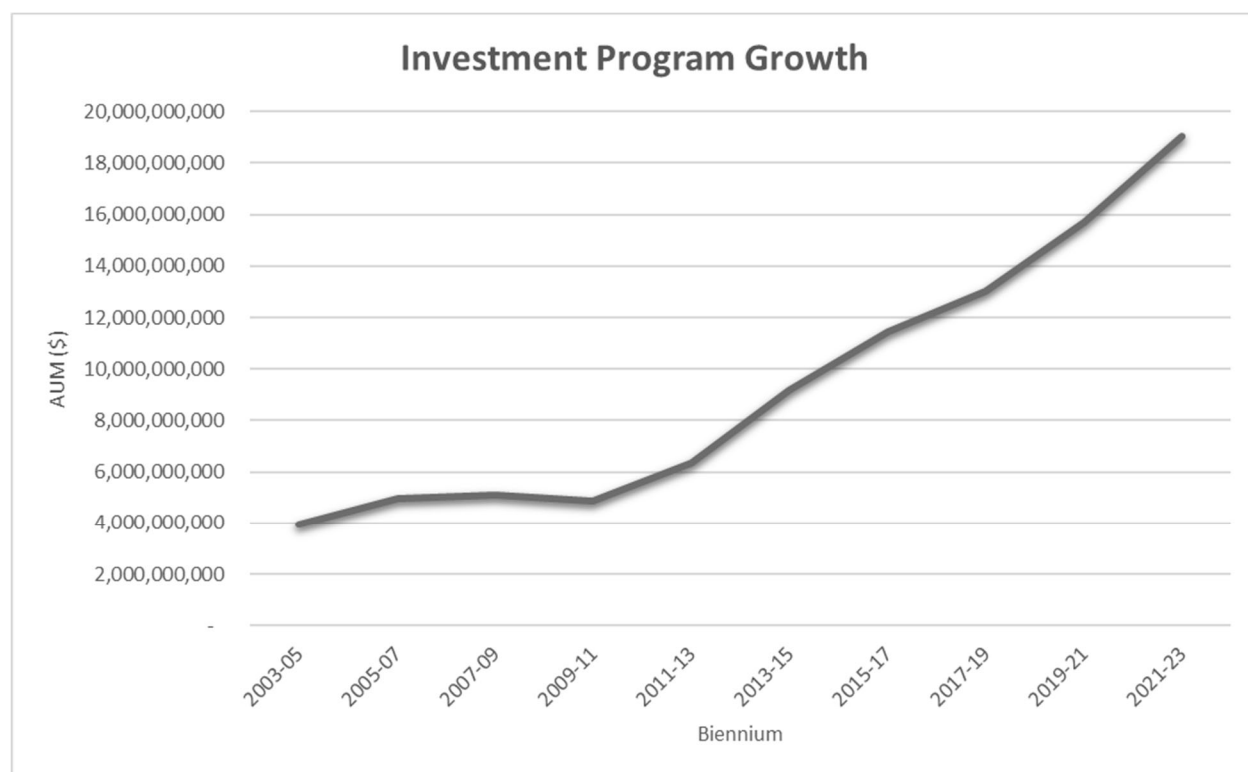
Investment guidelines and asset allocations are established by the governing bodies of the individual funds, with assistance from consultants and/or RIO

	Fair Value (as of 1/31/23)
PENSION POOL PARTICIPANTS	
Teachers' Fund for Retirement	\$3,054,871,192
Public Employees Retirement System	3,824,867,335
Bismarck City Employee Pension Fund	120,312,963
Bismarck City Police Pension Fund	49,560,526
City of Grand Forks Pension Fund	72,494,392
Grand Forks Park District Pension Fund	8,659,023
Subtotal Pension Pool Participants	\$7,130,765,431
INSURANCE POOL PARTICIPANTS	
Workforce Safety & Insurance Fund	\$2,062,833,767
State Fire and Tornado Fund	19,770,634
State Bonding Fund	3,659,254
Petroleum Tank Release Fund	5,999,227
Insurance Regulatory Trust Fund	1,215,001
State Risk Management Fund	3,705,092
State Risk Management Workers Comp	2,604,596
Cultural Endowment Fund	537,772
Budget Stabilization Fund	729,591,022
ND Assoc. of Counties (NDACo) Fund	7,091,568
City of Bismarck Deferred Sick Leave	774,217
PERS Group Insurance	58,537,398
State Board of Medicine	3,212,527
City of Fargo FargoDome Permanent Fund	41,552,979
Lewis & Clark Interpretive Center Endowment	830,396
Attorney General Settlement Fund	2,390,812
Veterans' Cemetery Trust Fund	443,257
ND University System Capital Building Fund	1,633,778
Arts Across the Prairie Maintenance Fund	1,027,341
Subtotal Insurance Pool Participants	\$2,947,410,637
INDIVIDUAL INVESTMENT ACCOUNTS	
Legacy Fund	8,920,407,820
Retiree Health Insurance Credit Fund	161,487,115
Job Service of North Dakota Pension Fund	85,271,626
TOTAL	\$19,245,342,628

(Amounts are unaudited)

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

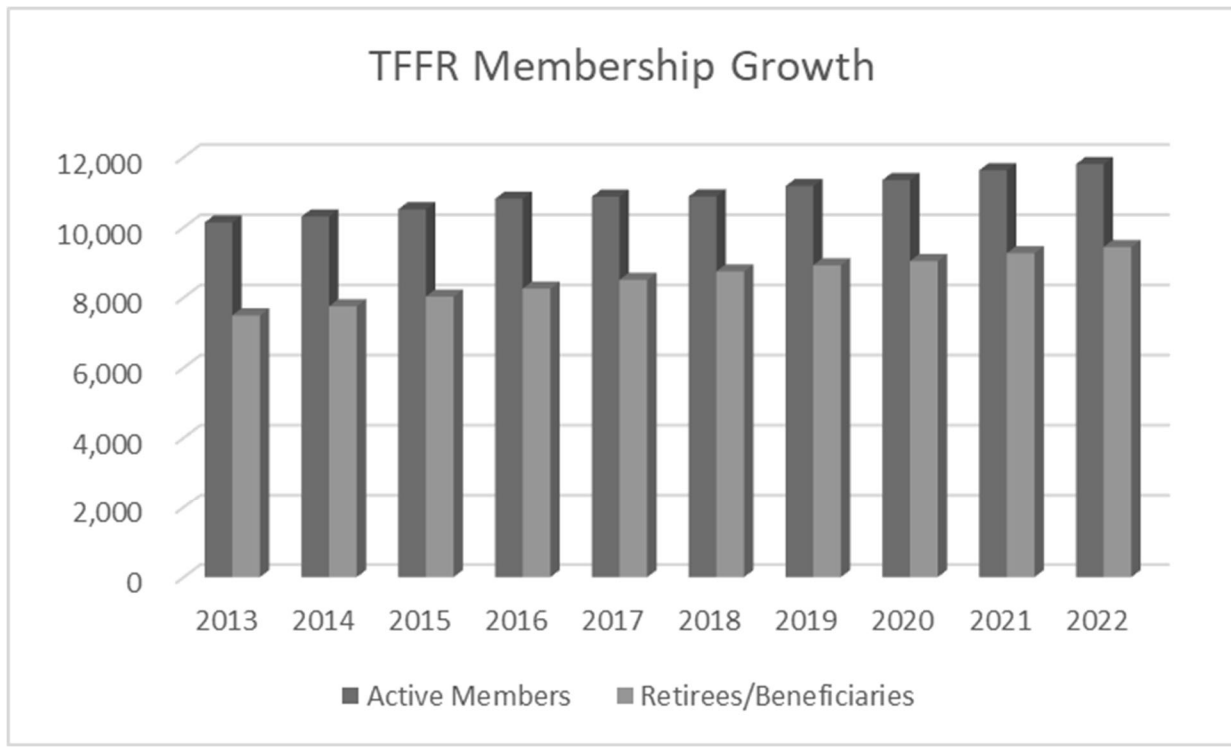
Over the past two decades, the average assets under management (AUM) of the investment program have nearly quadrupled in size. Amounts have grown from an average of roughly \$4 billion during the 2003-2005 biennium to an average of over \$19 billion during the current 2021-2023 biennium.



B. Teachers' Fund For Retirement (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 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.

C. 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.

III. Audit Findings

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

IV. 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.

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.

V. Comparison between base budget and Senate approved budget

Line Item Description	2021-23 Base Budget	Senate Changes	2023-25 Total Senate Budget
Salaries and Wages	\$ 6,785,839	\$ 3,764,387	\$ 10,550,226
Operating Expenses	1,323,528	1,546,409	2,869,937
Contingencies	100,000	100,000	200,000
Total Special Funds	\$ 8,209,367	\$ 5,410,796	\$ 13,620,163
		-	-
FTE	25.0	9.0	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 Senate approved budget 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 funding for 7 FTE related to our strategic internal investment request package to make up the total 34 FTE.

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.

VI. 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 paid for with 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. An increase in contingency fund appropriation is included in the Senate approved budget for 2023-25 as part of one of our decision package requests.

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 January 31, 2023

	BIENNIUM TO - DATE INVESTMENT	BIENNIUM TO - DATE RETIREMENT	BIENNIUM TO - DATE TOTAL
<u>BUDGETED EXPENDITURES</u>			
1. SALARIES & BENEFITS			
SALARIES	1,811,174	1,191,764	3,002,938
OVERTIME/TEMPORARY	38,676	78,738	117,414
TERMINATION SALARY & BENEFITS	4,401	3,687	8,089
FRINGE BENEFITS	551,782	454,941	1,006,723
TOTAL SALARY & BENEFITS	2,406,034	1,729,129	4,135,163
2. OPERATING EXPENDITURES			
TRAVEL	28,176	24,679	52,855
IT - SOFTWARE/SUPPLIES	103	82	185
PROFESSIONAL SUPPLIES & MATERIALS	641	1,680	2,321
MISCELLANEOUS SUPPLIES	1,178	594	1,771
OFFICE SUPPLIES	892	1,408	2,300
POSTAGE SERVICES	4,074	33,619	37,693
PRINTING	500	11,307	11,806
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	73,594	89,691	163,284
REPAIR SERVICE	438	446	884
IT DATA PROCESSING	112,659	407,334	519,993
IT COMMUNICATIONS	7,742	7,770	15,512
IT - CONTRACTUAL SERVICES	3,141	217,238	220,379
DUES & PROF. DEVELOPMENT	7,972	21,036	29,007
OPERATING FEES & SERVICES	23,178	19,342	42,520
PROFESSIONAL SERVICES	1,840	359,537	361,377
TOTAL OPERATING EXPENDITURES	268,305	1,198,329	1,466,635
3. CAPITAL ASSETS	0	1,456,202	1,456,202
4. CONTINGENCY	85,832	0	85,832
TOTAL BUDGETED EXPENDITURES	2,760,171	4,383,660	7,143,831

2023-2025 Budget Request:

Line Item Description	Base Budget	Agency Requested Adjustments	Cost to Continue/ Legislative Pay Package	Adjusted Base	Workforce Initiative #1	Pioneer Project #2	Internal Investment #3	Total Agency Request
Salaries and Wages	\$ 6,785,839	143,721	1,151,179	\$ 8,080,739	578,491	486,000	1,404,996	\$ 10,550,226
Operating Expenses	1,323,528	(43,721)	6,721	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	-	1,157,900	\$ 9,367,267	978,741	1,602,319	1,671,836	\$ 13,620,163
				-				-
FTE	25.0	-	-	25.0	2.0	-	7.0	34.0

Request package #1 - Workforce Initiative

As an addition to our base budget, the Senate included specific funding for 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 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 is 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 the Senate included 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, the Senate included 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 appropriation increase for this package is \$978,741.

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

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 internship program, and additional board member pay)

Request package #2 - Pioneer Project

The second of our additional funding packages is 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 an 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 appropriation increase for this package is \$1,602,319.

	Total Agency			
	Salaries & Benefits	Operating Expenses	Contingency	Total Special Funds
#2: Pension System Continuation				
Temp Increases & Temp Salaries	270,000	-	-	270,000
Overtime for Pension Staff	216,000	-	-	216,000
Postage for educational mailers	-	5,000	-	5,000
Printing for educational mailers	-	1,900	-	1,900
Increased NDIT charges for unified staff	-	132,000	-	132,000
Increased hosting and support fees	-	937,419	-	937,419
New contract to track membership	-	40,000	-	40,000
NOTES:	486,000	1,116,319	-	1,602,319
- 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.

The total appropriation increase for this package is \$1,671,836.

#3: Internal Investment Plan	Total Agency			
	Salaries & Benefits	Operating Expenses	Contingency	Total Special Funds
Item Description				
7 new FTE (5 investment/1 fiscal/1 admin) (1/2 biennium)	1,173,326	-	-	1,173,326
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
Prof Development	-	3,000	-	3,000
Pay Study	-	50,000	-	50,000
NOTES:	1,404,996	266,840	-	1,671,836
- 5 Investment positions (2 Sr. Portfolio Mgrs/2 Inv. Analysts/1 Inv. Funds Mgr)				
- 1 Admin to assist investment professionals				
- 1 Investment accountant				
- Operating costs to support additional team members				

VII. 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 JANUARY 31, 2023						
	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	486,947	784,046	1,090,954
CAPITAL ASSETS	6,300,000	0	6,300,000	1,456,202	1,456,202	4,843,799
TOTAL PAS PROJECT BUDGET	9,000,000	331,125	8,668,875	2,021,606	2,352,731	6,647,269

VIII. 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. This authorization is currently included as section 6 of this bill as approved by the Senate.

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.

IX. Agency collections deposited in general or special fund

Not applicable to RIO.

X. 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 have our investment-related positions excluded from the state's classified system. This would require an amendment to NDCC 54-44.3-20. This amendment has been included as section 3 of this bill as approved by the Senate.

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. Statutory language required to implement such plan has been included as sections 4 and 5 of the bill as approved by the Senate.

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. This language has been included as section 6 of the Senate approved version of this bill.

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

RIO reviews all submitted bills to monitor for potential impact on the agency. 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 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 1278 – Relating to contracts and ESG monitoring requirements
- HB 1368 – Prohibiting Investment and Contracts with Companies that Boycott Israel
- HB 1379 – Legacy Fund Earnings Streams
- 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 vary. 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. We will continue to monitor these and numerous other bills to determine if any additional budget action would be necessary.

XII. One-page itemized listing of changes we’re requesting to the Senate approved budget

None being requested.

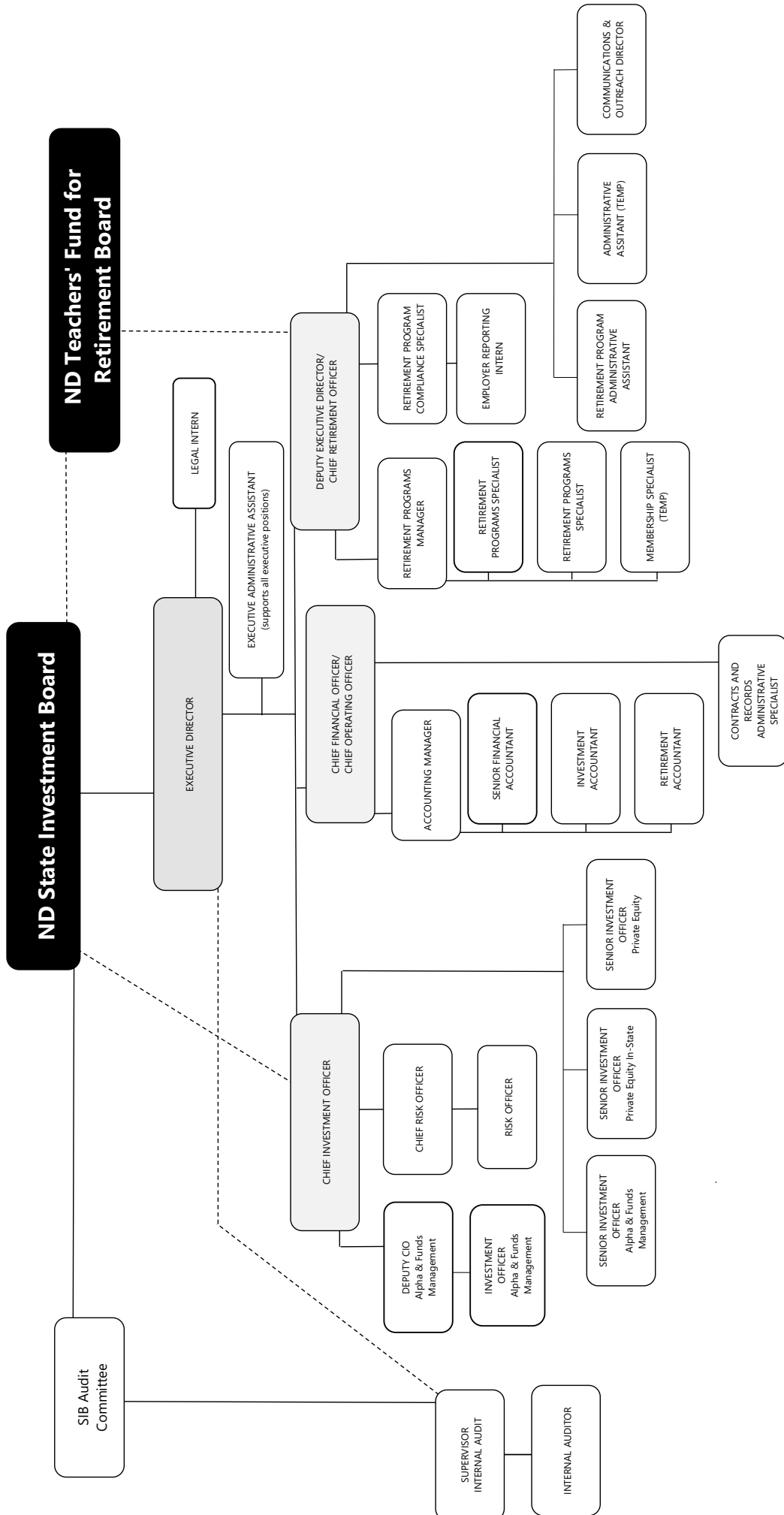
XIII. Federal State Fiscal Recovery Funding

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

XIV. 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



2023-2025 Legislative Session RIO Bill Tracker

Bill #	Topic	Description	Sponsor	Hearing Date	Committee	Status
HB 1040	Closing DB Plan	Closing DB Plan (eff. 12/31/24)	Legislative Management: Weisz, Bosch, Boschee, Lefor, Mitskog, Vigasaa, Burckhard, Klein, Piepkorn, Schaible, Wanzek	3/9 - 10:30am	Senate State & Local	Passed House 2/22 77 years / 16 nays
HB 1088	SIB	SIB Membership changes	SIB	3/6 - 2:15pm	Senate I&B	Amended by House.Reduced experts to 1 from 2, changed experience language; Legacy Advisory Board would be a voting member; and two legislative members. Passed House 1/25 80 years/ 11 nays. 2/8
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	3/9 - 9am	Senate State & Local	Passed House 1/19 54 years/ 37 nays- 2/13 Referred to Senate State & Local
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	3/9 - 10am	Senate State & Local	2/22 Passed House 84 years 7 nays
HB 1216	ND Development Fund	Commerce Dept. funds to promote economic development.	Rep, Nathe	3/7 -10:30am	Senate I&B	Passed House 1/25 91 years 0 nays. 2/13 Referred to Senate I&B
HB 1219	TFFR	TFFR Changes	Reps. Kempenich, Conmy, Kreidt Sen. Schaible	3/9 - 9:30am	Senate State & Local	Passed House 2/7 94 years/0 nays. 2/13 Referred to Senate State&Local
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, Vigasaa Sens. Klein, Meyer, Patten	3/7 - 10:45am	Senate I&B	Passed House 1/20 89 years/ 0 nays. 2/13 Referred to Senate I&B
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		Senate I&B	Passed House 2/20 92 years / 1 nays. Amended to support investment program.
HB 1285	Agency	Prohibiting executive branch agency bill submissions without legislator or legislative committee sponsor.	Reps. Toman, Christensen, Heilman, Henderson, Prichard		Senate State & Local	Passed House 2/21 80 years / 14 nays

<u>HB 1309</u>	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	3/9 - 2pm	Senate State & Local	Passed House 2/21. 87 yeas, 7 nays.
<u>HB 1321</u>	PERS Board	Changing PERS Board makeup	Reps. Kasper, Dockter, Lefor, Louser, D. Ruby, M. Ruby, Steiner, Vigasaa, Weisz Sen. Hogue		Senate I&B	Passed House 2/21 79 yeas / 15 nays
<u>HB 1345</u>	Procurement	State may give priority to companies that support state's ag & energy industries when procuring contracts.	Reps. Satrom, Grueneich, Hagert, Headland, Kiefert, Ostlie, Steiner Sen. Conley, Erbele, Lemm, Wanzek		Senate Ag & Veterans Affairs	Passed House 2/20 85 yeas / 8 nays
<u>HB 1368</u>	Investments	Prohibiting investments and contracts with companies that boycott Israel.	Reps. K. Anderson, Bellew, M. Ruby, Strinden, Timmons, Tveit Sens. Clemens, Kannianen, Myrdal		Senate I&B	Passed House 2/20 86 yeas / 7 nays
<u>HB 1379</u>	Legacy Earnings Streams	Modifies Legacy Fund Earnings streams	Reps. Lefor, Bosch, Dockter, Headland, Nathe, Novak, O'Brien Sens. Bekkedahl, Hogue, Rummel, Sorvaag		Senate Approps	Passed House 2/22 77 yeas / 16 nays
<u>HB 1429</u>	SIB	ESG Boycott/ Contract Restrictions/SIB list	Reps. Novak, Koppelman, Louser, J. Olson, S. Olson, M. Ruby, Thomas, Sen. Elkin, Magrum, Rummel		Senate I&B	Passed House 93 yeas / 0 nays
<u>SB 2015</u>	Budget bill	OMB Budget Bill	Senate Appropriations	3/7 - 8:30am & 2:15pm	House Approps	Passed Senate 2/21 40 yeas / 6 nays
<u>SB 2022</u>	Budget bill	RIO's Budget	Senate Appropriations	3/9 - 2:15pm	House-Approps	Passed Senate 2/20 45 yeas / 2 nays
<u>SB 2070</u>	Teacher Permitting	Extends the length of time non-certified teachers can be permitted	Senate State and Local Govt - Roers, Barta, Braunberger, Cleary, Estenson, Lee	3/1 - 2pm	House Education	Amended. Passed Senate 1/26 47 yeas/ 0 nays
<u>SB 2164</u>	PERS Board	Changing how legislative members of PERS Board are appointed	Sen. Dever Reps. Brandenburg, Hatlestad, D. Johnson, Monson, Schauer	3/3 - 9am	House GVA	Passed Senate 1/30 47 yeas / 0 nays
<u>SB 2165</u>	Energy Commission	Funds to clean sustainable engery fund/ BND	Sen. Patten, Rep. Bosch, Sen. Kannianen, Sen. Kessel, Rep. Novak, Rep. Porter	3/10 - 9am	House Energy & Natural Resources	Passed Senate 2/21 40 yeas / 6 nays
<u>SB 2196</u>	Infrastructure Revolving Loan Fund	Resets terms of the infrastructure revolving loan fund.	Sen. Patten, Sen. Beard, Sen. Bekkedahl, Sen. Kannianen, Rep. Olson, Rep. Richter	3/3 at 9am	House Energy & Natural Resources	Passed Senate 1/23 47 yeas/ 0 nays
<u>SB 2233</u>	BND	Auditing practices of certain funds under management of BND	Sen. Klein, Sen. Bekkedahl, Sen. Hogue, Rep. Lefor, Rep. Vigasaa		House IBL	Passed Senate 1/24 46 yeas/ 0 nays
<u>SB 2239</u>	PERS Plan	Changing PERS contribution rates and appropriating \$250M to the fund	Sens. Cleary, Dever Rep. Boschee	3/10 - 9am	House GVA	Passed Senate 2/21 34 yeas / 13 nays

<u>SB 2258</u>	TFFR	Expands scope of Critical Shortage area qualification for rehired retirees	Sens. Paulson, Beard Reps. Heilman, Hoverson, Louser	3/6 - 3pm	House Education	Passed Senate 2/1 47 yeas 0 nays
<u>SB 2330</u>	Legacy Fund	Legacy earnings definition and change in Legacy Fund IPS percentages.	Sens. Klein, Hogan, Meyer Reps. Bosch, Kreidt		House Finance & Taxation	Passed Senate 2/15 43 yeas / 3 nays

HB 1425	<ul style="list-style-type: none"> ▪ The Legacy Fund in-state investment program and in-state investment manager preference is part of code. ▪ Requires up to 20% of Legacy Fund be directed toward in-state investments. ▪ 10% Fixed Income + 10% Equity ▪ BND is in-state fixed income manager with \$191 million in capital committed. ▪ 50 South is in-state equity manager with \$100 million in capital committed. ▪ With almost \$300 million committed North Dakota has one of the largest in-state investment programs in the nation. ▪ The Legacy & Budget Stabilization Fund Advisory Board continues its work to improve the Legacy Fund asset allocation implementation. ▪ RIO continues its outreach to coordinate opportunities with in-state financial institutions.
HB 1380	<ul style="list-style-type: none"> ▪ Created Legacy Earnings Fund ▪ Created a percent of market value (POMV) spending rule without amending definition of earnings. ▪ POMV of 7% for current biennium is \$486 million. ▪ Earnings includes realized gains and losses. The amount of earnings available for transfer will be in flux through May 2023.
SB 2291	<ul style="list-style-type: none"> ▪ Prohibits social investing i.e.: investment or divestment of funds for purposes other than the <i>exclusive benefit</i> of the beneficiaries of a fund. ▪ SIB client funds are managed by external managers. ▪ RIO staff meets with each manager biennially and confirms: ▪ Funds are managed for the <i>exclusive benefit</i> of client funds by maximizing total return for a prudent level of risk as set by a defined benchmark. ▪ Managers are instructed to vote proxies to maintain or improve shareholder value for the <i>exclusive benefit</i> of client fund.

WHAT WE'RE PROUD OF

**Agency
Accomplishment**
30+ Years of Unmodified
Audit Opinions.

Agency Accomplishment
Investment Program more
than Quadrupled since
2010.
High of nearly \$20 Billion in
Fiscal Year 2022 prior to
transfer of Legacy earnings.

Agency Accomplishment
TFFR Plan projected to
achieve 100% Funded
Status by 2044.

WHAT WE DO

State Investment Program – SIB
The SIB ensures rigorous attention to all
aspects of the investment program by
following an established investment
process that includes investment policy
development/modification, and
implementation/monitoring, and
evaluation.



Teachers' Fund for Retirement-

The TFFR Program provides ND educators
with a financial foundation for the future
that includes a secure and stable
retirement.



HOW WE MEASURE SUCCESS

Client &
Member
Satisfaction
Surveys

Excess Returns
Net of Fees

Attendance at
Outreach
Activities

Awards &
Recognition for
Transparency &
Excellence in
Administration
and Financial
Reporting

RETIREMENT AND INVESTMENT OFFICE WORKFORCE

The North Dakota Retirement and Investment Office engages in highly skilled financial management, investment, and pension administration functions that require candidate expertise uniquely different than most any other state agency. Our workforce has highly translatable skillsets to private industries expanding our competitive field for staff.

WHAT HAPPENS IF WE CAN'T DO OUR JOB...

Financial Stability

RIO serves all citizens of ND through the various financial and investment programs managed. Workforce challenges create risk to stable fiscal management and financial security.



Impact on Education

Providing a financially secure retirement for ND educators is a key piece to recruitment and retention for school systems. Staffing shortages in the TFFR program can impact the ND education system.



Risk to Investments

Staff shortages and vacancies at RIO directly impact the agility and responsiveness of the agency to the volatility of the economy and markets. This can lead to a financial impact on all of North Dakota



CURRENT AGENCY TEAM MEMBER STATS

22

Full-time team members

3

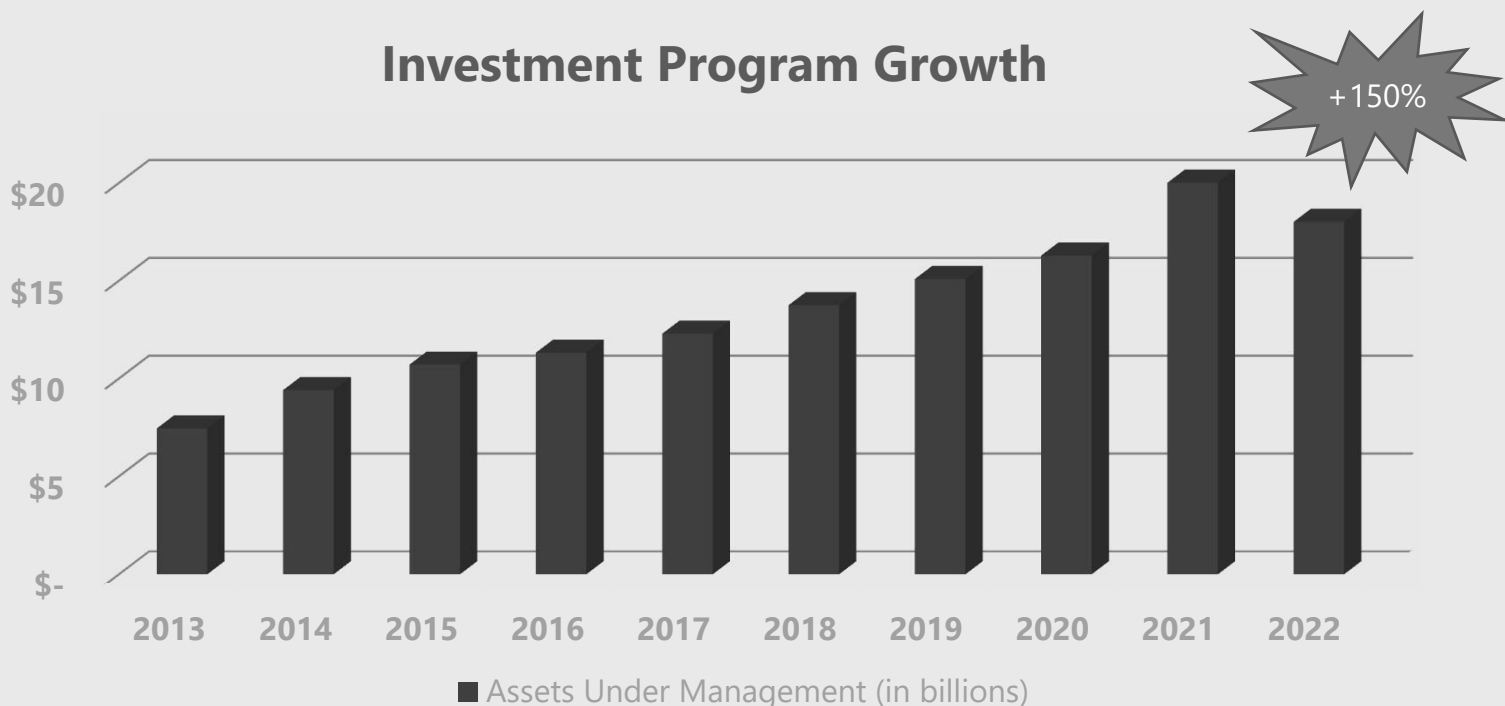
Number of vacancies

8.3

average years of service

WORKLOAD INCREASE – LAST 10 YEARS

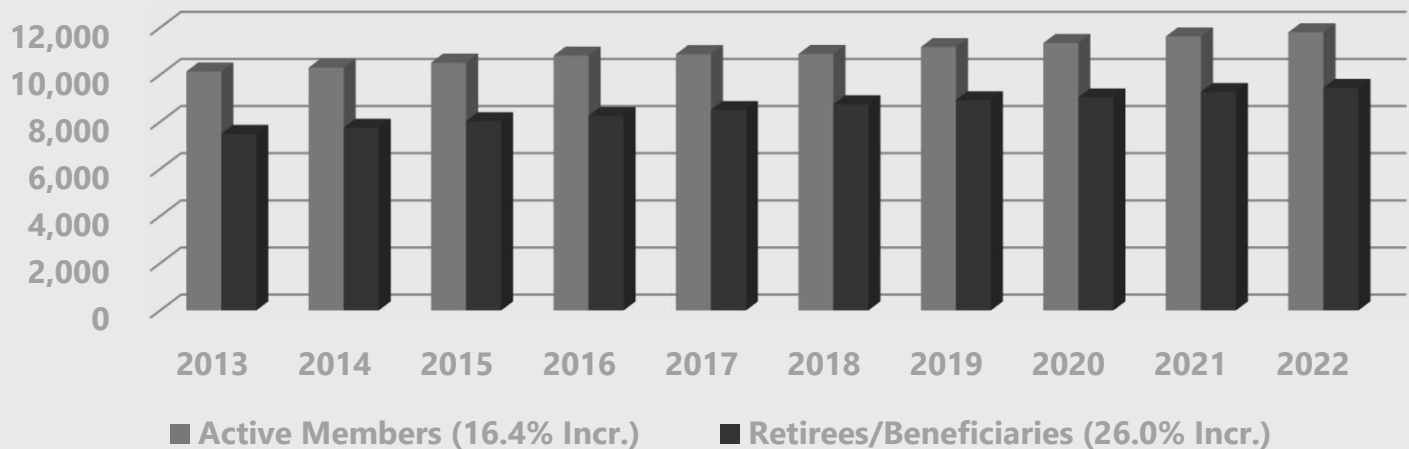
Investment Program Growth



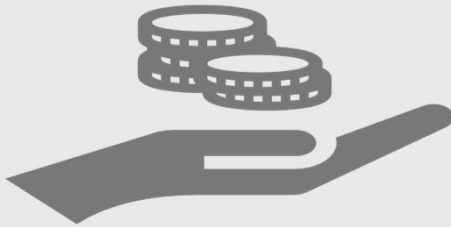
RETIREMENT AND INVESTMENT OFFICE WORKFORCE

WORKLOAD INCREASE – LAST 10 YEARS (CONT'D)

TFFR Membership Growth



COST OF TURNOVER



The services provided by RIO in the areas of investment and pension administration are highly skilled and nuanced. Recruitments often take several stages of interviews to assess the skills, knowledge, and abilities of candidates. This leads to prolonged vacancy times in open positions. After a hire is made, due to the complexity of the operations involved in the business model, the onboarding and training process also involves a significant investment of time from both the new hire and existing staff.

WORKFORCE COMPETITION



Fiscal Management Competition

The RIO Fiscal Management division is in competition with both the public accounting sector and government accounting sector. Critical shortages exist in the accounting field nationwide.



Admin Support Competition

As a translatable skillset, administrative support is in high demand across all sectors. RIO competes with not only other government agencies but all aspects of the private sector for these positions.



TFFR Competition

The management of the TFFR program requires a skillset in pension administration, a unique field with limited candidate pools. Direct competition is both the public and private pension sector with increasing compensation packages.



Investment Competition

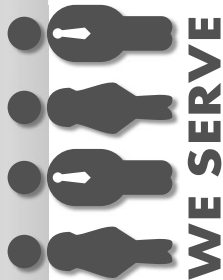
Private sector employers provide higher compensations for investment roles and are direct competitors for the RIO Investment program. Performance bonuses and other perks are commonly offered in the private and public sectors.

INDUSTRY OUTLOOK: For Fiscal Management, the struggle to recruit qualified individuals is increasing as the number of accounting professionals is decreasing nationwide. According to *The CPA Journal* in an article published in November of 2022, the number of college graduates in accounting has decreased by 4% while many public firms are seeing up to 75% of accountants retire in the same timeframe. If afforded the ability to offer more competitive compensation packages, the Investment Program is likely to recruit highly qualified candidates as large layoffs have been announced as recently as January 5th, 2023, in the private sector from firms such as Goldman Sachs and a government position could offer a sense of security for professionals in the field.

ND TFFR Fast Facts

FY End 6/30/2021

The ND Teachers' Fund for Retirement plan (ND TFFR) 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.



WE SERVE

MEMBERS

11,627 ACTIVE MEMBERS
9,262 RETIRED MEMBERS
210 EMPLOYERS

Member Stats	Actives	Retirees
Avg. Annual Salary/Benefit	\$64,455	\$26,064
Avg. Service Credit	11.4 yrs	27.2 yrs
Avg. Current Age	41.4 yrs	72.8 yrs

MEMBER/EMPLOYER SATISFACTION: 3.9 (4.0 Scale)

84%

of benefits are paid to ND residents.

\$235 million
 was distributed to retirees in FY 2021.

Net Asset Value of TFFR \$3.28 billion

ASSET ALLOCATION



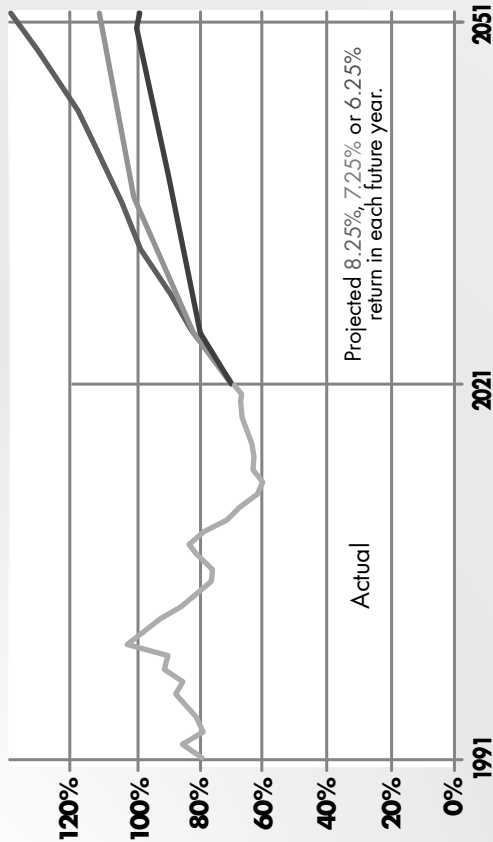
Investment Returns

(net of fees)

1 year 26.54%
5 year 11.22%
30 year 8.10%

69% of BENEFITS are PREFUNDED

TFFR Funded Ratio



TFFR's long-term funding outlook is positive, and benefits are secure for past, present, and future ND educators.

ND TFFR PLAN SUMMARY

Tier 1 is a member who had service credit in the TFFR plan prior to 7/1/08.

- Tier 1 Grandfathered member was less than 10 years away from retirement eligibility as of 6/30/13. Grandfathered member was vested, and either age 55 or had a combined total of service credit and age equal to or greater than 65 on 6/30/13.
- Tier 1 Non-Grandfathered member was more than 10 years away from retirement eligibility as of 6/30/13. Non-grandfathered member was less than age 55 and had a combined total of service credit and age which was less than 65 on 6/30/13.

Tier 2 is a member who began participation in the TFFR plan on 7/1/08 or after.

* Contribution rates are in effect until TFFR reaches 100% funded level, then rates reduce to 7.75% each.

Employee Contribution Rates (active and re-employed retirees)			
Tier 1 Grandfathered Member	Tier 1 Non-Grandfathered Member	Tier 2 Member	
7/1/10 - 6/30/12	7.75%	7.75%	7.75%
7/1/12 - 6/30/14	9.75%	9.75%	9.75%
*7/1/14 ongoing	11.75%	11.75%	11.75%
Employer Contribution Rates			
7/1/10 - 6/30/12	8.75%	8.75%	8.75%
7/1/12 - 6/30/14	10.75%	10.75%	10.75%
*7/1/14 ongoing	12.75%	12.75%	12.75%
Vesting Period			
	3 yrs	3 yrs	5 yrs
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
AND Rule	Rule 85	Rule 90	Rule 90
OR Normal Retirement Age	65	65	65
Reduced Retirement Eligibility			
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%
Retirement Formula Multiplier			
X Final Average Salary	3 yr FAS	3 yr FAS	5 yr FAS
X Service Credit	Total years	Total years	Total years
Disability Retirement			
	Yes	Yes	Yes
Retirement Formula Multiplier (2%) X Final Average Salary (FAS) X Total Service Credit			
Death/Survivor Benefits			
	Yes	Yes	Yes
Refund of account value or Life Annuity to survivor based on member's vesting status.			



Senate Bill 2022 House Appropriations Government Operations Division Representative Monson, Chair

March 9th, 2023

Jan Murtha, JD, MPAP – Executive Director

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

Scott M Anderson, CFA, MBA – Chief Investment Officer

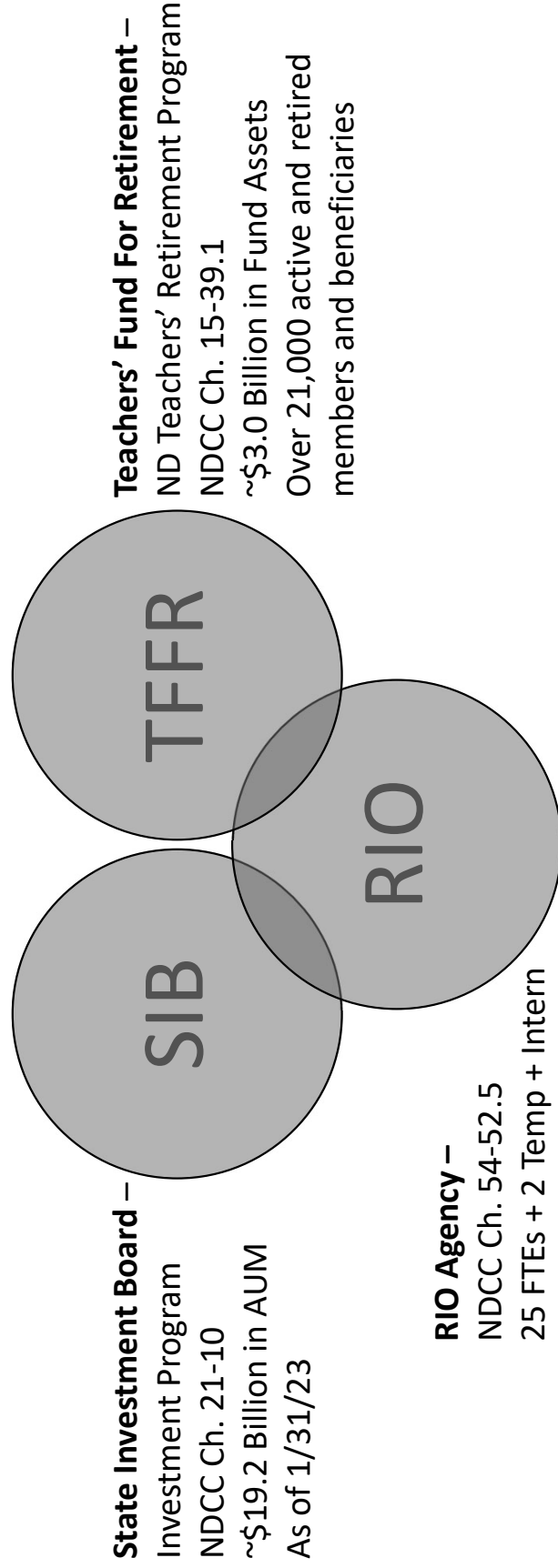
Ryan Skor, CPA, MBA – Chief Financial Officer/Chief Operating Officer

NORTH
Dakota
Be Legendary.

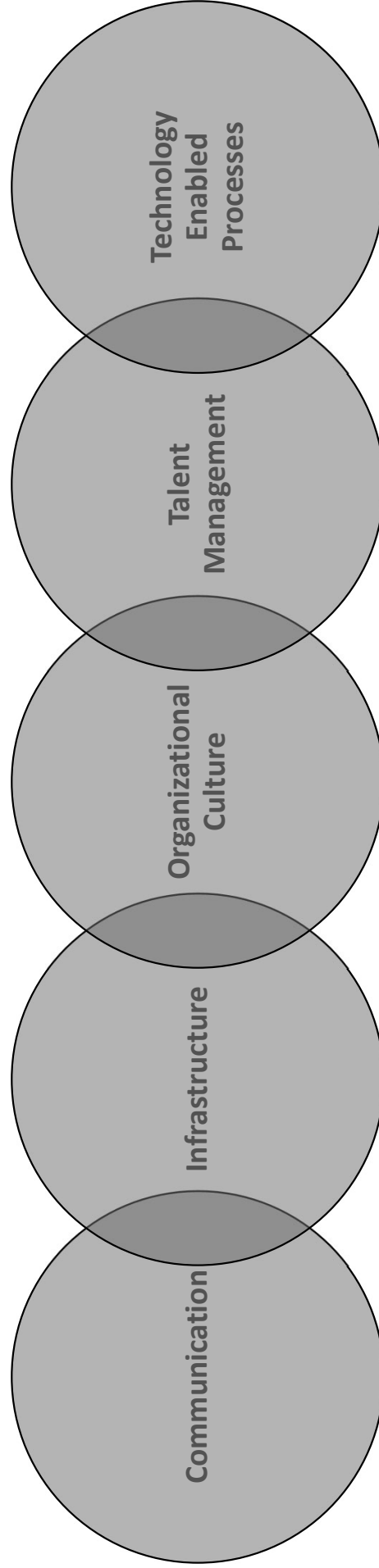
Retirement & Investment

NORTH DAKOTA RETIREMENT AND INVESTMENT SUPPORTS TWO SPECIAL FUND PROGRAMS

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.



RETIREMENT AND INVESTMENT'S CORE PRIORITIES



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

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*.
- Spring of 2023: 25 FTE's (24 filled) + 2 Temp + 1 Intern.

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

- Winston Churchill

Courtesy of www.brainyquote.com

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 Q¹² 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

4 shown if n < 4 for Mean, Top Box, Verbalism 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.

Percentile Rank in Gallup Overall Database

■ < 25th Percentile

■ 25-49th Percentile

■ 50-74th Percentile

■ 75-89th Percentile

■ >= 90th Percentile

GALLUP

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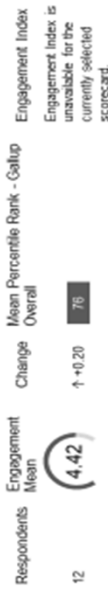
WE CHOOSE TO LISTEN

- 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

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.

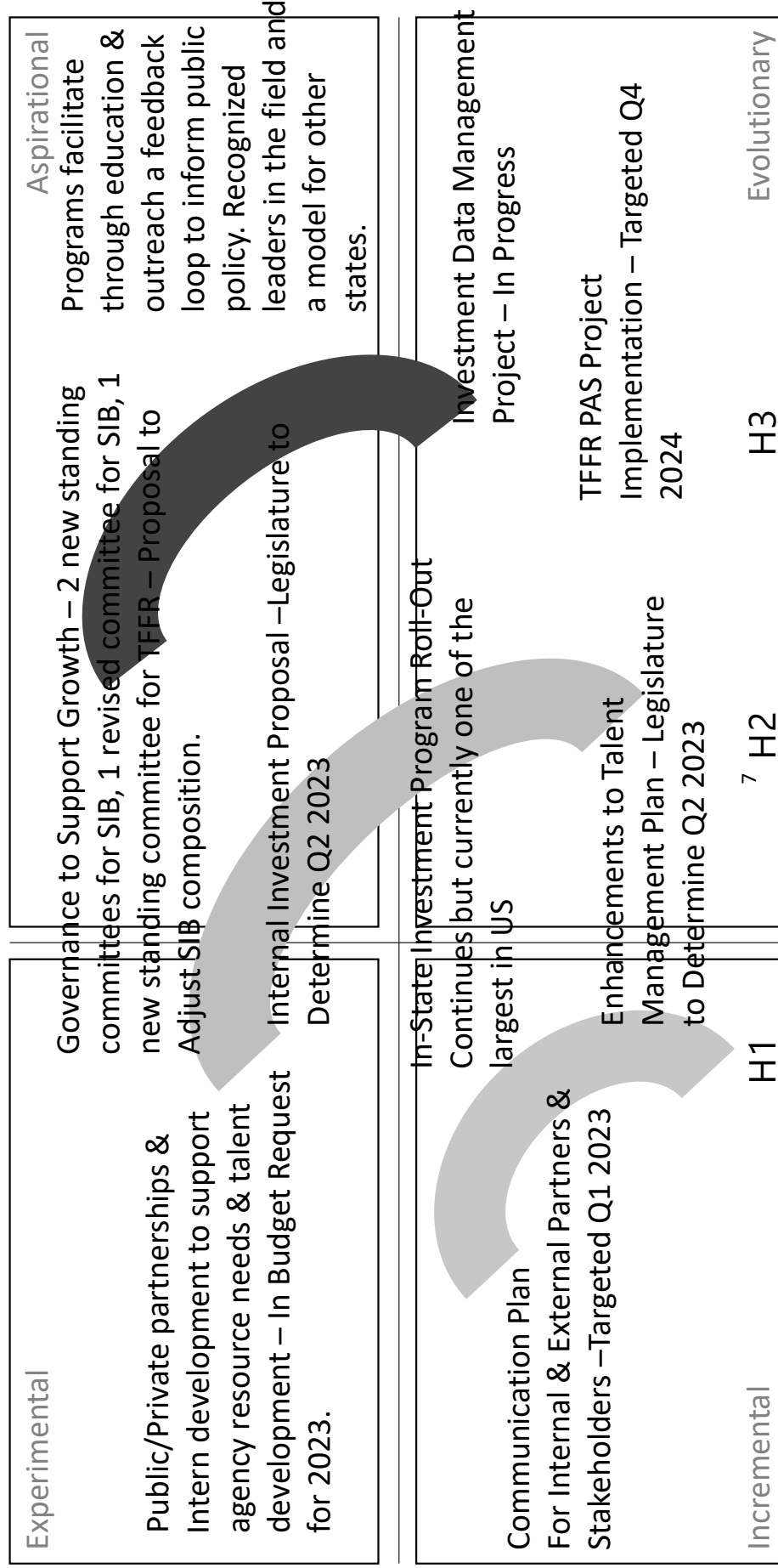


	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q00: On a five-point scale, where 5 means extremely satisfied and 1 means extremely dissatisfied, how satisfied are you with your agency as a place to work?	12	4.17	4.00	0.17	63	3.72
Q01: I know 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: My supervisor (or peer) has recognized my contribution to the success of the agency.	12	4.42	4.17	↑ +0.25	80	3.37
Q05: My supervisor (or peer) 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	3.98
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

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GALLUP 2

STRATEGIC – HORIZON BASED TRANSFORMATION



- 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 over \$19.2 Billion in Assets Under Management (AUM)
 - 28 client funds
 - 43 fund managers

Fund/Pool	AUM (1/31/23)
Pension Pool	\$7.13B
Insurance Pool	\$2.95B
Legacy Fund	\$8.92B
Other Funds	\$0.25B

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
- ~\$3.05B Fund balance
- On-track to be 100% fully funded by 2044
- New Pension Administration System in development (est. Q4 2024)



BUDGET REQUEST SUMMARY

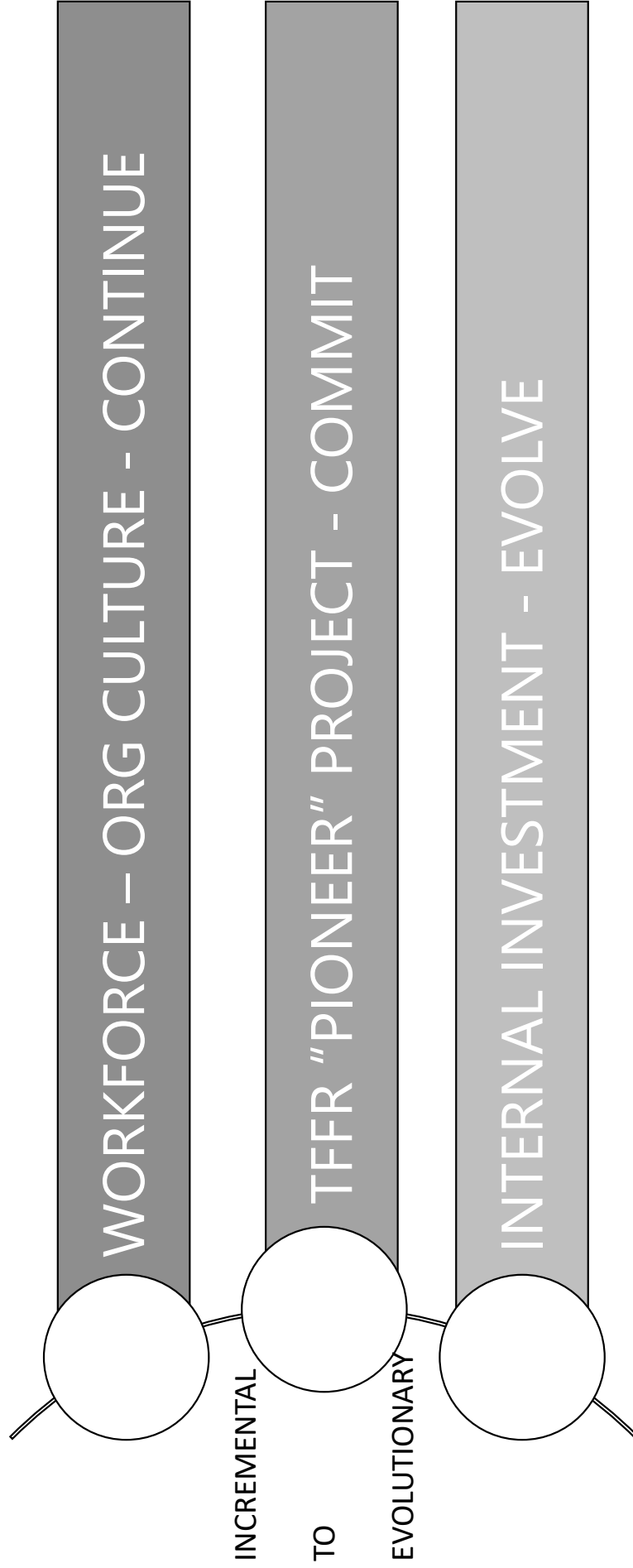
Line Item	Base Level	Agency Requested Adjustments	Cost to Continue/ Leg. Pay	Adjusted Base	Workforce Initiative	Pension System Upgrade	Internal Investment*	Total Request
Salaries & Benefits	\$6,785,839	143,721	1,151,179	8,080,739	578,491	486,000	1,404,996	\$10,550,226
Operating Expenses	1,323,528	(43,721)	6,721	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	-	1,157,900	9,367,267	978,741	1,602,319	1,671,836	13,620,163
FTEs	25.0	-	-	25.0	2.0	-	7.0	34.0

* Amounts represent only 2nd year of biennium.

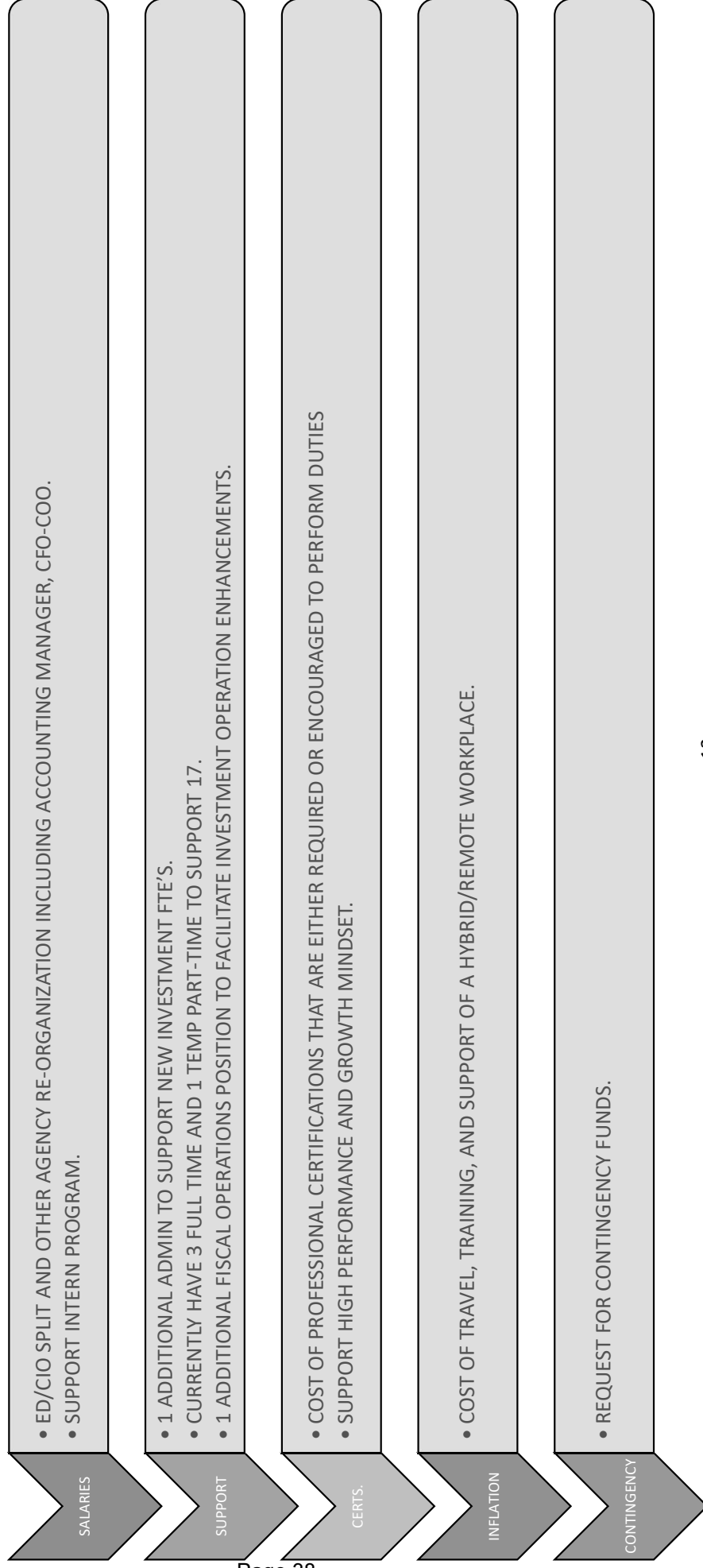
Requires authorization for performance pay within internal investment plan.

Estimated cost savings = \$16M+/year

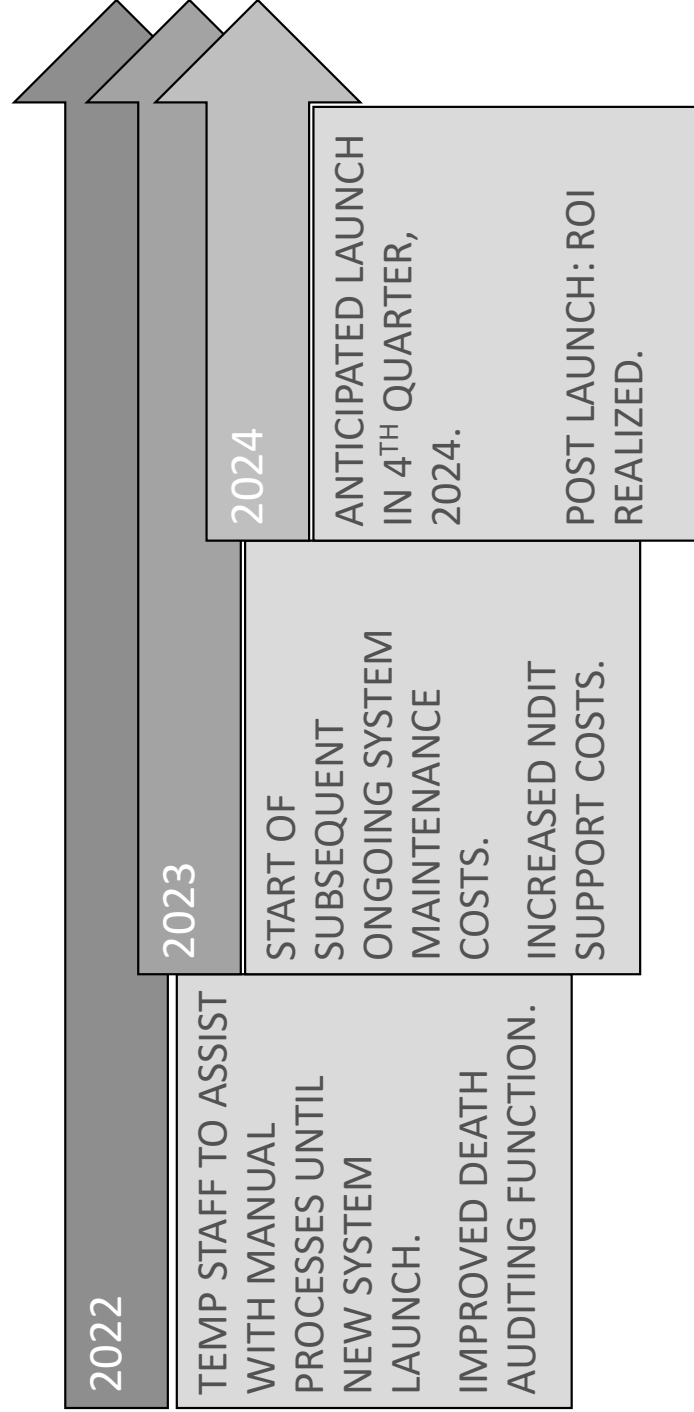
RIO AGENCY INITIATIVES



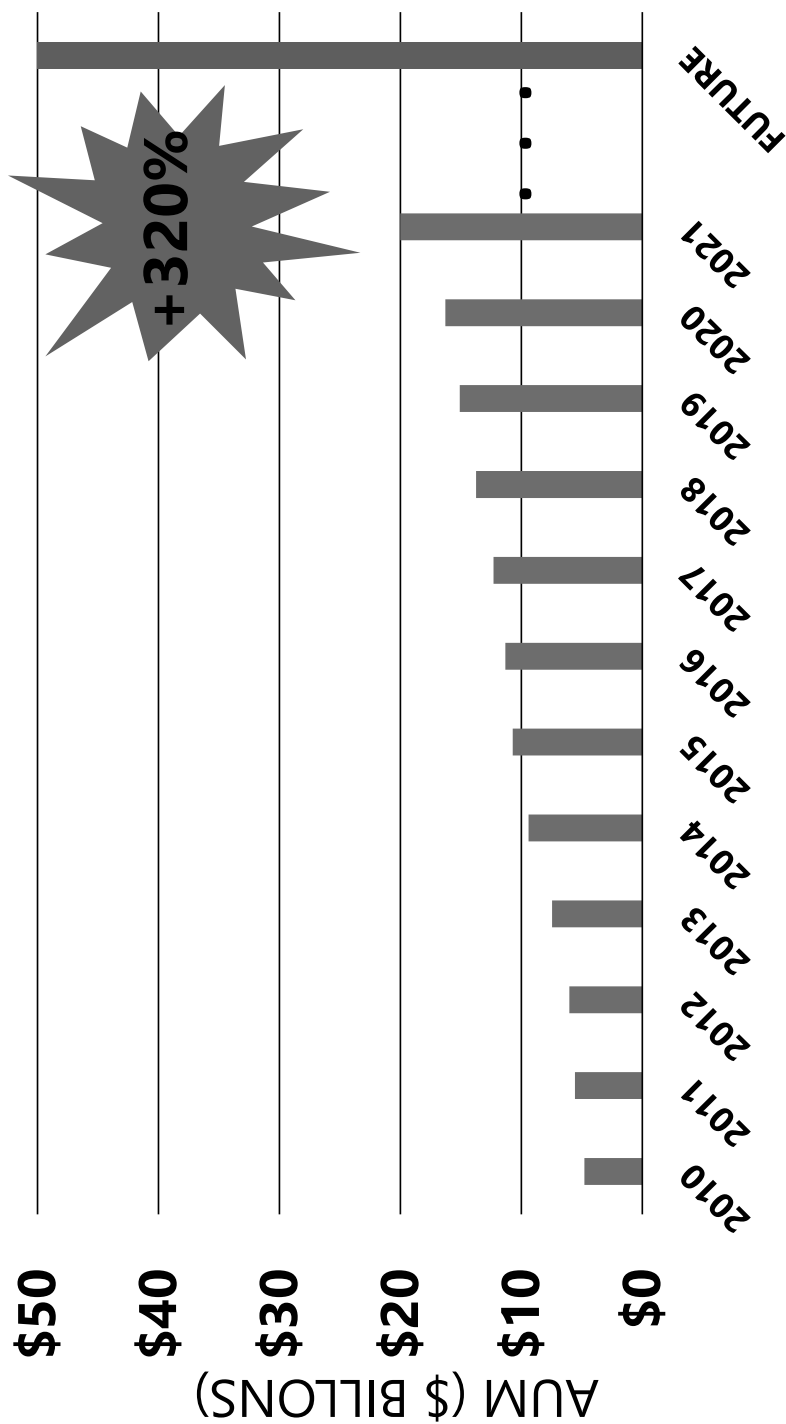
ORGANIZATION CULTURE – WORKFORCE INITIATIVE



INFRASTRUCTURE/TECHNOLOGY ENABLED PROCESSES- TFFR PIONEER PROJECT INITIATIVE

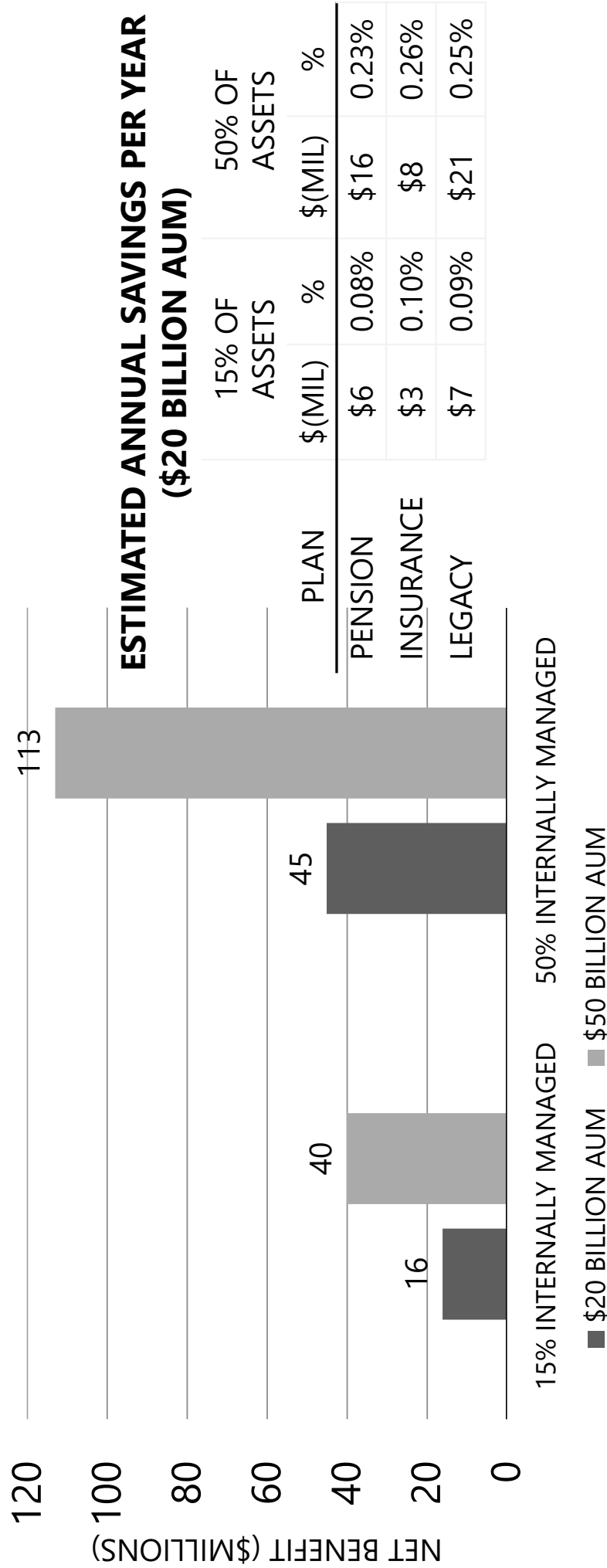


ASSETS UNDER MANAGEMENT GROWTH



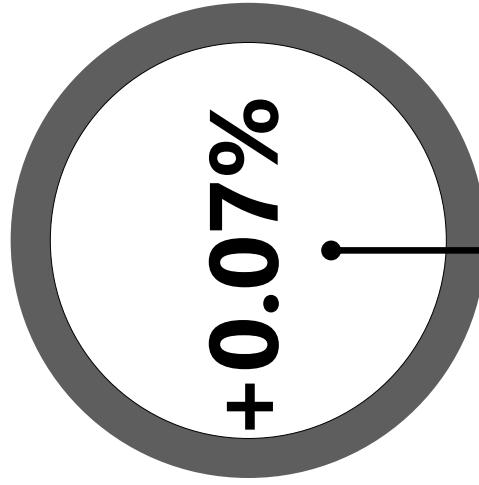
- LOWER COST THAN WITH EXTERNAL MANAGERS
- APPLIED WHERE THERE IS A COST/BENEFIT
- ENABLES ENHANCED LIQUIDITY MANAGEMENT, REBALANCING AND EXPOSURE MANAGEMENT

THE BENEFIT SCALES WITH THE SIZE OF THE COMMITMENT



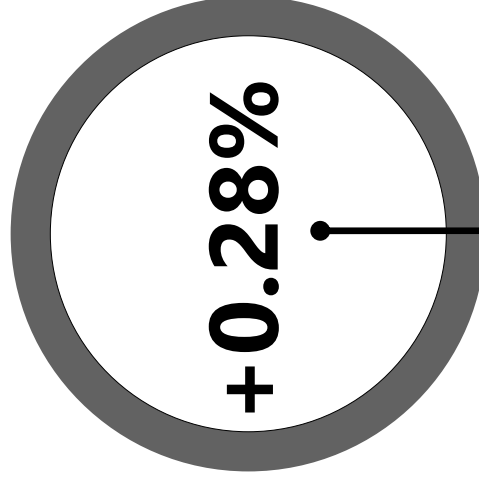
THE COST OF THE PROGRAM IS LOW WHEN COMPARED TO THE FEES IT REPLACES

PROGRAM COST

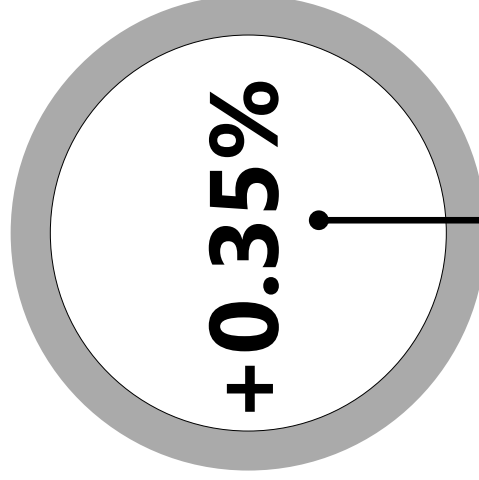


**INCLUDES TOTAL REWARDS
AND INFRASTRUCTURE**

CURRENT COST



**DOMESTIC
EQUITY**



**INVESTMENT GRADE
FIXED INCOME**

MINIMAL REQUIREMENTS WHEN COMPARED TO THE BENEFITS^{1,2,3}

5 INVESTMENT PROFESSIONALS¹:

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.

ESTIMATED TOTAL COSTS FOR INVESTMENTS (INCLUDES CONTINUING APPROPRIATIONS)

\$MILLIONS/BP ¹	CURRENT		INTERNAL INVESTMENT		TOTAL	
	\$ 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

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

EXAMPLE STATES WITH INTERNAL INVESTMENT MANAGEMENT AND INCENTIVE COMPENSATION

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



Questions?