

**House Bill 1022**

**North Dakota Retirement and Investment Office (RIO)**

**Testimony before Senate Appropriations – Human Resources Division**

**Senator Dever, Chair**

**Jodi Smith – Interim Executive Director**

**Chad Roberts, MAcc – Deputy Executive Director/Chief Retirement Officer**

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**I. RIO STATUTORY AUTHORITY AND RESPONSIBILITIES**

The Retirement and Investment Office (RIO) was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the State Investment Board (SIB) and Teachers' Fund for Retirement (TFFR) programs. RIO's statutory authority is found in North Dakota Century Code (NDCC) chapter 54-52.5.

The SIB was created by the 1963 Legislative Assembly to invest five funds: State bonding fund; Teachers' insurance and retirement fund; State fire and tornado fund; Workmen's compensation fund; and Highway patrolmen's retirement fund. The SIB's statutory authority is found in NDCC chapter 21-10.

The TFFR was created in 1913 to provide retirement income to North Dakota public school educators. It is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code. NDCC Chapter 15-39-1 contains the statutory language governing TFFR. It is supplemented by Title 82 of the North Dakota Administrative Code.

**II. ORGANIZATION OF RIO**

**State Investment Board**

SIB is overseen by a thirteen-member board consisting of the Governor, State Treasurer, Director of Office of Management and Budget (OMB), State Land Commissioner, Director of Workforce Safety & Insurance (WSI), two Public Employees Retirement System (PERS) board members, two TFFR board representatives, two members of the Legacy and Budget Stabilization Fund Advisory Board, and two institutional investment professionals.

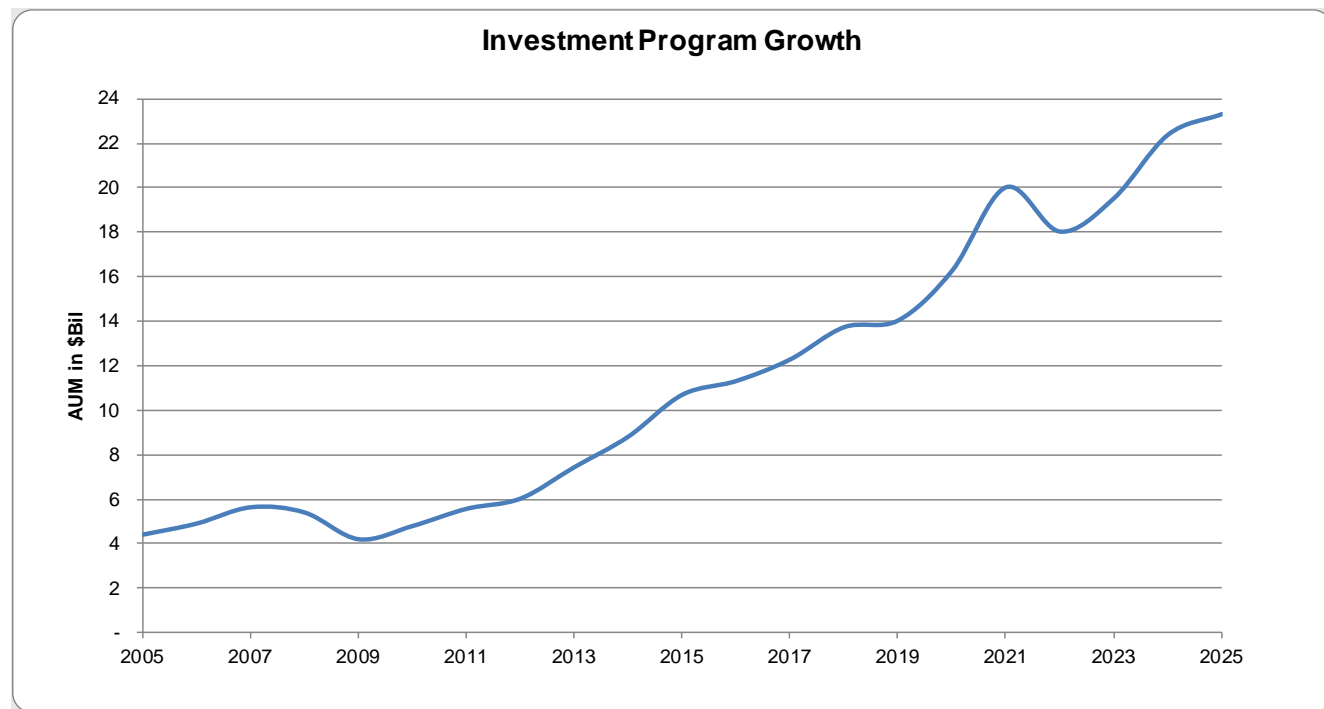
The SIB oversees more than \$23 billion in investments for 31 different client funds. The North Dakota Legacy Fund at \$11.5 billion is the largest client fund. In the SIB's \$8 billion Pension Pool, PERS and TFFR are the largest funds. The largest fund in the SIB's \$3.5 billion Insurance Pool is WSI.

Each client fund has its own governing board responsible for setting its asset allocation and investment policies. The asset allocation and policies are formalized in an investment policy statement that must be approved by both the client and the SIB. The SIB, with

assistance from RIO, 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.

RIO is the program administrator, responsible for the investment of the client funds' assets. By pooling their funds with other government entities, clients benefit from cost efficiencies and enhanced investment opportunities.

The investment program has experienced significant growth over the past two decades. Average assets under management (AUM) have increased from approximately \$4 billion in the 2003-05 biennium to more than \$23 billion in the current 2023-25 biennium.



### **Teachers' Fund for Retirement**

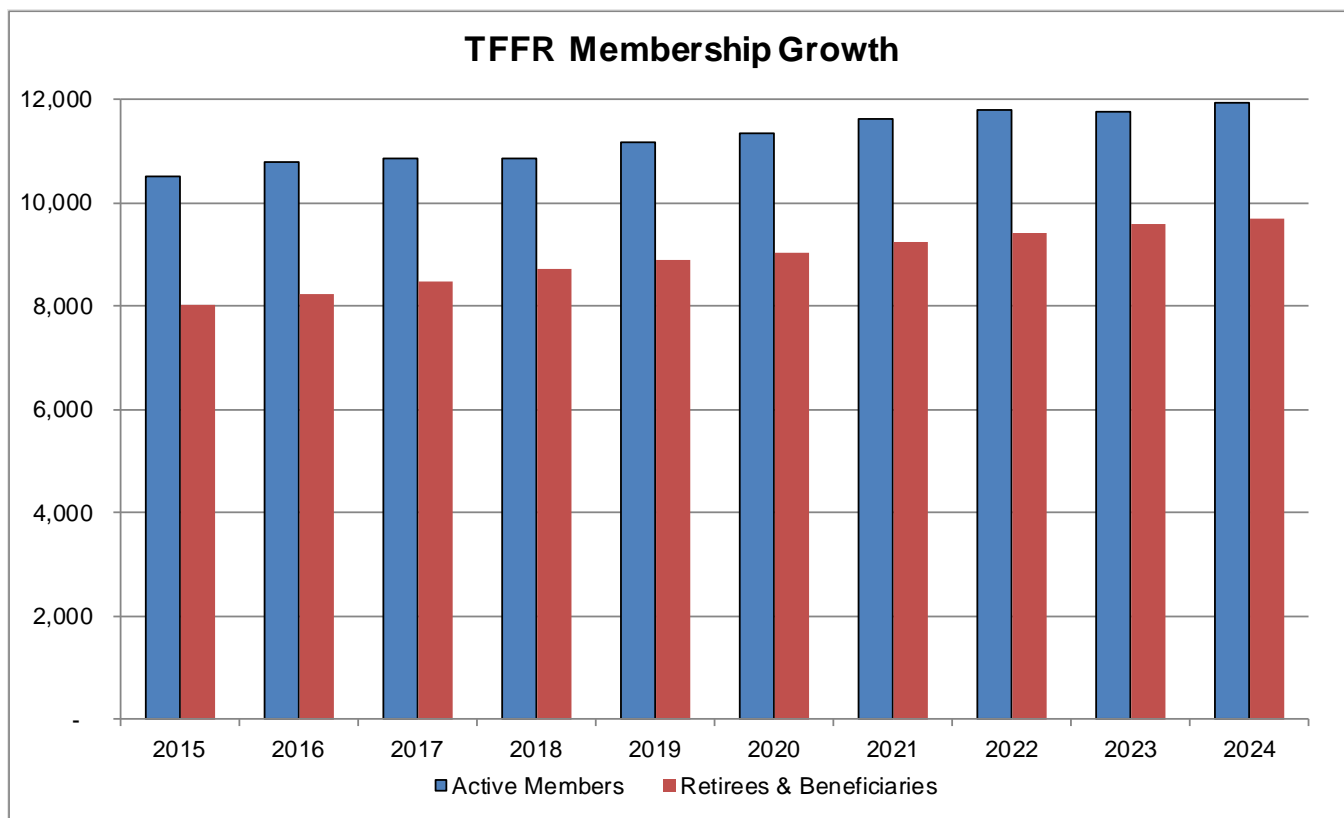
TFFR is overseen by a seven-member Board of Trustees consisting of the State Treasurer and State Superintendent, and two active teachers, two retired teachers and one school administrator—all appointed by the Governor. The Board advocates for, develops, and administers a comprehensive retirement program for its members while upholding its fiduciary responsibilities and operating within approved resource allocations.

A qualified defined benefit public pension plan, TFFR is designed to provide North Dakota public school educators and certain state teachers with lifetime retirement benefits, as well as disability and death benefits. By offering a secure and stable financial foundation, TFFR supports educators in planning for their future. This stability is made possible through sound plan design, professional management, strong investment performance, and exceptional customer service.

Recognizing the importance of strong governance in managing a growing program, the TFFR Board reaffirmed its commitment to continuous improvement by establishing a Governance and Policy Review Committee that is responsible for reviewing program

policies and public policy affecting statutes and administrative rules. The committee makes recommendations to the full Board on policy decisions and potential legislative changes.

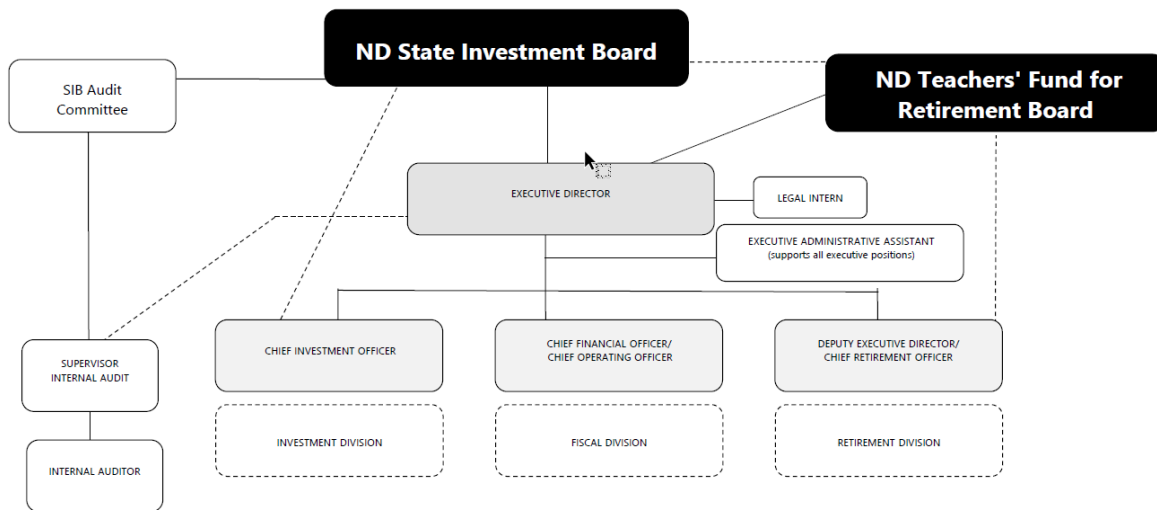
The TFFR plan plays a crucial role in attracting and retaining high-quality teachers and administrators in North Dakota, helping to prevent the loss of skilled educators to out-of-state programs. The plan is funded through member and employer contributions, along with investment earnings. Over the past decade, active membership has grown by 13.6%, from 10,514 to 11,945 participants, while retirees and beneficiaries have increased by 20.8%, from 8,025 to 9,693.



The funded ratio of the plan (i.e., the ratio of the actuarial value of the assets to the actuarial accrued liability) increased to 71.63% as of July 1, 2024, from 71.21% as of July 1, 2023. TFFR has been moving toward a fully funded status for more than a decade thanks to changes in the plan design made by the legislature in 2013. TFFR is expected to achieve fully funded status in 2043. As of July 1, 2024, the fund has a total actuarial liability of \$4,758,417,607. The unfunded liability is \$1,349,934,652.

The TFFR program multi-year large IT Pension Administration Modernization Project (TFFR “Pioneer” Project) went live on February 10, 2025. Through the implementation of this project, RIO has found efficiencies in shared operations with other state agencies such as PERS, OMB, the Department of Public Instruction, and the North Dakota Education Standards and Practices Board. These efficiencies have automated processes for the agencies saving staff time.

## RIO Organizational Chart



RIO currently has 34 full-time FTEs across the two programs and four divisions along with two temporary positions and an intern. The four divisions include Investment Services, Retirement Services, Fiscal Services, and Internal Audit. The two temporary positions are directly attributable to additional workforce needs during the development and implementation of the TFFR Pioneer Project. The hiring of intern positions 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. 2023-25 ACCOMPLISHMENTS AND CHALLENGES

2023 STRATEGIC GOALS	ACTION
Public/Private partnership & Intern development to support agency resource needs & talent development	RIO has had five interns since 2023 -- one investment, one legal, and three accounting.
Governance to support growth – 2 standing committees for SIB, 1 revised committee for SIB, 1 new standing committee for TFFR and proposal to adjust SIB composition	SIB Executive Review Committee revised to Executive Review & Compensation Committee, SIB Governance & Policy Review Committee created, SIB Investment Committee created, SIB composition thru 68 <sup>th</sup> Legislative Session, and TFFR Governance & Policy Review Committee created.

<b>Internal Investment Proposal</b>	<b>Internal Investment Initiative Go-Live is March 10, 2025.</b>
<b>Communication plan for internal &amp; external partners &amp; stakeholders</b>	<b>Annual strategic communications plan was approved in November 2023, quarterly updates are provided. Updated communications plan scheduled for approval July 2025.</b>
<b>Enhancements to talent management plan</b>	<b>Relative to the Internal Investment Initiative, the organizational chart has been developed to create talent management.</b>
<b>Programs facilitate through education &amp; outreach feedback loop to inform public policy. Recognized leaders in the field and a model for other states.</b>	<b>Improved stakeholder engagement and informs public policy through a schedule of regular TFFR and SIB communications, media partnerships, outreach events, expanded social media, agency branding and by establishing communication standards—striving to serve as a model for other states.</b>
<b>Investment Data Management Project</b>	<b>Project will begin after Internal Investment Go-Live.</b>
<b>TFFR PAS Project Implementation</b>	<b>TFFR PAS Go-Love was Feb. 10, 2025</b>

<b>2024 STRATEGIC GOALS</b>	<b>ACTIONS</b>
<b>ND Cash Management Practices – Implementing Cash Management Study Recommendations.</b>	<b>RIO participated in Office of Management and Budget, Treasury and Cash Management Study. Further discussion is tabled.</b>
<b>Internal Direct Investment Initiative 2.0 – Building on the business case to optimize benefits of scale.</b>	<b>RIO is launching internal investments March 10, 2025, and will seek expansion during 70<sup>th</sup> Legislative Session.</b>
<b>Benefits Administration Optimization – Interim Legislative Study during the 2025-2027 session.</b>	<b>No legislative study sought. Further discussion is tabled.</b>

<b>Financial/Retirement Literacy Initiative – Educating for teacher recruitment and retention success.</b>	<b>SIB and TFFR board member, Dr. Rob Lech, participated in the ND Teacher Retention and Recruitment Task Force. Seeking funding for teacher education in HB 1022.</b>
<b>Industry Leader Initiative – Innovation in operations to excel in education, technology, and talent pool.</b>	<b>Go-live of PACS technology system on February 10, 2025</b>

## **2025-27 Goals and Plans**

### **TFFR Investment and Funding Goals**

1. Continue to 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. Continue to implement an enhanced Outreach and Communication Plan for our members, employers, and other stakeholder groups related to the program in general.
2. Administer an accurate, efficient, and responsive pension benefits program.
3. Deliver high-quality, friendly service to members and employers.
4. Achieve 100% reporting compliance from all employers reporting to the TFFR plan.
5. Provide more robust retirement planning education to current TFFR members and future and incoming North Dakota K-12 educators as recommended by the Teacher Retention and Recruitment Task Force.

## **SIB Strategic Investment Plan**

<b>2025 STRATEGIC GOALS</b>
<b>Industry Leader Initiative – Innovation in operations to excel in education, technology, and talent pool.</b> <ul style="list-style-type: none"> <li>• <b>Recruitment and Onboarding of Executive Director and CFO.</b></li> <li>• <b>Transition from network folders and Teams to SharePoint.</b></li> <li>• <b>Implementation of investment operations compliance plan.</b></li> </ul>

**Succession and Business Continuity Planning**

- Create Succession Plans for Executive Director, Deputy Executive Director, CIO, and CFO/COO.

**Alignment thru Continuous Improvement**

- Identify pockets of innovation across the organization during regular check-ins. Small, compounding changes and innovations add up to outsized results over time.

**Strategic Implementation of New Statutes**

- HB 1330 – Divestment from Direct Chinese Investments
- HB 1319 – Creation of Legacy Fund Transparency Website

**V. 2025-27 BUDGET SUMMARY**

	<b>Base Level</b>	<b>Adjustment</b>	<b>Appropriation</b>
<b>Salaries &amp; Wages</b>	\$8,552,467	\$3,539,528	\$12,091,995
<b>New &amp; Vacant FTE Pool</b>	\$0	\$470,466	\$470,466
<b>Operating Expenses</b>	\$2,731,037	\$1,029,096	\$3,760,133
<b>Contingencies</b>	\$200,000	\$0	\$200,000
<b>Total Special Funds</b>	\$11,483,504	\$5,039,090	\$16,522,594
<b>Full Time Equivalent Positions</b>	34	1	35

RIO serves two important program boards: the SIB and the 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 22.85 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.

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.

## **VI. NEW POSITIONS APPROVED IN 2023-25 BIENNIUM BY THE 2023 LEGISLATIVE ASSEMBLY**

Nine new positions were added by the 2023 Legislative Assembly:

1. Sr. Investment Accountant - Hired 7/18/23 - \$219,735 (out of \$219,735 in SPA) transferred from OMB pool, anticipate using entire amount +
2. Fiscal & Investment Admin Assistant - Hired 9/5/23 - \$154,886 (\$154,886 in SPA) transferred from OMB pool, anticipate using entire amount +
3. Portfolio Manager: Internal Equities - Hired 8/1/24 - \$219,581 (\$238,639 in SPA) transferred from OMB pool, anticipate using entire amount +
4. Sr. Investment Analyst: Internal Equities - Hired 8/1/24 - \$191,175 (\$208,554 in SPA) transferred from OMB pool, anticipate using entire amount +
5. Portfolio Manager: Internal Fixed Income - Hired 9/3/24 - \$222,508 (\$238,639 in SPA) transferred from OMB pool, anticipate using entire amount +
6. Investment Accountant - Hired 9/16/24 - \$101,250 (\$125,562 in SPA) transferred from OMB pool, anticipate using exact amount
7. Analyst: Internal Fixed Income – Accepted Offer. Planned start date is 2/3/25 - \$0 (\$139,560 in SPA) transferred from OMB pool, anticipate using \$68,048.
8. Analyst: Internal Equities - Anticipate hiring Q1 '25 - \$0 (\$139,559 in SPA) transferred from OMB pool, anticipate using \$56,520.
9. *Investment Administrative Assistant - Anticipate hiring Q1 '25 - \$0 (\$82,813 in SPA) transferred from OMB pool, anticipate using 13,802.*

## **VII. EMPLOYEE TURNOVER AND NUMBER OF VACANT POSITIONS DURING THE 2023-25 BIENNIUM**

Prior to November '24, only vacancies were caused by internal promotions:

1. Sr. Analyst Private Markets was vacant as of 8/1/24 as incumbent was hired into new Portfolio Manager role. Position was advertised for and ultimately hired for in December '24. Total "savings" was \$67,027.32 (\$16,756.83 x 4 months)
2. Investment Analyst was vacant as of 8/1/24 as incumbent was hired into new Sr. Analyst Internal Equities role. Position was advertised for and ultimately hired for in January '25. Total "savings" was \$58,594.55 (\$11,718.91 x 5 months)
3. Analyst: Internal Fixed Income - Currently Interviewing - no savings realized as no funding will be transferred from the OMB pool until start date.
4. Analyst: Internal Equities - Anticipate hiring Q1 '25 - no savings realized as no funding will be transferred from the OMB pool until start date.
5. Investment Administrative Assistant - Anticipate hiring Q1 '25 – no savings realized as no funding will be transferred from the OMB pool until start date.
6. Executive Director vacant as of 1/3/25 – Interim Executive Director was hired 1/13/25. No savings will be realized.

7. CFO/COO vacant as of 1/3/25 - no savings realized to date.

## VIII. PROGRAM FUNDING LINE ITEMS

	<b>Base Level</b>	<b>Adjustment</b>	<b>Appropriation</b>
<b>Salaries &amp; Wages</b>	\$8,552,467	\$3,539,528	\$12,091,995
<b>New &amp; Vacant FTE Pool</b>	\$0	\$470,466	\$470,466
<b>Operating Expenses</b>	\$2,731,037	\$1,029,096	\$3,760,133
<b>Contingencies</b>	\$200,000	\$0	\$200,000
<b>Total Special Funds</b>	\$11,483,504	\$5,039,090	\$16,522,594
<b>Full Time Equivalent Positions</b>	34	1	35

### Salaries & Wages

	<b>Base Level</b>	<b>Adjustment</b>	<b>Appropriation</b>
<b>Current Base</b>	\$8,552,467	--	\$8,552,467
<b>2<sup>nd</sup> Half of New Investment Positions</b>	--	\$1,236,914	\$1,236,914
<b>Interns</b>	--	\$24,000	\$24,000
<b>Transfer Funds between lines</b>		\$70,450	\$70,450
<b>Salary Funding – Cost to Continue</b>		\$118,302	\$118,302
<b>Vacant FTE Pool from 23-25 biennium</b>		\$1,786,076	\$1,786,076
<b>Vacant FTE Pool for 25-27 biennium</b>		(\$605,458)	(\$605,458)
<b>Funding for Salary &amp; Benefit Increases</b>		\$676,016	\$676,016
<b>Internal Auditor</b>		\$233,228	\$233,228
<b>TOTAL</b>	\$8,552,467	\$3,539,528	\$12,091,995

### 2nd Half of New Investment Positions

During the 2023 Legislative Session, RIO received approval to move forward with its internal investment initiative. The proposal required five investment professionals, one operations professional, and one administrative staff.

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.

Due to the complexity of this plan RIO only asked for a salary budget for one year of the 2023-2025 biennium for these additional staff as we understood it would take significant time to develop the plan and stand up all the necessary processes and procedures to effectively implement.

Although one year's worth of salaries and benefits for these positions are included in our base budget, to continue the plan into the 2025-2027 biennium, appropriation for the salaries and wages for the second year is required.

### Interims

This request is for an additional \$24,000 in appropriation to allow for up to three additional interns (5 total) during the 2025-2027 biennium.

Dedicated resources are needed to continue to offer internship opportunities across the agency. Reduced funding for the internship program would negatively impact the program and reduce the opportunities available for college students to experience work within state government.

### Internal Auditor

As part of the internal investment initiative discussion, it was communicated that the internalizing of assets would increase the burden on RIO's internal audit division. As such, we are requesting an additional internal audit position to assist with the compliance needs brought on by this additional activity. In 1993, the internal audit division was established, and an additional auditor was added in 1995; thus, for the past 30 years, there have been just two internal audit staff members as the agency has grown and become more complex. Based on the review of a third-party consultant, the SIB Audit Division is in need of an additional auditor to meet the capacity.

### **New & Vacant FTE Pool**

Currently, the vacancies are:

1. Analyst: Internal Equities - Anticipate hiring Q1 '25 - no savings realized as no funding will be transferred from the OMB pool until start date.
2. Investment Administrative Assistant - Anticipate hiring Q1 '25 – no savings realized as no funding will be transferred from the OMB pool until start date.
3. Executive Director vacant as of 1/3/25 – Interim Executive Director was hired 1/13/25. No savings will be realized.
4. CFO/COO vacant as of 1/3/25 - no savings realized to date.

### **Operating Expenses**

	<b>Base Level</b>	<b>Adjustment</b>	<b>Appropriation</b>
<b>Operating Expenses</b>	\$989,360		
<b>Information &amp; Technology Hosting &amp; Support</b>	\$1,741,677	\$1,201,268	\$1,201,268
<b>Additional Communications Operating Expenses</b>	\$0	\$18,000	\$18,000
<b>Additional Internal Auditor Operating Expenses</b>	\$0	\$16,500	\$16,500
<b>Investment Conference Continuation</b>		\$20,000	\$20,000
<b>TOTAL</b>			\$1,255,768

### Information & Technology Hosting & Support

As a unified agency, RIO is reliant on significant support from NDIT professionals. Currently, we are utilizing two dedicated NDIT staff to assist in all needed technology

processes for the agency. This need will continue into the 2025-2027 biennium as the new pension system will continue its roll out along with significant increases in technology demands from our investment program as it continues its internal investment roll out. Along with other NDIT rate increases, we have been notified this application support agreement rate will be increased significantly as well.

During the 2023-25 biennium, RIO is in the final stages of implementing a new pension administration system for the Teachers' Fund For Retirement (TFFR). Knowing that the system would not go live until the second year of the biennium, only one year of hosting fees was requested during the 2023 legislative session. This approved amount is included in our base budget and will carry over to 2025-2027 however, we are asking for the second year's hosting costs in order to run the new system for the entire biennium.

Additionally, funding is being requested to acquire a consultant to review and determine what additional software would be available for the fiscal team. The fiscal team has not acquired any new software in many years and is still operating with Dynamics GP for our financials, which we have been notified is on an end-of-life track and will no longer be supported or updated by September of 2029.

#### Additional Communications Operating Expenses

Additionally, as the significance and visibility of the Legacy Fund and other areas of the agency continue to grow, RIO's strategic plan includes an increase and improvement in communication to all stakeholders. This plan includes support of our current communications and outreach director in their endeavor to efficiently and effectively communicate RIO activity through all appropriate channels.

#### Investment Conference Continuation

Additionally, RIO is requesting funding to support the continuation of the investment symposium through the 2025-2027 biennium as well as the funding needed to effectively survey TFFR stakeholders.

#### **Contingencies**

	<b>Base Level</b>	<b>Adjustment</b>	<b>Appropriation</b>
<b>Contingency</b>	\$200,000	\$0	\$200,000
<b>TOTAL</b>			\$200,000

Finally, we are also requesting contingency dollars be added to our budget in the event RIO would be required to conduct one or more executive searches during the biennium. During previous biennia, the agency has lost its top two managers in both the retirement and investment programs within a short time period. While turnover of these positions is not planned in the short term, prudence requires preparing for what has not been an unusual need.

### **IX. IDENTIFY AND JUSTIFY NEED FOR ANY ONE-TIME FUNDING REQUESTED**

Only one-time funding being requested is \$250,000 for a Fiscal IT Solution consultant. Fiscal is currently using a version of GP Dynamics that is scheduled to be decommissioned by 2030. This request is to procure a consultant to analyze the agencies

current needs and help determine the best process forward for replacing the current system.

## **X. AGENCY FEES CHARGED**

RIO charges their client funds for administrative costs for their investments. Administrative fees are based on actual expenses of the agency.

## **XI. FEDERAL STATE FISCAL RECOVERY FUNDING**

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

## **XII. 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 1026 – Changing Administration of Bonding Fund
- HB 1027 – Changing Administration of Bonding Fund
- HB 1117 – Eligibility for normal retirement benefits
- HB 1176 – Legacy earnings fund and property tax relief
- HB 1183 – Gold and Silver Investments
- HB 1330 – Relating to the divestment of legacy fund investments in China
- HB 1319 – Relating to a legacy fund disclosure website
- SB 2072 – Contracts Limiting liability to the state
- SB 2097 – Rural Community endowment fund
- SB 2134 – Relating to the composition of the TFFR Board of Trustees
- HCR 3001 – SIB and STO to invest state funds in digital assets and precious metals

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.

## **XIII. REQUESTED CHANGES TO HOUSE ACTION**

In October 2024, the Teacher Retention and Recruitment Task Force provided recommendations through a final report to the Governor and the Superintendent of Public Instruction to address the educator retention crisis in the state. The recommendations included pathways to:

1. Increasing recruitment to the teaching profession.

2. Improving teacher preparation programs across the state.
3. Reviewing and evaluating current pathways to licensure and a review of new opportunities around teacher licensure.
4. Reevaluate teacher compensation and contracts.
5. Enhancing working conditions and supports to improve retention in the teaching profession.
6. Identifying best practices from other jurisdictions and potential impact to long-term positive outcomes related to teacher recruitment and retention.

The Task Force identified partners to sponsor legislation based on the report's recommendations during the 69th Legislative Assembly and conduct stakeholder meetings and roundtable discussions across the state to gather feedback from pertinent stakeholder groups.

The Task Force recommends related state agencies partner with the North Dakota Department of Public Instruction, the Bank of North Dakota, the TFFR, the North Dakota Teacher Support System and other appropriate organizations to offer comprehensive financial planning resources and training. These resources should include information on the salary matrix framework, differences in health insurance plans, contract benefits, 457 deferred plans, TFFR plans and other related benefits. The Task Force unanimously approved this recommendation for strengthening training for teachers regarding total benefits and compensation packages available to them. This support enables new educators to understand and manage the benefits associated with the transition into the profession. This information also builds capacity for long-term career training for educators with the potential for improving educator retention. Financial literacy is shown to decrease financial strain and improve long-term financial planning and decision-making, which is particularly impactful for educators.

The House Appropriations removed \$35,000 from the RIO appropriations designated to the above recommendation that was also approved as an expenditure from by the TFFR board (special funded). RIO is requesting these funds placed back in the agency's budget.