

## HOUSE BILL 1022

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

#### Testimony to the House Appropriations Government Operations Committee

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### **I. RIO Programs Overview (Outline Items 1-3)**

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). RIO is a Special Fund agency and receives no General Fund appropriation. All appropriated expenditures for the SIB are allocated directly to the client funds and paid out of their invested assets/earnings. All appropriated expenditures for the TFFR program are paid from contributions collected from members and employers and from invested assets/earnings.

RIO has received no financial audit findings in the past 20+ years. The agency currently is authorized for 20 FTEs and there are no vacant positions. An organizational chart is attached to this presentation.

### **II. State Investment Board (SIB) (Outline Item 4)**

**The SIB is responsible for investment of nearly \$18 billion in assets for the Legacy Fund, seven pension funds and 19 other non-pension funds.** The following table shows the most currently available fair value of assets by fund.

	Fair Value 11/30/20
<b>PENSION POOL PARTICIPANTS</b>	<i>(Unaudited)</i>
Teachers' Fund for Retirement	\$2,861,340,438
Public Employees Retirement System	3,545,199,441
Bismarck City Employee Pension Fund	\$116,759,662
Bismarck City Police Pension Fund	\$46,723,385
City of Grand Forks Pension Fund	\$72,013,615
Grand Forks Park District Pension Fund	\$8,185,027
Subtotal Pension Pool Participants	\$6,650,221,567
<b>INSURANCE POOL PARTICIPANTS</b>	
Workforce Safety & Insurance Fund	\$2,235,389,463
State Fire and Tornado Fund	24,349,525
State Bonding Fund	3,856,166
Petroleum Tank Release Fund	6,270,326
Insurance Regulatory Trust Fund	1,164,366
State Risk Management Fund	4,126,993
State Risk Management Workers Comp	3,996,377
Cultural Endowment Fund	550,085
Budget Stabilization Fund	744,320,167
ND Assoc. of Counties (NDACo) Fund	7,267,438
City of Bismarck Deferred Sick Leave	830,457
PERS Group Insurance	39,448,940
State Board of Medicine	2,648,173
City of Fargo FargoDome Permanent Fund	46,399,302
Lewis & Clark Interpretive Center Endowment	862,009
Attorney General Settlement Fund	996,671
Veterans' Cemetery Trust Fund	346,973
Subtotal Insurance Pool Participants	\$3,122,823,430
<b>INDIVIDUAL INVESTMENT ACCOUNTS</b>	
Legacy Fund	7,894,446,184
Retiree Health Insurance Credit Fund	161,961,271
Job Service of North Dakota Pension Fund	96,567,365
Tobacco Prevention and Control Trust Fund	7,592,639
<b>TOTAL</b>	<b>\$17,933,612,458</b>

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. **All the funds are invested in accordance with the “Prudent Investor Rule” under N.D.C.C. 21-10-07.**

**Investment guidelines and asset allocations are established by the governing bodies of the individual funds, with assistance from consultants and/or RIO staff, and subject to review and approval by the SIB prior to implementation.** The SIB selects investment managers to manage different types of portfolios within each asset class with the goal of maximizing return within the clients' acceptable risk levels. Similar client funds are pooled together when possible to receive lower fees and better terms from investment managers and achieve efficiencies in staff monitoring.

## A. SIB Investment Expenses:

The SIB investment program appropriated expenses include salaries, benefits and administrative overhead for the management of the day-to-day operations of the program.

The staff of RIO administers the day-to-day operations of the investment program by assisting client funds with asset/liability studies; conducting investment manager searches; monitoring guidelines and asset allocations of each client fund; managing the consultant, custodian and investment manager relationships; conducting initial and continuing due diligence on the investment managers; researching new investment and risk management options; and maintaining separate monthly accounting and investment performance data for all 27 client funds. Statistics regarding the number of investment clients/managers/accounts, etc., are shown in the following table.

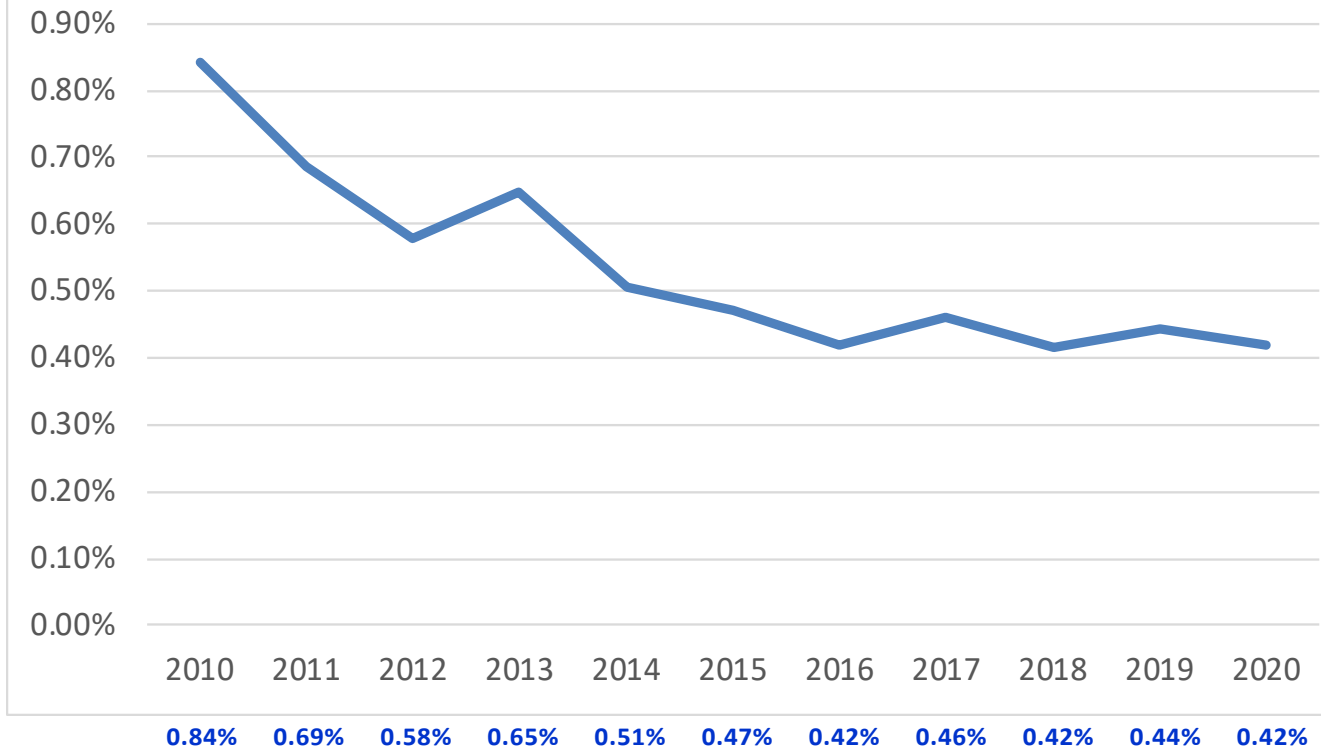
Client Funds	27
Asset Class Pools/Groups	34
Investment Manager Relationships	40
Investment Strategies	77
Investment Manager Accounts	121
Custodian Banks	2
Investment Consultants	3

The SIB has continuing appropriation authority under ND Century Code section 21-10-06.2 to pay for investment related costs of the program such as investment management fees, custodial fees, performance measurement fees, and fees associated with manager searches and onsite reviews of investment managers. These costs are allocated directly to the client funds affected by the expense and paid out of invested assets/earnings.

**Active investment management by the SIB has generated over \$300 million of incremental income for our clients in the last 5-years including over \$150 million of above benchmark returns for the Legacy Fund.** As example, the Legacy Fund earned a net investment return of 7.91% for the 5-years ended 9/30/2020, which exceeded the Policy Benchmark of 7.26% by 0.65%. Based on Legacy Fund balances averaging over \$5 billion the last 5-years, the 0.65% of “Excess Return” translates into \$162.5 million of incremental income since 2016 (e.g. average Legacy Fund balance of \$5 billion x 0.65% of Excess Return = \$32.5 million of incremental income per year x 5 years = \$162.5 million). **A keen focus on reducing investment fees and expenses has been a major factor in generating this incremental income for all of our SIB clients.**

**In recent years, the SIB and RIO have re-intensified efforts to improve our overall return on investment expenses through review and negotiation of investment management agreements.** As a result, SIB client investment expenses have declined from 0.65% in fiscal 2013 to less than 0.45% in fiscal 2020; while assets under management have grown from \$5 billion in 2010 to \$18 billion in 2020. This 0.20% decrease in expenses on \$12 billion in average investment balances equates to \$24 million in annual savings (e.g. \$12 billion x 0.20% lower fees = \$24 million of fee savings per year). The following chart shows the downward trend in investment expenses over the last decade.

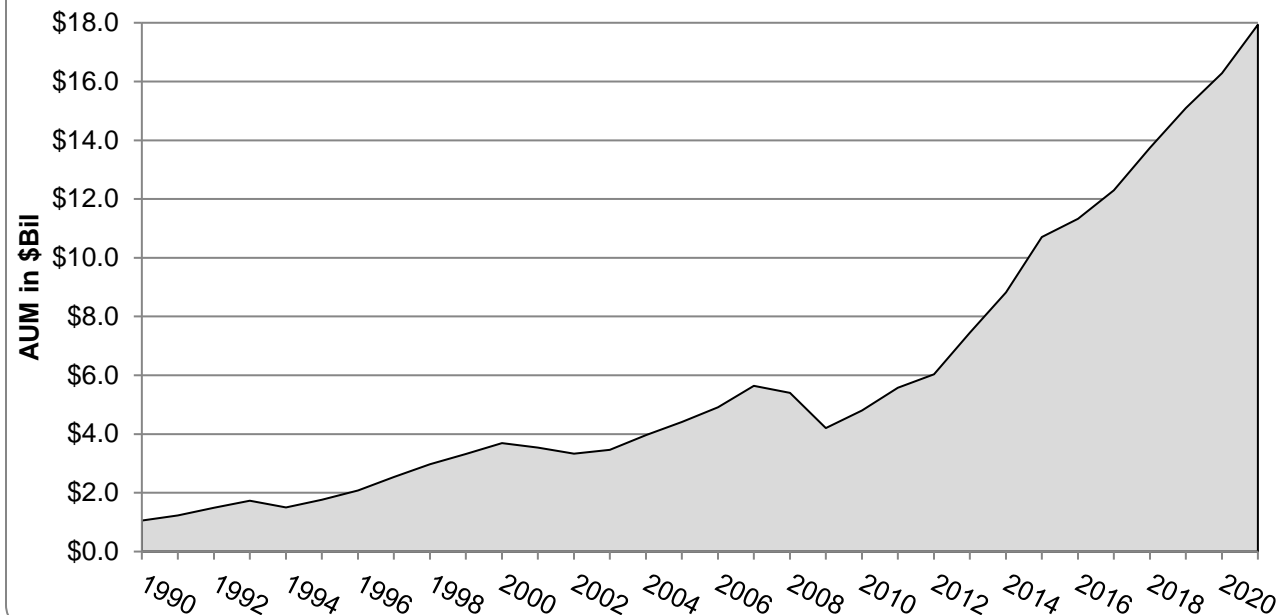
## SIB Investment Expense %



## B. SIB Assets Under Management (AUM):

**SIB investments have grown from less than \$5 billion in 2010 to nearly \$18 billion in 2020.** North Dakota's Legacy Fund was initially funded in 2011 and approximates \$7.9 billion at 11/30/2020.

## SIB Assets Under Management (AUM)



## C. SIB Client Investment Performance

**Over 99% of our SIB clients generated net investment returns which exceeded their approved policy benchmarks for the 5 years ended 9/30/2020 including Legacy Fund, PERS, TFFR, WSI and Budget Stabilization Fund.** As example, Legacy Fund earned 7.91% for the 5 years ended 9/30/2020, exceeding the Policy Benchmark Return by 0.65%. As a result, the SIB use of active management created \$162.5 million of incremental income for Legacy for the 5-years ended 9/30/2020 (e.g. a 5-year average balance of over \$5 billion x 0.65% of Excess Return = \$32.5 million/year x 5 years = \$162.5 million). The prudent use of active investment management also improved PERS and TFFR combined returns by \$125 million for the 5 years ended 9/30/2020 (e.g. a 5-year average combined balance of over \$5 billion x 0.50% = \$25 million/year x 5 years = \$125 million). The SIB Pension Pool has also performed well when compared with other U.S. public pension funds. The SIB Pension Pool, which includes PERS and TFFR, was ranked in the top 25% of Callan's Public Fund Sponsor Database for the 10-years ended 9/30/2020, with a net return of 8.3% exceeding its policy benchmark of 7.8% by 0.50% and long-term actuarial return assumptions of 7% for PERS and 7.25% for TFFR. SIB client investments were adversely impacted by the major market downturn driven by the global pandemic in the first quarter of 2020, but fully recovered in subsequent months by rebalancing our client portfolios in the second quarter. **As a result of the SIB maintaining a consistent and disciplined investment approach during these challenging times, the vast majority of our SIB client actual investment returns exceed their policy benchmarks for the 1, 3 and 5 years ended 9/30/2020, including the Legacy Fund, PERS, TFFR and WSI.**

SIB Five Largest Clients (AUM as of 9/30/2020)	Qtr. Ended 9/30/2020	1 Yr Ended 9/30/2020	3 Yrs Ended 9/30/2020	5 Yrs Ended 9/30/2020	10 Yrs Ended 9/30/2020
<b>Legacy Fund \$7.4 billion</b>					
Total Fund Return - Net	4.93%	8.27%	6.02%	7.91%	9 Yrs. Ended 5.19%
Policy Benchmark Return	3.95%	7.45%	5.94%	7.26%	4.48%
Excess Return	0.98%	0.82%	0.08%	0.65%	0.71%
<b>PERS \$3.4 billion</b>					
Total Fund Return - Net	4.97%	8.15%	6.39%	8.35%	8.05%
Policy Benchmark Return	4.35%	7.05%	6.25%	7.83%	7.52%
Excess Return	0.62%	1.10%	0.14%	0.52%	0.53%
<b>TFFR \$2.7 billion</b>					
Total Fund Return - Net	4.89%	8.08%	6.38%	8.29%	8.07%
Policy Benchmark Return	4.41%	7.06%	6.24%	7.79%	7.42%
Excess Return	0.48%	1.02%	0.14%	0.50%	0.65%
<b>WSI \$2.2 billion</b>					
Total Fund Return - Net	3.10%	7.46%	6.29%	7.07%	7.00%
Policy Benchmark Return	2.25%	7.30%	5.88%	5.99%	5.60%
Excess Return	0.85%	0.16%	0.41%	1.08%	1.40%
<b>BSF \$738 million</b>					
Total Fund Return - Net	1.63%	3.06%	2.80%	2.22%	2.13%
Policy Benchmark Return	0.23%	3.70%	2.83%	2.06%	1.27%
Excess Return	1.40%	-0.64%	-0.03%	0.16%	0.86%

## D. SIB Program Goals:

The SIB and RIO work to keep investment expenses at or below 0.50% per year, while seeking to identify investment firms which beat their performance benchmarks by 0.50% or more over the long term after all fees and expenses. If we are successful in attaining both of the above goals, our SIB clients are effectively earning a minimum 2-for-1 return on our investment expense dollars.

The five largest SIB clients earned net investment returns which exceeded their Policy Benchmark Returns for the 5-years ended 9/30/2020 as highlighted in the table above. Based on these funds averaging over 0.50% of Excess Return above their Policy Benchmarks the last 5-years, the SIB was successful in selecting investment firms which exceeded stated passive benchmarks thereby generating over \$300 million of incremental income for our clients for the 5-years ended 9/30/2020 after paying all fees and expenses (e.g. SIB client investment average asset balance of \$12 billion x 0.50% of average Excess Return = \$60 million/year or \$300 million of incremental income in last five years).

Asset allocation is a major driver of investment returns for most institutional investors. It is important to note that like-for-like comparisons between funds with different investment programs (or retail investors) are rarely straightforward. Differences in asset allocation and strategies being pursued must be considered as part of a broader analysis of the costs and risks incurred in relation to the results achieved.

The Sovereign Wealth Fund (SWF) Institute identified the Alaska Permanent Fund as the largest U.S. SWF and the Norway Government Pension Fund as the world's largest Global SWF. The return chart below shows recent and inception to date returns of North Dakota's Legacy Fund in comparison to these larger SWF's. As stated previously, like for like comparisons between funds with different asset allocations and risk profiles are rarely straightforward. Legacy Fund returns are comparable to the Alaska Permanent Fund and Norway Government Pension Fund for the 5-years ended June 30, 2020, and slightly better than the Alaska Permanent Fund for the 5-months ended Nov. 30, 2020, while noting the \$1+ trillion Norway Government Pension Fund return data as of Nov. 30, 2020, was not readily available. It is important to note the Legacy Fund was not fully invested in its current asset allocation until 2015, which adversely impacted inception to date results (as Legacy Fund was 100% invested in short-term fixed income until 2013).

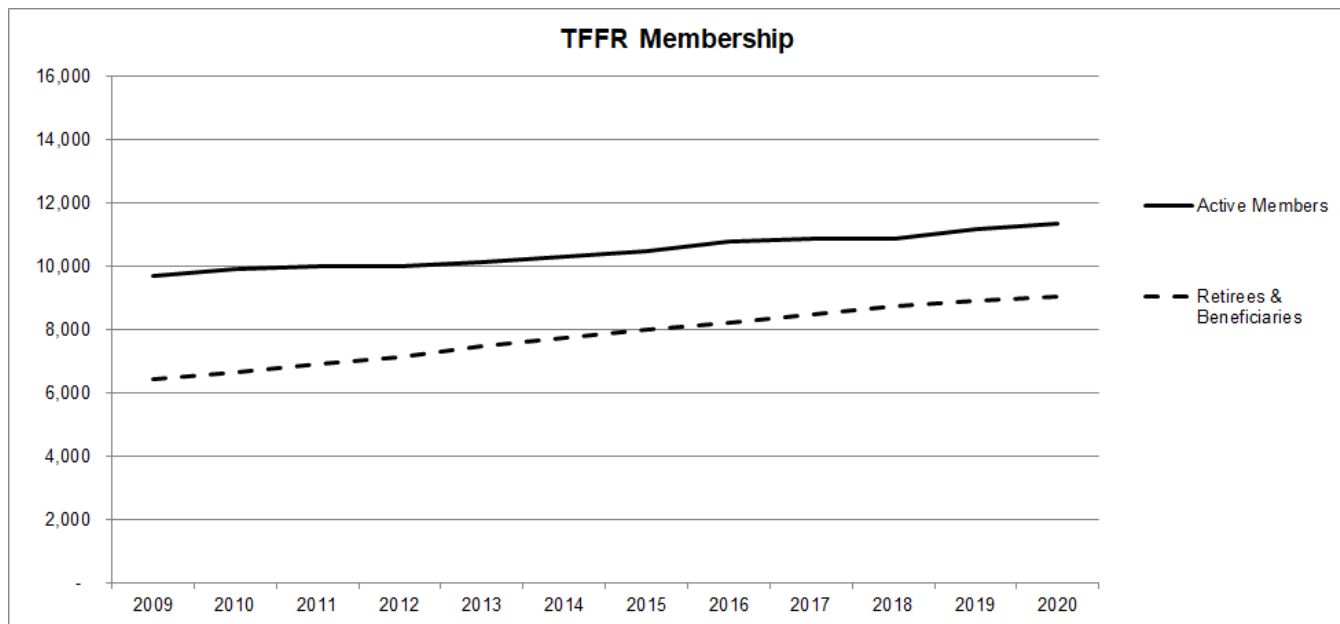
Sovereign Wealth Fund Returns Fund Name / FundSize at Nov. 30, 2020	Fund Size (billions)	Fiscal Year Ended June 30, 2020			Date of Inception	Fiscal YTD Nov. 30, 2020
		1-year	5-years	Inception		
Alaska Permanent Fund Source: <a href="https://apfc.org/report-archive/">https://apfc.org/report-archive/</a>	\$ 71.9	2.01%	6.44%	8.60%	7/1/1980	10.78%
North Dakota Legacy Fund Source: <a href="https://www.rio.nd.gov/legacy-fund">https://www.rio.nd.gov/legacy-fund</a>	\$ 7.9	4.23%	5.91%	4.76%	9/7/2011	11.06%
Norway Government Pension Fund Global Source: <a href="https://www.nbim.no/en/the-fund/returns/">https://www.nbim.no/en/the-fund/returns/</a>	\$ 1,078.0	3.17%	5.41%	5.79%	1/1/1998	n/a

Note: The Legacy Fund was invested in 100% short-term fixed income prior to August 1, 2013. Since inception returns were 5.19% as of 9/30/2020.

## III. 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, with 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 13.4% from 10,004 to nearly 11,347 participants, while retirees and beneficiaries have increased 30.3% from less than 6,933 to over 9,036.



For Fiscal Year 2020 there were 213 participating TFFR employers comprised as follows:

School Districts	174
Special Ed Units	20
Vocational Centers	4
Counties	6
State Agencies/Institutions	5
Other	4
<b>2017-18 Total Employers</b>	<b>213</b>

The TFFR program appropriated expenses includes salaries, benefits and administrative overhead costs for the administration of the day-to-day operations of the fund and delivery of high quality services and outreach programs to members and employers. Examples of activities included in the administration of the TFFR program are detailed in the following table, based on the fiscal year ended June 30, 2020.

Activity	# of Members
Monthly collection of contributions from 213 Employers	11,347
Maintenance of Membership Records	23,230
New Retirement & Disability Claims Processed	285
Deaths Processed	254
Refunds/Rollovers Processed	260
Service Purchase Inquiries Processed	175
New Member Enrollments Processed	817
Monthly Benefit Payments Processed	9,036
Educational Outreach Programs Attended	651

Additional administrative activities include development of publications and educational materials for active and retired members and employers; maintenance of website, member and employer online services, and the pension administration software system that houses all TFFR member data; compliance reviews to verify accuracy of member records, contributions, and benefit payments; and staff training and education to ensure all necessary regulatory and financial reporting requirements are being met.

Benefit payments to retirees or their beneficiaries totaled \$224.4 million in fiscal year 2020. Another \$6.5 million was paid out in refunds of account values. These payments, in addition to amounts paid to actuarial, investment and other consultants, are included in a continuing appropriation under ND Century Code section 15-39.1-05.

The pandemic had a significant impact on TFFR program operations and outreach efforts. Many of our program processes have relied on paper forms, both internally and externally; in addition, our outreach programs were held as in-person events. In addition to adjusting our perception of what constitutes a “normal” work environment RIO agency staff successfully found ways to innovate program operations by transitioning to digital processes internally and developing virtual outreach opportunities. While we hope to achieve even greater efficiencies with a new system the change process has already started.

One major accomplishment of the program was the initiation of the Pension Administration System (PAS) project. With the support of the 2019 legislative assembly the TFFR program was authorized to initiate a multi-year project that seeks to review and update our current business practices and ultimately procure and implement a new software solution. Phase 1 out of 3 of the project is scheduled for completion in the current biennium, but a substantial amount of work is anticipated to be performed next biennium.

Program goals include maintaining current staff level to achieve: (1) fiduciary obligations, (2) performance expectations and (3) agency initiatives. Agency initiatives include completing Phase 2 and initiating Phase 3 of the PAS project, pursuing ITD unification, and maintaining a budget reflective of best practices to meet unexpected needs.

#### **IV. Agency Budget Status Current and Future (Items 5, 6, 9, 10,12 and 14)**

##### **A. 2019-2021 Budget Status**

**The RIO 2019-21 base budget is \$5.869 million.** Salaries and wages for RIO’s current 20 FTEs make up 84% of that total. RIO had five vacancies during the first half of the biennium, including two very long-term employees who retired after many successful years with the agency. The TFFR Retirement Services Manager retired on February 28, 2020, after more than 28 years with RIO. The Deputy Executive Director/Chief Retirement Officer, Fay Kopp, retired on April 30, 2020, after more than 32 years with RIO. One internal promotion was awarded to fill the Retirement Services Manager position and was filled on March 1, 2020. The Deputy Executive Director/Chief Retirement Officer position was filled on June 1, 2020. Janilyn Murtha, former Assistant Attorney General assigned to RIO, was chosen to fill the Deputy position. RIO is currently fully staffed.

Base operating expenses were approved at \$889,000 for the 2019-21 biennium. This was an increase of \$26,000 or 3% from the previous biennium’s approved operating expenses. The main driver of the increase was a desire to provide board members and staff with more educational opportunities in order to meet the fiduciary obligations of program management after needing to decrease funding for this purpose in the 2017-19 biennium request.

RIO continues to investigate long-term cost savings options and has found savings in the areas related to the printing and mailing of newsletters and other similar materials to active members of the TFFR retirement program. TFFR engaged with employers to leverage their assistance in disseminating program information to active members through the use of emails and the RIO website. It is anticipated that RIO will save nearly \$20,000 per biennium due to this process change.

The contingency line item was reduced in the 2017-19 biennium and held steady in the 2019-21 biennium. The \$30,000 reduction in the 2017-19 biennium amounted to a 37% reduction. This line item is reserved for expenses that are outside of normal operations and are difficult to plan. In the past, this line item has been used for executive search firms to assist in filling the Executive Director/CIO position. Due to the



nature of these types of expenses, the costs can be high. The average expenditures for executive searches ranged from \$84,000-to-\$110,000 per search in the last decade, therefore making the reduction to this line concerning. As we plan for the future, RIO is exploring other cost saving opportunities such as relocation of our physical operations which may require the expenditure of one time moving expenses.

#### B. Budget Status as of December 31, 2020

	2019-21 Approved Budget	Actual Expenses through 12/31/2020	Estimated Remaining Expenses	Estimated Total 2019-21 Expenses	Estimated 2019-21 Ending Balance
Salaries & Benefits	\$ 4,928,230	\$3,574,792	\$ 1,269,275	\$ 4,844,067	\$ 84,163
Operating Expenses	888,934	444,086	224,933	669,019	219,915
Contingency	52,000	-	-	-	52,000
Total Base	<u>\$ 5,869,164</u>	<u>\$4,018,878</u>	<u>\$ 1,494,208</u>	<u>\$ 5,513,086</u>	<u>\$ 356,078</u>

#### C. 2021-23 Budget Request

	2019-21 Approved Budget	Remove 2019-21 One-Time Funding	2021-23 Legislative Base	2021-23 Base Request	Governor's Additions	2021-23 Total Governor's Budget	Additional Amendment Requests to HB1022	Total Request (including requested amendments)
SALARIES & BENEFITS	4,978,230	(50,000)	4,928,230	5,088,164	186,031	5,274,195	221,225	5,495,420
OPERATING	3,538,934	(2,650,000)	888,934	781,000	73,123	854,123	15,000	869,123
CONTINGENCY	52,000	-	52,000	-	52,000	52,000	73,000	125,000
CAPITAL ASSETS	6,300,000	(6,300,000)	-	-	-	-	-	-
TOTAL	<u>14,869,164</u>	<u>(9,000,000)</u>	<u>5,869,164</u>	<u>5,869,164</u>	<u>311,154</u>	<u>6,180,318</u>	<u>309,225</u>	<u>6,489,543</u>
FTE	20.0		20.0	20.0		20.0	1.0	21.0

**RIO's 2021-23 Base Budget request is \$5.869 million.** Salaries and wages for RIO's 20 FTEs make up over 86% of that total. Due to the large number of vacancies in the first half of the biennium, RIO experienced first-hand the challenges associated with market demand for highly skilled and qualified workers. RIO was able to hire extremely qualified staff, however, that experience resulted in the need to equitably adjust salary levels, not just for the vacant positions, but also for veteran staff, whose average state service is over 17 years. Maintaining current staffing levels is a priority in the 2021-23 budget request. Current staffing is needed to meet our fiduciary obligations and program goals, especially as the agency maintains current processes and operations during implementation of the PAS project. This need required a shift in funding from the operating and contingency lines to the salaries line. The Governor's budget guidelines required that the total base budget request not exceed the current biennium base budget, therefore the decision was made to decrease the operating and contingency lines in order to accommodate the required increase in the salary line to maintain current staffing. However, even with that shift, \$25,000 had to be included in an optional request to fully fund the salary line at current levels.

Operating expenses have been sharply reduced over the last decade including the 12% reduction in the current base budget request in addition to a 13% cut in the 2017-19 biennium. Major cost savings have been achieved by sharply reducing printing and mailing costs by significantly enhancing RIO's website and digital information transfer and communication methods in recent years; particularly in the past year

due to the global pandemic and the need to move to more digital means for communications. This important transition is expected to continue into the next biennium with the TFFR PAS upgrade. Removing expenses related to maintaining the current TFFR software solution allowed us to decrease operating expenses in the base budget request. This is only possible because we are in a transition phase between our existing PAS and a new system. While we reduced the amount of funds necessary to continue to update and modify the existing system in the short-term (2021-23 biennium), once a new system is implemented we will need to request a return of funding to pay for the maintenance of the new system (likely in the 2023-25 biennium).

**RIO's Total 2021-23 Budget Request is \$6.49 million including \$311,154 from the Governor's Budget and \$309,225 in additional amendments RIO is requesting today. The Governor's additions to the base budget of \$311,154** include \$186,031 for 2% annual salary increases plus additional benefit costs and \$25,000 of "underfunded" salaries, \$73,123 to join the Governor's IT Unification plan by utilizing NDIT Desktop Support; and \$52,000 to re-instate the current appropriation level in our Contingency line. **RIO's Additional Amendment Requests of \$309,225** include \$11,225 in the salaries line to correct a beginning salary amount for one position that was on probationary status when the original budget request was submitted; salaries and operating costs of \$225,000 for a new Public Information Officer (PIO), \$73,000 to more adequately fund our Contingency line (up to \$125,000) for unanticipated expenses in the coming biennium, and a modification of our Salary and Operating expense line items to allow our two FTE positions dedicated to information services to participate in the Governor's IT Unification effort through allocation to NDIT.

**RIO's contingency appropriation is reserved for expenses outside of normal operations and difficult to forecast.** During the last decade, this line item has been used for executive search firms to assist in filling the Exec. Director/Chief Investment Officer position, which are estimated to approximate \$125,000 per search (and ranged from \$82,000 in 2011 to \$110,075 in 2013). As stated, RIO is also exploring alternative cost savings such as relocation of our physical offices, which may result in long term savings but require one-time expenses related to moving costs.

RIO Total Agency Budget vs Actual Comparison				
	Budget	Actual	Unspent \$	Unspent %
2005-07	3,488,727	3,079,516	409,211	11.7%
2007-09	3,371,136	3,086,439	284,697	8.4%
2009-11	3,705,650	3,514,813	190,837	5.1%
2011-13	4,232,954	3,734,728	498,226	11.8%
2013-15	4,899,369	4,361,844	537,525	11.0%
2015-17	5,413,425	5,085,472	327,953	6.1%
2017-19	5,340,054	5,094,609	245,445	4.6%
2019-21	5,869,164			

RIO Contingency Budget		
	Actual	Budget
2005-07	-	82,000
2007-09	11,441	82,000
2009-11	82,000	82,000
2011-13	48,088	82,000
2013-15	61,987	82,000
2015-17	8,999	82,000
2017-19	-	52,000
2019-21		

**The PIO position request is made as a result of a growing awareness that our current staffing levels have not allowed us to meet the needs of public demand for strategic and coordinated communications.** For example, there is an increasing public interest in SIB client funds which have grown from \$5 billion in 2010 to \$18 billion in 2020, including North Dakota's \$8 billion Legacy Fund and TFFR's \$2.9 billion pension fund. Further, as part of the PAS project RIO obtained a consultant's analysis of our TFFR communication efforts which highlighted areas of growth and the need for the creation and implementation of a strategic communication plan. An FTE for a full-time PIO will allow RIO to increase the speed at which information is disseminated to the public and the quality and quantity of that information for both the investment and retirement programs. **RIO's additional amendment request of \$309,225 is only a 5% increase over the Governor's Recommended Budget while noting SIB client investments increased by roughly 50% from \$12 billion to \$18 billion from 2016 to 2020.**

#### **D. TFFR PAS Project (Items 7, 8 & 10)**

***The TFFR Pension Administration Software Modernization Project*** includes funding within the capital assets, operating and salaries line items to identify, purchase and implement an upgrade or replacement of the current pension administration software (PAS) utilized by TFFR.

The RIO 2019-21 appropriation included one-time funding of \$9 million for the TFFR Pension Administration System project. After discussions with the Governor's Office in the early stages and addressing challenges resulting from the global pandemic, the project is well underway. During the current biennium an Executive Steering Committee (ESC) was approved, the project charter was developed and approved, a RFP for a project consultant was issued and selection of a project consultant was made. Thus far significant milestones in Phase One of the consulting agreement have occurred including evaluations of our current business processes, security and communications assessments.

Actual expenditures from the \$9 million project budget total approximately \$65,000. Expenditures were paid for NDIT and NDAG consulting costs and progress payments to the project consultant. We anticipate that \$411,527 of the current project consulting contract will be paid over the next few months as the process study and procurement phases of the contract are completed. RIO respectfully requests an amendment to HB1022 allowing for the remaining balance of the \$9 million to be carried over into the 2021-23 biennium.

Approval for this project was presented to and approved by the legislature in the 2019 session because the TFFR Board and RIO staff believed it necessary and prudent to use TFFR funds (special fund, not general fund) to upgrade or replace the current 15-year old system with a more technologically advanced, web based system. A new system will provide significant improvements in functionality, efficiency and system security for TFFR members, employers, and staff. An updated system is also needed in order for the TFFR program to re-engineer business processes and automate TFFR pension administration activities, reporting capabilities, electronic communications and services. The current PAS has many limitations, and without an updated PAS, TFFR will need to spend trust fund assets trying to maintain an old system, instead of investing in newer technology that includes the necessary functionality to efficiently administer the plan.

Based on the anticipated benefits RIO believes there is an opportunity for post implementation efficiencies that could result in future budget reductions in the TFFR pension program. Potential budget reductions are not quantifiable at this point in the project planning. However, if TFFR is able to automate current pension administration processes with a new system and transition to secure digital communications with members and employers, at a minimum, it is expected to save printing and mailing costs and allow users to better utilize their skills and knowledge in other needed areas of retirement program administration.

In order to successfully complete the project within the anticipated project timeline, it will be necessary to maintain all current budget and staffing levels in order to re-engineer business processes and maintain adequate service levels during the implementation.

#### **CONCLUSION**

Based on the information provided within this testimony, RIO respectfully requests the House approve the requested amendments to RIO's budget request set forth in Attachment 2.

**Attachments:**

1. Full Budget Summary page showing details by program
2. Requested Amendments
3. TFFR PAS Project Summary
4. Org chart
5. TFFR Fast Facts
6. SIB Fast Facts

**RETIREMENT AND INVESTMENT OFFICE  
DEVELOPMENT OF 2021-23 BUDGET REQUEST  
HOUSE BILL 1022**

	DEVELOPMENT OF BASE BUDGET REQUEST														
										2021-23 Requested Budget Changes (Base)					
	2019-21 Approved Budget			Remove 2019-21 One-Time Funding			2021-23 Legislative Base						2021-23 Base Request		
	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO
SALARIES & BENEFITS	2,486,818	2,491,412	4,978,230	(50,000)	-	(50,000)	2,436,818	2,491,412	4,928,230	(17,684)	177,618	159,934	2,419,134	2,669,030	5,088,164
OPERATING	3,351,459	187,475	3,538,934	(2,650,000)	-	(2,650,000)	701,459	187,475	888,934	(128,616)	20,682	(107,934)	572,843	208,157	781,000
CONTINGENCY	26,000	26,000	52,000	-	-	-	26,000	26,000	52,000	(26,000)	(26,000)	(52,000)	-	-	-
CAPITAL ASSETS	6,300,000	-	6,300,000	(6,300,000)	-	(6,300,000)	-	-	-	-	-	-	-	-	-
TOTAL	12,164,277	2,704,887	14,869,164	(9,000,000)	-	(9,000,000)	3,164,277	2,704,887	5,869,164	(172,300)	172,300	-	2,991,977	2,877,187	5,869,164
FTE	11.7	8.3	20.0				11.7	8.3	20.0				11.7	8.3	20.0
												-12.1%			

	DEVELOPMENT OF FINAL BUDGET REQUEST														
	2021-23 Base Request			Governor's Additions			2021-23 Total Governor's Budget			Additional Amendment Requests to HB1022			2021-23 Total Request (including requested amendments) *		
	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO
SALARIES & BENEFITS	2,419,134	2,669,030	5,088,164	99,848	86,183	186,031	2,518,982	2,755,213	5,274,195	105,000	116,225	221,225	2,623,982	2,871,438	5,495,420
OPERATING	572,843	208,157	781,000	43,691	29,432	73,123	616,534	237,589	854,123	7,500	7,500	15,000	624,034	245,089	869,123
CONTINGENCY	-	-	-	26,000	26,000	52,000	26,000	26,000	52,000	36,500	36,500	73,000	62,500	62,500	125,000
CAPITAL ASSETS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	2,991,977	2,877,187	5,869,164	169,539	141,615	311,154	3,161,516	3,018,802	6,180,318	149,000	160,225	309,225	3,310,516	3,179,027	6,489,543
FTE	11.7	8.3	20.0				11.7	8.3	20.0	0.5	0.5	1.0	12.2	8.8	21.0

Salaries (Optional Request #1):  
Governor added back \$25,000 for underfunded salary line per optional request

Salaries: Governor's recommended 2% per year plus add'l cost for benefits (\$161,031)

Operating (Optional Request #2):  
Governor approved optional package request to join NDIT Desktop Support

Contingency (Optional Request #3-partial): Governor added back \$52,000 of the \$125,000 requested in optional request.

Correction: \$11,225 to correct salary error in original request

1 FTE: \$210,000 salary and benefits for Public Information Officer position (Grade 106)

Operating: \$15,000 for add'l expenses for add'l FTE

Contingency: \$73,000 increase

\* Does not include carry-over of one-time funding included as amendment request.

## Requested Amendments to HB 1022 (Item 13)

SECTION 4. EXEMPTION. The amount appropriated in section 1 of chapter 47 of the 2019 session laws for the pension administration system project is not subject to section 54-44.1-11 and any unexpended funds are available for completing the project during the biennium beginning July 1, 2021, and ending June 30, 2023.

	Salaries & Benefits	Operating	Contingency	Total	FTE
<b>Base Budget Changes</b>	<b>159,934</b>	<b>(107,934)</b>	<b>(52,000)</b>	<b>-</b>	
<b>Governor's Recommendations</b>					
Restore full funding for 20 current FTEs (optional request #1)	25,000			25,000	
Governor's 2% salary increases and benefit funding	161,031			161,031	
NDIT desktop support (optional request #2)		70,920		70,920	
Additional MS 365 costs added by Governor		2,203		2,203	
Restore current contingency line funding (optional request #3-partial)			52,000	52,000	
<b>Total included in Governor's recommendation</b>	<b>186,031</b>	<b>73,123</b>	<b>52,000</b>	<b>311,154</b>	
<b>Additional Agency Requests</b>					
Correction for incorrect salary in original budget request	11,225			11,225	
Additional FTE for Public Information Officer	210,000			210,000	1
Additional operating expenses for new FTE		15,000		15,000	
Remove 2 FTE for IT Unification (move to operating)	(440,540)	440,540		(0)	(2)
Increase contingency line funding			73,000	73,000	
<b>Total additional agency request</b>	<b>(219,315)</b>	<b>455,540</b>	<b>73,000</b>	<b>309,225</b>	<b>(1)</b>
<b>Total Amendment Request</b>	<b>126,650</b>	<b>420,729</b>	<b>73,000</b>	<b>620,379</b>	<b>(1)</b>