

Re-engrossed House Bill 1022

North Dakota Retirement and Investment Office (RIO) Testimony before the Senate Appropriations Committee

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I. RIO Programs & House Action Impact Overview

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 expenditures for the SIB are allocated directly to the client funds and paid out of their invested assets/earnings. All 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 is currently authorized for 20 FTEs and there are no vacant positions. An organizational chart is attached to this presentation.

The following summarizes the impact to agency operations resulting from House action on HB 1022; and which will be discussed in greater detail throughout our presentation:

Request	House Action	Impact
PAS Project Carryover	Approved	Continuation of Project from 2019-2021 biennium.
PIO FTE Request	Removed	RIO has no current FTE dedicated to strategic communication for either program. PIO recommended by consultant as part of PAS review and is needed for in-state investment initiative.
IT Unification	Removed	RIO approved for unification by NDIT in December 2020; third party cyber security assessment in February 2021 supports benefits of unification; anticipate budget neutral impact. <u>Without</u> unification need to add \$70K in Desktop support <u>or</u> \$45K in replacement equipment cost without desktop support.
Increase Contingency Fee from \$52K to \$125K.	Removed	RIO is exploring moving the agency to a state owned building reflecting a savings of more than \$50K per biennium. Moving costs

		are estimated at approximately \$46K, however, the cap on contingency funds leaves no room for error. Request increased contingency funding to facilitate option to move.
HB 1425 Fiscal Note Impact	House passed HB 1425 but did not amend HB 1022 to include fiscal note.	1 additional FTE for an investment analyst position to facilitate an in-state investment initiative.

II. State Investment Board (SIB)

The SIB is responsible for investment of nearly \$18.5 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 01/31/21
PENSION POOL PARTICIPANTS	
Teachers' Fund for Retirement	\$2,956,324,106
Public Employees Retirement System	3,669,732,777
Bismarck City Employee Pension Fund	118,490,380
Bismarck City Police Pension Fund	47,512,530
City of Grand Forks Pension Fund	73,503,177
Grand Forks Park District Pension Fund	8,512,899
Subtotal Pension Pool Participants	6,874,075,870
INSURANCE POOL PARTICIPANTS	
Workforce Safety & Insurance Fund	2,247,955,963
State Fire and Tornado Fund	24,563,155
State Bonding Fund	3,851,775
Petroleum Tank Release Fund	6,265,155
Insurance Regulatory Trust Fund	1,181,325
State Risk Management Fund	4,189,959
State Risk Management Workers Comp	4,072,205
Cultural Endowment Fund	565,038
Budget Stabilization Fund	749,904,605
ND Assoc. of Counties (NDACo) Fund	7,382,806
City of Bismarck Deferred Sick Leave	812,332
PERS Group Insurance	37,035,446
State Board of Medicine	2,679,352
City of Fargo FargoDome Permanent Func	47,673,720
Lewis & Clark Interpretive Center Endowm	875,381
Attorney General Settlement Fund	1,004,186
Veterans' Cemetery Trust Fund	355,932
Subtotal Insurance Pool Participants	3,140,368,335
INDIVIDUAL INVESTMENT ACCOUNTS	
Legacy Fund	8,166,501,207
Retiree Health Insurance Credit Fund	166,859,515
Job Service of North Dakota Pension Func	96,161,250
Tobacco Prevention and Control Trust Fun	1,594,148
TOTAL AUM	\$18,445,560,326

SIB members include: 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.

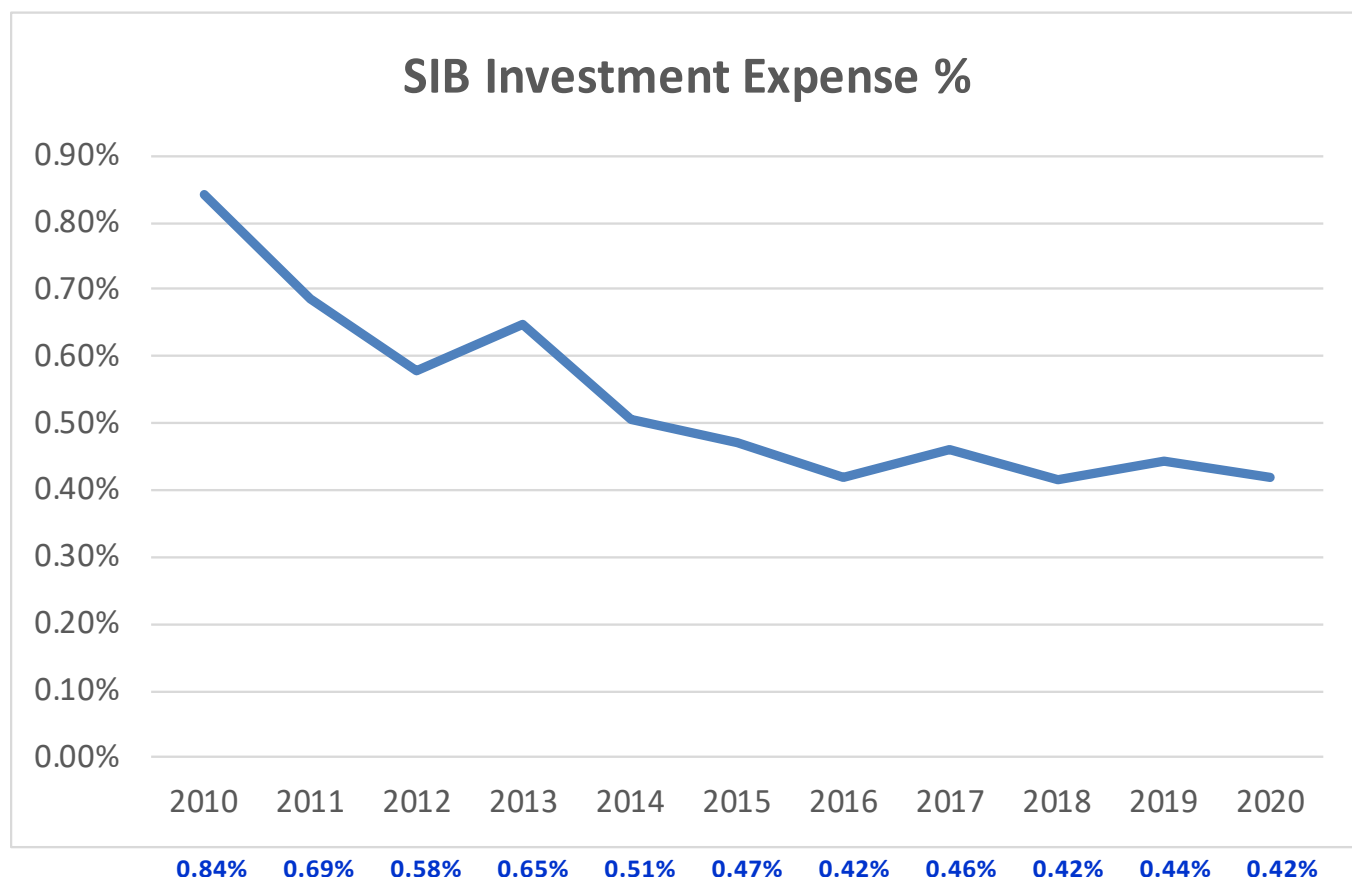
The staff of RIO/SIB administers the day-to-day operations of the investment program by assisting client funds with asset/liability studies; conducting investment manager searches; monitoring guidelines and asset allocations of each client fund; managing the consultant, custodian and investment manager 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.

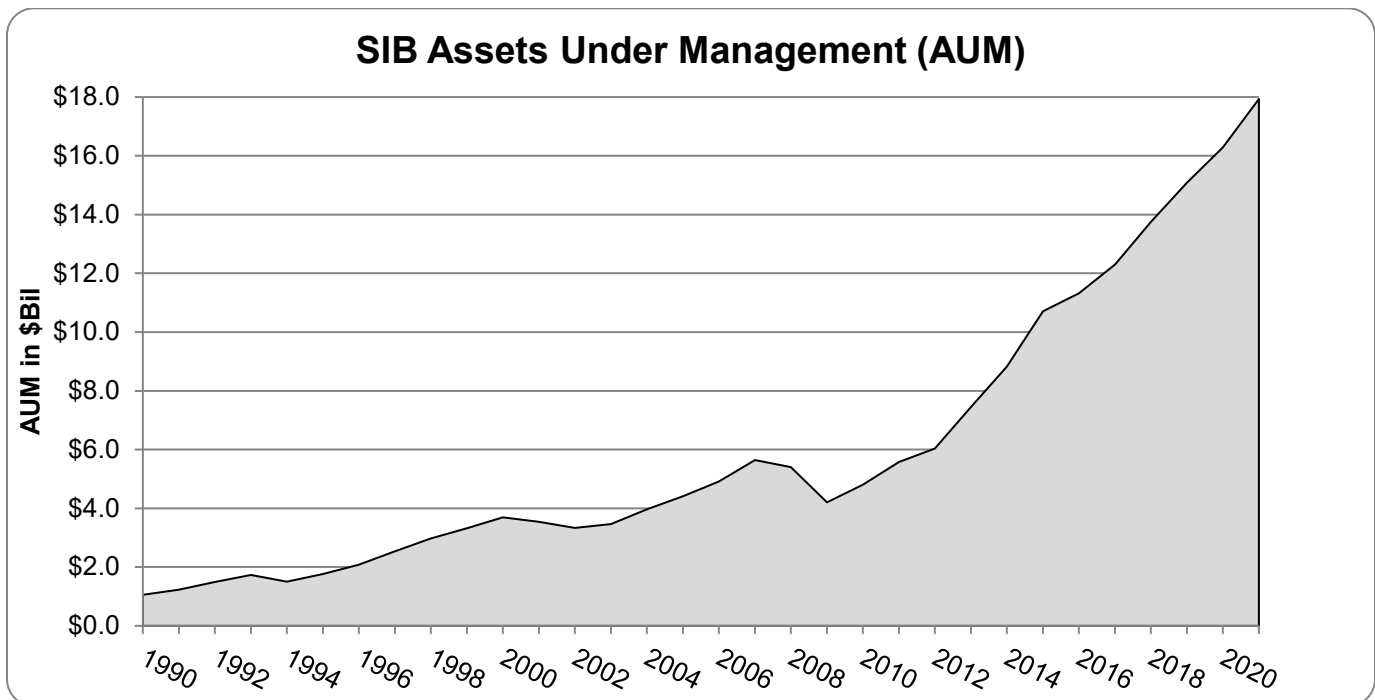
The SIB’s prudent use of **active investment management has generated over \$300 million of incremental income for our clients in the last 5-years including over \$150 million of above benchmark returns for the Legacy Fund.** As example, the Legacy Fund earned a net investment return of 9.25% for the 5-years ended 12/31/2020, which exceeded the Policy Benchmark of 8.60% 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 the last 5 years = \$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 over \$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.



B. SIB Assets Under Management (AUM):

SIB investments have grown from less than \$5 billion in 2010 to over \$18 billion in 2021. North Dakota's Legacy Fund was initially funded in 2011 and approximates \$8.2 billion at 01/31/2021.



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 12/31/2020 including Legacy Fund, PERS, TFFR, WSI and Budget Stabilization Fund. As example, Legacy Fund earned 9.25% for the 5 years ended 12/31/2020, exceeding the Policy Benchmark Return by 0.65%. As previously discussed, the SIB use of active management created \$162.5 million of incremental income for Legacy for the 5-years ended 12/31/2020 (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 \$110 million for the 5 years ended 12/31/2020 (e.g. a 5-year average combined balance of over \$5 billion x 0.45% = \$22.5 million/year x 5 years = \$112.5 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 third of Callan's Public Fund Sponsor Database for the 5-years ended 12/31/2020, with a net return of 9.71% exceeding its policy benchmark of 9.26% by 0.45% 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, 5 and (9 or) 10-years ended 12/31/2020, including the Legacy Fund, PERS, TFFR, WSI and Budget Stabilization Fund.**

SIB Five Largest Clients (AUM as of 12/31/2020)	Current FYTD 12/31/2020	1 Yr Ended 12/31/2020	5 Yrs Ended 12/31/2020	10 Yrs Ended 12/31/2020
Legacy Fund \$8.16 billion				Since 10/1/2011
Total Fund Return - Net	14.37%	12.22%	9.25%	6.03%
Policy Benchmark Return	13.32%	12.08%	8.60%	5.28%
Excess Return	1.06%	0.14%	0.65%	0.75%
PERS \$3.67 billion				
Total Fund Return - Net	15.10%	12.19%	9.77%	8.34%
Policy Benchmark Return	14.52%	11.96%	9.27%	7.88%
Excess Return	0.58%	0.23%	0.50%	0.46%
TFFR \$2.955 billion				
Total Fund Return - Net	14.86%	12.07%	9.69%	8.29%
Policy Benchmark Return	14.66%	12.00%	9.24%	7.72%
Excess Return	0.20%	0.07%	0.45%	0.57%
WSI \$2.263 billion				
Total Fund Return - Net	8.16%	9.85%	7.84%	7.29%
Policy Benchmark Return	6.61%	9.54%	6.65%	5.90%
Excess Return	1.54%	0.31%	1.20%	1.39%
BSF \$747 million				
Total Fund Return - Net	2.80%	3.45%	2.53%	2.15%
Policy Benchmark Return	0.35%	3.22%	2.14%	1.29%
Excess Return	2.45%	0.23%	0.39%	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.

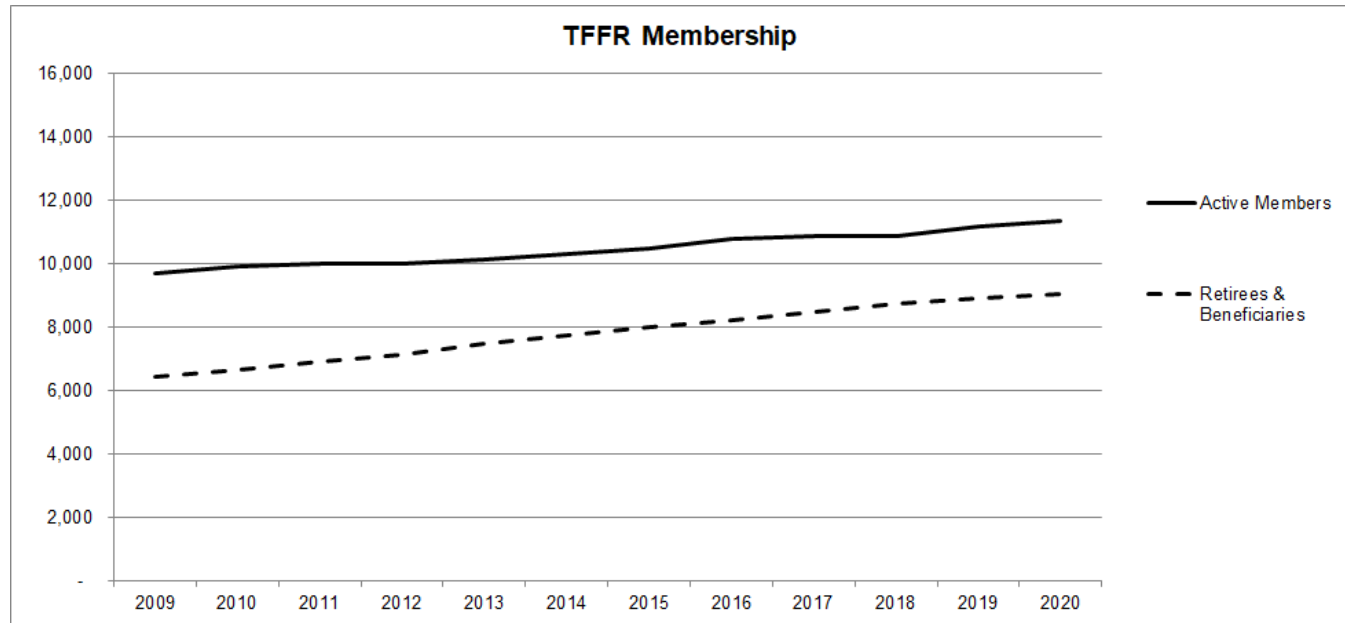
The five largest SIB clients earned net investment returns which exceeded their Policy Benchmark Returns for the 5-years ended 12/31/2020 as highlighted in the table above. Based on these funds averaging over 0.50% of Excess Return above their Policy Benchmarks the last 5-years, the SIB was successful 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 12/31/2020 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.

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, and 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
2019-20 Total Employers	213

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	9036
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 to our outreach programs which were held as in-person events. By 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 initiated 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 (March 2021), but a substantial amount of work is scheduled for next biennium.

IV. Agency Budget - Current and Future

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 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, but would also result in future cost savings of more than \$50,000 per biennium.

B. Budget Status as of December 31, 2020

Due to diligent management of expenses, coupled with the pandemic, RIO anticipates a larger than average appropriation balance at the end of the 2019-21 biennium as estimated below.

	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

Agency budget goals include maintaining current staff level to achieve: (1) fiduciary obligations, (2) performance expectations and (3) agency initiatives. 2021-2023 agency initiatives include completing Phase 2 and initiating Phase 3 of the PAS project, allocating sufficient resources for TFFR and SIB strategic communication efforts, pursuing NDIT unification and improved cybersecurity, and maintaining a budget reflective of best practices to meet unexpected needs including potential relocation.

	Salaries & Benefits	Operating	Contingency	Total	FTE
Legislative Base Budget	4,928,230	888,934	52,000	5,869,164	20
Base Budget Changes	159,934	(107,934)	(52,000)	-	
Governor's Recommendations					
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	
Total included in Governor's recommendation	186,031	73,123	52,000	311,154	
House Changes					
Correction for incorrect salary in original budget request	11,225			11,225	
Remove Governor's 2% salary increase and benefit funding	(161,031)			(161,031)	
Removed NDIT desktop support		(70,920)		(70,920)	
House salary and benefits changes	107,416			107,416	
Total House Changes	(42,390)	(70,920)	-	(113,310)	
Current HB1022 Second Engrossment	5,231,805	783,203	52,000	6,067,008	20
Requested Amendments					
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)	(449,476)	449,476		-	(2)
Increase contingency line funding			73,000	73,000	
Total Requested Amendments	(239,476)	464,476	73,000	298,000	(1)
Total Requested Appropriation	4,992,329	1,247,679	125,000	6,365,008	19

RIO's 2021-23 Base Budget request was \$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. This funding was reinstated by the Governor and the House.

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. Reducing 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 \$6.365 million including \$197,844 approved and added by the House and \$298,000 in additional amendments RIO is requesting today. The House additions to the base budget include \$36,225 of "underfunded" salaries, \$2,203 in additional MS 365 costs, \$52,000 to reinstate the current appropriation level in the contingency line and \$107,416 for the state employee salary package.

RIO's Additional Amendment Requests of \$298,000 include 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 State's IT Unification effort through allocation to NDIT. It should be noted that RIO did not include \$45,000 of IT equipment replacement costs in its budget request due to the request for IT unification (which includes desktop support/replacement). The House did not approve IT unification, therefore in order to facilitate ongoing agency operations RIO is requesting the Senate to include one of the following 1) IT Unification (budget neutral transfer of cost for two FTEs from salaries to operating); OR 2) \$70K for just Desktop Support; OR 3) additional \$45K for IT equipment replacement cost.

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. As part of the PAS project a third party consultant was retained to perform a Communications Assessment, which was presented to the TFFR Board at its January 2021 meeting. The assessment provided a strong business case for the addition of a Public Information Officer (PIO) position for the agency. This position would be used to support strategic communication efforts for both the TFFR and SIB programs. The consultant issued a weighted average score of 39%, measuring our communication against the criteria proven to result in effective benefit communication. Further, 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. Should HB 1425 or similar legislation become law, a PIO position would be instrumental in developing a communication plan for an in-state investing initiative. 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. Currently, RIO does not have an FTE dedicated to strategic communication development, unlike many other agencies including NDPERS.

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 to hire executive search firms to assist in filling the Executive 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 of \$53,600 per biennium but require one-time expenses related to moving costs of approximately \$46,325. Although this line item is used infrequently, RIO deems it prudent to be adequately funded.

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		

RIO's additional amendment request of \$298,000 is only a 5.1% increase to the base budget while noting SIB client investments increased by roughly 50% from \$12 billion to \$18 billion from 2016 to 2020.

V. TFFR PAS Project

The TFFR Pension Administration Software Modernization Project requires funding within the capital assets, operating and salaries line items to identify, purchase and implement an upgrade or replacement of the current pension administration system (PAS) utilized by TFFR. The RIO 2019-21 appropriation included one-time funding of \$9 million for the TFFR PAS 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 created and approved, the project charter was developed and approved, an 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, and all Phase One Deliverables are expected to be completed in March 2021.

Actual expenditures paid from the \$9 million project budget total approximately \$135,000 through the end of February. Expenditures were paid for NDT and NDAG consulting costs and progress payments to the project consultant. We anticipate that an additional \$221,000 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 requested an amendment to HB1022 allowing for the remaining balance of the \$9 million to be carried over into the 2021-23 biennium. This is included in the re-engrossed version of the bill approved by the House.

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.

VI. CONCLUSION

Based on the information provided within this testimony, RIO respectfully requests the Senate approve the requested amendments to RIO's budget request set forth above and in Attachment 1.

Attachments:

1. Requested Amendments
2. TFFR PAS Project Summary
3. Org chart
4. TFFR Fast Facts
5. SIB Fast Facts

HB 1022 – Requested Amendments (Senate)

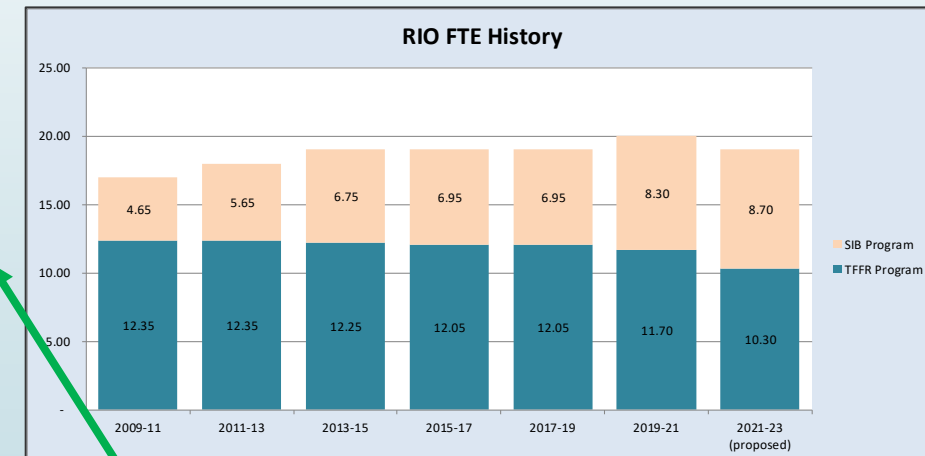
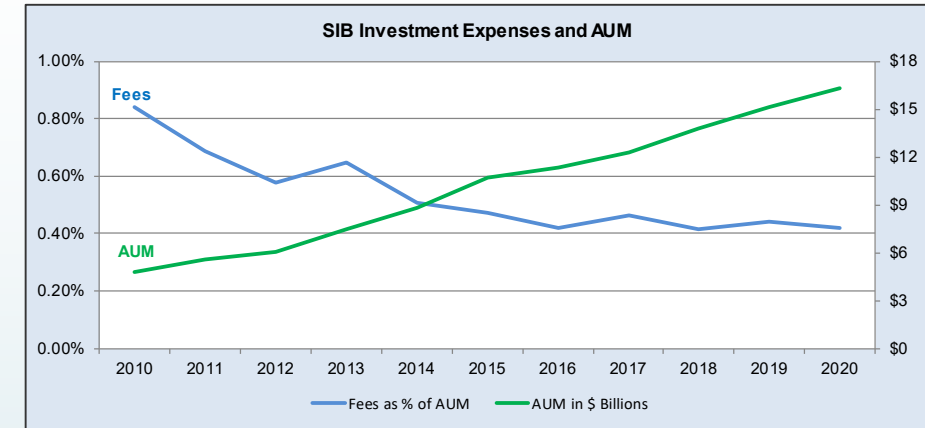
Retirement and Investment Office

	Salaries & Benefits	Operating	Contingency	Total	FTE
Legislative Base Budget	4,928,230	888,934	52,000	5,869,164	20
Base Budget Changes	159,934	(107,934)	(52,000)	-	
Governor's Recommendations					
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	
Total included in Governor's recommendation	186,031	73,123	52,000	311,154	
House Changes					
Correction for incorrect salary in original budget request	11,225			11,225	
Remove Governor's 2% salary increase and benefit funding	(161,031)			(161,031)	
Removed NDIT desktop support		(70,920)		(70,920)	
House salary and benefits changes	107,416			107,416	
Total House Changes	(42,390)	(70,920)	-	(113,310)	
Current HB1022 Second Engrossment	5,231,805	783,203	52,000	6,067,008	20
Requested Amendments					
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) **	(449,476)	449,476		-	(2)
Increase contingency line funding			73,000	73,000	
Total Requested Amendments	(239,476)	464,476	73,000	298,000	(1)
Total Requested Appropriation	4,992,329	1,247,679	125,000	6,365,008	19

**** If the IT Unification is not approved for RIO, additional operating line appropriation will be needed for IT Equipment replacement in the 2021-23 biennium based on the agency's equipment replacement schedule of 5-6 years. Last full replacement was in 2017. Estimated cost is \$45,000. IT equipment replacement is included in Desktop Support with IT Unification.**

RIO Budget – Executive Summary:

- 1) SIB investments increased from \$5 billion in 2010 to \$18 billion in 2020 (up 260%)
- 2) SIB fees declined from 0.84% in 2010 to 0.42% in 2020 (down 50%)
- 3) RIO Requested Amendments of \$298,000 represents only 5.1% increase from base budget;
- 4) Additional contingency line appropriation needed for possible RIO office move to State owned building (WSI) per on-going State leadership dialogue.



Please note requested amendments to House version

Net effect of PIO request and IT Unification is a decrease of 1 FTE for agency.

TFFR PAS Project Summary

Request

- Upgrade or replace TFFR pension software with web-based system.
- Carryover approved funding from 2019 legislative session.

Risks of Current PAS

- Current system is 15+ years old.
- Functionality and technical architecture of client-server system is outdated.
- Increased costs to maintain and support.
- Limited technical support.
- Limited functionality of member and employer online portals – read only.
- No electronic member communication and interaction.
- Inability to automate manual processes and re-engineer business processes.
- Inability to utilize secure digital communications w/members and employers.

Benefits of PAS Upgrade or Replacement

- Web based technology is standard.
- Re-engineer business processes and adopt best practices in pension administration.
- Enhanced member and employer self-service and security improvements.
- Straight-through-processing to automate enrollment, termination, retirement processing, calculations, communications, forms, and distribution
- Cost savings with digital communication, and reduced paper mailings.
- Improved staff efficiency.

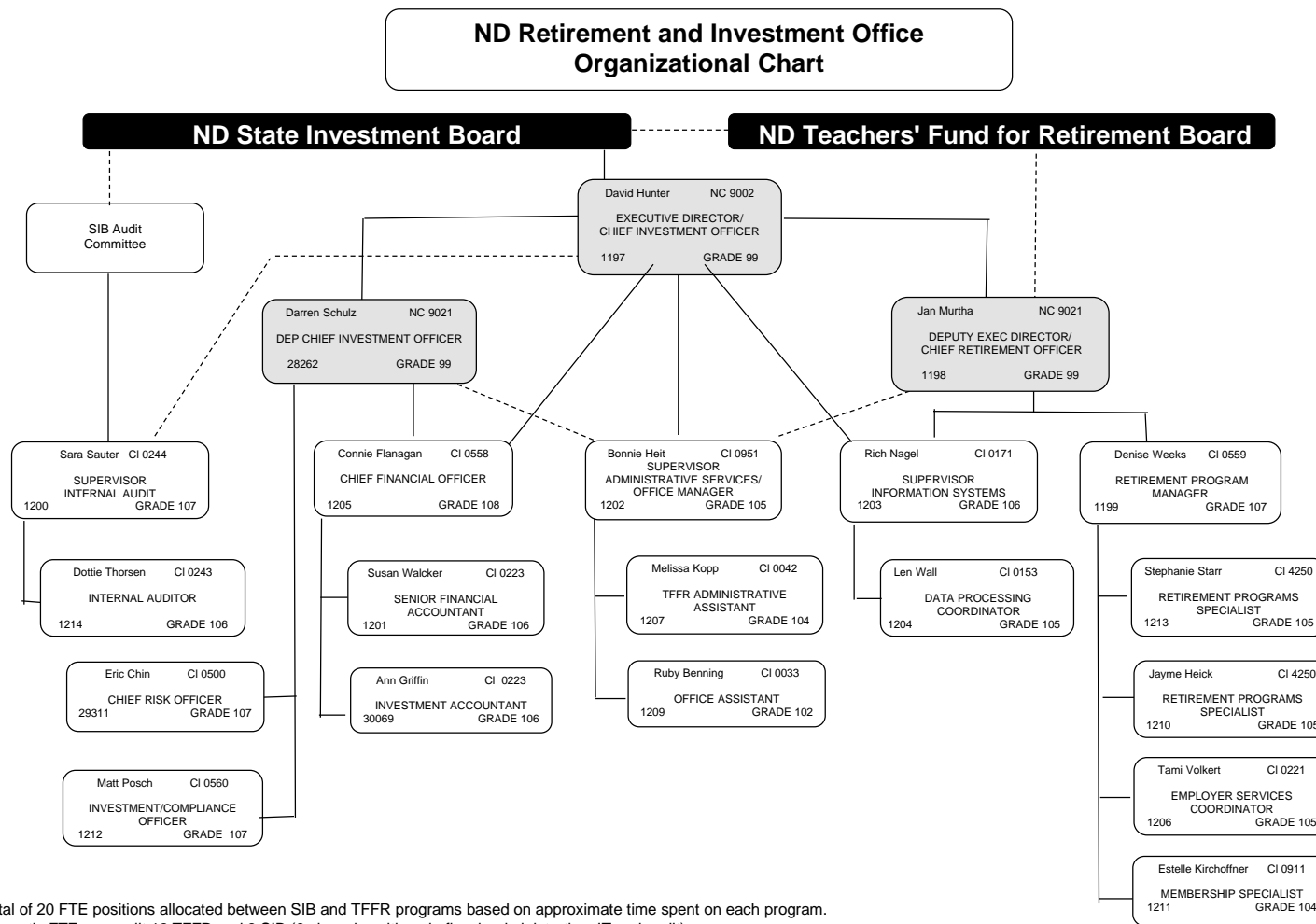
Estimated Cost

- Carryover 2019 legislative session \$9 million appropriation less expenditures from the current biennium.
- Includes external vendor costs, consulting costs, project management, and ITD, legal, and other project costs and contingencies.
- Special funds – no general funds.
- Budget proposal contains reduced operating expenses for current system due to anticipated transition; will need to request return of operating funding levels after new system is implemented.

Vendor Selection and Project Oversight

- Utilize state's procurement/RFP process to select consultant and software vendor
- Follow ITD requirements in managing major IT project
- Executive Steering Committee Oversight
- TFFR Board contract approval and project oversight to ensure TFFR trust fund assets are being appropriately spent

Jul-20



Total of 20 FTE positions allocated between SIB and TFFR programs based on approximate time spent on each program. Currently FTEs are split 12 TFFR and 8 SIB (8 shared positions in fiscal, administrative, IT and audit).

1. SIB is the Governing Board of RIO (per statute) and the Executive Director / Chief Investment Officer (ED/CIO) reports directly to SIB.
2. ED/CIO is responsible for all staffing of RIO office.
3. Deputy ED/Chief Retirement Officer (CRO) reports directly to the ED/CIO and functionally to TFFR Board.
4. Deputy CIO reports directly to the ED/CIO.
5. Chief Financial Officer (CFO) reports to the ED/CIO and Deputy CIO
6. Supervisor of Internal Audit reports directly to the SIB Audit Committee (for compliance matters) and the RIO ED/CIO (for day to day operational matters).
7. CFO and Fiscal & Investment Services report to the Deputy CIO.
8. Administrative & Office Services report directly to the ED/CIO and is functionally shared with the Deputy ED/CRO and Deputy CIO.
9. Retirement Program reports to the Deputy ED/CRO.
10. Supervisor of Information Services reports directly to the ED/CIO and Deputy ED/CRO.
11. RIO Executive Team includes the ED/CIO, Deputy CIO, Deputy ED/CRO & CFO.
12. RIO Management includes the Supervisor of Internal Audit, Administrative Services Supervisor, IT Supervisor, Retirement Program Manager and RIO Executive Team.

ND TFFR Fast Facts

FY End 6/30/2020

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.



MEMBERS

11,347 ACTIVE MEMBERS

9,036 RETIRED MEMBERS

213 EMPLOYERS

Member Stats

	Actives	Retirees
Avg. Annual Salary/Benefit	\$62,663	\$25,392
Avg. Service Credit	11.7 yrs	27.3 yrs
Avg. Current Age	41.8 yrs	72.3 yrs

MEMBER/EMPLOYER SATISFACTION: 3.9 (4.0 Scale)

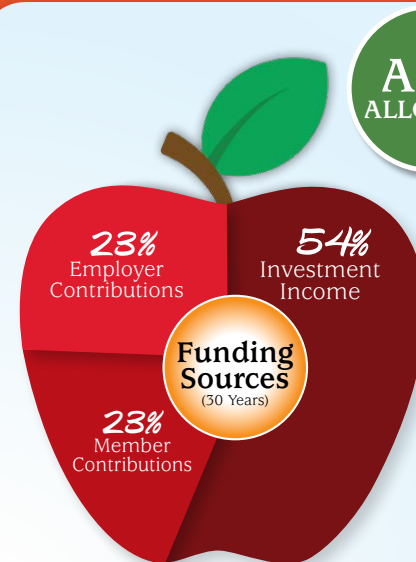
84%

of benefits are paid to ND residents.

\$224 million

was distributed to retirees in FY 2020.

Market value of TFFR assets **\$2.65 billion**



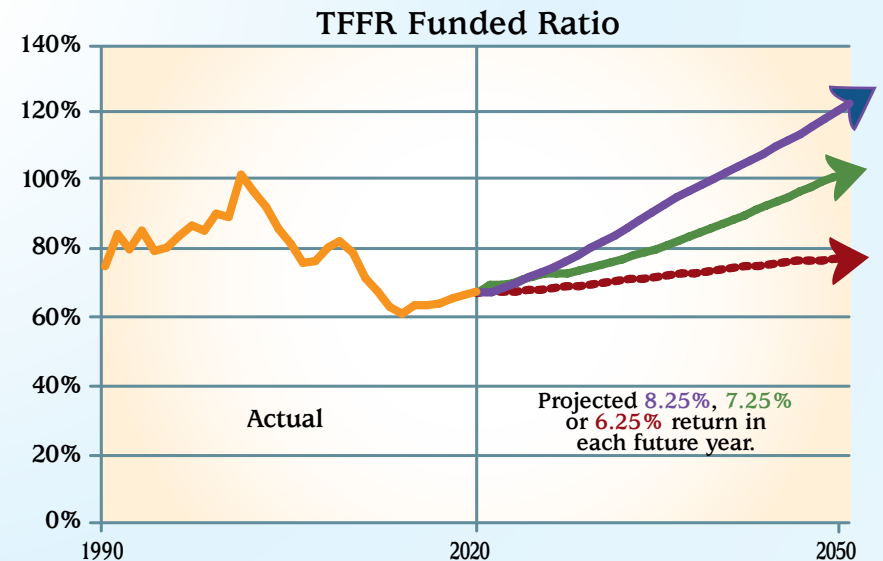
ASSET ALLOCATION



Investment Returns

1 year	3.5%
5 year	6.2%
30 year	7.5%

63% of BENEFITS are PREFUNDED



ND Teachers' Fund for Retirement, 3442 E. Century Avenue, P.O. Box 7100, Bismarck, ND 58507
1-800-952-2970 or 701-328-9885 | Email: rio@nd.gov | Website: www.rio.nd.gov

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.*

	Tier 1 Grandfathered Member	Tier 1 Non- Grandfathered Member	Tier 2 Member
Employee Contribution Rates (active and re-employed retirees)			
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	2%	2%	2%
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.			

SIB Highlights and RIO Mission Statement

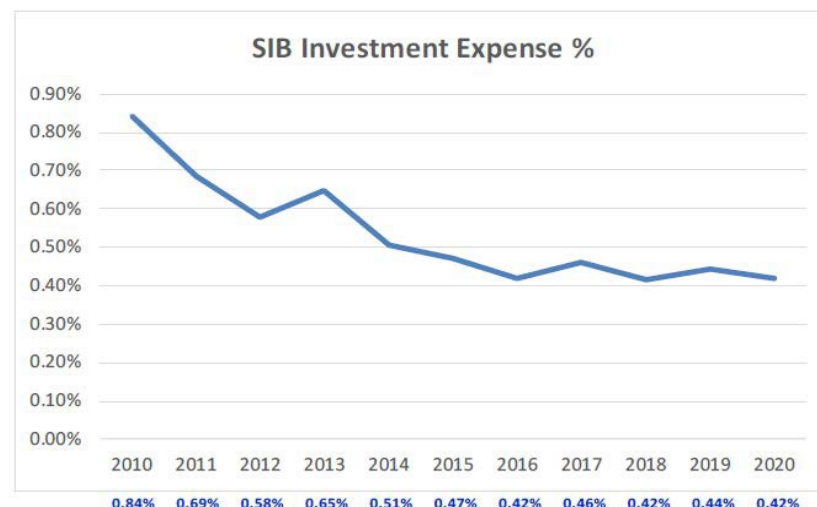
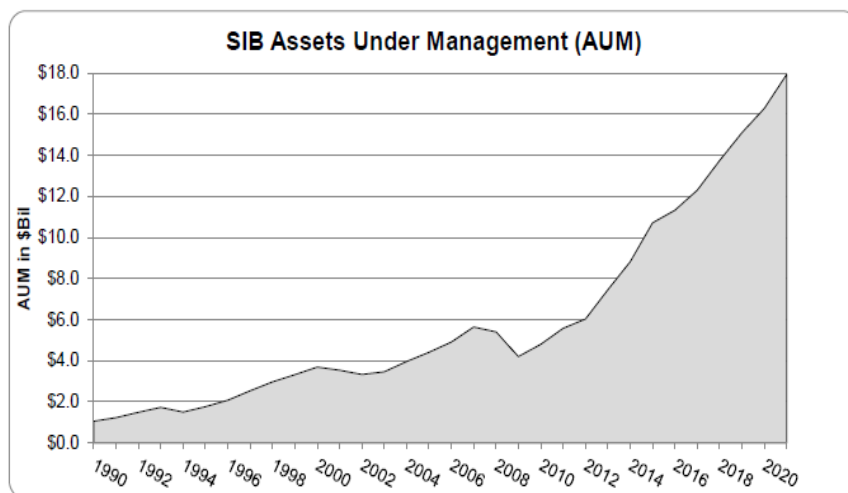
Updated as of December 31, 2020

SIB Highlights:

- SIB client assets have more than tripled from \$5 billion in 2010 to \$18.4 billion in 2020, while increasing by over \$5 billion (or 38%) in the last two years.
- SIB investment fees have been significantly reduced from 0.84% in 2010 to 0.42% in 2020.
- The SIB's keen focus on fees is saving our clients over \$20 million per year in lower costs which increases client net investment income.
- The SIB's prudent use of active investment management has generated \$125 million of incremental income for our clients in the last 2-years.
- SIB client investment performance compares favorably with our peers including U.S. public pension plans and larger sovereign wealth funds.
- Actual net investment returns for 98% of our SIB clients have exceeded approved performance benchmarks for the 5-years ended Dec. 31, 2020.
- Active management has generated over \$70 million of incremental income for Legacy Fund in the last half of 2020 after deducting all investment fees and expenses.
- SIB clients earned \$4.2 billion of net investment income in the two years ended 12/31/2020; including the Legacy Fund which earned \$1.9 billion with returns in excess of 18% in 2019 and 12% in 2020.

Mission Statement: RIO serves the State Investment Board (SIB) and exists in order that:

- 1) SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective investment manner and under the Prudent Investor Rule (NDCC 21-10-07 "Legal Investments").
- 2) Potential SIB clients have access to information regarding the services provided by the SIB.
- 3) SIB clients receive satisfactory services from our Board & RIO staff including TFFR, PERS, WSI and Legacy & Budget Stabilization Funds.

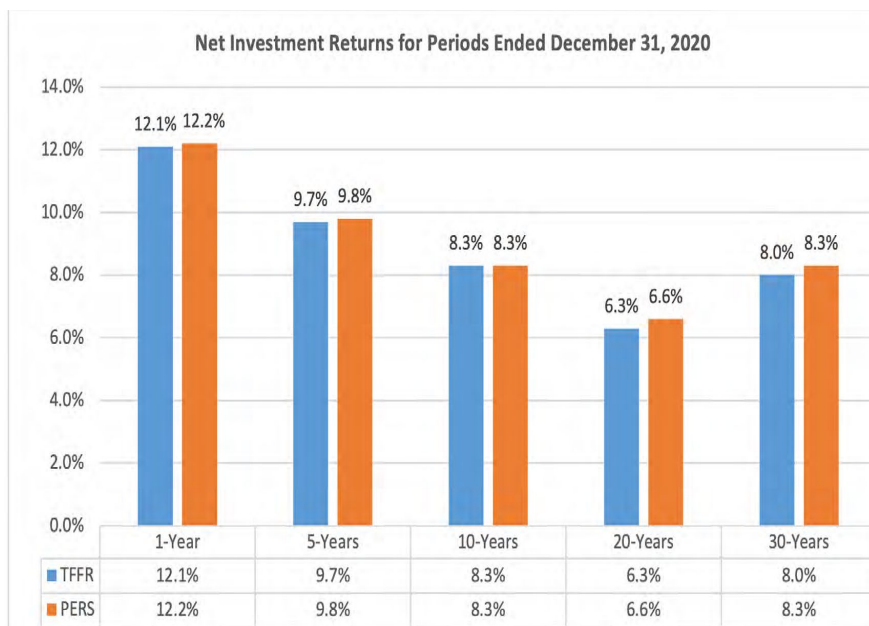


SIB Raises In-State Investment Targets up to 8% as Recommended by Legacy Fund Advisory Board

In the last two years, the SIB has doubled the size of Legacy's In-State Investment Program by increasing its long-standing commitment to Bank of North Dakota's Match Loan Program – from a \$200 million commitment in August of 2019 to a \$400 million in November 2020. In 2021, the Advisory Board and SIB sought to further expand the commitment to the Legacy Fund In-State Investment Program by adding a new private capital allocation with a preference to target in-state investments in private equity and private credit. The SIB approved these Advisory Board recommendations in February and is working towards identifying a new In-State Program Manager.

PERS, TFFR and Legacy Fund Investment Returns

Updated as of December 31, 2020



SWFI Rank		6-Mos. Ended 12/31/2020	1-Year Ended 12/31/2020	5-Yrs. Ended 12/31/2020
1	Norway Gov't. Pension Fund Global \$1.3 trillion			
	Net Investment Return	na	10.86%	8.69%
	- Passive Benchmark	na	10.59%	8.50%
	72.8% Equity / 24.7% Fixed Income / 2.5% Real Estate			
18	Alaska Permanent Fund \$73 billion			
	Net Investment Return	15.74%	12.15%	10.09%
	- Passive Benchmark	18.24%	12.38%	9.40%
	60% Equity / 20% Fixed Income / 10% US TIPs / 10% Real Estate			
31	New Mexico SIC Land Grant \$22 billion			
	Net Investment Return	14.24%	8.94%	8.68%
	- Interim Policy Index	14.55%	10.13%	8.75%
	51% Equity / 26% Fixed Income / 12% Real Estate / 10% Real Return / 1% Cash			
45	Wyoming Permanent Mineral \$9 billion			
	Net Investment Return	11.5%	9.1%	7.1%
	- Passive Benchmark	11.2%	8.4%	6.9%
	40% Equity / 36% Fixed Income / 11% Real Estate / 7.5% Hedge Funds / 5.5% MLPs			
47	North Dakota Legacy \$8 billion			
	Net Investment Return	14.37%	12.22%	9.25%
	- Passive Benchmark	13.32%	12.08%	8.60%
	50% Equity / 35% Fixed Income / 5% US TIPs / 5% Real Estate / 5% Infrastructure			

PERS Investment Returns (Net of Fees)	Calendar Year Ending 12/31/2020	Calendar Year Ending 12/31/2019	Calendar Year Ending 12/31/2018	Calendar Year Ending 12/31/2017	Calendar Year Ending 12/31/2016	Calendar Year Ending 12/31/2015	Calendar Year Ending 12/31/2014	Calendar Year Ending 12/31/2013	Calendar Year Ending 12/31/2012	Calendar Year Ending 12/31/2011
PERS Actual (Net of Fees)	12.2%	18.0%	-4.1%	17.2%	7.1%	0.5%	6.0%	16.6%	13.4%	-0.8%
PERS Policy Benchmark	12.0%	17.4%	-3.2%	14.2%	7.2%	0.1%	5.2%	15.3%	12.5%	0.4%

PERS Investment Returns (Net of Fees)	Fiscal Year Ending 6/30/2020	Fiscal Year Ending 6/30/2019	Fiscal Year Ending 6/30/2018	Fiscal Year Ending 6/30/2017	Fiscal Year Ending 6/30/2016	Fiscal Year Ending 6/30/2015	Fiscal Year Ending 6/30/2014	Fiscal Year Ending 6/30/2013	Fiscal Year Ending 6/30/2012	Fiscal Year Ending 6/30/2011
PERS Actual (Net of Fees)	3.4%	5.5%	9.2%	13.1%	0.3%	3.5%	16.4%	13.4%	-0.1%	21.3%
PERS Policy Benchmark	3.2%	6.4%	7.9%	11.9%	0.6%	2.2%	15.7%	11.8%	1.1%	20.6%

PERS and TFFR U.S. Large Cap Equity returns were 26% in 2020 and 31% in 2019, while averaging 14.7% per annum for the 10 years ended 12/31/2020 (the latter of which exceeded the Russell 1000 Index by over 0.65% per annum.