



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

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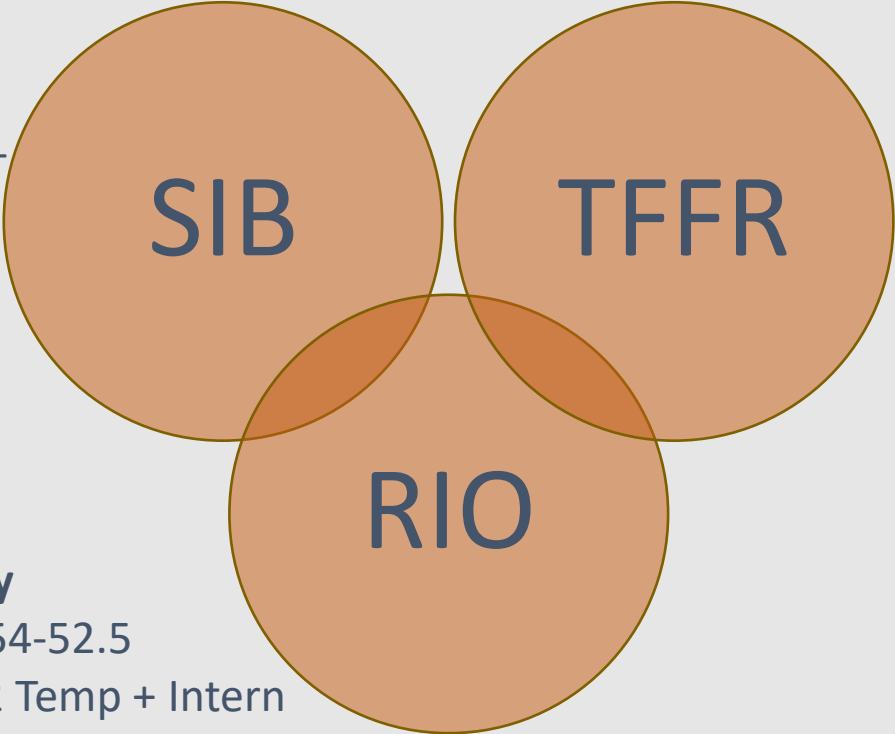
NORTH
Dakota
Be Legendary.

Retirement & Investment

NORTH DAKOTA RETIREMENT AND INVESTMENT SUPPORTS TWO SPECIAL FUND PROGRAMS

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

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



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

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

WE CHOSE TO LEARN

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

"Kites rise highest against the wind - not with it."

- Winston Churchill

Courtesy of www.brainyquote.com

RETIREMENT AND INVESTMENT'S CORE PRIORITIES



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

WE CHOSE TO LISTEN

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

Gallup Q¹² Items

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

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

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GALLUP

WE CHOOSE TO LISTEN

- Fall 2022 Gallup Results -.
- Statistically Significant Increases in 8 of 12 categories.
- Decrease in Mission/Purpose.
- Let's talk Mission/Vision.

Q12 Mean

The Gallup Q12 score represents the average, combined score of the 12 elements that measure employee engagement. Each element has consistently been linked to better business outcomes.

Respondents: 12

Engagement Mean: **4.42**

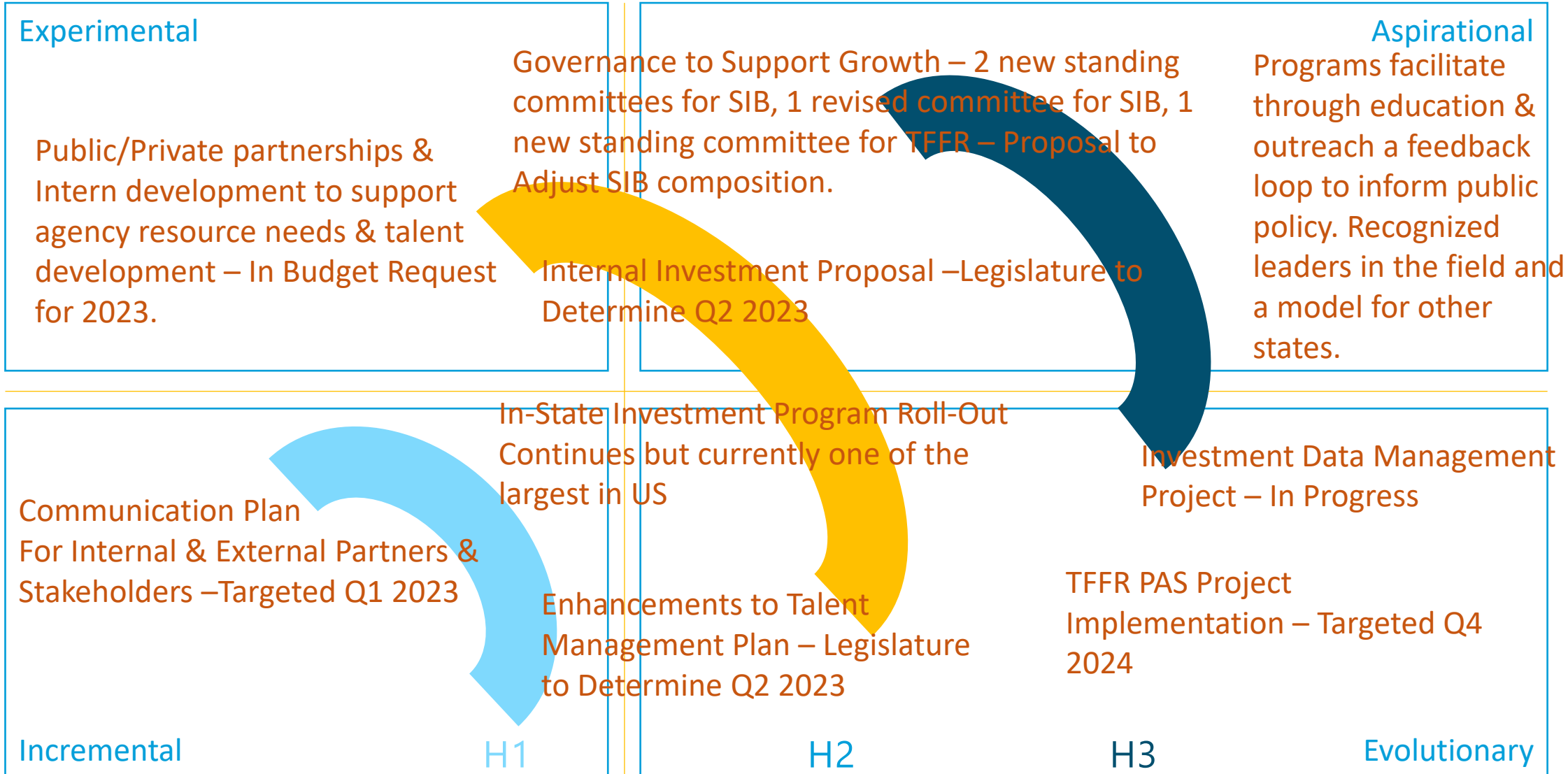
Change: ↑ +0.20

Mean Percentile Rank - Gallup Overall: **76**

Engagement Index: Engagement Index is unavailable for the currently selected scorecard.

	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q00: On a five-point scale, where 5 means extremely satisfied and 1 means extremely dissatisfied, how satisfied are you with your agency as a place to work?	12	4.17	4.00	0.17	53	3.72
Q01: I know what is expected of me at work.	12	4.25	4.08	0.17	30	4.21
Q02: I have the materials and equipment I need to do my work right.	12	4.33	4.33	0.00	58	4.04
Q03: At work, I have the opportunity to do what I do best every day.	12	4.17	3.92	↑ +0.25	48	3.90
Q04: In the last seven days, I have received recognition or praise for doing good work.	12	4.42	4.17	↑ +0.25	80	3.37
Q05: My manager, or someone at work, seems to care about me as a person.	12	4.92	4.58	↑ +0.34	90	4.08
Q06: There is someone at work who encourages my development.	12	4.42	4.17	↑ +0.25	71	3.77
Q07: At work, my opinions seem to count.	12	4.00	4.00	0.00	56	3.54
Q08: The mission or purpose of my agency makes me feel my job is important.	12	4.58	4.92	↓ -0.34	77	3.92
Q09: My coworkers are committed to doing quality work.	12	4.87	4.42	↑ +0.25	82	3.96
Q10: I have a best friend at work.	11	3.91	3.55	↑ +0.36	59	3.22
Q11: In the last six months, someone at work has talked to me about my progress.	12	4.58	4.08	↑ +0.50	77	3.85
Q12: This last year, I have had opportunities at work to learn and grow.	12	4.83	4.42	↑ +0.41	91	3.90

STRATEGIC – HORIZON BASED TRANSFORMATION



TEACHERS' FUND FOR RETIREMENT

- Qualified defined benefit public pension plan for North Dakota public school teachers and administrators providing them with a foundation for retirement security.
- 11,800+ Active Members
 - 16.4% increase over past decade
- 9,400+ Retired Members and Beneficiaries
 - 26.0% increase over past decade
- ~\$3.0B Fund balance
- On-track to be 100% fully funded by 2044
- New Pension Administration System in development (est. Q4 2024)



- State Investment Board (SIB) has the statutory responsibility for the administration of the investment program of several funds including:
 - TFFR, PERS, WSI, Legacy Fund
- SIB also maintains contractual relationships for investment management with multiple political subdivisions and governmental funds
- Currently ~\$18 Billion in Assets Under Management (AUM)
- 27 client funds
- 43 fund managers

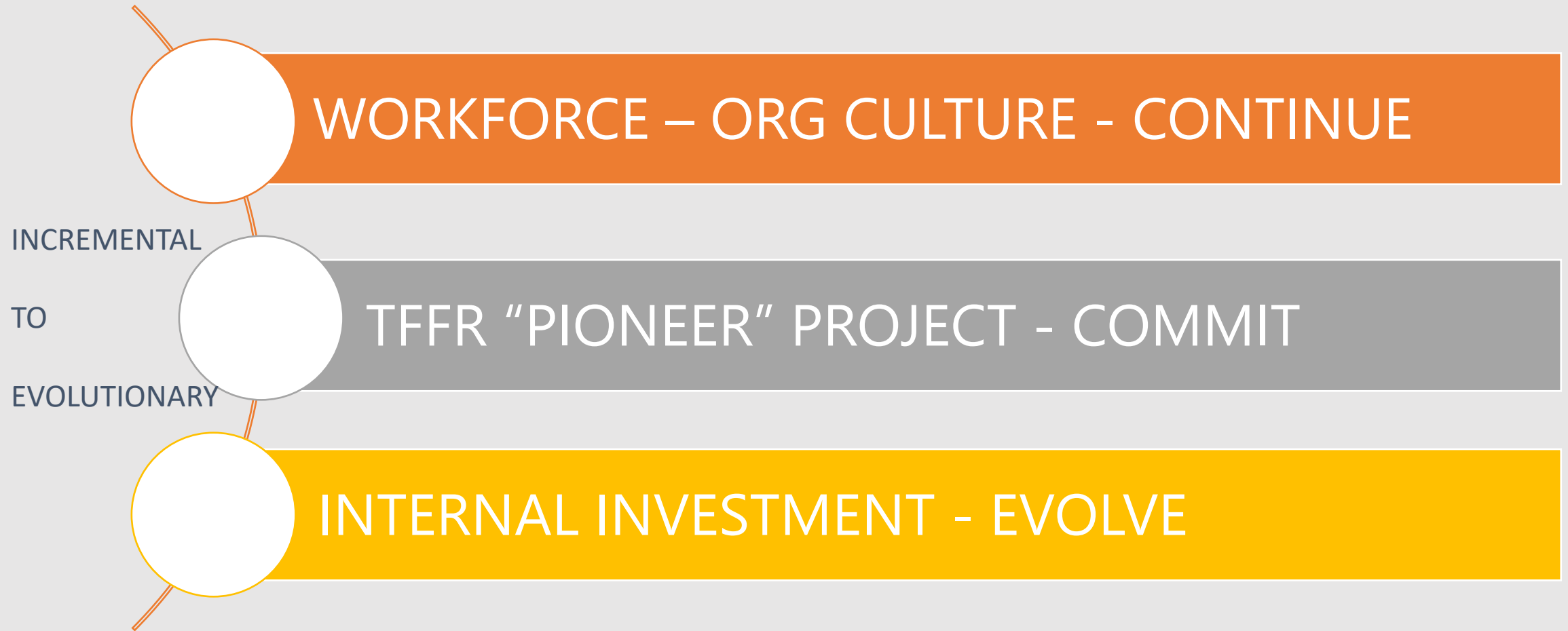
Fund/Pool	AUM (10/31/22)
Pension Pool	\$6.79B
Insurance Pool	\$2.81B
Legacy Fund	\$8.12B
Other Funds	\$0.23B

BUDGET REQUEST SUMMARY

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

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

Estimated cost savings = \$16M+/year



ORGANIZATION CULTURE – WORKFORCE INITIATIVE

SALARIES

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

SUPPORT

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

CERTS.

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

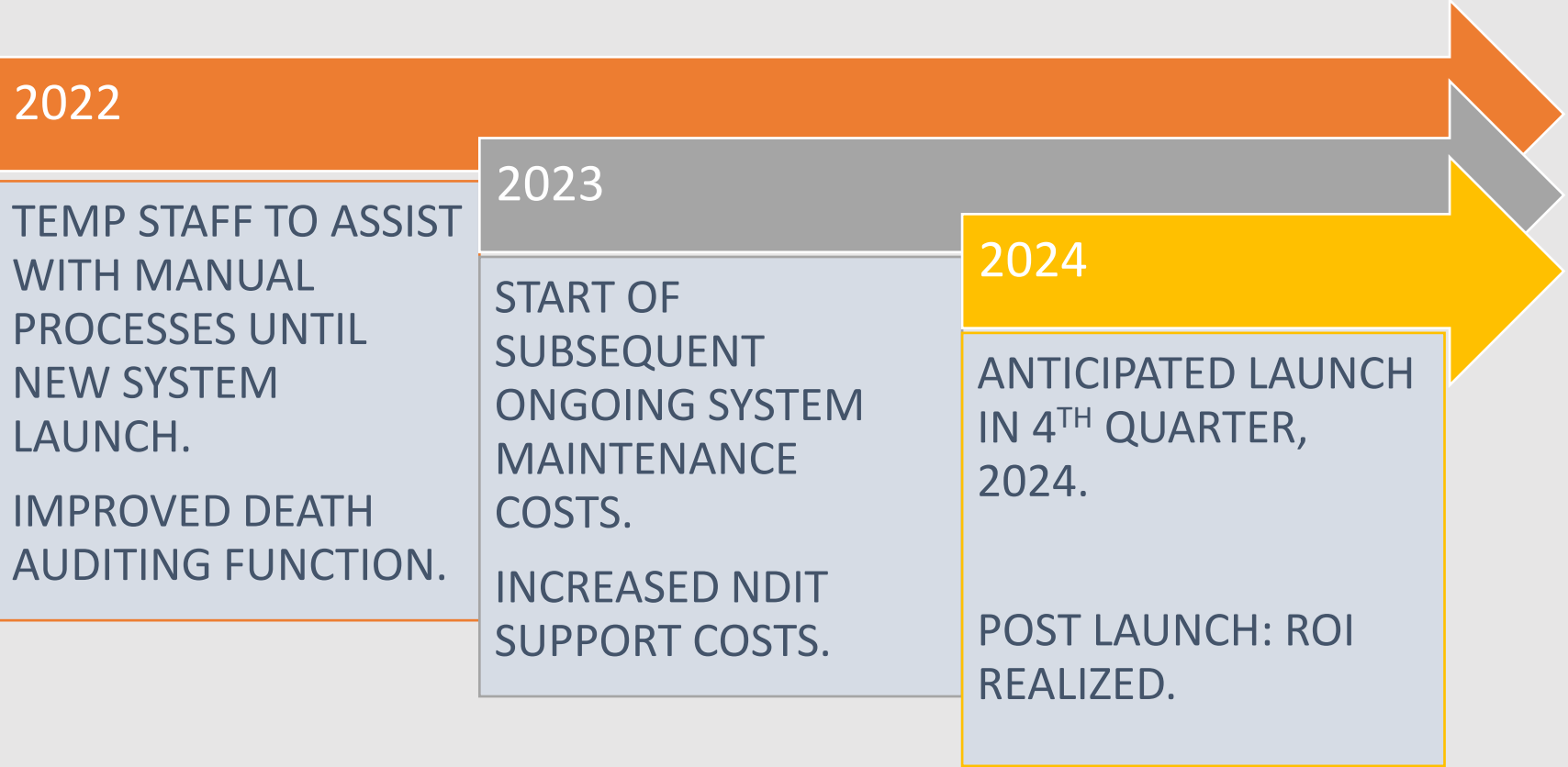
INFLATION

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

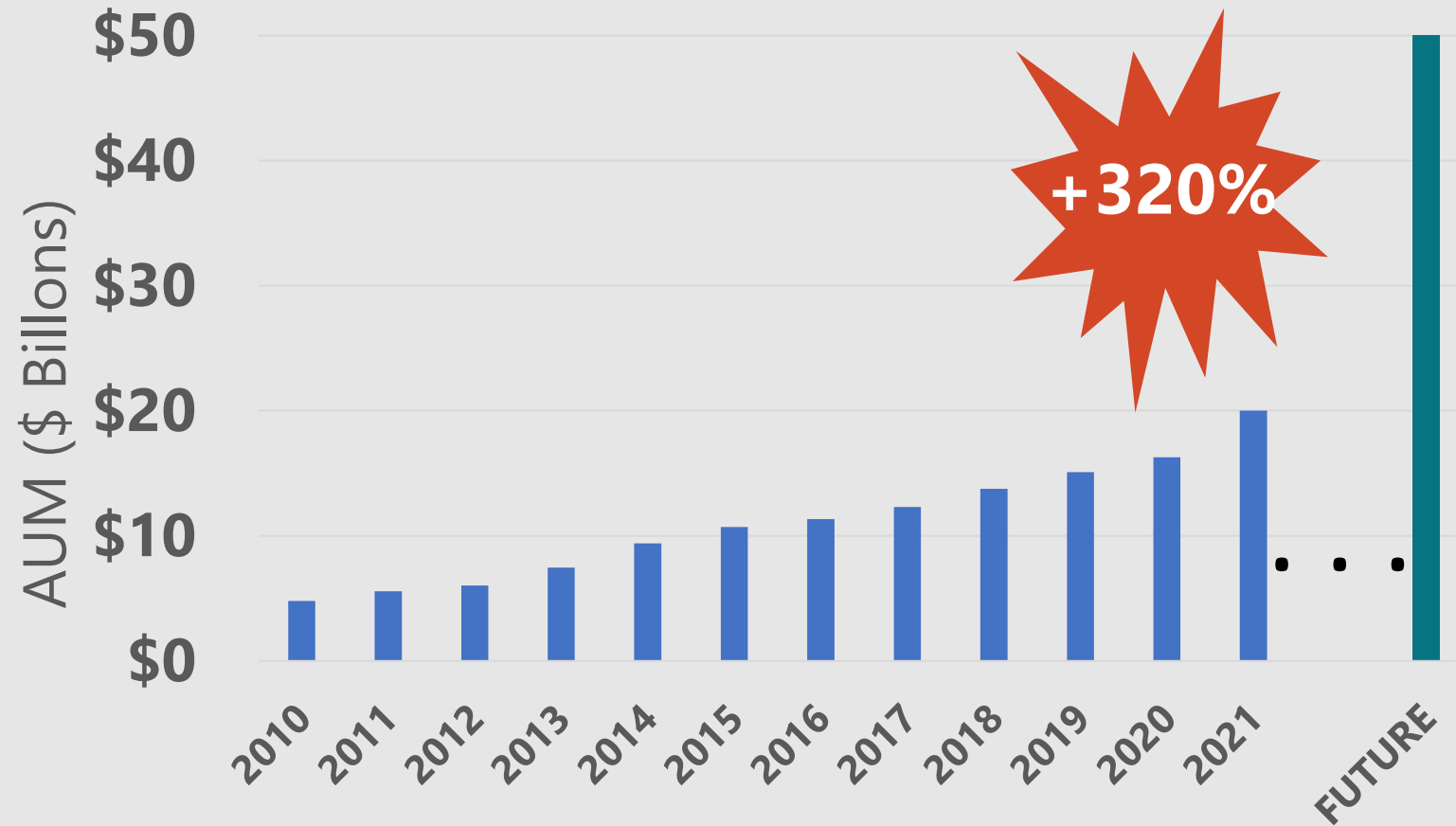
CONTINGENCY

- REQUEST FOR CONTINGENCY FUNDS.

INFRASTRUCTURE/TECHNOLOGY ENABLED PROCESSES- TFFR PIONEER PROJECT INITIATIVE

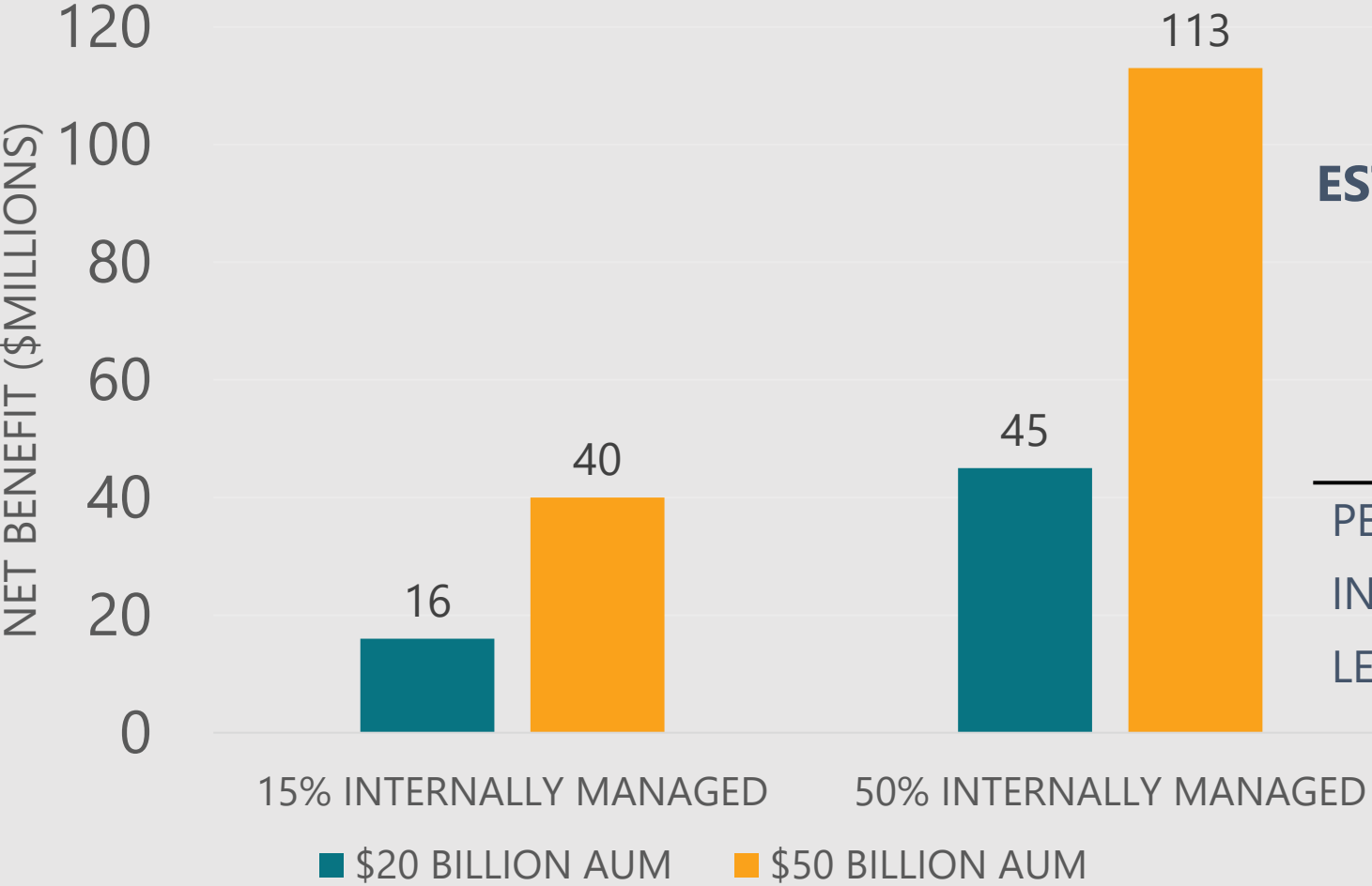


ASSETS UNDER MANAGEMENT GROWTH



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

THE BENEFIT SCALES WITH THE SIZE OF THE COMMITMENT



ESTIMATED ANNUAL SAVINGS PER YEAR (\$20 BILLION AUM)

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

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

PROGRAM COST

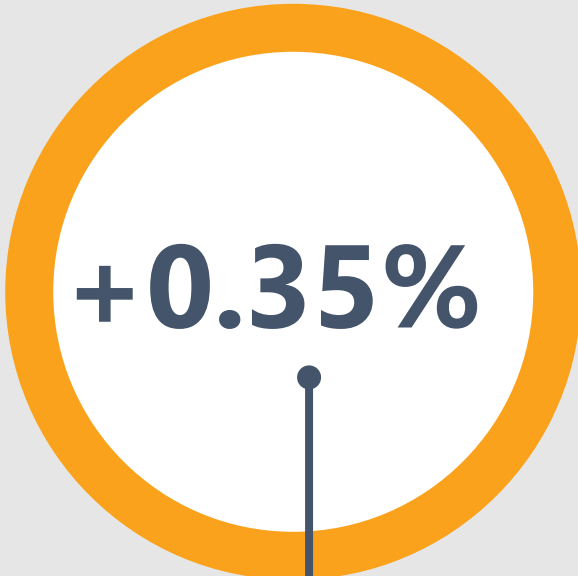


**INCLUDES TOTAL REWARDS
AND INFRASTRUCTURE**

CURRENT COST



**DOMESTIC
EQUITY**



**INVESTMENT GRADE
FIXED INCOME**

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

5 INVESTMENT PROFESSIONALS¹:

2 X SENIOR PORTFOLIO MANAGERS

3 X INVESTMENT ANALYSTS

2 X INVESTMENT OPS



TALENT MANAGEMENT:

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

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

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

EXAMPLE STATES WITH INTERNAL INVESTMENT MANAGEMENT AND INCENTIVE COMPENSATION

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



Questions?

NORTH
Dakota
Be Legendary.

Retirement & Investment

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

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

I. RIO Statutory Authority and Responsibilities

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

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

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

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

RIO currently has 25 full-time FTEs across the two programs and four divisions along with two temporary positions and an intern. The four divisions include Investment, Retirement Services, Fiscal Services, and Internal Audit. The two temporary positions are directly attributable to additional workforce needs during the development and implementation of a large IT project for the TFFR program. The hiring of an intern position reflects an intent to consciously develop a

robust internship program at RIO that will provide an opportunity to college and graduate students studying in North Dakota to participate in investment, accounting, benefit services, and public policy processes within the public sector.

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

II. RIO's Core Priorities

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

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

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

While our Board were undertaking a review and evolution of their governance, a similar review was occurring inside the agency. RIO's technology processes, infrastructure, and communications efforts had changed little since agency inception in 1989. The ability to accommodate growth without change was accomplished largely because of the low turnover rate of employees (i.e. the majority of our workforce was comprised of employees with 10 to 25 years of experience within the agency). In Q1 and Q2 2020, however, both the Deputy Executive Director- Chief Retirement Officer, and the Retirement Services manager within 60 days of each after decades of experience with the agency. This was followed by the departure of the Executive Director – Chief Investment

Officer and the Deputy Chief Investment Officer in Q2 and Q3 of 2021. In addition to the loss of these team members, many long-term employees became eligible and subsequently retired in 2021. The turnover in team members coincided with the start of major program initiatives. The departures in Retirement Services staff occurred towards the start of a long-term large IT project to modernize our current pension administration system. While the departures in Investment staff occurred at the start of the launch of the in-state investment program.

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

III. State Investment Board (SIB)

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

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

IV. Teachers' Fund For Retirement

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

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

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

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

V. Budget Overview

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

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

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

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

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

VI. RIO Agency Initiatives

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

A. Initiative #1 – Organizational Culture/Workforce

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

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

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

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

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

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

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

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

B. Initiative #2 – “Pioneer” Project

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

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

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

C. Initiative #3 – Internal Investment/Talent Management

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

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

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

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

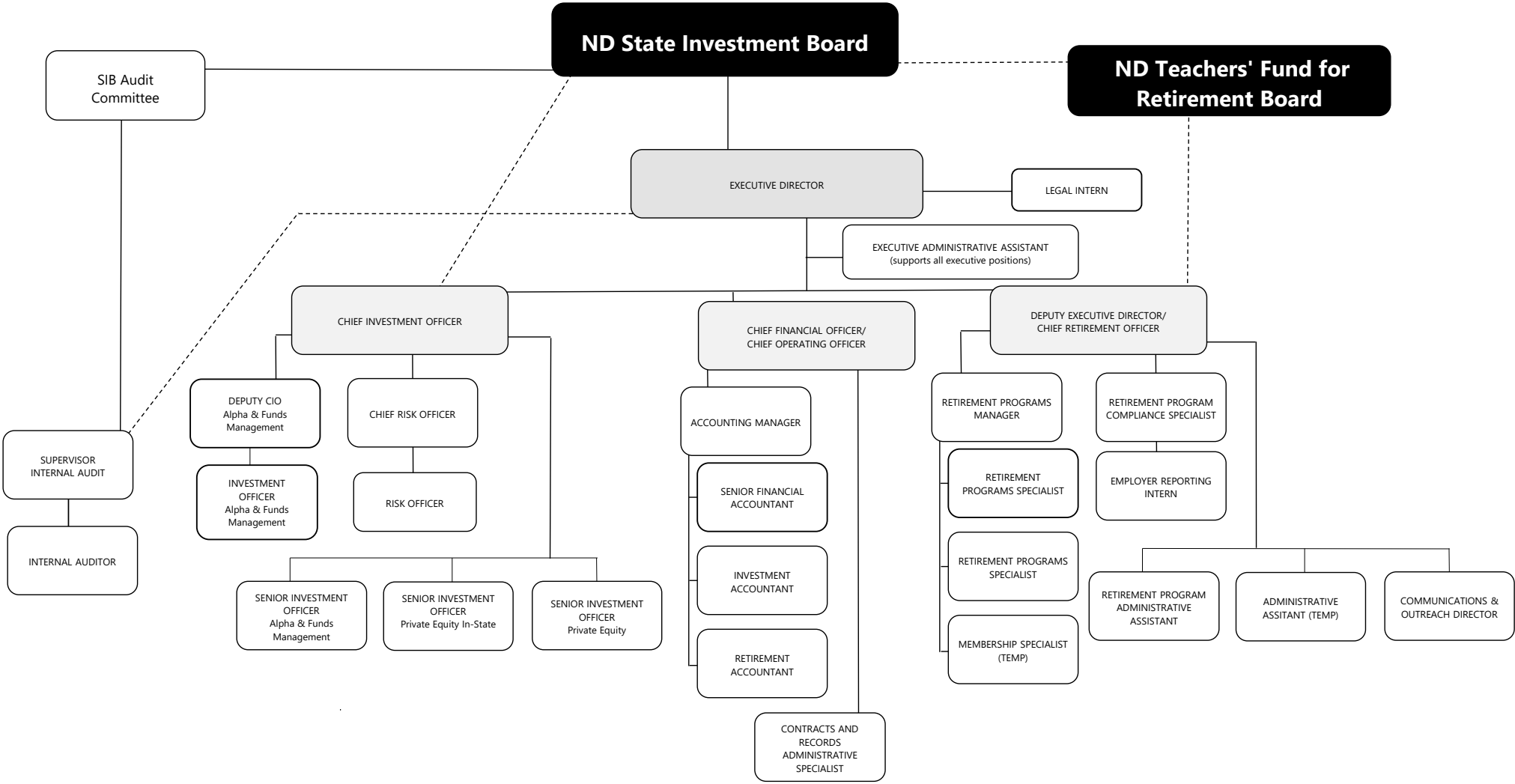
Due to the complexity of this plan, we are only asking for a salary budget for one year of the biennium for these additional staff as we believe it would take significant time to receive the necessary classification approvals and fill the positions.

Additionally, the market for investment professionals shows they typically receive both a market-based salary and incentive compensation even in the public sector. A well-designed incentive compensation system, based on fair criteria, can stimulate employees to deliver quality work, reach set targets, and maintain motivation and productivity. For investment managers, it provides incentives to make smart and risk-appropriate investment choices that result in an appreciation of

invested assets. The incentive system also aligns the risk of the investment manager's compensation with the risk of the underlying assets being managed, thus acting as a control mechanism incentivizing good risk/return choices. Lastly, an incentive system is good for investment plan beneficiaries in that the incentive is paid when there is superior investment performance and not paid when there is not superior investment performance. As a result, a well-designed incentive compensation system results in added net investment performance and reduces the overall cost of compensation by paying only when the benefits exceed the cost. The incentive compensation plan would assume a targeted bonus of 50% of salary and a max of 100% of salary and would only pay out when benefits exceed costs. This proposal is contingent on an incentive compensation plan approved by the legislature and administered by the State Investment Board. During our subsequent hearing we would like to request an amendment to our budget that would provide the necessary authority to implement incentive compensation under Initiative #3 if approved.

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

RETIREMENT AND INVESTMENT OFFICE



ND TFFR Fast Facts

FY End 6/30/2021

The ND Teachers' Fund for Retirement plan (ND TFFR) provides ND educators with a financial foundation for the future that includes a secure and stable retirement. This is possible due to TFFR's plan design, professional plan management, strong investment performance, and outstanding customer service.



MEMBERS

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

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

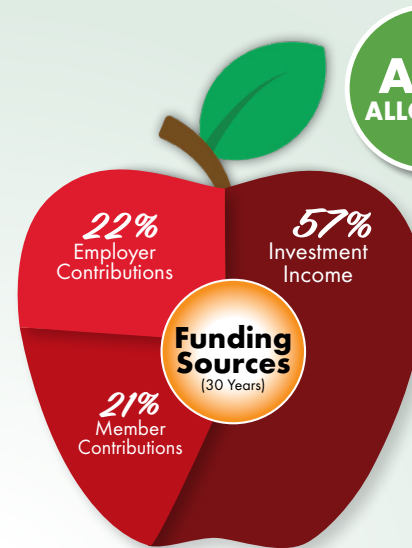
MEMBER/EMPLOYER SATISFACTION: 3.9 (4.0 Scale)

84%

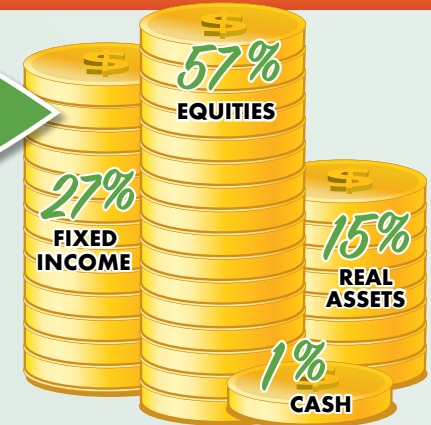
of benefits are paid to ND residents.

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

Net Asset Value of TFFR **\$3.28 billion**



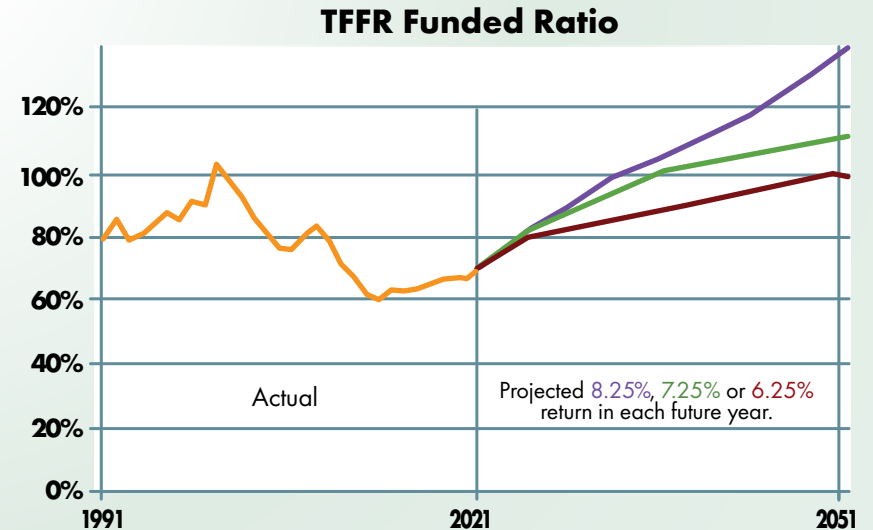
ASSET ALLOCATION



Investment Returns
 (net of fees)

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

69% of BENEFITS are PREFUNDED



TFFR'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			
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.			

HB 1425

- The Legacy Fund in-state investment program and in-state investment manager preference is part of code.
- Requires up to 20% of Legacy Fund be directed toward in-state investments.
- 10% Fixed Income + 10% Equity
- BND is in-state fixed income manager with \$191 million in capital committed.
- 50 South is in-state equity manager with \$100 million in capital committed.
- With almost \$300 million committed North Dakota has one of the largest in-state investment programs in the nation.
- The Legacy & Budget Stabilization Fund Advisory Board continues its work to improve the Legacy Fund asset allocation implementation.
- RIO continues its outreach to coordinate opportunities with in-state financial institutions.

HB 1380

- Created Legacy Earnings Fund
- Created a percent of market value (POMV) spending rule without amending definition of earnings.
- POMV of 7% for current biennium is \$486 million.
- Earnings includes realized gains and losses. The amount of earnings available for transfer will be in flux through May 2023.

SB 2291

- Prohibits social investing i.e.: investment or divestment of funds for purposes other than the *exclusive benefit* of the beneficiaries of a fund.
- SIB client funds are managed by external managers.
- RIO staff meets with each manager biennially and confirms:
- Funds are managed for the *exclusive benefit* of client funds by maximizing total return for a prudent level of risk as set by a defined benchmark.
- Managers are instructed to vote proxies to maintain or improve shareholder value for the *exclusive benefit* of client fund.

WHAT WE'RE PROUD OF

Agency Accomplishment
30+ Years of Unmodified Audit Opinions.

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

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

WHAT WE DO



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



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

HOW WE MEASURE SUCCESS

Client & Member Satisfaction Surveys

Excess Returns Net of Fees

Attendance at Outreach Activities

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