

**House Bill 1022**  
**North Dakota Retirement and Investment Office (RIO)**  
**Testimony before House Appropriations – Government Operations Division**  
**Representative David Monson, Chair**

**Jodi Smith – Interim Executive Director**  
**Chad Roberts, MAcc – Deputy Executive Director/Chief Retirement Officer**  
**Scott Anderson, CFA, MBA – Chief Investment Officer**  
**Rachel Kmetz – Interim 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).

**II. Organization of RIO**

**A. State Investment Board (SIB)**

The SIB is responsible for oversight of over \$23 billion of investments for 31 different client funds including TFFR and PERS within the over \$8 billion Pension Pool and WSI in the nearly \$3.5 billion Insurance Pool in addition to roughly \$11.5 billion in the Legacy Fund. Funding for administration of the SIB Investment Program comes directly from investment clients’ invested assets (both statutory and contracted).

SIB members include the Governor, State Treasurer, Director of Office of Management and Budget, State Land Commissioner, Workforce Safety & Insurance designee, two PERS board members, two TFFR board members, two members of the Legacy and Budget Stabilization Fund Advisory Board, and two Institutional Investment Professionals.

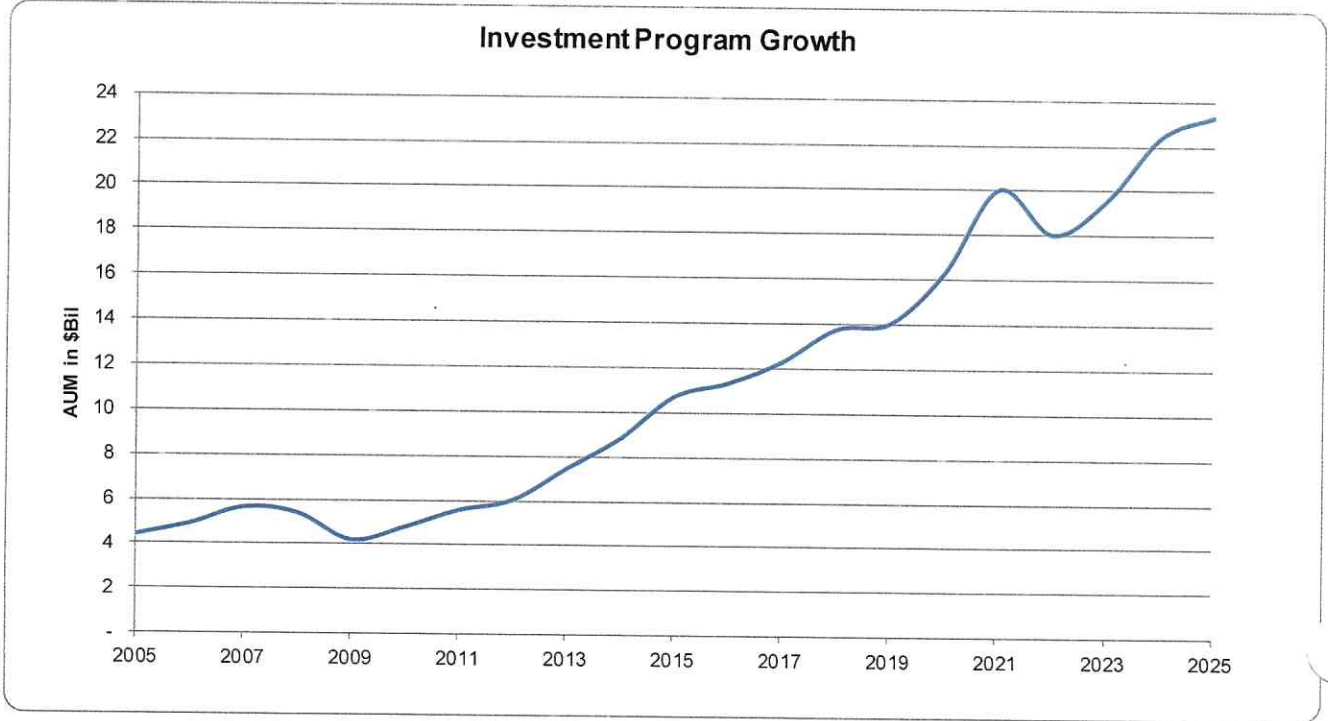
Investment guidelines and asset allocations are established by the governing bodies of the individual funds, with assistance from consultants and/or RIO staff, and subject to review and approval by the SIB prior to implementation.

	Fair Value (as of 10/31/24)
<b>PENSION POOL PARTICIPANTS</b>	
Teachers' Fund for Retirement	\$ 3,352,221,348
Public Employees Retirement System	4,514,724,260
Bismarck City Employee Pension Fund	133,547,238
Bismarck City Police Pension Fund	56,108,250
City of Grand Forks Pension Fund	77,186,135
Grand Forks District Pension Fund	9,025,879
<b>Subtotal Pension Pool participants</b>	<b>\$ 8,142,813,109</b>
<b>INSURANCE POOL PARTICIPANTS</b>	
Workforce Safety & Insurance Fund	\$ 2,165,731,209
State Fire and Tornado Fund	20,213,035
State Bonding Fund	3,941,357
Petroleum Tank Release Fund	6,313,649
Insurance Regulatory Trust Fund	215,148
State Risk Management Fund	4,214,280
State Risk Management Workers Comp	2,273,128
Cultural Endowment Fund	612,869
Budget Stabilization Fund	943,644,620
ND Assoc. of Counties (NDACo) Fund	3,940,015
City of Bismarck Deferred Sick Leave	872,473
PERS Group Insurance	60,303,175
State Board of Medicine	4,987,142
City of Fargo FargoDome Permanent Fund	45,349,032
Lewis & Clark Interpretive Center Endowment	944,261
Attorney General Settlement Fund	651,709
Veteran's Cemetary Trust Fund	512,402
ND University System Capital Building Fund	10,738
Arts Across the Prairie Maintenance Fund	1,257,708
Water Projects Stabilization Fund	147,363,929
OPIOID Settlement Fund	16,354,173
State Historical Endowment Fund	869,578
<b>Subtotal Insurance Pool Participants</b>	<b>\$ 3,430,575,630</b>
<b>INDIVIDUAL INVESTMENT ACCOUNTS</b>	
Legacy Fund	11,498,016,442
Retiree Health Insurance Credit Fund	191,607,457
Job Service of North Dakota Pension Fund	84,056,315
<b>Total</b>	<b>\$ 23,347,068,952</b>

(Amounts are unaudited)

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.

Over the past two decades, the average assets under management (AUM) of the investment program has significantly grown in size. Amounts have grown from an average of roughly \$4 billion during the 2003-2005 biennium to an average of over \$23 billion during the current 2023-2025 biennium.

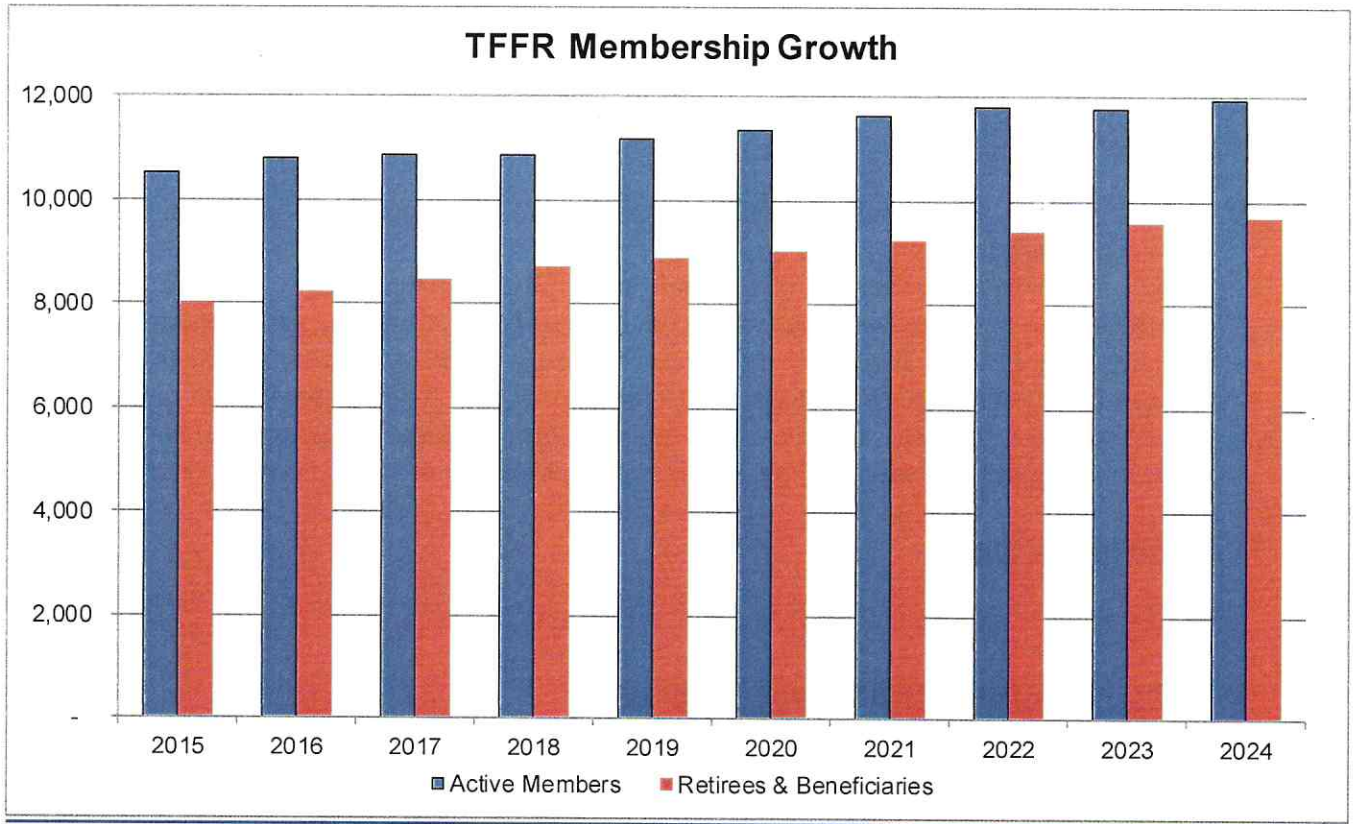


### **B. Teachers' Fund for Retirement (TFFR)**

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

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. During the past decade, active membership has increased 13.6% from 10,514 to 11,945 participants, while retirees and beneficiaries have increased 20.8% from 8,025 to 9,693.





The mission of TFFR, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members, North Dakota k-12 educators, in a manner consistent with its fiduciary obligations and approved resource allocation.

The TFFR Board reaffirmed its commitment to evolving governance to respond to program growth by establishing a Governance and Policy Review committee that is tasked with reviewing program policies and public policy affecting statutes and administrative rules to make recommendations to the full Board for making policy or requesting changes from the Legislature.

The TFFR program is currently in Phase 3 of 3 of a multi-year large IT Pension Administration Modernization Project (TFFR “Pioneer” Project) that will provide a better ROI for the agency and improve the member and employer experience with TFFR while aligning with state-wide initiatives to better utilize technology enabled processes.

TFFR plan is designed to provide lifetime normal retirement benefits, disability benefits, and death benefits for ND public school educators and certain state teachers. It provides ND educators with a financial foundation for the future that includes a secure and stable retirement. This is possible due to TFFR’s plan design, professional plan management, strong investment performance, and outstanding customer service.

The TFFR plan is an important feature in the recruitment and retention of high-quality teachers and administrators in North Dakota, and not lose these quality individuals to out of state programs.

### **C. RIO Organizational Chart**

(See attached)

**III.** RIO currently has 34 full-time FTEs across the two programs and four divisions along with two temporary positions and an intern. The four divisions include Investment, 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 intern position's 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.

### **IV. Audit Findings**

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

### **V. 2023-25 Accomplishments and Challenges**

RIO accomplishments during the 2023-2025 biennium have included:

1. Creating and implementing a new agency strategic plan identifying core priorities and transformational initiatives.
2. Reorganizing the agency to achieve greater economies of scale and support new strategic plan.
3. Developing and implementing intra-agency communication and training plan to support organizational culture as a core agency priority.
4. Completion of agency wide compensation study and creation of incentive compensation plan for investment related positions.
5. Procurement of new investment program software solution to facilitate the internal investment initiative.
6. Hosted multiple interns across the agency including the first ever investment focused intern within the investment program.
7. Entered into an internal audit co-sourcing relationship to enhance the internal audit capabilities alongside the agency evolution.
8. Developed and implemented a formal new board member onboarding program to educate new board members as they assume their roles on SIB and TFFR.
9. Enhancement of the agency-wide communications and outreach plan.
10. Assisting governing boards with the creation and operation of three new standing committees to create governance that supports program growth: a Governance & Policy Review committee of the SIB; an Investment Committee of the SIB; and a Governance & Policy Review committee of the TFFR Board (previously an ad hoc committee); as well as expanding the scope of the Executive Review and Compensation Committee.
11. Continuing to implement an in-state investment initiative with the creation of the ND Growth Fund, increasing funding of the BND match loan program, and supporting a



Legacy Fund Asset Allocation Study project commissioned by the Legacy and Budget Stabilization Advisory Board.

12. Completing two out of three phases of the TFFR Pension Administration System Modernization Project (TFFR “Pioneer” Project) and making significant progress through the third and final phase.
13. The Legislature approved an internal investment management initiative and authorized RIO to develop an incentive compensation plan to support the investment program and an additional 7 new FTE’s for the 2023-2025 biennium, during the 2023 Legislative Session.

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

Goals for RIO during the 2025-2027 biennium include:

#### TFFR Investment and Funding Goals

1. Continue to improve the Plan’s funding status to protect and sustain current and future benefits.
2. Minimize the employee and employer contributions needed to fund the Plan over the long term.
3. Avoid substantial volatility in required contribution rates and fluctuations in the Plan’s funding status.

#### TFFR Service Goals

1. Continue to implement an enhanced Outreach and Communication Plan for our members, employers, and other stakeholder groups related to the program in general.
2. Administer an accurate, efficient, and responsive pension benefits program.
3. Deliver high quality, friendly service to members and employers.

#### SIB Strategic Investment Plan

1. Reaffirm our organizational commitment to the importance of continuing board education and strong board governance to create and maintain an innovative and agile investment program.
2. Enhance understanding of our core goals and beliefs while enhancing overall transparency.
  - a. Remain steadfast in our commitment to the prudent use of active investment management.
  - b. Expand awareness to downside risk management which is essential to achieving our long-term investment goals.
  - c. Given actual and projected growth of SIB client assets and the heightened public awareness of the Legacy Fund, align our investment platforms to promote greater clarity and efficiency in reporting and implementing client investment policies.
3. Expand RIO’s influence and ability to create positive and sustainable change by building deeper relationships with existing clients, organizations, and legislative leaders.
  - a. Enhance community outreach to build upon public awareness and confidence.
  - b. Develop concise presentations which highlight our overall risk, return and cost control framework including our progress towards attaining our long-term goals.
  - c. Continue to implement an in-state investment initiative and provide education and outreach efforts consistent with the roll-out of that initiative.

4. Encourage employee participation in staff meetings, offer team members more opportunities to impact RIO's change initiatives and improve the office environment for staff and clients.
5. Enhance our internal control environment by improving use of proven risk management solutions relating to fraud risk assessments, investment risk management and overall enterprise risk management.
  - a. A robust risk management framework serves as a foundation to support a sound internal control environment and lessen downside risks.
  - b. Broaden stakeholder awareness of the challenges faced in estimating Legacy Fund earnings for future budget planning.
  - c. Evaluate and expand the efficient use of technology in our investment program activities including risk management, compliance monitoring, client satisfaction surveys, website design and communications.

RIO Strategic Plan

1. Continue to develop our organization culture as a recruitment and retention tool to develop a growth mindset and encourage employee engagement.
2. Create, develop, and maintain a robust internship program across both programs.
3. Continue to identify additional process areas where efficiencies can be gained through technology enabled processes and implement such processes.

**VI. Comparison agency request/recommendation totals, including full-time equivalent (FTE) positions, for the next biennium compared to the current biennium.**

Line Item Description	2023-25 Base Budget	2025-27 Executive Recommendation	2025-27 Total Agency Request
Salaries and Wages	\$ 10,338,543	\$ 12,651,746	\$ 15,184,481
Operating Expenses	2,731,037	3,761,208	4,026,133
Contingencies	200,000	200,000	200,000
<b>Total Special Funds</b>	<b>\$ 13,269,580</b>	<b>\$ 16,612,954</b>	<b>\$ 19,410,614</b>
FTE	34	35	44

During the current 2023-25 biennium, RIO has a base budget of \$13.3 million. The majority of which consists of salaries and benefits for the 34 FTE and temporary team members. This amount includes the vacancy and FTE pool appropriation amount of \$1,786,076.

The 2025-27 executive recommendation adds one FTE for internal audit as well as includes cost to continue salary amounts for investment positions that were appropriated during the 23-25 biennium that were only funded for one year of the biennium. It also includes the executive



compensation recommendation. The majority of the increase in the operating line is related to the continuation of our pension administration system modernization project and the related IT costs.

The 2025-27 total agency request includes added funding for an additional communications FTE and an internal audit FTE. The internal audit FTE was included in the executive recommendation. It also includes 8 FTE related to our strategic internal investment request package to make up the total 44 FTE.

**VII. New positions approved in 2023-25 biennium by the 2023 Legislative Assembly**

A. Nine new positions were added by the 2023 Legislative Assembly

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

**VIII. Employee turnover and number of vacant positions during the 23-25 biennium**

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

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

- iv. Analyst: Internal Equities - Anticipate hiring Q1 '25 - no savings realized as no funding will be transferred from the OMB pool until start date.
  - v. Investment Administrative Assistant - Anticipate hiring Q1 '25 – no savings realized as no funding will be transferred from the OMB pool until start date.
  - vi. Executive Director vacant as of 1/3/25 – Interim Executive Director was hired 1/13/25. No savings will be realized.
  - vii. CFO/COO vacant as of 1/3/25 - no savings realized to date.
- B. Anticipated amounts to be requested and transferred from the OMB pool:
- i. *New FTEs:*
    - 1. Analyst: Internal Fixed Income - a ratable amount depending on start date
      - a. \$139,560 was in SPA for 12 months so the portion of the year the position is not vacant will be requested from pool
    - 2. Analyst: Internal Equities - a ratable amount depending on start date
      - a. \$139,559 was in SPA for 12 months so the portion of the year the position is not vacant will be requested from pool
    - 3. Investment Administrative Assistant - a ratable amount depending on start date
      - a. \$82,813 was in SPA for 12 months so the portion of the year the position is not vacant will be requested from pool
  - ii. *Vacant Pool:*
    - 1. Amount anticipated to be requested from the vacant FTE portion of the OMB pool is yet to be determined and will depend greatly on the upcoming searches and hirings for the ED and CFO/COO positions.

## **IX. Budget Summary**

The Retirement and Investment Office (RIO) serves two important program boards: the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR) Board. As such, its agency budget is separated into two separate programs, both of which are paid for with special funds.

### Investment Program (SIB)

Funding for administration of the SIB Investment Program comes directly from investment clients' invested assets (both statutory and contracted).

Salary and benefits represent funding for 22.85 FTEs, which provide all the accounting, financial and administrative support, and investment performance services for the funds under management.

Operating funds needed to administer the SIB investment program include building rent, staff and board travel and education, and NDIT data processing.

### Retirement Program (TFFR)

Funding for administration of the TFFR Pension Plan comes from member and employer contributions and investment earnings.



Salary and benefits represent funding for 11.15 FTEs responsible for administering the TFFR retirement program.

The operating funds required to administer the TFFR retirement program include NDIR data processing, IT contracts, building rent, staff and board travel and professional development.

2025-2027 Budget Request									
				#1	#2	#3	#4	#5	
Line Item Description	Base Budget	Adjustments to Base to meet Budget Limit	Adjusted Base	2nd Half of New Positions	Cost to Continue IT Hosting/S support	Cost to Continue HR	Incremental Agency Evolution/ Retirement Education	Internal Investment 2.0	Total Agency Request
Salaries and Wages	\$ 10,338,543	70,450	\$ 10,408,993	1,236,914	-	142,302	418,092	2,978,180	\$ 15,184,481
Operating Expenses	2,731,037	(208,822)	2,522,215	-	1,201,268	-	90,450	212,200	4,026,133
Contingencies	200,000	(200,000)	-	-	-	-	200,000	-	200,000
<b>Total Special Funds</b>	<b>\$ 13,269,580</b>	<b>(338,372)</b>	<b>\$ 12,931,208</b>	<b>1,236,914</b>	<b>1,201,268</b>	<b>142,302</b>	<b>708,542</b>	<b>3,190,380</b>	<b>\$ 19,410,614</b>
FTE	34	-	34	-	-	-	2	8	44

Request package #1 – 2<sup>nd</sup> Half of New Positions

During the 2023 Legislative Session, NDRIO received approval to move forward with its internal investment initiative. The proposal required five investment professionals, one 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 \$6 million per year and create opportunities for better liquidity management and rebalancing that may result in up to another \$10 million in savings per year. The net costs and opportunities grow with assets under management and with the amount of assets managed internally.

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

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

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

This phased in proposal seeks to create a foundation to internalize additional investment functions in future biennium's. This initial proposal seeks to achieve cost savings by moving approximately \$3 billion in AUM to internal management, however, future costs savings may be achieved in future biennium's with up to 50% of AUM moved to internal management. The net after cost estimated benefits of going to a greater portion of internal investment management and to a more sophisticated investment process is estimated at \$45 million per year as the result of lower fees

(the savings is net after the cost of the additional FTE's and infrastructure) if up to 50% of the assets are managed internally. The decrease would be recognized within continuing appropriation expenses. The change to more internal investment would require more FTEs currently paid out of appropriated expenses.

All RIO client funds under management will benefit from the associated cost savings achieved by implementing some internal investment management of assets. At the present rate of growth for the program the impact of maintaining the current investment management structure results in failure to leverage client assets and achieve benefits from the scale of the program.

The total appropriation increase for this package is \$1,236,914, which is all salary and fringe benefits. Of which the entire amount was included in Governor Burgum's executive recommendation.

#### Request package #2 – Information and Technology Hosting and Support

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

Additionally, as a unified agency, RIO is reliant on significant support from NDIT professionals. Currently, we are utilizing two dedicated NDIT staff to assist in all needed technology processes for the agency. This need will continue into the 2025-2027 biennium as the new pension system will continue its roll out along with significant increases in technology demands from our investment program as it continues its internal investment roll out. Along with other NDIT rate increases, we have been notified this application support agreement rate will be increased significantly as well.

Furthermore, as the visibility of the Legacy Fund and other funds under RIO's purview increase, we are also asking for modest increases in our communications software and equipment budget to assist our Communications and Outreach Director more efficiently and effectively communicate the specifics of RIO's activities to the public, legislators, and all other interested parties.

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

Resources necessary for this decision package include the needed appropriation authority for the above mentioned activities. No additional FTEs are included in this request as current staff and application support team are in place to administer the activities.



Current resources will be used to administer the activities listed above. Additional funding is being requested to support these current resources as they will be live for the entire 2025-2027 biennium rather than just for part of the current biennium.

The more than 25,000 members in the Teacher Fund for Retirement are served by this project as well as the more than 200 K through 12 employers throughout the state that contribute to the fund and employ members of the fund. This project has modernized an antiquated pension administration system that not only required significant manual operations to maintain but fails to provide a welcoming user experience for both member and employer. In the event this optional package is not funded, the Retirement Investment Office would not be able to continue using the new pension administration system, which would not allow RIO to fulfill its statutory responsibility to successfully administer the TFFR plan and would cause the nearly 10,000 beneficiaries to lose access to the system and their respective benefit payments.

If additional NDIT application support costs are not approved, RIO would lose vital software and application support provided by these personnel. This would cause significant implementation struggles with both the pension administration system as well as the internal investment program. For TFFR, a similar impact to not funding the continued hosting costs would result if we were unable to procure the needed support for the system. Additionally, all RIO client funds under management will benefit from the associated cost savings achieved by implementing some internal investment management of assets. A reduction in application support availability would significantly hinder the effectiveness of this program.

The total appropriation increase for this package is \$1,201,268. Of which the entire amount was included in Governor Burgum’s executive recommendation.

	Total Agency			Total Special Funds
	Salaries & Benefits	Operating Expenses	Contingency	
<b>#2 Information Technology Hosting and Support</b>				
Additional Operating for Communications	-	21,500	-	21,500
Increased NDIT charges for unified staff	-	129,768	-	129,768
Increased hosting and support fees-PAS	-	800,000	-	800,000
Fiscal Operation Software Consultant	-	250,000	-	250,000
		1,201,268		1,201,268

Request package #3 – Agency Cost-to-Continue Salaries/Internship Funding

NDRIO was able to identify significant savings throughout its operating budget in an attempt meet the 3% base budget reduction. However, this 3% reduction is in addition to a cost to continue amount within the salary and benefits appropriations which would equate to an additional 1.2%.

In order to partially fund this reduction, NDRIO reduced the appropriation available for its internship program by \$24,000. This left funding for just two interns during the upcoming biennium. This request is for an additional \$24,000 in appropriation to allow for up to three additional interns (5 total) during the 2025-2027 biennium.

Additionally, NDRIO has historically been able to recognize salary and benefit budget savings through team members who receive health care coverage via family members working with the State of North Dakota and, as such, the cost of their health insurance benefits is currently included as a reduction in the Salaries - Other line in NDRIO's base budget. Beginning this biennium, two of the three will no longer be covered via other means and will have their health insurance premiums be paid through NDRIO. This request includes an additional \$118,302 to offset the cost to continue salary increases throughout the agency.

Resources necessary for this optional request package are limited to the appropriation authority. NDRIO is currently housing an investment intern so all needed infrastructure is in place to transition into a new intern.

Currently, resources are not being required for either of these requests. For the internship funding, NDRIO has elected not to fill one of its available internships due to capacity constraints on the supervisory team and one additional internship was not filled due to an unsuccessful recruitment of candidates.

For the health insurance benefits that currently being paid by different agencies, as RIO begins paying those amounts during this current biennium, the current biennium resources will come from a rollup of vacant and unused salary appropriation.

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

The total appropriation increase for this package is \$142,302, which is all salaries and benefits.

#### Request package #4 – Incremental Agency Evolution/Retirement Education

As RIO makes significant enhancements to both the retirement and investment sides of the agency, additional resources are needed to efficiently and effectively carryout its strategic plan. As part of the internal investment initiative discussion, it was communicated that the internalizing of assets would increase the burden on RIO's internal audit division. As such, we are requesting an additional internal audit position to assist with the compliance needs brought on by this additional activity.

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

Another part of RIO's strategic plan includes additional education in both the investment and retirement communities. In September of 2024, RIO hosted its first investment symposium to provide investment education not only to its client funds but also members of the legislature, other



state agencies, and the public at large. On the retirement side, RIO is planning a communication overhaul with all of its TFFR stakeholders to coincide with the roll out of the new pension administration software. This will include significant communication to assess satisfaction rates as well as the needs and asks of all TFFR members.

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

This request includes the addition of two new FTE. One multimedia specialist and one internal auditor along with all of the related IT, training, and supplies needs to support said positions. With some reconfiguration, current office space is sufficient to house these additional positions within the facility RIO currently occupies. Additionally RIO is requesting funding to support the continuation of the investment symposium through the 2025-2027 biennium as well as the funding needed to effectively survey TFFR stakeholders.

These would be new resources allocated to support new strategic duties necessitated by the enhancements RIO has been making during the 2023-2025 biennium.

All RIO client funds under management will benefit from the associated cost savings achieved by implementing some internal investment management of assets. Compliance and oversight of this new plan will be beyond the capacity of our current internal audit staff and not funding would require the continuation of significant outsourcing to handle these tasks at a potentially higher price point.

The more than 25,000 members in the Teacher Fund for Retirement are also served by this project as well as the more than 200 K through 12 employers throughout the state that contribute to the fund and employ members of the fund. The additional retirement education RIO plans to facilitate will impact not only the current, but future members of TFFR.

The total appropriation increase for this package is \$708,542. Of which \$446,771 and 1 FTE was included in Governor Burgum's executive recommendation.

	Total Agency			Total Special Funds
	Salaries & Benefits	Operating Expenses	Contingency	
<b>#4 Incremental Agency Evolution/Retirement Education</b>				
Additional Communication FTE	184,864	18,800	-	203,664
Additional Internal Auditor FTE	233,228	16,650	-	249,878
Continuation of Investment Conference	-	20,000	-	20,000
Retirement Education Initiative *	-	35,000	-	35,000
Contingency **	-	-	200,000	200,000
	418,092	90,450	200,000	708,542

Notes:  
\* NDIT/other support for TFFR Membership Survey & materials  
\*\* Contingency fee for potential exec searches

Request package #5 – Internal Investment 2.0

As part of the 2023 legislative session, RIO was authorized to begin the first phase of an internal investment program. That first phase was to bring up to 15% of its assets under management in-house and authorized the hiring of 7 additional FTE to facilitate. Due to the complexity of the plan, that initial phase is currently being finalized with the intent to begin internal investment of assets by April of 2025.

Phase 2 of the internal investment plan would advance the program and bring in an additional 15% of assets in-house (30% total). There is an opportunity to continue creating significant benefits from the scale advantages of the growth of over \$23 billion in 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. Expansion of the plan into phase two would provide RIO with the opportunity to move into more advanced fund management and increase the benefits to each of its client funds.

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.

In order to expand into phase 2 of the internal investment program, RIO would need an additional 5 investment professionals along with 3 additional fiscal operations professionals to prudently manage and account for the absorption of these additional assets into the program. Additionally, RIO would require the operating, data processing, rent, and other necessary expenses related to onboarding and employing additional team members.

This phased in proposal seeks to expand upon the foundation of internalizing investment functions that has begun in the current biennium. This proposal seeks to achieve cost savings by moving approximately another \$3 billion in AUM to internal management. The net after cost estimated benefits of going to a greater portion of internal investment management and to a more



sophisticated investment process is significant as the result of lower fees (the savings is net after the cost of the additional FTE's and infrastructure). The decrease would be recognized within continuing appropriation expenses. The change to more internal investment would require more FTEs currently paid out of appropriated expenses.

All RIO client funds under management can benefit from the associated cost savings achieved by implementing additional internal investment management of assets. At the present rate of growth for the program the impact of maintaining the current investment management structure results in failure to leverage client assets and achieve benefits from the scale of the program.

The total appropriation increase for this package is \$3,190,380.

	Total Agency			Total Special Funds
	Salaries & Benefits	Operating Expenses	Contingency	
<b>#5 Internal Investment 2.0</b>				
5 Additional Investment Professionals *	2,133,410	149,500	-	<b>2,282,910</b>
3 Additional Fiscal Professionals **	844,770	62,700	-	<b>907,470</b>
	<b>2,978,180</b>	<b>212,200</b>	<b>-</b>	<b>3,190,380</b>

Notes:  
 \* Additional investment professionals to support the internal investment program averaging \$160,000/year.  
 \*\* 2 additional fiscal professionals averaging \$90,000/year and 1 at \$120,000/year to support the split of the CFO/COO position.

**X. Purpose and use of one-time funding in current biennium**

For the 23-25 biennium we had a total of 624,900 one-time appropriations.

1. \$486,000 in temporary salaries related to the implementation of the new TFFR pension administration system.
2. \$138,900 in one-time operating expense related to the implementation of the new TFFR pension administration system.

We had also requested to carryover unexpended one-time funding appropriated in a prior biennium to continue work on our pension administration system (PAS) modernization project. We plan to finish this project in FY2024 and do not plan to request any further carryover for this project.

**XI. Identify and justify need for any one-time funding requested**

Only one-time funding being requested is \$250,000 for a Fiscal IT Solution consultant. Fiscal is currently using a version of GP Dynamics that is scheduled to be decommissioned by 2030. This request is to procure a consultant to analyze the agencies current needs and help determine the best process forward for replacing the current system.

**XII. Agency fees charged**

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

**XIII. Federal State Fiscal Recovery Funding**

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

**XIV. Need for any other sections requested to be included**

None currently anticipated.

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

RIO reviews all submitted bills to monitor for potential impact on the agency. We have identified several bills that may impact our agency and/or budget including, but not limited to (see attached for complete current list of tracked bills):

- HB 1026 – Changing Administration of Bonding Fund
- HB 1027 – Changing Administration of Bonding Fund
- HB 1117 – Eligibility for normal retirement benefits
- HB 1176 – Legacy earnings fund and property tax relief
- HB 1183 – Gold and Silver Investments
- HB 1184 – Digital asset and precious metal investments
- SB 2072 – Contracts Limiting liability to the state
- SB 2097 – Rural Community endowment fund
- HCR 3001 – SIB and STO to invest state funds in digital assets and precious metals

Potential fiscal impacts of these bills vary. Some minor changes may require small amounts of monitoring and compliance and require just a few thousand dollars of temporary salaries. While others may have a more pronounced effect. We will continue to monitor these and numerous other bills to determine if any additional budget action would be necessary.