

House Bill 1022 House Appropriations January 28, 2025 North Dakota Retirement and Investment Office

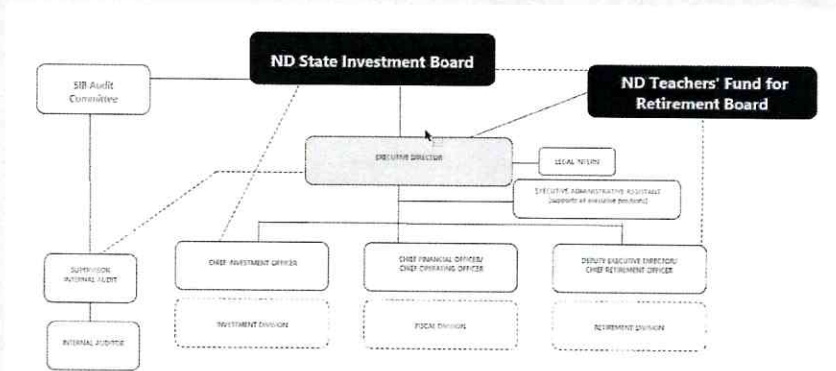
Jodi Smith – Interim Executive Director
Chad Roberts, MAc – Deputy Executive Director/Chief Retirement Officer
Scott M Anderson, CFA, MBA – Chief Investment Officer
Rachel Kmetz – Interim Chief Financial Officer/Chief Operating Officer



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NDRIO: Who We Are

Retirement & Investment is the state agency responsible for coordinating the activities of the State Investment Board and the Teachers' Fund for Retirement.



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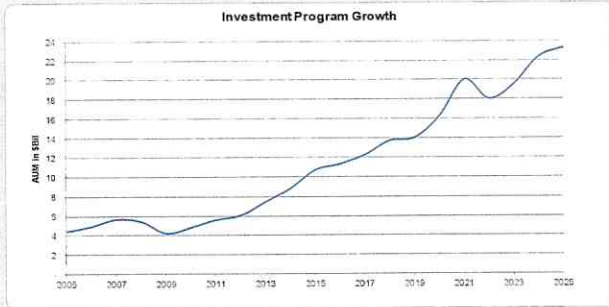
NDRIO: What We Do

Investment Program

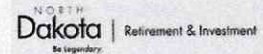
The State Investment Board is responsible for setting the policies and procedures that guide the investment of its client funds while Retirement & Investment is the administrator responsible for investment program management.

Retirement Program

The Teachers' Fund for Retirement (TFFR) is a qualified defined benefit public pension plan. The TFFR board of trustees has statutory responsibility for the pension program while Retirement & Investment is the program administrator.



Fund/Pool	AUM (10/31/24)
Pension Pool	\$8.14B
Insurance Pool	\$3.43B
Legacy Fund	\$11.50B
Other Funds	\$0.28B



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NDRIO BUDGET: Burgum vs Armstrong

House Bill 1022

2025-27 Biennium Base Level	Burgum Budget				Armstrong Budget				Armstrong Budget Compared to Burgum Budget Increase (Decrease)			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2025-27 Ongoing Funding Changes	34.00	\$0	\$11,483,504	\$11,483,504	34.00	\$0	\$11,483,504	\$11,483,504	0.00	\$0	\$0	\$0
Salary Increase			\$586,608	\$586,608			\$471,836	\$471,836			(\$114,772)	(\$114,772)
Health Insurance Increase			\$210,185	\$210,185			\$204,180	\$204,180			(\$6,005)	(\$6,005)
Funding to replace the 2023-25 vacant FTE pool			\$238,129	\$238,129			\$238,129	\$238,129				0
Funding to replace the 2023-25 new FTE pool			\$1,547,947	\$1,547,947			\$1,547,947	\$1,547,947				0
Funding for FTE positions partially funded in 2023-25			\$1,236,914	\$1,236,914			\$1,236,914	\$1,236,914				0
Transfers \$70,450 from operating to salaries - Base												0
FTE fiscal services position	1.00		\$226,771	\$226,771					(1.00)		(\$226,771)	(\$226,771)
Information technology rate increases			\$61,562	\$61,562			\$61,562	\$61,562				0
Information technology software hosting fees			\$751,334	\$751,334			\$751,334	\$751,334				0
Investment conference hosting expenses			\$20,000	\$20,000			\$20,000	\$20,000				0
Total ongoing funding changes	1.00	\$0	\$4,879,450	\$4,879,450	0.00	\$0	\$4,531,902	\$4,531,902	(1.00)	\$0	(\$347,548)	(\$347,548)
One-time Funding Items												
Information technology software support			\$250,000	\$250,000			\$250,000	\$250,000				\$0
Total one-time funding changes	0.00	\$0	\$250,000	\$250,000	0.00	\$0	\$250,000	\$250,000	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	1.00	\$0	\$5,129,450	\$5,129,450	0.00	\$0	\$4,781,902	\$4,781,902	(1.00)	\$0	(\$347,548)	(\$347,548)
2025-27 Total Funding	35.00	\$0	\$16,612,954	\$16,612,954	34.00	\$0	\$16,265,406	\$16,265,406	(1.00)	\$0	(\$347,548)	(\$347,548)

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NDRIO BUDGET: Request Summary

	Base Budget	Adjustments to Base*	Adjusted Base	Optional Package #1 2nd Half New Investment Positions	Optional Package #2 Cost to Continue IT Hosting/ Support	Optional Package #3 Cost to Continue HR	Optional Package #4 Incremental Agency Evolution/ Retirement Ed	Optional Package #5 Internal Investment 2.0	Total Agency Request
Salaries and Wages	\$ 8,552,467	\$ 1,856,526	\$ 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
Total Special Funds	\$ 11,483,504	\$ 1,447,704	\$ 12,931,208	\$ 1,236,914	\$ 1,201,268	\$ 142,302	\$ 708,542	\$ 3,190,380	\$ 19,410,614
FTE	34.00	-	34.00	-	-	-	2.00	8.00	44.00

*Adjustment to base include adding back funding from Vacancy Pool of \$238,129, new FTE Pool of \$1,547,947, as well as changes made to meet the 3% reduction request from the Governor's recommendation. Within the changes to meet the 3% reduction, RIO also moved \$70,450 from operating expenses to salaries and wages.

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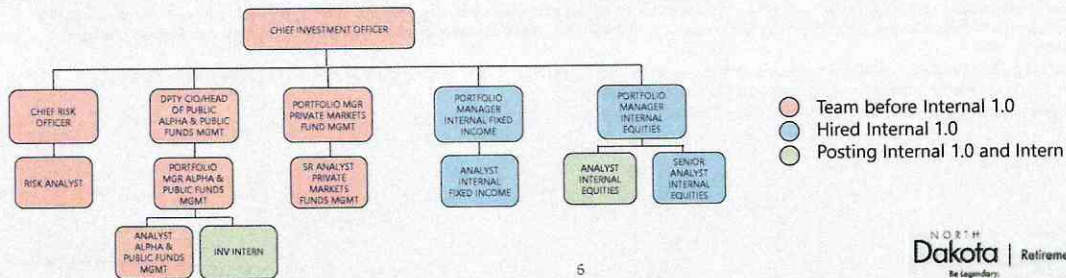
NDRIO BUDGET: Optional Package #1

2nd Half of New Investment Positions

	Salary & Benefits	Operating Expenses	Contingency	Total Special Funds
2nd Half of New Investment Positions	\$ 1,236,914	-	-	\$ 1,236,914
Total	\$ 1,236,914			\$ 1,236,914

Internal Investment Initiative: NDRIO received Legislative approval in 2023 to manage approximately \$3 billion of assets internally. The program's goal is to reduce investment costs and improve liquidity management. The plan required hiring five investment professionals, one operations professional, and one administrative staff member. Salaries for the first year were included in the 2023-2025 budget. Additional funding is required for the second year to continue into the 2025-2027 biennium.

Total Appropriation Request: \$1,236,914. Further information starting on page 9 of our full testimony.



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NDRIO: Optional Package #2

Information Technology Hosting and Support

	Salary & Benefits	Operating Expenses	Contingency	Total Special Funds
Additional Operating Communications	-	\$21,500	-	\$21,500
Increased NDIT Tech Support charges	-	\$129,768	-	\$129,768
Increased PAS hosting support fees	-	\$800,000	-	\$800,000
Fiscal Op Software Consultant	-	\$250,000	-	\$250,000
Total	-	\$1,201,268	-	\$1,201,268

Communications Budget Increase: Additional funds are requested to enhance communication efforts. Supports outreach to the public, legislators, and stakeholders regarding RIO activities.

NDIT Technology Support: RIO relies on two dedicated NDIT staff to support technology operations. Continued support is needed due to the pension system rollout and increased investment program demands. NDIT service rates are expected to rise significantly.

Pension Administration System Funding: The new TFFR pension system is in its final implementation stages. Only one year of hosting fees was budgeted for the 2023-2025 biennium. Additional funding is needed for the second year to operate the system for the full 2025-2027 biennium.

Fiscal Team Software Assessment: A consultant is needed to evaluate new financial software options. The current system, Dynamics GP, will reach end-of-life in 2029 and needs replacement.

Impact of Non-Funding: Loss of pension system access for beneficiaries and employers. Increased operational inefficiencies and manual work. Struggles in managing investment operations due to reduced NDIT support. Failure to leverage cost savings from internal investment management.

Total Appropriation Request: \$1,201,268. Further information starting on page 10 of RIO's full testimony.

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NDRIO: Optional Package #3

Cost to Continue HR

	Salary & Benefits	Operating Expenses	Contingency	Total Special Funds
Internship Funding	\$24,000	-	-	\$24,000
Cost to Continue Salaries	\$118,302	-	-	\$118,302
Total	\$142,302	-	-	\$142,302

Internship Program Impact: Internship funding was reduced by \$24,000 to meet our 3% base budget reduction, limiting the program to two interns. A request for \$24,000 seeks to restore funding for up to three additional interns (five total) in the 2025-2027 biennium.

Health Insurance Cost Increases: Historically, savings were achieved by staff opting for health coverage through family members. Two staff members will now require NDRIO-provided health coverage, adding \$118,302 in costs. Current biennium costs are covered by unfilled position savings, but additional funding is needed moving forward.

Impact of Non-Funding: Without additional funding, internship opportunities would be reduced, limiting student exposure to state government careers. Insufficient salary appropriations could impact operational efficiency and staffing.

Total Appropriation Request: \$142,302. Further information starting on page 11 of RIO's full testimony.

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NDRIO: Optional Package #4

Incremental Agency Evolution/Retirement Education

	Salary & Benefits	Operating Expenses	Contingency	Total Special Funds
Additional Comm FTE	\$184,864	\$18,800	-	\$203,664
Additional Internal Auditor FTE	\$233,228	\$16,650	-	\$249,878
Investment Conference Continuation	-	\$20,000	-	\$20,000
Retirement Ed Initiative	-	\$35,000	-	\$35,000
Contingency	-	-	\$200,000	\$200,000
Total	\$418,092	\$90,450	\$200,000	\$708,542

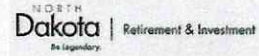
Strategic Plan Enhancements: Additional resources are needed to support RIO's strategic initiatives on both retirement and investment sides. The internal investment initiative increases demands on the internal audit division, requiring an additional audit position for compliance. Additionally, as the 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.

Communication and Education Initiatives: Expansion of communication efforts to meet the growing visibility of the Legacy Fund and other RIO activities. Ongoing investment symposiums for education targeting client funds, legislators, state agencies, and the public. A comprehensive communication overhaul for TFFR stakeholders, aligned with the new pension system rollout, including satisfaction surveys.

Contingency Planning for Leadership Transitions: Funding requested for potential executive searches due to past leadership turnover in key positions. Ensures continuity and preparedness for unexpected changes in leadership.

Impact of Non-Funding: Increased outsourcing costs if an internal auditor is not hired. Limited communication capabilities, reducing stakeholder engagement. Missed opportunities for educational outreach in both investment and retirement sectors.

Total requested appropriation: \$708,542. Further information starting on page 12 of RIO's full testimony.



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NDRIO: Optional Package #5

Internal Investment 2.0

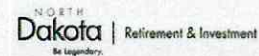
	Salary & Benefits	Operating Expenses	Contingency	Total Special Funds
5 Additional Invest FTEs	\$2,133,410	\$149,500	-	\$2,282,910
3 Additional Fiscal FTEs	\$844,770	\$62,700	-	\$907,470
Total	\$2,978,180	\$212,200		\$3,190,380

Phase 2 Expansion of our internal investment program: Aims to internalize an additional 15% of assets, reaching 30% total. Seeks to leverage RIO's \$23 billion in assets for better returns and lower costs. Aligns RIO with public funds of similar size that have higher levels of internal management.

Strategic Benefits: Further cost savings through reduced reliance on external managers. Enhanced investment processes and fund management capabilities. Cost savings reflected in continuing appropriation expenses.

Impact of Not Expanding: Missed opportunities to maximize the scale of RIO's asset growth. Inability to fully leverage internal investment capabilities for client benefit.

Total Appropriation Request: \$3,190,380. Further information starting on page 14 of RIO's full testimony.



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AMENDED NDRIO BUDGET: Request Summary

	Base Budget	Adjustments to Base*	Adjusted Base	Optional Package #1 2nd Half New Investment Positions	Optional Package #2 Cost to Continue IT Hosting/ Support	Optional Package #3 Cost to Continue HR	Optional Package #4 Incremental Agency Evolution/ Retirement Ed	Total Agency Request
Salaries and Wages	\$ 8,552,467	\$1,856,526	\$ 10,408,993	\$1,236,914	-	\$142,302	\$418,092	\$12,206,301
Operating Expenses	\$2,731,037	(\$208,822)	\$2,522,215	-	\$1,201,268	-	\$90,450	\$3,813,933
Contingencies	\$200,000	(\$200,000)	-	-	-	-	\$200,000	\$200,000
Total Special Funds	\$ 11,483,504	\$1,447,704	\$ 12,931,208	\$1,236,914	\$1,201,268	\$142,302	\$708,542	\$ 16,220,234
FTE	34.00	-	34.00	-	-	-	2.00	36.00

*Adjustment to base include adding back funding from Vacancy Pool of \$238,129, new FTE Pool of \$1,547,947, as well as changes made to meet the 3% reduction request from the Governor's recommendation. Within the changes to meet the 3% reduction, RIO also moved \$70,450 from operating expenses to salaries and wages.

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NDRIO BUDGET: Legislative Overview

Bills with Budgetary Impact

HB 1319 – Legacy Fund disclosure website.

HB 1330 – Divestment from Legacy Fund investments in Chinese companies.

HB 1348 – Repeal of RIO's removal of the fiscal and investment FTEs from OMB's classified system.

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NDRIO BUDGET: Legislative Overview HB 1319

House Bill 1319: A BILL for an Act to create and enact a new section to chapter 21-10 of the North Dakota Century Code, relating to a legacy fund disclosure website.

Sponsors: Rep. Satrom, Sen. Conley, Rep. Ostlie

Current Status: Introduced

Fiscal Impact: RIO estimates the build of a Legacy Fund website would cost approximately \$200,000. Once the site is up and running, RIO anticipates it would cost us \$20,000 annually to maintain the website. We would also need 1 FTE to assist with the build and maintain the website for a total biennium cost of salaries and fringe benefits of \$204,308 and also \$16,650 for the biennium for operating costs of an additional FTE. (See attached Fiscal Note for additional details)

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NDRIO BUDGET: Legislative Overview HB 1330

House Bill 1330: A BILL for an Act to create and enact a new section to chapter 21-10 of the North Dakota Century Code, relating to divestment from legacy fund investments in Chinese companies.

Sponsors: Rep. Satrom, Sen. Conley, Rep. Grueneich, Sen. Lemm, Rep. Ostlie

Current Status: Introduced

Fiscal Impact: RIO, with consultant RVK, Inc., reviewed the proposed legislation's potential impact on the Legacy Fund. The financial effects depend on how "subject to the jurisdiction or direction of China" is interpreted.

Interpretation 1 (Broad): considers any company doing business in China as subject to the bill; would force a shift from separate accounts to higher-cost commingled fund. Estimated annual cost increase: \$2.7 million, growing with fund expansion. Biennium cost projections: 7/1/25: \$5.6 million, 7/1/27: \$6.7 million. Prohibits internal investment management, further increasing costs.

Interpretation 2 (Narrow): Limits restrictions to companies domiciled in or controlled by Chinese entities. Fewer assets affected, with possible mitigation through guideline adjustments. Estimated annual cost increase: \$50,000 to \$910,000. Biennium cost projections: 7/1/25: \$0.1M to \$1.9M, 7/1/27: \$0.1M to \$2.3M.

Conclusion: A broad interpretation results in significant cost increases, while a narrow approach could substantially reduce financial impact. (See attached Fiscal Note for additional details.)

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NDRIO BUDGET: Legislative Overview HB 1348

House Bill 1348: A BILL for an Act to amend and reenact section 54-44.3-20 of the North Dakota Century Code, relating to exemptions from the employee classification system; and to repeal section 54-52.5-04 of the North Dakota Century Code, relating to an incentive compensation plan for the state retirement and investment office.

Sponsors: Rep. Ostlie, Rep. Beltz, Sen. Conley, Sen. Cory, Rep. Satrom, Sen. Weber

Current Status: Introduced

Fiscal Impact: The benefit of Internal Investment scales with the size of the commitment, see table below. (No fiscal note generated.)

PLAN	Internal Investment 1.0	Internal Investment 1.0 and 2.0	Internal Investment Final Phase
	15% OF ASSETS	30% OF ASSETS	50% OF ASSETS
PENSION	\$6M	\$9M	\$16M
INSURANCE	\$3M	\$4M	\$6M
LEGACY	\$8M	\$13M	\$22M
Estimated Annual Savings (on \$23 Billion AUM)	\$17 Million	\$26 Million	\$44 Million

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