NORTH Dakota | Retirement & Investment
Be Legendary.

House Bill 1163
North Dakota Retirement and Investment Office (RIO)
Testimony before House Education
Representative Pat D. Heinert, Chair

Jodi Smith – Interim Executive Director
Scott Anderson, CFA, MBA – Chief Investment 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).

The State Investment Board has the statutory responsibility to administer the investment program for 31 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 23 other non-pension funds for a total of 31 separate client funds with an overall fund value of roughly $23 billion as of October 31, 2024.

II. Neutral Testimony relating to H.B. 1163

Pursuant to NDCC Section 54-03-35, any bill which potentially affects the Legacy Fund, the advisory board shall request the state Retirement and Investment Office to arrange for the preparation and submission of a cost-benefit analysis. The investment consultancy RVK has been retained to provide business cases for this purpose.

RVK has provided an initial analysis to meet the requirements of the scheduled House Education Committee meeting. RVK's initial analysis suggests a negative fiscal impact on the Legacy Fund of $115.48 M in the Biennium that begins 7/1/25, followed by a negative fiscal impact of $131.14 M in the Biennium that begins 7/1/27. Total negative fiscal impact is an expected opportunity cost to the Legacy Fund of $246.62 M in the first 2 biennium.

Methods, Assumptions and Notes

The analysis begins by estimating what $1B invested in the current Legacy Fund is expected to return based on the current asset allocation of the fund and RVK's current long-term capital market assumptions. The expected compound return for the current allocation is 6.09%. The analysis compares this output to what $1 B would earn at 0.5% as proposed in the bill.

Additional Analysis can be completed that provides a more detailed range of potential outcomes by modeling additional variables for pace of deployment into the loan program, reasonable measures and adjustments that the Legacy Fund would have to take to manage uncertainty in the pace of deployment and utilizing stochastic analysis to capture a range of potential return outcomes for the Legacy Fund.

The proposed size of the program is significant relative to the total size of the Legacy Fund (estimated at about 9% of current Legacy Fund assets). As such the program is likely to impose a high degree of disruption on the asset allocation structure and operation of the Legacy Fund, the costs of which are likely significant and difficult to fully estimate.

III. Summary

RVK's initial analysis suggests a negative fiscal impact on the Legacy Fund of $115.48M in the Biennium that begins 7/1/25, followed by a negative fiscal impact of $131.14M in the Biennium that begins 7/1/27. Total negative fiscal impact is an expected opportunity cost to the Legacy Fund of $246.62M in the first 2 biennium. The program is likely to impose a high degree of disruption on the asset allocation structure and operation of the Legacy Fund, the costs of which are likely significant and difficult to fully estimate. Additional Analysis can be completed that provides a more complete analysis but would require additional time and resources.