

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

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2001 HOUSE APPROPRIATIONS

HB 1025

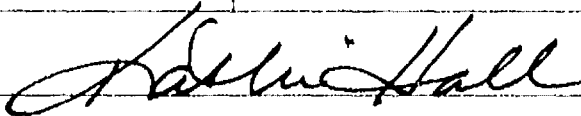
2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1025

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date January 16, 2001

Tape Number	Side A	Side B	Meter #
01-16-01 tape #1	0 - 4934	4604-6230	
01-16-01 tape #2	0 - 760	-	
Committee Clerk Signature 			

Minutes:

The committee was called to order, and opened the hearing on HB 1025, the combined budget for the Retirement and Investment Office (RIO) and the Public Employees Retirement System (PERS). Rep. Huetter is absent, but excused from this hearing.

Steve Cochrane - Executive Director of the Retirement Investment Office (RIO) - had prepared written testimony. With him were the Deputy Executive Director and the Fiscal and Investment Officer. In the budget we have come before you with a base budget of 100% of previous biennium budget and also have certain requested items beyond that 100%, which are essentially represented by 2 things - one is an additional FTE requested for the State Investment Board Program, and the other is for educational needs for trustees on both the State Investment Board and the Teachers Fund for Retirement. The Retirement Investment Office is charged with responsibility of administering the investment program for the investment board which the dollar

amount is approaching 4 billion dollars, and also administer the benefits program for the teachers fund for retirement which is excess of a billion dollars.

On page 3 of the written testimony there are graphs that relate to the request for the additional FTE. Right now the office has 17 persons in the Retirement Investment office, essentially 4 of these persons are assigned to the State Investment Board, and the other 13 persons work in the Teachers Fund for Retirement. Refers to the graphs as to the growth of the funds, divergence of the funds, and investment dollars per budget dollars has increased dramatically. On the second graph they have added the additional FTE requested.

Mr. Cochrane speaks of background on the request includes information on the board and how it used to rely heavily on outside consultants for guidance for investment information, and now the board is 11 members strong, that gets itself involved very instrumentally with all the details of the investment programs. We manage 18 different pools of investments for a variety of clients, 9 of which are statutory and 9 of which are contractual. We also have 20 investment managers who help carry out each of these individualized mandates. The program itself is becoming increasingly more complex, using 11 different asset classes, within each of these we have a variety of styles and strategies that work, some are very technologically advanced, some synthetic strategies that require a high level knowledge of understanding by the State Investment Board. This Board receives education every month. They are very active in the decision making. Therefore, the other part of our request, the moneys for staff and board education, are critical to allowing these board members to carry out their fiduciary duties. By law, these members are charged with acting as prudent investors, and are in fact legally responsible for the decisions they make.

Page 3 of the written testimony at the bottom, notes the historical total of FTE's for RIO. The new individual sought would be to assist a lot in the investment accounting functions, a lot of the day to day maintenance of the investment program which would then allow Connie, our Fiscal and Investment officer, to have time to deal with more complex duties, such as risk analysis, tracking the managers, supplying more detailed reporting to our clients. We have 18 clients, and we are their money managers. We have been able to meet their needs, but not able to report to them with the frequency that they deserve, and would like to see. We monitor these funds very closely, but we actually have been at a loss to provide the quality of reporting that we should be able to provide to our contractual clients. We strive to provide good, quality service to clients, and want to manage risk and returns.

Asking for support of our budget request. Notes that there are a number of attachments to his written testimony.

Rep. Koppelman: Do contractual clients pay fees that are sufficient to offset the costs of providing the services that you render for them?

Response: We do charge fees on a pro rata basis to our clients, and have a minimum annual fee in place of \$1000. There is no doubt that even on a pro rata base, it is fair to all. The larger funds make it available to the smaller funds to get world class management that they might be able to get standing alone.

Rep. Koppelman: That is fine as long as it is a win-win situation but if the contractual clients costs you in terms of resources or time or staff, and creates your need for an additional person, and their fees don't offset those costs, then the state would be concerned.

Response: Agrees. That is why there is a minimum fee, and the office is charged with being available to any political subdivision who approaches us. We strive very hard not to

compete with private industry. We do not market our services, don't proactively seek clients, but if someone comes to us, we must bring them in.

Rep. Koppelman: If you look at the historical FTE's on page 3, it seems to coincide with the time period on technology explosions, and technology makes us more efficient, how does this play a role.

Response: Agrees that technology does enhance the ability to service their clients. However, it can only go so far. Without the technological improvements, many more persons would be needed. Keep in mind on the Teachers Retirement side, there are increasing number of retirees, and this requires personal 1 on 1 contact. Still a need for persons.

Rep. Glassheim: How do the special funds come about? They appear to be a small cost of amounts under management.

Response: All special funds, don't ask for any general fund dollars, and these funds are handed over to us for purposes of investment management. From these funds, all costs of administration, investment management, consulting services, are extracted. It is all tracked very carefully so that only funds that benefit from particular services pay for those services. Its all pro rata basis. They are less than 3/1000's of 1 percent.

Chairman Byerly: On the contractual accounts, how much of your staff time is spent handling these contractual accounts in FTE's.

Response: Over the years the structure of servicing all the clients is streamlined. Because we are able to commingle the accounts that are the pension trusts, and then those in the insurance trusts, the work we do are done simultaneously with the other participating accounts. The process is very efficient. The time for individual attention takes very little time in the year. Very small number of FTE.

Sparb Collins: Executive Director of North Dakota Public Employees Retirement System (PERS). He had prepared written testimony. It was identified on page 1 of the written testimony what PERS does, and the programs administered. On page 2, 3 and 4 of the written testimony accomplishments of the agency are noted: 1) received a national achievement award; 2) received a financial reporting national award; 3) implemented a new Defined Contribution Retirement Program enacted by the legislature last session, having 44 meetings, developing plan projections of the 630 eligible participants, and completed changes to the mainframe system, selected a record keeper and determined investment options; 4) implemented a new Portability Enhancement Program passed by the last session, completed programming changes to the mainframe, and held 133 meetings around the state; 5) instituted a provider-training program for the 250 deferred comp agents, holding 10 training sessions in the state; 6) implemented benefit improvements for the PERS Retirement Plan, the Judges Retirement Plan and the Highway Patrol Retirement Plan; 7) processed 750 new retirees; 8) conducted 14 pre-retirement seminars; 9) successfully rebid the Employee Assistance Program for state employees and implemented that program; 10) produced a comprehensive annual report; 11) continued the dissemination of a comprehensive product profile for membership; 12) processed over 32,000 claims in Flex-Comp program; 13) successfully responded to the Y2K challenges; 14) sent annual statements to all PERS members and retirees; 15) conducted over 1200 individual counseling sessions; 16) responded to over 100,000 calls; 17) developed an IT plan; 18) completed an actuary experience study for PERS, HPRS and Retiree Health Credit Program; and 19) completed an asset/liability study for PERS and Highway Patrol Retirement Plan.

The agency is concerned with providing services to members and are cognizant that the overall level of service needs to be provided in a manner that is satisfactory to our membership. Level of satisfaction in 1995 was 83%, in 1997, 93%, and in 1999, 88%. The board thanks the committee for its past support.

Beginning on page 4 the testimony turns to the budget requests. The scope of services within the agency has expanded as well as the membership in the various programs. A good measure of the overall cost of our services is determined by the average cost per member for all programs. Pages 5 and 6 of the written testimony note an historical cost per member listing. The executive budget recommendation shows an increase of about 13.5%, broken down into several components - the governor's proposed compensation package, to retain a student internal auditor, to implement an IT strategic plan, funding for continuation of a newsletter, a new benefits specialist position to provide member education, and to continue a replacement schedule for IT equipment - more fully explained in the written testimony on pages 6 through 10.

On page 10 of the written testimony it is noted that several items were not funded in the executive budget, including 1) converting a temporary employee to permanent; 2) increasing the internal auditor position intern to full time to assist in monitoring contracts; and 3) increasing our half-time IT position to full time. The office is continuing to monitor new federal requirements arising pursuant to HIPAA. Also continuing to review these regulations to determine if they have any effect on the PERS administrative budget.

The funding for our proposed budget is special funds. This means that the costs are paid directly from the various programs the agency administers.

Rep. Koppelman: The new plans implemented in the last legislative session, how have these implementations gone. What is your assessment of the status so far?

Response: The implementation of these programs went really smoothly. The participants had to make an election, and did a series of meeting, and education. After a survey completed, there was a general positive reaction. We have not gone back and surveyed participants recently.

Rep. Koppelman: You talked about the education component and asked for dollars for that, is the provider bearing some cost for the education.

Response: Actually, they are going to be bearing quite a bit of the cost because our role is to organize a session, get them in place, and beyond that the providers should do most of the work, so it helps us, and reduces what we need. We don't view ourselves as financial planners, so we rely on the provider that we contract with, and they bring in the people that actually engage in the training. American General, who we contract with, has 2 agents in the state that are assigned to the PEP program. They are talking about increasing their number to 4. By our providing more resources to that we can better utilize them more. The same thing with Fidelity.

Rep. Koppelman: Your testimony talks about 2 ½ % for a new benefits specialist position to provide member education, but you just said that the companies would be doing most of that.

Response: The benefit specialist would be doing the coordinating of the meetings, getting things set up, working with the companies. We will be involved in it to that extent. Gave the committee an example. This would allow us to do more meetings in a year.

Rep. Koppelman: What would 2 ½% increase amount to in dollars?

Response: A total of \$85,000.

Rep. Koppelman: You are saying that you need \$85,000 for an employee to schedule meetings. It sounds excessive to accomplish that task. Can this not be done with current staff?

Response: We can do this, but the number of seminars that could be put on is limited. By adding this additional person, we can get around to the seminars annually. The goal is to provide seminars to groups of about 20 persons, out of potential 16,000.

Rep. Koppelman: On the IT side, you talked about 1% for computer equipment replacement and so on, and you talked about 5 1/2% for implementation. What does that mean?

Response: In our IT Strategic plan we talked about doing some IT projects in developing programs to utilize the internet and voice response systems. Gave a few examples. Goal is to make programs more accessible, and to get rid of the paper. Want to make things more available to the customers, on the internet, and less by contact with staff at the office. Rather than just annual information, would like to make it regularly available.

Rep. Koppelman: Is the major cost of both these areas human? Staff time on both IT and education.

Response: We would contract out the ITD to do the IT projects. They do the programming.

Rep. Carlisle: On page 2 of the 630 eligible participants, what participation rate did you have?

Response: 38%.

Rep. Carlisle: On page 3, number 7, you say you processed new retirees. What is the trend?

Response: We are up, and hard to predict. Next year, assuming we have several proposed benefit enhancements, and after the legislative year we get a bump in retirees. Then it goes down, then another bump up. The number of retirees in PERS seems to be moving into a mature plan - paying out more than what is being taken in. In a mature stage the number of retirees begins to level off. We are up to about 4,500 - 5,000 retirees.

Rep. Koppelman: Of the 38% participation rate, is there another opportunity window?

Response: Was a 1 time window under existing statute. Two bills were submitted during the interim, one allowing a new window, the other to expand the option to all employees.

Rep. Skarphol: In regard to the educational process, say that American General participates with you in putting on these seminars, I assume they are making a profit or wouldn't be doing this.

Response: American General is our provider, based upon a competitive bid. Part of that bid makes them to be available to us for member education. So we need to get them involved more. To the extent there is more involvement in these plans, there will be more administrative fees. Of the 10 providers they have the largest number of participants.

Rep. Skarphol: What is their commitment of resources as a percentage of this educational process? Are they paying half, or are you paying all.

Response: Their level of this is their staff. What we do is work with the agency to coordinate a meeting. They come in and talk about financial planning.

Rep. Skarphol: On page 5 you have the cost per member per program. It seems to me that there is some unusual fluctuation in various years. Can you explain?

Response: Some of that has to do with the new programs being assigned. When a new program comes on line, the number of persons in the program is added into the numbers, and cause some fluctuation.

The chairman closed the hearing on this bill.

January 16, 2001 (later in the day)

The committee was called to order, and opened the committee work on HB 1025.

Chairman Byerly: Anyone have any thoughts as to the RIO and PERS bill. If I remember correctly both these asked for FTE's last session and I don't think we gave them to them.

Response: from LC or OMB, after looking at budget book, answers that they got 2 new FTE's last time. And eliminated one FTE from RIO.

Chairman Byerly: As to the defined contribution plan, and looking for a person to do more educational things, anyone switching from a defined benefits plan to a defined contributions plan has to be more savvy and informed as to what they are doing with their retirement to begin with. The survey was that 60% understood the risk, and 40% said they did not. I would bet that those 40% were in the defined benefit plan. The companies hired were charged with the job to do counseling to the persons in the plan. That's on the PERS end of it.

Rep. Koppelman : Says that these were his thoughts, and that if education is necessary, it is the responsibility of the providers, to provide the seminars. There are kinds of educational things for the private sector, and we should not be in competition with other businesses. The other issue is the IT needs, and about a quarter of a million dollars.

Rep. Byerly: It was discussed as to last sessions increase of salary line items, across the board then. There are specialized persons in an office like this, that they got a more significant increase than normal. But that was a sizable jump last time. As to PERS there is another \$40,000 of other agency : here for market equity adjustment. We are still putting in a rather large increase in the salary line item. There didn't seem to be any testimony as to employee turnover causing this.

Rep. Glassheim : Asks why the committee cares about special funds that a board takes care of, and as a percentage of funds under management, and why the FTE's expected wouldn't go up as the amounts of funds goes up. He was impressed by the amounts of funds and the profits.

Rep. Byerly: The response was that the legislature has an oversight responsibility over and above the board, to insure that the funds do perform properly and that the money is handled well.

(tape #2, side A)

Discussion as to the responsibility of the office, the need of persons to provide the job as specified in the century code, are they doing what they are supposed to, or are they trying to expand out into different areas. There has been some concern that both offices were asking for FTE's.

Rep. Byerly: Any thoughts as to RIO. There is the salary increase due to the equity adjustment. Had thoughts about this FTE requested, and felt more comfortable with this request, because this FTE is to do monitoring of investments, and isn't a training person, or a public relations person. This would be an analyst.

Rep. Glassheim: Noted that last session there was an increase in salaries, not spread out across the board, but for individuals.

Rep. Byerly: Asked for this particular budget that OMB give the committee some background on the travel numbers - for an additional \$14,000 of travel requested over and above before.

Rep. Skarphol: Notes that the travel may be for the new board members to travel and be educated.

Discussion as to line item for data processing, and may be due to the statewide network, and answers may be found in the budget book.

The chairman closed the committee work on this bill.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1025

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date January 18, 2001

Tape Number	Side A	Side B	Meter #
01-18-01 tape #2	-	825 - 3340	
Committee Clerk Signature <i>John Hall</i>			

Minutes:

The committee was called to order, and opened committee work on HB 1025, the PERS and RIO budget.

Chairman Byerly: This is budget will special agency funds, no general funds in either packages. Start with RIO. They are basically looking for significant money for technology. This gets back to our general discussion on technology from before. I would assume about \$100,000 of the increase is just the normal increase due to wages and salaries. Then they have one FTE in gear which is the accounting/budget analyst type.

Rep. Carlisle: Notes that the number of investments has gone up considerable more than FTE's.

Rep. Byerly: This FTE request doesn't bother me as much, as indeed they have more assets under management and probably do have to have more persons to look at this. Or at least you could use this argument. The workload has probably gone up, and each session we keep

changing the kinds of investments they have to make, and since we reinvest everything mature, the portfolios do keep getting bigger. Any other thoughts.

(There was some general committee discussion as to the IT request of \$50,000. There are some decreases there, but this is significant.)

Rep. Skarphol: Comments his observations and concerns in regard to cuts in IT of different amounts, here \$50,000, in the Tax Commissioner's office its \$373,000, and then some agencies don't even bring it up. Why are some making an issue of this and some are not. What is the total picture look like.

(The OMB staff person notes to the committee that this may be due to the off-site, off campus location. The network costs are more in off-site locations than in the capitol tower. Some general discussion as to some agencies don't have a choice to be offset or not. It is decided that this may be an ITD question. Questions whether or not there is a duplication of budget requests also in the ITD budget. There is some explanation as to how ITD bills the agency and becomes an expense listing one place and income somewhere else.)

Rep. Byerly: States a concern that there is a decrease in software costs, in contractual services, which is telling him they want to consolidate everything into a single line item. Assume the decrease probably went to ITD anyway, or an outside source.

(OMB staff noted what the decrease appeared to be, and the committee stated it was strange to group these together as decreases. OMB staff discussed the ITD codes for budget lines.)

Rep. Skarphol: There was some request for travel and professional development of the board, and wonder what price it would be to bring someone here rather than send them out. Discussion as to some travel savings possibilities.

Rep. Byerly: These are some things/concerns to look at, and would like the agency to do more explanation about the FTE, too.

Now, go on to PERS. This is a special fund, and the FTE's function may be like a financial advisor, doing investor education. He has a problem with that FTE request.

(The committee had some general discussion as to the necessity of a FTE, and the fact that anyone who has a retirement plan has some own responsibility of their own education. This agency also has a request for their ITD plan that is not cheap. They have an inflationary increase, and interactive voice system, internet stuff. First they say they need the employee, then they need the operating expenses for the employee, then the computer for the employee, etc. The voice recognition system requested is so that investors/clients can elect to get information online or by calling in on the phone. The question remains, are we spending the money on the correct technology, will it be outdated too soon.)

Rep. Skarphol: Reminded the committee that the department has responded to over 100,000 calls in the last 2 years. Maybe the voice response system is needed to eliminate staff tie-up.

Rep. Byerly: States that some of this is also available on the internet, and says that that is the way things are moving. Questions the duplication.

(More discussion as to the number of calls per day, and the staff necessary to take the calls).

Chairman Byerly: Does not see any other proposed legislation that would affect them. What concerns him in regard to their workload is if their formula is changed, the Rule of 85 changes, and more persons retire, then there is an effect.

(The committee agrees that the questions to ask the agency are in regard to all the FTE's requested, and one part-time going to full time, who the benefits are already being paid to already.)

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Government Operations Division

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Rep. Byerly: Somewhat different approach to a special fund agency as to a general fund agency.

Has a different affect to the general fund.

The chairman closed the committee work on this bill.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1025

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date January 19, 2001

Tape Number	Side A	Side B	Meter #
01-19-01 tape #1	2209-2640		
Committee Clerk Signature <i>Harriet Hall</i>			

Minutes:

The committee was called to order, and opened committee work on HB 1025.

Rep. Carlisle: Refers the committee members to the pink sheet (Governor Hoeven's budget proposal). Rep. Carlisle states that he and Rep. Glassheim have been working on this budget, and have received a handout of the internal memo for Internet projects IVR projects, and the totals for the voice response system requested.

Rep. Skarphol: Notes that this would be a one time cost to the department. States that he believes the committee needs to make a list of all the one time costs being requested, so he can make some analysis of these one time expenses.

Chairman Byerly: States that we will need to have the department members come in and explain some of these numbers, what is being requested, and the needs.

Rep. Glassheim: Noted the estimates are from ITD and the agency asks for the estimates, and gets the numbers from ITD. ITD gave a quote on what it would cost to put all the data on the

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Government Operations Division

Bill/Resolution Number HB 1025

Hearing Date January 19, 2001

voice response system on the phone and the Internet. Also there will be a registration procedure on the Internet. The department is not promising any decline in staffing, however, they have increased numbers but do not need increased staffing. This handout covers the costs of putting in the two systems, the voice response and the Internet access.

Rep. Byerly: Explains that he desires to have ITD come down to explain the numbers, on this quote.

The chairman closed the committee work on this bill.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1025 - Overview

House Appropriations Committee

☐ Conference Committee

Hearing Date January 24, 2001

Tape Number	Side A	Side B	Meter #
1	x		0 - 6240
		x	0 - 3334
Committee Clerk Signature <i>L. L. Dourhan</i>			

Minutes:

Chairman M. Timm, Vice-Chair F. Wald, Rep. Aarsvold, Rep. Boehm, Rep. Byerly, Rep. Carlisle, Rep. Delzer, Rep. Glassheim, Rep. Gulleson, Rep. Heuther, Rep. Kempenich, Rep. Kerzman, Rep. Kliniske, Rep. Koppleman, Rep. Martinson, Rep. Monson, Rep. Skarphol, Rep. Svedjan, Rep. Thoreson, Rep. Warner, Rep. Wentz

Rep. Mike Timm: Called the Appropriations Committee to Order to hear Testimony on HB1025 as presented by the State Investment Board. Clerk will take the roll.

Steve Cochrane, Executive Director, NDRIO

Followed written testimony and slides.

Rep. Francis Wald: Can you back up to the previous slide? Are those ex-officio members constitutional or statutory? Response was they are statutory.

Rep. Pam Gulleson: Has there every been a policy submitted to you that you felt uncomfortable in accepting that it was to risky or are you allowed input throughout that process?

Response: In most cases we are actively involved in the development of the policy from the consulting standpoint and in my experience in four years we have not had a policy submitted that was rejected by the State Investment Board, but in a large part that's due to the fact that these policy statements are designed and driven by loans and working with recognized professional consulting firms that understand institutional liability and have a very strong handle on acceptable risk levels and exposures that these funds can take on.

Rep. Bob Skarphol: In the case of Workers Compensation you have a board to give you some guidance with regard to the other funds, you don't have a similar structure is that correct?

Response: In the insurance funds we don't have a board, we work with the insurance dept. In OMB we work with the staff, our employees actually go to their board meetings and report to them as the manager of managers.

Rep. Bob Skarphol: To follow up, prior to the development of the board of Workers Compensation, what was the procedure?

Response: That transition occurred just when I arrived here and that was two legislative sessions ago, so I can't comment on that.

Rep. Amy Kilnske: Is it statutorily required that the asset allocation have maximums and minimums of what can be invested in certain areas, such as fixed income or growth?

Response: No it is not.

Rep. Ole Aarsvold: You maintain 18 accounts and yet you have 20 managers, how does that work out? Do certain funds divided or do they have two or more managers?

Response: When a fund comes to us and presents its asset allocation, lets say they include in their asset allocation large cap domestic equity, and their a pension fund. When we plug them into large cap domestic equity inside the pension trust, they are going to be instantaneously

exposed to all the managers we hired to carry out the large cap domestic equity asset class mandate.

Rep. Elliot Glassheim: Going back to your earlier slides about Northern Trust and the Callahan people, how are these people chosen? Do they change over the years? Certainly we would have some interest in using North Dakota banks or North Dakota investment firms or consultants, is there any opportunity for North Dakota's to bid on these? How do you decide on those managers or the banks and consultants and are there any North Dakota firms involved?

Response: We to are North Dakota sensitive, unfortunately we are constrained by the fact that institutional custodial work is a highly specialized area, and there are only a small number, less than 10 globally qualified custodians who can handle this work. So beyond North Dakota we reach our tentacles sort of regionally and we do work with the Northern Trust in Chicago. The same goes for investment consulting, on an institutional basis I'm not aware of firm in North Dakota that has any experience at this level. The Answer to your question is it doesn't exist.

Rep. Jeff Delzer: You mentioned something that this used to all be contracted out, do you know when that change was made?

Response: It was a gradual change, and when I came onboard in January of 1997, very shortly after that we were renegotiating our relationship with Callan, so 1996 was the last year we had that time we had that comprehensive consulting contract with them.

Rep. Mike Timm: What does private equity consist of, what kind of investments?

Response: Private equity is a label for a wide variety of private accessible investments, it includes venture capital, but it can also include management buyouts, leverage buyout activity, it could include oil and gas leases.

Rep. Robert Heuther: In your domestic fixed and the real estate, can you explain that a little more?

Response: Real estate is broken into two approaches, one is we participate in two large CO-mingled funds with J.P. Morgan. Its a very diversified complimentary grouping that we have.

Rep. Bob Skarphol: Can you provide us with the rate of returns on these various categories in this pension trust, on a historical 5 year prospective?

Response: I have it included in the report and we should get to it a little later.

Rep. Mike Timm: On page 53 you have the stocks listed for these two funds, when those stocks are picked by the investment people that you hire right? Response was yes. Basically these are all foreign companies aren't they? They rely a lot on foreign companies to purchase their stocks don't they?

Response: I believe the reason for that is that the insurance trust has a large exposure to index fund, but because that's in a CO-mingled index fund they aren't broken out as individual stock holding so it defaults to the next largest holding in separate account managed equities.

Rep. Mike Timm: We have a lot of other trust funds, who manages those accounts? Does the Bank of North Dakota do it?

Response: I'm not well qualified to address that question, but I can tell you that I know that there are significant assets under management buy the state land board, bank of North Dakota, outside of that I'm really at a loss to tell you.

Rep. Francis Wald: On page 49 of this larger handout you show the investment performance as of June 30 and for example you show teacher's fund for retirement at 11.63, now that's of June

30 and since then the market has gone kind of south if you know what I mean, what would it be today? What was it as of January 1st? Do you have any idea?

Response: We don't have reconciled numbers for January 1, through November we have reconciled numbers and our pension trust is off a little over 6% for fiscal year to date, and were doing better than we were doing two years ago 1998 at the end of the 1st quarter we were down close to 8%, and the stock market is going to be volatile, you have up and down times, so we handle the investment accounting for this in a very conservative manner. So we have tucked away a lot of money for those times that the stock market is in an up and down slide.

Rep. Keith Kempenich: Do you and the Land Board work together at all or do you keep pretty separate in what your doing.

Response: The land commissioner serves on the investment board, so there is that direct connection. They have considerable institutional investment experience, but we don't coordinate on our investment activity, except for the fact that we do have a couple of instances where we do consult on some investment opportunities.

Rep. Keith Kempenich: Are we keeping pace with this as far what's coming on in our teacher retirements, are we keeping pace with what were doing in that regard?

Response: That's an important critical element for the development of the asset allocation, we in fact in this past year did our liability study and enacted a new asset allocation that took into account 20 year projections. We do long term projections and we believe we are keeping pace with the current events.

Rep. Ron Carlisle: On that second to last page that you match loans, two of the loans are to banks, so we have banks in the state that borrow from you? And the second question I have

concerns Great Plains Software which was recently absorbed by Microsoft so that loan will stay in place for the new owner?

Response: That's correct , and in both of these cases they were expansion of their facilities to enhance regional coverage. And to answer the second part of your question, It looks like Microsoft owes us some money.

Rep. Elliot Glassheim: As you know I have been interested in seeing what we could do to get more risk capital and equity investments in the state to make it available to expand business. I think I understand your criteria of exclusive benefit and the need to provide for the recipients of the retirement funds, can you tell me what other states do with their pension and retirement funds that might make a little more money available for in state equity expansion. Are you familiar with any of those programs in other states?

Response: Their is such a variety of what other states do that I can't be more specific in answer to your question.

Rep. Francis Wald: Do you happen to know what the interest rate is in that Dakota Growers loan? Response was about 7%.

Rep. Bob Skarphol: Are there any requirements in state law that you participate in anything that you feel puts these funds at risk at this point in time?

Response: No sir.

Rep. Klm Koppelman: Stepping away from the loan area for a minute, just a general question on investment philosophy and policy, as you know there was some movement in the last session to at least experiment with assigned contribution and I think there is more of that in this session. How would that effect you if we become more oriented toward assigned contribution or at least if

that becomes a bigger component in the retirement picture, how would that change if at all your investment philosophy or practices in terms of how you invest these dollars?

Response: I think the way that would flow through to us would be through the liability side of the picture.

Rep. Keith Kempenich: I just wanted kind of congratulate Steve, I think he has done an outstanding job of managing the investments.

Rep. Francis Wald: When you go into the market to buy an equity, and the more you buy the cheaper it gets, Do you buy in quantity and divide it out later to the various funds?

Response: We do exactly that.

End of testimony of Steve Cochrane.

Rep. Mike Timm: Anybody else who wants to testify? Appropriations Committee was adjourned

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1025

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date January 25, 2001

Tape Number	Side A	Side B	Meter #
01-25-01 tape #1	0 - 1310		
Committee Clerk Signature <i>Kelli Hall</i>			

Minutes:

The committee was called to order, and opened committee work on HB 1025.

Chairman Byerly: Handed out proposed amendments. Rep. Carlisle and Rep. Glassheim worked on this budget. The amendment distributed to the committee was #0101.

Rep. Carlisle: Basically, on the RIO part of the budget, we thought that the person, the FTE accounting budget specialist, we agreed that this was okay, because of the FTE/asset ratio justified the new FTE. We left the budget as it was proposed. Rep. Byerly has gotten for you the amounts spent on the T1 lines. You have a handout, as to the particular budget and their ITD expense. As to the PERS part of the bill, the bottom line on the back page goes as follows: we left the money in for the new voice system and internet access to account information. You should have had a copy of the internal memo from their accounting person. What we did do is remove the 1 FTE benefits program specialist, the \$88,910. The theory was that they needed

someone to go out and speak to clients. We believe that they can do without this person at this time.

Rep. Carlisle: moves to adopt the amendments. Rep. Glassheim seconded.

Rep. Byerly: does a summary of the bill. That the RIO part of the bill is being accepted as the governor's budget proposed, and that to the PERS portion of the bill, we did not give them the extra FTE and equipment.

Rep. Koppelman: The voice response system and internet checking of information is going to cost how much? Is this really going to be a money saver?

Response: \$190,056. We were told that it is going to make a big improvement in office efficiency.

A vote was taken to adopt the amendment, 7 yes, 0 no, Vote passed.

Rep. Carlisle: moves DO PASS AS AMENDED. Rep. Thoreson seconded.

(Committee had some general discussion as to the FTE eliminated. Basically adopted the governor's proposed budget, except that they withdrew on FTE from the proposed budget. Sheila from OMB gave an explanation of what was requested, what was allowed by the governor's budget).

A vote was taken, 7 yes, 0 no. The bill passed. Rep. Carlisle will carry the bill to the full appropriations committee.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB1025**

House Appropriations Committee

☐ Conference Committee

Hearing Date **February 2, 2001**

Tape Number	Side A	Side B	Meter #
1		x	2,480
Committee Clerk Signature <i>LTD</i>			

Minutes:

House Appropriations Committee action on HB1025.

Rep. Ron Carlisle: HB1025 basically is divided into two parts, there is the retirement and investment, and public employees retirement system. If you look at your pink sheet Dept 190 the retirement and investment, the only additional request is that they asked for an FTE, an accounting and budget specialist for the investment program and the committee decided that we did agree with that because of their ratio in investment relative to the number of FTE's, or in other words their assests under management, so agreed with that additional FTE. On the PERS part of it they had asked for an FTE, a benefits program specialist and we decided to take that FTE out. The other big item that they had, was a voice activated voice response from the internet based system which cost \$190,000, and the committee felt that it was a good investment, and they get in the neighborhood of 200 calls a day. But it will be a 24 hr access to your benefit package, and at some point they think they will be able to save one FTE. There was a lot of

Page 2

House Appropriations Committee

Bill/Resolution Number HB1025

Hearing Date February 2, 2001

discussion on the FTE request, and what they wanted was a training specialist. But the majority of the committee felt that they could get along at this time without that additional FTE. With that I would move the amendments on HB1025 which is .0101. Seconded by Byerly.

Rep. Mike Timm: Any discussion? All those in favor of adopting the amendment signify by Saying AYE. Voice vote. Motion carried. Amendments are adopted.

Rep. Ron Carlisle: I would move a DO PASS as amended on HB1025. Seconded by Rep. Byerly.

Rep. Mike Timm: Any discussion? Clerk will take the roll. YES (19) NO (0) Absent and not voting (2). Motion passes, and Rep. Carlisle will carry the bill.

January 24, 2001

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1025

Page 1, line 18, replace "2,314,750" with "2,237,072"

Page 1, line 19, replace "1,507,730" with "1,500,998"

Page 1, line 20, replace "12,000" with "7,500"

Page 1, line 22, replace "3,859,480" with "3,770,570"

Page 1, line 23, replace "6,649,613" with "6,560,703"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1025 - Summary of House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Retirement and Investment Office			
Total all funds	\$2,790,133	\$0	\$2,790,133
Less estimated income	<u>2,790,133</u>		<u>2,790,133</u>
General fund	\$0	\$0	\$0
Public Employees Retirement System			
Total all funds	\$3,859,480	(\$88,910)	\$3,770,570
Less estimated income	<u>3,859,480</u>	<u>(88,910)</u>	<u>3,770,570</u>
General fund	\$0	\$0	\$0
Bill Total			
Total all funds	\$6,649,613	(\$88,910)	\$6,560,703
Less estimated income	<u>6,649,613</u>	<u>(88,910)</u>	<u>6,560,703</u>
General fund	\$0	\$0	\$0

House Bill No. 1025 - Public Employees Retirement System - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$2,314,750	(\$77,878)	\$2,237,072
Operating expenses	1,507,730	(6,732)	1,500,998
Equipment	12,000	(4,500)	7,500
Contingency	<u>25,000</u>		<u>25,000</u>
Total all funds	\$3,859,480	(\$88,910)	\$3,770,570
Less estimated income	<u>3,859,480</u>	<u>(88,910)</u>	<u>3,770,570</u>
General fund	\$0	\$0	\$0
FTE	27.00	(1.00)	26.00

Dept. 192 - Public Employees Retirement System - Detail of House Changes

	REMOVE NEW FTE AND RELATED FUNDING ¹	TOTAL HOUSE CHANGES
Salaries and wages	(\$77,678)	(\$77,678)
Operating expenses	(6,732)	(6,732)
Equipment	(4,500)	(4,500)
Contingency		
Total all funds	(\$88,910)	(\$88,910)
Less estimated income	<u>(88,910)</u>	<u>(88,910)</u>
General fund	\$0	\$0
FTE	(1.00)	(1.00)

¹ This amendment removes a one FTE employee benefits programs specialist position and related funding included in the Schafer and Hoeven budget recommendations for conducting member education programs.

Date: 1-25-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1025

House Appropriations - Government Operations Division Committee

☒ Subcommittee on Government Operations
or
☐ Conference Committee

Legislative Council Amendment Number 18025.0101

Action Taken MOTION to Adopt Amendment.

Motion Made By Rep. Carlisle Seconded By Rep. Glassheim

Representatives	Yes	No	Representatives	Yes	No
Rep. Rex R. Byerly - Chairman	✓		Rep. Eliot Glassheim	✓	
Rep. Ron Carlisle - Vice Chairman	✓		Rep. Robert Huether	✓	
Rep. Kim Koppelman	✓				
Rep. Bob Skarphol	✓				
Rep. Blair Thoreson	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Rep. Carlisle.

If the vote is on an amendment, briefly indicate intent:

to remove PERS 1 FTE recommended
in govs. budget.

Date: 7-23
Roll Call Vote #:

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1025

House Appropriations - Government Operations Division Committee

☒ Subcommittee on Government Operations
or
☐ Conference Committee

Legislative Council Amendment Number 18025.0101

Action Taken DO PASS AS AMENDED

Motion Made By Rep Carlisle Seconded By Rep. Hanson

[illegible]

Total (Yes) 7 No 4

Absent

Floor Assignment Rep. Carlisle

If the vote is on an amendment, briefly indicate intent:

Date: 02-02-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB1025

House APPROPRIATIONS Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken DO PASS AS AMENDED

Motion Made By CARLISLE Seconded By BYERLY

Representatives	Yes	No	Representatives	Yes	No
Timm - Chairman	✓				
Wald - Vice Chairman	✓				
Rep - Aarsvold	✓		Rep - Koppelman	✓	
Rep - Boehm	✓		Rep - Martinson	✓	
Rep - Byerly	✓		Rep - Monson	✓	
Rep - Carlisle	✓		Rep - Skarphol	✓	
Rep - Delzer			Rep - Svedjan	✓	
Rep - Glassheim	✓		Rep - Thoreson	✓	
Rep - Gulleason	✓		Rep - Varner	✓	
Rep - Huether	✓		Rep - Wentz	✓	
Rep - Kempenich	✓				
Rep - Kerzman					
Rep - Kliniske	✓				

Total (Yes) 19 No 0

Absent 2

Floor Assignment CARLISLE

If the vote is on an amendment, briefly indicate intent:

HOUSE - This amendment adds a section amending 1999 House Bill No. 1266 requiring the Workers Compensation Bureau to select a site for construction of a building to house its operations before March 1, 2001, or lose authority for construction.

REPORT OF STANDING COMMITTEE

HB 1025: Appropriations Committee (Rep. Timm, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (19 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1025 was placed on the Sixth order on the calendar.

Page 1, line 18, replace "2,314,750" with "2,237,072"

Page 1, line 19, replace "1,507,730" with "1,500,998"

Page 1, line 20, replace "12,000" with "7,500"

Page 1, line 22, replace "3,859,480" with "3,770,576"

Page 1, line 23, replace "6,649,613" with "6,560,703"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1025 - Summary of House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Personnel and Investment Office			
Total all funds	\$2,790,125	\$2	\$2,790,125
Less estimated income	2,790,125		2,790,125
General fund	\$0	\$0	\$0
Public Employees Retirement System			
Total all funds	\$2,809,492	(\$84,916)	\$2,724,576
Less estimated income	3,059,492	100,910	3,160,402
General fund	\$0	\$0	\$0
Bill Total	\$5,600,617	(\$84,916)	\$5,515,701
Less estimated income	6,649,613	100,910	6,750,523
General fund	\$0	\$0	\$0

House Bill No. 1025 - Public Employees Retirement System - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$2,314,750	(\$77,678)	\$2,237,072
Compensatory expenses	1,507,730	(6,732)	1,500,998
Employee	12,000	(4,500)	7,500
Contingency	25,000		25,000
Total all funds	\$2,809,480	(\$84,916)	\$2,724,576
Less estimated income	3,059,492	100,910	3,160,402
General fund	\$0	\$0	\$0
FTE	17.30	17.30	26.30

Dept. 192 - Public Employees Retirement System - Detail of House Changes

REMOVE NE 44 FTE AND RELATED FUNCTIONS	TOTAL HOUSE CHANGES
Salaries and wages	(\$77,678)
Compensatory expenses	(6,732)
Employee	(4,500)
Contingency	
Total all funds	(\$84,916)
Less estimated income	100,910
General fund	\$0
FTE	(17.30)

1. The amendment removes a one FTE employee currently performing contract duties and related funding included in the State and House Budget recommendations for conducting human relations programs.

REPORT OF STANDING COMMITTEE

HB 1099: Appropriations Committee (Rep. Timm, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (19 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1099 was placed on the Sixth order on the calendar.

Page 3, line 22, replace "e" with "g"

Page 5, line 29, remove "premium payment amount and history for any"

Page 5, line 30, remove "available insurance coverage."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1099 - House Action

This amendment removes proposed language which would have provided that public employee records relating to insurance premium payments are confidential.

REPORT OF STANDING COMMITTEE

HB 1101: Government and Veterans Affairs Committee (Rep. M. Klein, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (14 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1101 was placed on the Sixth order on the calendar.

Page 7, remove lines 22 and 23

Renumber accordingly

REPORT OF STANDING COMMITTEE

HB 1105, as engrossed and amended: Appropriations Committee (Rep. Timm, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (19 YEAS, 1 NAY, 1 ABSENT AND NOT VOTING). Engrossed HB 1105, as amended, was placed on the Sixth order on the calendar.

Page 142, line 12, replace "general" with "Secretary of state's general services operating"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Dept. 108 - Secretary of State

HOUSE - This amendment changes the source of funds from the general fund to the Secretary of State's general services operating fund for the \$21,000 appropriation relating to costs of providing direct access to the central indexing system.

REPORT OF STANDING COMMITTEE

HB 1123: Government and Veterans Affairs Committee (Rep. M. Klein, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (14 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). HB 1123 was placed on the Sixth order on the calendar.

Page 2, line 10, replace "or unless competition may be limited or" with "When it is advantageous that the purchase be of a particular brand of product or products of a particular manufacturer to the exclusion of competitive brands of manufacturers, the purchasing board or entity must document those circumstances and provide written justification for the proprietary specification or purchase. The purchasing board or entity shall procure the proprietary product through a competitive process unless the needed product is available exclusively from one source of supply or other circumstances exist under which competition can be waived."

Page 2, remove line 11

Renumber accordingly

2001 SENATE APPROPRIATIONS

HB 1025

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1025

Senate Appropriations Committee

☐ Conference Committee

Hearing Date February 21, 2001

Tape Number	Side A	Side B	Meter #
Tape #2		x	18.3-33.0
Committee Clerk Signature <i>Ann Decker</i>			

Minutes:

Senator Solberg, Vice Chairman of the Senate Appropriations Committee, opened the hearing on HB1025.

Sparb Collins, Executive Director of the North Dakota Public Employees Retirement System (PERS) presented testimony on its portion of the bill (a copy of his written testimony is attached).

Senator Robinson: Total of funds managed?

Sparb Collins: Retirement only 1.2 billion; 80 M deferred compensation and 8 M defined contribution program.

Steve Cochrane, Executive Director/CIO of the North Dakota Retirement and Investment Office, presented testimony on HB1025 regarding that office (a copy of his written testimony is attached).

Page 2
Senate Appropriations Committee
Bill/Resolution Number HB1025
Hearing Date February 21, 2001

Senator Grindberg: Could we get a spread sheet of where the money is invested? Capital investments and where? Any to ND companies? Mutual - venture capital -- not in ND? Like to work with you to understand.

Senator Andrist: Additional FTE --- denied by the House?

Steve Cochrane: Approved.

Senator Tallackson: Number of money management firms you work with?

Steve Cochrane: Currently 20 investment management firm -- some have mandates.

No additional testimony. Senator Solberg closed the hearing on HB1025.

3-28-01 Full Committee Action (Tape 2, Side A, Meter # 17.3-19.9)

Senator Nething reopened the hearing on HB1025 - State Retirement and Investment Agencies.

Senator Schobinger, Subcommittee Chair, presented a review and the subcommittee's recommendation. Discussion. Senator Schobinger moved the amendments (18025.0201); seconded by Senator Heitkamp. Discussion; call for the vote: Voice vote carried.

Discussion. Senator Schobinger moved a DO PASS AS AMENDED; seconded by Senator Tallackson. Discussion. Roll Call Vote: 14 yes; 0 no; 0 absent and not voting.

Senator Tallackson accepted the floor assignment.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1025

Page 1, line 18, replace "2,237,072" with "2,314,750"

Page 1, line 19, replace "1,500,998" with "1,507,730"

Page 1, line 20, replace "7,500" with "12,000"

Page 1, line 22, replace "3,770,570" with "3,859,480"

Page 1, line 23, replace "6,560,703" with "6,649,613"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1025 - Summary of Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Retirement and Investment Office				
Total all funds	\$2,790,133	\$2,790,133	\$0	\$2,790,133
Less estimated income	<u>2,790,133</u>	<u>2,790,133</u>		<u>2,790,133</u>
General fund	\$0	\$0	\$0	\$0
Public Employees Retirement System				
Total all funds	\$3,859,480	\$3,770,570	\$88,910	\$3,859,480
Less estimated income	<u>3,859,480</u>	<u>3,770,570</u>	<u>88,910</u>	<u>3,859,480</u>
General fund	\$0	\$0	\$0	\$0
Bill Total				
Total all funds	\$6,649,613	\$6,560,703	\$88,910	\$6,649,613
Less estimated income	<u>6,649,613</u>	<u>6,560,703</u>	<u>88,910</u>	<u>6,649,613</u>
General fund	\$0	\$0	\$0	\$0

House Bill No. 1025 - Public Employees Retirement System - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$2,314,750	\$2,237,072	\$77,678	\$2,314,750
Operating expenses	1,507,730	1,500,998	6,732	1,507,730
Equipment	12,000	7,500	4,500	12,000
Contingency	<u>25,000</u>	<u>25,000</u>		<u>25,000</u>
Total all funds	\$3,859,480	\$3,770,570	\$88,910	\$3,859,480
Less estimated income	<u>3,859,480</u>	<u>3,770,570</u>	<u>88,910</u>	<u>3,859,480</u>
General fund	\$0	\$0	\$0	\$0
FTE	27.00	26.00	1.00	27.00

Dept. 192 - Public Employees Retirement System - Detail of Senate Changes

	RESTORE FTE AND RELATED FUNDING REMOVED BY HOUSE 1	TOTAL SENATE CHANGES
Salaries and wages	\$77,678	\$77,678
Operating expenses	6,732	6,732
Equipment	4,500	4,500
Contingency		
Total all funds	\$88,910	\$88,910
Less estimated income	<u>88,910</u>	<u>88,910</u>
General fund	\$0	\$0
FTE	1.00	1.00

¹ The House removed 1 FTE employee benefits programs specialist position and the related funding included in the Schafer and Hoeven budget recommendations for the purpose of conducting member education programs. The Senate amendment restores this position and the related funding.

Date: 3-28-01

Roll Call Vote #: _____

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. AB 1025

Senate Appropriations Committee

☐ Subcommittee on _____
or

☐ Conference Committee

Legislative Council Amendment Number 18023.0201

Action Taken As Passed Committee

Motion Made By Senator Thompson Seconded By Senator Thompson

Senators	Yes	No	Senators	Yes	No
Dave Nething, Chairman	✓				
Ken Solberg, Vice-Chairman	✓				
Randy A. Schobinger	✓				
Elroy N. Lindaas	✓				
Harvey Tallackson	✓				
Larry J. Robinson	✓				
Steven W. Tomac	✓				
Joel C. Heitkamp	✓				
Tony Grindberg	✓				
Russell T. Thane	✓				
Ed Kringstad	✓				
Ray Holmberg	✓				
Bill Bowman	✓				
John M. Andrist	✓				

Total Yes 14 No 0

Absent 0

Floor Assignment Senator Tallackson

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1025, as engrossed: Appropriations Committee (Sen. Nething, Chairman)
recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends
DO PASS (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1025
was placed on the Sixth order on the calendar.

Page 1, line 18, replace "2,237,072" with "2,314,750"

Page 1, line 19, replace "1,500,998" with "1,507,730"

Page 1, line 20, replace "7,500" with "12,000"

Page 1, line 22, replace "3,770,570" with "3,859,480"

Page 1, line 23, replace "6,560,703" with "6,649,613"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1025 - Summary of Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Retirement and Investment Office				
Total all funds	\$2,790,133	\$2,790,133	\$0	\$2,790,133
Less estimated income	<u>2,790,133</u>	<u>2,790,133</u>		<u>2,790,133</u>
General fund	\$0	\$0	\$0	\$0
Public Employees Retirement System				
Total all funds	\$3,859,480	\$3,770,570	\$88,910	\$3,859,480
Less estimated income	<u>3,859,480</u>	<u>3,770,570</u>	<u>88,910</u>	<u>3,859,480</u>
General fund	\$0	\$0	\$0	\$0
Bill Total				
Total all funds	\$6,649,613	\$6,560,703	\$88,910	\$6,649,613
Less estimated income	<u>6,649,613</u>	<u>6,560,703</u>	<u>88,910</u>	<u>6,649,613</u>
General fund	\$0	\$0	\$0	\$0

House Bill No. 1025 - Public Employees Retirement System - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$2,314,750	\$2,237,072	\$77,678	\$2,314,750
Operating expenses	1,507,730	1,500,998	6,732	1,507,730
Equipment	12,000	7,500	4,500	12,000
Contingency	<u>25,000</u>	<u>25,000</u>		<u>25,000</u>
Total all funds	\$3,859,480	\$3,770,570	\$88,910	\$3,859,480
Less estimated income	<u>3,859,480</u>	<u>3,770,570</u>	<u>88,910</u>	<u>3,859,480</u>
General fund	\$0	\$0	\$0	\$0
FTE	27.00	26.00	1.00	27.00

Dept. 192 - Public Employees Retirement System - Detail of Senate Changes

RESTORE FTE
AND RELATED
FUNDING
REMOVED BY
HOUSE
TOTAL
SENATE
CHANGES

REPORT OF STANDING COMMITTEE (410)
March 29, 2001 9:25 a.m.

Module No: SR-55-7079
Carrier: Tallackson
Insert LC: 18025.0201 Title: .0300

Salaries and wages	\$77,678	\$77,678
Operating expenses	6,732	6,732
Equipment	4,500	4,500
Contingency		
Total all funds	\$88,910	\$88,910
Less estimated income	<u>88,910</u>	<u>88,910</u>
General fund	\$0	\$0
FTE	1.00	1.00

¹ The House removed 1 FTE employee benefits programs specialist position and the related funding included in the Schafer and Hoeven budget recommendations for the purpose of conducting member education programs. The Senate amendment restores this position and the related funding.

2001 HOUSE APPROPRIATIONS

CONFERENCE COMMITTEE

HB 1025

2001 HOUSE CONFERENCE COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1025

House Appropriations Committee
Government Operations Division

☒ Conference Committee

Hearing Date April 9, 2001

Tape Number	Side A	Side B	Meter #
04-09-01 tape #1	0 - 771		
Committee Clerk Signature <i>Patricia Lach</i>			

Minutes:

The conference committee was called to order. Roll call was taken.

Rep. Carlisle: Explains that the House had removed an FTE, and the Senate appears to have replaced it. Requests the Senate to explain what and why they did.

Sen. Kringstad: The Senate decided to move this back in because it was a special fund agency, they needed it they felt to implement a program they have ongoing. Believes it has some merit to add that FTE back in.

Sen. Tallackson: We have the attitude in the Senate that we are very cautious when it comes to the Governor's budget. When they say they need something we try to give it. We did feel that this was needed.

Rep. Koppelman: Thinks the reasoning the House took in removing the position was that the position is a member education position. Last session we passed the defined contribution plan for retirement programs, and this position was somewhat designated to conduct employ

education programs for teaching investment to persons. We heard considerable testimony from PERS that when questioned about it they admitted that there is all kinds of assistance available from the companies providing the investments. At the end, we felt the position wasn't needed. We also think it is less needed now that the defined contribution bill in this session has failed. Had that passed, there may have been a stronger argument to reinstate the FTE.

Rep. Carlisle: That bill was killed in the Senate.

Sen. Kringstad: Says this bill was passed before that bill was defeated.

Rep. Carlisle: Had assumed so. His understanding is that there was a small number of people that got into the defined contribution plan, and something that important would have a more informed client. Believes in light of the other bill being defeated, this position really is not necessary.

Celeste, OMB: She explains the duties of the FTE, and the need for the FTE by PERS.

Rep. Koppelman: We do understand the duties requested, but the other thought is that if they only have scheduling duties and a clerical function, a department the size of PERS should be able to do that without an extra FTE. Asks Celeste what the enrollment potential now that the other bill has been defeated. Is there another enrollment date coming up?

Celeste, OMB: There still is the PEP program. This FTE would assist in that program.

Sen. Tallackson: He would rather depend on the governor's office than this person to do the scheduling and make the decisions than someone in the business to make money.

Rep. Koppelman: Thinks the key is that because the person would just be doing the scheduling, the funds would still be conducting the seminars. Doesn't believe that who lines up the seminars is really important.

Sen. Tallackson: Says its not general funds, its special funds. When they say they need someone, we believe them.

Rep. Carlisle: Explains that the first meeting was to get the explanations. The House would like to stay with their position for now.

Sen. Schobinger: Explains the Senate position, that these are special funds. This person is designed to help those persons whose money is in these funds. It is those dollars being used to fund this position. The Senate wants to stay with their position for now.

The chairman closed the meeting on this bill.

2001 HOUSE CONFERENCE COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1025

House Appropriations Committee
Government Operations Division

☒ Conference Committee

Hearing Date April 11, 2001

Tape Number	Side A	Side B	Meter #
04-11-01 tape #1	0 - 2085		
Committee Clerk Signature <i>Robert Hall</i>			

Minutes:

The conference committee was called to order. Roll call was taken.

Rep. Carlisle: Explains what happened last time at the conference committee. The House leadership still believes that because the deferred comp. Bill was defeated, this position is not necessary.

Sen. Kringstad: That bill had other FTE's in it also. This FTE was requested for the existing duties of the department. We would like to see this position retained. We will hold fast to this request.

Rep. Koppelman: The House has a concern that in the overall picture of the budget, and everyone requesting FTE's, we need to decide where those dollars will be best spent. We feel that in using spending restraint, that we need to really look carefully at this. Restates his position from the last conference committee meeting.

Sen. Schobinger: Says these are special funds, and doesn't see the problem that the House has.

Rep. Carlisle: Says for now the House is staying at their position, and the Senate seems to be holding on to their position. On another matter, he hands out a proposed amendment 18025.0203. Would like the committee to review the amendment and discuss it later.

Sen. Kringstad: Explains that PERS has requested that the conference committee review this amendment and perhaps include it in the amendments adopted by the committee.

(Legislative council requests to have Jeff Nelson come to explain the amendment. Rep. Carlisle expresses his understanding of qualified domestic orders in family law cases, and the relationship with PERS, what they can and cannot do. Some discussion as to this new issue. Sen. Tallackson says that the amendment probably is needed before the next session, and it is discussed that maybe it should have been requested as a delayed bill. Sen. Schobinger does say that there is some conflict with this amendment.)

Sen. Tallackson: Somewhat disappointed the conference committee cannot come to an agreement.

Jeff Nelson, Legislative Council: Explains the need for the amendment. He answers some general questions in regard to this newly proposed amendment.

The chairman closed the meeting on this bill.

2001 HOUSE CONFERENCE COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1025

House Appropriations Committee
Government Operations Division

☒ Conference Committee

Hearing Date April 13, 2001

Tape Number	Side A	Side B	Meter #
04-13-01 tape #1	0 - 241		
Committee Clerk Signature <i>Heather Hall</i>			

Minutes:

The conference committee was called to order. Roll call was taken.

Rep. Carlisle: Since the last meeting, Mr. Collins has explained that this FTE is going to be used on the deferred compensation program. The deferred compensation program has failed. This FTE will be a training, scheduling person. The House has finally agreed to allow the FTE.

Sen. Tallackson: Moves that the House accede to the Senate amendments. Seconded by Rep. Huether.

Rep. Koppelman: Will support the motion.

Vote on Motion : 6 yes, 0 no, 0 absent and not voting. Motion passes.

Rep. Carlisle will carry the report to the floor.

The chairman closed the meeting on this bill.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1025

Page 1, line 2, after "agencies" insert "; to create and enact a new section to chapter 54-52.2 of the North Dakota Century Code, relating to qualified domestic relations orders under the deferred compensation program; and to amend and reenact section 54-52.2-06 of the North Dakota Century Code, relating to exemption of deferred compensation program assets from judicial process"

Page 1, after line 23, Insert:

"SECTION 2. AMENDMENT. Section 54-52.2-06 of the North Dakota Century Code is amended and reenacted as follows:

54-52.2-06. Deferred compensation program - Benefits - Taxation - Exemption from judicial process - Assignment. The deferred compensation program established by this chapter shall exist and serve in addition to retirement, pension, or benefit systems established by the state, county, city, town, or other political subdivision, and no deferral of income under the deferred compensation program shall effect a reduction of any retirement, pension, or other benefit provided by law. However, any sum deferred under the deferred compensation program is not subject to taxation until distribution is actually made to the employee. Any Except as provided under section 3 of this Act, any unpaid benefits under the deferred compensation program established by this chapter are not subject to execution, garnishment, attachment, the operation of bankruptcy or insolvency laws, or other process of law whatsoever. Neither Except as provided under section 3 of this Act, neither the employee, the employee's beneficiary, nor any designee of the employee or the employee's beneficiary has the right to commute, sell, assign, transfer, or otherwise convey the right to receive payments under this chapter.

SECTION 3. A new section to chapter 54-52.2 of the North Dakota Century Code is created and enacted as follows:

Qualified domestic relations orders.

1. The board or a provider shall apportion an employee's account in the deferred compensation program under this chapter in accordance with the applicable requirements of any qualified domestic relations order. The board shall review a domestic relations order submitted to it to determine if the domestic relations order is qualified under this section and under rules adopted by the board for determining the qualified status of domestic relations orders, administering distributions, and apportioning accounts under the qualified orders. Upon determination of the domestic relations order as qualified, the board shall notify the employee, the named alternate payee, and the provider, if applicable, of its receipt of the qualified domestic relations order.
2. A "qualified domestic relations order" for purposes of this section means any judgment, decree, or order, including approval of a property settlement agreement, which relates to the provision of child support, spousal support, or marital property rights to a spouse, former spouse, child, or other dependent of an employee, is made pursuant to a North Dakota domestic relations law, which creates or recognizes the existence of an alternate payee's right to, or assigns to an alternate payee the right to, receive all or a part of an employee's account in the deferred compensation program

*This amendment
never passed.*

under this chapter. A qualified domestic relations order may not require a provider to provide any type or form of benefit, or any option, not otherwise allowed under this chapter. However, any amount apportioned in accordance with a qualified domestic relations order must be paid out in a lump sum at the earliest date that benefits may be paid to the employee, unless the judgment, decree, or order directs a different form of payment. A qualified domestic relations order must specify:

- a. The name and last-known mailing address of the employee and the name and the mailing address of each alternate payee covered by the order;
- b. The amount or percentage of the employee's account to be paid to each alternate payee;
- c. The number of payments or period to which the order applies; and
- d. Each plan to which the order applies."

Renumber accordingly

Date: 4-13-01
Roll Call Vote # 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1025

House Appropriations Committee

☐ Subcommittee on _____

or

☒ Conference Committee

Legislative Council Amendment Number 18025.020

Action Taken House agreed to Sen. amend.

Motion Made By Sen. Tallackson Seconded By Rep. Huether

Representatives	Yes	No	SENATORS	Yes	No
Rep. Carlisle	✓		Sen. Schobinger	✓	
Rep. Koppelman	✓		Sen. Kringstad	✓	
Rep. Huether	✓		Sen. Tallackson	✓	

Total (Yes) 6 No 0

Absent 0

Floor Assignment Sen. Kringstad Rep. Carlisle

If the vote is on an amendment, briefly indicate intent:

REPORT OF CONFERENCE COMMITTEE

HB 1025, as engrossed: Your conference committee (Sens. Schobinger, Kringstad, Tallackson and Reps. Carlisle, Koppelman, Huether) recommends that the **HOUSE ACCEDE** to the Senate amendments on HJ pages 1225-1226 and place HB 1025 on the Seventh order.

Engrossed HB 1025 was placed on the Seventh order of business on the calendar.

2001 TESTIMONY

HB 1025

January 15, 2001

Department 190 - Retirement and Investment Office
House Bill No. 1025

	FTE Positions	General Fund	Other Funds	Total
2001-03 Schafer Executive Budget	18.00		\$2,790,133	\$2,790,133
1999-2001 Legislative Appropriations	17.00		2,546,883	2,546,883
Increase (Decrease)	1.00	\$0	\$243,250	\$243,250

2001-03 Hoeven Executive Budget	18.00		\$2,790,133	\$2,790,133
Hoeven Increase (Decrease) to Schafer	0.00	\$0	\$0	\$0

The 1999-2001 appropriation amount includes \$23,940 of special funds for the agency's share of the \$5.4 million funding pool appropriated to the Office of Management and Budget (OMB) for special market equity adjustments for classified employees and \$1,014 of special funds for the agency's share of the \$1.4 million funding pool appropriated to OMB for assisting agencies in providing \$35 per month minimum salary increases in July 1999 and July 2000.

Major Schafer Recommendations Affecting the Retirement and Investment Office 2001-03 Budget

	General Fund	Other Funds	Total
1. Increases funding for operating expenses from \$943,021 to \$1,021,492 to reflect the following changes:			
Information technology - Data processing		\$50,333	\$50,333
Information technology - Software		(19,700)	(19,700)
Information technology - Contractual services		(13,180)	(13,180)
Travel		14,149	14,149
Staff and board professional development		39,110	39,110
Other		7,759	7,759
Total recommended changes		\$78,471	\$78,471
2. Decreases funding for equipment from \$49,200 to \$22,600 to reflect information technology and other equipment purchased during the 1999-2001 biennium.		(\$26,600)	(\$26,600)
3. Adds 1 FTE accounting/budget specialist II for the investment program.		\$71,176	\$71,176

Major Hoeven Recommendations Affecting the Retirement and Investment Office 2001-03 Budget Compared to the Bill as Introduced (Schafer Budget)

The Hoeven budget recommendation did not change the Schafer executive budget recommendation for this agency.

Major Legislation Affecting the Retirement and Investment Office

House Bill No. 1102 - This bill increases the Teachers' Fund for Retirement (TFFR) benefits multiplier from 1.88 to 2.00 percent and provides a monthly postretirement benefit increase for retired TFFR members.

Department 190 - Retirement and Investment Office
House Bill No. 1025

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Major Hoeven Recommendations Affecting the Retirement and Investment Office 2001-03 Budget
Compared to the Bill as Introduced (Schafer Budget)

The Hoeven budget recommendation did not change the Schafer executive budget recommendation for this agency.

Major Legislation Affecting the Retirement and Investment Office

No major legislation has been introduced which affects the budget for this agency.

Summary of Legislative Changes to Bill as Introduced

See attached Statement of Purpose of Amendment.

HB 1025
1-16-01

ND RETIREMENT AND
INVESTMENT OFFICE

TESTIMONY ON
HOUSE BILL 1025

JANUARY 16, 2001

STEVE COCHRANE, EXECUTIVE DIRECTOR/CIO

The Retirement and Investment Office (RIO) Base Budget was submitted at 100% of the previous biennium's budget. We have also requested certain items beyond the 100% that we would like to have included in our budget and that OMB and the Governor have recommended for inclusion. Those items include one FTE for a position to be added to the Investment Program and costs associated with education for staff and board members in the areas of benefits administration and public fund investing. The total dollar impact of these additional items is \$106,506 or 4.2% of our previous biennium budget. Additional increases were the result of salary and benefit increases added by the governor or data processing costs added to our original request by OMB at the request of ITD.

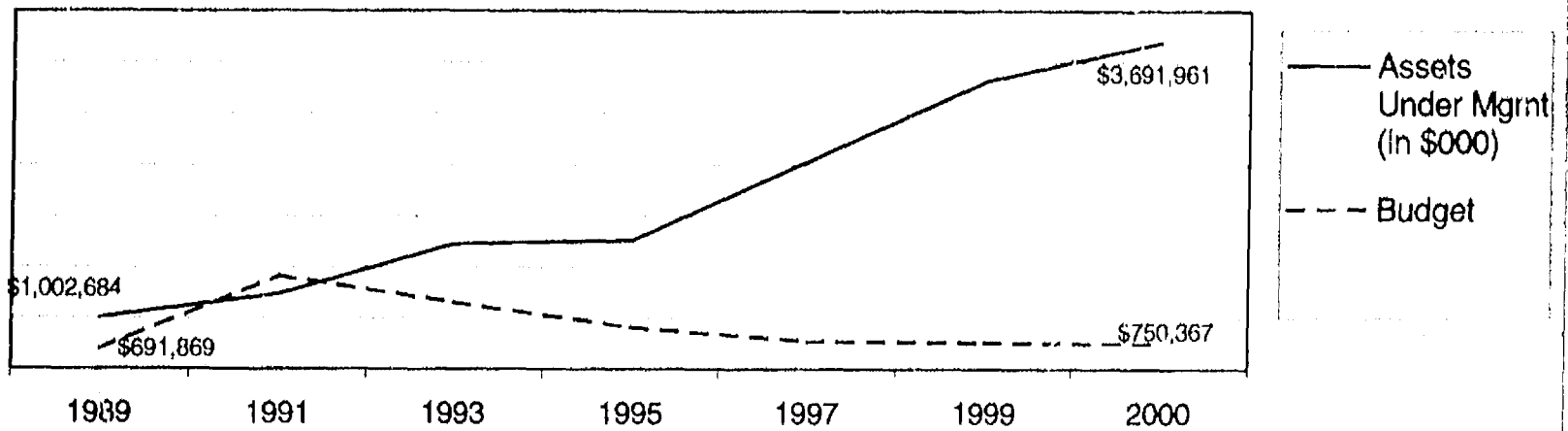
Additional FTE

The additional FTE is requested at an Account/Budget Specialist II level (class 222, grade 10). This position would assist the Fiscal and Investment Officer with the investment accounting and monitoring functions so as to allow the Fiscal and Investment Officer more time to develop analytical tools to evaluate client fund performance, design risk measurement and control procedures, conduct portfolio review meetings with clients, and monitor investment managers. The following is a draft job description for this position.

Investment Accountant

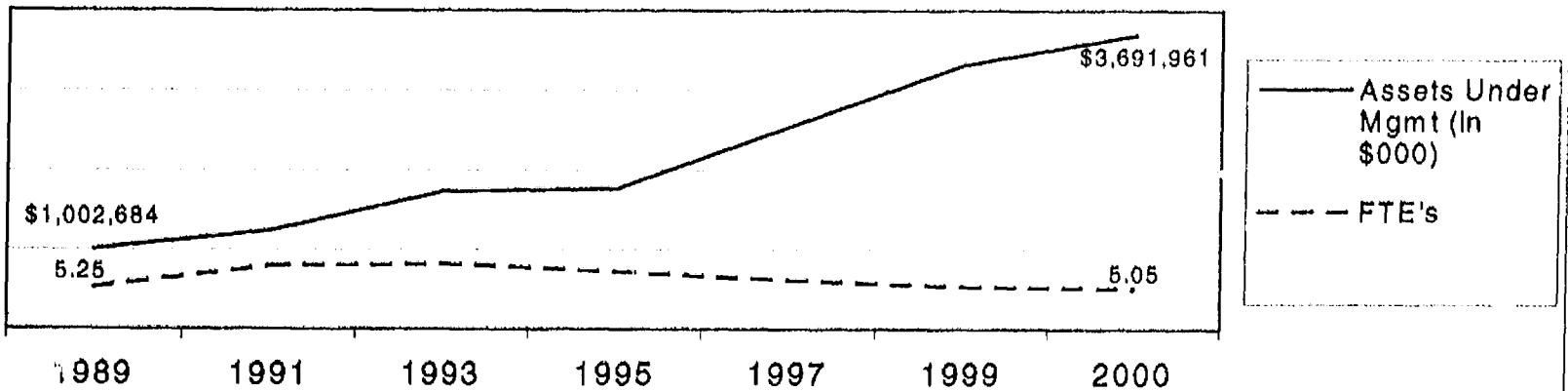
1. Perform Investment Reporting and Monitoring Duties
 - a. Prepare investment performance measurement reports for the SIB and related agencies.
 - b. Prepare reports for monitoring asset allocation of funds as set by individual asset allocation policies.
 - c. Process cash transfers for state agencies and political subdivisions receiving investment services.
 - d. Monitor investment managers against guidelines
2. Perform Investment Accounting Duties
 - a. Review master custodian's "audited" investment reports for completeness and accuracy.
 - b. Prepare reports allocating investment earnings and expenses of pooled investment accounts for the SIB.
 - c. Verify investment fees and prepare for payment.
 - d. Maintain adequate cash balance in operating account.
3. Assist with RIO Budget
 - a. Monitor budget compliance and prepare status reports
 - b. Code and allocate expenses for payment
 - c. Maintain adequate cash balance in operating account
 - d. Maintain and reconcile operating cash account at State Treasurer's Office
 - e. Reconcile SAMIS to general ledger
 - f. Process and monitor payroll activities
4. Assist with Investment Related Special Projects
 - a. Assist Fiscal and Investment Officer with special projects as assigned by Investment Director.
 - b. Back-up to Fiscal and Investment Officer in his/her absence.
5. Assist with External/Internal Audits
 - a. Prepare work papers and accounting reports for the internal and external auditors.
 - b. Assist with preparation of Comprehensive Annual Financial Report (CAFR).

**State Investment Board
Assets Under Management vs Budget**



1989-91 Biennium \$1,449 investment dollars per budget dollar
 2001-03 Biennium \$4,920 investment dollars per budget dollar

**State Investment Board
Assets Under Management vs FTE's**



1989-91 Biennium \$190,987,429 investment dollars per FTE
 2001-03 Biennium \$731,081,332 investment dollars per FTE

Historical Total FTE's for RIO							
Biennium	89-91	91-93	93-95	95-97	97-99	99-01	01-03
Total FTE's	15	19	19	19	18	17	17+1

Board and Staff Education

NDCC 21-10-07 states: "The state investment board shall apply the prudent investor rule in investing for funds under its supervision. The "prudent investor rule" means that in making investments the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income."

To properly manage the TFFR pension plan, as required in NDCC 15-39.1-05, the TFFR trustees and RIO administrative staff must be knowledgeable in retirement plan administration, public policy issues, federal and state legislative and regulatory requirements, and financial, actuarial, and investment practices. Administering a public pension plan is becoming more and more complex due to ever changing federal and state laws governing pension plans. Additionally, retirement system trustees and staff must be prepared for the impact retiring Baby Boomers will have on the system.

In order for the fiduciaries to make "prudent" decisions regarding the funds that they are responsible for, they must be properly educated. This includes the staff people who are expected to make recommendations to the Board regarding investment strategies and management, as well as to the Board Members who must make the decisions on those recommendations. The understanding of the complex world of investments is challenging in itself. Compounding the need for continuous education and professional development are the demands of understanding the institutional management structural components. Staff members deal directly with investment managers, custodian banks, separate and commingled accounts, consultants, actuaries and brokers. Understanding the specific interactive roles of these component parts and orchestrating their smooth functioning requires continuous educational updates.

Education is the key to the success enjoyed by the State Investment and TFFR Boards. The Boards play a very active role in investment and retirement plan policy development, implementation and monitoring. Unlike other Boards that may not require any specific level of technical expertise or knowledge, the SIB and TFFR Board meet regularly to deal with the complex and dynamic world of global investments and public pension fund administration. It has been our experience that the education received by Board members is directly applied to their critical Board functions and more than pay for any costs incurred through the betterment of investment returns and pension benefits.

Because of the complexity of the issues involved, it is difficult to find relevant education courses in state. They are more likely to be found in cities where large money management firms are located or where "national" organizations hold their conferences. Therefore, costs include not only the education itself, which can run upwards of \$1,000 per course, but also travel expenses to get to the courses.

We will be welcoming 2 new board members this month due to the general election, and it will be very important for them to attend conferences and training in order for them to perform their duties on the board appropriately.

Prior to 1997, there were five TFFR trustees (three members appointed by the Governor). In 1997, the Legislature expanded the TFFR Board to seven members (five members appointed by the Governor). Due to budget constraints in 1997 and 1999, the RIO budget was not increased enough to provide for education for all five appointed board members. Additional budgeted funds are needed to provide continuing professional education for TFFR board members.

SUPPLEMENTAL INFORMATION



Retirement and Investment Office

North Dakota Teachers' Fund for Retirement ND State Investment Board

CHAPTER 54-52.5 STATE RETIREMENT AND INVESTMENT OFFICE

54-52.5-01. North Dakota state retirement and investment office. The state retirement and investment office is created to coordinate the activities of the state investment board and teachers' fund for retirement.

54-52.5-02. Governing authority. The state investment board shall govern the state retirement and investment office. The state investment board is responsible for overseeing and operating the agency and may do all things necessary to coordinate the activities of the state investment board and the teachers' fund for retirement. The board of trustees of the teachers' fund for retirement and the state investment board shall maintain their legal identities and authority as otherwise provided by law.

54-52.5-03. State retirement and investment fund - Cost of operation of agency. A special fund known as the "state retirement and investment fund" is established for the purpose of defraying administrative expenses of the state retirement and investment office. The actual amount of administrative expenses incurred by the state retirement and investment office must be paid from the respective funds listed under section 21-10-06 and are hereby appropriated to the state retirement and investment fund in proportion to the services rendered for each fund as estimated by the state investment board. The amount necessary to pay all administrative expenses of the state retirement and investment office must be paid from the state retirement and investment fund in accordance with the agency's appropriation authority. Any interest income earned on the state retirement and investment fund must be credited to the fund.

RETIREMENT AND INVESTMENT OFFICE MISSION STATEMENT

The North Dakota Retirement and Investment Office (RIO) exists in order , that:

- SIB clients receive cost-effective investment services directed at meeting their written financial goals under the Prudent Investor Rule.
- SIB clients receive investment returns consistent with their written investment policies and market variables.
- Potential SIB clients have access to information regarding the investment services provided by the SIB.
- TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
- TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
- SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.

Who is the State Investment Board?



Ex Officio Members

Governor or designee
Kathi Gilmore
Jim Poolman
Paul Kramer
Bob Olheiser



TFFR Board

Dr. Mark Sanford
Paul Lofthus
Norm Stuhlmiller



PERS Board

Howard Sage
Weldee Baetsch
David Gunkel

11 Members

State Investment Board

As of June 30, 2000

- ★ \$3.65 bb in total assets
- ★ 18 accounts including PERS, TFFR, WCF
- ★ \$2.7bb Pension Trust
- ★ \$940 mm Insurance Trust
- ★ 11 asset classes
- ★ 19 external investment managers

STATE INVESTMENT BOARD MEETINGS

Regularly scheduled SIB meetings are held eleven times per year (monthly except December).

An annual Governance Meeting is held each October to review the previous fiscal year's Governance Goals/Ends.

The SIB has one standing committee, the Audit Committee, which meets quarterly (August, November, February, and May).

During Fiscal Year 2000, the SIB accomplished the following:

- ✓ established and managed the FY00 Workplan,
- ✓ oversaw the implementation of a new administrative structure for NDRIO,
- ✓ studied alternative private equity investments and retained Hearthstone to manage a focused single-family residential development portfolio,
- ✓ considered, for a second time, and ultimately chose not to participate in, credit enhancement facilities for the Municipal Bond Bank,
- ✓ added the PERS Group Insurance Account as an SIB client,
- ✓ added the Bismarck Deferred Sickleave Account as an SIB client,
- ✓ monitored the development of software applications designed to enhance reporting capabilities to SIB clients,
- ✓ accepted revised Investment Guidelines for the TFFR,
- ✓ thoroughly studied the Real Estate asset class and took significant actions to raise commitments to continue to meet target objectives,
- ✓ designed and implemented a program to monitor investment managers' progress towards meeting Y2K compliance objectives,
- ✓ implemented a direct deposit alternative for Board members
- ✓ reviewed fees chargeable to the Veterans' Cemetery Fund and granted a 2-year fee waiver,
- ✓ reviewed progress of fixed income strategy modifications,
- ✓ reviewed presentation by Connie Flanagan to the AFPE,

- ✓ Board members assisted staff in interviewing and retaining a Supervisor of Internal Audit,
- ✓ revised CEO evaluation methodology,
- ✓ accepted revised Investment Guidelines for Job Service North Dakota,
- ✓ accepted revised Investment Guidelines for Risk Management Fund,
- ✓ conducted an exhaustive study of enhanced equity indexation strategies, concepts and applications,
- ✓ reviewed mandates of international managers,
- ✓ reviewed RIO's establishment of a web page,
- ✓ studied and postponed action on proposed changes to TCW convertible guidelines,
- ✓ reviewed Ark Asset Management and terminated them, and
- ✓ successfully managed the transition of assets from Ark to the index fund.

During the year, the SIB:

- ✓ terminated 1 manager,
- ✓ added 1 manager,
- ✓ and, held 14 comprehensive annual manager meetings.

Statutory Authority of the State Investment Board

North Dakota Century Code 21-10-06

Relates to the Responsibilities and Function of the State Investment Board

North Dakota Century Code 21-10-06. Funds under management of board - Accounts. The board is charged with the investment of the following funds:

1. State bonding fund.
2. Teachers' fund for retirement.
3. State fire and tornado fund.
4. Workers' compensation fund.
5. National guard tuition trust fund.
6. Public employees retirement system.
7. Insurance regulatory trust fund.
8. State risk management fund.
9. Veterans' cemetery trust fund

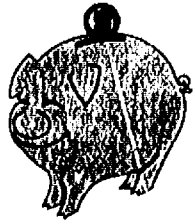
Separate accounting must be maintained for each of the above funds. When it is deemed advantageous the moneys of the individual funds may be commingled for investment purposes.

The state investment board may provide investment services to, and, manage the money of, any agency, institution, or political subdivision of the state, subject to agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board is authorized to charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund.

Nine contracted funds:

1. City of Bismarck employees pension plan
2. City of Bismarck police pension plan
3. Job Service North Dakota pension plan
4. PERS retiree health fund
5. Veterans post war trust fund
6. ND association of counties fund
7. ND association of counties program savings fund
8. City of Bismarck deferred sick leave fund
9. PERS group insurance fund

Running the Machine



Custodian Bank The Northern Trust

- Safe-keep assets
- Settle trades
- Record-keeper
- Securities Lending



RIO Staff

Investment Program (5.05 FTE's)

- **MANAGER OF MANAGERS**
- Devise and administer overall investment strategy
- Maximize risk/return opportunities within each asset class
- Liaison between SIB and Managers, Consultant and Custodian
- Monitor individual funds' investment guidelines and asset allocations
- Maintain separate accounting for 18 individual funds



Investment Consultant Callan Associates

- Performance measurement
- Manager searches
- Provide education
- Special projects

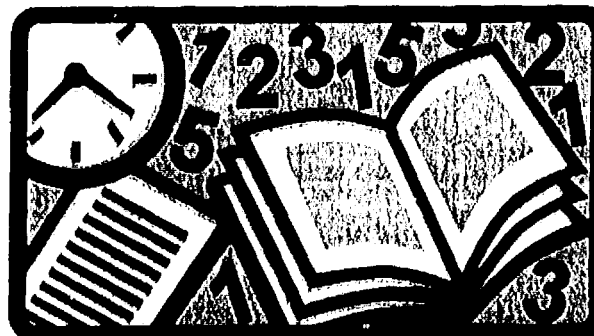


Investment Managers 19 managers

- Implement specific mandates or "investment missions"
- Make buy/sell decisions based on investment guidelines
- Report to RIO staff on a regular basis
- Provide education

INVESTMENT ADMINISTRATION

The staff of RIO deals directly with the 18 SIB client funds. This includes daily correspondence regarding funds transfers, monthly reporting of financial and investment information and annual reviews of investment guidelines and performance.



The following shows the reviews conducted:

Workers Comp	August 2000
City of Bismarck	July 2000
PERS*	April 2000
Risk Management Fund	March 2000
ND Assoc. of Counties	February 2000
Job Service ND	November 1999
TFFR	July 1999
Insurance Funds (4)	June 1999 (reviews conducted biennially)

*RIO has participated in numerous meetings with PERS staff and service providers in connection with investment management of the alternative DC plan and other supplemental plans.

On a monthly basis, the Fiscal Management staff at RIO reviews the activities of 38 individual manager accounts from the custodian bank's reporting system. This information is then allocated to all of the participating funds and financial statements are created. In addition to this, each month the asset allocation of each fund is monitored to ensure that each fund is within a target range of its policy allocation.

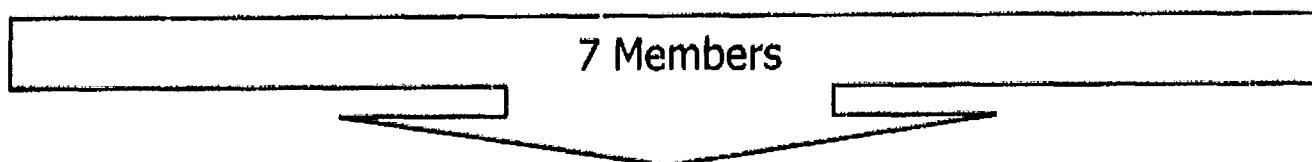


Ex Officio Members

Wayne Sanstead
Kathi Gilmore

Governor Appointed

Dr. Mark Sanford (represents administrators)
Paul Lofthus & Barb Evanson (represent active teachers)
Norm Stuhlmiller & Curly McClain (represent retired teachers)



Teachers' Fund for Retirement

As of June 30, 2000

- ★ \$1.49 bb in investment assets
- ★ 11,364 active/inactive members
- ★ 4,827 retired members/beneficiaries
- ★ \$4.47 mm in benefits paid out monthly

WHAT IS TFFR?

TFFR Mission Statement

The mission of TFFR, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members within the resources available.

TFFR Goals

- To provide a replacement income equal to 60 percent of the final average salary of a career employee who has 30 or more years of credited service.
- To provide ad hoc and/or automatic benefit increases for retired members and beneficiaries to provide income protection and assist retirees in accessing affordable health insurance.
- To continue providing statewide pre-retirement planning services and benefits counseling to members.

TFFR is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code (IRC). In simpler terms, TFFR is a tax-exempt pension plan where benefits are defined by state law.

North Dakota Century Code (NDCC) Chapter 15-39.1 and Title 82 of the North Dakota Administrative Code (NDAC) contain the actual language governing the Fund.

The TFFR plan is funded on an actuarial reserve basis. That is, money is invested for future retirement benefits while members are actively teaching. Benefit funding comes from three sources:

- Member assessments
- Employer contributions
- Investment earnings

The plan must remain in actuarial balance which guarantees availability of funds to pay benefits as prescribed by law.

TFFR serves over 10,000 active teachers from 289 employer groups and pays benefits to more than 4,800 retirees and beneficiaries.

TFFR BOARD OF TRUSTEES

The TFFR Board of Trustees is responsible for administering the TFFR retirement program. The Board has the authority to establish investment policy; arrange for actuarial and medical consultants; pay benefits and consultant fees, submit proposed legislative changes; and determine appropriate levels of service to TFFR members. The TFFR program is administered by the Retirement and Investment Office (RIO).

Regularly Scheduled TFFR Board meetings are held six times per year (July, September, November, January, March, and May).

Special meetings are held as needed - during Fiscal Year 2000, 3 special meetings were held in addition to the six regular meetings.

The TFFR Board has one standing committee, the Benefits Services Committee, which meets quarterly as needed.

The TFFR Board works with many teacher interest groups in formulating legislation and administrative rules. These interest groups include:

- North Dakota Education Association (NDEA)
- North Dakota Retired Teachers Association (NDRTA)
- North Dakota Council of Educational Leaders (NDCEL)
- North Dakota School Boards Association (NDSBA)

TFFR ADMINISTRATION

Collections and Payments

Collected assessments and contributions totaling \$54 million from 287 employers during the fiscal year.

Paid out \$53.6 million in pension benefits and \$2.8 million in refund payments totaling \$56.4 million for the year.

About 54% of employers electronically report assessments and contributions to TFFR. This comprises about 85% of the active membership.

Employer Communications

Met with school board members, business managers, and software vendors at 1999 School Boards and School Business Managers Association Annual Conference. Presented seminars for new business managers and all business managers on the updated Employer Guide.

Made four presentations to school district business managers at regional workshops on TFFR reporting requirements.

Member Services Outreach Program Statistics

741 members attended outreach programs (plus member convention participants)

Member Services staff traveled 5,589 miles

Member satisfaction of the outreach programs continues to be high.

Pre-Retirement Seminars

287 members attended

5 locations - Fargo, Langdon, Garrison, Devils Lake, Williston

Benefits Counseling Sessions

Statewide - 191 members

13 locations - Grand Forks, Williston, Stanley, Fargo, Bismarck, Minot, Jamestown, Valley City, West Fargo, Dickinson, Hettinger, Reeder, and Grafton

Local Office - 263 members

Group Presentations

NDRTA Convention and Elementary Principals Conference

Conferences and Conventions

NDEA Summer Conference - Bismarck

ND Vocational Education Convention - Bismarck

ND Retired Teachers Convention - Minot

NDEA Instructional Conference - Grand Forks

NDCEL Annual Conference - Bismarck

NDEA Representative Assembly - Bismarck

Member Communications

Notified active membership of our request for an IRS determination letter.

Created a new retiree payroll notice and a retiree account change notice.

Updated our toll free number to allow nationwide access.

Published the RIO Web Site.

Mailed annual benefits statements to 10,247 active and 1,117 inactive members.

Annuity Payments

Distributed annuities to 4,829 retired members and beneficiaries as of June 30, 2000.

For the year, pension benefits totaled \$53.6 million. Of the total, about 87% of the payments were deposited via electronic funds transfer.

Refund Payments

Distributed refund and rollover payments of \$2.8 million to 352 participants during the fiscal year. Approximately 48% of the refunding members rolled over their refund payment to an IRA or another qualified plan.

Payroll Deductions

NDRTA annual dues	1,855 members	(38%)
Federal tax withholding	2,344 members	(49%)
ND state tax withholding	1,839 members	(38%)
PERS health insurance	1,504 members	(10%)
PERS dental insurance	345 members	(7%)
PERS life insurance	96 members	(2%)

Processed Claims for Benefits

Refunds	238
Rollovers	114
Retirements	391
Disabilities	11
Survivor annuitants	10
Continuing annuitants	13

Member Account Activity

New members	873
Deaths	191
Pop ups	16
Purchase requests	559

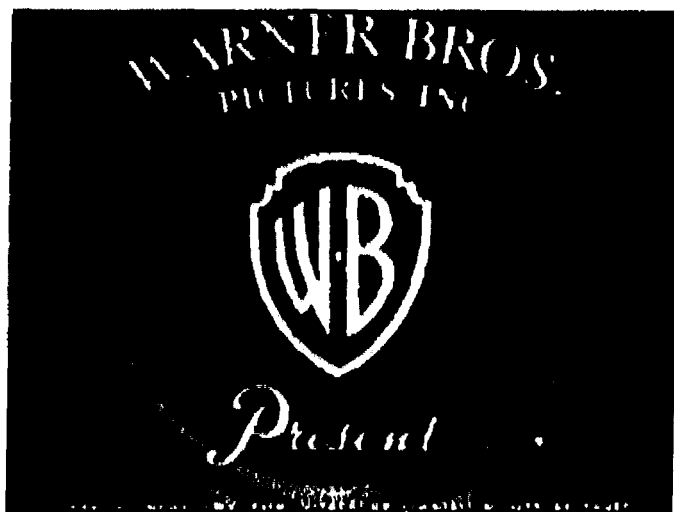
Actuarial Services

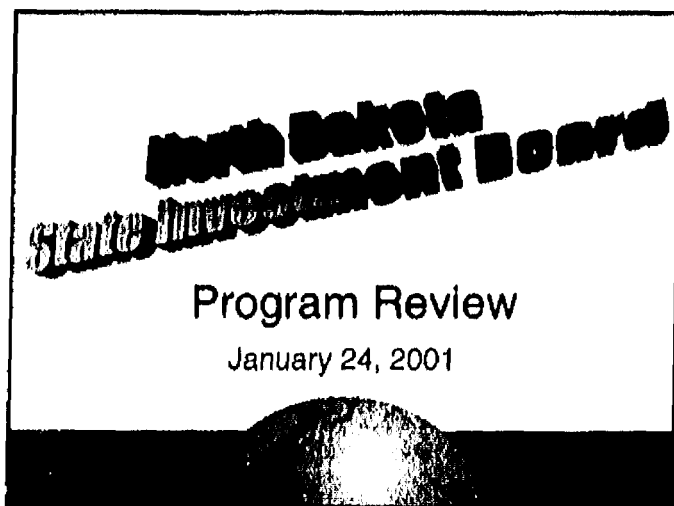
The Watson Wyatt Company completed the annual actuarial valuation for July 1, 1999 and delivered it to the TFFR Board in November 1999. The report indicated that TFFR had a 1.66% margin. The unfunded actuarial accrued liability (UAAL) increased from \$105.1 million to \$135.3 million, and the funding period increased from 6.9 years to 10.5 years. The funded ratio decreased from 89.8% to 88.6%. The report stated that TFFR remains in a strong actuarial position.

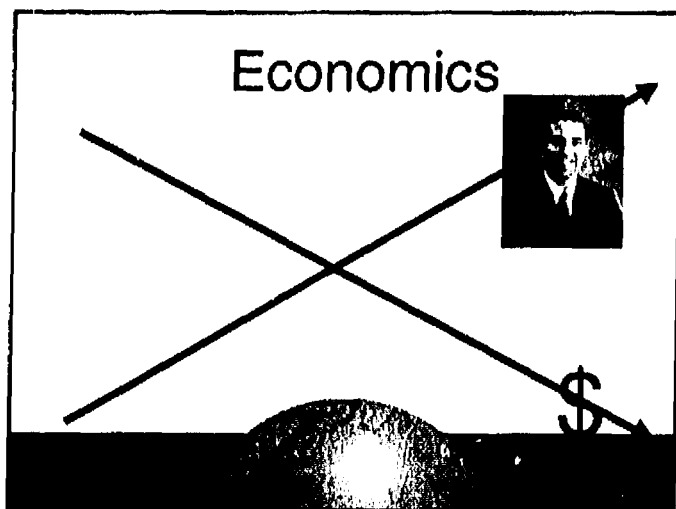
The annual actuarial valuation has not yet been completed for July 1, 2000. The 2000 report will be delivered to the TFFR Board by Watson Wyatt on November 16, 2000.

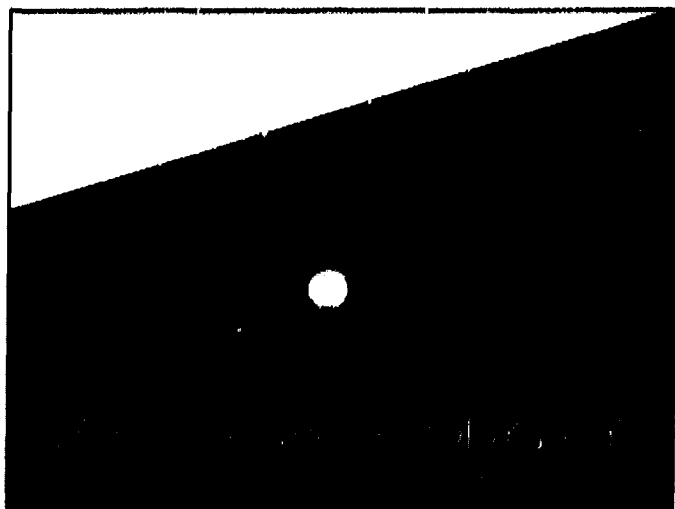
Watson Wyatt also conducted an Actuarial Experience Study and an Asset/Liability Modeling (ALM) Study. The Actuarial Experience Study was presented at the March 2000 board meeting. Watson Wyatt recommended and the TFFR Board approved a number of changes to the actuarial assumptions and methods. The ALM results were presented to the TFFR Board in June 2000 and as a result, the TFFR Board made changes to their asset allocation mix.

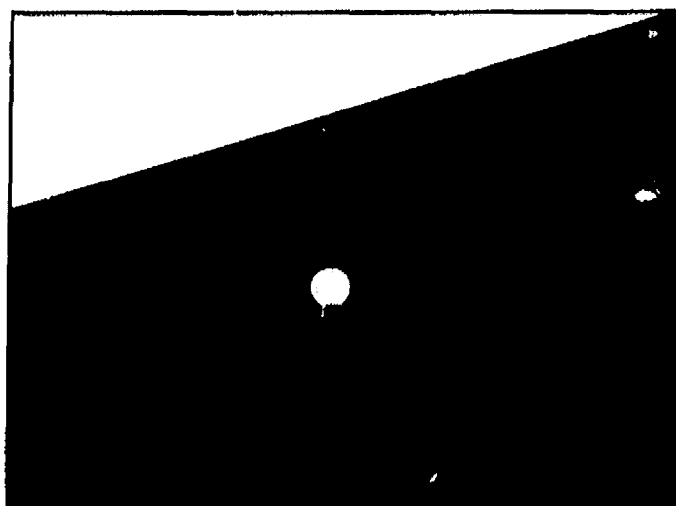
Buck Consultants was the actuarial consulting firm who performed the actuarial audit of TFFR's current actuary, Watson Wyatt. The Buck report states that they found the work done by Watson Wyatt to be accurate, reasonable, and performed in accordance with generally accepted actuarial principles and practices.

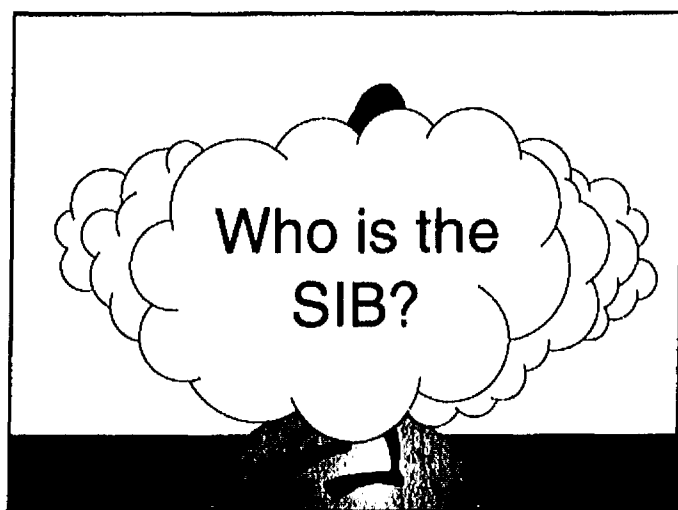












SIB Board



SIB Board



2001 Crew



Ex Officio Members

Lt. Gov. Dalrymple
Kathi Gilmore
Jim Poolman
Paul Kramer



TFFR Board

Dr. Mark Sanford
Norm Stuhlmiller
Paul Lofthus



PERS Board

Howard Sage
Waldo Baetsch
David Gunkel

NDCC Chapter 21-10

North Dakota Century Code 21-10-06. Funds under management of board - Accounts. The board is charged with the investment of the following funds:

1. State bonding fund.
2. Teachers' fund for retirement.
3. State fire and tornado fund.
4. Workers' compensation fund.
5. National guard tuition trust fund.
6. Public employees retirement system.
7. Insurance regulatory trust fund.
8. State risk management fund.
9. Veterans' cemetery trust fund.

Contractual relationships

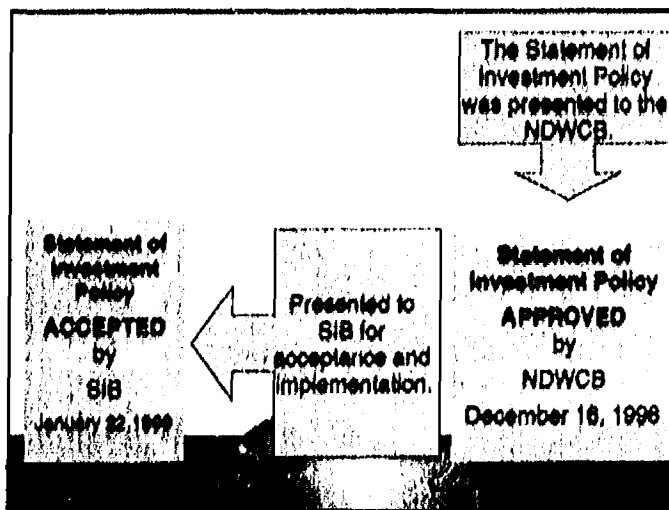
1. City of Bismarck employees pension plan
2. City of Bismarck police pension plan
3. Job Service North Dakota pension plan
4. PERS retiree health fund
5. Veterans post war trust fund
6. ND association of counties fund
7. ND association of counties program savings fund
8. City of Bismarck deferred sick leave fund
9. PERS group insurance fund

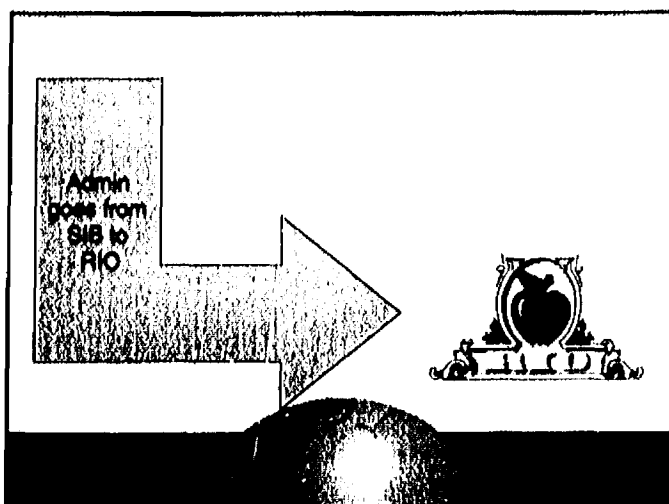
ND WORKERS' COMPENSATION FUND Policy Development and Implementation

**Asset Liability
Analysis**
Performed by
**Cullen
Associates**
December
1998

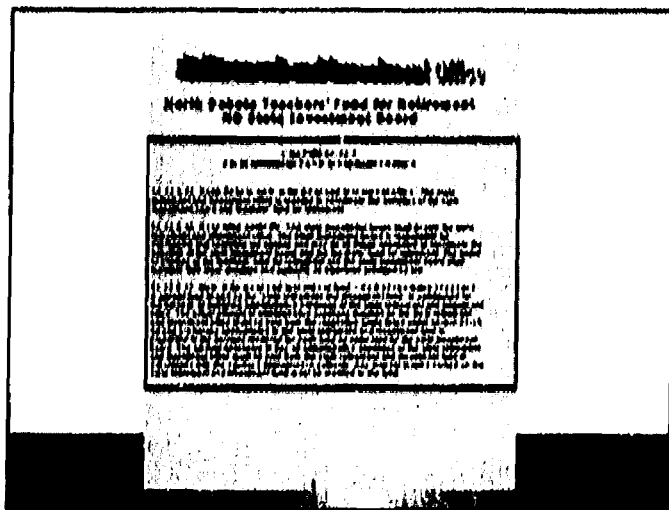
Various optimal
portfolios
developed
by the
asset liability
analysts were
considered. The
preferred target
allocation was
then incorporated
into the Statement
of Investment
Policy.

**Statement of
Investment
Policy**
Originally written by
**William H. Mercer
Investment Consulting, Inc.**
August 1998
Revised
December 1998













RIO Staff
17 FTEs

SIB 

TFFR 

RIO Staff
17 FTEs

SIB 

TFFR 

RIO Staff

Administer overall
investment strategy

RIO Staff

Maximize risk/return
opportunities within
each asset class

RIO Staff

Liaison between SIB and
Managers, Consultant
and Custodian

RIO Staff

Monitor individual funds'
investment guidelines
and asset allocations

RIO Staff

Maintain separate
accounting for 18
individual funds

Custodian Bank The Northern Trust

Safe-keep assets

Settle trades

Record-keeper

Securities Lending

**Investment Consultant
Callan Associates**

Performance measurement

Manager searches

Provide education

Special projects

RIO Staff

20 External Managers

Manager of
Managers



**Investment Managers
20 managers**

Implement specific mandates or
"investment missions"

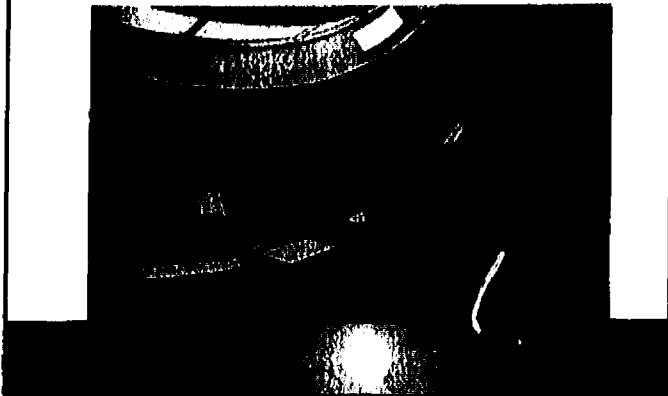
Make buy/sell decisions based
on investment guidelines

Investment Managers 20 managers

Report to RIO staff on a
regular basis

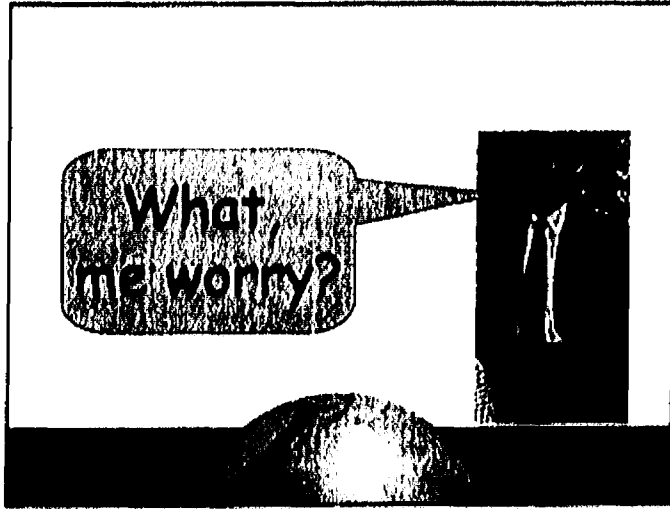
Provide education

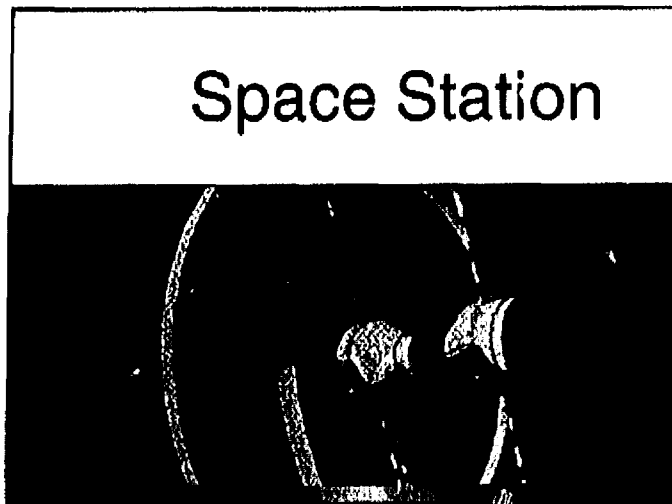
They had Hal

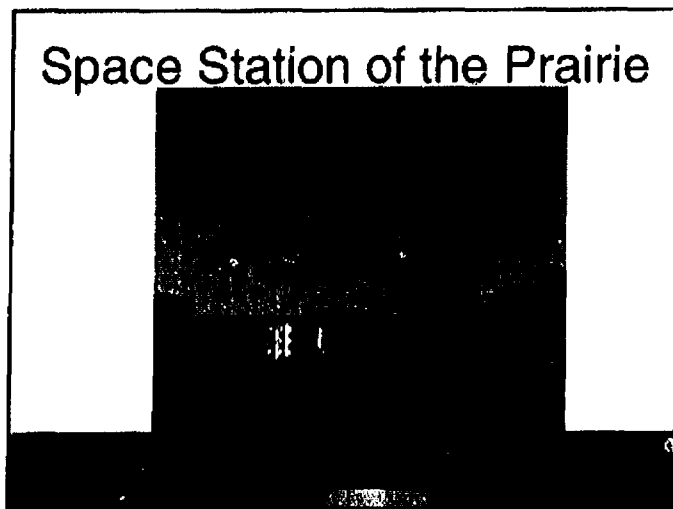


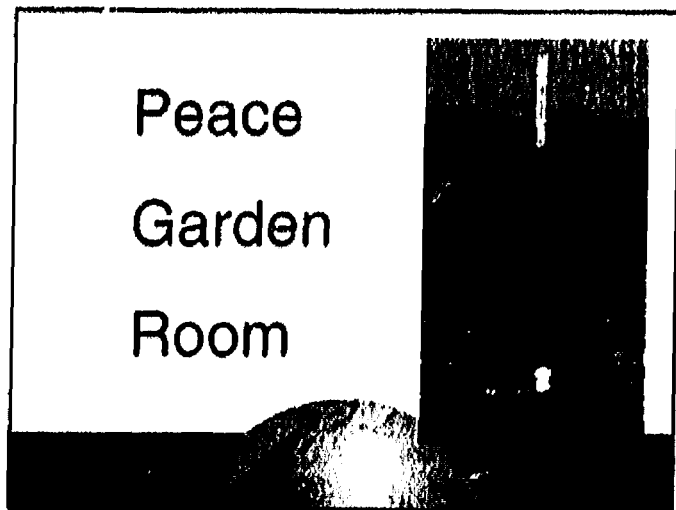
We have Gary

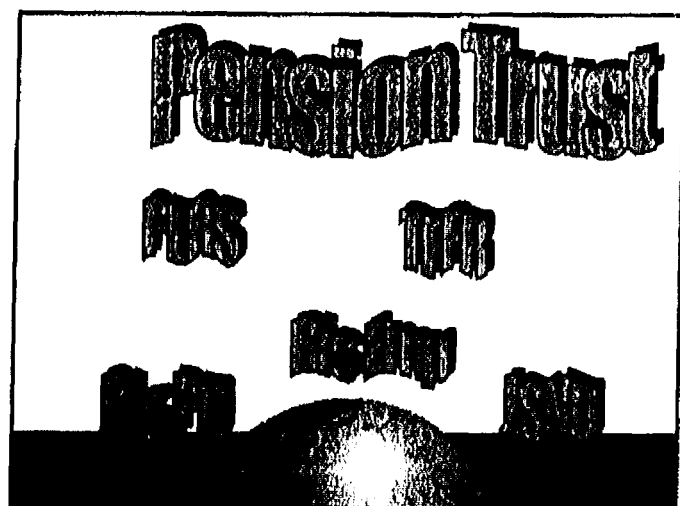


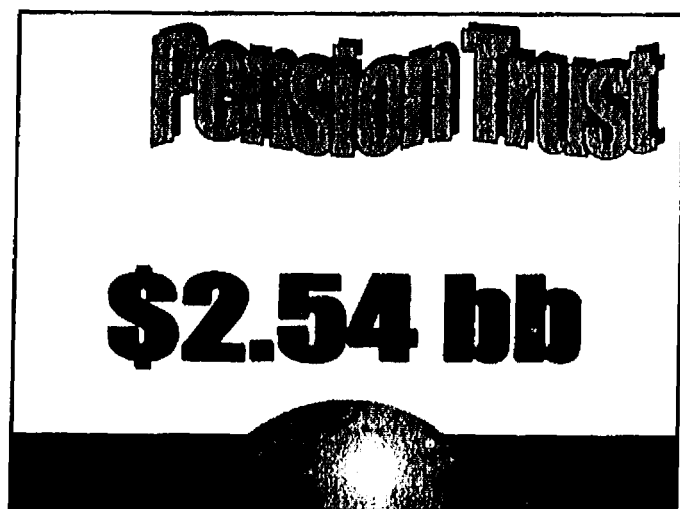




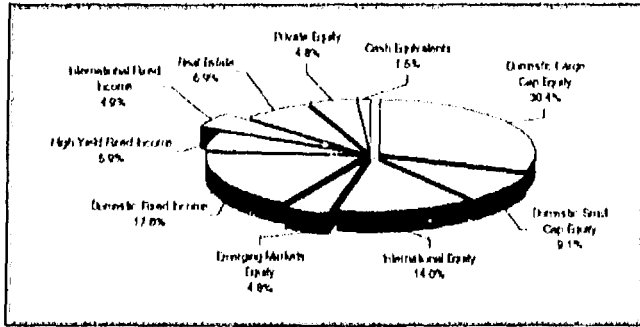








SIB Pension Trust: \$ 2.54 bb



Insurance Trust

1980 1985 2000

1980 1985

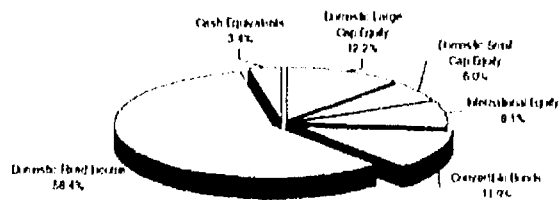
2000 2005

Insurance Trust

\$0.94 bb

SIB Insurance Trust: \$ 0.94 bb

Asset Class	Percentage
Direct Real Estate	58.4%
Corporate Bonds	11.9%
Direct Large Cap Equity	12.2%
Direct Small Cap Equity	6.0%
International Equity	8.1%
Cash Equivalents	3.4%
Other	1.0%



Meet the Managers-Pension

[illegible]

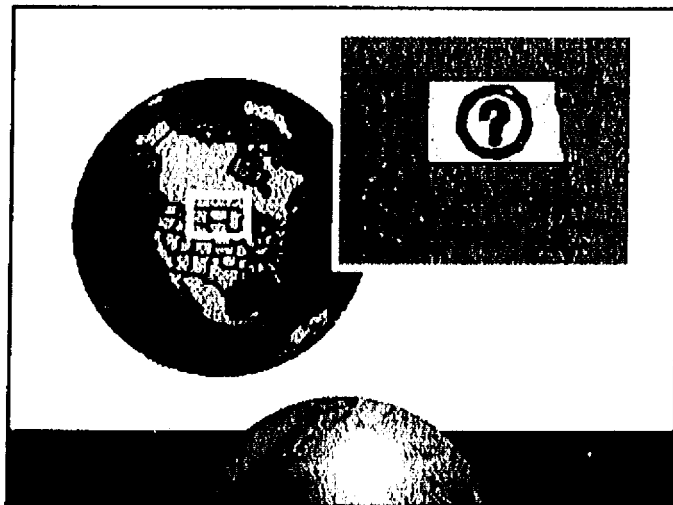
Meet the Managers - Pension

The image is a high-contrast, black and white scan of a document page, likely a ledger or form. The page is heavily degraded with noise and artifacts, making the text illegible. The layout appears to have multiple columns and rows, with some text visible at the top and bottom edges. The central part of the page is dominated by a large, dark, rectangular area that could be a redacted section or a large heading. The overall appearance is that of a low-quality, noisy scan of a printed document.

Determination of Known Earnings to be Deferred				
Year ended:	June 30, 1997	June 30, 1998	June 30, 1999	June 30, 2000
	(1)	(2)	(3)	(4)
MVA at beginning of year	\$ 847,399,156	\$ 1,004,027,396	\$ 1,133,549,244	\$ 1,262,594,216
M (non-recognition)				
a. Contributions	\$ 46,157,267	\$ 47,471,764	\$ 46,138,925	\$ 55,171,177
b. Benefits and returns paid	(32,112,201)	(46,578,421)	(36,977,478)	(56,171,228)
c. Subtotal	\$ 14,045,066	\$ 1,003,920,739	\$ 1,142,709,791	\$ 1,261,594,165
MVA at end of year	\$ 1,004,027,396	\$ 1,133,549,244	\$ 1,262,594,216	\$ 1,405,246,440
Net MVA earnings (3) - (2)	\$ 157,482,644	\$ 131,968,822	\$ 128,951,847	\$ 144,661,877
Assumed investment return rate	8.00%	8.00%	8.00%	8.00%
Expected return	\$ 80,362,112	\$ 90,723,859	\$ 101,007,537	\$ 112,500,119
Excess return (4) - (3)	\$ 77,120,532	\$ 41,244,963	\$ 27,944,310	\$ 32,161,758
Excess return deferred percentage	80%	40%	60%	80%
Amount deferred	\$ 61,696,426	\$ 16,498,045	\$ 16,766,586	\$ 25,729,406

Development of Actuarial Value of Assets	
Market value of assets at valuation	\$ 1,405,246,440
Deferred amounts for fiscal year ending June 30:	
a. 2000	\$ 35,653,705
b. 1999	\$ 22,961,796
c. 1998	\$ 20,509,463
d. 1997	\$ 17,589,238
e. Total	\$ 96,714,222
Actuarial value of assets (1) - (2)	\$ 1,308,532,218

DOWNSIDE					
	Bonds	Stocks	Composite	20% of Composite	5-Year Smoothing
1978	8.80%	-14.77%	-6.94%	-1.39%	4.00%
1979	0.19%	28.00%	-10.11%	-2.02%	1.70%



The Exclusive Benefit Rule

The Exclusive Benefit Rule
is met if the following four conditions are satisfied:

1. The cost does not exceed the fair market value at the time of investment.
2. The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
3. Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
4. The safeguards and diversity that a prudent investor would adhere to are present.

Match Loans

Borrower	Loan \$	North Dakota
BNI Coal LTD	\$ 4,500,000	Bismarck
American Crystal	12,000,000	Drayton, Hillsboro
US Bancorporation	8,800,000	Fargo
Community First	3,200,000	Fargo
Dakota Growers	12,000,000	Carrington
Interact Fund	18,000,000	Bismarck
Great Plains Software	14,000,000	Fargo
Washington CDC	8,200,000	Wahpeton
TOTAL	\$ 75,400,000	

Righteous Bucks!

\$120,120,000

FY 2000 BND Fees

Pension Trust	81,362
Insurance Trust	<u>123,888</u>
	\$205,250

MERRIE MELODIES

"That's all Folks!"

A WARNER BROS. CARTOON

2-1-2001



Steve Cochrane, CFA
Executive Director, NDRIO

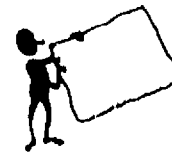
Economically Targeted Investments in North Dakota

It all starts with....



an investment ideal

The idea is presented to the State Investment



Board.



The idea is economically targeted to benefit the state
of North Dakota in some way.

The idea may be intrinsically



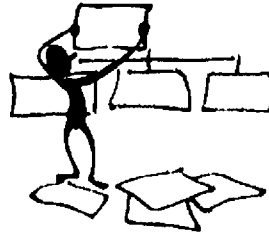
appealing and command
serious attention

If so, the SIB
"investment fit".



looks inward for policy compatibility and

On to the NDCC and plan sponsor guidelines,,,



The SIB is charged with the responsibility of investing in accordance with the policies set by the legal authority of the participating funds as well as any applicable state law.

NDCC 21-10-07. Legal Investments stipulates that all investment activity be in accordance with the "prudent investor rule" and states that, "retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives."

NDCC 54-52-14.3. Public employee retirement funds-Use and investment states that, "All moneys from any source paid into any public employee retirement system fund created by the laws of this state must be used and invested only for the exclusive benefit of the members, retirees, and beneficiaries of that system, including the payment of system administrative costs".

To augment the NDCC's exclusivity requirement, PERS has given the SIB the following directive:

"V. RESTRICTIONS



- F. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document, economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy."

Source: *Statement of Investment Goals, Objectives and Policies* approved by NDPERS Board, 11-21-96, 2-23-98, 7-27-00 and accepted by State Investment Board (SIB), 11-22-96, 7-28-00.

And the TFFR says:



"The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy."

Source: *Investment Policy Statement* approved by the TFFR Board on 11-22-95, 9-9-97, 7-27-00 and accepted by SIB on 2-23-96, 9-26-97, 7-28-00,



So, how do we test to see if an Investment Idea that could be beneficial to North Dakota meets these exclusive benefit requirements?

The Exclusive Benefit Rule

is met if the following four conditions are satisfied:

1. The cost does not exceed the fair market value at the time of investment.
2. The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
3. Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
4. The safeguards and diversity that a prudent investor would adhere to are present.

These conditions are reasonable and allow for flexibility in assessing comparable investment benchmarks and alternatives. For example, the free market expected rate of return on commercial real estate investments in North Dakota could be considered the applicable return target, as opposed to that of similar investments in other locations.



Not all investments ideas meet the requirements
of the Exclusive Benefit Rule.

You betchalll



Others make fine investments AND lend economic assistance to North Dakota ventures.

Yo, look at me now, Adrienne!



One big winner is the SIB investment in the Bank of North Dakota's "Match Loan" program.

In cooperation with the Bank of North Dakota's "match loan program", the SIB has formally earmarked \$100,000,000 in funds to be made available to promote the expansion of free enterprise in the state. To date, BND has committed \$76,690,000 of this allocation and continues to seek additional opportunities to fund private businesses.

SIB-Funded BND "Match Loans" Currently in Place

Borrower	Loan Amount	Location
BNI Coal LTD	\$ 4,500,000	Bismarck
American Crystal	12,000,000	Drayton, Hillsboro
US Bancorporation	6,600,000	Fargo
Community First Bank	3,200,000	Fargo
Dakota Growers	12,000,000	Carrington
Ingersoll-Rand	18,000,000	Bismarck
Great Plains Software	14,000,000	Fargo
Wahpeton CDC	6,390,000	Wahpeton
TOTAL	\$ 76,690,000	North Dakota

BND also manages the short-term investment portfolio in the Insurance Trust which facilitates the lending of approximately \$33,180,000 by BND within their standard operational framework.

The net result is that the SIB has made approximately \$133,180,000 available to BND for lending in the state.

That's a lot of cabbage, man!

Speaking of BND, they also manage fixed-income portfolios for the Pension and Insurance Trusts. In fact, with \$336,527,000 under management in bonds, BND weighs in as the SIB's #1 manager by size of account. This relationship netted BND \$205,250 in fees during FY 2000!



In addition to the BND effort...



Our venture capitalists are on the lookout for exciting homegrown deals.

The SIB has also worked to initiate and maintain a communications link between the Department of Economic Development and Finance and the venture capital investment firms under retention. Brinson Partners and The Coral Group are both aware of our interest in identifying prospective start-ups in North Dakota and have indicated their commitment to analyze such opportunities.

So, that's where we stand currently on economically targeted investments in North Dakota. As always, the SIB remains vigilant in assuring that the pension assets are invested exclusively for the benefit of the members and their beneficiaries while maintaining a sensitivity to homegrown opportunity and responsiveness to client guidelines.



January 15, 2001

Department 192 - Public Employees Retirement System
House Bill No. 1025

	FTE Positions	General Fund	Other Funds	Total
2001-03 Schafer Executive Budget	27.00		\$3,859,480	\$3,859,480
1999-2001 Legislative Appropriations	26.00		3,399,952	3,399,952
Increase (Decrease)	1.00	\$0	\$459,528	\$459,528

2001-03 Hoeven Executive Budget	27.00		\$3,859,480	\$3,859,480
Hoeven Increase (Decrease) to Schafer	0.00	\$0	\$0	\$0

The 1999-2001 appropriation amount includes \$40,517 of other funds for the agency's share of the \$5.4 million funding pool appropriated to the Office of Management and Budget (OMB) for special market equity adjustments for classified employees and \$2,526 of other funds for the agency's share of the \$1.4 million funding pool appropriated to OMB for assisting agencies in providing \$35 per month minimum salary increases in July 1999 and July 2000.

Major Schafer Recommendations Affecting the Public Employees Retirement System 2001-03 Budget

	General Fund	Other Funds	Total
1. Increases funding for operating expenses by 23.4 percent, from \$1,222,052 to \$1,507,730 to reflect the following changes:			
Inflationary increases		\$62,985	\$62,985
Establishment of interactive voice response and Internet-based systems to allow members to access information or complete benefit forms 24-hours per day		190,056	190,056
Other		32,637	32,637
Total recommended changes		\$285,678	\$285,678
2. Adds 1 FTE employee benefits programs specialist and provides the following amounts to conduct member education programs:			
Salaries and wages		\$77,678	\$77,678
Operating expenses		6,732	6,732
Equipment		4,500	4,500
Total recommended appropriation		\$88,910	\$88,910

**Major Hoeven Recommendations Affecting the Public Employees Retirement System 2001-03 Budget
Compared to the Bill as Introduced (Schafer Budget)**

The Hoeven budget recommendation does not change the Schafer executive budget recommendation for this agency.

Major Legislation Affecting the Public Employees Retirement System

Senate Bill No. 2082 - This bill increases the Public Employees Retirement System defined benefits plan benefits multiplier from 1.89 to 2 percent and provides a postretirement benefit increase for retired members.

House Bill No. 1216 - This bill extends until December 31, 2001, the time period within which state employees eligible to participate in the defined contribution plan may elect to do so.

House Bill No. 1217 - This bill expands eligibility to participate in the defined contribution plan to include all state employees except Supreme Court and district court judges or higher education employees eligible to participate in TIAA-CREF.

PERS

Department 192 - Public Employees Retirement System
House Bill No. 1025

	FTE Positions	General Fund	Other Funds	Total
2001-03 Schafer Executive Budget	27.00		\$3,859,480	\$3,859,480
1999-2001 Legislative Appropriations	26.00		3,309,952	3,309,952
Increase (Decrease)	1.00	\$0	\$459,528	\$459,528

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Major Schafer Recommendations Affecting the Public Employees Retirement System 2001-03 Budget

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Establishment of interactive voice response and Internet-based systems to allow members to access information or complete benefit forms 24-hours per day		190,056	190,056
Other		32,637	32,637
Total recommended changes		\$285,678	\$285,678
2. Adds 1 FTE employee benefits programs specialist and provides the following amounts to conduct member education programs (The House removed the funding and the FTE.):			
Salaries and wages		\$77,678	\$77,678
Operating expenses		6,732	6,732
Equipment		4,500	4,500
Total recommended appropriation		\$88,910	\$88,910

Major Hoeven Recommendations Affecting the Public Employees Retirement System 2001-03 Budget
Compared to the Bill as Introduced (Schafer Budget)

The Hoeven budget recommendation does not change the Schafer executive budget recommendation for this agency.

Major Legislation Affecting the Public Employees Retirement System

House Bill No. 1216 - This bill extends until December 14, 2001, the time period within which state employees eligible under current law to participate in the defined contribution plan may elect to do so. The fiscal note indicates the need for additional appropriation authority of \$3,780--\$3,000 for assistance required by PERS in calculating amounts to be transferred to the defined contribution plan and \$780 for meeting expenses.

House Bill No. 1217 - This bill expands eligibility to participate in the defined contribution plan to include all state employees except Supreme Court and district court judges and higher education employees eligible to participate in TIAA-CREF. This bill also provides an other funds appropriation of \$250,000 to the PERS and provides authority for 2 additional FTE positions. The fiscal note indicates an estimated cost to the agency of \$418,692 and the need for 3 FTE positions, rather than the 2 FTE positions authorized in the bill.

Senate Bill No. 2362 - This bill includes overtime wages earned by employees of the North Dakota Mill and Elevator Association in the definition of "salaries and wages" for the purpose of determining retirement benefits and provides an other funds appropriation of \$7,300 for administrative expenses anticipated to be incurred by the Public Employees Retirement System. In addition to the \$7,300 effect on the expenditures of the PERS, the fiscal note indicates additional expenditures of \$130,000 for the 2001-03 biennium for the Mill and Elevator for additional retirement contributions paid on behalf of employees.

Summary of Legislative Changes to Bill as Introduced

See attached Statement of Purpose of Amendment.

STATEMENT OF PURPOSE OF AMENDMENT:**House Bill No. 1025 - Funding Summary**

	Executive Budget	House Changes	House Version
Retirement and Investment Office			
Salaries and wages	\$1,664,041		\$1,664,041
Operating expenses	1,021,492		1,021,492
Equipment	22,600		22,600
Contingency	82,000		82,000
Total all funds	\$2,790,133	\$0	\$2,790,133
Less estimated income	2,790,133	0	2,790,133
General fund	\$0	\$0	\$0
FTE	18.00	0.00	18.00
Public Employees Retirement System			
Salaries and wages	\$2,314,750	(\$77,678)	\$2,237,072
Operating expenses	1,507,730	(6,732)	1,500,998
Equipment	12,000	(4,500)	7,500
Contingency	25,000		25,000
Total all funds	\$3,859,480	(\$88,910)	\$3,770,570
Less estimated income	3,859,480	(88,910)	3,770,570
General fund	\$0	\$0	\$0
FTE	27.00	(1.00)	26.00
Bill Total			
Total all funds	\$6,649,613	(\$88,910)	\$6,560,703
Less estimated income	6,649,613	(88,910)	6,560,703
General fund	\$0	\$0	\$0
FTE	45.00	(1.00)	44.00

House Bill No. 1025 - Retirement and Investment Office - House Action

The House did not change the Schafer executive budget recommendation for the Retirement and Investment Office. Governor Hoeven did not propose any changes to the Schafer recommendation for this agency.

House Bill No. 1025 - Public Employees Retirement System - House Action

	Executive Budget	House Changes	House Version
Salaries and wages	\$2,314,750	(\$77,678)	\$2,237,072
Operating expenses	1,507,730	(6,732)	1,500,998
Equipment	12,000	(4,500)	7,500
Contingency	25,000		25,000
Total all funds	\$3,859,480	(\$88,910)	\$3,770,570
Less estimated income	3,859,480	(88,910)	3,770,570
General fund	\$0	\$0	\$0
FTE	27.00	(1.00)	26.00

Department No. 192 - Public Employees Retirement System - Detail of House Changes

	Remove New FTE and Related Funding¹	Total House Changes
Salaries and wages	(\$77,678)	(\$77,678)
Operating expenses	(6,732)	(6,732)
Equipment	(4,500)	(4,500)
Contingency		
Total all funds	(\$88,910)	(\$88,910)
Less estimated income	(88,910)	(88,910)
General fund	\$0	\$0
FTE	(1.00)	(1.00)

¹ This amendment removes a one FTE employee benefits programs specialist position and related funding included in the Schafer and Hoeven budget recommendations for conducting member education programs.

TESTIMONY
OF
SPARB COLLINS
ON
HB 1025

Mr. Chairman, members of the committee, good morning. My name is Sparb Collins. I am Executive Director of North Dakota Public Employees Retirement System, or PERS.

Before getting into our budget request I would like to highlight for you the various programs administered by North Dakota Public Employees Retirement System. Our name is not fully reflective of our responsibilities. While PERS does administer a Retirement Program, that is five Defined Benefit Plans and two Defined Contribution Plans, we also administer other types of employee benefit programs. These include the Retiree Health Insurance Credit Program, the Group Health Insurance Plan, the Group Life Insurance Plan, the FlexComp Program, a Dental Plan, a Long-Term Care Program and an Employee Assistance Program. In addition we administer on a "administrative service only" basis the Job Service Retirement Plan and the 27-17 Judges Plan. Attachment 1 lists the programs, and includes the date they were assigned to PERS.

I would also like to highlight for you some of the accomplishments of the agency during the past biennium:

1. We received the Public Pension Coordinating Councils Achievement Award, which is a prestigious national award recognizing a high standard of performance for retirement program administration.
2. We received in each of the years, this last biennium, the Certificate of Excellence in Financial Reporting from the Government Finance Officers Association. This is a national award for excellence in financial reporting.
3. We implemented the new Defined Contribution Retirement Program enacted by the last legislative session. As part of this effort we held forty-four enrollment meetings, developed individual plan projections for each of the 630 eligible participants, and calculated the transfer amount for each of those individuals. We completed programming changes to our mainframe system to allow us to process transfers of assets from the Defined Benefit Program to the Defined Contribution Plan and process monthly contributions into the Defined Contribution Plan. We also selected a record keeper and determined the investment options to be offered as part of the plan.
4. We implemented the new Portability Enhancement Program (PEP) passed by the last legislative session. We completed programming changes to our mainframe system to allow us to process the vested employer contribution based upon participation in a Deferred Compensation Plan. As part of that program we held 133 meetings around the State of North Dakota. To date we have enrolled approximately 2,800 additional new employees in the PEP program.
5. We instituted a provider-training program for the 250 deferred comp agents. As part of this we held 10 training sessions at various locations through out the State.

6. We implemented the benefit improvements passed by the last legislation session for the main PERS Retirement Plan, the Judges Retirement Plan and the Highway Patrol Retirement Plan.
7. We processed over 750 new retirees in the last two years.
8. We will have conducted 14 pre-retirement seminars for employees this biennium.
9. We successfully re-bid the Employee Assistance Program for state employees and implemented that program on a permanent basis pursuant to legislation.
10. We produced a comprehensive annual report for each year of the biennium.
11. We continued the dissemination of a comprehensive product profile for the membership regarding the range of deferred comp products. Those profiles show not only each of the investment options available, but also annual administrative expenses and the net historical performance for the last one, three, five and ten year periods.
12. We processed over 32,000 claims in the FlexComp program in the last two years.
13. We successfully responded to the Y2K challenge and all administrative systems performed as expected.
14. We sent annual statements to all PERS members and annual statements to our retirees in each year of the biennium.
15. We conducted over 1200 individual counseling secessions in the last two years.
16. We responded to over 100,000 calls in the last two years.
17. We developed our Information Technology plan in compliance with the direction of the last legislature.

18. We completed an actuary experience study, as required by statute, for the PERS, HPRS, and Retiree Health Credit Program.

19. We completed an asset/liability study for PERS and the Highway Patrol Retirement Plan.

The above highlights some of the information and activities of PERS during the last two years. While the agency is concerned with providing the above services to the members, we were also cognizant that the overall level of service needs to be provided in a manner that is satisfactory to our membership. To this end, in a biennial survey we ask that our membership rate the level of satisfaction they have with the services provided by our agency. In our 1995 surveys the level of satisfaction was eighty-three percent (83%). In the 1997 survey the level of satisfaction was ninety-three percent (93%). In the 1999 survey the level of satisfaction was eighty-eight percent (88%).

We have only been able to accomplish the above and maintain member satisfaction because of your support and help. The board wanted me to extend to you their thanks and appreciation. With this background, let me highlight the proposed budget before you today.

As discussed above, the scope of services within the agency has expanded during the last several years. However, not only has the scope of services expanded, but also the membership in the programs. Therefore, a good measure of the overall cost of our services is determined by the average cost per member for all programs. We determine this by taking the total membership in each program totaling it and dividing it into the

administrative budget. For example we would add the membership in the health plan, retirement plan, deferred comp and other programs together. We would then take that total and divide it into our administrative budget. This gives us an indication of how our overall administrative costs have increased or decreased in relationship to the number of programs we administer and the number of individuals who are enrolled in each of the programs. The following information is our overall costs for the last several years:

Average cost per member for all programs

Year Ended	Cost Per Member Per Program
1986	\$13.39
1987	\$14.93
1988	\$18.12
1989	\$15.94
1990	\$13.45
1991	\$14.27
1992	\$16.37
1993	\$16.86
1994	\$16.36
1995	\$15.88
1996	\$15.54
1997	\$16.17
1998	\$13.90
1999	\$14.31
2000	\$17.99

2001*	\$15.55
2002*	\$18.56
2003*	\$18.22

*- Estimated

Specifically, concerning the budget before you today, the executive recommendation shows an increase of approximately 13.5%. This increase can be broken down into several components. Three and a half percent (3.5%) is associated with the governors proposed compensation package for 2001-2003. One half of one percent (.5%) is for us to retain a student internal audit intern to assist our internal auditor. Approximately five and a half percent (5.5%) is funding for us to implement our information technology strategic plan. Slightly less than a half of a percent of the increase is funding for continuation of our newsletter, which provides information to our retirees and active employees concerning the various opportunities they have under the programs offered by PERS. Two and a half percent (2.5%) is for a new benefits specialist position to provide member education. Lastly, one percent (1%) is for us to continue our replacement schedule for our IT equipment as specified in our IT strategic plan.

Another way of viewing our proposed budget is in terms of the various line items.

Salaries and wages: Sixty percent (60%) of the total budget is for salaries. Also as noted above approximately one quarter of the proposed increase in our budget is associated with the proposed salary increase package for the upcoming biennium.

Operating expenses: Thirty-nine percent (39%) of our budget is for operating expenses. Of the total operating expenses, almost forty-six percent (46%) is pass through costs to support our data management and telecommunication system for our various programs as well as the central service cost allocation we pay to the state of North Dakota. Fifteen percent (15%) is associated with our rental cost. These 2 items combine to be almost sixty-one percent (61%) of our operating expenses. Another twenty-two percent (22%) of our operating expenses is associated with direct member services. These 3 areas combined to be over eighty-three percent (83%) of our budget. The remaining seventeen percent (17%) of operating costs support general office administration.

Equipment: Approximately one-third of one percent of our total budget is for equipment. This request is in accordance with our IT plan and our long-term strategic plan for equipment upgrades.

Contingency: Is slightly more than one half of one percent of our budget. This line item is included in case of unexpected expenses during the biennium. This provides the opportunity for those unexpected expenses to be funded with out having to utilize general funds.

Another way to look at our budget is by the major program areas:

Program Area	Budget	%of Budget	No. of FTE
Retirement	\$2,186,695	57%	14.87
Group Insurance	\$1,341,262	35%	9.95
FlexComp	\$331,523	8.5%	2.18

Last, I would like to discuss the initiatives contained in the executive recommendation in more detail.

The first initiative is the continued funding of our internal audit internship position. This is a temporary position that we presently have in PERS, that we are unable to maintain it in our base budget request. Therefore, we requested additional funding to continue this position. The need for this temporary position comes about as a result of additional responsibilities the agency has taken on for administering new programs, the increasing complexity of existing programs and additional fiduciary responsibilities. Additional resources in our internal audit division allows our full time internal auditor to expand audit services into areas such as: risk assessment, increase testing using computer software, special projects and developing audit programs for the new Defined Contribution Plan and the new hybrid retirement plan which includes the new PEP program.

The second initiative relates to the agency Information Technology (IT) Plan and includes projects to allow members and employers to access information and certain benefit forms either by using an Interactive Voice Response system or the Internet. Development of these applications will provide for more efficient access and delivery of our service and also enhance customer service by adding alternative methods for our customers to access information and complete forms. This will also expand our service to 24 hours a day, 7 days a week and will reduce paper work. These "e business" solutions are critical areas for PERS to continue to develop and implement, in order to insure that our delivery of services can be as efficient as possible.

The third initiative relates to the agency newsletters. PERS distributes 6 newsletters per biennium, 3 each year. Our base budget included funding for only 5 newsletters a biennium. The approved requested enhancement allows us to continue with 6 newsletters a biennium. Reduction in the number of newsletters lowers the level of customer service currently provided. This adjustment helps us to maintain the current level of service.

The fourth initiative relates to the replacement of computer hardware within the agency. PERS has adopted a 3-year replacement cycle for computer equipment to keep up with new technology. The base budget request does not include funding to replace all the computer equipment. The base budget does contain funding for four computers to be replaced this biennium and the remaining 23 PC will be upgraded with memory to enable them to run windows 2000. The optional adjustment includes funding to replace all the

agency's personal computers. This will reduce the risk of having hardware that has limited functions and is inadequate to run new software releases.

The fifth initiative is for a new benefit specialist. The purpose of this specialist is to assist in the development of a member education program concerning investing and retirement planning. In 1997, a survey of our members showed that sixty percent (60%) of the respondents felt they had some knowledge of the risk associated with the various investment classes. This means that forty percent (40%) of our members have little or no knowledge of investment risk. This is a concern, since the new Defined Contribution Program passed by the last legislature and the Portability Enhancement Program (PEP) have called upon the members to become more involved in investment and financial planning. Unfortunately we have not given them the tools in which to be successful. The addition of a new benefit specialist working together with the PERS Companion Plan provider, which is VALIC and Fidelity our DC provider will enable us to coordinate a program of investment seminars. Our goal will be to provide seminars to our members every two - three years. This would help give them the tools necessary to engage in sound financial planning. With out these tools the members are likely to be unsuccessful and dissatisfied with the programs.

Several items were not funded in the executive budget and these include:

1. Converting a temporary employee to permanent.
2. Increasing the internal audit position intern to full time to assist in monitoring our contracts.

3. Increasing our half time IT position to full time.

Also we are continuing to monitor new federal requirements arising pursuant to the Health Insurance Portability and Accountability Act (HIPAA). While we know they will have a significant effect on the Health Plan, at this point it appears this effect will be primarily on our carrier, Blue Cross Blue Shield. However, we are continuing to review these new regulations to determine if they would have any effect on the PERS administrative budget. At this point we have not determined any effect and therefore, we have not requested any compliance funding as part of the budget before you today.

As indicated in the executive recommendation, the funding source for our proposed budget is special funds. This means the administrative cost are paid directly from the various programs the agency administers, such as the retirement fund, health fund and the FICA tax savings generated through the FlexComp program.

Mr. Chairman, members of the committee, I thank you for allowing us this opportunity to present our proposed budget.

This concludes my testimony.

PERS PROGRAMS**RETIREMENT****Fully Administered**

Main System	
- Defined Contribution Benefit	-1966-1977
- Defined Benefit	-1977-Present
Judges System	-1983
National Guard	-1991
Highway Patrol	-1983
Prior Service System	-1977

Administrative Services Only

Judges 27-17	-1988
Job Service	-1993

PREFUNDED HEALTH

PERS	-1989
27-17 Judges	-1991
Job Service	-1991

HEALTH INSURANCE -1977

LIFE INSURANCE -1977

FLEXCOMP PROGRAM -1989

DEFERRED COMPENSATION -1987

DENTAL PLAN -1996

LONG TERM CARE PLAN -1996

EMPLOYEE ASSISTANCE PROGRAM -1997

DEFINED CONTRIBUTION PLAN -1999

PORTABILITY ENHANCEMENT PROGRAM (PSP) -1999

TESTIMONY
OF
SPARB COLLINS
ON
ENGROSSED HB 1025

Mr. Chairman, members of the committee, good morning. My name is Sparb Collins. I am Executive Director of the North Dakota Public Employees Retirement System, or PERS.

Before getting into our budget request I would like to highlight for you the various programs administered by North Dakota Public Employees Retirement System. Our name is not fully reflective of our responsibilities. While PERS does administer a Retirement Program, that is five Defined Benefit Plans and two Defined Contribution Plans, we also administer other types of employee benefit programs. These include the Retiree Health Insurance Credit Program, the Group Health Insurance Plan, the Group Life Insurance Plan, the FlexComp Program, a Dental Plan, a Long-Term Care Program and an Employee Assistance Program. In addition we administer on a "administrative service only" basis the Job Service Retirement Plan and the 27-17 Judges Plan. Attachment 1 lists the programs, and includes the date they were assigned to PERS.

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2. We received in each of the years, this last biennium, the Certificate of Excellence in Financial Reporting from the Government Finance Officers Association. This is a national award for excellence in financial reporting.
3. We implemented the new Defined Contribution Retirement Program enacted by the last legislative session. As part of this effort we held forty-four enrollment meetings, developed individual plan projections for each of the 630 eligible participants, and calculated the transfer amount for each of those individuals. We completed programming changes to our mainframe system to allow us to process transfers of assets from the Defined Benefit Program to the Defined Contribution Plan and process monthly contributions into the Defined Contribution Plan. We also selected a record keeper and determined the investment options to be offered as part of the plan.
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7. We processed over 750 new retirees in the last two years.
8. We will have conducted 14 pre-retirement seminars for employees this biennium.
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administrative budget. For example we would add the membership in the health plan, retirement plan, deferred comp and other programs together. We would then take that total and divide it into our administrative budget. This gives us an indication of how our overall administrative costs have increased or decreased in relationship to the number of programs we administer and the number of individuals who are enrolled in each of the programs. The following information is our overall costs for the last several years:

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1999	\$14.31
2000	\$17.99
2001*	\$15.55
2002*	\$18.56
2003*	\$18.22

*- Estimated

Specifically, concerning the budget before you today, the executive recommendation proposed an increase of approximately 13.5%. This increase can be broken down into several components. Three and a half percent (3.5%) is associated with the governors proposed compensation package for 2001-2003. One half of one percent (.5%) is for us to retain a student internal audit intern to assist our internal auditor. Approximately five and a half percent (5.5%) is funding for us to implement our information technology strategic plan. Slightly less than a half of a percent of the increase is funding for continuation of our newsletter, which provides information to our retirees and active employees concerning the various opportunities they have under the programs offered by PERS. Two and a half percent (2.5%) is for a new benefits specialist position to provide member education that was not funded by the House. Lastly, one percent (1%) is for us to continue our replacement schedule for our IT equipment as specified in our IT strategic plan.

Another way of viewing our proposed budget is in terms of the various line items.

Salaries and wages: Sixty percent (60%) of the total budget is for salaries. Also as noted above approximately one quarter of the proposed increase in our budget is associated with the proposed salary increase package for the upcoming biennium.

Operating expenses: Thirty-nine percent (39%) of our budget is for operating expenses. Of the total operating expenses, almost forty-six percent (46%) is pass through costs to support our data management and telecommunication system for our various

programs as well as the central service cost allocation we pay to the state of North Dakota. Fifteen percent (15%) is associated with our rental cost. These 2 items combine to be almost sixty-one percent (61%) of our operating expenses. Another twenty-two percent (22%) of our operating expenses is associated with direct member services. These 3 areas combined to be over eighty-three percent (83%) of our budget. The remaining seventeen percent (17%) of operating costs support general office administration.

Equipment:

Approximately one-third of one percent of our total budget is for equipment. This request is in accordance with our IT plan and our long-term strategic plan for equipment upgrades.

Contingency:

Is slightly more than one half of one percent of our budget. This line item is included in case of unexpected expenses during the biennium. This provides the opportunity for those unexpected expenses to be funded without having to utilize general funds.

Another way to look at our budget is by the major program areas:

Program Area	Budget	% of Budget	No. of FTE
Retirement	\$2,186,695	57%	14.87
Group Insurance	\$1,341,262	35%	9.95
FlexComp	\$331,523	8.5%	2.18

Last, I would like to discuss the initiatives contained in the executive recommendation in more detail.

The first initiative is the continued funding of our internal audit internship position. This is a temporary position that we presently have in PERS, that we are unable to maintain it in our base budget request. Therefore, we requested additional funding to continue this internship position. This additional resource in our internal audit division allows our full time internal auditor to perform audit services in areas such as: risk assessment, special projects and developing audit programs for the new Defined Contribution Plan and the new hybrid retirement plan which includes the new PEP program. This adjustment is to maintain our existing level of effort.

The second initiative relates to the agency Information Technology (IT) Plan and includes projects to allow members and employers to access information and certain benefit forms either by using an Interactive Voice Response system or the Internet. Development of these applications will provide for more efficient access and delivery of

our service and also enhance customer service by adding alternative methods for our customers to access information and complete forms. This will also expand our service to 24 hours a day, 7 days a week and will reduce paper work. These "e business" solutions are critical areas for PERS to continue to develop and implement, in order to insure that our delivery of services can be as efficient as possible.

The third initiative relates to the agency newsletters. PERS distributes 6 newsletters per biennium, 3 each year. Our base budget included funding for only 5 newsletters a biennium. The approved requested enhancement allows us to continue with 6 newsletters a biennium. Reduction in the number of newsletters lowers the level of customer service currently provided. This adjustment helps us to maintain the current level of service.

The fourth initiative relates to the replacement of computer hardware within the agency. PERS has adopted a 3-year replacement cycle for computer equipment to keep up with new technology. The base budget request does not include funding to replace all the computer equipment. The base budget does contain funding for four computers to be replaced this biennium and the remaining 23 PC will be upgraded with memory to enable them to run windows 2000. The optional adjustment includes funding to replace all the agency's personal computers. This will reduce the risk of having hardware that has limited functions and is inadequate to run new software releases.

The fifth initiative is for a new benefit specialist. While this was included in the executive recommendations of Governor Schafer and Governor Hoeven the House in

their review of our budget did not approve it. Specifically the House removed 1 FTE and \$88,910. PERS is requesting your consideration of restoring this funding and the FTE. Attached is a proposed amendment. The purpose of this position is to assist in the development of a member education program concerning investing and retirement planning. In 1997, a survey of our members showed that sixty percent (60%) of the respondents felt they had some knowledge of the risk associated with the various investment classes. This means that forty percent (40%) of our members have little or no knowledge of investment risk. This is a concern, since the new Defined Contribution Program and the Portability Enhancement Program (PEP) which were passed by the last legislature have called upon our members to become more involved in investing, financial planning and providing for their own retirement. Unfortunately we have not given them the tools to be successful. The addition of this position working together with the PERS Companion Plan provider, which is VALIC and Fidelity our DC provider will enable us to coordinate a program of investment/retirement seminars. With this position we believe that we could do approximately 400 seminars per year to groups of about 20 people. At this level of effort we could reach all our members every third year. Without this funding we estimate we could do approximately 30 seminars per year. At this level of effort we would reach about 600 people per year and our entire group every 25 years. This program is important since it would help give our members the tools necessary to engage in sound financial/retirement planning. With out these tools the members are likely to be unsuccessful and less prepared for retirement. Therefor we would appreciate your consideration of restoring this initiative.

Several items were not funded in the executive budget and these include:

1. Converting a temporary employee to permanent.
2. Increasing the internal audit position intern to full time to assist in monitoring our contracts.
3. Increasing our half time IT position to full time.

Also we are continuing to monitor new federal requirements arising pursuant to the Health Insurance Portability and Accountability Act (HIPAA). While we know they will have a significant effect on the Health Plan, at this point it appears this effect will be primarily on our carrier, Blue Cross Blue Shield. However, we are continuing to review these new regulations to determine if they would have any effect on the PERS administrative budget. At this point we have not determined any effect and therefore, we have not requested any compliance funding as part of the budget before you today.

As indicated in the executive recommendation, the funding source for our proposed budget is special funds. This means the administrative cost are paid directly from the various programs the agency administers, such as the retirement fund, health fund and the FICA tax savings generated through the FlexComp program.

Mr. Chairman, members of the committee, I thank you for allowing us this opportunity to present our proposed budget.

This concludes my testimony.

PROPOSED AMENDMENT TO ENGROSSED HOUSE BILL 1025

Page 1, line 18, replace "2,237,072" with "2,314,750"

Page 1, line 19, replace "1,500,998" with "1,507,730"

Page 1, line 20, replace "7,500" with "12,000"

Page 1, line 22, replace "3,770,570" with "3,859,480"

Page 1, line 23, replace "6,560,703" with "6,649,613"

Renumber accordingly

HB 1025

	Months in place	One-time costs	Ongoing costs	Total
Internet projects:				
Employee Authentication	20	7,173	1,340	8,513
FlexComp enrollment	20	6,561	14,960	21,521
FlexComp inquiry	12	3,170	8,316	11,486
Deferred Comp enrollment	6	18,125	5,160	23,285
Deferred Comp inquiry	6	3,170	4,158	7,328
Payroll clerk functions	6	5,115	3,488	8,601
Additional payroll clerk functions	6	10,230	4,674	14,904
Retirement account inquiry/ben calc	10	10,786	8,050	18,836
Retirement refund	10	5,671	4,310	9,981
		70,001	54,454	124,455

IVR projects:				
FlexComp enrollment	20	17,400	3,800	21,200
FlexComp inquiry	12	15,200	2,280	17,480
EAP	18	9,400	1,710	11,110
Retirement account inquiry/ben calc	10	14,400	1,900	16,300
		56,400	9,690	66,090
		126,401	64,144	190,545

		CC1000	CC2000	CC3000	CC4000	Total
Employee authentication	8,513	2,129	2,128	2,128	2,128	8,513
FlexComp enrollment	42,721				42,721	42,721
FlexComp inquiry	28,966				28,966	28,966
Retirement account inquiry/ben calc	35,136	35,136				35,136
Deferred Comp enrollment	23,285			23,285		23,285
Deferred Comp inquiry	7,328			7,328		7,328
Payroll clerk functions	8,601	2,151	2,150	2,150	2,150	8,601
Additional payroll clerk functions	14,904	7,452	7,452			14,904
Retirement refund	9,981	9,981				9,981
EAP	11,110		11,110			11,110
	190,545	56,849	22,840	34,891	75,965	190,545