

2011 SENATE APPROPRIATIONS

SB 2022

# 2011 SENATE STANDING COMMITTEE MINUTES

## Senate Appropriations Committee Harvest Room, State Capitol

SB 2022  
01-12-11  
Job # 12784

☐ Conference Committee

Committee Clerk Signature

*Alice Delzer*

### Explanation or reason for introduction of bill/resolution:

An appropriation for defraying the expenses of various state retirement and investment agencies.

### Minutes:

See "attached testimony."

**Chairman Holmberg** called the committee to order on SB 2022 pertaining to **Public Employee Retirement System**.

All committee members were present except **Senator O'Connell**. **Lori Laschkewitsch, OMB** and **Sara Chamberlin, Legislative Council** was also present.

**Roxanne Woeste, Legislative Council**, informing **Appropriations Committee** usage of new computer system.

**Sparb Collins, Executive Director of ND Public Employees Retirement System, (PERS)** (Attached Written Testimony #1).

**Vice Chairman Grindberg** asks if the additional requirement, services and coverage, as far as the SB 2022, have you been anticipating implementation of the federal health care legislation and what is your opinion of that?

**Sparb Collins** states from their plan prospective, which is much narrower than the insurance commissioner perspective, across all of the plans. We know to date, as of July 1, 2011, underneath the healthcare reform law, we had to include additional benefits in our plan. This is paid for in the 7% or 3 ½ per year. We have to provide coverage to "Dependents" through age 25 and get rid of lifetime maximum in the plan.

**Sparb Collins** states **Commissioner Hamm, North Dakota Insurance Dept.** points to an annual increase. **ND PERS** is biennial.

**Chairman Holmberg** states we have new members on the committee. They are not familiar with your first item, \$81,000. Could you explain why there is \$81,799 that could pay for the second year or the pay increases that we gave last time?

**Sparb Collins** states the last biennium there was a 5% adjustment the first year, and a 5% adjustment the second year. Now this year, as we go forward, it needs to be funded for 24 months.

**Chairman Holmberg** reminds the committee that there were bills that were worked on, with the interim committee, regarding changes to the system. Those are bills that are making their way through the process. In SB 2022, what we deal with is just the administration of the program, not the benefits that are doled out under the particular program.

**Senator Warner** asks to go back briefly on the history of things we should be looking for?

**Sparb Collins** states we're still in the process of implementing. Also, we have a ways to go but where we are at, is that, the program was approved two biennium's ago. This program maintains all of the records and data for the ten retirement plans. It does all of the things for our group insurance programs. We have implemented the program. We are still struggling, 90 days in this system.

**Vice Chairman Grindberg** asks, "What is our annual premium to BC/BS for state employees?"

**Sparb Collins** states we pay BC/BS for all our lines of business, which is state and participating political subdivisions is about \$18M per month.

**Vice Chairman Grindberg** asks, "What would be general fund, state appropriation?"

**Sparb Collins** comments that the state is 50 or 60% of our business. The state would be approximately 9-9 ½ million maybe 10M. The general fund underwrites about 50% of the state with other funding sources. Now it is down to about \$4.5M, coming from the general fund.

**Vice Chairman Grindberg** asks, "What are the implications because of federal health care law, that is significant dollars?"

**Sparb Collins** states that on \$18M, every 10%, is \$1.8 million a month.

**Chairman Holmberg** requests everyone to go to RIO section of bill.

**John Gessinger, Executive Director and Chief Investment Officer for the Retirement and Investment Office**, turns testimony over to **Connie Flanagan**.

**Connie Flanagan, Fiscal and Investment Officer** testified in favor of SB 2022 and gave electronic testimony. (Written Testimony attached # 2.)

**Chairman Holmberg** states that the TFFR bills are in the House, so the bottom line is, if there were changes, we would not have them. For new members, you can see the huge drop in 2007-2008 in the assets and that is one of the reasons why there are some bills for the legislature consideration to look at that. Also, there are other bills that deal in the same area as retirement. They are all separate bills.

**Senator Christmann** asks on the budget line, "Is that what we are paying out?"

**Connie Flanagan** states that the "budget line" is our requested appropriation for each biennium. These are our current requests for administration of our programs.

**Senator Wanzek** states that funds that you use for the budget, sees that there is no general fund. They are special funds, "Where do they come from?" "Do they come from investment funds?"

**Connie Flanagan** states that they come from contributions from **Teachers Retirement Program** and investment earnings from the investment program, the investment earnings.

**Senator Kilzer** asks if this new FTE has additional duties? It sounds from the audit report; you need to have a deputy, if something happens to the main person. In the meantime, what are their responsibilities?

**John Gessinger** states that in addition to the deputy chief officer, that person will also assist me and provide additional prospective and point, counterpoint, as we do due diligence on the managers that we hire for the fund.

**Senator Warner** asks, "What percentage of investments are in ND, what percentage are out of the United States?"

**John Gessinger** states that we have one program, a commitment with Bank of ND to provide funding for their matched loan program. It provides funding, low cost funding for companies in the state of ND. Under the exclusive benefit rule, there is a fairly high standard for investment, returning costs for those types of specific investments. Outside the U.S., under allocation, assets committed to international equity and international fixed income.

**Senator Warner** asks, in testimony it was stated, a "prudent investor standard". Could you address levels of standards?

**John Gessinger** states the "prudent investment" rule is what all of our funds operate under, a rule a fiduciary must follow, in the management of the funds. In the "prudent person" rule, it would be consistent, as if someone who has the knowledge and expertise would pursue. The "exclusive benefit rule", called "pay to play", where fund assets or dollars were used to pay or contributions were received from various consultants, could be viewed a conflict of interest. When I say "exclusive benefit" everything has to be done for the benefit of the

retirees of the plans. That is an additional standard above and beyond the “prudent personable.” We have a “conflict of interest” policy, not only for me and other members of the investment staff, but also the board members for both **TFFR** and the state investment board.

**Senator Christmann** asks is there a brief answer to this question? “If I look at **TFFR** and **PERS**, back in 1989, **TFFR** was about 40%? Why is **TFFR** not doing as well as the **PERS**?”

**John Gessinger** states that the teachers fund is sole for teachers, under **PERS**, we have several clients, lifting the assets of the State Investment Board relative to the **TFFR**.

**Sparb Collins** states that he doesn't know if this answers the question but a contributing variable is over that time period, there has been changing membership, of course when you have additional members come in, we have more contributions come in. **TFFR** stays stable, with some of the membership going down slightly over the decade. That will influence that number in addition to investments.

**John Gessinger:** Just to follow up from a return standpoint over the last 20 years, the **TFFR** has generated a return, in 25 years, of 7.86%, where as **PERS**, is 8.3%.

**Chairman Holmberg** asked if there was further testimony and if everyone has signed in.

**Senator Christmann** states that begs a very good question. Do we manage these accounts, strictly focusing on growth in the account value? Or do we give some favorable consideration for investments in ND companies or companies that are going to do business in ND in order to promote investment in ND?

**Chairman Holmberg** states that we have had over the year's bills, that purportedly do some movement in that direction. (Meter 62.22)

**John Gessinger:** The concept of “directed investments” coming out of the retirement plans that is where we fall under the “exclusive benefits rule” that the funds have to maintain. Any investment we make has to be the exclusive benefit of the retirees and can't be of any ancillary benefits to any other constituency. That can't be factored in to what the expected returned cost or risk of that investment is. If we find an attractive investment in ND, we have to look at it with a blind eye towards its location.

**Senator Christmann** asks, “Who handles the “Legacy Fund”?”

**Lori Laschkewitsch** states unless there is some legislation this biennium, there is not direction, as to who it is that's going to be investing that.

**Vice Chaiman Grindberg** comments that Senator Christmann raised an interesting question. A few years ago, I introduced a bill to try and utilize some funding for venture capital purposes to seed ND businesses. It did not make it very far. What is interesting is a portfolio mix. At the time, there were 2-3 “venture capital firms”, one or two in Chicago, that had managed about \$100 million of **TFFR**. Those companies take capital out of the state and they go play the “venture capital game” across the nation, just not in ND. I made a call

on one of these companies and made a presentation, and stated they are receiving a significant amount of ND capital, let's look at some deals in ND. What was interesting is that with the size of this fund the approach we had at the time, a certain percentage, take a portion of that and invest in ND businesses and the state should backstop that on a return, trying to stimulate some of that into the state and we've never done that, most people don't know that there is a significant portion in high risk, just not in ND.

**John Gessinger:** Is that an option?" We do have private equity investment. We have outsources. They are looking for the best opportunities. I don't know if any investments, in our private equity fund, happen to be with companies located in ND. If you would like to know, I can find that out. We have seen an increased focus on infrastructure investing in our portfolios. We expect that to continue in terms of providing growth and inflation protection. ND is focused on alternative energy and infrastructure development. So there could be opportunities for our managers to find opportunities in the state. That is not our direction, to direct.

**Senator Warner** states that, "This is really not our money". We are honest stewards of teachers' money and retiree's money. But the two funds, **Legacy Fund**, specifically, and who manages the common schools trust fund? Someone suggests Land Fund and **Senator Warner** states that it is actually our money. I support proposition that we should be directing some of those monies, not your monies, towards investment in ND. I would be interested in that conversation. Those are huge amounts of money and the **Legacy Fund** is going to be enormous over the years. I think it is entirely appropriate that some of that money be directed towards things which we may think is a secondary return. Rather than "exclusive benefits".

**Senator Wanzek:** I am assuming a prudent investor doesn't invest in the commodity market?

**John Gessinger:** Commodities can be a place in a diversified portfolio. A prudent person focuses on diversification and prudency undue risk. A person would not have a portfolio of 100% commodities, as with **PERS**, **TFFR** is also undertaking a new asset allocation study. Our expectation is there will be a portion of the portfolio that will be focused on "real assets". It is sectors of the market that are looking to "keep pace and outperform inflation". We currently have real estate infrastructure in there and certainly commodities are an asset class that may be considered for investment in the fund.

**Chairman Holmberg** instructed the committee how to save this information on their computers and closed the hearing on SB 2022.

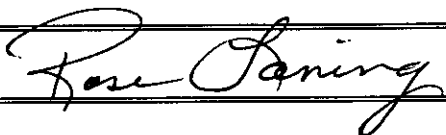
# 2011 SENATE STANDING COMMITTEE MINUTES

## Senate Appropriations Committee Harvest Room, State Capitol

SB 2022  
February 10, 2011  
Job # 14362

☐ Conference Committee

Committee Clerk Signature



### Explanation or reason for introduction of bill/resolution:

**An appropriation for defraying the expenses of various state retirement and investment agencies.**

### Minutes:

You may make reference to "attached testimony."

Chairman Holmberg called the committee hearing to order on SB 2022.

Senator Wardner explained the budget.

**Senator Wardner moved Do Pass.  
Senator Grindberg seconded.**

There was discussion about salaries, retirement funds and FTEs.

**A Roll Call vote was taken. Yea: 13 Nay: 0 Absent: 0  
(Senators Kilzer, Krebsbach and Robinson were in committee hearings and voted later)**

**Senator Wardner will carry the bill.**

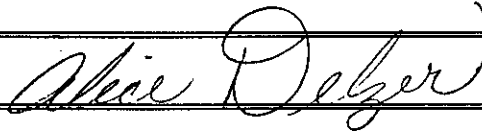
# 2011 SENATE STANDING COMMITTEE MINUTES

## Senate Appropriations Committee Harvest Room, State Capitol

SB 2022  
04-06-2011  
Job 16380 (Meter 8.59-12.14)

☐ Conference Committee

Committee Clerk Signature



### Explanation or reason for introduction of bill/resolution:

A discussion in full committee on SB 2022, PERS, DO CONCUR (Several Senate Bills were discussed briefly on this Job: 2006, 2019, 2022, 2275)

### Minutes:

You may make reference to "attached testimony."

**Chairman Holmberg** called the committee to order on Wed, April 6. Roll call was taken. All committee members were present. Tad H. Torgerson, OMB and Brady Larson, Legislative Council. were also present.

**Chairman Holmberg:** We will deal with SB 2022, State Retirement and Investment Board. That's a bill that was carried by Senator Wardner. We did not have a subcommittee on that. Their (the House) amendments do one thing. It changes the day compensation rate for TFFR and the State Investment Board and Public Employees Retirement System (PERS) from \$62.50 per day, which is the rate legislators made a long time ago to the current rate that the legislators make of \$148 a day. That is the change in the bill.

**Senator Wardner:** I agree with that. It's kind of hypocritical to have us one place and then another.

**Chairman Holmberg:** Senator Wardner would carry the bill. I said DO CONCUR.

**Senator Christmann:** Just a thought on that, having worked quite a bit on some ideas regarding the Investment Board, I believe their meetings almost always are over by noon. I think most of their meetings are two to three hours. And I know that does happen occasionally to us during the interim too but there's a lot more of them that go from early in the morning to late at night. I think there's a difference there.

**Chairman Holmberg:** I do know that when we have emergency commission, which is up to two hours we get half a day's salary. We don't get the \$148.00.

**Senator Christmann:** Maybe before we completely concur just find out for sure if we are talking about full days or half days. He was told to check into that.



**Senator Kilzer:** What about those teleconference calls, is there reimbursement for those or not at the same level?

**Chairman Holmberg:** yes, because that's what the legislature gets. When we're having emergency commission, we get half day's pay even though we are on the phone for two hours. But, obviously, you don't have in that case the travel and meals and things like that.

The discussion was closed on SB 2022.

Date: 2-10-11  
Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 2022

Senate Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken: ☒ Do Pass ☐ Do Not Pass ☐ Amended ☐ Adopt Amendment  
☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Wanner Seconded By Grindberg

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Warner	✓	
Senator Bowman	✓		Senator O'Connell	✓	
Senator Grindberg	✓		Senator Robinson	✓	
Senator Christmann	✓				
Senator Wardner	✓				
Senator Kilzer	✓				
Senator Fischer	✓				
Senator Krebsbach	✓				
Senator Erbele	✓				
Senator Wanzek	✓				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Wardner

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

**REPORT OF STANDING COMMITTEE**

**SB 2022: Appropriations Committee (Sen. Holmberg, Chairman)** recommends **DO PASS**  
(13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2022 was placed on the  
Eleventh order on the calendar.

**2011 HOUSE APPROPRIATIONS**

**SB 2022**

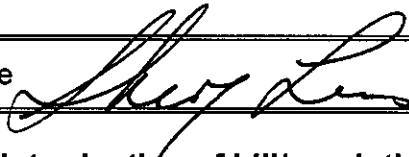
# 2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division  
Medora Room, State Capitol

SB2022  
March 7, 2011  
Recorder Job# 14984

☐ Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of various state retirement and investment agencies; to provide various transfers; and to declare an emergency.

## Minutes:

**Chairman Thoreson:** Opened the hearing on SB2022.

**Sparb Collins, Executive Director, North Dakota Public Employees Retirement System:** See attached testimony 2022.3.7.11A.

**Chairman Thoreson:** Who gets assigned to that plan?

**Sparb Collins:** Last legislative session it was approved to include the employees of the Bureau of Criminal Investigation in the law enforcement plan. It's only those employees who are there and they're in the Attorney General's office.

**Chairman Thoreson:** They're in the Attorney General's office but they're in a separate plan than other members of the Attorney General's staff?

**Sparb Collins:** Yes.

**Representative Kempenich:** Is this the total number of people that are on PERS?

**Sparb Collins:** Yes.

**Representative Kempenich:** They're getting paid out?

**Sparb Collins:** They are retirees and active members. Referenced testimony.

Testimony continued.

**Representative Kempenich:** There's some defined contribution and defined benefit people; and I know non-classified people can go either way?

**Sparb Collins:** The 401A is the non-classified group that has the option to join the defined contribution plan. When the system was originally offered in 1999, there was about 620 that were eligible to make the election and about 38% made the election. Since that time, the number electing that has steadily declined out of the non-classified group.

**Representative Kempenich:** As long as we're on this chart, go to the Highway Patrol; it shows 133, but we have 109 retirees. How come the number versus the FTE's are so different?

**Sparb Collins:** The ratio of retirees to actives?

**Representative Kempenich:** When was this chart updated?

**Sparb Collins:** It's about 1 year old.

**Representative Kempenich:** Why is there such a discrepancy?

**Sparb Collins:** If you look at the Highway Patrol office; you'll see a certain number of FTE's there. Out of the number of FTE employees in the Highway Patrol office, the sworn officers are in the Highway Patrol Retirement System. The non-sworn officers, such as support staff and other staff, are in the main PERS retirement system. Within the Highway Patrol budget only the sworn officers are going to be in the Highway Patrol retirement system; the non-sworn officers are going to be in the PERS Retirement System. The reason why is that system was set up so that the officers would have the opportunity to be able to retire a little earlier because of the requirements of the job.

**Representative Kempenich:** How come the differential is so high?

**Sparb Collins:** The Highway Patrol System is set up so they can retire at age 55. The law enforcement system; which was enacted in the earlier 2000's, also is set up at age 55. Because of the requirements of the job, it's felt that it's difficult for an officer doing the patrol at age 58 or 60. The Highway Patrol retirement system has been around longer; the main PERS system has only been around since 1977.

**Representative Kroeber:** The Highway Patrol is one that doesn't have social security?

**Sparb Collins:** Yes.

Testimony continued.

**Chairman Thoreson:** On page 6 you have a list of the 10 providers that the deferred comp people can choose from. How is that list determined and do those change at any point?

**Sparb Collins:** It does in fact change, it doesn't change very frequently; but, the determination is done under 2 things. Any provider that can meet the requirements we have; and our requirements are that they have to be able to meet all the federal requirements, have a qualified supplemental savings plan that can be done on a pretax

basis. If they come in they assume the fiduciary responsibility for the investments. We have a contract, if they can get 15 employees enrolled in that product, they can become eligible to offer that product to state employees. Most of them have annuity types of products. The other one is a competitive bid that we call the PERS companion plan. Under the PERS companion plan, we monitor the investments and maintain that responsibility. It's labeled the PERS companion plan, we bid that out every 6 years to providers; and if they're successful, they can become the PERS companion plan provider. That is the largest growing plan in this mix that's there and probably has some of the best rates in this plan.

**Chairman Thoreson:** Do they come looking for our business on a regular basis?

**Sparb Collins:** We just went out for bid a couple months ago and got back 6 or 7 responses. The due date for bids was last Friday and we had about 6 or 7 responses.

**Representative Klein:** Do you have any data on the number of people that are in each of those particular areas?

**Sparb Collins:** Yes, and we can give you the amount of contributions going in.

**Representative Kroeber:** You said that's a very competitive program; if you turn that into basis points, what would the basis points be for your investment in that plan?

**Sparb Collins:** To give you an idea in the 401A plan, which is the PERS defined contribution plan, the average account balance there is around \$20,000.00. The fee in that is there's a record keeping fee to Fidelity that's \$8.00 per year; and then the fees for the specific funds are going to vary based upon which ones you select.

**Representative Kroeber:** That will probably stay about the same. Is that the one where we talked about that they were assigned the 25% unless they signed out of it?

**Sparb Collins:** A couple of years we did submit a bill for what we call automatic enrollment; and people were going to be automatically enrolled in this at \$25.00 unless they elected out. That the bill did pass the house and senate; however, it was vetoed by the governor. More and more employers are going to automatic enrollment.

**Representative Klein:** Under this plan there's no matching; but it's a deferred compensation so it doesn't show up on their W2.

**Sparb Collins:** It will show up on the W2 but it shows up as going into the supplemental savings and not as a taxable item on the W2. The PEP program has incentive that was built in to encourage people to do this. What the PEP program say is if you put money in this 457 plan, we will vest you in the employer contribution in the defined benefit plan and make that portable for you. That's captured enough attention that people are starting to participate. We accomplished 2 things; we got people to save and we made the main system portable to those people that aren't career employees.

Testimony continued.

**Chairman Thoreson:** What provisions do you not have to comply with if you do the grandfathered plan?

**Sparb Collins:** By not being grandfathered, we do not have to meet some of the expanded wellness provisions. If we lost the grandfathered status, and had to add these other health provisions, they estimated it was about \$6.00 per contract per month that would be added on to our costs.

**Chairman Thoreson:** What's the total amount for that then?

**Sparb Collins:** It would add up to about \$2 million really quickly.

**Chairman Thoreson:** Do you have an idea when that's going to take place; whether you're going to be able to stay grandfathered or not?

**Sparb Collins:** At this point, we're positioning ourselves to stay grandfathered.

**Chairman Thoreson:** Who makes that final determination; is that something you determine or do the feds?

**Sparb Collins:** The federal governments process is that the employer makes a self determination as to whether they're grandfathered or not; the federal government can come along at any time and say you weren't grandfathered; then you're going to have to change your plan.

**Chairman Thoreson:** So those costs won't incur?

**Sparb Collins:** Yes. In implementing this it becomes more complicated because of our group; we have the state side and the political subdivision side. Not all of our political subdivision employers are going to be able to maintain their grandfathered status; within our plan, starting in 2011, we will have a grandfathered plan, a non grandfathered plan and those political subdivisions that aren't able to maintain their grandfathered status will end up in a non grandfathered plan. That plan will have the added benefits and the added costs that will be associated with a non grandfathered status.

**Chairman Thoreson:** Would it be possible to have a breakdown of those?

**Sparb Collins:** Yes.

**Representative Klein:** The abbreviations I forget EAP?

**Sparb Collins:** Employee's Assistance Program.

Testimony continued

**Representative Kempenich:** On the employer part of this on page 11. Why do we keep increasing are we getting more political subdivisions coming in?



**Sparb Collins:** Yes. The state side is pretty static in terms of employers so it's the political subdivision side of the relationship where we get some additions. We count each employer in each relationship that they have with us.

**Representative Kempenich:** How big is our percentage into political subdivisions are we with this plan?

**Sparb Collins:** On the political subdivision side, it's going to vary by program; on the retirement side most all of the counties are in PERS. The school districts are about 50% and the larger cities are on the retirement plan. On the health insurance side it varies. Each political subdivision makes their own election as to whether they want to participate with us or not; they also can make their own election as to whether they want to withdraw. That gets more complicated, if you're in the retirement program it gets more complicated to withdraw. In the health insurance plan you just have to agree to participate for 5 years after that. Some political subdivisions do elect to leave and some do elect to stay.

**Representative Kempenich:** This 58,000 you had on the health side of things; is that current? Those are all employed people aren't they?

**Sparb Collins:** That includes retirees as well.

Testimony continued.

**Representative Klein:** I see on the green sheet you're asking for another \$447,000.00 to improve the PERS link; how does that tie into this?

**Sparb Collins:** That's the maintenance fees. Now that the program has been developed, we have the ongoing maintenance of the program.

**Representative Klein:** The initial program cost you how much to put the it in place; and now a maintenance fee of \$447,000.00?

**Sparb Collins:** The initial cost over the 3 year period was \$9 million and then as you go forward with the program, you have to maintain the program, keep it current, do the adjustments to the program.

**Representative Kempenich:** It's renewing licensing?

**Sparb Collins:** It's the upkeep of the program plus it will also include changes of the program; if we have modifications that come up as a result of changes in statutes, federal provisions, etc.

**Representative Kroeber:** Maybe we should review just a little bit the contract with our subdivisions as far as what we're responsible for, what they pay for, what your staff does in handling those, etc.

**Sparb Collins:** Underneath the statute the subdivisions can join. As we look to the future, a lot of them have already joined; I don't see much of a lot of additional ones joining the plan. When they do elect to come into the plan, they do pay their fair share of the monies that are allocated here; part of that is assessed back to the political subdivisions.

**Representative Kroeber:** So they help with the dollars you're asking for on your maintenance, etc is shared with the subdivisions?

**Sparb Collins:** Yes. Those costs are assessed back to each of the respective funds. We were also paying maintenance fees prior to ITD for the old system.

**Representative Kempenich:** I think it would be good to do a comparison as I know we'll be asked that in full committee.

**Sparb Collins:** We'll be happy to do that.

Testimony continued.

**Representative Klein:** Let's go back to your draft legislation for funding retirement programs. Could you talk a little about that?

**Sparb Collins:** The legislation that was submitted this session is in SB2108; that just passed over to your chamber and the hearing is this Thursday before the government and veteran's affairs committee. The long term challenge that PERS faces as a result of the dramatic down turn in the market a couple of years ago is that if our contributions remain the same going forward; our contribution level is a total of 8.12%, 4.12% is employer contribution, 4% is employee contribution. If that remains the same and if the plan earned 8% going forward each year, the assets to the plan would be gone by 2041. Under the bill that we submitted, if contributions were increased; what we proposed was a shared increase in contributions between the employer and employee. It would be a 2% increase in January 2012, 2% in January 2013, 2% in January 2014 and 2% in January 2015 for a total of 8% increase. That would mean that the plan would return to a 100% funded status in 2042. At that time, the contribution level could drop back to around 9%. The senate in it's consideration amended 2108 and the increases that would occur in the following biennium in January 2014/2015, they amended out of SB2108; and left in the increases for 2013 and 2014. Their thought was that if you need those contribution increases, which you probably will, come back to us next session with the updated information and we'll review it at that time. That's on the main system; similar adjustments are talked about for the small systems.

Testimony continued.

**Chairman Thoreson:** Who do you use as your PBM for your pharmacy?

**Sparb Collins:** We have a single contract with Blue Cross Blue Shield. They have a contract with a company called Prime Therapeutics; that's the company that they use.

**Chairman Thoreson:** Did you conduct an audit of Prime Therapeutics?

**Sparb Collins:** Yes.

**Chairman Thoreson:** Do you have the results of that?

**Sparb Collins:** We'd be happy to share the report.

Testimony continued.

**Representative Klein:** Do you still have that agreement with Blue Cross Blue Shield that you share on the savings?

**Sparb Collins:** Yes. Underneath that agreement with Blue Cross Blue Shield, we're technically fully insured; but we enjoy a lot of the benefits of being self insured. Right now, that agreement says that we will share in any gains. With Blue Cross Blue Shield we share 50/50 in the first \$3 million and after that we get all the rest back. While the money is in the account at Blue Cross Blue Shield, that account gets interest based upon the 5 year T bill rate and we take a look at that periodically. That interest is also part of the settlement; so, that comes back to us as well. Last biennium they took a loss so there wasn't any real return that came back.

**Representative Klein:** If I remember correctly, you don't share in the loss?

**Sparb Collins:** We do now. We didn't at that time; but, in order to reduce we share 50/50 in the first \$2 million. They absorb most all of any loss.

**Representative Kempenich:** Do you have a comparison chart over the last 3-4 bienniums what has happened with that?

**Sparb Collins:** That shows in the chart. Referenced testimony.

**Representative Kempenich:** Have you been trying to see what we've been doing right?

**Sparb Collins:** We've got the full scope of programs that are a part of this; but, in the last several years we've added to that. We have a much more aggressive wellness program. We have an employer based wellness program that the legislature approved where we're encouraging employers to send wellness messaging. They get a 1% reduction in their premium if they do that. Premium rates are set 1% higher than what they have to be to fund the medical; and if you do a wellness, you don't have to pay that 1% higher. One thing that may have made a big difference is the talk of health care reform.

**Representative Glassheim:** What are the major causes of the increases? Can you tell from your analysis of what we're paying out; is it doctor salaries, requirements to cover more?

**Sparb Collins:** Yes.

**Representative Glassheim:** What would we have to give up or do to moderate the increases?

**Sparb Collins:** It really is a combination of those things. If you look at the basic health care equation in terms of determining premium; it's the volume of services multiplied by the rate per service. It's a combination of things, we have utilization increases; those occur based on expansion of services and mandated services. 80% of our premium dollars are associated with 20% of our members and 80% of our members only use 20% of our health care dollars.

Testimony continued.

**Representative Klein:** Talk to me a little about your operating \$300,000.00 increase.

**Sparb Collins:** Most of that is associated with the ongoing maintenance of the system replacement project.

Testimony continued.

**Chairman Thoreson:** On HB1364 that high deductible plan, is that something you've working on?

**Sparb Collins:** That bill was submitted by Representative Carlson. He submitted it to the interim employee benefits committee; and the committee reviewed the bill. That bill has it's hearing in the senate this Thursday.

**Chairman Thoreson:** If that were to pass and signed by the governor, it says there was no additional staff requested; any idea of participation on something like that?

**Sparb Collins:** The bill would roll out that program in January 2012. Minnesota offered it and the first year; they got about 1% participation. Indiana offered and had well over 50% participation; but Indiana had much higher incentives than we're able to offer. I would expect that in the first year or two the participation maybe lower. The way it's set up now if you take the high deductible plan, your deductible will go up to about \$2,500.00. By accepting that risk, if you have a single contract, we will put in your health savings account about \$600.00 per year; and if you're in a family plan, we will put into your health savings account about \$1,600.00 per year.

**Chairman Thoreson:** Would it just be material sent to each participant?

**Sparb Collins:** The first \$20,000.00 is just going to cover the paper cost; but, that's not going to be the only way we're going to do it. A lot of our open enrollment is done electronically in terms of materials that are sent to people. We'll probably supplement it with an individual mailing to people.

**Chairman Thoreson:** I can see a lot of questions coming from something like this.

**Sparb Collins:** I expect there will be a lot of questions.

**Representative Kempenich:** On your bill you have an emergency clause, why the emergency clause?

**Sparb Collins:** That's so money can be transferred.

**Representative Kempenich:** So it stays with the appropriation?

**Sparb Collins:** Yes.

**Chairman Thoreson:** What's the remaining balance in that fund?

**Representative Kempenich:** \$13,000.00.

**Sparb Collins:** When that finished we figured we could just do the transfer; but, it does require specific legislative authorization to allow the transfer of money to go back.

**Representative Kempenich:** The senate didn't do much to your budget. Would you have a spend down sheet of where you're at; what you have left for the last 6 months?

**Sparb Collins:** Yes.

**Representative Glassheim:** What do you manage overall in dollars?

**Sparb Collins:** The retirement programs pay out about \$80 million a year in retirement benefits. On the health insurance side, I think the premiums for that probably bring in \$14 million a month on premiums; that goes off to Blue Cross Blue Shield. Most of the money does come in, goes through the agency as reconciled and on to the appropriate vendor.

**Representative Glassheim:** Do you do the investment or is most of that subcontracted out; and then what kind of asset?

**Sparb Collins:** John will get into that in more detail. At a broad level, the PERS board is responsible for the management of all those retirement systems; including setting up the investment strategy. The board adopts the investment policies and then sets up the proposed asset allocation. That's done through a study that done called Asset Liability Study. Once the board adopts and sets that basic framework, we turn that over to the state investment board and John will talk about that. Right now we're paying out more money than we're taking in.

**Representative Kroeber:** Talking about the health care benefit for the retirees, \$5.00 a month per year service, are more or less employees using that; about what percent actually take and use that program?

**Sparb Collins:** That program when it was originally set up never assumed that 100% was going to participate in the program. It's around 68% that take advantage of the program.

**Representative Kroeber:** Is that up or down or stays about the same?

**Sparb Collins:** It stays about the same.

**Representative Kroeber:** Have you made any changes in that?

**Sparb Collins:** Last session you made the change in the \$.50. Other than that it's remained pretty static. You're going to find in that program that those with more years of service are going to use at a greater ratio than those with less years of service.

**Representative Kempenich:** Representative Glassheim was talking about how you have some nice charts and I don't know if RIO is going to get into that as to what the assets are and how it's going to fluctuate. We can get a little into why we're looking at the rate increases.

**Sparb Collins:** The reason we're looking at that rate increase is because of the dramatic market downturn in 2009. At that time the fund had a loss of 24.5%. Since PERS started in 1977, this is the first time that a rate increase has been necessary. That was also the second downturn; we weathered the downturn in 2000 which was about a 6%-7% loss.

**Representative Kempenich:** Are these numbers reflecting the market taking care of part of this?

**Sparb Collins:** Yes. When the fund lost 24.5%, it also missed its 8% return objective. Last year we had a 13% return; you're real gain toward that 32.5% is about 5%. This year we have about 20%; so we're picking up.

**Representative Kempenich:** It's on a 5 year average?

**Sparb Collins:** Yes. The long term goal in the PERS and the teacher's retirement systems was to get to a retirement benefit that when combined with social security, meant that the average employee had 90% of their final average salary. Social security accounts for about 40% and the PERS system is somebody's average salary; so that meant the retirement system was seeking to get for a 25 year employee, about a 50% benefit. That meant that the goal had been for a multiplier of 2 and we've reached that goal in 1999 or 2001. Unless we all adopt a new goal, we've met that particular goal.

**Representative Kempenich:** What would a blended program where you had a lower defined benefit program and then had a higher contribution; what are the obstacles to have a program like that?

**Sparb Collins:** Those are called hybrid plans. You would probably hear us calling our plan a hybrid plan. You would have to go through a fairly detailed study; the challenge here again is paying off the unfunded liability.

**Representative Klein:** Would you provide us a list of your investment advisors and have you made any major changes in the last few years on them?

**Sparb Collins:** Since the investment advisors, money managers are under the state investment board, John would be able to supply that to you.

**Chairman Thoreson:** Closed the hearing.

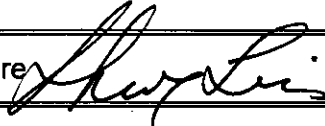
# 2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division  
Medora Room, State Capitol

SB2022  
March 7, 2011  
Recorder Job# 15000

☐ Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of various state retirement and investment agencies; to provide an exemption; to provide various transfers; and to declare an emergency.

## Minutes:

**Chairman Thoreson:** Continued with hearing SB2022.

**John Geissinger, Executive Director and Chief Investment Officer, North Dakota Retirement Investment Office:** See attached testimony 2022.3.7.11B.

**Chairman Thoreson:** That audit was done due to the passing? (Recording Glitch)

**John Geissinger:** I'm not aware of any historical conversations on that; but, certainly given the size and scope of the plan, the number of managers we have, size of the assets; I would strongly recommend it's appropriate for a plan this size.

**Chairman Thoreson:** That's something that we'll look at anytime there is an additional FTE request that those are the reasons for it.

Testimony continued.

**Representative Kempenich:** Are you through ITD for your IT hookups, etc.

**John Geissinger:** ITD handles our hookups, what I'm talking about is retirement administration software vendor.

Testimony continued.

**Representative Klein:** Where are your offices located at now?

**John Geissinger:** Our offices are on Burnt Boat Road; on the top of the hill, the bottom floor of one of the insurance agencies.

Testimony continued.



**Chairman Thoreson:** The assets are almost the same as they were in 2006; is that correct? They took a pretty significant bump in 2007, 2008, and 2009; but it's come back again.

**John Geissinger:** As you noticed there certainly was a decline; the recovery has come back, but, it's also important to keep in mind that the state investment board and RIO have garnered new clients since that period as well. One of those was the budget stabilization fund, the City of Grand Forks moved over to PERS and we're now managing their legacy fund.

**Representative Kempenich:** You're managing that one that got passed, there isn't any money in it now, are you involved with that also?

**John Geissinger:** Not at this point. There is current legislation in place; legislation's required to give the state investment board the authority to invest that, which was in the constitutional amendment, but, the funding mechanism hasn't been there. That is anticipated to come to RIO.

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Testimony continued.

**Representative Klein:** A question on that new FTE; basically, what are his duties going to be?

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**Representative Klein:** He would assist you is what you're saying?

**John Geissinger:** Yes.

**Representative Klein:** He would be your deputy?

**John Geissinger:** Yes. He would be my deputy handling the ongoing due diligence of our existing managers, reviewing new managers to bring into the program, monitoring the asset allocation, etc.

**Representative Kempenich:** Is he going to be initial and then you'd review what he's doing or would it be separate from what you're doing today?

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**Representative Klein:** Do you have a breakdown of who you use as your investment advisors and in what areas your major investments are and what categories?

**John Geissinger:** See attached testimony 2022.3.7.11C.

**Representative Klein:** Do you have a breakdown of how much there's invested with each of these advisors?

**John Geissinger:** Yes. See attached testimony 2022.3.7.11D.

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**John Geissinger:** Callen and Associates are our investment consultant for GFFR and PERS. They are currently reviewing and updating our asset allocation as a liability study for both of those plans. We anticipate getting their recommendations in the next month or so and will be bringing that to the board for implementation. In terms of any changes, there was not much done after the premature passing of Mr. Cochran. I joined in December, reviewing all the managers, a recommendation was approved just last week at the state investment board. We voted to move out of the European credit management structure; we're currently reviewing. I'll be recommending next week where those proceeds will go; it takes 60 days to get the proceeds out of that assignment. We're reviewing the structure, looking to focus our assets with our best managers; and also coming out of the asset allocation, we expect a few minor changes in how the assets will be allocated.

**Representative Kempenich:** Do you deal in any foreign currency?

**John Geissinger:** Referenced testimony 2022.3.7.11D.

**Representative Kempenich:** Do you review this quarterly or on a daily basis? How often do you review where you're at with this?

**John Geissinger:** The clients establish what their asset allocations are. Neither the SIB nor myself have any desire to be a tactical asset allocator or, in less kindly terms, a market timer. Connie Flanagan, our fiscal officer is monitoring these. Most of the reports we get on a monthly basis. We can estimate what their performance is mid-month; but, on a monthly basis we receive updated market values. If there are any discrepancies versus our target allocation, we'll begin rebalancing back to target.

**Representative Kempenich:** Have you seen any change in that trying to make up some ground?

**John Geissinger:** Their asset allocation may have been a little more aggressive than PERS, they had a slightly higher equity risk. In terms of the implementation or manager lineup, the managers overlap almost 100%. The one positive thing I've noticed as I've been reviewing all of our managers, I haven't seen any style drift or any increased risk posture and the managers trying to recoup their assets or their performance.

**Representative Kempenich:** We had a small fund get caught up in a PONSI type scheme; on the due diligence part of that is that, retrospectively, wasn't there any flags that really showed up on that?

**John Geissinger:** Unfortunately there weren't a lot of flags that had showed up on that one. The fund had been invested with that group several years prior; we were receiving their audited financial reports, reviewing those. All the states and large public funds were investing after we had done; so, they were doing due diligence as well. Unfortunately this was a situation where you get a few people to collude for fraud, it's hard to protect ourselves against it.

**Representative Kroeber:** Our fund has had a fairly high basis points; is that how you determine the costs of the investment?

**John Geissinger:** Yes.

**Representative Kroeber:** Compared with other systems, that ours rated at 65%? What is being done to help lower those costs?

**John Geissinger:** Callan also did a fee study this past summer. Management fees are very difficult at times to compare one program versus another program. If we were managed 100% in index funds, we could probably get this fund managed in the neighborhood of 5 to 10 basis points. Within our fixed income allocation, we have some investments in timberland; which is performing well. It also gives us a potential hedge against any unexpected increase in inflation; however, timber and the management of timberland costs more than managing some government bonds. That sort of distorts the performance. In addition, we have several managers that are paid strictly on a performance fee. We are going to be looking to reduce that aggregate number of managers so we can put more assets with managers and that will also bring our management fees down.

**Representative Kempenich:** Do you have a spend down of where your budget's at?

**John Geissinger:** Yes.

**Representative Kempenich:** We're just looking at IT changed the way they funded and we're looking at that. You have about a 17% increase in your data processing and we're just looking at how that affected agencies.

**John Geissinger:** We'll be happy to give you an updated schedule on that.

**Chairman Thoreson:** Closed the hearing.



# 2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division  
Medora Room, State Capitol

SB2022  
March 7, 2011  
Recorder Job# 15000

☐ Conference Committee

Committee Clerk Signature
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# 2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division  
Medora Room, State Capitol

SB 2022  
March 22, 2011  
15828

☐ Conference Committee

Committee Clerk Signature

*Merrett Tracholt*

## Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of various state retirement and investment agencies; to provide various transfers; and to declare an emergency.

## Minutes:

You may make reference to "attached testimony."

**Chairman Thoreson:** Opened discussion on SB 2022.

**Sparb Collins, Executive Director, North Dakota Public Employees Retirement System (PERS):** See attached testimony 2022.3.22.11A.

**Chairman Thoreson:** There's one that has just two participants?

**Collins:** That one is no longer an active provider; there are still two people contributing to it, but we don't have new people coming into that program.

**Chairman Thoreson:** What's the one with the Bank of North Dakota and 85 people, is that one that is still current?

**Collins:** Yes. In the 457 plan through the Bank, it's like a money market account. You can contribute to that fund and you get the savings rate that the Bank offers. The advantage is that it is riskless. If you go in the Fidelity program, there are a whole bunch of options.

**Chairman Thoreson:** Does Fidelity or the others provide something similar?

**Collins:** Actually, the others offer a whole array of mutual fund offerings. You select from the list of funds how you want to invest it and the level of risk you want.

**Chairman Thoreson:** Has the Bank looked at offering things other than what they're offering in this one plan?

**Collins:** They basically offer what they do, savings types of accounts.

**Representative Klein:** Do most of these offer a break from their usual charges?

**Collins:** The one we bid is the companion plan, and we seek through that bid the provider that offers us the lowest overall cost for our members.

**Representative Klein:** What's the average that they charge?

**Collins:** It varies. In the 457 plan now, Fidelity charges an account fee of around \$30.00 per year. There is a fee for each of the mutual funds as well. If you are in an index fund, it might be 25 basis points. If you actively manage a small cap fund, it might be 120 basis points. That's all identified for the members up front. Testimony resumed.

**Chairman Thoreson:** So 10-14 per contract per month, times how many contracts?

**Collins:** The state has approximately 13,000 contracts, on and off budget. If you take it by budgeted FTE, I think it's about 10,500. You need to take it times 24 to get the biennial cost. It adds up.

**Chairman Thoreson:** So that's 130,000.

**Collins:** You're a little over \$3 million for the biennium. At this point we're trying to maintain that grandfather status until we know what the full costs are.

**Chairman Thoreson:** What other things are you seeing that will impact you besides this?

**Collins:** When we built the budget that's before you today, we didn't include any additional costs for healthcare reform. We did acknowledge in our testimony that if there are some unanticipated expenses, we might have to draw from our contingency during the next biennium. At this point, we'll try to manage it within the budget we have without asking for additional funds. The impacts for us will probably be more on the benefits side. This \$10-14, if we had to absorb that, would be on the health insurance premium increases for our participants. Testimony continued.

**Representative Klein:** Going back to that manager on your drug, what does AWP stand for?

**Collins:** Average wholesale price. We don't contract with the pharmacy manager directly; we contract with BlueCross BlueShield (BCBS), who contracts with them. Testimony continued.

**Representative Kempenich:** On your IT contractual services, is that something that will still be spent this biennium? It looks like there is still \$200,000 left.

**Sharon Schiermeister, Chief Financial Officer, ND PERS:** That \$200,000.00 will be paid to our vendor, it's due in June 2011. It's a maintenance fee for our software. Our warranty period for our new system expires in May, and once that's over, we go into our production support, so there is an annual maintenance fee. It is in the budget going forward.

**Representative Kempenich:** Do you lease some office space?

**Schiermeister:** Yes, we lease space in the Wells Fargo bank building. This biennium we had some additional costs as we had to expand our space for the project team.

**Chairman Thoreson:** You're giving up some square footage you have now?

**Schiermeister:** Correct.

**Representative Klein:** Going back to the drug system, where you noted 2,662 claims were noted not in compliance. Tell us about that.

**Collins:** The PBM (pharmacy benefits manager) didn't agree with that, this was a finding by Tricast. The PBM came in and gave us their explanation of why they felt things were done correctly. Since it was a small dollar amount, we left it at that. The auditor found the vast majority of claims were being processed correctly.

**Representative Klein:** Is that fairly standard?

**Collins:** Our auditor thought this was one of the better audits we had gone through, in terms of findings. Recording error.

**Representative Klein:** I'm looking at total rebate dollars paid. Is that what you get back from the drug manufacturers?

**Collins:** That was just a sample of the claims that they looked at. We get a higher amount of rebates than that. Actually, the rebates don't come back to us; they go back to BCBS and go into our account with them, and then are subject to the final reconciliation.

**Representative Klein:** These are manufactured rebates that come back?

**Collins:** Yes. If BCBS includes them on their formulary, there are certain rebates that come back from the manufacturer to BCBS. The best way to do this, someday in the future, would be to have these rebates flow back to the members.

**Representative Kempenich:** What percentage is that of pharmaceutical use?

**Collins:** Pretty small. But it's significant enough to pursue for the plan, it is income to offset some of the costs. Our premium each month for BCBS is about \$14 million for all of our groups, and our claims go out at about \$12 million. Out of that, prescription drugs are going to be about a third. Also, BCBS actually paid for the audit for us.

**Representative Klein:** Refresh my memory on the IT contract services, where you went from \$200,000 to \$700,000. What was the application development?

**Schiermeister:** Prior to this year, our IT costs were primarily paid to ITD, because our system was on the mainframe. With the implementation of our new software, we now have a product that is maintained by a software vendor instead of ITD. Under IT contractual

services, those are the payments that we make to that vendor on an ongoing basis. The \$200,000 is the maintenance fee for this biennium, which is used to upgrade our software and prevent it from becoming technologically obsolete. The maintenance fee goes up to \$400,000 for next biennium. We also have production support of \$300,000, which continues to modify our system to meet changes such as state or federal legislative changes, rate changes, changes in carriers, fix bugs in the program, etc.

**Representative Klein:** So you're IT data processing and mainframe costs were reduced, but you made up for some of that with the contract cost.

**Schiermeister:** Correct.

**Representative Kempenich:** On that application development of \$300,000, is that yearly or per biennium?

**Schiermeister:** For the biennium.

**Representative Kempenich:** Is this going to be an ongoing cost as long as this system is in place? How long is this contract for?

**Schiermeister:** It's a two year contract. My understanding is, as long as we have the software, we will want to engage the maintenance service because we don't want to get a version that is behind. Our software is built on Microsoft tools, so we are staying with the market. As far as the support fee, that will depend on the changes that come, since it is to respond to those changes.

**Representative Kempenich:** Does this type of cost show up on a Fiscal Note?

**Collins:** The change that's being reflected here is really ongoing operational changes. We know we have rate changes that occur every year; those are ongoing business things we know will be there. Now, if you were to pass, for example, the high deductible health insurance plan (HDHP) bill, it does have a cost associated with changing our business system, which was reflected in the Fiscal Note when that bill moved through this chamber. Some changes will be more substantial than others.

**Representative Kempenich:** Is it based on an assumption of hours put in?

**Schiermeister:** Yes. The vendor is actually going to keep someone on site for the next two years, anticipating because the system is new, we'll require more assistance. They will also get our IT staff trained to help support the system. It actually funds four FTEs.

**Chairman Thoreson:** Anything else on this before we move on? Let's move on to the green sheet for PERS, see attachment 2022.3.22.11D.

**Representative Kroeber:** The \$13,000 in the general fund, that was oasis and that was not used?

**Collins:** That's correct. We didn't use any of it and we didn't draw it down either.

**Representative Kroeber:** In #1, it says remove operating expenses for rental space, was that for the PERS link, the new system? And that is really the system that took us off the mainframe?

**Collins:** Yes.

**Representative Kroeber:** You've been working on that how long?

**Collins:** Three years.

**Representative Kroeber:** How many million dollars did the project cost?

**Collins:** \$9 million. That's one of the reasons when we talk about an ongoing maintenance fee, we want to make sure that that investment stays current. We want to make sure this system can last us as long as possible, we're hoping at least 16-18 years like the last one.

**Representative Kroeber:** That brings us to #3, where it says add funding for changes in agency IT plan to support PERSLink, the \$447,348. You also lowered your operating expenses \$3538 in #4.

**Collins:** Yes, at the time of the budget. When we redid the spreadsheet just recently for you, there are some slight changes.

**Representative Kroeber:** Any of the bills that we have to be concerned with, like HB 1051?

**Chairman Thoreson:** HB 1051 has been passed and signed by the governor.

**Collins:** That doesn't have a direct impact on us. There is one bill that isn't mentioned in the green sheet, HB 1364, the HDHP bill, that did have an additional appropriation to us as I mentioned in the testimony of about \$91,000. Those were one-time expenses relating to changes in the business system and rolling out the new program.

**Representative Kroeber:** The fiscal note is in 1364 to support that, so we don't have to have it in this budget.

**Collins:** Correct.

**Representative Kroeber:** The other one mentioned is SB 2108.

**Collins:** It doesn't affect our administrative budget. It has a separate effect on getting the funds back to a sound funding status. It is split between the employer and employee; the Fiscal Note only reflects the employer cost.

**Chairman Thoreson:** Anything additional on PERS we need to discuss? We'll move on.

**John Geissinger, Executive Director and Chief Investment Officer, North Dakota Retirement Investment Office (RIO):** See attached testimony 2022.3.22.11B.

**Representative Kempenich:** What does your 'professional services' line consist of?

**Connie Flanagan, Fiscal Investment Officer, RIO:** We budget for some services from an outside firm to develop our printing and newsletters. With the legislation and the other circumstances surrounding our office in the last year, we had to send out a few extra newsletters. That is why the printing is also up a little bit.

**Representative Kempenich:** Are you run through ITD also?

**Flanagan:** We have some costs that run through ITD for the support of our online services for our members and employers. Some costs go through a private vendor.

**Representative Kempenich:** Has that been a new initiative?

**Flanagan:** We've been using it for quite a while, it's pretty mature and we've done a lot of work with it. The employee and employer online portion of that is newer and something we're still working on for the employees.

**Geissinger:** You had some questions on the IT data processing, see attachment 2022.3.22.11C.

**Chairman Thoreson:** What does CPAS stand for?

**Geissinger:** Canadian Pension Administration Software, they're our external vendor.

**Chairman Thoreson:** Anything else with ITD costs? If not, we'll move on to the green sheet for RIO, see attachment 2022.3.22.11E.

**Representative Kroeber:** First of all, is the additional FTE the new assistant director position?

**Geissinger:** Yes, that's the position for the deputy chief investment officer.

**Representative Kroeber:** That's why the increase in the total budget is as large as it is?

**Geissinger:** Yes, the budget was pretty much flat except for the FTE.

**Representative Kroeber:** Right, with the new position it's about a 14% increase.

**Geissinger:** Yes.

**Representative Kroeber:** The \$25,000 on #1 was needed to get the checks out for TFFR and operate that system, a one-time expense?

**Geissinger:** That's correct.

**Representative Kempenich:** What insurance do we invest in?

**Geissinger:** We manage money for workforce safety and insurance. We also have other non-pension funds that are included on the 'insurance' trust. It's labeled insurance, but you can think of it as non-pension assets.

**Representative Kroeber:** With the deputy director, do you have any ideas on how we can possibly lower our costs for investments we have?

**Geissinger:** There's all sorts of ways we can lower the explicit costs. The real question is whether in reducing the explicit costs, we reduce the return. In some regards, you get what you pay for. Incrementally, we continue to look at ways to keep our fees under control.

**Representative Kroeber:** When you talk about the basis points, is that just one part of the fees, and each time you buy new stock there are additional fees? What is the total?

**Geissinger:** The investment management fees are just an asset based fees that the manager charges on behalf of managing our funds. We have a custodian arrangement, which is where any processing charges will flow in, but the custodial costs are relatively low in terms of the basis point fee. The management fees related to activity of our managers, there is very little correlation between cost and trading activity.

**Representative Brandenburg:** Could you explain how you choose what to buy, your cost-risk analysis?

**Geissinger:** We're not buying individual stocks or bonds. We hire managers who buy securities on our behalf. When I'm talking about the management fees, I'm talking about the quality of the manager. Active managers charge a higher fee, but over time they generate excess performance; if we just try to minimize cost at all costs, we would just have passive investments, not charge much, but without the added value.

**Representative Brandenburg:** You have these people that recommend this stock and that stock and will give you a deal. Some of these are risky. I don't know that it's the basis cost that's important, you should be more concerned with investing in sound stock.

**Geissinger:** I appreciate that comment, that at the end of the day it's the total returns that the funds achieve net of all cost, and the big picture is more important than the little pieces.

**Representative Kempenich:** How soon did you want this new FTE coming on?

**Geissinger:** I haven't started looking yet, I'm waiting for the bill to pass. I have some informal feelers out, but I wouldn't say I'm actively looking.

**Representative Kempenich:** On this bill it would be effective July 1, do we want to change that?

**Geissinger:** I think July 1 is a reasonable start date. If I started actively looking tomorrow, I'd be hard pressed to have someone before that anyways. Our incentive will be to find the right person for this job.

**Representative Klein:** When you go out and ask for various outfits to do investments, do you have any guidelines? Have you ever looked at Vanguard?

**Geissinger:** Vanguard runs some of our equities.

**Representative Kroeber:** Do we have a list of all of the funds that you take and handle for the different groups?

**Geissinger:** The clients we have? Yes. That is listed in chapter 21 of the Century Code.

**Chairman Thoreson:** Anything else? I think we're good, thank you.



# 2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division  
Medora Room, State Capitol

SB2022  
March 23, 2011  
Recorder Job# 15902

☐ Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of various state retirement and investment agencies; to provide various transfers; and to declare an emergency.

## Minutes:

**Chairman Thoreson:** Opened the discussion on SB2022.

**Representative Kempenich:** I'd like to propose an amendment for the RIO investment board. It's been brought to my attention that the RIO board hasn't been updated for quite a while on reimbursements; they're sitting at \$62.00 yet for meetings. It's my proposal that we bring them up to \$148.00.

**Chairman Thoreson:** These are for the members serving on the board. Is that correct?

**Representative Klein:** Aren't most of the board members state officers?

**Chairman Thoreson:** I'm not sure.

**Lori Laschkewitsch, North Dakota Office of Management and Budget:** There are a variety of different rates that some of the boards are paid at. Some of them are tied to the legislative pay, some are at the \$62.50 rate. In addition to the RIO board being at the \$62.50; the PERS board is also at the \$62.50 per day rate.

**Representative Klein:** There are 2 boards, the PERS and RIO Board that you're talking about?

**Lori Laschkewitsch:** There's actually 3 boards; because the state investment board has the state investment board and the TFFR board, the teacher's board, under the RIO agency as well. The PERS board is under PERS.

**Representative Klein:** Isn't the board made up mostly of state elected officers?

**Kelly Schmidt, Treasurer, North Dakota Office of the State Treasurer:** There are 3 teacher members and 3 PERS members on the state investment board. The remainder of

them are either state employees or elected officials. The land commissioner, for example, would not receive a daily stipend because he's paid through his salary.

**Representative Klein:** We're referring to the non elected officials?

**Representative Kempenich:** It's not elected either; because the executive director for Work Force Safety is on there also.

**Kelly Schmidt:** So is the land commissioner.

**Sparb Collins, Director, North Dakota Public Employees Retirement:** The PERS board members are elected by the membership. Three are elected from the active members and 1 is elected by the retired members. Traditionally, 1 of our retired members has always served on the state investment board; the 2 other members who serve on the state investment board come from our active membership. Our active membership is active employees in the system.

**Representative Kempenich:** Is that statute?

**Sparb Collins:** I can only speak for the PERS side. Many years ago it was in statute at a fixed rate and then it went to be in statute at the legislative rate. Then it was changed by the legislature back to a fixed rate which was the \$62.50.

**Representative Kempenich:** That was in 1993.

**Sparb Collins:** I'm not sure if it's that way on the RIO side.

**Lori Laschkewitsch:** Those are fixed in statute also.

**Representative Kempenich:** I don't know if you want to put up to; I think we should address the issue as long as it's brought up. How does it read in statute?

**Lori Laschkewitsch:** They get per diem in addition to the \$62.50 per day.

**Chairman Thoreson:** So they are paid for travel lodging in addition to the \$62.50.

**Representative Kempenich:** It looks like most it's going to be 4 or 5 people. I guess we should just replace the \$62.50 and go with \$148.00.

**Chairman Thoreson:** Is that your amendment then?

**Representative Kempenich:** Yes.

**Representative Brandenburg:** Seconded the motion.

A voice vote was called and carried.

**Representative Klein:** Made a motion for a "Do Pass as Amended".

**Representative Kempenich:** Seconded the motion.

A roll call vote was made. 6 Yea's 0 Nay's 1 Absent.

**Chairman Thoreson:** Closed the discussion.

# 2011 HOUSE STANDING COMMITTEE MINUTES

## House Appropriations Committee Roughrider Room, State Capitol

SB 2022  
3/30/11  
16181

☐ Conference Committee

Committee Clerk Signature

*Meredith Tracholt*

### Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of various state retirement and investment agencies; to provide an exemption; to provide various transfers; and to declare an emergency.

### Minutes:

You may make reference to "attached testimony."

**Chairman Delzer:** Next is SB 2022.

**Representative Kroeber:** There is an amendment, .01002. It amends the appropriation bill for RIO (Retirement Investment Office) and PERS (Public Employees Retirement System). It's very simple, it increases the daily compensation for the 11 member state investment board and the seven member retirement board from the present \$62.50 to \$148 per day, which is the same as ours for meetings. They'll have to absorb these costs within their current operating budgets. A number of the board members do not receive this because they are in a position such as the state treasurer; this is just for the lay members of the boards. I move the amendment.

**Representative Thoreson:** Second.

**Chairman Delzer:** Was there any discussion in section about if this would affect other bills related to board compensation?

**Representative Kroeber:** I know that HB 1134 was passed by us but hasn't had a Senate vote; HB 1398 failed; SB 2302 is still in committee in the House.

**Representative Monson:** This is quite a large percentage increase. When was the last time this was increased?

**Representative Kroeber:** I don't know the answer to that.

**Chairman Delzer:** We're seeing bills come through that actually tie compensation to the legislative compensation rate instead of setting it at \$148. Was there discussion about doing that on this?

**Representative Kroeber:** The discussion we had was just that it takes and matches our rate.

**Chairman Delzer:** Further discussion on the motion to amend? Voice vote carries. We have the amended bill before us.

**Representative Kroeber:** Went over the green sheet for RIO, Department 190. Most of the increase is for an additional FTE, bringing the total to 18, which was recommended by their 2010 performance audit. Went over green sheet for PERS, Department 192. I move SB 2022 as amended.

**Representative Thoreson:** Second.

**Chairman Delzer:** We have a motion and a second for a Do Pass as Amended on SB 2022. The \$447,000 for the PERSLink, is that going to be a biennial cost?

**Representative Kroeber:** In committee when we talked about this program, which was a \$9 million project, which removed us from the old mainframe, at this point I'm not sure if that \$447,348 will be a continual program. They certainly will need money to continually update this system, as there are changes, some of which occur almost daily.

**Chairman Delzer:** Further discussion on the motion?

**Representative Thoreson:** Let me just add that this bill was the pilot for this half where the budget was presented electronically. If you're looking for information, it is on a website that was set up. When PERS and RIO came in and did their presentations, everything was done electronically. Some people printed the information; I purposely did not so I could get a feel for the paperless idea. Working off of the electronic system does present some certain challenges. It's nice to have that information electronically, but we did find when they were trying to update things quickly, it might not show up on the SharePoint site immediately.

**Representative Skarphol:** Were the two different proposals, the two different methodologies of budgeting, included in that particular scenario? Were the amendments presented as an addition to the baseline budget of last biennium, or not?

**Representative Thoreson:** They were not, they were presented in the form we were used to.

**Chairman Delzer:** Further discussion on the motion for a Do Pass as Amended. Seeing none, we'll call the roll. Motion carries 20-0-1. Representative Kroeber will carry the bill.

11.8126.01002  
Title.  
Fiscal No. 1

Prepared by the Legislative Council staff for  
House Appropriations - Government  
Operations

March 25, 2011

# PROPOSED AMENDMENTS TO SENATE BILL NO. 2022

Page 1, line 2, after the third semicolon insert "to amend and reenact sections 15-39.1-08, 21-10-01, and 54-52-03 of the North Dakota Century Code, relating to the per day compensation rates for the board of trustees of the teachers' fund for retirement, state investment board, and retirement board;"

Page 2, after line 23, insert:

**"SECTION 4. AMENDMENT.** Section 15-39.1-08 of the North Dakota Century Code is amended and reenacted as follows:

## **15-39.1-08. Compensation of members.**

Members of the board, excluding ex officio members, are entitled to receive ~~sixty-two one hundred forty-eight dollars and fifty cents~~ as compensation per day and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09 for attending meetings of the board. No member of the board may lose regular salary, vacation pay, vacation or any personal leave, or be denied right of attendance by the state or political subdivision thereof while serving on official business of the fund.

**SECTION 5. AMENDMENT.** Section 21-10-01 of the North Dakota Century Code is amended and reenacted as follows:

## **21-10-01. State investment board - Membership - Term - Compensation - Advisory council.**

1. The North Dakota state investment board consists of the governor, the state treasurer, the commissioner of university and school lands, the director of workforce safety and insurance, the insurance commissioner, three members of the teachers' fund for retirement board or the board's designees who need not be members of the fund as selected by that board, two of the elected members of the public employees retirement system board as selected by that board, and one member of the public employees retirement system board as selected by that board. The director of workforce safety and insurance may appoint a designee, subject to approval by the workforce safety and insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend. The teachers' fund for retirement board may appoint an alternate designee with full voting privileges to attend meetings of the state investment board when a selected member is unable to attend. The public employees retirement system board may appoint an alternate designee with full voting privileges from the public employees retirement system board to attend meetings of the state investment board when a selected member is unable to attend. The members of the state investment board, except elected and appointed officials and the director of workforce safety and insurance or the director's designee, are entitled to receive as compensation ~~sixty-two one hundred forty-eight dollars and fifty cents~~ per day and necessary mileage and travel expenses as provided in sections

44-08-04 and 54-06-09 for attending meetings of the state investment board.

2. The state investment board may establish an advisory council composed of individuals who are experienced and knowledgeable in the field of investments. The state investment board shall determine the responsibilities of the advisory council. Members of the advisory council are entitled to receive the same compensation as provided the members of the advisory board of the Bank of North Dakota and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09.

**SECTION 6. AMENDMENT.** Section 54-52-03 of the North Dakota Century Code is amended and reenacted as follows:

**54-52-03. Governing authority.**

A state agency is hereby created to constitute the governing authority of the system to consist of a board of seven persons known as the retirement board. No more than one elected member of the board may be in the employ of a single department, institution, or agency of the state or in the employ of a political subdivision. No employee of the public employees retirement system or the state retirement and investment office may serve on the board.

1. One member of the board must be appointed by the governor to serve a term of five years. The appointee must be a North Dakota citizen who is not a state or political subdivision employee and who by experience is familiar with money management. The citizen member is chairman of the board.
2. One member of the board must be appointed by the attorney general from the attorney general's legal staff and shall serve a term of five years.
3. The state health officer appointed under section 23-01-05 is a member of the board.
4. Three board members must be elected by and from among the active participating members, members of the retirement plan established under chapter 54-52.6, members of the retirement plan established under chapter 39-03.1, and members of the job service North Dakota retirement plan. Employees who have terminated their employment for whatever reason are not eligible to serve as elected members of the board under this subsection. Board members must be elected to a five-year term pursuant to an election called by the board. Notice of board elections must be given to all active participating members. The time spent in performing duties as a board member may not be charged against any employee's accumulated annual or any other type of leave.
5. One board member must be elected by and from among those persons who are receiving retirement benefits or who are eligible to receive deferred vested retirement benefits under this chapter. The board shall call the election and must give prior notice of the election to the persons eligible to participate in the election pursuant to this subsection. The board member shall serve a term of five years.

6. The members of the board are entitled to receive ~~sixty-two one hundred forty-eight dollars and fifty cents~~ per day compensation and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09. This is in addition to any other pay or allowance due the chairman or a member, plus an allowance for expenses they may incur through service on the board.
7. A board member shall serve a five-year term and until the board member's successor qualifies. Each board member is entitled to one vote, and four of the seven board members constitute a quorum. Four votes are necessary for resolution or action by the board at any meeting."

Page 2, line 27, replace "4" with "7"

Renumber accordingly

#### STATEMENT OF PURPOSE OF AMENDMENT:

#### Senate Bill No. 2022 - Summary of House Action

	Executive Budget	Senate Version	House Changes	House Version
Retirement and Investment Office				
Total all funds	\$4,232,954	\$4,232,954	\$0	\$4,232,954
Less estimated income	4,232,954	4,232,954	0	4,232,954
General fund	\$0	\$0	\$0	\$0
Public Employees Retirement System				
Total all funds	\$6,776,890	\$6,776,890	\$0	\$6,776,890
Less estimated income	6,776,890	6,776,890	0	6,776,890
General fund	\$0	\$0	\$0	\$0
Bill total				
Total all funds	\$11,009,844	\$11,009,844	\$0	\$11,009,844
Less estimated income	11,009,844	11,009,844	0	11,009,844
General fund	\$0	\$0	\$0	\$0

#### Senate Bill No. 2022 - Retirement and Investment Office - House Action

Section 15-39.1-08 relating to the per day compensation rate of the Teachers' Fund for Retirement Board of Trustees is amended to increase the rate from \$62.50 per day to \$148 per day.

Section 21-10-01 relating to the per day compensation rate of State Investment Board members is amended to increase the rate from \$62.50 per day to \$148 per day.

#### Senate Bill No. 2022 - Public Employees Retirement System - House Action

Section 54-52-03 relating to the per day compensation rate of retirement board members is amended to increase the rate from \$62.50 per day to \$148 per day.



Date: 3-23-11  
Roll Call Vote #: 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 2022.

House Appropriations Government Operations Division Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass as Amended

Motion Made By Representative Klein Seconded By Representative Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Thoreson	✓		Representative Glassheim	✓	
Vice Chairman Klein	✓		Representative Kroeber	✓	
Representative Brandenburg	✓				
Representative Dahl	✓				
Representative Kempenich	✓				

Total (Yes) 7 No 0

Absent \_\_\_\_\_

Floor Assignment Representative Kroeber?

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

March 25, 2011

VR  
3/30/11  
1063

PROPOSED AMENDMENTS TO SENATE BILL NO. 2022

Page 1, line 2, after the third semicolon insert "to amend and reenact sections 15-39.1-08, 21-10-01, and 54-52-03 of the North Dakota Century Code, relating to the per day compensation rates for the board of trustees of the teachers' fund for retirement, state investment board, and retirement board;"

Page 2, after line 23, insert:

**"SECTION 4. AMENDMENT.** Section 15-39.1-08 of the North Dakota Century Code is amended and reenacted as follows:

**15-39.1-08. Compensation of members.**

Members of the board, excluding ex officio members, are entitled to receive ~~sixty-two one hundred forty-eight dollars and fifty cents~~ as compensation per day and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09 for attending meetings of the board. No member of the board may lose regular salary, vacation pay, vacation or any personal leave, or be denied right of attendance by the state or political subdivision thereof while serving on official business of the fund.

**SECTION 5. AMENDMENT.** Section 21-10-01 of the North Dakota Century Code is amended and reenacted as follows:

**21-10-01. State investment board - Membership - Term - Compensation - Advisory council.**

1. The North Dakota state investment board consists of the governor, the state treasurer, the commissioner of university and school lands, the director of workforce safety and insurance, the insurance commissioner, three members of the teachers' fund for retirement board or the board's designees who need not be members of the fund as selected by that board, two of the elected members of the public employees retirement system board as selected by that board, and one member of the public employees retirement system board as selected by that board. The director of workforce safety and insurance may appoint a designee, subject to approval by the workforce safety and insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend. The teachers' fund for retirement board may appoint an alternate designee with full voting privileges to attend meetings of the state investment board when a selected member is unable to attend. The public employees retirement system board may appoint an alternate designee with full voting privileges from the public employees retirement system board to attend meetings of the state investment board when a selected member is unable to attend. The members of the state investment board, except elected and appointed officials and the director of workforce safety and insurance or the director's designee, are entitled to receive as compensation ~~sixty-two one hundred forty-eight dollars and fifty cents~~ per day and necessary mileage and travel expenses as provided in sections

283

44-08-04 and 54-06-09 for attending meetings of the state investment board.

2. The state investment board may establish an advisory council composed of individuals who are experienced and knowledgeable in the field of investments. The state investment board shall determine the responsibilities of the advisory council. Members of the advisory council are entitled to receive the same compensation as provided the members of the advisory board of the Bank of North Dakota and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09.

**SECTION 6. AMENDMENT.** Section 54-52-03 of the North Dakota Century Code is amended and reenacted as follows:

**54-52-03. Governing authority.**

A state agency is hereby created to constitute the governing authority of the system to consist of a board of seven persons known as the retirement board. No more than one elected member of the board may be in the employ of a single department, institution, or agency of the state or in the employ of a political subdivision. No employee of the public employees retirement system or the state retirement and investment office may serve on the board.

1. One member of the board must be appointed by the governor to serve a term of five years. The appointee must be a North Dakota citizen who is not a state or political subdivision employee and who by experience is familiar with money management. The citizen member is chairman of the board.
2. One member of the board must be appointed by the attorney general from the attorney general's legal staff and shall serve a term of five years.
3. The state health officer appointed under section 23-01-05 is a member of the board.
4. Three board members must be elected by and from among the active participating members, members of the retirement plan established under chapter 54-52.6, members of the retirement plan established under chapter 39-03.1, and members of the job service North Dakota retirement plan. Employees who have terminated their employment for whatever reason are not eligible to serve as elected members of the board under this subsection. Board members must be elected to a five-year term pursuant to an election called by the board. Notice of board elections must be given to all active participating members. The time spent in performing duties as a board member may not be charged against any employee's accumulated annual or any other type of leave.
5. One board member must be elected by and from among those persons who are receiving retirement benefits or who are eligible to receive deferred vested retirement benefits under this chapter. The board shall call the election and must give prior notice of the election to the persons eligible to participate in the election pursuant to this subsection. The board member shall serve a term of five years.

6. The members of the board are entitled to receive ~~sixty-two~~one hundred forty-eight dollars and fifty cents per day compensation and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09. This is in addition to any other pay or allowance due the chairman or a member, plus an allowance for expenses they may incur through service on the board.
7. A board member shall serve a five-year term and until the board member's successor qualifies. Each board member is entitled to one vote, and four of the seven board members constitute a quorum. Four votes are necessary for resolution or action by the board at any meeting."

Page 2, line 27, replace "4" with "7"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**Senate Bill No. 2022 - Summary of House Action**

	Executive Budget	Senate Version	House Changes	House Version
Retirement and Investment Office				
Total all funds	\$4,232,954	\$4,232,954	\$0	\$4,232,954
Less estimated income	<u>4,232,954</u>	<u>4,232,954</u>	<u>0</u>	<u>4,232,954</u>
General fund	\$0	\$0	\$0	\$0
Public Employees Retirement System				
Total all funds	\$6,776,890	\$6,776,890	\$0	\$6,776,890
Less estimated income	<u>6,776,890</u>	<u>6,776,890</u>	<u>0</u>	<u>6,776,890</u>
General fund	\$0	\$0	\$0	\$0
Bill total				
Total all funds	\$11,009,844	\$11,009,844	\$0	\$11,009,844
Less estimated income	<u>11,009,844</u>	<u>11,009,844</u>	<u>0</u>	<u>11,009,844</u>
General fund	\$0	\$0	\$0	\$0

**Senate Bill No. 2022 - Retirement and Investment Office - House Action**

Section 15-39.1-08 relating to the per day compensation rate of the Teachers' Fund for Retirement Board of Trustees is amended to increase the rate from \$62.50 per day to \$148 per day.

Section 21-10-01 relating to the per day compensation rate of State Investment Board members is amended to increase the rate from \$62.50 per day to \$148 per day.

**Senate Bill No. 2022 - Public Employees Retirement System - House Action**

Section 54-52-03 relating to the per day compensation rate of retirement board members is amended to increase the rate from \$62.50 per day to \$148 per day.

Date: 3/30  
Roll Call Vote #: 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 2022

House Appropriations Committee

Legislative Council Amendment Number 01002

Action Taken: ☐ Do Pass ☐ Do Not Pass ☐ Amended ☒ Adopt Amendment  
☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Kroeber Seconded By Rep. Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer			Representative Nelson		
Vice Chairman Kempenich			Representative Wieland		
Representative Pollert					
Representative Skarphol					
Representative Thoreson			Representative Glassheim		
Representative Bellew			Representative Kaldor		
Representative Brandenburg			Representative Kroeber		
Representative Dahl			Representative Metcalf		
Representative Dosch			Representative Williams		
Representative Hawken					
Representative Klein					
Representative Kreidt					
Representative Martinson					
Representative Monson					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

voice vote carries

Date: 3/30  
Roll Call Vote #: 2

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 2022

House Appropriations Committee

Legislative Council Amendment Number 01002

Action Taken: ☒ Do Pass ☐ Do Not Pass ☒ Amended ☐ Adopt Amendment  
☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Kroeber Seconded By Rep. Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X		Representative Nelson	X	
Vice Chairman Kempenich			Representative Wieland	X	
Representative Pollert	X				
Representative Skarphol	X				
Representative Thoreson	X		Representative Glassheim	X	
Representative Bellew	X		Representative Kaldor	X	
Representative Brandenburg	X		Representative Kroeber	X	
Representative Dahl	X		Representative Metcalf	X	
Representative Dosch	X		Representative Williams	X	
Representative Hawken	X				
Representative Klein	X				
Representative Kreidt	X				
Representative Martinson	X				
Representative Monson	X				

Total (Yes) 20 No 0

Absent 1

Floor Assignment Rep. Kroeber

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

**REPORT OF STANDING COMMITTEE**

**SB 2022: Appropriations Committee (Rep. Delzer, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (20 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2022 was placed on the Sixth order on the calendar.

Page 1, line 2, after the third semicolon insert "to amend and reenact sections 15-39.1-08, 21-10-01, and 54-52-03 of the North Dakota Century Code, relating to the per day compensation rates for the board of trustees of the teachers' fund for retirement, state investment board, and retirement board;"

Page 2, after line 23, insert:

**"SECTION 4. AMENDMENT.** Section 15-39.1-08 of the North Dakota Century Code is amended and reenacted as follows:

**15-39.1-08. Compensation of members.**

Members of the board, excluding ex officio members, are entitled to receive ~~sixty-two one hundred forty-eight dollars and fifty cents~~ as compensation per day and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09 for attending meetings of the board. No member of the board may lose regular salary, vacation pay, vacation or any personal leave, or be denied right of attendance by the state or political subdivision thereof while serving on official business of the fund.

**SECTION 5. AMENDMENT.** Section 21-10-01 of the North Dakota Century Code is amended and reenacted as follows:

**21-10-01. State investment board - Membership - Term - Compensation - Advisory council.**

1. The North Dakota state investment board consists of the governor, the state treasurer, the commissioner of university and school lands, the director of workforce safety and insurance, the insurance commissioner, three members of the teachers' fund for retirement board or the board's designees who need not be members of the fund as selected by that board, two of the elected members of the public employees retirement system board as selected by that board, and one member of the public employees retirement system board as selected by that board. The director of workforce safety and insurance may appoint a designee, subject to approval by the workforce safety and insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend. The teachers' fund for retirement board may appoint an alternate designee with full voting privileges to attend meetings of the state investment board when a selected member is unable to attend. The public employees retirement system board may appoint an alternate designee with full voting privileges from the public employees retirement system board to attend meetings of the state investment board when a selected member is unable to attend. The members of the state investment board, except elected and appointed officials and the director of workforce safety and insurance or the director's designee, are entitled to receive as compensation ~~sixty-two one hundred forty-eight dollars and fifty cents~~ per day and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09 for attending meetings of the state investment board.
2. The state investment board may establish an advisory council composed of individuals who are experienced and knowledgeable in the field of investments. The state investment board shall determine the responsibilities of the advisory council. Members of the advisory council

are entitled to receive the same compensation as provided the members of the advisory board of the Bank of North Dakota and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09.

**SECTION 6. AMENDMENT.** Section 54-52-03 of the North Dakota Century Code is amended and reenacted as follows:

**54-52-03. Governing authority.**

A state agency is hereby created to constitute the governing authority of the system to consist of a board of seven persons known as the retirement board. No more than one elected member of the board may be in the employ of a single department, institution, or agency of the state or in the employ of a political subdivision. No employee of the public employees retirement system or the state retirement and investment office may serve on the board.

1. One member of the board must be appointed by the governor to serve a term of five years. The appointee must be a North Dakota citizen who is not a state or political subdivision employee and who by experience is familiar with money management. The citizen member is chairman of the board.
2. One member of the board must be appointed by the attorney general from the attorney general's legal staff and shall serve a term of five years.
3. The state health officer appointed under section 23-01-05 is a member of the board.
4. Three board members must be elected by and from among the active participating members, members of the retirement plan established under chapter 54-52.6, members of the retirement plan established under chapter 39-03.1, and members of the job service North Dakota retirement plan. Employees who have terminated their employment for whatever reason are not eligible to serve as elected members of the board under this subsection. Board members must be elected to a five-year term pursuant to an election called by the board. Notice of board elections must be given to all active participating members. The time spent in performing duties as a board member may not be charged against any employee's accumulated annual or any other type of leave.
5. One board member must be elected by and from among those persons who are receiving retirement benefits or who are eligible to receive deferred vested retirement benefits under this chapter. The board shall call the election and must give prior notice of the election to the persons eligible to participate in the election pursuant to this subsection. The board member shall serve a term of five years.
6. The members of the board are entitled to receive ~~sixty-two~~ one hundred forty-eight dollars and ~~fifty cents~~ per day compensation and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09. This is in addition to any other pay or allowance due the chairman or a member, plus an allowance for expenses they may incur through service on the board.
7. A board member shall serve a five-year term and until the board member's successor qualifies. Each board member is entitled to one vote, and four of the seven board members constitute a quorum. Four votes are necessary for resolution or action by the board at any meeting."

Page 2, line 27, replace "4" with "7"



Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**Senate Bill No. 2022 - Summary of House Action**

	Executive Budget	Senate Version	House Changes	House Version
Retirement and Investment Office				
Total all funds	\$4,232,954	\$4,232,954	\$0	\$4,232,954
Less estimated income	4,232,954	4,232,954	0	4,232,954
General fund	\$0	\$0	\$0	\$0
Public Employees Retirement System				
Total all funds	\$6,776,890	\$6,776,890	\$0	\$6,776,890
Less estimated income	6,776,890	6,776,890	0	6,776,890
General fund	\$0	\$0	\$0	\$0
Bill total				
Total all funds	\$11,009,844	\$11,009,844	\$0	\$11,009,844
Less estimated income	11,009,844	11,009,844	0	11,009,844
General fund	\$0	\$0	\$0	\$0

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**Senate Bill No. 2022 - Retirement and Investment Office - House Action**

Section 15-39.1-08 relating to the per day compensation rate of the Teachers' Fund for Retirement Board of Trustees is amended to increase the rate from \$62.50 per day to \$148 per day.

Section 21-10-01 relating to the per day compensation rate of State Investment Board members is amended to increase the rate from \$62.50 per day to \$148 per day.

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**Senate Bill No. 2022 - Public Employees Retirement System - House Action**

Section 54-52-03 relating to the per day compensation rate of retirement board members is amended to increase the rate from \$62.50 per day to \$148 per day.

2011 TESTIMONY

SB 2022

**TESTIMONY  
OF  
SPARB COLLINS  
ON SENATE BILL 2022**

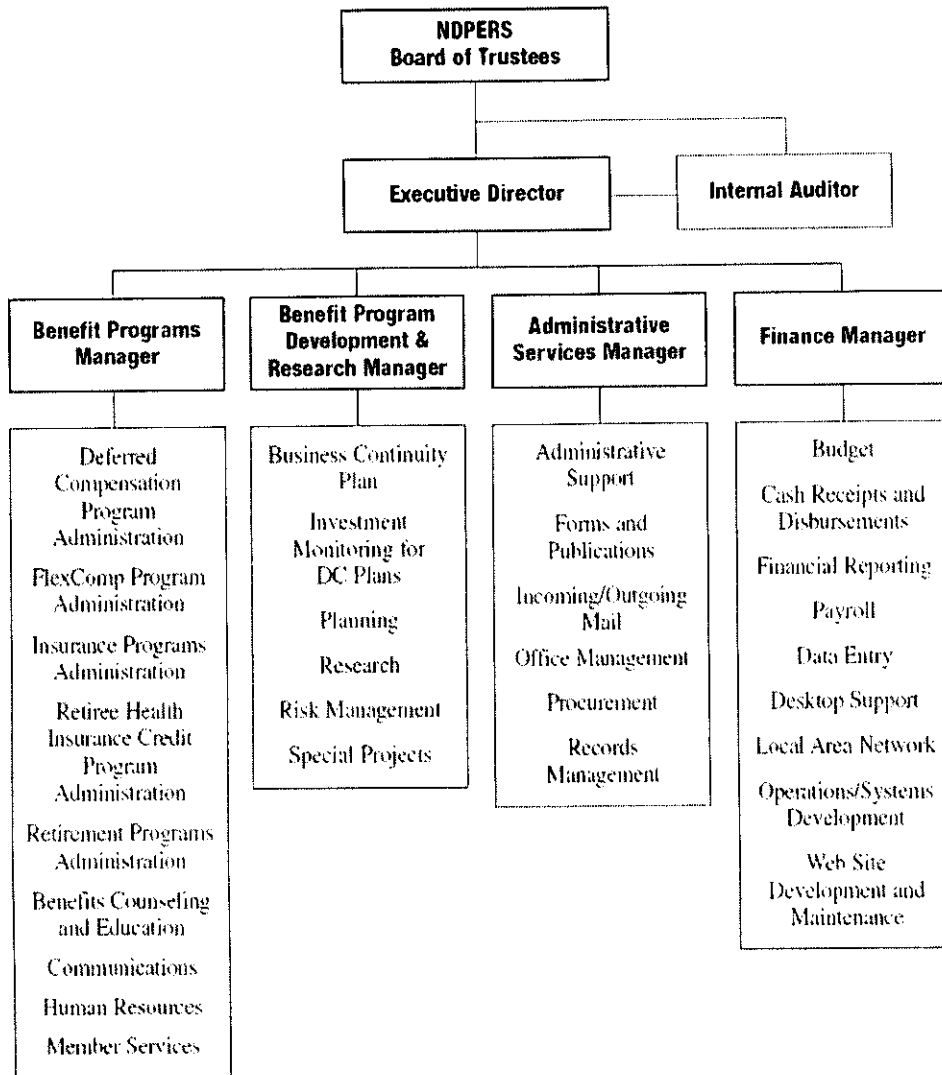
Mr. Chairman, members of the committee, good morning my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System or PERS. Today I appear before you to give you an overview of our agency, our work efforts and our budget request.

**Agency Overview**

First let me start by providing an overview of our agency. PERS is directed by a Board composed of the following members:

Chair (appointed by Governor)	Jon Strinden
Appointed by Attorney General	Tom Trenbeath
State Health Officer or Deputy	Arvy Smith
Elected	Levi Erdmann
Elected	Joan Ehrhardt
Elected	Mike Sandal
Elected	Howard Sage

Administratively PERS is organized as illustrated:



The PERS program responsibilities fall under two broad categories – retirement and group insurance. Section 54-52-02 states the overall mission for the retirement program as: "...to provide for the payment of benefits to state and political subdivision employees or to their beneficiaries thereby enabling the employees to care for themselves and their dependents and which by its provisions will improve state and political subdivision employment, reduce excessive personnel turnover, and offer career employment to high grade men and women". Similarly state statute establishes the

overall mission for the group insurance plan as: "In order to promote the economy and efficiency of employment in the states service, reduce personnel turnover, and offer an incentive to high grade men and women to enter and remain in state service, there is hereby created a uniform group insurance program". Concerning the retirement programs, the following table gives you an overview of the programs and some statistical information:

January 1, 2010

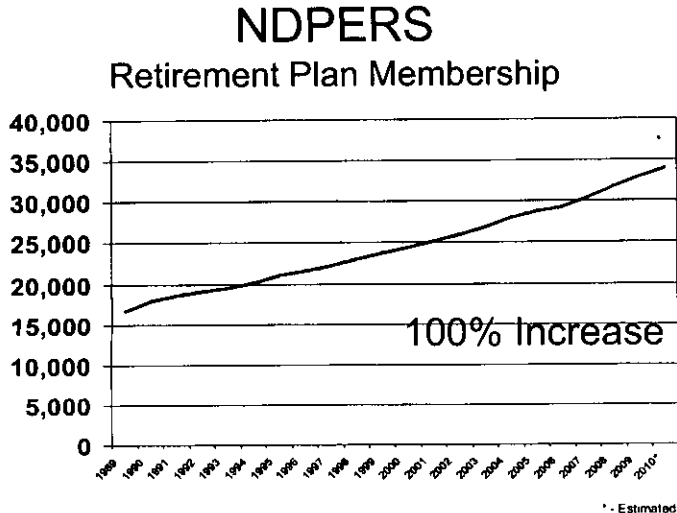
## RETIREMENT PROGRAMS MANAGED AND ADMINISTERED BY NDPERS

	<b>TOTAL RETIREMENT</b>	<b>Main System</b>	<b>D.C. 401(a)</b>	<b>Highway Patrol</b>	<b>Judges</b>	<b>Guard</b>	<b>Law Enforcement</b>	<b>Job Service</b>	<b>DEFERRED COMP</b>	<b>HEALTH CREDIT</b>
<b>PARTICIPATION</b>										
<b>AGENCY</b>										
State	99	99	32	1	1	1	1	1	96	99
Counties	47	47					10		44	47
School Dist	110	110							53	110
Cities	78	78					5		27	78
Others	64	64							27	64
	398								247	398
<b>EMPLOYEES</b>										
State	10,813	10,318	244	133	47	36	37	35	4,225	10,813
Counties	3,391	3,247					144		1,454	3,391
School Dist	5,026	5,026							556	5,026
Cities	1,280	1,250					30		684	1,280
Others	502	502							249	502
Retirees	7,537	7,214	49	109	22	12	11	120	1,584	4,068
	28,549	27,557	293	242	69	48	185	155	8,174	25,080

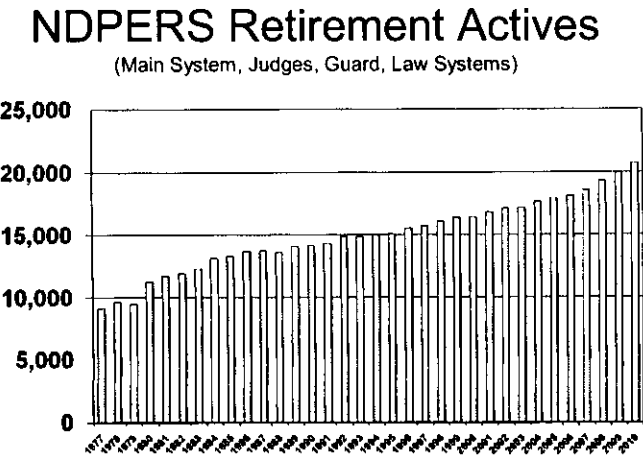
As you will note, our agency is responsible for the administration of approximately 10 different retirement plans. The Law Enforcement Plan is divided into two plans, those with past service and those without. Several of the above plans were assigned to our agency by the 2001 and 2003 legislative session. Those were the Job Service Retirement Plan and the Law Enforcement Plans for political subdivisions. The Law Enforcement Plan has since been expanded to certain state employees. The 401(a) plan or optional defined contribution plan for non-classified state employees was assigned to our agency in 1999. The other retirement programs have been a part of PERS since the 1980's. You will note the largest retirement plan we administer is the Main retirement system which provides services to not only the state, but also to

political subdivisions. In this plan about 55% of the active members are state employees and 45% are political subdivision employees. School districts are our second largest group followed by counties and cities.

Some historical statistics about the retirement plan include membership:



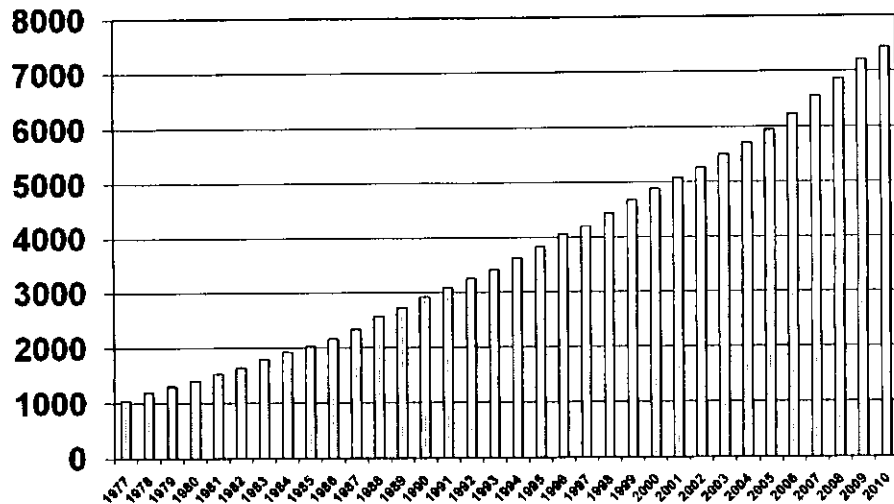
Of this the number of active members has grown:



The number of retired members has grown as well and at an even greater rate than our active members:

## NDPERS Retirement Retirees

(Main System, Judges, Guard, Law Systems)

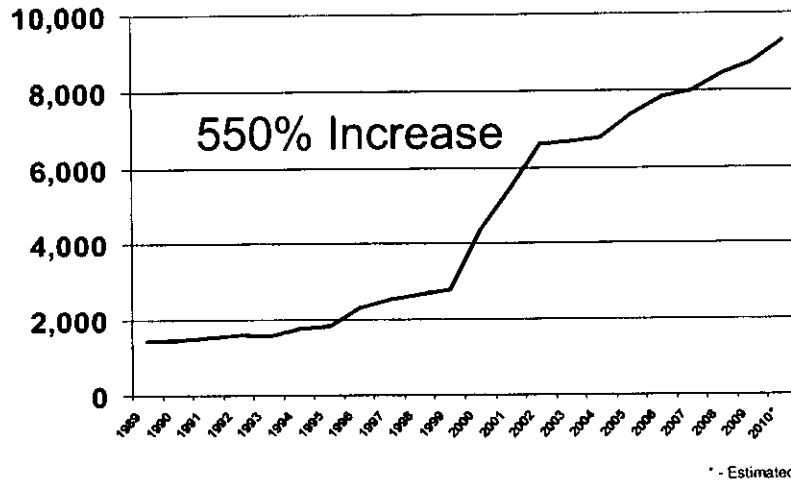


As we look to the future, we see the retired membership continuing to grow and the number of active members remaining about the same. Servicing the present and future needs of the retired membership is going to be a growing challenge for NDPERS.

In addition to the administration of the traditional retirement plans, PERS administers the state's supplemental savings program as well. The membership in that program has also grown over the years:

# NDPERS

## Deferred Compensation Plan Membership



We are pleased by this growth since it is important that our members save for retirement. In 1999 the legislature started the PEP provision in our retirement plan to encourage employees to do supplemental savings. You can see that program has been successful.

Deferred Compensation offers our members 10 different providers to choose from including the PERS Companion Plan (presently with Fidelity) and:

- Bank of North Dakota .....
- AIG Valic .....
- American Trust Center .....
- AXA Equitable .....
- Hartford Life Insurance Company ...
- Jackson National Life .....
- Nationwide Life Insurance .....
- Symetra Life .....
- Waddell & Reed Financial Services ...



Concerning the group insurance programs, the following gives you an overview of the programs and some statistical information:

January 1, 2010

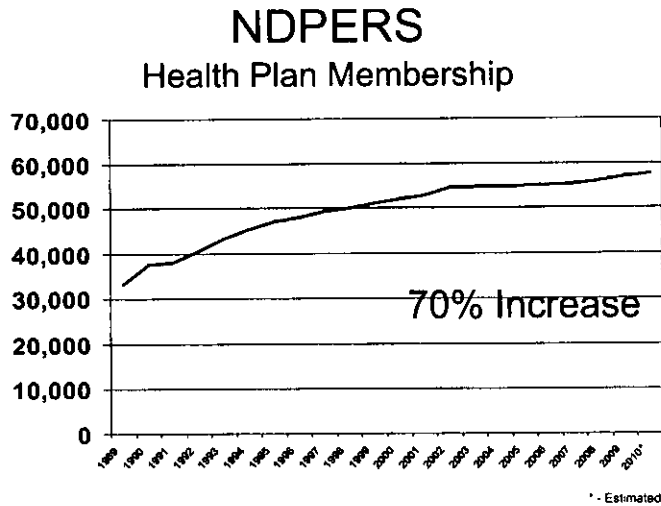
## GROUP INSURANCE PROGRAMS MANAGED AND ADMINISTERED BY NDPERS

	HEALTH	LIFE	DENTAL	VISION	EAP	FLEXCOMP	LT Care
<b>PARTICIPATION</b>							
<b><u>AGENCY</u></b>							
State	99	99	99	99	99	99	97
Counties	39	28					
School Dist	28	5					
Cities	57	22					
Others	65	22					
	288	176	99	99	99	99	97
<b><u>EMPLOYEES</u></b>							
State	14,682	15,385	4,796	3,774	15,358	8,375	55
Counties	1,865	2,439					
School Dist	1,180	123					
Cities	1,009	180					
Others	521	281					
Legislators	127						
Retirees	5,694	2,977	1,361	764			
COBRA	354		36	17			
	25,432	21,385	6,193	4,555	15,358	8,375	55

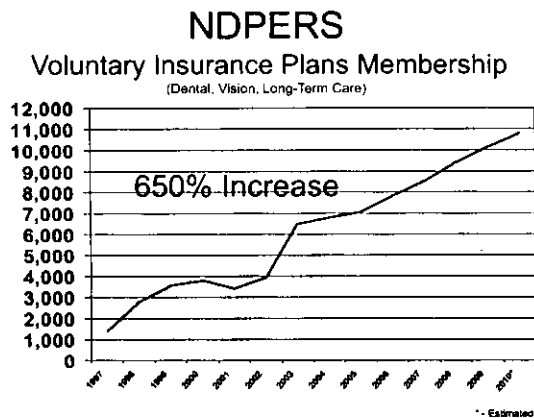
As you will note, the largest responsibility in this area is the health plan. In this program about 59% of members are state employees and 41% are political subdivisions or retirees. This biennium one of the challenges we faced with the health program was the enactment of federal health care reform. In response, we took the following actions:

1. Maintained the plan as a grandfathered plan under the law which means we do not have to comply with all the provisions.
2. Applied for the subsidy for providing services to pre-Medicare retirees. We were approved and in 2011 we will submit our reimbursement requests to the federal government. We may be eligible for up to \$1 to \$1.5 million per year. These funds will be available to the next session to help pay for health costs for the 2013-2015 biennium.

The following table shows the history of the membership in the health plan:

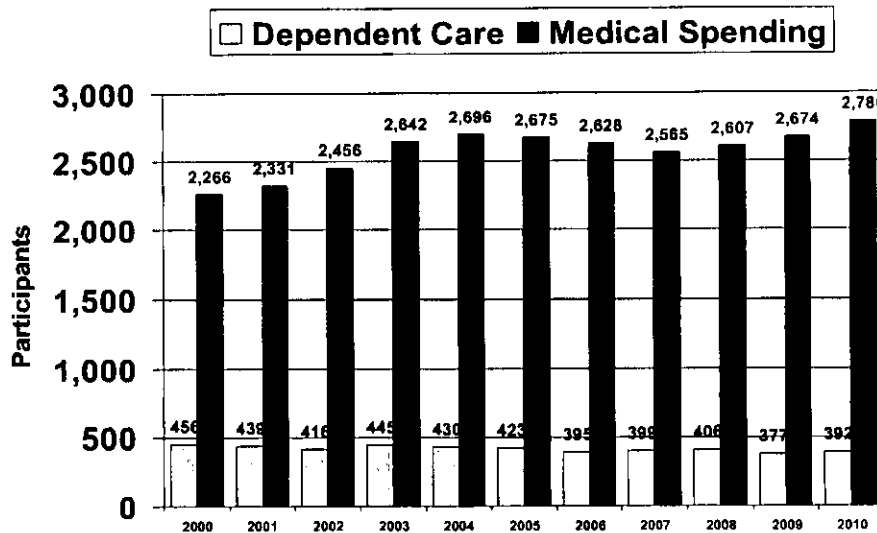


In the late 1990's the Employee Assistance Program, Long Term Care Plan, Dental Plan & Vision Plan were added to PERS. The other group insurance programs have been a part of the agency since before 1990. The following table is the history of those programs (not including the EAP):

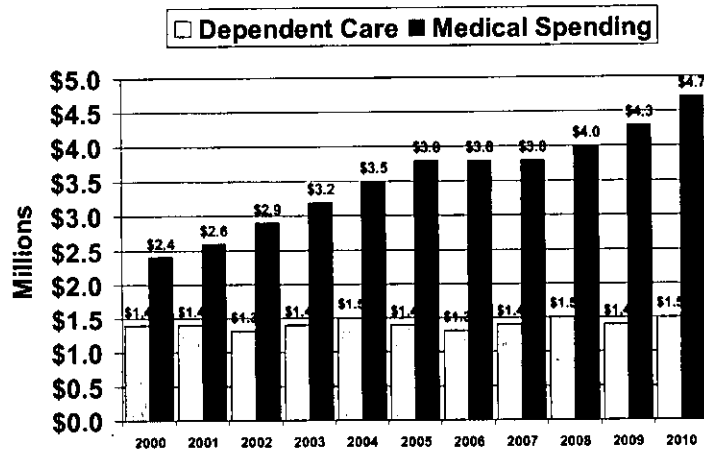


The Flex Comp Program which has been a part of the agency since 1989 allows members to pretax certain insurance premiums, dependent care expenses and medical expenses. Our office processes approximately 16,000 to 17,000 claims a year for this program and maintains the member accounts. The following tables show the history of the number of members and deferrals:

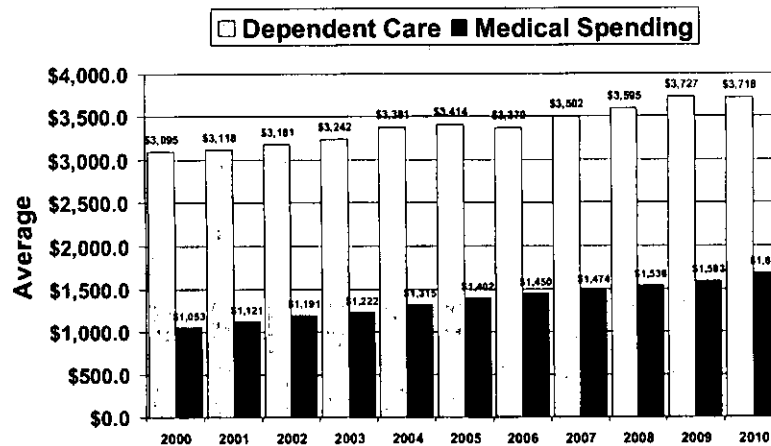
## NDPERS Flexcomp Participation



## NDPERS Flexcomp Participation



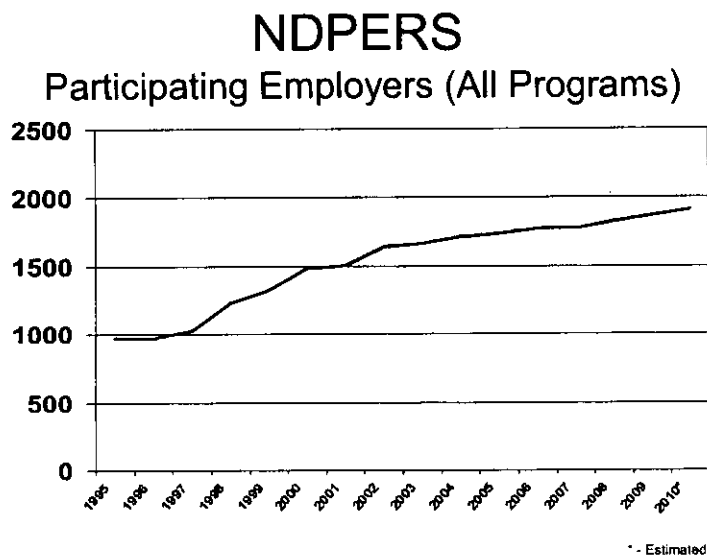
## NDPERS Flexcomp Participation



As the above shows, the number of members participating in the program has increased slightly and the average deferrals have increased. We expect that in the

future as health care costs continue to rise, more members will join this program, causing our processed claims level to rise.

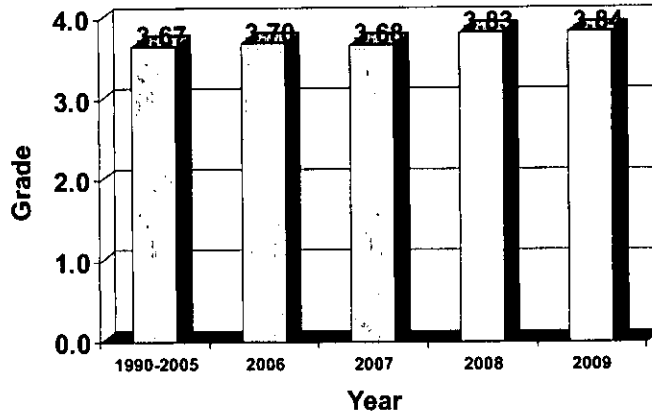
While we have been serving more members in more programs over time we have also been serving more employers as they join PERS. The following table shows each employer relationship for each program (an employer in more than one program would count more than once):



As shown above, PERS has faced two challenges over the years. First, is the growth of program responsibilities. Second, is the growing membership needs for assistance. We have also tried to meet the needs of our members and monitor how we are doing by sending to them a rating card. The following are the responses:

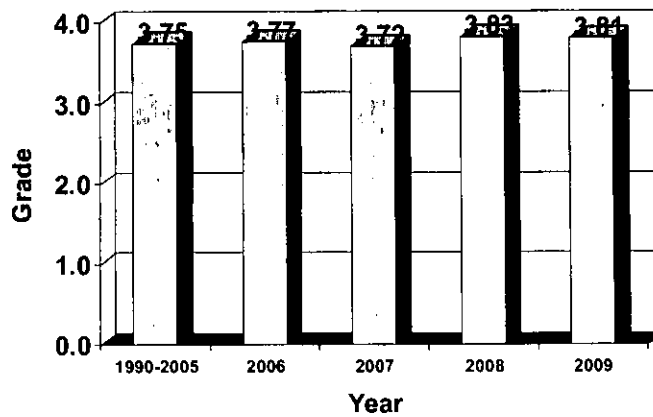
## NDPERS Member Report Cards

Courtesy you received from NDPERS staff?



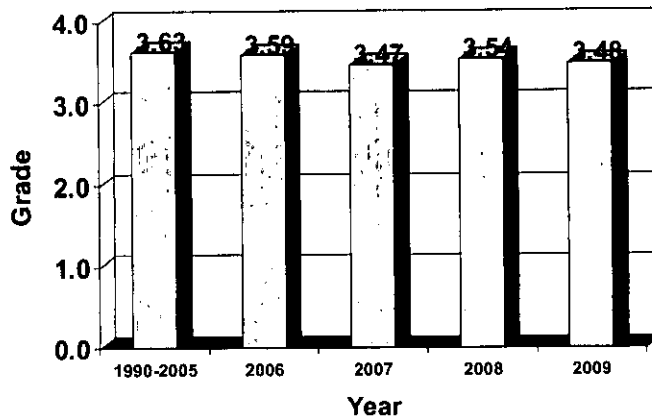
## NDPERS Member Report Cards

Promptness of NDPERS response to your inquiry?



## NDPERS Member Report Cards

Was the information you were given easy to understand?



As the above shows, we have been able to maintain a positive rating by the members but we note that we face a challenge in communicating the details of our programs to our members.

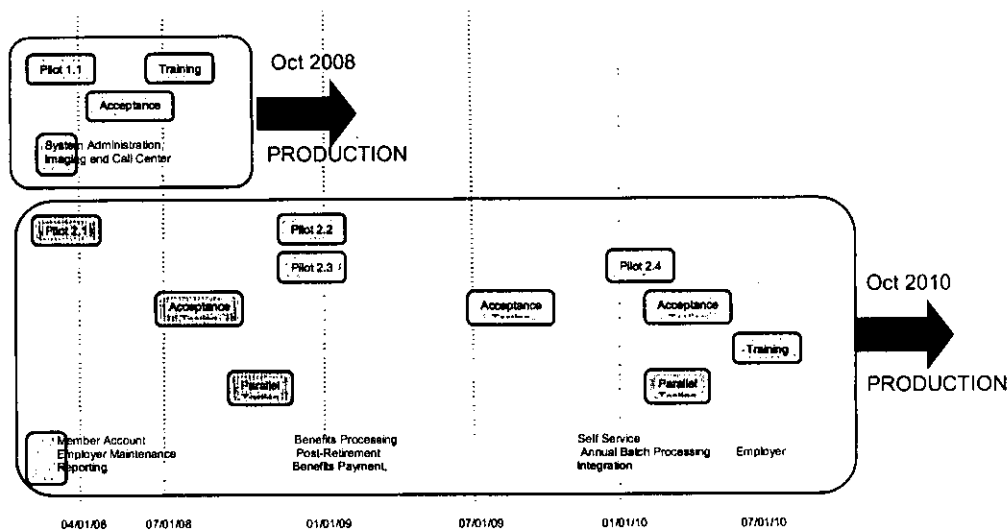
We are also concerned with maintaining the quality of what we do. To that extent, we have sought national review of our systems and other reviews as noted in the following:

- We have received the Public Pension Achievement Award and the Recognition Award for Administration.
- We have received the Certificate of Achievement for Excellence in Financial Reporting 1996-2009.
- We have had Unqualified Audit Opinions for over 20 years.

## PERS Business System Replacement Project

Several bienniums ago, you approved funding the replacement of our business system. The following was the schedule we discussed:

### Overall Project Schedule



I am pleased to report to you that our project did go live as projected in October of 2010 after three years of development. The employee portal is scheduled to go live in the second quarter of 2011. This project has been extremely challenging for PERS over the last several years. As challenging as that has been, we are finding that implementation is equally as challenging. With the rollout of the project most of the jobs in our agency changed, most of our staff is presently learning new ways to do our business. Externally, our participating employers are learning a new way to communicate with PERS. We are finding that these new processes pose many challenges, both internally and externally, and since implementation we are discovering ways to improve the system to make it more user friendly. We know that much of 2011 and into 2012 will



require a lot of effort by our agency to refine our implementation processes and business system to more effectively meet the needs of our employers and members. I also want to report to you that our project is on budget at this time as well.

## **2009-2011 Initiatives**

The following are some of the major initiatives done this biennium.

### **Major Initiatives Retirement**

- Performed a retirement plan performance study on our defined contribution plan.
- Worked with participating employers, members and representative groups to review the challenge facing the PERS retirement plan and to prepare options to address the situation.
- Received and reviewed the annual actuarial valuation for the PERS defined benefit plans.
- Reviewed the PERS investment policies.
- Reviewed the results of the experience for the PERS retirement plans and adjusted the assumptions where indicated.
- Prepared draft legislation for funding our retirement programs and submitted it to our legislative oversight committee.
- Started efforts on an Asset/Liability Study for the PERS Retirement plans
- Implemented the increase in the retiree health credit.
- Issued an RFP for a consultant to provide assistance with seeking a bundled provider (recordkeeping and investments) for the 401 (a) plan and 457 plan.
- Worked with the IRS on our determination letter under Schedule C.
- Received the "Recognition Award for Administration" from the Public Employees Coordinating Council.

### Administrative

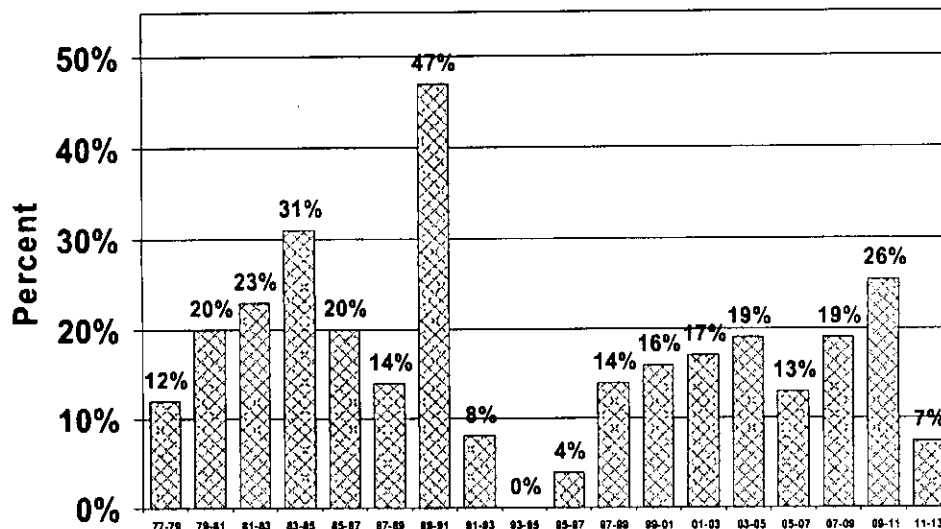
- Continued development of the new PERS business system and implemented it in October of 2010, the project remained on schedule and within budget.
- Promulgated our administrative rules to implement legislation passed by the 2009 Legislative Session.
- Completed and reviewed the annual audit report.
- Developed new job requirements and processes in agency for implementation of the PERSLink system.
- Received the GFOA Certificate for Excellence in Financial reporting.

### Major Initiatives Insurance

- Conducted an audit of our pharmacy benefit manager.
- Completed the Medicare Part D renewal.
- Issued an RFP for our Group Insurance Consultant, analyzed the responses and issued a contract for services.
- Completed the OPEB valuation.
- Prepared and issued an RFP for the group health insurance plan.
- Monitored the health care reform effort and its implication for the PERS plan and took all required actions.
- Expanded the PERS Wellness program to more employers/members.

In the group health insurance area our plan has had some significant success this biennium. As you may have noted, our health plan trend has dropped substantially.

The following table shows the effect this has had on our premiums:



As the above shows, the health premium increase this biennium is a little over 7%. This is the third lowest increase since 1977 and represents a significant savings for this biennium. Our plan is also projecting a gain for this biennium that under our settlement process with BCBS will be available next biennium to help offset future increases.

## **PERS Budget**

The proposed budget before you today is basically a hold even budget. With the system replacement project and our other efforts, the challenge we face in the next biennium is just keeping up with our existing commitments. Consequently, no major new initiatives are requested or no new FTE are proposed in this budget. No increase for costs related to Health Care Reform have been included in the budget. Any additional costs incurred as a result of this will be paid through the Contingency Line Item when and if they arise.

The following is a summary of the budget compared to this biennium:

	2009-2011 <u>Appropriation</u>	2011-2013 <u>Recommendation</u>	<u>Change</u>
Salaries	\$4,236,489	\$4,563,507	\$327,018
Operating	1,659,999	1,963,383	303,384
Tech. Prj.	4,734,726	0	(4,734,726)
Contingency	<u>250,000</u>	<u>250,000</u>	
Total Base	\$10,881,214	\$6,776,890	(4,104,324)

If we look at this comparison and factor out the one-time costs for our system replacement project it shows:

	2009-2011 <u>Appropriation</u>	2011-2013 <u>Recommendation</u>	<u>Change</u>
Salaries	\$4,236,489	\$4,563,507	\$327,018
Operating	1,659,999	1,963,383	303,384
Contingency	<u>250,000</u>	<u>250,000</u>	
Total Base	\$6,146,488	\$6,776,890	\$630,402

Breaking down the recommended budget further by percent we find:

	Recommended <u>Budget</u>	
Salaries	\$4,563,507	67%
Operating	1,963,383	29%
Contingency	<u>250,000</u>	<u>4%</u>
Total Base	\$6,776,890	100%

The salaries and wage line item is 67% of our budget and supports 33 FTE. The reconciliation of this line item from this biennium to the recommended budget is as follows:

2009-2011 budget	\$4,236,489
Payplan changes (second yr 5%, etc)	81,799
Gov recommended increase	
Salary	163,458
Benefits Inc	81,761
2011-2013 recommendation	\$ 4,563,507

The operating line item is 29% of our budget and you will note that it has increased from the 2009-11 biennium. This increase is primarily the result of our IT project moving from development to implementation. More specifically during development this biennium the cost was reflected in our special line item. The cost of the old system was in operating but since we were no longer maintaining the old system those costs were at a low level. Now that our new system has gone live, the ongoing cost will be reflected in the operating line and no special line item will be used. The following highlights some of the dynamics of these line items:

1. Operating expenses were reduced by \$127,426 as a result of the completion of the PERSLink Project. The 2009-11 budget included funding to rent additional office space for the PERSLink Project Team and also included funding to hire additional help through a temporary service agency which was used at various times throughout the duration of the project. These expenses will no longer be necessary.
2. IT related services represent about 50% of our operating line item. Operating expenses were increased by \$447,348 for Information Technology activities. The primary component of this increase is the maintenance and ongoing support fees paid to our IT vendor for the PERSLink System. This is offset by a reduction in data processing expenses paid to ITD.

Our fees to ITD were reduced to reflect retiring our mainframe applications. However, as a result of PERSLink, we have additional fees for hosting the

application, disaster recovery and using the ITD Service Desk to help support our external customers.

IT Equipment has also been reduced. The agency is on a 4 year hardware replacement cycle, which occurred during the 2009-11 biennium.

3. An increase of \$43,819 has been included for inflation. The three areas impacted by this are postage, office rent and the OMB central service allocation.
4. A reduction of \$13,000 in general fund appropriation authority to pay OASIS benefits has been removed as there are no longer any beneficiaries being paid from this plan.
5. Out of state travel, printing and equipment rent have been reduced to more accurately reflect our actual expenditure trends.

Mr. Chairman, members of the committee I would also like to take this opportunity on behalf of PERS to thank you for your past support. Together we have provided to our members valuable benefits that have truly made a significant difference in peoples lives and helped to support the economic health of North Dakota. We look forward to continuing to work with you in the future. Again, thank you and this concludes my testimony.

**SB 2022**  
**North Dakota Retirement and Investment Office**  
**Testimony to Senate Appropriations Committee**  
**Connie Flanagan, Fiscal and Investment Officer**  
**January 12, 2011**

Good morning Mr. Chairman and Members of the Committee. My name is Connie Flanagan and I am the Fiscal and Investment Officer for the Retirement and Investment Office.

**RIO Background**

RIO was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two important long-standing state programs – the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the State Investment Board (SIB).

TFFR is a qualified defined benefit public pension plan. The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. TFFR serves over 9,900 teachers from 231 employer groups and pays benefits to more than 6,600 retirees and beneficiaries. High quality member services and outreach programs are offered to members and employers as part of the continuing effort to keep them informed about the retirement program.

The SIB is responsible for setting policies and procedures guiding the investment of approximately \$5.0 billion in assets for eight pension funds and 17 other insurance-type funds. Their investments are divided into two investment trust funds – the Pension Trust and the Insurance Trust. The Pension Trust is made up of only qualified pension funds whose monies must be invested exclusively for the benefit of their participants. The two largest pension funds in the Pension Trust are the TFFR and PERS plans. The Insurance Trust is made up of mainly insurance-type funds, but also includes funds that do not qualify as pension funds and would like to benefit from the cost savings of being pooled with other funds' assets. The largest fund in the Insurance Trust is the Workforce Safety and Insurance (WSI) Fund. Other Insurance Trust funds include the State Fire and Tornado Fund and the State Bonding Fund. All of the funds are invested in accordance with the "Prudent Investor Rule".

**2009-11 Budget Review**

Current budget estimates for the 2009-11 biennium indicate that RIO will have unexpended appropriation in the salary line of approximately \$75,000 and \$50,000 in our operating line. The savings in the salary line were mainly from benefit savings while the Executive Director position was held by a temporary employee for 7 months while a search for a permanent replacement was held. Savings in the operating line come from a variety of sources but some of the major contributors include travel, professional development and IT services as explained below.

- Both the SIB and TFFR Boards consider board member education to be a top priority. Many of the best opportunities for education in the areas of investments and retirement plans are sponsored by national organizations. As a result of this, RIO has requested funding for travel and professional development to attend conferences and other training-related events. When planning the current biennium budget, we anticipated two or three trips per board member, depending on whether they sat on one or both boards. For a variety of reasons, board members were not able to attend

their allotted number of training opportunities. Scheduling conflicts tend to be the main reason. To ensure board members continue to be adequately educated, outside professionals are brought in frequently to conduct educational sessions during regularly scheduled board meetings, generally at no cost to the funds. Additionally, due to the vacancy in the Executive Director position this past year, other staff members were needed in the office and were unable to attend some of the conferences or training opportunities they normally would have attended. We anticipate having approximately \$30,000 in the travel line and \$10,000 in the professional development line remaining at the end of the current biennium.

- During the second year of the current biennium, the annual maintenance contract, originally negotiated with our software vendor for the retirement program, expired. A new maintenance agreement has been negotiated based on estimated hours anticipated to be used for modifications to the system. This amount was approximately \$12,000 less than the annual maintenance plan from the previous year, resulting in savings for the current biennium.

### **One-Time Funding**

RIO had a one-time funding request of \$25,000 included in the current biennium budget, associated with the implementation of a one-time \$4.4 million supplemental benefit payment to TFFR retirees. Of that amount, \$3,135 was used for postage and mailing services to send out notices to those TFFR members who received the supplemental benefit payment in December 2009. The remaining \$21,865 was put into the IT Data Processing line but was not used as we had adequate pre-paid programming hours available to make the necessary changes to the system.

### **2011-13 Budget Highlights**

The budget request you have before you for RIO for the 2011-13 biennium totals \$4.2 million and is all special funds. Some of the highlights of the Executive Budget Recommendation for your consideration are:

- Within the salaries and wages line, RIO is requesting an additional position for a Deputy Chief Investment Officer for the investment program. The position is being requested as a result of a performance audit conducted in July/August of 2010 by Clifton Gunderson LLP. The final performance audit report contained a recommendation to consider such a position in order to ensure the continuity of the operations of RIO in the event the CIO position is vacated and to provide enhanced and more formal investment manager compliance reports to the SIB on a regular basis.
- Within the operating line, RIO has attempted to reduce expenditures wherever possible. Our budget request includes a total reduction of 0.2% in the operating line. The largest fluctuations within the operating line are detailed below.

#### **Operating Line Decreases**

- The agency's PC replacement schedule is on a four year cycle. We will not need to replace any PCs in the 2011-13 biennium. Additionally, portable computers and a multi-function printer/copier have been or will be purchased this year. Therefore, no funds are being requested for these items for the next biennium. This resulted in a reduction of \$9,900 for this category.



- RIO has negotiated a maintenance proposal with our retirement administration software vendor. This has allowed us to reduce the IT contractual services line item by \$26,600 for the next biennium. However, because it is unknown if any of the TFFR funding bills or other changes will be adopted during the legislative session, an additional funding request may become necessary in order to adequately update the system to accommodate those changes. Possible sources for covering these expenses are either contingency funds or fiscal notes attached to individual bills if costs can be determined in advance.
- The travel line item has been reduced by \$7,200. We have reduced the number of trips allotted to board members and staff, based on previous experience, while still maintaining an acceptable budget for continued educational needs.

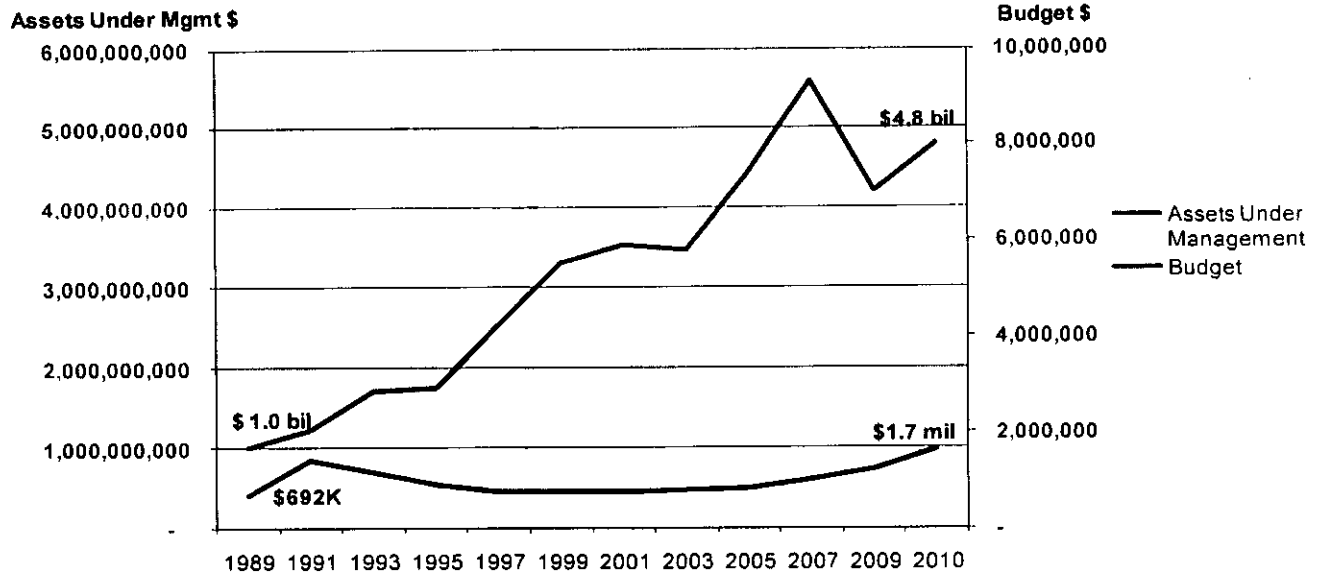
#### Operating Line Increases

- In order to offer TFFR members access to their account information on-line, a new member on-line service is currently being developed. The additional cost to host this service through the State's servers is approximately \$35,000 for the biennium. Our total IT data processing line is increasing by just under \$28,000, indicating savings in other areas of IT.
- Although RIO has begun to provide more communications via the web and email, many items still need to be provided to members in hard copy via the postal service. Postage rates are expected to increase at least once during the next biennium and so we have included that anticipated increase in our budget request resulting in an increase in postage expenses of just under \$6,000.
- Lease rates for the space occupied by RIO's offices are expected to increase by 3% or \$4,500.
- RIO is not requesting an increase in the contingency line. We will be using contingency funds in the current biennium to pay for the cost of hiring a third-party search firm who assisted the SIB in finding a new Executive Director/CIO for the agency. This was an unexpected situation for which contingency funds are designed. RIO does have authority to spend out of the contingency line with State Investment Board approval, and the Board has approved this expenditure.

#### Conclusion

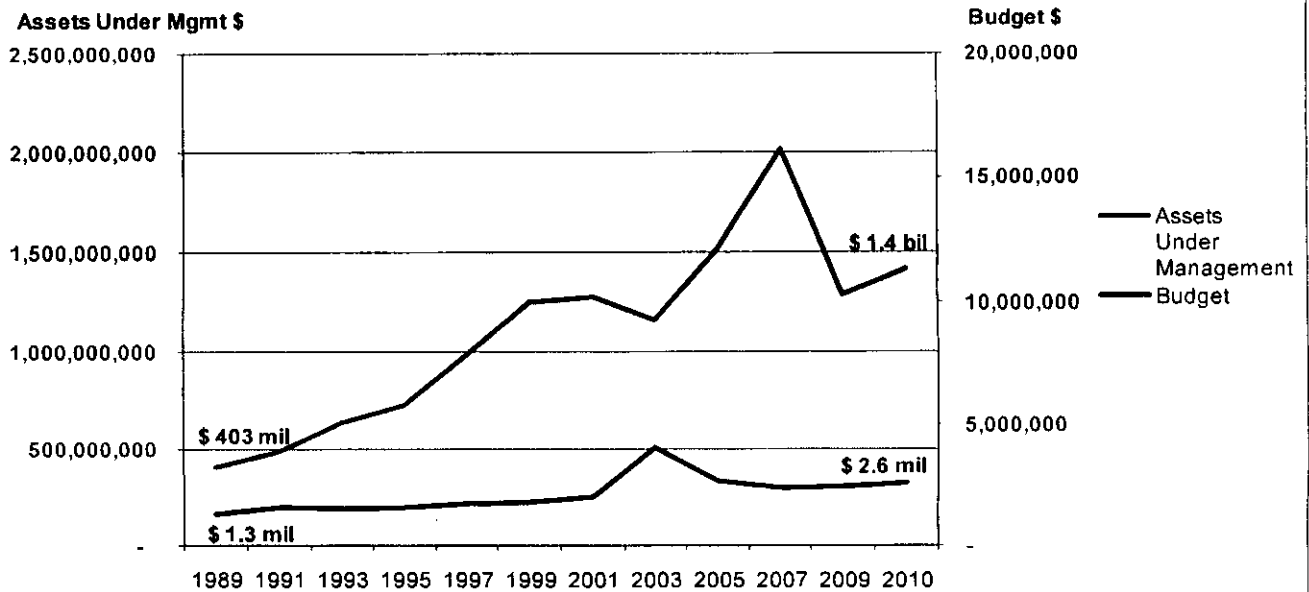
As always, the Retirement and Investment Office strives to provide high quality services to its members and clients in a cost effective and efficient manner. We feel that this budget will allow us to continue to do so. Thank you for your time and consideration.

## State Investment Board Program Assets Under Management vs Budget



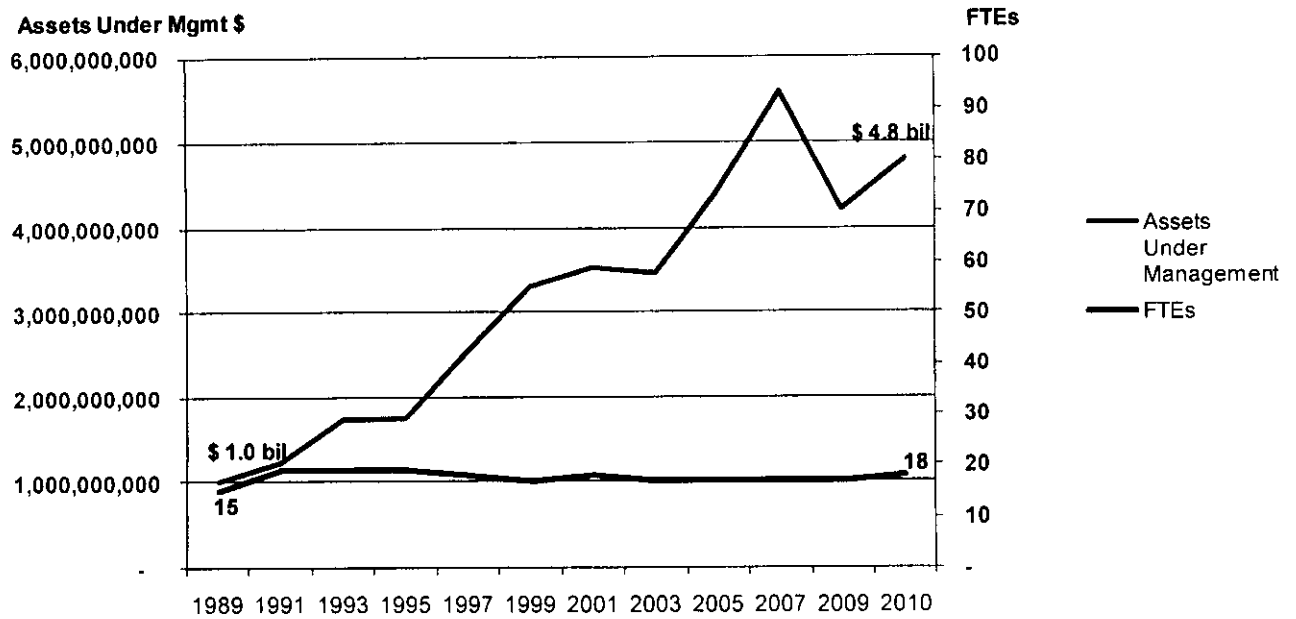
2011-13 Biennium \$2,894 assets under management per budget dollar  
 1989-91 Biennium \$1,449 assets under management per budget dollar

## Teachers' Fund for Retirement Program Assets Under Management vs Budget



2011-13 Biennium \$551 assets under management per budget dollar  
 1989-91 Biennium \$313 assets under management per budget dollar

## Retirement and Investment Office Assets Under Management vs FTEs

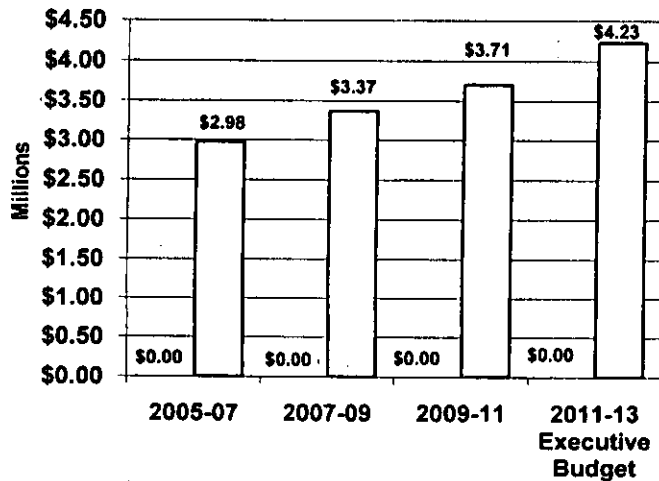


2011-13 Biennium \$266,681,429 assets under management per FTE  
 1989-91 Biennium \$ 66,845,600 assets under management per FTE

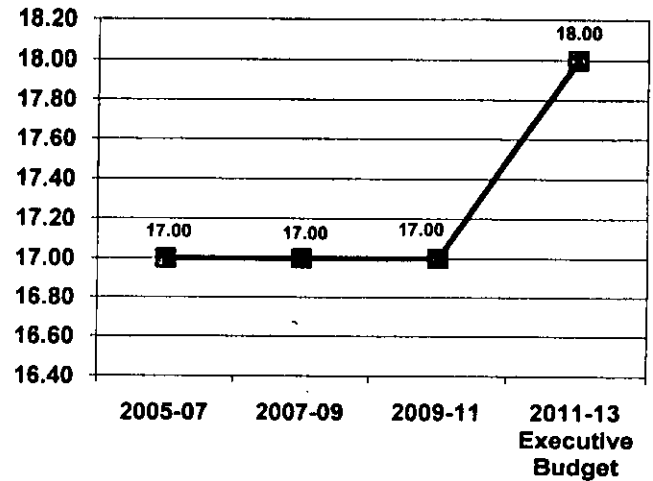
**Department 190 - Retirement and Investment Office**  
**Senate Bill No. 2022**

	FTE Positions	General Fund	Other Funds	Total
2011-13 Executive Budget	18.00	\$0	\$4,232,954	\$4,232,954
2009-11 Legislative Appropriations	17.00	0	3,705,650	3,705,650
Increase (Decrease)	1.00	\$0	\$527,304	\$527,304

**Agency Funding**



**FTE Positions**



■ General Fund □ Other Funds

**First House Action**

Attached is a summary of first house changes.

**Executive Budget Highlights**  
**(With First House Changes in Bold)**

	General Fund	Other Funds	Total
1. Removes one-time funding provided in the 2009-11 biennium for implementation costs associated with the one-time Teachers' Fund for Retirement (TFFR) benefit payment		(\$25,000)	(\$25,000)
2. Adds funding for increases in operating expenses		\$14,570	\$14,570
3. Adds 1 FTE deputy chief investment officer position		\$316,824	\$316,824

**Other Sections in Bill**

**Section 3** provides upon approval of their respective boards the Retirement and Investment Office and the Public Employees Retirement System may transfer from their respective contingencies line items to all other line items. The agencies shall notify the Office of Management and Budget of each transfer made pursuant to this section.

**Continuing Appropriations**

**Investment expenses** - North Dakota Century Code Section 21-10-06.2 - Investment management, custody, consulting, income offset, and due diligence/education costs.

**Benefits and refunds** - Section 15-39.1-05.2 - Benefits and refunds from TFFR.

**Administrative charges** - Section 15-39.1-05.2 - Income offset and TFFR consulting costs.

**Significant Audit Findings**

None.

**Major Related Legislation**

**House Bill No. 1133** includes technical and administrative changes relating to definitions of beneficiary and salary, incorporation of federal law changes, and modification of death and beneficiary provisions under TFFR.

**House Bill No. 1134** increases employee and employer contribution requirements by 4 percent each phased in over two bienniums. Employee contribution rates change from 7.75 percent to 9.75 percent in July 2012 and to 11.75 percent in July 2014. Employer contribution rates change from 8.75 percent to 10.75 percent in July 2012 and to 12.75 percent in July 2014. Future liabilities are also reduced by changing eligibility for normal unreduced retirement benefits, eligibility for early reduced retirement benefits, eligibility for disability benefits, and retiree reemployment under TFFR.

**House Bill No. 1398** relates to TFFR benefit calculations for administrators who were previously employed as teachers.

**Senate Bill No. 2302** provides for a change in membership of the State Investment Board relating to management of the budget stabilization fund and legacy fund. The board would include four legislative members.

ATTACH:1

**STATEMENT OF PURPOSE OF AMENDMENT:****Senate Bill No. 2022 - Funding Summary**

	<b>Executive Budget</b>	<b>Senate Changes</b>	<b>Senate Version</b>
<b>Retirement and Investment Office</b>			
Salaries and wages	\$3,203,114		\$3,203,114
Operating expenses	947,840		947,840
Contingencies	<u>82,000</u>		<u>82,000</u>
Total all funds	\$4,232,954	\$0	\$4,232,954
Less estimated income	<u>4,232,954</u>	<u>0</u>	<u>4,232,954</u>
General fund	\$0	\$0	\$0
FTE	18.00	0.00	18.00
<b>Public Employees Retirement System</b>			
Salaries and wages	\$4,563,507		\$4,563,507
Operating expenses	1,963,383		1,963,383
Contingencies	<u>250,000</u>		<u>250,000</u>
Total all funds	\$6,776,890	\$0	\$6,776,890
Less estimated income	<u>6,776,890</u>	<u>0</u>	<u>6,776,890</u>
General fund	\$0	\$0	\$0
FTE	33.00	0.00	33.00
<b>Bill Total</b>			
Total all funds	\$11,009,844	\$0	\$11,009,844
Less estimated income	<u>11,009,844</u>	<u>0</u>	<u>11,009,844</u>
General fund	\$0	\$0	\$0
FTE	51.00	0.00	51.00

**Senate Bill No. 2022 - Retirement and Investment Office - Senate Action**

The Senate did not change the executive recommendation for the Retirement and Investment Office.

**Senate Bill No. 2022 - Public Employees Retirement System - Senate Action**

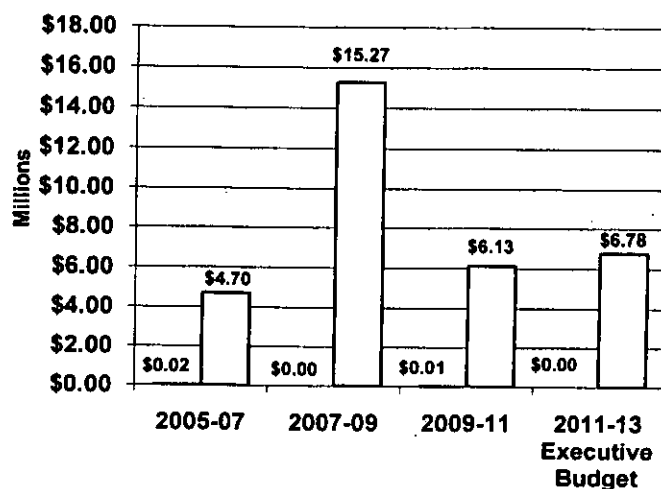
The Senate did not change the executive recommendation for the Public Employees Retirement System.

**Department 192 - Public Employees Retirement System  
Senate Bill No. 2022**

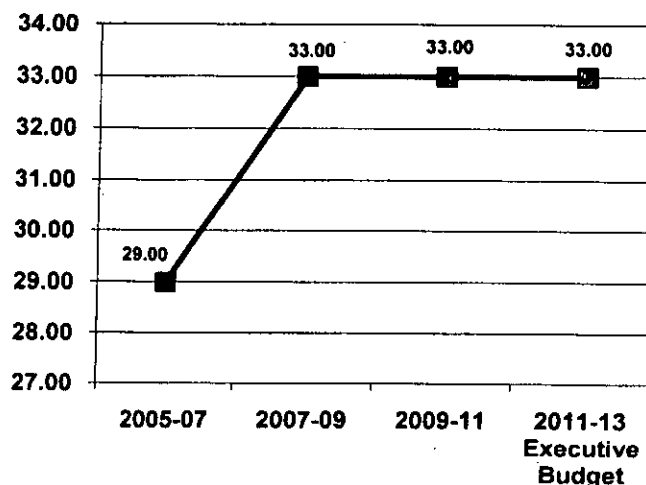
	FTE Positions	General Fund	Other Funds	Total
2011-13 Executive Budget	33.00	\$0	\$6,776,890	\$6,776,890
2009-11 Legislative Appropriations	33.00	13,000	6,133,488 <sup>1</sup>	6,146,488 <sup>1</sup>
Increase (Decrease)	0.00	(\$13,000)	\$643,402	\$630,402

<sup>1</sup>The 2009-11 amounts do not include \$4,734,726 of 2007-09 authorized information technology project carryover funds.

**Agency Funding**



**FTE Positions**



■ General Fund □ Other Funds

**Ongoing and One-Time General Fund Appropriations**

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2011-13 Executive Budget	\$0	\$0	\$0
2009-11 Legislative Appropriations	13,000	0	13,000
Increase (Decrease)	(\$13,000)	\$0	(\$13,000)

**First House Action**

Attached is a summary of first house changes.

**Executive Budget Highlights  
(With First House Changes in Bold)**

	General Fund	Other Funds	Total
1. Removes operating expenses for the rental of additional office space to house the technology project team	\$0	(\$127,426)	(\$127,426)
2. Removes funding relating to the OASIS retirement plan	(\$13,000)	\$0	(\$13,000)
3. Adds funding for changes in the agency information technology plan to support PERSLink	\$0	\$447,348	\$447,348
4. Removes funding for changes in operating expenses	\$0	(\$3,538)	(\$3,538)

**Other Sections in Bill**

**Section 2** allows the agency to continue any unspent funds appropriated in the 2007-09 biennium for the PERSLink system which were authorized to continue into the 2009-11 biennium into the 2011-13 biennium for completion of the project.

**Section 3** provides, upon approval of their respective boards, the Retirement and Investment Office and the Public Employees Retirement System (PERS) may transfer from their respective contingencies line items to all other line items. The agencies shall notify the Office of Management and Budget of each transfer made pursuant to this section.

**Section 4** provides an OASIS fund transfer. The Office of Management and Budget shall transfer any balance remaining in the OASIS retirement fund to the general fund on or before June 30, 2011. As of December 2010 the agency estimates the transfer to be \$2,403.

### **Continuing Appropriations**

**PERS** - Various sections of the North Dakota Century Code - For benefit payments, investments, and actuarial/technical consulting for each program area.

### **Significant Audit Findings**

None.

### **Major Related Legislation**

**House Bill No. 1051** provides for up to two years of workers' compensation disability and rehabilitation benefits to an employee who is injured within the two years preceding the employee's presumed retirement age (Workers' Compensation Review Committee).

**Senate Bill No. 2108** increases employer and employee contributions under the Highway Patrolmen's retirement plan and PERS by 4 percent--2 percent employee increase and 2 percent employer--phased in annually in January 2012 and January 2013.

**Senate Bill No. 2109** provides for administrative changes to the PERS retirement plan and the Highway Patrol retirement plan. The bill permits PERS defined contribution plan members to transfer to the higher education retirement plan. The bill also updates Internal Revenue Service compliance requirements.

**Senate Bill No. 2110** provides an alternative health coverage option for pre-Medicare retirees, a new target range for contingency reserve funds, and authorizes the PERS Board to receive separate bids for prescription drug coverage and to consider self-insurance for prescription drug coverage.

ATTACH:1



# **STATEMENT OF PURPOSE OF AMENDMENT:**

## **Senate Bill No. 2022 - Funding Summary**

	<b>Executive Budget</b>	<b>Senate Changes</b>	<b>Senate Version</b>
<b>Retirement and Investment Office</b>			
Salaries and wages	\$3,203,114		\$3,203,114
Operating expenses	947,840		947,840
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General fund	\$0	\$0	\$0
FTE	18.00	0.00	18.00
<b>Public Employees Retirement System</b>			
Salaries and wages	\$4,563,507		\$4,563,507
Operating expenses	1,963,383		1,963,383
Contingencies	<u>250,000</u>		<u>250,000</u>
Total all funds	\$6,776,890	\$0	\$6,776,890
Less estimated income	<u>6,776,890</u>	<u>0</u>	<u>6,776,890</u>
General fund	\$0	\$0	\$0
FTE	33.00	0.00	33.00
<b>Bill Total</b>			
Total all funds	\$11,009,844	\$0	\$11,009,844
Less estimated income	<u>11,009,844</u>	<u>0</u>	<u>11,009,844</u>
General fund	\$0	\$0	\$0
FTE	51.00	0.00	51.00

## **Senate Bill No. 2022 - Retirement and Investment Office - Senate Action**

The Senate did not change the executive recommendation for the Retirement and Investment Office.

## **Senate Bill No. 2022 - Public Employees Retirement System - Senate Action**

The Senate did not change the executive recommendation for the Public Employees Retirement System.

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**TESTIMONY  
OF  
SPARB COLLINS  
ON SENATE BILL 2022**

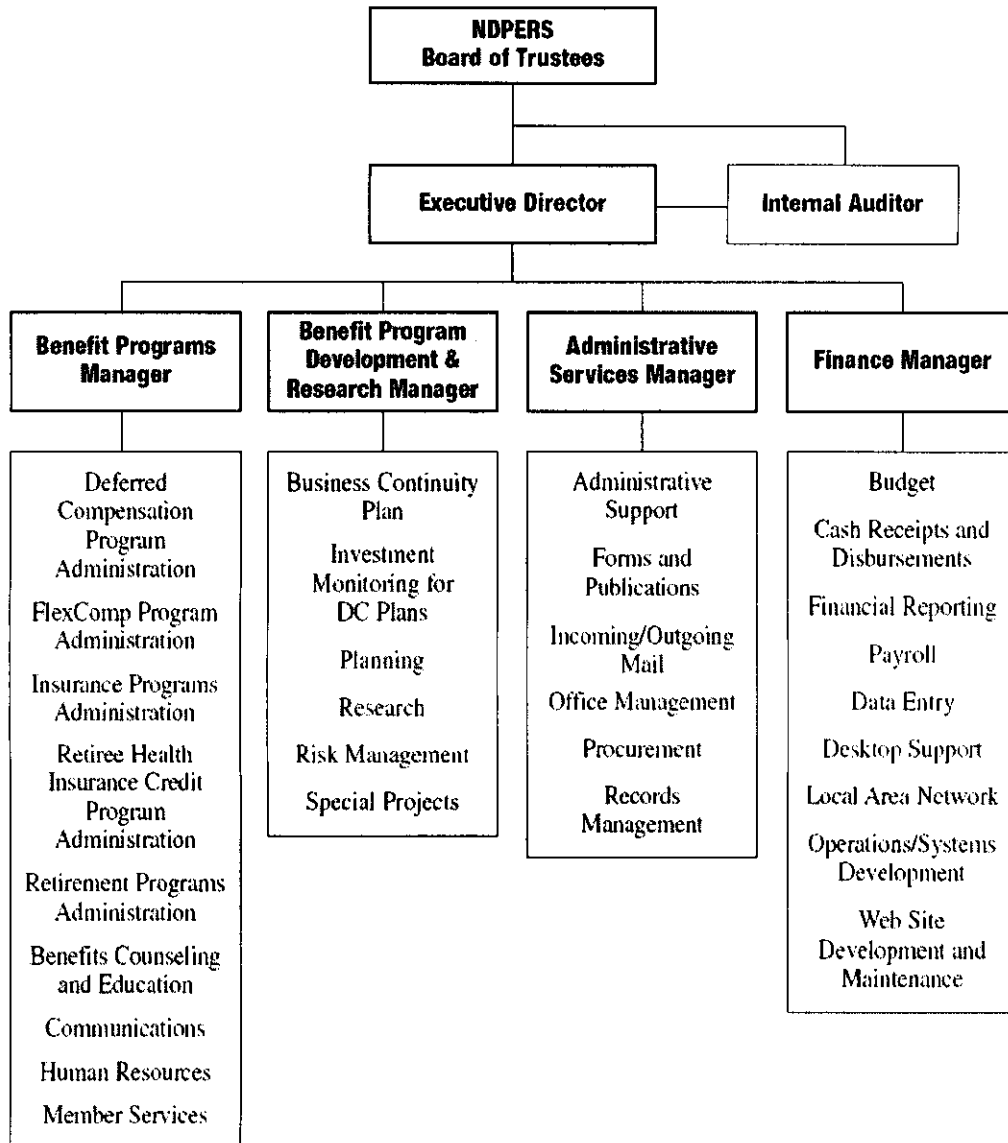
Mr. Chairman, members of the committee, good morning my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System or PERS. Today I appear before you to give you an overview of our agency, our work efforts and our budget request.

**Agency Overview**

First let me start by providing an overview of our agency. PERS is directed by a Board composed of the following members:

Chair (appointed by Governor)	Jon Strinden
Appointed by Attorney General	Tom Trenbeath
State Health Officer or Deputy	Arvy Smith
Elected	Levi Erdmann
Elected	Joan Ehrhardt
Elected	Mike Sandal
Elected	Howard Sage

Administratively PERS is organized as illustrated:



The PERS program responsibilities fall under two broad categories – retirement and group insurance. Section 54-52-02 states the overall mission for the retirement program as: "...to provide for the payment of benefits to state and political subdivision employees or to their beneficiaries thereby enabling the employees to care for themselves and their dependents and which by its provisions will improve state and political subdivision employment, reduce excessive personnel turnover, and offer career employment to high grade men and women". Similarly state statute establishes the

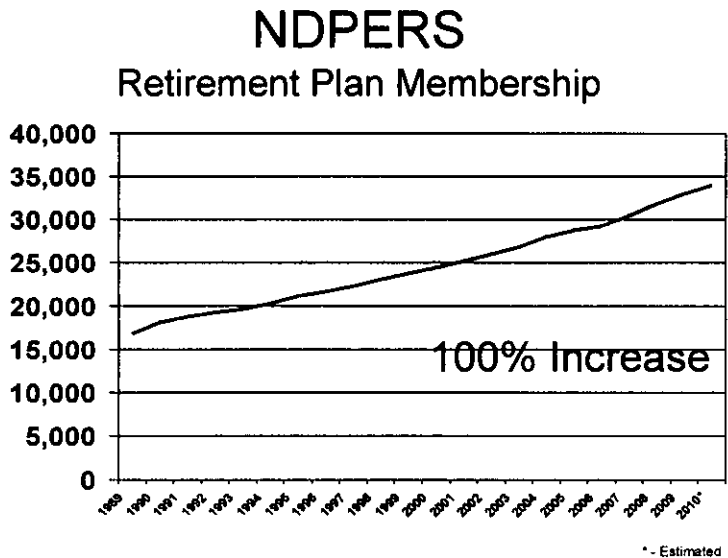
overall mission for the group insurance plan as: "In order to promote the economy and efficiency of employment in the states service, reduce personnel turnover, and offer an incentive to high grade men and women to enter and remain in state service, there is hereby created a uniform group insurance program". Concerning the retirement programs, the following table gives you an overview of the programs and some statistical information:

January 1, 2010	RETIREMENT PROGRAMS MANAGED AND ADMINISTERED BY NDPERS									
	TOTAL RETIREMENT	Main System	D.C. 401(a)	Highway Patrol	Judges	Guard	Law Enforcement	Job Service	DEFERRED COMP	HEALTH CREDIT
<b>PARTICIPATION</b>										
<b>AGENCY</b>										
State	99	99	32	1	1	1	1	1	96	99
Counties	47	47					10		44	47
School Dist	110	110							53	110
Cities	78	78					5		27	78
Others	64	64							27	64
	398								247	398
<b>EMPLOYEES</b>										
State	10,813	10,318	244	133	47	36	37	35	4,225	10,813
Counties	3,391	3,247					144		1,454	3,391
School Dist	5,026	5,026							556	5,026
Cities	1,280	1,250					30		684	1,280
Others	502	502							249	502
Retirees	7,537	7,214	49	109	22	12	11	120	1,584	4,068
	28,549	27,557	293	242	69	48	185	155	8,174	25,080

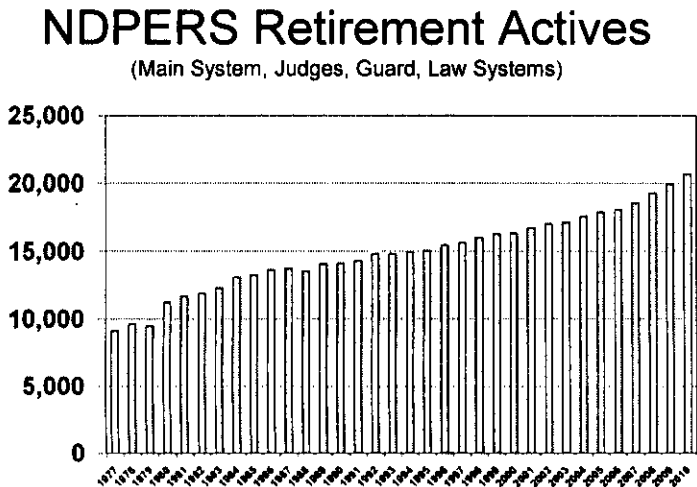
As you will note, our agency is responsible for the administration of approximately 10 different retirement plans. The Law Enforcement Plan is divided into two plans, those with past service and those without. Several of the above plans were assigned to our agency by the 2001 and 2003 legislative session. Those were the Job Service Retirement Plan and the Law Enforcement Plans for political subdivisions. The Law Enforcement Plan has since been expanded to certain state employees. The 401(a) plan or optional defined contribution plan for non-classified state employees was assigned to our agency in 1999. The other retirement programs have been a part of PERS since the 1980's. You will note the largest retirement plan we administer is the Main retirement system which provides services to not only the state, but also to

political subdivisions. In this plan about 55% of the active members are state employees and 45% are political subdivision employees. School districts are our second largest group followed by counties and cities.

Some historical statistics about the retirement plan include membership:



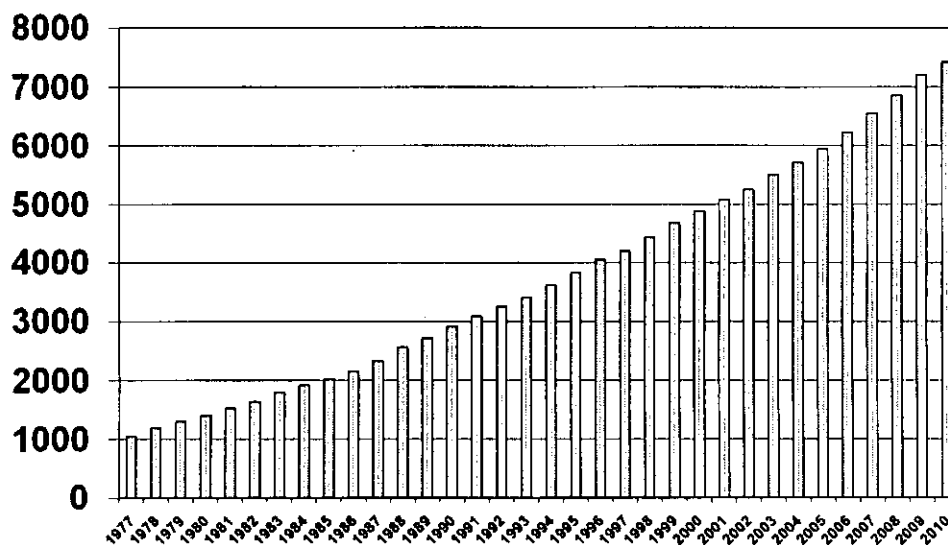
Of this the number of active members has grown:



The number of retired members has grown as well and at an even greater rate than our active members:

## NDPERS Retirement Retirees

(Main System, Judges, Guard, Law Systems)

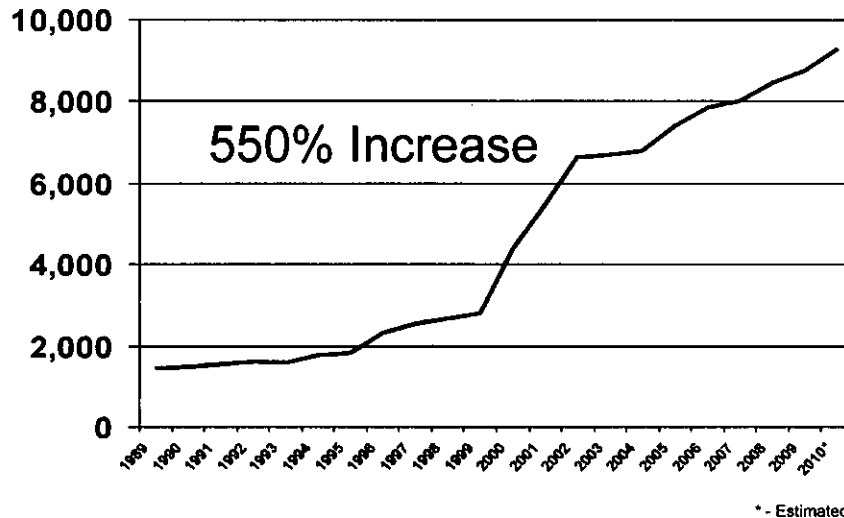


As we look to the future, we see the retired membership continuing to grow and the number of active members remaining about the same. Servicing the present and future needs of the retired membership is going to be a growing challenge for NDPERS.

In addition to the administration of the traditional retirement plans, PERS administers the state's supplemental savings program as well. The membership in that program has also grown over the years:

## NDPERS

### Deferred Compensation Plan Membership



We are pleased by this growth since it is important that our members save for retirement. In 1999 the legislature started the PEP provision in our retirement plan to encourage employees to do supplemental savings. You can see that program has been successful.

Deferred Compensation offers our members 10 different providers to choose from including the PERS Companion Plan (presently with Fidelity) and:

- Bank of North Dakota .....
- AIG Valic .....
- American Trust Center .....
- AXA Equitable .....
- Hartford Life Insurance Company ...
- Jackson National Life .....
- Nationwide Life Insurance .....
- Symetra Life .....
- Waddell & Reed Financial Services ..

Concerning the group insurance programs, the following gives you an overview of the programs and some statistical information:

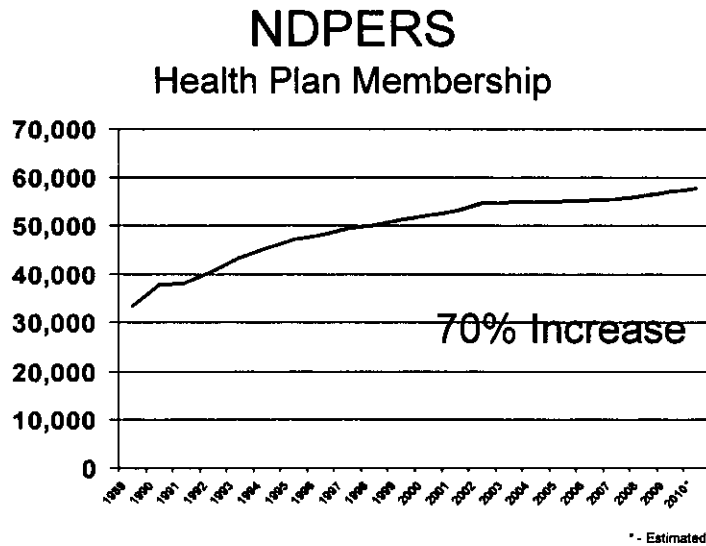
January 1, 2010	<b>GROUP INSURANCE PROGRAMS MANAGED AND ADMINISTERED BY NDPERS</b>						
	<b>HEALTH</b>	<b>LIFE</b>	<b>DENTAL</b>	<b>VISION</b>	<b>EAP</b>	<b>FLEXCOMP</b>	<b>LT Care</b>
<b>PARTICIPATION</b>							
<b>AGENCY</b>							
State	99	99	99	99	99	99	97
Counties	39	28					
School Dist	28	5					
Cities	57	22					
Others	65	22					
	288	176	99	99	99	99	97
<b>EMPLOYEES</b>							
State	14,682	15,385	4,796	3,774	15,358	8,375	55
Counties	1,865	2,439					
School Dist	1,180	123					
Cities	1,009	180					
Others	521	281					
Legislators	127						
Retirees	5,694	2,977	1,361	764			
COBRA	354		36	17			
	25,432	21,385	6,193	4,555	15,358	8,375	55

As you will note, the largest responsibility in this area is the health plan. In this program about 59% of members are state employees and 41% are political subdivisions or retirees. This biennium one of the challenges we faced with the health program was the enactment of federal health care reform. In response, we took the following actions:

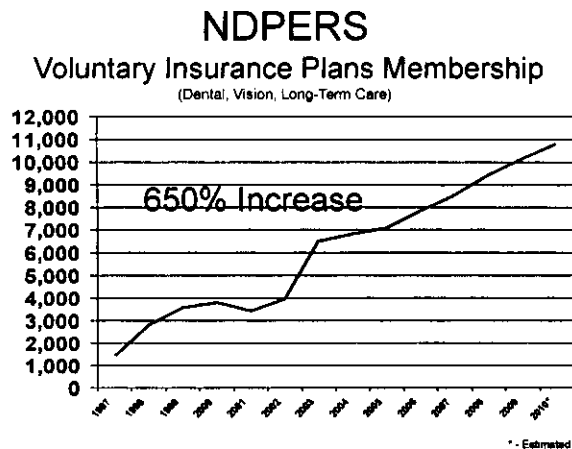
1. Maintained the plan as a grandfathered plan under the law which means we do not have to comply with all the provisions.
2. Applied for the subsidy for providing services to pre-Medicare retirees. We were approved and in 2011 we will submit our reimbursement requests to the federal government. We may be eligible for up to \$1 to \$1.5 million per year. These funds will be available to the next session to help pay for health costs for the 2013-2015 biennium.



The following table shows the history of the membership in the health plan:

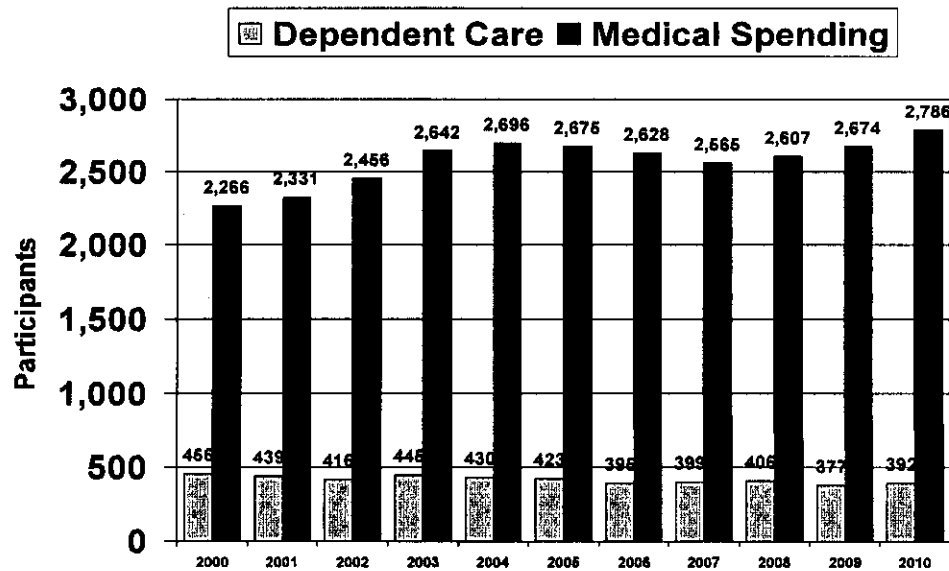


In the late 1990's the Employee Assistance Program, Long Term Care Plan, Dental Plan & Vision Plan were added to PERS. The other group insurance programs have been a part of the agency since before 1990. The following table is the history of those programs (not including the EAP):

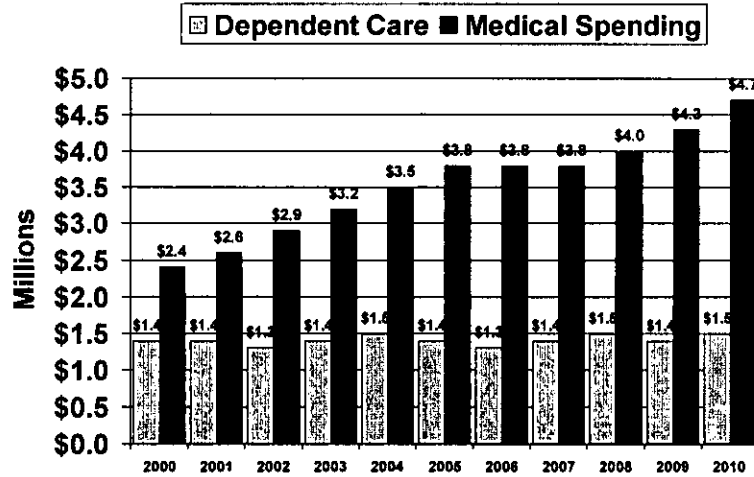


The Flex Comp Program which has been a part of the agency since 1989 allows members to pretax certain insurance premiums, dependent care expenses and medical expenses. Our office processes approximately 16,000 to 17,000 claims a year for this program and maintains the member accounts. The following tables show the history of the number of members and deferrals:

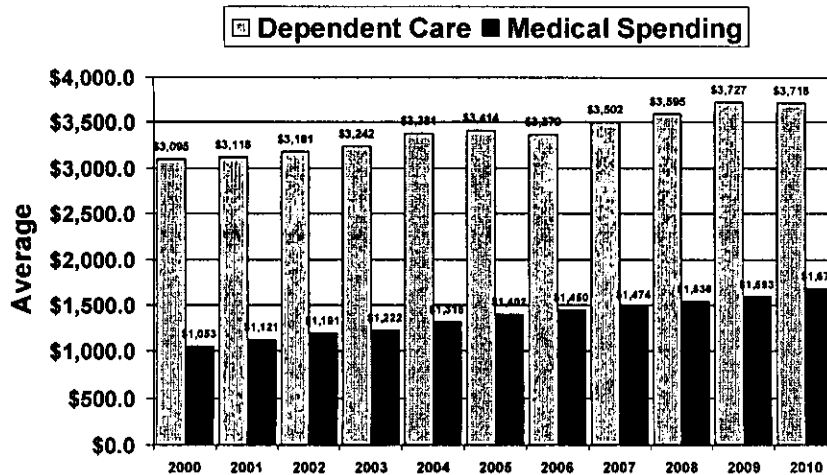
## NDPERS Flexcomp Participation



## NDPERS Flexcomp Participation



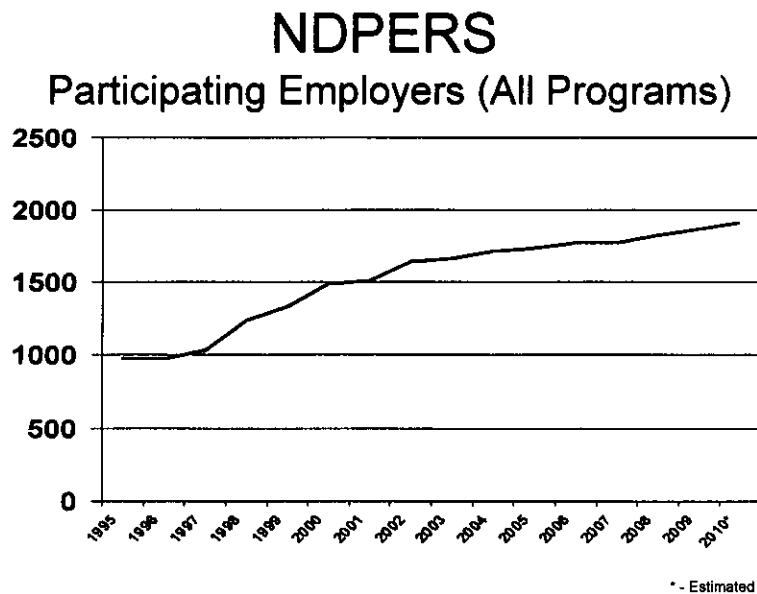
## NDPERS Flexcomp Participation



As the above shows, the number of members participating in the program has increased slightly and the average deferrals have increased. We expect that in the

future as health care costs continue to rise, more members will join this program, causing our processed claims level to rise.

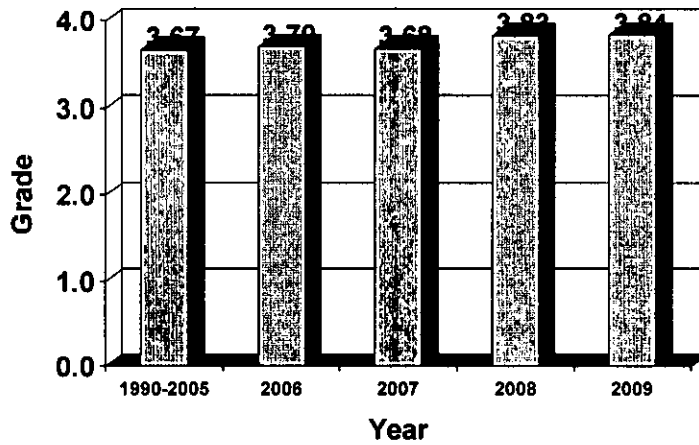
While we have been serving more members in more programs over time we have also been serving more employers as they join PERS. The following table shows each employer relationship for each program (an employer in more than one program would count more than once):



As shown above, PERS has faced two challenges over the years. First, is the growth of program responsibilities. Second, is the growing membership needs for assistance. We have also tried to meet the needs of our members and monitor how we are doing by sending to them a rating card. The following are the responses:

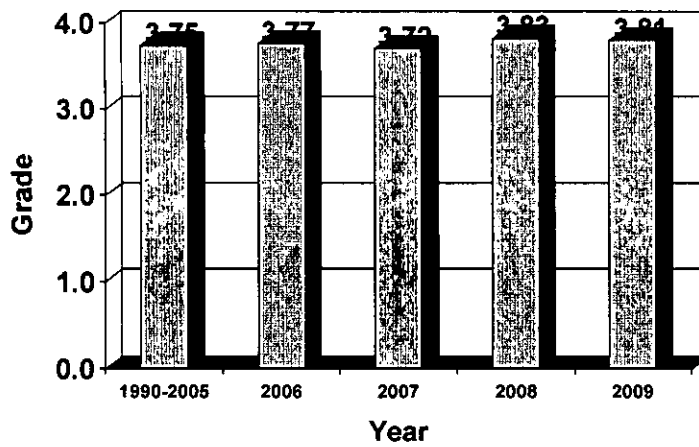
## NDPERS Member Report Cards

Courtesy you received from NDPERS staff?



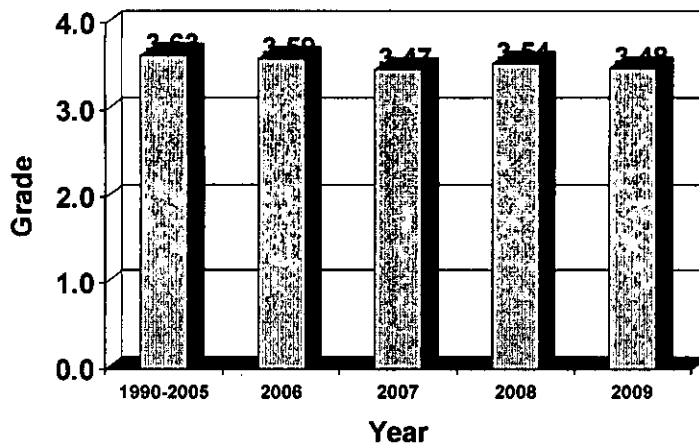
## NDPERS Member Report Cards

Promptness of NDPERS response to your inquiry?



## NDPERS Member Report Cards

Was the information you were given easy to understand?



As the above shows, we have been able to maintain a positive rating by the members but we note that we face a challenge in communicating the details of our programs to our members.

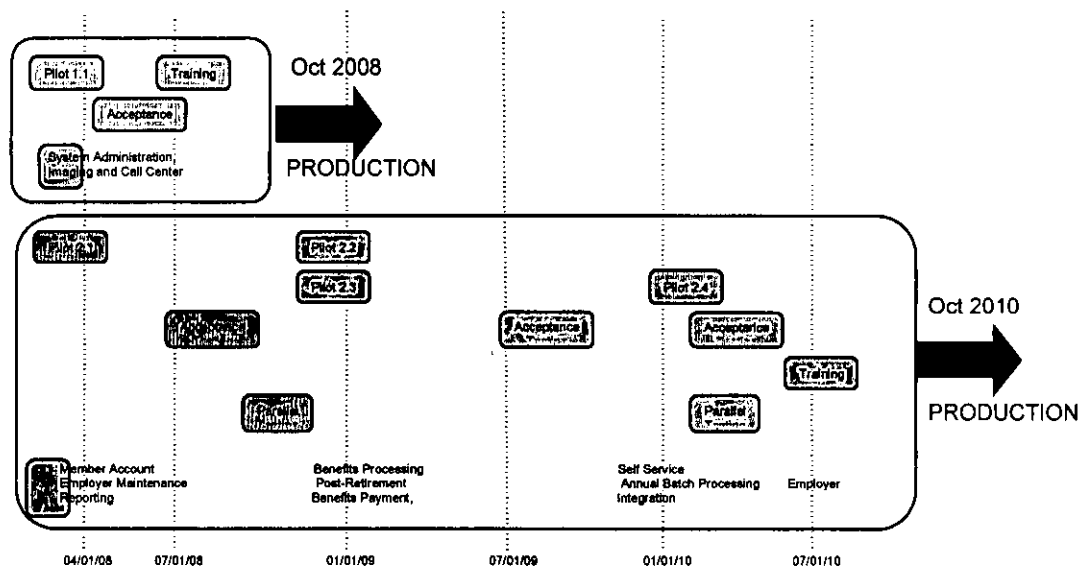
We are also concerned with maintaining the quality of what we do. To that extent, we have sought national review of our systems and other reviews as noted in the following:

- We have received the Public Pension Achievement Award and the Recognition Award for Administration.
- We have received the Certificate of Achievement for Excellence in Financial Reporting 1996-2009.
- We have had Unqualified Audit Opinions for over 20 years.

# PERS Business System Replacement Project

Several bienniums ago, you approved funding the replacement of our business system. The following was the schedule we discussed:

## Overall Project Schedule



I am pleased to report to you that our project did go live as projected in October of 2010 after three years of development. The employee portal is scheduled to go live in the second half of 2011. This project has been extremely challenging for PERS over the last several years. As challenging as that has been, we are finding that implementation is equally as challenging. With the rollout of the project most of the jobs in our agency changed, most of our staff is presently learning new ways to do our business. Externally, our participating employers are learning a new way to communicate with PERS. We are finding that these new processes pose many challenges, both internally and externally, and since implementation we are discovering ways to improve the system to make it more user friendly. We know that much of 2011 and into 2012 will

require a lot of effort by our agency to refine our implementation processes and business system to more effectively meet the needs of our employers and members. I also want to report to you that our project is on budget at this time as well.

## **2009-2011 Initiatives**

The following are some of the major initiatives done this biennium.

### **Major Initiatives Retirement**

- Performed a retirement plan performance study on our defined contribution plan.
- Worked with participating employers, members and representative groups to review the challenge facing the PERS retirement plan and to prepare options to address the situation.
- Received and reviewed the annual actuarial valuation for the PERS defined benefit plans.
- Reviewed the PERS investment policies.
- Reviewed the results of the experience for the PERS retirement plans and adjusted the assumptions where indicated.
- Prepared draft legislation for funding our retirement programs and submitted it to our legislative oversight committee.
- Started efforts on an Asset/Liability Study for the PERS Retirement plans
- Implemented the increase in the retiree health credit.
- Issued an RFP for a consultant to provide assistance with seeking a bundled provider (recordkeeping and investments) for the 401 (a) plan and 457 plan.
- Worked with the IRS on our determination letter under Schedule C.
- Received the "Recognition Award for Administration" from the Public Employees Coordinating Council.



### Administrative

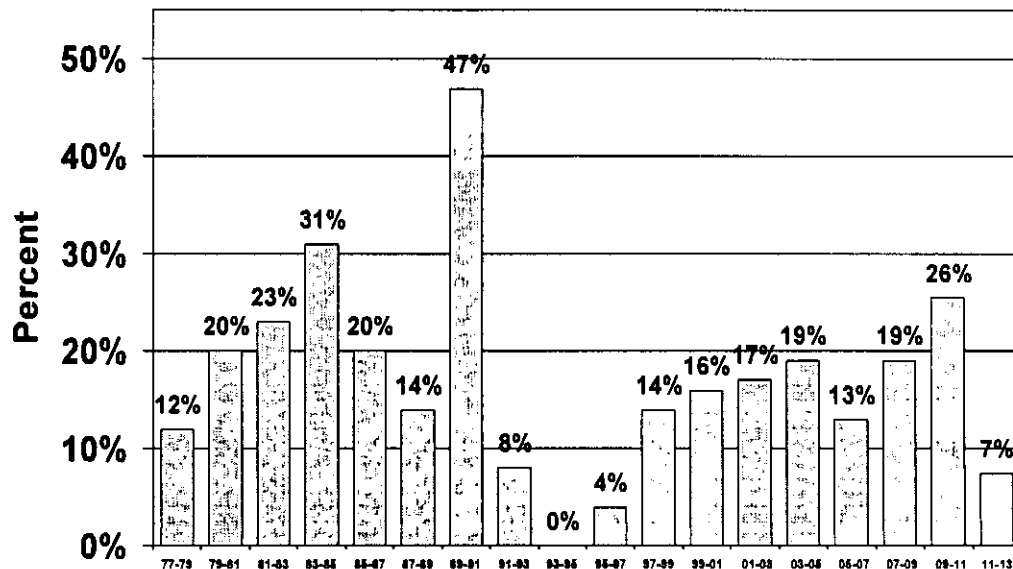
- Continued development of the new PERS business system and implemented it in October of 2010, the project remained on schedule and within budget.
- Promulgated our administrative rules to implement legislation passed by the 2009 Legislative Session.
- Completed and reviewed the annual audit report.
- Developed new job requirements and processes in agency for implementation of the PERSLink system.
- Received the GFOA Certificate for Excellence in Financial reporting.

### Major Initiatives Insurance

- Conducted an audit of our pharmacy benefit manager.
- Completed the Medicare Part D renewal.
- Issued an RFP for our Group Insurance Consultant, analyzed the responses and issued a contract for services.
- Completed the OPEB valuation.
- Prepared and issued an RFP for the group health insurance plan.
- Monitored the health care reform effort and its implication for the PERS plan and took all required actions.
- Expanded the PERS Wellness program to more employers/members.

In the group health insurance area our plan has had some significant success this biennium. As you may have noted, our health plan trend has dropped substantially.

The following table shows the effect this has had on our premiums:



As the above shows, the health premium increase this biennium is a little over 7%. This is the third lowest increase since 1977 and represents a significant savings for this biennium. Our plan is also projecting a gain for this biennium that under our settlement process with BCBS will be available next biennium to help offset future increases.

## **PERS Budget**

The proposed budget before you today is basically a hold even budget. With the system replacement project and our other efforts, the challenge we face in the next biennium is just keeping up with our existing commitments. Consequently, no major new initiatives are requested or no new FTE are proposed in this budget. No increase for costs related to Health Care Reform have been included in the budget. Any additional costs incurred as a result of this will be paid through the Contingency Line Item when and if they arise.

The following is a summary of the budget compared to this biennium:

	<u>2009-2011 Appropriation</u>	<u>2011-2013 Recommendation</u>	<u>Change</u>
Salaries	\$4,236,489	\$4,563,507	\$327,018
Operating	1,659,999	1,963,383	303,384
Tech. Prj.	4,734,726	0	(4,734,726)
Contingency	<u>250,000</u>	<u>250,000</u>	
Total Base	\$10,881,214	\$6,776,890	(4,104,324)

If we look at this comparison and factor out the one-time costs for our system replacement project it shows:

	<u>2009-2011 Appropriation</u>	<u>2011-2013 Recommendation</u>	<u>Change</u>
Salaries	\$4,236,489	\$4,563,507	\$327,018
Operating	1,659,999	1,963,383	303,384
Contingency	<u>250,000</u>	<u>250,000</u>	
Total Base	\$6,146,488	\$6,776,890	\$630,402

Breaking down the recommended budget further by percent we find:

	<u>Recommended Budget</u>	
Salaries	\$4,563,507	67%
Operating	1,963,383	29%
Contingency	<u>250,000</u>	<u>4%</u>
Total Base	\$6,776,890	100%

The salaries and wage line item is 67% of our budget and supports 33 FTE. The reconciliation of this line item from this biennium to the recommended budget is as follows:

2009-2011 budget	\$4,236,489
Payplan changes (second yr 5%, etc)	81,799
Gov recommended increase	
Salary	163,458
Benefits Inc	81,761
2011-2013 recommendation	\$ 4,563,507

The operating line item is 29% of our budget and you will note that it has increased from the 2009-11 biennium. This increase is primarily the result of our IT project moving from development to implementation. More specifically during development this biennium the cost was reflected in our special line item. The cost of the old system was in operating but since we were no longer maintaining the old system those costs were at a low level. Now that our new system has gone live, the ongoing cost will be reflected in the operating line and no special line item will be used. The following highlights some of the dynamics of these line items:

1. Operating expenses were reduced by \$127,426 as a result of the completion of the PERSLink Project. The 2009-11 budget included funding to rent additional office space for the PERSLink Project Team and also included funding to hire additional help through a temporary service agency which was used at various times throughout the duration of the project. These expenses will no longer be necessary.
2. IT related services represent about 50% of our operating line item. Operating expenses were increased by \$447,348 for Information Technology activities. The primary component of this increase is the maintenance and ongoing support fees paid to our IT vendor for the PERSLink System. This is offset by a reduction in data processing expenses paid to ITD.

Our fees to ITD were reduced to reflect retiring our mainframe applications. However, as a result of PERSLink, we have additional fees for hosting the

application, disaster recovery and using the ITD Service Desk to help support our external customers.

IT Equipment has also been reduced. The agency is on a 4 year hardware replacement cycle, which occurred during the 2009-11 biennium.

3. An increase of \$43,819 has been included for inflation. The three areas impacted by this are postage, office rent and the OMB central service allocation.
4. A reduction of \$13,000 in general fund appropriation authority to pay OASIS benefits has been removed as there are no longer any beneficiaries being paid from this plan.
5. Out of state travel, printing and equipment rent have been reduced to more accurately reflect our actual expenditure trends.

In addition to the above HB 1364 adds an additional responsibility to PERS. Specifically it would add to our health plan a HDHP/HSA option. That bill provides an additional \$91,000 in operating expense for one time modifications to our business system for the new program (approximately \$81,000 and for educational material with the rollout of the program \$20,000). No additional staff is requested in that bill for this new program. This bill passed the House and is now in the Senate for consideration.

Mr. Chairman, members of the committee I would also like to take this opportunity on behalf of PERS to thank you for your past support. Together we have provided to our members valuable benefits that have truly made a significant difference in peoples lives and helped to support the economic health of North Dakota. We look forward to continuing to work with you in the future. Again, thank you and this concludes my testimony.

**Engrossed SB 2022**  
**North Dakota Retirement and Investment Office**  
**Testimony to House Appropriations Committee**  
**John Geissinger, Executive Director/CIO**  
**March 7, 2011**

Good morning Mr. Chairman and Members of the Committee. My name is John Geissinger and I am the Executive Director and Chief Investment Officer for the Retirement and Investment Office.

**RIO Background**

RIO was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two important long-standing state programs – the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the State Investment Board (SIB).

TFFR is a qualified defined benefit public pension plan. The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. TFFR serves over 9,900 teachers from 231 employer groups and pays benefits to more than 6,600 retirees and beneficiaries. Funds requested in the RIO budget request relating to the TFFR program include salaries, benefits and administrative overhead costs for 12.35 FTEs who deliver and support high quality member services and outreach programs to members and employers as part of the continuing effort to keep them informed about the retirement program.

The SIB is responsible for the investment of over \$5.0 billion in assets for eight pension funds and 17 other insurance-type funds. All of the funds are invested in accordance with the "Prudent Investor Rule". Attached you will find a three page description of the SIB process. The first page graphically shows the three groups that are involved in the process. The top section represents the "governing bodies" of each of the funds invested with the SIB. These governing bodies, or clients as we call them, are responsible for setting the investment guidelines and asset allocations of their respective funds. Examples of these clients include TFFR, PERS, WSI, the City of Bismarck and OMB.

Once the guidelines and asset allocations are determined by the clients, they are turned over to the SIB for implementation. The SIB selects investment managers to manage different types of portfolios within each asset class with the goal of maximizing return under the clients' acceptable risk levels. Similar client funds are pooled together when possible to receive lower fees from investment managers.

And finally, the staff of RIO administers the day-to-day operations of the investment program by monitoring the client guidelines and asset allocations, managing the consultant, custodian and investment manager relationships and maintaining separate accounting for all funds. The SIB has continuing appropriation authority under ND Century Code section 21-10-06.2 to pay for investment related costs of the program such as investment management fees, custodial fees, performance measurement fees and fees associated with manager searches and onsite reviews of investment managers. These costs are allocated directly to the client funds affected by the expense. Funds requested in the RIO budget request relating to the SIB program include salaries, benefits and administrative overhead for 4.65 FTEs plus a request for one additional FTE which will be described shortly. All funds requested in the RIO budget are Special Funds.

## **2009-11 Budget Review**

Current budget estimates for the 2009-11 biennium indicate that RIO will have unexpended appropriation in the salary line of approximately \$75,000 and \$50,000 in our operating line. The savings in the salary line were mainly from benefit savings while the Executive Director position was held by a temporary employee for 7 months while a search for a permanent replacement was held. Savings in the operating line come from a variety of sources but some of the major contributors include travel, professional development and IT services as explained below.

- Both the SIB and TFFR Boards consider board member education to be a top priority. Many of the best opportunities for education in the areas of investments and retirement plans are sponsored by national organizations. As a result of this, RIO has requested funding for travel and professional development to attend conferences and other training-related events. When planning the current biennium budget, we anticipated two or three trips per board member, depending on whether they sat on one or both boards. For a variety of reasons, board members were not able to attend their allotted number of training opportunities. Scheduling conflicts tend to be the main reason. To ensure board members continue to be adequately educated, outside professionals are brought in frequently to conduct educational sessions during regularly scheduled board meetings, generally at no cost to the funds. Additionally, due to the vacancy in the Executive Director position this past year, other staff members were needed in the office and were unable to attend some of the conferences or training opportunities they normally would have attended. We anticipate having approximately \$30,000 in the travel line and \$10,000 in the professional development line remaining at the end of the current biennium.
- During the second year of the current biennium, the annual maintenance contract, originally negotiated with our software vendor for the retirement program, expired. A new maintenance agreement has been negotiated based on estimated hours anticipated to be used for modifications to the system. This amount was approximately \$12,000 less than the annual maintenance plan from the previous year, resulting in savings for the current biennium.

## **One-Time Funding**

RIO had a one-time funding request of \$25,000 included in the current biennium budget, associated with the implementation of a one-time \$4.4 million supplemental benefit payment to TFFR retirees. Of that amount, \$3,135 was used for postage and mailing services to send out notices to those TFFR members who received the supplemental benefit payment in December 2009. The remaining \$21,865 was put into the IT Data Processing line but was not used as we had adequate pre-paid programming hours available to make the necessary changes to the system.

## **2011-13 Budget Highlights**

The budget request you have before you for RIO for the 2011-13 biennium totals \$4.2 million and is all special funds. Some of the highlights of the Executive Budget Recommendation for your consideration are:

- Within the salaries and wages line, RIO is requesting an additional position for a Deputy Chief Investment Officer for the investment program. The position is being requested as a result of a performance audit conducted in July/August of 2010 by Clifton Gunderson LLP. The final performance audit report contained a recommendation to consider such a position in order to ensure the continuity of the operations of RIO in the event the CIO position is vacated and to provide enhanced and more formal investment manager due diligence and compliance reports to the SIB on a regular basis.

- Within the operating line, RIO has attempted to reduce expenditures wherever possible. Our budget request includes a total reduction of 0.2% in the operating line. The largest fluctuations within the operating line are detailed below.

#### Operating Line Decreases

- The agency's PC replacement schedule is on a four year cycle. We will not need to replace any PCs in the 2011-13 biennium. Additionally, portable computers and a multi-function printer/copier have been or will be purchased this year. Therefore, no funds are being requested for these items for the next biennium. This resulted in a reduction of \$9,900 for this category.
- RIO has negotiated a maintenance proposal with our retirement administration software vendor. This has allowed us to reduce the IT contractual services line item by \$26,600 for the next biennium. However, because it is unknown if any of the TFFR funding bills or other changes will be adopted during the legislative session, an additional funding request may become necessary in order to adequately update the system to accommodate those changes. Possible sources for covering these expenses are either contingency funds or fiscal notes attached to individual bills if costs can be determined in advance.
- The travel line item has been reduced by \$7,200. We have reduced the number of trips allotted to board members and staff, based on previous experience, while still maintaining an acceptable budget for continued educational needs.

#### Operating Line Increases

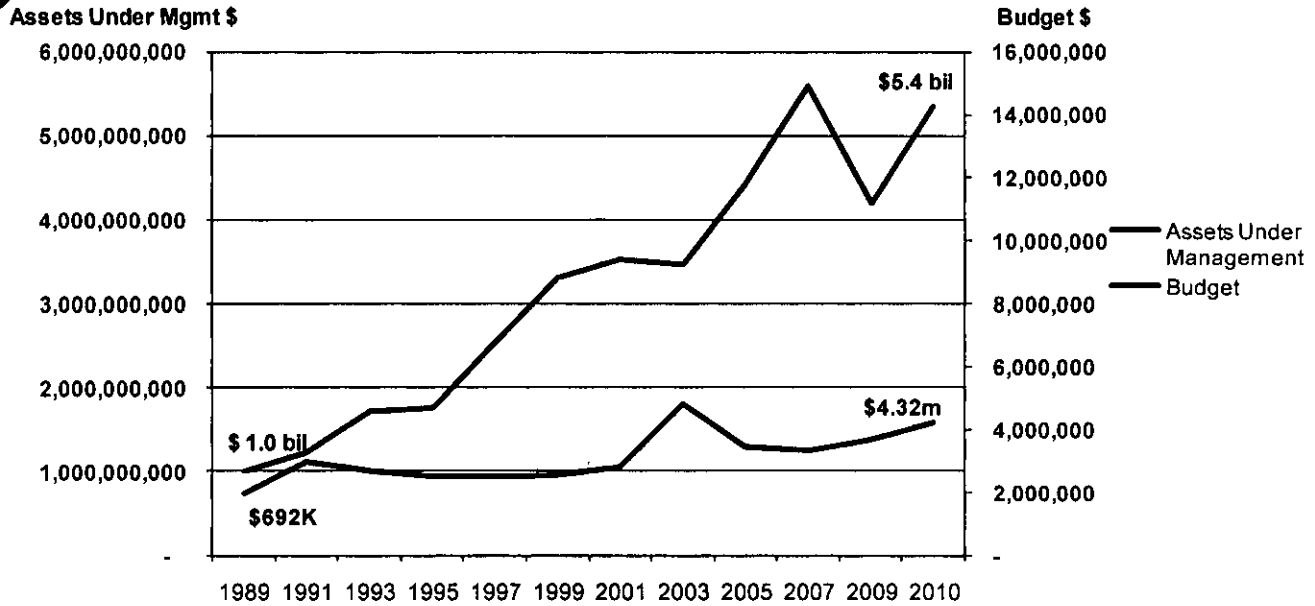
- In order to offer TFFR members access to their account information on-line, a new member on-line service is currently being developed. The additional cost to host this service through the State's servers is approximately \$35,000 for the biennium. Our total IT data processing line is increasing by just under \$28,000, indicating savings in other areas of IT.
- Although RIO has begun to provide more communications via the web and email, many items still need to be provided to members in hard copy via the postal service. Postage rates are expected to increase at least once during the next biennium and so we have included that anticipated increase in our budget request resulting in an increase in postage expenses of just under \$6,000.
- Lease rates for the space occupied by RIO's offices are expected to increase by 3% or \$4,500.
- RIO is not requesting an increase in the contingency line. We used contingency funds in the current biennium to pay for the cost of hiring a third-party search firm who assisted the SIB in finding a new Executive Director/CIO for the agency. This was an unexpected situation for which contingency funds are designed. RIO does have authority to spend out of the contingency line with State Investment Board approval, and the Board has approved this expenditure.

#### Conclusion

As always, the Retirement and Investment Office strives to provide high quality services to its members and clients in a cost effective and efficient manner. We feel that this budget will allow us to continue to do so. Thank you for your time and consideration.

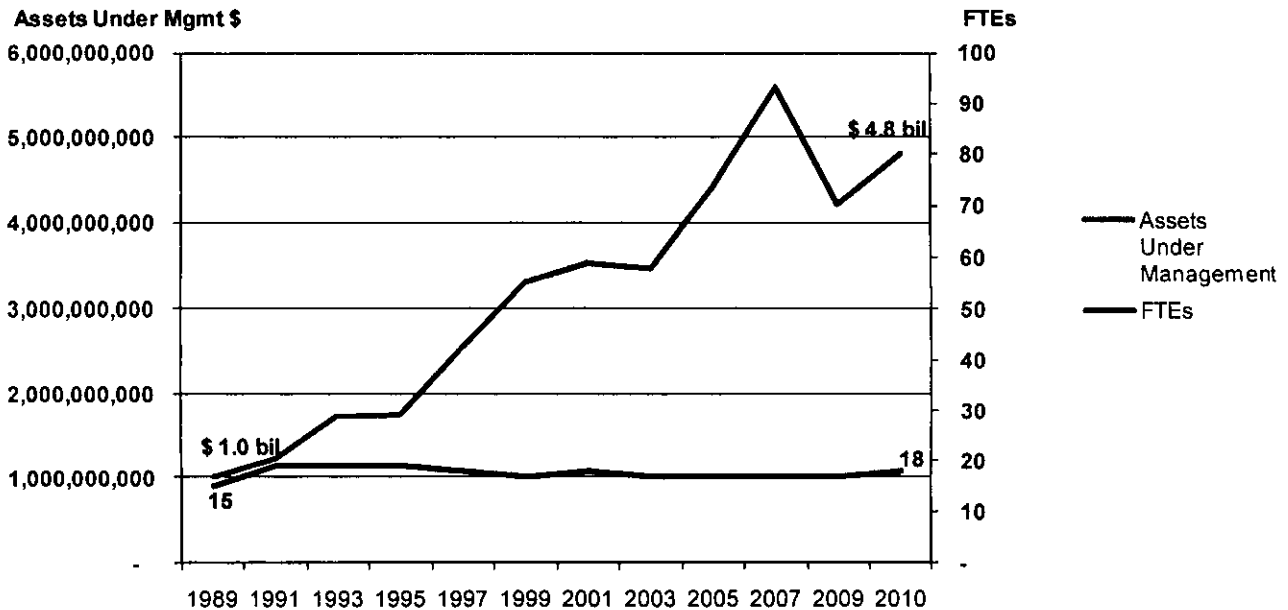


## Retirement and Investment Office Assets Under Management vs Budget



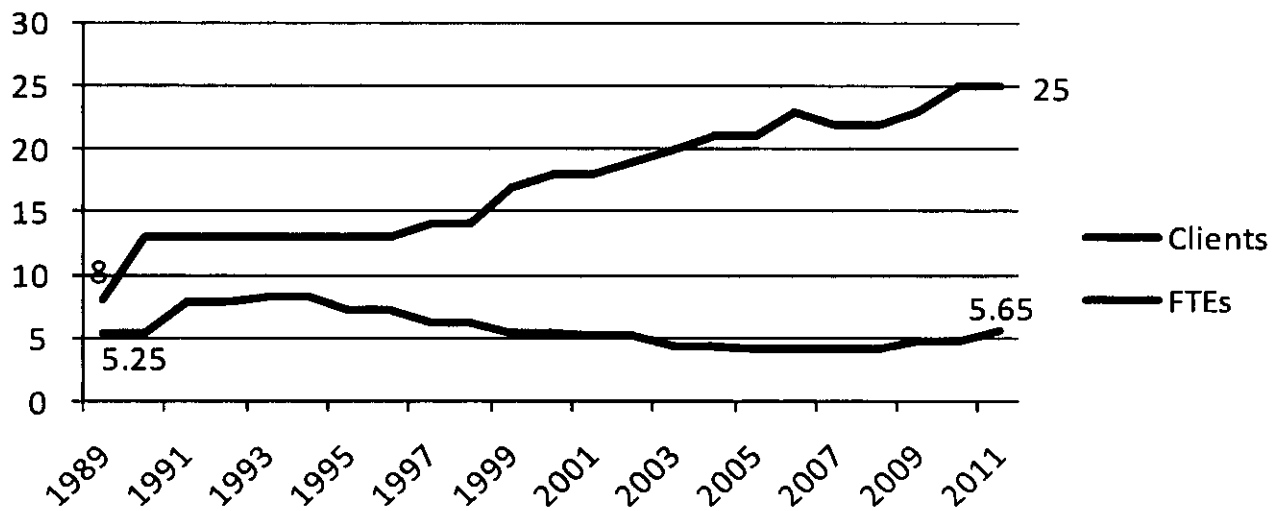
2011-13 Biennium \$1,266 assets under management per budget dollar  
 1989-91 Biennium \$ 507 assets under management per budget dollar

## Retirement and Investment Office Assets Under Management vs FTEs



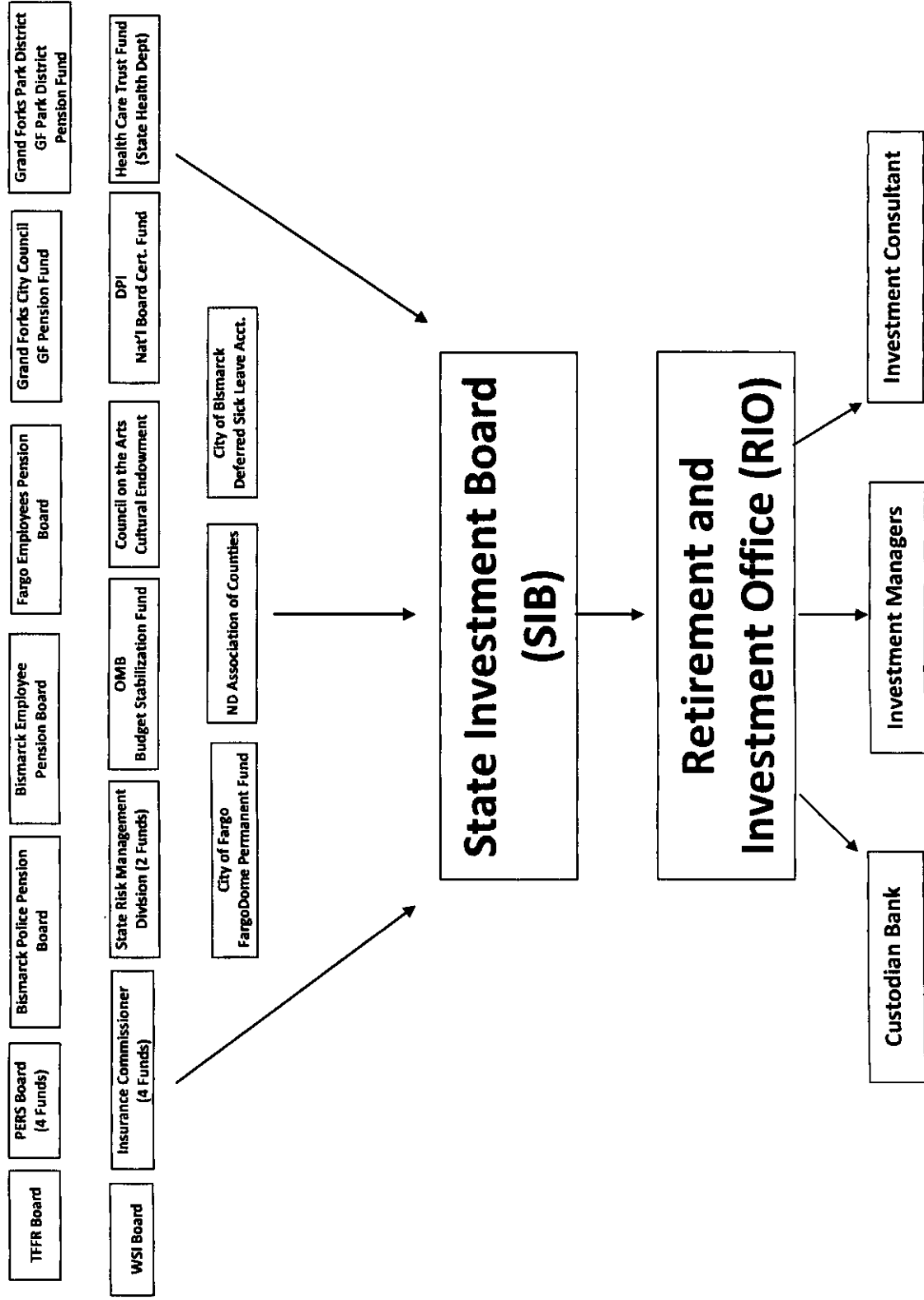
2011-13 Biennium \$266,681,429 assets under management per FTE  
 1989-91 Biennium \$ 66,845,600 assets under management per FTE

## State Investment Board Program Client Funds vs FTEs



2011-13 Biennium 4.42 investment clients per FTE  
1989-91 Biennium 1.52 investment clients per FTE

# State Investment Board Process



## **State Investment Board Process**

**Client Responsibilities:** (Per NDCC 21-10-02.1) The governing body of each fund (client) shall establish policies on investment goals and objectives and asset allocation that must include:

- Acceptable rates of return, liquidity and levels of risk
- Long-range asset allocation goals

**State Investment Board Responsibilities:** (Per NDCC 21-10):

- Implement client asset allocations
- Apply Prudent Investor Rule when investing for fund under its supervision
- Approve general types of securities for investment
- Set policies and procedures regulating securities transactions on behalf of the clients
- Select custodian servicer
- Select investment director and/or investment consulting service
- Create investment pools

## **State Investment Board Process**

### **Retirement and Investment Office Staff Responsibilities (on behalf of SIB):**

- Administer overall investment strategy
- Advise SIB on ways to maximize risk/return opportunities within each asset class
- Act as liaison between SIB and managers, consultant and custodian
- Monitor individual clients' investment guidelines and asset allocations
- Maintain separate accounting for client accounts

### **Investment Manager Responsibilities:**

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

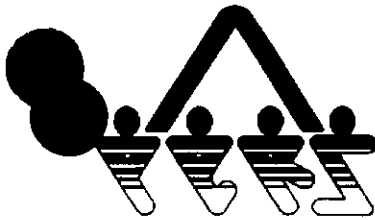
### **Custodian Bank Responsibilities:**

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

### **Investment Consultant Responsibilities:**

- Performance measurement of investment managers
- Manager search assistance
- Provide education to SIB
- Special projects

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**North Dakota**  
**Public Employees Retirement System**  
400 East Broadway, Suite 505 • Box 1657  
Bismarck, North Dakota 58502-1657

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# Memorandum

**TO:** Chairman Thoreson  
House Appropriations Committee  
Government Operations Division

**FROM:** Sparb Collins

**DATE:** March 14, 2011

**SUBJECT:** Follow-up information to Budget Hearing

I am writing in follow-up to our budget hearing on Monday March 3 (SB 2022 – NDPERS). The following questions were asked that needed our follow-up:

1. Number of people with each 457 deferred compensation provider
2. Costs for health plan if not grandfathered
3. PBM audit
4. How were we impacted with ITD rate change
5. Spend down sheet for operating
6. Comparison of IT costs under ITD and PERSLink

## Response to Question 1

### **ACTIVE DC 457 PROVIDER ACTIVE ACCOUNTS - August 2010**

Fidelity Companion Plan – 2,252  
Hartford – 909  
Equitable – 407  
VALIC – 327  
Nationwide – 258  
American Trust – 201  
Chase – 176  
Waddell & Reed - 161  
Bank of ND – 85  
Lincoln – 57  
Aetna – 35  
Jackson – 20  
Symetra – 14  
Sunset – 2

Response to Question 2:

The most recent estimate from Blue Cross Blue Shield is health plan cost would increase by \$10 to \$14 per contract per month if we lost our grandfathered status.

Response to Question 3:

Attached is a copy of the recent Pharmacy Benefit Manager audit report.

Response to Question 4:

ITD changed the method of billing Agency's for network access from a 'per device' fee, to a 'per FTE' fee. This resulted in a savings to NDPERS of approximately \$200/month.

Response to Question 5:

The NDPERS 2009-11 Budget Status Report is attached.

Response to Question 6:

The NDPERS IT Cost Comparison is attached.

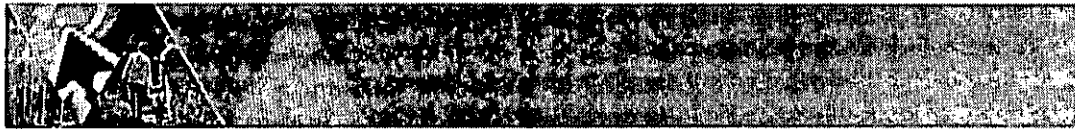


RESEARCH PARK  
10400 West Innovation Drive  
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Milwaukee, WI 53226  
(888) 321-2021

# Audit Results Provided for North Dakota Public Employees Retirement System (NDPERS)

October 28, 2010





### **Executive Summary**

North Dakota Public Employees Retirement System (NDPERS) is currently assessing the performance of its' Pharmacy Benefit Manager (PBM) Vendor, Prime Therapeutics (Prime) via Blue Cross Blue Shield of North Dakota (BCBSND). NDPERS is a fully insured plan with BCBSND but their contract provides for their plan to be accounted for separately. While BCBSND selects the PBM it is in NDPERS interest to insure that all claims are properly paid by that vendor and all rebates are returned to the NDPERS account pursuant to the guidelines agreed upon. NDPERS is completing this audit in order to maintain ongoing oversight efforts and obtain a thorough understanding of the performance of the subcontracted PBM.

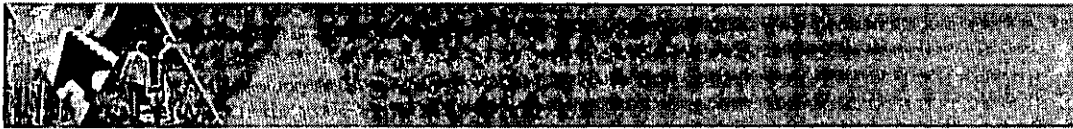
### **Project Scope**

Pricing elements reviewed include:

- Achieved Discounts:
  - Brand and Generic Mail Order
  - Brand and Generic Retail
  - Brand and Generic Specialty
  - Zero Balance Claims
  - Compound Claims
  - Subscriber Claims
  - MAC Pricing
- Adjudicated Dispensing Fees:
  - Brand and Generic Mail Order
  - Brand and Generic Retail
  - Specialty
- Contract Administrative Fees:
  - Mail
  - Retail
  - Specialty
- Top 20 pharmacy contracts
  - Q4 2008 rebates audit of the top eight (8) pharmaceutical manufacturers

The elements analyzed include:

- Base rebate (volume driven)
- Performance rebate (market share generated)
- Administrative fees (ensuring capture and appropriate reporting)



- Plan design parameters reviewed include:
  - Included/Excluded Drugs
  - Quantity Limits
  - Days Supply
  - Formulary & Non-Formulary
  - Co-pay Rules
  - Step and contingent therapy
  - Prior Authorization

### **Audit Team**

The TRICAST staff members comprising the NDPERS audit team include:

- Greg Rucinski: President and CEO with 24 years of pharmacy and PBM experience.
- Sara Herbert: Senior Consultant with 18 years of PBM experience.
- Rob Shelley: SRVP of Business Development with 19 years of pharmaceutical and PBM experience.
- Lisa Lenda: Audit Consultant with 8 years of PBM experience.  
Heather Stevens: Plan Design and Audit Analyst with 8 years of PBM experience.
- Tom Rieger: Database Administrator
- Peggy Williams: Database Analyst and Reporting Specialist

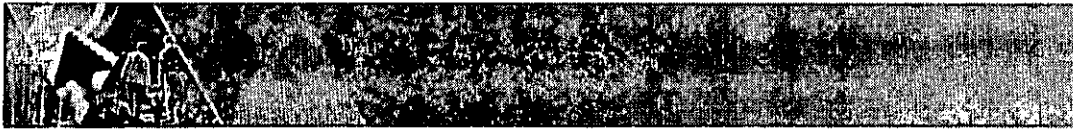
Overall, BCBSND and Prime are performing well based on the adjudication rules shared throughout the audit process. The audit covered 517,115 claims totaling \$33,157,596 in ingredient cost and dispensing fees. The audit found and observed accuracy rate of approximately 99.46%. The areas in which variances and/ or observances were made are outlined below.

*Prime's Comment: TRICAST concluded that 2,661 claims totaling \$1,831 had copay errors. Please refer to the table on page eight of this document for more detail. Prime disputes these findings and has provided comment explanations in each claim file of Appendix A.*

### **Audit Methodology**

#### **1. Contract Analysis**

During the time period under review NDPERS contracted with BCBSND/Prime to provide Pharmacy Benefit Management (PBM) services. A review of the NDPERS/BCBSND contract was completed to review the discount and pricing terms in effect.



The contractual arrangement surrounding pharmacy reimbursement is based on a pass through arrangement. A review of the BCBSND contract with Prime was completed for contract terms.

### Pricing Summary

(Time Period: 1/1/08-12/31/2008)

Drug Type	Actual Claim Counts	Achieved Discount	2008 Market Standard
Retail Brand 1-83 DS	124482	AWP – 17.12%	AWP – 17%
Retail Brand 84-90 DS	21825	AWP – 13.6%	AWP – 17%
Retail Generic 1-90DS	296760	AWP – 70.59%	AWP – 64%
Mail Brand 1-34 DS	80	AWP-18.19%	AWP – 17%
Mail Brand 35-90 DS	0	No Claims	AWP – 22%
Mail Generic 1-90 DS	434	AWP – 54.69%	AWP – 67%

*The market standard is based on a national review of carrier specific discounts.*

#### 1. Pass Through Pricing Audit- On-site Review of Provider Contracts

The achieved discounts were evaluated. The discounts were verified by the review of the top twenty pharmacies filling prescriptions for NDPERS. An on-site analysis of the top twenty pharmacy contracts was completed along with a comparative review to the actual performance of these specified stores. This review was absent of any discrepancies and no spread pricing was revealed. Please see Appendix B for detailed results.

##### a. Pricing Guarantees

The contract does not specifically address any discount amounts or guarantees.

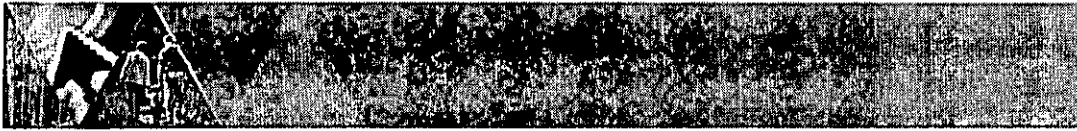
**Action recommended; negotiate a contract with specific discount definitions and guarantees.**

Please see Appendix A for detailed results.

#### 2. Data Integrity Checks

TRICAST reviewed 100% of pharmacy claims processed between 1/1/2008 and 12/31/2008. No sampling methodology was required. All claims were captured.

Programming for TRICAST's audit claims adjudication system included loading of all pricing terms and plan design parameters.



Data integrity was validated, no action required.

### **Pricing Audit**

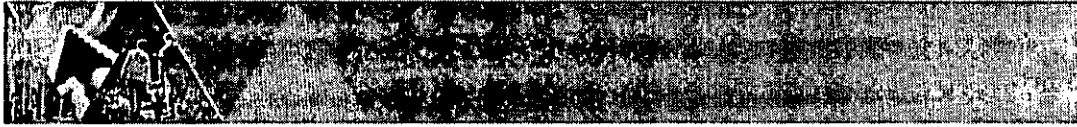
The claims reviewed under the pricing audit included a review of the following claims summary:

#### **Calendar Year 2008**

Ingredient Cost:	\$31,916,248
Claim Count:	516,920

- Retail Brand
  - \$21,025,661
  - 146,307 Claims
- Retail Generic
  - \$5,962,054
  - 304,859 Claims
- Mail Brand
  - \$27,629
  - 80 Claims
- Mail Generic
  - \$19,756
  - 434 Claims
- Subscriber
  - \$545,408
  - 8297 Claims
- Zero-Balance
  - \$186,700
  - 18,312 Claims
- Compounds
  - \$95,300
  - 2344 Claims
- Over-the-Counter
  - \$43,304
  - 1439 Claims
- Patent Litigated
  - \$3,977,317
  - 34,768 Claims

The pricing audit included an audit against third party pricing source Medispan for assessment retail discount performance.



**Pricing Discounts Validated as per the current agreement – No Action Required.**

**3. Plan Design Audit**

The plan design for NDPERS has been reviewed and audited to include:

**a. Co-pay**

The copay summary is as follows:

	Retail and Mail
Generic Preferred	\$5 + 15%
Generic Non-Preferred	\$25 + 50%
Brand Preferred	\$20 + 25%
Brand Non-Preferred	\$25 + 50%
Diabetic Supplies	15%
Maximum Out-of-Pocket	\$1000

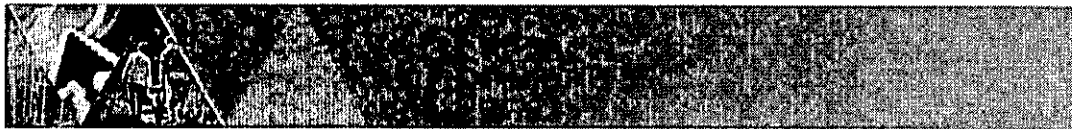
The variance amounts total a net dollar amount of \$1,831. The final results are included in Appendix A.

Through-out various iterations and discovery analysis with Prime the following was discovered:

- The flat dollar portion of the members copay does not apply towards the member's \$1000 out-of-pocket maximum (OOP).
- Adjustments were made by TRICAST to the audit assumptions and the audit was rerun. The results were shared with Prime.
- It is noted that BCBSND has access to the Prime's adjudication system for purposes of copay overrides.

**Action Required.** TRICAST is requesting that NDPERS verify the conclusions provided above reflect NDPERS' assumptions of appropriate plan administration.

*Prime's Comments: The statements below are conclusions made by Prime following the review of the claims in the discrepancy files. Please refer to the spreadsheets in Appendix A for specific responses to the claims in question.*



- i. Flat copayment required. Prime will not require greater than approved amount.
- ii. Drug identified as fertility drug is not a fertility drug.
- iii. Prior authorizations are entered by BCBSND.
- iv. Member will not be charged more than allowed amount.
- v. The waiver of flat copayments for diabetic supplies was not accounted for in the audit calculations.
- vi. Member pays the difference if a brand drug is selected when a generic drug is available.
- vii. Paid as a compound. Compounds are to pay as Non-Formulary.

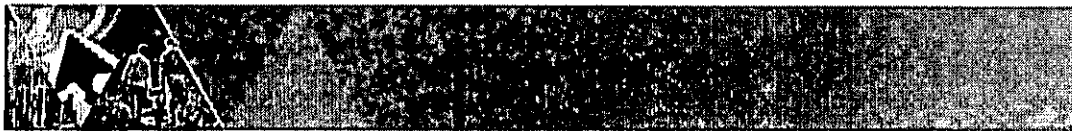
**TRICAST's Comments:**

- i. TRICAST notes that Prime will not require greater than approved amount for a member's copay.
- ii. Both Novarel and Chorionic Gonadotropin are drugs commonly used to treat infertility according to Facts and Comparisons.
  - a. Facts and Comparisons defined: Drug Facts and Comparisons contains up-to-date, comprehensive information on over 22,000 Rx and 6,000 OTC items grouped by therapeutic category for ease of comparison. The reference book answers questions about actions, indications and contraindications; warnings and precautions; interactions between drugs; adverse reactions; administration, dosage, and over dosage; and patient information.
- iii. Prior authorizations are entered by BCBSND.
- iv. TRICAST notes that Prime will not require greater than approved amount for a member's copay.
- v. TRICAST did account for the waiver of flat copayments for diabetic supplies.
- vi. Member pays the difference if a brand drug is selected when a generic drug is available.
- vii. TRICAST was not aware that all compounds pay as Non-Formulary.

**b. Out of Pocket Maximum Calculations**

Through-out various iterations and discovery analysis with Prime the following was observed:

- The flat dollar portion of the members copay does not apply towards the member's \$1000 out-of-pocket maximum (OOP).
  - Adjustments were made and the results were shared with Prime.



- TRICAST was not accumulating the 15% co-insurance towards the members \$1000 OOP.
  - Adjustments were made and the results were shared with Prime.
- The penalty amount the member is charged for requesting a brand drug with a generic available should not accumulate towards the members \$1000 OOP.
  - Adjustments were made and the results were shared with Prime.
- TRICAST was not accumulating sales tax towards the members OOP maximum.
  - Adjustments were made and the results were shared with Prime.

**Variance Summary:**

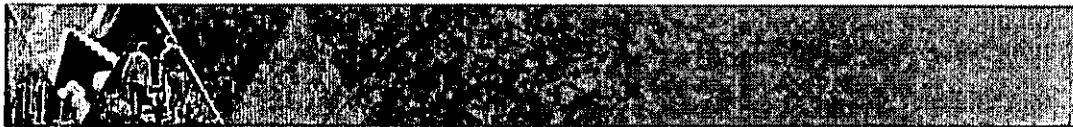
**2,662 Claims noted at not in compliance with \$1,831 due to the plan.**

<b>Copay or Out-of-Pocket Channel</b>	<b>Claim Count</b>	<b>Financial</b>
Diabetic Supply after OOP	3	(\$17)
Diabetic Preferred	3	(\$156)
Specialty	22	\$249
Fertility	25	(\$22)
Mail Brand after OOP	1	\$15
Retail Brand Non-preferred	280	(\$1,114)
Retail Brand Formulary	830	(\$2,375)
Retail Brand After OOP	38	(\$1,511)
Retail Generic Non-preferred	579	\$3,495
Retail Generic Preferred	829	(\$436)
Retail Generic Preferred after OOP	4	(\$264)
Subscriber	47	\$307
<b>Total</b>	<b>2,661</b>	<b>(\$1,831)</b>

Discrepancies are noted. The final results are included in Appendix A.

**Action Required. TRICAST is requesting that NDPERS verify the conclusions provided above reflect the assumptions of appropriate plan administration.**

*Prime's Comments: The statements below are conclusions made by Prime following the review of the claims in the discrepancy files. Please refer to the spreadsheets in Appendix A for specific responses to the claims in question.*



- i. *Claim reversals need to be taken into account in the calculation of the OOP maximum amounts.*
- ii. *Member Reimbursement Account payments need to be taken into account.*
- iii. *Non-formulary drugs do not apply to coinsurance maximum.*

**TRICAST's Comments:**

- i. *TRICAST accounted for all reversals received on the claim extract provided by Prime.*
- ii. *TRICAST accounted for all Member Reimbursement Account payments provided on the claim extract from Prime.*
- iii. *TRICAST did not apply non-formulary to the coinsurance maximum.*

**b. Drug Exclusions**

Discrepancies noted. 89 claims for Tazorac paid totaling \$5436. According to the plan document Tazorac is a non-covered medication.

*Prime's Comment: Tazorac is listed as a formulary drug. As indicated in the BCBSND formulary and the Restricted Drug List, a PA is required over the age of 35.*

No action required, coverage verified.

**c. Prior Authorizations**

Discrepancies noted. Two (2) claims for Vfend IV paid without a PA totaling \$76. According to BCBSND these two claims were ingredients in a compound and approval was given by BCBSND. It is noted that BCBSND has access to the Prime Therapeutics adjudication system for purposes of prior authorization entry.

**Action required-verification of how a prior authorized drug included in a compound should be covered is recommended.**

**d. Quantity Limitations**

No discrepancies noted-no action required.

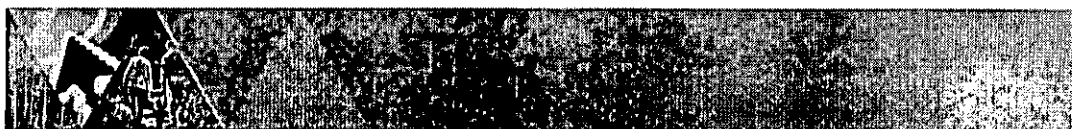
**e. Days Supply**

No discrepancies noted -no action required.

**f. Step and Contingent Therapy**

Not applicable.





**g. Pharmacy Input Errors**

No discrepancies noted - no action required.

Please see Appendix A for detailed results.

**Clarification of Coordination of Benefits (COB) adjudication:**

- **How are these claims being processed?**

*Prime's Comment: Blue Cross Blue Shield of North Dakota (BCBSND) processes all COB claims. Prime has no involvement in the processing of COB claims for BCBSND members.*

- **How are they identified on the claim extract?**

*Prime's Comment: By completing a search for COB in the claim extract file layout, multiple COB fields are identified. Please see fields 31, 276, 304, 355, 379 and 450.*

- **Are they full balance COB or the remaining amount minus copays?**

*Prime's Comment: BCBSND would pay on any remaining balance left as the member's responsibility.*

- **Are on-line COB claims being adjudicated?**

*Prime's Comment: All COB claims must be submitted to BCBSND via a paper claim format for adjudication.*

**TRICAST is requesting the NDPERS verify the Prime statements listed above.**

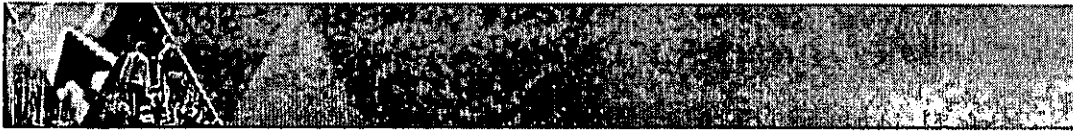
**4. Rebate Audit**

A full two day PBM on-site review of the top eight (8) pharmaceutical manufacturers was performed by three experienced PBM auditors. Prime Therapeutics' rebate revenue reports were reviewed. This review included base rebate, performance rebate, market share generated rebate, and administrative fees. These results were then reconciled against the Q4 2008 claims data to determine whether the appropriate rebate amounts were paid.

The claims reviewed under the rebate audit included a review of the following:

**Q4 2008**

Total Ingredient Cost:	\$4,034,437
Ingredient Cost Audited:	\$2,607,253 (64.5%)
Total Rebated Claim Count:	20,697
Claim Count Audited:	16,651 (80.4%)



Total Claims that Achieved Rebates:	13,616
Total Rebates Dollars Paid (All Manufacturers):	\$430,204
<b>Total Rebate Dollars Paid (Top 8 Manufacturers):</b>	<b>\$230,473</b>
Total Calculated Expected Rebate Amounts:	\$228,456

No action required – PBM is compliant with rebate administration and payments.

Please see Appendix B for detailed results.

#### 5. Recommendations / Next Steps

TRICAST notes that overall the audit exposed a few variances. TRICAST has worked with BCBSND and Prime to address the “action required” items that include:

- Copay discrepancies and verification
- Out-of-pocket discrepancies and verification
- Prior authorization discrepancies
- COB clarification

It is recommended that that NDPERS provide verification of proper plan administration where indicated throughout this document, and considers an ongoing review of items included in the scope of this document for calendar years 2009 and onward.

The final suggestion is that NDPERS negotiates a new agreement that meets market best practices and contains precise performance guarantees for all distribution channels and drug classifications. PBM Financial terms can also be improved based on current market offerings, leading to significant savings. TRICAST can forward a proposed SOW to complete that assessment, including savings estimates and guarantees.

# North Dakota Public Employees Retirement System

## 2009-11 Budget Status Report

Actual through 1/31/2011

	2009-11 Budget	2009-11 Actual	Projected for Remaining Months	Total Actual Plus Projected	(Over)/Under Budget
Salaries - Permanent	3,039,081.00	2,378,333.95	633,142.00	3,011,475.95	27,605.05
Overtime	5,700.00	43,213.92	5,000.00	48,213.92	(42,513.92)
Fringe Benefits	1,191,708.00	922,651.63	248,377.00	1,171,028.63	20,679.37
<b>Total Salaries &amp; Wages</b>	<b>4,236,489.00</b>	<b>3,344,199.50</b>	<b>886,519.00</b>	<b>4,230,718.50</b>	<b>5,770.50</b>
Travel	90,949.00	27,247.69	19,948.00	47,195.69	43,753.31
Supplies - IT Software	13,600.00	20,642.25	0.00	20,642.25	(7,042.25)
Supply/Material - Professional	6,812.00	3,825.18	1,419.00	5,244.18	1,567.82
Miscellaneous Supplies	1,000.00	0.00	208.00	208.00	792.00
Office Supplies	32,501.00	19,723.74	8,125.00	27,848.74	4,652.26
Postage	213,441.00	183,507.97	36,467.00	219,974.97	(6,533.97)
Printing	92,877.00	80,610.36	19,349.00	99,959.36	(7,082.36)
IT Equipment under \$5,000	37,000.00	28,293.75	2,000.00	30,293.75	6,706.25
Office Equip & Furniture-Under	5,000.00	2,127.25	1,042.00	3,169.25	1,830.75
Insurance	4,800.00	1,725.57	2,400.00	4,125.57	674.43
Rentals/Leases-Equipment&Other	50,000.00	21,465.52	10,417.00	31,882.52	18,117.48
Rentals/Leases - Bldg/Land	236,333.00	194,583.58	39,389.00	233,972.58	2,360.42
Repairs	9,000.00	4,120.88	1,875.00	5,995.88	3,004.12
IT - Data Processing	330,581.00	371,541.01	108,000.00	479,541.01	(148,960.01)
IT - Communications	53,631.00	40,506.56	13,408.00	53,914.56	(283.56)
IT Contractual Services	200,000.00	0.00	200,000.00	200,000.00	0.00
Professional Development	46,112.00	31,742.65	9,607.00	41,349.65	4,762.35
Operating Fees and Services	89,205.00	35,318.62	35,000.00	70,318.62	18,886.38
Professional Fees and Services	147,157.00	34,008.91	30,658.00	64,666.91	82,490.09
<b>Total Operating Expenses</b>	<b>1,659,999.00</b>	<b>1,100,991.49</b>	<b>539,312.00</b>	<b>1,640,303.49</b>	<b>19,695.51</b>
IT Contractual Services	4,734,726.00	3,018,127.44	1,716,598.56	4,734,726.00	0.00
<b>Total Technology Project Carryover</b>	<b>4,734,726.00</b>	<b>3,018,127.44</b>	<b>1,716,598.56</b>	<b>4,734,726.00</b>	<b>0.00</b>
Contingency	250,000.00	0.00	0.00	0.00	250,000.00
<b>Total Budget</b>	<b>10,881,214.00</b>	<b>7,463,318.43</b>	<b>3,142,429.56</b>	<b>10,605,747.99</b>	<b>275,466.01</b>

# North Dakota Public Employees Retirement System

## IT Cost Comparison

### 2009-11 and 2011-13 Bienniums

	2009-11 Biennium	2011-13 Biennium
<b>IT - Data Processing</b>		
Mainframe Costs (programmer/analyst, CPU, Storage, printing)	203,000	20,000
Network Costs (Network access, technology fee)	52,000	57,000
Hosting Services, not including PERSLink (EDMS, SharePoint, VPN, Active Directory, ConnectND, Websphere, Web)	85,000	46,000
Hosting Services - PERSLink	90,000	98,000
Disk Storage	50,000	64,000
ITD Service Desk	0	12,000
<b>Total IT - Data Processing</b>	<b>480,000</b>	<b>297,000</b>

<b>IT Contractual Services</b>		
Maintenance fee - upgrades to prevent software from becoming technologically obsolete	200,000	400,000
Application development	0	300,000
<b>Total IT Contractual Services</b>	<b>200,000</b>	<b>700,000</b>
<b>Total IT Costs</b>	<b>680,000</b>	<b>997,000</b>



North Dakota

# Retirement and Investment Office

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## SIB Investment Program

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[Governance Update](#)

[Requests for  
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### 1. What funds are invested by the SIB?

As of 6/30/10, the SIB has 13 statutory clients (as specified in [NDCC 21-10-06](#) and House Bill 1400, Sections 12 and 49, passed by the 61st Legislative Assembly) and 12 contracted clients. The largest of these include the Teachers Fund for Retirement (TFFR), Public Employees Retirement System (PERS), and Workforce Safety & Insurance Fund (WSI). Other clients include the City of Fargo Pension Fund, the City of Bismarck Employees and Police Pension Funds, and the State Fire and Tornado Fund. Please refer to the [SIB performance summary](#) page which lists the various funds under the SIB.

### 2. What is the size of the SIB investment portfolio?

As of 9/30/10, the SIB portfolio was comprised of \$3.4 billion in pension funds and \$1.7 billion in insurance funds. Please refer to the [SIB performance summary](#) page for the most recent quarter-end market values of the various funds under the SIB.

### 3. How does the SIB investment program work?

The SIB, with assistance from the RIO staff, implements the investment strategies of the individual clients of the SIB based on the clients' investment policies, which contain their asset allocations. Investments are managed in pools to take advantage of cost efficiencies available to larger pools of money. The SIB externally manages all of its investments, and hires professional investment managers to manage strategies intended to best maximize returns for stated levels of risk within the client policies. The investment managers make the day-to-day decisions on which securities to buy or sell based on investment strategies they are hired to utilize. RIO staff acts as a "manager of managers" and coordinates the activities of the external investment managers, custodian bank and investment consultant. Please click [here](#) to view a diagram of the SIB investment

program.

4. **What is the prudent investor rule used by the SIB and how does it affect the investments made for my retirement?**

According to NDCC 21-10-07, the SIB "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."

Chapter 59-17 of the NDCC describes in more detail the prudent investor rule and standards of care. This chapter uses similar language to what is found in the American Law Institute's *Restatement of the Law Third, Trusts: Prudent Investor Rule*, 1992. The General Standard of Prudent Investment, under section 227 of this publication, includes the following:

The trustee is under a duty to the beneficiaries to invest and manage the funds of the trust as a prudent investor would, in light of the purposes, terms, distribution requirements, and other circumstances of the trust. This standard requires the exercise of reasonable care, skill, and caution, and is to be applied to investments not in isolation but in the context of the trust portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the trust.

In making and implementing investment decisions, the trustee has a duty to diversify the investments of the trust unless, under the circumstances, it is prudent not to do so. In addition, the trustee must conform to fundamental fiduciary duties of loyalty and impartiality, act with prudence in deciding whether and how to delegate authority and in the selection and supervision of agents, and incur only costs that are reasonable in amount and appropriate to the investment responsibilities of the trusteeship.

5. **Does the SIB invest in what some would refer to as "risky" investments?**

The short answer is no. The SIB controls risk in the portfolios in several ways.

Diversifying the Portfolio

- The pension portfolio is invested in traditional investments such as stocks and bonds. This portfolio has a target allocation of 39% to U.S. stocks and 25% to U.S. fixed income.
- Because today's global economy offers investment opportunities and greater diversification, the pension portfolio has a target allocation of 18% to international stocks and 5% to international fixed income.
- Over the long term, real estate has proven to be an excellent hedge against inflation. Therefore, the pension portfolio has a target allocation of 7% to diversified real estate.
- Because you don't want to put all your eggs in one basket, the pension portfolio also has a target allocation of 5% to what is known as alternative investments. These investments are expected, over time, to add value to the portfolio. Alternative investments actually reduce risk in a total portfolio because they provide diversification from the more traditional investments in the portfolio.
- The pension portfolio also has a target allocation of 1% to cash equivalents securities which is used for short-term liquidity needs.
- In addition to the broad asset classes described above, the portfolios are further diversified through various investment strategies within each asset class.
- There are 41 investment managers with 112 different investment strategies. No more than 6% of the total pension portfolio is invested in any one investment strategy. Therefore, if an investment manager underperforms, or an investment strategy does not perform as expected, it should not have a significant negative effect on the total portfolio.

#### Hiring Professional Investment Managers

- All the investment managers are registered investment advisers.
- All the investment managers have a proven track record when they are hired.
- All investment managers are continually monitored by the RIO staff and an external consultant.
- The securities the funds invest in are kept in safe keeping in a nationally recognized custodial bank, The Northern Trust. No investment manager is given money to hold until they invest it.

#### Establishing Investment Guidelines and Policies

- Portfolios are not invested in hedge funds.
- Derivatives are not allowed to be used for speculation purposes. Investment managers use derivatives only as short term substitutes for normal equity or bond positions, such as S&P 500 futures, international stock futures or bond futures. It is a low risk, cost effective way to maintain asset allocation

exposure in the stock and bond markets. The goal is to stay within the asset allocation guidelines of the various funds.

- The international investment managers have guidelines that they utilize to control currency risk in the portfolios they manage. The investment managers are not hired to speculate as to what a currency in any particular country, including the U.S. dollar, is going to do against another. The SIB uses a well known international benchmark. This allows the investment managers to hedge up to 50% of their portfolios if they deem it appropriate to do so to control currency risk.

**6. How have the funds under the SIB performed historically?**

Over 25 years, the ND pension funds' net performance has been about 8.0%, which is the actuarial assumed investment return rate. See the [SIB performance summary](#) page for the net of fees performance history of the various funds under the SIB for time periods ended June 30 of each year, as well as the current fiscal year-to-date. RIO, as well as the State of ND, operates on fiscal years (July 1 - June 30) rather than calendar years. When comparing investment returns, it is important to understand the time periods reported.

**7. How have the ND pension funds done compared to other public pension funds around the country?**

In general, the ND pension portfolios have performed better, relative to a broad universe of pension funds, in periods when equities did better than bonds. In the most recent period and over the long-term (25 years), the ND pension funds' performance has been similar to the average public pension fund. This [exhibit](#) shows the TFFR and PERS funds' historical returns versus a peer group of currently over 100 public funds as tracked by investment consultant Callan Associates Inc. (CAI). This exhibit uses time periods ended June 30, 2010, the most recent fiscal year-end available for this database.

It is important to note that during Fiscal Years 2008 and 2009, the stock market (both domestic and international) was down to historically low levels. The domestic stock market, as measured by the Standard and Poor's (S&P) 500 Index, was down 13.12% for the fiscal year ended 6/30/08, and down 26.21% for the fiscal year ended 6/30/09. The international stock market, as measured by the Morgan Stanley Capital International Europe, Australasia, Far East (MSCI EAFE) index, was down 10.61% for the fiscal year ended 6/30/08, and down 31.35% for the fiscal year ended 6/30/09.

The returns are all shown before the effect of investment management fees or "gross of fees" as this provides a more accurate comparison within the database of public funds.

**8. Investment fees are typically quoted in "basis points." What is a basis point?**

One basis point is equal to 0.01% or one one-hundreth of a percent.



As an example, if the fees on a fund are \$200 and the total value of the fund is \$100,000, the fees would be  $200/100,000$  or 0.20% which is 20 basis points.

**9. How much is paid each year in investment expenses?**

For the fiscal year ended June 30, 2010, the SIB paid investment fees to professional investment firms for management, consulting and custodial bank services totaling 84 basis points (0.84% of total ending market value). Details of these fees can be found in the 2010 Comprehensive Annual Financial Report beginning on page 158.

The breakdown of fees by trust is as follows:

*Pension Trust*

For the fiscal year ended June 30, 2010 - 106 basis points (1.06% of ending market value)

Over the past 25 years the fees for the pension trust averaged 48.9 basis points per year.

*Insurance Trust*

For the fiscal year ended June 30, 2010 - 39 basis points (0.39% of ending market value)

Over the past 20 years the fees for the insurance trust averaged 24.5 basis points per year.

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By way of comparison, the average fee for a mix of public mutual funds with 60% equities and 40% fixed income is approximately 120 bps (1.20%).

The SIB hired Callan Associates to conduct a fee analysis for all of the fees paid to investment managers. The report can be found here. The conclusions of the study were as follows:

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Yes. Actuarial return assumptions are long-term in nature and are based, in part, on capital market projections which are obtained from multiple sources. These projections take into consideration long-term historical performance of the various asset classes as well as future long-term expectations in the markets. Currently, the majority of industry experts believe that an 8% return, over the long-term, is achievable.

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All of the pension funds invested with the SIB are Defined Benefit Plans. This means that your pension benefits are determined by a formula defined as years of service  $\times$  average salary  $\times$  a multiplier. Fluctuations in the markets do not have a direct impact on your pension benefit; however, it may impact long-term funding available for the plans.

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Asset allocation is set based on the underlying liabilities or cash flow needs of a fund. Funds that have shorter term cash flow needs (i.e. Insurance Trust clients) generally will have higher allocations to less volatile asset classes such as fixed income and cash equivalents. When a fund is more long-term in nature (i.e. Pension Trust clients), higher allocations to asset classes with more volatility are appropriate to meet long-term return objectives. Because of this, each client sets its own asset allocation.

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**17. Why does the SIB employ so many investment managers and have so many investment strategies?**

This can be explained in one word...diversification. No more than 6% of the total pension portfolio is invested in any one investment strategy. Therefore, if an investment manager underperforms, or an investment strategy does not perform as expected, it should not have a significant negative effect on the total portfolio.

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There are, of course, exceptions to these rules, but all investments are based on the principles outlined above: you either buy (a percentage) of the investment and become an owner, or you lend it money and become a creditor.

Finally, something that is also taken into consideration is correlation coefficients. Correlation coefficient is just a fancy way of saying how close two different types of investments will perform compared to each other in a given economic environment. If two types of investments perform similarly in up and down markets, they are said to be "positively correlated." Investments that are very highly correlated may be considered part of the same asset class. For example, if a potential investment that may be classified as an alternative investment has a similar correlation coefficient to a fixed income benchmark; consideration will be given to placing the potential investment in the fixed income asset class.

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20. **Is the SIB currently contracted with any companies that it recently found to be under investigation by the SEC or other regulatory agencies, or involved in any legal proceedings?**  
Yes, the following are currently being monitored for such activities.

**WG Trading** - The SIB is involved in efforts to recover funds invested in the WG Trading Company Limited Partnership ("WGTC") and other related entities (collectively the "Westridge entities"). The SIB is utilizing the ND Attorney General as its legal representation in this case. In brief, the federal government has alleged that Stephen Walsh and Paul Greenwood of the Westridge entities committed fraud by siphoning money from these investment vehicles for their own use. The SIB is an interested party in four cases brought by the federal government, two civil and two criminal pending in the United States District Court for the Southern District of New York arising from the fraud. NDSIB is among a group of seven public and private pension entities victimized by this fraud and who have banded together to jointly pursue claims. Each of these seven entities made similar investments in WGTC and include the Iowa Public Employees Retirement System, Carnegie Mellon University, University of Pittsburgh, San Diego County Employee Retirement Association, and Sacramento County Employees' Retirement System, among others.

The Court has appointed a Receiver, Robb Evans &

Associates, LLC ("the Receiver"). The Receiver has marshaled the assets of the various Westridge entities, issued an initial report regarding the operation of the Westridge entities, and proposed both a claims verification process and a proposal by which it intends to develop an asset distribution procedure for the return of investors' funds to be submitted to the Court. On June 3, 2010, the Receiver filed an additional Report of its Activities for the Period from May 25, 2009 through May 28, 2010. That report further details the Receiver's review of the Westridge entities' operations and the Receiver's conclusions based on that review.

The Receiver has produced documents to the SIB's and its co-claimants' forensic accountant, which the co-claimants have engaged to assist us in evaluating the Receiver's reports and formulating a distribution plan. The forensic accountant is in the process of evaluating the documents received and has provided the SIB and its co-claimants periodic reports on its findings.

The SIB, its seven co-claimants, and representatives of a number of other investor-victims (collectively "the parties") are in communication in an effort to develop and propose to the Receiver a mutually agreeable plan for the distribution of the Westridge entity assets currently held by the Receiver. In furtherance of that effort, the parties intend to submit additional written requests to the Receiver for documents and other data. To accommodate the parties' efforts, the Receiver has agreed to defer the start date of the 45-day clock, pursuant to which the SIB and all investor-victims must submit distribution proposals, until September 1, 2010. However, the Receiver has asked that the parties promptly report if an impasse has been reached on developing distribution plan, in which case the Receiver will start the 45-day clock before September 1. Additional information is available [here](#).

Although the SIB is not directly affected by the following Goldman Sachs or State Street proceedings, the situations are being monitored by RIO staff and the SIB's investment consultant in the event additional information is found to the contrary.

**Goldman Sachs** - Goldman Sachs Asset Management manages two mezzanine debt portfolios for the SIB. The SIB is not aware of any improprieties in the management of these portfolios. However, a lawsuit has been filed by the U.S. Securities and Exchange Commission (SEC) against Goldman Sachs as a company, and specifically

their Securities Division. In this lawsuit, the SEC alleges Goldman withheld certain information from clients regarding mortgage-related investment vehicles. This lawsuit is focused on the Securities Division of Goldman Sachs which is not directly related to the investment management relationship the SIB has with Goldman Sachs.

**State Street** - The SIB is a client of State Street Global Advisors (SSgA) in its International Alpha fund. The SIB is not aware of any improprieties in the management of this portfolio. However, the California Public Employees and Teachers pension funds have filed a lawsuit against State Street Bank alleging overcharging for foreign exchange transactions in their relationship as custodian bank. The lawsuit is focused on the custodian business of State Street Bank which is not directly related to the investment management relationship the SIB has with SSgA.

**21. Why did the SIB have two audits of the Retirement and Investment Office (RIO) conducted by external independent auditors in 2010?**

Under NDCC 54-10-01, the State Auditor must perform or provide for the financial audits of state agencies at least once every two years. To comply with that requirement, the State Auditor contracts with a public accounting firm to complete a financial audit of RIO each year. Contracts generally cover three fiscal years. RIO is now in the second year of the current three year contract with Eide Bailly LLP. The purpose of the financial audit is to determine whether RIO's financial statements present fairly, in all material respects, the financial position of the fiduciary funds under its responsibility as of and for the year ended June 30 of each fiscal year. The most recent financial audit report of RIO can be found [here](#).

The SIB has also decided to employ a professional auditing firm to conduct a performance audit of RIO. The objective of this audit was to determine whether the former Executive Director/Chief Investment Officer (ED/CIO) complied with the policies of the SIB, state law and common industry practice and whether there was any irregular financial activity or discrepancies related to that position. The performance audit included all activities of the ED/CIO, including reasonableness of negotiated fees. The time period covered under this performance audit was July 1, 2009 through April 30, 2010 (the time period since the last financial audit). Clifton Gunderson LLP was selected to conduct the performance audit. The parameters of the performance audit were established in consultation with the ND State Auditor's Office. The final performance audit report was delivered to the SIB in August and can be found [here](#).

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North Dakota

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## FREQUENTLY ASKED QUESTIONS

### SIB Investment Program

1. **What funds are invested by the SIB?**

As of 6/30/10, the SIB has 13 statutory clients (as specified in [NDCC 21-10-06](#) and House Bill 1400, Sections 12 and 49, passed by the [61st Legislative Assembly](#)) and 12 contracted clients. The largest of these include the Teachers Fund for Retirement (TFFR), Public Employees Retirement System (PERS), and Workforce Safety & Insurance Fund (WSI). Other clients include the City of Fargo Pension Fund, the City of Bismarck Employees and Police Pension Funds, and the State Fire and Tornado Fund. Please refer to the [SIB performance summary](#) page which lists the various funds under the SIB.

2. **What is the size of the SIB investment portfolio?**

As of 9/30/10, the SIB portfolio was comprised of \$3.4 billion in pension funds and \$1.7 billion in insurance funds. Please refer to the [SIB performance summary](#) page for the most recent quarter-end market values of the various funds under the SIB.

3. **How does the SIB investment program work?**

The SIB, with assistance from the RIO staff, implements the investment strategies of the individual clients of the SIB based on the clients' investment policies, which contain their asset allocations. Investments are managed in pools to take advantage of cost efficiencies available to larger pools of money. The SIB externally manages all of its investments, and hires professional investment managers to manage strategies intended to best maximize returns for stated levels of risk within the client policies. The investment managers make the day-to-day decisions on which securities to buy or sell based on investment strategies they are hired to utilize. RIO staff acts as a "manager of managers" and coordinates the activities of the external investment managers, custodian bank and investment consultant. Please click [here](#) to view a diagram of the SIB investment

program.

**4. What is the prudent investor rule used by the SIB and how does it affect the investments made for my retirement?**

According to NDCC 21-10-07, the SIB "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."

Chapter 59-17 of the NDCC describes in more detail the prudent investor rule and standards of care. This chapter uses similar language to what is found in the American Law Institute's *Restatement of the Law Third, Trusts: Prudent Investor Rule*, 1992. The General Standard of Prudent Investment, under section 227 of this publication, includes the following:

The trustee is under a duty to the beneficiaries to invest and manage the funds of the trust as a prudent investor would, in light of the purposes, terms, distribution requirements, and other circumstances of the trust. This standard requires the exercise of reasonable care, skill, and caution, and is to be applied to investments not in isolation but in the context of the trust portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the trust.

In making and implementing investment decisions, the trustee has a duty to diversify the investments of the trust unless, under the circumstances, it is prudent not to do so. In addition, the trustee must conform to fundamental fiduciary duties of loyalty and impartiality, act with prudence in deciding whether and how to delegate authority and in the selection and supervision of agents, and incur only costs that are reasonable in amount and appropriate to the investment responsibilities of the trusteeship.

**5. Does the SIB invest in what some would refer to as "risky" investments?**

The short answer is no. The SIB controls risk in the portfolios in several ways.

Diversifying the Portfolio

- The pension portfolio is invested in traditional investments such as stocks and bonds. This portfolio has a target allocation of 39% to U.S. stocks and 25% to U.S. fixed income.
- Because today's global economy offers investment opportunities and greater diversification, the pension portfolio has a target allocation of 18% to international stocks and 5% to international fixed income.
- Over the long term, real estate has proven to be an excellent hedge against inflation. Therefore, the pension portfolio has a target allocation of 7% to diversified real estate.
- Because you don't want to put all your eggs in one basket, the pension portfolio also has a target allocation of 5% to what is known as alternative investments. These investments are expected, over time, to add value to the portfolio. Alternative investments actually reduce risk in a total portfolio because they provide diversification from the more traditional investments in the portfolio.
- The pension portfolio also has a target allocation of 1% to cash equivalents securities which is used for short-term liquidity needs.
- In addition to the broad asset classes described above, the portfolios are further diversified through various investment strategies within each asset class.
- There are 41 investment managers with 112 different investment strategies. No more than 6% of the total pension portfolio is invested in any one investment strategy. Therefore, if an investment manager underperforms, or an investment strategy does not perform as expected, it should not have a significant negative effect on the total portfolio.

#### Hiring Professional Investment Managers

- All the investment managers are registered investment advisers.
- All the investment managers have a proven track record when they are hired.
- All investment managers are continually monitored by the RIO staff and an external consultant.
- The securities the funds invest in are kept in safe keeping in a nationally recognized custodial bank, The Northern Trust. No investment manager is given money to hold until they invest it.

#### Establishing Investment Guidelines and Policies

- Portfolios are not invested in hedge funds.
- Derivatives are not allowed to be used for speculation purposes. Investment managers use derivatives only as short term substitutes for normal equity or bond positions, such as S&P 500 futures, international stock futures or bond futures. It is a low risk, cost effective way to maintain asset allocation

exposure in the stock and bond markets. The goal is to stay within the asset allocation guidelines of the various funds.

- o The international investment managers have guidelines that they utilize to control currency risk in the portfolios they manage. The investment managers are not hired to speculate as to what a currency in any particular country, including the U.S. dollar, is going to do against another. The SIB uses a well known international benchmark. This allows the investment managers to hedge up to 50% of their portfolios if they deem it appropriate to do so to control currency risk.

**6. How have the funds under the SIB performed historically?**

Over 25 years, the ND pension funds' net performance has been about 8.0%, which is the actuarial assumed investment return rate. See the [SIB performance summary](#) page for the net of fees performance history of the various funds under the SIB for time periods ended June 30 of each year, as well as the current fiscal year-to-date. RIO, as well as the State of ND, operates on fiscal years (July 1 - June 30) rather than calendar years. When comparing investment returns, it is important to understand the time periods reported.

**7. How have the ND pension funds done compared to other public pension funds around the country?**

In general, the ND pension portfolios have performed better, relative to a broad universe of pension funds, in periods when equities did better than bonds. In the most recent period and over the long-term (25 years), the ND pension funds' performance has been similar to the average public pension fund. This [exhibit](#) shows the TFFR and PERS funds' historical returns versus a peer group of currently over 100 public funds as tracked by investment consultant Callan Associates Inc. (CAI). This exhibit uses time periods ended June 30, 2010, the most recent fiscal year-end available for this database.

It is important to note that during Fiscal Years 2008 and 2009, the stock market (both domestic and international) was down to historically low levels. The domestic stock market, as measured by the Standard and Poor's (S&P) 500 Index, was down 13.12% for the fiscal year ended 6/30/08, and down 26.21% for the fiscal year ended 6/30/09. The international stock market, as measured by the Morgan Stanley Capital International Europe, Australasia, Far East (MSCI EAFE) index, was down 10.61% for the fiscal year ended 6/30/08, and down 31.35% for the fiscal year ended 6/30/09.

The returns are all shown before the effect of investment management fees or "gross of fees" as this provides a more accurate comparison within the database of public funds.

**8. Investment fees are typically quoted in "basis points." What is a basis point?**

One basis point is equal to 0.01% or one one-hundredth of a percent.

As an example, if the fees on a fund are \$200 and the total value of the fund is \$100,000, the fees would be  $200/100,000$  or 0.20% which is 20 basis points.

**9. How much is paid each year in investment expenses?**

For the fiscal year ended June 30, 2010, the SIB paid investment fees to professional investment firms for management, consulting and custodial bank services totaling 84 basis points (0.84% of total ending market value). Details of these fees can be found in the 2010 Comprehensive Annual Financial Report beginning on page 158.

The breakdown of fees by trust is as follows:

*Pension Trust*

For the fiscal year ended June 30, 2010 - 106 basis points (1.06% of ending market value)

Over the past 25 years the fees for the pension trust averaged 48.9 basis points per year.

*Insurance Trust*

For the fiscal year ended June 30, 2010 - 39 basis points (0.39% of ending market value)

Over the past 20 years the fees for the insurance trust averaged 24.5 basis points per year.

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20. **Is the SIB currently contracted with any companies that it recently found to be under investigation by the SEC or other regulatory agencies, or involved in any legal proceedings?**  
Yes, the following are currently being monitored for such activities.

**WG Trading** - The SIB is involved in efforts to recover funds invested in the WG Trading Company Limited Partnership ("WGTC") and other related entities (collectively the "Westridge entities"). The SIB is utilizing the ND Attorney General as its legal representation in this case. In brief, the federal government has alleged that Stephen Walsh and Paul Greenwood of the Westridge entities committed fraud by siphoning money from these investment vehicles for their own use. The SIB is an interested party in four cases brought by the federal government, two civil and two criminal pending in the United States District Court for the Southern District of New York arising from the fraud. NDSIB is among a group of seven public and private pension entities victimized by this fraud and who have banded together to jointly pursue claims. Each of these seven entities made similar investments in WGTC and include the Iowa Public Employees Retirement System, Carnegie Mellon University, University of Pittsburgh, San Diego County Employee Retirement Association, and Sacramento County Employees' Retirement System, among others.

The Court has appointed a Receiver, Robb Evans &

Associates, LLC ("the Receiver"). The Receiver has marshaled the assets of the various Westridge entities, issued an initial report regarding the operation of the Westridge entities, and proposed both a claims verification process and a proposal by which it intends to develop an asset distribution procedure for the return of investors' funds to be submitted to the Court. On June 3, 2010, the Receiver filed an additional Report of its Activities for the Period from May 25, 2009 through May 28, 2010. That report further details the Receiver's review of the Westridge entities' operations and the Receiver's conclusions based on that review.

The Receiver has produced documents to the SIB's and its co-claimants' forensic accountant, which the co-claimants have engaged to assist us in evaluating the Receiver's reports and formulating a distribution plan. The forensic accountant is in the process of evaluating the documents received and has provided the SIB and its co-claimants periodic reports on its findings.

The SIB, its seven co-claimants, and representatives of a number of other investor-victims (collectively "the parties") are in communication in an effort to develop and propose to the Receiver a mutually agreeable plan for the distribution of the Westridge entity assets currently held by the Receiver. In furtherance of that effort, the parties intend to submit additional written requests to the Receiver for documents and other data. To accommodate the parties' efforts, the Receiver has agreed to defer the start date of the 45-day clock, pursuant to which the SIB and all investor-victims must submit distribution proposals, until September 1, 2010. However, the Receiver has asked that the parties promptly report if an impasse has been reached on developing distribution plan, in which case the Receiver will start the 45-day clock before September 1. Additional information is available [here](#).

Although the SIB is not directly affected by the following Goldman Sachs or State Street proceedings, the situations are being monitored by RIO staff and the SIB's investment consultant in the event additional information is found to the contrary.

**Goldman Sachs** - Goldman Sachs Asset Management manages two mezzanine debt portfolios for the SIB. The SIB is not aware of any improprieties in the management of these portfolios. However, a lawsuit has been filed by the U.S. Securities and Exchange Commission (SEC) against Goldman Sachs as a company, and specifically

their Securities Division. In this lawsuit, the SEC alleges Goldman withheld certain information from clients regarding mortgage-related investment vehicles. This lawsuit is focused on the Securities Division of Goldman Sachs which is not directly related to the investment management relationship the SIB has with Goldman Sachs.

**State Street** - The SIB is a client of State Street Global Advisors (SSgA) in its International Alpha fund. The SIB is not aware of any improprieties in the management of this portfolio. However, the California Public Employees and Teachers pension funds have filed a lawsuit against State Street Bank alleging overcharging for foreign exchange transactions in their relationship as custodian bank. The lawsuit is focused on the custodian business of State Street Bank which is not directly related to the investment management relationship the SIB has with SSgA.

**21. Why did the SIB have two audits of the Retirement and Investment Office (RIO) conducted by external independent auditors in 2010?**

Under NDCC 54-10-01, the State Auditor must perform or provide for the financial audits of state agencies at least once every two years. To comply with that requirement, the State Auditor contracts with a public accounting firm to complete a financial audit of RIO each year. Contracts generally cover three fiscal years. RIO is now in the second year of the current three year contract with Eide Bailly LLP. The purpose of the financial audit is to determine whether RIO's financial statements present fairly, in all material respects, the financial position of the fiduciary funds under its responsibility as of and for the year ended June 30 of each fiscal year. The most recent financial audit report of RIO can be found [here](#).

The SIB has also decided to employ a professional auditing firm to conduct a performance audit of RIO. The objective of this audit was to determine whether the former Executive Director/Chief Investment Officer (ED/CIO) complied with the policies of the SIB, state law and common industry practice and whether there was any irregular financial activity or discrepancies related to that position. The performance audit included all activities of the ED/CIO, including reasonableness of negotiated fees. The time period covered under this performance audit was July 1, 2009 through April 30, 2010 (the time period since the last financial audit). Clifton Gunderson LLP was selected to conduct the performance audit. The parameters of the performance audit were established in consultation with the ND State Auditor's Office. The final performance audit report was delivered to the SIB in August and can be found [here](#).

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# Retirement and Investment Office 09-11 Budget Status Report

Actual through 1/31/2011

	2009-11 Budget	2009-11 Actual	Projected Remaining	Total Actual Plus Projected	(Over)/Under Budget
1001 SALARIES	1,998,510.00	1,421,888.77	421,500.00	1,843,388.77	155,121.23
1002 TEMP. OVERTIME & SHIFT DIFF.	8,000.00	128,512.94	-	128,512.94	(120,512.94)
1008 BENEFITS	667,570.00	475,971.93	133,765.00	609,736.93	57,833.07
<b>TOTAL SAL. &amp; BEN.</b>	<b>2,674,080.00</b>	<b>2,026,373.64</b>	<b>555,265.00</b>	<b>2,581,638.64</b>	<b>92,441.36</b>
3002 DATA PROCESSING	164,929.34	112,967.05	37,655.68	150,622.73	14,306.61
3003 TELECOMMUNICATIONS	22,200.00	16,920.09	5,610.70	22,530.79	(330.79)
3004 TRAVEL	134,445.00	53,565.51	46,177.11	99,515.12	34,929.88
3005 IT SOFTWARE/SUPPLIES	5,000.00	2,899.53	2,100.47	5,000.00	-
3007 POSTAGE	84,723.66	72,722.71	14,900.99	87,623.70	(2,900.44)
3008 IT CONTRACT SERVICES	225,925.00	214,053.63	5,963.40	219,985.35	5,939.65
3012 LEASE/RENT - BLDG./LAND	151,098.00	126,433.80	24,977.76	151,411.56	(313.56)
3013 PROFESSIONAL DEV.	47,330.00	13,375.50	18,529.50	31,045.00	16,285.00
3014 OPERATING FEES & SERV.	28,495.00	13,741.99	9,157.77	22,899.76	5,595.24
3016 REPAIRS	1,800.00	93.00	1,707.00	1,800.00	-
3018 PROFESSIONAL SERVICES	21,460.00	22,644.85	5,024.00	27,668.85	(6,208.85)
3019 INSURANCE	1,804.00	1,738.94	-	1,738.94	65.06
3021 OFFICE SUPPLIES	10,470.00	3,429.49	3,162.58	6,592.07	3,877.93
3024 PRINTING	27,719.00	24,151.97	13,151.07	37,303.04	(9,584.04)
3025 PROF. SUPPLIES	3,000.00	2,046.09	682.03	2,728.12	271.88
3033 MISC. SUPPLIES	5,171.00	1,588.61	3,581.39	5,170.00	0.00
3038 IT EQUIPMENT < \$5000	14,000.00	5,229.08	8,770.92	14,000.00	-
<b>TOTAL OPERATING BUDGET</b>	<b>949,570.00</b>	<b>687,601.84</b>	<b>201,152.37</b>	<b>887,635.03</b>	<b>61,933.57</b>
<b>TOTAL BEFORE CONT. FUND</b>	<b>3,623,650.00</b>	<b>2,713,975.48</b>	<b>756,417.37</b>	<b>3,469,273.67</b>	<b>154,374.93</b>
<b>CONTRACTED SERVICES</b>	-	-	-	-	-
<b>CONTINGENCY</b>	82,000.00	82,000.00	-	82,000.00	-
<b>TOTAL BUDGET</b>	<b>3,705,650.00</b>	<b>2,795,975.48</b>	<b>756,417.37</b>	<b>3,551,273.67</b>	<b>154,374.93</b>

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# ITD Data Processing and CPAS Contract History

Biennium	Budget		Actual		Total (Over)/Under Budget
	ITD	CPAS	ITD	CPAS	
1999-01	343,500		327,194		16,306
2001-03	393,883		295,200		98,683
2003-05	361,200		159,494		201,706
2005-07	104,118	200,000	135,249	100,000	68,869
2007-09	113,960	202,500	140,670	202,500	(26,710)
2009-11 *	164,929	215,000	150,365	202,670	26,894
2011-13	190,824	185,000			

\* Actual ITD amount represents actual through February and estimates for final 4 months of biennium.