

**Retirement and Investment Office  
Budget 190  
Senate Bill No. 2022**

	<b>FTE Positions</b>	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>
2011-13 legislative appropriation	18.00	\$0	\$4,232,954	\$4,232,954
2009-11 legislative appropriation	17.00	0	3,705,650	3,705,650
2011-13 appropriation increase (decrease) to 2009-11 appropriation	1.00	\$0	\$527,304	\$527,304

**Item Description**

**FTE changes** - The Legislative Assembly authorized an increase of 1 FTE position from the 2009-11 biennium authorized level of 17 FTE positions for a deputy chief investment officer position.

**Appropriation line item transfers** - Section 3 of 2011 Senate Bill No. 2022 authorizes the Retirement and Investment Office to transfer funds from the contingencies line item to any other line item and provides that the agency notify the Office of Management and Budget (OMB) of each transfer made.

**Retirement contributions** - In 2011 House Bill No. 1134, the Legislative Assembly provided for increases in employee and employer contribution requirements by 4 percent each phased in over two bienniums. The Legislative Assembly also approved legislation to reduce future liabilities by changing eligibility for normal unreduced retirement benefits, eligibility for early reduced retirement benefits, eligibility for disability benefits, and retiree reemployment under the Teachers' Fund for Retirement (TFFR).

**Adviser to the Legacy and Budget Stabilization Fund Advisory Board** - In 2011 Senate Bill No. 2302, the Legislative Assembly provided for the creation of a Legacy and Budget Stabilization Fund Advisory Board to develop recommendations for the investment of funds in the legacy fund and the budget stabilization fund to present to the State Investment Board. The Legacy and Budget Stabilization Fund Advisory Board consists of four legislative members, the director of OMB, the president of the Bank of North Dakota, and the Tax Commissioner. The Legislative Council provides staff services to the advisory

**Status/Result**

The Retirement and Investment Office deputy chief investment officer position was filled as of January 1, 2012.

The Retirement and Investment Office does not anticipate transferring any funds from the contingencies line item.

The Retirement and Investment Office plans for the following retirement contribution increases:

	<b>Current Contributions</b>	<b>July 2012 Contributions</b>	<b>July 2014 Contributions</b>	<b>Contribution Increase</b>
Member	7.75%	9.75%	11.75%	4.00%
Employer	8.75%	10.75%	12.75%	4.00%

The Retirement and Investment Office plans to implement other legislative provisions relating to the retirement plan as follows:

- Required member contributions on reemployed retirees in July 2012.
- Modification of disability benefits for all nonretired members in July 2013.
- Modification of eligibility for unreduced retirement benefits and reduction factor for reduced retirement benefits for certain nongrandfathered members who are more than 10 years away from retirement eligibility in July 2013.

The Retirement and Investment Office has worked with the Legacy and Budget Stabilization Fund Advisory Board to review the budget stabilization fund current investment policy statement and to assist in the development of the investment policy statement for the legacy fund, which became effective December 2011. The Retirement and Investment Office will continue as adviser to the Legacy and Budget Stabilization Fund Advisory Board as requested throughout the interim.

board, and the staff and consultants of the Retirement and Investment Office are to advise the board in developing asset allocation and investment policies.

**Status of TFFR** - Provided below is a status summary of TFFR:

<b>Actuarial Value of Investments (Amounts Shown in Billions)</b>		
	<b>Fund Balance</b>	<b>Actuarial Percentage Funded</b>
June 30, 2007	\$1.75	79%
June 30, 2008	\$1.91	82%
June 30, 2009	\$1.90	78%
June 30, 2010	\$1.84	70%
June 30, 2011	\$1.82	66%

<b>Market Value of Investments (Amounts Shown in Billions)</b>		
	<b>Fund Balance</b>	<b>Annual Percentage Change in Market Value</b>
June 30, 2007	\$2.02	20.06%
June 30, 2008	\$1.83	(7.61%)
June 30, 2009	\$1.29	(27.33%)
June 30, 2010	\$1.42	13.87%
June 30, 2011	\$1.71	24.21%
February 29, 2012, preliminary fund balance	\$1.65	(0.37%)

**Westridge Capital Management and WG Trading Investors status** - In 2000 the State Investment Board entered an investment agreement with Westridge Capital Management and its affiliated broker/dealer WG Trading Investors. Westridge Capital Management--a registered investment adviser--completed its transactions through WG Trading Investors--a registered investment broker/dealer. The National Futures Association suspended the trading capabilities of two individuals who are principals in both Westridge Capital Management and WG Trading Investors in March 2009. According to the National Futures Association action, the principals did not provide documents requested by the National Futures Association. The United States Commodity Futures Trading Commission and the United States Securities and Exchange Commission--regulatory agencies of the federal government--are investigating WG Trading Investors for alleged fraud. The State Investment Board effectively terminated its investment management relationship with Westridge Capital Management and its affiliated broker/dealer, WG Trading Investors, and demanded the return of all State Investment Board assets.

A decline in the market value of fund investments caused actuarial funded levels to decrease from 82 percent as of June 2008 to 66 percent as of June 2011. In 2008 investments declined 7.6 percent from prior year market values, and in 2009 investments declined by 27.3 percent. The Retirement and Investment Office through actuarial analysis determined that relying only on potential market value increases will not return the funded level of TFFR to the target of at least 90 percent.

The Legislative Assembly in 2011 provided for increases in employee and employer contribution requirements by 4 percent phased in over two bienniums as well as other changes to eligibility and benefits to improve funding levels. The Teachers' Fund for Retirement does not currently plan to introduce bills to the Legislative Assembly in 2013 to further improve funding levels.

The total State Investment Board exposure to the alleged fraud by Westridge Capital Management and its affiliated broker/dealer, WG Trading Investors, was \$161.3 million. The board recovered \$24.3 million, but the remaining \$137 million was placed in receivership. In April 2011 the board received a total distribution of \$63.9 million from the receivership which represented approximately 85 percent of the remaining cost basis. The cost basis had been reduced by 40 percent in fiscal year 2009 and 11 percent in fiscal year 2010. The total realized loss included in the 2011 financial statements attributable to the Westridge Capital Management and WG Trading Investors fraud is \$11.3 million. The State Investment Board does not agree with the method used to distribute the assets and along with other limited partners is appealing the district court's ruling in the United States Second Circuit Court of Appeals.