

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

| | FTE Positions | General Fund | Other Funds | Total |
|---|---------------|--------------|------------------|---------------------------|
| 2023-25 legislative appropriation | 34.00 | \$0 | \$11,979,984 | \$11,979,984 ¹ |
| 2021-23 legislative appropriation | <u>25.00</u> | <u>0</u> | <u>8,209,367</u> | <u>8,209,367</u> |
| 2023-25 appropriation increase (decrease) to 2021-23 appropriation | 9.00 | \$0 | \$3,770,617 | \$3,770,617 |

¹The 2023-25 legislative appropriation does not include any transfers of appropriation authority from the Office of Management and Budget funding pools for targeted market equity adjustments, retirement contribution increases, or new and vacant FTE positions.

Item Description

Full-time equivalent changes - The Legislative Assembly approved 34 FTE positions for the Retirement and Investment Office for the 2023-25 biennium, an increase of 9 FTE positions from the 2021-23 biennium authorized level of 25 FTE positions. The Legislative Assembly added 2 FTE investment assistant positions, 5 FTE investment positions, 1 FTE fiscal position, and 1 FTE administrative position.

Targeted market equity - The Legislative Assembly appropriated \$82.5 million, including \$45.1 million from the general fund and \$37.4 million from other funds, to the Office of Management and Budget for a targeted market equity pool to be distributed to state agencies.

New and vacant FTE funding pool - The Legislative Assembly reduced the 2023-25 biennium other funds appropriation authority for the Retirement and Investment Office by \$1,786,076 for the new and vacant FTE funding pool, of which \$1,547,947 was reduced for new FTEs and \$238,129 was reduced for vacant FTEs.

Incentive compensation - Section 3 of Senate Bill No. 2022 (2023) amended North Dakota Century Code Section 54-44.3-20 to exempt investment and fiscal operations positions of the Retirement and Investment Office staff from the state employee classification system. Section 5 created a new section to Chapter 54-52.5 relating to an incentive compensation program for investment and fiscal operations positions. Section 7 required the Retirement and Investment Office to report to the Budget Section prior to the implementation of the incentive compensation program, and Section 8 provided an emergency clause related to the report.

Status/Result

Of the 9 new FTE positions, 1 FTE fiscal and investment administrative assistant position and 1 FTE investment accountant position were filled in September 2023. The Retirement and Investment Office anticipates filling the remaining 7 new FTE positions in August 2024, including 2 FTE portfolio manager positions, 1 FTE analyst fund management overlay position, 2 FTE investment analyst positions, 1 FTE investment accountant position, and 1 FTE investment administrative position.

The Retirement and Investment Office received \$89,545 of other funds authority for targeted market equity increases which were provided to seven employees.

Through January 2024, the Retirement and Investment Office received \$374,621 from the new and vacant FTE funding pool for 2 new FTE positions and reported estimated vacant FTE position savings of \$32,841 related to an average of one vacancy, ranging from zero to two vacancies, for the first 7 months of the 2023-25 biennium. Of the \$32,841, the Retirement and Investment Office spent \$20,955, including \$5,770 for accrued leave payouts, \$13,748 for temporary staff, and \$1,437 for hiring a position for more than the budgeted amount.

In February 2024, the Retirement and Investment Office received the results of an investment compensation review after contracting for the review with the consulting firm Mercer. Based on the recommendations in the review, the State Investment Board approved an incentive compensation plan which applies to 20 FTE positions. The plan provides incentive compensation as a percentage of regular compensation with 80 percent of the incentive compensation based on the financial performance of the investments and 20 percent based on individual goals. If the 3-year rolling average return of the investments exceeds the benchmark return by 0.5 percent, 100 percent of the incentive compensation based on financial performance is available to the employees. The maximum incentives as a percentage of regular compensation are as follows:

Information technology project - Senate Bill No. 2022 (2019) provided one-time funding of \$9 million from the Teachers' Fund for Retirement for an information technology project to upgrade the pension administration software. Section 3 of House Bill No. 1022 (2021) provided an exemption to continue unspent funding for the information technology project into the 2021-23 biennium, and Section 6 of Senate Bill No. 2022 (2023) provided an exemption to continue any unspent funding into the 2023-25 biennium.

Status of the Teachers' Fund for Retirement - The Teachers' Fund for Retirement is the retirement plan for North Dakota educators.

- 100 percent for the Chief Investment Officer and Executive Director.
- 90 percent for the Deputy Chief Investment Officer.
- 75 percent for the Chief Risk Officer, senior investment officers, and portfolio managers.
- 60 percent for the Chief Financial Officer.
- 50 percent for investment officers, risk officers, and accounting managers.
- 25 percent for senior investment accountants and investment accountants.

During the 2019-21 biennium, the agency spent \$331,125, and \$8,668,875 of unspent appropriation authority was continued into the 2021-23 biennium for the information technology project. Of the \$8,668,875 continued in the 2021-23 biennium, \$3,061,038 was spent and \$5,607,837 was continued into the 2023-25 biennium. Through March 2024, the agency spent \$1,223,283 and anticipates spending the remaining \$4,384,554 by the end of the biennium. The project is estimated to be completed by June 2025, the same as the original estimated completion date.

A status summary of the Teachers' Fund for Retirement is shown below. Actuarial-funded levels have increased from 64 percent in June 2017 to 71 percent in June 2023 related to an increase in the market value of the fund's investments.

| Actuarial Value of Investments | | |
|---------------------------------------|------------------------------------|--|
| | Fund Balance (Billions) | Actuarial Percentage Funded |
| June 30, 2017 | \$2.38 | 64% |
| June 30, 2018 | \$2.53 | 66% |
| June 30, 2019 | \$2.64 | 66% |
| June 30, 2020 | \$2.75 | 66% |
| June 30, 2021 | \$2.97 | 69% |
| June 30, 2022 | \$3.13 | 70% |
| June 30, 2023 | \$3.26 | 71% |

| Market Value of Investments | | |
|------------------------------------|------------------------------------|---|
| | Fund Balance (Billions) | Annual Percentage Change in Market Value |
| June 30, 2017 | \$2.36 | 12.64% |
| June 30, 2018 | \$2.53 | 9.03% |
| June 30, 2019 | \$2.62 | 5.39% |
| June 30, 2020 | \$2.65 | 3.33% |
| June 30, 2021 | \$3.28 | 26.07% |
| June 30, 2022 | \$3.02 | (6.11%) |
| June 30, 2023 | \$3.17 | 7.30% |

Legacy fund asset allocation study - Pursuant to Section 21-10-11, the Legacy and Budget Stabilization Fund Advisory Board is required to determine the asset allocation policy for the legacy fund investments, including \$1.3 billion for in-state investments.

In February 2022, the Retirement and Investment Office contracted with RVK, Inc., to conduct a study to determine the long-term strategic asset allocation of the legacy fund and to develop investment policies and guidelines for an in-state equity investment program under the legacy fund. The study was completed in December 2023, and the results were presented to the Legacy and Budget Stabilization Fund Advisory Board. The contract cost was \$295,000, which was paid from the legacy fund. Of the \$295,000, \$205,117 was spent in the 2021-23 biennium, and \$89,883 was spent in the 2023-25 biennium.