

**2025 HOUSE GOVERNMENT AND VETERANS AFFAIRS**

**HB 1348**

# 2025 HOUSE STANDING COMMITTEE MINUTES

## Government and Veterans Affairs Committee Pioneer Room, State Capitol

HB 1348  
2/6/2025

Relating to exemptions from the employee classification system and relating to an incentive compensation plan for the state retirement and investment office.

10:02 a.m. Chairman Schauer opened the hearing.

Members present: Chairman Schauer, Vice Chairman Satrom, Representatives Bahl, Brown, Grindberg, Karls, McLeod, Rohr, Schneider, Steiner, VanWinkle, Vetter, Wolff

Members absent: Representative Christy

### Discussion Topics:

- Transparency
- Policy issues
- Asset Allocations
- Appropriate risks

10:02 a.m. Representative Ostlie, District 12, introduced the bill and submitted testimony, #35894, #35885.

10:22 a.m. Jodi Smith, Interim Executive Director of the North Dakota Retirement and Investment Office, testified in opposition and submitted testimony, #35892.

10:44 a.m. Scott Anderson, Chief Investment Officer of the Retirement and Investment Office, testified in opposition.

10:53 a.m. Thomas Beadle, North Dakota State Treasurer, testified in opposition.

11:00 a.m. Representative Kempenich, District 39, testified in opposition.

11:08 a.m. Chairman Schauer closed the hearing.

*Jackson Toman, Committee Clerk*

**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 <sup>1</sup>
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

<sup>1</sup>The 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:

- 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.

**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.

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%



**House Bill 1348  
North Dakota Retirement and Investment Office (RIO)  
Testimony before Government and Veterans Affairs  
Representative Austen Schauer, Chair**

**Jodi Smith – Interim Executive Director  
Scott Anderson, CFA, MBA – Chief Investment Officer**

**I. STATUTORY AUTHORITY AND RESPONSIBILITIES**

The Retirement and Investment Office (hereinafter “RIO”) was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers’ Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

The SIB has the statutory responsibility to administer the investment program for 31 funds, including the Legacy Fund, TFFR, Public Employees Retirement System, and Workforce Safety & Insurance. It also maintains contractual relationships for the investment management of multiple political subdivisions and governmental funds. As of October 31, 2024, the combined Assets Under Management exceeds \$23 billion.

**II. INCENTIVE COMPENSATION POLICY HISTORY**

During the 68<sup>th</sup> Legislative Assembly, RIO presented testimony on an Incentive Compensation plan in appropriations hearings. The following is a summary of the presentations:

**68<sup>th</sup> Legislative Assembly**

01/06/23 Presentation outlining internal investment program inclusive of adequate classification of roles and incentive compensation plan based on programs already instituted in other states. The plan presented is to manage 15% of investments internally by RIO staff rather than with external managers enabling lower costs of managing the assets from lower fees, a lower cost of rebalancing and better cash management. Additional follow-on phases to manage more of the assets internally would be proposed at future sessions. The incentive compensation program would be based on the client plans after fee performance when compared to an opportunity cost benchmark.



- 01/19/23 Presentation outlining internal investment program inclusive of adequate classification of roles and incentive compensation plan including an outline of the potential bonus plan. Compared to a salary-only compensation plan, the incentive compensation plan reduces the cost of using highly skilled staff as a portion of compensation is based on and only paid when performance exceeds investment benchmarks.

*"The incentive compensation plan would assume a targeted bonus of 50% of salary and a max of 100% of salary and would only pay out when benefits exceed costs. This proposal is contingent on an incentive compensation plan approved by the legislature and administered by the State Investment Board."*

- 03/09/23 Presentation outlining internal investment program inclusive of adequate classification of roles and incentive compensation plan including an outline of the potential bonus plan.

*"The incentive compensation plan would assume a targeted bonus of 50% of salary and a max of 100% of salary and would only pay out when benefits exceed costs. This proposal is contingent on an incentive compensation plan approved by the legislature and administered by the State Investment Board."*

- 03/23/23 Presentation of amendment to NDCC 54-52.5:

**Incentive compensation program**

The state retirement and investment office may develop an incentive compensation program for full-time equivalent investment related positions related to the internal management of necessary for the investment of funds under the control of the state investment board. The program must promote profitability, productivity, and responsible fund management. The provisions of the program must be approved annually by the state investment board. The provisions must ensure that the payouts do not occur unless the risk-based performance of the investments that are internally managed exceed the risk-based performance of policy benchmarks. Any amounts paid under this program shall be considered compensation and not personal profit on behalf of the employee.

**State Investment Board**

This following is the timeline of RIO's process to evaluate and implement the Incentive Compensation Plan on behalf of the SIB. This included consultant reviews, public meetings, and board approvals, culminating in a presentation to the Budget Section in June 2024 regarding the program's structure and eligible positions.

- 6/6/23 Compensation Consultant RFP Issued through SPO Online – Procurement Officer Gabriel Hoggarth.
- 6/21/23 Amendment 1 Issued – Responses to submission of questions – no amendments to the RFP were necessary.
- 6/30/23 Response Deadline.
- 8/3/23 Finalist Presentations to the SIB Executive Review and Compensation Committee (ERCC) – Public Meeting.
- 8/7/23 Request for Best and Final Offer (BAFO) Issued.
- 8/10/23 BAFO Deadline.
- 8/24/23 SIB ERCC discussion and selection – Public Meeting  
Notice of Intent to Award Issued.
- 11/01/23 Compensation Consultant Contract Executed.
- 11/8/23 Kick Off Meeting with RIO Executive Team.
- 2/16/24 SIB ERCC received a presentation from Mercer reviewing the proposed incentive compensation plan. After discussion, the ERCC voted to recommend the incentive compensation plan to the SIB. The targeted incentive compensation ranges from 25% - 50% and the maximum ranges from 50% -100%. The payout is based on performance and in line with public plan payout averages. Public Meeting.
- 2/23/24 SIB received a presentation from Mercer reviewing the proposed incentive compensation plan. After discussion, the SIB voted to approve the incentive compensation plan as proposed. Public Meeting.
- 3/13/24 SIB ERCC received a presentation from Mercer reviewing the compensation study. After discussion, the ERCC voted to accept the compensation study and bring it to the SIB for discussion. Public Meeting.
- 3/22/24 SIB received a presentation from Mercer reviewing the compensation study. The board asked questions and discussed the compensation study results. Public Meeting.
- 4/18/24 SIB Governance and Policy Review Committee (GPR) approved the proposed changes to the SIB Governance Manual and recommended approval to the SIB, which included the addition of the incentive compensation plan. Public Meeting.

- 4/26/24 SIB approved the introduction and first reading of amendments to the SIB Governance Manual, which included the addition of the incentive compensation plan. Public Meeting.
- 5/17/24 SIB approved the second reading and final adoption of amendments to the SIB Governance Manual, which included the addition of the incentive compensation plan. Public Meeting.
- 6/19/24 Presentation to Budget Section regarding the incentive compensation program, including positions eligible for incentive compensation and the incentive amount each position is eligible to receive. Public Meeting.

### **III. INCENTIVE COMPENSATION PROGRAM POLICY**

The Governance & Policy Review (GPR) Committee is a standing committee of the SIB that is responsible for reviewing its Program Manual, ensuring that it reflects best practices and good governance. The following is an excerpt from the Program Manual of the Incentive Compensation Program Policy developed by the GPR Committee and approved by the SIB.

#### **Executive Summary**

North Dakota Century Code Chapter 54-52.5 provides that North Dakota RIO may develop an incentive compensation program for full-time equivalent investment and fiscal operations positions necessary for the management of the investment of funds under the control of the SIB.

In carrying out its responsibilities, the Board has developed and administers an incentive compensation plan that reflects careful consideration of the following:

- To achieve its long-term strategic and investment objectives, RIO must have high-quality investment management staff.
- A reasonable and competitive incentive compensation plan is critical to attracting and retaining high quality staff.
- Staff should be motivated to earn the highest possible returns for RIO at reasonable costs and controlled levels of risk.
- Given that RIO needs to provide competitive pay to attract and retain qualified staff, a significant portion of total pay opportunities should be provided through performance-based incentives, a practice that is universally accepted in the financial marketplace. Under RIO's incentive compensation plan:



- Investment-related awards should be earned only when net investment performance is above defined benchmarks (i.e., when value is created for client funds).
- The greatest share of the excess value should accrue to the client funds, not to RIO staff.

The incentive compensation plan is rigorously managed by RIO's Executive Review and Compensation Committee (ERCC) to ensure compliance with all applicable statutes and related rules and guidelines.

### **Authority**

North Dakota Century Code Chapter 54-52.5 provides that North Dakota RIO may develop an incentive compensation program for full-time equivalent investment and fiscal operations positions necessary for the management of the investment of funds under the control of the SIB. This document specifies the policies and procedures related to the administration of annual incentive compensation.

This incentive compensation plan (the Plan) provides for payment of incentive compensation awards to full-time equivalent investment and fiscal operations positions necessary for the management of the investment of funds under the control of the SIB (Participants) and supersedes all prior incentive compensation plans and/or arrangements for Participants. Participants under this Plan include all unclassified investment services related staff as may be determined by the SIB, ERCC, and Executive Director. The Effective Date of the Plan is July 1, 2024. Each plan year starts at the beginning of the fiscal year on July 1.

### **Plan Objectives**

As developed and adopted by the Board, this Plan is designed to:

1. Help attract and retain talented investment professionals.
2. Help RIO earn the highest possible investment returns at a reasonable cost and at controlled levels of risk.
3. Reward long-term investment performance.
4. Reflect the RIO client fund above-benchmark, net of all performance.
5. Motivate staff to make good decisions for RIO client funds, including implementation decisions related to asset allocation.
6. Foster a collaborative approach to investing RIO's assets under management.
7. Reward measurable and achievable performance.

8. Be clear and easily communicated in terms of the Plan's objectives, design features and associated incentive compensation opportunities.
9. Be perceived as fair by RIO's employees and potential recruits.

### **Administration and Management**

The SIB reserves the right to modify, terminate, and/or rescind any or all of the compensation schedules, provisions, policies, and procedures contained in this and all supporting documents at any time. This document describes a policy and does not provide a contract, guarantee of payment, guarantee of participation in the Plan in subsequent years, or guarantee of employment among RIO, the Board, and the Participants. Should an error in calculation or in data be discovered before or after the award distribution, RIO reserves the right to make an adjustment and recover any incentive compensation award distributed based on the erroneous data or calculation.

The Executive Director will administer the Plan with oversight by the ERCC. The Executive Director may delegate certain administrative responsibilities to other employees at RIO, including the Chief Investment Officer and the Chief Financial Officer/Chief Operating Officer.

Compensation plan participants may present questions related to the Plan to the Executive Director. The Executive Director will work with the appropriate persons to answer such questions. The Executive Director, ERCC, and SIB will have full discretion to conclusively decide all questions or matters relating to the interpretation of the provisions and administration of this Plan.

The SIB must approve any question or matter whose resolution requires a material modification to the Plan, such as a change to the performance standards or maximum award levels. Any such amendments or changes to the Plan may be proposed by the Executive Director or the ERCC but must be recommended by the ERCC and approved by the SIB.

### **Eligibility**

Positions that are eligible for incentive compensation are full-time equivalent investment and fiscal operations positions necessary for the management of the investment of funds under the control of the SIB as set forth in this plan. Any temporary employment or project positions are not eligible. Plan participation is determined based on employment status and the Executive Director's assessment of the position's impact on RIO's overall investment performance. Participants must have worked in a covered position at least three full consecutive calendar months during the year to be eligible for incentive compensation under the Plan, and incentive compensation will be paid on a pro-rata basis if not employed the entire fiscal year. The Executive Director will confirm any new positions that will be eligible under the Plan during the next fiscal year.

Employment at RIO in good standing on the day of payment is a pre-requisite for receiving any incentive compensation payment, except in the case of retirement, disability, death or otherwise as provided below. For purposes of this Plan, "employment in good standing" means (a) the Participant's performance is rated above "Developing" in the Participant's most recent performance review, (b) the Participant is not on a performance improvement plan.

#### *Eligibility upon Separation*

Generally, a Participant must be employed by RIO as of the date the incentive compensation is paid out in order to be eligible to receive the payment. In the case of disability or death occurring during the fiscal year, any Board-approved incentive compensation amount may be paid to the Participant, the amount to be determined by the Executive Director, subject to approval by the SIB, based on the time worked during the fiscal year and subject to the Participant's termination meeting the qualifications in the next paragraph, if not employed as of the date of payment. These payments will be made at the same time as any other incentive compensation award. No incentive compensation will be awarded if the Participant was employed for less than three consecutive months during the fiscal year in which the disability or death occurred.

If a Participant terminated employment prior to payment of an award, the full amount of the incentive compensation award will be paid to the Participant (or beneficiary in the case of death) only upon the following conditions:

- If the Participant's separation is due to the Participant's disability.
- If the Participant's separation is due to the Participant's death.
- If the Participant's termination is due to reasons other than the Participant's disability or death, and his/her last day of active employment is prior to the payment date then no incentive compensation award will be payable to the Participant.

#### **Plan Concepts/Mechanics**

The Plan's terms and conditions are described in this document. A summary of the Plan's overall mechanics is as follows:

- Prior to or near the beginning of each fiscal year, Participants will be assigned a maximum incentive compensation opportunity, which effective as of the Plan year will be expressed as a percentage of his or her base salary at the beginning of the fiscal year (or the Participant's start date if employed after the start of the fiscal year). Maximum incentive compensation opportunities will vary by position based on differing levels of accountability and responsibility.

- Maximum incentive compensation opportunities will be weighted or allocated to specific quantitative and discretionary Plan components. Several Plan components are based on Value Added. Value Added (VA) means the weighted average of outperformance of funds as described within the plan.
- After year-end, depending on performance, awards will be determined for each stand-alone Plan component.
- Notwithstanding any other provision in this Plan and regardless of any incentive compensation award calculations hereunder, no incentive compensation award shall be made unless and until approved by the SIB, in its sole discretion. The SIB may award, adjust (up or down), modify or deny any incentive compensation amounts calculated pursuant to the Plan. All incentive compensation awards hereunder are discretionary.

### **Step 1: Set Each Participant's Maximum Incentive Compensation Opportunity**

Prior to or near the beginning of each fiscal year, or the Participant's start date if employed after the start of the fiscal year, Participants will be assigned a maximum incentive compensation opportunity, which will be expressed as a percentage of his or her base salary. Unless approved by the Executive Director, maximum incentive compensation opportunities will vary by the position held for most of the year (i.e., position held through June 30 for existing employees) and based on differing levels of accountability and responsibility.

Current maximum incentive compensation opportunities are set forth below.

<b>Maximum Incentive Award</b>	<b>Position Title</b>
100%	Chief Investment Officer Executive Director
90%	Deputy Chief Investment Officer
75%	Portfolio Manager Chief Risk Officer Senior Investment Officer
60%	Chief Financial Officer / Chief Operating Officer
50%	Investment Officer Risk Officer Accounting Manager
25%	Sr. Investment Accountant Investment Accountant

## Step 2: Calculate the Maximum Incentive Compensation Opportunity for the Plan

The maximum incentive compensation opportunity for the entire Plan will be calculated by aggregating the maximum incentive compensation opportunities for each Participant.

## Step 3: Allocate each Participant's Maximum Incentive Compensation Opportunity to Performance Components

Each Participant's maximum incentive compensation opportunity will be weighted or allocated among standalone quantitative and qualitative performance components.

All Roles		
<i>Weight</i>	<i>Performance Component</i>	<i>Allocation Method</i>
80%	Fund VA -3-year rolling	Minimum: (10%) $\geq$ 1 bp Maximum: (100%) 50 bps
20%	Individual Goals	Discretionary

Any proposed changes to incentive compensation weightings will be reviewed and approved by the Executive Director and the ERCC, and approved by the SIB, prior to the beginning of each fiscal year.

## Step 4: Calculate the Performance Components

### *VA Performance Components*

The Plan's quantitative components focus on weighted average of the Legacy Fund, PERS pension fund, TFFR fund, and the WSI fund actual, relative investment performance at Client Fund level compared with SIB-approved benchmarks. Client fund performance is measured on a net of all basis (i.e., net of all direct and indirect costs). Asset Class and Team performance is measured net of direct costs.

The SIB approves an Incentive Compensation Metric (ICM) performance verified by the SIB's independent Benchmark and Hurdle Rate consultant. The Incentive Compensation Metric represents the amount of outperformance of the applicable benchmark necessary to earn the full incentive compensation opportunity. Performance-award scales are derived from the ICM and define the linkage between RIO's actual, relative, net investment performance and a corresponding percentage of the maximum incentive compensation opportunity that is earned.

Prior to or near the beginning of each performance year, any requested changes to the ICM(s) or performance-award scales must be submitted, in writing, by the Executive Director to the ERCC and from the ERCC to the SIB for review and approval, and to the Hurdle Rate and Benchmark Consultant for review and



verification. There will be a comprehensive review of the ICM(s) up to every three to five years at the discretion of the SIB.

Under RIO Plan:

The percentage of the maximum *quantitative* incentive compensation opportunity earned:

- Equals 0% when performance is at or below benchmark.
- Equals 10% when net performance exceeds the benchmark by one full basis point.
- Increases pro rata, from 10% to 100%, for net performance that is between one full basis point above the benchmark, and the ICM.
- Equals 100% when net performance equals or exceeds the benchmark by the full ICM<sup>1</sup>

#### *Portfolio VA*

In the first three years of the Plan, the first year Fund VA will be the one year weighted average Fund VA, the second year of the plan will be the two-year compound Fund VA and the third year will be the three-year compound average of the weighted average of the Legacy Fund, the PERS pension fund, TFFR fund, and WSI fund actual, relative investment performance at Client Fund level compared with SIB-approved benchmarks. Thereafter, the weighted average Fund VA applied to all participants is a rolling three-year average of the weighted average of the Legacy Fund, the PERS pension fund, TFFR fund, and WSI fund actual, relative investment performance at Client Fund level compared with SIB-approved benchmarks.

For Participants that join RIO on or after the beginning of the fiscal year, the weighted average Fund VA applied to all participants will be used. The payout will be made pro-rata based on the percentage of plan year time employed that starts with the beginning of the fiscal year on July 1.

For Participants that joined RIO prior to the plan year starting with the beginning of the fiscal year but have been employed for fewer than three years as of the start of the fiscal year, the weighted average Fund VA applied to all participants will be used.

#### *Individual Goals Component*

The Individual Goals component is set by the manager of the Participant as part of the performance evaluation process. The final performance evaluation of each Participant is approved by the Executive Director. In addition, such Participants will be evaluated on leadership/behavioral and organizational competence factors. Some factors that may be considered include training and mentoring of staff, contribution to organizational strategic planning, and participation in projects or initiatives to update business and/or analytical processes and tools and the

associated technology applications. The Executive Director will determine the amounts awarded for Individual Goals in consultation with managers.

#### **Step 5: Allocate Discretionary Components Among Relevant Participants**

Quantitative components are allocated to Participants directly without modification.

Discretionary components for Individual Goals components, will be allocated by the Executive Director.

#### **Step 6: Present Final Award Recommendations to the Board of Trustees**

The Executive Director's award recommendations will be made to the ERCC. The ERCC will make a recommendation regarding the incentive compensation awards to the SIB for approval. For all Participants, an incentive compensation award is contingent on approval of the award by the SIB, in its sole discretion.

#### **Step 7: Payment of Awards**

Incentive compensation awards will be determined and authorized as soon as practical following the close of each fiscal year, with a target of within the first four months of each fiscal year for the previous fiscal year.

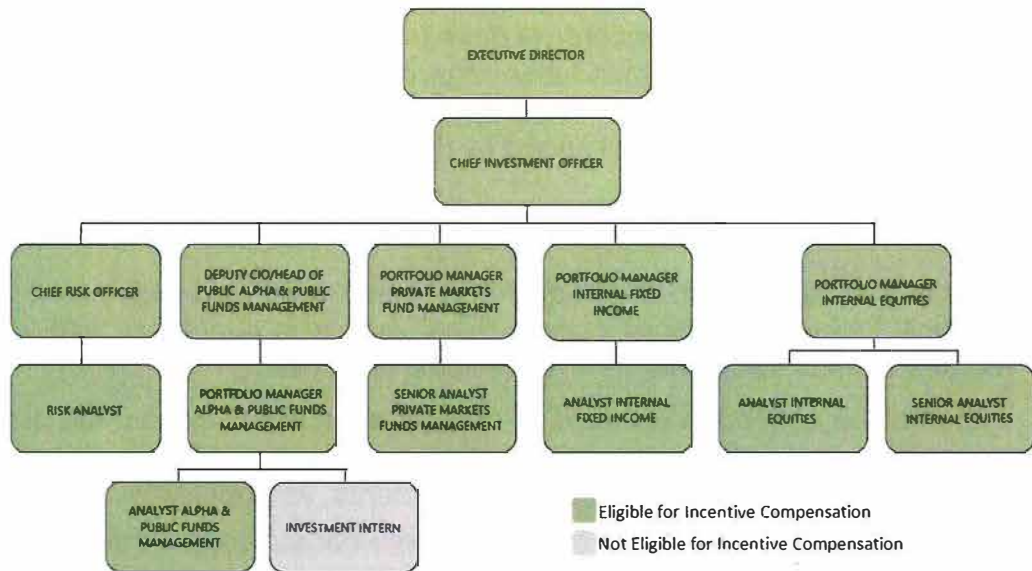
RIO shall be entitled to withhold or deduct, as applicable, from the amount of any payment under this Plan or any other compensation due to the Participant, all federal, state, city and other taxes and all other amounts, as applicable.

<sup>1</sup> ICMs are intended to reflect levels of net performance that are considered top quartile, based upon expected levels of risk and return.

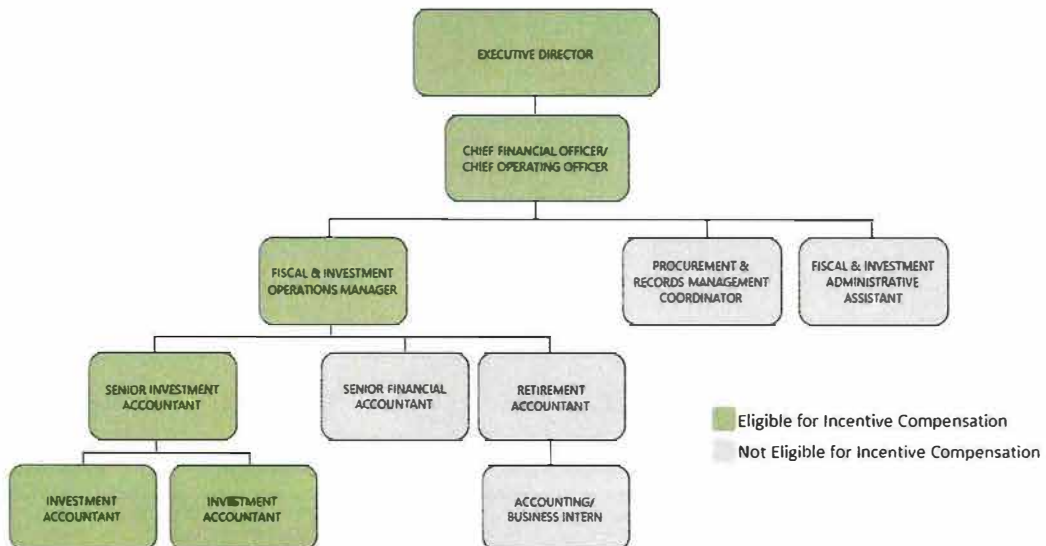
## Key Points Compensation Policy

- Only certain RIO staff are eligible for incentive compensation (19 of the 34 employees):
  - 13 Investment Division Team Members.
  - 5 Fiscal Division Team Members who perform specialized accounting that focuses on tracking and monitoring investment activity.
  - Executive Director who oversees the Investment and Fiscal Divisions.

### RETIREMENT AND INVESTMENT OFFICE - INVESTMENT DIVISION



### RETIREMENT AND INVESTMENT OFFICE - FISCAL DIVISION



- Eligible staff will not receive an incentive each year (in a ten year period it is estimated eligible staff would not receive a bonus 2-3 years and would receive the maximum bonus 2-3 years). Eligible staff incentives will be based on performance outcomes.

Under the Incentive Compensation Plan the percentage of the maximum quantitative incentive compensation opportunity earned:

- Equals 0% when performance is at or below benchmark.
- Equals 10% when net performance exceeds the benchmark by one full basis point.
- Increases pro rata, from 10% to 100%, for net performance that is between one full basis point above the benchmark, and the Incentive Compensation Metric.
- Equals 100% when net performance equals or exceeds the benchmark by the full Incentive Compensation Metric.

Title	Base Annual Salary	Min Bonus %	Min Bonus (1 bps)*	Mid Bonus %	Mid Bonus (25 bps)*	Max Bonus %	Max Bonus (50bps)*
Chief Investment Officer	312,000.00	10.0%	31,200.00	50%	156,000.00	100%	312,000.00
Executive Director	237,407.16	10.0%	23,740.72	50%	118,703.58	100%	237,407.16
Deputy CIO/Head of Public Alpha & Public Funds Mgmt	197,600.04	9.0%	17,784.00	45%	88,920.02	90%	177,840.04
Portfolio Manager - Internal Fixed Income	204,999.96	7.5%	15,375.00	38%	76,874.99	75%	153,749.97
Portfolio Manager - Internal Equities	186,999.96	7.5%	14,025.00	38%	70,124.99	75%	140,249.97
Portfolio Manager - Alpha & Public Funds Mgmt	181,999.92	7.5%	13,649.99	38%	68,249.97	75%	136,499.94
Chief Risk Officer	181,999.92	7.5%	13,649.99	38%	68,249.97	75%	136,499.94
Portfolio Manager - Private Markets Fund Mgmt	181,999.92	7.5%	13,649.99	38%	68,249.97	75%	136,499.94
Sr Analyst - Internal Equities	150,000.00	7.5%	11,250.00	38%	56,250.00	75%	112,500.00
Chief Financial Officer/Chief Operating Officer	162,548.88	6.0%	9,752.93	30%	48,764.66	60%	97,529.33
Risk Analyst	136,693.80	5.0%	6,834.69	25%	34,173.45	50%	68,346.90
Sr Analyst - Private Markets Funds Mgmt	123,809.52	5.0%	6,190.48	25%	30,952.38	50%	61,904.76
Fiscal & Investment Operations Manager	124,403.64	5.0%	6,220.18	25%	31,100.91	50%	62,201.82
Analyst - Internal Fixed Income	120,000.00	5.0%	6,000.00	25%	30,000.00	50%	60,000.00
Analyst - Alpha & Public Funds Mgmt	119,047.56	5.0%	5,952.38	25%	29,761.89	50%	59,523.78
Analyst - Internal Fixed Income	75,000.00	5.0%	3,750.00	25%	18,750.00	50%	37,500.00
Senior Investment Accountant	99,315.24	2.5%	2,482.88	13%	12,414.41	25%	24,828.81
Investment Accountant	85,831.20	2.5%	2,145.78	13%	10,728.90	25%	21,457.80
Investment Accountant	84,000.00	2.5%	2,100.00	13%	10,500.00	25%	21,000.00
Total Bonus			\$ 205,754.02		\$ 1,028,770.08		\$ 2,057,540.15

\* 80% of the bonus is based on performance of investment and the remaining 20% is based on individual goals and is discretionary.

As currently drafted, based on \$23 billion of assets under management, the cost benefit associated with the incentive compensation program is as follows:

<b>\$ MILLIONS</b>			
<b>PERFORMANCE<sup>1</sup></b>	<b>1 BP</b>	<b>25 BP</b>	<b>50 BP</b>
BENEFIT TO PLAN <sup>2,3</sup>	\$19,300,000	\$74,500,000	\$132,000,000
INCENTIVE	\$205,000	\$1,028,000	\$2,057,000
NET BENEFIT	\$19,095,000	\$74,472,000	\$129,943,000

#### IV. SUMMARY

The SIB and RIO oppose HB 1348.

The Legislature provided SIB, under NDCC 54-52.5, the authority to create an incentive compensation program. The SIB then created a policy outlining the rules and principles SIB must follow when implementing the policy.

The SIB reserves the right to modify, terminate, and/or rescind any or all the compensation schedules, provisions, policies, and procedures contained in this and all supporting documents at any time.

If HB 1348 is approved, it will dismantle the in-state investment program. Thus, the internal investment program's projected savings will not be realized and dismantling of the program will result in additional fees being charged to the SIB's client funds.

<b>Pools (Client Funds)</b>	<b>Internal Investment 15% of Assets</b>
PENSION	\$6 Million
INSURANCE	\$3 Million
LEGACY	\$8 Million
<b>Estimated Annual Savings (on \$23 Billion AUM)</b>	<b>\$17 Million</b>



HB 1348

For the record, my name is Mitch Ostlie, Representative District 12. I am here today to discuss an incentive compensation plan for employees of the state retirement and investment office or (RIO)

About a year ago when I was doing research on another bill, I ran across what the legislative assembly approved last session regarding a new compensation plan for some employees of RIO. What the State Investment Board (SIB) came up with for a plan is somewhat different than what I recalled was going to happen. When I asked many other legislators for clarification or if their memory was different than mine, the common response was, we do not recall that that's what we agreed to or we probably should have been vetted more. What this bill in front of you does is to go back and undo the legislation that allowed this incentive compensation plan to be put forth.

Let's go back about 2 ½ years. RIO staff went to the state investment board with an idea to do in-state investing. Currently we hire out of state fund managers. The idea was that if we have our own fund managers, we would have more control over what we invest in and also save money on the fees we have been paying these out of state fund managers. But to do this, we would have to pay these individuals that are doing the buying and selling of these stocks a little differently than what we have traditionally done as a state employee. There was a presentation to appropriations and an amendment to the RIO budget to allow this to happen. We gave SIB authority to come up with a compensation plan to do this.

We could say last sessions plan fit the definition of an Agency Bill that went directly to appropriations. Past practices like this are the reason why we are hearing in policy committees this session, bills that many times went right to Appropriations.

Now that you have a little history of where we were and what the intent was, I will direct you to another document of what actually happened as a result of action from the state investment board.

There are approximately 20 positions declassified to be eligible for this new "incentive compensation". Including the Chief Financial Officer and the executive director of up to 100% of their salary if certain benchmarks are hit. Example, if this position has a salary of \$300,000, their bonus could be \$300,000 for a total compensation that year of \$600,000. I do not believe that all of these other classes of employees were intended by the legislature to be in this new comp plan,

I think we have a serious conflict of interest. These top 2 positions had significant influence on the consultant used to recommend this new plan. They also have significant influence on what the benchmark is to be eligible for this "bonus" and have the highest eligible bonus at 100%.

I initially thought about drafting this bill to be more closely align to what I recall what the intent of past legislation. But then decided to just start over from the beginning. With a new governor and chairperson of the state investment board. It will allow that individual to have their input in the process. This will also allow all legislators to have input and awareness during this vetting process.

Thank you for your time and I will try answer any questions you may have.

# 2025 HOUSE STANDING COMMITTEE MINUTES

## Government and Veterans Affairs Committee Pioneer Room, State Capitol

HB 1348  
2/6/2025

Relating to an incentive compensation plan for the state retirement and investment office.
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11:50 a.m. Chairman Schauer opened the meeting.

Members present: Chairman Schauer, Vice Chairman Satrom, Representatives Bahl, Brown, Grindberg, Karls, McLeod, Rohr, Schneider, Steiner, VanWinkle, Vetter, Wolff

Members absent: Representatives Bahl, Christy

### Discussion Topics:

- Committee work

11:51 a.m. Representative Steiner moved a Do Not Pass.

11:51 a.m. Representative McLeod seconded the motion.

Representatives	Vote
Representative Austen Schauer	Y
Representative Bernie Satrom	N
Representative Landon Bahl	AB
Representative Collette Brown	Y
Representative Josh Christy	AB
Representative Karen Grindberg	Y
Representative Karen Karls	Y
Representative Carrie McLeod	Y
Representative Karen Rohr	Y
Representative Mary Schneider	Y
Representative Vicky Steiner	Y
Representative Lori VanWinkle	Y
Representative Steve Vetter	Y
Representative Christina Wolff	Y

11:53 a.m. Motion Carried 11-1-2.

Representative Steiner will carry the bill.

11:54 a.m. Chairman Schauer closed the meeting.

*Jackson Toman, Committee Clerk*

**REPORT OF STANDING COMMITTEE**  
**HB 1348 ([25.0564.02000](#))**

**Government and Veterans Affairs Committee (Rep. Schauer, Chairman)** recommends **DO NOT PASS** (11 YEAS, 1 NAY, 2 ABSENT AND NOT VOTING). HB 1348 was placed on the Eleventh order on the calendar.