



BANK OF NORTH DAKOTA  
SMART Compensation  
Study with  
Recommendations

FEBRUARY 2024



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## Executive Summary

As directed by the 68th Legislative Assembly, Bank of North Dakota (BND) studied the feasibility and desirability of creating an employee recruitment and retention incentive program for the Bank.

BND is a \$10.1 billion financial institution, second only to Bell Bank in asset size in North Dakota. In addition to supporting local financial institutions, BND is the depository for most state revenues which averages over \$500 million per month, executes a loan portfolio of \$5.8 billion and an investment portfolio of \$3.9 billion. In addition, the Bank manages \$1.0 billion in off balance sheet legislatively directed loan programs for the State. The complexity of managing a financial institution of this size requires a highly sophisticated level of talent to ensure the safety and soundness of the Bank.

North Dakota Human Resources Management System (HRMS) leadership and the interim executive director of the North Dakota Industrial Commission met with BND leadership four times, August – December 2023. They engaged the Total Rewards Community of Practice (TRCoP) for review and input on this plan. Input was also obtained from a newly formed Bonus/Incentive Pay Task Force made up of leaders from multiple state agencies.

BND, in partnership with HRMS, concluded the state of North Dakota would benefit in attracting and retaining employees by providing more opportunities for variable compensation.

Key program requirements were drafted, and a funding strategy was established. The anticipated financial impact to BND if approved to implement the plan is projected to be less than 2.0% of earnings in any given year. When applied to BND's payroll line item from the years of 2017-2022, the average cost per year would be approximately \$1.7 million.

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## Background

BND and the North Dakota State Mill and Elevator are the only state-owned, for-profit enterprises in the United States. A challenge for these entities is to recruit and retain talent in a significantly competitive labor market.

One hundred percent of publicly traded banks offer a bonus/discretionary plan as noted in the most recent 2023 Salary & Compensation Survey conducted by Blanchard Consulting Group. While our recommendation is not to establish a true bonus plan, implementation of the proposed employee recruitment and retention strategy will get closer to evening the playing field by allowing BND employees the opportunity to earn additional compensation, while promoting employee continuity and Bank safety and soundness.

To facilitate the Bank's role in supporting economic growth and stability by partnering with local financial institutions, the Bank requires in-depth knowledge of significant federal and state regulations, complicated analysis and strategic decisions for money management, and a keen ability to assess risk to ensure the safety and soundness of the Bank.

On December 31, 2023, BND held \$10.1 billion in assets with a return on investment of 18.2%. The total loan portfolio was \$5.8 billion, and the Bank maintained an efficiency ratio of just over 14%. In 2023, BND managed the transfer of funds which included:

- ACH Origination for \$16.9 billion
- ACH Received for \$9.2 billion
- ACH Files in/out numbering 29,639 files with 5.4 million entries
- Incoming Wires: 18,595 wires for \$34.1 billion
- Outgoing Wires: 21,701 wires for \$40.1 billion
- Check Images: 18, 318,485 images for \$60.1 billion
- State Agency Credit Cards: 2.2 million transactions for \$203 million
- State Agency CDs: Average amount of \$5 billion

To help BND address its challenge of attracting and retaining talent, the 68th legislative assembly passed HB1014 directing the ND Industrial Commission and BND to undertake a feasibility study related to employee recruitment and retention and report to the Legislative Council by March 31, 2024.

SECTION 25. EMPLOYEE RECRUITMENT AND RETENTION INCENTIVE PROGRAM STUDY - REPORT TO LEGISLATIVE MANAGEMENT. During the 2023-24 interim, the Industrial Commission and Bank of North Dakota shall study the feasibility and desirability of creating an employee recruitment and retention incentive program for the Bank of North Dakota. The industrial commission shall report its findings and recommendations to the legislative management by March 31, 2024.

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## Study Process

### Stakeholders

Multiple stakeholders provided input on this study:

- Bank of North Dakota Executive Committee
- North Dakota Human Resources Management Services
- Industrial Commission interim Executive Director
- Total Rewards Community of Practice whose purpose is to align compensation, benefits, well-being, development, recognition and rewards to attract, motivate, engage and retain talented team members. The agencies represented include Department of Water Resources, Human Resources Management Services, Tax Department, Parks and Recreation, Historical Society, Insurance Commission, Department of Transportation, Office of Management and Budget, Department of Corrections and Rehabilitation, NDPERS, Facility Management, ND University Systems, Protection and Advocacy, Highway Patrol, Health and Human Services, Department of Environmental Quality, and NDIT.
- Bonus/Incentive Pay Task Force whose purpose is to review and assess the effectiveness of current programs and to formulate recommendations for changes to those programs and/or possible new types of incentives. Agencies represented include Department of Water Resources, Office of Management and Budget, Housing Finance Agency, Public Service Commission, Department of Transportation, Retirement and Investment Office, Department of Corrections and Rehabilitation, Health and Human Services, and Human Resource Management Services.

### Stakeholder Engagement

BND, HRMS leadership and the interim executive director of the ND Industrial Commission met four times between August and December 2023. During these discussions, it was determined that engaging the Total Rewards Community of Practice (TRCoP) for review and input on a BND recruitment and retention plan would be helpful. Engagement with the TRCoP began in December of 2023 and is ongoing, meeting monthly.

In January 2024, BND started meeting with the newly formed Bonus/Incentive Pay Taskforce on a biweekly basis and these meetings continue. The purpose of the meetings was to not only review and garner input on the BND plan proposal, but to consider the viability of a similar approach for other agencies in state government. The result from these meetings and discussions is included in the Addendum where Lynn Hart, Total Rewards Manager with ND HRMS, details the support of HRMS for BND moving forward with the proposed Recruitment and Retention Strategy.

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## Goals and Philosophy

These goals and philosophy were established.

### Goals of plan implementation

1. Attract and retain the talent required to run a complex financial institution.
2. Limit risk and enhance the performance of the organization.
3. Motivate employees to achieve and maintain high performance.
4. Ensure competitive and consistent salary practices.
5. Engage employees in mission-based strategic priorities.

### Philosophy: "SMART"

- S Strategically Based:** Align goals and future business direction while recognizing performance.
- M Market Driven:** Actively monitor the market to regularly attract and retain the best talent.
- A Analyze Thoroughly:** Analyze the jobs employees are currently performing and will be expected to perform in the future to maintain a competitive edge.
- R Reward Results:** Reward results and recognize potential. Integrating rewards with recognition strategies encourages employees to exceed performance expectations.
- T Transformative:** Total compensation must align with the current business environment.

**SMART**-integrated compensation provides the vehicle required for today's organizations to maintain a competitive edge and sustain growth.

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## Study Conclusion

The state of North Dakota would benefit by providing more opportunity for variable compensation. Key program requirements must be developed by individual agencies to address agency-specific goals. A common denominator for all agencies is to dedicate significant attention to the development of appropriate performance measures.

Funding a variable compensation program needs to be addressed. The current performance bonus program requires any additional compensation be paid out of the appropriation for salaries. Along with variability in agency funding and funding sources, this results in significant differences among the agencies. A more robust program would most likely require some dedicated funding if implemented across all state agencies.

### Proposed Bank of North Dakota SMART Plan Parameters

- Performance categories, targets, and indicators will be developed and approved by the BND Advisory Board and the ND Industrial Commission on an annual basis. This is important as these are the governing entities for the Bank. It is not appropriate for management to establish the performance metrics.
- The plan is applied universally across the BND employee pool including management with no stratification of the performance and retention compensation. This is an intentional component which signifies the value each BND employee contributes to ensuring the Bank's safety and soundness.
- Additional compensation will be paid out over a three-year period to reinforce the critical importance of retention.
- Employees qualify on their start date (prorated for the first year).
- Employees must not be on a performance improvement plan in order to qualify.
- Employees must be employed on December 31 of each year.
- Any material findings in BND's Financial Accounting Standards Board (FASB) audit and safety and soundness audit will be subject to Advisory Board and Industrial Commission acceptance that findings were not due to negligence.
- Employees that leave BND lose any unpaid retention bonus unless the employee has reached the rule of 85/90 or the age of 62.

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## Conclusion

- As proposed, the plan put forward by Bank of North Dakota can serve to attract key talent and provides BND with an avenue to retain talent over an extended period.
- The plan is supported by ND HRMS. See Addendum.
- The plan is not stratified by organizational chart level. This is a unique feature and reinforces BND's philosophy that every employee is a key player in the Bank's success. All employees receive the same percentage award of their salary. This may not work for other state agencies that implement a recruitment and retention plan.
- BND has identified its goals and a "SMART" philosophy with definitions for plan implementation.
- BND has identified specific performance categories that highlight the essential components of safety and soundness for the institution and a high level of engagement for its employees.
- The evaluation of Bank performance is to be determined by the BND Advisory Board, not BND management. Plan oversight resides with the Industrial Commission which currently oversees the Mill and Elevators Gainshare Plan.

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## Addendum

The following notes were provided by Lynn Hart, Total Rewards Manager with HRMS.

HRMS has reviewed the draft Recruitment and Retention Incentive Plan both to provide comments and to consider the viability of a similar approach for other agencies of ND state government. HRMS also participated, along with BND staff, in a discussion on the plan with the Total Rewards Community of Practice (TR COP). The purpose of the review with the COP was largely informational, but also to seek further input on the viability of the concept for other agencies.

Considering viability for other agencies, our general assessment as well as the reaction from the COP was that more opportunity for variable compensation (i.e., bonuses or monetary incentive) would be highly desirable. However, it was also recognized such a program would require significant attention to the development of appropriate performance measures.

The other major concern is in regard to funding for such a program. The current, relatively modest performance bonus program requires that any bonuses be paid out of the appropriation for salaries. Along with variability in agency funding and funding sources, this results in significant differences among the agencies. A more robust program would most likely require some dedicated funding.

Related to concerns about appropriate performance measures, there was also some discussion about the pros and cons of an incentive program that features universal participation of all staff and that does not consider differences in performance or contribution in the incentive awards. Though BND has valid reasons for preferring those features in their proposed plan, more variable incentives may be more suitable for other agencies.

A couple of suggestions for the proposed Recruitment and Retention Incentive Plan were also provided for consideration. First, since the proposed plan provided for incentive payments spread over a three-year period, it may be appropriate to provide earnings or interest on the delayed payments.

Finally, though the plan provides that a team member is not eligible for an incentive award if they are on a performance improvement plan, it is not clear exactly how that would impact the awards. For instance, does the employee lose eligibility for the full plan year? Also, would an employee on a performance improvement plan still receive any delayed incentive awards?



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In summary:

- HRMS supports moving forward with the proposed Recruitment and Retention Program.
- An opportunity to provide variable compensation in other agencies similar to that provided by the proposed Recruitment and Retention program would be highly desirable. Some considerations for application in other agencies include the following:
  - Performance measures suitable to other agencies would need to be determined.
  - Funding for other agencies would also need to be determined, and some dedicated funding may be needed for a robust incentive program.
  - More variable incentives than provided in the proposed plan may be suitable for other agencies.
- The following factors should be given further consideration in the proposed plan:
  - Whether earnings or interest should be provided for delayed incentive payments, and
  - How individual performance issues should impact incentive awards under the proposed plan.



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