

**TESTIMONY OF
SPARB COLLINS
ON SB 2344**

Mr. Chairman, members of the committee my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System. I appear before you today in a neutral position on this bill and to share with you some observations and suggestions from the PERS Board. PERS presently is responsible for the Main, Judges, Law Enforcement, National Guard, Highway Patrol and the Job Service retirement plans that are invested through the State Investment Board (SIB). In addition, we have the retiree health insurance care fund invested with the SIB. Three of our elected PERS Board members serve on the SIB and they are appointed by the PERS Board from our four elected members. The PERS Board understands that as funds join the SIB for investing and as others may go off that changes in the composition of the board are appropriate and necessary just as when PERS joined the SIB back in the late 80's.

The existing State Investment Board membership and investment responsibilities were enacted by the 1989 legislative session. Prior to that, the PERS funds were invested directly by the PERS Board who employed its own investment officer and hired its own investment managers. The PERS Board participated in the development and supported the reorganization of the investment functions to the present arrangement since it offered the opportunity to reduce our overall investment costs. While there were many points of discussion in developing the present arrangement back in 1989, one of the key issues was accommodating the unique fiduciary responsibility relating to the various retirement funds in the proposed new structure for the SIB. Retirement trustee requirements are somewhat different from other state agencies and they are subject to an extensive and stringent set of fiduciary obligations to the retirement programs' participants and beneficiaries (basically the exclusive benefit rule). These obligations both require and justify the need for trustees to be independent with their sole responsibility to the retirement funds and the funds' members. Furthermore, the

independence is required because it permits the trustees to perform their duties without concern for other priorities that may relate to other constituencies or needs. In the absence of independence, trustees may be required to decide between fulfilling their fiduciary obligations to retirement participants or responding to the needs of others that may have a wider ranging set of interests or priorities. In this sense, the independence of retirement trustees is an integral part of the fiduciary obligations that govern the operations of retirement plan investing. This was a key concern back in 1989 in establishing the existing SIB membership. In fulfilling these obligations, there are legal requirements and also requirements that relate to maintaining the trust and confidence of the members.

In addition to the fiduciary considerations, it was felt that the SIB membership should also recognize that the retirement funds were over 50% of the funds invested by the SIB. In fact, today the retirement funds invested through the SIB represent approximately 62% of the total funds invested by the SIB.

To respond to the concerns in 1989 it was decided that the retirement funds would have six of the eleven seats on the State Investment Board. This would assure that those with needed independence for retirement plan investing would be in a majority. Also with the retirement funds having six of the eleven seats, it would represent about 54% of the SIB membership thereby recognizing that the retirement funds were a majority of the total funds invested by the SIB.

Mr. Chairman, members of the committee, we would request that as you contemplate the future composition of the SIB that you recognize these important historical considerations in any changes that are proposed.

Thank you.