

NDPERS BOARD MEETING

Agenda

Bismarck Location:

Bank of North Dakota
1200 Memorial Highway
Bismarck, ND 58505

January 5, 2015

Time: 8:30 a.m.

- I. Group Health Vendor Interviews
 - A. Staff Review of Proposals - *Executive Session
 - B. BCBSND ** Executive Session
 - i. Presentation (30 minutes)
 - ii. Questions/Answers (45 minutes)
 - C. Sanford Health Plan ** Executive Session
 - i. Presentation (30 minutes)
 - ii. Questions/Answers (45 minutes)
- II. Proposed Legislation – Sparb
- III. Job Service Plan Asset Allocation - Sparb & Bryan

*Executive Session pursuant to NDCC §44-04-19.1(9) and §44-04-19.2 to discuss negotiating strategy or provide negotiating instructions to its attorney or other negotiator. (Motion is necessary)

** Executive Session pursuant to N.D.C.C. §§ 44-04-17.1(2) and (5), 44-04-18.4(6), and 44-04-19.2(1) and (6) to hear and discuss oral presentations regarding bids or proposals received by a public entity in response to a request for proposals and to sequester all competitors in a competitive selection or hiring process from that portion of a public meeting wherein presentations are heard or interviews are conducted. (Motion is necessary)

Any individual requiring an auxiliary aid or service must contact the NDPERS ADA Coordinator at 328-3900, at least 5 business days before the scheduled meeting.



**North Dakota
Public Employees Retirement System**
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Memorandum

TO: PERS Board
FROM: Sparb
DATE: December 30, 2014
SUBJECT: Fully Insured and Self Insured Interviews

On January 5, 2015 BCBS and Sanford will be here for interviews with the Board. We will be having the PBM vendors at our regular meeting scheduled for January 15. The following is the schedule and the guidance we gave them on information to be covered:

BCBS Presentation (30 minutes)

1. Financials
 - a. Projected claims and all fixed costs including but not limited to risk charges, reinsurance/stop loss, admin, ACA fees, etc.
 - b. Insured vs. self-insured
 - c. Please detail why administrative costs are going up so dramatically, how can NDPERS justify approving a proposal with level of increase?
2. Value Proposition
 - a. Reasons why NDPERS' best option is to retain BCBS and on what funding basis
 - b. Discuss improvements and innovations that NDPERS will benefit from going forward
 - c. How Prime Therapeutics will operate under this contract and rationale
 - d. Implications of carving out PBM
3. Other topics (time permitting)

BCBS Q & A Session (45 minutes)

Sanford Presentation (30 minutes)

1. Financials
 - a. Brief summary of projected claims and all fixed costs including but not limited to risk charges, reinsurance/stop loss, admin, ACA fees, etc. (insured/self-insured)
 - b. Reserves and RBC requirements including willingness to guarantee Sanford Health support of the NDPERS program. How can NDPERS be assured that all the necessary financing is in place? What binding guarantees can you provide that would show NDPERS prudently executed its fiduciary responsibilities to insure a viable program for its members.
2. Implementation of NDPERS Program
 - a. Ramp-up required: including but not limited to hiring, training, systems, call center, wellness/disease management program development, etc.
 - b. NDPERS specific provider negotiations: including but not limited to negotiation strategy and timeline
 - c. Assurances of smooth transition and remedies if not met
 - d. Network management/improvements
 - e. How ESI will operate under this contract and rationale.
3. Value Proposition
 - a. Implications of carving out the PBM
4. Reasons why NDPERS' best option is to select Sanford

Sanford Q & A Session (45 minutes)

At the last meeting we provided you background information on the proposals, if you were not able to keep a copy for you reference please let us know and we can send you another. Attached for your additional reference is: 1) a copy of the PowerPoint presentation we went over at the last meeting; 2) a copy of the ramp plan submitted by Sanford in response to our questions at the staff interview; 4) a copy of the response from BCBS to staff about the level of adm/risk increases in their proposal (please note this was before the rebid so the conversion charge was eliminated, the risk charge/adm were reduced), and 4) a copy of a letter from Tim Huckle responding to some of the concerns highlighted at the staff interview for the fully insured plan (discusses the changes in #3).

Also, we gave each of the vendors a copy of the information we shared with you at the last meeting relating to their proposal (we did not share their competitor's information).

At the end of the presentations we will discuss:

- Should the plan go fully insured or self insured and with which vendor?
- Do we need additional information to make a decision?

At the January 15 meeting after hearing from the PBM's and our consultants we will need to decide if we should carve out the PBM services from the vendor/arrangement we select after the January 5 special meeting.



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Memorandum

TO: PERS Board
FROM: Sparb
DATE: December 31, 2014
SUBJECT: Proposed Legislation

Attachment #1 is proposed amendments to the defined contribution bill. These amendments are based upon our testimony in September to the Government Finance Committee and the Technical/Actuarial valuation of Segal (Attachments #2 & #3). The following is the amendments and explanation:

| Attachment #1 Amendments | Reason | History |
|--|--|---|
| "Contingent Effective Date" Provision and the "Contingent Expiration Date" Provision | The bill does not provide any funding for the changes proposed. The "Contingent Effective Date" amendment would make the effective date contingent on such funding being put into place and assuming a 7% return assumption. The "Contingent Expiration Date" provision would cause the bill to expire if needed future funding was not provided. | This concern was mentioned in the Segal Tech/Actuarial review (p 2) & our Sept memo (p 1) |
| Page 18, line 3 | Provides an appropriation to pay the implementation costs | This concern is mentioned in the Segal Tech/Actuarial review (p 2) & our Sept memo (p 1) |
| Page 17, lines 7,9 & 10 | Modifies the method for transfer out from actuarial present value or employer/employee contributions plus interest to actuarial contributions or employee contributions with interest and employer contributions. | This concern is mentioned in the Segal Tech/Actuarial review (p 17) & our Sept memo (p 6) |

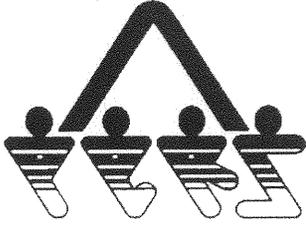
Attachment #4 is an amendment to increase employer contributions to pay for the bill. I would recommend not submitting this amendment so the proponents can figure out how they would like to pay for the bill. Since our proposed amendments would set the effective date to be when the bill is funded, it allows us not to have to propose a funding source while still maintaining the integrity of the trust. If we did not have the effective date wording then we would need to consider a funding mechanism.

Items not covered in our amendments:

1. Survivor Benefits
2. Disability Benefits
3. Adequacy of DC contribution

Board Action Requested:

To approve requesting the attached amendments to HB 2038 (not including the contribution increase).



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Memorandum

TO: PERS Board
FROM: Sparb
DATE: January 2, 2015
SUBJECT: Proposed Legislation

Attached please find:

1. A copy of the LC 15.0403.
2. A copy of the technical review from Deloitte.

As you will note, this bill would allow PERS to set up its own provider network thereby making it portable to other vendors. The Deloitte review notes this would be positive for PERS. Also this bill is identical to one PERS proposed about 8 years ago that was unsuccessful. **Staff would recommend that we support this bill based upon the technical review and our historical position.**

Also attached are SB 2039 and SB 4003. These provide for setting up a retirement stabilization fund and getting up to \$200 million from the foundation aid stabilization fund to fund it. While we have discussed these bills in the past we have generally stayed neutral on them since they do not directly fund the PERS plan. **Staff would recommend that we maintain this position going into the session and wanted to confirm this with the Board.**

15.0403.01000

Sixty-fourth
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of North Dakota

BILL NO.

Introduced by

Representative Kasper

1 A BILL for an Act to amend and reenact section 54-52.1-04 of the North Dakota Century Code,
2 relating to provider networks for the public employees uniform group insurance program.

3 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

4 **SECTION 1. AMENDMENT.** Section 54-52.1-04 of the North Dakota Century Code is
5 amended and reenacted as follows:

6 **54-52.1-04. Board to contract for insurance.**

7 1. The board shall receive bids for the providing of hospital benefits coverage, medical
8 benefits coverage, life insurance benefits coverage for a specified term, and employee
9 assistance program services; may receive bids separately for prescription drug
10 coverage; and shall accept one or more bids of and contract with the carriers that in
11 the judgment of the board best serves the interests of the state and its eligible
12 employees. Solicitations must be made not later than ninety days before the expiration
13 of an existing uniform group insurance contract. Bids must be solicited by
14 advertisement in a manner selected by the board that will provide reasonable notice to
15 prospective bidders. In preparing bid proposals and evaluating bids, the board may
16 utilize the services of consultants on a contract basis in order that the bids received
17 may be uniformly compared and properly evaluated. In determining which bid, if any,
18 will best serve the interests of eligible employees and the state, the board shall give
19 adequate consideration to the following factors:

20 1.a. The economy to be effected.

21 2.b. The ease of administration.

22 3.c. The adequacy of the coverages.

23 4.d. The financial position of the carrier, with special emphasis as to its solvency.

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- 1 5-e. The reputation of the carrier and any other information that is available tending to
2 show past experience with the carrier in matters of claim settlement,
3 underwriting, and services.
- 4 2. The board may reject any or all bids and, in the event it does so, shall again solicit
5 bids as provided in this section. The board may establish a plan of self-insurance for
6 providing health insurance benefits coverage only under an administrative services
7 only (ASO) contract or a third-party administrator (TPA) contract.
- 8 3. Regardless of whether the board chooses to self-insure, the board may develop a
9 provider network by negotiating and contracting with health care providers and
10 associations. A provider network developed under this subsection may only be used
11 by the board, or an insurance company contracting with the board, to provide health
12 insurance coverage pursuant to this chapter.



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Memo

Date: December 30, 2014
To: Sparb Collins
From: Josh Johnson and Pat Pechacek
Subject: REVIEW OF PROPOSED BILL 15.0403.01000 RELATING TO PROVIDER NETWORKS FOR THE PUBLIC EMPLOYEES UNIFORM GROUP INSURANCE PROGRAM.

The following summarizes our review of the proposed legislation:

OVERVIEW OF PROPOSED BILL

As proposed, this bill would amend section 54-52.1-04 of the North Dakota Century Code to allow the PERS board to develop a proprietary medical provider network to be utilized by the board or its selected insurance carrier/ plan administrator to provide health insurance coverage to PERS members.

EXPECTED FINANCIAL IMPACT

Historically, BCBSND has been the only health plan in North Dakota with an established provider and facility network with adequate breadth and discounts to successfully administer the NDPERS program. Although at least one other health plan has been aggressively growing its network in North Dakota, BCBSND still holds a significant advantage due to additional discounts negotiated with providers and facilities specifically for NDPERS members. As we are seeing in the health plan RFP currently in process for coverage effective July 1, 2015, it is very difficult for other health plans to compete with the network discounts offered by BCBSND without already being selected as the NDPERS health plan.

If NDPERS were able to make the current PPO network created in conjunction with BCBSND portable, or if new proprietary contracts were negotiated with North Dakota providers, it would make the PERS health plan less dependent on one plan administrator and would create legitimate competition for the administration of the NDPERS program.

Development and maintenance of a proprietary network requires significant expertise and resources. NDPERS would likely need to contract with consultants and/or the selected

To: Sparb Collins

Subject: REVIEW OF PROPOSED BILL 15.0403.01000

Date: December 30, 2014

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medical plan administrator in order to accomplish the required provider contracting, credentialing, relations, etc. that would be required.

Currently, participating professional providers in the NDPERS network have agreed to approximately 5% additional discounts in addition to the standard BCBS negotiated discount level. Another option could be for NDPERS to negotiate this type of additional NDPERS specific discount to be applied in addition to any health plan's standard network discount level. This would allow NDPERS to rely on the selected health plan to manage and maintain the underlying provider network limiting the resources required by NDPERS.

In summary, creating a proprietary provider network would likely require significant effort on the part of NDPERS and its consultant and/or plan administrator. Negotiating an additional NDPERS specific professional discount to be applied to any health plan's network might be another option that could yield similar results with less effort required by NDPERS. Regardless of the method used to develop NDPERS specific network arrangements, the ability to utilize the network with any insurance carrier or plan administrator would foster competition in the North Dakota market potentially creating savings for NDPERS. In addition, making multiple health plans viable in North Dakota could potentially benefit other employers and individuals in the State when purchasing health insurance or plan administration services.

15.0189.03000

Sixty-fourth
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of North Dakota

SENATE BILL NO. 2039

Introduced by

Legislative Management

(Government Finance Committee)

1 A BILL for an Act to create and enact a new section to chapter 15.1-36 and a new section to
2 chapter 54-52 of the North Dakota Century Code, relating to a school construction assistance
3 loan fund and a public employee retirement stabilization fund; to amend and reenact section
4 21-10-06 of the North Dakota Century Code, relating to funds managed by the state investment
5 board; to provide for transfers; and to provide for a contingent effective date.

6 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

7 **SECTION 1.** A new section to chapter 15.1-36 of the North Dakota Century Code is created
8 and enacted as follows:

9 **School construction assistance loan fund.**

10 The school construction assistance loan fund is a special fund in the state treasury. Moneys
11 in the fund may be used only for low-interest school construction loans as designated by the
12 legislative assembly. Any interest or other fund earnings must be deposited in the fund.

13 **SECTION 2. AMENDMENT.** Section 21-10-06 of the North Dakota Century Code is
14 amended and reenacted as follows:

15 **21-10-06. Funds under management of board - Accounts.**

- 16 1. Subject to the provisions of section 21-10-01, the board is charged with the investment
17 of the following funds:
- 18 a. State bonding fund.
 - 19 b. Teachers' fund for retirement.
 - 20 c. State fire and tornado fund.
 - 21 d. Workforce safety and insurance fund.
 - 22 e. National guard tuition trust fund.
 - 23 f. Public employees retirement system.
 - 24 g. Insurance regulatory trust fund.

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- 1 h. State risk management fund.
 - 2 i. Budget stabilization fund.
 - 3 j. Health care trust fund.
 - 4 k. Cultural endowment fund.
 - 5 l. Petroleum tank release compensation fund.
 - 6 m. Legacy fund.
 - 7 n. Public employee retirement stabilization fund.
- 8 2. Separate accounting must be maintained for each of the funds listed in subsection 1.
 - 9 The moneys of the individual funds may be commingled for investment purposes when
 - 10 determined advantageous.
 - 11 3. The state investment board may provide investment services to, and manage the
 - 12 money of, any agency, institution, or political subdivision of the state, subject to
 - 13 agreement with the industrial commission. The scope of services to be provided by the
 - 14 state investment board to the agency, institution, or political subdivision must be
 - 15 specified in a written contract. The state investment board may charge a fee for
 - 16 providing investment services and any revenue collected must be deposited in the
 - 17 state retirement and investment fund.

18 **SECTION 3.** A new section to chapter 54-52 of the North Dakota Century Code is created
19 and enacted as follows:

20 **Public employee retirement stabilization fund.**

21 The public employee retirement stabilization fund is a special fund in the state treasury.
22 Moneys in the fund may be used by the legislative assembly only for the purpose of addressing
23 any unfunded retirement benefit obligations of the main state employee retirement plan. The
24 state investment board shall supervise investment of the public employee retirement
25 stabilization fund in accordance with chapter 21-10. Any interest or other fund earnings must be
26 deposited in the fund.

27 **SECTION 4. TRANSFER - FOUNDATION AID STABILIZATION FUND TO SCHOOL**

28 **CONSTRUCTION ASSISTANCE LOAN FUND.** During the period beginning July 1, 2016, and
29 ending June 30, 2017, the office of management and budget shall transfer the sum of
30 \$250,000,000 from the foundation aid stabilization fund to the school construction assistance
31 loan fund.

1 **SECTION 5. TRANSFER - FOUNDATION AID STABILIZATION FUND TO PUBLIC**

2 **EMPLOYEE RETIREMENT STABILIZATION FUND.** During the period beginning July 1, 2016,
3 and ending June 30, 2017, the office of management and budget shall transfer the sum of
4 \$200,000,000 from the foundation aid stabilization fund to the public employee retirement
5 stabilization fund.

6 **SECTION 6. CONTINGENT EFFECTIVE DATE.** Sections 4 and 5 of this Act are contingent
7 on the passage of Senate Concurrent Resolution No. 4003 by the sixty-fourth legislative
8 assembly and approval of that resolution by the voters of this state. If Sections 4 and 5 of this
9 Act take effect, the sections become effective on July 1, 2016.

15.3010.03000

Sixty-fourth
Legislative Assembly
of North Dakota

SENATE CONCURRENT RESOLUTION NO. 4003

Introduced by

Legislative Management

(Government Finance Committee)

1 A concurrent resolution to amend and reenact section 24 of article X of the Constitution of North
2 Dakota, relating to the foundation aid stabilization fund.

3 **STATEMENT OF INTENT**

4 This measure provides for additional purposes for the foundation aid stabilization fund.

5 **BE IT RESOLVED BY THE SENATE OF NORTH DAKOTA, THE HOUSE OF**
6 **REPRESENTATIVES CONCURRING THEREIN:**

7 That the following proposed amendment to section 24 of article X of the Constitution of
8 North Dakota is agreed to and must be submitted to the qualified electors of North Dakota at the
9 primary election to be held in June 2016, in accordance with section 16 of article IV of the
10 Constitution of North Dakota.

11 **SECTION 1. AMENDMENT.** Section 24 of article X of the Constitution of North Dakota is
12 amended and reenacted as follows:

13 **Section 24.** Twenty percent of the revenue from oil extraction taxes from taxable oil
14 produced in this state must be allocated as follows:

- 15 1. Fifty percent must be deposited in the common schools trust fund.
- 16 2. Fifty percent must be deposited in the foundation aid stabilization fund in the state
17 treasury, the interest income of which must be transferred to the state general fund on
18 July first of each year. The principal of the foundation aid stabilization fund may be
19 expended ~~only~~ upon order of the governor, who may direct such a transfer only to
20 offset ~~foundation~~state school aid reductions that were made by executive action
21 pursuant to law due to a revenue shortage. Whenever the principal balance of the
22 foundation aid stabilization fund exceeds fifteen percent of the general fund
23 appropriation for state school aid for the most recently completed biennium as
24 determined by the office of management and budget, the legislative assembly may
25 appropriate or transfer any excess principal balance for the purpose of making low-

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- 1 interest loans for school construction projects, addressing existing or anticipated
- 2 unfunded benefit obligations of state retirement funds, or other education-related
- 3 purposes.



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Memorandum

TO: PERS Board
FROM: Sparb & Bryan
DATE: January 5, 2015
SUBJECT: Job Service Plan Asset Allocation

The NDPERS Investment Subcommittee studied de-risking the Job Service retirement plan. Since this plan is fully funded, there is an opportunity to lower the risk of the plan. It is recommended this be done in steps (glide path) and not all at once.

The following pages are from the asset allocation study performed by SEI. The investment subcommittee recommends moving the Job Service asset allocation to "Portfolio B". The allocation in Portfolio B has an expected return of 7.0% (Currently 8.0%). The standard deviation (measure of risk) would go from 10.0 to 7.5 with Portfolio B. The asset allocation for a 7% expected return still has the current 40/60 equity/fixed income mix. This would also match the expected portfolio return of 7% estimated by Callen for a closing retirement plan.

This would also move the assets from the larger pool to its own administered by SEI. This would be similar to the RHIC plan. Attached is an updated Job Service Investment Policy with the proposed changes in asset allocation and assumed return.

The committee also recommends that this be a first step in implementing the glide path and over time the return assumption on this plan should be reduced further to between 5% and 6%.

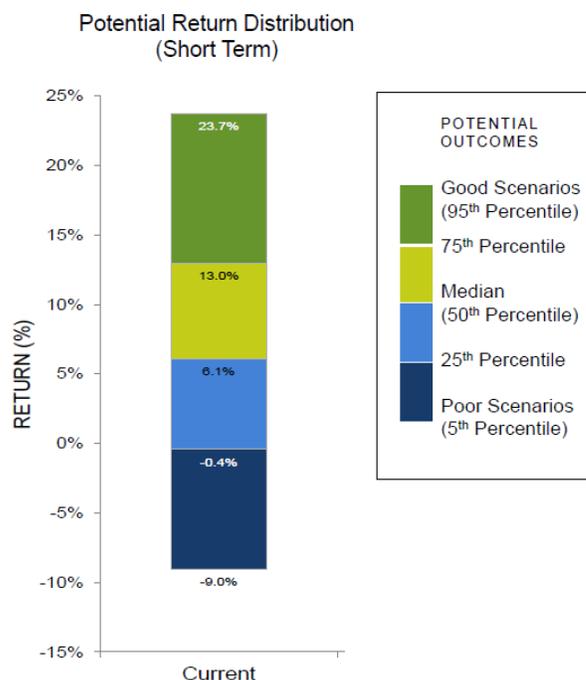
We will be available at the NDPERS Board meeting for questions.

Board Action

Approve the Job Service Plan Investment Policy changing the asset allocation to Portfolio B and using SEI as the asset manager for these funds.

Job Service Pension Plan Current Allocation

| Asset Class | Current |
|--|-------------|
| Russell 1000 Large Cap Index | 25.0 |
| US Small Cap Equity | 6.0 |
| World Equity ex-US | 9.0 |
| Total Equity | 40.0 |
| US High Yield | 8.0 |
| International Fixed Income | 5.0 |
| Core Fixed Income | 47.0 |
| Total Fixed Income | 60.0 |
| Portfolio Metric (Gross of Fees) | |
| Expected Return (Short Term) | 6.1 |
| Expected Return (Equilibrium) | 8.0 |
| Standard Deviation | 10.0 |
| Risk of Loss (5 th percentile-Short Term) | -9.0 |



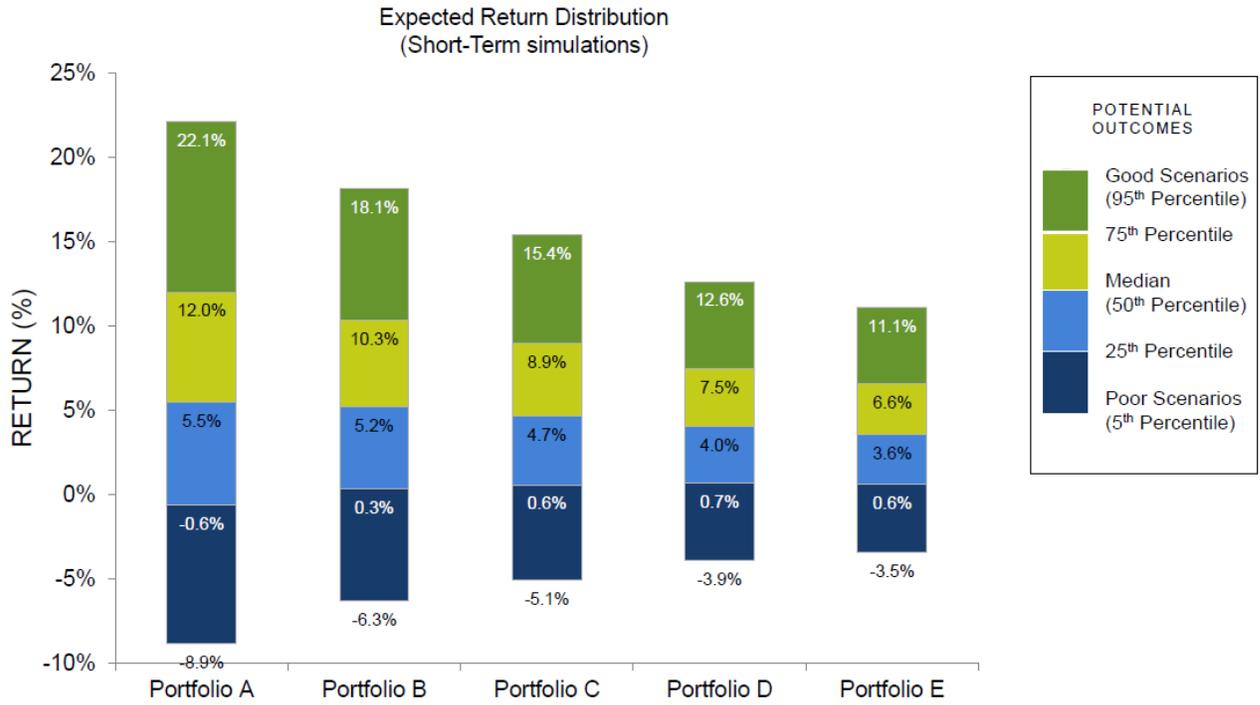
Please see important disclosures at the beginning of this section and at the back of the presentation.
Current allocation provided By NDPERS

Job Service Pension Plan Asset Allocation Review

| Asset Class | Portfolio A | Portfolio B | Portfolio C | Portfolio D | Portfolio E |
|--|-------------|-------------|-------------|-------------|-------------|
| Russell 1000 Large Cap Index | 25.0 | - | - | - | - |
| US Managed Volatility Equity | - | 24.0 | 18.0 | 12.0 | 6.0 |
| US Small Cap Equity | 6.0 | - | - | - | - |
| World Equity ex-US | 9.0 | - | - | - | - |
| Global Managed Volatility Equity | - | 16.0 | 12.0 | 8.0 | 4.0 |
| Total Equity | 40.0 | 40.0 | 30.0 | 20.0 | 10.0 |
| US High Yield | 3.0 | 3.0 | 2.0 | - | - |
| Emerging Markets Debt | 3.0 | 3.0 | 2.0 | - | - |
| International Fixed Income | - | - | - | - | - |
| Core Fixed Income | 19.0 | 19.0 | 23.0 | 28.0 | 33.0 |
| Limited Duration Fixed Income | 19.0 | 19.0 | 23.0 | 27.0 | 32.0 |
| Diversified Short Term Fixed Income | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Short Term Corporate Fixed Income | 6.0 | 6.0 | 10.0 | 15.0 | 15.0 |
| Total Fixed Income | 60.0 | 60.0 | 70.0 | 80.0 | 90.0 |
| Portfolio Metric (Net of Fees) | | | | | |
| Expected Return (Short Term) | 5.5 | 5.2 | 4.7 | 4.0 | 3.6 |
| Expected Return (Equilibrium) | 7.3 | 7.0 | 6.7 | 6.2 | 6.0 |
| Standard Deviation | 9.4 | 7.5 | 6.2 | 5.0 | 4.4 |
| Risk of Loss (5 th percentile-Short Term) | -8.9 | -6.3 | -5.1 | -3.9 | -3.5 |
| Investment Management Fee | 43% | 45% | 44% | 43% | 42% |

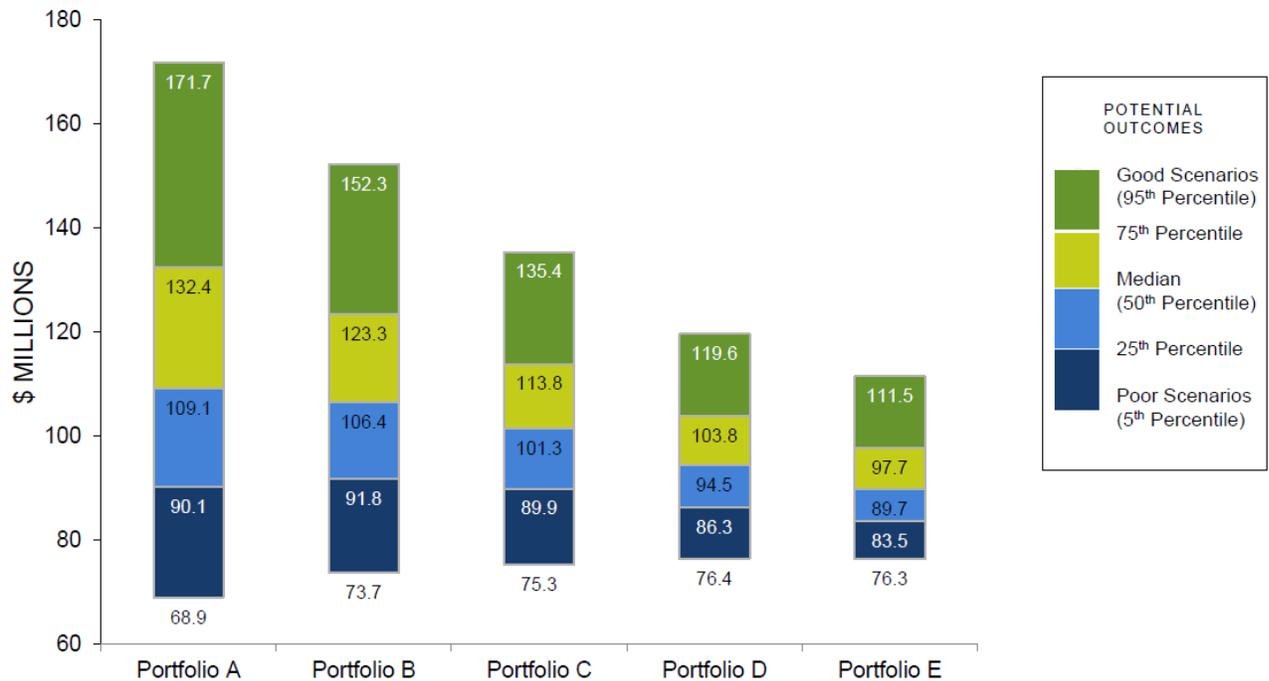
Please see important disclosures at the beginning of this section and at the back of the presentation.

Return distribution – Short-Term (net of fees)



Please see important disclosures at the beginning of this section and at the back of the presentation.

Fund value projection – Ten years



Please see important disclosures at the beginning of this section and at the back of the presentation.

RETIREMENT PLAN FOR EMPLOYEES OF JOB SERVICE NORTH DAKOTA

INVESTMENT POLICY STATEMENT

1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS.

The Retirement Plan for the Employees of Job Service North Dakota (Plan) is a defined benefit retirement plan for the eligible employees hired before October 1, 1980. There have been no new entrants to the plan since October 1, 1980. The plan provides retirement benefits, disability benefits and survivor benefits consistent with the written Plan document. Until October 1, 1993, annuities were purchased from the Travelers for retirees, since that date retiree benefits are paid from Plan assets. Annual cost of living adjustments for all Plan pensioners including annuitants with the Travelers are paid from Plan assets. The NDPERS Board (the Board) is the Plan Administrator and administers the Plan in accord with Chapter 52-11 of the North Dakota Century Code.

Job Service North Dakota as the employer contributes 4% of the active participant's salary as a contribution 'on behalf of the employee' and the active participants pay 3% of their salary into Plan assets.

Each year the Plan has an actuarial valuation performed. The current actuarial assumed rate of return on assets is ~~8.07~~7.0%.

2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-01, and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

3. DELEGATION OF AUTHORITY

Management responsibility for NDPERS funds not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the NDPERS funds, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1) (a).
2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
 - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
 - b. The use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
 - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are selected by the SIB.
3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1) (d).
4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

4. INVESTMENT GOALS.

The investment objectives of the Plan have been established by the Plan's Administrator upon consideration of its strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: To maintain a level of surplus sufficient to eliminate the need for future contributions;

Objective #2: To achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price index (CPI), by 3.0 percentage points per year (based on current actuarial assumptions of 7.50% return and 5% inflation), over a complete market cycle; and

Objective #3: As a secondary objective, to maximize the Plan's surplus to increase future benefit payments.

5. INVESTMENT PERFORMANCE OBJECTIVE

The NDPERS Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

- a) The funds rate of return, over the long term should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b) The annual standard deviation of total returns for the Fund should not materially exceed that of the policy portfolio by more than 15%.
- c) Over 5-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent asset/liability study without exceeding the expected risk for the period as measured by standard deviation by more than 15%.

6. ASSET ALLOCATION

The NDPERS Board as plan Administrator establishes the asset allocation of the Fund, with input from consultants and SIB staff. The current asset allocation is based upon the asset/liability study completed by SEI Consultants in ~~December~~February 200914. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes.

In recognition of the Plan's objectives, projected financial status, and capital market expectations, the following asset allocation options were deemed appropriate for the Fund:

~~Domestic Large Cap Equity --25~~24%
~~Domestic Small Cap Equity --6~~
~~Global~~International Equity --9~~16~~%
~~Domestic Fixed Income --47~~
~~International Fixed Income --5~~
U.S. High Yield Bonds --8~~3~~%
Emerging Markets Debt --3
Core Fixed Income --19
Limited Duration Fixed Income --19
Diversified Short Term Fixed Income --10
Short Term Corporate Fixed Income --6

Rebalancing of the Fund to this target allocation will be done in accordance with the SIB's rebalancing policy, but not less than annually.

7. RESTRICTIONS

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- d. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

Economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

- e. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

8. INTERNAL CONTROLS

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

9. EVALUATION

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards.

An annual performance report must be provided to the Board by the State Investment Officer at a regularly scheduled NDPERS Board meeting. The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

- Changes in asset class portfolio structures, tactical approaches and market values;
- All pertinent legal or legislative proceedings affecting the SIB.
- Compliance with these investment goals, objectives and policies.
- A general market overview and market expectations.
- A review of fund progress and its asset allocation strategy.

In addition, the State Investment Officer shall review with the Board the procedures and policies established by the SIB relating to this statement of investment goals, objectives, and policies.

J. Sparb Collins
Plan Administrator and Trustee
Retirement Plan for Employees of
Job Service North Dakota

David Hunter
Executive Director
North Dakota Retirement and Investment Office

Date: _____

Date: _____