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## **AGENCY OVERVIEW**

**190** RETIREMENT AND INVESTMENT OFFICE

**Date:** 12/14/2006

**Time:** 07:48:13

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## **STATUTORY AUTHORITY**

Public Law 667, 1989, pursuant to ND Const. Art. IV Section 13, as amended by Chapter 628, S.L. 1991: 54-52, 21-10 and 15-39.1, NDCC

## **AGENCY DESCRIPTION**

The Retirement and Investment Office (RIO) is an agency of the State of North Dakota. The agency was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two important long-standing state programs - the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the State Investment Board (SIB).

TFFR is a qualified defined benefit public pension plan. The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. TFFR serves approximately 9,800 teachers from 245 employer groups and pays benefits to over 5,800 retirees and beneficiaries. High quality member services and outreach programs are offered to members and employers as part of the continuing effort to keep them informed about the retirement program.

The SIB is responsible for setting policies and procedures guiding the investment of nearly \$5 billion in assets for five pension funds and 17 other insurance-type funds.

## **AGENCY MISSION**

The Retirement and Investment Office (RIO) exists in order that:

1. State Investment Board (SIB) clients receive cost-effective investment services directed at meeting their written financial goals under the Prudent Investor Rule.
2. SIB clients receive investment returns consistent with their written investment policies and market variables.
3. Potential SIB clients have access to information regarding the investment services provided by the SIB.
4. Teachers' Fund for Retirement (TFFR) benefit recipients receive their retirement benefits in a cost effective and timely manner.
5. TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
6. SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.

## **AGENCY PERFORMANCE MEASURES**

No performance measures have been created.

## **MAJOR ACCOMPLISHMENTS**

Received the GFOA Certificate of Achievement for Financial reporting for its annual financial reports for the fiscal year ended June 30, 2005. This was the eighth time RIO received this award.

Successfully completed CPAS pension software replacement and Filenet image migration projects. The goal of the updated systems was to update technology, improve service to members, increase data reliability, provide tools for improving staff productivity, and enhance system integration capabilities. The Filenet Upgrade project was completed in February 2005. The CPAS software went into production in September 2005. The project was completed in January 2006 approximately \$68,000 under budget and 4 months over schedule. Over time, TFFR members, employers and RIO staff will benefit from this state of the art pension administration system.

## **FUTURE CRITICAL ISSUES**

The Salary Line costs to continue are due to legislative increases and one equity increase given to a classified position in the 2005-2007 biennium that need to be funded in the next biennium. The Salary Line costs to continue also include equity increases given to the Executive Director/Chief Investment Officer (non-classified position) by the State Investment Board on July 1, 2005 and July 1, 2006. The July 1, 2006 increase was based on a compensation study conducted by the Hay Group, an internationally known consulting firm hired by the State Investment Board (SIB). Per state statute, the SIB is authorized to set the salary of the Executive Director/CIO. Based on the study results, the SIB concluded that the position was significantly under-paid and granted a 36% increase to bring the salary within the range indicated by the study. The Board also instructed the staff to include in the 07-09 budget, increases for this position comparable to prior year increases. Therefore, 10% per year has been included for this position as has been the practice in past budget requests.

**REQUEST SUMMARY**

Date: 12/14/2006

190 RETIREMENT AND INVESTMENT OFFICE

Bill#: SB2022

Time: 07:48:13

Biennium: 2007-2009

Description	Expenditures 2003-2005 Biennium	Present Budget 2005-2007	Budget Request Change	Requested Budget 2007-2009 Biennium	Optional Budget Request
<b>BY MAJOR PROGRAM</b>					
TEACHERS FUND FOR RETIREMENT	3,219,845	2,639,469	-442,420	2,197,049	51,456
INVESTMENT PROGRAM	647,279	849,260	82,053	931,313	13,845
<b>TOTAL MAJOR PROGRAMS</b>	<b>3,867,124</b>	<b>3,488,729</b>	<b>-360,367</b>	<b>3,128,362</b>	<b>65,301</b>
<b>BY LINE ITEM</b>					
SALARIES AND WAGES	1,751,348	1,978,420	136,943	2,115,363	65,301
OPERATING EXPENSES	629,475	914,610	16,389	930,999	0
CONTINGENCY	0	82,000	0	82,000	0
CONTRACTED SERVICES	1,486,301	513,699	-513,699	0	0
<b>TOTAL LINE ITEMS</b>	<b>3,867,124</b>	<b>3,488,729</b>	<b>-360,367</b>	<b>3,128,362</b>	<b>65,301</b>
<b>BY FUNDING SOURCE</b>					
GENERAL FUND	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	3,867,124	3,488,729	-360,367	3,128,362	65,301
<b>TOTAL FUNDING SOURCE</b>	<b>3,867,124</b>	<b>3,488,729</b>	<b>-360,367</b>	<b>3,128,362</b>	<b>65,301</b>
<b>TOTAL FTE</b>	<b>17.00</b>	<b>17.00</b>	<b>.00</b>	<b>17.00</b>	<b>.00</b>

**REQUEST DETAIL**

Date: 12/14/2006

190 RETIREMENT AND INVESTMENT OFFICE

Bill#: SB2022

Time: 07:48:13

Biennium: 2007-2009

Description	Expenditures 2003-2005 Biennium	Present Budget 2005-2007	Budget Request Change	Requested Budget 2007-2009 Biennium	Optional Budget Request
<b>SALARIES AND WAGES</b>					
SALARIES - PERMANENT	1,345,717	1,484,658	129,322	1,613,980	0
SALARIES - OTHER	3,538	9,360	-9,360	0	65,301
TEMPORARY SALARIES	0	0	9,360	9,360	0
FRINGE BENEFITS	402,093	484,402	7,621	492,023	0
SALARY INCREASE	0	0	0	0	0
BENEFIT INCREASE	0	0	0	0	0
<b>TOTAL</b>	<b>1,751,348</b>	<b>1,978,420</b>	<b>136,943</b>	<b>2,115,363</b>	<b>65,301</b>
<b>SALARIES AND WAGES</b>					
GENERAL FUND	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	1,751,348	1,978,420	136,943	2,115,363	65,301
<b>TOTAL</b>	<b>1,751,348</b>	<b>1,978,420</b>	<b>136,943</b>	<b>2,115,363</b>	<b>65,301</b>
<b>OPERATING EXPENSES</b>					
TRAVEL	61,704	142,640	6,158	148,798	0
SUPPLIES - IT SOFTWARE	9,184	3,300	2,900	6,200	0
SUPPLY/MATERIAL-PROFESSIONAL	5,415	3,200	200	3,400	0
MISCELLANEOUS SUPPLIES	8,722	4,622	298	4,920	0
OFFICE SUPPLIES	5,615	18,480	-8,780	9,700	0
POSTAGE	69,241	77,376	8,905	86,281	0
PRINTING	37,736	41,625	-2,300	39,325	0
IT EQUIP UNDER \$5,000	24,501	27,800	-950	26,850	0
INSURANCE	5,156	6,048	-3,043	3,005	0
RENTALS/LEASES-EQUIP & OTHER	9,992	12,864	936	13,800	0
RENTALS/LEASES - BLDG/LAND	141,957	144,754	3,480	148,234	0
REPAIRS	922	3,200	-400	2,800	0
IT - DATA PROCESSING	159,493	104,119	4,841	108,960	0
IT-COMMUNICATIONS	20,258	20,520	3,600	24,120	0
IT CONTRACTUAL SERVICES AND RE	3,061	206,051	6,074	212,125	0
PROFESSIONAL DEVELOPMENT	26,781	53,380	-9,410	43,970	0
OPERATING FEES AND SERVICES	18,662	19,230	6,991	26,221	0
FEES - PROFESSIONAL SERVICES	21,075	25,401	-3,111	22,290	0
<b>TOTAL</b>	<b>629,475</b>	<b>914,610</b>	<b>16,389</b>	<b>930,999</b>	<b>0</b>

**REQUEST DETAIL**

Date: 12/14/2006

190 RETIREMENT AND INVESTMENT OFFICE

Bill#: SB2022

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Biennium: 2007-2009

Description	Expenditures 2003-2005 Biennium	Present Budget 2005-2007	Budget Request Change	Requested Budget 2007-2009 Biennium	Optional Budget Request
<b>OPERATING EXPENSES</b>					
GENERAL FUND	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	629,475	914,610	16,389	930,999	0
<b>TOTAL</b>	<b>629,475</b>	<b>914,610</b>	<b>16,389</b>	<b>930,999</b>	<b>0</b>
<b>SPECIAL LINES</b>					
CONTINGENCY	0	82,000	0	82,000	0
CONTRACTED SERVICES	1,486,301	513,699	-513,699	0	0
<b>TOTAL</b>	<b>1,486,301</b>	<b>595,699</b>	<b>0</b>	<b>82,000</b>	<b>0</b>
<b>SPECIAL LINES</b>					
GENERAL FUND	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	1,486,301	595,699	-513,699	82,000	0
<b>TOTAL</b>	<b>1,486,301</b>	<b>595,699</b>	<b>-513,699</b>	<b>82,000</b>	<b>0</b>
<b>FUNDING SOURCES</b>					
GENERAL FUND	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0
SPECIAL FUNDS	3,867,124	3,488,729	-360,367	3,128,362	65,301
<b>TOTAL FUNDING SOURCES</b>	<b>3,867,124</b>	<b>3,488,729</b>	<b>-360,367</b>	<b>3,128,362</b>	<b>65,301</b>

**CHANGE PACKAGE SUMMARY**

190 RETIREMENT AND INVESTMENT OFFICE

Biennium: 2007-2009

Bill#: SB2022

Date: 12/14/2006

Time: 07:48:13

Description	FTE	General Fund	Federal Funds	Special Funds	Total Funds
<b>AGENCY BUDGET CHANGES</b>					
Cost To Continue	.00	0	0	136,943	136,943
1 Operating	.00	0	0	16,389	16,389
2 Contracted Services	.00	0	0	-513,699	-513,699
<b>Agency Total</b>	<b>.00</b>	<b>0</b>	<b>0</b>	<b>-360,367</b>	<b>-360,367</b>
<b>OPTIONAL REQUEST</b>					
3 Optional Salary Adjustments	.00	0	0	65,301	65,301
<b>Optional Total</b>	<b>.00</b>	<b>0</b>	<b>0</b>	<b>65,301</b>	<b>65,301</b>

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**BUDGET CHANGES NARRATIVE**

190 RETIREMENT AND INVESTMENT OFFICE

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<b>Change Group:</b> A	<b>Change Type:</b> A	<b>Change No:</b> 1	<b>Priority:</b>
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Operating -

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Overall operating expenses for the agency increased 1.8%, or \$16,391, over the previous biennium's operating appropriation. We made every attempt to keep our operating expenses as low as possible, but with so many past biennium at or below "hold-even", it has become more and more difficult to find areas to cut and still keep up with inflation. Some of the more significant increases and decreases are detailed below.

Telecommunications - increased \$3,600 or 17.5%: This is strictly a function of the higher rates being charged by ITD. Our actual usage is not increasing by any measurable amount but the cost charged by ITD is increasing.

IT Software/Supplies - increased \$2,900 or 87.9%: This increase is due to our need to upgrade our Microsoft Office software which has not been upgraded since 2002.

Postage - increased \$8,905 or 11.5%: Postage rates increased in January 2006 and are expected to rise again in the next biennium. The Teachers' Fund for Retirement uses printed materials to communicate with the membership through newsletters, brochures, handbooks and employer guides. We also send out annual statements to active and retired members as well as annual 1099R tax statements. This is a cost of doing business and we already use the lowest cost postage options available by utilizing presorted rates.

Operating Fees & Services - increased \$6,991 or 36.4%: This increase is entirely due to the increase in our Central Service Cost Allocation amount charged by OMB. We did not budget enough in the 05-07 biennium, resulting in the appearance of a larger increase for the 07-09 biennium.

Professional Development - decreased \$9,410 or 17.6%: In the past we included funds to offer our employees tuition assistance if they chose to return to school in an area related to their position. We have decided not to include a request for those funds for the next biennium. We also decreased the amount we have previously requested for board member conference expenses. It has been the trend in recent years for these conferences to be paid for by the host for most investment-related conferences.

Professional Services - decreased by \$3,111 or 12.2%: We conducted an RFP for graphic design services this biennium and found a lower cost provider of these services.

Insurance - decreased \$3,043 or 50.3%: Based on estimates from Fire & Tornado and Risk Management, our premiums have decreased due to experience and our involvement in discount programs.

Office Supplies - decreased \$8,780 or 47.5%: This decrease was due to an inputting error in the previous biennium's budget request. We requested more than we intended in this line item in the previous biennium.

<b>Change Group: A</b>	<b>Change Type: A</b>	<b>Change No: 2</b>	<b>Priority:</b>
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Contracted Services -

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The decrease in this line is due to the completion of the retirement administration software upgrade for the Teachers' Fund for Retirement. This project started in the 03-05 biennium and was completed in the 05-07 biennium. The expenses requested in this line item were for the implementation of that project only.

<b>Change Group: A</b>	<b>Change Type: A</b>	<b>Change No: 100</b>	<b>Priority:</b>
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OMB Salary Equity -

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Funding for salary equity increases, to move agency comp ratio of .92 closer to the state average.

<b>Change Group: O</b>	<b>Change Type: A</b>	<b>Change No: 3</b>	<b>Priority: 1</b>
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Optional Salary Adjustments -

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The funds requested in our optional adjustment package are for salary increases for our classified employees in order to bring them closer to the average comp ratio of state employees (0.96) as determined by HRMS. In the past, HRMS has set the mid-point of each grade classification at 95% of the market average. However, over time, they have been unable to keep up with the market and the mid-points are now 76%-88% of market average.

The average comp ratio of our 15 classified employees is 0.92 (70%-80% of market average). Our average service as of 7/1/06 is 12.5 years with the state and 9.5 years with the agency. This is very close to the service of an average state employee. We've had one vacancy in the past 5 years. We would like to be able to reward our loyal employees by bringing them in line with at least the average for other state employees and even slightly higher since even the average state employee is only being paid 73%-85% of market average.