

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1025

2001 HOUSE APPROPRIATIONS

HB 1025

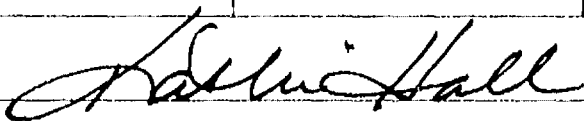
2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1025

House Appropriations Committee
Government Operations Division

Conference Committee

Hearing Date January 16, 2001

Tape Number	Side A	Side B	Meter #
01-16-01 tape #1	0 - 4934	4604-6230	
01-16-01 tape #2	0 - 760	-	
Committee Clerk Signature 			

Minutes:

The committee was called to order, and opened the hearing on HB 1025, the combined budget for the Retirement and Investment Office (RIO) and the Public Employees Retirement System (PERS). Rep. Huetter is absent, but excused from this hearing.

Steve Cochrane - Executive Director of the Retirement Investment Office (RIO) - had prepared written testimony. With him were the Deputy Executive Director and the Fiscal and Investment Officer. In the budget we have come before you with a base budget of 100% of previous biennium budget and also have certain requested items beyond that 100%, which are essentially represented by 2 things - one is an additional FTE requested for the State Investment Board Program, and the other is for educational needs for trustees on both the State Investment Board and the Teachers Fund for Retirement. The Retirement Investment Office is charged with responsibility of administering the investment program for the investment board which the dollar

amount is approaching 4 billion dollars, and also administer the benefits program for the teachers fund for retirement which is excess of a billion dollars.

On page 3 of the written testimony there are graphs that relate to the request for the additional FTE. Right now the office has 17 persons in the Retirement Investment office, essentially 4 of these persons are assigned to the State Investment Board, and the other 13 persons work in the Teachers Fund for Retirement. Refers to the graphs as to the growth of the funds, divergence of the funds, and investment dollars per budget dollars has increased dramatically. On the second graph they have added the additional FTE requested.

Mr. Cochrane speaks of background on the request includes information on the board and how it used to rely heavily on outside consultants for guidance for investment information, and now the board is 11 members strong, that gets itself involved very instrumentally with all the details of the investment programs. We manage 18 different pools of investments for a variety of clients, 9 of which are statutory and 9 of which are contractual. We also have 20 investment managers who help carry out each of these individualized mandates. The program itself is becoming increasingly more complex, using 11 different asset classes, within each of these we have a variety of styles and strategies that work, some are very technologically advanced, some synthetic strategies that require a high level knowledge of understanding by the State Investment Board. This Board receives education every month. They are very active in the decision making. Therefore, the other part of our request, the moneys for staff and board education, are critical to allowing these board members to carry out their fiduciary duties. By law, these members are charged with acting as prudent investors, and are in fact legally responsible for the decisions they make.

Page 3 of the written testimony at the bottom, notes the historical total of FTE's for RIO. The new individual sought would be to assist a lot in the investment accounting functions, a lot of the day to day maintenance of the investment program which would then allow Connie, our Fiscal and Investment officer, to have time to deal with more complex duties, such as risk analysis, tracking the managers, supplying more detailed reporting to our clients. We have 18 clients, and we are their money managers. We have been able to meet their needs, but not able to report to them with the frequency that they deserve, and would like to see. We monitor these funds very closely, but we actually have been at a loss to provide the quality of reporting that we should be able to provide to our contractual clients. We strive to provide good, quality service to clients, and want to manage risk and returns.

Asking for support of our budget request. Notes that there are a number of attachments to his written testimony.

Rep. Koppelman: Do contractual clients pay fees that are sufficient to offset the costs of providing the services that you render for them?

Response: We do charge fees on a pro rata basis to our clients, and have a minimum annual fee in place of \$1000. There is no doubt that even on a pro rata base, it is fair to all. The larger funds make it available to the smaller funds to get world class management that they might be able to get standing alone.

Rep. Koppelman: That is fine as long as it is a win-win situation but if the contractual clients costs you in terms of resources or time or staff, and creates your need for an additional person, and their fees don't offset those costs, then the state would be concerned.

Response: Agrees. That is why there is a minimum fee, and the office is charged with being available to any political subdivision who approaches us. We strive very hard not to

compete with private industry. We do not market our services, don't proactively seek clients, but if someone comes to us, we must bring them in.

Rep. Koppelman: If you look at the historical FTE's on page 3, it seems to coincide with the time period on technology explosions, and technology makes us more efficient, how does this play a role.

Response: Agrees that technology does enhance the ability to service their clients. However, it can only go so far. Without the technological improvements, many more persons would be needed. Keep in mind on the Teachers Retirement side, there are increasing number of retirees, and this requires personal 1 on 1 contact. Still a need for persons.

Rep. Glassheim: How do the special funds come about? They appear to be a small cost of amounts under management.

Response: All special funds, don't ask for any general fund dollars, and these funds are handed over to us for purposes of investment management. From these funds, all costs of administration, investment management, consulting services, are extracted. It is all tracked very carefully so that only funds that benefit from particular services pay for those services. Its all pro rata basis. They are less that 3/1000's of 1 percent.

Chairman Byerly: On the contractual accounts, how much of your staff time is spent handling these contractual accounts in FTE's.

Response: Over the years the structure of servicing all the clients is streamlined. Because we are able to commingle the accounts that are the pension trusts, and then those in the insurance trusts, the work we do are done simultaneously with the other participating accounts. The process is very efficient. The time for individual attention takes very little time in the year. Very small number of FTE.

Sparb Collins: Executive Director of North Dakota Public Employees Retirement System (PERS). He had prepared written testimony. It was identified on page 1 of the written testimony what PERS does, and the programs administered. On page 2, 3 and 4 of the written testimony accomplishments of the agency are noted: 1) received a national achievement award; 2) received a financial reporting national award; 3) implemented a new Defined Contribution Retirement Program enacted by the legislature last session, having 44 meetings, developing plan projections of the 630 eligible participants, and completed changes to the mainframe system, selected a record keeper and determined investment options; 4) implemented a new Portability Enhancement Program passed by the last session, completed programming changes to the mainframe, and held 133 meetings around the state; 5) instituted a provider-training program for the 250 deferred comp agents, holding 10 training sessions in the state; 6) implemented benefit improvements for the PERS Retirement Plan, the Judges Retirement Plan and the Highway Patrol Retirement Plan; 7) processed 750 new retirees; 8) conducted 14 pre-retirement seminars; 9) successfully rebid the Employee Assistance Program for state employees and implemented that program; 10) produced a comprehensive annual report; 11) continued the dissemination of a comprehensive product profile for membership; 12) processed over 32,000 claims in Flex-Comp program; 13) successfully responded to the Y2K challenges; 14) sent annual statements to all PERS members and retirees; 15) conducted over 1200 individual counseling sessions; 16) responded to over 100,000 calls; 17) developed an IT plan; 18) completed an actuary experience study for PERS, HPRS and Retiree Health Credit Program; and 19) completed an asset/liability study for PERS and Highway Patrol Retirement Plan.

The agency is concerned with providing services to members and are cognizant that the overall level of service needs to be provided in a manner that is satisfactory to our membership. Level of satisfaction in 1995 was 83%, in 1997, 93%, and in 1999, 88%. The board thanks the committee for its past support.

Beginning on page 4 the testimony turns to the budget requests. The scope of services within the agency has expanded as well as the membership in the various programs. A good measure of the overall cost of our services is determined by the average cost per member for all programs. Pages 5 and 6 of the written testimony note an historical cost per member listing. The executive budget recommendation shows an increase of about 13.5%, broken down into several components - the governor's proposed compensation package, to retain a student internal auditor, to implement an IT strategic plan, funding for continuation of a newsletter, a new benefits specialist position to provide member education, and to continue a replacement schedule for IT equipment - more fully explained in the written testimony on pages 6 through 10.

On page 10 of the written testimony it is noted that several items were not funded in the executive budget, including 1) converting a temporary employee to permanent; 2) increasing the internal auditor position intern to full time to assist in monitoring contracts; and 3) increasing our half-time IT position to full time. The office is continuing to monitor new federal requirements arising pursuant to HIPAA. Also continuing to review these regulations to determine if they have any effect on the PERS administrative budget.

The funding for our proposed budget is special funds. This means that the costs are paid directly from the various programs the agency administers.

Rep. Koppelman: The new plans implemented in the last legislative session, how have these implementations gone. What is your assessment of the status so far?

Response: The implementation of these programs went really smoothly. The participants had to make an election, and did a series of meeting, and education. After a survey completed, there was a general positive reaction. We have not gone back and surveyed participants recently.

Rep. Koppelman: You talked about the education component and asked for dollars for that, is the provider bearing some cost for the education.

Response: Actually, they are going to be bearing quite a bit of the cost because our role is to organize a session, get them in place, and beyond that the providers should do most of the work, so it helps us, and reduces what we need. We don't view ourselves as financial planners, so we rely on the provider that we contract with, and they bring in the people that actually engage in the training. American General, who we contract with, has 2 agents in the state that are assigned to the PEP program. They are talking about increasing their number to 4. By our providing more resources to that we can better utilize them more. The same thing with Fidelity.

Rep. Koppelman: Your testimony talks about 2 ½ % for a new benefits specialist position to provide member education, but you just said that the companies would be doing most of that.

Response: The benefit specialist would be doing the coordinating of the meetings, getting things set up, working with the companies. We will be involved in it to that extent. Gave the committee an example. This would allow us to do more meetings in a year.

Rep. Koppelman: What would 2 ½% increase amount to in dollars?

Response: A total of \$85,000.

Rep. Koppelman: You are saying that you need \$85,000 for an employee to schedule meetings. It sounds excessive to accomplish that task. Can this not be done with current staff?

Response: We can do this, but the number of seminars that could be put on is limited. By adding this additional person, we can get around to the seminars annually. The goal is to provide seminars to groups of about 20 persons, out of potential 16,000.

Rep. Koppelman: On the IT side, you talked about 1% for computer equipment replacement and so on, and you talked about 5 1/2% for implementation. What does that mean?

Response: In our IT Strategic plan we talked about doing some IT projects in developing programs to utilize the internet and voice response systems. Gave a few examples. Goal is to make programs more accessible, and to get rid of the paper. Want to make things more available to the customers, on the internet, and less by contact with staff at the office. Rather than just annual information, would like to make it regularly available.

Rep. Koppelman: Is the major cost of both these areas human? Staff time on both IT and education.

Response: We would contract out the ITD to do the IT projects. They do the programming.

Rep. Carlisle: On page 2 of the 630 eligible participants, what participation rate did you have?

Response: 38%.

Rep. Carlisle: On page 3, number 7, you say you processed new retirees. What is the trend?

Response: We are up, and hard to predict. Next year, assuming we have several proposed benefit enhancements, and after the legislative year we get a bump in retirees. Then it goes down, then another bump up. The number of retirees in PERS seems to be moving into a mature plan - paying out more than what is being taken in. In a mature stage the number of retirees begins to level off. We are up to about 4,500 - 5,000 retirees.

Rep. Koppelman: Of the 38% participation rate, is there another opportunity window?

Response: Was a 1 time window under existing statute. Two bills were submitted during the interim, one allowing a new window, the other to expand the option to all employees.

Rep. Skarphol: In regard to the educational process, say that American General participates with you in putting on these seminars, I assume they are making a profit or wouldn't be doing this.

Response: American General is our provider, based upon a competitive bid. Part of that bid makes them to be available to us for member education. So we need to get them involved more. To the extent there is more involvement in these plans, there will be more administrative fees. Of the 10 providers they have the largest number of participants.

Rep. Skarphol: What is their commitment of resources as a percentage of this educational process? Are they paying half, or are you paying all.

Response: Their level of this is their staff. What we do is work with the agency to coordinate a meeting. They come in and talk about financial planning.

Rep. Skarphol: On page 5 you have the cost per member per program. It seems to me that there is some unusual fluctuation in various years. Can you explain?

Response: Some of that has to do with the new programs being assigned. When a new program comes on line, the number of persons in the program is added into the numbers, and cause some fluctuation.

The chairman closed the hearing on this bill.

January 16, 2001 (later in the day)

The committee was called to order, and opened the committee work on HB 1025.

Chairman Byerly: Anyone have any thoughts as to the RIO and PERS bill. If I remember correctly both these asked for FTE's last session and I don't think we gave them to them.

