

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

AN AGENCY OF THE STATE OF NORTH DAKOTA

2004

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2004



# North Dakota Public Employees Retirement System

*An Agency of the State of North Dakota*



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# **Comprehensive Annual Financial Report**

*For the Fiscal Year Ended June 30, 2004*

Prepared by the staff of the North Dakota Public Employees Retirement System

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# INTRODUCTORY SECTION



**GFOA  
CERTIFICATE OF  
ACHIEVEMENT**

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to  
**North Dakota  
Public Employees Retirement  
System**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**LETTER OF  
TRANSMITTAL**



**North Dakota  
Public Employees Retirement System**  
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Executive Director  
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January 21, 2005

Board of Trustees  
Members of the System

We are pleased to present the Comprehensive Annual Financial Report for the North Dakota Public Employees Retirement System (System) for the fiscal year ended June 30, 2004. The management of the System is responsible for both the accuracy of the data and the completeness and fairness of the presentation.

The report consists of five sections:

1. The Introductory Section contains this Letter of Transmittal and an overview of our administrative organization.
2. The Financial Section contains a letter expressing the opinion of our independent auditor, a narrative introduction and overview in the Management's Discussion and Analysis, the System's financial statements, required supplementary information and other supplementary financial information.
3. The Investment Section contains an overview of the investment portfolio, a summary of the System's investment policies, the asset allocation, largest holdings, and investment performance and fees.
4. The Actuarial Section contains the Actuarial Valuation Certificates and summaries of major actuarial assumptions, plan provisions, and participant data.
5. The Statistical Section contains membership and financial information for the programs administered by the System.

**Plan History and Services Provided**

The System is the administrator of four defined benefit pension plans and an optional defined contribution retirement plan. The System also manages and administers the retiree health insurance credit program, the uniform group insurance program, the deferred compensation program and the pretax benefits program. Following is a brief overview of the statistical and financial highlights for each of these programs for the fiscal year ended June 30, 2004.

**Defined Benefit Pension Plans**

The Public Employees Retirement System (PERS) is a cost-sharing multiple-employer retirement plan. PERS was established July 1, 1966 as a defined contribution plan and was changed to a defined benefit plan by the 1977 North Dakota Legislature. PERS covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. It also covers Supreme and District Court Judges, the National Guard Security Officers and Firefighters, and as of August 1, 2004, peace officers and correctional officers employed by political subdivisions. The Highway Patrolmen's Retirement System (HPRS) is a single-employer defined benefit plan established July 1, 1949 that covers substantially all sworn officers of the North Dakota Highway Patrol. The System became the administrator of this plan effective July 1, 1983. The Retirement Plan for Employees of Job Service North Dakota (Job Service Plan) is a single-employer defined benefit plan established July 1, 1961 and is limited to employees participating in the plan as of September 30, 1980. The Old-Age and Survivor Insurance System (OASIS) is a cost-sharing, multi-employer defined benefit plan established July 1, 1947. Participation in the OASIS plan is limited to eligible employees and their beneficiaries as of April 23, 1957. The System became the administrator of the Job Service and OASIS plans effective August 1, 2003.

PERS has 17,636 contributing members and 5,708 retirees and beneficiaries currently receiving benefits. HPRS has 132 contributing members and 90 retirees and beneficiaries. The Job Service Plan has 60 contributing members and 213 retirees and beneficiaries and OASIS has 3 beneficiaries. The employers participating in PERS include 87 state agencies and 269 political subdivisions.

PERS, HPRS, Job Service Plan and OASIS are accounted for as pension trust funds.



### **Defined Contribution Retirement Plan**

An optional Defined Contribution Retirement Plan (Plan) was established effective January 1, 2000. The Plan covers state employees who are in positions not classified by the Human Resource Management Services division of the State of North Dakota. Employees of the judicial branch or the Board of Higher Education and State Institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Plan. The Plan has 295 participants.

The defined contribution retirement plan is accounted for as a pension trust fund.

### **Retiree Health Insurance Credit Program**

This program was created by the North Dakota Legislature in 1989. It is designed to provide members with a benefit that can be used to offset the cost of their health insurance premiums during their retirement years. Approximately 64% of eligible retirees are receiving benefits under this plan.

This program is advance-funded on an actuarially determined basis. The market value of net assets available to pay benefits as of June 30, 2004 is \$30.2 million, an increase of 18.9% over the previous year. The assets earned an annualized rate of return of 15.24% for the fiscal year ended June 30, 2004, 3.36% for the last three years and 2.17% for the last five years. As of fiscal year end, the program's actuarial value of assets is 38.8% of the actuarial accrued liability, which is an increase from the previous year. Funding progress is covered in more detail in the actuarial section of this report.

The retiree health insurance credit program is accounted for as a pension trust fund.

### **Uniform Group Insurance Program**

**Group Health Insurance.** The System began administering the group health insurance plan in 1971. There are 23,195 active and retired contracts under this plan as of June 30, 2004, a 1% increase from last year at this time. Total covered lives, including spouses and dependents, are 54,657. As of June 30, 2004 there were 153 political subdivisions participating in the group health program, one more than last year. The health insurance premiums paid to Blue Cross Blue Shield for the fiscal year ended June 30, 2004 totaled \$122 million. Managed care initiatives such as the Preferred Provider Option and Exclusive Provider Option continue to be an important component of the plan design. However, with medical and prescription drug costs rising at rates of 10%-15% per biennium, the System is in the process of implementing a disease management program, employee wellness initiatives and employer-based wellness programs to help contain costs.

**Group Life Insurance.** The System began administering the group life insurance plan in 1971. There are 17,206 active and 3,726 retired employees covered under the basic life insurance plan. Active employees have the option of purchasing additional life insurance under the employee supplemental, dependent supplemental, and spouse supplemental provisions of the plan. The life insurance premiums paid to ING for the fiscal year ended June 30, 2004 totaled \$2.6 million. As of fiscal year end, there is \$879.6 million of life insurance in force for all participants covered by this plan, a 2.6% increase in coverage from last year.

**Voluntary Insurance Products.** The 1995 North Dakota Legislature authorized the System to offer voluntary insurance products, specifically dental, vision and long term care insurance. On January 1, 1997, the System began offering a dental plan and long term care plan and on January 1, 2003, a vision plan was offered. There are approximately 3,500 participants in the dental plan, 3,100 participants in the vision plan and 50 participants in the long term care plan.

**Employee Assistance Program.** The 1997 North Dakota Legislature authorized the System to administer an employer-sponsored Employee Assistance Program (EAP) for all state employees, effective August 1, 1997. The System has contracted with three EAP vendors to provide services to employees and their families. The System collects the monthly premiums from the employers and remits them to the appropriate vendor. Approximately 14,300 state employees are covered under this program.

The uniform group insurance plan is a public entity risk pool and is accounted for as an enterprise fund.



### **Deferred Compensation Program**

This is a voluntary, supplemental retirement plan provided in accordance with Section 457 of the Internal Revenue Code. It allows eligible employees to defer and invest income on a pretax basis to be withdrawn at a later date, usually at retirement. The System has administered the Plan since 1987. Fifteen companies have agreed to provide investment services for the State's deferred compensation program. The System is the trustee for deferred compensation assets totaling \$14.3 million; provider companies hold the remaining plan assets of \$68.7 million in custodial accounts for the exclusive benefit of participants and their beneficiaries. Approximately 6,300 employees participate in this program, a 5% increase from last year.

The deferred compensation program is accounted for as an other employee benefit trust fund.

### **Pretax Benefits Program (FlexComp)**

This program was established by the North Dakota Legislature in 1989 in accordance with Section 125 of the Internal Revenue Code. It allows eligible employees to elect to reduce their salaries to pay for qualified insurance premiums, medical expenses, and dependent care expenses on a pretax basis. Participation in the medical and dependent care spending accounts increased by 1.3% from the previous fiscal year, from 3,087 to 3,126 participants. Employee contributions to the spending accounts also increased by 7%, to \$4.9 million, during the fiscal year. The employer FICA savings generated from the salary reductions are sufficient to cover the administrative expenses; therefore, this program remains budget neutral.

The pretax benefits program is accounted for as an other employee benefit trust fund.

### **Major Initiatives**

The following is a summary of revisions to the laws governing the System that were passed by the 2003 North Dakota Legislature. All changes were effective August 1, 2003 unless otherwise noted.

- Transferred the administration of the Job Service Retirement System and the OASIS Retirement System to NDPERS
- Established a new retirement plan for North Dakota Law Enforcement Officers
- Allows rollovers from 457 and 403(b) plans be accepted by the defined benefit plan for purchasing eligible service credit
- Allows employers to purchase service credit for employees
- Modified the dual membership provisions of the defined benefit plan
- Expanded eligibility for retirees in NDPERS group insurance plan (effective April 2003)
- Allows NDPERS to accept domestic relations orders for accounts in the 457 Deferred Compensation Program

In addition to the legislative benefit changes, the following significant activities occurred during the fiscal year:

- Developed and implemented on-line services for PERS members to view retirement account information and produce retirement benefit projections
- Conducted a nationwide request for proposal for a bid to provide services for the 401(a) defined contribution plan and the 457 deferred compensation plan
- Implemented a smoking cessation program and rolled out the "10K-A-Day" and "5-A-Day Challenge" wellness programs
- Replaced current FlexComp administration software with the PeopleSoft Flexible Spending Account module effective January 1, 2004
- Developed a centralized process for receipt and disbursement of deferred compensation contributions
- Developed a business recovery plan and tested LAN restoration
- Received IRS private letter ruling that allows service purchase payments to be made on a pretax basis

### **Financial Information**

The financial statements included in this report are the responsibility of the System's management and have been prepared in accordance with generally accepted accounting principles for governmental accounting and reporting as pronounced or adopted by the Governmental Accounting Standards Board and the Financial Accounting Standards Board. Management is also responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.



The expenses of the System are monitored through two budgetary controls. The majority of the administrative expenditures are appropriated each biennium by the North Dakota Legislature; certain statutorily prescribed expenses (including benefit payments, actuarial and consulting fees and audit fees) have received a continuing appropriation from the North Dakota Legislature and are reviewed directly by the System's Board.

### Revenues and Expenses

Investment earnings, together with employee and employer contributions, are the funding sources for the benefits provided through the System. The main expenses of the System are benefit payments and the cost of administering the System. The following tables show the combined revenues and expenses of PERS and HPRS for fiscal years 2004 and 2003:

(Millions)	Fiscal Year	Fiscal Year	Change	Percentage
<u>Revenue Type</u>	<u>2004</u>	<u>2003</u>	<u>in \$s</u>	<u>Change</u>
Employee Contributions	\$ 26.5	\$ 20.3	\$ 6.2	30.5%
Employer Contributions	20.6	20.0	.6	3.0
Investments	<u>186.7</u>	<u>55.8</u>	<u>130.9</u>	<u>234.6</u>
Total	\$ 233.8	\$ 96.1	\$ 137.7	143.3%
<b><u>Expense Type</u></b>				
Benefits	\$ 49.7	\$ 45.8	\$ 3.9	8.5%
Refunds & Transfers	3.7	2.7	1.0	37.0
Administrative Expenses	<u>1.0</u>	<u>1.1</u>	<u>-0.1</u>	<u>-9.1</u>
Total	\$ 54.4	\$ 49.6	\$ 4.8	9.7%

Investment earnings increased from the previous year as a result of the fund experiencing a positive return on investments of 16.66% for the fiscal year ended 6/30/2004, compared to a return on investments of 5.46% for the prior fiscal year. Employee contributions are higher than the previous fiscal year as a result of a one-time transfer of \$3.8 from the Teachers Fund for Retirement and also an increase in service purchase contributions. Benefit payments are higher than the previous fiscal year because there are more retired members and beneficiaries receiving benefits from the System. More employees took refunds/transfers during the current fiscal year which resulted in an increase of 37%. Administrative expenses were less than the previous fiscal year primarily due to a decrease in actuarial costs. The System generally incurs higher actuarial fees in years when proposed legislation is analyzed.

### Funding Status

The funding goal of any retirement system is to accumulate sufficient assets to pay all of its promised benefits as they come due. The annual valuation of the System's assets and liabilities performed by the System's actuary provides the best current estimate of the System's funding status and allows the Board to monitor funding progress.

A common measure of the strength of a pension system is to express the assets as a percentage of liabilities - the greater the percentage, the stronger the funding position of the System. The schedules of funding progress in the Financial Section of this report show both PERS and HPRS to be funded very soundly. The July 1, 2004 actuarial valuation reports the actuarial value of assets for PERS at \$1,196.5 million, which is 94% of the actuarial accrued liabilities of \$1,272.9 million. The actuarial value of assets for HPRS is \$40.0 million, which is 89.9% of the actuarial accrued liabilities of \$44.5. The Job Service Plan is also funded very soundly. The actuarial value of assets for the Job Service Plan is \$67.5 million, which is 109% of the actuarial present value of benefits of \$61.9 million.

### Investments

The North Dakota State Investment Board (SIB) invests the funds for the PERS, HPRS and Job Service Plan. Chapter 21-10 of the North Dakota Century Code states that the SIB shall apply the prudent investor rule when investing funds under its supervision. The prudent investor rule means that in making investments, the 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. All funds must be invested

exclusively for the benefit of the System's members and all investments are made in accordance with the System's long-term investment objectives and performance goals.

The combined market value of assets for PERS and HPRS as of June 30, 2004 is \$1.303 billion, which is 15.8% higher than the previous year. The market value of assets for Job Service as of June 30, 2004 is \$73.1 million. During the fiscal year ended June 30, 2004, the System's portfolio remained broadly diversified with investments in domestic and international equities, domestic and international fixed income securities, real estate, private equity and cash equivalents.

The PERS and HPRS assets had an annualized rate of return of 16.66% for the fiscal year ended June 30, 2004. The annualized rate of return was 4.66% for the last three years and 3.78% for the last five years. The annualized rate of return for the fiscal year ended June 30, 2004 for the Job Service Plan was 12.57%. The annualized rate of return was 3.43% for the last three years and 2.77% for the last five years.

The assets of the defined contribution retirement plan are invested according to the direction of each participating member. The participant can select from thirteen investment categories and a mutual fund window, as provided by the Board. The investment categories are designed to cover a broad range to allow the participant to structure an investment strategy that meets their individual return objectives and risk tolerances. The market value of assets in the defined contribution retirement plan as of June 30, 2004 is \$11.4 million, which is a 25.3% increase from the previous year.

More detailed information on investment policies, investment fees, performance results and asset allocation can be found in the Investment Section of this report.

#### **Independent Audit**

The financial statements contained in this report were audited by the accounting firm of Eide Bailly LLP, under the direction of the North Dakota State Auditor. The auditors' opinion was unqualified for the System for the year ended June 30, 2004.

#### **Achievement Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the North Dakota Public Employees Retirement System for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The North Dakota Public Employees Retirement System has received a Certificate of Achievement for the last eight consecutive years (fiscal years ended June 30, 1996 - 2003). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

#### **Acknowledgements**

The preparation of this report is the result of the combined effort of the System's staff. It is intended to provide complete and accurate information concerning the activities and results of operations. Copies of this report are available to employers, members and other interested parties upon request or it can be downloaded from the System's website.

Sincerely,

*Sparb Collins*      *Sharon Schiermeister*

Sparb Collins  
Executive Director

Sharon Schiermeister, CPA  
Finance Officer



## THE RETIREMENT BOARD

The Retirement Board is the governing authority of the Public Employees Retirement System and consists of seven persons. A North Dakota citizen who is neither a state or political subdivision employee is appointed by the Governor to serve as Chairman of the Board. A member of the Attorney General's legal staff and the State Health Officer are also appointed to serve on the Board. One Board member is elected by retired PERS members and the remaining three Board members are elected from active employees currently contributing to PERS. Three members of the Retirement Board are included in the membership of the North Dakota State Investment Board (SIB). The Retirement Board has specified that the members who serve on the SIB are to be selected from among the four elected members.

The Board's mission is to design, communicate and efficiently administer a viable employee benefits program within a framework of prudent risk taking, applicable state and federal laws, and professional and ethical standards so as to provide an employee benefit package that is among the best available from public and private employers in the upper midwest.



*Pictured, left to right: Weldee Baetsch, Howard Sage, Rosey Sand, David Gunkel, Sandi Tabor, Jon Strinden, Arvy Smith.*

The Board members, and their respective terms, are as follows:

Jon Strinden  
Chairman  
Term expires 7/31/2006

Arvy Smith  
Health Department Appointee

David Gunkel  
Member elected  
Term expires 6/30/2004

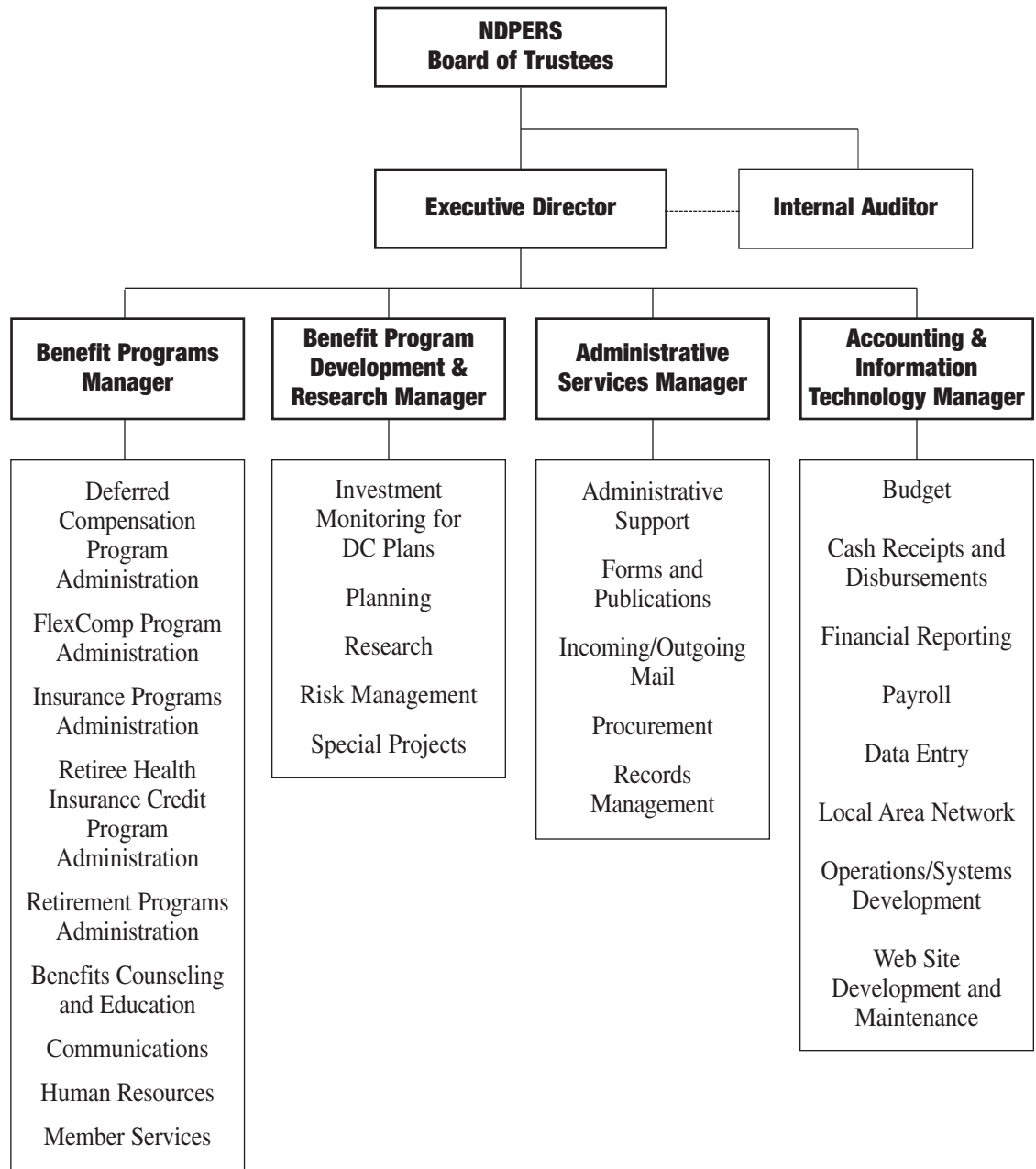
Sandi Tabor  
Attorney General Appointee  
Term expires 6/30/2004

Rosey Sand  
Member elected  
Term expires 6/30/2007

Weldee Baetsch  
Retiree elected  
Term expires 6/30/2004

Howard Sage  
Member elected  
Term expires 6/30/2008

**ORGANIZATIONAL  
CHART**




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**ADMINISTRATION**

Sparb Collins, *Executive Director*

Kathy Allen, *Benefit Programs Manager*

Denise Curfman, *Administrative Services Manager*

Jamie Kinsella, CPA, CIA, *Internal Auditor*

Deb Knudsen, *Benefit Program Development and Research Manager*

Sharon Schiermeister, CPA, *Accounting and Information Technology Manager*

---



**CONSULTING &  
PROFESSIONAL  
SERVICES****Actuary:**

The Segal Company  
Denver, CO

**Auditor:**

Eide Bailly, LLP  
Bismarck, ND

**Dental Insurance Carrier:**

ING Employee Benefits  
Minneapolis, MN

**Disability Consultant:**

Mid Dakota Clinic  
Bismarck, ND

**Employee Assistance Program Vendors:**

Medcenter One  
Bismarck, ND

St. Alexius/Heartview  
Bismarck, ND

Village Family Services  
Fargo, ND

**Health Insurance Carrier:**

Blue Cross Blue Shield of North Dakota  
Fargo, ND

**Insurance Consultant:**

Gallagher Benefit Services, Inc.  
Greenwood Village, CO

**Investment Services:**

North Dakota Retirement & Investment Office  
Bismarck, ND

**Legal Counsel:**

North Dakota Attorney General's Office  
Bismarck, ND

**Life Insurance Carrier:**

ING Employee Benefits  
Minneapolis, MN

**Long Term Care Insurance Carrier:**

UNUM  
Portland, ME

**Vision Insurance Carrier:**

Ameritas Life Insurance Corporation  
Lincoln, NE





**FINANCIAL SECTION**



**INDEPENDENT  
AUDITOR'S  
REPORT**



CPAs & BUSINESS ADVISORS

Governor John Hoeven  
The Legislative Assembly

Sparb Collins, Executive Director  
North Dakota Public Employees Retirement System

We have audited the accompanying financial statements of the business-type activities and fiduciary funds of the North Dakota Public Employees Retirement System, a department of the State of North Dakota, as of and for the years ended June 30, 2004 and 2003, which collectively comprise the North Dakota Public Employees Retirement System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Dakota Public Employees Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the North Dakota Public Employees Retirement System are intended to present the financial position, the changes in financial position, the cash flows and the change in net plan assets of only that portion of the business-type activities and fiduciary funds of the State of North Dakota that is attributable to the transactions of the North Dakota Public Employees Retirement System. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the plan net assets of the North Dakota Public Employees Retirement System as of June 30, 2004 and 2003, and the respective changes in net plan assets, changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 10, 2004 on our consideration of the North Dakota Public Employees Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis (MD&A) and the Schedules of Employer Funding, Schedule of Funding Progress and Notes to Required Supplementary Information on pages 41 through 44 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Dakota Public Employees Retirement System's basic financial statements. The Schedule of Investment Expenses and Administrative Expenses – Fiduciary Funds, the Statement of Appropriations, introductory section, investment section actuarial section, and statistical tables are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Investment Expenses and Administrative Expenses – Fiduciary Funds and the Statement of Appropriations has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section, and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



*Eide Bailly LLP*

Bismarck, North Dakota  
September 10, 2004

## Management's Discussion and Analysis June 30, 2004

Our discussion and analysis of the North Dakota Public Employees Retirement System financial performance provides an overview of the agency's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the basic financial statements, which follow this discussion.

NDPERS administers a total of eight fiduciary funds. This includes four defined benefit pension trust funds (PERS, Highway Patrol, Job Service and OASIS), one defined contribution pension trust fund, the retiree health insurance credit trust fund, the deferred compensation trust fund and pretax benefits trust fund. Responsibility for the administration of the Retirement Plan for Employees of Job Service North Dakota and the OASIS Trust Fund was transferred to NDPERS effective August 1, 2004, through legislation passed by the fifty-eighth Legislative Assembly of North Dakota. NDPERS also administers one proprietary fund, the Uniform Group Insurance Program, which is an enterprise fund.

### Financial Highlights

#### *Pension and Other Employee Benefit Plans*

• As of June 30, 2004 and 2003, the funding ratio (actuarial value of assets divided by actuarial accrued liability) for each of the funds is shown below:

	<u>2004</u>	<u>2003</u>
Public Employees Retirement System	94.0%	98.1%
Highway Patrolmen Retirement System	89.9%	93.4%
Retiree Health Insurance Credit Fund	38.8%	38.2%

NDPERS' funding objective is to meet long-term benefit promises through contributions and investment income. The funding ratio listed above gives an indication of how well this objective has been met to date. The higher the funding ratio, the better the plan is funded.

The funding ratios for PERS and HPRS have decreased as a result of lower investment income due to the national economic slowdown during the past three years. However, management believes, and actuarial studies concur, that the defined benefit pension plans and retiree health insurance credit fund are adequately funded to meet current obligations.

• Plan net assets for all trust funds administered by NDPERS increased \$263,250,977 during the fiscal year ended June 30, 2004. The increase was

primarily due to positive earnings on investments during the fiscal year and the transfer of assets from Job Service.

Public Employees Retirement System	\$ 174,123,562
Highway Patrolmen Retirement System	5,242,551
Retiree Health Insurance Credit Fund	4,788,403
Defined Contribution Retirement Fund	2,285,084
Pretax Benefits Fund	58,442
Deferred Compensation Plan	3,386,601
Retirement Plan for Employees of Job Service ND	73,302,185
OASIS Trust Fund	<u>64,149</u>
Total increase in plan net assets	<u>\$ 263,250,977</u>

#### *Uniform Group Insurance Program*

• Net assets increased by \$171,149, or 7%, from the prior fiscal year.

#### **Overview of the Financial Statements**

The discussion and analysis is intended to serve as an introduction to the basic financial statements for NDPERS, which include the fund financial statements, notes to the financial statements, required supplementary information and other supplementary information.

*Fund financial statements* - There are two financial statements presented for the fiduciary funds. The Statement of Fiduciary Net Assets as of June 30, 2004, indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Fiduciary Net Assets for the year ended June 30, 2004, provides a view of the current year's additions and deductions to the individual trust funds.

There are three financial statements presented for the proprietary fund. The Statement of Net Assets as of June 30, 2004, provides a snapshot at a particular point in time of the net assets available for use by this program. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for the year ended June 30, 2004, provides a view of the current year's operating and non-operating revenues and expenses for the enterprise fund. The Statement of Cash Flows for the year ended June 30, 2004 shows the cash used by operating activities as well as the net increase in cash due to operating and investing activities.

*Notes to the financial statements* - The notes provide additional information that is essential for a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 26-40 of this report.

*Required supplementary information* - The required supplementary information consists of a

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Schedule of Employer Contributions and a Schedule of Funding Progress and related notes concerning the funding status for the defined benefit pension trust funds. These schedules provide historical trend information, which contributes to understanding the changes in the funded status of the funds over time.

*Other supplementary schedules* - The Schedule of Investment and Administrative Expenses and Statement of Appropriations are presented for the purpose of additional analysis.

**Financial Analysis**

The financial results for fiscal year 2004 and 2003 are summarized below. The information in the tables below is condensed from the Financial Statements.

**Statement of Fiduciary Net Assets**

	<u>June 30, 2004</u>	<u>% Change</u>	<u>June 30, 2003</u>	<u>% Change</u>
<b>Assets</b>				
Cash	\$ 2,454,639	51.1%	\$ 1,624,391	35.8%
Receivables	7,273,127	27.6%	5,702,001	-6.1%
Investments, at fair value	1,431,362,045	22.3%	1,170,193,191	4.6%
Securities lending collateral	109,141,101	63.0%	66,940,289	-8.6%
Prepaid benefits	37,575			
Equipment, net of accumulated depr.	<u>23,656</u>	<u>-34.2%</u>	<u>35,932</u>	<u>-25.0%</u>
Total assets	<u>1,550,292,143</u>	<u>24.6%</u>	<u>1,244,495,804</u>	<u>3.8%</u>
<b>Liabilities</b>				
Long-term liabilities outstanding	74,245	11.6%	66,511	-25.5%
Other liabilities	<u>110,632,796</u>	<u>62.5%</u>	<u>68,095,168</u>	<u>-8.4%</u>
Total liabilities	<u>110,707,041</u>	<u>62.4%</u>	<u>68,161,679</u>	<u>-8.4%</u>
<b>Net assets available for benefits</b>	<b>\$ <u>1,439,585,102</u></b>	<b><u>22.4%</u></b>	<b>\$ <u>1,176,334,125</u></b>	<b><u>4.6%</u></b>

For the fiscal year ended June 30, 2004, plan net assets increased by \$263,250,977, or 22.4%, primarily due to positive earnings on investments during the fiscal year and the transfer of \$67 million in assets from Job Service to NDPERS for the Retirement Plan for Employees of Job Service North Dakota and the OASIS Trust Fund. For the fiscal year ended June 30, 2003, plan net assets increased by \$51,968,655, or 4.6%, which is the result of a recovery in the investment markets during the last quarter of the fiscal year.

As of June 30, 2004, cash balances were higher than the previous year primarily due to the timing of cash receipts. The increase in receivables was due to an increase in investment receivables and securities lending collateral also increased. The increase in other liabilities is primarily due to an increase in securities lending obligations.

**Statement of Changes in Fiduciary Net Assets**

	<u>June 30, 2004</u>	<u>% Change</u>	<u>June 30, 2003</u>	<u>% Change</u>
<b>Additions</b>				
Contributions	\$ 124,160,780	140.5%	\$ 51,618,467	5.7%
Investment income	202,357,524	253.8%	57,196,809	-167.9%
Other	<u>4,092,858</u>	<u>97.2%</u>	<u>2,075,045</u>	<u>32.4%</u>
Total additions	<u>330,611,162</u>	<u>198.1%</u>	<u>110,890,321</u>	<u>-427.8%</u>
<b>Deductions</b>				
Benefit payments	61,915,185	13.5%	54,557,747	6.8%
Refunds/Transfers	3,939,420	35.7%	2,903,992	-25.2%
Administrative expenses	<u>1,505,580</u>	<u>3.1%</u>	<u>1,459,927</u>	<u>-0.8%</u>
Total deductions	<u>67,360,185</u>	<u>14.3%</u>	<u>58,921,666</u>	<u>4.4%</u>
<b>Changes in net assets available for benefits</b>	<b>\$ <u>263,250,977</u></b>	<b><u>406.6%</u></b>	<b>\$ <u>51,968,655</u></b>	<b><u>157.6%</u></b>



Additions - Additions to fund benefits are accumulated through contributions and returns on invested funds. Contributions for the year ended June 30, 2004 increased by \$72.5 million, which includes the \$67 million transferred from Job Service and \$3.8 million transferred from the Teachers Fund for Retirement. Without the asset transfers, contributions increased by \$1.8 million or 3.4%, over 2003; contributions for the year ended June 30, 2003 increased \$2.7 million, or 5.7%, over 2002. This year, the plans experienced positive investment earnings totaling \$202.4 million, compared to investment earnings of \$57.2 million in 2003. The increase in Other Additions is primarily due to an increase in service purchase contributions.

Deductions - Expenses include benefit payments, refunds/transfers, and administrative expenses. Expenses for the year ended June 30, 2004 totaled \$67.4 million, an increase of \$8.5 million over 2003. In the previous fiscal year, expenses totaled \$58.9 million, an increase of \$2.5 million over 2002. Of the total increase, \$2.4 million was due to benefits paid to retirees in the Retirement Plan for Employees of Job Service North Dakota and OASIS; \$5 million was due to growth in the benefits paid to plan participants as a result of an increase in the number of benefit recipients and \$1.1 million was due to an increase in the amount of refunds issued to terminated participants.

### Statement of Proprietary Fund Net Assets

	<u>June 30, 2004</u>	<u>% Change</u>	<u>June 30, 2003</u>	<u>% Change</u>
<b>Assets</b>				
Cash	\$ 3,812,278	16.4%	\$ 3,275,873	5.6%
Receivables	<u>47,684</u>	<u>-69.4%</u>	<u>155,806</u>	<u>165.3%</u>
Total assets	<u>3,859,962</u>	<u>12.5%</u>	<u>3,431,679</u>	<u>8.6%</u>
<b>Liabilities</b>				
Long-term liabilities outstanding	50,767	1.0%	50,244	7.8%
Other liabilities	<u>1,197,224</u>	<u>27.3%</u>	<u>940,613</u>	<u>-3.4%</u>
Total liabilities	<u>1,247,991</u>	<u>26.0%</u>	<u>990,857</u>	<u>-2.8%</u>
<b>Net assets</b>	<u>\$ 2,611,971</u>	<u>7.0%</u>	<u>\$ 2,440,822</u>	<u>14.0%</u>

As of June 30, 2004, net assets are \$2.6 million, which is 7% higher than a year ago. This increase is due to a higher cash balance as of fiscal year end, offset by an increase in deferred premiums.

The net assets of the proprietary fund consist primarily of cash and are to be used for the following:

- To pay the administrative expenses of the uniform group insurance program
- To reduce premium payments or premium increases, or
- To increase insurance coverage

### Statement of Changes in Proprietary Fund Net Assets

	<u>June 30, 2004</u>	<u>% Change</u>	<u>June 30, 2003</u>	<u>% Change</u>
<b>Operating Revenues</b>				
Administrative Fee	\$ 815,289	-6.7%	\$ 873,759	2.3%
<b>Non-Operating Revenues</b>				
Investment Income	<u>69,229</u>	<u>-48.4%</u>	<u>134,154</u>	<u>-44.7%</u>
Total Revenues	<u>884,518</u>	<u>-12.2%</u>	<u>1,007,913</u>	<u>-8.3%</u>
<b>Operating Expenses</b>				
Administrative expenses	<u>713,369</u>	<u>0.8%</u>	<u>708,001</u>	<u>-2.9%</u>
<b>Change in Net Assets</b>	<u>\$ 171,149</u>	<u>-42.9%</u>	<u>\$ 299,912</u>	<u>-19.0%</u>

Net assets increased by \$171,149 for the fiscal year ended June 30, 2004, which is 42.9% less than the increase of \$299,912 for the previous fiscal year. This was primarily the result of a decrease in investment income caused by lower interest rates.

### Contacting NDPERS Financial Management

This financial report is designed to provide our members, annuitants, employers, business partners and the general public with a general overview of the System's financial activities. If you have questions about this report or need additional financial information, contact the North Dakota Public Employees Retirement System, PO Box 1657, Bismarck, ND 58502.

**BASIC  
FINANCIAL  
STATEMENTS**



Statement of Net Assets  
Proprietary Funds  
June 30, 2004 and 2003

	Uniform Group Insurance Program	
	2004	2003
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,812,278	\$ 3,275,873
Accounts receivable	34,800	121,816
Due from fiduciary funds	9,933	32,352
Due from other state agencies	2,951	1,638
Total current assets	<u>3,859,962</u>	<u>3,431,679</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Salaries payable	43,357	38,776
Accounts payable	35,327	15,894
Due to fiduciary funds	26,605	-
Due to other state agencies	9,186	4,203
Amounts held in custody for others	833,087	786,689
Deferred premiums	247,214	95,051
Total current liabilities	<u>1,194,776</u>	<u>940,613</u>
<b>NONCURRENT LIABILITIES</b>		
Accrued compensated absences	53,215	50,244
Total liabilities	<u>1,247,991</u>	<u>990,857</u>
<b>NET ASSETS</b>		
<b>UNRESTRICTED</b>		
Total net assets	<u>2,611,971</u>	<u>2,440,822</u>

Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
For the Years Ended June 30, 2004 and 2003

	Uniform Group Insurance Program	
	2004	2003
<b>OPERATING REVENUES</b>		
Administrative fee	\$ 815,289	\$ 873,759
<b>OPERATING EXPENSES</b>		
Salaries and wages	472,892	448,306
Operating expenses	127,619	144,887
Professional fees	69,421	61,212
Data processing	43,437	53,596
Total operating expenses	<u>713,369</u>	<u>708,001</u>
Operating income	<u>101,920</u>	<u>165,758</u>
<b>NON-OPERATING REVENUES</b>		
Investment income	69,229	134,154
Change in net assets	171,149	299,912
Total net assets - beginning of year	<u>2,440,822</u>	<u>2,140,910</u>
Total net assets - end of year	<u>\$ 2,611,971</u>	<u>\$ 2,440,822</u>

The accompanying notes are an integral part of these financial statements.

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the years ended June 30, 2004 and 2003**

	<b>Uniform Group Insurance Program</b>	
	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Premiums collected	\$ 126,339,150	\$ 105,552,973
Administrative fees collected	1,116,972	744,352
Payments to suppliers	(184,456)	(260,731)
Premiums paid	(126,339,150)	(105,552,973)
Payments to employees	(465,340)	(443,972)
Net cash provided by operating activities	<u>467,176</u>	<u>39,649</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	<u>69,229</u>	134,154
Net increase in cash and cash equivalents	<b>536,405</b>	173,803
<b>CASH AND CASH EQUIVALENTS BALANCE - BEGINNING OF YEAR</b>		
	<u>3,275,873</u>	<u>3,102,070</u>
<b>CASH AND CASH EQUIVALENTS BALANCE - END OF YEAR</b>		
	<u><b>\$ 3,812,278</b></u>	<u>\$ 3,275,873</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 101,920	\$ 165,758
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Premiums collected and BCBS surplus used	126,339,150	105,552,973
Premiums paid	(126,339,150)	(105,552,973)
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	87,016	(107,140)
Decrease (increase) in due from fiduciary funds	22,419	7,141
(Increase) decrease in due from other state agencies	(1,313)	2,911
Increase in salaries payable	4,581	679
Increase in accrued compensated absences	2,971	3,655
Increase in accounts payable	19,433	1,355
Increase in due to fiduciary funds	26,605	-
Increase (decrease) in due to other state agencies	4,983	(2,391)
Increase in amounts held in custody for others	46,398	35,405
Increase (decrease) in deferred premiums	152,163	(67,724)
Total adjustments	<u>365,256</u>	<u>(126,109)</u>
Net cash provided by operating activities	<u><b>\$ 467,176</b></u>	<u>\$ 39,649</u>

*The accompanying notes are an integral part of these financial statements.*

Statement of Plan Net Assets  
Fiduciary Funds  
June 30, 2004

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
<b>ASSETS</b>								
Cash	\$ 1,680,160	\$ -	\$ 51,616	\$ -	\$ 656,484	\$ -	\$ -	\$ 66,379
Receivables								
Contribution receivable	3,046,421	-	354,054	81,872	-	-	14,702	-
Interest receivable	2,657,234	89,039	223,498	-	-	-	206,303	-
Accounts receivable	4,743	-	-	-	441,610	2	-	-
Due from fiduciary funds	114,976	-	-	-	-	-	-	-
Due from proprietary funds	26,605	-	-	-	-	-	-	-
Due from other state agencies	12,068	-	-	-	-	-	-	-
Total receivables	5,862,047	89,039	577,552	81,872	441,610	2	221,005	-
Investments, at fair value								
Domestic equities	521,484,122	17,474,159	14,960,103	-	-	-	26,331,994	-
International equities	194,839,080	6,528,769	4,451,977	-	-	-	3,652,240	-
Fixed income	-	-	10,219,583	2,469,714	-	-	-	-
International fixed income	59,315,567	1,987,577	-	-	-	-	3,669,491	-
Domestic fixed income	350,292,979	11,737,798	-	-	-	-	39,380,902	-
Real estate	59,439,122	1,991,717	-	-	-	-	-	-
Mutual funds	-	-	-	8,900,792	-	14,133,807	-	-
Annuities	-	-	-	-	-	155,016	-	-
Venture capital	56,916,169	1,907,176	-	-	-	-	-	-
Invested cash	18,442,890	617,994	-	-	-	-	61,307	-
Total investments	1,260,729,929	42,245,190	29,631,663	11,370,506	-	14,288,823	73,095,934	-
Prepaid benefits	-	-	-	-	-	-	37,575	-
Invested securities lending collateral	95,862,291	3,212,203	-	-	-	-	10,066,607	-
Equipment (net of accumulated depreciation)	23,656	-	-	-	-	-	-	-
Total assets	\$ 1,364,158,083	\$ 45,546,432	\$ 30,260,831	\$ 11,452,378	\$ 1,098,094	\$ 14,288,825	\$ 83,421,121	\$ 66,379

The accompanying notes are an integral part of these financial statements.

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
<b>LIABILITIES</b>								
Salaries payable	\$ 47,147	\$ -	\$ -	\$ -	\$ 8,382	\$ 10,731	\$ -	\$ -
Accounts payable	1,165,081	-	12,409	-	2,849	1,935	40,645	-
Due to fiduciary funds	-	24,978	80,364	-	-	-	9,634	-
Due to proprietary funds	-	-	3,835	-	6,098	-	-	-
Due to other state agencies	22,664	-	823	16	422	6,059	2,050	2,230
Deferred contributions	35,547	-	-	-	-	-	-	-
Securities lending collateral	95,862,291	3,212,203	-	-	-	-	10,066,607	-
Accrued compensated absences	56,318	-	-	-	8,980	9,991	-	-
Capital lease payable	6,752	-	-	-	-	-	-	-
Total liabilities	\$ 97,195,800	\$ 3,237,181	\$ 97,431	\$ 16	\$ 26,731	\$ 28,716	\$ 10,118,936	\$ 2,230
<b>NET ASSETS</b>								
Held in trust for pension benefits	\$ 1,266,962,283	\$ 42,309,251	\$ -	\$ 11,452,362	\$ -	\$ 14,260,109	\$ 73,302,185	\$ 64,149
Held in trust for post-employment healthcare benefits	-	-	30,163,400	-	-	-	-	-
Held in trust for pretax benefits (a schedule of pension funding progress for each plan is presented on page 42)	-	-	-	-	1,071,363	-	-	-
Total net assets held in trust	\$ 1,266,962,283	\$ 42,309,251	\$ 30,163,400	\$ 11,452,362	\$ 1,071,363	\$ 14,260,109	\$ 73,302,185	\$ 64,149

The accompanying notes are an integral part of these financial statements.



Statement of Plan Net Assets  
Fiduciary Funds  
June 30, 2003

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan
<b>ASSETS</b>						
Cash	\$ 998,107	\$ -	\$ 34,355	\$ -	\$ 591,929	\$ -
Receivables						
Contribution receivable	3,078,447	-	360,217	85,437	-	-
Interest receivable	1,473,518	50,144	150,607	-	-	-
Accounts receivable	1,459	-	-	-	409,860	-
Due from fiduciary funds	60,438	-	-	-	31,664	-
Due from other state agencies	165	-	-	-	45	-
Total receivables	4,614,027	50,144	510,824	85,437	441,569	-
Investments, at fair value						
Domestic equities	443,846,997	15,104,317	12,558,676	-	-	-
International equities	170,006,609	5,785,403	3,708,874	-	-	-
Fixed income	-	-	8,658,263	2,160,777	-	-
International fixed income	52,242,350	1,777,831	-	-	-	-
Domestic fixed income	309,697,230	10,539,139	-	-	-	-
Real estate	55,768,070	1,897,813	-	-	-	-
Mutual funds	-	-	-	6,921,064	-	10,740,352
Annuities	-	-	-	-	-	152,075
Venture capital	49,387,768	1,680,688	-	-	-	-
Invested cash	7,310,128	248,767	-	-	-	-
Total investments	1,088,259,152	37,033,958	24,925,813	9,081,841	-	10,892,427
Invested securities lending collateral	64,737,251	2,203,038	-	-	-	-
Equipment (net of accumulated depreciation)	35,932	-	-	-	-	-
Total assets	\$ 1,158,644,469	\$ 39,287,140	\$ 25,470,992	\$ 9,167,278	\$ 1,033,498	\$ 10,892,427

The accompanying notes are an integral part of these financial statements.

**LIABILITIES**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan
Salaries payable	\$ 41,344	\$ -	\$ -	\$ -	\$ 7,643	\$ 9,479
Accounts payable	892,493	-	9,491	-	3,069	1,400
Due to fiduciary funds	21,333	17,402	53,368	-	-	-
Due to proprietary funds	-	-	32,351	-	-	-
Due to other state agencies	41,889	-	785	-	419	571
Securities lending collateral	64,737,251	2,203,038	-	-	-	-
Accrued compensated absences	46,495	-	-	-	9,446	7,469
Capital lease payable	24,943	-	-	-	-	-
Total liabilities	\$ 65,805,748	\$ 2,220,440	\$ 95,995	\$ -	\$ 20,577	\$ 18,919

**NET ASSETS**

Held in trust for pension benefits	\$ 1,092,838,721	\$ 37,066,700	\$ -	\$ 9,167,278	\$ -	\$ 10,873,508
Held in trust for postemployment healthcare benefits	-	-	25,374,997	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,012,921	-
(A schedule of pension funding progress for each plan is presented on page 42)						
Total net assets held in trust	\$ 1,092,838,721	\$ 37,066,700	\$ 25,374,997	\$ 9,167,278	\$ 1,012,921	\$ 10,873,508

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Plan Net Assets – Fiduciary Funds  
For the Year Ended June 30, 2004

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
<b>ADDITIONS</b>								
Contributions								
From employer	\$ 19,732,842	\$ 844,241	\$ 4,854,949	\$ 498,224	\$ -	\$ -	\$ -	\$ -
From employee	18,754,814	520,700	4,597	483,713	4,872,068	2,337,963	192,129	-
Transfers from other plans	-	-	-	17,587	-	-	-	-
Net assets transferred from								
Job Service	-	-	-	-	-	-	66,888,685	90,868
From external plans	3,789,350	-	-	-	-	50,776	-	-
From pretax benefits fund	-	-	-	29,130	-	198,144	-	-
Total contributions	42,277,006	1,364,941	4,859,546	1,028,654	4,872,068	2,586,883	67,080,814	90,868
Investment income								
Net increase in fair value of investments	151,168,790	5,120,739	3,227,544	1,221,931	-	1,825,695	6,914,751	-
Interest and dividends	33,162,864	1,121,219	690,015	247,443	4,891	-	1,783,060	663
Less investment expense	(3,911,556)	(132,347)	(53,887)	(8,604)	-	(97,215)	(161,600)	-
Net investment income	180,420,098	6,109,611	3,863,672	1,460,770	4,891	1,728,480	8,536,211	663
Securities lending activity								
Securities lending income	903,492	30,514	-	-	-	-	84,777	-
Less securities lending expenses	(692,329)	(23,382)	-	-	-	-	(69,944)	-
Net securities lending income	211,163	7,132	-	-	-	-	14,833	-
Repurchase service credit	3,397,231	-	210,547	-	-	-	25,272	-
FICA tax savings	-	-	-	-	447,130	-	-	-
Miscellaneous income	6,299	74	-	6,199	106	-	-	-
Total additions	226,311,797	7,481,758	8,933,765	2,495,623	5,324,195	4,315,363	75,657,130	91,531
<b>DEDUCTIONS</b>								
Benefits paid to participants	47,515,319	2,188,234	-	175,195	4,895,410	720,822	2,330,771	26,039
Refunds	3,659,450	34,411	698	-	-	-	-	-
Prefunded credit applied	-	-	4,063,395	-	-	-	-	-
Transfers to other plans	17,587	-	-	-	227,274	-	-	-
Total deductions	51,192,356	2,222,645	4,064,093	175,195	5,122,684	720,822	2,330,771	26,039
Administrative expenses	995,879	16,562	81,269	35,344	143,069	207,940	24,174	1,343
Total deductions	52,188,235	2,239,207	4,145,362	210,539	5,265,753	928,762	2,354,945	27,382
Change in net assets	174,123,562	5,242,551	4,788,403	2,285,084	58,442	3,386,601	73,302,185	64,149
Net assets - beginning of year	1,092,838,721	37,066,700	25,374,997	9,167,278	1,012,921	10,873,508	-	-
Net assets - end of year	\$ 1,266,962,283	\$ 42,309,251	\$ 30,163,400	\$ 11,452,362	\$ 1,071,363	\$ 14,260,109	\$ 73,302,185	\$ 64,149

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Plan Net Assets – Fiduciary Funds  
For the Year Ended June 30, 2003

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan
<b>ADDITIONS</b>						
Contributions						
From employer	\$ 19,212,733	\$ 833,074	\$ 4,712,819	\$ 494,579	\$ -	\$ -
From employee	18,265,346	513,812	4,938	480,174	4,550,282	2,237,139
Transfers from other plans	-	-	-	55,890	-	-
From external plans	-	-	-	22,454	-	79,675
From pretax benefits fund	-	-	-	2,493	-	153,059
Total contributions	<u>37,478,079</u>	<u>1,346,886</u>	<u>4,717,757</u>	<u>1,055,590</u>	<u>4,550,282</u>	<u>2,469,873</u>
Investment income						
Net increase in fair value of investments	21,524,461	707,680	284,302	122,320	-	260,687
Interest and dividends	35,740,851	1,225,239	623,496	205,362	5,246	-
Less investment expense	(3,456,439)	(118,602)	(46,489)	(8,366)	-	(68,552)
Net investment income	<u>53,808,873</u>	<u>1,814,317</u>	<u>861,309</u>	<u>319,316</u>	<u>5,246</u>	<u>192,135</u>
Securities lending activity						
Securities lending income	1,174,788	40,280	-	-	-	-
Less securities lending expenses	(985,655)	(33,800)	-	-	-	-
Net securities lending income	<u>189,133</u>	<u>6,480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Repurchase service credit	1,493,418	-	116,821	-	-	-
FICA tax savings	-	-	-	-	452,111	-
Miscellaneous income	9,184	56	-	3,439	16	-
Total additions	<u>92,978,687</u>	<u>3,167,739</u>	<u>5,695,887</u>	<u>1,378,345</u>	<u>5,007,655</u>	<u>2,662,008</u>
<b>DEDUCTIONS</b>						
Benefits paid to participants	43,733,098	2,044,071	-	120,661	4,503,630	263,217
Refunds	2,672,201	19,412	937	-	-	-
Prefunded credit applied	-	-	3,893,070	-	-	-
Transfers to other plans	55,890	-	-	-	155,552	-
Administrative expenses	46,461,189	2,063,483	3,894,007	120,661	4,659,182	263,217
Total deductions	<u>1,068,803</u>	<u>16,469</u>	<u>79,237</u>	<u>5,932</u>	<u>138,969</u>	<u>150,517</u>
	<u>47,529,992</u>	<u>2,079,952</u>	<u>3,973,244</u>	<u>126,593</u>	<u>4,798,151</u>	<u>413,734</u>
Change in net assets	45,448,695	1,087,787	1,722,643	1,251,752	209,504	2,248,274
Net assets - beginning of year	1,047,390,026	35,978,913	23,652,354	7,915,526	803,417	8,625,234
Net assets - end of year	<u>\$ 1,092,838,721</u>	<u>\$ 37,066,700</u>	<u>\$ 25,374,997</u>	<u>\$ 9,167,278</u>	<u>\$ 1,012,921</u>	<u>\$ 10,873,508</u>

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2004 & 2003

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The Public Employees Retirement System (System) is an agency of the State of North Dakota, operating through the legislative authority of North Dakota Century Code 54-52-03. As a state agency, the System is considered to be a department of the State of North Dakota and is included in the State's Comprehensive Annual Financial Report as a pension trust fund.

This System is governed by a seven-member board. Three of the members are appointed and the remaining four are elected by the participants of the retirement plans.

The System administers four defined benefit pension plans and one defined contribution retirement plan. The System also manages and administers the retiree health insurance credit program, the uniform group insurance program, the deferred compensation program and the pretax benefits program.

For financial reporting purposes, the System has included all funds, and has considered all potential component units for which the System is financially accountable, and other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the System to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the System.

Based upon these criteria, there are no component units to be included within the System as a reporting entity and the System is part of the State of North Dakota as a reporting entity.

#### Fund Financial Statements

The System's only nonfiduciary activity is the administration and management of the uniform group insurance program. This program is a business-type activity that relies to a significant extent on fees and charges for support and is shown in the separate proprietary fund financial statements.

All other activities of the system are pension and other employee benefit trust funds and are shown in the separate fiduciary fund financial statements.

#### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the System are reported using the economic resources measurement focus and the accrual basis of accounting.

This measurement focus includes all assets and liabilities associated with the operations of the proprietary and fiduciary funds on the statements of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The proprietary fund is used to account for the operations of the Uniform Group Insurance Program. The System has been given the responsibility to manage this public entity risk pool. The Uniform Group Insurance Program is an insurance purchasing pool which provides the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments, or agencies, economies of scale in purchasing health, life, dental, vision and long-term care insurance. Since there is no pooling of risk, the disclosures relating to public entity risk pools are not applicable. Accordingly, this proprietary fund only reports administrative revenues and expenses.

The fiduciary fund consists of the pension and other employee benefit trust funds that are used to account for assets held by the department in a trust capacity. These include:

1. Public Employees Retirement System – a cost-sharing multiple-employer defined benefit retirement plan.
2. Highway Patrolmen's Retirement System – a single-employer defined benefit retirement plan.
3. Defined Contribution Retirement Plan – an optional defined contribution retirement plan covering specified employee positions in the State of North Dakota.
4. Retiree Health Insurance Credit Fund – an advance funded plan to offset the member's cost of health insurance during their retirement.
5. Pretax Benefits Program – allows eligible employees to elect to reduce their salaries to pay for eligible dependent care and medical expenses.



6. Deferred Compensation Plan – voluntary, supplemental retirement plan provided in accordance with Section 457 of the Internal Revenue Code.

7. Retirement Plan for Employees of Job Service North Dakota – a single-employer defined benefit retirement plan. The activity included in the Statement of Changes in Plan Net Assets is for the eleven-month period ended June 30, 2004. As of August 1, 2003, the administrative authority and net assets of this plan were legislatively transferred to the Public Employees Retirement System. This action was based on the passage of House Bill 1064 by the fifty-eighth Legislative Assembly of North Dakota.

8. Oasis Trust Fund – a cost-sharing multiple-employer defined benefit retirement plan. The activity included in the Statement of Changes in Plan Net Assets is for the eleven-month period ended June 30, 2004. As of August 1, 2003, the administrative authority and net assets of this plan were legislatively transferred to the Public Employees Retirement System. This action was based on the passage of House Bill 1063 by the fifty eighth Legislative Assembly of North Dakota.

The System follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

In accordance with GASB Statement No. 20, the System follows all applicable GASB pronouncements as well as private-sector standards of accounting and financial reporting issued on or before November 30, 1989 unless those standards conflict with GASB pronouncements. The System also has the option of following subsequent private-sector guidance for business-type activities and enterprise funds, subject to this same limitation.

Proprietary Funds are accounted for on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows. The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are administrative fees charged to the participants in the Uniform Group Insurance Program. Operating expenses include salaries and wages and administrative expenses. All revenues and expenses not meeting

this definition are reported as non-operating revenues and expenses.

The fiduciary fund is accounted for on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each system.

#### *Budgetary Process*

The System operates through a biennial appropriation provided by the State Legislature. The System prepares a biennial budget on the modified accrual basis, which is included in the Governor's budget presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. Before signing the appropriation bills, the Governor has line item veto powers over legislation, subject to legislative override. Once passed and signed, the appropriation becomes the system's financial plan for the next two years. Changes to the appropriation are subject to approval by the Emergency Commission.

The Statement of Appropriations has been prepared using the accrual basis of accounting. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the North Dakota Century Code (NDCC), Section 54-44.1-11. Expenditures not subject to appropriation of a specific amount include professional fees, depreciation expense, benefits and refunds paid to participants, prefunded credits applied and employee reimbursements in the Pretax Benefits Program.

There were no supplemental appropriations during the fiscal year ending June 30, 2004 and 2003.

The legal level of budgetary control is at the appropriation and expenditure line item level, with administrative controls established at lower levels of detail in certain instances.

#### *Cash and Investments*

Cash and cash equivalents for reporting purposes, includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes investments with original maturity of three

months or less. Investments are stated at fair value. Fair value is, “the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than a forced liquidation sale.” Fair value was determined by reference to published market data for publicly traded securities or through the use of independent valuation services and appraisers for other investments. All investments of the fund, except for the Defined Contribution Retirement Plan and Oasis Trust Fund are to be made by the North Dakota Retirement and Investment Office (RIO). Chapter 21-10-07 of the North Dakota Century Code requires that all investments made by this state agency, be made using the prudent investor rule.

Investments of the Defined Contribution Retirement Plan are participant directed and are held by Fidelity Investments. Investments of the Oasis Fund consisted of six separate \$10,000 certificates of deposit on June 30, 2004, held at the Bank of North Dakota, valued at cost.

Net increases (decreases) are determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense of the fund, except for the Defined Contribution Retirement Plan consists of those administrative expenses directly related to the RIO investment operations. Investment expense of the Defined Contribution Retirement Plan consists of administrative expenses directly related to the plan.

### Securities Lending

GASB Statement No. 28 “Accounting and Financial Reporting for Securities Lending Transactions,” establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

Securities are loaned versus collateral that may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market

value of the securities plus any accrued interest.

For securities loaned at year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

Types of securities used for lending purposes are equity securities and bonds and notes. The carrying amount and fair value of securities on loan are the same.

Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of overall loans is 98 days.

Cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 24 days as of this statement date. Cash collateral may also be invested separately in “term loans”, in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent.

There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client’s securities are not returned due to the insolvency of a borrower and Northern Trust (custodian of investments for RIO) has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust’s responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. Northern Trust indemnifies the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay income distributions on them.

### Derivative Securities

The System’s investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use Treasury futures and options, S & P 500 index



futures and options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. The System's policy with respect to these derivatives is that their use may not increase the credit, market or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

#### *Accounts Receivable and Credit Policy*

Accounts receivable primarily include amounts due for contributions, insurance premiums, employee pretax benefit deductions and accrued interest on investments. Management reviews all receivables at year-end and assesses collectibility. All remaining receivables are considered collectible.

#### *Capital Assets and Depreciation*

Capital assets are presented in the accompanying financial statements at cost or estimated historical cost. Donated capital assets are stated at fair market value at the time of donation. Capital assets acquired via lease agreements are capitalized at the inception of the agreement. For the years ended June 30, 2004 and 2003 the System capitalized equipment costing over \$5,000 in accordance with Section 54-27-21 of the North Dakota Century Code.

The capital assets are depreciated on a straight-line basis over estimated useful lives ranging from 5 to 10 years.

#### *Accrued Compensated Absences*

Annual leave is a part of permanent employees compensation as set forth in Section 54-06-14 of the North Dakota Century Code. Employees are entitled to earn annual leave based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment, to be fixed by rules and regulations adopted by the employing unit. No more than 240 hours of annual leave may be carried forward beyond April 30th of each year. Employees are paid for unused annual leave upon termination or retirement. Permanent employees accrue sick leave from the first day of employment at the rate of eight hours per month with unlimited accumulation. Employees with at least 10 years of state employment are paid one-tenth of their accumulated sick leave under Section 54-06-14 of the North Dakota Century Code when the employee leaves the employ of the state.

The System's liability for accumulated unpaid leave is reported in the applicable funds.

#### *Deferred Contributions/Premiums*

Deferred contributions consist of monies collected from participating employers, for retirement contributions, before the contributions are due. Deferred premiums consist of monies collected by the System from individuals or participating employers, for insurance premiums, before the premiums are due.

#### *Transfers to Other Plans*

Transfers to other plans consist of monies transferred from the Public Employees Retirement System Defined Benefit Plan to the Defined Contribution Retirement Plan pursuant to Section 54-52.6 Subsection 3 of the North Dakota Century Code. Each eligible employee who elects to terminate membership in the Defined Benefit Plan has a lump sum amount transferred to the participating member's account under the Defined Contribution Retirement Plan. For new employees electing to transfer to the Deferred Contribution Retirement Plan, the lump sum transferred is the actual employee and employer contributions plus interest.

#### *Contributions from External Plans*

Pursuant to North Dakota Century Code section 54-52-02.13, the system received a one-time transfer of assets for non-teaching employees of the office of the superintendent of public instruction who elected to transfer from the North Dakota Teacher's Fund for Retirement to the North Dakota Public Employees Retirement System.

## **NOTE 2 DEPOSITS AND INVESTMENTS**

#### *Deposits*

The following summary presents the amount of the System's deposits which are fully insured or collateralized with securities held by the System or by its agent in the System's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the System's name (Category 2) and those deposits which are not collateralized or are collateralized by the pledging financial institution's trust department or agent, but not in the System's name (Category 3) at June 30, 2004 and 2003. Funds deposited in the Bank of North Dakota are guaranteed by the state of North Dakota (North Dakota Century Code Section 6-09-10).



At June 30, 2004 and 2003 the carrying amount of the System's cash deposits was \$15,728,439 and \$15,361,713 and the bank balances were \$16,160,734 and \$15,842,820. Included in these amounts were certificates of deposit recorded as investments with a carrying value and bank balances of \$12,729,278 and \$13,674,347 at June 30, 2004 and 2003. All of the System's deposits are uncollateralized, a class three risk as defined by the Government Accounting Standards Board.

*Investments*

**Risk Categories**

Governmental Accounting Standards Board (GASB) Statement No. 3 entitled "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires certain financial statement disclosure of deposits and investments such as the disclosure of carrying amounts by type of investment and classification into one of three categories based upon credit risk. Category (1) includes investments insured or registered or securities held by the System or its agent in the System's name. Category (2) includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in System's name. Category (3) includes investments uninsured and unregistered with securities held by the counter party, or by its trust department or agent, but not in System's name.

The guaranteed investment contract with Blue Cross Blue Shield is not subject to credit risk requirements and is shown as cash and cash equivalents on the financial statements.

All investments of the fund, except for the defined contribution retirement plan, are to be made by RIO.

Investments of the Public Employees Retirement System and the Highway Patrolmen's Retirement System are commingled and invested. Earnings on the investments and expenses related to administering the plans are allocated to each plan based on their percentage of ownership or number of participants. The System's investments are pooled with other state investments and managed by the North Dakota Retirement and Investment Office. All pooled investments subject to credit risk classification at the Retirement and Investment Office are categorized in Category 1. These investments include the equity securities, the bonds and notes and the private equity pool.

Those investments not subject to credit risk classification are the mutual funds, guaranteed investment contracts, the real estate pool, the private equity, the short-term investment fund, the deferred compensation plans, and the securities

lending short-term collateral investment pool.

The Public Employees Retirement System Board, or vendors contracted for by the board, has exclusive authority to invest and manage the assets of the defined contribution retirement plan. State statute allows each participating member to direct the investment of the individual's employer and employee contributions and earnings to one or more investment options within the available categories of investment as established by the Board. The following investments represent 5% or more of net plan assets:

	<u>2004</u>	<u>2003</u>
Fidelity Managed Income Portfolio Mutual Fund	21.57%	23.57%
Fidelity Growth Company Mutual Fund	13.51%	13.19%
Fidelity Freedom 2020 Mutual Fund	10.63%	9.74%
Fidelity Equity Income	7.30%	7.70%
Fidelity Spartan US Equity Index	6.60%	6.57%
Pimco Total Return Admin Mutual Fund	5.00%	6.94%
Fidelity Diversified International Mutual Fund	7.14%	5.27%
Fidelity Freedom 2010 Mutual Fund	N/A	5.28%

Total investments of the System at fair value as of June 30, 2004 and 2003 consisted of the following:

	<u>June 30, 2004</u>
Equity Securities	\$ 789,722,444
Bonds and Notes	479,073,611
Real Estate Pool	61,430,839
Venture Capital	58,823,345
Guaranteed Investment Contracts	3,267,756
Mutual Funds	8,900,792
Invested Cash	19,122,191
Deferred Compensation Plans:	
Annuities	155,016
Mutual Funds	14,133,807
Securities Lending Short-Term Collateral Investment Pool	<u>109,141,101</u>
	<b><u>\$1,543,770,902</u></b>

	<u>June 30, 2003</u>
Equity Securities	\$ 651,010,876
Bonds and Notes	371,401,243
Real Estate Pool	57,665,883
Venture Capital	51,068,456
Guaranteed Investment Contracts	3,212,899
Mutual Funds	6,921,064
Invested Cash	7,558,895
Deferred Compensation Plans:	
Annuities	152,075
Mutual Funds	10,740,352
Securities Lending Short-Term Collateral Investment Pool	<u>66,940,289</u>
	<b><u>\$1,226,672,032</u></b>



The calculation of realized gains and losses is independent of the calculation of net increase (decrease) in the fair value of plan investments and unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in the net increase (decrease) reported in the prior year(s) and the current year.

**NOTE 3  
DUE TO/ FROM FIDUCIARY FUNDS,  
PROPRIETARY FUNDS AND STATE  
AGENCY TRANSACTIONS**

The June 30, 2004 due from/to fiduciary and proprietary funds are summarized as follows:

<u>Fund</u>	Due From Fiduciary and Proprietary Funds	Due To Fiduciary and Proprietary Funds:
<b>Fiduciary</b>		
Public Employees		
Retirement System	\$ 141,581	\$ -
Highway Patrolmen's Retirement System	-	24,978
Retiree Health Insurance Credit Fund	-	84,199
Pretax Benefits Program		6,098
Retirement Plan for Employees of Job Service ND	-	9,634
<b>Proprietary</b>		
Uniform Group Insurance Program		
	9,933	26,605
	<u>\$ 151,514</u>	<u>\$ 151,514</u>

The June 30, 2003 due from/to fiduciary and proprietary funds are summarized as follows:

<u>Fund</u>	Due From Fiduciary and Proprietary Funds	Due To Fiduciary and Proprietary Funds
<b>Fiduciary</b>		
Public Employees		
Retirement System	\$ 60,438	\$ 21,333
Highway Patrolmen's Retirement System	-	17,402
Retiree Health Insurance Credit Fund	-	85,719
Pretax Benefits Program	31,664	-
<b>Proprietary</b>		
Uniform Group Insurance Program		
	32,352	-
	<u>\$ 124,454</u>	<u>\$ 124,454</u>

The June 30, 2004 due from/to state agencies are summarized as follows:

<u>Fund</u>	Due From State Agencies	Due To State Agencies
<b>Fiduciary</b>		
Public Employees Retirement System		
DOT	\$ 9,486	\$ -
State Courts	468	-
Oasis	2,114	-
State Investment Board	-	4,717
ITD	-	16,236
Attorney General	-	271
Central Services	-	1,440
Total	<u>\$ 12,068</u>	<u>\$22,664</u>

Retiree Health Insurance Credit Fund State Investment Board	\$ -	\$ 823
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Defined Contribution Plan ITD	\$ -	\$ 16
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Pretax Benefits Program ITD	\$ -	\$ 310
Central Services	-	63
Attorney General	-	49
Total	<u>\$ -</u>	<u>\$ 422</u>

Deferred Compensation Plan ITD	\$ -	\$ 4,308
Attorney General	-	1,636
Central Services	-	115
Total	<u>\$ -</u>	<u>\$ 6,059</u>

Retirement Plan for Employees of Job Service ND	\$ -	\$ 2,050
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Oasis Trust Fund PERS	\$ -	\$ 2,113
Job Service	-	117
Total	<u>\$ -</u>	<u>\$ 2,230</u>

<b>Proprietary</b>		
Uniform Group Insurance Program		
DOT	\$ 11	\$ -
Dept. of Commerce	490	-
Game and Fish Dept.	1,961	-
ITD	-	7,860
Attorney General	489	919
Central Services	-	407
Total	<u>\$ 2,951</u>	<u>\$ 9,186</u>

The June 30, 2003 due from/to state agencies are summarized as follows:

<u>Fund</u>	<u>Due From State Agencies</u>	<u>Due To State Agencies</u>
<b>Fiduciary</b>		
Public Employees Retirement System		
Land Department	\$ 25	\$ -
Human Services	100	-
Job Service North Dakota	40	-
State Investment Board	-	9,661
ITD	-	29,859
DOT	-	73
Attorney General	-	824
Central Services	-	<u>1,472</u>
Total	<u>\$ 165</u>	<u>\$ 41,889</u>
Retiree Health Insurance Credit Fund		
State Investment Board	\$ -	\$ 785
Pretax Benefits Program		
Adjutant General	\$ 45	\$ -
ITD	-	214
Central Services	-	180
Attorney General	-	<u>25</u>
Total	<u>\$ 45</u>	<u>\$ 419</u>
Deferred Compensation Plan		
ITD	\$ -	\$ 389
Attorney General	-	22
Central Services	-	<u>160</u>
Total	<u>\$ -</u>	<u>\$ 571</u>
<b>Proprietary</b>		
Uniform Group Insurance Program		
Dept. of Agriculture	\$ 411	\$ -
Independent Study	409	-
Grafton State School	409	-
ND Parks & Tourism	409	-
ITD	-	2,630
Attorney General	-	678
Central Services	-	<u>895</u>
Total	<u>\$ 1,638</u>	<u>\$ 4,203</u>

The June 30, 2004 operating transfers in/out are summarized as follows:

<u>Fund Type / Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Fiduciary Funds		
Defined Contribution		
Retirement Fund	\$ 46,717	\$ -
Pretax Benefits Program	-	227,274
Deferred Comp Plan	198,144	-
Public Employees Retirement System	-	17,587

The June 30, 2003 operating transfers in/out are summarized as follows:

<u>Fund Type / Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Fiduciary Funds:		
Defined Contribution		
Retirement Fund	\$ 58,383	\$ -
Pretax Benefits Program	-	155,552
Deferred Comp Plan	153,059	-
Public Employees Retirement System	-	55,890

**NOTE 4  
CAPITAL ASSETS**

A statement of changes in equipment and accumulated depreciation for the Public Employees Retirement System Fiduciary Fund for the years ended June 30, 2004 and 2003 is as follows:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net Equipment</u>
Balance -			
June 30, 2002	\$ 71,428	\$ 23,500	\$ 47,928
Additions	-	11,996	(11,996)
Deletions	-	-	-
Balance -			
June 30, 2003	71,428	35,496	35,932
Additions	-	12,276	(12,276)
Deletions	(11,450)	(11,450)	-
Balance -			
June 30, 2004	<u>\$ 59,978</u>	<u>\$ 36,322</u>	<u>\$ 23,656</u>

**NOTE 5  
LEASE OBLIGATIONS**

*Operating Lease:*

The department has entered into an operating lease for office space until June 30, 2005. The lease contains a clause stating that renewal is dependent on appropriation funding by the State Legislature.

Lease obligations for operating and capital leases are payable from all funds of the System.

Expenditures for the operating lease were \$79,849 and \$78,915 for the years ended June 30, 2004 and 2003. The future minimum lease payments for the fiscal year ending June 30, 2005 are \$80,525.



*Capital Lease*

The department has entered into two capital leases for various computer and printing equipment with a total cost of \$54,388 and accumulated depreciation of \$30,728. This lease expires in June 2007. Lease obligations for operating and capital leases are payable from all funds of the System. The future minimum lease payments and the present value for fiscal years ended June 30 are:

2005	\$ 4,333
2006	1,388
2007	<u>1,388</u>
Total minimum lease payments	\$ 7,109
Less amount representing interest	<u>357</u>
Present value of minimum lease payments	<u>\$ 6,752</u>

**NOTE 6****CHANGE IN LONG-TERM LIABILITIES**

	Proprietary Fund	Fiduciary Fund	Fiduciary Fund
	Accrued Comp. Absences	Accrued Comp. Absences	Capital Lease Payable
Balance –			
June 30, 2002	\$ 46,589	\$ 59,319	\$ 42,190
Increases	31,238	39,757	-
Decreases	<u>(27,583)</u>	<u>(35,666)</u>	<u>(17,247)</u>
Balance –			
June 30, 2003	50,244	63,410	24,943
Increases	31,192	44,887	-
Decreases	<u>(28,221)</u>	<u>(33,008)</u>	<u>(18,191)</u>
Balance-			
June 30, 2004	<u>\$ 53,215</u>	<u>\$ 75,289</u>	<u>\$ 6,752</u>
Balance - due within one year	<u>\$ 2,448</u>	<u>\$ 3,463</u>	<u>\$ 4,333</u>

For the government activities, the accrued compensated absences and capital lease payable are generally liquidated by excess revenue in the Uniform Group Insurance Program and the Pension Trust Funds.

**NOTE 7****NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

All eligible employees of the System, except those electing to participate in the North Dakota Defined Contribution Retirement Plan, contribute to the North Dakota Public Employees Retirement System (PERS), a state-wide cost-sharing multiple-employer defined benefit pension plan which is detailed in the notes that follow.

The System is required to contribute to PERS at an actuarially determined rate for permanent employees. The System's contributions to PERS for the years ended June 30, 2004, 2003, and 2002, were \$74,077, \$69,496, and \$67,107 equal

to the required contributions for each year. There were no contributions to the North Dakota Defined Contribution Retirement Plan as none of the eligible employees of the System have elected to participate in this plan.

**NOTE 8****DESCRIPTION OF PLANS***General*

The System administers four defined benefit pension plans and a defined contribution plan. The Public Employees Retirement System (PERS) is a cost-sharing multiple-employer retirement plan. The PERS was established July 1, 1966 as a defined contribution plan and was changed to a defined benefit plan by the 1977 North Dakota Legislature. The PERS is administered in accordance with Chapter 54-52 of the North Dakota Century Code. The Highway Patrolmen's Retirement System (HPRS) was established July 1, 1949 and is administered in accordance with Chapter 39-03 of the North Dakota Century Code. The HPRS is a single-employer defined benefit plan. The North Dakota Defined Contribution Retirement Plan was established on January 1, 2000 and is administered in accordance with Chapter 54-52.6 of the North Dakota Century Code. The Retirement Plan for Employees of Job Service North Dakota is a single-employer defined benefit public employee retirement plan administered by the Agency. The plan is established under NDCC 52-11-01 with benefit provisions established through the plan document, as amended. The OASIS (Old-Age and Survivor Insurance System) is a cost-sharing, multi-employer defined benefit public retirement plan. The trust fund was established effective July 1, 1947 by NDCC 52-09.

The costs of administering the plans are financed through the contributions and investment earnings of each plan.

The following brief description of the PERS and the HPRS, the Defined Contribution Plan, the Retirement Plan for Employees of Job Service North Dakota and OASIS is provided for general information purposes only. Participants should refer to the applicable chapters of the North Dakota Century Code for more complete information.

The PERS covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions (Main System). It also covers Supreme and District Court Judges, the National Guard Security Officers and Firefighters and as of August 1, 2004, peace officers and correctional officers employed by political subdivisions. The HPRS

covers substantially all sworn officers of the North Dakota Highway Patrol. The Defined Contribution Plan covers state employees who are in positions not classified by the central personnel division of the State of North Dakota. Employees of the judicial branch or the Board of Higher Education and State institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Defined Contribution Plan. The Retirement Plan for Employees of Job Service North Dakota is limited to employees participating in the plan as of September 30, 1980. Participation in the OASIS plan is limited to eligible employees and their beneficiaries as of April 23, 1957.

The systems are not subject to the provisions of the Employee Retirement Income Security Act of 1974. The number of participating political subdivisions in the PERS was:

	<u>2004</u>	<u>2003</u>
Cities	68	65
Counties	44	43
School Districts	100	98
Other	<u>57</u>	<u>54</u>
Total participating political subdivisions	<u>269</u>	<u>260</u>

Employee membership data is as follows:

	<b>PERS</b>		<b>HPRS</b>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Retirees & Beneficiaries				
Currently Receiving				
Benefits	5,634	5,411	90	85
Special Prior				
Service Retirees	74	96	-	-
Terminated				
Vested Participants	986	850	2	2
Inactive Participants	3,133	3,108	3	2
Active Plan Participants:				
Vested	13,402	12,978	65	71
Nonvested	<u>4,234</u>	<u>4,182</u>	<u>67</u>	<u>60</u>
Total Plan				
Membership	<u>27,463</u>	<u>26,625</u>	<u>227</u>	<u>220</u>

	<b>Job Service</b>		<b>OASIS</b>	
	<u>2004</u>		<u>2004</u>	
Retirees & Beneficiaries				
Currently Receiving				
Benefits		213		3
Terminated				
Vested Participants		5		-
Inactive Participants		-		-
Active Plan Participants:				
Vested		60		-
Nonvested		-		-
Total Plan				
Membership		<u>278</u>		<u>3</u>



Every permanent state employee who is at least 18 years old and who is in a position not classified by the central personnel division of the State of North Dakota may be eligible to participate in a defined contribution pension plan administered by the North Dakota Public Employees Retirement System. Employees of the judicial branch or the Board of Higher Education and State Institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Plan.

The defined contribution plan had 295 participants as of June 30, 2004 and 2003.

*Pension Benefits*

**PERS**

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service. The Plan permits early retirement at ages 55-64 with three or more years of service for the Main System and National Guard/Law Enforcement, and five or more years of service for the Supreme and District Court Judges.

The monthly pension benefit for Supreme and District Court Judges at normal retirement age (65) is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 120 months of service. The percentage is equal to 3.50 percent of average monthly salary multiplied by the first ten years of services, plus 2.80 percent of the average monthly salary times the second ten years of service, plus 1.25 percent of average monthly salary times years of service in excess of twenty years. The judicial retirement formula is only applied to eligible judicial service. Non-judicial service benefits are calculated using the 2.00 percent multiplier.

The monthly pension benefit for the National Guard/Law Enforcement at normal retirement age (55) is equal to 2.00 percent of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, level social security or term-certain annuity.

Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

### **HPRS**

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members are entitled to unreduced pension benefits upon attainment of age 55 and ten years of eligible employment or when the sum of age and years of credited service equals or exceeds 80. The annual pension benefit is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 120 months of service. The percentage is equal to the sum of the first 25 years of service multiplied by 3.60 percent and 1.75 percent multiplied by years of service in excess of 25, if any. The Plan permits early retirement at ages 50-54, with ten or more years of service.

### **Defined Contribution Plan**

Members are entitled to their vested account balance. A participating member is immediately 100% vested in the member's contributions. A participating member vests in the employer contributions made on the member's behalf as follows:

Upon completion of two years of service	50%
Upon completion of three years of service	75%
Upon completion of four years of service	100%

Members may elect to receive their account balance in a lump sum, lump sum direct rollover or periodic distribution.

### **Retirement Plan for**

#### **Employees of Job Service North Dakota**

Benefits are established through the plan document, as amended. The System provides a post-retirement cost-of-living adjustment each year based on the Consumer Price Index. Employees are entitled to annual pension benefits beginning at normal retirement age (65). Employees may elect optional retirement eligibility at age 62 with 5 years of credited service, at age 60 with 20 years of credited service, or at age 55 with 30 years of credited service. Pension benefits are calculated based on the final average earnings (basic monthly earnings averaged over the highest three consecutive years of basic earnings) of the employee multiplied by the sum of:

- 1.5% times years of credited service up to 5 plus

- 1.75% times years of credited service between 6 and 10 plus
- 2.0% times years of credited service in excess of 10

### **OASIS**

Benefits are set by statute. On a biennial basis, legislation has been introduced to the North Dakota legislature to increase the primary benefit amount in (c) below. Eligible individuals are entitled to primary insurance benefits at normal retirement age of 65. The primary insurance benefit is the sum of a) 50% of the amount of the average monthly wage if the average monthly wage does not exceed seventy-five dollars or \$37.50 or 15% of the amount by which the average monthly benefit exceeds seventy five dollars and does not exceed two hundred and fifty dollars; b) 1% of the amount computed under (a), multiplied by the number of years in which two hundred or more of wages were paid to the individual; and c) \$826.64.

#### *Death and Disability Benefits*

### **PERS**

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System and National Guard/Law Enforcement, or less than five years of service for Supreme and District Court Judges, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System and National Guard/Law Enforcement, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50 percent of the member's accrued normal retirement benefit, or 60 monthly payments equal to the member's accrued normal retirement benefit calculated as if the member were age 65 the day before death occurred or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

For judges who have earned more than five years of credited service, the death benefit is the greater of (i) lump sum payment of accumulated contributions, and (ii) 100% of the members' accrued benefit (not reduced on account of age), payable for the spouse's lifetime.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25 percent of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the System in the North Dakota Administrative Code.

For judges only, the disability benefit formula is 70% of final average salary minus social security and workers compensation benefits.

### **HPRS**

Death and disability benefits are set by statute. If an active member dies with less than ten years of credited service, a death benefit equal to the value of the member's accumulated contributions, plus interest is paid to the member's beneficiary. If the member has earned more than ten years of credited service, the surviving spouse, if any, will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50 percent of the member's accrued normal retirement benefit or 60 monthly payments equal to the member's accrued normal retirement benefit calculated as if the member were age 55 the day before death occurred. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to any designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are up to 70 percent of their final average salary, reduced by worker's compensation, with a minimum benefit of \$100. To qualify under this section the member must meet the criteria established by the System for being totally disabled and apply for benefits within one year of termination.

### **Defined Contribution Plan**

Upon the death of a participating member or former participating member, the vested account balance of that deceased participant is available to the participant's designated beneficiary(ies).

A member who becomes totally and permanently disabled while employed by the State is eligible to receive a distribution of the vested account balance. To qualify under this section, the member must meet the criteria established by the System for being totally disabled.



### **Retirement Plan for Employees of Job Service North Dakota**

The plan provides retirement, disability and death benefits. If the death of a participant occurs prior to his/her annuity starting date, the surviving spouse who has been married at least two years prior to the participant's death or, if married less than two years is a parent of a child of this marriage, then the spouse shall receive monthly benefits. The amount is the greater of the benefit had the participant retired on the day before he/she died and elected the Contingent Annuitant Option with 55% of his/her retirement benefit continued to his/her spouse of 55% of the smaller of 40% of the deceased participant's average monthly earnings or the deceased participant's normal retirement benefit obtained by increasing their credited service by the period of time between their date of death and the date they would have attained age 60. Upon remarriage of the surviving spouse before age 60, the death benefits will cease.

If a participant becomes totally disabled, he/she will be eligible for a monthly disability benefit that shall be equal to the greater of, 40% of the participant's average annual earnings or the accrued benefit determined as their date of disability.

### **OASIS**

Eligible surviving spouses are entitled to three-fourths of the primary insurance benefit of the insured individual.

#### *Refunds of Member Contributions*

Upon termination, if a member of PERS or HPRS is not vested (is not 65 or does not have three years of service for the Main System and National Guard/Law Enforcement, or five years of service for the Supreme and District Court Judges, credited for the PERS, or is not 60 or does not have ten years of service credited for the HPRS), they will receive the accumulated member contributions plus interest. If a member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

#### *Contributions*

Contribution rates for PERS and HPRS are set by statute, actuarially determined based on the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost, (2) an amount for amortization of the unfunded accrued liability over an open period of 20 years, and (3) the

amount necessary to provide for operating expenses. Contribution rates for the Defined Contribution Plan are set by state statute and are a percentage of salaries and wages. Contribution rates for the Job Service Retirement Plan are established in the plan document, as amended, actuarially determined using the frozen initial liability actuarial cost method. Contributions to OASIS are set by statute. Contributions are required only to the extent the trust fund does not have sufficient funds to meet current benefit payments. A tax will be assessed on participating state and local government employers when the trust fund does not have sufficient funds to meet current benefit obligations. No contributions have been collected since 1989.

**PERS**

Member contributions are established at 4 percent of regular compensation with the exception of Supreme and District Court judge contributions which are established at 5 percent of total compensation. During the 1983-1985 biennium the State and some of the participating political subdivisions implemented the employer pickup provision of the IRS code whereby a portion of all of the required member contributions are made by the employer. The State is paying the full member contribution with the exception of the Supreme and District Court Judges for which the State is paying 4 of the 5 percent contribution. Some of the political subdivisions are paying all or part of the member contributions.

Employer contributions of 4.12 percent of covered compensation are set by statute. The employer contribution rate for the Supreme and District Court Judges is also set by statute at 14.52 percent and the contribution rate for the National Guard/Law Enforcement are set by the Board as follows:

- National Guard is 8.33 percent
- Law Enforcement with previous service is 8.31 percent
- Law Enforcement without previous service is 6.43 percent

The entry age normal cost method determines the amount of contributions necessary to fund: (a) the current service cost, which represents the estimated amount necessary to pay for the benefits earned by members during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan. Except for Supreme and District Court Judges, the member's account balance includes the vested employer contributions equal to the member's

contributions to an eligible deferred compensation plan.

The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service  
Greater of one percent of monthly salary or \$25
- 13 to 24 months of service  
Greater of two percent of monthly salary or \$25
- 25 to 36 months of service  
Greater of three percent of monthly salary or \$25
- Longer than 36 months of service  
Greater of four percent of monthly salary or \$25

An open period of 20 years to fund accrued liabilities for the Public Employees Retirement System and the Supreme and District Court Judges has been adopted for the July 1, 1996 valuation and adopted for the National Guard/Security Officers and Firefighters for the July 1, 1998 valuation. Currently, employer contributions are sufficient to meet these funding schedules.

**HPRS**

Employees' contributions are established at 10.3 percent of total compensation of which the state is paying 4 percent. Employer contributions of 16.7 percent of covered compensation are set by statute. The entry age normal cost method determines the amount of contributions necessary to fund; (a) the current service cost, which represents the estimated amount necessary to pay for benefits earned by employees during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.

An open period of 20 years to fund accrued liabilities for the Highway Patrolmen's Retirement System has been adopted for the July 1, 1996 valuation. Currently, employer contributions are sufficient to meet this funding schedule.

The following schedule represents the annual pension costs and net pension obligations:

Annual required contributions	\$ 940,629
Interest on net pension obligations	(71,944)
Adjustment to annual required contributions	<u>62,763</u>
Annual pension costs	931,448
Contributions made	<u>844,241</u>
Increase in net pension obligations	87,207
Net pension obligations, beginning of year	<u>(899,304)</u>
(Assets in excess of) net pension obligations, end of year	\$ <u>(812,097)</u>



**Defined Contribution Plan**

Member contributions are established at 4 percent and employer contributions are established at 4.12 percent of regular compensation.

**Retirement Plan for Employees of Job Service North Dakota**

Employees' contributions are established at 7.0 percent of total compensation of which the state is paying 4 percent. The funding policy of the plan provides for employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. Effective July 1, 1999, the "scheduled contribution" will be zero as long as the plan's actuarial value of assets exceeds the actuarial present value of projected benefits.

The following schedule represents the annual pension costs and net pension obligation for the year ended June 30:

Annual required contributions	\$ -
Interest on net pension obligation	(133,787)
Adjustment to annual required contributions	<u>137,546</u>
Annual pension costs	3,759
Contributions made	<u>-</u>
Increase in net pension obligation	3,759
Net pension obligations, beginning of year	<u>(1,672,335)</u>
(Assets in excess of) net pension obligations, end of year	<u>\$ (1,668,576)</u>

**NOTE 9  
RETIREE HEALTH INSURANCE  
CREDIT FUND**

The Retiree Health Insurance Credit Fund, a cost-sharing multiple-employer plan, is administered by the System to provide members receiving retirement benefits from the PERS, the HPRS, the Retirement Plan for Employees of Job Service North Dakota, and judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Employee membership data is as follows:

	<u>2004</u>	<u>2003</u>
Retired Participants	3,607	3,519
Active Participants	<u>18,017</u>	<u>17,545</u>
	<u>21,624</u>	<u>21,064</u>

The Projected Unit Credit is the actuarial cost method used for the Retiree Health Insurance Credit Fund. Significant actuarial assumptions used are as follows:

*Mortality Rates:* 1983 Group Annuity Mortality Table for Healthy Lives and the Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Participants Receiving Social Security Benefits for Disabled Lives

*Withdrawal Rates:* Rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of an investigation of actual plan experience.

*Investment Return:* 8.00% per annum, net of investment expenses.

*Inflation:* 4.50% per annum.

*Expenses:* Administrative expenses of \$65,000 a year.

*Actuarial Value of Assets:*

Adjusted market value that immediately recognizes interest and dividends. The procedures recognizes 20% of each year's total appreciation (depreciation) beginning with the year of occurrence.

The Retiree Health Insurance Credit Fund has 18,017 active participants at June 30, 2004. The employers' actuarially required contributions was \$5,139,793 and the actual employer contributions for the period ended June 30, 2004 were \$4,854,949. The amount of net assets held in trust for post employment healthcare benefits at June 30, 2004 is \$30,163,400. The actuarial accrued liability and actuarial unfunded accrued liability at June 30, 2004 is \$74,589,006 and \$45,639,287, respectively. The benefit security ratio for the last five years is 36.5% for 2000, 37.8% for 2001, 38.3% for 2002, 38.2% for 2003 and 38.8% for 2004. The progress of this ratio reveals overall improvement in the Plan's funded condition.

The following are the changes in actuarial assumptions, asset method and plan experience and the effect on the employer's contribution rates expressed as a percent of covered payroll, and the dollar effect on the actuarial accrued liability.

	<u>Percent</u>	<u>Dollar</u>
Net effect of change in actuarial assumption	-	\$ -
Benefit improvement	-	-
Changes in plan experience during the year	<u>(0.01)</u>	<u>(51,852)</u>
	<u>(0.01)</u>	<u>\$(51,852)</u>



The employer contribution for the PERS and HPRS and the Defined Contribution Plan are set by statute on an actuarially determined basis at 1 percent of covered compensation. The employer contribution for non-teaching employees of the Office of the Superintendent of Public Instruction is 3.1 percent of covered compensation beginning in the month following the transfer under Chapter 54-92-02.13 of the North Dakota Century Code and continuing thereafter for a period of eight years. Job Service North Dakota reimburses the Retiree Health Insurance Credit Fund monthly for credit received by members of the Retirement Plan for Employees of Job Service North Dakota. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1 percent of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Assets for the pension trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Retirement Plan for Employees of Job Service of North Dakota, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan. The benefits are equal to \$4.50 for each of the employees, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

**NOTE 10  
DEFERRED COMPENSATION PLAN  
FOR PUBLIC EMPLOYEES**

The System was given the authority by Chapter 54-52.2 to administer an employee deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan allows employees of the State of North Dakota or any of its political subdivisions, institutions, departments, or agencies to participate, providing that the employee has signed a participant agreement which permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive use of the employee or their beneficiary.

The related assets are reported at fair value as investments as follows:

	<u>2004</u>	
Plan Participation By:		
State of North Dakota	\$ 11,683,975	82%
Other Jurisdictions	<u>2,604,848</u>	<u>18%</u>
Total Value	<u>\$ 14,288,823</u>	<u>100%</u>
	<u>2003</u>	
Plan Participation By:		
State of North Dakota	\$ 8,903,391	82%
Other Jurisdictions	<u>1,989,036</u>	<u>18%</u>
Total Value	<u>\$ 10,892,427</u>	<u>100%</u>

**NOTE 11  
FEDERAL INCOME TAX STATUS**

The System is exempt from the payment of any federal income taxes by virtue of being an agency of the state of North Dakota.

**NOTE 12****UNIFORM GROUP INSURANCE SURPLUS**

The Uniform Group Insurance Program, a proprietary fund, contracts with Blue Cross Blue Shield of North Dakota (BCBS) to provide health care insurance to the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium. In accordance with the term of the contract for the 2001-2003 biennium, the System is to deposit a total of \$3 million with BCBS. These surplus funds are to be used to pay any claims in excess of the premiums collected. At the end of the contract period, the System receives the remaining surplus funds plus interest. This amount will be determined as of June 30, 2005. The System has entered into a similar contract with BCBS for the 2003-2005 biennium. The accumulated surplus and other invested funds in the amount of \$3,267,756 are shown as cash on the System's balance sheet. These funds are being held by BCBS.

Similarly, the Uniform Group Insurance Program contracts with ReliaStar Life Insurance Company to provide life insurance to the employees of the State of North Dakota or any of its political subdivisions, institutions, department or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium, with any surplus shared according to a formula outlined in the contract.

**NOTE 13****RISK MANAGEMENT**

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The System also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 120-month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of \$4,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The System participates in the North Dakota Workforce Safety, an Enterprise Fund of the State of North Dakota. Workforce Safety is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 14****RELATED PARTIES**

As stated in Note 1 of these financial statements, the System is a state agency of the state of North Dakota, as such, the other state agencies of the state and political subdivisions are related parties.



**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**Required Supplementary Information  
Schedule of Employer Contributions For the six years ended June 30, 2004**

**Public Employees Retirement System**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1999	\$ 9,698,810	100%
2000	13,457,783	100
2001	9,642,770	100
2002	16,811,296	100
2003	20,644,235	93
2004	26,704,376	74

**Highway Patrolmen's Retirement System**

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
1999	\$ 521,216	100%	\$ -
2000	532,786	139	(208,303)
2001	420,601	187	(577,953)
2002	591,235	138	(806,653)
2003	748,658	111	(899,304)
2004	940,629	90	(812,097)

*See Notes to Required Supplementary Schedules*

**Required Supplementary Information**  
**Schedule of Funding Progress For the six years ended June 30, 2004**

**Public Employees Retirement System** (Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL) (Funded Excess)	Ratio of Assets to AAL	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
1999	\$ 842.7	\$ 917.0	\$ (74.3)	108.8%	\$ 397.7	(18.7)%
2000	891.9	1,027.0	(135.1)	115.1	409.0	(33.0)
2001	1,008.7	1,115.3	(106.6)	110.6	433.3	(24.6)
2002	1,103.5	1,150.0	(46.5)	104.2	461.3	(10.1)
2003	1,188.8	1,166.5	22.3	98.1	479.5	4.7
2004	1,272.9	1,196.5	76.4	94.0	501.0	15.3

**Highway Patrolmen's Retirement System** (Expressed in Millions)

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL) (Funded Excess)	Ratio of Assets to AAL	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
1999	\$ 32.2	\$ 32.0	\$ .2	99.4%	\$ 4.5	4.4%
2000	34.0	35.9	(1.9)	105.6	4.7	(40.4)
2001	38.1	38.8	(0.7)	101.8	4.9	(14.3)
2002	40.5	39.5	1.0	97.4	5.1	19.6
2003	42.4	39.6	2.8	93.4	5.4	51.9
2004	44.5	40.0	4.5	89.9	5.4	83.3

**Retirement Plan for Employees of Job Service North Dakota** (Expressed in Millions)

Actuarial Valuation Date July 1	Actuarial Accrued Liabilities (AAL) FIL Method*	Actuarial Value of Assets	Unfunded AAL (UAAL) (FIL Method)	Funded Ratio	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
1999	N/A	\$ 66.6	-	N/A	\$4.0	0.0%
2000	N/A	71.0	-	N/A	3.7	0.0
2001	N/A	70.8	-	N/A	3.5	0.0
2002	N/A	67.6	-	N/A	3.2	0.0
2003	N/A	66.0	-	N/A	2.9	0.0
2004	N/A	67.5	-	N/A	2.5	0.0

\* The Frozen Initial Liability (FIL) method does not directly identify an Actuarial Accrued Liability (AAL).  
 See Notes To Required Supplementary Schedules



**NOTE 1****DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS**

Each time a new benefit is added which applies to service already rendered, an “unfunded accrued liability” is created. Laws governing PERS require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities. In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded accrued liabilities increasing in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities divided by active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to covered payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

**NOTE 2****ACTUARIAL ASSUMPTIONS AND METHODS***Funding Method***PERS and HPRS**

An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial liabilities. Unfunded actuarial accrued liabilities for pension benefits are amortized over an open period of 20 years for the Public Employees Retirement System, the Supreme and District Court Judges, and the Highway Patrolmen’s Retirement System which was adopted for the July 1, 1996 valuation. For the July 1, 1998 valuation the National Guard Security Officers and Firefighters changed the amortization period for the unfunded actuarial accrued liabilities for pension benefits from a closed period to an open period of 20 years. For both plans, this will produce payments which are level percents of payroll contributions based on an open amortization period.

**Retirement Plan for Employees of Job Service North Dakota**

A frozen initial liability actuarial cost method of valuation is used in determining benefit liabilities and normal cost. The normal contribution under this method is the normal cost plus the payment required to amortize the unfunded actuarial liability over a selected period of years. The normal cost is determined by calculating the total value

of all future benefits, subtracting the unfunded actuarial liability, and dividing that amount into payments that are a level percent of pay over the future working lifetime of all participants.

To calculate pension plan contribution requirements, assumptions are made about all of the future events that could affect the amount and timing of benefits to be paid and assets to be accumulated. Under the Frozen Initial Liability Actuarial Cost method used, the normal cost will remain level as a percentage of covered payroll if the assumptions closely approximate experience. Each year actual experience is measured against the assumptions, and to the extent that there were differences in that year, the contribution requirement is adjusted. If the assumptions are changed, contribution requirements are adjusted to take into account a change in experience in all future years.

Under the Frozen Initial Liability Actuarial Cost Method, the net gain or loss is translated into a decrease or increase in the normal cost percentage, since the unfunded actuarial accrued liability has been frozen. The unfunded employer frozen initial liability was frozen at October 1, 1983. Effective July 1, 1999, the “scheduled contribution” will be zero as long as the plan’s actuarial value of assets exceeds the actuarial present value of projected benefits.

*Asset Valuation Method***PERS and HPRS**

For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period. Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2004, the date of the latest actuarial study include:

- **Investment Return** – A rate of return on the investment of present and future assets of 8 percent, net of investment expenses.
- **Inflation** – The assumed inflation rate is 4.50% per annum.
- **Salary Scale** – Projected salary increases based upon inflation of 4.5 percent together with wage increases attributable to seniority, merit and “standard of living” increases.
- **Mortality Rates** – Pre and post mortality life expectancies of participants based upon 1983 Group Annuity Mortality Tables and the Pension Benefit Guaranty Corporation’s Disabled Life Mortality Tables.

**NOTES TO  
REQUIRED  
SUPPLEMENTARY  
SCHEDULES**

June 30, 2004

- **Withdrawal** – Rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of an investigation of actual plan experience.

- **Expenses** – Administrative expense of \$720,000 a year for the Public Employees Retirement System and \$16,000 a year for Highway Patrolmen’s Retirement System.

- **Post Retirement Benefit Increase** – There are no post retirement benefit increase assumptions.

**Retirement Plan for Employees of Job Service North Dakota**

To determine what portion of the cost of future benefits has already been funded, a value has to be placed on current assets. The asset valuation method might be considered the funding method used for benefits already paid for. For the actuarial valuation, assets are determined using a 20% write-up method. Effective July 1, 2001, the actuarial value of assets was reinitialized to the market value of assets.

Significant actuarial assumptions employed by the actuary for funding purposes as of July 1, 2004, the date of the latest actuarial study:

**Mortality Tables:**

Healthy:  
1994 Group Annuity Mortality Table

Disabled:  
1983 Railroad Retirement Board Disabled Life Mortality Table

**Disability Incidence:** Sample rates shown below

WITHDRAWAL RATES

	Mortality		Disability	Withdrawal
	Male	Female	Incidence	
20	0.05	0.03	0.06	5.44
25	0.07	0.03	0.09	5.29
30	0.08	0.04	0.11	5.07
35	0.09	0.05	0.15	4.70
40	0.11	0.07	0.22	4.19
45	0.16	0.10	0.36	3.54
50	0.26	0.14	0.61	2.48
55	0.44	0.23	1.01	0.94
60	0.80	0.44	1.63	0.09



**Retirement age:**

75% of active participants are assumed to retire when eligible for optional retirement, and the remaining participants retire at normal retirement.

100% of inactive vested participants are assumed to retire at optional retirement age

**Salary scale:** 5% per year

**Post-retirement Cost of Living Adjustment (COLA):** 5% per year

**Percent married:**

85% of all active and inactive vested participants

**Age of spouse:** Females are assumed to be four years younger than males

**Rate of return:**

8.0% per year compounded annually, net of investment fees and administrative expenses

**Future benefit accruals:**

One year of credited service per year per active employee included in the valuation

**Actuarial value of Assets:**

Assets are valued as the sum of the actuarial value of assets at the beginning of the year plus net new money (the sum of contributions, dividends and interest, less the sum of administrative expenses, investment fees and benefit payments), plus 20% of the difference between the market value and that sum. The actuarial value of assets will not be less than 80% or more than 120% of market value. Effective July 1, 2001, the actuarial value of assets was reinitialized to the market value of assets.

**Actuarial cost method:**

Frozen Initial Liability Actuarial Cost Method, with entry age defined as employee’s age at hire.

**SUPPLEMENTARY  
INFORMATION****Statement of Appropriations  
For the Year Ended June 30, 2004**

	Approved 2003-2005 Appropriation	2003-2005 Appropriation Adjustments	Adjusted 2003-2005 Appropriation	Expenditures 2004	Unexpended Appropriations
<b>All Fund Types:</b>					
Salaries and wages	\$ 2,653,654	\$ -	\$ 2,653,654	\$ 1,237,922	\$ 1,415,732
Operating Expenses	1,487,504	-	1,487,504	656,548	830,956
Contingency	250,000	-	250,000	-	250,000
	<u>\$ 4,391,158</u>	<u>\$ -</u>	<u>\$ 4,391,158</u>	<u>\$ 1,894,470</u>	<u>\$ 2,496,688</u>

**Reconciliation of Administrative Expenses to Appropriated Expenditures**

Administrative expenses as reflected in the financial statements	<u>2004</u>	<u>2003</u>
Pension Trust Funds	\$ 1,505,580	\$ 1,459,927
Enterprise Funds	<u>713,369</u>	<u>708,001</u>
Total Administrative Expenses	2,218,949	2,167,928
Plus:		
Lease Payments (Net of Interest)	18,192	17,247
Contributions Short and Long	-	257
Less:		
Professional Fees	(306,866)	(311,883)
Depreciation Expense	(12,276)	(11,996)
Allocated Depreciation Charged as Equipment Rent to Other Programs	(6,875)	(7,290)
Expenditures Appropriated Through Job Service	(1,343)	-
Changes in Annual Leave	(14,849)	(7,747)
Flex Comp FICA Payments	(313)	(28)
Debits to BND Accounts for Supplies	(102)	-
Contribution/Premium Over and Short	<u>(47)</u>	<u>-</u>
Total Appropriated Expenditures	<u>\$ 1,894,470</u>	<u>\$ 1,846,488</u>



**SCHEDULE OF ADMINISTRATIVE EXPENSES**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2004**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pre-Tax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan	Oasis Program
<b>Personnel Services:</b>								
Salaries	\$382,054	\$3,108	\$34,434	\$2,721	67,759	88,688	2,627	0
Social security	29,128	237	2,624	207	5,172	6,768	201	0
Retirement	33,551	273	3,053	241	6,069	7,721	233	0
Insurance	68,748	560	5,866	464	12,382	14,543	447	0
<b>Total Personnel Services</b>	<b>513,481</b>	<b>4,178</b>	<b>45,977</b>	<b>3,633</b>	<b>91,382</b>	<b>117,720</b>	<b>3,508</b>	<b>0</b>
<b>Professional Services:</b>								
Actuarial	71,742	9,050	9,000	0	0	0	15,000	0
Audit	14,461	118	1,311	104	2,982	3,733	100	0
Data processing	210,433	1,712	10,495	829	3,235	15,043	801	0
Consulting	11,942	89	0	29,563	11,000	41,154	0	0
Legal counsel	6,824	57	836	137	962	3,557	140	0
Misc outside services	4,632	36	304	25	213	331	3,606	0
<b>Total Professional Services</b>	<b>320,034</b>	<b>11,062</b>	<b>21,946</b>	<b>30,658</b>	<b>18,392</b>	<b>63,818</b>	<b>19,647</b>	<b>0</b>
<b>Communication:</b>								
Postage & mailing svc	42,838	348	3,463	273	9,536	4,561	264	0
Printing	14,119	115	1,398	110	6,229	2,609	107	0
Telephone	6,699	55	643	51	1,013	1,807	49	0
<b>Total Communication</b>	<b>63,656</b>	<b>518</b>	<b>5,504</b>	<b>434</b>	<b>16,778</b>	<b>8,977</b>	<b>420</b>	<b>0</b>
<b>Rentals:</b>								
Equipment rent	10,064	182	1,737	137	3,255	2,894	133	0
Office rent	34,447	280	2,930	232	7,061	6,629	224	0
<b>Total Rentals</b>	<b>44,511</b>	<b>462</b>	<b>4,667</b>	<b>369</b>	<b>10,316</b>	<b>9,523</b>	<b>357</b>	<b>0</b>
<b>Miscellaneous:</b>								
Depreciation	12,276	0	0	0	0	0	0	0
Dues and prof development	7,505	61	465	36	478	1,224	36	0
Insurance	1,421	12	125	10	293	260	10	0
Miscellaneous	10,587	86	843	66	2,093	2,978	63	\$1,343
Repairs and maintenance	526	5	50	4	107	97	4	0
Supplies	8,433	68	844	67	3,181	1,286	64	0
Travel	13,449	110	848	67	49	2,057	65	0
<b>Total Miscellaneous</b>	<b>54,197</b>	<b>342</b>	<b>3,175</b>	<b>250</b>	<b>6,201</b>	<b>7,902</b>	<b>242</b>	<b>\$1,343</b>
<b>Total Administrative Expenses</b>	<b>\$995,879</b>	<b>\$16,562</b>	<b>\$81,269</b>	<b>\$35,344</b>	<b>\$143,069</b>	<b>\$207,940</b>	<b>\$24,174</b>	<b>\$1,343</b>

**SCHEDULE OF ADMINISTRATIVE EXPENSES**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2003**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pre-Tax Benefits Program	Deferred Compensation Program
<b>Personnel Services:</b>						
Salaries	\$360,358	\$2,983	\$32,656	\$2,759	66,481	80,605
Social security	27,366	227	2,490	210	5,090	6,165
Retirement	28,444	235	2,763	233	5,852	7,270
Insurance	52,675	436	4,703	397	10,554	11,836
<b>Total Personnel Services</b>	468,843	3,881	42,612	3,599	87,977	105,876
<b>Professional Services:</b>						
Actuarial	171,693	9,050	9,000	0	0	0
Audit	12,696	105	1,112	94	2,619	2,328
Data processing	221,899	1,837	10,854	917	2,031	4,620
Consulting	10,493	83	0	0	16,561	2,576
Legal counsel	8,400	70	1,020	86	1,141	1,546
Misc outside services	3,168	26	218	18	140	708
<b>Total Professional Services</b>	428,349	11,171	22,203	1,115	22,491	11,776
<b>Communication:</b>						
Postage & mailing svc	59,046	489	4,969	420	7,552	6,624
Printing	14,503	120	1,385	117	3,205	5,853
Telephone	7,387	61	696	59	1,217	1,962
<b>Total Communication</b>	80,936	670	7,050	596	11,974	14,439
<b>Rentals:</b>						
Equipment rent	9,254	171	1,493	126	2,728	2,454
Office rent	33,065	274	2,902	245	6,819	6,228
<b>Total Rentals</b>	42,319	445	4,395	371	9,547	8,682
<b>Miscellaneous:</b>						
Depreciation	11,996	0	0	0	0	0
Dues and prof development	6,835	57	369	31	322	161
Insurance	933	8	82	7	193	171
Miscellaneous	11,228	94	869	73	2,152	2,706
Repairs and maintenance	1,046	9	78	7	208	238
Supplies	8,546	71	892	75	4,014	1,575
Travel	7,772	64	687	58	91	4,893
<b>Total Miscellaneous</b>	48,356	302	2,977	251	6,980	9,744
<b>Total Administrative Expenses</b>	<u>\$1,068,803</u>	<u>\$16,469</u>	<u>\$79,237</u>	<u>\$5,932</u>	<u>\$138,969</u>	<u>\$150,517</u>

**SCHEDULE OF INVESTMENT EXPENSES**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2004**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pre-Tax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan	Oasis Program
<b>Payments to State Investment Board:</b>								
Investment Fees	\$3,785,764	\$128,083	\$53,887	\$0	\$0	\$0	\$161,600	\$0
Administrative Expenses	125,792	4,264	0	0	0	0	0	0
	3,911,556	132,347	53,887	0	0	0	161,600	0
Securities Lending Fees	692,329	23,382	0	0	0	0	69,944	0
<b>Payments to Providers:</b>								
Investment Fees	0	0	0	8,604	0	97,215	0	0
<b>Total Investment Expenses</b>	<b>\$4,603,885</b>	<b>\$155,729</b>	<b>\$53,887</b>	<b>\$8,604</b>	<b>\$0</b>	<b>\$97,215</b>	<b>\$231,544</b>	<b>\$0</b>

**SCHEDULE OF INVESTMENT EXPENSES**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2003**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pre-Tax Benefits Program	Deferred Compensation Program
<b>Payments to State Investment Board:</b>						
Investment Fees	\$3,328,487	\$114,208	\$46,489	\$0	\$0	\$0
Administrative Expenses	127,952	4,394	0	0	0	0
	3,456,439	118,602	46,489	0	0	0
Securities Lending Fees	985,655	33,800	0	0	0	0
<b>Payments to Providers:</b>						
Investment Fees	0	0	0	8,366	0	68,552
<b>Total Investment Expenses</b>	<b>\$4,442,094</b>	<b>\$152,402</b>	<b>\$46,489</b>	<b>\$8,366</b>	<b>\$0</b>	<b>\$68,552</b>

**SCHEDULE OF CONSULTANT EXPENSES**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2004**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan	OASIS Program
Actuary Fees:								
Gabriel, Roeder & Smith	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
The Segal Company	71,742	9,050	9,000	0	0	0	15,000	0
Audit Fees:								
Brady, Martz & Assoc.	0	0	0	0	0	1,130	0	0
Eide Bailly LLP	14,461	118	1,311	104	2,982	2,603	100	0
Disability Consulting Fees:								
Mid Dakota Clinic	5,826	89	0	0	0	0	0	0
Miscellaneous Consulting Fees:								
Apple Creek Consulting	0	0	0	0	0	0	0	0
Calhoun Law Group	1,000	0	0	0	0	625	0	0
Deloitte & Touche	5,116	0	0	29,563	0	34,679	0	0
LR Wechsler LTD	0	0	0	0	0	0	0	0
The Segal Company	0	0	0	0	11,000	5,850	0	0
Legal Fees:								
ND Attorney General	6,824	57	836	137	962	3,557	140	0
Totals	\$ 104,969	\$ 9,314	\$ 11,147	\$ 29,804	\$ 14,944	\$ 48,444	\$ 15,240	\$ 0

**SCHEDULE OF CONSULTANT EXPENSES**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2003**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program
Actuary Fees:						
Gabriel, Roeder & Smith	\$ 43,472	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
The Segal Company	128,221	9,050	9,000	0	0	0
Audit Fees:						
Brady, Martz & Assoc.	8,614	70	745	63	1,772	1,576
Eide Bailly LLP	4,082	35	367	31	846	752
Disability Consulting Fees:						
Mid Dakota Clinic	4,271	34	0	0	0	0
Miscellaneous Consulting Fees:						
Apple Creek Consulting	555	4	0	0	114	102
Calhoun Law Group	325	0	0	0	0	0
Deloitte & Touche	0	0	0	0	0	0
LR Wechsler LTD	5,342	45	0	0	1,102	979
The Segal Company	0	0	0	0	15,345	1,495
Legal Fees:						
ND Attorney General	8,400	70	1,020	86	1,141	1,545
Totals	\$ 203,282	\$ 9,308	\$ 11,132	\$ 180	\$ 20,320	\$ 6,449





## INVESTMENT SECTION

**INVESTMENT  
REPORT  
FROM THE  
NORTH DAKOTA  
RETIREMENT  
AND  
INVESTMENT  
OFFICE**



**North Dakota Retirement and Investment Office**

*Teachers' Fund for Retirement  
State Investment Board*

Steve Cochrane, CFA  
Executive Director

Fay Kopp  
Deputy Executive Director

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Bismarck, ND 58507-7100  
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Toll free: 800-952-2970  
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November 1, 2004

Board of Trustees  
Members of the System

It is a pleasure to provide the following summary of the North Dakota Public Employees Retirement System investment portfolio and market environment for the fiscal year ended June 30, 2004.

**Introduction**

For the fiscal year ended June 30, 2004, the North Dakota Public Employees Retirement System (PERS) investment portfolio experienced a total return of 16.66%. The Job Service Pension Plan experienced a total return of 12.57% for the same time period. The investment return calculations were prepared using a monthly time-weighted rate of return methodology in accordance with AIMR's Performance Presentation Standards.

**Economic Overview**

The Federal Reserve maintained the federal funds target rate at 1.00% until the June 30, 2004 meeting when it raised rates 25 basis points. This marked the first rate increase since May of 2000. GDP grew at a pace above 4% throughout the fiscal year until the second quarter of 2004 when it slowed to 3%. Continuous GDP growth since the fourth quarter of 2001 has been fueled by low rates and tax cuts along with strong retail sales and lean inventories. The economy continued to add jobs during the fiscal year, but not at the pace that many economists predicted given the strength of GDP growth. Consumers continued to load up on cheap debt throughout the fiscal year, driving the savings rate to record lows. Overall, the U.S. dollar weakened against other major currencies during the fiscal year.

**Domestic Equity Overview**

The domestic equity markets ended the fiscal year with strong results. The S&P 1500 Index, a broad market indicator, finished the year with four positive quarters and a fiscal year return of 20.38%. This is a dramatic improvement from fiscal year 2003 when the index only gained 0.04%. For the fiscal year ending June 30, 2004, small cap stocks outpaced large cap stocks and value investors tended to outperform their growth counterparts, in a reversal from fiscal year 2003.

**International Equity Overview**

International equity, as represented by the MSCI EAFE Index, produced strong results in fiscal year 2004 as the index gained 32.37%, which was superior to the 22.73% local return for EAFE due to the weakening of the US dollar during this period. Japan and the Pacific Basin posted particularly strong returns for the fiscal year; Japan and the Pacific Basin's MSCI Indexes gained 46.22% and 41.12%, respectively, a vast improvement over fiscal year 2003 when each fell by more than 9%. Europe's MSCI Index rose 28.87% for the fiscal year despite a roller coaster of optimism and pessimism about economic activity and recovery throughout the period. The Emerging Markets Free Index had another positive fiscal year as it gained 33.51%, performing in-line with EAFE.



**Domestic Fixed-Income Overview**

The bond market, as measured by the Lehman Aggregate Bond Index, generated just 0.32% return for the fiscal year ending June 30, 2004. The 10-year Treasury ended the fiscal year with a yield of 4.58%, approximately 1% higher than the 3.51% yield on June 30, 2003. Longer-term bond investors were hurt by the rise in interest rates as shown by the 2.69% loss of the Lehman Government/Credit Long Index over the fiscal year ended June 30, 2004. Corporate bond investors were virtually unmoved as the Lehman Credit Index rose 0.08% over the fiscal year.

Buoyed by the equity markets and a stronger economy, high yield investors had a solid fiscal year as measured by the Lehman High Yield Index, which gained 10.32% during the period. High yield issuers were able to meet the strong demand for below-investment grade debt in the fiscal year. Fundamentals continue to support the high yield market with the Moody's 12-month default rate below 5%.

**International Fixed-Income Overview**

The international bond market produced positive returns in fiscal year 2004 as the Citi Non-US World Government Bond Index climbed 7.60%. Non-US dollar bonds benefited from the US dollar's decline during the period. The second quarter of 2004 proved to be a turning point for international fixed-income as the dollar strengthened and there was global rotation out of emerging markets, where the JP Morgan Emerging Markets Bond Index showed its first loss (-5.89%) in the past seven quarters. The JP Morgan EMBI Index, however, ended the fiscal year with a gain of 4.78%.

**Real Estate Overview**

The real estate markets saw capital inflows during the 2004 fiscal year despite continued weak fundamentals, including low lease rates and high vacancy rates. The NCREIF Total Index was up 10.82% for the year ended June 30, 2004, as it produced consistent returns every quarter. Investors took advantage of low cost debt during the period, driving overall capitalization rates down.

**Private Equity Overview**

Private equity saw the downward trend in fundraising continue in the second half of 2003, but renewed interest in buyouts during the first and second quarter of 2004 brought an inflow of new commitments. Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous. Rather than recognizing any particular index as being representative of opportunity in the year's markets, it is worth noting that the PERS private equity allocation returned 3.23% for the period.

**Summary**

Fiscal year 2004 was a welcome relief following a prolonged period of market strife. Our funds experienced positive returns in every asset class for the year, in some cases achieving outsized returns that resulted in total fund performances that were not only very good on an absolute basis, but also in comparison to similar funds. Diversification across asset classes, as well as within asset classes, has contributed to the risk-controlled profile of the funds and to their ability to generally outperform their benchmarks.

Sincerely,



STEVE COCHRANE, CFA  
Executive Director/CIO



## INVESTMENT POLICIES

By state law, PERS and HPRS assets are invested by the North Dakota State Investment Board (SIB). This change became effective July 1, 1989, with the primary purpose being to achieve cost savings through pooling of assets for investment. The assets of the Job Service Retirement Plan are also invested by the SIB since July 1, 1994.

State law requires that the SIB apply the prudent investor rule when investing funds under its supervision. The "prudent investor rule" means that in making investments, the 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 System must be invested exclusively for the benefit of its members and in accordance with the System's investment goals and objectives.

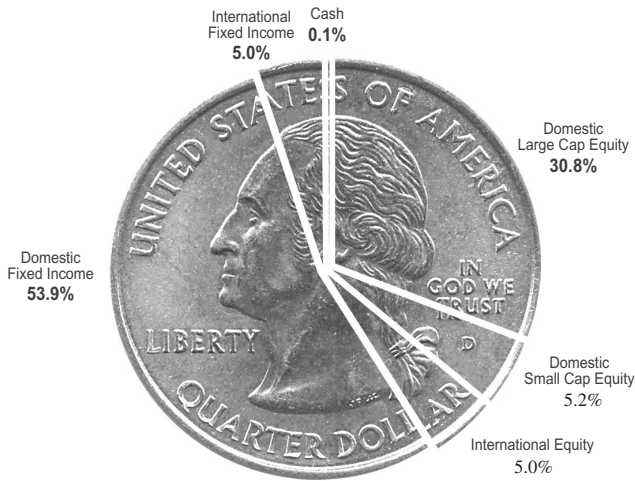
The Retirement Board is responsible for establishing policies on investment goals and objectives and asset allocation, which are to be viewed over the long term. The investment goals for PERS and HPRS are: to accumulate sufficient wealth through a diversified portfolio of investments which must enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund; to obtain investment returns in excess of that needed to allow for future retirement benefit increases

to provide career employees with a retirement income, which when augmented by Social Security, must approximate 90% of final average salary; to obtain investment returns in excess of that needed to allow for the disability retirement benefit increase which will approximate 35-45% of final average salary; and to obtain investment returns in excess of that needed to allow for increases in a retiree's annuity to maintain the purchasing power of their benefit. The investment objectives are: to achieve a minimum total real rate of return of 6.0% in excess of the annual rate of inflation, however, the absolute total rate of return must be no less than 10.5% net of fees; and the portfolio mix must be in accordance with the asset allocation.

The investment goals for the Job Service Retirement Plan are: to maintain a level of surplus sufficient to eliminate the need for future contributions; to achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price Index, by 3.0 percent per year (based on current actuarial assumptions of 8 percent return and 5 percent inflation), over a complete market cycle; and as a secondary objective, to maximize the Plan's surplus.

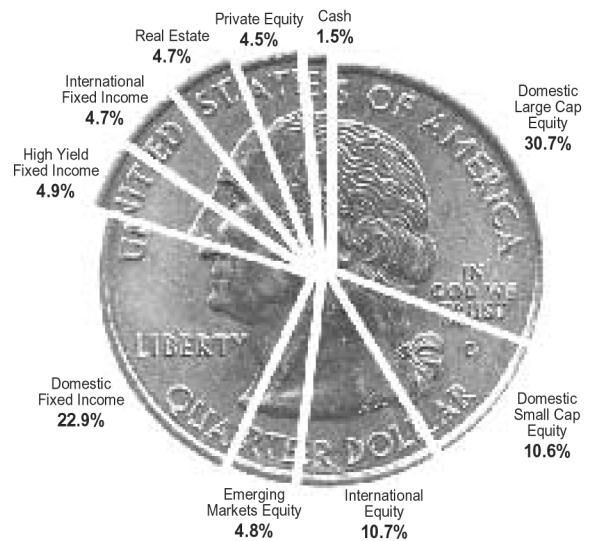
The SIB is responsible for carrying out the Retirement Board's investment goals, objectives and policies; implementing the asset allocation plan submitted by the System, maintaining a separate accounting and preparing periodic investment performance reports for the System funds under their authority. The System's assets may be pooled with other funds, at the discretion of the SIB.

**Job Service Retirement Plan  
Asset Allocation – June 30, 2004**



Asset Class	Market Value	Actual %	Policy %
Domestic Large Cap Equity	\$ 22,528,217	30.8%	31.0%
Domestic Small Cap Equity	3,803,775	5.2%	5.0%
International Equity	3,652,241	5.0%	5.0%
Domestic Fixed Income	39,380,902	53.9%	54.0%
International Fixed Income	3,669,491	5.0%	5.0%
Cash & Equivalents	61,308	0.1%	0.0%
<b>Total</b>	<b>\$ 73,095,934</b>	<b>100.0%</b>	<b>100.0%</b>

**Public Employees and  
Highway Patrolmen's Retirement Systems  
Asset Allocation – June 30, 2004**



Asset Class	Market Value	Actual %	Policy %
Domestic Large Cap Equity	\$ 400,408,535	30.7%	30.0%
Domestic Small Cap Equity	138,549,745	10.6%	10.0%
International Equity	139,362,877	10.7%	10.0%
Emerging Markets Equity	62,004,972	4.8%	5.0%
Domestic Fixed Income	298,616,435	22.9%	24.0%
High Yield Fixed Income	63,414,342	4.9%	5.0%
International Fixed Income	61,303,144	4.7%	5.0%
Real Estate	61,430,839	4.7%	5.0%
Private Equity	58,823,345	4.5%	5.0%
Cash & Equivalents	19,060,885	1.5%	1.0%
<b>Total</b>	<b>\$ 1,302,975,119</b>	<b>100.0%</b>	<b>100.0%</b>

**Retiree Health Insurance Credit Program  
Asset Allocation – June 30, 2004**



Asset Class	Market Value	Actual %	Policy %
Domestic Large Cap Equity	\$ 10,468,781	35.3%	35.0%
Domestic Small Cap Equity	4,491,322	15.2%	15.0%
International Equity	4,451,977	15.0%	15.0%
Domestic Fixed Income	10,219,583	34.5%	35.0%
<b>Total</b>	<b>\$ 29,631,663</b>	<b>100.0%</b>	<b>100.0%</b>

**Public Employees and Highway Patrolmen's Retirement Systems (PERS)  
and Job Service Retirement Plan  
Schedule of Investment Results<sup>(1)</sup>  
For the Five Years Ended June 30, 2004**

	2000	2001	2002	2003	2004	Annualized	
						3 Year	5 Year
Total Fund (PERS)	9.34%	-4.12%	-6.83%	5.46%	16.66%	4.66%	3.78%
Total Fund (Job Service)	6.85%	-3.05%	-7.00%	5.70%	12.57%	3.43%	2.77%
CPI	3.87%	3.19%	0.74%	2.10%	3.17%	2.00%	2.62%
Large Cap Domestic Equities	1.31%	-11.35%	-16.92%	0.74%	20.66%	0.33%	-1.93%
S&P 500	7.24%	-14.83%	-17.99%	0.25%	19.11%	-0.70%	-2.20%
Small Cap Domestic Equities	16.48%	2.40%	-11.03%	1.50%	34.11%	6.59%	7.63%
Russell 2000	14.32%	0.57%	-8.60%	-1.64%	33.37%	6.24%	6.63%
International Equities	26.19%	-18.43%	-10.03%	-7.71%	29.70%	2.50%	2.36%
MSCI 50% Hedged EAFE	19.52%	-17.95%	-14.62%	-11.24%	25.74%	-1.60%	-1.35%
Emerging Markets Equities	26.42%	-28.86%	-5.05%	7.82%	28.63%	9.61%	3.44%
MSCI Emerging Markets Free	9.48%	-25.83%	1.31%	6.96%	33.51%	13.10%	3.27%
Domestic Fixed Income	11.03%	7.10%	2.81%	11.92%	5.45%	6.66%	7.61%
Lehmann Brothers Aggregate	4.57%	11.22%	8.63%	10.40%	0.32%	6.36%	6.95%
High Yield Bonds	-0.86%	-4.22%	-5.84%	20.28%	7.94%	6.93%	3.03%
Lehmann Brothers High Yield Bonds	-1.03%	-0.96%	-3.60%	22.76%	10.32%	9.30%	5.06%
International Fixed Income	-0.23%	-7.22%	17.27%	18.27%	9.22%	14.85%	6.99%
Citi World Government Non-US	2.42%	-7.43%	15.73%	17.90%	7.60%	13.66%	6.84%
Real Estate	10.87%	12.37%	3.33%	7.97%	8.86%	6.69%	8.64%
NCREIF Index	10.35%	11.15%	5.52%	7.64%	10.82%	8.40%	9.33%
Private Equity <sup>(2)</sup>	35.19%	2.63%	-29.02%	-9.65%	3.23%	12.85%	-1.69%
Cash	6.22%	6.12%	2.50%	1.99%	1.49%	1.99%	3.64%
90 Day T-bills	5.53%	5.88%	2.63%	1.53%	0.98%	1.71%	3.29%

CPI = Consumer Price Index

S&P 500 = Standard & Poor's Domestic Equity Stock Index

Russell 2000 = Frank Russell Company 2000 Index

EAFE = Europe, Australia and Far East Stock Index

NCREIF = National Council of Real Estate Investment Fiduciaries Index

<sup>(1)</sup> Calculations were prepared using a monthly time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards. Total Fund returns are net of investment management fees, all other returns are before fees.

<sup>(2)</sup> It has been determined that there is no benchmark that is an accurate reflection of the System's investments in this asset class.

**LARGEST  
HOLDINGS  
JUNE 30, 2004**

**Largest Holdings\* at June 30, 2004**

**Stocks**

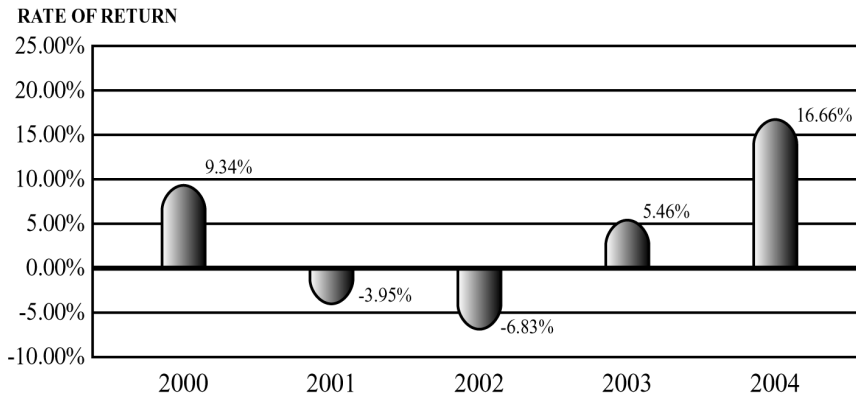
Microsoft Corporation  
Pfizer Inc.  
Exxon Mobile Corporation  
Bank of America Corporation  
Johnson & Johnson  
Intel Corporation  
Citigroup Incorporated  
Cisco Systems Incorporated  
General Electric Company  
VodaFone Group

**Bonds**

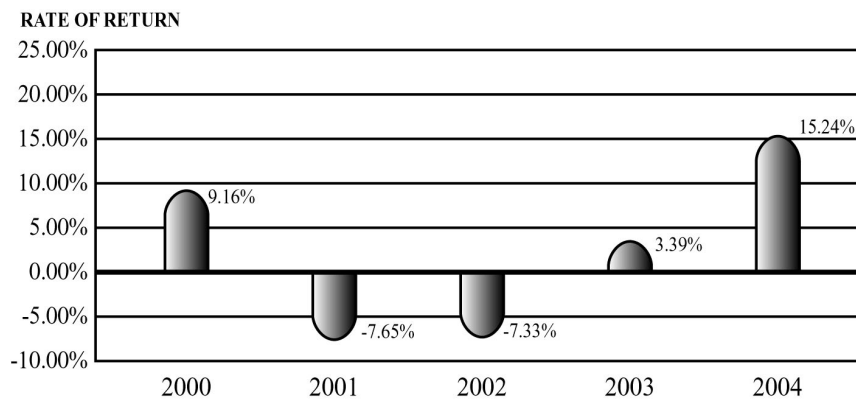
Federal Republic of Germany 5.25% Due 04-07-2010  
U.S. Treasury Notes Dated 02-15-2000 6.50% Due 02-15-2010  
GNMA TBA Pool 6.00% 30 Year July  
Federal Republic of Germany 4.50% Due 04-07-2009  
Kingdom of Sweden 5.00% Due 01-28-2009  
Kingdom of Norway 5.75% Due 11-30-2004  
U.S. Treasury Notes 4.625% Due 05-15-2006  
Government of Poland 5.75% Due 06-24-2008  
Kingdom of Sweden 3.50% Due 04-20-2006  
Treasury 8.50% Due 07-12-2005

*\*The System's assets are held by the State Investment Board in pension investment pools.  
The holdings listed above represent the largest percentage of holdings for the entire pension pool.  
A complete list of all holdings is available upon request.*

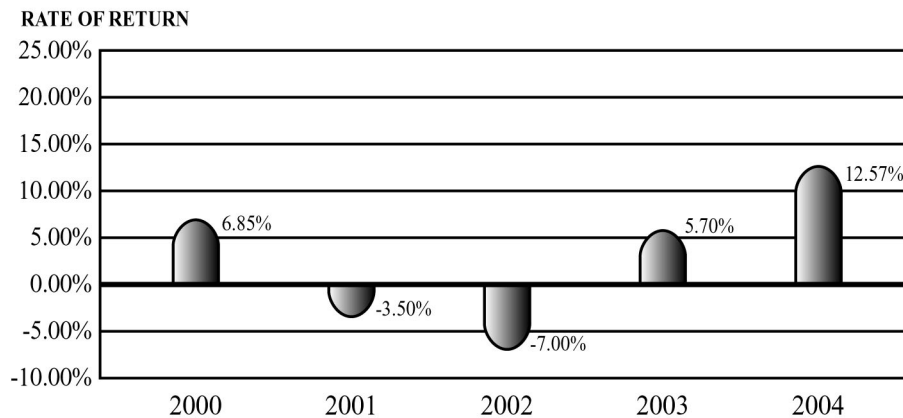
### Public Employees and Highway Patrolmen's Retirement Systems Investment Results



### Retiree Health Insurance Credit Program Investment Results



### Job Service Retirement Plan Investment Results



**INVESTMENT  
FEES**
**Public Employees and Highway Patrolmen's Retirement System  
Schedule of Investment Fees**
**For the Fiscal Year Ended June 30, 2004**

	<u>Assets Under Management</u>	<u>Fees</u>
<b>Investment Managers' Fees:</b>		
Large Cap Domestic Equities	\$400 Million	\$ 979,572
Small Cap Domestic Equities	\$139 Million	1,080,375
International Equities	\$139 Million	683,457
Emerging Markets Equities	\$ 62 Million	437,254
Domestic Fixed Income	\$299 Million	931,464
High Yield Fixed Income	\$ 63 Million	159,489
International Fixed Income	\$ 61 Million	256,806
Real Estate	\$ 61 Million	640,680
Private Equity	\$ 59 Million	2,966,658
Cash	\$ 19 Million	<u>24,991</u>
Total Investment Managers' Fees <sup>(1)</sup>		<u>\$ 8,160,746</u>
<b>Other Investment Service Fees:</b>		
Custodian Fees	\$ 1 Billion	\$ 213,941
Investment Consultant Fees	\$ 1 Billion	91,037
SIB Administrative Fees	\$ 1 Billion	<u>130,056</u>
Total Investment Service Fees		<u>\$ 435,034</u>
<b>Securities Lending Fees</b>	<b>\$ 1 Billion</b>	<b><u>\$ 715,711</u></b>

<sup>(1)</sup>Includes fees of \$4,551,878 which were netted against investment income.

**Job Service Retirement Plan  
Schedule of Investment Fees**
**For the Fiscal Year Ended June 30, 2004**

	<u>Assets Under Management</u>	<u>Fees</u>
<b>Investment Managers' Fees:</b>		
Large Cap Domestic Equities	\$22,528 Thousands	\$ 56,128
Small Cap Domestic Equities	\$3,804 Thousands	29,652
International Equities	\$3,652 Thousands	18,359
Domestic Fixed Income	\$39,381 Thousands	130,603
International Fixed Income	\$3,669 Thousands	15,683
Cash	\$61 Thousands	<u>311</u>
Total Investment Managers' Fees <sup>(1)</sup>		<u>\$ 250,736</u>
<b>Other Investment Service Fees:</b>		
Custodian Fees	\$73 Million	\$ 12,013
Investment Consultant Fees	\$73 Million	5,223
SIB Administrative Fees	\$73 Million	<u>1,144</u>
Total Investment Service Fees		<u>\$ 18,380</u>
<b>Securities Lending Fees</b>	<b>\$73 Million</b>	<b><u>\$ 75,354</u></b>

<sup>(1)</sup>Includes fees of \$90,061 which were netted against investment income.



## Defined Contribution Investments

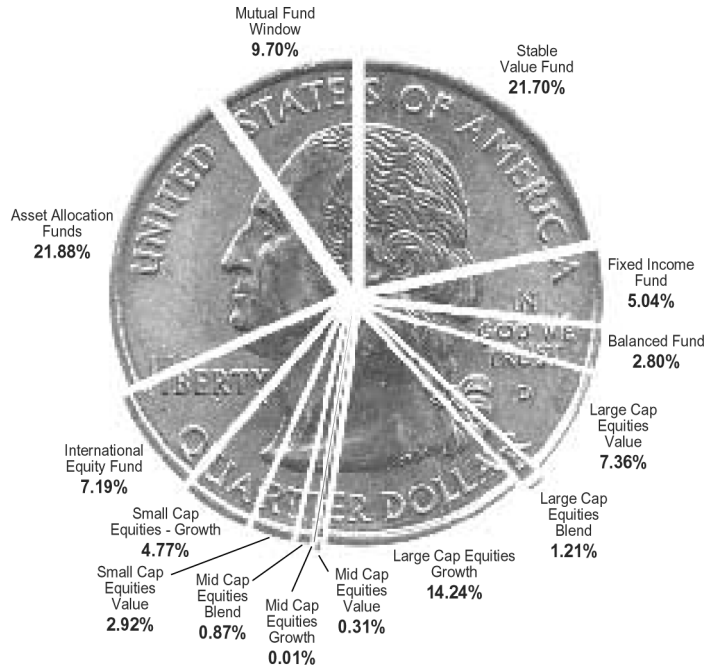
The Defined Contribution Retirement Plan (Plan) is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. Each participating member shall direct the investment of the individual's accumulated employer and employee contributions and earnings to one or more investment choices within available categories of investment provided by the Board. The available investment options cover a broad range of investment risk and rewards appropriate for this kind of retirement savings program. Participants bear the risk and reap the rewards of investment returns that result from the investment options that they select. Fidelity Investments was selected as the recordkeeper for the Plan.

The Board has adopted an investment policy that serves the following purposes:

- Delineates investment options for participants to structure an investment strategy that meets their individual return objectives and risk tolerances
- Defines the investment categories offered by the Plan
- Establishes benchmarks and performance standards for each investment category to evaluate each option's performance
- Establishes a procedure and methodology for reporting and monitoring
- Defines the procedures for investment fund evaluation and formal fund review.

## DEFINED CONTRIBUTION INVESTMENTS

### Defined Contribution Retirement Plan Investment Options – June 30, 2004



<u>Investment Options</u>	<u>Market Value</u>	<u>Percent</u>
Stable Value Fund	\$ 2,469,714	21.70%
Fixed Income Fund	572,765	5.04%
Balanced Fund	318,195	2.80%
Large Cap Equities - Value	836,489	7.36%
Large Cap Equities - Blend	137,702	1.21%
Large Cap Equities - Growth	1,618,619	14.24%
Mid Cap Equities - Value	35,639	0.31%
Mid Cap Equities - Blend	98,615	0.87%
Mid Cap Equities - Growth	612	0.01%
Small Cap Equities - Value	332,489	2.92%
Small Cap Equities - Growth	542,316	4.77%
International Equity Fund	817,562	7.19%
Asset Allocation Funds	2,487,299	21.88%
Mutual Fund Window	1,102,490	9.70%
<b>Total</b>	<b>\$ 11,370,506</b>	<b>100.0%</b>

**Defined Contribution Retirement Plan  
Schedule of Investment Results  
For the Five Years Ended June 30, 2004**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>3-year annualized</u>	<u>5-year annualized</u>
<b>Stable Value Fund:</b>							
Fidelity Managed Income Portfolio	5.80%	6.00%	5.44%	4.85%	4.19%	4.82%	5.25%
GIC 5 Year Index	7.30%	3.88%	3.56%	1.09%	3.15%	3.74%	4.54%
<b>Fixed Income Fund:</b>							
PIMCO Total Return Bond Fund	4.73%	10.22%	10.73%	10.93%	0.78%	7.37%	7.40%
Lehman Aggregate Bond Index	4.56%	11.23%	8.11%	10.40%	0.32%	6.36%	6.95%
<b>Balanced Fund</b>							
Fidelity Puritan	-1.29%	7.44%	-4.71%	3.79%	15.15%	4.43%	3.85%
65% Russell 1000 Index, 35% Lehman Aggregate Bond Index	6.55%	-5.71%	-2.98%	2.98%	13.85%	4.16%	3.65%
<b>Large Cap Equities – Value:</b>							
Fidelity Equity-Income	-7.67%	10.07%	-10.18%	-2.19%	21.64%	2.24%	1.66%
Russell 1000 Value Index	-8.92%	10.33%	-8.95%	-1.02%	21.13%	2.97%	1.87%
<b>Large Cap Equities – Blend:</b>							
Fidelity Spartan 500 Index	7.08%	-14.74%	-18.34%	0.19%	18.91%	-0.93%	-2.34%
Fidelity Dividend Growth*	N/A	N/A	-16.96%	4.33%	12.62%	-0.82%	1.01%
S&P 500 Index	7.25%	-14.83%	-18.15%	0.25%	19.09%	-0.70%	-2.21%
<b>Large Cap Equities – Growth:</b>							
Fidelity Growth Company	63.91%	-29.28%	-32.04%	5.67%	25.37%	-3.44%	0.86%
Fidelity Blue Chip Growth*	N/A	N/A	-23.01%	-0.30%	15.37%	-3.97%	-3.91%
Russell 1000 Growth Index	25.66%	-36.17%	-26.49%	2.94%	17.88%	-3.74%	-6.48%
<b>Mid Cap Equities – Value:</b>							
Strong Opportunity*	N/A	N/A	-19.55%	0.79%	27.95%	1.23%	4.71%
Franklin Mutual Shares A*	N/A	N/A	-8.67%	1.68%	18.15%	3.14%	6.34%
Russell Mid Cap Value	N/A	N/A	1.92%	-0.64%	30.81%	9.83%	8.62%
<b>Mid Cap Equities – Blend:</b>							
Fidelity Mid Cap Stock*	N/A	N/A	-24.68%	-0.57%	20.81%	-3.28%	6.81%
S&P Mid Cap 400	N/A	N/A	-18.15%	-0.71%	27.50%	6.44%	8.96%
<b>Mid Cap Equities – Growth:</b>							
Invesco Dynamics*	N/A	N/A	-36.04%	3.17%	23.34%	-6.64%	-4.03%
Russell Mid Cap Growth	N/A	N/A	-26.34%	7.35%	27.33%	0.23%	0.49%
<b>Small Cap Equities – Value:</b>							
Fidelity Low-Priced Stock*	N/A	N/A	15.18%	0.25%	32.43%	15.21%	15.84%
Russell 2000 Value Index	N/A	N/A	8.50%	-3.80%	35.17%	12.16%	12.82%
<b>Small Cap Equities – Growth:</b>							
MSI Small Co Growth B*	N/A	N/A	-16.34%	2.52%	32.05%	4.24%	8.40%
Alger Small Cap Retirement	27.45%	-40.07%	-22.28%	-1.17%	34.15%	1.00%	-4.67%
Russell 2000 Growth Index	14.32%	0.65%	-25.00%	0.69%	31.55%	-0.22%	-0.45%
<b>International Equity Funds:</b>							
Fidelity Diversified International	32.18%	-14.39%	-0.80%	-0.87%	32.22%	9.14%	8.03%
MSCI EAFE	17.16%	-23.69%	-9.31%	-6.46%	32.54%	4.10%	0.29%
<b>Conservative Lifestyle Asset Allocation Funds:</b>							
Fidelity Freedom Income	8.50%	3.25%	0.17%	4.87%	4.02%	3.00%	4.13%
Income Benchmark <sup>(1)</sup>	6.11%	3.68%	0.90%	4.98%	5.15%	3.31%	3.73%
<b>Moderate Lifestyle Asset Allocation Funds:</b>							
Fidelity Freedom 2000	11.10%	-0.19%	-1.76%	5.11%	5.16%	2.78%	3.79%
2000 Benchmark <sup>(1)</sup>	6.84%	-0.17%	-0.63%	5.33%	6.16%	3.43%	3.63%
<b>Moderately Aggressive Lifestyle Asset Allocation Funds:</b>							
Fidelity Freedom 2010	14.67%	-5.54%	-6.47%	6.15%	9.94%	2.96%	3.40%
2010 Benchmark <sup>(1)</sup>	7.80%	-5.28%	-4.35%	5.36%	11.56%	3.57%	2.74%
<b>Aggressive Lifestyle Asset Allocation Funds:</b>							
Fidelity Freedom 2020	18.01%	-11.07%	-12.17%	4.54%	15.27%	1.91%	2.13%
2020 Benchmark <sup>(1)</sup>	8.84%	-10.54%	-9.24%	4.13%	17.16%	2.95%	1.24%
Fidelity Freedom 2030	19.52%	-13.96%	-15.02%	2.90%	17.94%	1.04%	1.18%
2030 Benchmark <sup>(1)</sup>	9.33%	-13.16%	-11.99%	2.81%	19.89%	2.35%	0.31%
Fidelity Freedom 2040*	N/A	N/A	-17.17%	2.13%	20.01%	0.50%	N/A
2040 Benchmark <sup>(1)</sup>	N/A	N/A	-13.70%	2.26%	21.89%	2.11%	0.25%

All fund returns are reported net of fees.

\*2002 is the first fiscal year fund was an investment option.

<sup>(1)</sup> Benchmarks for the asset allocation funds are customized based on target weightings and market indices for each asset class.



## ACTUARIAL SECTION



**COMMENTS  
FROM THE  
SEGAL  
COMPANY**

**PUBLIC  
EMPLOYEES  
RETIREMENT  
SYSTEM**



THE SEGAL COMPANY

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November 12, 2004

State Retirement Board  
North Dakota Public Employees Retirement System  
400 East Broadway, Suite 505  
Bismarck, ND 58502

Re: Introductory Letter for Actuarial Section for North Dakota  
Public Employees Retirement System  
Financial Report for Fiscal Year Ended June 30, 2004

Dear Members of the Board:

The North Dakota Public Employees Retirement System is a funded retirement plan. The Retirement System's basic financial objective is to establish and receive contributions that remain relatively level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually by the independent actuary for the North Dakota Public Retirement Employees Retirement System. The basic purpose of annual actuarial valuations is to determine the Retirement System's actuarial liabilities and the level percentage-of-payroll contribution rates required to fund the System on an actuarial reserve basis.

**Basic Elements**

The most recent actuarial valuation prepared as of July 1, 2004 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2004 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2004 (obtained from the Retirement System's financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Retirement System. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date.

**Actuarial Assumptions**

In addition to utilizing current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events. Assumptions must be made to project the number of active members who will become eligible for benefits, the amount of those benefits, and the number of years benefits will be payable to current and future benefit recipients.

If the actuarial assumptions prove to be a good indicator of actual emerging experience, the actuarially-determined contribution rates for the existing schedule of benefits will remain relatively level as a percentage of salary. Contribution rates are redetermined in connection with each annual actuarial valuation to reflect actual experience and any benefit changes enacted since the last valuation.

The actuarial assumptions and methods used for funding the Retirement System meet the parameters set for disclosure by the Government Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The actuarial assumptions used in the July 1, 2004 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.



### Actuarial Funding Method

An actuarial valuation is based on a particular actuarial cost or funding method, which allocates the present value of expected future benefit payments to various time periods. The funding method used in annual actuarial valuations of the North Dakota Public Employees Retirement System is the entry age normal cost method. This method is intended to meet the basic level percent of payroll funding objective.

Under the entry age normal cost funding method, the total actuarially-determined employer contribution rates consist of the normal cost plus the payment required to amortize the unfunded accrued actuarial liability over the established amortization period. Actuarial gains and losses resulting from differences between actual and assumed experience become part of the System's actuarial accrued liabilities.

The North Dakota Public Employees Retirement System had an unfunded accrued actuarial liability of about \$76.3 million as of July 1, 2004.

### Calculated and Statutory Contribution Rates

The July 1, 2004 actuarial valuation of the North Dakota Public Employees Retirement System indicates the following contribution requirements:

<u>PERS Plan</u>	<u>Actuarial Required Contribution Rate*</u>	<u>Statutory Employer Contribution Rate</u>	<u>Member Contribution Rate</u>
Main System	6.30%	4.12%	4.00%
Judges	12.44%	14.52%	5.00%
National Guard	3.25%	8.33%	4.00%
Law Enforcement			
with prior Main service	7.88%	8.31%	4.00%
Law Enforcement			
without prior Main service	8.35%	6.43%	4.00%

\* Expressed as a percentage of covered payroll.

### Exhibits

The enclosed supporting exhibits, prepared by Segal, provide further related information regarding the 2004 valuation. Specifically these exhibits are:

- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Method
- Summary of Plan Provisions
- Changes in Plan Provisions
- Active Member Valuation Data
- Retirees and Beneficiaries Added to and Removed from the Rolls
- Solvency Test
- Analysis of Financial Experience
- Schedule of Retired Members by Type of Benefit
- Schedule of Average Benefit Payments

Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

Sincerely,



Wally Malles, ASA, MAAA, EA  
Associate Actuary

**ACTUARIAL  
VALUATION  
CERTIFICATE**

**NORTH DAKOTA  
PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**NOVEMBER 12, 2004**

*Actuarial Valuation Certificate*

*This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2004 in accordance with generally accepted actuarial principles and practices.*

*The valuation was based on the assumption that the plan is qualified and on information supplied by the Retirement Office with respect to participants and for financial data. We have not verified, and customarily would not verify, such information but we have had no reason to doubt its substantial accuracy.*

*In our opinion, the assumptions used in the aggregate are reasonably related to the experience of the System and to reasonable expectations.*

*Leslie L. Thompson*

*Leslie L. Thompson, FSA, MAAA, EA  
Senior Vice President and Actuary*

*Wally Malles*

*Wally Malles, ASA, MAAA, EA  
Associate Actuary*



**Actuarial Assumptions and Cost Method – Public Employees Retirement System**  
(Adopted July 1, 2000)

**Mortality Tables**

Healthy: 1983 Group Annuity Mortality Table.

Disabled: The Pension Benefit Guaranty Corporation Disabled Life Mortality Table for individuals receiving Social Security disability benefits.

**Disability Incidence Rates**

Before Age 65:

Males: 42% of OASDI disability incidence rates.

Females: 30% of OASDI disability incidence rates.

Age 65 and Later: Males .25% per year

Females .35% per year

Sample rates are as follows:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	0.03%	0.02%
30	0.05	0.03
40	0.09	0.07
50	0.25	0.18
60	0.68	0.49

**Annual Withdrawal Rates**

Main System, National Guard and Law Enforcement:

First five years of service:

<u>Age</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
20-29	23%	20%	17%	16%	15%
30-39	17	15	13	12	11
40 & Over	15	12	10	8	6

Ultimate rates after five years of service:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20 - 24	12%	12%
25 - 29	8	10
30 - 34	5	8
35 - 39	4	6
40 - 44	3	5
45 - 49	3	4
50 & Over	2	3

Judges:

One half of the Main System ultimate rates.

Withdrawal rates end upon eligibility for early retirement. Early retirement eligibility is as follows:

*Main System:*

Earlier of (i) age 55 and three years of service, and (ii) eligibility for Rule of 85.

*Judges:*

Earlier of (i) age 55 and five years of service, and (ii) eligibility for Rule of 85.

*National Guard and Law Enforcement:*

Age 50 and three years of service.

**Retirement Rates for Active Members**

Main System:

<u>Age</u>	<u>Unisex Rate</u>
55	4%
56	6
57	6
58	6
59	6
60	8
61	15
62	35
63	25
64	25
65	40
66	20
67	20
68	20
69	20
70	100

Judges:

Ages 62 to 64: 35% per year

Age 65 to 69: 50% per year

Age 70: 100%

National Guard and Law Enforcement:

Age 60: 100%

**Retirement Age for Inactive Vested Members**

Main System and Judges:

The earlier of age 65 or the unreduced retirement date for each individual.

National Guard:

Age 55

Law Enforcement:

The earlier of age 55 or the unreduced retirement date for each individual.

**Interest Rate**

8.00% per annum, net of investment expenses.

**Administrative Expenses**

Main System: \$710,000 per year

Judges: \$5,000 per year

National Guard and Law Enforcement combined:

\$5,000 per year

**Salary Scale**

Main System, National Guard and Law Enforcement:  
 Less than five years of service: 7.00% per annum  
 Five or more years of service:

Percentage		Percentage	
Age	Increase	Age	Increase
25	5.90%	45	4.90%
30	5.60	50	4.80
35	5.30	55	4.70
40	5.10	60	4.70

Judges: 5.50% per annum for all years of service.

**Payroll Growth**

Main System, National Guard and Law Enforcement:  
 4.50% per annum  
 Judges: 4.00% per annum

**Marital Status**

At death, 75% of active male members and 60% of active female members are assumed to be married. Males are assumed to be five years older than their female spouses.

**Part-time Employees**

One full year of service is credited for each future year of service.

**Split Service**

Liabilities are held in both plans based on service in each plan and are based on the actuarial assumptions of the plan in which they are currently active.

**Actuarial Cost Method**

Entry Age Normal Actuarial Cost Method. The unfunded actuarial accrued liability is amortized in installments increasing by the payroll growth assumption each year over an open 20 year period.

**Actuarial Value of Assets**

Adjusted market value that immediately recognizes interest and dividends. The procedure recognizes 20% of each year's total appreciation (depreciation) beginning with the year of occurrence. After five years, the appreciation (depreciation) is fully recognized.

**Social Security Disability (for Judges' disability benefit offset):**

Eligibility: 50% of disabled Judges  
 Consumer Price Index Increases: 4.5% per annum  
 Wage Base Increases: 5.0% per annum

**Workers' Compensation (for Judges' disability benefit offset):** None assumed.

**Account Balance Due to**

**Vested Employer Contribution:**

Participation Under Chapter 54-52.2: if not elected, 50% of active members of the Main System, National Guard and Law Enforcement. If elected, 100% of active members of the Main System, National Guard and Law Enforcement.

Contribution: Maximum allowed based on service at the beginning of the Plan year.

**Changes in Actuarial**

**Assumptions or Cost Method – Public Employees Retirement System**

There were no changes in actuarial assumptions or in the cost method since the preceding actuarial valuation.

**Summary of Plan Provisions – Public Employees Retirement System**

This section summarizes the major benefit provisions of the North Dakota Public Employees Retirement System as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions. Benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases.

**1. Normal Service Retirement:**

Eligibility:

Main System and Judges: Attainment of age 65 or age plus service equal to at least 85 (Rule of 85).

National Guard: Attainment of age 55 and 3 consecutive years of service.

Law Enforcement: Attainment of age 55 and 3 consecutive years of service, or age plus service equal to at least 85 (Rule of 85).

Benefit:

Main System:

2.00% of final average salary multiplied by service.

Judges:

3.50% of final average salary for the first 10 years of service, 2.80% for the next 10 years of service, and 1.25% for service in excess of 20 years.

National Guard:

2.00% of final average salary multiplied by service.

Law Enforcement: 2.00% of final average salary multiplied by service.

**2. Early Service Retirement:**

Eligibility:

Main System:

Attainment of age 55 with 3 years of service.

Judges:

Attainment of age 55 with 5 years of service.



National Guard:

Attainment of age 50 with 3 years of service.

Law Enforcement

Attainment of age 50 with 3 years of service.

Benefit:

Main System:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before the earlier of age 65 or the age at which the Rule of 85 is met.

Judges:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 65.

National Guard:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 55 is reduced by one-half of one percent for each month before age 55.

Law Enforcement: The Normal Service Retirement Benefit as determined above. A benefit that begins before age 55 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 55.

### 3. Disability Benefit:

Eligibility:

Six months of service and inability to engage in any substantial gainful activity.

Benefit:

Main System, National Guard and Law

Enforcement:

25% of the member's final average salary at disability, with a minimum of \$100 per month.

Judges:

70% of the member's final average salary at disability, minus social security and worker's compensation benefits paid.

### 4. Deferred Vested Retirement:

Eligibility:

Main System, National Guard and Law

Enforcement: Three years of service.

Judges: Five years of service.

Benefit:

Main System and Judges:

The Normal Service Retirement Benefit payable at age 65 or the Rule of 85, if earlier. Reduced early retirement benefits can be elected upon attainment of age 55.

National Guard:

The Normal Service Retirement Benefit payable at age 55. Reduced early retirement benefits can be selected upon attainment of age 50.

Law Enforcement:

The Normal Service Retirement Benefit payable at age 55 (or Rule of 85, if earlier). Reduced early retirement benefits can be selected upon attainment of age 50.

### 5. Pre-retirement Death Benefits:

Eligibility:

Main System, National Guard and Law

Enforcement: Three years of service.

Judges: Five years of service.

Benefit:

*Main System, National Guard and Law*

*Enforcement:*

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.
- The member's accrued benefit payable for 60 months to the surviving spouse.
- 50% of the member's accrued benefit (not reduced on account of age) payable for the surviving spouse's lifetime.
- Continuation portion of 100% Joint and Survivor Annuity (only if participant was eligible for normal retirement).

*Judges:*

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.
- 100% of the member's accrued benefit (not reduced on account of age) payable for the surviving spouse's lifetime.

Other death benefits:

*Main System, National Guard, Judges and Law*

*Enforcement:*

Eligibility: Not vested or no surviving spouse.

Benefit: Lump sum payment of member's accumulated contributions with interest.

### 6. Refund of Member Contributions:

Paid to terminated non-vested members and terminated vested members who choose refund in lieu of a monthly retirement benefit.

### 7. Accumulated Member Contributions:

Member contributions accumulate with interest at the following rates:

<u>Time Period</u>	<u>Interest Rate</u>
Through 6/30/81	5.0%
7/1/81 to 6/30/86	6.0%
After 6/30/86	0.5% less than the actuarial interest rate assumption.

**8. Standard and Optional Forms of Payment:**

**Standard Form of Payment**

*Main System, National Guard and Law*

**Enforcement:**

Monthly benefit for life with a refund to the beneficiary at death of the remaining balance (if any) of accumulated member contributions.

**Judges:**

Monthly benefit for life, with 50% payable to an eligible survivor.

**Optional forms of payment:**

Life annuity (for Judges), 50% joint and survivor annuity (for Main System, National Guard and Law Enforcement), 100% joint and survivor annuity (with pop-up feature), five-year certain and life annuity, ten-year certain and life annuity, or a level Social Security income annuity.

**9. Final Average Salary:**

Average of the highest salary received by the member for any 36 consecutive months employed during the last 120 months of employment.

**Schedule of Active Member Valuation Data – PERS – 1999-2004**

<u>July 1</u>	<b>Main System</b>			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
1999	16,254	\$ 392.8	\$ 24,165	3.0%
2000	16,314	404.6	24,802	2.6
2001	16,694	429.0	25,696	3.6
2002	17,039	457.0	26,824	4.4
2003	17,101	474.6	27,751	3.5
2004	17,522	494.5	28,223	1.7

<u>July 1</u>	<b>Judges</b>			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
1999	47	\$3.9	\$82,329	4.2%
2000	48	4.0	82,906	0.7
2001	47	3.9	83,282	0.5
2002	47	4.2	89,649	7.6
2003	47	4.5	95,993	7.1
2004	46	4.4	95,998	0.0

<u>July 1</u>	<b>National Guard</b>			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
1999	33	\$1.0	\$30,821	5.7%
2000	13	.4	31,874	3.4
2001	15	0.5	32,508	2.0
2002	3	0.1	34,747	6.9
2003	12	0.4	35,395	1.9
2004	17	0.6	33,519	(5.3)

<u>July 1</u>	<b>Law Enforcement with prior Main service*</b>			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
2004	39	\$1.2	\$29,881	N/A

<u>July 1</u>	<b>Law Enforcement without prior Main service*</b>			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
2004	12	\$0.3	\$27,606	N/A

\*2004 is the first fiscal year the plans were established.



**10. Contributions:**

Except for the employer contribution rate for the National Guard and Law Enforcement, the contribution rates are specified in the Century Code and differ between permanent full-time employees and part-time temporary employees. These rates are as follows:

	<u>Full-time Employees</u>	<u>Employer</u>
Main System	4.00%	4.12%
Judges	5.00%	14.52%
National Guard	4.00%	8.33%
Law Enforcement		
with prior Main service	4.00%	8.31%
Law Enforcement		
w/out prior Main service	4.00%	6.43%

Part-time employees in the Main System contribute 8.12%, with no employer contributions.

*Effective January 1, 2000:*

A member's account balance includes vested employer contributions equal to the member's contributions to the deferred compensation plan under chapter 54-52.2. The vested employer contribution may not exceed:

1. For months 1-12 of service credit, \$25 or 1% of the member's monthly salary, whichever is greater.
2. For months 13-24 of service credit, \$25 or 2% of the member's monthly salary, whichever is greater.
3. For months 25-36 of service credit, \$25 or 3% of the member's monthly salary, whichever is greater.

4. For service exceeding 36 months, \$25 or 4% of the member's monthly salary, whichever is greater.

5. The vested employer contribution may not exceed 4% of the member's monthly salary. Vested employer contributions are credited monthly to the member's account balance.

**11. Rollovers:**

The fund may accept rollovers from other qualified plans under rules adopted by the Board for the purchase of additional service credit.

**12. Other Ancillary Benefits:**

The North Dakota Public Employees Retirement System does not have any other ancillary benefits that would affect the current contribution rate.

**Changes in Plan Provisions:**

There were no changes in the plan provisions since the preceding valuation.

There were two new groups included in PERS during the 2003-2004 year. They are Law Enforcement with prior Main service and Law Enforcement without prior Main service. This actuarial valuation reflects an asset transfer from the Main System to the Law Enforcement with prior Main service of \$2,176,156 as of June 30, 2004. This transfer amount is equal to the Main System actuarial accrued liability for the 40 participants who transferred from Main to Law Enforcement with prior Main service.

### Solvency Test — PERS 1999-2004

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active members. In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing the funded portion of liability 3 will increase over time.

(Amounts in Millions)

July 1	Aggregate Actuarial Accrued Liabilities			Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
	Member Contributions	Retirees and Beneficiaries, Inactive and Pay-Status Members	Active Member Employer Financed Portion		(1)	(2)	(3)
1999	\$217.9	\$305.7	\$319.1	\$ 917.0	100%	100%	100%
2000	235.1	324.7	332.1	1,027.0	100	100	100
2001	258.9	368.4	381.4	1,115.3	100	100	100
2002	285.7	389.7	428.1	1,150.0	100	100	100
2003	309.4	427.1	452.3	1,166.5	100	100	95
2004	341.2	458.3	473.4	1,196.5	100	100	84



Retirees and Beneficiaries Added to and Removed from the Rolls – PERS – 1999-2004

Main System

Plan Year	Additions		(Removals)		Annual Pension Benefits <sup>(1)*</sup>	Ending Number	Average Annual Benefits	Annual Pension Benefits <sup>(1)</sup>	% Increase In Annual Benefits
	Beginning Number	Counts	Counts	Annual Pension Benefits <sup>(1)*</sup>					
1999	4,417	407	(154)	–	–	4,670	\$ 6,552	\$ 30.6	10.5%
2000	4,670	357	(165)	\$ 2.7	\$ (0.6)	4,862	7,200	35.0	14.4
2001	4,862	365	(171)	3.4	(0.7)	5,056	7,836	39.6	13.1
2002	5,056	341	(165)	3.1	(0.8)	5,232	8,016	41.9	5.8
2003	5,232	416	(162)	4.7	(0.8)	5,486	8,319	45.6	8.8
2004	5,486	359	(160)	4.0	(0.9)	5,685	8,550	48.6	6.6

\*In millions.

Judges

Plan Year	Additions		(Removals)		Annual Pension Benefits <sup>(1)</sup>	Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
	Beginning Number	Counts	Counts	Annual Pension Benefits <sup>(1)</sup>					
1999	12	4	(1)	–	–	15	\$ 19,678	\$ 295,170	19.3%
2000	15	1	(1)	\$ 28,758	\$ (28,194)	15	23,698	355,463	20.4
2001	15	2	(1)	80,114	(15,741)	16	26,664	426,631	20.0
2002	16	1	0	18,760	0	17	26,903	457,359	7.2
2003	17	1	0	56,137	0	18	29,036	522,643	14.3
2004	18	2	0	126,114	0	20	32,438	648,758	24.1

National Guard

Plan Year	Additions		(Removals)		Annual Pension Benefits <sup>(1)</sup>	Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
	Beginning Number	Counts	Counts	Annual Pension Benefits <sup>(1)</sup>					
1999	2	0	0	–	\$ 0	2	\$ 13,901	\$ 27,802	8.0%
2000	2	0	0	\$ 0	0	2	13,901	27,802	0.0
2001	2	1	0	6,446	0	3	11,972	35,916	29.2
2002	3	0	0	0	0	3	11,972	35,916	0.0
2003	3	0	0	0	0	3	11,972	35,916	0.0
2004	3	0	0	0	0	3	11,972	35,916	0.0

Law Enforcement with prior Main service<sup>(2)</sup>

Plan Year	Additions		(Removals)		Annual Pension Benefits	Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
	Beginning Number	Counts	Counts	Annual Pension Benefits					
2004	0	0	0	0	0	0	\$ 0	\$ 0	N/A

Law Enforcement without prior Main service<sup>(2)</sup>

Plan Year	Additions		(Removals)		Annual Pension Benefits	Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
	Beginning Number	Counts	Counts	Annual Pension Benefits					
2004	0	0	0	0	0	0	\$ 0	\$ 0	N/A

<sup>(1)</sup>Annual pension benefits added and removed were not able to be calculated for plan years ended 1999.

<sup>(2)</sup>2004 is the first fiscal year the plans were established.

## Analysis of Financial Experience — PERS

Changes in the Contribution Rate During Years Ended June 30  
Resulting from Differences Between Assumed Experience & Actual Experience

Plan Year Ended	<b>Main System</b>			
	<u>June 30, 2001</u>	<u>June 30, 2002</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>2.32%</b>	<b>3.83%</b>	<b>4.42%</b>	<b>5.51%</b>
Death after Retirement	0.04	0.01	0.00	0.01
Death-in-Service	0.01	0.02	0.03	0.03
Withdrawal From Employment	0.07	0.05	0.05	0.03
Age and Service Retirements	0.09	0.07	0.10	0.10
Financial Experience-Investments	-0.24	0.66	0.94	0.78
Pay Increases	0.01	0.05	-0.08	-0.23
Contribution Income	-0.12	-0.02	0.02	0.12
Administrative Expenses	0.04	0.01	0.01	0.00
New and Reinstated Members	0.04	0.04	0.04	0.12
Part-time Experience	0.00	0.00	0.00	-0.14
Demographic Changes	0.13	-0.36	-0.03	0.01
Assumption Changes	0.00	0.00	0.00	0.00
Amendments	1.36	0.00	0.00	0.00
Miscellaneous	0.02	0.02	-0.02	-0.04
Impact of Enhanced Benefits due to Portability Enhancement Provision	0.06	0.04	0.03	0.00
<b>Employer Cost Rate at End of Year</b>	<b>3.83%</b>	<b>4.42%</b>	<b>5.51%</b>	<b>6.30%</b>

Plan Year Ended	<b>Judges</b>			
	<u>June 30, 2001</u>	<u>June 30, 2002</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>6.50%</b>	<b>9.03%</b>	<b>10.29%</b>	<b>12.10%</b>
Plan Experience	-2.17	1.05	1.67	0.20
Assumption Changes	0.00	0.00	0.00	0.00
Amendments	4.43	0.00	0.00	0.00
Miscellaneous	0.27	0.21	0.14	0.14
<b>Employer Cost Rate at End of Year</b>	<b>9.03%</b>	<b>10.29%</b>	<b>12.10%</b>	<b>12.44%</b>

Plan Year Ended	<b>National Guard</b>			
	<u>June 30, 2001</u>	<u>June 30, 2002</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>1.74%</b>	<b>3.30%</b>	<b>0.00%</b>	<b>2.76%</b>
Plan Experience	0.14	-3.30	2.60	0.38
Amendments	1.28	0.00	0.00	0.00
Miscellaneous	0.14	0.00	0.16	0.11
<b>Employer Cost Rate at End of Year</b>	<b>3.30%</b>	<b>0.00%</b>	<b>2.76%</b>	<b>3.25%</b>

*Since the Law Enforcement with prior Main service and Law Enforcement without prior Main service are new groups for the year ending June 30, 2004, reconciliations of the changes since the previous valuation are not shown.*

**COMMENTS  
FROM  
THE SEGAL  
COMPANY**

**HIGHWAY  
PATROLMEN'S  
RETIREMENT  
SYSTEM**



THE SEGAL COMPANY

6300 S. Syracuse Way, Suite 750 Englewood, CO 80111  
T 303.714.9900 F 303.714.9990 www.segalco.com

November 12, 2004

State Retirement Board  
North Dakota Public Employees Retirement System  
400 East Broadway, Suite 505  
Bismarck, ND 58502

Re: Introductory Letter for Actuarial Section for North Dakota  
Highway Patrolmen's Retirement System  
Financial Report for Fiscal Year Ended June 30, 2004

Dear Members of the Board:

The North Dakota Highway Patrolmen's Retirement System is a funded retirement plan. The Retirement System's basic financial objective is to establish and receive contributions that remain relatively level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually by the independent actuary for the North Dakota Highway Patrolmen's Retirement System. The basic purpose of annual actuarial valuations is to determine the Retirement System's actuarial liabilities and the level percentage-of-payroll contribution rates required to fund the System on an actuarial reserve basis.

**Basic Elements**

The most recent actuarial valuation prepared as of July 1, 2004 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2004 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2004 (obtained from the Retirement System's financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Retirement System. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date.

**Actuarial Assumptions**

In addition to utilizing current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events. Assumptions must be made to project the number of active members who will become eligible for benefits, the amount of those benefits, and the number of years benefits will be payable to current and future benefit recipients.

If the actuarial assumptions prove to be a good indicator of actual emerging experience, the actuarially-determined contribution rates for the existing schedule of benefits will remain relatively level as a percentage of salary. Contribution rates are redetermined in connection with each annual actuarial valuation to reflect actual experience and any benefit changes enacted since the last valuation.

The actuarial assumptions and methods used for funding the Retirement System meet the parameters set for disclosure by the Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The actuarial assumptions used in the July 1, 2004 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.



### Actuarial Funding Method

An actuarial valuation is based on a particular actuarial cost or funding method, which allocates the present value of expected future benefit payments to various time periods. The funding method used in annual actuarial valuations of the North Dakota Highway Patrolmen's Retirement System is the entry age normal cost method. This method is intended to meet the basic level percent of payroll funding objective.

Under the entry age normal cost funding method, the total actuarially-determined employer contribution rates consist of the normal cost plus the payment required to amortize the unfunded accrued actuarial liability over the established amortization period. Actuarial gains and losses resulting from differences between actual and assumed experience become part of the System's accrued actuarial liabilities.

The North Dakota Highway Patrolmen's Retirement Fund had an unfunded actuarial accrued liability of about \$4.5 million as of July 1, 2004.

### Calculated and Statutory Contribution Rates

The July 1, 2004 actuarial valuation of the North Dakota Highway Patrolmen's Retirement Fund indicates the following contribution requirements, expressed as a percentage of covered payroll.

<u>Actuarial Required Employer Contribution Rate</u>	<u>Statutory Employer Contribution Rate</u>	<u>Member Contribution</u>
19.03%	16.70%	10.30%

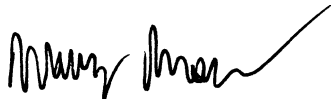
### Exhibits

The enclosed supporting exhibits, prepared by Segal, provide further related information regarding the 2004 valuation. Specifically, those exhibits are:

- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Method
- Summary of Plan Provisions
- Changes in Plan Provisions
- Active Member Valuation Data
- Retirees and Beneficiaries Added to and Removed from the Rolls
- Solvency Test
- Analysis of Financial Experience
- Schedule of Retired Members by Type of Benefit
- Schedule of Average Benefit Payments

Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

Sincerely,



Wally Malles, ASA, MAA A, EA  
Associate Actuary

**ACTUARIAL  
VALUATION  
CERTIFICATE**

**NORTH DAKOTA  
HIGHWAY PATROLMEN'S RETIREMENT SYSTEM**

**NOVEMBER 12, 2004**

*Actuarial Valuation Certificate*

*This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2004 in accordance with generally accepted actuarial principles and practices.*

*The valuation was based on the assumption that the plan is qualified and on information supplied by the Retirement Office with respect to participants and for financial data. We have not verified, and customarily would not verify, such information but we have had no reason to doubt its substantial accuracy.*

*In our opinion, the assumptions used in the aggregate are reasonably related to the experience of the System and to reasonable expectations.*

*Leslie Thompson*

Leslie L. Thompson, FSA, MAAA, EA  
Senior Vice President and Actuary

*Wally Malles*

Wally Malles, ASA, MAAA, EA  
Associate Actuary



## Actuarial Assumptions and Cost Method – Highway Patrolmen’s Retirement System

(Adopted July 1, 2000)

### Mortality Tables

Healthy: 1983 Group Annuity Mortality Table.

Disabled: Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Individuals Receiving Social Security Disability Benefits.

### Annual Withdrawal Rates

First five years of service: 5%

After five years of service:

Under age 35: 2% at each age

Age 35 or older: 1% at each age

Withdrawal rates end upon eligibility for early retirement (age 50 and 5 years of service.)

### Disability Incidence Rates

Age based rates. Sample rates:

<u>Age</u>	<u>Rate</u>
25	0.05%
30	0.12
35	0.20
40	0.30
45	0.37
50	0.38
55	0.55

### Retirement Rates

The following annual rates apply for active members:

<u>Age</u>	<u>Eligible for Rule of 80</u>	<u>Not Eligible for Rule of 80</u>
50-54	100%	50%
55+	100%	100%

Inactive vested members eligible for deferred benefits are assumed to retire at age 55.

### Interest Rate

8.00% per annum, net of investment expenses.

### Administrative Expenses

\$16,000 per year.

### Salary Scale

Less than five years of service: 7.00% per annum

Five or more years of service (for selected ages):

<u>Age</u>	<u>Annual Increase</u>
25	5.90%
30	5.60
35	5.30
40	5.10
45	4.90
50	4.80
55	4.70

### Inflation

4.50% per annum.

### Payroll Growth

4.50% per annum.

### Marital Status

At death, 90% of all members are assumed to have spouses. Males are assumed to be three years older than their female spouses.

### Workers’ Compensation

None assumed for disability benefit offset.

### Indexing for Benefits of Inactive Vested Members

5% per annum.

### Split Service

Liabilities are held in both plans based on service in each plan, and are based on the actuarial assumptions of the plan in which they are currently active.

### Transfers to Main System

Annual withdrawal, disability incidence and retirement rate assumptions for members who have transferred to the Main System follow those specified in the Main System, and are applied to the benefits held in the HPRS.

### Actuarial Cost Method

Entry Age Normal Actuarial Cost Method. The unfunded actuarial accrued liability is amortized in installments assuming 4.5% inflation assumption and an open 20-year period.

### Actuarial Value of Assets

Adjusted market value that immediately recognizes interest and dividends. The procedure recognizes 20% of each Plan Year’s total appreciation (depreciation) beginning with the year of occurrence. After five years, the appreciation (depreciation) is fully recognized.

### Changes in Actuarial Assumptions or Cost Methods – Highway Patrolmen’s Retirement System

There were no changes in actuarial assumptions or the actuarial cost method since the preceding valuation.

### Summary of Plan Provisions – Highway Patrolmen’s Retirement System

This section summarizes the major benefit provisions of the North Dakota Highway Patrolmen’s Retirement System as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions. Benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases.

**1. Normal Service Retirement:**

Eligibility:  
Attainment of age 55 with at least 10 years of eligible employment or with age plus service equal to at least 80 (Rule of 80).

Benefit:  
3.60% of final average salary for the first 25 years of service plus 1.75% of final average salary for service in excess of 25 years.

**2. Early Service Retirement:**

Eligibility:  
Attainment of age 50 with 10 years of eligible employment.

Benefit:  
The Normal Service Retirement Benefit as determined above. A benefit that begins before age 55 (or Rule of 80, if earlier) is reduced by one-half of one percent for each month before age 55.

**3. Disability Benefit:**

Eligibility:  
Accumulation of six months of service and inability to engage in substantial gainful activity.

Benefit:  
70% of the member's final average salary at disability minus workers' compensation, with a minimum of \$100 per month.

**4. Deferred Retirement:**

Eligibility:  
10 years of eligible employment.

Benefit:  
The Normal Service Retirement Benefit payable at age 55 or the Rule of 80, if earlier. Vested benefits are indexed at a rate set by the Retirement Board based on the increase in final average salary from date of termination to benefit commencement date, as follows:

Year	Average Monthly Increase	3-Year Average Increase Factor	Cumulative Salary Factor
7/1/92	2.46%	-	-
7/1/93	3.57	-	1.0000
7/1/94	3.00	1.0301	1.0301
7/1/95	2.00	1.0286	1.0595
7/1/96	2.00	1.0233	1.0842
7/1/97	3.00	1.0233	1.1095
7/1/98	1.80	1.0227	1.1347
7/1/99	1.26	1.0202	1.1576
7/1/00	2.00	1.0169	1.1771
7/1/01	1.81	1.0169	1.1971
7/1/02	1.73	1.0185	1.2191
7/1/03	0.00	1.0118	1.2335
7/1/04	0.00	1.0058	1.2406



Reduced early retirement benefits can be elected upon attainment of age 50.

**5. Pre-retirement Death Benefits:**

Survivor annuity benefits (paid to surviving spouse):

Eligibility:  
Ten years of service.

Benefit:

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.
- Monthly payment of the member's accrued benefit for 60 months.
- 50% of the member's accrued benefit (not reduced on account of age) for the surviving spouse's lifetime.

Other death benefits:

Eligibility: Less than 10 years of service or no surviving spouse.

Benefit: Lump sum payment of member's accumulated contributions with interest.

**6. Normal and Optional Forms of Payment:**

Normal form of payment:

Monthly benefit for life with 50% of the benefit continuing for the life of the surviving spouse (if any).

Optional forms of payment:

100% joint and survivor annuity, five year certain and life annuity, and ten year certain and life annuity.

**7. Final Average Salary:**

Average of the highest salary received by the member for any 36 consecutive months employed during the last 120 months of employment.

**8. Contributions:**

Members:  
10.30% of monthly salary.

State of North Dakota:

16.70% of the monthly salary for each participating member.

Member's contributions earn interest at an annual rate of 7.5% compounded monthly.

**Plan Amendments –**

**Highway Patrolmen's Retirement System**

There were no changes in plan provisions since the preceding valuation.

**Schedule of Active Member Valuation Data – HPRS  
1999 to 2004**

<u>July 1</u>	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>% Change in Average Salary</u>
1999	124	4.5	\$ 36,011	0.2%
2000	122	4.7	38,152	5.9
2001	124	4.9	39,302	3.0
2002	125	5.1	40,583	3.3
2003	131	5.4	40,928	0.9
2004	132	5.4	40,857	(0.2)

**North Dakota Highway Patrolmen's Retirement System  
Retirees and Beneficiaries Added to and Removed from the Rolls, 1999-2004**

<u>Plan Year</u>	<u>Additions</u>		<u>(Removals)</u>		<u>Ending Number</u>	<u>Average Annual Benefits</u>	<u>Annual Pension Benefits</u>	<u>% Increase In Annual Benefits</u>
	<u>Beginning Number</u>	<u>Counts</u>	<u>Annual Pension Benefits*</u>	<u>Counts</u>				
1999	72	7	–	(2)	77	\$ 20,974	\$ 1,614,996	16.5%
2000	77	4	\$ 69,950	(1)	80	20,682	1,654,536	2.4
2001	80	2	75,771	(1)	81	22,574	1,828,468	10.5
2002	81	5	218,675	0	86	23,802	2,046,933	11.9
2003	86	2	78,403	(3)	85	24,429	2,076,506	1.4
2004	85	6	255,113	(1)	90	25,872	2,328,444	12.1

\*Annual pension benefits added and removed were not able to be calculated for plan year ended 1999.



**Solvency Test — HPRS  
1999-2004**

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active members.

In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time.

(Amounts in Millions)

July 1	<u>Aggregate Actuarial Accrued Liabilities</u>				Portion of Actuarial Accrued Liabilities Covered by Assets		
	Member Contributions (1)	Retirees and Beneficiaries, Inactive and Pay-Status Members (2)	Active Member Employer Financed Portion (3)	Actuarial Value of Assets	(1)	(2)	(3)
1999	7.0	16.5	8.7	32.0	100%	100%	98%
2000	7.7	16.7	9.6	35.9	100	100	100
2001	8.4	18.4	11.3	38.8	100	100	100
2002	8.6	20.6	11.3	39.5	100	100	91
2003	9.2	21.2	12.0	39.6	100	100	77
2004	9.3	23.8	11.4	40.0	100	100	61

**Analysis of Financial Experience – HPRS**

Changes in the Contribution Rate During Years Ended June 30  
Resulting from Differences Between Assumed Experience and Actual Experience

<u>Plan Year Ended</u>	<u>June 30, 2001</u>	<u>June 30, 2002</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>9.18%</b>	<b>12.13%</b>	<b>14.59%</b>	<b>16.96%</b>
Plan Experience	-1.16	2.51	2.50	2.29
Change in Ammortization Schedule	0.04	-0.05	-0.13	-0.22
Assumption Changes	0.00	0.00	0.00	0.00
Amendments	4.07	0.00	0.00	0.00
Miscellaneous	0.00	0.00	0.00	0.00
<b>Employer Cost Rate at End of Year</b>	<b>12.13%</b>	<b>14.59%</b>	<b>16.96%</b>	<b>19.03%</b>





**THE SEGAL COMPANY**

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November 12, 2004

State Retirement Board  
North Dakota Public Employees Retirement System  
400 East Broadway, Suite 505  
Bismarck, ND 58502

Re: Introductory Letter for Actuarial Section for North Dakota  
Public Employees Retirement System Retiree Health Insurance Credit Fund  
Financial Report for Fiscal Year Ended June 30, 2004

Dear Members of the Board:

The North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund is a funded retiree health plan. The program's basic financial objective is to establish and receive contributions that remain relatively level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually by the independent actuary for the North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund. The basic purpose of annual actuarial valuations is to determine the System's actuarial liabilities and the level percentage-of-payroll contribution rates required to fund the System on an actuarial reserve basis.

**Basic Elements**

The most recent actuarial valuation prepared as of July 1, 2004 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2004 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2004 (obtained from the Retirement System's financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Retirement System. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date.

**Actuarial Assumptions**

In addition to utilizing current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events. Assumptions must be made to project the number of active members who will become eligible for benefits, the amount of those benefits, and the number of years benefits will be payable to current and future benefit recipients.

If the actuarial assumptions prove to be a good indicator of actual emerging experience, the actuarially-determined contribution rates for the existing schedule of benefits will remain relatively level as a percentage of salary. Contribution rates are redetermined in connection with each annual actuarial valuation to recognize actual experience and any benefit changes enacted since the last valuation.

The actuarial assumptions used in the July 1, 2004 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.

**COMMENTS  
FROM  
THE SEGAL  
COMPANY**

**RETIREE  
HEALTH  
INSURANCE  
CREDIT FUND**

### **Actuarial Funding Method**

An actuarial valuation is based on a particular actuarial cost or funding method, which allocates the present value of expected future benefit payments to various time periods. The funding method used in annual actuarial valuations of the North Dakota Retiree Health Insurance Credit Fund is the projected unit credit cost method.

Under the projected unit credit cost funding method, the total actuarially-determined employer contribution rates consist of the normal cost plus the payment required to amortize the unfunded actuarial accrued liability over the established amortization period. Actuarial gains and losses resulting from differences between actual and assumed experience become part of the System's actuarial accrued liabilities.

The North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund's unfunded actuarial accrued liability amounted to \$45.6 million as of July 1, 2004. The unfunded actuarial accrued liability is being amortized by level percentage-of-payroll payments over a fixed period that ends June 30, 2030.

### **Calculated and Statutory Contribution Rates**

The July 1, 2004 actuarial valuation of the North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund indicates the following contribution requirements: the actuarially determined employer-pay contribution rate is .99%, while the statutory contribution rate is 1.00% of payroll.

### **Exhibits**

The enclosed supporting exhibits prepared by Segal provide further related information regarding the 2004 valuation. Specifically, they are:

- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Method
- Summary of Plan Provisions
- Changes in Plan Provisions
- Retired Members, Average Benefit, and Active Member/Retiree Comparison
- Analysis of Financial Experience
- Assets and Actuarial Accrued Liabilities

Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

Sincerely,



Wally Malles, ASA, MAAA, EA  
Associate Actuary



**ACTUARIAL  
VALUATION  
CERTIFICATE**

NORTH DAKOTA  
PUBLIC EMPLOYEES RETIREMENT SYSTEM  
RETIREE HEALTH INSURANCE CREDIT FUND

NOVEMBER 12, 2004

## *Actuarial Valuation Certificate*

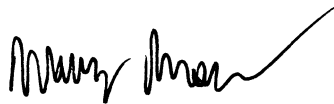
*This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2004 in accordance with generally accepted actuarial principles and practices.*

*The valuation was based on the assumption that the plan is qualified and on information supplied by the Retirement Office with respect to members and for financial data. We have not verified, and customarily would not verify, such information but we have had no reason to doubt its substantial accuracy.*

*In our opinion, the assumptions used in the aggregate are reasonably related to the experience of the System and to reasonable expectations.*



Leslie L. Thompson, FSA, MAAA, EA  
Senior Vice President and Actuary



Wally Malles, ASA, MAAA, EA  
Associate Actuary

**Actuarial Assumptions and Cost Method – Retiree Health Insurance Credit Fund**  
(Adopted July 1, 2000)

**Mortality Tables**

Healthy: 1983 Group Annuity Mortality Table.

Disabled: The Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Individuals Receiving Social Security Disability Benefits.

**Annual Withdrawal Rates**

Different withdrawal rates are applied to the active members of the Main System, Highway Patrol, Judges, National Guard and Law Enforcement. Rates for the Main System are detailed below. The withdrawal assumptions applied to the active members in the other groups are detailed in the respective actuarial sections.

Select and ultimate rates are used for active members of the Main System. During the select period (first five years of active employment) rates vary by entry age and year of employment. During the ultimate period (active employment after the first five years), rates vary by attained age and sex.

Select Period

Age	Year of Employment				
	1	2	3	4	5
Under 30	23%	20%	17%	16%	15%
30 - 39	17	15	13	12	11
40 & Over	15	12	10	8	6

Ultimate Period

Age	Male	Female
Under 25	12%	12%
25-29	8	10
30-34	5	8
35-39	4	6
40-44	3	5
45-49	3	4
50 & Over	2	3

**Disability Incidence Rates**

Different disability incidence rates are applied to the active members of PERS and the Highway Patrol. The disability rates applied to the Highway Patrol are described in the respective valuation section.

Sample rates for PERS are:

Age	Males	Females
20	0.03%	0.02%
30	0.05	0.03
40	0.09	0.07
50	0.25	0.18
60	0.68	0.49



**Retirement Rates for Active Members**

Different retirement rates are applied to the active members of the Main System, Highway Patrol, Judges, National Guard and Law Enforcement. Retirement rates for the Main System are detailed below. The retirement rates applied to the active members of the other groups are detailed in the respective actuarial sections.

Annual Rates for the Main System are as follows:

Age	Unisex Rate
55	4%
56	6
57	6
58	6
59	6
60	8
61	15
62	35
63	25
64	25
65	40
66	20
67	20
68	20
69	20
70	100

Age 64 and 20 years of service: 100%

**Participation Rates**

The percentage of eligible members electing coverage under the health insurance program and receiving the stipend varies with years of service. Rates are as follows:

Main System, National Guard and Law Enforcement:

Years of Service	Participation Rate
3-4	25%
5-9	50
10-14	70
15-19	80
20-24	95
25+	100

Judges and Highway Patrol:

Years of Service	Participation Rate
5-9	50%
10-14	70
15-19	80
20-24	95
25+	100

**Joint and Survivor Option Election Rates**

Main System, Judges, National Guard and Law Enforcement: 65% of male retirees and 20% of female retirees will elect a joint and survivor form of pension from the retirement system in which they participated.

**Highway Patrol:**

90% of retirees receive a joint and survivor form of pension from the retirement system.

**Interest Rate**

8.0% per annum, net of investment expenses

**Inflation**

4.50% per annum

**Administrative Expenses**

\$65,000 per year.

**Marital Status:**

Main System, Judges, National Guard and Law Enforcement: At death, 75% of active male members and 60% of active female members are assumed to have spouses. Males are assumed to be five years older than their female spouses.

Highway Patrol: At death, 90% of all active members are assumed to have spouses. Males are assumed to be three years older than their female spouses.

**Optional Defined Contribution Plan**

The actuarial assumptions used to determine the liabilities for the members of the defined contribution plan are the same as those used for the Main System.

**Actuarial Cost Method**

Projected Unit Credit Actuarial Cost Method.

The unfunded actuarial accrued liability is amortized in installments assuming 4.5% inflation assumption over a fixed period which ends on June 30, 2030.

**Actuarial Value of Assets**

Adjusted market value that immediately recognizes interest and dividends. The procedure recognizes 20% of each year's total appreciation (depreciation) beginning with the year of occurrence. After five years, the appreciation (depreciation) is fully recognized.

**Changes in Actuarial Assumptions or Cost Method – Retiree Health Insurance Credit Fund**

There were no changes in actuarial assumptions or the cost method since the preceding actuarial valuation.

**Summary of Plan Provisions – Retiree Health Insurance Credit Fund**

This section summarizes the major benefit provisions of the North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund as included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions. Benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases.

**1. Normal Retirement**

Age requirement:

Main System and Judges: Age 65 or Rule of 85.

Highway Patrol: Age 55 or Rule of 80.

National Guard: Age 55.

Law Enforcement: Age 55 or Rule of 85.

Service requirement:

Main System and Judges: None.

Highway Patrol: 10 years.

National Guard and Law Enforcement:

3 consecutive years.

Other requirements:

Participation in the North Dakota Uniform Group Insurance Program.

Benefit amount:

A monthly stipend equal to \$4.50 times service.

**2. Early Retirement**

Age requirement:

Main System and Judges: Age 55.

Highway Patrol, National Guard and Law

Enforcement: Age 50.

Service requirement:

Main System, National Guard and Law

Enforcement: 3 years.

Judges: 5 years.

Highway Patrol: 10 years.

Benefit amount:

Main System and Judges:

The Normal Retirement Benefit reduced by 3% for retirements at age 64 and an additional 6% for each year by which retirement precedes age 64.

Benefits are unreduced upon the fulfillment of the Rule of 85.

Highway Patrol, National Guard and Law Enforcement:

The Normal Retirement Benefit reduced by 3% for retirements at age 54 and an additional 6% for each year by which retirement precedes age 54.

Benefits are unreduced upon the fulfillment of the Rule of 80.

**3. Disability Retirement**

Age requirement: None  
Service requirement: 6 months  
Other requirements: As required by applicable pension plan  
Benefit amount: Same as Normal Retirement Benefit

**4. Pre-Retirement Death Benefit**

Age requirement: None  
Service requirement:  
Main System, National Guard and Law Enforcement: 3 years.  
Judges: 5 years.  
Highway Patrol: 10 years.

Benefit amount:  
Same as Normal Retirement Benefit accrued to the date of the member's death, payable for as long as benefits are payable to the spouse from the Retirement System under the standard option.

**5. Post-Retirement Death Benefit**

Following a retired member's death, the Retiree Health Insurance Credit Fund will: (1) continue benefits to the member's spouse if the spouse continues to receive a monthly pension from member's Retirement Plan or (2) provide benefits to the member's spouse if the member selected a joint and survivor option from the Retiree Health Insurance Credit Fund.

**6. Alternative Options**

If benefits from the member's Retirement Plan are paid under single life, level Social Security, or 5 or 10 year term certain options (without a continuation to the spouse after the certain period ends), actuarially reduced health credit benefits may be elected for the spouse. Alternative options in the Retiree Health Insurance Credit Fund include 50% and 100% joint and survivor annuities.

**7. Service**

Members receive credit for each year and month of employment.

**8. Contributions**

The employer contributes 1.00% of covered salaries and wages for participating employees.

**Plan Amendments -**

**Retiree Health Insurance Credit Fund**

There have been no changes in the plan provisions since the preceding actuarial valuation.



**Retired Members, Average Benefit, and Active Member/Retiree Comparison –  
Retiree Health Insurance Credit Fund  
1999 - 2004**

<u>July 1</u>	<u>Number of Retired Members</u>	<u>Average Annual Benefit</u>	<u>Active Members Per Retiree</u>
1999	3,015	\$ 1,109	5.5
2000	3,169	1,116	5.3
2001	3,306	1,116	5.2
2002	3,393	1,128	5.1
2003	3,519	1,128	5.0
2004	3,607	1,142	5.0

**Funding Progress – Retiree Health Insurance Credit Fund  
1999 - 2004**

(Amounts in Millions)

<u>July 1</u>	<u>Total Actuarial Accrued Liability</u>	<u>Total Actuarial Value of Assets</u>	<u>Assets as of % of Total Actuarial Accrued Liability</u>
1999	\$ 57.6	\$ 19.4	33.7%
2000	61.9	22.6	36.5
2001	65.5	24.8	37.9
2002	69.0	26.4	38.3
2003	72.0	27.5	38.2
2004	74.6	28.9	38.8

**Analysis of Financial Experience –  
Retiree Health Insurance Credit Fund**

Changes in the Contribution Rate During Years Ended June 30  
Resulting from Differences Between Assumed Experience & Actual Experience

<u>Plan Year Ended</u>	<u>June 30, 2001</u>	<u>June 30, 2002</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>1.02%</b>	<b>0.99%</b>	<b>0.98%</b>	<b>0.98%</b>
Plan Experience	-0.03	-0.01	0.00	0.01
Assumption and Method Changes	0.00	0.00	0.00	0.00
Miscellaneous	0.00	0.00	0.00	0.00
<b>Employer Cost Rate at End of Year</b>	<b>0.99%</b>	<b>0.98%</b>	<b>0.98%</b>	<b>0.99%</b>



**COMMENTS  
FROM  
THE SEGAL  
COMPANY**

**JOB SERVICE  
RETIREMENT  
PLAN**



**THE SEGAL COMPANY**

6300 S. Syracuse Way, Suite 750 Englewood, CO 80111  
T 303.714.9900 F 303.714.9990 www.segalco.com

November 12, 2004

State Retirement Board  
North Dakota Public Employees Retirement System  
400 East Broadway, Suite 505  
Bismarck, ND 58502

Re: Introductory Letter for Actuarial Section for Retirement Plan For  
Employees of Job Service North Dakota  
Financial Report for Fiscal Year Ended June 30, 2004

Dear Members of the Board:

The Retirement Plan for Employees of Job Service North Dakota is a funded retirement plan. The Retirement Plan's basic financial objective is to establish and receive contributions that remain relatively level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually by the independent actuary for the Retirement Plan for Employees of Job Service North Dakota. The basic purpose of annual actuarial valuations is to determine the Retirement Plan's actuarial liabilities and the scheduled contribution determined based on the funding policy adopted by the Employer.

**Basic Elements**

The most recent actuarial valuation prepared as of July 1, 2004 is based on the following major elements:

- Current benefit provisions.
- Membership data as of June 30, 2004 (provided by the Retirement Plan).
- Assets as of June 30, 2004 (obtained from the Retirement Plan).
- Actuarial assumptions and methods.

Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Retirement Plan. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date.

**Actuarial Assumptions**

In addition to utilizing current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events. Assumptions must be made to project the number of active members who will become eligible for benefits, the amount of those benefits, and the number of years benefits will be payable to current and future benefit recipients.

If the actuarial assumptions prove to be a good indicator of actual emerging experience, the actuarially-determined contribution for the existing schedule of benefits will remain relatively level. Annual contributions are redetermined in connection with each annual actuarial valuation to reflect actual experience and any benefit changes enacted since the last valuation.

The actuarial assumptions and methods used for funding the Retirement System meet the parameters set for disclosure by the Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The actuarial assumptions used in the July 1, 2004 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.



**Actuarial Cost Method**

There is a wide range of funding methods that are considered acceptable by the actuarial profession, which are recognized by accountants, and that meet government standards. The Frozen Initial Liability Actuarial Cost Method is the method currently used for the Retirement Plan for Employees of Job Service North Dakota.

The “annual contribution” under this method is the normal cost plus the payment required to amortize the unfunded initial actuarial accrued liability over a selected period of years. The normal cost is determined by calculating the total value of all future benefits, subtracting the outstanding balance (if any) of the unfunded initial actuarial accrued liability, subtracting the actuarial value of assets, and determining payments (not less than zero) that are a level percent of pay over the future working lifetime of all participants. In the absence of an unfunded initial actuarial accrued liability, The Frozen Initial Liability Actuarial Cost Method is the same as the Aggregate Cost Method.

The “scheduled contribution” will be determined when the plan is not in surplus and will be based on a funding policy adopted by the Employer.

**Exhibits**

The enclosed supporting exhibits, prepared by Segal, provide further related information regarding the 2004 valuation. Specifically, those exhibits are:

- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Method
- Summary of Plan Provisions
- Changes in Plan Provisions
- Active Member Valuation Data
- Retirees and Beneficiaries Added to and Removed from the Rolls
- Solvency Test
- Analysis of Financial Experience
- Schedule of Retired Members by Type of Benefit
- Schedule of Average Benefit Payments

Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

Sincerely,



Wally Malles, ASA, MAAA, EA  
Associate Actuary

**ACTUARIAL  
VALUATION  
CERTIFICATE**

**NORTH DAKOTA  
PUBLIC EMPLOYEES RETIREMENT SYSTEM  
RETIREMENT PLAN FOR EMPLOYEES OF  
JOB SERVICE NORTH DAKOTA**

**NOVEMBER 12, 2004**

*Actuarial Valuation Certificate*

*This is to certify that we have prepared an Actuarial Valuation of the Plan as of July 1, 2004 in accordance with generally accepted actuarial principles and practices.*

*The valuation was based on the assumption that the plan is qualified and on information supplied by the Retirement Office with respect to participants and for financial data. We have not verified, and customarily would not verify, such information but we have had no reason to doubt its substantial accuracy.*

*In our opinion, the assumptions used in the aggregate are reasonably related to the experience of the Plan and to reasonable expectations.*

*Leslie L. Thompson*

*Leslie L. Thompson, FSA, MAAA, EA  
Senior Vice President and Actuary*

*Wally Malles*

*Wally Malles, ASA, MAAA, EA  
Associate Actuary*



**Actuarial Assumptions and Cost Method – Retirement Plan for Employees of Job Service North Dakota**

**Actuarial Cost Method**

There is a wide range of funding methods that are considered acceptable by the actuarial profession, which are recognized by accountants, and that meet government standards. The Frozen Initial Liability Actuarial Cost Method is the method currently used for the Retirement Plan for Employees of Job Service North Dakota.

The “annual contribution” under this method is the normal cost plus the payment required to amortize the unfunded initial actuarial accrued liability over a selected period of years. The normal cost is determined by calculating the total value of all future benefits, subtracting the outstanding balance (if any) of the unfunded initial actuarial accrued liability, subtracting the actuarial value of assets, and determining payments (not less than zero) that are a level percent of pay over the future working lifetime of all participants. In the absence of an unfunded initial actuarial accrued liability, The Frozen Initial Liability Actuarial Cost Method is the same as the Aggregate Cost Method.

The “scheduled contribution” will be determined when the plan is not in surplus and will be based on a funding policy adopted by the Employer.

**Asset Valuation Method**

The asset value indicates the portion of the benefits already funded. The method used to determine this value is called the actuarial asset valuation method. The actuarial asset valuation method is as follows:

The asset value is adjusted toward market value by adding to the “preliminary asset value”, 20% of the difference between the market value and the preliminary asset value. The preliminary asset value is the actuarial asset value at the beginning of the year plus net new money. Net new money is the sum of contributions, dividends, and interest, less the sum of benefit payments, administrative expenses and investment fees. If necessary, the actuarial value is further adjusted to be within 20% of market value.

**Actuarial Assumptions**

Mortality tables:

Healthy: 1994 Group Annuity Mortality Table (sample rates below).

Disabled: 1983 Railroad Retirement Board Disabled Life Mortality Table.

Disability incidence: Sample rates shown below.

Withdrawal rates: Sample rates shown below.

Age	Rates (%)			
	Mortality		Disability	
	Male	Female	Incidence	Withdrawal
20	0.05	0.03	0.06	5.44
25	0.07	0.03	0.09	5.29
30	0.08	0.04	0.11	5.07
35	0.09	0.05	0.15	4.70
40	0.11	0.07	0.22	4.19
45	0.16	0.10	0.36	3.54
50	0.26	0.14	0.61	2.48
55	0.44	0.23	1.01	0.94
60	0.80	0.44	1.63	0.09

Withdrawal rates end when first eligible for the earlier of optional or normal retirement.

Retirement age: 75% of active participants are assumed to retire when first eligible for optional retirement, and the remaining participants retire at normal retirement. If currently older than first eligible optional retirement age, retirement assumed to occur at normal retirement, or current age, if older.

100% of inactive vested participants are assumed to retire at first optional retirement age.

Salary scale: 5.0% per year.

Post-retirement cost-of-living adjustment: 5.0% per year.

Percent married: 85% of all active and inactive vested participants are assumed to be married.

Age of spouse: Females are assumed to be four years younger than males.

Rate of return: 8.0% per year, compounded annually, net of investment and administrative expenses.

Future benefit accruals: One year of credited service per year per active employee included in the valuation.

### Changes in Actuarial Assumptions or Cost Method

There were no changes in actuarial assumptions or methods since the preceding valuation.

### Summary of Plan Provisions

This section summarizes the major provisions of the Retirement Plan for Employees of Job Service North Dakota as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete description of all plan provisions.

#### Normal retirement

Age requirement: 65.

Service requirement: None.

Benefit: Average monthly earnings multiplied by the sum of:

- a. 1.50% times credited service up to five years, plus
- b. 1.75% times credited service between six and ten years, plus
- c. 2.00% times credited service in excess of ten years.

Average monthly earnings - monthly average earnings during the highest three consecutive years of employment.

#### Optional retirement

Age and service requirements: Age 62 with five years of credited service, or Age 60 with twenty years of credited service, or Age 55 with thirty years of credited service.

Benefit: Accrued normal retirement benefit.

#### Early retirement

Age requirement: Ten years before normal or optional retirement age.

Service requirement: Same as optional retirement.

Benefit: Accrued normal retirement benefit, reduced if payments begin before normal or optional retirement.

#### Disability

Age requirement: None.

Service requirement: Five years of credited service.

Benefit: Greater of accrued normal retirement benefit or 40% of average monthly earnings.



### Vesting

Age requirement: None.

Service requirement: Five years of credited service.

Benefit: Accrued normal retirement benefit payable at normal or optional retirement. After attainment of early retirement age, reduced benefits may be paid.

Employees who meet the requirements for a vested benefit may elect to receive a return of their accumulated employee contributions (including interest at 4% per year) in lieu of all other benefits under the plan.

### Return of accumulated employee

**contributions:** Employees who do not meet the requirements for a vested benefit will receive a return of their accumulated employee contributions (including interest at 4% per year).

### Pre-retirement death benefits

#### *Married participants*

Surviving spouse's benefit:

Age requirement: None.

Service requirement: None.

Benefit: 55% of the greater of (a) or (b).

(a) Accrued normal retirement benefit.

(b) The lesser of (1) or (2).

(1) 40% of average monthly earnings.

(2) Normal retirement benefit based on credited service to age 60.

Children's benefit: Provided for children under age 18 (age 22 if a full-time student) - note: the actuarial valuation does not consider benefits for expected surviving children.

#### *Single participants with no eligible children*

120 payment guarantee:

Age requirement: None.

Service requirement: Five years of credited service.

Benefit: Accrued normal retirement benefit payable for 120 months. Not payable if surviving spouse or children's benefit is payable.

Lump sum benefit:

Age requirement: None.

Service requirement: None.

Benefit: Accumulated employee contributions (including interest at 4% per year). Not payable if the surviving spouse, children's benefit or 120 payment guarantee is in effect.

**Post-retirement death benefits**

Based on form of payment elected by the pensioner.

**Post-retirement cost-of-living adjustment**

Based on the Consumer Price Index.

**Participation**

Plan participant before October 1, 1980.

**Credited service**

Monthly salaried employment in a probationary or permanent status including only: service for which contributions were made (including purchased service), eligible military service and unused sick leave.

**Contribution rate**

Employee: 7% of average monthly earnings (4% picked up by employer).

Employer: remaining scheduled cost, if any.

**Changes in Plan Provisions**

There were no changes in plan provisions since the preceding valuation.

**Schedule of Active Member Valuation Data – Job Service Retirement Plan  
2000 to 2004**

Valuation Date as of July 1	Number of Active Members	Total Payroll (millions)	Average Annual Salary	% Increase in Average Salary
2000	93	\$3.7	\$39,833	3.1%
2001	85	3.5	41,282	3.6
2002	76	3.2	42,390	2.7
2003	68	2.9	42,240	(0.4)
2004	60	2.5	40,992	(3.0)

**Retirement Plan for Employees of Job Service North Dakota  
Retirees and Beneficiaries (Including Travelers Annuitants)  
Added to and Removed from the Rolls, 2000-2004**

Plan Year	Beginning Number	Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase in Annual Benefits
2000	191	199	\$ 8,219	\$1,635,637	18.5%
2001	199	205	9,124	1,870,518	14.4
2002	205	209	10,525	2,199,758	17.6
2003	209	214	11,461	2,452,583	11.5
2004	214	213	12,723	2,710,008	10.5

**Solvency Test — Job Service Retirement Plan  
2000-2004**

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) the actuarial present value of benefits for active employees; 2) the liabilities for future benefits to inactive vested employees not in pay status; and 3) the liabilities for future benefits to present pensioners (including dis-

abled) and beneficiaries. In a system that has been following level percent of payroll financing, the liabilities for pensioners (including disabled) and beneficiaries (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time.

(Amounts in Millions)

July 1	<u>Actuarial Present Value of Benefits</u>			Actuarial Value of Assets	Portion of Actuarial Present Value of Benefits Covered by Assets		
	Active Employees	Inactive Vested Employees Not in Pay Status	Pensioners (Including Disableds & Beneficiaries)		(1)	(2)	(3)
	(1)	(2)	(3)				
2000	\$ 27.3	\$ 0.2	\$ 29.2	\$ 71.0	100%	100%	100%
2001	26.4	0.2	32.1	70.8	100	100	100
2002	25.0	0.2	34.7	67.6	100	100	100
2003	22.9	0.2	37.6	66.0	100	100	100
2004	20.2	0.2	41.5	67.5	100	100	100

**Analysis of Financial Experience –  
Job Service Retirement Plan**

Changes in the Contribution Rate During Years Ended June 30  
Resulting from Differences Between Assumed Experience & Actual Experience

<u>Plan Year Ended</u>	<u>June 30, 2001</u>	<u>June 30, 2002</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>
Plan Experience	0.00	0.00	0.00	0.00
Change in Ammortization Schedule	0.00	0.00	0.00	0.00
Assumption Changes	0.00	0.00	0.00	0.00
Amendments	0.00	0.00	0.00	0.00
Miscellaneous	0.00	0.00	0.00	0.00
<b>Employer Cost Rate at End of Year</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>





**STATISTICAL SECTION**

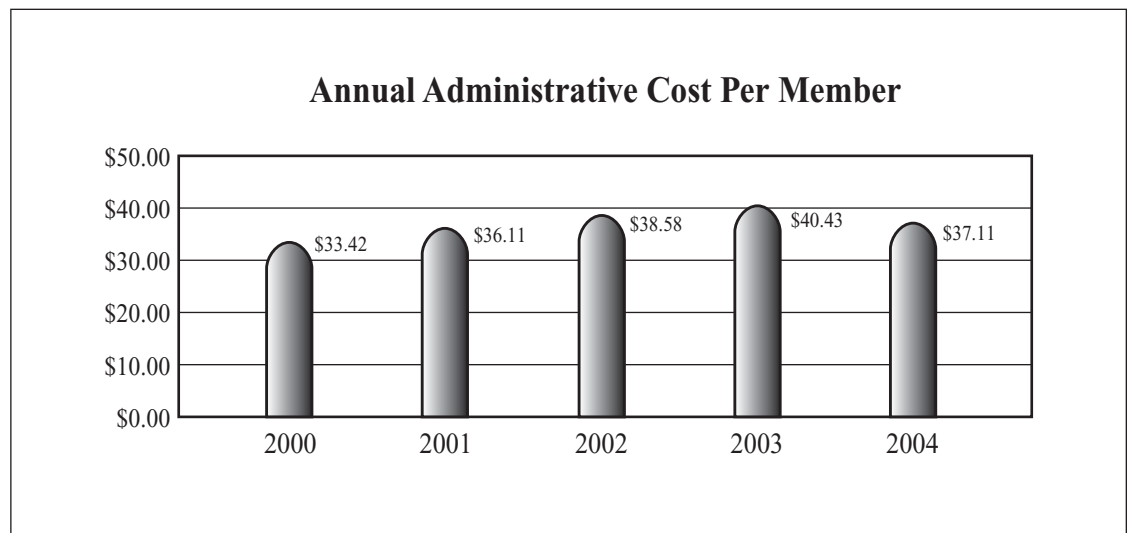
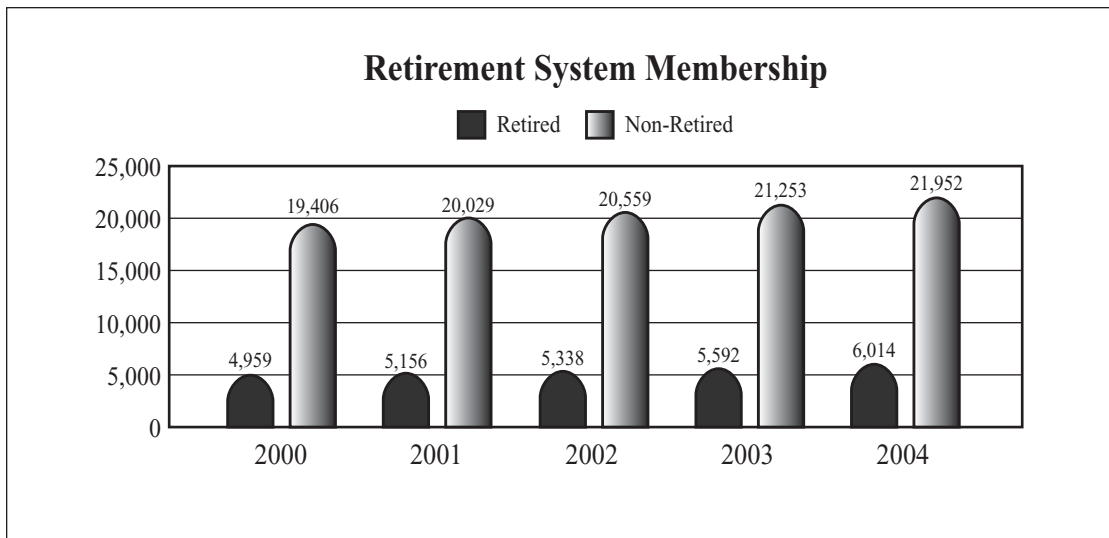


**Retirement System Membership – PERS, HPRS, Job Service and OASIS<sup>(1)</sup>  
As of June 30**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
State Agencies	11,025	11,351	11,451	11,688	11,979
Cities	377	390	404	431	492
Counties	3,311	3,313	3,433	3,530	3,650
School Districts	4,302	4,574	4,815	5,083	5,285
Other Political Subdivisions	<u>391</u>	<u>401</u>	<u>456</u>	<u>521</u>	<u>546</u>
Total Non-Retired <sup>(2)</sup>	19,406	20,029	20,559	21,253	21,952
Retired Members & Beneficiaries	<u>4,959</u>	<u>5,156</u>	<u>5,338</u>	<u>5,592</u>	<u>6,014</u>
Total Membership	24,365	25,185	25,897	26,845	27,966
Administrative Expenses	\$ 814,350	\$ 909,350	\$ 999,177	\$ 1,085,272	\$ 1,037,958
Administrative Cost per Member	\$ 33.42	\$ 36.11	\$ 38.58	\$ 40.43	\$ 37.11

<sup>(1)</sup> Job Service and OASIS were added in 2004.

<sup>(2)</sup> Total non-retired members includes all contributing members plus all non-contributing members who have not begun to receive retirement benefits.



## Revenues by Source – Fiscal Year Ended June 30

	FY Ended June 30	Member Contributions <sup>(1)</sup>	Employer Contributions	Investment Income	Miscellaneous Income	Total	Employer Contributions as a % of Covered Payroll
Public Employees Retirement System:	1999	\$ 16,152,785	\$ 15,873,917	\$ 108,255,409	\$ 3,874	\$ 140,285,985	3.99%
	2000	16,618,771	16,521,248	103,230,684	10,530	136,381,233	4.04
	2001	17,353,268	17,101,628	(53,115,303)	7,570	(18,652,837)	3.95
	2002	18,439,125	18,244,655	(78,163,075)	12,301	(41,466,994)	3.95
	2003	19,758,764	19,212,733	53,998,006	9,184	92,978,687	4.01
	2004	25,941,395 <sup>(2)</sup>	19,732,842	180,631,261	6,229	226,311,797	3.94
Highway Patrolmen's Retirement System:	1999	442,441	717,357	3,795,110	36	4,954,944	16.06
	2000	457,079	741,089	3,603,516	65	4,801,749	15.92
	2001	486,332	788,125	(1,872,449)	60	(597,932)	16.17
	2002	501,850	814,035	(2,712,925)	85	(1,396,955)	16.05
	2003	513,812	833,074	1,820,797	56	3,167,739	15.54
	2004	520,700	844,241	6,116,743	74	7,481,758	15.65
Job Service Retirement Plan:	2004	67,106,086 <sup>(3)</sup>	0	\$ 8,551,044	0	75,657,130	0.00

<sup>(1)</sup>Member contributions include statutory contributions and service purchases. Contributions for repurchased service credit were \$3,422,503 and \$1,493,418 for the fiscal years ended June 30, 2004 and 2003.

<sup>(2)</sup>Member contributions include \$3,789,350 contributions from external pension plans.

<sup>(3)</sup>Member contributions include \$66,888,685 contributions from external pension plans.

## Expenses by Type – Fiscal Year Ended June 30

	FY Ended June 30	Benefits	Administrative Expenses	Transfers and Refunds	Total
Public Employees Retirement System:	1999	\$ 29,150,704	\$ 718,396	\$ 3,920,011	\$ 33,789,111
	2000	34,026,828	800,529	12,545,193 <sup>(1)</sup>	47,372,550
	2001	36,676,998	894,868	4,050,284	41,622,150
	2002	40,871,330	983,258	3,467,354	45,321,942
	2003	43,733,098	1,068,803	2,728,091	47,529,992
	2004	47,515,319	995,879	3,677,037	52,188,235
Highway Patrolmen's Retirement System:	1999	1,453,640	12,966	4,784	1,471,390
	2000	1,629,020	13,821	6,576	1,649,417
	2001	1,660,303	14,482	10,994	1,685,779
	2002	1,928,173	15,919	122,434	2,066,526
	2003	2,044,071	16,469	19,412	2,079,952
	2004	2,188,234	16,562	34,411	2,239,207
Job Service Retirement Plan:	2004	2,330,771	24,174	0	2,354,945

<sup>(1)</sup> Includes transfers of \$8,544,005 to the new optional Defined Contribution Plan

**Schedule of Benefit Expenses by Type – PERS and HPRS  
Fiscal Year Ended June 30**

FY Ended June 30	Annuities <sup>(1)</sup>		Refunds		Transfers	Total
	Retirant	Survivor	Death	Separation		
1999	\$ 28,281,417	\$ 2,274,824	\$ 48,103	\$ 3,790,658	\$ 134,137	\$ 34,529,139
2000	32,992,363	2,567,201	96,284	3,858,678	8,693,091	48,207,617
2001	35,369,114	2,776,478	191,709	3,746,348	314,930	42,398,579
2002	39,527,603	3,138,775	133,125	3,451,513	138,275	46,389,291
2003	42,260,036	3,373,214	143,919	2,691,613	55,890	48,524,672
2004	45,860,843	3,650,879	191,831	3,693,861	17,587	53,415,001

<sup>(1)</sup> Includes disability benefits

**Schedule of Benefit Expenses by Type – Job Service Retirement Plan  
Fiscal Year Ended June 30**

FY Ended June 30	Annuities		Refunds		Transfers	Total
	Retirant	Survivor	Death	Separation		
2004	\$ 2,196,012	\$ 134,759	\$ 0	\$ 0	\$ 0	\$ 2,330,771



**Schedule of Retired Members by Type of Benefit – PERS  
As of June 30, 2004**

**Main System**

Monthly Amount	Total	Type of Pension				Service *
		Normal	Early	Disability	Service *	
Total	5,063	1,739	1,683	319	1,322	
Less than \$199	768	332	398	28	10	
\$200 - \$ 399	1,252	476	629	138	9	
400 - 599	849	334	384	103	28	
600 - 799	508	221	158	36	93	
800 - 999	384	110	59	9	206	
1,000 - 1,199	325	89	28	3	205	
1,200 - 1,399	250	55	12	-	183	
1,400 - 1,599	163	31	4	1	127	
1,600 - 1,799	139	23	3	-	113	
1,800 - 1,999	91	16	3	-	72	
2,000 - 2,199	89	12	1	1	75	
2,200 - 2,399	70	9	4	-	57	
2,400 - 2,599	44	3	-	-	41	
2,600 - 2,799	40	7	-	-	33	
2,800 - 2,999	23	6	-	-	17	
3,000 & Over	68	15	-	-	53	
Life	3,369	1,221	1,247	258	643	
Level Social Security Payment	84	-	15	-	69	
Joint & 100% Survivor	789	298	201	30	260	
Joint & 50% Survivor	585	149	117	21	298	
10 Year C & L	185	55	85	4	41	
5 Year C & L	51	16	18	6	11	
Total	5,063	1,739	1,683	319	1,322	

\*Includes Rule of 85, Rule of 88 and Rule of 90.

**Schedule of Average Benefit Payments – PERS  
As of June 30**

**Main System**

	Years of Credited Service						Total
	<10	10-14	15-19	20-24	25-29	>=30	
<b>2000</b>							
Number of Retirees	764	907	833	606	493	683	4,286
Average Monthly Benefit	\$ 199	\$ 304	\$ 438	\$ 641	\$ 1,014	\$ 1,538	\$ 637
Average Years of Service	6.46	12.30	17.37	22.27	27.15	35.08	18.99
<b>2001</b>							
Number of Retirees	811	936	863	634	528	707	4,479
Average Monthly Benefit	\$ 214	\$ 327	\$ 475	\$ 700	\$ 1,099	\$ 1,668	\$ 691
Average Years of Service	6.42	12.30	17.40	22.29	27.18	35.13	18.99
<b>2002</b>							
Number of Retirees	841	942	891	684	542	741	4,641
Average Monthly Benefit	\$ 213	\$ 331	\$ 482	\$ 726	\$ 1,114	\$ 1,688	\$ 705
Average Years of Service	6.39	12.30	17.39	22.29	27.18	35.03	19.05
<b>2003</b>							
Number of Retirees	891	969	918	725	594	783	4,880
Average Monthly Benefits	\$ 215	\$ 334	\$ 492	\$ 747	\$ 1,162	\$ 1,730	\$ 728
Average Years of Service	6.37	12.32	17.39	22.29	27.17	34.99	19.11
<b>2004</b>							
Number of Retirees	937	988	943	749	627	819	5,063
Average Monthly Benefits	\$ 218	\$ 346	\$ 502	\$ 773	\$ 1,186	\$ 1,760	\$ 747
Average Years of Service	6.36	12.31	17.38	22.31	27.22	34.96	19.14

**Schedule of Retired Members by Type of Benefit – PERS  
As of June 30, 2004**

Monthly Amount	Total	Judges			
		Type of Pension			
		Normal	Early	Disability	Service *
Total	14	8	3	0	3
Less than \$200	-	-	-	-	-
\$200 - \$ 399	-	-	-	-	-
400 - 599	-	-	-	-	-
600 - 799	-	-	-	-	-
800 - 999	-	-	-	-	-
1,000 - 1,199	-	-	-	-	-
1,200 - 1,399	2	1	-	-	1
1,400 - 1,599	-	-	-	-	-
1,600 - 1,799	3	2	1	-	-
1,800 - 1,999	-	-	-	-	-
2,000 - 2,199	-	-	-	-	-
2,200 - 2,399	-	-	-	-	-
2,400 - 2,599	-	-	-	-	-
2,600 - 2,799	1	1	-	-	-
2,800 - 2,999	-	-	-	-	-
3,000 & Over	8	4	2	-	2
Life	2	2	-	-	-
Level Social Security Payment	-	-	-	-	-
Joint & 100% Survivor	8	6	1	-	1
Joint & 50% Survivor	4	-	2	-	2
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	14	8	3	0	3

*\*Includes Rule of 85, Rule of 88, and Rule of 90.*

**Schedule of Average Benefit Payments – PERS  
As of June 30**

	Judges						Total
	Years of Credited Service						
	<10	10-14	15-19	20-24	25-29	>=30	
<b>2000</b>							
Number of Retirees	1	5	2	1	0	0	9
Average Monthly Benefit	\$ 1,189	\$ 1,756	\$ 3,069	\$ 4,121	\$ 0	\$ 0	\$ 2,248
Average Years of Service	8.50	11.30	18.29	23.25	0.00	0.00	13.87
<b>2001</b>							
Number of Retirees	1	5	3	2	0	0	11
Average Monthly Benefit	\$ 1,213	\$ 1,791	\$ 3,087	\$ 3,940	\$ 0	\$ 0	\$ 2,222
Average Years of Service	8.50	11.30	18.61	23.63	0.00	0.00	15.28
<b>2002</b>							
Number of Retirees	1	5	3	2	0	0	11
Average Monthly Benefit	\$ 1,237	\$ 1,827	\$ 3,244	\$ 4,019	\$ 0	\$ 0	\$ 2,558
Average Years of Service	8.50	11.30	18.61	23.63	0.00	0.00	15.28
<b>2003</b>							
Number of Retirees	1	5	3	3	0	0	12
Average Monthly Benefit	\$ 1,262	\$ 1,864	\$ 3,309	\$ 4,292	\$ 0	\$ 0	\$ 2,782
Average Years of Service	8.50	11.30	18.61	23.75	0.00	0.00	16.01
<b>2004</b>							
Number of Retirees	1	5	3	3	1	1	14
Average Monthly Benefit	\$ 1,262	\$ 1,864	\$ 3,309	\$ 4,292	\$ 4,885	\$ 5,625	\$ 3,135
Average Years of Service	8.50	11.30	18.61	23.75	26.17	30.00	17.73



**Schedule of Retired Members by Type of Benefit – PERS  
As of June 30, 2004**

**National Guard**

Monthly Amount	Total	Type of Pension			
		Normal	Early	Disability	Service *
Total	3	1	2	0	0
Less than \$200	-	-	-	-	-
\$200 - \$ 399	-	-	-	-	-
400 - 599	1	1	-	-	-
600 - 799	1	-	1	-	-
800 - 999	-	-	-	-	-
1,000 - 1,199	-	-	-	-	-
1,200 - 1,399	-	-	-	-	-
1,400 - 1,599	-	-	-	-	-
1,600 - 1,799	1	-	1	-	-
1,800 - 1,999	-	-	-	-	-
2,000 - 2,199	-	-	-	-	-
2,200 - 2,399	-	-	-	-	-
2,400 - 2,599	-	-	-	-	-
2,600 - 2,799	-	-	-	-	-
2,800 - 2,999	-	-	-	-	-
3,000 & Over	-	-	-	-	-
Life	2	1	1	-	-
Level Social Security Payment	1	-	1	-	-
Joint & 100% Survivor	-	-	-	-	-
Joint & 50% Survivor	-	-	-	-	-
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	3	1	2	0	0

*\*Includes Rule of 85, Rule of 88, and Rule of 90.*

**Schedule of Average Benefit Payment – PERS  
As of June 30**

**National Guard**

	Years of Credited Service						Total
	<10	10-14	15-19	20-24	25-29	>=30	
<b>2000</b>							
Number of Retirees	0	0	1	1	0	0	2
Average Monthly Benefit	\$ 0	\$ 0	\$ 682	\$ 1,635	\$ 0	\$ 0	\$ 1,159
Average Years of Service	0.00	0.00	19.17	22.17	0.00	0.00	20.67
<b>2001</b>							
Number of Retirees	0	1	1	1	0	0	3
Average Monthly Benefits	\$ 0	\$ 537	\$ 723	\$ 1,733	\$ 0	\$ 0	\$ 998
Average Years of Service	0.00	11.08	19.17	22.17	0.00	0.00	17.47
<b>2002</b>							
Number of Retirees	0	1	1	1	0	0	3
Average Monthly Benefits	\$ 0	\$ 537	\$ 723	\$ 1,733	\$ 0	\$ 0	\$ 998
Average Years of Service	0.00	11.08	19.17	22.17	0.00	0.00	17.47
<b>2003</b>							
Number of Retirees	0	1	1	1	0	0	3
Average Monthly Benefits	\$ 0	\$ 537	\$ 723	\$ 1,733	\$ 0	\$ 0	\$ 998
Average Years of Service	0.00	11.08	19.17	22.17	0.00	0.00	17.47
<b>2004</b>							
Number of Retirees	0	1	1	1	0	0	3
Average Monthly Benefits	\$ 0	\$ 537	\$ 723	\$ 1,733	\$ 0	\$ 0	\$ 998
Average Years of Service	0.00	11.08	19.17	22.17	0.00	0.00	17.47

**Schedule of Retired Members by Type of Benefit – HPRS  
As of June 30, 2004**

Monthly Amount	Total	Type of Pension				Rule of 80
		Normal	Early	Disability		
Total	71	34	1	2	34	
Less than \$200	-	-	-	-	-	
\$200 - \$ 399	1	1	-	-	-	
400 - 599	4	4	-	-	-	
600 - 799	-	-	-	-	-	
800 - 999	-	-	-	-	-	
1,000 - 1,199	1	1	-	-	-	
1,200 - 1,399	2	2	-	-	-	
1,400 - 1,599	1	-	-	1	-	
1,600 - 1,799	3	2	-	-	1	
1,800 - 1,999	1	1	-	-	-	
2,000 - 2,199	7	4	1	1	1	
2,200 - 2,399	6	3	-	-	3	
2,400 - 2,599	10	6	-	-	4	
2,600 - 2,799	11	4	-	-	7	
2,800 - 2,999	4	-	-	-	4	
3,000 & Over	20	6	-	-	14	
Life	10	3	-	2	5	
Level Social Security Payment	-	-	-	-	-	
Joint & 100% Survivor	13	3	-	-	10	
Joint & 50% Survivor	48	28	1	-	19	
10 Year C & L	-	-	-	-	-	
5 Year C & L	-	-	-	-	-	
Total	71	34	1	2	34	

**Schedule of Average Benefit Payment – HPRS  
As of June 30**

	Years of Credited Service						Total
	<10	10-14	15-19	20-24	25-29	>=30	
<b>2000</b>							
Number of Retirees	1	1	5	4	35	13	59
Average Monthly Benefits	\$ 1,374	\$ 1,070	\$ 354	\$ 1,342	\$ 2,353	\$ 2,491	\$ 2,107
Average Years of Service	2.25	13.50	16.30	21.88	28.13	31.15	26.69
<b>2001</b>							
Number of Retirees	1	1	5	4	37	13	61
Average Monthly Benefits	\$ 1,456	\$ 1,133	\$ 375	\$ 1,421	\$ 2,542	\$ 2,620	\$ 2,267
Average Years of Service	2.25	13.5	16.30	21.88	28.15	31.15	26.72
<b>2002</b>							
Number of Retirees	1	1	5	4	42	13	66
Average Monthly Benefits	\$ 1,456	\$ 1,133	\$ 375	\$ 1,421	\$ 2,602	\$ 2,850	\$ 2,371
Average Years of Service	2.25	13.50	16.30	21.88	28.24	31.41	27.00
<b>2003</b>							
Number of Retirees	1	1	4	4	42	14	66
Average Monthly Benefits	\$ 1,456	\$ 1,133	\$ 387	\$ 1,421	\$ 2,625	\$ 2,896	\$ 2,434
Average Years of Service	2.25	13.50	16.10	21.88	28.15	31.11	27.05
<b>2004</b>							
Number of Retirees	1	2	3	4	46	15	71
Average Monthly Benefits	\$ 1,456	\$ 1,593	\$ 420	\$ 1,421	\$ 2,694	\$ 3,074	\$ 2,558
Average Years of Service	2.25	12.34	16.25	21.88	28.02	31.04	27.01



**Schedule of Retired Members by Type of Benefit – Job Service Retirement Plan  
As of June 30, 2004**

Monthly Amount	Total	Type of Pension	
		Retirement	Disability
Total	186	180	6
Less than \$200	76	76	-
\$200 - \$ 399	18	18	-
400 - 599	1	1	-
600 - 799	0	0	-
800 - 999	4	3	1
1,000 - 1,199	8	6	2
1,200 - 1,399	8	7	1
1,400 - 1,599	8	7	1
1,600 - 1,799	9	9	-
1,800 - 1,999	9	9	-
2,000 - 2,199	10	9	1
2,200 - 2,399	9	9	-
2,400 - 2,599	7	7	-
2,600 - 2,799	4	4	-
2,800 - 2,999	5	5	-
3,000 & Over	10	10	-
Life	41	41	-
Joint & 55% Survivor	43	42	1
Joint & 75% Survivor	19	19	-
Joint & 100% Survivor	11	11	-
10 Year C & L	41	36	5
15 Year C & L	5	5	-
20 Year C&L	26	26	-
Total	186	180	6

**Schedule of Average Benefit Payments – Job Service Retirement Plan  
As of June 30**

	Retirement Plan	Travelers Annuitants	Total
<b>2000</b>			
Number of Retirees	67	132	199
Average Monthly Benefits	\$ 1,628	\$ 206	\$ 685
<b>2001</b>			
Number of Retirees	76	129	205
Average Monthly Benefits	\$ 1,653	\$ 235	\$ 760
<b>2002</b>			
Number of Retirees	87	122	209
Average Monthly Benefits	\$ 1,734	\$ 266	\$ 877
<b>2003</b>			
Number of Retirees	95	119	214
Average Monthly Benefits	\$ 1,794	\$ 285	\$ 955
<b>2004</b>			
Number of Retirees	100	113	213
Average Monthly Benefits	\$ 1,911	\$ 308	\$ 1,060

*Since there are no retirees for the Law Enforcement with prior Main service and Law Enforcement without prior Main service plans, schedules of retired members by type of benefits and average benefit payments as of June 30 are not shown.*



**SCHEDULE OF PARTICIPATING EMPLOYERS**

**STATE AGENCIES:**  
 ADJUTANT GENERAL ARMY NATL GRD  
 AERONAUTICS COMMISSION  
 ATTORNEY GENERAL'S OFFICE  
 BANK OF NORTH DAKOTA  
 BEEF COMMISSION  
 BISMARCK STATE COLLEGE  
 BOARD OF NURSING  
 CHILDREN'S SERV COOR COMMITTEE  
 DAIRY PROMOTION COMMISSION  
 DEPT OF AGRICULTURE  
 DEPT OF BANKING & FINANCE  
 DEPT OF COMMERCE  
 DEPT OF HUMAN SERVICES  
 DEPARTMENT OF CORRECTIONS  
 DEPARTMENT OF TRANSPORTATION  
 DEVELOPMENTAL CENTER  
 DICKINSON STATE UNIVERSITY  
 EDUCATION STANDARDS & PRACTICE  
 FIELD SERVICES DIVISION  
 GAME & FISH DEPT  
 GOVERNOR'S OFFICE  
 HIGHWAY PATROL  
 HISTORICAL SOCIETY  
 HOUSING FINANCE AGENCY  
 INDIAN AFFAIRS COMMISSION  
 INDUSTRIAL COMMISSION  
 INFORMATION TECHNOLOGY DEPARTMENT  
 INSURANCE DEPARTMENT  
 JAMES RIVER CORRECTIONAL CENTER  
 JAMESTOWN STATE HOSPITAL  
 JOB SERVICE NORTH DAKOTA  
 LAND DEPARTMENT  
 LEGISLATIVE COUNCIL  
 MAYVILLE STATE UNIVERSITY  
 MILK MARKETING BOARD  
 MILL & ELEVATOR ASSOCIATION  
 MINOT STATE UNIVERSITY  
 MUNICIPAL BOND BANK  
 ND BARLEY COUNCIL  
 ND CORN UTILIZATION COUNCIL  
 ND COUNCIL ON THE ARTS  
 ND DEPARTMENT OF HEALTH  
 ND DEPARTMENT OF LABOR  
 ND DIV OF EMERGENCY MANAGEMENT  
 ND OILSEED COUNCIL  
 ND SOYBEAN COUNCIL  
 ND ST BOARD OF COSMETOLOGY  
 ND ST COLLEGE OF SCIENCE  
 ND STATE LIBRARY  
 ND SUPREME COURT  
 ND UNIVERSITY SYSTEM  
 ND VETERANS HOME  
 ND WHEAT COMMISSION  
 ND YOUTH CORRECTIONAL CENTER  
 NORTH DAKOTA STATE UNIVERSITY  
 OFFICE OF ADM HEARING  
 OFFICE OF MANAGEMENT & BUDGET  
 PARKS & RECREATION DEPARTMENT  
 PLUMBING BOARD  
 PROTECTION & ADVOCACY PROJECT  
 PUBLIC EMPLOYEES RETIREMENT  
 PUBLIC INSTRUCTION  
 PUBLIC SERVICE COMMISSION  
 RADIO COMMUNICATIONS  
 RETIREMENT & INVESTMENT OFFICE  
 ROUGH RIDER INDUSTRIES  
 SCHOOL FOR THE BLIND  
 SCHOOL FOR THE DEAF  
 SECRETARY OF STATE  
 SECURITIES COMMISSIONER  
 SOIL CONSERVATION COMMITTEE  
 STATE AUDITOR'S OFFICE  
 STATE BAR BOARD  
 STATE FAIR ASSN  
 STATE PAROLE BOARD  
 STATE PENITENTIARY  
 STATE SEED DEPARTMENT  
 STATE TREASURER'S OFFICE  
 TAX DEPARTMENT  
 UND - LAKE REGION  
 UNIVERSITY OF NORTH DAKOTA  
 VALLEY CITY STATE UNIVERSITY  
 VETERANS AFFAIRS DEPARTMENT  
 VOCATIONAL & TECHNICAL ED  
 WATER COMMISSION  
 WILLISTON STATE COLLEGE

WORKFORCE SAFETY AND INSURANCE  
**Total = 87**

**COUNTIES:**  
 ADAMS COUNTY  
 BARNES COUNTY  
 BENSON COUNTY  
 BILLINGS COUNTY  
 BOTTINEAU COUNTY  
 BOWMAN COUNTY  
 BURKE COUNTY  
 BURLEIGH COUNTY  
 CASS COUNTY  
 CAVALIER COUNTY  
 DICKEY COUNTY  
 DIVIDE COUNTY  
 DUNN COUNTY  
 EDDY COUNTY  
 EMMONS COUNTY  
 FOSTER COUNTY  
 GRAND FORKS COUNTY  
 GRANT COUNTY  
 GRIGGS COUNTY  
 HETTINGER COUNTY  
 LAMOURE COUNTY  
 LOGAN COUNTY  
 MCHENRY COUNTY  
 MCINTOSH COUNTY  
 MCKENZIE COUNTY  
 MCLEAN COUNTY  
 MOUNTRAIL COUNTY  
 NELSON COUNTY  
 PEMBINA COUNTY  
 PIERCE COUNTY  
 RAMSEY COUNTY  
 RANSOM COUNTY  
 RENVILLE COUNTY  
 RICHLAND COUNTY  
 SHERIDAN COUNTY  
 SLOPE COUNTY  
 STARK COUNTY  
 STEELE COUNTY  
 STUTSMAN COUNTY  
 TRAILL COUNTY  
 WALSH COUNTY  
 WARD COUNTY  
 WELLS COUNTY  
 WILLIAMS COUNTY  
**Total = 44**

**SCHOOLS:**  
 APPLE CREEK ELEMENTARY SCHOOL  
 BEACH PUBLIC SCHOOL DISTRICT  
 BELCOURT SCHOOL DIST #7  
 BELFIELD PUBLIC SCHOOL #13  
 BEULAH PUBLIC SCHOOL #27  
 BILLINGS COUNTY SCHOOL DISTRICT  
 BISMARCK PUBLIC SCHOOLS  
 BOTTINEAU PUBLIC SCHOOL  
 BOWMAN PUBLIC SCHOOL DIST #1  
 CARRINGTON PUBLIC SCHOOL DISTRICT  
 CAVALIER PUBLIC SCHOOLS  
 CENTRAL CASS PUBLIC SCHOOL #7  
 DAKOTA PRAIRIE PUBLIC SCHOOLS  
 DEVILS LAKE PUBLIC SCHOOL  
 DICKEY LAMOURE MULTIDIST SP ED  
 DICKINSON PUBLIC SCHOOLS  
 DIVIDE COUNTY SCHOOL DIST #1  
 DRAKE PUBLIC SCHOOL DISTRICT  
 DRAYTON PUBLIC SCHOOL #19  
 DUNSEITH SCHOOL DISTRICT #1  
 ELLENDALE PUBLIC SCHOOL #40  
 ENDERLIN PUBLIC SCHOOL  
 FARGO PUBLIC SCHOOLS  
 FT. TOTTEN SCHOOL DISTRICT #30  
 GARRISON PUBLIC SCHOOL  
 GLENBURN PUBLIC SCHOOL  
 GLEN ULLIN PUBLIC SCHOOL #48  
 GRAFTON PUBLIC SCHOOL DIST #3  
 HALLIDAY PUBLIC SCHOOL  
 HARVEY PUBLIC SCHOOL DIST #38  
 HAZEN PUBLIC SCHOOL DIST #3  
 HILLSBORO PUBLIC SCHOOL  
 JAMESTOWN PUBLIC SCHOOL #1  
 KENMARE PUBLIC SCHOOLS  
 KILLDEER PUBLIC SCHOOL #16



KINDRED PUBLIC SCHOOL DIST #2  
 KULM PUBLIC SCHOOL DIST #7  
 LAKE REGION SPECIAL ED UNIT  
 LAKOTA PUBLIC SCHOOL DISTRICT #66  
 LAMOURE SCHOOL DISTRICT #8  
 LARIMORE PUBLIC SCHOOL  
 LEWIS AND CLARK PUBLIC SCHOOLS  
 LIDGERWOOD PUBLIC SCHOOL  
 LINTON PUBLIC SCHOOL  
 LISBON PUBLIC SCHOOL  
 LITTLE HEART PUBLIC SCHOOL DIST #4  
 MANDAN PUBLIC SCHOOL DIST #1  
 MANDAREE PUBLIC SCHOOL #36  
 MANVEL PUBLIC SCHOOL  
 MAPLETON PUBLIC SCHOOL  
 MAPLE VALLEY SCHOOL DISTRICT  
 MCCLUSKY PUBLIC SCHOOLS  
 MCKENZIE CTY PUBLIC SCHOOL #1  
 MIDWAY PUBLIC SCHOOL DIST #128  
 MILNOR PUBLIC SCHOOLS  
 MINOT PUBLIC SCHOOL DIST #1  
 MINTO PUBLIC SCHOOL DIST #20  
 MOHALL PUBLIC SCHOOL  
 MOTT/REGENT PUBLIC SCHOOL DIST #1  
 MT PLEASANT SCHOOL DIST #4  
 NAPOLEON PUBLIC SCHOOL DIST #2  
 NEW PUBLIC SCHOOL #8  
 NEW SALEM SCHOOL DIST #7  
 NEW TOWN PUBLIC SCHOOL #1  
 NEWBURG UNITED PUBLIC SCHOOL  
 NORTHERN CASS SCHOOL DIST #97  
 NORTH VALLEY VO-TECH CENTER  
 OAKES PUBLIC SCHOOLS  
 OLIVER-MERCER SPECIAL ED UNIT  
 PARK RIVER PUBLIC SCHOOLS  
 PEACE GARDEN SPECIAL SERVICES  
 PEMBINA PUBLIC SCHOOL  
 RICHLAND SCHOOL DIST #44  
 ROLETTE COUNTY ALT ED CONSORT  
 ROLETTE PUBLIC SCHOOLS  
 RUGBY PUBLIC SCHOOL DIST #5  
 RURAL CASS MULTI-DISTRICT SPECIAL ED  
 SHELDON PUBLIC SCHOOL  
 SOLEN PUBLIC SCHOOL DIST #3  
 SOURIS VALLEY SPECIAL SERVICES  
 ST JOHN SCHOOL DIST #3  
 STANLEY PUBLIC SCHOOL DIST #2  
 SURREY SCHOOLS  
 SW SPECIAL EDUCATION UNIT  
 SWEET BRIAR SCHOOL DIST #17  
 TGU SCHOOL DIST #60  
 TIOGA PUBLIC SCHOOL  
 TURTLE LAKE MERCER SCHOOL DISTRICT  
 UNDERWOOD SCHOOL DIST #8  
 UNITED PUBLIC SCHOOL DISTRICT  
 VALLEY CITY MULTI-DIST VOC CT  
 VALLEY CITY PUBLIC SCHOOL  
 WARWICK PUBLIC SCHOOL  
 WEST FARGO PUBLIC SCHOOL #6  
 WESTHOPE PUBLIC SCHOOL #17  
 WHITE SHIELD SCHOOL DIST #85  
 WILLISTON PUBLIC SCHOOL #1  
 WILTON PUBLIC SCHOOL DISTRICT  
 YELLOWSTONE SCHOOL DIST #14  
 ZEELAND PUBLIC SCHOOLS  
**Total = 100**

**CITIES:**

CITY OF ASHLEY  
 CITY OF BELFIELD  
 CITY OF BOWMAN  
 CITY OF BURLINGTON  
 CITY OF CARRINGTON  
 CITY OF CAVALIER  
 CITY OF COOPERSTOWN  
 CITY OF CROSBY  
 CITY OF DRAYTON  
 CITY OF ELGIN  
 CITY OF ELLENDALE  
 CITY OF EMERADO  
 CITY OF FESSENDEN  
 CITY OF FINLEY  
 CITY OF GLENBURN  
 CITY OF GRAFTON  
 CITY OF GRANVILLE  
 CITY OF GWINNER  
 CITY OF HANKINSON

CITY OF HARVEY  
 CITY OF HARWOOD  
 CITY OF HATTON  
 CITY OF HETTINGER  
 CITY OF KENMARE  
 CITY OF LARIMORE  
 CITY OF LAMOURE  
 CITY OF LIDGERWOOD  
 CITY OF LINCOLN  
 CITY OF LINTON  
 CITY OF LISBON  
 CITY OF MAPLETON  
 CITY OF MCVILLE  
 CITY OF MCCLUSKY  
 CITY OF MEDORA  
 CITY OF MICHIGAN  
 CITY OF MINTO  
 CITY OF MOHALL  
 CITY OF MOTT  
 CITY OF NAPOLEON  
 CITY OF NECHE  
 CITY OF NEW ENGLAND  
 CITY OF NEW LEIPZIG  
 CITY OF NEW ROCKFORD  
 CITY OF NEW TOWN  
 CITY OF NORTHWOOD  
 CITY OF OAKES  
 CITY OF PARK RIVER  
 CITY OF PEMBINA  
 CITY OF POWERS LAKE  
 CITY OF RAY  
 CITY OF ROLLA  
 CITY OF RUGBY  
 CITY OF SCRANTON  
 CITY OF SHERWOOD  
 CITY OF STANLEY  
 CITY OF SURREY  
 CITY OF THOMPSON  
 CITY OF TIOGA  
 CITY OF TOWNER  
 CITY OF UNDERWOOD  
 CITY OF VELVA  
 CITY OF WALHALLA  
 CITY OF WATFORD CITY  
 CITY OF WEST FARGO  
 CITY OF WESTHOPE  
 CITY OF WILLISTON  
 CITY OF WILTON  
 CITY OF ZEELAND  
**Total = 68**

**OTHER POLITICAL SUBDIVISIONS:**

BARNES COUNTY SOIL CONSERVATION DIST  
 BISMARCK RURAL FIRE PROTECTION  
 BOARD OF MEDICAL EXAMINERS  
 BOARD OF PHARMACY  
 BOWMAN CITY PARK BOARD  
 BURLEIGH COUNTY COUNCIL ON AGING  
 BURLEIGH COUNTY SOIL CONSERVATION  
 CARNEGIE REGIONAL LIBRARY  
 CASS COUNTY SOIL CONSERVATION DIST  
 CASS CTY WATER RESOURCE DIST  
 CAVALIER COUNTY JOB DEVELOPMENT  
 CAVALIER COUNTY HEALTH DISTRICT  
 CAVALIER COUNTY HOUSING AUTHORITY  
 CENTRAL VALLEY HEALTH UNIT  
 CITY-COUNTY HEALTH DISTRICT  
 CONSOLIDATED WASTE LTD  
 CUSTER DIST HEALTH UNIT  
 DEVILS LAKE BASIN JOINT WATER  
 DUNSEITH COMMUNITY NURSE HOME  
 ELECTRICAL BOARD  
 EMMONS COUNTY PUBLIC HEALTH  
 FIRST DISTRICT HEALTH UNIT  
 GARRISON DIVERSION CONSERVATION DISTRICT  
 GRAFTON PARK DISTRICT  
 GRAND FORKS CTY WATER RESOURCE  
 GRIGGS COUNTY LIBRARY  
 KIDDER COUNTY DISTRICT HEALTH UNIT  
 LAKE METIGOSHE REC SERV DISTRICT  
 LAKE REGION DISTRICT HEALTH UNIT  
 MCINTOSH CITY HOUSING AUTHORITY  
 MCINTOSH DISTRICT HEALTH UNIT  
 MERCER CTY SOIL CONSERVATION DISTRICT  
 ND ST BOARD OF ACCOUNTANCY  
 NELSON COUNTY SOIL CONSERVATION  
 NELSON-GRIGGS DIST HEALTH UNIT

## 104 North Dakota Public Employees Retirement System

R & T WATER SUPPLY ASSOCIATION  
RAMSEY COUNTY HOUSING AUTHORITY  
RAMSEY COUNTY SOIL CONSERVATION DISTRICT  
REAL ESTATE COMMISSION  
RICHLAND COUNTY AREA VOC TECH  
RURAL UTILITIES OF RAMSEY CTY  
SARGENT CTY DIST HEALTH UNIT  
S W DISTRICT HEALTH UNIT  
SOUTHWEST WATER AUTHORITY  
STUTSMAN CO HOUSING AUTHORITY  
TRAILL CTY WATER RESOURCE DIST  
TRAILL DISTRICT HEALTH UNIT  
UPPER MISSOURI HEALTH UNIT  
WALSH COUNTY HOUSING AUTHORITY  
WALSH COUNTY HEALTH DEPT  
WALSH COUNTY HEATH DISTRICT  
WALSH COUNTY WATER RESOURCE DIST  
WARD COUNTY WATER RESOURCE DIST  
WATFORD CITY PARK DIST  
WELLS COUNTY DIST HEALTH UNIT  
WEST & CENTRAL STARK SOIL CONSERVATION DIST  
WILLISTON HOUSING AUTHORITY  
**Total = 57**

**Deferred Compensation Program  
Schedule of Assets**

**By Provider**

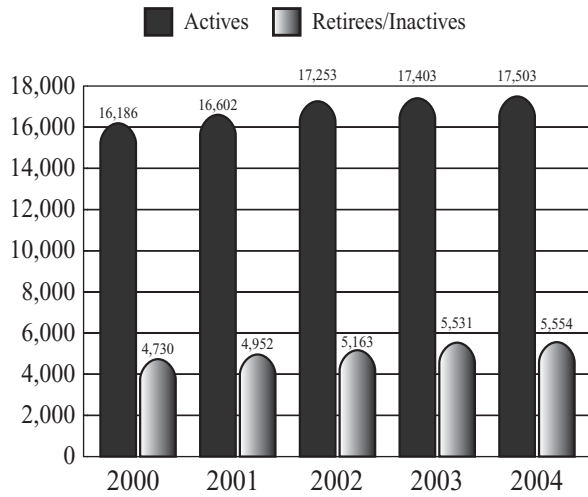
	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
Aetna	\$ 1,631,909	\$ 1,371,510	\$ 1,204,650	\$ 1,219,957	\$ 1,330,667
Bank of North Dakota	2,558,319	2,714,110	2,917,814	3,046,742	3,065,131
The Equitable	33,047,681	28,807,160	22,424,207	21,916,044	24,736,781
The Hartford	5,372,109	6,176,828	6,210,009	7,847,811	10,286,460
Jackson National	1,633,441	1,271,183	1,100,184	1,049,182	1,025,575
John Kinnard <sup>(1)</sup>	111,789	74,467	35,274	35,238	40,068
Kemper	2,693,930	2,611,732	2,522,224	3,051,776	4,201,892
Lincoln National	8,563,190	7,678,043	5,629,852	5,671,137	6,182,708
Nationwide	12,465,661	10,869,181	8,578,288	8,682,214	10,346,269
New York Life <sup>(1)</sup>	1,118,653	863,482	694,345	589,652	656,923
NDPERS Companion Plan <sup>(1)</sup>	5,585,780	6,748,503	7,917,076	10,267,537	13,591,832
Safeco Life	1,760,140	1,608,008	1,213,011	1,234,201	1,443,359
Sunset Life	315,374	338,294	362,938	339,516	370,013
VALIC	1,190,959	943,251	884,995	1,245,292	1,592,037
Waddell & Reed	<u>3,828,708</u>	<u>3,591,244</u>	<u>3,155,836</u>	<u>3,557,920</u>	<u>4,142,771</u>
Total	\$ 81,877,643	\$ 75,666,996	\$ 64,850,703	\$ 69,754,219	\$ 83,012,486

<sup>(1)</sup>As of January 1, 1999, the System is the trustee for these deferred compensation assets and is reporting them as a trust fund in the June 30, 2003 and June 30, 2004 financial statements.

All other assets are being held in trust, by the respective provider company, for the exclusive benefit of participants and their beneficiaries. Accordingly, these assets are not included in the System's financial statements.

STATISTICS

**GROUP HEALTH INSURANCE PROGRAM**  
Average Number of Contracts in Force



**Health Insurance Premium Active State Contracts**

