

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
AN AGENCY OF THE STATE OF NORTH DAKOTA

2008

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008



North Dakota Public Employees Retirement System

An Agency of the State of North Dakota

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

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

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INTRODUCTORY SECTION



Public Pension Coordinating Council

***Recognition Award for Administration
2008***

Presented to

North Dakota Public Employees Retirement System

In recognition of meeting professional standards for
plan administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

**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, 2007

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.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

**LETTER OF
TRANSMITTAL**



**North Dakota
Public Employees Retirement System**
400 East Broadway, Suite 505 • Box 1657
Bismarck, ND 58502-1657

Sparb Collins
Executive Director
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November 28, 2008

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, 2008. The management of the System is responsible for both the accuracy of the data and the completeness and fairness of the presentation.

Generally accepted accounting principals (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the report of the independent auditors in the Financial Section.

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, 2008.

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 19,296 contributing members and 6,864 retirees and beneficiaries currently receiving benefits. HPRS has 130 contributing members and 105 retirees and beneficiaries. The Job Service Plan has 38 contributing members and 216 retirees and beneficiaries and OASIS has 1 beneficiary. The employers participating in PERS include 92 state agencies and 296 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 (DC Plan) was established effective January 1, 2000. The DC Plan is available to 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 297 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. There are 19,659 contributing members and 3,935 retired participants currently receiving benefits. Approximately 58% of eligible retirees are receiving benefits under this plan.

Another component of this plan, which is being reported for the first time in compliance with GASB Statement 43, provides health care coverage to eligible retiree's who are not yet eligible for Medicare. The premiums for this group are not age-rated and do not cover the costs of the coverage; therefore, the costs of this group are being subsidized through the active group rates. There are approximately 800 retiree's currently receiving the subsidized premium.

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 24,721 active and retired contracts under this plan as of June 30, 2008, a 1.5% increase from last year at this time. Total covered lives, including spouses and dependents, are 56,060. As of June 30, 2008 there were 174 political subdivisions participating in the group health program. The health insurance premiums paid to Blue Cross Blue Shield for the fiscal year ended June 30, 2008 totaled \$168.2 million. To help offset the rising rates of medical and prescription drug costs, the System continues to focus on programs to manage costs. This includes the employer based wellness initiative, a wellness pilot study to define best practices, disease management and efforts with Health Dialog to do outreach to at risk members.

Group Life Insurance. The System began administering the group life insurance plan in 1971. There are 18,080 active and 2,972 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 Prudential for the fiscal year ended June 30, 2008 totaled \$2.9 million, a 7% increase from last year. As of fiscal year end, there is \$1.097 billion of life insurance in force for all participants covered by this plan, a 7.9% 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 5,300 participants in the dental plan, 4,100 participants in the vision plan and 57 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 four 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 15,200 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 \$23.8 million; provider companies hold the remaining plan assets of \$90.7 million in custodial accounts for the exclusive benefit of participants and their beneficiaries. Plan assets decreased 5.3% from last year. Approximately 8,700 employees participate in this program, a 16% 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. There are 3,013 participants in the medical and dependent care spending accounts, an increase of 1.7% from last year. Employee contributions to the spending accounts increased by 5.9% for a total of \$5.4 million. 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**Retirement**

- Processed the transfer of members from the Department of Career and Technical Education from the Teachers Fund for Retirement to PERS
- Provided a one-time supplemental retirement check in January 2008 to the PERS and Highway Patrol retirees
- Provided a cost of living adjustment to Job Service retirees
- Completed the renewal with Fidelity for the defined contribution plan and the 457 plan
- The board approved conducting an asset/liability review for the Job Service Retirement plan and the Retiree Health Insurance Credit Plan.

Group Insurance

- Developed a new disease management program for diabetes based upon the Ashville project. The project was started on July 1, 2008.
- Conducted the second annual wellness forum for PERS employers. This is part of the effort by PERS to promote wellness in the worksite.
- Completed the life insurance renewal
- Completed the dental plan renewal

Administrative

- In December of 2007 the Board conducted its biennial strategic planning retreat to review the agency's goals, objectives and work efforts
- Conducted a board election in the spring in of 2008 for an active member seat.
- Prepared, reviewed and submitted the biennial budget to the Office of Management and Budget
- Initiated a three year project to replace the business system for PERS
- PERS staff updated and submitted to the board the proposed business plan for 2008.

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 for the PERS, HPRS, Job Service and OASIS plans for fiscal years 2008 and 2007:

| (Millions) | <u>Fiscal Year 2008</u> | <u>Fiscal Year 2007</u> | <u>Change in \$ s</u> | <u>Percentage Change</u> |
|-------------------------|-----------------------------|-----------------------------|---------------------------|------------------------------|
| Revenue Type | | | | |
| Employee Contributions | \$ 31.4 | \$ 26.3 | \$ 5.1 | 19.4% |
| Employer Contributions | 26.3 | 24.1 | 2.2 | 9.1 |
| Investments | <u>(101.8)</u> | <u>333.4</u> | <u>(435.2)</u> | <u>(130.5)</u> |
| Total | \$(44.1) | \$383.8 | \$(427.9) | (111.5)% |
| Expense Type | | | | |
| Benefits | \$ 76.8 | \$ 66.8 | \$ 10.0 | 15.0% |
| Refunds & Transfers | 5.0 | 5.3 | (0.3) | (5.7) |
| Administrative Expenses | <u>1.2</u> | <u>1.1</u> | <u>0.1</u> | <u>9.1</u> |
| Total | \$ 83.0 | \$ 73.2 | \$ 9.8 | 13.4% |

Investment earnings decreased from the previous year as a result of the downturn in the financial markets during the current fiscal year. The return for fiscal year 2008 was -5.6%, compared to 18.96% for fiscal year 2007. Expenses are higher due to an increase in benefit payments resulting from the one-time supplemental retirement check that was issued in January 2008 and a 4.8% increase in the number of retirees.

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 soundly funded. The July 1, 2008 actuarial valuation reports the actuarial value of assets for PERS at \$1,609.8 million, which is 92.6% of the actuarial accrued liabilities of \$1,737.6 million. The actuarial value of assets for HPRS is \$50.8 million, which is 93.0% of the actuarial accrued liabilities of \$54.6. The Job Service Plan is also soundly funded. The actuarial value of assets for the Job Service Plan is \$77.0 million, which is 108.8% of the actuarial present value of benefits of \$70.8 million.

The Retiree Health Insurance Credit Program is advance-funded on an actuarially determined basis. As of fiscal year end, the program's actuarial value of assets is 48.5% of the actuarial accrued liability, which is an increase from the previous year. The Retiree Health Implicit Subsidy, is not advance funded. As of June 30, 2007, the unfunded actuarial accrued liability for this plan is \$30.7 million.

Funding progress is covered in more detail in the actuarial section of this report.

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, 2008 is \$1.809 billion, which is 6.4% less than the previous year. The market value of assets for Job Service as of June 30, 2008 is \$89.8 million, a decrease of 5.0% from the previous year. During the fiscal year ended June 30, 2008, 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 -5.60% for the fiscal year ended June 30, 2008. The annualized rate of return was 7.94% for the last three years and 10.85% for the last five years. The annualized rate of return for the fiscal year ended June 30, 2008 for the Job Service Plan was -1.64%. The annualized rate of return was 6.88% for the last three years and 9.53% for the last five years.

The assets of the Retiree Health Insurance Credit Program are also invested with the SIB. The market value of assets as of June 30, 2008 is \$39.6 million, which is 11.0% lower than the previous year. The assets earned an annualized rate of return of -14.19% for the fiscal year ended June 30, 2008. The annualized rate of return was 2.78% for the last three years and 6.35% for the last five years. During the fiscal year ended June 30, 2008, the System's portfolio remained broadly diversified with investments in domestic and international equities, domestic and international fixed income securities, and cash equivalents.

The assets of the defined contribution retirement plan are invested according to the direction of each participating member. The participant can select from fourteen 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, 2008 is \$17.0 million, which is a 4.5% decrease 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 Brady, Martz and Associates, under the direction of the North Dakota State Auditor. The auditors' opinion was unqualified for the System for the year ended June 30, 2008.

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, 2007. 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 twelve consecutive years (fiscal years ended June 30, 1996 - 2007). 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
Executive Director

Sharon Schiermeister, CPA
Finance Manager

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 members, and their respective terms, are as follows:



Jon Strinden
Chairman
Term expires
6/30/2010



Arvy Smith
Health Department
Appointee



Thomas Trenbeath
Attorney General
Appointee
Term expires
6/30/2011



Joan Erhardt
Member elected
Term expires
6/30/2009



Ron Leingang
Retiree elected
Term expires
6/30/2009

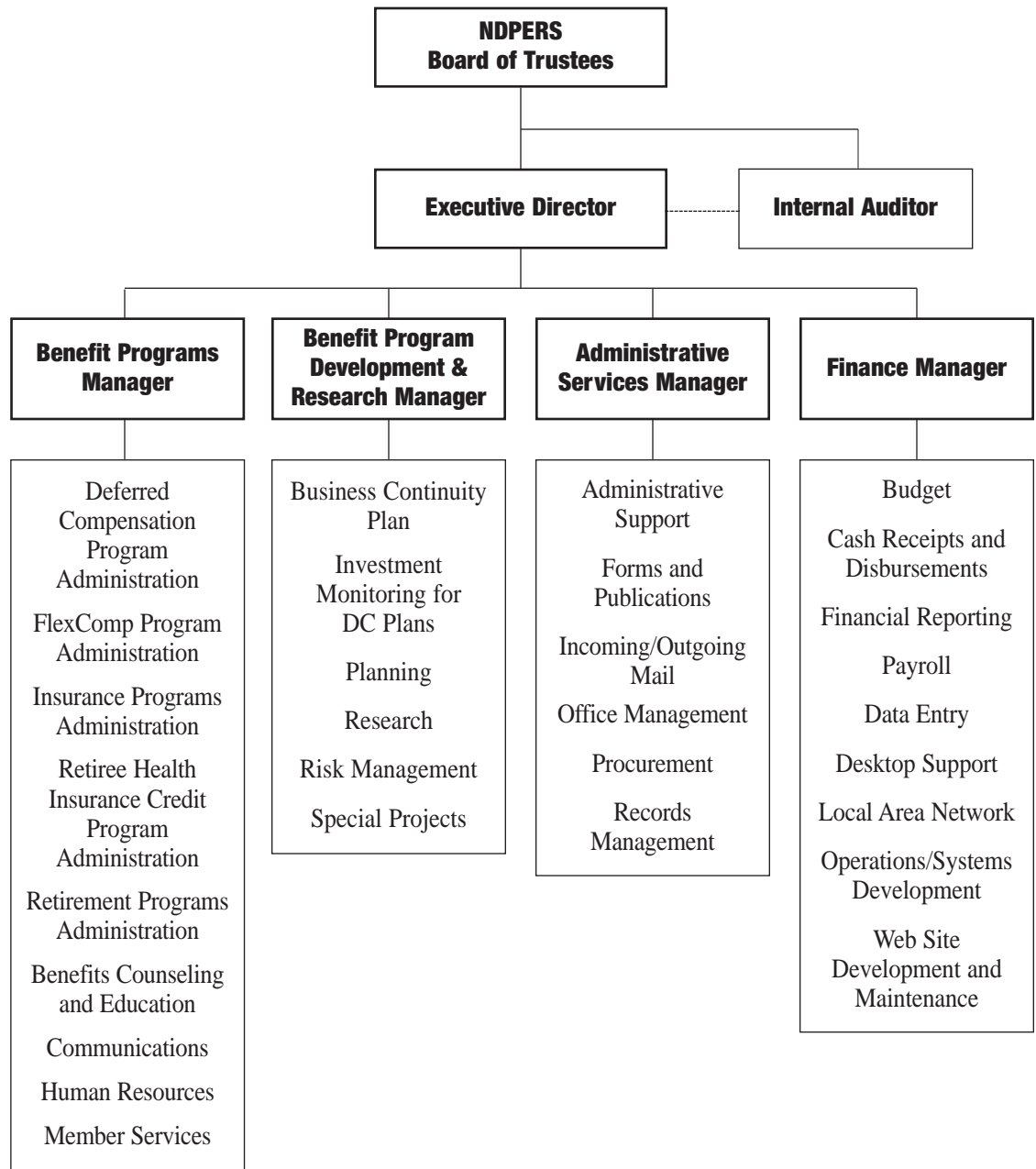


Mike Sandal
Member elected
Term expires
6/30/2012

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.

Due to the retirement of a Board member during the fiscal year, one Member Elected Board position was vacant as of June 30, 2008.

**ORGANIZATIONAL
CHART**



ADMINISTRATION

Sparb Collins, *Executive Director*

Kathy Allen, *Benefit Programs Manager*

Jamie Kinsella, CPA, CIA, *Internal Auditor*

Deb Knudsen, *Benefit Program Development and Research Manager*

Sharon Schiermeister, CPA, *Finance Manager*

Cheryl Stockert, *Administrative Services Manager*

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

The Segal Company
San Francisco, CA

Auditor:

Brady, Martz & Associates, P.C.
Bismarck, ND

Dental Insurance Carrier:

CIGNA Healthcare
Denver, CO

Disability Consultant:

Mid Dakota Clinic
Bismarck, ND

Employee Assistance Program Vendors:

Deer Oaks EAP Services
San Antonio, TX

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:

The Prudential Insurance Company of America
Minneapolis, MN

Long Term Care Insurance Carrier:

UNUM
Portland, ME

Vision Insurance Carrier:

Ameritas Life Insurance Corporation
Lincoln, NE



FINANCIAL SECTION

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**INDEPENDENT
AUDITOR'S
REPORT**



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, 2008 and 2007, 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 audits.

We conducted our audits 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 audits 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 audits provide 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, 2008 and 2007, 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.

The actuary for the North Dakota Public Employees Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately \$128 and \$107 million at June 30, 2008 and 2007, respectively. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. The actuary has determined that the current statutory contribution rates are insufficient to meet the actuarially determined requirement based upon the current assumptions, unless there are sufficient actuarial gains in the future to offset the recent investment losses.

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, 2008 and 2007, and the respective changes in net plan assets, changes in financial position and cash flows, where applicable, thereof for the years 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 November 5, 2008 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 Contributions and Schedule of Funding Progress 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 an opinion 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.

BRADY, MARTZ & ASSOCIATES, P.C.

A handwritten signature in cursive script that reads "Brady, Martz".

November 5, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis June 30, 2008 and 2007

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, 2008. 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. 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, 2008 and 2007, the funding ratio (actuarial value of assets divided by actuarial accrued liability) for each of the funds is shown below:

| | | |
|---|-------------|-------------|
| Public Employees Retirement System | <u>2008</u> | <u>2007</u> |
| | 92.6% | 93.4% |
| Highway Patrolmen Retirement System | 93.0% | 93.5% |
| Retirement Plan for Employees of Job Service ND | 108.8% | 107.1% |
| Retiree Health Insurance Credit Fund | 48.5% | 45.6% |

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 the PERS and Highway Patrol plans decreased slightly from the previous fiscal year as a result of investment earnings falling short of projections.

• Plan net assets for all trust funds administered by NDPERS decreased \$132.8 million or 6.3% during the fiscal year ended June 30, 2008. The decrease was primarily due to net losses on investments during the fiscal year.

(In Thousands)

| | |
|---|---------------------|
| Public Employees Retirement System | \$ (117,702) |
| Highway Patrolmen Retirement System | (4,622) |
| Retiree Health Insurance Credit Fund | (4,856) |
| Defined Contribution Retirement Fund | (796) |
| Pretax Benefits Fund | (530) |
| Deferred Compensation Plan | 452 |
| Retirement Plan for Employees of Job Service ND | (4,773) |
| OASIS Trust Fund | (9) |
| Total decrease in plan net assets | <u>\$ (132,836)</u> |

• As of June 30, 2008, a total of \$2.4 million in software development costs was incurred and capitalized and is shown as Software (not in production) on the Statement of Plan Net Assets for each of the trust funds.

Financial Highlights – Uniform Group Insurance Program

• Net assets increased by \$399,415 or 43%. The increase results from earnings on cash reserves and administrative fees exceeding administrative expenses.

• As of June 30, 2008, a total of \$960,988 in software development costs was incurred and capitalized and is shown as Software (not in production) on the Statement of Net Assets for the Proprietary Fund.

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, 2008, 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, 2008, 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, 2008, 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, 2008, 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, 2008 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 include information on the funding status, funding progress and actuarial assumptions and methods for each of the defined benefit pension trust funds and the retiree health insurance credit advance funded and implicit sub-

sidy unfunded plans. The notes to the financial statements can be found on pages 28-48 of this report.

Required supplementary information. The required supplementary information consists of a Schedule of Employer Contributions and a Schedule of Funding Progress for the defined benefit pension trust funds, the retiree health insurance credit advance funded plan and implicit

subsidy unfunded plan. 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 years 2008 and 2007 are summarized below. The information in the tables below is condensed from the Financial Statements.

Statement of Fiduciary Net Assets (in thousands)

| | <u>June 30, 2008</u> | <u>% Change</u> | <u>June 30, 2007</u> | <u>% Change</u> | <u>June 30, 2006</u> |
|--|----------------------|------------------|----------------------|-----------------|----------------------|
| Assets | | | | | |
| Cash | \$ 2,082 | (30.2)% | \$ 2,984 | 43.5% | \$ 2,079 |
| Receivables | 9,450 | (3.8)% | 9,819 | 6.3% | 9,240 |
| Investments, at fair value | 1,979,470 | (6.3)% | 2,113,596 | 18.3% | 1,786,864 |
| Securities Lending Collateral | 31,937 | (81.5)% | 172,982 | 9.7% | 157,620 |
| Prepaid Benefits | 0 | 0.0% | 0 | 0.0% | 0 |
| Software & Equipment, net of accum depr | <u>2,386</u> | <u>47,620.0%</u> | <u>5</u> | <u>150.0%</u> | <u>2</u> |
| Total assets | <u>2,025,325</u> | <u>(11.9)%</u> | <u>2,299,386</u> | <u>17.6%</u> | <u>1,955,805</u> |
| Liabilities | | | | | |
| Long-term liabilities outstanding | 115 | 5.5% | 109 | 14.7% | 95 |
| Other liabilities | <u>35,691</u> | <u>(79.8)%</u> | <u>176,922</u> | <u>10.7%</u> | <u>159,761</u> |
| Total liabilities | <u>35,806</u> | <u>(79.8)%</u> | <u>177,031</u> | <u>10.7%</u> | <u>159,856</u> |
| Net assets available for benefits | <u>\$1,989,519</u> | <u>(6.3)%</u> | <u>\$2,122,355</u> | <u>18.2%</u> | <u>\$1,795,949</u> |

The total assets for all fiduciary funds as of June 30, 2008 were \$2 billion and were comprised mainly of investments and invested securities lending collateral. For the fiscal year ended June 30, 2008, plan assets decreased by \$274.1 million. This decrease was primarily due to losses in the financial markets during the fiscal year. Securities lending collateral also decreased. For the fiscal year ended June 30, 2007, plan assets increased by \$343.6 million, primarily due to financial market gains.

Total liabilities as of June 30, 2008 were \$35.8 million and were primarily comprised of securities lending collateral. Total liabilities decreased \$141.2 million from June 30, 2007 as a result of a decrease in securities lending collateral at year-end. Total liabilities increased \$17.1 million from June 30, 2006 as a result of an increase in securities lending collateral.

Statement of Changes in Fiduciary Net Assets (in thousands)

| | <u>June 30, 2008</u> | <u>% Change</u> | <u>June 30, 2007</u> | <u>% Change</u> | <u>June 30, 2006</u> |
|---|----------------------|-----------------|----------------------|-----------------|----------------------|
| Additions | | | | | |
| Contributions | \$ 76,900 | 24.1% | \$ 61,945 | 4.9% | \$ 59,043 |
| Investment income | (110,815) | (132.1)% | 345,429 | 83.7% | 188,057 |
| Other | <u>4,257</u> | <u>(3.9)%</u> | <u>4,429</u> | <u>(1.0)%</u> | <u>4,473</u> |
| Total additions | <u>(29,658)</u> | <u>(107.2)%</u> | <u>411,803</u> | <u>63.7%</u> | <u>251,573</u> |
| Deductions | | | | | |
| Benefit payments | 95,408 | 22.7% | 77,756 | 4.0% | 74,734 |
| Refunds/Transfers | 5,865 | 3.0% | 5,695 | 25.8% | 4,527 |
| Administrative expenses | <u>1,905</u> | <u>(2.1)%</u> | <u>1,946</u> | <u>23.1%</u> | <u>1,581</u> |
| Total deductions | <u>103,178</u> | <u>20.8%</u> | <u>85,397</u> | <u>5.6%</u> | <u>80,842</u> |
| Changes in net assets available for benefits | | | | | |
| | <u>\$(132,836)</u> | <u>(140.7)%</u> | <u>\$326,406</u> | <u>91.2%</u> | <u>\$170,731</u> |

Additions. Contributions and returns on invested funds are the primary additions that are accumulated and used to pay benefits for each of the plans. Contributions increased \$15 million and \$2.9 million for the years ended June 30, 2008 and 2007, respectively. Contributions increased more than usual as a result of two new activities that occurred during the fiscal year. In September 2007, a one-time transfer of funds from the North Dakota Teacher's Fund for Retirement (TFFR) in the amount of \$3.2 million was received. This transfer was for employees of the state board of career and technical education who elected to transfer from TFFR to PERS as a result of legislation passed by the 2007 Legislative Assembly. Also, additional contributions of \$5.7 million are being reported for the Retiree Health Insurance Credit Fund for the first time, in compliance with GASB Statement 43 to reflect the premiums received from retirees whose health insurance rates are being subsidized. This year, the plans experienced negative investment earnings of \$110.8 million, compared to positive earnings of \$345.4 million in 2007. The decrease in Other Additions in 2008 and 2007 is primarily due to changes in the volume of service purchase contributions.

Deductions. Expenses include benefit payments, refunds/transfers, and administrative expenses. Expenses for the year ended June 30, 2008 totaled \$103.1 million, an increase of \$17.8 million over 2007. In the previous fiscal year, expenses totaled \$85.4 million, an increase of \$4.6 million. Benefit payments increased more than usual as a result of two new activities that occurred during the fiscal year. In January 2008, a one-time supplemental retirement check was issued to pensioners totaling \$4.2 million. Also, additional health premiums paid of \$5.7 are being reported for the Retiree Health Insurance Credit Fund for the first time, in compliance with GASB Statement 43, to reflect the payment of premiums to the health insurance carrier for retirees whose health insurance rates are being subsidized.

Statement of Proprietary Fund Net Assets (in thousands)

| | <u>June 30, 2008</u> | <u>% Change</u> | <u>June 30, 2007</u> | <u>% Change</u> | <u>June 30, 2006</u> |
|-----------------------------------|----------------------|-----------------|----------------------|-----------------|----------------------|
| Assets | | | | | |
| Cash | \$ 7,769 | 6.7% | \$ 7,279 | (27.7)% | \$ 10,071 |
| Receivables | 85 | (86.3)% | 621 | (68.4)% | 1,965 |
| Software (not in production) | <u>961</u> | <u>N/A</u> | <u>0</u> | <u>0.0%</u> | <u>0</u> |
| Total assets | 8,815 | 11.6% | 7,900 | (34.4)% | 12,036 |
| Liabilities | | | | | |
| Long-term liabilities outstanding | 43 | 7.5% | 40 | (14.9)% | 47 |
| Other liabilities | <u>7,444</u> | <u>7.4%</u> | <u>6,932</u> | <u>(19.9)%</u> | <u>8,650</u> |
| Total liabilities | 7,487 | 7.4% | 6,972 | (19.8)% | 8,697 |
| Net assets | <u>\$ 1,328</u> | <u>43.1%</u> | <u>\$ 928</u> | <u>(72.2)%</u> | <u>\$3,339</u> |

As of June 30, 2008, net assets are \$1.3 million, a 43.1% increase from a year ago. The increase is primarily due to the addition of software (not in production) as an asset. As of June 30, 2007, net assets are \$.9 million, which is a 72.2% decrease from 2006. In July 2006, cash reserves of approximately \$2.8 were transferred to Blue Cross Blue Shield as part of the contract for 2005-2007. This transfer resulted in the decrease in net assets.

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 (in thousands)

| | <u>June 30, 2008</u> | <u>% Change</u> | <u>June 30, 2007</u> | <u>% Change</u> | <u>June 30, 2006</u> |
|-------------------------------|----------------------|-----------------|----------------------|-----------------|----------------------|
| Operating Revenues | | | | | |
| Administrative Fee | \$ 923 | 2.3% | \$ 902 | 4.5% | \$ 863 |
| Non-Operating Revenues | | | | | |
| Investment income | <u>213</u> | <u>(32.2)%</u> | <u>314</u> | <u>(25.2)%</u> | <u>420</u> |
| Total revenues | <u>1,136</u> | <u>(6.6)%</u> | <u>1,216</u> | <u>(5.2)%</u> | <u>1,283</u> |
| Operating Expenses | | | | | |
| Premium reduction expense | 0 | N/A | 2,855 | N/A | 0 |
| Administrative expenses | <u>737</u> | <u>(4.5)%</u> | <u>772</u> | <u>.5%</u> | <u>768</u> |
| Total expense | <u>737</u> | <u>(79.7)%</u> | <u>3,627</u> | <u>372.3%</u> | <u>768</u> |
| Change in Net Assets | <u>\$ 399</u> | <u>116.5%</u> | <u>\$(2,411)</u> | <u>(568.2)%</u> | <u>\$ 515</u> |

For the fiscal year ended June 30, 2008, net assets increased by \$.4 million as a result of administrative fees and investment earnings exceeding administrative expenses. Expenses related to the software development project are being shown as an asset and are not included as part of administrative expenses. For the fiscal year ended June 30, 2007, net assets decreased by \$2.4 million. This was due to the premium reduction payment made to Blue Cross Blue Shield during the fiscal year.

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, 2008 and 2007**

| | Uniform Group Insurance Program | 2008 | 2007 |
|------------------------------------|------------------------------------|------------------|------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ | 7,768,650 | 7,279,269 |
| Accounts receivable | | 11,141 | 577,819 |
| Due from fiduciary funds | | 73,781 | 35,375 |
| Due from other state agencies | | - | 7,213 |
| Total current assets | | <u>7,853,572</u> | <u>7,899,676</u> |
| Capital assets: | | | |
| Software (not in production) | | 960,988 | - |
| Total assets | \$ | <u>8,814,560</u> | <u>7,899,676</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Salaries payable | | 47,345 | 36,526 |
| Accounts payable | | 273,533 | 24,212 |
| Due to other state agencies | | 13,155 | 7,004 |
| Accrued compensated absences | | 2,496 | 2,169 |
| Amounts held in custody for others | | 4,472,215 | 4,214,307 |
| Deferred premiums | | 2,634,689 | 2,647,509 |
| Total current liabilities | | <u>7,443,433</u> | <u>6,931,727</u> |
| Noncurrent liabilities | | | |
| Accrued compensated absences | | 43,384 | 39,621 |
| Total liabilities | | <u>7,486,817</u> | <u>6,971,348</u> |
| Total net assets | \$ | <u>1,327,743</u> | <u>928,328</u> |

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Years Ended June 30, 2008 and 2007**

| | Uniform Group Insurance Program | 2008 | 2007 |
|--------------------------------------|------------------------------------|------------------|--------------------|
| OPERATING REVENUES: | | | |
| Administrative fee | \$ | 923,188 | 901,860 |
| Total operating revenues | | <u>923,188</u> | <u>901,860</u> |
| OPERATING EXPENSES: | | | |
| Salaries and wages | | 488,293 | 425,967 |
| Operating expenses | | 140,807 | 134,775 |
| Professional fees | | 62,435 | 180,306 |
| Data processing | | 45,638 | 31,463 |
| Premium reduction expenses | | - | 2,854,680 |
| Total operating expenses | | <u>737,173</u> | <u>3,627,191</u> |
| Operating income (loss) | | <u>186,015</u> | <u>(2,725,331)</u> |
| NON-OPERATING REVENUES: | | | |
| Investment income | | 213,400 | 314,712 |
| | | <u>213,400</u> | <u>314,712</u> |
| Change in net assets | | 399,415 | (2,410,619) |
| Total net assets - beginning of year | | <u>928,328</u> | <u>3,338,947</u> |
| Total net assets - ending of year | \$ | <u>1,327,743</u> | <u>928,328</u> |

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

Statement of Cash Flows
Proprietary Funds
For the years ended June 30, 2008 and 2007

| | Uniform Group Insurance Program | |
|---|------------------------------------|-----------------------|
| | <u>2008</u> | <u>2007</u> |
| Cash Flows From Operating Activities: | | |
| Premiums collected | \$ 162,535,552 | \$ 144,180,860 |
| Claims experience gains/losses | 257,908 | 2,036,146 |
| Administrative fees collected | 1,445,853 | 1,254,905 |
| Payments to suppliers | (244,505) | (351,471) |
| Premiums paid | (162,535,552) | (149,794,391) |
| Payments to employees | (473,384) | (432,184) |
| Net Cash Provided (Used) By Operating Activities | <u>985,872</u> | <u>(3,106,135)</u> |
| Cash Flows From Investing Activities: | | |
| Investment income | <u>213,400</u> | <u>314,712</u> |
| Cash Flows Used By Capital and Related Financing Activities: | | |
| Acquisition and construction of capital assets/software | <u>(709,891)</u> | <u>-</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 489,381 | (2,791,423) |
| Cash and Cash Equivalents Balance - Beginning of Year | <u>7,279,269</u> | <u>10,070,692</u> |
| Cash and Cash Equivalents Balance - End of Year | <u>\$ 7,768,650</u> | <u>\$ 7,279,269</u> |
| Reconciliation of Operating Income to Net Cash Provided | | |
| Operating Income (Loss) | \$ 186,015 | \$ (2,725,331) |
| Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided | | |
| By Operating Activities: | | |
| Premiums Collected and BCBS Surplus Used | 162,535,552 | 149,794,391 |
| Premiums Paid | (162,535,552) | (149,794,391) |
| Changes in Assets and Liabilities: | | |
| (Increase) Decrease in Accounts Receivable | 566,678 | 1,331,043 |
| Decrease in Due From Other Funds | (38,406) | 2,338 |
| (Increase) Decrease in Due From Other State Agencies | 7,213 | 11,681 |
| (Increase (Decrease) in Salaries Payable | 10,819 | 1,230 |
| Decrease in Accrued Compensated Absences | 4,090 | (7,447) |
| Decrease in Accounts Payable | (1,776) | (2,355) |
| Increase (Decrease) in Due To Other State Agencies | 6,151 | 1,691 |
| Increase (Decrease) in Amounts Held in Custody for Others | 257,908 | (1,913,853) |
| Increase(Decrease) in Due To Other Funds | - | (4,263) |
| Decrease in Deferred Premiums | (12,820) | 199,131 |
| Total Adjustments | <u>799,857</u> | <u>(380,804)</u> |
| Net Cash Provided (Used) By Operating Activities | <u>\$ 985,872</u> | <u>\$ (3,106,135)</u> |

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

Statement of Plan Net Assets
Fiduciary Funds
June 30, 2008

| | 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 |
|--|---------------------------------------|---|--|--|----------------------------|----------------------------------|--|---------------------|
| ASSETS: | | | | | | | | |
| Cash | \$ 1,689,307 | \$ - | \$ 57,608 | \$ - | \$ 226,075 | \$ 101,545 | \$ 753 | \$ 6,246 |
| Receivables: | | | | | | | | |
| Contribution receivable | 3,634,509 | 144,837 | 464,449 | 91,602 | 477,870 | - | 9,887 | - |
| Interest receivable | 3,718,907 | 117,295 | 379,616 | - | - | - | 230,971 | - |
| Accounts receivable | - | - | - | - | - | - | - | - |
| Due from fiduciary funds | 79,284 | - | - | - | 24,850 | 42,079 | - | - |
| Due from proprietary funds | - | - | - | - | - | - | - | - |
| Due from other state agencies | 33,499 | - | - | - | - | - | - | - |
| Total receivables | <u>7,466,199</u> | <u>262,132</u> | <u>844,065</u> | <u>91,602</u> | <u>502,720</u> | <u>42,079</u> | <u>240,858</u> | <u>-</u> |
| Investments, at fair value: | | | | | | | | |
| Domestic equities | 661,201,872 | 20,854,488 | 19,937,872 | - | - | - | 29,473,121 | - |
| International equities | 244,370,521 | 7,707,513 | 6,030,360 | - | - | - | 3,988,084 | - |
| Fixed income | - | - | - | 2,162,101 | - | - | - | - |
| International fixed income | 87,322,797 | 2,754,184 | - | - | - | - | 4,507,040 | - |
| Domestic fixed income | 537,086,902 | 16,939,867 | 13,658,848 | - | - | - | 51,704,428 | - |
| Real estate | 118,196,834 | 3,727,960 | - | - | - | - | - | - |
| Mutual funds | - | - | - | 14,869,222 | - | 23,721,304 | - | - |
| Annuities | - | - | - | - | - | 105,731 | - | - |
| Alternative investments | 96,200,559 | 3,034,192 | - | - | - | - | - | - |
| Invested cash | 9,499,488 | 299,616 | - | - | - | - | 105,055 | 10,000 |
| Total investments | <u>1,753,878,973</u> | <u>55,317,820</u> | <u>39,627,080</u> | <u>17,031,323</u> | <u>-</u> | <u>23,827,035</u> | <u>89,777,728</u> | <u>10,000</u> |
| Invested securities | | | | | | | | |
| lending collateral | 28,264,719 | 891,477 | - | - | - | - | 2,781,230 | - |
| Software (not in production) | 1,272,025 | 10,206 | 122,377 | 9,028 | 320,329 | 640,659 | 8,025 | - |
| Equipment (net of accumulated depreciation) | 3,691 | - | - | - | - | - | - | - |
| Total assets | <u>\$ 1,792,574,914</u> | <u>\$ 56,481,635</u> | <u>\$ 40,651,130</u> | <u>\$ 17,131,953</u> | <u>\$ 1,049,124</u> | <u>\$ 24,611,318</u> | <u>\$ 92,808,594</u> | <u>\$ 16,246</u> |

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 |
|--|---------------------------------------|---|--|--|----------------------------|----------------------------------|--|---------------------|
| LIABILITIES: | | | | | | | | |
| Salaries payable | \$ 61,097 | \$ - | \$ - | \$ - | \$ 17,384 | \$ 27,595 | \$ - | \$ - |
| Accounts payable | 2,935,133 | - | 26,387 | - | 93,110 | 182,326 | 99,563 | 772 |
| Due to fiduciary funds | - | 2,382 | 132,124 | - | - | - | 9,737 | - |
| Due to proprietary funds | - | - | 69,600 | 1,970 | - | - | 4,181 | - |
| Due to other state agencies | 23,607 | - | - | 18 | 2,150 | 4,519 | - | - |
| Deferred contributions | - | - | - | - | - | 53,217 | - | - |
| Securities lending collateral | 28,264,719 | 891,477 | - | - | - | - | 2,781,230 | - |
| Accrued compensated absences | 67,327 | - | - | - | 21,110 | 33,341 | - | - |
| Total liabilities | 31,351,883 | 893,859 | 228,111 | 1,988 | 133,754 | 300,998 | 2,894,711 | 772 |
| NET ASSETS: | | | | | | | | |
| Held in trust for pension benefits | 1,761,223,031 | 55,587,776 | - | 17,129,965 | - | 24,310,320 | 89,913,883 | 15,474 |
| Held in trust for postemployment healthcare benefits | - | - | 40,423,019 | - | - | - | - | - |
| Held in trust for pretax benefits (A schedule of pension funding progress for each plan is presented on pages 60-61) | - | - | - | - | 915,370 | - | - | - |
| Total net assets held in trust | \$ 1,761,223,031 | \$ 55,587,776 | \$ 40,423,019 | \$ 17,129,965 | \$ 915,370 | \$ 24,310,320 | \$ 89,913,883 | \$ 15,474 |

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

Statement of Plan Net Assets
Fiduciary Funds
June 30, 2007

| | 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 |
|--|---------------------------------------|---|--|--|----------------------------|----------------------------------|--|---------------------|
| ASSETS: | | | | | | | | |
| Cash | \$ 1,808,037 | \$ - | \$ 66,803 | \$ 2,401 | \$ 1,028,297 | \$ 73,311 | \$ 774 | \$ 4,774 |
| Receivables: | | | | | | | | |
| Contribution receivable | 3,454,973 | - | 411,542 | 88,611 | 447,124 | - | 10,551 | - |
| Interest receivable | 4,369,557 | 140,319 | 420,924 | - | - | - | 301,077 | 77 |
| Accounts receivable | 2,692 | - | - | - | - | - | - | - |
| Due from fiduciary funds | 144,905 | - | - | - | 9,800 | 16,243 | - | - |
| Due from proprietary funds | - | - | - | - | - | - | - | - |
| Due from other state agencies | 394 | - | - | - | - | - | - | - |
| Total receivables | <u>7,972,521</u> | <u>140,319</u> | <u>832,466</u> | <u>88,611</u> | <u>456,924</u> | <u>16,243</u> | <u>311,628</u> | <u>77</u> |
| Investments, at fair value: | | | | | | | | |
| Domestic equities | 768,096,058 | 24,665,753 | 22,352,982 | - | - | - | 34,025,626 | - |
| International equities | 303,919,544 | 9,759,723 | 6,796,518 | - | - | - | 4,794,864 | - |
| Fixed income | - | - | - | 2,278,187 | - | - | - | - |
| International fixed income | 81,229,337 | 2,608,505 | - | - | - | - | 4,525,864 | - |
| Domestic fixed income | 507,225,751 | 16,288,464 | 15,383,953 | - | - | - | 50,852,378 | - |
| Real estate | 110,665,643 | 3,553,789 | - | - | - | - | - | - |
| Mutual funds | - | - | - | 15,557,155 | - | 23,706,450 | - | - |
| Annuities | - | - | - | - | - | 141,030 | - | - |
| Alternative investments | 82,556,805 | 2,651,135 | - | - | - | - | - | - |
| Invested Cash | 19,011,260 | 610,506 | - | - | - | - | 319,234 | 20,000 |
| Total investments | <u>1,872,704,398</u> | <u>60,137,875</u> | <u>44,533,453</u> | <u>17,835,342</u> | <u>-</u> | <u>23,847,480</u> | <u>94,517,966</u> | <u>20,000</u> |
| Invested securities lending collateral | 155,223,560 | 4,984,671 | - | - | - | - | 12,773,349 | - |
| Equipment (net of accumulated depreciation) | <u>5,076</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total assets | <u>\$ 2,037,713,592</u> | <u>\$ 65,262,865</u> | <u>\$ 45,432,722</u> | <u>\$ 17,926,354</u> | <u>\$ 1,485,221</u> | <u>\$ 23,937,034</u> | <u>\$ 107,603,717</u> | <u>\$ 24,851</u> |

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 |
|--|------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|-------------------------|----------------------------|---|------------------|
| LIABILITIES: | | | | | | | | |
| Salaries payable | \$ 50,588 | \$ - | \$ - | \$ - | \$ 15,274 | \$ 20,818 | \$ - | \$ - |
| Accounts payable | 3,434,293 | - | 37,747 | - | 4,451 | 7,681 | 126,765 | 772 |
| Due to fiduciary funds | - | 68,302 | 88,214 | - | - | - | 14,432 | - |
| Due to proprietary funds | 5,470 | - | 28,041 | - | - | - | 1,864 | - |
| Due to other state agencies | 10,054 | - | - | 17 | 722 | 1,648 | - | - |
| Deferred contributions | - | - | - | - | - | 17,699 | - | - |
| Securities lending collateral | 155,223,560 | 4,984,671 | - | - | - | - | 12,773,349 | - |
| Accrued compensated absences | 64,760 | - | - | - | 19,019 | 31,131 | - | - |
| Total liabilities | 158,788,725 | 5,052,973 | 154,002 | 17 | 39,466 | 78,977 | 12,916,410 | 772 |
| NET ASSETS: | | | | | | | | |
| Held in trust for pension benefits | 1,878,924,867 | 60,209,892 | - | 17,926,337 | - | 23,858,057 | 94,687,307 | 24,079 |
| Held in trust for postemployment healthcare benefits | - | - | 45,278,720 | - | - | - | - | - |
| Held in trust for pretax benefits | - | - | - | - | 1,445,755 | - | - | - |
| (A schedule of pension funding progress for each plan is presented on page 50) | | | | | | | | |
| Total net assets held in trust | \$ 1,878,924,867 | \$ 60,209,892 | \$ 45,278,720 | \$ 17,926,337 | \$ 1,445,755 | \$ 23,858,057 | \$ 94,687,307 | \$ 24,079 |

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, 2008**

| | 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 |
|----------------------------------|---------------------------------------|--|--|--|----------------------------|----------------------------------|--|---------------------|
| ADDITIONS: | | | | | | | | |
| Contributions: | | | | | | | | |
| From employer | \$ 25,253,902 | \$ 1,058,825 | \$ 6,174,940 | \$ 565,281 | \$ - | \$ - | \$ - | \$ - |
| From employee | 23,896,615 | 649,861 | 5,686,576 | 548,827 | 5,394,790 | 3,213,972 | 123,718 | - |
| Transfers from other plans | - | - | - | 76,487 | - | - | - | - |
| From external plans | 3,208,999 | - | - | 10,313 | - | 170,387 | - | - |
| From pretax benefits fund | - | - | - | - | - | 866,895 | - | - |
| Total contributions | <u>52,359,516</u> | <u>1,708,686</u> | <u>11,861,516</u> | <u>1,200,908</u> | <u>5,394,790</u> | <u>4,251,254</u> | <u>123,718</u> | <u>-</u> |
| Investment income (loss): | | | | | | | | |
| Net change | | | | | | | | |
| in fair value of investments | (129,191,077) | (4,112,373) | (7,701,312) | (1,843,057) | - | (3,254,582) | (2,847,451) | - |
| Interest and dividends | 42,545,611 | 1,354,600 | 1,343,002 | 954,691 | 23,454 | 1,643,428 | 2,133,511 | 661 |
| Less investment expense | (11,093,487) | (354,276) | (110,942) | (13,213) | - | (58,575) | (622,355) | - |
| Net investment income (loss) | <u>(97,738,953)</u> | <u>(3,112,049)</u> | <u>(6,469,252)</u> | <u>(901,579)</u> | <u>23,454</u> | <u>(1,669,729)</u> | <u>(1,336,295)</u> | <u>661</u> |
| Securities lending activity: | | | | | | | | |
| Securities lending income | 3,377,738 | 107,519 | - | - | - | - | 284,811 | - |
| Less securities lending expenses | (3,026,817) | (96,349) | - | - | - | - | (258,635) | - |
| Net securities lending income | <u>350,921</u> | <u>11,170</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>26,176</u> | <u>-</u> |
| Repurchase service credit | 3,454,411 | - | 227,655 | - | - | - | - | - |
| FICA tax savings | - | - | - | - | 557,869 | - | - | - |
| Miscellaneous income | 5,187 | 21 | - | 11,940 | 34 | - | - | - |
| Total additions | <u>(41,568,918)</u> | <u>(1,392,172)</u> | <u>5,619,919</u> | <u>311,269</u> | <u>5,976,147</u> | <u>2,581,525</u> | <u>(1,186,401)</u> | <u>661</u> |
| DEDUCTIONS: | | | | | | | | |
| Benefits paid to participants | 70,153,871 | 3,077,105 | - | 1,100,358 | 5,386,675 | 1,733,280 | 3,564,811 | 9,266 |
| Refunds | 4,784,327 | 134,475 | 2,673 | - | - | - | - | - |
| Prefunded credit applied | - | - | 4,704,087 | - | - | - | - | - |
| Health premiums paid | - | - | 5,678,983 | - | - | - | - | - |
| Transfers to other plans | 76,487 | - | - | - | 866,895 | - | - | - |
| | <u>75,014,685</u> | <u>3,211,580</u> | <u>10,385,743</u> | <u>1,100,358</u> | <u>6,253,570</u> | <u>1,733,280</u> | <u>3,564,811</u> | <u>9,266</u> |
| Administrative expenses | 1,118,233 | 18,364 | 89,877 | 7,283 | 252,962 | 395,982 | 22,212 | - |
| Total deductions | <u>76,132,918</u> | <u>3,229,944</u> | <u>10,475,620</u> | <u>1,107,641</u> | <u>6,506,532</u> | <u>2,129,262</u> | <u>3,587,023</u> | <u>9,266</u> |
| Change in net assets | (117,701,836) | (4,622,116) | (4,855,701) | (796,372) | (530,385) | 452,263 | (4,773,424) | (8,605) |
| Net assets - beginning of year | 1,878,924,867 | 60,209,892 | 45,278,720 | 17,926,337 | 1,445,755 | 23,858,057 | 94,687,307 | 24,079 |
| Net assets - end of year | <u>\$ 1,761,223,031</u> | <u>\$ 55,587,776</u> | <u>\$ 40,423,019</u> | <u>\$ 17,129,965</u> | <u>\$ 915,370</u> | <u>\$ 24,310,320</u> | <u>\$ 89,913,883</u> | <u>\$ 15,474</u> |

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, 2007**

| | 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 |
|----------------------------------|---------------------------------------|--|--|--|----------------------------|----------------------------------|--|---------------------|
| ADDITIONS: | | | | | | | | |
| Contributions: | | | | | | | | |
| From employer | \$ 23,140,767 | \$ 960,487 | \$ 5,665,071 | \$ 551,043 | \$ - | \$ - | \$ - | \$ - |
| From employee | 21,883,581 | 592,398 | 7,959 | 535,403 | 5,156,770 | 2,712,945 | 132,564 | - |
| Transfers from other plans | - | - | - | 39,829 | - | - | - | - |
| From external plans | - | - | - | - | - | 130,797 | - | - |
| From pretax benefits fund | - | - | - | - | - | 435,000 | - | - |
| Total contributions | <u>45,024,348</u> | <u>1,552,885</u> | <u>5,673,030</u> | <u>1,126,275</u> | <u>5,156,770</u> | <u>3,278,742</u> | <u>132,564</u> | <u>-</u> |
| Investment income: | | | | | | | | |
| Net increase | | | | | | | | |
| in fair value of investments | 276,093,445 | 8,937,992 | 4,926,308 | 1,618,224 | - | 2,192,352 | 11,691,612 | - |
| Interest and dividends | 42,495,993 | 1,375,836 | 1,331,047 | 856,222 | 34,620 | 1,286,063 | 2,325,117 | 1,292 |
| Less investment expense | (9,181,888) | (297,446) | (128,097) | (11,876) | - | (49,155) | (416,599) | - |
| Net investment income | <u>309,407,550</u> | <u>10,016,382</u> | <u>6,129,258</u> | <u>2,462,570</u> | <u>34,620</u> | <u>3,429,260</u> | <u>13,600,130</u> | <u>1,292</u> |
| Securities lending activity: | | | | | | | | |
| Securities lending income | 7,978,713 | 258,295 | - | - | - | - | 679,120 | - |
| Less securities lending expenses | (7,659,310) | (247,955) | - | - | - | - | (660,454) | - |
| Net securities lending income | <u>319,403</u> | <u>10,340</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>18,666</u> | <u>-</u> |
| Repurchase service credit | | | | | | | | |
| FICA tax savings | 3,679,036 | - | 204,758 | - | - | - | - | - |
| Miscellaneous income | 4,759 | 44 | - | 9,407 | 530,697 | - | - | - |
| Total additions | <u>358,435,096</u> | <u>11,579,651</u> | <u>12,007,046</u> | <u>3,598,252</u> | <u>5,722,206</u> | <u>6,708,002</u> | <u>13,751,360</u> | <u>1,292</u> |
| DEDUCTIONS: | | | | | | | | |
| Benefits paid to participants | 60,469,904 | 2,892,964 | - | 370,052 | 5,041,599 | 1,046,105 | 3,400,892 | 9,245 |
| Refunds | 5,131,324 | 85,812 | 2,798 | - | - | - | - | - |
| Prefunded credit applied | - | - | 4,525,810 | - | - | - | - | - |
| Transfers to other plans | 39,829 | - | - | - | 435,000 | - | - | - |
| Administrative expenses | 1,109,260 | 19,410 | 104,953 | 7,900 | 261,447 | 418,426 | 22,811 | 1,332 |
| Total deductions | <u>66,750,317</u> | <u>2,998,186</u> | <u>4,633,561</u> | <u>377,952</u> | <u>5,738,046</u> | <u>1,464,531</u> | <u>3,423,703</u> | <u>10,577</u> |
| Change in net assets | 291,684,779 | 8,581,465 | 7,373,485 | 3,220,300 | (15,840) | 5,243,471 | 10,327,657 | (9,285) |
| Net assets - beginning of year | 1,587,240,088 | 51,628,427 | 37,905,235 | 14,706,037 | 1,461,595 | 18,614,586 | 84,359,650 | 33,364 |
| Net assets - end of year | <u>\$ 1,878,924,867</u> | <u>\$ 60,209,892</u> | <u>\$ 45,278,720</u> | <u>\$ 17,926,337</u> | <u>\$ 1,445,755</u> | <u>\$ 23,858,057</u> | <u>\$ 94,687,307</u> | <u>\$ 24,079</u> |

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 & 2007

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.

The 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 and a plan to provide health care coverage to eligible retiree's who are not yet eligible for Medicare.
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.

8. Oasis Trust Fund – a cost-sharing multiple employer defined benefit retirement plan.

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, 2008 and 2007.

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.

Investments

Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The market values for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that value. International securities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at June 30. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investment securities is based on appraisals plus fiscal year-to-date capital transactions. Publicly traded alternative investments are valued based on quoted market prices. When not readily available, alternative investment securities are valued using current estimates of fair value from the investment manager. Such valuations consider variables such as financial performance of the issuer, comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, withdrawal restrictions, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the estimated fair value may differ from

the values that would have been used had a ready market existed. Investments in the external investment pool are stated at fair value which is the same as the value of the pool shares.

The net increase (decrease) in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

Investments-continued

Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis.

Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

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.

The System, through the North Dakota State Investment Board (Board) lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Board has contracted with a third party securities lending agent (Agent) to lend the System's securities portfolios. The Agent lends securities of the type on loan at June 30, 2008 for collateral in the form of cash or other securities at 102% of the loaned securities market value plus accrued interest for domestic securities and 105% of the loaned securities market value plus accrued interest for international securities. The collateral for the loans is maintained at 100% per the contractual requirements. As of June 30, 2008, the market value of the securities on loan totaled \$27,740,051; \$875,640 and \$2,746,765 for the Public Employees Retirement System,

Highway Patrolmen's Retirement System and the Retirement Plan for Employees of Job Service of North Dakota, respectively. As of June 30, 2008, the total amount of cash and non-cash collateral related to these lent securities was \$28,264,719; \$891,477 and \$2,781,230 for the Public Employees Retirement System, Highway Patrolmen's Retirement System and the Retirement Plan for Employees of Job Service of North Dakota, respectively.

At June 30, 2008, 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.

The average duration of the collateral investments as of June 30, 2008 was 6 days. The average weighted maturity of collateral investments as of June 30, 2008 was 174 days. The interest rate sensitivity (duration) of the securities on loan matched the duration of the collateral investments.

The Agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay income distributions on them. All open securities loans can be terminated on demand by either the lender or the borrower. All term securities loans can be terminated with five days notice by either the lender or the borrower. Cash collateral is invested in accordance with the investment guidelines approved by the System. The System cannot pledge or sell collateral securities received unless the borrower defaults.

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. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. For the years ending June 30, 2008 and 2007 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 Defined Contribution Retirement Plan, the lump sum transferred is the actual employee and employer contributions plus interest.

Transfers from External Plans

Pursuant to North Dakota Century Code section 54-52-02.14, the System received a one-time transfer of assets for employees of the state board of career and technical education who elected to transfer from the North Dakota Teacher's Fund for Retirement to the North Dakota Public Employees Retirement System.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates. The System utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

According to North Dakota Century Code 21-04-01, the System is required to bank at the state-owned and operated Bank of North Dakota. The System receives interest for funds on deposit in all accounts.

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.

| | <u>2008</u> | <u>2007</u> |
|--|--------------------|---------------------|
| Cash Deposits at the Bank of North Dakota recorded as Cash and Cash Equivalents | \$2,499,808 | \$3,385,098 |
| Cash Deposits at the Bank of North Dakota recorded as Investments | 10,000 | 20,000 |
| Cash Deposits at State Treasury recorded as Cash and Cash Equivalents | 872,008 | 1,268,554 |
| Cash held by the North Dakota Retirement and Investment Office recorded as Cash and Cash Equivalents | 4,422,951 | 4,108,988 |
| Guaranteed Investment Contract with Blue Cross Blue Shield recorded as Cash and Cash Equivalents | <u>2,055,417</u> | <u>1,501,026</u> |
| | <u>\$9,860,184</u> | <u>\$10,283,666</u> |

At June 30, 2008 and 2007 the carrying amount of the System's cash deposits were \$9,860,184 and \$10,283,666, and the bank balances were \$9,926,538 and \$10,418,215. The System had \$10,000 and \$20,000 certificates of deposit recorded as investments at June 30, 2008 and June 30, 2007, respectively. All of the System's deposits are uncollateralized, a class three risk as defined by the Government Accounting Standards Board.

Custodial Risk

For deposits, custodial risk is the risk that in the event of the failure of a depository financial institution, the System will not be able to recover the deposits. The System does not have a formal policy that limits custodial risk for deposits. Deposits at the Bank of North Dakota and the State Treasury are uncollateralized but are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Investments

Total investments of the System at fair value as of June 30, 2008 and 2007 consisted of the following:

| | <u>2008</u> | <u>2007</u> |
|---------------------------------------|------------------------|------------------------|
| Equity securities | \$993,563,831 | \$1,174,411,068 |
| Bonds and notes | 716,136,167 | 680,392,439 |
| Real estate | 121,924,794 | 114,219,432 |
| Alternative investments | 99,234,751 | 85,207,940 |
| Mutual funds | 14,869,222 | 15,557,155 |
| Invested cash | 9,914,159 | 19,961,000 |
| Deferred compensation plans | | |
| Annuities | 105,731 | 141,030 |
| Mutual funds | 23,721,304 | 23,706,450 |
| Securities lending | | |
| short-term collateral investment pool | <u>31,937,426</u> | <u>172,981,580</u> |
| | <u>\$2,011,407,385</u> | <u>\$2,286,578,094</u> |

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 and were included in the net increase (decrease) reported in the prior year(s) and the current year.

All investments of the fund, except for the Defined Contribution Retirement Plan, Deferred Compensation Plan and Oasis Trust Fund are to be made by the North Dakota State Investment Board (SIB). 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 Oasis Fund consisted of a \$10,000 certificate of deposit on June 30, 2008, and two separate \$10,000 certificates of deposit on June 30, 2007, held at the Bank of North Dakota, valued at cost. Investments of the Defined Contribution Retirement Plan and the Deferred Compensation Plan are participant directed and are held by Fidelity Investments.

Credit Risk

All investments of the fund, except for the Defined Contribution Retirement Plan, Deferred Compensation Plan and Oasis Trust Fund, are invested in an external investment pool managed by SIB. The pool is not rated. The System does not have a formal credit risk policy that limits the credit risk of the investments.

Investments of the Defined Contribution Retirement Plan and the Deferred Compensation Plan are invested in mutual funds directed by the participants. The mutual funds are not rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates. The SIB has chosen to use the Segmented Time Distribution disclosure method. Tables detailing the System's portion of the investment pool are reported (right). Readers may refer to the North Dakota Retirement and Investment Office financial statements regarding highly sensitive securities that are disclosed at the SIB level.

PERS and HPRS Plan

| Type (in thousands) | Market Value | | Less Than 1 Year | | 1-6 Years | | 6-10 Years | | Over 10 Years | |
|-------------------------------|--------------|-----------|------------------|----------|-----------|-----------|------------|-----------|---------------|-----------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Asset Backed Securities | \$ 12,278 | \$ 14,343 | \$ - | \$ - | \$373 | \$ 78 | \$226 | \$ 185 | \$11,679 | \$ 14,080 |
| Bank Loans | 4,416 | - | 594 | - | 3,202 | - | 620 | - | - | - |
| Commercial Mortgage-Backed | 3,467 | 2,738 | - | - | 9 | 26 | - | - | 3,457 | 2,712 |
| Corporate Bonds | 183,367 | 169,069 | 2,406 | 3,594 | 48,434 | 50,632 | 76,547 | 52,940 | 55,980 | 61,903 |
| Corporate Convertible Bonds | 17,400 | 27,433 | 249 | 89 | 6,913 | 9,915 | - | 162 | 10,239 | 17,267 |
| Government Agencies | 17,418 | 23,074 | 2,096 | 920 | 7,351 | 14,296 | 4,909 | 3,311 | 3,062 | 4,547 |
| Government Bonds | 52,509 | 86,737 | 2,669 | 7,983 | 29,970 | 43,628 | 9,312 | 11,625 | 10,558 | 23,501 |
| Government Mortgage-Backed | 15,769 | 24,283 | - | - | - | 299 | 7 | 7 | 15,762 | 23,977 |
| Hedge Multi-Strategy | 35,629 | - | 35,629 | - | - | - | - | - | - | - |
| Index Linked Government Bonds | 1,197 | 2,962 | - | - | 7 | 23 | 271 | 1,088 | 919 | 1,851 |
| Municipal/Provincial Bonds | 3,484 | 3,970 | - | 200 | 290 | 343 | 2,057 | 2,523 | 1,137 | 904 |
| Non-Government Backed CMOs | 13,313 | 7,877 | 299 | - | 31 | 407 | - | - | 12,982 | 7,470 |
| Short Term Bills and Notes | 5,089 | 5,625 | 5,089 | 5,625 | - | - | - | - | - | - |
| Pooled Investments | 82,177 | 92,400 | 2,905 | - | 34,879 | 51,169 | 44,185 | 41,231 | 208 | - |
| Total Debt Securities | \$447,513 | \$460,511 | \$51,936 | \$18,411 | \$131,459 | \$170,816 | \$138,134 | \$113,072 | \$125,983 | \$158,212 |

Job Service Retirement Plan

| Type (in thousands) | Market Value | | Less Than 1 Year | | 1-6 Years | | 6-10 Years | | Over 10 Years | |
|-------------------------------|--------------|----------|------------------|---------|-----------|----------|------------|---------|---------------|----------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Asset Backed Securities | \$356 | \$ 466 | \$ - | \$ - | 1 | \$ 9 | \$16 | \$ 22 | \$339 | \$ 435 |
| Commercial Mortgage-Backed | 398 | 323 | - | - | 1 | 3 | - | - | 397 | 320 |
| Corporate Bonds | 11,116 | 11,629 | 196 | 338 | 3,491 | 4,168 | 4,198 | 3,242 | 3,231 | 3,881 |
| Corporate Convertible Bonds | 1,658 | 2,923 | - | - | 584 | 904 | - | - | 1,074 | 2,019 |
| Government Agencies | 1,564 | 2,429 | 47 | 109 | 765 | 1,491 | 401 | 292 | 351 | 537 |
| Government Bonds | 4,420 | 7,432 | 134 | 430 | 2,640 | 4,165 | 530 | 849 | 1,116 | 1,988 |
| Government Mortgage-Backed | 1,811 | 2,868 | - | - | - | 35 | 1 | 1 | 1,810 | 2,832 |
| Hedge Multi-Strategy | 1,728 | - | 1,728 | - | - | - | - | - | - | - |
| Index Linked Government Bonds | 138 | 350 | - | - | 1 | 3 | 31 | 128 | 106 | 219 |
| Municipal/Provincial Bonds | 281 | 323 | - | 24 | 33 | 41 | 117 | 151 | 131 | 107 |
| Non-Government Backed CMOs | 1,069 | 925 | 34 | - | - | 43 | - | - | 1,035 | 882 |
| Short Term Bills and Notes | 310 | 288 | 310 | 288 | - | - | - | - | - | - |
| Pooled Investments | 6,214 | 8,267 | - | - | 4,004 | 6,044 | 2,210 | 2,223 | - | - |
| Total Debt Securities | \$31,063 | \$38,223 | \$2,449 | \$1,189 | \$11,520 | \$16,906 | \$7,504 | \$6,908 | \$9,590 | \$13,220 |

Retiree Health Insurance Credit Fund

All securities subject to interest rate risk disclosure in the Retiree Health Insurance Credit Fund are pooled investments maturing in over 10 years. The market value of these securities is \$13,997.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System does not have a formal investment policy governing foreign currency risk. The System is invested in an external investment pool managed by SIB. A table detailing the exposure to foreign currency through the System's portion of the investment pool is reported below.

PERS and HPRS Plan

| <u>Currency (in thousands)</u> | <u>Short term</u> | | <u>Debt</u> | | <u>Equity</u> | | <u>Total</u> | |
|--|-------------------|-------------------|-----------------|-----------------|------------------|------------------|------------------|------------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Australian dollar | \$ (1,359) | \$ (1,517) | \$ 4,912 | \$ 4,707 | \$ 4,356 | \$ 6,318 | \$ 7,909 | \$ 9,508 |
| Brazilian real | - | - | 3,178 | 3,143 | 2,139 | - | 5,317 | 3,143 |
| British pound sterling | (10,093) | (12,476) | 2,827 | 3,082 | 17,080 | 29,007 | 9,814 | 19,613 |
| Canadian dollar | (5,950) | (4,436) | 1,886 | 2,565 | 6,366 | 5,671 | 2,302 | 3,800 |
| Columbian peso | - | - | - | 294 | - | - | - | 294 |
| Danish krone | (341) | (267) | - | - | 969 | 907 | 628 | 640 |
| Euro | (14,683) | (23,232) | - | 4,996 | 34,751 | 56,261 | 20,068 | 38,025 |
| Hong Kong dollar | (298) | (1,506) | - | - | 1,449 | 3,572 | 1,151 | 2,066 |
| Iceland krona | - | - | 1,515 | - | - | - | 1,515 | - |
| Indonesian rupiah | 10 | - | 1,802 | 2,126 | - | - | 1,812 | 2,126 |
| Japanese yen | (14,565) | (10,275) | - | - | 27,541 | 34,666 | 12,976 | 24,391 |
| Malaysian ringgit | - | - | 3,317 | 2,098 | - | - | 3,317 | 2,098 |
| Mexican peso | 54 | - | 3,647 | 3,623 | - | - | 3,701 | 3,623 |
| New Zealand dollar | 14 | - | 1,796 | 1,603 | - | - | 1,810 | 1,603 |
| Norwegian krone | (376) | (318) | 584 | - | 1,741 | 1,577 | 1,949 | 1,259 |
| Polish zloty | - | 35 | 2,551 | 3,075 | - | - | 2,551 | 3,110 |
| Singapore dollar | (257) | (275) | 4,420 | 4,471 | 914 | 1,394 | 5,077 | 5,590 |
| South African rand | - | - | 1,676 | 2,101 | - | - | 1,676 | 2,101 |
| South Korean won | - | 3 | 383 | 439 | - | 767 | 383 | 1,209 |
| Swedish krona | (633) | (767) | 1,701 | 1,700 | 1,931 | 2,976 | 2,999 | 3,909 |
| Swiss franc | (5,645) | (4,829) | - | - | 10,434 | 10,310 | 4,789 | 5,481 |
| Thai baht | - | (1) | - | - | - | - | - | (1) |
| Turkish lira | 729 | - | - | - | - | - | 729 | - |
| International commingled funds (various currencies) | - | - | 44,185 | 41,231 | 142,185 | 150,848 | 186,370 | 192,079 |
| | <u>\$(53,393)</u> | <u>\$(59,861)</u> | <u>\$80,380</u> | <u>\$81,254</u> | <u>\$251,856</u> | <u>\$304,274</u> | <u>\$278,843</u> | <u>\$325,667</u> |

Job Service Retirement Plan

| Currency (in thousands) | Short term | | Debt | | Equity | | Total | |
|--|------------------|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Australian dollar | \$ (33) | \$ (36) | \$ 246 | \$ 254 | \$ 105 | \$ 150 | \$ 318 | \$ 368 |
| Brazilian real | - | - | 102 | 115 | 104 | - | 206 | 115 |
| British pound sterling | (313) | (384) | 141 | 160 | 412 | 688 | 240 | 464 |
| Canadian dollar | (144) | (105) | 67 | 114 | 154 | 134 | 77 | 143 |
| Danish krone | (8) | (6) | - | - | 23 | 22 | 15 | 16 |
| Euro | (354) | (693) | - | 269 | 839 | 1,334 | 485 | 910 |
| Hong Kong dollar | (7) | (36) | - | - | 35 | 85 | 28 | 49 |
| Iceland krona | - | - | 49 | - | - | - | 49 | - |
| Indonesian rupiah | - | - | 52 | 75 | - | - | 52 | 75 |
| Japanese yen | (351) | (70) | - | - | 690 | 822 | 339 | 752 |
| Malaysian ringgit | - | - | 149 | 113 | - | - | 149 | 113 |
| Mexican peso | 3 | - | 107 | 109 | - | - | 110 | 109 |
| New Zealand dollar | 1 | - | 89 | 85 | - | - | 90 | 85 |
| Norwegian krone | (9) | (8) | 29 | - | 42 | 37 | 62 | 29 |
| Polish zloty | - | 2 | 128 | 166 | - | - | 128 | 168 |
| Singapore dollar | (6) | (7) | 142 | 165 | 22 | 33 | 158 | 191 |
| South African rand | - | - | 84 | 113 | - | - | 84 | 113 |
| South Korean won | - | - | - | - | - | 18 | - | 18 |
| Swedish krona | (15) | (18) | 85 | 92 | 47 | 71 | 117 | 145 |
| Swiss franc | (136) | (114) | - | - | 275 | 244 | 139 | 130 |
| Turkish lira | 36 | - | - | - | - | - | 36 | - |
| International commingled funds (various currencies) | - | - | 2,210 | 2,223 | 1,335 | 934 | 3,545 | 3,157 |
| | <u>\$(1,336)</u> | <u>\$ (1,475)</u> | <u>\$3,680</u> | <u>\$4,053</u> | <u>\$4,083</u> | <u>\$4,572</u> | <u>\$6,427</u> | <u>\$7,150</u> |

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

The June 30, 2008 due from/to fiduciary and proprietary funds are summarized as follows:

| <u>Fund</u> | <u>Due From Fiduciary and Proprietary Funds</u> | <u>Due To Fiduciary and Proprietary Funds</u> |
|---|---|---|
| Fiduciary | | |
| Public Employees Retirement System | \$ 79,284 | \$ - |
| Highway Patrolmen's Retirement System | - | 2,382 |
| Retiree Health Insurance Credit Fund | - | 201,724 |
| Retirement Plan for Employees of Job Service ND | - | 13,918 |
| Pretax Benefits Program | 24,850 | - |
| Deferred Compensation Plan | 42,079 | - |
| Defined Contribution Plan | - | 1,970 |
| Proprietary | | |
| Uniform Group Insurance Program | <u>73,781</u> | <u>-</u> |
| | <u>\$ 219,994</u> | <u>\$ 219,994</u> |

The June 30, 2007 due from/to fiduciary and proprietary funds are summarized as follows:

| <u>Fund</u> | <u>Due From Fiduciary and Proprietary Funds</u> | <u>Due To Fiduciary and Proprietary Funds</u> |
|---|---|---|
| Fiduciary | | |
| Public Employees Retirement System | \$ 144,905 | \$ 5,470 |
| Highway Patrolmen's Retirement System | - | 68,302 |
| Retiree Health Insurance Credit Fund | - | 116,255 |
| Retirement Plan for Employees of Job Service ND | - | 16,296 |
| Pretax Benefit Program | 9,800 | - |
| Deferred Compensation Plan | 16,243 | - |
| Proprietary | | |
| Uniform Group Insurance Program | <u>35,375</u> | <u>-</u> |
| | <u>\$ 206,323</u> | <u>\$ 206,323</u> |

These balances are a result of a time lag between the dates the expenditures are incurred, the allocations determined, and the transactions are entered into the accounting system.

The June 30, 2008 due from/to state agencies are summarized as follows:

| <u>Fund</u> | <u>Due From State Agencies</u> | <u>Due To State Agencies</u> |
|------------------------------------|------------------------------------|----------------------------------|
| Fiduciary | | |
| Public Employees Retirement System | | |
| Dept. of Transportation | \$ 33,319 | \$ 72 |
| Supreme Court | 20 | - |
| School for the Blind | 40 | - |
| Highway Patrol | 80 | - |
| Dept. of Agriculture | 20 | - |
| Game and Fish Dept. | 20 | - |
| ITD | - | 16,956 |
| Attorney General | - | 1,216 |
| Office of Mgmt/Budget | <u>-</u> | <u>5,363</u> |
| Total | <u>\$ 33,499</u> | <u>\$ 23,607</u> |
| Defined Contribution Plan | | |
| ITD | \$ - | \$ 18 |
| Pretax Benefits Program | | |
| Office of Mgmt/Budget | \$ - | \$ 1,180 |
| ITD | \$ - | \$ 666 |
| Attorney General | <u>-</u> | <u>304</u> |
| Total | <u>\$ -</u> | <u>\$ 2,150</u> |
| Deferred Compensation Plan | | |
| Office of Mgmt/Budget | \$ - | \$ 1,852 |
| ITD | \$ - | \$ 1,013 |
| Attorney General | <u>-</u> | <u>1,654</u> |
| Total | <u>\$ -</u> | <u>\$ 4,519</u> |
| Proprietary | | |
| Uniform Group Insurance Program | | |
| Dept. of Transportation | \$ - | \$ 71 |
| Office of Mgmt/Budget | - | 4,838 |
| ITD | - | 7,170 |
| Attorney General | <u>-</u> | <u>1,076</u> |
| Total | <u>\$ -</u> | <u>\$ 13,155</u> |

The June 30, 2007 due from/to state agencies are summarized as follows:

| Fund | Due From State Agencies | Due To State Agencies |
|------------------------------------|----------------------------|--------------------------|
| Fiduciary | | |
| Public Employees Retirement System | | |
| ITD | - | 8,459 |
| Attorney General | - | 938 |
| Central Services | - | 657 |
| Health | 394 | - |
| Total | \$ 394 | \$ 10,054 |

| Fund | Due From State Agencies | Due To State Agencies |
|----------------------------------|----------------------------|--------------------------|
| Defined Contribution Plan | | |
| ITD | \$ - | \$ 17 |
| Total | - | 17 |

| Fund | Due From State Agencies | Due To State Agencies |
|--------------------------------|----------------------------|--------------------------|
| Pretax Benefits Program | | |
| ITD | \$ - | \$ 351 |
| Central Services | - | 229 |
| Attorney General | - | 142 |
| Total | \$ - | \$ 722 |

| Fund | Due From State Agencies | Due To State Agencies |
|-----------------------------------|----------------------------|--------------------------|
| Deferred Compensation Plan | | |
| ITD | \$ - | \$ 746 |
| Attorney General | - | 458 |
| Central Services | - | 444 |
| Total | \$ - | \$ 1,648 |

Proprietary

| Fund | Due From State Agencies | Due To State Agencies |
|--|----------------------------|--------------------------|
| Uniform Group Insurance Program | | |
| Department of Transportation | \$ 2 | \$ 141 |
| NDPERS | 555 | 555 |
| Human Services | 557 | - |
| ITD | - | 5,075 |
| Attorney General | - | 707 |
| Central Services | - | 526 |
| Grafton Development Center | 1,112 | - |
| Jamestown State Hospital | 1,108 | - |
| Public Service Comm. | 555 | - |
| Workforce Safety | 554 | - |
| Adjutant General | 1,662 | - |
| Dept. of Commerce | 554 | - |
| Game and Fish | 554 | - |
| Total | \$ 7,213 | \$ 7,004 |

These balances are a result of a time lag between the dates that services are provided, the payments are made, and the transactions are entered into the accounting system.

The June 30, 2008 operating transfers in/out are summarized as follows:

| Fund Type / Fund | Transfer In | Transfer Out |
|------------------------------------|-------------|--------------|
| Fiduciary Funds | | |
| Defined Contribution | | |
| Retirement Fund | \$ 76,487 | \$ - |
| Pretax Benefits Program | - | 866,895 |
| Deferred Comp Plan | 866,895 | - |
| Public Employees Retirement System | - | 76,487 |

The June 30, 2007 operating transfers in/out are summarized as follows:

| Fund Type / Fund | Transfer In | Transfer Out |
|------------------------------------|-------------|--------------|
| Fiduciary Funds | | |
| Defined Contribution | | |
| Retirement Fund | \$ 39,829 | \$ - |
| Pretax Benefits Program | - | 435,000 |
| Deferred Comp Plan | 435,000 | - |
| Public Employees Retirement System | - | 39,829 |

The transfer to the Defined Contribution Retirement Fund is for those employees electing to transfer from the defined benefit plan. The transfer to the Deferred Compensation Plan is to cover administrative expenses with FICA savings earned in the Pretax Benefit Program.

**NOTE 4
CAPITAL ASSETS**

A statement of changes in equipment and accumulated depreciation for the System for the year ended June 30, 2008 and 2007 is as follows:

| | Balance 7/01/07 | Additions | Deletions | Balance 6/30/08 |
|--|--------------------|------------|-----------|--------------------|
| Proprietary Funds: | | | | |
| Capital assets not being depreciated: | | | | |
| Software (not in production) | \$ - | \$ 960,988 | \$ - | \$ 960,988 |

| | | | | |
|--|------|--------------|------|--------------|
| Fiduciary Funds: | | | | |
| Capital assets not being depreciated: | | | | |
| Software (not in production) | \$ - | \$ 2,382,649 | \$ - | \$ 2,382,649 |

| | | | | |
|--|--------|---------|--------|--------|
| Capital assets being depreciated: | | | | |
| Equipment | 59,924 | - | 48,397 | 11,527 |
| Less: Accumulated depreciation: | | | | |
| Equipment | 54,848 | 1,385 | 48,397 | 7,836 |
| Total capital assets being depr. net | 5,076 | (1,385) | - | 3,691 |

| | | | | |
|-------------------------------------|----------|--------------|------|--------------|
| Fiduciary Funds capital assets, net | \$ 5,076 | \$ 2,381,264 | \$ - | \$ 2,386,340 |
|-------------------------------------|----------|--------------|------|--------------|

| | Balance 7/01/06 | Additions | Deletions | Balance 6/30/07 |
|--|--------------------|-----------|-----------|--------------------|
| Fiduciary Funds: | | | | |
| Capital assets being depreciated: | | | | |
| Equipment | 54,384 | 5,540 | - | 59,924 |
| Less: Accumulated depreciation: | | | | |
| Equipment | 52,482 | 2,366 | - | 54,848 |
| Total capital assets being depr. net | 1,902 | 3,174 | - | 5,076 |
| Fiduciary Funds capital assets, net | \$ 1,902 | \$ 3,174 | \$ - | \$ 5,076 |

NOTE 5 – LEASE OBLIGATIONS

Operating Lease:

The department has entered into an operating lease for office space until June 30, 2009. 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 \$107,629 and \$90,528 for the year ended June 30, 2008 and June 30, 2007. The future minimum lease payments for the fiscal year ending June 30, 2009 is \$108,600.

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

| | <u>Proprietary Fund</u> | <u>Fiduciary Fund</u> |
|---------------------------------|------------------------------|------------------------------|
| | Accrued Comp. Absences | Accrued Comp. Absences |
| Balance- June 30, 2006 | \$ 49,237 | \$ 99,655 |
| Increases | 23,977 | 65,930 |
| Decreases | <u>(31,424)</u> | <u>(50,675)</u> |
| Balance - June 30, 2007 | \$ 41,790 | \$ 114,910 |
| Increases | 30,069 | 79,812 |
| Decreases | <u>(25,979)</u> | <u>(72,945)</u> |
| Balance- June 30, 2008 | <u>\$ 45,880</u> | <u>\$ 121,777</u> |
| Balance- due within one year | \$ 2,496 | \$ 6,625 |

For the government activities, the accrued annual compensated absences is 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, 2008, 2007 and 2006, were \$104,483, \$86,370 and \$81,231 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 and the National Guard Security Officers and Firefighters and as of August 1, 2003, 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>2008</u> | <u>2007</u> |
|--|-------------|-------------|
| Cities | 77 | 74 |
| Counties | 48 | 47 |
| School Districts | 108 | 102 |
| Other | <u>63</u> | <u>56</u> |
| Total participating political subdivisions | <u>296</u> | <u>279</u> |

Employee membership data is as follows:

| | PERS | | HPRS | |
|--------------------------------|---------------|---------------|-------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Retirees & Beneficiaries | | | | |
| Currently Receiving Benefits | 6,836 | 6,513 | 105 | 101 |
| Special Prior Service Retirees | 28 | 37 | - | - |
| Terminated | | | | |
| Vested Participants | 3,154 | 3,003 | 4 | 5 |
| Inactive Participants | 1,995 | 1,860 | 2 | 3 |
| Active Plan Participants: | | | | |
| Vested | 13,996 | 13,853 | 64 | 68 |
| Nonvested | <u>5,300</u> | <u>4,699</u> | <u>66</u> | <u>65</u> |
| Total Plan Membership | <u>31,309</u> | <u>29,965</u> | <u>241</u> | <u>242</u> |

| | Job Service | | OASIS | |
|--------------------------------|--------------------|-------------|--------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Retirees & Beneficiaries | | | | |
| Currently Receiving Benefits | 216 | 220 | 1 | 1 |
| Special Prior Service Retirees | - | - | - | - |
| Terminated | | | | |
| Vested Participants | 4 | 5 | - | - |
| Inactive Participants | - | - | - | - |
| Active Plan Participants: | | | | |
| Vested | 38 | 40 | - | - |
| Nonvested | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Plan Membership | <u>258</u> | <u>265</u> | <u>1</u> | <u>1</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 297 and 301 participants as of June 30, 2008 and 2007, respectively.

Investments – Current investment guidelines set by the System’s Board specify the percentage of assets to be invested in various types of investments (equities, fixed income securities, real estate, private equity and cash). The overall long-term investment objective for the System’s plans is to match or exceed the expected rate of return (7.5% - 8.0%), but at a minimum is not less than the actuarially determined percentage required to pay future benefits. Long-term performance goals are set and evaluated by the boards of SIB and the System for each type of investment.

Realized gains and losses – Realized gains and losses on sales of investments are components of net change in fair value of investments are computed as described in Note 1. For the years ended June 30, 2008 and 2007, the following are the net realized gains:

| | <u>2008</u> | <u>2007</u> |
|---------------------------------|---------------|---------------|
| Public Employees Retirement | \$30,091,345 | \$109,562,936 |
| Highway Patrolmen’s Retirement | \$ 957,858 | \$ 3,546,888 |
| Retiree Health Insurance Credit | \$(2,033,070) | \$7,278,988 |
| Defined Contribution | \$158,789 | \$ 163,352 |
| Deferred Compensation | \$ 233,420 | \$ 327,205 |
| Job Service Plan | \$ 158,027 | \$ 4,415,569 |

Investment expense of the fund, except for the Defined Contribution Retirement Plan and the Deferred Compensation Plan consists of those administrative expenses directly related to the RIO investment operations. Investment expense of the Defined Contribution Retirement Plan and the Deferred Compensation Plan consist of administrative expenses directly related to each plan. All expenses are paid out of plan assets.

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 of the main system are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). The annual 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.

Supreme and District Court Judges are entitled to unreduced monthly pension benefits beginning at normal retirement age of (65) or the Rule of 85. The monthly pension benefit is equal to a percentage of average monthly salary using the highest 36 months out of the last 120 months of service. The percentage is equal to 3.50% of average monthly salary multiplied by the first ten years of service, plus 2.80% of the average monthly salary times the second ten years of service, plus 1.25% 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% multiplier. The Plan permits early retirement at ages 55-64 with five or more years of service.

Members of the National Guard System are entitled to unreduced monthly pension benefits at normal retirement age (55). Members of the Law Enforcement System are entitled to unreduced monthly pension benefits at normal retirement age (55) or the Rule of 85. The monthly pension benefit for the National Guard/Law Enforcement 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 50-55 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, level social security, term-certain annuity, or partial lump sum with ongoing 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 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% and 1.75% 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.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing 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.

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.

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, 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, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% 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% 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% 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% 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, 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, or may elect to receive this amount at a later date. 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 state 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 estab-

lished 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% of regular compensation with the exception of Supreme and District Court judge contributions which are established at 5% 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 or 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% contribution. Some of the political subdivisions are paying all or part of the member contributions.

Employer contributions of 4.12% 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% and the contribution rate for the National Guard Security Officers and Firefighters is set by the Board as follows:

National Guard is at 6.50 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, the present rate of contributions is not sufficient to meet the actuarially determined requirement for 2008-2009.

HPRS

Employees' contributions are established at 10.3% of total compensation of which the state is paying 4%. Employer contributions of 16.7% 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, the present rate of contributions is sufficient to meet the actuarially determined requirement for 2008-2009.

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

| | |
|--|---------------------|
| Annual required contributions | \$ 905,591 |
| Interest on net pension obligations | (45,257) |
| Adjustment to annual required contrib. | <u>39,481</u> |
| Annual pension costs | 899,815 |
| Contributions made | <u>1,058,825</u> |
| Increase in net pension obligations | (159,010) |
| Net pension obligations, | |
| beginning of year | <u>(565,712)</u> |
| (Assets in excess of) net pension | |
| obligations, end of year | <u>\$ (724,722)</u> |

Defined Contribution Plan

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

Retirement Plan for Employees of Job Service North Dakota

Employees' contributions are established at 7.0% of total compensation of which the state is paying 4%. 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 obligations | (124,112) |
| Adjustment to annual required contrib. | <u>130,341</u> |
| Annual pension costs | 6,229 |
| Contributions made | <u>-</u> |
| Decrease in net pension obligations | 6,229 |
| Net pension obligations, | |
| beginning of year | <u>(1,654,832)</u> |
| (Assets in excess of) net pension | |
| obligations, end of year | <u>\$ (1,648,603)</u> |

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, 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>2008</u> | <u>2007</u> |
|----------------------------------|---------------|---------------|
| Retired participants | | |
| receiving benefits | 3,935 | 3,922 |
| Eligible terminated participants | | |
| not receiving benefits | - | - |
| Active participants, not | | |
| receiving benefits | <u>19,659</u> | <u>18,929</u> |
| | <u>23,594</u> | <u>22,851</u> |

The Retiree Health Insurance Credit Fund has 19,659 active participants at June 30, 2008. The employers' actuarially required contribution was \$5,708,457 and the actual employer contributions for the period ended June 30, 2008 were \$6,174,940.

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.

| | % | Dollar |
|---|----------------|--------------------|
| Net effect of changes in actuarial assumption | - | \$ - |
| Benefit improvements | - | - |
| Changes in plan experience during the year | <u>(0.07%)</u> | <u>(462,613)</u> |
| | <u>(0.07%)</u> | <u>\$(462,613)</u> |

The employer contribution for the PERS and the HPRS and the Defined Contribution Plan is set by statute on an actuarially determined basis at 1% of covered compensation. The employer contribution for non-teaching employees of the Office of the Superintendent of Public Instructions is 3.1% of covered compensation beginning in the month following the transfer under Chapter 54-52-02.13 of the North Dakota Century Code and continuing thereafter for a period of eight years. The employer contribution for employees of the state board of career and technical education is 2.85% of covered compensation beginning in the month following the transfer under Chapter 54-52-02.14 of the North Dakota Century code and continuing thereafter for a period of eight years. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1% 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 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 employee's, 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.

Another component of the Retiree Health Insurance Credit Fund provides health care coverage to eligible retirees who are not eligible for Medicare. The premiums for this coverage are set under North Dakota Century Code Chapter 54-52.1-02 as a percent of the active member single and family plan rates and are paid by the retiree. The premiums for this coverage are not age-rated. Currently, the premiums for this group do not cover the costs of the coverage; therefore, the costs of this group are being subsidized through the active group rates. This subsidy is not funded in advance and there is no guarantee that the subsidy for the 2007-09 biennium will continue in the future. In the event the legislature does not fund the subsidy beyond the current biennium, the coverage would discontinue and the unfunded actuarial accrued liability displayed in the table below for the retiree health implicit subsidy would be reduced to zero.

A member must be receiving a retirement allowance from NDPERS to be eligible for the retiree health care coverage. In addition, a member receiving a retirement allowance from NDTFFR or TIAA-CREF is also eligible for the retiree health care coverage.

The premiums for this plan are reported as employee contributions on the Statement of Changes in Plan Assets as they are fully paid by the retirees. The full amount of the premiums collected are expended each year and are reported as health premiums paid on the Statement of Changes in Plan Assets.

Funded Status and Funding Progress

The funded status of the plans as of the most recent actuarial valuation date (in millions), see chart below.

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear funding trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, as obtained from the System's independent actuary's annual valuation reports.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the plan is becoming financially stronger or weaker. Generally, the greater the percentage the stronger the retirement plan. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage the stronger the retirement plan.

The accompanying schedule of employer contributions, presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plans by employers in comparison to the Annual Required Contribution (ARC). The ARC is actuarially determined in accordance with the parameters of GASB Statement 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Actuarial Assumptions and Methods

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 accrued 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

Funded Status

| Plan | Actuarial | Actuarial Value of Plan Assets | Actuarial Accrued Liability (AAL) | Unfunded | Funded Ratio | Annual Covered Payroll | UAAL |
|---------------------------------|------------------------|--------------------------------|-----------------------------------|------------------------------------|--------------|------------------------|----------------------------------|
| | Valuation Date June 30 | | | Actuarial Accrued Liability (UAAL) | | | as a % of Annual Covered Payroll |
| Public Employees | 2008 | \$1,609.8 | \$1,737.6 | \$127.8 | 92.6% | \$ 640.7 | 19.9% |
| Highway Patrol | 2008 | \$ 50.8 | \$ 54.6 | \$ 3.8 | 93.0% | \$ 6.5 | 58.5% |
| Job Service | 2008 | \$ 77.0 | \$ 70.8 | \$ (6.2) | 108.8% | \$ 1.8 | 0.0% |
| Retiree Health Credit | 2008 | \$ 42.5 | \$ 87.6 | \$ 45.1 | 48.5% | \$ 660.9 | 6.8% |
| Retiree Health Implicit Subsidy | 2007 | \$ - | \$ 30.7 | \$ 30.7 | 0.0% | \$ - | 0.0% |

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.

Retiree Health Insurance Credit

Under the Projected Unit Credit Actuarial Cost Method, benefits are projected to each assumed occurrence of decrement (death, disability, retirement) using service as of the valuation date. The normal cost is equal to the actuarial present value of the benefits allocated to the current year. The actuarial accrued liability for active members is equal to the actuarial present value of the benefits allocated to all prior years. The actuarial accrued liability for members currently receiving benefits and for participants entitled to deferred benefits is the actuarial present value of the benefits expected to be paid. The unfunded actuarial accrued liability is equal to the actuarial accrued liability minus the actuarial value of assets. This amount is amortized as a level percentage of payroll over a fixed period of 40 years, of which 23 years remain. For the implicit subsidy unfunded plan, this amount is amortized over a fixed period of 30 years.

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, 2008, the date of the latest actuarial study include:

Investment Return - A rate of return on the investment of present and future assets of 8 %, net of investment expenses.

Inflation - The assumed inflation rate is 3.50% per annum.

Salary Scale - Projected salary increases based upon inflation of 4.5 % 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, with a one year set back for the mortality assumption for males.

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

For actuarial purposes, assets are valued utilizing a method which recognized 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, 2008, the date of the latest actuarial study include:

Rate of return: 7.5% per year compounded annually, net of investment fees and administrative expenses

Salary scale: 5% per year

Mortality tables:

Healthy: 1994 Group Annuity Mortality Table

Disabled: 1983 Railroad Retirement Board Disabled Life Mortality Table

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.

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

Retiree Health Insurance Credit

Actuarial valuations for other postretirement employee benefit plans involve estimates of the value of reported amounts and assumptions about

the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations of other postretirement employee benefit plans reflect a long-term perspective.

The actuarial methods and assumptions for the other postretirement employee benefit plan include techniques that are designed to reduce short-term volatility in the actuarial accrued liabilities and the actuarial value of assets.

Advance Funded Plan

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, 2008, the date of the latest actuarial study include:

Mortality Rates:1983 Group Annuity Mortality Table for Health 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: 3.50% per annum.

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

Implicit Subsidy Unfunded Plan

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2007, the date of the latest actuarial study include:

Mortality Rates:1983 Group Annuity Mortality Table, applied on a gender-specific basis.

Expected Monthly Costs:

Approximate Monthly Implicit Subsidy for a Single plan of \$47 and \$64 for a Family plan

Health Care Cost Trend:

Select - 11.0%; Ultimate 6.0%. Select trends are reduced 0.5%each year until reaching the ultimate trend.

Retirement Age:Retirement probabilities have been developed from the assumptions for the NDPERS plans.

Termination: Probabilities of withdrawal for reasons other than death and retirement have been developed from the assumptions for the NDPERS pension plans.

**NOTE 9
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 market value as investments as follows:

| | <u>2008</u> | |
|---------------------|---------------------|-------------|
| Plan Participation | | |
| by the State of ND | \$20,712,499 | 87% |
| Other jurisdictions | <u>3,114,536</u> | <u>13%</u> |
| Total value | <u>\$23,827,035</u> | <u>100%</u> |
| | | |
| | <u>2007</u> | |
| Plan Participation | | |
| by the State of ND | \$20,519,284 | 86% |
| Other jurisdictions | <u>3,328,196</u> | <u>14%</u> |
| Total value | <u>\$23,847,480</u> | <u>100%</u> |

**NOTE 10
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 11
UNIFORM GROUP INSURANCE
PROGRAM 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 contract for the 2005-2007 biennium, the System deposited a total of \$14,227,761 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, if any. The System has entered into a similar contract with BCBS for the 2007-2009 biennium. The accumulated surplus and other invested funds in the amount of \$2,055,417 are shown as cash on the System's balance sheet. These funds are being held by BCBS.

The contract for life insurance for the 2007-2009 biennium is with Prudential and does not have a gain sharing arrangement.

**NOTE 12
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 \$2,000,000 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 13
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.

**NOTE 14
COMMITMENTS**

The System has entered into agreements with Sagitec Solutions, LLC and L.R. Wechsler, Ltd for the development of its new integrated benefits administration system. The contract with Sagitec is \$7.7 million and the contract with L.R.

Wechsler is \$1 million, and the total appropriation for this project is approximately \$9.6 million, which is anticipated to be fully completed by September 2010. As of June 30, 2008 the System has paid \$3.2 million towards these contracts. The remaining \$5.5 million will be paid as the project is completed.

**NOTE 15
NEW PRONOUNCEMENTS**

GASB Statement No. 50, "Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27", was issued in May 2007, and implemented for the fiscal year beginning July 1, 2007. This statement modifies the financial reporting requirements for pensions and enhances information disclosed in the notes to the financial statements or presented as required supplementary information.

**NOTE 16
SUBSEQUENT EVENT**

Subsequent to year end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, SIB managed (which includes System assets) investments have likely incurred a significant decline in fair value since June 30, 2008.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

**Required Supplementary Information
Schedule of Employer Contributions
For the six years ended June 30, 2008**

Public Employees Retirement System

| Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|-----------------------|---------------------------------|---------------------------|
| 2003 | \$20,644,235 | 93% |
| 2004 | 26,704,376 | 74 |
| 2005 | 31,844,577 | 65 |
| 2006 | 31,906,102 | 69 |
| 2007 | 38,184,510 | 61 |
| 2008 | 35,875,117 | 70 |

Highway Patrolmen's Retirement System

| Year Ended June 30 | Annual Required Contribution | Percentage Contributed | Net Pension Obligation |
|-----------------------|---------------------------------|---------------------------|---------------------------|
| 2003 | \$ 748,658 | 111% | \$ (899,304) |
| 2004 | 940,629 | 90 | (812,097) |
| 2005 | 1,046,646 | 83 | (641,545) |
| 2006 | 904,817 | 97 | (674,484) |
| 2007 | 1,076,146 | 89 | (565,712) |
| 2008 | 905,591 | 117 | (724,722) |

For the four years ended June 30, 2008

**Retiree Health Insurance Credit
Advance Funded Plan**

| Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|-----------------------|---------------------------------|---------------------------|
| 2005 | \$ 5,139,793 | 99.0% |
| 2006 | 5,396,153 | 100.0 |
| 2007 | 5,687,050 | 100.0 |
| 2008 | 5,708,457 | 100.0 |

For the one year ended June 30, 2008

**Retiree Health Insurance Credit
Implicit Subsidy Unfunded Plan**

| Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|-----------------------|---------------------------------|---------------------------|
| 2008 | \$ 4,020,000 | 0% |

Required Supplementary Information
Schedule of Funding Progress
For the six years ended June 30, 2008

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) | Ratio of Assets to AAL | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|--|---------------------------------|------------------------|------------------------------|--------------------|--|
| 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 | 501.1 | 15.3 |
| 2005 | 1,361.2 | 1,236.1 | 125.1 | 90.8 | 521.1 | 24.0 |
| 2006 | 1,480.5 | 1,314.5 | 166.0 | 86.8 | 547.0 | 30.3 |
| 2007 | 1,610.2 | 1,503.1 | 107.1 | 93.4 | 582.3 | 18.4 |
| 2008 | 1,737.6 | 1,609.8 | 127.8 | 92.6 | 640.7 | 19.9 |

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) | Ratio of Assets to AAL | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|--|---------------------------------|------------------------|------------------------------|--------------------|--|
| 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 |
| 2005 | 46.3 | 40.7 | 5.6 | 87.9 | 5.3 | 105.7 |
| 2006 | 49.1 | 42.8 | 6.3 | 87.0 | 5.7 | 110.5 |
| 2007 | 51.5 | 48.2 | 3.3 | 93.5 | 6.1 | 54.1 |
| 2008 | 54.6 | 50.8 | 3.8 | 93.0 | 6.5 | 58.5 |

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

| Actuarial Valuation Date June 30 | Actuarial Accrued Liabilities (AAL) – Entry Age | Actuarial Value of Assets | Unfunded (Overfunded) AAL (UAAL) | Ratio of Assets to AAL | Covered Payroll | UAAL (Funded Excess) as a Percentage of Covered Payroll |
|---|--|---------------------------------|--|------------------------------|--------------------|---|
| 2007 | \$ 70.7 | \$ 75.7 | \$ (5.0) | 107.1 | \$ 1.8 | 0.0% |
| 2008 | 70.8 | 77.0 | (6.2) | 108.8 | 1.8 | 0.0 |

Retiree Health Insurance Credit (Expressed in Millions)

| Actuarial Valuation Date June 30 | Actuarial Accrued Liabilities (AAL) – Unit Credit | Actuarial Value of Assets | Unfunded AAL (UAAL) | Ratio of Assets to AAL | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|--|---------------------------------|------------------------|------------------------------|--------------------|--|
| 2005 | \$ 78.1 | \$ 30.9 | \$ 47.2 | 39.6% | \$ 538.6 | 8.8% |
| 2006 | 82.6 | 34.0 | 48.6 | 41.2 | 568.0 | 8.6 |
| 2007 | 85.3 | 38.9 | 46.5 | 45.6 | 602.9 | 7.7 |
| 2008 | 87.6 | 42.5 | 45.1 | 48.5 | 660.9 | 6.8 |

Retiree Health Insurance Implicit Subsidy (Expressed in Millions)

| Actuarial Valuation Date June 30 | Actuarial Accrued Liabilities (AAL) – Unit Credit | Actuarial Value of Assets | Unfunded AAL (UAAL) | Ratio of Assets to AAL | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|--|---------------------------------|------------------------|------------------------------|--------------------|--|
| 2007 | \$ 30.7 | \$ - | \$ 30.7 | 0.0% | \$ - | 0.0% |

**SUPPLEMENTARY
INFORMATION**

Statement of Appropriations

For the Year Ended June 30, 2008

| | Approved 2007-2009 Appropriation | 2007-2009 Appropriation Adjustments | Adjusted 2007-2009 Appropriation | Expenditures 2008 | Unexpended Appropriation |
|------------------------|--|---|--|----------------------|-----------------------------|
| All Fund Types: | | | | | |
| Salaries and wages | \$ 3,776,271 | \$ - | \$ 3,776,271 | \$ 1,771,915 | \$ 2,004,356 |
| Operating Expenses | 11,247,019 | - | 11,247,019 | 3,858,565 | 7,388,454 |
| Contingency | 250,000 | - | 250,000 | - | 250,000 |
| | <u>\$ 15,273,290</u> | <u>\$ -</u> | <u>\$ 15,273,290</u> | <u>\$ 5,630,480</u> | <u>\$ 9,642,810</u> |

Reconciliation of Administrative Expenses to Appropriated Expenditures

| | |
|---|---------------------|
| Administrative expenses as reflected in the financial statements | <u>2008</u> |
| Pension Trust Funds | \$ 1,904,913 |
| Enterprise Funds | <u>737,173</u> |
| Total administrative expenses | 2,642,086 |
| Add: | |
| Software development costs reclassified to software (not in production) | 3,343,637 |
| Less: | |
| Professional fees | (342,286) |
| Depreciation expense | (1,385) |
| Allocated depreciation charged as equipment rent to other programs | (831) |
| Changes in accrued compensated absences | (10,956) |
| Contribution/premium over and short | <u>215</u> |
| Total appropriated expenditures | <u>\$ 5,630,480</u> |

SCHEDULE OF ADMINISTRATIVE EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2008

| | 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 |
|--------------------------------------|---|--|---|---|-------------------------------|-------------------------------------|-----------------------------------|------------------|
| Personnel Services: | | | | | | | | |
| Salaries | 453,563 | 3,023 | 44,487 | 3,282 | 136,469 | 212,242 | 2,917 | 0 |
| Social security | 34,014 | 226 | 3,337 | 246 | 10,256 | 16,062 | 219 | 0 |
| Retirement | 40,947 | 273 | 3,971 | 293 | 12,130 | 18,982 | 260 | 0 |
| Insurance | 96,542 | 676 | 8,829 | 651 | 27,117 | 36,495 | 579 | 0 |
| Total Personnel Services | 625,066 | 4,198 | 60,624 | 4,472 | 185,972 | 283,781 | 3,975 | 0 |
| Professional Services: | | | | | | | | |
| Actuarial | 107,528 | 11,250 | 0 | 0 | 0 | 0 | 14,800 | 0 |
| Audit | 18,679 | 142 | 1,843 | 136 | 4,705 | 9,411 | 121 | 0 |
| Data processing | 150,853 | 1,145 | 8,260 | 1,184 | 6,214 | 12,412 | 542 | 0 |
| Consulting | 10,553 | 78 | 358 | 26 | 12,038 | 4,350 | 23 | 0 |
| Legal counsel | 13,281 | 101 | 1,462 | 108 | 3,001 | 8,176 | 96 | 0 |
| Misc outside services | 5,867 | 43 | 673 | 50 | 934 | 7,260 | 1,563 | 0 |
| Total Professional Services | 306,761 | 12,759 | 12,596 | 1,504 | 26,892 | 41,609 | 17,145 | 0 |
| Communication: | | | | | | | | |
| Postage & mailing svc | 44,997 | 342 | 4,074 | 301 | 9,694 | 10,380 | 267 | 0 |
| Printing | 16,274 | 124 | 1,592 | 117 | 4,750 | 4,602 | 104 | 0 |
| Telephone | 12,741 | 97 | 1,030 | 76 | 1,960 | 3,587 | 67 | 0 |
| Total Communication | 74,012 | 563 | 6,696 | 494 | 16,404 | 18,569 | 438 | 0 |
| Rentals: | | | | | | | | |
| Equipment rent | 7,874 | 60 | 788 | 58 | 2,111 | 3,644 | 52 | 0 |
| Office rent | 41,692 | 317 | 4,055 | 299 | 10,957 | 21,254 | 266 | 0 |
| Total Rentals | 49,566 | 377 | 4,843 | 357 | 13,068 | 24,898 | 318 | 0 |
| Miscellaneous: | | | | | | | | |
| Depreciation | 1,385 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dues and prof development | 13,256 | 101 | 902 | 146 | 1,345 | 4,775 | 59 | 0 |
| Insurance | 745 | 6 | 72 | 5 | 188 | 376 | 5 | 0 |
| Miscellaneous | 6,592 | 50 | 623 | 46 | 2,146 | 3,246 | 41 | 0 |
| Repairs and maintenance | 446 | 3 | 43 | 3 | 112 | 239 | 3 | 0 |
| Supplies | 24,974 | 190 | 2,483 | 183 | 6,580 | 12,204 | 163 | 0 |
| Travel | 15,430 | 117 | 995 | 73 | 255 | 6,285 | 65 | 0 |
| Total Miscellaneous | 62,828 | 467 | 5,118 | 456 | 10,626 | 27,125 | 336 | 0 |
| Total Administrative Expenses | \$1,118,233 | \$18,364 | \$89,877 | \$7,283 | \$252,962 | \$395,982 | \$22,212 | \$0 |

SCHEDULE OF ADMINISTRATIVE EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2007

| | 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 |
|--------------------------------------|---|--|---|---|-------------------------------|-------------------------------------|-----------------------------------|------------------|
| Personnel Services: | | | | | | | | |
| Salaries | 417,320 | 3,363 | 41,340 | 3,079 | 127,036 | 182,402 | 2,749 | 0 |
| Social security | 31,598 | 255 | 3,128 | 233 | 9,624 | 13,871 | 208 | 0 |
| Retirement | 36,949 | 298 | 3,647 | 272 | 11,297 | 16,104 | 243 | 0 |
| Insurance | 79,559 | 641 | 7,134 | 531 | 23,957 | 26,128 | 474 | 0 |
| Total Personnel Services | 565,426 | 4,557 | 55,249 | 4,115 | 171,914 | 238,505 | 3,674 | 0 |
| Professional Services: | | | | | | | | |
| Actuarial | 94,180 | 11,250 | 11,000 | 0 | 0 | 0 | 16,000 | 0 |
| Audit | 14,906 | 120 | 1,476 | 110 | 3,757 | 7,513 | 98 | 0 |
| Data processing | 102,797 | 828 | 5,694 | 845 | 4,007 | 5,846 | 378 | 0 |
| Consulting | 131,193 | 1,055 | 12,391 | 923 | 43,542 | 68,034 | 824 | 0 |
| Legal counsel | 8,864 | 71 | 893 | 66 | 1,827 | 3,731 | 623 | 0 |
| Misc outside services | 12,046 | 97 | 2,280 | 170 | 2,224 | 35,091 | 152 | 0 |
| Total Professional Services | 363,986 | 13,421 | 33,734 | 2,114 | 55,357 | 120,215 | 18,075 | 0 |
| Communication: | | | | | | | | |
| Postage & mailing svc | 44,937 | 362 | 4,276 | 318 | 10,098 | 10,717 | 284 | 0 |
| Printing | 21,659 | 175 | 1,845 | 137 | 1,654 | 3,665 | 123 | 0 |
| Telephone | 9,580 | 77 | 877 | 65 | 1,887 | 2,757 | 58 | 0 |
| Total Communication | 76,176 | 614 | 6,998 | 520 | 13,639 | 17,139 | 465 | 0 |
| Rentals: | | | | | | | | |
| Equipment rent | 9,305 | 75 | 991 | 74 | 2,565 | 4,362 | 66 | 0 |
| Office rent | 35,130 | 283 | 3,497 | 260 | 8,853 | 18,151 | 233 | 0 |
| Total Rentals | 44,435 | 358 | 4,488 | 334 | 11,418 | 22,513 | 299 | 0 |
| Miscellaneous: | | | | | | | | |
| Depreciation | 2,366 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dues and prof development | 10,636 | 86 | 657 | 52 | 840 | 1,405 | 44 | 0 |
| Insurance | 861 | 7 | 85 | 6 | 218 | 426 | 6 | 0 |
| Miscellaneous | 4,567 | 37 | 488 | 36 | 1,641 | 2,281 | 32 | 1,332 |
| Repairs and maintenance | 622 | 5 | 67 | 5 | 202 | 383 | 4 | 0 |
| Supplies | 23,673 | 191 | 2,056 | 298 | 5,161 | 11,179 | 137 | 0 |
| Travel | 16,512 | 134 | 1,131 | 420 | 1,057 | 4,380 | 75 | 0 |
| Total Miscellaneous | 59,237 | 460 | 4,484 | 817 | 9,119 | 20,054 | 298 | 1,332 |
| Total Administrative Expenses | \$1,109,260 | \$19,410 | \$104,953 | \$7,900 | \$261,447 | \$418,426 | \$22,811 | \$1,332 |

SCHEDULE OF INVESTMENT EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2008

| | 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 |
|--|---|--|---|---|-------------------------------|-------------------------------------|-----------------------------------|------------------|
| Payments to State Investment Board: | | | | | | | | |
| Investment Fees | \$10,908,848 | \$348,407 | \$110,942 | \$0 | \$0 | \$0 | \$622,355 | \$0 |
| Administrative Expenses | 184,639 | 5,869 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 11,093,487 | 354,276 | 110,942 | 0 | 0 | 0 | 622,355 | 0 |
| Securities Lending Fees | 3,026,817 | 96,349 | 0 | 0 | 0 | 0 | 258,635 | 0 |
| Payments to Providers: | | | | | | | | |
| Investment Fees | 0 | 0 | 0 | 13,213 | 0 | 58,575 | 0 | 0 |
| Total Investment Expenses | \$14,120,304 | \$450,625 | \$110,942 | \$13,213 | \$0 | \$58,575 | \$880,990 | \$0 |

SCHEDULE OF INVESTMENT EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2007

| | 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 |
|--|---|--|---|---|-------------------------------|-------------------------------------|-----------------------------------|------------------|
| Payments to State Investment Board: | | | | | | | | |
| Investment Fees | \$9,015,643 | \$292,062 | \$128,097 | \$0 | \$0 | \$0 | \$416,599 | \$0 |
| Administrative Expenses | 166,245 | 5,384 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 9,181,888 | 297,446 | 128,097 | 0 | 0 | 0 | 416,599 | 0 |
| Securities Lending Fees | 7,659,310 | 247,955 | 0 | 0 | 0 | 0 | 660,454 | 0 |
| Payments to Providers: | | | | | | | | |
| Investment Fees | 0 | 0 | 0 | 11,876 | 0 | 49,155 | 0 | 0 |
| Total Investment Expenses | \$16,841,198 | \$545,401 | \$128,097 | \$11,876 | \$0 | \$49,155 | \$1,077,053 | \$0 |

SCHEDULE OF CONSULTANT EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2008

| | 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: | | | | | | | | |
| The Segal Company | 107,528 | 11,250 | 0 | 0 | 0 | 0 | 14,800 | 0 |
| Audit/Accounting Fees: | | | | | | | | |
| Brady, Martz & Associates | 18,679 | 142 | 1,843 | 136 | 4,705 | 9,411 | 121 | 0 |
| Disability Consulting Fees: | | | | | | | | |
| Mid Dakota Clinic | 6,830 | 50 | 0 | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous Consulting Fees: | | | | | | | | |
| The Segal Company | 0 | 0 | 0 | 0 | 11,100 | 2,475 | 0 | 0 |
| LR Wechsler | 3,915 | 0 | 0 | 0 | 979 | 1,957 | 0 | 0 |
| ICE MILLER LLP | 378 | 0 | 0 | 0 | 95 | 189 | 0 | 0 |
| Calhoun Law Group PC | 633 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Legal Fees: | | | | | | | | |
| ND Attorney General | 12,271 | 101 | 1,462 | 108 | 2,906 | 7,987 | 96 | 0 |
| Totals | \$150,234 | \$11,543 | \$3,305 | \$244 | \$19,785 | \$22,019 | \$15,017 | \$0 |

SCHEDULE OF CONSULTANT EXPENSES
Fiduciary Funds
For the Fiscal Year Ended June 30, 2007

| | 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: | | | | | | | | |
| The Segal Company | 94,180 | 11,250 | 11,000 | 0 | 0 | 0 | 16,000 | 0 |
| Audit/Accounting Fees: | | | | | | | | |
| Brady, Martz & Associates | 14,906 | 120 | 1,476 | 110 | 3,757 | 7,513 | 98 | 0 |
| Disability Consulting Fees: | | | | | | | | |
| Mid Dakota Clinic | 6,033 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous Consulting Fees: | | | | | | | | |
| The Segal Company | 0 | 46 | 0 | 0 | 12,000 | 4,950 | 0 | 0 |
| LR Wechsler | 123,494 | 1,009 | 12,391 | 923 | 31,125 | 62,251 | 824 | 0 |
| ICE MILLER LLP | 1,666 | | | | 417 | 833 | | |
| Legal Fees: | | | | | | | | |
| ND Attorney General | 8,864 | 71 | 893 | 66 | 1,827 | 3,731 | 623 | 0 |
| Totals | \$249,143 | \$12,496 | \$25,760 | \$1,099 | \$49,126 | \$79,278 | \$17,545 | \$0 |

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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

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
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November 17, 2008

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, 2008.

Introduction

For the fiscal year ended June 30, 2008, the North Dakota Public Employees Retirement System (PERS) investment portfolio experienced a net loss of 5.60%. The Job Service Pension Plan experienced a net loss of 1.64% for the same time period. The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values and are subject to independent audit.

Economic Overview

During the last fiscal year the Federal Reserve slashed interest rates from 5.25% to 2.0%, in an attempt to increase consumer spending and bolster the economy. Despite the effort of the Fed, the cost of funds to companies and to individuals has actually risen due to the risk aversion in the credit market. As a result, both home sales and home prices are down precipitously from the middle of 2007. The combination of such home price declines, a weakening job market and higher oil prices has resulted in an uneasy consumer. In fact, the University of Michigan's Index of Consumer Sentiment dropped to a 28-year low of 56.4 in June 2008. Inflation pressures continue to build, particularly in commodities and producer prices. The year-over-year Consumer Price Index (CPI) hit 5% in June, the highest level since 1991. Producer prices rose 9.2% over the same period marking the largest increase in 27 years. Real GDP was driven primarily by net exports buoyed by the weak dollar and economic growth abroad.

Domestic Equity Overview

The last fiscal year showed negative results across the broad equity market. The S&P 1500 Index, a broad market indicator, finished the fiscal year with a return of -12.72%, giving back much of the gains from the prior fiscal year return of 20.22%. Over the last fiscal year, the September quarter was the only quarter in which the index had a positive return (1.65%). Large cap stocks held up slightly better than small cap stocks over this time period. The S&P 500, a large cap index, outpaced the S&P 600, a small cap index, -13.12% to -14.67% respectively. Growth stocks held up much better than Value stocks in all capitalization ranges during fiscal year 2008. The difference was most pronounced in the large cap arena, where value lost 18.78% while growth stocks were down only 5.96%.

International Equity Overview

International equity, as represented by the MSCI EAFE Index, produced lackluster results in fiscal year 2008. The index lost 10.61%, a sharp turn around from the 27.00% gain from the year before. International Growth outperformed International Value in every quarter of fiscal year 2008. For the trailing twelve months ended June 30, 2008, MSCI EAFE Growth Index lost 4.44% while the MSCI EAFE Value Index was down 16.60%. Norway, rich with commodity and energy stocks, fared much better than the index returning 8.70% for the fiscal year. Despite a loss of 12.5% in January, the Emerging Markets Index gained 4.89% for the fiscal year. A gain much less than the 45.45% return in the year prior.

Domestic Fixed-Income Overview

The bond market, as measured by the Lehman Aggregate Bond Index, had a 7.12% return for the four quarters ended June 30, 2008. This return was 100 basis points above the 6.12% return of the prior fiscal

year. The first half of the fiscal year was marked by a “flight to quality” where fixed income investors shifted to US Treasuries due to uncertainty within financial markets. Because of increased demand for Treasuries, yields were driven down, which ultimately widened spreads between Treasuries and spread sector products. This pattern continued until the final quarter of the fiscal year when investors started selling Treasuries to take on more risk.

The Lehman Government/Credit Intermediate index returned 7.37% over the fiscal year. This return was slightly higher than the 6.78% gain of the Lehman Government/Credit Long Index. Corporate bonds were up by a relatively modest amount as the Lehman Credit Index rose 3.81% over the same time period.

High yield investors showed negative returns as yield spreads continued to widen. The Lehman High Yield Index lost 2.26% over the trailing twelve months.

International Fixed-Income Overview

Due in large part to a declining US Dollar, the international bond market showed a large gain for fiscal year 2008. The Citi Non-US World Government Bond Index rose 18.72%, despite a decline of 4.72% in the June quarter. The Citi Euro Government Bond Index fared even better with a 19.94% gain for the fiscal year. Rising inflation and slower growth was more pronounced in the emerging market countries leading to underperformance relative to the developed world. The JP Morgan Emerging Markets Bond Plus Index gained 5.16% for the fiscal year.

Real Estate Overview

The NCREIF Total Index gained 9.20% over the past four quarters. The September and December quarters produced positive returns gaining 3.56% and 3.21% respectively. The second half of the fiscal year was not as favorable with a modest return of 1.60% in the March quarter and a .56% return in the June quarter. The NAREIT Total Index had a negative 13.64% return for the most recent fiscal year. The majority of this loss was due to a negative 12.06% loss that occurred in the December quarter.

Alternative Investments Overview

After a record breaking calendar year 2007 the first half of 2008 is only 3% behind 2007's record pace, which is unexpected given the current bear market environment. Much of the activity is occurring in the distressed debt arena with \$14 billion raised over nine funds in the most recent quarter alone. Another bright spot for private equity activity is taking place in Europe, with \$61 billion raised across 79 funds so far this year. Weakness continues in buyout commitments where activity thus far in calendar year 2008 is 20% (\$16 billion) behind last years pace. Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous. Instead of recognizing any particular index as representative of the opportunity for the fiscal year ended June 30, 2008, it is worth noting that PERS' alternative investment allocation of Total Fund assets was 5.5%. The market value of the alternative investment allocation, including investment returns and net new investment, gained 4.50% over the prior fiscal year.

Summary

Fiscal year 2008 brought an atmosphere of change to the investments markets. As the woes of the sub-prime mortgage markets began to spill over into the broader credit markets, the stock market took note. This made for a challenging investment environment which no longer rewarded the controlled risks of value investing, credit exposure and quantitative modeling. Broad diversification was helpful in this fiscal year, but it was not enough to continue the levels of performance experienced during the several previous fiscal years. The State Investment Board will continue its mission to remain long-term oriented and seek investments which have proven successful over full market cycles.

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 System also contracts with the SIB to invest the assets of the Job Service Retirement Plan and the Retiree Health Insurance Credit Plan (RHIC).

State law requires that the SIB apply the prudent investor rule when investing funds under its supervision. The "prudent investor rule" means fund fiduciaries shall exercise the judgment and care, similar to that of an institutional investor who exercises ordinary prudence, discretion, and intelligence when managing the assets of large investments entrusted to it. The funds belonging to the System must be invested exclusively for the benefit of the members and the beneficiaries 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 will enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund 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 retirement benefit.

The investment performance objectives for the PERS, HPRS, Job Service and RHIC plans are: to produce a rate of return, that over the long term, should equal that of the policy portfolio which is comprised of policy weights of

appropriate asset class benchmarks as set by the SIB; the annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio; over 10-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent asset/liability study without exceeding the expected risk for the period as measured by standard deviation.

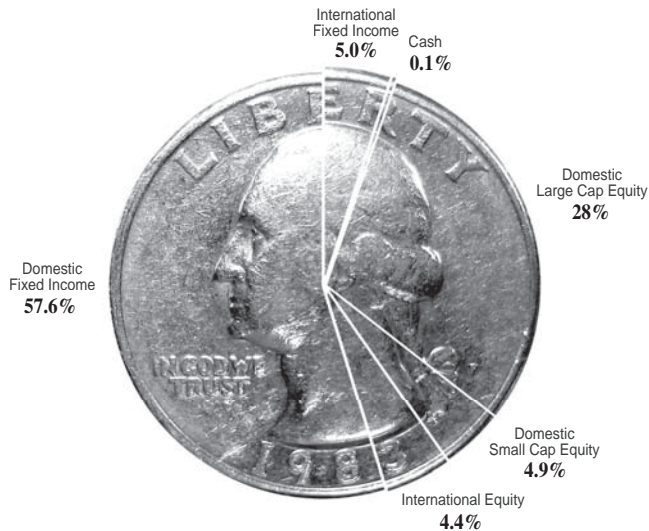
The investment goals for the Job Service Retirement Plan are: to maintain a level of surplus sufficient to eliminate the need for future contributions; to achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price Index, by 3.0 percentage points per year (based on current actuarial assumptions of 7.5% return and 5% inflation), over a complete market cycle; and as a secondary objective, to maximize the Plan's surplus to increase future benefit payments.

The investment goals for the Retiree Health Insurance Credit Plan are: to accumulate sufficient wealth through a diversified portfolio of investments which will enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the fund and to obtain an investment return in excess of that needed to allow for increases in a retiree's credit to maintain the purchasing power of their benefit.

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.

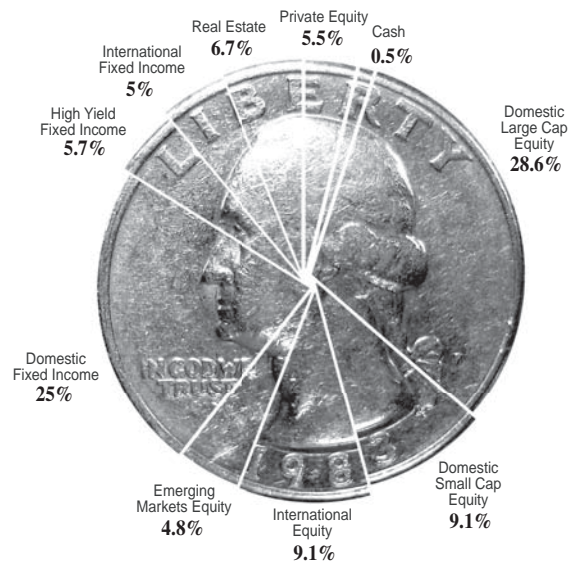
INVESTMENT SUMMARIES

Job Service Retirement Plan Asset Allocation – June 30, 2008



| <u>Asset Class</u> | <u>Market Value</u> | <u>Actual %</u> | <u>Policy %</u> |
|----------------------------|----------------------|-----------------|-----------------|
| Domestic Large Cap Equity | \$ 25,111,839 | 28.0% | 31.0% |
| Domestic Small Cap Equity | 4,361,282 | 4.9% | 5.0% |
| International Equity | 3,988,084 | 4.4% | 5.0% |
| Domestic Fixed Income | 51,704,428 | 57.6% | 54.0% |
| International Fixed Income | 4,507,040 | 5.0% | 5.0% |
| Cash & Equivalents | 105,055 | 0.1% | 0.0% |
| Total | \$ 89,777,728 | 100.0% | 100.0% |

Public Employees and Highway Patrolmen's Retirement Systems Asset Allocation – June 30, 2008



| <u>Asset Class</u> | <u>Market Value</u> | <u>Actual %</u> | <u>Policy %</u> |
|----------------------------|------------------------|-----------------|-----------------|
| Domestic Large Cap Equity | \$ 517,778,805 | 28.6% | 30.0% |
| Domestic Small Cap Equity | 164,277,554 | 9.1% | 10.0% |
| International Equity | 165,204,846 | 9.1% | 10.0% |
| Emerging Markets Equity | 86,873,188 | 4.8% | 5.0% |
| Domestic Fixed Income | 451,393,623 | 25.0% | 24.0% |
| High Yield Fixed Income | 102,633,146 | 5.7% | 5.0% |
| International Fixed Income | 90,076,982 | 5.0% | 5.0% |
| Real Estate | 121,924,794 | 6.7% | 5.0% |
| Private Equity | 99,234,751 | 5.5% | 5.0% |
| Cash & Equivalents | 9,799,104 | .5% | 1.0% |
| Total | \$1,809,196,793 | 100.0% | 100.0% |

Retiree Health Insurance Credit Program Asset Allocation – June 30, 2008



| <u>Asset Class</u> | <u>Market Value</u> | <u>Actual %</u> | <u>Policy %</u> |
|---------------------------|----------------------|-----------------|-----------------|
| Domestic Large Cap Equity | \$ 14,022,485 | 35.4% | 35.0% |
| Domestic Small Cap Equity | 5,915,387 | 14.9% | 15.0% |
| International Equity | 6,030,360 | 15.2% | 15.0% |
| Domestic Fixed Income | 13,658,848 | 34.5% | 35.0% |
| Total | \$ 39,627,080 | 100.0% | 100.0% |

**Public Employees and Highway Patrolmen's Retirement Systems (PERS) and Job Service Retirement Plan
Schedule of Investment Results⁽²⁾
For the Five Years Ended June 30, 2008**

| | 2004 | 2005 | 2006 | 2007 | 2008 | Annualized | |
|-----------------------------------|--------|--------|--------|--------|---------|------------|--------|
| | | | | | | 3 Year | 5 Year |
| Total Fund (PERS) | 16.66% | 14.07% | 12.00% | 18.96% | -5.60% | 7.94% | 10.85% |
| Total Fund (Job Service) | 12.57% | 14.72% | 7.09% | 15.90% | -1.64% | 6.88% | 9.53% |
| CPI | 3.17% | 3.17% | 4.47% | 2.67% | 5.50% | 4.22% | 3.69% |
| Large Cap Domestic Equities | 20.66% | 8.91% | 11.16% | 22.27% | -15.66% | 4.66% | 8.54% |
| S&P 500 | 19.11% | 6.32% | 8.63% | 20.59% | -13.12% | 4.41% | 7.58% |
| Small Cap Domestic Equities | 34.11% | 10.20% | 14.24% | 18.54% | -19.70% | 3.05% | 10.10% |
| Russell 2000 | 33.37% | 9.45% | 14.58% | 16.43% | -16.19% | 3.79% | 10.29% |
| International Equities | 29.70% | 13.70% | 27.23% | 27.88% | -17.91% | 10.12% | 14.52% |
| MSCI 50% Hedged EAFE | 25.74% | 17.60% | 26.72% | 26.95% | -15.49% | 10.78% | 14.99% |
| Emerging Markets Equities | 28.63% | 35.07% | 35.30% | 49.32% | 3.69% | 27.95% | 29.48% |
| MSCI Emerging Markets Free | 33.51% | 34.89% | 35.91% | 45.45% | 4.89% | 27.52% | 30.15% |
| Domestic Fixed Income | 5.45% | 19.64% | 3.41% | 13.61% | 9.78% | 8.80% | 10.20% |
| Lehmann Brothers Aggregate | 0.32% | 6.80% | -0.81% | 6.12% | 7.12% | 4.09% | 3.85% |
| High Yield Bonds | 7.94% | 13.32% | 5.25% | 12.15% | -3.62% | 4.39% | 6.83% |
| Lehmann Brothers High Yield Bonds | 10.32% | 10.86% | 4.37% | 11.22% | -1.74% | 4.48% | 6.84% |
| International Fixed Income | 9.22% | 10.30% | 2.38% | 3.77% | 14.24% | 6.67% | 7.89% |
| Citi Non-US World Government | 7.60% | 7.75% | -0.01% | 2.20% | 18.72% | 6.65% | 7.06% |
| Real Estate | 8.86% | 20.78% | 22.09% | 15.47% | 7.27% | 15.15% | 14.95% |
| NCREIF Index | 10.82% | 18.02% | 18.67% | 17.24% | 9.20% | 14.97% | 14.73% |
| Private Equity ⁽¹⁾ | 3.23% | 17.24% | 11.08% | 16.83% | 4.50% | 10.69% | 10.42% |
| Cash | 1.49% | 2.19% | 4.43% | 5.24% | 0.71% | 3.44% | 2.80% |
| 90 Day T-bills | 0.98% | 2.15% | 3.98% | 5.21% | 3.36% | 4.27% | 3.18% |

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

⁽¹⁾ It has been determined that there is no benchmark that is an accurate reflection of the System's investments in this asset class.

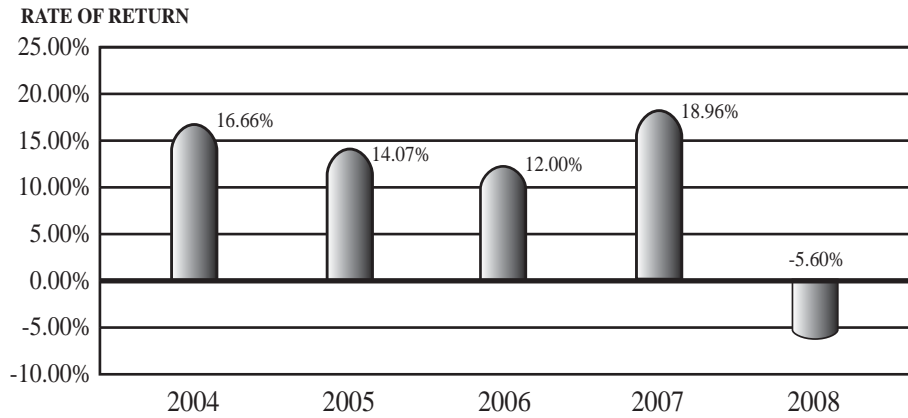
⁽²⁾ The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values.

Retiree Health Insurance Credit Plan
Schedule of Investment Results⁽¹⁾
For the Five Years Ended June 30, 2008

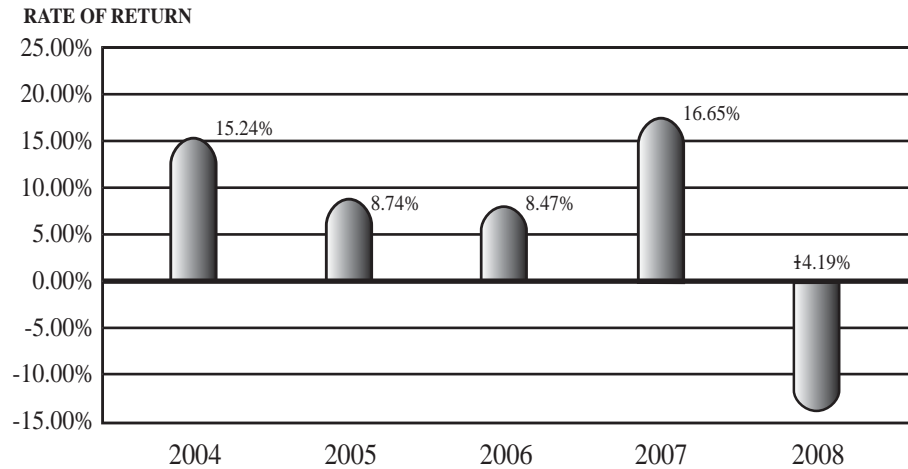
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | Annualized | |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|---------------|---------------|
| | | | | | | <u>3 Year</u> | <u>5 Year</u> |
| Total Fund | 15.24% | 8.74% | 8.47% | 16.65% | -14.19% | 2.78% | 6.35% |
| CPI | 3.17% | 3.17% | 4.47% | 2.67% | 5.50% | 4.22% | 3.69% |
| Large Cap Domestic Equities | 18.85% | 6.15% | 8.43% | 22.64% | -18.05% | 3.05% | 6.75% |
| S&P 500 | 19.11% | 6.32% | 8.63% | 20.59% | -13.12% | 4.41% | 7.58% |
| Small Cap Domestic Equities | 28.40% | 13.50% | 13.75% | 16.79% | -22.70% | 1.02% | 8.58% |
| Russell Special Small Cap | 28.67% | 13.64% | 13.93% | 20.39% | -11.57% | 6.20% | 11.86% |
| International Equities | 32.08% | 13.51% | 26.31% | 27.72% | -12.85% | 12.18% | 16.28% |
| MSCI EAFE | 32.36% | 13.65% | 26.67% | 27.00% | -10.61% | 12.84% | 16.67% |
| Domestic Fixed Income | 0.19% | 6.81% | -0.89% | 5.22% | -6.92% | -0.84% | 0.94% |
| Lehman Aggregate | 0.32% | 6.80% | -0.81% | 6.12% | 7.12% | 4.09% | 3.85% |
| Cash | 0.98% | 2.15% | 4.00% | 5.21% | 3.63% | 4.27% | 3.18% |
| 90 Day T-Bills | 0.98% | 2.15% | 4.00% | 5.21% | 3.63% | 4.27% | 3.18% |

⁽¹⁾The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values.

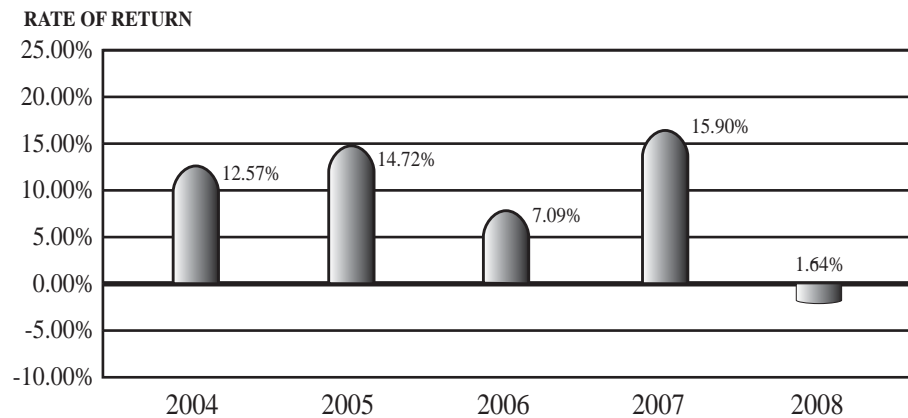
Public Employees and Highway Patrolmen's Retirement Systems Investment Results



Retiree Health Insurance Credit Program Investment Results



Job Service Retirement Plan Investment Results



Largest Holdings By Market Value at June 30, 2008**Stocks**

Exxon Mobile Corporation
International Business Machines Corporation
Chevron Corporation
Pfizer Incorporated
National Oilwell Varco
Microsoft Corporation
Potash Corporation
Johnson & Johnson
Philip Morris International Inc.
ConocoPhillips

Bonds

Tiers Credit Backed TR 2006-14 Due 01-25-2019
Tiers Credit Backed TR 2006-5 Due 07-25-2018
US Treasury Bonds 4.125% Due 08-15-2010
FNMA Single Family Mortgage 5% 30 years (August)
US Treasury Notes 6.5% Due 02-15-2010
New South Wales Treasury 5.5% SR MTN 01-03-2017
FNMA 30 Year Pass-Throughs 5.5% (August)
Republic of Poland 5.25% Bonds 10/17/2025
US Treasury Notes 3.5% Due 11-15-2009
Malaysia Bonds 3.756% 04-11-2028

A complete list of all holdings is available upon request.

**LARGEST
HOLDINGS
JUNE 30, 2008**

**INVESTMENT
FEES**
**Public Employees and Highway Patrolmen's Retirement System
Schedule of Investment Fees**
For the Fiscal Year Ended June 30, 2008

| | <u>Assets Under Management</u> | <u>Fees</u> |
|--|------------------------------------|----------------------------|
| Investment Managers' Fees: | | |
| Large Cap Domestic Equities | \$518 Million | \$ 2,614,578 |
| Small Cap Domestic Equities | \$164 Million | 1,110,168 |
| International Equities | \$165 Million | 1,024,082 |
| Emerging Markets Equities | \$87 Million | 1,109,164 |
| Domestic Fixed Income | \$451 Million | 3,778,857 |
| High Yield Fixed Income | \$103 Million | 978,450 |
| International Fixed Income | \$ 90 Million | 329,138 |
| Real Estate | \$122 Million | 1,100,737 |
| Private Equity | \$ 99 Million | 1,921,533 |
| Cash | \$ 10 Million | <u>33,963</u> |
| Total Investment Managers' Fees ⁽¹⁾ | | <u>\$14,000,670</u> |
| Other Investment Service Fees: | | |
| Custodian Fees | \$ 2 Billion | \$ 298,813 |
| Investment Consultant Fees | \$ 2 Billion | 93,520 |
| SIB Administrative Fees | \$ 2 Billion | <u>190,508</u> |
| Total Investment Service Fees | | <u>\$ 582,841</u> |
| Securities Lending Fees | \$ 2 Billion | <u>\$ 3,123,166</u> |

⁽¹⁾Includes fees of \$3,135,749 which were netted against investment income.

**Job Service Retirement Plan
Schedule of Investment Fees**
For the Fiscal Year Ended June 30, 2008

| | <u>Assets Under Management</u> | <u>Fees</u> |
|--|------------------------------------|--------------------------|
| Investment Managers' Fees: | | |
| Large Cap Domestic Equities | \$25 Million | \$ 126,470 |
| Small Cap Domestic Equities | \$ 4 Million | 28,263 |
| International Equities | \$ 4 Million | 24,819 |
| Domestic Fixed Income | \$52 Million | 422,361 |
| International Fixed Income | \$ 5 Million | 16,774 |
| Cash | \$.1 Million | <u>1,959</u> |
| Total Investment Managers' Fees ⁽¹⁾ | | <u>\$ 620,646</u> |
| Other Investment Service Fees: | | |
| Custodian Fees | \$90 Million | \$ 12,247 |
| Investment Consultant Fees | \$90 Million | 4,584 |
| SIB Administrative Fees | \$90 Million | <u>8,119</u> |
| Total Investment Service Fees | | <u>\$ 24,950</u> |
| Securities Lending Fees | \$90 Million | <u>\$ 258,635</u> |

⁽¹⁾Includes fees of \$23,241 which were netted against investment income.

**Retiree Health Insurance Credit Plan
Schedule of Investment Fees**
For the Fiscal Year Ended June 30, 2008

| | <u>Assets Under Management</u> | <u>Fees</u> |
|-------------------------------|------------------------------------|-------------------|
| Investment Manager's Fees | \$40 Million | \$ 141,727 |
| Custodian Fees | \$40 Million | 651 |
| SIB Administrative Fees | \$40 Million | <u>3,581</u> |
| Total Investment Service Fees | | <u>\$ 145,959</u> |

⁽¹⁾Includes fees of \$35,018 which were netted against investment income.

A schedule of commissions paid for each plan is not available. A schedule of commissions paid for all assets under the management of the State Investment Board is available upon request.

Defined Contribution Investments

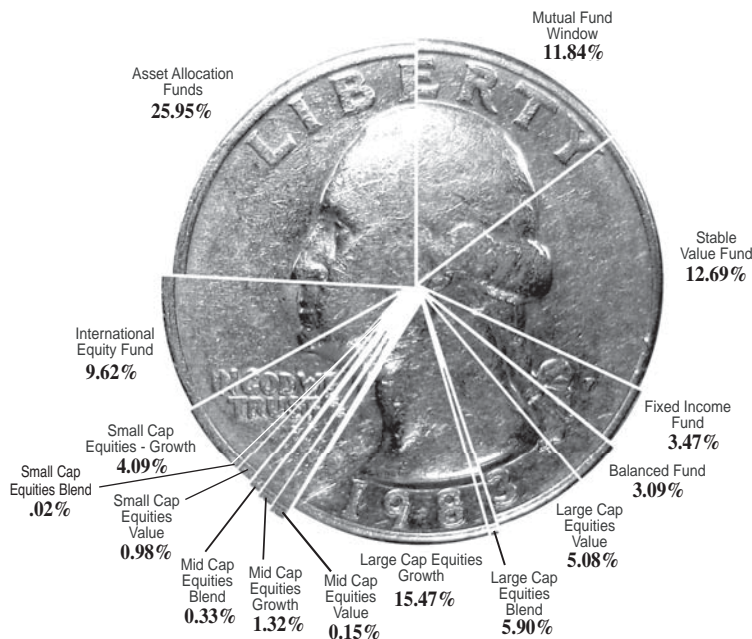
The Defined Contribution Retirement Plan (Plan) is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. Each participating member shall direct the investment of the individual's accumulated employer and employee contributions and earnings 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:

- Establishes an investment program that will allow plan participants the opportunity 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 fund's performance
- Establishes a procedure for reporting and evaluating the various funds and a methodology for monitoring their performance
- Defines the procedures for investment fund evaluation and formal fund review.

DEFINED CONTRIBUTION INVESTMENTS

Defined Contribution Retirement Plan Investment Options – June 30, 2008



| <u>Investment Options</u> | <u>Market Value</u> | <u>Percent</u> |
|-----------------------------|---------------------|----------------|
| Stable Value Fund | 2,162,101 | 12.69% |
| Fixed Income Fund | 589,432 | 3.47% |
| Balanced Fund | 526,879 | 3.09% |
| Large Cap Equities - Value | 864,665 | 5.08% |
| Large Cap Equities - Blend | 1,005,219 | 5.90% |
| Large Cap Equities - Growth | 2,634,773 | 15.47% |
| Mid Cap Equities - Value | 26,378 | 0.15% |
| Mid Cap Equities - Blend | 56,820 | 0.33% |
| Mid Cap Equities - Growth | 224,997 | 1.32% |
| Small Cap Equities - Value | 166,663 | 0.98% |
| Small Cap Equities - Blend | 3,629 | 0.02% |
| Small Cap Equities - Growth | 696,803 | 4.09% |
| International Equity Fund | 1,637,575 | 9.62% |
| Asset Allocation Funds | 4,419,722 | 25.95% |
| Mutual Fund Window | <u>2,015,667</u> | <u>11.84%</u> |
| Total | <u>17,031,323</u> | <u>100.00%</u> |

Defined Contribution Retirement Plan – Schedule of Investment Results
For the Five Years Ended June 30, 2008

| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>3-year annualized</u> | <u>5-year annualized</u> |
|---|-------------|-------------|-------------|-------------|-------------|------------------------------|------------------------------|
| Stable Value Fund: | | | | | | | |
| Fidelity Managed Income Portfolio | 4.19% | 3.91% | 3.84% | 4.28% | 4.39% | 4.17% | 4.12% |
| GIC 5 year index | 3.15% | 3.97% | 2.79% | 5.30% | 4.26% | 4.76% | 5.07% |
| Fixed Income Fund: | | | | | | | |
| PIMCO Total Return Bond Fund | 0.78% | 7.44% | -1.07% | 4.96% | 10.55% | 4.71% | 4.45% |
| Lehman Aggregate Bond Index | 0.32% | 6.80% | -0.81% | 6.12% | 7.12% | 4.09% | 3.86% |
| Balance Fund: | | | | | | | |
| Fidelity Puritan | 15.15% | 6.46% | 8.24% | 17.41% | -7.54% | 5.61% | 7.63% |
| 60% Russell 3000 Index | 13.41% | 11.17% | 7.07% | 15.25% | -8.56% | 3.64% | 6.94% |
| 40% Lehman Aggregat Bond Index | | | | | | | |
| Large Cap Equities-Value: | | | | | | | |
| Fidelity Equity-Income | 21.64% | 6.18% | 12.59% | 23.67% | -20.04% | 3.64% | 7.54% |
| Franklin Mutual Shares A | 18.15% | 12.60% | 13.05% | 22.49% | -19.47% | 3.70% | 8.21% |
| Russell 1000 Value Index | 21.13% | 14.06% | 12.10% | 21.87% | -18.78% | 3.53% | 8.92% |
| Large Cap Equities-Blend: | | | | | | | |
| Fidelity Spartan US Equity Index | 18.91% | 6.25% | 8.59% | 20.49% | -13.16% | 4.34% | 7.49% |
| Fidelity Dividend Growth | 12.62% | 1.56% | 7.01% | 21.48% | -17.80% | 2.24% | 4.10% |
| S&P 500 Index | 19.09% | 6.32% | 8.63% | 20.59% | -13.12% | 4.41% | 7.58% |
| Large Cap Equities-Growth: | | | | | | | |
| Fidelity growth Company | 25.37% | 5.87% | 14.76% | 18.62% | 3.93% | 12.26% | 13.43% |
| Russell 3000 Growth Index | 18.82% | 1.90% | 6.84% | 18.84% | -6.38% | 5.93% | 7.56% |
| Fidelity Blue Chip Growth | 15.37% | 1.26% | 3.27% | 16.23% | -6.10% | 4.07% | 5.66% |
| Russell 1000 Growth Index | 17.88% | 1.68% | 6.12% | 19.04% | -5.96% | 5.91% | 7.32% |
| Mid Cap Equities - Value | | | | | | | |
| Goldman Sachs Mid Cap Value(3) | N/A | N/A | N/A | 21.28% | -9.59% | 6.73% | 13.79% |
| Russell Mid Cap Value | N/A | N/A | N/A | 22.09% | -17.09% | 4.97% | 13.00% |
| Mid Cap Equities-Blend: | | | | | | | |
| Dreyfus Mid Cap Index(2) | N/A | 13.49% | 12.57% | 17.90% | -7.60% | 7.04% | 12.13% |
| S&P Mid Cap 400 | N/A | 14.03% | 12.98% | 18.51% | -7.34% | 7.45% | 12.61% |
| Fidelity Spartan Extended Market Index(2) | N/A | 13.47% | 14.12% | 19.69% | -11.27% | 6.61% | 12.19% |
| Wilshire 4500 Index | N/A | 13.49% | 14.03% | 19.75% | -11.52% | 6.63% | 12.45% |
| Mid Cap Equities-Growth: | | | | | | | |
| Fidelity Mid Cap Stock(2) | N/A | 8.15% | 25.20% | 20.62% | -8.66% | 11.32% | 12.50% |
| Russell Mid Cap Growth | N/A | 10.86% | 13.04% | 19.73% | -6.42% | 8.19% | 12.32% |
| Small Cap Equities-Value: | | | | | | | |
| Allnz NFJ Small Cap Value(2) | N/A | 18.74% | 14.65% | 21.45% | -6.83% | 9.06% | 14.55% |
| Russell 2000 Value Index | N/A | 14.39% | 14.61% | 16.05% | -21.63% | 1.39% | 10.02% |
| Small Cap Equities - Blend | | | | | | | |
| Dreyfus Small Cap Index(2) | N/A | 7.33% | 14.70% | 15.63% | -15.00% | 3.69% | 11.13% |
| Russell 2000 small cap Index | N/A | 4.55% | 18.37% | 16.43% | -16.19% | 3.79% | 10.29% |
| Small Cap Equities-Growth: | | | | | | | |
| MSI Small Co Growth B | 32.05% | 15.52% | 10.77% | 14.91% | -15.75% | 2.33% | 10.32% |
| Russell 2000 Growth Index | 31.55% | 4.29% | 14.58% | 16.83% | -10.83% | 6.08% | 10.37% |
| International Equity Funds: | | | | | | | |
| Fidelity Diversified International | 32.22% | 14.85% | 26.21% | 25.72% | -5.66% | 14.39% | 17.85% |
| MSCI EAFE | 32.54% | 14.13% | 28.08% | 27.20% | -10.47% | 13.02% | 16.91% |
| Asset Allocation Funds: | | | | | | | |
| Fidelity Freedom Income | 4.02% | 4.38% | 3.66% | 8.66% | 0.03% | 4.06% | 4.11% |
| Income benchmark(1) | 5.15% | 5.30% | 3.52% | 8.85% | 0.73% | 5.61% | 5.35% |
| Fidelity Freedom 2000 | 5.16% | 4.84% | 3.79% | 9.80% | -0.75% | 4.19% | 4.52% |
| 2000 benchmark(1) | 6.16% | 5.74% | 3.99% | 10.25% | -0.81% | 5.64% | 5.84% |
| Fidelity Freedom 2005(2) | N/A | 6.39 | 6.36% | 13.64% | -3.45% | 5.28% | N/A |
| 2005 benchmark(1) | N/A | 7.45 | 6.64% | 14.13% | -3.49% | 5.76% | 7.40% |
| Fidelity Freedom 2010 | 9.94% | 6.50% | 6.65% | 14.01% | -3.45% | 5.49% | 6.57% |
| 2010 benchmark(1) | 11.56% | 7.59% | 6.71% | 14.44% | -3.78% | 5.72% | 7.48% |
| Fidelity Freedom 2015(2) | N/A | 7.06% | 8.39% | 15.19% | -4.40% | 6.07% | N/A |
| 2015 benchmark(1) | N/A | 8.23% | 7.91% | 15.53% | -4.80% | 5.81% | 7.93% |
| Fidelity Freedom 2020 | 15.27% | 7.39% | 9.82% | 17.16% | -6.04% | 6.53% | 8.40% |
| 2020 benchmark(1) | 17.16% | 8.76% | 9.27% | 17.50% | -6.95% | 5.94% | 8.68% |
| Fidelity Freedom 2025(2) | N/A | 7.44% | 10.42% | 17.68% | -6.71% | 6.63% | N/A |
| 2025 benchmark(1) | N/A | 8.88% | 9.82% | 17.85% | -7.33% | 6.03% | 8.86% |
| Fidelity Freedom 2030 | 17.94% | 7.67% | 11.52% | 19.40% | -8.21% | 6.92% | 9.19% |
| 2030 benchmark(1) | 19.89% | 9.05% | 11.21% | 19.49% | -9.46% | 6.22% | 9.48% |
| Fidelity Freedom 2035(2) | N/A | 7.95% | 11.91% | 19.46% | -8.54% | 6.93% | N/A |
| 2035 benchmark(1) | N/A | 9.33% | 11.26% | 19.62% | -9.53% | 6.31% | 9.60% |
| Fidelity freedom 2040 | 20.01% | 7.95% | 12.25% | 20.13% | -8.54% | 6.93% | N/A |
| 2040 benchmark(1) | 21.89% | 9.40% | 11.77% | 20.02% | -10.11% | 6.34% | 9.76% |
| Fidelity freedom 2045(3) | N/A | N/A | N/A | 20.44% | -9.24% | N/A | N/A |
| 2045 benchmark(1) | N/A | N/A | N/A | 20.58% | -10.66% | 6.53% | 10.07% |
| Fidelity freedom 2050(3) | N/A | N/A | N/A | 20.74% | -10.13% | N/A | N/A |
| 2050 benchmark(1) | N/A | N/A | N/A | 20.94% | -11.03% | 6.63% | 10.25% |

All fund returns are reported net of fees.

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

⁽²⁾ 2005 is the first fiscal year fund was an investment option.

⁽³⁾ 2007 is the first fiscal year fund was an investment option.



ACTUARIAL SECTION

**COMMENTS
FROM THE
SEGAL
COMPANY**

**PUBLIC
EMPLOYEES
RETIREMENT
SYSTEM**



THE SEGAL COMPANY
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T 303.714.9900 F 303.714.9990 www.segalco.com

November 10, 2008

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, 2008

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, 2008 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2008 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2008 (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, 2008 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 \$127.8 million as of July 1, 2008.

Calculated and Statutory Contribution Rates

The July 1, 2008 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 | 6.26% | 4.12% | 4.00% |
| Judges | 8.99% | 14.52% | 5.00% |
| National Guard | 3.44% | 6.50% | 4.00% |
| Law Enforcement | | | |
| with prior Main service | 9.04% | 8.31% | 4.00% |
| Law Enforcement | | | |
| without prior Main service | 7.15% | 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 2008 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 Monthly Benefit Payments

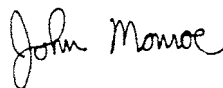
Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Sincerely,



Brad Ramirez, FSA, MAAA, EA



John Monroe, ASA, MAAA, EA
Vice President and Associate Actuary



Kurt Schneider, ASA, MAAA, EA
Associate Actuary

**ACTUARIAL
VALUATION
CERTIFICATE**

**NORTH DAKOTA
PUBLIC EMPLOYEES RETIREMENT SYSTEM**

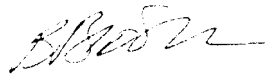
NOVEMBER 10, 2008

Actuarial Valuation Certificate

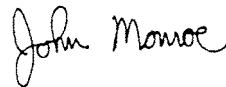
This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2008 in accordance with generally accepted actuarial principles and practices.

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.



*Brad Ramirez, FSA, MAAA, EA
Consulting Actuary*



*John Monroe, ASA, MAAA, EA
Vice President and Associate Actuary*



*Kurt Schneider, ASA, MAAA, EA
Associate Actuary*

Actuarial Assumptions and Cost Method – Public Employees Retirement System
(Adopted July 1, 2005)

Mortality Tables

Healthy: 1983 Group Annuity Mortality Table, set back one year for males (not set back for females).

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, first five years of service:

| <u>Age</u> | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5</u> |
|------------|----------|----------|----------|----------|----------|
| 29 & under | 18% | 15% | 12% | 10% | 15% |
| 30-39 | 12 | 12 | 11 | 10 | 11 |
| 40 & Over | 10 | 10 | 8 | 7 | 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 | 3.5 | 5 |
| 40 - 44 | 3 | 4 |
| 45 - 49 | 2.5 | 3.5 |
| 50 & Over | 2 | 3 |

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> |
|------------|----------|----------|----------|----------|----------|
| 29 & under | 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 National Guard and Law Enforcement ultimate rates.

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

Main System:

Earlier of (i) age 55 and 3 years of service, and (ii) eligibility for Rule of 85.

Judges:

Earlier of (i) age 55 and 5 years of service, and (ii) eligibility for Rule of 85.

National Guard and Law Enforcement:

Age 50 and 3 years of service.

Retirement Rates for Active Members

Main System:

| <u>Age</u> | <u>Rule of 85/Eligible Rate</u> | <u>All Other Retirements</u> |
|------------|---------------------------------|------------------------------|
| 55 | 4% | 4% |
| 56 | 6 | 4 |
| 57 | 6 | 4 |
| 58 | 6 | 4 |
| 59 | 6 | 4 |
| 60 | 8 | 6 |
| 61 | 15 | 12 |
| 62 | 35 | 25 |
| 63 | 25 | 20 |
| 64 | 25 | 20 |
| 65 | 40 | 30 |
| 66 | 20 | 20 |
| 67 | 20 | 20 |
| 68 | 20 | 20 |
| 69 | 20 | 20 |
| 70 | 100 | 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 (sample rates):

| Percentage | | Percentage | |
|------------|-----------------|------------|-----------------|
| <u>Age</u> | <u>Increase</u> | <u>Age</u> | <u>Increase</u> |
| 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 have spouses. The same assumption applies at retirement, except for Judges, for whom 100% are assumed to have spouses. For the Main System, males are assumed to be four years older than their female spouses. For all other systems, 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: 3.5% 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 (PEP):

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 cost methods since the preceding 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, National Guard and Law Enforcement: 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.

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 and 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).
- A partial lump sum payment in addition to one of the annuity options above.

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 nor a 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 chose 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.

Schedule of Active Member Valuation Data – PERS – 2003-2008

| <u>July 1</u> | Main System | | | |
|---------------|---------------------------------|---------------------------------|------------------------------|---|
| | <u>Number of Active Members</u> | <u>Total Payroll (millions)</u> | <u>Average Annual Salary</u> | <u>Percent Increase In Average Salary</u> |
| 2003 | 17,101 | \$474.6 | \$27,751 | 3.5% |
| 2004 | 17,522 | 494.5 | 28,223 | 1.7 |
| 2005 | 17,745 | 511.9 | 28,850 | 2.2 |
| 2006 | 17,887 | 536.6 | 29,998 | 4.0 |
| 2007 | 18,299 | 570.4 | 31,169 | 3.9 |
| 2008 | 19,042 | 627.6 | 32,959 | 5.7 |

| <u>July 1</u> | Judges | | | |
|---------------|---------------------------------|---------------------------------|------------------------------|---|
| | <u>Number of Active Members</u> | <u>Total Payroll (millions)</u> | <u>Average Annual Salary</u> | <u>Percent Increase In Average Salary</u> |
| 2003 | 47 | \$4.5 | \$95,993 | 7.1% |
| 2004 | 46 | 4.4 | 95,998 | 0.0 |
| 2005 | 46 | 4.4 | 95,579 | (0.4) |
| 2006 | 47 | 4.7 | 99,500 | 4.1 |
| 2007 | 47 | 4.9 | 103,683 | 4.2 |
| 2008 | 47 | 5.2 | 111,427 | 7.5 |

| <u>July 1</u> | National Guard | | | |
|---------------|---------------------------------|---------------------------------|------------------------------|---|
| | <u>Number of Active Members</u> | <u>Total Payroll (millions)</u> | <u>Average Annual Salary</u> | <u>Percent Increase In Average Salary</u> |
| 2003 | 12 | \$0.4 | \$35,395 | 1.9% |
| 2004 | 17 | 0.6 | 33,519 | (5.3) |
| 2005 | 14 | 0.5 | 38,857 | 15.9 |
| 2006 | 41 | 1.4 | 33,451 | (13.9) |
| 2007 | 40 | 1.5 | 36,983 | 10.6 |
| 2008 | 41 | 2.0 | 47,919 | 29.6 |

| <u>July 1</u> | Law Enforcement with prior Main service* | | | |
|---------------|---|---------------------------------|------------------------------|---|
| | <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 |
| 2005 | 113 | 3.9 | 34,190 | 14.4% |
| 2006 | 113 | 4.0 | 35,168 | 2.9 |
| 2007 | 138 | 4.9 | 35,292 | 0.4 |
| 2008 | 136 | 5.1 | 37,188 | 5.4 |

| <u>July 1</u> | Law Enforcement without prior Main service* | | | |
|---------------|--|---------------------------------|------------------------------|---|
| | <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 |
| 2005 | 13 | 0.4 | 29,722 | 7.7% |
| 2006 | 14 | 0.4 | 29,264 | (1.5) |
| 2007 | 28 | 0.7 | 25,327 | (13.5) |
| 2008 | 30 | 0.8 | 27,472 | 8.5 |

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

9. Final Average Salary:

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

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% | 6.50% |
| 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.

Solvency Test — PERS 2003-2008

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)

| | 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) |
| July 1 | (1) | (2) | (3) | | | | |
| 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 |
| 2005 | 373.1 | 495.6 | 492.4 | 1,236.1 | 100 | 100 | 75 |
| 2006 | 402.6 | 545.7 | 532.2 | 1,314.5 | 100 | 100 | 69 |
| 2007 | 433.7 | 611.3 | 565.2 | 1,503.1 | 100 | 100 | 81 |
| 2008 | 468.1 | 655.7 | 613.8 | 1,609.8 | 100 | 100 | 79 |

Retirees and Beneficiaries Added to and Removed from the Rolls – PERS – 2003-2008

| Main System | | | | | | | | | |
|-------------|------------------|--------|--------------------------|--------|--------------------------|---------------|-------------------------|--|-------------------------------|
| Additions | | | (Removals) | | | | | | |
| Plan Year | Beginning Number | Counts | Annual Pension Benefits* | Counts | Annual Pension Benefits* | Ending Number | Average Annual Benefits | Annual Pension Benefits ⁽¹⁾ | % Increase In Annual Benefits |
| 2003 | 5,232 | 416 | \$4.7 | (162) | \$(0.8) | 5,486 | \$8,319 | \$45.6 | 8.8% |
| 2004 | 5,486 | 359 | 4.0 | (160) | (0.9) | 5,685 | 8,550 | 48.6 | 6.6 |
| 2005 | 5,685 | 398 | 4.5 | (162) | (0.9) | 5,921 | 8,815 | 52.2 | 7.4 |
| 2006 | 5,921 | 440 | 4.6 | (163) | (0.9) | 6,198 | 9,156 | 56.7 | 8.6 |
| 2007 | 6,198 | 528 | 6.4 | (220) | (1.4) | 6,506 | 9,481 | 61.7 | 8.8 |
| 2008 | 6,506 | 547 | 7.2 | (240) | (1.7) | 6,813 | 9,869 | 67.2 | 8.9 |

*In millions.

| Judges | | | | | | | | | |
|-----------|------------------|--------|-------------------------|--------|-------------------------|---------------|-------------------------|-------------------------|-------------------------------|
| Additions | | | (Removals) | | | | | | |
| Plan Year | Beginning Number | Counts | Annual Pension Benefits | Counts | Annual Pension Benefits | Ending Number | Average Annual Benefits | Annual Pension Benefits | % Increase In Annual Benefits |
| 2003 | 17 | 1 | \$ 56,137 | 0 | \$ 0 | 18 | \$29,036 | \$522,643 | 14.3% |
| 2004 | 18 | 2 | 126,114 | 0 | 0 | 20 | 32,438 | 648,758 | 24.1 |
| 2005 | 20 | 5 | 259,057 | 0 | 0 | 25 | 36,313 | 907,815 | 39.9 |
| 2006 | 25 | 2 | 63,865 | 0 | 0 | 27 | 36,191 | 977,162 | 7.6 |
| 2007 | 27 | 3 | 92,172 | 0 | 0 | 30 | 35,917 | 1,077,497 | 10.3 |
| 2008 | 30 | 1 | 49,517 | (1) | (33,795) | 30 | 36,441 | 1,093,219 | 1.5 |

| National Guard | | | | | | | | | |
|----------------|------------------|--------|-------------------------|--------|-------------------------|---------------|-------------------------|-------------------------|-------------------------------|
| Additions | | | (Removals) | | | | | | |
| Plan Year | Beginning Number | Counts | Annual Pension Benefits | Counts | Annual Pension Benefits | Ending Number | Average Annual Benefits | Annual Pension Benefits | % Increase In Annual Benefits |
| 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 |
| 2005 | 3 | 1 | 32,265 | 0 | 0 | 4 | 14,675 | 58,702 | 63.4 |
| 2006 | 4 | 1 | 11,209 | 0 | 0 | 5 | 13,982 | 69,911 | 19.1 |
| 2007 | 5 | 0 | 0 | 0 | 0 | 5 | 13,982 | 69,911 | 0.0 |
| 2008 | 5 | 1 | 20,643 | 0 | 0 | 6 | 15,092 | 90,554 | 29.5 |

Law Enforcement with prior Main service⁽¹⁾

| Additions | | | (Removals) | | | | | | |
|-----------|------------------|--------|-------------------------|--------|-------------------------|---------------|-------------------------|-------------------------|-------------------------------|
| Plan Year | Beginning Number | Counts | Annual Pension Benefits | Counts | Annual Pension Benefits | Ending Number | Average Annual Benefits | Annual Pension Benefits | % Increase In Annual Benefits |
| 2004 | 0 | 0 | 0 | 0 | 0 | 0 | \$ 0 | \$ 0 | N/A |
| 2005 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00% |
| 2006 | 0 | 5 | 68,884 | 0 | 0 | 5 | 13,737 | 68,684 | N/A |
| 2007 | 5 | 5 | 74,509 | 0 | 0 | 10 | 14,319 | 143,193 | 208.5 |
| 2008 | 10 | 5 | 101,941 | 0 | 0 | 15 | 16,342 | 245,134 | 71.2 |

Law Enforcement without prior Main service⁽¹⁾

| Additions | | | (Removals) | | | | | | |
|-----------|------------------|--------|-------------------------|--------|-------------------------|---------------|-------------------------|-------------------------|-------------------------------|
| Plan Year | Beginning Number | Counts | Annual Pension Benefits | Counts | Annual Pension Benefits | Ending Number | Average Annual Benefits | Annual Pension Benefits | % Increase In Annual Benefits |
| 2004 | 0 | 0 | 0 | 0 | 0 | 0 | \$ 0 | \$ 0 | N/A |
| 2005 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00% |
| 2006 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 |
| 2007 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 |
| 2008 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 |

⁽¹⁾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

Main System

| Plan Year Ended | June 30, 2005 | June 30, 2006 | June 30, 2007 | June 30, 2008 |
|---|---------------|---------------|---------------|---------------|
| Employer Cost Rate at Beginning of Year | 6.30% | 6.03% | 6.90% | 6.08% |
| Death after Retirement | 0.11 | 0.11 | -0.10 | 0.00 |
| Death-in-Service | 0.02 | 0.02 | 0.00 | 0.02 |
| Disability Retirements | 0.00 | 0.01 | 0.00 | 0.00 |
| Withdrawal From Employment | 0.07 | 0.06 | 0.00 | 0.02 |
| Age and Service Retirements | -0.17 | -0.29 | 0.00 | -0.24 |
| Financial Experience-Investments | 0.54 | 0.04 | -1.27 | -0.13 |
| Pay Increases | -0.19 | 0.04 | 0.03 | 0.16 |
| Contribution Income | 0.17 | 0.09 | 0.15 | 0.12 |
| Administrative Expenses | 0.01 | 0.00 | -0.01 | 0.00 |
| New and Reinstated Members | 0.09 | 0.06 | -0.08 | 0.12 |
| Part-time Experience | -0.13 | -0.10 | - | -0.07 |
| Demographic Changes | 0.16 | 0.31 | 0.51 | 0.20 |
| Assumption Changes | 0.00 | 0.59 | 0.00 | 0.00 |
| Change in Normal Cost Methodology | -0.88 | 0.00 | 0.00 | 0.00 |
| Change in Amortization Schedule | -0.07 | -0.07 | -0.05 | -0.05 |
| Miscellaneous | 0.00 | 0.00 | 0.00 | 0.03 |
| Impact of Enhanced Benefits due to Portability Enhancement Provision (PEP) | 0.00 | 0.00 | 0.00 | 0.00 |
| Employer Cost Rate at End of Year | 6.03% | 6.90% | 6.08% | 6.26% |

Judges

| Plan Year Ended | June 30, 2005 | June 30, 2006 | June 30, 2007 | June 30, 2008 |
|--|---------------|---------------|---------------|---------------|
| Employer Cost Rate at Beginning of Year | 12.44% | 11.62% | 12.36% | 9.31% |
| Plan Experience | 1.12 | 0.16 | -3.14 | -0.22 |
| Change in Normal Cost Methodology | -2.05 | 0.00 | 0.00 | 0.00 |
| Assumption Changes | 0.00 | 0.48 | 0.00 | 0.00 |
| Change in Amortization Schedule | 0.11 | 0.10 | 0.09 | 0.19 |
| Miscellaneous | 0.00 | 0.00 | 0.00 | -0.29 |
| Employer Cost Rate at End of Year | 11.62% | 12.36% | 9.31% | 8.99% |

National Guard

| Plan Year Ended | June 30, 2005 | June 30, 2006 | June 30, 2007 | June 30, 2008 |
|--|---------------|---------------|---------------|---------------|
| Employer Cost Rate at Beginning of Year | 3.25% | 1.58% | 4.02% | 3.53% |
| Plan Experience | 1.29 | 2.17 | -0.50 | -0.13 |
| Change in Normal Cost Methodology | -3.01 | 0.00 | 0.00 | 0.00 |
| Assumption Changes | 0.00 | 0.26 | 0.00 | 0.00 |
| Change in Amortization Schedule | 0.05 | 0.01 | 0.01 | 0.04 |
| Employer Cost Rate at End of Year | 1.58% | 4.02% | 3.53% | 3.44% |

Law Enforcement With Prior Main Service

| Plan Year Ended | June 30, 2005 | June 30, 2006 | June 30, 2007 | June 30, 2008 |
|--|---------------|---------------|---------------|---------------|
| Employer Cost Rate at Beginning of Year | 7.88% | 12.03% | 12.07% | 12.39% |
| Plan Experience | 5.06 | -0.01 | 0.61 | 0.94 |
| Change in Normal Cost Methodology | -1.17 | 0.00 | 0.00 | 0.00 |
| Assumption Changes | 0.00 | 0.30 | 0.00 | 0.00 |
| Change in Amortization Schedule | 0.26 | -0.25 | -0.29 | -0.15 |
| Miscellaneous | 0.00 | 0.00 | 0.00 | -4.14 |
| Employer Cost Rate at End of Year | 12.03% | 12.07% | 12.39% | 9.04% |

Law Enforcement Without Prior Main Service

| Plan Year Ended | June 30, 2005 | June 30, 2006 | June 30, 2007 | June 30, 2008 |
|--|---------------|---------------|---------------|---------------|
| Employer Cost Rate at Beginning of Year | 8.35% | 7.61% | 7.43% | 8.50% |
| Plan Experience | 0.90 | -0.27 | 1.12 | -1.29 |
| Change in Normal Cost Methodology | -1.67 | 0.00 | 0.00 | 0.00 |
| Assumption Changes | 0.00 | 0.13 | 0.00 | 0.00 |
| Change in Amortization Schedule | 0.03 | -0.04 | -0.05 | -0.06 |
| Employer Cost Rate at End of Year | 7.61% | 7.43% | 8.50% | 7.15% |

**COMMENTS
FROM
THE SEGAL
COMPANY**

**HIGHWAY
PATROLMEN'S
RETIREMENT
SYSTEM**



THE SEGAL COMPANY
5670 Greenwood Plaza Boulevard, Suite 425, Greenwood Village, CO 80111
T 303.714.9900 F 303.714.9990 www.segalco.com

November 10, 2008

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, 2008

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, 2008 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2008 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2008 (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, 2008 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 \$3.8 million as of July 1, 2008.

Calculated and Statutory Contribution Rates

The July 1, 2008 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> |
|--|---|--------------------------------|
| 15.76% | 16.70% | 10.30% |

Exhibits

The enclosed supporting exhibits, prepared by Segal, provide further related information regarding the 2008 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

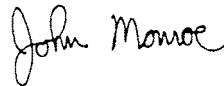
Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

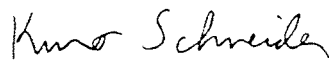
Sincerely,



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary



John Monroe, ASA, MAAA, EA
Vice President and Associate Actuary



Kurt Schneider, ASA, MAAA, EA
Associate Actuary

**ACTUARIAL
VALUATION
CERTIFICATE**

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


NOVEMBER 10, 2008

Actuarial Valuation Certificate

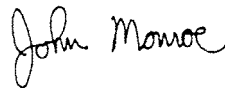
This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2008 in accordance with generally accepted actuarial principles and practices.

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.



*Brad Ramirez, FSA, MAAA, EA
Consulting Actuary*



*John Monroe, ASA, MAAA, EA
Vice President and Associate Actuary*



*Kurt Schneider, ASA, MAAA, EA
Associate Actuary*

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

(Adopted July 1, 2005)

Mortality Tables

Healthy: 1983 Group Annuity Mortality Table, set back one year for males (not set back for females).

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

3.50% per annum.

Payroll Growth

4.50% per annum.

Marital Status

At retirement or 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% payroll growth 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 have been no changes in actuarial assumptions or cost methods since the last 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-Yr. Avg. 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 |
| 7/1/05 | 4.00 | 1.0133 | 1.2572 |
| 7/1/06 | 4.00 | 1.0267 | 1.2907 |
| 7/1/07 | 4.00 | 1.0400 | 1.3423 |
| 7/1/08 | 4.00 | 1.0400 | 1.3960 |

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 eligible employment.

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 nor a 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, ten-year certain and life annuity, and twenty-year certain and life annuity.
- A partial lump sum payment in addition to one of the annuity options above.

7. Final Average Salary:

Average of the highest salary received by the member for any 36 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 to plan provisions since the preceding valuation.

**Schedule of Active Member Valuation Data – HPRS
2003-2008**

| <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> |
|---------------|-------------------------------------|-------------------------------------|----------------------------------|---------------------------------------|
| 2003 | 131 | \$5.4 | \$40,928 | 0.9% |
| 2004 | 132 | 5.4 | 40,857 | (0.2) |
| 2005 | 125 | 5.3 | 42,393 | 3.8 |
| 2006 | 127 | 5.7 | 44,789 | 5.7 |
| 2007 | 133 | 6.1 | 46,082 | 2.9 |
| 2008 | 130 | 6.5 | 50,066 | 8.6 |

**North Dakota Highway Patrolmen's Retirement System
Retirees and Beneficiaries Added to and Removed from the Rolls, 2003-2008**

| <u>Plan Year</u> | <u>Beginning Number</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>Counts</u> | <u>Annual Pension Benefits</u> | <u>Counts</u> | <u>Annual Pension Benefits</u> | | | | |
| 2003 | 86 | 2 | \$ 78,403 | (3) | \$(46,864) | 85 | \$24,429 | \$2,076,506 | 1.4% |
| 2004 | 85 | 6 | 255,113 | (1) | (1,447) | 90 | 25,872 | 2,328,444 | 12.1 |
| 2005 | 90 | 4 | 163,360 | (2) | (4,126) | 92 | 26,648 | 2,451,578 | 5.3 |
| 2006 | 92 | 9 | 380,570 | (1) | (16,251) | 100 | 27,996 | 2,799,646 | 14.2 |
| 2007 | 100 | 4 | 177,564 | (3) | (33,624) | 101 | 29,341 | 2,963,415 | 5.8 |
| 2008 | 101 | 7 | 256,680 | (3) | (48,925) | 105 | 30,202 | 3,171,170 | 7.0 |

Solvency Test — HPRS 2003-2008

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 | | |
|--------|--|---|---|---------------------------|----------------------|------|-----|
| | 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) |
| 2003 | \$9.2 | \$21.2 | \$12.0 | \$39.6 | 100% | 100% | 77% |
| 2004 | 9.3 | 23.8 | 11.4 | 40.0 | 100 | 100 | 61 |
| 2005 | 9.7 | 25.0 | 11.5 | 40.7 | 100 | 100 | 52 |
| 2006 | 9.2 | 28.8 | 11.1 | 42.8 | 100 | 100 | 43 |
| 2007 | 9.5 | 30.5 | 11.5 | 48.2 | 100 | 100 | 71 |
| 2008 | 9.5 | 32.6 | 12.5 | 50.8 | 100 | 100 | 70 |

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, 2005</u> | <u>June 30, 2006</u> | <u>June 30, 2007</u> | <u>June 30, 2008</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Employer Cost Rate at Beginning of Year | 19.03% | 17.61% | 19.03% | 15.085% |
| Plan Experience | 1.68 | 0.84 | -3.99 | 1.00 |
| Change in Amortization Schedule | -0.27 | -0.27 | -0.14 | -0.15 |
| Assumption Changes | 0.00 | 0.70 | 0.00 | 0.00 |
| Change in Normal Cost Methodology | -2.83 | 0.00 | 0.00 | 0.00 |
| Miscellaneous | 0.00 | 0.15 | 0.18 | -0.17 |
| Employer Cost Rate at End of Year | 17.61% | 19.03% | 15.08% | 15.76% |

**THE SEGAL COMPANY**

5670 Greenwood Plaza Boulevard, Suite 425, Greenwood Village, CO 80111
T 303.714.9900 F 303.714.9990 www.segalco.com

November 26, 2008

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, 2008

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, 2008 is based on the following major elements:

- Current benefit provisions.
- Membership data as of June 30, 2008 (provided by the Retirement Plan).
- Assets as of June 30, 2008 (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, 2008 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.

**COMMENTS
FROM
THE SEGAL
COMPANY**

**JOB SERVICE
RETIREMENT
PLAN**

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. Since there is currently no 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

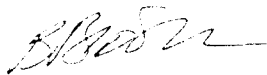
The enclosed supporting exhibits, prepared by Segal, provide further related information regarding the 200 valuation. Specifically, those exhibits are:

- 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.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Sincerely,



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary



John Monroe, ASA, MAAA, EA
Vice President and Associate Actuary



Kurt Schneider, ASA, MAAA, EA
Associate Actuary

**ACTUARIAL
VALUATION
CERTIFICATE**

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

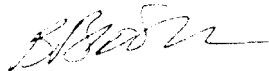
NOVEMBER 26, 2008

Actuarial Valuation Certificate

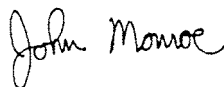
This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2008 in accordance with generally accepted actuarial principles and practices.

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.



*Brad Ramirez, FSA, MAAA, EA
Consulting Actuary*



*Theodore J. Shively, ASA, MAAA, EA
Vice President and Actuary*



*Kurt Schneider, ASA, MAAA, EA
Associate Actuary*

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

Actuarial Cost Method

The Frozen Initial Liability Actuarial Cost Method is the method currently used for the Retirement Plan for Employees of Job Service North Dakota.

Asset Valuation Method

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: 7.5% 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 have been no changes in actuarial assumptions or cost method 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. 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.

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
2004 to 2008***

| Valuation Date as of <u>July 1</u> | <u>Number of Active Members</u> | <u>Total Payroll (millions)</u> | <u>Average Annual Salary</u> | <u>% Increase in Average Salary</u> |
|--|-------------------------------------|-------------------------------------|----------------------------------|---|
| 2004 | 60 | \$2.5 | \$40,992 | (3.0)% |
| 2005 | 52 | 2.2 | 42,825 | 4.5 |
| 2006 | 44 | 1.9 | 43,697 | 2.0 |
| 2007 | 40 | 1.8 | 46,079 | 5.5 |
| 2008 | 38 | 1.8 | 46,385 | 0.7 |

**Retirement Plan for Employees of Job Service North Dakota
Retirees and Beneficiaries (Including Travelers Annuitants)
Added to and Removed from the Rolls, 2004-2008***

| <u>Plan Year</u> | <u>Beginning Number</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>Counts</u> | <u>Annual Pension Benefits</u> | <u>Counts</u> | <u>Annual Pension Benefits</u> | | | | |
| 2004 | 214 | 8 | \$263,904 | 9 | \$42,073 | 213 | \$12,723 | \$2,710,008 | 10.5% |
| 2005 | 213 | 8 | 192,619 | 4 | 15,462 | 217 | 13,401 | 2,908,106 | 7.3 |
| 2006 | 217 | 9 | 251,760 | 5 | 35,703 | 221 | 14,808 | 3,272,565 | 12.5 |
| 2007 | 221 | 4 | 111,871 | 5 | 42,458 | 220 | 15,723 | 3,459,148 | 5.7 |
| 2008 | 220 | 7 | 195,354 | 11 | 99,492 | 216 | 16,498 | 3,555,010 | 2.8 |

*The System became responsible for administration of the Job Service Plan August 2003, therefore, 2004 is the first year information is presented.

Solvency Test — Job Service Retirement Plan 2004-2008

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

disabled) 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> | | | <u>Actuarial Value of Assets</u> | <u>Portion of Actuarial Present Value of Benefits Covered by Assets</u> | | |
|--------|--|--|---|----------------------------------|---|------------|------------|
| | <u>Active Employees</u> | <u>Inactive Vested Employees Not in Pay Status</u> | <u>Pensioners (Including Disableds & Beneficiaries)</u> | | <u>(1)</u> | <u>(2)</u> | <u>(3)</u> |
| 2004 | \$20.2 | \$0.2 | \$41.5 | \$67.5 | 100% | 100% | 100% |
| 2005 | 18.8 | 0.2 | 44.3 | 69.3 | 100 | 100 | 100 |
| 2006 | 17.7 | 0.3 | 52.0 | 70.6 | 100 | 100 | 100 |
| 2007 | 17.6 | 0.3 | 53.9 | 75.7 | 100 | 100 | 100 |
| 2008 | 16.9 | 0.2 | 54.8 | 77.0 | 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, 2005</u> | <u>June 30, 2006</u> | <u>June 30, 2007</u> | <u>June 30, 2008</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Employer Cost Rate at Beginning of Year | 0.00% | 0.00% | 0.00% | 0.00% |
| 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 |
| Employer Cost Rate at End of Year | 0.00% | 0.00% | 0.00% | 0.00% |

**COMMENTS
FROM
THE SEGAL
COMPANY**

**RETIREE
HEALTH
INSURANCE
CREDIT FUND**



THE SEGAL COMPANY
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T 303.714.9900 F 303.714.9990 www.segalco.com

November 10, 2008

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, 2008

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, 2008 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2008 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2008 (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 and methods used for funding the Retiree Health Insurance Credit Fund meet the parameters set for disclosure by the Governmental Accounting Standards Board (GASB) Statement No. 43, Financial Reporting for Postemployment Benefit Plans other than Pension Plans.

The actuarial assumptions used in the July 1, 2008 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 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 \$45.1 million as of July 1, 2008. 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, 2008 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 0.88%, while the statutory contribution rate is 1.00% of payroll.

Exhibits

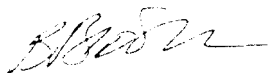
The enclosed supporting exhibits prepared by Segal provide further related information regarding the 2008 valuation. Specifically, they are:

- 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

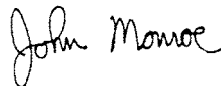
Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Sincerely,



Brad Ramirez, FSA, MAAA, EA
Consulting Actuary



John Monroe, ASA, MAAA, EA
Vice President and Associate Actuary



Kurt Schneider, ASA, MAAA, EA
Associate Actuary

**ACTUARIAL
VALUATION
CERTIFICATE**

**NORTH DAKOTA
PUBLIC EMPLOYEES RETIREMENT SYSTEM
RETIREE HEALTH INSURANCE CREDIT FUND**

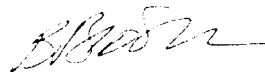
NOVEMBER 10, 2008

Actuarial Valuation Certificate

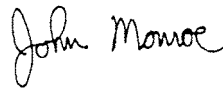
This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2008 in accordance with generally accepted actuarial principles and practices.

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.



*Brad Ramirez, FSA, MAAA, EA
Consulting Actuary*



*John Monroe, ASA, MAAA, EA
Vice President and Associate Actuary*



*Kurt Schneider, ASA, MAAA, EA
Associate Actuary*

Actuarial Assumptions and Cost Method – Retiree Health Insurance Credit Fund (Adopted July 1, 2005)

Mortality Tables

Healthy: 1983 Group Annuity Mortality Table, set back one year for males.

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 |
| 29 & Under | 18% | 15% | 12% | 10% | 15% |
| 30 - 39 | 12 | 12 | 11 | 10 | 11 |
| 40 & Over | 10 | 10 | 8 | 7 | 6 |

Ultimate Period

| Age | Male | Female |
|-----------|-------|--------|
| 20-24 | 12.0% | 12.0% |
| 25-29 | 8.0 | 10.0 |
| 30-34 | 5.0 | 8.0 |
| 35-39 | 3.5 | 5.0 |
| 40-44 | 3.0 | 4.0 |
| 45-49 | 2.5 | 3.5 |
| 50 & Over | 2.0 | 3.0 |

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 | Rule of 85 Eligible Rate | All Other Retirements |
|-----|--------------------------|-----------------------|
| 55 | 4% | 4% |
| 56 | 6 | 4 |
| 57 | 6 | 4 |
| 58 | 6 | 4 |
| 59 | 6 | 4 |
| 60 | 8 | 6 |
| 61 | 15 | 12 |
| 62 | 35 | 25 |
| 63 | 25 | 20 |
| 64 | 25 | 20 |
| 65 | 40 | 30 |
| 66 | 20 | 20 |
| 67 | 20 | 20 |
| 68 | 20 | 20 |
| 69 | 20 | 20 |
| 70 | 100 | 100 |

Age 64 or older 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 will elect a joint and survivor form of pension from the retirement system.

Interest Rate

8.0% per annum, net of investment expenses

Inflation

3.50% 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. For the Main System, males are assumed to be four 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 optional defined contribution plan are the same as those used for the Main System.

Payroll Growth

4,50% per annum.

Actuarial Cost Method

Projected Unit Credit Actuarial Cost Method. The unfunded actuarial accrued liability is amortized in installments increasing by the payroll growth assumption each year 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 the actuarial assumptions or cost method since the preceding 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 10 or 20-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
2003-2008**

| <u>July 1</u> | <u>Number of Retired Members</u> | <u>Average Annual Benefit</u> | <u>Active Members Per Retiree</u> |
|---------------|--------------------------------------|-----------------------------------|---------------------------------------|
| 2003 | 3,519 | \$1,128 | 5.0 |
| 2004 | 3,607 | 1,142 | 5.0 |
| 2005 | 3,682 | 1,152 | 5.0 |
| 2006 | 3,838 | 1,168 | 4.8 |
| 2007 | 3,922 | 1,177 | 4.8 |
| 2008 | 3,935 | 1,200 | 5.0 |

**Funding Progress – Retiree Health Insurance Credit Fund
2003-2008**

(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> | <u>Unfunded Actuarial Accrued Liability</u> | <u>Total Payroll</u> | <u>Total Unfunded Liab. as % of Payroll</u> |
|---------------|--|--|--|---|--------------------------|---|
| 2003 | \$72.0 | \$27.5 | 38.2% | \$44.5 | \$497.1 | 9.0% |
| 2004 | 74.6 | 28.9 | 38.8 | 45.6 | 518.5 | 8.8 |
| 2005 | 78.1 | 30.9 | 39.6 | 47.2 | 538.6 | 8.8 |
| 2006 | 82.6 | 34.0 | 41.2 | 48.6 | 568.0 | 8.6 |
| 2007 | 85.3 | 38.8 | 45.6 | 46.5 | 602.9 | 7.7 |
| 2008 | 87.6 | 42.5 | 48.6 | 45.1 | 660.9 | 6.8 |

**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, 2005</u> | <u>June 30, 2006</u> | <u>June 30, 2007</u> | <u>June 30, 2008</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Employer Cost Rate at Beginning of Year | 0.99% | 1.00% | 1.00% | 0.95% |
| Plan Experience | 0.01 | -0.02 | -0.05 | -0.07 |
| Assumption and Method Changes | 0.00 | 0.02 | 0.00 | 0.00 |
| Miscellaneous | 0.00 | 0.00 | 0.00 | 0.00 |
| Employer Cost Rate at End of Year | 1.00% | 1.00% | 0.95% | 0.88% |



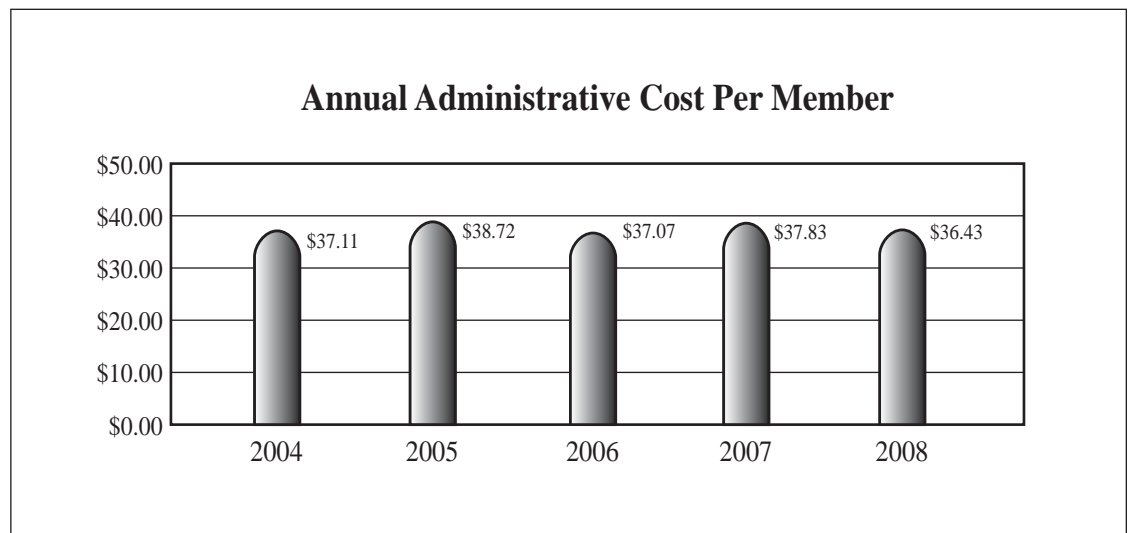
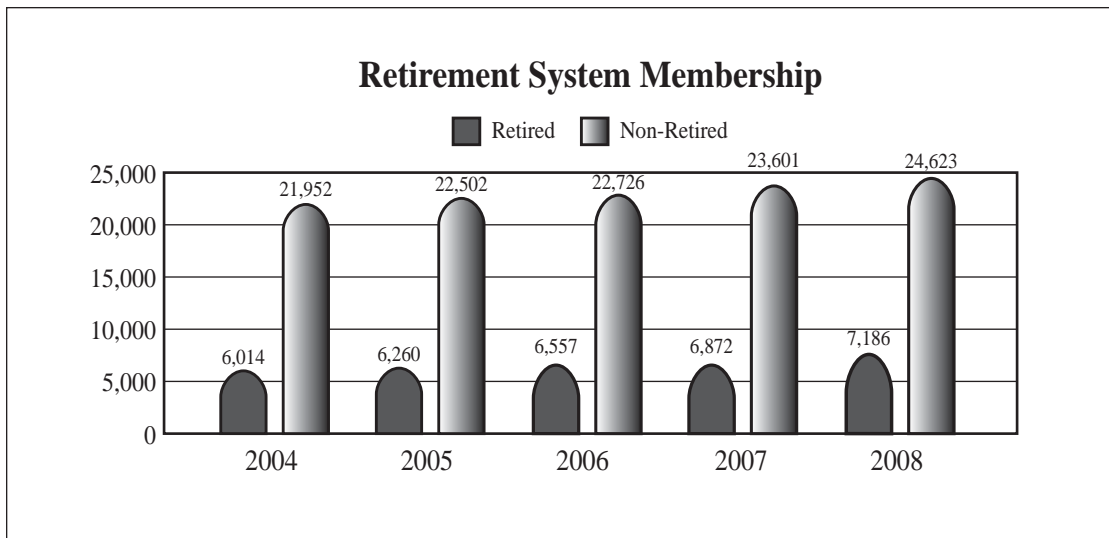
STATISTICAL SECTION

The Statistical Section contains membership and financial information for the programs administered by the System. Included in this section are schedules providing financial trend information for administrative cost per member, benefits paid, changes in net assets and deferred compensation assets by provider. Information on the operations of the System is provided in the schedules of members by type of benefit, average benefit payments, participating employers, Group Health insurance contracts and premiums.

**Retirement System Membership – PERS, HPRS, Job Service and OASIS
As of June 30**

| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| State Agencies | 11,979 | 12,258 | 11,959 | 12,619 | 13,381 |
| Cities | 492 | 560 | 594 | 633 | 1,046 |
| Counties | 3,650 | 3,741 | 3,885 | 3,980 | 3,855 |
| School Districts | 5,285 | 5,389 | 5,886 | 6,146 | 6,080 |
| Other Political Subdivisions | <u>546</u> | <u>554</u> | <u>402</u> | <u>223</u> | <u>261</u> |
| Total Non-Retired ⁽¹⁾ | 21,952 | 22,502 | 22,726 | 23,601 | 24,623 |
| Retired Members & Beneficiaries | <u>6,014</u> | <u>6,260</u> | <u>6,557</u> | <u>6,872</u> | <u>7,186</u> |
| Total Membership | 27,966 | 28,762 | 29,283 | 30,473 | 31,809 |
| Administrative Expenses | \$1,037,958 | \$1,113,714 | \$1,085,563 | \$1,152,813 | \$1,158,809 |
| Administrative Cost per Member | \$ 37.11 | \$ 38.72 | \$ 37.07 | \$ 37.83 | \$36.43 |

⁽¹⁾ Total non-retired members includes all contributing members plus all non-contributing members who have not begun to receive retirement benefits.



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

| FY Ended June 30 | Annuities ⁽¹⁾ | | Refunds | | Transfers | Total |
|---------------------|--------------------------|-------------|-----------|-------------|-----------|--------------|
| | Retirant | Survivor | Death | Separation | | |
| 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 |
| 2005 | 49,568,148 | 3,885,905 | 184,199 | 4,528,895 | 21,131 | 58,188,278 |
| 2006 | 56,057,166 | 4,257,059 | 167,977 | 4,236,429 | 41,271 | 64,759,902 |
| 2007 | 58,568,565 | 4,496,932 | 297,371 | 5,217,136 | 39,829 | 68,619,833 |
| 2008 | 67,820,903 | 5,072,460 | 337,613 | 4,918,802 | 76,487 | 78,226,265 |

⁽¹⁾ 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 |
| 2005 | 2,654,887 | 163,076 | 0 | 0 | 0 | 2,817,963 |
| 2006 | 2,870,309 | 192,276 | 0 | 0 | 0 | 3,062,585 |
| 2007 | 3,209,498 | 191,394 | 0 | 0 | 0 | 3,400,892 |
| 2008 | 3,326,354 | 238,457 | 0 | 0 | 0 | 3,564,811 |

Changes in Net Assets

| ADDITIONS: | FY Ended June 30 | Member Contributions | Employer Contributions | Purchased Service Credit | Investment Income | Miscellaneous Income | Total Additions | Employer Contributions as a % of Covered Payroll |
|--|---------------------|---------------------------|---------------------------|--------------------------------|----------------------|-------------------------|--------------------|---|
| Public Employees Retirement System: | 1999 | \$15,070,370 | \$15,873,917 | \$1,082,415 | \$108,255,409 | \$ 3,874 | \$140,285,985 | 3.99% |
| | 2000 | 15,693,237 | 16,521,248 | 925,534 | 103,230,684 | 10,530 | 136,381,233 | 4.04 |
| | 2001 | 16,273,260 | 17,101,628 | 1,080,008 | (53,115,303) | 7,570 | (18,652,837) | 3.95 |
| | 2002 | 17,379,812 | 18,244,655 | 1,059,313 | (78,163,075) | 12,301 | (41,466,994) | 3.95 |
| | 2003 | 18,265,346 | 19,212,733 | 1,493,418 | 53,998,006 | 9,184 | 92,978,687 | 4.01 |
| | 2004 | 22,544,164 ⁽¹⁾ | 19,732,842 | 3,397,231 | 180,631,261 | 6,299 | 226,311,797 | 3.94 |
| | 2005 | 19,671,214 | 20,704,241 | 4,426,282 | 178,042,364 | 13,399 | 222,857,500 | 3.97 |
| | 2006 | 20,805,715 | 21,969,517 | 3,702,908 | 170,879,698 | 11,218 | 217,369,056 | 4.02 |
| | 2007 | 21,883,581 | 23,140,767 | 3,679,036 | 309,726,953 | 4,759 | 358,435,096 | 3.97 |
| | 2008 | 27,105,614 ⁽⁵⁾ | 25,253,902 | 3,454,411 | (97,388,032) | 5,187 | (41,568,918) | 3.94 |
| Highway Patrolmen's Retirement System: | 1999 | 442,441 | 717,357 | 0 | 3,795,110 | 36 | 4,954,944 | 16.06 |
| | 2000 | 457,079 | 741,089 | 0 | 3,603,516 | 65 | 4,801,749 | 15.92 |
| | 2001 | 486,332 | 788,125 | 0 | (1,872,449) | 60 | (597,932) | 16.17 |
| | 2002 | 501,850 | 814,035 | 0 | (2,712,925) | 85 | (1,396,955) | 16.05 |
| | 2003 | 513,812 | 833,074 | 0 | 1,820,797 | 56 | 3,167,739 | 15.54 |
| | 2004 | 520,700 | 844,241 | 0 | 6,116,743 | 74 | 7,481,758 | 15.65 |
| | 2005 | 535,233 | 867,803 | 0 | 5,930,032 | 101 | 7,333,169 | 16.38 |
| | 2006 | 574,341 | 931,206 | 0 | 5,623,010 | 219 | 7,128,776 | 16.37 |
| | 2007 | 592,398 | 960,487 | 0 | 10,026,722 | 44 | 11,579,651 | 15.67 |
| | 2008 | 649,861 | 1,058,825 | 0 | (3,100,879) | 21 | (1,392,172) | 16.27 |
| Job Service Retirement Plan: | 2004 | 67,080,814 ⁽²⁾ | 0 | 25,272 | \$ 8,551,044 | 0 | 75,657,130 | 0.00 |
| | 2005 | 163,594 | 0 | 1,143 | 10,884,059 | 0 | 11,048,796 | 0.00 |
| | 2006 | 150,633 | 0 | 25,927 | 5,766,011 | 0 | 5,942,571 | 0.00 |
| | 2007 | 132,564 | 0 | 0 | 13,618,796 | 0 | 13,751,360 | 0.00 |
| | 2008 | 123,718 | 0 | 0 | (1,310,119) | 0 | (1,186,401) | 0.00 |
| Retiree Health Insurance Credit Plan: | 1999 | 12,155 | 3,790,514 | 81,952 | 2,473,053 | 0 | 6,357,674 | 0.94% |
| | 2000 | 3,246 | 3,992,189 | 73,929 | 2,100,238 | 0 | 6,169,602 | 0.96% |
| | 2001 | 9,219 | 4,191,541 | 77,669 | (2,139,857) | 0 | 2,138,572 | 0.94% |
| | 2002 | 4,421 | 4,482,993 | 76,322 | (1,640,148) | 0 | 2,923,588 | 0.94% |
| | 2003 | 4,938 | 4,712,819 | 116,821 | 861,309 | 0 | 5,695,887 | 0.95% |
| | 2004 | 4,597 | 4,854,949 | 210,547 | 3,863,672 | 0 | 8,933,765 | 0.94% |
| | 2005 | 7,061 | 5,085,050 | 246,500 | 2,693,979 | 0 | 8,032,590 | 0.94% |
| | 2006 | 7,210 | 5,373,091 | 211,601 | 2,828,932 | 0 | 8,420,834 | 0.95% |
| | 2007 | 7,959 | 5,665,071 | 204,758 | 6,129,258 | 0 | 12,007,046 | 0.94% |
| | 2008 | 5,686,576 ⁽⁴⁾ | 6,174,940 | 227,655 | (6,469,252) | 0 | 5,619,919 | 0.93% |

⁽¹⁾Member contributions include \$3,789,350 contributions from external pension plans.

⁽²⁾Member contributions include \$66,888,685 contributions from external pension plans.

⁽³⁾Member contributions include \$3,208,999 contributions from external pension plans.

⁽⁴⁾Member contributions includes \$5,678,983 for health insurance premiums paid by retirees who participate in the Implicit Subsidy Unfunded Plan, pursuant to GASB Statement Number 43.

Changes in Net Assets

| DEDUCTIONS: | FY Ended June 30 | Benefits | Administrative Expenses | Transfers and Refunds | Total Deductions | Change in Net Assets |
|---|---------------------|---------------------------|----------------------------|---------------------------|---------------------|-------------------------|
| Public Employees Retirement System: | 1999 | \$29,150,704 | \$718,396 | \$3,920,011 | \$33,789,111 | \$106,496,874 |
| | 2000 | 34,026,828 | 800,529 | 12,545,193 ⁽¹⁾ | 47,372,550 | 89,008,683 |
| | 2001 | 36,676,998 | 894,868 | 4,050,284 | 41,622,150 | (60,274,987) |
| | 2002 | 40,871,330 | 983,258 | 3,467,354 | 45,321,942 | (86,788,936) |
| | 2003 | 43,733,098 | 1,068,803 | 2,728,091 | 47,529,992 | 45,448,695 |
| | 2004 | 47,515,319 | 995,879 | 3,677,037 | 52,188,235 | 174,123,562 |
| | 2005 | 51,286,688 | 1,072,277 | 4,454,425 | 56,813,390 | 166,044,110 |
| | 2006 | 57,820,126 | 1,037,535 | 4,277,700 | 63,135,361 | 154,233,695 |
| | 2007 | 60,469,904 | 1,109,260 | 5,171,153 | 66,750,317 | 291,684,779 |
| | 2008 | 70,153,871 | 1,118,233 | 4,860,814 | 76,132,918 | (117,701,836) |
| Highway Patrolmen's Retirement System: | 1999 | 1,453,640 | 12,966 | 4,784 | 1,471,390 | 3,483,554 |
| | 2000 | 1,629,020 | 13,821 | 6,576 | 1,649,417 | 3,152,332 |
| | 2001 | 1,660,303 | 14,482 | 10,994 | 1,685,779 | (2,283,711) |
| | 2002 | 1,928,173 | 15,919 | 122,434 | 2,066,526 | (3,463,481) |
| | 2003 | 2,044,071 | 16,469 | 19,412 | 2,079,952 | 1,087,787 |
| | 2004 | 2,188,234 | 16,562 | 34,411 | 2,239,207 | 5,242,551 |
| | 2005 | 2,351,564 | 16,058 | 95,601 | 2,463,223 | 4,869,946 |
| | 2006 | 2,662,076 | 17,470 | 0 | 2,679,546 | 4,449,230 |
| | 2007 | 2,892,964 | 19,410 | 85,812 | 2,998,186 | 8,581,465 |
| | 2008 | 3,077,105 | 18,364 | 134,475 | 3,229,944 | (4,622,116) |
| Job Service Retirement Plan: | 2004 | 2,330,771 | 24,174 | 0 | 2,354,945 | 73,302,185 |
| | 2005 | 2,817,963 | 24,019 | 0 | 2,841,982 | 8,206,814 |
| | 2006 | 3,062,585 | 29,335 | 0 | 3,091,920 | 2,850,651 |
| | 2007 | 3,400,892 | 22,811 | 0 | 3,423,703 | 10,327,657 |
| | 2008 | 3,564,811 | 22,212 | 0 | 3,587,023 | (4,773,424) |
| Retiree Health Insurance Credit Plan: | 1999 | 3,160,789 | 60,912 | 1,020 | 3,222,721 | 3,134,953 |
| | 2000 | 3,409,471 | 85,061 | 1,712 | 3,496,244 | 2,673,358 |
| | 2001 | 3,598,019 | 68,301 | 2,623 | 3,668,943 | (1,530,371) |
| | 2002 | 3,745,958 | 80,909 | 3,626 | 3,830,493 | (906,905) |
| | 2003 | 3,893,070 | 79,237 | 937 | 3,973,244 | 1,722,643 |
| | 2004 | 4,063,395 | 81,269 | 698 | 4,145,362 | 4,788,403 |
| | 2005 | 4,193,687 | 85,262 | 1,880 | 4,280,829 | 3,751,761 |
| | 2006 | 4,337,900 | 88,569 | 4,291 | 4,430,760 | 3,990,074 |
| | 2007 | 4,525,810 | 104,953 | 2,798 | 4,633,561 | 7,373,485 |
| | 2008 | 10,383,070 ⁽²⁾ | 89,877 | 2,673 | 10,475,620 | (4,855,701) |

⁽¹⁾Includes transfers of \$8,544,005 to the new optional Defined Contribution Plan.

⁽²⁾Benefits include \$5,678,983 paid for health insurance premiums for retirees who participate in the Implicit Subsidy Unfunded Plan, pursuant to GASB Statement Number 43.

**Schedule of Retired Members by Type of Benefit – PERS
As of June 30, 2008**

| Monthly Amount | Main System | | | | |
|-------------------------------|-------------|-----------------|-------|------------|-----------|
| | Total | Type of Pension | | | |
| | Total | Normal | Early | Disability | Service * |
| Total | 6,103 | 1,978 | 1,880 | 339 | 1,906 |
| Less than \$200 | 871 | 389 | 443 | 21 | 18 |
| \$200 - \$ 399 | 1,324 | 497 | 672 | 141 | 14 |
| 400 - 599 | 912 | 344 | 422 | 110 | 36 |
| 600 - 799 | 562 | 224 | 185 | 48 | 105 |
| 800 - 999 | 471 | 147 | 72 | 12 | 240 |
| 1,000 - 1,199 | 449 | 125 | 42 | 4 | 278 |
| 1,200 - 1,399 | 351 | 70 | 16 | 1 | 264 |
| 1,400 - 1,599 | 242 | 43 | 10 | 1 | 188 |
| 1,600 - 1,799 | 207 | 36 | 4 | - | 167 |
| 1,800 - 1,999 | 149 | 21 | 5 | - | 123 |
| 2,000 - 2,199 | 124 | 16 | 1 | 1 | 106 |
| 2,200 - 2,399 | 114 | 14 | 5 | - | 95 |
| 2,400 - 2,599 | 87 | 9 | 1 | - | 77 |
| 2,600 - 2,799 | 70 | 9 | - | - | 61 |
| 2,800 - 2,999 | 44 | 8 | 1 | - | 35 |
| 3,000 & Over | 126 | 26 | 1 | - | 99 |
| Life | 3,991 | 1,375 | 1,391 | 272 | 953 |
| Level Social Security Payment | 113 | - | 21 | - | 92 |
| Joint & 100% Survivor | 1,046 | 364 | 240 | 35 | 407 |
| Joint & 50% Survivor | 727 | 175 | 131 | 22 | 399 |
| 20 Year C & L | 11 | 5 | 3 | - | 3 |
| 10 Year C & L | 173 | 49 | 79 | 4 | 41 |
| 5 Year C & L | 42 | 10 | 15 | 6 | 11 |
| Total | 6,103 | 1,978 | 1,880 | 339 | 1,906 |

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

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

| | Main System | | | | | | Total |
|--------------------------|---------------------------|--------|--------|--------|----------|----------|--------|
| | Years of Credited Service | | | | | | |
| | <10 | 10-14 | 15-19 | 20-24 | 25-29 | >=30 | |
| 2004 | | | | | | | |
| 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 |
| 2005 | | | | | | | |
| Number of Retirees | 991 | 1,019 | 963 | 767 | 669 | 869 | 5,278 |
| Average Monthly Benefits | \$ 218 | \$ 352 | \$ 507 | \$ 802 | \$ 1,207 | \$ 1,811 | \$ 769 |
| Average Years of Service | 6.29 | 12.32 | 17.37 | 22.31 | 27.21 | 35.02 | 19.19 |
| 2006 | | | | | | | |
| Number of Retirees | 1,042 | 1,048 | 987 | 818 | 731 | 914 | 5,540 |
| Average Monthly Benefit | \$ 222 | \$ 361 | \$ 521 | \$ 840 | \$ 1,248 | \$ 1,846 | \$ 796 |
| Average Years of Service | 6.27 | 12.33 | 17.35 | 22.35 | 27.24 | 35.00 | 19.27 |
| 2007 | | | | | | | |
| Number of Retirees | 1,121 | 1,063 | 1,008 | 859 | 786 | 987 | 5,824 |
| Average Monthly Benefits | \$ 222 | \$ 368 | \$ 536 | \$ 868 | \$ 1,283 | \$ 1,896 | \$ 825 |
| Average Years of Service | 6.23 | 12.33 | 17.36 | 22.38 | 27.24 | 35.02 | 19.37 |
| 2008 | | | | | | | |
| Number of Retirees | 1,195 | 1,086 | 1,025 | 894 | 839 | 1,064 | 6,103 |
| Average Monthly Benefits | \$ 223 | \$ 376 | \$ 554 | \$ 894 | \$ 1,327 | \$ 1,939 | \$ 855 |
| Average Years of Service | 6.22 | 12.32 | 17.35 | 22.42 | 27.24 | 34.99 | 19.45 |

**Schedule of Retired Members by Type of Benefit – PERS
As of June 30, 2008**

| Monthly Amount | Judges | | | | |
|-------------------------------|--------|-----------------|-------|------------|-----------|
| | Total | Type of Pension | | | |
| | | Normal | Early | Disability | Service * |
| Total | 23 | 13 | 4 | 0 | 6 |
| Less than \$200 | - | - | - | - | - |
| \$200 - \$ 399 | - | - | - | - | - |
| 400 - 599 | - | - | - | - | - |
| 600 - 799 | - | - | - | - | - |
| 800 - 999 | - | - | - | - | - |
| 1,000 - 1,199 | - | - | - | - | - |
| 1,200 - 1,399 | 1 | - | - | - | 1 |
| 1,400 - 1,599 | - | - | - | - | - |
| 1,600 - 1,799 | 3 | 2 | 1 | - | - |
| 1,800 - 1,999 | 1 | - | 1 | - | - |
| 2,000 - 2,199 | 1 | 1 | - | - | - |
| 2,200 - 2,399 | - | - | - | - | - |
| 2,400 - 2,599 | - | - | - | - | - |
| 2,600 - 2,799 | 2 | 2 | - | - | - |
| 2,800 - 2,999 | 2 | 1 | - | - | 1 |
| 3,000 & Over | 13 | 7 | 2 | - | 4 |
| Life | 3 | 3 | - | - | - |
| Level Social Security Payment | - | - | - | - | - |
| Joint & 100% Survivor | 15 | 9 | 2 | - | 4 |
| Joint & 50% Survivor | 5 | 1 | 2 | - | 2 |
| 10 Year C & L | - | - | - | - | - |
| 5 Year C & L | - | - | - | - | - |
| Total | 23 | 13 | 4 | 0 | 6 |

**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 | |
| 2004 | | | | | | | |
| 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 |
| 2005 | | | | | | | |
| Number of Retirees | 1 | 6 | 4 | 3 | 4 | 1 | 19 |
| Average Monthly Benefit | \$ 1,262 | \$ 2,022 | \$ 3,439 | \$ 4,292 | \$ 4,956 | \$ 5,625 | \$ 3,446 |
| Average Years of Service | 8.50 | 11.42 | 18.25 | 23.75 | 25.46 | 30.00 | 18.58 |
| 2006 | | | | | | | |
| Number of Retirees | 1 | 8 | 4 | 3 | 4 | 1 | 21 |
| Average Monthly Benefit | \$ 1,262 | \$ 2,239 | \$ 3,439 | \$ 4,292 | \$ 4,956 | \$ 5,625 | \$ 3,393 |
| Average Years of Service | 8.50 | 11.34 | 18.25 | 23.75 | 25.46 | 30.00 | 17.87 |
| 2007 | | | | | | | |
| Number of Retirees | 1 | 11 | 4 | 3 | 4 | 1 | 24 |
| Average Monthly Benefit | \$ 1,262 | \$ 2,389 | \$ 3,439 | \$ 4,292 | \$ 4,956 | \$ 5,625 | \$ 3,318 |
| Average Years of Service | 8.50 | 11.47 | 18.25 | 23.75 | 25.46 | 30.00 | 17.11 |
| 2008 | | | | | | | |
| Number of Retirees | 1 | 10 | 4 | 3 | 4 | 1 | 23 |
| Average Monthly Benefit | \$ 1,287 | \$ 2,344 | \$ 3,508 | \$ 4,378 | \$ 5,056 | \$ 5,737 | \$ 3,385 |
| Average Years of Service | 8.50 | 11.42 | 18.25 | 23.75 | 25.46 | 30.00 | 17.34 |

**Schedule of Retired Members by Type of Benefit – PERS
As of June 30, 2008**

National Guard

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

| | <10 | 10-14 | 15-19 | 20-24 | 25-29 | >=30 | Total |
|--------------------------|------|--------|--------|----------|----------|------|----------|
| 2004 | | | | | | | |
| 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 |
| 2005 | | | | | | | |
| Number of Retirees | 0 | 1 | 1 | 1 | 1 | 0 | 4 |
| Average Monthly Benefits | \$ 0 | \$ 537 | \$ 723 | \$ 943 | \$ 2,689 | \$ 0 | \$ 1,223 |
| Average Years of Service | 0.00 | 11.08 | 19.17 | 22.17 | 29.50 | 0.00 | 20.48 |
| 2006 | | | | | | | |
| Number of Retirees | 0 | 1 | 2 | 1 | 1 | 0 | 5 |
| Average Monthly Benefits | \$ 0 | \$ 537 | \$ 829 | \$ 943 | \$ 2,689 | \$ 0 | \$ 1,165 |
| Average Years of Service | 0.00 | 11.08 | 16.13 | 22.17 | 29.50 | 0.00 | 19.00 |
| 2007 | | | | | | | |
| Number of Retirees | 0 | 2 | 1 | 1 | 1 | 0 | 5 |
| Average Monthly Benefits | \$ 0 | \$ 736 | \$ 722 | \$ 943 | \$ 2,689 | \$ 0 | \$ 1,165 |
| Average Years of Service | 0.00 | 12.75 | 19.17 | 22.17 | 29.50 | 0.00 | 19.27 |
| 2008 | | | | | | | |
| Number of Retirees | 0 | 2 | 1 | 2 | 1 | 0 | 6 |
| Average Monthly Benefits | \$ 0 | \$ 736 | \$ 722 | \$ 1,332 | \$ 2,689 | \$ 0 | \$ 1,258 |
| Average Years of Service | 0.00 | 12.75 | 19.17 | 23.46 | 29.50 | 0.00 | 20.18 |

**Schedule of Retired Members by Type of Benefit – PERS
As of June 30, 2008**

Law Enforcement with Prior Main Service

| Monthly Amount | Total | Type of Pension | | | | Service * |
|-------------------------------|-------|-----------------|-------|------------|---|-----------|
| | | Normal | Early | Disability | | |
| Total | 15 | 12 | 0 | 0 | 3 | |
| Less than \$200 | - | - | - | - | - | |
| \$200 - \$ 399 | - | - | - | - | - | |
| 400 - 599 | 1 | 1 | - | - | - | |
| 600 - 799 | - | - | - | - | - | |
| 800 - 999 | 1 | 1 | - | - | - | |
| 1,000 - 1,199 | 7 | 7 | - | - | - | |
| 1,200 - 1,399 | 1 | 1 | - | - | - | |
| 1,400 - 1,599 | 1 | - | - | - | 1 | |
| 1,600 - 1,799 | - | - | - | - | - | |
| 1,800 - 1,999 | 1 | 1 | - | - | - | |
| 2,000 - 2,199 | 1 | - | - | - | 1 | |
| 2,200 - 2,399 | 2 | 1 | - | - | 1 | |
| 2,400 - 2,599 | - | - | - | - | - | |
| 2,600 - 2,799 | - | - | - | - | - | |
| 2,800 - 2,999 | - | - | - | - | - | |
| 3,000 & Over | - | - | - | - | - | |
| Life | 10 | 9 | - | - | 1 | |
| Level Social Security Payment | 2 | 1 | - | - | 1 | |
| Joint & 100% Survivor | 3 | 2 | - | - | 1 | |
| Joint & 50% Survivor | - | - | - | - | - | |
| 10 Year C & L | - | - | - | - | - | |
| 5 Year C & L | - | - | - | - | - | |
| Total | 15 | 12 | 0 | 0 | 3 | |

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

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

Law Enforcement with Prior Main Service

Years of Credited Service

| | <10 | 10-14 | 15-19 | 20-24 | 25-29 | >=30 | Total |
|--------------------------|--------|----------|----------|----------|----------|----------|----------|
| 2006* | | | | | | | |
| Number of Retirees | 0 | 1 | 2 | 1 | 1 | 0 | 5 |
| Average Monthly Benefits | \$ 0 | \$ 1,109 | \$ 1,027 | \$ 1,067 | \$ 1,494 | \$ 0 | \$ 1,145 |
| Average Years of Service | 0.00 | 13.50 | 18.96 | 22.50 | 25.42 | 0.00 | 19.87 |
| 2007 | | | | | | | |
| Number of Retirees | 1 | 1 | 3 | 2 | 3 | 0 | 10 |
| Average Monthly Benefits | \$ 478 | \$ 1,109 | \$ 1,079 | \$ 1,048 | \$ 1,671 | \$ 0 | \$ 1,193 |
| Average Years of Service | 8.58 | 13.83 | 18.64 | 21.84 | 25.97 | 0.00 | 19.99 |
| 2008 | | | | | | | |
| Number of Retirees | 1 | 1 | 3 | 6 | 3 | 1 | 15 |
| Average Monthly Benefits | \$ 478 | \$ 1,109 | \$ 1,079 | \$ 1,298 | \$ 1,830 | \$ 2,327 | \$ 1,362 |
| Average Years of Service | 8.58 | 13.83 | 18.64 | 21.44 | 25.97 | 34.00 | 21.26 |

**2006 was the first fiscal year that benefit payments were made under this plan.*

**Schedule of Retired Members by Type of Benefit – HPRS
As of June 30, 2008**

| Monthly Amount | Total | Type of Pension | | | |
|-------------------------------|-------|-----------------|-------|------------|------------|
| | | Normal | Early | Disability | Rule of 80 |
| Total | 84 | 31 | 1 | 3 | 49 |
| Less than \$200 | - | - | - | - | - |
| \$200 - \$ 399 | 1 | 1 | - | - | - |
| 400 - 599 | 2 | 2 | - | - | - |
| 600 - 799 | - | - | - | - | - |
| 800 - 999 | - | - | - | - | - |
| 1,000 - 1,199 | 1 | 1 | - | - | - |
| 1,200 - 1,399 | 1 | 1 | - | - | - |
| 1,400 - 1,599 | 1 | - | - | 1 | - |
| 1,600 - 1,799 | 1 | 1 | - | - | - |
| 1,800 - 1,999 | 1 | 1 | - | - | - |
| 2,000 - 2,199 | 6 | 3 | 1 | 1 | 1 |
| 2,200 - 2,399 | 6 | 3 | - | 1 | 2 |
| 2,400 - 2,599 | 11 | 6 | - | - | 5 |
| 2,600 - 2,799 | 10 | 3 | - | - | 7 |
| 2,800 - 2,999 | 5 | 1 | - | - | 4 |
| 3,000 & Over | 38 | 8 | - | - | 30 |
| Life | 13 | 4 | - | 3 | 6 |
| Level Social Security Payment | - | - | - | - | - |
| Joint & 100% Survivor | 26 | 4 | - | - | 22 |
| Joint & 50% Survivor | 45 | 23 | 1 | - | 21 |
| 10 Year C & L | - | - | - | - | - |
| 5 Year C & L | - | - | - | - | - |
| Total | 84 | 31 | 1 | 3 | 49 |

**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 | |
| 2004 | | | | | | | |
| 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 |
| 2005 | | | | | | | |
| Number of Retirees | 1 | 2 | 3 | 4 | 44 | 16 | 70 |
| Average Monthly Benefits | \$ 1,456 | \$ 1,593 | \$ 1,064 | \$ 1,421 | \$ 2,845 | \$ 3,175 | \$ 2,707 |
| Average Years of Service | 2.25 | 12.34 | 17.33 | 21.88 | 28.01 | 31.14 | 27.10 |
| 2006 | | | | | | | |
| Number of Retirees | 1 | 2 | 3 | 5 | 51 | 16 | 78 |
| Average Monthly Benefits | \$ 1,456 | \$ 1,593 | \$ 1,064 | \$ 1,878 | \$ 2,950 | \$ 3,175 | \$ 2,801 |
| Average Years of Service | 2.25 | 12.34 | 17.33 | 21.73 | 27.92 | 31.14 | 27.05 |
| 2007 | | | | | | | |
| Number of Retirees | 1 | 2 | 3 | 5 | 55 | 15 | 81 |
| Average Monthly Benefits | \$ 1,456 | \$ 1,593 | \$ 1,064 | \$ 1,878 | \$ 3,005 | \$ 3,267 | \$ 2,858 |
| Average Years of Service | 2.25 | 12.34 | 17.33 | 21.73 | 27.96 | 31.19 | 27.07 |
| 2008 | | | | | | | |
| Number of Retirees | 1 | 1 | 4 | 5 | 56 | 17 | 84 |
| Average Monthly Benefits | \$ 1,456 | \$ 2,054 | \$ 1,062 | \$ 1,878 | \$ 3,052 | \$ 3,477 | \$ 2,942 |
| Average Years of Service | 2.25 | 11.17 | 16.79 | 21.73 | 27.96 | 31.18 | 27.20 |

**Schedule of Retired Members by Type of Benefit – Job Service Retirement Plan
As of June 30, 2008**

| Monthly Amount | Type of Pension | | |
|-----------------------|-----------------|------------|------------|
| | Total | Retirement | Disability |
| Total | 190 | 184 | 6 |
| Less than \$200 | 58 | 58 | - |
| \$200 - \$ 399 | 23 | 23 | - |
| 400 - 599 | 2 | 2 | - |
| 600 - 799 | 1 | 1 | - |
| 800 - 999 | 4 | 3 | 1 |
| 1,000 - 1,199 | 1 | 1 | - |
| 1,200 - 1,399 | 12 | 10 | 2 |
| 1,400 - 1,599 | 6 | 5 | 1 |
| 1,600 - 1,799 | 10 | 9 | 1 |
| 1,800 - 1,999 | 10 | 10 | - |
| 2,000 - 2,199 | 11 | 11 | - |
| 2,200 - 2,399 | 15 | 14 | 1 |
| 2,400 - 2,599 | 8 | 8 | - |
| 2,600 - 2,799 | 10 | 10 | - |
| 2,800 - 2,999 | 5 | 5 | - |
| 3,000 & Over | 14 | 14 | - |
| Life | 45 | 45 | - |
| Joint & 55% Survivor | 42 | 41 | 1 |
| Joint & 75% Survivor | 22 | 22 | - |
| Joint & 100% Survivor | 11 | 11 | - |
| 10 Year C & L | 36 | 31 | 5 |
| 15 Year C & L | 5 | 5 | - |
| 20 Year C&L | 29 | 29 | - |
| Total | 190 | 184 | 6 |

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

| | Retirement Plan | Travelers Annuitants | Total |
|--------------------------|--------------------|-------------------------|----------|
| 2004 | | | |
| Number of Retirees | 100 | 113 | 213 |
| Average Monthly Benefits | \$ 1,911 | \$ 308 | \$ 1,060 |
| 2005 | | | |
| Number of Retirees | 108 | 109 | 217 |
| Average Monthly Benefits | \$ 1,896 | \$ 345 | \$ 1,117 |
| 2006 | | | |
| Number of Retirees | 115 | 106 | 221 |
| Average Monthly Benefits | \$ 2,002 | \$ 401 | \$ 1,651 |
| 2007 | | | |
| Number of Retirees | 118 | 102 | 220 |
| Average Monthly Benefits | \$ 2,054 | \$ 450 | \$ 1,310 |
| 2008 | | | |
| Number of Retirees | 118 | 98 | 216 |
| Average Monthly Benefits | \$ 2,110 | \$ 490 | \$ 1,372 |

Since there are no retirees for the Law Enforcement without prior Main service plan, 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 ND NATL GRD
 AERONAUTICS COMMISSION
 ATTORNEY GENERAL'S OFFICE
 BANK OF NORTH DAKOTA
 BEEF COMMISSION
 BISMARCK STATE COLLEGE
 BOARD OF ANIMAL HEALTH
 BOARD OF MEDICAL EXAMINERS
 BOARD OF NURSING
 BOARD OF PHARMACY
 CAREER & TECHNICAL ED
 DAIRY PROMOTION COMMISSION
 DEPT OF AGRICULTURE
 DEPT OF BANKING & FINANCE
 DEPT OF COMMERCE
 DEPT OF EMERGENCY SERVICES
 DEPT OF HUMAN SERVICES
 DEPARTMENT OF CORRECTIONS
 DEPARTMENT OF TRANSPORTATION
 DEVELOPMENTAL CENTER
 DICKINSON STATE UNIVERSITY
 EDUCATION STANDARDS & PRACTICE
 ELECTRICAL BOARD
 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
 LEGAL COUNSEL OF INDIGENTS
 LEGISLATIVE COUNCIL
 MAYVILLE STATE UNIVERSITY
 MILK MARKETING BOARD
 MILL & ELEVATOR ASSOCIATION
 MINOT STATE UNIVERSITY
 ND BARLEY COUNCIL
 ND CORN UTILIZATION COUNCIL
 ND COUNCIL ON THE ARTS
 ND DEPARTMENT OF HEALTH
 ND DEPARTMENT OF LABOR
 ND OILSEED COUNCIL
 ND SECURITIES DEPARTMENT
 ND SOYBEAN COUNCIL
 ND STATE BOARD OF ACCOUNTANCY
 ND STATE BOARD OF COSMETOLOGY
 ND STATE 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 FINANCE AUTHORITY
 PUBLIC INSTRUCTION
 PUBLIC SERVICE COMMISSION
 RACING COMMISSION
 REAL ESTATE COMMISSION
 RETIREMENT & INVESTMENT OFFICE
 ROUGH RIDER INDUSTRIES
 SCHOOL FOR THE BLIND
 SCHOOL FOR THE DEAF
 SECRETARY OF STATE

SOIL CONSERVATION COMMITTEE
 STATE AUDITOR'S OFFICE
 STATE BOARD OF LAW EXAMINERS
 STATE FAIR ASSN
 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
 WATER COMMISSION
 WILLISTON STATE COLLEGE
 WORKFORCE SAFETY AND INSURANCE
Total = 92

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
 MERCER COUNTY
 MOUNTRAIL COUNTY
 NELSON COUNTY
 OLIVER COUNTY
 PEMBINA COUNTY
 PIERCE COUNTY
 RAMSEY COUNTY
 RANSOM COUNTY
 RENVILLE COUNTY
 RICHLAND COUNTY
 ROLETTE COUNTY
 SHERIDAN COUNTY
 SLOPE COUNTY
 STARK COUNTY
 STEELE COUNTY
 STUTSMAN COUNTY
 TOWNER COUNTY
 TRAILL COUNTY
 WALSH COUNTY
 WARD COUNTY
 WELLS COUNTY
 WILLIAMS COUNTY
Total = 48

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 COUNTY SCHOOL DISTRICT #1

BURKE CENTRAL SCHOOL
 BURLEIGH COUNTY SPECIAL ED UNIT
 CARRINGTON SCHOOL DIST #49
 CAVALIER PUBLIC SCHOOLS
 CENTER STANTON PUBLIC SCHOOL
 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 AREA SCHOOL DISTRICT #24
 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/LANSFORD/SHERWOOD SCHOOLS
 MOTT/REGENT PUBLIC SCHOOL DIST #1
 MT PLEASANT SCHOOL DIST #4
 NAPOLEON PUBLIC SCHOOL DIST #2
 NEW PUBLIC SCHOOL #8
 NEW ROCKFORD SHEYENNE PUBLIC SCHOOL
 NEW SALEM SCHOOL DIST #7
 NEW TOWN PUBLIC SCHOOL #1
 NEWBURG UNITED PUBLIC SCHOOL
 NORTHERN CASS SCHOOL DIST #97
 NORTH BORDER SCHOOL DIST #100
 NORTHERN PLAINS SPECIAL EDUCATION UNIT
 NORTH VALLEY VO-TECH CENTER
 OAKES PUBLIC SCHOOLS
 OLIVER-MERCER SPECIAL ED UNIT
 PARK RIVER PUBLIC SCHOOLS
 PEACE GARDEN SPECIAL SERVICES
 RICHLAND SCHOOL DIST #44
 ROLETTE COUNTY ALT ED CONSORT
 ROLETTE PUBLIC SCHOOLS
 RUGBY PUBLIC SCHOOL DIST #5
 RURAL CASS MULTI-DISTRICT SPECIAL ED
 SHEYENNE VALLEY CAREER TECH CT
 SHEYENNE VALLEY SPECIAL ED UNIT
 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
 THOMPSON PUBLIC SCHOOL
 TIOGA PUBLIC SCHOOL
 TURTLE LAKE MERCER SCHOOL DISTRICT
 UNDERWOOD SCHOOL DIST #8
 UNITED PUBLIC SCHOOL DISTRICT
 VALLEY CITY PUBLIC SCHOOL
 VELVA PUBLIC SCHOOL
 WARWICK PUBLIC SCHOOL
 WASHBURN 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 = 108

CITIES:
 CITY OF ASHLEY
 CITY OF BEACH
 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 FARGO
 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 JAMESTOWN
 CITY OF KENMARE
 CITY OF KILLDEER
 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 SALEM
 CITY OF NEW TOWN
 CITY OF NORTHWOOD
 CITY OF OAKES
 CITY OF PARK RIVER
 CITY OF PEMBINA
 CITY OF POWERS LAKE

114 North Dakota Public Employees Retirement System

CITY OF RAY
CITY OF RHAME
CITY OF ROLLA
CITY OF RUGBY
CITY OF SAWYER
CITY OF SCRANTON
CITY OF SHERWOOD
CITY OF ST. JOHN
CITY OF STANLEY
CITY OF SURREY
CITY OF THOMPSON
CITY OF TIOGA
CITY OF TOWNER
CITY OF UNDERWOOD
CITY OF VELVA
CITY OF WAHPETON
CITY OF WALHALLA
CITY OF WATFORD CITY
CITY OF WEST FARGO
CITY OF WESTHOPE
CITY OF WILLISTON
CITY OF WILTON
CITY OF ZEELAND
Total = 77

TRAILL RURAL WATER DISTRICT
UPPER MISSOURI HEALTH UNIT
WALSH COUNTY HEALTH DISTRICT
WALSH COUNTY HOUSING AUTHORITY
WALSH COUNTY WATER RESOURCE DISTRICT
WARD COUNTY WATER RESOURCE DISTRICT
WATFORD CITY PARK DISTRICT
WELLS COUNTY DIST HEALTH UNIT
WEST & CENTRAL STARK SOIL CONSERVATION DISTRICT
WEST FARGO PARK DISTRICT
WILLIAMS COUNTY SOIL CONSERVATION
WILLISTON HOUSING AUTHORITY
Total = 63

OTHER POLITICAL SUBDIVISIONS:

BARNES COUNTY SOIL CONSERVATION DISTRICT
BISMARCK RURAL FIRE PROTECTION
BOWMAN CITY PARK BOARD
BURLEIGH COUNTY COUNCIL ON AGING
BURLEIGH COUNTY SOIL CONSERVATION
CARNEGIE REGIONAL LIBRARY
CASS COUNTY SOIL CONSERVATION DISTRICT
CASS CTY WATER RESOURCE DISTRICT
CAVALIER COUNTY JOB DEVELOPMENT
CAVALIER COUNTY HEALTH DISTRICT
CAVALIER COUNTY HOUSING AUTHORITY
CENTRAL PLAINS WATER DISTRICT
CENTRAL VALLEY HEALTH UNIT
CITY-COUNTY HEALTH DISTRICT
CONSOLIDATED WASTE LTD
CUSTER DIST HEALTH UNIT
DEVILS LAKE BASIN JOINT WATER
DICKEY COUNTY HEALTH DISTRICT
DUNSEITH COMMUNITY NURSE HOME
EMMONS COUNTY PUBLIC HEALTH
FARGO PARK DISTRICT
FIRST DISTRICT HEALTH UNIT
GARRISON DIVERSION CONSERVATION DISTRICT
GRAFTON PARK DISTRICT
GRAND FORKS CITY WATER RESOURCE
GREATER RAMSEY WATER DISTRICT
GRIGGS COUNTY LIBRARY
JAMESTOWN REGIONAL AIRPORT
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
MINOT RURAL FIRE DEPT
NELSON COUNTY SOIL CONSERVATION
NELSON-GRIGGS DIST HEALTH UNIT
PIERCE COUNTY SOIL CONSERVATION DISTRICT
R & T WATER SUPPLY ASSOCIATION
RAMSEY COUNTY HOUSING AUTHORITY
RAMSEY COUNTY SOIL CONSERVATION DISTRICT
RANSOM COUNTY SOIL CONSERVATION DISTRICT
ROLETTE COUNTY PUBLIC HEALTH
SARGENT CTY DIST HEALTH UNIT
SE REGION CAREER AND TECH CENTER
S W DISTRICT HEALTH UNIT
SOUTHWEST WATER AUTHORITY
STUTSMAN CO HOUSING AUTHORITY
TOWNER COUNTY PUBLIC HEALTH
TRAILL CTY WATER RESOURCE DISTRICT
TRAILL DISTRICT HEALTH UNIT

**Principal Participating Employers
June 30, 2008**

| Participating Employer | Covered Employees | Rank | % of Total System |
|-------------------------------|----------------------|------|----------------------|
| Department of Human Services | 1,265 | 1 | 6.65% |
| University of North Dakota | 1,129 | 2 | 5.93% |
| Department of Transportation | 1,031 | 3 | 5.42% |
| North Dakota State University | 865 | 4 | 4.55% |
| Bismarck Public Schools | 645 | 5 | 3.39% |
| Fargo Public Schools | 554 | 6 | 2.91% |
| Developmental Center | 451 | 7 | 2.37% |
| Jamestown State Hospital | 440 | 8 | 2.31% |
| Minot Public School District | 423 | 9 | 2.22% |
| Burleigh County | 368 | 10 | 1.93% |
| Other Employers | 11,857 | | 62.31% |
| Total covered employees* | 19,028 | | 100.00% |

*Total covered employees represents the number of employees in a contributing status as of June 30, 2008

**Deferred Compensation Program
Schedule of Assets
By Provider**

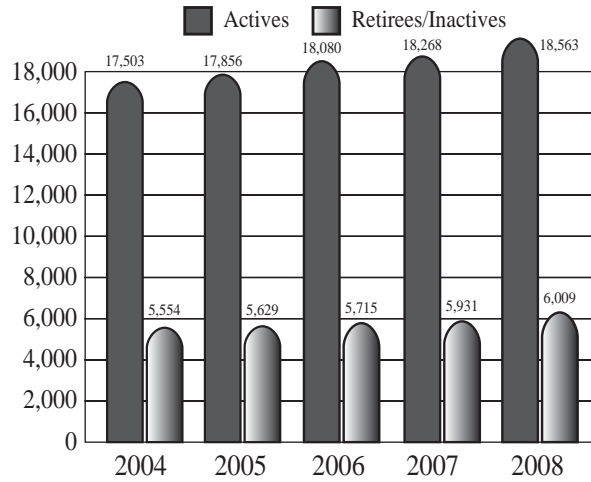
| | 6/30/04 | 6/30/05 | 6/30/06 | 6/30/07 | 6/30/08 |
|---|------------------|------------------|------------------|------------------|------------------|
| AIG VALIC | \$ 1,592,037 | \$ 4,501,538 | \$ 5,745,622 | \$ 7,352,983 | \$ 7,081,128 |
| American Trust Center | 0 | 1,586,865 | 2,620,264 | 3,325,665 | 3,877,787 |
| AXA Equitable | 24,736,781 | 23,943,326 | 25,928,019 | 26,758,632 | 23,047,134 |
| Bank of North Dakota | 3,065,131 | 3,134,285 | 3,438,691 | 3,614,106 | 3,836,023 |
| Chase Financial (formerly Kemper) | 4,201,892 | 5,170,950 | 5,852,970 | 6,677,907 | 6,145,992 |
| Hartford Life Insurance Company | 10,286,460 | 12,164,623 | 19,196,591 | 25,259,016 | 24,597,755 |
| ING (formerly Aetna) | 1,330,667 | 1,366,067 | 1,359,850 | 1,403,453 | 1,403,033 |
| Jackson National Life | 1,025,575 | 1,032,657 | 902,942 | 978,543 | 940,611 |
| John Kinnard ⁽¹⁾ | 40,068 | 18,510 | 20,693 | 0 | 0 |
| Kansas City Life (formerly Sunset Life) | 370,013 | 328,503 | 354,895 | 235,808 | 217,239 |
| Lincoln National | 6,182,708 | 6,364,400 | 7,210,227 | 7,810,551 | 6,050,335 |
| NDPERS Companion Plan ⁽¹⁾ | 13,591,832 | 14,585,960 | 18,143,181 | 23,368,806 | 23,443,420 |
| Nationwide Life Insurance | 10,346,269 | 10,365,570 | 6,789,074 | 6,321,649 | 6,596,637 |
| New York Life ⁽¹⁾ | 656,923 | 602,490 | 458,737 | 478,675 | 383,615 |
| Symetra (formerly Safeco) | 1,443,359 | 919,056 | 887,554 | 995,936 | 636,183 |
| Waddell & Reed Financial Services | <u>4,142,771</u> | <u>4,794,811</u> | <u>5,616,331</u> | <u>6,350,625</u> | <u>6,268,696</u> |
| Total | \$ 83,012,486 | \$ 90,879,611 | \$ 104,525,641 | \$ 120,932,355 | \$ 114,525,588 |

⁽¹⁾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, 2008 and June 30, 2007 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

