

# 2014

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013



**NORTH DAKOTA  
PUBLIC EMPLOYEES RETIREMENT SYSTEM**

AN AGENCY OF THE STATE OF NORTH DAKOTA

# North Dakota Public Employees Retirement System

*An Agency of the State of North Dakota*

## Comprehensive Annual Financial Report

*For the Fiscal Years Ended June 30, 2014 and June 30, 2013*

<b>Introduction</b> .....	<i>1</i>
<b>Financial</b> .....	<i>12</i>
<b>Investment</b> .....	<i>63</i>
<b>Actuarial</b> .....	<i>77</i>
<b>Statistics</b> .....	<i>113</i>

Prepared by the staff of the North Dakota Public Employees Retirement System  
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To request an alternate format, please call PERS ADA Coordinator at 701-328-3918, or toll-free: 1-800-803-7377.*

**Introductory Section**

PPCC Award ..... 2  
 GFOA Certificate of Achievement ..... 3  
 Letter of Transmittal ..... 4  
 The Retirement Board ..... 9  
 Administrative Organization ..... 10  
 Consulting and Professional Services ..... 11

**Financial Section**

Independent Auditor’s Report ..... 13  
 Management’s Discussion and Analysis ..... 15

**Basic Financial Statements:**

Fund Financial Statements:  
     Statements of Net Position – Proprietary Funds ..... 20  
     Statements of Revenues, Expenses, and Changes  
         in Fund Net Position – Proprietary Funds ..... 20  
     Statements of Cash Flows – Proprietary Funds ..... 21  
     Statements of Plan Net Position – Fiduciary Funds ..... 22  
     Statements of Changes in Plan Net Position –  
         Fiduciary Funds ..... 26  
 Notes to the Financial Statements ..... 28

**Required Supplementary Information:**

Schedule of Employer Contributions ..... 53  
 Schedule of Changes to the Net Pension Liability and  
     Related Ratios ..... 54  
 Schedule of Funding Progress ..... 57

**Supplementary Information:**

Schedule of Administrative Expenses - Fiduciary Funds ..... 58  
 Statement of Appropriations ..... 60  
 Schedule of Investment Expenses - Fiduciary Funds ..... 61  
 Schedule of Consultant Expenses - Fiduciary Funds ..... 62

**Investment Section**

Report on Investment Activity ..... 64  
 Investment Policies ..... 66  
 Investment Summaries ..... 67  
 Investment Results ..... 68  
 Largest Holdings ..... 71  
 Schedule of Investment Fees ..... 72  
 Defined Contribution Investments ..... 73  
 Defined Contribution Investment Results ..... 74

**Actuarial Section**

*Public Employees Retirement System:*  
 Actuary’s Certification Letter ..... 78  
 Actuarial Assumptions and Cost Method ..... 81  
 Changes in Actuarial Assumptions or Cost Methods ..... 82  
 Summary of Plan Provisions ..... 82  
 Plan Amendments ..... 85  
 Solvency Test ..... 85  
 Schedule of Active Member Valuation Data ..... 86  
 Analysis of Financial Experience ..... 87  
 Retirees and Beneficiaries Added To and  
     Removed From the Rolls ..... 88

*Highway Patrolmen’s Retirement System:*

Actuary’s Certification Letter ..... 90  
 Actuarial Assumptions and Cost Method ..... 93  
 Changes in Actuarial Assumptions or Cost Methods ..... 94  
 Summary of Plan Provisions ..... 94  
 Plan Amendments ..... 95  
 Schedule of Active Member Valuation Data ..... 96  
 Retirees and Beneficiaries Added To and  
     Removed From the Rolls ..... 96  
 Solvency Test ..... 97  
 Analysis of Financial Experience ..... 97

*Job Service Retirement Plan:*

Actuary’s Certification Letter ..... 98  
 Actuarial Assumptions and Cost Method ..... 101  
 Changes in Actuarial Assumptions or Cost Methods ..... 101  
 Summary of Plan Provisions ..... 101  
 Plan Amendments ..... 102  
 Schedule of Active Member Valuation Data ..... 103  
 Retirees and Beneficiaries Added To and  
     Removed From the Rolls ..... 103  
 Solvency Test ..... 104  
 Analysis of Financial Experience ..... 104

*Retiree Health Insurance Credit Fund:*

Actuary’s Certification Letter ..... 105  
 Actuarial Assumptions and Cost Method ..... 108  
 Changes in Actuarial Assumptions or Cost Methods ..... 109  
 Summary of Plan Provisions ..... 109  
 Plan Amendments ..... 110  
 Retired Members, Average Benefit,  
     and Active/Retiree Comparison ..... 111  
 Funding Progress ..... 111  
 Analysis of Financial Experience ..... 111

**Statistical Section**

*Retirement:*  
 Retirement System Membership ..... 114  
 Schedule of Benefit Expenses by Type ..... 115  
 Changes in Net Assets ..... 116  
 Schedule of Retired Members by Type  
     and Schedule of Average Benefit Payments ..... 118  
 Schedule of Participating Employers ..... 125  
 Principle Participating Employers ..... 128

*Deferred Compensation:*

Schedule of Assets by Provider ..... 128

*Group Insurance:*

Health Insurance Contracts in Force ..... 129  
 Health Insurance Premiums ..... 129



# INTRODUCTORY SECTION



Public Pension Coordinating Council

***Recognition Award for Administration  
2014***

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 black ink that reads "Alan H. Winkle". The signature is written in a cursive style with a large, stylized 'A' and 'W'.

Alan H. Winkle  
Program Administrator



Government Finance Officers Association

**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, 2013**

A handwritten signature in black ink, reading "Jeffrey R. Emer". The signature is written in a cursive style.

Executive Director/CEO

**LETTER OF  
TRANSMITTAL**



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Public Employees Retirement System**  
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Executive Director  
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December 24, 2014

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, 2014. 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 the 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, 2014.

**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 System became the administrator of the Job Service plan effective August 1, 2003.

PERS has 22,262 contributing members and 9,362 retirees and beneficiaries currently receiving benefits. HPRS has 156 contributing members and 117 retirees and beneficiaries. The Job Service Plan has 13 contributing members and 213 retirees. The employers participating in PERS include 96 state agencies and 327 political subdivisions.

PERS, HPRS and Job Service Plan 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 was 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 2013 Legislative Assembly passed legislation to expand eligibility for the Plan to include all new state employees hired on or after October 1, 2013. The Plan has 286 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 22,642 contributing members and 4,828 retired participants currently receiving benefits.

Another component of this plan, which is being reported in compliance with GASB Statement 43, provides health care coverage to eligible retirees 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 600 retiree's currently receiving the subsidized premium.

The retiree health insurance credit program is accounted for as an other employee benefit trust fund.

### **Uniform Group Insurance Program**

*Group Health Insurance.* The System began administering the group health insurance plan in 1971. There are 28,362 active and retired contracts under this plan as of June 30, 2014. Total covered lives, including spouses and dependents, are 65,199. As of June 30, 2014 there were 193 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, 2014 totaled \$271.7 million. This last year, the System continued its efforts to reduce the trend in health care costs by promoting wellness through on-line programs and supporting health club memberships and providing on-site wellness programs and premium discounts to employers that have on-site wellness programs. In addition, the System continued targeted programs that include smoking cessation, Prenatal Plus and diabetes management based on the Ashville Model. To address prescription drug costs, the System is focusing new efforts on reviewing specialty drug programs. Relating to health care costs in general, the System continues to support the development of the MediQ Home program by our health insurance carrier that will assist in providing comprehensive quality care to our members. The System also focused on compliance efforts relating to the federal Affordable Care Act which included providing technical assistance to participating employers in the group health plan.

*Group Life Insurance.* The System began administering the group life insurance plan in 1971. There are 18,337 active and 3,081 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 Reliastar for the fiscal year ended June 30, 2014 totaled \$3.0 million. As of fiscal year end, there is \$1.512 billion of life insurance in force for all participants covered by this plan.

*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 8,100 participants in the dental plan, 9,010 participants in the vision plan and 118 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 15,600 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. Fourteen companies have agreed to provide investment services for the State's deferred compensation program. The System is the trustee for deferred compensation assets totaling \$64.6 million; provider companies hold the remaining plan assets of \$142.2 million in custodial accounts for the exclusive benefit of participants and their beneficiaries. Approximately 10,500 employees participate in this program.



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 3,077 participants in the medical and dependent care spending accounts. Employee contributions to the spending accounts totaled \$5.6 million. Starting in January 2013, the System contracted with a benefits service company for processing spending account reimbursements.

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

**Major Initiatives**

**Retirement**

- Implemented the third year retirement contribution increases for employers and employees, effective 1/1/2014. These increases were part of the Recovery Plan for the retirement plans that were affected by the downturn in the financial markets.
- Implemented legislation that was passed to offer all state employees hired on or after October 1, 2013 the opportunity to elect to join the Defined Contribution Plan. This option will expire at the end of June 2017.
- Started working with State Auditor's office, plan actuary and plan auditor to develop an implementation plan for GASB Statement No. 67 – Financial Reporting for Pension Plans and GASB Statement No. 68 – Accounting and Financial Reporting for Pensions

**Group Insurance**

- Legislation was submitted, considered and passed to comply with the Patient Protection Act. Efforts were also initiated to work with participating employers to assist them with their compliance.
- Prepared and distributed RFPs for the health plan
- Worked with the Department of Health, Department of Human Services and Indian Affairs Department to prepare a report for the North Dakota Legislature on the status of diabetes efforts in North Dakota
- Legislation was submitted, considered and passed for the System to no longer offer pre-Medicare retiree health insurance after June 30, 2015. This will substantially reduce the implicit liability associated with offering this coverage to terminating active employees. In addition, the retiree health credit was made portable at that time, so members can use it to purchase alternative coverage.

**Administrative**

- Member Self Service (MSS) was rolled out to all employees and was available for the 2013 annual enrollment period. Over 80% of all benefit elections made during annual enrollment were entered through MSS.
- Established a secondary datacenter for disaster recovery of the PERSLink system and successfully tested restoration of the system
- Began redesign of Employer Self Service (ESS) to improve usability of this on-line system

**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. Management has established a comprehensive framework of internal control to provide a reasonable basis for asserting that the financial statements are fairly presented. Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements.

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 and Job Service plans for fiscal years 2014 and 2013:

(Millions)	Fiscal Year <u>2014</u>	Fiscal Year <u>2013</u>	Change Change in \$s	Percentage Percentage Change
<b>Revenue Type</b>				
Employee Contributions	\$ 69.1	\$ 55.5	\$ 13.6	24.5%
Employer Contributions	63.5	50.4	13.1	26.0
Investments	<u>337.8</u>	<u>248.7</u>	<u>89.1</u>	<u>35.8</u>
Total	\$ 470.4	\$ 354.6	\$ 115.8	32.7%
<b>Expense Type</b>				
Benefits	\$ 121.6	\$ 111.4	\$ 10.2	9.2%
Refunds & Transfers	6.6	6.0	0.6	10.0
Administrative Expenses	<u>2.3</u>	<u>2.1</u>	<u>0.2</u>	<u>9.5</u>
Total	\$ 130.5	\$ 119.5	\$ 11.0	9.2%

The increase in revenues reflects the increase in statutory contribution rates, along with increased investment earnings that resulted from higher returns in the investment markets. The increase in expenses is primarily due to an increase in the total number of retirees who are receiving pension payments.

### 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 funding status for both PERS and HPRS increased, after being on a downward trend for several years. This is the direct result of the Recovery Plan that began in January 2012, which included contribution increases for both employers and employees. The July 1, 2014 actuarial valuation reports the actuarial value of assets for PERS at \$1,895.8 million, which is 64.5% of the actuarial accrued liabilities of \$2,938.8 million. The actuarial value of assets for HPRS is \$54.6 million, which is 72.3% of the actuarial accrued liabilities of \$75.5. The Job Service Plan is fully funded. The actuarial value of assets for the Job Service Plan is \$78.2 million, which is 119.9% of the actuarial present value of benefits of \$65.2 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 66.8% 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, 2013, the date of the last actuarial valuation, the unfunded actuarial accrued liability for this plan is \$33.8 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, 2014 is \$2.3 billion, which is an increase of 16.6% from the previous year. The market value of assets for Job Service as of June 30, 2014 is \$97.7 million, an increase of 8.1% from the previous year. During the fiscal year ended June 30, 2014, the System's portfolio remained broadly diversified with investments in domestic and international equities, domestic and international fixed income securities, real estate, private equity, timber, infrastructure and cash equivalents.

The PERS and HPRS assets had an annualized rate of return of 16.38% for the fiscal year ended June 30, 2014. The annualized rate of return was 9.66% for the last three years and 12.7% for the last five years. The annualized rate of return for the fiscal year ended June 30, 2014 for the Job Service Plan was 13.54%. The annualized rate of return was 9.35% for the last three years and 11.58% 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, 2014 is \$90.3 million, which is 22.6% higher than the previous year. The assets earned an annualized rate of return of 16.53% for the fiscal year ended June 30, 2014. The annualized rate of return was 11.14% for the last three years and 14.31% for the last five years. During the fiscal year ended June 30, 2014, the System's portfolio remained broadly diversified with investments in domestic and international equities, 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 fifteen 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, 2014 is \$33.2 million, which is a 24.6% increase from the previous year.

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

**Independent Audit**

The financial statements contained in this report were audited by the accounting firm of 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, 2014.

**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, 2013. 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 eighteen consecutive years (fiscal years ended June 30, 1996-2013). 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  
Chief Operating Officer

## THE RETIREMENT BOARD

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

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



Jon Strinden  
Chairman  
Term expires  
6/30/2015



Arvy Smith  
Health Department  
Appointee



Thomas Trenbeath  
Attorney General  
Appointee  
Term expires  
6/30/2015



Joan Erhardt  
Member elected  
Term expires  
6/30/2014



Howard Sage  
Retiree elected  
Term expires  
6/30/2014



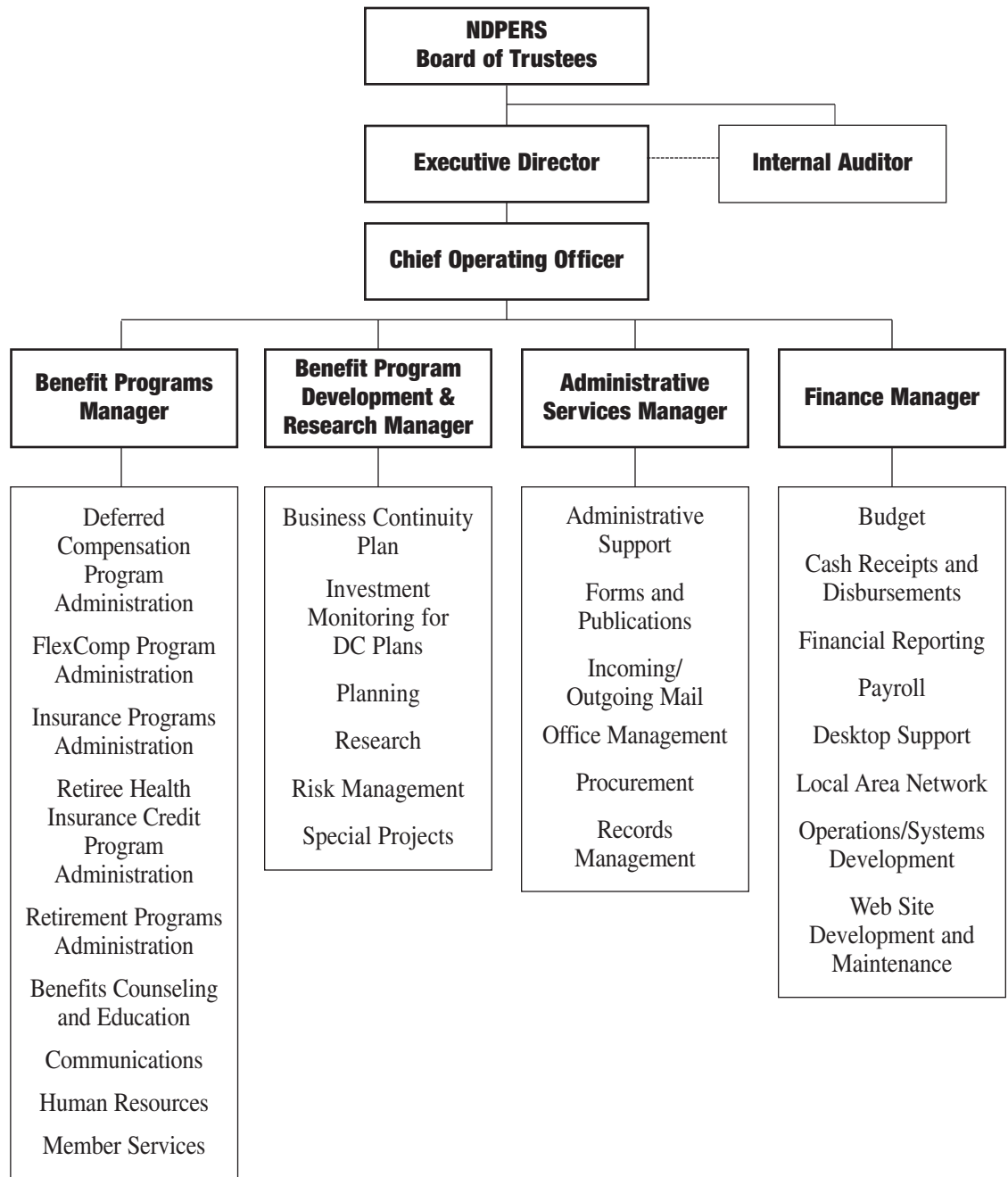
Mike Sandal  
Member elected  
Term expires  
6/30/2017



Kim Wassim  
Member elected  
Term expires  
6/30/2018

*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.*

**ORGANIZATIONAL  
CHART**



**ADMINISTRATION**

Sparb Collins, *Executive Director*

Kathy Allen, *Benefit Programs Manager*

Jamie Kinsella, CPA, CIA, *Internal Audit Manager*

Deb Knudsen, *Benefit Program Development and Research Manager*

Sharon Schiermeister, CPA, *Chief Operating Officer and Finance Manager*

Cheryl Stockert, *Administrative Services Manager*

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

Segal Consulting  
Greenwood Village, CO

**Auditor:**

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

**Dental Insurance Carrier:**

Delta Dental of Minnesota  
Minneapolis, MN

**Disability Consultant:**

Mid Dakota Clinic  
Bismarck, ND

**Employee Assistance Program Vendors:**

Deer Oaks EAP Services  
San Antonio, TX

Live Well Solutions  
Fargo, 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:**

Deloitte Consulting LLP  
Minneapolis, MN

**Investment Services:**

North Dakota Retirement & Investment Office  
Bismarck, ND

**Legal Counsel:**

North Dakota Attorney General's Office  
Bismarck, ND

**Life Insurance Carrier:**

Reliastar Life Insurance Company  
Minneapolis, MN

**Long Term Care Insurance Carrier:**

UNUM  
Portland, ME

**Vision Insurance Carrier:**

Superior Vision  
Rancho Cordova, CA



**FINANCIAL SECTION**

**INDEPENDENT  
AUDITOR'S  
REPORT**

CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

Governor Jack Dalrymple  
The Legislative Assembly

Sparb Collins, Executive Director  
North Dakota Public Employees Retirement System

**Report on the Financial Statements**

We have audited the accompanying financial statements of 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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the business-type activities and the plan net position of the North Dakota Public Employees Retirement System, as of June 30, 2014 and 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

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, 2014 and 2013, 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.



**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedules of Employer Contributions and Schedules of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Dakota Public Employee Retirement System's basic financial statements. The Schedule of Administrative Expenses – Fiduciary Funds, Statement of Appropriations, Schedule of Investment Expenses – Fiduciary Funds, and Schedule of Consultant Expenses – Fiduciary Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

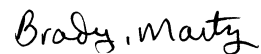
These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation the financial statements taken as a whole.

The Introductory section, Investment section, Actuarial section, and Statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Report on Other Legal and Regulatory Requirements**

In accordance with Government Auditing Standards, we have also issued a report dated December 16, 2014, 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.

BRADY, MARTZ & ASSOCIATES, P.C.



Bismarck, North Dakota  
December 16, 2014

## Management's Discussion and Analysis June 30, 2014 and 2013

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, 2014. Please read it in conjunction with the basic financial statements, which follow this discussion.

NDPERS administers a total of seven fiduciary funds. This includes three defined benefit pension trust funds (PERS, Highway Patrol and Job Service), 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, 2014 and 2013, the Plan Fiduciary Net Position as a percentage of the Total Pension Liability for each pension fund is shown below

Public Employees Retirement System	<u>2014</u>	<u>2013</u>
	78.2%	72.5%
Highway Patrolmen Retirement System	87.1%	79.4%
Retirement Plan for Employees of Job Service ND	150.2%	136.8%

Positive investment earnings, together with contribution increases for PERS and Highway Patrol contributed to the growth in these percentages.

As of June 30, 2014, the funding ratio for the Retiree Health Insurance Credit Fund increased from 57.8% to 66.8%.

The net position for all trust funds administered by NDPERS increased \$377.2 million or 17% during the fiscal year ended June 30, 2014. This increase is primarily due to gains in the financial markets during the fiscal year.

	<u>(In Thousands)</u>
Public Employees Retirement System	\$ 323,913
Highway Patrolmen Retirement System	8,623
Retiree Health Insurance Credit Fund	16,458
Defined Contribution Retirement Fund	6,595
Pretax Benefits Fund	87
Deferred Compensation Plan	14,214
Retirement Plan for Employees of Job Service ND	<u>7,318</u>
Total decrease in plan net assets	<u>\$ 377,208</u>

### Financial Highlights – Uniform Group Insurance Program

Net position decreased by \$6.2 million or 13%. The decrease is primarily due to incurring an additional expense to buydown health insurance premiums. For the 2013-15 biennium, the NDPERS Board allocated funds to reduce the cost of health insurance premiums by approximately 2%. This is explained in more detail in Note 11.

### 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.** The financial statements, notes to the financial statements, and required supplementary information for the fiduciary funds were prepared in conformity with GASB Statement No. 67, Financial Reporting for Pension Plans.

There are two financial statements presented for the fiduciary funds. The Statement of Plan Net Position as of June 30, 2014, indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Plan Net Position for the year ended June 30, 2014, 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 Position as of June 30, 2014, 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 Position for the year ended June 30, 2014, 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, 2014 shows the cash used by operating activities as well as the net increase in cash due to operating and investing activities.

**Notes to the financial statements.** The notes provide additional information that is essential for a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 16 - 53 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Required supplementary information.** The required supplementary information consists of a Schedule of Employer Contributions and Schedule of Changes to the Net Pension Liability for the defined benefit pension trust funds. A Schedule of Employer Contributions and Schedule of Funding Progress is included for the retiree health insurance credit advance funded plan and implicit subsidy unfunded plan.

**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 2014 and 2013 are summarized below. The information in the tables below is condensed from the Financial Statements.

**Statement of Fiduciary Plan Net Position (in thousands)**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>% Change</u>	<u>June 30, 2012</u>	<u>% Change</u>
<b>Assets</b>					
Cash	\$6,804	10.3%	\$6,171	49.1%	\$4,140
Receivables	15,881	12.4%	14,123	20.6%	11,707
Investments, at fair value	2,615,133	16.8%	2,238,095	13.0%	1,981,045
Prepaid expenses	580	5.3%	551	4.6%	527
Software & Equipment, net of accum depr.	<u>4,545</u>	-13.7%	<u>5,264</u>	-10.5%	<u>5,882</u>
Total assets	<u>2,642,943</u>	16.7%	<u>2,264,204</u>	13.0%	<u>2,003,301</u>
<b>Liabilities</b>					
Long-term liabilities outstanding	150	2.0%	147	4.3%	141
Other liabilities	<u>4,911</u>	44.7%	<u>3,395</u>	5.1%	<u>3,230</u>
Total liabilities	<u>5,061</u>	42.9%	<u>3,542</u>	5.1%	<u>3,371</u>
<b>Deferred Inflows</b>	<u>13</u>	0.0%	<u>-</u>	0.0%	<u>-</u>
<b>Net Position</b>	<u>\$2,637,869</u>	16.7%	<u>\$2,260,662</u>	13.0%	<u>\$1,999,930</u>

The total assets for all fiduciary funds as of June 30, 2014 were \$2.6 billion and were comprised mainly of investments. For the fiscal year ended June 30, 2014, plan assets increased by \$379 million. This increase was primarily due to financial market gains during the fiscal year and increased contributions in the PERS and Highway Patrol funds.

Total liabilities as of June 30, 2014 were \$5.1 million and were comprised mainly of investment expenses payable. Total liabilities increased by \$1.5 million or 42.9% from the prior year due mainly to an increase in investment expenses payable at June 30, 2014.

## Statement of Changes in Fiduciary Plan Net Position (in thousands)

	<u>June 30, 2014</u>	<u>% Change</u>	<u>June 30, 2013</u>	<u>% Change</u>	<u>June 30, 2012</u>
<b>Additions</b>					
Contributions	\$156,403	21.5%	\$128,680	21.4%	\$105,968
Investment Income	364,104	37.3%	265,103	12737.9%	2,065
Other	<u>9,785</u>	10.4%	<u>8,867</u>	12.8%	<u>7,862</u>
Total additions	<u>530,292</u>	31.7%	<u>402,650</u>	247.4%	<u>115,895</u>
<b>Deductions</b>					
Benefit payments	142,626	8.0%	132,100	6.1%	124,464
Refunds/Transfers	6,621	6.3%	6,228	14.9%	5,422
Administrative Expenses	<u>3,837</u>	6.9%	<u>3,591</u>	9.6%	<u>3,277</u>
Total deductions	<u>153,084</u>	7.9%	<u>141,919</u>	6.6%	<u>133,163</u>
<b>Change in Net Position</b>	<u>\$377,208</u>	44.7%	<u>\$260,731</u>	1609.9%	<u>\$(17,268)</u>

**Additions.** Contributions and earnings on invested funds are the primary additions that are accumulated and used to pay benefits for each of the plans. Contributions increased by \$27.7 million for the year ended June 30, 2014 which reflects the increase in the employee and employer contribution rates to the pension plans, which became effective January 1, 2014. The plans experienced positive investment earnings of \$364.1 million for the fiscal year ending June 30, 2014. The increase in Other Additions for June 30, 2014 is primarily due to an increase in service purchase payments received during the fiscal year.

**Deductions.** Total deductions increased by \$11.2 million or 7.9% for the fiscal year ended June 30, 2014. This increase was primarily due to an increase in benefit payments which reflects the increase in the total number of retirees who are receiving pension payments.

## Statement of Proprietary Fund Net Position (in thousands)

	June 30, 2014	% Change	June 30, 2013	% Change	June 30, 2012
<b>Assets</b>					
Cash	\$44,363	-12.2%	\$50,500	265.8%	\$13,805
Receivables	322	-33.6%	485	20.0%	404
Software	<u>1,833</u>	-13.6%	<u>2,122</u>	-10.5%	<u>2,372</u>
Total assets	<u>46,518</u>	-12.4%	<u>53,107</u>	220.3%	<u>16,581</u>
<b>Liabilities</b>					
Long-term liabilities outstanding	79	5.3%	75	8.7%	69
Other liabilities	<u>5,654</u>	-6.3%	<u>6,031</u>	7.5%	<u>5,608</u>
Total liabilities	<u>5,733</u>	-6.1%	<u>6,106</u>	7.6%	<u>5,677</u>
<b>Net Position</b>	<u>\$40,785</u>	-13.2%	<u>\$47,001</u>	331.0%	<u>\$10,904</u>

Total assets, as of June 30, 2014, were \$46.5 million and were comprised mainly of cash. Total assets decreased by \$6.6 million from the prior fiscal year which reflects the buydown payments towards health insurance premiums.

Total liabilities, as of June 30, 2014, were \$5.7 million and were comprised mostly of amounts held in custody for others, which represent premiums received before they are due. Total liabilities decreased by \$.4 million or 6.1% from the prior year primarily due to a decrease in amounts held in custody for others.

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 Position (in thousands)

	<u>June 30, 2014</u>	<u>% Change</u>	<u>June 30, 2013</u>	<u>% Changes</u>	<u>June 30, 2012</u>
<b>Operating Revenues</b>					
Administrative Fee	\$1,069	1.9%	\$1,049	4.9%	\$1,000
Miscellaneous	<u>32</u>	-99.9%	<u>36,664</u>	3,614.7%	<u>987</u>
Total Operating Revenues	1,101	-97.1%	37,713	1,798.0%	1,987
<b>Non-Operating Revenues</b>					
Net Investment income	<u>25</u>	-82.5%	<u>143</u>	160.0%	<u>55</u>
Total revenues	<u>1,126</u>	-97.0%	<u>37,856</u>	1753.9%	<u>2,042</u>
<b>Operating Expenses</b>					
Administrative expenses	7,027	354.2%	1,547	10.7%	1,398
<b>Non-Operating Expense</b>					
Transfer Out	<u>315</u>	48.6%	<u>212</u>	-5.4%	<u>224</u>
<b>Change in Net Position</b>	<u><u>\$(6,216)</u></u>	<u><u>-117.2%</u></u>	<u><u>\$36,097</u></u>	<u><u>8,494.5%</u></u>	<u><u>\$420</u></u>

The net position for the proprietary fund decreased by \$6.2 million during the fiscal year ended June 30, 2014. This reflects the additional expense incurred to reduce health insurance premiums during the current fiscal year. The large fluctuation in revenues from year to year reflects the effect of the gain sharing provision of the health insurance contract, which is determined every two years.

**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 Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Funds  
For the Years Ended June 30, 2014 and 2013**

	Uniform Group Insurance Program	
	2014	2013
<b>OPERATING REVENUES:</b>		
Administrative fee	\$ 1,069,499	\$ 1,049,309
Underwriting gain	31,597	36,612,357
Miscellaneous	-	51,329
Total operating revenues	<u>1,101,096</u>	<u>37,712,995</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	756,584	695,301
Operating expenses	405,130	333,142
Premium buydown	5,437,457	-
Professional fees	83,525	182,034
Data processing	54,643	48,343
Amortization	289,706	287,718
Total operating expenses	<u>7,027,045</u>	<u>1,546,538</u>
Operating income (loss)	<u>(5,925,949)</u>	<u>36,166,457</u>
<b>NON-OPERATING REVENUES AND EXPENSES:</b>		
Investment income	29,413	147,186
Investment expenses	(4,539)	(3,819)
Total non-operating revenues and expenses	<u>24,874</u>	<u>143,367</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>(5,901,075)</u>	<u>36,309,824</u>
<b>TRANSFERS OUT</b>	<u>315,000</u>	<u>212,500</u>
Change in net position	<u>(6,216,075)</u>	<u>36,097,324</u>
Total net position - beginning of year	<u>47,001,218</u>	<u>10,903,894</u>
Total net position - end of year	<u>\$ 40,785,143</u>	<u>\$ 47,001,218</u>

**Statement of Net Position  
Proprietary Funds  
June 30, 2014 and 2013**

	Uniform Group Insurance Program	
	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 44,363,434	\$ 50,499,587
Accounts receivable	304,636	424,648
Due from fiduciary funds	17,203	59,981
Total current assets	<u>44,685,273</u>	<u>50,984,216</u>
Capital assets:		
Software (net of amortization)	1,832,736	2,122,442
Total capital assets	<u>1,832,736</u>	<u>2,122,442</u>
Total assets	<u>46,518,009</u>	<u>53,106,658</u>
<b>LIABILITIES</b>		
Current liabilities:		
Salaries payable	66,298	62,715
Accounts payable	107,279	80,735
Due to fiduciary funds	319,996	420,416
Due to other state agencies	5,781	12,846
Amounts held in custody for others	5,149,081	5,449,022
Accrued compensated absences	5,328	5,006
Total current liabilities	<u>5,653,763</u>	<u>6,030,740</u>
Noncurrent liabilities:		
Accrued compensated absences	79,103	74,700
Total liabilities	<u>5,732,866</u>	<u>6,105,440</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,832,736	2,122,442
Restricted for benefits	3,000,000	5,735,616
Unrestricted net position	35,952,407	39,143,160
Total net position	<u>\$ 40,785,143</u>	<u>\$ 47,001,218</u>

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

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the years ended June 30, 2014 and 2013**

	Uniform Group Insurance Program	
	2014	2013
Cash Flows from Operating Activities:		
Premiums collected	\$ 288,205,205	\$ 291,741,809
Administrative fees collected	814,552	1,689,036
Payments to suppliers	(407,284)	(817,305)
Premiums paid	(293,741,821)	(291,781,195)
Payments to employees	(748,276)	(681,454)
Underwriting gain	31,597	36,612,357
Miscellaneous income	-	51,329
Net cash provided (used) by operating activities	<u>(5,846,027)</u>	<u>36,814,577</u>
Cash Flows from Investing Activities:		
Investment income	29,413	147,186
Investment expense	(4,539)	(3,819)
Net cash provided by investing activities	<u>24,874</u>	<u>143,367</u>
Cash Flows Used by Capital and Related Financing Activities:		
Acquisition and construction of capital assets/software	-	(51,025)
Cash Flows from Noncapital Financing Activities:		
Transfers out	(315,000)	(212,500)
Net change in cash and cash equivalents	<u>(6,136,153)</u>	<u>36,694,419</u>
Cash and Cash Equivalents - Beginning of Year	<u>50,499,587</u>	<u>13,805,168</u>
Cash and Cash Equivalents - End of Year	<u>\$ 44,363,434</u>	<u>\$ 50,499,587</u>
Reconciliation of Operating Income to Net Cash Provided		
Operating income (loss)	\$ (5,925,949)	\$ 36,166,457
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Amortization	289,706	287,718
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	120,012	(74,822)
(Increase) in due from other funds	42,778	(6,736)
Decrease in due from other state agencies	-	1,315
Increase in salaries payable	3,583	7,594
Increase in accrued compensated absences	4,725	6,253
Increase (decrease) in accounts payable	26,544	(248,352)
Increase (decrease) in due to fiduciary funds	(100,420)	(42,388)
Decrease in due to other state agencies	(7,065)	(2,432)
Increase (decrease) in amounts held in custody for others	(299,941)	719,970
Total adjustments	<u>79,922</u>	<u>648,120</u>
Net cash provided (used) by operating activities	<u>\$ (5,846,027)</u>	<u>\$ 36,814,577</u>

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



Statement of Plan Net Position  
Fiduciary Funds  
June 30, 2014

	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
<b>ASSETS:</b>							
Cash	\$ 5,991,879	\$ -	\$ 50,169	\$ 117,135	\$ 550,904	\$ 91,121	\$ 2,605
Receivables:							
Contribution receivable	10,197,314	-	783,903	203,620	499,098	-	4,393
Interest receivable	3,259,339	94,358	85,205	-	-	-	96,697
Due from fiduciary funds	260,174	-	9,189	292	15,555	50,950	431
Due from proprietary funds	-	-	318,876	-	1,120	-	-
Due from other state agencies	40	-	-	-	-	-	-
Total receivables	13,716,867	94,358	1,197,173	203,912	515,773	50,950	101,521
Investments, at fair value:							
Domestic equities	509,920,969	14,779,824	42,578,295	-	-	-	18,141,815
International equities	695,332,269	20,153,886	12,534,457	-	-	-	20,544,452
International fixed income	112,293,730	3,254,782	-	-	-	-	4,624,320
Domestic fixed income	421,096,933	12,205,301	35,162,409	1,079,433	-	1,370,450	54,031,116
Real estate	396,107,838	11,481,003	-	-	-	-	-
Mutual funds	-	-	-	32,071,880	-	63,103,463	-
Annuities	-	-	-	-	-	109,052	-
Alternative investments	103,079,973	2,987,726	-	-	-	-	-
Invested cash	25,947,939	752,089	-	-	-	-	-
Total investments	2,263,779,651	65,614,611	90,275,161	33,151,313	-	64,582,965	387,369
Prepaid expenses	-	-	580,193	-	-	-	-
Software (net of amortization)	2,426,891	21,226	233,311	16,730	610,912	1,221,824	14,283
Total assets	2,285,915,268	65,730,195	92,336,007	33,489,090	1,677,589	65,946,860	97,847,481

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
<b>LIABILITIES:</b>							
Salaries payable	87,106	-	-	-	18,691	38,079	-
Accounts payable	4,129,900	-	69,150	15	14,971	13,216	148,692
Due to fiduciary funds	431	63,330	253,148	6,390	-	13,292	-
Due to proprietary funds	12,160	-	-	2,882	-	-	2,161
Due to other state agencies	8,473	-	-	28	1,566	3,041	-
Amounts held in custody for others	-	-	-	-	-	14,072	-
Accrued compensated absences	94,355	-	-	-	25,892	39,379	-
Total liabilities	4,332,425	63,330	322,298	9,315	61,120	121,079	150,853
<b>DEFERRED INFLOW OF RESOURCES:</b>							
Deferred Contributions	-	-	-	-	-	12,782	-
<b>NET POSITION:</b>							
Held in trust for pension benefits	2,281,582,863	65,666,865	-	33,479,775	-	65,812,999	97,696,628
Held in trust for postemployment healthcare benefits	-	-	92,013,709	-	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,616,469	-	-
Total net position held in trust	\$ 2,281,582,863	\$ 65,666,865	\$ 92,013,709	\$ 33,479,775	\$ 1,616,469	\$ 65,812,999	\$ 97,696,628

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

Statement of Plan Net Position  
Fiduciary Funds  
June 30, 2013

	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
<b>ASSETS:</b>							
Cash	\$ 5,552,040	\$ -	\$ 24,641	\$ 91,669	\$ 370,095	\$ 130,851	\$ 2,090
Receivables:							
Contribution receivable	8,338,059	-	758,365	172,005	499,419	-	5,499
Interest receivable	3,488,652	102,248	72,982	-	-	-	45,896
Due from fiduciary funds	104,387	4,672	68,920	-	15,555	24,492	123
Due from proprietary funds	-	-	420,416	-	-	-	-
Due from other state agencies	1,180	-	-	-	-	-	-
Total receivables	11,932,278	106,920	1,320,683	172,005	514,974	24,492	51,518
Investments, at fair value:							
Domestic equities	430,105,553	12,624,309	34,038,246	-	-	-	17,140,109
International equities	591,307,961	17,355,866	9,816,186	-	-	-	19,228,691
International fixed income	91,424,799	2,683,469	-	-	-	-	4,275,506
Domestic fixed income	337,477,792	9,905,531	29,749,849	1,024,745	-	1,096,488	49,151,520
Real estate	364,354,225	10,694,399	-	-	-	-	-
Mutual funds	-	-	-	25,583,919	-	48,980,243	-
Annuities	-	-	-	-	-	95,018	-
Alternative investments	99,995,649	2,935,038	-	-	-	-	-
Invested cash	25,694,768	754,184	-	-	-	-	601,042
Total investments	1,940,360,747	56,952,796	73,604,281	26,608,664	-	50,171,749	90,396,868
Prepaid expenses	1,582	-	549,260	-	163	335	-
Software (net of amortization)	2,810,501	24,554	270,173	19,377	707,481	1,414,961	16,544
Total assets	1,960,657,148	57,084,270	75,769,038	26,891,715	1,592,713	51,742,388	90,467,020

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
LIABILITIES:							
Salaries payable	79,609	-	-	-	17,822	30,141	-
Accounts payable	2,726,521	-	57,110	-	14,636	13,610	88,063
Due to fiduciary funds	69,043	40,186	102,106	6,814	-	-	-
Due to proprietary funds	6,160	-	53,821	-	-	-	-
Due to other state agencies	16,511	-	-	226	5,226	4,871	-
Unearned revenue	-	-	-	-	-	15,532	-
Amounts held in custody for others	-	-	-	-	-	37,210	-
Accrued compensated absences	89,278	-	-	-	25,587	42,540	-
Total liabilities	2,987,122	40,186	213,037	7,040	63,271	143,904	88,063
NET POSITION:							
Held in trust for pension benefits	1,957,670,026	57,044,084	-	26,884,675	-	51,598,484	90,378,957
Held in trust for postemployment healthcare benefits	-	-	75,556,001	-	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,529,442	-	-
Total net position held in trust	\$ 1,957,670,026	\$ 57,044,084	\$ 75,556,001	\$ 26,884,675	\$ 1,529,442	\$ 51,598,484	\$ 90,378,957

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

Statement of Changes in Plan Net Position – Fiduciary Funds  
For the Year Ended June 30, 2014

	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
<b>ADDITIONS:</b>							
Contributions:							
From employer	\$ 61,661,050	\$ 1,864,632	\$ 10,709,792	\$ 1,099,790	\$ -	\$ -	\$ -
From employee	59,394,200	1,243,520	6,274,649	1,079,863	5,584,388	6,238,092	55,748
Transfers from other plans	-	-	-	32,783	-	315,000	-
From external plans	-	-	-	-	-	849,744	-
Total contributions	121,055,250	3,108,152	16,984,441	2,212,436	5,584,388	7,402,836	55,748
Investment income:							
Net change in fair value of investments	285,047,952	8,318,289	10,620,455	3,305,934	-	6,204,209	10,466,656
Interest and dividends	39,771,600	1,160,492	1,984,656	1,530,475	320	2,947,054	1,725,637
Less investment expense	(8,191,090)	(238,852)	(238,703)	(13,069)	-	6,173	(304,453)
Net investment income	316,628,462	9,239,929	12,366,408	4,823,340	320	9,157,436	11,887,840
Repurchase service credit	8,325,140	87,418	368,859	-	-	-	-
FICA tax savings	-	-	-	-	668,889	-	-
Transfer from proprietary fund	-	-	-	-	-	315,000	-
Miscellaneous income	1,101	-	-	18,488	-	156	-
Total additions	446,009,953	12,435,499	29,719,708	7,054,264	6,253,607	16,875,429	11,943,588
<b>DEDUCTIONS:</b>							
Benefits paid to participants	113,300,689	3,752,627	-	452,014	5,634,822	1,833,977	4,594,462
Refunds	6,237,842	32,108	2,992	-	-	-	-
Prefunded credit applied	-	-	6,798,427	-	-	-	-
Health premiums paid	-	-	6,259,110	-	-	-	-
Transfers to other plans	347,783	-	-	-	-	-	-
Total deductions	119,886,324	3,784,735	13,060,529	452,014	5,634,822	1,833,977	4,594,462
Administrative expenses	2,210,792	27,983	201,471	7,150	531,758	826,936	31,455
Total deductions	122,097,116	3,812,718	13,262,000	459,164	6,166,580	2,660,913	4,625,917
Change in net position	323,912,837	8,622,781	16,457,708	6,595,100	87,027	14,214,515	7,317,671
Net position - beginning of year	1,957,670,026	57,044,084	75,556,001	26,884,675	1,529,442	51,598,484	90,378,957
Net position - end of year	\$ 2,281,582,863	\$ 65,666,865	\$ 92,013,709	\$ 33,479,775	\$ 1,616,469	\$ 65,812,999	\$ 97,696,628

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

Statement of Changes in Plan Net Position – Fiduciary Funds  
For the Year Ended June 30, 2013

	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
<b>ADDITIONS:</b>							
Contributions:							
From employer	\$ 48,846,796	\$ 1,586,186	\$ 9,959,603	\$ 906,296	\$ -	\$ -	\$ -
From employee	46,815,060	1,028,615	6,014,003	886,855	5,866,659	5,198,258	72,174
Transfers from other plans	-	-	-	-	-	412,500	-
From external plans	-	-	-	104	-	1,086,587	-
Total contributions	95,661,856	2,614,801	15,973,606	1,793,255	5,866,659	6,697,345	72,174
Investment income:							
Net change in fair value of investments	195,052,808	5,766,740	6,384,010	2,166,442	-	3,718,955	7,978,316
Interest and dividends	43,509,791	1,286,296	1,777,178	913,834	439	1,645,810	2,248,708
Less investment expense	(6,713,127)	(198,484)	(197,797)	(13,902)	-	20,007	(242,783)
Net investment income	231,849,472	6,854,552	7,963,391	3,066,374	439	5,384,772	9,984,241
Repurchase service credit	7,470,218	133,169	371,587	-	-	-	-
FICA tax savings	-	-	-	-	660,757	-	-
Transfer from proprietary fund	-	-	-	-	-	212,500	-
Miscellaneous income	-	-	-	18,290	17	114	-
Total additions	334,981,546	9,602,522	24,308,584	4,877,919	6,527,872	12,294,731	10,056,415
<b>DEDUCTIONS:</b>							
Benefits paid to participants	103,295,777	3,749,888	-	809,546	5,826,126	1,605,608	4,353,984
Refunds	5,783,824	22,428	8,765	-	-	-	-
Prefunded credit applied	-	-	6,458,449	-	-	-	-
Health premiums paid	-	-	6,000,703	-	-	-	-
Transfers to other plans	212,500	-	-	-	200,000	-	-
Total deductions	109,292,101	3,772,316	12,467,917	809,546	6,026,126	1,605,608	4,353,984
Administrative expenses	2,059,315	29,237	185,619	11,918	478,968	795,631	30,014
Total deductions	111,351,416	3,801,553	12,653,536	821,464	6,505,094	2,401,239	4,383,998
Change in net position	223,630,130	5,800,969	11,655,048	4,056,455	22,778	9,893,492	5,672,417
Net position - beginning of year	1,734,039,896	51,243,115	63,900,953	22,828,220	1,506,664	41,704,992	84,706,540
Net position - end of year	\$ 1,957,670,026	\$ 57,044,084	\$ 75,556,001	\$ 26,884,675	\$ 1,529,442	\$ 51,598,484	\$ 90,378,957

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014 & 2013

### 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 three 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.

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities with the difference reported as net position. Net position is reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated amortization and reduced by outstanding balances for debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted net position result when constraints on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that do not meet the definition of the two preceding categories.

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 position. 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 revenue 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:

**Public Employees Retirement System** – a cost-sharing multiple-employer defined benefit retirement plan.

**Highway Patrolmen's Retirement System** – a single-employer defined benefit retirement plan.

**Defined Contribution Retirement Plan** – an optional defined contribution retirement plan available to state employees.

**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.

**Pretax Benefits Program** – allows eligible employees to elect to reduce their salaries to pay for eligible dependent care and medical expenses.

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

**Retirement Plan for Employees of Job Service North Dakota** – a single-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.

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 and underwriting gains. 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 and amortization 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, 2014 and 2013.

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.

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.

#### ***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 specu-

late 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 collectability. All remaining receivables are considered collectible.

#### **Capital Assets and Depreciation**

Capital assets, which include equipment and intangibles (software) 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, 2014 and 2013 the System capitalized equipment and software in accordance with Section 54-27-21 of the North Dakota Century Code. Software not in production is not depreciated.

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.

**Amounts Held in Custody for Others**

Amounts held in custody for others includes monies collected from participating employers for deferred compensation contributions that had not been forwarded to the investment provider company as of June 30. It also includes 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. In 2014 and 2013, transfers to other plans also includes operating transfers from the retirement plan and insurance plan, and pretax benefits program to the deferred compensation plan to cover general administrative expenses and software development costs.

**Restricted Net Position**

Net position restricted for benefits consists of funds on deposit with Blue Cross Blue Shield to pay health care benefits in the event total claims incurred during the biennium exceed total premiums, and funds received under the federal health care reform bill for pre-Medicare retiree reinsurance designated to reduce health care costs for members of the Uniform Group Insurance Program.

**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 position.

**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>2014</u>	<u>2013</u>
Cash Deposits at the Bank of North Dakota recorded as Cash and Cash Equivalents	\$7,326,183	\$7,304,156
Cash Deposits at State Treasury recorded as Cash and Cash Equivalents	375,042	453,365
Cash held by the North Dakota Retirement and Investment Office recorded as Cash and Cash Equivalents	37,489,974	42,849,158
Guaranteed Investment Contract with Blue Cross Blue Shield recorded as Cash and Cash Equivalents	5,810,677	5,898,923
Cash held by ADP Benefit Services recorded as cash and cash equivalents	<u>165,371</u>	<u>165,371</u>
	<u>\$51,167,247</u>	<u>\$56,670,973</u>

*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).

At June 30, 2014 and 2013 the carrying amount of the System's cash deposits were \$51,167,247 and \$56,670,973, and the bank balances were \$51,229,670 and \$56,700,229. All of the System's deposits are uncollateralized and uninsured at June 30, 2014 and 2013.

*Investments*

Total investments of the System at fair value as of June 30, 2013 and 2012 consisted of the following:

	<u>2014</u>	<u>2013</u>
Equity Securities	\$1,333,985,967	\$1,131,616,921
Bonds and notes	645,118,474	526,789,699
Real estate	407,588,841	375,048,624
Alternative investments	106,067,699	102,930,687
Mutual funds	32,071,880	25,583,919
Invested cash	27,087,397	27,049,994
Deferred compensation plans:		
Annuities	109,052	95,018
Mutual funds	<u>63,103,463</u>	<u>48,980,243</u>
	<u>\$2,615,132,773</u>	<u>\$2,238,095,105</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 and Deferred Compensation Plan 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 Defined Contribution Retirement Plan and the Deferred Compensation Plan are participant directed and are held by TIAA-CREF.

*Credit Risk*

All investments of the fund, except for the Defined Contribution Retirement Plan and the Deferred Compensation Plan 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. The System does not have a formal credit risk policy that limits the credit risk of the investments.

**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 below. 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)	Fair Value		Less Than 1 Year		1-6 Years		6-10 Years		Over 10 Years	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Asset Backed Securities	\$11,035	\$2,842	\$ -	\$ -	\$2,216	\$665	\$2,874	\$691	\$5,945	\$1,468
Bank Loans	140	-	-	-	140	-	-	-	-	-
Commercial Mortgage-Backed	5,263	5,180	-	-	309	-	-	-	4,954	-
Corporate Bonds	93,704	54,959	2,895	3,413	40,554	17,908	30,287	14,868	19,968	18,770
Corporate Convertible Bonds	11,461	11,757	1,097	117	5,405	5,659	1,558	1,514	3,401	4,467
Government Agencies	16,541	13,057	394	1,496	15,386	7,949	(1)	2,730	762	882
Government Bonds	57,128	39,673	3,995	7,066	8,644	7,051	22,736	9,322	21,753	16,234
Government Mortgage and CMB	188,121	170,931	-	-	656	214	1,002	600	186,463	170,117
Repurchase Agreements	10,175	-	10,175	-	-	-	-	-	-	-
Index Linked Government Bonds	79	641	-	-	-	-	-	-	79	641
Municipal/Provincial Bonds	5,290	3,662	-	-	501	2,171	1,000	425	3,789	1,066
Non-Government Backed CMOs	7,037	3,649	-	-	1,155	1,402	-	210	5,882	2,037
Other Fixed Income	3,030	1,784	364	119	2,666	1,665	-	-	-	-
Pooled Investments	210,002	184,602	1,980	-	51,726	115,712	93,812	45,456	62,484	23,434
Short Term Bills and Notes	<u>27,109</u>	<u>12,705</u>	<u>27,109</u>	<u>12,705</u>	-	-	-	-	-	-
Total Debt Securities	<u>\$646,115</u>	<u>\$505,424</u>	<u>\$48,009</u>	<u>\$24,916</u>	<u>\$129,358</u>	<u>\$160,396</u>	<u>\$153,268</u>	<u>\$75,816</u>	<u>\$315,480</u>	<u>\$244,296</u>

## Job Service Retirement Plan

Type (in thousands)	Fair Value		Less Than 1 Year		1-6 Years		6-10 Years		Over 10 Years	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Asset Backed Securities	\$1,001	\$102	\$ -	\$ -	\$141	\$24	\$150	\$26	\$710	\$52
Bank Loans	21	-	-	-	21	-	-	-	-	-
Commercial Mortgage-Backed	267	191	-	-	46	-	-	-	221	191
Corporate Bonds	7,761	3,684	245	134	4,249	1,090	1,964	1,086	1,303	1,374
Corporate Convertible Bonds	739	867	71	9	348	417	100	112	220	329
Government Agencies	704	607	16	87	663	373	-	115	25	32
Government Bonds	3,816	2,354	160	321	750	340	1,982	798	924	895
Government Mortgage Backed and CMB	20,507	20,663	-	-	26	14	50	27	20,431	20,622
Repurchase Agreements	1,511	-	1,511	-	-	-	-	-	-	-
Index Linked Government Bonds	12	47	-	-	-	-	-	-	12	47
Municipal/Provincial Bonds	221	178	-	-	20	99	40	19	161	60
Non-Government Backed CMOs	518	142	-	-	47	53	-	7	471	82
Other Fixed Income	241	70	11	5	230	65	-	-	-	-
Pooled Investments	22,653	23,698	294	-	6,272	17,711	7,404	2,057	8,683	3,930
Short Term Bills and Notes	<u>3,984</u>	<u>1,628</u>	<u>3,984</u>	<u>1,628</u>	-	-	-	-	-	-
Total Debt Securities	<u>\$63,956</u>	<u>\$54,231</u>	<u>\$6,292</u>	<u>\$2,184</u>	<u>\$12,813</u>	<u>\$20,186</u>	<u>\$11,690</u>	<u>\$4,247</u>	<u>\$33,161</u>	<u>\$27,614</u>

**Retiree Health Insurance Credit Fund**

All securities subject to interest rate risk disclosure in the Retiree Health Insurance Credit Fund are pooled investments. At June 30, 2014, the market value of these securities maturing in 1-6 years is \$3.686 million and maturing in 6-10 years is \$31.501 million for a total market value of \$35.187 million. At June 30, 2013, the market value of these securities maturing in 1-6 years is \$3.174 million and maturing in 6-10 years is \$26.599 million for a total market value of \$29.773 million.

**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**

Currency (in thousands)	Short term		Debt		Equity		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Australian dollar	\$(3,058)	\$(3,932)	\$6,703	\$5,147	\$6,426	\$4,714	\$10,071	\$5,929
Brazilian real	121	848	4,234	2,477	3,189	3,317	7,544	6,642
British pound sterling	(279)	6,731	3,541	2,473	39,248	26,629	42,510	35,833
Canadian dollar	24	15	-	409	9,967	7,816	9,991	8,240
Chilean peso	4,597	1,533	515	-	-	-	5,112	-
Chinese yuan renminbi	(1)	-	-	-	-	-	(1)	-
Czech koruna	-	-	-	-	747	937	747	937
Israeli shekel	25	14	-	-	636	457	661	471
Danish krone	-	-	-	-	914	373	914	373
Euro	(10,131)	(6,470)	9,310	9,606	62,979	49,553	62,158	52,689
Hong Kong dollar	45	12	-	-	7,596	6,599	7,641	6,611
Hungarian forint	19	10	2,088	1,959	664	504	2,771	2,473
Iceland krona	17	15	-	-	-	-	17	15
Indian rupee	177	-	-	-	-	-	177	2,254
Indonesian rupiah	-	2,254	2,071	-	-	-	2,071	-
Japanese yen	(1,326)	6,924	-	-	36,383	22,065	35,057	28,989
Malaysian ringgit	37	13	1,184	2,065	-	1,060	1,221	3,138
Mexican peso	1,033	-	12,570	9,382	-	-	13,603	9,382
New Zealand dollar	(1,581)	(1,447)	1,665	1,487	54	-	138	40
Norwegian krone	-	21	-	-	2,309	997	2,309	1,018
Philippine peso	-	-	1,083	1,094	-	-	1,083	1,094
Polish zloty	(2,231)	-	2,486	2,060	1,429	604	1,684	2,664
Singapore dollar	11	35	-	-	957	1,282	968	1,317
South African rand	7	44	1,862	1,519	1,651	1,963	3,520	3,526
South Korean won	108	(2,105)	2,518	2,176	4,243	3,725	6,869	3,796
Swedish krona	29	245	-	-	3,415	2,472	3,444	2,717
Swiss franc	110	-	25	-	12,534	9,652	12,669	9,652
Thai baht	52	27	-	-	1,000	572	1,052	599
Turkish lira	-	1	762	1,318	743	486	1,505	1,805
International commingled funds (various currencies)	-	-	57,475	44,721	301,314	155,845	358,789	200,566
	<u>\$(12,195)</u>	<u>\$4,788</u>	<u>\$110,092</u>	<u>\$87,893</u>	<u>\$498,398</u>	<u>\$301,622</u>	<u>\$596,295</u>	<u>\$394,303</u>

## Job Service Retirement Plan

Currency (in thousands)	Short term		Debt		Equity		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Australian dollar	\$(140)	\$(186)	\$286	\$254	\$251	\$198	\$397	\$266
Brazilian real	18	39	199	144	135	148	352	331
British pound sterling	(45)	247	175	112	1,445	1,070	1,575	1,429
Canadian dollar	1	1	-	30	379	333	380	364
Chilean peso	184	70	33	-	-	-	217	70
Czech koruna	-	-	-	-	32	42	32	42
Israeli shekel	1	1	-	-	27	20	28	21
Danish krone	-	-	-	-	18	9	18	9
Euro	(718)	(467)	554	551	1,785	1,769	1,621	1,853
Hong Kong dollar	2	1	-	-	269	257	271	258
Hungarian forint	1	-	84	89	28	23	113	112
Iceland krona	1	1	-	-	-	-	1	1
Indian rupee	26	102	-	-	-	-	26	102
Indonesian rupiah	-	-	83	-	-	-	83	-
Japanese yen	(111)	155	-	-	1,308	827	1,197	982
Malaysian ringgit	2	1	47	94	-	47	49	142
Mexican peso	153	-	610	-	-	-	763	-
New Zealand dollar	(63)	(66)	67	68	1	-	5	2
Norwegian krone	-	1	-	-	88	38	88	39
Philippine peso	-	-	70	81	-	-	70	81
Polish zloty	(89)	-	100	94	61	27	72	121
Singapore dollar	-	1	-	-	29	43	29	44
South African rand	-	2	75	69	70	88	145	159
South Korean won	5	(96)	101	99	180	166	286	169
Swedish krona	1	11	-	-	104	88	105	99
Swiss franc	2	-	4	-	391	344	397	344
Thai baht	2	1	-	-	42	26	44	27
Turkish lira	-	-	31	60	31	22	62	82
International commingled funds (various currencies)	-	-	<u>2,302</u>	<u>2,032</u>	<u>4,217</u>	<u>1,924</u>	<u>6,519</u>	<u>3,956</u>
	<u>\$(767)</u>	<u>\$(181)</u>	<u>\$4,821</u>	<u>\$4,274</u>	<u>\$10,891</u>	<u>\$7,509</u>	<u>\$14,945</u>	<u>\$11,602</u>

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

The June 30, 2014 due from/to fiduciary and proprietary funds are summarized as follows:

<u>Fund</u>	Due From Fiduciary and <u>Proprietary Funds</u>	Due To Fiduciary and <u>Proprietary Funds</u>
<b>Fiduciary</b>		
Public Employees Retirement System	\$ 260,174	\$ 12,591
Highway Patrolmen's Retirement System	-	63,330
Retiree Health Insurance Credit Fund	328,065	253,148
Retirement Plan for Employees of Job Service ND	431	2,161
Pretax Benefits Program	16,675	-
Deferred Compensation Plan	50,950	13,292
Defined Contribution Plan	292	9,272
<b>Proprietary</b>		
Uniform Group Insurance Program	17,203	319,996
	<u>\$ 673,790</u>	<u>\$ 673,790</u>

The June 30, 2013 due from/to fiduciary and proprietary funds are summarized as follows:

<u>Fund</u>	Due From Fiduciary and <u>Proprietary Funds</u>	Due To Fiduciary and <u>Proprietary Funds</u>
<b>Fiduciary</b>		
Public Employees Retirement System	\$104,387	\$ 75,203
Highway Patrolmen's Retirement System	4,672	40,186
Retiree Health Insurance Credit Fund	489,336	155,927
Retirement Plan for Employees of Job Service ND	123	-
Pretax Benefits Program	15,555	-
Deferred Compensation Plan	24,492	-
Defined Contribution Plan	-	6,814
<b>Proprietary</b>		
Uniform Group Insurance Program	59,981	420,416
	<u>\$698,546</u>	<u>\$ 698,546</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, 2014 due from/to state agencies are summarized as follows:

<u>Fund</u>	Due From <u>State Agencies</u>	Due To <u>State Agencies</u>
<b>Fiduciary</b>		
Public Employees Retirement System		
ITD	\$ -	\$ 7,436
Attorney General	-	920
Office of Mgmt. & Budget	-	117
Dept. of Transportation	40	-
Total	<u>\$ 40</u>	<u>\$ 8,473</u>
Defined Contribution Plan		
ITD	-	28
Pretax Benefits Program		
ITD	\$ -	1,538
Attorney General	-	5
Office of Mgmt. & Budget	-	23
Total	<u>\$ -</u>	<u>\$ 1,566</u>
Deferred Compensation Plan		
ITD	\$ -	\$ 2,986
Attorney General	-	10
Office of Mgmt. & Budget	-	45
Total	<u>\$ -</u>	<u>\$ 3,041</u>
<b>Proprietary</b>		
Uniform Group Insurance Program		
Office of Mgmt. & Budget	\$ -	68
ITD	-	5,698
Attorney General	-	15
Total	<u>\$ -</u>	<u>\$ 5,781</u>

The June 30, 2013 due from/to state agencies are summarized as follows:

<u>Fund</u>	<u>Due From State Agencies</u>	<u>Due To State Agencies</u>
<b>Fiduciary</b>		
Public Employees Retirement System		
State Auditors Office	\$ 160	-
Legislative Council	20	-
Health Department	240	-
Public Service Commission	80	-
Workforce Safety and Ins.	420	-
Dept. of Agriculture	80	-
Dept. of Transportation	160	79
ITD	-	8,584
Attorney General	-	1,251
Office of Mgmt/Budget	20	5,981
Retirement/Inv. Office	-	616
Total	<u>\$ 1,180</u>	<u>\$16,511</u>
Defined Contribution Plan		
Office of Mgmt/Budget	\$ -	\$ 226
Pretax Benefits Program		
ITD	-	\$ 1,528
Attorney General	-	243
Office of Mgmt/Budget	-	3,455
Total	<u>\$ -</u>	<u>\$5,226</u>
Deferred Compensation Plan		
ITD	\$ -	\$ 2,818
Attorney General	-	548
Office of Mgmt/Budget	-	1,505
Total	<u>\$ -</u>	<u>\$ 4,871</u>
<b>Proprietary</b>		
Uniform Group Insurance Program		
Dept. of Transportation	\$ -	\$ 139
Office of Mgmt/Budget	-	5,935
ITD	-	5,687
Attorney General	-	1,085
Total	<u>\$ -</u>	<u>\$ 12,846</u>

The June 30, 2014 operating transfers in/out are summarized as follows:

<u>Fund Type/Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
<b>Fiduciary Funds</b>		
Defined Contribution Retirement Fund	\$ 32,873	\$ -
Deferred Comp Plan Public Employees Retirement System	630,000	-
Public Employees Retirement System	-	347,783
<b>Proprietary Funds</b>		
Uniform Group Insurance Program	-	315,000

The June 30, 2013 operating transfers in/out are summarized as follows:

<u>Fund Type/Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
<b>Fiduciary Funds</b>		
Pretax Benefit Program	\$ -	\$200,000
Deferred Comp Plan Public Employees Retirement System	625,000	-
Public Employees Retirement System	-	212,500
<b>Proprietary Funds</b>		
Uniform Group Insurance Program	-	212,500

The transfer to the Defined Contribution Retirement Fund is for those employees electing to transfer from the defined benefit plan. The transfers to the Deferred Compensation Plan are to cover administrative expenses with FICA savings earned in the Pretax Benefit Program and additional transfers were made from the retirement and group insurance funds to cover software development costs.



**NOTE 4  
CAPITAL ASSETS**

A statement of changes in equipment and accumulated depreciation for the System for the year ended June 30, 2014 and 2013 is as follows:

	Balance <u>7/01/13</u>	Additions	Deletions	Balance <u>6/30/14</u>
Proprietary Funds:				
Capital assets being depreciated:				
Software	\$2,897,064	\$ -	\$ -	\$ 2,897,064
Less: Accumulated amortization for:				
Software	<u>(774,622)</u>	<u>(289,706)</u>	<u>-</u>	<u>(1,064,328)</u>
Total capital assets being depr., net	<u>2,122,442</u>	<u>(289,706)</u>	<u>-</u>	<u>1,832,736</u>
Proprietary Funds capital assets, net	<u>\$2,122,442</u>	<u>\$(289,706)</u>	<u>-</u>	<u>\$ 1,832,736</u>
Fiduciary Funds:				
Capital assets being depreciated:				
Software	\$7,184,137	\$ -	\$ -	\$7,184,137
Total capital assets being depreciated	7,184,137	-	-	7,184,137
Less: Accumulated amort/depr. for:				
Software	<u>(1,920,546)</u>	<u>(718,414)</u>	<u>-</u>	<u>(2,638,960)</u>
Total capital assets being depr. net	5,263,591	(718,414)	-	4,545,177
Fiduciary Funds capital assets, net	<u>\$5,263,591</u>	<u>\$(718,414)</u>	<u>\$ -</u>	<u>\$4,545,177</u>
	Balance <u>7/1/2012</u>	Additions	Deletions	Balance <u>6/30/2013</u>
Proprietary Funds:				
Capital assets not being depreciated:				
Software (not in production)	<u>\$76,626</u>	\$ 38,525	\$(115,151)	\$ -
Capital assets being depreciated:				
Software	\$2,781,913	\$ 115,151	\$ -	\$ 2,897,064
Less: Accumulated amortization for software				
	<u>\$(486,904)</u>	<u>(287,718)</u>	<u>-</u>	<u>(774,622)</u>
Total capital assets being depr., net	<u>2,295,009</u>	<u>(172,567)</u>	<u>-</u>	<u>\$2,122,442</u>
Proprietary Funds capital assets, net	<u>\$2,371,635</u>	<u>\$(134,042)</u>	<u>\$(115,151)</u>	<u>\$ 2,122,442</u>
Fiduciary Funds:				
Capital assets not being depr.:				
Software (not in production)	\$ 191,800	\$95,621	\$(287,421)	\$ -
Capital assets being depreciated:				
Software	6,896,716	287,421	-	7,184,137
Total capital assets being depr.	6,896,716	287,421	-	7,184,137
Less: Accumulated amort/depr. for:				
Software	<u>(1,206,854)</u>	<u>(713,692)</u>	<u>-</u>	<u>(1,920,546)</u>
Total capital assets being depr. net	<u>5,689,862</u>	<u>(426,271)</u>	<u>-</u>	<u>5,263,591</u>
Fiduciary Funds capital assets, net	<u>\$5,881,662</u>	<u>\$(330,650)</u>	<u>\$(287,421)</u>	<u>\$5,263,591</u>

**NOTE 5 – LEASE OBLIGATIONS**

*Operating Lease:*

The department has entered into an operating lease for office space until June 30, 2015. Expenditures for this lease were \$135,660 and \$124,356 for the years ended June 30, 2014 and 2013, respectively. The future minimum lease payment for the fiscal year ending June 30, 2015 is \$135,660.

The department has also entered into an operating lease for office equipment until February 28, 2014. Expenditures for this lease were \$1,707 and \$2,561 for the years ended June 30, 2014 and 2013, respectively.

The leases contain clauses stating that renewal is dependent upon appropriation funding by the State Legislature. Lease obligations for operating and capital leases are payable from all funds of the System.

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

	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>
	Accrued Comp. Absences	Accrued Comp. Absences
Balance –		
June 30, 2012	\$ 73,453	\$ 149,763
Increases	47,245	93,299
Decreases	<u>(40,992)</u>	<u>(85,657)</u>
Balance -		
June 30, 2013	\$ 79,706	\$ 157,405
Increases	53,184	100,549
Decreases	<u>(48,459)</u>	<u>(98,328)</u>
Balance-		
June 30, 2014	<u>\$ 84,431</u>	<u>\$ 159,626</u>
Balance-due within one year	\$ 5,328	\$ 10,072

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 a statutorily determined rate for permanent

employees. The System’s contributions to PERS for the years ended June 30, 2014, 2013 and 2012, were \$182,989, \$155,657, and \$129,748 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 three 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 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 and the Retirement Plan for Employees of Job Service North Dakota 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 elect to participate in the plan. Effective October 1, 2013, eligibility was expanded to include all state employees hired on or after October 1, 2013 through July 31, 2017, with the exception of employees eligible for the Highway Patrol Retirement System, Teachers Fund for Retirement or the alternate retirement plan of the Board of Higher Education. The Retirement Plan for Employees of Job Service North Dakota is limited to employees participating in the plan as of September 30, 1980.

Responsibility for administration of the defined benefit pension plans and the defined contribution plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

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>2014</u>	<u>2013</u>
Cities	86	83
Counties	49	49
School Districts	119	114
Other	<u>73</u>	<u>73</u>
Total participating political subdivisions	<u>327</u>	<u>322</u>

Employee membership data is as follows:

	<b>PERS</b>		<b>HPRS</b>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Retirees & Beneficiaries				
Currently Receiving Benefits	9,355	8,721	117	116
Special Prior Service Retirees	7	9	-	-
Terminated Vested Participants	4,372	4,258	11	9
Inactive Participants	4,050	3,505	8	6
Active Plan Participants				
Vested	15,701	15,718	75	71
Nonvested	<u>6,561</u>	<u>5,870</u>	<u>81</u>	<u>78</u>
Total Plan Membership	<u>40,046</u>	<u>38,081</u>	<u>292</u>	<u>280</u>

	<b>Job Service</b>	
	<u>2014</u>	<u>2013</u>
Retirees & Beneficiaries		
Currently Receiving Benefits	213	213
Special Prior Service Retirees	-	-
Terminated Vested Participants	1	3
Inactive Participants	-	-
Active Plan Participants:		
Vested	13	15
Nonvested	<u>-</u>	<u>-</u>
Total Plan Membership	<u>227</u>	<u>231</u>

The defined contribution plan had 286 and 274 participants as of June 30, 2014 and 2013, respectively.

Investments – The System’s Board is responsible for establishing the investment policy for the fund assets, which includes setting investment goals and specifying the percentage of assets to be invested in various types of investments. The investment goals are viewed over the long term. The Board recognizes the plans’ performance objectives, benefit projections, and capital market expectations when determining the asset allocation. The SIB is responsible for managing the System’s investments in accordance with the investment policy. The following was the System’s asset allocation policy as of June 30, 2014 and 2013:

Asset Class	Target Allocation	
	<u>PERS &amp; HPRS</u>	<u>JSND</u>
Domestic equities	31.0%	31.0%
International equities	21.0%	9.0%
Private equity	5.0%	
Domestic fixed income	17.0%	55.0%
International fixed income	5.0%	5.0%
Global real assets	20.0%	
Cash & equivalents	<u>1.0%</u>	
Total	<u>100%</u>	<u>100%</u>

Rate of return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested. The annual money-weighted rate of return on pension plan investment, net of pension plan investment expense for the years ended June 30, 2014 and 2013 are:

	<u>2014</u>	<u>2013</u>
Public Employees Retirement	16.29%	13.52%
Highway Patrolmen’s Retirement	16.20%	13.38%
Job Service Plan	13.46%	12.07%

Realized gains and losses – Realized gains and losses on sales of investments are components of net change in fair value of investments and are computed as described in Note 1.

For the years ended June 30, 2014 and 2013, the following are the net realized gains (losses):

	<u>2014</u>	<u>2013</u>
Public Employees Retirement	\$140,363,845	\$78,314,479
Highway Patrolmen's Retirement	4,096,107	2,315,369
Retiree Health Insurance Credit	1,495,120	1,335,488
Defined Contribution	(478,557)	171,694
Deferred Compensation	880,073	309,822
Job Service Plan	4,758,174	3,192,564

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 180 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 180 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 180 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, 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 180 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**

Benefits are set by statute. 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 by the Board. 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

**Death and Disability Benefits**

**PERS**

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System and National Guard/Law Enforcement, or less than five years of service for Supreme and District Court Judges, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System and National Guard/Law Enforcement, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, 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 sur-

living 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, or (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 or life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit. 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**

Death and disability benefits are set by statute. Upon the death of a participating member or former participating member, the vested account bal-

ance 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 document provides 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 or 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.

#### ***Refunds of Member Contributions***

Upon termination, if a member of PERS or HPRS is not vested (is not 65 or does not have three years of service for the Main System and National Guard/Law Enforcement, or five years of service for the Supreme and District Court Judges, credited for the PERS, or is not 60 or does not have ten years of service credited for the HPRS), they will receive the accumulated member contributions plus interest, 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 established in the plan document, as amended, actuarially determined using the frozen initial liability actuarial cost method which is the same as the aggregate cost method.

In 2011, the Legislative Assembly passed an increase in the employee and employer contribution rates for the PERS, Judges, Law Enforcement, Highway Patrol and Defined Contribution plans. Effective January 2013, both the employee and employer contribution rates increased for each of the plans by an additional 1% (.5% for the Law Enforcement Plans for political subdivisions). The 2013 Legislative Assembly also passed an increase in the employee and employer contribution rates for the PERS, Judges, National Guard, Law Enforcement, Highway Patrol and Defined Contribution plans. Effective January 2014, both the employee and employer contribution rates were increased for each of the plans by an additional 1% (.5% for the National Guard and Law Enforcement Plans for political subdivisions).

#### ***PERS***

Member contributions are set by statute. 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 4% of the member contribution. Some of the political subdivisions are paying all or part of the member contributions.

Member contribution rates are established as a percent of covered compensation as follows:

<b>Effective</b>	<u><b>1/1/12</b></u>	<u><b>1/1/13</b></u>	<u><b>1/1/14</b></u>
Public Employees Retirement System	5.00%	6.00%	7.00%
Judges Retirement System	6.00%	7.00%	8.00%
National Guard Retirement System	4.00%	4.00%	4.50%
Law Enforcement with previous service			
State	5.00%	6.00%	6.00%
Political Subdivisions	4.50%	5.00%	5.50%
Law Enforce w/out previous service	4.50%	5.00%	5.50%

Employer contributions are set by statute except the contribution rates for the National Guard/Law Enforcement Plans which are set by the Board.

Employer contributions are established as a percent of total compensation as follows:

<b>Effective</b>	<u><b>1/1/12</b></u>	<u><b>1/1/13</b></u>	<u><b>1/1/14</b></u>
Public Employees Retirement System	5.12%	6.12%	7.12%
Judges Retirement System	15.52%	16.52%	17.52%
National Guard Retirement System	6.50%	6.50%	7.00%
Law Enforcement with previous service			
State	9.31%	10.31%	10.31%
Political Subdivisions	8.81%	9.31%	9.81%
Law Enforce w/out previous service	6.93%	7.43%	7.93%

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

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 2014-2015.

**HPRS**

Member and employer contributions are set by statute as a percent of covered compensation. The state is paying 4% of the member contribution. The member and employer contribution rates are as follows:

<b>Effective:</b>	<u><b>1/1/2012</b></u>	<u><b>1/1/2013</b></u>	<u><b>1/1/2014</b></u>
Member contributions	11.3%	12.3%	13.3%
Employer contributions	17.7%	18.7%	19.7%

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 not sufficient to meet the actuarially determined requirement for 2014-2015.

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

Annual required contributions	\$2,347,598
Interest on net pension obligations	86,738
Adjustment to annual required contributions	<u>(75,669)</u>
Annual pension costs	2,358,667
Contributions made	<u>1,864,632</u>
Change in net pension obligations	494,035
Net pension obligations, beginning of year	<u>1,084,224</u>
Net pension obligations, end of year	<u>\$1,578,259</u>

**Defined Contribution Plan**

Member and employer contributions are set by statute as a percent of covered compensation. The state is paying 4% of the member contribution. The member and employer contribution rates are as follows:

<b>Effective:</b>	<u><b>1/1/2012</b></u>	<u><b>1/1/2013</b></u>	<u><b>1/1/2014</b></u>
Member contributions	5.00%	6.00%	7.00%
Employer contributions	5.12%	6.12%	7.12%

**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 "scheduled contribution" and amortization will be determined when the plan is not in surplus and will be based on a funding policy adopted by the Employer.

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	(129,425)
Adjustment to annual required contributions	<u>133,061</u>
Annual pension costs	3,636
Contributions made	<u>-</u>
Change in net pension obligations	3,636
Net pension obligations, beginning of year	<u>(1,617,811)</u>
(Assets in excess of) net pension obligations, end of year	<u>\$(1,614,175)</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. Effective July 1, 2015, the credit will also be available to apply towards monthly premiums under the state dental, vision and long term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Employee membership data is as follows:

	<u>2014</u>	<u>2013</u>
Retired participants receiving benefits	4,828	4,635
Active participants, not receiving benefits	<u>22,642</u>	<u>21,955</u>
	<u>27,470</u>	<u>26,590</u>

The Retiree Health Insurance Credit Fund has 22,642 and 21,955 active participants at June 30, 2014 and 2013 respectively. The employers' actuarially required contribution was \$7,014,084 and \$7,410,911, and the actual employer contributions were \$10,709,787 and \$9,959,603 for the periods ended June 30, 2014 and 2013, respectively.

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

	<u>%</u>	<u>Dollar</u>
Net effect of changes in actuarial assumption	0.00%	\$ -
Changes in Plan Provisions	0.00%	-
Changes in plan experience during the year	<u>0.13%</u>	<u>\$(1,301,565)</u>
	<u>0.13%</u>	<u>\$(1,301,565)</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 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% 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 Position 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 \$5.00 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.



*Funded Status and Funding Progress*

The funded status of the plans as of the most recent actuarial valuation date is shown in the table below.

Plan	Funded Status (in millions)						
	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Annual Covered Payroll
Retiree Health Credit	2014	\$77.9	\$116.6	\$38.7	66.8%	\$1,001.2	3.9%
Retiree Health Implicit Subsidy	2013	\$ -	\$33.8	\$33.8	0.0%	\$ -	0.0%

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 2013-15 biennium will continue in the future.

A retiree must be receiving a retirement allowance from NDPERS, ND TFFR or TIAA-CREF to be eligible for the retiree health care coverage. Effective July 1, 2015, eligibility for this coverage will be limited to employees who retire prior to 2015 and/or former Legislators.

The premiums for this plan are reported as employee contributions on the Statement of Changes in Plan Net Position 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 Net Position.

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 finan-

cially 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**

*Actuarial Assumptions*

**PERS and HPRS**

The total pension liability was determined by an actuarial valuation as of July 1, 2014 and 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3.50%

Salary increase (Payroll Growth): 3.85% per annum for four years, then 4.50% per annum for Main System, National Guard and Law Enforcement. 4% per annum for Judges.

Investment Rate of Return: 8.00%, net of investment expense, including inflation

Mortality Rates: For active members, inactive members and healthy retirees, mortality rates

### Net Pension Liability of the Plans

The components of the net pension liability of the Plans at June 30, 2014 and 2013, are as follows:

<u>2014</u>	<u>PERS</u>	<u>HPRS</u>	<u>JSND</u>
Total pension liability	\$ 2,918,552,143	\$75,432,901	\$65,046,433
Plan fiduciary net position	<u>2,281,582,863</u>	<u>65,666,865</u>	<u>97,696,628</u>
Net pension liability (asset)	\$636,969,280	\$ 9,766,036	\$ (32,650,195)
Plan fiduciary net position as a percentage of the total pension liability	78.18%	87.05%	150.20%
<u>2013</u>	<u>PERS</u>	<u>HPRS</u>	<u>JSND</u>
Total pension liability	\$ 2,699,324,609	\$71,873,400	\$66,052,801
Plan fiduciary net position	<u>1,957,670,025</u>	<u>57,044,084</u>	<u>90,378,957</u>
Net pension liability (asset)	\$741,654,784	\$ 14,829,316	\$ (24,326,156)
Plan fiduciary net position as a percentage of the total pension liability	72.52%	79.37%	136.83%

The plan provisions used in the measurement of the net pension liability are the same as those used in the PERS, HPRS and JSND Actuarial Valuation and Reviews as of July 1, 2014 and 2013.

were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years for PERS and one year for HPRS. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females). These mortality tables were determined to contain approximately a 10% margin for future mortality improvement, based on a review of mortality experience in 2010.

#### JSND

The total pension liability was determined by an actuarial valuation as of July 1, 2014 and 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3.50%

Salary increase (Payroll Growth): 5.00% per annum

Investment Rate of Return: 8.00%, net of investment expense, including inflation

Cost of Living Adjustment: 5.00%

Mortality Rates: For active members, inactive members and healthy retirees, mortality rates were based on the 1994 Group Annuity Mortality Table. For disabled retirees, mortality rates were based on 1983 Railroad Retirement Board Disabled Life Mortality Table. These tables reasonably reflect the mortality experience of the Plan as of the measurement date. No provision was made for future mortality improvement after the measurement date. These assumptions are prescribed by the Board.

#### Investment Rate of Return

The long-term expected investment rate of return assumption for PERS, HPRS and JSND was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions for each major asset class are summarized in the following tables:

#### PERS & HPRS

##### Asset Class

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	6.90%
International equity	7.55%
Private equity	11.30%
Domestic fixed income	1.55%
International fixed income	0.90%
Global real assets	5.38%
Cash equivalents	0.00%

<b>JSND</b>	<b>Long-Term Expected Real Rate of Return</b>
<b><u>Asset Class</u></b>	
Domestic equities	6.90%
International equities	7.00%
Domestic fixed income	1.17%
International fixed income	0.90%

**Discount Rate**

The discount rate used to measure the total pension liability for PERS, HPRS, and JSND was 8.00% as of June 30, 2014 and 2013. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014 Actuarial Valuation Reports. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions (For JSND it is assumed no future contribution will be made.), the pension plans' fiduciary net position were projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014 and 2013.

**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 16 years remain. For the implicit subsidy unfunded plan, this amount is amortized over a fixed period of 30 years, of which 23 years remain.

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, 2014, the date of the latest actuarial study include:

**Mortality Rates:** The RP-2000 Combined Healthy Mortality Table set back three years and the RP-2000 Disabled Retiree Mortality Table set back one year for males (not set back for females).

**Sensitivity of Net Pension Liability**

The following presents the net pension liability of the Plans as of June 30, 2014, calculated using the discount rate of 8.00%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

<b>Net pension liability (asset) as of June 30, 2014</b>	<b>1% Decrease (7.00%)</b>	<b>Current Discount (8.00%)</b>	<b>1% Increase (9.00%)</b>
PERS	\$ 989,279,303	\$ 636,969,280	\$ 342,385,541
HPRS	19,044,405	9,766,036	2,096,826
JSND	\$ (26,305,241)	\$ (32,650,195)	\$ (38,110,962)

**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 \$97,000 a year.

**Implicit Subsidy Unfunded Plan**

Significant actuarial assumptions employed by the actuary for funding purposes as of July 1, 2013, the date of the latest actuarial study include:

**Mortality Rates:** RP-2000 Combined Healthy Mortality Table, set back three years for males and females (set back one year for Highway Patrol)  
 RP-2000 Disabled Retiree Mortality Table, set back one year for males (not set back for females)

**Health Care Cost Trend:** Select – 8.0%; 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 pension plans.

**Termination:** Probabilities of withdrawals 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>2014</u>	
Plan Participation		
by State of ND	\$57,914,618	90%
Other jurisdictions	<u>6,668,347</u>	<u>10%</u>
Total value	<u>\$64,582,965</u>	<u>100%</u>
	<u>2013</u>	
Plan Participation		
by State of ND	\$44,716,676	89%
Other jurisdictions	<u>5,455,073</u>	<u>11%</u>
Total value	<u>\$50,171,749</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. The contract for the 2009-2011 biennium provides for an accounting of premiums paid and claims incurred during the biennium, with a gain sharing provision, with the final accounting taking place two years after the end of the biennium. The final accounting for the 2009-2011 biennium occurred on June 30, 2013. Premiums exceeded claims, therefore, a gain of \$36.6 million was returned to the System. The System has entered into a similar contract with BCBS for the 2011-2013 and the 2013–2015 biennium. The accumulated surplus and other invested funds in the amount of \$40 million are shown as cash on the System’s balance sheet. No other insurance contracts have a gain sharing provision.

The federal health care reform bill provides for a pre-Medicare retiree reinsurance provision for employer plans that will reimburse employers by providing reinsurance for 80% of retiree claims between \$15,000 and \$90,000. This program became effective on June 1, 2010 and employer eligibility is determined from an application sub-

mitted by the employer to the Department of Health and Human Services. The program requires that the funds be used to (1) reduce the sponsor's health benefit premiums or health benefit costs, (2) reduce health benefit premium contributions, copayment, deductibles, coinsurance, or other out-of-pocket costs, or any combination of these costs, for plan participants, or (3) reduce any combination of the costs in (1) and (2). The System Board determined that any reimbursements received under this program be used to help reduce health care costs for members of the Uniform Group Insurance Program. The System submitted an application and was determined to be an eligible employer. The System received a reimbursement of \$1.0 million during fiscal year 2012 and \$1.7 million during fiscal year 2011. Funding for this program is no longer available; therefore no further reimbursements were received.

During fiscal year 2014, the System Board made the decision to use the reimbursement funds, in addition to a portion of the accumulated surplus, to reduce the health premiums by approximately 2% for the 2013-2015 biennium. The difference between the premiums billed to the contract holders and the premiums paid to BCBS is reflected as Premium Buydown Expense on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position.

**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  
NEW PRONOUNCEMENTS**

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB 68 is effective for periods beginning after June 15, 2014.

GASB Statement No. 69, Government Combinations and Disposals of Government

Operations, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

Management has not yet determined the effect these statements will have on the entity's financial statements.

#### **NOTE 15 CONTINGENCY**

##### **WG Trading Company**

In February 2009, the State Investment Board (SIB) was notified of legal action being taken against one of its investment advisors. The principals of WG Trading Company, the broker/dealer for Westridge Capital Management portfolios, were charged with securities fraud for allegedly diverting investor funds for their personal use. The SIB was an investor along with numerous other public and private pension funds. Investors had been offered two options: invest directly in WG Trading company (WGTC) by purchasing a limited partnership interest in it; or lend money to WG Trading Inc. (WGTI). WGTC was subject to SEC regulation, capital requirements, reporting and oversight, whereas WGTI was an unregulated and unaudited entity. SIB chose to invest directly in the regulated, audited WGTC.

At the time the Commodity Futures Trading Commission (CFTC) and Securities Exchange Commission (SEC) charges were filed, the court appointed a receiver to take control of any recoverable assets. The receiver recommended the court distribute the recovered assets as follows: pool the assets of WGTC and WGTI, and distribute those assets pro rata to all investors. The receiver's method did not take into consideration the terms in which each investor entered into the

investment (i.e. limited partnership interest versus note holder agreement), even though the majority of the WGTC assets were intact and the fraud predominantly occurred with WGTI. The SIB joined with other WGTC investors and objected to a pro rata distribution to all investors. The receiver and the WGTI investors opposed. The court agreed with the receiver and in April, 2011, the recovered assets were distributed to all investors in a pro rata distribution based on net investment balances. The SIB received a total distribution of \$63.9 million, which represented approximately 85% of its remaining cost basis with WGTC.

The SIB did not agree with the method used to distribute the assets, and along with the other WGTC limited partners appealed the District Court's ruling. It was the SIB's position that the District Court incorrectly determined the amount of the distribution; and that the audited limited partners are entitled to a greater share of the recovered assets than the unaudited note holders. In April, 2013, the District Court's original ruling was upheld by the United States Court of Appeals for the Second Circuit and the SIB received an additional \$3.1 million pro rata distribution, bringing the total distributions received to \$67.1 million. It should be noted that the receiver continues to pursue certain "clawback" actions and to dispose of various real and personal property held by the receiver in order to recover additional funds that may eventually be distributed to the Westridge investors, including the SIB. The receiver has also indicated that it intends to make a third distribution to investors, including to SIB. While future additional distributions are possible, the amount of any additional distributions to the SIB will likely be small as compared to the prior distributions. Total distributions to date have resulted in a net realized loss attributable to the fraud of \$8.2 million. The portion of the net realized loss allocated to NDPERS is \$3.3 million.

##### **Tribune Company**

The SIB has been listed as a defendant in a putative defense class action originally filed in the United States Bankruptcy Court for the District of Delaware, styled The Official Committee of Unsecured Creditors of Tribune Company v. Fitzsimmons, et al., Bankr. Case No. 10-54010 (the "Adversary Proceeding"), and subsequently transferred to a multi-district litigation proceeding in the United States District Court for the Southern District of New York, Case Nos. 12-cv-02652, and 11-md-02296. In addition to the Adversary Proceeding, other Tribune creditors have filed numerous state court actions (the

“State Court Actions”) to assert fraudulent transfer claims against certain recipients of the offering described below. The SIB was not named in any of these actions, which have since been consolidated and transferred to the MDL proceeding (the State Court Actions together with the Adversary Proceeding, the “Tribune LBO Litigation”).

The Adversary Proceeding arises out of a leveraged buyout by which the Tribune Company converted to a privately held company in 2007 pursuant to which beneficial owners of Tribune stock were paid \$34 a share. The Official Committee of Unsecured Creditors (the “Committee”) contends that there was misconduct in connection with that offering, including fraud. No such allegations have been made against the SIB.

Nevertheless, the Committee seeks to recover the payments made pursuant to the offering to beneficial owners, allegedly including the SIB (among thousands of other putative shareholder defendants) in connection with the leveraged buyout. The SIB’s records indicate that it received, in the aggregate, \$1,003,000.00 in Tribune leveraged buyout payments, comprised of two separate payments.

On February 23, 2012, the MDL Court entered an order appointing co-interim liaison defense counsel and a subset of six lead liaison counsel representing the various groups of defendants (the “Defense Executive Committee”). On November 6, 2012, the Defense Executive Committee submitted a “Phase One” Motion to Dismiss on behalf of all defendants in the State Court Actions. On September 23, 2013, the MDL Court granted the motion, and dismissed the State Court Actions. Both the plaintiffs in the State Court Actions and the Defense Executive Committee have appealed the MDL Court order and judgment of dismissal to the United States Court of Appeals for the Second Circuit. The Second Circuit has consolidated these appeals with the appeal in another case, *Whyte v. Barclays Bank, PLC, Barclays Capital, Inc.*, No. 13-2653 (2d Cir. 2013).

Following the dismissal of the State Court Actions, on May 23, 2014, Liaison Defense Counsel filed the Global Count One Motion to Dismiss. NDSIB, the Pension Trust, and the Investment Trust were automatically included in this Motion. The Litigation Trustees filed an opposition to the Motion to Dismiss on June 23, 2014. The Court postponed briefing on issues relating to service, jurisdiction, and dismissal based on sovereign immunity (and other theories that relate to a subset of shareholder defendants) pending resolution of the Global Count One Motion to Dismiss. Until further order of the MDL Court, individual defendants will not be required to file answers and no discovery shall proceed with the exception of discovery related to determining the amounts received in the Offering by certain entities that received subpoenas issued by the Litigation Trustee’s predecessor.





**Schedule of Changes to the Net Pension Liability and Related Ratios  
for the Fiscal Year Ended June 30, 2014**

	<u>PERS</u>	<u>HPRS</u>	<u>JSND</u>
<b>Total pension liability (asset)</b>			
Service cost	\$ 94,611,357	\$ 1,894,183	\$ 87,668
Interest	218,719,441	5,750,017	5,107,459
Change of benefit terms	-	-	-
Differences between expected and actual experience	25,782,859	(299,964)	(1,607,033)
Changes of assumptions	-	-	-
Benefit payments, including refund of employee contributions	(119,886,323)	(3,784,735)	(4,594,462)
<b>Net change in total pension liability (asset)</b>	<u>219,227,334</u>	<u>3,559,501</u>	<u>(1,006,368)</u>
<b>Total pension liability (asset) - beginning</b>	<u>2,699,324,809</u>	<u>71,873,400</u>	<u>66,052,801</u>
<b>Total pension liability (asset) - ending (a)</b>	<u>\$ 2,918,552,143</u>	<u>\$ 75,432,901</u>	<u>\$ 65,046,433</u>
<b>Plan fiduciary net position</b>			
Contributions – employer	\$ 61,661,050	\$ 1,864,632	\$ -
Contributions – employee	59,394,200	1,243,520	55,748
Service credit repurchase	8,325,140	87,418	-
Net investment income	316,629,563	9,239,929	11,887,840
Benefit payments, including refund of employee contributions	(119,886,324)	(3,784,735)	(4,594,462)
Administrative expense	(2,210,792)	(27,983)	(31,455)
<b>Net change in plan fiduciary net position</b>	<u>323,912,837</u>	<u>8,622,781</u>	<u>7,317,671</u>
Plan fiduciary net position - beginning	<u>1,957,670,026</u>	<u>57,044,084</u>	<u>90,378,957</u>
Plan fiduciary net position - ending (b)	<u>\$ 2,281,582,863</u>	<u>\$ 65,666,865</u>	<u>\$ 97,696,628</u>
<b>Net pension liability (asset) - ending (a) (b)</b>	<u>\$ 636,969,280</u>	<u>\$ 9,766,036</u>	<u>\$ (32,650,195)</u>
<b>Plan fiduciary net position as a percentage of the total pension liability (asset)</b>	78.18%	87.05%	150.20%
<b>Covered employee payroll</b>	\$ 888,452,060	\$ 9,348,386	\$ 842,601
<b>Plan net pension liability (asset) as a percentage of covered employee payroll</b>	71.69%	104.47%	-3874.93%

*Complete data for this schedule is not available prior to 2014.*

**Notes to schedule:**

Benefit Changes – New employer and member contribution rates were adopted beginning January 1, 2014 for PERS and HPRS. Those changes are reflected in the results shown above. There were no changes made to the plan provisions for JSND.

**Schedule of Employer Contributions**

**Valuation date:** Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

**Methods and assumptions used to establish “actuarially determined contribution” rates for PERS and HPRS:**

**Actuarial cost method:** Entry Age Actuarial Cost Method. Under this method, the Normal Cost is determined as if the current benefit accrual rate had always been in effect.

**Amortization Method:** Level percent of payroll

**Remaining amortization period:** 20 years open, assuming 4.50% (4.00% for Judges) of payroll growth per annum

**Asset valuation method:** 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.

**Methods and assumptions used to establish “actuarially determined contribution” rates for JSND:**

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

The plan has assets in excess of the present value of future benefits. Therefore, no contribution is being made.

**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.

**Schedule of Changes to the Net Pension Liability****Methods and assumptions used to determine GASB 67 and 68 amounts for PERS, HPRS, and JSND:**

**Actuarial cost method:** Entry Age Actuarial Cost Method. Under this method, each employee’s service cost is determined based on the same benefit terms reflected in that employee’s actuarial present value of projected benefit payments.

**Asset valuation method:** The plan’s assets (Fiduciary Net Position) are reported without actuarial smoothing.

**Investment rate of return:** 8.0%. The net investment return assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgment. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio’s asset classes, as well as the Plan’s target asset allocation.

**Inflation rate:** 3.50%

**Projected salary increases:** For PERS – ranges from 8.25% for new members to 4.86% for members with 5 or more years of service (5.0% for judges). For HPRS – 3.85% per annum for first five years, then 4.50% per annum. For JSND – 5.00% per annum.

**Cost of living adjustment:** 5.0% per annum for JSND, none for PERS and HPRS.

**Mortality:** PERS and HPRS – RP-2000

Combined Healthy Mortality Table with sex-distinct rates, set back three years for PERS and one year for HPRS.

RP-2000 Disabled Retiree Mortality Table with sex-distinct rates, set back one year for males (not set back for females).

JSND – Healthy: 1994 Group Annuity Mortality Table.

**Disabled:** 1983 Railroad Retirement Board

Disabled Life Mortality Table. These tables reasonably reflect the mortality experience of the Plan as of the measurement date. No provision was made for future mortality improvement after the measurement date. These assumptions are prescribed by the Board.

**Other assumptions:** Same as those used in the July 1, 2014 and 2013 actuarial funding valuation.

**Retiree Health Insurance Credit  
Advance Funded Plan**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2009	\$5,804,660	116%
2010	7,199,033	117
2011	7,053,215	127
2012	7,263,487	129
2013	7,410,911	134
2014	7,014,084	153

**For the five years ended June 30  
Retiree Health Insurance Credit  
Implicit Subsidy Unfunded Plan**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2009	\$4,118,000	76%
2010	6,938,000	29
2011	7,295,000	54
2012	7,854,425	33
2013	8,212,947	40
2014	3,053,866	199

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

**Retiree Health Insurance Credit (Expressed in Millions)**

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) Projected Unit Credit	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2009	\$102.2	\$44.8	\$57.4	43.9%	\$719.8	8.0%
2010	102.8	48.7	54.1	47.4	793.6	6.8
2011	108.3	53.7	54.6	49.6	828.9	6.6
2012	112.4	58.3	54.1	51.9	824.9	6.6
2013	114.1	66.0	48.1	57.8	914.4	5.3
2014	116.6	77.9	38.7	66.8	1,001.2	3.9

**For the seven years ended June 30**

**Retiree Health Insurance Implicit Subsidy (Expressed in Millions)**

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) Projected 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%
2009	53.7	-	53.7	0.0	-	0.0
2011	65.2	-	65.2	0.0	-	0.0
2013	33.8	-	33.8	0.0	-	0.0

**SUPPLEMENTARY  
INFORMATION**

**SCHEDULE OF ADMINISTRATIVE EXPENSES  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2014**

	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
<b>Personnel Services:</b>							
Salaries	\$ 691,110	\$5,466	\$70,543	\$4,254	\$153,605	\$305,176	\$3,190
Social security	51,274	406	5,230	315	11,349	22,950	237
Retirement	79,144	626	8,086	488	17,467	35,016	366
Insurance	160,897	1,273	15,329	924	31,857	58,316	693
<b>Total Personnel Services</b>	<b>982,425</b>	<b>7,771</b>	<b>99,188</b>	<b>5,981</b>	<b>214,278</b>	<b>421,458</b>	<b>4,486</b>
<b>Professional Services:</b>							
Actuarial	302,473	12,600	13,100	0	0	0	19,000
Audit	17,547	139	1,841	111	4,421	8,843	83
Data processing	78,761	623	7,354	1,332	14,951	27,674	333
Consulting	137,106	1,080	13,404	(6,692)	33,087	61,404	606
Legal counsel	13,310	105	1,533	1,228	2,881	4,904	1,324
Misc outside services	4,005	32	392	24	102,839	1,928	2,105
<b>Total Professional Services</b>	<b>553,202</b>	<b>14,579</b>	<b>37,624</b>	<b>(3,997)</b>	<b>158,179</b>	<b>104,753</b>	<b>23,451</b>
<b>Communication:</b>							
Postage & mailing svc	59,496	471	4,937	399	11,398	8,566	223
Printing	17,827	141	1,406	85	2,676	2,072	64
Telephone	9,918	78	956	58	1,818	3,049	43
<b>Total Communication</b>	<b>87,241</b>	<b>690</b>	<b>7,299</b>	<b>542</b>	<b>15,892</b>	<b>13,687</b>	<b>330</b>
<b>Rentals:</b>							
Equipment rent	1,998	16	210	13	503	843	9
Office rent	52,770	417	5,536	334	13,297	26,266	250
<b>Total Rentals</b>	<b>54,768</b>	<b>433</b>	<b>5,746</b>	<b>347</b>	<b>13,800</b>	<b>27,109</b>	<b>259</b>
<b>Miscellaneous:</b>							
Depreciation/amortization	383,610	3,327	36,862	2,647	96,569	193,138	2,261
Dues and prof development	12,716	100	859	202	1,185	2,069	39
Insurance	359	3	39	2	93	186	2
Miscellaneous	6,617	53	695	41	1,705	3,351	32
Repairs and maintenance	2,770	22	291	18	698	1,396	13
Supplies	116,567	922	12,202	933	29,300	58,704	552
Travel	10,517	83	666	434	59	1,085	30
<b>Total Miscellaneous</b>	<b>533,156</b>	<b>4,510</b>	<b>51,614</b>	<b>4,277</b>	<b>129,609</b>	<b>259,929</b>	<b>2,929</b>
<b>Total Administrative Expenses</b>	<b>\$2,210,792</b>	<b>\$27,983</b>	<b>\$201,471</b>	<b>\$7,150</b>	<b>\$531,758</b>	<b>\$826,936</b>	<b>\$31,455</b>

**SCHEDULE OF ADMINISTRATIVE EXPENSES**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2013**

	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
<b>Personnel Services:</b>							
Salaries	\$ 633,755	\$4,981	\$62,769	\$3,809	\$157,070	\$289,486	\$2,981
Social security	46,887	369	4,645	282	11,629	21,748	221
Retirement	67,025	527	6,565	398	16,144	29,560	312
Insurance	140,363	1,104	13,020	790	31,867	51,287	618
<b>Total Personnel Services</b>	<b>888,030</b>	<b>6,981</b>	<b>86,999</b>	<b>5,279</b>	<b>216,710</b>	<b>392,081</b>	<b>4,132</b>
<b>Professional Services:</b>							
Actuarial	270,344	14,850	12,600	0	0	0	18,300
Audit	20,815	165	2,075	126	5,245	10,490	99
Data processing	79,815	633	6,620	402	15,506	23,033	314
Consulting	115,709	915	10,738	652	29,862	64,700	510
Legal counsel	8,060	64	982	60	2,918	5,434	47
Misc outside services	3,126	25	2,418	146	51,661	2,525	3,100
<b>Total Professional Services</b>	<b>497,869</b>	<b>16,652</b>	<b>35,433</b>	<b>1,386</b>	<b>105,192</b>	<b>106,182</b>	<b>22,370</b>
<b>Communication:</b>							
Postage & mailing svc	55,913	443	5,289	464	12,909	11,738	251
Printing	36,144	286	2,436	232	4,202	3,650	116
Telephone	9,990	79	914	55	1,755	3,108	43
<b>Total Communication</b>	<b>102,047</b>	<b>808</b>	<b>8,639</b>	<b>751</b>	<b>18,866</b>	<b>18,496</b>	<b>410</b>
<b>Rentals:</b>							
Equipment rent	2,064	9	206	12	520	795	10
Office rent	48,305	383	4,713	6	12,172	23,827	229
<b>Total Rentals</b>	<b>50,369</b>	<b>392</b>	<b>4,919</b>	<b>18</b>	<b>12,692</b>	<b>24,622</b>	<b>239</b>
<b>Miscellaneous:</b>							
Depreciation	380,967	3,324	36,784	2,642	95,906	191,812	2,258
Dues and prof development	10,303	82	673	191	613	1,752	31
Insurance	722	6	72	4	173	359	3
Miscellaneous	10,475	44	540	33	1,338	3,229	26
Repairs and maintenance	2,606	28	362	302	665	1,572	14
Supplies	103,988	825	10,348	819	26,589	51,840	491
Travel	11,939	95	850	493	224	3,686	40
<b>Total Miscellaneous</b>	<b>521,000</b>	<b>4,404</b>	<b>49,629</b>	<b>4,484</b>	<b>125,508</b>	<b>254,250</b>	<b>2,863</b>
<b>Total Administrative Expenses</b>	<b>\$2,059,315</b>	<b>\$29,237</b>	<b>\$185,619</b>	<b>\$11,918</b>	<b>\$478,968</b>	<b>\$795,631</b>	<b>\$30,014</b>

**Statement of Appropriations  
For the Year Ended June 30, 2014**

	Approved 2013-2016 Appropriation	2013-2015 Appropriation Adjustments	Adjusted 2013-2015 Appropriation	Expenditures 2014	Unexpended Appropriation
<b>All Fund Types:</b>					
Salaries and wages	\$ 5,016,339	\$ -	\$ 5,016,339	\$ 2,476,257	\$ 2,540,082
Accrued leave payments	103,217	-	103,217	3,845	99,372
Operating expenses	2,280,894	-	2,280,894	1,060,108	1,220,786
Contingency	<u>250,000</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>250,000</u>
	<u>\$ 7,650,450</u>	<u>\$ -</u>	<u>\$ 7,650,450</u>	<u>\$ 3,540,210</u>	<u>\$ 4,110,240</u>

**Reconciliation of Administrative Expenses to Appropriated Expenditures**

Administrative expenses as reflected in the financial statements	<u>2014</u>
Pension trust funds	\$3,837,545
Enterprise funds – Group Insurance	<u>7,027,045</u>
Total administrative expenses	10,864,590
Adjustments:	
Change in accounts payable not charged to appropriation	(72,940)
Accrued salary and benefits	(5,123)
Change in accrued compensated absences	(6,945)
Professional fees and benefits paid pursuant to NDCC 54-52-04(6)	(793,803)
Amortization expense	(1,008,120)
Premium buydown paid from surplus	(5,437,457)
Contribution/premium over & short	<u>8</u>
Total appropriated expenditures	<u>\$ 3,540,210</u>

## SCHEDULE OF INVESTMENT EXPENSES

### Fiduciary Funds

For the Fiscal Year Ended June 30, 2014

	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
<b>Payments to State Investment Board:</b>							
Investment Fees	\$7,924,455	\$231,071	\$238,703	\$ 0	\$ 0	\$ 0	\$304,453
Administrative Expenses	266,635	7,781	0	0	0	0	0
	8,191,090	238,852	238,703	0	0	0	304,453
<b>Payments to Providers:</b>							
Investment Fees (net of plan servicing credits)	0	0	0	13,069	0	(6,173)	0
Total Investment Expenses	\$8,191,090	\$238,852	\$238,703	\$13,069	\$0	\$(6,173)	\$304,453

## SCHEDULE OF INVESTMENT EXPENSES

### Fiduciary Funds

For the Fiscal Year Ended June 30, 2013

	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
<b>Payments to State Investment Board:</b>							
Investment Fees	\$6,465,612	\$191,173	\$197,797	\$0	\$0	\$0	\$242,783
Administrative Expenses	247,515	7,311	0	0	0	0	0
	6,713,127	198,484	197,797	0	0	0	242,783
<b>Payments to Providers:</b>							
Investment Fees (net of plan servicing credits)	0	0	0	13,902	0	(20,007)	0
Total Investment Expenses	\$6,713,127	\$198,484	\$197,797	\$13,902	\$0	\$(20,007)	\$242,783



**SCHEDULE OF CONSULTANT EXPENSES  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2014**

	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
Actuary Fees:							
The Segal Company	302,473	12,600	13,100				19,000
Audit/Accounting Fees:							
Brady, Martz & Associates	17,547	139	1,841	111	4,421	8,843	83
Disability Consulting Fees:							
Mid Dakota Clinic	6,054	46					
IT Consulting							
Sagitec Solutions LLC	125,277	990	13,404	808	31,567	63,134	606
Miscellaneous Consulting Fees:							
Eide Bailly LLP	2,797	21					
The Segal Company	2,978	23		(7,500)	1,520	(1,730)	
Legal Fees:							
ND Attorney General	13,310	105	1,533	1,228	2,881	4,904	1,324
<b>Totals</b>	<b>\$470,436</b>	<b>\$13,924</b>	<b>\$29,878</b>	<b>\$(5,353)</b>	<b>\$40,389</b>	<b>\$75,151</b>	<b>\$21,013</b>

**SCHEDULE OF CONSULTANT EXPENSES  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2013**

	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
Actuary Fees:							
The Segal Company	270,344	14,850	12,600	0	0	0	18,300
Audit/Accounting Fees:							
Brady, Martz & Associates	20,815	165	2,075	126	5,245	10,490	99
Disability Consulting Fees:							
Mid Dakota Clinic	7,989	61	0	0	0	0	0
IT Consulting:							
Sagitec Solutions, LLC	107,719	854	10,738	651	27,143	54,287	510
Miscellaneous Consulting Fees:							
The Segal Company	0	0	0	0	2,719	10,414	0
Legal Fees:							
ND Attorney General	8,060	64	982	60	2,918	5,434	47
<b>Totals</b>	<b>\$414,927</b>	<b>\$15,994</b>	<b>\$26,395</b>	<b>\$837</b>	<b>\$38,025</b>	<b>\$80,625</b>	<b>\$18,956</b>



**INVESTMENT SECTION**

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



**North Dakota Retirement and Investment Office**

*State Investment Board  
Teachers' Fund for Retirement*

1930 Burnt Boat Drive  
P.O. Box 7100  
Bismarck, ND 58507-7100  
Telephone: 701-328-9885  
Toll free: 800-952-2970  
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[www.nd.gov/rio](http://www.nd.gov/rio)

December 2, 2014

Board of Trustees  
Members of the System

This report is a summary of the North Dakota Public Employees Retirement System (PERS) investment portfolios and market environment for the fiscal year ended June 30, 2014.

**ND Retirement and Investment Office**

**Introduction**

For the fiscal year ended June 30, 2014, the North Dakota Public Employees Retirement System (PERS) investment portfolio experienced a net total return of 16.38%. The Job Service Pension Plan experienced a net total return of 13.54% for the same time period. The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon fair values and are subject to independent review.

**Economic Overview as of June 30, 2014**

Equity markets, especially in the U.S., soared in the last half of 2013 and continued to climb through the end of the fiscal year. The regime change at the Fed went smoothly as the new Chair, Janet Yellen, has continued the measured pace of tapering monthly bond purchases from \$85 billion at the start of the year to \$45 billion in June. The Fed has consistently reduced monthly purchases in increments of \$10 billion each meeting and the program is widely expected to be wound down by October. The Fed continues to maintain its zero-interest rate policy with expectations that the federal funds rate will be close to 0% until mid-2015.

The U.S. unemployment rate fell to 6.1% in June from the 7.6% mark at the start of the fiscal year. The job market started to heat up over the last half of the fiscal year with over 233,000 jobs, on average, being added to payrolls during that time. Although many feared high inflation due to quantitative easing, it remained benign through the fiscal year, never topping 2.1%. U.S. GDP grew at a rate of 2.6% during the fiscal year, toward the top end of expectations. However, economic growth was anything but linear as GDP contracted 2.1% on an annualized basis during the first calendar quarter of 2014 then finished the fiscal year by expanding 4.6%. Many economists believe an unusually harsh winter pushed consumer and business purchases from the first quarter into the second, leading to uneven growth. The Eurozone economy has stagnated with annualized GDP growth increasing 0.8% and 0.2% in the first and second calendar quarters of 2014, respectively. Additionally, unemployment ended the fiscal year at 11.6% and consistently low inflation (+0.5%) fueled fears of deflation. Japan's economic growth for the first calendar quarter of 2014 came in at an annualized rate of 6.1%, but contracted in the following quarter by 6.8% as a significant consumption tax increase enacted on April 1 led to a rush of consumer spending before the hike went into effect.

**Domestic Equity Overview**

The fiscal year ended June 30, 2014 brought strong returns across the broad domestic equity market. The S&P 1500 Index, a broad market indicator for the U.S. stock market, finished the fiscal year with a return of +24.70%. Small cap stocks performed better than large cap stocks during the fiscal year. The S&P 600, a gauge of small cap stock performance, outperformed its large cap peer (the S&P 500 Index), +25.54% to +24.61%. Growth stocks held up better than value stocks during fiscal year 2014. The Russell 3000 Value Index advanced 23.71% versus a gain of 26.75% for the Russell 3000 Growth Index.

**International Equity Overview**

Developed International equity markets, as represented by the MSCI EAFE Index, rose in fiscal year 2014. The index returned +23.57% during the fiscal year, besting the +18.62% mark in fiscal year 2013. Value beat growth in the international developed equity space. For the trailing twelve-months ended June 30, 2014, the MSCI EAFE Growth Index gained 20.33% while the MSCI EAFE Value Index was rose 26.86%. Emerging market returns trailed developed market returns in fiscal year 2014 as the MSCI Emerging Markets Index only gained 14.68%. Overall, it was a great year for international stock markets.

**Private Equity**

The private equity market was healthy in fiscal year 2014 as institutional investors placed capital into new programs. According to the Buyouts newsletter, 1,352 transactions closed in the amount of \$115 billion during the 2014 fiscal year. This is a decrease in the total number of transactions from fiscal year 2013 (1,592) and decrease in dollar volume (\$183 billion). Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous.

### Domestic Fixed-Income Overview

The U.S. bond market, as measured by the Barclays Capital Aggregate Bond Index returned 4.37%. The yield curve flattened during the year, boosting longer duration bond prices. The Barclays Capital Government Index rose 2.08% over the fiscal year. The falling yields of long duration bonds boosted the Barclays Capital Government Long Index up 6.44% during the fiscal year. The Barclays Capital Credit Index rose 7.44% for the trailing twelve-months as company balance sheets continued to improve. High yield bonds performed well as the Barclays Capital High Yield Index returned +11.72% for the year ended June 30, 2014.

### International Fixed-Income Overview

International fixed income markets performed well in fiscal year 2014. The Citi non-U.S. World Government Unhedged Index rose 8.88%. Decreasing sovereign yields in Europe pushed the Citi Euro Government Bond Index up 15.06%. The U.S. Dollar depreciated relative to most foreign currencies during the fiscal year, which helped U.S. investors' foreign bond returns. In U.S. Dollar-denominated returns, the Citi non-U.S. World Government Bond Index rose 8.88% for the year ended 6/30/14, but its local currency return – the currency where the investments are actually made – for the Citi non-U.S. World Government Bond Index rose only +6.06%. Emerging Market countries experienced solid returns for fiscal year 2014; the JP Morgan Emerging Markets Bond Plus Index was up 10.73%.

### Real Estate Overview

The NCREIF Property Index, a measure of the private real estate market, gained 11.21% during the 2014 fiscal year. The index was positive in each of the four quarters, extending its positive streak to eighteen (18) straight quarters. The FTSE NAREIT Equity Index, a measure of the public securities real estate market, gained 13.21% during the fiscal year.

### Timber

The timber sector has dipped down in market size over the course of the last twelve months. As of June 30, 2014 the total size of the NCREIF Timberland Property Index was down to \$23 billion, representing a reduction of approximately 13.7 million acres of land. The index, however, was up year over year, returning 9.93% for the twelve months ending June 30, 2014, consisting of a +7.20% appreciation return and a +2.58% income return. The Pacific Northwest continued to be the best performing region by gaining 17.64% for the year ended June 30, 2014. The South remains the largest region, representing \$16 billion in market value and 9.7 million acres of land.

### Infrastructure

By definition, infrastructure assets are essential to the economic health and productivity of civilized society. They include the basic facilities, services, and installations needed for the functioning of a community, such as transit and communications systems; both potable and sewage water lines; and electricity access. They also include such public entities as schools, post offices, and incarceration facilities. Most of these facilities have traditionally been owned and regulated by municipalities and states. The private sector's participation has been limited, to varying degrees, to the areas of design, construction, and operation. Budget and fiscal pressures limit the ability of public authorities to maintain existing infrastructure, much less to build the new facilities required by a growing population. In response to these problems, many municipalities and states have sold or are contemplating the sale of their infrastructure assets to private investor. There is currently no widely-used benchmark for infrastructure investments.

### Summary

Financial markets performed well in fiscal year 2014, fueled by low interest rates and unconventional measures adopted by monetary policymakers in the major developed markets in an effort to stimulate economic growth. Both the pension and insurance pools delivered favorable results on both an absolute and relative basis. Performance was favorably impacted by exposure to such asset classes as developed country equities, credit-related fixed income, private real estate and infrastructure.

Going forward, the State Investment Board and Staff will continue to monitor and align client investment portfolios entrusted to them in a sound fiduciary manner based on their respective investment objectives and constraints. At the same time, investment initiatives will be undertaken to further optimize the investment program of the PERS pension in the future.

Sincerely,



DARREN SCHULZ, CFA  
Deputy Chief Investment Officer



DAVID HUNTER  
Executive Director/Chief Investment Officer

## 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 Board acknowledges the material impact that funding the pension plan has on the State's financial performance. To enable the State to continue offering secure pension benefits to plan participants, the Board believes that the Fund should pursue the following secondary goals:

- Stabilize the employee and employer contributions needed to fund the Plan over the long term.
- Avoid both substantial volatility in contributions and sizable fluctuations in the funding status of the plan.

The investment performance objectives for the PERS, HPRS, Job Service and RHIC plans are:

- The fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
- The fund's risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.
- The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

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.

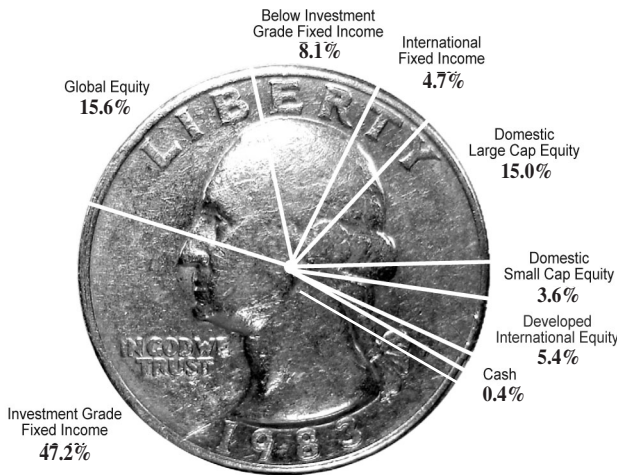
The investment goals for the Retiree Health Insurance Credit Plan are:

- 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.
- 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.

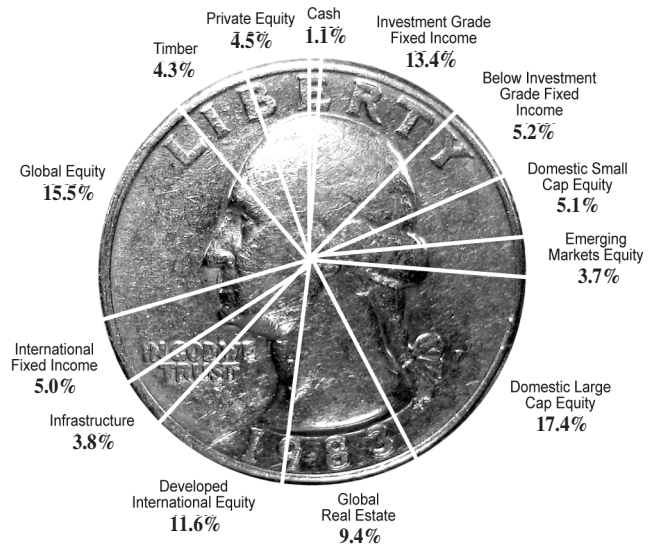
## INVESTMENT SUMMARIES

### Job Service Retirement Plan Asset Allocation – June 30, 2014



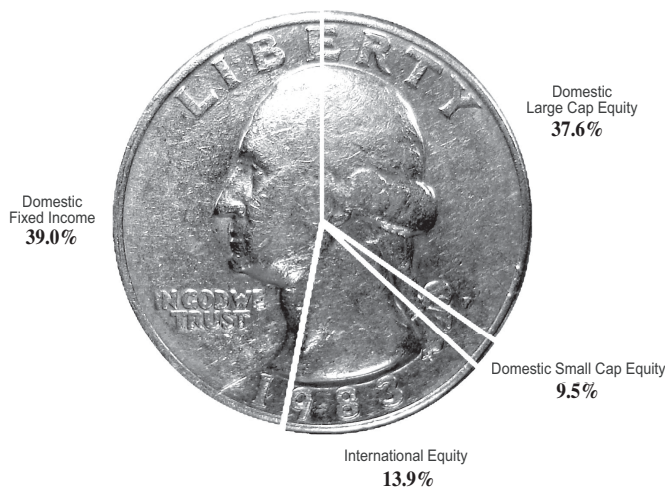
Asset Class	Market Value	Actual %	Policy %
Global Equity	\$ 15,275,286	15.6%	16.0%
Domestic Large Cap Equity	14,642,700	15.0%	15.0%
Domestic Small Cap Equity	3,499,115	3.6%	3.6%
Developed International Equity	5,269,166	5.4%	5.4%
Investment Grade Fixed Income	46,086,272	47.2%	47.0%
Below Investment Grade Fixed Income	7,944,844	8.1%	8.0%
International Fixed Income	4,624,320	4.7%	5.0%
Cash & Equivalents	387,369	0.4%	0.0%
<b>Total</b>	<b>\$ 97,729,072</b>	<b>100.0%</b>	<b>100.0%</b>

### Public Employees and Highway Patrolmen's Retirement Systems Asset Allocation – June 30, 2014



Asset Class	Market Value	Actual %	Policy %
Global Equity	\$ 360,603,557	15.5%	16.0%
Domestic Large Cap Equity	405,255,028	17.4%	16.6%
Domestic Small Cap Equity	119,445,765	5.1%	4.8%
Developed International Equity	269,370,970	11.6%	11.1%
Emerging Markets Equity	85,511,628	3.7%	3.5%
Private Equity	106,067,699	4.5%	5.0%
Investment Grade Fixed Income	311,296,751	13.4%	12.0%
Below Investment Grade Fixed Income	122,005,483	5.2%	5.0%
International Fixed Income	115,548,512	5.0%	5.0%
Global Real Estate	218,557,273	9.4%	10.0%
Timber	99,343,476	4.3%	5.0%
Infrastructure	89,688,092	3.8%	5.0%
Cash & Equivalents	26,700,028	1.1%	1.0%
<b>Total</b>	<b>\$2,329,394,262</b>	<b>100.0%</b>	<b>100.0%</b>

### Retiree Health Insurance Credit Program Asset Allocation – June 30, 2014



Asset Class	Market Value	Actual %	Policy %
Domestic Large Cap Equity	\$ 33,989,037	37.6%	37.0%
Domestic Small Cap Equity	8,589,258	9.5%	9.0%
International Equity	12,534,457	13.9%	13.0%
Domestic Fixed Income	35,162,409	39.0%	40.0%
<b>Total</b>	<b>\$ 90,275,161</b>	<b>100.0%</b>	<b>100.0%</b>

**Public Employees and Highway Patrolmen's Retirement Systems (PERS) and Job Service Retirement Plan  
Schedule of Investment Results<sup>(1)</sup>  
For the Five Years Ended June 30, 2014**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	Annualized	
						<u>3 Year</u>	<u>5 Year</u>
Total Fund (PERS)	13.67%	21.43%	0.06%	13.50%	16.38%	9.66%	12.70%
Total Fund (Job Service)	13.61%	16.39%	3.10%	11.71%	13.54%	9.35%	11.58%
CPI	1.36%	4.06%	1.58%	1.75%	2.04%	1.79%	2.15%
Global Equity <sup>(2)</sup>	-	-	NA	17.06%	23.25%	NA	NA
MSCI World	-	-	NA	18.58%	24.05%	NA	NA
Large Cap Domestic Equities	18.99%	30.58%	3.68%	23.13%	25.21%	16.94%	19.98%
Russell 1000 (S&P 500 prior to 7/1/2011)	14.43%	30.69%	5.34%	21.24%	25.35%	16.99%	19.08%
Small Cap Domestic Equities	36.20%	36.07%	0.23%	26.86%	24.73%	16.52%	24.15%
Russell 2000	21.48%	37.41%	-2.08%	24.21%	23.64%	14.57%	20.21%
Developed International Equities	13.37%	31.20%	-14.72%	20.94%	26.19%	8.92%	14.06%
MSCI EAFE (50% Hedged MSCI EAFE thru 3/31/11)	8.47%	23.57%	-13.83%	18.62%	23.57%	8.10%	11.11%
Emerging Markets Equities	23.20%	27.93%	-9.21%	4.55%	12.58%	2.32%	11.03%
MSCI Emerging Markets Net (MSCI EM Gross prior to 7/1/2011)	23.48%	28.17%	-15.94%	2.87%	14.31%	-0.39%	9.24%
Private Equity <sup>(3)</sup>	19.06%	14.99%	14.99%	6.69%	4.07%	5.23%	9.84%
Investment Grade Fixed Income	6.31%	6.15%	6.24%	5.13%	5.64%	5.66%	8.40%
Barclays Aggregate	9.50%	3.90%	7.47%	-0.69%	4.37%	3.66%	4.85%
Below Investment Grade Fixed Income	31.79%	18.22%	3.46%	14.10%	13.51%	10.24%	15.86%
Barclays High Yield Corp 2% Issuer Cap	26.66%	15.53%	7.21%	9.49%	11.72%	9.46%	13.92%
International Fixed Income	9.17%	15.79%	4.62%	0.83%	8.58%	4.63%	7.68%
BC Global Aggregate ex US (Citigroup Non-US Gov't. Bond Index thru 12/31/09)	0.78%	15.39%	-0.33%	-3.40%	9.42%	1.75%	4.15%
Global Real Estate	-11.79%	24.11%	12.97%	11.05%	16.77%	13.56%	9.91%
NCREIF Total	-1.48%	16.73%	12.04%	10.72%	11.21%	11.32%	9.67%
Timber <sup>(2)</sup>	-	-	NA	0.58%	2.62%	NA	NA
NCREIF Timber	-	-	NA	9.37%	9.92%	NA	NA
Infrastructure <sup>(2)</sup>	-	-	NA	12.33%	9.50%	NA	NA
CPI	-	-	NA	1.75%	2.04%	NA	NA
Cash	0.29%	0.17%	0.13%	0.10%	0.04%	0.06%	0.14%
90 Day T-bills	0.16%	0.16%	0.06%	0.11%	0.05%	0.07%	0.11%

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

<sup>(2)</sup> This asset class has less than the indicated years under management due to the addition of this asset class during fiscal year 2012.

<sup>(3)</sup> It has been determined that there is no benchmark that is an accurate reflection of the System's investments in this asset class.

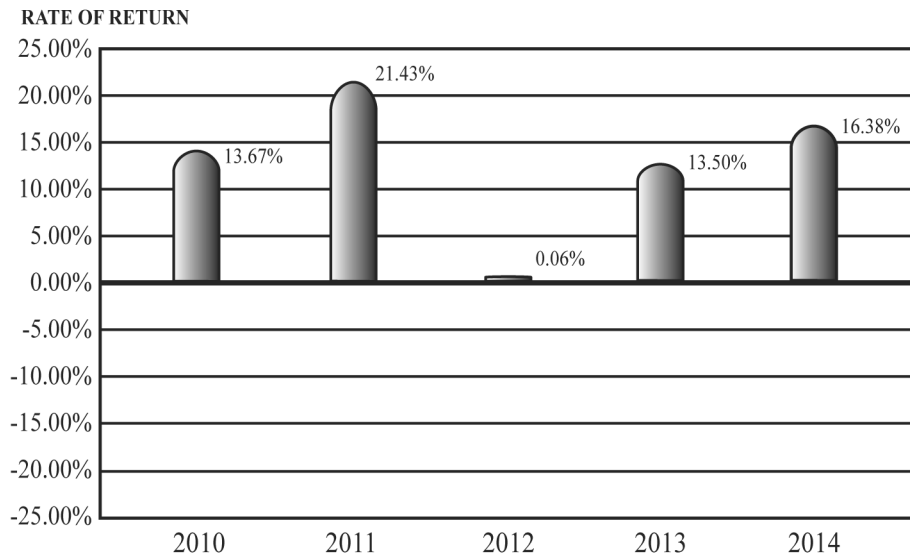
**Retiree Health Insurance Credit Plan**  
**Schedule of Investment Results<sup>(1)</sup>**  
**For the Five Years Ended June 30, 2014**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	Annualized	
						<u>3 Year</u>	<u>5 Year</u>
Total Fund	16.86%	21.65%	2.62%	14.80%	16.53%	11.14%	14.31%
Large Cap Domestic Equity	17.62%	31.56%	4.35%	22.50%	24.89%	16.74%	19.71%
Russell 1000	15.23%	31.94%	4.37%	21.24%	25.35%	16.63%	19.25%
Small Cap Domestic Equity	34.33%	34.55%	-3.55%	24.63%	23.77%	14.03%	21.75%
Russell 2000	21.49%	37.41%	-2.08%	24.21%	23.64%	14.57%	20.21%
International Equity	13.30%	31.42%	-13.43%	20.87%	21.43%	8.18%	13.42%
MSCI EAFE	8.15%	30.36%	-13.83%	18.62%	23.57%	8.10%	12.23%
Core Plus Fixed Income	16.90%	7.88%	8.68%	4.16%	5.73%	6.05%	8.83%
Barclays Aggregate	9.50%	3.90%	7.47%	-0.69%	4.37%	3.66%	4.85%

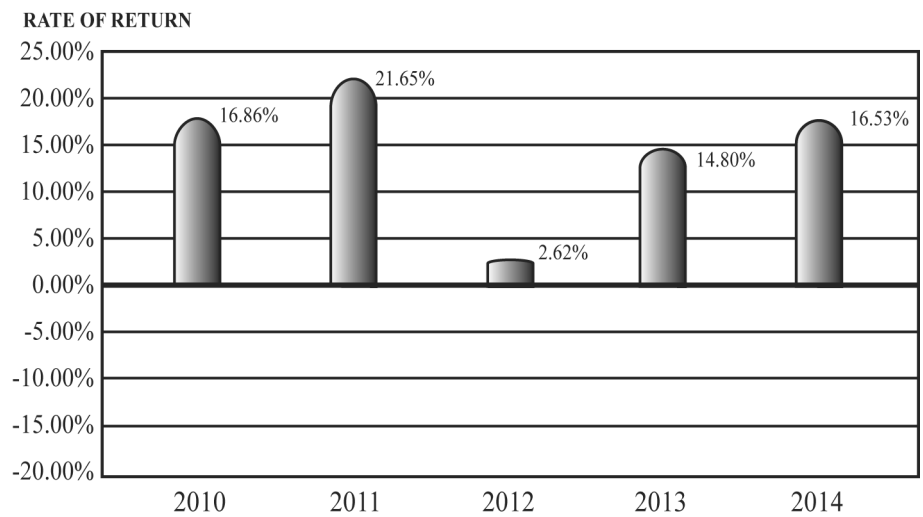
<sup>(1)</sup>The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values.



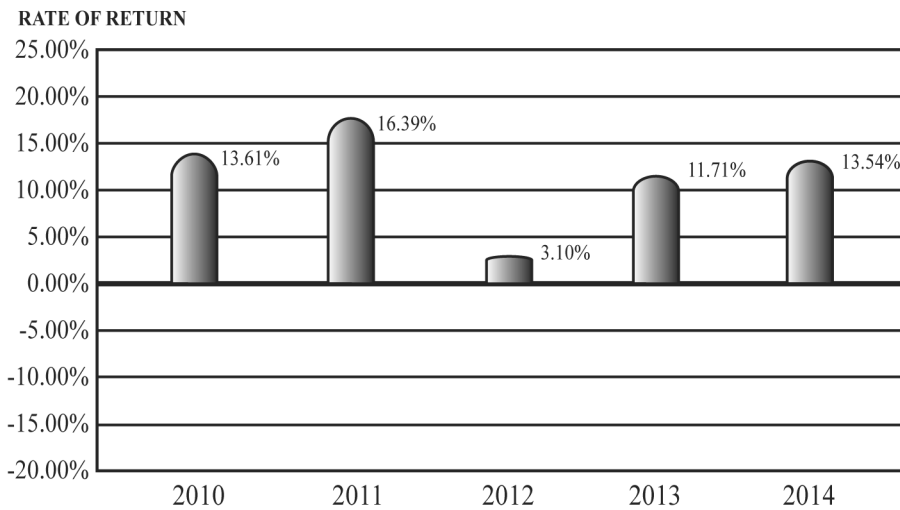
### Public Employees and Highway Patrolmen's Retirement Systems Investment Results



### Retiree Health Insurance Credit Program Investment Results



### Job Service Retirement Plan Investment Results



#### Largest Holdings By Market Value at June 30, 2013

##### Stocks

	Fair Value
Aetna, Inc.	\$ 6,983,342.66
Anheuser-Busch Inbev NV	6,243,189.70
Apple Inc Com Stk	11,792,181.73
Boeing Co Com	7,568,770.88
CVS Health Corp Com	9,277,902.46
Exxon Mobile Corp Com	6,125,164.43
Microsoft Corp Com	12,657,207.22
Occidental Petroleum Corp	6,679,800.14
Oracle Corp Com	8,579,740.02
UnitedHealth Group Inc Com	6,375,655.34

##### Bonds

	Fair Value
Federal Home Ln Mtg Corp Pool #G1-8512 3% 05-01-2029 BEO	\$ 16,454,090.06
United States Treas NTS DTD 05/15/2004 2.5% Due 05-15-2024 REG	6,789,498.45
FNMA Pool #AP8746 3% 10-01-2042 BEO	5,717,166.80
FNMA Single Family Mortgage 2.5% 15 Years Settles July	5,667,973.17
GNMA II Jumbos 4 30 Years Settles July	4,967,787.66
FNMA Single Family Mortgage 3% 15 Years Settles July	4,091,391.72
Italy (Rep of) 5% BDS 01/08/39 EUR 1000	4,235,411.65
GNMA II Jumbos 3.5 30 Years Settles Aug	3,896,863.64
GNMA II Jumbos 3.5 30 Years Settles July	3,565,510.05
GNMA II Jumbos 3% 30 Years Settles July	3,549,723.67

A complete list of all holdings is available upon request.

**LARGEST  
HOLDINGS  
JUNE 30, 2014**

**INVESTMENT  
FEES**
**Public Employees and Highway Patrolmen's Retirement System  
Schedule of Investment Fees**
**For the Fiscal Year Ended June 30, 2014**

	<u>Assets Under Management</u>	<u>Fees</u>
<b>Investment Managers' Fees:</b>		
Global Equity	\$361 Million	\$2,955,213
Large Cap Domestic Equities	\$405 Million	1,147,029
Small Cap Domestic Equities	\$119 Million	634,024
Developed International Equities	\$269 Million	870,056
Emerging Markets Equities	\$ 86 Million	345,776
Investment Grade Fixed Income	\$311 Million	1,801,790
Below Investment Grade Fixed Income	\$122 Million	829,449
International Fixed Income	\$116 Million	379,087
Global Real Estate	\$219 Million	2,089,297
Private Equity	\$106 Million	2,652,948
Timber	\$ 99 Million	376,571
Infrastructure	\$ 90 Million	751,175
Cash	\$ 27 Million	35,935
Total Investment Managers' Fees <sup>(1)</sup>		<u>\$14,868,351</u>
<b>Other Investment Service Fees:</b>		
Custodian Fees	\$ 2.3 Billion	\$ 322,750
Investment Consultant Fees	\$ 2.3 Billion	191,403
SIB Administrative Fees	\$ 2.3 Billion	274,416
Total Investment Service Fees		<u>\$ 788,569</u>

<sup>(1)</sup>Includes fees of \$7,226,978 which were netted against investment income.

**Job Service Retirement Plan  
Schedule of Investment Fees**
**For the Fiscal Year Ended June 30, 2014**

	<u>Assets Under Management</u>	<u>Fees</u>
<b>Investment Managers' Fees:</b>		
Global Equity	\$15 Million	\$ 125,404
Large Cap Domestic Equities	\$15 Million	43,370
Small Cap Domestic Equities	\$ 3 Million	18,690
Developed International Equities	\$ 5 Million	17,948
Investment Grade Fixed Income	\$46 Million	289,943
Below Investment Grade Fixed Income	\$ 8 Million	55,686
International Fixed Income	\$ 5 Million	15,554
Cash	\$0.5 Million	74
Total Investment Managers' Fees <sup>(1)</sup>		<u>\$ 566,669</u>
<b>Other Investment Service Fees:</b>		
Custodian Fees	\$98 Million	\$ 13,383
Investment Consultant Fees	\$98 Million	6,762
SIB Administrative Fees	\$98 Million	10,299
Total Investment Service Fees		<u>\$ 30,444</u>

<sup>(1)</sup>Includes fees of \$292,660 which were netted against investment income.

**Retiree Health Insurance Credit Plan  
Schedule of Investment Fees**
**For the Fiscal Year Ended June 30, 2014**

	<u>Assets Under Management</u>	<u>Fees</u>
Investment Manager's Fees	\$90 Million	\$ 352,919
Custodian Fees	\$90 Million	2,620
SIB Administrative Fees	\$90 Million	8,353
Total Investment Service Fees		<u>\$ 363,892</u>

<sup>(1)</sup>Includes fees of \$125,189 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

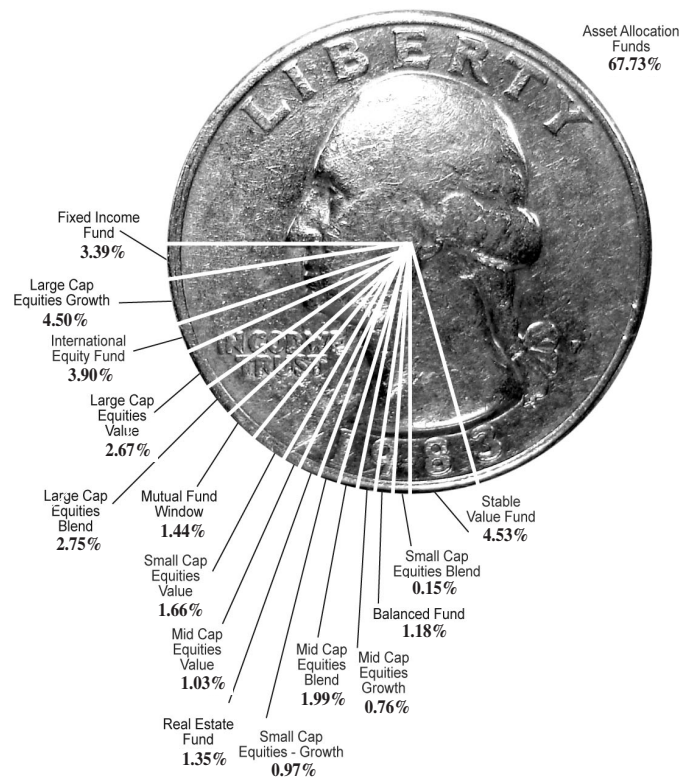
The Defined Contribution Retirement Plan (Plan) is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. Each participating member shall direct the investment of the individual's accumulated employer and employee contributions and earnings 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. TIAA-CREF is 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, 2014



<u>Investment Options</u>	<u>Market Value</u>	<u>Percent</u>
Stable Value Fund	\$ 1,503,186	4.53%
Fixed Income Fund	1,122,688	3.39%
Balanced Fund	391,509	1.18%
Real Estate Fund	446,916	1.35%
Large Cap Equities - Value	885,384	2.67%
Large Cap Equities - Blend	910,440	2.75%
Large Cap Equities - Growth	1,491,482	4.50%
Mid Cap Equities - Value	342,184	1.03%
Mid Cap Equities - Blend	660,344	1.99%
Mid Cap Equities - Growth	252,135	0.76%
Small Cap Equities - Value	552,160	1.66%
Small Cap Equities - Blend	50,781	0.15%
Small Cap Equities - Growth	320,118	0.97%
International Equity Fund	1,291,315	3.90%
Asset Allocation Funds	22,454,514	67.73%
Mutual Fund Window	476,157	1.44%
<b>Total</b>	<b>\$33,151,313</b>	<b>100.00%</b>

## Defined Contribution Retirement Plan – Schedule of Investment Results

For the Five Years Ended June 30, 2014

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>3-year annualized</u>	<u>5-year annualized</u>
<b>Stable Value Fund / Money Market Fund:</b>							
Fidelity Managed Income Portfolio (2)	1.16%	1.34%	N/A	N/A	N/A	N/A	N/A
GIC 5 year index (2)	0.86%	0.92%	N/A	N/A	N/A	N/A	N/A
Vanguard Prime Money Market (2)	N/A	N/A	0.03%	0.02%	0.02%	0.03%	0.05%
Wells Fargo Stable Fund (2)	N/A	N/A	1.39%	1.09%	0.70%	1.06%	1.49%
3 Month T-Bill Index (2)	N/A	N/A	0.39%	0.08%	0.04%	0.05%	0.08%
<b>Fixed Income Fund:</b>							
PIMCO Total Return Bond Fund	13.03%	5.67%	6.69%	0.95%	4.62%	4.06%	6.12%
Pimco Real Return Admin (2)	N/A	N/A	11.52%	-5.13%	5.27%	3.65%	6.27%
Barclays Aggregate Bond Index	9.50%	3.90%	7.47%	-0.69%	4.37%	3.66%	4.85%
Taxable Bond Fund Universe (2)	N/A	N/A	5.30%	2.21%	5.47%	4.28%	6.73%
Prudential High Yield Z (2)	N/A	N/A	7.11%	8.75%	11.63%	9.15%	13.42%
ML High Yield Bond Fund Index (2)	N/A	N/A	6.49%	9.55%	11.84%	9.27%	13.94%
High Yield Bond Fund Universe (2)	N/A	N/A	5.14%	9.04%	10.50%	8.17%	12.52%
Templeton Global Bond Adv (2)	N/A	N/A	-0.86%	7.95%	7.41%	4.76%	8.42%
Citi World Govt Bond Index (2)	N/A	N/A	2.68%	-4.50%	6.85%	1.57%	3.60%
World Bond Fund Universe (2)	N/A	N/A	2.23%	0.15%	6.93%	3.38%	5.94%
<b>Real Estate Fund:</b>							
Cohen & Steers Realty Shares (2)	N/A	N/A	8.79%	8.06%	14.14%	10.30%	22.76%
FTSE NAREIT All Equity REITs Index (2)	N/A	N/A	12.48%	10.21%	13.02%	11.89%	23.65%
Real Estate Fund Universe (2)	N/A	N/A	5.42%	7.75%	13.87%	10.39%	22.41%
<b>Balanced Fund:</b>							
Fidelity Puritan (2)	15.85%	22.28%	N/A	N/A	N/A	N/A	N/A
T.Rowe Price Capital Appreciation (2)	N/A	N/A	4.01%	17.89%	18.45%	13.25%	15.23%
T.Rowe Price Capital Appreciation (2)	14.34%	19.04%	N/A	N/A	N/A	N/A	N/A
60% Large Cap Value Univ & 40% Taxable Bond Universe (2)	N/A	N/A	2.42%	14.70%	15.59%	10.47%	13.05%
60% Russell 1000 Value & 40% Agg Bond Index (2)	N/A	N/A	4.79%	14.92%	16.03%	11.62%	13.48%
<b>Large Cap Equities-Value:</b>							
Fidelity Equity-Income (2)	15.41%	29.57%	N/A	N/A	N/A	N/A	N/A
Franklin Mutual Shares A (2)	15.85%	23.25%	N/A	N/A	N/A	N/A	N/A
Hartford Dividend & Growth (2)	N/A	N/A	2.88%	21.49%	23.40%	15.54%	17.30%
T.Rowe Price Equity Income (2)	N/A	N/A	2.64%	23.66%	20.66%	15.27%	18.06%
Large Cap Value Fund Universe (2)	N/A	N/A	0.50%	23.02%	23.81%	16.92%	19.23%
Russell 1000 Value Index	16.92%	35.01%	3.01%	25.32%	22.33%	14.60%	17.27%
<b>Large Cap Equities-Blend:</b>							
Fidelity Spartan US Equity Index (2)	14.37%	30.59%	N/A	N/A	N/A	N/A	N/A
Fidelity Dividend Growth (2)	19.95%	35.57%	N/A	N/A	N/A	N/A	N/A
Vanguard 500 Index Signal (2)	N/A	N/A	5.42%	20.55%	24.55%	16.54%	18.81%
Vanguard Dividend Growth Fund	N/A	N/A	-12.27%	19.65%	19.39%	15.38%	17.33%
Large Cap Blend Fund Universe (2)	N/A	N/A	0.94%	20.83%	23.83%	15.82%	18.08%
S&P 500 Index	14.43%	30.69%	5.45%	20.60%	23.74%	14.62%	17.52%
<b>Large Cap Equities-Growth:</b>							
Fidelity Growth Company (2)	17.29%	41.56%	N/A	N/A	N/A	N/A	N/A
Wells Fargo Adv Growth Adm (2)	N/A	N/A	5.31%	14.40%	22.03%	13.71%	22.45%
Russell 3000 Growth Index	13.95%	35.68%	5.05%	17.56%	26.75%	16.11%	19.34%
Fidelity Blue Chip Growth (2)	21.25%	37.16%	N/A	N/A	N/A	N/A	N/A
Franklin Growth Adv (2)	N/A	N/A	2.30%	16.27%	26.71%	14.65%	18.49%
Russell 1000 Growth Index	13.62%	35.01%	5.76%	17.07%	26.92%	16.26%	19.24%
Large Cap Growth Fund Universe (2)	N/A	N/A	0.81%	17.23%	26.38%	14.21%	17.81%
<b>Mid Cap Equities - Value</b>							
Goldman Sachs Mid Cap Value (2)	22.02%	36.32%	N/A	N/A	N/A	N/A	N/A
RidgeWorth Mid Cap Value Equity I (2)	N/A	N/A	-5.67%	27.45%	27.99%	15.45%	22.17%
Mid Cap Value Fund Universe (2)	N/A	N/A	-3.42%	26.71%	27.76%	17.56%	22.97%
Russell Mid Cap Value	28.91%	34.28%	-0.37%	27.65%	25.21%	15.04%	20.39%
<b>Mid Cap Equities-Blend:</b>							
Dreyfus Mid Cap Index (2)	24.29%	38.82%	N/A	N/A	N/A	N/A	N/A
Columbia Mid Cap Index A (2)	N/A	N/A	-2.66%	24.54%	24.68%	14.77%	21.13%
S&P Mid Cap 400	24.93%	39.38%	-2.33%	25.18%	25.24%	15.26%	21.67%
Fidelity Spartan Extended Market Index (2)	24.22%	39.22%	N/A	N/A	N/A	N/A	N/A
ASTON/Fairpointe Mid Cap I (2)	N/A	N/A	-3.91%	34.07%	30.65%	18.95%	25.38%
Mid Cap Blend Fund Universe (2)	N/A	N/A	-5.10%	25.06%	27.63%	15.92%	21.77%
Wilshire 4500 Index	23.68%	38.97%	-2.53%	25.22%	24.42%	13.85%	19.71%
<b>Mid Cap Equities-Growth:</b>							
Fidelity Mid Cap Stock (2)	26.06%	37.48%	N/A	N/A	N/A	N/A	N/A
Prudential Jennison Mid Cap Growth Z (2)	N/A	N/A	3.58%	14.78%	21.52%	13.05%	18.68%
Mid Cap Growth Fund Universe (2)	N/A	N/A	-4.31%	19.79%	26.04%	14.54%	21.16%
Russell Mid Cap Growth	21.30%	43.25%	-2.99%	22.88%	23.59%	12.34%	19.07%
<b>Small Cap Equities-Value:</b>							
Allianz NFJ Small Cap Value	24.75%	32.54%	-3.36%	22.30%	24.55%	13.76%	19.47%
Small Value Fund Universe (2)	N/A	N/A	-2.74%	25.62%	22.54%	14.65%	19.88%
Russell 2000 Value Index	25.07%	31.35%	-1.44%	24.76%	23.23%	14.34%	19.91%
<b>Small Cap Equities - Blend</b>							
Dreyfus Small Cap Index (2)	23.22%	36.83%	N/A	N/A	N/A	N/A	N/A
Russell 2000 Small Cap Index (2)	21.48%	37.41%	N/A	N/A	N/A	N/A	N/A

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>3-year annualized</u>	<u>5-year annualized</u>
Parnassus Small Cap (2)	N/A	N/A	-7.71%	17.52%	20.99%	9.48%	17.80%
Russell 2000 Index (2)	21.48%	37.41%	-2.08%	24.21%	23.64%	14.57%	20.21%
Small Blend Fund Universe (2)	N/A	N/A	-3.71%	24.56%	23.48%	14.07%	19.74%
Small Cap Equities-Growth:							
MSI Small Co Growth B (2)	15.10%	38.55%	N/A	N/A	N/A	N/A	N/A
Brown Capital Mgmt Small Co Inv (2)	N/A	N/A	-2.82%	23.89%	27.08%	15.23%	21.64%
Small Growth Fund Universe (2)	N/A	N/A	-5.09%	22.25%	24.73%	14.49%	20.50%
Russell 2000 Growth Index	17.96%	43.50%	-2.71%	23.67%	22.04%	12.57%	19.90%
International Equity Funds:							
Fidelity Diversified International (2)	5.58%	30.50%	N/A	N/A	N/A	N/A	N/A
Fidelity Spartan International Index (2)	4.73%	39.22%	N/A	N/A	N/A	N/A	N/A
Mutual Global Discovery Z (2)	N/A	N/A	-2.96%	19.67%	20.95%	11.99%	13.12%
Vanguard Total Intl Stock Index Inv (2)	N/A	N/A	-14.64%	13.58%	22.44%	5.88%	N/A
MSCI EAFE	6.02%	30.49%	-13.83%	18.62%	23.16%	8.17%	11.61%
International Stock Fund Universe (2)	N/A	N/A	-12.88%	14.89%	20.11%	6.75%	11.92%
Oppenheimer Developing Markets Y (2)	N/A	N/A	-9.98%	7.87%	19.75%	5.16%	14.07%
MSCI Emerging Markets Index (2)	N/A	N/A	-15.95%	2.87%	14.31%	-0.39%	9.24%
Diversified Emerging Mkts Universe (2)	N/A	N/A	-16.10%	4.45%	14.05%	-0.14%	8.86%
Asset Allocation Funds:							
Fidelity Freedom Income (2)	10.86%	9.49%	N/A	N/A	N/A	N/A	N/A
TIAA-CREF Lifecycle Ret Income (2)	N/A	N/A	3.58%	7.64%	12.02%	7.69%	9.80%
Income benchmark(1)	7.63%	7.59%	3.48%	8.88%	12.12%	7.47%	9.37%
Fidelity Freedom 2000 (2)	11.09%	10.07%	N/A	N/A	N/A	N/A	N/A
2000 benchmark(1) (2)	7.81%	7.92%	N/A	N/A	N/A	N/A	N/A
Fidelity Freedom 2005 (2)	13.10%	16.17%	N/A	N/A	N/A	N/A	N/A
2005 benchmark(1) (2)	10.96%	14.51%	N/A	N/A	N/A	N/A	N/A
Fidelity Freedom 2010 (2)	13.33%	18.53%	N/A	N/A	N/A	N/A	N/A
TIAA-CREF Lifecycle 2010 (2)	N/A	N/A	2.69%	9.07%	13.43%	8.31%	10.97%
2010 benchmark(1)	11.33%	16.90%	3.10%	10.08%	13.69%	8.32%	10.40%
Fidelity Freedom 2015 (2)	13.60%	18.93%	N/A	N/A	N/A	N/A	N/A
TIAA-CREF Lifecycle 2015 (2)	N/A	N/A	1.91%	10.39%	14.66%	8.86%	11.80%
2015 benchmark(1)	11.67%	17.35%	2.72%	11.22%	15.06%	9.06%	11.30%
Fidelity Freedom 2020 (2)	14.65%	21.91%	N/A	N/A	N/A	N/A	N/A
TIAA-CREF Lifecycle 2020 (2)	N/A	N/A	1.06%	12.08%	16.20%	8.59%	12.73%
2020 benchmark(1)	13.19%	20.44%	2.25%	12.69%	16.83%	10.01%	12.45%
Fidelity Freedom 2025	14.42%	24.21%	N/A	N/A	N/A	N/A	N/A
Fidelity Freedom 2025 (2)	N/A	N/A	0.17%	13.86%	17.79%	10.34%	13.67%
TIAA-CREF Lifecycle 2025 (2)	13.50%	23.05%	1.77%	14.17%	18.57%	10.95%	13.59%
2025 benchmark(1)	14.72%	25.43%	N/A	N/A	N/A	N/A	N/A
Fidelity Freedom 2030 (2)	14.72%	25.43%	N/A	N/A	N/A	N/A	N/A
TIAA-CREF Lifecycle 2030 (2)	N/A	N/A	-0.83%	15.48%	19.33%	10.97%	14.55%
2030 benchmark(1)	13.86%	24.50%	1.20%	15.74%	19.82%	11.51%	14.13%
Fidelity Freedom 2035 (2)	14.24%	27.11%	N/A	N/A	N/A	N/A	N/A
TIAA-CREF Lifecycle 2035 (2)	N/A	N/A	-1.83%	17.06%	20.74%	11.54%	15.31%
2035 benchmark(1)	14.05%	26.73%	0.56%	17.43%	21.42%	12.33%	15.09%
Fidelity Freedom 2040 (2)	14.40%	27.62%	N/A	N/A	N/A	N/A	N/A
TIAA-CREF Lifecycle 2040 (2)	N/A	N/A	-1.88%	17.77%	21.72%	12.04%	15.65%
2040 benchmark(1)	14.33%	27.05%	0.31%	17.77%	22.37%	12.81%	15.65%
Fidelity Freedom 2045 (2)	14.45%	28.11%	N/A	N/A	N/A	N/A	N/A
TIAA-CREF Lifecycle 2045 (2)	N/A	N/A	-1.93%	17.90%	21.52%	12.01%	15.57%
2045 benchmark(1)	14.33%	27.47%	0.31%	18.36%	22.38%	12.81%	15.66%
Fidelity Freedom 2050 (2)	14.30%	29.14%	N/A	N/A	N/A	N/A	N/A
TIAA-CREF Lifecycle 2050 (2)	N/A	N/A	-1.84%	17.76%	21.63%	12.02%	15.61%
2050 benchmark(1)	14.35%	28.76%	0.31%	18.36%	22.38%	12.80%	15.65%
TIAA-CREF Lifecycle 2055 (2)	N/A	N/A	-1.77%	17.87%	21.53%	12.06%	N/A
2055 Benchmark (1) (2)	N/A	N/A	0.31%	18.36%	22.38%	12.80%	15.65%

All fund returns are reported net of fees

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

<sup>(2)</sup> This investment option/benchmark is showing less than the indicated years of returns due to the replacement of funds when the recordkeeper changed during FY 2012.

Vertical line



# ACTUARIAL SECTION



**COMMENTS  
FROM THE  
SEGAL  
COMPANY**

**PUBLIC  
EMPLOYEES  
RETIREMENT  
SYSTEM**



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November 17, 2014

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, 2014

Dear Members of the Board:

The North Dakota Public Employees Retirement System is a funded retirement plan. One of the Retirement System's basic funding objectives 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. 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, 2014 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2014 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2014 (obtained from the Retirement System's draft 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 and 67, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The actuarial assumptions used for both funding and financial (GASB) purposes are the same and are summarized in the July 1, 2014 actuarial valuation.

**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 funding method for financial (GASB) purposes is a variation of the entry age cost method. The liabilities under the method for funding and the variation for financial purposes are very similar.

The North Dakota Public Employees Retirement System had an unfunded accrued actuarial liability of about \$1.0 billion as of July 1, 2014.

#### Calculated and Statutory Approved Contribution Rates

The July 1, 2014 actuarial valuation of the North Dakota Public Employees Retirement System indicates the following contribution requirements:

<u>PERS Plan</u>	2014-2015	Statutory/Approved	Statutory
	Actuarial Required <u>Contribution Rate</u> <sup>1</sup>	Employer <u>Contribution Rate</u>	Member <u>Contribution Rate</u>
Main System	11.06%	7.12%	7.00%
Judges	14.80%	17.52%	8.00%
National Guard	8.14%	7.00%	4.50%
Law Enforcement with prior Main service	9.52%	9.81% <sup>2</sup>	5.50% <sup>3</sup>
Law Enforcement without prior Main service	7.42%	7.93%	5.50%

<sup>1</sup>The employer contribution rate for the Main System and Judges are set in Statute, while the employer rate for National Guard and Law Enforcement are approved by the NDPERS Board. The rates are expressed as a percentage of covered payroll.

<sup>2</sup>The employer contribution rate is 9.81% for the members other than BCI. For BCI, the employer contribution rate is 10.31%.

<sup>3</sup>The member contribution rate for members other than BCI is 5.50%. For BCI, the member contribution rate is 6.00%.

#### Exhibits

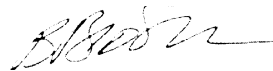
The enclosed supporting exhibits, prepared by Segal Consulting (Segal), provide further related information regarding the 2014 valuation. Specifically these exhibits are:

- 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 Consulting 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, FCA, EA  
Vice President and Consulting Actuary



Tammy F. Dixon, FSA, MAAA, EA  
Vice President and Actuary



Laura L. Mitchell, MAAA, EA  
Vice President and Consulting Actuary

**ACTUARIAL  
VALUATION  
CERTIFICATE**

**NORTH DAKOTA  
PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**NOVEMBER 17, 2014**

*Actuarial Valuation Certificate*

*This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2014 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.*

*To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Certain assumptions, including interest rates, mortality tables and others identified in this report are prescribed by the Board and, in our opinion, are reasonably related to the experience of and the expectations for the Plan. The Board is also responsible for selecting the scheduled contribution, actuarial cost method and asset valuation method.*

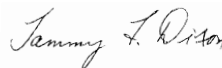
*We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.*



*Brad Ramirez, FSA, MAAA, FCA, EA  
Vice President and Consulting Actuary*



*Laura L. Mitchell, MAAA, EA  
Vice President and Consulting Actuary*



*Tammy F. Dixon, FSA, MAAA, EA  
Vice President and Actuary*

**Actuarial Assumptions and Cost Method – Public Employees Retirement System**  
(Adopted July 1, 2010)

**Mortality Tables**

Healthy: The RP-2000 Combined Healthy Mortality Table, set back three years.  
Disabled: The RP-2000 Disabled Retiree Mortality Table, set back one year for males (not set back for females).

These mortality tables were determined to contain approximately a 10% margin for future mortality improvement, based on a review of mortality experience in 2010.

**Disability Incidence Rates**

Before Age 65:  
Males: 33% of OASDI disability incidence rates.  
Females: 20% of OASDI disability incidence rates.  
Age 65 and Later: .25% per year

Sample rates are as follows:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	0.02%	0.01%
30	0.04	0.02
40	0.07	0.04
50	0.20	0.12
60	0.54	0.33

**Annual Withdrawal Rates**

Main System, first five years of service:

<u>Age</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
29 & under	22%	18%	16%	14%	14%
30-39	16	14	12	12	11
40 & Over	12	10	10	8	7

Ultimate rates after five years of service:

<u>Age</u>	<u>Rates</u>
20 - 24	8.8%
25 - 29	8.8
30 - 34	5.5
35 - 39	4.7
40 - 44	3.9
45 - 49	3.7
50 - 54	3.4
55 - 59	0.1
60 & Over	0.2

National Guard and Law Enforcement:

First five years of service:

<u>Age</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
29 & under	25%	23%	20%	17%	15%
30-39	20	17	15	13	11
40 & Over	17	15	12	10	7

Ultimate withdrawal rates after five years of service:

<u>Age</u>	<u>Rates</u>
20 - 24	8.8%
25 - 29	8.8
30 - 34	5.5
35 - 39	4.7
40 - 44	3.9

45 - 49	3.7
50 - 54	3.4
55 - 59	0.1
60 & Over	0.2

Judges:

<u>Age</u>	<u>Rates</u>
20 - 24	2.2%
25 - 29	2.2
30 - 34	1.4
35 - 39	1.2
40 - 44	1.0
45 - 49	0.9
50 - 54	0.8
55 - 59	0.0
60 & Over	0.1

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.

**Refund of Employee Contributions**

Inactive vested members are assumed to elect a refund of employee contributions in lieu of deferred pension benefits when it is more valuable than the deferred annuity.

**Retirement Rates for Active Members**

Main System:

<u>Age</u>	<u>Early Retirement</u>	<u>Unreduced Retirements</u>
51-54		8%
55	2%	8
56-59	2	10
60	4	10
61	10	20
62	20	35
63	15	25
64	10	30
65		30
66-74		20
75		100

Judges:

Age 60 to 61: 10% per year

Age 62 to 64: 20% per year

Age 65 to 69: 50% per year

Age 70: 100%

National Guard and Law Enforcement:

Age 55 to 63: 20% per year

Age 64: 50% per year

Age 65: 100%

**Retirement Age for Inactive Vested Members**

Main System and Judges: The earlier of age 64 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: \$1,100,000 per year  
 Judges: \$7,500 per year  
 National Guard and Law Enforcement combined: \$13,000 per year

**Salary Scale**

Main System, National Guard and Law Enforcement:

Less than five years of service:  
 Service: 0 1 2 3 4  
 % Increase: 8.25% 7.25% 6.75% 6.50% 6.25%  
 Five or more years of service (sample rates):

Percentage		Percentage	
Age	Increase	Age	Increase
25	6.25%	45	5.11%
30	5.93	50	5.02
35	5.50	55	4.93
40	5.23	60	4.86

Judges: 5.00% 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

**Inflation**

3.5% per annum

**Percent Married and Age of Spouse**

At retirement or death, 80% of male members and 65% of female members are assumed to have spouses for the Main System, National Guard, and Law Enforcement. For Judges, at retirement or death, 100% of members are assumed to have spouses. Males are assumed to be three years older than their female spouses for all plans.

**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 annual normal cost is calculated for each member as the level percentage of pay required over the member's period of covered employment to pay the total expected benefits. The normal cost is determined as if the current benefit accrual rate

had always been in effect. The unfunded actuarial accrued liability(UAAL) is amortized in installments increasing by the payroll growth assumption each year over an open 20-year period. This results in a payment towards the UAAL that is less than interest on the UAAL. Under this method, the UAAL is projected to grow from year to year, even if the actuarially required contribution was made and all actuarial assumptions were met.

**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. A characteristic of this asset valuation method is that, over time, it is more likely than not to produce an actuarial value of assets that is less than the market value of assets, if the investment return attributable to net interest and dividends is less than the assumed rate of return.

**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, none. 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 at any 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 at any 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 or the age at which the Rule of 85 is met.

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 or the age at which the Rule of 85 is met.

**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.
- 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 or no surviving spouse.

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

**6. Refund of Member Contributions:**

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

**7. Accumulated Member Contributions:**

Member contributions accumulate with interest at the following rates:

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

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

***Standard Form of Payment***

*Main System, National Guard and Law Enforcement:*

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

*Judges:*

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

***Optional forms of payment:***

Life annuity (for Judges), 50% joint and survivor annuity with popup (for Main System, National Guard and Law Enforcement), 100% joint and survivor annuity with pop-up, twenty-year certain and life annuity, ten-year certain and life annuity, a partial lump sum payment in addition to one of the annuity options above and an actuarially equivalent graduated benefit option with either a one percent or two percent increase to be applied the first day of January of each year. Not available for disability or early retirements or in combination with a partial lump sum option or a deferred normal retirement option.

**9. Final Average Salary:**

Average of the highest salary received by the member for any 36 months employed during the last 180 months of employment.

**10. Contributions:**

Contribution rates specified in the Century Code (except employer rate for National Guard and Law Enforcement); differ between permanent full-time employees and part-time temporary employees. Rates are as follows:

	Rates Determined by NDPERS	
	Rates Set by Statute <u>Employees</u>	Board <u>Employer</u>
Main System		
Full-Time Employees	7.00%	7.12%
Main System		
Part-Time Employees	14.12%	0.00%
Judges	8.00%	17.52%
National Guard	4.50%	7.00%
Law Enforcement with		
prior Main service	5.50%	9.81%*
BCI Employees	6.00%	10.31%
Law Enforcement w/out		
prior Main service	5.50%	7.93%

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.

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.

#### Changes in Plan Provisions:

As a result of legislation passed in 2013, the contribution rates increased in January of 2014 by the following amounts:

	<u>Employees</u>	<u>Employer</u>
Main System		
Full-Time Employees	1.00%	1.00%
Main System		
Part-Time Employees	2.00%	
Judges	1.00%	1.00%
National Guard	.50%	.50%
Law Enforcement (excluding BCI)	0.50%	.50%

### Solvency Test — PERS 2009-2014

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

(Amounts in Millions)

July 1	Aggregate Actuarial Accrued Liabilities			Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
	Member Contributions (1)	Retirees and Beneficiaries, Inactive and Pay- Status Members (2)	Active Member Employer Financed Portion (3)		(1)	(2)	(3)
2009	\$ 507.6	\$ 728.1	\$ 665.5	\$ 1,617.1	100%	100%	57%
2010	600.5	822.2	785.7	1,621.7	100	100	25
2011	588.3	908.3	843.2	1,650.5	100	100	18
2012	626.2	1,070.7	804.4	1,627.4	100	94	0
2013	687.9	1,126.0	902.6	1,683.0	100	88	0
2014	746.5	1,255.4	936.9	1,895.8	100	92	0



## Schedule of Active Member Valuation Data – PERS – 2009-2014

<u>July 1</u>	<b>Main System</b>			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
2009	19,686	\$684.3	\$34,762	5.5%
2010	20,372	751.1	36,868	6.1
2011	20,359	785.4	38,577	4.6
2012	20,738	781.6	37,690	-2.3
2013	21,201	865.9	40,841	8.4
2014	21,814	946.2	43,376	9.3

<u>July 1</u>	<b>Judges</b>			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
2009	47	\$5.4	\$115,741	3.9%
2010	47	5.7	120,962	4.5
2011	49	6.2	126,474	4.6
2012	49	6.1	124,645	-1.4
2013	49	6.6	134,673	8.0
2014	50	7.0	139,290	3.4

<u>July 1</u>	<b>National Guard</b>			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
2009	36	\$1.3	\$37,114	(22.5)%
2010	30	1.3	41,990	13.1
2011	30	1.3	44,119	5.1
2012	32	1.3	40,795	-7.5
2013	39	1.7	43,359	6.3
2014	27	1.2	44,388	2.4

<u>July 1</u>	<b>Law Enforcement with prior Main service</b>			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
2009	144	\$5.7	\$39,428	6.0%
2010	187	10.6	56,469	43.2
2011	196	8.8	45,029	-20.3
2012	207	9.5	45,736	1.6
2013	229	11.7	51,109	11.7
2014	288	15.5	53,939	5.5

<u>July 1</u>	<b>Law Enforcement without prior Main service</b>			
	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
2009	30	\$0.9	\$31,660	15.2%
2010	32	1.1	35,572	12.4
2011	61	2.4	39,911	12.2
2012	65	2.4	36,588	-8.3
2013	70	2.6	36,998	1.1
2014	83	3.6	43,872	18.6

## Analysis of Financial Experience — PERS

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

	<b>Main System</b>			
<u>Plan Year Ended</u>	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>10.76%</b>	<b>11.36%</b>	<b>12.24%</b>	<b>12.14%</b>
Death after Retirement	-0.07	(0.48)	(0.11)	(0.02)
Death-in-Service	0.01	0.00	0.00	0.00
Disability Retirements	0.01	0.00	0.00	0.00
Withdrawal From Employment	-0.16	(0.15)	0.04	0.02
Age and Service Retirements	0.06	0.13	0.00	0.03
Financial Experience-Investments	0.68	1.20	0.54	(0.82)
Salary Scale and Service	0.02	(0.57)	0.59	0.16
Contribution Income	0.45	0.45	0.34	0.29
Administrative Expenses	0.01	0.01	0.01	0.01
New and Reinstated Members	0.05	0.05	0.04	0.07
Demographic Changes	-0.02	0.60	(0.36)	(0.04)
Assumption Changes	0.00	0.00	0.00	0.00
Plan Change	-0.21	(0.07)	(0.69)	(0.50)
Change in Amortization Schedule	-0.23	(0.29)	(0.31)	(0.28)
Death and Retirement from Withdrawals	N/A	N/A	(0.19)	0.00
<b>Employer Cost Rate at End of Year</b>	<b>11.36%</b>	<b>12.24%</b>	<b>12.14%</b>	<b>11.06%</b>
	<b>Judges</b>			
<u>Plan Year Ended</u>	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>14.10%</b>	<b>15.96%</b>	<b>16.33%</b>	<b>16.66%</b>
Plan Change	-0.48	(1.00)	(1.00)	(0.50)
Plan Experience	0.86	(1.51)	0.18	0.22
Investment Loss/(Gain)	1.63	3.07	1.38	(1.45)
Contribution Loss/(Gain)	-0.08	(0.04)	(0.04)	0.00
Assumption Changes	0.00	0.00	0.00	0.00
Change in Amortization Schedule	-0.07	(0.15)	(0.19)	(0.13)
<b>Employer Cost Rate at End of Year</b>	<b>15.96%</b>	<b>16.33%</b>	<b>16.66%</b>	<b>14.80%</b>
	<b>National Guard</b>			
<u>Plan Year Ended</u>	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>7.00%</b>	<b>7.08%</b>	<b>7.40%</b>	<b>9.07%</b>
Plan Experience	-0.39	(0.37)	1.68	0.04
Investment Loss/(Gain)	0.52	1.02	0.39	(0.64)
Contribution Loss/(Gain)	-0.01	(0.29)	(0.05)	0.00
Assumption Changes	0.00	0.00	0.00	0.00
Change in Amortization Schedule	-0.04	(0.04)	(0.10)	(0.08)
Plan Change	0.00	0.00	(0.25)	(0.25)
<b>Employer Cost Rate at End of Year</b>	<b>7.08%</b>	<b>7.40%</b>	<b>9.07%</b>	<b>8.14%</b>
	<b>Law Enforcement With Prior Main Service</b>			
<u>Plan Year Ended</u>	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>10.80%</b>	<b>10.96%</b>	<b>10.69%</b>	<b>11.18%</b>
Plan Change	-0.21	(0.39)	(0.49)	(0.18)
Plan Experience	-0.42	(0.54)	0.88	(1.06)
Investment Loss/(Gain)	0.49	0.91	0.39	(0.25)
Contribution Loss/(Gain)	0.51	(0.04)	(0.07)	0.00
Assumption Changes	0.00	0.00	0.00	0.00
Change in Amortization Schedule	-0.21	(0.21)	(0.22)	(0.17)
<b>Employer Cost Rate at End of Year</b>	<b>10.96%</b>	<b>10.69%</b>	<b>11.18%</b>	<b>9.52%</b>
	<b>Law Enforcement Without Prior Main Service</b>			
<u>Plan Year Ended</u>	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>7.53%</b>	<b>7.56%</b>	<b>7.33%</b>	<b>8.11%</b>
Plan Change	-0.19	(0.50)	(0.50)	(0.25)
Plan Experience	0.34	0.07	1.21	0.00
Investment Loss/(Gain)	-0.06	0.20	0.17	(0.41)
Contribution Loss/(Gain)	-0.04	0.02	(0.06)	0.00
Assumption Changes	0.00	0.00	0.00	0.00
Change in Amortization Schedule	-0.02	(0.02)	(0.04)	(0.03)
<b>Employer Cost Rate at End of Year</b>	<b>7.56%</b>	<b>7.33%</b>	<b>8.11%</b>	<b>7.42%</b>

## Retirees and Beneficiaries Added to and Removed from the Rolls – PERS – 2009-2014

Plan Year	Additions			Main System (Removals)		Ending Number	Average Annual Benefits	Annual Pension Benefits <sup>(1)</sup>	% Increase In Annual Benefits
	Beginning Number	Counts	Annual Pension Benefits*	Counts	Annual Pension Benefits*				
2009	6,813	567	\$7.1	(222)	\$(1.9)	7,158	\$10,120	\$72.4	7.7%
2010	7,158	468	6.5	(254)	(1.9)	7,372	10,451	77.0	6.4
2011	7,372	618	9.4	(230)	(1.8)	7,760	10,904	84.6	9.9
2012	7,760	698	12.5	(250)	(1.8)	8,242	11,566	95.3	12.6
2013	8,242	708	10.9	(284)	(4.0)	8,666	11,798	102.2	7.2
2014	8,666	855	13.2	(291)	(2.4)	9,230	12,243	113.0	10.6

\*In millions.

Plan Year	Additions			Judges (Removals)		Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
	Beginning Number	Counts	Annual Pension Benefits	Counts	Annual Pension Benefits				
2009	30	1	\$69,931	(3)	\$(92,038)	28	\$38,254	\$1,071,112	(2.0)%
2010	28	4	194,159	(2)	(47,106)	30	40,605	1,218,165	13.7
2011	30	5	273,928	(1)	(20,861)	34	43,272	1,471,232	20.8
2012	34	0	0	0	(648)	34	43,252	1,470,584	0.0
2013	34	2	60,181	0	0	36	42,521	1,530,765	4.1
2014	36	2	190,156	0	0	38	45,287	1,720,921	12.4

Plan Year	Additions			National Guard (Removals)		Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
	Beginning Number	Counts	Annual Pension Benefits	Counts	Annual Pension Benefits				
2009	6	1	\$38,465	0	\$ 0	7	\$18,431	\$129,019	42.5%
2010	7	1	2,026	0	(14,448)	8	14,575	116,597	(9.6)
2011	8	1	8,841	0	0	9	13,938	125,438	7.6
2012	9	1	5,058	0	0	10	13,050	130,496	4.0
2013	10	0	0	0	(13,776)	10	11,672	116,720	(10.6)
2014	10	0	0	0	0	10	11,672	116,720	0.0

### Retirees and Beneficiaries Added to and Removed from the Rolls – PERS – 2009-2014

#### Law Enforcement with prior Main service

Plan Year	Additions		Annual Pension Benefits	(Removals)		Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
	Beginning Number	Counts		Counts	Annual Pension Benefits				
2009	15	3	\$ 40,473	(1)	\$(23,246)	17	\$15,433	\$262,361	7.0%
2010	17	9	174,259	(2)	(12,301)	24	17,680	424,319	61.7
2011	24	8	209,058	0	0	32	19,793	633,377	49.3
2012	32	5	100,548	0	0	37	19,836	733,925	15.9
2013	37	9	225,057	0	0	46	20,847	958,982	30.7
2014	46	7	83,168	(1)	(57,253)	52	18,940	984,897	2.7

#### Law Enforcement without prior Main service

Plan Year	Additions		Annual Pension Benefits	(Removals)		Ending Number	Average Annual Benefits	Annual Pension Benefits	% Increase In Annual Benefits
	Beginning Number	Counts		Counts	Annual Pension Benefits				
2009	0	0	\$ 0	0	\$ 0	0	\$ 0	\$0	0.0%
2010	0	0	0	0	0	0	0	0	0.0
2011	0	0	0	0	0	0	0	0	0.0
2012	0	0	0	0	0	0	0	0	0.0
2013	0	1	9,792	0	0	1	9,792	9,792	100.0
2014	1	0	0	0	0	1	9,792	9,792	0.0

**COMMENTS  
FROM  
THE SEGAL  
COMPANY**

**HIGHWAY  
PATROLMEN'S  
RETIREMENT  
SYSTEM**



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T 303.714.9900 www.segalco.com

November 17, 2014

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, 2014

Dear Members of the Board:

The North Dakota Highway Patrolmen's Retirement System is a funded retirement plan. One of the Retirement System's basic funding objectives 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, 2014 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2014 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2014 (obtained from the Retirement System's draft 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 and 67, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The actuarial assumptions used for both funding and financial (GASB) purposes are the same and are summarized in the July 1, 2014 actuarial valuation.

**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 funding method for financial (GASB) purposes is a variation of the entry age cost method. The liabilities under the method for funding and the variation for financial purposes are very similar.

The North Dakota Highway Patrolmen's Retirement Fund had an unfunded actuarial accrued liability of about \$20.9 million as of July 1, 2014.

#### Calculated and Statutory Contribution Rates

The July 1, 2014 actuarial valuation of the North Dakota Highway Patrolmen's Retirement Fund indicates the following contribution requirements, expressed as a percentage of covered payroll.

Actuarial Required Employer Contribution Rate	Current	Statutory Contribution Rates	
		Employer	Member
21.70%		19.70%	13.30%

#### Exhibits

The enclosed supporting exhibits, prepared by Segal Consulting (Segal), provide further related information regarding the 2014 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 Consulting 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.

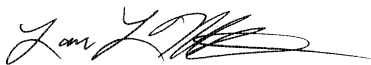
Sincerely,



Brad Ramirez, FSA, MAAA, FCA, EA  
Vice President and Consulting Actuary



Tammy F. Dixon, FSA, MAAA, EA  
Vice President and Actuary



Laura L. Mitchell, MAAA, EA  
Vice President and Consulting Actuary

**ACTUARIAL  
VALUATION  
CERTIFICATE**

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

**NOVEMBER 17, 2014**

*Actuarial Valuation Certificate*

*This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2014 in accordance with generally accepted actuarial principles and practices.*

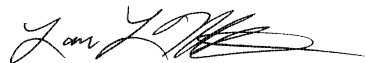
*The valuation was based on the assumption that the plan is qualified and on information supplied by the Retirement Office with respect to participants and for financial data. We have not verified, and customarily would not verify, such information but we have had no reason to doubt its substantial accuracy.*

*To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Certain assumptions, including interest rates, mortality tables and others identified in the report are prescribed by the Board and in our opinion, are reasonably related to the experience of the Plan and the expectations for the Plan. The Board is also responsible for selecting the actuarially required contribution, actuarial cost method and asset valuation method.*

*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.*



Brad Ramirez, FSA, MAAA, FCA, EA  
Vice President and Consulting Actuary



Laura L. Mitchell, MAAA, EA  
Vice President and Consulting Actuary



Tammy F. Dixon, FSA, MAAA, EA  
Vice President and Actuary

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

(Adopted July 1, 2011)

### Mortality Tables

Healthy: The RP-2000 Combined Healthy Mortality Table set back one year.

Disabled: The RP-2000 Disabled Retiree Mortality Table set back one year for males (not set back for females).

Sample healthy rates are as follows:

Age	Rate (%)	
	Male	Female
25	0.04	0.02
30	0.04	0.02
35	0.07	0.04
40	0.10	0.06
45	0.14	0.10
50	0.20	0.16
55	0.32	0.24
60	0.59	0.44
65	1.13	0.86

These mortality tables were determined to contain approximately a 10% margin for future mortality improvement, based on a review of mortality experience in 2010.

### Annual Withdrawal Rates

First year of service is 10%.

Second through fifth years of service is 5% per year.

After five years of service, depends on age:

Under age 35: 2.5% at each age

Age 35 or older: 1% at each age

Withdrawal rates end upon eligibility for early retirement (age 50 and 10 years of service.)

### Disability Incidence Rates

Age based rates. Sample rates:

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

### Refund of Employee Contributions

Inactive vested members are assumed to elect a refund of employee contributions in lieu of a deferred pension benefit when it is more valuable than the deferred annuity.

### Retirement Rates

The following annual rates apply for active members:

#### Age 50 and over:

Early retirement: 25%\*\*

First year eligible for unreduced retirement:\* 75%

After first year eligible for unreduced retirement:\* 100%

\*Age 55 and 10 years of service or Rule of 80

\*\*Those retiring with a reduced benefit are assumed to delay commencement until they satisfy the Rule of 80 if that is more valuable.

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

### Net Investment Return

8.00% per annum, net of investment expenses.

### Administrative Expenses

\$18,000 per year.

### Salary Scale

Less than five years of service:

Service	Percentage Increase
0	8.25%
1	7.25
2	6.75
3	6.50
4	6.25

Five or more years of service (sample rates are as follows):

Age	Percentage Increase	Age	Percentage Increase
25	6.25%	45	5.11%
30	5.93	50	5.02
35	5.50	55	4.93
40	5.23	60	4.86

### Inflation

3.50% per annum.

### Payroll Growth

4.50% per annum.

### Percent Married and Age of Spouse

At retirement or death, 90% of non-retired 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

4.5% 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 annual normal cost is calculated for each member as the level percentage of pay required over the member's period of covered employment to pay the total expected benefits. The normal cost is determined as if the current benefit accrual rate had always been in effect. The unfunded actuarial accrued liability (UAAL) is amortized in installments assuming a 4.5% payroll growth assumption and an open 20-year period. This results in a payment towards the UAAL that is less than interest on the UAAL. Under this method, the UAAL is projected to grow from year to year, even if the actuarially required contribution was made and all actuarial assumptions were met.

**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. A characteristic of this asset valuation method is that, over time, it is more likely than not to produce an actuarial value of assets that is less than the market value of assets, if the investment return attributable to net interest and dividends is less than the assumed rate of return.

**Changes in Actuarial Assumptions and Cost Methods – Highway Patrolmen's Retirement System**

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

**Summary of Plan Provisions – Highway Patrolmen's Retirement System**

This section summarizes the major benefit provisions of the North Dakota Highway Patrolmen's Retirement System as included in the valuation.

It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions. Benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases.

**1. Normal Service Retirement:**

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

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

**2. Early Service Retirement:**

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

Benefit: The Normal Service Retirement Benefit as determined above, 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
7/1/94	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
7/1/09	5.00	1.0433	1.4565
7/1/10	5.00	1.0467	1.5245
7/1/11	2.00	1.0400	1.5855
7/1/12	2.00	1.0300	1.6330
7/1/13	3.00	1.0233	1.6711
7/1/14	3.00	1.0267	1.7011

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

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

Eligibility: Ten years of eligible employment.

Benefit:

One of the following options:

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

Other death benefits:

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

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

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

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

Optional forms of payment:

- 100% joint and survivor annuity, 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.
- An actuarially equivalent graduated benefit option with either a one percent or two percent increase to be applied the first day of January of each year. Not available for disability or early retirements or in combination with a partial lump sum option or a deferred normal retirement option.

#### **7. Final Average Salary:**

Average of the highest salary received by the member for any 36 months employed during the last 180 months of employment.

#### **8. Contributions:**

Member contributions as a percent of monthly salary:

Current: 13.30%

Member contributions earn interest at an annual rate of 7.50% compounded monthly. State contributions as a percent of monthly salary for each participating member:

Current: 19.70%

#### **Plan Amendments –**

#### **Highway Patrolmen's Retirement System**

As a result of legislation passed in 2013, the contribution rates were increased in January of 2014 by the following amounts:

Member: 1.00%

Employer: 1.00%

**Schedule of Active Member Valuation Data – HPRS  
2009-2014**

<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>
2009	133	\$7.0	\$52,701	5.3%
2010	139	7.7	55,666	5.6
2011	133	8.0	60,168	8.1
2012	145	8.2	56,323	-6.4
2013	149	9.3	62,741	11.4
2014	156	10.1	65,037	3.7

**North Dakota Highway Patrolmen’s Retirement System  
Retirees and Beneficiaries Added to and Removed from the Rolls, 2009-2014**

<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>				
2009	105	8	\$249,776	(4)	\$(96,523)	109	\$30,499	\$3,324,423	4.8%
2010	109	5	191,085	(1)	(13,126)	113	30,995	3,502,382	5.4
2011	113	2	58,150	0	0	115	30,961	3,560,532	1.7
2012	115	3	179,349	(2)	(7,037)	116	31,846	3,694,098	3.8
2013	116	4	169,974	(4)	(114,418)	116	32,325	3,749,654	1.5
2014	116	2	138,200	(1)	(64,069)	117	32,682	3,823,785	2.0

### Solvency Test — HPRS 2009-2014

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>			Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
	Member Contributions (1)	Retirees and Beneficiaries, Inactive and Pay- Status Members (2)	Active Member Employer Financed Portion (3)		(1)	(2)	(3)
2009	\$10.0	\$ 34.3	\$ 13.3	\$ 50.2	100%	100%	44%
2010	10.5	36.1	15.2	49.3	100	100	18
2011	11.6	37.4	18.1	49.5	100	100	3
2012	12.1	39.3	17.1	48.1	100	92	0
2013	13.5	40.5	17.9	49.0	100	88	0
2014	14.8	41.9	18.8	54.6	100	95	0

### 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, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>22.54%</b>	<b>27.13%</b>	<b>26.83%</b>	<b>25.11%</b>
Plan Change	-0.43	(-1.00)	(0.66)	(0.50)
Plan Experience	0.71	(-2.78)	(2.16)	(1.03)
Change in Amortization Schedule	-0.53	(-0.65)	(0.63)	(0.54)
Assumption Changes	2.44	0.00	0.00	0.00
Investment Loss/(Gain)	1.98	3.48	1.40	(1.60)
Contribution Loss/(Gain)	0.92	0.65	0.33	0.26
<b>Employer Cost Rate at End of Year</b>	<b>27.13%</b>	<b>26.83%</b>	<b>25.11%</b>	<b>21.70%</b>

**COMMENTS  
FROM  
THE SEGAL  
COMPANY**

**JOB SERVICE  
RETIREMENT  
PLAN**



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November 17, 2014

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, 2014

Dear Members of the Board:

The Retirement Plan for Employees of Job Service North Dakota is a funded retirement plan administered by the North Dakota Public Employees Retirement System. One of the Retirement Plan's basic funding objectives 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, 2014 is based on the following major elements:

- Current benefit provisions.
- Membership data as of June 30, 2014 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2014 (obtained from the Retirement System's draft financial statements).
- 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 and 67, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The actuarial assumptions used for both funding and financial (GASB) purposes are the same and are summarized in the July 1, 2014 actuarial valuation.

**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 under GASB 25 and GASB 27. The Frozen Initial Liability Actuarial Cost Method is the method 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 funding method used for financial (GASB) purposes is the entry age 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 Consulting (Segal), provide further related information regarding the 2014 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.

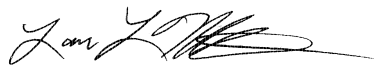
Sincerely,



Brad Ramirez, FSA, MAAA, EA  
Vice President and Consulting Actuary



Tammy F. Dixon, FSA, MAAA, EA  
Vice President and Actuary



Laura L. Mitchell, MAAA, EA  
Vice President and Consulting Actuary

**ACTUARIAL  
VALUATION  
CERTIFICATE**

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

**NOVEMBER 17, 2014**

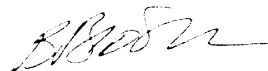
*Actuarial Valuation Certificate*

*This is to certify that we have prepared an Actuarial Valuation of the Plan as of July 1, 2014 in accordance with generally accepted actuarial principles and practices.*

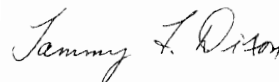
*The valuation was based on the assumption that the plan is qualified and on information supplied by the Retirement Office with respect to participants and for financial data. We have not verified, and customarily would not verify, such information but we have had no reason to doubt its substantial accuracy.*

*To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Certain assumptions, including interest rates, mortality tables and others identified in the report are prescribed by the Board and, in our opinion, are reasonably related to the experience of and the expectations for the Plan. The Board is also responsible for selecting the scheduled contribution, actuarial cost method and asset valuation method.*


*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.*



*Brad Ramirez, FSA, MAAA, FCA, EA  
Vice President and Consulting Actuary*



*Tammy F. Dixon, FSA, MAAA, EA  
Vice President and Actuary*



*Laura L. Mitchell, MAAA, EA  
Vice President and Consulting 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. A characteristic of this asset valuation method is that, over time, it is more likely to produce an actuarial value of assets that is less than the market value of assets, if the investment return attributable to net interest and dividends is less than the assumed rate of return.

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

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

Retirement rates: 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 is 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 and Age of Spouse: 85% of all active and inactive vested participants are assumed to be married. Females are assumed to be four years younger than males.

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

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

### Changes in Actuarial Assumptions or Cost Method

There were no changes in actuarial assumptions or cost method since the prior 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:

- 1.50% times credited service up to five years, plus
- 1.75% times credited service between six and ten years, plus
- 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 Benefit**

Age requirement: None.

Service requirement: Five years of credited service.

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

**Deferred Vested Retirement**

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 or single participants with eligible children*

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 as approved by the Board.

**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 contribution, 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  
2009 to 2014**

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>
2009	35	\$1.7	\$48,841	5.3%
2010	31	1.6	51,975	6.4
2011	23	1.2	52,208	0.5
2012	19	1.0	54,892	5.1
2013	15	0.8	56,173	2.3
2014	13	0.8	60,819	8.3

**Retirement Plan for Employees of Job Service North Dakota  
Retirees and Beneficiaries (Including Travelers Annuitants)  
Added to and Removed from the Rolls, 2009-2014**

<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>				
2009	216	4	\$354,356	6	\$80,657	214	\$17,891	\$3,828,709	7.7%
2010	214	4	116,464	7	121,601	211	18,324	3,866,281	1.0
2011	211	8	229,678	6	96,255	213	18,778	3,999,704	3.5
2012	213	9	543,433	10	153,978	212	20,704	4,389,159*	9.7
2013	212	8	273,087	(7)	(250,470)	213	20,713	4,411,776	0.5
2014	213	6	300,806	(6)	(86,706)	213	21,718	4,625,876	4.9

**Solvency Test — Job Service Retirement Plan  
2009-2014**

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 liabilities for future benefits to present retired lives; 2) the liabilities for future benefits to inactive vested employees not in pay status; and 3) the liabilities for future benefits to current active employees.

In a system that has been following level percent of payroll financing, the liabilities for current active employees (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>Pensioners (Including Disableds &amp; Beneficiaries)</u>	<u>Inactive Vested Employees Not in Pay Status</u>	<u>Active Employees</u>		<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>				
2009	\$ 55.3	\$ 0.2	\$ 16.5	\$ 74.5	100%	100%	100%
2010	55.1	0.2	15.6	73.5	100	100	100
2011	55.7	0.9	11.6	74.2	100	100	100
2012	61.1	0.7	10.2	75.1	100	100	100
2013	56.7	1.9	7.8	76.3	100	100	100
2014	57.9	0.0	7.6	78.2	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, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>
Plan Experience	0.00	0.00	0.00	0.00
Change in Amortization 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
<b>Employer Cost Rate at End of Year</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>



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November 17, 2014

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, 2014

Dear Members of the Board:

The North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund is a funded retiree health plan. One of the program's basic funding objectives 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 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, 2014 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2014 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2014 (obtained from the Retirement System's draft financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by GASB Statements No. 25 and 43.

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

#### **Actuarial Assumptions**

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

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

The actuarial assumptions used in the July 1, 2014 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.

**COMMENTS  
FROM  
THE SEGAL  
COMPANY**

**RETIREE  
HEALTH  
INSURANCE  
CREDIT FUND**

**Actuarial Funding Method**

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

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

The North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund's unfunded actuarial accrued liability amounted to \$38.7 million as of July 1, 2014. 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, 2014 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 0.64%, while the statutory contribution rate is 1.14% of payroll.

**Exhibits**

The enclosed supporting exhibits prepared by Segal Consulting provide further related information regarding the 2014 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 and Beneficiaries, Average Annual Benefit, and Active Member/Retiree Comparison
- Analysis of Financial Experience
- Assets and Actuarial Accrued Liabilities

Segal Consulting 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, FCA, EA  
Vice President and Consulting Actuary



Laura L. Mitchell, MAAA, EA  
Vice President and Consulting Actuary



Tammy F. Dixon, FSA, MAAA, EA  
Vice President and Actuary

**ACTUARIAL  
VALUATION  
CERTIFICATE**

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

**NOVEMBER 17, 2014**

## *Actuarial Valuation Certificate*

*This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2014 in accordance with generally accepted actuarial principles and practices.*

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

*To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Certain assumptions, including interest rates, mortality tables and others identified in the report are prescribed by the Board, and in our opinion, are reasonably related to the experience of and the expectations for the Plan. The Board is also responsible for selecting the actuarially required contribution, actuarial cost method and asset valuation method.*

*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.*



*Brad Ramirez, FSA, MAAA, FCA, EA  
Vice President and Consulting Actuary*



*Tammy F. Dixon, FSA, MAAA, EA  
Vice President and Actuary*



*Laura L. Mitchell, MAAA, EA  
Vice President and Consulting Actuary*

**Actuarial Assumptions and Cost Method – Retiree Health Insurance Credit Fund**

(Adopted July 1, 2010)

**Mortality Tables**

Active PERS members and retirees:  
 Healthy: RP-2000 Combined Healthy Mortality Table, set back three years  
 Disabled: RP-2000 Disabled Retiree Mortality Table, set back one year for males (not set back for females).  
 Active Highway Patrol members:  
 Healthy: RP-2000 Healthy Mortality Table, set back one year.  
 Disabled: RP-2000 Disabled Retiree Mortality Table set back one year for males (not set back for females).

These mortality tables were determined to contain approximately a 10% margin for future mortality improvement, based on a review of mortality experience in 2010.

**Withdrawal Rates**

Different withdrawal rates are applied to the active members of the Main and DC Systems, Highway Patrol, Judges, National Guard and Law Enforcement. Rates for the Main and DC Systems are detailed below. The withdrawal assumptions applied to the active members in the other groups are detailed in the valuation report for their retirement system.

Select and ultimate rates are used for active members of the Main and DC Systems. 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.

Select Period

<u>Age</u>	<u>Year of Employment</u>				
	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
29 & Under	22%	18%	16%	14%	14%
30-39	16	14	12	12	11
40 & Over	12	10	10	8	7

Ultimate Period

<u>Age</u>	<u>Rate</u>
20-24	8.8%
25-29	8.8
30-34	5.5
35-39	4.7
40-44	3.9
45-49	3.7
50-54	3.4
55-59	0.1
60 & Over	0.2

Withdrawal rates end upon eligibility for early retirement.

**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 valuation report for their retirement system.

Sample rates for PERS are:

<u>Age</u>	<u>Males</u>	<u>Females</u>
20	0.02%	0.01%
30	0.04	0.02
40	0.07	0.04
50	0.20	0.12
60	0.54	0.33

**Retirement Rates for Active Members**

Different retirement rates are applied to the active members of the Main and DC Systems, Highway Patrol, Judges, National Guard and Law Enforcement. Retirement rates for the Main and DC Systems are detailed below. The retirement rates applied to the active members of the other groups are detailed in the valuation report for their retirement system.

Annual Rates for the Main System are as follows:

<u>Age</u>	<u>Unreduced*</u>	<u>Early</u>
51-54	8%	0%
55	8	2
56-59	10	2
60	10	4
61	20	10
62	35	20
63	25	15
64	30	10
65	30	
66-74	20	
75	100	

\*Age 65 or Rule of 85

**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 and DC Systems, National Guard and Law Enforcement:

<u>Years of Service</u>	<u>Participation Rate</u>
3-4	30%
5-9	50
10-14	65
15-19	80
20-24	85
25+	90

Judges and Highway Patrol:

<u>Years of Service</u>	<u>Participation Rate</u>
5-9	50%
10-14	65
15-19	80
20-24	85
25+	90

### **Joint and Survivor Option Election Rates**

Main and DC Systems, National Guard and Law Enforcement: 60% of male retirees and 25% of female retirees will elect a 100% joint and survivor form of pension from the retirement system in which they participated. Valued without reduction for optional form of payment.

Judges:

100% of retirees will elect a 100% joint and survivor form of pension from the retirement system. Valued without reduction for optional form of payment.

Highway Patrol:

90% of retirees will elect a 100% joint and survivor form of pension from the retirement system. Valued without reduction for optional form of payment.

### **Interest Rate**

8.0% per annum, net of investment expenses

### **Inflation**

3.50% per annum

### **Administrative Expenses**

\$97,000 per year.

### **Marital Status:**

Main and DC Systems, National Guard and Law Enforcement: At death, 80% of active male members and 65% of active female members are assumed to have spouses. Males are assumed to be three years older than their female spouses.

Judges:

At death, 100% of members are assumed to have spouses. Males are assumed to be three 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.

### **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. A characteristic of this asset valuation method is that, over time, it is more likely to produce an actuarial value of assets that is less than the market value of assets, if the investment return attributable to net interest and dividends is less than the assumed rate of return.

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

There were no changes in actuarial assumptions specific to the Retiree Health Insurance Credit Fund.

### **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.

### **Covered Employees**

Members of the Public Employees Retirement System, the Highway Patrolmen's Retirement System and the Defined Contribution Retirement Plan.

### **Normal Retirement**

Age requirement:

Main and DC Systems 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 and DC Systems 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 \$5.00 times years of service.

**Early Retirement**

Age requirement:  
Main and DC Systems and Judges: Age 55.  
Highway Patrol, National Guard and Law Enforcement: Age 50.

Service requirement:  
Main and DC Systems, National Guard and Law Enforcement: 3 years.  
Judges: 5 years.  
Highway Patrol: 10 years.

Benefit amount:  
Main and DC Systems 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, for Highway Patrol and Rule of 85 for Law Enforcement.

**Disability Retirement**

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

**Pre-Retirement Death Benefit**

Age requirement: None  
Service requirement:  
Main and DC Systems, 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.

**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.

**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.

**Service**

Members receive credit for each year and month of employment.

**Contributions**

The employer contributes 1.14% of covered salaries and wages for participating employees.

**Plan Amendments –**

**Retiree Health Insurance Credit Fund**

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

**Retired Members, Average Benefit, and Active Member/Retiree Comparison –  
Retiree Health Insurance Credit Fund  
2009-2014**

<u>July 1</u>	<u>Number of Retired Members</u>	<u>Average Annual Benefit</u>	<u>Active Members Per Retiree</u>
2009	4,030	\$1,356	5.0
2010	4,105	1,377	5.1
2011	4,242	1,394	5.0
2012	4,442	1,416	4.8
2013	4,635	1,428	4.7
2014	4,828	1,428	4.7

**Funding Progress – Retiree Health Insurance Credit Fund  
2009-2014**

(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>
2009	\$102.2	\$44.8	43.9%	\$57.4	\$719.8	8.0%
2010	102.8	48.7	47.4	54.1	793.6	6.8
2011	108.4	53.7	49.6	54.7	829.0	6.6
2012	112.4	58.3	51.9	54.1	824.9	6.6
2013	114.1	66.0	57.8	48.1	914.4	5.3
2014	116.6	77.9	66.8	38.7	1,001.2	3.9

**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, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>0.89%</b>	<b>0.88%</b>	<b>0.90%</b>	<b>0.77%</b>
Plan Experience	(-0.01)	0.07	(0.06)	(0.08)
Assumption and Method Changes	0.00	0.00	0.00	0.00
Investment Loss/(Gain)	0.02	0.03	0.01	(0.02)
Contribution Loss/(Gain)	(-0.02)	(-0.08)	(0.08)	0.00
Plan Amendments	0.00	0.00	0.00	0.00
Change in normal cost rate	0.00	0.00	0.00	(0.03)
<b>Employer Cost Rate at End of Year</b>	<b>0.88%</b>	<b>0.90%</b>	<b>0.77%</b>	<b>0.64%</b>





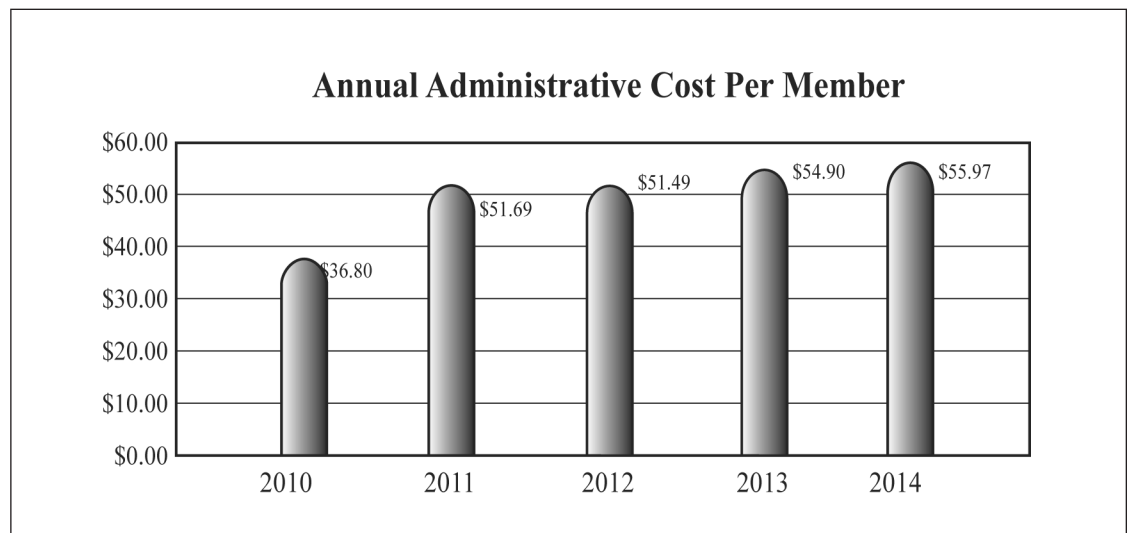
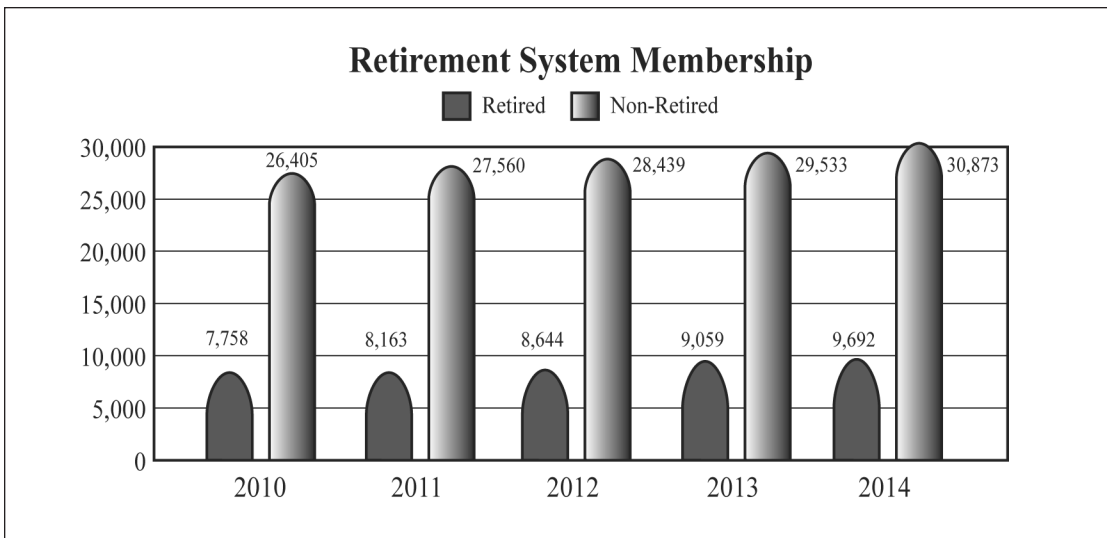
## STATISTICAL SECTION

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 and Job Service  
As of June 30**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
State Agencies	14,031	13,676	13,763	13,985	14,176
Cities	1,418	1,586	1,734	1,908	2,142
Counties	4,208	4,536	4,795	5,040	5,410
School Districts	6,440	7,039	7,390	7,821	8,314
Other Political Subdivisions	<u>308</u>	<u>723</u>	<u>757</u>	<u>779</u>	<u>831</u>
Total Non-Retired <sup>(1)</sup>	26,405	27,560	28,439	29,533	30,873
Retired Members & Beneficiaries	<u>7,758</u>	<u>8,163</u>	<u>8,644</u>	<u>9,059</u>	<u>9,692</u>
Total Membership	34,163	35,723	37,083	38,592	40,565
Administrative Expenses	\$1,257,205	\$1,846,389	\$1,909,569	\$2,118,566	\$2,270,230
Administrative Cost per Member	\$36.80	\$51.69	\$51.49	\$54.90	\$55.97

<sup>(1)</sup> 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<sup>(1)</sup>**  
**Fiscal Year Ended June 30**

FY Ended June 30	Annuities <sup>(2)</sup>			Refunds		Transfers	Total
	Retirant	Disability	Survivor	Death	Separation		
2009	\$68,966,425	NA	\$5,157,481	\$221,926	\$4,939,074	\$496,072 <sup>(3)</sup>	\$79,780,978
2010	74,553,724	NA	5,493,863	239,384	3,942,285	210,638 <sup>(3)</sup>	84,439,894
2011	81,124,561	NA	5,934,724	778,888	4,706,228	264,688 <sup>(3)</sup>	92,809,089
2012	85,599,845	1,934,357	6,549,185	706,326	4,098,719	412,994 <sup>(3)</sup>	99,301,426
2013	95,023,504	1,930,968	6,341,305	1,045,556	4,738,268	212,500 <sup>(3)</sup>	109,292,101
2014	104,765,144	1,964,820	6,570,735	652,235	5,585,607	347,783	119,886,324

**Schedule of Benefit Expenses by Type – HPRS<sup>(1)</sup>**  
**Fiscal Year Ended June 30**

FY Ended June 30	Annuities <sup>(2)</sup>			Refunds		Transfers	Total
	Retirant	Disability	Survivor	Death	Separation		
2009	NA	NA	NA	NA	NA	\$ 0	\$ 0
2010	NA	NA	NA	NA	NA	0	0
2011	NA	NA	NA	NA	NA	0	0
2012	3,290,516	105,131	266,002	0	598	0	3,662,247
2013	3,353,261	105,131	291,496	0	22,428	0	3,772,316
2014	3,297,164	105,131	350,332	0	32,108	0	3,784,735

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

FY Ended June 30	Annuities <sup>(2)</sup>			Refunds		Transfers	Total
	Retirant	Disability	Survivor	Death	Separation		
2009	\$ 3,534,265	NA	\$ 225,353	\$ 0	\$ 0	\$ 0	\$ 3,759,618
2010	3,668,101	NA	223,895	0	0	0	3,891,996
2011	3,787,450	NA	225,257	0	0	0	4,012,707
2012	3,821,456	143,649	205,864	0	0	0	4,170,969
2013	3,977,545	126,601	249,838	0	0	0	4,353,984
2014	4,208,982	118,440	267,040	0	0	0	4,594,462

<sup>(1)</sup>Prior to July 1, 2011, the benefits for PERS and HPERS are combined and are shown as part of the PERS table.

<sup>(2)</sup>Prior to July 1, 2011, disability benefits were included as part of the Retirant totals.

<sup>(3)</sup>Includes transfers to Deferred Compensation Plan to offset software development costs and general administrative expenses.

**116 North Dakota Public Employees Retirement System**
**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:	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 <sup>(1)</sup>	25,253,902	3,454,411	(97,388,032)	5,187	(41,568,918)	3.94
	2009	26,237,554	27,705,267	3,732,801	(421,049,421)	1,983	(363,371,816)	3.90
	2010	28,579,338	30,253,093	4,005,571	173,592,763	3,406	236,434,171	3.93
	2011	30,479,702	32,278,056	3,797,333	308,352,471	2,129	374,909,691	4.01
	2012	36,095,927	38,005,854	6,503,853	(3,472,695)	8,700	77,141,639	4.75
	2013	46,815,060	48,846,796	7,470,218	231,849,472	0	334,981,546	5.50
	2014	59,394,200	61,661,050	8,325,140	316,628,462	1,101	446,009,953	6.33
Highway Patrolmen's Retirement System:	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
	2009	692,320	1,122,720	0	(13,215,900)	14	(11,400,846)	16.02
	2010	741,271	1,196,562	0	5,346,677	25	7,284,535	15.46
	2011	793,028	1,285,699	46,844	9,332,725	4	11,458,300	16.07
	2012	893,784	1,423,154	13,911	(104,302)	68	2,226,615	17.43
	2013	1,028,615	1,586,186	133,169	6,854,552	0	9,602,522	16.97
	2014	1,243,520	1,864,632	87,418	9,239,929	0	12,435,499	18.38
Job Service Retirement Plan:	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
	2009	119,115	0	0	(14,092,621)	0	(13,973,506)	0.00
	2010	114,626	0	0	9,307,523	0	9,422,149	0.00
	2011	97,591	0	0	11,999,421	2	12,097,014	0.00
	2012	83,351	0	0	3,100,706	0	3,184,057	0.00
	2013	72,174	0	0	9,984,241	0	10,056,415	0.00
	2014	55,748	0	0	11,887,840	0	11,943,588	0.00
Retiree Health Insurance Credit Plan:	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 <sup>(2)</sup>	6,174,940	227,655	(6,469,252)	0	5,619,919	0.93
	2009	5,851,707	6,771,699	169,242	(6,251,486)	0	6,541,162	0.94
	2010	6,673,673	8,392,847	237,735	6,658,687	0	21,962,942	1.06
	2011	6,173,575	8,929,903	166,962	9,788,886	0	25,059,326	1.08
	2012	6,248,541	9,388,040	423,449	1,604,475	0	17,664,505	1.14
	2013	6,014,003	9,959,603	371,587	7,963,391	0	24,308,584	1.09
	2014	6,274,649	10,709,792	368,859	12,366,408	0	29,719,708	1.07

<sup>(1)</sup> Member contributions include \$3,208,999 contributions from external pension plans.

<sup>(2)</sup> Beginning July 1, 2007, member contributions include 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 Position
Public Employees Retirement System:	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)
	2009	71,169,574	1,261,120	5,417,235	77,847,929	(441,219,745)
	2010	76,884,950	1,214,733	4,152,792	82,252,475	154,181,696
	2011	84,307,028	1,797,287	4,933,760	91,038,075	283,871,616
	2012	94,083,387	1,856,915	5,218,039	101,158,341	(24,016,702)
	2013	103,295,777	2,059,315	5,996,324	111,351,416	223,630,130
	2014	113,300,699	2,210,792	6,585,625	122,097,116	323,912,837
Highway Patrolmen's Retirement System:	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)
	2009	3,176,258	18,834	17,911	3,213,003	(14,613,849)
	2010	3,402,021	18,154	131	3,420,306	3,864,229
	2011	3,531,145	22,734	37,156	3,591,035	7,867,265
	2012	3,661,649	26,674	598	3,688,921	(1,462,306)
	2013	3,749,888	29,237	22,428	3,801,553	5,800,969
	2014	3,752,627	27,983	32,108	3,812,718	8,622,781
Job Service Retirement Plan:	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)
	2009	3,759,618	25,101	0	3,784,719	(17,758,225)
	2010	3,891,996	24,318	0	3,916,314	5,505,835
	2011	4,012,707	26,368	0	4,039,075	8,057,939
	2012	4,170,969	25,980	0	4,196,949	(1,012,892)
	2013	4,353,984	30,014	0	4,383,998	5,672,417
	2014	4,594,462	31,455	0	4,625,917	7,317,671
Retiree Health Insurance Credit Plan:	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 <sup>(1)</sup>	89,877	2,673	10,475,620	(4,855,701)
	2009	10,697,337	115,207	2,846	10,815,390	(4,274,228)
	2010	12,226,651	102,353	3,932	12,332,936	9,630,006
	2011	11,947,354	151,388	1,745	12,100,487	12,958,839
	2012	12,327,724	171,393	2,071	12,501,188	5,163,317
	2013	12,459,152	185,619	8,765	12,653,536	11,655,048
	2014	13,057,537	201,471	2,992	13,262,000	16,457,708

<sup>(1)</sup>Beginning July 1, 2007, benefits include payments 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, 2014  
Main System**

Monthly Amount	Type of Pension				
	Total	Normal	Early	Disability	Service *
Total	8,388	2,723	2,387	324	2,954
Less than \$200	1,062	507	527	14	14
200 - 399	1,448	551	783	100	14
400 - 599	1,098	421	529	115	33
600 - 799	728	289	269	61	109
800 - 999	629	230	117	23	259
1,000 - 1,199	583	167	83	6	327
1,200 - 1,399	532	137	36	2	357
1,400 - 1,599	391	97	15	1	278
1,600 - 1,799	345	68	8	-	269
1,800 - 1,999	298	59	7	1	231
2,000 - 2,199	234	39	4	1	190
2,200 - 2,399	226	31	6	-	189
2,400 - 2,599	182	29	-	-	153
2,600 - 2,799	131	15	1	-	115
2,800 - 2,999	100	15	1	-	84
3,000 & Over	401	68	1	-	332
Life	5,250	1,814	1,721	268	1,447
Life, 1% Graduated Benefits	2	1	-	-	1
Life, 2% Graduated Benefits	3	1	-	-	2
Level Social Security Payment	137	2	21	-	114
Joint & 100% Survivor	1,771	582	396	25	768
Joint & 100% Survivor, 1% Graduated Benefits	1	1	-	-	-
Joint & 100% Survivor, 2% Graduated Benefits	2	1	-	-	1
Joint & 50% Survivor	994	258	156	25	555
20 Year C & L	39	16	14	-	9
10 Year C & L	159	42	68	3	46
10 Year C & L, 1% Graduated Benefits	1	-	-	-	1
5 Year C & L	29	5	11	3	10
Total	8,388	2,722	2,387	324	2,954

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

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

	Years of Credited Service						Total
	<10	10-14	15-19	20-24	25-29	>=30	
<b>2010</b>							
Number of Retirees	1,298	1,138	1,064	977	959	1,191	6,627
Average Monthly Benefits	\$ 224	\$ 393	\$ 576	\$ 927	\$ 1,380	\$ 2,033	\$ 906
Average Years of Service	6.22	12.30	17.37	22.46	27.22	34.93	19.65
<b>2011</b>							
Number of Retirees	1,309	1,161	1,090	1,022	1,048	1,360	6,990
Average Monthly Benefit	\$ 231	\$ 395	\$ 581	\$ 947	\$ 1,392	\$ 2,047	\$ 945
Average Years of Service	6.27	12.30	17.36	22.49	27.23	35.04	20.11
<b>2012</b>							
Number of Retirees	1,405	1,223	1,134	1,092	1,136	1,477	7,467
Average Monthly Benefit	\$ 238	\$ 411	\$ 602	\$ 993	\$ 1,462	\$ 3,167	\$ 1,000
Average Years of Service	6.27	12.32	17.36	22.50	27.24	35.07	20.21
<b>2013</b>							
Number of Retirees	1,611	1,258	1,146	1,136	1,174	1,519	7,844
Average Monthly Benefit	\$242	\$423	\$626	\$1,031	\$1,503	\$2,270	\$1,023
Average Years of Service	6.10	12.32	17.35	22.50	27.26	35.01	19.88
<b>2014</b>							
Number of Retirees	1,760	1,330	1,193	1,191	1,252	1,662	8,388
Average Monthly Benefit	\$248	\$440	\$647	\$1,068	\$1,547	\$2,345	\$1,061
Average Years of Service	6.07	12.32	17.33	22.53	27.25	35.07	19.91

**Schedule of Retired Members by Type of Benefit – PERS  
As of June 30, 2014  
Judges**

Monthly Amount	Total	Type of Pension			
		Normal	Early	Disability	Service *
Total	29	14	6	-	9
Less than 400	-	-	-	-	-
400 - 799	-	-	-	-	-
800 - 1,199	1	1	-	-	-
1,200 - 1,599	1	-	-	-	1
1,600 - 1,999	3	1	2	-	-
2,000 - 2,399	-	-	-	-	-
2,400 - 2,799	1	1	-	-	-
2,800 - 3,199	2	2	-	-	-
3,200 - 3,599	3	-	2	-	1
3,600 - 3,999	3	2	1	-	-
4,000 - 4,399	1	-	1	-	-
4,400 - 4,799	4	2	-	-	2
4,800 - 5,199	4	3	-	-	1
5,200 - 5,599	1	-	-	-	1
5,600 - 5,999	2	1	-	-	1
6,000 & Over	3	1	-	-	2
Life	3	2	1	-	-
Level Social Security Payment	-	-	-	-	-
Joint & 100% Survivor	17	10	3	-	4
Joint & 50% Survivor	9	2	2	-	5
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	29	14	6	-	9

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

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

	Years of Credited Service						Total
	<10	10-14	15-19	20-24	25-29	>=30	
<b>2010</b>							
Number of Retirees	1	7	4	4	5	1	22
Average Monthly Benefit	\$1,287	\$2,244	\$3,508	\$4,740	\$5,259	\$5,737	\$3,728
Average Years of Service	8.50	11.62	18.25	24.04	25.93	30.00	19.03
<b>2011</b>							
Number of Retirees	0	2	7	5	8	3	25
Average Monthly Benefit	\$ 0	\$ 2,281	\$ 3,733	\$ 4,521	\$ 4,231	\$ 3,794	\$ 3,941
Average Years of Service	0.00	12.38	17.62	23.75	26.94	33.69	23.34
<b>2012</b>							
Number of Retirees	0	2	7	5	8	3	25
Average Monthly Benefit	\$ 0	\$ 2,281	\$ 3,733	\$ 4,521	\$ 4,231	\$ 3,794	\$ 3,941
Average Years of Service	0.00	12.38	17.62	23.75	26.94	33.69	23.34
<b>2013</b>							
Number of Retirees	1	5	8	4	7	2	27
Average Monthly Benefits	\$1,057	\$2,445	\$4,124	\$4,740	\$4,404	\$3,740	\$3,835
Average Years of Service	3.33	11.92	17.54	24.04	26.56	30.79	20.26
<b>2014</b>							
Number of Retirees	1	5	8	5	7	3	29
Average Monthly Benefits	\$1,057	\$2,445	\$4,124	\$5,303	\$4,404	\$5,258	\$4,117
Average Years of Service	3.33	11.92	17.54	23.78	26.56	31.86	20.82

**Schedule of Retired Members by Type of Benefit – PERS  
As of June 30, 2014**

**National Guard**

Monthly Amount	Total	Type of Pension			
		Normal	Early	Disability	Service *
Total	9	4	5	0	0
Less than \$200	1	-	1	-	-
200 - 399	-	-	-	-	-
400 - 599	2	1	1	-	-
600 - 799	1	-	1	-	-
800 - 999	2	1	1	-	-
1,000 - 1,199	-	-	-	-	-
1,200 - 1,399	-	-	-	-	-
1,400 - 1,599	1	-	1	-	-
1,600 - 1,799	1	1	-	-	-
1,800 - 1,999	-	-	-	-	-
2,000 - 2,199	1	1	-	-	-
2,200 - 2,399	-	-	-	-	-
2,400 - 2,599	-	-	-	-	-
2,600 - 2,799	-	-	-	-	-
2,800 - 2,999	-	-	-	-	-
3,000 & Over	-	-	-	-	-
Life	4	2	2	-	-
Level Social Security Payment	3	1	2	-	-
Joint & 100% Survivor	1	-	1	-	-
Joint & 50% Survivor	1	1	-	-	-
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	9	4	5	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
<b>2010</b>							
Number of Retirees	1	2	1	2	2	0	8
Average Monthly Benefits	\$ 169	\$ 736	\$ 722	\$ 1,332	\$ 2,345	\$ 0	\$ 1,215
Average Years of Service	3.25	12.75	19.17	23.46	27.58	0.00	18.75
<b>2011</b>							
Number of Retirees	0	3	1	2	2	0	8
Average Monthly Benefits	\$ 0	\$ 547	\$ 722	\$ 1,332	\$ 2,345	\$ 0	\$ 1,215
Average Years of Service	0.00	13.25	19.17	23.46	27.58	0.00	20.13
<b>2012</b>							
Number of Retirees	0	4	1	2	2	0	9
Average Monthly Benefits	\$ 0	\$ 515	\$ 722	\$ 1,332	\$ 2,345	\$ 0	\$ 1,126
Average Years of Service	0.00	12.71	19.17	23.46	27.58	0.00	19.12
<b>2013</b>							
Number of Retirees	1	3	1	2	2	0	9
Average Monthly Benefits	\$169	\$631	\$722	\$1,332	\$1,771	\$0	\$999
Average Years of Service	3.25	12.19	19.17	23.46	27.58	0.00	17.90
<b>2014</b>							
Number of Retirees	1	3	1	2	2	0	9
Average Monthly Benefits	\$ 169	\$ 631	\$ 722	\$ 1,332	\$ 1,771	\$ 0	\$ 999
Average Years of Service	3.25	12.19	19.17	23.46	27.58	0.00	17.90

**Schedule of Retired Members by Type of Benefit – PERS  
As of June 30, 2014**

**Law Enforcement with Prior Main Service**

Monthly Amount	Total	Type of Pension				Service *
		Normal	Early	Disability		
Total	46	32	4	0	10	
Less than \$200	1	1	-	-	-	
200 - 399	1	1	-	-	-	
400 - 599	3	2	1	-	-	
600 - 799	2	2	-	-	-	
800 - 999	4	3	-	-	1	
1,000 - 1,199	7	7	-	-	-	
1,200 - 1,399	3	3	-	-	-	
1,400 - 1,599	5	2	1	-	2	
1,600 - 1,799	1	-	-	-	1	
1,800 - 1,999	3	1	1	-	1	
2,000 - 2,199	5	4	-	-	1	
2,200 - 2,399	3	2	-	-	1	
2,400 - 2,599	-	-	-	-	-	
2,600 - 2,799	2	2	-	-	-	
2,800 - 2,999	-	-	-	-	-	
3,000 & Over	6	2	1	-	3	
Life	16	14	1	-	1	
Level Social Security Payment	3	-	2	-	1	
Joint & 100% Survivor	21	13	1	-	7	
Joint & 50% Survivor	6	5	-	-	1	
10 Year C & L	-	-	-	-	-	
5 Year C & L	-	-	-	-	-	
Total	46	32	4	-	10	

*\*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
<b>2010</b>							
Number of Retirees	1	2	2	8	8	3	24
Average Monthly Benefits	\$ 478	\$ 845	\$ 1,106	\$ 1,314	\$ 1,802	\$ 2,017	\$ 1,473
Average Years of Service	8.58	12.00	18.67	21.52	26.90	31.94	23.05
<b>2011</b>							
Number of Retirees	3	2	3	8	10	6	32
Average Monthly Benefits	\$ 288	\$845	\$1,161	\$1,314	\$1,842	\$2,969	\$1,649
Average Years of Service	5.86	12.00	18.94	21.52	26.69	32.85	22.96
<b>2012</b>							
Number of Retirees	5	3	3	9	10	7	37
Average Monthly Benefits	\$ 426	\$ 1,049	\$ 1,161	\$ 1,307	\$ 1,956	\$ 3,010	\$ 1,653
Average Years of Service	6.73	12.42	18.94	21.57	26.97	32.86	22.21
<b>2013</b>							
Number of Retirees	6	5	3	9	12	10	45
Average Monthly Benefits	\$500	\$939	\$1,161	\$1,307	\$1,997	\$3,129	\$1,738
Average Years of Service	7.10	12.70	18.94	21.57	27.10	33.00	22.49
<b>2014</b>							
Number of Retirees	6	5	3	10	12	10	46
Average Monthly Benefits	\$ 500	\$ 939	\$ 1,161	\$ 1,437	\$ 1,960	\$ 3,129	\$ 1,747
Average Years of Service	7.10	12.70	18.64	21.64	27.18	33.00	22.55



**Schedule of Retired Members by Type of Benefit – HPRS  
As of June 30, 2013**

Monthly Amount	Type of Pension				
	Total	Normal	Early	Disability	Rule of 80
Total	85	25	1	4	55
Less than \$250	-	-	-	-	-
250 - 499	-	-	-	-	-
500 - 749	-	-	-	-	-
750 - 999	-	-	-	-	-
1,000 - 1,249	1	1	-	-	-
1,250 - 1,499	2	1	-	1	-
1,500 - 1,749	1	1	-	-	-
1,750 - 1,999	1	1	-	-	-
2,000 - 2,249	7	4	1	1	1
2,250 - 2,499	9	5	-	1	3
2,500 - 2,749	7	1	-	-	6
2,750 - 2,999	9	2	-	1	6
3,000 - 3,249	8	2	-	-	6
3,250 - 3,499	9	2	-	-	7
3,500 - 3,749	7	4	-	-	3
3,750 - 3,999	3	-	-	-	3
4,000 - 4,249	4	-	-	-	4
4,250 - 4,499	5	-	-	-	5
4,500 - 4,749	5	1	-	-	4
4,750 & Over	7	-	-	-	7
Life	5	1	-	1	3
Level Social Security Payment	-	-	-	-	-
Joint & 100% Survivor	37	8	-	-	29
Joint & 50% Survivor	43	16	1	3	23
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	85	25	1	4	55

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

	Years of Credited Service						Total
	<10	10-14	15-19	20-24	25-29	>=30	
<b>2010</b>							
Number of Retirees	1	1	5	6	57	17	87
Average Monthly Benefits	\$ 1,456	\$ 2,054	\$ 1,812	\$ 2,051	\$ 3,226	\$ 3,491	\$ 3,082
Average Years of Service	2.25	11.17	17.18	21.64	27.88	31.18	27.00
<b>2011</b>							
Number of Retirees	1	1	5	6	58	17	88
Average Monthly Benefits	\$ 1,456	\$ 2,054	\$ 1,812	\$ 2,051	\$ 3,242	\$ 3,491	\$ 3,094
Average Years of Service	2.25	11.17	17.18	21.64	27.87	31.18	27.00
<b>2012</b>							
Number of Retirees	1	1	4	6	58	17	87
Average Monthly Benefits	\$ 1,456	\$ 2,054	\$ 2,135	\$ 2,598	\$ 3,277	\$ 3,708	\$ 3,227
Average Years of Service	2.25	11.17	17.10	22.14	27.92	31.25	27.19
<b>2013</b>							
Number of Retirees	1	1	4	6	58	16	86
Average Monthly Benefit	\$ 1,456	\$ 2,054	\$ 2,135	\$ 2,598	\$ 3,277	\$ 3,708	\$ 3,227
Average Years of Service	2.25	11.17	17.10	22.14	27.92	31.31	27.15
<b>2014</b>							
Number of Retirees	1	1	4	6	56	17	85
Average Monthly Benefit	\$ 1,456	\$ 2,054	\$ 2,135	\$ 2,598	\$ 3,315	\$ 4,222	\$ 3,354
Average Years of Service	2.25	11.17	17.10	22.14	27.89	31.27	27.15

**Schedule of Retired Members (Excluding Beneficiaries) by Type of Benefit –  
Job Service Retirement Plan As of June 30, 2014**

Monthly Amount	Total	Type of Pension		
		Retirement	Disability	Early
Total	187	179	7	1
Less than \$200	7	7	-	-
200 - 399	13	12	-	1
400 - 599	8	8	-	-
600 - 799	7	7	-	-
800 - 999	7	7	-	-
1,000 - 1,199	13	11	2	-
1,200 - 1,399	7	5	2	-
1,400 - 1,599	20	19	1	-
1,600 - 1,799	8	7	1	-
1,800 - 1,999	10	9	1	-
2,000 - 2,199	14	14	-	-
2,200 - 2,399	8	8	-	-
2,400 - 2,599	15	15	-	-
2,600 - 2,799	6	6	-	-
2,800 - 2,999	12	12	-	-
3,000 & Over	32	32	-	-
Life	46	43	2	1
Joint & 55% Survivor	43	39	4	-
Joint & 75% Survivor	22	22	-	-
Joint & 100% Survivor	16	16	-	-
10 Year C & L	29	28	1	-
15 Year C & L	3	3	-	-
20 Year C&L	28	28	-	-
Total	187	179	7	1

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

	<u>Retirement Plan</u>	<u>Travelers Annuitants</u>	<u>Total</u>
<b>2010</b>			
Number of Retirees	122	89	211
Average Monthly Benefits	\$2,217	\$582	\$1,527
<b>2011</b>			
Number of Retirees	128	85	213
Average Monthly Benefits	\$ 2,194	\$ 617	\$ 1,565
<b>2012</b>			
Number of Retirees	133	79	212
Average Monthly Benefits	\$ 2,340	\$ 691	\$ 1,725
<b>2013</b>			
Number of Retirees and Beneficiaries	137	76	213
Average Monthly Benefits	\$2,289	\$710	\$1,726
<b>2014</b>			
Number of Retirees and Beneficiaries	140	73	213
Average Monthly Benefits	\$2,359	\$757	\$1,810

*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 MEDICAL EXAMINERS  
 BOARD OF NURSING  
 BOARD OF PHARMACY  
 CAREER & TECHNICAL ED  
 CENTRAL SERVICES  
 DAIRY PROMOTION COMMISSION  
 DEPT OF AGRICULTURE  
 DEPT OF FINANCIAL INSTRUCTION  
 DEPT OF COMMERCE  
 DEPT OF CORRECTIONS TRANSITIONAL SERVICES  
 DEPT OF HUMAN SERVICES  
 DEPARTMENT OF CORRECTIONS  
 DEPARTMENT OF TRANSPORTATION  
 DEVELOPMENTAL CENTER  
 DICKINSON STATE UNIVERSITY  
 EDUCATION STANDARDS & PRACTICE  
 ELECTRICAL BOARD  
 FACILITY MANAGEMENT  
 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  
 JOB SERVICE NORTH DAKOTA  
 JUVENILE SERVICES DOCR  
 LAKE REGION STATE COLLEGE  
 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 SYSTEM INFORMATION TECHNOLOGY SERVICES  
 ND SUPREME COURT  
 ND UNIVERSITY SYSTEM  
 ND VETERANS HOME  
 ND WHEAT COMMISSION  
 ND YOUTH CORRECTIONAL CENTER  
 NORTH DAKOTA STATE HOSPITAL  
 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  
 TOBACCO PREVENTION/CONTROL COMMITTEE  
 UNIVERSITY OF NORTH DAKOTA  
 VALLEY CITY STATE UNIVERSITY  
 VETERANS AFFAIRS DEPARTMENT  
 WATER COMMISSION  
 WILLISTON STATE COLLEGE  
 WORKFORCE SAFETY AND INSURANCE  
**Total = 96**

**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  
 MORTON 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 = 49**

**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  
 DICKINSON PUBLIC SCHOOLS  
 DIVIDE COUNTY SCHOOL DIST #1  
 DRAKE PUBLIC SCHOOL DISTRICT  
 DRAYTON PUBLIC SCHOOL #19  
 DUNSEITH SCHOOL DISTRICT #1  
 EAST CENTRAL SPECIAL EDUCATION  
 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  
 GREAT NORTHWEST EDUCATION COOPERATIVE  
 HALLIDAY PUBLIC SCHOOL  
 HARVEY PUBLIC SCHOOL DIST #38  
 HAZEN PUBLIC SCHOOL DIST #3  
 HILLSBORO PUBLIC SCHOOL  
 JAMES RIVER MULTI DISTRICT SPECIAL EDUCATION  
 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  
 LEEDS PUBLIC SCHOOL DISTRICT 6  
 LEWIS AND CLARK PUBLIC SCHOOLS  
 LIDGERWOOD PUBLIC SCHOOL  
 LINTON PUBLIC SCHOOL  
 LISBON PUBLIC SCHOOL  
 LONETREE SPECIAL EDUCATION UNIT  
 MANDAN PUBLIC SCHOOL DIST #1  
 MANDAREE PUBLIC SCHOOL #36  
 MANVEL PUBLIC SCHOOL  
 MAPLETON PUBLIC SCHOOL  
 MAPLE VALLEY SCHOOL DISTRICT  
 MAX PUBLIC SCHOOL  
 MCCLUSKY PUBLIC SCHOOLS  
 MCKENZIE CTY PUBLIC SCHOOL #1  
 MEDINA PUBLIC SCHOOL DIST #3  
 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 ALMONT SCHOOL DIST  
 NEW TOWN PUBLIC SCHOOL #1  
 NEWBURG UNITED PUBLIC SCHOOL  
 NORTHERN CASS SCHOOL DIST #97  
 NORTH BORDER SCHOOL DIST #100  
 NORTH SARGENT SCHOOL DIST #3  
 NORTHERN PLAINS SPECIAL EDUCATION UNIT  
 NORTH VALLEY CAREER AND TECH CENTER  
 OAKES PUBLIC SCHOOLS  
 OLIVER-MERCER SPECIAL ED UNIT  
 PARK RIVER PUBLIC SCHOOLS

PEACE GARDEN SPECIAL SERVICES  
 PINGREE BUCHANON SCHOOL DIST  
 RICHLAND SCHOOL DIST #44  
 ROLETTE COUNTY ALT ED CONSORT  
 ROLETTE PUBLIC SCHOOLS  
 ROUGHRIDER EDUCATION SERVICES PROGRAM  
 RUGBY PUBLIC SCHOOL DIST #5  
 RURAL CASS MULTI-DISTRICT SPECIAL ED  
 SAWYER PUBLIC SCHOOL  
 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 COMMUNITY PUBLIC SCHOOL  
 SURREY SCHOOLS  
 SW SPECIAL EDUCATION UNIT  
 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  
 WAHPETON PUBLIC SCHOOL DIST #39  
 WARWICK PUBLIC SCHOOL  
 WASHBURN PUBLIC SCHOOL  
 WEST FARGO PUBLIC SCHOOL #6  
 WESTHOPE PUBLIC SCHOOL #17  
 WEST RIVER STUDENT SERVICES  
 WHITE SHIELD SCHOOL DIST #85  
 WILLISTON PUBLIC SCHOOL #1  
 WILMAC MULTIDISTRICT SPECIAL EDUCATION UNIT  
 WILTON PUBLIC SCHOOL DISTRICT  
 YELLOWSTONE SCHOOL DIST #14  
 ZEELAND PUBLIC SCHOOLS  
**Total = 119**

**CITIES:**

CITY OF ASHLEY  
 CITY OF BEACH  
 CITY OF BELFIELD  
 CITY OF BERTHOLD  
 CITY OF BOWMAN  
 CITY OF BURLINGTON  
 CITY OF CARRINGTON  
 CITY OF CARSON  
 CITY OF CAVALIER  
 CITY OF COOPERSTOWN  
 CITY OF CROSBY  
 CITY OF DEVILS LAKE  
 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 GRAND FORKS  
 CITY OF GRANVILLE  
 CITY OF GWINNER  
 CITY OF HALLIDAY  
 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 KULM  
 CITY OF LAKOTA  
 CITY OF LARIMORE  
 CITY OF LAMOURE  
 CITY OF LIDGERWOOD

CITY OF LINCOLN  
 CITY OF LINTON  
 CITY OF LISBON  
 CITY OF MADDOCK  
 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  
 CITY OF RAY  
 CITY OF REGENT  
 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 = 86**

GRAND FORKS PARK DISTRICT  
 GRAND FORKS PUBLIC LIBRARY  
 GREATER RAMSEY WATER DISTRICT  
 GRIGGS COUNTY LIBRARY  
 JAMES RIVER SOIL CONSERVATION DISTRICT  
 JAMES RIVER VALLEY LIBRARY SYSTEM  
 JAMESTOWN PARKS AND RECREATION  
 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  
 ND FIREFIGHTERS ASSOCIATION  
 NELSON-GRIGGS DIST HEALTH UNIT  
 R & T WATER SUPPLY ASSOCIATION  
 RAMSEY COUNTY HOUSING AUTHORITY  
 RAMSEY COUNTY SOIL CONSERVATION DISTRICT  
 RAMSEY COUNTY WATER RESOURCE DISTRICT  
 RANSOM COUNTY SOIL CONSERVATION DISTRICT  
 RED RIVER JOINT WATER RESOURCE DISTRICT  
 ROLETTE COUNTY PUBLIC HEALTH  
 ROLETTE COUNTY SOIL CONSERVATION DISTRICT  
 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  
 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  
 WESTERN AREA WATER SUPPLY AUTHORITY  
 WEST FARGO PARK DISTRICT  
 WILLIAMS COUNTY SOIL CONSERVATION  
 WILLISTON HOUSING AUTHORITY  
**Total = 73**

**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 COUNTY WATER RESOURCE  
 GRAND FORKS E GRAND FORKS MPO

**Principle Participating Employers  
June 30, 2014**

Participating Employer	Covered Employees	Rank	% of Total System
Department of Human Services	1,272	1	5.87%
University of North Dakota	1,104	2	5.10%
Department of Transportation	1,034	3	4.78%
North Dakota State University	844	4	3.90%
Bismarck Public Schools	769	5	3.55%
Fargo Public Schools	667	6	3.08%
Minot Public School District #1	514	7	2.37%
West Fargo Public School	475	8	2.19%
City of Fargo	443	9	2.05%
North Dakota State Hospital	423	10	1.95%
Other Employers	14,107		65.16%
Total covered employees*	21,652		100.00%

\*Total covered employees represents the number of employees in a contributing status as of June 30, 2014 in the Main retirement plan.

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

	6/30/10	6/30/11	6/30/12	6/30/13	6/60/14
AIG VALIC	\$7,475,965	\$ 9,273,099	\$ 10,005,329	\$ 11,137,291	\$10,599,979
American Trust Center	4,401,306	6,220,966	6,652,642	8,654,834	11,100,596
AXA Equitable	20,264,795	23,802,876	19,768,514	20,253,226	20,837,719
Bank of North Dakota	4,826,940	5,052,015	4,953,960	5,297,216	5,037,014
Commonwealth Annuity & Life Insurance Co. (formerly Chase Financial/Kemper)	6,109,277	7,101,363	6,744,070	7,589,208	8,839,687
Mass Mutual (formerly Hartford)	26,064,862	32,777,966	34,620,370	42,080,983	49,860,107
ING (formerly Aetna)	1,392,402	1,542,256	1,546,676	1,719,510	1,867,908
Jackson National Life	1,584,770	1,945,958	2,363,895	3,534,630	4,726,895
Kansas City Life (formerly Sunset Life)	250,553	270,209	130,390	142,142	156,237
Lincoln National	4,907,412	5,997,710	5,002,890	5,491,725	6,185,369
NDPERS Companion Plan <sup>(1)</sup>	27,638,654	37,015,050	39,771,092	49,850,857	64,234,247
Nationwide Life Insurance	6,174,645	8,029,037	8,447,206	9,798,394	12,369,171
New York Life <sup>(1)</sup>	302,829	319,468	336,650	320,892	348,718
Symetra (formerly Safeco)	450,554	342,429	275,053	274,712	296,839
Waddell & Reed Financial Services	<u>5,629,199</u>	<u>6,187,770</u>	<u>5,705,656</u>	<u>8,153,702</u>	<u>10,288,488</u>
Total	\$ 117,474,163	\$ 145,878,172	\$ 146,324,393	\$174,299,322	\$206,748,974

<sup>(1)</sup>As of January 1, 1999, the System is the trustee for these deferred compensation assets and is reporting them as a trust fund in the June 30, 2012 and June 30, 2011 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

