

# 2010

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2010



**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 Year Ended June 30, 2010*

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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.*

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## INTRODUCTORY SECTION



Public Pension Coordinating Council

***Recognition Award for Administration  
2010***

Presented to

***North Dakota Public Employees Retirement System***

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

*Presented by the Public Pension Coordinating Council, a confederation of*

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

A handwritten signature in cursive script, reading 'Alan H. Winkle'.

Alan H. Winkle  
Program Administrator

**GFOA  
CERTIFICATE OF  
ACHIEVEMENT**

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## North Dakota Public Employees Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2009

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



President

Executive Director

## LETTER OF TRANSMITTAL



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Public Employees Retirement System**  
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Executive Director  
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December 30, 2010

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, 2010. The management of the System is responsible for both the accuracy of the data and the completeness and fairness of the presentation.

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

### **Plan History and Services Provided**

The System is the administrator of four defined benefit pension plans and an optional defined contribution retirement plan. The System also manages and administers the retiree health insurance credit program, the uniform group insurance program, the deferred compensation program and the pretax benefits program. Following is a brief overview of the statistical and financial highlights for each of these programs for the fiscal year ended June 30, 2010.

### **Defined Benefit Pension Plans**

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

PERS has 20,668 contributing members and 7,434 retirees and beneficiaries currently receiving benefits. HPRS has 139 contributing members and 113 retirees and beneficiaries. The Job Service Plan has 31 contributing members and 211 retirees. There are no longer any beneficiaries receiving payments from the OASIS plan. The employers participating in PERS include 95 state agencies and 313 political subdivisions.

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

### **Defined Contribution Retirement Plan**

An optional Defined Contribution Retirement Plan (DC Plan) was established effective January 1, 2000. The DC Plan is available to state employees who are in positions not classified by the Human Resource Management Services division of the State of North Dakota. Employees of the judicial branch or the Board of Higher Education and State Institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Plan. The Plan has 293 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 21,047 contributing members and 4,105 retired participants currently receiving benefits. Approximately 55% of eligible retirees are receiving benefits under this plan, a decrease of 2% from last year.

Another component of this plan, which is being reported in compliance with GASB Statement 43, provides health care coverage to eligible retiree's who are not yet eligible for Medicare. The premiums for this group are not age-rated and do not cover the costs of the coverage; therefore, the costs of this group are being subsidized through the active group rates. There are approximately 700 retiree's currently receiving the subsidized premium.

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

### **Uniform Group Insurance Program**

*Group Health Insurance.* The System began administering the group health insurance plan in 1971. There are 25,516 active and retired contracts under this plan as of June 30, 2010, a 1.4% increase from last year at this time. Total covered lives, including spouses and dependents, are 57,577. As of June 30, 2010 there were 175 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, 2010 totaled \$214.7 million. To help offset the rising rates of medical and prescription drug costs, the System continues to focus on programs to manage costs. This includes expanding the employer based wellness initiative, adding additional wellness benefits and incentives to the plan design, disease management and a special diabetes management program in partnership with the North Dakota Pharmacists.

*Group Life Insurance.* The System began administering the group life insurance plan in 1971. There are 18,441 active and 2,995 retired employees covered under the basic life insurance plan. Active employees have the option of purchasing additional life insurance under the employee supplemental, dependent supplemental, and spouse supplemental provisions of the plan. The life insurance premiums paid to Prudential for the fiscal year ended June 30, 2010 totaled \$3.1 million, a 10.7% increase from last year. As of fiscal year end, there is \$1.215 billion of life insurance in force for all participants covered by this plan, a 4.6% increase in coverage from last year.

*Voluntary Insurance Products.* The 1995 North Dakota Legislature authorized the System to offer voluntary insurance products, specifically dental, vision and long term care insurance. On January 1, 1997, the System began offering a dental plan and long term care plan and on January 1, 2003, a vision plan was offered. There are approximately 6,200 participants in the dental plan, 4,600 participants in the vision plan and 57 participants in the long term care plan.

*Employee Assistance Program.* The 1997 North Dakota Legislature authorized the System to administer an employer-sponsored Employee Assistance Program (EAP) for all state employees, effective August 1, 1997. The System has contracted with four EAP vendors to provide services to employees and their families. The System collects the monthly premiums from the employers and remits them to the appropriate vendor. Approximately 15,900 state employees are covered under this program.

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

### **Deferred Compensation Program**

This is a voluntary, supplemental retirement plan provided in accordance with Section 457 of the Internal Revenue Code. It allows eligible employees to defer and invest income on a pretax basis to be withdrawn at a later date, usually at retirement. The System has administered the Plan since 1987. Fifteen companies have agreed to provide investment services for the State's deferred compensation program. The System is the trustee for deferred compensation assets totaling \$27.9 million; provider companies hold the remaining plan assets of \$89.5 million in custodial accounts for the exclusive benefit of participants and their beneficiaries. Plan assets increased 18.4% from last year, a reflection of the recovery in the investment markets. Approximately 9,300 employees participate in this program, which is a 6.3% increase over last year.

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



**Pretax Benefits Program (FlexComp)**

This program was established by the North Dakota Legislature in 1989 in accordance with Section 125 of the Internal Revenue Code. It allows eligible employees to elect to reduce their salaries to pay for qualified insurance premiums, medical expenses, and dependent care expenses on a pretax basis. There are 3,178 participants in the medical and dependent care spending accounts, an increase of 4.2% from last year. Employee contributions to the spending accounts increased by 8.9% for a total of \$6.1 million. The employer FICA savings generated from the salary reductions are sufficient to cover the administrative expenses; therefore, this program remains budget neutral.

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

**Major Initiatives****Retirement**

- Performed a retirement plan performance study on our defined contribution plan
- Worked with participating employers, members and representative groups to review the funding challenges facing the PERS retirement plan and to prepare options to address the situation; prepared and submitted draft legislation
- Reviewed the PERS investment policies
- Reviewed the results of the experience study for the PERS retirement plans and adjusted the assumptions where indicated
- Started efforts on an Asset/Liability Study for the PERS Retirement plans
- Implemented the benefit increase in the retiree health credit effective August 1
- Issued an RFP for a consultant to provide assistance with seeking a bundled provider (recordkeeping and investments) for the 401 (a) plan and 457 plan
- Worked with the IRS on our determination letter under Schedule C

**Group Insurance**

- Conducted an audit of our pharmacy benefit manager
- Completed the Medicare Part D renewal
- Issued an RFP for our Group Insurance Consultant, analyzed the responses and issued a contract for services
- Completed the OPEB valuation
- Prepared and issued an RFP for the group health insurance plan
- Monitored the health care reform effort and its implication for the PERS plan
- Expanded the PERS Wellness program to more employers/members.

**Administrative**

- Continued development of the new PERS business system, the project remained on schedule and within budget
- Promulgated our administrative rules to implement legislation passed by the 2009 Legislative Session
- Prepared a proposed administrative budget for consideration by the executive budget office

**Financial Information**

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

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

## Revenues and Expenses

Investment earnings, together with employee and employer contributions, are the funding sources for the benefits provided through the System. The main expenses of the System are benefit payments and the cost of administering the System. The following tables show the combined revenues and expenses for the PERS, HPRS, Job Service and OASIS plans for fiscal years 2010 and 2009:

(Millions)	Fiscal Year 2010	Fiscal Year 2009	Change in \$ s	Percentage Change
<b>Revenue Type</b>				
Employee Contributions	\$ 33.5	\$ 30.8	\$ 2.7	8.8%
Employer Contributions	31.4	28.8	2.6	9.0
Investments	<u>188.2</u>	<u>(448.3)</u>	<u>636.5</u>	<u>N/A</u>
Total	\$253.1	\$(388.7)	\$641.8	N/A
<b>Expense Type</b>				
Benefits	\$ 84.2	\$ 78.1	\$ 6.1	7.8%
Refunds & Transfers	4.1	5.4	(1.3)	(24.1)
Administrative Expenses	<u>1.3</u>	<u>1.3</u>	<u>0.0</u>	<u>0.0</u>
Total	\$89.6	\$ 84.8	\$ 4.8	5.7%

Revenues increased due to an increase in net investment income as a result of the recovery in the investment markets. Expenses increased as a result of an increase in the number of retirees receiving benefits throughout the year.

## Funding Status

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

A common measure of the strength of a pension system is to express the assets as a percentage of liabilities - the greater the percentage, the stronger the funding position of the System. The schedules of funding progress in the Financial Section of this report show both PERS and HPRS to be soundly funded. The July 1, 2010 actuarial valuation reports the actuarial value of assets for PERS at \$1,621.7 million, which is 73.4% of the actuarial accrued liabilities of \$2,208.4 million. The actuarial value of assets for HPRS is \$49.3 million, which is 87.2% of the actuarial accrued liabilities of \$57.6. The Job Service Plan is fully funded. The actuarial value of assets for the Job Service Plan is \$73.5 million, which is 104.8% of the actuarial present value of benefits of \$70.1 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 47.4% 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, 2009, the unfunded actuarial accrued liability for this plan is \$53.7 million.

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

## Investments

The North Dakota State Investment Board (SIB) invests the funds for the PERS, HPRS and Job Service Plan. Chapter 21-10 of the North Dakota Century Code states that the SIB shall apply the prudent investor rule when investing funds under its supervision. The prudent investor rule means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. All funds must be invested exclusively for the benefit of the System's members and all investments are made in accordance with the System's long-term investment objectives and performance goals.

The combined market value of assets for PERS and HPRS as of June 30, 2010 is \$1.509 billion, which is an increase of 11.6% from the previous year. The market value of assets for Job Service as of June 30, 2010 is

\$77.6 million, an increase of 7.8% from the previous year. During the fiscal year ended June 30, 2010, the System's portfolio remained broadly diversified with investments in domestic and international equities, domestic and international fixed income securities, real estate, private equity and cash equivalents.

The PERS and HPRS assets had an annualized rate of return of 13.67% for the fiscal year ended June 30, 2010. The annualized rate of return was -6.78% for the last three years and 1.54% for the last five years. The annualized rate of return for the fiscal year ended June 30, 2010 for the Job Service Plan was 13.61%. The annualized rate of return was -2.32% for the last three years and 2.95% 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, 2010 is \$44.9 million, which is 26.8% higher than the previous year. The assets earned an annualized rate of return of 16.86% for the fiscal year ended June 30, 2010. The annualized rate of return was -5.99% for the last three years and 1.01% for the last five years. During the fiscal year ended June 30, 2010, the System's portfolio remained broadly diversified with investments in domestic and international equities, domestic and international fixed income securities, and cash equivalents.

The assets of the defined contribution retirement plan are invested according to the direction of each participating member. The participant can select from fourteen investment categories and a mutual fund window, as provided by the Board. The investment categories are designed to cover a broad range to allow the participant to structure an investment strategy that meets their individual return objectives and risk tolerances. The market value of assets in the defined contribution retirement plan as of June 30, 2010 is \$16.5 million, which is an 18.7% 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, 2010.

#### **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, 2009. 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 fourteen consecutive years (fiscal years ended June 30, 1996 - 2009). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

#### **Acknowledgements**

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

Sincerely,



Sparb Collins  
Executive Director



Sharon Schiermeister, CPA  
Finance Manager

## THE RETIREMENT BOARD

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

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



Jon Strinden  
Chairman  
Term expires  
6/30/2010



Arvy Smith  
Health Department  
Appointee



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



Joan Erhardt  
Member elected  
Term expires  
6/30/2014



Howard Sage  
Retiree elected  
Term expires  
6/30/2014



Mike Sandal  
Member elected  
Term expires  
6/30/2012

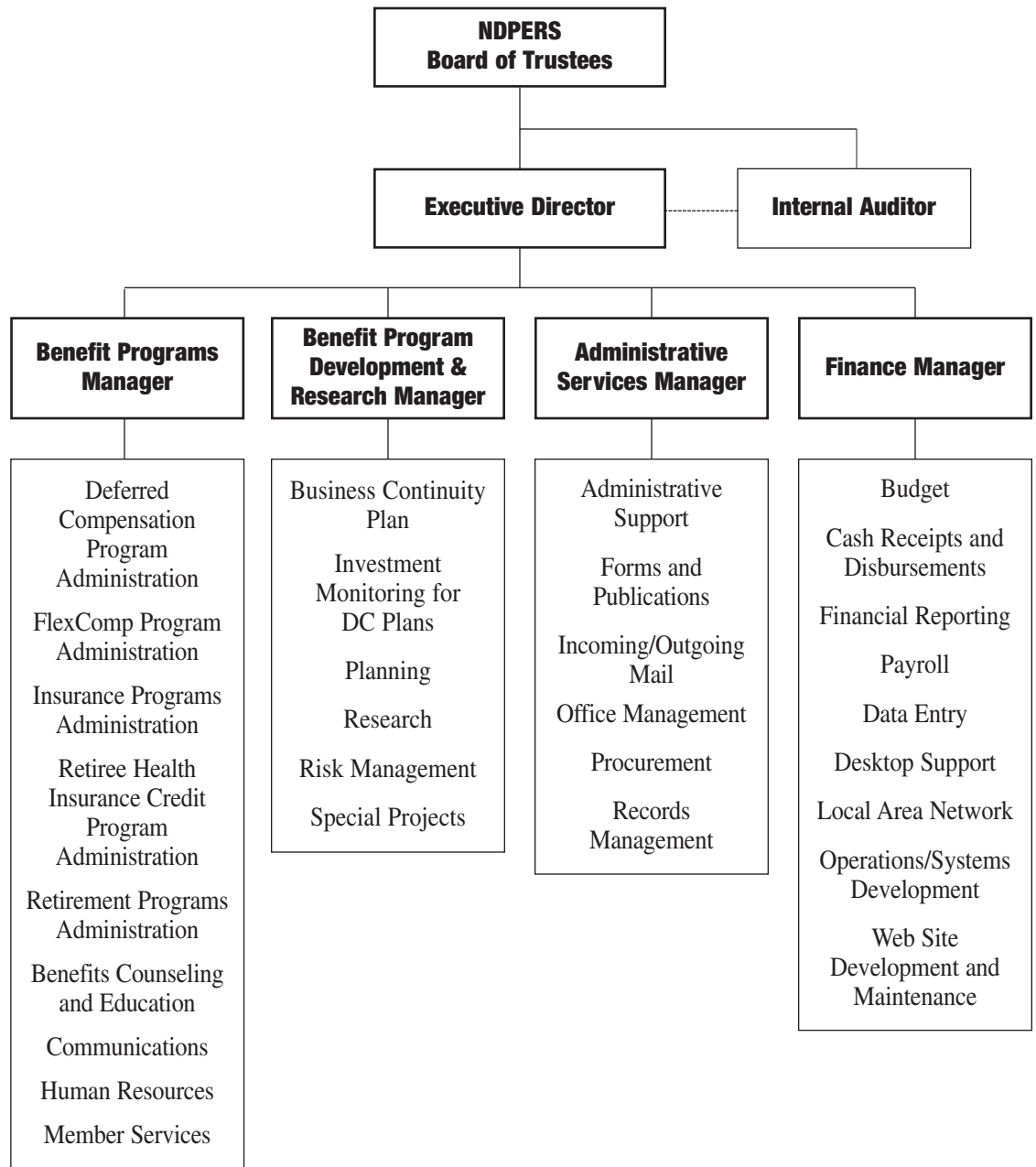


Levi Erdmann  
Member elected  
Term expires  
6/30/2013

*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 Auditor*

Deb Knudsen, *Benefit Program Development and Research Manager*

Sharon Schiermeister, CPA, *Finance Manager*

Cheryl Stockert, *Administrative Services Manager*

## CONSULTING & PROFESSIONAL SERVICES

### **Actuary:**

The Segal Company  
San Francisco, CA

### **Auditor:**

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

### **Dental Insurance Carrier:**

CIGNA Healthcare  
Denver, CO

### **Disability Consultant:**

Mid Dakota Clinic  
Bismarck, ND

### **Employee Assistance Program Vendors:**

Deer Oaks EAP Services  
San Antonio, TX

Medcenter One  
Bismarck, ND

St. Alexius/Heartview  
Bismarck, ND

Village Family Services  
Fargo, ND

### **Health Insurance Carrier:**

Blue Cross Blue Shield of North Dakota  
Fargo, ND

### **Insurance Consultant:**

Gallagher Benefit Services, Inc.  
Greenwood Village, CO

### **Investment Services:**

North Dakota Retirement & Investment Office  
Bismarck, ND

### **Legal Counsel:**

North Dakota Attorney General's Office  
Bismarck, ND

### **Life Insurance Carrier:**

The Prudential Insurance Company of America  
Minneapolis, MN

### **Long Term Care Insurance Carrier:**

UNUM  
Portland, ME

### **Vision Insurance Carrier:**

Ameritas Life Insurance Corporation  
Lincoln, NE





**FINANCIAL SECTION**



**INDEPENDENT  
AUDITOR'S  
REPORT**



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

Governor John Hoeven  
The Legislative Assembly

Sparb Collins, Executive Director  
North Dakota Public Employees Retirement System

We have audited the accompanying financial statements of the business-type activities and fiduciary funds of the North Dakota Public Employees Retirement System, a department of the State of North Dakota, as of and for the years ended June 30, 2010 and 2009, which collectively comprise the North Dakota Public Employees Retirement System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Dakota Public Employees Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the North Dakota Public Employees Retirement System are intended to present the financial position, the changes in financial position, the cash flows and the change in net plan assets of only that portion of the business-type activities and fiduciary funds of the State of North Dakota that is attributable to the transactions of the North Dakota Public Employees Retirement System. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The actuary for the North Dakota Public Employees Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately \$586 and \$284 million at June 30, 2010 and 2009, respectively. Also, the actuary for the Highway Patrolmen's Retirement System has determined that the Fund's unfunded actuarial accrued liability is approximately \$7 million at June 30, 2010 and 2009. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. The actuary has determined that the current statutory contribution rates are insufficient to meet the actuarially determined requirement. If unchanged, this difference will further increase the actuarial contribution requirement in future valuations.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the plan net assets of the North Dakota Public Employees Retirement System as of June 30, 2010 and 2009, and the respective changes in net plan assets, changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 8, 2010 on our consideration of the North Dakota Public Employees Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis (MD&A) and the Schedules of Employer Contributions and Schedule of Funding Progress on pages 50-51 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

BRADY, MARTZ & ASSOCIATES, P.C.

*Brady, Martz*

November 8, 2010

## Management's Discussion and Analysis June 30, 2010 and 2009

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, 2010. Please read it in conjunction with the basic financial statements, which follow this discussion.

NDPERS administers a total of eight fiduciary funds. This includes four defined benefit pension trust funds (PERS, Highway Patrol, Job Service and OASIS), one defined contribution pension trust fund, the retiree health insurance credit trust fund, the deferred compensation trust fund and pretax benefits trust fund. NDPERS also administers one proprietary fund, the Uniform Group Insurance Program, which is an enterprise fund.

### Financial Highlights

#### Pension and Other Employee Benefit Plans

• As of June 30, 2010 and 2009, the funding ratio (actuarial value of assets divided by actuarial accrued liability) for each of the funds is shown below:

	<u>2010</u>	<u>2009</u>
Public Employees Retirement System	73.4%	85.1%
Highway Patrolmen Retirement System	79.8%	87.2%
Retirement Plan for Employees of Job Service ND	104.8%	104.7%
Retiree Health Insurance Credit Fund	47.4%	43.9%

NDPERS' funding objective is to meet long-term benefit promises through contributions and investment income. The funding ratio listed above gives an indication of how well this objective has been met to date. The higher the funding ratio, the better the plan is funded. The funding ratios for the Public Employees and Highway Patrolmen retirement systems decreased from the previous fiscal year as a result of the recognition of previous years' investment losses.

• Plan net assets for all trust funds administered by NDPERS increased \$182.4 million or 10% during the fiscal year ended June 30, 2010. The increase was primarily due to net gains on investments during the fiscal year.

	<u>(In Thousands)</u>
Public Employees Retirement System	\$ 154,182
Highway Patrolmen Retirement System	3,864
Retiree Health Insurance Credit Fund	9,630
Defined Contribution Retirement Fund	2,572
Pretax Benefits Fund	96
Deferred Compensation Plan	6,590
Retirement Plan for Employees of Job Service ND	5,506
OASIS Trust Fund	(4)
Total increase in plan net assets	<u>\$ 182,436</u>

• As of June 30, 2010, an additional \$1.7 million in software development costs were incurred and capitalized and are shown as Software (not in production) on the Statement of Plan Net Assets for each of the trust funds. The total costs capitalized as of June 30, 2010 are \$6.1 million.

### Financial Highlights –

#### Uniform Group Insurance Program

• Net assets decreased by \$179,693 or 17.8%.

The decrease is primarily the result of an operating transfer to the Deferred Compensation plan to fund that program's portion of the software development costs.

• As of June 30, 2010, an additional \$.7 million in software development costs were incurred and capitalized and are shown as Software (not in production) on the Statement of Net Assets for the Proprietary Fund. The total costs capitalized as of June 30, 2010 are \$2.4 million.

### Overview of the Financial Statements

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

**Fund financial statements.** There are two financial statements presented for the fiduciary funds. The Statement of Fiduciary Net Assets as of June 30, 2010, indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Fiduciary Net Assets for the year ended June 30, 2010, provides a view of the current year's additions and deductions to the individual trust funds.

There are three financial statements presented for the proprietary fund. The Statement of Net Assets as of June 30, 2010, provides a snapshot at a particular point in time of the net assets available for use by this program. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for the year ended June 30, 2010, 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, 2010 shows the cash used by operating activities as well as the net increase in cash due to operating and investing activities.

**Notes to the financial statements.** The notes provide additional information that is essential for a full understanding of the data provided in the fund financial statements. The notes include information

## MANAGEMENT'S DISCUSSION AND ANALYSIS

on the funding status, funding progress and actuarial assumptions and methods for each of the defined benefit pension trust funds and the retiree health insurance credit advance funded and implicit subsidy unfunded plans. The notes to the financial statements can be found on pages 28-49 of this report.

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

trend information, which contributes to understanding the changes in the funded status of the funds over time.

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

#### Financial Analysis

The financial results for fiscal years 2010 and 2009 are summarized below. The information in the tables below is condensed from the Financial Statements.

#### Statement of Fiduciary Net Assets (in thousands)

	<u>2010</u>	<u>% Change</u>	<u>2009</u>	<u>% Change</u>	<u>2008</u>
<b>Assets</b>					
Cash	\$ 2,421	(10.7)%	\$ 2,710	30.2%	\$ 2,082
Receivables	8,825	5.9%	8,330	(11.9)%	9,450
Investments, at fair value	1,676,069	12.1%	1,495,066	(24.5)%	1,979,470
Securities Lending Collateral	9,913	28.3%	7,724	(75.8)%	31,937
Software & Equipment, net of accum depr	<u>6,074</u>	<u>38.9%</u>	<u>4,374</u>	<u>83.3%</u>	<u>2,386</u>
Total assets	<u>1,703,302</u>	<u>12.2%</u>	<u>1,518,204</u>	<u>(25.0)%</u>	<u>2,025,325</u>
<b>Liabilities</b>					
Long-term liabilities outstanding	134	8.9%	123	7.0%	115
Other liabilities	<u>13,375</u>	<u>24.7%</u>	<u>10,724</u>	<u>(70.0)%</u>	<u>35,691</u>
Total liabilities	<u>13,509</u>	<u>24.5%</u>	<u>10,847</u>	<u>(69.7)%</u>	<u>35,806</u>
Net assets available for benefits	<u>\$1,689,793</u>	<u>12.1%</u>	<u>\$1,507,357</u>	<u>(24.2)%</u>	<u>\$1,989,519</u>

The total assets for all fiduciary funds as of June 30, 2010 were \$1.7 billion and were comprised mainly of investments and invested securities lending collateral. After experiencing decreases in plan assets of \$507.1 million and \$274.1 for fiscal years ended June 30, 2009 and June 30, 2008 respectively, plan assets increased by \$185.1 million for the fiscal year ended June 30, 2010. The changes in plan assets are primarily related to the gains and losses experienced in the financial markets.

Total liabilities as of June 30, 2010 were \$13.5 million and were primarily comprised of securities lending collateral. Total liabilities increased \$2.7 million for the fiscal year ended June 30, 2010, and decreased \$25 million for the fiscal year end June 30, 2009 as a result of changes in securities lending collateral.

**Statement of Changes in Fiduciary Net Assets (in thousands)**

	<u>June 30, 2010</u>	<u>% Change</u>	<u>June 30, 2009</u>	<u>% Change</u>	<u>June 30, 2008</u>
<b>Additions</b>					
Contributions	\$ 87,718	10.5%	\$ 79,370	3.2%	\$ 76,900
Investment income	199,619	*	(463,300)	(318.1)%	(110,815)
Other	<u>5,097</u>	<u>2.9%</u>	<u>4,954</u>	<u>16.4%</u>	<u>4,257</u>
Total additions	<u>292,434</u>	<u>*</u>	<u>(378,976)</u>	<u>(137.8)%</u>	<u>(29,658)</u>
<b>Deductions</b>					
Benefit payments	103,445	8.2%	95,602	0.2%	95,408
Refunds/Transfers	4,484	(18.6)%	5,506	(6.1)%	5,865
Administrative expenses	<u>2,069</u>	<u>(.4)%</u>	<u>2,078</u>	<u>9.1%</u>	<u>1,905</u>
Total deductions	<u>109,998</u>	<u>6.6%</u>	<u>103,186</u>	<u>0.0%</u>	<u>103,178</u>
<b>Changes in net assets available for benefits</b>	<u>\$ 182,436</u>	<u>137.8%</u>	<u>\$ (482,162)</u>	<u>(263.0)%</u>	<u>\$(132,836)</u>

\*N/A

Additions. Contributions and returns on invested funds are the primary additions that are accumulated and used to pay benefits for each of the plans. Contributions increased \$8.3 million and \$2.5 million for the years ended June 30, 2010 and 2009, respectively. The increase in the Retiree Health Insurance contribution, which became effective July 1, 2009, is reflected in this increase. The plans experienced positive investment earnings of \$199.6 million for the fiscal year ending June 30, 2010, following a year of negative earnings of \$463.3 million for the previous fiscal year. The increase in Other Additions in 2009 is primarily due to a transfer from the group insurance program to the deferred compensation program to cover software development costs.

Deductions. Expenses include benefit payments, refunds/transfers, and administrative expenses. Expenses for the year ended June 30, 2010 totaled \$110.0 million which is an increase of 6.6% from 2009. The increase in the Retiree Health Insurance Credit benefit, which also became effective July 1, 2009, is reflected in this increase.



**Statement of Proprietary Fund Net Assets (in thousands)**

	<u>June 30, 2010</u>	<u>% Change</u>	<u>June 30, 2009</u>	<u>% Change</u>	<u>June 30, 2008</u>
<b>Assets</b>					
Cash	\$11,126	0.5%	\$ 11,069	42.5%	\$ 7,769
Receivables	75	(84.0)%	468	450.6%	85
Software (not in production)	<u>2,450</u>	<u>39.0%</u>	<u>1,763</u>	<u>83.5%</u>	<u>961</u>
Total assets	<u>13,651</u>	<u>2.6%</u>	<u>13,300</u>	<u>50.9%</u>	<u>8,815</u>
<b>Liabilities</b>					
Long-term liabilities outstanding	57	18.8%	48	11.6%	43
Other liabilities	<u>12,765</u>	<u>4.3%</u>	<u>12,243</u>	<u>64.5%</u>	<u>7,444</u>
Total liabilities	<u>12,822</u>	<u>4.3%</u>	<u>12,291</u>	<u>64.2%</u>	<u>7,487</u>
<b>Net assets</b>	<u>\$ 829</u>	<u>(17.8)%</u>	<u>\$ 1,009</u>	<u>(24.0)%</u>	<u>\$ 1,328</u>

As of June 30, 2010, total assets increased by \$.3 million. The net change was the result of an increase in software (not in production) to reflect the costs incurred to date on the software development project. This increase was offset by a decrease in receivable. As of June 30, 2009, total assets increased by \$4.5 million. The increase in cash and receivables reflects the surplus funds recognized from the 2005-2007 health insurance contract. There was also an increase in software (not in production) which reflects the costs incurred as of that date.

Total liabilities as of June 30, 2010 are \$12.8 million. The main components of this liability are deferred premiums and amounts held in custody for others. Liabilities increased by \$4.8 million as of June 30, 2009. The primary reason for the increase relates to the health insurance surplus. As surplus funds are recognized, a related liability is reflected as 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 Assets (in thousands)**

	<u>June 30, 2010</u>	<u>% Change</u>	<u>June 30, 2009</u>	<u>% Change</u>	<u>June 30, 2008</u>
<b>Operating Revenues</b>					
Administrative Fee	\$ 949	2.2%	\$ 929	2.3%	\$ 923
<b>Non-Operating Revenues</b>					
Investment income	<u>27</u>	(63.5)%	<u>74</u>	(32.2)%	<u>213</u>
Total revenues	<u>976</u>	(2.7)%	<u>1,003</u>	(6.6)%	<u>1,136</u>
<b>Operating Expenses</b>					
Administrative expenses	<u>948</u>	9.2%	<u>868</u>	(4.5)%	<u>737</u>
<b>Non-Operating Expenses</b>					
Transfer Out	<u>207</u>	(54.4)%	<u>454</u>	N/A	<u>-</u>
<b>Change in Net Assets</b>	\$ <u>(179)</u>	43.90%	\$ <u>(319)</u>	(179.9)%	\$ <u>399</u>

Net assets decreased by \$.2 million for the fiscal year ended June 30, 2010 and \$.3 million for June 30, 2009. This was a result of the transfer of funds to the deferred compensation plan to cover software development costs allocated to that plan. Expenses related to the software development project are being shown as an asset and are not included as part of administrative expenses.

**Contacting NDPERS Financial Management**

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

# BASIC FINANCIAL STATEMENTS

## Statement of Net Assets Proprietary Funds June 30, 2010 and 2009

		Uniform Group Insurance Program	
	2010	2009	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 11,126,484	\$ 11,068,599	
Accounts receivable	5,664	396,979	
Due from fiduciary funds	69,352	69,305	
Due from other state agencies	-	2,165	
Total current assets	11,201,500	11,537,048	
Capital assets:			
Software (not in production)	2,449,576	1,763,016	
Total assets	13,651,076	13,300,064	
<b>LIABILITIES</b>			
Current liabilities:			
Salaries payable	53,576	50,700	
Accounts payable	486,038	308,351	
Due to other state agencies	10,064	34,599	
Accrued compensated absences	3,037	2,650	
Amounts held in custody for others	8,526,067	8,380,038	
Deferred premiums	3,687,046	3,467,734	
Total current liabilities	12,765,828	12,244,072	
Noncurrent liabilities:			
Accrued compensated absences	56,395	47,446	
Total liabilities	12,822,223	12,291,518	
<b>NET ASSETS</b>			
Invested in capital assets	2,449,576	1,763,016	
Unrestricted (deficit)	(1,620,723)	(754,470)	
Total net assets	\$ 828,853	\$ 1,008,546	

## Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds For the Years Ended June 30, 2010 and 2009

	2010	Uniform Group Insurance Program 2009	
<b>OPERATING REVENUES:</b>			
Administrative fee	\$ 948,810	\$ 929,289	
<b>OPERATING EXPENSES:</b>			
Salaries and wages	516,802	498,340	
Operating expenses	139,756	144,377	
Professional fees	235,291	151,455	
Data processing	56,506	74,129	
Total operating expenses	948,355	868,301	
Operating income	455	60,988	
<b>NON-OPERATING REVENUES:</b>			
Investment income	26,663	74,138	
<b>OTHER FINANCING USE:</b>			
Transfer out	206,811	454,323	
Change in net assets	(179,693)	(319,197)	
Total net assets - beginning of year	1,008,546	1,327,743	
Total net assets - end of year	\$ 828,853	\$ 1,008,546	

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

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the years ended June 30, 2010 and 2009**

	Uniform Group Insurance Program	
	2010	2009
Cash Flows From Operating Activities:		
Premiums collected	\$ 208,652,795	\$ 165,173,801
Claims experience gains/losses	146,029	3,907,823
Administrative fees collected	1,561,555	1,378,807
Payments to suppliers	(392,239)	(341,403)
Premiums paid	(208,652,795)	(165,173,801)
Payments to employees	(504,590)	(490,769)
Net Cash Provided By Operating Activities	<u>810,755</u>	<u>4,454,458</u>
Cash Flows From Investing Activities:		
Investment income	<u>26,663</u>	<u>74,138</u>
Cash Flows Used By Capital and Related Financing Activities:		
Acquisition and construction of capital assets/software	<u>(572,722)</u>	<u>(774,324)</u>
Cash Flows from Noncapital Financing Activities:		
Transfers out	<u>(206,811)</u>	<u>(454,323)</u>
Net Increase in Cash and Cash Equivalents	57,885	3,299,949
Cash and Cash Equivalents Balance - Beginning of Year	<u>11,068,599</u>	<u>7,768,650</u>
Cash and Cash Equivalents Balance - End of Year	<u>\$ 11,126,484</u>	<u>\$ 11,068,599</u>
Reconciliation of Operating Income to Net Cash Provided		
Operating Income	\$ 455	\$ 60,988
Adjustments To Reconcile Operating Income To Net Cash Provided By Operating Activities:		
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	391,315	(385,838)
(Increase) Decrease in Due From Other Funds	(47)	4,476
(Increase) Decrease in Due From Other State Agencies	2,165	(2,165)
Increase in Salaries Payable	2,876	3,355
Increase in Accrued Compensated Absences	9,336	4,216
Increase in Accounts Payable	63,849	7,114
Increase (Decrease) in Due To Other State Agencies	(24,535)	21,444
Increase in Amounts Held in Custody for Others	146,029	3,907,823
Increase in Deferred Premiums	219,312	833,045
Total Adjustments	<u>810,300</u>	<u>4,393,470</u>
Net Cash Provided By Operating Activities	<u>\$ 810,755</u>	<u>\$ 4,454,458</u>

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



Statement of Plan Net Assets  
Fiduciary Funds  
June 30, 2010

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
	\$	\$	\$	\$	\$	\$	\$	\$
ASSETS:								
Cash	2,026,148	-	87,707	1,104	193,927	110,149	102	2,402
Receivables:								
Contribution receivable	4,483,815	174,168	615,944	103,713	541,973	-	9,323	-
Interest receivable	2,422,345	73,757	64,413	-	-	-	156,782	-
Due from fiduciary funds	108,859	-	-	-	20,342	36,047	-	-
Due from other state agencies	13,457	-	-	-	-	-	-	-
Total receivables	7,028,476	247,925	680,357	103,713	562,315	36,047	166,105	-
Investments, at fair value:								
Domestic equities	534,160,908	16,264,408	19,743,986	-	-	-	22,807,297	-
International equities	195,344,142	5,947,939	5,644,764	-	-	-	7,066,673	-
Commingled managed pool	-	-	-	2,218,657	-	-	-	-
International fixed income	83,852,649	2,553,189	-	-	-	-	3,860,726	-
Domestic fixed income	499,029,310	15,194,703	19,519,126	-	-	-	43,768,388	-
Real estate	71,436,241	2,175,128	-	-	-	-	-	-
Mutual funds	-	-	-	14,263,760	-	27,847,283	-	-
Annuities	-	-	-	-	-	94,200	-	-
Alternative investments	61,490,084	1,872,282	-	-	-	-	-	-
Invested cash	19,240,625	585,849	-	-	-	-	86,685	-
Total investments	1,464,553,959	44,593,498	44,907,876	16,482,417	-	27,941,483	77,589,769	-
Invested securities								
lending collateral	9,150,222	278,611	-	-	-	-	484,406	-
Software (not in production)	3,243,551	27,820	309,670	22,606	816,525	1,633,050	19,532	-
Equipment (net of accumulated depreciation)	921	-	-	-	-	-	-	-
Total assets	1,486,003,277	45,147,854	45,985,610	16,609,840	1,572,767	29,720,729	78,259,914	2,402

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

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
<b>LIABILITIES:</b>								
Salaries payable	68,298	-	-	-	19,521	30,815	-	-
Accounts payable	2,479,238	-	29,335	-	135,365	265,966	100,365	-
Due to fiduciary funds	-	31,087	115,011	-	-	-	10,516	-
Due to proprietary funds	20	-	62,467	12,364	-	-	3,134	-
Due to other state agencies	19,961	-	-	19	1,486	2,656	-	-
Benefits payable	23,534	-	-	-	-	-	-	-
Deferred contributions	-	-	-	-	-	43,460	-	-
Securities lending collateral	9,150,222	278,611	-	-	-	-	484,406	-
Accrued compensated absences	77,022	-	-	-	24,836	39,829	-	-
<b>Total liabilities</b>	<b>11,818,295</b>	<b>309,698</b>	<b>206,813</b>	<b>12,383</b>	<b>181,208</b>	<b>382,726</b>	<b>598,421</b>	<b>-</b>
<b>NET ASSETS:</b>								
Held in trust for pension benefits	1,474,184,982	44,838,156	-	16,597,457	-	29,338,003	77,661,493	2,402
Held in trust for postemployment healthcare benefits	-	-	45,778,797	-	-	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,391,559	-	-	-
<b>Total net assets held in trust</b>	<b>\$ 1,474,184,982</b>	<b>\$ 44,838,156</b>	<b>\$ 45,778,797</b>	<b>\$ 16,597,457</b>	<b>\$ 1,391,559</b>	<b>\$ 29,338,003</b>	<b>\$ 77,661,493</b>	<b>\$ 2,402</b>

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

**Statement of Plan Net Assets**  
**Fiduciary Funds**  
**June 30, 2009**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
<b>ASSETS:</b>								
Cash	\$ 2,146,739	\$ -	\$ 82,374	\$ 1,703	\$ 328,895	\$ 147,190	\$ 1,380	\$ 1,664
Receivables:								
Contribution receivable	3,895,409	157,740	492,061	100,601	506,287	-	9,452	-
Interest receivable	2,581,191	80,157	156,873	-	-	-	190,846	-
Accounts receivable	4,717	-	-	-	-	-	-	-
Due from fiduciary funds	82,411	-	-	-	20,775	37,534	-	-
Due from other state agencies	14,278	-	-	-	-	-	-	-
Total receivables	6,578,006	237,897	648,934	100,601	527,062	37,534	200,298	-
Investments, at fair value:								
Domestic equities	424,189,355	13,172,869	13,140,675	-	-	-	19,996,687	-
International equities	159,270,360	4,946,017	5,738,411	-	-	-	3,378,794	-
Commingled managed pool	-	-	-	2,399,637	-	-	-	-
International fixed income	87,002,057	2,701,781	-	-	-	-	3,685,763	-
Domestic fixed income	489,539,122	15,202,255	16,519,433	-	-	-	44,961,923	-
Real estate	75,234,215	2,336,339	-	-	-	-	-	-
Mutual funds	-	-	-	11,517,294	-	21,590,246	-	-
Annuities	-	-	-	-	-	88,888	-	-
Alternative investments	68,037,513	2,112,852	-	-	-	-	-	-
Invested cash	8,045,116	249,835	-	-	-	-	3,796	5,500
Total investments	1,311,317,738	40,721,948	35,398,519	13,916,931	-	21,679,134	72,026,963	5,500
Invested securities								
lending collateral	7,128,669	221,375	-	-	-	-	373,560	-
Software (not in production)	2,333,981	19,308	223,957	16,563	587,672	1,175,344	14,443	-
Equipment (net of accumulated depreciation)	2,306	-	-	-	-	-	-	-
Total assets	1,329,507,439	41,200,528	36,353,784	14,035,798	1,443,629	23,039,202	72,616,644	7,164

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

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
LIABILITIES:								
Salaries payable	65,491	-	-	-	18,676	29,459	-	-
Accounts payable	2,197,385	-	23,224	-	103,140	198,660	75,118	772
Due to fiduciary funds	-	5,226	120,622	-	-	-	8,555	-
Due to proprietary funds	-	-	61,147	10,722	-	-	3,753	-
Due to other state agencies	40,478	-	-	19	3,936	8,408	-	-
Deferred contributions	-	-	-	-	-	18,744	-	-
Securities lending collateral	7,128,669	221,375	-	-	-	-	373,560	-
Accrued compensated absences	72,130	-	-	-	22,235	35,908	-	-
Total liabilities	9,504,153	226,601	204,993	10,741	147,987	291,179	460,986	772
NET ASSETS:								
Held in trust for pension benefits	1,320,003,286	40,973,927	-	14,025,057	-	22,748,023	72,155,658	6,392
Held in trust for postemployment healthcare benefits	-	-	36,148,791	-	-	-	-	-
Held in trust for pretax benefits	-	-	-	-	1,295,642	-	-	-
Total net assets held in trust	\$ 1,320,003,286	\$ 40,973,927	\$ 36,148,791	\$ 14,025,057	\$ 1,295,642	\$ 22,748,023	\$ 72,155,658	\$ 6,392

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

**Statement of Changes in Plan Net Assets – Fiduciary Funds**  
**For the Year Ended June 30, 2010**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
<b>ADDITIONS:</b>								
Contributions:								
From employer	\$ 30,253,093	\$ 1,196,562	\$ 8,392,847	\$ 638,120	\$ -	\$ -	\$ -	\$ -
From employee	28,579,338	741,271	6,673,673	619,544	6,002,296	3,743,725	114,626	-
Transfers from other plans	-	-	-	3,828	-	534,030	-	-
From external plans	-	-	-	-	-	225,582	-	-
Total contributions	58,832,431	1,937,833	15,066,520	1,261,492	6,002,296	4,503,337	114,626	-
<b>Investment income:</b>								
Net change								
in fair value of investments	148,432,811	4,571,849	4,928,103	1,374,425	-	2,456,429	7,565,552	-
Interest and dividends	31,269,171	963,042	1,830,840	324,712	1,957	654,692	2,042,786	25
Less investment expense	(6,221,408)	(191,670)	(100,256)	(11,936)	-	(86,747)	(305,699)	-
Net investment income	173,480,574	5,343,221	6,658,687	1,687,201	1,957	3,024,374	9,302,639	25
<b>Securities lending activity:</b>								
Securities lending income	37,196	1,146	-	-	-	-	1,814	-
Less securities lending expenses-net of rebates	74,993	2,310	-	-	-	-	3,070	-
Net securities lending income	112,189	3,456	-	-	-	-	4,884	-
<b>Repurchase service credit</b>	4,005,571	-	237,735	-	-	-	-	-
FICA tax savings	-	-	-	-	632,617	-	-	-
Transfer from proprietary fund	-	-	-	-	-	206,811	-	-
Miscellaneous income	3,406	25	-	9,677	15	889	-	-
Total additions	236,434,171	7,284,535	21,962,942	2,958,370	6,636,885	7,735,411	9,422,149	25
<b>DEDUCTIONS:</b>								
Benefits paid to participants	76,884,950	3,402,021	-	358,872	5,947,421	729,024	3,891,996	4,015
Refunds	3,942,154	131	3,932	-	-	-	-	-
Prefunded credit applied	-	-	5,563,631	-	-	-	-	-
Health premiums paid	-	-	6,663,020	-	-	-	-	-
Transfers to other plans	210,638	-	-	-	327,220	-	-	-
Total deductions	81,037,742	3,402,152	12,230,583	358,872	6,274,641	729,024	3,891,996	4,015
<b>Administrative expenses</b>								
Total deductions	1,214,733	18,154	102,353	27,098	266,327	416,407	24,318	-
	82,252,475	3,420,306	12,332,936	385,970	6,540,968	1,145,431	3,916,314	4,015
Change in net assets	154,181,696	3,864,229	9,630,006	2,572,400	95,917	6,589,980	5,505,835	(3,990)
Net assets - beginning of year	1,320,003,286	40,973,927	36,148,791	14,025,057	1,295,642	22,748,023	72,155,658	6,392
Net assets - end of year	\$ 1,474,184,982	\$ 44,838,156	\$ 45,778,797	\$ 16,597,457	\$ 1,391,559	\$ 29,338,003	\$ 77,661,493	\$ 2,402

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



# Statement of Changes in Plan Net Assets – Fiduciary Funds For the Year Ended June 30, 2009

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Plan	Retirement Plan for Employees of Job Service North Dakota	Oasis Trust Fund
<b>ADDITIONS:</b>								
Contributions:								
From employer	\$ 27,705,267	\$ 1,122,720	\$ 6,771,699	\$ 594,402	\$ -	\$ -	\$ -	\$ -
From employee	26,237,554	692,320	5,851,707	577,142	5,627,371	3,356,071	119,115	-
Transfers from other plans	-	-	-	41,749	-	522,329	-	-
From external plans	-	-	-	-	-	150,734	-	-
Total contributions	53,942,821	1,815,040	12,623,406	1,213,293	5,627,371	4,029,134	119,115	-
Investment income (loss):								
Net change								
in fair value of investments	(449,418,059)	(14,105,619)	(7,986,495)	(3,931,969)	-	(5,775,660)	(15,799,734)	-
Interest and dividends	34,649,834	1,087,319	1,810,041	392,265	3,075	704,942	1,998,050	183
Less investment expense	(6,434,310)	(202,405)	(75,032)	(11,330)	-	(72,477)	(301,287)	-
Net investment income (loss)	(421,202,535)	(13,220,705)	(6,251,486)	(3,551,034)	3,075	(5,143,195)	(14,102,971)	183
Securities lending activity:								
Securities lending income	302,256	9,486	-	-	-	-	30,249	-
Less securities lending expenses	(149,142)	(4,681)	-	-	-	-	(19,899)	-
Net securities lending income	153,114	4,805	-	-	-	-	10,350	-
Repurchase service credit	3,732,801	-	169,242	-	-	-	-	-
FICA tax savings	-	-	-	-	586,895	-	-	-
Transfer from proprietary fund	-	-	-	-	-	454,323	-	-
Miscellaneous income	1,983	14	-	8,553	74	220	-	-
Total additions	(363,371,816)	(11,400,846)	6,541,162	(2,329,188)	6,217,415	(659,518)	(13,973,506)	183
<b>DEDUCTIONS:</b>								
Benefits paid to participants	71,169,574	3,176,258	-	767,652	5,511,629	510,829	3,759,618	9,265
Refunds	4,921,163	17,911	2,846	-	-	-	-	-
Prefunded credit applied	-	-	4,854,724	-	-	-	-	-
Health premiums paid	-	-	5,842,613	-	-	-	-	-
Transfers to other plans	496,072	-	-	-	68,006	-	-	-
	76,586,809	3,194,169	10,700,183	767,652	5,579,635	510,829	3,759,618	9,265
Administrative expenses	1,261,120	18,834	115,207	8,068	257,508	391,950	25,101	-
Total deductions	77,847,929	3,213,003	10,815,390	775,720	5,837,143	902,779	3,784,719	9,265
Change in net assets	(441,219,745)	(14,613,849)	(4,274,228)	(3,104,908)	380,272	(1,562,297)	(17,758,225)	(9,082)
Net assets - beginning of year	1,761,223,031	55,587,776	40,423,019	17,129,965	915,370	24,310,320	89,913,883	15,474
Net assets - end of year	\$ 1,320,003,286	\$ 40,973,927	\$ 36,148,791	\$ 14,025,057	\$ 1,295,642	\$ 22,748,023	\$ 72,155,658	\$ 6,392

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010 & 2009

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

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

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

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

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

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

#### Fund Financial Statements

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

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

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

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

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

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

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

1. Public Employees Retirement System – a cost-sharing multiple-employer defined benefit retirement plan.
2. Highway Patrolmen's Retirement System – a single-employer defined benefit retirement plan.
3. Defined Contribution Retirement Plan – an optional defined contribution retirement plan covering specified employee positions in the State of North Dakota.
4. Retiree Health Insurance Credit Fund – an advance funded plan to offset the member's cost of health insurance during their retirement and a plan to provide health care coverage to eligible retiree's who are not yet eligible for Medicare.
5. Pretax Benefits Program – allows eligible employees to elect to reduce their salaries to pay for eligible dependent care and medical expenses.

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

7. Retirement Plan for Employees of Job Service North Dakota – a single-employer defined benefit retirement plan.

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

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

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

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

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

## Budgetary Process

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

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

There were no supplemental appropriations during the fiscal year ending June 30, 2010 and 2009.

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 cap-

ital 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.

### **Securities Lending**

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

The System, through the North Dakota State Investment Board (Board) lends its securities

to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Board has contracted with a third party securities lending agent (Agent) to lend the System's securities portfolios. The Agent lends securities of the type on loan at June 30, 2010 for collateral in the form of cash or other securities at 102% of the loaned securities market value plus accrued interest for domestic securities and 105% of the loaned securities fair value plus accrued interest for international securities. The collateral for the loans is maintained at 100% per the contractual requirements. As of June 30, 2010, the fair value of the securities on loan totaled \$8,744,478; \$266,256 and \$462,926 for the Public Employees Retirement System, Highway Patrolmen's Retirement System and the Retirement Plan for Employees of Job Service of North Dakota, respectively. As of June 30, 2010, the total amount of cash and non-cash collateral related to these lent securities was \$9,150,222; \$278,611 and \$484,406 for the Public Employees Retirement System, Highway Patrolmen's Retirement System and the Retirement Plan for Employees of Job Service of North Dakota, respectively.

At June 30, 2010, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

The average duration of the collateral investments as of June 30, 2010 was 1 day. The average weighted maturity of collateral investments as of June 30, 2010 was 1 day. The interest rate sensitivity (duration) of the securities on loan matched the duration of the collateral investments.

Securities lent for cash collateral include US government securities, US corporate fixed income securities, US equities and Global equities. US government securities are also lent for non-cash collateral. The securities lent are commingled with those of the ND Retirement Investment Office. Securities lent for agencies of the State of North Dakota are pooled together and administered by the North Dakota Retirement and Investment Office. Financial information concerning these pooled investments can be obtained by contacting the North Dakota Retirement and Investment Office, PO Box 7100, Bismarck, ND 58507-7100.

The Agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay income distributions on them. All open securities loans can be



terminated on demand by either the lender or the borrower. All term securities loans can be terminated with five days notice by either the lender or the borrower. Cash collateral is invested in accordance with the investment guidelines approved by the System. The System cannot pledge or sell collateral securities received unless the borrower defaults.

### **Derivative Securities**

The System's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use Treasury futures and options, S & P 500 index futures and options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. The System's policy with respect to these derivatives is that their use may not increase the credit, market or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

### *Accounts Receivable and Credit Policy*

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

### *Capital Assets and Depreciation*

Capital assets are presented in the accompanying financial statements at cost or estimated historical cost. Donated capital assets are stated at fair market value at the time of donation. Capital assets acquired via lease agreements are capitalized at the inception of the agreement. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. For the years ending June 30, 2010 and 2009 the System capitalized equipment costing over \$5,000 in accordance with Section 54-27-21 of the North Dakota Century Code.

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

### *Accrued Compensated Absences*

Annual leave is a part of permanent employees' compensation as set forth in Section 54-06-14 of

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

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

### *Deferred Contributions/Premiums*

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

### *Transfers To Other Plans*

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

### *Use of Estimates*

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



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

## NOTE 2 DEPOSITS AND INVESTMENTS

### *Deposits*

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

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

	<u>2010</u>	<u>2009</u>
Cash Deposits at the Bank of North Dakota recorded as Cash and Cash Equivalents	\$2,738,600	\$3,127,869
Cash Deposits at the Bank of North Dakota recorded as Investments	-	5,500
Cash Deposits at State Treasury recorded as Cash and Cash Equivalents	701,264	1,065,083
Cash held by the North Dakota Retirement and Investment Office recorded as Cash and Cash Equivalents	4,064,659	4,039,957
Guaranteed Investment Contract with Blue Cross Blue Shield recorded as Cash and Cash Equivalents	<u>6,043,500</u>	<u>5,545,635</u>
	<u>\$13,548,023</u>	<u>\$13,784,044</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, 2010 and 2009 the carrying amount of the System's cash deposits were \$13,548,023 and \$13,784,044, and the bank balances were \$13,626,630 and \$13,929,381. The System had \$0 and \$5,500 of certificates of deposit recorded as investments at June 30, 2010 and June 30, 2009, respectively. All of the System's deposits are uncollateralized and uninsured at June 30, 2010 and 2009.

### *Investments*

Total investments of the System at fair value as of June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Equity securities	\$806,980,117	\$643,833,168
Bonds and notes	667,778,091	659,612,334
Real estate	73,611,369	77,570,554
Alternative investments	63,362,366	70,150,365
Mutual funds	14,263,760	11,517,294
Commingled managed pool	2,218,760	2,399,637
Invested cash	19,913,159	8,304,247
Deferred compensation plans		
Annuities	94,200	88,888
Mutual funds	27,847,283	21,590,245
Securities lending		
short-term collateral		
investment pool	<u>9,913,239</u>	<u>7,723,604</u>
	<u>\$1,685,982,344</u>	<u>\$1,502,790,336</u>

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

All investments of the fund, except for the Defined Contribution Retirement Plan, Deferred Compensation Plan and Oasis Trust Fund are to be made by the North Dakota State Investment Board (SIB). Chapter 21-10-07 of the North Dakota Century Code requires that all investments made by this state agency, be made using the prudent investor rule.

Investments of the Oasis Fund consisted of \$0 on June 30, 2010, and a \$5,500 certificate of deposit on June 30, 2009, held at the Bank of North Dakota, valued at cost. Investments of the Defined Contribution Retirement Plan and the Deferred Compensation Plan are participant directed and are held by Fidelity Investments.

**Credit Risk**

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

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

Investments of the Defined Contribution Retirement Plan include investments in the commingled managed pool, which is an external investment pool managed by Fidelity Investments. The pool is 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**

<b>Type (in thousands)</b>	<b>Market Value</b>		<b>Less Than 1 Year</b>		<b>1-6 Years</b>		<b>6-10 Years</b>		<b>Over 10 Years</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Asset Backed Securities	\$ 3,673	\$ 3,593	\$ -	\$ -	\$ 748	\$ 939	\$ 91	\$ 959	\$ 2,834	\$ 1,645
Bank Loans	-	3,731	-	307	-	3,053	-	58	-	313
Commercial Mortgage-Backed	5,345	2,706	-	4	481	-	-	-	4,864	2,702
Guaranteed Fixed Income	514	-	-	-	514	-	-	-	-	-
Corporate Bonds	147,928	143,902	2,008	1,857	38,040	48,417	64,685	54,893	43,195	38,735
Corporate Convertible Bonds	20,421	12,479	-	15	12,421	6,205	1,360	242	6,640	6,017
Government Agencies	14,833	15,035	36	-	7,356	8,122	5,200	4,640	2,076	2,273
Government Bonds	51,207	27,187	5,049	946	13,947	10,217	15,446	6,415	16,766	9,609
Gov't. Mortgage and Commercial	37,147	9,897	-	-	1,004	-	2,870	7	33,273	9,890
Hedge Multi-Strategy	-	10,993	-	-	-	10,993	-	-	-	-
Index Linked Government Bonds	343	925	-	-	-	-	-	-	343	925
Municipal/Provincial Bonds	4,822	2,655	-	-	2,652	847	180	1,189	1,990	619
Non-Government Backed CMOs	17,431	8,800	-	-	-	3	1,833	-	15,599	8,797
Other Fixed Income	113	-	-	-	113	-	-	-	-	-
Short Term Bills and Notes	169	162	169	162	-	-	-	-	-	-
Pooled Investments	<u>125,120</u>	<u>82,407</u>	<u>18,134</u>	<u>-</u>	<u>106,625</u>	<u>34,879</u>	<u>230</u>	<u>44,822</u>	<u>131</u>	<u>-</u>
Total Debt Securities	<u>\$429,066</u>	<u>\$324,873</u>	<u>\$25,396</u>	<u>\$3,291</u>	<u>\$183,901</u>	<u>\$126,832</u>	<u>\$91,895</u>	<u>\$113,225</u>	<u>\$127,711</u>	<u>\$81,525</u>

**Job Service Retirement Plan**

<b>Type (in thousands)</b>	<b>Market Value</b>		<b>Less Than 1 Year</b>		<b>1-6 Years</b>		<b>6-10 Years</b>		<b>Over 10 Years</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Asset Backed Securities	\$ 234	\$ 248	\$ -	-	\$ 31	\$ 64	\$ 7	\$ 61	\$ 196	\$ 123
Bank Loans	-	236	-	19	-	193	-	4	-	20
Commercial Mortgage-Backed	206	185	-	-	16	-	-	-	190	185
Guaranteed Fixed Income	31	31	-	-	31	31	-	-	-	-
Corporate Bonds	8,913	9,684	136	136	2,453	3,417	3,630	3,614	2,695	2,517
Corporate Convertible Bonds	1,353	912	-	-	802	449	96	18	455	495
Government Agencies	791	1,021	2	-	417	608	243	240	123	173
Government Bonds	2,718	1,417	231	39	777	607	826	305	883	466
Gov't. Mortgage and Commercial	1,454	755	-	-	33	-	108	1	1,313	754
Hedge Multi-Strategy	-	596	-	-	-	596	-	-	-	-
Index Linked Government Bonds	20	71	-	-	-	-	-	-	20	71
Municipal/Provincial Bonds	244	145	-	-	131	42	11	56	102	47
Non-Government Backed CMOs	801	464	-	-	-	-	61	-	740	464
Other Fixed Income	4	-	-	-	4	-	-	-	-	-
Short Term Bills and Notes	8	11	8	11	-	-	-	-	-	-
Pooled Investments	<u>17,804</u>	<u>11,953</u>	<u>776</u>	<u>-</u>	<u>17,013</u>	<u>10,110</u>	<u>8</u>	<u>1,843</u>	<u>8</u>	<u>-</u>
Total Debt Securities	<u>34,581</u>	<u>\$27,729</u>	<u>\$ 1,153</u>	<u>\$ 205</u>	<u>\$21,708</u>	<u>\$16,117</u>	<u>\$4,990</u>	<u>\$ 6,142</u>	<u>\$ 6,725</u>	<u>\$ 5,265</u>

**Retiree Health Insurance Credit Fund**

All securities subject to interest rate risk disclosure in the Retiree Health Insurance Credit Fund are pooled investments maturing in 1-6 years. The market value of these securities is \$19.146 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**

<u>Currency (in thousands)</u>	<u>Short term</u>		<u>Debt</u>		<u>Equity</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Australian dollar	\$ (4,432)	\$ (14)	\$ 4,679	\$ 4,253	\$ 2,639	\$ 1,235	\$ 2,886	\$ 5,474
Brazilian real	-	(460)	2,651	2,264	4,151	2,738	6,802	4,542
British pound sterling	4,914	3,176	2,892	2,594	11,363	6,769	19,169	12,539
Canadian dollar	(823)	618	1,758	1,295	3,252	696	4,187	2,609
Chinese yukan renminbi	1,047	-	-	-	-	-	1,047	-
Israeli shekel	-	-	-	-	301	-	301	-
Danish krone	(69)	(148)	-	-	321	365	252	217
Euro	(4,143)	7	-	326	19,098	11,061	14,955	11,394
Hong Kong dollar	(683)	(454)	-	-	1,324	930	641	476
Iceland krona	12	-	-	119	-	-	12	119
Indonesian rupiah	-	-	2,233	1,028	-	-	2,233	1,028
Japanese yen	(5,824)	(2,991)	-	22	10,478	6,567	4,654	3,598
Malaysian ringgit	-	-	2,625	2,199	-	-	2,625	2,199
Mexican peso	-	-	2,935	1,835	-	-	2,935	1,835
New Zealand dollar	752	451	1,765	1,567	-	-	2,517	2,018
Norwegian krone	914	339	1,066	-	527	296	2,507	635
Polish zloty	-	-	2,936	1,712	-	-	2,936	1,712
Singapore dollar	(153)	(75)	-	-	449	192	296	117
South African rand	-	-	647	1,172	-	-	647	1,172
South Korean won	-	1,275	2,768	-	-	-	2,768	1,275
Swedish krona	(2,090)	(176)	2,582	946	986	411	1,478	1,181
Swiss franc	(1,887)	(1,446)	-	15	6,474	2,534	4,587	1,103
Turkish lira	1,868	411	-	-	-	-	1,868	729
International commingled funds								
(various currencies)	-	-	34,674	44,822	130,666	101,874	165,340	146,696
	<u>\$ (10,597)</u>	<u>\$ 513</u>	<u>\$ 66,211</u>	<u>\$ 66,169</u>	<u>\$ 192,029</u>	<u>\$ 135,668</u>	<u>\$ 247,643</u>	<u>\$ 202,350</u>

## Job Service Retirement Plan

Currency (in thousands)	Short term		Debt		Equity		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Australian dollar	\$ (281)	\$ 12	\$ 209	\$ 175	\$ 179	\$ 11	\$ 107	\$ 198
Brazilian real	-	(25)	139	105	178	148	317	228
British pound sterling	(100)	198	129	106	694	123	723	427
Canadian dollar	(56)	46	82	56	156	6	182	108
Chinese yuan renminbi	47	-	-	-	-	-	47	-
Israeli shekel	-	-	-	-	20	-	20	-
Danish krone	(5)	(1)	-	-	22	3	17	2
Euro	(540)	116	-	12	1,109	155	569	283
Hong Kong dollar	(46)	(4)	-	-	90	8	44	4
Iceland krona	1	-	-	8	-	-	1	8
Indonesian rupiah	-	-	117	42	-	-	117	42
Japanese yen	(381)	(16)	-	-	709	56	328	40
Malaysian ringgit	-	-	117	90	-	-	117	90
Mexican peso	-	-	165	77	-	-	165	77
New Zealand dollar	34	19	79	65	-	-	113	84
Norwegian krone	36	16	48	-	36	3	120	19
Polish zloty	-	-	131	70	-	-	131	70
Singapore dollar	(10)	(1)	-	-	30	2	20	1
South African rand	-	-	29	48	-	-	29	48
South Korean won	-	52	141	-	-	-	141	52
Swedish krona	(100)	(2)	115	39	67	4	82	41
Swiss franc	(128)	(12)	-	-	368	22	240	10
Turkish lira	83	17	-	-	-	-	83	17
International commingled funds (various currencies)	-	-	1,550	1,843	2,809	302	4,359	2,145
	<u>\$ (1,446)</u>	<u>\$ 415</u>	<u>\$ 3,051</u>	<u>\$ 2,736</u>	<u>\$ 6,467</u>	<u>\$ 843</u>	<u>\$ 8,072</u>	<u>\$ 3,994</u>

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

The June 30, 2010 due from/to fiduciary and proprietary funds are summarized as follows:

	Due From	Due To
	Fiduciary and	Fiduciary and
<u>Fund</u>	<u>Proprietary Funds</u>	<u>Proprietary Funds</u>
<b>Fiduciary</b>		
Public Employees Retirement System	\$ 108,859	\$ 20
Highway Patrolmen's Retirement System	-	31,087
Retiree Health Insurance Credit Fund	-	177,478
Retirement Plan for Employees of Job Service ND	-	13,650
Pretax Benefits Program	20,342	-
Deferred Compensation Plan	36,047	-
Defined Contribution Plan	-	12,365
<b>Proprietary</b>		
Uniform Group Insurance Program	69,352	-
	<u>\$ 234,600</u>	<u>\$ 234,600</u>

The June 30, 2009 due from/to fiduciary and proprietary funds are summarized as follows:

	Due From	Due To
	Fiduciary and	Fiduciary and
<u>Fund</u>	<u>Proprietary Funds</u>	<u>Proprietary Funds</u>
<b>Fiduciary</b>		
Public Employees Retirement System	\$ 82,411	\$ -
Highway Patrolmen's Retirement System	-	5,226
Retiree Health Insurance Credit Fund	-	181,769
Retirement Plan for Employees of Job Service ND	-	12,308
Pretax Benefit Program	20,775	-
Deferred Compensation Plan	37,534	-
Defined Contribution Plan	-	10,722
<b>Proprietary</b>		
Uniform Group Insurance Program	69,305	-
	<u>\$210,025</u>	<u>\$ 210,025</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, 2010 due from/to state agencies are summarized as follows:

	Due From	Due To
	State Agencies	State Agencies
<u>Fund</u>		
<b>Fiduciary</b>		
Public Employees Retirement System		
Dept. of Transportation	\$ -	\$ 55
Supreme Court	9,484	-
State Auditors Office	366	-
Dept. of Human Services	390	-
Dept. of Agriculture	273	-
ITD	-	14,101
Attorney General	-	1,679
Office of Mgmt/Budget	2,944	4,126
Total	<u>\$ 13,457</u>	<u>\$19,961</u>
Defined Contribution Plan		
ITD	\$ -	\$ 19
Pretax Benefits Program		
ITD	\$ -	\$ 928
Attorney General	-	420
Office of Mgmt/Budget	-	138
Total	<u>\$ -</u>	<u>\$ 1,486</u>
Deferred Compensation Plan		
ITD	\$ -	\$ 1,480
Attorney General	\$ -	840
Office of Mgmt/Budget	-	336
Total	<u>\$ -</u>	<u>\$ 2,656</u>
<b>Proprietary</b>		
Uniform Group Insurance Program		
Dept. of Transportation	\$ -	\$ 167
Office of Mgmt/Budget	-	1,145
ITD	-	4,754
Attorney General	-	3,998
Total	<u>\$ -</u>	<u>\$ 10,064</u>

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



The June 30, 2009 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		
Dept. of Transportation	\$ -	\$ 190
Supreme Court	9,288	-
Development Center	780	-
Dept. of Human Resources	682	-
Adjutant General	3,528	-
ITD	-	24,401
Attorney General	-	459
Office of Mgmt. & Budget	-	15,211
Historical Society	-	204
NDPERS Retirement Cont.	-	13
Total	\$14,278	\$ 40,478
Defined Contribution Plan		
ITD	\$ -	\$ 19
Pretax Benefits Program		
Historical Society	\$ -	\$ 50
ITD	-	1,006
Attorney General	-	105
Office of Mgmt. & Budget	-	2,775
Total	\$ -	\$ 3,936
Deferred Compensation Plan		
ITD	\$ -	\$ 2,378
Attorney General	-	298
Office of Mgmt. & Budget	-	5,589
Dept. of Transportation	-	41
Historical Society	-	102
Total	\$ -	\$ 8,408
<b>Proprietary</b>		
Uniform Group Insurance Program		
Department of Transportation	\$ -	\$ 158
Office of Mgmt. & Budget	-	11,142
ITD	-	22,701
Attorney General	-	444
Historical Society	-	153
NDPERS Retirement Cont.	-	1
Dept. of Human Resources	2,165	-
Total	\$ 2,165	\$ 34,599

The June 30, 2010 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	\$ 3,828	\$ -
Pretax Benefits Program	-	327,220
Deferred Comp Plan	740,841	-
Public Employees Retirement System	-	210,638
<b>Proprietary Funds</b>		
Uniform Group Insurance Program		
Insurance Program	-	206,811

The June 30, 2009 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	\$ 41,749	\$ -
Pretax Benefit Program	-	68,006
Deferred Comp Plan	976,652	-
Public Employees Retirement System	-	496,072
<b>Proprietary Funds</b>		
Uniform Group Insurance Program	-	454,323

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, 2010 and 2009 is as follows:

	<u>Balance 7/01/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/10</u>
Proprietary Funds:				
Capital assets not being depreciated:				
Software (not in production)	\$ 1,763,016	\$686,560	\$ -	\$2,449,576
Fiduciary Funds:				
Capital assets not being depreciated:				
Software (not in production)	\$ 4,371,268	\$1,701,486	\$ -	\$ 6,072,754
Capital assets being depreciated:				
Equipment	11,527	-	-	11,527
Less: Accumulated depreciation for equipment	(9,221)	(1,385)	-	(10,606)
Total capital assets being depr. net	2,306	(1,385)	-	921
Fiduciary Funds capital assets, net	\$4,373,574	\$ 1,700,101	\$ -	\$ 6,073,675
	<u>Balance 7/01/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/09</u>
Proprietary Funds:				
Capital assets not being depreciated:				
Software (not in production)	\$ 960,988	\$ 802,028	\$ -	\$1,763,016
Fiduciary Funds:				
Capital assets not being depreciated:				
Software (not in production)	\$ 2,382,649	\$ 1,988,619	\$ -	\$4,371,268
Capital assets being depreciated:				
Equipment	11,527	-	-	11,527
Less: Accumulated depreciation for equipment	(7,836)	(1,385)	-	(9,221)
Total capital assets being depr. net	3,691	(1,385)	-	2,306
Fiduciary Funds capital assets, net	\$2,386,340	\$ 1,987,234	\$ -	\$4,373,574

**NOTE 5 – LEASE OBLIGATIONS***Operating Lease:*

The department has entered into an operating lease for office space until June 30, 2011. The lease contains a clause stating that renewal is dependent on appropriation funding by the State Legislature. Lease obligations for operating and capital leases are payable from all funds of the System. Expenditures for the operating lease were \$113,868 and \$108,600 for the year ended June 30, 2010 and June 30, 2009. The future minimum lease payments for the fiscal year ending June 30, 2011 is \$113,868.

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

	<b>Proprietary Fund</b>	<b>Fiduciary Fund</b>
	<b>Accrued Comp. Absences</b>	<b>Accrued Comp. Absences</b>
Balance-		
June 30, 2008	\$ 45,880	\$ 121,777
Increases	33,035	85,906
Decreases	(28,819)	(77,410)
Balance –		
June 30, 2009	\$ 50,096	\$ 130,273
Balance-		
Increases	\$ 38,509	\$ 91,805
Decreases	\$ (29,172)	\$ (80,391)
Balance -		
June 30, 2010	\$ 59,433	\$ 141,687
Balance-		
due within one year	\$ 3,037	\$ 7,240

For the government activities, the accrued annual compensated absences is generally liquidated by excess revenue in the Uniform Group Insurance Program and the Pension Trust Funds.

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

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

The System is required to contribute to PERS at an actuarially determined rate for permanent employees. The System's contributions to PERS for the years ended June 30, 2010, 2009 and 2008, were \$119,404, \$112,837 and \$104,483 equal to the required contributions for each year.

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

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

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

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

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

The PERS covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions (Main System). It also covers Supreme and District Court Judges and the National Guard Security Officers and Firefighters and as of August 1, 2003, peace officers and correctional officers employed by political subdivisions. The HPRS

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

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

	<u>2010</u>	<u>2009</u>
Cities	81	80
Counties	48	48
School Districts	115	108
Other	<u>69</u>	<u>65</u>
Total participating political subdivisions	<u>313</u>	<u>301</u>

Employee membership data is as follows:

	<b>PERS</b>		<b>HPRS</b>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Retirees & Beneficiaries				
Currently Receiving Benefits	7,416	7,188	113	109
Special Prior Service Retirees	18	22	-	-
Terminated Vested Participants	3,375	3,270	4	4
Inactive Participants	2,183	2,025	1	1
Active Plan Participants				
Vested	14,891	14,281	63	66
Nonvested	<u>5,777</u>	<u>5,662</u>	<u>76</u>	<u>67</u>
Total Plan Membership	<u>33,660</u>	<u>32,448</u>	<u>257</u>	<u>247</u>

	<b>Job Service</b>		<b>OASIS</b>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Retirees & Beneficiaries				
Currently Receiving Benefits	211	214	-	1
Special Prior Service Retirees	-	-	-	-
Terminated Vested Participants	4	4	-	-
Inactive Participants	-	-	-	-
Active Plan Participants:				
Vested	31	35	-	-
Nonvested	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Plan Membership	<u>246</u>	<u>253</u>	<u>-</u>	<u>1</u>

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

The defined contribution plan had 293 and 300 participants as of June 30, 2010 and 2009, respectively.

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

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

For the years ended June 30, 2010 and 2009, the following are the net realized gains (losses):

	<u>2010</u>	<u>2009</u>
Public Employees Retirement	\$13,625,153	\$(103,199,428)
Highway Patrolmen's Retirement	416,666	(3,238,776)
Retiree Health Insurance Credit	(6,443,275)	(2,298,273)
Defined Contribution	(49,426)	(652,906)
Deferred Compensation	(45,961)	(452,165)
Job Service Plan	(184,385)	(4,115,509)

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

#### *Pension Benefits*

##### **PERS**

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of

the main system are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service. The Plan permits early retirement at ages 55-64 with three or more years of service.

Supreme and District Court Judges are entitled to unreduced monthly pension benefits beginning at normal retirement age of (65) or the Rule of 85. The monthly pension benefit is equal to a percentage of average monthly salary using the highest 36 months out of the last 120 months of service. The percentage is equal to 3.50% of average monthly salary multiplied by the first ten years of service, plus 2.80% of the average monthly salary times the second ten years of service, plus 1.25% of average monthly salary times years of service in excess of twenty years. The judicial retirement formula is only applied to eligible judicial service. Non-judicial service benefits are calculated using the 2.00% multiplier. The Plan permits early retirement at ages 55-64 with five or more years of service.

Members of the National Guard System are entitled to unreduced monthly pension benefits at normal retirement age (55). Members of the Law Enforcement System are entitled to unreduced monthly pension benefits at normal retirement age (55) or the Rule of 85. The monthly pension benefit for the National Guard/Law Enforcement is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 120 months of service, for each year of service. The Plan permits early retirement at ages 50-55 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, level social security, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

#### **HPRS**

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members are

entitled to unreduced pension benefits upon attainment of age 55 and ten years of eligible employment or when the sum of age and years of credited service equals or exceeds 80. The annual pension benefit is equal to a percentage of average monthly salary using the highest 36 months out of the last 120 months of service. The percentage is equal to the sum of the first 25 years of service multiplied by 3.60% and 1.75% multiplied by years of service in excess of 25, if any. The Plan permits early retirement at ages 50-54, with ten or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

#### **Defined Contribution Plan**

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

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

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

#### **Retirement Plan for**

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

Benefits are established through the plan document, as amended. The System provides a post-retirement cost-of living adjustment each year based on the Consumer Price Index. Employees are entitled to annual pension benefits beginning at normal retirement age (65). Employees may elect optional retirement eligibility at age 62 with 5 years of credited service, at age 60 with 20 years of credited service, or at age 55 with 30 years of credited service.

Pension benefits are calculated based on the final average earnings (basic monthly earnings averaged over the highest three consecutive years of basic earnings) of the employee multiplied by the sum of:

- 1.5% times years of credited service up to 5 plus
- 1.75% times years of credited service between 6 and 10 plus
- 2.0% times years of credited service in excess of 10



## OASIS

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

### *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 surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

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

For Judges only, the disability benefit formula is 70% of final average salary minus Social Security and Workers Compensation benefits.

#### **HPRS**

Death and disability benefits are set by statute. If an active member dies with less than ten years of credited service, a death benefit equal to the value of the member's accumulated contributions, plus interest is paid to the member's beneficiary. If the member has earned more than ten years of credited service, the surviving spouse, if any, will be entitled to a single payment refund 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**

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

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

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

The plan provides 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.

### **OASIS**

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

#### *Refunds of Member Contribution*

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. Contributions to OASIS are set by statute. Contributions are required only to the extent the trust fund does not have sufficient funds to meet current benefit payments. A tax will be assessed on participating state and local government employers when the trust fund does not have

sufficient funds to meet current benefit obligations. No contributions have been collected since 1989.

### **PERS**

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

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

National Guard is at 6.50 percent

Law Enforcement with previous service is 8.31 percent

Law Enforcement without previous service is 6.43 percent

The entry age normal cost method determines the amount of contributions necessary to fund: (a) the current service cost, which represents the estimated amount necessary to pay for the benefits earned by members during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.

Except for Supreme and District Court Judges, the member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan.

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

1 to 12 months of service - Greater of one percent of monthly salary or \$25

13 to 24 months of service - Greater of two percent of monthly salary or \$25

25 to 36 months of service - Greater of three percent of monthly salary or \$25



Longer than 36 months of service - Greater of four percent of monthly salary or \$25

An open period of 20 years to fund accrued liabilities for the Public Employees Retirement System and the Supreme and District Court Judges has been adopted for the July 1, 1996 valuation and adopted for the National Guard Security Officers and Firefighters for the July 1, 1998 valuation. Currently, the present rate of contributions is not sufficient to meet the actuarially determined requirement for 2009-2010.

### HPRS

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

An open period of 20 years to fund accrued liabilities for the Highway Patrolmen's Retirement System has been adopted for the July 1, 1996 valuation. Currently, the present rate of contributions is not sufficient to meet the actuarially determined requirement for 2009-2010.

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

Annual required contributions	\$1,312,591
Interest on net pension obligations	(66,328)
Adjustment to annual required contrib.	<u>57,864</u>
Annual pension costs	1,304,127
Contributions made	<u>1,196,562</u>
Change in net pension obligations	107,565
Net pension obligations,	
beginning of year	<u>(829,104)</u>
(Assets in excess of) net pension	
obligations, end of year	<u>\$ (721,539)</u>

### Defined Contribution Plan

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

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

Employees' contributions are established at 7.0% of total compensation of which the state is paying 4%. The funding policy of the plan provides for

employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. Effective July 1, 1999, the "scheduled contribution" will be zero as long as the plan's actuarial value of assets exceeds the actuarial present value of projected benefits. The "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	(123,180)
Adjustment to annual required contrib.	<u>129,361</u>
Annual pension costs	6,181
Contributions made	-
Change in net pension obligations	6,181
Net pension obligations,	
beginning of year	<u>(1,642,398)</u>
(Assets in excess of) net pension	
obligations, end of year	<u>\$ (1,636,217)</u>

### Retiree Health Insurance Credit Fund

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

Employee membership data is as follows:

	<u>2010</u>	<u>2009</u>
Retired participants		
receiving benefits	4,105	4,030
Eligible terminated participants		
not receiving benefits	-	-
Active participants, not		
receiving benefits	<u>21,047</u>	<u>20,317</u>
	<u>25,152</u>	<u>24,347</u>

The Retiree Health Insurance Credit Fund has 21,047 and 20,317 active participants at June 30, 2010 and 2009, respectively. The employers' actuarially required contribution was \$7,199,033 and \$5,804,660 and the actual employer contributions were \$8,392,847 and \$6,771,699 for the periods ended June 30, 2010 and 2009, respectively.

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

	<u>%</u>	<u>Dollar</u>
Net effect of changes in actuarial assumption	-0.06%	\$(476,180)
Changes in Plan Provisions	-	-
Changes in plan experience during the year	-0.05%	(396,817)
	-0.11%	\$ (872,997)

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% (1.14% effective July 1, 2009) of covered compensation. The employer contribution for non-teaching employees of the Office of the Superintendent of Public Instructions is 3.1% (3.24% effective July 1, 2009) of covered compensation beginning in the month following the transfer under Chapter 54-52-02.13 of the North Dakota Century Code and continuing thereafter for a period of eight years. The employer contribution for employees of the state board of career and technical education is 2.85% (2.99% effective July 1, 2009) of covered compensation beginning in the month following the transfer under Chapter 54-52-02.14 of the North Dakota Century code and continuing thereafter for a period of eight years. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1% (1.14% effective July 1, 2009) of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Assets for the pension trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan. The benefits are equal to \$4.50 (\$5.00 effective July 1, 2009) for each of the employee's, or deceased employee's years of credited service not to exceed the premium in

effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

Another component of the Retiree Health Insurance Credit Fund provides health care coverage to eligible retirees who are not eligible for Medicare. The premiums for this coverage are set under North Dakota Century Code Chapter 54-52.1-02 as a percent of the active member single and family plan rates and are paid by the retiree. The premiums for this coverage are not age-rated. Currently, the premiums for this group do not cover the costs of the coverage; therefore, the costs of this group are being subsidized through the active group rates. This subsidy is not funded in advance and there is no guarantee that the subsidy for the 2009-11 biennium will continue in the future. In the event the legislature does not fund the subsidy beyond the current biennium, the coverage would discontinue and the unfunded actuarial accrued liability displayed in the table below for the retiree health implicit subsidy would be reduced to zero.

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

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

#### *Funded Status and Funding Progress*

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

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

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the plan is becoming financially stronger or weaker. Generally, the greater

the percentage the stronger the retirement plan. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage the stronger the retirement plan.

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

#### *Actuarial Assumptions and Methods*

##### **PERS and HPRS**

An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities for pension benefits are amortized over an open period of 20 years for the Public Employees Retirement System, the Supreme and District Court Judges, and the Highway Patrolmen's Retirement System which was adopted for the July 1, 1996 valuation. For the July 1, 1998 valuation the National Guard Security Officers and Firefighters changed the amortization period for the unfunded actuarial

accrued liabilities for pension benefits from a closed period to an open period of 20 years. For both plans, this will produce payments which are level percents of payroll contributions based on an open amortization period.

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

A frozen initial liability actuarial cost method of valuation, which is the same as the aggregate cost method is used in determining benefit liabilities and normal cost. The normal contribution under this method is the normal cost plus the payment required to amortize the unfunded actuarial liability over a selected period of years. The normal cost is determined by calculating the total value of all future benefits, subtracting the unfunded actuarial liability, and dividing that amount into payments that are a level percent of pay over the future working lifetime of all participants.

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

Under the Frozen Initial Liability Actuarial Cost Method, which is the same as the aggregate cost

#### **Funded Status**

Plan	Actuarial	Actuarial	Actuarial	Unfunded	Funded	Annual	UAAL
	Valuation Date	Value of Plan Assets	Accrued Liability (AAL)	Actuarial Liability (UAAL)		Covered Payroll	as a % of Annual Covered Payroll
Public Employees	2010	\$1,621.7	\$2,208.4	\$586.7	73.4%	\$ 769.7	76.2%
Highway Patrol	2010	\$ 49.3	\$ 61.8	\$ 12.5	79.8%	\$ 7.7	161.0%
Job Service	2010	\$ 73.5	\$ 0.1	\$ (3.4)	104.8%	\$ 1.6	(212.5)%
Retiree Health Credit	2010	\$ 48.7	\$ 102.8	\$ 54.1	47.4%	\$ 793.6	6.8%
Retiree Health							
Implicit Subsidy	2009	\$ -	\$ 53.7	\$ 53.7	0.0%	\$ -	0.0%

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

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

Under the Projected Unit Credit Actuarial Cost Method, benefits are projected to each assumed occurrence of decrement (death, disability, retirement) using service as of the valuation date. The normal cost is equal to the actuarial present value of the benefits allocated to the current year. The actuarial accrued liability for active members is equal to the actuarial present value of the benefits allocated to all prior years. The actuarial accrued liability for members currently receiving benefits and for participants entitled to deferred benefits is the actuarial present value of the benefits expected to be paid. The unfunded actuarial accrued liability is equal to the actuarial accrued liability minus the actuarial value of assets. This amount is amortized as a level percentage of payroll over a fixed period of 40 years, of which 20 years remain. For the implicit subsidy unfunded plan, this amount is amortized over a fixed period of 30 years.

#### **PERS and HPRS**

For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2010, the date of the latest actuarial study include:

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

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

**Salary Scale** - Projected salary increases based upon inflation of 4.5 % together with wage increases attributable to seniority, merit and "standard of living" increases.

**Mortality Rates** – For NDPERS: Pre- and post-mortality life expectancies of participants based upon 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). For HPRS: Pre- and post-mortality life expectancies

of participants based upon 1983 Group Annuity Mortality Tables and the Pension Benefit Guaranty Corporation's Disabled Life Mortality Tables, with a one year set back for the mortality assumption for males.

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

**Expenses** - Administrative expense of \$1,120,500 a year for the Public Employees Retirement System and \$16,000 a year for Highway Patrolmen's Retirement System

**Post-retirement benefit increase** - There are no post-retirement benefit increase assumptions.

#### **Retirement Plan for**

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

For actuarial purposes, assets are valued utilizing a method which recognized book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period. Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2010, the date of the latest actuarial study include:

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

**Salary scale:** 5% per year

#### **Mortality tables:**

Healthy:1994 Group Annuity Mortality Table  
Disabled:1983 Railroad Retirement Board  
Disabled Life Mortality Table

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

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

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

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

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



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

#### **Advance Funded Plan**

For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2010, 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).

**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 June 30, 2009, the date of the latest actuarial study include:

**Mortality Rates:** 1983 Group Annuity Mortality Table, set back one year for males and Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Individuals Receiving Social Security Benefits.

**Health Care Cost Trend:** Select-10.0%; Ultimate 6.0%. Select trends are reduced 0.5% each year until reaching the ultimate trend.

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

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

#### **NOTE 9**

##### **DEFERRED COMPENSATION PLAN FOR PUBLIC EMPLOYEES**

The System was given the authority by Chapter 54-52.2 to administer an employee deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan allows employees of the State of North Dakota or any of its political subdivisions, institutions, departments, or agencies to participate, providing that the employee has signed a participant agreement which permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive use of the employee or their beneficiary.

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

	<b>2010</b>	
Plan Participation		
by State of ND	\$24,211,519	87%
Other jurisdictions	<u>3,729,964</u>	<u>13%</u>
Total value	<u>\$27,941,483</u>	<u>100%</u>

	<b>2009</b>	
Plan Participation		
by State of ND	\$19,060,038	88%
Other jurisdictions	<u>2,619,096</u>	<u>12%</u>
Total value	<u>\$21,679,134</u>	<u>100%</u>

#### **NOTE 10**

##### **FEDERAL INCOME TAX STATUS**

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

#### **NOTE 11**

##### **UNIFORM GROUP INSURANCE PROGRAM SURPLUS**

The Uniform Group Insurance Program, a proprietary fund, contracts with Blue Cross Blue Shield of North Dakota (BCBS) to provide health care insurance to the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium. In accordance with the contract for the 2005-2007 biennium, the System deposited a total of \$14,227,761 with BCBS. These surplus funds are used to pay any claims in excess of the premiums collected.

At the end of the contract period, which is two years after the biennium, the System received the remaining surplus funds plus interest totalling \$3,966,104. The System has entered into a similar contract with BCBS for the 2007-2009 biennium. The final accounting for this biennium will occur on June 30, 2011. The accumulated surplus and other invested funds in the amount of \$6,043,500 are shown as cash on the System's balance sheet. These funds are being held by BCBS.

The contract for life insurance is with Prudential and does not have a gain sharing arrangement.

#### **NOTE 12 RISK MANAGEMENT**

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

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

The System also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 120-month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The System participates in the North Dakota Workforce Safety, an Enterprise Fund of the State of North Dakota. Workforce Safety is a state insurance fund and a "no fault" insurance system

covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

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

#### **NOTE 13 RELATED PARTIES**

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

#### **NOTE 14 COMMITMENTS**

In 2009, the System entered into agreements with Sagitec Solutions, LLC and L.R. Wechsler, Ltd for the development of its new integrated benefits administration system. The contract with Sagitec is \$7.7 million and the contract with L.R. Wechsler is \$1 million, and the total appropriation for this project is approximately \$9.6 million, which is anticipated to be fully completed by June 2011. As of June 30, 2010 the System has paid \$7.0 million towards these contracts. The remaining \$2.6 million will be paid as the project is completed. It is anticipated that final payments to Sagitec, which are due upon completion of the warranty period, may be carried over to the 2011-2013 biennium.

#### **NOTE 15 NEW PRONOUNCEMENTS**

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," was issued in March 2009. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The provisions of this statement are effective for periods beginning after June 15, 2010.

#### **NOTE 16 CONTINGENCY**

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 whose investments totaled more than \$1.5 billion. Subsequent to the filing of a criminal complaint by federal prosecutors, a receiver was appointed by the court to reconstruct the alleged fraud and determine what recoverable assets exist. The receiver issued a report in May 2009 indicating that approximately \$893 million of recoverable assets were identified which equates to 60% of the investors' account values. The SIB held three portfolios with Westridge/WG Trading at the time the fraud was discovered. The three portfolios had been valued at a combined \$161.3 million in the month prior to the court actions. \$23.3 million was recovered immediately through liquidation of futures and related collateral positions at Westridge. The remaining assets were held by WG Trading and were frozen by the courts and remain frozen as of the balance sheet date. The market value reported on the balance sheet reflects a reduction of the 40% of the last known market value, based on the receiver's initial report, and will remain at that value until further information is received from the SIB's legal representative's or the federal courts.

Subsequent to the closing of the fiscal year ended June 30, 2010, additional information was made available by the receiver regarding the assets readily available for distribution. The amount was reduced from the original \$893 million in May, 2009 to approximately \$800 million due to lack of liquidity. Therefore, the carrying value of these investments has been reduced by an additional 11% to reflect this new information. Due to the uncertainty of the distribution of assets between the parties as of the balance sheet date, this valuation is considered the best available.

NDPERS current portfolio contains an exposure to Westridge of approximately \$30.6 million on June 30, 2010.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

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

**Public Employees Retirement System**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	\$ 31,844,577	65%
2006	31,906,102	69
2007	38,184,510	61
2008	35,875,117	70
2009	40,327,067	69
2010	54,157,866	56

**Highway Patrolmen's Retirement System**

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
2005	\$ 1,046,646	83%	\$ (641,545)
2006	904,817	97	(674,484)
2007	1,076,146	89	(565,712)
2008	905,591	117	(724,722)
2009	1,025,737	109	(829,104)
2010	1,312,591	91	(721,539)

**For the five years ended June 30  
Retiree Health Insurance Credit  
Advance Funded Plan**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	\$ 5,139,793	99.0%
2006	5,396,153	100.0
2007	5,687,050	100.0
2008	5,708,457	100.0
2009	5,804,660	116.0
2010	7,199,033	117.0

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

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	\$ 4,020,000	0%
2009	4,118,000	0
2010	6,938,000	0

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

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

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) – Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2005	\$1,361.2	\$1,236.1	\$125.1	90.8%	\$521.1	24.0%
2006	1,480.5	1,314.5	166.0	86.8	547.0	30.3
2007	1,610.2	1,503.1	107.1	93.4	582.3	18.4
2008	1,737.6	1,609.8	127.8	92.6	640.7	19.9
2009	1,901.2	1,617.1	284.1	85.1	697.7	40.7
2010	2,208.4	1,621.7	586.7	73.4	769.7	76.2

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

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) – Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2005	\$46.3	\$40.7	\$5.6	87.9%	\$5.3	105.7%
2006	49.1	42.8	6.3	87.0	5.7	110.5
2007	51.5	48.2	3.3	93.5	6.1	54.1
2008	54.6	50.8	3.8	93.0	6.5	58.5
2009	57.6	50.2	7.4	87.2	7.0	105.0
2010	61.8	49.3	12.5	79.8	7.7	161.0

**For the four years ended June 30**

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

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) – Entry Age	Actuarial Value of Assets	Unfunded (Overfunded) AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
2007	\$ 70.7	\$ 75.7	\$ (5.0)	107.1%	\$ 1.8	0.0%
2008	70.8	77.0	(6.2)	108.8	1.8	0.0
2009	71.1	74.5	(3.4)	104.7	1.7	0.0
2010	70.1	73.5	(3.4)	104.8	1.6	0.0

**For the six years ended June 30**

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

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

**For the two years ended June 30**

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

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) – Unit Credit	Actuarial Value of Assets	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2007	\$ 30.7	\$ -	\$ 30.7	0.0%	\$ -	0.0%
2009	\$ 53.7	\$ -	\$ 53.7	0.0%	\$ -	0.0%

# SUPPLEMENTARY INFORMATION

## SCHEDULE OF ADMINISTRATIVE EXPENSES

### Fiduciary Funds

For the Fiscal Year Ended June 30, 2010

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan	Oasis Program
Personnel Services:								
Salaries	459,083	2,277	43,999	3,029	138,281	213,896	2,535	0
Social security	33,964	166	3,257	224	10,278	16,076	188	0
Retirement	41,466	204	3,946	271	12,346	19,124	227	0
Insurance	115,524	684	10,296	712	32,477	42,057	597	0
Total Personnel Services	650,037	3,331	61,498	4,236	193,382	291,153	3,547	0
Professional Services:								
Actuarial	158,546	11,745	11,000	12,500	0	0	16,000	0
Audit	16,733	127	1,573	110	4,215	8,430	92	0
Data processing	164,783	1,251	9,363	971	9,986	18,432	549	0
Consulting	5,157	38	0	7,500	12,000	17,898	0	0
Legal counsel	16,116	115	1,672	116	3,528	8,337	231	0
Misc outside services	5,323	40	487	138	989	3,151	2,917	0
Total Professional Services	365,658	13,316	24,095	21,335	30,718	56,248	19,789	0
Communication:								
Postage & mailing svc	42,712	325	4,346	304	14,765	11,418	255	0
Printing	28,915	220	1,635	114	1,791	4,049	96	0
Telephone	11,741	89	993	69	2,117	3,630	58	0
Total Communication	83,368	634	6,974	487	18,673	19,097	409	0
Rentals:								
Equipment rent	5,642	42	557	39	1,522	3,062	33	0
Office rent	43,562	339	4,213	294	11,225	22,759	247	0
Total Rentals	49,204	381	4,770	333	12,747	25,821	280	0
Miscellaneous:								
Depreciation	1,385	0	0	0	0	0	0	0
Dues and prof development	15,844	118	849	330	810	2,787	49	0
Insurance	604	5	57	4	152	305	3	0
Miscellaneous	10,424	79	975	68	2,616	5,164	57	
Repairs and maintenance	1,208	9	120	8	304	609	7	0
Supplies	23,093	175	2,196	240	6,510	11,411	129	0
Travel	13,908	106	819	57	415	3,812	48	0
Total Miscellaneous	66,466	492	5,016	707	10,807	24,088	293	0
Total Administrative Expenses	\$1,214,733	\$18,154	\$102,353	\$27,098	\$266,327	\$416,407	\$24,318	\$0

# **SCHEDULE OF ADMINISTRATIVE EXPENSES**

## **Fiduciary Funds**

**For the Fiscal Year Ended June 30, 2009**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan	Oasis Program
Personnel Services:								
Salaries	469,145	2,794	45,258	3,357	137,455	216,848	2,860	0
Social security	34,807	205	3,358	249	10,227	16,317	212	0
Retirement	41,398	244	4,013	298	12,207	19,297	254	0
Insurance	98,601	650	8,990	667	27,575	36,639	568	0
Total Personnel Services	643,951	3,893	61,619	4,571	187,464	289,101	3,894	0
Professional Services:								
Actuarial	191,568	11,745	22,000	0	0	0	17,200	0
Audit	16,687	127	1,687	125	4,203	8,407	107	0
Data processing	176,525	1,345	10,670	1,828	9,926	19,058	674	0
Consulting	13,142	96	0	0	12,900	2,193	0	0
Legal counsel	10,660	81	1,039	77	1,571	6,509	571	0
Misc outside services	15,272	113	1,705	125	1,205	6,401	1,611	0
Total Professional Services	423,854	13,507	37,101	2,155	29,805	42,568	20,163	0
Communication:								
Postage & mailing svc	32,585	250	3,160	235	8,001	8,587	201	0
Printing	45,508	317	3,692	274	10,859	10,646	233	0
Telephone	11,830	90	1,049	78	2,050	4,722	66	0
Total Communication	89,923	657	7,901	587	20,910	23,955	500	0
Rentals:								
Equipment rent	5,493	42	555	41	1,510	2,643	35	0
Office rent	41,977	320	4,028	299	10,573	21,149	254	0
Total Rentals	47,470	362	4,583	340	12,083	23,792	289	0
Miscellaneous:								
Depreciation	1,385	0	0	0	0	0	0	0
Dues and prof development	14,023	107	909	154	1,144	2,625	57	0
Insurance	748	6	72	5	188	377	5	0
Miscellaneous	8,412	63	704	53	2,048	3,056	46	
Repairs and maintenance	626	5	59	4	153	306	4	0
Supplies	14,865	113	1,305	128	3,506	5,103	83	0
Travel	15,863	121	954	71	207	1,067	60	0
Total Miscellaneous	55,922	415	4,003	415	7,246	12,534	255	0
Total Administrative Expenses	\$1,261,120	\$18,834	\$115,207	\$8,068	\$257,508	\$391,950	\$25,101	\$0

**Statement of Appropriations**  
**For the Year Ended June 30, 2010**

	Approved 2009-2011 Appropriation	2009-2011 Appropriation Adjustments	Adjusted 2009-2011 Appropriation	Expenditures 2010	Unexpended Appropriation
<b>All Fund Types:</b>					
Salaries and wages	\$ 4,236,489	\$ -	\$ 4,236,489	\$ 2,071,559	\$2,164,930
Operating Expenses	1,659,999	-	1,659,999	742,043	917,956
Technology					
project carryover	4,734,726	-	4,734,726	2,337,363	2,397,363
Contingency	250,000	-	250,000	-	250,000
	<u>\$ 10,881,214</u>	<u>\$ -</u>	<u>\$ 10,881,214</u>	<u>5,150,965</u>	<u>\$ 5,730,249</u>

**Reconciliation of Administrative Expenses to Appropriated Expenditures**

Administrative expenses as reflected in the financial statements	<u>2010</u>
Pension Trust Funds	\$2,069,390
Enterprise Funds	<u>948,355</u>
Total administrative expenses	3,017,745
Add:	
Software development costs reclassified to software (not in production)	2,388,046
Change in software development costs accrued, but not yet paid	317,642
Contribution/premium over & short	720
Less:	
Professional fees paid pursuant to NDCC 54-52-04(6)	(548,957)
Depreciation expenses	(1,385)
Allocated depreciation charged as equipment rent to other programs	(831)
Changes in accrued compensated absences	(20,751)
Accounts payable not yet charged to appropriation	<u>(1,264)</u>
Total appropriated expenditures	<u>\$ 5,150,965</u>



# **SCHEDULE OF INVESTMENT EXPENSES**

## **Fiduciary Funds**

**For the Fiscal Year Ended June 30, 2010**

	<b>Public Employees Retirement System</b>	<b>Highway Patrolmen's Retirement System</b>	<b>Retiree Health Insurance Credit Fund</b>	<b>Defined Contribution Retirement Fund</b>	<b>Pretax Benefits Program</b>	<b>Deferred Compensation Program</b>	<b>Job Service Retirement Plan</b>	<b>Oasis Program</b>
<b>Payments to State Investment Board:</b>								
Investment Fees	\$5,935,703	\$182,885	\$100,256	\$0	\$0	\$0	\$305,699	\$0
Administrative Expenses	285,705	8,785	0	0	0	0	0	0
	6,221,408	191,670	100,256	0	0	0	305,699	0
Securities Lending Fees (net of rebates)	(74,993)	(2,310)	0	0	0	0	(3,070)	0
<b>Payments to Providers:</b>								
Investment Fees	0	0	0	11,936	0	86,747	0	0
Total Investment Expenses	\$6,146,415	\$189,360	\$100,256	\$11,936	\$0	\$86,747	\$302,629	\$0

# **SCHEDULE OF INVESTMENT EXPENSES**

## **Fiduciary Funds**

**For the Fiscal Year Ended June 30, 2009**

	<b>Public Employees Retirement System</b>	<b>Highway Patrolmen's Retirement System</b>	<b>Retiree Health Insurance Credit Fund</b>	<b>Defined Contribution Retirement Fund</b>	<b>Pretax Benefits Program</b>	<b>Deferred Compensation Program</b>	<b>Job Service Retirement Plan</b>	<b>Oasis Program</b>
<b>Payments to State Investment Board:</b>								
Investment Fees	\$6,212,716	\$195,456	\$75,032	\$0	\$0	\$0	\$301,287	\$0
Administrative Expenses	221,594	6,949	0	0	0	0	0	0
	6,434,310	202,405	75,032	0	0	0	301,287	0
Securities Lending Fees	149,142	4,681	0	0	0	0	19,899	0
<b>Payments to Providers:</b>								
Investment Fees	0	0	0	11,330	0	72,477	0	0
Total Investment Expenses	\$6,583,452	\$207,086	\$75,032	\$11,330	\$0	\$72,477	\$321,186	\$0

**SCHEDULE OF CONSULTANT EXPENSES****Fiduciary Funds****For the Fiscal Year Ended June 30, 2010**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan	OASIS Program
Actuary Fees:								
The Segal Company	158,546	11,745	11,000	12,500	0	0	16,000	0
Audit/Accounting Fees:								
Brady, Martz & Associates	16,733	127	1,573	110	4,215	8,430	92	0
Disability Consulting Fees:								
Mid Dakota Clinic	4,412	38	0	0	0	0	0	0
Miscellaneous Consulting Fees:								
The Segal Company	0	0	0	7,500	12,000	17,899	0	0
Fox Lawson & Associates	745	0	0	0	0	0	0	0
Legal Fees:								
ND Attorney General	15,116	115	1,672	116	3,528	8,336	231	0
Totals	\$195,552	\$12,025	\$14,245	\$20,226	\$19,743	\$34,665	\$16,323	\$0

**SCHEDULE OF CONSULTANT EXPENSES****Fiduciary Funds****For the Fiscal Year Ended June 30, 2009**

	Public Employees Retirement System	Highway Patrolmen's Retirement System	Retiree Health Insurance Credit Fund	Defined Contribution Retirement Fund	Pretax Benefits Program	Deferred Compensation Program	Job Service Retirement Plan	OASIS Program
Actuary Fees:								
The Segal Company	191,568	11,745	22,000	0	0	0	17,200	0
Audit/Accounting Fees:								
Brady, Martz & Associates	16,687	127	1,687	125	4,203	8,407	107	0
Disability Consulting Fees:								
Mid Dakota Clinic	6,404	96	0	0	0	0	0	0
Miscellaneous Consulting Fees:								
The Segal Company	0	0	0	0	12,900	2,193	0	0
LR Wechsler	0	0	0	0	0	0	0	0
ICE MILLER LLP	0				0	0		
Calhoun Law Group PC	0	0	0	0	0	0	0	0
Gallagher Benefit Services Inc.	1,738	0	0	0	0	0	0	0
CEM Benchmarking Inc.	5,000	0	0	0	0	0	0	0
Legal Fees:								
ND Attorney General	10,660	81	1,039	77	1,571	6,509	571	0
Totals	\$232,057	\$12,049	\$24,726	\$202	\$18,674	\$17,109	\$17,878	\$0



## INVESTMENT SECTION

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



**North Dakota Retirement and Investment Office**

*Teachers' Fund for Retirement  
State Investment Board*

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November 30, 2010

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, 2010.

**Introduction**

For the fiscal year ended June 30, 2010, the North Dakota Public Employees Retirement System (PERS) investment portfolio experienced a net total return of 13.67%. The Job Service Pension Plan experienced a net total return of 13.61% 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**

The Federal Reserve kept interest rates low (0-0.25%) throughout the fiscal year in an effort to encourage spending and bolster the economy. This low level of interest rates has been in place since December of 2008. Fear of deflation (i.e. – falling prices) was pervasive during the fiscal year with negative or small positive gains in the consumer price index (CPI). In the first quarter of the fiscal year, CPI was -1.3%, the third straight quarterly decline in measured inflation. CPI was positive for the rest of the fiscal year, although at levels below the long-term historical average of 4%. Gross Domestic Product (GDP) growth was positive for each quarter during the fiscal year. In the first half of the year, inventory replenishment and government stimulus programs, such as infrastructure spending, first-time home buyer credits, and “cash for clunkers” helped drive growth.

In the second half of the fiscal year, GDP growth slowed as government incentives expired, consumer spending slowed, and the inventory cycle completed. The unemployment rate stayed high during the fiscal year reaching 10% in the December quarter of 2009. As of June 30, 2010, unemployment fell to 9.5%, remaining well above the long-term average rate of roughly 6%. The economy grew at a modest pace in the past fiscal year while fighting against high unemployment, a high home foreclosure rate coupled with low home sales, and modest consumer spending. In a further effort to stimulate growth, the Fed committed to quantitative easing, a program by which the Federal Reserve bought Treasury securities as a means to increase monetary circulation. The effects of this policy remain to be seen.

**Domestic Equity Overview**

The end of the fiscal year showed positive results across the broad domestic equity market. The S&P 1500 Index, a broad market indicator, finished the fiscal year with a return of 15.57%. The first three quarters of the fiscal year had positive returns. However, a large portion of the fiscal year gain was lost in the last quarter as the S&P 1500 tumbled 11.18%. Small cap stocks performed better than large cap stocks during the fiscal year. The S&P 600, a small cap index, outpaced the S&P 500, a large cap index, 23.64% to 14.43%, respectively. Value stocks held up better than Growth stocks during fiscal year 2010. The Russell 3000 Value Index (an index measuring large, medium and small value-oriented stocks) advanced 17.57% versus a gain of 13.95% in a companion index, the Russell 3000 Growth Index.

**International Equity Overview**

Developed international equity, as represented by the MSCI EAFE Index, produced positive results in fiscal year 2010. The index returned 5.92%, which was a much better result than the 31.35% loss experienced during fiscal year 2009. For the trailing twelve-months ended June 30, 2010, the MSCI EAFE Growth Index gained 8.59% while the MSCI EAFE Value Index was up 3.21%. The MSCI Emerging Markets Index was the best performing international index in fiscal year 2010 with a gain of 23.48%.

**Domestic Fixed-Income Overview**

The bond market, as measured by the Barclays Capital Aggregate Bond Index, had a 9.50% return for the four quarter period ended 6/30/2010. Spurred by deflationary fears and uncertainty in the U.S. equity market,

investors fled to the safe haven of U.S. Treasuries. Due to increased demand, Treasury yields dropped across the entire curve. When compared to fiscal year 2009, spreads in the US Credit, Mortgage-Backed Securities (MBS), Asset Backed Securities (ABS), and High Yield Bond sectors narrowed during the last fiscal year. Lower yields helped produce positive returns in all sectors during fiscal year 2010.

The Barclays Capital Government/Credit Intermediate Index returned 8.29% over the fiscal year. This return was below the 16.49% gain of the Barclays Capital Government/Credit Long Index. The Barclays Capital Credit Index rose 14.68% for the trailing twelve-months as company balance sheets continued to improve. High yield (i.e.–below investment grade) investors also saw positive returns: the Barclays Capital High Yield Index returned 26.77% for the year ended June 30, 2010.

#### **International Fixed-Income Overview**

The international fixed income market was adversely affected by a sovereign debt crisis within Greece that led to increased fears about other European debt during the last fiscal year. The Citi Euro Government Bond Index declined 8.13% while the rest of the world showed gains (1.52% for the Citi Non-U.S. World Government Index). This index's return includes the negative effect of European bonds. The European Central Bank (ECB) created an 860 billion Euro rescue package to help contain the crisis, but investors questioned if the bailout would be large enough.

The US Dollar (USD) appreciated relative to most foreign currencies during the fiscal year, hurting U.S. investors' foreign bond returns. The dollar appreciated in the last three quarters of fiscal 2010 after depreciating in the first quarter of the period. In USD denominated returns, the Citi Non-US World Government Bond Index rose 1.52% for the year ended 6/30/10. For comparative purposes, the local currency return – the return achieved by investors in their respective home markets – for the Citi Non-US World Government Bond Index was 4.87%. Emerging markets countries experienced positive returns for fiscal year 2010; the JP Morgan Emerging Markets Bond Plus Index gained 17.44%.

#### **Real Estate Overview**

The NCREIF Property Index, a measure of the private real estate property market, fell 1.48% over the past fiscal year. After two quarterly losses in the first half of the year, the index produced positive gains in the last two quarters of the fiscal year. Investors continued to reduce portfolio debt levels and occupancy rates improved as liquidity slowly crept back into the real estate market. The NAREIT Equity Index, a measure of publicly traded real estate securities, gained 53.90% during fiscal 2010. Valuations in the private real estate market often lag those of the public real estate market resulting in a slower realization of losses (or gains).

#### **Private Equity Overview**

The private equity market grew at a slow pace in fiscal year 2010 as few institutional investors are investing in new programs. According to Buyouts Newsletter, 266 closed transactions amounting to \$22 billion occurred during the fiscal year. This was a decrease in total transactions from fiscal year 2009 (288) but nearly twice as much dollar volume (\$11 billion). Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous. Instead of recognizing any particular index as representative of the opportunity for the fiscal year ended June 30, 2010, it is worth noting that the pension pool's alternative investment allocation of total fund assets was 4.8%. The market value of the alternative investment allocation, including investment returns and net new investment, gained 19.06% during the fiscal year.

#### **Summary**

Although fiscal year 2010 ended on a positive note for the PERS funds, the coming years will continue to be challenging. To ensure that the funds are appropriately invested to meet those challenges, the PERS Board is conducting an asset/liability study. This study will provide guidance to the State Investment Board (SIB) in structuring the investments within the pension pool to meet future challenges.

Additionally, the global capital markets have become an important consideration when constructing a portfolio. PERS and SIB will need to be prepared to take advantage of investment opportunities throughout the world as they occur. The SIB will continue to invest the monies entrusted to them in a fiduciary sound manner, while at the same time explore investment opportunities that will add investment return to expected benchmark return expectations.

Sincerely,



LEROY GILBERTSON  
Interim Executive Director/CIO

## INVESTMENT POLICIES

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

State law requires that the SIB apply the prudent investor rule when investing funds under its supervision. The “prudent investor rule” means fund fiduciaries shall exercise the judgment and care, similar to that of an institutional investor who exercises ordinary prudence, discretion, and intelligence when managing the assets of large investments entrusted to it. The funds belonging to the System must be invested exclusively for the benefit of the members and the beneficiaries in accordance with the System’s investment goals and objectives.

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

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

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

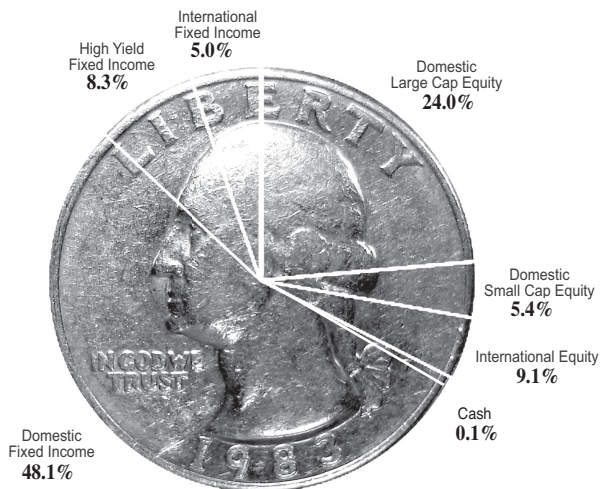
The investment goals for the Job Service Retirement Plan are: to maintain a level of surplus sufficient to eliminate the need for future contributions; to achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price Index, by 3.0 percentage points per year (based on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

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

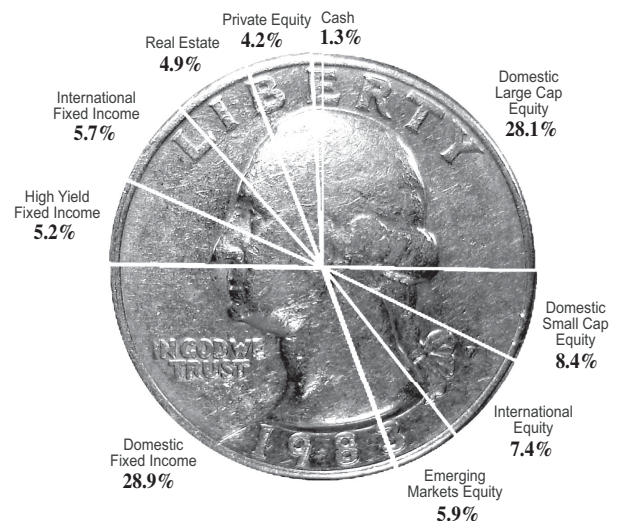
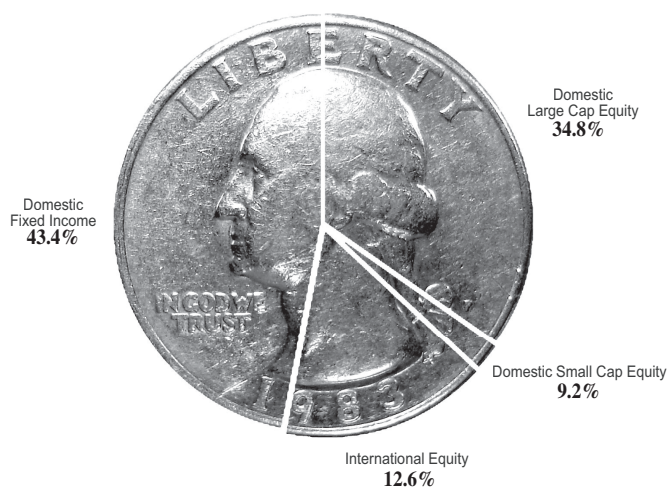
The SIB is responsible for carrying out the Retirement Board’s investment goals, objectives and policies; implementing the asset allocation plan submitted by the System, maintaining a separate accounting and preparing periodic investment performance reports for the System funds under their authority.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



## INVESTMENT SUMMARIES

**Job Service Retirement Plan  
Asset Allocation – June 30, 2010**


<u>Asset Class</u>	<u>Market Value</u>	<u>Actual %</u>	<u>Policy %</u>
Domestic Large Cap Equity	\$ 18,584,146	24.0%	25.0%
Domestic Small Cap Equity	4,223,151	5.4%	6.0%
International Equity	7,066,673	9.1%	9.0%
Domestic Fixed Income	37,292,633	48.1%	47.0%
High Yield Fixed Income	6,475,755	8.3%	8.0%
International Fixed Income	3,860,726	5.0%	5.0%
Cash & Equivalents	86,685	0.1%	0.0%
<b>Total</b>	<b>\$ 77,589,769</b>	<b>100.0%</b>	<b>100.0%</b>

**Public Employees and  
Highway Patrolmen's Retirement Systems  
Asset Allocation – June 30, 2010**

**Retiree Health Insurance Credit Program  
Asset Allocation – June 30, 2010**


<u>Asset Class</u>	<u>Market Value</u>	<u>Actual %</u>	<u>Policy %</u>
Domestic Large Cap Equity	\$ 15,625,724	34.8%	37.0%
Domestic Small Cap Equity	4,118,262	9.2%	9.0%
International Equity	5,644,764	12.6%	14.0%
Domestic Fixed Income	19,519,126	43.4%	40.0%
<b>Total</b>	<b>\$ 44,907,876</b>	<b>100.0%</b>	<b>100.0%</b>

<u>Asset Class</u>	<u>Market Value</u>	<u>Actual %</u>	<u>Policy %</u>
Domestic Large Cap Equity	\$ 423,924,645	28.1%	30.0%
Domestic Small Cap Equity	126,500,671	8.4%	10.0%
International Equity	112,143,528	7.4%	10.0%
Emerging Markets Equity	89,148,553	5.9%	5.0%
Domestic Fixed Income	435,362,860	28.9%	24.0%
High Yield Fixed Income	78,861,154	5.2%	5.0%
International Fixed Income	86,405,837	5.7%	5.0%
Real Estate	73,611,369	4.9%	5.0%
Private Equity	63,362,366	4.2%	5.0%
Cash & Equivalents	19,826,474	1.3%	1.0%
<b>Total</b>	<b>\$1,509,147,457</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>(2)</sup>**  
**For the Five Years Ended June 30, 2010**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Annualized</u>	
						<u>3 Year</u>	<u>5 Year</u>
Total Fund (PERS)	12.00%	18.96%	-5.60%	-24.42%	13.67%	-6.78%	1.54%
Total Fund (Job Service)	7.09%	15.90%	-1.64%	-16.51%	13.61%	-2.32%	2.95%
CPI	4.47%	2.67%	5.50%	-1.98%	1.36%	1.60%	2.38%
Large Cap Domestic Equities	11.16%	22.27%	-15.66%	-39.58%	18.99%	-15.36%	-3.79%
S&P 500	8.63%	20.59%	-13.12%	-26.21%	14.43%	-9.81%	-0.79%
Small Cap Domestic Equities	14.24%	18.54%	-19.70%	-31.73%	36.20%	-9.28%	0.35%
Russell 2000	14.58%	16.43%	-16.19%	-25.01%	21.48%	-8.60%	0.37%
International Equities	27.23%	27.88%	-17.91%	-27.31%	13.37%	-12.22%	1.93%
MSCI 50% Hedged EAFE	26.72%	26.95%	-15.49%	-27.05%	8.47%	-12.55%	1.47%
Emerging Markets Equities	35.30%	49.32%	3.69%	-26.69%	23.20%	-2.17%	13.60%
MSCI Emerging Markets Free	35.91%	45.45%	4.89%	-27.82%	23.48%	-2.22%	13.07%
Domestic Fixed Income	3.41%	13.61%	9.78%	-3.04%	6.31%	4.23%	5.84%
Barclays Aggregate	-0.81%	6.12%	7.12%	6.05%	9.50%	7.55%	5.54%
High Yield Bonds	5.25%	12.15%	-3.62%	-20.08%	31.79%	0.50%	3.68%
Barclays High Yield Corp 2% Issuer Cap	4.37%	11.22%	-1.74%	-1.91%	26.66%	6.88%	7.22%
International Fixed Income	2.38%	3.77%	14.24%	0.21%	9.17%	7.72%	5.84%
Citi Non-US World Government	-0.01%	2.20%	18.72%	3.53%	0.78%	7.40%	4.83%
Real Estate	22.09%	15.47%	7.27%	-32.45%	-11.79%	-13.86%	-1.87%
NCREIF Index	18.67%	17.24%	9.20%	-19.57%	-1.48%	-4.71%	3.78%
Alternative Investments <sup>(1)</sup>	11.08%	16.83%	4.50%	-32.94%	19.06%	-6.33%	1.97%
Cash	4.43%	5.24%	0.71%	1.09%	0.29%	0.70%	2.33%
90 Day T-bills	3.98%	5.21%	3.36%	0.95%	0.16%	1.57%	2.77%

CPI = Consumer Price Index

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

Russell 2000 = Frank Russell Company 2000 Index

EAFE = Europe, Australia and Far East Stock Index

NCREIF = National Council of Real Estate

Investment Fiduciaries Index

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

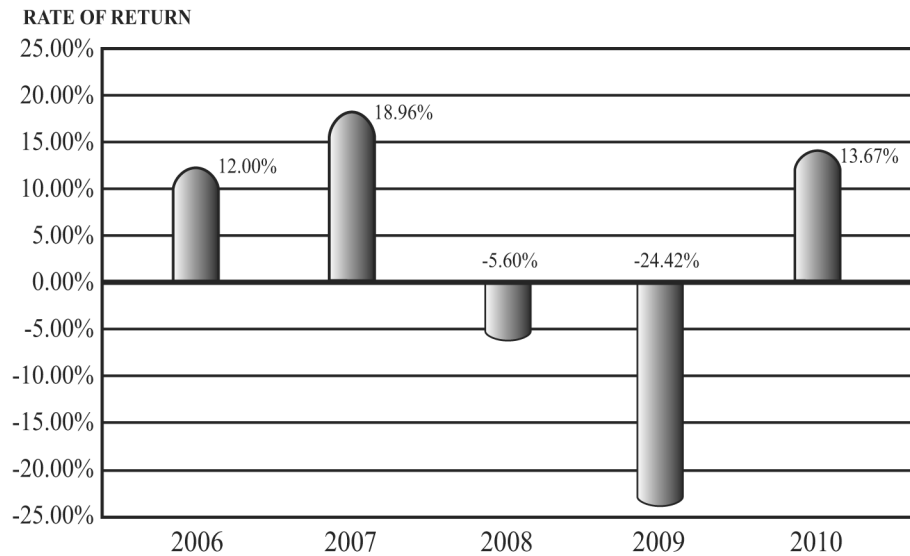
<sup>(2)</sup> The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values.

**Retiree Health Insurance Credit Plan**  
**Schedule of Investment Results<sup>(1)</sup>**  
**For the Five Years Ended June 30, 2010**

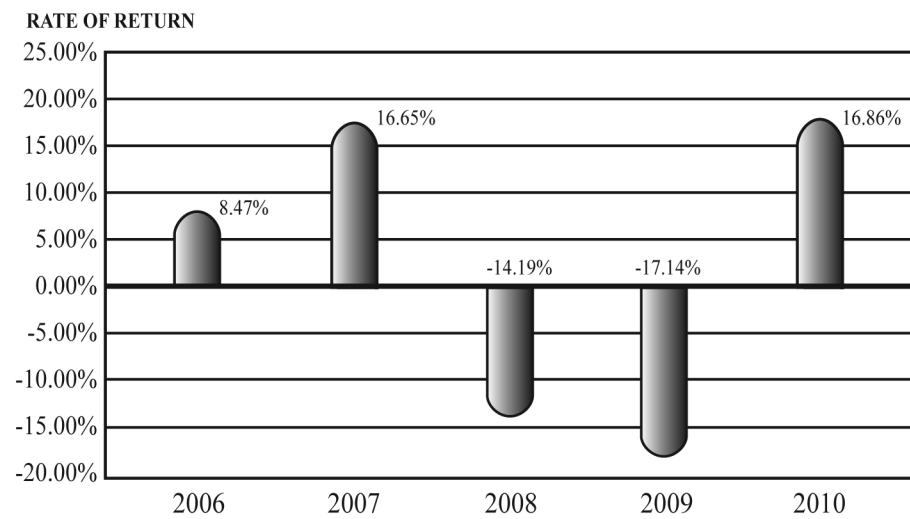
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	Annualized	
						<u>3 Year</u>	<u>5 Year</u>
Total Fund	8.47%	16.65%	-14.19%	-17.14%	16.86%	-5.99%	1.01%
CPI	4.47%	2.67%	5.50%	-1.98%	1.36%	1.60%	2.38%
Large Cap Domestic Equities	8.43%	22.64%	-18.05%	-29.49%	17.62%	-12.08%	-1.92%
S&P 500	8.63%	20.59%	-13.12%	-26.21%	15.23%	-9.60%	-0.66%
Small Cap Domestic Equities	13.75%	16.79%	-22.70%	-27.95%	34.33%	-9.22%	-0.04%
Russell Special Small Cap	13.93%	20.39%	-11.57%	-27.83%	21.49%	-8.13%	1.24%
International Equities	26.31%	27.72%	-12.85%	-33.45%	13.30%	-13.06%	1.26%
MSCI EAFE	26.67%	27.00%	-10.61%	-31.35%	8.15%	-12.77%	1.32%
Domestic Fixed Income	-0.89%	5.22%	-6.92%	5.77%	16.90%	4.80%	3.81%
Barclays Aggregate	-0.81%	6.12%	7.12%	6.05%	9.50%	7.55%	5.54%

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

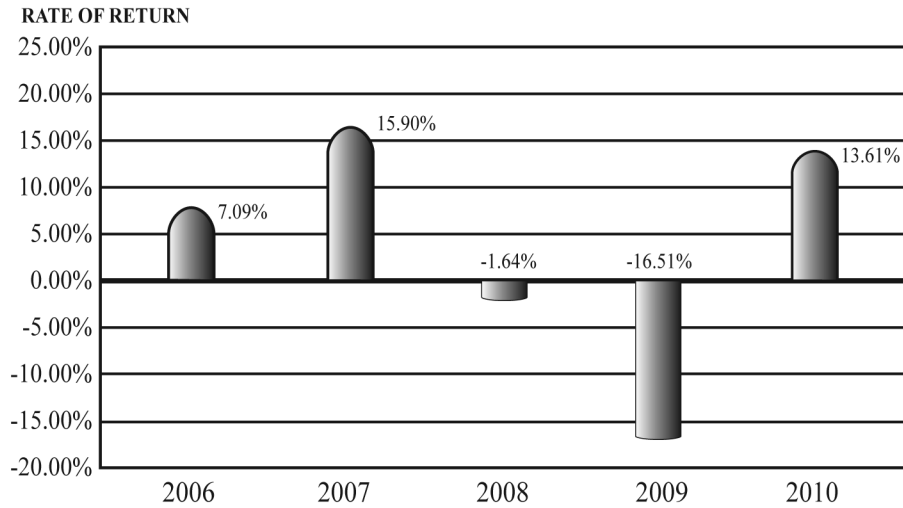
### Public Employees and Highway Patrolmen's Retirement Systems Investment Results



### Retiree Health Insurance Credit Program Investment Results



### Job Service Retirement Plan Investment Results



### Largest Holdings By Market Value at June 30, 2010

#### Stocks

Microsoft Corporation  
 Apple Incorporated  
 Exxon Mobile Corporation  
 Comcast Corporation  
 Intel Corporation  
 Visa Incorporated  
 Boeing Company  
 TD Ameritrade Holding Corporation  
 Laboratory Corporation American Holdings  
 Yahoo Incorporated

#### Bonds

US Treasury Notes 3.5% Due 2-15-2018  
 Kingdom of Sweden Bonds 5.5% Due 8-10-2012  
 New South Wales Treasury 5.5% Due 1-03-2017  
 Republic of Korea Bonds 5.75% Due 10-09-2018  
 Republic of Poland Bonds 5.25% 10-25-2017  
 Federal Republic of Brazil Treasury Note 10% Due 1-01-2021  
 US Treasury Notes 3.75% Due 11-15-2018  
 US Treasury Bonds 4.5% Due 05-15-2038  
 Government of UK 4.25% Due 07-03-2036  
 Government of Canada Bonds 6.0% Due 1-06-2011

*A complete list of all holdings is available upon request.*

### LARGEST HOLDINGS JUNE 30, 2010



**INVESTMENT  
FEES****Public Employees and Highway Patrolmen's Retirement System  
Schedule of Investment Fees****For the Fiscal Year Ended June 30, 2010**

	<u>Assets Under Management</u>	<u>Fees</u>
<b>Investment Managers' Fees:</b>		
Large Cap Domestic Equities	\$424 Million	\$ 2,447,358
Small Cap Domestic Equities	\$127 Million	1,282,938
International Equities	\$112 Million	580,526
Emerging Markets Equities	\$ 89 Million	1,050,058
Domestic Fixed Income	\$435 Million	2,449,020
High Yield Fixed Income	\$ 79 Million	1,626,280
International Fixed Income	\$ 86 Million	308,452
Real Estate	\$ 74 Million	1,245,063
Private Equity	\$ 63 Million	1,622,851
Cash	\$ 20 Million	12,066
Total Investment Managers' Fees <sup>(1)</sup>		<u>\$12,624,612</u>
<b>Other Investment Service Fees:</b>		
Custodian Fees	\$ 1.5 Billion	\$ 238,497
Investment Consultant Fees	\$ 1.5 Billion	91,313
SIB Administrative Fees	\$ 1.5 Billion	294,489
Total Investment Service Fees		<u>\$ 624,299</u>
<b>Securities Lending Fees (net of rebates)</b>	\$ 1.5 Billion	<u>\$ (77,303)</u>

<sup>(1)</sup>Includes fees of \$6,835,833 which were netted against investment income.**Job Service Retirement Plan  
Schedule of Investment Fees****For the Fiscal Year Ended June 30, 2010**

	<u>Assets Under Management</u>	<u>Fees</u>
<b>Investment Managers' Fees:</b>		
Large Cap Domestic Equities	\$19 Million	\$ 119,494
Small Cap Domestic Equities	\$ 4 Million	33,881
International Equities	\$ 7 Million	11,333
Domestic Fixed Income	\$37 Million	497,171
High Yield Fixed Income	\$ 6 Million	91,063
International Fixed Income	\$ 4 Million	13,715
Cash	\$ .1 Million	418
Total Investment Managers' Fees <sup>(1)</sup>		<u>\$ 767,075</u>
<b>Other Investment Service Fees:</b>		
Custodian Fees	\$78 Million	\$ 9,597
Investment Consultant Fees	\$78 Million	4,701
SIB Administrative Fees	\$78 Million	13,382
Total Investment Service Fees		<u>\$ 27,680</u>
<b>Securities Lending Fees (net of rebates)</b>	\$78 Million	<u>\$ (3,070)</u>

<sup>(1)</sup>Includes fees of \$489,056 which were netted against investment income.**Retiree Health Insurance Credit Plan  
Schedule of Investment Fees****For the Fiscal Year Ended June 30, 2010**

	<u>Assets Under Management</u>	<u>Fees</u>
Investment Manager's Fees	\$45 Million	\$ 174,464
Custodian Fees	\$45 Million	1,166
SIB Administrative Fees	\$45 Million	5,115
Total Investment Service Fees		<u>\$ 180,745</u>

<sup>(1)</sup>Includes fees of \$80,489 which were netted against investment income.

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

## Defined Contribution Investments

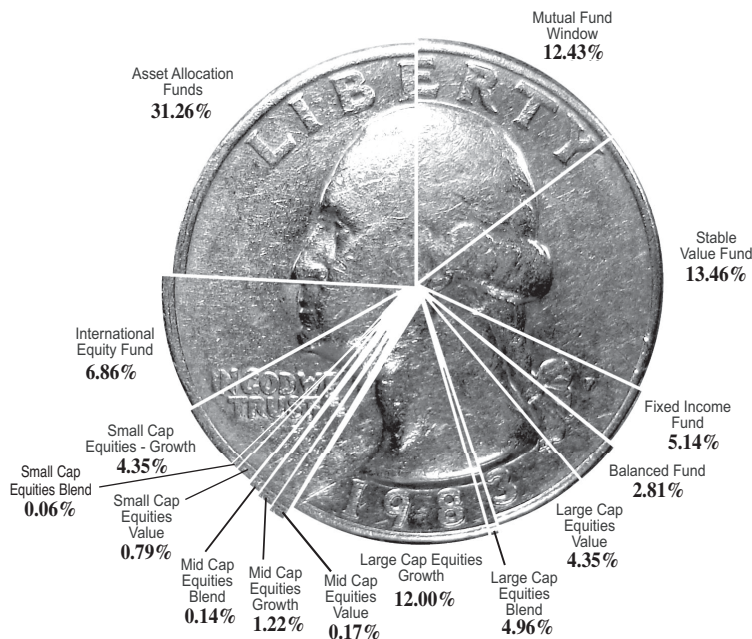
The Defined Contribution Retirement Plan (Plan) is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. Each participating member shall direct the investment of the individual's accumulated employer and employee contributions and earnings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

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

- Establishes an investment program that will allow plan participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances
- Defines the investment categories offered by the Plan
- Establishes benchmarks and performance standards for each investment category to evaluate each fund's performance
- Establishes a procedure for reporting and evaluating the various funds and a methodology for monitoring their performance
- Defines the procedures for investment fund evaluation and formal fund review.

## DEFINED CONTRIBUTION INVESTMENTS

### Defined Contribution Retirement Plan Investment Options – June 30, 2010



<u>Investment Options</u>	<u>Market Value</u>	<u>Percent</u>
Stable Value Fund	2,218,656	13.46%
Fixed Income Fund	845,588	5.14%
Balanced Fund	463,318	2.81%
Large Cap Equities - Value	717,195	4.35%
Large Cap Equities - Blend	817,565	4.96%
Large Cap Equities - Growth	1,977,647	12.00%
Mid Cap Equities - Value	27,961	0.17%
Mid Cap Equities - Blend	23,834	0.14%
Mid Cap Equities - Growth	200,772	1.22%
Small Cap Equities - Value	130,387	0.79%
Small Cap Equities - Blend	9,209	0.06%
Small Cap Equities - Growth	716,746	4.35%
International Equity Fund	1,131,293	6.86%
Asset Allocation Funds	5,153,286	31.26%
Mutual Fund Window	<u>2,048,960</u>	<u>12.43%</u>
Total	<u>16,482,417</u>	<u>100.00%</u>

## Defined Contribution Retirement Plan – Schedule of Investment Results

### For the Five Years Ended June 30, 2010

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>3-year annualized</u>	<u>5-year annualized</u>
<b>Stable Value Fund:</b>							
Fidelity Managed Income Portfolio	3.84%	4.28%	4.39%	2.67%	1.16%	2.73%	3.26%
GIC 5 year index	2.79%	5.30%	4.26%	2.00%	0.86%	1.38%	2.14%
<b>Fixed Income Fund:</b>							
PIMCO Total Return Bond Fund	-1.07%	4.96%	10.55%	8.99%	13.03%	10.84%	7.18%
Barclays Aggregate Bond Index	-0.81%	6.12%	7.12%	6.05%	9.50%	7.55%	5.54%
<b>Balance Fund:</b>							
Fidelity Puritan	8.24%	17.41%	-7.54%	-17.25%	15.85%	-4.59%	2.63%
60% Russell 3000 Index	7.07%	15.25%	-8.56%	-14.82%	14.34%	-4.26%	1.28%
40% Barclays Aggregate Bond Index							
<b>Large Cap Equities-Value:</b>							
Fidelity Equity-Income	12.59%	23.67%	-20.04%	-28.70%	15.41%	-13.02%	-1.73%
Franklin Mutual Shares A	13.05%	22.49%	-19.47%	-23.79%	15.85%	-10.75%	-0.31%
Russell 1000 Value Index	12.10%	21.87%	-18.78%	-29.03%	16.92%	-12.32%	-1.64%
<b>Large Cap Equities-Blend:</b>							
Fidelity Spartan US Equity Index	8.59%	20.49%	-13.16%	-26.19%	14.37%	-9.83%	-0.84%
Fidelity Dividend Growth	7.01%	21.48%	-17.80%	-23.34%	19.95%	-8.91%	-0.35%
S&P 500 Index	8.63%	20.59%	-13.12%	-26.18%	14.43%	-9.81%	-0.79%
<b>Large Cap Equities-Growth:</b>							
Fidelity Growth Company	14.76%	18.62%	3.93%	-29.39%	17.29%	-4.88%	3.22%
Russell 3000 Growth Index	6.84%	18.84%	-6.38%	-24.53%	13.95%	-6.97%	0.44%
Fidelity Blue Chip Growth	3.27%	16.23%	-6.10%	-24.29%	21.25%	-4.83%	0.68%
Russell 1000 Growth Index	6.12%	19.04%	-5.96%	-24.50%	13.62%	-6.91%	0.38%
<b>Mid Cap Equities - Value</b>							
Goldman Sachs Mid Cap Value <sup>(2)</sup>	N/A	21.28%	-9.59%	-30.99%	22.02%	-8.69%	0.47%
Russell Mid Cap Value	N/A	22.09%	-17.09%	-30.52%	28.91%	-9.44%	0.71%
<b>Mid Cap Equities-Blend:</b>							
Dreyfus Mid Cap Index	12.57%	17.90%	-7.60%	-28.16%	24.29%	-6.21%	1.83%
S&P Mid Cap 400	12.98%	18.51%	-7.34%	-27.36%	24.93%	-5.90%	2.21%
Fidelity Spartan Extended Market Index	14.12%	19.69%	-11.27%	-27.36%	24.22%	-7.14%	1.82%
Wilshire 4500 Index	14.03%	19.75%	-11.52%	-27.52%	23.68%	-7.40%	1.63%
<b>Mid Cap Equities-Growth:</b>							
Fidelity Mid Cap Stock <sup>(2)</sup>	25.20%	20.62%	-8.66%	-36.22%	26.06%	-9.78%	2.09%
Russell Mid Cap Growth	13.04%	19.73%	-6.42%	-30.33%	21.30%	-7.53%	1.37%
<b>Small Cap Equities-Value:</b>							
Allnz NFJ Small Cap Value	14.65%	21.45%	-6.83%	-23.86%	24.75%	-3.99%	4.27%
Russell 2000 Value Index	14.61%	16.05%	-21.63%	-25.24%	25.07%	-9.85%	-0.51%
<b>Small Cap Equities - Blend</b>							
Dreyfus Small Cap Index	14.70%	15.63%	-15.00%	-24.87%	23.22%	-7.68%	0.63%
Russell 2000 Small Cap Index	18.37%	16.43%	-16.19%	-25.01%	21.48%	-8.60%	0.37%
<b>Small Cap Equities-Growth:</b>							
MSI Small Co Growth B	10.77%	14.91%	-15.75%	-19.83%	15.10%	-8.05%	-0.23%
Russell 2000 Growth Index	14.58%	16.83%	-10.83%	-24.85%	17.96%	-7.54%	1.14%
<b>International Equity Funds:</b>							
Fidelity Diversified International	26.21%	25.72%	-5.66%	-34.29%	5.58%	-13.18%	0.76%
Fidelity Spartan International Index	NA	NA	NA	NA	4.73%	-13.50%	0.83%
MSCI EAFE	28.08%	27.20%	-10.47%	-31.25%	6.02%	-13.26%	1.02%
<b>Asset Allocation Funds:</b>							
Fidelity Freedom Income	3.66%	8.66%	0.03%	-2.94%	10.86%	1.51%	3.33%
Income benchmark <sup>(1)</sup>	3.52%	8.85%	0.73%	-3.00%	7.63%	1.72%	3.28%
Fidelity Freedom 2000	3.79%	9.80%	-0.75%	-4.39%	11.09%	0.77%	3.12%
2000 benchmark <sup>(1)</sup>	3.99%	10.25%	-0.81%	-4.57%	7.81%	1.21%	3.10%
Fidelity Freedom 2005	6.36%	13.64%	-3.45%	-11.37%	13.10%	-2.34%	2.40%
2005 benchmark <sup>(1)</sup>	6.64%	14.13%	-3.49%	-10.78%	10.96%	-1.56%	2.57%
Fidelity Freedom 2010	6.65%	14.01%	-3.45%	-12.01%	13.33%	-2.54%	2.39%
2010 benchmark <sup>(1)</sup>	6.71%	14.44%	-3.78%	-11.64%	11.33%	-1.90%	2.54%
Fidelity Freedom 2015	8.39%	15.19%	-4.40%	-13.41%	13.60%	-3.26%	2.48%
2015 benchmark <sup>(1)</sup>	7.91%	15.53%	-4.80%	-12.92%	11.67%	-2.49%	2.37%
Fidelity Freedom 2020	9.82%	17.16%	-6.04%	-17.32%	14.65%	-5.17%	1.87%
2020 benchmark <sup>(1)</sup>	9.27%	17.50%	-6.95%	-16.82%	13.19%	-3.99%	2.00%
Fidelity Freedom 2025	10.42%	17.68%	-6.71%	-18.58%	14.42%	-5.98%	1.55%
2025 benchmark <sup>(1)</sup>	9.82%	17.85%	-7.33%	-18.12%	13.50%	-4.81%	1.76%
Fidelity Freedom 2030	11.52%	19.40%	-8.21%	-21.87%	14.72%	-7.71%	0.92%
2030 benchmark <sup>(1)</sup>	11.21%	19.49%	-9.46%	-21.46%	13.86%	-6.41%	1.26%
Fidelity Freedom 2035	11.91%	19.46%	-8.54%	-22.56%	14.24%	-8.28%	0.63%
2035 benchmark <sup>(1)</sup>	11.26%	19.62%	-9.53%	-22.39%	14.05%	-6.92%	1.08%
Fidelity Freedom 2040	12.25%	20.13%	-8.54%	-23.45%	14.40%	-8.81%	0.44%
2040 benchmark <sup>(1)</sup>	11.77%	20.02%	-10.11%	-23.31%	14.33%	-7.29%	1.01%
Fidelity Freedom 2045 <sup>(2)</sup>	N/A	20.44%	-9.24%	-23.74%	14.45%	-8.95%	N/A
2045 benchmark <sup>(1)</sup>	N/A	20.58%	-10.66%	-23.68%	14.33%	-7.29%	1.01%
Fidelity Freedom 2050 <sup>(2)</sup>	N/A	20.74%	-10.13%	-25.05%	14.30%	-9.77%	N/A
2050 benchmark <sup>(1)</sup>	N/A	20.94%	-11.03%	-24.75%	14.35%	-8.25%	0.75%

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>2007 is the first year fund was an investment option.



## ACTUARIAL SECTION

**COMMENTS  
FROM THE  
SEGAL  
COMPANY**

**PUBLIC  
EMPLOYEES  
RETIREMENT  
SYSTEM**



**THE SEGAL COMPANY**

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

November 12, 2010

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, 2010

Dear Members of the Board:

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

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

**Basic Elements**

The most recent actuarial valuation prepared as of July 1, 2010 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2010 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2010 (obtained from the Retirement System's financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

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

**Actuarial Assumptions**

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

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

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

The actuarial assumptions used in the July 1, 2010 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.



### Actuarial Funding Method

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

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

The North Dakota Public Employees Retirement System had an unfunded accrued actuarial liability of about \$586.7 million as of July 1, 2010.

### Calculated and Statutory Contribution Rates

The July 1, 2010 actuarial valuation of the North Dakota Public Employees Retirement System indicates the following contribution requirements:

<u>PERS Plan</u>	<u>Actuarial Required Contribution Rate*</u>	<u>Statutory Employer Contribution Rate</u>	<u>Member Contribution Rate</u>
Main System	10.76%	4.12%	4.00%
Judges	14.10%	14.52%	5.00%
National Guard	7.00%	6.50%	4.00%
Law Enforcement			
with prior Main service	10.80%	8.31%	4.00%
Law Enforcement			
without prior Main service	7.53%	6.43%	4.00%

\* Expressed as a percentage of covered payroll.

### Exhibits

The enclosed supporting exhibits, prepared by Segal, provide further related information regarding the 2010 valuation. Specifically these exhibits are:

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

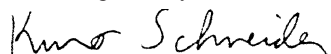
Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

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

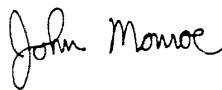
Sincerely,



Brad Ramirez, FSA, MAAA, EA  
Consulting Actuary



Kurt Schneider, ASA, MAAA, EA  
Associate Actuary



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



**ACTUARIAL  
VALUATION  
CERTIFICATE**

**NORTH DAKOTA  
PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**NOVEMBER 12, 2010**

*Actuarial Valuation Certificate*

*This is to certify that we have prepared an Actuarial Valuation  
of the System as of July 1, 2010 in accordance with  
generally accepted actuarial principles and practices.*

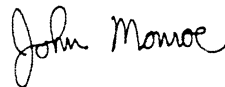
*The valuation was based on the assumption that the plan is qualified  
and on information supplied by the Retirement Office with respect to  
participants and for financial data. We have not verified, and  
customarily would not verify, such information but we have had  
no reason to doubt its substantial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

*To the best of our knowledge, the information supplied in this actuarial valuation  
is complete and accurate and in our opinion each individual assumption used (a)  
is reasonably related to the experience of the  
System and to reasonable expectations and (b) represents our best estimate  
of anticipated experience under the System.*

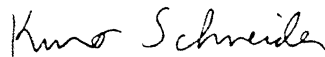
*We are members of the American Academy of Actuaries and we meet  
the Qualification Standards of the American Academy of Actuaries  
to render the actuarial opinion herein.*



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



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



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

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

### 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>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</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>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</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 valu-  
able than the deferred annuity.

### Retirement Rates for Active Members

Main System:

<u>Age</u>	<u>Early Retirement</u>	<u>Unreduced Retirements</u>
51		8%
52		8
53		8
54		8
55	2%	8
56	2	10
57	2	10
58	2	10
59	2	10
60	4	10
61	10	20
62	20	35
63	15	25
64	10	30
65		30
66		20
67		20
68		20
69		20
70		20
71		20
72		20
73		20
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: 7.00% per annum

Five or more years of service (sample rates):

Percentage		Percentage	
<u>Age</u>	<u>Increase</u>	<u>Age</u>	<u>Increase</u>
25	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

**Marital Status**

At retirement or death, 80% of active male members and 65% of active 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 unfunded actuarial accrued liability is amortized in installments increasing by the payroll growth assumption each year over an open 20 year period.

**Actuarial Value of Assets**

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

**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**

The NDPERS Board approved changes in the actuarial assumptions for mortality tables, disability incidence rates, annual withdrawal rates, refund of employee contributions, retirement rates for active members, retirement age for inactive vested members, annual administrative expenses, salary scale, marital status for non-retired members, and account balance due to vested employer contribution (PEP). These changes were made to more accurately reflect actual experience based on a 5-year experience study completed in 2010.

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

This section summarizes the major benefit provisions of the North Dakota Public Employees Retirement System as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions. Benefits are set by statute. There are no

provisions or policies with respect to automatic and ad hoc post-retirement benefit increases.

### 1. Normal Service Retirement:

Eligibility:

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

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

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

Benefit:

Main System, National Guard and Law Enforcement: 2.00% of final average salary multiplied by service.

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

### 2. Early Service Retirement:

Eligibility:

Main System:

Attainment of age 55 with 3 years of service.

Judges: Attainment of age 55 with 5 years of service.

National Guard and Law Enforcement:

Attainment of age 50 with 3 years of service.

Benefit:

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

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

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

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

### 3. Disability Benefit:

Eligibility:

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

Benefit:

Main System, National Guard and Law Enforcement:

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

Judges:

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

### 4. Deferred Vested Retirement:

Eligibility:

Main System, National Guard and Law

Enforcement: Three years of service.

Judges: Five years of service.

Benefit:

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

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

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

### 5. Pre-retirement Death Benefits:

Eligibility:

Main System, National Guard and Law

Enforcement: Three years of service.

Judges: Five years of service.

Benefit:

*Main System, National Guard and Law Enforcement:*

One of the following options:

- Lump sum payment of member's accumulated contributions with interest.
- 50% of the member's accrued benefit (not reduced on account of age) payable for the surviving spouse's lifetime.
- Continuation portion of 100% Joint and Survivor Annuity (only if participant was eligible for normal retirement).
- A partial lump sum payment in addition to one of the annuity options above.

*Judges:*

One of the following options:

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

Other death benefits:

*Main System, National Guard, Judges and Law Enforcement:*

Eligibility: Not vested nor a surviving spouse.

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

**6. Refund of Member Contributions:**

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

**7. Accumulated Member Contributions:**

Member contributions accumulate with interest at the following rates:

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

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

*Main System, National Guard and Law Enforcement:*

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

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

***Optional forms of payment:***

Life annuity (for Judges), 50% joint and survivor annuity 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, Social Security level income annuity, a partial lump sum payment in addition to one of the annuity options above and effective March 1, 2011, 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, a deferred normal retirement option, or a Social Security level income annuity.

**9. Final Average Salary:**

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

**10. Contributions:**

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

	<u>Full-time Employees</u>	<u>Employer</u>
Main System	4.00%	4.12%
Judges	5.00%	14.52%
National Guard	4.00%	6.50%
Law Enforcement		
with prior Main service	4.00%	8.31%
Law Enforcement		
w/out prior Main service	4.00%	6.43%
Part-time employees in the Main System contribute 8.12%, with no employer contributions.		

***Effective January 1, 2000:***

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

1. For months 1-12 of service credit, \$25 or 1% of the member's monthly salary, whichever is greater.
2. For months 13-24 of service credit, \$25 or 2% of the member's monthly salary, whichever is greater.
3. For months 25-36 of service credit, \$25 or 3% of the member's monthly salary, whichever is greater.
4. For service exceeding 36 months, \$25 or 4% of the member's monthly salary, whichever is greater.
5. The vested employer contribution may not exceed 4% of the member's monthly salary. Vested employer contributions are credited monthly to the member's account balance.

**11. Rollovers:**

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

**12. Other Ancillary Benefits:**

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

**Changes in Plan Provisions:**

The following changes were made in the plan provisions since the prior valuation:

- Effective July 1, 2009, 37 employees of the Bureau of Criminal Investigation transferred from the Main System to the Law Enforcement With Prior Main Service Plan. A corresponding asset transfer of \$3,511,938 took place. This amount is equal to their Actuarial Accrued Liability in the Main System as of July 1, 2009.

**Solvency Test — PERS  
2005-2010**

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

(Amounts in Millions)							
Aggregate Actuarial Accrued Liabilities							
July 1	Member	Retirees and	Active Member	Actuarial	Portion of Actuarial Accrued Liabilities Covered by Assets		
	Contributions	Inactive and Pay- Status Members	Employer Financed Portion				
	(1)	(2)	(3)	Value of Assets	(1)	(2)	(3)
2005	\$373.1	\$495.6	\$492.4	\$1,236.1	100%	100%	75%
2006	402.6	545.7	532.2	1,314.5	100	100	69
2007	433.7	611.3	565.2	1,503.1	100	100	81
2008	468.1	655.7	613.8	1,609.8	100	100	79
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



## Schedule of Active Member Valuation Data – PERS – 2005-2010

<u>July 1</u>	<u>Number of Active Members</u>	<b>Main System</b>		<u>Percent Increase In Average Salary</u>
		<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	
2005	17,745	\$511.9	\$28,850	2.2%
2006	17,887	536.6	29,998	4.0
2007	18,299	570.4	31,169	3.9
2008	19,042	627.6	32,959	5.7
2009	19,686	684.3	34,762	5.5
2010	20,372	751.1	36,868	6.1

<u>July 1</u>	<u>Number of Active Members</u>	<b>Judges</b>		<u>Percent Increase In Average Salary</u>
		<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	
2005	46	\$4.4	\$95,579	(0.4)%
2006	47	4.7	99,500	4.1
2007	47	4.9	103,683	4.2
2008	47	5.2	111,427	7.5
2009	47	5.4	115,741	3.9
2010	47	5.7	120,962	4.5

<u>July 1</u>	<u>Number of Active Members</u>	<b>National Guard</b>		<u>Percent Increase In Average Salary</u>
		<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	
2005	14	\$0.5	\$38,857	15.9%
2006	41	1.4	33,451	(13.9)
2007	40	1.5	36,983	10.6
2008	41	2.0	47,919	29.6
2009	36	1.3	37,114	(22.5)
2010	30	1.3	41,990	13.1

<u>July 1</u>	<u>Number of Active Members</u>	<b>Law Enforcement with prior Main service</b>		<u>Percent Increase In Average Salary</u>
		<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	
2005	113	\$3.9	\$34,190	14.4%
2006	113	4.0	35,168	2.9
2007	138	4.9	35,292	0.4
2008	136	5.1	37,188	5.4
2009	144	5.7	39,428	6.0
2010	187	10.6	56,469	43.2

<u>July 1</u>	<u>Number of Active Members</u>	<b>Law Enforcement without prior Main service</b>		<u>Percent Increase In Average Salary</u>
		<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	
2005	13	\$0.4	\$29,722	7.7%
2006	14	0.4	29,264	(1.5)
2007	28	0.7	25,327	(13.5)
2008	30	0.8	27,472	8.5
2009	30	0.9	31,660	15.2
2010	32	1.1	35,572	12.4

**Analysis of Financial Experience — PERS**

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

**Main System**

<u>Plan Year Ended</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>6.90%</b>	<b>6.08%</b>	<b>6.26%</b>	<b>7.74%</b>
Death after Retirement	-0.10	0.00	0.20	0.09
Death-in-Service	0.00	0.02	0.02	0.02
Disability Retirements	0.00	0.00	0.00	0.00
Withdrawal From Employment	0.00	0.02	-0.01	-0.03
Age and Service Retirements	0.00	-0.24	-0.30	-0.25
Financial Experience-Investments	-1.27	-0.13	1.04	0.96
Pay Increases	0.03	0.16	0.10	0.29
Contribution Income	0.15	0.12	0.13	0.26
Administrative Expenses	-0.01	0.00	0.01	0.00
New and Reinstated Members	-0.08	0.12	0.12	0.07
Part-time Experience	0.00	-0.07	-0.05	-0.01
Demographic Changes	0.51	0.20	0.33	0.24
Assumption Changes	0.00	0.00	0.00	1.54
Change in Normal Cost Methodology	0.00	0.00	0.00	0.00
Change in Amortization Schedule	-0.05	-0.05	-0.11	-0.16
Miscellaneous	0.00	0.03	0.00	0.00
<b>Employer Cost Rate at End of Year</b>	<b>6.08%</b>	<b>6.26%</b>	<b>7.74%</b>	<b>10.76%</b>

**Judges**

<u>Plan Year Ended</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>12.36%</b>	<b>9.31%</b>	<b>8.99%</b>	<b>10.48%</b>
Plan Experience	-3.14	-0.22	-0.69	0.60
Investment Loss/(Gain)	0.00	0.00	2.42	2.34
Contribution Loss/(Gain)	0.00	0.00	-0.38	-0.27
Assumption Changes	0.00	0.00	0.00	0.91
Change in Amortization Schedule	0.09	0.19	0.14	0.04
Miscellaneous	0.00	-0.29	0.00	0.00
<b>Employer Cost Rate at End of Year</b>	<b>9.31%</b>	<b>8.99%</b>	<b>10.48%</b>	<b>14.10%</b>

**National Guard**

<u>Plan Year Ended</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>4.02%</b>	<b>3.53%</b>	<b>3.44%</b>	<b>3.71%</b>
Plan Experience	-0.50	-0.13	-0.66	0.82
Investment Loss/(Gain)	0.00	0.00	0.72	0.76
Contribution Loss/(Gain)	0.00	0.00	0.17	-0.14
Assumption Changes	0.00	0.00	0.00	1.85
Change in Amortization Schedule	0.01	0.04	0.04	0.00
<b>Employer Cost Rate at End of Year</b>	<b>3.53%</b>	<b>3.44%</b>	<b>3.71%</b>	<b>7.00%</b>

**Law Enforcement With Prior Main Service**

<u>Plan Year Ended</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>12.07%</b>	<b>12.39%</b>	<b>9.04%</b>	<b>9.11%</b>
Plan Experience	0.61	0.94	-0.38	0.36
Investment Loss/(Gain)	0.00	0.00	0.60	-0.08
Contribution Loss/(Gain)	0.00	0.00	0.01	0.00
Assumption Changes	0.00	0.00	0.00	1.54
Change in Amortization Schedule	-0.29	-0.15	0.16	-0.13
Miscellaneous	0.00	-4.14	-0.00	0.00
<b>Employer Cost Rate at End of Year</b>	<b>12.39%</b>	<b>9.04%</b>	<b>9.11%</b>	<b>10.80%</b>

**Law Enforcement Without Prior Main Service**

<u>Plan Year Ended</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>7.43%</b>	<b>8.50%</b>	<b>7.15%</b>	<b>6.83%</b>
Plan Experience	1.12	-1.29	-0.36	-0.49
Investment Loss/(Gain)	0.00	0.00	0.04	0.07
Contribution Loss/(Gain)	0.00	0.00	0.05	-0.02
Assumption Changes	0.00	0.00	0.00	1.16
Change in Amortization Schedule	-0.05	-0.06	-0.05	-0.02
<b>Employer Cost Rate at End of Year</b>	<b>8.50%</b>	<b>7.15%</b>	<b>6.83%</b>	<b>7.53%</b>

## Retirees and Beneficiaries Added to and Removed from the Rolls – PERS – 2005-2010

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*				
2005	5,685	398	\$4.5	(162)	\$(0.9)	5,921	\$8,815	\$52.2	7.4%
2006	5,921	440	4.6	(163)	(0.9)	6,198	9,156	56.7	8.6
2007	6,198	528	6.4	(220)	(1.4)	6,506	9,481	61.7	8.8
2008	6,506	547	7.2	(240)	(1.7)	6,813	9,869	67.2	8.9
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

\*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				
2005	20	5	\$259,057	0	\$ 0	25	\$36,313	\$907,815	39.9%
2006	25	2	63,865	0	0	27	36,191	977,162	7.6
2007	27	3	92,172	0	0	30	35,917	1,077,497	10.3
2008	30	1	49,517	(1)	(33,795)	30	36,441	1,093,219	1.5
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

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				
2005	3	1	\$32,265	0	\$0	4	\$14,675	\$58,702	63.4%
2006	4	1	11,209	0	0	5	13,982	69,911	19.1
2007	5	0	0	0	0	5	13,982	69,911	0.0
2008	5	1	20,643	0	0	6	15,092	90,554	29.5
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)

## Retirees and Beneficiaries Added to and Removed from the Rolls – PERS – 2005-2010

### Law Enforcement with prior Main service

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

### Law Enforcement without prior Main service

[illegible]

**COMMENTS  
FROM  
THE SEGAL  
COMPANY**

**HIGHWAY  
PATROLMEN'S  
RETIREMENT  
SYSTEM**



**THE SEGAL COMPANY**

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

November 12, 2010

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, 2010

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 financial 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, 2010 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2010 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2010 (obtained from the Retirement System's financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

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

**Actuarial Assumptions**

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

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

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

The actuarial assumptions used in the July 1, 2010 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.

### Actuarial Funding Method

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

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

The North Dakota Highway Patrolmen's Retirement Fund had an unfunded actuarial accrued liability of about \$12.5 million as of July 1, 2010.

### Calculated and Statutory Contribution Rates

The July 1, 2010 actuarial valuation of the North Dakota Highway Patrolmen's Retirement Fund indicates the following contribution requirements, expressed as a percentage of covered payroll.

<u>Actuarial Required Employer Contribution Rate</u>	<u>Statutory Employer Contribution Rate</u>	<u>Member Contribution</u>
22.54%	16.70%	10.30%

### Exhibits

The enclosed supporting exhibits, prepared by Segal, provide further related information regarding the 2010 valuation. Specifically, those exhibits are:

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

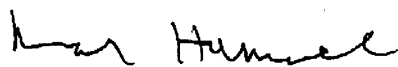
Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

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

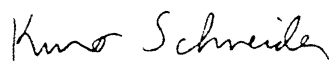
Sincerely,



Brad Ramirez, FSA, MAAA, EA  
Consulting Actuary



Mark Hamwee, FSA, MAAA, EA  
Vice President and Associate Actuary



Kurt Schneider, ASA, MAAA, EA  
Associate Actuary



**ACTUARIAL  
VALUATION  
CERTIFICATE**

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

**NOVEMBER 12, 2010**

*Actuarial Valuation Certificate*

*This is to certify that we have prepared an Actuarial Valuation  
of the System as of July 1, 2010 in accordance with  
generally accepted actuarial principles and practices.*

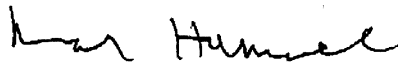
*The valuation was based on the assumption that the plan is qualified  
and on information supplied by the Retirement Office with respect to  
participants and for financial data. We have not verified, and  
customarily would not verify, such information but we have had  
no reason to doubt its substantial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

*To the best of our knowledge, the information supplied in this actuarial valuation  
is complete and accurate and in our opinion each individual assumption used (a)  
is reasonably related to the experience of the  
System and to reasonable expectations (b) represents our best estimate  
of anticipated experience under the System.*

*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, EA  
Consulting Actuary



Mark Hamwee, FSA, MAAA, EA  
Vice President and Associate Actuary



Kurt Schneider, ASA, MAAA, EA  
Associate Actuary

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

(Adopted July 1, 2005)

### Mortality Tables

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

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

### Annual Withdrawal Rates

First five years of service: 5%

After five years of service:

Under age 35: 2% at each age

Age 35 or older: 1% at each age

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

### Disability Incidence Rates

Age based rates. Sample rates:

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

### Retirement Rates

The following annual rates apply for active members:

Age	Eligible for Rule of 80	Not Eligible for Rule of 80
50-54	100%	50%*
55+	100%	100%

\*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.

### Interest Rate

8.00% per annum, net of investment expenses.

### Administrative Expenses

\$16,000 per year.

### Salary Scale

Less than five years of service: 7.00% per annum

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

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

### Inflation

3.50% per annum.

### Payroll Growth

4.50% per annum.

### Marital Status

At retirement or death, 90% of all 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

5% per annum.

### Split Service

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

### Transfers to Main System

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

### Actuarial Cost Method

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

### Actuarial Value of Assets

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

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

There have been no changes in actuarial assumptions or cost methods since the last valuation.

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

This section summarizes the major benefit provisions of the North Dakota Highway Patrolmen's Retirement System as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions. Benefits are set by statute. There are no

provisions or policies with respect to automatic and ad hoc post-retirement benefit increases.

### 1. Normal Service Retirement:

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

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

### 2. Early Service Retirement:

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

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

### 3. Disability Benefit:

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

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

### 4. Deferred Retirement:

Eligibility: 10 years of eligible employment.

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

Year	Average Monthly Increase	3-Yr. Avg. Increase Factor	Cumulative Salary Factor
Beginning			
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

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

### 5. Pre-retirement Death Benefits:

Survivor annuity benefits (paid to surviving spouse):

Eligibility: Ten years of eligible employment.

Benefit:

One of the following options:

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

Other death benefits:

Eligibility: Less than 10 years of service nor a surviving spouse.

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

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

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

Optional forms of payment:

- 100% joint and survivor annuity, ten-year certain and life annuity, and twenty-year certain and life annuity.
- A partial lump sum payment in addition to one of the annuity options above.

Effective March 1, 2011, 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 120 months of employment.

### 8. Contributions:

Members: 10.30% of monthly salary.

State of North Dakota:

16.70% of the monthly salary for each participating member.

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

### Plan Amendments –

#### Highway Patrolmen's Retirement System

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

**Schedule of Active Member Valuation Data – HPRS  
2005-2010**

<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>
2005	125	\$5.3	\$42,393	3.8%
2006	127	5.7	44,789	5.7
2007	133	6.1	46,082	2.9
2008	130	6.5	50,066	8.6
2009	133	7.0	52,701	5.3
2010	139	7.7	55,666	5.6

**North Dakota Highway Patrolmen's Retirement System  
Retirees and Beneficiaries Added to and Removed from the Rolls, 2005-2010**

<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>				
2005	90	4	\$163,360	(2)	\$ (4,126)	92	\$26,648	\$2,451,578	5.3%
2006	92	9	380,570	(1)	(16,251)	100	27,996	2,799,646	14.2
2007	100	4	177,564	(3)	(33,624)	101	29,341	2,963,415	5.8
2008	101	7	256,680	(3)	(48,925)	105	30,202	3,171,170	7.0
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

### Solvency Test — HPRS 2005-2010

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)

<u>Aggregate Actuarial Accrued Liabilities</u>							
	Member Contributions	Retirees and Beneficiaries, Inactive and Pay-Status Members	Active Member Employer Financed Portion	Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
July 1	(1)	(2)	(3)		(1)	(2)	(3)
2005	\$9.7	\$25.0	\$11.5	\$40.7	100%	100%	52%
2006	9.2	28.8	11.1	42.8	100	100	43
2007	9.5	30.5	11.5	48.2	100	100	71
2008	9.5	32.6	12.5	50.8	100	100	70
2009	10.0	34.3	13.3	50.2	100	100	44
2010	10.5	36.1	15.2	49.3	100	100	18

### 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, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>19.03%</b>	<b>15.08%</b>	<b>15.76%</b>	<b>18.73%</b>
Plan Experience	-3.99	1.00	0.15	1.12
Change in Amortization Schedule	-0.14	-0.15	-0.27	-0.42
Assumption Changes	0.00	0.00	0.00	0.00
Investment Loss/(Gain)	0.00	0.00	3.21	3.02
Contribution Loss/(Gain)	0.00	0.00	-0.12	.09
Miscellaneous	0.18	-0.17	0.00	0.00
<b>Employer Cost Rate at End of Year</b>	<b>15.08%</b>	<b>15.76%</b>	<b>18.73%</b>	<b>22.54%</b>

**THE SEGAL COMPANY**

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November 17, 2010

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, 2010

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 financial 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, 2010 is based on the following major elements:

- Current benefit provisions.
- Membership data as of June 30, 2010 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2010 (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, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The actuarial assumptions used in the July 1, 2010 actuarial valuation are summarized in a schedule

**COMMENTS  
FROM  
THE SEGAL  
COMPANY**

**JOB SERVICE  
RETIREMENT  
PLAN**



following our Actuarial Certification Statement.

#### **Actuarial Cost Method**

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

The “annual contribution” under this method is the normal cost plus the payment required to amortize the unfunded initial actuarial accrued liability over a selected period of years. The normal cost is determined by calculating the total value of all future benefits, subtracting the outstanding balance (if any) of the unfunded initial actuarial accrued liability, subtracting the actuarial value of assets, and determining payments (not less than zero) that are a level percent of pay over the future working lifetime of all participants. Since there is currently no unfunded initial actuarial accrued liability, the Frozen Initial Liability Actuarial Cost Method is the same as the Aggregate Cost Method.

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

#### **Exhibits**

The enclosed supporting exhibits, prepared by Segal, provide further related information regarding the 2010 valuation. Specifically, those exhibits are:

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

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

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

Sincerely,



Brad Ramirez, FSA, MAAA, EA  
Consulting Actuary



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

**ACTUARIAL  
VALUATION  
CERTIFICATE**

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

**NOVEMBER 17, 2010**

## *Actuarial Valuation Certificate*

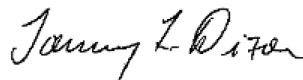
*This is to certify that we have prepared an Actuarial Valuation  
of the System as of July 1, 2010 in accordance with  
generally accepted actuarial principles and practices.*

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

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



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



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

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

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

Salary scale: 5.0% per year.

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

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

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

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

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

### Changes in Actuarial Assumptions or Cost Method

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

### Summary of Plan Provisions

This section summarizes the major provisions of the Retirement Plan for Employees of Job Service North Dakota as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete description of all plan provisions. Benefits are established through the plan document, as amended. The system provides a post-retirement cost-of-living adjustment each year, based on the Consumer Price Index.

#### Normal retirement

Age requirement: 65.

Service requirement: None.

Benefit: Average monthly earnings multiplied by the sum of:

- 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**

Age requirement: None.

Service requirement: Five years of credited service.

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

**Vesting**

Age requirement: None.

Service requirement: Five years of credited service.

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

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

**Return of accumulated employee**

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

**Pre-retirement death benefits**

*Married participants 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.

**Participation**

Plan participant before October 1, 1980.

**Credited service**

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

**Contribution rate**

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

Employer: remaining scheduled cost, if any.

**Changes in Plan Provisions**

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

**Schedule of Active Member Valuation Data – Job Service Retirement Plan  
2005 to 2010**

Valuation Date as of <u>July 1</u>	Number of <u>Active Members</u>	Total Payroll <u>(millions)</u>	Average <u>Annual Salary</u>	% Increase <u>in Average Salary</u>
2005	52	\$2.2	\$42,825	4.5%
2006	44	1.9	43,697	2.0
2007	40	1.8	46,079	5.5
2008	38	1.8	46,385	0.7
2009	35	1.7	48,841	5.3
2010	31	1.6	51,975	6.4

**Retirement Plan for Employees of Job Service North Dakota  
Retirees and Beneficiaries (Including Travelers Annuitants)  
Added to and Removed from the Rolls, 2005-2010**

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

### Solvency Test — Job Service Retirement Plan 2005-2010

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

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

(Amounts in Millions)

<u>Actuarial Present Value of Benefits</u>					<u>Portion of Actuarial Present Value of Benefits Covered by Assets</u>		
<u>July 1</u>	<u>Active Employees</u>	<u>Inactive Vested Employees Not in Pay Status</u>	<u>Pensioners (Including Disableds &amp; Beneficiaries)</u>	<u>Actuarial Value of Assets</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>				
2005	\$18.8	\$0.2	\$44.3	\$69.3	100%	100%	100%
2006	17.7	0.3	52.0	70.6	100	100	100
2007	17.6	0.3	53.9	75.7	100	100	100
2008	16.9	0.2	54.8	77.0	100	100	100
2009	16.5	0.2	55.3	74.5	100	100	100
2010	15.6	0.2	55.1	73.5	100	100	100

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

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

<u>Plan Year Ended</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2010</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
Miscellaneous	0.00	0.00	0.00	0.00
<b>Employer Cost Rate at End of Year</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>



**COMMENTS  
FROM  
THE SEGAL  
COMPANY**

**RETIREE  
HEALTH  
INSURANCE  
CREDIT FUND**



**THE SEGAL COMPANY**

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November 12, 2010

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, 2010

Dear Members of the Board:

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

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

**Basic Elements**

The most recent actuarial valuation prepared as of July 1, 2010 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2010 (obtained from data provided by the Retirement System).
- Assets as of June 30, 2010 (obtained from the Retirement System's financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

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

**Actuarial Assumptions**

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

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

The actuarial assumptions and methods used for funding the Retiree Health Insurance Credit Fund meet the parameters set for disclosure by the Governmental Accounting Standards Board (GASB) Statement No. 43, Financial Reporting for Postemployment Benefit Plans other than Pension Plans.

The actuarial assumptions used in the July 1, 2010 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.

### Actuarial Funding Method

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

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

The North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund's unfunded actuarial accrued liability amounted to \$54.1 million as of July 1, 2010. 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, 2010 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 0.89%, while the statutory contribution rate is 1.14% of payroll.

### Exhibits

The enclosed supporting exhibits prepared by Segal provide further related information regarding the 2010 valuation. Specifically, they are:

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

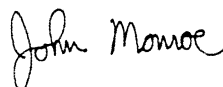
Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

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

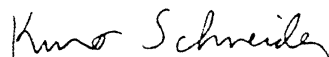
Sincerely,



Brad Ramirez, FSA, MAAA, EA  
Consulting Actuary



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



Kurt Schneider, ASA, MAAA, EA  
Associate Actuary

**ACTUARIAL  
VALUATION  
CERTIFICATE**

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

**NOVEMBER 12, 2010**

*Actuarial Valuation Certificate*

*This is to certify that we have prepared an Actuarial Valuation  
of the System as of July 1, 2010 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.*

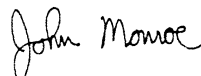
*To the best of our knowledge, the information supplied in this actuarial valuation  
is complete and accurate and in our opinion each individual assumption used (a)  
is reasonably related to the experience of the  
System and to reasonable expectations and (b) represents our best estimate  
of anticipated experience under the System.*

*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, EA*

*Consulting Actuary*



*John Monroe, ASA, MAAA, EA*

*Vice President and Associate Actuary*



*Kurt Schneider, ASA, MAAA, EA*

*Associate Actuary*

## Actuarial Assumptions and Cost Method – Retiree Health Insurance Credit Fund (Adopted July 1, 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: 1983 Group Annuity Mortality Table, set back one year for males (not set back for females).  
Disabled: Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Individuals Receiving Social Security Disability Benefits.

### Annual Withdrawal Rates

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

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

#### Select Period

<u>Age</u>	<u>Year of Employment</u>				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</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 respective valuation section.

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

Annual Rates for the Main System are as follows:

<u>Age</u>	<u>Unreduced</u>	<u>Early</u>	<u>Age</u>	<u>Unreduced*</u>	<u>Early</u>
51	8%	0%	63	25%	15%
52	8	0	64	30	10
53	8	0	65	30	
54	8	0	66	20	
55	8	2	67	20	
56	10	2	68	20	
57	10	2	69	20	
58	10	2	70	20	
59	10	2	71	20	
60	10	4	72	20	
61	20	10	73	20	
62	35	20	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 System, 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 System, National Guard and Law Enforcement: 60% of male retirees and 25% of female retirees will elect a joint and survivor form of pension from the retirement system in which they participated.

Judges:

100% of retirees will elect a joint and survivor form of pension from the retirement system.

Highway Patrol:

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

### **Interest Rate**

8.0% per annum, net of investment expenses

### **Inflation**

3.50% per annum

### **Administrative Expenses**

\$97,000 per year.

### **Marital Status:**

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

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.

### **Optional Defined Contribution Plan**

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

### **Payroll Growth**

4.50% per annum.

### **Actuarial Cost Method**

Projected Unit Credit Actuarial Cost Method. The unfunded actuarial accrued liability is amortized in installments increasing by the payroll growth assumption each year over a fixed period which ends on June 30, 2030.

### **Actuarial Value of Assets**

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

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

The NDPERS Board approved changes in the actuarial assumptions for mortality tables, disability incidence rates, annual withdrawal rates, retirement rates for active members, participation rates, joint and survivor option election rates, annual administrative expenses, and marital status. These changes were made to more accurately reflect actual experience based on a 5-year experience study completed in 2010.

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

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

#### **1. Normal Retirement**

Age requirement:

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

Highway Patrol: Age 55 or Rule of 80.

National Guard: Age 55.

Law Enforcement: Age 55 or Rule of 85.

Service requirement:

Main System and Judges: None.

Highway Patrol: 10 years.

National Guard and Law Enforcement:

3 consecutive years.

Other requirements:

Participation in the North Dakota Uniform Group Insurance Program.

Benefit amount:

A monthly stipend equal to \$5.00 times service.

**2. Early Retirement**

Age requirement:

Main System and Judges: Age 55.

Highway Patrol, National Guard and Law

Enforcement: Age 50.

Service requirement:

Main System, National Guard and Law

Enforcement: 3 years.

Judges: 5 years.

Highway Patrol: 10 years.

Benefit amount:

Main System and Judges:

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

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

Highway Patrol, National Guard and Law

Enforcement:

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

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

**3. Disability Retirement**

Age requirement: None

Service requirement: 6 months

Other requirements: As required by applicable pension plan

Benefit amount: Same as Normal Retirement Benefit

**4. Pre-Retirement Death Benefit**

Age requirement: None

Service requirement:

Main System, National Guard and Law

Enforcement: 3 years.

Judges: 5 years.

Highway Patrol: 10 years.

Benefit amount:

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

**5. Post-Retirement Death Benefit**

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

**6. Alternative Options**

If benefits from the member's Retirement Plan are paid under single life, level Social Security, or 10 or 20-year term certain options (without a continuation to the spouse after the certain period ends), actuarially reduced health credit benefits may be elected for the spouse. Alternative options in the Retiree Health Insurance Credit Fund include 50% and 100% joint and survivor annuities.

**7. Service**

Members receive credit for each year and month of employment.

**8. Contributions**

The employer contributes 1.14% 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  
2005-2010**

<u>July 1</u>	<u>Number of Retired Members</u>	<u>Average Annual Benefit</u>	<u>Active Members Per Retiree</u>
2005	3,682	\$1,152	5.0
2006	3,838	1,168	4.8
2007	3,922	1,177	4.8
2008	3,935	1,200	5.0
2009	4,030	1,356	5.0
2010	4,105	1,377	5.1

**Funding Progress – Retiree Health Insurance Credit Fund  
2005-2010**

(Amounts in Millions)						
	Assets as of % of Total		Unfunded		Total Unfunded	
<u>July 1</u>	<u>Total Actuarial Accrued Liability</u>	<u>Total Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Actuarial Accrued Liability</u>	<u>Total Payroll</u>	<u>Liab. as % of Payroll</u>
2005	\$78.1	\$30.9	39.6%	\$47.2	\$538.6	8.8%
2006	82.6	34.0	41.2	48.6	568.0	8.6
2007	85.3	38.8	45.6	46.5	602.9	7.7
2008	87.6	42.5	48.6	45.1	660.9	6.8
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

**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, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>1.00%</b>	<b>0.95%</b>	<b>0.88%</b>	<b>1.00%</b>
Plan Experience	-0.05	-0.07	-0.04	-0.06
Assumption and Method Changes	0.00	0.00	0.00	-0.06
Investment Loss/(Gain)	0.00	0.00	0.03	0.02
Contribution Loss/(Gain)	0.00	0.00	-0.01	-0.01
Plan Amendments	0.00	0.00	0.14	0.00
Miscellaneous	0.00	0.00	0.00	0.00
<b>Employer Cost Rate at End of Year</b>	<b>0.95%</b>	<b>0.88%</b>	<b>1.00%</b>	<b>0.89%</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, Job Service and OASIS  
As of June 30**

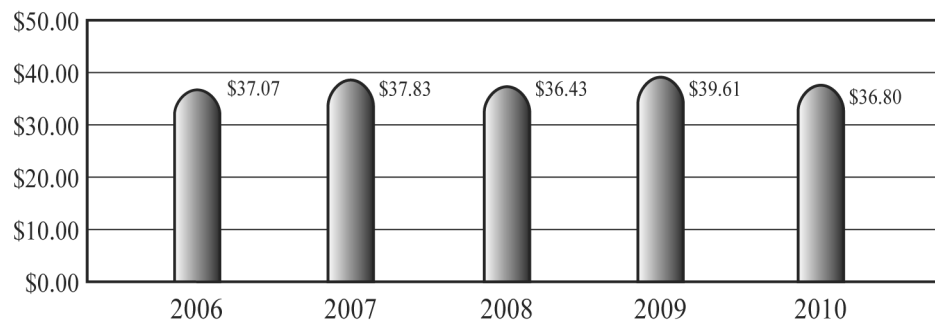
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
State Agencies	11,959	12,619	13,381	13,714	14,031
Cities	594	633	1,046	1,327	1,418
Counties	3,885	3,980	3,855	4,019	4,208
School Districts	5,886	6,146	6,080	6,085	6,440
Other Political Subdivisions	<u>402</u>	<u>223</u>	<u>261</u>	<u>266</u>	<u>308</u>
Total Non-Retired <sup>(1)</sup>	22,726	23,601	24,623	25,411	26,405
Retired Members & Beneficiaries	<u>6,557</u>	<u>6,872</u>	<u>7,186</u>	<u>7,534</u>	<u>7,758</u>
Total Membership	29,283	30,473	31,809	32,945	34,163
Administrative Expenses	\$1,085,563	\$1,152,813	\$1,158,809	\$1,305,055	\$1,257,205
Administrative Cost per Member	\$ 37.07	\$ 37.83	\$36.43	\$39.61	\$36.80

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

**Retirement System Membership**



**Annual Administrative Cost Per Member**



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

FY Ended June 30	Annuities <sup>(1)</sup>		Refunds		Transfers	Total
	Retirant	Survivor	Death	Separation		
2005	\$49,568,148	\$3,885,905	\$184,199	\$4,528,895	\$21,131	\$58,188,278
2006	56,057,166	4,257,059	167,977	4,236,429	41,271	64,759,902
2007	58,568,565	4,496,932	297,371	5,217,136	39,829	68,619,833
2008	67,820,903	5,072,460	337,613	4,918,802	76,487	78,226,265
2009	68,966,425	5,157,481	221,926	4,939,074	496,072 <sup>(2)</sup>	79,780,978
2010	74,553,724	5,493,863	239,384	3,942,285	210,638	84,439,894

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

<sup>(2)</sup>Includes transfer to Deferred Compensation Plan to offset software development costs.

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

FY Ended June 30	Annuities		Refunds		Transfers	Total
	Retirant	Survivor	Death	Separation		
2005	\$ 2,654,887	\$ 163,076	\$ 0	\$ 0	\$ 0	\$ 2,817,963
2006	2,870,309	192,276	0	0	0	3,062,585
2007	3,209,498	191,394	0	0	0	3,400,892
2008	3,326,354	238,457	0	0	0	3,564,811
2009	3,534,265	225,353	0	0	0	3,759,618
2010	3,668,101	223,895	0	0	0	3,891,996

## 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:	2001	\$16,273,260	\$17,101,628	\$1,080,008	\$(53,115,303)	\$ 7,570	\$(18,652,837)	3.95%
	2002	17,379,812	18,244,655	1,059,313	(78,163,075)	12,301	(41,466,994)	3.95
	2003	18,265,346	19,212,733	1,493,418	53,998,006	9,184	92,978,687	4.01
	2004	22,544,164 <sup>(1)</sup>	19,732,842	3,397,231	180,631,261	6,299	226,311,797	3.94
	2005	19,671,214	20,704,241	4,426,282	178,042,364	13,399	222,857,500	3.97
	2006	20,805,715	21,969,517	3,702,908	170,879,698	11,218	217,369,056	4.02
	2007	21,883,581	23,140,767	3,679,036	309,726,953	4,759	358,435,096	3.97
	2008	27,105,614 <sup>(3)</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)	3.9
	2010	28,579,338	30,253,093	4,005,571	173,592,763	3,406	236,434,171	3.93
Highway Patrolmen's Retirement System:	2001	486,332	788,125	0	(1,872,449)	60	(597,932)	16.17
	2002	501,850	814,035	0	(2,712,925)	85	(1,396,955)	16.05
	2003	513,812	833,074	0	1,820,797	56	3,167,739	15.54
	2004	520,700	844,241	0	6,116,743	74	7,481,758	15.65
	2005	535,233	867,803	0	5,930,032	101	7,333,169	16.38
	2006	574,341	931,206	0	5,623,010	219	7,128,776	16.37
	2007	592,398	960,487	0	10,026,722	44	11,579,651	15.67
	2008	649,861	1,058,825	0	(3,100,879)	21	(1,392,172)	16.27
	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
Job Service Retirement Plan:	2004	67,080,814 <sup>(2)</sup>	0	25,272	\$ 8,551,044	0	75,657,130	0.00
	2005	163,594	0	1,143	10,884,059	0	11,048,796	0.00
	2006	150,633	0	25,927	5,766,011	0	5,942,571	0.00
	2007	132,564	0	0	13,618,796	0	13,751,360	0.00
	2008	123,718	0	0	(1,310,119)	0	(1,186,401)	0.00
	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
Retiree Health Insurance Credit Plan:	2001	9,219	4,191,541	77,669	(2,139,857)	0	2,138,572	0.94
	2002	4,421	4,482,993	76,322	(1,640,148)	0	2,923,588	0.94
	2003	4,938	4,712,819	116,821	861,309	0	5,695,887	0.95
	2004	4,597	4,854,949	210,547	3,863,672	0	8,933,765	0.94
	2005	7,061	5,085,050	246,500	2,693,979	0	8,032,590	0.94
	2006	7,210	5,373,091	211,601	2,828,932	0	8,420,834	0.95
	2007	7,959	5,665,071	204,758	6,129,258	0	12,007,046	0.94
	2008	5,686,576 <sup>(4)</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

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

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

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

<sup>(4)</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 Assets
Public Employees Retirement System:	2001	\$36,676,998	\$894,868	\$ 4,050,284	\$41,622,150	\$ (60,274,987)
	2002	40,871,330	983,258	3,467,354	45,321,942	(86,788,936)
	2003	43,733,098	1,068,803	2,728,091	47,529,992	45,448,695
	2004	47,515,319	995,879	3,677,037	52,188,235	174,123,562
	2005	51,286,688	1,072,277	4,454,425	56,813,390	166,044,110
	2006	57,820,126	1,037,535	4,277,700	63,135,361	154,233,695
	2007	60,469,904	1,109,260	5,171,153	66,750,317	291,684,779
	2008	70,153,871	1,118,233	4,860,814	76,132,918	(117,701,836)
	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
Highway Patrolmen's Retirement System:	2001	1,660,303	14,482	10,994	1,685,779	(2,283,711)
	2002	1,928,173	15,919	122,434	2,066,526	(3,463,481)
	2003	2,044,071	16,469	19,412	2,079,952	1,087,787
	2004	2,188,234	16,562	34,411	2,239,207	5,242,551
	2005	2,351,564	16,058	95,601	2,463,223	4,869,946
	2006	2,662,076	17,470	0	2,679,546	4,449,230
	2007	2,892,964	19,410	85,812	2,998,186	8,581,465
	2008	3,077,105	18,364	134,475	3,229,944	(4,622,116)
	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
Job Service Retirement Plan:	2004	2,330,771	24,174	0	2,354,945	73,302,185
	2005	2,817,963	24,019	0	2,841,982	8,206,814
	2006	3,062,585	29,335	0	3,091,920	2,850,651
	2007	3,400,892	22,811	0	3,423,703	10,327,657
	2008	3,564,811	22,212	0	3,587,023	(4,773,424)
	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
Retiree Health Insurance Credit Plan:	2001	3,598,019	68,301	2,623	3,668,943	(1,530,371)
	2002	3,745,958	80,909	3,626	3,830,493	(906,905)
	2003	3,893,070	79,237	937	3,973,244	1,722,643
	2004	4,063,395	81,269	698	4,145,362	4,788,403
	2005	4,193,687	85,262	1,880	4,280,829	3,751,761
	2006	4,337,900	88,569	4,291	4,430,760	3,990,074
	2007	4,525,810	104,953	2,798	4,633,561	7,373,485
	2008	10,383,070 <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

<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, 2010**

**Main System**

Monthly Amount	Total	Type of Pension			
		Normal	Early	Disability	Service *
Total	6,627	2,077	2,015	329	2,206
Less than \$200	914	408	469	17	20
\$200 - \$ 399	1,326	483	700	125	18
400 - 599	963	348	455	121	39
600 - 799	592	232	204	46	110
800 - 999	522	170	89	13	250
1,000 - 1,199	490	125	50	3	312
1,200 - 1,399	411	91	19	1	300
1,400 - 1,599	293	58	10	1	224
1,600 - 1,799	239	37	6	-	196
1,800 - 1,999	188	30	4	1	153
2,000 - 2,199	151	23	1	1	126
2,200 - 2,399	132	15	5	-	112
2,400 - 2,599	102	9	1	-	92
2,600 - 2,799	81	9	-	-	72
2,800 - 2,999	53	10	1	-	42
3,000 & Over	170	29	1	-	140
Life	4,287	1,432	1,484	271	1,100
Level Social Security Payment	123	-	23	-	100
Joint & 100% Survivor	1,194	391	286	30	487
Joint & 50% Survivor	796	190	126	21	459
20 Year C & L	19	8	7	-	4
10 Year C & L	170	47	74	4	45
5 Year C & L	38	9	15	3	11
Total	6,627	2,077	2,015	329	2,206

*\*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

	<10	10-14	15-19	20-24	25-29	>=30	Total
<b>2006</b>							
Number of Retirees	1,042	1,048	987	818	731	914	5,540
Average Monthly Benefit	\$ 222	\$ 361	\$ 521	\$ 840	\$ 1,248	\$ 1,846	\$ 796
Average Years of Service	6.27	12.33	17.35	22.35	27.24	35.00	19.27
<b>2007</b>							
Number of Retirees	1,121	1,063	1,008	859	786	987	5,824
Average Monthly Benefits	\$ 222	\$ 368	\$ 536	\$ 868	\$ 1,283	\$ 1,896	\$ 825
Average Years of Service	6.23	12.33	17.36	22.38	27.24	35.02	19.37
<b>2008</b>							
Number of Retirees	1,195	1,086	1,025	894	839	1,064	6,103
Average Monthly Benefits	\$ 223	\$ 376	\$ 554	\$ 894	\$ 1,327	\$ 1,939	\$ 855
Average Years of Service	6.22	12.32	17.35	22.42	27.24	34.99	19.45
<b>2009</b>							
Number of Retirees	1,261	1,121	1,056	946	908	1,124	6,416
Average Monthly Benefits	\$224	\$387	\$565	\$914	\$1,357	\$1,992	\$880
Average Years of Service	6.24	12.30	17.37	22.44	27.22	35.02	19.53
<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

**Schedule of Retired Members by Type of Benefit – PERS**  
**As of June 30, 2010**

Monthly Amount	Total	Judges			
		Type of Pension			
		Normal	Early	Disability	Service *
Total	22	11	4	0	7
Less than \$200	-	-	-	-	-
\$200 - \$ 399	-	-	-	-	-
400 - 599	-	-	-	-	-
600 - 799	-	-	-	-	-
800 - 999	-	-	-	-	-
1,000 - 1,199	-	-	-	-	-
1,200 - 1,399	1	-	-	-	1
1,400 - 1,599	-	-	-	-	-
1,600 - 1,799	3	2	1	-	-
1,800 - 1,999	1	-	1	-	-
2,000 - 2,199	-	-	-	-	-
2,200 - 2,399	-	-	-	-	-
2,400 - 2,599	-	-	-	-	-
2,600 - 2,799	1	1	-	-	-
2,800 - 2,999	1	1	-	-	-
3,000 & Over	15	7	2	-	6
Life	4	3	-	-	1
Level Social Security Payment	-	-	-	-	-
Joint & 100% Survivor	14	8	2	-	4
Joint & 50% Survivor	4	-	2	-	2
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	22	11	4	0	7

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

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

	Judges						Total
	Years of Credited Service						
	<10	10-14	15-19	20-24	25-29	>=30	
<b>2006</b>							
Number of Retirees	1	8	4	3	4	1	21
Average Monthly Benefit	\$ 1,262	\$ 2,239	\$ 3,439	\$ 4,292	\$ 4,956	\$ 5,625	\$ 3,393
Average Years of Service	8.50	11.34	18.25	23.75	25.46	30.00	17.87
<b>2007</b>							
Number of Retirees	1	11	4	3	4	1	24
Average Monthly Benefit	\$ 1,262	\$ 2,389	\$ 3,439	\$ 4,292	\$ 4,956	\$ 5,625	\$ 3,318
Average Years of Service	8.50	11.47	18.25	23.75	25.46	30.00	17.11
<b>2008</b>							
Number of Retirees	1	10	4	3	4	1	23
Average Monthly Benefit	\$ 1,287	\$ 2,344	\$ 3,508	\$ 4,378	\$ 5,056	\$ 5,737	\$ 3,385
Average Years of Service	8.50	11.42	18.25	23.75	25.46	30.00	17.34
<b>2009</b>							
Number of Retirees	1	8	4	4	4	1	22
Average Monthly Benefit	\$1,287	\$2,296	\$3,508	\$4,740	\$5,056	\$5,737	\$3,573
Average Years of Service	8.50	11.54	18.25	24.04	25.46	30.00	18.27
<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

**Schedule of Retired Members by Type of Benefit – PERS  
As of June 30, 2010**

**National Guard**

Monthly Amount	Total	Type of Pension			
		Normal	Early	Disability	Service *
Total	8	4	4	0	0
Less than \$200	1	-	1	-	-
\$200 - \$ 399	-	-	-	-	-
400 - 599	1	1	-	-	-
600 - 799	1	-	1	-	-
800 - 999	2	1	1	-	-
1,000 - 1,199	-	-	-	-	-
1,200 - 1,399	-	-	-	-	-
1,400 - 1,599	1	-	1	-	-
1,600 - 1,799	1	1	-	-	-
1,800 - 1,999	-	-	-	-	-
2,000 - 2,199	-	-	-	-	-
2,200 - 2,399	-	-	-	-	-
2,400 - 2,599	-	-	-	-	-
2,600 - 2,799	-	-	-	-	-
2,800 - 2,999	-	-	-	-	-
3,000 & Over	1	1	-	-	-
Life	4	2	2	-	-
Level Social Security Payment	3	1	2	-	-
Joint & 100% Survivor	-	-	-	-	-
Joint & 50% Survivor	1	1	-	-	-
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	8	4	4	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>2006</b>							
Number of Retirees	0	1	2	1	1	0	5
Average Monthly Benefits	\$ 0	\$ 537	\$ 829	\$ 943	\$ 2,689	\$ 0	\$ 1,165
Average Years of Service	0.00	11.08	16.13	22.17	29.50	0.00	19.00
<b>2007</b>							
Number of Retirees	0	2	1	1	1	0	5
Average Monthly Benefits	\$ 0	\$ 736	\$ 722	\$ 943	\$ 2,689	\$ 0	\$ 1,165
Average Years of Service	0.00	12.75	19.17	22.17	29.50	0.00	19.27
<b>2008</b>							
Number of Retirees	0	2	1	2	1	0	6
Average Monthly Benefits	\$0	\$736	\$ 722	\$ 1,332	\$ 2,689	\$ 0	\$ 1,258
Average Years of Service	0.00	12.75	19.17	23.46	29.50	0.00	20.18
<b>2009</b>							
Number of Retirees	0	2	1	2	2	0	7
Average Monthly Benefits	\$0	\$736	\$722	\$1,332	\$2,947	\$0	\$1,536
Average Years of Service	0.00	12.75	19.17	23.46	27.58	0.00	20.97
<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

**Schedule of Retired Members by Type of Benefit – PERS  
As of June 30, 2010**

**Law Enforcement with Prior Main Service**

Monthly Amount	Total	Type of Pension			
		Normal	Early	Disability	Service *
Total	24	16	1	0	7
Less than \$200	-	-	-	-	-
\$200 - \$ 399	-	-	-	-	-
400 - 599	2	2	-	-	-
600 - 799	-	-	-	-	-
800 - 999	1	1	-	-	-
1,000 - 1,199	7	7	-	-	-
1,200 - 1,399	1	1	-	-	-
1,400 - 1,599	4	2	-	-	2
1,600 - 1,799	1	-	-	-	1
1,800 - 1,999	2	1	-	-	1
2,000 - 2,199	4	1	1	-	2
2,200 - 2,399	2	1	-	-	1
2,400 - 2,599	-	-	-	-	-
2,600 - 2,799	-	-	-	-	-
2,800 - 2,999	-	-	-	-	-
3,000 & Over	-	-	-	-	-
Life	9	8	-	-	1
Level Social Security Payment	2	-	1	-	1
Joint & 100% Survivor	11	7	-	-	4
Joint & 50% Survivor	2	1	-	-	1
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	24	16	1	0	7

*\*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>2006</b>							
Number of Retirees	0	1	2	1	1	0	5
Average Monthly Benefits	\$ 0	\$ 1,109	\$ 1,027	\$ 1,067	\$ 1,494	\$ 0	\$ 1,145
Average Years of Service	0.00	13.50	18.96	22.50	25.42	0.00	19.87
<b>2007</b>							
Number of Retirees	1	1	3	2	3	0	10
Average Monthly Benefits	\$ 478	\$ 1,109	\$ 1,079	\$ 1,048	\$ 1,671	\$ 0	\$ 1,193
Average Years of Service	8.58	13.83	18.64	21.84	25.97	0.00	19.99
<b>2008</b>							
Number of Retirees	1	1	3	6	3	1	15
Average Monthly Benefits	\$ 478	\$ 1,109	\$ 1,079	\$ 1,298	\$ 1,830	\$ 2,327	\$ 1,362
Average Years of Service	8.58	13.83	18.64	21.44	25.97	34.00	21.26
<b>2009</b>							
Number of Retirees	1	1	3	6	4	1	16
Average Monthly Benefits	\$478	\$1,109	\$1,079	\$1,298	\$1,731	\$2,327	\$1,366
Average Years of Service	8.58	13.83	18.64	21.44	25.94	34.00	21.55
<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

**Schedule of Retired Members by Type of Benefit – HPRS  
As of June 30, 2010**

Monthly Amount	Total	Type of Pension			
		Normal	Early	Disability	Rule of 80
Total	87	29	1	4	53
Less than \$250	-	-	-	-	-
\$250 - \$ 499	1	1	-	-	-
500 - 749	1	1	-	-	-
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	12	7	-	1	4
2,500 - 2,749	8	2	-	-	6
2,750 - 2,999	10	2	-	1	7
3,000 - 3,249	9	3	-	-	6
3,250 - 3,499	9	2	-	-	7
3,500 - 3,749	6	2	-	-	4
3,750 - 3,999	3	-	-	-	3
4,000 - 4,249	4	-	-	-	4
4,250 - 4,499	4	-	-	-	4
4,500 - 4,749	4	1	-	-	3
4,750 & Over	4	-	-	-	4
Life	15	4	-	4	7
Level Social Security Payment	-	-	-	-	-
Joint & 100% Survivor	31	5	-	-	26
Joint & 50% Survivor	41	20	1	-	20
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	87	29	1	4	53

**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>2006</b>							
Number of Retirees	1	2	3	5	51	16	78
Average Monthly Benefits	\$ 1,456	\$ 1,593	\$ 1,064	\$ 1,878	\$ 2,950	\$ 3,175	\$ 2,801
Average Years of Service	2.25	12.34	17.33	21.73	27.92	31.14	27.05
<b>2007</b>							
Number of Retirees	1	2	3	5	55	15	81
Average Monthly Benefits	\$ 1,456	\$ 1,593	\$ 1,064	\$ 1,878	\$ 3,005	\$ 3,267	\$ 2,858
Average Years of Service	2.25	12.34	17.33	21.73	27.96	31.19	27.07
<b>2008</b>							
Number of Retirees	1	1	4	5	56	17	84
Average Monthly Benefits	\$ 1,456	\$ 2,054	\$ 1,062	\$ 1,878	\$ 3,052	\$ 3,477	\$ 2,942
Average Years of Service	2.25	11.17	16.79	21.73	27.96	31.18	27.20
<b>2009</b>							
Number of Retirees	1	1	4	6	55	17	84
Average Monthly Benefits	\$1,456	\$2,054	\$1,707	\$2,051	\$3,121	\$3,491	\$3,020
Average Years of Service	2.25	11.17	17.42	21.64	27.93	31.18	27.13
<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

**Schedule of Retired Members by Type of Benefit – Job Service Retirement Plan  
As of June 30, 2010**

Monthly Amount	Total	Type of Pension	
		Retirement	Disability
Total	192	185	7
Less than \$200	52	52	-
\$200 - \$ 399	26	26	-
400 - 599	2	2	-
600 - 799	1	1	-
800 - 999	3	1	2
1,000 - 1,199	1	1	-
1,200 - 1,399	9	7	2
1,400 - 1,599	7	7	-
1,600 - 1,799	9	7	2
1,800 - 1,999	10	10	-
2,000 - 2,199	9	9	-
2,200 - 2,399	15	15	-
2,400 - 2,599	12	11	1
2,600 - 2,799	10	10	-
2,800 - 2,999	10	10	-
3,000 & Over	16	16	-
<hr/>			
Life	46	46	-
Joint & 55% Survivor	42	41	1
Joint & 75% Survivor	22	22	-
Joint & 100% Survivor	13	13	-
10 Year C & L	36	30	6
15 Year C & L	4	4	-
20 Year C&L	29	29	-
Total	192	185	7

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

	Retirement <u>Plan</u>	Travelers <u>Annuity</u>	<u>Total</u>
<b>2006</b>			
Number of Retirees	115	106	221
Average Monthly Benefits	\$ 2,002	\$ 401	\$ 1,651
<b>2007</b>			
Number of Retirees	118	102	220
Average Monthly Benefits	\$ 2,054	\$ 450	\$ 1,310
<b>2008</b>			
Number of Retirees	118	98	216
Average Monthly Benefits	\$ 2,110	\$ 490	\$ 1,372
<b>2009</b>			
Number of Retirees	120	94	214
Average Monthly Benefits	\$2,206	\$578	\$1,491
<b>2010</b>			
Number of Retirees	122	89	211
Average Monthly Benefits	\$2,217	\$582	\$1,527

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



## SCHEDULE OF PARTICIPATING EMPLOYERS

### STATE AGENCIES:

ADJUTANT GENERAL ND NATL GRD  
 AERONAUTICS COMMISSION  
 ATTORNEY GENERAL'S OFFICE  
 BANK OF NORTH DAKOTA  
 BEEF COMMISSION  
 BISMARCK STATE COLLEGE  
 BOARD OF ANIMAL HEALTH  
 BOARD OF MEDICAL EXAMINERS  
 BOARD OF NURSING  
 BOARD OF PHARMACY  
 CAREER & TECHNICAL ED  
 COAL DEVELOPMENT IMPACT OFFICE  
 DAIRY PROMOTION COMMISSION  
 DEPT OF AGRICULTURE  
 DEPT OF BANKING & FINANCE  
 DEPT OF COMMERCE  
 DEPT OF EMERGENCY SERVICES  
 DEPT OF HUMAN SERVICES  
 DEPARTMENT OF CORRECTIONS  
 DEPARTMENT OF TRANSPORTATION  
 DEVELOPMENTAL CENTER  
 DICKINSON STATE UNIVERSITY  
 EDUCATION STANDARDS & PRACTICE  
 ELECTRICAL BOARD  
 FIELD SERVICES DIVISION  
 GAME & FISH DEPT  
 GOVERNOR'S OFFICE  
 HIGHWAY PATROL  
 HISTORICAL SOCIETY  
 HOUSING FINANCE AGENCY  
 INDIAN AFFAIRS COMMISSION  
 INDUSTRIAL COMMISSION  
 INFORMATION TECHNOLOGY DEPARTMENT  
 INSURANCE DEPARTMENT  
 JAMES RIVER CORRECTIONAL CENTER  
 JAMESTOWN STATE HOSPITAL  
 JOB SERVICE NORTH DAKOTA  
 JUVENILE SERVICES DOCR  
 LAND DEPARTMENT  
 LEGAL COUNSEL OF INDIGENTS  
 LEGISLATIVE COUNCIL  
 MAYVILLE STATE UNIVERSITY  
 MILK MARKETING BOARD  
 MILL & ELEVATOR ASSOCIATION  
 MINOT STATE UNIVERSITY  
 ND BARLEY COUNCIL  
 ND CORN UTILIZATION COUNCIL  
 ND COUNCIL ON THE ARTS  
 ND DEPARTMENT OF HEALTH  
 ND DEPARTMENT OF LABOR  
 ND OILSEED COUNCIL  
 ND SECURITIES DEPARTMENT  
 ND SOYBEAN COUNCIL  
 ND STATE BOARD OF ACCOUNTANCY  
 ND STATE BOARD OF COSMETOLOGY  
 ND STATE COLLEGE OF SCIENCE  
 ND STATE LIBRARY  
 ND SUPREME COURT  
 ND UNIVERSITY SYSTEM  
 ND VETERANS HOME  
 ND WHEAT COMMISSION  
 ND YOUTH CORRECTIONAL CENTER  
 NORTH DAKOTA STATE UNIVERSITY  
 OFFICE OF ADM HEARING  
 OFFICE OF MANAGEMENT & BUDGET  
 PARKS & RECREATION DEPARTMENT  
 PLUMBING BOARD  
 PROTECTION & ADVOCACY PROJECT  
 PUBLIC EMPLOYEES RETIREMENT  
 PUBLIC FINANCE AUTHORITY  
 PUBLIC INSTRUCTION  
 PUBLIC SERVICE COMMISSION  
 RACING COMMISSION  
 REAL ESTATE COMMISSION  
 RETIREMENT & INVESTMENT OFFICE  
 ROUGH RIDER INDUSTRIES  
 SCHOOL FOR THE BLIND

SCHOOL FOR THE DEAF  
 SECRETARY OF STATE  
 SOIL CONSERVATION COMMITTEE  
 STATE AUDITOR'S OFFICE  
 STATE BOARD OF LAW EXAMINERS  
 STATE FAIR ASSN  
 STATE PENITENTIARY  
 STATE SEED DEPARTMENT  
 STATE TREASURER'S OFFICE  
 TAX DEPARTMENT  
 TRANSITIONAL FACILITIES  
 UND - LAKE REGION  
 UNIVERSITY OF NORTH DAKOTA  
 VALLEY CITY STATE UNIVERSITY  
 VETERANS AFFAIRS DEPARTMENT  
 WATER COMMISSION  
 WILLISTON STATE COLLEGE  
 WORKFORCE SAFETY AND INSURANCE  
**Total = 95**

### COUNTIES:

ADAMS COUNTY  
 BARNES COUNTY  
 BENSON COUNTY  
 BILLINGS COUNTY  
 BOTTINEAU COUNTY  
 BOWMAN COUNTY  
 BURKE COUNTY  
 BURLEIGH COUNTY  
 CASS COUNTY  
 CAVALIER COUNTY  
 DICKEY COUNTY  
 DIVIDE COUNTY  
 DUNN COUNTY  
 EDDY COUNTY  
 EMMONS COUNTY  
 FOSTER COUNTY  
 GRAND FORKS COUNTY  
 GRANT COUNTY  
 GRIGGS COUNTY  
 HETTINGER COUNTY  
 LAMOURE COUNTY  
 LOGAN COUNTY  
 MCHENRY COUNTY  
 MCINTOSH COUNTY  
 MCKENZIE COUNTY  
 MCLEAN COUNTY  
 MERCER COUNTY  
 MOUNTRAIL COUNTY  
 NELSON COUNTY  
 OLIVER COUNTY  
 PEMBINA COUNTY  
 PIERCE COUNTY  
 RAMSEY COUNTY  
 RANSOM COUNTY  
 RENVILLE COUNTY  
 RICHLAND COUNTY  
 ROLETTE COUNTY  
 SHERIDAN COUNTY  
 SLOPE COUNTY  
 STARK COUNTY  
 STEELE COUNTY  
 STUTSMAN COUNTY  
 TOWNER COUNTY  
 TRAILL COUNTY  
 WALSH COUNTY  
 WARD COUNTY  
 WELLS COUNTY  
 WILLIAMS COUNTY  
**Total = 48**

### SCHOOLS:

APPLE CREEK ELEMENTARY SCHOOL  
 BEACH PUBLIC SCHOOL DISTRICT  
 BELCOURT SCHOOL DIST #7  
 BELFIELD PUBLIC SCHOOL #13  
 BEULAH PUBLIC SCHOOL #27  
 BILLINGS COUNTY SCHOOL DISTRICT

BISMARCK PUBLIC SCHOOLS  
 BOTTINEAU PUBLIC SCHOOL  
 BOWMAN COUNTY SCHOOL DISTRICT #1  
 BURKE CENTRAL SCHOOL  
 BURLEIGH COUNTY SPECIAL ED UNIT  
 CARRINGTON SCHOOL DIST #49  
 CAVALIER PUBLIC SCHOOLS  
 CENTER STANTON PUBLIC SCHOOL  
 CENTRAL CASS PUBLIC SCHOOL #7  
 DAKOTA PRAIRIE PUBLIC SCHOOLS  
 DEVILS LAKE PUBLIC SCHOOL  
 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  
 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  
 LEWIS AND CLARK PUBLIC SCHOOLS  
 LIDGERWOOD PUBLIC SCHOOL  
 LINTON PUBLIC SCHOOL  
 LISBON PUBLIC SCHOOL  
 LITTLE HEART PUBLIC SCHOOL DIST #4  
 MANDAN PUBLIC SCHOOL DIST #1  
 MANDAREE PUBLIC SCHOOL #36  
 MANVEL PUBLIC SCHOOL  
 MAPLETON PUBLIC SCHOOL  
 MAPLE VALLEY SCHOOL DISTRICT  
 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  
 RUGBY PUBLIC SCHOOL DIST #5  
 RURAL CASS MULTI-DISTRICT SPECIAL ED  
 SHEYENNE VALLEY CAREER TECH CT  
 SHEYENNE VALLEY SPECIAL ED UNIT  
 SOLEN PUBLIC SCHOOL DIST #3  
 SOURIS VALLEY SPECIAL SERVICES  
 ST JOHN SCHOOL DIST #3  
 STANLEY COMMUNITY PUBLIC SCHOOL  
 SURREY SCHOOLS  
 SW SPECIAL EDUCATION UNIT  
 SWEET BRIAR SCHOOL DIST #17  
 TGU SCHOOL DIST #60  
 THOMPSON PUBLIC SCHOOL  
 TIOGA PUBLIC SCHOOL  
 TURTLE LAKE MERCER SCHOOL DISTRICT  
 UNDERWOOD SCHOOL DIST #8  
 UNITED PUBLIC SCHOOL DISTRICT  
 VALLEY CITY PUBLIC SCHOOL  
 VELVA PUBLIC SCHOOL  
 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  
 WILTON PUBLIC SCHOOL DISTRICT  
 YELLOWSTONE SCHOOL DIST #14  
 ZEELAND PUBLIC SCHOOLS  
**Total = 115**

**CITIES:**

CITY OF ASHLEY  
 CITY OF BEACH  
 CITY OF BELFIELD  
 CITY OF BOWMAN  
 CITY OF BURLINGTON  
 CITY OF CARRINGTON  
 CITY OF CAVALIER  
 CITY OF COOPERSTOWN  
 CITY OF CROSBY  
 CITY OF DRAYTON  
 CITY OF ELGIN  
 CITY OF ELLENDALE  
 CITY OF EMERADO  
 CITY OF FARGO  
 CITY OF FESSENDEN  
 CITY OF FINLEY  
 CITY OF GLENBURN  
 CITY OF GRAFTON  
 CITY OF 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 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 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 = 81**

**OTHER POLITICAL SUBDIVISIONS:**

BARNES COUNTY SOIL CONSERVATION DISTRICT  
 BISMARCK RURAL FIRE PROTECTION  
 BOWMAN CITY PARK BOARD  
 BURLEIGH COUNTY COUNCIL ON AGING  
 BURLEIGH COUNTY SOIL CONSERVATION  
 CARNEGIE REGIONAL LIBRARY  
 CASS COUNTY SOIL CONSERVATION DISTRICT  
 CASS CTY WATER RESOURCE DISTRICT  
 CAVALIER COUNTY JOB DEVELOPMENT  
 CAVALIER COUNTY HEALTH DISTRICT  
 CAVALIER COUNTY HOUSING AUTHORITY  
 CENTRAL PLAINS WATER DISTRICT  
 CENTRAL VALLEY HEALTH UNIT  
 CITY-COUNTY HEALTH DISTRICT  
 CONSOLIDATED WASTE LTD  
 CUSTER DIST HEALTH UNIT  
 DEVILS LAKE BASIN JOINT WATER  
 DICKEY COUNTY HEALTH DISTRICT  
 DUNSEITH COMMUNITY NURSE HOME  
 EMMONS COUNTY PUBLIC HEALTH  
 FARGO PARK DISTRICT  
 FIRST DISTRICT HEALTH UNIT  
 GARRISON DIVERSION CONSERVATION DISTRICT  
 GRAFTON PARK DISTRICT  
 GRAND FORKS CITY WATER RESOURCE  
 GRAND FORKS E GRAND FORKS MPO  
 GRAND FORKS PARK DISTRICT  
 GRAND FORKS PUBLIC LIBRARY  
 GREATER RAMSEY WATER DISTRICT  
 GRIGGS COUNTY LIBRARY  
 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  
 PIERCE COUNTY SOIL CONSERVATION DISTRICT  
 R & T WATER SUPPLY ASSOCIATION  
 RAMSEY COUNTY HOUSING AUTHORITY  
 RAMSEY COUNTY SOIL CONSERVATION DISTRICT  
 RANSOM COUNTY SOIL CONSERVATION DISTRICT  
 ROLETTE COUNTY PUBLIC HEALTH  
 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  
 WEST FARGO PARK DISTRICT  
 WILLIAMS COUNTY SOIL CONSERVATION  
 WILLISTON HOUSING AUTHORITY

**Total = 69**

**Principle Participating Employers  
June 30, 2010**

<b>Participating Employer</b>	<b>Covered Employees</b>	<b>Rank</b>	<b>% of Total System</b>
Department of Human Services	1,307	1	6.42%
University of North Dakota	1,179	2	5.79%
Department of Transportation	1,044	3	5.12%
North Dakota State University	877	4	4.30%
Bismarck Public Schools	698	5	3.43%
Fargo Public Schools	590	6	2.90%
Minot Public School District	501	7	2.46%
Jamestown State Hospital	458	8	2.25%
Developmental Center	444	9	2.18%
Cass County	389	10	1.90%
Other Employers	12,885		63.25%
Total covered employees*	20,372		100.00%

\*Total covered employees represents the number of employees in a contributing status as of June 30, 2010 in the Main retirement plan.

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

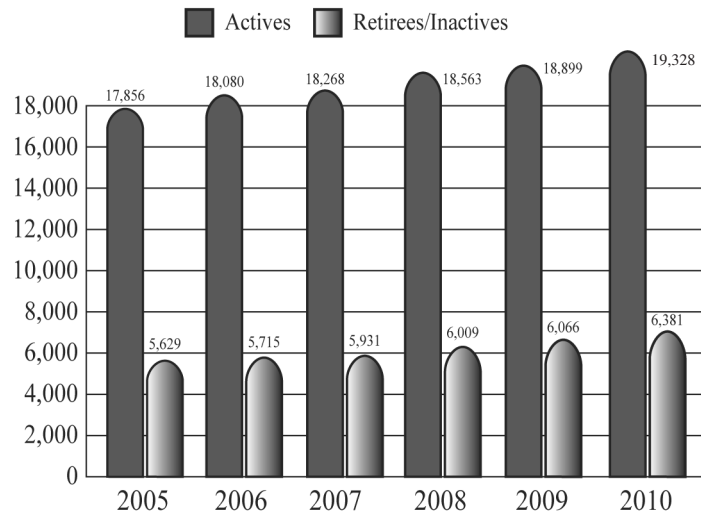
	<b>6/30/06</b>	<b>6/30/07</b>	<b>6/30/08</b>	<b>6/30/09</b>	<b>6/30/10</b>
AIG VALIC	\$ 5,745,622	\$ 7,352,983	\$ 7,081,128	\$ 6,451,199	\$7,475,965
American Trust Center	2,620,264	3,325,665	3,877,787	3,622,718	4,401,306
AXA Equitable	25,928,019	26,758,632	23,047,134	18,485,110	20,264,795
Bank of North Dakota	3,438,691	3,614,106	3,836,023	4,325,613	4,826,940
Chase Financial (formerly Kemper)	5,852,970	6,677,907	6,145,992	5,108,373	6,109,277
Hartford Life Insurance Company	19,196,591	25,259,016	24,597,755	21,527,797	26,064,862
ING (formerly Aetna)	1,359,850	1,403,453	1,403,033	1,241,758	1,392,402
Jackson National Life	902,942	978,543	940,611	1,351,123	1,584,770
John Kinnard <sup>(1)</sup>	20,693	0	0	0	0
Kansas City Life (formerly Sunset Life)	354,895	235,808	217,239	233,832	250,553
Lincoln National	7,210,227	7,810,551	6,050,335	4,464,625	4,907,412
NDPERS Companion Plan <sup>(1)</sup>	18,143,181	23,368,806	23,443,420	21,388,646	27,638,654
Nationwide Life Insurance	6,789,074	6,321,649	6,596,637	5,326,443	6,174,645
New York Life <sup>(1)</sup>	458,737	478,675	383,615	290,488	302,829
Symetra (formerly Safeco)	887,554	995,936	636,183	553,647	450,554
Waddell & Reed Financial Services	<u>5,616,331</u>	<u>6,350,625</u>	<u>6,268,696</u>	<u>4,841,463</u>	<u>5,629,199</u>
Total	\$ 104,525,641	\$ 120,932,355	\$ 114,525,588	\$ 99,212,835	\$ 117,474,163

<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, 2010 and June 30, 2009 financial statements.

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

## STATISTICS

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



### Health Insurance Premium Active State Contracts

