From:	Sen. Anna MacKinnon
To:	Senate Finance Committee
Subject:	FW: HB 306 from Norm West member of the ARMB
Date:	Thursday, April 26, 2018 8:24:26 AM

HB 306 public testimony.

From: Norman West <nwest11@mtaonline.net>
Sent: Wednesday, April 25, 2018 10:38 AM
To: Sen. Anna MacKinnon <Sen.Anna.MacKinnon@akleg.gov>
Subject: RE: HB 306 from Norm West member of the ARMB

Dear Senator MacKinnon,

I am writing to you to urge you to do all within your power to obtain passage of HB 306 this session. I see no down side to passing this bill for anyone- the state, the legislature, the states current or retired employees, or the state budget but I do see adverse or negative impact as result of this bill failing to be passed or delayed for current and prospective retirees who would be affected by its passage.

Let me explain a quick history of and reason for this bill. Also let me introduce myself, I am a member of the member of the ARM Board who has over 35 years direct hands on responsibility for managing fixed income portfolios for my employers. Ever since that day in the early 1980s, when I was a financial executive with the Alaska Teamsters employee benefit plans, and learned that the investment manager who reported to me was seriously injured in a vehicle accident; then simultaneously informed by the Chairman of the Board, Jess Carr, that I was to take over his responsibilities, I have been managing fixed income portfolios off several hundred million dollars or more up until I retired as the CFO of Alaska USA Federal Credit Union in Oct 2016. I will not tell you that I am an expert only that I have a sizeable amount of experience and long history in the industry and do not write this email to you from any political or philosophical point of view other than my own.

History:

As is true of almost all retirement plan sponsors in the United States the state of Alaska over a decade ago came to the conclusion that they could no longer guarantee retirees specific retirement benefits (defined benefit plans) because of the financial risk to the state as the state was required to make up the short fall when mathematical (actuarial) estimates differed from actual performance of retirement plans established for that purpose. Instead the state decided to adopt defined contribution plans where in the state contributed substantial amounts to retirement plans on behalf of each covered employee. At retirement or separation from service, the covered employee is entitled to balances in his account.

As is standard practice under federal law, these plans allow the direct investment of his funds within certain options made available by the plan. In adopting these plans, I believe the state legislature wanted to see that retiring employees did not have to just take a lump sum, with the related disastrous federal tax consequences, and caused that language included in the statute saw to it that several of the most popular alternative options available at that time were available to the participants.

Mostly these other options involved the purchasing of annuities which are basically insurance products guaranteeing the purchaser a certain amount of income for a certain period of time (often the life of the participant) with the seller of the annuity taking a mathematical gamble that the purchasers would die on average at a certain age or the investment markets would treat them better than estimated in constructing the equity. These products offered risks to the plan participants and possible extraordinary financial rewards.

Since that time the debt markets have changed considerably and continue to change daily. Both borrowers and lenders needs and expectations, whether they be investment markets or bankers, have changed greatly. Debt instruments sold to investors these days are mostly what can be called 'structured products' wherein the legally contracted cash flows under a debt, mortgage, loans, etc. are divided up into a number securities. This is a byproduct of the information age where computers can be used to make complicated calculations and projections easily. The old days of a majority of debt instruments being 'plain vanilla' or 'passthroughs' are behind us. But this is not bad as this complexity properly understood can cause the building of low or almost no risk investment portfolios with specific cash flow requirements.

When Gary Bader, the former Chief Investment Officer of the State of Alaska approached retirement in 2016 (retiring in 2017), he realized that the payment options available to him. and other retires of the state's plans, did not meet his financial needs and thought that surely there were other payout options that could be constructed from the debt instruments the markets offered. He began a search of such products and asked several investment managers who already manage funds for the state for their recommendations. He also discovered that federal law had been changed to allow retirees of defined contribution plans to purchase annuities that only paid them if they lived beyond normal expected retirement age. He had these managers present a number of products to us in late 2016. When I say these products I wished that some of them were available to me in my corporate plans as I would have utilized them upon retirement. In my case the plans in which I participate, less than $500 million in total assets, did not currently have the clout to get managers to offer such products to the plans, but such was not the case for Alaska retirees as our plans are large enough to get the interest of providers in managing such low fee products for the benefit of the participants in the plans.

Unfortunately we at the ARM Board were told by the attorney general's staff that while we could offer such investment/payout options to some plan participants we could not to others because the statues whether intended or not specifically limited the payout options to those they described. This Bill, HB 306, was specifically requested by the ARMB board and included by the governor in his legislation request for this session at our request, to correct or clarify the existing statute to allow us at the ARM Board to offer these payout options to participants and to put in place a mechanism whereby the ARM Board after through due diligence and investigation could vote to offer new options as they become available, are desired by the participants, and deemed appropriate, without having to require a statutory change each time.

Thank you for your prompt attention to this matter.

Sincerely

Norman West
ARMB Trustee
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