

SENATE BILL NO. 187

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Introduced: 2/1/12

Referred: Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act creating the pension reserve fund; changing the manner in which employer
2 contributions to the Public Employees' Retirement System of Alaska are calculated;
3 repealing a requirement that the state make certain contributions, in addition to
4 employer contributions, to pay the past service liabilities of the Public Employees'
5 Retirement System of Alaska; preventing certain transfers to the Public Employees'
6 Retirement System of Alaska from causing reductions in damage awards for wrongful
7 or negligent conduct of third parties; adding to the duties of the Alaska Retirement
8 Management Board; and providing for an effective date."

9 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

10 * **Section 1.** AS 09.17.070(f) is amended to read:

11 (f) Notwithstanding any other provision of this section, if the teachers'
12 retirement system (AS 14.25) or the public employees' retirement system (AS 39.35)

1 obtains an award of damages or other recovery in compensation for harms caused by
 2 the wrongful or negligent conduct of a third party, the award of damages or other
 3 recovery is not subject to reduction under this section on account of

4 **(1) transfers under AS 37.14.920 from the pension reserve fund**
 5 **(AS 37.14.900) to the public employees' retirement system; or**

6 **(2) additional state contributions under AS 14.25.085 [OR**
 7 **AS 39.35.280].**

8 * **Sec. 2.** AS 37.10.210(a) is amended to read:

9 (a) The Alaska Retirement Management Board is established in the
 10 Department of Revenue. The board's primary mission is to serve as the trustee of the
 11 assets of the state's retirement systems, the State of Alaska Supplemental Annuity Plan
 12 [.] and the deferred compensation program for state employees, and the Alaska retiree
 13 health care trusts established under AS 39.30.097 **and manage the pension reserve**
 14 **fund established under AS 37.14.900.** Consistent with standards of prudence, the
 15 board has the fiduciary obligation to manage and invest these assets in a manner that is
 16 sufficient to meet the liabilities and pension obligations of the systems, plan, program,
 17 and trusts. The board may, with the approval of the commissioner of revenue and upon
 18 agreement with the responsible fiduciary, manage and invest other state funds so long
 19 as the activity does not interfere with the board's primary mission. In making
 20 investments, the board shall exercise the powers and duties of a fiduciary of a state
 21 fund under AS 37.10.071.

22 * **Sec. 3.** AS 37.10.220(a) is amended to read:

23 (a) The board shall

24 (1) hold regular and special meetings at the call of the chair or of at
 25 least five members; meetings are open to the public, and the board shall keep a full
 26 record of all its proceedings;

27 (2) after reviewing recommendations from the Department of
 28 Revenue, adopt investment policies for each of the funds entrusted to the board;

29 (3) determine the appropriate investment objectives for the defined
 30 benefit plans established under the teachers' retirement system under AS 14.25 and the
 31 public employees' retirement system under AS 39.35;

1 (4) assist in prescribing the policies for the proper operation of the
 2 systems and take other actions necessary to carry out the intent and purpose of the
 3 systems in accordance with AS 37.10.210 - 37.10.390;

4 (5) provide a range of investment options and establish the rules by
 5 which participants can direct their investments among those options with respect to
 6 accounts established under

7 (A) AS 14.25.340 - 14.25.350 (teachers' retirement system
 8 defined contribution individual accounts);

9 (B) AS 39.30.150 - 39.30.180 (State of Alaska Supplementary
 10 Annuity Plan);

11 (C) AS 39.35.730 - 39.35.750 (public employees' retirement
 12 system defined contribution individual accounts); and

13 (D) AS 39.45.010 - 39.45.060 (public employees' deferred
 14 compensation program);

15 (6) establish the rate of interest that shall be annually credited to each
 16 member's individual contribution account in accordance with AS 14.25.145 and
 17 AS 39.35.100 and the rate of interest that shall be annually credited to each member's
 18 account in the health reimbursement arrangement plan under AS 39.30.300 -
 19 39.30.495; the rate of interest shall be adopted on the basis of the probable effective
 20 rate of interest on a long-term basis, and the rate may be changed from time to time;

21 (7) adopt a contribution surcharge as necessary under AS 39.35.160(c);

22 (8) coordinate with the retirement system administrator to have an
 23 annual actuarial valuation of each retirement system prepared to determine system
 24 assets, accrued liabilities, and funding ratios and to certify to the appropriate
 25 budgetary authority of each employer in the system

26 (A) an appropriate contribution rate for normal costs; [AND]

27 (B) an appropriate contribution rate for liquidating [ANY] past
 28 service liability; **and**

29 **(C) an appropriate contribution rate for both normal costs**
 30 **and liquidating past service liability, combined;**

31 (9) review actuarial assumptions prepared and certified by a member

1 of the American Academy of Actuaries and conduct experience analyses of the
 2 retirement systems not less than once every four years, except for health cost
 3 assumptions, which shall be reviewed annually; the results of all actuarial assumptions
 4 prepared under this paragraph shall be reviewed and certified by a second member of
 5 the American Academy of Actuaries before presentation to the board;

6 (10) contract for an independent audit of the state's actuary not less
 7 than once every four years;

8 (11) contract for an independent audit of the state's performance
 9 consultant not less than once every four years;

10 (12) obtain an external performance review to evaluate the investment
 11 policies of each fund entrusted to the board and report the results of the review to the
 12 appropriate fund fiduciary;

13 (13) by the first day of each regular legislative session, report to the
 14 governor, the legislature, and the individual employers participating in the state's
 15 retirement systems on the financial condition of the systems in regard to

16 (A) **the results of the actuarial calculations made under (17)**
 17 **of this subsection** [THE VALUATION OF TRUST FUND ASSETS AND
 18 LIABILITIES];

19 (B) current investment policies adopted by the board;

20 (C) a summary of assets held in trust listed by the categories of
 21 investment;

22 (D) the income and expenditures for the previous fiscal year;

23 (E) the return projections for the next calendar year;

24 (F) one-year, three-year, five-year, and 10-year investment
 25 performance for each of the funds entrusted to the board; and

26 (G) other statistical data necessary for a proper understanding
 27 of the financial status of the systems;

28 (14) submit quarterly updates of the investment performance reports to
 29 the Legislative Budget and Audit Committee;

30 (15) develop an annual operating budget; [AND]

31 (16) administer pension forfeitures required under AS 37.10.310 using

1 the procedures of AS 44.62 (Administrative Procedure Act); **and**

2 **(17) annually calculate, by independent actuarial assessment,**

3 **(A) the value of the assets of the pension reserve fund**

4 **(AS 37.14.900);**

5 **(B) the value of the assets of the Public Employees'**

6 **Retirement System of Alaska;**

7 **(C) the total liabilities of the Public Employees' Retirement**

8 **System of Alaska;**

9 **(D) the ratio of the value of the assets of the Public**

10 **Employees' Retirement System of Alaska to the total liabilities of the**

11 **Public Employees' Retirement System of Alaska;**

12 **(E) the ratio of the value of the assets of the Public**

13 **Employees' Retirement System of Alaska and the value of the assets of the**

14 **pension reserve fund, combined, to the total liabilities of the Public**

15 **Employees' Retirement System of Alaska.**

16 * **Sec. 4.** AS 37.14 is amended by adding new sections to read:

17 **Article 10. Pension Reserve Fund.**

18 **Sec. 37.14.900. Pension reserve fund established.** (a) The pension reserve
19 fund is established in the general fund. The fund consists of money appropriated to the
20 fund. Nothing in AS 37.14.900 - 37.14.950 creates a dedicated fund.

21 (b) Money appropriated to the fund may be transferred as provided in
22 AS 37.14.920 without further appropriation. Money appropriated to the fund does not
23 lapse. The legislature may appropriate to the fund interest earned on money in the
24 fund.

25 **Sec. 37.14.910. Powers and duties of the Alaska Retirement Management**
26 **Board.** The Alaska Retirement Management Board shall manage the fund as required
27 under AS 37.10.210(a), subject to AS 37.14.900 - 37.14.950.

28 **Sec. 37.14.920. Use of fund.** (a) If the actuarial calculation made under
29 AS 37.10.220(a)(17)(D) indicates that the ratio of assets to liabilities in the Public
30 Employees' Retirement System of Alaska is below 50 percent, the board shall transfer
31 from the pension reserve fund (AS 37.14.900) to the Public Employees' Retirement

1 System of Alaska an amount necessary to bring the ratio to 50 percent.

2 (b) If the actuarial calculation made under AS 37.10.220(a)(17)(A) indicates
3 that the assets of the Alaska pension reserve fund (AS 37.14.900) are not sufficient to
4 make the adjustments required under (a) of this section, the board shall

5 (1) transfer the total assets of the fund to the Public Employees'
6 Retirement System of Alaska so as to bring the ratio of assets to liabilities of each
7 system as close to 50 percent as possible; and

8 (2) notify the commissioner of administration of amounts calculated by
9 the board under AS 37.10.220(a)(8).

10 (c) If, based on the actuarial calculations made under AS 37.10.220(a)(17), the
11 board determines that the value of the assets of the Public Employees' Retirement
12 System of Alaska and the pension reserve fund (AS 37.14.900), combined, exceeds 95
13 percent of the total liabilities of the Public Employees' Retirement System of Alaska,
14 the board shall transfer from the pension reserve fund (AS 37.14.900) to the general
15 fund an amount of money equal to the amount by which the combined total value of
16 the assets of the Public Employees' Retirement System of Alaska and the pension
17 reserve fund (AS 37.14.900) exceeds 95 percent of the total of the liabilities of the
18 Public Employees' Retirement System of Alaska, as calculated under
19 AS 37.10.220(a)(17).

20 **Sec. 37.14.950. Definitions.** In AS 37.14.900 - 37.14.950, unless the context
21 otherwise requires,

22 (1) "board" means the Alaska Retirement Management Board;

23 (2) "fund" means the pension reserve fund established in
24 AS 37.14.900.

25 * **Sec. 5.** AS 39.35.255(a) is amended to read:

26 (a) **Subject to (i) of this section, each** [EACH] employer shall contribute to
27 the system every payroll period an amount calculated by applying a rate **certified by**
28 **the board under AS 37.10.220(a)(8)(C) to** [OF 22 PERCENT OF] the greater of the
29 total of all base salaries

30 (1) paid by the employer to employees who are active members of the
31 system, including any adjustments to contributions required by AS 39.35.520; or

1 (2) paid by the employer to employees who were active members of
2 the system during the corresponding payroll period for the fiscal year ending June 30,
3 2008.

4 * **Sec. 6.** AS 39.35.255(d) is amended to read:

5 (d) Notwithstanding (i) [(a)] of this section, the annual employer contribution
6 rate may not be less than the rate sufficient to allow payment of the employer normal
7 cost and the employer contributions required under AS 39.30.370 and AS 39.35.750.

8 * **Sec. 7.** AS 39.35.255 is amended by adding a new subsection to read:

9 (i) Notwithstanding (a) of this section, if the board determines, based on
10 actuarial calculations under AS 37.10.220(a)(17), that the value of the assets of the
11 Public Employees' Retirement System of Alaska and the value of the assets of the
12 pension reserve fund, combined, is equal to or greater than 60 percent of the total of
13 the system's liabilities, the employer contribution amount calculated under (a) of this
14 section may not exceed 22 percent.

15 * **Sec. 8.** AS 39.35.282 is amended to read:

16 **Sec. 39.35.282. Contributions for medical benefits.** Contributions made by
17 an employer under AS 39.35.255 [AND 39.35.280] shall be separately computed for
18 benefits provided by AS 39.35.535 and shall be deposited in the Alaska retiree health
19 care trust established under AS 39.30.097(a).

20 * **Sec. 9.** AS 39.35.280 is repealed.

21 * **Sec. 10.** This Act takes effect June 30, 2012.