

SENATE FINANCE COMMITTEE
February 7, 2025
9:03 a.m.

[9:03:29 AM](#)

CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at 9:03 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Mike Cronk
Senator James Kaufman
Senator Jesse Kiehl
Senator Kelly Merrick

MEMBERS ABSENT

Senator Donny Olson, Co-Chair

ALSO PRESENT

Adam Crum, Commissioner, Department of Revenue; Pam Leary, Director, Treasury Division, Department of Revenue; Zach Hanna, Chief Investment Officer, Treasury Division, Department of Revenue; Senator Robert Yundt; Senator Cathy Giessel.

SUMMARY

PRESENTATION: SAVINGS, RESERVES, and INVESTMENT FUNDS:
DEPARTMENT OF REVENUE

Co-Chair Hoffman reviewed the meeting agenda.

^PRESENTATION: SAVINGS, RESERVES, and INVESTMENT FUNDS:
DEPARTMENT OF REVENUE

[9:05:02 AM](#)

ADAM CRUM, COMMISSIONER, DEPARTMENT OF REVENUE, introduced himself. He noted that the past year was a tremendous year

in investment returns. He said that at FY2024 close, \$9 billion of funds in assorted investment accounts gained \$580 million, with long-term funds gaining more than 13 percent. He said Alaska Retirement and Management Board assets gained \$2.8 billion, grown over \$43 billion, with 9 percent returns, exceeding actuarial expectations.

PAM LEARY, DIRECTOR, TREASURY DIVISION, DEPARTMENT OF REVENUE, provided a PowerPoint presentation titled "Treasury Cash Flow and Investment Fund Update," dated February 7, 2025 (copy on file).

Co-Chair Hoffman recognized Senator Giessel in the room.

[9:06:19 AM](#)

Ms. Leary briefly reviewed slide 2, "Agenda":

- Meet the Treasury Division
- State Cash Management
- Treasury Investment Funds

Ms. Leary turned to slide 4 titled "Department of Revenue - Treasury Division":

The Treasury Division manages over \$50 billion in investments for the State of Alaska.

- The Division is comprised of 40 experienced professionals in portfolio management, accounting, operations, compliance, and cash management. Treasury staff average tenure is over 10 years and includes CFAs, CPAs, CTPs and other advanced degrees and designations.

- Managing multiple funds and state cash flows is complex and requires a deep understanding of the investment management and banking systems integrated into the State accounting system.

- In FY2024, there were 80,000+ trades made on behalf of hundreds of state accounts that roll into 45+ investment funds, utilizing 30 investment pools, supported by 130+ investment managers and 600+ private equity funds.

- Accounting ensures that all trades and costs are directed and accounted for in the correct accounts/funds.

- The Middle Office performs 75+ compliance tests on trades daily and calculates daily performance for over 45 funds.
- Cash Management processes roughly 100,000 transactions annually for departments to realize revenue and expenditures in the accounting system. There are over \$15 billion in cash inflows and cash outflows annually.
- It takes a unique set of skills to manage complex systems with strong results.

Portfolio Management

- Invests assets for State fiduciaries including the ARMB
- Assists fiduciaries with asset allocation and investment policy
- Implements investment policies and produces results

Accounting and Operations

- Asset accounting
- Information technology
- Operations support

Compliance/Middle Office

- Performance reporting and operational efficiency
- Ensures investments meet policies
- Industry compliance and regulations

Cash Management

- Oversees cash receipts & expenditures
- Sets daily cash availability
- Coordinates with portfolio to maximize invested cash

[9:09:39 AM](#)

Ms. Leary moved to slide 6, "Managing Alaska's Cash Flows"

Inflows

- Tax Revenues - Oil and Gas, Excise, Other
- Federal Dollars - Grants, Medicaid, FHWA, Education
- Earnings Reserve Funds
- Agency Receipts - Fees, Licenses, Permits

Outflows

- School Education Payments
- Payroll and Pension Payments
- Vendor Payments

- Medicaid Payments
- Dividend Payments
- Grant Payments
- Debt/Credit Payments

Treasury's Cash Management group is experienced in working with the State's reserves to ensure there is sufficient cash to meet the State's needs:

- Alaska has significant reserves. According to the Pew Trust, Alaska's 2024 reserve fund provided 176 days of coverage of our operating budget, the second highest of all 50 states.
- Uncertainty exists for both revenues and expenditures.
- Cash flow timing mismatches occur, even with balanced budgets.
- Revenue shortfalls may occur if forecasted assumptions are wrong and require sufficient reserves and appropriations.

[9:11:09 AM](#)

Co-Chair Hoffman recognized Senator Robert Yundt in the audience.

Co-Chair Stedman recognized that the CBR account was one of the largest in the nation. He countered that the state had one of the most volatile revenue streams, as it depended on the price of oil versus taxes such as sales, income, and property.

Ms. Leary replied that oil volatility was one of the reasons the Pew Trust recommended larger rainy-day funds.

Ms. Leary turned to slide 7, "Revenue Uncertainty, Expenditure Uncertainty":

Revenue Uncertainty

- Commodity Volatility
 - Petroleum revenues are projected to be 30 percent of FY2025 unrestricted General Fund revenues.
 - Uncertainty exists "in-year" for FY2025 and beyond.
 - Will always have in-year uncertainty because the budget is based on in-year oil collections.
- Investment Return Volatility

- Investment earnings are projected to be ~60 percent of FY2025 unrestricted General Fund revenues.
- Certainty exists today for FY2025 and FY2026 due to a lagging Percent of Market Value (POMV) formula.
- Uncertainty exists for FY2027 and beyond.

Expenditure Uncertainty

- Expenditures can occur prior to receipt of revenue, resulting in cash flow timing mismatches:
 - Federal programs require expenditures before reimbursement
 - i.e., Medicaid, Transportation, etc.
 - Beginning of year appropriation transfers do not match incoming revenue
 - i.e., State pension payments, transfers to subfunds for programs.
 - Seasonal cash flow needs
 - i.e., Summer is the peak season for construction projects and seasonal workers.

[9:13:22 AM](#)

Ms. Leary moved to slide 8:

Cash Flow Deficiencies

- Prior to 1985, most unrestricted revenues flowed into and stayed in the General Fund for expenditure. Over time, many subfunds were established, resulting in less cash available to pay day-to-day operating costs.
- Cash Flow Deficiencies are common and can be managed by:
 - Managing the timing of receipts and expenditures.
 - Borrowing from Budget Reserves, the Earnings Reserve Account (ERA) or other funds.

Revenue Shortfalls

- A revenue shortfall differs from a cash flow timing deficiency. A revenue shortfall occurs when revenue is insufficient to cover General Fund appropriations in any given fiscal year.
- The legislature includes language annually in the operating budget appropriating budget reserve funds for revenue shortfalls.
- The Constitutional Budget Reserve fund (CBRF) has been used to cover revenue shortfalls historically.

Cash Deficiency Memorandum of Understanding

- Developed in 1994 between DOR, DOA, OMB and LAW.
- Updated as needed.
- Targets \$400 million minimum cash threshold in the General Fund proper.
- Outlines procedures for addressing cash flow timing mismatches:
 - Develop monthly cash projections.
 - Monitor daily General Fund cash balances. Update forecasts based on new cash flows.
 - Execute appropriated transfers from ERA, CBRF, or others.
 - Perform temporary fund borrowing (CBRF, ERA, subfunds) to be repaid by fiscal year end.
 - In the event of forecasted revenue shortfall:
 - Seek legislative action through the Governor to access additional funds through appropriation from other Reserve Funds.
 - Prioritize disbursements, restrict expenditures.

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Co-Chair Stedman asked for clarification related to the acronyms. He asked about the length of the borrowing period when needing to cover shortfalls with cash.

Ms. Leary replied that the Constitutional Budget Reserve (CBR) required a three-quarter vote to access the money. She shared that recently there had been deficits and funds had been taken from the CBR to fill shortfalls. She stated it was called "borrowing" because the state must repay the amount borrowed. The current amount owed was around \$10 billion to \$11 billion.

Co-Chair Stedman asked about the length of the borrowing timeframe.

Ms. Leary addressed the Earnings Reserve Account (ERA) as it was the state's primary tool for addressing cash deficits. She relayed that the state had borrowed from the CBR only once in the last 5 years, which lasted approximately one month.

Co-Chair Stedman understood that if funds were borrowed from the CBR, it would be for a brief period, until revenues caught up to expenditures. He surmised that the

funds would be paid back so that debt did not accumulate throughout the year.

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Commissioner Crum replied in the affirmative. He said that the intent on the short-term cash borrowing from the CBR was to fully repay the debt by the end of the fiscal year. He stated that in the event of a structural deficit, the department would work with the legislature for legislative action on the matter.

[9:19:43 AM](#)

Ms. Leary looked at slide 9, "Cash Management in Action":

- Cash Management works with all departments of the State to ensure cash is reconciled and reported.
- Staff analyzes outstanding payments, incoming funds, cash in suspense and other changes daily to update the General Fund cash balance forecast.
- Cash is managed as close to the minimum threshold to maximize investments of the ERA.
 - When deficits are anticipated, funds have been initially drawn from the CBRF rather than the ERA.
 - The number of ERA draws during a year has increased over time to provide greater flexibility.
 - ERA draw schedules have changed on average 2 times per year due to changes in the amount or timing of revenue forecasts, planned expenditures and potential federal shutdowns.
 - In the last 10 years the cash sufficiency balance has gone below the \$400 million threshold on average 10 days per year.

Ms. Leary explained that the chart on the right of the slide showed forecasted and actual cash for the first half of the current fiscal year. She said that the chart was updated daily after the cash management team worked with department to analyze all anticipated payments and incoming revenue, as well as any changes expected to the forecasted numbers.

[9:21:23 AM](#)

Commissioner Crum clarified that the department worked against the appropriated limit of the POMV, set by the legislature, to make sure that cashflow were maximized.

[9:22:03 AM](#)

Ms. Leary pointed out that, to date, \$2.5 billion of the \$3.6 billion POMV equivalent, had been drawn. She said that the state had four more draws to take the remaining transfer balance.

[9:22:30 AM](#)

Co-Chair Hoffman wondered how that would work when there was an anticipated deficit in the current year.

[9:22:45 AM](#)

Ms. Leary replied that it had yet to be determined which order of accounts the draw would be taken from. Historically, when the state had deficits in the budget the funds had come from the CBR first, but not always. She stated that the order would be determined in real time.

[9:23:05 AM](#)

Co-Chair Hoffman asked what would occur if the legislature did not take action to fill the deficit for FY2025.

[9:23:15 AM](#)

Ms. Leary replied that the deficit was scheduled to come out of the CBR.

[9:23:25 AM](#)

Co-Chair Hoffman understood that the draw was scheduled, but the amount of \$200 million had not been approved by the legislature with the three-quarter vote.

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Ms. Leary replied that once the legislature finished its work on the budget the department would be able to see whether it had the appropriations to borrow from the CBR on a temporary basis.

[9:24:03 AM](#)

Co-Chair Stedman asked what happened if the three-quarter vote failed.

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Commissioner Crum replied that he hoped the vote did not fail. He said that the department's spring forecast looked promising that the gap could be filled. He thought that if the issue was pending throughout the rest of the session, OMB and the governor's office would need to come up with a structural plan. He asserted that he could only help to manage the cash that was available.

[9:25:38 AM](#)

Co-Chair Stedman asked about the term "impoundment". He asked what tools the administration had under the Impoundment Clause to move forward.

[9:26:06 AM](#)

Commissioner Crum replied that he did not know what tools were available. He offered to get back to the committee.

Co-Chair Hoffman asked if Ms. Leary had anything to add.

[9:26:22 AM](#)

Ms. Leary replied that she did not.

[9:26:27 AM](#)

Co-Chair Stedman understood that the testifiers might not be comfortable answering the question. He appreciated the commissioner getting back to the committee on the Impoundment Clause.

[9:27:02 AM](#)

Ms. Leary finished discussing slide 9:

- Cash Management projects and transfers funds to maximize the amount that is invested by Treasury portfolio staff.

ZACH HANNA, CHIEF INVESTMENT OFFICER, TREASURY DIVISION, DEPARTMENT OF REVENUE, introduced himself. He addressed slide 11, "Treasury Investment Process":

- Treasury manages assets across the risk spectrum from low-risk cash-equivalent investments through higher risk endowment and retirement funds for several state fiduciaries including the Alaska Retirement Management Board (ARMB) and the Commissioner of Revenue.
- Setting investment policies and asset allocations are key fiduciary duties for these funds. Treasury staff makes recommendations on the investment policy and asset allocation of each fund in a transparent and documented process to multiple State boards and through a quarterly State Investment Review process with an independent investment advisory committee.
- Each investment program is designed to balance fund investment objectives, risk tolerance, and other attributes including capacity for loss or volatility over short, medium, and longer time horizons.
- The investment process uses independent capital market forecasts to arrive at asset allocations and return and risk expectations.
- For underlying investments, Treasury uses a combination of low-cost internal asset management and specialized external asset managers for each asset class.

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Mr. Hanna pointed to slide 12, "Recent Capital Market Performance":

- U.S. equities have delivered strong cumulative performance over the past six years, with positive returns in every year except 2022.
- In 2022, the Federal Reserve sharply increased interest rates to combat inflation, which led to poor performance in both equities and fixed-income investments.
- Throughout this period, capital markets have been heavily influenced by concerns about inflation, interest rates, and economic growth.
- Inflation moderated in 2024, and the Federal Reserve started cutting interest rates, easing the pressure on economic growth.

- Equity markets have recovered strongly, and both cash and fixed income now benefit from higher yields.
- For 2024, performance was positive across most asset classes.

[9:29:56 AM](#)

Co-Chair Stedman looked at page 11 and requested a definition of GeFONSI. He asked about the Illinois Creek Mine Fund.

[9:30:26 AM](#)

Ms. Leary replied GeFONSI was the general fund and other non-segregated funds. She said there were about 185 different funds, the largest of which was the state's general fund. She said that the Illinois Creek Mine fund had been created after the bankruptcy of the company that had been working on the mine. She said the money was held to fund any kind of reclamation work that might need to be done in the future. She stated that there were parties interested in some of the claims in that area.

[9:31:36 AM](#)

Co-Chair Hoffman noted that in the past the department had been investing the Power Cost equalization Fund (PCE) but that the legislature that moved the fund over to the Alaska Permanent Fund Corporation, which was why the PCE was no longer listed as a treasury investment fund.

[9:32:02 AM](#)

Mr. Hanna highlighted slide 13, "Treasury Asset Class Performance":

- State funds invest in commingled asset class investments managed by Treasury staff and external managers.
- These asset class investments are used in different proportions to meet fund investment policies.
- State asset class performance for calendar year 2024 was strong across asset classes.
- Most asset classes also exceeded benchmark performance for the year and longer time periods adding additional value.

[9:34:05 AM](#)

Co-Chair Stedman felt that the committee spend significant time solving problems and rarely celebrated successes. He commented that the treasury department should be proud of the recent capital market performance.

[9:34:49 AM](#)

Commissioner Crum thought that it was important to recognize that excess returns above benchmark was tremendous.

[9:35:51 AM](#)

Ms. Leary discussed slide 15, "Constitutional Budget Reserve Fund (CBRF)":

Invested Asset History

- In 1990, voters of Alaska adopted an amendment to the constitution creating the CBRF.
- The CBRF has been used to fund temporary cash flow expense/revenue mismatches and to cover budget revenue shortfalls through appropriation. Appropriations from the CBRF must be repaid.
- In 2000, the legislature created a subaccount in the CBRF to be used for funds that will not be needed for at least five years.

Ms. Leary noted that the CBR was represented in blue on the graph. The orange area showed the amounts of the sub-account of the CBR.

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Co-Chair Stedman queried the peak amount of the savings and the current savings.

[9:38:03 AM](#)

Ms. Leary replied that in 2014 there was \$17.6 billion in all three of the reserve funds. That total was currently \$2.8 billion.

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Co-Chair Stedman reminded the public that the legislature had built up significant savings prior to 2014. The savings had declined rapidly since 2014, and it was the work of the legislature to rebuild the state's savings account for future generations.

[9:38:59 AM](#)

Mr. Hanna addressed slide 16, "Constitutional Budget Reserve Fund (CBRF)." He noted that the fund had a potentially short time horizon and needed principal protection and high liquidity, since it was the state's key emergency reserve fund. He stated that the balance had been stable at \$3 billion over the previous two years but had been drawn down to \$1 billion the prior three years through the pandemic. He related that the fund was currently invested 100 percent in cash equivalents, which was not typical, and was originally de-risked due to the pandemic draw downs. He furthered that exiting the period, staff had intentionally left the funds position in shorter maturity investments due to the combination of high yield and low risk when compared to longer maturities. He stated that the position had created returns over the past three years since cash equivalents had outperformed core bonds by 600 basis points. Over the longer term the CBR account had typically had considerably longer bond exposure, and at times equity exposure. He said 2024 was a good year for the CBR, despite the modest decrease in short-term interest rates in the second half of the year. The one-year performance was 5.59 percent, in excess of the benchmark by 34 basis points, which resulted in \$150 million in gains for the CBR in 2024.

[9:40:47 AM](#)

Ms. Leary highlighted slide 17, "General Fund and Other Non-Segregated Investments (GeFONSI) Invested Asset History":

- GeFONSI includes the General Fund and Other Non segregated funds invested in a pooled environment (GF proper carries a minimum balance of \$400 million to pay the bills).
- GeFONSI II was created in 2018 to target a higher risk return profile for a subset of funds.

Ms. Leary reiterated that the general fund was the main account of the state where all cash flows came into, and out of, and where a minimum floor of \$400 million was kept. There were 185 other accounts and funds that had assets in the two GeFONSI accounts that were managed together but accounted for separately. The first GeFONSI was created in 1992, as a way to pool accounts for investments. The second account was created in 2018, to target a higher risk return for a subset of those funds. As of June 30, 2024, there was \$3.7 billion in the funds combined. She noted the appendix on slide 27, that listed the top 30 funds that rolled into both funds, with balances as of December 31, 2024. The general fund proper was the largest of the funds at approximately \$1 billion.

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Co-Chair Stedman cited slide 27, which showed the SBR at \$224,974,246. He asked whether the legislature could spend that money in the current year's budget.

[9:42:10 AM](#)

Ms. Leary replied that there were cash balances in the SBR that were earmarked to be spent and used for FY2024 expenses. Typically, at the end of any fiscal year the division went through all the accounting records and would move the remaining fund balances to where it was supposed to be used for the year. She said that she reported on the actual cash balances, whereas the budget and comprehensive financial statements at the end of the year were based on an accrual method.

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Co-Chair Stedman shared that, due to the confusion of the definitional process mentioned by Ms. Leary, there had been talk amongst the legislators that the SBR was unencumbered cash that could be put in the upcoming budget. He pointed out that many of the funds were not liquid and were encumbered. He felt that unencumbered balances should be sought.

[9:43:58 AM](#)

Mr. Hanna displayed slide 18, "General Fund and Other Non-Segregated Investments (GeFONSI I and II)." He said that

both funds had a short-term investment horizon with a relatively high need for principal and income protection. He relayed that GeFONSI I was 85 percent cash equivalents and 15 percent short-term bonds. GeFONSI II was a modestly higher risk posture with 61 percent cash equivalents, 33 percent short-term bonds, and 6 percent equities. He said that like the CBR, these bonds had fewer long-term bonds than they have had historically, which was intentional and had paid off. Both funds had performed well, both over 35 basis points in excess of their benchmarks. He announced that over all the total performance resulted in \$180 million in gains during 2024 for the GeFONSI collection.

[9:45:36 AM](#)

Ms. Leary pointed to slide 19, "Alaska Higher Education Investment Fund (AHEIF)

Invested Asset History":

- On September 1, 2012, the AHEIF was capitalized with a \$400 million deposit from receipts of the Alaska Housing Capital Corporation for use in paying Alaska Performance Scholarship Awards and Alaska Advantage Education Grants.

Ms. Leary said that up to 7 percent of the fund could be appropriated for scholarships; two-thirds went to the Alaska Performance Scholarship and one-third went to the Alaska Advantage Education Grants. She stated the HB322 established the Higher education Fund as a separate fund as of June 30, 2022, and HB 148 passed in the last session and increased the amounts of the scholarships and grants.

Mr. Hanna discussed slide 20, "Alaska Higher Education Investment Fund (AHEIF)." He explained that the subsequent slides discussed funds that had a long-time horizon and a high ability to bear risk. He said that a high-risk profile was used with AHEIF to work to achieve the funds spending objective of up to 7 percent of the previous year's balance. The risk profile was set at the risk equivalent of 70 percent equities, 30 percent bonds. The performance of the fund over the past year was 24 basis points in excess of the benchmark, resulting in \$44 million in gains. He added that the 10-year performance had been 7.26 percent through a very volatile period.

[9:46:50 AM](#)

Senator Kiehl asked if the expected 10-year return was above 7 percent, and the target was to spend up to 7 percent per year, what would happen to the fund over the long term.

[9:47:09 AM](#)

Mr. Hanna responded that risk was not chosen with the fund, there was a set asset allocation of 70 percent equities, 30 percent bonds, and as capital market expectation changes over the time the expected return would go up and down overtime. He said that ebb and flow, overtime, would be experienced. He thought that the expectation was reasonable that over the long-term the nominal return would be in excess of 7 percent. He related that if the return was not, and the legislature decided to spend at exactly 7 percent overtime, the principal would be eroded.

Senator Kiehl echoed that the nominal return was 7 percent. He asked what would happen to the buying power of the fund over the 10 years.

Mr. Hanna replied that if the legislature decided to spend at exactly 7 percent, and returns were at exactly 7 percent, with inflation above zero, the expectation was that the spending pattern would erode into the real value of the fund overtime.

[9:49:19 AM](#)

Senator Kiehl thought that the matter was a long-term problem that would need to be addressed by the legislature.

[9:49:38 AM](#)

Commissioner Crum interjected that the real rate of return would be the expected return, minus the inflation at 2.5 percent. The real rate of return overtime was 5.7. The total value of the fund would decrease overtime. He said that future conversation on the matter were expected.

[9:50:19 AM](#)

Co-Chair Stedman felt that that expected discussion on the permanent fund might include AHEIF in comparison with the

Alaska Mental Health Trust fund, which drew out 4.25. He thought looking at the funds side by side would be illuminating in trying to protect the purchasing power of the funds going forward.

[9:50:58 AM](#)

Co-Chair Hoffman remarked that conversations had occurred about collapsing all the funds into one fund. He wondered whether the administration had been considering such a plan.

[9:51:19 AM](#)

Commissioner Crum replied that it was not a consideration.

[9:51:27 AM](#)

Co-Chair Hoffman wondered why there was no consideration.

[9:51:36 AM](#)

Commissioner Crum replied that there were other priorities for the administration during this legislative cycle.

[9:51:49 AM](#)

Co-Chair Hoffman asked whether the administration would support the concept.

Commissioner Crum responded that any proposal would have to be vetted internally.

[9:52:11 AM](#)

Co-Chair Hoffman mused that it could be time for the legislature to put forth a proposal.

[9:52:38 AM](#)

Ms. Leary addressed slide 21, "Public School Trust Fund (PSTF) Invested Asset History":

- The PSTF was established in 1978, replacing the territorial era public school land grant originally created by congress in 1915, by a transfer of the balance from the permanent school trust.

- Following passage of HB 213 in 2018, the fund is now managed as one fund, under a percentage of market value method (five percent of the average market value for the five years preceding the last previous fiscal year).

Ms. Leary stated that the fund ended FY2024 with \$834 million. The fund was established in 1978 and was funded by one-half of 1 percent of state receipts from the management of state lands. The fund was used to provide an offset to the K-12 formula funding for education. The fund contributed \$32 million for FY2024 and was expected to contribute \$35 billion in FY 2025 and FY 2026.

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Mr. Hanna pointed to slide 22, "Public School Trust Fund (PSTF)." He explained that the treasury worked to inflation proof the fund overtime through a combination of investment policy and spending recommendations. The recommendation the previous year had been to spend at 4.8 percent; the recommendation fluctuated. Performance of the fund for 2024 was 24 basis points in excess of the benchmark, which resulted in \$88 million in gains and brought the fund back to peak assets. The 10-year performance for the fund was 6.98 percent.

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Ms. Leary addressed slide 23, "Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) - Pension and Health Defined Benefit Plans Invested Asset History":

- The Alaska Retirement Management Board (ARMB) is a nine-person board and fiduciary of the State's pension and health systems.
- The defined benefit plans currently experiences net outflows from the funds.
- The 40-year average return for PERS/TRS was 8.96 percent compared with the actuarial assumed return of 8.19 percent.

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Senator Kiehl noted that previous testifiers had noted a different long-term average. He wondered whether there was

a difference in how DOR calculated the average or had the previous testifier used a different time period.

[9:56:31 AM](#)

Mr. Hanna could not comment on the previous testifier's numbers. He said that there should be no difference in the numbers. He thought the difference was most likely due to looking at a different time period.

[9:57:32 AM](#)

Mr. Hanna highlighted slide 24, "Defined Benefit: Public Employees Retirement System and Teachers Retirement Systems." He said that the systems represented 83 percent of treasury assets under management. The systems had complex asset allocation since they were long-term funds with a long-term fiduciary board. They had meaningful allocations to less liquid alternative investments. He said that the current asset allocation was 43 percent public equities, 23 percent fixed income, and 34 percent alternative investments. He relayed those recent returns had been strong. He related that the 10-year returns through September 30th was 7.91 percent, 41 basis points over the benchmark. Overall, excess returns had resulted in over \$2 billion in additional value in the systems over the past 10 years. He said that performance was in the top 3 of returns when compared with peers. He said that part of the excess returns could be contributed to the ARM board's intentional low-cost approach that emphasized internal management.

[9:59:14 AM](#)

Co-Chair Hoffman commented that those individuals who had the defined contribution package should feel comfortable with the presentation.

[9:59:30 AM](#)

Mr. Hanna spoke to slide 25, "Treasury Investment Result Summary":

- Treasury Investment performance has been strong:
 - Overall performance across all Treasury investments resulted in \$4.5 billion in total

gains and a 9.1 percent overall return for CY2024.

- Performance for state funds resulted in total gains of \$575 million. Overall state fund performance of 6.8 percent was strong for lower risk funds and exceeded benchmarks.

- The ARMB's performance for the State's defined benefit retirement systems has been in the top-third of peer public pension performance and has exceeded benchmarks materially. This has resulted in \$2 billion in excess returns over the past 10 years, ahead of most peer public pensions. Total nominal gains for 2024 were \$2.7 billion.

▪ Treasury uses low-cost investment management where appropriate and over half of investments are managed internally by staff:

- For FY2024, internal investing resulted in investment management fee savings of \$30 million and excess returns of \$137 million.

- Treasury's cost structure is materially lower than peers. FY2024 fees for the defined benefit retirement systems were 41 bps compared with a median of 56 bps for large plans - a difference of over \$40 million per year.

▪ The Treasury Division's work is mission critical, and the benefits provided in the form of excess returns, external cost savings, and error prevention are significant.

[10:00:12 AM](#)

Commissioner Crum thanked the committee and agreed to follow up on the requests from members.

Co-Chair Hoffman discussed the following week's schedule.

#

ADJOURNMENT

[10:01:28 AM](#)

The meeting was adjourned at 10:01 a.m.