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To: The members of the Senate State Affairs Committee, the Honorable Pat Rodey, Chair

From: Terry Elder, Secretary-Treasurer  
Alaska State Employees Association

Date: January 28, 1991

Re: SB 18

Mr. Chairman, and members of the committee, thank you for the opportunity to speak with you today to share with you the position of the Alaska State Employees Association on investment management legislation.

By way of introduction, I am the secretary-treasurer of ASEA. I am a ten-year state employee, have a Ph.D. in economics, and work as an economist for the department of labor. I also have a background in investment management. I have about 12 years of experience in the investment business with major money managers in Chicago, mostly managing employee benefit portfolios. I have an M.B.A. in finance, am a Chartered Financial Analyst, and periodically teach financial management at the University of Alaska. So I speak to you both as a representative of ASEA and as a person with some expertise in investment issues.

ASEA appreciates the concern and the hard work of the legislature on this issue, last session, during the interim, and now at the beginning of a new session. This is an issue that is a vital concern to our members, and also to you. We are all members of one of these retirement systems, and we all have an interest in improving their management.

We appreciate also the past and continuing willingness of many legislators to work with us in a cooperative and positive manner on this issue. We recognize that the current version of SB 18 already reflects some of our input during the past year. We thank you for that.

In reviewing SB 18, however, we find that we have a serious concern which we believe the legislation should address. Our concern is that SB 18 does not include the Supplemental Benefits System fund. This is the fund with the most serious and immediate management problem. This is the fund which the administration calls a defined contribution fund, which implies that losses could be charged directly to member balances. Yet, this is also the fund which has been managed by the department of administration and now is managed by the PERS Board, neither of which has any representation of SBS members.

Our position is that SBS is a retirement plan, just as surely as are the Teachers Retirement System and the Public Employees Retirement System. In Senator Pourchot's letter on this legislation, mailed during the interim, called SBS a "program established to replace the state's participation in the federal social security system." This is true. It is absolutely a retirement plan, just as much as individual retirement accounts are. The only difference is that the program is not voluntary. Many employers allow employees the option to withdraw their contributions to retirement funds on termination. This option does not make these funds savings plans.

Therefore, SBS is a retirement fund. It should be managed professionally, and it should be managed by the board which has oversight of other retirement funds. We hope that you will agree, and, in a committee substitute, will transfer the responsibility of SBS from the department of administration to the Alaska State Pension Corporation, created by SB 18.

If you do that, we would suggest you also deal with the question of participant representation. You could do that in one of two ways:

If you were willing to increase the number of trustees from seven to eight, you could add to Section 2 (b) a fourth trustee to be elected by members of SBS. This trustee should be active, since 85% of SBS members are, but that is not as critical as it is simply to have representation. This trustee should be elected by SBS members. This would be our preferred solution, since we believe an even division of the board between employer and employee representatives would be fair.

If you want to keep the number of trustees at seven, you could change the second sentence of Section 2 (b) to read: ONE OF THE ELECTED TRUSTEES MUST BE AN ACTIVE MEMBER OF ONE OF THE RETIREMENT SYSTEMS, ONE MUST BE RECEIVING A BENEFIT FROM ONE OF THE RETIREMENT SYSTEMS, AND ONE [MAY] MUST BE EITHER AN ACTIVE MEMBER OR RECEIVING A BENEFIT FROM [ONE OF THE RETIREMENT SYSTEMS] THE SUPPLEMENTAL BENEFITS SYSTEM.

We note that the other two participant representatives may not be members of SBS. They could both be members of TRS. Why should SBS members specifically be given representation?

1. Since SBS is a defined contribution plan, this is the only fund in which the participants' balances may be affected adversely by decisions of the managers.
2. The PERS Board, which currently is responsible for SBS, contains only two elected members, both are retired, and neither is a member of SBS. In contrast, 85% of SBS members are active.

If the legislature includes SBS in SB 18, and provides for SBS participant representation, we could endorse SB 18 enthusiastically. While we appreciate, sympathize and support the objectives of ~~SBS~~<sup>SB 18</sup> as it is currently presented, we believe the SBS situation is so serious that our full support of SB 18 depends on the inclusion of SBS.

Re: SB 10

We note that SB 10 does include SBS (see Section 22). In that respect, we like SB 10. It also has appeal to some, we are sure, in that it seeks to ensure professional management of all types of investment funds with which the state must deal. That is a goal with which we sympathize.

We do not believe, however, that it is a preferred approach to SB 18. We like SB 18 because it focuses on employee benefit funds, and creates a board which includes participant and employer representatives. By mixing the types of funds with which the State Investment Board would deal, the board structure becomes confused.

In dealing with employee benefit plans, there is no reason to have representation for anyone who is not an employee or an employer. Specifically, there is no reason to have general public membership. The employers generally represent the public.

We appreciate the willingness of the sponsor of SB 10 to change the board structure to provide for better employee representation. There is no point in changing its structure, however, since employees do not need to tell the state how to manage funds like the general fund any more than employees need public members telling anybody how to invest their SBS funds. The difference is that employees own the assets of SBS, and, as a minimum, own the benefits provided by the assets of retirement funds. Employees do not own the general fund.

We would suggest that the committee use SB 18, with the changes outlined above, to deal with employee benefit funds. Separately, if so desired, the legislature could

establish a State Investment Board to manage strictly state assets. If they are only state assets, and do not impact employees, there is little reason to include employee representatives on such a board.

Before concluding, I would like to make a couple of comments generally about the situation concerning SBS. Your legislation deals only with the investment management. We support your objectives. However, we would also point out that it has been over a year since the department of administration has been able to give you, me, or my Union's members an accounting of their SBS balances. Frankly, the investment management and the administrative management of the department of administration has been a disgrace. If you do not want to deal with that through legislation, I urge you to do it through the budget review process.

Also, I want to point out that the department, with the agreement of the PERS board, is proceeding with the development of an RFP for investment management services for SBS. They also seek to develop an investment strategy for the fund. If they insist on going forward with this, we hope they will work with participant representatives, since participants will probably pay for what the department does. However, we hope that the legislature's actions to include SBS in the management structure of a State Pension Corporation will convince the PERS board and the department of administration to not do anything which locks us in to something that the new managers may want to change. They should do all things necessary to protect the assets, but, given their track record of contracting for investment services, we are not anxious for them to do much else.

Thank you.

SENATE BILL NO. / SB-18

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - FIRST SESSION

BY SENATOR POURCHOT

Introduced:  
Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act establishing the Alaska State Pension Corporation; relating to management and  
2 investment of state pension funds and other state funds; and providing for an effective  
3 date."

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

5 \* Section 1. FINDINGS. The legislature finds that after the Alaska State Pension Corporation has  
6 been established and begun to manage the state pension funds, the state should develop a comprehensive  
7 retirement organization. This organization should integrate the investment of pension funds with  
8 retirement benefit administration responsibilities for all state related retirement systems, including the  
9 Elected Public Officers Retirement System (former AS 39.37). Retirement benefit administration  
10 responsibilities should be integrated into the corporation within two years after enactment of this  
11 legislation.

*Findings:  
Integrate  
administration  
duties with  
investment  
duties  
within  
2 years.*

12 \* Sec. 2. AS 37.10 is amended by adding new sections to read:

13 ARTICLE 5. ALASKA STATE PENSION CORPORATION.

14 Sec. 37.10.210. ALASKA STATE PENSION CORPORATION. (a) There is established

*- Public Funds*

1 establishes  
2 corporation  
3

the Alaska State Pension Corporation. The corporation is a public corporation in the Department of Revenue managed by a board of trustees. The purpose of the corporation is to provide professional management and investment of state pension funds and of other state funds upon agreement with the managers of those funds.

5  
6 7 Trustees

(b) The board consists of seven trustees. Three of the trustees shall be elected by the members of the retirement systems. Nominations may be made by the teachers' retirement board, the public employees' retirement board, or by petition signed by at least 10 persons eligible to vote in the election. One of the elected trustees must be an active member of one of the retirement systems, one must be receiving a benefit from one of the retirement systems, and one

8 3 elected  
9

may be either an active member or receiving a benefit from one of the retirement systems. The governor shall appoint two trustees from a list of nominees submitted by employers in the retirement systems. The governor shall appoint one additional trustee from a list of nominees submitted by the other six trustees. The commissioner of revenue serves as a trustee.

11 2 governor  
12 appointed  
13 employers

14 1 governor  
15 appointed,  
16 board nominees  
17 comm. of Revenue

(c) The appointed and elected trustees shall serve for staggered terms of four years and may be reappointed or reelected to the board.

16 4 year terms

(d) The governor may remove an elected or appointed trustee for just cause, including failure to comply with AS 37.10.230, by written notice to the trustee. After a trustee receives written notice of removal from the governor, the trustee may not participate in board business and may not be counted for purposes of establishing a quorum.

18 Removal

(e) A vacancy on the board of trustees shall be promptly filled in the same manner as the seat was originally filled. A person filling a vacancy holds office for the balance of the unexpired term of the person's predecessor. A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board.

22 Vacancy

(f) The board of trustees shall annually elect a chair from among its members.

25 Chair

(g) Four trustees constitute a quorum for the transaction of business and the exercise of the powers and duties of the board.

26 Quorum

(h) A trustee may not designate another person to serve on the board in the absence of the trustee.

28 No Designees

(i) Trustees shall participate in financial education training.

29 Financial Training

31 Sec. 37.10.220. POWERS AND DUTIES OF THE BOARD. (a) The board shall

BOARD POWERS AND DUTIES

- 1 *meetings* (1) hold regular and special meetings at the call of the chair or of at least four
- 2 members;
- 3 *investment* (2) establish investment policies for the funds for which it is responsible after
- 4 *policy* reviewing recommendations from the investment advisory council;
- 5 *reports* (3) submit long-range and quarterly investment reports to the Legislative Budget
- 6 *to L.B. & A.* and Audit Committee;
- 7 *reports* (4) report to the governor, the legislature, and employers participating in the
- 8 *to gov, leg,* retirement systems by the first day of each regular legislative session concerning the investment
- 9 *employers* of funds for which the corporation is responsible including financial and investment policies
- 10 established by the board and enclose a summary of the most recent performance evaluations of
- 11 the funds managed by the corporation;
- 12 *Performance* (5) contract with external performance evaluators to review the performance of
- 13 *Evaluation* each fund for which the corporation is responsible and report each year on the fund's condition
- 14 to the board of trustees and to the other appropriate boards; *(i.e. PERS, TRS)*
- 15 *Audit* (6) engage independent certified public accountants to prepare an annual audit of
- 16 each of the funds for which the corporation is responsible and to report to the board with the
- 17 results of the audit.

(b) The board may

- 18
- 19 *outside* (1) employ outside investment advisors to review investment policies and make
- 20 *advisors* recommendations to the board;
- 21 *legal* (2) employ legal counsel;
- 22 *counsel*
- 23 *other state* (3) enter into an agreement with the manager of another state fund to assume
- 24 *funds* fiduciary, administrative, or management responsibilities for investing the other state fund;
- 25 *actuarial* (4) provide for actuarial valuations of the retirement systems and other entities
- 26 *valuations* whose funds the board manages;
- 27 *necessary* (5) do all acts necessary, convenient, or desirable to carry out the powers
- 28 *acts* expressly granted or necessarily implied in this chapter.

28 *CONFLICT OF* Sec. 37.10.230. CONFLICTS OF INTEREST. (a) Trustees, the executive director,

29 *INTEREST:* investment officers, and other fiduciaries who are employees of the corporation are subject to the

30 *Fiduciaries* provisions of AS 39.50. The board may designate other employees who are also subject to the

31 *other* provisions of AS 39.50.

32 *designated*

33 *employees*

1 Conflict of interest;

3 Disclose

6 regulations to restrict

9 Termination for failure to comply

11 Exempt from APAct must comply with

12 open meetings

14 \$150. Honorarium

19 Per diem travel

21 Executive Director

25 employees

27 Ethics Act and regulations

31 Bonding

(b) If a trustee, officer, or employee of the corporation acquires, owns, or controls an interest, direct or indirect, in an entity or project in which assets under the control of the corporation are invested, the trustee, officer, or employee shall immediately disclose the interest to the board. The disclosure is a matter of public record and shall be included in the minutes of the board meeting next following the disclosure. The board shall adopt regulations to restrict trustees, officers, and employees from having a substantial interest in an entity or project in which assets under the control of the corporation are invested.

(c) Failure to comply with the requirements of this section or regulations enacted under it is grounds for termination of employment.

Sec. 37.10.240. REGULATIONS. The board may adopt regulations under the Administrative Procedure Act (AS 44.62) to implement AS 37.10.210 - 37.10.390.

Sec. 37.10.250. COMPENSATION OF TRUSTEES. Trustees, other than trustees who are employees of the state or a political subdivision of the state, receive an honorarium of \$150 for each day spent at a meeting of the board or at a meeting of a subcommittee of the board or at a public meeting as a representative of the board. Trustees who are state employees are entitled to administrative leave for service as a trustee. Trustees who are employees of a political subdivision of the state are entitled to leave benefits provided by their employers comparable to those provided to state employees for service as a trustee. Trustees are entitled to per diem and travel expenses authorized for boards and commissions under AS 39.20.180.

Sec. 37.10.260. STAFF. (a) The board shall employ an executive director. The executive director must be qualified by training and experience to manage, administer, and direct the investment of funds. The board shall fix the compensation of the executive director and other employees. The executive, administrative, and investment functions of the board are vested in the executive director who serves under the supervision of the board. With approval of the board, the executive director may appoint employees of the corporation as necessary.

(b) The board shall adopt regulations that restrict the executive director, investment directors, other officers, and employees from having financial interest, directly or indirectly, in firms or corporations that provide services to the corporation. Officers and employees of the corporation are subject to AS 39.52.

(c) The executive director and each investment director shall file a bond for the faithful performance of duties in the amount and with the sureties as required by the board.

1 Exempt from  
2 Personnel Code (d) Officers and employees of the corporation are members of the exempt service under  
AS 39.25.110.

3 (e) A deed, contract, or other document that must be executed by or on behalf of the  
4 Ex. Director  
Signature corporation shall be signed by the executive director.

5 Investment Advisory  
6 Council Sec. 37.10.270. INVESTMENT ADVISORY COUNCIL. The board shall appoint an  
min. of 3 investment advisory council composed of at least three and not more than five members.  
7 of 5 Members of the council shall possess experience and expertise in financial investments and  
8 qualifications portfolio management.

9 (b) Members of the council serve at the pleasure of the board for staggered terms of three  
10 3 year terms years.

11 (c) The board shall establish the compensation of members of the council. Members of  
12 Compensation the council are entitled to per diem and travel expenses authorized for boards and commissions  
13 under AS 39.20.180.

14 (d) The council shall  
15 (1) review the investments made by the board;  
16 Council Duties (2) make recommendations to the board concerning the board's investment  
17 policies, investment strategy, and investment procedures;  
18 (3) advise the board on selection of performance consultants, auditors, and on the  
19 form and content of annual reports;  
20 (4) provide other advice as requested by the board.

21 Council may  
22 contract with other  
state agencies (e) With approval of the board, the council may contract with other state agencies to  
provide investment advice.

23 Sec. 37.10.280. INSURANCE. The corporation shall protect trusted assets and its own  
24 protection of  
25 assets assets, services, and employees by purchasing insurance or providing for self-insurance retention  
26 in amounts recommended by the executive director and approved by the board to cover the acts,  
27 including fiduciary acts, errors, and omissions of its board members, officers, employees, and  
28 agents. Insurance must protect the corporation and the state from liability to others and from loss  
of trusted assets and assets of the corporation.

29 Exempt  
30 from taxation Sec. 37.10.290. EXEMPTION FROM TAXATION. The corporation and all properties  
31 at any time owned by it, managed by it, or held by it in trust, and the income from those  
activities, are exempt from all taxes and assessments in the state. All security instruments issued

1 by the corporation and income from them are exempt from all taxes and assessments in the state,  
2 including transfer taxes.

3 Sec. 37.10.300. SURETY FOR DEPOSITS WITH BANKS. Banks, trust companies,  
4 savings banks, and other persons carrying on a banking business are authorized to give sureties

5 approved  
6 sureties

7 to the corporation. The sureties shall be approved by the corporation to the effect that the banks  
8 or banking institutions shall faithfully keep and pay over to the order of or upon the warrant of  
9 the corporation or its authorized agent all money deposited with them by the corporation and  
10 agreed interest, at the times or upon the demands agreed on with the banks or banking  
11 institutions. In lieu of these sureties, a depository bank or other banking institution shall deposit

10 approved  
11 securities

12 with the corporation or its authorized agent or a trustee as collateral, securities approved by the  
13 corporation. The deposits of the corporation may be evidenced by agreements in the form and  
14 upon the terms and conditions that are agreed upon by the corporation and the depository banks  
15 or banking institutions.

14 Sec. 37.10.310. LIMITATIONS. The corporation may not engage in commercial banking  
15 activity or private trust activity. The corporation may not act as a depository or trustee for a  
16 private person, association, or corporation. The corporation may not act as a lender to a private  
17 person, association, or corporation of money from any source except state funds under  
18 management by the corporation.

19 Sec. 37.10.320. LIABILITY. A liability incurred by the corporation shall be satisfied  
20 exclusively from the assets or revenue of the corporation and a creditor or other person may not  
21 have a right of action against the state because of a debt, obligation, or liability of the  
22 corporation. A liability of the corporation may not be satisfied from trust assets unless expressly  
23 authorized by law.

20 corporate liability  
21 protection  
22 of state

24 Sec. 37.10.390. DEFINITIONS. In AS 37.10.210 - 37.10.390, unless the context  
25 otherwise requires,

- 26 (1) "board" means the board of trustees of the corporation;
- 27 (2) "corporation" means the Alaska State Pension Corporation;
- 28 (3) "retirement systems" means the teachers' retirement system, the judicial
- 29 retirement system, the Alaska National Guard and Alaska Naval Militia retirement system, and
- 30 the public employees' retirement system.

31 \* Sec. 3. AS 06.05.025 is amended by adding a new subsection to read:

Alaska  
Banking Code —

1 Board or  
2 LB: A may request  
exam.

(d) At the request of the board of trustees of the Alaska State Pension Corporation or of the legislative auditor, the department shall make an examination of the corporation under this section.

4 \* Sec. 4. AS 14.25.035(d) is amended to read:

5 T.R.S. (d) The commissioner of administration shall report to the board concerning the condition and administration of the system. The reports shall be distributed to the members of the system. The Alaska State Pension Corporation [COMMISSIONER OF REVENUE] shall provide reports to the board on the condition and investment performance of the teachers' retirement trust fund including a summary of an annual external performance review.

10 \* Sec. 5. AS 14.25.180 is amended to read:

T.R.S.  
11 Teachers Retirement system

11 Sec. 14.25.180. MANAGEMENT AND INVESTMENT OF FUND. (a) The Alaska State Pension Corporation [COMMISSIONER OF REVENUE] is the [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund. In managing the fund, the Alaska State Pension Corporation [COMMISSIONER OF REVENUE] shall

- 15 (1) consider the status of the fund's investments and the system's liabilities on
- 16 both a current and a probable future basis;
- 17 (2) determine the appropriate investment objectives for the fund;
- 18 (3) establish investment policies aimed at achieving the objectives; and
- 19 (4) act only in regard to the best financial interests of the system's beneficiaries.

20 (b) The Alaska State Pension Corporation [COMMISSIONER OF REVENUE] may invest the fund on the basis of probable total rate of return without regard to the distinction between principal and income or to the generation of income.

23 (c) In carrying out investment duties under this chapter, the Alaska State Pension Corporation [COMMISSIONER OF REVENUE] has the same powers and duties in regard to the teacher's retirement trust fund as are provided in AS 37.10.071, except that the standard of prudence that the corporation [COMMISSIONER] must obey under AS 37.10.071(c) shall be in regard to the management of large trust investments rather than large investments.

28 \* Sec. 6. AS 22.25.048(c) is amended to read:

29 Judicial Retirement system (c) The Alaska State Pension Corporation [COMMISSIONER OF REVENUE] is the [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund and has the same powers and duties under this section in regard to the judicial retirement trust fund as are provided in

1 AS 14.25.180.

2 \* Sec. 7. AS 26.05.228(c) is amended to read:

3 *Military Retirement System* (c) The Alaska State Pension Corporation [COMMISSIONER OF REVENUE] is the  
4 [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund and has the same powers  
5 and duties under this section in regard to the fund as are provided under AS 14.25.180.

6 \* Sec. 8. AS 36.30.850(b)(15) is amended to read:

7 *Procurement Code* (15) a contract that is a delegation, in whole or in part, of investment powers held  
8 by the commissioner of revenue under [AS 14.25.180,] AS 14.40.400, AS 14.42.200, 14.42.210,  
9 AS 18.56.095, [AS 22.25.048, AS 26.05.228,] AS 37.10.070, 37.10.071, or AS 37.14 [, or AS  
10 39.33.080];

11 \* Sec. 9. AS 36.30.990(1) is amended to read:

12 *Procurement Code Exemption* (1) "agency"  
13 (A) means a department, institution, board, commission, division,  
14 authority, public corporation, the Alaska Pioneers' Home, or other administrative unit of  
15 the executive branch of state government;

16 : (B) does not include

- 17 (i) [, EXCEPT FOR] the University of Alaska;
- 18 (ii) [,] the Alaska State Housing Authority;
- 19 (iii) the [AND] Alaska Railroad Corporation;
- 20 (iv) the Alaska State Pension Corporation;
- 21 (v) [IT DOES NOT INCLUDE] a regional Native housing  
22 authority created under AS 18.55.996; [,] or
- 23 (vi) a regional electrical authority created under  
24 AS 18.57.020;

25 \* Sec. 10. AS 37.10.071 is amended to read:

26 *Replaces Comm. of Revenue with fiduciary of state fund.* Sec. 37.10.071. INVESTMENT POWERS AND DUTIES. (a) In making investments  
27 under this section, the fiduciary of a state fund [COMMISSIONER OF REVENUE] shall  
28 (1) act as official custodian of cash and investments by securing adequate and safe  
29 custodial facilities for them;  
30 (2) receive all items of cash and investments;  
31 (3) collect and deposit the principal of and income from owned or acquired

1 investments;

2 (4) invest and reinvest the assets in accordance with this section;

3 (5) receive and spend appropriations to cover the cost of the exercise of duties  
4 under this section;

5 (6) exercise the powers of an owner with respect to the assets;

6 (7) perform all acts, not prohibited by this section, whether or not expressly  
7 authorized, that the fiduciary [COMMISSIONER] considers necessary or proper in administering  
8 the assets;

*G.A.A.P. requires generally accepted accounting principles*

9 (8) maintain accounting records in accordance with generally accepted  
10 [INVESTMENT] accounting principles;

11 (9) engage an independent certified public accountant to conduct an annual audit  
12 of the financial condition and investment transactions;

13 (10) enter into and enforce contracts or agreements considered necessary,  
14 convenient, or desirable for the investment purposes of this section; and

15 (11) when choosing to acquire or dispose of investments, secure competitive  
16 national or international market rates or prices, or the equivalence of those rates or prices in the  
17 judgment of the fiduciary [COMMISSIONER].

18 (b) Under this section, the fiduciary of a state fund or the fiduciary's  
19 [COMMISSIONER OR THE COMMISSIONER'S] designee may

*Fiduciary Responsibilities*

20 (1) delegate investment, custodial, or depository authority on a discretionary or  
21 nondiscretionary basis to officers or employees of the state or to independent firms, banks, or  
22 trust companies, by designation through appointments, contracts, or letters or authority;

23 (2) acquire or dispose of investments either directly, indirectly, or through  
24 investment pools or trusts, by competitive or negotiated agreements, contracts, or auctions, in  
25 public or private markets;

26 (3) concentrate or diversify investments as the fiduciary [COMMISSIONER]  
27 considers appropriate to increase the probable total rate of return or to decrease the overall  
28 exposure to potentially adverse market value risks;

29 (4) protect the market value or the rate of return of the investments by entering  
30 into forward agreements to buy or sell assets at a future date as a hedge against existing held  
31 assets or as a precommitment of future cash flows;

1 (5) lend assets, under an agreement and for a fee, against deposited collateral of  
2 equivalent market value;

3 (6) borrow assets on a short-term basis, under an agreement and for a fee, against  
4 the deposit of collateral consisting of other assets in order to accommodate temporary cash or  
5 investment needs;

6 (7) hold investments in bearer or registered form in the name of the state, a fund,  
7 or nominees authorized by the fiduciary [COMMISSIONER];

8 (8) utilize consultants, advisors, custodians, investment services, and legal counsel  
9 for assistance in investment matters on either a continuing or a limited-term basis and with or  
10 without compensation;

11 (9) declare records to be confidential and exempt from AS 09.25.110 and  
12 09.25.120 if the records contain information that discloses the particulars of the business or the  
13 affairs of a private enterprise, investor, borrower, advisor, consultant, counsel, or manager.

14 (c) In exercising investment, custodial, or depository powers or duties under this section,  
15 the fiduciary of a state fund [COMMISSIONER] shall exercise the judgment and care under  
16 the circumstances then prevailing that an institutional investor of ordinary professional prudence,  
17 discretion, and intelligence exercises in managing large investments with consideration for the  
18 purpose of the fund, the investment objectives, the continuing disposition of the fund's invest-  
19 ments, and the probable safety of the capital as well as the probable investment returns. With  
20 respect to the Alaska State Pension Corporation, the fiduciaries of the corporation shall  
21 apply the prudent investor rule and exercise their fiduciary duty in the sole financial best  
22 interest of the funds entrusted to them and of the beneficiaries of those funds. The trustees  
23 may not make or authorize investment decisions or the voting of shares for a purpose other  
24 than the sole financial best interest of the funds or beneficiaries.

25 (d) In exercising investment, custodial, or depository powers or duties under this section,  
26 the fiduciary or the fiduciary's [COMMISSIONER OR A] designee [OF THE  
27 COMMISSIONER] is liable for a breach of a duty that is assigned or delegated under this  
28 section, or under AS 14.25.180, AS 14.40.400(b), AS 37.10.070, AS 37.14.110(c), 37.14.160, 37.-  
29 14.170, or AS 39.35.080. However, the fiduciary or the [COMMISSIONER OR THE  
30 COMMISSIONER'S] designee is not liable for a breach of a duty that has been delegated to  
31 another person if the delegation is prudent under the applicable standard of prudence set out in

1 statute or if the duty is assigned by law to another person, except to the extent that the fiduciary  
2 [COMMISSIONER] or designee

3 (1) knowingly participates [PARTICIPATE] in, or knowingly undertakes to  
4 conceal, an act or omission of another person, knowing that the act or omission is a breach of  
5 that person's duties under this chapter;

6 (2) by failure to comply with this section in the administration of specific  
7 responsibilities, enables another person to commit a breach of duty; or

8 (3) has knowledge of a breach of duty by another person, unless the fiduciary  
9 [COMMISSIONER] or designee makes reasonable efforts under the circumstances to remedy the  
10 breach.

11 *Indemnification except for imprudent acts.* (e) The state shall defend and indemnify the fiduciary [COMMISSIONER] or an officer  
12 or employee of the state against liability under (d) of this section to the extent that the alleged  
13 act or omission was performed in good faith and was prudent under the applicable standard of  
14 prudence.

15 (f) In this section, "fiduciary of a state fund" or "fiduciary" ["COMMISSIONER OF  
16 REVENUE" OR "COMMISSIONER"] means

17 (1) the commissioner of revenue for investments under [AS 14.25.180 OR] AS  
18 37.10.070; [OR]

19 (2) with respect to the Alaska State Pension Corporation, for investments  
20 under AS 14.25.180,

21 (A) each trustee who serves on the corporation's board of directors;

22 (B) each officer of the corporation; and

23 (C) any other person who exercises control or authority with respect  
24 to management or disposition of assets held by the corporation or who gives  
25 investment advice to the corporation; or

26 (3) the person or body provided by law to manage the investments, for  
27 investments not subject to AS 14.25.180 or AS 37.10.070.

28 \* Sec. 11. AS 39.25.110(11) is amended by adding a new subparagraph to read:

29 *Exempt Service* (G) Alaska State Pension Corporation;

30 \* Sec. 12. AS 39.35.020 is amended to read:

31 *P.E.R.S. Public Employees Retirement System* Sec. 39.35.020. ADMINISTRATION. The commissioner of administration is responsible

1 for the administration of the system and for carrying out this chapter. In addition the  
2 commissioner shall

3 (1) maintain the accounts of the system;  
4 (2) make payments for the various purposes specified;  
5 (3) submit periodic reports or statements of account that are needed;  
6 (4) issue a statement of account to an employee requesting it showing the amount  
7 of the employee's contributions to the system;

8 (5) as soon as possible after the close of each fiscal year, and not later than six  
9 months after the close of each fiscal year, send to the governor, the legislature, and the board an  
10 annual statement on the operations of the system containing

11 (A) a balance sheet;  
12 (B) a statement of income and expenditures for the year;  
13 (C) a report on an actuarial valuation of its assets and liabilities;  
14 (D) a summary of assets held in the pension fund listed by the categories

15 of investment, as provided by the Alaska State Pension Corporation [COMMISSIONER  
16 OF REVENUE];

17 (E) other statistical financial data that are necessary for a proper  
18 understanding of the financial condition of the system and the result of its operations;

19 (6) establish a public employees retirement trust fund in which the assets of the  
20 system shall be deposited and held;

21 (7) engage an independent certified public accountant to conduct an annual audit  
22 of the system's accounts and the annual report of the system's financial condition and activity;

23 (8) report to the board concerning the condition and administration of the system  
24 and distribute the report to the members of the system.

25 \* Sec. 13. AS 39.35.080 is amended to read:

26 P.E.R.S. Sec. 39.35.080. DUTIES OF THE ALASKA STATE PENSION CORPORATION  
27 [COMMISSIONER OF REVENUE]. The Alaska State Pension Corporation  
28 [COMMISSIONER OF REVENUE] is the [TREASURER OF THE SYSTEM AND THE]  
29 fiduciary of the fund. The corporation [COMMISSIONER] has the same powers and duties  
30 established under this chapter in regard to the fund as are provided in AS 14.25.035(d) and  
31 14.25.180.

1 \* Sec. 14. AS 39.50.200(b) is amended by adding a new paragraph to read:

2 *Definitions* (52) Alaska State Pension Corporation (AS 37.10.210).

3 \* Sec. 15. AS 44.25.020 is amended to read:

4 Sec. 44.25.020. DUTIES OF DEPARTMENT. The Department of Revenue shall

5 *Dept. of Revenue Duties* (1) enforce the tax laws of the state;

6 (2) collect, account for, have custody of, invest, and manage all state funds and

7 all revenues of the state except revenues incidental to a program of licensing and regulation

8 carried on by another state department and funds managed and invested by the Alaska State

9 Pension Corporation;

10 (3) register cattle brands;

11 (4) supply necessary clerical and administrative services for the Alcoholic

12 Beverage Control Board; and

13 (5) invest and manage the balance of the power development fund in accordance

14 with AS 44.83.386.

15 \* Sec. 16. TRANSITION. All litigation, hearings, investigations, and other proceedings pending

16 under a law amended or repealed by this Act, or in connection with functions transferred by this Act,

17 continue in effect and may be continued and completed notwithstanding a transfer, amendment, or repeal

18 provided for in this Act. Orders and regulations issued or adopted under authority of a law amended

19 or repealed by this Act remain in effect for the term issued, or until revoked, vacated, or otherwise mod-

20 ified under the provisions of this Act. All contracts, rights, liabilities and obligations created by or under

21 a law amended or repealed by this Act, and in effect on the effective date of this Act, remain in effect

22 notwithstanding this Act's taking effect. Records, equipment, and other property of agencies of the state

23 whose functions are transferred under this Act shall be transferred commensurate with the provisions of

24 this Act.

25 \* Sec. 17. ORGANIZATION OF TRUSTEES. (a) Notwithstanding AS 37.10.210(c), enacted by

26 sec. 2 of this Act, the initial terms of the members, other than the commissioner of revenue, of the board

27 of trustees of the Alaska State Pension Corporation shall be as follows:

28 *initial terms* (1) one elected member and one appointed member shall serve terms of four years;

29 (2) one elected member and one appointed member shall serve terms of two years;

30 (3) one elected member and one appointed member shall serve one-year terms.

31 *organization* (b) The board of trustees of the Alaska State Pension Corporation may hold organizational

TRANSITION

1 meetings as soon as a quorum of the board has been appointed to or selected for the board.

2 \* Sec. 18. AS 37.10.210 and 37.10.230 - 37.10.390, enacted by sec. 2 of this Act, and sec. 17 of this  
3 Act take effect July 1, 1991. *Board/Corporate Organization - July 1, 1991*

4 \* Sec. 19. Except as provided in sec. 18 of this Act, this Act takes effect on the earlier of July 1,  
5 1992, or the date established by resolution of the board of trustees of the Alaska State Pension  
6 Corporation for the transfer to it of securities and assets of the retirement funds. The board shall  
7 promptly provide the revisor of statutes and the lieutenant governor with a copy of this resolution.

*Effective date to transfer assets - by board resolution or by  
July 1, 1992.*

SB-18

M E M O R A N D U M

December 5, 1990

SUBJECT; ALASKA STATE PENSION CORPORATION (ASPC): Summary of  
ASPC Bill by Section

TO; Senator Pat Pourchot

FROM; Susan Barnett, Staff

I have prepared this sectional analysis of the PRE-FILED DRAFT OF  
THE ASPC BILL.

TITLE; Identifies that the retirement system funds, and other state  
funds upon agreement are to be managed and invested by the  
corporation.

SECTION 1/FINDINGS; recommendation that the ASPC should integrate  
the investment of pension funds with retirement benefit  
administration responsibilities for all state related pension  
funds, including EPORS, within two years of enactment of this  
legislation.

SECTION 2: creates the Alaska State Pension Corporation.

Sec. 37.10.210 establishes the corporation as a public corporation.  
Subsection (b) sets out the seven voting trustees, three of which  
are elected by members of the retirement systems, two of which are  
appointed by the governor from a list submitted by employers, one  
additional is appointed by the governor, from a list of nominees  
submitted by the other six trustees, and the commissioner of  
revenue serves as a trustee. Subsection (c) sets out staggered four  
year terms for trustees. Subsections (d) and (e) set out removal  
of trustees and filling of vacancy. Subsections (f)(g)(h) set out  
board organization: board elects chair annually, four trustees  
constitute a quorum and designees are not allowed. Subsection (i)  
requires trustees to participate in financial education training.

Sec. 37.10.220 sets out the powers and duties of the board,  
including establishing investment policies for the funds for which  
it is responsible, submitting investment reports to the  
legislature, employers, appropriate boards, contracting for  
external performance reviews, employing outside investment  
advisors, employing legal counsel, permitting trustees to enter  
agreement to assume responsibility for other state funds upon  
agreement with the managers of those funds.

Sec. 37.10.230 sets out conflict of interest provisions for the  
fiduciaries and allows the board to designate other staff who must  
comply with these provisions. Under this section, the board shall  
adopt regulations to restrict fiduciaries and any designated staff,  
from having a substantial interest in corporate assets. Subsection  
(c) identifies that failure to disclose conflicts is grounds for  
termination of employment.

Sec. 37.10.240 exempts the board from the Administrative Procedures Act but requires the board to comply with the open meetings law.

Sec. 37.10.250 sets the honorarium for trustees at \$150 per meeting day and states that those who are public employees shall serve without compensation but shall be granted administrative leave.

Sec. 37.10.260 requires the board to employ and fix the compensation for an executive director who must meet qualifications as set in statute. The executive director may appoint employees with approval of the board. Subsection (b) requires the board to adopt regulations restricting staff from financial interest in those companies which provide service to the corporation. All employees are exempt from the personnel act but are subject to the ethics act.

Sec. 37.10.270 requires the board to appoint an investment advisory council composed of at least three and not more than five members who must meet qualifications. Subsection (b) sets out staggered three year terms. Subsection (c) allows board to establish compensation for advisory members. Subsection (d) sets out duties of the council to include reviewing investments, recommending investment policy, advising on selection of consultants and auditors. Subsection (e) allows the council to contract with other state agencies to provide advice.

Sec. 37.10.280 requires the board to protect assets held in trust and its own assets, services and employees by purchasing insurance or arranging for self-insurance.

Sec. 37.10.290 exempts the corporation and property it owns, manages or holds in trust from all taxes and assessments in the state.

Sec. 37.10.300 permits banks to give sureties to the corporation or to enter collateral agreements on approved securities.

Sec. 37.10.310 prohibits the corporation from engaging in commercial banking activity, from acting as a depository or trustee for a private person and from acting as a lender to a private person of money from any source other than the money from the state funds under its own management.

Sec. 37.10.320 limits the states responsibility for liabilities of the corporation.

Sec. 37.10.390 defines board, corporation and retirement systems.

Section 3 AS 06.05.025 amends the banking code to allow the board of trustees or the legislative auditor to request an examination of the corporation by the Division of Banking, Securities and Corporations.

SECTION 4: substitutes the corporation for the Commissioner of Revenue in reporting about the condition of the teachers retirement system (TRS) and requires the corporation provide the TRS board with an annual external performance review of the trust fund.

SECTION 5; makes the corporation fiduciary of the TRS fund in place of the Commissioner of Revenue.

SECTION 6; substitutes the corporation for the commissioner of revenue in management of the Judicial Retirement Trust.

SECTION 7; substitutes the corporation for the commissioner of revenue in management and investment of the Alaska National Guard and Alaska Naval Militia retirement fund, referred to as the Military fund or system.

SECTIONS 8 and 9 exempt the corporation from the procurement code but require the board of trustees to adopt comparable procedures.

SECTION 10 substitutes the corporation for the Commissioner of Revenue in the section that sets out the powers and duties of the fiduciary that invests and manages state fun's. In paragraph (a)(8) the bill requires accounting records to be kept in accordance with generally accepted accounting principles. Subsection (c) requires the fiduciary to exercise the Prudent Investor Rule in exercising powers and duties. Subsection (e) requires the state to defend and indemnify the fiduciary if fiduciary performed in good faith and was prudent. Subsection (f) defines fiduciary to include trustee, officer of the corporation and any other person who exercises control over corporation assets.

SECTION 11; places employees of the corporation in the exempt service.

SECTIONS 12 and 13: substitute the corporation for the Commissioner of Revenue in the management and investment of the public employees retirement (PERS) fund.

SECTION 14; adds the members of the Alaska State Pension Corporation to coverage of the conflict of interest statutes.

SECTION 15; amends the duties of the Department of Revenue to reflect the changes made by the bill.

SECTION 16; is a transition section.

SECTION 17; sets out the initial terms of the board and permits the board to hold organizational meetings as soon as a quorum has been appointed/elected.

SECTION 18; sets July 1, 1991 as the effective date for board organization.

SECTION 19; sets the earlier of July 1, 1992 or the date established by resolution of the trustees as the effective date for the corporation to begin managing and investing assets as well as other duties as defined in the bill.

Statutes cited: ASPC

- AS 09.25.110 Public Records/Code of civil procedure
- AS 09.25.120 Public Records/copy and inspection
- AS 14.25.035(d) TRS Board
- AS 14.25.180 Management/investment of TRS fund
- AS 22.25.048(c) Judicial Retirement Trust Accounting/Investing
- AS 26.05.228(c) Military Retirement " " "
- AS 36.30.850 Procurement Code/Public Contracts
- AS 36.30.990 Procurement Code/Exempt from agency definition
- AS 37.10 Public Funds
- AS 37.10.071 DOR Investment powers and duties
- AS 37.1071 (8) GAAP
- AS 37.10.071 (c) Prudent Investor
- AS 39.20.180 Transportation/Per Diem for Boards/Commissions
- AS 39.25.110 Exempt service/Public Officer & Employees
- AS 39.25.020 PERS/Administration
- AS 39.35.080 PERS/Duties of Commissioner of Revenue
- AS 39.35.110 Investments/Commissioner of Administration
- AS 39.37 EPORS
- AS 39.50 Conflict of Interest
- AS 39.50.200 Definitions
- AS 39.52 Ethics Act
- AS 44.25.020 Department of Revenue
- AS 44.62 Administrative Procedures Act

# ALASKA STATE LEGISLATURE



SENATE FINANCE COMMITTEE,  
CO-CHAIR

Senator Pat Pourchot

ANCHORAGE  
P.O. BOX 104836  
ANCHORAGE, AK 99510  
(W) (907) 561-7623  
(H) (907) 338-2425

JUNEAU  
P.O. BOX V  
STATE CAPITOL  
JUNEAU, AK 99811  
(907) 465-3712

TO: Senator Pat Rodey  
Senate State Affairs Committee Chair

FROM: Senator Pat Pourchot

RE: SB 18, An Act establishing the Alaska State Pension Corporation; relating to management and investment of state pension funds and other state funds; and providing for an effective date.

DATE: January 22, 1991

Background Information: The state is responsible for \$4+ billion in retirement funds. Currently this money is being managed by one person, the Commissioner of Revenue. The issue of the Commissioner being the sole fiduciary was considered last legislative session and several bills were introduced that dealt with the management of state funds. In the final days of the session, the choices narrowed to two options: the "Permanent Fund Management" concept which was a corporation closely tied to the Permanent Fund and the "Corporation" concept, which set up a public corporation to manage the majority of state funds. After considerable debate, neither passed the legislature.

During the interim, I met with the Permanent Fund Board of Trustees, they have since passed a resolution stating "that they have no interest in assuming responsibility for the Public Employees Retirement System (PERS) or Teachers Retirement System (TRS) funds". The Senate State Affairs Committee held a public hearing on the issue of investment of state funds in October, 1990. Additionally, I have researched many other states' systems. As a result of this work, I have developed legislation that will resolve current weaknesses in the management of retirement funds and would allow for the potential integration of retirement benefit administration responsibilities with investment responsibilities.

Senator Pourchot, 1991

The Alaska State Pension Corporation:

- 1) is a public corporation established to manage the PERS, TRS, Judicial and Military retirement system funds and other state funds, upon agreement.
- 2) allows for beneficiary and employer representation through a 7 member board of trustees, composed of: 3 elected member seats, 2 appointed employer seats, Commissioner of Revenue and 1 appointed member nominated by the other six trustees.
- 3) provides for an Investment Advisory Council, composed of 3-5 professionals, that would recommend to the board investment policies, assist in selection of performance consultants and advise on the overall financial well-being of the corporation.
- 4) requires that all named fiduciaries adhere to the Prudent Investor rule and that all applicable transactions follow the Generally Accepted Accounting Principles.
- 5) requires the board to employ and fix compensation for an executive director. The executive director may appoint employees, all are exempt from the personnel code.
- 6) provides for legislative, executive, member and employer oversight through reporting and through use of outside performance evaluators and auditors.

Please contact my office if you would like additional information. Thank you for your interest in this important issue.

# Alaska State Pension Corporation (ASPC)

## Senate Bill 18

A public corporation located in the Department of Revenue to manage the following funds:

Public Employees Retirement System Fund \$2.74 billion

Teachers Retirement System Fund \$1.70 billion

Judicial Retirement System Fund \$28.67 million

Military Retirement Fund \$3.9 million

Elected Public Officers Retirement System\*

(subject to annual appropriation)

### ASPC Board of Trustees

3 Member Seats (Elected)  
2 Employer Seats (Appointed)  
1 Department Commissioner  
1 Appointed Seat (Nominated by the Six Trustees)

Executive Director

Investment  
Advisory Council  
3 - 5 Professionals

Chief Investment Officer

Chief Operations Officer\*

Investment Staff

Operations Staff\*

\* Once System is integrated to include retirement related operations. Active employee services would remain in Department of Administration

Senator Pat Pourchot

-21-91

INVESTMENT OF STATE FUNDS

<u>ISSUE</u>	<u>SB 18</u> <u>ASPC</u>
1. Number of board members	7
2. # of governor appointed seats	4
3. # of elected seats	3
4. Board members are fiduciaries	yes
5. Board make-up:	
PERS/TRS representation	yes
Access to trustee seats by other fund participants	yes
Commissioner of Revenue	yes
Commissioner of Administration	no
Employer representation	yes
6. "Just cause" required for removal from board.	yes
7. Financial training required for board members	yes
8. Board honorarium	yes
9. Board terms by years	4
10. Designees allowed for trustees	no
11. Funds to be managed:	
PERS	yes
TRS	yes
Judicial Retirement	yes
Military Retirement	yes
U of A Endowment	no
AHFC	no
Budget Reserve Fund	no
AK Marine Vessel Replace Fund	no
Public School Trust Fund	no
Childrens Trust Fund	no
SBS	no
PFD fund	no
AEA fund	no
HESS self sufficiency fund	no
General Fund/residual	no

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

333 Willoughby Avenue, 11th Floor  
P.O. Box 5B  
Juneau, Alaska 99811-0400

Telephone: (907) 465-2330  
Facsimile: (907) 465-2394

October 12, 1990

Susan K. Barnett  
Legislative Assistant for Senator Pat Pourchot  
Room 504  
State Capital  
P. O. Box V  
Juneau, Alaska 99811

Dear Susan:

At your request, I submit the following June 30, 1990 balances at market of the following funds:

Public Employees' Retirement Trust Fund	\$2,741,196,000	
Teachers' Retirement Trust Fund	1,700,702,000	
Supplemental Benefits System		
Guaranteed Investment Contracts	710,000,000	(surrender value)
Trust Fund	25,474,000	
Judicial Retirement Trust Fund	28,674,000	
Military Retirement Trust Fund	3,901,000	
University of Alaska Trust Fund	14,986,000	
Public School Trust Fund	\$102,658,000	

Yours truly,



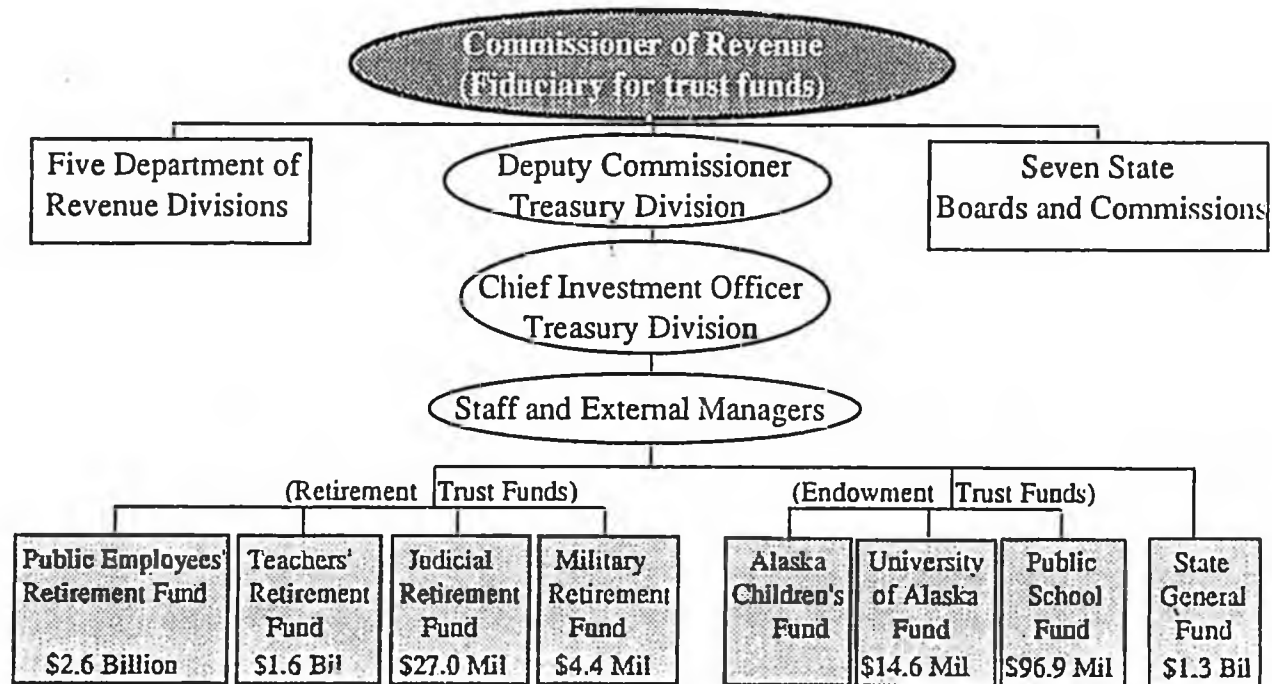
Milton B. Barker  
Deputy Commissioner

MBB/ph

cc: Cliff Groh

CURRENT LAW  
(FIGURE 1)

**INVESTMENT OF STATE FUNDS**



ONLY 6 STATES STILL HAVE A SOLE INDIVIDUAL AS FIDUCIARY.

Page-  
on;

## ORGANIZATION AND FUNCTION

The Department of Revenue, Division of Treasury (Treasury) is responsible for, and has sole discretion over, the prudent investment and management of the Public Employees' Retirement Fund (PERS) and the Teachers' Retirement Fund (TRS).

Chapter 141, SLA 1988 amended PERS and TRS statutes by designating the funds as retirement trust funds and appointing the commissioner of Revenue as treasurer of the retirement systems and fiduciary of the funds. Under the amending legislation, the commissioner of Revenue shall:

1. Consider the status of the funds' investments and the system's liabilities on both a current and a probable future basis.
2. Determine the appropriate investment objectives for the funds.
3. Establish investment policies aimed at achieving the objectives.
4. Act only in regard to the best financial interests of the system's beneficiaries.

The amendments also repealed the "legal list" of investments the retirement funds were restricted to and placed upon the commissioner of Revenue, or his designee, the responsibility of fund fiduciary. Treasury also employs external investment managers who manage a substantial portion of the retirement funds.

Additionally, there are two boards which oversee the administrative aspects of the retirement systems. The Public Employees' Retirement Board is composed of five members, three of whom are members of the Department of Administration personnel board and two who are members of the system and elected by the membership of the system. The Teachers' Retirement Board consists of five members appointed by the governor. Both boards are mostly administrative in nature, being responsible for governing the regulatory aspects of the retirement systems.

The Alaska Permanent Fund is managed by an executive director, who reports to a six-member board of trustees appointed by the governor.

TREASURY DIVISION  
 DEPARTMENT OF REVENUE  
 STATE OF ALASKA  
 July 26, 1990

Deputy Commissioner 5001  
 28

DEBT MANAGEMENT

Special Assistant 5036  
 to the Commissioner II  
 23

State Investment 5025  
 Officer II  
 22

Secretary II 5003  
 11

Research 0020  
 Analyst III  
 18

CASH MANAGEMENT

State Investment 5029  
 Officer III  
 24

INVESTMENT ACCOUNTING

Comptroller 5002  
 24

INVESTMENT MANAGEMENT

State Investment 5011  
 Officer IV  
 30

State Investment 5013  
 Officer II  
 22

Secretary I 5015  
 10

MARKETABLE  
 SECURITIES MANAGEMENT

State Investment 5005  
 Officer III  
 24

REAL ESTATE MANAGEMENT

State Investment 5012  
 Officer III  
 24

Accounting 5020  
 Technician III  
 16

Accountant IV 5010  
 20

Accounting 5007  
 Supervisor I  
 16

State Investment 5030  
 Officer II  
 22

Loan Examiner III 5024  
 19

Accounting 5009  
 Technician II  
 14

Accounting 5026  
 Technician II  
 14

Accounting 5014  
 Technician II  
 14

State Investment 5032  
 Officer I  
 20

Loan Examiner I 5033  
 15

Accounting 5018  
 Clerk II  
 9

Accounting 1145  
 Technician I  
 12

Accounting 5008  
 Technician III  
 16

Loan Examiner I NEW  
 15

Accounting 5021  
 Technician II  
 14

Clerk Typist III 5022  
 8

Deputy Commissioner: Walter B. Barber

Date: 9-10-90

# FISCAL NOTE

**STATE OF ALASKA**  
**1991 LEGISLATIVE SESSION**

BILL NO. SB 18

Revision Date: \_\_\_\_\_  
 Title: An Act Establishing the Alaska State Pension Corporation.  
 Sponsor: Pourchot  
 Requester: \_\_\_\_\_

Department Affected: Administration  
 BRU: Retirement & Benefits  
 Components: Retirement & Benefits  
 COMPONENT SERIAL NO. 64

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants, Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CAPITAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>REVENUE</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**FUNDING: (Thousands of Dollars)**

General Funds	0.0	0.0	0.0	0.0	0.0	0.0
Federal Funds	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**POSITIONS:**

Full-Time	0.0	0.0	0.0	0.0	0.0	0.0
Part-Time	0.0	0.0	0.0	0.0	0.0	0.0
Temporary	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of current year impact: \_\_\_\_\_

**ANALYSIS: (attach a separate page if necessary)**  
 There is no measurable fiscal impact to the Division from this bill.

Prepared By: Gary M. Bader, Director *Gary M. Bader* Phone: 465-4470  
 Division: Retirement and Benefits Date: 1/25/91  
 Approved By Commissioner: *William Kelly* Date: 1/27/91  
 Agency: Administration

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, Impacted Agency(ies)

FISCAL NOTE

STATE OF ALASKA  
1991 LEGISLATIVE SESSION

BILL NO. SB 18

Revision Date: \_\_\_\_\_ Department Affected: Revenue  
 Title: Alaska State Pension Corporation BRU: Treasury  
 Component: \_\_\_\_\_

Sponsor: Pourchot  
 Requestor: Senate State Affairs COMPONENT SERIAL NO. 

	1	2	1
--	---	---	---

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	(9,846.2)	(19,692.4)	(19,692.4)	(19,692.4)	(19,692.4)	(19,692.4)
TOTAL OPERATING	(9,846.2)	(19,692.4)	(19,692.4)	(19,692.4)	(19,692.4)	(19,692.4)

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	(9,846.2)	(19,692.4)	(19,692.4)	(19,692.4)	(19,692.4)	(19,692.4)
TOTAL	(9,846.2)	(19,692.4)	(19,692.4)	(19,692.4)	(19,692.4)	(19,692.4)

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.) Alaska State Pension Corporation is assumed to take over retirement fund investments January 1, 1992. FY 92 figures are half the amounts requested in Treasury's FY 92 budget for retirement funds. FY 93 - 97 are the full amount of FY 92 budget for retirement funds.

Prepared By: Milton B. Barker <sup>MB</sup> Phone: 465-2350  
 Division: Treasury Date: 1-25-91  
 Approved by Commissioner: Milton B. Barker for  
 Agency: Revenue Date: 1-25-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA  
1991 LEGISLATIVE SESSION

BILL NO. SB 18

Revision Date: \_\_\_\_\_ Department Affected: Alaska State Pension Corporation  
Title: Alaska State Pension Corporation BRU: \_\_\_\_\_  
Component: \_\_\_\_\_

Sponsor: Pourchot  
Requestor: Senate State Affairs COMPONENT SERIAL NO. 

--	--	--	--

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	9,846.2	19,692.4	19,692.4	19,692.4	19,692.4	19,692.4
TOTAL OPERATING	9,846.2	19,692.4	19,692.4	19,692.4	19,692.4	19,692.4

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	9,846.2	19,692.4	19,692.4	19,692.4	19,692.4	19,692.4
TOTAL	9,846.2	19,692.4	19,692.4	19,692.4	19,692.4	19,692.4

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.) FY 92 - 97 are the amounts deleted from the Treasury budget on the attached fiscal note. Net incremental cost is zero.

Prepared By: Milton B. Barker <sup>MB</sup> Phone: 465-2350  
Division: Treasury Date: 1-25-91  
Approved by Commissioner: Milton B. Barker for  
Agency: Revenue Date: 1-25-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

1/23/91

FISCAL NOTE INFORMATION;

1/22/91 Requested Fiscal Note for SB 18 from Department of Revenue, Nancy Bennett. 2313 ✓

1/23/91 Requested Fiscal Note from Department of Administration, Barbara Pritchett. 2200

No deadline was given to either department as a hearing has not been scheduled as of 1/23/91

Patrick M. Rodey  
Senator

# Alaska State Legislature



Senate

3111 C. St., Suite 510  
Anchorage, Alaska 99503  
(907) 561-7618

During Session:  
P.O. Box V  
Juneau, Alaska 99811  
(907) 465-3793

January 30, 1991

## Memorandum

To: Marilyn Scott  
Roxy McDonagh

From: Max Gifford *MG*  
Senate State Affairs

Subj: SSB-18, creating State Pension Corporation

The following 14 pages comprise; SSB-18 (Sponsor Substitute for SB-18) incorporating some changes from the original bill as introduced.

Those lines highlighted are the changes made. Please call if you have any questions.

Thank you.

*562-4376*

Page 2

SSB 18 Changes from SB 18

Eight Trustees:

- 1 elected active PERS/SBS member
- 1 elected retired PERS
- 1 elected active TRS
- 1 elected retired from any system other than PERS
- 1 Commissioner of Revenue
- 2 employers, nominated from participating employers and appointed by the Governor

*1 nominated by seven trustees, appt. by Gov.*

Five Trustees constitute a quorum

The Board SHALL advise the commissioner of administration concerning the investment of funds held under the state deferred compensation program. Language in Sec. 15 requires that " before investing the funds held under the state deferred compensation program, the administrator of the program shall consult with the Alaska State Pension Corporation. The commissioner shall reimburse the corporation for the cost of providing the advice.

The 8th seat starts as 3 year transitional term

Section 9 AS 36.30.990 (1) corrected, AHFC added to the list.

*SBS included*

*MAX —  
I will provide  
summary of  
changes for  
committee.  
S.*

Patrick M. Rodey  
Senator

# Alaska State Legislature



Senate

3111 C. St., Suite 510  
Anchorage, Alaska 99503  
(907) 561-7618

During Session:  
P.O. Box V  
Juneau, Alaska 99811  
(907) 465-3793

January 30, 1991

## Fax Transmission

To: Roxy McDonagh

From: Max Gifford, Committee Assistant  
Senate State Affairs Committee

Subj: Sponsor Substitute for SB-18  
Creating the Alaska Permanent Fund

The bill is 14 pages. When you have all of it call again and we'll go over it highlighting the changes offered by Sen. Pourchot. I expect the committee will move the bill out this afternoon.

7-LS0124D ✓  
Cramer  
1/29/91

CHANGES  
Pages: 2, 3, 8, 12  
13, 14

**SPONSOR SUBSTITUTE FOR SENATE BILL NO. 18**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**SEVENTEENTH LEGISLATURE - FIRST SESSION**

**BY SENATORS POURCHOT, Sturgulewski, Duncan, Collins**

Introduced:  
Referred:

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act establishing the Alaska State Pension Corporation; relating to management and  
2 investment of state pension funds and other state funds; and providing for an effective  
3 date."

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

5 \* **Section 1. FINDINGS.** The legislature finds that after the Alaska State Pension Corporation has  
6 been established and begun to manage the state pension funds, the state should develop a comprehensive  
7 retirement organization. This organization should integrate the investment of pension funds with  
8 retirement benefit administration responsibilities for all state related retirement systems, including the  
9 Elected Public Officers Retirement System (former AS 39.37). Retirement benefit administration  
10 responsibilities should be integrated into the corporation within two years after enactment of this  
11 legislation.

12 \* **Sec. 2.** AS 37.10 is amended by adding new sections to read:

13 **ARTICLE 5. ALASKA STATE PENSION CORPORATION.**

14 **Sec. 37.10.210. ALASKA STATE PENSION CORPORATION.** (a) There is established

1 the Alaska State Pension Corporation. The corporation is a public corporation in the Department  
2 of Revenue managed by a board of trustees. The purpose of the corporation is to provide  
3 professional management and investment of state pension funds and of other state funds upon  
4 agreement with the managers of those funds.

5 (b) The board consists of eight trustees. Four of the trustees shall be elected by the  
6 members of the retirement systems. Nominations may be made by the teachers' retirement board,  
7 the public employees' retirement board, or by petition signed by at least 10 persons eligible to  
8 vote in the election. One of the elected trustees must be an active member of the public  
9 employees' retirement system who is participating in the supplemental benefits program under  
10 AS 39.30.150 - 39.30.180, one must be receiving a benefit from the public employees' retirement  
11 system, one must be an active member of the teachers' retirement system, and one must be  
12 receiving a benefit from a retirement system other than the public employees' retirement system.  
13 The governor shall appoint two trustees from a list of nominees submitted by employers in the  
14 retirement systems. The governor shall appoint one additional trustee from a list of nominees  
15 submitted by the other seven trustees. The commissioner of revenue serves as a trustee.

16 (c) The appointed and elected trustees shall serve for staggered terms of four years and  
17 may be reappointed or reelected to the board.

18 (d) The governor may remove an elected or appointed trustee for just cause, including  
19 failure to comply with AS 37.10.230, by written notice to the trustee. After a trustee receives  
20 written notice of removal from the governor, the trustee may not participate in board business  
21 and may not be counted for purposes of establishing a quorum.

22 (e) A vacancy on the board of trustees shall be promptly filled in the same manner as  
23 the seat was originally filled. A person filling a vacancy holds office for the balance of the  
24 unexpired term of the person's predecessor. A vacancy on the board does not impair the  
25 authority of a quorum of the board to exercise all the powers and perform all the duties of the  
26 board.

27 (f) The board of trustees shall annually elect a chair from among its members.

28 (g) Five trustees constitute a quorum for the transaction of business and the exercise of  
29 the powers and duties of the board.

30 (h) A trustee may not designate another person to serve on the board in the absence of  
31 the trustee.

1 (i) Trustees shall participate in financial education training.

2 Sec. 37.10.220. POWERS AND DUTIES OF THE BOARD. (a) The board shall

3 (1) hold regular and special meetings at the call of the chair or of at least four  
4 members;

5 (2) establish investment policies for the funds for which it is responsible after  
6 reviewing recommendations from the investment advisory council;

7 (3) submit long-range and quarterly investment reports to the Legislative Budget  
8 and Audit Committee;

9 (4) report to the governor, the legislature, and employers participating in the  
10 retirement systems by the first day of each regular legislative session concerning the investment  
11 of funds for which the corporation is responsible including financial and investment policies  
12 established by the board and enclose a summary of the most recent performance evaluations of  
13 the funds managed by the corporation;

14 (5) contract with external performance evaluators to review the performance of  
15 each fund for which the corporation is responsible and report each year on the fund's condition  
16 to the board of trustees and to the other appropriate boards;

17 (6) engage independent certified public accountants to prepare an annual audit of  
18 each of the funds for which the corporation is responsible and to report to the board with the  
19 results of the audit;

20 (7) advise the commissioner of administration concerning the investment of funds  
21 held under the state deferred compensation program.

22 (b) The board may

23 (1) employ outside investment advisors to review investment policies and make  
24 recommendations to the board;

25 (2) employ legal counsel;

26 (3) enter into an agreement with the manager of another state fund to assume  
27 fiduciary, administrative, or management responsibilities for investing the other state fund;

28 (4) provide for actuarial valuations of the retirement systems and other entities  
29 whose funds the board manages;

30 (5) do all acts necessary, convenient, or desirable to carry out the powers  
31 expressly granted or necessarily implied in this chapter.

1           Sec. 37.10.230. CONFLICTS OF INTEREST. (a) Trustees, the executive director,  
2 investment officers, and other fiduciaries who are employees of the corporation are subject to the  
3 provisions of AS 39.50. The board may designate other employees who are also subject to the  
4 provisions of AS 39.50.

5           (b) If a trustee, officer, or employee of the corporation acquires, owns, or controls an  
6 interest, direct or indirect, in an entity or project in which assets under the control of the  
7 corporation are invested, the trustee, officer, or employee shall immediately disclose the interest  
8 to the board. The disclosure is a matter of public record and shall be included in the minutes  
9 of the board meeting next following the disclosure. The board shall adopt regulations to restrict  
10 trustees, officers, and employees from having a substantial interest in an entity or project in  
11 which assets under the control of the corporation are invested.

12           (c) Failure to comply with the requirements of this section or regulations enacted under  
13 it is grounds for termination of employment.

14           Sec. 37.10.240. REGULATIONS. The board may adopt regulations under the Admin-  
15 istrative Procedure Act (AS 44.62) to implement AS 37.10.210 - 37.10.390.

16           Sec. 37.10.250. COMPENSATION OF TRUSTEES. Trustees, other than trustees who  
17 are employees of the state or a political subdivision of the state, receive an honorarium of \$150  
18 for each day spent at a meeting of the board or at a meeting of a subcommittee of the board or  
19 at a public meeting as a representative of the board. Trustees who are state employees are  
20 entitled to administrative leave for service as a trustee. Trustees who are employees of a political  
21 subdivision of the state are entitled to leave benefits provided by their employers comparable to  
22 those provided to state employees for service as a trustee. Trustees are entitled to per diem and  
23 travel expenses authorized for boards and commissions under AS 39.20.180.

24           Sec. 37.10.260. STAFF. (a) The board shall employ an executive director. The  
25 executive director must be qualified by training and experience to manage, administer, and direct  
26 the investment of funds. The board shall fix the compensation of the executive director and other  
27 employees. The executive, administrative, and investment functions of the board are vested in  
28 the executive director who serves under the supervision of the board. With approval of the  
29 board, the executive director may appoint employees of the corporation as necessary.

30           (b) The board shall adopt regulations that restrict the executive director, investment  
31 directors, other officers, and employees from having financial interest, directly or indirectly, in

1 firms or corporations that provide services to the corporation. Officers and employees of the  
2 corporation are subject to AS 39.52.

3 (c) The executive director and each investment director shall file a bond for the faithful  
4 performance of duties in the amount and with the sureties as required by the board.

5 (d) Officers and employees of the corporation are members of the exempt service under  
6 AS 39.25.110.

7 (e) A deed, contract, or other document that must be executed by or on behalf of the  
8 corporation shall be signed by the executive director.

9 Sec. 37.10.270. INVESTMENT ADVISORY COUNCIL. (a) The board shall appoint  
10 an investment advisory council composed of at least three and not more than five members.  
11 Members of the council shall possess experience and expertise in financial investments and  
12 portfolio management.

13 (b) Members of the council serve at the pleasure of the board for staggered terms of three  
14 years.

15 (c) The board shall establish the compensation of members of the council. Members of  
16 the council are entitled to per diem and travel expenses authorized for boards and commissions  
17 under AS 39.20.180.

18 (d) The council shall

19 (1) review the investments made by the board;

20 (2) make recommendations to the board concerning the board's investment  
21 policies, investment strategy, and investment procedures;

22 (3) advise the board on selection of performance consultants, auditors, and on the  
23 form and content of annual reports;

24 (4) provide other advice as requested by the board.

25 (e) With approval of the board, the council may contract with other state agencies to  
26 provide investment advice.

27 Sec. 37.10.280. INSURANCE. The corporation shall protect trusteed assets and its own  
28 assets, services, and employees by purchasing insurance or providing for self-insurance retention  
29 in amounts recommended by the executive director and approved by the board to cover the acts,  
30 including fiduciary acts, errors, and omissions of its board members, officers, employees, and  
31 agents. Insurance must protect the corporation and the state from liability to others and from loss

1 of trustee assets and assets of the corporation.

2 Sec. 37.10.290. EXEMPTION FROM TAXATION. The corporation and all properties  
3 at any time owned by it, managed by it, or held by it in trust, and the income from those  
4 activities, are exempt from all taxes and assessments in the state. All security instruments issued  
5 by the corporation and income from them are exempt from all taxes and assessments in the state,  
6 including transfer taxes.

7 Sec. 37.10.300. SURETY FOR DEPOSITS WITH BANKS. Banks, trust companies,  
8 savings banks, and other persons carrying on a banking business are authorized to give sureties  
9 to the corporation. The sureties shall be approved by the corporation to the effect that the banks  
10 or banking institutions shall faithfully keep and pay over to the order of or upon the warrant of  
11 the corporation or its authorized agent all money deposited with them by the corporation and  
12 agreed interest, at the times or upon the demands agreed on with the banks or banking  
13 institutions. In lieu of these sureties, a depository bank or other banking institution shall deposit  
14 with the corporation or its authorized agent or a trustee as collateral, securities approved by the  
15 corporation. The deposits of the corporation may be evidenced by agreements in the form and  
16 upon the terms and conditions that are agreed upon by the corporation and the depository banks  
17 or banking institutions.

18 Sec. 37.10.310. LIMITATIONS. The corporation may not engage in commercial banking  
19 activity or private trust activity. The corporation may not act as a depository or trustee for a  
20 private person, association, or corporation. The corporation may not act as a lender to a private  
21 person, association, or corporation of money from any source except state funds under  
22 management by the corporation.

23 Sec. 37.10.320. LIABILITY. A liability incurred by the corporation shall be satisfied  
24 exclusively from the assets or revenue of the corporation and a creditor or other person may not  
25 have a right of action against the state because of a debt, obligation, or liability of the  
26 corporation. A liability of the corporation may not be satisfied from trust assets unless expressly  
27 authorized by law.

28 Sec. 37.10.390. DEFINITIONS. In AS 37.10.210 - 37.10.390, unless the context  
29 otherwise requires,

30 (1) "board" means the board of trustees of the corporation;

31 (2) "corporation" means the Alaska State Pension Corporation;

1 (3) "retirement systems" means the teachers' retirement system, the judicial  
2 retirement system, the Alaska National Guard and Alaska Naval Militia retirement system, and  
3 the public employees' retirement system.

4 \* Sec. 3. AS 06.05.025 is amended by adding a new subsection to read:

5 (d) At the request of the board of trustees of the Alaska State Pension Corporation or of  
6 the legislative auditor, the department shall make an examination of the corporation under this  
7 section.

8 \* Sec. 4. AS 14.25.035(d) is amended to read:

9 (d) The commissioner of administration shall report to the board concerning the condition  
10 and administration of the system. The reports shall be distributed to the members of the system.  
11 The Alaska State Pension Corporation [COMMISSIONER OF REVENUE] shall provide  
12 reports to the board on the condition and investment performance of the teachers' retirement trust  
13 fund including a summary of an annual external performance review.

14 \* Sec. 5. AS 14.25.180 is amended to read:

15 Sec. 14.25.180. MANAGEMENT AND INVESTMENT OF FUND. (a) The Alaska  
16 State Pension Corporation [COMMISSIONER OF REVENUE] is the [TREASURER OF THE  
17 SYSTEM AND THE] fiduciary of the fund. In managing the fund, the Alaska State Pension  
18 Corporation [COMMISSIONER OF REVENUE] shall

19 (1) consider the status of the fund's investments and the system's liabilities on  
20 both a current and a probable future basis;

21 (2) determine the appropriate investment objectives for the fund;

22 (3) establish investment policies aimed at achieving the objectives; and

23 (4) act only in regard to the best financial interests of the system's beneficiaries.

24 (b) The Alaska State Pension Corporation [COMMISSIONER OF REVENUE] may  
25 invest the fund on the basis of probable total rate of return without regard to the distinction  
26 between principal and income or to the generation of income.

27 (c) In carrying out investment duties under this chapter, the Alaska State Pension  
28 Corporation [COMMISSIONER OF REVENUE] has the same powers and duties in regard to  
29 the teacher's retirement trust fund as are provided in AS 37.10.071, except that the standard of  
30 prudence that the corporation [COMMISSIONER] must obey under AS 37.10.071(c) shall be  
31 in regard to the management of large trust investments rather than large investments.

1 \* Sec. 6. AS 22.25.048(c) is amended to read:

2 (c) The Alaska State Pension Corporation [COMMISSIONER OF REVENUE] is the  
3 [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund and has the same powers  
4 and duties under this section in regard to the judicial retirement trust fund as are provided in  
5 AS 14.25.180.

6 \* Sec. 7. AS 26.05.228(c) is amended to read:

7 (c) The Alaska State Pension Corporation [COMMISSIONER OF REVENUE] is the  
8 [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund and has the same powers  
9 and duties under this section in regard to the fund as are provided under AS 14.25.180.

10 \* Sec. 8. AS 36.30.850(b)(15) is amended to read:

11 (15) a contract that is a delegation, in whole or in part, of investment powers held  
12 by the commissioner of revenue under [AS 14.25.180,] AS 14.40.400, AS 14.42.200, 14.42.210,  
13 AS 18.56.095, [AS 22.25.048, AS 26.05.228,] AS 37.10.070, 37.10.071, or AS 37.14 [, or  
14 AS 39.35.080];

15 \* Sec. 9. AS 36.30.990(1) is amended to read:

16 (1) "agency"

17 (A) means a department, institution, board, commission, division,  
18 authority, public corporation, the Alaska Pioneers' Home, or other administrative unit of  
19 the executive branch of state government;

20 (B) does not include

21 (i) the University of Alaska;

22 (ii) the Alaska State Housing Authority;

23 (iii) the Alaska Railroad Corporation;

24 (iv) the Alaska Housing Finance Corporation;

25 (v) a regional Native housing authority created under  
26 AS 18.55.996, or a regional electrical authority created under AS 18.57.020; or

27 (vi) the Alaska State Pension Corporation;

28 \* Sec. 10. AS 37.10.071 is amended to read:

29 Sec. 37.10.071. INVESTMENT POWERS AND DUTIES. (a) In making investments  
30 under this section, the fiduciary of a state fund [COMMISSIONER OF REVENUE] shall

31 (1) act as official custodian of cash and investments by securing adequate and safe

1 custodial facilities for them;

2 (2) receive all items of cash and investments;

3 (3) collect and deposit the principal of and income from owned or acquired  
4 investments;

5 (4) invest and reinvest the assets in accordance with this section;

6 (5) receive and spend appropriations to cover the cost of the exercise of duties  
7 under this section;

8 (6) exercise the powers of an owner with respect to the assets;

9 (7) perform all acts, not prohibited by this section, whether or not expressly  
10 authorized, that the fiduciary [COMMISSIONER] considers necessary or proper in administering  
11 the assets;

12 (8) maintain accounting records in accordance with generally accepted  
13 [INVESTMENT] accounting principles;

14 (9) engage an independent certified public accountant to conduct an annual audit  
15 of the financial condition and investment transactions;

16 (10) enter into and enforce contracts or agreements considered necessary,  
17 convenient, or desirable for the investment purposes of this section; and

18 (11) when choosing to acquire or dispose of investments, secure competitive  
19 national or international market rates or prices, or the equivalence of those rates or prices in the  
20 judgment of the fiduciary [COMMISSIONER].

21 (b) Under this section, the fiduciary of a state fund or the fiduciary's  
22 [COMMISSIONER OR THE COMMISSIONER'S] designee may

23 (1) delegate investment, custodial, or depository authority on a discretionary or  
24 nondiscretionary basis to officers or employees of the state or to independent firms, banks, or  
25 trust companies, by designation through appointments, contracts, or letters of authority;

26 (2) acquire or dispose of investments either directly, indirectly, or through  
27 investment pools or trusts, by competitive or negotiated agreements, contracts, or auctions, in  
28 public or private markets;

29 (3) concentrate or diversify investments as the fiduciary [COMMISSIONER]  
30 considers appropriate to increase the probable total rate of return or to decrease the overall  
31 exposure to potentially adverse market value risks;

1 (4) protect the market value or the rate of return of the investments by entering  
2 into forward agreements to buy or sell assets at a future date as a hedge against existing held  
3 assets or as a precommitment of future cash flows;

4 (5) lend assets, under an agreement and for a fee, against deposited collateral of  
5 equivalent market value;

6 (6) borrow assets on a short-term basis, under an agreement and for a fee, against  
7 the deposit of collateral consisting of other assets in order to accommodate temporary cash or  
8 investment needs;

9 (7) hold investments in bearer or registered form in the name of the state, a fund,  
10 or nominees authorized by the fiduciary [COMMISSIONER];

11 (8) utilize consultants, advisors, custodians, investment services, and legal counsel  
12 for assistance in investment matters on either a continuing or a limited-term basis and with or  
13 without compensation;

14 (9) declare records to be confidential and exempt from AS 09.25.110 and  
15 09.25.120 if the records contain information that discloses the particulars of the business or the  
16 affairs of a private enterprise, investor, borrower, advisor, consultant, counsel, or manager.

17 (c) In exercising investment, custodial, or depository powers or duties under this section,  
18 the fiduciary of a state fund [COMMISSIONER] shall exercise the judgment and care under  
19 the circumstances then prevailing that an institutional investor of ordinary professional prudence,  
20 discretion, and intelligence exercises in managing large investments with consideration for the  
21 purpose of the fund, the investment objectives, the continuing disposition of the fund's invest-  
22 ments, and the probable safety of the capital as well as the probable investment returns. With  
23 respect to the Alaska State Pension Corporation, the fiduciaries of the corporation shall  
24 apply the prudent investor rule and exercise their fiduciary duty in the sole financial best  
25 interest of the funds entrusted to them and of the beneficiaries of those funds. The trustees  
26 may not make or authorize investment decisions or the voting of shares for a purpose other  
27 than the sole financial best interest of the funds or beneficiaries.

28 (d) In exercising investment, custodial, or depository powers or duties under this section,  
29 the fiduciary or the fiduciary's [COMMISSIONER OR A] designee [OF THE  
30 COMMISSIONER] is liable for a breach of a duty that is assigned or delegated under this  
31 section, or under AS 14.25.180, AS 14.40.400(b), AS 37.10.070, AS 37.14.110(c), 37.14.160, 37.-

1 14.170, or AS 39.35.080. However, the fiduciary or the [COMMISSIONER OR THE  
 2 COMMISSIONER'S] designee is not liable for a breach of a duty that has been delegated to  
 3 another person if the delegation is prudent under the applicable standard of prudence set out in  
 4 statute or if the duty is assigned by law to another person, except to the extent that the fiduciary  
 5 [COMMISSIONER] or designee

6 (1) knowingly participates [PARTICIPATE] in, or knowingly undertakes to  
 7 conceal, an act or omission of another person, knowing that the act or omission is a breach of  
 8 that person's duties under this chapter;

9 (2) by failure to comply with this section in the administration of specific  
 10 responsibilities, enables another person to commit a breach of duty; or

11 (3) has knowledge of a breach of duty by another person, unless the fiduciary  
 12 [COMMISSIONER] or designee makes reasonable efforts under the circumstances to remedy the  
 13 breach.

14 (e) The state shall defend and indemnify the fiduciary [COMMISSIONER] or an officer  
 15 or employee of the state against liability under (d) of this section to the extent that the alleged  
 16 act or omission was performed in good faith and was prudent under the applicable standard of  
 17 prudence.

18 (f) In this section, "fiduciary of a state fund" or "fiduciary" ["COMMISSIONER OF  
 19 REVENUE" OR "COMMISSIONER"] means

20 (1) the commissioner of revenue for investments under [AS 14.25.180 OR] AS  
 21 37.10.070; [OR]

22 (2) with respect to the Alaska State Pension Corporation, for investments  
 23 under AS 14.25.180,

24 (A) each trustee who serves on the corporation's board of directors;

25 (B) each officer of the corporation; and

26 (C) any other person who exercises control or authority with respect  
 27 to management or disposition of assets held by the corporation or who gives  
 28 investment advice to the corporation; or

29 (3) the person or body provided by law to manage the investments, for  
 30 investments not subject to AS 14.25.180 or AS 37.10.070.

31 \* Sec. 11. AS 39.25.110(11) is amended by adding a new subparagraph to read:

1 (G) Alaska State Pension Corporation;

2 \* Sec. 12. AS 39.30 is amended by adding a new section to read:

3 Sec. 39.30.175. INVESTMENT OF BENEFIT PROGRAM RECEIPTS. The State  
4 Pension Corporation is the fiduciary of the receipts of the employee benefits program established  
5 under AS 39.30.150 - 39.30.180 and has the same powers and duties concerning the management  
6 and investment in regard to those receipts as are provided under AS 14.25.180.

7 \* Sec. 13. AS 39.35.020 is amended to read:

8 Sec. 39.35.020. ADMINISTRATION. The commissioner of administration is responsible  
9 for the administration of the system and for carrying out this chapter. In addition the  
10 commissioner shall

11 (1) maintain the accounts of the system;

12 (2) make payments for the various purposes specified;

13 (3) submit periodic reports or statements of account that are needed;

14 (4) issue a statement of account to an employee requesting it showing the amount  
15 of the employee's contributions to the system;

16 (5) as soon as possible after the close of each fiscal year, and not later than six  
17 months after the close of each fiscal year, send to the governor, the legislature, and the board an  
18 annual statement on the operations of the system containing

19 (A) a balance sheet;

20 (B) a statement of income and expenditures for the year;

21 (C) a report on an actuarial valuation of its assets and liabilities;

22 (D) a summary of assets held in the pension fund listed by the categories  
23 of investment, as provided by the Alaska State Pension Corporation [COMMISSIONER  
24 OF REVENUE];

25 (E) other statistical financial data that are necessary for a proper  
26 understanding of the financial condition of the system and the result of its operations;

27 (6) establish a public employees retirement trust fund in which the assets of the  
28 system shall be deposited and held;

29 (7) engage an independent certified public accountant to conduct an annual audit  
30 of the system's accounts and the annual report of the system's financial condition and activity;

31 (8) report to the board concerning the condition and administration of the system

1 and distribute the report to the members of the system.

2 \* Sec. 14. AS 39.35.080 is amended to read:

3 Sec 39.35.080. DUTIES OF THE ALASKA STATE PENSION CORPORATION  
4 [COMMISSIONER OF REVENUE]. The Alaska State Pension Corporation  
5 [COMMISSIONER OF REVENUE] is the [TREASURER OF THE SYSTEM AND THE]  
6 fiduciary of the fund. The corporation [COMMISSIONER] has the same powers and duties  
7 established under this chapter in regard to the fund as are provided in AS 14.25.035(d) and  
8 14.25.180.

9 \* Sec. 15. AS 39.45.030 is amended by adding a new subsection to read:

10 (c) Before investing the funds held under the state deferred compensation program, the  
11 administrator of the program shall consult with the Alaska State Pension Corporation. The  
12 commissioner shall reimburse the corporation for the cost of providing the advice.

13 \* Sec. 16. AS 39.50.200(b) is amended by adding a new paragraph to read:

14 (52) Alaska State Pension Corporation (AS 37.10.210).

15 \* Sec. 17. AS 44.25.020 is amended to read:

16 Sec. 44.25.020. DUTIES OF DEPARTMENT. The Department of Revenue shall

17 (1) enforce the tax laws of the state;

18 (2) collect, account for, have custody of, invest, and manage all state funds and  
19 all revenues of the state except revenues incidental to a program of licensing and regulation  
20 carried on by another state department and funds managed and invested by the Alaska State  
21 Pension Corporation;

22 (3) register cattle brands;

23 (4) supply necessary clerical and administrative services for the Alcoholic  
24 Beverage Control Board; and

25 (5) invest and manage the balance of the power development fund in accordance  
26 with AS 44.83.386.

27 \* Sec. 18. TRANSITION. All litigation, hearings, investigations, and other proceedings pending  
28 under a law amended or repealed by this Act, or in connection with functions transferred by this Act,  
29 continue in effect and may be continued and completed notwithstanding a transfer, amendment, or repeal  
30 provided for in this Act. Orders and regulations issued or adopted under authority of a law amended  
31 or repealed by this Act remain in effect for the term issued, or until revoked, vacated, or otherwise

1 modified under the provisions of this Act. All contracts, rights, liabilities and obligations created by or  
2 under a law amended or repealed by this Act, and in effect on the effective date of this Act, remain in  
3 effect notwithstanding this Act's taking effect. Records, equipment, and other property of agencies of  
4 the state whose functions are transferred under this Act shall be transferred commensurate with the  
5 provisions of this Act.

6 \* Sec. 19. ORGANIZATION OF TRUSTEES. (a) Notwithstanding AS 37.10.210(c), enacted by  
7 sec. 2 of this Act, the initial terms of the members, other than the commissioner of revenue, of the board  
8 of trustees of the Alaska State Pension Corporation shall be as follows:

9 (1) one elected member and one appointed member shall serve terms of four years;

10 (2) one elected member shall serve a three-year term;

11 (3) one elected member and one appointed member shall serve terms of two years;

12 (4) one elected member and one appointed member shall serve one-year terms.

13 (b) The board of trustees of the Alaska State Pension Corporation may hold organizational  
14 meetings as soon as a quorum of the board has been appointed to or selected for the board.

15 \* Sec. 20. AS 37.10.210 and 37.10.230 - 37.10.390, enacted by sec. 2 of this Act, and sec. 19 of this  
16 Act take effect July 1, 1991.

17 \* Sec. 21. Except as provided in sec. 20 of this Act, this Act takes effect on the earlier of July 1,  
18 1992, or the date established by resolution of the board of trustees of the Alaska State Pension  
19 Corporation for the transfer to it of securities and assets of the retirement funds. The board shall  
20 promptly provide the revisor of statutes and the lieutenant governor with a copy of this resolution.

# ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE  
CO-CHAIR



ANCHORAGE  
P.O. BOX 104836  
ANCHORAGE, AK 99510  
(W) (907) 561-7623  
(HI) (907) 338-2425

JUNEAU  
P.O. BOX V  
STATE CAPITOL  
JUNEAU, AK 99811  
(907) 465-3712

Senator Pat Pourchot

TO; Senator Rodey  
Chair, Senate State Affairs Committee

FROM: Senator Pat Pourchot

RE: SB 18, establishing the Alaska State Pension Corporation

DATE: January 30, 1991

The following is a summary of the changes made to SB 18 that are now in the Sponsor Substitute for Senate Bill 18.

## Section 2. AS 37.10 Article 5

### Sec. 37.10.210 (b)

(Page 2 Lines 5-12) Changes the board from seven to eight trustees, four of the trustees to be elected by the members in the retirement systems. Elected seats are identified as:

- 1 Active PERS/Active SBS
- 1 Retired PERS
- 1 Active TRS
- 1 Retired from system other than PERS.

Sec. 37.10.210 (g) (Page 2, Line 28) Changes quorum from four to five.

Sec. 37.10.220 (a) (7) (Page 3, Lines 20,21) Under powers and duties of the board, adds a requirement that the board advise the commissioner of administration concerning the investment of funds held under the state DEFERRED COMPENSATION PROGRAM.

## Section 9. AS 36.30.990 (1)

(Page 8, Line 24) Previous drafting error corrected. Updated statute now in bill, which includes AHFC.

## Section 12. AS 39.30

Sec. 39.30.175 (Page 12, Lines 2-6) establishes the corporation as the fiduciary for the SUPPLEMENTAL BENEFITS SYSTEM (SBS).

Section 15. AS 39.45.030 (Page 9-12) requires the commissioner of administration to consult with the corporation prior to investing DEFERRED COMPENSATION PROGRAM funds and to reimburse corporation for cost of advise.

Section 19. (Page 14, Line 10) under Organization of Trustees, sets out a 3 year term for the additional elected member.

SS 36 18

M E M O R A N D U M

January 29, 1991

SUBJECT; ALASKA STATE PENSION CORPORATION (ASPC): Summary of Sponsor Substitute for SB 18 by Section

TO; Senator Pat Pourchot

FROM; Susan Barnett, Staff

I have prepared this sectional analysis of the SSSB 18, An Act establishing the Alaska State Pension Corporation; relating to management and investment of state pension funds and other state funds; and providing for an effective date.

TITLE; Identifies that the retirement system funds, and other state funds upon agreement are to be managed and invested by the corporation.

SECTION 1/FINDINGS; recommendation that the ASPC should integrate the investment of pension funds with retirement benefit administration responsibilities for all state related pension funds, including EPORS, within two years of enactment of this legislation.

SECTION 2: creates the Alaska State Pension Corporation.

Sec. 37.10.210 establishes the corporation as a public corporation. Subsection (b) sets out the eight voting trustees, four of which are elected by members of the retirement systems, two of which are appointed by the governor from a list submitted by employers, one additional is appointed by the governor from a list of nominees submitted by the other seven trustees, and the commissioner of revenue serves as a trustee. Subsection (c) sets out staggered four year terms for trustees. Subsections (d) and (e) set out removal of trustees and filling of vacancy. Subsections (f)(g)(h) set out board organization: board elects chair annually, five trustees constitute a quorum and designees are not allowed. Subsection (i) requires trustees to participate in financial education training.

Sec. 37.10.220 sets out the powers and duties of the board, including establishing investment policies for the funds for which it is responsible, submitting investment reports to the legislature, employers, appropriate boards, contracting for external performance reviews, employing outside investment advisors, employing legal counsel, permitting trustees to enter agreement to assume responsibility for other state funds upon agreement with the managers of those funds. SSSB 18 requires the board advise the commissioner of administration concerning the investment of funds held under the state deferred compensation program.

Sec. 37.10.230 sets out conflict of interest provisions for the fiduciaries and allows the board to designate other staff who must comply with these provisions. Under this section, the board shall

adopt regulations to restrict fiduciaries and any designated staff, from having a substantial interest in corporate assets. Subsection (c) identifies that failure to disclose conflicts is grounds for termination of employment.

Sec. 37.10.240 exempts the board from the Administrative Procedures Act but requires the board to comply with the open meetings law.

Sec. 37.10.250 sets the honorarium for trustees at \$150 per meeting day and states that those who are public employees shall serve without compensation but shall be granted administrative leave.

Sec. 37.10.260 requires the board to employ and fix the compensation for an executive director who must meet qualifications as set in statute. The executive director may appoint employees with approval of the board. Subsection (b) requires the board to adopt regulations restricting staff from financial interest in those companies which provide service to the corporation. All employees are exempt from the personnel act but are subject to the ethics act.

Sec. 37.10.270 requires the board to appoint an investment advisory council composed of at least three and not more than five members who must meet qualifications. Subsection (b) sets out staggered three year terms. Subsection (c) allows board to establish compensation for advisory members. Subsection (d) sets out duties of the council to include reviewing investments, recommending investment policy, advising on selection of consultants and auditors. Subsection (e) allows the council to contract with other state agencies to provide advice.

Sec. 37.10.280 requires the board to protect assets held in trust and its own assets, services and employees by purchasing insurance or arranging for self-insurance.

Sec. 37.10.290 exempts the corporation and property it owns, manages or holds in trust from all taxes and assessments in the state.

Sec. 37.10.300 permits banks to give sureties to the corporation or to enter collateral agreements on approved securities.

Sec. 37.10.310 prohibits the corporation from engaging in commercial banking activity, from acting as a depository or trustee for a private person and from acting as a lender to a private person of money from any source other than the money from the state funds under its own management.

Sec. 37.10.320 limits the states responsibility for liabilities of the corporation.

Sec. 37.10.390 defines board, corporation and retirement systems.

Section 3 AS 06.05.025 amends the banking code to allow the board of trustees or the legislative auditor to request an examination of the corporation by the Division of Banking, Securities and Corporations

SECTION 4: substitutes the corporation for the Commissioner of Revenue in reporting about the condition of the teachers retirement system (TRS) and requires the corporation provide the TRS board with an annual external performance review of the trust fund.

SECTION 5; makes the corporation fiduciary of the TRS fund in place of the Commissioner of Revenue.

SECTION 6; substitutes the corporation for the commissioner of revenue in management of the Judicial Retirement Trust.

SECTION 7; substitutes the corporation for the commissioner of revenue in management and investment of the Alaska National Guard and Alaska Naval Militia retirement fund, referred to as the Military fund or system.

SECTIONS 8 and 9 exempt the corporation from the procurement code but require the board of trustees to adopt comparable procedures.

SECTION 10 substitutes the corporation for the Commissioner of Revenue in the section that sets out the powers and duties of the fiduciary that invests and manages state funds. In paragraph (a)(8) the bill requires accounting records to be kept in accordance with generally accepted accounting principles. Subsection (c) requires the fiduciary to exercise the Prudent Investor Rule in exercising powers and duties. Subsection (e) requires the state to defend and indemnify the fiduciary if fiduciary performed in good faith and was prudent. Subsection (f) defines fiduciary to include trustee, officer of the corporation and any other person who exercises control over corporation assets.

SECTION 11; places employees of the corporation in the exempt service.

SECTION 12; identifies the corporation as the fiduciary of the receipts of the employee benefits program.

SECTIONS 13 and 14; substitute the corporation for the Commissioner of Revenue in the management and investment of the public employees retirement (PERS) fund.

SECTION 15; requires the commissioner of administration to consult with the corporation before investing deferred compensation funds.

SECTION 16; adds the members of the Alaska State Pension

Corporation to coverage of the conflict of interest statutes.

SECTION 17; amends the duties of the Department of Revenue to reflect the changes made by the bill.

SECTION 18; is a transition section.

SECTION 19; sets out the initial terms of the board and permits the board to hold organizational meetings as soon as a quorum has been appointed/elected.

SECTION 20; sets July 1, 1991 as the effective date for board organization.

SECTION 21; sets the earlier of July 1, 1992 or the date established by resolution of the trustees as the effective date for the corporation to begin managing and investing assets as well as other duties as defined in the bill.



# NEA-ALASKA

AFFILIATED WITH THE NATIONAL EDUCATION ASSOCIATION

## ANCHORAGE REGIONAL OFFICE

1411 W. 33RD AVENUE  
ANCHORAGE, ALASKA 99503  
(907) 274-0536

## JUNEAU OFFICE

105 MUNICIPAL WAY, SUITE 302  
JUNEAU, ALASKA 99801  
(907) 586-3090

## FAIRBANKS REGIONAL OFFICE

2118 CUSHMAN STREET  
FAIRBANKS, ALASKA 99701  
(907) 456-4435

January 28, 1991

**To:** Sen. Rodey, Chair  
Members; Senate State Affairs Committee

**Re:** SB 18; "An Act establishing the Alaska State Pension Corporation; relating to the management and investment of state pension funds and other state funds; and providing for an effective date."

NEA-Alaska, representing members of both the TRS and PERS, supports the basic concepts contained in this legislation and commends the sponsor for this approach to the management of employee pension funds.

The transfer of this fiduciary responsibility from the Commissioner of Revenue to a public corporation will enhance constituent confidence in the integrity and security of their vested benefits.

We do have three (3) concerns which we wish to call to the attention of the Committee.

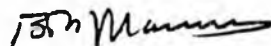
We recommend caution on the plan to assign, within two (2) years, responsibility for benefit administration to the ASPC. While it may be appropriate to have such a timeline as a goal it may also be wise to first attend to the management/investment responsibilities and defer the benefit administration to a later time. Both the TRS and the PERS currently have Boards with extensive benefit administration experience. Their present responsibilities in this area should continue for the time being.

We feel very strongly that the composition of the ASPC board of trustees must consist of a majority who are constituent members of the retirement systems. Historically, both the TRS and the PERS have been administered by Boards comprised primarily of constituent members. The system has worked effectively and we feel that it should be continued. Members will have a greater level of confidence in a new investment/management system if a majority of the board members come from their constituency and that they be both active members and those now drawing benefits from the systems.

Another concern which may only need clarification pertains to the language in Sec. 2, page 6, lines 19-23, Sec. 37.10.320. On its surface, this language appears to possibly diminish rights guaranteed under Article 12, Section 7 of the Alaska Constitution. NEA-Alaska would obviously oppose such a change.

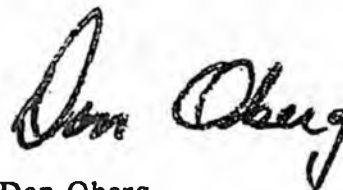
Thank you for your consideration of our position. We look forward to working with the Committee on this critical legislation.

Respectfully submitted,



Bob Manners  
Executive Director

cc: Senator Pourchot



Don Oberg  
President



Official Business

COMMITTEE:

ST. AFFAIRS

DATE: 1-28

SIGN-IN

Subject of meeting:

SB 18 - INVESTMENT OF PENSION FUNDS

PLEASE PRINT!

NAME

ADDRESS

(MAILING) & (ZIP)

PHONE

REPRESENTING

DO YOU WANT TO TESTIFY?

GARY BADER	DEPT OF ADMINISTRATION		x4460	DEPT OF ADMINISTRATION	YES
Louise Dawson	2880 Fritz Cove Rd		789-9655	-	NO
Rose Olive Druxman	P.O. Box 07 1365 Juneau 99801		586-1172		No
Archie Owen	P.O. Box 34852 Juneau, AK 99803		789-9264		No
Liz Lucas	2880 Fritz Cove Rd. Juneau		789-9655		NO
Jeanne Spaziani	8452 Kimberly St., Juneau 99801		789-7394	June Ret. Tchrs. V Pres.	no
Richard Spaziani	8452 Kimberly St. Juneau 99801		789-7394	June Ret. Tchrs. Pres.	Yes
Veron Harlow	P.O. Box 020113 Juneau, AK 99802		586-6184	State & Juneau Ret. of Teachers	No
Leslie Boyd	P.O. Box 7318 Ketchikan, AK 99901		225-3231	NEA/AK & NEA-R Retired	No
✓ Terry Elder	816 & Erin St. Juneau AK 99801		465-4500	ASEA	Yes

BOB MANNERS

YES

```

*****
*
* DELIVER TO: LIOCDAR
*
* ORIGINAL
* SENT:          01/30/91  TIME: 14:03
* FROM:          LIOCLAI
* SUBJECT:       91-01-188; PL2; SB18; 1-30
* PRINT DATE:   01/30/91  TIME: 14:03
*
*****

```

SUBJECT LINE TO READ: TC NO.; PLAN#; SHORT SUBJECT; DATE

```

TC NO:          91-01-188
DATE:           1-30
SPONSOR:        S STATE AFFAIRS
SUBJECT:        PENSION FUNDS
MODERATOR:      JUDY
SITE:           ANCHORAGE

```

PARTICIPANT LIST 2

```

*****
TO TESTIFY
NAME\ REPRESENTING      ADDRESS      PHONE      BILL NO.
✓ MARIE MACKENZIE
✓ MARILYN SCOTT

```

3. HERRITT OLSON

```

*****
TO OBSERVE:
NAME\ REPRESENTING      ADDRESS      PHONE      BILL NO.
1. H P GAZAWAY
*****

```

```

BACK UP NUMBER: 561-1199
EMAIL ADDRESS:  LIOCHIL

```

SUBJECT LINE TO READ: TC NO., PL FS; SHORT SUBJECT; DATE

TC NO: 91-01-175  
DATE: 1/20/91  
SPONSOR: CITA  
SUBJECT: INVESTMENT OF PENSION FUND  
MODERATOR: CIBY  
SITE: ANCHORAGE

PARTICIPANT LIST

\*\*\*\*\*

TO TESTIFY

NUMBERS/REPRESENTING	ADDRESS	PHONE	BILL NO.
1. MERRITT C. OLSON/NEA	1032 WILLETTS	272-9156	SB 18
2. MARILYN SCOTT/AARP, CARTA	POB 112827	345-1698	SB 18
3. BUCK SMITH/CARTA	1346 STINBACK	563-6316	SB 18



4. MARIE HACKENZIE	1620 CRESCENT	562-4895	SB 18
5. ROXY MCCOUGAL	402 E 23	272-0957	SB 18
6.			

\*\*\*\*\*

TO OBSERVE:

NAME/ REPRESENTING	ADDRESS	PHONE	BILL NO.
1.			
2.			
3.			
4.			
5.			

\*\*\*\*\*

BACK UP NUMBER: 561-1199  
EMAIL ADDRESS: LIOCMIL

\*\*\*\*\*  
 \*  
 \* DELIVER TO: LIOCDAR \*  
 \*  
 \*  
 \* ORIGINAL \*  
 \* SENT: 01/30/91 TIME: 13:37 \*  
 \* FROM: LIOCLAI \*  
 \* SUBJECT: 91-01-183;PL;STATE FUNDS;1-30 \*  
 \* PRINT DATE: 01/30/91 TIME: 13:37 \*  
 \*  
 \*\*\*\*\*

SUBJECT LINE TO READ: TC NO.; PLNFS;SHORT SUBJECT;DATE

TC NO: 91-01-183  
 DATE: 1-30  
 SPONSOR: S STATE AFFAIRS  
 SUBJECT: PENSION FUNDS  
 MODERATOR: JUDY  
 SITE: ANCHORAGE

PARTICIPANT LIST

\*\*\*\*\*

TO TESTIFY

NAME\ REPRESENTING	ADDRESS	PHONE	BILL NO.
1. MARIE MACKENZIE			
2. MARILYN SCOTT			

\*\*\*\*\*

TO OBSERVE

NAME\ REPRESENTING	ADDRESS	PHONE	BILL NO.
1. MERRITT OLSON			
2. H P GAZAWAY			

\*\*\*\*\*

BACK UP NUMBER: 561-1199  
 EMAIL ADDRESS: LIOCMIL

SENATE STATE AFFAIRS COMMITTEE  
SUBJECT: SB 18: PENSION, SB 10: INVESTMENT STATE FUNDS  
MODERATOR: CHRISTI  
SITE: FAIRBANKS

PARTICIPANT LIST

\*\*\*\*\*  
TESTIFIED

NAME/REPRESENTING	ADDRESS	PHONE	BILL NO.
1. MIKE ANDREWS - PERS BOARD MEMBER			
2.			
3.			
4.			
5.			

\*\*\*\*\*  
OBSERVED

NAME/REPRESENTING	ADDRESS	PHONE	BILL NO.
1. ANN WALSH, 924 KELLUM #201 FBKS. 99701		456-6737	SB 10, SB 18
2.			
3.			
4.			
5.			

\*\*\*\*\*  
TESTIFIED.

UNABLE:  
OBSERVED:  
TOTAL:

START TIME:

END TIME





Official Business

**COMMITTEE:**

SENATE STATE AFFAIRS

**DATE:** 1/30/91

**SIGN-IN**

**Subject of meeting:**

SB 18 INVESTMENT OF PENSION FUNDS

PLEASE PRINT!

**NAME ADDRESS (MAILING) & (ZIP) PHONE REPRESENTING DO YOU WANT TO TESTIFY?**

Louise Dawson	2880 Fritz Cove Rd Juneau 99801	789-9655	RTA	No
Elizabeth Lucas	2880 Fritz Cove Rd Juneau 99801	789-9655	AARP State Coordinator / RTA	NO
DICK SPAZIANI	8452 Kimberly St. Juneau 99801	789-7394	AARP PRES. JUNEAU Retired Teach.	YES
Jeanne Spaziani	8452 Kimberly St. Juneau 99801	789-7394	V-Pres Juneau Ret Teachers	No
Carol Carroll	3570 M. Loop Rd Juneau Alaska 99801	789-9157	PRS - TRS	No
B. Manners			NEA	Not sure?

PUBLIC OPINION MESSAGE

DEAR: SENATOR RODEY

NAME: MARILYNN SCOTY

TITLE:

ADDRESS: P. O. BOX 112827

CITY: ANCHORAGE

ZIP: 99511

PHONE: 345-1698

BILL NO:

SUBJECT: SB 18 TELECONFERENCE

MESSAGE: SORRY NOT HAD OPPORTUNITY TO SPEAK TODAY WHILE I TENTATIVELY FAVOR THE  
CORPORATION I OBJECT TO BLATANT DISREGARD FOR BOARD REPRESENTATION BY TRS  
MEMBERS. TELECONFERENCES SHOULD BE ORGANIZED TO ACCOMMODATE TESTIMONY FROM  
OUTSIDE JUNEAU RATHER THAN RESIDENT STAFF. WHEN WILL WE BE HEARD? /CMR

POMID: 03152034

DATE: 91/01/28

TIME: 15:20:34

LIQNAME: ANCHORAGE LIO

COPIES: SENATOR

FOURCHOT

*testified*

\*\*\*\*\* FAX TRANSMISSION \*\*\*\*\*

TO: Max  
DEPT: \_\_\_\_\_ FAX #: 463-3144  
FROM: Judy PHONE: 561-1199  
CO: \_\_\_\_\_ FAX #: 562-4376  
Post-It brand fax transmits memo 7671

NO. OF PAGES  
1

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DELIVER TO: LIOCMIL

ORIGINAL

SENT: 04/28/91 TIME: 14:06  
DATE: 04-28/91

\*\*\*\*\*

\*\*\*\*\*

INVESTMENT OF ASSETS  
JUDY  
ANCHORAGE

\*\*\*\*\*

\*\*\*\*\*

TO: DESTROY

NAME/ALTERNATIVE

ADDRESS W 11th Ave

PHONE

CELL NO

- 1. MERRITT G. OLSON/NEA 1032 WELLS ST 272-9156 ✓ SE 18
- 2. MARILYN SCOTT/AARP, CARTA POB #12827 9511 345-1698 ✓ SE 18
- 3. RUCK SMITH/CARTA 1346 STAMPAWK 563-6316 ✓ SE 18 *ALL*
- \* RALE HACKENZIE 1204 CRETCH 562-4895 ✓ SE 18
- \* ROXY MOON *NAGH* 99503 272-0957 ✓ SE 18

PHONE

CELL NO

1346 Staubbach Circle 99508

→ "~~insure~~" insulate retirement funds from political arena"

Committee →

PUBLIC OPINION MESSAGE

DEAR: SENATOR RODEY

NAME: BUCK SMITH  
TITLE: CENTRAL AK RETTRED TEACHERS ASS.'S PRES.  
ADDRESS: 1346 STAUBBACH CIRCLE  
CITY: ANCHORAGE ZIP: 99508  
PHONE: 563-6316  
BILL NO:  
SUBJECT: SB 18 TELECONFERENCE  
MESSAGE: I WAS PRESENT BUT DID NOT GET TO TESTIFY SUPPORTING THE BILL ONLY IF  
MAJORITY OF MEMBERS ARE BENEFICIARIES AND THAT TEACHERS AND PUBLIC EMPLOYEES ARE  
EQUALLY REPRESENTED. /CMR

POMID: 03143117  
DATE: 91/01/28  
TIME: 14:31:17  
LIONAME: ANCHORAGE LIO

COPIES: SENATOR

POURCHOT

# ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE,  
CO-CHAIR



Senator Pat Pourchot

ANCHORAGE  
P.O. BOX 104836  
ANCHORAGE, AK 99510  
(W) (907) 561-7623  
(H) (907) 338-2425

JUNEAU  
P.O. BOX V  
STATE CAPITOL  
JUNEAU, AK 99811  
(907) 465-3712

## MEMORANDUM

TO: Senator Pat Rodey  
Chair, Senate State Affairs Committee

FROM: Senator Pat Pourchot *Pat*

RE: Request for hearing SB 18

DATE: January 21, 1991

SB 18, An Act establishing the Alaska State Pension Corporation; relating to management and investment of state pension funds; and providing for an effective date, has been referred to your committee.

SB 18 establishes a public corporation to manage the Public Employees Retirement System (PERS), the Teachers Retirement System (TRS), the Judicial Retirement System and the Military Retirement System funds and other state funds upon mutual agreement. The corporation allows for beneficiary and employer representation and provides for an Investment Advisory Council to assist the board in investment decisions.

I would greatly appreciate your scheduling this bill for a hearing as early as possible.

SB 18

Board of Trustees  
Marc Langland,  
Chairman  
Charles H. Parr,  
Vice-Chairman  
Douglas B. Baily  
John T. Kelsey  
Byron I. Mallott  
Hugh Malone



Alaska Permanent Fund Corporation  
P.O. Box 4-1000 Juneau, Alaska 99802-4100  
(907) 465-2047

October 2, 1990

The Honorable  
Pat Pourchot  
Alaska State Senator  
3111 "C" Street, Suite 545  
Anchorage, Alaska 99503

Re: Position of the Board of Trustees of the Alaska Permanent Fund Corporation on the Management of the PERS/TRS Funds.

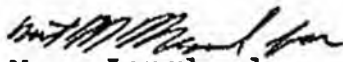
Dear Senator Pourchot:

At your request, the Board of Trustees discussed and voted on its position concerning the possible management of the PERS/TRS funds by the Alaska Permanent Fund Corporation. It was the unanimous vote of the Board that the Trustees have no interest in assuming responsibility for the management of PERS/TRS and other state investment funds that have actuarial and different liability obligations than the Alaska Permanent Fund.

In general, it is the view of the Trustees, as well as staff, that the management of the Alaska Permanent Fund involves very different management philosophies and policies than are involved in the management of retirement funds. The potential mixing of the two types of policies in one organization was felt to be detrimental for both types of funds.

I have enclosed the verbatim transcript of the portion of the Board meeting where the Trustee position was raised, discussed, and voted upon. If you have any questions, please do not hesitate to call.

Sincerely,

  
Marc Langland  
Chairman

# Alaska Municipal League

---

## Policy Statement 1991

Adopted at the Business Meeting  
of the 40th Anniversary Local Government Conference  
of the  
Alaska Municipal League  
Anchorage, Alaska  
November 16, 1990



retirement benefits. Additionally, in order to assist municipalities and the Legislature in evaluating changes to the retirement systems, fiscal notes accompanying such legislation should include an analysis of the fiscal impact on each of the participating municipalities.

**2. Separate PERS/TRS Corporation:** The League supports the establishment of a separate corporation for the management and investment of state trust funds, including the trust funds of the Public Employees' Retirement System and the Teachers' Retirement System, insofar as the board of the corporation includes representatives of trust beneficiaries and employers. The League urges that legislation establishing such a corporation include a provision that foreclosed real property held as assets by funds managed by the corporation be subject to municipal property taxes.

Alaskan municipalities make over half of all employer contributions to the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and are directly affected by the performance of these funds because of the effect fund earnings have on employer contribution rates and, thus, on local tax rates. At present, both PERS and TRS funds are managed by the Department of Revenue, with the Commissioner of the Department as the sole fiduciary.

Creation of a separate corporation would give visibility to and strengthen the trust status of these trust funds. It would increase accountability, continuity, and public disclosure for the investment management of the funds by establishing a board of directors as fiduciary, incorporating professional investment managers and trust administrators, as well as representatives of beneficiaries, on the corporation's board, and providing for the exercise of fiduciary powers through the forum of regularly scheduled public meetings rather than administrative actions. A corporation would give management the authority to act in a timely manner and compete fully with other professional institutional investors. It would also allow the trust fund managers to have direct access to various Federal Reserve System services, increasing the security, earnings, and efficiency of trust fund investments and reducing the costs for intermediary custodian bank services.

In keeping with the League's general policy opposing exemption from taxation of foreclosed real property held as assets by state and federal agencies, the League supports inclusion of a provision making such assets held by the new corporation subject to municipal taxation.

#### **E. GOVERNMENT MANDATES**

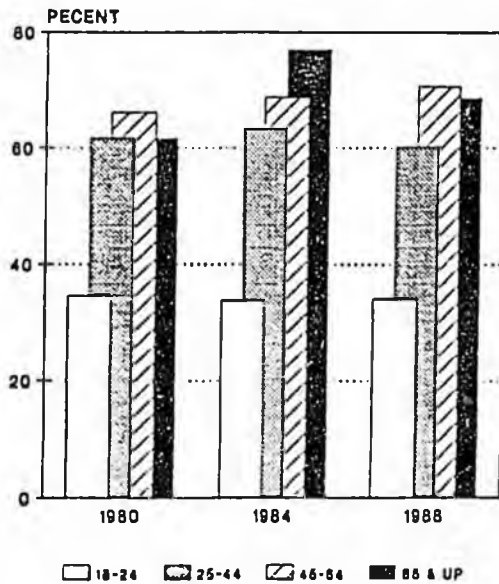
The League urges passage of legislation that would require a government agency unilaterally transferring responsibility for a program to a municipality or imposing regulations on a municipality to reimburse the municipality for the costs of the transferred responsibility or regulations.

## OLDER VOTERS

Older people are generally eager to participate in all facets of political life. Older persons are often involved in registering voters, assisting voters in traveling to polls, and actually conducting poll operations on election day. They believe in the Eisenhower adage, "Politics should be the part-time profession of every citizen."

The voter turnout graph illustrates the participation rate of four age groups of Alaska voters in elections held between 1980 and 1988.

VOTER TURNOUT GRAPH



Prepared for AARP by Election Data Services

## 1991 ALASKA LEGISLATIVE PROGRAM

### PRIORITIES

#### HEALTH

- Increase access to appropriate and affordable health care for all Alaskans by:
  - advocating formulation of a health policy for Alaska
  - supporting concept of state-mandated insurance for the uninsured
  - seeking legislation and appropriations for a comprehensive and coordinated program of home-, community-, and institutionally-based services throughout the state
  - supporting availability of adequate health insurance for all, including those uninsured

#### ECONOMIC SECURITY AND BUDGET

- Strengthen programs which will provide economic security for all Alaskans by:
  - supporting legislation to stabilize the Longevity Bonus Program
  - advocating recognition of the economic and social value of the retirement community by supporting programs to encourage retirees to remain in Alaska
  - supporting full funding of present property tax relief to senior citizen homeowners and renters

#### SUPPORT ITEMS

- Support legislation to provide separate management of public pension funds
- Support efforts to improve availability of insurance by means of tort reform and/or increased regulations consistent with adequate consumer protection

SL1003AK(1090)

## ALASKA

State Legislative Committee

# 1991 FACTS & LEGISLATIVE PRIORITIES



American Association  
of Retired Persons

**ALASKA'S TEACHERS NEED AN INDEPENDENT PUBLIC CORPORATION  
TO MANAGE OUR RETIREMENT FUND**

—Charlie Arteaga  
Chair, TRS Board

You know that your retirement depends on the Teachers' Retirement trust fund. You may not realize that you own this retirement fund. You do, and it is time to take a hand in its management.

The Teachers' Retirement System (TRS) trust fund has now grown to more than \$1.6 billion in size. The State of Alaska and local school districts have contributed to this fund for your benefit, but no government owns this money. You own this money. By law, your pension rights are the private property of you, the individual beneficiary.

Unfortunately, some legislators do not understand this fact. Some think the State owns Teachers' Retirement and other pension funds, and some seem to think the fund could be taken or "borrowed" to help solve a fiscal crisis. To fight this kind of thinking, we need to take the TRS fund out of the political arena and put our retirement fund in an independent public corporation where we help run things.

There are other good reasons why we need to make this change now.

Right now, the Commissioner of Revenue, who is a political appointee, is in charge of your fund. (The TRS Board has no direct role in the investment of the funds, although the Board is responsible for administering retirement benefits.) The Commissioner of Revenue has divided loyalties, because the Department of Revenue must manage numerous other funds, collect state taxes, distribute Permanent Fund Dividends, and enforce child support obligations.

Investment of the TRS Fund and the other retirement and trust funds should be the only priority of the organization responsible for the funds. All these other jobs the Department of Revenue has to do tend to keep the TRS fund hidden from the public eye—and you and the other beneficiaries need to know how your retirement funds are being run.

We need to take the TRS fund out of the political arena. We also need to make sure the TRS fund gets more management attention and more visibility than it has under the present set-up. Establishing a separate public corporation for the investment of the TRS fund and other retirement and trust funds is the best way to achieve these goals. (The corporation would separately account for each of the funds, just as the Department of Revenue does now.)

This corporation should be governed by a strong board of directors which should include representatives of you, the beneficiaries, because you have your funds at stake. The board should also include professional investors, who will provide built-in expertise in the complicated world of finance. The corporation should have its own staff, which should be dedicated to achieving the best return for the beneficiaries and not be distracted by other duties.

The TRS Board believes that these changes are overdue. Only a few other states have a single person in charge of their teacher pension plans. A 1989 report by Legislative Audit recommended that the Alaska Legislature put a board of trustees in charge of TRS and PERS. Legislative Audit's recommendations included placing on the board both representatives of the beneficiaries and financial experts.

(See Page 4, TEACHERS NEED INDEPENDENT CORPORATION)

**WHAT'S HAPPENING IN  
OTHER STATES...**

New Jersey Retired Educators' Association is increasing its state life membership dues from \$150 to \$375 on August 31. Annual unified dues are \$35 and will increase annually with the cost-of-living adjustment.

California Teachers' Association-Retired (CTA-R) and California Retired Teachers' Association (CRTA) are joining forces as a result of an agreement between California Teachers' Association, the statewide active teachers' organization, and CRTA, the predominant association for retired teachers in California. With turf battles settled, the new organization should see rapid growth.

Arkansas Retired Educators' Association has experienced rapid membership growth since passage of legislation to permit dues transmittal through the state retirement system. Arkansas now has 1,960 NEA-R members and is eligible for two official delegates at the annual meeting.

Washington Education Association Retired has life membership dues of \$75 and annual dues of \$10. One of the goals of the organization is to up the maximum of the three percent cost-of-living adjustment for retirees.

Michigan Education Association-Retired has as a part of its pre-retirement seminars a computerized program for use in determining retirement benefits and retrieving information about specific programs in the retirement system.

**NEA-AK/R NEWSLETTER**

The official organ of NEA-Alaska/Retired, the Newsletter is published quarterly at Anchorage, Alaska.

Editor: Dr. Merritt C. Olson

### ALASKA'S TEACHERS NEED INDEPENDENT CORPORATION

(Continued from page 1)

Legislation to accomplish this came very close to being enacted during the last session of the legislature. The bill was called Senate Committee Substitute for Committee Substitute for House Bill 580 (State Affairs). The only thing that prevented the passage of this legislation was the belief of some legislators that mixing the management of the TRS fund and other retirement funds in with the management of the Permanent Fund was a better approach. It is not.

The Permanent Fund is owned by all Alaskans. The retirement funds are owned by you and other beneficiaries. Getting mixed up with the Permanent Fund will confuse the point we need to make--that the retirement funds are our property, not the property of all Alaskans and every legislator.

Mixing the retirement funds in with the Permanent Fund would create a complicated, unwieldy creature just when we are on the verge of establishing a strong management structure for the retirement funds that will give those funds high visibility and clarity of purpose. TRS and the other retirement funds have been buried at the Department of Revenue for years. Why would we bury them now in the Permanent Fund?

The management of the retirement funds will be an important issue during next year's legislative session. I urge you to tell your legislator--and all those who want to be your legislator--that you support an independent public corporation to run your retirement fund. The Teachers' Retirement System fund belongs to you and other teachers, active and retired. Creating an independent public corporation will allow you to have a say in the management of your money, and will make the system more accountable to you. You and your money deserve nothing less.

### ALASKA TRS SAYS "NO" TO DUES CHECK-OFF

The Alaska Teachers' Retirement System recently denied NEA-Alaska/R's request for a membership check-off for dues payments. Sally Smith, director of the Division of Retirement and Benefits, indicated that the check-off would involve expenses in compiling lists that "would impact an already stretched operation at a cost to everyone--not just those who express interest."

Last year the Arkansas legislature enacted a measure that mandated the retirement system of the state to provide a dues check-off for the Arkansas Retired Educators' Association. It has resulted in a marked increase in membership for the Arkansas retired group.

### MEDICARE MAKES CHANGES IN CLAIMS REPORTING

Beginning September 1, 1990, doctors providing medical treatment must prepare and submit Medicare claims for all Part B services, Medicare officials recently announced. Details of the announcement include:

- The physician, surgeon or medical supply company MUST prepare and submit the claim even if assignment is not accepted. A charge cannot be made for handling the claim.
- If the provider of medical services does not agree to accept the Medicare approved amount as payment in full, the patient is responsible for paying the entire bill. Medicare payment for the approved amount will be mailed directly to the patient.
- If the provider of medical services refuses to prepare and submit the Medicare claim, the patient should contact the Medicare carrier.

### NEA-ALASKA PRESIDENT'S MESSAGE . . .

--Don Oberg

The 1989-90 success of NEA-Alaska was due to a great extent to the support and leadership of the members of NEA-AK/Retired. Your organizational talents were perhaps most evident in the political arena as we were able to gain significant improvements in our retirement programs and other NEA-Alaska legislative priorities.

We look forward to another productive and rewarding year working together to improve our Alaskan schools as well as benefits to members of our profession--past and present.

### PRE-RETIRED SEMINAR FEATURED AT NEA-AK ISSUES CONFERENCE

NEA-Alaska/R gave two pre-retirement seminar sessions at the NEA-Alaska Issues Conference held at the Anchorage Hilton Hotel on August 9 and 10. The first sectional covered financial planning and TRS pension and Social Security coverage. The second session dealt with choosing a retirement location.

Don Schulz, Hank Harrison and Merritt Olson conducted the sessions which were attended by 35 teachers and educational support personnel from all parts of Alaska.

### MEMBERSHIP DUES:

NEA-R Life	\$100
Annual	\$ 10
NEA-AK/R Life	\$200
Annual	\$ 25

# UNIVERSITY OF ALASKA FAIRBANKS



## Governance Office

Fairbanks, Alaska 99775-0680  
(907) 474-7964 • FAX: (907) 474-5213

JAN 25 1991

January 16, 1991

Senator Pat Pourchot  
Alaska State Legislature  
P.O. Box V (MS 3100)  
Juneau, Alaska 99811

JAN 25 1991

Dear Senator Pourchot:

Enclosed is a copy of a position paper regarding the PERS/TRS fund the UAF Staff Council passed at its December 7, 1990. Currently the PERS funds are managed by the Commissioner of Revenue, a gubernatorial appointee. This places the fund in possible jeopardy because of political pressure. Fiduciary responsibility for funds of this magnitude should not be placed in the hands of just one person.

UAF Staff Council is recommending that the management board for the PERS/TRS fund be separate from the Permanent Fund because the money belongs to a different group of people. The reason for ensuring the separation of pension funds from the Permanent Fund is the difference in ownership use and needs of the PERS/TRS fund.

The paper has been forwarded to Wendy Redman, Vice President for University Relations. Vice President Redman will be lobbying the legislature on this matter.

If you have questions regarding this matter, do not hesitate to contact me at 474-6162 or Lola Oliver, President of the UAF Staff Council at 474-7114. If you would like to discuss this matter further, I will be in Juneau on April 18 and 19 for the Board of Regents meeting.

Enclosed you will also find a 1991 UAF Staff Council calendar, enjoy.

Sincerely,

Lois Hildenbrand, President-Elect  
UAF Staff Council

LH/kam

Enclosures

The UAF Staff Council approved the following at its Meeting #29 on December 7, 1990:

MOTION PASSED (unanimous approval)

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The UAF Staff Council moves to endorse the following position paper regarding the PERS/TRS fund:

1. PERS funds should be managed and invested by a separate public corporation. This corporation should be developed for the specific purpose of managing the investment and benefit administration of public pension funds within the state of Alaska.
2. The Corporate Board of Trustees should have fiduciary responsibility for the PERS fund and any other public pension fund managed by the corporation.
3. The Board should be composed of: elected representatives of the beneficiaries of the various funds; the Commissioner of Revenue (nonvoting); and gubernatorial appointees from fund employers. There should be equal representation between employers and employees.
4. An Advisory Council of investment experts should be established by the Board. The purpose of the Council should be to provide information to the Board based on its cumulative expertise in investment matters.
5. The Board should be responsible for hiring an Executive Director for the corporation who in turn should hire his/her staff for administration of operational and investment matters.
6. Under no circumstances should the PERS funds be co-mingled with the Alaska Permanent Dividend Fund.

RATIONALE: PERS funds are currently managed by the Commissioner of Revenue, a gubernatorial appointee. This places the fund in possible jeopardy because of political pressure. Fiduciary responsibility for funds of this magnitude should not be placed in the hands of just one person. The management board for the PERS/TRS fund should be separate from the Permanent Fund

because the money belongs to a different group of people. The reason for ensuring the separation of pension funds from the Permanent Fund is the difference in ownership use and needs of the PERS/TRS fund.

Lola Kay Olin 12/19/90  
President, UAF Staff Council Date

SUPPLEMENTAL BENEFITS SYSTEM (SBS) ISSUE PAPER

Senator Pat Pourchot

January 22, 1991

WHAT IS THE SUPPLEMENTAL BENEFITS SYSTEM (SBS)?

The SBS program was established in 1979 as a replacement for the Federal Social Security program, from which the state withdrew. It was designed to offer "risk free" accumulation of retirement income under an annuity plan. Currently, the SBS investment portfolio of over \$540 million consists exclusively of Guaranteed Investment Contracts (GICs) with seven carriers. The program is expected to total \$800 million in 1992.

State employees are required to participate in the plan. Each month a contribution of 12.26% of an employee's salary is made to the employee's individual account. Contributions are equally shared by the employer and employee. The employee contributes 6.13% in employee pre-tax wage reductions while the employer contributes an equal amount in additional wages.

IS SBS CONSIDERED A RETIREMENT "PENSION" PROGRAM?

SBS participants are, at present, nearly exclusively "active" employees unlike PERS and TRS, in which vested terminated and retired employees constitute the majority of plan participants. 88% of the SBS program participants are state government employees compared with the PERS plan, which is only 46% state employees. Notably, 95% of all SBS participants elect to withdraw their savings in a lump sum upon leaving state service, regardless of age or retirement status. Participation in the retirement systems i.e. PERS, restricts benefit distribution to a post retirement formula.

According to the 1990 William M. Mercer SBS Report, "participants in SBS may see it as a savings plan because they have other retirement income benefits available. Younger employees typically view this type of plan as a savings plan".

Additionally, SBS is viewed differently from standard retirement programs at federal levels. SBS is not subject to the Employees Retirement Income Security Act (ERISA) as are other state retirement systems.

WHO MANAGES THE SBS FUNDS?

The Department of Administration (DOA) has historically been responsible for the investment and administration of the SBS program. In April 1990, by agreement between the Departments, through temporary regulations, the investment responsibility for

SBS assets was transferred from DOA to the Department of Revenue (DOR). No formal statement of fiduciary responsibility has been formulated for SBS. The PERS board, by statute, has the responsibility to adopt regulations and policies for the operation of the program.

As of this date, DOA and DOR have formed a SBS Task Force, with the PERS Board's approval. The Task Force assisted in drafting a Request for Proposal to select an entity to invest and administer the SBS annuity funds, for the purpose of diversifying the investment strategy of the funds. The Department intends to solicit proposals from financial institutions involved with annuity fund investment, management and benefit dispersal.