

ALASKA LEGISLATURE COMMITTEE FILES 1991-1992 8672  
7304 HOUSE STATE AFFAIRS

Mr. Daniel E. Carpenter  
Benefit Concepts, Inc.

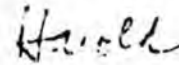
-Page Two-

January 8, 1985

- (2) An insurance company can package its investment objectives in the form of contractual guarantees. For example, the contract would incorporate interest guarantees for a period of 10 years. Also, liquidity may be made available on a scheduled basis - with loans or surrenders from the contract scheduled to parallel the expected cash proceeds from the investment program.
- (3) The risk of market value fluctuations to the state of Alaska can be modified or eliminated through the surrender provision.
- (4) The life insurance benefits can be structured to meet the cost recovery needs of the proposed program.

I hope that the foregoing information will be helpful to you.

Sincerely,



Harold G. Ingraham, Jr.

HGI/mjf

APPENDIX C

TILLINGHAST REPORT

THOMAS SORENSON

December 26, 1984

Mr. Harold G. Ingraham, Jr., FSA  
Senior Vice President and Chief Actuary  
New England Mutual Life Insurance Company  
501 Boylston Street  
Boston, Massachusetts 02117

Dear Harold:

The purpose of this letter is:

1. To explain the status of the Alaska Longevity Bonus (ALB) program as I know it,
2. To outline the reasons which might support the use of an insurance carrier,
3. To state the product parameters used in our testing, and
4. To develop a recommendation for criteria which New England Mutual can use for the approval of a product.

## STATUS OF THE PROJECT

Our purpose has been to determine if there is a reasonable possibility of using an insurance product as a funding vehicle for the ALB program.

The situation, as I understand it, is as follows:

The ALB program involves a payment of \$3,000 per year (increasing by 3% per year) to all Alaskan residents age 65 or older. It is accepted that existing sources of income cannot be expected to support the program beyond ten years. The following remedies have been proposed or discussed by Benefit Concepts, Inc.

1. It is proposed that the ALB program be changed to a loan program in order to eliminate federal income taxes to residents.
2. Termination of the Permanent Fund Dividend (PFD) program for those receiving the ALB is suggested in conjunction with a longevity loan program. It is anticipated that the loan would be repaid by the insurance proceeds from the proposed funding program. The argument

is that taxes saved by the resident (through loans) would more than offset the loss of the PFD.

3. It is proposed that the State of Alaska purchase single premium life insurance policies insuring the lives of Alaska residents who are recipients (or who are expected to be recipients) of the ALB. The purchase has two objectives:
  - a. To provide a strong investment vehicle which will fund the benefits more effectively than either short-term investments or government bonds with equal safety, and
  - b. To implement the "tax savings" to Alaska residents. The insurance benefits are designed to recover the loan balance at the death of the recipient of the ALB.

At the present time, the utilization of an insurance carrier is a serious issue. Alaska has retained Peter Hutzell of Johnson & Higgins to review and evaluate the proposal.

#### UTILIZATION OF AN INSURANCE COMPANY

The following are the advantages of the use of an insurance contract:

1. One advantage relates to investment performance. An insurance company has the ability to package its investment objectives in the form of a contractual guarantee. In this instance, the following promises are important:
  - a. Interest guarantees over a period of 7 to 10 years. This would be implemented using targeted cash values in order to avoid surplus drain.
  - b. Liquidity may be made available on a scheduled basis. We intended to use a group insurance contract. Loans or surrenders may be designed to parallel the expected cash proceeds from the investment program.
  - c. Proper use of the life insurance contract can create tax write-offs for the insurer.
  - d. The risk of market value fluctuations to Alaska can be modified or eliminated through the surrender provision.
2. The life insurance benefits can be structured to meet the cost recovery needs of the proposed program.

#### PRODUCT ASSUMPTIONS USED FOR TESTING

The product used a 10-year guarantee of 10.33% and used the guaranteed interest or 6%, if higher, and population mortality as the basis for determining the required amount of insurance under Section 7702. The commission assumed is .4% of assets. This is subject to modification, if required. The population projections used 1960 Basic Group Mortality. The cost to borrow income on principal, used in some of the illustrations, was .5%.

#### PROPOSED PRODUCT CRITERIA

The investment elements of the program could be implemented using the same contract used for single premium pension close-out situations. The disadvantages of that approach in this situation are:

1. Large surplus drain would occur.
2. The cost recovery elements of the program would not be met.

We have favored the use of a group single premium life insurance product for the following reasons:

1. Intermediate guarantees can be made without large surplus drain. This is the situation under the present NAIC model law. We respect the fact that the Sarnoff proposal would require a reserve for targeted cash values.
2. It is possible to induce a tax write-off through surplus drain caused by the use of a nonforfeiture interest rate greater than 6%. This tax write-off can be used to subsidize the interest rate credited.

The product would be a variation of the single premium life product presently being offered by Covenant Life (Connecticut National as of January 1, 1985). The product should have the following characteristics:

1. It should qualify as life insurance under Section 7702. Life insurance reserve treatment is desirable if surplus drain is to be avoided. Also, a full deduction for interest credits is mandatory and life insurance tax treatment is one way to accomplish this result.
2. The product should use target cash values in order to produce the desired interest guarantees referenced by Benefit Concepts.
3. The contract form should be a group insurance contract, not an individual contract. It is intended that only limited borrowing be allowed and that the availability of cash surrender values be scheduled in order to support the cash flow characteristics of the investment approach.

4. The possible methods for handling surrender by the state are:
  - a. Pay-out of cash surrender values over a number of years.
  - b. Specific schedules for notice of surrender in advance of distribution date could be used.
  - c. It is also possible to use two declared interest rates: one for the current value used to determine insurance face amounts and one to determine cash surrender values.
5. Aggressive guaranteed interest rates would be for limited periods of time (5 to 10 years). Lower long-term guarantees are necessary to avoid surplus drain.
6. It is my opinion that aggressive near-term interest guarantees combined with conservative mortality guarantees are appropriate.
7. Mortality can be fully experience rated subject to a conservative maximum. Studies are not yet complete concerning Alaska residents' mortality.
8. It is advisable to disclose the formulas for declared interest rates, as long as protection against changes in life insurance company taxation are included. It should be noted that I favor an advantageous surrender provision in the event of adverse tax law changes.
9. Policy loans may be limited to 10% of the cash value in any one policy year. The "cost of the loan" should be contractually stated and should be set by the company in a manner which is consistent with the investment strategy to be used.
10. No promise should be made as to future contract provisions to be offered. I suggest that this situation be treated like a GIC. Certain conditions such as guarantee, etc. should be stated based upon delivery of premium within a carefully structured time-frame.

#### SUMMARY

This represents our view of the project as it has developed to date. There is clear interest on the part of Alaska in pursuing the subject, but there are a number of questions, such as final contract provisions, population projections and sources of funds, to be answered. It is appropriate for New England Mutual to offer a set of contract provisions at this time.

Sincerely,



Thomas B. Sorensen, FSA, MAAA

/lg

cc: Daniel E. Carpenter - Benefit Concepts

Tillinghast

1985	3,000
1986	3,390
1987	3,182
1988	3,278
1989	3,376
1990	3,477
1991	3,582
1992	3,689
1993	3,800
1994	3,914
1995	4,031
1996	4,152
1997	4,277
1998	4,405
1999	4,537
2000	4,673
2001	4,814
2002	4,953
2003	5,107
2004	5,260
2005	5,413
2006	5,580
2007	5,743
2008	5,920
2009	6,093
2010	6,281
2011	6,469
2012	6,663
2013	6,863
2014	7,069
2015	7,281
2016	7,500
2017	7,725
2018	7,957
2019	8,195
2020	8,441
2021	8,694
2022	8,955
2023	9,224
2024	9,501
2025	9,786
2026	10,079
2027	10,382
2028	10,693
2029	11,014
2030	11,344
2031	11,685
2032	12,035
2033	12,396
2034	12,763
2035	13,151
2036	13,546
2037	13,952
2038	14,371
2039	14,802
2040	15,245

Exhibit I and includes the use of the proposed life insurance policies to be issued by New England Mutual as a potential funding vehicle. We have illustrated the assumption of liability by the product taking place as of 1995. In other words, the Alaskan Benefit payable is zero for the first ten years. The assumption is that we are funding the longevity that benefit from other sources for a ten year transitional period. We have purchased the life product in the amount of \$120,000,000 of premium for each of the first three years. The attached summary (the third section of Exhibit I) demonstrates that the transitional benefit can be adequately funded in this manner. It should be noted that in the development of this data we have assumed that mortality followed the 1960 table. That table is contained in Exhibit III and is a slightly more conservative mortality table than that contained in the special reports (Exhibit IV).

Exhibit II summarizes the population data. The projections contained herein assume a 10% current investment environment in evaluating the cost recovery program. The product declared rate was 9.75%. It was assumed that the investment earnings rate would be 11.5%.

#### UTILIZATION OF AN INSURANCE COMPANY

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  - a. Interest guarantees over a period of 7 to 10 years. This would be implemented using targeted cash values in order to avoid surplus drain.
  - b. Liquidity may be made available on a scheduled basis. We intended to use a group insurance contract. Loans or surrenders may be designed to parallel the expected cash proceeds from the investment program.
2. Proper use of the life insurance contract can create tax write-offs for the insurer.
3. The risk of market value fluctuations to Alaska can be modified or eliminated through the surrender provision.
4. The life insurance benefits can be structured to meet the cost recovery needs of the proposed program.

The product would be a variation of the single premium life product presently being offered by Connecticut National (as of January 1, 1985). The product should have the following characteristics:

1. It should qualify as life insurance under Section 7702. Life insurance reserve treatment is desirable if surplus drain is to be avoided. Also, a full deduction for interest credits is mandatory and life insurance tax treatment is one way to accomplish this result.
2. The product should use target cash values in order to produce the desired interest guarantees referenced by Benefit Concepts.
3. The contract form should be a group insurance contract, not an individual contract. It is intended that only limited borrowing be allowed and that the availability of cash surrender values be scheduled in order to support the cash flow characteristics of the investment approach.
4. The possible methods for handling a request for surrender of the policy by the state are:
  - a. Pay-out of cash surrender values over a number of years.
  - b. Specific schedules for notice of surrender in advance of distribution date could be used.
  - c. It is also possible to use two declared interest rates: one for the current value used to determine insurance face amounts and one to determine cash surrender values.
5. Aggressive guaranteed interest rates would be for limited periods of time (5 to 10 years). Lower long-term guarantees are necessary to avoid surplus drain.
6. It is my opinion that aggressive near-term interest guarantees combined with conservative mortality guarantees are appropriate.
7. Mortality can be fully experience rated subject to a conservative maximum. Studies are not yet complete concerning Alaska residents' mortality.
8. It is advisable to disclose the formulas for declared interest rates, as long as protection against changes in life insurance company taxation are included.
9. Policy loans may be limited to 10% of the cash value in any one policy year. The "cost of the loan" should be contractually stated and should be set by the company in a manner which is consistent with the investment strategy to be used.
10. No promise should be made as to future contract provisions to be offered. I suggest that this situation be treated like a GIC.

Tillinghast

Mr. Dan Carpenter  
January 7, 1985  
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Certain conditions such as guarantee, etc. should be stated based upon delivery of premium within a carefully structured time-frame.

#### CONCLUSIONS

This study indicates that it is feasible to fund the program using the life insurance products described in the attached Exhibit V. The annual cost to fund this is \$120,000,000. Please note that in this illustration it was not necessary to utilize any borrowing. As a consequence, the interest differential on borrowing did not apply.

I look forward to our next discussion.

Regards,



Thomas B. Sorensen

/jc

Enclosure

cc: Harold Ingraham

Tillinghast

EXHIBIT I

SUMMARY OF  
ALASKAN LONGEVITY BONUS PROGRAM  
FUNDED WITH LIFE INSURANCE

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EXHIBIT II  
POPULATION DATA

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SURVIVING ALASKAN POPULATION

AGE	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
65	1705	1756	1781	1807	1844	1927	1924	2047	2027	2233	2173	2090	2278	2270	2381	2432	2523	2609	2696	2960	3198	3218	3751	3898	3915	3906
66	1491	1658	1708	1732	1835	1910	1874	1871	1991	1971	2172	2113	2033	2215	2208	2316	2365	2454	2537	2622	2879	3110	3130	3648	3791	3807
67	1280	1446	1608	1656	1680	1780	1853	1818	1815	1931	1912	2106	2050	1972	2149	2141	2246	2294	2380	2461	2543	2792	3017	3036	3538	3677
68	1212	1238	1399	1556	1602	1625	1722	1792	1758	1755	1868	1849	2037	1983	1907	2078	2071	2172	2219	2302	2380	2460	2701	2918	2936	3422
69	990	1168	1194	1349	1500	1545	1567	1660	1728	1695	1693	1801	1783	1964	1912	1839	2004	1997	2095	2139	2220	2295	2372	2604	2813	2831
70	953	951	1122	1147	1296	1441	1484	1505	1595	1660	1629	1626	1730	1713	1887	1837	1767	1925	1919	2013	2056	2133	2205	2279	2502	2703
71	873	912	910	1074	1098	1240	1379	1421	1441	1527	1589	1559	1557	1656	1640	1807	1758	1691	1843	1837	1926	1968	2041	2111	2181	2395
72	696	832	849	868	1024	1047	1183	1315	1355	1374	1456	1515	1487	1484	1579	1564	1723	1676	1612	1757	1751	1837	1876	1946	2013	2080
73	590	661	790	825	824	973	994	1123	1249	1286	1305	1382	1439	1411	1409	1499	1485	1636	1592	1531	1669	1663	1744	1781	1848	1911
74	537	558	625	747	780	779	920	940	1062	1181	1216	1233	1307	1360	1335	1332	1418	1404	1546	1505	1447	1578	1572	1649	1684	1747
75	457	505	525	588	703	735	733	866	885	999	1111	1145	1161	1230	1280	1256	1254	1334	1321	1456	1416	1362	1485	1480	1552	1585
76	372	428	473	492	551	659	688	687	811	828	936	1041	1072	1087	1152	1199	1176	1175	1250	1238	1363	1327	1276	1391	1386	1454
77	297	346	399	441	458	513	614	641	640	755	772	872	970	999	1013	1073	1117	1096	1094	1164	1153	1270	1236	1189	1296	1291
78	250	275	321	369	408	424	475	568	593	592	699	715	807	898	925	938	994	1034	1015	1013	1078	1067	1176	1144	1101	1200
79	197	230	253	295	339	375	390	437	522	546	545	643	657	742	825	850	862	914	951	933	931	991	981	1081	1052	1012
80	168	179	210	231	269	310	342	356	398	477	498	497	587	599	677	753	776	787	833	867	851	850	904	895	986	960
81	136	152	162	190	209	243	280	310	322	360	431	450	449	531	542	612	681	702	712	754	785	770	769	818	810	892
82	102	122	136	145	170	187	218	251	278	289	323	386	404	403	476	486	549	611	629	638	676	703	690	689	733	726
83	79	91	108	121	129	151	166	194	223	246	256	287	343	358	358	422	431	487	542	558	566	600	624	613	612	651
84	52	69	80	95	106	113	133	146	170	196	217	225	252	302	315	314	371	379	428	476	491	498	527	549	538	538
85	46	45	60	69	83	93	99	115	127	148	170	188	196	219	267	274	273	323	330	373	414	427	433	459	477	468
86	29	39	39	52	60	71	80	85	99	109	127	146	162	168	188	225	235	235	277	284	320	356	367	372	394	410
87	16	24	33	33	44	51	60	68	72	84	93	108	124	138	143	150	192	200	200	236	241	272	303	312	316	335
88	13	13	20	28	28	37	43	51	57	60	71	78	91	104	115	120	134	161	168	168	198	202	228	254	261	265
89	8	10	11	17	23	23	30	35	42	47	50	54	64	75	86	95	99	111	133	139	139	164	167	189	210	216
90	5	7	9	9	14	19	19	25	29	34	38	41	48	52	61	70	78	81	91	108	113	113	133	136	154	171
91	4	4	5	7	7	11	15	15	20	23	27	31	33	38	42	49	56	62	65	73	87	91	90	107	109	123
92	3	3	3	4	5	6	9	12	12	16	18	21	24	26	30	33	38	44	49	51	57	68	71	71	84	86
93	1	2	3	3	3	4	4	7	9	9	12	14	17	18	20	23	25	30	34	38	39	44	52	55	55	64
94	1	1	2	2	2	2	3	3	5	7	7	9	10	12	14	15	17	19	22	25	28	29	33	39	41	41
95	1	1	1	1	1	1	2	2	2	4	5	5	6	8	9	10	11	12	14	16	18	20	21	24	28	30
96	0	0	0	0	1	1	1	1	2	2	2	3	3	5	5	6	7	7	9	10	11	13	14	15	16	20
97	0	0	0	0	0	1	1	1	1	1	1	2	2	2	3	3	4	5	5	6	6	7	8	9	10	11
98	0	0	0	0	0	0	0	0	0	0	1	1	1	1	1	2	2	2	3	3	3	4	4	5	5	5
99	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	1	1	1	1	1	1	2	2	2	2

EXHIBIT III  
1960 BSG MORTALITY TABLE

Tillinghast

TABLE 3

## 1960 BASIC GROUP MORTALITY TABLE

Age	$q_x$	$l_x$	$d_x$	$e_x$
0	.00613	10,000,000	63,300	71.30
1	.00196	9,936,700	19,476	70.75
2	.00118	9,917,221	11,702	69.89
3	.00059	9,905,522	8,816	68.97
4	.00073	9,896,706	7,225	68.03
5	.00065	9,859,481	6,428	67.08
6	.00058	9,833,053	5,732	66.13
7	.00052	9,877,321	5,136	65.17
8	.00018	9,872,155	4,739	64.20
9	.00016	9,867,416	4,539	63.23
10	.00015	9,862,507	4,438	62.26
11	.00016	9,858,469	4,535	61.29
12	.00019	9,853,931	4,828	60.31
13	.00055	9,849,106	5,417	59.34
14	.00064	9,843,659	6,300	58.38
15	.00074	9,837,359	7,280	57.41
16	.00085	9,830,109	8,356	56.46
17	.00091	9,821,753	9,232	55.50
18	.00098	9,812,521	9,616	54.55
19	.00099	9,802,905	9,705	53.61
20	.00100	9,793,200	9,793	52.66
21	.00101	9,783,407	9,881	51.71
22	.00102	9,773,526	9,969	50.76
23	.00103	9,763,557	10,056	49.82
24	.00104	9,753,501	10,144	48.87
25	.00105	9,743,357	10,231	47.92
26	.00107	9,733,126	10,414	46.97
27	.00108	9,722,712	10,501	46.02
28	.00111	9,712,211	10,781	45.07
29	.00113	9,701,430	10,963	44.12
30	.00117	9,690,467	11,338	43.16
31	.00121	9,679,129	11,712	42.21
32	.00126	9,667,417	12,181	41.27
33	.00133	9,655,236	12,811	40.32
34	.00143	9,642,395	13,789	39.37
35	.00154	9,628,606	14,828	38.43
36	.00168	9,613,778	16,151	37.48
37	.00184	9,597,627	17,660	36.55
38	.00201	9,579,967	19,543	35.61
39	.00227	9,560,424	21,702	34.68
40	.00252	9,538,722	24,038	33.76
41	.00281	9,514,684	26,736	32.85
42	.00313	9,487,918	29,697	31.94
43	.00348	9,458,251	32,915	31.04
44	.00387	9,425,336	36,476	30.14
45	.00429	9,388,860	40,278	29.26
46	.00475	9,348,582	44,406	28.38
47	.00526	9,304,176	48,910	27.51
48	.00582	9,255,236	53,865	26.66
49	.00643	9,201,371	59,165	25.81

TABLE 3--Continued

## 1960 BASIC GROUP MORTALITY TABLE

Age	$q_x$	$l_x$	$d_x$	$e_x$
50	.00710	9,142,206	61,910	24.97
51	.00783	9,077,296	71,075	24.15
52	.00861	9,006,221	77,814	23.34
53	.00953	8,928,407	85,088	22.54
54	.01051	8,843,319	92,913	21.75
55	.01157	8,750,376	101,242	20.97
56	.01270	8,649,134	109,814	20.21
57	.01392	8,539,290	118,867	19.47
58	.01520	8,420,423	127,990	18.73
59	.01656	8,292,433	137,323	18.02
60	.01802	8,155,110	146,955	17.31
61	.01959	8,008,155	156,880	16.62
62	.02133	7,851,275	167,468	15.94
63	.02322	7,683,807	178,418	15.28
64	.02526	7,505,389	189,586	14.63
65	.02750	7,315,803	201,185	13.99
66	.03000	7,114,618	213,439	13.38
67	.03277	6,901,179	226,152	12.77
68	.03581	6,675,027	239,233	12.19
69	.03919	6,435,794	252,219	11.62
70	.04278	6,183,575	264,533	11.08
71	.04655	5,919,042	275,531	10.55
72	.05018	5,643,511	284,884	10.04
73	.05452	5,358,627	292,152	9.55
74	.05878	5,066,475	297,807	9.07
75	.06337	4,768,668	302,190	8.61
76	.06845	4,466,478	305,730	8.15
77	.07413	4,160,748	308,519	7.72
78	.08059	3,852,229	310,451	7.30
79	.08771	3,541,778	310,649	6.89
80	.09510	3,231,129	308,250	6.51
81	.10360	2,922,879	302,810	6.14
82	.11219	2,620,069	293,946	5.79
83	.12113	2,326,123	281,763	5.46
84	.13013	2,044,360	266,616	5.14
85	.14017	1,777,714	249,182	4.84
86	.15038	1,523,532	229,861	4.55
87	.16116	1,298,671	209,294	4.26
88	.17263	1,089,377	188,059	3.99
89	.18507	901,318	166,807	3.71
90	.19879	734,511	146,013	3.44
91	.21422	588,498	126,068	3.17
92	.23186	462,430	107,219	2.90
93	.25230	355,211	89,620	2.62
94	.27624	265,591	73,367	2.34
95	.30650	192,224	58,917	2.05
96	.34966	133,307	46,612	1.73
97	.42653	86,695	36,978	1.39
98	.56054	49,717	27,863	1.05
99	.75169	21,819	16,424	.75
100	1.00000	5,425	5,425	.50

EXHIBIT IV  
MORTALITY FROM SPECIAL REPORTS

Tillinghast

TABLE 1  
Revised Life Table - Total Population 1960

Age	Population	Deaths	$q_x$	$Q_x$	$l_x$	$d_x$	$L_x$	$T_x$	$e^o$
Under 1 year	8753	141	.016109	.015169	100000	1617	98938	7269445	72.70
1-4 years	20196	29	.000940	.002833	98483	377	392780	7170707	72.81
5-9 years	35043	13	.000371	.001853	98106	182	690544	6777999	69.09
10-14 years	34282	11	.000321	.001604	97924	187	689097	6287433	64.21
15-19 years	37154	68	.001830	.009108	97767	890	684339	5798336	59.31
20-24 years	45090	160	.002218	.011829	96877	1068	681515	5111997	54.83
25-29 years	48445	98	.002015	.010024	96009	960	476427	4039482	50.42
30-34 years	42163	87	.002063	.010262	94849	973	471643	354055	46.91
35-39 years	31316	73	.002331	.011587	93876	1088	466752	3082412	41.36
40-44 years	22706	83	.003655	.010109	92788	1480	459644	2419460	26.81
45-49 years	18104	73	.003967	.019640	91108	1789	450971	2956016	32.45
50-54 years	15839	113	.007134	.035045	89319	3130	438744	2505045	28.05
55-59 years	12817	133	.010541	.051352	85189	4426	419884	2046301	23.97
60-64 years	8096	138	.017045	.081742	81763	6483	392080	1846417	20.14
65-69 years	5206	184	.035502	.146011	75000	10963	348010	1254337	16.71
70-74 years	3106	108	.034771	.159951	64117	10256	294256	906327	14.14
75 years and over	3235	285	.088099	1.000000	53861	53861	611369	611369	11.35

TABLE 2  
Revised Life Table - Males 1960

Age	Population	Deaths	$q_x$	$Q_x$	$l_x$	$d_x$	$L_x$	$T_x$	$e^o$
Under 1 year	4452	82	.018419	.017329	100000	1733	98787	6819205	68.19
1-4 years	15588	16	.001026	.004096	98267	402	391813	6720418	68.39
5-9 years	17943	8	.000446	.002228	97865	218	688789	6320605	64.67
10-14 years	17720	9	.000508	.002537	97647	248	688189	5839816	59.81
15-19 years	19819	50	.002523	.012536	97399	1221	483948	5351627	54.95
20-24 years	24186	83	.003432	.017014	96178	1636	476690	4847679	50.61
25-29 years	25564	73	.002856	.014179	94542	1341	469538	4390989	46.44
30-34 years	22676	67	.002955	.014667	93201	1367	462606	3921451	42.08
35-39 years	17077	52	.003045	.015110	91834	1368	455829	3458845	37.66
40-44 years	12484	58	.004646	.022963	90446	2077	447051	3003016	33.20
45-49 years	9982	52	.005209	.025710	88369	2272	436168	2555965	28.92
50-54 years	8711	74	.008495	.041592	86097	3581	421542	2119797	24.62
55-59 years	6777	90	.013280	.064266	82516	5303	399322	1698255	20.58
60-64 years	4203	104	.024169	.113959	77213	8799	364061	1298933	16.82
65-69 years	2740	110	.040146	.182421	68414	12480	310865	934872	13.66
70-74 years	1538	71	.046164	.206937	55934	31575	250737	624007	11.16
75 years and over	1481	176	.118839	1.000000	44359	44359	373270	373270	8.41

TABLE 3  
Revised Life Table - Females 1960

Age	Population	Deaths	$q_x$	$Q_x$	$l_x$	$d_x$	$L_x$	$T_x$	$e^o$
Under 1 year	4301	59	.013718	.012944	100000	1294	99094	7985670	79.86
1-4 years	14608	13	.000890	.003554	98706	351	394382	7886576	79.90
5-9 years	17100	5	.000292	.001459	98355	143	493151	7492194	76.18
10-14 years	16562	8	.000543	.002711	98211	266	492593	6999043	71.27
15-19 years	17335	18	.001038	.005177	98045	507	488439	6506450	66.43
20-24 years	20904	17	.000813	.004057	97438	395	485855	6018011	61.78
25-29 years	23081	25	.001083	.005400	97043	524	483341	5532156	57.01
30-34 years	19487	20	.001026	.005117	96519	494	481482	5048315	52.30
35-39 years	14239	21	.001475	.007348	96025	706	478644	4566833	47.56
40-44 years	10222	25	.002446	.012156	95319	1159	473835	4088189	42.89
45-49 years	8422	21	.002493	.012388	94160	1167	468111	3614354	38.39
50-54 years	7128	39	.005471	.026986	92993	2518	458783	3146243	33.83
55-59 years	5840	43	.007363	.036149	90483	3271	444248	2687460	29.70
60-64 years	3793	34	.008964	.043838	87212	3823	426484	2243212	25.72
65-69 years	2466	54	.021898	.103807	83389	8656	395287	1816728	21.79
70-74 years	1568	37	.023597	.112412	74733	8326	302842	1421441	19.82
75 years and over	1784	109	.062164	1.000000	66407	66407	1068599	1068599	16.02

## GIC (GUARANTEED INVESTMENT CONTRACT)

## SINGLE PREMIUM LIFE INSURANCE

### INTEREST GUARANTEES

a. Subject to reserve interest rates on a preferred basis if no liquidity although very high interest rates would incur surplus drain.

b. The reserve interest rate is presently 11.25% for a 5-year guarantee and 10.75% for a 10 year guarantee (Moody Index of 13.4%).

Guarantees can be made with no surplus drain through manipulation of mortality tables.

### CONTRACT DURATION

Products normally are not renewable contracts, but renegotiated at maturity.

Renewal is automatic since this is a permanent insurance policy.

### INTERMEDIATE TERM SURRENDER VALUES

Cash value at surrender must be available only at the maturity date if surplus drain is to be avoided. There is no special tax write-off.

The equity terms can be structured in the policy at the option of the insurer or negotiated between the insurer and the purchasing company.

### RESERVE CATEGORY

This is not a life insurance reserve item, therefore, creates a limitation on the amount of business that an insurer can issue using this type of product. Result is that, under large bid circumstances, only very large companies can quote.

This product qualifies as a life insurance policy so it receives life insurance reserve treatment and avoids the dilution problem inherent with GIC's.

### TAX SITUATION

Interest credited to the cash value is deductible. Only a limited excess write-off can be developed.

A tax write-off in excess of interest credited can be generated with this product. Note that tax write-offs use real surplus but not real dollars.

### MARKET AVAILABILITY

Qualified plan market only.

This product can also be written outside of the pension plan area. Some companies marketing GIC's believe they are prevented by insurance statutes from issuing GIC's outside of qualified plans.

ANALYSIS OF RATES OF RETURN

	<u>GIC</u>	<u>Change</u>	<u>SPL</u>	<u>Change</u>
Underlying Investment Rate	12.50%		12.50%	
Premium Tax	12.50	0	12.25	- .25
10 Year Guarantee	12.00	- .50	12.25	0
Tax Write-Off	12.25	+ .25	14.25	+2.00
Cost of Insurance Corridor	12.25	0	13.50	- .75
Insurance Supplement To Yield	12.25	0	14.25	+ .75

1985	3,000
1986	3,090
1987	3,182
1988	3,273
1989	3,376
1990	3,477
1991	3,582
1992	3,689
1993	3,800
1994	3,914
1995	4,031
1996	4,152
1997	4,277
1998	4,405
1999	4,537
2000	4,673
2001	4,814
2002	4,953
2003	5,107
2004	5,260
2005	5,418
2006	5,580
2007	5,743
2008	5,920
2009	6,093
2010	6,251
2011	6,469
2012	6,663
2013	6,863
2014	7,069
2015	7,281
2016	7,500
2017	7,725
2018	7,957
2019	8,195
2020	8,441
2021	8,694
2022	8,955
2023	9,224
2024	9,501
2025	9,786
2026	10,079
2027	10,382
2028	10,693
2029	11,014
2030	11,344
2031	11,685
2032	12,035
2033	12,396
2034	12,763
2035	13,151
2036	13,545
2037	13,952
2038	14,371
2039	14,802
2040	15,245

APPENDIX D

COVENANT LIFE  
SINGLE PREMIUM WHOLE LIFE POLICY

## CERTIFICATE OF INSURANCE

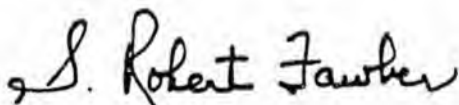
We, the Covenant Life Insurance Company certify that we have issued and delivered to the Policyholder, who is named in the Schedule, a Policy of Group Insurance shown in the Schedule.

This Certificate will take effect when the Schedule Pages are attached. The main provisions of the Group Policy which apply to you are shown on the following pages of this group certificate.

The Group Policy is non-participating. It will not pay dividends.

All coverage under the Policy will be governed by the laws of the State of Rhode Island which is the state of delivery of the Group Policy.

Signed at our Administrative Office,

  
SECRETARY

  
PRESIDENT

**SPECIMEN**

### ONE YEAR RIGHT TO EXAMINE CERTIFICATE

If you are not satisfied with your insurance for any reason, we will cancel it and refund all of your premium if you return the Certificate to us within one year of the date you received it. You can return the Certificate either to our Agent or directly to us.

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### COVENANT LIFE INSURANCE COMPANY

A Stock Company

Home Office: Somerville, New Jersey 08876 • Administrative Office: Hartford, Connecticut 06101

12790-0

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SCHEDULE OF BENEFITS AND PREMIUM

PLAN OF INSURANCE

PREMIUM

GROUP SINGLE PREMIUM WHOLE LIFE

\$13,949

THE PREMIUM FOR THIS COVERAGE IS DUE ON OR BEFORE THE CERTIFICATE DATE

CERTIFICATE SPECIFICATIONS

INSURED HAROLD WISLON  
PARTICIPATING GROUP FINANCIAL SERVICES CO.  
POLICYHOLDER ABC TRUSTEES

AMOUNT OF INSURANCE	\$100,000	AGE AT ISSUE	35
CERTIFICATE DATE	MAY 19, 1983	CERTIFICATE NUMBER	XXXXX
GROUP NUMBER	XXXXX	POLICY NUMBER	XXXXX

OWNER- THE OWNER IS THE PERSON NAMED AS OWNER IN THE APPLICATION, UNTIL A NEW OWNER IS NAMED.

BENEFICIARY- THE BENEFICIARY IS THE PERSON NAMED AS BENEFICIARY IN THE APPLICATION, UNTIL A NEW BENEFICIARY IS NAMED.

PAGE 3

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GROUP SINGLE PREMIUM WHOLE LIFE  
TABLE OF GUARANTEED VALUES

INSURED HAROLD WISLOD      AGE 35      CERTIFICATE NO. SPECIMEN

<u>ACCOUNT YEAR</u>	<u>GUARANTEED CASH VALUE</u>	<u>ACCOUNT YEAR</u>	<u>GUARANTEED CASH VALUE</u>
1	14,212	34	52,903
2	14,877	35	54,489
3	15,584	36	56,083
4	16,320	37	57,677
5	17,086	38	59,260
6	17,882	39	60,819
7	18,707	40	62,343
8	19,563	41	63,831
9	20,451	42	65,283
10	21,371	43	66,704
11	22,324	44	68,103
12	23,310	45	69,486
13	24,332	46	70,851
14	25,390	47	72,191
15	26,485	48	73,494
16	27,618	49	74,745
17	28,786	50	75,938
18	29,987	51	77,070
19	31,220	52	78,151
20	32,482	53	79,189
21	33,774	54	80,201
22	35,093	55	81,206
23	36,444	56	82,225
24	37,826	57	83,290
25	39,239	58	84,433
26	40,683	59	85,702
27	42,154	60	87,130
28	43,649	61	88,738
29	45,161	62	90,511
30	46,686	63	92,385
31	48,223	64	94,241
32	49,770	65	100,000
33	51,330		

DECLARED INTEREST AT ISSUE 9.83%

## **EFFECTIVE DATE OF COVERAGE**

### **Conditions of Insurability and Effective Date**

Before his or her coverage under the Group Policy can take effect, the Insured named in the schedule of this Certificate must:

- be an eligible member of a Participating Group; and
- complete an Application for Insurance which is acceptable to us; and
- submit evidence of his or her insurability which is acceptable to us.

The Insured's coverage will take effect on the Certificate Date, as long as the premium is paid while the Insured is alive.

## **GENERAL PROVISIONS**

### **Ownership Provisions**

The Owner(s) of the Account is(are) the person(s) named as Owner in the Insured's Application, until a new Owner is named.

It is the Owner who is addressed as "you" in this Certificate. While the Insured is alive, only you may exercise the rights that the Group Policy provides with respect to your Account. You do not need the permission of the Insured to exercise these rights, nor do you need the permission of the Beneficiary, unless you have given him or her rights in your Account that limit your rights in the Account. Your rights include:

- The right to borrow on the Account.
- The right to surrender the Account.
- The right to name someone else as Owner or Beneficiary.
- The right to assign any interest in the Account.

You can name someone else as Owner at any time as long as the Insured is still alive. You must write to us and ask us to make the change. After we have approved the change, it will be effective as of the date that you signed your request, even if the Insured died in the meantime. However, we will not be liable for any payments we make, or actions we take before we receive and approve your request.

You can assign your interest in your account, but we will not be bound by the assignment until we have received a copy of it. We are not responsible for the validity of any assignment. Your rights and the Beneficiary's rights will be restricted or ended if your rights are assigned.

### **Death Benefit**

We will pay you the death benefit after we have

received proof of the Insured's death if the Insured dies while his or her coverage is in force. "In force" means while the premium for your Account has been paid and the Account has not been lapsed or surrendered for cash. Proof of death must be sent to our Administrative Office.

The death benefit will be: the greater of the Amount of Insurance shown on Page 3 or the cash value of the Account at the time of the Insured's death times the attained age factor shown on the table of factors attached to the Certificate; less any indebtedness. ("Indebtedness" is defined in the Loan Provisions.)

If the Insured commits suicide within two years of the Certificate Date, we will pay you an amount equal to: the greater of the premium paid or the guaranteed cash value of the Account; less any indebtedness. This restriction will apply whether the Insured was sane or insane when he or she took their own life.

### **Age**

When we refer to the age of the Insured in this Certificate, we mean his or her age on their nearest birthday. If the Insured's age is incorrectly stated, we will adjust all benefits under your Account to what the premium paid would have bought at his or her correct age. The adjustment will be based on the rates we were using when the Certificate was issued.

### **Contract Provisions**

The entire contract consists of: the Policy; the application of the Policyholder; the Adoption and Participation Agreement of the Participating Groups under the Policy (copies of which will be attached to the Policy); and the individual applications of the insured members. All statements made by the Policyholder, each Participating Group and the insureds are considered representations and not warranties.

We will not contest the validity of the insurance of the Insured on the basis of any statement that he or she made with regard to his or her insurability:

- after his or her insurance has been in force during his or her lifetime for more than two years; and
- unless he or she made the statement in writing and signed it and a copy of the statement has been given to you or to the Insured.

We may change the Policy at any time with the written consent of the Policyholder. Any such

change must be signed by one of the following officers:

- Our President;
- One of our Vice Presidents;
- Our Secretary;
- One of our Assistant Secretaries.

No other person, whether or not he or she is one of our agents, may change or waive any of the Policy provisions; nor can they make any agreement which will be binding on us.

The Certificate Date shown on page 3 will be used to determine Account Anniversaries, Account Months and Account Years. Each Account Year will begin on the same date in the same Calendar Month as the Certificate Date. If there is no same date, the Account Year will begin on the last day of the calendar month.

The Policyholder and the Participating Group must furnish us (on our forms) with:

- the name of the Owner of the Account;
- the name of the beneficiary;
- the information we will need to determine the age of the Insured, and the amount and effective date of his or her coverage;
- reports of all changes in the status of the Insured which affect his or her eligibility for coverage under the policy or the Amount of Insurance for which he or she is eligible.

### **PREMIUM PROVISIONS**

The premium must be paid on or before the Certificate Date. If it is not, the Insured's coverage will not go into force. Payment may be made either to our Agent or directly to us. You will be given a receipt if you ask for one. Your premium is shown on Page 3.

### **BENEFICIARY PROVISIONS**

The Beneficiary is the person named as Beneficiary in the application, until a new Beneficiary is named.

We will pay the death benefit to the Beneficiary. If no named Beneficiary survives the Insured, we will consider you to be the Beneficiary, and will pay the death benefit to you.

You can change the Beneficiary at any time as long as you have not assigned your Account, and the Insured is still alive. You must write to us and ask us to make the change. After we have approved the change, it will be effective as of the date you signed your request, even if the Insured died in the meantime. However, we will not be

liable for any payments we make, or actions we take before we receive and approve your request.

### **CONTINUATION PROVISION**

If the Group Policy is terminated as to the Participating Group, we will allow you to continue your Account in force under the Policy.

While your Account is being continued under this provision, it will still be subject to all of the terms of the Policy and of the Trust. We will still send all communications with regard to the Account to you, or, if you have assigned your interest in the Account, to the person that you assigned it to.

### **LOAN PROVISIONS**

You can borrow money from us any time after the first Account Year, if your Account has a loan value. To do so, you must assign your interest in the Account to us at our Administrative Office. Assignment of the Certificate to us will be the only security needed for such a loan. You may not borrow more than the loan value of your Account. We also have the right to delay making a loan for six months after we receive a request for one.

The loan value of your Account is: the cash value less any indebtedness.

When we use the word "indebtedness" in this Certificate, we mean not only all of the loans outstanding on your Account, but all interest that is due or accrued on them as well.

Your indebtedness must not exceed the cash value of your Account. If it ever does, the Account will lapse and have no further value. We will give you thirty one days notice that your Account is about to lapse, which we will mail to your latest address shown in our records. If our records show that you assigned your interest in the Account, we will also send a copy of the notice to the person you assigned it to, mailed to his or her latest address shown in our records.

If your Account lapses because your indebtedness exceeded the cash value of the Account, you may apply to us in writing to have it reinstated. We will reinstate your Account on four conditions:

- You must not have surrendered the Account.
- You must ask for the reinstatement no more than five years after your Account lapses.
- You must repay or reinstate any indebtedness, with interest at the current applicable loan

- rate up to the date we reinstate your Account.
- You must supply evidence of insurability that is satisfactory to us.

You may repay any or all of your indebtedness at any time before the Insured dies. However, if your Account has lapsed, you will not reinstate it just by repaying the indebtedness. You must meet all of the conditions for reinstatement.

#### **Loan Interest**

Each year, our Board of Directors will declare an interest rate for the next Account Year. This rate will be applied to your Account and will be used to accumulate the gross single premium you paid. We will send you a notice showing the new Declared Interest Rate.

The Declared Interest Rate will also be used to determine the interest rates we will charge on your loans. These loan interest rates may vary from year to year but we will never charge you more than the Maximum Loan Rate.

The loan interest rates we will charge are as follows:

- For that portion of a loan based on the accumulated gross single premium less the premium you paid, we will charge you the Declared Interest Rate plus up to 1/2 of one percent per year.
- For that portion of a loan in excess of the above amount, we will charge you the Declared Interest Rate plus 2.25 percent per year.

These rates are simple interest in arrears.

The Maximum Loan Rate will be the higher of:

- The Published Monthly Average of the Composite Yield on Seasoned Corporate Bonds, as published by Moody's Investors Service, Inc. (or any successor to that service) for the calendar month ending two months before the calendar month in which the Maximum Loan Rate is determined; or
- The nonforfeiture rate plus one percent per annum.

If that monthly average is no longer published, we will use a substantially similar average established by regulation issued by the insurance department of the state in which the group policy was delivered.

If you are being charged the Maximum Loan Rate and the Maximum Loan Rate computed for the next Account Year is less than 1/2% higher than

the rate for the previous Account Year, we will not increase the rate to the new rate. If the Maximum Loan Rate for the next Account Year is computed to be 1/2% or more below the rate for the previous year, we will decrease the rate to the new rate.

The nonforfeiture rate is the rate credited to your Account so as to provide you with the minimum values.

#### **NONFORFEITURE PROVISIONS**

##### **Cash Value and Surrender:**

The cash value of your Account is equal to the guaranteed cash value. The table on Page 3A shows the guaranteed cash values for your Account. The surrender value of your Account is equal to the guaranteed cash value of the Account, less any indebtedness.

Upon written request you may surrender your Account for cash. We will pay you the surrender value of your Account. Payment will end all of our obligations for your Account as of the end of the month in which we receive your request. We have the right to delay payment for six months after we receive your request.

If you surrender your Account within 30 days after the end of an Account Month, the amount payable will be at least equal to the surrender value as of the end of that prior Account Month.

##### **Minimum Values & Reserves**

The reserves and the values for your Account are at least equal to the minimum values required by law in the state where the Policy is delivered. These minimum values are based on: the 1980 Commissioner's Standard Ordinary Mortality Table; the maximum interest rate allowed by law for reserves on the Certificate Date, compounded yearly; and the Insured's age on his or her nearest birthday. We assumed all deaths in an Account Year occur at the end of the year.

A statement of the method of computing the cash values has been filed with the insurance department of the state in which the Policy was delivered.

##### **Table of Values**

The values in the table on Page 3A apply at the end of the Account Year shown. These values are calculated in accordance with the Minimum Values and Reserve Provision, assuming that there is no outstanding indebtedness. These values will be adjusted if your Account is sur-

rendered at any time other than at the end of an Account Year. Such interim values will take into account the lapse of time beyond the end of last Account Year. We will supply you with values not shown in the table if you ask us to.

If the Policy is amended in any way that would affect your cash values, we will furnish you with a new schedule of values. We guarantee that any change in the schedule of cash values will not reduce your values below those shown on your current schedule of guaranteed cash values.

### **SETTLEMENT OPTIONS**

You can choose to have the death benefit, or or the surrender value if your Account is surrendered, paid in monthly installments instead of as a lump sum. Your request must be made in writing and is subject to our consent. You may make such a request at any time during the Insured's lifetime. A request to pay the surrender value in installments, however, must be made no

more than a month after the surrender value becomes payable.

If you do not ask us to pay the death benefit in installments, the Beneficiary may make such a request after the Insured has died. He or she must do so, however, no more than one month after we received the proof of death.

We will pay the installments in the amount chosen, until the death benefit is exhausted. The amount chosen must be at least \$20.00 a month. We will credit interest on the unpaid balance of the fund at such a rate as we may declare for that year. If the Beneficiary died while the Death Benefit is being paid under this method, we will pay the balance of the fund to the estate of the Beneficiary.

We will pay the death benefit in accordance with any other method of settlement that you may request, as long as it is agreed to by both us and the Policyholder in writing.

**DEATH BENEFIT ATTAINED AGE FACTOR TABLE**

<b>ATTAINED AGE</b>	<b>FACTOR</b>	<b>ATTAINED AGE</b>	<b>FACTOR</b>	<b>ATTAINED AGE</b>	<b>FACTOR</b>
		35	2.50	70	1.15
1	2.50	36	2.50	71	1.13
2	2.50	37	2.50	72	1.11
3	2.50	38	2.50	73	1.09
4	2.50	39	2.50	74	1.07
5	2.50	40	2.50	75	1.05
6	2.50	41	2.43	76	1.05
7	2.50	42	2.36	77	1.05
8	2.50	43	2.29	78	1.05
9	2.50	44	2.22	79	1.05
10	2.50	45	2.15	80	1.05
11	2.50	46	2.09	81	1.05
12	2.50	47	2.03	82	1.05
13	2.50	48	1.97	83	1.05
14	2.50	49	1.91	84	1.05
15	2.50	50	1.85	85	1.05
16	2.50	51	1.78	86	1.05
17	2.50	52	1.71	87	1.05
18	2.50	53	1.64	88	1.05
19	2.50	54	1.57	89	1.05
20	2.50	55	1.50	90	1.05
21	2.50	56	1.46	91	1.04
22	2.50	57	1.42	92	1.03
23	2.50	58	1.38	93	1.02
24	2.50	59	1.34	94	1.01
25	2.50	60	1.30	95	1.00
26	2.50	61	1.28	96	1.00
27	2.50	62	1.26	97	1.00
28	2.50	63	1.24	98	1.00
29	2.50	64	1.22	99	1.00
30	2.50	65	1.20		
31	2.50	66	1.19		
32	2.50	67	1.18		
33	2.50	68	1.17		
34	2.50	69	1.16		

**COVENANT LIFE INSURANCE COMPANY**

Home Office: Somerville, New Jersey 08876  
Administrative Office: Hartford, Connecticut 06101

**PARTIAL SURRENDER RIDER**

This Rider forms a part of the Certificate to which it is attached.

It is effective on the effective date of the Certificate and terminates automatically on December 31, 1984. During this period, and upon written request, you may make a partial surrender for cash. A partial surrender will reduce the guaranteed cash value by the amount of the partial surrender. It will also reduce the death benefit value of the Account at the time of the partial surrender. We will provide you with a new Table of Benefits and values reflecting the reductions.

The amount of any partial surrender must be at least \$1000.00. A partial surrender may not cause the cash value after the partial surrender to be less than \$5000.00.

Signed at our Administrative Office,

**SPECIMEN**  
*[Signature]*  
PRESIDENT

APPENDIX E

REPORT OF DAVID ROSE  
OF  
THE PERMANENT FUND

PLAN I - APPROPRIATION PROCESS

DOES NOT REQUIRE APPROPRIATION OF CASH

REQUIRES APPROPRIATION OF ASSETS (LOAN PAPER)

CLEAN OUT THE FILE DRAWERS

CLEAN UP THE STATE BALANCE SHEET

NO GENERAL FUND EXPENDITURE IMPACT

IMPACT IS REVENUE SHORTFALL TO GENERAL FUND - NOT MONEY "ON THE TABLE"

VEST FUND WITH FOLLOWING LOANS:

	<u>AMOUNT</u>	<u>RATE</u>
COMMERCIAL FISHING	\$35,310,442	7.78%
FISHERIES ENHANCEMENT	6,881,187	7.96
SMALL BUSINESS	21,400,000	8.33
TOURISM	2,861,329	8.03
VETERANS	88,424,926	6.99
CHILDCARE FACILITIES	22,845	5.98
HISTORICAL DISTRICT	134,480	6.55
BANK LOAN INCENTIVE PROGRAM	3,193,003	8.38
MORTGAGE OPTION-RESIDENTIAL	2,130,845	9.95
MORTGAGE OPTION-BUSINESS	3,194,888	9.57
MOBILE HOME LOANS	3,679,978	8.75
ASHA MORTGAGES	1,208,695	7.50
AHFC NOTES	25,514,567	7.16
ASHA NOTES	15,282,505	8.56
MICA NOTES	3,000,000	7.00
U OF A NOTES	2,357,000	5.00

OBLIGATIONS PLEDGED TO AHFC	16,851,000	9.83
LOANS TO MUNICIPALITIES	245,000	6.06
ARRC MORTGAGES	<u>2,097,520</u>	<u>11.33</u>
TOTAL LOAN & MORTGAGE INVESTMENTS	\$233,790,210	7.73%

\*\*\*\*\*

CFAB	31,000,000	n/a
DEBT CERTIFICATES	<u>44,304,000</u>	<u>8.79</u>

PROJECTED

LOAN/MORTGAGE ANNUAL YIELD:	\$21,967,851	(7.73)
LOAN/MORTGAGE ANNUAL REPAYMENTS:	23,381,022	(10.00)
LOAN REPAYMENTS:	28,320,507	

HISTORICAL

LAST YEAR YIELD AND REPAYMENTS	\$46,937,940	
--------------------------------	--------------	--



benefit concepts

101 Park Avenue  
26th Floor  
New York, N.Y. 10178

(212) 682-9480

THE BENEFIT CONCEPTS, INC. - KIDDER PEABODY & CO. STUDY

One of the approaches examined by the committee was developed by Daniel Carpenter of Benefit Concepts, Inc. and Otto Lowe of Kidder Peabody & Co., Inc. The Benefit Concepts' program for funding the Longevity Bonus utilizes a specially designed Single Premium Whole Life contract that would be issued on a group basis with guaranteed issue underwriting without signatures, medical information, or any other requirements. The State of Alaska would be the owner and beneficiary of these policies.

The program is designed in such a way that the State would recover the funds expended for both the Longevity Bonus as well as the premiums paid. The carriers would be selected from an insurance consortium of New York licensed companies with an A+ rating in Best's Review and more than one billion dollars in assets. This would in effect guarantee the security of the program due to New York's Reserve Fund Program and its strict financial regulatory requirements for insurance carriers.



benefit concepts

The Single Premium Whole Life (SPL) product would act as a substitute for other insurance company investments such as GIC's or annuities, since GIC's (Guaranteed Investment Contracts) can only be used for pension plans, and annuities will not give as high a rate of return to the State. Insurance companies receive certain tax subsidies for life insurance contracts that can be passed on to the State of Alaska, which will provide the State with a higher rate of return on a guaranteed basis than can be earned with annuities, GIC's, corporate bonds, or government securities. The other advantage of this product is that unlike bonds or long term securities, if the State cashes in the policies, it will not suffer the market value adjustment that normally occurs from selling investments as interest rates are going higher.

Thus, this product was designed to give the State the maximum security and flexibility with a rate of return higher than other investments suitable for the funding of the Longevity Bonus Program.

This SPL product can be used by the State for the funding of the Longevity Bonus regardless of the final structure of the program. It was suggested by some of the committee members that the Department of Administration continue to investigate this program as a possible funding source for the Longevity Bonus once the legislature has made its decision as to the future of the Longevity Bonus Program.



benefit concepts

101 Park Avenue  
26th Floor  
New York, N.Y. 10178

(212) 682-9480

January 15, 1985

Ms. Deborah Vogt  
Assistant Attorney General  
State of Alaska  
Department of Law and  
Civil Division  
Pouch K, State Capitol  
Juneau, AK 99811

Dear Deborah:

Please find enclosed the two page synopsis of our program for the report. Please call me when you receive it. Also, when the report is complete could we get 6 - 12 copies of the report? We would appreciate it. We will also try to get the material Peter Hutzal asked for before the 24th.

With best regards,

A handwritten signature in cursive script, appearing to read 'Dan'.

Daniel E. Carpenter

DEC/dld

Encl.

cc: Peter Hutzal  
John Tillinghast ✓

PLAN II - KIDDER STUDY

BORROW FROM PERMANENT FUND AT 10%

REINVEST AT 13%

\*\*\*\*\*

- ° 10% IS NOT "MARKET" LOAN
- ° FUND WOULD SEEK 100 BASIS POINTS OVER US TREASURY RATE (12.52)
- ° ISSUER OF DEBT MUST BE AA RATED - INSURANCE COMPANIES WOULD NEED SOME CREDIT FACILITY

PLAN III - USE A PORTION OF DIVIDEND FUNDSPROJECTED DIVIDEND PAYMENTS  
TO STATE FROM APFC

1984	\$175,000,000
1985	213,000,000
1986	256,000,000
1987	285,000,000
1988	308,000,000
1989	334,000,000
1990	362,000,000
1991	403,000,000
1992	448,000,000

- TIE TO DIVIDEND MAY FORECLOSE ABILITY TO USE DIVIDENDS IN THE FUTURE TO  
FILL REVENUE SHORTFALL
- USE OF FUNDS IN 1985 MAY LOWER DIVIDEND CHECKS
- PHASE IN (JOINT DIVIDEND AND GENERAL FUND FUNDING) COULD BE CONSIDERED

PLAN IV -- APPROPRIATION OF RESERVES

STATUTE CONFLICTS:

50% - DIVIDENDS

66 2/3% - INFLATION PROOFING

RESERVES BUILD IN GOOD YEARS

RESERVES FALL IN BAD YEARS

AMOUNT OF RESERVES - SEE SCHEDULE

TRUSTEES AS FIDUCIARIES PROTECT INFLATION PROOFING

STATUTE CHANGE:

FIRST - INFLATION PROOFING

SECOND - OTHER APPROPRIATIONS

5% RESERVES

RESIDUAL FOR APPROPRIATION - ONTIME BASIS

- PORTION BACK TO FUND

- PORTION FOR OTHER USE

ADMINISTRATION

DEPARTMENT OF REVENUE WITH PERS AND TRS

DEPARTMENT OF ADMINISTRATION EMPLOYEE BENEFITS

PERMANENT FUND CORPORATION

- GOALS NOT SAME
- DIVERSION FROM MAIN MISSION

ALASKA PERMANENT FUND CORPORATION

FINANCIAL PROJECTIONS AS OF 11/30/84

PRINCIPAL: ACTUAL & PROJECTED  
(in millions)

INCOME: ACTUAL & PROJECTED  
(in millions)

Beginning FY Balance	Dedicated Appro- priations	State Revenues*	Inflation Proofing	Ending Balance	Inflation Adjusted Proofing Shortfall	Ending Balance	Net Income	Distributions			Reserves		Total Assets	FY	
								Inflation Dividends	State General Fund	Trans. Adj.**	Add (Delete)	Balance			
78		54.4		54.4		54.4	1.8			1.3	.5		55.0	78	
79	54.4	84.1		138.5		138.5	8.0			6.6	1.4		140.5	79	
80	138.5	344.4	.3	483.2		483.2	32.4	11.8	.3	11.8	8.5		502.9	80	
81	483.2	900.0	.2	1,768.5		1,768.5	149.9	27.5	.2	27.5	36.0	58.7	1,874.6	81	
82	1,768.5	800.0		2,969.0		2,969.0	368.4	71.1		71.1	41.1	185.1	3,301.7	82	
83	2,969.0	400.0	231.2	4,021.2		4,021.2	471.1	107.9	231.2	109.5	( 87.5)	110.0	4,593.0	83	
84	4,021.2	300.0	366.2	4,838.3		4,838.3	529.5	175.0	150.9			203.6	5,530.8	84	
85	4,838.3	100.0	361.3	5,522.2		5,522.2	612.1	213.1	222.6			176.4	733.8	6,469.1	85
86	5,522.2	367.0	353.4	6,242.6		6,242.6	579.6	256.1	353.4			( 29.9)	703.9	7,202.6	86
87	6,242.6	413.0	399.3	7,054.9		7,054.9	643.8	283.6	399.3			( 39.1)	664.8	8,003.3	87
88	7,054.9	460.0	450.9	7,965.8		7,965.8	715.5	308.0	450.9			( 43.4)	621.4	8,895.2	88
89	7,965.8	539.8	510.3	9,015.9		9,015.9	797.1	334.8	510.3			( 48.0)	573.4	9,924.1	89
90	9,015.9	551.9	574.1	10,141.9		10,141.9	887.9	362.4	574.1			( 48.6)	524.8	11,029.1	90
91	10,141.9	592.0	644.0	11,377.9		11,377.9	986.6	403.1	644.0			( 60.5)	464.3	12,245.3	91
92	11,377.9	611.9	719.4	12,709.2		12,709.2	1,093.3	448.0	719.4			( 74.1)	390.2	13,547.7	92
93	12,709.2	601.9	798.7	14,109.8		14,109.8	1,206.0	497.1	798.7			( 89.8)	300.4	14,900.0	93
94	14,109.8	590.6	882.0	15,582.4		15,582.4	1,323.5	549.7	882.0			( 108.2)	192.2	16,324.3	94
95	15,582.4	591.2	970.4	17,144.0		17,144.0	1,446.3	605.6	970.4			( 129.7)	62.5	17,812.1	95
96	17,144.0	583.5	972.9	18,700.4	90.8	18,791.2	1,574.8	664.4	972.9			( 62.5)		19,364.8	96
97	18,700.4	565.1	982.6	20,248.1	173.3	20,421.4	1,708.5	725.9	982.6					20,974.0	97
98	20,248.1	558.8	1,057.4	21,864.3	191.0	22,055.3	1,847.5	790.1	1,057.4					22,654.4	98
99	21,864.3	536.3	1,135.0	23,535.6	209.0	23,744.6	1,991.9	856.9	1,135.0					24,392.5	99
0	23,535.6	526.2	1,215.4	25,277.2	228.3	25,505.5	2,141.9	926.5	1,215.4					26,203.7	0

\* Source: Alaska Department of Revenue

\*\* Chapter 81, SLA 1982, Sec. 15(b)

ASSUMPTIONS: 30% CASE - 1st Qtr FY85

- 25% Pre-1980 Contribution Rate
- 50% Post-1979 Contribution Rate
- 4.20% Inflation FY85
- 10.88% Return FY85
- 6% Average Inflation FY86-FY00
- 9% Average Return FY86-FY00

# Alaska State Legislature

Legislative Research Agency



130 Seward Street, Suite 218  
Juneau, Alaska 99801-2196

Phone: (907) 465-3991  
Fax: (907) 463-3351

February 27, 1992

## MEMORANDUM

TO: Representative Gene Kubina

FROM: Paula d. Scavera *PKS*  
Legislative Analyst

RE: Comparison Between Senate Bill 8 and Senate Bill 56 as Vetoed by Governor Cowper in 1988  
Research Request 92.183

You requested a comparison between Senate Bill 8 passed by the Senate earlier this week and Senate Bill 56 which was vetoed by Governor Cowper in 1988.

Both bills enact an annuity plan which allows people to defer their permanent fund dividends or equivalent cash amounts into a state annuity account. Once a person reaches 65 years of age, he or she would be able to receive a monthly annuity based upon the amount contained within the person's annuity account. Both bills also allow for a one-time emergency withdrawal from their annuity account with payback provisions. Also, SB 8 and SB 56 designate a beneficiary succession for death benefits.

The one major difference between SB 8 and SB 56 is the language for the decreased longevity bonus. Senate Bill 8 in section 9 states "...the monthly longevity bonus is \$250 minus the maximum possible straight life annuity under the annuity program."

Senate Bill 56 in section 9 set in statute exactly what the decreased longevity bonus dollar amount is for fiscal years after 1990, rather than using the formula in SB 8. Attached is a copy of SB 56 as vetoed by Governor Cowper which shows the decreased bonus amounts.

If you have questions or require further assistance, please contact this office.

Attachment

Original sponsors: Kerttula, Halford,  
Fischer and Uehling

1 IN THE SENATE

BY THE CONFERENCE COMMITTEE

2

CONFERENCE CS FOR SENATE BILL NO. 56

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act amending and making effective an annuity program and amendments to the longevity bonus program and the permanent fund dividend program provided for in secs. 2 - 18, ch. 99, SLA 1985; and providing for an effective date."

7

8

9

10

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

12

\* Section 1. AS 43.23.110(a) is amended to read:

13

(a) The annuity investment fund is established as a separate fund in the state treasury. The annuity investment fund consists of money transferred from the dividend fund, cash contributions under AS 43.23.125. and income earned by the annuity investment fund. Notwithstanding AS 37.13.145, an amount equal to the permanent fund dividends taken as annuity credits under this chapter shall be annually transferred from the dividend fund to the annuity investment fund.

14

15

16

17

18

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\* Sec. 2. AS 43.23.110(b) is amended to read:

21

(b) Money in the annuity investment fund shall be invested by the commissioner of revenue in investments authorized under AS 39.35.110. The commissioner of administration shall credit the net income of the annuity investment fund to the individual annuity accounts and the annuity reserve account.

22

23

24

25

26

\* Sec. 3. AS 43.23 is amended by adding a new section to read:

27

Sec. 43.23.125. CASH CONTRIBUTIONS. An individual who is eligible to receive the permanent fund dividend as an annuity credit under AS 43.23.005(d) but does not elect to do so or who elects to receive

28

29

1 only a portion of the permanent fund dividend as an annuity credit may  
2 make a cash contribution to that individual's annuity account. The  
3 cash contribution for a dividend year must be received by the Depart-  
4 ment of Administration before September 30 of the year following that  
5 dividend year. The total amount of the annuity credit and the cash  
6 contributions to an annuity account for a year may not exceed the  
7 amount of the permanent fund dividend for that year.

8 \* Sec. 4. AS 43.23.130(a) is amended to read:

9 (a) An individual with one or more annuity credits or cash  
10 contributions under AS 43.23.125 may receive an annuity upon reaching  
11 the age of 65.

12 \* Sec. 5. AS 43.23.130(b) is amended to read:

13 (b) An annuity under this section is a monthly payment based  
14 upon the principal and accrued interest in the person's annuity ac-  
15 count. Upon appointment to receive an annuity, the account balance  
16 shall be transferred to the annuity reserve account. The [AN] annuity  
17 shall be paid from the annuity reserve account as a straight life  
18 annuity or other payment plan authorized by the commissioner of admin-  
19 istration [THE DEPARTMENT OF ADMINISTRATION]. The size of the annuity  
20 may not vary on account of the individual's sex.

21 \* Sec. 6. AS 43.23.130(e) is repealed and reenacted to read:

22 (e) If a person elects to credit a permanent fund dividend or  
23 make a cash contribution to an annuity account and dies before age 65,  
24 a lump sum payment shall be made to that person's designated benefi-  
25 ciary or beneficiaries. The lump sum payment includes all dividends  
26 or cash contributions credited to the person's annuity account and  
27 interest earned on the account. A person may change or revoke a  
28 designation without notice to the beneficiary or beneficiaries at any  
29 time. If a person designates more than one beneficiary, each shares

1           equally unless the person specifies a different allocation or prefer-  
2           ence. The designation, change, or revocation of beneficiary shall be  
3           made on a form provided by the commissioner of administration and is  
4           not effective until it is filed with the commissioner. If there is no  
5           beneficiary designated or surviving, the lump sum payment shall be  
6           paid to the

7                     (1) surviving spouse;

8                     (2) if there is no surviving spouse, in equal parts to the  
9           surviving children including adopted children;

10                    (3) if there is no surviving spouse or child, in equal  
11           parts to the surviving parents; or

12                    (4) if there is no surviving spouse, child, or parent, to  
13           the estate of the deceased.

14       \* Sec. 7. AS 43.23 is amended by adding a new section to read:

15                    Sec. 43.23.135. EMERGENCY WITHDRAWALS. An individual may make a  
16           withdrawal from that individual's annuity account before reaching the  
17           age of 65 if the individual establishes to the satisfaction of the  
18           commissioner of administration that the withdrawal is necessary to  
19           meet an unforeseeable emergency. The amount withdrawn may not exceed  
20           the total amount in the individual's annuity account or the amount  
21           actually necessary to meet the emergency, whichever is less. The  
22           commissioner shall define the term "unforeseeable emergency" by regu-  
23           lation. An individual may only make one withdrawal under this section  
24           and may pay it back with interest under terms established by the  
25           commissioner. An individual who has made a withdrawal under this  
26           section may not elect to credit a dividend or make a cash contribution  
27           to an annuity account for two years after the withdrawal.

28       \* Sec. 8. AS 47.45.015 is amended to read:

29                    Sec. 47.45.015. AMOUNT OF BONUS. (a) Except as provided in (b)

1       and (c) of this section, the monthly longevity bonus is equal to \$250,  
2       minus the maximum possible straight life annuity [FOR A PERSON 65  
3       YEARS OF AGE] under the annuity program (AS 43.23.110 - 43.23.130), as  
4       determined by the commissioner of administration. The maximum possi-  
5       ble straight life annuity equals the amount a person would receive if  
6       that person became 65 on January 2, 1989, and contributed 100 percent  
7       of all permanent fund dividends or the cash equivalency to the annuity  
8       program for every year after December 31, 1988. However, for purposes  
9       of this section the maximum possible straight life annuity may not  
10       exceed the amount that a person turning 65 in the current year would  
11       receive if that person had contributed 100 percent of all permanent  
12       fund dividends or the cash equivalency to the annuity program for  
13       every year after December 31, 1988.

14       (b) A person who is 65 years of age on or before January 1, 1989  
15       [1988], is entitled to the full longevity bonus payment without re-  
16       duction for the annuity program.

17       \* Sec. 9. AS 47.45.015 is amended by adding a new subsection to read:

18       (c) Notwithstanding (a) of this section, the monthly longevity  
19       bonus in a fiscal year for a person who is 65 years of age after  
20       January 1, 1989, may not exceed

- 21               (1) \$240.95 in fiscal year 1991;  
22               (2) \$231.85 in fiscal year 1992;  
23               (3) \$222.67 in fiscal year 1993;  
24               (4) \$212.71 in fiscal year 1994;  
25               (5) \$201.95 in fiscal year 1995;  
26               (6) \$190.32 in fiscal year 1996;  
27               (7) \$177.74 in fiscal year 1997;  
28               (8) \$164.12 in fiscal year 1998;  
29               (9) \$149.37 in fiscal year 1999;

- 1 (10) \$133.40 in fiscal year 2000;
- 2 (11) \$116.10 in fiscal year 2001;
- 3 (12) \$97.34 in fiscal year 2002;
- 4 (13) \$77.00 in fiscal year 2003;
- 5 (14) \$54.93 in fiscal year 2004;
- 6 (15) \$30.95 in fiscal year 2005;
- 7 (16) \$4.85 in fiscal year 2006; and
- 8 (17) \$00.00 after fiscal year 2006.

9 \* Sec. 10. AS 43.23.110(c) and sec. 1, ch. 99, SLA 1985, are repealed.

10 \* Sec. 11. Chapter 99, SLA 1985, and secs. 1 - 9 of this Act apply only  
11 to permanent fund dividends for years beginning after December 31, 1988.  
12 Notwithstanding the amendments to AS 43.23 made by ch. 99, SLA 1985, and  
13 this Act, permanent fund dividends for 1988 and prior years shall be made  
14 under the law as it existed before the effective date of this Act.

15 \* Sec. 12. This Act takes effect immediately under AS 01.10.070(c).



# House State Affairs Committee

## Representative Gene Kubina, Chair

**DATE:** March 2, 1992

**PLACE:** Capitol Room 102

**SUBJECT OF MEETING:**  
 HB 22 - Relating to Certain Legislative Info Confidential  
 HB 327 - Relating to Primary Elections  
 HB 404 - Relating to Filing Deadline for Certain Candidates

SB 8 / SB 381

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
BOB STANAKIER		RETIREMENT & BENEFIT			4470	(Y) N	SB 8 SB 381
Tom Williams	PFD Division	Revenue			2323	(Y) N	SB 8
Paula Terrel	Sen Hartala	Cap. Bldg.			1200	(Y) N	SB 8 + SB 381
Paula Scavone	Rep Roward				3991	Y N	SB 8
Paul Engelman	Rep Roward				3991	Y N	SB 8
Michael Casey	Rep Roward					Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	

S B

1 8



# NEA-ALASKA

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Sandy Pevan  
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Box 871256  
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Carolyn Tolson  
Region VII Director  
Box 873933  
Wasilla, AK 99687

Hank Harrison  
Region R Director  
Box 110325 S. Station  
Anchorage, AK 99511

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1411 W. 33RD AVENUE  
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FAX: (907) 274-0551

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JUNEAU, ALASKA 99801  
(907) 586-3090  
FAX: (907) 586-2711

## FAIRBANKS REGIONAL OFFICE

2118 CUSHMAN STREET  
FAIRBANKS, ALASKA 99701  
(907) 456-4435  
FAX: (907) 456-2159

March 6, 1991

**TO:** Rep. Kubina, Chair  
Members; House 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 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 one concern which we wish to call to the attention of the committee:

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. 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.

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

Don Oberg  
President

cc: Sen. Pourchot

LE04/SB18/dl



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.

# Alaska Municipal League

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## 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.

## **I. GOVERNMENT MANDATES**

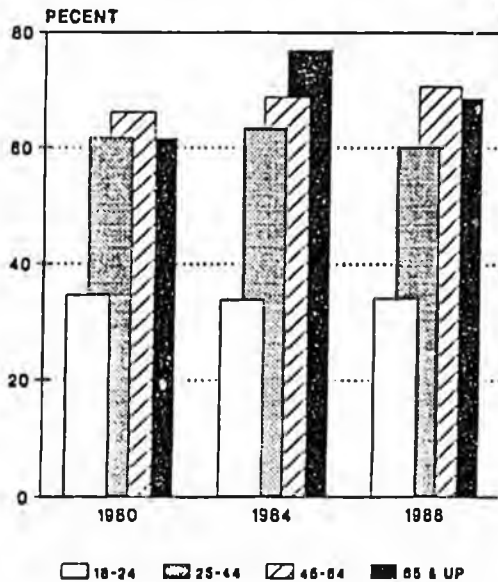
The League urges passage of legislation that would require a government agency unilaterally transferring responsibility for a program to a municipality or imposing regulations on a municipality to reimburse the municipality for the costs of the transferred responsibility or regulations.

## 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

TO: The Alaska House of Representatives, Committee on State Affairs, the Honorable Gene Kubina, Chairman, and the Committee members.

FROM: Buddy Maupin, Business Manager, the Alaska State Employees Association, AFSCME, Local 52, AFL-CIO.

Re: CSSSSB 18, Establishing the Alaska State Pension Corp.

Mr. Chairman and Committee members, I want to thank you for this opportunity to provide written testimony for the committee's permanent record on the Committee Substitute for the Sponsor Substitute to Senate Bill 18.

To begin, I would like to compliment the State Senate and the bill's sponsor, Senator Pat Pourchot, for trying to accommodate the concerns of ASEA's 8,000-plus members in this legislation. I would also compliment you, Mr. Chairman, for teleconferencing this hearing so that we could again testify in favor of CSSSSB 18.

As the committee is aware from its work on the bill last year, this legislation came about because serious concerns were raised about the way the state was handling the investment of the \$700 million in the state's Supplemental Benefit System. Specific concerns were raised because the state had issued several guaranteed interest contracts for investment of SBS funds to Executive Life which, in turn, invested these funds in so-called junk bonds.

Since the state does not indemnify these monies, which are jointly contributed to the SBS system by the state and its employees, a bad investment could wipeout the life savings of many state employees.

Because of this, in supporting CSSSSB 18 our main concern has been to see that SBS funds are invested wisely and in a manner that better ensures the funds will be there when an employee retires or resigns.

This legislation does that very well. In fact, by pooling the Supplemental Benefits System's money in with funds from the Public Employees Retirement System and the Teachers Retirement System, the SBS money gains the advantage of coverage by the federal Employee Retirement Income Security Act, or ERISA, which reduces the investment risks to which these funds would otherwise be subjected.

(continued)

ASEA Testimony on CSSSSB 18  
House State Affairs Committee  
Page 2

CSSSSB 18 is not a perfect bill from our perspective. We would still prefer that employees of the Pension Corporation be classified, rather than exempt; and we would prefer the corporation's board of directors to consist of nine members, including a specific member who is a participant in the Supplemental Benefits System.

But we also recognize that the bill does adequately address our main concern--the protection of the investments made by state employees in PERS and SBS. For this reason we support CSSSSB 18.

In closing, I urge the members of the House State Affairs Committee to approve and pass the bill without further amendment, and I thank you for allowing me to testify.



# NEA-ALASKA

AFFILIATED WITH THE NATIONAL EDUCATION ASSOCIATION

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FAX (907) 456-2159

March 6, 1991

**TO: Rep. Kubina, Chair  
Members; House 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 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 one concern which we wish to call to the attention of the committee:

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. 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.

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

Don Oberg  
President

cc: Sen. Pourchot

LE04/SB18/dl



SB 18

## Resolution of the Alaska Municipal League

### Resolution No. 91-8

#### A RESOLUTION SUPPORTING ESTABLISHMENT OF A CORPORATION TO MANAGE STATE TRUST FUNDS

WHEREAS, the Alaska Municipal League has reviewed and considered the establishment of a separate corporation for the management of state trust funds, including the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) trust funds, and

WHEREAS, PERS and TRS assets now total over \$4 billion and generate \$400 million or more of investment income annually, and

WHEREAS, the amount of income generated by PERS and TRS significantly affects employer contribution rates since employee contribution rates are fixed by statute, and

WHEREAS, Alaska municipalities make over half of all employer contributions to PERS and TRS, and

WHEREAS, PERS and TRS contribution rates have a direct impact on local tax rates, and

WHEREAS, the improvement in investment earnings that can be expected as a result of establishing a separate corporation would be of great importance to beneficiaries and employers as state petroleum revenues decline because an improvement of only 25 basis points (.025 percent) would be \$10 million, half of which would go to reduce municipal employer contributions, thus freeing up \$5 million for other municipal expenditures or permitting a .3 mill average reduction in property taxes for the typical Alaska municipality, and

WHEREAS, a separate corporation would give visibility to and strengthen the trust status of the PERS, TRS, and other trust funds, providing a corporate bulwark for the management of trust fund assets in the interests of beneficiaries and providing a clear mission to management in carrying out fiduciary responsibilities, and

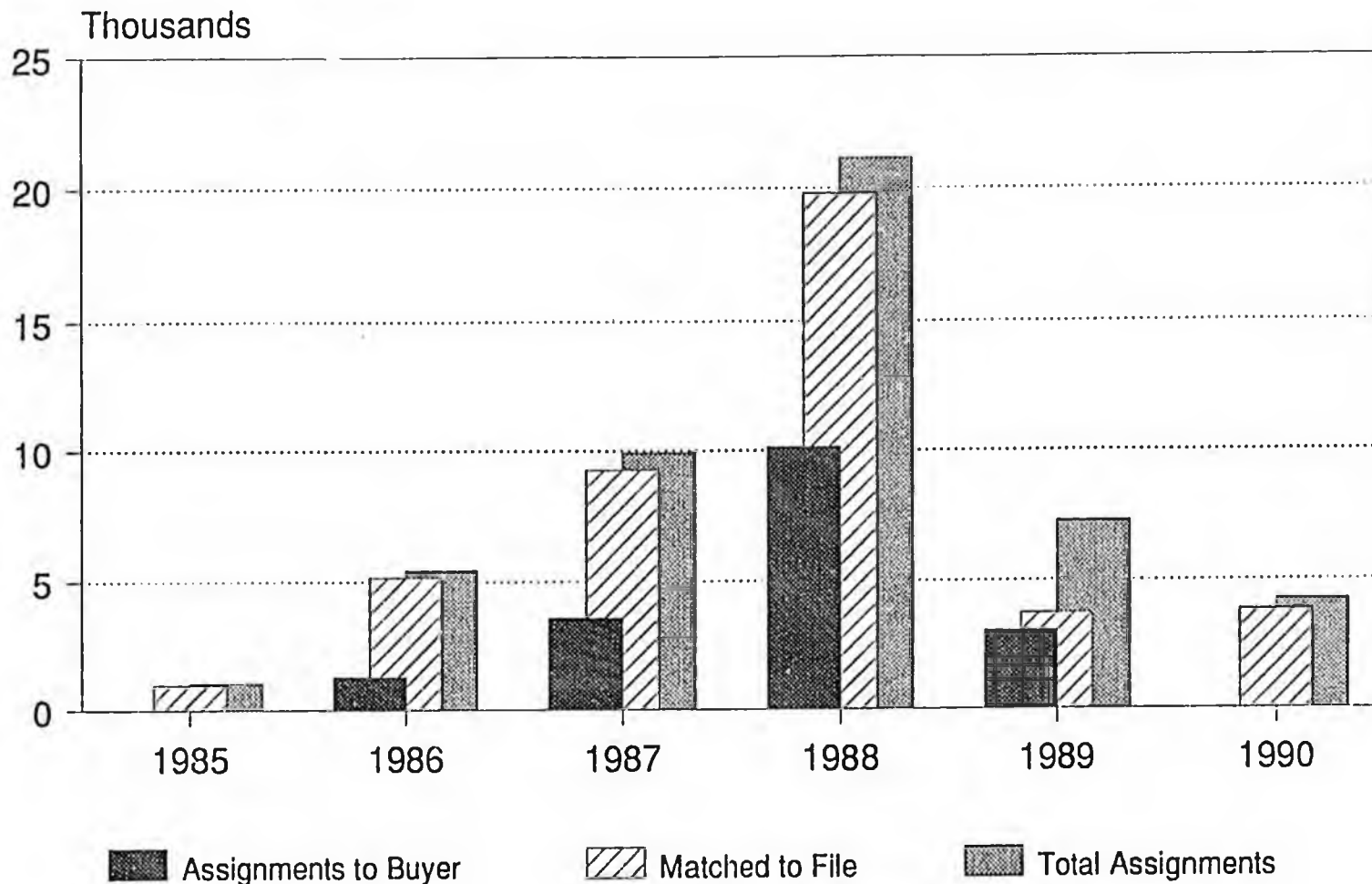
WHEREAS, a separate corporation would increase accountability, continuity, and public disclosure for the investment management of the funds by:

1. establishing a board of directors in place of one person as fiduciary;
2. incorporating professional investment managers and trust administrators, as well as representatives of beneficiaries, on the corporation's board; and

50318

# PERMANENT FUND DIVIDEND ASSIGNMENTS

For 1985 - 1990 Dividend Years



Alaska State Legislature  
House of Representatives

INTERIM

3111 C Street  
Anchorage, Alaska 99503  
(907) 561-2032



SESSION

P.O. Box V  
Juneau, Alaska 99811  
(907) 465-2995

Representative Dave Choquette



Larry Crawford  
Municipal Manager  
Municipality of Anchorage  
P.O. Box 196650  
Anchorage Alaska, 99519-6650

Tuesday, March 12, 1991

RE: SB 18 and HB 37

Dear Larry,

Thank you for the information on SB 18. I concur with your letter dated March 1 1991 regarding SB 18 and HB 37. When HB 37 was in the House State Affairs committee, I argued to allow Alaska State Pension Corporation property be subject to taxes like any other property.

SB 18 has been referred to the House State Affairs Committee, and a hearing has been scheduled for Friday March 15 at 8:30 AM. I will enter an amendment to amend Section 37.10.290 of Senate Bill 18 to allow taxation of property held by the Alaska State Pension Corporation. The enclosed amendment will be introduced in the House State Affairs committee hearing at that time.

Thank you for bringing this issue to my attention, and if I can be of further assistance please do not hesitate to call me at 465-2995.

Kindest personal regards,

DAVE

Dave Choquette



Draft

Amendment

OFFERED IN THE HOUSE

BY REPRESENTATIVE CHOQUETTE

TO SB 18

Page 6, Lines 2-4

Delete "EXEMPTION FROM TAXATION. The corporation and all properties 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 by the corporation and income from them are exempt from all taxes and assessments in the state, including transfer taxes."

**Municipality  
of  
Anchorage**



P.O. BOX 196650  
ANCHORAGE, ALASKA 99519-6650  
(907) 343-4433  
TOM FINK,  
MAYOR

OFFICE OF THE MUNICIPAL MANAGER

March 1, 1991

Representative Dave Choquette  
P.O. Box V  
Juneau, Alaska 99811

Re: SB 18 and HB 37, Investment of Pension Funds


Dear Representative Choquette:

The Municipality of Anchorage recommends SB 18 be amended to reflect the provisions of HB 37 as it pertains to property held as an investment by the Alaska State Pension Corporation. The exclusion of the Corporation's investment properties from local property taxes places these properties in an unfair competitive position.

Local property taxes are a normal cost of doing business and provide for all to share in the cost of paying for locally provided government services. These Pension Corporation properties will require government services as do other properties within the Municipality. Excluding property shifts the cost of providing services to other property owners. In addition, rental property owners must then compete with the Alaska State Pension Corporation on an uneven playing field.

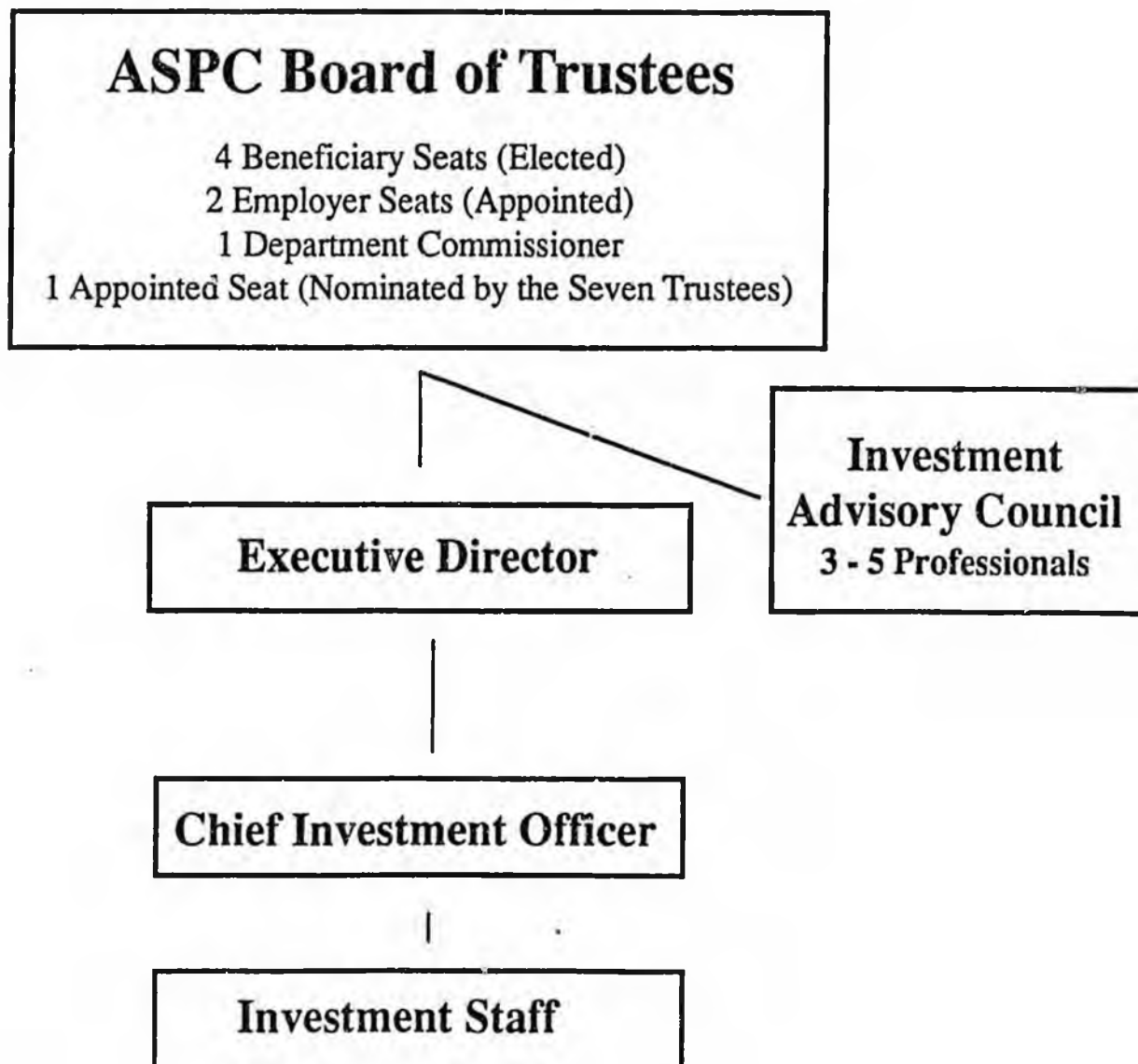
We urged you to delete Section 37.10.290 from SB 18.

Sincerely,

  
Larry D. Crawford  
Municipal Manager

# Alaska State Pension Corporation (ASPC) CS Sponsor Substitute SB 18(FIN)

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**  
Supplemental Benefits System (SBS) **\$600 million**



## CSSSSB 18(FIN) ALASKA STATE PENSION CORPORATION

### PURPOSE

~Replace the Commissioner of Revenue as the sole fiduciary of the retirement and Supplemental Benefits System (SBS) funds with a representative Board of Trustees, to provide more comprehensive management and investment oversight for the retirement funds.

~Respond to the serious concerns about the past investment practice of the SBS funds by bringing SBS under this separate corporation.

### FUNDS TO BE MANAGED

Public Employees Retirement System Fund	\$2.74 billion
Teachers Retirement System Fund	\$1.74 billion
Judicial Retirement System Fund	\$28.67 million
Military Retirement System Fund	\$3.9 million
SBS Fund	\$600.0 million

### BOARD COMPOSITION

#### Eight Trustees-4 year terms

1 Active PERS/Active SBS	Elected
1 Retired PERS	Elected
1 Active TRS	Elected
1 retired from any system other than PERS	Elected
2 employers, nominated by member employers (school districts, munis)	Appointed
1 Commissioner of Revenue	Appointed
1 Board Nominated	Appointed

## BOARD RESPONSIBILITIES

- ~Participate in financial training
- ~establish investment policies
- ~report to LB&A, Governor, Legislature, Employers and appropriate boards
- ~provide annual performance evaluations and audits
- ~advise the Commissioner of Administration on investment of Deferred Compensation funds
- ~Comply with Conflict of Interest and Ethics Acts
- ~appoint an Investment Advisory Council of 3-5 qualified members
- ~apply the Prudent Investor Rule to all investment decisions

## FISCAL IMPACT

There are no increases in costs of personnel attributable directly to the creation of the ASPC. Current budget positions in the Department of Revenue for pension investment and management would be transferred to the new corporation.

However with the problems faced by the investment of SBS funds in GICs, the Department of Revenue is currently altering its investment policies and strategies, which call for increases management costs. These costs, although requested have not been included in the FY 92 Rickel budget. Consequently, the Department of Revenue fiscal note for SB 18 contains \$209.95 for 1/2 year of FY 92 and \$419.9 for subsequent years for SBS management. Those monies would be paid from SBS funds, not General Funds.

**FISCAL NOTE**

STATE OF ALASKA  
1991 LEGISLATIVE SESSION

BILL NO. CSSSSB18

Revision Date: 3/22/91

Department Affected: Alaska Pension Fund Corporation

Title: Alaska State Pension Corporation

BRU: \_\_\_\_\_

Component: \_\_\_\_\_

Sponsor: Senator Pourchot

Component Serial No.

Requestor: \_\_\_\_\_

**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	1,277.5	20,993.6	21,833.3	22,706.7	23,614.9	24,559.4
<b>TOTAL OPERATING</b>	<b>1,277.5</b>	<b>20,993.6</b>	<b>21,833.3</b>	<b>22,706.7</b>	<b>23,614.9</b>	<b>24,559.4</b>

<b>CAPITAL</b>						
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<b>REVENUE</b>						
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**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER	1,277.5	20,993.6	21,833.3	22,706.7	23,614.9	24,559.4
<b>TOTAL</b>	<b>1,277.5</b>	<b>20,993.6</b>	<b>21,833.3</b>	<b>22,706.7</b>	<b>23,614.9</b>	<b>24,559.4</b>

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

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

**ANALYSIS:** See attached.

Prepared by: Brian C. Andrews *BCA*

Phone: 465-2350

Division: Treasury Division

Date: March 22, 1991

Approved by Commissioner: \_\_\_\_\_ *[Signature]*

Agency: Revenue

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

March 22, 1991 Analysis of CS SS SB 18

Pension Corporation

Alaska State Pension Corporation is assumed to start up on January 1, 1992 for the take over of retirement fund investments on July 1, 1992 from Treasury. Start up costs include a separate physical location, furniture and equipment, electronic hardware and software, personal service costs, supplies and other obligations. FY 93 costs represent Treasury's FY 92 budgeted amount, separate physical location, personal service cost increases and the management of SBS. Costs for FY 94 - FY 97 have been incremental increased by a compounded 4 per cent over FY 93.

**FISCAL NOTE**

STATE OF ALASKA  
1991 LEGISLATIVE SESSION

BILL NO. CSSSB18

Revision Date: 3/22/91

Department Affected: Revenue

Title: Alaska State Pension Corporation

BRU: Revenue Operations

Component: Treasury

Sponsor: Senator Pourchot

Component Serial No.

Requestor: \_\_\_\_\_

	1	2	1
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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	0	(19,316.7)	(20,089.4)	(20,892.9)	(21,728.7)	(22,597.8)
<b>TOTAL OPERATING</b>	<b>0</b>	<b>(19,316.7)</b>	<b>(20,089.4)</b>	<b>(20,892.9)</b>	<b>(21,728.7)</b>	<b>(22,597.8)</b>

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	0	(19,316.7)	(20,089.4)	(20,892.9)	(21,728.7)	(22,597.8)
<b>TOTAL</b>	<b>0</b>	<b>(19,316.7)</b>	<b>(20,089.4)</b>	<b>(20,892.9)</b>	<b>(21,728.7)</b>	<b>(22,597.8)</b>

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

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

ANALYSIS: See attached.

Prepared by: Brian C. Andrews *BCA* *21K*

Phone: 465-2350

Division: Treasury Division

Date: March 22, 1991

Approved by Commissioner: \_\_\_\_\_ *[Signature]*

Agency: Revenue

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

March 22, 1991 Analysis of CS SS SB 18

Revenue/Treasury

Alaska State Pension Corporation is assumed to take over retirement fund investments July 1, 1992. FY 93 is the full amount of the original FY 92 budget for retirement funds less a personal service cost adjustment of 575.0 resulting from the continual need for investment management of the General Investment Fund, Endowment Funds and other State trust funds which are currently be handled on a pro rata basis with retirement funds. Costs for FY 94 - FY 97 have been incremental increased by a compounded 4 per cent over FY 93.

631 W. 11<sup>th</sup> Street  
Juneau, AK 99801

Chairman Kubina:

The concept embodied in CSSSSB18 is an excellent one and the members of the legislature are to be commended for their concern about the handling of pension funds.

The Alaska State Retired Teachers are concerned about the make up of the board as expressed in SB18 we would prefer that the board have nine members so a tie vote is not possible. We would prefer that the ninth member be a retired teacher. There are many retired people with knowledge in the field of investment. At the last hearing one of the board members expressed concern that the board in SB18 might not have the expertise needed

I, therefore, suggest you might consider some qualifications for the members to be appointed by the governor. Qualifications such as those set forth in the original SB 10 would give the board some expertise in finance, investment and business management.

ASRTA's other major concern is that the bill be written so that no governor can remove all the the board members in the same year. The board must always have a majority who know and understand the decisions that have <sup>been</sup> made.

Viola D. Shaw  
Legislative Chairman  
AK State Retired Teachers

cc members of the State Affairs Committee.

**DEPARTMENT OF REVENUE  
POSITION PAPER**

**CS SS SB 18  
Alaska State Pension Corporation**

The goal should be to provide for continued prudent management of State of Alaska retirement funds. To accomplish this goal, there are several alternatives including the following:

1. continued sole fiduciary in the Commissioner of Revenue.
2. a separate corporation managed by a board of trustees with minimal accountability to the Governor.
3. a retirement board within the Department of Revenue.

A retirement board within the Department of Revenue as proposed in SB 10 is clearly preferable. It requires minimal additional expenses, uses existing structures and staff within Treasury Division, and provides for shared fiduciary responsibility.

State pension plans may be managed in a variety of ways including the three basic alternatives listed above. A clear majority of states use an investment board within state government. A few have a sole fiduciary but we are not aware of any who have a separate corporate structure. Most boards are accountable to the governor. Many years ago there were abuses of pension monies. These abuses led to federal and State laws governing pension funds. As a result, pension funds are managed more responsibly with substantially greater member benefit protections.

In Alaska, members of state pension plans are protected. Article 12 of the Constitution requires that there be no diminishment of benefits. In other words, a member's benefits may not be reduced and benefit reductions can only be applied to new members. Absent the trust fund, annual benefit payments would have to be appropriated annually. The members are guaranteed their benefits by the State of Alaska. The State is required to actuarially fund the retirement system. The State cannot remove monies from the fund to pay for other expenditures because this would probably be considered a diminishment of benefits. By statute, members pay a fixed rate toward funding a pension plan and the State and the participating subdivisions make up the actuarially computed difference. The State, through its governor, should be in control of managing the pension funds. This is because the State is the ultimate guarantor of benefits and the members' contributions rates are fixed. The pension monies should, of course, be managed in accordance with rules of prudence which is presently the case.

The Commissioner of Revenue is now the fiduciary. In performing his duties, the Commissioner is charged with applying the prudent investor rule in exercising his fiduciary duty in the financial best interest of the funds entrusted to him and the beneficiaries of those funds. CS SS SB 18 ("Bill") would apply this rule of prudence to a board of trustees. The concept of a shared fiduciary has merit. Decisions regarding the management and investment of pension monies would be shared by a board. The board members could bring their collective knowledge and ideas to the decision-making process.

The separate corporation and member controlled board proposed in the Bill will cost more to operate and will be an entity with no accountability to the people through their elected officials and especially the governor. A fiduciary board can be constituted within the Department of Revenue as was proposed in SB 10. This board could perform the same functions as the board proposed for the separate Corporation. A fiduciary board within Revenue would operate within an existing structure at minimal additional cost and would be accountable to the governor. The board would be charged with full fiduciary responsibilities and be required to exercise the prudent investor rule.

The board of trustees created by the Bill would be controlled by elected members. The board would elect its own chair. The board would consist of four elected members, two appointed by the governor from political subdivision employer nominees, and the Commissioner of Revenue. These seven then elect an eighth member which means the elected members have majority representation. Trustees serve four year terms. The governor may not remove a trustee unless the trustee cannot perform "normal" duties due to mental or physical incapacitation, is convicted of a felony, or commits an act that under State law constitutes a felony or misdemeanor that is incompatible with service on the Board.

This board would be exempt from the procurement code, all its employees would be in the exempt service, and the board would retain its own legal counsel. With all this independence, the State must still indemnify the trustees against liability.

The Bill does set forth some good management tools. It provides for performance measurement, investment advisory service, an advisory counsel, and an annual audit. Treasury now performs many functions required by the bill. PERS and TRS funds have performance measurement by a nationally recognized firm. All trust funds are audited by an independent CPA firm with an opinion as to conformance with generally accepted accounting principles. Treasury uses investment advisors, monthly financial statements are prepared, and results are presented semi-annually to the PERS and TRS boards. The management practices set forth in the Bill can be required of a single fiduciary or a shared fiduciary. In fact, these functions should be performed even if not required.

Treasury has been accused in the past of improper management, poor investment results, and high costs. While there were some problems, the retirement funds averaged an annual rate of return of 12.4% over the five years ended June 30, 1990. By comparison, the Permanent Fund averaged 11.3%. Based on the Permanent Fund's investment objectives, they achieved an excellent rate of return. The retirement funds were more heavily invested in equities resulting in the higher earnings rate. While it is true it cost more to manage the retirement funds, there is a reason for this. Treasury manages several funds and not just one, it costs substantially more to manage equities than fixed income securities, and the retirement funds are still managing real estate mortgages acquired several years ago. If the additional rate of return of 1.1% (12.4% - 11.3%) is considered, the retirement funds earned approximately \$55 million (\$5 billion at 1.1%) more than if the Permanent Fund rate of return was earned. This is an annual amount of additional earnings. These earnings far more than offset the additional cost. Also a substantial amount of time is spent working the real estate mortgages which are becoming a smaller part of the total portfolio. The real estate mortgages amounted to 23.9% of the portfolio at June 30, 1985 and only 4.5% at June 30, 1990.

The Bill has recently been touted as a cure for the apparent problems with SBS invested monies. SBS monies were managed and invested by the Department of Administration. The current problems are certainly not due to retirement fund considerations. Moving SBS monies to an independent corporation for management is a hasty reaction and may not be the best solution. After all, SBS monies are immediately employee vested. Perhaps the employees should have the opportunity to direct their investments.

The Bill provides that the corporation advise the Commissioner of Administration concerning the investment of funds held under the State deferred compensation program. The first question that should be resolved is who should manage deferred compensation monies. This program is entirely voluntary and considerable consideration should be given to employee directed investments. For both SBS and deferred compensation, a standard low-risk U.S. government securities fund could be established. Employees wishing a more aggressive posture could elect other options.

In conclusion, this bill sets up an independent corporation not responsible to the people through the governor. The State, by Constitution, is the ultimate guarantor of pension benefits and the employer rate is the one that fluctuates to meet actuarial requirements while the employee rate is fixed. Yet the board would be controlled by members of the retirement funds and board members could not be removed by the governor except in very unusual circumstances. The corporation would be exempt from procurement code requirements and all employees would be in the exempt service. The corporation can retain its own legal counsel and yet the State must indemnify the fiduciary against liability. The corporation would experience substantial start-up costs and would be administratively more expensive to operate than a board within Revenue.

A separate investment board created within the Department of Revenue should be established. Most features of CS SS SB 18 could be incorporated into the investment board functions and the board member composition could be modified to conform more to that of proposed SB 10.

TO: Representative Gene Kubina

FROM: Senator Pat Pourchot  
Staff: Susie Barnett

RE: Comparison of CSHB(SA) 37 and CESSSB 18  
ALASKA STATE PENSION CORPORATION

DATE: March 4, 1991

1. SB 18 carries a Letter of Intent which encourages the board to utilize local institutions and companies. HB 37 does not carry a letter on intent nor contain language similar to the SB 18 letter of intent.

2. SB 18 contains no language referring to the integration of benefits administration, HB 37, in Section 1 Findings, refers to integration of benefits administration "when prudent".

3. (Section 37.10.210) HB 37 has a 9 member board, SB 18 has an 8 member board. The difference between the two boards is:  
SB 18 has a ACTIVE PERS/ACTIVE SBS trustee seat.  
HB 37 splits the above seat (SB 18) into two separate seats;  
1 ACTIVE PERS and 1 ACTIVE SBS.

SB 18 has a equal balance of elected an appointed seats, HB 37 has a majority of elected seats.

4. (Section 37.10.210) SB 18 sets out specific reasons for removal from the board, HB 37 states removal for just cause.

5. (Section 37.10.220) SB 18 adds a requirement that the board advise the Commissioner of Administration on investment of Deferred Compensation funds and (Section 39.45.030) requires the Commissioner to consult with the board prior to investing. HB 37 does not contain references to Deferred Compensation.

6. (Section 37.10.290) SB 18 allows exemption from taxation for corporate assets, HB 37 does not exempt the assets.

7. (Section 37.05.146) SB 18 adds SBS and Deferred Compensation to the list of funds to be excluded from the Program Receipts /General Fund Definition, thereby protecting the funds.

# ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE,  
CO-CHAIR



Senator Pat Pourchot

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JUNEAU  
P.O. BOX V  
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JUNEAU, AK 99811  
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## M E M O R A N D U M

TO: Representative Gene Kubina  
Chair, House State Affairs

FROM: Senator Pat Pourchot

RE: CSSSSB 18, the Alaska State Pension Corporation

DATE: March 4, 1991

Please find attached position papers and/or letters of support for  
CSSSSB 18:

University of Alaska Southeast Faculty Senate  
Alaska Council of School Administrators  
University of Alaska Fairbanks Staff Council  
Alaska Municipal League  
American Association of Retired Persons  
Department Of Revenue  
Permanent Fund Board of Trustees

UNIVERSITY OF ALASKA SOUTHEAST  
School of Education, Liberal Arts and Science

789-4418

11120 Glacier Highway • Juneau, Alaska 99801

February 12, 1991

The Honorable Pat Pourchot  
Alaska State Senate  
P. O. Box V  
Juneau, Alaska 99811

FEB 13 1991

SUBJECT: The Alaska State Pension Corporation

Dear Senator Pourchot:

I am writing on behalf of the UAS Faculty Senate to express its support for the subject above. Last November the Faculty Senate witnessed a Department of Revenue presentation on this matter and has reviewed the "Background Information" prepared by your office dated 10/10/90. I hope that your office will forward a copy of the legislation for further review.

The UAS Faculty Senate finds the initiative to have merit in a number of areas. One in particular concerns the transfer of fiduciary responsibility for \$5 billion from the control of one political appointee. Further, we agree that such monies should not reside within the political arena but rather within the control of those Alaskans who earned them. It seems clear, moreover, that the funds may be brought to perform better under the safeguards that are part of the proposed structure. This performance would allow the pension funds to pay for their own maintenance as well as support solvency on behalf of beneficiaries.

As requested in your letter of November 26, 1990, to the Executive Committee of the University of Alaska General Assembly, I have written on behalf of the UAS Faculty Senate to the Southeast legislative delegation in support of this legislation, and I have written to the Commissioner of Revenue and the Governor's Chief of Staff. If you will keep me abreast of developments and recommend what more can be done to support this change, I suspect the UAS Faculty Senate will continue to support the measure.

The UAS Faculty Senate appreciates your sponsorship of this important legislation. Once again, if there be more that can be done by way of support, please call or write to me.

Sincerely yours,



Arthur M. Petersen, PhD  
Associate Professor of English  
UAS Faculty Senate President

cc: UAS Faculty Senate  
Chancellor Marshall Lind  
Donna Chantry, UAS Assembly President  
And President of the Classified Association  
UA General Assembly President Ray Highsmith  
UA President Jerome Komisar  
UA Vice President for University Relations Wendy Redman



ALASKA ASSOCIATION OF ELEMENTARY SCHOOL PRINCIPALS  
ALASKA ASSOCIATION OF SECONDARY SCHOOL PRINCIPALS  
ALASKA ASSOCIATION OF SCHOOL ADMINISTRATORS

• ALASKA COUNCIL OF SCHOOL ADMINISTRATORS •  
326 Fourth St., Suite 408, Juneau, AK 99801-1101 (907) 586-9702 FAX (907) 586-5870

## POSITION PAPER

### SENATE BILL 18

#### "AN ACT ESTABLISHING THE ALASKA STATE PENSION CORPORATION;...."

The Alaska Council of School Administrators is in support of Senate Bill 18.

ACSA has always been concerned that any changes made to the state retirement system be accomplished to first, insure the fund is actuarially sound and second, to insure the maximum rate of return on it's investments.

Further, we support the make up of The Alaska State Pension Corporation Board of Trustees with representation from all groups effected by the pension program. This includes current members of the retirement systems, representation from employer groups who would be impacted and representation appointed by the Governor. This broad base of representation will insure a close communication and shared decision making necessary for the success of the corporation.

To insure the stability of the board, we would support an ameridment defining "just cause" for reasons of dismissing board members.

We would like to express our appreciation to the sponsor of this legislation for the foresightedness of the future of these retirement fund.

# 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)

=====

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