

ALASKA

LEGISLATURE

COMMITTEE

FILES

1991-1992

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HOUSE

STATE

AFFAIRS

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records to be kept in accordance with generally accepted accounting principles. Subsection (c) requires the fiduciary to exercise the Prudent Investor Rule in exercising powers and duties. Subsections (d)(e) require the state to defend and indemnify the fiduciary if fiduciary or the fiduciary's designee performed in good faith and was prudent. Subsection (f) defines fiduciary to include trustee, and any other person who exercises control over assets or who gives investment advice to the board.

SECTION 13 is a conforming amendment to correct the Public School Trust Fund (which is not included in the board's responsibility) statutes, to reflect changes made to the TRS statutes.

SECTION 14: identifies the Investment Board as the fiduciary of the receipts of the employee benefits program (SBS). Subsection (b) allows, but does not require, the Investment Board to offer a "participant directed" plan and protects the Board from liability from the individual's exercise of control. Subsection (c) requires the Board to consult with Commissioner of Administration prior to contracting or modifying contracts concerning management of SBS. Subsection (d) requires Board to develop a contingency plan for potential investment problems.

SECTION 15: in existing PERS statutes, requires the Investment Board to provide specified information to the commissioner of administration.

SECTION 16; requires the PERS Board to adopt regulations concerning the election and removal of trustees to the Investment Board.

SECTION 17; substitutes the Investment Board for the Commissioner of Revenue as the fiduciary for the PERS fund and references to the requirements set out in the TRS sections.

SECTION 18: allows the PERS member contributions held in the system to be taxed under the changes in Title 29, concerning foreclosed property.

SECTIONS 19 and 20; substitute the Investment Board for the commissioner of administration as investor of the deferred compensation funds and gives the Board the same powers and duties in investing Deferred Compensation funds as set out in the TRS statutes. The language is similar to that in Section 14 (SBS) concerning investments, fiduciary responsibility, consultation with Admin. and contingency planning.

SECTION 21; includes the Investment Board trustees in the conflict of interest statutes.

SECTION 22; amends the duties of the Department of Revenue to reflect the changes made by the bill and the funds for which the Board is responsible for, requires that the department collect, account for, have custody of, invest and manage the funds in accordance with the policies set by the Investment Board.

SECTION 23; allows the commissioner of Revenue to designate employees who are subject to conflict of interest provisions and sets out that failure to comply is grounds for termination.

SECTION 24; repeals definition of "insured" as the language in AS 39.45.030 (b) has been changed from an investment limitation list to the language in Sections 19 and 20 for deferred compensation and the word "insured" no longer appears in either section.

SECTION 25; is a transition section.

SECTION 26; sets out the initial terms of the Investment Board and permits the Board to hold organizational meetings as soon as a quorum has been appointed or elected.

SECTION 27; sets July 1, 1992 as the effective date for Board organization.

SECTION 28; sets the earlier of July 1, 1993 or the date established by resolution of the trustees as the effective date for the Board to begin managing and investing assets as well as other duties as defined in the bill.

LETTER OF INTENT;

By Senator ^{Pat} Pourchot
1/29/92

COMPARISON OF CSSB 329 AND SB 18 PENSION FUND MANAGEMENT

Senate Bill 18, which established the Alaska State Pension Corporation, passed both bodies in 1991 and was vetoed by the Governor. SB 329 was drafted in cooperation with the Department of Revenue and the Department of Administration and incorporates many of the concepts that were included in SB 18. The major differences between the two bills are listed below.

SB 329 ESTABLISHES A BOARD OF TRUSTEES WHICH DIRECTS THE DEPARTMENT OF REVENUE IN THE MANAGEMENT AND INVESTMENT OF PENSION FUNDS.

SB 329 does not establish a separate corporation, as was proposed in SB 18. SB 329 does not contain any provisions for an executive director, corporate exempt employees, banking examination, or holding of assets. SB 329 does contain a new provision that allows the Commissioner of Revenue to designate employees who are subject to conflict of interest and whose failure to comply would be grounds for termination.

SB 329 ADDS DEFERRED COMPENSATION FUNDS TO THE PREVIOUS SB 18 LIST OF FUNDS.

The Board of Trustees in SB 329 will manage the funds of the following systems: PERS, TRS, Judicial, Military, SBS and Deferred Compensation. Deferred Compensation was included at the recommendation of both the Administration and PERS Board members. Provisions have been added that require the Board to consult with the Department of Administration prior to making any changes to either the SBS or the Deferred Compensation programs. The Board is also required to develop contingency plans for potential carrier investment problems.

BOARD REQUIREMENTS:

In addition to the duties and responsibilities listed in SB 18, SB 329 requires that the Board shall:

1. Develop and present a budget to DOR, OMB and the Legislature
2. Review every two years, the actuarial earnings assumption for each fund and report to the appropriate boards and agencies
3. Adopt procurement regulations that include public notice requirements and emergency procedures
4. Select and monitor external investment managers
5. Meet annually with the PERS and TRS board and the Department of Administration to review benefit administration of each system.

CSSB 329 (STA) ALASKA STATE PENSION INVESTMENT BOARD

CSSB 329 (STA) replaces the Commissioner of Revenue as the sole fiduciary of the \$5 billion pension funds with an eight member Board of Trustees. The Department of Revenue invests these funds at the direction of this Board.

BOARD COMPOSITION:

SB 329 establishes a balanced eight member Board, four elected and four appointed. The elected members are 1 PERS/SBS, 1 PERS, 2 TRS. The PERS and TRS Boards are empowered to set regulations concerning election and removal of the PERS/TRS board members. The Governor appointed members are: Commissioner of Revenue and three members who have investment experience, with at least one of these representing a non-state employer, such as municipalities and school districts. The Governor may remove the appointed members for cause.

CSSB 329 sets out the highest standards for the Board, including:

- A. Prudent Investor Rule
- B. Conflict of Interest and Open Meetings provisions.
- C. Procurement regulations
- D. Access to professional investment and legal counsel.
- E. Training for trustees.

CSSB 329 provides for stringent oversight by requiring:

- A. Long-range and quarterly investment reports to LB&A.
- B. Performance evaluations, audits and investment policies to the Governor, Legislature, participating employers and PERS/TRS boards.
- C. Review of actuarial earnings assumptions and report to appropriate boards.
- D. Development of an annual operating budget and presentation to DOR, OMB and Legislature.

CSSB 329 is supported by the Administration as well as the following organizations: NEA-AK, AARP, ASEA, APEA, AML.

A Letter of Intent was adopted in the Senate State Affairs Committee which encourages the Board to utilize Alaskan firms when all factors are equal.

By Senator Pat Pourchot
1/29/92

Alaska State Pension Investment Board (ASPIB)

CSSB 329 (STA), Senator Pourchot

A Board of Trustees established to manage the following funds:

Public Employees Retirement System Fund \$3.2 billion

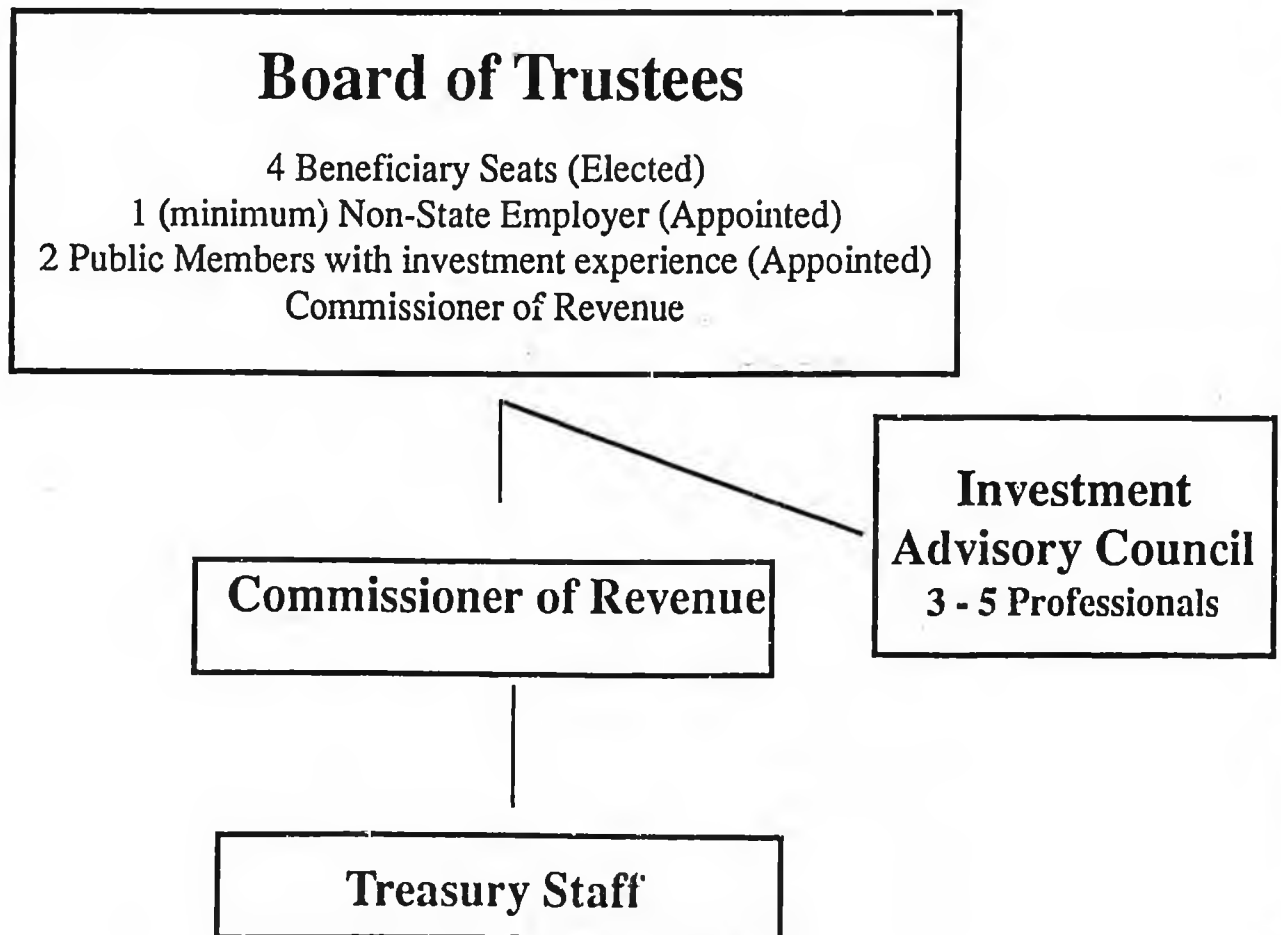
Teachers Retirement System Fund \$1.90 billion

Judicial Retirement System Fund \$34.1 million

Military Retirement Fund \$4.2 million

Supplemental Benefits System (SBS) \$675 million

Deferred Compensation \$125 million



A M E N D M E N T

OFFERED IN THE SENATE

BY SENATOR POURCHOT

TO: CSSB 329 (STATE AFFAIRS)

Page 1, line 11, after "and":

Delete "of other state funds"

Insert ", "

Page 1, line 12, after "fund":

Insert ", of other state funds"

A M E N D M E N T 2

OFFERED IN THE SENATE
TO: CSSB 329 (STATE AFFAIRS)

BY SENATOR POURCHOT

Page 7, lines 5 - 7:

Delete all material.

Page 15, line 7, after "(e)":

Insert "Except to the extent clearly set out in the terms of the plan document offered by the employer to the employee, the employer is not liable to the employee for investment losses if the prudent investment standard has been met.

(f)"

Page 17, line 13, after "(f)":

Insert "Except to the extent clearly set out in the terms of the plan document offered by the employer to the employee, the employer is not liable to the employee for investment losses if the prudent investment standard has been met.

(g)"

A M E N D M E N T 3

OFFERED IN THE HOUSE

TO: CSSB 329 (STATE AFFAIRS)

Page 12, line 24, after "fund":

Insert "shall apply the prudent investor rule and exercise their fiduciary duty in the sole financial best interest of the fund entrusted to the fiduciary. Among beneficiaries of a fund, the fiduciaries shall treat beneficiaries with impartiality"

Page 12, line 24, after "COMMISSIONER" through page 13, line 2:

Delete "] shall exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion, and intelligence exercises in managing large investments with consideration for the purpose of the fund, the investment objectives, the continuing disposition of the fund's investments, and the probable safety of the capital as well as the probable investment returns. With respect to the Alaska State Pension Investment Board, the fiduciaries of the board shall apply the prudent investor rule and exercise their fiduciary duty in the sole financial best interest of the funds entrusted to them and of the beneficiaries of those funds. The trustees may not make or authorize investment decisions or voting of shares for a purpose other than the sole financial best interest of the funds or beneficiaries."

Insert "SHALL EXERCISE THE JUDGMENT AND CARE UNDER THE CIRCUMSTANCES THEN PREVAILING THAT AN INSTITUTIONAL INVESTOR OF ORDINARY PROFESSIONAL PRUDENCE, DISCRETION, AND INTELLIGENCE EXERCISES IN MANAGING LARGE INVESTMENTS WITH CONSIDERATION FOR THE PURPOSE OF THE FUND, THE INVESTMENT OBJECTIVES, THE CONTINUING DISPOSITION OF THE FUND'S INVESTMENTS, AND THE PROBABLE SAFETY OF THE CAPITAL AS WELL AS THE PROBABLE INVESTMENT RETURNS]."

*Left Margin
Explanatory Notes*

*CS CHANGES
HIGHLIGHTED*

7-LS1609G
Cramer
1/21/92

*Page 6
and Page 9*

CS FOR SENATE BILL NO. 329 (STATE AFFAIRS)
IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - SECOND SESSION

BY THE STATE AFFAIRS COMMITTEE

Offered:
Referred:

Sponsor(s): SENATORS POURCHOT, Sturgulewski, Duncan, Collins, Pearce

*Funds to be Managed:
PERS
TRS
Judicial
Military
SBS
Deferred Comp.*

A BILL

FOR AN ACT ENTITLED

1 "An Act establishing the Alaska State Pension Investment Board; relating to management
2 and investment of state pension funds, receipts of the supplemental employee benefits
3 program, receipts of the deferred compensation program, and other state funds; and
4 providing for an effective date."

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

6 * Section 1. AS 37.10 is amended by adding new sections to read:

7 *Public Funds Statute*
ARTICLE 5. ALASKA STATE PENSION INVESTMENT BOARD.

8 *Establishes Board in the Public Funds statutes*
9 Sec. 37.10.210. ALASKA STATE PENSION INVESTMENT BOARD. (a) There is
10 established the Alaska State Pension Investment Board in the Department of Revenue. The
11 purpose of the board is to provide prudent and productive management and investment of state
12 pension funds and of other state funds upon agreement with the commissioner of the department
or the fiduciary responsible for the fund.

13 *8 Trustees*
14 *(4 elected 4 appointed)* (b) The board consists of eight trustees. Two of the trustees shall be elected by the
members of the public employees' retirement system from the membership of the system.

Board Composition:

WORK DRAFT

WORK DRAFT

WORK DRAFT

1 ② PERS
2 I must
be SBS

3 ② TRS

4 ③ Gov. appoint

5 ① Comm.
6 of Revenue
7 qualifications

8 4 year
9 staggered terms

10 Removal of
11 appointees
12 by Governor

13 Removal and
14 election
15 PERS/TRS
16 Board

17 Vacancy

18 Chair
19 Quorum

20 No designees

21 Training
22 Policy

Nominations may be made by the Public Employees' Retirement Board or by petition signed by at least 10 persons eligible to vote in the election. One of the trustees elected from the membership of the public employees' retirement system must be a participant in the supplemental employee benefits program established under AS 39.30.150 - 39.30.180. Two of the trustees shall be elected by the members of the teachers' retirement system from the membership of the system. Nominations may be made by the Teachers' Retirement Board or by petition signed by at least 10 persons eligible to vote in the election. The governor shall appoint three trustees. At least one of the appointed trustees must represent employers, other than the state, who participate in one of the retirement systems. The appointed trustees must have business and investment experience. The commissioner of revenue serves as a trustee.

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

(d) The governor may, by written notice to the trustee, remove an appointed trustee for cause. The Public Employees' Retirement Board may, by written notice to the trustee, remove a member elected from the membership of that retirement system for cause. The Teachers' Retirement Board may, by written notice to the trustee, remove a member elected from the membership of that retirement system for cause. After a trustee receives written notice of removal, the trustee may not participate in board business and may not be counted for purposes of establishing a quorum.

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

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

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

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

(i) The board shall adopt a policy concerning investment education for trustees.

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

Powers and Duties - Board shall ... Subsection (a) 1-9

Board shall:

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

3 *set investment* (2) establish investment policies for the funds for which it is responsible after
4 *policies* reviewing recommendations from the investment advisory council and the Department of
5 Revenue;

6 *Reports to LB; A* (3) submit long-range and quarterly investment reports to the Legislative Budget
7 and Audit Committee;

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

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

16 *Independent Audit* (6) engage independent certified public accountants to perform an annual audit
17 of each of the funds for which the board is responsible and to report to the board with the results
18 of the audit;

19 *Review "expected rate of return", every 2 years and report to boards* (7) review the actuarial earnings assumption for each fund for which the board
20 is responsible every two years and report its findings and recommendations to the appropriate
21 board or agency;

22 *After reviewing council and staff rec's and retain managers and custodians* (8) after reviewing the recommendations from the Department of Revenue and
23 the advisory council, select and retain the external investment managers and custodians for the
24 funds managed by the board;

25 *Develop and present budget to DOR, OMB, Lewis* (9) develop an annual operating budget plan and present it to the Department of
26 Revenue, the office of management and budget, and the legislature.

27 (b) The board may
28 *Subsection (b) 1-Sarc may employ outside advisors* (1) employ outside investment advisors to review investment policies and make
29 recommendations to the board;

30 *Legal counsel* (2) employ legal counsel;

31 *contract for services* (3) contract for services necessary to carry out its powers and duties;

1 (4) enter into an agreement with the commissioner of the department or the
 2 fiduciary responsible for another state fund to assume fiduciary or management responsibilities
 3 for investing the other state fund;

4 (5) do all acts necessary to carry out the powers expressly granted or necessarily
 5 implied in this chapter.

6 (c) The board shall meet annually, either jointly or separately, with the Public
 7 Employees' Retirement Board, the Teachers' Retirement Board, and the Department of
 8 Administration to review benefit administration of each of the retirement systems and of the
 9 employee benefits program established under AS 39.30.150 - 39.30.180 and the deferred
 10 compensation program under AS 39.45. The Department of Administration and each retirement
 11 board shall report to the investment board on benefit administration and other issues for that
 12 retirement system or program that may affect the investment and management of the fund.

13 (d) The chair of the board shall appoint a trustee to present the board's position to
 14 legislative committees when the committees are considering the board's operating budget. The
 15 board is otherwise subject to AS 37.07.

16 Sec. 37.10.230. CONFLICTS OF INTEREST. (a) Trustees are subject to the provisions
 17 of AS 39.50.

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

24 A.P.A. Sec. 37.10.240. REGULATIONS AND OPEN MEETINGS. (a) The board may adopt
 25 regulations to implement AS 37.10.210 - 37.10.390. Regulations adopted by the board are not
 26 subject to the Administrative Procedure Act (AS 44.62). The board shall adopt regulations
 27 required by AS 36.30.015(f) relating to procurement. The board shall comply with the
 28 requirements of AS 44.62.310 - 44.62.312.

29 (b) Notwithstanding (a) of this section, a regulation adopted under AS 37.10.210 -
 30 37.10.390 shall be published in the Alaska Administrative Register and Alaska Administrative
 31 Code for informational purposes. A regulation adopted under this section shall conform to the

other state funds
necessary acts
Directed coordination with Dept. of Admin and appropriate boards to review benefit administration.

Board rep. in budget process
Conflict of Interest provisions for trustees
Disclosure reqs.

Conflict of Interest reqs.
Exempt from A.P.A.
must comply with open meetings
Regs must conform and must be published.
 CSSB 329(STA)

State Procurement Code - See Section 8
open meetings statutes

1 style and format requirements of the drafting manual for administrative regulations that is
2 published under AS 44.62.050.

3 (c) At least 30 days before the adoption, amendment, or repeal of a regulation under this
4 *30 day notice* chapter, the board shall provide notice of the action that is being considered. The notice must
5 include publication in one or more newspapers of general circulation in each judicial district of
6 the state.

7 *30 day effective date* (d) A regulation adopted under this chapter takes effect 30 days after adoption by the
8 board unless a later effective date is stated in the regulation.

9 *emergency regulations* (e) Notwithstanding the other provisions of this section, a regulation may be adopted,
10 amended, or repealed, effective immediately, as an emergency regulation. For an emergency
11 regulation to be effective the board must find that the immediate adoption, amendment, or repeal
12 of the regulation is necessary. The board shall, within 10 days after adoption of an emergency
13 regulation, give notice of the adoption under (c) of this section. An emergency regulation
14 adopted under this subsection may not remain in effect past the date of the next regular meeting
15 of the board unless the board complies with the procedures set out in this section and adopts the
16 regulation as a permanent regulation.

17 *Standard Regulation Definition* (f) In this section, "regulation" has the meaning given in AS 44.62.640(a).

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

26 *DOR to provide staff to board* Sec. 37.10.260. STAFF. (a) The Department of Revenue shall provide staff for the
27 board.

28 *Signatory* (b) The board may designate a trustee or an officer or employee of the Department of
29 Revenue to be responsible for signing on behalf of the board a deed, contract, or other document
30 that must be executed by or on behalf of the board.

31 *Investment Advisory Council Min=3 Max=5* Sec. 37.10.270. INVESTMENT ADVISORY COUNCIL. (a) The board shall appoint

1 an investment advisory council composed of at least three and not more than five members.

Council Qualifications

2 Members of the council shall possess experience and expertise in financial investments and
3 management of investment portfolios for public, corporate, or union pension benefit funds,
4 foundations, or endowments.

5 (b) Members of the council serve at the pleasure of the board for staggered terms of three
6 *3 year terms* years.

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

10 (d) The council shall

11 *Council Powers; Duties* (1) review the investments made by the board;

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

14 (3) advise the board on selection of performance consultants and on the form and
15 content of annual reports;

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

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

19 Sec. 37.10.280. INSURANCE. The board shall ensure that trusted assets and its own
20 **AND ASSETS** services are protected. The board may purchase insurance or provide for self-insurance retention

21 in amounts recommended by the commissioner of revenue and approved by the board to cover
22 *Insurance: Protection of assets and state* the acts, including fiduciary acts, errors, and omissions of its board members and agents. Insur-
23 ance must protect the board and the state from liability to others and from loss of trusted assets
24 due to the acts or omissions of the trustees.

25 Sec. 37.10.290. EXEMPTION FROM TAXATION. Except as provided in
26 *Previous exemption from taxation except for foreclosed properties* AS 29.45.030(a) for property acquired through foreclosure or deed in lieu of foreclosure, the
27 board and all properties at any time owned by it, managed by it, or held by it in trust, and the
28 income from those activities, are exempt from all taxes and assessments in the state. All security
29 instruments issued by the board and income from them are exempt from all taxes and
30 assessments in the state, including transfer taxes.

31 *Board limitations* Sec. 37.10.300. LIMITATIONS. The board may not engage in commercial banking

1 activity or private trust activity. The board may not act as a depository or trustee for a private
 2 person, association, or corporation. The board may not act as a lender to a private person,
 3 association, or corporation of money from any source except state funds under management by
 4 the board.

Limits the
 states responsibility
 for Board liability
 NO General Fund

5 Sec. 37.10.310. LIABILITY. A liability incurred by the board shall be satisfied
 6 exclusively from the trust assets or trust revenue, and a creditor or other person may not have
 7 a right of action against the state because of a debt, obligation, or liability of the board.

8 Sec. 37.10.390. DEFINITIONS. In AS 37.10.210 - 37.10.390, unless the context
 9 otherwise requires,

Definitions

10 (1) "board" means the board of trustees of the Alaska State Pension Investment
 11 Board;

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

15 * Sec. 2. AS 14.25.035(d) is amended to read:

16 (d) The commissioner of administration shall report to the board concerning the condition
 17 and administration of the system. The reports shall be distributed to the members of the system.

replaces commissioner
 with Board
 for reporting
 requirements

18 The Alaska State Pension Investment Board [COMMISSIONER OF REVENUE] shall provide
 19 reports to the board on the condition and investment performance of the teachers' retirement trust
 20 fund including a summary of an annual external performance review.

21 * Sec. 3. AS 14.25.035 is amended by adding a new subsection to read:

22 (j) The board shall adopt regulations for the election of trustees to the Alaska State
 23 Pension Investment Board and for removal from the investment board of trustees elected from
 24 the system.

TRS Board to
 adopt regs for
 election and removal
 of trustees

25 * Sec. 4. AS 14.25.180 is amended to read:

26 Sec. 14.25.180. MANAGEMENT AND INVESTMENT OF FUND. (a) The Alaska
 27 State Pension Investment Board [COMMISSIONER OF REVENUE] is the [TREASURER OF
 28 THE SYSTEM AND THE] fiduciary of the fund. In managing the fund, the Alaska State
 29 Pension Investment Board [COMMISSIONER OF REVENUE] shall

Replaces Comm.
 with Board as
 fiduciary in
 existing TRS
 statutes.

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

- 1 (2) determine the appropriate investment objectives for the fund;
- 2 (3) establish investment policies aimed at achieving the objectives; and
- 3 (4) act only in regard to the best financial interests of the system's plan and
- 4 beneficiaries.

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

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

13 * Sec. 5. AS 14.25.200(a) is amended to read:

*TRs exemption
 Clarifying that allows municipal taxation on foreclosed property (18 conforms to SB 78, which passed 20 last year.*

14 (a) Except as provided in AS 29.45.030(a)(1), member [MEMBER] contributions and
 15 other amounts held in the system on behalf of a member or other person who is or may become
 16 eligible for benefits under the system are exempt from Alaska state and municipal taxes and are
 17 not subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge
 18 of any kind, either voluntary or involuntary, before they are received by the person entitled to
 19 the amount under the terms of the system, and any attempt to anticipate, alienate, sell, transfer,
 20 assign, pledge, encumber, charge, or otherwise dispose of any right to amounts accrued in the
 21 system is void. However, a member's right to receive benefits may be assigned under a qualified
 22 domestic relations order.

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

Judicial Retirement System

24 (c) The Alaska State Pension Investment Board [COMMISSIONER OF REVENUE]
 25 is the [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund and has the same
 26 powers and duties under this section in regard to the judicial retirement trust fund as are provided
 27 in AS 14.25.180.

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

Military Retirement System

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

WORK DRAFT

WORK DRAFT

WORK DRAFT

1 * Sec. 8. AS 36.30.015(f) is amended to read:

Procurement Regs.

2 (f) The board of directors of the Alaska Housing Finance Corporation, notwithstanding
3 AS 18.56.088, and the board of directors of the Alaska State Housing Authority shall adopt
4 regulations under the Administrative Procedure Act (AS 44.62) and the board of trustees of the
5 Alaska State Pension Investment Board shall adopt regulations under AS 37.10.240 to
6 govern the procurement of supplies, services, professional services, and construction for the
7 respective public corporations and board. The regulations must

8 (1) reflect competitive bidding principles and provide vendors reasonable and
9 equitable opportunities to participate in the procurement process; and

10 (2) include procurement methods to meet emergency and extraordinary
11 circumstances.

12 * Sec. 9. AS 36.30.850(b)(15) is amended to read:

13 *Procurement Regs changed to reflect changes in this bill* (15) a contract that is a delegation, in whole or in part, of investment powers held
14 by the commissioner of revenue under [AS 14.25.180,] AS 14.40.400, AS 14.42.200, 14.42.210,
15 AS 18.56.095, [AS 22.25.048, AS 26.05.228,] AS 37.10.070, 37.10.071, or AS 37.14 [, OR
16 AS 39.35.080];

17 * Sec. 10. AS 36.30.990(1) is amended to read:

18 (1) "agency"

19 *Procurement Code Exemption* (A) means a department, institution, board, commission, division,
20 authority, public corporation, the Alaska Pioneers' Home, or other administrative unit of
21 the executive branch of state government;

22 (B) does not include

- 23 (i) the University of Alaska;
- 24 (ii) the Alaska State Housing Authority;
- 25 (iii) the Alaska Railroad Corporation;
- 26 (iv) the Alaska Housing Finance Corporation;
- 27 (v) a regional Native housing authority created under AS 18.55.996
- 28 [,] or a regional electrical authority created under AS 18.57.020;
- 29 (vi) the Alaska Aerospace Development Corporation;
- 30 (vii) the Alaska State Pension Investment Board;

31 * Sec. 11. AS 37.05.146 is amended to read:

Definition of Program Receipts changed to include SBS & Def. Comp. See subsections O and P.

Program Receipts
Con't

1 Sec. 37.05.146. DEFINITION OF PROGRAM RECEIPTS. In AS 37.05.142 - 37.05.146
2 and AS 37.07.080, "program receipts" means fees, charges, income earned on assets, and other
3 state money received by a state agency in connection with the performance of its functions; all
4 program receipts except the following are general fund program receipts:

5 (1) federal receipts;

6 (2) University of Alaska receipts (AS 14.40.491);

7 (3) individual, foundation, or corporation gifts, grants, or bequests that by their
8 terms are restricted to a specific purpose;

9 (4) receipts of the following funds:

10 (A) highway working capital fund (AS 44.68.210);

11 (B) correctional industries fund (AS 33.32.020);

12 (C) loan funds;

13 (D) international airport revenue fund (AS 37.15.430);

14 (E) funds managed by the Alaska State Housing Authority (AS 18.55.020),
15 the Alaska Housing Finance Corporation (AS 18.56.020), the Alaska Railroad Corporation
16 (AS 42.40.010), the Municipal Bond Bank Authority (AS 44.85.020), the Alaska
17 Aerospace Development Corporation (AS 14.40.821), or the Alaska Industrial
18 Development and Export Authority (AS 44.88.020);

19 (F) fish and game fund (AS 16.05.100);

20 (G) school fund (AS 43.50.140);

21 (H) training and building fund (AS 23.20.130);

22 (I) retirement funds (AS 14.25, AS 22.25, AS 26.05.222, AS 39.35, and
23 former AS 39.37);

24 (J) permanent fund (art. IX, sec. 15, Alaska Constitution);

25 (K) public school fund (AS 37.14.110);

26 (L) second injury fund (AS 23.30.040);

27 (M) fishermen's fund (AS 23.35.060);

28 (N) FICA administration fund (AS 39.30.050);

29 (O) receipts of the employee benefits program established under AS 39.30.150 -

30 39.30.180;

31 (P) receipts of the deferred compensation program established under

1 AS 39.45.

2 * Sec. 12. AS 37.10.071 is amended to read:

3 Sec. 37.10.071. INVESTMENT POWERS AND DUTIES. (a) In making investments

4 under this section, the fiduciary of a state fund [COMMISSIONER OF REVENUE] shall

5 (1) act as official custodian of cash and investments by securing adequate and safe
6 custodial facilities for them;

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

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

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

11 (5) receive and spend appropriations to cover the cost of the exercise of duties

12 under this section;

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

14 (7) perform all acts, not prohibited by this section, whether or not expressly

15 authorized, that the fiduciary [COMMISSIONER] considers necessary or proper in administering
16 the assets;

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

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

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

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

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

28 (1) delegate investment, custodial, or depository authority on a discretionary or
29 nondiscretionary basis to officers or employees of the state or to independent firms, banks,
30 financial institutions, or trust companies [,] by designation through appointments, contracts, or
31 letters of [OR] authority;

Public Funds
Replaces the
Commissioner of
Revenue with the
language "fiduciary
of state fund"
in current statutes
(both subsections
a & b)

G.A.A.P.

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

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

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

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

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

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

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

20 (9) declare records to be confidential and exempt from AS 09.25.110 and
21 09.25.120 if the records contain information that discloses the particulars of the business or the
22 affairs of a private enterprise, investor, borrower, advisor, consultant, counsel, or manager.

23 (c) In exercising investment, custodial, or depository powers or duties under this section,
24 the fiduciary of a state fund [COMMISSIONER] shall exercise the judgment and care under
25 the circumstances then prevailing that an institutional investor of ordinary professional prudence,
26 discretion, and intelligence exercises in managing large investments with consideration for the
27 purpose of the fund, the investment objectives, the continuing disposition of the fund's
28 investments, and the probable safety of the capital as well as the probable investment returns.
29 With respect to the Alaska State Pension Investment Board, the fiduciaries of the board
shall apply the prudent investor rule and exercise their fiduciary duty in the sole financial
best interest of the funds entrusted to them and of the beneficiaries of those funds. The

30
31
Prudent
Investor
Rule

1 trustees may not make or authorize investment decisions or voting of shares for a purpose
2 other than the sole financial best interest of the funds or beneficiaries.

Delegations

3 (d) In exercising investment, custodial, or depository powers or duties under this section,
4 the fiduciary or the fiduciary's [COMMISSIONER OR A] designee [OF THE
5 COMMISSIONER] is liable for a breach of a duty that is assigned or delegated under this
6 section, or under AS 14.25.180, AS 14.40.400(b), AS 37.10.070, AS 37.14.110(c), 37.14.160,
7 37.14.170, or AS 39.35.080. However, the fiduciary or the [COMMISSIONER OR THE
8 COMMISSIONER'S] designee is not liable for a breach of a duty that has been delegated to
9 another person if the delegation is prudent under the applicable standard of prudence set out in
10 statute or if the duty is assigned by law to another person, except to the extent that the fiduciary
11 [COMMISSIONER] or designee

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

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

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

*Indemnification
for prudent
acts*

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

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

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

28 (2) with respect to the Alaska State Pension Investment Board, for
29 investments under AS 14.25.180,

30 (A) each trustee who serves on the board of trustees; and
31 (B) any other person who exercises control or authority with respect

*Designation
of fiduciaries*

1 to management or disposition of assets for which the board is responsible or who
2 gives investment advice to the board; or

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

5 * Sec. 13. AS 37.14.160 is amended to read:

6 Sec. 37.14.160. DUTIES OF THE COMMISSIONER OF REVENUE. The commissioner
7 of revenue is the treasurer of the trust fund created in AS 37.14.110 and shall

8 (1) in carrying out investment duties under this section, exercise the same
9 powers and duties established for the Alaska State Pension Investment Board in
10 AS 14.25.180(c);

11 (2) deposit the principal and income from investments in separate principal and
12 income accounts for the fund;

13 (3) invest and maintain accounting records that distinguish between the principal
14 and income of the fund;

15 (4) provide reports to the board established under AS 37.14.120 on the condition
16 and investment performance of the fund.

17 * Sec. 14. AS 39.30 is amended by adding a new section to read:

18 Sec. 39.30.175. INVESTMENT OF BENEFIT PROGRAM RECEIPTS. (a) The Alaska
19 State Pension Investment Board is the fiduciary of the mandatory receipts, under
20 AS 39.30.150(a), of the employee benefits program established under AS 39.30.150 - 39.30.180
21 and has the same powers and duties concerning the management and investment in regard to
22 those receipts as are provided under AS 14.25.180.

23 (b) The board may provide a range of investment options and permit a participant or
24 beneficiary of the program to exercise control over the assets in the individual employee annuity
25 account established under AS 39.30.150(a). If the board offers investment options, and if a
26 participant or beneficiary exercises control over the assets in the individual employee annuity
27 account,

28 (1) the participant or beneficiary is not considered a fiduciary for any reason on
29 the basis of exercising that control; and

30 (2) a person who is otherwise a fiduciary is not liable under this section for any
31 loss, or by reason of any breach, that results from the individual's exercise of control.

6. Correcting language
7. so as not to alter
8. the Public School
9. Trust Fund, which
10. references to the
11. TRS statutes.

SBS
19 sets out the
20 board as fiduciary.

24 Board may provide
25 a range of options
26 allows for but
27 not require
28 participant
29 directed plan.

31 If participant
directed-protects
fiduciary from
individual CSSB 329(STA)
exercise of
control.

SBS
COMIT

1 Requires board
2 to consult with Admin
3 prior to changing plans

5 Contingency
Plan for carrier
problems.

10 PERS
existing statute

requires the
Board to provide
specific information
to Administration

(c) If the board is considering entering into a contract or modifying an existing contract concerning the management or investment of the mandatory receipts of the supplemental employee benefits program, the board shall consult with the commissioner of administration before making a decision on the issue.

(d) The board shall develop a contingency plan that addresses the board's response to possible future investment problems.

(e) In this section, "board" means the Alaska State Pension Investment Board.

8 * Sec. 15. AS 39.35.020 is amended to read:

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

- 12 (1) maintain the accounts of the system;
- 13 (2) make payments for the various purposes specified;
- 14 (3) submit periodic reports or statements of account that are needed;
- 15 (4) issue a statement of account to an employee requesting it showing the amount
- 16 of the employee's contributions to the system;
- 17 (5) as soon as possible after the close of each fiscal year, and not later than six
- 18 months after the close of each fiscal year, send to the governor, the legislature, and the board an
- 19 annual statement on the operations of the system containing
 - 20 (A) a balance sheet;
 - 21 (B) a statement of income and expenditures for the year;
 - 22 (C) a report on an actuarial valuation of its assets and liabilities;
 - 23 (D) a summary of assets held in the pension fund listed by the categories
 - 24 of investment, as provided by the Alaska State Pension Investment Board
 - 25 [COMMISSIONER OF REVENUE];
 - 26 (E) other statistical financial data that are necessary for a proper
 - 27 understanding of the financial condition of the system and the result of its operations;
 - 28 (6) establish a public employees retirement trust fund in which the assets of the
 - 29 system shall be deposited and held;
 - 30 (7) engage an independent certified public accountant to conduct an annual audit
 - 31 of the system's accounts and the annual report of the system's financial condition and activity;

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

3 * Sec. 16. AS 39.35.040 is amended by adding a new paragraph to read:

4 *+ PERS Board to adopt reg's concerning elections and removal.* (11) adopt regulations for the election of trustees to the Alaska State Pension Investment Board and for removal from the investment board of trustees elected from the system.

5 * Sec. 17. AS 39.35.080 is amended to read:

6 *PERS* Sec. 39.35.080. DUTIES OF THE ALASKA STATE PENSION INVESTMENT
7 BOARD [COMMISSIONER OF REVENUE]. The Alaska State Pension Investment Board
8 [COMMISSIONER OF REVENUE] is the [TREASURER OF THE SYSTEM AND THE]
9 fiduciary of the fund. The board [COMMISSIONER] has the same powers and duties
10 established under this chapter in regard to the fund as are provided in AS 14.25.035(d) and
11 14.25.180.
12

replaces commissioner with Board.

13 * Sec. 18. AS 39.35.500 is amended to read:

14 *PERS* Sec. 39.35.500. SAFEGUARD OF EMPLOYEE FUNDS HELD BY THE SYSTEM.
15 *allows multi taxation of foreclosed properties - conforms to current law*
16 Except as provided in AS 29.45.030(a)(1)(D), employee [EMPLOYEE] contributions and other
17 amounts held in the system are exempt from Alaska state and local taxes. Amounts held on
18 behalf of, or payable to, any employee or other person who is or may become eligible for
19 benefits under the system are not subject to anticipation, alienation, sale, transfer, assignment,
20 pledge, encumbrance, or charge of any kind, either voluntary or involuntary, before being
21 received by the person entitled to the amount under the terms of the system. An attempt to
22 anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, or otherwise dispose of a
23 right to amounts held under the system is void. However, an employee's right to receive benefits
24 may be assigned under a qualified domestic relations order.

allows multi taxation of foreclosed properties - conforms to current law

24 * Sec. 19. AS 39.45.030(a) is repealed and reenacted to read:

25 *Deferred Compensation* (a) The Alaska State Pension Investment Board is authorized, subject to contracts with
26 individual employees, to invest the funds held under a deferred compensation program. The
27 board has the same powers and duties concerning the management and investment in regard to
28 those funds as are provided under AS 14.25.180.

Board as Investor of Funds

29 * Sec. 20. AS 39.45.030 is amended by adding new subsections to read:

30 (c) The board may provide a range of investment options and permit a participant or
31 beneficiary of the program to exercise control over the assets in the individual's account. If the

Deferred Comp - same language as SBS. CSSB 329(STA)

1 board offers investment options, and if a participant or beneficiary exercises control over the
2 assets in the individual's account,

3 (1) the participant or beneficiary is not considered a fiduciary for any reason on
4 the basis of exercising that control; and

5 (2) a person who is otherwise a fiduciary is not liable under this section for any
6 loss, or by reason of any breach, that results from the individual's exercise of control.

7 (d) If the board is considering entering into a contract or modifying an existing contract
8 concerning the management or investment of funds of the deferred compensation program, the
9 board shall consult with the commissioner of administration before making a decision on the
10 issue.

11 (c) The board shall develop a contingency plan that addresses the board's response to
12 possible future investment problems.

13 (f) In this section, "board" means the Alaska State Pension Investment Board.

14 * Sec. 21. AS 39.50.200(b) is amended by adding a new paragraph to read:

(54) Alaska State Pension Investment Board (AS 37.10.210).

*15 Board added
to conflict of interest*

15 * Sec. 22. AS 44.25.020 is amended to read:

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

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

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

21 Pension Investment Board;

22 (3) register cattle brands;

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

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

27 (6) in accordance with the policies established by the board of trustees of the
28 Alaska State Pension Investment Board, collect, account for, have custody of, invest, and
29 manage the state funds for which the board is responsible.

*Requires board
to work in accordance
with 30 Board
policies.*

30 * Sec. 23. AS 44.25 is amended by adding a new section to read:

*Allows Comm. of Rev
to designate employees
who are subject to conflict
of interest provisions.*

1 Sec. 44.25.028. CONFLICT OF INTEREST FOR ALASKA STATE PENSION
 2 INVESTMENT BOARD. (a) The commissioner of revenue may designate employees of the
 3 department who are subject to the provisions of AS 39.50 because of their responsibility for
 4 participating in the management or investment of the funds for which the Alaska State Pension
 5 Investment Board is responsible.

6 (b) If an officer or employee of the department with responsibility for funds for which
 7 the Alaska State Pension Investment Board is responsible acquires, owns, or controls an interest,
 8 direct or indirect, in an entity or project in which assets under the control of the board are
 9 invested, the officer or employee shall immediately disclose the interest to the board. The
 10 disclosure is a matter of public record and shall be included in the minutes of the board meeting
 11 next following the disclosure. The commissioner shall adopt regulations to restrict officers and
 12 employees of the department from having a substantial interest in an entity or project in which
 13 assets under the control of the board are invested.

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

16 * Sec. 24. AS 39.45.030(b) is repealed.

Repeals unnecessary language due to change in Deferred Comp. section.

17 * Sec. 25. TRANSITION. All litigation, hearings, investigations, and other proceedings pending
 18 under a law amended or repealed by this Act, or in connection with functions transferred by this Act,
 19 continue in effect and may be continued and completed notwithstanding a transfer, amendment, or repeal
 20 provided for in this Act. Orders and regulations issued or adopted under authority of a law amended
 21 or repealed by this Act remain in effect for the term issued, or until revoked, vacated, or otherwise
 22 modified under the provisions of this Act. All contracts, rights, liabilities, and obligations created by
 23 or under a law amended or repealed by this Act, and in effect on the effective date set out in sec. 30 of
 24 this Act, remain in effect notwithstanding this Act's taking effect. Records, equipment, and other
 25 property of agencies of the state whose functions are transferred under this Act shall be transferred
 26 commensurate with the provisions of this Act.

27 * Sec. 26. ORGANIZATION OF TRUSTEES. (a) Notwithstanding AS 37.10.210(c), enacted by
 28 sec. 1 of this Act, the initial terms of the members, other than the commissioner of revenue, of the board
 29 of trustees of the Alaska State Pension Investment Board shall be as follows:

30 (1) one member elected from the public employees' retirement system and one appointed
 31 member shall serve terms of four years;

Disclosure Requirements

DOR to adopt regs re: conflict

Failure to comply is grounds for termination

Transition

Board Organization

Initial terms

1 (2) one member elected from the teachers' retirement system and one appointed member
2 shall serve terms of three years;

3 (3) one member elected from the public employees' retirement system and one appointed
4 member shall serve terms of two years;

5 (4) one member elected from the teachers' retirement system shall serve a one-year term.

6 (b) The board of trustees of the Alaska State Pension Investment Board may hold organizational
7 meetings as soon as a quorum of the board has been appointed to or selected for the board.

8 * Sec. 27. AS 37.10.210 and 37.10.230 - 37.10.390, enacted by sec. 1 of this Act, and sec. 26 of this
9 Act take effect July 1, 1992. *July 1, 92 for board organization*

10 * Sec. 28. Except as provided in sec. 27 of this Act, this Act takes effect on the earlier of July 1,
11 1993, or the date established by resolution of the board of trustees of the Alaska State Pension
12 Investment Board for the transfer to it of securities and assets of all the funds of the retirement systems,
13 as defined in AS 37.10.390, enacted by sec. 1 of this Act, and the receipts of the employee benefits
14 program established under AS 39.30.150 - 39.50.180 and of the deferred compensation programs under
15 AS 39.45. The board shall promptly provide the revisor of statutes and the lieutenant governor with a
16 copy of this resolution.

*Sets out the earlier of July 1, 93 or the date
established by resolution to begin managing
and investing assets, as well as other duties.*

Alaska State Legislature

Sen. Pat Pourchot, Co-Chairman
Sen. Jay Kerttula, Co-Chairman

Sen. Al Adams
Sen. Jim Duncan
Sen. Lyman F. Hoffman
Sen. Dick Shultz
Sen. Rick Uehling



State Capitol
Juneau, Alaska 99801-1182
907-465-3712

Senate Finance Committee

February 28, 1992

Representative Mike Navarre, Co-Chair
Representative Eileen MacLean, Co-Chair
House Finance Committee
Alaska State Legislature
State Capitol
Juneau, AK 99801

FEB 28 1992

Dear Representatives Navarre and MacLean;

I would like to speak to the concerns stated in the attached letter from the House State Affairs Committee Chair. It is important to first clarify the difference between the DEFINED BENEFITS SYSTEMS and the DEFINED CONTRIBUTIONS PROGRAMS. The PERS, TRS, Judicial and Military retirement systems are Defined Benefit systems protected by Art. 12, sec. 7 of the state constitution. The constitutional provision establishes membership in an employee retirement system as a contractual relationship between the state or a political subdivision and its employees and prohibits the state or political subdivision from diminishing or impairing accrued benefits in those systems. Nothing in SB 329 alters that current or future responsibility.

SBS and Deferred Compensation are Defined Contribution Programs for which the State is the plan sponsor, qualified under the IRS code 401(a). The code requires the fiduciary to act like a Prudent Expert in all related matters with primary responsibilities on reducing risk and secondarily on earning a reasonable return. Basically a plan must have: a) competitive rate of return b) maintain sufficient liquidity for benefit payments and c) maintain the safeguards and diversification that is prudent in order to reduce risk on portfolio return. SB 329 establishes a shared fiduciary responsibility between the individual and the state under the highest investment standards. Current law does not guarantee a minimum payment for SBS or Deferred Compensation and does not hold the State liable for capricious ups and downs of portfolio assets. The Investment Loss Trust Fund, established last year, in the wake of the Executive Life situation was based on a perceived moral obligation of the Legislature, not a legal obligation,

recognizing the obvious inadequacies of the past investment practices of the Department of Administration.

It is also important to clarify differences between the fiduciary's liability and the state's liability. The liability language (Sec. 37.10.310) in SB 329 clarifies that there is no State General Fund obligation because of a debt, obligation or liability of the Board and liabilities must be satisfied exclusively from the trust assets or revenues, as is currently the case for the retirement plans.

To protect the assets of the plan from negligent acts of the board, Sec. 37.10.280 allows the board to obtain errors and omission (known as E&O) insurance. Under this insurance, the insurer will make the plan whole and then seek damages from the trustees for negligent acts. E&O insurance also protects the trustees from frivolous legal challenges due to their participation on the board. Insurance is important in attracting board members who would normally decline due to uncertain and unlimited personal liability.

I have requested the Department of Revenue to provide further clarification for these issues, which will follow shortly. I urge the House Finance Committee members to contact me should they have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Pat", with a long horizontal stroke extending to the right.

Senator Pat Pourchet
Co-Chair, Senate Finance

cc: House Finance Committee Members
House State Affairs Committee Members

P.O. Box 20844
Juneau, Alaska 99802
February 18, 1992

Hon. Gene Kubina
Alaska House of Representatives
P.O. Box V
Juneau, Alaska 99811

Re: CSSB 329, creating the Alaska State Pension
Investment Board.

Dear Representative Kubina:

I would like to share some urgent concerns regarding provisions of SB 329, which would create a state board to assist in the management of public employee pension funds. This bill has passed the Senate and it has been referred to the State Affairs and Finance Committees in the House. I am afraid that, because of its laudable goal, it may be acted upon too quickly for attention to be given to a few critical problems.

I see three problems in the bill, all of which relate to the extent to which the trustees and others responsible for managing the funds can be held accountable for misfeasance or malfeasance in carrying out their duties.

1. Possible veto authority over board policies. In the bill at page one, in proposed AS 37.10.210(a), the bill states

The purpose of the board is to provide prudent and productive management and investment of state pension funds and of other state funds upon agreement with the commissioner of the department...

I read this as saying that the commissioner (of revenue) has veto power over the management and investment decisions of the board. The prime sponsor of the bill, Senator Pourchot, has written me that the intent of the language is to permit the board to provide management services for other state funds than those listed in the bill, with the agreement of the commissioner of whatever department such a fund is in. I do not doubt that this reading is what Senator Pourchot intended. But nowhere is this intent stated in the bill. Instead, there is an enormous ambiguity, unresolved by any legislative history, which could as easily support my reading as that of Senator Pourchot. I presume that the Senator would agree with me that we do not want ambiguous drafting to permit some future revenue commissioner to claim that this language gives him a veto over the board's decisions. The solution is simple: amend this provision to make Senator Pourchot's reading clear and unambiguous. (A suggested revision is attached. Note that the ambiguity can be resolved by adding a single comma to this section.)

2. Insurance may protect wrong-doers from beneficiaries.

On page 6, at proposed section AS 37.10.280, the board is required to have insurance to protect both its members, the state, and the trusteed assets from liabilities due to the acts or omissions of the trustees. The problem is that the insurance is to be funded from the trust funds themselves -- including the option of setting aside a portion of the trust funds as "self-insurance retention" -- so that ultimately the beneficiaries of the trust will have to absorb losses or liabilities due to misfeasance. In short, there would be no recourse against wrong-doing trustees. Senator Pourchot says that this is not really the case, since insurance would not protect the wrong-doing trustees against claims based on conflict of interest, bad faith, or reckless or intentional wrongdoing. Frankly, the Senator is wearing rose-colored glasses. In fact, insurance will protect the trustees from bearing liability for such acts unless they rise to the level of provable intentional misconduct.

I do not have any problem with permitting insurance to protect individual trustees from ordinary good-faith claims, although I do think this section should have been framed in terms of requiring bonding of each trustee to protect the trust assets. But we should not permit the trustees to shield themselves from claims based on malfeasance or gross neglect of duty. This problem can be remedied by adding to this section language that states that it is not intended to permit trustees to shield themselves against liability arising out of conflict of interest, bad faith, reckless or intentional malfeasance, or other acts not performed solely in the interests of the trusts and their beneficiaries.

3. The bill would prevent collection of losses from those who caused them. The problem of non-accountability of individual trustees is made even worse by the provisions on page 7, at AS 37.10.310:

LIABILITY. A liability incurred by the board shall be satisfied exclusively from the trust assets or trust revenue, and a creditor or other person may not have a right of action against the state because of a debt, obligation, or liability of the board.

Essentially this provision says that should the board or the State mismanage their fiduciary duties -- or even perform criminal acts in violation of their duties -- it is the trust beneficiaries, not whoever performed the acts, nor the State, who must pay. (Note that the trust beneficiaries are not even permitted to elect a majority of the board members!) In the case of gross mismanagement or deliberate misfeasance, insurance will not cover the losses. So in the worst cases, liability for wrongdoing by the managers will fall squarely on the beneficiaries, with absolutely no recourse against the wrongdoers. In fact if Board members are convicted of criminal wrongdoing in use of the trust funds, this provision would prevent a judge from ordering either the board, its members, or the State to reimburse the trust. This bill would mandate that the

trust beneficiaries themselves remain the uncompensated victims of wrongdoing.

(Note that in a parallel case -- the Mental Health Lands Trust -- such a provision would have barred the Supreme Court from ordering the State as trustee to reimburse the assets it had illegally removed from the trust. There is a very real question whether it is constitutional to bar a trust from recovering from its trustee losses caused by the trustee.)

This section should be labelled for what it really is, a *carte blanche* of complete immunity to the board and the State for misfeasance and malfeasance in the administration of a trust. It would be improper for the legislature to prevent an individual from recovering damages from someone who had injured him; it should be equally improper, if not more so, for the State, as the real trustee of these pension funds, to bar a recovery from itself or its fellow trustees.

I have suggested some amending language to resolve this problem. But the point I really want to make is that this bill, for all its laudable purposes, is gravely flawed. The provisions mentioned above make the fund vulnerable to mismanagement and malfeasance by making the trustees and the State immune from liability for their own wrongdoing as trustees. We must remember that the other side of that coin is that the bill would require thousands of retired public servants to bear the losses caused by the State and the trustees. I hope you agree with me that we must make all possible real effort to prevent this from happening.

Sincerely yours,


Michael J. Kirk

cc: Senator Pourchot

PROPOSED CHANGES TO CS SB 329 (STA)

1. At page one, in proposed AS 37.10.210: After the words, "state pension funds", add a comma. This makes clear that the words "upon agreement of the commissioner" modify the phrase starting "and of other state funds..." and not the main clause which precedes it.

2. At page six, in proposed AS 37.10.280, add at the end:

This section is not intended to remove liability of the board, its members, or the state based on acts of gross mismanagement, deliberate misfeasance, bad faith, criminal acts, or other acts not performed solely for the benefit of the trusts or their beneficiaries.

3. At page seven, in proposed AS 37.10.310, amend to read:

LIABILITY. A liability incurred by the board arising out of acts of ordinary negligence shall be satisfied exclusively from the trust assets or trust revenue, and a creditor or other person may not have a right of action against the state because of a debt, obligation, or liability of the board arising out of acts of ordinary negligence. This section is not intended to limit existing rights of any person to bring an action against the state, the board, or a trustee arising out of acts of gross mismanagement, deliberate misfeasance, bad faith, criminal acts, or other acts not performed solely for the benefit of a trust or its beneficiaries. This section is not intended to limit the authority of a court in a criminal proceeding to order restitution to a trust of any assets improperly removed or wasted.

Alaska State Legislature

Sen. Pat Pourchot, Co-Chairman
Sen. Jay Kerttula, Co-Chairman

Sen. Al Adams
Sen. Jim Duncan
Sen. Lyman F. Hoffman
Sen. Dick Shultz
Sen. Rick Uehling



State Capitol
Juneau, Alaska 99801-1182
907-465-3712

Senate Finance Committee

January 21, 1992

Michael Kirk
P.O. Box 20844
Juneau, AK 99802

Response to 1/14/92
Letter from Mr. Kirk

Dear Mr. Kirk;

Thank you for taking the time to review SB 329, An Act establishing the Alaska State Pension Investment Board and for your continuing interest on this issue. I have discussed your concerns with both our legislative attorney and with the Department of Revenue. In response to your January 14, 1992 letter:

1. Page 1, Article 5 Sec, 37.10.210. (a) reads:

There is established the Alaska State Pension Investment Board in the Department of Revenue. The purpose of the board is to provide prudent and productive management and investment of state pension funds and of other state funds upon agreement with the commissioner of the department or the fiduciary responsible for the fund.

OTHER
STATE
FUNDS

The highlighted section sets out that the board may manage and invest other state funds, funds not listed in this bill, upon agreement with the commissioner of the Department that other fund is in (i.e. the HESS Self-Sufficiency Fund is in the Department of Health and Social Services) or with the fiduciary of the other state fund if the Commissioner does not serve as fiduciary. This section does not empower the Commissioner of Revenue, except that he/she could enter into an agreement with the Board to manage a fund in the Department of Revenue that is not currently listed in this bill.

2. Page 6. Section 37.10.280 The board is required to ensure that trustee assets are protected and that insurance must protect the board and state from liability to others. In your letter you stated that "liability for wrongdoing by the managers will fall squarely on the beneficiaries", please be assured that the assets are protected and the beneficiary pocket will not be picked. Insurance does not protect trustees in the cases of conflict of interest, bad faith, reckless or intentional wrongdoing. The public pension standard nationwide is to provide errors and omission

INSURANCE

Michael Kirk letter - Our response / Revenue notes / Kirk letter INSURANCE ISSUE

insurance as most sponsoring governmental entities have limited financial resources and would be hard pressed to pay the defense costs associated with a complex public pension plan fiduciary liability case. Of equal importance, trustees do deserve some protection from "nuisance" lawsuits" and cannot be expected to pay for or even wait for reimbursement for personal suit related costs. There will always be an element of risk involved with any fiduciary, providing insurance transfers some of that risk from the state and the beneficiaries to the insurance company.

Liability

3. Page 7 Sec. 37.10.310 Liability. The purpose of this section is to clarify there is no General Fund obligation. Investments losses are to be satisfied by the plan assets, just as investment gains are credited to the plan. SB 329 provides a strong Board of Trustees, an extensive, clear set of governing and reporting requirements, access to professional and legal resources and expectations of fiduciary training in an effort to ensure responsible management of the pension funds. Keep in mind, that the new Board is composed of equal numbers of beneficiary representatives, not just state officials.

Thank you again for your interest in this matter.

Sincerely,

Senator Pat Pourchot
Co-Chair, Senate Finance

STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION
January 21, 1992

WALTER J. HICKEL, GOVERNOR

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

Telephone: (907) 465-2350

Facsimile: (907) 465-2394

Susy Barnett, Aide to Senator Pouchot
Alaska State Senate
State Capitol, Room 516
Juneau, Alaska 99801-1102

Re: SB 329/Insurance and Liability Issues

Dear Ms Barnett:

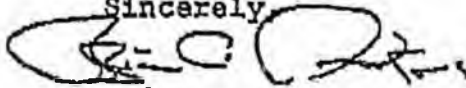
This letter is in response to your request of January 15, 1992 about questions B and C from Michael Kirk. I have read Mr. Kirk's questions several times only to become more confused each time. Rather than to second guess his questions, let me just explain what Sec. 37.10.280 and Sec. 37.10.310 try to set out.

The Insurance section allows the board to obtain errors & omissions (E&O) insurance which protects the assets of the pension plans from negligent acts of the board. This section also allows the board to secure board member insurance. This insurance protects the individual board member's and their assets from legal challenges due to their participation on the board. Acquisition of board member insurance is important to attract participation from board members who would normally decline membership due to the uncertain and unlimited personal liability a position of this type would have.

The Liability section sets out the need for the assets of the pension plan to be used to settle any loss incurred by the plan. The State's general fund should not be held responsible for investment or other losses of the pension plans. As mentioned above, the Insurance section of the bill provides for E&O insurance which would make the pension plans whole if losses resulted from negligent acts of the board. The general fund eventually becomes the "deep pocket" for losses through higher contribution rates. One final point, the State Constitution guarantees that pension plan benefits will not be diminished.

Susy, I hope these comments help you out with your response to Mr. Kirk. Don't hesitate in calling upon me if I can be of further assistance.

Sincerely,



Brian C. Andrews

cc: Darrel J. Rexwinkel
92-017

RECEIVED JAN 15 1992

P.O. Box 20844
Juneau, Alaska 99802
January 14, 1992

Hon. Pat Pourchot
Alaska State Senate
Pouch V
Juneau, Alaska 99811

Re: Draft bill on management of state pension funds

Dear Senator Pourchot:

You were good enough to share with me a copy of the draft bill worked out between yourself and the administration regarding management of state pension funds. I realize the bill is a compromise, but on reading it over certain aspects strike me as glaringly unwise. I would like to draw your attention to them in the hope that it is early enough to remedy the problems.

*Other
State
Funds*

A). In the draft bill (draft 7-LS1609\D, 12/19/91), on page one, line 11, the purpose section states that the new Pension Investment Board is to provide prudent and productive management and investment of state pension funds "upon agreement with the commissioner." Nonetheless, although it is not stated in such terms elsewhere in the bill, this language appears to give the Commissioner of Revenue a complete veto over everything the Board does. In short, it becomes merely an advisory Board, which the Commissioner may ignore if he wishes. Was this your intent? If so, I am exceedingly alarmed by it. If it is not your intent, the section needs to be rewritten to make clear that the Board is not merely advisory and that the Commissioner is not free to overrule it.

B) Also, on page 6, lines 19 - 24, the Board is required to obtain insurance protecting the assets against liability to others; but the requirement is that the Board members themselves, as well as the State, be protected by insurance. Where is the incentive to perform according to legal obligations if insurance is required to make sure that the Board members never have any obligation arising out of mismanagement?

C) This non-accountability problem is made even worse by the provision at page 7, lines 5 - 7, which says that should liability arise because of Board actions, the liability shall be satisfied only from the trust assets. In other words, should the Board or the State mismanage their fiduciary duties, it is the beneficiaries -- not whoever did the mismanagement, nor the State - who must pay. The provision on page 6 requiring insurance will not help in the case of gross mismanagement or deliberate misfeasance, since insurance will not cover deliberate wrongdoing. So in the worst cases, the liability for the wrongdoing by the managers will fall squarely on the beneficiaries, with absolutely no recourse against the wrongdoers. In fact, if the Board should

be convicted of criminal wrongdoing in use of the trust funds, this provision would prevent a judge from ordering either the Board, its members, or the State to reimburse the trust. This section should be labelled for what it is, a grant of complete immunity to the Board and the State for misfeasance and malfeasance in the administration of a trust. I cannot think of any justification for such a provision, and I ask you to reconsider it.

Taken together, these provisions seem to invite fiduciary disaster for the trusts, particularly if the current national experience of managerial misfeasance and malfeasance should strike in Alaska. My concern is not only with ordinary malfeasance or mismanagement due to incompetence, but also with attempts to use the pension funds for unwise public works projects or other schemes which are not in the interests of the beneficiaries. Since a statutory grant of immunity would leave no opportunity for legal appeal or other recourse, I would urge you not to give license to possible mismanagement by the Commissioner or others.

I ask you to please reconsider these provisions so that the fiduciaries of the trusts remain accountable to the beneficiaries for their actions.

I hope these comments have been helpful. I will be out of town until February 3rd, but I will be happy to discuss this matter after I return.

Sincerely yours,

A handwritten signature in cursive script that reads "Michael J. Kirk". A long, thin horizontal line extends from the end of the signature across the page.

Michael J. Kirk

The Alaska Teachers' Retirement System Board

January 31, 1992

Charlie Arteaga, Chairperson
1439 Millar
Ketchikan, Alaska 99901

Senate Finance Committee

RE: SB 329 - An Act Establishing the Alaska State Pension Investment Board..

Dear Sirs,

As Chairperson for the Alaska State Teachers' Retirement Board I lend my support to SB 329. In previous meetings our Board has taken a position of support for similar legislation, our lack of a recent meeting has not provided the opportunity to take official action on SB 329. But I am confident that the Board will be supportive when offered the opportunity to take such action.

The major concern regarding SB 329 is the lack of independence for the Pension Investment Board. Previous legislation, which spoke to the creation of an independent trust company, included that independence. But SB 329 does offer features which are agreeable. The increase in constituent representation for the TRS, and the shared fiduciary are two features which make the legislation attractive and worthwhile. I urge your support and "do pass" on SB 329.

Thank you for your attention to this important piece of legislation.

Sincerely,

C. Arteaga, Chairperson
Teachers' Retirement System
Board of Directors



**MANAGEMENT OF ALASKA STATE PENSION FUNDS
POSITION PAPER
1992**

AARP POSITION

The Alaska State Legislative Committee of the American Association of Retired Persons advocates creation of an independent investment corporation to manage the state pension funds and ensure the state's prudent and faithful discharge of its investment responsibilities as the fiduciary of various trust funds.

This public corporation would carry out the state's responsibilities to facilitate the prudent maximization of trust fund earnings by providing broader and more flexible management powers.

Size of the Corporation Board of Trustees should be small (7 to 9 members, yet operationally efficient and financially prudent. Representation on the Board should include TRS and PERS members (active and retired), employers, the public, and the Commissioner of Revenue.

Provision should be made for an Investment Advisory Council to make recommendations to the Board on investment strategies and procedures. The present TRS and PERS Boards should be retained.

Benefit management should remain in the Department of Administration.

PROBLEM

Many Alaskans are contributors to various State Retirement Systems with the expectation that the funds will be carefully protected and prudently invested to ensure the availability of benefits to the eligible beneficiary upon retirement.

The State of Alaska has the responsibility for the management of investments for the trust funds (approximately \$5 billion) of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), Judicial Retirement System, Military Retirement System and Elected Public Officers' Retirement System.

By law, the Commissioner of Revenue is the sole fiduciary for the investment of the funds. (The Teachers' Retirement Board and Public Employees' Retirement Board have no direct role in the investment of the funds, although the boards are responsible for administering retirement benefits.) The Commissioner is a political appointee, subject to change every four years, which is disruptive to the continuity of the investment program. Since the Commissioner of Revenue has numerous responsibilities, there are limitations on the time that he/she can devote to the management of the funds.

ment's ability to tax oil and gas property within its jurisdiction. Any state initiative to impose a more restrictive interpretation should be rejected.

In 1988 the Senate Select Committee on Oil and Gas Taxation, chaired by former Department of Community and Regional Affairs Commissioner Lee McAnerney, was appointed to review the method by which the state interpreted and applied local taxing limitations on oil and gas property. After thoroughly researching this issue and conducting a series of public hearings, the committee recommended in its 1989 report that the present state interpretations of how local government limitations on oil and gas property are applied should continue.

9. **Tax Increment Financing:** The League urges the legislature to amend tax increment financing statutes to enable second class boroughs to sell revenue bonds for financing of public-owned infrastructure necessary for coal development.

E. PUBLIC EMPLOYEES' RETIREMENT

1. **Increases in Benefits:** The League urges that any legislation that increases the cost of the Public Employees' Retirement System or the Teachers' Retirement System due to increased benefits require the cost to be borne by contributions from the employees. The League urges the legislature to require fiscal notes to address the impact on each participating municipal employer if any amendments are made to the Public Employees' Retirement System or the Teachers' Retirement System.

Because municipal employees, including teachers, are members of the Public Employees' Retirement System or the Teachers' Retirement System, municipalities are affected by changes made by the legislature to either retirement program. Many times proposals are made to change a retirement system without focusing on the increased cost to municipalities that such changes will cause. Because the municipality has no control over the retirement system and any increase in retirement benefits will decrease funds available for other municipal services, any increase in retirement system costs resulting from legislative action should be borne by the employees who will benefit from the increased 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. **PERS/TRS Investment Board:** The League supports the establishment of an investment board for the management and investment of state pension trust funds, including the trust funds of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS), insofar as the investment board includes representatives of trust beneficiaries and employers.

Alaskan municipalities make over half of all employer contributions to the PERS and 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 an investment board would give visibility to and strengthen the trust status of pension trust funds. It would increase accountability, continuity, and public disclosure for the investment management of the funds by establishing a board as fiduciary, incorporating professional investment managers and trust administrators, as well as representatives of beneficiaries, on the investment board, and providing for the exercise of fiduciary powers through the forum of regularly scheduled public meetings rather than administrative actions. A board would give management the authority to act in a timely manner and compete fully with other professional institutional investors.

F. FISCAL NOTES/GOVERNMENT MANDATES

1. **Fiscal Notes:** The League supports enactment of legislation requiring affected state agencies to prepare, in consultation with the affected local governments, notes assessing the fiscal impact on local government of any proposed bill or regulation, including pass-through grants.

Numerous bills are introduced each year that would have an impact on the cost of the operation of the local governments. However, it appears that no analysis and little thought are given to the actual impact such legislation would have on affected municipalities. In order to assist the municipalities and the legislature in making informed decisions about such legislation, fiscal notes assessing the fiscal impact on local government of such bills are necessary.

2. **Reimbursement for Responsibilities Transferred from State:** 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.

Proposals are occasionally made to require municipalities to undertake programs or activities for which there is either inadequate or no reimbursement. Proposals that shift the burden of such programs to municipalities should provide adequate reimbursement to the municipalities for the administration of such programs. No state or federal regulation that imposes a cost upon local governments should be enacted without reimbursement for that cost.



Central Alaska Retired Teachers Association

Volume VI, Number 2

December 1991

SENATOR POURCHOT OPTS FOR NEW FUND-MANAGEMENT BILL

At CARTA meetings this fall, the governor's veto of SB18 and possible future actions have been hot topics. It was agreed, however, that CARTA would follow the lead of Senator Pat Pourchot in working out a solution to the problem of how to manage the state's growing public employee and teacher retirement systems' funds. Senator Pourchot has worked diligently on the problem all summer with the Department of Revenue and has come up with a plan.

Correspondence from him dated December 6 reads as follows:

"Enclosed you will find a DRAFT of a bill I have developed, in cooperation with the Department of Revenue. This legislation will replace the Commissioner of Revenue as the sole fiduciary of the Retirement, SBS and Deferred Compensation funds with a representative Board of Trustees. The Board will be composed of four trustees elected by the PERS and TRS membership and four trustees appointed by the Governor.

"This proposed legislation does not establish a separate corporation. The separate corporation concept was the primary objection of the Department of Revenue to my previous bill, SB 18, which was vetoed. The new bill clearly establishes a strong Board of Trustees and sets out requirements for the Department to manage the funds in accordance with the Board policies.

"Many aspects of the previous bill have been

retained including: establishment of an Advisory Council, reporting requirements, investment training of the trustees, mandated audits and external performance evaluations, and directed coordination with the Department of Administration. . . ."

Senator Pourchot's letter continued by inviting our comments and suggesting we call him or his aide, Susan Barnett, at his Juneau office.

This bill is now available in WORKING DRAFT form

but is as yet unnumbered. Interested CARTA members can contact CARTA officers, legislative committee members or newsletter editor for a copy.

YOUR EDITOR APOLOGIZES

In the September issue of the newsletter, I misstated the dues for ASRTA. Their annual dues are \$7.50 per year. A corrected dues statement is on page 3. I hope this has not caused anyone too much inconvenience. I'm sorry!

PLAN A MARCH TRIP TO FAIRBANKS FOR ASRTA

As noted in the September issue of this newsletter, the 1992 annual

meeting of the Alaska State Retired Teachers Association will be held in Fairbanks, Saturday, March 21. President Lois Meier and AARP RTA coordinator Liz Lucas are promising a great program. Retired teachers from all parts of the state need to support this valuable organization. Mark your calendars!

CARTA MEETING SCHEDULE FOR 1992

January 11	April 11
February 8	May 9
March 14	

Come and bring a new or almost retiree!

MERRY CHRISTMAS AND A VERY HAPPY NEW YEAR



House State Affairs Committee

Representative Gene Kubina, Chair

DATE: February 26, 1992

PLACE: Capitol Room 102

SUBJECT OF MEETING:
 HB 300 - Relating to Approp: Study Privatizing State Services
 HJR 57 - Relating to "Income" for HUD Rental Assistance
 CSSB 329 - Relating to AK State Pension Investment Board

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
② Michael J. Kirk	self	P.O. Box 20844 Juneau	99802	586-4318 mornings before 9:15	Same	Y	N SB 329
Maxine Pace	SOP	1669 Torgerson Juneau	99801	586-1861	"	Y	N SB 329
Louise Dawson	SRTA	2880 Fritz Cove Rd Juneau	99801	9-9655	-	Y	N SB 329
Rod Mourant		Dept of Revenue			X2300	Y	N SB 329
Elizabeth Lucas	AARP	2880 Fritz Cove Rd	99801	9-9655	-	Y	N SB 329
William Barwick	AARP	P.O. Box 20843 Juneau	99802	4-7421		Y	N
① Carrel Kikuntz	Revenue	SOP		2700		Y	N SB 329
Ben C. Andrews	✓	✓		✓		Y	N SB 329
						Y	N
						Y	N
						Y	N



House State Affairs Committee

Representative Gene Kubina, Chair

DATE: Mar. 15, 1991

PLACE: Capitol, Room 102

SUBJECT OF MEETING:

- HB 40 - Relating to False Information in Election Pamphlets
- SB 18 - Relating to Investment of Pension Funds
- SB 32 - Relating to PERS Benefits for Youth Center Employees

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
GREG ROTH	AK JUV. CORRECTIONAL	3252 Hospital Ln PERS ASSN JUNO	99801		584-9433	<input checked="" type="radio"/> Y	<input type="radio"/> N	SEN 32
Viola Shaw	AK State Sec. - Voc. Teacher	631 W. 11 th JUNO	99801		584-1602	<input checked="" type="radio"/> Y	<input type="radio"/> N	SEN 18
Patricia Sampell	"	157 Behrens Ave.	99801		586-2626	<input type="radio"/> Y	<input checked="" type="radio"/> N	SB 18
Carol Oien	"	P.O. Box 34852, Juno	99801	787-4264		<input type="radio"/> Y	<input checked="" type="radio"/> N	SB 18
Frederick Lockick	PERS	P.O. Box 210143 AKKE Bay	99821	7897420		<input type="radio"/> Y	<input checked="" type="radio"/> N	SB 18
Marie Warlin	PERS	Box 2-1283 Juno	99802	6-3637		<input checked="" type="radio"/> Y	<input type="radio"/> N	SB 18
Willie Anderson	NEA/AAE	105 Municipal Way	99801	6-3090		<input checked="" type="radio"/> Y	<input type="radio"/> N	SB 18
Gary Bader	Dept of Admin	State office Building	99811	44460		<input type="radio"/> Y	<input checked="" type="radio"/> N	SB 18
Darral Rexwinkel	Dept of Revenue	SOB	99811	2300	2300	<input checked="" type="radio"/> Y	<input type="radio"/> N	SB 18
Lynne Lawson	RTA	2830 FRITZ Circle	99801	9-9655		<input type="radio"/> Y	<input checked="" type="radio"/> N	18
Elizabeth Lucas	AARP-RTA	99801	"		<input type="radio"/> Y	<input checked="" type="radio"/> N	18



House State Affairs Committee

Representative Gene Kubina, Chair

SUBJECT OF MEETING:

DATE:

PLACE:

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
Scott Burgess	AML				6-1325	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	SB 18
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	



House State Affairs Committee

Representative Gene Kubina, Chair

SUBJECT OF MEETING:

DATE:

PLACE:

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
Rose Olive Drayman	Individ. JRTA	P.O. Box 021365 Juneau, AK	99802	586 - 1172	—	Y	<input checked="" type="radio"/> N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	



House State Affairs Committee

Representative Gene Kubina, Chair

DATE: 3/25/91

PLACE: Capitol, Room 102

SUBJECT OF MEETING:

HB 181 - Relating to Salary Schedule for State Employees
 HB 182 - Relating to Approp. Public Employees
 COA, FY 91
 SB 18 - Relating to Investment of Personal Funds

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
Scott Burgess	AMC	Tuneau			6-1325	<input checked="" type="radio"/> Y	<input type="radio"/> N	SB 18
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	



House State Affairs Committee

Representative Gene Kubina, Chair

DATE: Mar. 25, 1991

PLACE: Capitol, Room 102

SUBJECT OF MEETING:

*HB 181 - Relating to Salary Schedule for State Employees

*HB 182 - Relating to Approp: Public Employee COLA, FY 91

SB 18 - Relating to Investment of Pension Fund

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
C. J. CHRISTENSEN SEN	MUSICA COURT SYSTEM	305 K ST. ANCHORAGE 99501			264-5228 463-4770	<input checked="" type="radio"/>	<input type="radio"/>	HB 181
B. Bernhill	JRTA	157 Bohemian Ave.	99511			<input type="radio"/>	<input type="radio"/>	SB 18
Rebecca Drayman	JRTA	P.O. BOX 021368 Juneau	99802		586-1172	<input type="radio"/>	<input checked="" type="radio"/>	
✓ Marie Darlin	self	Box 2-1283 Juneau 99802	7		6-3637	<input checked="" type="radio"/>	<input type="radio"/>	SB 18
VIOLA Gusta Shaw	ASRTA JRTA	631 W. 11th	99801		6-1622	<input type="radio"/>	<input checked="" type="radio"/>	SB 18
✓ May Lee Melner	AARP	805 Gold Belt	99801		586-2568	<input checked="" type="radio"/>	<input type="radio"/>	SB 18
Carole Oien	JRTA	P.O. Box 34852 Juneau, AK	99803		789-9264	<input type="radio"/>	<input checked="" type="radio"/>	SB 18
						<input type="radio"/>	<input type="radio"/>	
						<input type="radio"/>	<input type="radio"/>	
						<input type="radio"/>	<input type="radio"/>	
						<input type="radio"/>	<input type="radio"/>	

S B

3 3 7

(7)
Date Referred: March 2, 1992

HOUSE COMMITTEE REPORT
FURTHER REFERRALS:

Judiciary
Finance

Date of Committee Action: 3/30/92

The STATE AFFAIRS Committee considered:

CSSB 337(Fin)

CS FOR SENATE BILL NO. 337 (FINANCE)

RETIREMENT INCENTIVE PROGRAM

"An Act relating to retirement incentive programs for the public employees' retirement system, the teachers' retirement system and certain persons under the judicial retirement system; and providing for an effective date."

- RECOMMENDATIONS: the same title
 be replaced with _____ a new title
- have attached amendments(s)
 do pass
 do not pass
 no recommendations
 individual recommendations
 additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

2 [x] fiscal impact Admin

[x] fiscal note(s) Court System 1/31/92

[] zero fiscal note _____

[] zero fiscal note(s) _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Eugene A. Kuhena</i>	X	<i>V. A. M. ...</i>			
<i>Tom Meyer</i>	X	<i>J. ...</i>			
<i>E. ...</i>					

Eugene A. Kuhena
CHAIRMAN'S SIGNATURE

FISCAL NOTE

BILL NO. CSSB 337 (FIN)

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: _____
Title: An Act relating to retirement incentive programs for the Public Employees' and Teachers' Retirement System
Sponsor: Duncan
Requestor: Senate Finance Committee

Department Affected: Administration
BRU: Retirement and Benefits
Component: Retirement and Benefits
COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	658.0	598.3	277.5	277.5	277.5	277.5
TRAVEL	3.0	3.0	1.0	1.0	1.0	1.0
CONTRACTUAL	20.0	3.3	0	0	0	0
SUPPLIES	3.0	2.5	1.0	1.0	1.0	1.0
EQUIPMENT	112.3	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	796.3	607.1	279.5	279.5	279.5	279.5

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	796.3	607.1	279.5	279.5	279.5	279.5
TOTAL	796.3	607.1	279.5	279.5	279.5	279.5

POSITIONS

FULL-TIME:	6	6	6	6	6	6
PART-TIME:	0	0	0	0	0	0
TEMPORARY:	10	9	0	0	0	0

Estimate of current year impact: We anticipate the need for a Legislative Revised Program to increase our FY 92 authorization, thus allowing the division to hire the FY 93 staff prior to July 1, 1992. The FY 92 hiring would be needed so that we can properly train the RIP staff prior to the opening of the window periods. These costs would be paid for by participating employers.

ANALYSIS: (attach a separate page if necessary.) The actuarial costs to participating employers due to this program are to be paid up front and no additional costs to the systems are anticipated.

Prepared By: Garv Bader *Garv M. Bader*
Division: Retirement and Benefits

Phone: 465-4460
Date: February 25, 1992

Approved by Commissioner: Nancy Bear Usera *Nancy Bear Usera*
Agency: Department of Administration

Date: 3/5/92

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

Rev 10/90

Page 1 of 4

Finance Committee Substitute for Senate Bill 337
Analysis of Fiscal Implications to the Retirement Fund
Prepared by Division of Retirement & Benefits
Department of Administration
February 25, 1992

Analysis: This bill would place a temporary retirement incentive provision in statute for the Public Employees' (PERS) and Teachers' (TRS) Retirement Systems. Active PERS and TRS members could retire on an accelerated basis with an increased benefit under the following conditions: at age 47, if vested; with 17 years of service as a qualified peace officer, fire fighter or teacher; or with 27 years of credited service in the PERS. Before qualifying for an accelerated benefit, however, the member must pay a lump sum indebtedness payment or take an actuarial reduction from their life time benefit for the indebtedness amount.

We estimate that five permanent full-time positions will be needed in Juneau and one in Anchorage to administer the increased demand for information and services resulting from adding potentially over 4000 new retirees to the PERS and TRS, resulting from prior RIPS and projected for this one. In addition, we estimate that ten long term non-permanent employees will also be needed for varying lengths of time over the next two fiscal years. Personnel will handle increased counseling, address and beneficiary changes, account maintenance, and other services.

We estimate that we will need to increase our normal number of counseling trips by 5 trips over the next two fiscal years to assure that members understand the options and requirements of the program.

Finance Committee Substitute for Senate Bill 337
 Analysis of Fiscal Implications to the Retirement Fund
 Prepared by Division of Retirement & Benefits
 Department of Administration
 February 25, 1992

The total estimated administrative cost to the division by fiscal year is as follows:

	<u>FY 93</u>	<u>FY 94</u>	<u>FY 95</u>
PERSONAL SERVICES			
FY 93			
2 Retirement Specialist I/II	104.5		
8 Retirement Technician I/II	338.2		
1 Accountant I	46.1		
3 Accounting Clerk III (12 months)	104.0		
2 Clerk II (12 months)	<u>65.2</u>		
Total FY 93 Personal Services Cost	\$658.0		
FY 94			
2 Retirement Specialist I/II	104.5		
5 Retirement Technician I/II	211.4		
3 Retirement Technician I/II (9 mon.)	95.1		
1 Accountant I	46.1		
2 Accounting Clerk III (12 months)	76.0		
2 Clerk II (12 months)	<u>65.2</u>		
Total FY 94 Personal Services Cost		\$598.3	
FY 95			
2 Retirement Specialist I/II	104.5		
3 Retirement Technician I/II	126.9		
1 Accountant I	<u>46.1</u>		
Personal Services Cost (FY 95 and beyond)			\$277.5

TRAVEL

Traveling to various locations throughout the state to counsel prospective retirees and give seminars	3.0	3.0	1.0
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CONTRACTUAL

FY 93			
Computer services for additional PC's	16.5		
Additional telephone costs (4 add phones)	.2		
Telephone service for 4 phones	.8		
Long distance call expense based upon previous RIP	<u>2.5</u>		
FY 93 contractual costs.....		20.0	

Finance Committee Substitute for Senate Bill 337
 Analysis of Fiscal Implications to the Retirement Fund
 Prepared by Division of Retirement & Benefits
 Department of Administration
 February 25, 1992

	<u>FY 93</u>	<u>FY 94</u>	<u>FY 95</u>
CONTRACTUAL			
FY 94			
Telephone service for 4 phones	.8		
Long distance call expense based upon previous RIP	<u>2.5</u>		
FY 94 contractual costs.....		3.3	1.0
SUPPLIES			
Office supplies, calculators cost.....	3.0	2.5	
EQUIPMENT			
5 Work stations	23.0		
5 Chairs	1.5		
5 PCs and other office equipment	30.0		
Other office equipment (Dictaphone, calculators, etc.)	5.0		
1 File cabinets	.3		
5 Phones (600/instrument)	3.0		
5 Personal Computers	27.5		
5 Microfiche viewers	4.0		
1 Computer Output Printer	18.0		
Total Equipment cost.....	<u>112.3</u>	<u>-0-</u>	<u>-0-</u>
TOTAL Operations Cost	<u><u>\$796.3</u></u>	<u><u>\$607.1</u></u>	<u><u>\$279.5</u></u>

The retirement technicians, retirement specialists, accountant, and accounting clerks need constant access to the PERS and TRS computer files. We do not have any excess terminals, microfiche viewers or calculators. Our equipment request will satisfy our equipment needs for the duration of this program. We propose the purchase of personal computers to be used as terminals because they will be compatible with the division's Local Area Network.

We are also proposing the purchase of an additional computer output printer. The previous RIP's put great demand on our existing two printers and we were always in a state of backlog. Our current day-to-day printer needs maximize the capacity of our existing printers. After comparing the cost of leasing a printer for two years, coupled with our existing needs, purchasing a new printer would be more cost effective.

All administrative costs of the program will be paid in advance by participating employers as required by the bill.

The Other Funds are comprised of PERS at \$438.0 and the TRS at \$358.3 for FY 93.

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. CSSB 337 (FIN)

Revision Date: March 3, 1992
 Title: "An Act relating to retirement incentive programs . . . effective date."
 Sponsor: Duncan, Kerttula, Sturgulewski
 Requestor: Senate Finance

Department Affected: Administration
 BRU: Finance
 Component: Finance

COMPONENT SERIAL NO. 59

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	67.6	5.0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	67.6	5.0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	67.6	5.0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE:	0	0	0	0	0	0
TOTAL	67.6	5.0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	1	4	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year impact: See attached.

ANALYSIS: (Attach a separate page if necessary.)
 See attached.

Prepared by: Don Wanie, Director *DW 3/4*
 Division: Finance

Phone: 465-2240
 Date: March 3, 1992

Approved by Commissioner: Nancy Bear Usera
 Agency: Administration

Date: 3/5/92

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legis. Ofc., & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. CSSB 337 (FIN)

The Division of Finance is responsible for verification of employment history and processing of termination pay for all State employees. This includes verifying the length of employment, accounting for all leave without pay during the entire employment with the State and determining salaries for the three highest years. In addition, final and terminal leave pay must be processed in accordance with contractual agreements.

With implementation of a Retirement Incentive Program (RIP) the workload for these functions would be significantly increased and additional support will be required by the Division of Finance to meet processing deadlines. Approximately 500 employees took advantage of the previous RIP. It is anticipated that a comparable number of employees would participate if a RIP was implemented in the next year. Based on past experience, this would require four additional positions, including one Accountant I and three Accounting Technicians I, for a period of six months. Estimated cost for these positions would be:

Accountant I (1)	Range 14A	19.7
Accounting Technician I (3)	Range 12A	<u>52.9</u>
Total Cost		<u>72.6</u>

Ng 1
 Bill Version: SB 337
 (S) Publish Date: 1-31-92

FISCAL NOTE

STATE OF ALASKA
 1992 LEGISLATIVE SESSION

Revision Date: _____ Department Affected: Alaska Court System
 Title: An Act relating to retirement BRU: Trial Courts
Incentive programs... Components: _____
 Sponsor: Duncan
 Requestor: State Affairs COMPONENT SERIAL NO.

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EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS & CLAIMS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

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

FUNDING: (Thousands of Dollars)

GENERAL FUNDS	0.0	0.0	0.0	0.0	0.0	0.0
FEDERAL FUNDS						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

ANALYSIS: Changes in SB 337 (Fin) have no fiscal impact. This fiscal note is appropriate. 2-25-92 date CC Comte Aide (initial)

Changes in SB 337 (ETA) have no fiscal impact. This fiscal note is appropriate. 1-30-92 date Shawley Jones Comte Aide (initial)

Prepared by: C. S. Christensen III, Staff Counsel Phone: 264-8228
 Division: Alaska Court System Date: 01/21/92

Approved by: Arthur H. Snowden, II, Administrative Director Date: 01/21/92
 Agency: Alaska Court System

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



Alaska State Legislature

SENATOR JIM DUNCAN

P. O. Box V JUNEAU, ALASKA 99811-3100

(907) 465-4766

COMMITTEES:

- VICE CHAIR – FINANCE
- VICE CHAIR – STATE AFFAIRS
- RULES
- BUDGET & AUDIT
- ETHICS REFORM

MEMORANDUM

MAR 5 1992

Date: March 3, 1992

To: Representative Gene Kubina, Chair
House State Affairs Committee

From: Senator Jim Duncan

Subject: CSSB 337(FIN), relating to retirement incentive programs for the public employees' retirement system and the teachers' retirement system and certain persons under the judicial retirement system.

Please schedule SB 337, reestablishing the Retirement Incentive Program for a hearing in the House State Affairs Committee as soon as possible. The basic configuration of the Retirement Incentive Program as proposed in SB 337 is substantially similar to previous offerings of the program with a few amendments.

The window periods in the Finance Committee Substitute for SB 337 are as follows;

Employee Type	Application Period	First Day Employee Can Retire	Employee Must Retire on or Before
Teachers	June 30, 1992-Dec. 31, 1992	July 1, 1992	August 1, 1993
University	" " " "	" " " "	" " " "
State	July 31, 1992-Oct. 31, 1992	Aug. 1, 1992	July 1, 1993
Municipal	Dec. 31, 1992-June 30, 1993	Jan. 1, 1993	February 1, 1994

The basic provisions of the program remain unchanged. It will again offer a three year retirement credit to qualified individuals to be applied in the following order;

1. to meet the age or service required for eligibility for normal retirement;
2. to meet the age required for early retirement;

3. to reduce the actuarial adjustment required for early retirement; and
4. as years of credited service for calculating retirement benefits.

To qualify, an employee must be within 3 years of early or normal retirement. The increased benefit will vary depending on each individual's length of service and their age. The personal services savings required by the program will again be calculated over a five year period.

The employee is required to pay what they would have paid into the retirement system if they had continued to work for an additional three years. The employer's cost will be the difference between the employee's contribution and the full actuarial cost of the three year incentive. The State's actuaries calculate the full cost for each individual eligible for the program. This means that all cost incurred because the individual retires three years earlier is fully paid into the respective retirement system. Recent annual reports on both PERS and TRS report that the systems have been adequately compensated for RIP incurred costs.

The Legislative Audit released in November 1991 reported that total savings of almost \$23 million were achieved by public employers through the use of the 1989-90 Retirement Incentive Program. The State of Alaska saved over \$6 million, with the largest savings accruing to the Department of Transportation and Public Facilities. The University saved \$4.3 million and school districts throughout the state saved almost \$9 million. The total number of participants was 1,571. This compares to 2,327 participants in the 1986-87 Retirement Incentive Program.

Savings for the original program amounted to over \$73 million. Much of the difference between the calculated savings between the 86-87 offering and the 89-90 program is accounted for by the auditor's conservative standards for determining savings and the high level of participation in the original program. For instance, the Legislative Audit stated that while the University had reported \$9.2 million in savings, but had reallocated \$4.9 million of the savings to expand programs. The audit figures therefore did not include the \$4.9 million.

Because of concerns expressed by the Department of Administration about the program, SB 337 was amended in the Senate. With the following amendments, the Administration is now supporting reenactment of the Retirement Incentive Program;

1. the elimination of military service credit for PERS employees as years of credit towards service based retirement; i.e., 20 or 30 and out options;
2. changing the window period for state employees from December 31, 1992 through June 30, 1993 for application to

July 31, 1992 through October 31, 1992, and changing the required retirement date for state employees from February 1, 1994 to July 1, 1993; and

3. restoring the prohibition against Retirement Incentive Program retirees being either re-employed or contracting with the state for personal services for one year.

An additional amendment adopted by the Senate Finance Committee will allow school districts, the University, and municipalities to set shorter window periods for participation, as long as they are within the window periods in the bill. For example, a school district might wish to require its teachers to retire by August 1, 1992. The window periods in the bill allow teachers to apply between June 30, 1992, and December 31, 1992, and with retirement required by August 1, 1993. With the amendment, the district could mandate retirement by August 1, 1992, thus better accommodating their particular budget situation.

I appreciate your support for the reenactment of the Retirement Incentive Program, CS SB 337 (FIN).

Attachments



3/16/92

Alaska State Legislature

SENATOR JIM DUNCAN

P.O. Box V JUNEAU, ALASKA 99811-3100

(907) 465-4766

COMMITTEES:

VICE CHAIR —
FINANCE

VICE CHAIR —
STATE AFFAIRS

RULES

BUDGET & AUDIT

ETHICS REFORM

FACT SHEET ON SB 337

THE RETIREMENT INCENTIVE PROGRAM

Provided by Senator Jim Duncan

HOW DOES IT WORK?

- * The Retirement Incentive Program is designed to be used in periods of declining revenues.
- * It works by providing employers with a management tool with which to save personal services dollars without laying off short term employees.
- * Long term employees are offered a three year credit against retirement which they can use against normal or early retirement requirements.
- * SB 337 requires that personal services savings be realized by participating employers within a five year period.
- * Savings comes from the difference between the salary of the long-term employee who retires and the salary of a replacement employee; or through the elimination of the retiree's position.

WHAT ARE THE ECONOMIC BENEFITS OF THE PROGRAM?

- * The economic benefits of the Retirement Incentive Program are one of its most compelling features; first, personal services savings are realized in operating budgets; second, the new retirees for the most part remain in their communities and continue contributing their resources to our economy; and third, the employee with less seniority who is not laid off or is newly hired continues to receive a paycheck and in turn contributes to Alaska's economy.

WHO QUALIFIES?

- * A vested employee must be within 3 years of early or normal retirement.

HOW MUCH WILL THE RETIREE'S BENEFIT INCREASE?

* The increased benefit will vary depending on each individual's length of service and their age.

WHAT DOES THE EMPLOYER HAVE TO CONTRIBUTE?

* The employer's cost is the difference between the employee's contribution and the full actuarial cost of the three year incentive. The State's actuaries calculate the full cost for each individual eligible for the program.

WHAT DOES THE EMPLOYEE HAVE TO CONTRIBUTE?

* The employee is required to pay what they would have paid into the retirement system if they had continued to work for an additional three years.

ARE PERS AND TRS FULLY COMPENSATED FOR RIP COSTS?

* Yes, the most recent annual reports on both PERS and TRS state that both systems have been adequately compensated for RIP incurred costs.

WHAT WERE THE SAVINGS FROM THE 1986-87 PROGRAM?

* In 1986-87 there were 2,327 participants and savings calculated at almost \$73 million.

WHAT ABOUT THE 1989-90 PROGRAM?

* Legislative Audit reports that a total saving of almost \$23 million were achieved by public employers with 1,764 participants.

WHY THE DIFFERENCE IN SAVINGS BETWEEN THE TWO PROGRAMS?

* The decrease in savings between the 19887-87 program and the 1989-90 program is primarily accounted for by the auditor's conservative standards for determining savings and the high level of participation in the original program.

HAVE THERE BEEN ANY MAJOR AMENDMENTS TO THE BILL?

* The State Affairs Committee shortened the window period for state employees to be entirely contained in Fiscal Year 93 at the request of the Commissioner of Administration.

* The Finance Committee amended the bill to allow all employers other than the state to implement shorter window periods for their employees than are in the bill. This amendment will allow maximum flexibility to use the Program to accommodate specific budgetary needs.

Window Periods			
Employee Type	Application Period	First Day Employee Can Retire	Employee Must Retire on or Before
Teachers	June 30, 1992-Dec. 31, 1992	July 1, 1992	August 1, 1993
University	" "	" "	" "
State	July 31, 1992-Oct. 31, 1992	Aug. 1, 1992	July 1, 1993
Municipal	Dec. 31, 1992-June 30, 1993	Jan. 1, 1993	February 1, 1994



Alaska State Legislature

SENATOR JIM DUNCAN

P.O. Box V JUNEAU, ALASKA 99811-3100
(907) 465-4766

COMMITTEES:
VICE CHAIR -
FINANCE
VICE CHAIR -
STATE AFFAIRS
RULES
BUDGET & AUDIT
ETHICS REFORM

FEB 4 1992

MEMORANDUM

Date: February 4, 1992
TO: ALL LEGISLATORS
FROM: Senator Jim Duncan
SUBJECT: CSSB 337(STA), relating to retirement incentive programs for the public employees' retirement system and the teachers' retirement system.

This memo is to provide you and your staff with the latest information on SB 337, reestablishing the Retirement Incentive Program. The basic configuration of the Retirement Incentive Program as proposed in SB 337 is substantially similar to previous offerings of the program.

The window periods in the State Affairs Committee Substitute for SB 337 are as follows;

Employee Type	Application Period	Employee Must Retire on or Before
Teachers	June 30, 1992-Dec. 31, 1992	August 1, 1993
University	" "	" "
State	July 31, 1992-Oct. 31, 1992	July 1, 1993
Municipal	Dec. 31, 1992-June 30, 1993	February 1, 1994

The State Affairs Committee amended SB 337 because of concerns expressed by the Department of Administration about the program. Based on the amendments, the Administration is now supporting reenactment of the program. The amendments included;

1. the elimination of military service credit for PERS employees as years of credit towards service based retirement; i.e., 20 or 30 and out options;

2. changing the window period for state employees from December 31, 1992 through June 30, 1993 for application to July 31, 1992 through October 31, 1992, and changing the required retirement date for state employees from February 1, 1994 to July 1, 1993; and
3. restoring the prohibition against Retirement Incentive Program retirees being either re-employed or contracting with the state for personal services for one year.

The other provisions of the program remain unchanged. It will again offer a three year retirement credit to qualified individuals to be applied in the following order;

1. to meet the age or service required for eligibility for normal retirement;
2. to meet the age required for early retirement;
3. to reduce the actuarial adjustment required for early retirement; and
4. as years of credited service for calculating retirement benefits.

To qualify, an employee must be within 3 years of early or normal retirement. The increased benefit will vary depending on each individual's length of service and their age. The personal services savings required by the program will again be calculated over a five year period.

The employee will be required to pay what they would have paid into the retirement system if they had continued to work for an additional three years. The employer's cost will be the difference between the employee's contribution and the full actuarial cost of the three year incentive. The full cost is calculated by the state's actuaries for each individual who is eligible for the program. This means that all cost incurred because the individual retires three years earlier is fully paid into the respective retirement system. Recent annual reports on both PERS and TRS report that the systems have been adequately compensated for RIP incurred costs.

The Legislative audit released in November 1991 reported that total savings of almost \$23 million were achieved by public employers through the use of the 1989-90 Retirement Incentive Program. The State of Alaska saved over \$6 million, with the largest savings accruing to the Department of Transportation and Public Facilities. The University saved \$4.3 million and school districts throughout the state saved almost \$9 million. The total number of participants was 1,764. This compares to 2,327 participants in the 1986-87 Retirement Incentive Program.

Savings for the original program amounted to over \$73 million. Much of the difference between the calculated savings between the 86-87 offering and the 89-90 program is accounted for by the auditor's

conservative standards for determining savings and the high level of participation in the original program. For instance, the Legislative Audit stated that while the University had reported \$9.2 million in savings, but had reallocated \$4.9 million of the savings to expand programs. The audit figures therefore did not include the \$4.9 million.

For your information, I made some additional changes in the program between the 89-90 version and SB 337. They are:

1. University of Alaska employees who have chosen the optional university retirement program are allowed to participate if they otherwise qualify under PERS or TRS. (Page 5, lines 5-10)
2. The Administrative Director of the Alaska Court System is allowed to participate if a savings is realized. (Page 5, line 28 - Page 7, line 7)

Your support for CS SB 337 (STA) will be appreciated.

Attachments

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

240 Main Street, Suite 500
Juneau, Alaska 99801-2101

MEMORANDUM

February 4, 1992

SUBJECT: Sectional Summary of CSSB 337(State Affairs)
(Retirement Incentive Programs)

TO: Senator Jim Duncan

FROM: Teresa B. Cramer *TBC*
Legislative Counsel

You have requested a sectional analysis of the above described bill.

As a preliminary matter, note that a sectional analysis or summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

Because this bill sets up a time-limited program which is repealed July 1, 1994, it is not placed into the codified statutes. If the bill is enacted, it will be published in the Session Laws and also in the Temporary and Special Acts volume of the Alaska Statutes.

Section 1 states the legislative purpose in adopting a retirement incentive program for public employers and employees.

Section 2 establishes the general requirements for a retirement incentive program. Subsection (a) permits employers to designate organizational units of employees eligible to participate. Subsection (b) sets out criteria for the organization units. Subsection (c) limits which employees are eligible to participate to those who will be qualified to retire after receipt of the retirement incentive. Subsection (d) sets out requirements for the plan filed by the employer and requires the employer to agree to reimburse the retirement system for the extra costs incurred by the system from participation by the employer's employees.

Subsection (e) sets out the formula for computing how much each member of the Teachers' Retirement System (TRS) who participates in the plan owes in order to receive the three-year credit. It is based on the annual contribution rate of 8.65% for members of TRS set out in AS 14.25.050. Subsection (f) sets out the formula for

computing how much each member of the Public Employees' Retirement System (PERS) who participates in the plan owes in order to receive the three-year credit. It is based on the annual contribution rates of 7.5% for peace officers who are members of PERS and 6.75% for other members of PERS set out in AS 39.35.160.

Subsection (g) provides that the retirement incentive is a credit of three years, to be used either to meet retirement eligibility requirements or, if those are met, to increase the amount of credited service a participant is entitled to when computing benefits. Subsection (h) limits the kinds of credited service that employees retiring under the retirement incentive plan may use when determining whether they are eligible to retire. Note that the subsection does not limit the kinds of credited service that may be considered when computing the employee's benefits.

Subsection (i) permits employees to assume part of the employer's liability in order to become eligible to participate in a retirement incentive plan.

Section 3 authorizes the state to adopt a retirement incentive plan for its employees, to begin July 31, 1992, and ending October 31, 1992. Subsections (b) and (c) limit which employees may participate. Subsection (d) requires that participants be appointed to retirement on or before July 1, 1993.

Section 4 authorizes political subdivisions and public organizations which participate in PERS to adopt a retirement incentive plan for their employees, to begin December 31, 1992, and ending June 30, 1993. Subsection (b) requires that participants be appointed to retirement on or before February 1, 1994.

Section 5 authorizes the University of Alaska to adopt a retirement incentive plan for its employees, to begin June 30, 1992, and ending December 31, 1992. Subsection (b) requires that participants be appointed to retirement on or before August 1, 1993. Subsection (c) addresses participants in the Optional University Retirement Program.

Section 6 authorizes employers in TRS other than the state or the University of Alaska, which are covered in sections 3 and 5 above, to adopt a retirement incentive plan for their employees, to begin June 30, 1992, and ending December 31, 1992. Subsection (b) requires that participants be appointed to retirement on or before August 1, 1993.

Section 7 permits state employee participants to receive credit for certain employment with political subdivisions or public organizations who did not participate in PERS or TRS at the time of the employment for purposes of determining whether the participant satisfies the years of service requirements for retirement under TRS or PERS. The employment may not be counted when the amount of the participant's benefits are calculated.

Senator Jim Duncan

January 17, 1992

Page 3

Section 8 permits the administrative director of the Alaska Court System who is a member of the Judicial Retirement System (JRS) to participate in a retirement incentive program. The section sets out provisions comparable to those that apply to members of the other retirement systems.

Section 9 permits the Department of Administration to take certain actions if employers who are participating in the retirement incentive program become delinquent in the payments they owe the system for the increased benefits paid to their retirees under the program.

Section 10 establishes an indebtedness owed by participants in the retirement incentive program who, after retirement, are reemployed in a position that is covered by PERS, TRS, or JRS. Subsection (b) prohibits participants from working for an employer who is part of one of the state retirement systems for one year after the participant retired. There is an exception for the University of Alaska.

Section 11 directs state agencies to file with the Office of Management and Budget reports showing the expected effect of the program on the agency's personal services cost and operation. Subsection (b) directs OMB to document the net reduction in personal services costs for each agency in the governor's annual budget request. Subsection (c) directs OMB to report to the legislature on the retirement incentive program.

Section 12 states that employees do not have a vested or contractual right to benefits under a retirement incentive program until an agreement is executed with the administrator of the retirement system. The legislature reserves the right to make changes to the program.

Section 13 makes the definitions in TRS and PERS, as appropriate, applicable to the bill.

Section 14 repeals sections 1 - 8 of the Act, which establish and authorize the retirement incentive programs, on July 1, 1994.

Section 15 is an immediate effective date clause.

If I may be of further assistance, please advise.

TC:gc
92-097.glc

DEPARTMENT OF ADMINISTRATION

Estimated Number of Public Employees determined
to be Eligible under the Finance Committee Substitute
for Senate Bill 337, Retirement Incentive Program

State of Alaska Employees:

PERS ----	4,000
TRS ----	50

University of Alaska:

PERS ----	500
TRS ----	450

Political Subdivision & School Districts:

PERS ----	3,700
TRS ----	1,900

2/29/92

**Table of Alaska Residency for the
Public Employees' and Teachers Retirement Systems
Benefit Recipients**

<u>Year</u>	<u>PERS</u>	<u>TRS</u>
1982	60%	49%
1986	69%	54%
1991	71%	66%

These figures were the result of analyses by the system actuary in preparation of the PERS and TRS five year Study of Actuarial Assumptions. The study is performed to review all the system's assumptions and make adjustments to reflect the prior period experience. These numbers are dollar weighted to reflect the economic value of benefit dollars residing in the state.

STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

P.O. BOX 110200
JUNEAU, ALASKA 99811-0200
PHONE: (907) 465-2200
FAX: (907) 465-2135

March 18, 1992

The Honorable Jim Duncan
Alaska State Senator
State Capitol
Juneau, AK 99801-1182

Dear Senator Duncan:


I understand a question has been raised as to how a provision of SB 337 would affect employees who have had a break in service due to a period of layoff. The issue arises apparently in connection with the eligibility requirement that to participate in the RIP an employee must have been continuously employed by the State since November 1, 1991.

In reviewing the matter, I find that State policy provides that an employee who is laid off is put on "leave without pay" (LWOP) status, rather than actually being terminated. For this reason, an employee who is placed on LWOP would still be considered to be employed by the State for RIP purposes, regardless of when they were placed on LWOP.

In short, an employee who had been laid off and placed on leave without pay status would still be eligible for participation in the Retirement Incentive Program. This interpretation is consistent with that applied in the prior two RIP programs.

If additional information or clarification is needed, please let me know.

Sincerely,


Nancy Bear Usera
Commissioner

NBU/nl

cc: Paul Fuhs
Legislative Liaison
Office of the Governor

Gary Bader
Director
Division of Retirement and Benefits
Department of Administration

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

P.O. BOX C
JUNEAU, ALASKA 99811 0200
PHONE (907) 465 2200
FAX (907) 465 2135

January 29, 1992

The Honorable Jim Duncan
Alaska State Legislator
State Capitol
Juneau, AK 99811

Dear Senator Duncan:

This is to follow up on the discussions regarding SB 337 at the Senate State Affairs Committee meeting on January 22.

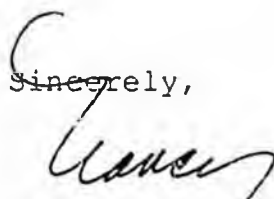
As requested, we have reviewed the "window" for State participation in the program. We find that under the February 1, 1994, window proposed in SB 337, 4,366 State employees would be eligible to participate; and based upon the experience of the last incentive program, approximately 29%, or 1,266, employees could be expected to avail themselves of the incentive. The July 1, 1993, window proposed by the department would reduce the number of eligible employees by 447 and, in turn, the actual number who would participate by only 130. In view of the greater flexibility the shorter window would provide for dealing with projected revenue shortfalls, I believe its benefits outweigh the exclusion of the small number of employees who would be affected.

I am enclosing a copy of the specific amendments the department is proposing to Senate Bill 337. They include language for the windows for State employees for making application and actually retiring, as well as the other amendments we offered on January 22. We have, however, redrafted the contracting prohibition amendment to model it after that set out in the legislation enacted for the last incentive program.

I would appreciate your favorable consideration of these amendments which would enable the Department of Administration to support SB 337.

Thank you.

Sincerely,


Nancy Bear Usera
Commissioner

NBU/nl
Enclosures



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 5879

Position Statement

Senate Bill No. 337

The Alaska Council of School Administrators is in support of Sente Bill No. 337, "Relating to retirement incentive programs for the public employees'.

Because of the continued concerns for budget reductions, the state's long term revenue outlook, and the success of previous incentive programs, we feel the implementation of a retirement incentive program would again provide the necessary stimulus for those eligible to retire under this program to do so. And in the long term, it would produce a significant savings to the state and local school districts.



Alaska Public
Employees Association **APEA**

State Headquarters: 340 N. Franklin, Juneau, AK 99801 (907) 586-2334

FEDERATION OF PUBLIC EMPLOYEES/AFT/AFL-CIO

January 27, 1992

Senator Jim Duncan
P.O. Box 020690
Juneau, AK 99802


Re: Retirement Incentive Program, SB 337

Dear Senator Duncan:

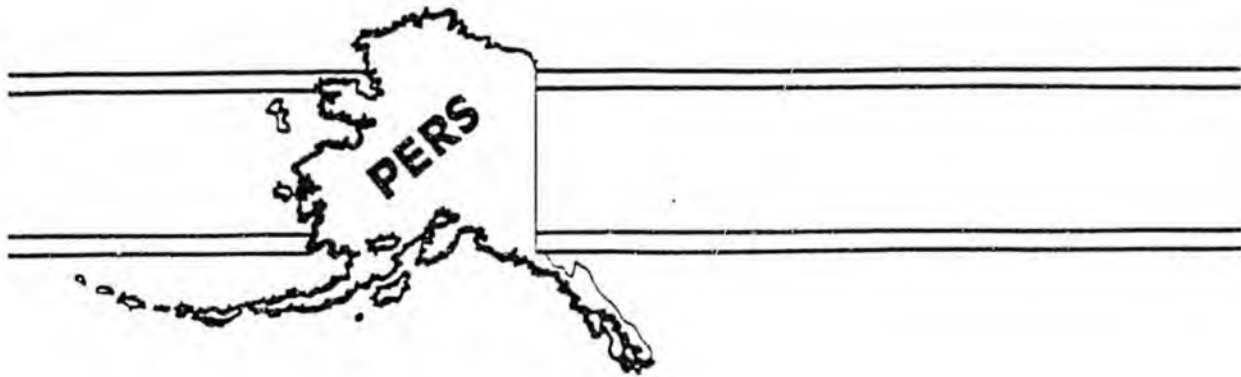
This is to reiterate our support for your bill implementing a Retirement Incentive Program for employees of the State, political subdivisions and school districts. We believe that the program is a sensible and humane method of cutting jobs and saving money. Past programs have proven effective and, given the economic and political climate, we have no reason to believe this won't be either. It is a win-win situation for the public employer and the State.

Thank you for introducing and supporting this legislation. APEA/AFT fully supports it.

Very truly yours,



Bruce I. Ludwig
Business Manager



State of Alaska
Public Employees' Retirement System

Actuarial Valuation Report
as of June 30, 1990

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Highlights

This report has been prepared by William M. Mercer, Incorporated to:

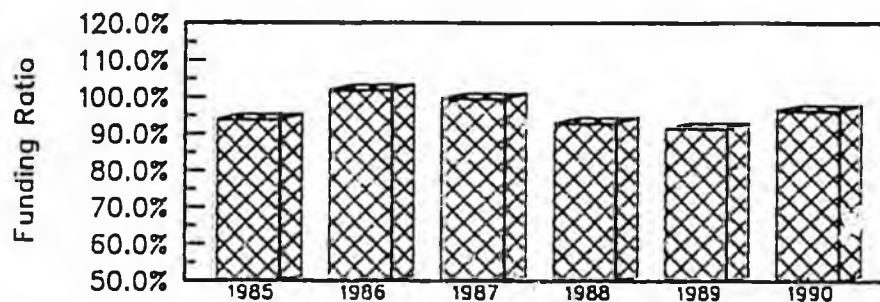
- (1) present the results of a valuation of the Alaska Public Employees' Retirement System as of June 30, 1990;
- (2) review experience under the plan for the year ended June 30, 1990;
- (3) determine the appropriate contribution rates for the State and for each political subdivision in the system;
- (4) provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The report is divided into two sections. Section 1 contains the results of the valuation. It includes the experience of the plan during the 1989-90 plan year, the current annual costs, and reporting and disclosure information.

Section 2 describes the basis of the valuation. It summarizes the plan provisions, provides information relating to the plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

The principle results are as follows:

	<u>1989</u>	<u>1990</u>
Funding Status as of June 30:		
(a) Valuation Assets*	\$ 2,348,423	\$ 2,677,486
(b) Accrued Liability*	2,563,268	2,753,518
(c) Funding Ratio, (a) / (b)	91.6%	97.2%



* In thousands.

Employer Contribution Rates
for Fiscal Year:

	<u>1992</u>	<u>1993</u>
(a) Consolidated Rate	12.00%	12.83%
(b) Average Past Service Rate	2.20%	.75%
(c) Average Total Contribution Rate	14.20%	13.58%

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the plan sponsor and financial information provided by Coopers & Lybrand, to determine a sound value for the plan liabilities. We believe that this value and the method suggested for funding it are in full compliance with the Governmental Accounting Standards Board, the Internal Revenue Code, and all applicable regulations.

Respectfully submitted,

Brian R. McGee, FSA
Principal

Peter L. Godfrey, FIA, ASA
Consulting Actuary

BRM/PLG/JWJ/jls

April 11, 1991

Analysis of the Valuation

As shown in the Highlights section of this report, the funding ratio as of June 30, 1990 has increased from 91.6% to 97.2%, a 5.6% increase. The average employer contribution rate has decreased from 14.20% of payroll to 13.58%, a reduction of 0.62%. The reasons for the change in the funded status and contribution rate are explained below.

1. Retiree Medical Insurance

During the year ended June 30, 1990, the System experienced an actuarial gain of \$96,813,000 due to the reduction in retiree medical premiums.

Because, in recent years, the adverse retiree medical premium experience was a major reason for the rapidly increasing employer contribution rate and the deteriorating funding ratio, it is certainly welcome news to be able to comment on a stabilization in retiree medical premiums.

The following table summarizes the monthly premium per benefit recipient since retiree medical benefits have been provided under PERS.

<u>Fiscal Year</u>	<u>Monthly Premium Per Retiree For Health Coverage</u>	<u>Annual Percentage Increase</u>	<u>Average Annual Increase Since 1978</u>
1977	\$ 34.75	--	--
1978	57.64	66%	--
1979	69.10	20%	20%
1980	64.70	- 6%	6%
1981	96.34	49%	19%
1982	96.34	0%	14%
1983	115.61	20%	15%
1984	156.07	35%	18%
1985	191.85	24%	19%
1986	168.25	-12%	14%
1987	165.00	- 2%	12%
1988	140.25	-15%	9%
1989	211.22	51%	13%
1990	252.83	20%	13%
1991	243.98	- 4%	12%
1992	243.98	--	11%

As you can see from the above table, the monthly retiree medical premium reduced to \$243.98 during the year from \$252.83, a decrease of 3.50%. The premium for the 1992 fiscal year remained unchanged.

As noted in last year's valuation report, the State has seen a dramatic shift to post-65 rates which have increased considerably faster than pre-65 rates. However, both rates reduced by 3.50% in FY91 and have remained unchanged for FY92, resulting in the first actuarial gain from medical benefits for the System since the June 30, 1987 valuation of the System.

The effect on the past service contribution rate of this reduction in retiree medical premiums was a reduction of 0.95% of payroll. The effect on the consolidated rate was a reduction of 0.47%, resulting in a reduction in the average total employer contribution rate due to medical benefits of 1.42% of payroll.

2. Investment Performance

The System once again experienced actuarial gains arising from the investment performance of the Trust assets. Although the return as measured by market values was lower this year than last year, the effect of the five-year smoothing was to increase the return as measured by valuation assets from last year. The approximate rate of return based on market values was 9.94% and the rate based on valuation assets was 11.87%. The resulting actuarial gain was \$68,112,000 which had the effect of reducing the average employer contribution rate by 0.67%.

3. Salary Increases

Salary increases during the year were less than anticipated in the valuation assumptions. Salary experience resulted in an actuarial gain of \$6,991,000 which generated a reduction in the average employer contribution rate of 0.07% of payroll.

4. Employee Data

Section 2.2 provides statistics on active and inactive participants. The number of active participants increased 3.7%, from 28,044 at June 30, 1989 to 29,086 at June 30, 1990. The average age of active participants increased from 40.17 to 40.37 and average credited service increased from 6.66 to 6.82 years.

The number of retirees and beneficiaries increased 5.7%, from 6,967 to 7,365, and their average age increased from 63.28 to 63.62. There was an 18.6% increase in the number of vested terminated participants from 2,314 to 2,745. Their average age reduced slightly from 42.97 to 42.96.

The overall effect of these participant data changes was an actuarial loss of \$7,216,000, resulting in an increase in the past service contribution rate of 0.07% of payroll. These demographic changes also had the effect of increasing the consolidated rate by 0.61%, resulting in an increase in the average total employer contribution rate of 0.68% of payroll.

Retirement Incentive Program

The second Retirement Incentive Program has been available to University of Alaska participants since July 1, 1989 and to other participants since October 1, 1989. The number of new retirees increased from 370 at June 30, 1989 to 495 at June 30, 1990. Although the full effect of the R.I.P. may not be seen until next year's valuation, the R.I.P. was responsible in part for the increase in the number of new retirees.

As with the first R.I.P., the cost is being borne by employers based on the actuarial value of the extra benefits, calculated individually for each employee electing to retire under the program. This cost is being paid over a three-year period. If the assumptions underlying the calculated cost of the R.I.P. are met, the total cost to the System will be equal to the employers' payments.

Summary

The following table summarizes the sources of change in the average employer contribution rate:

(1) Last year's average employer contribution rate	14.20%
(2) Decrease in past service rate due to retiree medical insurance	(0.95%)
(3) Decrease in consolidated rate due to retiree medical insurance	(0.47%)
(4) Decrease due to investment performance	(0.67%)
(5) Decrease due to salary increases	(0.07%)
(6) Increase in past service rate due to demographic experience	0.07%
(7) Increase in consolidated rate due to demographic experience	0.61%
(8) Impact of all other factors	0.86%
(9) Average employer contribution rate this year	13.58%

In summary, the System enjoyed a good year with substantial actuarial gains arising from favorable investment performance and the reduction in medical premiums. These two factors were largely responsible for the increase in the System's funded status to 97.2% of accrued liabilities.