

ALASKA LEGISLATURE COMMITTEE FILES  
7690 SENATE STATE AFFAIRS

1991-1992

8672

244

Table 5  
State of Alaska PERS  
Financial Projections ('000 omitted)

As of June 30	Investment Return 9.00% (nominal)			Salary Increases 6.04% (6.5/5.5 assumed)							
	--Valuation Amounts on July 1--			-----Flow Amounts During Following 12 Months-----							Ending
	Assets	Accrued Liability	Surplus* (Deficit)	Total Salaries	Employer Contri	Employee Contri	Total Contri	Benefit Payments	Net Contri	Investment Earnings	Asset Valuation
1988	2,088,428	2,246,583	(158,155)	945,136	128,539	64,553	193,092	97,859	95,233	200,702	2,384,364
1989	2,384,364	2,511,963	(127,597)	1,002,222	126,601	68,452	195,053	106,870	88,183	228,218	2,700,764
1990	2,700,764	2,801,804	(101,039)	1,062,756	123,924	72,586	196,510	116,504	80,006	257,607	3,038,378
1991	3,038,378	3,118,259	(79,881)	1,126,946	122,858	76,970	199,829	125,883	73,946	289,087	3,401,411
1992	3,401,411	3,464,631	(63,221)	1,195,014	125,211	81,619	206,831	135,955	70,875	323,092	3,795,378
1993	3,795,378	3,843,567	(48,189)	1,267,193	128,328	86,549	214,877	148,046	66,832	359,963	4,222,172
1994	4,222,172	4,256,607	(34,435)	1,343,731	132,148	91,777	223,925	160,809	63,116	399,936	4,685,224
1995	4,685,224	4,706,881	(21,658)	1,424,893	136,626	97,320	233,946	175,544	58,402	443,273	5,186,899
1996	5,186,899	5,196,490	(9,591)	1,510,956	141,724	103,198	244,922	191,787	53,135	470,219	5,730,253
1997	5,730,253	5,728,256	1,997	1,602,218	147,698	109,431	257,130	209,342	47,788	541,081	6,319,122
1998	6,319,122	6,305,512	13,610	1,698,992	155,546	116,041	271,587	228,844	42,743	596,237	6,958,102
1999	6,958,102	6,931,281	26,820	1,801,611	163,784	123,050	286,834	247,363	39,471	656,186	7,653,758
2000	7,653,758	7,611,981	41,776	1,910,428	172,431	130,482	302,913	269,379	33,534	721,345	8,408,636
2001	8,408,636	8,349,986	58,650	2,025,818	181,505	138,363	319,869	293,243	26,625	792,030	9,227,292
2002	9,227,292	9,149,673	77,619	2,148,178	191,027	146,721	337,748	318,446	19,302	868,695	10,115,290
2003	10,115,290	10,016,415	98,874	2,277,928	201,018	155,582	356,601	344,013	12,587	951,909	11,079,787

\* Surpluses reduce employer contributions over 5 years  
\* Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				---As % of Assets---	
		Employer Contri	Employee Contri	Total Contri	Benefit Payments	Net Contri	Investment Earnings
1988	93.0	13.60%	6.83%	20.43%	10.35%	4.27%	9.00%
1989	94.9	12.63%	6.83%	19.46%	10.66%	3.48%	9.00%
1990	96.4	11.66%	6.83%	18.49%	10.96%	2.80%	9.00%
1991	97.4	10.90%	6.83%	17.73%	11.17%	2.30%	9.00%
1992	98.2	10.48%	6.83%	17.31%	11.38%	1.97%	9.00%
1993	98.7	10.13%	6.83%	16.96%	11.68%	1.67%	9.00%
1994	99.2	9.83%	6.83%	16.66%	11.97%	1.42%	9.00%
1995	99.5	9.59%	6.83%	16.42%	12.32%	1.19%	9.00%
1996	99.8	9.38%	6.83%	16.21%	12.69%	0.98%	9.00%
1997	100.0	9.22%	6.83%	16.05%	13.07%	0.79%	9.00%
1998	100.2	9.16%	6.83%	15.99%	13.47%	0.65%	9.00%
1999	100.4	9.09%	6.83%	15.92%	13.73%	0.54%	9.00%
2000	100.5	9.03%	6.83%	15.86%	14.10%	0.42%	9.00%
2001	100.7	8.96%	6.83%	15.79%	14.48%	0.30%	9.00%
2002	100.8	8.89%	6.83%	15.72%	14.82%	0.20%	9.00%

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Table 5  
State of Alaska PERS  
Financial Projections ('000 omitted)

As of June 30	Investment Return 10.00% (nominal)			Salary Increases 6.04% (6.5/5.5 assumed)				12 Months-		Ending Asset Valuation	
	--Valuation Amounts on July 1-- Assets	Accrued Liability	Surplus* (Deficit)	Total Salaries	Employer Contribs	Employee Contribs	Total Benefit Payments	Net Contribs	Investment Earnings		
1988	2,088,428	2,246,583	(158,155)	945,136	128,539	64,553	193,092	97,859	95,233	224,047	2,407,708
1989	2,407,708	2,511,963	(104,255)	1,002,222	121,095	68,452	189,547	106,870	82,677	256,943	2,747,328
1990	2,747,328	2,801,804	(54,475)	1,062,756	112,941	72,586	185,527	116,504	69,024	291,921	3,108,273
1991	3,108,273	3,118,259	(9,987)	1,126,946	106,373	76,970	183,343	125,883	57,460	329,242	3,494,974
1992	3,494,974	3,464,631	30,343	1,195,014	107,466	81,619	189,085	135,955	53,130	369,629	3,917,733
1993	3,917,733	3,843,567	74,166	1,267,193	110,035	86,549	196,584	148,046	48,539	413,789	4,380,060
1994	4,380,060	4,256,607	123,453	1,343,731	112,496	91,777	204,273	160,809	43,464	462,080	4,885,604
1995	4,885,604	4,706,881	178,722	1,424,893	114,826	97,320	212,146	175,544	36,602	514,818	5,437,024
1996	5,437,024	5,196,490	240,533	1,510,956	116,996	103,198	220,195	191,787	28,408	572,308	6,037,739
1997	6,037,739	5,728,256	309,483	1,607,218	118,980	109,431	228,411	209,342	19,070	634,916	6,691,725
1998	6,691,725	6,305,512	386,213	1,698,992	120,746	116,041	236,787	228,844	7,943	703,028	7,402,696
1999	7,402,696	6,931,281	471,415	1,801,611	122,260	123,050	245,310	247,363	(2,053)	777,180	8,177,824
2000	8,177,824	7,611,981	565,842	1,910,428	123,485	130,482	253,967	269,379	(15,412)	857,901	9,020,312
2001	9,020,312	8,349,986	670,326	2,025,818	124,377	138,363	262,740	293,243	(30,503)	945,608	9,935,417
2002	9,935,417	9,149,673	785,743	2,148,178	124,891	146,721	271,611	318,446	(46,834)	1,040,877	10,929,459
2003	10,929,459	10,016,415	913,044	2,277,928	124,977	155,582	280,560	344,013	(63,454)	1,144,421	12,010,426

\* Surpluses reduce employer contributions over 5 years  
\* Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				---As % of Assets---	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	93.0	13.60%	6.83%	20.43%	10.35%	4.25%	10.00%
1989	95.8	12.08%	6.83%	18.91%	10.66%	3.22%	10.00%
1990	98.1	10.63%	6.83%	17.46%	10.96%	2.36%	10.00%
1991	99.7	9.44%	6.83%	16.27%	11.17%	1.75%	10.00%
1992	100.9	8.99%	6.83%	15.82%	11.38%	1.44%	10.00%
1993	101.9	8.68%	6.83%	15.51%	11.68%	1.17%	10.00%
1994	102.9	8.37%	6.83%	15.20%	11.97%	0.94%	10.00%
1995	103.8	8.06%	6.83%	14.89%	12.32%	0.71%	10.00%
1996	104.6	7.74%	6.83%	14.57%	12.69%	0.50%	10.00%
1997	105.4	7.43%	6.83%	14.26%	13.07%	0.30%	10.00%
1998	106.1	7.11%	6.83%	13.94%	13.47%	0.11%	10.00%
1999	106.8	6.79%	6.83%	13.62%	13.73%	-0.03%	10.00%
2000	107.4	6.46%	6.83%	13.29%	14.10%	-0.18%	10.00%
2001	108.0	6.14%	6.83%	12.97%	14.48%	-0.32%	10.00%
2002	108.6	5.81%	6.83%	12.64%	14.82%	-0.45%	10.00%

**Table 7**  
**State of Alaska PERS**  
**Financial Projections ('000 omitted)**

As of June 30	Investment Return 9.00% (nominal)			Salary Increases 5.04% (5.5/4.5 assumed)					Ending Asset Valuation		
	--Valuation Amounts on July 1--			-----Flow Amounts During Following 12 Months-----							
	Assets	Accrued Liability	Surplus* (Deficit)	Total Salaries	Employer Contri	Employee Contri	Total Benefit Payments	Net Investment Contri		Investment Earnings	
1988	2,088,428	2,246,583	(158,155)	936,223	127,717	63,944	191,661	97,502	94,159	200,654	2,383,240
1989	2,383,240	2,497,568	(114,428)	983,408	121,758	67,167	108,925	106,061	82,864	227,873	2,693,977
1990	2,693,977	2,770,007	(76,030)	1,032,972	115,276	70,552	185,828	115,134	70,694	256,550	3,021,221
1991	3,021,221	3,065,357	(44,136)	1,085,034	110,559	74,108	184,666	123,829	60,837	286,884	3,368,942
1992	3,368,942	3,386,586	(17,645)	1,139,719	109,358	77,843	187,201	133,080	54,121	319,284	3,742,347
1993	3,742,347	3,735,867	6,480	1,197,161	109,893	81,766	191,659	144,194	47,465	354,104	4,143,915
1994	4,143,915	4,114,220	29,696	1,257,498	113,294	85,887	199,181	155,808	43,373	391,687	4,578,975
1995	4,578,975	4,524,205	54,770	1,320,876	116,802	90,216	207,017	167,199	37,818	432,354	5,049,143
1996	5,049,148	4,967,303	81,845	1,387,448	120,417	94,763	215,180	183,882	31,298	476,281	5,556,726
1997	5,556,726	5,445,658	111,069	1,457,376	124,142	99,539	223,681	199,637	24,044	523,692	6,104,462
1998	6,104,462	5,961,862	142,600	1,530,827	127,977	104,556	232,532	217,073	15,460	574,820	6,694,743
1999	6,694,743	6,518,135	176,608	1,607,981	131,922	109,825	241,747	233,228	8,519	630,024	7,333,285
2000	7,333,285	7,120,015	213,270	1,689,023	135,978	115,360	251,338	252,553	(1,214)	689,641	8,021,712
2001	8,021,712	7,768,923	252,789	1,774,150	140,144	121,174	261,319	273,361	(12,043)	753,900	8,763,570
2002	8,763,570	8,468,197	295,372	1,863,567	144,420	127,282	271,702	295,108	(23,406)	823,160	9,563,325
2003	9,563,325	9,222,083	341,242	1,957,491	148,806	133,697	282,502	316,776	(34,274)	897,888	10,426,939

\* Surpluses reduce employer contributions over 5 years  
 \* Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				---As % of Assets---	
		Employer Contri	Employee Contri	Total Contri	Benefit Payments	Net Investment Contri	Investment Earnings
1988	93.0	13.64%	6.83%	20.47%	10.41%	4.22%	9.00%
1989	95.4	12.38%	6.83%	19.21%	10.79%	3.27%	9.00%
1990	97.3	11.16%	6.83%	17.99%	11.13%	2.48%	9.00%
1991	98.6	10.19%	6.83%	17.02%	11.41%	1.91%	9.00%
1992	99.5	9.60%	6.83%	16.43%	11.68%	1.53%	9.00%
1993	100.2	9.18%	6.83%	16.01%	12.04%	1.21%	9.00%
1994	100.7	9.01%	6.83%	15.84%	12.39%	1.00%	9.00%
1995	101.2	8.84%	6.83%	15.67%	12.81%	0.79%	9.00%
1996	101.6	8.68%	6.83%	15.51%	13.25%	0.59%	9.00%
1997	102.0	8.57%	6.83%	15.35%	13.70%	0.41%	9.00%
1998	102.4	8.46%	6.83%	15.19%	14.18%	0.24%	9.00%
1999	102.7	8.20%	6.83%	15.03%	14.50%	0.12%	9.00%
2000	103.0	8.05%	6.83%	14.88%	14.95%	-0.02%	9.00%
2001	103.3	7.90%	6.83%	14.73%	15.41%	-0.14%	9.00%
2002	103.5	7.75%	6.83%	14.58%	15.84%	-0.26%	9.00%

Table 8  
State of Alaska FERS  
Financial Projections ('000 omitted)

As of June 30	Investment Return 10.00% (nominal)			Salary Increases 5.04% (5.5/4.5 assumed)					Ending		
	--Valuation Amounts on July 1--	-----Flow Amounts During Following 12 Months-----		Total Employer		Total	Benefit	Net	Investment	Asset	
	Assets	Accrued Liability	Surplus* (Deficit)	Salaries	Contribs	Employee Contribs	Contribs	Payments	Contribs	Earnings	Valuation
1988	2,088,428	2,246,583	(158,155)	936,223	127,717	63,944	191,661	97,502	94,159	223,997	2,406,579
1989	2,406,579	2,497,668	(91,089)	983,408	116,253	67,167	183,420	106,061	77,359	256,559	2,740,497
1990	2,740,497	2,770,007	(29,509)	1,032,972	104,304	70,552	174,856	115,134	59,722	290,738	3,090,957
1991	3,090,957	3,065,357	25,601	1,085,034	97,758	74,104	171,865	123,829	48,036	326,952	3,465,946
1992	3,465,946	3,396,586	79,360	1,139,719	97,784	77,843	175,627	133,080	42,547	366,052	3,874,544
1993	3,874,544	3,735,867	138,678	1,197,161	97,546	81,766	179,312	144,194	35,118	408,583	4,318,246
1994	4,318,246	4,114,220	204,026	1,257,498	97,012	85,887	182,899	155,808	27,091	454,770	4,800,107
1995	4,800,107	4,524,205	275,902	1,320,876	96,149	90,216	186,364	169,199	17,165	504,869	5,322,142
1996	5,322,142	4,967,303	354,838	1,387,448	94,921	94,763	189,683	183,882	5,801	559,115	5,887,058
1997	5,887,058	5,445,658	441,400	1,457,376	93,290	99,539	192,829	199,637	(6,808)	617,801	6,498,050
1998	6,498,050	5,961,862	536,188	1,530,827	91,217	104,556	195,773	217,073	(21,300)	681,230	7,157,981
1999	7,157,981	6,518,135	639,846	1,607,981	88,657	109,825	198,482	233,228	(34,746)	749,851	7,873,083
2000	7,873,083	7,120,015	753,070	1,689,023	85,562	115,360	200,923	252,553	(51,630)	824,092	8,645,548
2001	8,645,548	7,768,923	876,625	1,774,150	81,980	121,174	203,055	273,361	(70,307)	904,267	9,479,508
2002	9,479,508	8,468,197	1,011,311	1,863,567	77,554	127,282	204,836	293,108	(90,272)	990,835	10,380,071
2003	10,380,071	9,222,083	1,157,988	1,957,491	72,524	133,697	206,221	316,776	(110,556)	1,084,380	11,353,895

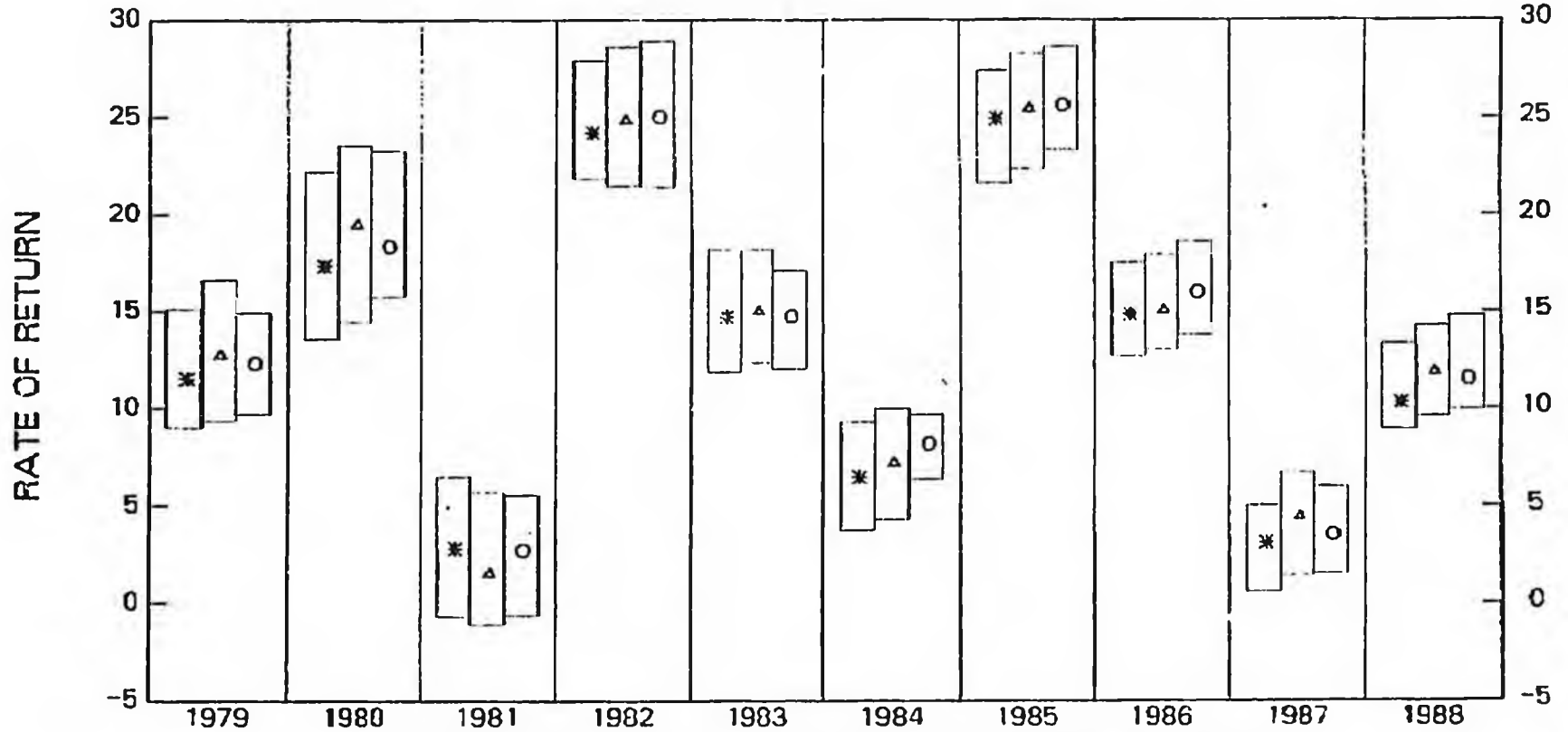
\* Surpluses reduce employer contributions over 5 years  
\* Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				---As % of Assets---	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	93.0	13.64%	6.83%	20.47%	10.41%	4.20%	10.00%
1989	96.4	11.82%	6.83%	18.65%	10.79%	3.02%	10.00%
1990	98.9	10.10%	6.83%	16.93%	11.15%	2.05%	10.00%
1991	100.8	9.01%	6.83%	15.84%	11.41%	1.47%	10.00%
1992	102.3	8.58%	6.83%	15.41%	11.68%	1.16%	10.00%
1993	103.7	8.15%	6.83%	14.98%	12.04%	0.86%	10.00%
1994	105.0	7.71%	6.83%	14.54%	12.39%	0.60%	10.00%
1995	106.1	7.28%	6.83%	14.11%	12.81%	0.34%	10.00%
1996	107.1	6.84%	6.83%	13.67%	13.25%	0.10%	10.00%
1997	108.1	6.40%	6.83%	13.23%	13.70%	-0.11%	10.00%
1998	109.0	5.96%	6.83%	12.79%	14.18%	-0.31%	10.00%
1999	109.8	5.51%	6.83%	12.34%	14.50%	-0.46%	10.00%
2000	110.6	5.07%	6.83%	11.90%	14.95%	-0.63%	10.00%
2001	111.3	4.62%	6.83%	11.45%	15.41%	-0.78%	10.00%
2002	111.9	4.16%	6.83%	10.99%	15.84%	-0.91%	10.00%

# TOTAL FUND: RATES OF RETURN BY ASSET SIZE

FOR PERIODS ENDING DECEMBER 31



BARS REPRESENT THE RANGE OF RETURNS BETWEEN THE FIRST AND THIRD QUARTILE

### ANNUAL MEDIAN RETURNS

	(*)	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
UNDER \$10 MILLION	(*)	11.7	17.5	3.0	24.4	14.9	6.6	25.1	15.0	3.2	10.5
\$10 TO \$50 MILLION	(Δ)	12.9	19.6	1.7	25.0	15.1	7.3	25.6	15.2	4.6	12.0
OVER \$50 MILLION	(O)	12.5	18.5	2.8	25.2	14.9	8.3	25.8	16.1	3.7	11.7

### ANNUALIZED LINKED MEDIAN RETURNS

	1979-88	1980-88	1981-88	1982-88	1983-88	1984-88	1985-88	1986-88	1987-88	1988
UNDER \$10 MILLION	12.9	13.1	12.5	14.0	12.3	11.8	13.2	9.4	6.8	10.5
\$10 TO \$50 MILLION	13.6	13.7	13.0	14.7	13.1	12.7	14.1	10.5	8.2	12.0
OVER \$50 MILLION	13.7	13.8	13.3	14.8	13.2	12.9	14.0	10.4	7.6	11.7

## MEMORANDUM

STATE OF ALASKA

DEPARTMENT OF REVENUE

TO: The Honorable Hugh Malone  
Commissioner of Revenue

FROM: Milton B. Barker *MB*  
Deputy Commissioner

DATE: November 1, 1988

SUBJECT: Foreign Equity  
Investment  
Accounting

End-of-period valuation reports in investment accounting are computed based on reported market values for marketable securities. If the investments and the domicile of the investor are in the same country (and, therefore, denominated in the same currency), then the books of account are probably kept in the country's currency. However, if the investments are located in another country and are denominated and traded in a foreign currency, then the market valuation at the end of a period is denominated in the foreign currency. In order to provide a valuation report in terms of the investor's domestic currency and books of account, the foreign denominated value is converted to domestic value by applying the momentary foreign exchange rate prevailing at the end of the period between the domestic currency and the foreign currency. This is an entirely appropriate methodology for valuation reports, but it is not appropriate for reporting foreign investment activity or for recording foreign investment transactions on the investor's domestic books of account.

If investments are made in different countries having different currencies, then purchases, sales, gains, losses, and income transactions should not be converted into U.S. dollar books of account. The value is not fixed in terms of U.S. dollars and will not become fixed until the foreign currency is sold and the proceeds are used to buy U.S. dollars which are repatriated. When the U.S. dollars are repatriated, that is when events should be recognized on the U.S. dollar books of account.

Over the last five years the retirement funds have been investing in foreign markets through our two contract managers, Citibank and Morgan Guaranty, both of London, England. The funds' domestic book values should reflect the amount of U.S. dollars we advanced to the managers for investment purposes and not foreign transactions which are arbitrarily valued at a presumably appropriate exchange rate somewhere near that point in time. By attempting to convert all foreign investment activity into recordable U.S. dollar equivalents, we are essentially marking up the funds' book values to market values (albeit on a lagging basis). Such actions destroy the historical nature of book value in keeping track of the net U.S. dollar amount which was invested in the securities, creates a book value which is inconsistent with the other book values on the domestic books of account, and misleads users of the data.

The foreign investing through managers is analogous to buying stock in a single foreign company or a mutual fund. The book value is the U.S. dollars used to acquire the stock. If the company or mutual fund buys or sells some

The Honorable Hugh Malone  
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November 1, 1988

of its assets, it does not affect book value. If the company or mutual fund retains income for investment in the business or fund or uses it to buy other assets, it does not change book value. The only things which could change book value would be investing more U.S. dollars to buy more of the stock or selling some of the stock for foreign currency and then exchanging the foreign currency for U.S. dollars. The fact that the book value of the company's assets are increasing or decreasing does not change the book value of the retirement funds' investment. It does, however, change the market values.

Even dividend or interest income earned in foreign currencies should not be ascribed as U.S. dollar income. As long as the income remains in foreign currency investments, its amount in U.S. dollar terms is not fixed and varies with each transitory change in the exchange rates. If the income is remitted in U.S. dollars, then its amount is fixed and then we can recognize it as U.S. dollar income on accounting reports.

Attached is Chapter 16 of the Miller Comprehensive GAAP Guide 1988 which discusses FASB-52, the statement of the Financial Accounting Standards Board that establishes generally accepted accounting principles for foreign operations and exchange. FASB-52 requires recognition in U.S. dollars of the book value of the income, gains, and losses realized in foreign currencies but not converted into U.S. dollars.

There are several aspects of FASB-52 that suggest this is a less than satisfactory treatment of the accounting problem.

1. For one thing, FASB-52 was highly controversial and was adopted by only a 4-3 vote.
2. Significantly, any foreign currency exchange gain or loss that results from translating (but not converting) income, gains, and losses realized in foreign currencies into U.S. dollars is not recorded as income on the U.S. dollar books of account, but is instead to be posted directly to a separate component of shareholder equity and realized as income only on partial or complete liquidation of the foreign investment. This seems rather arbitrary since not only the gain or loss component but also the original book value of the investment is just as much at risk to fluctuations in foreign exchange rates.
3. Along these lines, it is interesting to note that on page 22 Miller suggests that if it is not possible to compute meaningful exchange rates (in his examples, owing to foreign strife or exchange restrictions), "it is best to include earnings of a foreign operation only to the extent that cash has been received in unrestricted funds." Similarly, on page 24 Miller states "disclosure of exchange rate changes. . .that occur subsequent to the balance sheet date should be disclosed, if the effects are material." Given that the retirement funds investments are of a

The Honorable Hugh Malone  
Page 3  
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long-term nature, the exchange rate as of the balance sheet date is not meaningful. Partial or complete liquidations of these foreign investments are highly infrequent.

Perhaps the basic problem is that FASB-52 is oriented toward business activities in foreign countries that generate liabilities in foreign currencies. (The second model which FASB-52 addresses (page 4), a business which conducts operations in U.S. dollars, is certainly not relevant.) The retirement systems are a misfit in that they operate in foreign currencies yet all their liabilities are in U.S. dollars. Indeed, this would be true of any foreign investment, as opposed to business activity. The examples and language of FASB-52 do not explicitly address investment activities.

MBB/gb

Attachments

ANNUAL RATES OF RETURN (a)  
ON EXTERNALLY MANAGED EQUITIES  
OF ALASKA RETIREMENT FUNDS

MANAGER AND INCEPTION DATE	03-31-89 to 06-30-89	06-30-88 to 06-30-89	Inception to 06-30-89
R.E. Equity Managers:	MANAGER R of R	MANAGER R of R	MANAGER R of R
Aetna (09-30-80)	N/A	4.77% (b)	6.19% (b)
Hancock (09-30-80)	N/A	-0.42 (b)	3.24 (b)
Equitable (12-31-80)	8.67	8.00	8.39
Sentinel (03-05-84)	N/A	6.54 (b)	7.02 (b)
JMB (04-12-84)	3.49	11.57	8.92
Morgan (06-01-84)	10.50	9.27	12.08
Karsten (12-26-84)	N/A	4.82 (b)	6.74 (b)
Group Average		7.64%	7.54%
<u>Domestic Equity Managers:</u>			
Alger (06-14-84)	47.58%	10.12%	10.81%
Invesco (06-14-84)	33.64	1.90	13.88
Lehman (06-14-84)	32.09	18.99	17.27
IDS (01-12-89)	37.24	28.21	28.21
Loomis, Sayles (01-12-89)	31.37	31.31	31.31
Miller Anderson (01-12-89)	26.20	27.74	27.74
United Capital (01-12-89)	27.35	22.13	22.13
Active Group Average*	32.51%	17.69%	15.06%
State Street (07-13-88)	29.21	17.40	17.40
Treasury (11-02-87)	11.22	8.56	7.98
Domestic Group Average	32.24%	17.59%	15.15%
<u>International Equity Managers:</u>			
Citicorp (11-01-83)	-18.59	7.77	24.83
Morgan Guaranty (11-01-83)	-7.71	10.74	25.56
Group Average	-13.27%	9.26%	25.20%
<u>ALL EQUITY MANAGER AVERAGE</u>		<u>14.55%</u>	<u>15.08%</u>

\* - Not net of fees of approximately .31%.

a - Pure internal rate of return weighted by amount and date of deposits.

b - Used 03-31-89 value because 06-30-89 was not available.

Portfolio Management, Treasury Division  
August 16, 1989

ANNUAL RATES OF RETURN (a)  
ON INTERNALLY MANAGED FIXED INCOME INVESTMENTS  
AND ON THE TOTAL FUNDS OF ALASKA RETIREMENT FUNDS  
Fiscal Years 1985 through June 30, 1989

	<u>Fiscal Year 1989</u>		<u>Fiscal Year 1988</u>		<u>Fiscal Year 1987</u>		<u>Fiscal Year 1986</u>		<u>Fiscal Year 1985</u>		<u>Fiscal Year 1985 Through June 30, 1989</u>	
	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>
R. E. Mortgages	9.08%	11.81%	10.63%	8.60%	13.38%	4.05%	11.74%	17.96%	13.05%	26.61%	12.07%	16.45%
Bonds and Reserves (b)	<u>9.68</u>	<u>15.04</u>	<u>9.48</u>	<u>7.67</u>	<u>10.43</u>	<u>4.87</u>	<u>11.61</u>	<u>23.24</u>	<u>9.75</u>	<u>29.65</u>	<u>10.14</u>	<u>15.18</u>
Total Fixed Income	9.62%	14.72%	9.63%	7.79%	10.98%	4.71%	11.64%	21.67%	10.83%	28.62%	10.55%	15.44%
Total Equities	<u>14.55%</u>	<u>14.55%</u>	<u>-5.12%</u>	<u>-5.12%</u>	<u>20.39%</u>	<u>20.39%</u>	<u>37.80%</u>	<u>37.80%</u>	<u>21.54%</u>	<u>21.54%</u>	<u>15.08%</u>	<u>15.08%</u>
TOTAL FUND	<u>11.58%</u>	<u>14.65%</u>	<u>2.73%</u>	<u>1.93%</u>	<u>14.94%</u>	<u>10.90%</u>	<u>19.74%</u>	<u>26.59%</u>	<u>13.27%</u>	<u>26.84%</u>	<u>12.14%</u>	<u>15.31%</u>

a - Internal rates of return under simplifying assumption of mid-month flows for fixed income investments.

b - Net of gains, losses, and amortizations.

c - Cost returns for fixed income investments; but market returns on equities. The returns for total fund approximate actuary's calculation of returns.

Portfolio Management, Treasury Division  
August 18, 1989

Information provided by Senator Kerttula:

**ISSUES ASSOCIATED WITH RESTRUCTURING  
ALASKA'S MANAGEMENT AND INVESTMENT OF STATE FUNDS:  
THE MAJOR DIFFERENCES BETWEEN SB 10 AND SB 18**

**1. BOARD MAKEUP:**

**A. Public Employees:**

**Senate Bill 10: (4 Public Employees):** Senate Bill 10 provides for the election of four representatives of public employees, two of whom are members of the teachers' retirement system and two of whom are members of the public employees' retirement system. One of the members of the public employees' retirement system must be receiving a benefit based on contributions to the supplementary benefits system.

**Senate Bill 18 (3 Public Employees):** Senate Bill 18 provides for the election of three representatives of public employees, one of whom is an active member of one of the retirement systems, one of whom is receiving a benefit from one of the retirement systems, and one of whom is either an active member or receiving a benefit.

**B. Employer/State Representation:**

**Senate Bill 10:** Provides that the commissioner of revenue and the commissioner of administration are members of the board. This provides two seats for the major

employer in the retirement system -- the State of Alaska. An additional rationale for giving the commissioner of administration a seat on the board is to ensure that there is a continuity in relationship between investment of state retirement funds and administration of state retirement funds.

**Senate Bill 18:** Provides for one seat for the commissioner of revenue and two seats for nominees submitted by employers in the retirement system.

## **2. FUNDS TO BE MANAGED:**

**Senate Bill 10:** Includes most state trust and retirement funds, as well as the general fund. The rationale is that the same kind of oversight is needed for all of these funds. For all funds there is the need for efficient cash management for immediate needs and prudent investment for longterm needs.

**Senate Bill 18:** Includes only PERS, TRS, Judicial Retirement, and Military Retirement.

## **3. PROFESSIONAL ADVISORY COUNCIL**

**Senate Bill 10:** This rationale in this bill is that a formal advisory structure is not needed, and in fact, is superfluous since the board would have the authority to contract for expert advice, if needed. Additionally, under SB 10, the public members must have recognized competence in finance, investments, etc.

**Senate Bill 18:** Provides for an investment advisory council appointed by the board, composed of at least three members who shall possess experience and expertise in financial investments and portfolio management.



Official Business

# Alaska State Legislature

P.O. Box V  
State Capitol  
Juneau, Alaska 99811

## MEMORANDUM

**TO:** Senator Pat Rodey, Chairman  
Senate State Affairs Committee

**FROM:** Senator Jay Kerttula

**SUBJ:** Senate Bill 10 --  
Investment of State Funds

**DATE:** January 28, 1991

A handwritten signature in cursive script, appearing to read "Jay Kerttula".

As Chairman of the Legislative Budget and Audit Committee during the Sixteenth Legislature, I was concerned over the findings of a special audit report issued in 1989 on the management of the Public Employees' and Teachers' Retirement Funds. When our auditors later reported specific instances of imprudence in the investment of SBS and Deferred Compensation Funds, I became increasingly concerned over the broad issue of how our state funds are managed. As a result, I directed the introduction of Senate Bill 417 by the Budget and Audit Committee. Senate Bill 417, which did not pass last session, would have created a State Investment Board to correct some of the problem areas identified by our auditors.

Senate Bill 10, which I prefiled this session, is virtually identical to Senate Bill 417, with some minor changes. The sponsor substitute for Senate Bill 10 makes an additional minor change in the method by which the public employee members of the State Investment Board are chosen. The sponsor substitute allows the selection of the public employee board members through election by members of the public employees' and teachers' retirement system.

I feel that it is extremely important that this bill, which has been a top priority of the Budget and Audit Committee for two years, be passed by the legislature. I believe passage of this legislation is vital to ensuring prudent management of our state funds.

# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**



Official Business

# Alaska State Legislature

P.O. Box V  
State Capitol  
Juneau, Alaska 99811

## MEMORANDUM

**TO:** Senator Pat Rodey, Chairman  
Senate State Affairs Committee

**FROM:** Senator Jay Kerttula

**SUBJ:** Senate Bill 10 --  
Investment of State Funds

**DATE:** January 28, 1991

A handwritten signature in cursive script, appearing to read "Jay", written over the "FROM" line of the memorandum.

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Senate Bill 10, which I prefiled this session, is virtually identical to Senate Bill 417, with some minor changes. The sponsor substitute for Senate Bill 10 makes an additional minor change in the method by which the public employee members of the State Investment Board are chosen. The sponsor substitute allows the selection of the public employee board members through election by members of the public employees' and teachers' retirement system.

I feel that it is extremely important that this bill, which has been a top priority of the Budget and Audit Committee for two years, be passed by the legislature. I believe passage of this legislation is vital to ensuring prudent management of our state funds.

# STATE OF ALASKA

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

### M E M O R A N D U M

AUDIT DIVISION  
P.O. BOX W  
JUNEAU, ALASKA 99811-3300

DATE: January 26, 1991

TO: The Honorable Jalmar Kerttula  
Alaska State Senate

FROM: Randy S. Welker *Randy*  
Legislative Auditor

RE: Senate Bill 10 - An Act relating to the management  
and investment of certain state funds.

At your request, this memo is provided to summarize the developments that led to the proposed legislation and the reasons for the investment structure provided in the legislation.

In the Fall of 1989, we issued a special audit report on the management of the Public Employees' and Teachers' Retirement Funds. The audit was requested in response to public allegations about mismanagement of the retirement funds. A copy of the report is provided with this memo.

Without going into great detail on the results of our audit, we concluded that there was not mismanagement of the retirement funds. However, we did make several recommendations to improve the management and accountability over the investment of the funds.

The primary recommendation stated:

A board of trustees concept or structure should be established that has broad powers and can exercise an active role in the management and investment oversight of the PERS and TRS Funds.

We found that the PERS and TRS boards are mostly administrative in nature and have no authority to direct or establish investment policy. Instead, the Commissioner of Revenue, an appointed position, is the sole fiduciary of the retirement funds.

We concluded that a board with overlapping terms would provide continuity from one administration to the next and would promote the perpetual nature of the retirement funds.

We concluded by recommending that the legislature and the administration establish a board to provide investment oversight of the Treasury investment operations, particularly the PERS and TRS funds.

After the issuance of that report, we became aware of and made inquiries into the Department of Administration's management of the Supplemental Benefits System (SBS) funds. On January 3, 1990, we issued a memo to the Legislative Budget and Audit Committee summarizing the serious concerns over the investment of those funds. We recommended that any legislation drafted to implement our previous recommendation should include oversight responsibility of the SBS and Deferred Compensation funds. Those concerns are still with us today, with no signs of improvement. A copy of the January 3, 1990 memo is also provided with this memo.

The Legislative Budget and Audit Committee directed us to work with the Legal Services Division to draft legislation to implement our recommendations. On January 29, 1990 Senate Bill 417 was introduced in the Legislature.

Senate Bill 10 introduced by you this session is virtually identical to the prior year bill.

The main thrust of this bill is to provide an efficient means of oversight and to include within the authority of the board, any funds that currently are managed without adequate oversight.

The basic structure of the legislation was fashioned after the statutory theme of the Alaska Permanent Fund Corporation. From there, we modified the language to include representation from the retirement funds' membership and searched for existing statutes that designated the Commissioner of Revenue as the sole fiduciary of funds invested by the Division of Treasury.

Funds other than retirement funds were included to provide the same oversight of the general state investments. These funds are or potentially will become significant assets of the state and should be provided the same protection and oversight as any of the retirement funds. While investment strategies may differ for some of the funds, we believe the differences can be accommodated. In fact, the Treasury Division has managed the majority of those funds reasonably for years.

The bill also provides that the Department of Revenue shall implement the investment and management policies and directives of the State Investment Board. In our opinion,

the existing Treasury staff have the knowledge and tools to manage the investment of the funds under the direction of the board. The Division of Treasury could also provide necessary administrative support to the board in an efficient manner. The investment mechanism is in place and is functioning. We see no need to make significant changes to that structure.

If we can be of further assistance, please let me know. :

# STATE OF ALASKA

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION  
P.O. BOX W  
JUNEAU, ALASKA 99811-3300

### MEMORANDUM

DATE: January 3, 1990

TO: Chairman Jalmar Kerttula and Members  
of the Legislative Budget and Audit Committee

FROM: Randy Welker *Randy*  
Legislative Auditor

RE: Supplemental Benefits System Investment Management

We recently inquired into the Department of Administration, Division of Retirement and Benefits' (DRB) investment strategy for the supplemental benefits systems (SBS) funds. We noted that present investment procedures include investing SBS funds exclusively in guaranteed investment contracts (GICs) with insurance companies. Currently, the SBS investment portfolio consists of GICs with seven carriers amounting to approximately \$540 million.

Apparently, this investment strategy was developed during the infancy of the SBS program by DRB and their actuary. No legal conditions or guidance for investing exist in law or regulation. For the most part, GIC's are not backed by federal insurance or other guarantees but are supported by the financial strength and quality of assets of the insurer.

In reviewing the details of the portfolio it was noted that Executive Life Insurance Company holds about 28% (\$152 million) of total SBS assets and that two companies hold over 50% of total assets. Of some concern is Executive Life's own investment strategy. They are known in the investment community as a major purchaser of high yield fixed-income instruments also known as "junk" bonds. A November 14, 1989 article in the Wall Street Journal indicated that 44% of Executive Life's cash and invested assets were made up of junk bonds while the average insurance company holds only 4% to 5% of their assets in high yield instruments.

We requested the Treasury Division in the Department of Revenue to provide us with an analysis of current DRB investment practices. This review is attached and expresses some concerns over the lack of a basic investment plan. It also notes that as a result of the recent fall in the junk bond market, that although Executive Life has held high ratings from Moody's, Best's, and Standard and Poor's insurance rating services, Moody's has placed the insurance company's claims-paying rating on review.

January 3, 1990

According to DRB, they have included in their FY 90 management plan an investigation of their current investment practices. We were told they have contracted with a consultant to review current SBS program investing strategy.

We would recommend that, on a short-term basis, DRB consider the diversification aspects of allowing too few insurance companies to hold large amounts of SBS funds. Also, as pointed out in the Treasury Division's analysis, Executive Life should be monitored in the event their financial condition should deteriorate. Future GIC purchases should involve more scrutiny of the quality of the bidder's assets and financial dealings in the investment markets.

On a long-term basis, we recommend that the Legislature and Executive Branch consider including the SBS and Deferred Compensation programs' investment activities with public employee retirement funds currently under the management of the Department of Revenue. As you recall in our June 19, 1989 report to the Legislative Budget and Audit Committee entitled, "A Special Report On The Department Of Revenue, Treasury Division, Public Employees' And Teachers' Retirement Funds," we recommended that legislation should be introduced to establish a "Board of Trustee" structure that would play an active role in management and investment oversight of the retirement funds. Statutory inclusion of the investment of SBS and Deferred Compensation funds could be incorporated into this proposed legislation.

If you have any questions or need additional information, please contact me at 465-3830.

Attachment

MEMORANDUM

STATE OF ALASKA  
DEPARTMENT OF REVENUE

TO: Milt Barker  
Deputy Commissioner  
Treasury Division

DATE: December 18, 1989

TELEPHONE: 465-2350

FROM: Michael Cheung *M.C.*  
State Investment Officer  
Treasury Division

RE: GIC Investment For SBS

Per your request, I have reviewed our SBS GIC investment. To summarize, the State should thoroughly examine the overall nature and purposes of the SBS. The State should determine a plan objective that can incorporate both short-term and long-term needs of the plan. An investment strategy should then be set up for accomplishing this objective. As for our current GIC investments, the State should be cautious about the current turmoil in the high yield securities market, as Executive Life's business structure has been severely affected and will continue to be. Finally, any future ITB should require financial information that will enable the State to properly evaluate the financial structure and its soundness of a potential GIC provider.

The State of Alaska is the annuity plan sponsor and the plan is qualified as a defined contribution plan under IRS code 401(a). It is critical for any plan sponsor to understand the nature of its plan and the strategy it takes to accomplish its objectives. A fiduciary has 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.

Here are a few major factors that will influence the nature of a plan. A fiduciary should carefully evaluate each of them in order to determine the objectives of the plan and the necessary strategy to accomplish it.

Need for Current Income: Is the plan in a net cash outflow stage? This will be largely influenced by the characteristics of the plan participants.

Milt Barker  
December 18, 1989  
Page 2

Inflation Protection: Analyze how the minimum investment income requirement will change over time with inflation.

Capital Risk Tolerance: What are the probable emotional reactions to an adverse outcome? How much volatility can be comfortably accepted?

Liquidity Requirement: Assess the probability of forced sale.

After evaluating the above factors, an investment strategy needs to be set up. Asset allocation decisions must be made. The main reason for having various asset classes is that portfolio return risk can be reduced and in the long run, a sustainable growth can also be achieved.

Currently, the State of Alaska has its SBS monies invested only in GIC instruments. The longest maturity GIC is six years and a weighted average life of 3.3 years for the entire portfolio. However, the nature of the SBS plan is for long-term purposes. The plan is in a positive cash contribution stage as annual contribution will exceed annual annuity payments in 1990. Assuming this trend will continue in the foreseeable future, long-term returns will be more critical to the plan than current income. This means the investment strategy should be one that has a long time horizon with diversified assets in order to provide sustainable growth.

To satisfy both the current annuity payments and long-term growth needs of the plan, the portfolio should be divided into two sections. One portion of it should be set up with high quality fixed income securities. A dedicated cashflow strategy will be employed for this sector, whereby principal payments and interest payments from the bond portfolio will be used to fund annuity payments. A dedicated cashflow strategy is one of the methods a GIC insurer employs to match their assets and liabilities. Another method for asset/liability matching is a bond immunization strategy. An immunization strategy will try to match the duration of annuity payments with the duration of the bond portfolio. This technique permits the locking in of a yield, at the same time the reinvestment rate risk is minimized. Immunization requires three conditions be met:

1. Portfolio Duration = Liability Duration
2. Portfolio Value = Present Value of the Liability Stream
3. Dispersion of portfolio cashflows is equal or slightly greater than the dispersion of the liability stream.

Milt Barker  
December 18, 1989  
Page 3

After evaluating the long-term objectives of the fund, another section of the portfolio should be geared for the long-term inflation protected growth and benefits, and asset allocation decisions should be made. Investment strategy should encompass a long investment horizon with various assets that should contribute to a sustainable portfolio return and growth. To have the proper assets mix, risks (variability of return), and expected rates-of-return of different asset types should be evaluated with respect to various economic scenarios. This process will determine the proper asset allocation that is necessary to accomplish the plan objectives. As the economy and the plan characteristics change, plan sponsors should review the plan objectives and investment strategy. Therefore, a fiduciary can take proper actions to ensure the safety, returns, and value of the plan assets.

Within the context of our current GIC portfolio, the State has diversified its investments among various GIC insurers and has set up a ladder maturity schedule. The ability of an insurer to live up to its contractual agreement is dictated by its financial strength and assets quality. There are two levels of comfort an insurer can provide: 1) conservative investment management, which includes lending assets to solid borrowers, diversification of loans by geography and industry, and limiting the amounts invested in any one company, industry, or area; and 2) maintenance of a substantial contingency fund to cover losses of any sour investments. If an insurer does not invest prudently and realized losses occur, all it has to fall back on is its contingency reserve fund.

At present, approximately 25% of our GIC's is provided by Executive Life, a principal subsidiary of First Executive Corporation. First Executive has been known in the investment community as a major player in high yield fixed income securities. At the end of 1988 fixed income securities investments represented over 80% of total assets as compared with the industry's 50% average. Approximately 50% of its assets were invested in speculative-grade bonds and private placements, while industry average is less than 15%.

Executive Life competes in the GIC market by offering higher yields than some of its competitors. Executive Life has this ability because of its higher proportion of below-investment grade securities. This strategy involves some long-term risk. Although the company follows a policy of diversification by issuer and industry, any problems that arise from any bond issuer can affect the whole high yield industry. Presently, we are already witnessing the current shakeout in the high yield fixed income industry. Executive Life has already felt the turmoil in the high yield securities market. At year end 1988, the market value of the bond portfolio was below book value by over \$400 million. And a trading out of problem investments may result in a reduction of capital when realized losses are incurred in restructuring in portfolio.

Milt Barker  
December 18, 1989  
Page 4

Recently, a Wall Street Journal article stated that First Executive (parent company) was involved in restructuring its bond portfolio. By setting up six non-disclosed subsidiaries, First Executive was able to transfer \$750 million of its high yield bonds to its subsidiaries. (Any investments worth at least 10% of the net worth has to be publicly disclosed, and 10% of the net worth for First Executive was \$140 million. First Executive only invested \$128 million in each of the subsidiaries.) In return, First Executive received \$770 million notes issued by the subsidiaries. The interests and principal payments on the subsidiaries' notes will be supported by the high yield bonds that First Executive has swapped out. In other words, First Executive was able to unload these high yield securities to its subsidiaries without incurring any realized losses. The new notes issued by the subsidiaries also received a more favorable rating by the insurance regulators. Thus, First Executive was able to reduce an estimated \$120 million from its reserve for investment losses. Therefore, liability or insurance claim holders should not view their claims as supported by improved asset quality; because the only benefits realized was First Executive's ability to reduce its reserve account. With the continued turmoil in the high yield securities market. First Executive will be hard pressed to change its business and investment strategy. The State should closely monitor this situation and do any necessary actions to preserve the safety of the SBS assets. Currently, Moody's has placed Executive Life's A1 claims-paying rating on review. The review will focus on the shakeout in the high-yield bond market and its affect on Executive Life.

For any future GIC investment, the State should also request audited financial statements and 10 Q's, quarterly statements and 10K's. These statements are filed with the SEC by publicly traded companies. Insurers should also furnish various types of investment quality ratios: delinquent percent, foreclosed percent, and below investment grade percent. Other ratios on financial strength and capital structure should also be provided. These ratios will indicate the management style and profitability of an insurer. The ITB or contract should also include explicit language that an insurer has to act like a prudent expert in order to prevent the insurer from any actions that will jeopardize the plan assets and its ability to generate the contractual return.

MC/mem

S B

17

# Alaska State Legislature

Senator Paul Fischer  
Senate District D  
Box 784  
Soldotna, Alaska 99669  
(907) 262-9420 W  
262-9269



## State Senate

While in Juneau  
P.O. Box V  
Juneau, Alaska 99811  
(907) 465-3791

### MEMORANDUM

TO: Senator Pat Rodey, Chairman  
Senate State Affairs Committee

FROM: Senator Paul Fischer *PF.*

SUBJECT: Senate Bill 17  
(Fingerprinting of Minors)

DATE: January 23, 1991

*OK*  
*Calumlar*

I would appreciate your scheduling the above referenced bill for a hearing before the Senate State Affairs Committee at your earliest possible convenience.

As vice chairman of the Senate Judiciary Committee last session, I know you are very familiar with this legislation and are very much aware of the fact that it has been a priority of the coalition of law enforcement groups for several years.

It would be my desire that the Senate take a lead on this legislation and pass it over to the other body, early in the Session.

For your information Senate Bill 17 is identical to the Judiciary Committee Substitute passed by the Senate last year.

Your consideration would be greatly appreciated.

PAF/sgn

# Alaska Association Chiefs of Police



January 28, 1991

Alaska State Legislature  
P. O. Box V (MS 3100)  
Juneau, AK 99811


Dear Senator Fisher

On behalf of the Alaska Association of Chiefs of Police I want to express our whole hearted support for Senate Bill 17. The ability to Fingerprint juveniles would be an important law enforcement tool.

We know that the majority of property offenses are committed by juveniles. Senate Bill 17 would help apprehend juveniles while still young in an effort to correct their behavior before they become adult career criminals.

If we can do anything to assist you in the passage of this bill, please contact me.

Sincerely,

  
Duane S. Odland  
President

... policy, a firm need not meet the customer's demand to resolve a complaint.

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Anchorage Daily News 2/23/90 E3

## Police arrest suspect in Safeway stabbing

By MARILEE ENGE

Daily News reporter

Anchorage police on Thursday arrested a man suspected of stabbing two Safeway employees earlier this week after identifying him through the state's fingerprint computer.

Mike Troy White, 27, was charged with attempted murder and two counts of first-degree assault for the Monday morning stabbings. He was booked into Cook Inlet Pre-Trial Facility on \$100,000 bail.

Employees of the University Center Safeway store saw a man shoplift some cigarettes about 6 a.m. Monday, police said. When Donald Tomlinson and Dustin Prince tried to stop the man at the door, he pulled

a hunting knife and stabbed them.

Tomlinson was knifed in the back and underwent surgery at Providence Hospital. He was in stable condition there on Thursday. Price was treated for a leg wound and released.

Investigators took a fingerprint from the scene, ran it through the computer and came up with White's name. Then they pulled a photograph of him from state records and showed a photo line-up to witnesses, who identified him, said police spokesman Sgt. Walt Monegan.

Thursday, police found White at the Eagle Crest, a men's half-way house and residence hotel on Ninth Avenue. They surrounded the building and arrested him inside about 6 p.m.

## Senate committee delays

The Associated Press

JUNEAU — A Senate committee vote on legislation that would ban flag desecration in Alaska was postponed Thursday because of a judge's ruling that the new federal flag-desecration law was unconstitutional.

The Senate Judiciary Committee had planned to approve the flag bill and

send it on its way.

But the committee's vote was delayed by Sen. Jan Faiks, said a spokesman.

"I don't think it's just for political reasons," Faiks said. "I don't think it's something that's just for political reasons." Faiks, R-Anchorage, is the lead sponsor of the bill. District Judge

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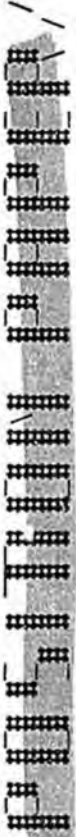
BILL NO: SB 17

DATE: January 28, 1991

TITLE: An Act Relating to the  
Fingerprinting of Minors

CONTACT: Gayle A. Horetski  
Deputy Commissioner

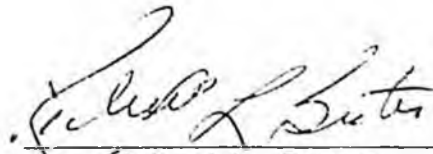
DEPARTMENT OF  
PUBLIC SAFETY



This bill would allow the fingerprinting of juveniles age 14 and older who are arrested for criminal offenses. The fingerprints would be taken for comparison with latent (crime scene) prints contained in the Alaska Automated Fingerprint Identification System (AAFIS).

This bill should have a positive impact on the ability of police to solve cases involving juvenile offenders. Over 40% of all persons arrested for theft and burglary offenses are juveniles (see attached chart). Fingerprint evidence is frequently found at crime scenes, but is not matched to any suspect because juveniles are not fingerprinted. A large number of theft and burglary offenses are "cleared" when adults are arrested and their fingerprints matched to latents from crimes committed when the offender was a juvenile. AAFIS records indicate that 22% of the crime scene prints identified by the system since 1985 have been from first-time adult arrests which matched latent prints taken from the scenes of crimes committed when the offender was a juvenile. See attached graph. Had these persons been fingerprinted as juvenile offenders they could have been identified, solving additional cases, and enabling the court to consider the offender's complete conduct when deciding the disposition of a case.

The Department of Public Safety supports SB 17.

  
Richard L. Burton  
Commissioner

JUVENILE ARRESTS\*

	1987	%	1988	%	1989	%
<b>MAJOR FELONIES**</b>						
Total Arrests	990		1100		2090	
Juveniles	96	9.7%	97	9%		
<b>BURGLARY</b>						
Total Arrests	1041		960		1004	
Juveniles	475	46.0%	509	49%	527	52.5%
<b>LARCENY</b>						
Total Arrests	4934		4398		4487	
Juveniles	1754	36.0%	1624	37%	1761	39.2%
<b>MOTOR VEHICLE THEFT</b>						
Total Arrests	331		481		512	
Juveniles	166	50.0%	214	44%	272	53.0%

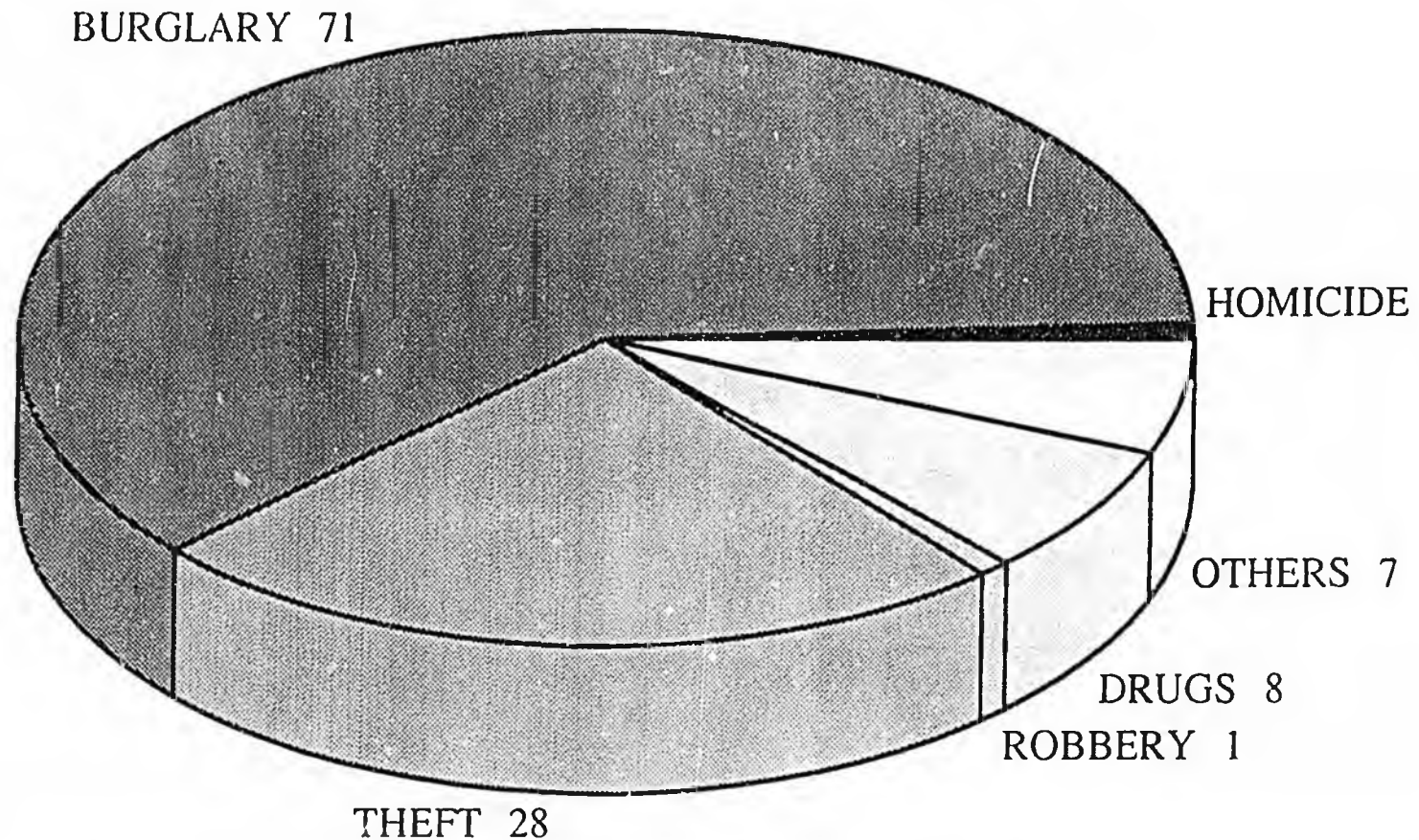
\*Data obtained from the 24 agencies submitting UCR figures to DPS.

\*\*Major Felonies = Combined figures for Murder, Manslaughter, Rape, Robbery and Aggravated Assault.

# ALASKA AUTOMATED FINGERPRINT IDENTIFICATION SYSTEM

(AAFIS)

## JUVENILE LATENT IDENTIFICATIONS 1985 - 1990



LATENT IDENTIFIED BY SEARCHING A FIRST TIME ARREST CARD AGAINST THE UNSOLVED LATENT DATA BASE. (CRIME WAS COMMITTED WHEN THE PERPETRATOR WAS A JUVENILE.)

S B

1 8

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

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

Date: January 28, 1991

Re: SB 18

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

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

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

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

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

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

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

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

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

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

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

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

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

Re: SB 10

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

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

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

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

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

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

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

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

Thank you.

SENATE BILL NO. / SB-18

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - FIRST SESSION

BY SENATOR POURCHOT

Introduced:  
Referred:

A BILL

FOR AN ACT ENTITLED

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

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

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

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

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

13 ARTICLE 5. ALASKA STATE PENSION CORPORATION.

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

*- Public Funds*

1 establishes  
2 corporation  
3

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

5  
6 7 Trustees

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

8 3 elected  
9

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

11 2 governor  
12 appointed  
13 employers

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

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

16 4 year terms

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

18 Removal

22 vacancy

(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.

25 chair

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

27 quorum

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

28  
29 No Designees

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

30  
31 Financial Training

(i) Trustees shall participate in financial education training.

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

BOARD POWERS AND DUTIES

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

(b) The board may

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

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

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

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

31 *other* provisions of AS 39.50.

31 *designated*

31 *employees*

1 Conflict of interest;

3 Disclose

6 regulations to restrict

9 Termination for failure to comply

11 Exempt from AP Act must comply with

12 open meetings

14 \$150. Honorarium

19 Per diem travel

21 Executive Director

25 employees

27 Ethics Act and regulations

31 Bonding

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 corporate liability Sec. 37.10.320. LIABILITY. A liability incurred by the corporation shall be satisfied  
21 protection  
22 of state have a right of action against the state because of a debt, obligation, or liability of the  
23 corporation. A liability of the corporation may not be satisfied from trust assets unless expressly  
24 authorized by law.

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

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

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

Alaska  
Banking Code —

1 Board or  
2 LB: A may request  
exam.

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

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

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

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

T.R.S.  
11 Teachers Retirement system

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

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

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

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

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

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

1 AS 14.25.180.

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

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

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

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

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

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

16 : (B) does not include

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

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

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

1 investments;

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

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

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

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

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

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

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

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

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

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

*Fiduciary Responsibilities*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22 (B) each officer of the corporation; and

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

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

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

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

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

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

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

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

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

11 (A) a balance sheet;

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

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

14 (D) a summary of assets held in the pension fund listed by the categories

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9 Pension Corporation;

10 (3) register cattle brands;

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

12 Beverage Control Board; and

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

14 with AS 44.83.386.

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

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

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

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

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

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

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

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

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

24 this Act.

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

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

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

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

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

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

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

TRANSITION

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

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

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

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

SB-18

M E M O R A N D U M

December 5, 1990

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

TO; Senator Pat Pourchot

FROM; Susan Barnett, Staff

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

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

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

SECTION 2: creates the Alaska State Pension Corporation.

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

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

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

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

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

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

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

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

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

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

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

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

Sec. 37.10.390 defines board, corporation and retirement systems.

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

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

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

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

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

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

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

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

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

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

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

SECTION 16; is a transition section.

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

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

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

Statutes cited: ASPC

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

# ALASKA STATE LEGISLATURE



SENATE FINANCE COMMITTEE,  
CO-CHAIR

Senator Pat Pourchot

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

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

TO: Senator Pat Rodey  
Senate State Affairs Committee Chair

FROM: Senator Pat Pourchot

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

DATE: January 22, 1991

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

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

Senator Pourchot, 1991

The Alaska State Pension Corporation:

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

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

# Alaska State Pension Corporation (ASPC)

## Senate Bill 18

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

Public Employees Retirement System Fund \$2.74 billion

Teachers Retirement System Fund \$1.70 billion

Judicial Retirement System Fund \$28.67 million

Military Retirement Fund \$3.9 million

Elected Public Officers Retirement System\*

(subject to annual appropriation)

### ASPC Board of Trustees

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

Executive Director

Investment  
Advisory Council  
3 - 5 Professionals

Chief Investment Officer

Chief Operations Officer\*

Investment Staff

Operations Staff\*

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

Senator Pat Pourchot

-21-91

INVESTMENT OF STATE FUNDS

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

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

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

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

October 12, 1990

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

Dear Susan:

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

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

Yours truly,



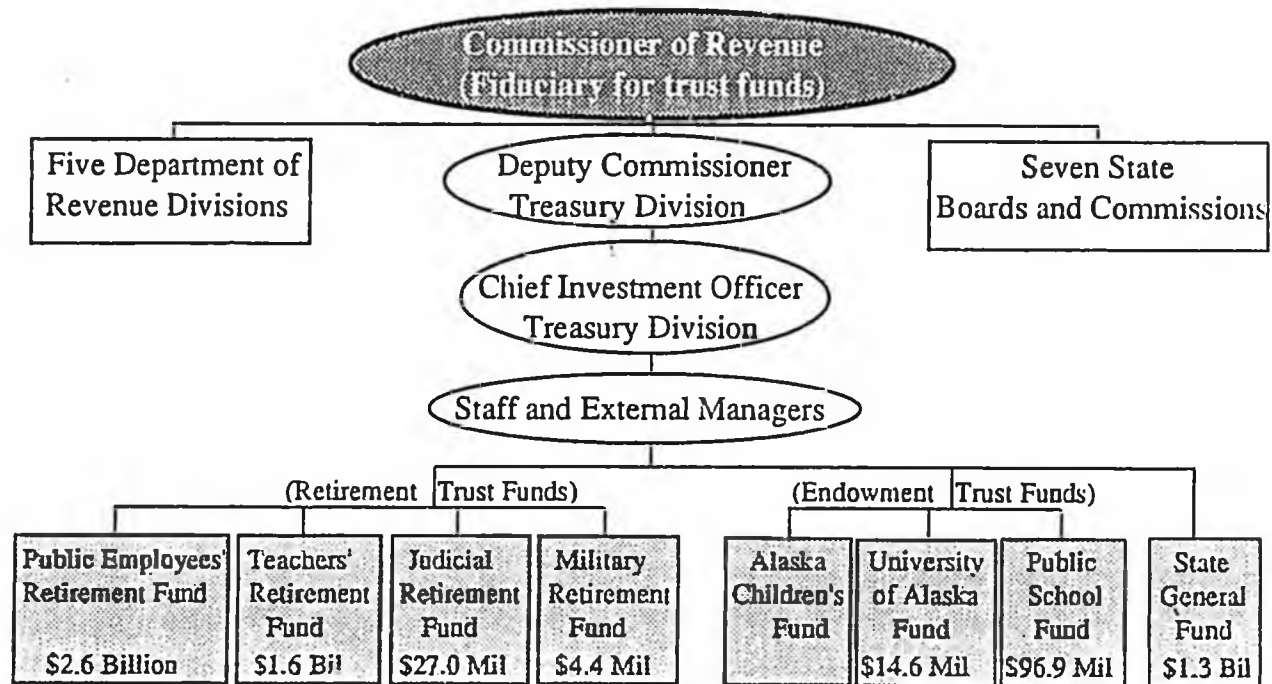
Milton B. Barker  
Deputy Commissioner

MBB/ph

cc: Cliff Groh

CURRENT LAW  
(FIGURE 1)

**INVESTMENT OF STATE FUNDS**



ONLY 6 STATES STILL HAVE A SOLE INDIVIDUAL AS FIDUCIARY.

Page-  
on;

## ORGANIZATION AND FUNCTION

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

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

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

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

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

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

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

Deputy Commissioner 5001  
 28

DEBT MANAGEMENT

Special Assistant 5036  
 to the Commissioner II  
 23

State Investment 5025  
 Officer II  
 22

Secretary II 5003  
 11

Research 0020  
 Analyst III  
 18

CASH MANAGEMENT

State Investment 5029  
 Officer III  
 24

INVESTMENT ACCOUNTING

Comptroller 5002  
 24

INVESTMENT MANAGEMENT

State Investment 5011  
 Officer IV  
 30

State Investment 5013  
 Officer II  
 22

Secretary I 5015  
 10

MARKETABLE  
 SECURITIES MANAGEMENT

State Investment 5005  
 Officer III  
 24

REAL ESTATE MANAGEMENT

State Investment 5012  
 Officer III  
 24

Accounting 5020  
 Technician III  
 16

Accountant IV 5010  
 20

Accounting 5007  
 Supervisor I  
 16

State Investment 5030  
 Officer II  
 22

Loan Examiner III 5024  
 19

Accounting 5009  
 Technician II  
 14

Accounting 5026  
 Technician II  
 14

Accounting 5014  
 Technician II  
 14

State Investment 5032  
 Officer I  
 20

Loan Examiner I 5033  
 15

Accounting 5018  
 Clerk II  
 9

Accounting 1145  
 Technician I  
 12

Accounting 5008  
 Technician III  
 16

Loan Examiner I NEW  
 15

Accounting 5021  
 Technician II  
 14

Clerk Typist III 5022  
 8

Deputy Commissioner: Walter B. Barber

Date: 9-10-90

# FISCAL NOTE

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

BILL NO. SB 18

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

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

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

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

**FUNDING: (Thousands of Dollars)**

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

**POSITIONS:**

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

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

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

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

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

FISCAL NOTE

STATE OF ALASKA  
1991 LEGISLATIVE SESSION

BILL NO. SB 18

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

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

	1	2	1
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Expenditures/Revenues: (Thousands of Dollars)

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

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

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

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

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

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

FISCAL NOTE

STATE OF ALASKA  
1991 LEGISLATIVE SESSION

BILL NO. SB 18

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

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

--	--	--	--

Expenditures/Revenues: (Thousands of Dollars)

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

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

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

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

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

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

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

1/23/91

FISCAL NOTE INFORMATION;

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

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

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

Patrick M. Rodey  
Senator

# Alaska State Legislature



Senate


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

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

January 30, 1991

## Memorandum

To: Marilyn Scott  
Roxy McDonagh

From: Max Gifford   
Senate State Affairs

Subj: SSB-18, creating State Pension Corporation

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

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

Thank you.

562-4376

Page 2

SSB 18 Changes from SB 18

Eight Trustees:

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

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

Five Trustees constitute a quorum

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

The 8th seat starts as 3 year transitional term  
Section 9 AS 36.30.990 (1) corrected, AHFC added to the list.

*SBS included*

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

Patrick M. Rodey  
Senator

# Alaska State Legislature



Senate

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

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

January 30, 1991

## Fax Transmission

To: Roxy McDonagh

From: Max Gifford, Committee Assistant  
Senate State Affairs Committee

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

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

7-LS0124D ✓  
Cramer  
1/29/91

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

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

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

Introduced:  
Referred:

**A BILL**

**FOR AN ACT ENTITLED**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22 (b) The board may

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

25 (2) employ legal counsel;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18 (d) The council shall

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

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

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

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

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

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

1 of trustee assets and assets of the corporation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16 (1) "agency"

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

20 (B) does not include

21 (i) the University of Alaska;

22 (ii) the Alaska State Housing Authority;

23 (iii) the Alaska Railroad Corporation;

24 (iv) the Alaska Housing Finance Corporation;

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

27 (vi) the Alaska State Pension Corporation;

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

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

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

1 custodial facilities for them;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

25 (B) each officer of the corporation; and

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

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

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