

ALASKA LEGISLATURE COMMITTEE FILES 1993-1994 8672

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Certified Public Accountants

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Independent Auditors' Report

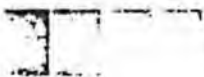
Division of Retirement and Benefits and
Members of the Alaska Public Employees' Retirement Board
State of Alaska Public Employees' Retirement System:

We have audited the accompanying statement of net assets available for plan benefits of the State of Alaska Public Employees' Retirement System as of June 30, 1992, and the related statement of changes in net assets available for plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the State of Alaska Public Employees' Retirement System as of June 30, 1991 were audited by other auditors whose report thereon dated September 14, 1991 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1992 financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the State of Alaska Public Employees' Retirement System as of June 30, 1992, and the related statement of changes in net assets available for plan benefits for the year then ended in conformity with generally accepted accounting principles.

Our audit for the year ended June 30, 1992 was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 for the year ended June 30, 1992, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole for the year ended June 30, 1992.



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The report of the other auditors referred to above, dated September 14, 1991, stated that they applied certain limited procedures to the supplementary information for the years ended June 30, 1991 and prior, included in Schedules 1 and 2. However, they did not audit this information and expressed no opinion on it.

KPMG Peat Marwick

September 17, 1992

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Statements of Changes in Net Assets Available for Plan Benefits

Years ended June 30, 1992 and 1991

(000's omitted)

	<u>1992</u>	<u>1991</u>
Additions:		
Investment income:		
Net (depreciation) appreciation in fair value of investments	\$ 88,189	(823)
Interest	138,538	129,804
Dividends	47,477	49,422
Net realized gains on sales	<u>96,658</u>	<u>22,323</u>
Total investment income before provision for losses on loans and mortgages	370,862	200,726
Provision for losses on loans and mortgages	<u>(9,739)</u>	<u>1,339</u>
Net investment income	<u>361,123</u>	<u>202,065</u>
Contributions:		
State of Alaska and other employers	147,961	116,404
Employees	77,602	75,767
Retirement incentive program:		
State of Alaska and other employers	1,231	15,998
Employees	<u>72</u>	<u>719</u>
Total contributions	<u>226,866</u>	<u>208,888</u>
Total additions	<u>587,989</u>	<u>410,953</u>
Deductions:		
Benefits paid:		
Retirement	108,360	99,651
Medical	<u>23,120</u>	<u>23,332</u>
Total benefits paid	131,480	122,983
Refunds to terminated employees	11,901	11,965
Administrative expenses	<u>8,045</u>	<u>5,019</u>
Total deductions	<u>151,426</u>	<u>139,967</u>
Net increase	436,563	270,986
Net assets available for plan benefits at beginning of year	<u>3,017,541</u>	<u>2,746,555</u>
Net assets available for plan benefits at end of year	<u>\$ 3,454,104</u>	<u>3,017,541</u>

See accompanying notes to financial statements.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 1992 and 1991

(1) Description

The following brief description of the State of Alaska Public Employees' Retirement System (Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

General

The Plan is the administrator of a defined benefit, agent multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for eligible State employees and employees of its local governments. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a part of the State financial reporting entity and is included in the State's financial reports as a pension trust fund. At June 30, 1992, the number of participating local government employers was:

Municipalities	78
School districts	51
Other	<u>21</u>
Total employers	<u>150</u>

Inclusion in the Plan is a condition of employment for eligible State employees except, as otherwise provided, for judges and elected officers. Any local government in the State may elect to have its permanent general, police and fire department employees covered by the Plan. At June 30, 1991, Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to future benefits	11,373
Current employees:	
General	27,307
Police and fire	<u>2,533</u>
	<u>29,840</u>
	<u>41,213</u>
Current employees:	
Vested:	
General	14,234
Police and fire	1,795
Nonvested:	
General	13,073
Police and fire	<u>738</u>
	<u>29,840</u>

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STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Pension Benefits

Employees hired prior to July 1, 1986 with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, fifty-five, or early retirement at age fifty. For employees hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, respectively. Employees with thirty or more years of credited service (twenty years for peace officers and firemen) may retire at any age and receive a normal benefit.

The normal monthly pension benefit is based on years of service and average monthly compensation. The average monthly compensation is based upon the employee's three highest, consecutive years salaries.

The benefit related to all years of service earned prior to July 1, 1986 and for years of service through a total of ten years for general employees is equal to 2% of the employee's average monthly compensation for each year of service. The benefit for over ten years of service subsequent to June 30, 1986 is equal to 2-1/4% of the employee's average monthly compensation for the second ten years and 2-1/2% for all remaining years of service. For police and fire employees, the benefit for years of service through a total of ten years is equal to 2% of the employee's average monthly compensation and 2-1/2% for all remaining years of service.

Minimum benefits for employees eligible for retirement are \$25 per month for each year of credited service.

Married employees must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or another person is eligible for benefits under a qualified domestic relations order.

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1986 and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1986 may receive major medical benefits prior to age sixty-five by paying premiums.

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STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Death Benefits

If an active employee dies from occupational or nonoccupational causes, the spouse may receive a monthly pension equal to 40% of the employee's salary. When death is due to occupational causes and there is no surviving spouse, the employee's dependent child(ren) may receive the monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average monthly compensation at the time of death and the credited service, including service that would have accrued if the employee had lived and continued to work until normal retirement.

Disability Benefits

Active employees who become permanently disabled due to occupational or nonoccupational causes receive disability benefits until normal retirement age. Although there is no minimum service requirements for employees to be eligible for occupational disability, employees must be vested to receive non-occupational disability benefits. The monthly disability benefit is equal to 40% of the employee's salary at the time of the disability. At normal retirement age the disabled employees begin receiving normal retirement benefits.

Effect of Plan Termination

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participant benefits. Whether a particular participant's accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting.

Valuation of Investments

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis.

Investments, other than real estate equities and loans and mortgages, are carried at market value to reflect their asset values as determined by the last quoted market price at June 30, 1992 and 1991.

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Real estate equities are stated at estimated market value as determined by the independent management of the investment accounts. These investments do not have a readily available market and generally represent long-term investments.

Loans and mortgages are serviced by the institution from which the loan is purchased.

At June 30, 1992, loans and mortgages are stated at estimated market value determined by adjusting purchase yields to the current secondary mortgage market conditions established by the Mortgage Guaranty Investment Corporation. At June 30, 1991, loans and mortgages are stated at cost. Due to the immaterial effect on the financial statements as a whole, a prior period adjustment to correct the valuation of loans and mortgages at June 30, 1991 has not been made. Instead, the accumulated unrealized net gains and losses from past years have been recognized at June 30, 1992. The following summarizes the total net unrealized gain at June 30, 1992 (000's omitted):

Net unrealized gain, June 30, 1992	\$ 4,088
Net unrealized gain, from prior years	<u>4,574</u>
	<u>\$ 8,662</u>

Historically, management of the loans and mortgages portfolio has provided an estimated allowance for loan losses to provide for potential credit losses. Factors considered by management in developing the allowance for loan losses include delinquency levels, historical charge-offs and the aging of the portfolio. During 1992, management elected to offer the loan portfolio for sale, and has recorded the amount above to reflect the portfolio's net realizable value.

Loans and mortgages include approximately \$12,150,000 and \$12,384,000 for 1992 and 1991, respectively, of other real estate owned. Other real estate owned represents properties on which the Plan has foreclosed and is holding with the intent to resell.

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STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

The investment activity of all common stocks was consolidated October 1, 1987 with the common stocks of other State funds to form a domestic equity pool. The activity and the June 30, 1992 and 1991 balances of this domestic equity pool are accounted for on a unit-accounting basis. All income and realized and unrealized gains are allocated monthly to each participating pool on a pro rata ownership basis. All income earned is included in dividend income. At June 30, 1992 and 1991, the Plan's investment in the domestic equity pool is comprised of the following (000's omitted):

	<u>1992</u>	<u>1991</u>
Domestic equity pool	\$ 1,204,110	1,162,408
Interest and dividends receivable	3,037	3,359
Cash and cash equivalents	<u>89,823</u>	<u>200</u>
	<u>\$ 1,296,970</u>	<u>1,165,967</u>

The international equity pool at June 30, 1992 and 1991 is comprised of the following (000's omitted):

	<u>1992</u>	<u>1991</u>
International equity pool	\$ 171,817	164,114
Cash and cash equivalents	<u>15,815</u>	<u>12,698</u>
	<u>\$ 187,632</u>	<u>176,812</u>

Cash and Cash Equivalents

Cash and cash equivalents at June 30, 1992 and 1991 are comprised of the following (000's omitted):

	<u>1992</u>	<u>1991</u>
Repurchase agreement	\$ -	26,300
Investment maturities in transit	1,994	1,825
Interest-bearing deposits	<u>8,254</u>	<u>22</u>
	<u>\$ 10,248</u>	<u>28,147</u>

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STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Contributions Receivable

Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

Accrued Interest and Dividends

Accrued interest and dividends represent amounts earned but not yet received as of June 30. These amounts are considered fully collectible and, accordingly, no allowance for uncollectible receivables has been reflected in the financial statements. Accrued interest on loans and mortgages is not recorded until received.

(3) Investments

To provide an indication of the level of credit risk assumed by the Plan at June 30, 1992, the Plan's deposits and investments are categorized as follows:

Deposits

Category 1 - Insured or collateralized with securities held by the State or its custodian in the State's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.

Category 3 - Uncollateralized.

Investments

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the State's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Category 3 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent but not in the State's name (000's omitted):

	<u>Category</u>			Market value and carrying value
	<u>1</u>	<u>2</u>	<u>3</u>	
Deposits - cash	\$ 10,248	-	-	10,248
Investments:				
United States Government debt	804,158	-	-	804,158
Federal agency debt	57,766	-	-	57,766
Mortgage backed federal securities	5,848	-	-	5,848
Corporate bonds, notes and debentures	852,468	-	-	852,468
Domestic equity pool	1,296,970	-	-	1,296,970
International equity pool	187,632	-	-	187,632
Real estate equities	<u>118,049</u>	-	-	<u>118,049</u>
	<u>\$ 3,333,139</u>	-	-	<u>3,333,139</u>

During 1992 and 1991, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows (000's omitted):

	<u>1992</u>	<u>1991</u>
United States Government debt	\$ 21,819	3,952
Federal agency debt	1,130	-
Mortgage backed federal securities	87	-
Corporate bonds, notes and debentures	40,248	2,399
Domestic equity pool	33,673	42,269
International equity pool	4,592	(23,094)
Real estate equities	(22,022)	(26,349)
Loans and mortgages	<u>(1,077)</u>	-
	<u>\$ 78,450</u>	<u>(823)</u>

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STATE OF ALASKA
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Notes to Financial Statements

The cost, market and carrying values of the Plan's investments at June 30, 1992 and 1991 are as follows (000's omitted):

	<u>Cost</u>	<u>Market</u>	<u>Carrying value</u>
1992:			
United States Government debt	\$ 715,943	804,158	804,158
Federal agency debt	56,636	57,766	57,766
Mortgage backed federal securities	5,762	5,848	5,848
Corporate bonds, notes and debentures	803,736	852,468	852,468
Domestic equity pool	1,125,674	1,296,970	1,296,970
International equity pool	191,441	187,632	187,632
Real estate equities	152,285	118,049	118,049
Loans and mortgages, net of allowance for loan losses of \$14,590	<u>67,575</u>	<u>76,236</u>	<u>76,236</u>
	<u>\$ 3,119,052</u>	<u>3,399,127</u>	<u>3,399,127</u>
1991:			
United States Government debt	712,544	779,480	779,480
Corporate bonds, notes and debentures	581,707	590,191	590,191
Domestic equity pool	1,028,345	1,165,967	1,165,967
International equity pool	185,214	176,812	176,812
Real estate equities	146,681	134,468	134,468
Loans and mortgages, net of allowance for loan losses of \$4,851	<u>89,065</u>	<u>93,644</u>	<u>89,065</u>
	<u>\$ 2,743,556</u>	<u>2,940,562</u>	<u>2,935,983</u>

State of Alaska treasury investment policy requires that securities underlying repurchase agreements must have a minimum market value of 102% of the cost of the repurchase agreement.

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STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

The Commissioner of Revenue has the statutory authority to invest the moneys of the Plan. This authority is delegated to investment officers of the Division of Treasury of the Department of Revenue. Alaska Statute provides for the investment in United States treasury or agency securities; corporate debt securities; preferred and common stock; commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits; gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska; guaranteed loans; notes collateralized by mortgages; certificates of deposit and banker's acceptances.

(4) Funding Status and Progress

The amount shown below as "pension benefit obligation," which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in note 5 below.

The pension benefit obligation is determined by William M. Mercer, Incorporated and is that amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 1991 are as follows:

- a. Actuarial cost method - projected unit credit, unfunded accrued benefit liability amortized over twenty-five years, funding surplus amortized over five years.
- b. Mortality basis - 1984 Unisex Pension Mortality Table set forward one year for male and police/fire members, and set backward four years for females.
- c. Retirement age - retirement rates based on actual experience.

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STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

d. Discount rate - 8.75% per annum, compounded annually, net of investment expenses.

e. Health cost inflation:

<u>Year</u>	<u>Per annum</u>
1992	12.5%
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5

f. Salary scale - increase of 6.5% for the first five years of employment and 5.5% per year thereafter.

g. Cost of living allowance (domicile in Alaska) - 71% of those receiving benefits will be eligible to receive the cost of living allowance.

h. Contribution refunds - 100% of those employees terminating after age thirty-five with five or more years of service will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

i. Asset valuation - five-year average ratio of actuarial and book values of the Plan assets. The actuarial value of the assets equals the market value of the Plan's assets, except that fixed income investments are carried at book value. Valuation assets cannot be outside of the range of book and actuarial values.

Turnover and disability assumptions are based upon actual historical occurrence rates of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

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STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

At June 30, 1991, the unfunded pension benefit obligation was \$321.6 million, as follows (in millions):

Net assets available for benefits as of June 30, 1991, at market	\$ <u>3,017.5</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	1,621.6
Current employees:	
Accumulated employee contributions including allocated investment income	417.0
Employer-financed, vested	1,193.0
Employer-financed, nonvested	<u>107.5</u>
Total pension benefit obligation as of June 30, 1991	<u>3,339.1</u>
Unfunded pension benefit obligation as of June 30, 1991	\$ <u>321.6</u>

Due to changes in the mortality basis, discount rate, health cost inflation rate and cost of living allowance actuarial assumptions, the pension benefit obligation at June 30, 1991 decreased \$5.084 million.

(5) Contributions

Employee Contributions

Prior to January 1, 1987, employees contributed 4.25% of their compensation, except for peace officers and firemen, who contributed 5% of their compensation to the Plan. Effective January 1, 1987, contribution rates increased to 7.5% for peace officers and firemen and 6.75% for other employees, as required by statute. The employee contributions are deducted before federal income tax is withheld. Contributions are collected by employers and remitted to the Plan. Present employee accumulated contributions at June 30, 1992 and 1991 were \$593,574,000 and \$497,789,000, respectively. Employee contributions earn interest at the rate of 4.5% per annum, compounded semiannually.

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STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan also uses the level percentage of payroll method to amortize the unfunded liability over a twenty-five year period. Funding surpluses are amortized over five years.

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following (000's omitted):

	<u>1992</u>	<u>1991</u>
State and other:		
Employer	\$ 147,961	116,404
Employee	<u>77,602</u>	<u>75,767</u>
	\$ <u>225,563</u>	<u>192,171</u>
Normal cost	190,617	166,074
Amortization of unfunded actuarial accrued liability	<u>34,946</u>	<u>26,097</u>
	\$ <u>225,563</u>	<u>192,171</u>

Actuarial valuations for 1992 and 1991 were performed as of June 30, 1991 and 1990, respectively.

Significant actuarial assumptions used to compute contribution requirements are as of June 30, 1989. Several actuarial assumptions at June 30, 1989 are different from those used to compute the standardized measure of the pension benefit obligation discussed in note 4. The overall effect on the financial status of the Plan due to the revised assumptions is no change in the funding ratio and a 0.55% payroll increase in the employer contribution rate.

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STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

(6) Retirement Incentive Program

Legislation passed in May 1986 established a retirement incentive program (RIP) designed to encourage eligible employees to voluntarily retire in order to reduce personal services costs. The program was available to eligible State employees until June 30, 1987, University of Alaska employees from October 1, 1986 to September 30, 1987, and all other employees from January 1, 1987 to December 31, 1987.

Legislation was passed in June 1989 and amended effective April 1, 1990, establishing a second retirement incentive program. The second program was available to state employees from October 1, 1989 through March 31, 1990, University of Alaska employees from July 1, 1989 through December 31, 1989, and all other employees from October 1, 1989 through March 31, 1991.

The retirement incentive program receivables represent the reimbursement due from employers participating in the programs and is due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which employees retired. The amount of reimbursement is the actuarial equivalent of the difference between the benefits the employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Employees were indebted to the Plan for the following percentage of their annual compensation for the calendar year in which the employee terminated employment to participate in the program:

	<u>Retirement incentive program</u>	
	<u>1986</u>	<u>1989</u>
Police and fire members	15.00%	22.50%
Other members	12.75	20.25

Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit.

The effect of the 1986 retirement incentive program on the pension benefit obligation was fully accounted for in the June 30, 1988 actuarial valuation. The effect of the 1989 program on the pension benefit obligation was fully accounted for in the June 30, 1990 and 1991 actuarial valuations as the eligible employees retired.

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STATE OF ALASKA
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Notes to Financial Statements

(7) Ten-year Historical Trend Information

Ten-year historical trend information (where available) designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in the accompanying supplemental schedules of analysis of funding progress and revenues by source and expense by type.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information
Analysis of Funding Progress

(000's omitted)

<u>Year ended June 30</u>	<u>Net assets available</u>	<u>Pension benefit obligation</u>	<u>Percen- tage funded</u>	<u>Unfunded (assets in excess of) pension benefit obligation</u>	<u>Annual covered payroll (unaudited)</u>	<u>Unfunded (assets in excess of) pension benefit obligation as a percentage of covered payroll</u>
1985	\$ 1,295,536	\$ 1,446,672	89.6%	\$ 151,136	\$ 830,579	18.2%
1986	1,739,843	1,556,610	111.8	(183,233)	890,092	(20.6)
1987	2,010,196	1,905,005	105.5	(105,191)	891,302	(11.8)
1988	2,123,695	2,246,585	94.5	122,888	908,363	13.5
1989	2,452,962	2,563,268	95.7	110,306	912,834	12.1
1990	2,746,555	2,753,518	99.7	6,963	952,070	.7
1991	<u>3,017,541</u>	<u>3,339,145</u>	<u>90.4</u>	<u>321,604</u>	<u>1,027,807</u>	<u>31.3</u>

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

See accompanying notes to required supplementary information.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information
Revenues by Source and Expenses by Type

(000's omitted)

Year ended June 30	Revenues by source				Total
	Employee contributions	Employer contributions	Investment income	Unrealized appreciation (depreciation) in market value	
1983	\$ 32,595	\$ 99,727	\$ 86,002	\$ 53,099	\$ 271,423
1984	36,765	114,245	101,371	(74,541)	177,840
1985	39,577	123,466	112,261	117,733	393,037
1986	42,626	127,727	182,140	159,873	512,366
1987	51,879	103,719	225,792	(27,799)	353,591
1988	66,732	108,767	154,468	(112,755)	217,212
1989	65,104	78,932	194,653	108,088	446,777
1990	69,720	96,418	233,790	17,469	417,397
1991	76,486	132,402	202,888	(823)	410,953
1992	<u>77,674</u>	<u>149,192</u>	<u>282,673</u>	<u>78,450</u>	<u>587,989</u>

	Expense by type				Total
	Retirement benefits	Medical benefits	Refunds to terminated employees	Administrative expenses	
1983	\$ 28,401	\$ 4,541	\$ 7,683	\$ 2,342	\$ 42,967
1984	33,060	6,930	8,923	1,776	50,698
1985	39,487	9,350	9,553	3,813	62,203
1986	45,916	9,411	9,165	3,567	68,059
1987	57,473	10,256	10,524	4,985	83,238
1988	73,964	11,376	11,409	6,964	103,713
1989	82,389	18,065	11,188	5,868	117,510
1990	85,301	22,142	11,237	5,124	123,804
1991	99,651	23,332	11,965	5,019	139,967
1992	<u>108,360</u>	<u>23,120</u>	<u>11,901</u>	<u>8,045</u>	<u>151,426</u>

Contributions, including contributions for the retirement incentive program, were made in accordance with actuarially determined contribution requirements.

See accompanying notes to required supplementary information.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Required Supplementary Information

Years ended June 30, 1992
1991, 1990, 1989, 1988, 1987, 1986, 1985, 1984 and 1983

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

The Plan's actuarial funding method for the years ended June 30, 1979 through June 30, 1984 was attained age normal. Effective July 1, 1984, the Plan adopted the projected unit credit actuarial funding method.

Effective July 1, 1986, the Plan adopted new actuarial assumptions. Actuarial funding surpluses are amortized over five years rather than twenty-five years. The assumed rate of interest was increased from 8% to 9% per year. The salary scale assumption was lowered to 6.5% per year for the first five years of employment and 5.5% per year thereafter, down from 8% and 7%, respectively. Health care cost inflation was increased to 9% rather than 8%. Turnover and disability assumptions were revised based on actual experience in 1981 through 1985.

Effective July 1, 1990, the health care cost was changed from a flat 9% to the following graduations:

<u>Year</u>	<u>Per annum</u>
1992	12.5%
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5

Turnover, retirement and disability assumptions were revised based on actual experience in 1986 through 1990. The assumed rate of interest was lowered to 8.75%. The mortality tables were set forward one year for male members and set backward four years for female members; previously the mortality table had been set back one and one half years for all members. The cost of living allowance was increased from 69% to 71%.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Statements of Net Assets Available for Plan Benefits

June 30, 1992 and 1991

(000's omitted)

	<u>1992</u>	<u>1991</u>
Assets:		
Investments, at fair value:		
United States Government debt	\$ 804,158	779,480
Federal agency debt	57,766	-
Mortgage backed federal securities	5,848	-
Corporate bonds, notes and debentures	852,468	590,191
Domestic equity pool	1,296,970	1,165,967
International equity pool	187,632	176,812
Real estate equities	118,049	134,468
Total investments	<u>3,322,891</u>	<u>2,846,918</u>
 Loans and mortgages, at fair market value in 1992 and cost in 1991, net of allowance for loan losses of \$14,590 in 1992 and \$4,851 in 1991	 <u>76,236</u>	 <u>89,065</u>
 Receivables:		
Contributions	13,113	12,313
Retirement incentive program	6,286	15,003
Accrued interest and dividends	34,684	29,711
Total receivables	<u>54,083</u>	<u>57,027</u>
 Due from General Fund	 -	 1,386
Cash and cash equivalents	10,248	28,147
Total assets	<u>3,463,458</u>	<u>3,022,543</u>
 Liabilities:		
Accrued expenses	2,730	5,002
Due to General Fund	6,624	-
Total liabilities	<u>9,354</u>	<u>5,002</u>
 Net assets available for plan benefits	 <u>\$ 3,454,104</u>	 <u>3,017,541</u>

See accompanying notes to financial statements.

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STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
PUBLIC EMPLOYEES RETIREMENT TRUST FUND
FINANCIAL STATEMENTS

OCTOBER 31, 1992

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
PUBLIC EMPLOYEES RETIREMENT TRUST FUND

BALANCE SHEET

October 31, 1992 and 1991

<u>ASSETS</u>	<u>1992</u>	<u>1991</u>
INVESTMENTS, AT MARKET:		
MARKETABLE SECURITIES:		
U.S. GOVERNMENT DEBT	\$ 877,433,483	\$ 759,968,391
FEDERAL AGENCY DEBT	69,915,940	41,082,260
MORTGAGE BACKED FEDERAL SECURITIES	0	0
CORPORATE BONDS	849,556,587	698,189,120
COMMERCIAL PAPER	0	10,577,254
CERTIFICATES OF DEPOSIT	0	0
DOMESTIC EQUITY POOL	1,356,546,127	1,245,478,932
INTERNATIONAL EQUITIES POOL	174,840,744	186,297,474
TOTAL MARKETABLE SECURITIES	<u>3,328,292,881</u>	<u>2,941,593,431</u>
MORTGAGE LOANS (note 6)	87,511,869	99,447,299
ALLOWANCE FOR LOAN LOSSES	(14,590,134)	(4,672,742)
NET MORTGAGES	<u>72,921,735</u>	<u>94,774,557</u>
REAL ESTATE EQUITIES	118,626,120	136,916,248
TOTAL INVESTMENTS	3,519,840,736	3,173,284,235
RECEIVABLES:		
INTEREST	44,826,098	41,431,022
DUE FROM (TO) GENERAL INVESTMENT FUND	337,256	(93,058)
TOTAL RECEIVABLES	<u>45,163,355</u>	<u>41,337,965</u>
CASH AND CASH EQUIVALENTS	<u>22,405,800</u>	<u>20,833,720</u>
TOTAL ASSETS	<u>\$ 3,587,409,890</u>	<u>\$ 3,235,455,920</u>
 <u>FUND BALANCE</u>		
FUND BALANCE RESTRICTED FOR BENEFICIARIES	<u>\$ 3,587,409,890</u>	<u>\$ 3,235,455,920</u>

CORRECTION

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

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STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
PUBLIC EMPLOYEES RETIREMENT TRUST FUND
FINANCIAL STATEMENTS

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STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
PUBLIC EMPLOYEES RETIREMENT TRUST FUND

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STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
PUBLIC EMPLOYEES RETIREMENT TRUST FUND

BALANCE SHEET

October 31, 1992 and 1991

<u>ASSETS</u>	<u>1992</u>	<u>1991</u>
INVESTMENTS, AT MARKET:		
MARKETABLE SECURITIES:		
U.S. GOVERNMENT DEBT	\$ 877,433,483	\$ 759,968,391
FEDERAL AGENCY DEBT	69,915,940	41,082,260
MORTGAGE BACKED FEDERAL SECURITIES	0	0
CORPORATE BONDS	849,556,587	698,189,120
COMMERCIAL PAPER	0	10,577,254
CERTIFICATES OF DEPOSIT	0	0
DOMESTIC EQUITY POOL	1,356,546,127	1,245,478,932
INTERNATIONAL EQUITIES POOL	174,840,744	186,297,474
TOTAL MARKETABLE SECURITIES	<u>3,328,292,881</u>	<u>2,941,593,431</u>
MORTGAGE LOANS (note 6)	87,511,869	99,447,299
ALLOWANCE FOR LOAN LOSSES	(14,590,134)	(4,672,742)
NET MORTGAGES	<u>72,921,735</u>	<u>94,774,557</u>
REAL ESTATE EQUITIES	118,626,120	136,916,248
TOTAL INVESTMENTS	3,519,840,736	3,173,284,235
RECEIVABLES:		
INTEREST	44,826,098	41,431,022
DUE FROM (TO) GENERAL INVESTMENT FUND	337,256	(93,058)
TOTAL RECEIVABLES	<u>45,163,355</u>	<u>41,337,965</u>
CASH AND CASH EQUIVALENTS	<u>22,405,800</u>	<u>20,833,720</u>
TOTAL ASSETS	<u>\$ 3,587,409,890</u>	<u>\$ 3,235,455,920</u>
 <u>FUND BALANCE</u>		
FUND BALANCE RESTRICTED FOR BENEFICIARIES	<u>\$ 3,587,409,890</u>	<u>\$ 3,235,455,920</u>

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
PUBLIC EMPLOYEES RETIREMENT TRUST FUND

STATEMENT OF INVESTMENT INCOME AND CHANGES IN
FUND BALANCE RESTRICTED FOR BENEFICIARIES

October 1992

	CURRENT MONTH	YEAR TO DATE
INVESTMENT INCOME:		
INCOME:		
INTEREST:		
MARKETABLE SECURITIES	\$ 13,294,247	\$ 48,098,297
MORTGAGE LOANS	530,440	3,027,969
TOTAL INTEREST	13,824,687	51,126,266
DIVIDENDS:		
DOMESTIC EQUITY POOL	1,774,251	10,421,468
INTERNATIONAL EQUITY POOL	395,946	1,768,262
REAL ESTATE EQUITIES	291,477	1,826,381
TOTAL DIVIDENDS	2,461,674	14,016,111
TOTAL INCOME	16,286,360	65,142,376
REDUCTION (INCREASE) OF ALLOWANCE FOR LOAN LOSSES	0	0
NET INCOME	16,286,360	65,142,376
NET REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS:		
REALIZED:		
MARKETABLE DEBT SECURITIES	4,546,355	8,935,048
DOMESTIC EQUITY POOL	9,995,897	24,429,465
INTERNATIONAL EQUITY POOL	(2,233,391)	(3,198,106)
NET REALIZED GAINS (LOSSES)	12,308,860	30,166,407
CHANGE IN UNREALIZED MARKET APPRECIATION	(53,621,936)	28,534,784
NET REALIZED AND UNREALIZED GAINS (LOSSES)	(41,313,076)	58,701,191
TOTAL INVESTMENT INCOME	(25,026,715)	123,843,568
BEGINNING FUND BALANCE RESTRICTED FOR BENEFICIARIES	3,607,238,788	3,442,009,929
NET CONTRIBUTIONS (WITHDRAWALS)	5,197,818	21,556,393
ENDING FUND BALANCE RESTRICTED FOR BENEFICIARIES	\$ 3,587,409,890	\$ 3,587,409,890

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
PUBLIC EMPLOYEES RETIREMENT TRUST FUND

STATEMENT OF CASH FLOWS

October 1992

	CURRENT MONTH	YEAR TO DATE
INVESTMENT OPERATIONS:		
TOTAL INVESTMENT INCOME	\$ (25,026,715)	\$ 123,843,568
ADJUSTMENTS TO RECONCILE INVESTMENT INCOME TO NET CASH PROVIDED BY INVESTMENT OPERATIONS:		
NET REALIZED LOSSES (GAINS)	(12,308,860)	(30,166,407)
CHANGE IN UNREALIZED MARKET APPRECIATION	53,621,936	(28,534,784)
AMORTIZATION	(966,728)	499,097
DECREASE (INCREASE) IN INTEREST RECEIVABLE	(5,915,720)	(10,140,751)
INCREASE (DECREASE) IN ALLOWANCE FOR LOAN LOSSES	0	0
NET CASH (USED) PROVIDED BY INVESTMENT OPERATIONS	9,403,913	55,500,723
INVESTING ACTIVITIES:		
PURCHASE OF MARKETABLE SECURITIES	(81,607,683)	(310,216,236)
SALES AND MATURITIES OF MARKETABLE SECURITIES	82,727,653	258,173,648
ACQUISITION OF MORTGAGE LOANS AND REAL ESTATE EQUITIES	(444,968)	(3,979,644)
NET (INCREASE) DECREASE IN BOOK VALUE OF DOMESTIC EQUITY POOL	(1,774,251)	(10,421,468)
NET (INCREASE) DECREASE IN BOOK VALUE OF INTERNATIONAL EQUITY POOL	(395,946)	(1,768,262)
MORTGAGE LOAN PRINCIPAL PAYMENTS AND PROCEEDS FROM REAL ESTATE EQUITIES POOL	1,170,531	5,700,096
NET CASH (USED) PROVIDED IN INVESTING ACTIVITIES	(324,664)	(62,511,865)
FINANCING ACTIVITIES - NET CONTRIBUTIONS (WITHDRAWALS) FROM BENEFIT SYSTEM	5,205,108	19,169,283
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,284,357	12,158,140
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,121,443	10,247,659
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 22,405,800	\$ 22,405,800

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
PUBLIC EMPLOYEES RETIREMENT TRUST FUND

Notes to Financial Statements

October 31, 1992

(1) THE ACCOUNTING ENTITY

The Public Employees Retirement Trust Fund (Fund) is the investment portfolio of the State of Alaska Public Employees Retirement System (PERS). PERS is a multiple employer agent defined benefit, joint contributory system established for the payment of retirement, disability and death benefits to or on behalf of qualified employees of the state or a political subdivision within the state. These financial statements are those of the Fund and not PERS taken as a whole. The Commissioner of Revenue is the fiduciary and has the statutory authority to invest the moneys of the Fund.

Alaska Statutes 14.25.180, 39.35.080, and 37.10.071 provide that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large trust portfolios. The Department of Revenue has contracted the management of certain investment securities to selected external managers. Specifically, the domestic equity pool, international equities and real estate equities are managed by external management companies.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment Presentation

The market value of marketable securities is determined at the end of each month by the custodial agent. The agents' determination of market values involves, among other things, using pricing services or prices quoted by independent brokers. The market value of the mortgage loans is determined by adjusting purchased yields to the current secondary mortgage market conditions established by the Mortgage Guarantee Insurance Corporation. A mortgage loan loss provision has been provided as described below. The market values of real estate equities are valued by the various companies managing those funds.

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis. In determining gains and losses, cost of securities sold is determined on the specific identification basis. Interest income, including amortization of premium and discount, is accrued monthly. Dividend income on domestic equity securities is accrued on ex-dividend date. Dividend income on international equities is recognized upon notification from the custodian.

Net Contributions

Net contributions represent contributions from employers and employees, net of benefits paid to PERS participants. Net contributions are recorded on a cash basis according to when contributions are received, and benefits are paid by the State of Alaska, Department of Administration, Division of Retirement and Benefits.

Administrative and Other Expenses

All expenses, including investment management costs, are charged to appropriations of Fund assets and are therefore not deducted from investment income of the Fund.

Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid debt instruments with original maturities of three months or less are considered to be cash equivalents. The cash flow statement is presented to reflect the activity resulting in a change in cash and cash equivalents. Total investment income is adjusted for realized gains or losses because gross proceeds are shown under sales and maturities of marketable securities.

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
PUBLIC EMPLOYEES RETIREMENT TRUST FUND

Notes to Financial Statements

(Continued)

Allowance for Loan Losses

Historically, management of the Fund has provided and estimated allowance for loan losses to provide for potential credit losses in its loan portfolio. Factors considered by management in developing the allowance for loan losses include delinquency levels, historical charge offs and the aging of the portfolio. During 1992, management elected to offer the loan portfolio for sale, and has recorded as an allowance an amount considered sufficient to reflect the portfolio's net realizable value.

(3) DOMESTIC EQUITY POOL

The Fund, along with several other State of Alaska funds, has an investment in a domestic equity pool. The majority of the domestic equity pool is comprised of common stock with available cash balances invested in short term debt instruments. All accrued income and realized gains and losses are allocated monthly to each participating fund on a pro rata ownership basis. Income which is received by the domestic equity pool is distributed monthly in cash to each participating fund, first to accrued income allocated to any withdrawal by a participating fund, and second, in proportion to each fund's ownership of remaining accrued income. On October 31, 1992, the Fund's investment in the domestic equity pool is comprised of the following:

Domestic equities, at market	\$1,354,008,028
Interest and dividends receivable	<u>2,538,099</u>
Total	<u>\$1,356,546,127</u>

(4) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following on October 31, 1992:

Interest-bearing deposits	\$25,194,550
Unsettled investment transactions	(2,788,750)
Repurchase agreement	<u>0</u>
Total cash and cash equivalents	<u>\$22,405,800</u>

(5) INTERNATIONAL EQUITY POOL

The Fund, along with the Teachers Retirement Trust Fund, formed an international equity pool during 1992. The majority of the international equity pool is comprised of common stock with available cash balances invested in short-term debt instruments. All accrued income, realized gains and losses and income received are allocated monthly to the two participating funds on a pro rata ownership basis. On October 31, 1992 the Fund's investment in the international equities are comprised of the following:

International equities, at market	\$174,051,560
Interest Receivable	<u>789,184</u>
Total	<u>\$174,840,744</u>

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
PUBLIC EMPLOYEES RETIREMENT TRUST FUND

Notes to Financial Statements

(Continued)

(6) REAL ESTATE MORTGAGES

Real estate mortgages are comprised of the following on October 31, 1992:

Outstanding Principal:

Real estate loans current or less than 90 days past due	\$62,426,844
Real estate loans past due 90 days	5,101,945
Real estate acquired by foreclosure	<u>11,563,013</u>
Total Outstanding Principal	79,091,802
Unrealized Appreciation	<u>8,420,067</u>
Total Market Value	87,511,869
Allowance for Real Estate Loan Losses	<u>(14,590,134)</u>
Net Mortgages	<u>\$72,921,735</u>

(7) SAFEKEEPING RISK

The Public Employees Retirement Trust Fund's deposits and investments are categorized below pursuant to the Governmental Accounting Standards Board (GASB) Statement Number 3 and GASB Technical Bulletin Number 87-1 to give an indication of the level of safekeeping risk assumed by the Fund at statement date.

Deposits

1. Insured or collateralized with securities held by the State or by its custodian in the State's name.
2. Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.
3. Uncollateralized.

Investments

1. Insured or registered for which the securities are held by the State or its custodian in the State's name.
2. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
PUBLIC EMPLOYEES RETIREMENT TRUST FUND

Notes to Financial Statements

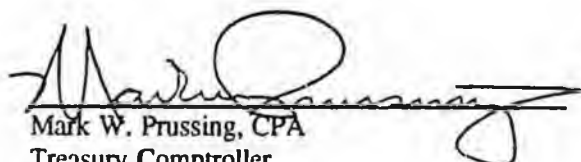
(Continued)

3. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent not in the State's name.

At statement date, all of the Fund's deposits and investments were considered to Category 1 with respect to safekeeping risk.

(8) COMPTROLLER'S OPINION

The financial statements presented herein were prepared from the books of account without audit, and no independent opinion on the fairness of these statements has been rendered.



Mark W. Prussing, CPA
Treasury Comptroller

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Rep Yezey

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
TEACHERS RETIREMENT TRUST FUND

FINANCIAL STATEMENTS

OCTOBER 31, 1992

STATE OF ALASKA
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DEPARTMENT OF REVENUE
DIVISION OF TREASURY
TEACHERS RETIREMENT TRUST FUND

BALANCE SHEETS

October 31, 1992 and 1991

<u>ASSETS</u>	<u>1992</u>	<u>1991</u>
INVESTMENTS AT MARKET		
MARKETABLE SECURITIES:		
U.S. GOVERNMENT DEBT	\$ 445,242,312	\$ 413,666,757
FEDERAL AGENCY DEBT	28,777,170	19,483,950
CORPORATE BONDS	501,715,917	418,856,856
COMMERCIAL PAPER	0	0
CERTIFICATES OF DEPOSIT	0	0
DOMESTIC EQUITY POOL	832,207,271	764,070,686
INTERNATIONAL EQUITY POOL	108,725,857	119,615,807
TOTAL MARKETABLE SECURITIES	<u>1,916,668,528</u>	<u>1,735,694,055</u>
MORTGAGE LOANS (note 6)	74,364,443	83,282,498
ALLOWANCE FOR LOAN LOSSES	(12,598,009)	(4,048,808)
NET MORTGAGES	<u>61,766,434</u>	<u>79,233,690</u>
REAL ESTATE EQUITIES	70,695,357	81,700,239
TOTAL INVESTMENTS	<u>2,049,130,319</u>	<u>1,896,627,985</u>
RECEIVABLES:		
INTEREST	25,217,689	23,838,612
DUE FROM (TO) GENERAL INVESTMENT FUND	167,438	660,935
TOTAL RECEIVABLES	<u>25,385,127</u>	<u>24,499,547</u>
CASH AND CASH EQUIVALENTS	<u>6,347,742</u>	<u>11,584,409</u>
TOTAL ASSETS	\$ <u>2,080,863,188</u>	\$ <u>1,932,711,940</u>
<u>FUND BALANCE</u>		
FUND BALANCE RESTRICTED FOR BENEFICIARIES	\$ <u>2,080,863,188</u>	\$ <u>1,932,711,940</u>

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
TEACHERS RETIREMENT TRUST FUND

STATEMENT OF INVESTMENT INCOME AND CHANGES IN
FUND BALANCE RESTRICTED FOR BENEFICIARIES

October 1992

	CURRENT MONTH	YEAR TO DATE
INVESTMENT INCOME:		
INCOME:		
INTEREST:		
MARKETABLE SECURITIES	\$ 6,541,865	\$ 25,970,374
MORTGAGE LOANS	411,376	1,983,368
TOTAL INTEREST	6,953,241	27,953,742
DIVIDENDS:		
DOMESTIC EQUITY POOL	1,088,459	6,393,311
INTERNATIONAL EQUITY POOL	246,222	1,099,605
REAL ESTATE EQUITIES	180,138	1,002,978
TOTAL DIVIDENDS	1,514,818	8,495,894
TOTAL INCOME	8,468,059	36,449,636
REDUCTION (INCREASE) OF ALLOWANCE FOR LOAN LOSSES	0	0
NET INCOME	8,468,059	36,449,636
NET REALIZED AND UNREALIZED GAINS (LOSSES)		
ON INVESTMENTS:		
REALIZED:		
MARKETABLE DEBT SECURITIES	1,698,968	4,321,883
DOMESTIC EQUITY POOL	6,132,234	14,986,868
INTERNATIONAL EQUITY POOL	(1,388,849)	(1,988,763)
NET REALIZED GAINS (LOSSES)	6,442,354	17,319,989
CHANGE IN UNREALIZED MARKET APPRECIATION	(28,976,245)	17,387,814
NET REALIZED AND UNREALIZED GAINS (LOSSES)	(22,533,892)	34,707,803
TOTAL INVESTMENT INCOME	(14,065,833)	71,157,439
BEGINNING FUND BALANCE RESTRICTED FOR BENEFICIARIES	2,095,493,376	2,020,303,953
NET CONTRIBUTIONS (WITHDRAWALS)	(564,355)	(10,598,204)
ENDING FUND BALANCE RESTRICTED FOR BENEFICIARIES	\$ 2,080,863,188	\$ 2,080,863,188

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
TEACHERS RETIREMENT TRUST FUND

STATEMENT OF CASH FLOWS

October 1992

	CURRENT MONTH	YEAR TO DATE
INVESTMENT OPERATIONS:		
TOTAL INVESTMENT INCOME:	\$ (14,065,833)	\$ 71,157,439
ADJUSTMENTS TO RECONCILE INVESTMENT INCOME TO NET CASH PROVIDED BY INVESTMENT OPERATIONS:		
REALIZED LOSS (GAIN)	(6,442,354)	(17,319,989)
CHANGE IN UNREALIZED MARKET APPRECIATION	28,976,245	(17,387,814)
AMORTIZATION	170,326	657,456
DECREASE (INCREASE) IN INTEREST RECEIVABLE	(3,166,487)	(6,049,472)
INCREASE (DECREASE) IN ALLOWANCE FOR LOAN LOSSES	0	0
NET CASH (USED) PROVIDED BY INVESTMENT OPERATIONS	5,471,897	31,057,620
INVESTING ACTIVITIES:		
PURCHASE OF MARKETABLE SECURITIES	(27,175,773)	*****
SALES AND MATURITIES OF MARKETABLE SECURITIES	24,218,892	102,215,783
ACQUISITION OF MORTGAGE LOANS AND REAL ESTATE EQUITIES	(610,386)	(2,349,550)
NET (INCREASE) DECREASE IN BOOK VALUE OF DOMESTIC EQUITY POOL	(1,088,459)	(6,393,311)
NET (INCREASE) DECREASE IN BOOK VALUE OF INTERNATIONAL EQUITY POOL	(246,222)	(1,099,605)
MORTGAGE PRINCIPAL PAYMENTS AND PROCEEDS FROM REAL ESTATE EQUITIES POOL	1,753,281	5,502,174
NET CASH (USED) PROVIDED IN INVESTING ACTIVITIES	(3,148,666)	(25,420,435)
FINANCING ACTIVITIES - NET CONTRIBUTIONS (WITHDRAWALS) FROM BENEFIT SYSTEM	(339,889)	(11,787,321)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,983,342	(6,150,135)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,364,400	12,497,877
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 6,347,742	\$ 6,347,742

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
TEACHERS RETIREMENT TRUST FUND

Notes to Financial Statements

October 31, 1992

(1) THE ACCOUNTING ENTITY

The Teachers Retirement Trust Fund (Fund) is the investment portfolio of the State of Alaska Teachers' Retirement System (TRS). TRS is a multiple-employer cost sharing, defined benefit, joint contributory system established for the payment of retirement, disability and death benefits to or on behalf of qualified teachers employed by the state, municipalities, school districts, or other political subdivisions within the state. These financial statements are those of the Fund and not TRS taken as a whole. The Commissioner of Revenue is the fiduciary and has the statutory authority to invest the moneys of the Fund.

Alaska Statutes 14.25.180, and 37.10.071 provide that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large trust portfolios. The Department of Revenue has contracted the management of certain investment securities to selected external managers. Specifically, the domestic equity pool, international equity pool and real estate equities are managed by external management companies.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment Presentation

The market value of marketable securities is determined at the end of each month by the custodial agent. The determination of market values involves, among other things, using pricing services or prices quoted by independent brokers. The market value of the mortgage loans is determined by adjusting purchased yields to the current secondary mortgage market conditions established by the Mortgage Guarantee Insurance Corporation. A mortgage loan loss provision has been provided as described below. The market values of real estate equities are valued by the various companies managing those funds.

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis. In determining gains and losses, the cost of securities sold is determined on the specific identification basis. Interest income, including amortization of premium and discount and dividend income on domestic equity securities, is accrued monthly. Dividend income on domestic equity securities is accrued on ex-dividend date. Dividend income on international equity securities is recognized upon notification from the custodian.

Net Contributions

Net contributions represent contributions from employers and employees, net of benefits paid to TRS participants. Net contributions are recorded on a cash basis according to when contributions are received, and benefits are paid by the State of Alaska, Department of Administration, Division of Retirement and Benefits.

Administrative and Other Expenses

All expenses, including investment management costs, are charged to appropriations of Fund assets and are therefore not deducted from investment income of the Fund.

Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid debt instruments with original maturities of three months or less are considered to be cash equivalents. The cash flow statement is presented to reflect the activity resulting in a change in cash and cash equivalents. Total investment income is adjusted for realized gains or losses because gross proceeds are shown under sales and maturities of marketable securities.

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
TEACHERS RETIREMENT TRUST FUND

Notes to Financial Statements

(Continued)

Allowance for Loan Losses

Historically, management of the Fund has provided an estimated allowance for loan losses to provide for potential credit losses in its loan portfolio. Factors considered by management in developing the allowance for loan losses include delinquency levels, historically charge offs and the aging of the portfolio. During 1991, management elected to offer the loan portfolio for sale, and has recorded as an allowance an amount considered sufficient to reflect the portfolio's net realizable value.

(3) DOMESTIC EQUITY POOL

The Fund, along with several other State of Alaska funds, has an investment in a domestic equity pool. The majority of the domestic equity pool is comprised of common stock with available cash balances invested in short term debt instruments. All accrued income and realized gains and losses are allocated monthly to each participating fund on a pro rata ownership basis. Income which is received by the domestic equity pool is distributed monthly in cash to each participating fund, first to accrued income allocated to any withdrawal by a participating fund, and second, in proportion to each fund's ownership of remaining accrued income. On October 31, 1992, the Fund's investment in the domestic equity pool is comprised of the following:

Domestic equities, at market	\$830,650,210
Interest and dividends receivable	<u>1,557,061</u>
Total	<u>\$832,207,271</u>

(4) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following on October 31, 1992:

Interest-bearing deposits	\$8,838,567
Unsettled investment transactions	(2,744,825)
Repurchase agreement	<u>254,000</u>
Total cash and cash equivalents	<u>\$6,347,742</u>

(5) INTERNATIONAL EQUITY POOL

The Fund, along with the Public Employees Retirement Trust Fund, formed an international equity pool during 1992. The majority of the international equity pool is comprised of common stock with available cash balances invested in short-term debt instruments. All accrued income, realized gains and losses and income received are allocated monthly to the two participating funds on a pro rata ownership basis. On October 31, 1992, the Fund's investment in the international equity pool is comprised of the following:

International equities, at market	\$108,221,646
Interest Receivable	<u>504,211</u>
Total	<u>\$108,725,857</u>

**STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
TEACHERS RETIREMENT TRUST FUND**

Notes to Financial Statements

(Continued)

(6) REAL ESTATE MORTGAGES

Real estate mortgages are comprised of the following on October 31, 1992:

Outstanding Principal:

Real estate loans current or less than 90 days past due	\$52,313,188
Real estate loans past due 90 days	6,507,794
Real estate acquired by foreclosure	<u>8,254,815</u>
Total Outstanding Principal	67,075,800
Unrealized Appreciation	<u>7,288,643</u>
Total Market Value	74,364,443
Allowance for Real Estate Loan Losses	<u>(12,598,009)</u>
Net Mortgages	<u>\$61,766,434</u>

(7) SAFEKEEPING RISK

The Teachers Retirement Trust Fund's deposits and investments are categorized below pursuant to Governmental Accounting Standards Board (GASB) Statement Number 3 and GASB Technical Bulletin Number 87-1 to give an indication of the level of safekeeping risk assumed by the Fund at statement date.

Deposits

1. Insured or collateralized with securities held by the State or by its custodian in the State's name.
2. Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.
3. Uncollateralized.

Investments

1. Insured or registered for which the securities are held by the State or its custodian in the State's name.
2. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
TEACHERS RETIREMENT TRUST FUND

Notes to Financial Statements

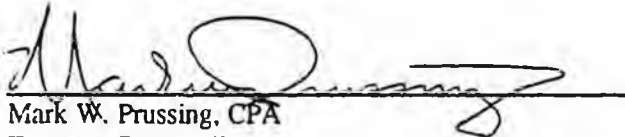
(Continued)

3. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent not in the State's name.

At statement date, all of the Fund's deposits and investments were considered to Category 1 with respect to safekeeping risk.

(8) COMPTROLLER'S OPINION

The financial statements presented herein were prepared from the books of account without audit, and no independent opinion on the fairness of these statements has been rendered.



Mark W. Prussing, CPA
Treasury Comptroller



ALASKA PUBLIC EMPLOYEES ASSOCIATION/AFT(AFL-CIO)

State Headquarters/Juneau Field Office
211 Fourth Street, Suite 306, Juneau, Alaska 99801
Telephone (907) 586-2334, (800) 478-9991, Fax 463-4980

February 1, 1993

Honorable Al Vezey, Chairman
House State Affairs Committee
Alaska State Legislature
Juneau, AK 99811

RE: Retirement Incentive Program, HB-36 & HB-42

Dear Representative Vezey,

The Alaska Public Employees Association/Alaska Federation of Teachers represents public employees at every level of government and throughout the state geographically. We represent state, municipal, borough, university and school district employees. Every one of the public employers we work with are facing the task of providing the same level of services at substantially less cost due to shrinking revenues. The Retirement Incentive Program (RIP), is an important tool for these entities to assist them in reaching this goal.

The RIP encourages senior employees, who are in the higher steps of salary and leave schedules to retire. Their retirement allows new employees to enter the system at entry level steps of those schedules, generating a significant savings. Without a RIP, these same public employers would be forced to lay people off, which reduces services to Alaskans and removes spendable income from Alaska's economy.

Passage of the RIP bill will allow the same level of services, at reduced costs, while maintaining employment. It also introduces new money in the Alaska economy by using the PERS and TRS money that is invested outside Alaska to be spent by the new retirees in the State.

The two previous RIP's saved public employers millions and millions of dollars. Other states and private companies have adopted similar measures as a way of reducing costs. California, as I recall, granted five years credit in their RIP.

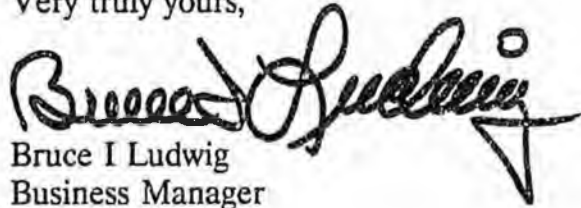
Anchorage Field Office
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February 1, 1993
Honorable Al Vezey
Page 2

At a time when all public entities in the State are faced with cutting services or raising taxes, the RIP offers a humane, sensible, cost-effective tool to these entities to mitigate the effect of shrinking resources. We encourage your committee to pass a RIP bill out with Do-Pass Recommendations.

Very truly yours,

A handwritten signature in black ink, appearing to read "Bruce I Ludwig". The signature is written in a cursive style with a large, stylized initial "B".

Bruce I Ludwig
Business Manager

BIL/ljh

January 30, 1993

Mr. Robert Stalnaker
Director, Division of Retirement and Benefits
PO Box 110203
Juneau, AK 99811-0203

MS 0203

Re: Retirement Incentive Program

Dear Mr. Stalnaker:

Thank you for taking the time to answer questions at our hearings on HB 36 this week. Your expertise in these matters has saved this committee considerable time.

If your office could furnish our committee with any studies or other information pertaining to the subject retirement funds and pertinent to the retirement incentive programs, we would be appreciative.

Some fundamental questions we would like to find an answer to include:

1. What is the average length of service for a PERS retiree?
2. Ditto a TRS retiree?
3. Ditto an Alaska Court System retiree?
4. Do you have a table of employer contribution rates under PERS going back as far as 1986? We are looking for something that would give us an indication of how the employer's contribution is changing.
5. Do you have data on retirees that might help us understand the impact on PERS of a R.I.P. program? The question we are after is what will the cost to the employer be if an employee elects to select the early retirement program?
6. My calculations show that the current unfunded pension fund obligations (guaranteed by the State) is approximately \$850 million dollars. Am I correct in assuming that this represents a 25 year

amortization of the current actuarial liabilities of the funds?

That is, at the current actuarial rate and at the current rate of contributions the funds are currently \$850 million short of their obligations. Using a simple time value of money calculation this would imply that it would take \$70,000,000 per year for 25 years to replenish this fund.

At this time do you know how much the State's contribution rate is going to have to be increased to make up for this shortfall?

7. Do you have suggestions as to what changes could be made in Alaska's retirement laws to make these funds more actuarially sound or more correctly to make meeting the funds obligations less expensive?

8. Our committee has questions about the retirement funds that will require an actuarial evaluation. Do you have a suggestion as to where we could get these services?

9. The 1986 and 1989 R.I.P programs provided for the employer to make the necessary contributions to the fund over a three year period. HB 36 requires that the effect on the funds be funded by the employer over a 5 year period. Will this increase the total cost of the program to the state? Will this enable the employer to replace persons who opt out with higher paid persons than they would have been able to under a 3 year evaluation program?

10. What is the formula that will be used to determine if there is a savings? Will it effect the employer's contribution rate?

11. What changes in current law could be made that would encourage employees to take advantage of the RIP?

Sincerely,

Rep. Al Vezey



Alaska Court System
State of Alaska

OFFICE OF ADMINISTRATIVE DIRECTOR

303 K Street
Anchorage, Alaska 99501

ROBERT G. FISHER
Manager of Fiscal Operations

February 4, 1993

FEB 8 2000

Representative Al Vezey
Alaska State Legislature
Capitol Building, Room 102
Juneau, Alaska 99811

Dear Representative Vezey:

Art Snowden asked me to respond to your request for information on potential savings from the participation of the Administrative Director position in Retirement Incentive Program.

In analyzing possible savings, it is my understanding that the Supreme Court would consider certain changes to the position's salary and the level of support staff assigned to the position. If adopted by the Supreme Court, these changes would result in savings to the court system.

If the Supreme Court changes the salary of the director position to that of a superior court judge, an annual savings of \$6,115 will occur. If the legal assistant position assigned to the director is eliminated, an annual savings of \$46,311 will result. The retirement incentive program uses a five year period for calculating savings. For a five year period, the combined savings are \$262,130.

Please let me know, if you need additional information.

Sincerely,

Robert G. Fisher

cc: Arthur H. Snowden, II

020493a



Official Business

Alaska State Legislature

HOUSE OF REPRESENTATIVES

State Capitol
Juneau, AK 99801-1182

HOUSE STATE AFFAIRS COMMITTEE 1/28/93

SPONSOR STATEMENT: Representative Bill Hudson

LEGISLATION: HB 42- "An Act relating to retirement incentive programs...and providing for an effective date."

THE BILL BEFORE YOU WOULD ESTABLISH A RETIREMENT INCENTIVE PROGRAM- BETTER KNOWN AS RIP. THE PROGRAM'S OVERRIDING PURPOSE IS TO SAVE PUBLIC DOLLARS (FOR THE STATE AND OTHER PUBLIC EMPLOYEES). WITH STATE REVENUES PROJECTED TO DECLINE OVER TIME, THIS PROGRAM IS NEEDED NOW MORE THAN EVER.

AS IN THE PRIVATE SECTOR, PUBLIC MANAGERS NEED AS MANY TOOLS AS POSSIBLE TO HOLD DOWN OPERATING COSTS. ONE MAJOR COST AREA IS PERSONNEL. CURRENTLY, UNLIKE THE PRIVATE SECTOR, PUBLIC MANAGERS DO NOT HAVE THE AUTHORITY TO PROVIDE RETIREMENT INCENTIVES. (HIGH-COST EMPLOYEES CANNOT BE ENTICED TO MAKE ROOM FOR NEW LOWER-COST

EMPLOYEES.) THIS BILL WILL PROVIDE PUBLIC MANAGERS WITH THAT AUTHORITY.

PROGRAM HIGHLIGHTS:

-THIS BILL ESTABLISHES A COMPREHENSIVE RIP PROGRAM-
COVERING STATE AGENCY, UNIVERSITY, TEACHERS,
ADMINISTRATIVE DIRECTOR OF THE COURT AND LOCAL
GOVERNMENT EMPLOYEES.

-THE PROPOSED RIP PROGRAM IS ENTIRELY VOLUNTARY.

(NEITHER THE EMPLOYEE NOR THE EMPLOYER MAY BE FORCED TO
PARTICIPATE)

-PARTICIPATION REQUIRES A DEMONSTRATION IN SAVINGS.

(A RIP PLAN MUST MAXIMIZE THESE SAVINGS, IN PERSONAL
SERVICES, WITHIN FIVE YEARS OF ADOPTION)

-OMB HOLDS ABSOLUTE AUTHORITY OVER THE APPROVAL OF
ANY RIP PLAN SUBMITTED BY A STATE AGENCY. (IN FACT, OMB CAN
ONLY APPROVE PLANS THAT MEET THE COST SAVINGS
REQUIREMENTS. FURTHERMORE, OMB MAY ISSUE INSTRUCTIONS
REGARDING ASSUMPTIONS, PROCEDURES AND METHODS TO BE USED

TO DETERMINE PARTICIPANT ELIGIBILITY AND CALCULATE SAVINGS).

-THE RIP PROGRAM IS DESIGNED TO MAXIMIZE LOCAL CONTROL. THE DECISION TO PARTICIPATE IS MADE AT THE LOCAL LEVEL, AS IS ESTABLISHING PROGRAM RULES AND CRITERIA.

-OMB SHALL DOCUMENT, IN THE BUDGET, SAVINGS REALIZED BY AGENCY ADOPTED RIP PLANS. FURTHERMORE, OMB SHALL SUBMIT TO THE LEGISLATURE ANNUAL REPORTS DETAILING COSTS PER PARTICIPANT, COST TO THE STATE, COST TO THE EMPLOYEE AND THE PROJECTED OR ACTUAL NET SAVINGS OVER THE FIVE-YEAR PERIOD. (THIS PROVISION WAS INCORPORATED AT THE SUGGESTION OF LEGISLATIVE AUDIT)

-THIS ACT IS TEMPORARY. (THE PROGRAM WOULD TAKE EFFECT IMMEDIATELY/ REPEALED JULY 1, 1995)

ITS IMPORTANT TO REMEMBER THAT RIP PROGRAMS ARE NOT SOMETHING NEW TO ALASKA. THE LEGISLATURE ADOPTED TWO SUCH PROGRAMS IN THE PAST (1986 AND 1989). IN BOTH CASES COST SAVINGS TO THE STATE ARE WELL DOCUMENTED (LEGISLATIVE AUDIT REPORTS HAVE BEEN PROVIDED TO THE

COMMITTEE). ACCORDING TO THESE AUDITS, THE 1986 PROGRAM PRODUCED A NET SAVINGS TO THE STATE OF \$14,449,000 WHILE THE 1989 PROGRAM PRODUCED A SAVINGS OF \$22,900,000.

PROGRAM MECHANICS:

OMB IS RESPONSIBLE FOR ISSUING DETAILED GUIDELINES FOR STATE AGENCIES TO FOLLOW IN IMPLEMENTING RIP. EMPLOYEES WISHING TO PARTICIPATE HAVE TO MEET, AT A MINIMUM, THREE REQUIREMENT LEVELS IN ORDER TO QUALIFY-

1. PERSONAL ELIGIBILITY- BASIC REQUIREMENTS OF AGE, LENGTH OF SERVICE AND STATUS WITH REGARD TO PERS OR TRS;
2. DESIGNATED ORGANIZATIONAL UNITS- THE INDIVIDUAL HAS TO BE EMPLOYED IN A POSITION FALLING WITHIN AN AGENCY ASSIGNED JOB CLASSIFICATION, AND AUTHORIZED IN AND PAID FROM A DESIGNATED ORGANIZATIONAL UNIT. AGENCIES HAVE, IN PAST PROGRAMS, BEEN GIVEN COMPLETE FREEDOM TO SELECT JOB CLASSIFICATIONS AND ORGANIZATIONAL UNITS OF THE GREATEST OR LEAST DETAIL;
3. CERTIFICATION OF SAVINGS- AGENCIES ARE REQUIRED TO FORWARD EVIDENCE OF COST SAVINGS TO OMB. OMB MUST CERTIFY THE COST SAVINGS CALCULATION.

AFTER AN INDIVIDUAL IS CERTIFIED ELIGIBLE, THEY ARE AWARDED 3 YEARS OF CREDITED SERVICE; FUNDS MAY THEN BE ENCUMBERED TO PAY THE COST OF RIP (RETIREMENT BENEFIT CONTRIBUTIONS AND, AS NECESSARY, ADMINISTRATIVE COSTS).

SAVINGS, UNDER THE RIP PROGRAM, CAN BE ACHIEVED IN ONE OF THREE WAYS:

1. A POSITION HELD BY A PERSON RETIRING UNDER THE PROGRAM COULD BE FILLED BY SOMEONE AT A LOWER STEP OR RANGE;
2. THE POSITION COULD BE RECLASSIFIED DOWNWARD;
3. THE POSITION COULD BE HELD VACANT.

SUPPLEMENTARY

*ON THE NEXT PAGE YOU WILL FIND A TABLE, PRODUCED BY LEGISLATIVE AUDIT, THAT DEMONSTRATES HOW RIP SAVINGS ARE CALCULATED.

CONCLUSION:

THE GREATEST CHALLENGE ALASKA FACES TODAY IS LEARNING TO LIVE WITH LESS. HOW CAN WE CUT COSTS, YET STILL PROVIDE BASIC SERVICES DESIRED BY THE PUBLIC? IN SHORT, HOW CAN WE MAKE GOVERNMENT MORE EFFICIENT? I BELIEVE A RIP PROGRAM OFFERS PART OF THE ANSWER. ITS COST SAVINGS ARE WELL DOCUMENTED BY LEGISLATIVE AUDIT.

PLEASE GIVE THIS LEGISLATION CAREFUL CONSIDERATION. I WELCCME YOUR SUPPORT.

Factors typically involved in the calculation of RIP savings are illustrated by the following example:

An individual otherwise eligible for participating in RIP has an annual salary of \$40,000. The individual has fixed benefit costs of \$2,000 and other benefit costs that represent 10% of his salary. It is assumed that the employee would receive salary increases of 5% a year over the next two years, if he continued working. The employer contribution costs required to provide the three additional years of service under RIP is \$20,000. The projected costs of the RIP participant would be calculated as follows:

	Salary	Fixed Benefits	Other Benefits	Total Projected Costs
Year 1	\$40,000	\$2,000	\$4,000	\$ 46,000
Year 2 (Year 1 salary + 5%)	42,000	2,000	4,200	48,200
Year 3 (Year 2 salary + 5%)	44,100	2,000	4,410	50,510
Projected Salary and benefit Costs of RIP Participant				\$144,710

If the replacement for the RIP participant is paid \$32,000 with the same assumptions, then the projected salary and benefit costs would be calculated as below:

	Salary	Fixed Benefits	Other Benefits	Total Projected Costs
Year 1	\$32,000	\$2,000	\$3,200	\$ 37,200
Year 2 (Year 1 salary + 5%)	33,600	2,000	3,360	38,960
Year 3 (Year 2 salary + 5%)	35,280	2,000	3,528	40,808
Projected Salary and Benefit Costs of the replacement employee				\$116,968

The difference of \$27,742 in the projected costs (\$144,710 - \$116,968) represents gross savings attributable to RIP. This total is reduced further by the \$20,000 employer's contribution costs and the \$140 administrative fee charged by the Division of Retirement Benefits.

In this situation, the net RIP savings are estimated as \$7,602. This savings is generated from the incremental difference between the projected salary and benefits of the RIP participant and the replacement (\$27,742), reduced by cost to the employer of providing the retirement incentive of the incentive (\$20,000 the employer must pay), and the administrative fee paid to the Division of Retirement and Benefits (\$140). If the RIP participant's position had been eliminated, the estimated savings to the employer would have jumped to \$124,568 (\$144,710 - \$20,000 - \$140).

Example of how RIP Savings are estimated

State of Alaska

Rep. Al Vezey
Chairman
Rep. Pate Kott
Vice Chairman
Rep. Bettye Davis
Rep. Gary Davis
Rep. Harley Olberg
Rep. Jerry Sanders
Rep. Fran Ulmer



House State Affairs Committee

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State Capitol
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Suite 211
Fairbanks, AK 99701
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Testimony for House Finance Subcommittee on January 28, 1993
for the Department of Transportation by Commissioner Turpin,
addressing Representative Richard Foster, Chairman and House
Finance Subcommittee, on the subject of the RIP program.

Question:

Chairman Foster: "Commissioner, I know that you had 499.9 thousand dollars reduction in the RIP program, it is my understanding that it was 499.9 thousand dollars that we had to fund a general fund, to cover those non general fund employees, who participated in the program. "I guess my question is this, did the last RIP program save your agency money and is the effectiveness of the agency as strong as it was before? "Just give me any information that you have regarding the RIP program and how it effected your agency."

Answer:

Commissioner Turpin: "Mr. Chairman, we have not calculated that figure that you really are asking, but I can tell you my intuition of it is that we lost a lot of valuable experience in that RIP program." "That has a lot of hidden costs that numbers of people just don't tell you the full story." "I have found time after time. people have told me that we had the man that was doing that job beautifully, but he chose to take the RIP program and he's no longer here." "I feel we lost an awful lot, and I'm afraid another RIP program would be the same thing."



ALASKA STATE EMPLOYEES ASSOCIATION
AFSCME Local 52, AFL-CIO

February 10, 1993

Honorable Al Vezey, Chairman
House State Affairs Committee
Alaska State Legislature
Juneau, AK 99811

Re: Retirement Incentive Program -- HB 36

Dear Representative Vezey,

ASEA/AFSCME Local 52 is the labor organization that represents the 8,600 members of the General Government Unit of the State of Alaska. I was denied the opportunity to speak at the Feb. 9, 1993 public hearing due to time constraints of the committee. Please accept this letter as my written testimony.

I have the following points to convey to you regarding this RIP legislation:

- 1) The 1986 and 1989 RIP legislation saved millions of dollars to state and local government as well as school districts across the State of Alaska.
- 2) The General Fund dollars saved made it possible, in part, for public services to be maintained. This meant state and local government employees were able to continue providing essential services without the normal inflationary increases associated with maintenance of services. Similar savings were experienced by school districts.
- 3) Public employees care greatly about the services they provide and they do not look at the RIP as an additional benefit. Rather, they view it as a way to hold the line on costs which enables them to continue the level of services that the public expects and deserves.

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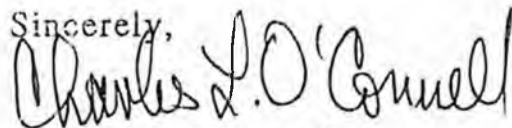
I am sorry that I was unable to testify, but I found the testimony interesting. For example, Mr. Stalnaker stated: "If the individual employee represents a savings, fine -- they either do or they don't." It appears he is saying that a well-administered RIP program can, in fact, be a cost savings. It is statistically possible to determine whether an individual's early retirement represents a savings. Therefore, if the argument is made that the RIP does not represent a savings, that argument is sophistry.

The RIP program can and should be administered in such a way that it does represent a savings. The Legislature should see to it that this bill passes and is properly administered.

Finally, with regard to costs, I would ask that in future discussions you and the committee discuss apples and apples. For example, how much more would the state and municipalities have spent on wages, PERS, TRS, SBS, FICA, ESC and other benefits if there had not been a RIP in 1986? Or in 1989?

Thank you for your attention. Maybe next time I travel to Juneau we will be able to talk face to face.

Sincerely,



Charles L. O'Connell
Business Agent III



NEA-ALASKA

Affiliated with the National Education Association

Vernon Marshall
HB 36
2/9/93

POSITION PAPER RETIREMENT INCENTIVE PROGRAM

NEA-Alaska supports utilization of a retirement incentive program (RIP) as a cost effective means to reduce school district personnel costs, thus reducing the cost of school district operation, during a time when the student population is increasing but additional funding is not being provided to adequately address the educational need of our children.

The incentive program utilized in HB 36 is fair because the decision to exercise the incentive option rests with a qualifying employer and employee thus avoiding an arbitrary, capricious or irrational application of the RIP. Additionally, if it is the intent of the Legislature and the Administration to reduce the cost of state government, this is an excellent opportunity to achieve that goal without harming any employees at the upper or lower end of the salary schedule. Absent this RIP opportunity in order to achieve the goal of cutting operating costs through reduction of staff, school districts and government would be forced to lay off the less experienced employees thus creating a hardship on younger employees and their families.

HB 36 provides certified and non-certified school employees the benefits of the retirement incentive. NEA-Alaska represents over 8,700 members; 2,000 of which are non-certified Educational Support Personnel. The bills extend the benefits of RIP to all school employees.

The retirement incentive program offers school district administrators an opportunity to reduce staff at the top end of the salary schedule and replace those reduced with employees who could be hired at the lower end of the salary schedule. If school administration carefully employs equally qualified but less experienced teachers and support employees, a school district will net a reduction in operating costs. Furthermore, the decision to trigger the RIP program rests with the employer.

The RIP offers experienced employees an early retirement option by providing them a credit of three additional years of service provided the employer and employee pay the actuarial cost of that service. This bill will not overly encourage experienced school employees to

retire since many would likely retire within three to five years anyway.

We commend the sponsor of the bill for introducing a fair and effective way to deal with economic uncertainty, while at the same time presenting an equitable and fair plan for the employees of Alaska's schools and state government.

2/3/93

ANCHORAGE SCHOOL DISTRICT
ANCHORAGE, ALASKA

Vann Marshall
HB. 36
2/9/93
P. 211

MEMORANDUM

February 3, 1993

TO: ROB PFISTERER, AEA PRESIDENT

FROM: BOB CHRISTAL, SUPERINTENDENT (ACTING)

SUBJECT: ANCHORAGE SCHOOL DISTRICT'S POSITION ON
RIP PROGRAMS

Bob Christal
by Janet Stokaber

The Anchorage School District has supported Retirement Incentive Programs in the past because they are of benefit to the District and the employees. Substantial cost savings have occurred through past participation.

In the 1986-87 program for the Teachers' Retirement System-RIP, 245 individuals participated for an estimated net savings over five year of approximately \$13.9 million.

In the 1989-90 program for the TRS-RIP, 204 individuals participated for an estimated net savings over a five years of approximately \$6.6 million.

If we can determine that future programs will result in cost savings to the District, we will recommend participation.

cl

cc Representative Loren Leman

REPRESENTATIVE
JERRY MACKIE

P. O. BOX 73
CRAIG, ALASKA 99921
(907) 825-3008 OFFICE
(907) 826-2930 HOME

CHAIRMAN,
COMMUNITY & REGIONAL AFFAIRS COMMITTEE

VICE CHAIRMAN,
TRANSPORTATION COMMITTEE

Alaska State Legislature



House of Representatives

WHILE IN JUNEAU
ALASKA STATE CAPITOL
JUNEAU, ALASKA 99801-1182
(907) 465-4925

January 19, 1993

MEMORANDUM

To: Representative Vezey, Chair
House State Affairs Committee

From: Representative Mackie *JM for*

Re: Scheduling of HB 36, Retirement Incentive Program.

I respectfully request a State Affairs Committee hearing of HB 36, scheduled a your earliest convenience. This bill is a major consideration and I believe the committee will want to thoroughly understand its provisions and their implications. I will have a sponsor statement, sectional analysis, and fiscal notes (hopefully) to you tomorrow.

I certainly am ready to assist the committee in inviting knowledgeable testimony from affected interests and concerns.

Thank you for your attention to this request.

State of Alaska

**Teachers' Retirement
Trust Fund**

1992 Annual Report of Assets

A Pension Trust for Teachers

State of Alaska
Department of Revenue, Treasury Division
P.O. Box 110400, Juneau, Alaska 99811
(907)465-2300

Organization

TRS Board Members

Charles M. Arteaga, Chair
Dorothy Wells, Vice-Chair
Cliff Koivisto
Roger Aldrich
Stephanie Winsor

Staff

Commissioner

Darrel J. Rexwinkel

Deputy Commissioner

Brian C. Andrews

Chief Investment Officer

Robert D. Storer

Comptroller

Mark W. Prussing, CPA

Investment Officers

Michael S. Cheung, Marketable Debt
Martin W. Lentz, Real Estate

Cash Management

Vernon B. Voss

Investment Operations Advisory Committee

John W. English, Chairman
*Ford Foundation, Vice-President & Chief
Investment Officer*
Mark T. Finn
Delta Financial, Inc., President
Ronald J. Surz
Centurion Trust Company

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This report provides information on the management of the assets of the Teachers' Retirement System (System). The related pension liabilities and the financial well-being of the System as a whole are presented in the annual report of the System which is published each December by the Alaska Department of Administration, Division of Retirement and Benefits.

Commissioner's Message

I am pleased to present the Department of Revenue's second annual Teachers' Retirement Trust Fund (Fund) Report of Assets. The successes of managing the Fund in fiscal year 1992 were many. The Treasury Division within the Department was instrumental in achieving the successes.

When we ended the 1992 fiscal year, the Fund had grown to \$2.0 billion dollars. This growth was established by investment earnings of \$208.8 million and net contributions of \$2.1 million. My responsibility for the continued positive investment performance of the Fund is one which I take very seriously.

The \$208.8 million dollars of investment income represents an investment return to the Fund of 11.2%. The actuarial rate of return assumption adopted by the Teachers' Retirement System (TRS) board is 9.0%. The investment rate of return assumption is used by the actuary to calculate the funding requirements of the TRS. When the actual investment performance exceeds the investment assumption rate, a higher "funding ratio" will result.

The "funding ratio" (i.e. the ratio of plan assets to actuarial liabilities) is a measure of the financial health of retirement plans. A plan is said to be "fully funded" when its assets are equal to its actuarial liabilities. The differences in actuarial assumptions that underlie the calculations, however, make a precise measurement difficult.

For the 1991 fiscal year, the funding ratio for TRS fell by 2% to 88%. The primary reason for this decrease was the actuarial change to the TRS demographics. At 88% TRS would still be considered financially sound. Fiscal year 1992's positive investment performance will help achieve a higher "funding ratio" for TRS. My goal is to manage the Fund's investments so investment earnings continue to make positive contributions toward achieving a 100% "funding ratio."

To achieve this goal within the investment standards expected of a prudent investor, I authorized the following strategic management activities to take place:

- Dorn & Helliesen, an investment advisory firm, was selected to help us with the development and implementation of an asset allocation plan for the Fund. The asset allocation plan addresses further portfolio asset diversification to include small-cap domestic equity stocks and international fixed-income securities.
- We continued to use the Investment Operations Advisory Committee for investment management review and recommendations.

-
- I assisted with drafting legislation which created an eight member Alaska State Pension Investment Board (Board). This legislation was enacted and signed into law, becoming effective July 1, 1992. The eight member board will assume the fiduciary responsibility of the Fund's assets by July 1, 1993. Formation of the Board is underway with the first meeting slated for January 1993. Four members (two members each) from the Teachers' Retirement System and Public Employees' Retirement System will be elected. Three members will be appointed by the Governor. One of these members will represent participating employers of the TRS. The Commissioner of Revenue is statutorily named to the Board.

The Board represents a blending of plan sponsor and beneficiary interests. All Board members will be subject to the prudent investor standard. This standard requires all investments of the Fund be made with the care, skill and diligence of a prudent professional with investment expertise.

- The following people were hired during the past year: Brian C. Andrews as Deputy Commissioner, Treasury; Robert D. Storer as Chief Investment Officer; and Mark W. Prussing as Treasury Comptroller. Their experience and expertise have lent themselves well to the investment management of the Fund.

It is clear by the positive investment return for fiscal year 1992 that the above management activities will contribute positively to a "fully funded" TRS status and will lower the contribution rate requirement from the plan sponsors and participating employers in the years to come.

As fiduciary to the Fund, I pledge to continue the management of the Fund's assets in the best interest of the beneficiaries.

I welcome any comments or questions you may have regarding the report.



Darrel J. Rexwinkel
Commissioner of Revenue

1992 Annual Financial Review

Creation and Purpose

The Teachers' Retirement System Trust Fund (Fund) is established by Alaska Statute 14.25.010. The Fund holds the assets of the Teachers' Retirement System (TRS). These assets are comprised of investments of various kinds, predominantly stocks and bonds. The Fund was created to pay retirement benefits to employees participating in the retirement plan administered under the TRS. The retirement plan is a defined-benefit plan in which benefit levels for each employee are determined by length of employment and highest average salary. The plan is a joint-contributory plan in which both the employee and the employer make continuing contributions, calculated as a percentage of current salary. Employee contribution percentages are fixed by statute. Employer contributions are determined annually by the TRS board based on evaluations of the Fund by a consulting actuary. The plan is considered to be perpetual because it applies to future as well as current employees and because the employers (State and municipal governments or political subdivisions) are perpetual in nature.

Participating employers are bound by the Alaska Constitution to pay the plan's benefits. Although benefits could be paid on a pay-as-you-go basis, the existence of a Fund serves two purposes. For the employer, it distributes contributions over an employee's years of service. For the employee, it provides a form of assurance that employers will meet their obligations.

Fiscal 1992 Annual Financial Results

Market Environment

After the United States' success in the Gulf War, fiscal year 1992 started out with signs of a strong economic recovery. However, as the year progressed, certain economic conditions continued to hinder the strength of this upturn. Money supply continued to increase at a slow rate of 2% a year, the housing sector was only able to post a modest recovery and the reluctance of financial institutions to extend credit continued to impede economic growth.

The recovery had clearly stalled by December 1991. In a desperate move, the Federal Reserve Bank cut the discount rate a full percentage point during that month in order to prevent the economy from sliding back into a recession. Prompt actions by the Federal Reserve Bank improved market psychology. As a result, consumer spending increased by a 4.9% annual rate during the third quarter of fiscal year 1992. In turn, Gross Domestic Product grew at a 2.7% annual rate during the same quarter.

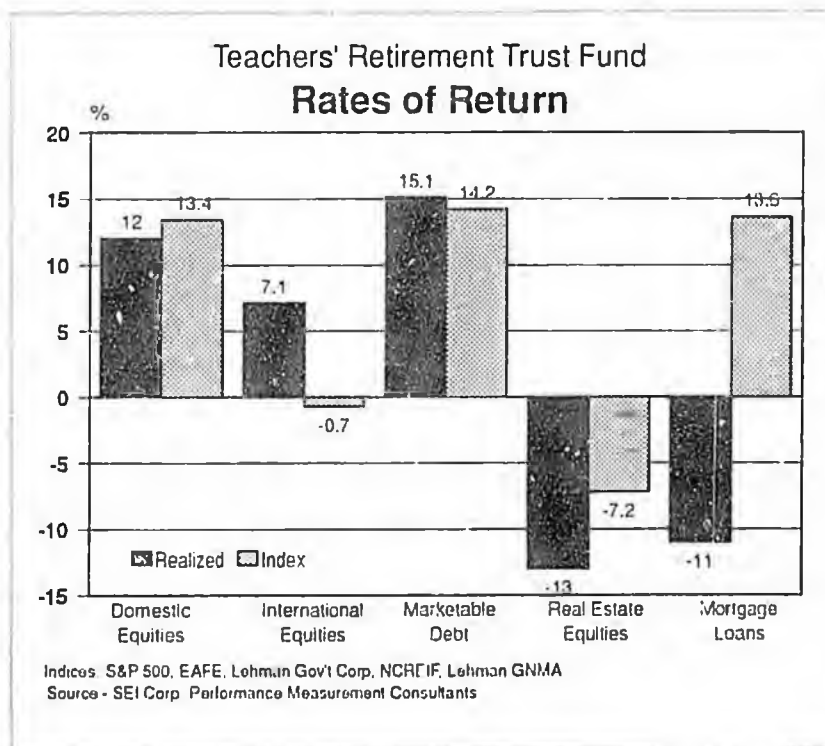
During the fourth quarter, however, economic signs again pointed toward a lackluster recovery. The strength in consumer spending that was seen in January and February faded as consumers turned cautious. Industrial production only improved slightly and employment reports continued to signify a bleak employment situation. This prompted the Federal Reserve Bank to lower the discount rate from 5.5% to 3.5%.

An accommodating monetary policy such as this typically results in a vigorous economic recovery, along with strong growth in money and credit. However, even with the economic throttle wide open, the economy was slow to accelerate. This may be due to the significant increase in the assets outside the banking system and structural problems such as the large Federal deficit.

The weak economy and an accommodating Federal Reserve Bank enabled marketable debt investments to provide returns higher than those achieved by equities. In FY 1992, the Lehman Brothers Government/Corporate Index posted a 14.20% return. A low interest rate environment, coupled with an anticipated strong economic recovery, resulted in a lower, but still strong, performance from the equity market. The Standard & Poor's 500 Index posted a 13.4% return for the fiscal year.

Total Fund Returns

The Fund earned \$158.1 million in realized net income in FY 1992 versus \$127.6 million in FY 1991. Realized net income is cash actually received by the Fund, such as dividends paid on stocks, interest paid on bonds, fees and other income earned on equity real estate and realized capital gains. Realized capital gains were \$56.3 million in FY 1992 and \$17.5 million in FY 1991.



Total return measures realized net income plus the net change in unrealized gains and losses. On a total return basis, the Fund earned \$208.8 million in FY 1992 as compared to \$124.1 million in FY 1991. This amount includes both the realized income of \$158.1 million and a \$50.7 million net increase in unrealized gains.

The rate of return for the Fund for FY 1992 was 11.2%. Of the Fund's major asset classes, marketable debt securities contributed the highest economic rate of return, followed by domestic equities and then international equities. Mortgage loans and real estate

equities had negative returns for the fiscal year. The five year rate of return (annualized, time-weighted, rolling average) as of June 30, 1992 was 8.8%. This is near the actuarial assumption of a long-term rate of return of 9.0% for future periods.

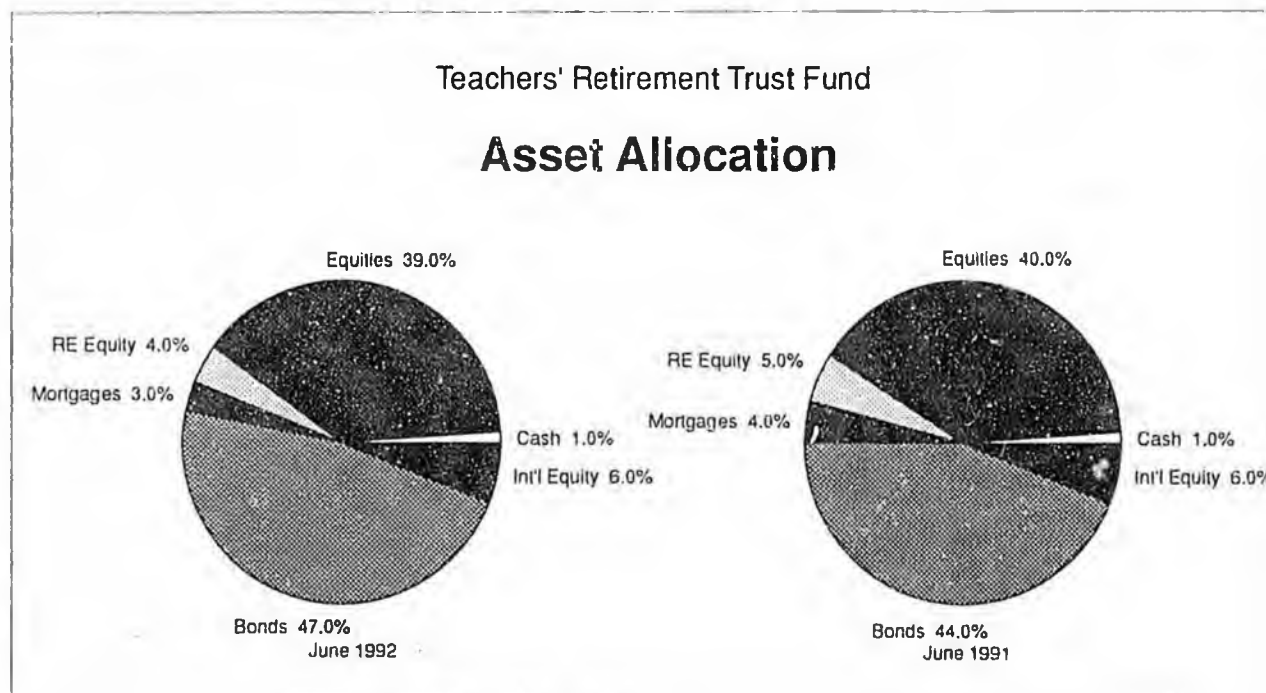
Asset Allocation

Marketable Debt Securities

Marketable debt securities, consisting of high quality investment grade securities, accounted for 47.5% of the total Fund assets at fiscal year-end. This allocation was comprised of 48% Federal Government and Agency securities and 52% high grade corporate bonds. Over 98% of the Fund's debt securities have an "A" rating or better. The weighted average life of the debt portfolio at fiscal year-end was just under 10 years. Investment management emphasized the 6 - 10 year maturity range because securities in this range tended to provide higher rates of return while protecting against the price volatility typical of longer maturities. At the end of FY 1992, the Fund had 44% of its debt securities in this maturity sector.

During the fiscal year, the yield of the 30 year U.S. Treasury bond declined from 8.41% to 7.78%. In a period of declining interest rates, a strategy of investing in longer maturities has a positive effect on investment results. For this reason, investment management structured a portfolio of debt securities with an average maturity which is moderately longer than many corporate or state portfolios. The portfolio earned a total return of 15.1% in FY 1992 which is .90% above the benchmark index return of 14.2%.

Interest earned on debt securities in fiscal year 1992 totaled \$74 million. The fiscal year ended with realized gains of \$15 million and unrealized gains of \$35 million. Investment management was a net buyer of \$95 million of debt securities during the fiscal year.



Domestic Equities

The calendar year closed seeing the Dow Jones Industrial Average (3,168) and the S & P 500 Index (417) rallying to all time highs from the six month low on December 10, 1991 (2,863). This 305 point rally over a three month period illustrates the need to be fully invested at all times. Uncertainty about the economic environment during the last six months of the fiscal year produced mixed results for the domestic equity market. For the fiscal year, the Dow Jones Industrial Average had a positive return of 17.7% and the broader based S & P 500 Index returned 13.4%.

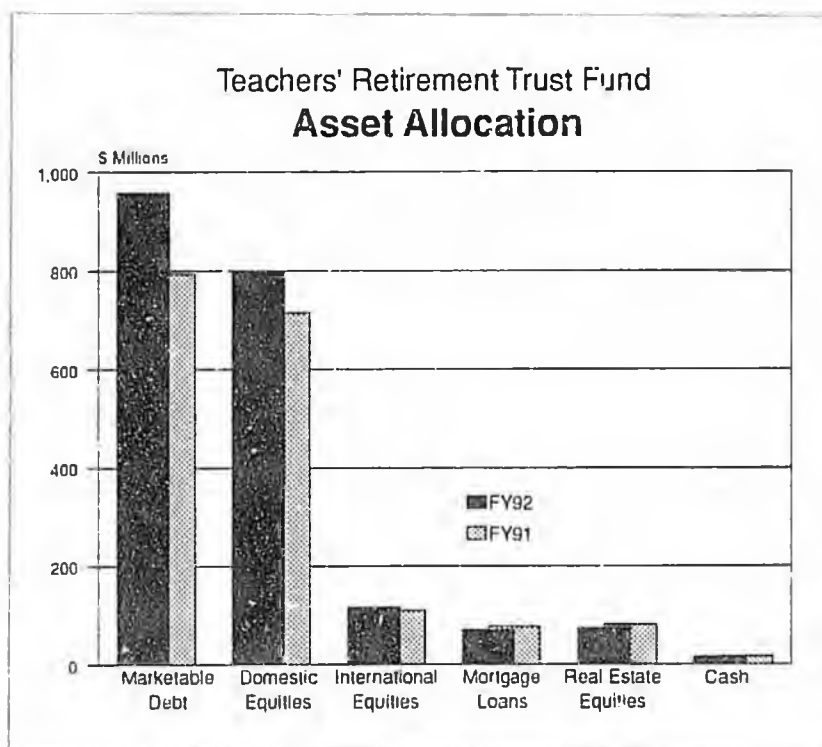
The structure of the Fund's domestic equities changed in December with the dismissal of United Capital Management as an equity manager. The funds were transferred to Invesco Capital Management. The indexed portion of the domestic equities was also restructured from an S & P 100 emphasis to an S & P 500 weighting. During FY 1992, the domestic equity portion of the Fund increased by \$80.4 million to \$795.7. This asset class represented 39% of the total Fund and provided a return of 12% for the fiscal year compared to the S & P 500 index return of 13.4%.

Investment management believes that the changes outlined above, along with anticipated changes in FY 1993, will improve the Fund's domestic equity performance.

International Equities

Despite the 21% drop in the Japanese stock market during the fiscal year, the Fund's international equity allocation had a rate of return of 7.1%. The overall EAFE index ended the fiscal year with a return of -.7%. The Fund's favorable performance was due to the managers' under-weighting of the Japanese market.

For the fiscal year, international equities increased \$6.8 million to total \$116.7 million, representing 5.8% of the total portfolio.



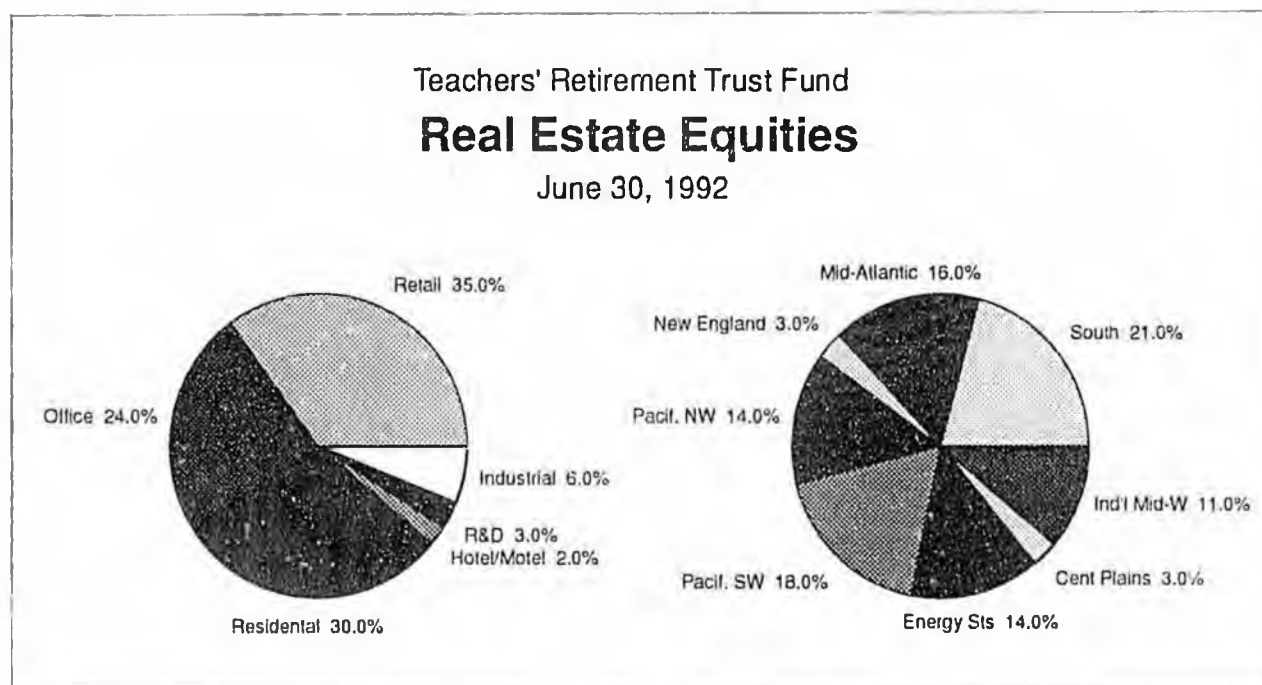
Real Estate Equities

The real estate equity allocation is a holding of commingled funds consisting of diversified properties. The market value of real estate equities decreased during the fiscal year by \$10.3 million to total \$70.5 million, providing a return of -13.0% compared to the NCREIF index return of -7.2%. The real estate equity allocation comprised 3.6% of the Fund as of fiscal year-end.

These institutional-grade funds are managed by seven professional real estate investment firms. TRS invested in these funds principally in 1980 and 1984. No new investments have been made since 1987.

The real estate industry is in one of the most difficult periods in decades. In general, real estate markets are suffering from over-building in virtually all market sectors. The good news is that new construction across the country is virtually at a standstill.

As the economy improves and excess capacity is absorbed, this investment class of assets should improve in overall performance. Investment management believes the real estate equity allocation is positioned to realize future returns more quickly than the benchmark NCREIF index because of the Fund's bias toward retail and multifamily sectors.



Real Estate Mortgages

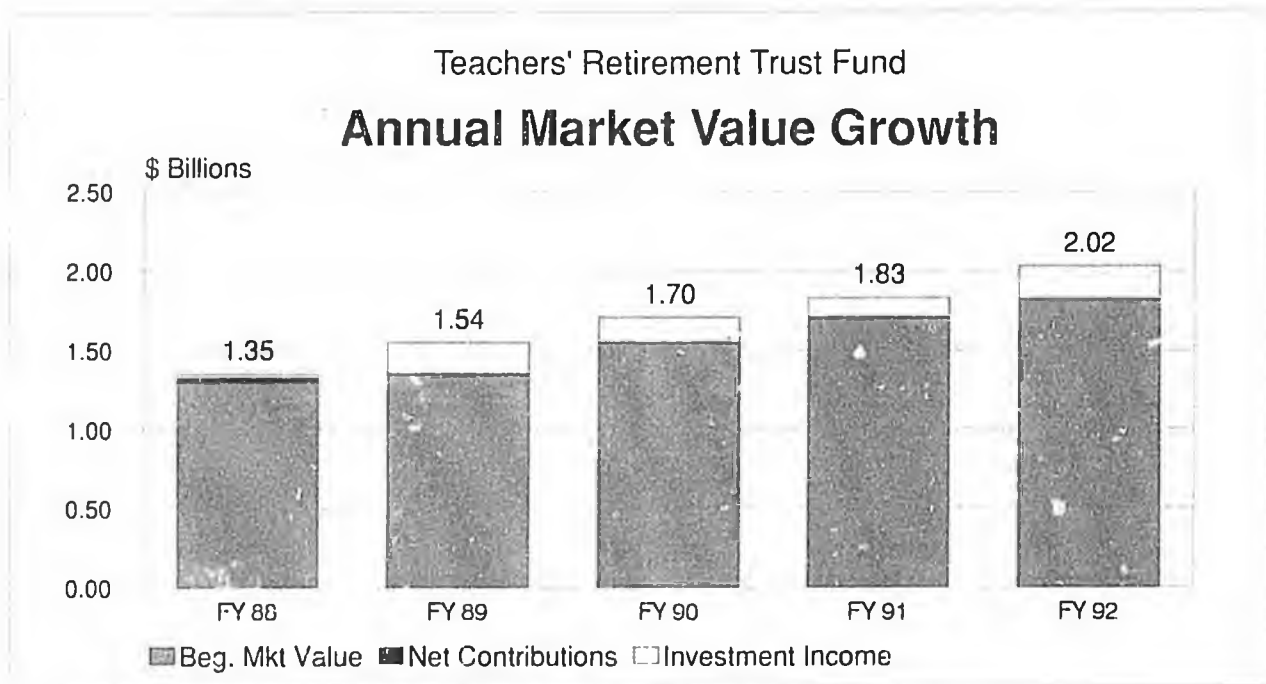
The Fund continued its investment policy of not making direct residential and commercial real estate loans, due to the low liquidity, high risk, and administrative expense of this type of investment. The market value of real estate loans totaled \$66.0 million at year-end representing 2.9% of the total Fund. This allocation returned -11.0% for the year ending June 30, 1992. A major reason for this performance was management's decision to increase the allowance for loan

loss to reflect an estimated market value. This presentation of a net realizable market value is consistent with the presentation of other asset allocations of the Fund.

Conclusion

The assets of the Fund came into being and have grown because employers and employees have paid more into the Fund in the form of contributions and earnings on those contributions than has been paid out in benefits. Investment returns have significantly increased the Fund's assets. Contributions from participants approximately match benefits by design in order to provide reasonable assurance that sufficient assets will be available to make benefit payments when they are needed.

The Fund continues to be a well diversified, prudently managed portfolio to insure the growth and stability of the Fund for current and future participants.



Independent Auditors' Report

State of Alaska
Department of Revenue
Treasury Division

We have audited the accompanying balance sheets of the Teachers' Retirement Trust Fund (Fund) as of June 30, 1992 and 1991, and the related statements of investment income and changes in fund balance restricted for beneficiaries, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1, the financial statements of the Teachers' Retirement Trust Fund represent only the investment portfolio of the State of Alaska Teachers' Retirement System.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers' Retirement Trust Fund as of June 30, 1992 and 1991, and the results of its investment operations and changes in fund balance, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

September 4, 1992

KPMG Peat Marwick

KPMG Peat Marwick
Certified Public Accountants
601 West Fifth Avenue, Suite 700
Anchorage, Alaska 99501-2258

Member Firm of Klynveld Peat Marwick Goerdeler

Balance Sheets

June 30, 1992 and 1991
(000's omitted)

<u>ASSETS</u>	<u>1992</u>	<u>1991</u>
Investments, at market		
Marketable securities:		
U.S. Government debt	\$ 424,620	\$ 420,898
Federal agency debt	22,846	-
Corporate bonds	493,450	372,433
Domestic equity pool	795,659	15,287
International equity pool	<u>116,680</u>	<u>109,947</u>
Total marketable securities	1,853,255	1,618,565
Mortgage loans	78,525	82,941
Allowance for loan losses	(12,598)	(4,574)
Net mortgages	65,927	78,367
Real estate equities	<u>70,478</u>	<u>80,828</u>
Total investments	<u>1,989,660</u>	<u>1,777,760</u>
Receivables:		
Interest	19,168	17,507
Due from (to) general investment fund	<u>(1,022)</u>	<u>1,129</u>
Total receivables	<u>18,146</u>	<u>18,636</u>
Cash and cash equivalents	<u>12,498</u>	<u>17,200</u>
Total assets	<u>\$2,020,304</u>	<u>\$1,813,596</u>
<u>FUND BALANCE</u>		
Fund balance restricted for beneficiaries	<u>\$2,020,304</u>	<u>\$1,813,596</u>

See accompanying notes to financial statements.

Statements of Investment Income and Changes in Fund Balance Restricted for Beneficiaries

Years Ended June 30, 1992 and 1991
(000's omitted)

	<u>1992</u>	<u>1991</u>
Investment income:		
Income:		
Interest:		
Marketable securities	\$ 74,302	\$ 72,071
Mortgage loans	<u>6,304</u>	<u>7,252</u>
Total interest	<u>80,606</u>	<u>79,323</u>
Dividends:		
Domestic equity pool	20,943	22,098
International equity pool	4,460	3,717
Real estate equities	<u>3,778</u>	<u>4,412</u>
Total dividends	<u>29,181</u>	<u>30,227</u>
Total income	109,787	109,550
(Increase) reduction of allowance for loan losses	<u>(8,024)</u>	<u>596</u>
Net income	<u>101,763</u>	<u>110,146</u>
Net realized and unrealized gains on investments:		
Realized:		
Marketable debt securities	14,517	5,429
Domestic equity pool	41,265	10,955
International equity pool	<u>563</u>	<u>1,115</u>
Net realized gains	<u>56,345</u>	<u>17,499</u>
Change in unrealized market appreciation	<u>50,666</u>	<u>(3,577)</u>
Net realized and unrealized gains	<u>107,011</u>	<u>13,922</u>
Total investment income	208,774	124,068
Beginning fund balance restricted for beneficiaries	1,813,596	1,700,702
Net withdrawals	<u>(2,066)</u>	<u>(11,174)</u>
Ending fund balance restricted for beneficiaries	<u>\$2,020,304</u>	<u>\$1,813,596</u>

See accompanying notes to financial statements.

Statements of Cash Flows

Years Ended June 30, 1992 and 1991
(000's omitted)

	<u>1992</u>	<u>1991</u>
Investment operations:		
Total investment income	\$ 208,774	\$ 24,068
Adjustments to reconcile investment income to net cash provided by investment operations:		
Net realized gain	(56,345)	(17,499)
Change in unrealized market appreciation	(50,666)	3,577
Amortization	418	175
Increase in interest receivable	(1,661)	(583)
Increase (reduction) of allowance for loan losses	<u>8,024</u>	<u>(596)</u>
Net cash provided by investment operations	<u>108,544</u>	<u>109,142</u>
Investing activities:		
Purchase of marketable securities	(410,931)	(355,285)
Sales and maturities of marketable securities	314,954	367,273
Acquisition of mortgage loans and real estate equities	(11,885)	(10,373)
Net increase in book value of domestic equity pool	(18,444)	(140,946)
Net increase in book value of international equity pool	(3,475)	-
Mortgage loan principal payments and proceeds from real estate equities	<u>16,450</u>	<u>15,135</u>
Net cash used in investing activities	<u>(113,331)</u>	<u>(124,196)</u>
Financing activities - net contributions (withdrawals) from benefit system	<u>85</u>	<u>(11,472)</u>
Net decrease in cash and cash equivalents	(4,702)	(26,526)
Cash and cash equivalents at beginning of year	<u>17,200</u>	<u>43,726</u>
Cash and cash equivalents at end of year	<u>\$ 12,498</u>	<u>\$ 17,200</u>

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 1992 and 1992
(000's omitted)

(1) The Accounting Entity

The Teachers Retirement Trust Fund (Fund) is the investment portfolio of the State of Alaska Teachers' Retirement System (TRS). TRS is a multiple-employer cost-sharing, defined benefit, joint contributory system established for the payment of retirement, disability and death benefits to or on behalf of qualified teachers employed by the state, municipalities, school districts, or other political subdivisions within the state. These financial statements are those of the Fund and not TRS taken as a whole. The Commissioner of Revenue is the fiduciary and has the statutory authority to invest the moneys of the Fund.

Alaska Statutes 14.25.180 and 37.10.071 provide that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large trust portfolios. The Department of Revenue has contracted the management of certain investment securities to selected external managers. Specifically, the domestic equity pool, international equity pool and real estate equities are managed by external management companies.

(2) Summary of Significant Accounting Policies

Investment Presentation

The market value of marketable securities is determined at the end of each month by the custodial agent. The agent's determination of market values involves, among other things, using pricing services or prices quoted by independent brokers. The market value of the mortgage loans is determined by adjusting purchased yields to the current secondary mortgage market conditions established by the Mortgage Guarantee Insurance Corporation. A mortgage loan loss provision has been provided as described below. The market values of real estate equities are valued by the various companies managing those funds.

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis. In determining gains and losses, the cost of securities sold is determined on the specific identification basis. Interest income, including amortization of premium and discount and dividend income on domestic equity securities, is accrued monthly. Dividend income on international equity securities is recognized upon notification from the custodian.

Notes to Financial Statements (continued)

Net Contributions

Net contributions represent contributions from employers and employees, net of benefits paid to TRS participants. Net contributions are recorded on a cash basis according to when contributions are received, and benefits are paid by the State of Alaska, Department of Administration, Division of Retirement and Benefits.

Administrative and Other Expenses

All expenses, including investment management costs, are charged to appropriations of Fund assets and are therefore not deducted from investment income of the Fund.

Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid debt instruments with original maturities of three months or less are considered to be cash equivalents. The cash flow statement is presented to reflect the activity resulting in a change in cash and cash equivalents. Total investment income is adjusted for realized gains or losses because gross proceeds are shown under sales and maturities of marketable securities.

Allowance for Loan Losses

Historically, management of the Fund has provided an estimated allowance for loan losses to provide for potential credit losses in its loan portfolio. Factors considered by management in developing the allowance for loan losses include delinquency levels, historical charge offs and the aging of the portfolio. During 1992, management elected to offer the loan portfolio for sale, and has recorded as an allowance an amount considered sufficient to reflect the portfolio's net realizable value.

(3) Domestic Equity Pool

The Fund, along with several other State of Alaska funds, has an investment in a domestic equity pool. The majority of the domestic equity pool is comprised of common stock with available cash balances invested in short-term debt instruments. All accrued income and realized gains and losses are allocated monthly to each participating fund on a pro rata ownership basis. Income which is received by the domestic equity pool is distributed monthly in cash to each participating fund, first to accrued income allocated to any withdrawal by a participating fund, and second, in proportion to each fund's ownership of remaining accrued income. At June 30, 1992 and 1991, the Fund's investment in the domestic equity pool is comprised of the following:

Notes to Financial Statements (continued)

	<u>1992</u>	<u>1991</u>
June 30 pool ownership percentage	37.8%	37.1%
Domestic equities, at market	\$738,692	\$672,784
Interest and dividends receivable	1,863	2,061
Cash and cash equivalents	<u>55,104</u>	<u>40,442</u>
Total	<u>\$795,659</u>	<u>\$715,287</u>

(4) Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following at June 30, 1992 and 1991:

	<u>1992</u>	<u>1991</u>
Interest-bearing deposits	\$ 8,565	\$ 88
Unsettled investment transactions	3,928	912
Repurchase agreement	<u>5</u>	<u>16,200</u>
Total cash and cash equivalents	<u>\$12,498</u>	<u>\$17,200</u>

(5) International Equity Pool

The Fund, along with the Public Employees Retirement Trust Fund, formed an international equity pool during 1992. The majority of the international equity pool is comprised of common stock with available cash balances invested in short-term debt instruments. All accrued income, realized gains and losses and income received are allocated monthly to the two participating funds on a pro rata ownership basis. At June 30, 1992 and 1991, the Fund's investment in the international equity pool is comprised of the following:

	<u>1992</u>	<u>1991</u>
June 30 pool ownership percentage	38.3%	0%
International equities, at market	\$106,846	\$102,830
Cash and cash equivalents	<u>9,834</u>	<u>7,117</u>
	<u>\$116,680</u>	<u>\$109,947</u>

Notes to Financial Statements (continued)

(6) Real Estate Mortgages

Real estate mortgages are comprised of the following at June 30, 1992 and 1991:

	<u>1992</u>	<u>1991</u>
Outstanding Principal:		
Real estate loans current or less than 90 days past due	\$ 54,295	\$ 55,849
Real estate loans past due 90 days	8,283	11,612
Real estate acquired by foreclosure	<u>8,303</u>	<u>11,375</u>
Total Outstanding Principal	70,881	78,836
Unrealized Appreciation	<u>7,644</u>	<u>4,105</u>
Total Market Value	78,525	82,941
Allowance For Real Estate Loan Losses	<u>(12,598)</u>	<u>(4,574)</u>
Net Mortgages	<u>\$ 65,927</u>	<u>\$ 78,367</u>

(7) Safekeeping Risk

The Teachers Retirement Trust Fund's deposits and investments are categorized below pursuant to Governmental Accounting Standards Board (GASB) Statement Number 3 and GASB Technical Bulletin Number 87-1 to give an indication of the level of safekeeping risk assumed by the Fund at statement date.

- Deposits:**
1. Insured or collateralized with securities held by the State or by its custodian in the State's name.
 2. Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.
 3. Uncollateralized.
- Investments:**
1. Insured or registered for which the securities are held by the State or its custodian in the State's name.

Notes to Financial Statements (continued)

2. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.
3. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent not in the State's name.

At June 30, 1992 and 1991, all of the Fund's deposits and investments were considered to be Category 1 with respect to safekeeping risk.

Outside Managers

Domestic Equities

(Fred) Alger Management
New York, New York
IDS Equity Advisors
Minneapolis, Minnesota
Invesco Capital Management, Inc.
Atlanta, Georgia
Lehman Ark Management
New York, New York
Miller, Anderson & Sherrerd
West Conshohocken, Pennsylvania
State Street Bank & Trust Co.
N. Quincy, Massachusetts

Equity Real Estate Managers/ Advisors

Aetna Capital Management
Hartford, Connecticut
Equitable Real Estate Investment
Management, Inc.
Irvine, California
John Hancock Properties, Inc.
Boston, Massachusetts
JMB Institutional Realty Corporation
Chicago, Illinois
Karsten Realty Adviso
Los Angeles, California
J.P. Morgan Investment Management, Inc.
New York, New York
Sentinel Real Estate Corporation
Bellevue, Washington

International Equities

Citibank Investment Management
London, England
J.P. Morgan Investment
London, England

Consultants

Investment Advisor

Dorn & Helliesen, Inc.
Berkeley, California
Boise, Idaho

Performance Measurement

SEI Funds Evaluation Services
San Francisco, California

Real Estate Consultants

Institutional Property Consultants, Inc.
Atlanta, Georgia
San Diego, California

Domestic Equity Evaluation

SEI Funds Evaluation Services
San Francisco, California

International Equity Evaluation

The WM Company
Edinburgh, Scotland

Independent Auditors

KPMG Peat Marwick
Anchorage, Alaska

Glob. ' Master Custodian

State Street Bank & Trust Co.
N. Quincy, Massachusetts

This publication was released by the Department of Revenue, produced at a cost of \$3.96 per copy, to provide information on retirement asset management to interested parties. This publication is required by AS 37.10.071.

State of Alaska

**Public Employees' Retirement
Trust Fund**

1992 Annual Report of Assets

A Pension Trust for Public Employees

State of Alaska
Department of Revenue, Treasury Division
P.O. Box 110400, Juneau, Alaska 99811
(907)465-2306

Organization

PERS Board Members

James "Pat" Wellington, Chairman
Michael Andrews, Vice-Chair
Gary P. Bader
The Honorable Seaborn J. Buckalew
Mary A. Notar

Staff

Commissioner

Darrel J. Rexwinkel

Deputy Commissioner

Brian C. Andrews

Chief Investment Officer

Robert D. Storer

Comptroller

Mark W. Prussing, CPA

Investment Officers

Michael S. Cheung, Marketable Debt
Martin W. Lentz, Real Estate

Cash Management

Vernon B. Voss

Investment Operations Advisory Committee

John W. English, Chairman
*Ford Foundation, Vice-President & Chief
Investment Officer*
Mark T. Finn
Delta Financial, Inc., President
Ronald J. Surz
Centurion Trust Company

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This report provides information on the management of the assets of the Public Employees' Retirement System (System). The related pension liabilities and the financial well-being of the System as a whole are presented in the annual report of the System which is published each December by the Alaska Department of Administration, Division of Retirement and Benefits.

Commissioner's Message

I am pleased to present the Department of Revenue's second annual Public Employees' Retirement Trust Fund (Fund) Report. The successes of managing the Fund in fiscal year 1992 were many. The Treasury Division within the Department was instrumental in achieving the successes.

When we ended the 1992 fiscal year, the Fund had grown to \$3.4 billion dollars. This growth was established by investment earnings of \$356.5 million and net contributions of \$86.0 million. My responsibility for the continued positive investment performance of the Fund is one which I take very seriously.

The \$356.5 million dollars of investment income represents an investment return to the Fund of 11.6%. The actuarial rate of return assumption adopted by the Public Employees' Retirement System (PERS) board is 8.75%. The investment rate of return assumption is used by the actuary to calculate the funding requirements of the PERS. When the actual investment performance exceeds the investment assumption rate, a higher "funding ratio" will result.

The "funding ratio" (i.e. the ratio of plan assets to actuarial liabilities) is a measure of the financial health of retirement plans. A plan is said to be "fully funded" when its assets are equal to its actuarial liabilities. The differences in actuarial assumptions that underlie the calculations, however, make a precise measurement difficult.

For the 1991 fiscal year, the funding ratio for PERS fell by 9% to 86%. The primary reasons for this decrease are the actuarial change to PERS's demographics and the lower rate of return assumption. At 86% PERS should still be considered financially sound. Fiscal year 1992's positive investment performance will help achieve a higher "funding ratio" for PERS. My goal is to manage the Fund's investments so investment earnings continue to make positive contributions toward achieving a 100% "funding ratio."

To achieve this goal within the investment standards expected of a prudent investor, I authorized the following strategic management activities to take place:

- Dorn & Helliesen, an investment advisory firm, was selected to help us with the development and implementation of an asset allocation plan for the Fund. The asset allocation plan addresses further portfolio asset diversification to include small-cap domestic equity stocks and international fixed-income securities.
- We continued to use the Investment Operations Advisory Committee for investment management review and recommendations.

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- I assisted with drafting legislation which created an eight member Alaska State Pension Investment Board (Board). This legislation was enacted and signed into law, becoming effective July 1, 1992. The eight member board will assume the fiduciary responsibility of the Fund's assets by July 1, 1993. Formation of the Board is underway with the first meeting slated for January 1993. Four members (two members each) from the Public Employees' Retirement System and Teachers' Retirement System will be elected. Three members will be appointed by the Governor. One of these members will represent participating employers of the PERS. The Commissioner of Revenue is statutorily named to the Board.

The Board represents a blending of plan sponsor and beneficiary interests. All Board members will be subject to the prudent investor standard. This standard requires all investments of the Fund be made with the care, skill and diligence of a prudent professional with investment experience.

- The following people were hired during the past year: Brian C. Andrews as Deputy Commissioner, Treasury; Robert D. Storer as Chief Investment Officer; and Mark W. Prussing as Treasury Comptroller. Their experience and expertise have lent themselves well to the investment management of the Fund.

It is clear by the positive investment return for fiscal year 1992 that the above management activities will contribute positively to a "fully funded" PERS status and will lower the contribution rate requirement from the plan sponsors and participating employers in the years to come.

As fiduciary to the Fund, I pledge to continue the management of the Fund's assets in the best interest of the beneficiaries.

I welcome any comments or questions you may have regarding the report.



Darrel J. Rexwinkel
Commissioner of Revenue