

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
SPECIAL TELECONFERENCE MEETING

Location of Meeting
6th Floor Conference Room, State Office Building
Willoughby Avenue, Juneau, Alaska

MINUTES OF
April 10, 2006

CALL TO ORDER

Chair GAIL SCHUBERT called the meeting of the Alaska Retirement Management Board (ARMB) to order at 1:00 p.m.

ROLL CALL

Trustees Harbo, Nordstrand, Pihl, Schubert, Semmens and Trivette were present at roll call to form a quorum. Mike Williams arrived at 1:07 p.m., and Commissioner Corbus joined the meeting at 1:25 p.m.

ARMB Board Members Present

Gail Schubert, *Chair*
Sam Trivette, *Vice Chair*
Gayle Harbo, *Secretary*
Commissioner Bill Corbus
Commissioner Scott Nordstrand
Martin Pihl
Larry Semmens
Mike Williams

Legal Counsel Present - Robert Johnson

Department of Revenue Staff Present

Tom Boutin, Deputy Commissioner
Gary M. Bader, Chief Investment Officer
Judy Hall, Asst. Investment Officer

Department of Administration Staff Present

Melanie Millhorn, Director, Division of Retirement and Benefits

Traci Carpenter, Division of Retirement and Benefits

Charlene Morrison, Chief Financial Officer

PUBLIC MEETING NOTICE

Judy Hall confirmed that the meeting had been properly noticed.

APPROVAL OF AGENDA

The agenda was approved as presented.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

No one present in Juneau or on teleconference wished to address the board.

REPORT TO THE LEGISLATURE COMMITTEE: CHAIR REPORT

Committee chair LARRY SEMMENS and chief investment officer GARY BADER reviewed the latest version of the supplemental report to the legislature, which the committee worked on at its April 5th meeting. *(A copy with highlighted changes was included in the meeting packet.)*

REVIEW AND DISCUSSION OF DRAFT SUPPLEMENTAL REPORT TO LEGISLATURE

MS. HARBO suggested the sentence: "It is recommended that full funding be provided annually." as replacement for the second sentence on page 8, section (3). The other trustees agreed.

On page 13, the beginning of the second paragraph, MS. HARBO suggested it be changed to "...that the board shall establish the rate used to annually credit interest to each member's account..." because it is the interest that is going to be credited, not the rate. There was no objection to the change.

On page 13, the beginning of the third paragraph, MS. HARBO recommended that the word "because" be deleted and the sentence read: "The interest will be credited annually." The other trustees concurred with the change.

MS. HARBO stated that the last paragraph on page 13 was awkward and could be rewritten to say: "The Office of Administrative Appeals is charged with hearing appeals by members of the Public Employees' Retirement System or the Teachers' Retirement Board." An alternative would be to add a sentence stating that the former PERS and TRS boards previously had this responsibility. She said as currently written it sounds like the Office of Administrative Appeals is rehearing the old appeals.

MR. TRIVETTE spoke in support of the second option because it is clearer for legislators and will raise less questions. Other trustees indicated their agreement with having two sentences.

Referring to page 8, (b)(1), the last sentence, MR. TRIVETTE suggested a change to "The board has requested the actuary to provide actuarial calculations of various amortization schedules." The reason is that the board has already done this. There was no objection to the change.

MR. TRIVETTE also recommended adding one word to the second sentence of page 8 (b)(2) to read, "Since the state is expected to have a large budget surplus this year, the board recommends that the legislature make substantial contributions to the system..." The other trustees had no objection to the change.

On page 18, Priority 2:, MR. TRIVETTE said that the first two sentences were fine, but he did not feel the rest of the paragraph flowed right. He suggested the following in place of the third sentence: "So the board recommends that the state fund one-half of the approximate \$37.2 million increase, or \$18.6 million. This would have the state and the municipalities sharing 50/50 of the increasing PERS costs."

COMMISSIONER NORSTRAND said the sentence following that, beginning "If the state again pays 5%...", would be redundant. MR. TRIVETTE agreed. There was no objection to both changes on page 18.

TOM BOUTIN stated that Commissioner Corbus wished to be contacted by phone before any vote was taken on the board's final report to the legislature.

BOARD ACTION

Chair of the Report to the Legislature Committee, LARRY SEMMENS, moved that the board adopt the supplemental report to the legislature.

SAM TRIVETTE moved that the Alaska Retirement Management Board accept the

amendments to the supplemental report to the legislature. GAIL HARBO seconded.

The board chair deferred action on the motions until Trustee Corbus would be present.

MR. PIHL asked Commissioner Nordstrand if the report dealt adequately with the abuses that have resulted in increases to the unfunded liability -- for example, early retirement offerings -- and with other steps taken by the Alaska Department of Administration. He said early retirement programs by school districts around the state have increased the unfunded liability of TRS by offering cash bonuses to retire that increased the retirement benefit. This resulted in people being retired earlier and for a longer period, therefore, adding to the liability.

COMMISSIONER NORDSTRAND indicated that he was unclear about what Department of Administration abuses Trustee Pihl was referring to.

MR. WILLIAMS stated that early retirement out of either PERS or TRS could not occur without legislation allowing that to happen. CHAIR SCHUBERT agreed with him.

MS. HARBO said that the early retirement incentive programs that the legislature approved in the early 1990s stemmed from one of Mercer's errors. Mercer had stated that those early retirements were actuarially sound and would not affect the system, and it turned out that they did have an impact. The retirement incentive programs were not necessarily abuse because the legislature approved them, but Mercer also gave poor information. It was the longer term use of health care that contributed to the adverse effect on the system.

MR. PIHL said he was not casting any stones, but there have been actions that have really added to the unfunded liabilities.

MS. HARBO commented that in the last two or three years the PERS and TRS boards had requested in writing that the legislature not pass any bills that would have an adverse effect on the unfunded liabilities.

Board legal counsel, ROB JOHNSON, stated that section 141 of SB 141 states that it is the intent of the legislature that there will be a moratorium after the effective date of this act on legislation affecting all public employee retirement until the Alaska Retirement Management Board can present a report to the legislature

containing the board's assessment and recommendations provided in this section.

MR. BADER said the program that Trustee Pihl was referring to was not identified statutorily as an early retirement program. School districts call them service recognition bonuses. He understood that the Division of Retirement and Benefits had already administratively addressed what some people might consider abuses of the system.

MS. MILLHORN, director of the Division of Retirement and Benefits, explained that the division asked the Alaska Department of Law to review that issue, and it provided an attorney general's opinion on bonuses. School districts would have a bonus in exchange for a teacher's or principal's resignation, and that does not comport with the TRS statute provision. The AG's opinion was sent to all the school district superintendents, and that action has been corrected. The Division also notified the school districts that it would review their collective bargaining agreements to insure that they were not running afoul of the AG's opinion, and would also examine teachers' last salary amounts to make sure that the bonus practice was not taking place any longer.

CHAIR SCHUBERT stated that the motion to amend the motion to adopt the report to the legislature was on the floor for action.

COMMISSIONER CORBUS indicated he had joined the meeting in Juneau.

Roll call vote

Ayes: Harbo, Pihl, Semmens, Williams, Trivette, Nordstrand, Corbus, Schubert

Nays: None

The motion passed unanimously, 8-0.

CHAIR SCHUBERT said the main motion was now on the floor for action.

COMMISSIONER CORBUS said he intended to vote in favor of the motion, but he did not want that to be perceived as binding on any future actions or positions he would take on the resolution of the funding deficit. He would vote yes here so the matter could move forward.

COMMISSIONER NORDSTRAND expressed his appreciation to Larry Semmens and for the committee's work in the report to the legislature. He said it was an

arduous task that was done well. He said he could not, from a policy point of view, personally endorse the legislative options given in the report, but he thought it was important that the board offer something to the legislature. He said this is a first step with some thoughtful ideas. He said priority #1 and #3 are problematic in a couple of ways: neither the ARMB nor the legislature can compel the governor to put something in his budget, since that is a constitutional obligation of the governor. Similar to the legislature that they *may* appropriate, the report to the legislature should more properly say the governor *may* put in his budget. He said he did not know why the board would bind the governor but not the legislature. The answer is that the board cannot bind the legislature, so it cannot bind the governor either. He said he is concerned that the amount that would have to be placed in the budget is an unknown. There could be an estimate based upon the average past service cost going back three years. But with regard to the incentive monies, that would simply be up to the individual employers as to how much they would decide to match to obtain the incentive, so the number would be unknown year to year. He was also concerned about requiring all the employers to go to the actuarially calculated rate, which from a funding soundness theory is a good idea. For example, it may require Fairbanks' employer contribution rate to go from the mid-30% range to well over 100% in one year. The question is whether that is sustainable. Regarding the third proposal, he said that with a month left in the legislative session he doubted the board would be able to convince anyone to put \$208 million into the budget for FY2007, though it may be a financially sound thing to do. He said with those caveats he intended to vote yes, as well.

Roll call vote

Ayes: Williams, Trivette, Semmens, Pihl, Harbo, Nordstrand, Corbus, Schubert

Nays: None

The motion passed unanimously, 8-0.

MR. SEMMENS thanked the staff for their extensive help on the report.

SBS/NEW DC PLANS: GROUP TRUSTS RESOLUTION - BOARD ACTION

MR. BADER stated that the board had adopted a strategy so that the Alaska Supplemental Annuity Plan (SBS-AP) and the new Defined Contribution (CD) retirement plans could participate in a common trust. Through continuing discussion with attorneys, what appeared to be an easy thing to do turned out to be more complicated than expected. Ice Miller, the Department of Law's attorney for taxable issues related to the retirement plans, Mike Barnhill from the Department of Law, T. Rowe Price, Rob Johnson, and others got together and discussed what was necessary in order to accomplish the board's intent. The

product is resolution 2006-18, which authorizes an administrative rule allowing establishment of group trusts within the SBS-AP plan and the new DC plans.

MR. JOHNSON said the language in the resolution came largely from a proposed administrative rule that tax counsel Ice Miller suggested. Ice Miller have been working on this matter quite a bit. It is to assure that there will be no Internal Revenue Service issues in proceeding with the pooled investment approach. There will be other steps to adopt the trust documents and so on. It would be ideal to have this first step in place before July 1, 2006 so things can go forward.

MARTIN PIHL moved that the ARMB adopt Resolution 2006-18 authorizing and recommending an administrative rule allowing for the establishment of group trusts within the Alaska Supplemental Annuity Plan and the new Defined Contribution retirement plans. GAIL HARBO seconded.

Roll call vote

Ayes: Semmens, Trivette, Williams, Pihl, Nordstrand, Harbo, Schubert

Nays: None

The motion passed, 7-0. [Commissioner Corbus had left the meeting at this point.]

OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD

MR. BADER reported that the board had crafted and submitted 13 questions to the Attorney General's Office. The direction that came back was that a letter should be sent to the governor asking for the AG to answer those questions. Commissioner Nordstrand and Commissioner Corbus signed a letter, which Mr. Bader signed on the board's behalf, that was transmitted to the Governor's Office for their review.

MS. HARBO informed the Division of Retirement and Benefits that she has received several e-mails from TRS members regarding the retirement calculator that is apparently not working on the DR&B web site. She said this is a critical time for people who are making retirement decisions. She asked when the calculator feature on the division's web site would be available.

MS. MILLHORN estimated the retirement calculator should be operational again later this week.

PUBLIC/TRUSTEE COMMENTS - None.

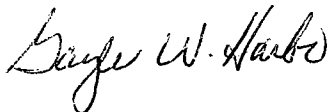
ADJOURNMENT

THERE BEING NO OBJECTION AND NO FURTHER BUSINESS TO COME BEFORE THE BOARD, THE MEETING WAS ADJOURNED AT 1:40 P.M. ON APRIL 10, 2006, ON A MOTION MADE BY MS. HARBO AND SECONDED BY MR. TRIVETTE.



Chair of the Board of Trustees
Alaska Retirement Management Board

ATTEST:

Corporate Secretary 

Note: The summary minutes are extracted from staff's tape recording of the meeting and are prepared by an outside contractor. For in-depth discussion and presentation details, please refer to tapes of the meeting and presentation materials on file at the ARMB office.

Confidential Office Services
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