ALASKA RETIREMENT MANAGEMENT BOARD
MEETING

Location of Meeting
Anchorage Marriott Hotel
820 West 7th Avenue
Anchorage, Alaska

MINUTES OF
September 11, 2006

Monday, September 11, 2006

I. CALL TO ORDER

CHAIR SCHUBERT called the meeting of the Alaska Retirement Management Board to order at 9:02 a.m.

II. ROLL CALL

ARM Board Members Present
Martin Pihl
Sam Trivette
Gayle Harbo
Gail Schubert
Larry Semmens
Scott Nordstrand
Mike Williams
Bill Corbus

Consultants Present
Rob Johnson, Legal Counsel

Department of Revenue Staff
Tom Boutin, Deputy Commissioner
Gary Bader, Chief Investment Officer
Susan Taylor, Comptroller, Treasury Division
Judy Hall, ARMB Liaison Officer

Department of Administration Staff
Melanie Millhorn, Deputy Commissioner
Traci Carpenter, Director, Division of Retirement and Benefits
Charlene Morrison, Chief Financial Officer, Division of Retirement and Benefits

Others Present

Mike Humphrey, University of Alaska
Alex Slivka, McKinley Capital Management
Michelle Drew, Municipality of Anchorage
Jeff Sinz, Municipality of Anchorage
Chuck Borg
Melody Douglas, Kenai Peninsula Borough School District
Jay Delaney, RPEA
Kristin Erchinger, City of Seward

III. PUBLIC MEETING NOTICE

JUDY HALL confirmed that proper notice had been made of this meeting.

IV. APPROVAL OF AGENDA

MS. HARBO moved to approve the agenda. MR. TRIVETTE seconded.

COMMISSIONER NORDSTRAND asked for time to review same-sex benefits. CHAIR SCHUBERT suggested this be heard under New Business.

There being no objection, the agenda was approved as amended.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

MELODY DOUGLAS, Chief Financial Officer for the Kenai Peninsula Borough School District (KPBSD), voiced appreciation for the work of the ARM Board. She felt that many of the issues surrounding the retirement system have been legislatively driven and that the issue of unfunded liability has not been addressed legislatively. The unfunded liability is a statewide economic issue and what the ARM Board does today will impact the entire state. If the most conservative rates are set at 49% for TRS and 56% for PERS the potential impact to the KPBSD is that equates to 243 teaching positions out of 625, or 38% of the staff of the school district. If the lower rates of 42% for TRS and 32% for PERS are used, the potential impact is 115 teaching staff. She urged the ARM Board to limit its increases to 5% and allow time for legislative action. While she understood the fiduciary responsibility of the Board, she also understood the need to educate children.

MS. HARBO appreciated comments about working with the Legislature, but noted that the Legislature has had two or three years to take action. She had hoped when the ARM Board forwarded its recommendation to the Legislature to pay down some of the debt, Ms. Douglas had testified for that. She hoped that every other employer with a concern in the state had testified for that proposal because it was a good proposal to begin paying down the debt. MS. DOUGLAS stated the KPBSD has routinely been on record since the public became aware of the situation of unfunded liability. She could not speak to individual legislative sessions, but she stated she has testified regularly on this topic before the Legislature.

KRISTIN ERCHINGER, Finance Director for the City of Seward, asked that the ARM Board set the employer contribution rates at the published rates. She stated this is a pay now or pay later problem and the burdens are being passed on to this generation's children and grandchildren. The costs increases cannot be paid without severe cuts to services. She explained that Seward increased its sales tax by 1% two years ago and a 1.5% sales tax increase would be needed to cover increased costs. The Legislature did not support pension obligation bonds, but if the State could consider loaning to the PERS system at something less than 8.25% there may be possibilities for cost savings. She asked that the ARM Board set the rates at the published rates, knowing that they are 10% lower than needed to fully fund the system.

JEFF SINZ, Chief Fiscal Officer for the Municipality of Anchorage, thanked the ARM Board for the opportunity to speak. He thanked each member for their efforts and dedication in seeking solutions to the significant funding challenges associated with the statewide retirement system. He explained the purpose of his testimony is to request that the ARM Board limit the annual increase in employer contribution rates to 5%, which is consistent with the past practices of this board and the PERS and TRS boards before it, and with what some believe is a legal requirement. He suggested that the financial interest of the plan participants and beneficiaries is best served by ensuring the continued participation and financial survival of plan employers. In recent years, it has been accepted that the PERS and TRS systems are seriously under-funded and that restoring the plans to fully funded status will require dramatically higher employer contribution rates. However, those increases must be in increments that are manageable for participating employers. Significant increases may over tax some employers and ultimately result in employer defaults, a situation that could escalate quickly and put further funding pressure on an already stressed retirement system. On the other hand, phasing in rate increases in a gradual and predictable manner will enable employers to better plan for, and manage, the increase, thereby reducing the likelihood of impacts on local government services and of employer defaults. Even with a gradual phase-in, it will still be possible for employers with financial means to pay down their unfunded liability at an accelerated pace and avoid the economic cost associated with a longer amortization period. For budgeting and long-term financial purposes, Anchorage has assumed a 5% limit to the annual increase in its PERS contribution. Even with this limit, Anchorage's PERS contribution will increase by over $6 million each year until fiscal year 2010 when the employer contribution rate was expected to level out at 32%. Removing the 5% limit will cost Anchorage at least an additional $12 million in PERS-related costs in fiscal year 2008, bringing the total one-year increase to roughly $18 million. In Anchorage's tax-limited environment, it is unlikely that such an increase could be managed without significantly decreasing the level of service provided to the public. Anchorage has no ability to mitigate this increase through increased employee contributions and there is no reason to believe Anchorage can expect financial assistance from sources outside of the Municipality. He reiterated his request to limit employer contribution rate increases to 5%.

COMMISSIONER CORBUS arrived at 9:15 a.m.

MR. SEMMENS asked if Mr. Sinz is concerned that not paying the actuarially required contribution will continue to increase the unfunded liability and therefore cost the citizens of Anchorage more in the long-run. MR. SINZ replied that this concerns him, but he viewed it as an unavoidable consequence of the situation. He stated that certainly everyone would pay cash for their homes if they were in a position to do so, but most people take out mortgages. The economic effect of assuming a mortgage is to increase the cost of the purchase of the home. This is done because there is no practical ability to do otherwise. The ultimate economic solution to the situation of unfunded liability is to call for a payment from each participating employer in the amount of their unfunded liability. There is no practical ability to do that. Instead, retirement plans allow for amortization of unfunded liabilities over a period of time. In applying the judgment that comes with application of an amortization approach, it is important that the contribution rates not be set too high. MR. SINZ reiterated that there is nothing that prevents employers from paying at an accelerated rate, if possible.

MR. TRIVETTE remarked that the ARM Board transmitted ideas to the Legislature in the form of proposed legislation that was translated into a bill that passed the House this spring. He asked whether, if the Board agrees with Mr. Sinz's suggestion, did Mr. Sinz think the Municipality of Anchorage and other employers would get behind legislation that would more adequately fund the system. MR. SINZ stated that most employers have, and he believed would continue to, support legislation that helps mitigate the current financial situation of the plan. He remarked that one issue, from his perspective, is the uncertainty regarding what is real in the current financial situation. The financial status of the plan is determined based on a series of assumptions and methodologies proposed by the actuary and adopted by the Board. It results in a realistic estimate of future costs, but it is just an estimate. In periods like the last five years when there has been such a radical change in the funded status of the plan, it is natural for people to be hesitant to act. He expected that in time the Legislature would deal with the reality of the situation and exercise their judgment as to what is the appropriate degree of participation and make a commitment in that regard.

MR. PIHL viewed the 25-year amortization period of the unfunded liability as comparable to a home mortgage, but he would not stretch that comparison to adding to the mortgage each year, which is being done with the rate increase. He understood the Municipal League met recently and adopted a resolution that is similar to what the ARM Board recommended to the Legislature in its April 14, 2006 report. That recommendation is for the State to contribute the increase that is above the 5% increase that would be paid by employers. He noted that Anchorage has a large number of legislators. He asked what is the prospect of Anchorage legislators helping to get the Legislature to fund the difference between the 5% increase and the actuary rate to fund the unfunded liability. MR. SINZ replied that he had no insight into the willingness of the Anchorage legislators to do that.

MS. HARBO recalled that in April 2003 after the Milliman audit the employer contribution rates went up significantly and when TRS asked the Commissioner of Administration what he would suggest for an increase, it was between 4% and 5%. Last year when the ARM Board met to set the rates for PERS and TRS, its hands were tied because the employers were told before the Board met that the increases would be 5%. She felt that now is the time to do something. She gave credit to the City of Seward for accepting responsibility and paying the rates the actuary says need to be paid in order to pay down the liability. She suggested that everyone should work with legislators to encourage the State to help pay down the debt. She noted that amortizing the liability does not help to pay it down. She did not believe that limiting the increase to 5% was advisable. MR. SINZ noted that, as indicated in his testimony, each year even under a 5% limit the Municipality of Anchorage has to contribute $6 million more than in the prior year. The Municipality of Anchorage has not objected to a 25-year amortization period and does not object to going to a long-term rate that is necessary to amortize the unfunded liability over 25 years. The Municipality of Anchorage recognizes that the rate that will be paid over much of the duration is higher than was anticipated. He explained that this situation puts an extreme hardship on most participating employers and the Municipality of Anchorage's ability to handle that is enhanced by the phased-in approach. The Municipality of Anchorage hopes that the city's obligation is mitigated by outside contributions, potentially from the state, but if it is not, the Municipality of Anchorage is prepared to fulfill its obligation. He explained his request is that the ARM Board make the situation manageable for communities that are not in a position to pay at a higher rate or at an accelerated pace.

MS. MILLHORN noted that the Division of Retirement and Benefits sent a letter to employers last year after the PERS and TRS Boards had set the FY 07 rates. That letter advised the employers that it would be prudent to budget for a 5% increase, at a minimum. There was a regulation in place for PERS that capped the PERS rate, which was not the case for TRS.

COMMISSIONER NORDSTRAND announced that the Governor issued a press release this morning directing his commissioners who serve on the ARM Board to support the Buck Consultants actuarial report's recommended increase in rates for FY08. The Governor has also announced that he would include funding to cover the increased cost of a higher rate in FY08 in the budget that he will recommend to the governor-elect. Based upon the actuarial calculations, the incremental increase over FY07 is estimated at $504 million; that is the number the Governor will recommend to the governor-elect. In addition, the Governor will recommend that an additional $500 million be deposited into the PERS/TRS fund to further pay down the amount due the system and to accelerate the day when employer contribution rates can be stabilized. He quoted the Governor "When our administration came into office in December 2002, we faced a budget that was $800 million in the hole. We also faced a retirement system that had a $4.4 billion unfunded liability. For too long the State spent more than we had and ignored the financial requirements of its retirement system. We are pleased that we are leaving the State in a far better fiscal condition than when we came into office. While high oil prices have helped, the fact that we have made tough decisions, effectively managed programs, and reformed Alaska's taxes have contributed to where the State is today."

COMMISSIONER CORBUS stated the Governor has also re-appointed Trustees Trivette and Harbo to the ARM Board.

COMMISSIONER NORDSTRAND noted that the press release also informs that Dr. Richard Solie has been appointed to fill the ARM Board seat formerly held by Bob Roses.

VI. REPORTS

1. Chair Report – None

2. Retiree Reserve Fund

MS. HARBO moved to table this item to the November ARM Board meeting. She explained the information for this discussion was not in the packet for this meeting and when she received an email on Saturday with this information, she could not open it. She preferred to concentrate on rate setting at this meeting. MR. TRIVETTE seconded.

By roll call vote, the motion was approved with COMMISSIONER Nordstrand objecting.

3. Summary: Changes in 2006 Valuation

MS. HARBO moved to table this item to the October meeting when, as stipulated in SB141, the second actuary Gabriel Roeder Smith has had a chance to review the experience study. MR. TRIVETTE seconded.

By roll call vote, the motion was approved with COMMISSIONER Nordstrand and COMMISSIONER Corbus objecting.

3. CIO Report

GARY BADER reported that David Fisher with Capital Guardian Trust previously notified the Board that NASD had filed a complaint alleging the American Funds Distributors, Capital's sister company, violated the rule permitting mutual fund managers to give consideration to fund sales when selecting firms to buy and sell securities for the funds' portfolios. He has sent a communication that the company is being fined $5 million and indicating their intention to appeal the finding. There is no evidence or assertion in any of the complaints that Capital Guardian got anything but best execution prices on the sales of securities.

MR. BADER then shared a communication from Ron Peyton, chair of Callan Associates Inc., that the Department of Labor has requested certain information from Callan and that this is fairly routine. The third communication is an announcement that Lynn Thurber has been appointed Chair of LaSalle Investment Management. Her former position of Chief Executive Officer will be filled by Jeff Jacobson.

MR. TRIVETTE asked if the amount of the fine charged to Capital Guardian is common. MR. BADER was unsure if the amount of the fine is typical; he stated he has not heard of this type of sanction. MR. TRIVETTE asked if Mr. Bader was aware how long the appeal process would take. MR. BADER replied that he is not.

MR. WILLIAMS noted regarding the Watch List that that he thought the Board moved to terminate BlackRock. MR. BADER indicated this was an administrative oversight.

4. Minutes

MR. TRIVETTE moved to approve the minutes of August 30, 2006. MS. HARBO seconded.

MR. SEMMENS indicated he asked that staff clarify the wording of the question he is shown on page 11 of the minutes as asking and they have agreed to do so.

There being no objection, the motion passed unanimously.

5. Discussion: Actuary Recommendations

MR. BADER explained that there were presentations at the August 30, 2006 meeting from Buck Consultants and from Gabriel Roeder Smith (GRS). GRS made a number of suggestions and recommendations in their presentation. The Board asked that staff work with the two actuaries to resolve the suggestions and recommendations and reduce the resolution to writing. The staff met telephonically with Mr. Slishinsky and Mr. Fornia and all of the items were brought to resolution. Those items are outlined in document entitled "Review Recommendations and Suggestions" contained in the packet.

MR. TRIVETTE asked if these matters were resolved among the three parties. MR. BADER stated the resolution was between the two actuaries, but the Department of Revenue was involved in the discussions and agrees with the recommendations.

MR. PIHL referred to item C.2 dealing with the 30-year amortization review and level dollar funding. This section outlines a PERS rate of 37.78% and TRS rate of 50.58%. He asked how this relates to the rates of 39.76% and 54.03%. MR. BADER asked that the actuaries address this question. MR. SLISHINSKY explained that the difference in the calculated rates is a change in the assumption for discounting the future payments. The payroll growth assumption of 4.25% is excluded in these calculations. This moves the amortization percentage from 4% to 8.25%. As a result, there is an increase in the contribution rate as a result of the expected increase in future interest. MR. PIHL understood that there is no increase in the payroll base against which the dollars can be amortized. MR. SLISHINSKY replied that this is correct because this is a closed group, so there is not an increased salary base. The calculation then focuses on a level dollar amount amortization payment irrespective of salaries. MR. PIHL felt this did not reflect reality. MR. SLISHINSKY explained that the dollar amounts could be converted to a percentage of pay and as there is a declining payroll, the contribution rates will escalate. MR. PIHL noted that the payroll base upon which contribution rates are based will include both the Defined Benefit (DB) and Defined Contribution (DC) payroll. MR. SLISHINSKY indicated this is not the case; the DB is a closed group and all new hires will be participating in the DC plan. MR. PIHL asked if there would not be increases in the DB group until it phases out. MR. SLISHINSKY stated there would be somewhat of an increase in the number of individuals in this group that receive retirement benefits. MR. PIHL asked if members of this group would receive annual increases in their pay. MR. SLISHINSKY explained that this is the case, but there are also individuals leaving the plan. MR. PIHL noted that the rates are calculated based on a declining number of participants in this group. MR. SLISHINSKY replied that this is the case. MR. PIHL asked if, for this reason, the rates are somewhat higher than will be necessary. He suggested that something like 2.5% should be factored in as growth in the payroll base, although the group is declining. That would result in slightly lower rates. MR. SLISHINSKY stated the extent to which the salaries are higher would reduce the rate for paying off the unfunded liability. COMMISSIONER NORDSTRAND thought perhaps the Legislature intended to include the total PERS employer payroll as a basis for calculating the contribution rate for the DB plan, but the legislation only included the payroll for the DB legacy plan. One of the proposed fixes to SB141 included making this change.

MR. SEMMENS noted that the September 7, 2006 letter from GRS summarizes the rates, and it appears that removing the payroll assumption results in a higher rate than does the level dollar amount. MR. SLISHINSKY replied that the level dollar rate is lower long-term because a higher contribution into the fund to pay off the unfunded liability today generates less interest charged on the remaining unfunded liability going forward. MR. SEMMENS understood that a change to the rates set as GRS has outlined in its letter of 39.76% for PERS and 54.03% for TRS, there could be a reduction in rates when the level dollar calculation is used. MR. SLISHINSKY stated that if these rates were applied in FY08 rather than the rates calculated using the payroll growth assumption, rates in future years would decrease because more of the unfunded liability is paid. MR. FORNIA stated the rates would be decreased relative to what would be paid if this were not done. The rates will continue to go up as the payroll declines.

6. Review: Level Dollar Amortization Calculation

DAVID SLISHINSKY with Buck Consultants stated that on August 30, 2006 his firm was asked to calculate the FY08 employer contribution rates without using a payroll growth assumption in amortizing the unfunded liability. Using the 4.25% payroll growth assumption, the PERS employer contribution rate was 32.51% of pay and the TRS employer contribution rate was 42.26% of pay. Excluding the payroll growth assumption and amortizing the unfunded liability based on an 8.25% interest rate, the dollar amount of the amortization payment is increased and the rates would be 39.76% for PERS and 54.03% for TRS. In relative dollar terms, based upon estimated salaries for FY08, the additional PERS contribution would be $112 million and for TRS would be $63 million.

MR. TRIVETTE asked if data is available from the current fiscal year as to how many employees that have been hired since July 1, 2006 are under the new DC system versus the old DB system. MS. MORRISON replied there are 200 employees in the new DC plan. MR. TRIVETTE asked how many persons that have been hired since July 1 are in the DB plan. MS. MORRISON replied that this information could be made available at the Board's October meeting. MS. HARBO asked that at the Board's October there be data on how many of the non-vested employees switched from the DB plan to the DC plan. MS. MORRISON stated five people have converted from the DB plan to the DC plan and one more is in process. MS. HARBO asked how many employers are participating. MS. MORRISON replied that only the State of Alaska is participating for the PERS and TRS systems.

MR. WILLIAMS asked whether, given the Board's request to do a level dollar calculation, would a rate ever be reached to address the unfunded liability if the rate of increase were capped at 5% per year. MR. SLISHINSKY replied that if only the salaries for DB members are included and the rate is capped at 5% the unfunded liability would never be paid fully.

MR. PIHL noted that pages 38 through 69 of the Supplemental Report show the actuarially recommended FY06 contribution rates for PERS participants. He presumed these are rates that apply for each employer if the unfunded liability had begun being funded in FY06. MS. SLISHINSKY explained this is a calculation of the actuarial rate for every employer. MR. PIHL stated pages 19 through 26 of the Supplemental Report detail the FY07 and FY08 actuarially determined rates. He noted that from year to year it is obvious what is happening if the actuarial rates are not funded. He felt there should be recognition of what is occurring by not funding at these rates. MR. SLISHINSKY replied that the extent to which the contribution does not cover the amortization payment, the unfunded liability grows with interest. MR. PIHL noted that employer contribution rates are increasing automatically by 4% to 5% each year. COMMISSIONER NORDSTRAND stated that the funded ratio for FY05 was 75%, for FY06 was 72%, and for FY07 was 70%, and for FY08 is 65%.

MR. TRIVETTE stated one of the factors to consider is the decision to go to a five-year smoothing method. Although the rate of return for the last fiscal year was approximately 11%, only 20% of that is calculated in these numbers. He asked whether a two- or three-year smoothing would generate a significant difference in terms of rates. MR. SLISHINSKY thought the actuarial value and market value is close now. In the five-year smoothing there are some years with gains and some years with losses. MR. TRIVETTE understood that at the point the years when lower investment returns were achieved fall out of the smoothing calculations, the numbers would change. MR. SLISHINSKY stated the impact on the actuarial rates is factored into the projections. Provided that the funds do not experience losses in the next few years, those gains will be recognized and contribute to decreasing the actuarial rates. MR. TRIVETTE asked if the years of losses were significant enough that no losses in the coming years would have a significant impact. MR. SLISHINSKY thought the impact would be moderate.

MR. PIHL noted there are a number of rural education districts that have budgets funded in whole by the State. The total liability in PERS is $2.562 billion. He asked what would be the total figure if those REAAs were included. MR. BADER stated he could secure this figure for Mr. Pihl for the next Board meeting. MR. PIHL asked for this information for both PERS and TRS. MR. BADER felt it could be more difficult to assemble information on PERS and TRS contributions by each district as he believed it would require analysis of each district's financial statement. COMMISSIONER NORDSTRAND thought it could be possible to determine the contributions made by each particular employer.

BREAK 10:02 a.m. to 10:24 a.m.

MS. HARBO <u>moved to reconsider the motion to table the Retiree Reserve Fund presentation to the November meeting</u>. MR. SEMMENS <u>seconded</u>.

CHAIR SCHUBERT noted that the reason for the motion to reconsider is to schedule this topic for a work session on October 2, 2006.

By roll call vote, the motion passed unanimously.

MS. HARBO <u>moved to schedule this topic for discussion on October 2, 2006 from 9:00 AM to 11:00 AM</u>. MR. SEMMENS <u>seconded</u>.

By roll call vote, the motion passed unanimously.

7. Rate Setting

a. PERS Employer Contribution Rate: Resolution 2006-26

MR. BADER stated that staff would normally have come to the Board with a recommendation, but instead the staff has put an action item before the Board to set the rate as it determines appropriate. He noted the Board has heard discussions, public testimony, and presentations from the actuaries on this topic

COMMISSIONER NORDSTRAND moved to set the FY08 PERS employer contribution rate at 39.76%, subject to the individual rates comprised of that amount, as set out in Resolution 2006-26. MS. HARBO seconded.

MR. SEMMENS appreciated the motion to set the rate at the highest that has come before the Board. He asked if this rate is recommended given the Governor's press release that municipalities should expect substantial aid. COMMISSIONER NORDSTRAND replied that Trustee Corbus' and his discussions with the Governor are that he will support a budget to the governor-elect that includes a contribution of $505 million as an increase from FY07 to FY08. The total increment from FY07 to FY08 would be covered by the proposed State budget, along with the school districts, University of Alaska, and other public organizations that are in PERS. Beyond that, in attempt to further decrease the unfunded liability, the Governor is recommending an additional $500 million contribution.

MR. SEMMENS was pleased with the Governor's proposal, but was concerned that the Legislature may not agree and then the rates in the motion would be quite high. Under this motion, the rate for the City of Kenai would be 45.71% rather than approximately 36.67%. The increase at 36.67% is 18%, nearly 100% more than Kenai paid the prior year, which amounts to $1 million or 10% of the City of Kenai's general fund budget. It also represents 2.5 mils of taxation and the City of Kenai currently has a 4.5 mil rate. He feared that the City of Kenai might be unable to pay a $1 million increase if the Legislature does not support the Governor's suggested budget. He was not sure if the rate would be higher or lower than 39% when the actuary report comes out next year. MR. SEMMENS moved to amend the motion to set the PERS rate at the average rate of 32.51%, recognizing that in that average rate there is a 14.48% normal cost rate and the employer rates set in the Supplement to the Actuarial Valuation Report of June 30, 2005 by Buck Consultants. MR. TRIVETTE seconded.

MR. PIHL asked if the $505 million recommended by the Governor includes the $112 million increase for PERS resulting from the increase from 32.51% to 39.76%. COMMISSIONER NORDSTRAND explained that the total PERS increase would be $196 million at the rate of 32.51% as opposed to $319 million at the rate of 39.76%. He stated the collective cost of PERS and TRS at the lower rate is approximately $307 million and at the higher rate is approximately $505 million.

MR. TRIVETTE explained he seconded MR. Semmens' motion because it appears that only 200 people have gone into the new DC plan and there will be more contributions into the DB than was initially thought. The actuaries provided information with everyone going either into the DC plan or into the DB plan. If only 200 people have gone into the DC plan for the first several months, that is a low number. He thought the majority of people were hired under the DB plan rather than the DC plan, which would put the figures closer to the motion Mr. Semmens proposed. COMMISSIONER NORDSTRAND reminded the Board of the hiring freeze. He felt it could not be assumed there will be a vast number of Tier 1, 2, 3 employees hired that will not be in the DC plan and thus further contributing to the DB plan.

MS. HARBO understood that these figures were based on who is currently in the system under the old DB plan. The number of active employees has gone down for the last three years for TRS and has only increased slightly for PERS. She did not think the new hires affect these rates.

COMMISSIONER NORDSTRAND thought if the DB plan members are added, they are paying more into the system but they are also accruing greater liability to the system. He felt the Board should err on the side of a conservative, level dollar approach. He did not want to leave $200 million on the table. He also felt it was important to put this funding into the rates rather than the General Fund contribution because putting it into the rate leverages other federal funds. If $500 million is deposited into the funds, there will be no federal funds leveraged by that amount.

MR. TRIVETTE asked if the $505 million would cover the increase for FY08 for PERS, TRS and all other participants. COMMISSIONER NORDSTRAND replied in the affirmative. He stated the rate is based on the September 2006 payroll. That was then compared to the FY07 rates.

By roll call vote, the amendment failed with Trustee Semmens in favor and Trustees Pihl, Trivette, Williams, Corbus, Harbo, Nordstrand, and Schubert objecting,

MR. PIHL asked if the motion on the floor includes reference to revenue sharing and that the sharing would be done as the ARM Board recommended in its April 14, 2006 report that it is equal across the board on a percentage basis. MR. SEMMENS recalled that the Legislature determined it is a large percentage of the unfunded liability, so those municipalities with a larger unfunded liability would receive more money. MR. BADER believed the motion on the table would be generally consistent with the plan embedded in HB375 because money would be made available to reduce the contribution rate, which has past service liability included in it. If the Legislature approves the $505 million contribution, the precise manner in which it is distributed would be handled in legislation. MR. PIHL thought the ARM Board’s April report recommended that revenue sharing be done on an average basis so that all employers were treated fairly. MR. BADER clarified that the report talked about funding up to the average contribution rate and no more. HB375 moved away from that concept and essentially was to pay the past service liability rate.

MR. WILLIAMS asked that the motion be read back, noting that he did not recall that it deals with revenue sharing. CHAIR SCHUBERT stated the motion is to set the FY08 PERS employer contribution rate at 39.76%, encapsulated in Resolution 2006-26.

MR. SEMMENS stated he appended verbiage to his motion simply because SB141 has specific language regarding the normal cost rate and the certification of an appropriate past service liability rate and those rates are clearly encompassed in the consolidated employer rate. He explained he is concerned that the ARM Board's action set the normal cost rate as required in SB141. That is embodied in the fourth "whereas" clause of the resolution. The requirement is to certify to the budgetary authority of each employer in the system an appropriate contribution rate for normal cost and an appropriate contribution rate for liquidating past service costs. He felt comfortable if there is agreement that the rate includes an appropriate contribution rate for normal cost and an appropriate contribution rate or liquidating past service costs.

MR. JOHNSON thought that if the administrators of the system agree that setting a rate of 39.76% does both of these things, the Board's statutory obligations are met. MR. SEMMENS asked whether the motion is based on the report from Buck Consultants as of September 6th that recommends 39.76%. COMMISSIONER NORDSTRAND replied in the affirmative. MR. SEMMENS asked if that includes both the normal cost rate and the rate to amortize the unfunded liability for every employer. If that is the case, he was satisfied that the motion addresses this.

By roll call vote, the motion was approved with Mr. Semmens objecting.

b. TRS Employer Contribution Rate: Resolution 2006-27

COMMISSIONER NORDSTRAND moved to set the FY08 TRS employer contribution rate at 54.03%, as set out in Resolution 2006-27. MS. HARBO seconded.

COMMISSIONER NORDSTRAND wished to ensure that the second paragraph of the resolution does not indicate that the ARM Board sets the rate for the Judicial Retirement System. The ARM Board is responsible to set the employer contribution rates for PERS and TRS. MR. JOHNSON confirmed that the ARM Board does not set the rate for the Judicial Retirement System.

By roll call vote, the motion was approved unanimously.

c. Retiree Major Medical Insurance Rate – ADC: Resolution 2006-28

MR. BADER explained that one of the provisions of the new retirement plan is that a medical benefit is available to retirees. The actuaries have reviewed the plan and made calculations of the contribution rates needed to support that plan. That amount is .99 percent of employee contributions.

COMMISSIONER NORDSTRAND moved to adopt Resolution 2006-28 setting the Fiscal Year 2008 Employer Contribution Rate for retiree major medical insurance at .99 percent. MR. PIHL seconded.

MR. TRIVETTE understood the ARM Board is taking this action now simply because there is no information on these employees at this time. He presumed that the rate would be reviewed after there is more experience with this plan. MR. BADER noted that the actuaries have the benefit of looking back and make assumptions going forward, which resulted in this .99 percent rate.

By roll call vote, the motion was approved unanimously.

d. PERS Occupational Death & Disability – ADC: Resolution 2006-29

MR. BADER explained that the actuaries have reviewed past history of the PERS and calculated a rate of 1.33 percent for police officers and firefighters and a rate of .58 percent for other PERS employers.

MR. TRIVETTE moved to adopt Resolution 2006-29 setting an Occupational Death & Disability Rate of 1.33 percent for peace officers and firefighters and .58 percent for other PERS employers. MR. SEMMENS seconded.

By roll call vote, the motion was approved unanimously.

COMMISSIONER CORBUS moved that the ARM Board endorse the Governor's proposal recommending that an additional $500 million be deposited in the PERS and TRS funds. MR. TRIVETTE seconded.

By roll call vote, the motion was approved unanimously.

MR. PIHL moved that the ARM Board renew its request to the Legislature for a supplemental appropriation for FY07 to fund the difference between the rates being contributed and the actuarial rates. MS. HARBO seconded.

MR. PIHL was not certain this motion was appropriate, given the previous motion by Trustee Corbus. COMMISSIONER NORDSTRAND remarked that he could not support the motion, not knowing that amount and without an understanding of the FY07 budgetary impacts.

MR. WILLIAMS asked whether either the Department of Revenue or Department of Administration could calculate this amount and bring that information to the ARM Board's October meeting. If that can be done, he suggested perhaps the motion could be held in abeyance until that time. MS. CARPENTER responded that the Department of Administration could calculate this amount.

MR. PIHL and MS. HARBO agreed to withdraw the motion.

VII. UNFINISHED BUSINESS

1. 2007 Calendar

JUDY HALL noted that she is awaiting responses from several trustees regarding the April 2007 meeting date.

2. Disclosure Report

JUDY HALL reported that a disclosure report is contained in trustees' packets.

3. Legal Report

ROB JOHNSON had no report.

VIII. NEW BUSINESS

COMMISSIONER NORDSTRAND informed the ARM Board that Judge Joannides has supplied the appendix to the court order. Judge Joannides had initially concluded that the regulations proposed for same-sex benefits plan were not constitutionally sufficient. There is now an 11-page appendix describing her specific objections. The Department of Administration will review this as part of the process to achieve final regulations. A public hearing on the regulations is scheduled for September 27, 2006 from 1:00 PM to 4:00 PM in Juneau to hear public comment on the proposed regulations and the following day in Anchorage from 1:00 PM to 4:00 PM. The goal is to achieve final regulations by October 15, 2006. The judge directed that by October 6, 2006 the State provide a copy of what it believes will be the final regulations to be issued on October 15, 2006.

MR. PIHL stated he received an August 30, 2006 letter that seems to have a fiscal note about this subject. He was somewhat stunned that the cost of implementation of same-sex benefits for the initial and subsequent years is zero. COMMISSIONER NORDSTRAND stated that the medical costs might increase. Claims are paid through the particular health trust, so the operating cost is based upon the premium paid into the health trust for a given year. The State does not anticipate raising that premium for this plan year. Going forward, the health advisors will recommend rates that would reflect an increase, if one were necessary. MR. PIHL wished to know what is the cost to the State to implement and administer such a program. MS. CARPENTER explained the State anticipates a small increase in newly covered dependents. Based on projections from Buck Consultant this will be an approximately a .5% increase, which equates to a maximum 300 additional covered individuals. That is an administrative burden the Division of Retirement and Benefits can absorb.

IX. OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD

MR. BADER asked that LaSalle Investment Management be placed on the Watch List due to the personnel changes that were mentioned during his CIO Report.

MR. SEMMENS moved to place LaSalle Investment Management on the Watch List. MR. PIHL seconded.

There being no objection, the motion passed unanimously.

X. PUBLIC/MEMBER COMMENTS – None

XI. TRUSTEE COMMENTS

MS. HARBO raised the issue of citizens over 65 who are having problems finding doctors that accept Medicare. There was an article in the August 30, 2006 *Anchorage Daily News* and continued articles in the letters to the editor in the *Anchorage Daily News* in particular. She explained that individuals over 65 are required to pay for Medicare Part B and they are having a very difficult time finding doctors who will accept Medicare. This means they have to pay costs out of pocket in addition to paying for Medicare Part B. Some seniors are also being required to pay an annual deposit with doctors in order to be accepted as patients. She hoped that the Division of Retirement and Benefits would ascertain the number of doctors in different locales that will accept patients with Medicare.

MS. CARPENTER stated the Division's Benefits Manager and Premera/Blue Cross will attend the Retired Public Employees Association meeting tomorrow; the topic of that meeting appears to be Medicare. The Division will be seeking the assistance of Premera to assemble a list of doctors that either do or do not accept Medicare. She noted that Medicare is a federal issue. The State's plan is secondary to Medicare.

MS. HARBO noted that seniors are forced to wait until the problem is serious enough to seek emergency care if they are unable to find a doctor that accepts Medicare. This ultimately increases costs to the system.

MR. SEMMENS encouraged the Department of Administration to work with the actuaries to develop a cost effective way to provide detailed information to employers upon their request. He explained that the City of Kenai requested information to verify the actuarial results specific to the City of Kenai and was told the information could be supplied at a cost of $5,000. The Council has approved this expenditure, but it seemed to him that the actuary could develop a program that does not carry such a cost.

MR. PIHL thanked the Governor and Commissioners Corbus and Nordstrand for the information released today. It is apparent that revenue sharing is needed in order to address the issue of unfunded liability.

COMMISSIONER NORDSTRAND expressed appreciation for the concerns expressed regarding the timing associated with the retirement reserve account matter, but he felt it was unfortunate to have to wait three weeks to talk about that subject. Further, he found that delaying this discussion without consulting with the Department of Administration is difficult. He felt that if there was a concern by the Board, it could have been expressed to the Department of Administration prior to the meeting.

MR. TRIVETTE thanked Mr. Pihl for his motion regarding a supplemental budget request and looked forward to discussing it in October. He noted that he received the information on the retirement reserve account matter Saturday and there were so many questions he would like to see answered that he did not feel it was appropriate to proceed today. He stated he would like to have background information on the presentation that was provided. His other consideration in tabling that item had been his anticipation that today's meeting would have been much longer, but given the Governor's announcement, the meeting was not as lengthy. COMMISSIONER NORDSTRAND explained that the purpose of placing the topic on the agenda was to begin the discussion with the intent to provide information before the end of the year.

MS. HARBO felt that it is appropriate to discuss the topic of the retirement reserve account in a work session in October, which will allow for the exchange that is needed.

CHAIR SCHUBERT remarked that in the past couple of meetings the Board has dealt with difficult issues and has done well. Alaska is one of only eight states that include health care costs in its funding ratio. Uniformly in the conferences she has attended, people associated with public pension funds think a funding ratio of 70% is normal. Although the system is showing a $6.9 billion unfunded liability, it is ahead of the curve in some respects. The Board, staff, and the actuaries have worked hard to resolve the issue.

MS. HARBO stated that without the health care costs included, TRS has a 91.3% funded ratio. She clarified that there are four states and eight systems that pre-fund health care. She thought Alaska was forward-looking and has done a good job for its retirees and seniors by providing health care. She thought the Alaska system is healthy.

XII. FUTURE AGENDA ITEMS

MS. HARBO was aware that the Division of Retirement and Benefits would provide information on the number of new hires under the DC plan. She hoped there would be more employees under the new DC plan by the time of the next ARM Board meeting.

CHAIR SCHUBERT asked if the Division's data shows rehires under either Tier 1 or Tier 2. MS MORRISON stated that anyone entering the DB plan after July 1, 2006 would be a rehire. She stated the Division could show the tier they are in.

XII. ADJOURNMENT

MR. TRIVETTE moved to adjourn the meeting of the ARM Board. MS. HARBO seconded.

There being no objection, the motion PASSED unanimously.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, THE ARMB MEETING ADJOURNED AT 11:17 AM ON September 11, 2006.

Chairman of the Board of Trustees
Alaska Retirement Management Board

ATTEST:

Corporate Secretary

Note: The summary minutes are extracted from tape recordings of the meeting and are prepared by outside contractors. For in-depth discussion and presentations, please refer to tapes of the meeting on file at the ARM Board offices.

WORDSMITH
Kimberly D. Stalder
Anchorage, Alaska