

**State of Alaska**  
**ALASKA RETIREMENT MANAGEMENT BOARD**  
**SPECIAL TELECONFERENCE MEETING**

Location of Meeting  
11th Floor Conference Room  
State Office Building, Willoughby Avenue  
Juneau, Alaska

**MINUTES OF**  
**March 15, 2013**

**CALL TO ORDER**

CHAIR GAIL SCHUBERT called the meeting of the Alaska Retirement Management Board (ARMB) to order at 2:00 p.m.

**ROLL CALL**

Six trustees were present by telephone or at the Juneau location at roll call to form a quorum. Ms. Harbo and Mr. Brice joined the meeting several minutes later.

**ARMB Board Members Present**

Gail Schubert, *Chair*  
Sam Trivette, *Vice Chair*  
Gayle Harbo, *Secretary*  
Kristin Erchinger  
Commissioner Becky Hultberg  
Martin Pihl  
Sandi Ryan  
Tom Brice

**ARMB Board Members Absent**

Commissioner Bryan Butcher

**Department of Revenue Staff Present**

Angela Rodell, Deputy Commissioner  
Gary M. Bader, Chief Investment Officer  
Judy Hall, Board Liaison

**Department of Administration Staff Present**

Mike Barnhill, Deputy Commissioner  
Jim Puckett, Division of Retirement & Benefits Director

**Others Present**

Rob Johnson, Board legal counsel  
David Slishinsky, Buck Consultants, Inc.  
Jay Dulaney, RPEA  
Ron Johnson, RPEA member, Fairbanks  
John Boucher, Office of Management and Budget

**PUBLIC MEETING NOTICE**

Judy Hall confirmed that public meeting notice requirements had been met.

**APPROVAL OF AGENDA**

MS. ERCHINGER moved to approve the agenda. MR. TRIVETTE seconded. MR. PIHL requested a review of the new Buck Consultants projections. The Chair said if there was no objection she would add it as item "VI. D."

MS. ERCHINGER said she did not object to placing this item on the agenda; however, she recalled a discussion at the last board meeting about the possibility of the resolution that was going before the legislature being able to articulate the results of the actuarial analysis. So if anyone wanted to have that information written into the resolution, discussion about the actuarial scenarios at the end of the agenda might not satisfy that goal.

MR. PIHL said he did not want any possible trouble with the new Buck scenarios to hold up passing the resolution. CHAIR SCHUBERT suggested that when the Board reached the discussion of the Buck scenarios on the agenda would be the time for Mr. Pihl to object to any efforts to amend the resolution.

**PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES**

JAY DULANEY, with Retired Public Employees of Alaska (RPEA), mentioned a recent RPEA special edition dedicated to educating its members about the retirement systems' unfunded liability issue. He said they appreciated the Board addressing the unfunded liability previously by moving to the level dollar amortization method, and now by possibly recommending lump-sum contributions to the retirement system trust funds. RPEA fully supports the ARMB in this effort. Once the resolution is passed, he would recommend to RPEA members that they contact their legislators supporting the measure. He also believed that pension obligation bonds could help, especially in conjunction with the level dollar and cash infusions, and he urged the Board to support the implementation of those vehicles as well.

RON JOHNSON, a TRS retiree, said he was glad that last year the Board moved to recommend a level dollar pay-down method, especially in light of House members saying yesterday that they will have to reduce the [state] operating budget each year because there will be less revenue. The

current level percent pay-down goes exactly in the opposite direction, where there are increasing payments to the unfunded liability each year. He commended Trustee Brice for introducing a resolution to have \$500 million deposited in each of the next several years to pay off the unfunded liability. On the matter of the assumed 8% discount rate on investments, of six retirement entities — public, private, Europe, Canada and the United States — the only one that allows an 8% return are public entities in the United States. The others assume no more than a 6% investment return. If we assume 6% return, the unfunded liability would be over \$20 billion, so it is a very serious problem. He said he worries about the security of those who retire 10 or 20 years down the line. He concluded by thanking everyone for their service.

#### **A. LEGISLATIVE COMMITTEE REPORT**

Committee Chair GAIL SCHUBERT reported that the committee discussed and made revisions to the chronology of actions regarding the unfunded liability and other issues facing the retirement systems. *[The chronology, prepared by Ms. Hall, was in the meeting packet.]* She said they discussed a letter from the Board that will be sent to the legislative leadership, with a copy to Governor Parnell and other members of the legislature *[in the meeting packet]*. Lastly, the committee took up the draft resolution that was before the Board at this meeting.

#### **B. CONSIDERATION OF RESOLUTION 2013-02 RELATING TO THE UNFUNDED LIABILITY**

For clarity, CHAIR SCHUBERT inquired if the resolution presented and discussed at the February meeting had been tabled until this meeting.

After a short discussion, board attorney ROB JOHNSON stated that a motion on the resolution was tabled at the February meeting, and what is before the Board today is a somewhat different version of the resolution than what was tabled. The question is whether the maker and the second of the motion would be agreeable to friendly amendments that gave rise to the latest version of the draft resolution.

CHAIR SCHUBERT suggested bringing the unnumbered resolution from the February meeting back to the table so the Board could vote it down and then proceed with a clean slate with the introduction of a new resolution.

MR. BRICE said that, for the sake of simplicity, he wished to withdraw the unnumbered resolution that he introduced at the February board meeting.

MS. RYAN, as the second to the unnumbered resolution, said she felt uncomfortable withdrawing it after it was on the record. She proposed either voting it down or moving by substitution to replace it with Resolution 2013-02.

CHAIR SCHUBERT brought back up for a vote the unnumbered resolution that had been tabled until this meeting. She said a no vote meant that the resolution was voted down, and a yes vote

meant the resolution moved forward.

The roll was called on the original motion, and trustees Erchinger, Brice, Harbo, Hultberg, Pihl, Ryan, Trivette and Schubert voted no. The motion failed.

CHAIR SCHUBERT stated that the Legislative Committee voted to adopt Resolution 2013-02 with a recommendation that the full Board adopt it. She asked for a motion to adopt the resolution.

MR. BRICE moved to adopt Resolution 2013-02 [relating to the unfunded liability of the State retirement systems]. MS. HARBO seconded.

MR. PIHL said the resolution basically incorporated the friendly amendments that were before the Board previously, and he totally supported the resolution.

In the "Be It Further Resolved" section, MS. ERCHINGER suggested deleting the word "to" in the phrase "to appropriate" in the second line, and possibly inserting the word "legislative" immediately before the words "session" and "sessions" in the third line. She said she would rephrase it in the form of a motion if they were not considered housekeeping changes.

MS. HARBO further suggested a comma after the words "state assistance" in line two. MS. ERCHINGER agreed.

Responding to Ms. Erchinger's first change, CHAIR SCHUBERT said that given the way the sentence was structured the word "to" needed to be in there, as in "to appropriate."

When queried by the Chair, MR. BRICE and MS. HARBO agreed to consider the addition of the word "legislative" in line three as a friendly amendment.

The question was called, and a roll call vote was taken. Trustees Erchinger, Brice, Harbo, Hultberg, Pihl, Ryan, Trivette and Schubert voted yes. The motion passed unanimously.

CHAIR SCHUBERT thanked Mr. Brice and everyone who worked on the resolution.

### **C. CONSIDERATION OF DRAFT COMMUNICATION TO LEGISLATURE AND GOVERNOR**

A copy of the letter was in the meeting packet, and CHAIR SCHUBERT asked for any comments.

MR. TRIVETTE expressed his concern that over a third of the legislators are new and might wonder what would happen next if they approved the appropriation request. He suggested a sentence at the end of the letter, as follows: "We will be glad to meet with the members of the legislature to explain the benefits to Alaskans of these annual \$500 million appropriations."

MR. JOHNSON recommended saying the ARMB Board instead of using the word "We" at the beginning of the sentence. There was no objection to that change.

CHAIR SCHUBERT said no official action was needed to approve the letter. She asked Ms. Hall to make the above change.

#### **D. DISCUSSION OF BUCK PROJECTION SCENARIOS**

MR. PIHL had a question about the employer contributions and the high funded ratios in Buck's projections, when the \$500 million appropriations are taken into consideration.

DAVID SLISHINSKY of Buck Consultants said he would have to spend more time looking at the projections and comparing them, in order to adequately answer Mr. Pihl's questions. He added that, as discussed last year, these projections reflect the two-year time lag between the time that the actuarial valuation is performed (and the contribution rate is determined) and time that that rate is applied for actual contributions. When the funded ratio goes from below 100% to above 100%, depending upon how those calculations are working at that point in time, there can be some additional contributions made that push the funded ratio above 100%. From that point forward, the interest or investment return that is granted on that excess contribution accumulates over time. When looking at a 60-year period, and the overfunded status that Mr. Pihl referenced is happening 20 years down the road, there is another 40 years' worth of projections after that. It means that that little extra is being accumulated and continues to gain investment return at the same time that the accrued liability is declining. So that ratio grows over time. He added that some of the projections have very little extra, while some other projections have a little bit more.

MR. PIHL said his fear was that the new projections, which showed a funded status of 1100% at year 2032, would lead someone to conclude that the retirement systems do not need the \$500 million appropriations. That would not be correct.

MR. SLISHINSKY agreed that would be an incorrect presumption.

MR. PIHL asked him to compare the projections, saying that he did not want the funded ratio to exceed 100%. The actuarial calculation should be made to reach 100% funding and stay there.

MS. ERCHINGER said she agreed with Mr. Pihl because the presentation is critical, in light of how these calculations were used to bring forth SB 187 in the prior legislative session. She understood that the intent as the projections were run was to stop employer contributions when the trust fund reached 100% funded, and logically that made perfect sense. However, recognizing that the additional employer contributions are causing an 1100% funded ratio, she would like to see the last year of employer and state contribution zeroed out to see what happens to the end, and then go up year by year and see at what point to stop zeroing employer contributions to end up with a system that is fully funded. That would give people a more realistic look at the impact of these contributions on trying to get a system that is completely funded at the end, not 1100%

overfunded.

MR. SLISHINSKY explained that they will have to do an adjustment by hand to reduce the contribution in that very year so that in the following year the funded ratio is calculated to exactly 100%, so there is no surplus at all that results from that prior year's contribution. Buck can do that by hand on all the projection scenarios, but it cannot be done using the software.

MR. PIHL drew attention to the 7% investment return schedule that showed employer contributions continuing out to 2072. MR. SLISHINSKY said that a loss is created whenever the actual result is unfavorable to the actuarial assumption, and then that loss is amortized over 25 years. The 7% return schedule shows it is an unfavorable result compared to the 8% assumption, and there is a loss created every single year going forward in the projection.

MR. PIHL said that was not what he wanted but rather to change the assumption to 7%, realizing that it will require higher contributions between now and 2032 to get to a 100% funding ratio.

MR. SLISHINSKY responded that he would work with staff in order to come up with a 7% long-term rate of return assumption to be used for the discount rate, and how much of that is a reduction to the real rate of return and how much of it is a reduction to the inflation rate. Once Buck knows that, then they can re-run the projections with the discount rate being 7% and any adjustment to inflation that affects the salary scale and the other economic assumptions.

MR. PIHL questioned why level percentage of pay schedules were even prepared, because the system was now on level dollar amortization. MR. SLISHINSKY said this is what Buck had understood was requested, and the 7% investment return they understood to mean what happens when you get 7% returns going forward. That is different than reducing the discount rate from 8% to 7% in the assumptions.

MR. BARNHILL stated that staff would endeavor to work with the Board and with the actuary to obtain whatever scenarios trustees want. He was concerned about having the actuary make manual changes to scenarios that change every year. And the Board has already expressed concern about the cost of the actuaries. Before having the actuary make manual changes, he suggested finding out how much effort that would take, and then sharing that information with the Board to see if the cost would be worth the effort.

CHAIR SCHUBERT said that sounded fair, if Board members did not have an objection.

MR. TRIVETTE also agreed. He suggested getting the group back together that worked on unfunded liability issues in late 2010, where they could be cognizant of the things that have been talked about today. He said he shared the same concerns voiced by others about level percent of pay and 7% returns.

CHAIR SCHUBERT indicated that she would act on the working group at a later time.

**OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD**

**HB 152**

MR. BRICE mentioned that HB 152 was introduced that would exempt municipalities for certain termination cost studies, etc. He asked if the governor or the departments had taken a position on that at this stage, or if it was something the ARMB needed to be concerned about.

MS. RODELL said the Department of Revenue has looked at the bill and, because it does not impose any costs on the DOR Treasury Division or management of the trusts, the department has not provided any analysis or fiscal note on it.

MR. BARNHILL explained the genesis of HB 152 with the Alaska Municipal League. He said that because of the sliding scale used the bill added \$114 million to the unfunded liability. The bill is now with Buck Consultants to perform an actuarial analysis of the bill itself. He guessed that, with a fiscal impact of over \$100 million to the unfunded liability, at best the Department of Administration's position will remain "no position."

JOHN BOUCHER of OMB, responding to an earlier question from Trustee Brice about an appropriation, relayed that HB 65, Section 27 contained the special assistance payments to the retirement systems. It was \$312.4 million to PERS, \$316.8 million to TRS, and \$4.4 million to the Judicial Retirement System. He did not see any appropriations beyond the normal state assistance payments.

MR. BRICE thanked him for that clarification.

**PUBLIC/TRUSTEE COMMENTS - None.**

**ADJOURNMENT**

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, AND NO OBJECTION, THE MEETING WAS ADJOURNED AT 2:52 P.M., ON A MOTION MADE BY MR. BRICE AND SECONDED BY MS. RYAN.



Chair of the Board of Trustees  
Alaska Retirement Management Board

**ATTEST:**

  
Corporate Secretary

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

Confidential Office Services  
Karen Pearce Brown  
Juneau, Alaska