State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
MEETING

Videoconference

MINUTES OF
October 11, 2021

Monday, October 11, 2021

I. CALL TO ORDER

CHAIR ROBERT JOHNSON called the videoconference of the Alaska Retirement Management Board (ARMB) to order at 9:00 a.m.

II. ROLL CALL

Nine ARMB trustees were present at roll call to form a quorum.

Board Members Present
Robert Johnson, *Chair*
Bob Williams, *Vice-Chair*
Gayle Harbo, *Secretary*
Lorne Bretz
Allen Hippler
Commissioner Lucinda Mahoney
Dennis Moen
Donald Krohn
Commissioner Paula Vrana

Board Members Absent
None.

Investment Advisory Council Members Present
Dr. William Jennings
Dr. Jerrold Mitchell
Ruth Ryerson

Department of Revenue Staff Present
Zachary Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Brian Fechter, Deputy Commissioner

Scott Jones, Head of Investment Operations, Performance & Analytics
Ryan Kauzlarich, Accountant V
Alysia Jones, Board Liaison

Department of Administration Staff Present
Ajay Desai, Director, Division of Retirement & Benefits
Kevin Worley, Chief Financial Officer, Division of Retirement & Benefits
James Puckett, Deputy Director, Division of Retirement & Benefits
Emily Ricci, Health Care Policy Administrator, Division of Retirement & Benefits

ARMB Legal Counsel Present
Benjamin Hofmeister, Assistant Attorney General, Department of Law
Rob Schmidt, Assistant Attorney General, Department of Law

Consultants, Invited Participants
Steve Center, Callan
Paul Erlendson, Callan
David Kershner, Buck
Scott Young, Buck
Tonya Manning, Buck
Paul Wood, Gabriel Roeder Smith
Bill Detweiler, Gabriel Roeder Smith

Others Present
Randall Burns, RPEA President
Kris Erchinger, Public
John Davies, Public
Douglas Gregg, Public
Bill Hill, Public
Steven Bradford, Public
Melody Douglas, Public
Arthur Allen, Public
Luann McVey, Public
Brad Owen, Public
Wendy Wolfe, Public

III. PUBLIC MEETING NOTICE

Board Liaison ALYSIA JONES confirmed that public meeting notice requirements had been met.

IV. APPROVAL OF AGENDA

MS. HARBO moved to approve the agenda. COMMISSIONER MAHONEY seconded the motion.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

MS. JONES said that they had received 45 written comments related to the meeting topic and all were in opposition to the market value reset. Written testimony had been received from: Randall Burns on behalf of the Executive Board of the Retired Public Employees of Alaska, James Dennis, Joan Williams, Al Setera, Shonti Elder, Nils Andreassen, Ruby Hollembaek, TJ O'Donnell, Arthur Nash, Siri Hari Hari Singh Khalsa, Mary Chouinard, G. Higgins, Tyler Henegan, Joseph Liddle, Heidi Wimmer, Ryan Quigley, Raven Amos, Cheryl Cameron, Brittany Cioni-Haywood, Steve Click, Russ Newell, Barry Johnson, Scott Raygor with the Alaska Professional Firefighters, Nick Clark with the Fairbanks Firefighters Union, Tom Richards, Dan and Randy Busch, Victoria O'Connell, Caroline Venuti, Katherine Peterson, Emily Becker, Representative Zach Fields, Silvia Burford, Tom Klaameyer with NEA-Alaska, Jake Metcalfe with ASEA AFSCME Local 52, Douglas Blockcolsky, Lon Garrison with the Association of Alaska School Boards, Mary Burtness, Kirsten Poss, Alexei Basargin, Duncan Marriott, Sheryl Baechler, Forrest Kuiper, Luann McVey, Pamela Lloyd, and Paul Miranda with the Alaska Professional Firefighters Association.

CHAIR JOHNSON noted that there were six people present to provide testimony and invited MR. RANDALL BURNS to speak.

MR. BURNS said that he was the President of the Retired Public Employees of Alaska and was speaking on behalf of the Executive Board of the Retired Public Employees of Alaska, representing over 4,000 members that take exception to the proposal before the ARM Board.

MR. BURNS said that the RPEA understood the economic pressures on the state's annual operating and capital budgets but given the present difficulties in the increasingly complex economic climate, the RPEA did not feel that the timing was right and that it would never be right to abandon the long-held sound fiscal policy. He said there was a reason why successful fund managers relied upon the actuarial approach to the valuation of assets as opposed to relying on a current market evaluation. He noted that one of the slides at the meeting in September had a slide titled "Why Do We Perform Actuarial Evaluations?" which listed many reasons for that practice. He said they understood that the recent market gains suggested that abandoning the AVA approach and adopting a market valuation of assets would bring substantial short-term gains to the state's general fund balance sheet. He said they also believed that introducing policy changes in the management of the state's retirement funds just to take advantage of recent market gains failed to fully appreciate the current tenuous financial conditions facing global markets.

MR. BURNS said that the RPEA asked that the Board maintain the commitment to well-established actuarial calculations when setting the contribution rates.

MS. ERCHINGER was next and said that she was a former Trustee of the ARMB and thanked the Board for all their hard work. She noted the agenda of the meeting and said that although recent high investment returns offered a tempting opportunity to propose the change, it would reduce required state assistance payments in the current year. She said that the timing of the change did not appear to

reflect actuarial best practice. She said the change would run counter to past difficult decisions made by the Board to promote consistency, follow actuarial best practice, reduce rate volatility, smooth investment gains and losses, and minimize long-term plan costs by maximizing investment earnings to fund the majority of the plan benefit payments. She encouraged the committee and the Board to stay the course and maintain the current practice of valuing plan assets using the actuarial value of assets approach.

MR. DAVIES was next to speak saying he was from Fairbanks and a former legislator and North Star Borough Assembly person and currently the Chair of the Audit and Finance Committee of the Board of Regents, but that he was speaking just for himself. He said that he was opposed to the idea without very careful analysis of the risks which he thought were not presented in the proposal. He said he was in the Legislature in the 90's when they made what they thought were modest changes to the contribution rate, which created the huge deficits that they were currently trying to dig out from under. He said the changes were based on consultants that had no skin in the game and that it was up to the ARM Board to make prudent investor decisions that were required. He said it was important that they did not make a decision based on one single good year, but to follow the best actuarial practices of looking at the long-term picture.

MR. GREGG spoke next stating that all investors were aware that the value of the portfolio at the current market did not give accurate information about the true value. He said that they had adopted the asset smoothing method in 2006 and were still with a multibillion unfunded liability. He said that changing from a smoothing method to a point-in-time method was counter to accepted best accounting practices and could result in the lowering of the state's credit rating and was a blatant political maneuver threatening the beneficiaries and the retired employees.

MR. HILL was next, stating that he was with the Bristol Bay School District. He said that they needed to recognize the unfunded liability that continued with the retirement system and not take any action that could potentially cause any further disruption. He urged the Board to maintain a five-year average that would have a positive impact on the state's obligation moving forward.

MR. BRADFORD was next to speak saying that he was from Juneau and that he believed that the CCA PPC white paper published in October of 2014 should be followed, that restarts of smoothing periods should not be used, and the asset smoothing period should not be reduced from five years to three years and urged the Board to vote against the proposal.

MS. DOUGLAS spoke next saying that she was a resident of the Kenai Peninsula and a retired CFO for the Kenai School District. She said that she was the Associate Executive Director for the Alaska Association of School Business Officials and wanted to be on record opposing the proposal before the ARM Board.

MR. ALLEN spoke next stating that he was a TRS and PERS member. He said that he opposed the change of plan for how TRS and PERS was funded. He said he thought it was very shortsighted to move forward on a one-year growth.

MS. MCVEY was next saying she that was from Juneau and had submitted her written testimony.

She noted that she was a 66-year-old retiree and that she had been a teacher and spent 29 years in Juneau paying into the Teachers' Retirement System and had expected to support herself after she retired. She urged the Board to veto the plan.

MS. JONES said there were no further people to give oral testimony but had received five additional comments in opposition to the reset to market value from Tom McKenna, Leon Jaimes, Janice Caulfield, Maureen Conerton, and Linda Schandelmeier.

VI. FY2023 CONTRIBUTION RATES

A. Discussion of Resetting to Market Value of Assets at 6/30/2021

CHAIR JOHNSON introduced COMMISSIONER MAHONEY noting that she would be presenting resetting to market value of assets

COMMISSIONER MAHONEY reminded the board the catalyst for this discussion was a $7 billion increase in the asset value in 2021. She reminded the board of the reset to market value implemented with a $3 billion increase in 2014. She said that they had also requested additional analytical data to consider a three-year smoothing as another option, plus an evaluation of the normal cost contribution for the healthcare plans.

COMMISSIONER MAHONEY noted that the proposals that were to be evaluated would not impact the benefits to beneficiaries and there would be no impact to the employers other than the State of Alaska. She said their duty was to manage and invest the assets in a manner to meet the liabilities and obligations of the funds so that the members and beneficiaries received their full benefits. She said that two actuaries had reviewed the data and had a difference in their opinions. She said one actuary thought a reset constituted a bias that would be subject to disclosure, the other did not agree with that. She reminded the Board that the Veterans fund was 191 percent funded and the health plans were 133 percent and144 percent funded.

COMMISSIONER MAHONEY said that on page 51 of the packet, there was forecasted fiscal data from Buck that showed that if the normal cost spending of the health plans were redirected, the forecasted plan would still exceed over 100 percent funded throughout the amortization period in 2039, the last year of payments. She said that in the last year of payments, the health funds were estimated to be at 116 percent for PERS and 148 percent for TRS.

MS. HARBO said that she believed the 2014 reset was a condition of the Legislature, not the Trustees, to reset the value; COMMISSIONER MAHONEY said that MS. HARBO was correct, the Legislature did redirect, and the Board cooperated with the redirection from the Legislature; MS. HARBO said that if they did not cooperate, they would not have received $3 billion.

CHAIR JOHNSON agreed with the discussion of the reasoning behind the reset in 2014 and said that it was a different kind of reset at that time.

MS. HARBO commented on the overfunding of the healthcare stating that prior to 2007 they considered pension and healthcare funds commingled and in 2007 the separate trusts were established.

She said in the late 1990s PERS and TRS were close to 100 percent funded, but currently they were not close to 100 percent funded if they consider the pension and healthcare funds together.

B. Review Statutes

CHAIR JOHNSON introduced MR. HOFMEISTER to review the statutes.

MR. HOFMEISTER started with AS 37.10.210(a) which discussed the ARM Board's fiduciary obligation. He said the fiduciary obligation required the ARM Board to make decisions consistent with standards of prudence and to manage and invest assets entrusted to the Board. He said there was a reference to AS 37.10.071 which was the fiduciary obligations for boards that managed state trusts and investments.

MR. HOFMEISTER said the provision of that statute that most captured the precedents for the meeting was that the fiduciary of the state fund, which was the ARM Board, exercises power of an owner in regard to the assets it manages, performing proper acts to administer the assets, and engage in the prudent investor rule. He noted that one member of the Advisory Council filed a written opinion that mentioned that part of AS 37.10.071 that said the fiduciary will exercise the fiduciary duty in the sole financial best interests of the fund entrusted to the fiduciary.

MR. HOFMEISTER noted the statute regarding the setting of the contribution rate was AS 37.10.220(a), specifically (8)(A) and (B). The first part was to set an appropriate contribution rate for normal costs, the second part was to set an appropriate contribution rate for liquidating any past service liability. He said that with normal costs there was discretion of what the ARM Board could do. They had to consider a lot of different factors such as hiring experts, actuaries, accountants, and lawyers to help make the decisions. He said in terms of evaluating any decision the ARM Board needed to make, was consideration of the diminishment clause, found in Article XII, section 7 of the Alaska State Constitution which stated "Membership in employee retirement systems of the state or its political subdivision shall constitute a contractual relationship. Accrued benefits of these systems shall not be diminished or impaired." He went on to discuss the "rules" which came from particular Alaska Supreme Court cases. He listed the rules as the *Hoffbeck* rule, the *Sheffield* rule, and the *Gallion* rule.

MR. HOFMEISTER said that the *Hoffbeck* rule was from the 1981 Alaska Supreme Court Case of *Hoffbeck vs. Hammond*. He explained the *Hoffbeck* rule stated that "The right to benefits vests when the employee enrolls in the retirement system, rather than when the employee is eligible to receive benefits."

MR. HOFMEISTER said the *Sheffield* rule added more to the *Hoffbeck* rule stating, "When we speak of the level of rights and benefits protected by this statute, we mean the practical effect of the whole complex of provision."

MR. HOFMEISTER said the *Gallion* rule would be the most helpful to the Board in making the decision. He explained that this was derived from Gallion *vs. the Municipality of Anchorage*, which involved a police and firefighters pension fund that had three different plans - plan 1, plan 2, and plan 3. He said plans 1 and 2 were over funded, plan 3 was underfunded and each plan was treated

separately. He said the municipality decided to get plan 3 to a funded status by combining all three plans. Plan 1 was funded at 130 percent, plan 2 at 112 or 115 percent and plan 3 was funded at 89 percent, the combination of all three would have led to all three plans being between 99 and 102 percent funded. He said members of plans 1 and 2 filed a lawsuit arguing their rights were diminished in terms of the financial integrity of the plans and that the surpluses in their plans were being used to make up for the underfunded plan. He said the rule that came out of that case was, "Members have the vested right to actuarial soundness in their plans."

MR. HOFMEISTER said that one of the questions assigned to him was in regard to the 105 percent issue which came from the application of the Ad-Hoc Post-Retirement Pension Adjustment. He said it only applied to Tier I employees. It was in effect for PERS from 1980-1986 when it was repealed, and for TRS from 1980 to 1990. He said the Ad-Hoc Post-Retirement Pension Adjustment was a cost-of-living adjustment that allowed the administrator of the plan to allow for a cost-of-living increase. He said in 2005 when SB141 was being contemplated, the Legislature amended the repealed statutes to include a provision that stated; "When the administrator determines that the cost of living has increased, and the financial condition of the retirement fund permits, the administrator shall increase benefits to persons receiving benefits under the plan. For purposes of this subsection, the financial condition of the fund would only permit an increase in benefits when the ratio of total fund assets to the accrued liability meets or exceeds 105 percent." He noted that change was not a means of distributing surpluses, the DRB would have to determine whether or not there was a higher cost of living adjustment that could be given under the Ad-Hoc Post-Retirement Adjustment as compared to the current statutory Post-Retirement Adjustment. He stressed that the 105 percent provision was neither a means for distributing surpluses or defining overfunding.

MR. HIPPLER asked if there was a potential obligation for the fund to be forced to distribute an additional payment in the event of the plan exceeding 105 percent; MR. HOFMEISTER said it was not an additional payment, that there would have to be a calculation of what the Ad-Hoc Post-Retirement Pension Adjustment would be and what the current statutory automatic Post-Retirement Pension Adjustment would be, and it would be an either/or option.

COMMISSIONER MAHONEY asked if he would provide a scenario of when an additional payment would be made; MR. HOFMEISTER said that it was not an extra payment, it would be a different way to calculate the payment. He said that between 1980 and 1986 for PERS, and between 1980 and 1990 for TRS was, "The amount of the increase in benefit payments may not exceed the greater of the increase in the cost of living since the date of retirement or 4 percent of the retirement benefit compounded for each year of retirement." So DRB would end up having two calculations, one for the years between 1980 and 1986 and then one for the years between 1980 and 1990. He said what 105 percent does, was to trigger the need to have that calculation done and then there would need to be a comparison between that and the current automatic Post-Retirement Pension Adjustment calculation would be. He explained that it would not result in an extra cost of living increase, but an either/or situation and that would depend on which was greater, and which gave more benefits to the members that were subject to those statutes at those times.

MR. WILLIAMS asked if there was any way the 105 percent rule kicks in on the healthcare side; MR. HOFMEISTER said it was called the Post-Retirement Pension Adjustment and he did not

believe it did.

CHAIR JOHNSON asked if the *Gallion* case was saying that it was the integrity of the fund, that if it impacted the possibility of taking care of declines in investment revenues, and that was a concern to the Supreme Court, that they found it a diminution; MR. HOFMEISTER agreed and said the word the Alaska Supreme Court used was "financial" integrity and he said that members in those plans had a right under the diminishment clause, to actuarial soundness and the decisions that were made as to their plan individually, not as a whole between the three plans, even though it was administered by the same board; CHAIR JOHNSON said that the actuarial soundness in that situation was going to be 99 to 102 percent funded with blending, but the Supreme Court said that was still a diminution; MR. HOFMEISTER again agreed and explained there was an argument made by the municipality that came up during the course of the opinion that there would be no actual diminishment to individual members in terms of what they would receive in their benefits. The Alaska Supreme Court said, "We don't need to decide that because we have already decided that each plan member has a right to actuarial soundness in their individual plan."

C. Discussion of FY2023 PERS/TRS Additional State Contributions

CHAIR JOHNSON invited MR. WORLEY to speak along with representatives from Buck.

MR. WORLEY said that MR. KERSHNER would walk through the presentation.

MR. KERSHNER started his presentation with page 14 of the Board packet.
He said they were asked to provide a summary that showed all the different scenarios that had been discussed previously, along with some additional scenarios. He said the projections were based on 2020 valuations and did reflect SB55 which went into effect on July 1 for PERS. He noted that under SB55, the state contributes the full actuarially determined contribution rate. He said that not only were the additional state contributions affected, that the state-as-an-employer contribution was affected which was why the slide showed numbers split out separately for PERS, but for TRS it was just the additional state contributions that were affected. He said scenario 1 was to give the Board an idea of where they were and what was being projected to happen based on the 2020 valuations, assuming they earned 7.38 percent return in FY2021. He said scenario 2 reflected the actual FY2021 market return of 28 percent based on the preliminary asset statements. He noted that scenario 2 was the current state of projections going forward and that scenario 3 was exactly the same as scenario 2 except it involved a reset of the actuarial value to the market value effective 6/30/21 and then from that point forward they continue to smooth over five years. He said scenario 4 was compared to scenario 2 because scenario 4 does not involve a reset, that the only thing scenario 4 differs in versus scenario 2 is that going forward beginning in 2021, instead of smoothing over five years, they were going to smooth over three years.

MR. KERSHNER said that the slide showed the three proposals being considered as: Do nothing, as scenario 2 showed; reset the actuarial value to market value and continue the five-year smoothing showed as scenario 3; and no reset but change the smoothing to three years starting in FY2021 shown as scenario 4.

MR. WILLIAMS said if we went to three-year smoothing, it's going to become just a lot more

volatile, and there's certain years where it would have been disastrous. He then asked why the adverse returns presented did not consider a negative return like in 2008 when they were down 20 percent; MR. KERSHNER said that a three-year smoothing would introduce more volatility in contributions and they did not recommend a three-year smoothing, that the three-year scenario was shown to illustrate one of the proposals that was brought before the ARM Board. He said their recommendation was to not go to a three-year smoothing because of the risk of increased volatility. Regarding the adverse returns, he said that they were illustrative only to demonstrate what would happen with two years of adverse returns.

COMMISSIONER MAHONEY interjected that they were the ones who requested Buck run an option of three-year smoothing as a comparison point to understand how much volatility a three-year smoothing would have relative to a five-year smoothing.

MR. KERSHNER said that slide 5 was a summary of the projection figures for FY2023 through FY2031 for PERS and slide 6 was the exact same thing for TRS. He said the summary of the state's contributions to PERS through FY2039 in scenario 1 was projecting to be about $7.4 billion based on an assumed return of 7.38 percent for FY2021 and scenario 2 reflected the actual return of 28 percent and a projection of about $4.6 billion in state contributions, so a decrease of $2.8 billion because of favorable returns in FY2021. He reminded the Board that the fundamental principle was that contributions plus investment income, the amounts coming into the trusts have to, over the long term, equal the amounts going out to benefits and expenses. He said if contributions were insufficient, then the asset returns have to make up for the shortfall. But if there were excess investment returns, the contributions come down, which is shown in scenarios 1 and 2.

MR. KERSHNER said scenarios 3 and 4 show a slight decrease of about $62 million in 2 versus 3, and in 3 versus 4, a decrease of about $26 million, assuming that all future returns match the expected return of 7.38 percent.

COMMISSIONER MAHONEY asked if the difference shown on table 2 and table 4, (the difference between a five-year smoothing and a three-year smoothing) was $18 million; MR. KERSHNER said that was correct; COMMISSIONER MAHONEY then asked if he would explain how $18 million was relative to a multibillion-dollar fund; MR. KERSHNER said that it was not significant relative to the size of the fund, but that $18 million was dependent on the adverse return scenario identified as zero percent and 4 percent; COMMISSIONER MAHONEY asked if over the life of the fund was the average return 9.3 percent; MR. KERSHNER said that he did not have the data going back to be able to respond to the question; COMMISSIONER MAHONEY asked when they do the experience study would it be a full Monte Carlo analysis on the likelihood of future returns; MR. KERSHNER stated that they would use the GEMS model which was a Monte Carlo simulation of thousands of possible outcomes of returns and inflation rates going forward.

MR. KERSHNER then moved on to slide 6 which showed the same information previously discussed for PERS, but for TRS.

DR. JENNINGS commented that there were a number of state pensions that use a three-year smoothing and possibly a four-year smoothing. He said there were anecdotes of shorter than five-

year smoothing and some use corridors along with their smoothing.

MR. KERSHNER then moved to slide 8 as a graphical representation of PERS state-as-an-employer contributions under seven different scenarios that he previously walked through. He said scenario 1, the red line, was the projected PERS state-as-an-employer contribution's assuming they earn 7.38 percent in FY2021. He directed the board's attention to the line showing the asset gains and losses that were being deferred or smoothed and noted that once they reached the end of the smoothing period, the dollar amount projection increases due to amortization.

MR. KERSHNER said the solid blue line was scenario 2 and commented that it was similar to the red line following the five-year smoothing period. He said the green line (scenario 3) was where they take an immediate reduction due to resetting the actuarial value to market value. He said there were no gains or losses to smooth. He said the green line then blends into the black (scenario 4) and blue lines after FY2026.

MR. KERSHNER said that the black line which was smoothing over three years beginning in FY2021 and continuing with five-year smoothing for the FY2021 asset gains and losses.

CHAIR JOHNSON asked which of the lines would they be operating off of if it were simply a continuation of the status quo; MR. KERSHNER said it would be scenario 2; CHAIR JOHNSON asked if it was because they had to reflect the good earnings that they had; MR. KERSHNER said that was correct.

COMMISSIONER MAHONEY asked if the difference between the status quo (scenario 2) and the reset to fair market value (scenario 3) was $30 million; MR. KERSHNER said that through FY2039 in total state contributions, including the additional state contributions, would be approximately $62 million; COMMISSIONER MAHONEY asked if that included TRS; MR. KERSHNER stated no.

MR. WILLIAMS asked if it was accurate to say that the discussion in terms of using market value or sticking with what they've done was would be that the state contribute $206 million less over the next 3 years?; MR. KERSNHER said that was accurate.

MS. MANNING explained that there were two things to consider. One being the effect on contributions in the short term and also what the effect was on the volatility. She said they were making a decision that had dollar impacts, but they also had to consider committing to something that had volatility impacts.

MR. KERSHER referred back to the graph on slide 8 of his presentation and explained that the dotted lines showed adverse return scenarios and were color-coded to match their solid line counterparts. He stated that the savings versus more volatility had to be evaluated as the board decides which option to move forward with.

MR. WOOD asked MR. KERSHNER for clarification. He said his understanding of the discussion was that ultimately they would have to make more contributions over a longer term if they reset the actuarial value of assets. MR. KERSHNER responded that MR. WOOD was generally correct, noting

that they were not projecting any additional state contributions after FY2039.

MR. WOOD stated that they were targeting the exact same accrued liability number to reach 100 percent funded, and based on the present value basis, that would not happen unless the projections were extended beyond 2039. MR. KERSHNER said there was a savings through FY2025, and then there was an increase in contributions starting in FY2026 for that very reason. He agreed that by not contributing the higher amounts in FY2023 through FY2025, they would not get the earnings on those higher contributions, that the market value at the end of the period was lower with the lower contributions. He noted there were increases beyond FY2026, but they do not offset the savings from FY2023 to FY2025.

MS. MANNING reiterated that this was a decision where one can look at the short-term cash needs, which were important, but that the longer-term focus should be on the volatility that would be introduced by any decisions being made.

MR. WOOD commented that MR. KERSHNER did a nice job with the presentation and that lines would eventually converge. He said by lowering the contribution today you may end up having future budgetary strain and pressure on that budget to bring the amount back up, versus it already being there if they had stayed the course.

CHAIR JOHNSON recessed the meeting from 10:51 a.m. until 11:01 a.m.

D. Discussion of NGNMRS and "Normal Cost" & Statutory Requirements

MR. HOFMEISTER reminded the board of their power and duty under statute AS 37.10.220(a)(8)(A) and (B). He said the definition for normal cost appeared in section (h) of AS 39.35.255 and AS 14.25.070 for both PERS and TRS, and that it was identical for each. He said that in this section, "normal cost" meant the cost of providing the benefits expected to be credited, with respect to service, to all active members of the plan during the year beginning after the last valuation date. He said the military retirement system (NGNMRS) was set out in AS 26.05.226 and the ARM Board needed to fund the system based on actuarial requirements of the system as established by the ARMB and to administer the system. He noted NGNMRS was funded at 191 percent.

MR. HOFMEISTER said that they needed to consider the actuarial soundness and that if it was actuarially sound, to zero out the contribution rate and to have the administration costs come out of the surpluses that already existed, that was something the ARM Board could use to set an appropriate rate for that particular plan. He noted that the definition of normal cost did not exist in the statute that set the contribution rate or gave guidance to the power of setting contribution rates in Title 26.

COMMISSIONER MAHONEY asked if the Trustees could make a decision about whether or not the funding level for the NGNMRS plan was sufficient and could vote to not fund the normal cost; MR. HOFMEISTER said that he thought the ARM Board could set the appropriate contribution rate. He explained that if there was a determination that the plan was managed to a point where it was sufficient to meet all of its liabilities and obligations, then the contribution rate could be changed for that particular plan. He also stated that all of the plans are different and the rule for one plan cannot be transferred to another plan.

CHAIR JOHNSON asked to what degree could they use those same principles to react to the normal funding requirements for the health plan component of PERS and TRS - if the facts were that it was overfunded, and actuarially sound, could they say the appropriate rate was zero or something less than 2.46 percent; MR. HOFMEISTER said that in looking at the history of how SB141 created the Board and the statutes they were talking about, there was an indication that the normal cost for PERS and TRS was to be the baseline, that if there was a situation of overfunding, that might necessarily be a requirement for a statutory change. He noted that the health plan was different than the other pension plans and would require a different kind of analysis based on the volatility of health care costs and an aging membership.

MR. HIPPLER asked if they suggested a zero percent funding of normal cost, they could accompany that with a request for a change in statute because of conflicts with statutes that use normal cost for a baseline; MR. HOFMEISTER said for PERS and TRS, yes.

CHAIR JOHNSON said that as he understood it, they had been setting a rate and then letting the administrator of the system allocate it appropriately; MR. WORLEY said that for the past few years, Buck provided a schedule they would use for the resolution that would show the additional state contribution allocation and last year all of it was included to pension and zero to health. He said initially after the $3 billion infusion, there were allocations made to the pension and health. He said that because the funding levels were rising in the health trust and because of things that the health team within the Division were working on such as EGWP, it was determined that they had great standing for the healthcare trust.

CHAIR JOHNSON asked MR. HOFMEISTER if he saw a problem with that tradition; MR. HOFMEISTER said he did not. He added that it went back to the power and the duty of the Board and was troubled if they were talking about changes to the PERS and TRS because of the mandatory language of the statute. He reminded the Board that the initial discussion was about the NGNMRS plan, and it was under a different set of statutes. He said that the ARM Board could not propose legislation, the governor's office and/or individual legislators can and if any of them wanted to make any statutory change that was recommend by a board or agency, they could do so.

COMMISSIONER MAHONEY stated that Buck had performed an analysis on the forecasted impact of what the fund would look like through FY2039 with and without the normal cost contribution for health and suggested now may be an appropriate time for MR. KERSHNER to present that; MR. KERSHNER said that the chart on page 8, item (b) which was a response to a question of "What would the healthcare -- the PERS and TRS healthcare funded ratios look like going forward if we did contribute the normal cost versus if we did not contribute the normal costs?" MR. KERSHNER directed the board's attention to the two left-hand columns for PERS and TRS and noted that it was the current funded status projections for the healthcare trusts. He said the two right-hand columns were the projections assuming that no money was deposited in those years to the healthcare trust for the normal cost He said the funded ratios in 2039 for PERS would be reduced from 140 percent to 116 percent and for TRS, from 168 percent to 148 percent. He noted that all future experience was matched to the assumption, so there would be no asset gains or losses after FY2021, and no healthcare experience gains or losses after FY2021. He said the predictions assumed no change to the current assumptions. He said that as part of the experience study they were likely to lower the 7.38 percent

investment return assumption, and if that was done, it would increase liabilities which would make the projected funded ratios lower than projected in the presentation.

MR. WILLIAMS said that looking at page 8, it appeared they had the capacity to not contribute to normal cost and would still be adequately funded. He then asked MR. HOFMEISTER how much risk could they take if they wanted to not contribute to the normal cost; MR. HOFMEISTER said that it depended on whether or not they were diminishing the benefits. He explained that when he said he was troubled, he said he was troubled by the mandatory provisions of the statute and whether or not the statute in 37.10.220(a)(8) and whether or not the Board had the ability to set an appropriate contribution rate. He said he did not know the answer. He explained that with the numbers presented by the actuary they were in a better position to defend a diminishment claim because underfunding a plan or shifting surpluses was not at issue. The question was whether or not the plan can operate on its own without the need for continued contributions. He further stated that there were many unknowns associated with healthcare costs and that the Board needed to take the information from its actuaries and make a decision.

CHAIR JOHNSON invited MR. YOUNG to speak about the chart located on page 51 of the packet.

MR. YOUNG said that there was more uncertainty with healthcare costs than pension benefits due to several factors that are volatile and beyond their control. He noted that one of the things that had reduced the cost significantly had been the new prescription drug contract negotiated with OptumRx. He said those such contracts are renegotiated periodically with different vendors and are sometimes favorable when the contract is negotiated for the future. He said that for people with Medicare, the plan was secondary and things such as EGWP that was implemented in 2019 created a large reduction in costs.

MR. DESAI said that when they receive the contribution according to the statute, it is for the system, so once the contribution is received they cannot transport the funds from plan to plan. He asked if when funds were received that were not net allocated, were they allowed to allocate the funds appropriately and was there a problem with allocating the funds into the pension fund for the normal cost that they receive from the health contributions; MR. HOFMEISTER said he understood what he was asking and that it went back to the *Gallion* case. He said those contributions were based on the individual plans that would ultimately benefit the members. He explained that when the decision was made to split the plans with SB141 in 2005, they were to be treated differently. He said the funds that go into one, cannot be diverted to another, it would cause a problem with the diminishment clause.

COMMISSIONER MAHONEY asked if a plan was overfunded, which seemed as if it would be a criterion for determining actuarial soundness, would that be considered to be actuarially sound; MR. HOFMEISTER said there was a strong argument for that, but MR. DESAI was asking whether or not one could take the contributions for one plan and apply them to another which would be a different scenario that would violate *Gallion*. He stated that the original scenario raised involved zeroing out the contribution rate and that was a different call.
CHAIR JOHNSON asked about the appropriateness of the administrator allocating as it saw appropriate and fit. MR. HOFMEISTER said that they are separate plans now and that diverting to a different plan would violate *Gallion*.

MR. WILLIAMS referred to the PERS and TRS healthcare funded ratio table, found on page 50 of the packet. He noted that the descriptions listed for the changes in the healthcare funded ratios were not related to market returns. He stated that it appeared to have more volatility than the pension systems and that he might be in favor of zeroing out those normal costs but wanted to hear from MR. HOFMEISTER.

MR. HOFMEISTER responded that he would want to explore the issue more on both a legal level and in terms of actuarial soundness. He re-emphasized that the plans are different and other factors need to be considered in each one of those determinations.

CHAIR JOHNSON acknowledged MR. HOFMEISTER's comments and asked the Board to work towards finding a rate today, and then set the stage for clarification in future years on the normal cost issue.

CHAIR JOHNSON recessed the meeting from 11:53 a.m. until 1:00 p.m.

E. Review of Trustee Questions and Responses

CHAIR JOHNSON asked MR. HIPPLER if he would organize the deliberations.

MR. HIPPLER reminded the Board that during an Actuarial Committee meeting they had decided to reconvene to address a reset to fair market value or a change in smoothing, in addition, discuss further changes to normal cost and the funding. Multiple questions from Trustees were collected and some responses from their expert advisors received. He said answers to the questions began on page 38 of their packet..

CHAIR JOHNSON asked representatives from Buck, Callan, GRS, IAC, and Law to deliver any oral presentations that may supplement the written materials they provided previously.

CHAIR JOHNSON asked MR. KERSHNER from Buck if he had any items to elaborate on; MR. KERSNHER said that he did not.

CHAIR JOHNSON asked if anyone had questions or comments for Buck; with no response, he asked MR. CENTER of Callan if he had any additional comments to the materials he provided to discuss; MR. CENTER said that Callen was not currently aware of any other public fund clients that were contemplating similar changes as a result of recent market performance.

CHAIR JOHNSON asked if anyone had projections that would suggest that the upcoming fiscal year would be as good as the last one; MR. CENTER said that he wished he could answer that. He said that the performance experienced in the last fiscal year had far exceeded their projections, which was typically a signal that the next year may not be quite as good.

MS. HARBO asked if he could confirm that there were many other public finds which had returns greater than 30 percent; MR. CENTER said that for the 12-month period ending June 30th, it was not uncommon to see returns north of 25 percent; MS. HARBO asked if any of them had changed their

method of market value of assets; MR. CENTER confirmed that none had.

CHAIR JOHNSON asked if MR. WOOD from GRS had additional comments; MR. WOOD said he did not but would be happy to answer any questions.

CHAIR JOHNSON asked if he would elaborate more on the extent to which he saw problems under Accounting Standard 44 that might be implicated by a change of the type proposed.

MR. WOOD clarified that it was the Actuarial Standards of Practice No. 44. He said the concern was the talk of systematic bias in an actuarial valuation method, that this would be the second time they were resetting the actuarial value method. He said it seemed as though the actuarial case for resetting the value was very difficult to make; that it may be more of a political or policy decision, and that the actuarial case was difficult to make. He said the standards of practice did not disallow bias, but they had to disclose that in the reports. He said that it was their opinion that if it did go forward, that Buck have a rationale for the change and they disclose that rationale that there was some form of bias in the method.

DR. JENNINGS said that he thought that moving averages would unambiguously be biased. He said it would be like changing the way they were calculating a moving average, but if they spent less than the portfolio was earning, the portfolio would be growing, and the current market value would be above the moving average. He said that depending on the spending level versus the earnings in a particular year, there would be some bias. He said he would argue that the goal was not to maintain a pure moving average, but to figure out the best way to ensure that the beneficiaries got paid and that it seemed to him that market value was the way to avoid any kind of smoothing bias.

DR. JENNINGS said that in reading the actuarial standard of practice, the norm seemed to be in their standard that deviations from market value had to be justified and explained, that they characterize market value as fair value. He quoted that: The actuary should select a valuation method that's designed to produce actuarial value of assets that bear a reasonable relationship to the corresponding market value. He said the standard also mentioned that actuaries could reasonably incorporate changes in a sponsor's objectives. He said the predecessors used the five-year smoothing, both before and after closing the plan, and that standard of practice mentioned that freezing a plan was explicitly a reason that it could be revisited. He also referenced the NASRA database, noting that it revealed others that have reset a moving average to incorporate market value and that there were precedents for other models.

MR. WOOD commented that a valuation method that bears a reasonable resemblance to the market value does not want to see a method that produced an actuarial value that would always be higher than the market value or vice versa, so with the smoothing method that was being employed, if they got the assumed rate of return for the next four years, the market value and the actuarial values would converge and that's what they wanted to see, convergence over time if they met their assumption. He said the reason they smooth assets was to cut down on volatility. He said if they didn't have any smoothing, and had a poor year next year, they would have to recognize that immediate poor year in one shot which would mean they would have to drop the contributions significantly.

DR. JENNINGS clarified that he was going towards the idea of compounding conservatism and encouraged that it be an element of any continuing conversation on this topic.

MR. WOOD stated that the NASRA database had a wealth of information in it and there was a massive trend of discount rates coming down. He said the median discount rate assumption was 7 percent, and they were at 7.38 percent, a signal that there might be pressure during the experience study to come down. He said the inflation assumption was 2.5 percent. He said that he would not be surprised to see a recommendation to lower the discount rate which would impact contributions in the future. He said if they used the entire gain from this year, there would be nothing left to absorb any of the shock of a lowering of the discount rate.

MR. WILLIAMS said that he wondered if it could be a little reckless because it looked like they had one really good year of returns and in looking at page 48 in the packet, in 2020 they had fluctuated in unfunded liability on PERS between $4 billion and $5.5 billion and TRS from $2.7 billion to $1.9 billion. He said it was his understanding that they were going to hit the 7.38 percent every year, and the state had to chip in on the unfunded liability. He stated that since 2000 their goal has been 7.38%, which they made 12 times and had 10 years where they didn't. He said that he found it troubling that they had one really good year and were now looking at recalibrating everything.

MS. RYERSON said that she agreed with COMMISSIONER MAHONEY about reviewing the practice of continuing to fund overfunded plans, even if it meant clarifying the statute on whether normal cost had to continue to be put in. She suggested that be done in conjunction with the experience study, at least for the healthcare plans, in order to see the impact of potentially changing assumptions.

MR. HOFMEISTER said that it was a question about the methodology that was raised in the very beginning of their conversation. He said *Gallion* required the Board to take into consideration all the experts they heard from. He said the ARM Board's first and foremost obligation was to the assets and to the members that benefitted from those assets.

DR. MITCHELL said that his conclusion after listening to all the comments was that they could do what they want, there was enough wiggle room in actuarial practice and in the statutes and case law of the state to allow for that.

MR. HOFMEISTER said that in terms of the diminishment clause what was required was actuarial soundness, and what the Board needed to do was determine if any of the practices or methodologies were sound or unsound.

MR. HOFMEISTER said that based on the discussion, the standard was the five-year smoothing process without reset and what they were being asked to consider was both the reset and the three-year smoothing process. He said that the five-year smoothing process without reset met the actuarial standards and would be actuarially sound. He said the Board needed to decide that if they change the methodology, do they reach the same level of actuarial soundness as they had with what was traditionally used. He said it was a policy decision the Board had to make based on all the information they were provided.

MR. HANNA said it was good to hear talk about the conjunction of smoothing and amortization and that it was the combined length of those – smoothing plus amortization periods that really control the volatility. He said he thought both the three and five-year smoothing were reasonable, and noted he was not an actuary, but they both seemed actuarially sound. He said that he liked that they treated both positive and negative experience from a return perspective in a symmetrical fashion. He said that if the Board adopted a move from five to three, he thought that it would be supportable and good and bad returns would get treated equally.

MR. HIPPLER thanked COMMISSIONER MAHONEY for bringing the issue to the attention of the Board. He noted that the Actuarial Committee would need to review a couple of other things in the future, the discussion of the 105 percent PRPA was something they needed more information on.

F. FY2023 Contribution Discussion & Review

1. History of PERS/TRS Employer

COMMISSIONER MAHONEY expressed her appreciation to the board for the time they were spending looking at these issues and suggested that any change to the asset value be deferred till next year and incorporated with the experience study and that they consider any kind of an adjustment to the asset value along with their discussion associated with the rates. CHAIR JOHNSON asked if the form of resolution 2021-04 considered would be the resolution that was contained in the Board packet as Option A, (Scenario 2) and found for PERS at pages 74 and 75 and for TRS at page 95 and 96. The other options being Option B and Option C were being withdrawn for consideration; COMMISSIONER MAHONEY said that was correct, until they do an experience study and look at it together with the rates.

MR. HIPPLER asked if the board would consider the motions slightly out of order.

2. Action Items

Action: Resolution 2021-10

CHAIR JOHNSON asked for a motion to consider Resolution 2021-10 relating to the NGNMRS Contribution Amount.

MS. HARBO so moved. MR. KROHN seconded the motion.

MR. HIPPLER said that he had a motion to amend the motion as follows: Whereas the June 30, 2020, Alaska National Guard and Naval Militia Retirement System actuarial valuation report determines that the actuarially determined contribution amount is zero dollars, composed of the normal cost of $503,140, past service cost amortization of negative $3,224,638, and administrative expense load of $256,000.

MR. HIPPLER so moved to amend. MR. BRETZ seconded the amendment.

CHAIR JOHNSON asked for a discussion on the amendment.

MR. WORLEY said that he agreed and recommended taking out the last paragraph as well because of a reference to no past service liability.

MR. HIPPLER agreed with the clarification of the amendment, as did MR. BRETZ.

CHAIR JOHNSON asked MR. HOFMEISTER what his observation was; MR. HOFMEISTER said that if the surplus that currently existed could be used to overtake the administrative costs, he did not see a problem with it.

MR. KERSHNER said that contributing zero to the National Guard Plan for FY2023 posed no risk of the plan falling out of the term that it was being used – actuarial soundness. He said the plan would continue to be well-funded and there would be no consequences to beneficiaries or other stakeholders by not contributing anything in FY2023.

CHAIR JOHNSON said they were voting on whether the motion would be amended.

A roll call vote was taken, and the motion to amend passed unanimously.

CHAIR JOHNSON then asked for a roll call vote on adopting Resolution 2021-10 as amended.

A roll call vote was then taken, and the motion passed unanimously.

Action: Resolution 2021-04

CHAIR JOHNSON explained that for PERS, they would be voting on Option A (Scenario 2), found in the board packet at page 74 to 75.

MS. HARBO so moved. MR. KROHN seconded the motion.

CHAIR JOHNSON asked MR. HIPPLER if he wanted to discuss the resolution.

MR. HIPPLER said that he had not made an amendment but would like to discuss page 42 of the packet. He said the chart on page 42 showed the breakdown of the non-state-employer contributions to PERS totaling 22 percent set by the Legislature. He said within the 22 percent was the normal cost for healthcare of 2.84 percent. He said what he was proposing was to reduce the normal cost on the healthcare plan to zero and increase for non-state employers the past service cost by 2.84 percent and the state as an employer by 2.84 percent. He said that would result in an impact of 22 percent for non-state employers remaining unchanged, and the state as an employer at 27.63 percent would be reduced by 2.84 percent.

MR. WORLEY explained that MR. HIPPLER's proposal had been done before SB141, and that a negative past service costs would reduce the normal cost potentially to zero. He noted that with both PERS and TRS being overfunded, the past service costs on both were in an amount that would reduce the normal cost to zero.

MR. HOFMEISTER asked if what they were talking about was zeroing it out, not diverting funds; CHAIR JOHNSON stated that was correct; MR. HOFMEISTER said that in *Gallion*, it suggested that plan members do not have a right to surpluses or overfunding, but once a surplus existed it could only be used to the benefit of the members. He stated there appeared to be a conflict in the statutes,

but that zeroing out the contribution rate for healthcare was defensible. He said he would like to hear from MR. KERSHNER as to what the 2.84 percent encompassed and whether or not it would be actuarially sound to eliminate that particular contribution in terms of setting the overall contribution rate.

MR. HIPPLER referenced page 74, which was Option A (Scenario 2) for PERS and said that his motion to amend would read as follows: I move that on the sixth whereas, 18.38 be replaced with 21.22, and 16.01 be replaced with 18.85. And on the seventh whereas, amended to state: Whereas the actuarially appropriate contribution rate for postemployment healthcare benefits is zero percent. And in the final paragraph, that the contribution rate 27.63 percent be replaced with 24.79 percent, and 18.38 percent be replaced with 21.2 percent, and 2.84 percent be replaced with zero percent.

MR. HIPPLER so moved to amend. MS. HARBO seconded the motion.

MR. KERSHNER said that he did not think the numbers were correct in the motion to amend.

MR. HIPPLER said that his intent was to increase the past service from 16.01 to 18.85.

MR. KERSHNER said that he did not believe that was correct and then asked why they wanted to do that; MR. HIPPLER said it was because they were holding the 22 percent constant and if they were reducing 22 percent 2.84 percent it would have to be applied somewhere. MR. KERSHNER said that he had revised the past service rate for the non-state employer in the non-state employer column from 10.38 percent in the August 25th letter to 13.22 to keep line 8 at 22 percent in the non-state employer column. He said the state as an employer was contributing the full actuarial rate as shown in line 1 of 2.37 and a past service cost of 16.01 for a total DB pension plan cost of 18.38.

MR. WORLEY shared his screen and showed what MR. KERSHNER had just explained and noted that the state as an employer was paying the full past service cost of 16.01and the non-state employers, due to the increase and then the cap at 22 percent, were paying 13.22 He explained that the sixth whereas clause would be revised to say: Whereas, the Buck schedule dated October 11th 2021, determines that the actuarially determined contribution rate for pension benefits is 18.38 percent composed of 2.37 normal cost and a past service rate of 16.01 percent.

MR. WORLEY said the seventh whereas read as follows: The Buck schedule dated October 11, 2021, determines that the actuarially determined contribution rate for postemployment healthcare benefits was zero percent, composed of the normal cost rate of 2.84 and a past service rate of negative 2.84.

MR. WORLEY then read the last paragraph as amended: Now therefore, be it resolved by the ARM Board that the Fiscal Year 2023 actuarially determined contribution rate attributable to employers participating in the Public Employees' Retirement System is set at 24.79 percent, composed of the contribution rate for Defined Benefit pension of 18.38, the contribution rate for postemployment healthcare of zero percent, and the contribution rate for the Defined Contribution pension of 6.41.

CHAIR JOHNSON asked MR. WORLEY, MR. HIPPLER, and MR. KERSHNER if the document

set forth reflected the intention that they had for an amendment to the resolution; All three confirmed that it did.

MR. HIPPLER said that he did not see a separate resolution for non-state employer contribution calculation; MR. WORLEY said that as part of the attachment for the resolution, it will reflect the non-state employer portion because the resolution shows what the total rates are for DB pension and DB health and then the Defined Contribution Plan. The attachment that appends to it would show the breakdown by non-state employer versus the state as an employer. He explained that the non-state employer rate would be 15.59 percent for DB pension, 6.41 percent of the DCR Plan and then would have a 2.79 percent additional state contribution, for a total of 24.79.

CHAIR JOHNSON asked if there was normally an attachment; MR. WORLEY said that typically there was a letter from Buck with a schedule. CHAIR JOHNSON asked if they would add a sentence to the proposed amendment in the therefore clause that references the attached schedule; MR. HIPPLER said that the final sentence in last paragraph would include the clause, "and the non-state employers' contributions, as defined by the attached schedule."

MR. HIPPLER asked MR. KERSHNER if Buck did not object to using the clause, "and past service rate of negative 2.84 percent."; MR. KERSHNER said the negative is actually 4.94 percent for PERS; MR. HIPPLER said that he would accept that clarification; MR. HIPPLER then asked where the 4.94 percent came from; MR. KERSHNER said that it came for their calculation spreadsheet as the sum of all the layered amortizations for FY2023 for healthcare divided by the total payroll.

CHAIR JOHNSON asked MR. HIPPLER to read the whereas clause with the most recent proposed change; MR. HIPPLER read: Whereas, the Buck schedule dated October 11, 2021, determines that the actuarially determined contribution rate for postemployment healthcare benefits is zero percent, composed of the normal cost rate of 2.84 percent and past service rate of negative 4.94 percent.

MR. HOFMEISTER said that MR. HIPPLER was correct, if something that was negative, it could be set to zero, but could not be set below zero.

CHAIR JOHNSON said that he felt uncomfortable going along with the amendment that was proposed and would be voting against it.

MR. MOEN said that he too was uncomfortable with reducing or eliminating contributions to the healthcare. He noted that it seemed premature to drop that contribution.

MR. BRETZ said that he appreciated the purpose of the motion to allocate contributions to where they were needed rather than not needed. He noted that they were above funding in the healthcare trust.

MS. HARBO said that she was uncomfortable doing amendments or motions on the fly, that she would rather have them before the meeting so she could review them carefully.

MR. WILLIAMS said that he liked the spirit of the amendment but he too would have rather had the

information ahead of the meeting so he could review it.

MR. HIPPLER said that the decision they were making about normal cost was not one that would bind the Board other than for the next year, that they determined the rate every year. He noted that at some point it becomes a mandate for the Board to start thinking about the issue and adjusting their behavior accordingly.

A roll call vote was taken, and the amendment passed by a vote of 6 to 3. With MR. KROHN, COMMISSIONER MAHONEY, MR. WILLIAMS, MR. BRETZ, COMMISSIONER VRANA, and MR. HIPPLER voting "Yes" and MR. MOEN, MS. HARBO, and CHAIR JOHNON voting "No".

CHAIR JOHNSON said they would consider the adoption of the motion to adopt Resolution 2021-04 relating to PERS as amended and as set forth.

A roll call vote was taken, and the action item was passed by a vote of 8 to 1. With MR. BRETZ, MS. HARBO, MR. HIPPLER, MR. KROHN, COMMISSIONER MAHONEY, MR. MOEN, MR. WILLIAMS, and COMMISSIONER VRANA voting "Yes" and CHAIR JOHNSON voting "No".

Action: Resolution 2021-07

CHAIR JOHNSON said they would consider the adoption of the motion to adopt Resolution 2021-07 relating to the TRS contribution rate.

MR. HIPPLER so moved. MR. WILLIAMS seconded the motion.

MR. HIPPLER stated that he would like to amend the motion to reflect the verbiage prepared by MR. WORLEY, displayed on the screen.

MR. HIPPLER so moved to amend. COMMISSIONER MAHONEY seconded the amendment.

CHAIR JOHNSON asked MR. HIPPLER to walk the Board through the changes.

MR. HIPPLER directed the Board to page 95 and noted the contribution rate was 2.72 percent for normal healthcare cost stated that as of June 30th, the TRS healthcare fund is funded at 127 percent for actuarial valuation. He then read the changes to the seventh paragraph: Whereas, the Buck schedule dated October 11, 2021, determines that the actuarially determined contribution rate for postemployment healthcare benefits is zero percent, composed of the normal cost rate of 2.72 percent and past service rate of negative 2.72 percent.

MR. WORLEY asked if the intent was to set the past service rate at the real rate instead of the 2.72, similar to the amendment to Resolution 2021-04. MR. HIPPLER thanked MR. WORLEY for the clarification and confirmed that was the intent. COMMISSIONER MAHONEY concurred.

MR. KERSHNER stated that it was negative 7.93 percent.

CHAIR JOHNSON noted that at least three references to the letter dated August 25, 2021 needed to

be changed to reference today's date and asked if there would be an end clause similar to the one for PERS that referred to an attached document. MR. HIPPLER said that was unique to PERS, as TRS did not have state employees.

CHAIR JOHNSON asked MR. HIPPLER to read the amended final clause of the resolution. MR. HIPPLER said: Now therefore, be it resolved by the Alaska Retirement Management Bord that the Fiscal Year 2023 actuarially determined contribution rate attributable to employers participating in the Teachers' Retirement System is set at 24.62 percent, composed of the contribution rate for Define Benefit pension of 17.90 percent, the contribution rate for postemployment healthcare 0.00 percent, and the contribution rate for Defined Contribution pension of 6.72 percent.

MR. HIPPLER stated that the change is that they went from 27.34 percent to 24.62 percent.

MS. HARBO asked why the Defined Contribution percent for TRS was different than the percent listed for PERS. MR. KERSHNER said the primary difference was that the employer DC contribution for PERS was 5 percent and for TRS, 7 percent.

A roll call vote was taken, and the amendment passed by a vote of 6 to 3. With MR. BRETZ, MR. KROHN, MR. HIPPLER, COMMISSIONER MAHONEY, MR. WILLIAMS, and COMMISSIONER VRANA voting "Yes" and MS. HARBO, MR. MOEN, and CHAIR JOHNON voting "No".

CHAIR JOHNSON said they would consider the adoption of the motion to adopt Resolution 2021-07 relating to TRS as amended and as set forth.

A roll call vote was taken, and the action item was passed by a vote of 8 to 1. With MR. MOEN, MR. WILLIAMS, COMMISSIONER VRANA, MR. BRETZ, MS. HARBO, MR. HIPPLER, MR. KROHN, COMMISSIONER MAHONEY, and CHAIR JOHNSON voting "No".

VII. UNFINISHED BUSINESS – None

VIII. NEW BUSINESS – None.

IX. OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD - None.

X. PUBLIC/MEMBER COMMENTS

MS. JONES stated that she had updated written comments.

CHAIR JOHNSON asked her to summarize the nature of the written comments that had come in during the meeting; MS. JONES said that the comments were all in opposition to the reset to market value and were received from Jane Hanchett, Sue Johnson, Mike and Mariellen Hanchett, Kathleen Oliver, Lili Misel, Hannah Etengoff, Robert McHattie, Shar Fox and Jim Simard, Sally Schlichting, Barbara Ward, Steve Bouta, Shgen George, Dianne Holmes, Dr. Lisa Parady, Linda Kruger, John Klapproth, Margaret Wiedeman, Sharon John, and Tom Reimer.

XI. INVESTMENT ADVISORY COUNCIL COMMENTS

MS. RYERSON commented that she thought it seemed to be a good solution for one year.

XII. TRUSTEE COMMENTS

MS. HARBO thanked CHAIR JOHNSON and the Board of Trustees and staff for taking the time to hold the special meeting. She found that it had been a good learning experience.

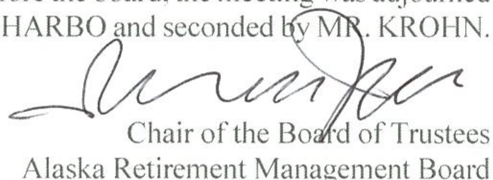
COMMISSIONER MAHONEY also thanked everyone for the effort and dedication that all had put into evaluating the matter. She said she felt that they had come to a really good result.

CHAIR JOHNSON said that he also appreciated all the hard work put into the meeting. He said he also appreciated COMMISSIONER MAHONEY for presenting the proposal on behalf of the state.

XIII. FUTURE AGENDA ITEMS - None.

XIV. ADJOURNMENT

There being no objection and no further business to come before the board, the meeting was adjourned at 3:12 p.m. on October 11, 2021, on a motion made by MS. HARBO and seconded by MR. KROHN.



Chair of the Board of Trustees
Alaska Retirement Management Board

ATTEST:

Corporate Secretary

Note: An outside contractor recorded the meeting and prepared the summary minutes. For in-depth discussion and more presentation details, please refer to the recording of the meeting and presentation materials on file at the ARMB office.