State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
ACTUARIAL COMMITTEE MEETING

Videoconference

MINUTES OF
September 22, 2021

Wednesday, September 22, 2021

ATTENDANCE

Committee Present:	Allen Hippler, *Chair* Lorne Bretz Gayle Harbo Robert Johnson Acting Commissioner Amanda Holland Commissioner Lucinda Mahoney Bob Williams Dennis Moen
Committee Absent:	None

ARM Board Trustees Present:
Donald Krohn

Investment Advisory Council Members Present:
Ruth Ryerson
Dr. William Jennings

Department of Revenue Staff Present:
Zachary Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Kayla Wisner, State Comptroller
Stephen Sikes, State Investment Officer
Kevin Elliott, State Investment Officer
Mark Moon, State Investment Officer
Scott Jones, State Investment Officer
Michelle Prebula, State Investment Officer
Scott Jones, Head of Investment Operations, Performance & Analytics
Hunter Romberg, Investment Data Analyst
Ryan Kauzlarich, Accountant V
Grant Ficek, Business Analyst
Alysia Jones, Board Liaison

Department of Administration Staff Present:
Ajay Desai, Director, Division of Retirement and Benefits
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits
Robert Aceveda, Benefits and Counseling Manager

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

Others Present:
Steve Center, Callan
Paul Wood, Gabriel Roeder Smith
Bill Detweiler, Gabriel Roeder Smith
David Kershner, Buck
Scott Young, Buck
Tonya Manning, Buck
Paul Miranda, Public
Alexei Painter, Legislative Finance Division
Caroline Schultz, Office of Management and Budget

I. CALL TO ORDER

CHAIR ALLEN HIPPLER called the meeting of the ARM Board Actuarial Committee to order at 1:00 p.m.

II. ROLL CALL

MR. BRETZ, MS. HARBO, ACTING COMMISSIONER HOLLAND, MR. JOHNSON, COMMISSIONER MAHONEY, MR. MOEN, MR. WILLIAMS, and CHAIR HIPPLER were present at roll call.

III. PUBLIC MEETING NOTICE

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

IV. A. APPROVAL OF AGENDA

MS. HARBO moved to approve the agenda. MR. JOHNSON seconded the motion. The agenda was approved without objection.

B. Approval of Minutes: June 16, 2021

MS. HARBO moved to approve the minutes of the June 16, 2021 meeting. MR. WILLIAMS seconded the motion. The minutes were approved without objection.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES – None.

VI. FY2023 CONTRIBUTION RATES

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

COMMISSIONER MAHONEY started by thanking the Actuarial committee for giving her the opportunity to speak to them about the $7 billion increase in the TRS/PERS funds for FY2021. She noted that the Treasury team did an outstanding job delivering a 28 percent return on the investments for the year. She also noted that the State of Alaska and other employers had been paying down the PERS and TRS unfunded liability for over 10 years and that the healthcare systems were significantly overfunded due to positive asset returns and positive liability experience. COMMISSIONER MAHONEY then turned their attention to page 71 of the meeting packet which contained a chart mapping out the projected funded status.

COMMISSIONER MAHONEY said that the excess funds and payments were locked in the system and could not be used for anything other than healthcare and that they could not be moved into the pension plans because they were set up in separate trusts. She noted that the administration was concerned that the TRS and PERS pensions where to the point where close attention would need to be paid as to what the state's contributions were. She also noted that it was a good situation to be in but they needed to consider how much contributions they would continue to make, taking into consideration that the fair market value was $7 billion higher than the actuarial value. She said the administration was uncomfortable making high past service payments using five-year smoothing and the State was working towards a sustainable balanced fiscal plan and to stop operating in a deficit environment.

COMMISSIONER MAHONEY said that each department was required to identify savings through reductions in department budgets. She noted that businesses throughout the state were requiring more fiscal certainty to invest in the state, and the state economists were saying that more fiscal certainty was needed, but based on the 10-year forecast, the next two to three fiscal years would be the most challenging. She stated that the administration wanted the ARM Board to consider resetting the actuarial asset value to the market value to reduce the potential of pension funds becoming overfunded and to prevent contributions from being locked in the system.

COMMISSIONER MAHONEY stated that resetting to market value would have the effect of front-loading expected savings and reducing the potential for overfunding in the future. She noted that in 2014 the Legislature appropriated a $3 billion infusion of funds into the retirement systems and required the actuarial value be reset to fair market value and moved back into a five-year smoothing environment. She stated that they would be amortizing the state's contribution payments into the system until 2039. She also noted that the fund had earned an average return since inception of 9.38 percent.

COMMISSIONER MAHONEY stated that the adjustment would not diminish the benefits to the plans participants; they would continue to receive their benefits. She said that she believed a reduced contribution to PERS and TRS would still fulfill the fiduciary duties and requirements.

CHAIR HIPPLER asked if anyone had any comments or questions.

MS. HARBO noted that the Metcalfe decision was a concern for her. She said that there were 77,000 potential DB beneficiaries who may come back into the system, and they would all be entitled to full healthcare benefits in the amount of approximately $15,000 per year. She said that until they know the outcome of the decision in the Metcalfe case, she was hesitant to make the change.

CHAIR HIPPLER asked MR. KERSHNER if he would address MS. HARBO'S concerns.

MR. KERSHNER stated that resetting to market value was not done regularly and that they would prefer that the actuarial value and market value stay close to each other, that the actuarial value and market value tended to be around a 3 or 4 percent differential until this year. The actuarial value and market value are off by approximately 11 percent which justified the discussion.

MR. KERSHNER said that that it would be no problem if the Board elected to reset the actuarial value to market value, however in addition to the Metcalfe decision, a market correction, or a downturn in the next year or so to correct from the return in 2021 - by resetting the actuarial value to market value, they would lose all of the existing investment gains and losses that were smoothed into the assets that were currently under the five-year smoothing method.

MR. KERSHNER also pointed out that they were starting on the 2021 experience study with the new assumptions expected to be adopted by the Board beginning with the 2022 valuation. The valuations that they were starting to work on were the 2021 valuations which were the last of the four-year cycle for the current assumptions. He said they expected with the changing capital market expectations and different asset allocations, the current 7.38 percent investment return assumption would likely decrease to 7 percent or below.

MR. KERSHNER stated that investment returns coming into plans have to equal the benefits and expenses paid out over time and when investment returns were insufficient, contribution rates go up, when investment returns are excessive, contributions go down.

MR. WOOD said that there would be a lot of pressure on the discount rate to come down from 7.38, inflation could go up and they were currently at a 2.5 percent assumption with no room for it to come down if inflation does go up. He noted that some of the benefits for the retirees were tied to inflation. He said that for clients who have higher than reasonable assumptions, they suggest an experience study which would be something to consider. He said that reducing a contribution does not really create savings because the long-term cost to the plan remains unchanged. He also suggested that although projections put together by Buck assumed a 7.38 percent return for the next five years, he questioned the likelihood of it especially if there was one year of poor investment performance, it would be artificially suppressed for four or five years due to asset smoothing. He then stated that the way the current funding policy was built, it was going to start to slow down the contributions as they get closer to being fully funded; it would automatically adjust for that.

MR. WOOD addressed the danger of being overfunded. He said that in their opinion it did not seem as though the pension plans were in any danger of being overfunded as the OPEB plans were. He said it was not due to over-contributing by the state, but a good actuarial experience and good asset returns that had been the two main drivers. He said the plan design and positive experience was unlikely to happen on the pension side, that the funding policy was built to slow down the contributions as it gets closer to being fully funded.

MR. WOOD explained that they look at the Actuarial Standards of Practice to help guide their decisions and Actuarial Standard of Practice No. 44 discussed the actuarial valuation method and bias. He said that section states that they do not want to have any systematic bias towards understatement or overstatement relative to the market value. He noted that it stated, "For example, resetting the actuarial value of assets to market value only when the market value exceeds the actuarial value of assets under the normal operation of the asset valuation may constitute significant systematic bias."

CHAIR HIPPLER asked at what deviation from actuarial value to market should they have a discussion about resets; MR. WOOD stated that it would not be a reset but more of a corridor of 120 percent to 80 percent to keep the relationship in line. He said he thought that brining it down somewhat would help.

MR. JOHNSON commended Commissioner Mahoney for her excellent piece of advocacy. He said that he was concerned that they may have a situation where they could potentially violate Actuarial Practice No. 44, that they would be acting inappropriately because they had a great experience for FY2021, which did not mean that they would achieve it again because what goes up does come down which is why they have five-year smoothing. He said that he was worried that they were taking the pension beneficiaries' money and potentially betting that things were going to come up in order to save money. He reminded the board that their fiduciary duty was to make investments that were sufficient to meet liabilities and pension obligations. He also stated that they should continue to take into account the issues and concerns of the state's primary source of funding on a contribution basis.

MR. JOHNSON said that he was looking to hear more from Buck and GRS as to the justification for utilizing the victory they had as a basis for a change to the market value basis and that he was very concerned with a major change occurring as a consequence of one successful year.

MR. WILLIAMS noted that he was surprised by the rush on it and that it felt like a quick reaction to something that he thought should not be rushed. He said he was concerned to have a strong return and then to suddenly pretend that it was the new normal, that there was a high hurdle to move off of the five-year smoothing processes and move away from what had been accomplished.

CHAIR HIPPLER acknowledged the rush in the time frame and that there would be a discussion of that later in the meeting. He then asked COMMISSIONER MAHONEY if there was a risk, and could they quantify that risk to the fund; He also repeated what MR. JOHNSON had pointed out that the fiduciary obligation was for the best interest of the fund and then asked if there was a risk to the fund if they became overfunded, or the fund being obligated to change its payment to the beneficiaries; COMMISSIONER MAHONEY said that was a legal question; MS. HARBO said that there was a provision that if they become 105 percent funded that there would be an ad hoc PRPA paid to the beneficiaries.

MR. HOFMEISTER said that what MS. HARBO had mentioned was an artifact from the Hoffbeck decision which applied to Tier I employees. He then asked CHAIR HIPPLER to repeat his question; CHAIR HIPPLER asked what was the impact to the fund if they become overfunded; Was the fund then obligated to increase payments to the beneficiaries beyond what was currently promised; MR. HOFMEISTER said no, but he did not think that the question had been completely vetted by the Supreme Court. That it had been touch on in a case from 1997 called Gallion which discussed any surplus in the pension fund that was being evaluated in that case and that the indication was that the participants did not have a right to have their benefits increased as a result of a surplus.

MS. HARBO said that there was a provision in SB 141 that addressed the funds reaching 105 percent funding; there would be an ad hoc PRPA given to the beneficiaries.

CHAIR HIPPLER stated that they have experts on the issue but that it seemed that the experts were not in alignment, which proved the need for further research. He said that the subject was important enough that if they have a follow-up meeting to further consider the action, that they would need to have more thorough vetting by a follow-up meeting.

MS. RYERSON commented that the market corridor could be made more narrow; that outsized returns over or under a certain amount would be recognized immediately. CHAIR HIPPLER asked her if she had seen other funds at roughly 10 percent deviation from actuarial and fair market value; MS. RYERSON said she had not, that it was usually 20 percent and it could be narrowed, and 11 percent was not huge, but they would also have to be willing to reset on the downside.

MR. WILLIAMS noted that if they were seriously considering it, that it would be important to have all IAC members at the meeting; COMMISSIONER MAHONEY commented that the sense of urgency related to the budget deadlines for 2023 and that if they do decide as a group to discuss it, they could schedule a special meeting possibly alongside the Audit Committee meeting on October 11th so they could identify the questions of some Trustees.

MR. KERSHNER said that they had discussed what may happen in FY2022 and FY2023, either recovery or continued excess returns. He said that it may be prudent to have an asset/liability modeling study, which forecasts potential outcomes. He said those forecasts and projection are more thorough and would provide the information needed as to where future returns may be.

MR. HANNA said that the ARM Board taking an action to fund the system so that they were likely to be overfunded may not be the right decision even though it may be in the best interest of the plans. He said the discussion could be due to last year's strong performance which accelerated the discussion of the issue and would continue to grow as they came closer to being fully funded. He noted that even if they performed an analysis of it, it would not likely be the median outcome in terms of forward return expectations.

DR. JENNINGS noted that it was a fair market value discussion and that market values were what finance theory would support. He said he was involved with a UK pension that was performing single-day snapshots and the head triennial valuations and the snapshot day was April of 2009 and by the time they had received the report, the market had significantly recovered. He said the policy could be adapted as they learn from the snapshot dates.

CHAIR HIPPLER said they had two possibilities; one to continue the discussion on October 11th after having completed research on the 105 percent issue, and the other option would be not to go down that road.

MR. JOHNSON stated that it was an important issue and that it would not hurt to have more information. He recommended that they have a special meeting on October 11th along with the Audit Committee. He said that if he there were a vote at that time, he would vote against it. He said he felt they need more information.

MR. JOHNSON moved to continue the discussion till October 11th or on a date to be set. MS. HARBO seconded the motion.

MS. JONES clarified that the motion would table the discussion of resolutions 2021-04 and 2021-07.

MR. BRETZ asked if they could get the answers to some of the question in time for the discussion at the main board meeting; COMMISSIONER MAHONEY said that she would try to work on the issue but would need to work with MR. WORLEY and the Department of Law. She noted that they would need to have a full discussion and not be rushed so they could be thorough with the discussion and research.

MR. JOHNSON said that he too felt that there needed to be a thorough discussion and that the decision the Board faced was controversial.

MS. HARBO stated that she believed that SB 141 required an actuary and another actuary to run checks on the first actuary.

ACTING COMMISSIONER HOLLAND said that one of the things they discussed was if there would be a follow-up meeting, there would need to be questions presented in this meeting to be answered at the follow-up meeting. She said before they move forward with the motion, she wanted to have the issues noted so there would be a more meaningful discussion in October.

CHAIR HIPPLER asked if the Board felt that they should have specific questions laid out in the motion; COMMISSIONER MAHONEY suggested that they could assign a point of contact that they could send their questions to, which would be MS. JONES. She would then circulate them to ensure everyone would be heard. She also suggested that some of the slides from Buck could be consolidated to make a clearer picture of the full impact to the state.

CHAIR HIPPLER agreed that it was important to give the staff more time to get the information put together.

MS. JONES asked that they set a deadline so she could ensure she had everything needed and was able to get it to the appropriate people in a timely manner.

CHAIR HIPPLER clarified that they were tabling Resolution 2021-04 and 2021-07 until October and asked for a roll call vote.

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

B. Discussion of 2023 PERS/TRS/JRS Additional State Contributions

MR. WORLEY noted that they would not be discussing the PERS and TRS Defined Benefit Plans as that discussion was placed on hold until the October 11th meeting.

MR. KERSHNER offered to give a walk-through that showed the basic steps to help explain the documents in the packet.

CHAIR HIPPLER stated that as time was limited an abbreviated review would be best.

MR. KERSHNER explained that the presentation started on page 9 of the packet and contained the development of the FY2023 additional state contribution for TRS; that there was a similar one for PERS starting on page 30. He said employers under TRS contribute 12.56 percent of total salaries, including DB and DCR participants. He said they used the information from the valuations to calculate the percentages of total salaries projected for FY2023. He explained that the outputs from the valuations are the two components of the actuarially determined contribution as shown on slide 4. He further explained that the second component was the layered amortizations of the unfunded liability which changes when the funded status of the plans change because the unfunded liabilities change. He said they then take those outputs from the valuation and project them to FY2023 then divide those amounts by the projected FY2023 payroll figures to get the rates which were then combined in step 6.

COMMISSIONER MAHONEY asked if MR. KERSHNER would explain why the Defined Benefit payrolls for 2023 were going down significantly for PERS and TRS; MR. KERSHNER said because the Defined Benefit plans were closed to new entrants after July of 2006, the payroll for current active members - their pay was expected to increase according to the assumptions and there were people exiting from the active population each year due to retirement and death. He also noted that the DCR payrolls increased due to new entrants coming in to replace the members who exited the DB Plan active population; COMMISSIONER MAHONEY then asked if they saw retirements that would be above and beyond the norm such as a result from the pandemic, that would cause that; MR. KERSHNER stated that they had just received the June 30, 2021 data but had not had a chance to thoroughly review it, but they did anticipate more retirements and more deaths than they had seen in the past.

MR. KERSHNER continued the slide presentation noting slide 6 which showed the six steps and slide 8 which referenced the 25-year layered amortizations. He then moved to slide 10 which showed outputs from the valuation on the DCR for occupational death and disability and the healthcare benefits and noted that the percentage of projected FY2023 pay was shown on slide 14. He then moved to slide 16 which showed the dollar amounts for the DB plans. He stated that the Defined Benefit Plan contribution as a percentage of FY2023 pay without the reset was 20.62 percent and the reset would take it to 15.65 percent. He noted that it all came to fruition on slide 18 which displayed step 6.

MR. HIPPLER then identified the difference with PERS by switching to slide 3 of the PERS presentation and noted that each employer contributed 22 percent of total pay under PERS, but SB 55 was passed and stated that the state, as an employer -- the state's employees would contribute the full actuarially determined contribution based on the total pay of their employees. He explained that the total dollar amount did not change, just the bucket it came out of. He said the DCR Plan had to separate the peace/fire participants from the other participants due to different occupational death and disability rates for them.

C. FY2023 Contribution Discussion and Review

1. History of PERS/TRS Employer Contribution Rates

Action: The Actuarial Committee recommends that the Alaska Retirement Management Board set Fiscal Year 2023 PERS Defined Contribution Retirement Plan Retiree Majory Medical Insurance and Occupational Detah & Disability Benefit rates as set our in the folloring resolutions:

Resolution 2021-05: Public Employees' Defined Contribution Retirement Plan Retiree Major Medical Insurance Rate
MS. HARBO so moved. COMMISSIONER MAHONEY seconded the motion.

A roll call vote was taken, and the action item passed unanimously.

Resolution 2021-06: Public Employees' Defined Contribution Retirement Plan Occupational Death & Disability Benefit Rates
MS. HARBO so moved. MR. WILLIAMS seconded the motion.

A roll call vote was taken, and the action item passed unanimously.

Action: The Actuarial Committee recommends that the Alaska Retirement Management Board set Fiscal Year 2023 TRS Defined Contribution Retirement Plan Retiree Majory Medical Insurance and Occupational Detah & Disability Benefit rates as set our in the folloring resolutions:

Resolution 2021-08: Teachers' Defined Contribution Retirement Plan Retiree Major Medical Insurance Rate
MS. HARBO so moved. MR. WILLIAMS seconded the motion.

A roll call vote was taken, and the action item passed unanimously.

Action: Resolution 2021-09: Teachers' Defined Contribution Retirement Plan Occupational Death & Disability Benefit Rate
MS. HARBO so moved. MR. WILLIAMS seconded the motion.

A roll call vote was taken, and the action item passed unanimously.

Action: The Actuarial Committee recommends that the Alaska Retirement Management Board set the Fiscal Year 2023 NGNMRS annual contribution amount consistent with its fiduciary duty, as set out in the attached form of Resolution 2021-10:
MS. HARBO so moved. MR. BRETZ seconded the motion.

MR. WORLEY noted that the resolution did not propose a dollar amount and that they were in a similar discussion last year and after discussing the issue with Mr. Goering, he indicated that the Board did have a fiduciary responsibility to adopt an amount that was actuarially determined for the National Guard Plan without consideration of past service cost. He reminded the Board that they had passed a resolution for a dollar amount to be contributed to the National Guard Plan, but as it was overfunded, the Legislature did not appropriate funds to it; COMMISSIONER MAHONEY asked what the percentage of the plan was overfunded; MR. WORLEY said it was on page 117 and it was at 191 percent on an actuarial value.

COMMISSIONER MAHONEY asked CHAIR HIPPLER if it should be an item for discussion at the meeting on the 11th and why were they continuing to suggest funding when it was out of a bracket for funding.

CHAIR HIPPLER noted that there had been a motion that was seconded and suggested to either withdraw the motion, vote on the motion, or discuss it further.

COMMISSIONER MAHONEY suggested they discuss it further so they could determine if they wanted to continue to seek contributions to a fund that was already 191 percent funded.

MR. BRETZ suggested that instead of voting it down, it would fit into the discussion that was scheduled for the meeting on the 11th.

COMMISSIONER MAHONEY suggested they could vote not to fund it.

MR. BRETZ suggested that they could vote it down and still discuss it as part of the discussion later.

MR. HANNA noted that Mr. Goering's recommendation to continue to fund it was the normal cost that was being funded and that it was required in the statute.

COMMISSIONER MAHONEY stated that if it was a normal cost and the statute stated the normal costs needed to be funded, but the Legislature did not fund it.

MR. BRETZ stated that it was funded.

COMMISSIONER MAHONEY stated that the Legislature did not appropriate the funds for it; MR. WORLEY stated that was correct, he further stated that it was the fiduciary responsibility of the Board to fund the normal cost. He said what had been sent to OMB was a request for normal cost plus administrative expenses. The OMB said "Because the plan is so overfunded, we're not going to include it in the budget process this year."

MR. HANNA pointed out the distinction in the statute was the difference of what was required by the Board and what was required to be OMB funded.

CHAIR HIPPLER asked MR. WORLEY if he was suggesting that the Board was required by statute to fund, what they considered to be normal costs and they were required to have the resolution; MR. WORLEY confirmed that was so, based on the Department of Law.

MR. WILLIAMS asked what the risks were if the Board voted no; MR. HOFMEISTER stated that he could not answer that without doing additional research. He stated that he could not think of any risk to not contributing to an overfunded plan.

MR. BRETZ then asked what the statute was; MR. JOHNSON stated it was AS 37.103220(a)8(A).

MR. HOFFMEISTER added that the statute stated "an appropriate contribution rate." He noted that if something was funded 191 percent, the appropriate contribution rate would not be the maximum. He said that if there was a minimal amount that kept the program going, that was fine and if they could continue to maintain without further contributions, that would work as well as it would meet the obligation of the statute.

A roll call vote was taken, and <u>the action failed unanimously.</u>

2. JRS Contribution

CHAIR HIPPLER stated that the JRS Contribution was slated for a 70 percent contribution rate and there was not resolution for it, that it was a topic for discussion.

MR. WORLEY stated that it was information for the Board and the committee to see. He explained that it was the rate for the Judicial Retirement System for FY2023, the normal cost if paid through payroll. He noted the past service amount was funded as a separate line-item much like the additional PERS and TRS contribution.

VII. Discussion on FY2021 Valuation Timeline

MR. KERSHNER noted that the timeline was on page 123 of the packet. He said since the timeline was prepared on August 31st, Steps 6 through 9 had been completed and they were on target to meet the deadlines shown in Item 21. They would be meeting in December to present the preliminary valuation results from the 2021 valuation and to discuss the economic assumptions for the 2021 experience study. He said Item 29 would be discussed in the meeting in March 2022 where they would review the valuation results in more detail and would show the latest projections of contributions. They would also discuss the demographic assumptions for the experience study. He said that Item 31 was a follow-up meeting, if needed, scheduled for April as a follow-up to the March meeting. Item 33 would be the June meeting where the Board would adopt the valuation reports and have a follow-up discussion on the assumptions if needed. The Board would then decide to adopt the new assumptions from the experience study at the June 2022 meeting.

VIII. Online Actuarial Dashboards

MR. KERSHNER shared his screen to take the committee through Buck's dashboards. He said they offered updated dashboards for the 2020 valuation results. He then proceeded to explain the steps of logging in and changing the password if needed. He then displayed the two State of Alaska dashboards and explained the various pages he landed upon.

COMMISSIONER MAHONEY asked if the projection for 2040 in the historical metrics page was showing that by year 2040 the plan would be 121 percent funded; MR. KERSHNER stated that was for TRS and 112 percent funded for PERS. He said the reason was the funding policy which was amortizing the unfunded liability over 25 years -- those would ultimately reach 100 percent per statutes, once they reach 100 percent they have to continue to contribute the normal cost, so the surplus continues to grow. He noted that it was on a combined pension and healthcare basis, the pension trust was not expected to exceed on a combined basis, pension, and healthcare in the future; COMMISSIONER MAHONEY stated that her point was that they were on a trajectory for overfunding; MR. KERSHNER noted that they were on a trajectory to fully fund the plans, and at that point, the statues could be amended to not require the normal cost be contributed as a minimum. He said the DCR plans were still being contributed to because the statutes require the normal cost be contributed regardless of the funded status of the plan; COMMISSIONER MAHONEY stated that she understood that but was uncomfortable with it because it could trigger excess benefits, then a PRPA.

MR. JOHNSON asked if the actual amounts were being expended were lower as the beneficiaries become actuarially insignificant; MR. KERSHNER explained that the amounts of the contributions do not necessarily decrease; under the method to fund the unfunded liability, that was on a level percentage of pay basis. He noted that as payroll is expected to increase in the future, the dollar amounts were expected to increase because those amounts were projected to be the same percentage of payroll; COMMISSIONER MAHONEY asked if the payroll was going down for the DB components; MR. KERSHNER affirmed they were but the funding per the statutes was on a total payroll basis, including DCR.

MR. WILLIAMS asked if it was easy to break it out between health trust and the pension; MR. KERSHNER affirmed that it was; MR. WILLIAMS requested directions on what to do when he logged in so he could review that. MR. KERSHNER said he would have to create a separate graph to show the pension and healthcare separately.

IX. Actuarial Education Modules

MR. KERSHNER said that they had provided access to the modules after the June meeting and that he did not have anything to discuss unless there were questions from the committee members or others in the meeting.

X. Update Independent Audit of State's Actuary per AS 37.10.220(a)(10)

MR. DETWEILER reminded the Board that the audit was different than the normal work they complete as review actuary. He said they selected a number of members and received from Buck detailed test lives. They reviewed the different benefit details for those lives to make sure they agreed as to how Buck valued the liabilities for the different components. He said as part of their normal review, they picked members with different demographic and special types of data elements to ensure they covered as much of the population they could. He said the full replication audit allowed them to review the liabilities for all members and compare that with what Buck had provided. He said they would provide the initial results and findings at the December Actuarial Committee meeting; COMMISSIONER MAHONEY asked if there were any areas of assumption where it was a known difference between Buck; MR. DETWEILER said they had not found any at that time. He said that in the past there had been a few that they had not agreed 100 percent with Buck, and that Buck had updated all assumptions, and the committee and the Board had adopted all those assumptions.

XI. Periodic Self-Assessment

CHAIR HIPPLER gave a background stating that according to the charter the committee was directed to conduct an annual self-assessment twice a year and that he and CHAIR JOHNSON had looked into it and had tried to come up with something to meet the criteria that would be helpful and not overly burdensome and the proposed solution could be found on page 146.

MR. JOHNSON commented that it effectively created on opportunity for further conversations within the committee about their performance and an objective way of getting it done, hopefully expeditiously.

CHAIR HIPPLER suggested they conduct the self-assessment for the committee and determine if they would want it done differently than as suggested. He also noted that many of the members were also on other committees and were required to conduct self-assessments for those as well and that it would be a good opportunity to determine how to apply the self-assessment to the other committees.

CHAIR HIPPLER read the first question: "Are discussions at the committee level meaningful and, if not, what can be done about it?" No response was given. Question No 2: "What key issues are being missed?" CHAIR HIPPLER said that the answer was yes as evidenced by the fact that they had tabled the discussion of resetting to market value to October 11th to give time for more careful consideration. Question No. 3 was not read. Question No. 4: "Is the committee rationally reducing time spent by the Board on Actuarial discussion?" CHAIR HIPPLER noted that they did not want to have an Actuarial Committee meeting and then duplicate all the work at the Board. He then asked if they were saving the Board time, were they doing it effectively, and how could they do it better; MR. JOHNSON said that with CHAIR HIPPLER's leadership, he thought they were doing a great job.

CHAIR HIPPLER noted the lack of comments and to let him know if there was any way the committee could improve.

XII. Review Committee Charter – None.

XIII. Future Meetings

A. Calendar Review

CHAIR HIPPLER stated that there would be a follow-up meeting in October.

B. Agenda Items

MS. HARBO said that she thought it would be a good idea to have the new counsel go through the provisions of Senate Bill 141, which created the DC system and set up the ARM Board as a refresher for all members; CHAIR HIPPLER asked if she was suggesting they ask their counsel to review SB 141 and report to the Board on the material facts; MS. HARBO said only if the other members would like that, but as there were several issues that had come up that were covered under SB 141, such as requiring two actuaries and the 105 percent funding as well as other requirements, she thought that it might be good to do so.

MR. BRETZ suggested that it be part of the suggested reading list instead of using meeting time; CHAIR HIPPLER asked if he was suggesting that counsel could advise the Board what portions of SB 141 would be appropriate to read; MR. BRETZ said that the Trustees could listen to the audio recordings as there was good discussions and a refresher is always a good idea.

CHAIR HIPPLER noted that the Board had voted down the normal cost contributions for the National Guard because they were at 191 percent, but that it was a statutory requirement. He also noted that the TRS healthcare plan was at 140 percent. He said they need to review the "Normal cost" and determine if the statute needed to be amended; MR. BRETZ asked if they were reading the statute correctly; CHAIR HIPPLER that it might be appropriate to recommend a statutory change.

MR. JOHNSON suggested that MR. HOFMEISTER could give a legal report on that point. MR. BRETZ said that the interpretation of a paragraph might be taken two different ways. He said the notion that they required funds that they did not need every year because the law said as much that it could not be what the statute says; CHAIR HIPPLER stated that is what they were currently doing. He said the healthcare plan was 143 percent funded and they were collecting 2.8 percent which he believed was the normal cost for the healthcare fund; MR. BRETZ again suggested a statute review; CHAIR HIPPLER agreed.

C. Requests/Follow-ups

CHAIR HIPPLER asked if there were other agenda items or follow-ups for the future meetings.

COMMISSIONER MAHONEY suggested in regard to the statute associate with normal cost, the Trustees could write a paper, assuming they all support it, they would sign it and provide it to the Legislature indicating the need and desire to change the normal cost for healthcare.

CHAIR HIPPLER said that would be something they could look into for the meeting on the 11th, assuming the staff had the time. He noted that he would coordinate with MS. JONES and review the list of questions the Trustees submitted within the timeframe dictated by CHAIR JOHNSON.

COMMISSIONER MAHONEY said that would work and they would not have to have a document completed that day, just a conceptual discussion and have it completed in time for the start of the Legislative session in January.

MR WILLIAMS suggested they consider if there was anything needed for the new members to bring them up to speed. He also stated that they had received the login information from Buck and that they should make sure that everyone had been able to log in to it. He also thought there could be notes on certain items that explained what was being viewed and how the numbers lined up.

MR. BRETZ asked if the October meeting was going to be a similar setup for attendance; CHAIR HIPPLER said that he would have to get back with him about that.

MR. JOHNSON said that would be a meeting of the ARM Board itself and MS. JONES would look into the logistics of how that would be done.

XIV. PUBLIC/MEMBER COMMENTS – None.

XV. ADJOURNMENT

MS. HARBO moved to adjourn the meeting. MR. BRETZ seconded the motion. The motion passed without objection.

The meeting was adjourned at 3:26 p.m.

ATTEST:

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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.