

**State of Alaska**  
**ALASKA RETIREMENT MANAGEMENT BOARD**  
**AUDIT COMMITTEE MEETING**

**Videoconference**

**MINUTES OF**  
**October 12, 2020**

**Monday, October 12, 2020**

**ATTENDANCE**

**Committee Present:** Robert Johnson, *Chair*  
Lorne Bretz  
Gayle Harbo  
Norman West (Late)  
Allen Hippler

**Committee Absent:** None

**IAC Members Present:** None

**Department of Revenue Staff Present:**

Zachary Hanna, Chief Investment Officer  
Kayla Wisner, State Comptroller  
Pamela Leary, Director, Treasury Division  
Scott Jones, Head of Investment Operations, Performance & Analytics  
Alysia Jones, Board Liaison  
Mike Barnhill, Deputy Commissioner  
Ryan Kauzlarich, Accountant V  
Grant Ficek, Business Analyst

**Department of Administration Staff Present:**

Kevin Worley, CFO, Division of Retirement and Benefits  
James Puckett, Deputy Director, DRB  
Christina Maiquis, Accountant V

**ARMB Legal Counsel:**

Stuart Goering, Assistant Attorney General, Department of Law

**Others Present:**

David Kershner, Buck  
Melissa Beedle, KPMG

Elizabeth Stuart, KPMG

**I. CALL TO ORDER**

CHAIR JOHNSON called the meeting of the ARM Board Audit Committee to order at 8:00 a.m.

**II. ROLL CALL**

CHAIR JOHNSON, MR. BRETZ, MS. HARBO, and MR. HIPPLER were present at roll call. MR. WEST joined later.

**III. PUBLIC MEETING NOTICE**

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

**IV. ELECTION OF CHAIR**

CHAIR JOHNSON requested this item be deferred until the next regular meeting of the committee. There were no objections.

**V. APPROVAL OF AGENDA**

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

**VI. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES – None.**

**VII. REVIEW OF DRAFT FINANCIAL STATEMENTS**

MR. WORLEY stated that they were going to go over audited financial statements that the Division of Retirements and Benefits are responsible for reporting. The statements for review were Public Employees' Retirement System, Teachers' Retirement System, Judicial Retirement System, Supplemental Benefits System, Deferred Compensation Plan, and the two National Guard and Naval Militia Retirement System audits. He said that the 2019 audit was complete, and the delay was a result of confirmations from the National Guard and the Naval Militia members. Once that is completed, they will have the 2020 financial statement with comparative information. MR. WORLEY also announced that the Division recently received from the Government Finance Officers Association, a Certificate of Achievement for Excellence in Financial Reporting, for both the Comprehensive Annual Financial Reports (CAFR) for the Alaska Public Employee's Retirement System, and the Alaska Teachers' Retirement System. The CAFRs will contain the financial statements for both PERS and TRS as well as additional information.

**1. Public Employees' Retirement System**

MR. WORLEY stated that on the income statement side of PERS, the only plan that had a net decrease was the pension plan. The rest of the plan had positive asset growth. On the pension side, the pension

benefits exceed the contributions.

MR. WEST asked if they had filled in the performance percentages yet.

MR. WORLEY stated that they are still working with DOR who is working with Callan to get the final numbers out.

MR. HANNA confirmed that those numbers are being finalized by Callan and they expect those any day. He said that the returns are in the 3.8 to 3.9 percent range for the fiscal year and he is finalizing a couple of last-minute corrections.

MR. WEST asked if the returns are part of the audited information.

MR. WORLEY confirmed that they are, and they typically produce overall plan returns by investment.

MR. WEST asked if that information was needed for the CAFRs deadline.

MR. WORLEY stated that they are needed.

MS. HARBO asked if the term “pre-medical” instead of pre-Medicare” was intentional.

MR. WORLEY stated that it was, and that term comes from the Buck reports.

MS. HARBO then asked that on page 52 and in TRS, on the trend rate for healthcare, the percentage was left blank and if was that not known.

MR. WORLEY stated that it was intentionally left blank, that it comes out of the valuation reports. The first three years are at zero, and then it jumps to 4 percent after that.

CHAIR JOHNSON asked MR. WORLEY if he could explain why there is a distinction among PERS, TRS and JRS “Financial Statements and Supplemental Schedules, June 30, 2019 (with summarized financial information June 30, 2019).” He then noted the other five documents being presented appear to drop the limitation to June 30, 2019, or at least provide that it is going to be for both June of 2020 as well as June 2019 and asked what is trying to be accomplished by way of limiting it to June 30, 2019, on the three big ones.

MR. WORLEY explained that the difference for PERS, TRS, and JRS is for fiscal year 2020 they show each fund total as of June 30, 2020, as a comparative with summarized financial information that is shown in the far-right column.

CHAIR JOHNSON said that this would perhaps lead the reader to think that this is accurate as of June 30, 2020, without referring to the fact that the information as of June 30, 2020, is really just

databased through June 30, 2019, and asked if this was an appropriate way to describe it.

MR. WORLEY stated that while the first paragraph deals with 2020, on page 2 there is a prior year comparative information under “Other Matters” that discusses the 2019 matters. There it acknowledges that the statements have been previously audited, and an opinion has already been expressed.

MS. STUART stated that there is some lag remaining in the investment balances, but their opinion is that what is reported is materially correct as of June 30, 2020, and any lag doesn’t require mention because it is immaterial.

MR. WORLEY said that the change that was needed on the DOR ARMB INVESTED ASSET audit report was because those numbers are then rolled into the financial reports as they have been audited by KPMG, an opinion has been issued on it, and those are the same assets that are used in the audited financial statements. He said that they did end up having an audit adjustment for the alternative investments. Those changes were discussed at the DOR Audit Committee and are now in the financial statements for each impacted fund.

CHAIR JOHNSON asked about the pension unfunded liability which shows a slightly smaller percentage going forward in 2020 at 61.61 and then it shows the OPEB provisions, which are a funded liability of 106.15 percent and asked if it was inappropriate to do a blended one for purposes of a summation.

MR. WORLEY stated that he would have to look into that. It is unaudited so he will have to check with KPMG and see if that is something that they can consider.

MS. HARBO asked if it was done before they set up the separate healthcare trust.

MR. WORLEY confirmed that it was and that back then they did not have to disclose this information and they did not have Management Discussion & Analysis.

CHAIR JOHNSON stated the list of contingent liabilities under Litigation Costs is the representation that while there are lawsuits pending against the system, that the conclusion is that none of these are material in terms of the report.

MS. STUART also answered by stating from an auditor’s perspective, they establish materiality for the financial statements, which is roughly 1 percent of assets. She said it has to be a relatively large number that they think would have a material impact on the financial stability of the plan or impact to the users of the financial statements in evaluating whether the plan can cover its obligations.

MR. WORLEY stated that with claims payable, they are actually dealing with two items. One is for legal claims and the other is for healthcare claims payable which they call incurred but not reported

amounts.

## **2. Teachers' Retirement System**

MR. WORLEY stated that MS. HARBO sent some comments that were germane to PERS and TRS questions that have been addressed.

## **3. Judicial Retirement System**

Responding to a question by MS. HARBO, MR. WORLEY stated that they went to EGWP on January 1, and as a result of that the participation in the RDS program is decreasing. They will look at it again this year to see what type of impact it does have on RDS.

CHAIR JOHNSON asked what the schedule was for plugging in the investment percentages.

MR. WORLEY stated that that information will be coming from MR. HANNA, and he is getting that from Callan and will provide those numbers when received.

## **4. Supplemental Benefits System**

MR. WORLEY stated that with SBS, there was an increase in fiduciary net position which was less than last year. Contributions were about the same, but the return on investments was about \$60 million less. This year there was an increase in benefits partly due to COVID. Distributions from SBS and Deferred Comp were being allowed.

## **5. Deferred Compensation Plan**

MR. WORLEY stated that Deferred Comp was in the same situation as SBS. They saw a net increase in fiduciary net position but were down about \$30 million from the year before. \$23 million of that was a result of decreased net investment income and then there was a \$10 million increase in benefits paid out, refunds, or cashing out by members.

## **6. National Guard and NMRS**

MR. WORLEY stated that there are two financial statements for the National Guard. One was for the fiscal year ending June 30, 2019, and then a comparative. He said that MR. WEST had asked about the modified opinion on 2019 and if MS. STUART or MS. BEEDLE would comment on it.

MS STUART said that the qualifications relate to the inability to obtain sufficient audit evidence about certain participants in the plan, and due to that, they are unable to conclude that the plan liability is complete and accurate.

MR. WORLEY confirmed that what MS STUART mentioned is the same issue that was discussed at the Actuarial Committee where they were trying to get a date from each of the branches of the National Guard, Army, Air, and Naval Militia. He said that they are able to get good information about the active members, but once they leave Alaska or the Guard, they have difficulty getting information about either years of service, if they have retired but have not applied for benefits, and a number of other things. He stated that this past year they were trying to confirm with National Guard Membership information that did not coincide with the numbers that were coming in. They are trying to figure out a way to work with the people that have service in Alaska that may be in the Guard but

in another unit somewhere else and how to get access.

MR. WEST asked if they were relying on the National Guard to get that information, or are they going to a higher power outside the state.

MR WORLEY said that they are working with the National Guard in Alaska through the Department of Military and Veterans Affairs, which is where they get stonewalled. The Guard does not have access to information once the members leave Alaska.

MR. WEST stated that he has a friend that used to be the JAG Officer for the Air Force and handled several National Guard things and is still involved with the National Guard. MR. WEST stated that he will contact him to see if he can find out how to get the information needed.

MR. WORLEY said that would be wonderful. He went on to explain that they spend a lot of time trying to get this information when they could be doing other work. He also stated that part of the problem goes back to reporting requirements to the State of Alaska.

## **VIII. UPDATE ON ACCOUNTING FOR ALTERNATIVES**

MS. WISNER explained that every year her group analyzes the impact of the quarter lag reporting on the financial statements. Because of the material impact this analysis had on this year's financial statements, Treasury implemented a new process to alleviate the impact of the unadjusted audit difference analysis for this year and going forward. This year they made an adjustment to the financials of \$313 million for alternative investments and are currently finishing up the documentation regarding this new process.

MR. WEST stated that he was glad to hear they are doing this.

CHAIR JOHNSON asked how this process gets implemented to be consistent from year to year.

MS. WISNER stated that everything that is received from June 30 valuations up until August 31<sup>st</sup> will be included in the audited financials as of June 30.

CHAIR JOHNSON asked how they would be preserving the new procedures and whether there is a book of accounts kept at the office of process and procedures that it would be entered into.

MS. WISNER stated that it will be included in audit documentation that she is currently working on. She said that she believes that KPMG will be putting it in their work papers as well.

**IX. FURTHER MEETING SCHEDULE** – Previously distributed via e-mail. The next planned Audit Committee meeting will be December 2<sup>nd</sup>, as per the schedule.

## **X. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE**

MS. HARBO congratulated MR. WORLEY and his team for being awarded the Certificate of

Achievement for Excellence in Financial Reporting by the Government Finance Officers Association.

CHAIR JOHNSON welcomed MS. JONES and stated that they are looking forward to working with her.

**XI. PUBLIC/MEMBER COMMENTS - None.**

**XII. ADJOURNMENT**

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

The meeting was adjourned at 11:08 a.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.