

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE MEETING

Videoconference

MINUTES OF
January 13, 2022

Thursday January 13, 2022

ATTENDANCE

Committee Present: Gayle Harbo, *Chair*
Lorne Bretz
Rob Johnson
Allen Hippler
Donald Krohn
Bob Williams

Committee Absent:
None

ARM Board Trustees Present:
Lucinda Mahoney, Commissioner

IAC Members Present:
Ruth Ryerson

Department of Revenue Staff Present:
Zachary Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Ryan Kauzlarich, Accountant V
Alysia Jones, Board Liaison

Department of Administration Staff Present:
Jim Puckett, Deputy Director, Division of Retirement and Benefits
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits
Christina Maiquis, Accountant V, Division of Retirement and Benefits

ARMB Legal Counsel Present:
Benjamin Hofmeister, AAG, Department of Law

Consultants, Invited Participants, and Others Present:

Melissa Beedle, KPMG
Elizabeth Stuart, KPMG
David Kershner, Buck

I. CALL TO ORDER

CHAIR GAYLE HARBO called the meeting of the ARM Board Audit Committee to order at 10:00 a.m.

II. ROLL CALL

MR. BRETZ, MR. HIPPLER, MR. JOHNSON, MR. KROHN, MR. WILLIAMS, and CHAIR HARBO 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

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

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

VI. REPORTS

A. GASB 68/75 PERS & TRS Allocation Schedules for Participating Employers

MR. WORLEY said the first report was the PERS Defined Benefit Pension Plan. He said it was the schedule of employer and non-employer allocations. He then advanced to slide 12 and said \$3,668,449,000 was the net pension liability that they reported within the PERS June 30, 2021, schedule. He said they worked with Buck to prepare a report and allocate the \$3.668 billion of liability across all employers. He said for each of the numbers reported in the financial statements as of June 30, 2021 issued by the Division and audited by KPMG, they would allocate either net pension liability or the net OPEB liability.

MR. HIPPLER asked if an entity that was not in the state of Alaska was reporting a liability but was deficient on its payment, did that impact the State of Alaska liability reported on the ACFR; MR. WORLEY said that in this report they looked at future contributions through 2039 for that employer not just current year receipts. He said the employers that had been deficient were the really small employers so the impact to the allocation was very minimal.

MR. WORLEY moved on to page 35 of the PDF related to PERS Occupational Death and Disability (ODD) Plan for the PERS DCR. He said that because it was an actuarially determined rate, there was funding based on that rate, and they accounted for the fund separately, there was a net pension asset on that item that they allocated. He said for PERS ODD they looked at employer contributions for the year and determined the allocation percentage. He said the total contributions of \$5.3 million were allocated out to 100 percent.

MR. WORLEY said that they used two different methodologies. He said with the PERS Defined Benefit Pension, they looked at contributions over a period of time. He said the Governmental Accounting Standards Board had allowed two different methodologies to be used by systems to allocate. He said one of them was present value of future contributions, which they used for PERS, TRS, defined benefit, pension, and healthcare because of the way they had the additional state contributions. He added that they looked through Fiscal Year 2039 and then present-valued them with the assistance of Buck and their schedule. He said for the smaller plans, which were fairly new, they just looked at the employer contributions because there was no impact on additional state contributions.

MR. WORLEY said in the case of the PERS DCR they had a net pension asset that was allocated to employers, including the State of Alaska of \$2.5 billion. He said each of the participating employers would be reporting. He said the State of Alaska would have PERS and TRS because they participated in both plans. He noted they'll have footnote disclosures and dollar amounts on their financial statements for their participation in PERS.

MR. WORLEY moved to page 68 of the PDF, which showed the PERS Alaska Retiree Healthcare Trust Allocation Schedule. He said that because they were overfunded there, they have a net OPEB asset or other post-employment benefit asset to allocate out.

MR. WILLIAMS asked whether overfunded amounts get distributed out to all the different entities; MR. WORLEY said that when Buck does the actuarial analysis of the Retiree Medical Plan, the money does not get returned to the employers, it was just a financial reporting component that they had to show, similar to a net pension liability. The report would say that there was an asset in the Retiree Medical Plan because it was overfunded and that would eventually decrease over time. He said there was no money moving back and forth between plans. He said they do not give the money back and they do not collect money on it. MR. WILLIAMS asked if each entity was looking at it as an asset or as a liability that they have, based on the calculations, but there was not money actually being transferred back and forth; MR. WORLEY said that was correct.

MR. WORLEY said the TRS DB Pension was on page 111 and asked if there were any questions or comments. There being none, he moved on to page 132 for the TRS DB Healthcare Trust and asked if there were any questions. He commented that TRS ODD and TRS RMP were very similar to what they saw in PERS and asked if there were any questions. There were none.

B. Division of Retirement and Benefits Audited Financial Statements – NGNMRS

MR. WORLEY said that the National Guard Naval Militia Retirement System was not included in the packet because they were continuing to work with the Department of Military and Veterans Affairs and was finalizing the audit. He said they were waiting on items related to member data that the Guard maintains. He said they were down to four members within the Air Guard and were unable to get the data.

MR. WORLEY said that he was working with the deputy commissioner of the department to work out a Memorandum of Agreement and try to figure out how they could get the information. He said

one of the areas of concern was membership data. When a person who was in the Alaska National Guard moved out of state they were unable to track them and confirm their information that KPMG was auditing. MR. WORLEY said he was working on how they can track these people that transfer out of Alaska.

CHAIR HARBO asked if it was turnover in the department or administration; MR. WORLEY said that he had been told it is because even though they are part of the National Guard, each state maintains separate records that was not accessible by the State of Alaska. He said he had also tried to work with members directly to get the information but had a problem with them thinking he was a scammer.

MR. WORLEY said that they were going to work with DMVA to see if they could help with the missing pieces to get the information needed to do the audit.

COMMISSIONER MAHONEY asked if they had an HR or accounting department that he could contact; MR. WORLEY said that he was working with the deputy commissioner of DMVA and found out that each of the Guard units had a commander and a report staff who were responsible for all the reporting and tracking; COMMISSIONER MAHONEY told him to let her know if he needed help, she would try to reach out. She said it was important to be able to complete the financial statements.

MR. WILLIAMS said he was confused as to how it was more challenging than what all the other municipalities and school districts had to deal with; MR. WORLEY said that municipalities and school districts give them their payroll data every payroll period. The National Guard does not give information like that, they give an annual report in the form of a list of all their actives at the end of the fiscal year. He said when someone leaves, there is no access to the records to determine where they went. He said it was a challenge due to the vesting requirements for the program. He said they must have 20 years in the guard and at least five years of Guard service in the state of Alaska. If they move out of state, there is no way to track them, and they are assuming that they are accruing service and may be eligible later for a pension benefit but are unable to confirm because they cannot access the data.

MR. WORLEY said they do have access to computer systems but not the source documents showing when they came in and when they left. The Guard members have them. He said the National Guard was service based, not payroll based so it makes it difficult to confirm time in the system as a National Guard member.

MR. JOHNSON asked what the implications were to the State of Alaska or the systems – was there any meaningful impact; MR. WORLEY said no, it was such a small piece of the state it would have no impact on bonds or the like. He said it would have an impact on the actuarial analysis that Buck conducts. He also said that it may put them over on their liability, but that plan was very well funded. He said in terms of members, that maybe they were over-accruing, maybe the funding percentage was higher; MR. JOHNSON asked if the committee could suggest a percentage of error so that Buck was not spinning their wheels and spending dollars on such a small amount; MR. WORLEY said that would be a good discussion to have with MR. KERSHNER; MR. BRETZ asked if there were a total actives of about 3,900 as of June 30, 2020; MR. WORLEY said they had just been dealing with samples and the issue was with four samples within the Air Guard which had 2,200 actives..

MR. JOHNSON asked KPMG that if they were just using a sampling, if they would agree on some sort of percentage fix and be done with it; MS. STUART said that what she thought he was proposing was to adjust the recorded amount to reflect the difference. She said the information was not available to determine whether they could or not. She said the sample size was 10 people and four were not able to provide the information. She said it was more of an audit evidence in the plan issue than it was an error. She said four out of 10 people was a very high rate of lack of support; MR. JOHNSON suggested trying a larger sample size of 200 or more and if there were only 10 out of that, maybe they would have a solution.

CHAIR HARBO asked who chose the sample size; MS. STUART said they chose the sample size, and that a lot of thought goes into determining the size. She said maybe a legislative audit, the retirement system audit, or internal audit could do a more extensive sampling. She reiterated that the recorded amount was not necessarily wrong, it was the information to support the recorded amount was not available because those members had taken their physical packets with them.

MR. WORLEY said that he had discussed that issue with the deputy commissioner at DMVA about how they could obtain or maintain a system that tracks when a member has joined the Guard and how much service they have within the state, which was what they were trying to confirm for them to be included as an accrued liability for a pension benefit.

MR. WILLIAMS said that if the Alaska National Guard would share payroll data that would give quite a bit of information. He said that the other issue was the ability to get a pension would be showing documentation of 15 years of Air Guard service outside, after the 5 years of service in Alaska which was unique because it is the years of service in the state that counts towards it for everyone else. He said he did not see that problem ever getting solved.

CHAIR HARBO suggested MR. WORLEY work with COMMISSIONER MAHONEY and try to talk with DMVA about this. MR. WORLEY said he would and also include COMMISSIONER VRANA.

VII. Future Meetings

A. Calendar Review

CHAIR HARBO said the next meeting for the Audit Committee would be in March in Juneau, if they meet in Juneau and then asked if there were any questions on the calendar. There were none.

B. Agenda Items

CHAIR HARBO asked if there were any future agenda items and noted that MR. JOHNSON had one that he had asked for.

MR. JOHNSON said that was correct, that he had some questions relating to allocation and would submit those questions through MS. JONES. He then asked what MR. WORLEY or KPMG wanted them to do – were they at a position where, having had the meeting were they going to refer the reports in their draft form to the Board; MR. WORLEY said it was just for the Audit Committee to hear of any concerns or comments that KPMG, as the external auditor, would have, questions about reporting

or disclosures, but that referral to the full Board for adoption was not necessary.

C. Requests/Follow-ups – None.

VIII. Other Matter to Properly Come Before the Committee

CHAIR HARBO asked if there were other matters to properly come before the Committee; MR. WORLEY said the Division, as required by Alaska Statute, had to present what they had discussed prior, which was the Annual Comprehensive Financial Report that was issued prior to December 31. It was posted on the Division website, and they were in the process of getting hard copies printed. He said they still distribute hard copies to Trustees and some legislators preferred the bound version. He said they anticipated those to be issued by the end of the month.

IX. Public/Member Comments - None.

X. Adjournment

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

The meeting was adjourned at 10:55 a.m.

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.