

State of Alaska  
ALASKA RETIREMENT MANAGEMENT BOARD  
Relating to Pension Obligation Bonds

Resolution 2007-17

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee to the assets of the State's retirement systems; and

WHEREAS, the State of Alaska and its political subdivisions participate in the retirement systems as a matter of law and through participation agreements and pursuant to those provisions public employer contribution rates are set by the Board based on information including actuarial assumptions and calculations of unfunded accrued actuarial liability; and

WHEREAS, Chapter 9 FSSLA 2005 (SB 141) enacted changes to the retirement systems and among other things required the Board to provide reports to the legislature and make recommendations regarding short term and long term solutions to improve the financial health of the retirement systems; and

WHEREAS, the Board has received information from public employers as well as advisors, consultants, and other experts concerning the potential usefulness of pension obligation bonds ("POB's") to assist public employers in meeting their obligations to the retirement systems and in particular to pay the unfunded accrued actuarial liability of the systems; and

WHEREAS, public employers as well as consultants and experts have represented to the Board certain matters concerning POB's including:

1. POB's have been used to finance liabilities associated with under funded pension plans and under the right circumstances POB's can significantly reduce the cost of financing a pension liability;

2. POB's carry the risk if the pension system earns less on the bond proceeds than the cost of issuance and interest on the bonds, the issuer would incur higher costs than would have been incurred without issuing the bonds; conversely if the system earns higher returns than the cost of capital rising from issuance of the POB's, the public employer issuing the POB's will potentially benefit;

3. Determining success of POB's is a long term proposition because a final assessment is not possible until the POB's are paid off;

4. POB's provide an option for public employers to make higher than normal contributions to the systems and such higher than normal contributions appeal to the Board because the contributions could reduce the unfunded accrued actuarial liability and therefore improve the funded status of the systems;

5. There are certain concerns regarding the ability to invest proceeds of POB's according to the Board's normal asset allocation plans upon receipt of such funds; as such there is a need to assure that an asset allocation specific to the proceeds of particular POB's can be made: a specific allocation and risk profile may be necessary in order to recognize that some asset classes such as real estate may not allow immediate access to quality investments with respect to proceeds contributed through the issuance of POB's;

6. There would be no guarantee of a particular rate of return by the Board with respect to investments of proceeds of POB's; and

WHEREAS, since it is a primary responsibility of the Board to ensure that pension systems are fully funded, POB's may offer an appropriate mechanism if appropriate legislative actions are taken to meaningfully enable issuance of POB's by interested public employers under state law and constitutional provisions.

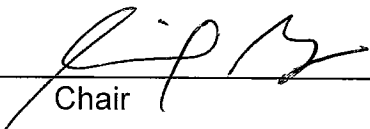
NOW THEREFORE BE IT RESOLVED BY THE ALASKA RETIREMENT MANAGEMENT BOARD THAT:

1. The Board acknowledges employers participating in the public employees' retirement system, teachers' retirement system, and judicial retirement system should be encouraged to evaluate all feasible options to finance their pension obligations including the use of POB's as such an option;

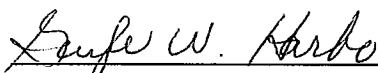
2. The Board recommends that the legislature undertake appropriate action to enable public employers to access capital markets in the most favorable means possible, with the issuance of POB's being one such potential means of access;

3. The Board believes that POB's constitute a concept worthy of fair and further consideration and supports passage of legislation to allow the issuance of POB's when an employer determines it would be beneficial.

DATED at Juneau, Alaska this 27<sup>th</sup> day of April, 2007.

  
Chair

ATTEST:

  
Secretary