

ALASKA RETIREMENT MANAGEMENT BOARD

Relating to Legislative Intent Concerning a Transfer of Board Management Responsibilities

Resolution 2016-10

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee of the assets of the State's retirement systems, with specific authority to manage the assets in the best interests of the funds and fund beneficiaries;

WHEREAS, the Board serves as an independent fiduciary in the management of funds entrusted to it, all as consistent with best practices envisioned by the Alaska legislature since 1992 with the creation of the Alaska State Pension Investment Board (ASPIB) as subsequently re-enacted as the Board in 2005, in each instance with a board composition of trustees linked to the beneficiaries of the funds, qualified by prescribed experience, or qualified as commissioners of state departments with prescribed relationships to the funds;

WHEREAS, the legislature in its 2016 budget bill (HB 256) added a statement of intent (p 35, lines 20-26) that the Department of Revenue, in consultation with the Alaska Permanent Fund Corporation, analyze and report to the legislature by October 15, 2016 whether "management responsibility" for funds currently managed by the Board should be transferred to the Alaska Permanent Fund Corporation;

WHEREAS, the Board understands that the Alaska Permanent Fund Corporation may contract to provide an analysis purporting to address the expression of legislative intent noted above, and that any analysis has to this point failed to contact this Board and may well fail to address the institutional and policy issues underlying enactment of legislation creating ASPIB or the Board;

WHEREAS, the Governor has not signed the budget bill and may be able to invoke his line-item veto authority to veto the statement of intent noted above;

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

1. The Board OPPOSES any transfer of management responsibilities contemplated in the legislative expression of intent in HB 256, and OPPOSES any significant or material deviation from the current configuration of assigned duties in the investment or management of funds entrusted to the Board.
2. The Board respectfully recommends to the Governor that he exercise his line-item veto authority to veto the legislative expression of intent found at page 35, lines 20-26 of SB 256.

3. The Board deems it vital that any analysis purporting to respond to the legislature's statement of intent include interviews of Board trustees, input from the Board, and consideration of the underlying purpose, goals, and legislative history of ASPIB and the Board.

4. The Board's position set forth in paragraphs 1 through 3 above is based on at least the following observations:

(a). Notwithstanding current budgetary needs which compel consideration of alterations to the structure of state government in the form of consolidation or elimination, significant fiduciary, legal, and potential tax-driven reasons exist for the preservation of the Board including its management of funds entrusted by law to it;

(b). The Board and ASPIB represent over 25 years of legislative recognition of the importance of trustees who represent the constituent interests in the funds and the management of those funds, and as well the integral role of line agencies such as the Department of Revenue in meeting the assigned mission of best representing the interests of the funds and the fund beneficiaries;

(c). The goals and missions of the Board and the Alaska Permanent Fund Corporation are fundamentally different and may mutually conflict if "managed" by the same team and if overseen by the same boards of trustees;

(d). The funds of the pensions and the permanent fund must be financed and separately managed and accounted for, losing any economies of scale and potentially exacerbating the difficulties of complying with different fiduciary obligations and objectives;

(e). Combining investment functions of the Board (through the Department of Revenue) with the Alaska Permanent Fund Corporation would compromise the basic investment concept of diversification by placing a significant function in the hands of one entity; if separate structures were created within that one body there would be little if any savings as apparently contemplated in the expression of intent.

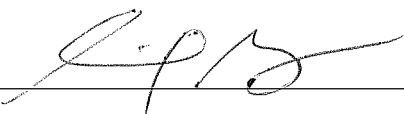
(f). The statement of legislative intent is unclear as written and no analysis can likely assess or discern that intent because it could mean variously (1) the transfer of investment duties from the staff in the Department of Revenue to a staff in a different entity, (2) modification in the duties currently assigned by law to the Board itself, or (3) other options; with respect, no analysis could realistically assess the wisdom of an unclear statement of intent.

(g). Legislation would be necessary to implement any transfer of management responsibilities, including at least amendment of AS 37.10.210 (description of duties of board), AS 37.10.220 (authority of the board), and AS 37.10.260 (Department of Revenue provides staff); and

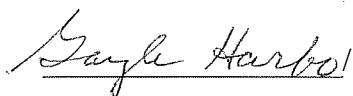
(h). No provision has been made for the financing of any study contemplated by the legislature and certainly it would violate fiduciary standards to finance such a study from assets of the pension funds.

5. The Board directs that copies of this resolution be provided to the Governor, the Legislature and the Alaska Permanent Fund Corporation.

DATED at Anchorage, Alaska this 24<sup>th</sup> of June, 2016.

  
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(Chair)

ATTEST:

  
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Secretary

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