

**State of Alaska
FY2008 Governor's Operating Budget**

**Department of Revenue
Alaska Retirement Management Board
Component Budget Summary**

Component: Alaska Retirement Management Board

Contribution to Department's Mission

The mission of the Alaska Retirement Management Board is to manage state pension funds.

Core Services

- Invest the funds of the state pension plans:
 - Public Employees' Retirement System
 - Teachers' Retirement System
 - Judicial Retirement System
 - Alaska National Guard and Alaska Naval Militia Retirement System
 - Health Reimbursement Arrangement Plan
 - Retirement Medical Plan.
- Select and monitor appropriate investment options for Supplemental Benefits System (SBS), Deferred Compensation and Defined Contribution Plan.
- Report to the governor, legislature, individual employers and other stakeholders the financial condition of the systems with regard to:

Valuation of trust fund assets and liabilities;
 Current investment policies adopted by the board;
 A summary of assets held in trust listed by the categories of investment;
 The income and expenditures for the previous fiscal year;
 One-year, three-year, five-year and 10-year investment performance for each of the funds entrusted to the board;

and

Other statistical data necessary for a proper understanding of the financial status of the systems.

End Results	Strategies to Achieve Results
<p>A: Improve the risk adjusted return of funds under the stewardship of the ARMB by continually improving investment returns.</p> <p><u>Target #1:</u> Exceed 1-year and 5-year target returns. <u>Measure #1:</u> Actual returns compared with target returns reported by consultant.</p>	<p>A1: Recognize possible improvements to asset allocation decisions through evaluation of greater diversification by expanding the number of asset classes. (NOTE: Asset allocation is the single largest contributor to total return.)</p> <p><u>Target #1:</u> Perform in-depth education on and analysis of at least one investment approach. <u>Measure #1:</u> Number of new investment approaches that the board evaluates annually.</p>

FY2008 Resources Allocated to Achieve Results

FY2008 Component Budget: \$6,604,600	Personnel:	
	Full time	0
	Part time	0
	Total	0

Performance Measure Detail

A: Result - Improve the risk adjusted return of funds under the stewardship of the ARMB by continually improving investment returns.

Target #1: Exceed 1-year and 5-year target returns.

Measure #1: Actual returns compared with target returns reported by consultant.

One-year and Five-year Return Data for Retirement Funds

Fiscal Year	Fund	1-Year Actual	1-Year Target	5-Year Actual	5-Year Target
FY 2006	Public Employees Retire Sys	11.74%	10.38%	6.54%	6.83%
FY 2006	Teachers Retirement System	11.78%	10.38%	6.56%	6.83%
FY 2006	Judicial Retirement System	11.37%	10.50%	7.00%	7.18%
FY 2006	Military Retirement System	6.25%	4.51%	5.51%	5.45%

FY2006 one-year return data is for the period 7/1/2005 through 6/30/2006.

Analysis of results and challenges: A combination of investments that is expected to produce the highest investment return for a given amount of risk is known as "point on the efficient frontier." Each fiduciary for a fund reviews points on the efficient frontier and selects the combination of investments consistent with their appetite for risk and returns of the fund. This selection is known as the target return.

Target returns assume the rate of indexes invested in the same proportions as the assets at the corresponding point on the efficient frontier. A fund will exceed the target rate of return if the amount of money invested matches the asset allocation at that point on the efficient frontier and the investment managers earned more than the index. Returns will be less if the manager underperformed or if assets were not allocated to overweight higher performing asset classes.

A1: Strategy - Recognize possible improvements to asset allocation decisions through evaluation of greater diversification by expanding the number of asset classes. (NOTE: Asset allocation is the single largest contributor to total return.)

Target #1: Perform in-depth education on and analysis of at least one investment approach.

Measure #1: Number of new investment approaches that the board evaluates annually.

Analysis of results and challenges: The Board will continue to evaluate new asset classes at their annual educational workshop.

Key Component Challenges

- Manage investment risk during times of market volatility;

- Continue to pursue opportunities to increase risk-adjusted returns.

Significant Changes in Results to be Delivered in FY2008

- Increased due diligence by staff and trustees;
- Increased ability to attract and retain state investment officers.

Major Component Accomplishments in 2006

- The Alaska Retirement Management Board was established October 1, 2005 and held its first meeting October 11, 2005 at which it elected officers, adopted investment policy resolutions and set a budget for FY2007.
- Prepared Report to the Legislature assessing financial health of state's retirement plans, the actuarial services purchased by the board, recommended legislative and administrative policy to improve financial health of retirement plans, recommended short and long-term policies for addressing unfunded liability, and recommended legislative procedures regarding fiscal notes for new legislation affecting retirement plans.
- Fund returns of 11.94% exceed the 8.25% actuarially required rate; ARMB is in top-quartile of performing funds in Callan Associates database.

Statutory and Regulatory Authority

AS 37.10.210-390 Alaska Retirement Management Board

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**Alaska Retirement Management Board
Component Financial Summary**

All dollars shown in thousands

	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	44.7	74.8	74.8
72000 Travel	157.6	95.9	124.9
73000 Services	3,859.6	5,161.3	6,397.4
74000 Commodities	60.1	0.5	7.5
75000 Capital Outlay	0.0	0.0	0.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	4,122.0	5,332.5	6,604.6
Funding Sources:			
1004 General Fund Receipts	590.2	382.4	382.4
1017 Benefits Systems Receipts	139.2	199.0	199.0
1029 Public Employees Retirement System Fund	2,227.0	3,098.8	3,960.0
1034 Teachers Retirement System Fund	1,119.3	1,532.2	1,932.1
1042 Judicial Retirement System	29.8	36.1	44.0
1045 National Guard & Naval Militia Retirement System	16.5	84.0	87.1
Funding Totals	4,122.0	5,332.5	6,604.6

Estimated Revenue Collections

Description	Master Revenue Account	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
Unrestricted Revenues				
None.		0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0
Restricted Revenues				
Benefits System Receipts	51390	139.2	199.0	199.0
Restricted Total		139.2	199.0	199.0
Total Estimated Revenues		139.2	199.0	199.0

**Summary of Component Budget Changes
From FY2007 Management Plan to FY2008 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2007 Management Plan	382.4	0.0	4,950.1	5,332.5
Adjustments which will continue current level of service:				
-Portfolio Investment Management Tools and Software Subscriptions	0.0	0.0	501.6	501.6
-Alternative Investment Due Diligence	0.0	0.0	29.0	29.0
-Audit, Performance Management and Financial Network Increases	0.0	0.0	190.9	190.9
-FY 08 Health Insurance Increases for Exempt Employees	0.0	0.0	2.0	2.0
Proposed budget increases:				
-Move State Investment Officer Salaries to Market	0.0	0.0	231.2	231.2
-FY 08 Internal Dept Cost Increase due to Retirement Systems Rate Increases	0.0	0.0	314.6	314.6
-Retirement and Non-covered Employee Health Insurance Increases for Division of Personnel	0.0	0.0	2.8	2.8
FY2008 Governor	382.4	0.0	6,222.2	6,604.6