

**State of Alaska  
FY2009 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 Result	Strategies to Achieve End Result
<p><b>A: Improve the risk adjusted return of funds under the stewardship of the ARMB by continually improving investment returns.</b></p> <p><u>Target #1:</u> Exceed 1-year, 3-year and 5-year target returns.</p> <p><u>Measure #1:</u> Actual returns compared with target returns reported by consultant.</p> <p><u>Target #2:</u> Exceed a Sharpe ratio of zero.</p> <p><u>Measure #2:</u> Sharpe ratio.</p>	<p><b>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.)</b></p> <p><u>Target #1:</u> Perform in-depth education on and analysis of at least one investment approach.</p> <p><u>Measure #1:</u> Number of new investment approaches that the board evaluates annually.</p>

### FY2009 Resources Allocated to Achieve Results

<b>FY2009 Component Budget: \$6,713,500</b>	<b>Personnel:</b>	
	Full time	0
	Part time	0
	<b>Total</b>	<b>0</b>

### 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, 3-year and 5-year target returns.

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

#### One-year, Three-year and Five-year Return Data for Retirement Funds as of June 30, 2007

Year	Retirement Fund	1-Year Actual	1-Year Target	3-Year Actual	3-Year Target	5-Year Actual / Target
FY 2007	PERS Total Plan	18.87%	17.01%	13.06%	11.86%	11.48% / 10.76%
FY 2007	TRS Total Plan	18.90%	17.01%	13.09%	11.86%	11.50% / 10.76%
FY 2007	Judicial Total Plan	18.41%	17.13%	12.62%	12.16%	11.26% / 11.56%
FY 2007	Military Total Plan	13.32%	12.06%	8.85%	7.93%	8.42% / 7.93%
FY 2007	91-Day T-Bill	5.20%		3.78%		2.76% /

*FY2007 one-year return data is for the period 7/1/2006 through 6/30/2007.*

**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 earnings of passively managed 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 or are overweighted to higher earning assets at that point on the efficient frontier and the investment managers earn more than their benchmark index. Conversely, returns will be less if the manager underperforms their benchmark or if assets were not allocated to overweight higher performing asset classes.

**Target #2:** Exceed a Sharpe ratio of zero.

**Measure #2:** Sharpe ratio.

#### One-year, Three-year and Five-year Sharpe Ratio as of June 30, 2007

Year	Retirement Fund	1-Year Sharpe Ratio	3-Year Sharpe Ratio	5-Year Sharpe Ratio
FY 2007	PERS Total Plan	1.05	0.54	0.38
FY 2007	TRS Total Plan	1.05	0.54	0.38
FY 2007	Judicial Total Plan	0.97	0.49	0.35
FY 2007	Military Total Plan	0.81	0.42	0.34

*FY2007 one-year return data is for the period 7/1/2006 through 6/30/2007.*

**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 FY2009

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

### Major Component Accomplishments in 2007

- 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 18.87% 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

#### Contact Information

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**Alaska Retirement Management Board  
Component Financial Summary**

*All dollars shown in thousands*

	FY2007 Actuals	FY2008 Management Plan	FY2009 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	49.4	74.8	74.8
72000 Travel	128.7	124.9	124.9
73000 Services	4,390.5	5,972.3	6,506.3
74000 Commodities	158.7	7.5	7.5
75000 Capital Outlay	5.5	0.0	0.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>4,732.8</b>	<b>6,179.5</b>	<b>6,713.5</b>
<b>Funding Sources:</b>			
1004 General Fund Receipts	276.7	382.4	382.4
1017 Benefits Systems Receipts	130.0	199.0	199.0
1029 Public Employees Retirement System Fund	2,905.6	3,671.2	4,026.8
1034 Teachers Retirement System Fund	1,386.5	1,798.7	1,971.5
1042 Judicial Retirement System	29.7	42.2	46.3
1045 National Guard & Naval Militia Retirement System	4.3	86.0	87.5
<b>Funding Totals</b>	<b>4,732.8</b>	<b>6,179.5</b>	<b>6,713.5</b>

**Estimated Revenue Collections**

Description	Master Revenue Account	FY2007 Actuals	FY2008 Management Plan	FY2009 Governor
<b>Unrestricted Revenues</b>				
None.		0.0	0.0	0.0
<b>Unrestricted Total</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Restricted Revenues</b>				
Benefits System Receipts	51390	130.0	199.0	199.0
<b>Restricted Total</b>		<b>130.0</b>	<b>199.0</b>	<b>199.0</b>
<b>Total Estimated Revenues</b>		<b>130.0</b>	<b>199.0</b>	<b>199.0</b>

**Summary of Component Budget Changes  
From FY2008 Management Plan to FY2009 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2008 Management Plan</b>	<b>382.4</b>	<b>0.0</b>	<b>5,797.1</b>	<b>6,179.5</b>
<b>Adjustments which will continue current level of service:</b>				
-Transfer Funding for In-house Investment Management from ARM Board Custody & Management Fees	0.0	0.0	234.0	234.0
<b>Proposed budget increases:</b>				
-Independent Audit of Actuary	0.0	0.0	300.0	300.0
<b>FY2009 Governor</b>	<b>382.4</b>	<b>0.0</b>	<b>6,331.1</b>	<b>6,713.5</b>