

State of Alaska FY2002 Governor's Operating Budget

Department of Revenue
Alaska State Pension Investment Board
Component

Component: Alaska State Pension Investment Board

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Component Mission

The mission of ASPIB is to manage state pension funds.

Component Services Provided

1. Invest the funds of the State defined benefit pension plans:
 - Public Employees Retirement System
 - Teachers' Retirement System
 - Judicial Retirement System
 - Alaska National Guard and Alaska Naval Militia Retirement System
2. Select and monitor appropriate investment options for the Supplemental Benefits Annuity Plan and the Deferred Compensation Plan.

Component Goals and Strategies

- Maximize the rate of return on funds managed consistent with fiduciary standards.
- Manage the Trusts in accordance with the stated asset allocation objectives and constraints.
- Meet or exceed established investment benchmarks/targets over the appropriate time horizons.
- Achieve top quartile investment returns on a risk-adjusted basis while limiting total risk to that of an average public-sector plan over the long term.
- Provide balanced menu of options for supplemental benefit systems and deferred compensation participants.

Key Component Issues for FY2001 – 2002

ASPIB must manage expectations created after an unprecedented five-year bull market. ASPIB will also consider implementation of a securities lending program. In addition, the increasing volatility of the financial markets will be a big concern in the coming year, as will the continued consolidation in the asset manager industry.

Major Component Accomplishments for FY2000

- All funds met their benchmark returns goals.
- The Board selected a socially conscious fund manager this year to add to the current selections available to participants of the Supplemental Benefits System Plan.

Statutory and Regulatory Authority

AS 14.25.180
AS 22.25.048(c)
AS 26.05.228(c)
AS 37.10.071
AS 37.10.210-AS 37.10.390
AS 39.35.080

Key Performance Measures for FY2002

Measure: Investment returns against performance benchmarks.

(Developed jointly with Legislature in FY2000.)

Current Status:

Fund // FY2000 5-year* Actual Return // FY2000 5-year* Benchmark Return

The following returns are for the 5-year period ending June 30, 2000:

Public Employees' Retirement Trust Fund // 13.43% // 13.23%

Teacher's Retirement Trust Fund // 13.61% // 13.23%

Military Retirement Trust Fund // 10.30% // 11.17%

*The following returns are for the 3-year period ended June 30, 2000:

Judicial Retirement Trust Fund // 10.51% // 11.32%

Benchmark:

The benchmark return for each fund depends upon its asset allocation, that is, the mix of different asset classes that Treasury has invested it in. Each fund's individual benchmark return (as reported above) is calculated by weighting the percent of any asset class it holds by the appropriate asset class benchmark below:

Domestic Equity - Russell 2000 Stock Index or the S&P 500 Stock Index

International Equity - Morgan Stanley Capital International Europe, Australia and Far East Stock Index (EAFE)

Domestic Fixed Income - Lehman Brothers Aggregate Bond Index

International Fixed Income - Non-US Government Bond Index

Measure: Administrative costs per dollar of investment.

(Developed jointly with Legislature in FY2000.)

Current Status:

The Treasury Division participated in a national Defined Benefit Pension Fund Survey regarding calendar year 1999 costs (performed by Cost Effectiveness Measurement Inc.). The universe included 168 plans from Canada and the United States, representing both public and private funds. Total United States assets represented in the survey were \$1,950 billion.

Relevant findings of this survey include:

ASPIB's 1999 total operating costs were 26 basis points compared to the US average cost of 34 basis points. The benchmark cost (which can be thought of, generally, as the average cost for a fund of ASPIB's size and asset mix) was 25 basis points.

Benchmark:

These results above compare to benchmarks established by Cost Effectiveness Measurement Inc. ASPIB will continue to participate in this annual survey while looking for others to participate in as well. Year-to-year trends will also be evaluated as we would expect our per dollar of investment cost to decrease as the asset size grows.

Background and Strategies:

The results of this survey need to be interpreted cautiously. Comparing our costs to the overall average may be misleading because costs per dollar of investment is first and foremost a function of the size of the assets and this survey had 68 participants with plan sizes under \$2 billion and 100 participants with plan sizes over \$2 billion.

With a benchmark cost of 25 basis points compared to an actual cost of 26 basis points, we would be considered a normal cost provider (as opposed to a high or low cost provider). While this calculation compares like-sized funds, it does not account for differences that are caused by asset allocation and passive versus active management decisions.

Measure: An independent consultant will compare actual returns to benchmarks/targets at least quarterly to monitor accomplishment.

(Not yet addressed by Legislature.)

Status of FY2001 Performance Measures

	<i>Achieved</i>	<i>On track</i>	<i>Too soon to tell</i>	<i>Not likely to achieve</i>	<i>Needs modification</i>
<ul style="list-style-type: none"> • Investment returns against performance benchmarks. • Administrative costs per dollar of investment. • An independent consultant will compare actual returns to benchmarks/targets at least quarterly to monitor accomplishment. 			X		
			X		
			X		

Alaska State Pension Investment Board
Component Financial Summary

All dollars in thousands

	FY2000 Actuals	FY2001 Authorized	FY2002 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	0.0	0.0	0.0
72000 Travel	190.8	157.9	157.9
73000 Contractual	2,449.4	2,917.6	2,917.6
74000 Supplies	22.3	50.0	50.0
75000 Equipment	47.8	70.0	70.0
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	2,710.3	3,195.5	3,195.5
Funding Sources:			
1017 Benefits Systems Receipts	91.5	99.0	99.0
1029 Public Employees Retirement Fund	1,667.3	2,018.9	2,018.9
1034 Teachers Retirement System Fund	933.8	1,059.7	1,059.7
1042 Judicial Retirement System	14.8	15.0	15.0
1045 National Guard Retirement System	2.9	2.9	2.9
Funding Totals	2,710.3	3,195.5	3,195.5

Estimated Revenue Collections

Description	Master Revenue Account	FY2000 Actuals	FY2001 Authorized	FY2001 Cash Estimate	FY2002 Governor	FY2003 Forecast
Unrestricted Revenues						
None.		0.0	0.0	0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0	0.0	0.0
Restricted Revenues						
Public Employees Retirement Fund	51065	1,667.3	2,018.9	2,018.9	2,018.9	2,018.9
Teachers Retirement System Fund	51090	933.8	1,059.7	1,059.7	1,059.7	1,059.7
Judicial Retirement System	51125	14.8	15.0	15.0	15.0	15.0
National Guard Retirement System	51135	2.9	2.9	2.9	2.9	2.9
Benefits System Receipts	51390	91.5	99.0	99.0	99.0	99.0
Restricted Total		2,710.3	3,195.5	3,195.5	3,195.5	3,195.5
Total Estimated Revenues		2,710.3	3,195.5	3,195.5	3,195.5	3,195.5

Alaska State Pension Investment Board

Proposed Changes in Levels of Service for FY2002

No anticipated service changes

Summary of Component Budget Changes

From FY2001 Authorized to FY2002 Governor

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2001 Authorized	0.0	0.0	3,195.5	3,195.5
FY2002 Governor	0.0	0.0	3,195.5	3,195.5