

February 21, 2018

Alaska Professional Fire Fighters Association

Subject: Actuarial cost estimates for "Public Safety Fix" potential pension plan design

We have reviewed the "Public Safety Fix" potential plan changes for Tier 4 public safety workers in Alaska and estimated the cost impact for the potential changes.

Public Safety Fix

As discussed and has been sketched out in various presentations, it is being considered to offer public safety employees currently in the Tier 4 defined contribution retirement (DCR) the ability to join a new plan "Public Safety Fix" (PSF). The table below compares certain provisions between the Tier 3 public safety defined benefit plan, Tier 4 DCR, and new PSF.

Plan Provision	Tier 3 Public Safety	Tier 4	Public Safety Fix
Employee Contributions	7.50%	8.00%	Range of 8-10%
Employer Contributions	22%	22%	22% with no less than 12% going to PSF
Vesting	5 years	5 years	5 years
Retirement eligibility	Any age with 20 years	None specified	55 with 20 years or age 60
Benefit Calculations	2% of average pay for first ten years, 2.5% thereafter	Based on account balance	2% of average pay for first ten years, 2.5% thereafter
Final average pay	Highest three years	Not applicable	Highest five years
COLA	10%, beginning at age 65	None	None
Post Retirement Pension Adjustment (PRPA)	Based on CPI	None	Same as Tier 3, but can be withheld if below 90% funded
Medical Coverage	Provided after 25 years or age 60 with 10 years	HRA 3% average PERS salary	HRA 3% average Public Safety salary
Occupational Disability	40% of Gross Compensation	40%. Must be permanent and total	Same as Tier 3

Costs

We have calculated the anticipated cost savings of the various changes in plan provisions. These are based on the actuarial valuations performed by the plan actuary. Page 14 of the PERS Actuarial Valuation as of June 30, 2016 indicates that the pension total Normal Cost for Tier 3 public safety workers is 17.38% of public safety pay. We were able to validate that figure within a reasonable degree. Based on this, we calculated the cost savings for the various plan changes discussed above. Additionally, we estimated the costs based on a more conservative expected rate of investment return, to show the impact of funding on a more conservative basis. We modelled a reduction in the assumed rate of return decreasing by 1% from 8.0% to 7.0%. We assumed that the inflation and salary growth rates would decrease also. Where the return assumption was reduced by 1.0%, the salary growth was reduced by 0.5%. In addition, we determined the margin available from the impact of suspending the PRPA and increasing member contributions.

These findings are summarized in the following table.

Plan Provision	Based on 8% return	Based on 7% return & 0.5% drop in inflation
Baseline Tier 3 Public Safety Plan	17.4%	19.3%
Minimum Age 55 Retirement Eligibility	-1.2%	-1.4%
Average Earnings Period to Five Years	-0.7%	-0.7%
Eliminate COLA	-0.6%	-0.7%
Withhold PRPA if Underfunded	Up to 2.2%	Up to 2.2%
Increase Employee Contributions	Up to 2.0%	Up to 2.0%
Public Safety Fix Pension Cost	14.8%	16.5%
Additional Margin for Adverse Experience	4.2%	4.2%

We also estimated the impact of changing the Medical HRA contribution from 3% of average PERS salary for public safety workers under Tier 4 to 3% of average public safety salary for PSF. The average salary for all PERS members was \$65,876, while the average salary for Public Safety members is \$105,317. This means that the current 3% HRA contribution only represents about 1.9% of public safety salary. So a change to the HRA based on public safety salaries would add about 1.1% of public safety pay. Note that if the other PERS HRA contribution were reduced to be based on their average salary (excluding public safety), the change would be cost neutral.

Actuarial calculations were made under my direction. I am a Member of the American Academy of Actuaries and qualified to render this actuarial opinion. I am happy to answer any questions on this estimate and look forward to discussing this with you further.

Sincerely,

