CONDUENT

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VIA EMAIL

David J. Kershner
Principal, Wealth
David.Kershner@conduent.com
602.803.6174

Scott Young
Director, Health
Scott.Young@conduent.com
216.315.1929

Ms. Kathy Lea
Chief Pension Officer
Department of Administration
State of Alaska
333 Willoughby Avenue
6th Floor State Office Building
Juneau, AK 99811-0208

RE: Fiscal Note for HB 224

Dear Kathy:

As requested, we are providing the following information for the fiscal note on HB 224 which deals with pensioners from the State of Alaska Teachers' Retirement System (TRS) who are reemployed with a school district affiliated with the State of Alaska.

Summary of Provisions

HB 224 is applicable to TRS members who retire with an unreduced benefit under AS 14.25.110(a), have been retired at least two months if at least age 62 or six months if under age 62, and are subsequently reemployed by a school district. The bill does not limit eligibility to active members as of the enactment. As such, we have included in the analysis the potential impact of current active members of TRS or currently retired members of TRS being rehired. For purposes of this analysis, we have assumed HB 224 will be effective June 30, 2018.

Current law provides for the following for the reemployment of retired members under TRS:

1) The rehired retiree who is reemployed becomes an active member under TRS,
2) Benefits payments that the retiree had been receiving may not be made during the period of reemployment,
3) Contributions to TRS will be deducted from the member's salary, and
4) Upon subsequent retirement, benefit payments will reflect additional service earned as well as the most recent average base salary.

The provisions of HB 224 provide the following for members who had retired with an unreduced Normal Retirement Benefit under TRS and are subsequently rehired by a school district:

1) The retired member who is reemployed does not become an active member of TRS,
2) The member shall continue to receive benefit payments as though not reemployed by the school district,
3) No deductions will be made from the member's salary under AS 14.25.050,
4) The member does not earn additional credited service due to reemployment,
5) Reemployed retirees will receive health coverage under the active medical plan, and
6) Employers who reemploy a retired member shall contribute 12.56% of the reemployed retiree's salary.

When a retiree is rehired, the active medical plan will be primary and the retiree medical plan will become secondary. For purposes of this analysis, we have assumed savings to the retiree plan based on the overall average cost per retiree in the current valuation and no secondary costs for the retiree medical plan.

Summary of Analysis

The net impact of the proposed changes under HB 224 is a function of whether the reemployed member is currently active or retired as outlined below. In general: (i) there is an *increase* in the Actuarial Accrued Liability and cost when an active employee retires and is rehired, and (ii) a *decrease* in the Actuarial Accrued Liability when a previously retired employee is rehired and receives health coverage through the employer's active medical plan.

A key assumption for this analysis is utilization (the percentage of eligible members that are rehired under HB 224). No one can say for certain which eligible members of TRS will elect the provisions of HB 224, nor can one say with certainty whether the rehired retiree comes from the current active or current retired population. The actual costs of HB 224 will be based on the actual number and demographics of those members who are rehired.

Consistent with the analysis of SB 79B we provided in 2016, we have prepared our analysis of HB 224 under the following scenarios:

- Number of rehired retirees: 200 and 400
- % of rehired retirees from current retiree population: 100%, 67%, 50%, 33%, 0%

The following table shows the net increase/(decrease) in TRS Actuarial Accrued Liability as of June 30, 2018 under HB 224[1]:

% of Rehired Retirees from Current Retired Population	200 Rehired Retirees	400 Rehired Retirees
100%	$(2.2) million	$(4.3) million
67%	$8.7 million	$17.4 million
50%	$14.3 million	$28.7 million
33%	$19.9 million	$39.9 million
0%	$30.8 million	$61.7 million

The projected State Assistance contributions under TRS for FY19 and FY20 have been determined based on the June 30, 2016 and June 30, 2017 valuations, respectively. Accordingly, we have summarized the projected State Assistance contributions under TRS for FY21-FY25 with and without HB 224.

The projected State Assistance contributions for TRS based on the June 30, 2017 actuarial valuation reflecting current plan provisions (i.e., without HB 224) are:

- FY21: $148.5 million
- FY22: $147.0 million
- FY23: $151.5 million
- FY24: $156.4 million
- FY25: $161.5 million
- 5-yr Total: $764.9 million

[1] The June 30, 2018 Actuarial Accrued Liability for TRS under current law is projected to be $10.4 billion based on the June 30, 2017 actuarial valuation.

The table below illustrates estimated increases/(decreases) in projected State Assistance contributions under TRS due to HB 224 (i.e., the amounts shown below are estimated increases/(decreases) compared to the current projected State Assistance contribution amounts shown on the previous page). Amounts are in millions.

% rehired from current retired population	FY21	FY22	FY23	FY24	FY25	5-yr Total
200 rehired retirees						
- 100%	$(0.2)	$(0.2)	$(0.2)	$(0.2)	$(0.2)	$(1.0)
- 67%	$0.0	$0.2	$0.5	$0.7	$0.8	$2.2
- 50%	$0.1	$0.4	$0.8	$1.1	$1.3	$3.7
- 33%	$0.1	$0.6	$1.2	$1.6	$1.9	$5.4
- 0%	$0.3	$1.0	$1.9	$2.5	$2.9	$8.6
400 rehired retirees						
- 100%	$(0.4)	$(0.4)	$(0.4)	$(0.5)	$(0.5)	$(2.2)
- 67%	$(0.1)	$0.4	$1.0	$1.3	$1.6	$4.2
- 50%	$0.1	$0.8	$1.7	$2.2	$2.7	$7.5
- 33%	$0.3	$1.1	$2.4	$3.1	$3.7	$10.6
- 0%	$0.6	$1.9	$3.7	$4.9	$5.8	$16.9

Additional Notes

The assumptions and methods used in this analysis are the same as those described in the June 30, 2017 actuarial valuation report, except retirement rates upon eligibility for unreduced retirement benefits were assumed to be 100% under HB 224. No future actuarial gains or losses have been reflected, other than those generated by earlier-than-expected retirements. Plan provisions are the same as the June 30, 2017 actuarial valuation report except as noted in the "Summary of Provisions" section above. We have assumed that HB 224 will become effective June 30, 2018.

This study includes only costs due to the net effects on the employer normal cost as members retire and unfunded actuarial accrued liability as members retire earlier than expected with the opportunity to be rehired. They do not include other costs that may be incurred by employers outside of TRS.

Future actuarial measurements and projections may differ from the current measurements presented in this letter due to such factors as: plan experience different from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

This report was prepared under our supervision and in accordance with all applicable Actuarial Standards of Practice. David Kershner and Scott Young are Fellows of the Society of Actuaries, Enrolled Actuaries and Members of the American Academy of Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Respectfully submitted,

Scott Young

David J. Kershner, FSA, EA, MAAA, FCA
Principal, Wealth

Scott Young, FSA, EA, MAAA
Director, Health