



# Senate Finance

Alaska State Legislature \* State Capital \* Juneau, AK 99801-1182

## Sponsor Statement SB 187

The main purpose of SB 187 is to put forward a plan to eliminate unfunded liabilities in our PERS system without paying hundreds of millions of dollars in annual state assistance to the trust fund.

### **Back ground:**

In FY08 the State took action to address concerns of other political subdivisions to the State's managed public employee's retirement system. The solution involved three steps:

1. Adopting a shared cost system—meaning that liabilities, assets and payrolls were pooled and every participating employer paid a single contribution rate based on the blended experience of all participating employers.
2. Setting employer contribution rates at 22% of payroll.
3. Shifting costs (in excess of those covered by the 22% rate) to the State.

These actions did not reduce the total cost of PERS, they simply provided State financial assistance to the political subdivisions. Unforeseen at the time, four events attributed to putting the State into a situation of having to make escalating annual contributions to the Trust Fund to keep the fund assets in line with the accrued liabilities. First was the crash of the markets, second is the rising cost of health care, third was the extended life expectancy of our covered population, and finally, the Alaska Retirement Management Board recently lowered future investment expectations of the fund. The combination of these events has put state's assistance costs, which are the costs above the 22% rate spiraling upward at an unsustainable rate.

### **Reason SB 187 is needed:**

State assistance to the PERS retirement system has grown from \$108 million in FY10 to \$165 million in FY11 to \$242 million in FY12. FY13 costs are expected to be \$307 million. The cost of state assistance is projected to continue to escalate—reaching a peak of \$533 million annually before turning downward near FY30 as the number of beneficiaries' begins to decline.

### **SB 187 Pension Reserve:**

SB 187 will create a separate reserve account that will supplement the PERS Trust Fund as needed to ensure the unfunded liability ratio is maintained at no less than 50% and that the state does not have to make escalating annual payments. A \$2 billion dollar infusion in FY13 is projected to save the State \$7.3 billion in annual payments over a 20 year period. It will bring the PERS Trust Fund back on track as it was originally intended, and the separate reserve fund will allow the State to re-coop its original investment of \$2 billion dollars.