

February 12, 2009

**VIA EMAIL**

Mr. Pat Shier  
Director  
Division of Retirement and Benefits  
Department of Administration  
State of Alaska  
333 Willoughby Avenue  
6<sup>th</sup> Floor State Office Building  
Juneau, AK 99811-0208

**Re: Alaska PERS and TRS  
Comparison of DB versus DCR Ongoing Costs**

Dear Pat:

As requested, we are providing a comparison of the costs between the Defined Benefit (DB) plans and the Defined Contribution Retirement Plan (DCR) for the State of Alaska Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS). The results provided represent employer costs as a percent of pay for FY11 and are net of member contributions. The comparison is between the most recent tier of the DB plan (Tier 2 for TRS, Tier 3 for PERS) and the DCR Plan (Tier 3 for TRS, Tier 4 for PERS). The rates were determined using the payroll applicable to each group and are not based on total payroll.

**RESULTS**

The following results compare the DB and DCR ongoing plan costs:

<b>Public Employees' Retirement System (All Members)</b>	<b>DB Plan Tier 3</b>	<b>DCR Plan Tier 4*</b>
DB Plan Employer Normal Cost Rate	2.97%	N/A
DC Employer Contribution Rate	N/A	5.00%
Occupational Death and Disability Normal Cost Rate	N/A	0.38%
Medical Normal Cost Rate	7.98%	0.85%
HRA Contribution Rate	N/A	3.00%
<b>Total</b>	<b>10.95%</b>	<b>9.23%</b>

\* Based on results as of June 30, 2007. Updated results as of June 30, 2008 will be ready in the next few weeks.

<b>Teachers' Retirement System</b>	<b>DB Plan Tier 2</b>	<b>DCR Plan Tier 3*</b>
DB Plan Employer Normal Cost Rate	2.71%	N/A
DC Employer Contribution Rate	N/A	7.00%
Occupational Death and Disability Normal Cost Rate	N/A	0.32%
Medical Normal Cost Rate	6.25%	1.08%
HRA Contribution Rate	N/A	3.00%
<b>Total</b>	<b>8.96%</b>	<b>11.40%</b>

\* Based on results as of June 30, 2007. Updated results as of June 30, 2008 will be ready in the next few weeks.

For both PERS and TRS, the normal cost rate of the DB plan is less than the DC employer contribution rate.

There are other factors to consider, not just cost, when comparing the DB and the DCR plans. One of the fundamental differences between a defined benefit and defined contribution plan is who bears the risk. The risk, whether investment risk or mortality risk, is borne by the employer in a DB plan. This risk causes volatility over the short-term in determining the annual cost that will sufficiently meet the long-term benefit obligation. The employer contribution rates for the DB plan shown in this letter represent the expected long-term cost of the DB plan benefits. When experience is different than assumed from one year to the next, hence short-term volatility, the employer contribution rates change. The employer contribution rates in the DCR plan are not subject to this short-term volatility since the members bear most of the risk. As a result, employer contribution rates are stable and not subject to volatility.

#### **DATA, ASSUMPTIONS, METHODS AND PROVISIONS**

The data, assumptions, plan provisions and methods used for the DB plan costs are described in the draft actuarial valuation reports as of June 30, 2008. The postretirement healthcare and occupational death and disability rates shown for the DCR plan costs are based on the June 30, 2007 valuation of the DCR plan. The assumptions, methods and provisions used for the DCR plan costs are the same as those outlined in our previous letter sent to Pat Shier on April 29, 2008. The actual FY11 DCR rates will be finalized soon.

Please let me know if you have any questions or if we can be of further assistance.

Sincerely,



David H. Sliskinsky, ASA, EA, MAAA  
Principal, Consulting Actuary



Michelle Reding DeLange, FSA, EA, MAAA  
Director, Retirement Actuary

/mlp

c: Ms. Kathy Lea, State of Alaska  
Mr. Kevin Worley, State of Alaska  
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