

## **Alaska's Retirement Systems Glossary**

### **Actuarial Accrued Liability (Past Service Cost)**

The excess of the present value of a pension fund's total liability for future benefits and fund administrative expenses over the present value of the normal cost of those benefits as accrued for the current year.

### **Actuarial Assumptions**

Factors which actuaries use in estimating the cost of funding a defined benefit pension plan. Examples include: the rate of return on plan investments; mortality rates; and the rates at which plan participants are expected to leave the system because of retirement, disability, termination, etc

### **Actuarial Cost Method**

An actuarial method which defines the allocation of pension costs (and contributions) over a member's working career. All standard actuarial cost methods are comprised of two components: normal cost and the actuarial accrued liability (past service cost). An actuarial cost method determines the estimated pension costs, not the ultimate cost of a pension plan; that cost is determined by the actual benefits paid less the actual investment income.

### **Actuarial Valuation Report**

Actuarial valuations are technical reports providing full disclosure of the financial and funding status of public retirement systems administered by the Department of Administration, Division of Retirement and Benefits.

### **Actuarially Required Contribution (ARC)**

The ARC is equal to the sum of (1) the employer's "normal cost" of retirement benefits earned by employees in the current year, and (2) the amount needed to amortize any existing unfunded accrued liability over a period of 25 years.

### **Alaska Retirement Management Board (ARMB)**

The Alaska Retirement Management Board serves as the trustee of the assets of the state's retirements systems, the State of Alaska Supplemental Annuity Plan and the deferred compensation program for state employees. The board manages and invests fund assets in a manner that is sufficient to meet the liabilities and the pension obligations of the system.

### **Funded Ratio**

The ratio of a plan's current assets to the present value of earned pensions. There are several acceptable methods of measuring a plan's assets and liabilities. In financial reporting of public pension plans, funded status is reported using consistent measures by all governmental entities. According to the Government Accounting Standards Board (GASB), the funded ratio equals the actuarial value of assets divided by the actuarial accrued liability calculated under the Projected Unit Credit cost method.

**Market Value of Assets**

Market value is the amount for which fund assets would sell on the open market if put up for sale in the ordinary course of business.

**Normal Cost**

The normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions

**Past Service Cost**

The present value of benefits earned to date not covered by current plan assets.

**PERS**

The Public Employees' Retirement System (PERS) includes a defined benefit plan that is for government employees first hired on or before June 30, 2006 and a hybrid defined contribution plan that has some defined benefit components for employees first hired on or after July 1, 2006.

**Pension**

A series of periodic payments, usually for life, payable monthly or at other specified intervals. The term is frequently used to describe the part of a retirement allowance financed by employer contributions.

**Political Subdivision**

Any political entity, such as a municipality, city, or borough, governed by its own legislative body.

**Pre-Funding**

To accumulate a reserve fund in advance of paying benefits. This is the opposite of "pay-as-you-go."

**Present Value**

The current worth of an amount or series of amounts payable in the future, after discounting each amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

**Qualified Plan**

An employee benefit plan approved by the Internal Revenue Service, meeting requirements set forth in IRS Code Section 401 or 457. Contributions to such plans are subject to favorable tax treatment.

**SB 141**

Closed the defined benefit plans and created a new retirement and retiree health plan. Signed into law July 27, 2005 Chapter 9 FSSLA 05.

**SB 123**

Technical correction bill. Allowed the Alaska Retirement Management Board to apply the percent of pay past service cost against both defined benefit and defined contribution salaries. Signed into law June 6, 2007 Chapter 20 SLA 07.

**SB 125**

Changed the PERS to a cost-share plan and set the employer rate at 22%. Established that the State will pay the difference between the 22% and the actuarially determined rate. Signed into law April 8, 2008 Chapter 13 SLA 08

**TRS**

The Teachers' Retirement System (TRS) includes a defined benefit plan that is for government employees first hired on or before June 30, 2006 and a hybrid defined contribution plan that has some defined benefit components for employees first hired on or after July 1, 2006.

**Unfunded Actuarial Accrued Liability (UAAL)**

The excess, if any, of the Actuarial Accrued Liability over the Actuarial Value of Assets. In other words, the present value of benefits earned to date that are not covered by current plan assets.

**Valuations**

The process of determining the value of the funds. There are many assumptions used in the valuation, some are objective, such as the actual monetary assets some are subjective, such as member mortality or project cost of health insurance.