

Alaska Department of Administration

Retirement and Benefits



PERS

TRS

State of Alaska

Public Employees' Retirement System Teachers' Retirement System

Presentation to the House Finance Committee on PERS/TRS 2009



History of PERS & TRS

- TRS established in 1955
- PERS established in 1961



Who is Covered in the System? Public Employers/Employees & Teachers

- Cities, boroughs, some hospitals, school districts, State of Alaska
- Optional for political subdivisions



ARM Board & Consolidation of Governance

- Several separate boards before –
ASPIB, PERB and TRB
- 2004 SB 141 consolidation in Alaska
Retirement Management Board



PERS

TRS

PERS SYSTEM

Defined Benefit (DB)

Retirement Income

Health

**Disability
(Occupational and
Non-occupational)**

Survivor

Defined Contribution Retirement (DCR-Hybrid)

Retirement Income

Health + HRA

**Disability
(Occupational)**

Survivor

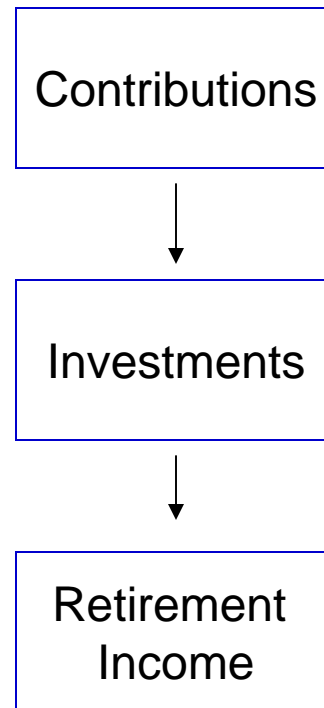


Constitutional Prohibition Against Diminishment

Article 12, section 7 - Retirement Systems.
Membership in employee retirement systems of the State or its political subdivisions shall constitute a contractual relationship. Accrued benefits of these systems shall not be diminished or impaired.



How Does the Retirement System Work?





Contributions

- Employee & Employer
- SB 125, General Fund – to pay down unfunded liability



PERS

TRS

Contributions Employee

Defined Benefit (DB)

**6.75% PERS and 7.5%
PERS Peace Officer and
Firefighter**

8.65% TRS

Statutory

Defined Contribution Retirement (DCR-Hybrid)

8% PERS

8% TRS

Statutory



Contributions

Employer - Rates

- ARMB Adopted Rates: 35.22% PERS, 44.17% TRS
- Statutory: 22.00% PERS, 12.56% TRS
- SB 125: Difference paid by state. (FY09 Budgeted & FY10 Governor's Request PERS \$241,600,000, TRS \$206,300,000)



ARMB Adopted Rate

- Valuations/Rate adopted by ARMB (based on over 25 variables set by ARM Board)
- Examples: Investments – rate of return and assets value, life expectancy, payroll growth, future healthcare costs



ARMB Adopted Rate

- Normal Cost pays for this year's benefit accrual only
- Past Service Cost pays for unfunded liability



ARMB Adopted Rate

	PERS	TRS
Normal Cost	→ 13.72%	9.37%
Past Service	→ <u>21.50%</u>	<u>34.80%</u>
ARMB Adopted	→ 35.22%	44.17%
Statutory Rate	→ 22.00%	12.56%



Investments

- Assumptions and Asset Allocations
(current rate of return assumption
8.25%; stocks, bonds, real estate)
- Long-term view – 5 yr. smoothing
- CY2008 PERS losses = DB (22.24%)
DCR (35.46%)



Investments

- Needed for cash flow – contributions alone are not sufficient to make benefit payments as more people retire



Pay – Retirement Income

- Over 32,500 retirees
- 60% in state, 40% out of state
- \$60 million per month retiree income
- \$25 million per month in additional retiree & dependent health care



Unfunded Liability

- Funding ratio = assets ÷ liabilities
- 2001/2002 – investment losses from technology crash



Unfunded Liability

- Both PERS and TRS enjoyed funding ratios over 100% through 2003
- Funding levels reflect combined pension and OPEB liabilities
- With the market downturn in the early 2000s, recognition of OPEB costs and other actuarial adjustments, ratios have fallen to the 60% range
- Contribution requirements that were steady or declining rose markedly in 2005 and after
- Alaska is not alone



Alaska's Response

- DCR-Hybrid SB 141 – new retirement plan + new employer-funded health benefit plan
- SB 123 clean-up bill – assess all payroll at statutory rate
- SB 125 State pays difference between PERS 22%, TRS 12.56% statutory & ARMB adopted rate