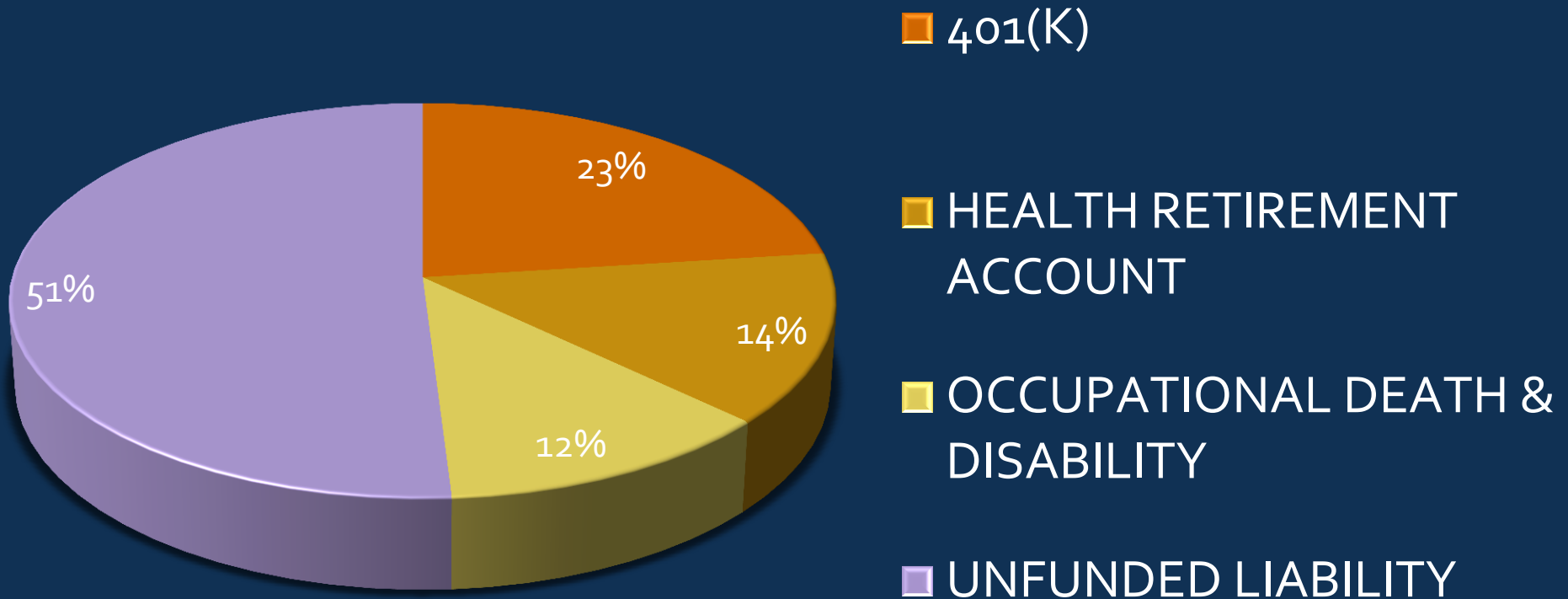




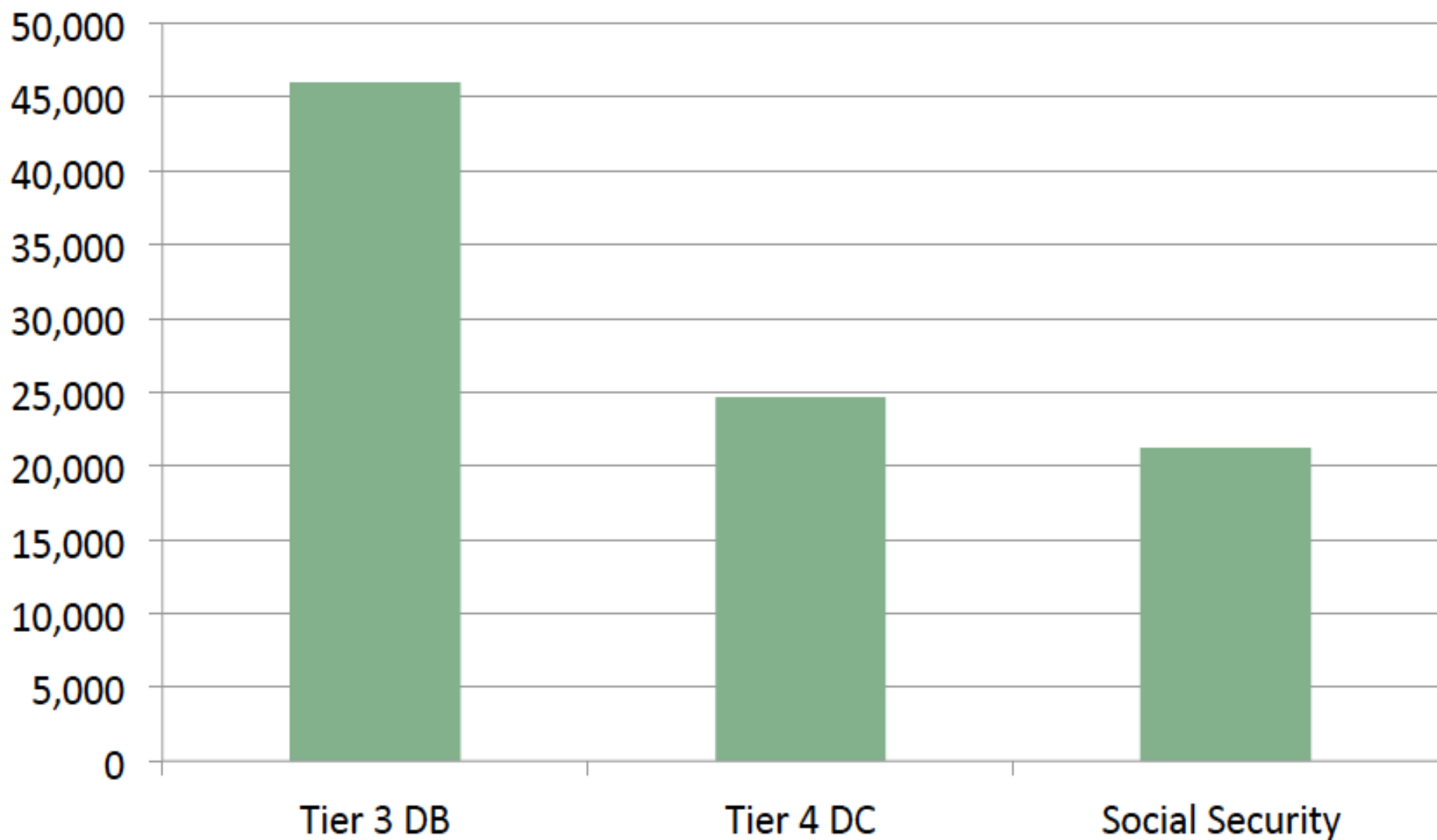
# Alaska Public Safety Employees Variable Benefit Retirement System

House – Labor and Commerce 3/2014

# TIER IV EMPLOYER CONTRIBUTION BREAKDOWN



# Illustration of hypothetical police/fire benefits - \$80,000 Final Average Salary





# TIER IV SHORTCOMINGS

- + Lack of professional money management
- + Inadequate Health Savings
- + All risk at the individual level
- + Market corrections more severe on an individual level
- + Insufficient Funding
  - + Higher funding needed due to:
    - + Lack of SBS
    - + Social Security
    - + Shorter working careers
- + Higher Fees



# TIER IV CONSEQUENCES

- + Probability of aged workforce:
  - + Resulting in increase of Workers Compensation costs
- + Difficulty in recruitment and retention
- + Possible increase in social welfare programs

# SOLUTION

## ALASKA VARIABLE BENEFIT RETIREMENT SYSTEM



- + Provides to our members the distinct advantages and efficiencies of a DB at retirement and provides to the State fiscal discipline and control of the fixed statutory funding of a DC plan.
- + Long term sustainability of the plan will be achieved without the risk of additional State funding inherent in most DB plans by: Setting affordable benefits, establishing rigorous funding policies, modifying benefit levels to deal with adverse market experience.



# ADVANTAGES

- + Professional money management
- + Lower fees
- + Long term investment strategies
- + Pooled risk amongst participants
- + Stable and predictable retirement income

**Public Employees' Retirement System (PERS) and  
Variable Benefit Retirement System (VBRS) Plan Comparison Chart**

<b>Feature</b>	<b>Tier III</b>	<b>VBRS</b>
<b>Employee Contribution (% of pay)</b>	Pre-tax employee contribution: 6.75% beginning 1/1/87 - all others 7.5% beginning 1/1/87 - police/fire 9.6% beginning 7/1/99 - school district	<b>Police Officer/Firefighter</b> no less than 8% no more than 12% <i>Page 4 Sec.4 (e)(1)(2)</i> <b>Protective Occupational Employee</b> 7% to 11% <i>Page 4 Sec.4 (f)(1)(2)</i>
<b>Employer Contribution (% of payroll)</b>	22% Cost Share  PERS on-behalf payment paid by the SOA is 5.65%	<b>Police Officer/Firefighter</b> - 14% <b>Protective Occupational Employee</b> - 12% <i>Page 5 Sec 8 39.35.257 (a)</i>
<b>Vesting</b>	Employees vest with 5 years of service in the pension plan and with 10 years of service for medical	Total of 5 years credited service  <i>Page 7 Sec 12 39.35.375(c)</i>
<b>Qualification for Retirement</b>	After vesting, normal retirement age is 60, with early retirement at age 55: - police/fire members can retire at any age after 20 years of police/fire service -all other members can retire at any age after 30 years of membership service Early retirement reduction will be 1/2% per month or 6% per year for every year less than the required normal retirement age.	<b>Police Officer/Firefighter</b> Age 55 with 20 years of credited service  <b>Protective Occupational Employee</b> Age 60 with 30 years credited service  <i>Page 7 Sec 11 39.35.370 (l)(1)(2)</i>
<b>Benefit Calculation Formula</b>	Benefit formulas did not change from previous Tiers.  <b>Police/Fire Employees</b> - 2% for first 10 years - 2.5% for additional  <b>All others</b> - 2% for first 10 years - 2.25% for years 10-20 years 2.5% for additional	2% of the employees average monthly compensation, excluding overtime compensation, times the employee's years of credited service plus an assumed variable benefit.  <i>Pg 7 Sec 11 39.35.370(m)(n)</i>



**Public Employees' Retirement System (PERS) and  
Variable Benefit Retirement System (VBRS) Plan Comparison Chart**

<b>Feature</b>	<b>Tier III</b>	<b>VBRS</b>
<b>Alaska Cost of Living Allowance (COLA)</b>	An Alaska Cost-of-Living Allowance is payable to benefit recipients age 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater.	Monthly allowance awarded, by the board, based on the financial status of the VBRS.  <i>Page 1 Sec 1 37.10.222</i>
<b>Post Retirement Pension Adjustment</b>	Automatic PRPA adjustment to disabled members, retirees age 60 and over, and those who have received benefits for 5 years.	Monthly allowance awarded, by the board, based on the financial status of the VBRS. <i>Language to be added</i>
<b>Retirement Medical Coverage</b>	<p>Same as Tier II. However, employees must accrue a minimum of 10 years of credited service*, to have system-paid coverage at age 60.</p> <p>Employees with less than 10 years must pay the full premiums as long as they wish to continue medical coverage. 100% vested with 10 years of credited service.</p> <p><i>*Credited service includes all service used in the calculation of a retirement benefit.</i></p>	<p>Paid in the form of a stipend to be used for the purpose of medical coverage:</p> <p><b>Police Officer/Firefighter</b> 4% (of the 2013 AK Care premium) for every year of service up to 25 vesting at 10</p> <p><b>Protective Occupational Employee</b> 3.33% (of the 2013 AK Care Premium) for every year of service up to 30 vesting at 10</p> <p><i>Page 10-11 Sec 24 39.35.535</i></p>
<b>Disability Benefits</b>	<p>Nonoccupational disability benefits are calculated as a normal retirement.</p> <p>Occupational disability provides 40% of the gross monthly compensation.</p>	<p><b>Nonoccupational</b> - calculation of 2% of average monthly compensation (excluding OT) times the number of years of service, plus the variable benefit at termination (if any).</p> <p><b>Occupational</b> - choice between 40% of employee's gross monthly at time of disability or the calculation under Nonoccupational.</p> <p><i>Page 8-9 Sec 13 - 19</i></p>

# SAFEGUARDS



- + OT does not count in final calculations-This eliminates OT spiking or payroll deception as some call it.
- + Minimum age requirements-55 with 20 years for Police and Fire, 60 with 30 years for others.
- + 7% rate of return as opposed to 8% - a more conservative rate of return



# TOOLS

- + Employee contribution-Contributions are adjustable. They can be raised if the additional funding is needed
- + PPA/COLA-awarded based on funding status
- + The Variable Benefit - The board had control over a certain percentage of an individuals actual benefit. They can grant this portion based on funding status.
- + The health care premium-the board has the ability to adjust the amount of the premium based on the health of the fund. We start at the 2013 premium level and move up from there if funding status allows. Each year the board can determine if funding allows for them to grant the next years premium amount.

# PERS TIER III BENEFIT COMPARED TO VARIABLE BENEFIT



## PERS TIER 3

- 25 YEARS OF SERVICE
  - BENEFIT AT ANY AGE
- $10 \text{ YEARS} \times 2\% + 15 \text{ YEARS} \times 2.5\% = 57.5\%$
- BASED ON HIGH 3 YEARS OF SERVICE  
\$80,000 - \$84,000 - \$88,000  
\$84,000 YEARLY AVERAGE  
 $\$84,000 / 12 = \$7,000 \text{ A MONTH}$   
 $\$7,000 \times 57.5\% = \$4,025 \text{ MONTHLY BENEFIT}$
- PLUS COLA AND PPRA
- MEDICAL INSURANCE REGARDLESS OF PRICE

## VARIABLE BENEFIT RETIREMENT SYSTEM

- 25 YEARS OF SERVICE
  - MUST BE 55 TO COLLECT BENEFIT
- $25 \text{ YEARS} \times 2\% = 50\% + \text{VARIABLE BENEFIT (7.5\%)}$
- BASED ON HIGH 5 YEARS OF SERVICE  
\$76,000 - \$78,000 - \$80,000 - \$84,000 - \$88,000  
\$81,200 YEARLY AVERAGE  
 $\$81,200 / 12 = \$6,767 \text{ A MONTH}$   
 $\$6,767 \times 50\% = \$3,383.50 \text{ MONTHLY BENEFIT}$
- POSSIBLE VARIABLE BENEFIT OF 7.5% = \$508
- COLA AND PPRA OPTIONAL
- MEDICAL STIPEND BASED ON 2013 PREMIUM (\$1,647). ADJUSTED FOR INFLATION BASED ON HEALTH OF FUND.

## PRIVATE SECTOR CONTRIBUTIONS

### WELLS FARGO

6% 401K MATCH

6.2% SOCIAL SECURITY

12.2% TOTAL CONTRIBUTION

### ALASKA AIRLINES

7% 401K MATCH

1.5% STOCK PURCHASE PLAN

6.2% SOCIAL SECURITY

14.7% TOTAL CONTRIBUTION

## ALASKA STATE LEGISLATOR

5% 401(A)

3% HEALTH RETIREMENT ACCOUNT

1.88% POST MEDICARE / DEATH AND DISABILITY

6.13% SBS(ALASKA SUPPLEMENTAL INUITY

PLAN)16.01% TOTAL CONTRIBUTION

## RECENTLY MODIFIED POLICE AND FIRE PLANS:

UTAH EMPLOYER CONTRIBUTION 12%

(EXCLUDES COST OF DEATH AND DISABILITY)



# IN CLOSING...

- + RECOGNIZE THE PROBLEMS
  - + LACK OF SBS
  - + LACK OF SOCIAL SECURITY
  - + SHORTER WORKING CAREERS
  - + INSUFFICIENT FUNDING
- + EVALUATE THE VARIABLE BENEFIT RETIREMENT SYSTEM
- + SUGGEST ALTERNATIVE SOLUTIONS

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