# PERS/TRS Funding Solution Governor Sean Parnell

Department of Administration Department of Revenue April 2014

# Agenda

#### Introduction

Angela Rodell, Commissioner Department of Revenue

#### • Section One: Basic PERS/TRS Facts

Mike Barnhill, Deputy Commissioner Department of Administration

#### Section Two: Investment Issues

Gary Bader, Chief Investment Officer Department of Revenue

#### Section Three: Governor Parnell's Proposal

Angela Rodell, Commissioner Department of Revenue

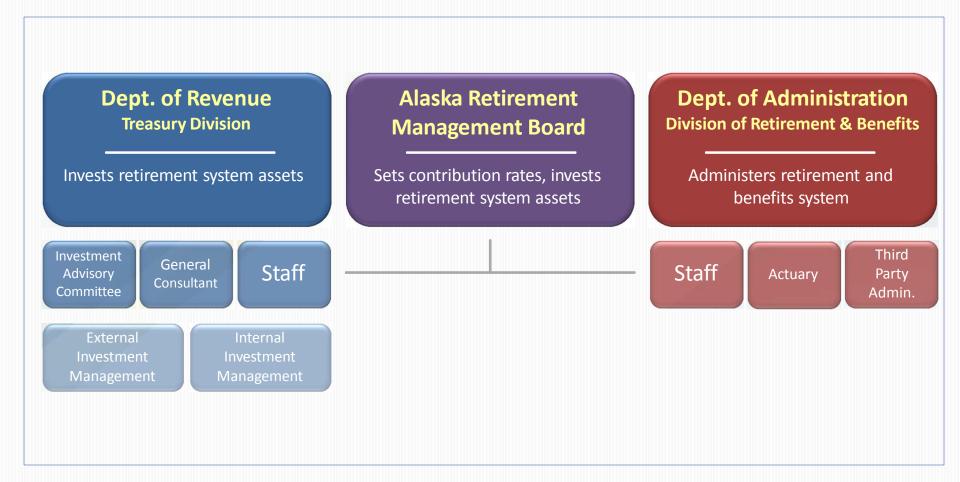
#### Questions/Discussion

### **Section One**

## PERS/TRS BASIC FACTS

Deputy Commissioner Mike Barnhill Department of Administration

# Organization

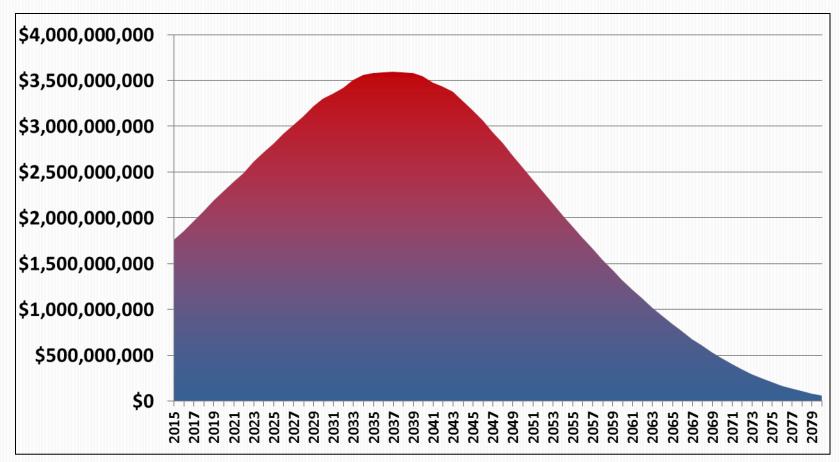


# Membership

MEMBERSHIP STATISTICS AS OF DECEMBER 31, 2013													
	PERS				TRS				JRS	NG	SBS	DCP	
	DB			DC		D	DB						
	Tier I	Tier II	Tier III	Tier IV	TOTAL	Tier I	Tier II	Tier III	TOTAL				
Active Members	3,020	5,645	11,947	15,760	36,372	1,067	5,468	4,201	10,736	74	n/a	28,485	7,685
Terminated Members	2,296	5,139	11,285	7,114	25,834	457	2,570	1,407	4,434	4	n/a	13,881	2,653
Retirees & Beneficiaries	23,094	5,377	1,756	4	30,231	10,442	1,299	-	11,741	108	642	n/a	n/a
Managed Accounts	n/a	n/a	n/a	6,549	6,549	n/a	n/a	1,746	1,746	n/a	n/a	953	918
Retirements - 2nd QTR FY14	133	110	80	n/a	323	17	21	n/a	38	-	25	n/a	n/a
Full Disbursements - 2nd QTR FY14 Partial Disbursements - 2nd QTR FY14	23 n/a	26 n/a	133 n/a	379 32	561 32	12 n/a	27 n/a	50 10	89 10	- n/a	n/a n/a	544 485	124 460

Prepared by Division of Retirement and Benefits

## Benefits



Pay \$136 billion in benefits payments over next 70 years

Current PERS/TRS account balance: \$19.9 billion

Unfunded Liability: approx \$11.9 billion

# **Defined Benefits**

Defined Benefit Pension: fixed benefit amount from date of retirement to death

### **Contributions + Investment Earnings = Benefits + Expenses**

IF

Experience equals actuarial assumptions

**Actuarial Assumptions:** 

Inflation, Investment Return, Mortality, Date of Retirement, Cost of Healthcare, Payroll Growth, Disability, Spouse Age, Dependent Children, COLA, Plan Expenses, Turnover

Experience that falls short of projections leads to unfunded liability

**Employer Takes the Risk** 

## **Events**

- 2002 Milliman actuarial audit; dotcom collapse
- 2003 FY 2002 valuations released with revised assumptions.
  - \$4.1B unfunded liability
- 2005 SB 141 enacted: DB plans closed; DC plans created; PERB/TRB/ASPIB sunset; ARM Board created
- 2007 ARM Board files suit against Mercer for actuarial negligence; SB 123 enacted: PERS cost share
- 2008 SB 125 enacted: employer contribution rates capped; state assistance begins; Great Recession begins
- 2009 PERS / TRS investment loss: (20.5%)
- 2010 Mercer litigation settled for \$500mm (net \$403mm); other states begin to cut DB benefits, change plans;
- 2012 ARMB adopts level dollar amortization; \$11.9B unfunded liability
- 2013 12.5% investment gain; recession over?

## **PERS/TRS Balance Sheet**

#### **PERS DB:**

Assets (actuarial value, 6/30/12) Accrued Liabilities (6/30/12) Unfunded Liability Funding Ratio

#### **TRS DB:**

Assets (actuarial value, 6/30/12) Accrued Liabilities (6/30/12) Unfunded Liability Funding Ratio

#### **Total DB:**

Assets (actuarial value, 6/30/12) Accrued Liabilities (6/30/12) Unfunded Liability Funding Ratio \$11,832,030,000 <u>19,292,361,000</u> (\$ 7,460,331,000) 61.3%

\$4,869,154,000 <u>9,346,444,000</u> (\$4,477,290,000) 52.1%

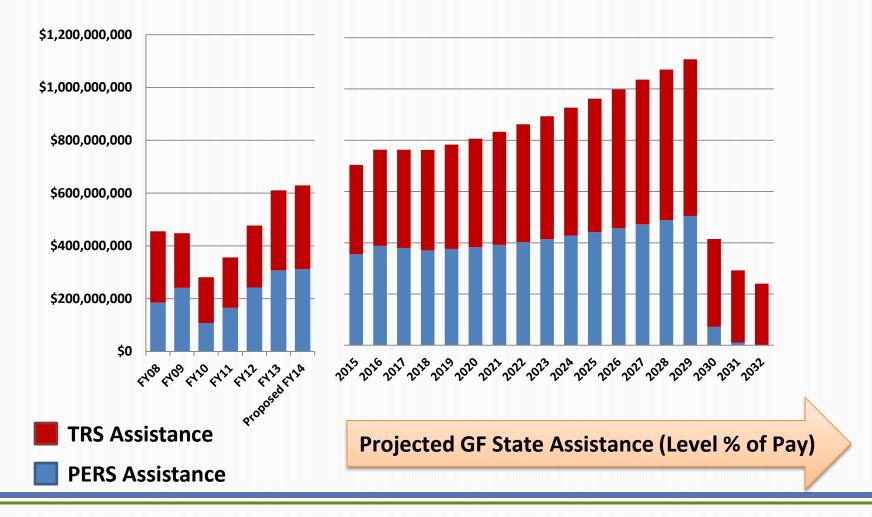
\$16,701,184,000 <u>28,638,805,000</u> (\$11,937,621,000) 58.3%

Note: Treasury reports PERS/TRS DB assets of \$20.8B as of February 28, 2014.

Source: Buck Consultants

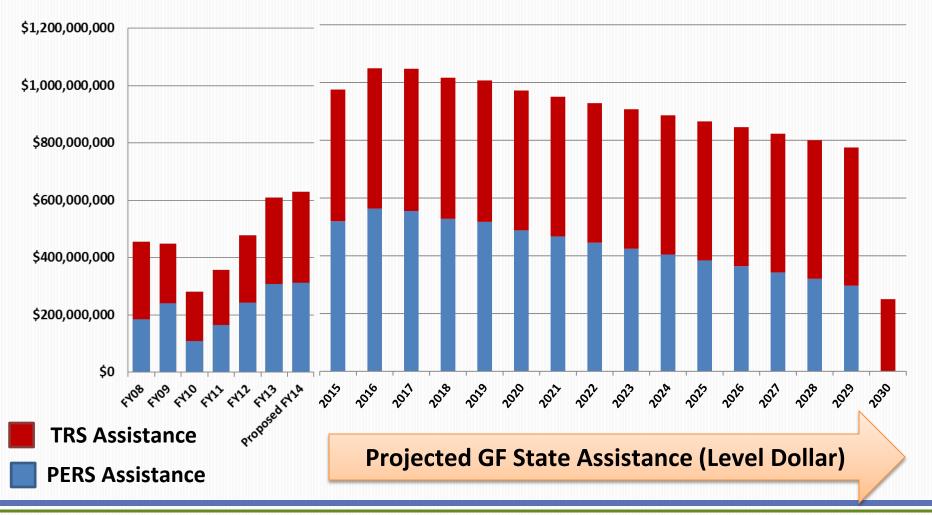
## PERS/TRS Approaches to Unfunded Liability

### PERS/TRS GF State Assistance (SB125)



## PERS/TRS Approaches to Unfunded Liability

### PERS/TRS GF State Assistance (SB125)



## **Section Two**

### **INVESTMENT ISSUES**

Gary Bader, Chief Investment Officer Department of Revenue Although there is a substantial unfunded liability in both the PERS and TRS, there are billions of dollars to pay benefits well into the future.

Benefits payments will increase substantially in the next decade. Unless addressed, the combination of increased benefit payments and insufficient assets in the trusts will require investing in more liquid assets.

### **Comparative Returns**

As of Jun	e 30, 2013 (9	%)		
		PERS/TRS	CBR	APFC
	Last Quarter	1.00%	-0.36%	-0.56%
	One Year	12.53%	5.73%	10.93%
	Three Year	11.09%	6.22%	10.17%
	Five Year	3.94%	3.68%	4.15%
	Ten Year	6.96%	3.85%	6.83%
	July 1, 2001*	5.59%	4.17%	5.85%
	July 1, 1991*	7.76%	5.02%	7.74%

• FY1992 is first full fiscal year for which return data available for the CBR Main account (start July 1, 1991).

• FY2002is first full fiscal year for which data available for the CBR Sub-Account (start July 1, 2001).

# **ARMB Private Equity Program**

- Private equity is largely made up of interests in limited partnerships that make equity investments in privately held operating companies
- Private equity is expected to deliver long-term returns in excess of the public markets and to enhance diversification
- To earn higher returns, private equity gives up liquidity
- Performance has been good, generating 10.2% returns through 2013 versus a public market equivalent return of 4.6% for the S&P 500 and 5.1% for the Russell 3000
- The private equity program has generated \$800 million in additional fund value for the ARMB compared to investing in the public equity markets
- The ARMB started investing in private equity in 1998 and now has \$1.7 billion invested across 200+ partnerships; private equity is a 9% asset allocation for the ARMB

## **Section Three**

### GOVERNOR PARNELL'S PROPOSAL

Angela Rodell, Commissioner Department of Revenue

### Problem: \$11.9 Billion Retirement System Unfunded Liability

- The Public Employees Retirement System (PERS) and Teachers' Retirement System (TRS) combined unfunded liability is \$11.9 billion
- State Assistance payments to PERS and TRS rise from \$629 million in FY2014 to over \$1 billion per year
- Funding State Assistance solely through the operating budget crowds out funding for other vital public services
- Rating agencies express concern with the increasing liability

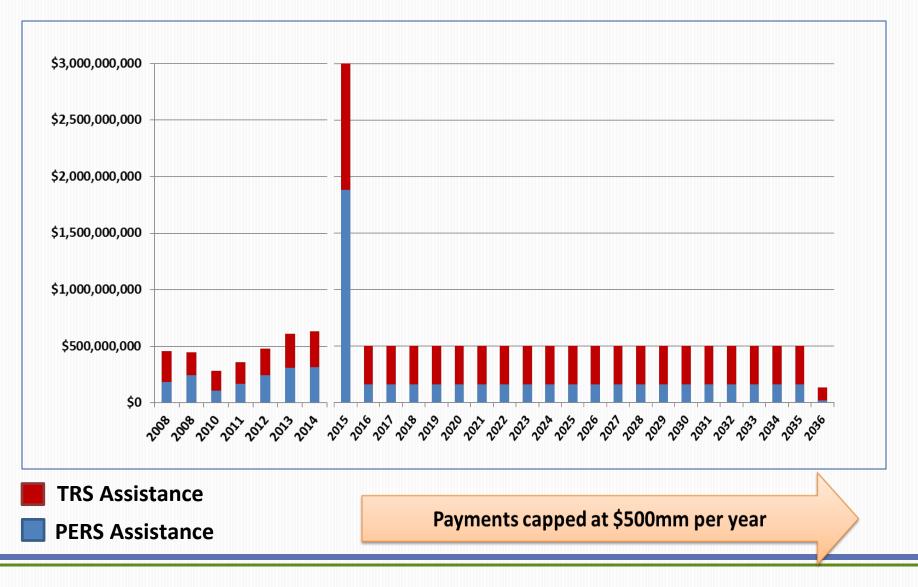
### **Proposal: \$3 Billion Investment in Trust Funds**

- Invest a total of \$3 billion in the Retirement Trusts in FY2015: \$1.12 billion – Teachers' Retirement Fund \$1.88 – Public Employees' Retirement Fund
- Funding source: the Constitutional Budget Reserve
- Includes state assistance payments for FY2015
- Beginning FY 2016, State Assistance payments would be fixed at \$500 million annually:

\$157 Million – PERS \$343 Million – TRS

 State Assistance projected until FY2036; length of time depends on actuarial gains or losses experienced

## **Governor's Proposal**



### **Governor Parnell's Approach**

- Pays down the retirement system debt rather than passing it on to future generations
- A comprehensive and straight-forward approach addressing the problems of both PERS and TRS retirement systems
- Addresses Alaska's biggest budget driver while keeping the State's promise to our retired public servants
- Dramatically reduces future operating budget obligations and provides predictability for future budget planning
- Improves municipal balance sheets and aligns the interest of the State of Alaska with our municipalities by sharing gains and losses
- Addresses the number one credit concern raised by rating agencies
- Improves and strengthens the health of the retirement systems



# **QUESTIONS?**