



**Melissa A. Bissett, F.S.A.,
M.A.A.A.**
*Senior Consultant, Healthcare
Actuary*

Buck Consultants, LLC, a Xerox
Company
Xerox HR Services
5690 DTC Blvd., Suite 400
Greenwood Village, CO 80011

P: 720.359.7735
F: 720.359.7701

melissa.bissett@xerox.com
www.xerox.com/hrconsulting

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Ms. Michele Michaud
Department of Administration
State of Alaska
333 Willoughby Avenue
6th Floor State Office Building
Juneau, AK 99811-0208

**Re: Fiscal Note for SB4002 – Occupational Death Benefits for the PERS
Peace/Fire Defined Benefit (DB) and Defined Contribution (DCR) Retiree Medical
Plans**

Dear Michele:

As requested, we are providing the following information for a Fiscal Note on SB4002 which changes spousal and dependent coverage upon an occupational death of a member of the Defined Benefit Retiree Medical Plans for the Public Employee's Retirement System (PERS) for peace/fire members only and the Defined Contribution Retiree Medical Plans PERS for peace/fire members only.

Summary of Provisions

The purpose of the bill is to provide system-paid major medical coverage for survivors of a PERS member who was employed by the State or a participating political subdivision as a peace officer or firefighter and whose death occurs before the member's retirement and while in the performance and within the scope of the member's duties (occupational deaths). In addition, SB4002 in the case of occupational death removes the requirement that a peace officer or firefighter retire directly from the plan for the Defined Contribution (DCR) Retiree Medical Plan. SB4002 is proposed to include the following:

- Extension of existing PERS occupational death benefits which provide retiree benefits including system-paid major medical benefits to survivors of Tier I members whose deaths occur as a result of their job duties. This bill extends the benefit to Tiers II and III members.
- Under the existing PERS DCR plan, no person is eligible for system-paid major medical benefits. The draft bill would allow for a 100% premium subsidy for major medical benefits for eligible persons who are survivors of employees who were peace officers or firefighters and whose death was occupational. The 100% premium subsidy changes to a normal premium subsidy at Medicare age (e.g., 65). The HRA can then be used to fund the portion of the premium for which the spouse is responsible.

- The PERS DCR plan requires members to “retire directly from the plan” in order to be eligible for medical benefits. To effectuate the goals of the legislation, the draft bill removes that language from the plan only as it applies to eligible survivors of a peace officer and firefighter whose death occurs as a result of the job.
- Corrects the PERS peace officer or fire fighter occupational death benefit statute to extend benefits to the dependent children, in those instances when there is no surviving spouse, of peace officers and firefighters whose deaths occur while in the performance and within the scope of their duties.

The bill would have a retroactive effective date, January 1, 2013. The impact due to the timing difference is not significant as only two participants are with the plan and others have elected COBRA or gone to the exchange.

Financial Impact of Bill

The table below shows the change in Actuarial Accrued Liability, Normal Cost Rate and Total Actuarial Required Contribution Rate, as a percentage of covered payroll:

(\$000s)	Defined Benefit			Defined Contribution		
	PERS Others	PERS P/F	PERS Total	PERS Others	PERS P/F	PERS Total
2015 Valuation Results						
Actuarial Accrued Liability	\$6,553,679	\$796,504	\$7,350,183	\$53,844	\$4,839	\$58,683
Normal Cost Rate*	2.93%	2.44%	2.86%	0.95%	0.69%	0.92%
Total Actuarial Required Contribution Rate*	3.24%	2.69%	3.16%	1.06%	0.77%	1.03%
2015 Valuation Results –SB4002						
Actuarial Accrued Liability	\$6,553,679	\$796,769	\$7,350,448	\$53,844	\$5,131	\$58,975
Normal Cost Rate *	2.93%	2.45%	2.86%	0.95%	0.77%	0.93%
Total Actuarial Required Contribution Rate*	3.24%	2.70%	3.17%	1.06%	0.87%	1.04%

*Rounded

(\$000s)	Defined Benefit			Defined Contribution		
	PERS Others	PERS P/F	PERS Total	PERS Others	PERS P/F	PERS Total
2015 Valuation Results – SB4002 Impact						
Actuarial Accrued Liability	\$0	\$265	\$265	\$0	\$292	\$ 292
Normal Cost Rate	0.00%	0.01315%	0.00175%	0.00%	0.08262%	0.00950%
Total Actuarial Required Contribution Rate	0.00%	0.01874%	0.00250%	0.00%	0.09897%	0.01138%

The data, assumptions, plan provisions and methods used for the costs are described in the draft actuarial valuation reports as of June 30, 2015, unless otherwise noted.

The tables below show the estimated cost of the bill for Fiscal Years 2017 through 2022. Dollars are in thousands.

(\$000s)	FY17	FY18	FY19	FY20	FY21	FY22
PERS – Defined Benefit – Occupational Death Benefit Changes for Peace / Fire members						
Increase In Normal Cost Amount	\$41	\$42	\$44	\$45	\$46	\$48
Increase in Past Service Cost Amortization Payment	\$17	\$18	\$18	\$19	\$20	\$20
Total Increase in Annual Employer Contribution	\$58	\$60	\$62	\$64	\$66	\$68
PERS – Defined Contribution – Occupational Death Benefit Changes for Peace / Fire members						
Increase In Normal Cost Amount	\$97	\$103	\$110	\$117	\$124	\$132
Increase in Past Service Cost Amortization Payment	\$19	\$20	\$22	\$23	\$25	\$26
Total Increase in Annual Employer Contribution	\$116	\$123	\$132	\$140	\$149	\$158
PERS – Total – Occupational Death Benefit Changes for Peace / Fire members						
Increase In Normal Cost Amount	\$138	\$145	\$154	\$162	\$170	\$180
Increase in Past Service Cost Amortization Payment	\$36	\$38	\$40	\$42	\$45	\$46
Total Increase in Annual Employer Contribution	\$174	\$183	\$194	\$204	\$215	\$226

Impact and Methodology

Surviving spouses and dependents would be allowed to commence subsidized medical coverage immediately upon the occupational death of a current member. This change did not impact Tier 1 members of PERS nor any members of PERS Others or Teachers.

The impact to the normal cost rate for the DB plan for this change was 0.01315% for peace/fire only and 0.00175% overall; the impact did increase the past service cost amortization resulting in a 0.00250% impact to the total rate. Similarly for the DCR plan this change was a 0.08262% increase to the normal cost rate for peace/fire members and 0.00950% overall. The total contribution rate increased 0.09897% for peace/fire and 0.01138% overall. These results are slightly lower than the estimates in 2015 and reflect June 30, 2015 valuation results and the premium cost-sharing upon Medicare eligibility in the DCR plan.

We assumed 100% of eligible individuals would initially elect this subsidized coverage for all plans except where contributions are required for Medicare-eligible survivors in the DCR plan. Retiree contribution provisions and health plan participation are assumed to apply according to DCR valuation assumptions upon Medicare eligibility. In addition, we assumed that surviving spouses and dependents would be eligible for coverage under their current respective DB or DCR retiree medical plan.

For this study, we have assumed the proposed changes will be effective as of January 1, 2013. This retroactive applicability date is de minimis and does not materially impact our calculations below. In addition, we have assumed that on average 45% of survivors will be employed or re-married with primary coverage and the plan will pay secondary. We have assumed that the value after coordination of benefits is 20% of the benefit for valuation purposes.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. In particular, retiree group benefits models necessarily rely on the use of approximations and estimates, and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes in actuarial measurements. An analysis of the potential range of such future differences is beyond the scope of this study.

Melissa Bissett is a Fellow of the Society of Actuaries and Member of the American Academy of Actuaries, and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report.

Please let us know if you need any further information.

BUCK CONSULTANTS, LLC



Melissa A. Bissett, F.S.A., M.A.A.A.
Senior Consultant, Healthcare Actuary

cc: John Boucher, State of Alaska
Larry Langer, Buck Consultants
David Kershner, Buck Consultants
Bob Besenhofer, Buck Consultants
Todd Kanaster, Buck Consultants