Executive Summary

Overview

The State of Alaska Public Employees' Retirement System (PERS) provides pension and postemployment healthcare benefits to eligible participants. The Commissioner of the Department of Administration is responsible for administering the plan. The Alaska Retirement Management Board has fiduciary responsibility over the assets of the plan. This report presents the results of the actuarial valuation of PERS as of the valuation date of June 30, 2023.

Purpose

An actuarial valuation is performed on the plan annually as of the end of the fiscal year. The main purposes of the actuarial valuation detailed in this report are:

1. To determine the Employer/State contribution necessary to meet the Board's funding policy for the plan;
2. To disclose the funding assets and liability measures as of the valuation date;
3. To review the current funded status of the plan and assess the funded status as an appropriate measure for determining future actuarially determined contributions;
4. To compare actual and expected experience under the plan during the last fiscal year; and
5. To report trends in contributions, assets, liabilities, and funded status over the last several years.

The actuarial valuation provides a "snapshot" of the funded position of PERS based on the plan provisions, membership data, assets, and actuarial methods and assumptions as of the valuation date.

Actuarial projections are also performed to provide a long-term view of the expected future funded status and contribution patterns (see Section 3). The future funded status and contribution patterns would be different than those shown in Section 3 if future experience does not match the actuarial assumptions used in the projections.

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.

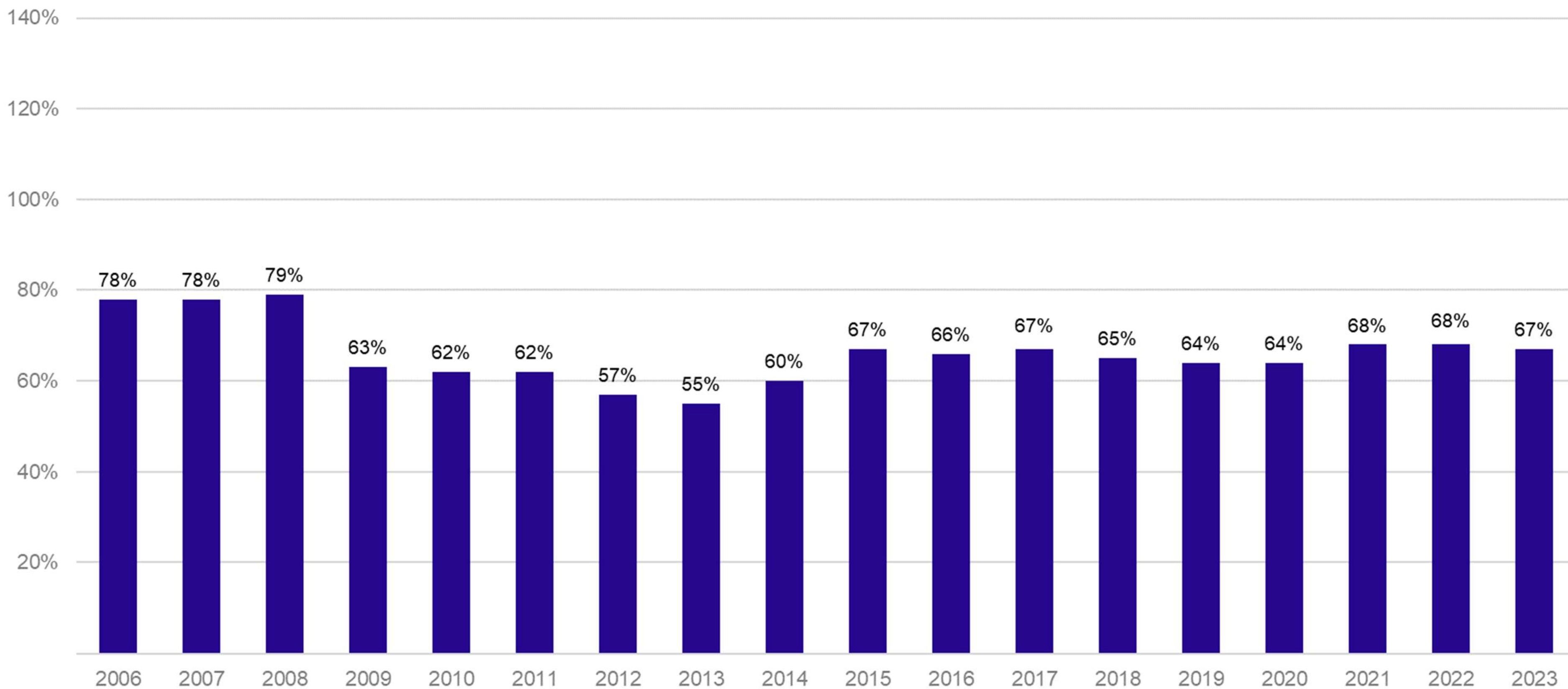
Funded Status

Where presented, references to "funded ratio" and "unfunded actuarial accrued liability" typically are measured on an actuarial value of assets basis. It should be noted that the same measurements using market value of assets would result in different funded ratios and unfunded accrued liabilities. Moreover, the funded ratio presented is appropriate for evaluating the need and level of future contributions but makes no assessment regarding the funded status of the plan if the plan were to settle (i.e. purchase annuities) for a portion or all of its liabilities.

Funded Status as of June 30 ($'s in 000's)		2022	2023
Pension			
a.	Actuarial Accrued Liability	$ 16,093,679	$ 16,835,581
b.	Valuation Assets	10,961,498	11,272,339
c.	Unfunded Actuarial Accrued Liability, (a) - (b)	$ 5,132,181	$ 5,563,242
d.	Funded Ratio based on Valuation Assets, (b) ÷ (a)	68.1%	67.0%
e.	Fair Value of Assets	$ 10,816,140	$ 11,137,489
f.	Funded Ratio based on Fair Value of Assets, (e) ÷ (a)	67.2%	66.2%
Healthcare			
a.	Actuarial Accrued Liability	$ 6,657,069	$ 7,085,823
b.	Valuation Assets	8,979,943	9,180,231
c.	Unfunded Actuarial Accrued Liability, (a) - (b)	$ (2,322,874)	$ (2,094,408)
d.	Funded Ratio based on Valuation Assets, (b) ÷ (a)	134.9%	129.6%
e.	Fair Value of Assets	$ 8,869,134	$ 9,076,222
f.	Funded Ratio based on Fair Value of Assets, (e) ÷ (a)	133.2%	128.1%

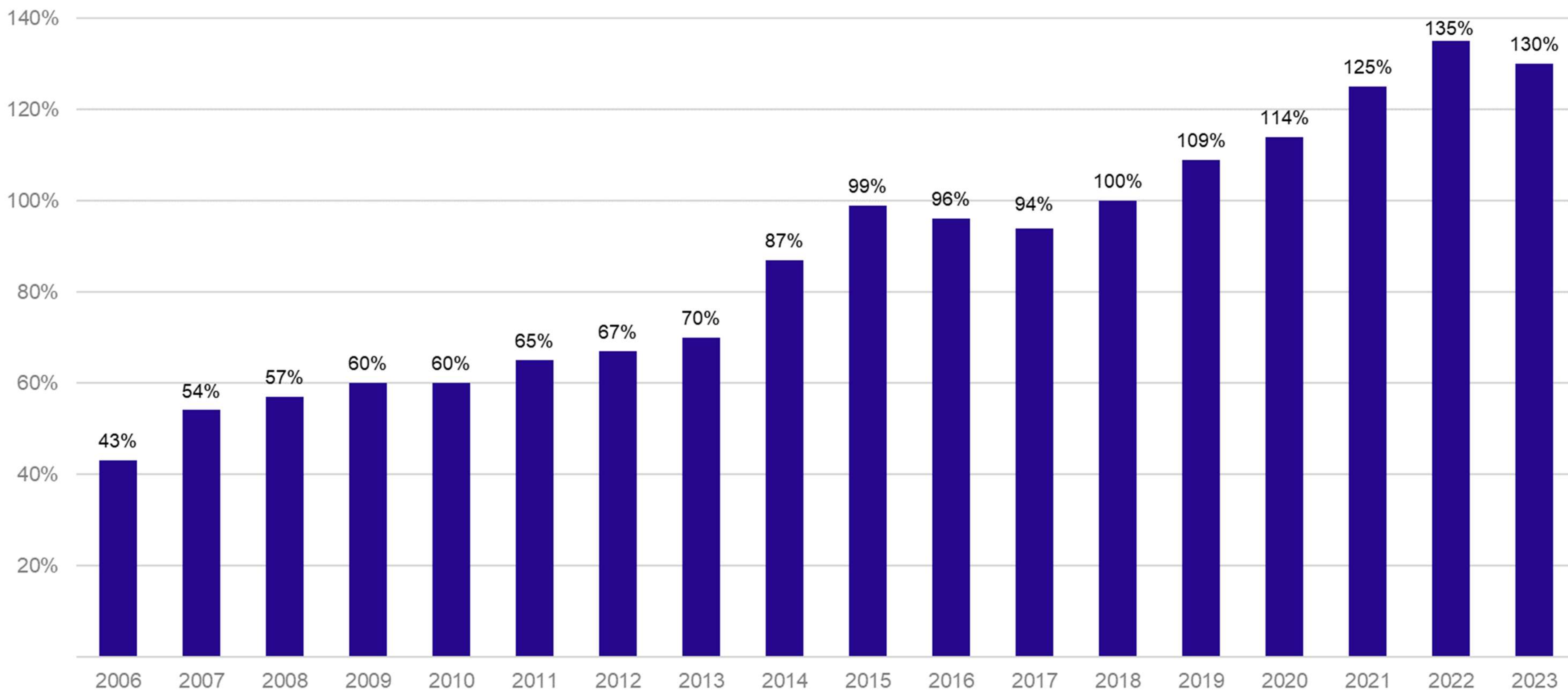
Funded Ratio History (Based on Valuation Assets)

Pension (2006 and later)



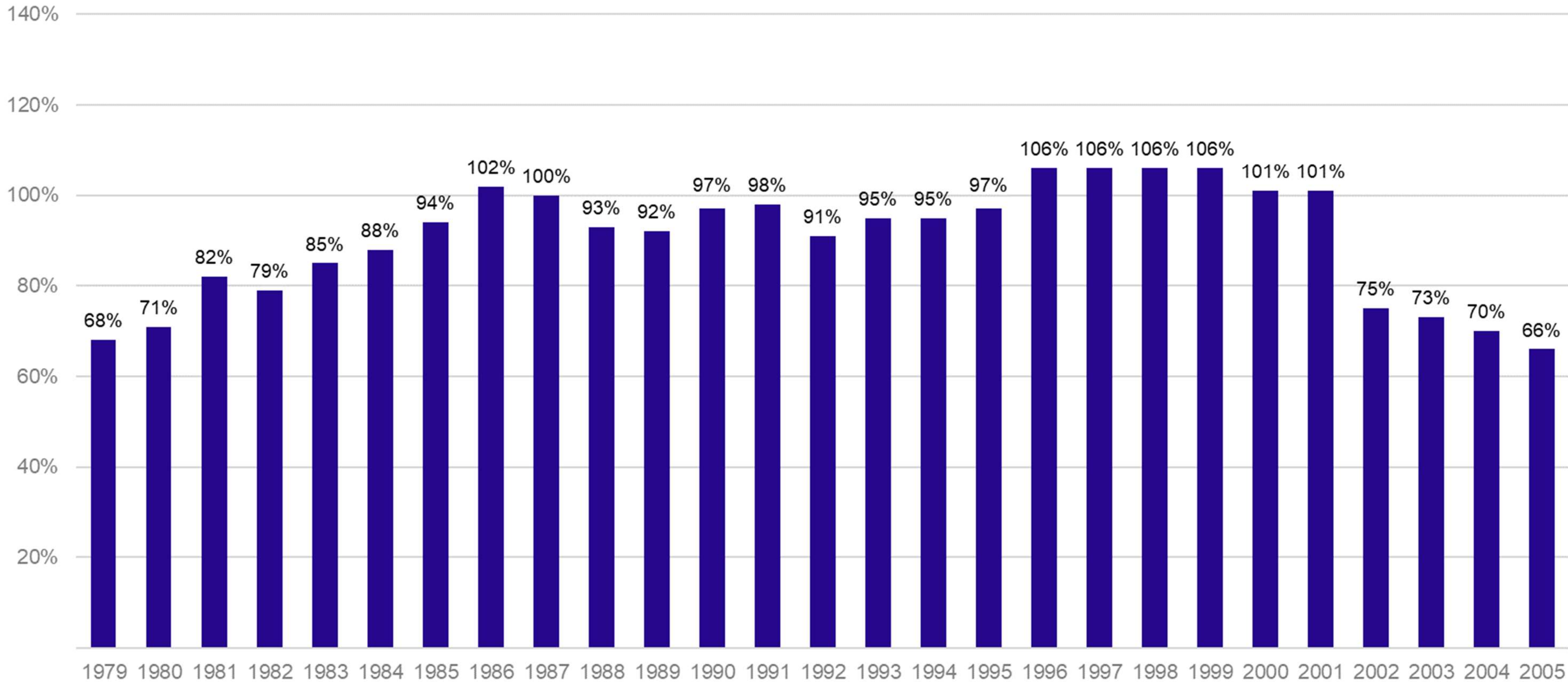
Funded Ratio History (Based on Valuation Assets)

Healthcare (2006 and later)



Funded Ratio History (Based on Valuation Assets)

Total (1979 – 2005) *



* Prior to 2006, assets and liabilities were provided in aggregate only (Pension and Healthcare combined).

The key reasons for the change in the funded status are explained below. The funded status for healthcare benefits is not necessarily an appropriate measure to confirm that assets are sufficient to settle health plan obligations as there are no available financial instruments for purchase. Future experience is likely to vary from assumptions, so there is potential for actuarial gains or losses.

1. **Investment Experience**

   The asset valuation method recognizes 20% of the investment gain or loss each year, for a period of five years. The FY23 investment return based on fair value of assets was approximately 7.6% compared to the expected investment return of 7.25% (net of investment expenses). This resulted in a market asset gain of approximately $35 million (pension) and $32 million (healthcare). Due to the recognition of investment gains and losses over a 5-year period, the FY23 investment return based on actuarial value of assets was approximately 7.4%, which resulted in an actuarial asset gain of approximately $14 million (pension) and $18 million (healthcare).

2. **Salary Increases**

   Salary increases for continuing active members during FY23 were higher than expected based on the valuation assumptions, resulting in a liability loss of approximately $94 million.

3. **Demographic Experience**

   Section 4 provides statistics on active and inactive members. The number of active members decreased 4.9% from 8,795 at June 30, 2022 to 8,361 at June 30, 2023 due to active members exiting the plan during the year (due to retirement, termination, death, and disability) and the closure of the plan to new entrants as of July 1, 2006. The average age of active members increased from 53.78 to 54.22 and average credited service increased from 19.52 to 19.53 years.

   The number of benefit recipients increased 1.0% from 38,243 to 38,639 and their average age increased from 71.61 to 72.12. The number of vested terminated participants decreased 2.9% from 4,955 to 4,812. Their average age increased from 54.37 to 54.98.

   The overall effect of the demographic experience during FY23 was a liability gain of approximately $2.5 million (pension) and a liability gain of approximately $0.7[1] million (healthcare).

4. **COLA / PRPA Experience**

   The cost-of-living increases (COLA) for benefit recipients during FY23 were less than expected based on the valuation assumptions, resulting in a liability gain of approximately $0.3 million. However, the CPI-based postretirement pension adjustments (PRPA) were more than expected, resulting in a liability loss of approximately $366 million.

5. **Retiree Medical Claims Experience**

   As described in Section 5.2, recent medical claims experience and changes in healthcare enrollment data provided to us for the June 30, 2023 valuation generated a liability loss of approximately $347 million. Healthcare benefits paid during FY23 were more than expected, which generated a liability loss of approximately $39 million. The EGWP subsidy received by the plan during FY23 was approximately $61 million; the expected EGWP subsidy for FY23 was approximately $55 million.

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[1] Includes the effects of changes in dependent coverage elections and Medicare Part B only experience.

6. Changes in Methods Since the Prior Valuation

There were no changes in actuarial methods since the prior valuation.

7. Changes in Assumptions Since the Prior Valuation

Healthcare claim costs are updated annually as described in Section 5.2. The amounts included in the Normal Cost for administrative expenses were updated based on the last two years of actual administrative expenses paid from plan assets. There were no other changes in actuarial assumptions since the prior valuation.

8. Changes in Benefit Provisions Since the Prior Valuation

There have been no changes in benefit provisions valued since the prior valuation.