

State of Alaska

Department of Administration

Division of Retirement and Benefits

Presentation to the House Finance Committee

Funding Status Update

- Public Employees' Retirement System (PERS)
- Teachers' Retirement System (TRS)

Kathy Lea, Director

Christopher Novell, Chief Financial Officer

Steve Ramos, Chief Health Officer

January 29, 2025



Organization – PERS / TRS

Dept. of Revenue Treasury Division

Invests retirement system
assets

Staff

General Consultants

Internal Investment Team

External Investment Management

Alaska Retirement Management Board (ARMB)

Sets contribution rates,
invests retirement system
assets

Investment Advisory Committee

Reviewer Actuary
(GRS)

Dept. of Administration Division of Retirement & Benefits

Administer retirement and
benefits system

Staff

Valuation Actuary (Buck)/Consultants

Third Party Administrators (TPA)

External Audits



Membership (as of June 30, 2024)

	PERS					TRS				Total	%
Employers	151					57				208	
<u>Defined Benefit (DB) Plans</u>	Tier I	Tier II	Tier III	Total		Tier I	Tier II	Total			
Actives	408	1,571	5,984	7,963	DB: 22%	69	2,486	2,555	DB: 27%	10,518	DB: 23%
Inactive – Vested	204	1,253	3,059	4,516	DB: 61%	20	731	751	DB: 38%	5,267	DB: 56%
Retired	20,898	9,470	5,830	36,198	DB: 99%	9,383	3,853	13,236	DB: 100%	49,434	DB: 99%
TOTAL	21,510	12,294	14,873	48,677		9,472	7,070	16,542		65,219	
<u>Defined Contribution (DC) Plans</u>											
Actives	27,742 DC: 78%					6,742 DC: 73%				34,484	DC: 77%
Inactive - Vested	2,948 DC: 39%					1,244 DC: 62%				4,192	DC: 44%
Retired	339 DC: 1%					67 DC: 1%				406	DC: 1%
TOTAL	31,029					8,053				39,082	
GRAND TOTAL	79,706					24,595				104,301	



Source: Division of Retirement and Benefits. June 30, 2024, Audited Financial Statements

Investment Experience

	2023		2024 (DRAFT)	
	PERS	TRS	PERS	TRS
Assumed Actuarial Earnings Rate	7.25%	7.25%	7.25%	7.25%
Based on Fair Market Value of Assets	7.60%	7.60%	8.80%	8.90%
Based on Actuarial Value of Assets (<i>Smoothing over 5-Year Period</i>)	7.40%	7.40%	8.00%	8.00%

The actuarial value of assets was reinitialized to equal, fair value as of June 30, 2014, with the \$3 Billion infusion from HB 119.

Beginning in FY 2015, the valuation method recognizes 20% of the investment gain or loss each year for five years ("*Smoothing*").



Source: Gallagher, Actuarial Valuation Reports as of June 30, 2023, and 2024 draft results for PERS and TRS DB

Funded Status – Pension (\$000's)

Defined Benefit Pension	PERS			TRS		
	2022	2023	2024 (DRAFT)	2022	2023	2024 (DRAFT)
a. Actuarial Accrued Liability	\$16,093,679	\$16,835,581	\$17,059,775	\$7,804,046	\$8,036,685	\$8,018,737
b. Actuarial Value of Assets (AVA)	\$10,961,498	\$11,272,339	\$11,608,256	\$6,100,204	\$6,171,460	\$6,247,250
c. Unfunded Actuarial Accrued Liability based on AVA	\$5,132,181	\$5,563,242	\$5,451,519	\$1,703,842	\$1,865,225	\$1,771,487
d. Funded Ratio based on AVA	68.1%	67.0%	68.0%	78.2%	76.8%	77.9%
e. Fair Value of Assets (FVA)	\$10,816,140	\$11,137,489	\$11,555,868	\$6,026,651	\$6,099,520	\$6,216,525
f. Unfunded Actuarial Accrued Liability based on FVA	\$5,277,539	\$5,698,092	\$5,503,907	\$1,777,395	\$1,937,165	\$1,802,212
g. Funded Ratio based on FVA	67.2%	66.2%	67.7%	77.2%	75.9%	77.5%



Source: Gallagher, Actuarial Valuation Reports as of June 30, 2023, and 2024 draft results for PERS and TRS DB

Funded Status – HealthCare (\$000's)

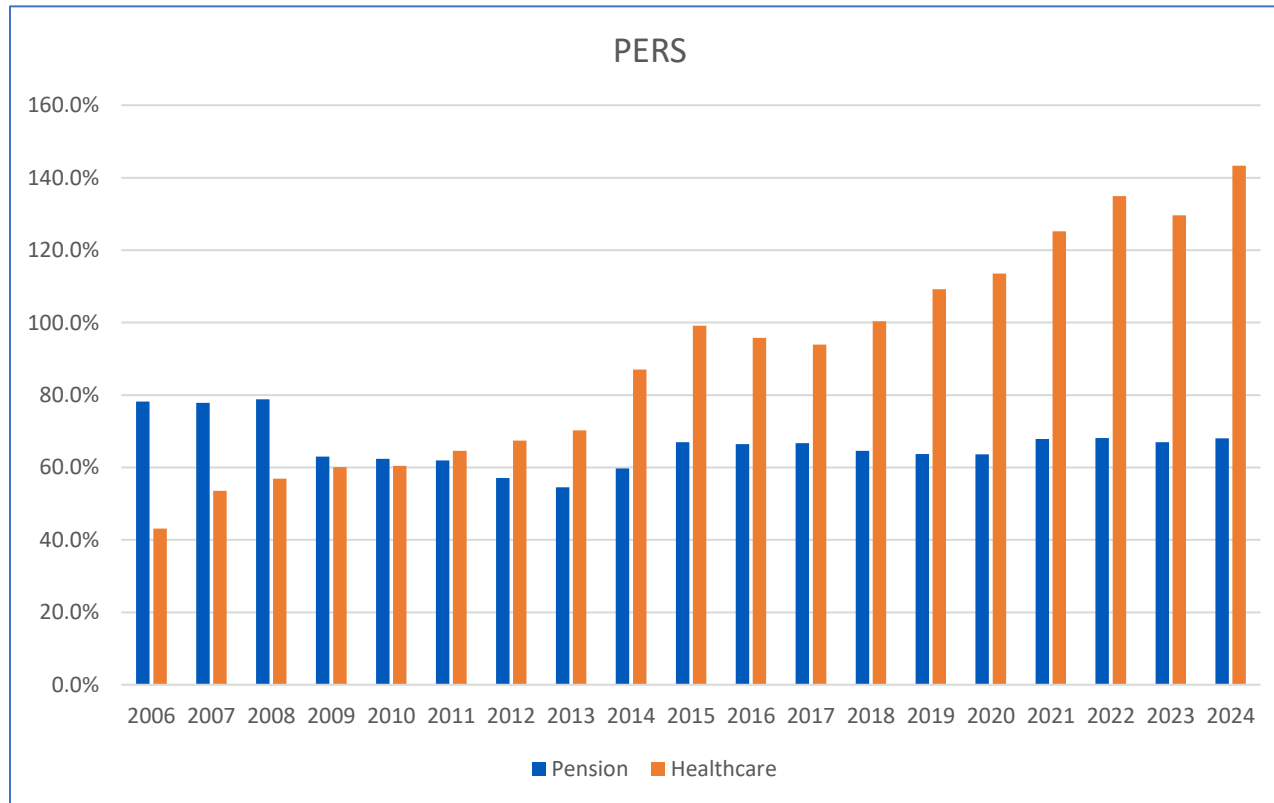
Defined Benefit HealthCare	PERS			TRS		
	2022	2023	2024 (DRAFT)	2022	2023	2024 (DRAFT)
a. Actuarial Accrued Liability	\$6,657,069	\$7,085,823	\$6,583,950	\$2,442,577	\$2,617,821	\$2,450,150
b. Actuarial Value of Assets (AVA)	\$8,979,943	\$9,180,231	\$9,433,351	\$3,437,216	\$3,547,973	\$3,677,415
c. Unfunded Actuarial Accrued Liability based on AVA	(\$2,322,874)	(\$2,094,408)	(\$2,849,401)	(\$994,639)	(\$930,152)	(\$1,227,265)
d. Funded Ratio based on AVA	134.9%	129.6%	143.3%	140.7%	135.5%	150.1%
e. Fair Value of Assets (FVA)	\$8,869,134	\$9,076,222	\$9,400,625	\$3,392,211	\$3,506,595	\$3,665,189
f. Unfunded Actuarial Accrued Liability based on FVA	(\$2,212,065)	(\$1,990,399)	(\$2,816,675)	(\$949,634)	(\$888,774)	(\$1,215,039)
g. Funded Ratio based on FVA	133.2%	128.1%	142.8%	138.9%	134.0%	149.6%



Source: Gallagher, Actuarial Valuation Reports as of June 30, 2023, and 2024 draft results for PERS and TRS DB

Funded Ratio – PERS Pension and HealthCare

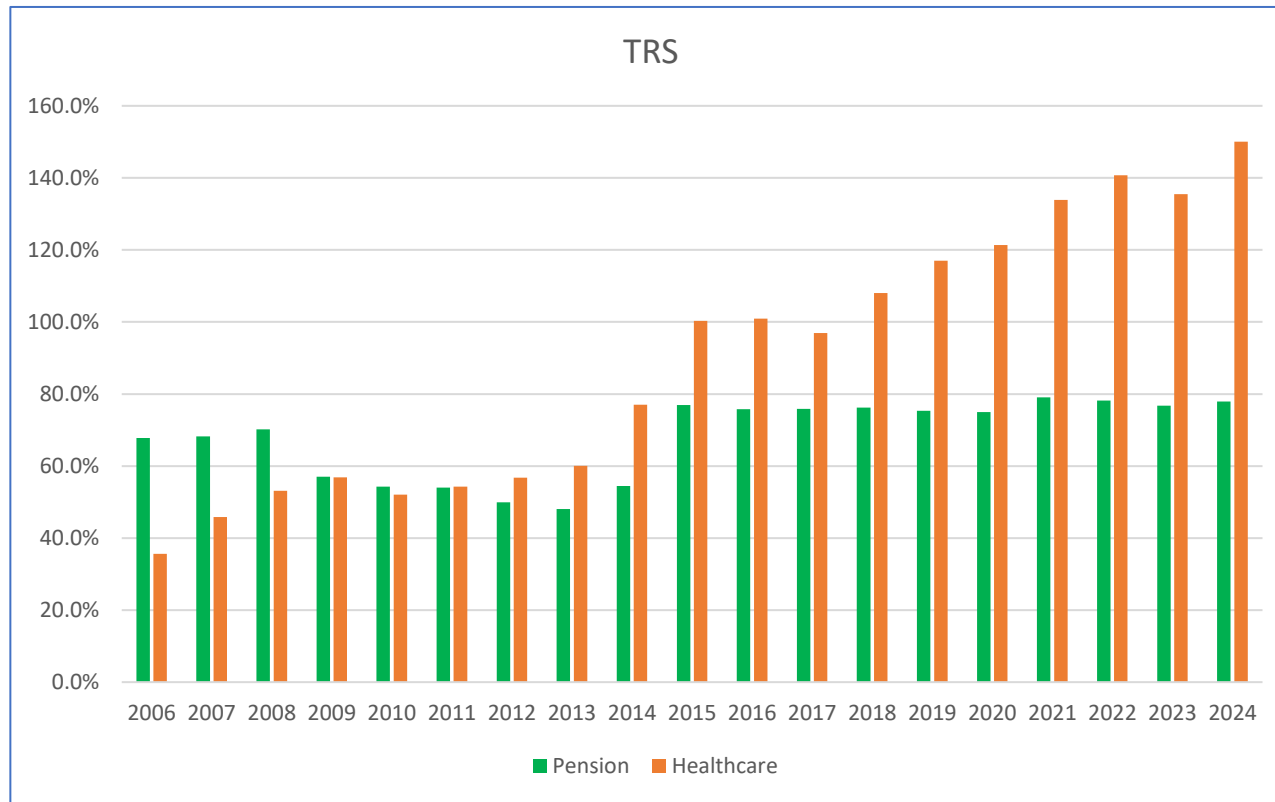
(Based on Actuarial Valuation Reports)



Source: Gallagher, Actuarial Valuation Reports as of June 30, 2023, and 2024 draft results for PERS and TRS DB

Funded Ratio – TRS Pension and HealthCare

(Based on Actuarial Valuation Reports)



Source: Gallagher, Actuarial Valuation Reports as of June 30, 2023, and 2024 draft results for PERS and TRS DB

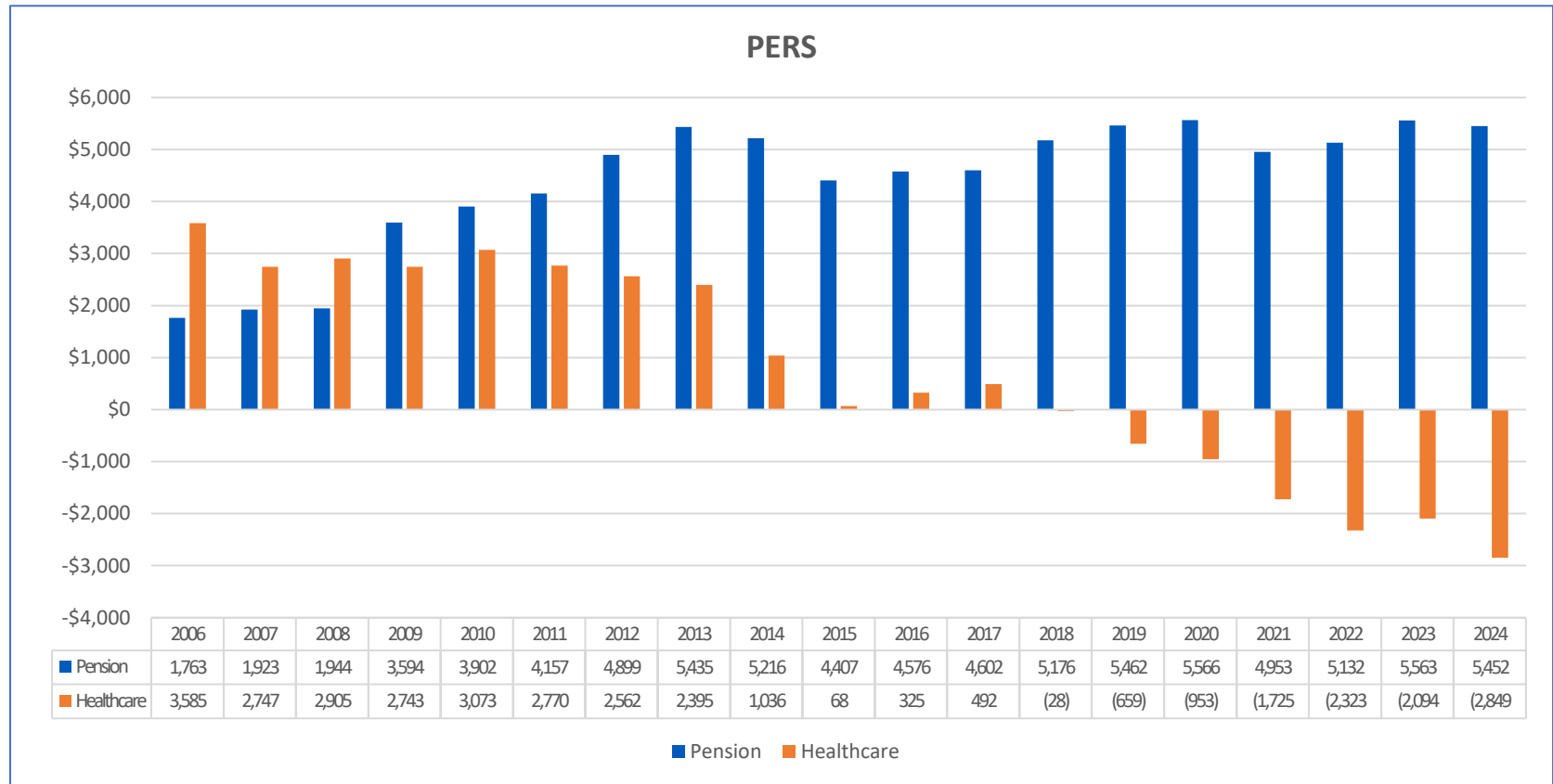
Correlation between Actual Rate of Return and Funded Ratio – Pension only

Fiscal Year End 30-Jun	Assumed Actuarial Earnings Rate	Actual Rate of Return	Actuarial Funded Ratio	Actual Rate of Return	Actuarial Funded Ratio
		PERS		TRS	
2000	8.25%	10.16%	101.1%	10.25%	99.6%
2001	8.25%	-5.37%	100.9%	-5.44%	95.0%
2002	8.25%	-5.48%	75.2%	-5.49%	68.2%
2003	8.25%	3.67%	72.8%	3.68%	64.3%
2004	8.25%	15.08%	70.2%	15.09%	62.8%
2005	8.25%	8.95%	65.7%	9.01%	60.9%
2006	8.25%	11.74%	78.2%	11.78%	67.8%
2007	8.25%	18.93%	77.8%	18.97%	68.2%
2008	8.25%	-3.13%	78.8%	-3.12%	70.2%
2009	8.25%	-20.53%	63.0%	-20.67%	57.0%
2010	8.25%	11.39%	62.4%	11.58%	54.3%
2011	8.00%	21.18%	61.9%	21.36%	54.0%
2012	8.00%	0.46%	57.1%	0.51%	49.9%
2013	8.00%	12.50%	54.5%	12.59%	48.1%
2014	8.00%	18.56%	59.7%	18.56%	54.5%
2015	8.00%	3.29%	67.0%	3.30%	76.9%
2016	8.00%	-0.36%	66.4%	-0.36%	75.8%
2017	8.00%	13.35%	66.7%	13.36%	75.9%
2018	7.38%	9.61%	64.6%	9.62%	76.2%
2019	7.38%	6.40%	63.7%	6.39%	75.3%
2020	7.38%	3.83%	63.6%	3.82%	75.0%
2021	7.38%	27.62%	67.9%	27.65%	79.1%
2022	7.25%	-4.08%	68.1%	-4.10%	78.2%
2023	7.25%	7.03%	67.0%	7.02%	76.8%
2024	7.25%	7.03%	68.0%	7.02%	77.9%
30-year average rate of return		7.77%		7.82%	



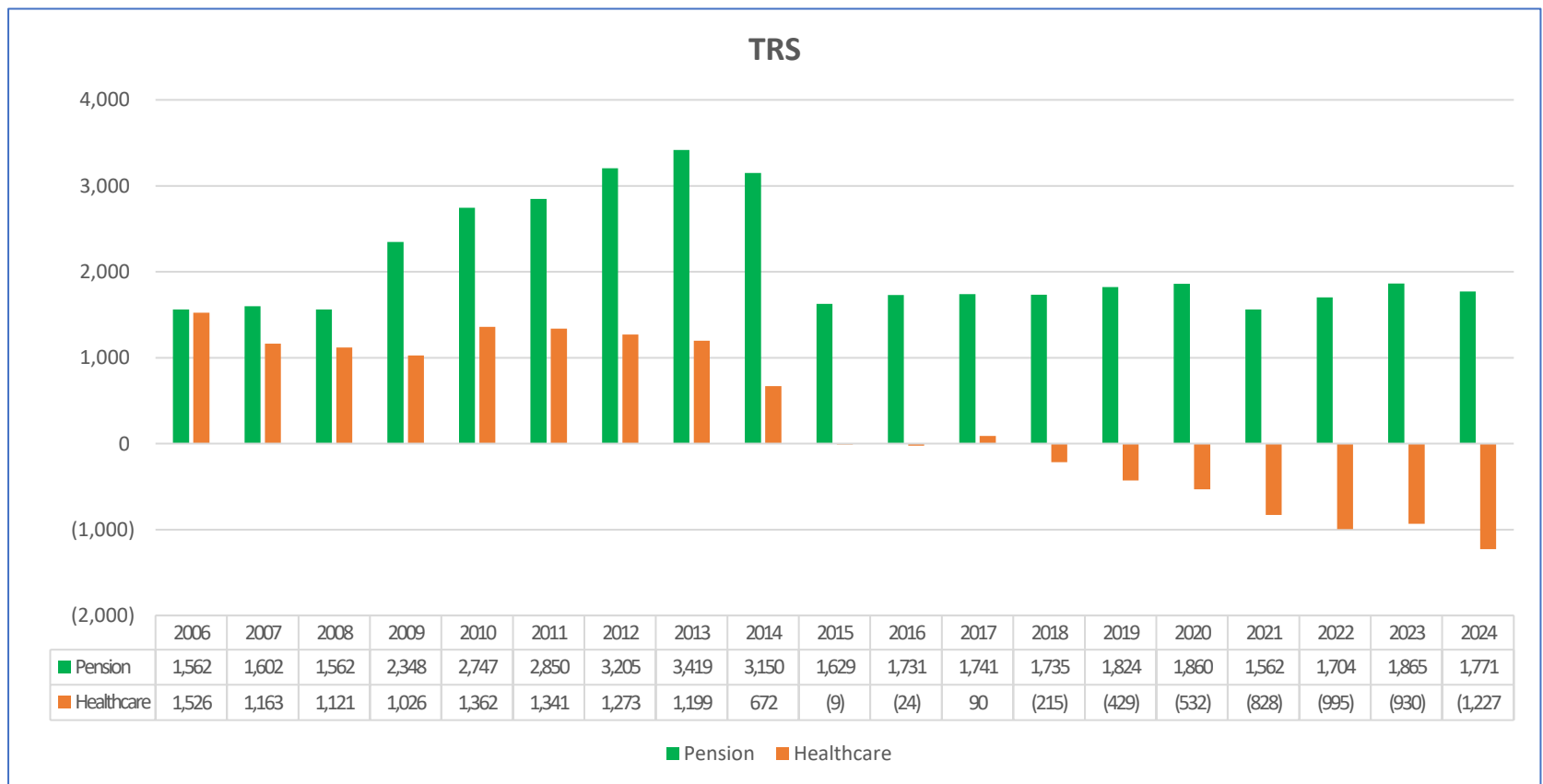
Source: Funded Ratio - Actuarial Reports; Actual Rate of Returns - Department of Revenue, Investment Performance

Unfunded Actuarial Liability – PERS (in \$millions)



Source: Gallagher, Actuarial Valuation Reports as of June 30, 2023, and 2024 draft results for PERS and TRS DB

Unfunded Actuarial Liability – TRS (in \$millions)



Source: Gallagher, Actuarial Valuation Reports as of June 30, 2022, and 2023 draft results for PERS and TRS DB

Additional State Contributions - History

FY	Legislation	PERS	TRS	Total
2006	Chapter 3, FSSLA 05 (SB 46), Sec 59(b)	\$ 18,426,923	\$ -	\$ 18,426,923
2007	Chapter 82, SLA 06 (SB 231), Sec 60(b)	18,581,921	-	18,581,921
2008	Chapter 30, SLA 07 (SB 53), Sec 55(e)	185,000,000	269,992,300	454,992,300
	Chapter 28, SLA 07 (HB95), Sec 15(a)			
2009	Chapter 27, SLA 08 (HB 310), Sec 13(b) & (a)	241,600,000	206,300,000	447,900,000
2010	Chapter 12, SLA 09 (HB 81), Sec 23(b) & (a)	107,953,000	173,462,000	281,415,000
2011	Chapter 41, SLA 10 (HB 300), Sec 29(b) & (a)	165,841,171	190,850,258	356,691,429
2012	Chapter 3, FSSLA 11 (HB 108), Sec 29(b) & (a)	242,609,397	234,517,333	477,126,730
2013	Chapter 15, SLA 12 (HB 284), Sec 27(a) & (b)	307,302,392	302,777,153	610,079,545
2014	Chapter 14, SLA 13 (HB 65), Sec 29(a) & (b)	312,472,952	316,847,291	629,320,243
2015	Chapter 18, SLA 14 (HB 119), Sec 48(a) & (b)	1,000,000,000	2,000,000,000	3,000,000,000
2016	Chapter 1, SSSLA 15 (HB 2001), Sec 10(a) & (b)	126,520,764	130,108,327	256,629,091
2017	Chapter 3, 4SSLA 16 (HB 256), Sec 28(a) & (b)	99,166,576	116,699,959	215,866,535
2018	Chapter 1, SSSLA 17 (HB 57), Sec 41(a) & (b)	72,719,000	111,757,000	184,476,000
	Chapter 17, SLA 18 (HB 286), Sec 25(a)			
2019	Chapter 17, SLA 18 (HB 286), Sec 25(b) & (c)	135,219,000	128,174,000	263,393,000
2020	Chapter 1, FSSLA 19 (HB 39), Sec 35(a) & (b)	159,055,000	141,129,000	300,184,000
2021	Chapter 8, SLA 20 (HB 205), Sec 41(a) & (b)	203,585,000	134,976,000	338,561,000
2022	Chapter 1, SSSLA 21 (HB 69), Sec 73(b) & (c)	97,699,500	142,665,000	240,364,500
2023	Chapter 11, SLA 22 (HB 281), Sec 80(a) & (b)	33,933,000	91,029,000	124,962,000
2024	Chapter 1, FSSLA 23 (HB 39), Sec 74(a) & (b)	37,942,000	98,766,000	136,708,000
2025	Chapter 7, SLA 24 (HB 268), Sec 51(a) & (b)	59,149,000	123,358,000	182,507,000
	Total:	\$ 3,624,776,596	\$ 4,913,408,621	\$ 8,538,185,217



Source: Legislative Bills for the respective year

Additional State Contributions – Projected

Fiscal Year	PERS	TRS	Total
ARM Adopted Rate: 2026	\$ 79,807,000	\$ 138,982,000	\$ 218,789,000
2027	70,227,000	147,074,000	217,301,000
2028	74,200,000	150,476,000	224,676,000
2029	78,225,000	154,154,000	232,379,000
2030	83,570,000	159,131,000	242,701,000
2031	88,405,000	164,177,000	252,582,000
2032	93,623,000	169,396,000	263,019,000
2033	98,801,000	174,728,000	273,529,000
2034	104,086,000	180,176,000	284,262,000
2035	109,509,000	185,595,000	295,104,000
2036	114,262,000	191,274,000	305,536,000
2037	119,057,000	197,025,000	316,082,000
2038	123,769,000	202,805,000	326,574,000
2039	128,752,000	208,877,000	337,629,000
	\$ 1,366,293,000	\$ 2,423,870,000	\$ 3,790,163,000



Source: Buck, DRAFT Actuarial Valuation Reports as of June 30, 2024, for PERS and TRS DB

FY2026 Contribution Rates

Health Plan – Zero Normal Cost Impact on Contribution Rates

	PERS				TRS			
	FY26 PERS Total Payroll *		\$	2,598,836,000	FY26 TRS Total Payroll		\$	767,012,000
	Preliminary	Contribution	Adopted	Contribution	Preliminary	Contribution	Adopted	Contribution
DB Pension Plan - Normal Cost	2.14%	55,615,000	2.14%	55,615,000	2.21%	16,951,000	2.21%	16,951,000
DB Pension Plan - Past Service Cost	18.63%	484,163,000	19.29%	501,315,000	21.12%	161,993,000	21.47%	164,677,000
DB Health Plan - Normal Cost	1.97%	51,197,000	0.00%	-	2.15%	16,491,000	0.00%	-
DCR Plan	6.90%	179,320,000	6.90%	179,320,000	7.65%	58,676,000	7.65%	58,676,000
	29.64%	770,295,000	28.33%	736,250,000	33.13%	254,111,000	31.33%	240,305,000
State Of Alaska Contributions	29.64%	383,145,000	28.33%	366,211,000				
Non-State Employer Contributions	22.00%	287,358,000	22.00%	287,358,000	12.56%	96,337,000	12.56%	96,337,000
Additional State Contributions	7.38%	96,396,000	6.33%	79,807,000	19.86%	152,329,000	18.77%	138,982,000

* PERS Non-State Employers Total Payroll: \$ 1,306,174,000
PERS State as an Employer Total Payroll: 1,292,662,000
FY26 PERS Total Payroll: \$ 2,598,836,000

Total Savings: \$34,045,000 (PERS) + \$13,806,000 (TRS) = \$ 47,851,000

(NOTE: some totals may not add due to rounding)



Source: Gallagher, September 2024 (information consolidated for presentation, and some amounts may be off due to rounding)

HealthCare Trusts Funded Level

Fiscal Year	with NC Contributed	Without NC Contributed	with NC Contributed	Without NC Contributed
	PERS		TRS	
2025	146.8%	146.8%	154.1%	154.1%
2026	145.4%	145.4%	153.0%	153.0%
2027	148.8%	148.1%	156.8%	156.2%
2028	152.5%	151.1%	161.0%	159.8%
2029	156.1%	154.1%	165.1%	163.4%
2030	160.1%	157.5%	169.8%	167.6%
2031	164.7%	161.4%	175.2%	172.4%
2032	169.8%	165.9%	181.2%	178.0%
2033	175.5%	171.0%	188.1%	184.3%
2034	182.1%	176.9%	195.9%	191.5%
2035	189.4%	183.6%	204.7%	199.7%
2036	197.8%	191.2%	214.6%	209.0%
2037	207.3%	199.9%	225.8%	219.6%
2038	218.2%	209.9%	238.4%	231.5%
2039	230.6%	221.3%	252.8%	245.0%

NC = Normal Cost (*the annual cost of future pension benefits and administrative expenses assigned under an actuarial cost method.*)



Source: Gallagher

FY2026 Contribution Rates – Defined Benefit Plans

Defined Benefit Plans	PERS	TRS
Employee		
• All Other Employees	6.75%	8.65%
• Peace Officer/Firefighter	7.50%	
• School District Alternate Option	9.60%	
Employer (Rates capped by Alaska statute)	22.00%	12.56%
Additional State Contribution (for non-State employers)	6.33%	18.77%
Total Required Contributions for the Fiscal Year *	28.33%	31.33%

* The total contribution rates for PERS and TRS include the DCR contribution rates.



Source: Buck, August 22, 2023, letter as of June 30, 2023, roll-forward for PERS and TRS DB and DCR and 2023 DCR valuations

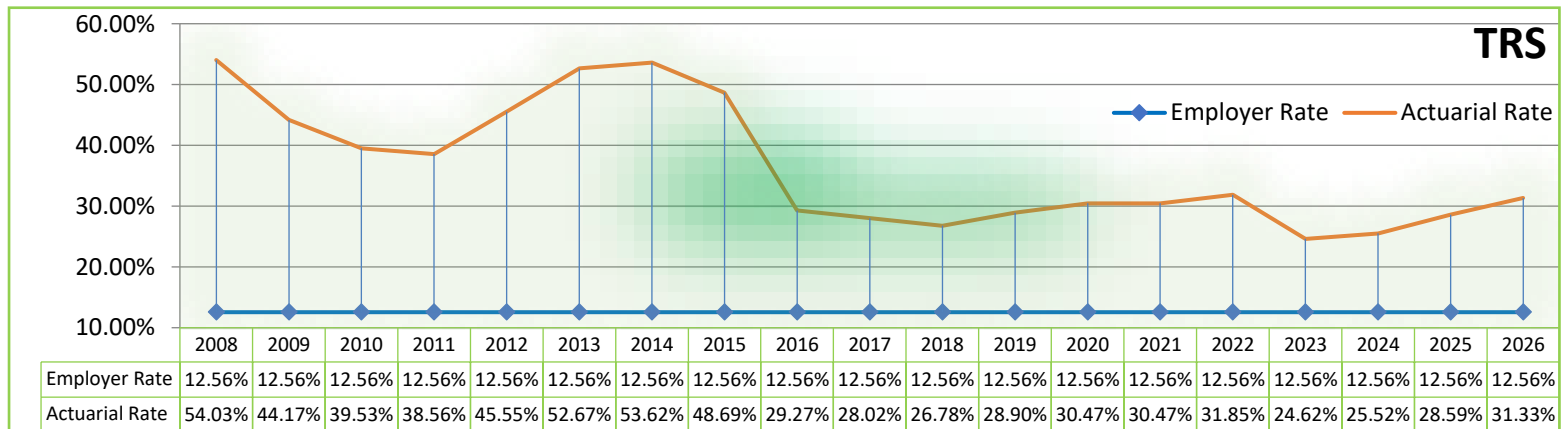
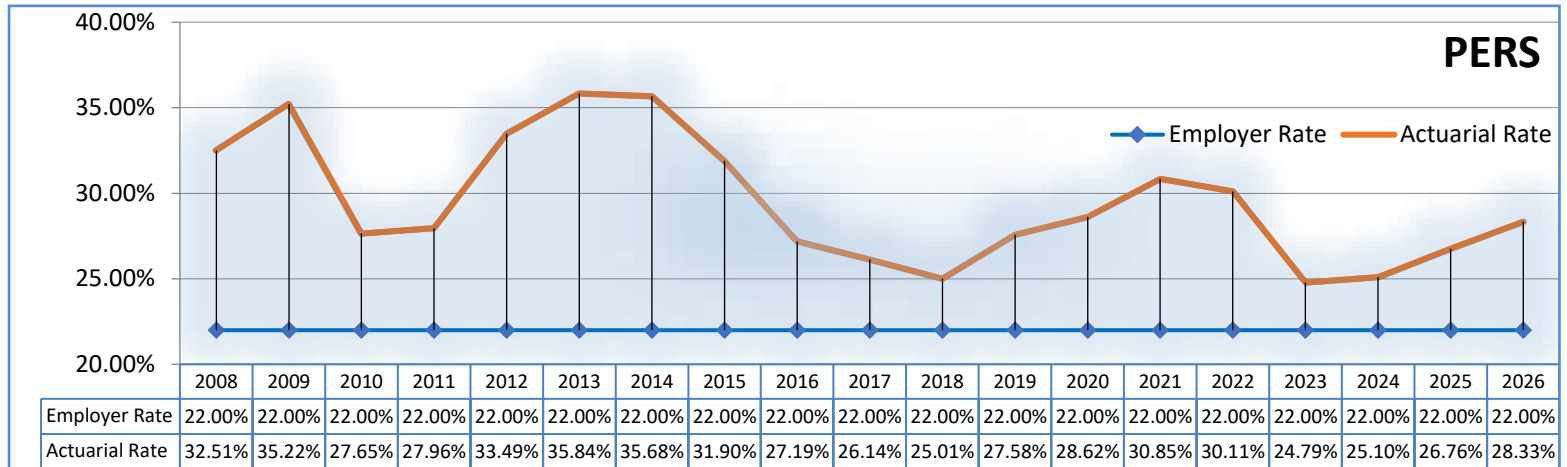
FY2026 Contribution Rates – Defined Contribution Plans

Defined Contribution Plans	PERS	TRS
Employee (to Investment Account)	8.00%	8.00%
Employer		
Investment Account	5.00%	7.00%
Health Care (Retiree Major Medical Plan)	0.86%	0.74%
Occupational Death & Disability		
• All Others	0.24%	0.08%
• Peace Officer/Firefighter	0.69%	N/A
Health Reimbursement Account (HRA) (3% of all PERS/TRS average annual compensation)	Flat dollar amount computed annually	Flat dollar amount computed annually
Excess from Employers' Contributions (22% / 12.56%)	To DB Plans – Unfunded Liability	



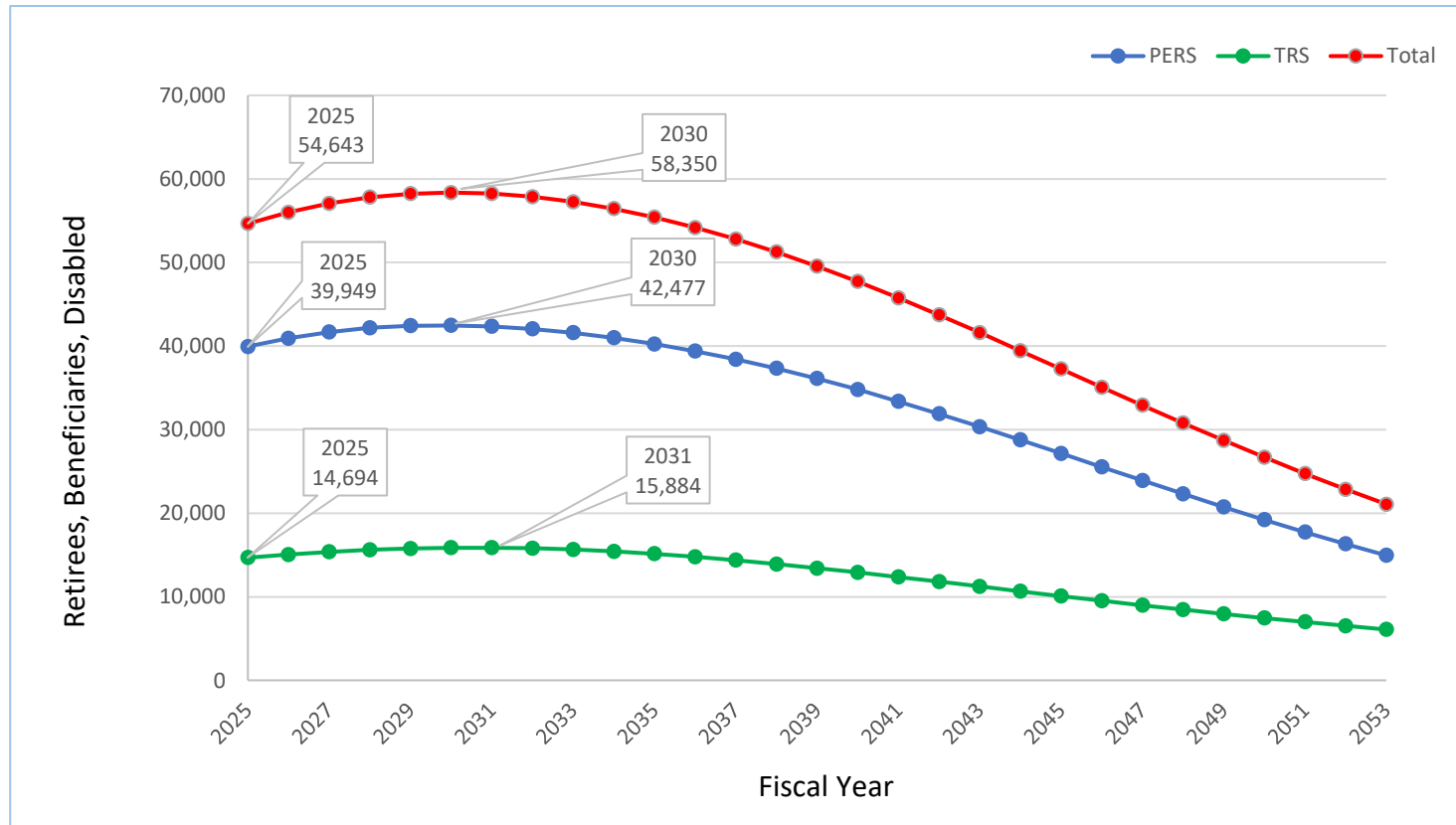
Source: Gallagher, August 22, 2024, letter as of June 30, 2024, roll-forward for PERS and TRS DB and DCR and 2024 DCR valuations

Contribution Rates – History



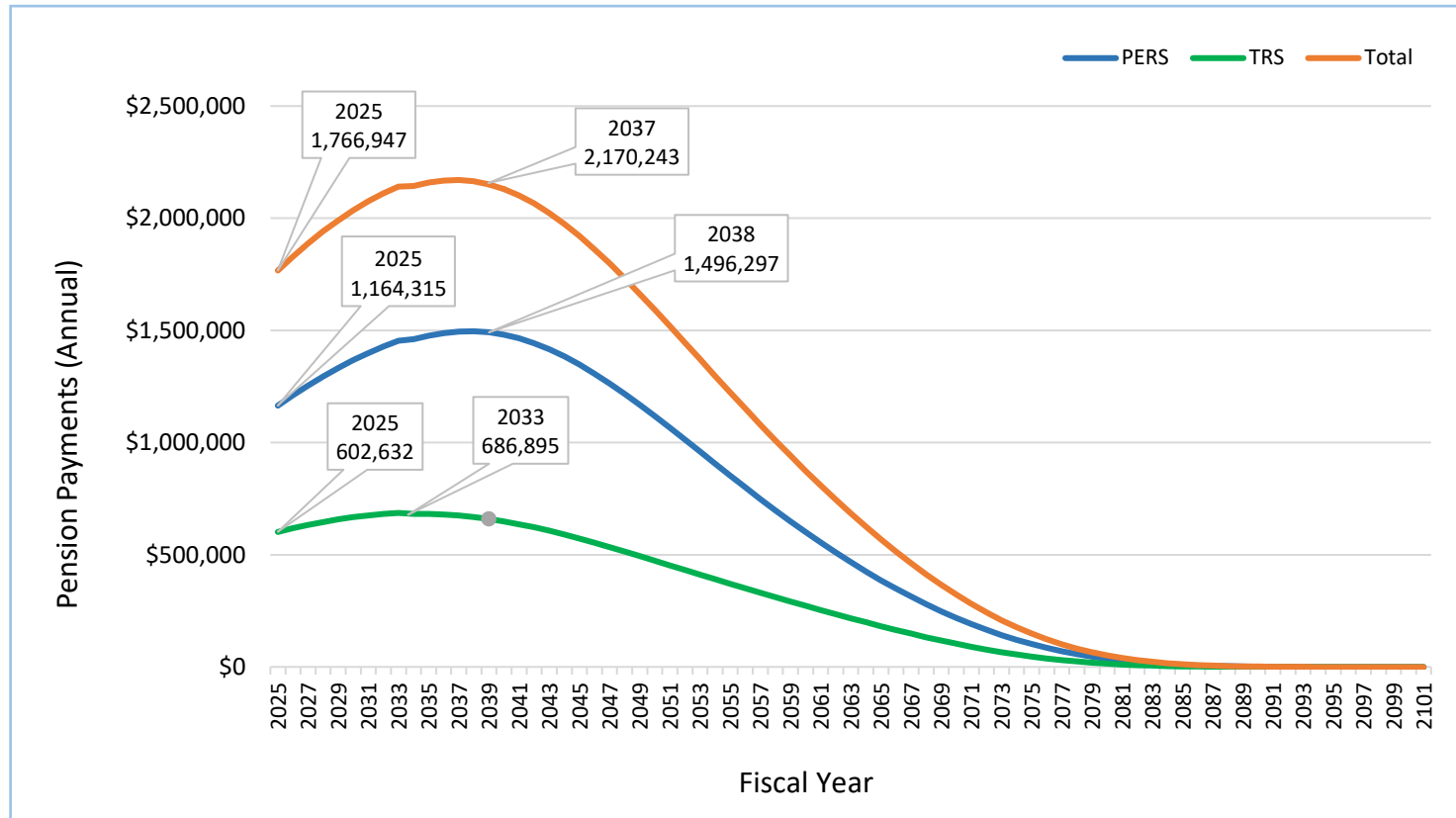
Source: Board Adopted Rates Report (Gallagher) [Rates shown include both DB and DCR Plan rates]

Projected Pension Benefit Recipients



Source: Buck, Actuarial Valuation Reports as of June 30, 2023, for PERS and TRS DB - Section 3.7

Projected Pension Benefits Payment (\$000's)



Source: Buck, Actuarial Valuation Reports as of June 30, 2024, for PERS and TRS DB - Section 3.7

AlaskaCare Employer Group Waiver Plan

- An Employer Group Waiver Plan (EGWP) is a group Medicare Part D prescription drug plan option
- EGWP provides a direct subsidy which allows it to be considered when calculating the Other Post-Employment Benefits (OPEB) liability under both GASB & FASB accounting schemes
- The implementation of EGWP reduced 6/30/18 healthcare liabilities by **\$959M**, which resulted in lower projected liabilities, lower projected contribution rates, and lower projected Additional State Contributions (\$752M for PERS, \$266M for TRS)



GASB = Governmental Accounting Standards Board
FASB = Financial Accounting Standards Board

An Employer Group Waiver Plan (EGWP) Subsidy

Types of Funding	\$ (Millions)				
	2020	2021	2022	2023	2024 Estimated
Direct Subsidy	\$ 0.04	\$ (2.64)	\$ (5.23)	\$ (5.91)	\$ 4.11
Catastrophic Reinsurance*	20.76	25.98	35.57	38.36	40.37
Low Income Premiums Subsidy	0.22	0.22	0.22	0.23	0.25
Low Income Cost Sharing Subsidy*	1.10	1.10	1.12	1.28	1.21
Coverage Gap Discount*	36.26	39.75	44.02	52.27	\$ 56.55
TOTAL	\$ 58.38	\$ 64.41	\$ 75.70	\$ 86.23	\$ 102.49

* 2024 Amounts described above are estimates due to the dynamic nature of claims. The actual subsidy is subject to minor adjustments due to true-up.



Source: OptumRx

HealthCare Cost Trend Rates

Fiscal Year	Medical Pre-65	Medical Post-65	Rx / EGWP
2025	6.40%	5.40%	8.80%
2026	6.20%	5.40%	8.50%
2027	6.05%	5.35%	8.20%
2030	5.45%	5.30%	7.05%
2031	5.30%	5.30%	6.60%
2032	5.30%	5.30%	6.15%
2033	5.30%	5.30%	5.70%
2034-2038	5.30%	5.30%	5.30%
2039	5.25%	5.25%	5.30%
2050+	4.50%	4.50%	4.50%

Trend rates were updated with the June 30, 2024, draft actuarial valuation reports by adopting the ARM Board of the most recent experience study. Beginning in the Fiscal Year 2039, trend rates were revised to reach an ultimate rate of 4.5% in Fiscal Year 2050.

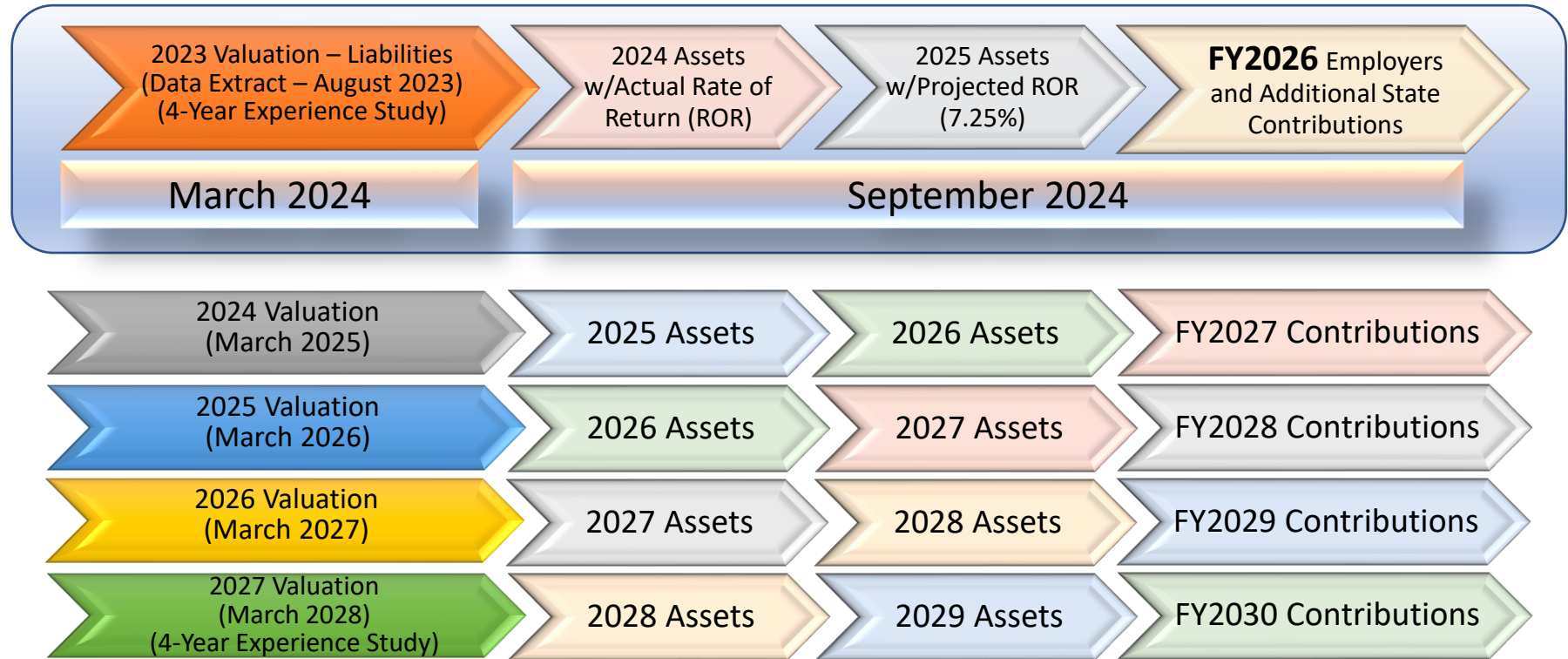


Source: Gallagher - Trend rates used in the June 30, 2023, valuation and the same for the June 30, 2024, valuation reports.

Employers and Additional State Contributions

Process Timeline

Allocation of Projected Employer and Additional State Contribution Rates with Liabilities "Rolled Forward" for two years, Assets "Rolled Forward" for one year, and Smoothed.



Department of Administration

Championing improvement in the State's performance and results



For more information, please contact Forrest.Wolfe@alaska.gov