



May 11, 2023

Mr. Ajay Desai  
Director  
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State of Alaska  
P.O. Box 110203  
Juneau, AK 99811-0203

**RE: Fiscal Note Analysis for SB 88 CS L&C**

Dear Ajay,

As requested, we are providing a fiscal note analysis for SB 88 CS L&C (referred to as "SB 88" in this letter)<sup>1</sup>.

In this letter, we use "SB 88 PERS members" and "SB 88 TRS members" to refer to PERS and TRS members, respectively, who are affected by SB 88. Collectively, they are referred to as "SB 88 members".

Under the proposed bill:

- i. Active employees who became a member of PERS DCR or TRS DCR between July 1, 2006 and June 30, 2024 can make an irrevocable one-time election to join PERS DB or TRS DB, respectively, before November 1, 2024.
- ii. All post-July 1, 2024 PERS hires will enter PERS DB, and all post-July 1, 2024 TRS hires will enter TRS DB.

The proposed effective date of SB 88 is July 1, 2024.

The projected cost impact of SB 88 shown in this letter assumes that post-June 30, 2022 experience matches the assumptions. Adverse plan experience due to, for example, poor asset returns and/or unexpected growth in liabilities, or changes to more conservative assumptions will increase the PERS DB and TRS DB unfunded liabilities, resulting in higher contribution rates. The cost impact of SB 88 on projected contribution rates depends on how large the PERS DB and TRS DB unfunded liabilities become. By shifting active members and all future hires from the DCR plans to the DB plans, the State will be taking on greater risk of larger unfunded liabilities and higher contributions in future years.

To determine the projected cost impact of SB 88, we used the current DB plan termination rates for SB 88 members. The DB plan termination rates include higher termination rates during the "select" period (first 5 years of employment for PERS and first 8 years of employment for TRS). These DB select termination rates were established several years ago when the DB plans had much larger numbers of active members, and they have not been changed since. It remains to be seen if actual termination rates of SB 88 members covered by the DB plans will be higher or lower than the current DB termination rates, including the select period rates. If actual termination rates of SB 88 members end

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<sup>1</sup> The text of SB 88 CS L&C is dated May 1, 2023.

up being higher than the assumed DB termination rates, the projected cost impact of SB 88 would be lower than what is shown in this letter.

In this letter:

- PERS/TRS “DB Trusts” refers to the pension and healthcare trusts that are used to fund the benefits of current DB members.
- PERS/TRS “DCR Trusts” refers to the occupational death & disability and retiree medical trusts that are used to fund the benefits of DCR members.
- PERS/TRS “SB 88 Sub-Trusts” refers to the pension and healthcare sub-trusts that will be used to fund the benefits of SB 88 members. The SB 88 sub-trusts will be set up within the DB trusts.

**A. Potential Impact of SB 88 on Projected State Contributions for FY25-FY39**

State contributions for FY25-FY39 are projected to increase/(decrease) due to SB 88 as shown below (assuming post-June 30, 2022 experience matches the assumptions). Amounts are in \$000's.

**Additional State Contributions (PERS and TRS)**

Fiscal Year	Additional State Contributions - PERS			Additional State Contributions - TRS			Additional State Contributions - Total		
	Current	SB 88	Incr/(Decr)	Current	SB 88	Incr/(Decr)	Current	SB 88	Incr/(Decr)
2025	81,020	85,489	4,469	139,595	134,221	(5,374)	220,615	219,710	(905)
2026	80,173	93,916	13,743	139,121	137,139	(1,982)	219,294	231,055	11,761
2027	93,213	109,089	15,876	154,266	153,285	(981)	247,479	262,374	14,895
2028	95,883	113,935	18,052	157,933	157,616	(317)	253,816	271,551	17,735
2029	98,635	119,643	21,008	161,745	162,175	430	260,380	281,818	21,438
2030	101,685	125,721	24,036	165,740	166,967	1,227	267,425	292,688	25,263
2031	105,059	132,016	26,957	169,812	171,644	1,832	274,871	303,660	28,789
2032	108,885	139,401	30,516	174,070	176,792	2,722	282,955	316,193	33,238
2033	112,938	146,652	33,714	178,632	181,838	3,206	291,570	328,490	36,920
2034	116,658	154,273	37,615	183,336	187,663	4,327	299,994	341,936	41,942
2035	120,431	162,498	42,067	188,286	193,367	5,081	308,717	355,865	47,148
2036	124,512	170,721	46,209	193,323	198,915	5,592	317,835	369,636	51,801
2037	129,207	179,713	50,506	198,522	204,994	6,472	327,729	384,707	56,978
2038	133,210	188,403	55,193	203,977	211,108	7,131	337,187	399,511	62,324
2039	137,882	197,620	59,738	209,571	217,684	8,113	347,453	415,304	67,851
Total	1,639,391	2,119,090	479,699	2,617,929	2,655,408	37,479	4,257,320	4,774,498	517,178

**State-as-an-Employer Contributions (PERS)**

Fiscal Year	PERS State-as-an-Employer Contributions - DB			PERS State-as-an-Employer Contributions - DCR			PERS State-as-an-Employer Contributions - Total		
	Current	SB 88	Incr/(Decr)	Current	SB 88*	Incr/(Decr)	Current	SB 88	Incr/(Decr)
2025	266,258	330,406	64,148	82,236	27,648	(54,588)	348,494	358,054	9,560
2026	263,737	341,447	77,710	86,114	29,263	(56,851)	349,851	370,710	20,859
2027	275,229	359,371	84,142	89,989	30,813	(59,176)	365,218	390,184	24,966
2028	276,947	367,653	90,706	93,840	32,352	(61,488)	370,787	400,005	29,218
2029	279,505	377,227	97,722	97,846	33,897	(63,949)	377,351	411,124	33,773
2030	282,768	387,473	104,705	101,827	35,417	(66,410)	384,595	422,890	38,295
2031	286,661	398,047	111,386	105,811	36,907	(68,904)	392,472	434,954	42,482
2032	291,405	409,964	118,559	109,788	38,373	(71,415)	401,193	448,337	47,144
2033	296,696	421,944	125,248	113,770	39,819	(73,951)	410,466	461,763	51,297
2034	302,567	435,040	132,473	118,090	41,317	(76,773)	420,657	476,357	55,700
2035	308,785	448,894	140,109	122,404	42,852	(79,552)	431,189	491,746	60,557
2036	315,690	463,048	147,358	126,699	44,252	(82,447)	442,389	507,300	64,911
2037	323,288	478,089	154,801	130,982	45,695	(85,287)	454,270	523,784	69,514
2038	330,828	493,176	162,348	135,277	47,121	(88,156)	466,105	540,297	74,192
2039	339,352	509,014	169,662	139,524	48,520	(91,004)	478,876	557,534	78,658
Total	4,439,716	6,220,793	1,781,077	1,654,197	574,246	(1,079,951)	6,093,913	6,795,039	701,126

\*3% HRA contributions for SB 88 members

To help users of this letter understand the potential impact on projected State contributions due to SB 88, the tables below show the development of the projected FY25 and FY35 State contributions currently and under SB 88<sup>1</sup>. All contribution rates shown in these tables are expressed as a percentage of *total* payroll (DB/DCR payroll in the Current column, DB/SB 88 payroll in the SB 88 column). Normal Cost rates are net of member contribution rates.

FY25 – PERS Non-State Employers		Current	SB 88
	Total Payroll	\$ 1,242,631,000	\$ 1,266,504,000
1.	DB Rate (for current DB members)		
	a. Pension Normal Cost	2.15%	1.68%
	b. Pension Unfunded Liability Amortization	17.70%	17.37%
	c. Healthcare Normal Cost	1.94%	1.87%
	d. Total [1a + 1b + 1c]	21.79%	20.92%
2.	DCR Employer Rate	6.73%	0%
3.	SB 88 Contribution Rate		
	a. Pension	n/a	4.13%
	b. Healthcare	n/a	1.48%
	c. 3% HRA	n/a	2.22%
	d. Total [3a + 3b + 3c]	n/a	7.83%
4.	Total Employer/State Contribution Rate [1d + 2 + 3d]	28.52%	28.75%
5.	Employer Contribution Rate to DB Trusts [22% - (2 + 3d)]	15.27%	14.17%
6.	Additional State Contribution Rate to DB Trusts [1d - 5]	6.52%	6.75%
7.	Additional State Contribution [6 x Total Payroll]	\$ 81,020,000	\$ 85,489,000

FY25 – PERS State-as-an-Employer		Current	SB 88
	Total Payroll	\$ 1,221,929,000	\$ 1,245,404,000
1.	DB Rate (for current DB members)		
	a. Pension Normal Cost	2.15%	1.68%
	b. Pension Unfunded Liability Amortization	17.70%	17.37%
	c. Healthcare Normal Cost	1.94%	1.87%
	d. Total [1a + 1b + 1c]	21.79%	20.92%
2.	DCR Employer Rate	6.73%	0%
3.	SB 88 Contribution Rate		
	a. Pension	n/a	4.13%
	b. Healthcare	n/a	1.48%
	c. 3% HRA	n/a	2.22%
	d. Total [3a + 3b + 3c]	n/a	7.83%
4.	Total Employer/State Contribution Rate [1d + 2 + 3d]	28.52%	28.75%
5.	State-as-an-Employer Contribution [4 x Total Payroll]	\$ 348,494,000	\$ 358,054,000

<sup>1</sup> FY25 and FY35 were chosen to explain the potential impact on projected State contributions in the first year of SB 88 and 10 years later.

FY35 – PERS Non-State Employers		Current	SB 88
	Total Payroll	\$ 1,445,746,000	\$ 1,534,451,000
1.	DB Rate (for current DB members)		
	a. Pension Normal Cost	0.31%	0.25%
	b. Pension Unfunded Liability Amortization	21.01%	19.77%
	c. Healthcare Normal Cost	0.40%	0.37%
	d. Total [1a + 1b + 1c]	21.72%	20.39%
2.	DCR Employer Rate	8.61%	0%
3.	SB 88 Contribution Rate		
	a. Pension	n/a	6.93%
	b. Healthcare	n/a	2.43%
	c. 3% HRA	n/a	2.84%
	d. Total [3a + 3b + 3c]	n/a	12.20%
4.	Total Employer/State Contribution Rate [1d + 2 + 3d]	30.33%	32.59%
5.	Employer Contribution Rate to DB Trusts [22% - (2 + 3d)]	13.39%	9.80%
6.	Additional State Contribution Rate to DB Trusts [1d - 5]	8.33%	10.59%
7.	Additional State Contribution [6 x Total Payroll]	\$ 120,431,000	\$ 162,498,000

FY35 – PERS State-as-an-Employer		Current	SB 88
	Total Payroll	\$ 1,421,660,000	\$ 1,508,886,000
1.	DB Rate (for current DB members)		
	a. Pension Normal Cost	0.31%	0.25%
	b. Pension Unfunded Liability Amortization	21.01%	19.77%
	c. Healthcare Normal Cost	0.40%	0.37%
	d. Total [1a + 1b + 1c]	21.72%	20.39%
2.	DCR Employer Rate	8.61%	0%
3.	SB 88 Contribution Rate		
	a. Pension	n/a	6.93%
	b. Healthcare	n/a	2.43%
	c. 3% HRA	n/a	2.84%
	d. Total [3a + 3b + 3c]	n/a	12.20%
4.	Total Employer/State Contribution Rate [1d + 2 + 3d]	30.33%	32.59%
5.	State-as-an-Employer Contribution [4 x Total Payroll]	\$ 431,189,000	\$ 491,746,000

FY25 – TRS		Current	SB 88
	Total Payroll	\$ 769,543,000	\$ 781,263,000
1.	DB Rate (for current DB members)		
	a. Pension Normal Cost	2.21%	1.76%
	b. Pension Unfunded Liability Amortization	19.10%	18.97%
	c. Healthcare Normal Cost	2.10%	2.07%
	d. Total [1a + 1b +1c]	23.41%	22.80%
2.	DCR Employer Rate	7.29%	0%
3.	SB 88 Contribution Rate		
	a. Pension	n/a	3.79%
	b. Healthcare	n/a	1.10%
	c. 3% HRA	n/a	2.05%
	d. Total [3a + 3b + 3c]	n/a	6.94%
4.	Total Employer/State Contribution Rate [1d + 2 + 3d]	30.70%	29.74%
5.	Employer Contribution Rate to DB Trusts [12.56% - (2 + 3d)]	5.27%	5.62%
6.	Additional State Contribution Rate to DB Trusts [1d - 5]	18.14%	17.18%
7.	Additional State Contribution [6 x Total Payroll]	\$ 139,595,000	\$ 134,221,000

FY35 – TRS		Current	SB 88
	Total Payroll	\$ 902,185,000	\$ 953,958,000
1.	DB Rate (for current DB members)		
	a. Pension Normal Cost	0.37%	0.32%
	b. Pension Unfunded Liability Amortization	22.55%	21.41%
	c. Healthcare Normal Cost	0.43%	0.41%
	d. Total [1a + 1b +1c]	23.35%	22.14%
2.	DCR Employer Rate	10.08%	0%
3.	SB 88 Contribution Rate		
	a. Pension	n/a	5.91%
	b. Healthcare	n/a	1.96%
	c. 3% HRA	n/a	2.82%
	d. Total [3a + 3b + 3c]	n/a	10.69%
4.	Total Employer/State Contribution Rate [1d + 2 + 3d]	33.43%	32.83%
5.	Employer Contribution Rate to DB Trusts [12.56% - (2 + 3d)]	2.48%	1.87%
6.	Additional State Contribution Rate to DB Trusts [1d - 5]	20.87%	20.27%
7.	Additional State Contribution [6 x Total Payroll]	\$ 188,286,000	\$ 193,367,000

We offer the following comments regarding the FY25 and FY35 tables shown above:

1. Total payroll is projected to increase because the payroll for SB 88 members and future hires is projected using DB assumptions (SB 88 column) vs DCR assumptions (Current column).
2. The DB contribution rates for current DB members decrease as a percentage of total payroll under SB 88 because (i) the Normal Cost rehire load that is included in the current projections was removed for the SB 88 projections, (ii) total projected payroll increases as described in #1 above.
3. The key reasons for projected State contributions to change under SB 88 are a combination of:
  - a. The decrease in DB contribution rates for current DB members described in #2 above.
  - b. The increase in annual costs for SB 88 members under the DB plans vs the DCR plans.
  - c. The shifting of employer contributions between the various trusts.

#### **Increase in Annual Costs for SB 88 Members**

Currently, SB 88 members are covered by the DCR plans. Each DCR active member receives the following benefits:

- Occupational death & disability
- Retiree medical
- Employer contributions to the member's DC account (5% for PERS, 7% for TRS)
- Employer contributions to the member's HRA account (3%)

Each SB 88 member will receive the following benefits under the DB plans:

- Pension
- Healthcare (same as DCR retiree medical)
- Postretirement Pension Adjustments (PRPAs)
- Employer contributions to the member's HRA account (3%)

In the FY25 and FY35 tables on pages 4-6, the DCR contribution rates expressed as a percentage of total pay are shown in item #2, and the SB 88 contribution rates expressed as a percentage of total pay are shown in item #3d. Except for FY25 for TRS, the SB 88 contribution rates are higher than the DCR contribution rates.

The healthcare benefits that SB 88 members would receive in the DB plans are the same as what they currently receive as a member of the DCR plans. However, the *cost* of the healthcare benefits is higher when valued using the DB assumptions than when valued using the DCR assumptions. For example, the FY25 healthcare contribution rates are 0.83% for PERS DCR and 0.68% for TRS DCR (both are expressed as a percentage of DCR pay). The FY25 healthcare contribution rates for SB 88 members are projected to be 2.00% for PERS and 1.62% for TRS (both are expressed as a percentage of SB 88 pay). SB 88 members are expected to persist longer in the DB plans primarily due to lower assumed turnover versus the DCR plans, which translates to more employees expected to participate in the medical plan at retirement.

### **Shifting of Employer Contributions Between the Trusts**

Currently, the employer contribution rates of 22% (PERS non-State employers) and 12.56% (TRS) are allocated between the DB and DCR trusts. The portion of the employer contributions that are not allocated to the DCR plans are allocated to the DB plans. The Additional State Contributions are based on the excess of the actuarially determined DB contribution rates over the portion of the employer contributions that are allocated to the DB plans.

Over time, as the DCR active population grows and the DB active population declines, the portion of the employer contributions that is allocated to the DCR plans gets larger. This means that the portion of the employer contributions that is allocated to the DB plans will decline. As a result, there is a shifting of DB contributions from the employers to the Additional State Contributions over time.

For example, the portion of the 22% PERS non-State employer contributions that is allocated to the DB plans declines from 15.27% of total pay in FY25 to 13.39% of total pay in FY35. As a result, the PERS Additional State Contribution rate increases from 6.52% of total pay in FY25 to 8.33% of total pay in FY35. For TRS, the portion of the 12.56% employer contributions that is allocated to the DB plans declines from 5.27% of total pay in FY25 to 2.48% of total pay in FY35, and the TRS Additional State Contribution rate increases from 18.14% of total pay in FY25 to 20.87% of total pay in FY35.

This shifting of employer contributions away from funding the DB plan unfunded liabilities is also projected to occur under SB 88. This is because the portion of the total DB active population that will be represented by SB 88 members gets larger over time. As a result, the portion of the 22% and 12.56% employer contributions that will be allocated to the SB 88 sub-trusts and HRA contributions for SB 88 members will grow, thereby decreasing the portion of the employer contributions that is allocated to the DB plans. This results in a higher Additional State Contribution rate over time for both PERS DB and TRS DB.

### **B. Summary of SB 88 Benefit Provisions**

SB 88 would allow those who became a member of PERS DCR or TRS DCR between July 1, 2006 and June 30, 2024 to make a one-time irrevocable election to join PERS DB or TRS DB, respectively, before November 1, 2024. SB 88 also provides that all post-July 1, 2024 PERS hires will enter PERS DB, and all post-July 1, 2024 TRS hires will enter TRS DB.

The key benefit provisions applicable to SB 88 members are summarized below:

- Eligibility for normal retirement benefits:
  - PERS
    - age 60 with 5 years of credited service;
    - age 55 with at least 20 years of credited service (Peace/Fire only);
    - age 50 with at least 25 years of credited service (Peace/Fire only); or
    - 30 years of credited service
  - TRS
    - age 60 with 5 years of membership service; or
    - 30 years of membership service
- Eligibility for healthcare benefits:
  - PERS
    - must retire directly from active service and have been an active member for at least 12 months prior to retirement



- age 50 with 25 years of service or age 55 with 20 years of service (Peace/Fire only);
- 30 years of service; or
- age 65 with 10 years of service
- TRS
  - must retire directly from active service and have been an active member for at least 12 months prior to retirement
  - 30 years of service; or
  - age 65 with 10 years of service
- Eligibility for early retirement benefits:
  - PERS
    - age 55 with 5 years of credited service
  - TRS
    - age 55 with 8 years of membership service
- Member contributions:
  - 8% of pay (can be increased by the ARMB to no more than 12% of pay)<sup>1</sup>.
- Average pay used to determine retirement benefits:
  - The 5 payroll years that yield the highest average (must be 5 consecutive years for PERS).
- Normal retirement benefit:
  - PERS Peace/Fire
    - 2% of average pay for the first 10 years of service, and 2.5% of average pay for service in excess of 10 years.
  - PERS Others
    - 2% of average pay for the first 10 years of service, 2.25% of average pay for the next 10 years of service, and 2.5% of average pay for service in excess of 20 years.
  - TRS
    - 2% of average pay for the first 10 years of service, 2.25% of average pay for the next 10 years of service, and 2.5% of average pay for service in excess of 20 years.
- The Postretirement Pension Adjustment (PRPA) applies to SB 88 members but can be reduced<sup>2</sup>.
  - The PRPA for SB 88 members can be reduced by the ARMB if the funded status of the trust attributable to SB 88 members is less than 90%.
  - The PRPA benefit is reduced by 50% for SB 88 members who are not Alaska residents.
- PRPA benefits are payable to TRS members under age 60 if the recipient has been receiving benefits for at least five years<sup>3</sup>.

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<sup>1</sup> For purposes of this analysis, we assumed no increases in member contribution rates for SB 88 members.

<sup>2</sup> For purposes of this analysis, we assumed no reductions in PRPA benefits for SB 88 members.

<sup>3</sup> The change from eight years to five years for TRS members under age 60 applies to *all* TRS members, including those hired prior to July 1, 2006.

- The Alaska 10% residency-based COLA does not apply to SB 88 members.
- Retiree medical benefits and member premiums are the same as under PERS DCR and TRS DCR. Surviving spouses are eligible for medical benefits if the member had retired or was eligible for retirement and medical benefits at the time of the member's death. Election to participate in the retiree medical plan must be made at the later of age 70½ or date of retirement. Retired members and spouses must pay the full monthly premium prior to being eligible for Medicare.
- Death and disability benefits are the same as for pre-July 1, 2006 hires.
- Members become vested after 5 years of credited service (PERS) and 5 years of membership service (TRS).

### **C. Employer Contributions**

Current employer contributions are described below:

- PERS non-State employer contributions equal 22% of total pay. The DCR contribution rate is deposited to the PERS DCR trusts, and the remainder of the 22% is deposited to the PERS DB trusts.
- PERS State-as-an-Employer contributions equal the actuarially determined contribution rates applied to the total pay of State employees. The actuarially determined DCR contribution rate is deposited to the PERS DCR trusts, and the actuarially determined DB contribution rate is deposited to the PERS DB trusts.
- TRS employer contributions equal to 12.56% of total pay. The DCR contribution rate is deposited to the TRS DCR trusts, and the remainder of the 12.56% is deposited to the TRS DB trusts.
- The DCR contribution rate is comprised of (i) the actuarially determined contribution rates for occupational death & disability benefits and retiree medical benefits, (ii) 5% (PERS) and 7% (TRS) to the members' defined contribution accounts, and (iii) 3% to the members' HRA accounts. The DCR contribution rates are based on the payroll of DCR members.

SB 88 states that pension sub-trusts will be established within the DB plans, but healthcare benefits for SB 88 members will be funded via the current DCR healthcare trusts. We are unsure if healthcare benefits of members of the DB plan can be funded through a trust that belongs to another plan (i.e., the DCR plan). Since this is more a legal issue rather than an actuarial issue, we recommend this issue be further discussed with the State's legal department. For purposes of this analysis, we have assumed that separate pension and healthcare sub-trusts will be established within the DB plans, and these sub-trusts will be used exclusively to fund the pension and healthcare benefits of SB 88 members.

Employer contributions under SB 88 are described below:

- PERS non-State employer contributions equal the lesser of (i) 22% of total pay, or (ii) the actuarially determined contribution rate but not less than 12%. 3% of SB 88 members' pay will be deposited to the HRA accounts of SB 88 members. The SB 88 actuarially determined contribution rates based on SB 88 members' pay will be deposited to the SB 88 sub-trusts. The remainder of the employer contribution will be deposited to the PERS DB trusts.

- PERS State-as-an-Employer contributions equal the actuarially determined contribution rates applied to the total pay of State employees. 3% of SB 88 members' pay will be deposited to the HRA accounts of SB 88 members. The SB 88 actuarially determined contribution rate based on SB 88 members' pay will be deposited to the SB 88 sub-trusts. The actuarially determined contribution rates based on non-SB 88 members' pay will be deposited to the PERS DB trusts.
- TRS employer contributions equal the lesser of (i) 12.56% of pay, or (ii) the actuarially determined contribution rate but not less than 12%. 3% of SB 88 members' pay will be deposited to the HRA accounts of SB 88 members. The SB 88 actuarially determined contribution rate based on SB 88 members' pay will be deposited to the SB 88 sub-trusts. The remainder of the employer contribution will be deposited to the TRS DB trusts.

Currently, Additional State Contributions equal the excess of (i) over (ii), applied to PERS non-State employer total payroll and TRS total payroll.

- (i) The sum of the DB actuarially determined contribution rates and the DCR contribution rates.
- (ii) The employer contribution rates of 22% (PERS) and 12.56% (TRS).

Under SB 88, Additional State Contributions equal the excess of (i) over (ii), applied to PERS non-State employer total payroll and TRS total payroll.

- (i) The sum of the DB actuarially determined contribution rates and the SB 88 contribution rates.<sup>1</sup>
- (ii) The employer contribution rates of 22% (PERS) and 12.56% (TRS).

#### **D. Assets to be Transferred to the Pension and Healthcare Sub-Trusts**

In performing our analysis, we assumed various amounts will be transferred to the PERS and TRS pension and healthcare sub-trusts. As a result of these asset transfers, the pension and healthcare sub-trusts will have zero unfunded liability as of the July 1, 2024 SB 88 effective date.

- a. The accumulated employee and employer contributions in each SB 88 member's Defined Contribution (DC) account as of June 30, 2022 will be transferred to the pension sub-trusts to purchase credited service for DB retirement benefits. The service purchase calculations will be made on an actuarially equivalent basis to be determined by the ARMB<sup>2</sup>. If the amount transferred is insufficient to purchase all of the transferred member's DCR service, the member can create an indebtedness for the shortfall<sup>3</sup>. If the amount to be transferred exceeds the amount needed to purchase all of the member's DCR service, the excess will remain in the member's DC account. If the transferred member terminates before becoming vested in the DB plan, only the transferred employee contributions with interest will be refunded. The service purchase calculations are discussed in more detail in Section E.
- b. Assets in the DCR retiree medical trusts will be transferred to the healthcare sub-trusts. The amounts to be transferred equal the lesser of (i) the DB healthcare Actuarial Accrued Liability

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<sup>1</sup> The SB 88 contribution rates include the HRA contribution for SB 88 members.

<sup>2</sup> For purposes of this analysis, the actuarial equivalent basis reflects the assumptions used to determine liabilities for pension benefits in the June 30, 2022 actuarial valuations, except the retirement rates were a blend of 75% of the DCR retirement rates and 25% of the DB retirement rates.

<sup>3</sup> For purposes of this analysis, we assumed no employee indebtedness would be created.

as of June 30, 2022 for SB 88 members who elect to transfer, and (ii) the market value of assets in the DCR retiree medical trusts as of June 30, 2022.

- c. Assets in the DCR occupational death & disability trusts will be transferred to the pension sub-trusts. The amounts to be transferred equal the DCR occupational death & disability Actuarial Accrued Liability as of June 30, 2022 for SB 88 members who elect to transfer.
- d. The estimated amounts that employers are contributing in FY23 and would have contributed in FY24 to the DCR trusts for SB 88 members' (i) occupational death & disability benefits, (ii) retiree medical benefits, and (iii) employer DC contributions, will instead be deposited to the pension and healthcare sub-trusts. We assumed the amounts in (i) and (iii) will be deposited to the pension sub-trusts, and the amounts in (ii) will be deposited to the healthcare sub-trusts. We estimated these amounts based on projected payroll for FY23 and FY24.

The asset transfer amounts are summarized in the table below (in \$000's)<sup>1</sup>:

Item	As of Date	PERS		TRS	
		Pension Sub-Trust	Healthcare Sub-Trust	Pension Sub-Trust	Healthcare Sub-Trust
(a)	June 30, 2022	\$ 1,230,268	\$ 0	\$ 475,340	\$ 0
(b)	June 30, 2022	\$ 0	\$ 195,880	\$ 0	\$ 62,678
(c)	June 30, 2022	\$ 7,359	\$ 0	\$ 25	\$ 0
(d)	June 30, 2024	\$ 193,889	\$ 38,003	\$ 71,616	\$ 8,548

#### **E. Members Assumed to Transfer from DCR to DB**

For those who elect to transfer from DCR to DB, there will be an additional cost in the DB plans and a reduction in cost in the DCR plans. The overall net cost impact will depend on (i) how many members transfer and (ii) which members transfer. All results shown in this letter assume 100% of eligible members will elect to transfer from the DCR plans to the DB plans. The actual impact of SB 88 will be based on the actual number and demographics of the members who elect to transfer.

We determined the service purchase amounts based on the Actuarial Accrued Liability of SB 88 members' pension benefits in the DB plans (using the June 30, 2022 valuation assumptions and the blended retirement rates described in Section F of this letter). For each individual, a comparison was made between their pension Actuarial Accrued Liability as of June 30, 2022 and the June 30, 2022 DC employee and employer account balances that were provided to us. If the total of the member's DC account balances is equal to or greater than the member's pension Actuarial Accrued Liability, all of the member's DCR service was credited to the DB plan. If the total of the DC account balances is less than the pension Actuarial Accrued Liability, only a portion of the member's DCR service was credited to the DB plan<sup>2</sup>. For example, if a member's total DC account balance is 90% of his/her pension Actuarial Accrued Liability, then 90% of his/her DCR service is credited to the DB plan.

<sup>1</sup> Amounts as of June 30, 2022 were increased with expected return (7.25% per year) to the July 1, 2024 SB 88 effective date.

<sup>2</sup> Under SB 88, an indebtedness can be created for the shortfall. For purposes of this analysis, we did not assume any indebtedness would be created.

The results of this process are described below:

- **PERS Peace/Fire**
  - As of June 30, 2022, there were 2,482 Peace/Fire active members in PERS DCR with approximately \$207M of DC account balances.
  - Of the 2,482 members, 292 members had DC account balances at least equal to their June 30, 2022 pension Actuarial Accrued Liability, so all of their DCR service was credited to PERS DB. The remaining 2,190 members had partial DCR service credited to PERS DB.
  - On average, approximately 71% of DCR service as of June 30, 2022 was credited to PERS DB.
  - Approximately \$205M of the DC account balances as of June 30, 2022 (approximately 99% of the total) was assumed to be transferred to the PERS DB pension trust.
- **PERS Others**
  - As of June 30, 2022, there were 22,220 Other active members in PERS DCR with approximately \$1,104M of DC account balances.
  - Of the 22,220 members, 8,646 members had DC account balances at least equal to their June 30, 2022 pension Actuarial Accrued Liability, so all of their DCR service was credited to PERS DB. The remaining 13,574 members had partial DCR service credited to PERS DB.
  - On average, approximately 83% of DCR service as of June 30, 2022 was credited to PERS DB.
  - Approximately \$1,026M of the DC account balances as of June 30, 2022 (approximately 93% of the total) was assumed to be transferred to the PERS DB pension trust.
- **TRS**
  - As of June 30, 2022, there were 5,688 TRS active members in TRS DCR with approximately \$507M of DC account balances.
  - Of the 5,688 members, 2,330 members had DC account balances at least equal to their June 30, 2022 pension Actuarial Accrued Liability, so all of their DCR service was credited to TRS DB. The remaining 3,358 members had partial DCR service credited to TRS DB.
  - On average, approximately 88% of DCR service as of June 30, 2022 was credited to TRS DB.
  - Approximately \$475M of the DC account balances as of June 30, 2022 (approximately 94% of the total) was assumed to be transferred to the TRS DB pension trust.

## **F. Additional Notes**

The assumptions and methods used in our analysis are the same as those described in the June 30, 2022 actuarial valuation reports, except the retirement rates used to determine the costs and liabilities of SB 88 members' benefits under the SB 88 scenario was a blend of 75% of the DCR retirement rates and 25% of the DB retirement rates.

The FY23 and FY24 contribution rates adopted by the ARMB in October 2021 and September 2022, respectively, were reflected in our analysis.

The percentage of total PERS payroll represented by the State's employees based on the June 30, 2022 data (approximately 50%) was assumed to remain constant in all future years.

The projection assumptions are the same as those outlined in Section 3.1 of the June 30, 2022 actuarial valuation reports, except we removed the Normal Cost rehire loads for the SB 88 scenario.

This study includes only estimated costs/savings due to the net effects on projected employer Normal Costs and Unfunded Actuarial Accrued Liabilities as eligible members were assumed to transfer from the DCR plans to the DB plans and future hires were assumed to enter the DB plans. The study does not include other costs/savings that may be incurred/realized by employers outside of the DB and DCR plans (e.g., costs associated with potential anti-selection issues that may arise when individuals are presented with a choice between the DB and DCR plans, or savings in recruitment and training costs due to expected higher retention under the DB plans). The study also does not assume any subsequent changes in asset allocation or investment strategy that might support a different investment return assumption.

The ARMB, staff of the State of Alaska, and SB 88 bill sponsors may use this letter for purposes of analyzing the potential cost impact of SB 88. Use of this letter for any other purpose or by anyone other than the ARMB, staff of the State of Alaska or SB 88 bill sponsors may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methodologies, or inapplicability of the letter for that purpose. Because of the risk of misinterpretation of actuarial results, Buck recommends requesting its advanced review of any statement to be based on information contained in this letter. Buck will accept no liability for any such statement made without its prior review.

Future actuarial measurements and projections may differ from the current measurements presented in this letter due to plan experience different from that anticipated by the actuarial assumptions, changes expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. An analysis of the potential range of such future differences is beyond the scope of this letter.

#### **G. Risk Discussion (ASOP 51)**

Section 6 of the June 30, 2022 PERS and TRS actuarial valuation reports provide details regarding the risks underlying the funding of the plans. As described on page 1 of this letter, adverse plan experience or changes to more conservative assumptions could affect the impact of SB 88 on projected State contributions. By shifting active members and all future hires from the DCR plans to the DB plans, the State will be taking on greater risk of larger unfunded liabilities and higher contributions in future years.

#### **H. Use of Models (ASOP 56)**

Please see the June 30, 2022 PERS and TRS actuarial valuation reports for a discussion of the use of models in performing our actuarial services, which also applies to this SB 88 fiscal note letter.

## **I. Actuarial Certification**

This letter was prepared under the overall direction of David Kershner, who meets the Qualifications of the American Academy of Actuaries to render the actuarial opinions herein. He is a Fellow of the Society of Actuaries, an Enrolled Actuary, a Member of the American Academy of Actuaries, and a Fellow of the Conference of Consulting Actuaries.

We would be pleased to discuss the results shown in this letter at your convenience. We can be reached at (602) 803-6174 (David), (260) 423-1072 (Brett), and (215) 586-1227 (Steve).

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