

State of Alaska

Department of Administration

Division of Retirement and Benefits

Presentation to the Senate Finance Committee

Funding Status Update

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

Ajay Desai, Director

Kevin Worley, Chief Financial Officer

Kathy Lea, Chief Pension Officer

January 30, 2024



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, 2023)

	PERS					TRS			Total	%
	Tier I	Tier II	Tier III	Total	DB: 25%	Tier I	Tier II	Total		
Employers			151					57		208
<u>Defined Benefit (DB) Plans</u>										
Actives	464	1,756	6,337	8,557	DB: 25%	95	2,802	2,897	DB: 31%	11,454 DB: 26%
Inactive – Vested	234	1,395	3,152	4,781	DB: 63%	24	749	773	DB: 38%	5,554 DB: 58%
Retired	21,441	9,609	5,901	36,951	DB: 99%	9,619	3,865	13,484	DB: 100%	50,435 DB: 99%
TOTAL	22,139	12,760	15,390	50,289		9,738	7,416	17,154		67,443
<u>Defined Contribution (DC) Plans</u>										
Actives				26,261	DC: 75%			6,416	DC: 69%	32,677 DC: 74%
Inactive - Vested				2,773	DC: 37%			1,247	DC: 62%	4,020 DC: 42%
Retired				255	DC: 1%			53	DC: 0%	308 DC: 1%
TOTAL				29,289				7,716		37,005
GRAND TOTAL				79,578				24,870		104,448



Source: Division of Retirement and Benefits. June 30, 2023, Audited Financial Statements

Investment Experience

	2022		2023 (DRAFT)	
	PERS	TRS	PERS	TRS
Assumed Actuarial Earnings Rate	7.25%	7.25%	7.25%	7.25%
Based on Fair Market Value of Assets	-6.00%	-6.00%	7.60%	7.60%
Based on Actuarial Value of Assets (<i>Smoothing over 5-Year Period</i>)	8.70%	8.70%	7.40%	7.40%

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

Funded Status – Valuation Results (\$000's)

Defined Benefit Total (Pension and HealthCare Combined)

Information Only	PERS			TRS		
	2021	2022	2023 (DRAFT)	2021	2022	2023 (DRAFT)
a. Actuarial Accrued Liability	\$22,276,145	\$22,750,748	\$23,921,549	\$9,911,490	\$10,246,623	\$10,654,506
b. Actuarial Value of Assets (AVA)	\$19,047,864	\$19,941,441	\$20,452,570	\$9,178,106	\$9,537,420	\$9,719,433
c. Unfunded Actuarial Accrued Liability based on AVA	\$3,228,281	\$2,809,307	\$3,468,979	\$733,384	\$709,203	\$935,073
d. Funded Ratio based on AVA	85.5%	87.7%	85.5%	92.6%	93.1%	91.2%
e. Fair Value of Assets (FVA)	\$21,696,450	\$19,685,274	\$20,213,711	\$10,454,512	\$9,418,862	\$9,606,115
f. Unfunded Actuarial Accrued Liability based on FVA	\$579,695	\$3,065,474	\$3,707,838	(\$543,022)	\$827,761	\$1,048,391
g. Funded Ratio based on FVA	97.4%	86.5%	84.5%	105.5%	91.9%	90.2%

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



Funded Status – Pension (\$000's)

Defined Benefit Pension	PERS			TRS		
	2021	2022	2023 (DRAFT)	2021	2022	2023 (DRAFT)
a. Actuarial Accrued Liability	\$15,419,975	\$16,093,679	\$16,835,726	\$7,471,887	\$7,804,046	\$8,036,685
b. Actuarial Value of Assets (AVA)	\$10,466,709	\$10,961,498	\$11,272,339	\$5,910,369	\$6,100,204	\$6,171,460
c. Unfunded Actuarial Accrued Liability based on AVA	\$4,953,266	\$5,132,181	\$5,563,387	\$1,561,518	\$1,703,842	\$1,865,225
d. Funded Ratio based on AVA	67.9%	68.1%	67.0%	79.1%	78.2%	76.8%
e. Fair Value of Assets (FVA)	\$11,912,309	\$10,816,140	\$11,137,489	\$6,731,481	\$6,026,651	\$6,099,520
f. Unfunded Actuarial Accrued Liability based on FVA	\$3,507,666	\$5,277,539	\$5,698,237	\$740,406	\$1,777,395	\$1,937,165
g. Funded Ratio based on FVA	77.3%	67.2%	66.2%	90.1%	77.2%	75.9%

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



Funded Status – HealthCare (\$000's)

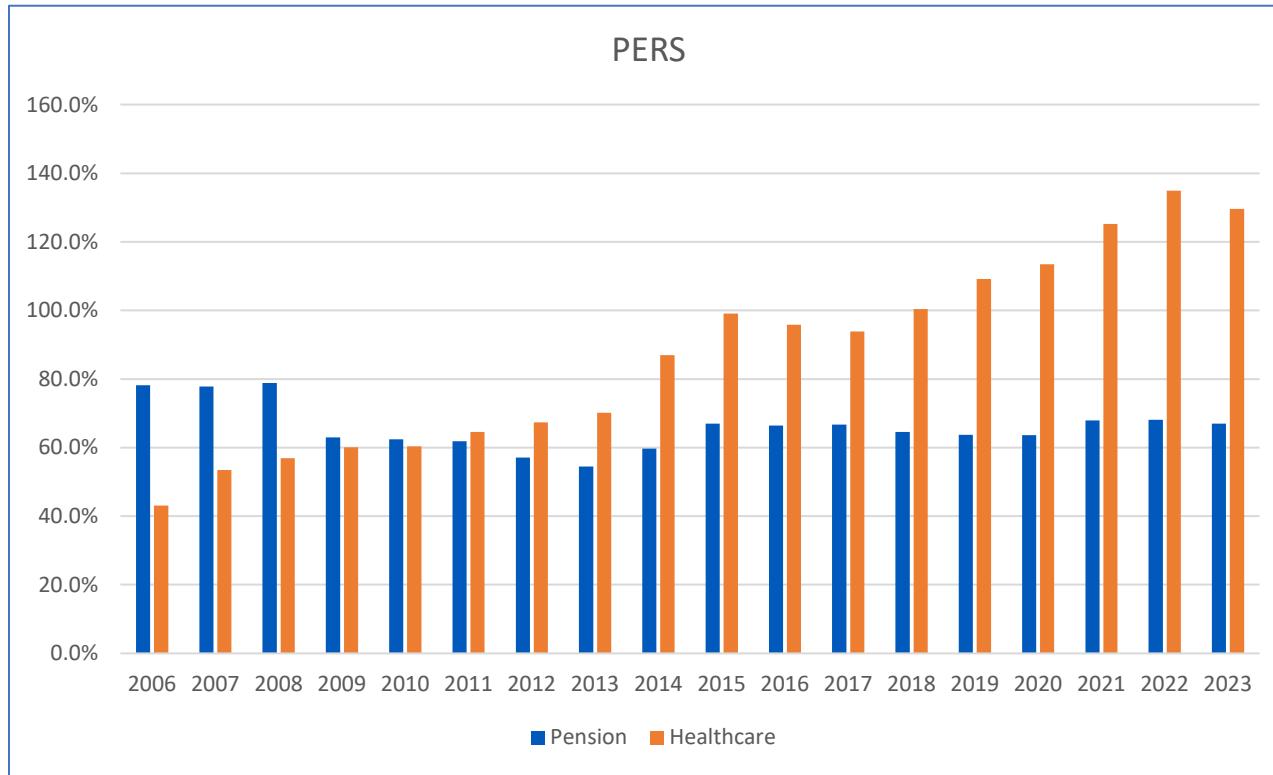
Defined Benefit HealthCare	PERS			TRS		
	2021	2022	2023 (DRAFT)	2021	2022	2023 (DRAFT)
a. Actuarial Accrued Liability	\$6,856,170	\$6,657,069	\$7,085,823	\$2,439,603	\$2,442,577	\$2,617,821
b. Actuarial Value of Assets (AVA)	\$8,581,155	\$8,979,943	\$9,180,231	\$3,267,737	\$3,437,216	\$3,547,973
c. Unfunded Actuarial Accrued Liability based on AVA	(\$1,724,985)	(\$2,322,874)	(\$2,094,408)	(\$828,134)	(\$994,639)	(\$930,152)
d. Funded Ratio based on AVA	125.2%	134.9%	129.6%	133.9%	140.7%	135.5%
e. Fair Value of Assets (FVA)	\$9,784,141	\$8,869,134	\$9,076,222	\$3,723,031	\$3,392,211	\$3,506,595
f. Unfunded Actuarial Accrued Liability based on FVA	(\$2,927,971)	(\$2,212,065)	(\$1,990,399)	(\$1,283,428)	(\$949,634)	(\$888,774)
g. Funded Ratio based on FVA	142.7%	133.2%	128.1%	152.6%	138.9%	134.0%

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



Funded Ratio – PERS Pension and HealthCare

(Based on Actuarial Valuation Reports)

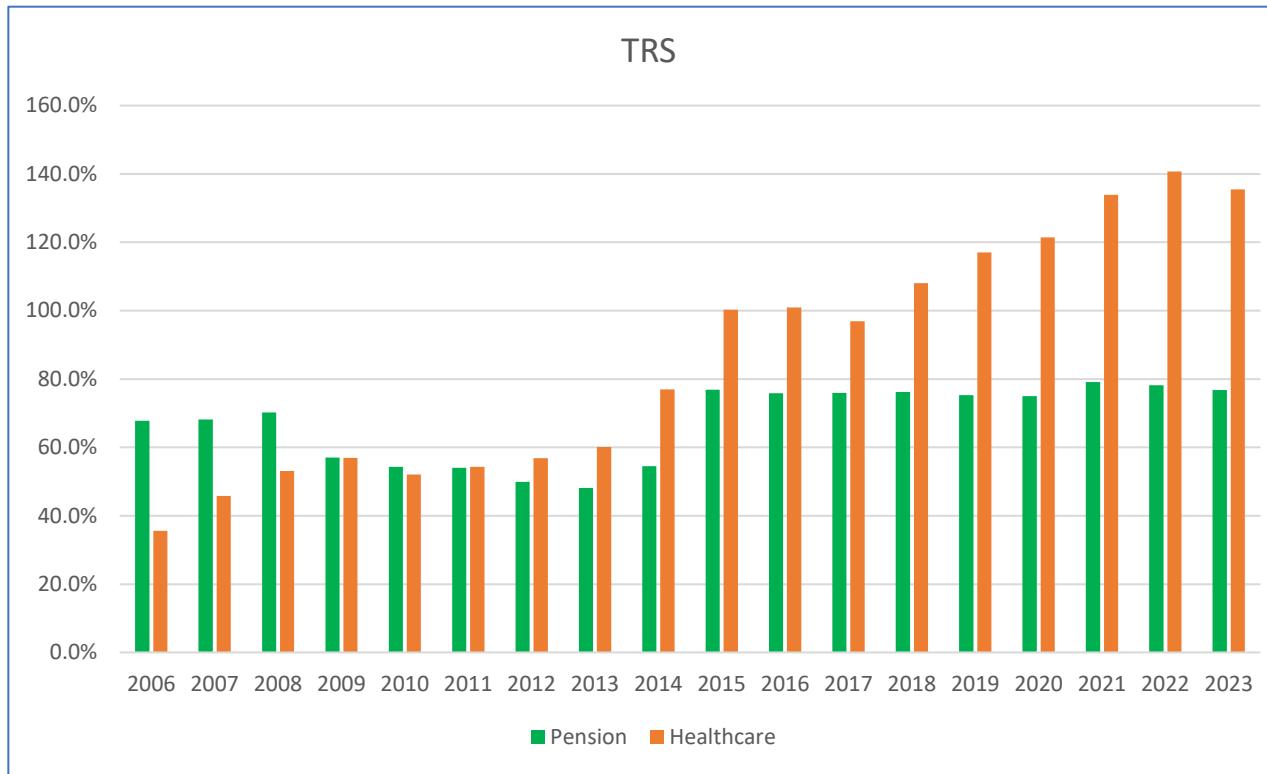


Source: Buck, Actuarial Valuation Reports as of June 30, 2022, and 2023 draft results for PERS and TRS DB



Funded Ratio – TRS Pension and HealthCare

(Based on Actuarial Valuation Reports)

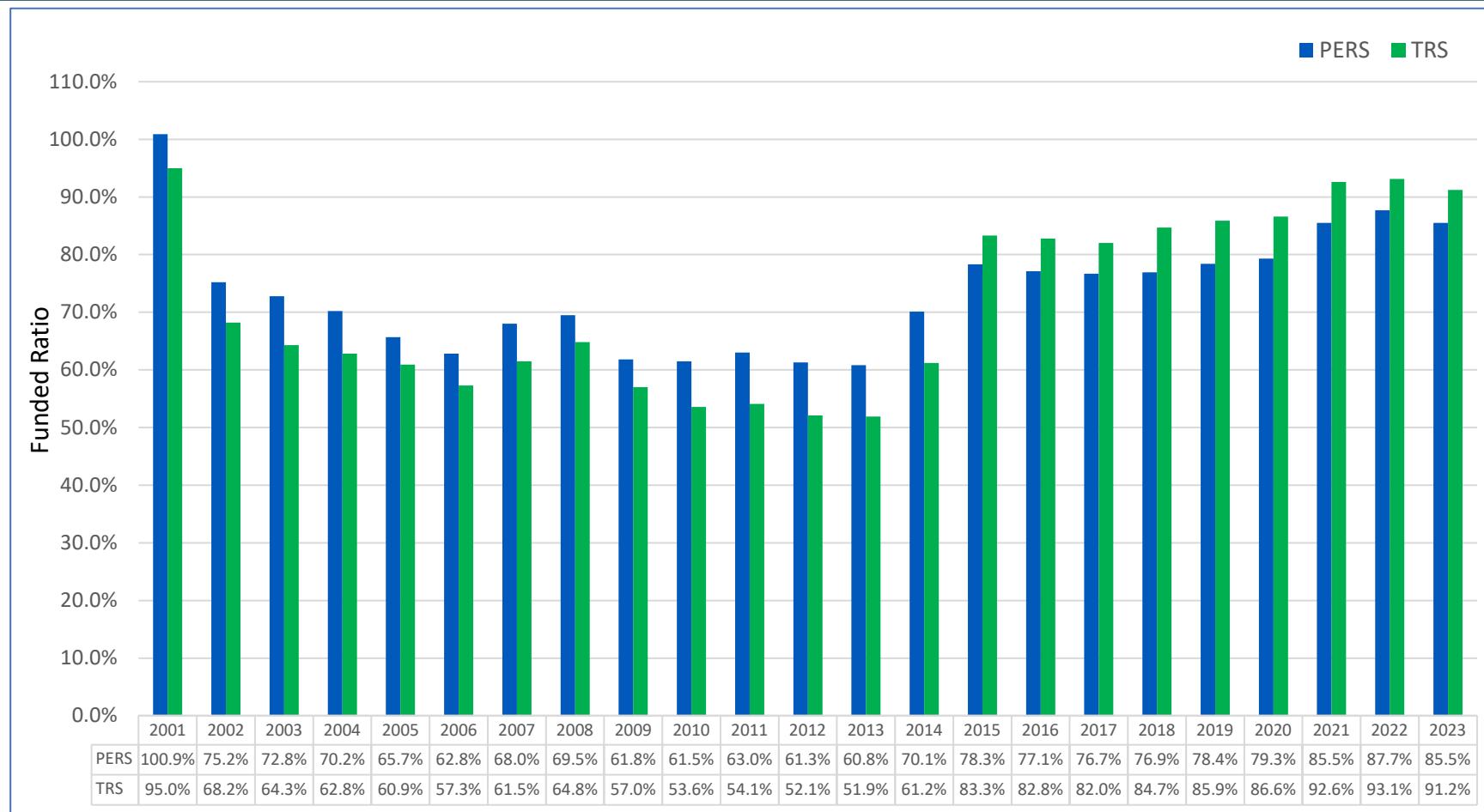


Source: Buck, Actuarial Valuation Reports as of June 30, 2022, and 2023 draft results for PERS and TRS DB



Funded Ratio – Combined PERS/TRS

(Based on Actuarial Valuation Reports – Information Only)



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



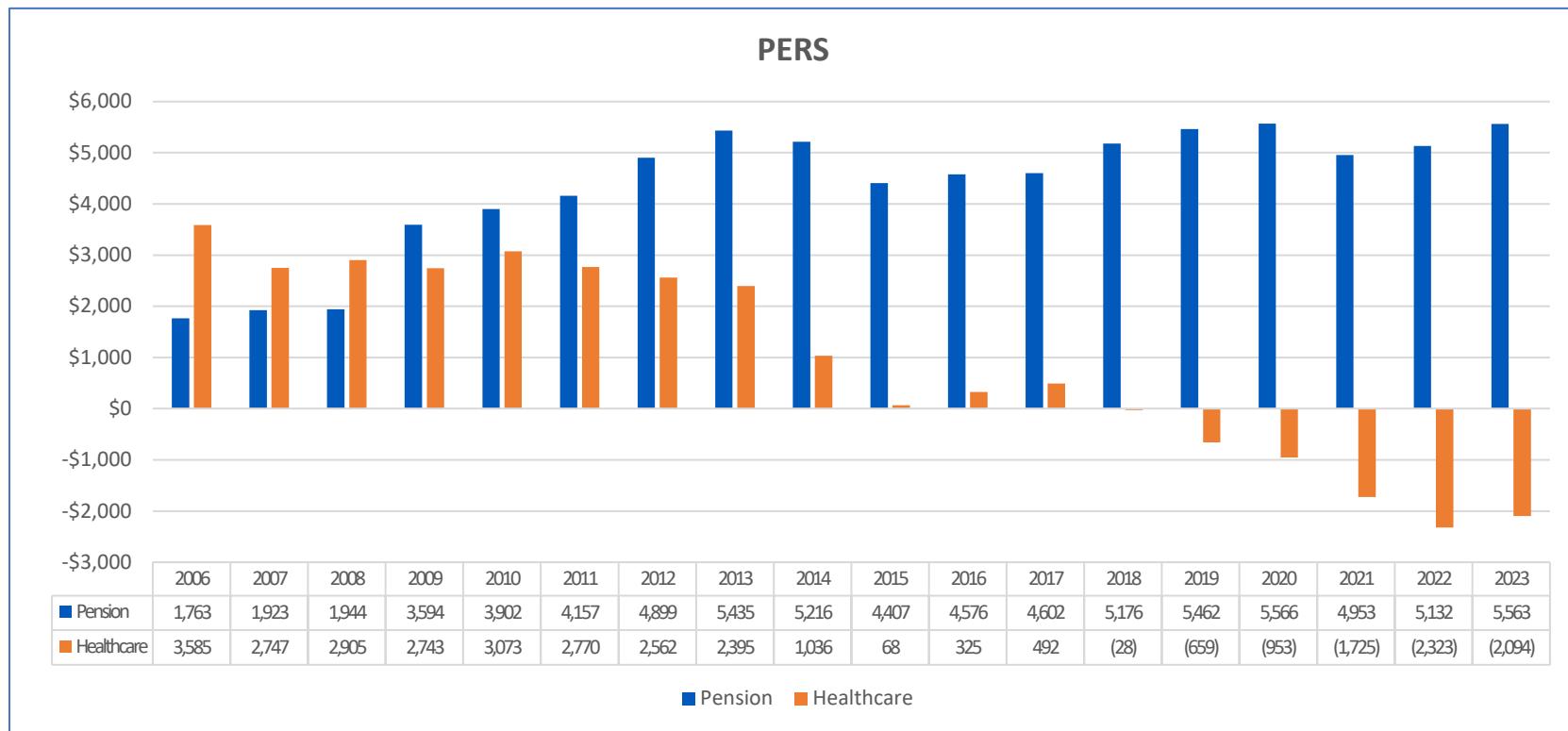
Correlation between Actual Rate of Return and Funded Ratio (Information Only)

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%	62.8%	11.78%	57.3%
2007	8.25%	18.93%	66.2%	18.97%	60.1%
2008	8.25%	-3.13%	69.5%	-3.12%	64.8%
2009	8.25%	-20.53%	61.8%	-20.67%	57.0%
2010	8.25%	11.39%	52.8%	11.58%	53.6%
2011	8.00%	21.18%	60.8%	21.36%	54.1%
2012	8.00%	0.46%	61.3%	0.51%	52.1%
2013	8.00%	12.50%	60.8%	12.59%	51.9%
2014	8.00%	18.56%	70.1%	18.56%	61.2%
2015	8.00%	3.29%	75.4%	3.30%	83.3%
2016	8.00%	-0.36%	77.1%	-0.36%	82.8%
2017	8.00%	13.35%	76.7%	13.36%	82.0%
2018	7.38%	9.61%	76.9%	9.62%	84.7%
2019	7.38%	6.40%	78.4%	6.39%	85.8%
2020	7.38%	3.83%	79.3%	3.82%	86.6%
2021	7.38%	27.62%	85.5%	27.65%	92.6%
2022	7.25%	-4.08%	87.7%	-4.10%	93.1%
2023	7.25%	7.03%	85.5%	7.02%	91.2%
30-year average rate of return		7.55%		7.60%	

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

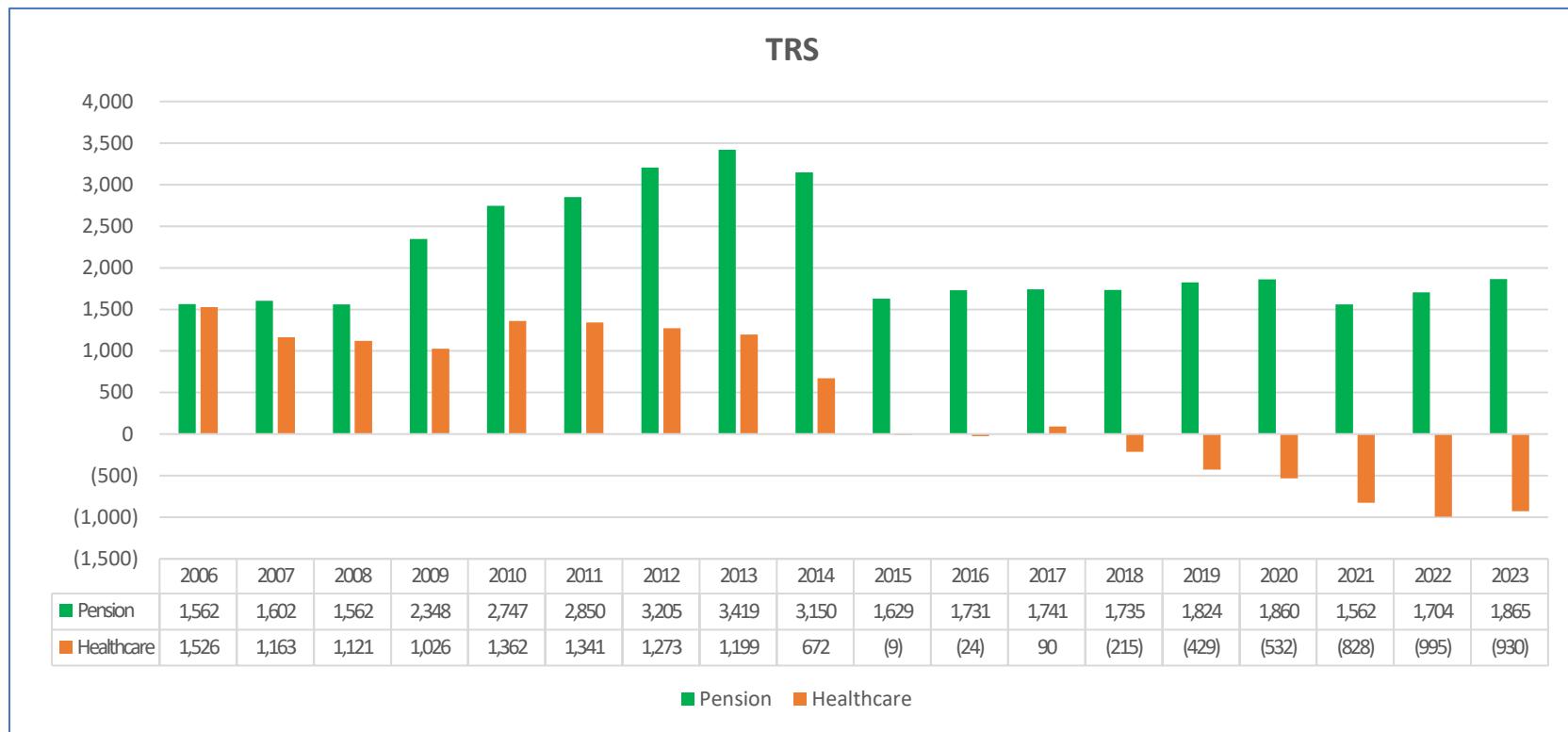


Unfunded Actuarial Liability – PERS (in \$millions)



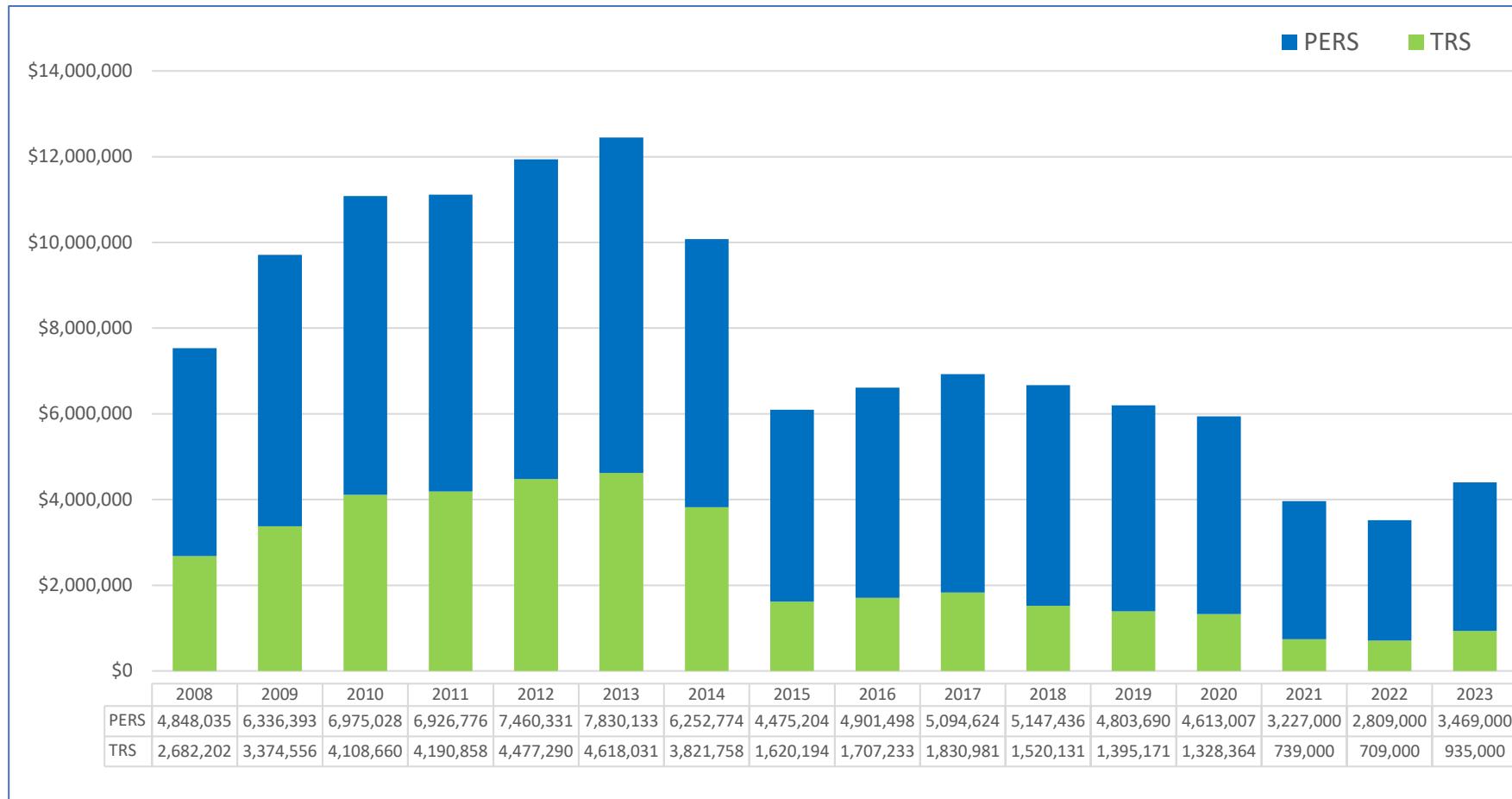
Source: Buck, Actuarial Valuation Reports as of June 30, 2022, and 2023 draft results for PERS and TRS DB

Unfunded Actuarial Liability – TRS (in \$millions)



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

Unfunded Actuarial Liability – PERS / TRS (\$000's) (Information Only)



Source: Buck, 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
	Total:	\$ 3,565,627,596	\$ 4,790,050,621	\$ 8,355,678,217

Source: Legislative Bills for the respective year



Additional State Contributions – Projected

Fiscal Year	PERS	TRS	Total
2025	\$ 59,149,000	\$ 123,358,000	\$ 182,507,000
2026	67,665,000	137,755,000	205,420,000
2027	83,834,000	154,800,000	238,634,000
2028	89,380,000	159,844,000	249,224,000
2029	95,292,000	165,279,000	260,571,000
2030	101,089,000	170,967,000	272,056,000
2031	106,877,000	176,659,000	283,536,000
2032	112,939,000	182,512,000	295,451,000
2033	119,008,000	188,414,000	307,422,000
2034	125,111,000	194,432,000	319,543,000
2035	130,984,000	200,424,000	331,408,000
2036	136,820,000	206,722,000	343,542,000
2037	142,876,000	212,971,000	355,847,000
2038	148,788,000	219,347,000	368,135,000
2039	154,858,000	225,831,000	380,689,000
	\$ 1,674,670,000	\$ 2,719,315,000	\$ 4,393,985,000

Without HealthCare Normal Cost Contributions

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



FY2025 Contribution Rates

Health Plan – Zero Normal Cost Impact on Contribution Rates

	PERS				TRS			
	FY25 PERS Total Payroll *		\$ 2,464,560,000		FY25 TRS Total Payroll		\$ 769,543,000	
	Preliminary	Contribution	Adopted	Contribution	Preliminary	Contribution	Adopted	Contribution
DB Pension Plan - Normal Cost	2.15%	52,988,000	2.15%	52,988,000	2.21%	17,007,000	2.21%	17,007,000
DB Pension Plan - Past Service Cost	17.57%	433,023,000	17.88%	440,663,000	19.02%	146,367,000	19.09%	146,906,000
DB Health Plan - Normal Cost	1.94%	47,812,000	0.00%	-	2.10%	16,160,000	0.00%	-
DCR Plan	6.73%	165,865,000	6.73%	165,865,000	7.29%	56,100,000	7.29%	56,100,000
	28.39%	699,688,000	26.76%	659,516,000	30.62%	235,634,000	28.59%	220,012,000
State Of Alaska Contributions	28.39%	346,906,000	26.76%	326,988,000				
Non-State Employer Contributions	22.00%	273,379,000	22.00%	273,379,000	12.56%	96,655,000	12.56%	96,655,000
Additional State Contributions	6.39%	79,404,000	4.76%	59,149,000	18.06%	138,979,000	16.03%	123,358,000

* PERS Non-State Employers Total Payroll: \$ 1,242,631,000
 PERS State as an Employer Total Payroll: 1,221,929,000
 FY24 PERS Total Payroll: \$ 2,464,560,000

Total Savings: **\$47,812,000 (PERS) + \$16,160,000 (TRS) = \$ 63,972,000**

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



Source: BUCK, September 2023 (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	
2024	129.6%	129.6%	135.5%	135.5%
2025	130.8%	130.8%	137.1%	137.1%
2026	133.0%	133.0%	139.7%	139.7%
2027	131.3%	130.6%	138.2%	137.6%
2028	133.4%	132.1%	140.6%	139.5%
2029	135.6%	133.7%	143.2%	141.5%
2030	138.1%	135.5%	146.2%	143.9%
2031	140.8%	137.7%	149.5%	146.7%
2032	143.9%	140.1%	153.2%	149.9%
2033	147.3%	143.0%	157.4%	153.6%
2034	151.2%	146.2%	162.2%	157.8%
2035	155.6%	149.9%	167.6%	162.7%
2036	160.5%	154.2%	173.7%	168.1%
2037	166.1%	159.0%	180.5%	174.3%
2038	172.5%	164.6%	188.2%	181.3%
2039	179.7%	170.9%	196.9%	189.2%

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

Source: Buck



FY2025 Contribution Rates – Defined Benefit Plans

Defined Benefit Plans	PERS	TRS
Employee		
• All Other Employees	6.75%	
• Peace Officer/Firefighter	7.50%	8.65%
• School District Alternate Option	9.60%	
Employer (Rates capped by Alaska statute)	22.00%	12.56%
Additional State Contribution (for non-State employers)	4.76%	16.03%
Total Required Contributions for the Fiscal Year *	26.76%	28.59%

* 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



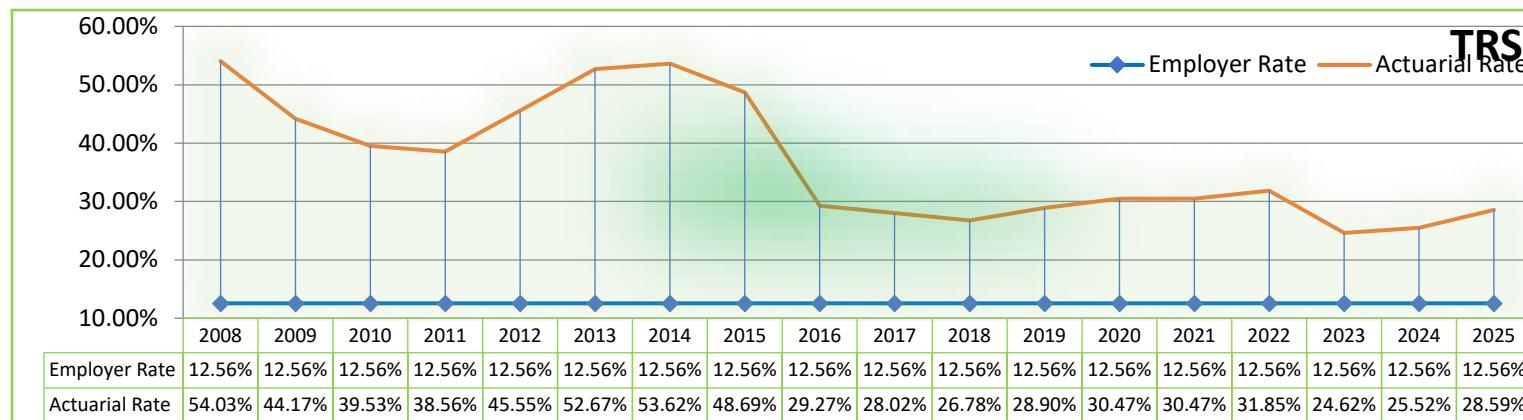
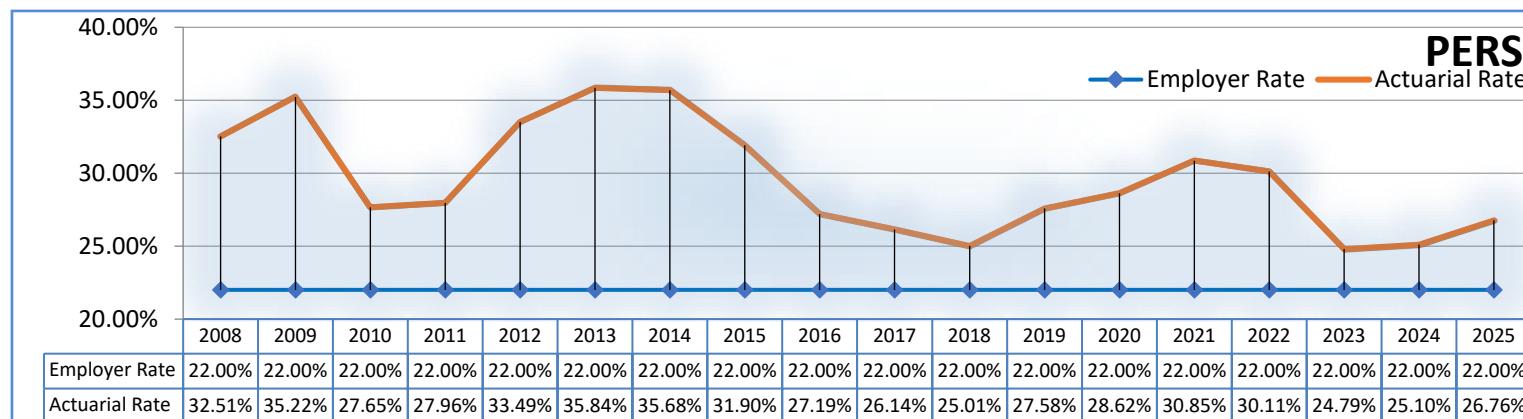
FY2025 Contribution Rates – Defined Contribution Plans

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)	0.83%	0.68%
Occupational Death & Disability		
• All Others	0.24%	0.08%
• Peace Officer/Firefighter	0.69%	N/A
Health Reimbursement Account (HRA) <i>(3% of all PERS/TRS average annual compensation)</i>	Flat dollar amount computed annually	Flat dollar amount computed annually
Excess from Employers' Contributions (22% / 12.56%)	To DB Plans – Unfunded Liability	

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

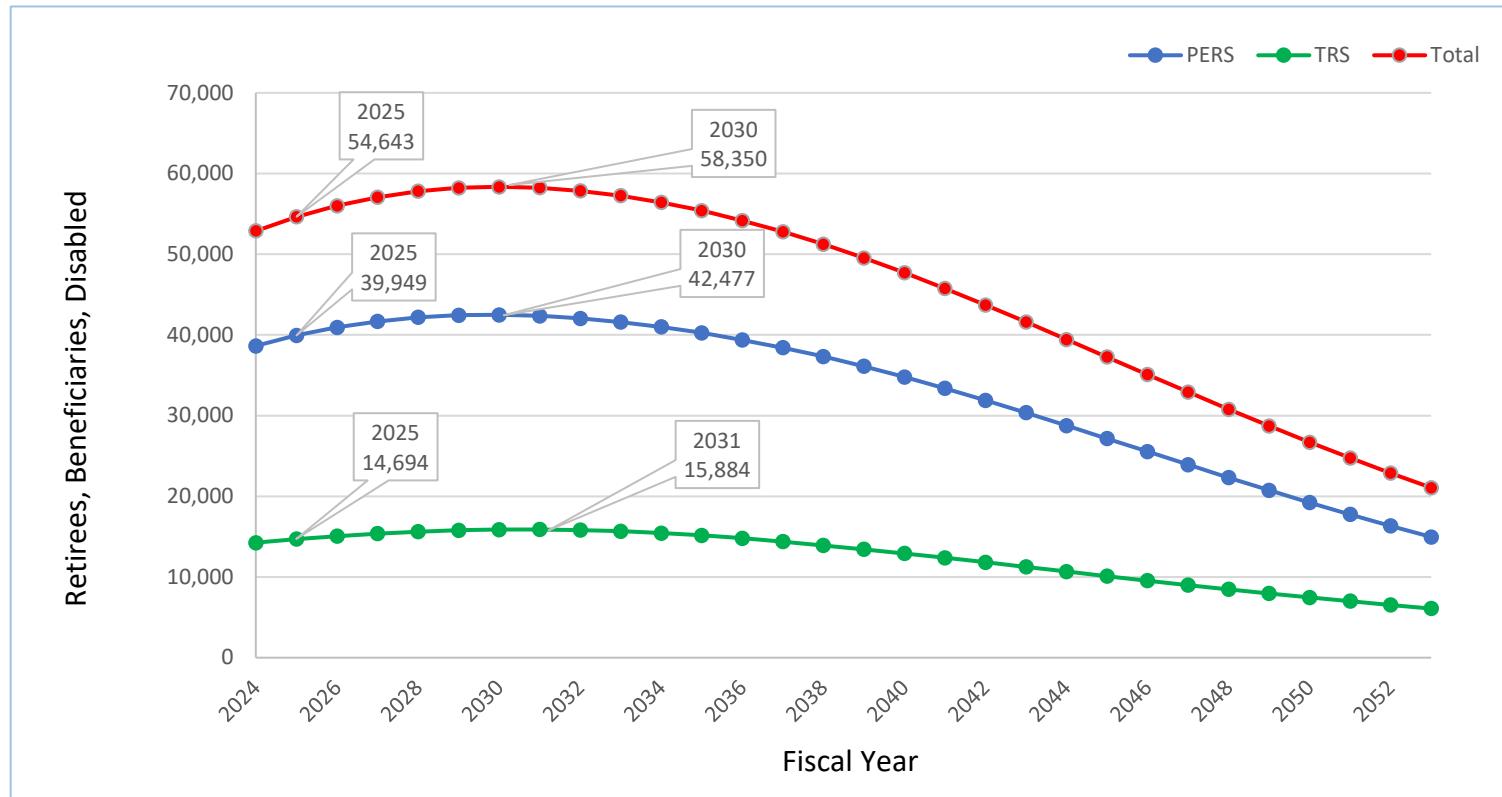


Contribution Rates – History



Source: June 30, 2022 - Board Adopted Rates Report (BUCK) [Rates shown include both DB and DCR Plan rates]

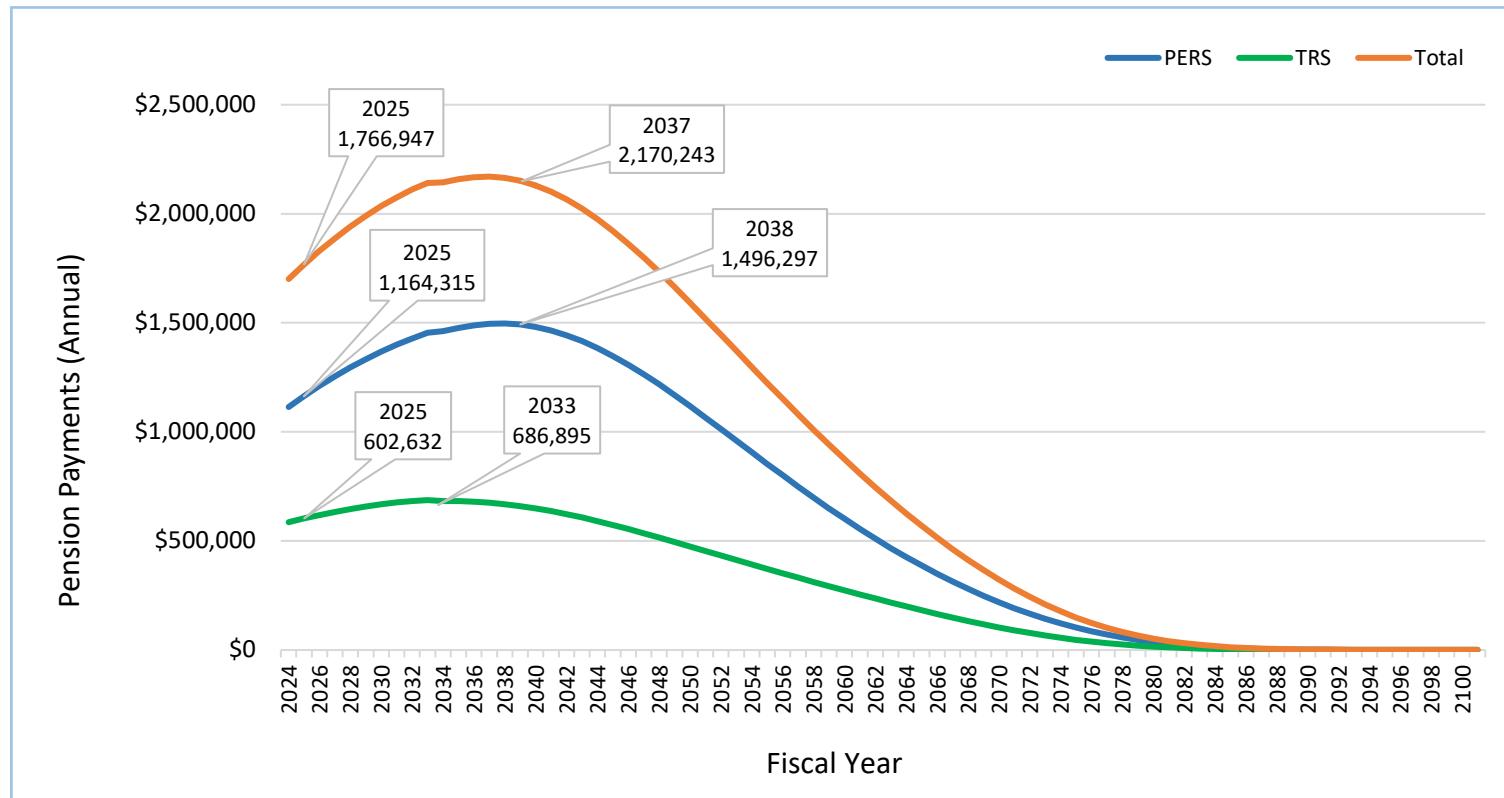
Projected Pension Benefit Recipients



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, 2023 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 (\$711M for PERS, \$248M for TRS).



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

An Employer Group Waiver Plan (EGWP) Subsidy

Types of Funding	\$ (Millions)					2023 Estimated
	2019	2020	2021	2022		
Direct Subsidy	\$ 1.30	\$ 0.04	\$ (2.64)	\$ (5.23)	\$ (5.91)	
Catastrophic Reinsurance*	28.80	20.76	25.98	35.57		38.36
Low Income Premiums Subsidy	18.20	0.22	0.22	0.22		0.23
Low Income Cost Sharing Subsidy*	0.20	1.10	1.10	1.12		1.28
Coverage Gap Discount*	1.00	36.26	39.75	44.02	\$ 52.27	
TOTAL	\$ 49.50	\$ 58.38	\$ 64.41	\$ 75.70	\$ 86.23	

* 2023 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
2023	7.00%	5.50%	7.50%
2024	6.70%	5.50%	7.20%
2025	6.40%	5.40%	6.90%
2030	5.45%	5.30%	5.55%
2031 - 2038	5.30%	5.30%	5.30%
2039	5.25%	5.25%	5.25%
2050+	4.50%	4.50%	4.50%

Trend rates were updated with the June 30, 2022, 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: Buck - Trend rates used in the June 30, 2022 valuation and the same for the June 30, 2023 valuation reports. **26**

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 Amanda.Pillifant@alaska.gov or Leslie.Isaacs@alaska.gov