

State of Alaska

Department of Administration

Division of Retirement and Benefits

Presentation to the House Finance Committee

- Defined Benefit Versus Defined Contribution Comparison
 - Public Employees' Retirement System (PERS)
 - Teachers' Retirement System (TRS)
- Kathy Lea, Director
- April 2, 2025



Purpose of the plans

PERS

The purpose of Chapter 35.39 of the Alaska Statutes is to encourage qualified personnel to enter and remain in service with participating employers by establishing plans for the payment of retirement, disability and death benefits to or on behalf of the members.

TRS

The purpose of Chapter 14.25 of the Alaska Statutes is to encourage teachers to enter and remain in service with participating employers by establishing plans for the payment of retirement, disability, and death benefits to or on behalf of the members.

*This wording was repealed in 2005.



Chronology

- **PERS**

- **Defined Benefit Tiers**

- January 1961: Established
 - July 1986: Tier 2 established
 - July 1996: Tier 3 established

- **Defined Contribution Tier**

- July 2006: Tier 4 established
 - July 2008: Cost Share with 22% employer contribution rate

- **TRS**

- **Defined Benefit Tiers**

- March 1945: Established
 - July 1990: Tier 2 established

- **Defined Contribution Tier**

- July 2006: Tier 3 established
 - July 2008: Cost Share with 12.56% employer contribution rate



PERS TIER 1

- Vesting 5 years of membership service
- Non-Occupation Disability and Death Benefits
- Occupational Disability and Death Benefits
- Early Retirement at age 50
- Normal Retirement at age 55
- At any age with 30 years of membership service
- At any age with 20 years of Peace Officer/Fire fighter service
- System paid medical at retirement
- Alaska Cost of Living Allowance (COLA) – eligible at retirement
- Post Retirement Pension Adjustment (PRPA)
 - Automatic: Eligible at age 60 or 5 years of receiving benefits as of 7/1
 - Ad Hoc: Eligible if there was a change in the Consumer Price Index (CPI) at time of retirement and current year July 1 (system must be 105% funded)



PERS TIER 2

- Vesting 5 years of membership service
- Non-Occupational Disability and Death Benefits
- Occupational Disability and Death Benefits
- Early Retirement at age 55
- Normal Retirement at age 60
- At any age with 30 years of membership service
- At any age with 20 years of Peace Officer/Fire Fighter service
- System paid medical at:
 - At age 60 with at least 5 years of credited service
 - 30 years of membership service
 - 25 years of Peace Officer/Fire Fighter Service
- Alaska Cost of Living Allowance (COLA) – eligible at age 65
- Post Retirement Pension Adjustment (PRPA)
 - Automatic: Eligible at age 60 or 5 years of receiving benefits as of 7/1
 - No Ad Hoc



PERS TIER 3

- Vesting 5 years of membership service
- Non-Occupational Disability and Death Benefits
- Occupational Disability and Death Benefits
- Early Retirement at age 55
- Normal Retirement at age 60
- At any age with 30 years of membership service
- At any age with 20 years of Peace Officer/Fire Fighter service
- System paid medical at:
 - At age 60 with at least 10 years of credited service;
 - 30 years of membership service; or
 - 25 years of Peace Officer/Fire Fighter Service
- Alaska Cost of Living Allowance (COLA) – eligible at age 65
- Post Retirement Pension Adjustment (PRPA)
 - Automatic: Eligible at age 60 or 5 years of receiving benefits as of 7/1



PERS TIER 4 (DCR)

- Vesting in employer contributions:
 - 25% with two years of service
 - 50% with three years of service
 - 75% with four years of service
 - 100% with five years of service
- Normal Retirement at:
 - Medicare eligibility (Age 65) with at least 10 years of membership service
 - any age with 30 years of membership service
 - any age with 25 years of Peace Officer/Fire Fighter service
- HRA eligible if meet the normal retirement eligibility
- No COLA or PRPA
- Occupational Disability and Death Benefits



PERS Participation Numbers

PERS				
	Active	Term with Balance	Benefit Payments	Total
Tier 1	368	1,065	20,829	22,262
Tier 2	1,479	2,927	10,097	14,503
Tier 3	5,784	9,863	6,946	22,593
Tier 4	28,917	24,136		53,053
Total	36,548	37,991	37,872	112,411

PERS ACTIVE BY OCC CODE		
Police/Fire	ALL Others	Total
9	359	368
87	1,392	1,479
692	5,092	5,784
2,798	26,119	28,917
3,586	32,962	36,548

*Numbers are as of March 28, 2025



PERS Employer Normal Cost By Tier (as % of tier's pay)

PERS - Peace Officers/Firefighters

	DB Tier 1	DB Tier 2	DB Tier 3	DCR Tier 4
FY2025 Employer Normal Cost net of Member Contributions	34.31%	23.03%	22.33%	9.33%

Member Contributions:

- DB = 7.50%

PERS - Others

	DB Tier 1	DB Tier 2	DB Tier 3	DCR Tier 4
FY2025 Employer Normal Cost net of Member Contributions	28.12%	16.57%	14.61%	8.98%

Member Contributions:

- DB = 6.75%



Source: Gallagher draft June 30, 2024 valuation reports

TRS TIER 1

- Vesting 8 years of membership service
- Disability Benefits
- Non-Occupational and Death Benefits
- Early Retirement at age 50
- Normal Retirement at age 55
- System paid medical at retirement
- Alaska Cost of Living Allowance (COLA) – eligible at retirement
- Post Retirement Pension Adjustment (PRPA)
 - Automatic: Eligible at age 60 or 8 years of receiving benefits as of 7/1
 - Ad Hoc: Eligible if there was a change in the Consumer Price Index (CPI) at time of retirement and current year July 1 (system must be 105% funded)



TRS TIER 2

- Vesting 8 years of membership service
- Disability benefits
- Non-Occupational and Occupational Death Benefits
- Early Retirement at age 55
- Normal Retirement at age 60
- System paid medical at:
 - At age 60 or
 - 25 years of membership service
- Alaska Cost of Living Allowance (COLA) – eligible at age 65
- Post Retirement Pension Adjustment (PRPA)
 - Automatic: Eligible at age 60 or 8 years of receiving benefits as of 7/1
 - No Ad Hoc



TRS TIER 3 (DCR)

- Vesting in employer contributions:
 - 25% with two years of service
 - 50% with three years of service
 - 75% with four years of service
 - 100% with five years of service
- Normal Retirement at:
 - Medicare eligibility (Age 65) with at least 10 years of membership service
 - Any age with 30 years of membership service
- HRA eligible if meet the normal retirement eligibility
- No COLA or PRPA
- Occupational Disability Benefits
- Non-occupational and Occupational death benefits



TRS Participation Numbers

	Active	Term with Balance	Benefit Payments	Total
Tier 1	65	193	9,519	9,777
Tier 2	2,411	1,798	4,512	8,721
Tier 3	7,257	4,507		11,764
Total	9,733	6,498	14,031	30,262

* Numbers are as of March 28, 2025



TRS Employer Normal Cost By Tier (as % of tier's pay)

TRS

	DB Tier 1	DB Tier 2	DCR Tier 3
FY2025 Employer Normal Cost net of Member Contributions	14.21%	14.77%	10.74%

Member Contributions:

- DB = 8.65%



Source: Gallagher draft June 30, 2024 valuation reports

Additional State Contributions – History (\$ Whole Dollars)

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 (\$ Whole Dollars)

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: FY26: ARMB-adopted amounts based on the 6/30/23 valuations. FY27-FY39: Gallagher draft 6/30/24 valuation reports.

FY2026 Contribution Rates

Health Plan – Zero Normal Cost Impact on Contribution Rates (\$ Whole Dollars)

	PERS				TRS			
	FY2026 PERS Total Payroll *		\$	2,598,836,000	FY2026 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
FY2026 PERS Total Payroll: \$ 2,598,836,000

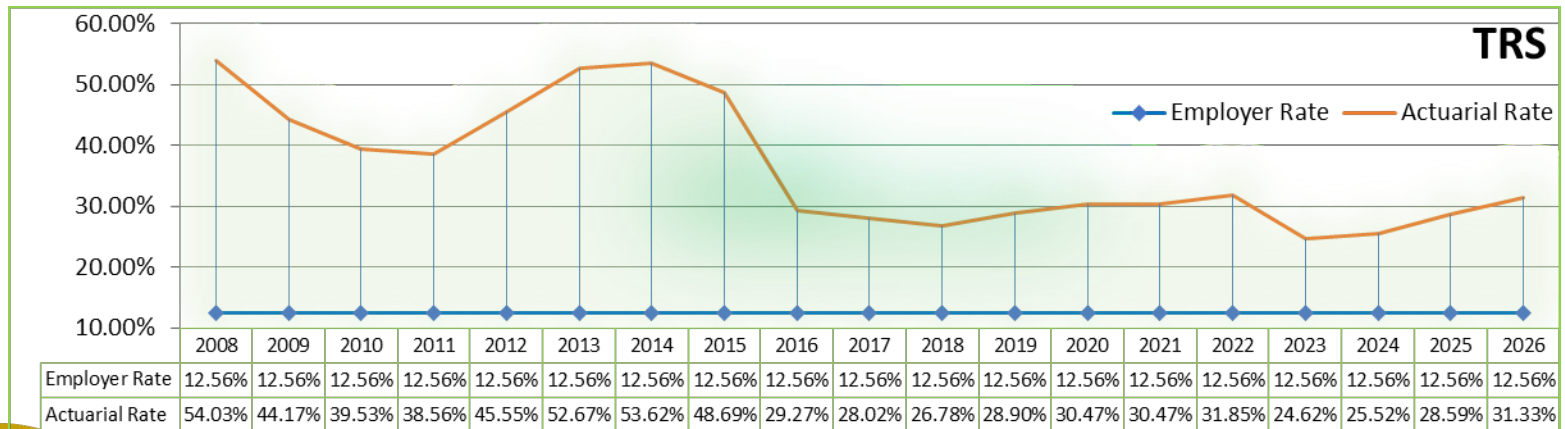
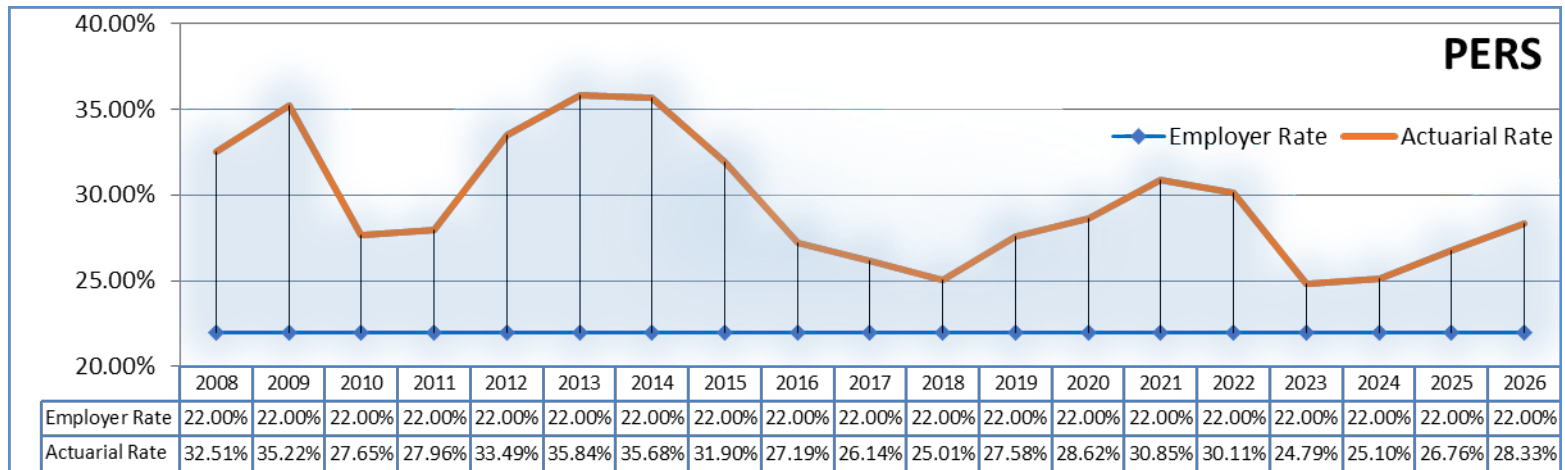
Total Savings: \$34,045,000 (PERS) + \$13,806,000 (TRS) = \$ 47,851,000

(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)

Contribution Rates – History



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

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 (Smoothing over 5-Year Period)	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 (\$ in thousands)

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 (\$ in thousands)

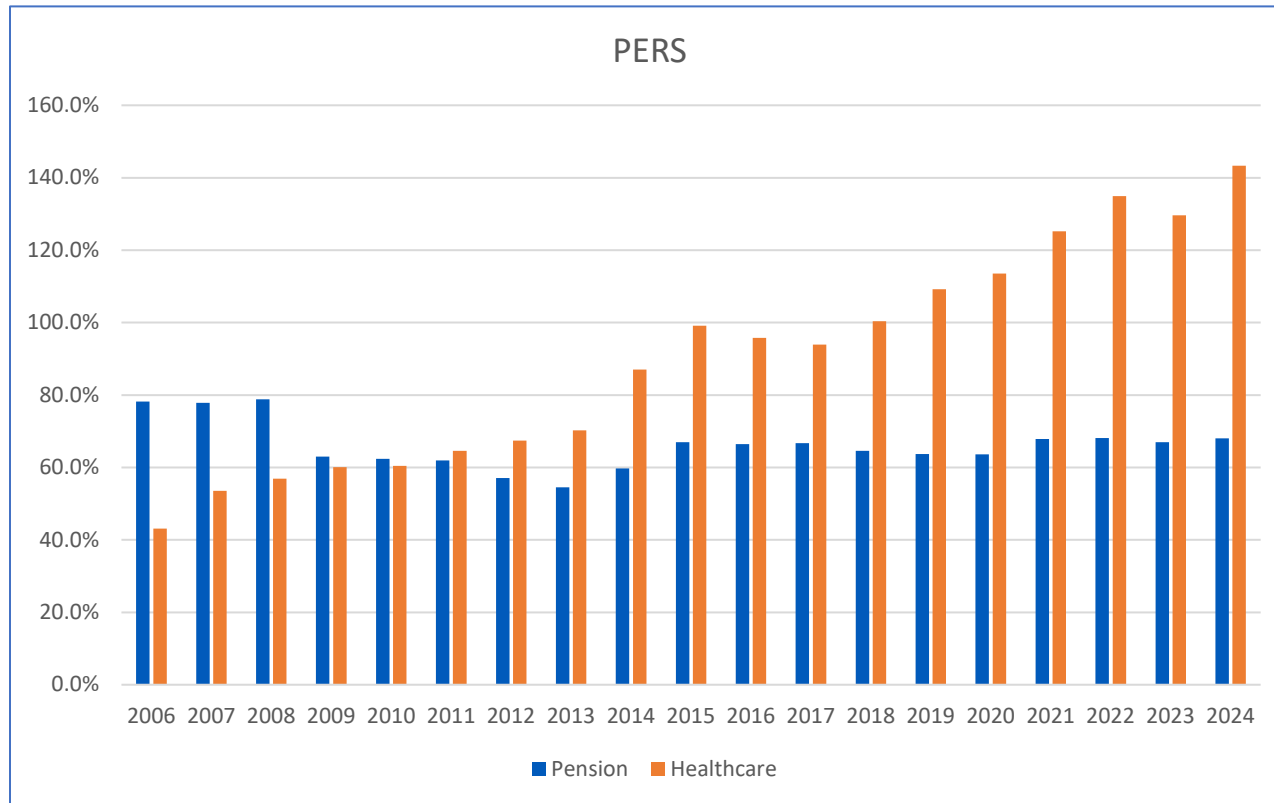
Defined Benefit HealthCare	PERS			TRS		
	2022	2023	2024 (DRAFT)	2022	2023	2024 (DRAFT)
a. Actuarial Accrued Liability	\$6,657,069	\$7,085,823	\$6,583,950	\$2,442,577	\$2,617,821	\$2,450,150
b. Actuarial Value of Assets (AVA)	\$8,979,943	\$9,180,231	\$9,433,351	\$3,437,216	\$3,547,973	\$3,677,415
c. Unfunded 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

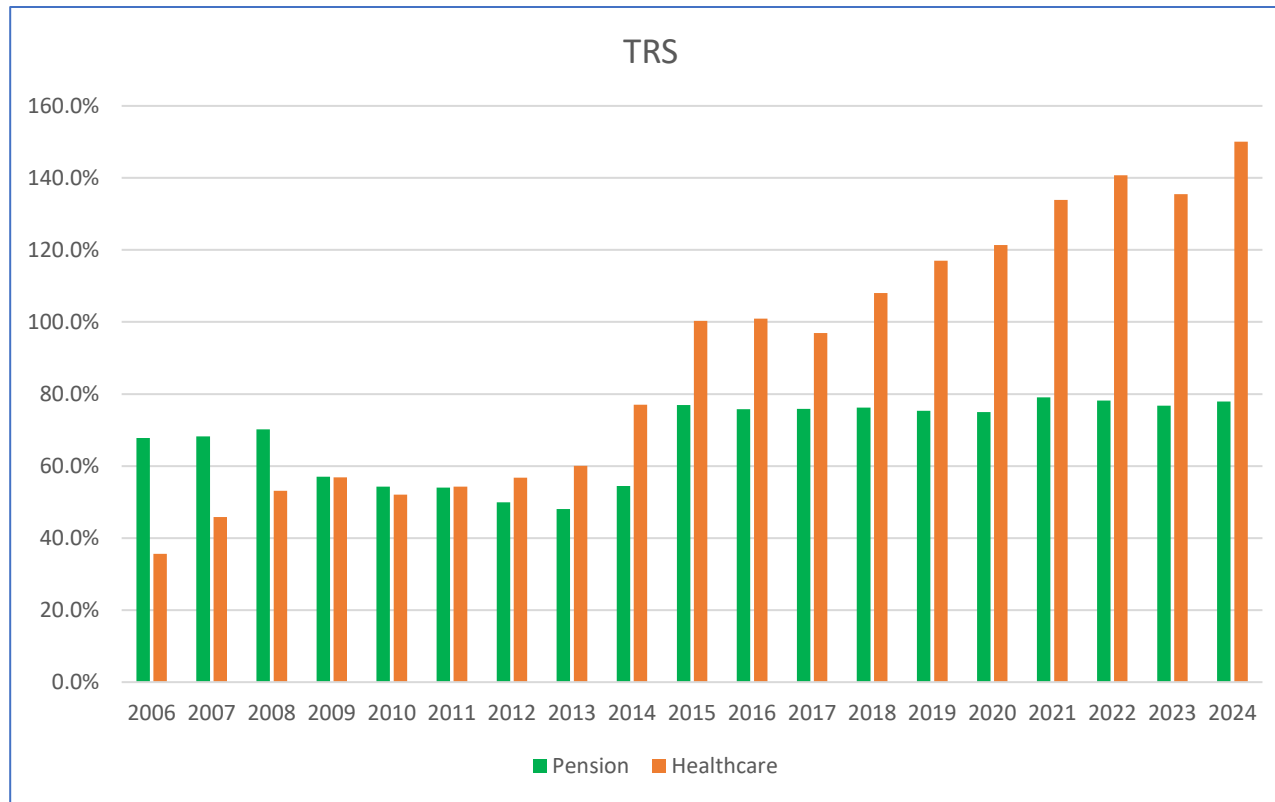
(Based on Actuarial Valuation Reports)



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

Unfunded Liability – Background

- $\text{Unfunded Liability} = \text{Actuarial Accrued Liability} - \text{Actuarial Value of Assets}$
 - $\text{Actuarial Accrued Liability} = \text{Present Value of future benefits attributable to service to date}$
 - $\text{Actuarial Value of Assets} = \text{Smoothed Market Value (market gains/losses recognized 20\% per year)}$
- Unexpected changes in the Unfunded Liability can occur each year due to:
 - Asset experience
 - Liability experience
 - Contributions greater/less than the Actuarially Determined Contribution
 - Changes in actuarial assumptions
 - Changes in plan provisions



Unfunded Liability – Background (cont'd)

- Asset and liability experience:
 - Comparison between the *actual* value and the *expected* value based on the previous year's valuation
 - If the difference is favorable to the plan, it is an actuarial *gain*
 - If the difference is unfavorable to the plan, it is an actuarial *loss*
- Contribution gains/losses are due to the two-year lag that was introduced in 2014 (The \$3 billion State contributions in FY2015 also led to contribution gains)
- Actuarial assumptions are reviewed and modified every four years per Alaska Statutes



PERS/TRS Funding Methodology Established by Alaska Statutes in 2014

- Unfunded liability amortization method was changed from level dollar to level percent of pay. Under level percent of pay, the amortization amounts increase each year as payroll is expected to grow (current payroll growth rate = 2.75%)
- Amortization period was reset to a closed 25-year period
- Contribution rate setting process was changed to a two-year roll-forward of liabilities and a one-year roll-forward of assets
- Actuarial Value of Assets was reset to Market Value of Assets with five-year smoothing implemented prospectively (and 20% market value corridor was eliminated)



PERS/TRS Funding Methodology Modifications Adopted by ARMB in 2018

- 25-year *layered* amortization was implemented in 2018 to help mitigate future contribution volatility
 - Outstanding balance of unfunded liability as of June 30, 2018 is amortized over the remainder of the closed 25-year period that was established in 2014
 - Going forward, each year's unexpected change in unfunded liability is separately amortized over a closed 25-year period



Sources of PERS Pension Unfunded Liability Incr/(Decr) Since 2014 (in \$millions)

Fiscal Year	Market Value of Assets (Gain)/Loss	Actuarial Value of Assets (Gain)/Loss	Liability (Gain)/Loss	Contribution (Gain)/Loss	Assumption Changes	Net Incr/(Decr) in Unfunded Liability
	(A)	(B)	(C)	(D)	(E)	(B)+(C)+(D)+(E)
2015	405	81	(119)	(835)	0	(873)
2016	732	254	(184)	54	0	124
2017	(394)	215	(280)	52	0	(13)
2018	(18)	168	(225)	44	555	542
2019	136	182	76	40	0	298
2020	311	160	(91)	55	0	124
2021	(2,104)	(396)	(161)	(22)	0	(579)
2022	1,570	(128)	202	(50)	206	230
2023	(35)	(14)	513	(1)	0	498
2024	(168)	(75)	22	27	0	(26)
Total	435	447	(247)	(636)	761	325



Source: Gallagher Actuarial Valuation Reports

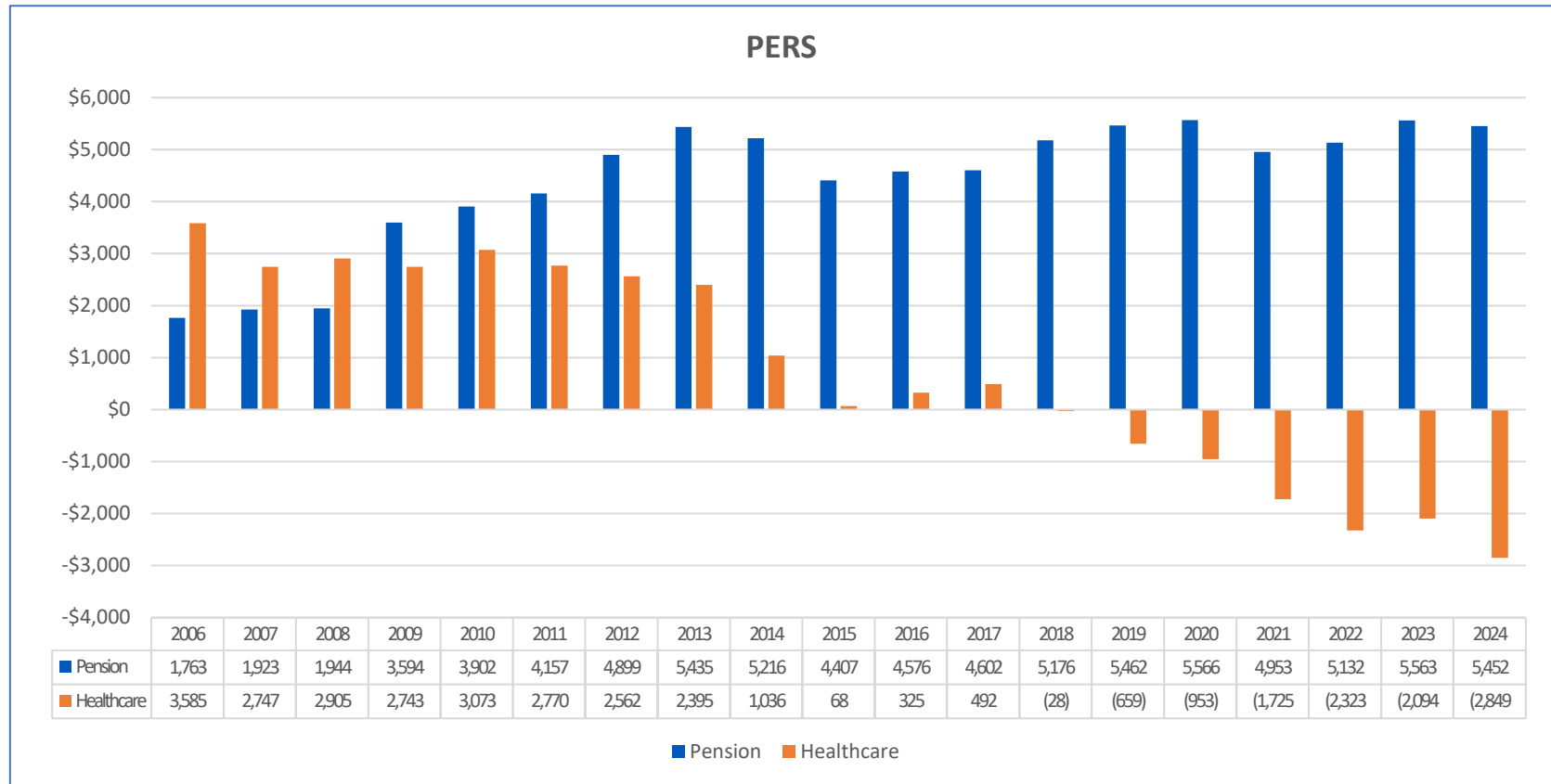
Sources of TRS Pension Unfunded Liability Incr/(Decr) Since 2014 (in \$millions)

Fiscal Year	Market Value of Assets (Gain)/Loss	Actuarial Value of Assets (Gain)/Loss	Liability (Gain)/Loss	Contribution (Gain)/Loss	Assumption Changes	Net Incr/(Decr) in Unfunded Liability
	(A)	(B)	(C)	(D)	(E)	(B)+(C)+(D)+(E)
2015	220	44	(56)	(1,547)	0	(1,559)
2016	443	147	(66)	4	0	85
2017	(237)	124	(121)	(8)	0	(5)
2018	(13)	96	(125)	(3)	14	(18)
2019	82	104	8	(17)	0	95
2020	182	95	(31)	(20)	0	44
2021	(1,201)	(227)	(56)	(3)	0	(286)
2022	881	(74)	121	(29)	144	162
2023	(16)	(9)	179	16	0	186
2024	(90)	(44)	(48)	27	0	(65)
Total	251	256	(195)	(1,580)	158	(1,361)



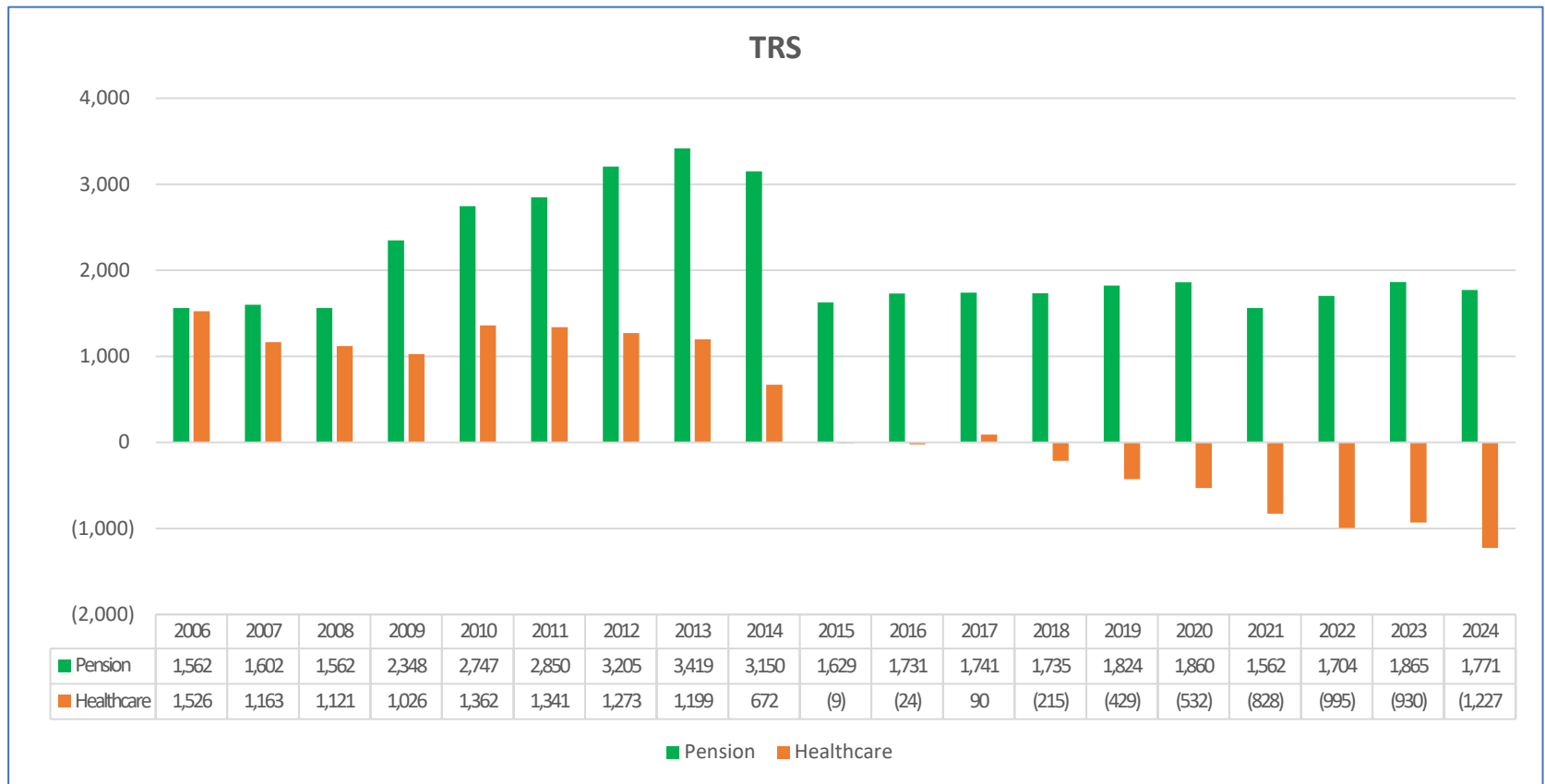
Source: Gallagher Actuarial Valuation Reports

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

How are State Contributions Determined?

- We have to consider several factors, including:
 - The underlying costs of the benefits
 - Total payroll
 - How much do members pay?
 - How much do employers pay?
 - How much does the State pay?
- Member contribution rates are prescribed by Alaska Statutes
- PERS non-State employers contribute 22% of total payroll
- The State-as-an-Employer (PERS) contributes the full actuarial rate based on the total payroll of its employees
- TRS employers contribute 12.56% of total payroll



How are State Contributions Determined? (cont'd)

- The Actuarially Determined Contribution consists of two components:
 - Normal Cost (the cost of benefits expected to accrue in the upcoming year)
 - Past Service Cost (amortization of the unfunded liability)
- Members and employers contribute the DB Normal Cost
- Employers also contribute the DCR costs (occupational death & disability, healthcare, DC contribution, HRA contribution)
- A portion of the employer contribution also goes toward the DB Past Service Cost:
$$= \text{Total employer contribution} - \text{employer portion of the DB Normal Cost} - \text{DCR costs}$$
- The DB Past Service Cost not paid by the employers is paid by the State as Additional State Contributions



Department of Administration

Championing improvement in the State's performance and results.



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