

# State of Alaska Retirement Systems

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Information for Senate Finance Committee

Normal Cost Fundamentals – PERS and TRS

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# Normal Cost Fundamentals

- An actuarial cost method is used to allocate the projected costs of PERS and TRS between past and future periods
- Actuarial terminology:
  - **Present Value of Future Benefits** (PVFB) includes all future expected benefits for active and inactive members as of the valuation date; the PVFB for active members includes future expected salary increases and future expected years of service
  - **Actuarial Accrued Liability** is the portion of PVFB attributable to *past* service
  - **Present Value of Normal Costs** is the portion of PVFB attributable to *future* service
  - **Normal Cost** is the actuarial cost of active members' expected benefit accruals for the upcoming year

# Normal Cost Fundamentals (cont'd)

- Normal Costs are calculated individually for each active member
  - Under the Entry Age Normal actuarial cost method, each member's Normal Cost is expected to remain level as a percentage of the member's pay at hire
- Total Normal Cost for the plan is the sum of the individual Normal Costs
  - Normal Costs are calculated separately for Pension and Healthcare benefits
- Normal Costs are paid by members and employers
- Normal Cost rates by tier are expressed as a percentage of pay for that tier
- Normal Cost rates for purposes of adopting contribution rates are converted to a percentage of total (DB and DCR) pay

# Normal Cost Rates for FY25 – PERS

\$ in thousands

	PERS Pension					PERS Healthcare				
	Tier 1	Tier 2	Tier 3	Tiers 1-3	DB/DCR	Tier 1	Tier 2	Tier 3	Tiers 1-3	DB/DCR
	(A)	(B)	(C)	(D)	(E)	(A)	(B)	(C)	(D)	(E)
<b>Peace Officers/Firefighters</b>										
• Projected FY25 Pay	\$ 1,380	\$ 14,740	\$ 118,942	\$ 135,062	\$ 454,007	\$ 1,380	\$ 14,740	\$ 118,942	\$ 135,062	\$ 454,007
• Total Normal Cost Rate	26.52%	22.71%	22.81%	22.83%	6.79%	15.29%	7.82%	7.02%	7.19%	2.14%
• Member Contributions	<u>-7.50%</u>	<u>-7.50%</u>	<u>-7.50%</u>	<u>-7.50%</u>	<u>-2.23%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
• Employer Normal Cost Rate	19.02%	15.21%	15.31%	15.33%	4.56%	15.29%	7.82%	7.02%	7.19%	2.14%
<b>All Others</b>										
• Projected FY25 Pay	\$ 31,389	\$ 135,249	\$ 477,913	\$ 644,551	\$ 2,346,530	\$ 31,389	\$ 135,249	\$ 477,913	\$ 644,551	\$ 2,346,530
• Total Normal Cost Rate	19.42%	14.62%	14.31%	14.62%	4.02%	15.45%	8.70%	7.05%	7.81%	2.14%
• Member Contributions	<u>-6.75%</u>	<u>-6.75%</u>	<u>-6.75%</u>	<u>-6.75%</u>	<u>-1.87%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
• Employer Normal Cost Rate	12.67%	7.87%	7.56%	7.87%	2.15%	15.45%	8.70%	7.05%	7.81%	2.14%

Columns (A) through (D): Normal Cost rates are as a percentage of each group's pay.  
Column (E): Normal Cost rates are as a percentage of total DB/DCR pay.

# Normal Cost Rates for FY25 – TRS

\$ in thousands

	TRS Pension				TRS Healthcare			
	Tier 1	Tier 2	Tiers 1-2	DB/DCR	Tier 1	Tier 2	Tiers 1-2	DB/DCR
	(A)	(B)	(C)	(D)	(A)	(B)	(C)	(D)
<b>All Members</b>								
• Projected FY25 Pay	\$ 7,114	\$ 248,835	\$ 255,949	\$ 779,350	\$ 7,114	\$ 248,835	\$ 255,949	\$ 779,350
• Total Normal Cost Rate	16.83%	16.47%	16.48%	5.41%	6.03%	6.95%	6.92%	2.27%
• Member Contributions	<u>-8.65%</u>	<u>-8.65%</u>	<u>-8.65%</u>	<u>-2.84%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
• Employer Normal Cost Rate	8.18%	7.82%	7.83%	2.57%	6.03%	6.95%	6.92%	2.27%

Columns (A) through (C): Normal Cost rates are as a percentage of each group's pay.

Column (D): Normal Cost rates are as a percentage of total DB/DCR pay.

# Actuarial Certification

The purpose of this presentation is to provide the Alaska Senate Finance Committee with information related to the determination of Normal Costs for PERS and TRS

The data, assumptions, methods, and plan provisions used to determine the results shown in this presentation are as shown in the draft June 30, 2024 actuarial valuation reports; the draft June 30, 2024 actuarial valuation reports contain disclosures required by Actuarial Standards of Practice; those disclosures also apply to this presentation.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the actuarial assumptions, changes in assumptions, changes expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law

The results were prepared under the overall direction of David Kershner, who meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein; these results have been prepared in accordance with all applicable Actuarial Standards of Practice

David Kershner  
FSA, EA, MAAA, FCA  
Principal, Retirement

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