March 24, 2025

Ms. Kathy Lea
Director
Division of Retirement and Benefits
State of Alaska
P.O. Box 110203
Juneau, AK 99811-0203

RE: Fiscal Note Analysis for HB 78 - Updated[1]

Dear Kathy,

As requested, we are providing a fiscal note analysis for HB 78 that was introduced on January 31, 2025.

Scope of Analysis

Under the proposed bill:

- Active employees who became members of PERS DCR or TRS DCR after June 30, 2006 and before July 1, 2025 can make an irrevocable one-time election to join PERS DB or TRS DB, respectively.
- Post-July 1, 2025 hires will enter PERS DB or TRS DB.

The proposed effective date of HB 78 is July 1, 2025. The Alaska Retirement Management Board (ARMB) has already adopted FY26 contribution rates, and they are reflected in our analysis. Accordingly, the first year that contribution rates would be affected by HB 78 is FY27. In Section A of this letter we have shown the potential impact of HB 78 on projected State contributions for FY27-FY39.

Our analysis is based on the June 30, 2024 actuarial valuations[2]. The projected cost impact of HB 78 shown in this letter assumes that post-June 30, 2024 experience matches the June 30, 2024 valuation assumptions. Adverse plan experience due to, for example, poor asset returns, 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 HB 78 on projected contribution rates depends on how large the PERS DB and TRS DB unfunded liabilities become.

By shifting active members and future hires from the DCR plans to the DB plans, the State will assume greater risk of larger unfunded liabilities and higher contributions in future years. To help the State quantify these potential risks, it may be prudent to perform scenario testing that reflects a range of deviations of experience from the assumptions (both positive and negative) in order to provide a sense of the range of possible funding outcomes.

As noted in Section B of this letter, HB 78 contains certain provisions that can be changed by the ARMB. These changes would presumably be made if the plans were to incur adverse experience such that the funded status of the trusts attributable to HB 78 members declines. Our projections for this letter are

---

[1] This is an update to our letter dated March 21, 2025. Some of the figures for PERS have been updated.
[2] As of the date of this letter, the ARMB has not yet formally adopted the June 30, 2024 valuations.

based on the assumption that future experience matches the valuation assumptions (i.e., we are not projecting any adverse experience that would trigger such changes).

As noted in Section F of this letter, our analysis focuses on the potential impact on projected State contributions to PERS and TRS if HB 78 were to be enacted. HB 78 is generally expected to increase future retention of State employees, and the actuarial assumptions used in our analysis reflect this expectation. Potential savings in recruitment and training costs due to the expected higher retention of State employees are outside the scope of our actuarial analysis.

To determine the projected cost impact of HB 78, we assumed the current DB plan termination rates would apply to HB 78 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 select termination rates were established several years ago when the DB plans had many more active members, and they have not been changed since. It remains to be seen if actual termination experience of HB 78 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 HB 78 members end up being higher than the current assumed DB termination rates, the projected cost impact of HB 78 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 "HB 78 Sub-Trusts" refers to the pension and healthcare sub-trusts that will be used to fund the benefits of HB 78 members. It is our understanding that the HB 78 sub-trusts will be set up within the DB trusts.
- "HB 78 members" refers to current DCR members who are assumed to transfer to the DB plans and future hires that will enter the DB plans.

A. Potential Impact of HB 78 on Projected State Contributions for FY27-FY39

State contributions for FY27-FY39 are projected to increase/(decrease) due to HB 78 as shown below (assuming post-June 30, 2024 experience matches the assumptions). Amounts are in $millions.

Additional State Contributions (PERS and TRS)

Fiscal Year	PERS			TRS			Total		
	Current	HB 78	Incr/(Decr)	Current	HB 78	Incr/(Decr)	Current	HB 78	Incr/(Decr)
2027	$ 93.0	$ 109.4	$ 16.4	$ 161.0	$ 160.7	$ (0.3)	$ 254.0	$ 270.1	$ 16.1
2028	94.2	112.0	17.8	162.9	164.7	1.8	257.1	276.7	19.6
2029	95.8	115.3	19.5	165.1	167.9	2.8	260.9	283.2	22.3
2030	98.9	119.8	20.9	168.7	172.3	3.6	267.6	292.1	24.5
2031	101.7	125.2	23.5	172.5	176.9	4.4	274.2	302.1	27.9
2032	105.1	131.0	25.9	176.6	181.7	5.1	281.7	312.7	31.0
2033	108.6	137.4	28.8	180.8	186.7	5.9	289.4	324.1	34.7
2034	112.4	143.8	31.4	185.4	191.9	6.5	297.8	335.7	37.9
2035	116.4	150.9	34.5	189.9	197.2	7.3	306.3	348.1	41.8
2036	120.2	158.2	38.0	194.9	202.7	7.8	315.1	360.9	45.8
2037	123.9	165.7	41.8	200.0	208.6	8.6	323.9	374.3	50.4
2038	127.5	173.7	46.2	205.2	214.5	9.3	332.7	388.2	55.5
2039	131.8	181.6	49.8	210.7	220.4	9.7	342.5	402.0	59.5
Total	$ 1,429.5	$ 1,824.0	$ 394.5	$ 2,373.7	$ 2,446.2	$ 72.5	$ 3,803.2	$ 4,270.2	$ 467.0

State-as-an-Employer Contributions (PERS/PERS DCR)

Fiscal Year	DB			DCR			Total		
	Current	HB 78	Incr/(Decr)	Current	HB 78*	Incr/(Decr)	Current	HB 78	Incr/(Decr)
2027	$ 305.0	$ 392.2	$ 87.2	$ 98.1	$ 35.4	$ (62.7)	$ 403.1	$ 427.6	$ 24.5
2028	304.0	397.6	93.6	101.7	37.2	(64.5)	405.7	434.8	29.1
2029	303.8	404.3	100.5	105.4	38.9	(66.5)	409.2	443.2	34.0
2030	305.8	412.6	106.8	109.1	40.6	(68.5)	414.9	453.2	38.3
2031	308.3	422.6	114.3	113.0	42.3	(70.7)	421.3	464.9	43.6
2032	311.8	433.1	121.3	116.9	44.0	(72.9)	428.7	477.1	48.4
2033	316.0	444.6	128.6	120.9	45.8	(75.1)	436.9	490.4	53.5
2034	321.0	456.2	135.2	124.8	47.5	(77.3)	445.8	503.7	57.9
2035	326.5	468.8	142.3	128.8	49.1	(79.7)	455.3	517.9	62.6
2036	332.9	482.2	149.3	133.2	50.8	(82.4)	466.1	533.0	66.9
2037	339.6	496.2	156.6	137.6	52.4	(85.2)	477.2	548.6	71.4
2038	346.5	510.9	164.4	142.0	54.1	(87.9)	488.5	565.0	76.5
2039	354.7	526.0	171.3	146.4	55.6	(90.8)	501.1	581.6	80.5
Total	$ 4,175.9	$ 5,847.3	$ 1,671.4	$ 1,577.9	$ 593.7	$ (984.2)	$ 5,753.8	$ 6,441.0	$ 687.2

* Actuarially Determined Contribution rate for DCR retirees plus 3% (4% for PERS P/F) HRA contributions for HB 78 members.

Why Are State Contributions Projected To Increase Under HB 78?

There are two reasons why State contributions are projected to increase under HB 78. Examples are provided for FY30 (FY30 was chosen arbitrarily for illustrative purposes).

1. **The underlying benefits to be provided to HB 78 members under the DB plans are more valuable than they currently receive as a member of the DCR plans, and therefore more costly.**

   Members of the DCR plans currently receive the following benefits:

   - Occupational death & disability
   - Healthcare
   - Employer contributions to the member's DC account (5% of pay for PERS DCR, 7% of pay for TRS DCR)
   - Employer contributions to the members' HRA accounts (3% of pay)

   HB 78 members will receive the following benefits under the DB plans:

   - Lifetime pension
   - Healthcare (same as current DCR healthcare)[1]
   - Death and disability benefits (which are more valuable than the DCR occupational death & disability benefits)
   - Postretirement Pension Adjustments (PRPAs)
   - Employer contributions to the members' HRA accounts (4% of pay for PERS P/F, 3% of pay for PERS Others and TRS)

   The table below compares the FY30 costs of these benefits as a percentage of pay for each group:

	Current					HB 78			
	Occ D&D	Healthcare	DC	HRA	Total	Pension*	Healthcare	HRA**	Total
PERS	0.31%	0.86%	5.00%	3.00%	9.17%	6.50%	2.12%	3.16%	11.78%
TRS	0.08%	0.66%	7.00%	3.00%	10.74%	6.59%	1.83%	3.00%	11.42%

* net of 8% member contributions
** 3% of pay except 4% for PERS P/F

---

[1] The underlying healthcare benefits that HB 78 members will receive in the DB plans are the same as what they currently receive as members of the DCR plans. Because HB 78 is expected to result in higher retention of State employees over time, more employees are projected to participate in the medical plan at retirement if HB 78 is enacted. As a result, the actuarial cost of the healthcare benefits is higher when valued using the DB assumptions than it is when valued using the DCR assumptions.

2. The additional costs due to HB 78 will shift directly to the State, which will lead to higher State contributions.

Under Alaska Statutes:

- Employer contribution rates are capped at 22% of total pay (for PERS non-State employers) and 12.56 % of total pay (for TRS employers). The Actuarially Determined Contribution (ADC) rates are currently above these caps, and the excess is paid by the State via Additional State Contributions.

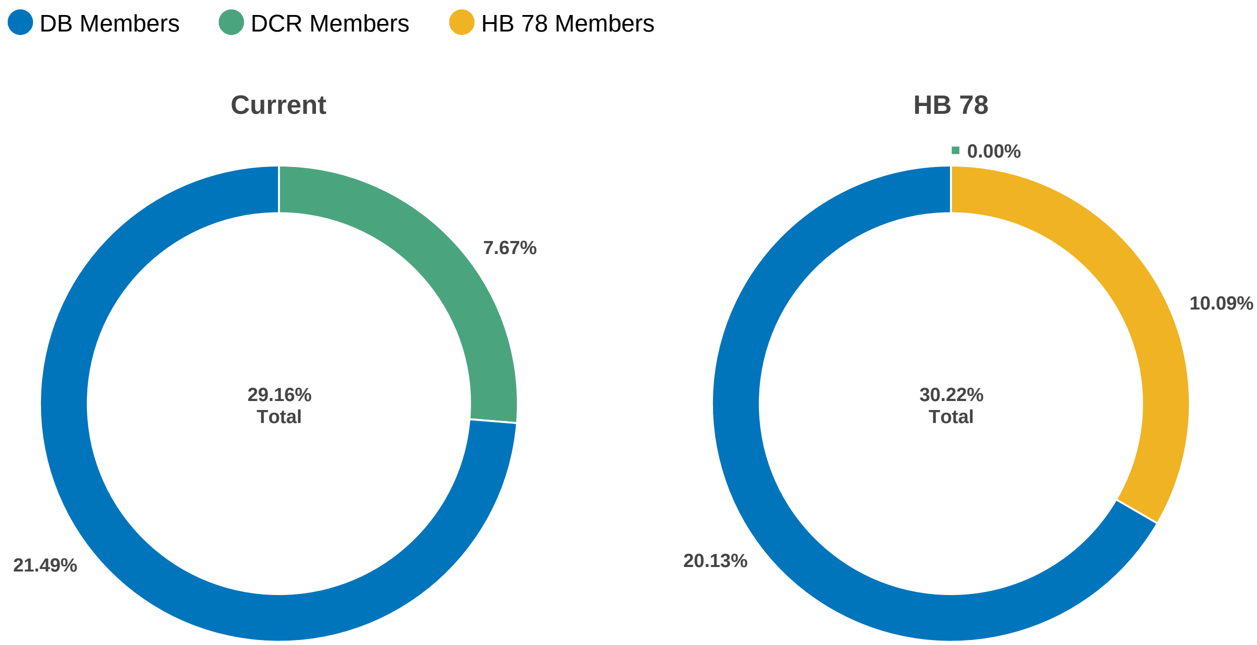
  Because the benefits to be provided to HB 78 members are expected to be more costly than they currently receive as a DCR member, the excess of the ADC rates over the employer contribution caps and the increase in projected pay due to expected higher retention of employees under HB 78 will lead to higher Additional State Contributions.

- The State-as-an-Employer pays 100% of the PERS/PERS DCR ADC rate based on the payroll of its employees. The increase in the ADC rate due to the more costly HB 78 benefits and the increase in projected pay due to expected higher retention of employees under HB 78 will result in higher State-as-an-Employer contributions.

The donut charts on the next two pages compare the FY30 contribution rates as a percentage of *total* payroll currently and under HB 78.

- For “Current” figures, total payroll includes current DB members, current DCR members, and future hires that will enter the DCR plans.
- For “HB 78” figures, total payroll includes current DB members, current DCR members who are assumed to transfer to the DB plans, and future hires that will enter the DB plans.
- As noted earlier, future retention is expected to increase due to HB 78, and this is reflected in the assumptions used in our analysis. Accordingly, projected payroll is expected to be higher after HB 78.
- Contribution rates are net of member contributions.
- Beginning with the adoption of FY25 contribution rates, the DB rate is adjusted by adding a half-year of interest because employer contributions are contributed throughout the year every payroll period. Beginning in FY25, the Additional State Contribution rate equals the adjusted DB rate less the portion of the adjusted DB rate paid by employers, with the half-year of interest backed out to account for the fact that Additional State Contributions are generally paid at the beginning of the fiscal year.
- Assuming all DCR actives transfer to the DB plans, the remaining participants in the DCR plans will be retirees only. After the transfer of assets from the DCR trusts shown in Section D of this letter, the DCR trusts are projected to remain overfunded. As a results, the DCR contribution rates are 0% after HB 78.

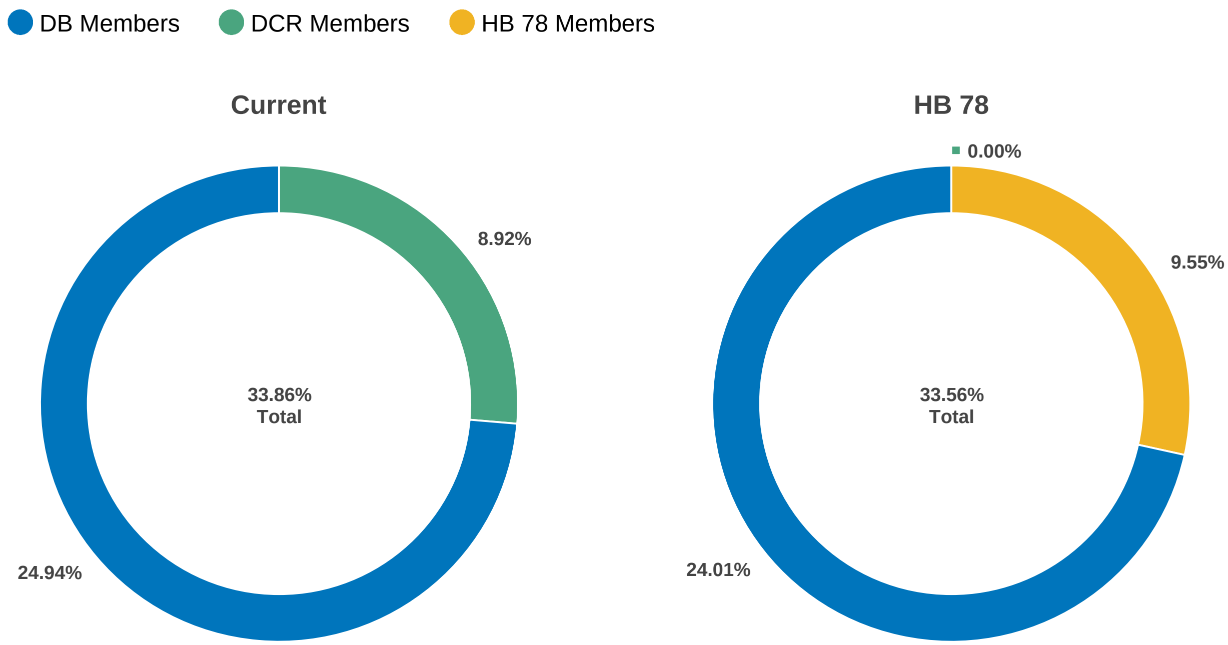
PERS Contribution Rates for FY30



Observations regarding the PERS donut charts:

- Total FY30 payroll is projected to increase from $2,853,980,000 to $3,008,228,000 due to expected higher retention of employees under HB 78. The portion of total PERS payroll for the State's employees is 49.86% in both cases.
- Although the underlying costs for DB members do not change, the FY30 contribution rate for DB members is projected to decrease slightly from 21.49% to 20.13%. This is due to the elimination of the rehire load and the increase in projected payroll under HB 78.
- The DCR and HB 78 FY30 contribution rates are the FY30 costs shown in the table on page 4, but converted to a total payroll basis.
- The State-as-an-Employer FY30 contributions are projected to increase from $414,945,000 to $453,271,000.
  - Current: 29.16% x $2,853,980,000 x 49.86%
  - HB 78: 30.22% x $3,008,228,000 x 49.86%
- The portion of the FY30 DB contribution rate paid by non-State employers is projected to decrease from 14.33% to 11.91%.
  - Current: 22% statutory rate - DCR rate of 7.67%
  - HB 78: 22% statutory rate - DCR rate of 0.00% - HB 78 rate of 10.09%
- The FY30 Additional State Contribution rate is projected to increase from 6.91% to 7.94%.
  - Current: (DB rate of 21.49% - 14.33% paid by non-State employers) / 1.0725^.5
  - HB 78: (DB rate of 20.13% - 11.91% paid by non-State employers) / 1.0725^.5
- The FY30 Additional State Contribution is projected to increase from $98,881,000 to $119,761,000.
  - Current: 6.91% x $2,853,980,000 x 50.14%
  - HB 78: 7.94% x $3,008,228,000 x 50.14%

TRS Contribution Rates for FY30



Observations regarding the TRS donut charts:

- Total FY30 payroll is projected to increase from $820,263,000 to $849,463,000 due to expected higher retention of employees under HB 78 and the small differences in DB and DCR salary increase rates.
- Although the underlying costs for DB members do not change[1], the FY30 contribution rate for DB members is projected to decrease slightly from 24.94% to 24.01%. This is due to the elimination of the rehire load and the increase in projected payroll under HB 78.
- The DCR and HB 78 FY30 contribution rates are the FY30 costs shown in the table on page 4, but converted to a total payroll basis.
- The portion of the FY30 DB contribution rate paid by TRS employers is projected to decrease from 3.64% to 3.01%.
  - Current: 12.56% statutory rate - DCR rate of 8.92%
  - HB 78: 12.56% statutory rate - DCR rate of 0.00% - HB 78 rate of 9.55%
- The FY30 Additional State Contribution rate is projected to decrease from 20.57% to 20.28%.
  - Current: (DB rate of 24.94% - 3.64% paid by TRS employers) / 1.0725^.5
  - HB 78: (DB rate of 24.01% - 3.01% paid by TRS employers) / 1.0725^.5
- The FY30 Additional State Contribution is projected to increase from $168,728,000 to $172,271,000.
  - Current: 20.57% x $820,263,000
  - HB 78: 20.28% x $849,463,000

[1] Other than the change in PRPA eligibility from 8 years to 5 years in receipt for current DB members under age 60.

B. Summary of HB 78 Benefit Provisions

The key benefit provisions applicable to HB 78 members are summarized below.

- Eligibility for normal retirement benefits:

PERS	TRS
○ age 60 with 5 years of credited service; or ○ 30 years of credited service; or ○ age 55 with at least 20 years of credited service (Peace/Fire only); or ○ age 50 with at least 25 years of credited service (Peace/Fire only)	○ age 60 with 5 years of membership service; or ○ 30 years of membership service

- Eligibility for early retirement benefits:

PERS	TRS
○ age 55 with 5 years of credited service	○ age 55 with 8 years of membership service

- Vesting requirements:

PERS	TRS
○ 5 years of credited service	○ 5 years of membership service

- Normal retirement benefit:

PERS Peace/Fire	PERS Others	TRS
○ 2.00% of average pay for the first 10 years of service, and ○ 2.50% of average pay for service in excess of 10 years.	○ 2.00% of average pay for the first 10 years of service, and ○ 2.25% of average pay for the next 10 years of service, and ○ 2.50% of average pay for service in excess of 20 years.	○ 2.00% of average pay for the first 10 years of service, and ○ 2.25% of average pay for the next 10 years of service, and ○ 2.50% of average pay for service in excess of 20 years.

- Average pay used to determine retirement benefits based on the 5 payroll years that yield the highest average (must be 5 consecutive years for PERS).
- Death and disability benefits are the same as for pre-July 1, 2006 hires.
- The Postretirement Pension Adjustment (PRPA) applies to HB 78 members, but can be reduced[1].
    - The PRPA for HB 78 members can be reduced by the ARMB if the funded status of the trust attributable to HB 78 members is less than 90%.
    - The PRPA benefit is reduced by 50% for HB 78 members who are not eligible for a Permanent Fund dividend.

[1] As explained on page 2 of this letter, we assumed no reductions in PRPA benefits for HB 78 members.

- PRPA benefits are payable to TRS members under age 60 if the recipient has been receiving benefits for at least 5 years[1].
- The Alaska 10% residency-based COLA does not apply to HB 78 members.
- Member contributions of 8% of pay, which can be increased by the ARMB to no more than 12% of pay[2].
- Eligibility for healthcare benefits:

PERS	TRS
○ must retire directly from active service and have been an active member for at least 12 months prior to retirement; and ○ age 65 with 10 years of credited service; or ○ 30 years of credited service; or ○ age 55 with 20 years of credited service (Peace/Fire only); or ○ age 50 with 25 years of credited service (Peace/Fire only)	○ must retire directly from active service and have been an active member for at least 12 months prior to retirement; and ○ age 65 with 10 years of membership service, or ○ 30 years of membership service

- Retiree medical benefits and member premiums are the same as under the DCR plans. 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.

C. Employer Contributions

Current employer contributions are described below:

- PERS non-State employer contributions equal 22% of total pay. The Actuarially Determined Contribution (ADC) rate for the DCR plan is deposited to the PERS DCR trusts (and DC/HRA accounts). The remainder of the 22% is deposited to the PERS DB trusts.
- PERS State-as-an-Employer contributions equal 100% of the ADC rate applied to the total pay of State employees. The ADC rate for the DCR plan is deposited to the PERS DCR trusts (and DC/HRA accounts). The ADC rate for the DB plan is deposited to the PERS DB trusts.
- TRS employer contributions equal 12.56% of total pay. The ADC rate for the DCR plan is deposited to the TRS DCR trusts (and DC/HRA accounts). The remainder of the 12.56% is deposited to the TRS DB trusts.
- The ADC rate for the DCR plan is comprised of (i) the actuarially determined contribution rates for occupational death & disability benefits and retiree medical benefits, (ii) 5% (PERS DCR) and 7% (TRS DCR) employer contributions to the members' defined contribution (DC) accounts, and (iii) 3% to the members' HRA accounts. The DCR contribution rates are first calculated based on the payroll of DCR members, and then converted to a total (DB/DCR) pay basis.

---

[1] The change from 8 years to 5 years for TRS members under age 60 applies to *all* TRS members, including those hired prior to July 1, 2006.

[2] As explained on page 2 of this letter, we assumed no increases in member contribution rates for HB 78 members.

Under HB 78, pension and healthcare sub-trusts will be established within the DB trusts. For purposes of this analysis, we have assumed these sub-trusts will be used exclusively to fund the pension and healthcare benefits of HB 78 members.

Employer contributions under HB 78 are described below. Due to the assumption there will be no more actives in the DCR plans, the ADC rates for the DCR plans are based on the Actuarial Accrued Liability for current DCR retirees and the Actuarial Value of Assets that will remain in the DCR trusts after the asset transfers described in Section D of this letter[1].

- PERS non-State employer contributions equal the lesser of (i) 22% of total pay, or (ii) the ADC rate but not less than 12%. 3% of HB 78 members' pay[2] will be deposited to the HRA accounts of HB 78 members. The ADC rates based on HB 78 members' pay will be deposited to the HB 78 sub-trusts (and HRA accounts). The ADC rates for the DCR plan will be deposited to the PERS DCR trusts. The remainder of the employer contributions will be deposited to the PERS DB trusts.

- PERS State-as-an-Employer contributions equal 100% of the ADC rates applied to the total pay of State employees. 3% of HB 78 members' pay[2] will be deposited to the HRA accounts of HB 78 members. The ADC rates based on HB 78 members' pay will be deposited to the HB 78 sub-trusts (and HRA accounts). The ADC rates for the DCR plan will be deposited to the PERS DCR trusts. The ADC rates based on non-HB 78 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 ADC rate but not less than 12%. 3% of HB 78 members' pay will be deposited to the HRA accounts of HB 78 members. The ADC rates based on HB 78 members' pay will be deposited to the HB 78 sub-trusts (and HRA accounts). The ADC rates for the DCR plan will be deposited to the TRS DCR trusts. The remainder of the employer contributions will be deposited to the TRS DB trusts.

Currently, Additional State Contributions equal the excess of (a) over (b), applied to the total payroll of PERS non-State employers and TRS employers:

a. The sum of the DB and DCR ADC rates.

b. The Statutory employer contribution rates of 22% (PERS) and 12.56% (TRS).

Under HB 78, Additional State Contributions equal the excess of (a) over (b), applied to the total payroll of PERS non-State employers and TRS employers:

a. The sum of the DB, DCR, and HB 78 ADC rates[3].

b. The Statutory employer contribution rates of 22% (PERS) and 12.56% (TRS).

---

[1] For both PERS and TRS, the DCR rate after the transfer of DCR actives and DCR assets is 0%.
[2] 4% of HB 78 members' pay for PERS Peace Officers/Firefighters.
[3] The HB 78 ADC rates include the HRA contributions for HB 78 members.

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 pension and healthcare sub-trusts. As a result of these asset transfers, the pension and healthcare sub-trusts are projected to have zero unfunded liability as of the July 1, 2025 HB 78 effective date.

a. The accumulated employee and employer contributions in each HB 78 member's Defined Contribution (DC) account as of June 30, 2024 will be transferred to the pension sub-trusts to purchase credited service for their DB retirement benefits. The service purchase calculations are to be made on an actuarially equivalent basis determined by the ARMB[1]. 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[2]. If the amount in the member's DC account 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 of this letter.

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 as of June 30, 2024 for those who elect to transfer, and (ii) the market value of assets in the DCR retiree medical trusts as of June 30, 2024.

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, 2024 for those who elect to transfer.

d. The estimated FY25 and FY26 DCR contributions related to HB 78 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 contributions based on projected payroll for FY25 and FY26. Accumulated interest (7.25% per year) through June 30, 2026 was included.

The asset transfer amounts for each item described above are summarized below (in $thousands)[3]:

Item	As of Date	PERS		TRS	
		Pension Sub-Trust	Healthcare Sub-Trust	Pension Sub-Trust	Healthcare Sub-Trust
a.	June 30, 2024	$ 1,701,657	$ 0	$ 616,796	$ 0
b.	June 30, 2024	$ 0	$ 238,988	$ 0	$ 76,910
c.	June 30, 2024	$ 10,154	$ 0	$ 16	$ 0
d.	June 30, 2026	$ 234,483	$ 37,378	$ 81,786	$ 8,199

Note: The DCR trusts are currently overfunded and are expected to remain overfunded after the transfer of assets to the HB 78 sub-trusts. The figures shown above assume that all of the overfunding will remain in the DCR trusts. It may be reasonable to argue that some of the overfunding in the DCR trusts should also be transferred to the HB sub-trusts because some of the overfunding is due to the actives who are

---

1 For purposes of this analysis, the actuarial equivalent basis reflects the assumptions used to determine liabilities for pension benefits in the June 30, 2024 actuarial valuations, except the retirement rates were a blend of 75% of the DCR retirement rates and 25% of the DB retirement rates.

2 For purposes of this analysis, we assumed no employee indebtedness would be created.

3 Amounts as of June 30, 2024 were increased with expected return (7.25% per year) to the July 1, 2025 HB 78 effective date.

assumed to transfer. The ability to do this is more of a legal issue than an actuarial issue, so we suggest the State's legal department be consulted.

E. Members Assumed to Transfer from DCR to DB

For those who elect to transfer from DCR to DB, there will be an increase in DB cost and a decrease in DCR cost. 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 DCR to DB. The actual impact of HB 78 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 HB 78 members' pension benefits in the DB plans (using the June 30, 2024 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, 2024 and the June 30, 2024 DC employee and employer account balances that were provided to us[1]. 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[2]. For example, if a member's total DC account balance is 90% of their pension Actuarial Accrued Liability, then 90% of their DCR service is credited to the DB plan.

The results of this process are summarized in the following table (figures may not add due to rounding):

	PERS P/F	PERS Others	TRS
Number of DCR actives at June 30, 2024	2,711	24,089	6,209
DC account balances as of June 30, 2024	$ 313M	$ 1,556M	$ 706M
Number of DCR actives with DC account balances at least equal to DB pension Actuarial Accrued Liability	446	11,968	3,585
Average % of DCR service credited to DB	74%	86%	92%
DC account balances assumed to be transferred to DB	$ 306M	$ 1,395M	$ 617M
DC account balances remaining	$ 7M	$ 160M	$ 89M

F. Additional Notes

The assumptions and methods used in our analysis are the same as those described in the draft June 30, 2024 actuarial valuation reports[3], except the retirement rates used to determine the costs and liabilities of HB 78 members' benefits under the HB 78 scenario was a blend of 75% of the DCR retirement rates and 25% of the DB retirement rates.

The FY25 and FY26 contribution rates that have been adopted by the ARMB were reflected in our analysis.

The percentage of total PERS payroll represented by the State's employees based on the June 30, 2024 data (49.86%) was assumed to remain constant in all future years.

---

[1] For some PERS DCR members, we did not receive the employee/employer split of their total June 30, 2024 DC account balance. For these members, we assumed the June 30, 2024 split was in the same proportion as the split of their total June 30, 2023 account balance.

[2] Under HB 78, an indebtedness can be created for the shortfall. For purposes of this analysis, we did not assume any indebtedness would be created.

[3] As of the date of this letter, final June 30, 2024 valuation reports have not been been issued.

The projection assumptions are the same as those outlined in Section 3.1 of the draft June 30, 2024 PERS and TRS actuarial valuation reports, except the Normal Cost rehire loads were removed for the HB 78 scenario.

Our analysis 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 scope of our analysis 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 of State employees). Our analysis 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 HB 78 bill sponsors may use this letter for purposes of analyzing the potential cost impact of HB 78. Use of this letter for any other purpose or by anyone other than the ARMB, staff of the State of Alaska, or HB 78 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, Gallagher recommends requesting its advanced review of any statement to be based on information contained in this letter. Gallagher 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 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. An analysis of the potential range of such future differences is beyond the scope of this letter.

Section 6 of the draft June 30, 2024 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 HB 78 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.

Please see the draft June 30, 2024 actuarial valuation reports for disclosures required by Actuarial Standards of Practice, which also apply to this HB 78 fiscal note letter.

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 (312) 399-9339 (Bob).

Respectfully submitted,

David J. Kershner, FSA, EA, MAAA, FCA
Principal

Brett Hunter, ASA, EA, MAAA
Senior Consultant

Robert Besenhofer, ASA, MAAA, FCA
Director

Copy to: Christopher Novell – State of Alaska