PTA

William B. Fornia, FSA | President

April 1, 2024

The Honorable Senator Cathy Giessel
State Capitol Room 427
Juneau AK, 99801

Via email:

Dear Senator Giessel:

On behalf of the Alaska Public Pension Coalition, I have been asked to analyze the components of the March 15 correspondence to the Division of Retirement Benefits on the fiscal analysis of Senate Bill 88 (SB 88). That letter from Buck to Mr. Ajay Desai of the Alaska Division of Retirement Benefits quantified the fiscal impact of Senate Bill 88 Version T. The total impact over 14 years was approximately $1.1 billion.

SB 88 replaces the fixed employer contribution to a defined contribution (DC) retirement program with benefits under a new defined benefit (DB) program. The bill is also expected to significantly increase retention of current and future Alaska public employees. I have identified four components of the $1.071 billion cost increase:

- Pension benefits are more valuable under the proposed DB arrangement than under the current DC arrangement.
- This is likely to improve retention, which Buck plausibly assumes will result in longer service employees, who will receive higher rates of pay. Because of these higher rates of pay, higher benefit costs occur solely due to their higher rates of pay.
- The improved retention will also result in more employees working a full career and earning a post-retirement health benefit. Although SB88 makes no change in these post-retirement health benefits, more retirees are anticipated to generate more benefit costs.
- The increase calculated by Buck is expressed merely as the sum of 14 years of increases, and not discounted to present value as are all other actuarial calculations. On a present-value basis, current-dollar costs can be isolated from future interest or inflation components of costs.

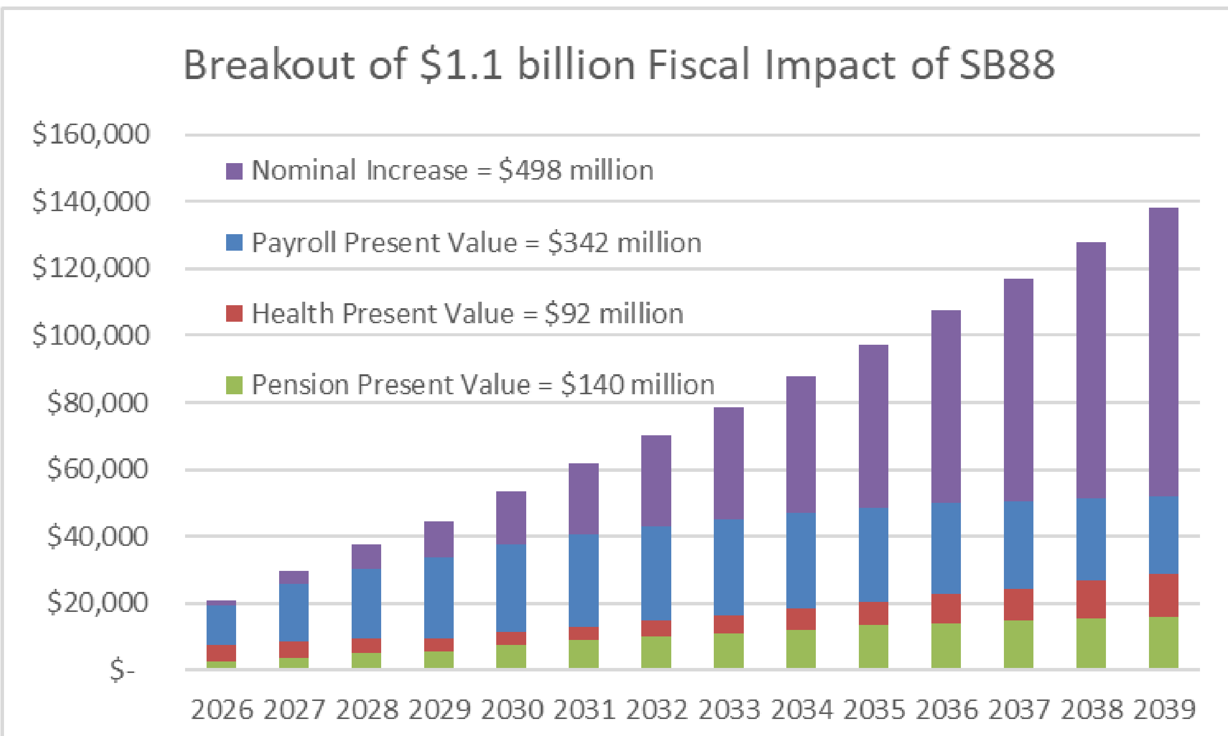
The table below summarizes our findings:

Components of Fiscal Impact of SB 88

Component	Present Value	Nominal Interest	Total Value
Pension Benefits	$140 million	$136 million	$275 million
Health Benefits	$92 million	$87 million	$179 million
Subtotal Benefits	$232 million	$223 million	$455 million
Payroll Impact	$342 million	$275 million	$617 million
Total	$574 million	$498 million	$1,071 million

The table above highlights the $138 million present value figure for pension benefit cost increase. This is because all other components of the $1,071 million total are either by-products of the pension benefit cost increase or a reflection of the time-value of money for future costs.

The chart below illustrates this visually:



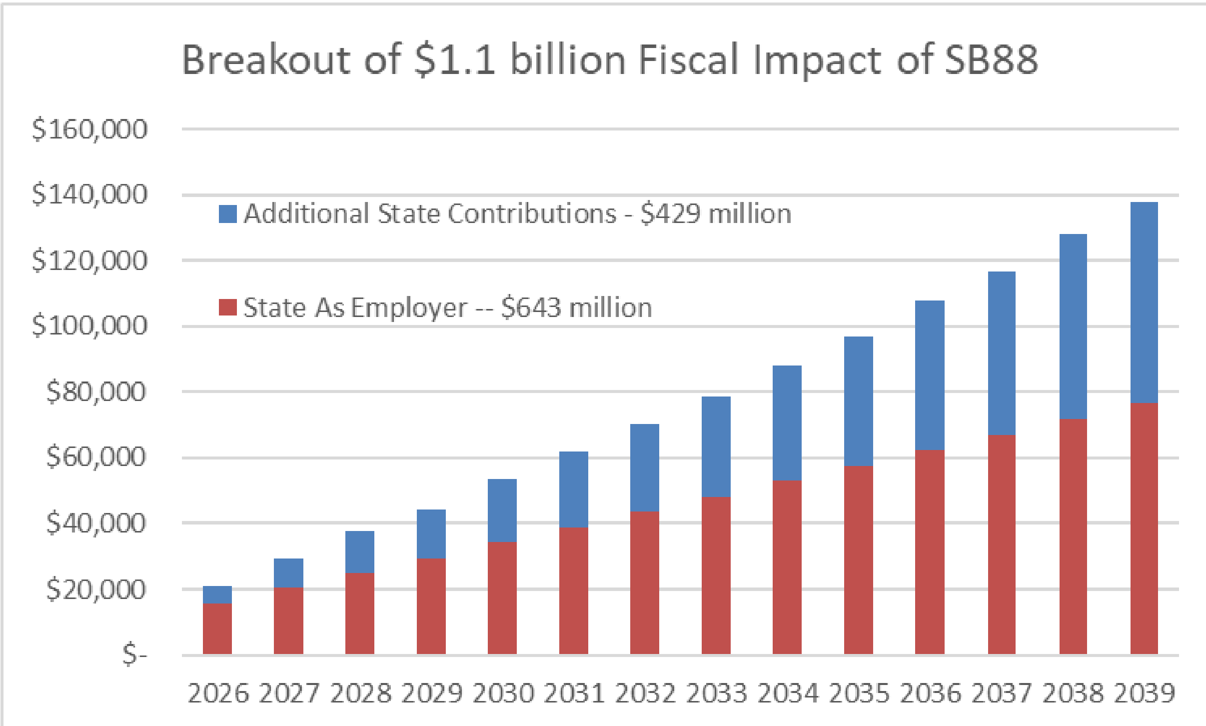
Methodology

The Buck Fiscal Note letter and subsequent information provided detail on various components of cost to the State of Alaska, including:

1. Breakout of costs between various subsets of the total public sector workforce
    a. Teachers Retirement System (TRS) members, for whom the State makes additional contributions to the extent that the employer contributions in excess of 12.56% of payroll
    b. Public Employee Retirement System (PERS) members who are employees of the State
    c. PERS members for whom the State makes additional contributions to the extent that the employer contributions exceed 22% of pay, even though they are not State employees.
2. Breakout of costs between various cohorts of the total public sector workforce
    a. Those currently in legacy defined benefit plans, for whom SB 88 makes no benefit changes
    b. Active employees who became members of PERS or TRS DCR (Defined Contribution Retirement) after June 30, 2006 and before July 1, 2024 who are assumed to make an irrevocable election to join the new program created by SB88
    c. All employees hired July 1, 2024 and later who will enter the new program
3. Breakout of components of actuarial calculations by year for each subgroup
    a. Payroll
    b. Pension Normal Cost
    c. Health Normal Cost
    d. DCR cost
    e. Administrative Cost
    f. Actuarial Liabilities and Assets for determination of Amortization Cost

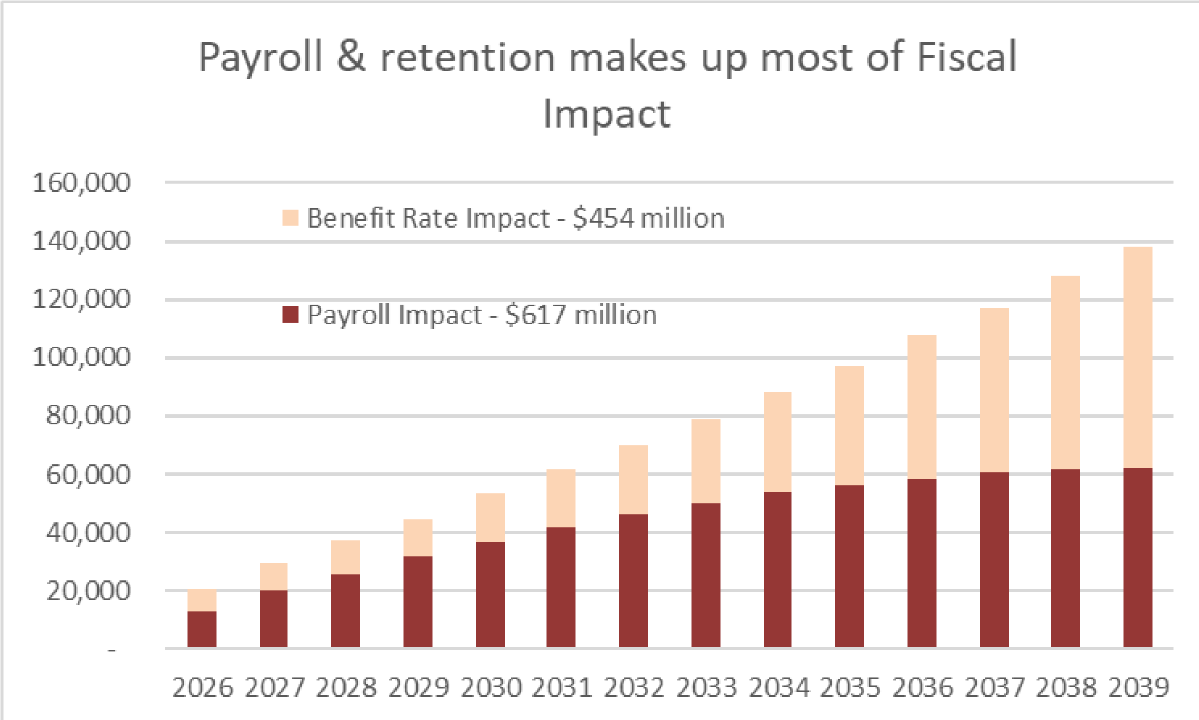
We thank Buck and the Division of Retirement Benefits for providing this detail.

From this detailed breakout, we were able to estimate the various components as illustrated in the graph and table above. The first step is to express the contribution impact between those where the State acts as employer (1b above) and those where the state merely makes additional contributions (1a and 1c). This is shown on page 3 of the Buck letter and illustrated in the following graph.



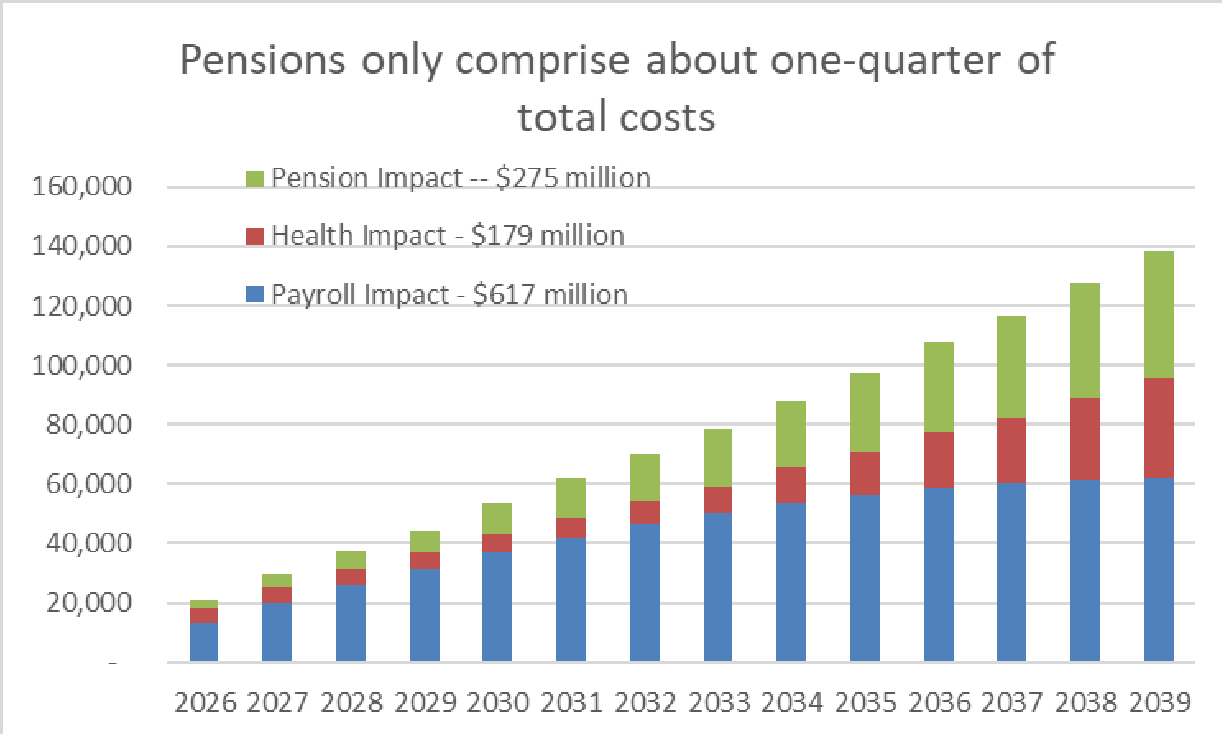
Payroll Impact

A substantial portion of the cost is due to the actuarial assumption that the improved plan will reduce turnover which will result in workers remaining until later in their career. As a result, these workers are assumed to earn higher salaries, resulting in higher benefit costs, even if the benefits were unchanged. For example, total payroll for fourteen years on a status-quo basis is assumed to total $51.6 billion. But with the plan enhancements, retention is assumed to increase this total to $54.5 billion. This extra $3 billion in payroll generates a significant portion of the $1.1 billion total cost. This is shown in the following graph.



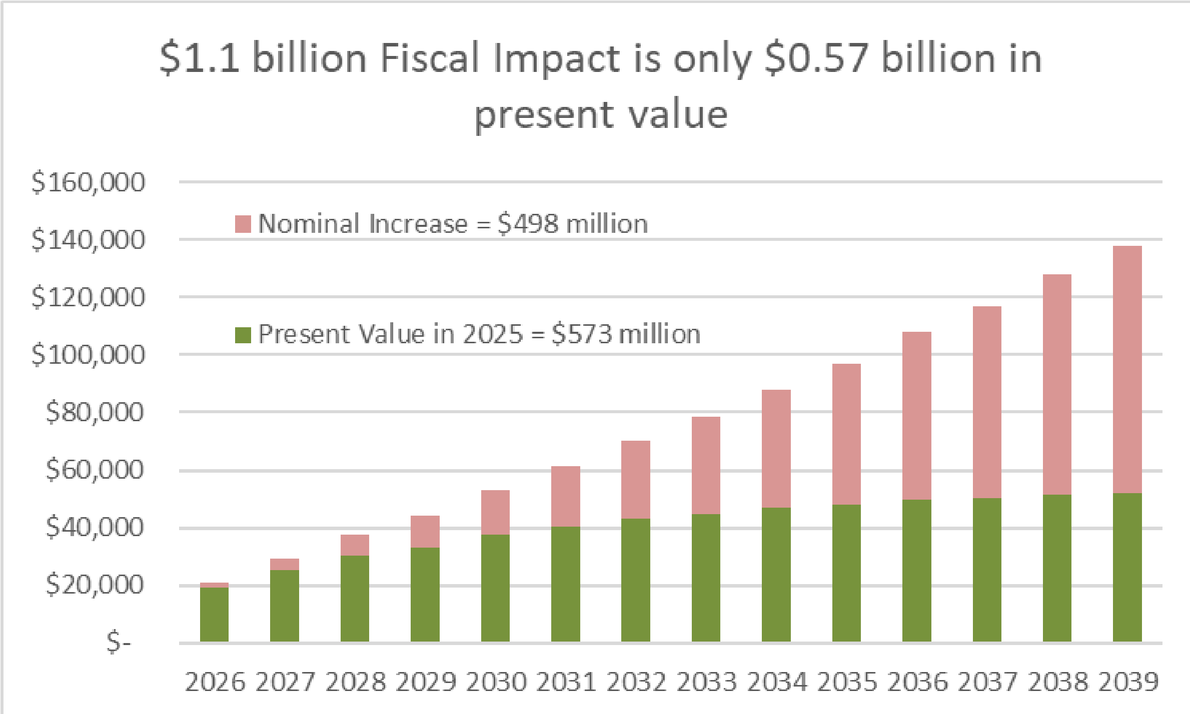
Healthcare Impact

Although SB88 makes no change in healthcare benefits, if the change is successful at encouraging retention, then more Alaskan public employees will work a full career and earn limited retiree health benefits. This would be anticipated to generate additional costs. The following graph isolates the pension costs from the health benefit costs and payroll costs.



Present Value Basis

Although all figures in ordinary actuarial reports are calculated as a present value, this fiscal note expressed the fourteen-year cost as merely the sum of fourteen annual amounts for fourteen years into the future. If these were expressed as a present value using the actuarial assumption of 7.25% discount rate, the results would look quite different. This is illustrated in the following graph.



Combined Breakout of Cost Components

The table and graph on page 2 illustrated the combined impact of both the time-value-of-money and costs which are by-products of SB 88. On a present-value basis, the pension cost of SB88 is $138 million. We encourage the legislature to consider that much of the $1.1 billion total cost is either due to the payroll changes desired by SB88, or costs simply due to the time-value of money.

Actuarial Basis

All calculations are based on the same actuarial assumptions as those used by Buck, the Plan actuary. We recommend that Plan actuary review and refine our estimates. These estimates were based on limited actuarial information, while Plan actuary has complete information.

Actuarial calculations were made by or under the direction of William Fornia, FSA, a Member of the American Academy of Actuaries, who is qualified to render these actuarial opinions. We are available to discuss and clarify this analysis upon request.

Sincerely,

WB Fornia

Cc: Matt Moser – Alaska Public Pension Coalition
Dominic Lazano – Alaska Public Pension Coalition

March 15, 2024

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

RE: Fiscal Note Analysis for SB 88 version T

Dear Ajay,

As requested, we are providing a fiscal note analysis for SB 88 version T (referred to as "SB 88" in this letter)[1].

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, 2024 can make an irrevocable one-time election to join PERS DB or TRS DB, respectively.
- All post-July 1, 2024 hires will enter PERS DB or TRS DB.

The proposed effective date of SB 88 is July 1, 2024. The Alaska Retirement Management Board (ARMB) has already adopted FY25 contribution rates, and they are reflected in our analysis. Accordingly, the first year that contribution rates would be affected by SB 88 is FY26.

The projected cost impact of SB 88 shown in this letter assumes that post-June 30, 2023 experience matches the 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 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 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, SB 88 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 SB 88 members declines. Our projections for this fiscal note letter are 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).

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[1] The text of SB 88 version T is dated January 22, 2024.

As noted in Section F of this letter, our analysis focuses on the potential impact on State contributions to PERS and TRS if SB 88 were to be enacted. SB 88 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 SB 88, we assumed the current DB plan termination rates would apply to 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 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 experience 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 prove to be higher than the current 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 FY26-FY39

State contributions for FY26-FY39 are projected to increase/(decrease) due to SB 88 as shown below (assuming post-June 30, 2023 experience matches the assumptions). Amounts are in $millions.

Additional State Contributions (PERS and TRS)

	PERS			TRS			Total		
Fiscal Year	Current	SB 88	Incr/(Decr)	Current	SB 88	Incr/(Decr)	Current	SB 88	Incr/(Decr)
2026	92.5	101.8	9.3	153.6	149.6	(4.0)	246.1	251.4	5.3
2027	105.8	117.1	11.3	169.0	166.8	(2.2)	274.8	283.9	9.1
2028	108.6	122.1	13.5	172.5	171.5	(1.0)	281.1	293.6	12.5
2029	112.3	127.5	15.2	176.4	176.3	(0.1)	288.7	303.8	15.1
2030	115.7	134.1	18.4	180.7	181.3	0.6	296.4	315.4	19.0
2031	119.8	140.8	21.0	184.9	186.6	1.7	304.7	327.4	22.7
2032	123.9	148.0	24.1	189.6	192.1	2.5	313.5	340.1	26.6
2033	128.3	155.6	27.3	194.5	197.7	3.2	322.8	353.3	30.5
2034	133.0	163.9	30.9	199.4	203.7	4.3	332.4	367.6	35.2
2035	137.6	172.2	34.6	204.6	209.7	5.1	342.2	381.9	39.7
2036	142.2	181.5	39.3	210.0	216.0	6.0	352.2	397.5	45.3
2037	147.3	190.4	43.1	215.7	222.7	7.0	363.0	413.1	50.1
2038	152.1	200.1	48.0	221.4	229.4	8.0	373.5	429.5	56.0
2039	157.4	209.9	52.5	227.5	236.4	8.9	384.9	446.3	61.4
Total	1,776.5	2,165.0	388.5	2,699.8	2,739.8	40.0	4,476.3	4,904.8	428.5

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

	DB			DCR			Total		
Fiscal Year	Current	SB 88	Incr/(Decr)	Current	SB 88*	Incr/(Decr)	Current	SB 88	Incr/(Decr)
2026	286.7	361.0	74.3	89.2	30.5	(58.7)	375.9	391.5	15.6
2027	297.8	378.9	81.1	93.0	32.2	(60.8)	390.8	411.1	20.3
2028	298.9	387.0	88.1	96.8	33.8	(63.0)	395.7	420.8	25.1
2029	301.6	395.9	94.3	100.6	35.4	(65.2)	402.2	431.3	29.1
2030	304.6	406.5	101.9	104.6	37.0	(67.6)	409.2	443.5	34.3
2031	308.6	417.5	108.9	108.6	38.6	(70.0)	417.2	456.1	38.9
2032	313.3	429.2	115.9	112.5	40.1	(72.4)	425.8	469.3	43.5
2033	318.6	441.6	123.0	116.5	41.6	(74.9)	435.1	483.2	48.1
2034	324.6	455.0	130.4	120.5	43.0	(77.5)	445.1	498.0	52.9
2035	331.3	469.0	137.7	124.9	44.6	(80.3)	456.2	513.6	57.4
2036	338.4	484.0	145.6	129.3	46.2	(83.1)	467.7	530.2	62.5
2037	346.3	498.9	152.6	133.6	47.7	(85.9)	479.9	546.6	66.7
2038	354.3	515.1	160.8	137.9	49.1	(88.8)	492.2	564.2	72.0
2039	363.3	531.6	168.3	142.3	50.5	(91.8)	505.6	582.1	76.5
Total	4,488.3	6,171.2	1,682.9	1,610.3	570.3	(1,040.0)	6,098.6	6,741.5	642.9

* Actuarial contribution rate for DCR retirees plus 3% HRA contributions for SB 88 members.

To help users of this letter understand the potential impact of SB 88, we have shown in the tables below the development of the projected FY30 contribution rates and State contributions currently and under SB 88[1].

All contribution rates shown in these tables are expressed as a percentage of *total* payroll.

a. In the "Current" column, total payroll reflects current DB members, current DCR members, and future hires that will enter the DCR plans.

b. In the "SB 88" column, total payroll reflects current DB members, current DCR members who are assumed to transfer to the DB plans, and future hires that will enter the DB plans.

c. As noted earlier, future retention is expected to increase due to SB 88, and this is reflected in the assumptions used in our analysis. Accordingly, projected payroll is expected to be higher after SB 88.

FY30 - PERS Non-State Employers		Current	SB 88
	Total Payroll	$ 1,353,272,000	$ 1,427,624,000
1.	DB Contribution Rate (for current DB members)		
	a. Pension (net of member contributions)	21.65%	20.31%
	b. Healthcare	1.09%	1.02%
	c. Total [1a + 1b]	22.74%	21.33%
2.	DCR Contribution Rate	7.81%	0.04%
3.	SB 88 Contribution Rate (for SB 88 members)		
	a. Pension (net of member contributions)	n/a	5.34%
	b. Healthcare	n/a	2.10%
	c. 3% HRA	n/a	2.58%
	d. Total [3a + 3b + 3c]	n/a	10.02%
4.	Total Employer/State Contribution Rate [1c + 2 + 3d]	30.55%	31.39%
5.	Employer Contribution Rate to DB Trusts [22% - (2 + 3d)]	14.19%	11.94%
6.	Additional State Contribution Rate [1c - 5]	8.55%	9.39%
7.	**Additional State Contribution** [6 x Total Payroll]	**$ 115,705,000**	**$ 134,054,000**

[1] FY30 was arbitrarily chosen for illustrative purposes.

	FY30 - PERS State-as-an-Employer	Current	SB 88
	Total Payroll	$ 1,339,270,000	$ 1,412,853,000
1.	DB Contribution Rate (for current DB members)		
	a. Pension (net of member contributions)	21.65%	20.31%
	b. Healthcare	1.09%	1.02%
	c. Total [1a + 1b]	22.74%	21.33%
2.	DCR Contribution Rate	7.81%	0.04%
3.	SB 88 Contribution Rate (for SB 88 members)		
	a. Pension (net of member contributions)	n/a	5.34%
	b. Healthcare	n/a	2.10%
	c. 3% HRA	n/a	2.58%
	d. Total [3a + 3b + 3c]	n/a	10.02%
4.	Total Employer/State Contribution Rate [1c + 2 + 3d]	30.55%	31.39%
5.	**State-as-an-Employer Contribution** [4 x Total Payroll]	**$ 409,147,000**	**$ 443,495,000**

	FY30 - TRS	Current	SB 88
	Total Payroll	$ 807,592,000	$ 838,845,000
1.	DB Contribution Rate (for current DB members)		
	a. Pension (net of member contributions)	24.70%	23.72%
	b. Healthcare	1.21%	1.16%
	c. Total [1a + 1b]	25.91%	24.88%
2.	DCR Contribution Rate	9.02%	0.02%
3.	SB 88 Contribution Rate (for SB 88 members)		
	a. Pension (net of member contributions)	n/a	5.01%
	b. Healthcare	n/a	1.74%
	c. 3% HRA	n/a	2.52%
	d. Total [3a + 3b + 3c]	n/a	9.27%
4.	Total Employer/State Contribution Rate [1c + 2 + 3d]	34.93%	34.17%
5.	Employer Contribution Rate to DB Trusts [12.56% - (2 + 3d)]	3.54%	3.27%
6.	Additional State Contribution Rate [1c - 5]	22.37%	21.61%
7.	**Additional State Contribution** [6 x Total Payroll]	**$ 180,658,000**	**$ 181,274,000**

We offer the following comments regarding the figures shown above:

1. SB 88 is expected to result in higher retention of State employees over time. As a result, total payroll is projected to be higher when SB 88 members are covered by the DB plans vs the DCR plans.
2. The projected Normal Cost dollar amounts for current DB members are expected to decrease slightly because the rehire load that is currently added to the Normal Cost was removed for the SB 88 projections.

3. The key reasons for projected State contributions to change under SB 88 are a combination of:
   a. The increase in projected payroll and decrease in projected Normal Costs for current DB members (as described in #1 and #2 above).
   b. The increase in annual costs of benefits for SB 88 members (DB vs DCR).
   c. The shifting of employer contributions among the various trusts.

Items #3b and #3c are discussed further below.

Increase in Annual Costs of Benefits for SB 88 Members

Active members currently receive the following benefits under the DCR plans:

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

SB 88 members will receive the following benefits under the DB plans:

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

In the FY30 tables above, 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. The SB 88 contribution rates are higher than the current DCR contribution rates.

The underlying healthcare benefits that SB 88 members will receive in the DB plans are the same as those they currently receive as members of the DCR plans. SB 88 is expected to result in higher retention of State employees over time, which means more employees are projected to participate in the medical plan at retirement if SB 88 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.

Shifting of Employer Contributions Among the Trusts

Currently, the Statutory 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 Statutory employer contribution rate that is not allocated to the DCR plan is allocated to the DB plan. The Additional State Contribution is based on the excess of the actuarially determined contribution rate for the DB plan over the portion of the Statutory employer contribution rate that is allocated to the DB plan.

Over time, as the active DCR population grows and the active DB population declines, the portion of the Statutory employer contributions allocated to the DCR plan will increase. This means that the portion of the

Statutory employer contributions allocated to the DB plan will decrease. As a result, there will be a *shifting* of DB contributions from the employers to the Additional State Contributions over time.

This shifting of employer contributions is also projected to occur under SB 88, with the same result of higher Additional State Contributions over time. As the portion of the total DB active population consisting of SB 88 members is projected to grow over time, the portion of the Statutory employer contribution rate 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 Statutory employer contributions that are allocated to the DB plan.

The projected shifting of employer contributions away from the DB plan is more pronounced if SB 88 is enacted than it is currently, which leads to an increase in Additional State Contributions. For example, consider item #5 in the FY30 tables above:

- PERS Non-State Employers
  - Currently, employers are projected to contribute 22% of total pay - 7.81% to DCR and 14.19% to the DB trusts.
  - Under SB 88, employers are projected to contribute 22% of total pay - 0.04% to DCR, 10.02% to the SB 88 sub-trusts, and 11.94% to the DB trusts.
  - The portion paid by the employers to the DB trusts is projected to *decrease* from 14.19% to 11.94%. This shortfall will be met via higher Additional State Contributions.

- TRS
  - Currently, employers are projected to contribute 12.56% of total pay - 9.02% to DCR and 3.54% to the DB trusts.
  - Under SB 88, employers are projected to contribute 12.56% of total pay - 0.02% to DCR, 9.27% to the SB 88 sub-trusts, and 3.27% to the DB trusts.
  - The portion paid by the employers to the DB trusts is projected to *decrease* from 3.54% to 3.27%. This shortfall will be met via higher Additional State Contributions.

B. Summary of SB 88 Benefit Provisions

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

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[1] As explained on page 1 of this letter, we assumed no increases in member contribution rates for SB 88 members.

- 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[1].
  - 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 5 years[2].
- 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).

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[1] As explained on page 1 of this letter, we assumed no reductions in PRPA benefits for SB 88 members.
[2] 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.

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 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 DCR) and 7% (TRS DCR) 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, and then converted to a total pay basis.

Under SB 88, pension and healthcare sub-trusts will be established within the DB plans. For purposes of this analysis, we have assumed 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. The DCR contribution rates are based on the Actuarial Accrued Liability for current DCR retirees and the Actuarial Value of Assets that remain in the DCR trusts after the asset transfers described in Section D of this letter.

- 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 DCR contribution rates will be deposited to the PERS DCR 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 rates based on SB 88 members' pay will be deposited to the SB 88 sub-trusts. The DCR contribution rates will be deposited to the PERS DCR 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 rates based on SB 88 members' pay will be deposited to the SB 88 sub-trusts. The DCR contribution rates will be deposited to the TRS DCR trusts. The remainder of the employer contribution will be deposited to the TRS DB trusts.

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

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

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

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

a. The sum of the DB, DCR, and SB 88 contribution rates[1].

b. The Statutory 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 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, 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, 2023 will be transferred to the pension sub-trusts to purchase credited service for their DB retirement benefits. The service purchase calculations is to be made on an actuarially equivalent basis determined by the ARMB[2]. 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[3]. 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, 2023 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, 2023.

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, 2023 for SB 88 members who elect to transfer.

d. The estimated amounts that employers are contributing in FY24 and FY25 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 FY24 and FY25 and added interest to June 30, 2025.

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1 The SB 88 contribution rates include the HRA contribution for SB 88 members.

2 For purposes of this analysis, the actuarial equivalent basis reflects the assumptions used to determine liabilities for pension benefits in the June 30, 2023 actuarial valuations, except the retirement rates were a blend of 75% of the DCR retirement rates and 25% of the DB retirement rates.

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

The asset transfer amounts for each item described above are summarized below (in $000's)[1]:

Item	As of Date	PERS		TRS	
		Pension Sub-Trust	Healthcare Sub-Trust	Pension Sub-Trust	Healthcare Sub-Trust
a.	June 30, 2023	$ 1,444,568	$ 0	$ 531,637	$ 0
b.	June 30, 2023	$ 0	$ 239,582	$ 0	$ 76,093
c.	June 30, 2023	$ 8,505	$ 0	$ 23	$ 0
d.	June 30, 2025	$ 209,976	$ 36,169	$ 74,952	$ 7,941

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 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, 2023 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, 2023 and the June 30, 2023 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[2]. 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.

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[1] Amounts as of June 30, 2023 were increased with expected return (7.25% per year) to the July 1, 2024 SB 88 effective date.

[2] 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 summarized in the following table:

	PERS P/F	PERS Others	TRS
Number of DCR actives at June 30, 2023	2,548	22,900	5,877
DC account balances as of June 30, 2023	$ 260M	$ 1,308M	$ 589M
Number of DCR actives with DC account balances at least equal to DB pension liability	387	10,727	3,085
Average % of DCR service credited to DB	76%	85%	91%
DC account balances assumed to be transferred to DB	$ 255M	$ 1,189M	$ 532M
DC account balances remaining	$ 5M	$ 119M	$ 57M

F. Additional Notes

The assumptions and methods used in our analysis are the same as those described in the draft June 30, 2023 PERS and TRS actuarial valuation reports[1], 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 FY24 and FY25 contribution rates adopted by the ARMB in September 2022 and September 2023, respectively, were reflected in our analysis.

The percentage of total PERS payroll represented by the State's employees based on the June 30, 2023 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 draft June 30, 2023 PERS and TRS actuarial valuation reports, except the Normal Cost rehire loads were removed for the SB 88 scenario.

This SB 88 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. This 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 of State employees). This 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.

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[1] As of the date of this letter, the June 30, 2023 PERS and TRS valuation reports have not been finalized or adopted by the ARMB. Accordingly, draft versions of these reports have been issued.

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, 2023 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.

Please see the draft June 30, 2023 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.

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
Buck, A Gallagher Company

Brett Hunter, ASA, EA, MAAA
Senior Consultant
Buck, A Gallagher Company

Robert Besenhofer, ASA, MAAA, FCA
Director
Buck, A Gallagher Company