



March 24, 2022

Mr. Jim Puckett
Deputy Director/Chief Pension Officer
Division of Retirement and Benefits
State of Alaska
P.O. Box 110203
Juneau, AK 99811-0203

RE: Fiscal Note Analysis for HB 220

Dear Jim:

As requested, we are providing a fiscal note analysis for HB 220.

HB 220 is a proposed bill that would:

- (i) allow for the transfer of active members from the State of Alaska Public Employees' Retirement System Defined Contribution Retirement Plan (PERS DCR) to the Public Employees' Retirement System defined benefit plan (PERS DB);
- (ii) provide that all future PERS hires automatically enter PERS DB rather than PERS DCR;
- (iii) allow for the transfer of active members from the State of Alaska Teachers' Retirement System Defined Contribution Retirement Plan (TRS DCR) to the Teachers' Retirement System defined benefit plan (TRS DB);
- (iv) provide that all future TRS hires automatically enter TRS DB rather than TRS DCR.

In this letter, we use "HB 220 PERS members" and "HB 220 TRS members" to refer to PERS and TRS members, respectively, who are affected by HB 220. Collectively, they are referred to as "HB 220 members".

Adverse plan experience (due to poor asset returns and/or 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 impact of HB 220 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 DCR to DB, the State will be taking on greater risk of higher contributions in future years.

A. Impact of HB 220 on Projected State Contributions for FY23-FY28

State contributions for FY23-FY28 are projected to increase/(decrease) due to HB 220 as shown in the table below (assuming no actuarial gains or losses after June 30, 2021):

(\$ millions)	FY23 ¹	FY24	FY25	FY26	FY27	FY28	6-Year Total
Additional State Contributions							
• PERS	\$0.0	\$10.4	\$20.0	\$23.9	\$27.5	\$32.1	\$113.9
• TRS	<u>\$0.0</u>	<u>\$(10.7)</u>	<u>\$(6.4)</u>	<u>\$(5.0)</u>	<u>\$(3.9)</u>	<u>\$(2.9)</u>	<u>\$(28.9)</u>
• Total	\$0.0	\$(0.3)	\$13.6	\$18.9	\$23.6	\$29.2	\$85.0
State-as-an-Employer Contributions							
• PERS	\$1.7	\$67.4	\$80.9	\$88.6	\$96.1	\$104.4	\$439.1
• PERS DCR	<u>\$0.6</u>	<u>\$(53.7)</u>	<u>\$(56.3)</u>	<u>\$(58.9)</u>	<u>\$(61.6)</u>	<u>\$(64.4)</u>	<u>\$(294.3)</u>
• Total	\$2.3	\$13.7	\$24.6	\$29.7	\$34.5	\$40.0	\$144.8
Total State Contributions	\$2.3	\$13.4	\$38.2	\$48.6	\$58.1	\$69.2	\$229.8

Total State contributions are also projected to increase beyond FY28.

To fully understand the overall impact of HB 220 on the State's projected contributions, we have to consider *all* sources of contributions, which includes a shifting of employer contributions between the DB plans and the DCR plans.

On the next three pages, we have illustrated the impact of HB 220 on FY24 contributions (similar results would apply for FY25-FY28). Contribution rates are expressed as a percentage of DB/DCR pay. Contribution amounts on page 3 are in \$000's based on projected pay; contribution amounts on pages 4 and 5 are in \$millions based on projected pay.

- Page 3 – development of projected employer and State contributions for FY24
- Page 4 – sources of projected FY24 contributions (members, employers, State) for PERS DB/DCR
- Page 5 – sources of projected FY24 contributions (members, employers, State) for TRS DB/DCR

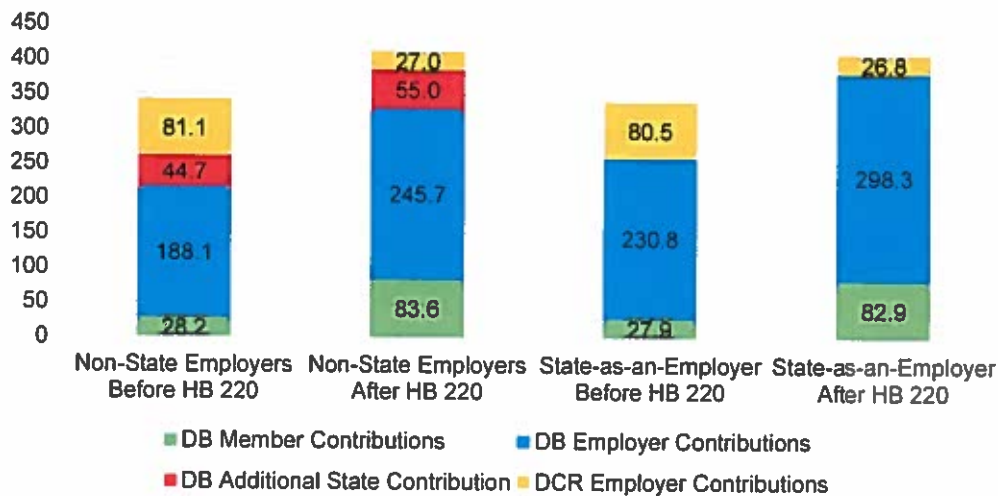
¹ The FY23 Additional State Contribution amounts were adopted by the ARMB in October 2021, so there is no impact on FY23 Additional State Contributions. The FY23 contribution rates were adopted by the ARMB in October 2021. PERS DB/DCR payroll is projected to increase after reflecting HB 220 since employee retention is expected to be higher for those transferring to the DB plan. As a result, projected FY23 State-as-an-Employer contributions increase.

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	PERS - Non-State Employers			PERS - State-as-an-Employer			TRS		
	Current	HB 220	Change	Current	HB 220	Change	Current	HB 220	Change
1 Projected Pay	1,223,929	1,239,760	15,831	1,213,691	1,229,389	15,698	762,084	767,467	5,383
2 DB Normal Cost	81,513	204,684	123,171	80,832	202,973	122,141	57,418	126,099	68,681
3 DB Normal Cost Rate									
3a - Total	6.66%	16.51%	9.85%	6.66%	16.51%	9.85%	7.53%	16.43%	8.90%
3b - Employee (excl. indebtedness)	<u>2.02%</u>	<u>6.47%</u>	<u>4.45%</u>	<u>2.02%</u>	<u>6.47%</u>	<u>4.45%</u>	<u>3.07%</u>	<u>8.23%</u>	<u>5.16%</u>
3c - Employer [3a - 3b]	4.64%	10.04%	5.40%	4.64%	10.04%	5.40%	4.46%	8.20%	3.74%
4 Unfunded Liability Amortization Rate	<u>14.38%</u>	<u>14.22%</u>	<u>-0.16%</u>	<u>14.38%</u>	<u>14.22%</u>	<u>-0.16%</u>	<u>12.90%</u>	<u>12.75%</u>	<u>-0.15%</u>
5 DB Contribution Rate [3c + 4]	19.02%	24.26%	5.24%	19.02%	24.26%	5.24%	17.36%	20.95%	3.59%
6 DCR Contribution Rate	<u>6.63%</u>	<u>2.18%</u>	<u>-4.45%</u>	<u>6.63%</u>	<u>2.18%</u>	<u>-4.45%</u>	<u>7.03%</u>	<u>1.96%</u>	<u>-5.07%</u>
7 DB/DCR Contribution Rate [5 + 6]	25.65%	26.44%	0.79%	25.65%	26.44%	0.79%	24.39%	22.91%	-1.48%
8 Employer Statutory Contribution Rate	22.00%	22.00%	0.00%	n/a	n/a	n/a	12.56%	12.56%	0.00%
9 Employer Contribution Rate									
9a - DB [8 - 9b] or [5]	15.37%	19.82%	4.45%	19.02%	24.26%	5.24%	5.53%	10.60%	5.07%
9b - DCR	<u>6.63%</u>	<u>2.18%</u>	<u>-4.45%</u>	<u>6.63%</u>	<u>2.18%</u>	<u>-4.45%</u>	<u>7.03%</u>	<u>1.96%</u>	<u>-5.07%</u>
9c - Total [9a + 9b]	22.00%	22.00%	0.00%	25.65%	26.44%	0.79%	12.56%	12.56%	0.00%
10 Employer Contribution Amount									
10a - DB [9a x 1]	188,118	245,720	57,602	230,844	298,250	67,406	42,143	81,352	39,209
10b - DCR [9b x 1]	<u>81,146</u>	<u>27,027</u>	<u>(54,119)</u>	<u>80,468</u>	<u>26,801</u>	<u>(53,667)</u>	<u>53,575</u>	<u>15,042</u>	<u>(38,533)</u>
10c - Total [10a + 10b]	269,264	272,747	3,483	311,312	325,051	13,739	95,718	96,394	676
11 Additional State Contribution									
11a - Rate [5 - 9a]	3.65%	4.44%	0.79%	n/a	n/a	n/a	11.83%	10.35%	-1.48%
11b - Amount [11a x 1]	<u>44,673</u>	<u>55,045</u>	<u>10,372</u>	n/a	n/a	n/a	<u>90,155</u>	<u>79,433</u>	<u>(10,722)</u>

Salary schedule
increase added in

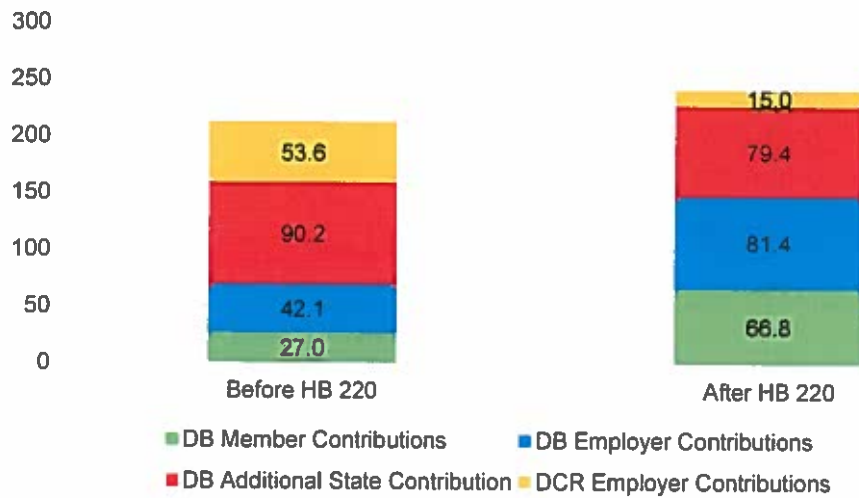
Estimated FY24 Contributions - PERS DB/DCR



FY24 Contributions – PERS DB/DCR	Rate (% of DB/DCR Pay)			Amount (\$millions)		
	Current	HB 220	Change	Current	HB 220	Change
Employers (Non-State)						
• DB	15.37%	19.82%	+4.45%	188.1	245.7	+57.6
• DCR	<u>6.63%</u>	<u>2.18%</u>	<u>-4.45%</u>	<u>81.1</u>	<u>27.0</u>	<u>-54.1</u>
• Total	22.00%	22.00%	0.00%	269.2	272.7	+3.5
Employers (State)						
• DB	19.02%	24.26%	5.24%	230.8	298.3	+67.5
• DCR	<u>6.63%</u>	<u>2.18%</u>	<u>-4.45%</u>	<u>80.5</u>	<u>26.8</u>	<u>-53.7</u>
• Total	25.65%	26.44%	0.79%	311.3	325.1	+13.8
DB Employee	2.02%	6.47%	+4.45%	56.1	166.5	+110.4
DB Additional State Contribution	3.65%	4.44%	+0.79%	44.7	55.0	+10.3
DB Employer/State	19.02%	24.26%	+5.24%	463.7	599.0	+135.3
DB/DCR Employer/State	25.65%	26.44%	+0.79%	625.2	652.8	+27.6

- For non-State employers:
 - The total DB employer/State contribution rate **increases** by 5.24%.
 - Employers continue to contribute 22.00% of pay. The employer DCR contribution rate decreases by 4.45% and the employer DB contribution rate increases by 4.45%.
 - Because the total DB contribution rate increase of 5.24% exceeds the employer DB contribution rate increase of 4.45%, the Additional State Contribution rate **increases** by 0.79%.
- For the State-as-an-Employer:
 - The State-as-an-Employer contributes the full contribution rate. Therefore, the State-as-an-Employer DB contribution rate **increases** by 5.24%.

Estimated FY24 Contributions - TRS DB/DCR



FY24 Contributions – TRS DB/DCR	Rate (% of DB/DCR Pay)			Amount (\$millions)		
	Current	HB 220	Change	Current	HB 220	Change
Employer						
• DB	5.53%	10.60%	+5.07%	42.1	81.4	+39.3
• DCR	<u>7.03%</u>	<u>1.96%</u>	<u>-5.07%</u>	<u>53.6</u>	<u>15.0</u>	<u>-38.6</u>
• Total	12.56%	12.56%	0.00%	95.7	96.4	+0.7
DB Employee	3.07%	8.23%	+5.16%	27.0	66.8	+39.8
DB Additional State Contribution	11.83%	10.35%	-1.48%	90.2	79.4	-10.8
DB Employer/State	17.36%	20.95%	+3.59%	132.3	160.8	+28.5
DB/DCR Employer/State	24.39%	22.91%	-1.48%	185.9	175.8	-10.1

- The total DB employer/State contribution rate **increases** by 3.59%.
- Employers continue to contribute 12.56% of pay. The employer DCR contribution rate decreases by 5.07% and the employer DB contribution rate increases by 5.07%.
- Because the employer DB contribution rate increase of 5.07% exceeds the total DB contribution rate increase of 3.59%, the Additional State Contribution rate **decreases** by 1.48%.

B. Summary of HB 220 Benefit Provisions

HB 220 would allow active members who are in PERS DCR and TRS DCR to make a one-time irrevocable election to transfer to PERS DB or TRS DB, respectively, within 90 days of the July 1, 2022 effective date of the bill. HB 220 also provides that all future PERS hires will enter PERS DB rather than PERS DCR, and all future TRS hires will enter TRS DB rather than TRS DCR.

The key benefit provisions applicable to HB 220 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); or
 - 30 years of credited service
 - TRS
 - Same as for TRS DB Tier 2 members
- Eligibility for healthcare benefits will be the same as the current retiree medical eligibility provisions for members of PERS DCR or TRS DCR.
- To be eligible for retiree medical benefits, a member does not have to retire directly from active service.
- Member contributions:
 - PERS Peace/Fire and TRS – 8% of pay (can be increased by the Alaska Retirement Management Board (ARMB) to no more than 10% of pay)
 - PERS Others – 6% of pay (can be increased by the ARMB to no more than 8% of pay)
- Average pay used to determine retirement benefits:
 - PERS – the 5 consecutive payroll years that yield the highest average
 - TRS – the 3 consecutive payroll years that yield the highest average
- 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 20 years of service, and 2.5% of average pay for service in excess of 20 years
- The Postretirement Pension Adjustment (PRPA) and Alaska residency-based COLA apply. The ARMB can reduce the PRPA for HB 220 members if the funded status of the trust attributable to HB 220 members is less than 90%³.
- The pre-retirement death benefit paid as a survivor annuity is payable upon any death (not just those that are occupation-related). The amount of the survivor annuity is 40% of the member's salary at the time of death (PERS Others and TRS), and the greater of 50% of the member's salary at the time of death or 75% of the member's normal retirement benefit (PERS Peace/Fire). This applies to all PERS and TRS members, not just HB 220 members.
- Retiree medical benefits and member premiums are the same as under PERS DCR and TRS DCR. Surviving spouses are not eligible for medical coverage unless the member met, or would have met had he/she lived, the normal retirement eligibility requirements. Election to participate in the retiree medical plan must be made at the later of age 70 ½ or date of retirement. Retired members and spouses must pay the full monthly premium prior to being eligible for Medicare.

³ For purposes of this analysis, we assumed no future reductions in PRPA benefits for HB 220 members.

C. Employer Contributions Under HB 220

Employer contributions under HB 220 are unchanged from current statutory requirements:

- PERS – Each non-State employer contributes 22% of pay, and the State-as-an-employer contributes the full actuarial contribution rate based on the payroll of its employees.
- TRS – Each employer contributes 12.56% of pay.

Employers will continue to contribute 3% of pay to the HB 220 member's Health Reimbursement Arrangement (HRA) plan trust in accordance with AS Section 39.30.370.

D. Assets to be Transferred to the DB Trusts

In performing our analysis, we assumed various amounts will be transferred to the PERS/TRS DB trusts as described below:

- a. The accumulated employee and employer contributions in each HB 220 member's Defined Contribution (DC) account will be transferred to the PERS/TRS DB pension trusts to purchase credited service for retirement benefits. The service purchase calculations will be made on an actuarially equivalent basis to be determined by the ARMB⁴. If the amount transferred is insufficient to purchase all of the transferred member's DCR service, the member can create an indebtedness for the shortfall⁵. If the amount to be transferred 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 PERS/TRS DB, only the transferred employee contributions with interest will be refunded.
- b. Assets in the PERS/TRS DCR retiree medical trusts will be transferred to the PERS/TRS DB healthcare trusts. The amounts to be transferred equal the lesser of (i) the DB healthcare Actuarial Accrued Liability as of June 30, 2021 for members who elect to transfer, and (ii) the market value of assets in the PERS/TRS DCR retiree medical trusts as of June 30, 2021.
- c. Assets in the PERS/TRS DCR occupational death & disability trusts will be transferred to the PERS/TRS DB pension trusts. The amounts to be transferred equal the DCR occupational death & disability Actuarial Accrued Liability as of June 30, 2021 for members who elect to transfer.
- d. The estimated amounts that employers are contributing in FY22 to PERS/TRS DCR for members' (i) occupational death and disability benefits, (ii) retiree medical benefits, and (iii) DC matching contributions will be deposited to the PERS/TRS DB trusts. We assumed the amounts in (i) and (iii) will be deposited to the PERS/TRS DB pension trusts, and the amounts in (ii) will be deposited to the PERS/TRS DB healthcare trusts. These amounts were estimated based on projected payroll.

⁴ For purposes of this analysis, the actuarial equivalent basis reflects the assumptions used to determine liabilities for pension benefits in the June 30, 2021 actuarial valuations, except the retirement rates were a blend of 75% of the PERS/TRS DCR retirement rates and 25% of the PERS/TRS DB retirement rates.

⁵ For purposes of this analysis, we assumed no employee indebtedness would be created.

The asset transfer amounts are summarized in the table below (in \$000's)⁶:

Item	As of Date	PERS		TRS	
		Pension Trust	Healthcare Trust	Pension Trust	Healthcare Trust
(a)	June 30, 2021	\$1,211,744	\$ 0	\$ 479,314	\$ 0
(b)	June 30, 2021	\$ 0	\$ 204,555	\$ 0	\$ 67,278
(c)	June 30, 2021	\$ 5,997	\$ 0	\$ 28	\$ 0
(d)	June 30, 2022	\$ 83,023	\$ 16,565	\$ 30,004	\$ 3,517

E. Members Assumed to Transfer from DCR to DB

For those who transfer, there will be an additional cost in PERS/TRS DB and a reduction in cost in PERS/TRS DCR. 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 PERS/TRS DCR to PERS/TRS DB. The actual costs of HB 220 will be based on the actual number and demographics of the members who elect to transfer.

We determined the PERS/TRS DB service purchase amounts based on the Actuarial Accrued Liability of pension benefits in PERS/TRS DB (using the June 30, 2021 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 and DC account balances as of June 30, 2021 (employee and employer) that were provided to us. If the total of the DC account balances is equal to or greater than the pension Actuarial Accrued Liability, all of the member's DCR service was credited to PERS/TRS DB. 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 PERS/TRS DB⁷. For example, if an individual'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. The results of this process are described below:

- PERS – Peace Fire
 - As of June 30, 2021, there were 2,358 PERS Peace/Fire active members in PERS DCR with approximately \$229M of DC account balances.
 - Of the 2,358 members, 1,506 members had DC account balances at least equal to their June 30, 2021 pension Actuarial Accrued Liability, so all of their DCR service was credited to PERS DB. The remaining 852 members had partial DCR service credited to PERS DB.
 - On average, approximately 92% of DCR service as of June 30, 2021 was credited to PERS DB.
 - Approximately \$194M of the DC account balances as of June 30, 2021 (approximately 85% of the total) was assumed to be transferred to the PERS DB pension trust.
- PERS – Others
 - As of June 30, 2021, there were 21,583 PERS Others active members in PERS DCR with approximately \$1,243M of DC account balances.
 - Of the 21,583 members, 12,923 members had DC account balances at least equal to their June 30, 2021 pension Actuarial Accrued Liability, so all of their DCR service was credited to PERS DB. The remaining 8,660 members had partial DCR service credited to PERS DB.
 - On average, approximately 90% of DCR service as of June 30, 2021 was credited to PERS DB.

⁶ Amounts as of June 30, 2021 will be increased with expected return to the July 1, 2022 effective date.

⁷ For purposes of this analysis, we did not assume any indebtedness would be created for the shortfall.

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- Approximately \$1,018M of the DC account balances as of June 30, 2021 (approximately 82% of the total) was assumed to be transferred to the PERS DB pension trust.
- TRS
 - As of June 30, 2021, there were 5,521 TRS active members in TRS DCR with approximately \$568M of DC account balances.
 - Of the 5,521 members, 3,951 members had DC account balances at least equal to their June 30, 2021 pension Actuarial Accrued Liability, so all of their DCR service was credited to TRS DB. The remaining 1,569 members had partial DCR service credited to TRS DB.
 - On average, approximately 95% of DCR service as of June 30, 2021 was credited to TRS DB.
 - Approximately \$479M of the DC account balances as of June 30, 2021 (approximately 84% of the total) was assumed to be transferred to the TRS DB pension trust.

F. Additional Notes

The assumptions and methods used in our analysis are the same as those described in the draft June 30, 2021 actuarial valuation reports, except the retirement rates used to determine the costs and liabilities for the “with HB 220” scenario was a blend of 75% of the PERS/TRS DCR retirement rates and 25% of the PERS/TRS DB retirement rates. For purposes of this analysis, we did not assume any ARMB-directed increases in HB 220 member contributions under AS Sections 39.35.160(e), 39.35.160(f) and 14.25.050(e).

The FY23 contribution rates adopted by the ARMB in October 2021 were reflected in our analysis. The FY23 DCR contribution rates were recalculated for the “with HB 220” scenario assuming all active members in the DCR plans as of June 30, 2021 transfer to the DB plans.

The percentage of total PERS DB/DCR payroll represented by the State's employees based on the June 30, 2021 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, 2021 actuarial valuation reports, except we removed the Normal Cost rehire load in all years after FY22 for the “with HB 220” scenario.

This study includes only estimated costs/savings due to the net effects on the employer Normal Cost and Unfunded Actuarial Accrued Liability as eligible members transfer from PERS/TRS DCR to PERS/TRS DB. The study does not include other costs/savings that may be incurred by employers outside of PERS/TRS DB or PERS/TRS DCR (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 under the DB plans).

The ARMB, staff of the State of Alaska, and HB 220 bill sponsors may use this letter for purposes of analyzing the potential cost impact of HB 220. Use of this letter for any other purpose or by anyone other than the Board, staff of the State of Alaska or HB 220 bill sponsors may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods or inapplicability of the letter for that purpose. Because of the risk of misinterpretation of actuarial results, you should ask Buck to review any statement you wish to make on the results contained in this letter. Buck will not accept any liability for any such statement made without the review by Buck.

Future actuarial measurements and projections may differ from the current measurements presented in this letter due to such factors as: plan experience different from that anticipated by the economic and demographic assumptions, increases or decreases 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.

G. ASOP 51 Risk Discussion

Section 6 of the draft June 30, 2021 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 (due to poor asset returns and/or unexpected growth in liabilities) or changes to more conservative assumptions could affect the impact of HB 220 on projected State contributions.

By shifting active members (and all future hires) from DCR to DB, the State will be taking on greater risk of higher contributions in future years.

H. ASOP 56

Please see the draft June 30, 2021 PERS and TRS actuarial valuation reports for a discussion of the use of models in performing our actuarial services, which also applies to this HB 220 fiscal note letter.

I. 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), (216) 315-1929 (Scott), and (260) 423-1072 (Brett).

Respectfully submitted,



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



Scott Young, FSA, EA, MAAA
Director, Health
Buck



Brett Hunter, ASA, EA, MAAA
Senior Consultant
Buck