

Alaska Retirement Management Board (ARMB)

Presentation to Senate Finance Committee

Amortization Policy and Legislative Recommendations

February 16, 2026

Bob Williams, Chair

Agenda

Part 1: Amortization Policy Overview

How and why the ARMB adopted 15-year layering and adjusted the payroll growth assumption

Part 2: Legislative Recommendations

Four ARMB resolutions addressing Defined Contribution (DC) retirement system improvements

Resolution 2025-01

Remove “retire directly” and 12-month active employment requirements for members who have met 30 years (25 Peace Officers / Firefighters) of service

Resolution 2025-02

Three options to reduce 30 years-of-service requirement for DC retiree medical

Resolution 2025-21

Reduce retiree medical eligibility to 20 years of service, funded by a one-time transfer of forfeited Health Reimbursement Arrangement (HRA) funds

Resolution 2025-22

Add non-occupational disability coverage and healthcare for DC members on disability

Present Value of Pension Cash Flows (7.25%)

- The fundamental principle of pension plan funding over the life of a plan is:

$$\text{Investment Earnings} + \text{Contributions} = \text{Benefits} + \text{Expenses}$$

- On a present value basis at any point in time, this equation becomes:

$$\text{Current Assets} + \text{PV of Contributions} = \text{PV of Benefits} + \text{PV of Expenses}$$

- Based on the 2025 valuation baseline projections as of 6/30/25:

\$ in billions	PERS Pension	TRS Pension
Current Assets	\$ 12.3	\$ 6.5
PV of Contributions	<u>5.6</u>	<u>1.8</u>
Total	\$ 17.9	\$ 8.3
PV of Benefits	\$ 17.9	\$ 8.3
PV of Admin Expenses	<u>0.0</u>	<u>0.0</u>
Total	\$ 17.9	\$ 8.3

PERS split of \$5.6B:
 \$2.7B State-as-an-Employer
 \$1.9B Non-State Employers
 \$0.7B State Assistance
 \$0.3B Employees

TRS split of \$1.8B:
 \$0.3B Employers
 \$1.4B State Assistance
 \$0.1B Employees

Cash flows were discounted at 7.25%. PV of admin expenses (\$40M PERS, \$18M TRS) rounds to zero in \$ billions.

Present Value of Pension Cash Flows (2.50%)

- At the request of the ARMB, the calculations on the previous slide were repeated by discounting future cash flows using the inflation assumption of 2.50% rather than the expected return of 7.25%.
- Based on the 2025 valuation baseline projections as of 6/30/25:

\$ in billions	PERS Pension	TRS Pension
Current Assets	\$ 12.3	\$ 6.5
Inflation-Adjusted Future Investment Earnings	12.7	5.7
Inflation-Adjusted PV of Contributions	<u>7.3</u>	<u>2.3</u>
Total	\$ 32.3	\$ 14.5
Inflation-Adjusted PV of Benefits	\$ 32.3	\$ 14.5
Inflation-Adjusted PV of Admin Expenses	<u>0.0</u>	<u>0.0</u>
Total	\$ 32.3	\$ 14.5

PERS split of \$7.3B:
 \$3.5B State-as-an-Employer
 \$2.5B Non-State Employers
 \$0.9B State Assistance
 \$0.4B Employees

TRS split of \$2.3B:
 \$0.3B Employers
 \$1.8B State Assistance
 \$0.2B Employees

4

Cash flows were discounted at 2.50%. Inflation-adjusted PV of admin expenses (\$49M PERS, \$22M TRS) rounds to zero in \$ billions.

Why the ARMB Uses Investment Return Smoothing

Five-Year Return Smoothing: How It Works

The Challenge

Budgets are annual, but markets are volatile.

Without smoothing, a single bad year like 2009 (-20.6% return) would cause an immediate spike in employer contribution rates, straining municipal and school district budgets.

Similarly, a single great year like 2021 (+27.6%) would create a temporary dip followed by a painful rebound.

The Solution

Five-year smoothing spreads each year's gain or loss evenly over five years (20% per year).

This does not mask the real cost — the entire gain or loss is fully recognized. It is simply phased in over five years.

Result: Steadier employer contribution rates and more predictable State assistance from year to year.

Smoothing in Action: 2009 Loss & 2021 Gain

FY2009: Market Loss

Actual return: **-20.6%**

Expected return: 8.25%

Smoothed: 20% of loss recognized per year
over five years

80% of the loss deferred — preventing an
immediate spike

FY2021: Market Gain

Actual return: **+27.6%**

Expected return: 7.38%

Smoothed: 20% of gain recognized per
year over five years

Avoids one-year dip followed by a rebound

Recognition Schedule (Illustrative)

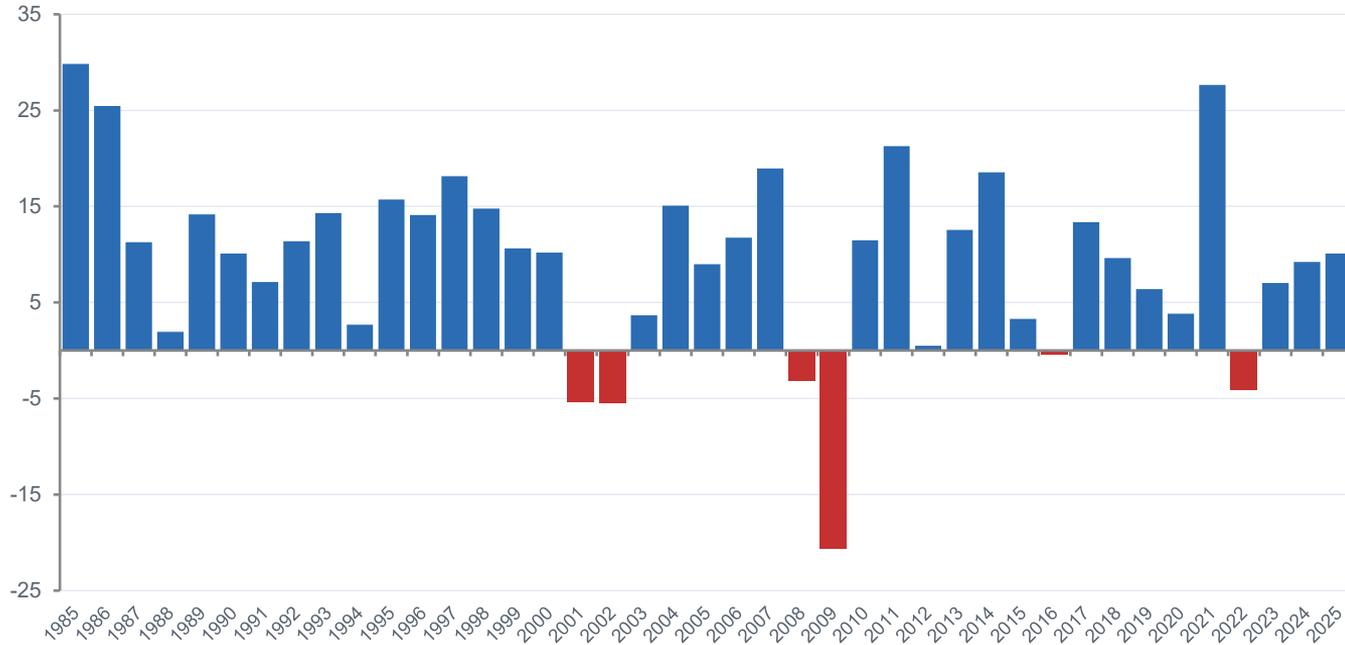
Year After Event	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Portion Recognized	20%	20%	20%	20%	20%	100%

The entire gain or loss is recognized — smoothing only changes the timing, not the total amount.

ARMB Rolling Returns Seeing Through the Volatility

ARMB One-Year Returns (FY1985-2025)

Annual returns show extreme volatility — from -20.6% to +29.8%



Summary

Minimum

-20.6%

Maximum

+29.8%

Mean

9.4%

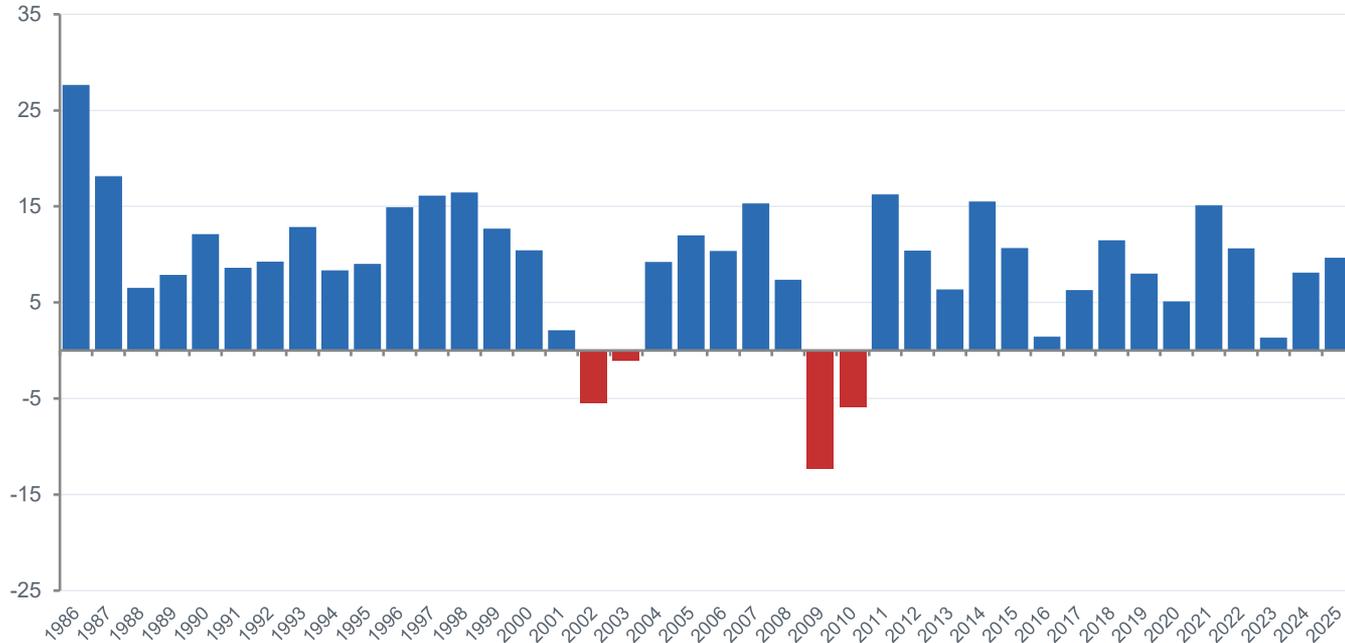
Range

50.4 % Points

Current assumption: 7.25% | All charts use same vertical scale for accurate visual comparison

ARMB Rolling Two-Year Returns

Averaging over two years begins to reduce extremes — worst loss narrows from -20.6% to -12.3%



Current assumption: 7.25% | All charts use same vertical scale for accurate visual comparison

Summary

Minimum

-12.3%

Maximum

+27.6%

Mean

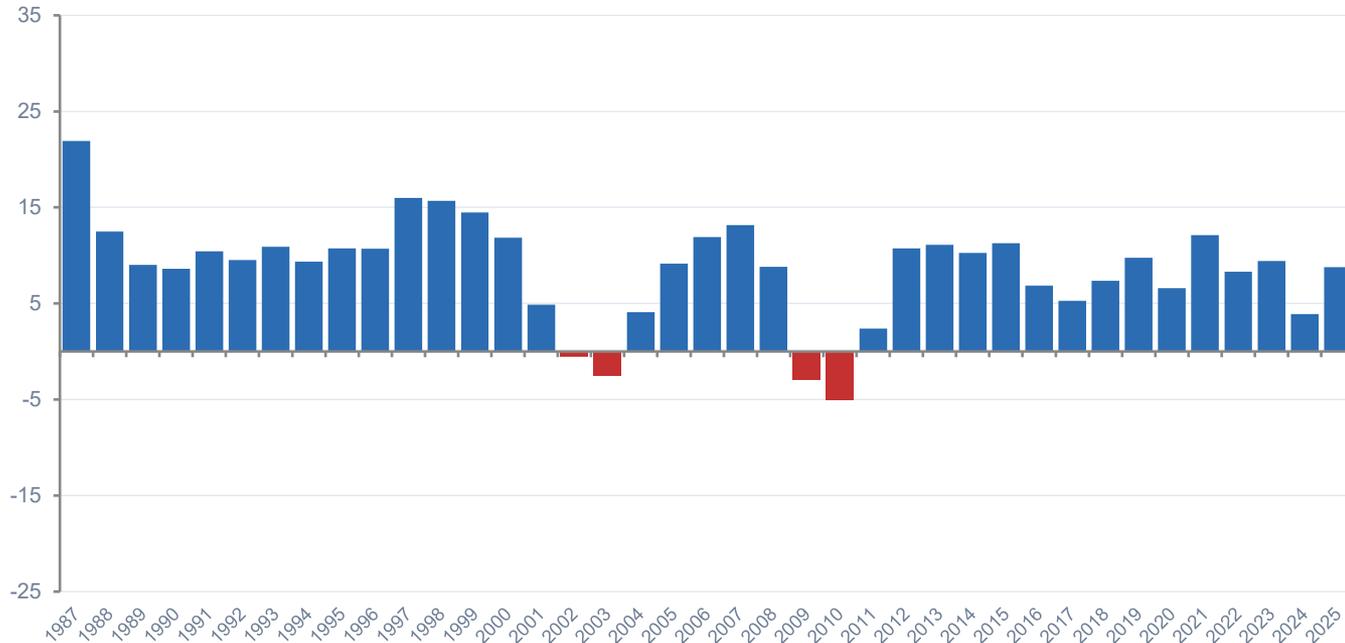
9.0%

Range

39.9 % Points

ARMB Rolling Three-Year Returns

Three-year rolling returns narrow the range — still some shocks visible from major market events



Current assumption: 7.25% | All charts use same vertical scale for accurate visual comparison

Summary

Minimum

-5.0%

Maximum

+21.9%

Mean

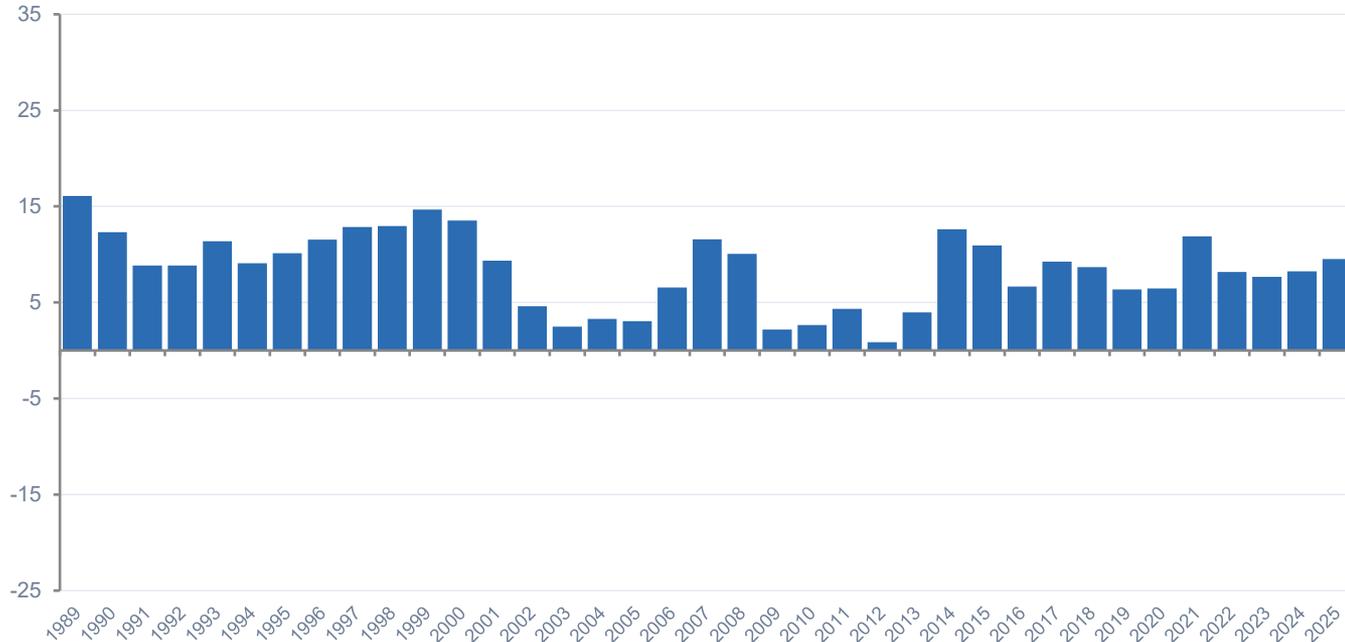
8.6%

Range

26.9 % Points

ARMB Rolling Five-Year Returns

Five years of smoothing closely mirrors the ARMB's actual smoothing policy — volatility drops substantially



Summary

Minimum

+0.9%

Maximum

+16.1%

Mean

8.5%

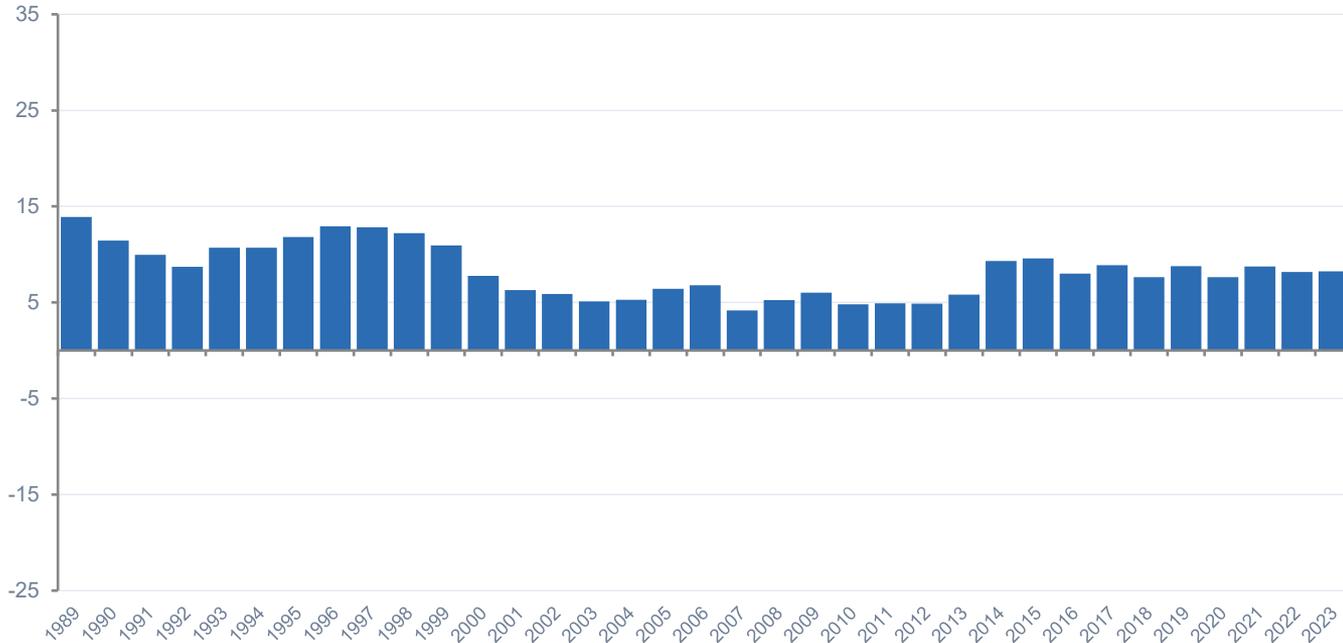
Range

15.2 % Points

Current assumption: 7.25% | All charts use same vertical scale for accurate visual comparison

ARMB Rolling Seven-Year Returns

Seven years of averaging further smooths returns — the range continues to narrow toward the long-term mean



Summary

Minimum

+4.2%

Maximum

+13.9%

Mean

8.3%

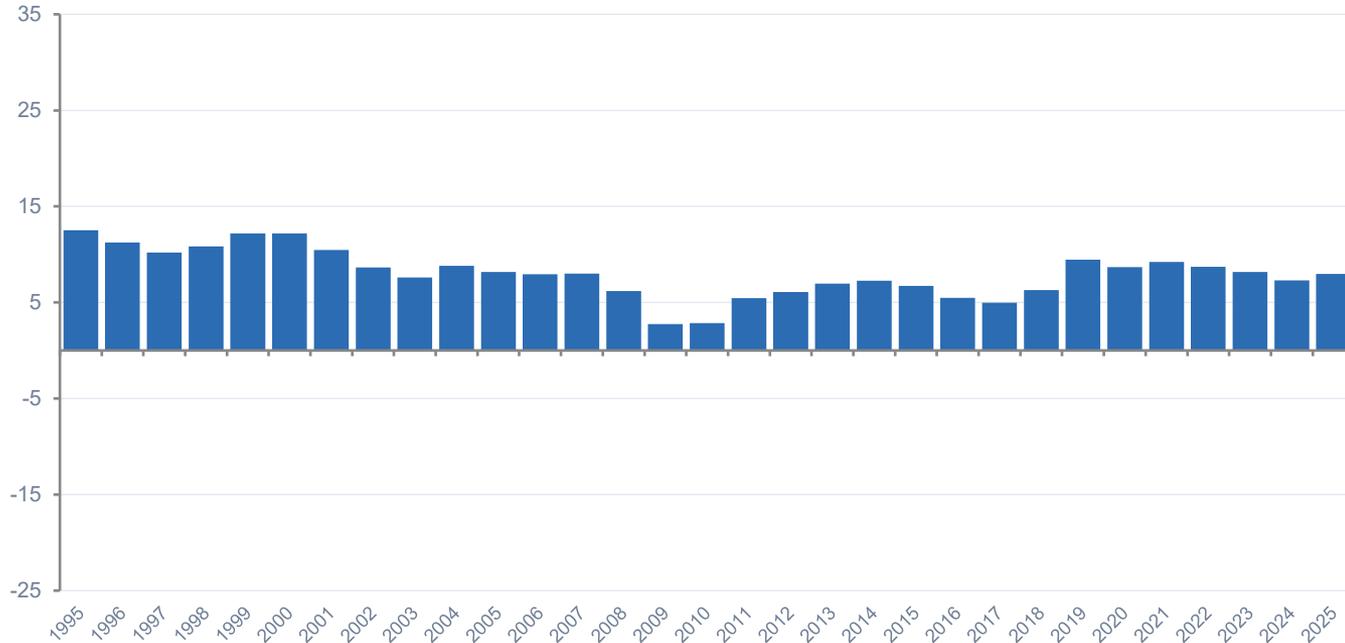
Range

9.8 % Points

Current assumption: 7.25% | All charts use same vertical scale for accurate visual comparison

ARMB Rolling Ten-Year Returns

Over a decade, returns converge toward the long-term expectation with far fewer surprises



Current assumption: 7.25% | All charts use same vertical scale for accurate visual comparison

Summary

Minimum

+2.7%

Maximum

+12.5%

Mean

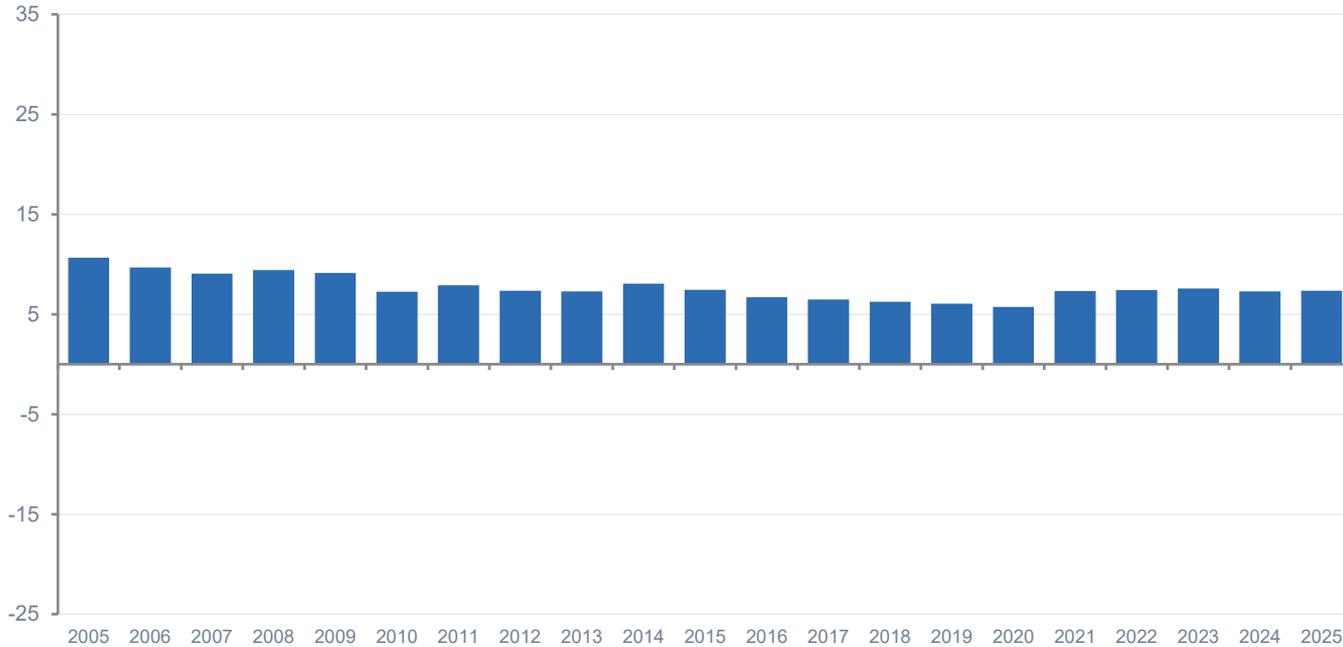
8.2%

Range

9.8 % Points

ARMB Rolling Twenty-Year Returns

Twenty-year returns show remarkable stability — the range narrows to under 5 percentage points



Current assumption: 7.25% | All charts use same vertical scale for accurate visual comparison

Summary

Minimum

+5.7%

Maximum

+10.7%

Mean

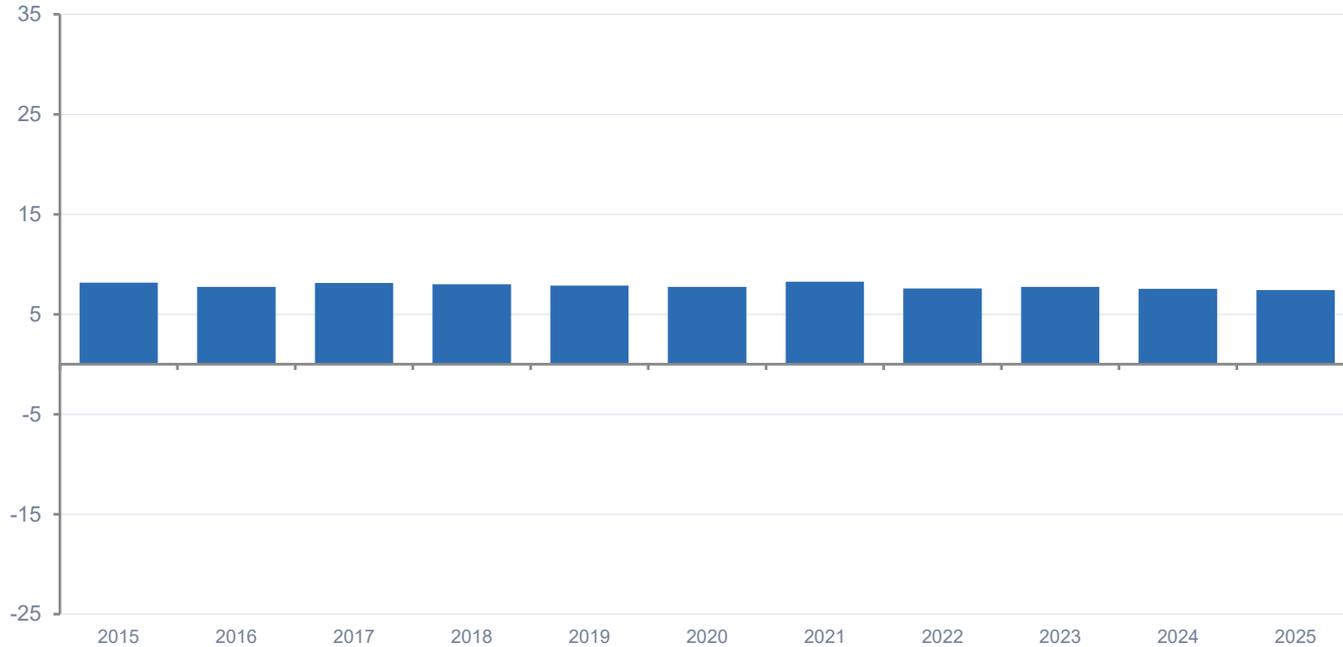
7.7%

Range

5.0 % Points

ARMB Rolling Thirty-Year Returns

Over 30 years, returns have ranged only from 7.4% to 8.9% — validating the long-term assumption



Current assumption: 7.25% | All charts use same vertical scale for accurate visual comparison

Summary

Minimum

+7.4%

Maximum

+8.9%

Mean

7.9%

Range

1.5 % Points

The Effect of Smoothing: Volatility Narrows Over Time

As the rolling period lengthens, the range of returns shrinks dramatically — validating both the smoothing policy and the long-term return assumption.

Period	Minimum	Maximum	Range	Mean
1 Year	-20.6%	+29.8%	50.4 % Points	9.4%
2 Year Rolling	-12.3%	+27.6%	39.9 % Points	9.0%
3 Year Rolling	-5.0%	+21.9%	26.9 % Points	8.6%
5 Year Rolling	+0.9%	+16.1%	15.2 % Points	8.5%
7 Year Rolling	+4.2%	+13.9%	9.8 % Points	8.3%
10 Year Rolling	+2.7%	+12.5%	9.8 % Points	8.2%
20 Year Rolling	+5.7%	+10.7%	5.0 % Points	7.7%
30 Year Rolling	+7.4%	+8.9%	1.5 % Points	7.9%

The 30-year rolling mean of 7.9% closely tracks the ARMB's current 7.25% assumption.

Sometimes there are still shocks to the system, but smoothing helps prevent them from destabilizing employer budgets.

ARMB Actions: Reducing State Costs & Responsible Adjustments

ARMB Actions That Reduced State of Alaska Costs

DB Healthcare Normal Cost

In 2021, the ARMB zeroed out Defined Benefit healthcare normal cost as the healthcare trusts were more than fully funded.

First-year reduced costs: \$88.8 million

Ongoing reductions of tens of millions per year

The Judicial Retirement System

In 2025, the ARMB recommended restructuring the Judicial Retirement System's amortization schedule after it was projected to be fully funded, eliminating continued multi-million-dollar unfunded accrued liability payments on a system that no longer had an unfunded liability.

Important Context

The ARMB reviews these decisions annually. The zeroing of healthcare normal cost and JRS adjustments produced meaningful reductions in costs to the State of Alaska.

Adjustments That Increased Costs This Year But Save in the Long Run

Payroll Growth Assumption

Reduced from 2.75% to experience-based levels (2.0% PERS, 1.0% TRS), aligned with the 10-year geometric average.

The prior assumption (inflation plus an additional margin) did not reflect actual payroll growth trends. Updating it improves accuracy and transparency in projecting future contributions.

15-Year Layering Policy

Maintains the required level-percent-of-pay structure but shortens new layers from 25 years to 15 years.

Under 25-year layering, payments were heavily backloaded — after 13 years, only about 10% of a new unfunded liability layer would be paid down, with extended early negative amortization.

These adjustments reflect the actuarial discipline needed to strengthen the system over time. The same fiduciary focus that delivered cost reductions in healthcare and the Judicial Retirement System now guides what is required to responsibly reduce pension liabilities over the long term.

Historical Context: Amortization Policy 2006-2014

2006: Original Plan

The ARMB began managing the Public Employees' and Teachers' Retirement Systems. Adopted level-percent-of-payroll method with a 25-year schedule to pay off unfunded liabilities by 2030.

2007-2008: Employer Rate Crisis

Contribution rates surged to unsustainable levels. Fairbanks faced PERS rates of 180.94% of payroll. Anchorage School District TRS rates rose from 26% to 54%. Legislature capped employer rates at 22% for PERS and 12.56% for TRS, with the state covering the shortfall.

2012: Accelerated Approach

The ARMB adopted level-dollar amortization to reduce unfunded liabilities more aggressively, still targeting 2030.

2014: Legislative Changes

Reverted to level-percent-of-payroll. Extended amortization from 2030 to 2039. Legislature infused \$3 billion into the pension system.

The 2014 Changes: Trade-offs

What Helped

\$3 billion infusion improved funded ratios:

PERS Pension: 59.5% to 67.0%

TRS Pension: 53.3% to 76.9%

What Increased Long Term Costs

Level-percent-of-payroll deferred payments

Extension to 2039 added more interest

Actuary estimated \$5B added to total costs in nominal dollars (2018 ISER Report)

2018 ISER Report

“Kris Erchinger, a trustee of the Alaska Retirement Management Board who also served as the City of Seward’s finance director, pointed out at a meeting of the board that the \$1 billion appropriation to PERS ‘reduced the [s]tate assistance by \$42 million a year and the House Bill 385 changes [re -started amortization schedule and level percent of pay] reduced the [s]tate assistance by \$302 million a year.’ ”

Funded Ratios: Flat Progress Since 2015

Despite the \$3 billion infusion in 2014-2015, funded ratios remained essentially flat for eight years.

Year	PERS Pension	TRS Pension		Year	PERS Pension	TRS Pension
2006	78.2%	67.8%		2016	66.4%	75.8%
2007	77.8%	68.2%		2017	66.7%	75.9%
2008	78.8%	70.2%		2018	64.6%	76.2%
2009	63.0%	57.0%		2019	63.7%	75.3%
2010	62.4%	54.3%		2020	63.6%	75.0%
2011	61.9%	54.0%		2021	67.9%	79.1%
2012	57.1%	49.9%		2022	68.1%	78.2%
2013	54.5%	48.1%		2023	67.0%	76.8%
2014	59.7%	54.5%		2024	68.0%	77.9%
2015	67.0%	76.9%		2025	70.3%	79.8%

Source: Resolution 2025-04 Attachment 1 (Gallagher Actuarial Valuations)

Amortization Methods Comparison

\$1 Million Unfunded Liability | 7.25% Interest Rate | 2.75% Annual Payroll Growth

Yr	Level Dollar Liability	Amortization Payment	Level Percent Liability	Amortization Payment
1	\$1,000,000	\$82,000	\$1,000,000	\$64,000
2	\$985,000	\$82,000	\$1,004,000	\$66,000
3	\$968,000	\$82,000	\$1,007,000	\$67,000
4	\$951,000	\$82,000	\$1,007,000	\$69,000
5	\$932,000	\$82,000	\$1,006,000	\$71,000
6	\$912,000	\$82,000	\$1,003,000	\$73,000
7	\$890,000	\$82,000	\$997,000	\$75,000
8	\$867,000	\$82,000	\$989,000	\$77,000
9	\$842,000	\$82,000	\$978,000	\$79,000
10	\$815,000	\$82,000	\$964,000	\$81,000
11	\$787,000	\$82,000	\$946,000	\$84,000
12	\$756,000	\$82,000	\$925,000	\$86,000
13	\$723,000	\$82,000	\$900,000	\$88,000

Yr	Level Dollar Liability	Amortization Payment	Level Percent Liability	Amortization Payment
14	\$688,000	\$82,000	\$870,000	\$91,000
15	\$650,000	\$82,000	\$836,000	\$93,000
16	\$609,000	\$82,000	\$796,000	\$96,000
17	\$566,000	\$82,000	\$751,000	\$98,000
18	\$519,000	\$82,000	\$700,000	\$101,000
19	\$469,000	\$82,000	\$642,000	\$104,000
20	\$415,000	\$82,000	\$577,000	\$107,000
21	\$357,000	\$82,000	\$505,000	\$110,000
22	\$296,000	\$82,000	\$424,000	\$113,000
23	\$229,000	\$82,000	\$333,000	\$116,000
24	\$158,000	\$82,000	\$233,000	\$119,000
25	\$82,000	\$82,000	\$122,000	\$122,000

Inflation & Payroll Growth Assumptions

FY Ending June 30	Valuation Assumptions			Actual Payroll Increases	
	Inflation	Payroll Growth	Basis Point Difference	PERS DB & DCR	TRS DB&DCR
2006	3.50%	4.00%	50	n/a	n/a
2007	3.50%	4.00%	50	7.69%	1.63%
2008	3.50%	4.00%	50	4.09%	3.73%
2009	3.50%	4.00%	50	6.60%	6.79%
2010	3.12%	3.62%	50	5.65%	5.83%
2011	3.12%	3.62%	50	2.83%	1.84%
2012	3.12%	0.00%	n/a	3.19%	1.68%
2013	3.12%	0.00%	n/a	3.16%	-0.87%
2014	3.12%	3.62%	50	-1.70%	-2.00%
2015	3.12%	3.62%	50	0.16%	3.58%
2016	3.12%	3.62%	50	1.17%	0.23%
2017	3.12%	3.62%	50	-0.72%	0.43%
2018	2.50%	2.75%	25	-1.03%	-1.98%
2019	2.50%	2.75%	25	3.53%	-1.76%
2020	2.50%	2.75%	25	1.10%	2.13%
2021	2.50%	2.75%	25	1.42%	1.25%
2022	2.50%	2.75%	25	1.46%	1.15%
2023	2.50%	2.75%	25	6.01%	-0.61%
2024	2.50%	2.75%	25	8.18%	3.32%

Actual Payroll Increases: Historical Averages

Actual Payroll Increases		
Averages	PERS DB&DCR	TRS DB&DCR
6/30/06 to 6/30/24		
· Geometric	2.89%	1.44%
· Arithmetic	2.93%	1.47%
6/30/14 to 6/30/24		
· Geometric	2.09%	0.76%
· Arithmetic	2.13%	0.77%

The Payroll Growth Problem

Under level-percent-of-payroll, amortization payments are calculated as a fixed percentage of projected payroll and assume payroll will grow each year. The method relies on future payroll being larger so that the same percentage will generate increasing dollar contributions over time.

PERS Actual
Payroll Growth

2.09%

(10-year avg, FY2014-FY2024)

TRS Actual
Payroll Growth

0.76%

(10-year avg, FY2014-FY2024)

Assumed
Payroll Growth

2.75%

(since FY2018)

Key Takeaway

When actual payroll growth consistently falls short of the assumption, the larger dollar contributions expected in later years never fully materialize. TRS payroll grew only 0.76% annually over the past decade versus the 2.75% assumption. That gap meant smaller contributions each year than the funding schedule anticipated, pushing more of the unfunded liability into the future and increasing the total cost over time.

What Happened with 25-Year Layers (2018-Present)

In 2018, the ARMB adopted layered amortization to manage new unfunded liabilities. Several trustees expressed concern about the length of the 25-year period, but at the time it was understood to be the required amortization timeframe for each new layer, limiting flexibility to shorten it.

Within just a few years:

\$2+ Billion

in unfunded liability pushed past 2039
due to 25-year layers combined with
overestimated payroll growth

10%

of a typical layer would be paid down after 13 years
of payments under the combined effect
of 25-year layers and level percent of pay

The ARMB's Concern: Repeating the cycle of extending payoff periods or refinancing debt further out could turn a 25-year plan into an obligation without an end date, significantly increasing long-term costs.

Resolution 2025-04: Actuarial Amortization Policy

Adopted March 12, 2025; Amended June 17, 2025

What the ARMB Resolved:

The 2014 legislature intended the original unfunded liability to be paid off by 2039 under 25-year amortization. The ARMB has determined that it retains authority to amortize new layers over shorter periods (less than 25 years) in alignment with actuarial best practices.

Core Principles:

Tailored Amortization

25 years for large long-term liabilities; shorter periods for year-to-year fluctuations

Avoid Deferred Debt

Prevent cycle of extending payoff periods that turns finite plans into open-ended obligations

Fiscal Discipline

In 2023 and 2024, ARMB deliberately set rates to avoid adding new layers

Flexibility Retained

If actuarial losses occur, the ARMB can layer new liabilities over shorter periods

Why the ARMB Chose 15-Year Layering

Comparing 25-Year Layers vs. 15-Year Layers: All Cost Categories (\$ in millions)

PERS Additional State Contributions

	25-Yr Layers (Scenario 1b)	15-Yr Retro (Scenario 1d)	Difference
Through 2039	\$1,085M	\$1,051M	\$34M less
Remaining after 2039	\$0M	\$0M	—
Total	\$1,085M	\$1,051M	\$34M less

TRS Additional State Contributions

	25-Yr Layers (Scenario 1b)	15-Yr Retro (Scenario 1d)	Difference
Through 2039	\$1,996M	\$1,978M	\$18M less
Remaining after 2039	\$0M	\$0M	—
Total	\$1,996M	\$1,978M	\$18M less

Source: Gallagher September 2025 Actuarial Committee Packet

PERS Total State-as-Employer Contributions

	25-Yr Layers (Scenario 1b)	15-Yr Retro (Scenario 1d)	Difference
Through 2039	\$3,805M	\$3,751M	\$54M less
Remaining after 2039	\$122M	\$8M	\$114M less
Total	\$3,927M	\$3,759M	\$168M less

Key Takeaway

15-year layering is less expensive across all three cost categories. The critical difference is \$114M less unfunded liability remaining after 2039 for PERS employer contributions — preventing the cycle of extending payoff periods.

15-Year Layering: Total Savings

Total cost comparison of 25-Year Layers (Scenario 1b) versus 15-Year Retroactive Layers (Scenario 1d)

Cost Category	25-Year Layers	15-Year Retro	Savings
PERS Additional State	\$1,085M	\$1,051M	\$34M
PERS State-as-Employer	\$3,927M	\$3,759M	\$168M
TRS Additional State	\$1,996M	\$1,978M	\$18M
Combined Total	\$7,008M	\$6,788M	\$220M

Unfunded Liability Remaining After 2039

25-Year Layers: \$122M (PERS employer)

15-Year Layers: \$8M (PERS employer)

Difference: \$114M less deferred past 2039

The Critical Risk

Repeating the 2018 pattern of combining long amortization with optimistic payroll growth assumptions pushed over \$2 billion past 2039. The 15-year layering approach reduced this risk.

Source: Gallagher September 2025 Actuarial Committee Packet

Part 2: Legislative Recommendations

Four ARMB Resolutions to Strengthen
Alaska's Defined Contribution Retirement System

Alaska Retirement Management Board • Senate Finance Committee • February 2026

Resolution 2025-01

Remove Barriers to Retirement Healthcare Eligibility

The Problem

Current law has a barrier that hurts long-serving employees:

12-Month Active Employment Requirement

Current law requires members to “retire directly from the plan” and be actively employed for 12 consecutive months immediately before retirement to qualify for retiree medical benefits — even if they have already met the 30-year (25 years for Peace Officers and Firefighters) service threshold.

ARMB Recommendation

1. Remove the “retire directly” and 12-month active employment requirements for the 30-year (25-year Peace Officers and Firefighters) pathway

Members who have met the full service requirement must pay 100% of premiums until Medicare eligibility. They should have flexibility in when they begin coverage — not be required to return to work at age 64 simply to qualify at 65.

2. Retain the 12-month requirement only for the age 65 / 10-year pathway

Members retiring at normal retirement age with 10 years of service must still be actively employed for 12 months preceding retirement.

Resolution 2025-01: Why This Matters

Real-World Impact

A Defined Contribution member who has completed 30 years of service (25 for Peace Officers and Firefighters) has fully met the plan's service requirement for retiree healthcare. Yet under current law, a 60-year-old who leaves employment but does not want to begin paying the full premium before age 65 may be forced to return to covered employment at age 64 simply to retire directly from the plan. Before Medicare eligibility, members must pay the entire premium out-of-pocket or through their HRA. Those who have already met the substantial service requirement should have flexibility in when they enroll and how they use their HRA, rather than being compelled to seek temporary re-employment.

Eligibility Pathway	Current 12-Month Req.	Proposed
30 years of service (PERS/TRS)	Required	Removed
25 years of service (Peace Officers / Firefighters)	Required	Removed
Age 65 with 10+ years of service	Required	Retained

The 12-month requirement is retained for the age 65 / 10-year pathway to maintain the "retire directly from the plan" standard for members with the minimum service threshold. The resolution also allows interest to accrue on HRA accounts for members who leave and return, replacing the current CPI-only adjustment and better preserving purchasing power.

Resolution 2025-02

Reduce Years of Service for Retiree Medical Eligibility — Three Options

Current law requires 30 years of service and 30 years of employer contributions (25 for peace officers and firefighters) or age 65 with 10 years. Defined Contribution members must pay the full healthcare premium before Medicare eligibility, and after age 65 the plan becomes secondary to Medicare and subsidizes only a portion of the premium. Requiring 30 years of service including 30 years of employer contributions to access coverage that is secondary to Medicare may be more restrictive than necessary.

25 Years of Service

25 years for all employees

Actuarial Impact:

Plans remain above 100% funded

PERS: 108% funded

TRS: 116% funded

Additional cost:

Modest normal cost adjustment

No one-time funding needed

25/20 Split

20 years for Peace Officers / Firefighters, 25 years for all others

Actuarial Impact:

Plans remain above 100% funded

PERS: 104% funded

TRS: 116% funded

Additional cost:

Modest normal cost adjustment

No one-time funding needed

20 Years of Service

20 years for all employees

Actuarial Impact:

Requires one-time funding

PERS: \$38M unfunded

TRS: \$8M unfunded

Total one-time cost:

\$46–50 million

See Res. 2025-21 for funding

All three options retain the existing pathway: age 65 with 10+ years of service. Members pay 100% of premiums before age 65; post-65 cost sharing is based on years of service. TRS members do not participate in Social Security or SBS, making access to retiree healthcare especially critical.

Resolution 2025-02: Actuarial Comparison

PERS DCR Healthcare Plan

	Current (30/25 Years of Service)	25 Years of Service	25/20 Split	20 Years of Service
Funded Ratio	121%	108%	104%	87%
Unfunded Liability	(\$42M surplus)	(\$18M surplus)	(\$10M surplus)	\$38.4M
Normal Cost (% Payroll)	0.86%	0.96%	1.00%	1.19%

TRS DCR Healthcare Plan

	Current (30 Years of Service)	25 Years of Service	25/20 Split	20 Years of Service
Funded Ratio	136%	116%	116%	90%
Unfunded Liability	(\$21M surplus)	(\$11M surplus)	(\$11M surplus)	\$8.3M
Normal Cost (% Payroll)	0.74%	0.86%	0.86%	1.06%

Resolution 2025-21

Funding the 20-Year Eligibility Option (from Resolution 2025-02)

Why This Resolution Exists

Resolution 2025-02 included an option recommending reducing retiree medical eligibility to 20 years for all employees, which creates a one-time actuarial cost of approximately \$46–50 million. This resolution identifies a fiscally responsible way to pay for it: a one-time transfer from Health Reimbursement Arrangement (HRA) balances that are expected to be permanently forfeited by former employees who left before vesting and are highly unlikely to return.

The Benefit

Allows members who retire before age 65 with 20+ years of service to:

- Access the retiree medical plan
- Apply HRA funds toward premiums
- Bridge the gap to Medicare at 65

Members still pay 100% of premiums before 65.

The transfer is non-recurring, limited to forfeited unvested balances, does not draw from active or vested accounts, and all assets continue to be used exclusively for participant medical benefits as required by statute.

What Is the HRA?

The Health Reimbursement Arrangement is funded solely by employer contributions (3% of average compensation). Members vest after 10 years of service.

Members who leave before vesting forfeit their HRA balance. As of June 2025, 56,770 former employees hold \$334 million in unvested HRA balances.

Resolution 2025-21: The Funding Mechanism

\$1.26 Billion

Total HRA balances across PERS + TRS (June 2025)
68,554 active participants • 57,825 inactive participants



\$334 Million

Held in unvested accounts of 56,770 former employees who left before vesting
PERS: 48,006 participants (\$270M) • TRS: 8,764 participants (\$64M)



\$285 Million

Conservatively estimated to be permanently forfeited based on return-to-service analysis
PERS: \$232M expected forfeiture • TRS: \$54M expected forfeiture



\$50 Million

One-time transfer to Retiree Health Trusts to offset actuarial cost of 20-year eligibility
Only 17.5% of estimated forfeited balances needed • Non-recurring • No employer refund

Resolution 2025-22

Disability and Healthcare Coverage Gaps for DC Members

Benefit	Prior DB Tiers (PERS I–III, TRS I–II)	Current DC Tier (PERS IV, TRS III)
Occupational Disability	Yes — with healthcare	Yes — NO healthcare
Non-Occupational Disability	Yes — with healthcare	NOT PROVIDED
Healthcare During Disability	Provided	NOT PROVIDED

Example: Alaska Educator

A 62-year-old teacher with 28 years of service develops cancer or suffers a stroke. Under TRS Tier III (DC), this teacher receives no disability income and no healthcare coverage. Under the prior DB system, this teacher would have received both. Approximately 85% of all disabilities are non-occupational — meaning the vast majority of disabled members are excluded from any benefit.

Example: Alaska Firefighter

A firefighter with 20 years of service is seriously injured in the line of duty and qualifies for occupational disability benefits. Under the current Defined Contribution plan, the member receives disability income but no healthcare coverage during the period of disability. The member cannot access retiree medical, which requires 25 years of service or age 65. As a result, the member is left without medical coverage at precisely the moment it is most needed.

Funding Impact: The disability and death trusts are well overfunded (PERS: 399%, TRS: 5,172%). All modeled scenarios show funded ratios remaining above 100%.

Resolution 2025-22: Recommended Changes

The ARMB recommends the Legislature examine statutory amendments to:

- 1 Add healthcare coverage for disabled Defined Contribution members**

Members receiving occupational or non-occupational disability benefits would receive system-covered retiree major medical coverage, closing the gap between current DC and prior DB tiers. Coverage would be provided at no cost from disability until age 65, with subsidized premiums after Medicare eligibility.
- 2 Extend disability coverage to non-occupational disabilities**

Members with at least 10 years of covered service would qualify for a non-occupational disability benefit equal to 40% of salary, matching protections available under prior DB plans. Currently, 85% of all disabilities are non-occupational — yet Defined Contribution members receive no benefit for these events.

Summary of ARMB Recommendations

Resolution 2025-01

Remove the 12-month active membership requirement for the 30/25-year service pathway. Retain it for the age 65 with 10-year pathway.

Resolution 2025-02

Reduce retiree medical service eligibility with three options: 25 years for all, 25/20 split for public safety, or 20 years for all. All options retain the age 65 with 10-year pathway.

Resolution 2025-21

Fund the 20-year eligibility option with a \$50M one-time transfer from highly likely forfeited HRA balances. Non-recurring, does not affect active or vested accounts. Only 17.5% of \$285M in expected forfeitures needed.

Resolution 2025-22

Add non-occupational disability benefits and healthcare coverage during disability for Defined Contribution members. Funded by well-overfunded existing trusts (PERS: 399%, TRS: 5,172%) and modest increase to normal cost.