
PERS/TRS Funding Solution

Governor Sean Parnell

Department of Administration

Department of Revenue

April 2014

Agenda

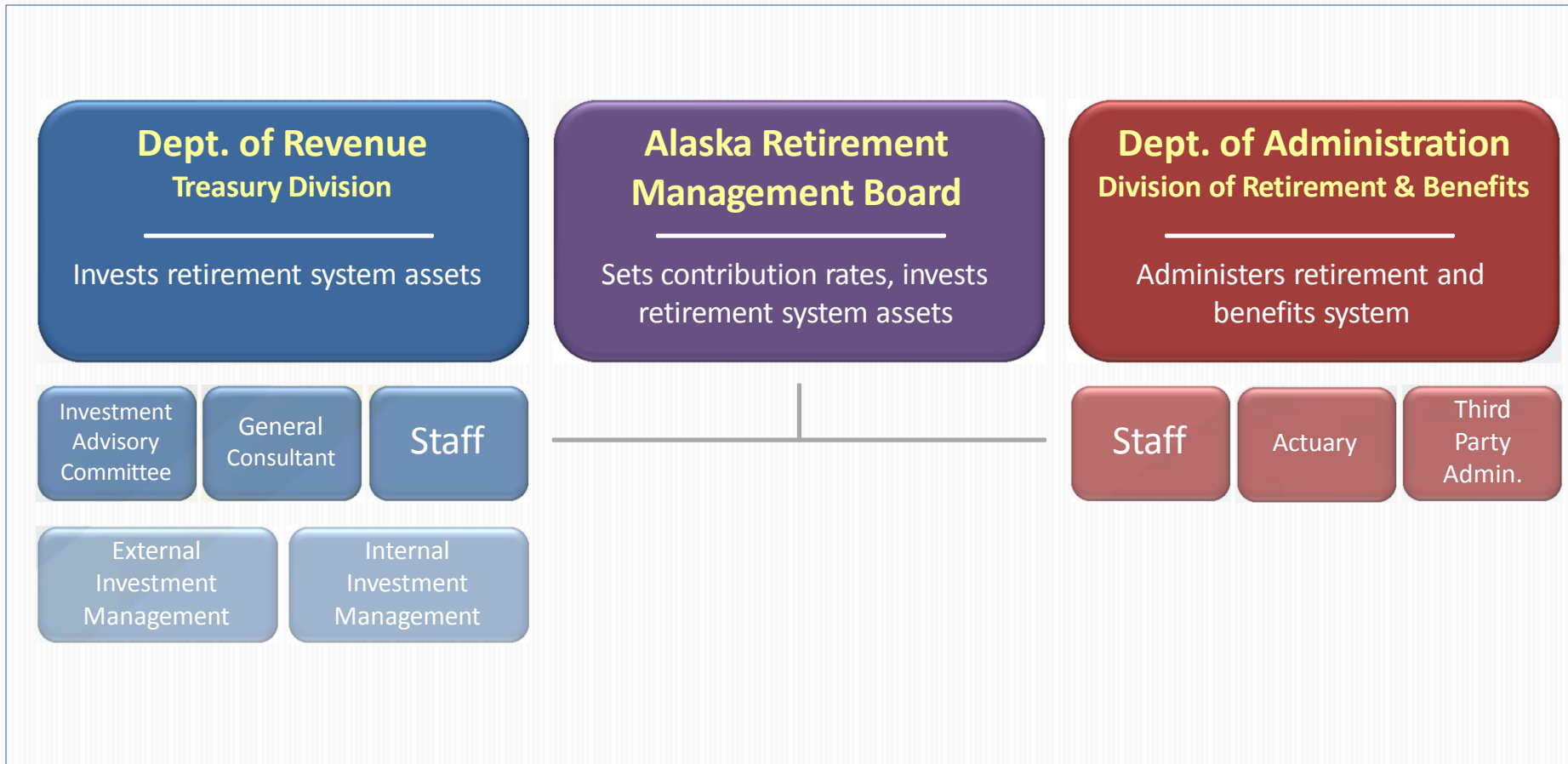
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Department of Revenue
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Department of Administration
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Department of Revenue
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Department of Revenue
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Section One

PERS/TRS BASIC FACTS

Deputy Commissioner Mike Barnhill
Department of Administration

Organization



Membership

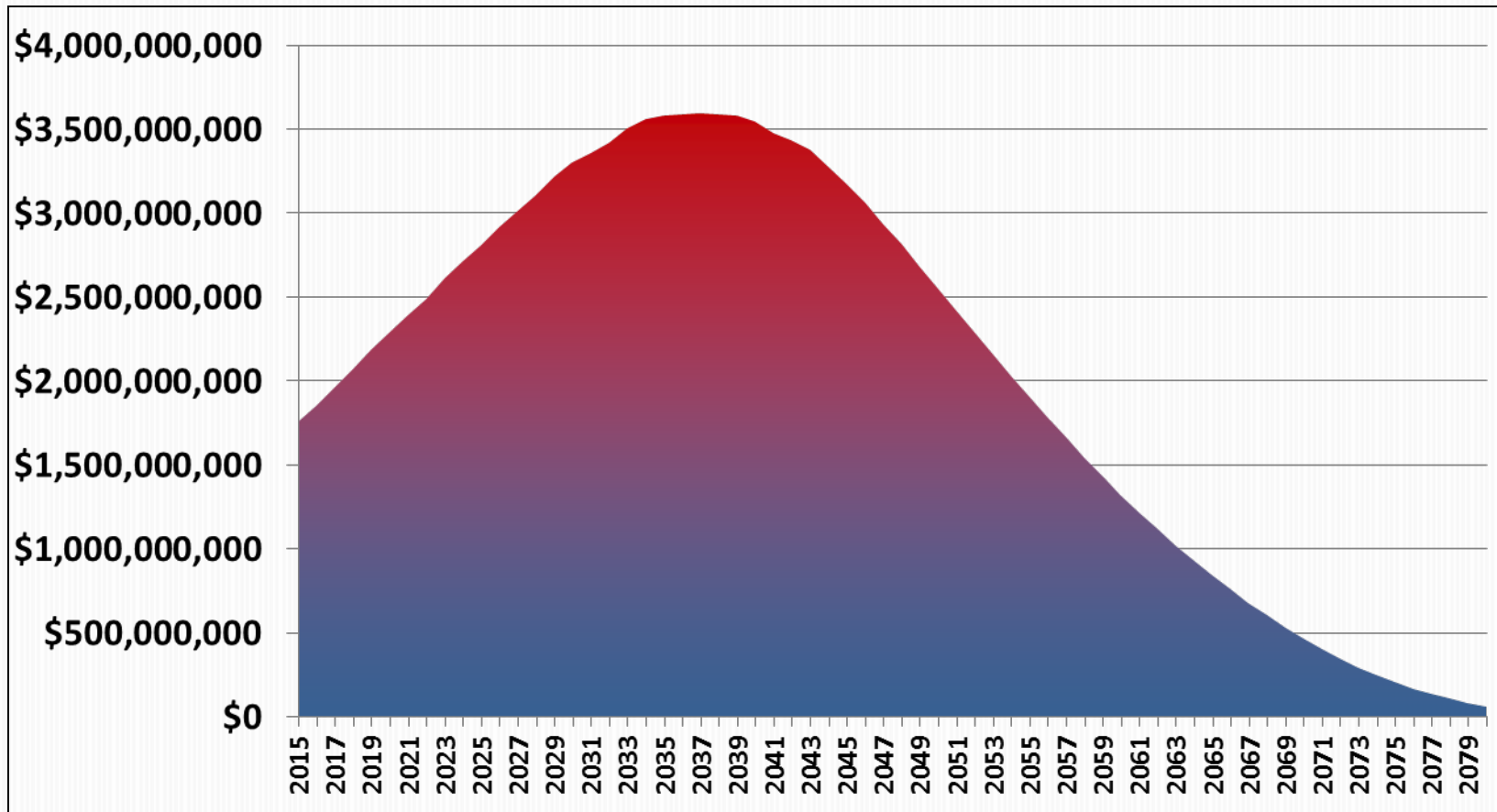
MEMBERSHIP STATISTICS AS OF DECEMBER 31, 2013

	PERS					TRS				JRS	NG	SBS	DCP
	DB		DC			DB		DC					
	Tier I	Tier II	Tier III	Tier IV	TOTAL	Tier I	Tier II	Tier III	TOTAL				
Active Members	3,020	5,645	11,947	15,760	36,372	1,067	5,468	4,201	10,736	74	n/a	28,485	7,685
Terminated Members	2,296	5,139	11,285	7,114	25,834	457	2,570	1,407	4,434	4	n/a	13,881	2,653
Retirees & Beneficiaries	23,094	5,377	1,756	4	30,231	10,442	1,299	-	11,741	108	642	n/a	n/a
Managed Accounts	n/a	n/a	n/a	6,549	6,549	n/a	n/a	1,746	1,746	n/a	n/a	953	918
Retirements - 2nd QTR FY14	133	110	80	n/a	323	17	21	n/a	38	-	25	n/a	n/a
Full Disbursements - 2nd QTR FY14	23	26	133	379	561	12	27	50	89	-	n/a	544	124
Partial Disbursements - 2nd QTR FY14	n/a	n/a	n/a	32	32	n/a	n/a	10	10	n/a	n/a	485	460

Prepared by Division of Retirement and Benefits

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Benefits



Pay **\$136 billion** in benefits payments over next 70 years

Current PERS/TRS account balance: **\$19.9 billion**

Unfunded Liability: approx **\$11.9 billion**

Defined Benefits

Defined Benefit Pension: fixed benefit amount from date of retirement to death

Contributions + Investment Earnings = Benefits + Expenses

IF

Experience equals actuarial assumptions

Actuarial Assumptions:

Inflation, Investment Return, Mortality, Date of Retirement, Cost of Healthcare, Payroll Growth, Disability, Spouse Age, Dependent Children, COLA, Plan Expenses, Turnover

Experience that falls short of projections leads to unfunded liability

Employer Takes the Risk

Events

- 2002 – Milliman actuarial audit; dotcom collapse
- 2003 – FY 2002 valuations released with revised assumptions.
\$4.1B unfunded liability
- 2005 – SB 141 enacted: DB plans closed; DC plans created; PERB/TRB/ASPIB sunset; ARM Board created
- 2007 – ARM Board files suit against Mercer for actuarial negligence; SB 123 enacted: PERS cost share
- 2008 – SB 125 enacted: employer contribution rates capped; state assistance begins; Great Recession begins
- 2009 – PERS / TRS investment loss: (20.5%)
- 2010 – Mercer litigation settled for \$500mm (net \$403mm); other states begin to cut DB benefits, change plans;
- 2012 – ARMB adopts level dollar amortization; \$11.9B unfunded liability
- 2013 – 12.5% investment gain; recession over?

PERS/TRS Balance Sheet

PERS DB:

Assets (actuarial value, 6/30/12)	\$11,832,030,000
Accrued Liabilities (6/30/12)	<u>19,292,361,000</u>
Unfunded Liability	(\$ 7,460,331,000)
Funding Ratio	61.3%

TRS DB:

Assets (actuarial value, 6/30/12)	\$4,869,154,000
Accrued Liabilities (6/30/12)	<u>9,346,444,000</u>
Unfunded Liability	(\$4,477,290,000)
Funding Ratio	52.1%

Total DB:

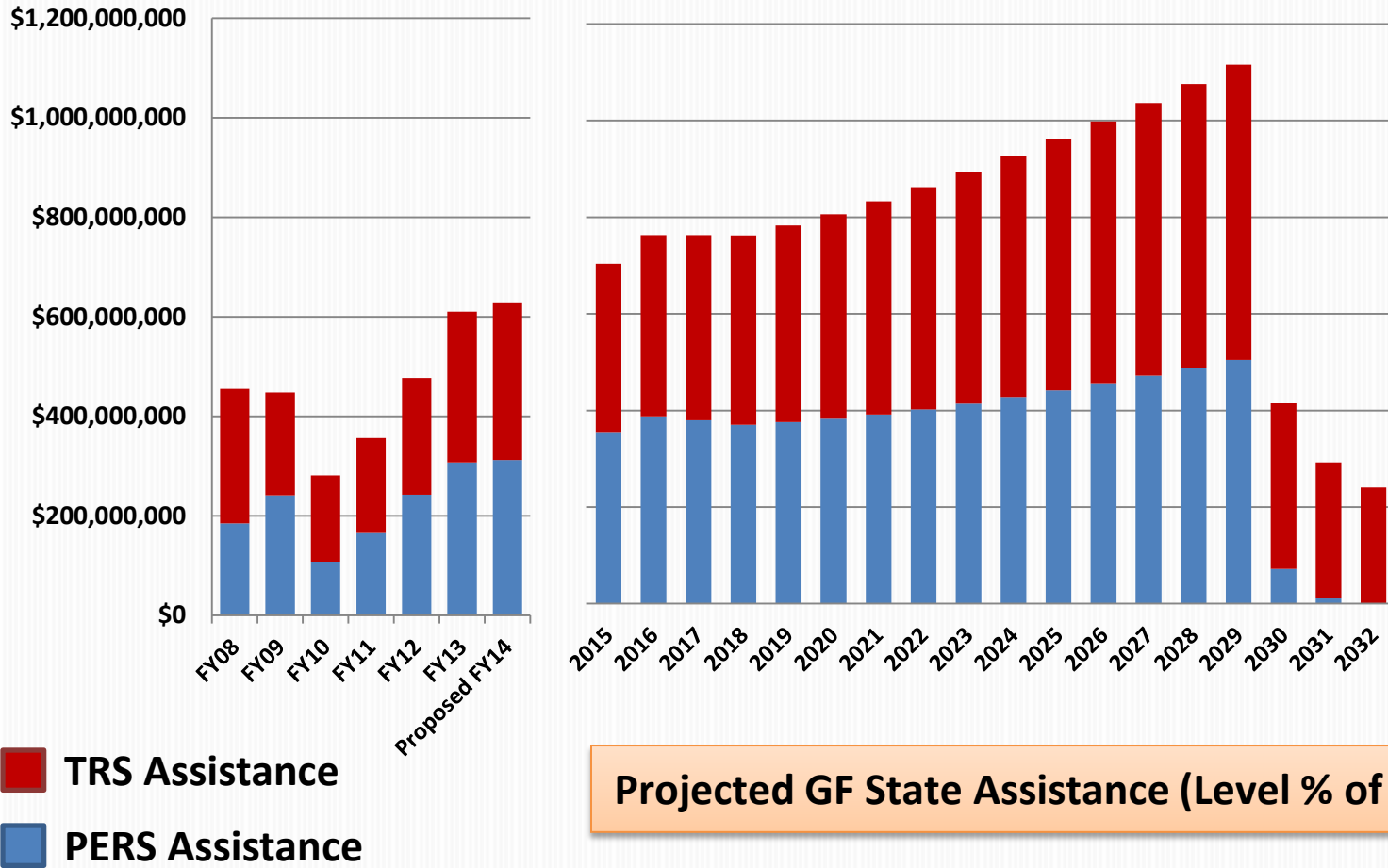
Assets (actuarial value, 6/30/12)	\$16,701,184,000
Accrued Liabilities (6/30/12)	<u>28,638,805,000</u>
Unfunded Liability	(\$11,937,621,000)
Funding Ratio	58.3%

Note: Treasury reports PERS/TRS DB assets of \$20.8B as of February 28, 2014.

Source: Buck Consultants

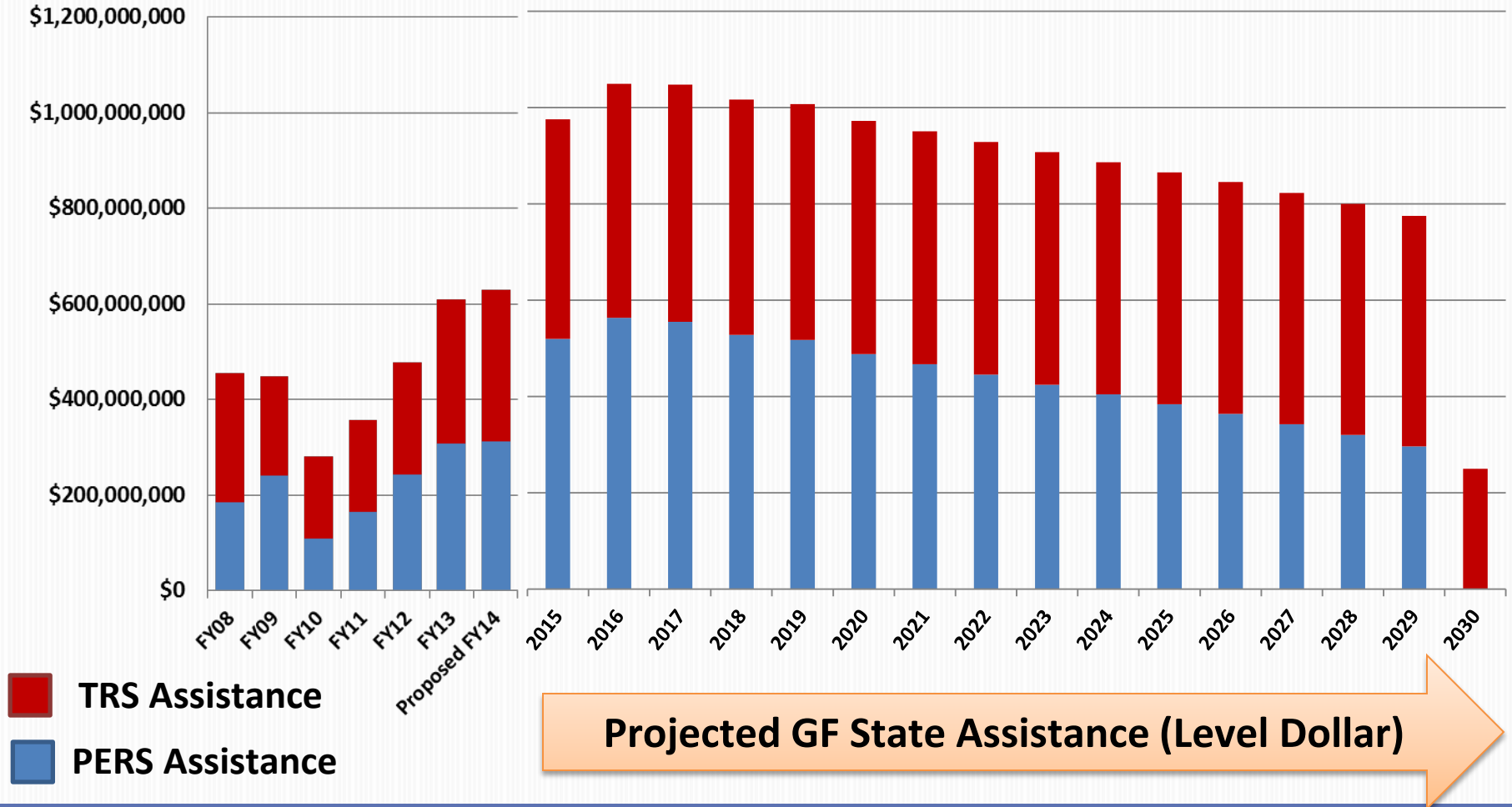
PERS/TRS Approaches to Unfunded Liability

PERS/TRS GF State Assistance (SB125)



PERS/TRS Approaches to Unfunded Liability

PERS/TRS GF State Assistance (SB125)



Section Two

INVESTMENT ISSUES

Gary Bader, Chief Investment Officer
Department of Revenue

Fund Liquidity Analysis

Although there is a substantial unfunded liability in both the PERS and TRS, there are billions of dollars to pay benefits well into the future.

Benefits payments will increase substantially in the next decade. Unless addressed, the combination of increased benefit payments and insufficient assets in the trusts will require investing in more liquid assets.

Comparative Returns

As of June 30, 2013 (%)

	PERS/TRS	CBR	APFC
Last Quarter	1.00%	-0.36%	-0.56%
One Year	12.53%	5.73%	10.93%
Three Year	11.09%	6.22%	10.17%
Five Year	3.94%	3.68%	4.15%
Ten Year	6.96%	3.85%	6.83%
July 1, 2001*	5.59%	4.17%	5.85%
July 1, 1991*	7.76%	5.02%	7.74%

- FY1992 is first full fiscal year for which return data available for the CBR Main account (start July 1, 1991).
- FY2002 is first full fiscal year for which data available for the CBR Sub-Account (start July 1, 2001).

ARMB Private Equity Program

- Private equity is largely made up of interests in limited partnerships that make equity investments in privately held operating companies
- Private equity is expected to deliver long-term returns in excess of the public markets and to enhance diversification
- To earn higher returns, private equity gives up liquidity
- Performance has been good, generating 10.2% returns through 2013 versus a public market equivalent return of 4.6% for the S&P 500 and 5.1% for the Russell 3000
- The private equity program has generated \$800 million in additional fund value for the ARMB compared to investing in the public equity markets
- The ARMB started investing in private equity in 1998 and now has \$1.7 billion invested across 200+ partnerships; private equity is a 9% asset allocation for the ARMB

Section Three

GOVERNOR PARNELL'S PROPOSAL

Angela Rodell, Commissioner
Department of Revenue

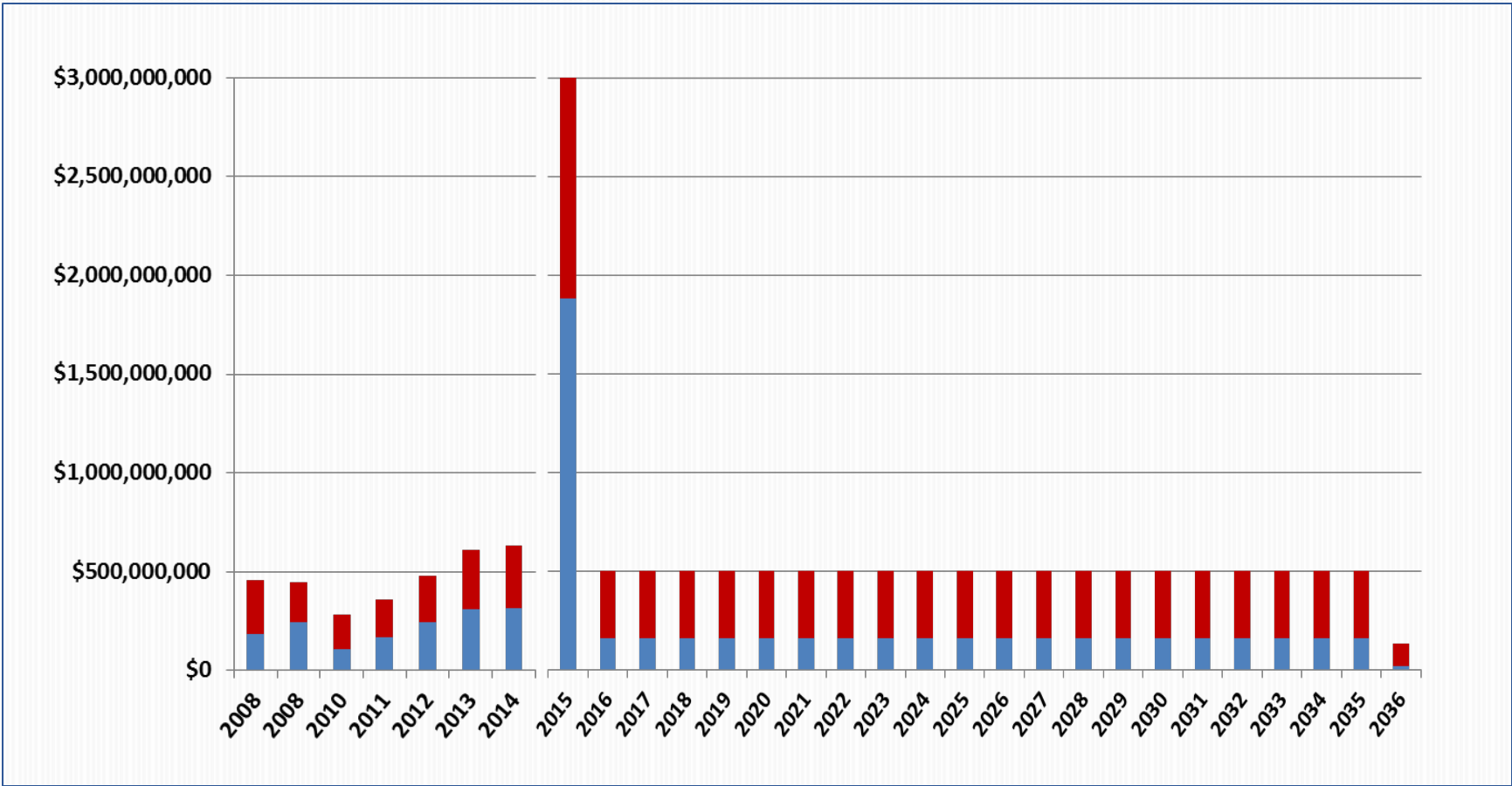
Problem: \$11.9 Billion Retirement System Unfunded Liability

- The Public Employees Retirement System (PERS) and Teachers' Retirement System (TRS) combined unfunded liability is \$11.9 billion
- State Assistance payments to PERS and TRS rise from \$629 million in FY2014 to over \$1 billion per year
- Funding State Assistance solely through the operating budget crowds out funding for other vital public services
- Rating agencies express concern with the increasing liability

Proposal: \$3 Billion Investment in Trust Funds

- Invest a total of \$3 billion in the Retirement Trusts in FY2015:
 - \$1.12 billion – Teachers' Retirement Fund
 - \$1.88 – Public Employees' Retirement Fund
- Funding source: the Constitutional Budget Reserve
- Includes state assistance payments for FY2015
- Beginning FY 2016, State Assistance payments would be fixed at \$500 million annually:
 - \$157 Million – PERS
 - \$343 Million – TRS
- State Assistance projected until FY2036; length of time depends on actuarial gains or losses experienced

Governor's Proposal



 TRS Assistance
 PERS Assistance

Payments capped at \$500mm per year

Governor Parnell's Approach

- Pays down the retirement system debt rather than passing it on to future generations
- A comprehensive and straight-forward approach addressing the problems of both PERS and TRS retirement systems
- Addresses Alaska's biggest budget driver while keeping the State's promise to our retired public servants
- Dramatically reduces future operating budget obligations and provides predictability for future budget planning
- Improves municipal balance sheets and aligns the interest of the State of Alaska with our municipalities by sharing gains and losses
- Addresses the number one credit concern raised by rating agencies
- Improves and strengthens the health of the retirement systems

Thank You

QUESTIONS?