SB 220 – PERS/TRS STATE CONTRIBUTIONS

Section 1. This section amends the Teachers' Retirement System (TRS) state assistance statute (AS 14.25.085). This statute was enacted in 2008 by SB 125, and currently provides that the state shall appropriate the amount sufficient to fully pay the total past service liability for the year at the employer contribution rate adopted by the Alaska Retirement Management Board (ARMB). In practice, this means that the State appropriates the amount that reflects the difference between the TRS employer contribution rate cap of 12.56% and the actuarial contribution rate to the TRS trust funds. In FY14, this amount was approximately $317mm.

Section 1 amends AS 14.25.085 to implement the Governor's proposal. Under the Governor's proposal, $1.1 billion would be appropriated from the constitutional budget reserve to the TRS trust fund, and then from FY16-FY36, an annual flat payment of $343mm would be appropriated as state assistance.

According to Buck Consultants, the Governor's plan would convert the actuarial approach for TRS from an actuarial ratemaking paradigm to a fixed contribution paradigm. In a ratemaking paradigm, each year the actuary calculates what contribution rate is necessary to pay down the accumulated past service liability. In Alaska, this has resulted in highly volatile employer contribution rates that over the past decade have ranged from 12% to over 70%.

In a fixed contribution paradigm, the rate volatility is eliminated. Instead the annual contribution is fixed. In the case of TRS, the annual contribution is fixed at $343mm. What can change each year, however, is the term of the amortization. Under the Governor's plan, the initial amortization term is 21 years—fixed payments of $343mm through FY36. In the event of actuarial losses, the actuary may advise that the amortization term needs to be extended. So if there is a market downturn that results in investment losses in FY18, the actuary may advise that the amortization term must be extended to FY43 in order to fully amortize the TRS unfunded liability.

Conversely, actuarial gains could result in a shortening of the amortization term of less than 21 years. Under the Governor's plan, the length of the amortization term necessary to pay down the unfunded liability will be evaluated each year.

There could be cases where the actuarial loss over a particular period is sufficiently profound that payment of $343mm over any length of amortization term is insufficient to fully pay off the unfunded liability. In such case, the actuary will assign a date on which the TRS trust fund will exhaust its funds unless the $343mm annual payment amount is increased. The actuaries call this date the "cross-over" point.

The last new sentence of the amendment to AS 14.25.085 is intended to address situations where a cross-over point is reached. It provides that the state will appropriate an additional fixed amount sufficient to amortize the unfunded liability over a period consistent with actuarial standards.

Section 2. This section implements the same amendment as does section 1, for the Public Employees' Retirement System (PERS) state assistance statute, AS 39.35.280.

A benefit to making this amendment in the PERS context, is that a fixed contribution paradigm aligns the respective interests of all PERS employers. PERS employers all share in the actuarial gains, through having a shorter amortization schedule, and share in actuarial losses, through having a longer amortization schedule. Under the current version of AS 39.35.280, PERS municipal employers are largely indifferent to the impact of market downturns that create new unfunded liability because their rate does not change, and the State absorbs 100% of the impact of any new unfunded liability. The Governor's proposal cost shares such new unfunded liability in a fair way by extending the amortization term, so that PERS employers pay at the 22% capped contribution rate for a longer period of time.

Section 3. This section makes the bill contingent on the enactment of constitutional budget reserve fund appropriations to TRS in the amount of $1.1 billion, and to PERS in the amount of $1.9 billion.

Section 4. Establishes the effective date of this act as July 1, 2014.