Alaska Legislature

Senate Finance Committee

PERS/TRS 2020 UPDATE

Response for questions from February 5, 2021

Below are responses to specific questions and shown by page/slide number:

Page 5 – correction to amounts shown on first line of schedule as the SFC presentation reflected the amounts in the June 30, 2019 actuarial valuation reports, but did not reflect the amounts adopted by the ARM Board after the September 2020 update (see attached letter from Buck dated August 20, 2020):

Shown in presentation – PERS $178,702,000; TRS $135,047,000; Total $313,749,000

Updated to – PERS $193,494,000; TRS $142,665,000; Total $336,159,000

Page 7 – Senator von Imhoff asked the Division to restate this slide to reflect the rates over the last 5 fiscal years.

DRB has attached a slide with the updated information. See Attachment A.

Page 7 – Senator von Imhoff asked the Division to provide a 10-year forward projection of high/medium/low rates of return for a 10-year period.

The Department of Revenue, Treasury Division provided the following: The FY21 asset allocation adopted for PERS and TRS has a 20-year time horizon with an expected return of 7.13% and a standard deviation of 13.55%. A representative range around this median outcome runs from a low case one standard deviation below with a 4.1% expected return through a high case one standard deviation above with an expected return of 10.16%. While shorter than the ARMB's planning horizon, over a 10-year period the one standard deviation range would be 2.85% through 11.41%.

Page 11 – The committee asked about the actual rate of return for both PERS and TRS and wondered if the investments were commingled.

To be clear, the pension and healthcare trust funds are separate for PERS and TRS, there is no commingling of assets, though the assets are in different pools that the trust funds own. The asset allocations are presented by the Department of Revenue to the Alaska Retirement Management Board (ARM Board) for adoption before each fiscal year.

In general, the asset allocations are the same. The differences in the actual rates of return differ due to cash flows in each of the respective trust funds (cash in from employers and cash out for trust expenses and benefit payments).

Page 13 – Senator Stedman pointed out that in 2015, the Legislature appropriated $3 Billion to the retirement systems (PERS - $1B, TRS - $2B). The senator asked why did the TRS funded ratio increase, but the PERS funded ratio remained relatively flat.

In order to explain this, think in terms of "what did we expect would happen" vs "what actually happened". Note: The 2015 starting figures reflect the $1B (PERS) and $2B (TRS) State contributions that were made in FY15.

<u>To summarize the changes between 2015 and 2019:</u>

The unfunded liabilities increased by $328M for PERS and decreased by $225M for TRS.

The funded ratios increased from 78.3% to 78.4% for PERS and increased from 83.3% to 85.9% for TRS.

Based on the funding policy adopted by the ARMB, the unfunded liabilities were expected to decrease, and the funded ratios were expected to increase during this 4-year period. But, as plan experience evolved and other events occurred (changes in actuarial assumptions and the implementation of an Employer Group Waiver Plan (EGWP)), the actual changes in unfunded liabilities and funded ratios ended up being more/less than the expected changes.

Here is a summary of the 4-year effects of (i) actual plan experience (liabilities and assets), and (ii) changes in assumptions including the implementation of EGWP:

Liabilities did not increase as much as expected. The increases in liabilities were $2.0B less than expected for PERS, and $0.9B less than expected for TRS. Most of these differences were due to favorable medical and prescription drug costs.

Assets did not perform as well as expected. The asset losses totaled $1.5B for PERS, and $0.7B for TRS.

Assumptions were changed (including the 2018 experience study) and EGWP was implemented. The net effect of these changes increased PERS liabilities by $459M, and decreased TRS liabilities by $31M. The assumptions that were changed as part of the experience study had a much larger effect on the pension liabilities in PERS than in TRS (PERS pension liabilities increased by $555M, but TRS pension liabilities increased by only $14M).

In basic terms, the impacts both systems had during the time frame had less of an impact on TRS than it did with PERS. If needed, we can provide more information.

Page 15 – Senator Wielechowski asked if there is potential relief for state's retirement liabilities in the upcoming COVID bill.

Based on our review of the COVID bill in the US legislature, there is no funding relief for the State's retirement liabilities.

Page 16 – Senator Wielechowski asked what other states do not have a defined benefit plan?

Only two states, **Michigan** and **Alaska**, introduced plans that require all new hires to participate solely in a defined contributions plan. Alaska's defined contributions plan applies to state and local public employees as well as teachers. Michigan's defined contributions plan is limited to new state workers.

Nine states have replaced their defined benefits plans with a mandatory hybrid plan. [Provides both defined benefit and defined contribution features in one.]

Seven states provide both an optional, defined benefits and a defined contributions plan.

Three states have introduced Cash Balance Plans. These plans differ from traditional defined benefits plans in two important ways. First, they enhance the likelihood of making required contributions, thereby preventing the future buildup of large unfunded liabilities. Second, they allocate benefits more evenly between short- and long-term employees than the traditional back-loaded defined benefits plans

Page 16 – Senator Wielechowski also asked about social security and there was a discussion about voting in for social security by TRS.

The State Social Security Administrator (who works within the Division of Retirement and Benefits (DRB)) has been working with the Social Security Administration (SSA) to determine voting protocol within the State of Alaska for the Teachers' Retirement System (TRS). A more detailed explanation will be provided once DRB has ironed out certain details about a social security vote and the impact a "divided vote" (by school district) versus a "by tier" would have.

Page 19 – Senator von Imhoff asked the Division to provide demographics on retirement in the various age groups. Can you break out the age distribution of the beneficiaries?

See Attachment B for the age distribution of annual pension benefits for:

(i) Retirees and Disabilitants
(ii) Beneficiaries and Domestic Retirement Orders (DRO)

Page 19 – Senator von Imhoff asked the Division to provide a breakout of the retiree health plan by age. The table is shown below.

AlaskaCare Retiree Health Plan Membership		
Age Range	**Unique Members***	**Unique Subscribers**
<1	4	4
1-4	22	20
5-9	143	131
10-14	458	385
15-19	895	757
20-24	648	619
25-29	64	64
30-34	72	72
35-39	79	77
40-44	151	144
45-49	340	317
50-54	1,146	1,035
55-59	3,951	3,423
60-64	12,229	10,084
65-69	18,295	14,920
70-74	17,171	14,242
75+	19,989	15,513
Under 65	20,202	17,132
Over 65	55,455	44,675
Summary	75,657	61,807

Some individuals have more than one membership. This occurs when an individual has vested in multiple retirement systems, has their own coverage(s) and is covered as a dependent under another retiree's coverage(s), or is covered as a dependent by multiple retirees.

<u>Additional questions during the course of the presentation:</u>

Senator Wilson: How does Alaska's unfunded liability compare to other states' unfunded liabilities? Does COVID-19 have any impact on the life expectancy trends.

From information provided by the National Association of State Retirement Administrators (NASRA) as of June 30, 2018, out of 120 <u>defined benefit pension</u> plans ranked by actuarial funded ratio, the Alaska TRS ranked #52 with 76.2% and the Alaska PERS ranked #84 with 64.6%. The highest funded ratio was 111.9% and the lowest was 16.3%.

Senator Stedman: When doing a comparison, can you remove the health care portion of the retirement to ensure that we have apples-to-apples comparisons?

The above information is for <u>defined benefit pension plans only</u> and excludes the impact of other post-employment health care plans. NASRA does not have a ranking for the retiree health care component as the financing / funding varies by plans, and benefits vary widely. Senator Stedman is correct that it would not be an apples-to-apples comparison for these reasons.

Senator Wilson: Does COVID-19 have any impact on the life expectancy trends.

There are various studies reporting declines in life expectancy, and DRB expects that the life expectancy actuarial tables will be examined during the next actuarial experience study, which will be for the period July 1, 2017 to June 30, 2020. In a report on ScienceDaily (sciencedaily.com/releases/2021/01/210114163958.htm), their site indicates a study finds that due to COVID-19 deaths in 2020, life expectancy at birth for Americans will shorten by 1.13 years to 77.48 years – the largest single-year decline in life expectancy in at least 40 years. The Division will notify the Senate Finance Committee of the impacts of the upcoming experience study as results become available.

Following the PERS / TRS Update, Senator Hoffman asked at the meeting (and sent the following questions directly to the department) the following questions:

Q1: How many participants in the Deferred Compensation Plan (DCP) during each of the last 10 years?

A1: See attached Excel file for # of participants over 10 years.

Q2: Over 10-20 years, how much contributions?

A2: See attached Excel file for $ amount of contributions over the same period.

Q3: If this program is voluntary contributions, why can't participants access these funds?

A3: The State of Alaska DCP plan was set up according to Internal Revenue Code rules for 457(b) plans, which only allows for hardship withdrawals while the member is still actively employed. Any other type of withdrawal is not allowed until the member terminates employment.

Sources: https://www.irs.gov/retirement-plans/employee-plans-news-december-17-2010-unforseeable-emergency-distributions-from-457b-plans

See attached document "eotopici99.pdf" page 16 section F Permitted Distribution under 457

See attached State of Alaska document "DCPplanbooklet.pdf" page 14 for withdrawal and page 22 for hardship withdrawal.

Q4: Do other states do the same?

A4: Any other state that offers a DCP to its membership follows the same Internal Revenue Code 457(b) that the State of Alaska's DCP follows.