

February 23, 2021

CONFIDENTIAL

Mr. Paul Miranda
President
Alaska Professional Fire Fighters Association
PO Box 11122
Anchorage, AK 99511
Via email:

Subject: Actuarial cost estimates for potential public safety pension plan design

Dear Paul:

We have updated our review of the potential plan changes for Tier 4 public safety workers in Alaska. We understand that the recently proposed House Bill 55 conforms to the proposed “public safety fix” which we analyzed in 2019. This report is an estimate of the cost impact for the potential changes based on the most recent (2019) actuarial valuations for Public Employees’ Retirement System (PERS) Defined Benefit (DB) and Defined Contribution Retirement (DCR) plans. Our figures changed somewhat from those presented to you in 2019, primarily as a result of the actuary reducing the expected return on plan assets to 7.38%.

Public Safety Fix

As we have discussed and have sketched out in various presentations, it is being considered to offer public safety employees currently in the Tier 4 DCR the ability to join a new plan as we understand is outlined under HB 55. The table below compares certain provisions between the Tier 3 public safety defined benefit plan, Tier 4 DCR, and a new tier.

Plan Provision	Tier 3 Public Safety	Tier 4	Tier
Employee Contributions	7.50%	8.00%	Range of 8-10%
Employer Contributions	22%	22%	22% with no less than 12% going to this tier
Vesting	5 years	5 years	5 years
Retirement eligibility	Any age with 20 years or age 60 with 5 years	None specified	55 with 20 years or age 60 with 5 years
Benefit Calculations	2% of average pay for first ten years, 2.5% thereafter	Based on account balance	2% of average pay for first ten years, 2.5% thereafter
Final average pay	Highest three years	Not applicable	Highest five years
COLA	10%, beginning at age 65	None	None
Post Retirement Pension Adjustment (PRPA)	Based on CPI	None	Same as Tier 3, but can be withheld if below 90% funded
Medical Coverage	Provided after 25 years or age 60 with 10 years	HRA 3% average PERS salary	HRA 3% average Public Safety salary
Occupational Disability	40% of Gross Compensation	40%. Must be permanent and total	Same as Tier 3

Costs

We have calculated the anticipated cost savings of the various changes in plan provisions. These are based on the actuarial valuations performed by the plan actuary. Page 14 of the PERS Actuarial Valuation as of June 30, 2019 indicates that the pension total Normal Cost for Tier 3 public safety workers is 18.00% of public safety pay. We were able to validate that figure within a reasonable degree. Based on this, we calculated the cost savings for the various plan changes discussed above. Additionally, we estimated the costs based on a more conservative expected rate of investment return, to show the impact of funding on a more conservative basis. We modelled a reduction in the assumed rate of return decreasing from 7.38% to 7.0% and 6.0%. We assumed that the inflation and salary growth rates would decrease by a similar amount also. In addition, we determined the margin available from the impact of suspending the PRPA and increasing member contributions.

These findings are summarized in the following table.

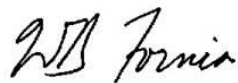
Plan Provision	Based on 7.38% return	Based on 7% return & 0.38% drop in inflation	Based on 6% return & 1.38% drop in inflation
Baseline Tier 3 Public Safety Plan	18.00%	19.61%	24.64%
Minimum Age 55 Retirement Eligibility	-1.29%	-1.40%	-1.76%
Average Earnings Period to Five Years	-0.76%	-0.73%	-0.72%
Eliminate Alaska COLA	-0.64%	-0.71%	-0.90%
Withhold PRPA if Underfunded	Up to 2.29%	Up to 2.10%	Up to 1.68%
Increase Employee Contributions	Up to 2.00%	Up to 2.00%	Up to 2.00%
Public Safety Fix Pension Cost	15.32%	16.77%	21.26%
Additional Margin for Adverse Experience	4.29%	4.10%	3.68%

We also estimated the impact of changing the Medical HRA contribution from 3% of average PERS salary for public safety workers under Tier 4 to 3% of average public safety salary under HB 55. The average salary for all PERS DCR members was \$60,676, while the average salary for Public Safety DCR members was \$84,593. This means that the current 3% HRA contribution only represents about 2.2% of public safety salary. So a change to the HRA based on public safety salaries would add about 0.8% of public safety pay. Note that if the other PERS HRA contribution were reduced to be based on their average salary (excluding public safety), the change would be cost neutral.

Actuarial calculations were made under my direction. I am a Member of the American Academy of Actuaries and qualified to render this actuarial opinion.

I am happy to answer any questions on this estimate and look forward to discussing this with you further.

Sincerely,



William B. Fornia, FSA
President