



March 4, 2022

Mr. Jim Puckett
Deputy Director/Chief Pension Officer
Division of Retirement and Benefits
State of Alaska
P.O. Box 110203
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RE: Fiscal Note Analysis for HB 55 - Update¹

Dear Jim:

As requested, we are providing an updated fiscal note analysis for HB 55. This is an update to our fiscal note letter dated April 28, 2021 reflecting:

- the results of the June 30, 2021 valuations
- SB 55 which went into effect July 1, 2021²
- a proposed HB 55 effective date of July 1, 2022

HB 55 is a proposed bill that would (i) allow for the transfer of Peace Officer/Firefighter (P/F) active members from the State of Alaska Public Employees' Retirement System Defined Contribution Retirement Plan (PERS DCR) to the Public Employees' Retirement System defined benefit plan (PERS DB), and (ii) provide that all future P/F hires automatically enter PERS DB rather than PERS DCR. In this letter, we use "HB 55 members" to refer to P/F members who are affected by HB 55.

Adverse plan experience (due to poor asset returns and/or unexpected growth in liabilities) or changes to more conservative assumptions will increase the PERS DB unfunded liabilities, resulting in higher contribution rates. The impact of HB 55 on projected contribution rates depends on how large the PERS DB unfunded liabilities become.

By shifting active P/F members (and all future P/F hires) from DCR to DB, the State will be taking on greater risk of higher contributions in future years. However, this risk is somewhat mitigated as long as the minimum contribution rate to the HB 55 trusts (9%) is greater than the Actuarially Determined Contribution Rate for HB 55 members' pension and healthcare benefits.

¹ This letter is an update to our letter dated February 14, 2022 (the maximum member contribution rate in Section B was updated to 12% -- this had no impact on the figures shown in Section A).

² Under SB 55, the State-as-an-Employer contributes the full actuarial contribution rate based on the payroll of its employees. Non-State employers continue to contribute 22% of their employees' payroll.

A. Impact of HB 55 on Projected State Contributions for FY23 - FY28

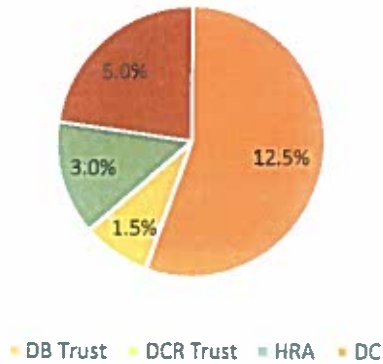
If future experience matches the actuarial assumptions used to value the plan's liabilities as of June 30, 2021, total State contributions for FY23-FY28 are projected to increase due to HB 55 as shown in the table below:

(\$ millions)	FY23	FY24	FY25	FY26	FY27	FY28	6-Year Total
Additional State Contributions	\$0.0 ²	\$2.6	\$2.6	\$2.8	\$2.6	\$2.8	\$13.4
State-as-an-Employer Contributions	<u>\$3.5⁴</u>	<u>\$3.4</u>	<u>\$3.6</u>	<u>\$4.1</u>	<u>\$4.4</u>	<u>\$4.7</u>	<u>\$23.7</u>
Total State Contributions	\$3.5	\$6.0	\$6.2	\$6.9	\$7.0	\$7.5	\$37.1

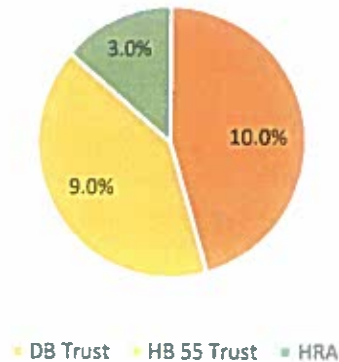
Total State contributions are also projected to increase beyond FY28.

The increases in Additional State Contributions can be explained by the pie charts below. These show the distribution of the 22% of pay non-State employer contributions for FY24 for HB 55 members among the various trusts (similar distributions of contributions would apply to other years). **Because the percentage deposited to the DB trust decreases (from 12.5% to 10.0%), the Additional State Contribution increases to make up the shortfall.**

Current - FY24



Reflecting HB 55 - FY24



Under SB 55, the State-as-an-Employer contributes the full actuarial contribution rate based on the DB/DCR payroll of its employees beginning July 1, 2021. **Since HB 55 will increase PERS DB liabilities and actuarial contribution rates, the State-as-an-Employer contributions increase.** For example, the total PERS FY24 actuarial contribution rate increases from 25.65% before HB 55 to 25.85% after HB 55, resulting in higher State-as-an-Employer contributions.

³ The FY23 Additional State Contribution amounts were adopted by the ARMB in October 2021, so there is no impact on FY23 Additional State Contributions.

⁴ Although the FY23 contribution rates were adopted by the ARMB in October 2021, State-as-an-Employer contributions increase in FY23 because projected FY23 total PERS payroll is higher after HB 55 than before HB 55.

B. Summary of HB 55 Benefit Provisions

HB 55 would allow P/F members who are in PERS DCR to make a one-time irrevocable election to transfer to PERS DB within 90 days of the July 1, 2022 effective date of the bill. HB 55 also provides that all future P/F hires will enter PERS DB rather than PERS DCR. The PERS DB benefit provisions that will apply to HB 55 members are summarized below:

- Eligibility for normal retirement benefits is age 60 with 5 years of credited service, or age 55 with 20 years of credited service. The eligibility for healthcare benefits will be the same as the current retiree medical eligibility provisions for P/F members in PERS DCR (i.e., age 65 with 10 years of credited service or any age with 25 years of credited service).
- Member contributions are 8% of pay (and can be increased by the Alaska Retirement Management Board (ARMB) to no more than 12% of pay).
- Average pay used to determine retirement benefits is the 5 consecutive payroll years that yields the highest average.
- The normal retirement benefit is 2% of average pay for the first 10 years of service, and 2.5% of average pay for service over 10 years.
- The Postretirement Pension Adjustment (PRPA) applies, but the Alaska residency-based COLA does not apply to HB 55 members. The ARMB can reduce the PRPA for HB 55 members if the funded status of the HB 55 trust is less than 90%⁵.
- Retiree medical benefits and member premiums are the same as under PERS DCR. Surviving spouses are eligible for medical coverage only if the member had retired or was eligible to retire at the date of death. Election to participate in the retiree medical plan must be made at the later of age 70 ½ or date of retirement. Retired members and spouses must pay the full monthly premium prior to being eligible for Medicare.

C. Employer Contributions Under HB 55

In accordance with AS Sections 39.35.255(a) and 39.35.255(i), each non-State employer contributes 22% of pay, and the State-as-an-employer contributes the full actuarial contribution rate based on the payroll of its employees.

Our understanding is that a new HB 55 sub-trust ("HB 55 trust") will be established within PERS DB and will be used exclusively to fund the pension and healthcare benefits of HB 55 members. Separate HB 55 trusts will be established for pension and healthcare benefits. A portion of the total State-as-an-Employer and non-State contributions will be deposited to the HB 55 trusts.

Employers will continue to contribute 3% of pay to the HB 55 members' Health Reimbursement Arrangement (HRA) plan trust in accordance with AS Section 39.30.370.

Employer contribution rates will be separately determined for the pension and healthcare benefits provided under HB 55.

Beginning in FY23, the employer contributions to the HB 55 trusts will be the Actuarially Determined Contributions for HB 55 members, but not less than 9% of HB 55 members' pay (the 12% minimum employer contribution under AS Section 39.35.255(i) less the 3% HRA

⁵ The funded status of the HB 55 trust is projected to remain above 90% assuming future experience matches the actuarial assumptions used to measure the plan's liabilities.

contribution)⁶. We assumed the 9% minimum employer contribution will be allocated between the pension and healthcare HB 55 trusts based on the Actuarial Accrued Liability of the HB 55 members' pension and healthcare benefits.

The excess of the total employer contributions for HB 55 members over the sum of (i) the employer contributions to the HB 55 trusts, and (ii) the 3% HRA contributions will be deposited to the PERS DB trust each year⁷.

D. Assets to be Transferred to the HB 55 Trust

In performing our analysis, we assumed various amounts will be transferred to the HB 55 trusts as described below:

- a. The accumulated employee and employer contributions in each HB 55 member's Defined Contribution (DC) account will be transferred to the HB 55 pension trust to purchase credited service for retirement benefits. The service purchase calculations will be made on an actuarially equivalent basis to be determined by the ARMB⁸. If the amount transferred is insufficient to purchase all of the transferred member's DCR service, the member can create an indebtedness for the shortfall⁹. If the amount to be transferred exceeds the amount needed to purchase all of the member's DCR service, the excess will remain in the member's DC account. If the transferred member terminates before becoming vested in PERS DB, only the transferred employee contributions with interest will be refunded.
- b. Assets in the PERS DCR retiree medical trust for P/F members will be transferred to the HB 55 healthcare trust. The amount to be transferred equals the PERS DB healthcare Actuarial Accrued Liability as of June 30, 2021 for members who elect to transfer.
- c. Assets in the PERS DCR occupational death & disability trust for P/F members will be transferred to the HB 55 pension trust. The amount to be transferred equals the decrease in the occupational death & disability Actuarial Accrued Liability as of June 30, 2021 for active members who elect to transfer.
- d. The estimated amounts that employers are contributing in FY22 to PERS DCR for P/F members' (i) occupational death and disability benefits, (ii) retiree medical benefits, and (iii) DC matching contributions would be deposited to the HB 55 trusts. We assumed the amounts in (i) and (iii) would be deposited to the HB 55 pension trust, and the amount in (ii) would be deposited to the HB 55 healthcare trust. These amounts were estimated based on projected payroll.

⁶ We assumed the estimated FY22 contributions to the DCR plan for occupational death and disability benefits, retiree medical benefits and DC matching contributions for transferred members would be deposited to the HB 55 trusts.

⁷ For purposes of this analysis, the excess contributions were assumed to be deposited to the PERS DB pension trust.

⁸ For purposes of this analysis, the actuarial equivalent basis reflects the assumptions used to determine liabilities for pension benefits in the June 30, 2021 actuarial valuation, except the retirement rates were a blend of 75% of the PERS DCR retirement rates and 25% of the PERS DB retirement rates.

⁹ For purposes of this analysis, we assumed no employee indebtedness would be created.

The asset transfer amounts are summarized in the table below (\$ millions)¹⁰:

Item	As of Date	HB 55 Pension Trust	HB 55 Healthcare Trust
(a)	June 30, 2021	\$ 182.9	\$ 0
(b)	June 30, 2021	\$ 0	\$ 23.0
(c)	June 30, 2021	\$ 3.7	\$ 0
(d)	June 30, 2022	\$ 12.6	\$ 2.4

E. Members Assumed to Transfer from PERS DCR to PERS DB

For those who transfer, there will be an additional cost in PERS DB and a reduction in cost in PERS DCR. The overall net cost impact will depend on (i) how many members transfer and (ii) which members transfer. All results shown in this letter assume 100% of eligible members will elect to transfer from PERS DCR to PERS DB. The actual costs of HB 55 will be based on the actual number and demographics of the members who elect to transfer.

We determined the PERS DB service purchase amounts based on the Actuarial Accrued Liability of pension benefits in PERS DB (using the June 30, 2021 valuation assumptions and the blended retirement rates described in Section F of this letter). For each individual, a comparison was made between their pension Actuarial Accrued Liability and DC account balances as of June 30, 2021 (employee and employer) that were provided to us. If the total of the DC account balances is equal to or greater than the pension Actuarial Accrued Liability, all of the P/F member's DCR service was credited to PERS DB. If the total of the DC account balances is less than the pension Actuarial Accrued Liability, only a portion of the P/F member's DCR service was credited to PERS DB¹¹. For example, if an individual's total DC account balance is 90% of his/her pension Actuarial Accrued Liability, then 90% of his/her DCR service is credited to PERS DB. The results of this process are described below:

- As of June 30, 2021, there were 2,358 P/F active members in PERS DCR with approximately \$228.8M of DC account balances.
- Of the 2,358 members, 1,650 members had DC account balances at least equal to their June 30, 2021 pension Actuarial Accrued Liability, so all of their DCR service was credited to PERS DB. The remaining 708 members had partial DCR service credited to PERS DB.
- On average, approximately 94% of DCR service as of June 30, 2021 was credited to PERS DB.
- Approximately \$182.9M of the DC account balances as of June 30, 2021 (approximately 80% of the total) was assumed to be transferred to the HB 55 pension trust.

F. Additional Notes

The assumptions and methods used in our analysis are the same as those described in the draft June 30, 2021 actuarial valuation reports, except the retirement assumption used to determine the costs and liabilities for HB 55 members was a blend of 75% of the PERS DCR retirement assumption and 25% of the PERS DB retirement assumption. For purposes of this analysis, we did not assume any ARMB-directed increases in member contributions under AS Section 39.35.160(e).

¹⁰ Amounts as of June 30, 2021 will be increased with expected return to the July 1, 2022 effective date.

¹¹ For purposes of this analysis, we did not assume any indebtedness would be created for the shortfall.

State of Alaska

The FY23 contribution rates adopted by the ARMB in October 2021 were reflected in our analysis. The FY23 DCR contributions that would have been made for occupational death and disability benefits, retiree medical benefits and DC matching contributions for transferred members were assumed to be replaced by the 9% employer contribution to the HB 55 trust in FY23.

The % of total DB/DCR payroll represented by the State's employees based on the June 30, 2021 data (approximately 50%) was assumed to remain constant in all future years.

Our projections assume (i) post-June 30, 2021 experience matches the valuation assumptions, (ii) a stable active population in all future years, and (iii) the rehire assumption from the June 30, 2021 valuation grades to zero uniformly after 20 years (no rehire assumption was applied for HB 55 members).

This study includes only estimated costs due to the net effects on the employer Normal Cost and Unfunded Actuarial Accrued Liability as eligible members transfer from PERS DCR to PERS DB. The study does not include other costs that may be incurred by employers outside of PERS DB or PERS DCR (e.g., potential anti-selection issues that may arise when individuals are presented with a choice between the DB and DCR plans).

The ARMB, staff of the State of Alaska, and HB 55 bill sponsors may use this letter for purposes of analyzing the potential cost impact of HB 55. Use of this letter for any other purpose or by anyone other than the Board, staff of the State of Alaska or HB 55 bill sponsors may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods or inapplicability of the letter for that purpose. Because of the risk of misinterpretation of actuarial results, you should ask Buck to review any statement you wish to make on the results contained in this letter. Buck will not accept any liability for any such statement made without the review by Buck.

Future actuarial measurements and projections may differ from the current measurements presented in this letter due to such factors as: plan experience different from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. An analysis of the potential range of such future differences is beyond the scope of this letter.

G. ASOP 51 Risk Discussion

Section 6 of the draft June 30, 2021 PERS actuarial valuation report provides details regarding the risks underlying the funding of the plan. As described on page 1 of this letter, adverse plan experience (due to poor asset returns and/or unexpected growth in liabilities) or changes to more conservative assumptions could affect the impact of HB 55 on projected State contributions.

By shifting active P/F members (and all future P/F hires) from DCR to DB, the State will be taking on greater risk of higher contributions in future years. However, this risk is somewhat mitigated as long as the minimum contribution rate to the HB 55 trust (9%) is greater than the Actuarially Determined Contribution rate for HB 55 members.

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State of Alaska

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H. ASOP 56

Please see the draft June 30, 2021 PERS actuarial valuation report for a discussion of the use of models in performing our actuarial services, which also applies to this HB 55 fiscal note letter.

I. Actuarial Certification

This letter was prepared under our supervision and in accordance with all applicable Actuarial Standards of Practice. David Kershner and Scott Young are Fellows of the Society of Actuaries, Enrolled Actuaries and Members of the American Academy of Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

If there are any questions, David can be reached at (602) 803-6174 and Scott can be reached at (216) 315-1929.

Respectfully submitted,



David J. Kershner, FSA, EA, MAAA, FCA
Principal, Wealth
Buck



Scott Young, FSA, EA, MAAA
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