

# State of Alaska

## Office of Management and Budget

**Follow Up to January 24 Hearing**  
Senate Finance  
February 1, 2023

**Neil Steininger, Director**



# Question 1

**Senators Stedman and Bishop asked about pension and healthcare funding.**

The Defined Benefit Pension funding ratio is 78.2% for the Teacher Retirement System (TRS) and 68.1% for the Public Employee Retirement System (PERS), and the Defined Benefit Health Care ratio is 140.7% for TRS and 134.9% for PERS. The Alaska Retirement Management Board decision to forego the health care normal cost contribution results in FY24 savings of \$79.3 million. Attached FY2019 to 2022 PERS TRS funded ratios document provides additional information **(attachment 1)**. Please also see the FY 2024 PERS TRS Savings document for additional information **(attachment 2 and 2b)**.

# Question 1

## Attachment 1 - Excerpt

Defined Benefit Pension	PERS		TRS	
	2021	2022 (DRAFT)	2021	2022 (DRAFT)
a. Actuarial Accrued Liability	\$15,419,975	\$16,093,679	\$7,471,887	\$7,804,046
b. Actuarial Value of Assets (AVA)	\$10,466,709	\$10,961,498	\$5,910,369	\$6,100,204
c. Unfunded Actuarial Accrued Liability based on AVA	\$4,953,266	\$5,132,181	\$1,561,518	\$1,703,842
<b>d. Funded Ratio based on AVA</b>	<b>67.9%</b>	<b>68.1%</b>	<b>79.1%</b>	<b>78.2%</b>
e. Fair Value of Assets (FVA)	\$11,912,309	\$10,816,140	\$6,731,481	\$6,026,651
f. Unfunded Actuarial Accrued Liability based on FVA	\$3,507,666	\$5,277,539	\$740,406	\$1,777,395
<b>g. Funded Ratio based on FVA</b>	<b>77.3%</b>	<b>67.2%</b>	<b>90.1%</b>	<b>77.2%</b>

Defined Benefit Health Care	PERS		TRS	
	2021	2022 (DRAFT)	2021	2022 (DRAFT)
a. Actuarial Accrued Liability	\$6,856,170	\$6,657,069	\$2,439,603	\$2,442,577
b. Actuarial Value of Assets (AVA)	\$8,581,155	\$8,979,943	\$3,267,737	\$3,437,216
c. Unfunded Actuarial Accrued Liability based on AVA	(\$1,724,985)	(\$2,322,874)	(\$828,134)	(\$994,639)
<b>d. Funded Ratio based on AVA</b>	<b>125.2%</b>	<b>134.9%</b>	<b>133.9%</b>	<b>140.7%</b>
e. Fair Value of Assets (FVA)	\$9,784,141	\$8,869,134	\$3,723,031	\$3,392,211
f. Unfunded Actuarial Accrued Liability based on FVA	(\$2,927,971)	(\$2,212,065)	(\$1,283,428)	(\$949,634)
<b>g. Funded Ratio based on FVA</b>	<b>142.7%</b>	<b>133.2%</b>	<b>152.6%</b>	<b>138.9%</b>

# Question 1

## Attachment 2 - Excerpt

	PERS - Original				PERS - Final				PERS - Differences
	Non-State Employers		State as an Employer		Non-State Employers		State as an Employer		All Employers
Projected FY24 DB Payroll	357,303,000		354,314,000		357,303,000		354,314,000		-
Projected FY24 DCR Payroll	866,626,000		859,376,000		866,626,000		859,376,000		-
Projected FY24 Total Payroll	1,223,929,000		1,213,690,000		1,223,929,000		1,213,690,000		-
	Percent of Total Payroll	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount	Estimated Dollar Amount
<b><u>Employer Contributions</u></b>									
DB Plan	12.87%	157,520,000	18.47%	224,169,000	15.37%	188,118,000	18.47%	224,169,000	30,598,000
DB Healthcare Plan	2.50%	30,598,000	2.50%	30,342,000	0.00%	-	0.00%	-	(60,940,000)
DCR Plan	6.63%	81,146,000	6.63%	80,468,000	6.63%	81,146,000	6.63%	80,468,000	-
TOTAL	22.00%	269,264,000	27.60%	334,979,000	22.00%	269,264,000	25.10%	304,637,000	(30,342,000)
<b><u>State Assistance Contributions to DB</u></b>									
DB Plan	5.60%	68,540,000	0.00%	-	3.10%	37,942,000	0.00%	-	(30,598,000)
DB Healthcare Plan	0.00%	-	0.00%	-	0.00%	-	0.00%	-	-
TOTAL	5.60%	68,540,000	0.00%	-	3.10%	37,942,000	0.00%	-	(30,598,000)
<b><u>Total DB</u></b>									
DB Plan	18.47%	226,060,000	18.47%	224,169,000	18.47%	226,060,000	18.47%	224,169,000	-
DB Healthcare Plan	2.50%	30,598,000	2.50%	30,342,000	0.00%	-	0.00%	-	(60,940,000)
TOTAL	20.97%	256,658,000	20.97%	254,511,000	18.47%	226,060,000	18.47%	224,169,000	(60,940,000)
<b><u>Total DB and DCR</u></b>	27.60%	337,804,000	27.60%	334,979,000	25.10%	307,206,000	25.10%	304,637,000	(60,940,000)

# Question 1

## Attachment 2b - Excerpt

Projected FY24 DB Payroll  
Projected FY24 DCR Payroll  
Projected FY24 Total Payroll

TRS - ORIGINAL		TRS - FINAL		TRS - Differences	
270,617,000		270,617,000		-	
491,467,000		491,467,000		-	
762,084,000		762,084,000		-	
Percent of Total Payroll	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount
3.12%	23,777,000	5.53%	42,143,000	2.41%	18,366,000
2.41%	18,366,000	0.00%	-	-2.41%	(18,366,000)
7.03%	53,575,000	7.03%	53,575,000	0.00%	-
12.56%	95,718,000	12.56%	95,718,000	0.00%	-
15.37%	117,132,000	12.96%	98,766,000	-2.41%	(18,366,000)
0.00%	-	0.00%	-	0.00%	-
15.37%	117,132,000	12.96%	98,766,000	-2.41%	(18,366,000)
18.49%	140,909,000	18.49%	140,909,000	0.00%	-
2.41%	18,366,000	0.00%	-	-2.41%	(18,366,000)
20.90%	159,275,000	18.49%	140,909,000	-2.41%	(18,366,000)
27.93%	212,850,000	25.52%	194,484,000	-2.41%	(18,366,000)
27.93%		25.52%		-2.41%	

# Question 2

**Senator Wilson asked about efforts made toward addressing recruitment and retention.**

There are five key initiatives the Department of Administration is actively working to address this matter:

1. Increase the use of internships to build pathways towards permanent employment.
2. Updating and expanding job class minimum qualifications. The department believes doing so may increase applicant pools.
3. Increasing recruitment and retention initiatives. This process will involve creating Letter of Agreement (LOA) templates that can be more readily administered.
4. Returning recruitment services back to departments for a better focused approach.
5. Contracting out certain work for vital state programs.

# Question 3

**Senators Kiehl and Wilson asked about the changes in cost resulting from the loss of enhanced FMAP.**

The change in cost resulting from the FMAP decreasing to 2.5% on July 1<sup>st</sup> will result in an estimated loss of \$10.3 million for the first quarter of FY24. On October 1<sup>st</sup>, the rate will further decrease to 1.5% resulting in a \$13 million loss for the second quarter. In the 3<sup>rd</sup> and 4<sup>th</sup> quarters, the enhanced FMAP will entirely go away resulting in a loss of \$34.4 million for the remainder of FY24.

# Question 4

**Senator Kiehl asked about potential federal penalties for not meeting eligibility redetermination deadlines.**

Federal partners have indicated states could be subject to sanctions for not meeting eligibility redetermination deadlines but there has been no communication around what that will mean. The Department of Health will start its bi-annual review by the Feds this May and more information is anticipated at that time.



# Question 5

Senator Wilson inquired about a summary of cost savings resulting from SB55, and what the current actuarial rates are.

Current PERS actuarial rates are 25.10% of payroll, or \$611.8 million for all employers. Prior to passage of SB55 during the 2021 session the state would have directly paid all cost greater than 22% of payroll for all employers. Under the policy implemented in SB55 the state now is able to charge the 3.10% difference between the 25.10% actuarial rate and the 22% cap to state programs, sharing that cost with federal funding partners. In FY24 this represents a savings of approximately \$19 million UGF. Below is a table illustrating the projected FY24 savings from this policy change.

(\$ thousand)	Pre-SB55 Policy Change		With SB55		Change
UGF	37,624.50		18,520.41		(19,104.09)
Other Funds	-		19,104.09		19,104.09
Total	37,624.50		37,624.50		-

# Question 6

Senator Olson asked what the success rate is for litigation relating to statehood defense, and what the running total is for such costs.

Currently, Department of Law has many cases still pending in district courts or on appeal, please see attached list of current litigations funded with the multi-year appropriations for Statehood Defense. Out of all these cases four were lost in the district court and are currently on appeal (attachments 3 & 4).

# Question 7

**There was a question regarding what the \$2.5 million for the Alaska State Defense Force would be used for.**

Expanded operations of the Alaska State Defense Force necessitates additional funding to enable recruitment efforts, training, travel, supplies, and other operating costs associated with a division. Also added is a Director position as well as three administrative support staff.

# Question 8

**On January 23, 2023 the committee asked the Department of Revenue to provide the minimum balance or minimum range for the Constitutional Budget Reserve Fund (CBRF). The department deferred that question to the Office of Management and Budget.**

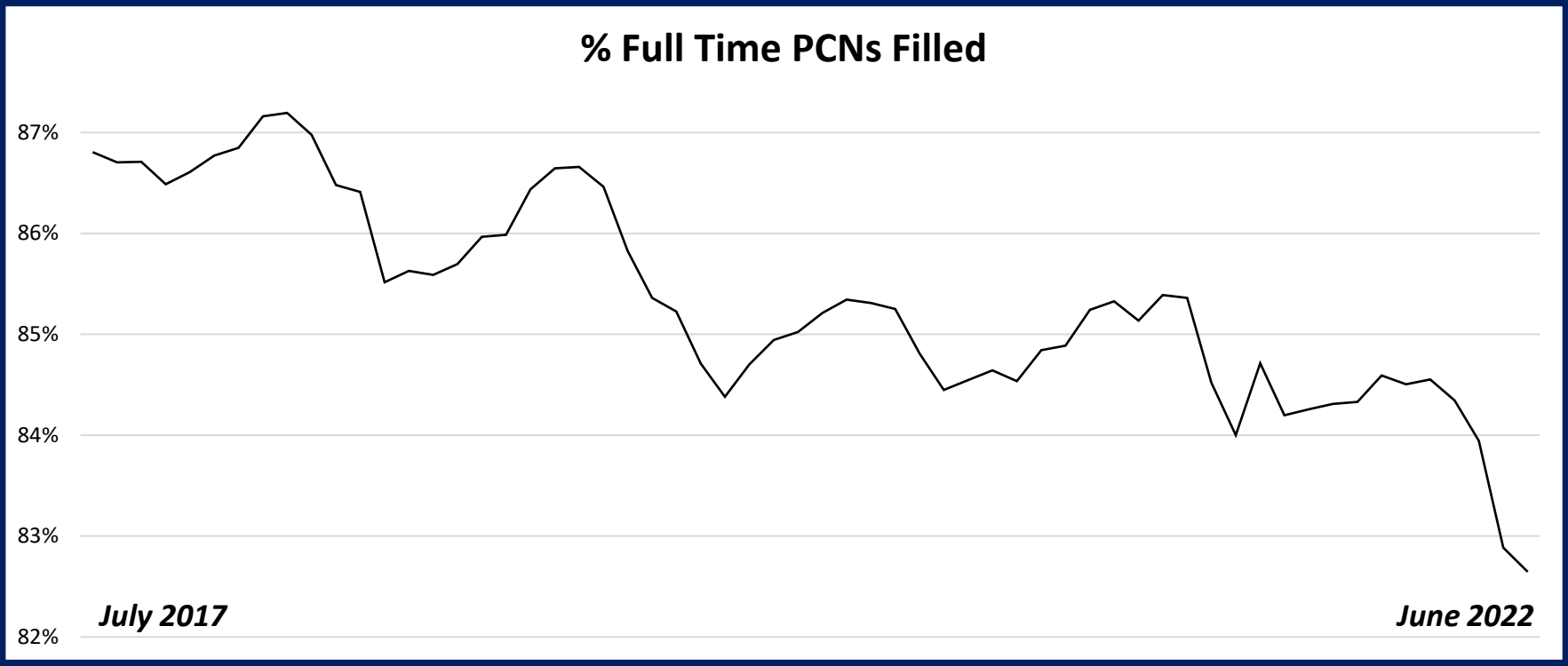
There is no statutory or constitutional direction, or objective criteria, for a minimum balance of the CBRF. However, there are two key balance points agreed upon by OMB and DOR. Drawing below \$500 million would likely result in adverse operational impacts from difficulties in managing daily cashflow, however \$2 billion is the generally agreed upon prudent minimum balance.

## Item 9

**The vacancy rates by department presented on slide 7 of the January 24<sup>th</sup> presentation contained errors. A corrected table is attached and a corrected version of the slide is included on the next slide**

# Budget Challenges - Vacancy

% Vacant PCNs	December 2022
DOA	14.4%
DCCED	19.1%
DOC	17.8%
DEED	15.5%
DEC	15.6%
DFG	14.0%
Gov	22.8%
DOH	19.5%
DFCS	19.3%
DOL&WD	20.8%
Law	11.4%
DMVA	12.2%
DNR	23.4%
DPS	17.4%
DOR	21.1%
DOT&PF	16.5%
<b>Total</b>	<b>17.6%</b>



- Most departments are experiencing significantly greater vacancy than pre-pandemic levels.
- Recruitments are taking longer and are less likely to result in a hire.
- Recruitment incentives being used to address most critical public needs.

FY22 Unspent Personal Services	
Working Reserve	8.3
Group Health Life	9.5
Catastrophic Reserve	12.4
CBR	39.3