

State of Alaska

Department of Administration

Division of Retirement and Benefits

Presentation to the Senate Finance Committee

- Funding Status Update
 - Public Employees' Retirement System (PERS)
 - Teachers' Retirement System (TRS)
- Ajay Desai, Director
- Kevin Worley, Chief Financial Officer
- Betsy Wood, Chief Health Administrator
- February 14, 2023



Organization – PERS / TRS

Dept. of Revenue Treasury Division

Invests retirement system
assets

Staff

General Consultants

Internal Investment Team

External Investment Management

Alaska Retirement Management Board (ARMB)

Sets contribution rates,
invests retirement system
assets

Investment Advisory Committee

Reviewer Actuary
(GRS)

Dept. of Administration Division of Retirement & Benefits

Administer retirement and
benefits system

Staff

Valuation Actuary (Buck)/Consultants

Third Party Administrators. (TPA)

External Audits



Membership (as of June 30, 2022)

	PERS					TRS				Total	%
Employers	151					57				208	
<u>Defined Benefit (DB) Plans</u>	Tier I	Tier II	Tier III	Total		Tier I	Tier II	Total			
Actives	505	1,922	6,569	8,996	DB: 26%	131	3,059	3,190	DB: 32%	12,186	DB: 27%
Inactive – Vested	236	1,514	3,174	4,924	DB: 69%	25	713	738	DB: 47%	5,662	DB: 65%
Retired	21,915	9,584	5,766	37,265	DB: 100%	9,825	3,598	13,423	DB: 100%	50,688	DB: 100%
TOTAL	22,656	13,020	15,509	51,185		9,981	7,370	17,351		68,536	
<u>Defined Contribution (DC) Plans</u>											
Actives	25,609				DC: 74%	6,649				32,258	DC: 73%
Inactive - Vested	2,260				DC: 31%	817				3,077	DC: 35%
Retired	166				DC: 0%	39				205	DC: 0%
TOTAL	28,035					7,505				35,540	
GRAND TOTAL	79,220					24,856				104,076	



Source: Division of Retirement and Benefits. June 30, 2022, Audited Financial Statements

Investment Experience

	2021		2022 (DRAFT)	
	PERS	TRS	PERS	TRS
Assumed Actuarial Earnings Rate	7.38%	7.38%	7.25%	7.25%
Based on Fair Market Value of Assets	30.00%	30.10%	-6.00%	-6.00%
Based on Actuarial Value of Assets (Smoothing over 5-Year Period)	11.60%	11.60%	8.70%	8.70%

The actuarial value of assets was reinitialized to equal, fair value as of June 30, 2014, with the \$3 Billion infusion from HB 119.

Beginning in FY 2015, the valuation method recognizes 20% of the investment gain or loss each year for five years (*"Smoothing"*).



Source: Buck, Actuarial Valuation Reports as of June 30, 2021, and 2022 draft results for PERS and TRS DB

Funded Status – Valuation Results (\$000's)

Defined Benefit Total (Pension and HealthCare Combined)

	PERS			TRS		
	2020	2021	2022 (DRAFT)	2020	2021	2022 (DRAFT)
a. Actuarial Accrued Liability	\$22,316,075	\$22,276,145	\$22,750,748	\$9,936,711	\$9,911,490	\$10,246,623
b. Actuarial Value of Assets (AVA)	\$17,703,068	\$19,047,864	\$19,941,441	\$8,608,347	\$9,178,106	\$9,537,420
c. Unfunded Actuarial Accrued Liability based on AVA	\$4,613,007	\$3,228,281	\$2,809,307	\$1,328,364	\$733,384	\$709,203
d. Funded Ratio based on AVA	79.3%	85.5%	87.7%	86.6%	92.6%	93.1%
e. Fair Value of Assets (FVA)	\$17,282,672	\$21,696,450	\$19,685,274	\$8,398,260	\$10,454,512	\$9,418,862
f. Unfunded Actuarial Accrued Liability based on FVA	\$5,033,403	\$579,695	\$3,065,474	\$1,538,451	(\$543,022)	\$827,761
g. Funded Ratio based on FVA	77.4%	97.4%	86.5%	84.5%	105.5%	91.9%



Source: Buck, Actuarial Valuation Reports as of June 30, 2021, and 2022 draft results for PERS and TRS DB

Funded Status – Pension (\$000's)

Defined Benefit Pension	PERS			TRS		
	2020	2021	2022 (DRAFT)	2020	2021	2022 (DRAFT)
a. Actuarial Accrued Liability	\$15,279,525	\$15,419,975	\$16,093,679	\$7,447,036	\$7,471,887	\$7,804,046
b. Actuarial Value of Assets (AVA)	\$9,713,710	\$10,466,709	\$10,961,498	\$5,587,064	\$5,910,369	\$6,100,204
c. Unfunded Actuarial Accrued Liability based on AVA	\$5,565,815	\$4,953,266	\$5,132,181	\$1,859,972	\$1,561,518	\$1,703,842
d. Funded Ratio based on AVA	63.6%	67.9%	68.1%	75.0%	79.1%	78.2%
e. Fair Value of Assets (FVA)	\$9,469,161	\$11,912,309	\$10,816,140	\$5,444,799	\$6,731,481	\$6,026,651
f. Unfunded Actuarial Accrued Liability based on FVA	\$5,810,364	\$3,507,666	\$5,277,539	\$2,002,237	\$740,406	\$1,777,395
g. Funded Ratio based on FVA	62.0%	77.3%	67.2%	73.1%	90.1%	77.2%



Source: Buck, Actuarial Valuation Reports as of June 30, 2021, and 2022 draft results for PERS and TRS DB

Funded Status – HealthCare (\$000's)

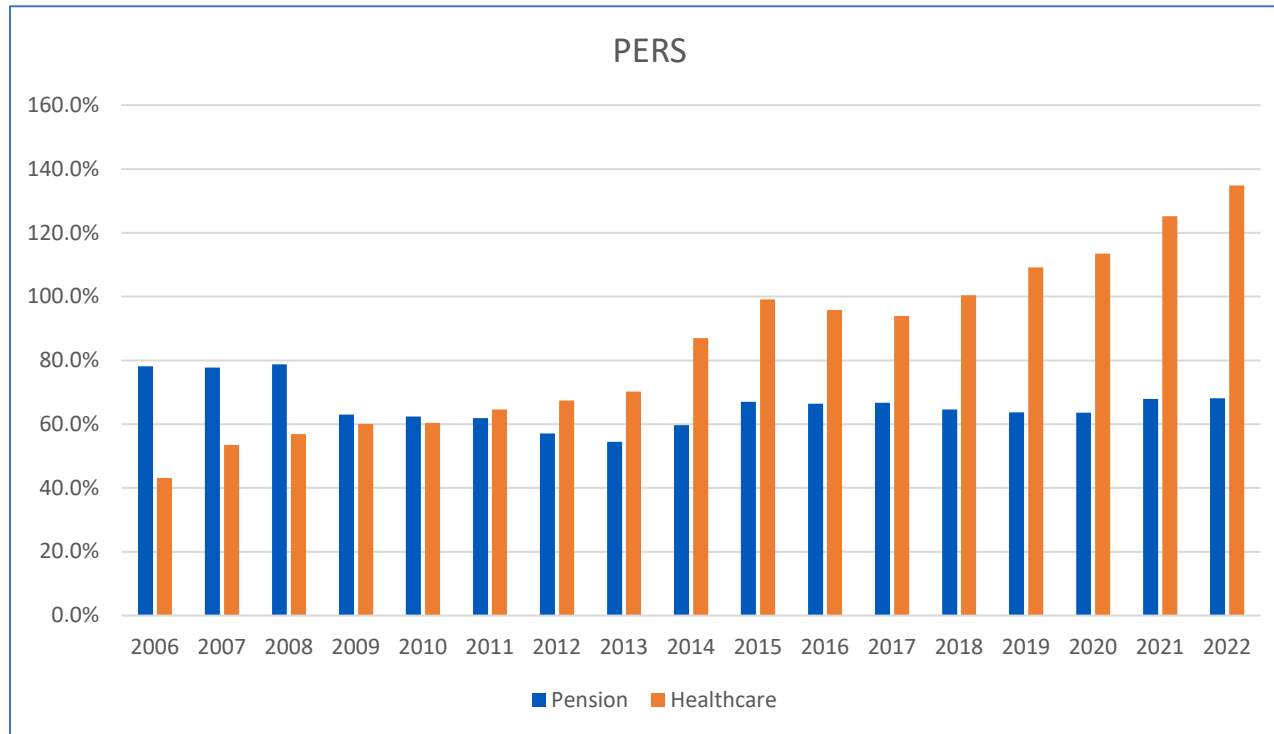
Defined Benefit HealthCare	PERS			TRS		
	2020	2021	2022 (DRAFT)	2020	2021	2022 (DRAFT)
a. Actuarial Accrued Liability	\$7,036,550	\$6,856,170	\$6,657,069	\$2,489,675	\$2,439,603	\$2,442,577
b. Actuarial Value of Assets (AVA)	\$7,989,358	\$8,581,155	\$8,979,943	\$3,021,283	\$3,267,737	\$3,437,216
c. Unfunded Actuarial Accrued Liability based on AVA	(\$952,808)	(\$1,724,985)	(\$2,322,874)	(\$531,608)	(\$828,134)	(\$994,639)
d. Funded Ratio based on AVA	113.5%	125.2%	134.9%	121.4%	133.9%	140.7%
e. Fair Value of Assets (FVA)	\$7,813,511	\$9,784,141	\$8,869,134	\$2,953,461	\$3,723,031	\$3,392,211
f. Unfunded Actuarial Accrued Liability based on FVA	(\$776,961)	(\$2,927,971)	(\$2,212,065)	(\$463,786)	(\$1,283,428)	(\$949,634)
g. Funded Ratio based on FVA	111.0%	142.7%	133.2%	118.6%	152.6%	138.9%



Source: Buck, Actuarial Valuation Reports as of June 30, 2021, and 2022 draft results for PERS and TRS DB

Funded Ratio – PERS Pension and HealthCare

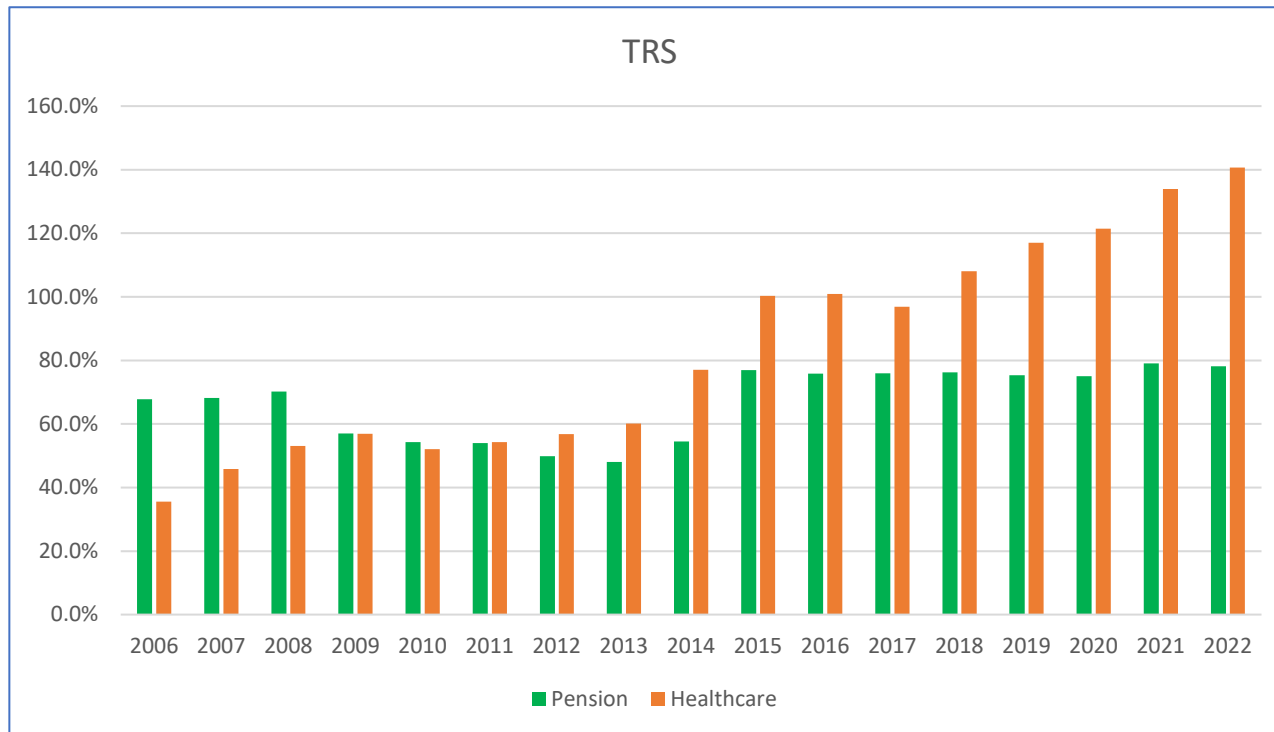
(Based on Actuarial Valuation Reports)



Source: Buck, Actuarial Valuation Reports as of June 30, 2021, and 2022 draft results for PERS and TRS DB

Funded Ratio – TRS Pension and HealthCare

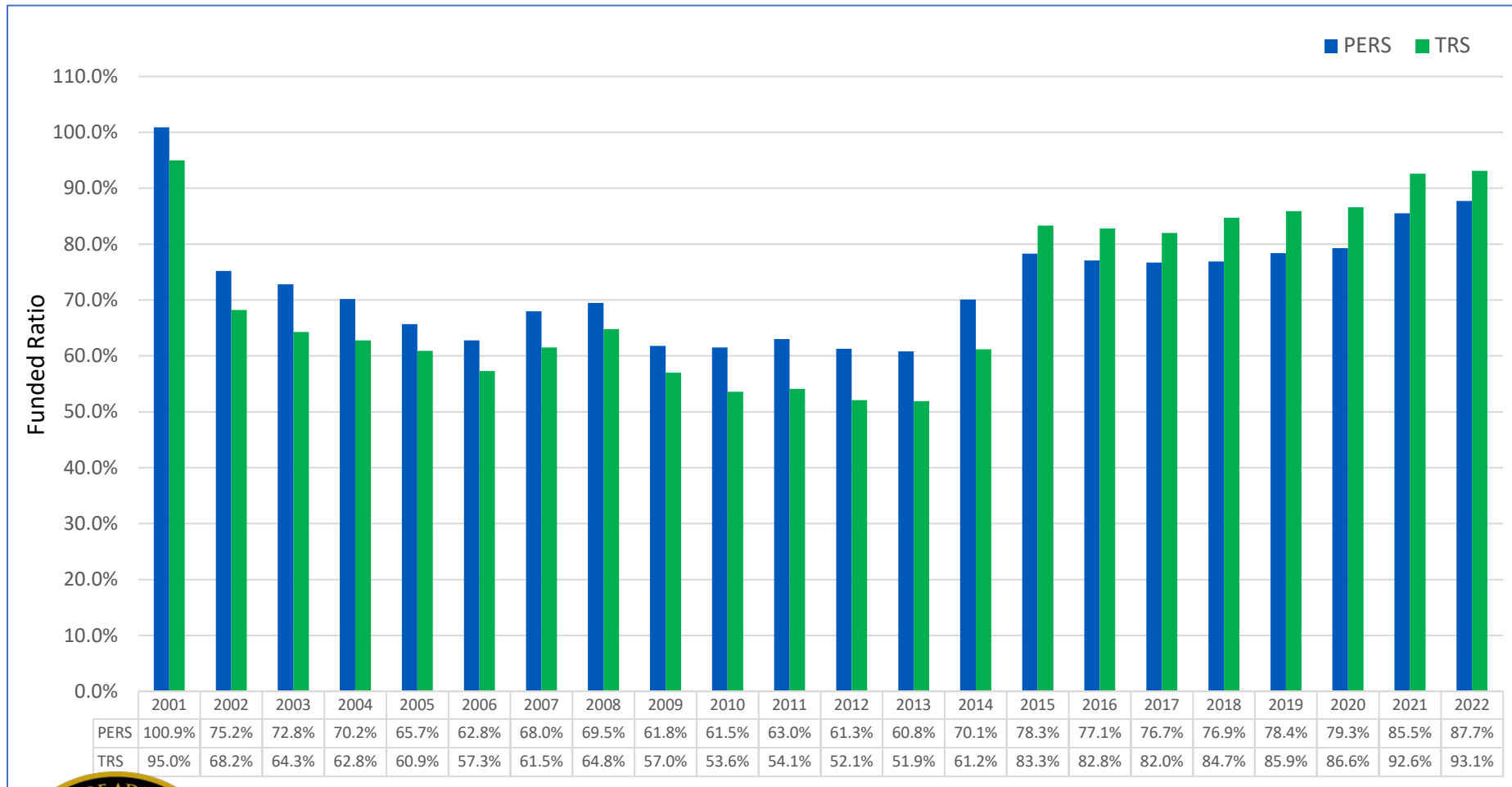
(Based on Actuarial Valuation Reports)



Source: Buck, Actuarial Valuation Reports as of June 30, 2021, and 2022 draft results for PERS and TRS DB

Funded Ratio – Combined PERS/TRS

(Based on Actuarial Valuation Reports)



Source: Buck, Actuarial Valuation Reports as of June 30, 2021, and 2022 draft results for PERS and TRS DB

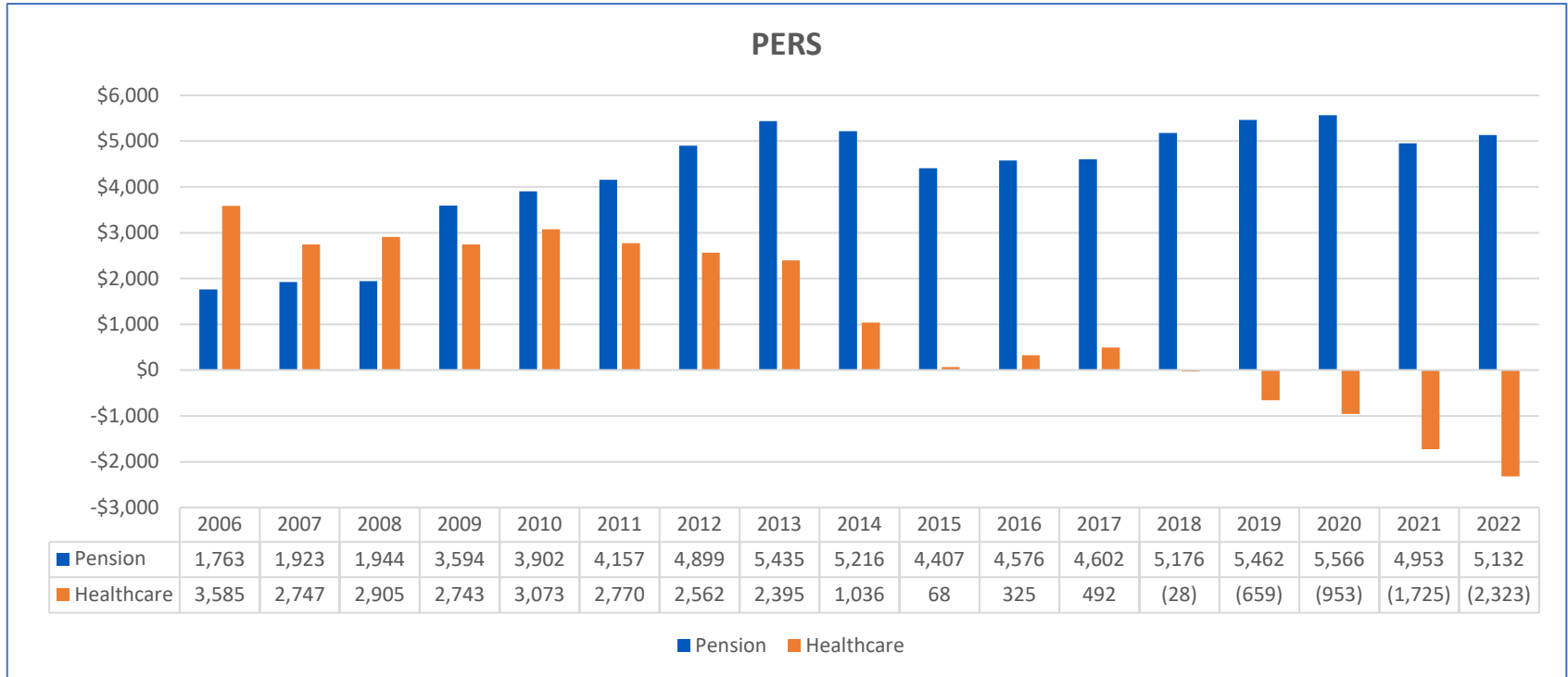
Correlation between Actual Rate of Return and Funded Ratio

Fiscal Year End 30-Jun	Assumed Actuarial Earnings Rate	Actual Rate of Return	Actuarial Funded Ratio	Actual Rate of Return	Actuarial Funded Ratio
		PERS		TRS	
2000	8.25%	10.16%	101.1%	10.25%	99.6%
2001	8.25%	-5.37%	100.9%	-5.44%	95.0%
2002	8.25%	-5.48%	75.2%	-5.49%	68.2%
2003	8.25%	3.67%	72.8%	3.68%	64.3%
2004	8.25%	15.08%	70.2%	15.09%	62.8%
2005	8.25%	8.95%	65.7%	9.01%	60.9%
2006	8.25%	11.74%	62.8%	11.78%	57.3%
2007	8.25%	18.93%	66.2%	18.97%	60.1%
2008	8.25%	-3.13%	69.5%	-3.12%	64.8%
2009	8.25%	-20.53%	61.8%	-20.67%	57.0%
2010	8.25%	11.39%	52.8%	11.58%	53.6%
2011	8.00%	21.18%	60.8%	21.36%	54.1%
2012	8.00%	0.46%	61.3%	0.51%	52.1%
2013	8.00%	12.50%	60.8%	12.59%	51.9%
2014	8.00%	18.56%	70.1%	18.56%	61.2%
2015	8.00%	3.29%	75.4%	3.30%	83.3%
2016	8.00%	-0.36%	77.1%	-0.36%	82.8%
2017	8.00%	13.35%	76.7%	13.36%	82.0%
2018	8.00%	9.61%	76.9%	9.62%	84.7%
2019	7.38%	6.40%	78.4%	6.39%	85.8%
2020	7.38%	3.83%	79.3%	3.82%	86.6%
2021	7.38%	27.62%	85.5%	27.65%	92.6%
2022	7.25%	-4.08%	87.7%	-4.10%	93.1%
30-year average rate of return		7.79%		7.84%	

Source: Funded Ratio - Actuarial Reports; Actual Rate of Returns - Department of Revenue, Investment Performance

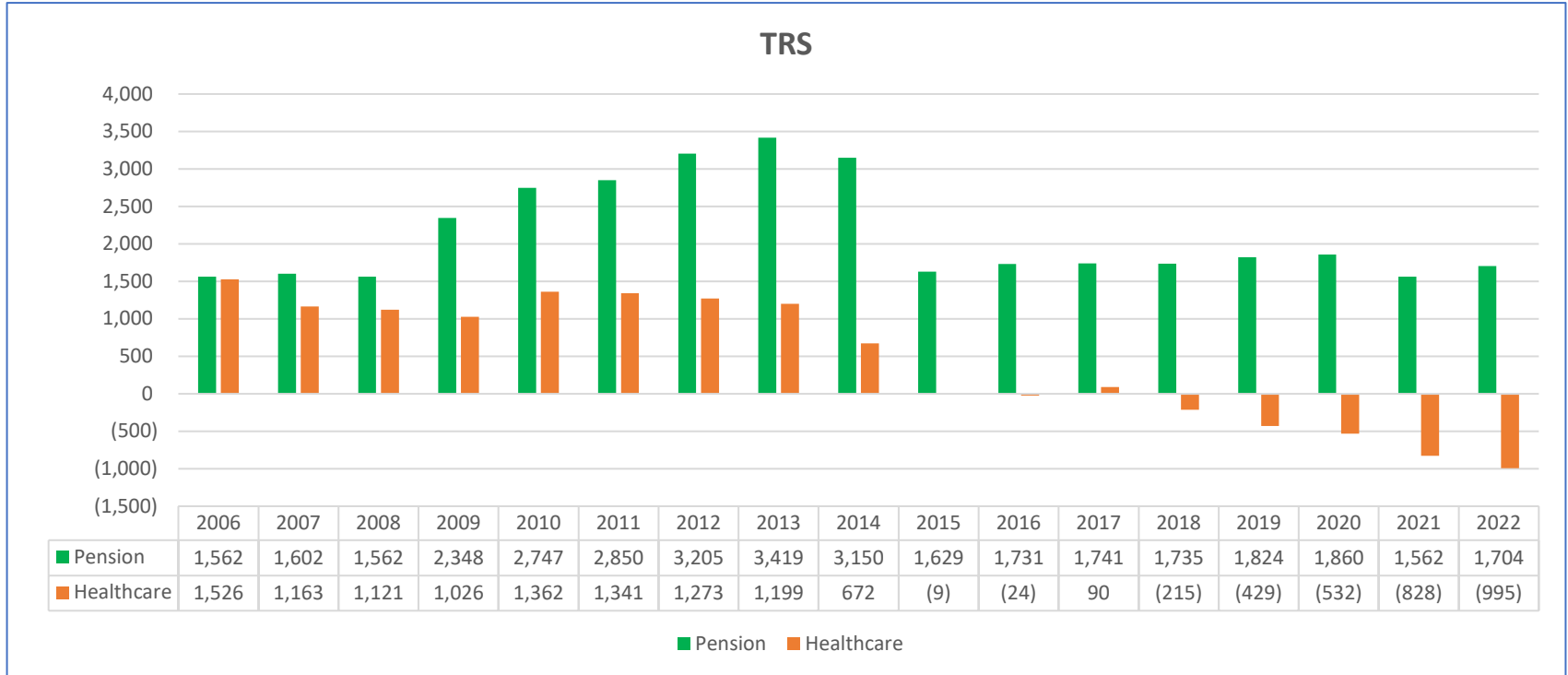


Unfunded Actuarial Liability – PERS (in \$millions)



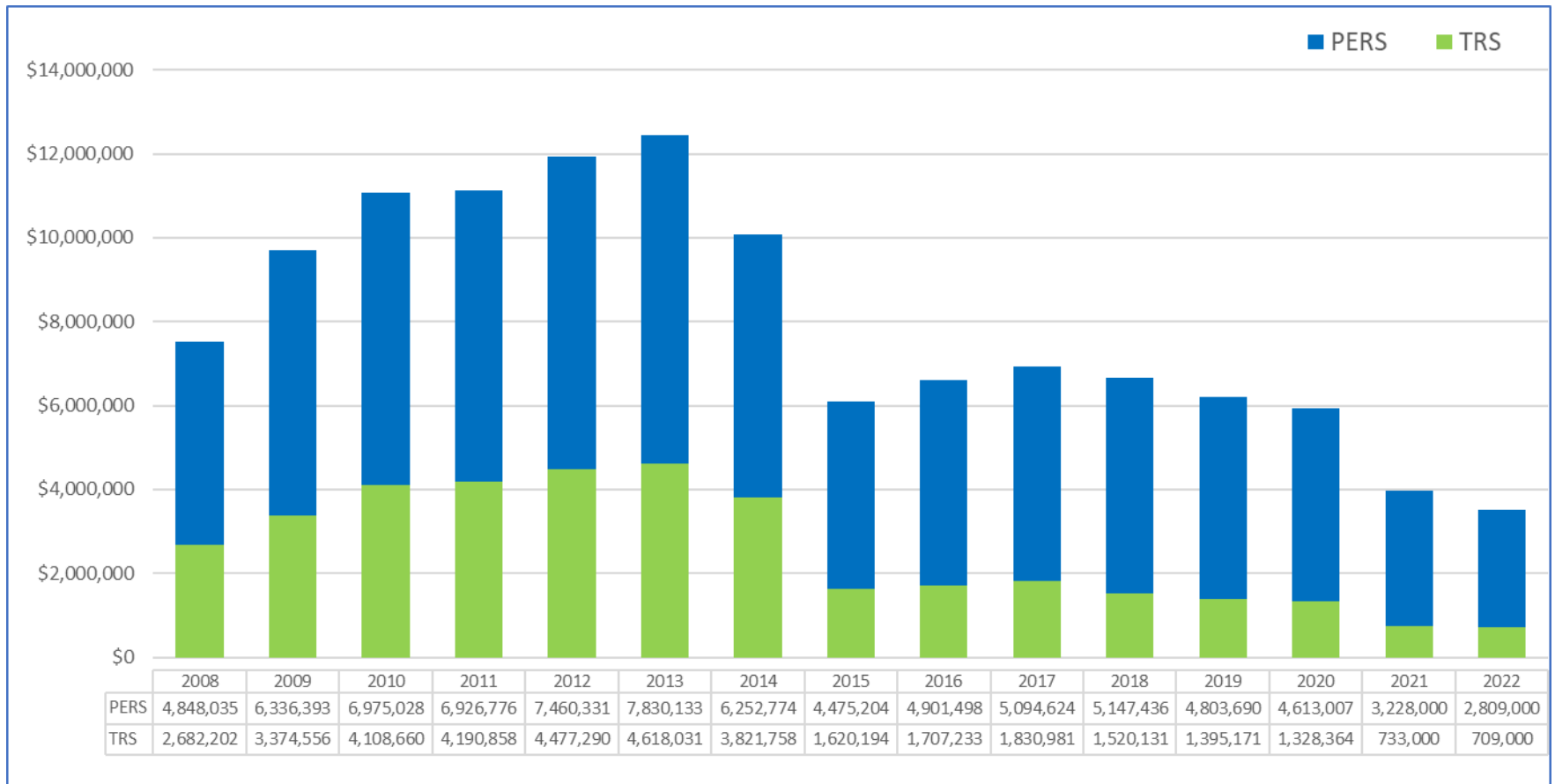
Source: Buck, Actuarial Valuation Reports as of June 30, 2021, and 2022 draft results for PERS and TRS DB

Unfunded Actuarial Liability – TRS (in \$millions)



Source: Buck, Actuarial Valuation Reports as of June 30, 2021, and 2022 draft results for PERS and TRS DB

Unfunded Actuarial Liability – PERS / TRS (\$'000's)



Source: Buck, Actuarial Valuation Reports as of June 30, 2021, and 2022 draft results for PERS and TRS DB

Additional State Contributions - History

FY	Legislation	PERS	TRS	Total
2006	Chapter 3, FSSLA 05 (SB 46), Sec 59(b)	\$ 18,426,923	\$ -	\$ 18,426,923
2007	Chapter 82, SLA 06 (SB 231), Sec 60(b)	18,581,921	-	18,581,921
2008	Chapter 30, SLA 07 (SB 53), Sec 55(e)	185,000,000	269,992,300	454,992,300
	Chapter 28, SLA 07 (HB95), Sec 15(a)			
2009	Chapter 27, SLA 08 (HB 310), Sec 13(b) & (a)	241,600,000	206,300,000	447,900,000
2010	Chapter 12, SLA 09 (HB 81), Sec 23(b) & (a)	107,953,000	173,462,000	281,415,000
2011	Chapter 41, SLA 10 (HB 300), Sec 29(b) & (a)	165,841,171	190,850,258	356,691,429
2012	Chapter 3, FSSLA 11 (HB 108), Sec 29(b) & (a)	242,609,397	234,517,333	477,126,730
2013	Chapter 15, SLA 12 (HB 284), Sec 27(a) & (b)	307,302,392	302,777,153	610,079,545
2014	Chapter 14, SLA 13 (HB 65), Sec 29(a) & (b)	312,472,952	316,847,291	629,320,243
2015	Chapter 18, SLA 14 (HB 119), Sec 48(a) & (b)	1,000,000,000	2,000,000,000	3,000,000,000
2016	Chapter 1, SSSLA 15 (HB 2001), Sec 10(a) & (b)	126,520,764	130,108,327	256,629,091
2017	Chapter 3, 4SSLA 16 (HB 256), Sec 28(a) & (b)	99,166,576	116,699,959	215,866,535
2018	Chapter 1, SSSLA 17 (HB 57), Sec 41(a) & (b)	72,719,000	111,757,000	184,476,000
	Chapter 17, SLA 18 (HB 286), Sec 25(a)			
2019	Chapter 17, SLA 18 (HB 286), Sec 25(b) & (c)	135,219,000	128,174,000	263,393,000
2020	Chapter 1, FSSLA 19 (HB 39), Sec 35(a) & (b)	159,055,000	141,129,000	300,184,000
2021	Chapter 8, SLA 20 (HB 205), Sec 41(a) & (b)	203,585,000	134,976,000	338,561,000
2022	Chapter 1, SSSLA 21 (HB 69), Sec 73(b) & (c)	97,699,500	142,665,000	240,364,500
2023	Chapter 11, SLA 22 (HB 281), Sec 80(a) & (b)	33,933,000	91,029,000	124,962,000
	Total:	\$ 3,527,685,596	\$ 4,691,284,621	\$ 8,218,970,217



Source: Legislative Bills for the respective year

Additional State Contributions – Projected

Fiscal Year	PERS	TRS	Total
2024	\$ 37,942,000	\$ 98,766,000	\$ 136,708,000
2025	56,913,000	123,358,000	180,271,000
2026	58,752,000	124,423,000	183,175,000
2027	74,368,000	141,207,000	215,575,000
2028	79,391,000	146,299,000	225,690,000
2029	84,248,000	151,565,000	235,813,000
2030	89,188,000	156,883,000	246,071,000
2031	94,366,000	162,059,000	256,425,000
2032	99,642,000	167,535,000	267,177,000
2033	105,049,000	173,009,000	278,058,000
2034	110,012,000	178,655,000	288,667,000
2035	115,081,000	184,407,000	299,488,000
2036	120,075,000	190,095,000	310,170,000
2037	125,576,000	195,880,000	321,456,000
2038	130,577,000	201,852,000	332,429,000
2039	135,819,000	207,791,000	343,610,000
	\$ 1,516,999,000	\$ 2,603,784,000	\$ 4,120,783,000

Without HealthCare Normal Cost Contributions



Source: Buck, September 2022 ARMB Meeting Presentation

FY2024 Contribution Rates

Health Plan – Zero Normal Cost Impact on Contribution Rates

	PERS				TRS			
	FY24 PERS Total Payroll *		\$	2,437,619,000	FY24 TRS Total Payroll		\$	762,084,000
	Preliminary	Contribution	Adopted	Contribution	Preliminary	Contribution	Adopted	Contribution
DB Pension Plan - Normal Cost	2.14%	52,165,000	2.14%	52,165,000	2.05%	15,623,000	2.05%	15,623,000
DB Pension Plan - Past Service Cost	16.33%	398,063,000	16.33%	398,063,000	16.44%	125,287,000	16.44%	125,287,000
DB Health Plan - Normal Cost	2.50%	60,940,000	0.00%	-	2.41%	18,366,000	0.00%	-
DCR Plan	6.63%	161,614,000	6.63%	161,614,000	7.03%	53,575,000	7.03%	53,575,000
	27.60%	672,782,000	25.10%	611,842,000	27.93%	212,851,000	25.52%	194,484,000
State Of Alaska Contributions	27.60%	334,978,000	25.10%	304,636,000				
Non-State Employer Contributions	22.00%	269,264,000	22.00%	269,264,000	12.56%	95,718,000	12.56%	95,718,000
Additional State Contributions	5.60%	68,540,000	3.10%	37,942,000	15.37%	117,132,000	12.96%	98,766,000

* PERS Non-State Employers Total Payroll:	\$	1,223,929,000
PERS State as an Employer Total Payroll:		<u>1,213,690,000</u>
FY24 PERS Total Payroll:	\$	2,437,619,000

Total Savings: **\$60,940,000 (PERS) + \$18,366,000 (TRS) = \$ 79,306,000**

(NOTE: some totals may not add due to rounding)



Source: ARM Board packet, September 2022 (information consolidated for presentation and some amounts may be off due to rounding)

HealthCare Trusts Funded Level

Fiscal Year	with NC Contributed	Without NC Contributed	with NC Contributed	Without NC Contributed
	PERS		TRS	
2023	134.9%	134.9%	140.7%	140.7%
2024	136.0%	136.0%	142.0%	142.0%
2025	137.6%	137.6%	143.9%	143.9%
2026	141.0%	140.3%	147.4%	146.8%
2027	139.6%	138.3%	146.2%	144.9%
2028	142.2%	140.2%	149.0%	147.2%
2029	145.1%	142.5%	152.3%	149.8%
2030	148.3%	145.1%	155.9%	152.9%
2031	151.9%	148.0%	160.0%	156.4%
2032	155.9%	151.4%	164.6%	160.5%
2033	160.4%	155.2%	169.8%	165.1%
2034	165.4%	159.6%	175.6%	170.3%
2035	171.0%	164.6%	182.2%	176.3%
2036	177.4%	170.2%	189.7%	183.0%
2037	184.7%	176.6%	198.1%	190.7%
2038	192.9%	184.0%	207.5%	199.3%
2039	202.3%	192.4%	218.2%	209.0%

NC = Normal Cost

Source: Buck Global



FY2024 Contribution Rates – Defined Benefit Plans

Defined Benefit Plans	PERS	TRS
Employee		
• All Other Employees	6.75%	8.65%
• Peace Officer/Firefighter	7.50%	
• School District Alternate Option	9.60%	
Employer (Rates capped by Alaska statute)	22.00%	12.56%
Additional State Contribution (for non-State employers)	3.10%	12.96%
Total Required Contributions for the Fiscal Year *	25.10%	25.52%

* The total contribution rates for PERS and TRS include the DCR contribution rates.



Source: Buck, September 1, 2022, letter as of June 30, 2022, roll-forward for PERS and TRS DB and DCR and 2021 DCR valuations

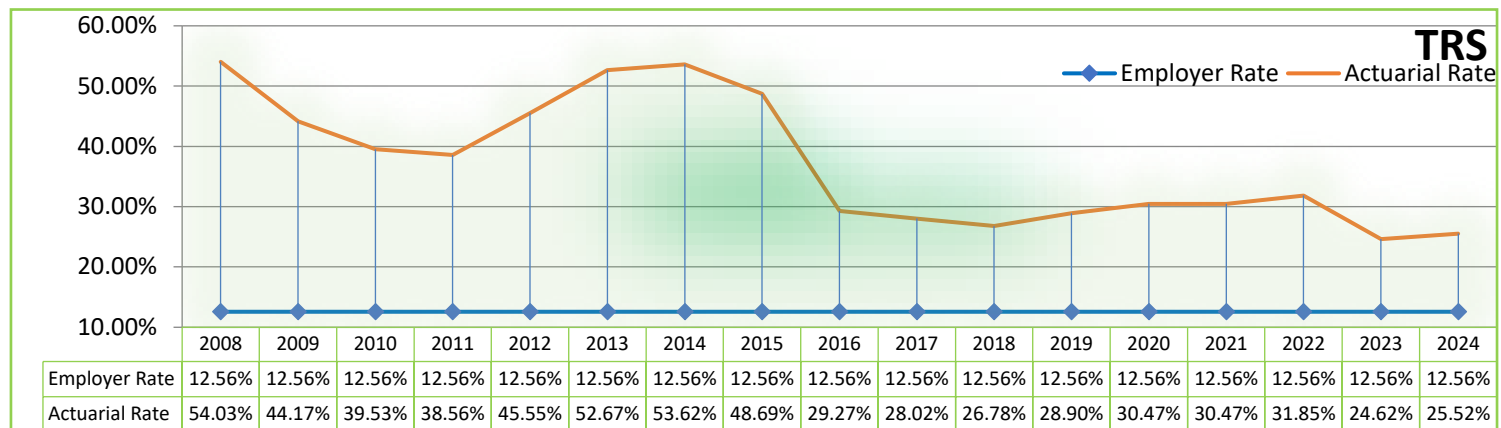
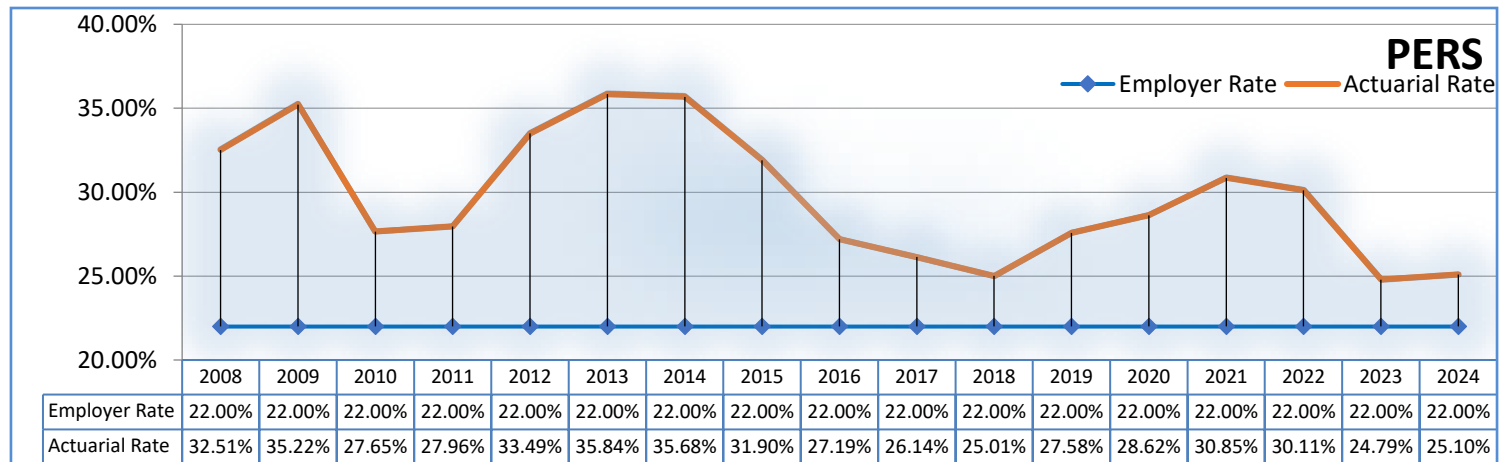
FY2024 Contribution Rates – Defined Contribution Plans

Defined Contribution Plans	PERS	TRS
Employee (to Investment Account)	8.00%	8.00%
Employer		
Investment Account	5.00%	7.00%
Health Care (Retiree Major Medical Plan)	1.01%	0.82%
Occupational Death & Disability		
• All Others	0.30%	0.08%
• Peace Officer/Firefighter	0.68%	N/A
Health Reimbursement Account (HRA) <i>(3% of all PERS/TRS average annual compensation)</i>	Flat dollar	Flat dollar
Excess from Employers' Contributions (22% / 12.56%)	To DB Plans – Unfunded Liability	



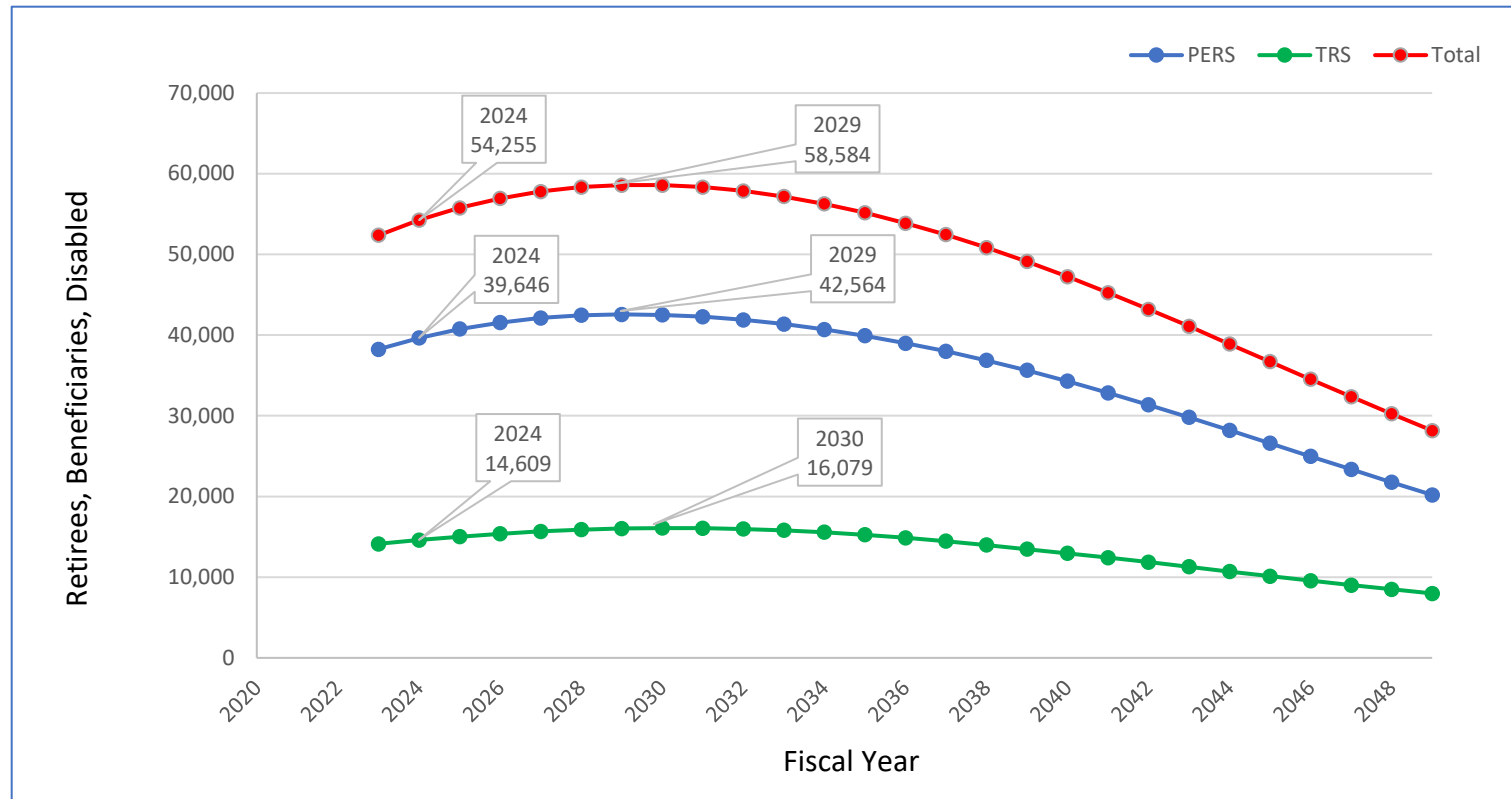
Source: Buck, September 1, 2022, letter as of June 30, 2022, roll-forward for PERS and TRS DB and DCR and 2021 DCR valuations

Contribution Rates – History



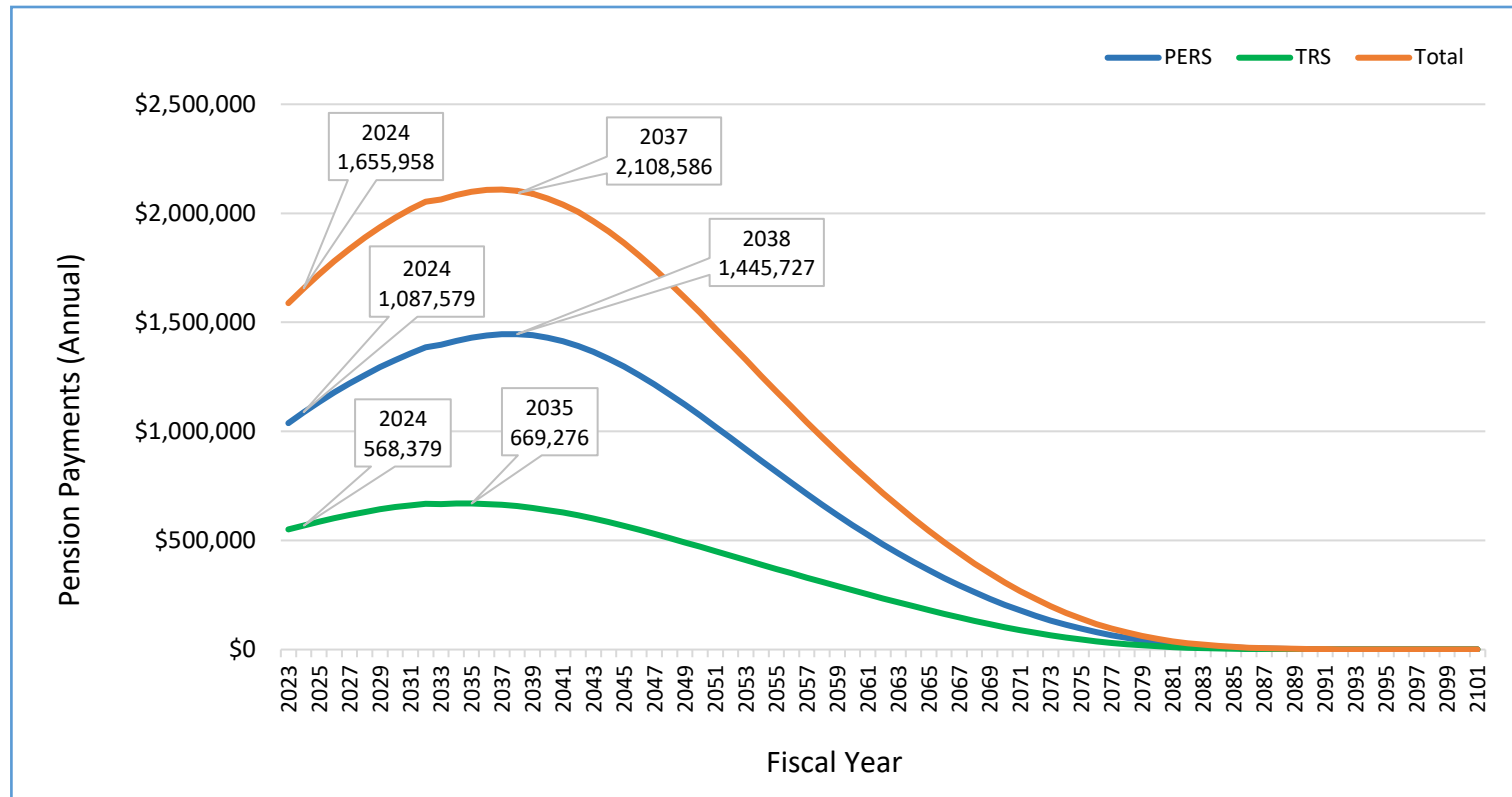
Source: June 30, 2021 - Board Adopted Rates Report (BUCK) [Rates shown include both DB and DCR Plan rates]

Projected Pension Benefit Recipients



Source: Buck - Supplemental Data

Projected Pension Benefits Payment (\$000's)



Source: Buck - Supplemental Data

AlaskaCare Employer Group Waiver Plan

- An Employer Group Waiver Plan (EGWP) is a group Medicare Part D prescription drug plan option.
- EGWP provides a direct subsidy which allows it to be considered when calculating the Other Post-Employment Benefits (OPEB) liability under both GASB & FASB accounting schemes.
- The implementation of EGWP reduced 6/30/18 healthcare liabilities by **\$959M**, which resulted in lower projected liabilities, lower projected contribution rates, and lower projected Additional State Contributions (\$711M for PERS, \$248M for TRS).



GASB = Governmental Accounting Standards Board
FASB = Financial Accounting Standards Board

An Employer Group Waiver Plan (EGWP) Subsidy

Types of Funding	\$ (Millions)			
	2019	2020	2021	2022 (Estimated*)
Direct Subsidy	\$ 1.30	\$ 0.04	\$ (2.64)	\$ (5.23)
Catastrophic Reinsurance*	28.80	20.76	25.98	35.57
Low Income Premiums Subsidy	18.20	0.22	0.22	0.22
Low Income Cost Sharing Subsidy*	0.20	1.10	1.10	1.11
Coverage Gap Discount*	1.00	36.26	39.75	44.02
TOTAL	\$ 49.50	\$ 58.38	\$ 64.41	\$ 75.70

* 2022 Amounts described above are estimates due to the dynamic nature of claims. The actual subsidy is subject to minor adjustments due to true-up.



Source: OptumRx

HealthCare Cost Trend Rates

Fiscal Year	Medical Pre-65	Medical Post-65	Rx / EGWP
2023	7.00%	5.50%	7.50%
2024	6.70%	5.50%	7.20%
2025	6.40%	5.40%	6.90%
2030	5.45%	5.30%	5.55%
2031 - 2038	5.30%	5.30%	5.30%
2039	5.25%	5.25%	5.25%
2050+	4.50%	4.50%	4.50%

Trend rates were updated with the June 30, 2022, actuarial valuation reports by the adoption of the ARM Board of the most recent experience study. Beginning in Fiscal Year 2039, trend rates were revised to reach an ultimate rate of 4.5% in fiscal 2050.



Source: Buck - Trend rates used in the June 30, 2022, valuation

Employers and Additional State Contributions

Process Timeline

Allocation of Projected Employer and Additional State Contributions with Liabilities
"Rolled Forward" Two-Years, Assets "Rolled Forward" One-Year and Smoothed



Department of Administration

Championing improvement in the State's performance and results.



For more information, please contact Ken Truitt at Ken.Truitt@alaska.gov