

**ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE**

March 5, 2002
9:25 a.m.

COMMITTEE CALENDAR

ACTUARIALS OVERVIEW: DIVISION OF RETIREMENT AND BENEFITS

TAPES

02-23, SIDE A

CALL TO ORDER

REPRESENTATIVE COGHILL, Chair, called the House State Affairs Standing Committee meeting back to order at 9:25 a.m. [For minutes on HB 498, see the 8:10 a.m. minutes for this date.]

PRESENT

Committee members present were Representatives Coghill, James, Fate, Hayes, and Crawford.

SUMMARY OF INFORMATION

[Contains discussion of HB 248]

Presenters in the overview were Bob Reynolds, an actuary for William M. Mercer, which has served as the actuary for the PERS [Public Employees' Retirement System] and TRS [Teachers' Retirement System] for the State of Alaska for 30 years, and Guy Bell, Director, Division of Retirement and Benefits.

BOB REYNOLDS, Actuary, William M. Mercer, offered a slide presentation. He noted that many people think an actuary predicts when someone is going to die; however, an actuary computes insurance and pension rates and premiums based on experience tables, and projects probabilities for dates of employment, disability, termination, retirement, and death. This formula gives an indication of how long the benefit will be paid. The goal of an actuary is to make sure assets are available to pay for the person's retirement until that person dies, so that future generations don't have to pay for it.

MR. REYNOLDS explained that a 25-year-old earning \$40,000 a year with a 20-year retirement would have to set aside \$210,000 in

assets through that 20 years to provide for the \$18,000 annual accrued benefit in the retirement years. Furthermore, that same 25-year-old earning \$40,000 with a 30-year retirement would have to set aside \$290,000 to pay the annual accrued benefit of \$27,000 available at retirement when he turns 55.

MR. REYNOLDS noted that the total liability of a retirement system is based on the sum of benefit values for each system participant. He said this figure includes accrued liability of all retirees and active employees' past service, as well as normal costs for active employees' future service. He explained that HB 248 would place an additional liability of \$7.2 million on the retirement system for the 240 members that HB 248 would cover, or an additional \$30,000 per employee.

MR. REYNOLDS listed the following additional assumptions built into the model: salary increases, medical inflation, employment patterns, cost-of-living adjustments, termination rates, mortality rates, interest rates, and market activity.

MR. REYNOLDS gave a comparison of two employees retiring at 20 years and 30 years. He said the 20-year retiree would be 45 years old at retirement and would collect \$18,000 for an expected 38 years; therefore, that retiree would collect \$684,000 in retirement. The 30-year retiree would be 55 years old at retirement and would collect \$27,000 for an average of 28 years; therefore, that retiree would collect \$756,000. He reiterated that the annuity value for the retirement would be \$210,000 in assets for the 20-year retiree and \$290,000 for the 30-year retiree.

MR. REYNOLDS noted that if these two persons had been in service with the state for ten years and wanted to invest money for ten years to supplement their retirement to a \$40,000-a-year level, the 20-year retiree would have to invest \$95,000 and the 30-year retiree would have to invest \$60,000.

REPRESENTATIVE FATE asked if there was a study on the mortality rate of juvenile officers now.

MR. REYNOLDS replied that there is only a police-and-firemen mortality rate study.

REPRESENTATIVE FATE asked if such a study would be advantageous to the state.

MR. REYNOLDS answered that a recent study of the actuarial assumptions indicated only one table is necessary; the same mortality rates are used for police, firemen, and "all others."

REPRESENTATIVE CRAWFORD said he was a member of the ironworkers union. He noted that recent stock market gains have resulted in an accrual rate rise from the guaranteed rate of 2.25 to 5.15 percent. He asked how recent market gains have affected PERS and TRS.

MR. REYNOLDS said William M. Mercer uses a long-time horizon. For example, it would use a 48-year time horizon for a 35-year-old retiring at 55 and living an additional 28 years.

REPRESENTATIVE CRAWFORD asked what William M. Mercer is going to do with large gains in market returns.

MR. REYNOLDS replied that gains have reduced the "unfunded" liabilities of the systems. Using "smoothing" techniques allows the actuary to "smooth out" gains over the long-time horizons to adjust for years with losses, he concluded.

GUY BELL, Director, Division of Retirement & Benefits, Department of Administration, stated that the benefit employees receive is set in statute; only the legislature can change it. He said the state's contribution rate has gone down, from 14 to 15 percent about seven years ago to approximately 7 percent currently. He noted that there has been a continual increase in medical care costs for retirees; approximately 36 percent of the state's contributions to PERS are for medical care costs.

CHAIR COGHILL stated that HB 248 would allow employees to buy past service. He asked if the costs take into account that the money "wasn't there all the time."

MR. REYNOLDS noted that that was taken into account.

REPRESENTATIVE JAMES asked if the actuary starts at the end and works his/her way back, to come up with a contribution rate.

MR. REYNOLDS said yes, because the goal is determined first.

CHAIR COGHILL asked about the material from Janet Clarke regarding how the division would absorb the cost in the existing budget.

MR. BELL responded that the budget issue is a policy question that is left to the legislature to decide. He said that regardless of how it is paid, there will be a \$7.2-million cost reflected through the entire personal services column in the operating budget, because of HB 248.

REPRESENTATIVE HAYES asked whether this cost would only be true if all 240 employees retired. He further asked whether \$7.2 million would be the worst-case scenario.

MR. BELL responded that the \$7.2 million is based on assumptions regarding turnover rate, mortality rate, and other considerations.

REPRESENTATIVE JAMES asked if this cost was an annual expense or a one-time expense.

MR. BELL answered that it is money needed today to pay additional retirement benefits in the future, not an annual cost.

MR. REYNOLDS concurred.

CHAIR COGHILL and REPRESENTATIVE FATE thanked Mr. Reynolds and Mr. Bell for an excellent presentation.

ANNOUNCEMENTS

CHAIR COGHILL announced that HB 248 would be carried over until Thursday because he felt uncomfortable passing it out of committee with only four committee members present.

COMMITTEE ACTION

The committee took no action.

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 10:02 a.m. [For minutes on HB 498, see the 8:10 a.m. minutes for this date.]

NOTE: The meeting was recorded and handwritten log notes were taken. A copy of the tape(s) and log notes may be obtained by contacting the House Records Office at State Capitol, Room 3,

Juneau, Alaska 99801 (mailing address) (907) 465-2214, and after adjournment of the second session of the Twenty-Second Alaska State Legislature this information may be obtained by contacting the Legislative Reference Library at (907) 465-3808.