

MINUTES
SENATE FINANCE COMMITTEE
February 15, 2007
9:02 a.m.

CALL TO ORDER

Co-Chair Bert Stedman convened the meeting at approximately [9:02:06 AM](#).

PRESENT

Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice Chair
Senator Kim Elton
Senator Joe Thomas
Senator Fred Dyson
Senator Donny Olson

Also Attending: MELANIE MILLHORN, Director, Division of Retirement & Benefits, Department of Administration; CHARLENE MORRISON, Chief Financial Officer, Division of Retirement & Benefits, Department of Administration

Attending via Teleconference: There were no teleconference participants

SUMMARY INFORMATION

The Committee heard a presentation from the Department of Administration regarding the Employer Contribution Rates for the Public Employees Retirement System and the Teachers Retirement System and the affect of establishing a new Defined Contribution Retirement Plan for employees. No Committee action was taken.

[9:02:13 AM](#)

^PERS/TRS Funding Status & Review by the Department of Administration

PERS/TRS Funding Status & Review
By the Department of Administration

Co-Chair Stedman listed three issues the Department of Administration (DOA) would address during this meeting: the first being how the actuarial contribution rate recommendations for the Public Employees Retirement System (PERS) and the Teachers Retirement System (TRS) impact the State and municipalities; the second being "the effect of closing membership" to the Defined Benefit (DB) retirement plan on June 30, 2006; and the third being the fiscal impact of implementing a new Defined Contribution Retirement (DCR) plan for employees as of July 1, 2006.

[9:05:27 AM](#)

MELANIE MILLHORN, Director, Division of Retirement & Benefits, Department of Administration, addressed the material in the Department's presentation titled "PERS and TRS Elements of Defined Benefit Plans and Future Challenges" [copy on file] dated February 15, 2007.

Page 2

Overview

I. Health Care Costs'

- A primary cost driver

II. Projected Contribution Amounts

III. Level-Dollar Amortization

IV. Closing Defined Benefit Plans

- Does not increase unfunded liability

Ms. Millhorn stated that the goal of this presentation is to explain why "the Health care component is a significant driver in the unfunded liability for PERS and TRS" and why it would continue to be a challenge. The discussion would also include a projection of the Employer Contribution Rate levels that might be required to fund PERS and TRS benefits through the year FY 14; an explanation of the Level-Dollar Amortization method; the implications of closing the DB plan; and the impact of introducing a new PERS and TRS employment Tier with a DCR plan.

Ms. Millhorn emphasized that closing the DB plan to new employees would not increase the unfunded liability experienced by PERS and TRS. "In fact, it stems the growth of unfunded

liabilities that would be introduced to the system had those systems not been closed."

[9:08:01 AM](#)

Page 3

I. Health Care Costs

AlaskaCare Retiree Health Plan

Article 12, Section 7 of the Alaska Constitution protects pension and medical benefits for members from diminishment or impairment.

How does the AlaskaCare Retiree Health Plan compare with retiree health plans for other state pension plans?

- Workplace Economics, Inc. studied all 560 states in 2004 regarding retiree health plans and found that, for Medicare-eligible retirees, 2 states offer no medical plan; 11 provide no funding; 20 cost share; and 17 have system-paid medical.
- Of the 17 states that offer system-paid medical, research indicates there are only 8 that have constitutional protection for medical benefits.
- The total PERS and TRS actuarial accrued liability as of June 30, 2005, is \$8 billion for medical and \$11.3 billion for pension.

Ms. Millhorn qualified that PERS and TRS retiree medical plans are protected benefits under Article 12, Section 7 of the Alaska Constitution. A Public Fund Survey [copy on file], conducted in 2004 by Workplace Economics, found that, at the time, Alaska and 20 other states provided a DCR or cost share health plan. 17 states employed a system-paid medical plan in which the state's retirement system rather than the member provided the cost of the premium. Like Alaska, eight of those 17 states, had constitutional protection provisions which prohibited diminishment or impairment of benefits.

Ms. Millhorn noted that a recent [unspecified] article proclaimed that, according to Governmental Accounting Standards Board (GASB) standards which require health care benefits obligations to be calculated on an accrual basis, New Jersey's future health care benefits obligation amount to approximately

\$78 billion in owed benefits. A separate article specified that Texas, which does not provide constitutionally protected benefits, has promised health care benefits amounting to \$50 billion.

[9:11:04 AM](#)

Page 4

I. Health Care Costs

AlaskaCare Retiree Health Plan (cont'd)

- Retirees and dependents increased from 45,293 members to 53,235 from December 2001 to December 2006. This represents an increase of just over 17.5% during this period.
- Annually, the medical plan enrolls approximately 2,000 retired members and, with dependents, adds approximately 4,000 lives to the retiree plan.
- The universe of members who are or may become eligible for a medical benefit in the future is approximately 100,000, not including dependents.

Ms. Millhorn discussed the demographics of the State's retirement system members. The ratio of dependents per retiree is approximately 0.9 percent. Approximately 4,000 individuals are added to the retiree plan each year even though only approximately 2,000 members retire each year. Dependents of the retiring members account for the difference.

Ms. Millhorn estimated that approximately 250,000 people could be eligible for medical benefits in the future when dependents, "deferred vested" and vested retirees are considered. Deferred vested members are "individuals who have service in the system. They have not refunded out and they can come back and serve that additional period of service and receive medical benefits and a pension benefit from the system."

Ms. Millhorn pointed out however, that "individuals who have refunded out of the system over the period of years" were not included in the 100,000 "universe" of members who might be benefit-eligible. This group of individuals was the subject of intense discussion by the Senate Finance Committee during

deliberations on SB 141, the PERS and TRS legislation passed by the 24th Alaska State Legislature that established the DCR plan.

Ms. Millhorn noted that these individuals are referred to as "former members" in Section 39.35.680, the definition section of the State statute pertaining to PERS. "They have retired out of the system but the law allows them to come back, re-establish their indebtedness to the system up until 2010." Refunded members would be ineligible to return to State service and subsequently establish indebtedness after that date. The Division of Retirement & Benefits sent notification to 68,000 such individuals.

Ms. Millhorn communicated that the ability of these former members to reenter the system during this time period was a significant consideration. Based on historical data, 800 or 900 members reenter the PERS and TRS system and re-establish "that indebtedness provision" annually. The liabilities for these individuals are unaccounted until "the next valuation period" conducted after the re-establishment of that relationship.

[9:15:16 AM](#)

Page 5

I. Health Care Costs

AlaskaCare Retiree Health Plan (cont'd)

- Medical share of PERS liability has grown from just under 30% to approximately 45% in last nine years. Medical share of TRS liability has grown from just under 20% to approximately 33% in last nine years.
- Medical plan is the same for all members of PERS/TRS Defined Benefit (DB) plan. Differences are found in the eligibility criteria for PERS and TRS.
- 75% of medical costs is for DB plan members between ages 55 and 65. Alaska statute requires that the AlaskaCare plan becomes supplemental to Medicare at age 65. Medical cost for members age 65 and over represents 25% of total medical costs.

Ms. Millhorn reviewed the information and noted that, while the DB medical plans for PERS Tier I, II, and III employees and TRS I and II employees were identical, there were differences in the

eligibility criteria. PERS Tier I employees vest after five years of service and could receive normal pension and medical benefits at age 55; Tier II employees vest after five years and could receive normal pension and medical benefits at age 60; Tier III employees vest after five years but must serve ten years before becoming eligible for pension and medical benefits at age 60.

[9:17:07 AM](#)

Page 6

I. Health Care Costs

Retiree Plan Claims Costs

Noted below are the retiree plan claims costs for FY2001 through FY2006.

Health Claims Cost

<u>by Fiscal Year</u>	<u>Amount</u>
FY 2006	\$285 Million
FY 2005	\$256 Million
FY 2004	\$226 Million
FY 2003	\$205 Million
FY 2002	\$148 Million
FY 2001	\$128 Million

Ms. Millhorn noted that claims costs increased 223 percent between FY 2001 and FY 2006. The addition of 4,000 new retirees to the plans each year attributed to this increase. The expectation is that costs would continue to rise.

[9:17:54 AM](#)

Co-Chair Stedman asked the results of the effort to control and contain increasing medical benefit costs by requiring members in the PERS and TRS systems to provide dependent verification such as marriage certificates and birth records.

Ms. Millhorn responded that a 13.6 percent reduction in eligible dependents has resulted from the dependent verification process conducted with active and retiree plan members. This equated to annual health care plan savings of approximately \$14 million.

The retirement health care plan accounted for ten percent of the dependent reduction and \$10.7 million of the savings.

[9:19:45 AM](#)

Co-Chair Stedman recalled that when the Legislature initially became aware of the PERS and TRS unfunded liability situation a few years prior, the unfunded liability associated with members who were eligible to reenter the system to vest was estimated to be \$300 million.

[9:20:28 AM](#)

Ms. Millhorn stated that the results of a study on individuals who were vested and who might re-employ with the systems would be provided. The circumstances of such a person nearing retirement and "the universe of opportunity" the systems would provide "would incentivize an individual to come back to PERS or TRS employment in order to secure those benefits into the future." "The probability of that happening" and the resulting exposure to the system "was very high".

Ms. Millhorn noted that in the early 1990s, the Financial Accounting Standards Board (FASB) initiated the requirement that retirement systems "accrue for retiree medical benefits". At that time, 66 percent of employers with 200 or fewer employees provided retiree medical benefits. After the accrual requirement mandate, the number of such employers providing those benefits declined to approximately 33 percent.

Ms. Millhorn pointed out that a similar trend could occur in the public sector.

Ms. Millhorn stressed that while retiree medical benefits are "very valuable to employees ... they are expensive to employers".

[9:22:35 AM](#)

Senator Elton remarked that the possibility of 68,000 former employees reentering the system "sounds alarming". He asked an estimate of the number of people who might re-enter the system before 2010, considering the limited number of job openings and the fact that hiring is conducted on a competitive basis.

Ms. Millhorn communicated that the PERS and TRS systems typically have 4,400 job openings each year. A probability study conducted by the Department indicates that historically 800 to 900 former members re-enter the systems annually. Additional information could be provided.

[9:24:21 AM](#)

Senator Elton thus expressed that utilizing the numbers 800 to 900 per year, rather than a universe of 68,000, was "more relevant" to the discussion. He deduced, however, that the 2010 deadline might spur an increase in those numbers.

Ms. Millhorn reiterated that the figures reflect the historical experience.

[9:25:08 AM](#)

Co-Chair Stedman shared that approximately 56,000 prior service individuals existed as of February 2005. Even though the number of people who might re-enter the systems was an unknown element, the "magnitude" of the potential increase in liabilities is not reflected in the data.

[9:26:04 AM](#)

Senator Olson asked whether contributions made by employees hired on or after July 1 2006 would "co-mingle" with those of employees in the DB plans.

Ms. Millhorn responded in the negative.

Senator Olson questioned whether employees hired on or after July 1, 2006 would have a positive or negative affect on the systems' unfunded liabilities.

Ms. Millhorn asserted that the introduction and design of the new tier, which became effective July 1 2006, was "beneficial to the systems". The defined and fixed components of this "hybrid" DCR plan would not increase the unfunded liability.

[9:27:30 AM](#)

Senator Thomas asked whether the aforementioned universe of 68,000 people included both vested and non-vested individuals.

Ms. Millhorn noted that the "former member" reference applies to those individuals who "have refunded out of the system" by withdrawing their contributions and its earnings from the system. In order to be eligible for plan benefits, former members must re-employ with either the PERS or TRS system to re-establish their indebtedness and repay their contributions to the system either as a lump sum or via a payment schedule. Depending on circumstances such as a person's age or prior length of service, a former member might be able to re-establish their indebtedness after being re-employed for as little as one day.

Ms. Millhorn reminded the Committee that SB 141 contained a provision that specified that former members had only until 2010 to re-establish their indebtedness. The Division "was required to identify who those members are" and provide "proper notice" of the July 1, 2010 date to them "because under law" their ability to re-employ had not previously been date certain.

[9:30:45 AM](#)

In response to a question from Senator Thomas, Ms. Millhorn clarified that not all 68,000 former members were vested. Regardless of their vesting status, a former member would be required to re-employ and re-establish indebtedness in order to receive plan benefits. Those who were not vested must re-employ, repay the indebtedness, and serve the required amount of time to become vested.

Senator Thomas understood that, while information reflecting the potential impact of this issue was available, it had not been provided.

Ms. Millhorn specified that the information gleaned from the Division's analysis could be provided.

[9:32:26 AM](#)

Co-Chair Stedman emphasized that there was "liability of some magnitude that's not reflected" in the provided material. Members seeking further information should contact the Department.

[9:32:52 AM](#)

Page 7

II. Projected Contribution Amounts

PERS Projected Contribution Amounts FY 04 through FY 15

Projections at Calculated Rate

[Bar chart depicting actual contributions: \$106 for FY 04, \$178 for FY 05, and \$272 for FY 06; and projected contributions: \$356 for FY 07, \$615 for FY 08, \$616 for FY 09, and amounts ranging between \$655 and \$657 for FY 10 through FY 15.]

Data, Assumptions, Methods and Plan Provisions:

- No payroll growth is used for FY 08 rates and later.
- No new members after July 1, 2006.
- All other data, assumptions, methods and plan provisions are the same as those described in the June 30, 2005 valuation reports.

Ms. Millhorn directed attention to the projected PERS contribution amounts depicted on the chart. The contribution amounts required into the future would be "based on the valuation of June 30 2005 and the unfunded liability for PERS and TRS".

Ms. Millhorn reviewed the contribution rates for PERS and advised that, although the rates appear to stabilize between FY 08 and FY 15, the determining factor would be whether "the assumptions" in the valuation report would be achieved "annually". Any deviation from those assumptions, such as an increase in health care costs, would increase the contribution amount.

[9:34:12 AM](#)

Page 8

II. Projected Contribution Amounts

TRS Projected Contribution Amounts FY 04 through FY 15

Projections at Calculated Rate

[Bar chart depicting actual contributions: \$69 for FY 04, \$94 for FY 05, and \$128 for FY 06; and projected contributions for FY 07 (\$149), FY 08 (\$290), FY 09 (\$275) and amounts ranging between \$291 and \$304 for FY 10 through FY 15.]

Data, Assumptions, Methods and Plan Provisions:

- No payroll growth is used for FY 08 rates and later.
- No new members after July 1, 2006.
- All other data, assumptions, methods and plan provisions are the same as those described in the June 30, 2005 valuation reports.

Ms. Millhorn reviewed the contribution projections for the TRS system. These rates would be subject to the same terms that applied to the PERS system.

[9:34:20 AM](#)

Page 9

II. Projected Contribution Amounts

PERS/TRS Projected Contribution Amounts
FY 04 through FY 15

Projections at Calculated Rate

[Bar graph consolidating the PERS and TRS projected contribution rates. Combined actual contributions were: \$174 for FY 04, \$272 for FY 05, and \$400 for FY 06; and projected contributions for FY 07 (\$505), FY 08 (\$905), FY 09 (\$891) and amounts ranging between \$946 and \$961 for FY 10 through FY 15.]

Data, Assumptions, Methods and Plan Provisions:

- No payroll growth is used for FY 08 rates and later.
- No new members after July 1, 2006.
- All other data, assumptions, methods and plan provisions are the same as those described in the June 30, 2005 valuation reports.

Ms. Millhorn reviewed the information.

[9:35:13 AM](#)

Page 10

II. Projected Contribution Amounts

How is the PERS Employer Contribution Rate Calculated?

2005 Valuation/2008 Rate (\$ Billions)		
	\$12.844	System's Accrued Liabilities Estimated
-	\$ 8.443	System's Asset Values Determined
=	\$4.402	Unfunded Liability
Divided by	25 yrs	Amortization Period (w/payroll growth included)
Approx.	\$0.286	FY08 Unfunded Liability Payment
Divided by	1.587	FY 08 PERS Payroll Base
=	18.03%	Past Service Contribution Rate
+	7.25%	Additional Increment for Level Dollar Amortization
=	25.28%	Past Service Cost
+	14.48%	Normal Cost Rate (\$0.338)
=	39.76%	Consolidated Board Adopted Rate

Ms. Millhorn, stating that employer contribution amounts are based on the dollars required to support the system "as converted to a percentage of pay", reviewed the components involved in calculating the PERS employer contribution rate. The 2008 employer contribution rate is based on the year 2005 valuation.

Ms. Millhorn defined Normal Cost Rate as "the cost to pay for benefits for the members at the end of the valuation period"; in other words, the cost associated with a member not including the unfunded liability.

[9:37:11 AM](#)

Co-Chair Stedman asked the definition and impact of the employee Past Service contribution rate.

Ms. Millhorn explained that the Past Service cost "is the unfunded liability for the system that is amortized over that 25-year period".

Ms. Millhorn communicated that the Level Dollar Amortization process is being considered as a means "to liquidate that past service cost". In this process, the unfunded liability would be divided by the amortized period, in this case 25 years, to determine the level dollar payment that must be paid into the system each year.

[9:38:19 AM](#)

Page 11

II. Projected Contribution Amounts

PERS Contributions as a Percent of Payroll (\$ Millions)

[Chart presenting annual contribution rates as a percent of the Total DB and DCR Employee Payroll or solely the DB Employee Payroll.]

Ms. Millhorn stated that this chart was developed to address the concern that closing the PERS and TRS DB plans and implementing the DCR plan would increase costs of the system. This issue had been discussed at length during the development of SB 141.

Ms. Millhorn shared that those discussions also contemplated the issue of whether to "liquidate the past service costs". Doing so would require inclusion of "the entire payroll base". While this would "keep the rate into the system low", it would not change "the annual contribution amount into the system" as depicted in the first column on the chart. The amounts depicted reflected the projected contribution rates for PERS as previously discussed on page 7.

Ms. Millhorn directed attention to the DB and DCR columns under the Employee Payroll heading on the chart, specifically the annual contribution rate for FY 12, which is projected to be \$657 million. The FY 12 payroll base specific to DB members was \$1,286,000,000 and the DCR payroll amount was \$578,000,000 for a total payroll base of \$1,864,000,000.

Ms. Millhorn explained that the contribution rate as a percent of Employee Payroll could be approached two ways. It could be based solely on the DB Employee Payroll which would result in a 51.09 percent contribution rate or it could be "spread across the entire payroll" of both DB and DCR employees. This would result in a 35.25 percent contribution rate. "The point being that" neither method would change the contribution amounts that would be required to support the system.

[9:40:56 AM](#)

Page 12

Illustration of Amortization Methods
Amortization Payment Over 25-Year Period

[Graph comparing the annual costs of the Level Dollar Amortization payment method to the annual costs of the Level Percent of Pay method over the years 2005 through 2029.]

- Level dollar amortization amount stays the same over the entire period
- Level percent of pay starts out at a lower amount and increases as payroll increases
- Contribution amount is greater over the entire period under level percent of pay amortization method

Adopting level-dollar amortization schedule is expected to save \$140 million for PERS and \$74 million for TRS over the 25-year amortization schedule FY 08 through FY 2031

AT EASE 9:41:13 AM / 9:41:25 AM

[9:41:28 AM](#)

Ms. Millhorn pointed out that this chart reflects the affect of changing the calculation method from a percent of pay to a level dollar amortization schedule. While the initial costs of implementing the Level Dollar Amortization method would exceed those of the Level Percent of Pay method, "it would result in less interest being paid over that amortized period". This would result in a savings of \$140 million for PERS and \$74 million for TRS.

Ms. Millhorn stated that the closing of the DB plan allowed the Alaska Retirement Management Board (ARMB) to consider the Level Dollar Amortization method. Implementing it would allow the plans' unfunded liability to be paid "in a faster manner" at less cost than the Level Percent of Pay method.

[9:43:02 AM](#)

Page 13

Illustration of Amortization Methods Unfunded Balance Over 25-Year Period

[Graph depicting how the Unfunded Liability would be liquidated under the Level Dollar Amortization method as compared to the Level Percent of Pay method.]

- Level dollar amortization method reduces unfunded balance more quickly.
- Unfunded balance increases under level percent of pay amortization method at first since amortization payments do not cover interest in early years.
- More interest is paid under level percent of pay amortization method.

Ms. Millhorn explained that this graph illustrates that the Level Dollar Amortization method would liquidate the unfunded liability debt faster than the Level Percent of Pay method.

[9:43:40 AM](#)

Page 14

IV. Closing DB Plans

PERS Defined Benefit (DB) Plan (in billions)

[Diagram depicting the various factors involved in determining the DB plan's fiscal condition:

Liabilities of \$12.84 billion are subtracted from assets amounting to \$8.44 billion, resulting in an unfunded liability to Employers of \$4.4 billion, based on the 2005 PERS Valuation.

The assets consist of investment income and DB Employer and DB Participating Employer Contributions.

The liabilities consist of Pension Benefits and Health Costs, measured on an annual basis.]

- Defined Contribution Retirement (DCR) Plan employee does not contribute to DB plan.
- DCR Plan Employee does not receive DB benefits, so does not impact DB liabilities or the DB unfunded liability
- DCR Plan payroll not subject to DB employer contribution rates

Ms. Millhorn stated that this information reflects the affect of closing the DC plan. She reminded that the employee contribution rate is "fixed in statute" at 6.75 percent for PERS. Investment earnings, in terms of a longtime horizon for the DB plan, would account for 75 percent of the total system funding; employee and employer contributions would provide 25 percent.

Ms. Millhorn reiterated that closing the DB plan to new members would not increase the system's unfunded liability. "The construction" of the new Tier for DCR plan employees was designed "to limit that volatility going forward and stem the growth of unfunded liabilities."

Ms. Millhorn cautioned, however, that "any change in assumptions that increase the liabilities are borne by the employer. The employee's contribution amount is fixed."

[9:46:37 AM](#)

Page 15

IV. Closing DB Plans

PERS Contribution Comparison

[Graph comparing the contribution levels that would be required to pay for the benefits of PERS DB plan members to those of members in the new DCR plan for fiscal years 2008 through 2038.]

Data, Assumption, Methods, and Plan Provisions

- Normal cost for new members under the DB plan remains constant as of June 30, 2005 (14.48%).
- New tier members are assumed to get the employer DCR contribution rate of 5%, 3% for the HRA, 1% for the medical plan, and .67% for occupational death and disability. These rates are assumed to remain constant.
- Assets are assumed to earn 8.25% and there are no actuarial gains or losses assumed.
- Amortization is based on level percent of pay.
- All other data, assumptions, methods, and plan provisions are the same as those described in the June 30, 2005 valuation report.

Ms. Millhorn reminded Members that the contribution levels depicted on this graph could increase were assumptions to change. The contribution levels associated with the new DCR plan tier were slightly below those required for the DB plan. The Normal Costs relating to DB plan members is calculated to be 14.48 percent. The fact that members in the DCR plan "do not carry volatility" would allow the unfunded liability to be addressed. Costs would peak at approximately 2030 and then decline as the unfunded liability was paid off. Contribution amounts after that point "include more members who are under the DCR plan" and thus the rates are lower.

[9:48:29 AM](#)

Page 16

IV. Closing DB Plans

Board Adopted Employer Contribution Rates - FY '90 thru FY '08

[Chart depicting the PERS and TRS Funding Ratios, the Employer Normal Rates, Past Service Rates, Actuarial Computed Rates and Board Adopted Rates from FY 90 through FY 2008.]

Large jump between FY 07 [Board Adopted Rate of 39.76 percent] and FY 08 [Board Adopted Rate of 54.03 percent] reflects need to get to the actuarially computed contribution rate.

Ms. Millhorn spoke to the multitude of information depicted on this page, including historical costs of the contribution amounts required to fund the PERS and TRS systems; previous funding ratios; and rate spikes that occurred as a result of actuarial audits being conducted.

[9:49:44 AM](#)

Co-Chair Stedman stressed the importance of the information on this page. Continuing, he asked for further information about the correlation between the Actuarial Valuation Data Year, the Board Adopted Year, and the Rate for the Fiscal Year, as depicted in the first column of the chart.

Ms. Millhorn explained that there is a two-year lag between the time the ARMB adopts a rate and when it is implemented. She reviewed the timeframe involved in the process and assured the Committee that efforts have been made to reduce this lag time.

[9:52:50 AM](#)

CHARLENE MORRISON, Chief Financial Officer, Division of Retirement & Benefits, Department of Administration reviewed some of the ideas that have been considered in the effort to reduce the lag time including changing the evaluation date to a calendar year rather than the State's July 1 to June 30 fiscal year. This "would shave off six months" and allow the ARMB to receive the valuation earlier in a fiscal year; however, the determination was that the benefits gained by this effort would not offset the costs associated with conducting an evaluation separate from other State timeframes. Another thought was "to set rates based on a roll-forward evaluation"; however the Division was uncomfortable with that effort as it would "set rates on information that is not as solid as a full evaluation".

[9:55:52 AM](#)

Co-Chair Stedman affirmed that the two-year lag time issue was "problematic and ... a solution to minimize that" would be beneficial.

Co-Chair Stedman also asked for information about the five percent limit placed on employer contribution rate annual increases.

Ms. Millhorn explained that the PERS Board had adopted a regulation which "precluded the Board from adopting a rate higher than five percentage points in any one year."

Ms. Millhorn referred to the calculated rates depicted on page 16, specifically those pertaining to FY 05, FY 06, and FY 07. While the State's actuary had recommended a rate of 24.91 in FY 05, the five-percent maximum requirement limited the PERS Board to adopting a rate of 11.77 percent since the FY 04 rate had been 6.77 percent. While the actuary recommended a rate of 25.63 percent for FY 06 and 28.19 percent for FY 07; the Board was limited to adopting a rate of 16.77 percent and 21.77 percent, respectively.

Ms. Millhorn informed that the PERS five percent change limitation was repealed in June 2006. The FY 08 rates adopted by the Board "included the recommendation by the actuary and a Level Dollar Amortization schedule to arrive at the 39.76 [percent] as a consolidate rate across PERS."

Ms. Millhorn noted that, while no rate increase limit had been adopted by the TRS board, they "adopted rates that were fairly comparable in increase" to the PERS rates as opposed to adopting the actuarial recommendations. The result is an approximate \$750 million funding shortfall.

[9:59:13 AM](#)

Co-Chair Stedman advised the Committee that the impacts of the Board's adopted rate actions would be discussed further in the coming week.

[9:59:47 AM](#)

Senator Elton asked that the future discussion on the employer contribution rates delve into such things as how much of the FY 08 39.76 percent PERS and 54.03 percent TRS employer contribution rates might be attributable to the switch to the Level Dollar Amortization method.

[10:00:27 AM](#)

Co-Chair Stedman acknowledged. Other requests from Members were welcome.

[10:01:04 AM](#)

Senator Elton, referring to the PERS Contribution Comparison chart on page 15, asked that a chart be developed that would separately portray the contribution amounts for Tier I, Tier II, Tier III, and Tier IV, as "lumping" all the DB members into one grouping "skews" the information.

Senator Elton also asked that the discussion include the reasoning behind specifying a 25 year Level Dollar Amortization schedule.

[10:02:08 AM](#)

Senator Elton communicated that many people are confused as to whether the establishment of the DCR plan would negatively or positively affect the retirement systems in the future. Of particular interest is the impact of allowing individuals who leave employment after five years to take both their contribution and their employer's contribution with them. People in the DB plan are only permitted to remove their contribution from the plan.

[10:03:07 AM](#)

Ms. Millhorn affirmed that employees in the new DCR plan "do have portability associated with their benefit plan." She recognized this as being a benefit to both the system and the employee. Demographic research indicates that the portability component is important to employees "as they move between different employment opportunities". For example, this would be attractive to nurses working at the City and Borough of Juneau's Bartlett Regional Hospital who move frequently. The portability component "does not add liabilities to the system": the employer contribution rate is known and employees have employment mobility.

[10:04:47 AM](#)

Co-Chair Stedman understood Senator Elton's question to be to "the mechanical side of how the Trust works with the different tiers", including how the DCR plan would impact Trust dollars or employee and employer contributions.

[10:05:28 AM](#)

Ms. Millhorn responded that the DCR plan includes a vesting schedule that specifies that a PERS employee must contribute eight percent and the employer must contribute five percent. Employees are 25 percent vested after two years; that amount increases 25 percent each year with full vesting after five years. In addition, the employer makes a .99 percent annual contribution to the medical plan on behalf of the employee as well as a contribution to their occupational death and disability benefits. The medical and occupational death and disability benefits are fixed and guaranteed.

Ms. Millhorn noted that, under the DCR plan, employers also contribute to another defined contribution component, the Health Reimbursement Account (HRA). The employer contribution to HRA would be restored were an employee who left employment after five years to re-employ before the age of 65. "That's a very powerful recruitment and retention tool."

[10:07:07 AM](#)

Senator Elton understood "the mechanics" of the program, but required convincing that the system would not be negatively impacted when employer dollars were pulled out of the system. Employer dollars remain in the system under the DB plan.

Ms. Millhorn clarified that both the employer and member contributions to each of the DCR plan benefits detailed earlier are placed in a Trust account in the DCR system "for the exclusive benefit of the member." The accounting of that money "is completely separate" from the DB plan.

Senator Elton asked to meet with the Department separately to further discuss his concern.

Co-Chair Stedman acknowledged.

[10:09:52 AM](#)

Senator Dyson, referring to the PERS and TRS projected Contribution Amounts information depicted on pages 7, 8, and 9, asked whether the assumption going forward was that health costs would not increase.

Ms. Millhorn replied that the trends would support there being continuing increases in health care costs both nationally and in Alaska. Health care costs have compounded annually over the past ten years in spite of cost containment efforts.

[10:11:08 AM](#)

Senator Dyson opined that "the leveling out" of the projected contribution rates depicted on pages 7 though 9 give a false or "unrealistic" impression. He estimated that a seven or eight percent increase in health care costs would continue to be the experience.

Co-Chair Stedman noted that the Level Dollar Amortization schedule that occurred in conjunction with the closing of the DB plans would be addressed in future discussions on this issue.

Co-Chair Stedman also stated that, in an effort to better manage the systems, reviews by numerous actuaries as opposed to a single actuary would be conducted.

Co-Chair Stedman requested Members to notify him of any issue requiring further attention.

[10:13:35 AM](#)

Senator Elton revisited his earlier requests; specifically asking that future data be aggregated by tiers rather than lumped together.

Co-Chair Stedman thought this information might be available.

Ms. Millhorn, responding to Senator Elton's request, clarified that the actuary "has not calculated liabilities by Tier I, Tier II, and Tier III". She did not desire "to create a false expectation that such information was "readily available". The Division would ask the actuary to provide an estimate of the time and cost of conducting such an exercise.

Co-Chair Stedman acknowledged and surmised that the older the tier the more expensive.

[10:15:42 AM](#)

Co-Chair Stedman expressed that some historical information regarding tiers might be available. This discussion would continue next week.

#

AT EASE [10:16:16 AM](#) / [10:16:27 AM](#)

Co-Chair Stedman conducted Committee housekeeping.

ADJOURNMENT

Co-Chair Bert Stedman adjourned the meeting at [10:16:39 AM](#)