

SENATE FINANCE COMMITTEE
February 22, 2012
9:04 a.m.

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CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lesil McGuire, Vice-Chair
Senator Johnny Ellis
Senator Dennis Egan
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Michael Barnhill, Deputy Commissioner, Department of Administration; Angela Rodell, Deputy Commissioner, Treasury Division, Department of Revenue; Senator Cathy Giessel.

SUMMARY

^FINANCIAL UPDATE: PUBLIC EMPLOYEES' RETIREMENT SYSTEM AND THE TEACHERS' RETIREMENT SYSTEM BY THE DEPARTMENT OF ADMINISTRATION AND THE ALASKA RETIREMENT MANAGEMENT BOARD

[9:05:08 AM](#)

Co-Chair Stedman indicated that the meeting would include an update from the Department of Administration on the financial status of the state's Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS), specifically related to asset size, management and fiduciary oversight, investment policy, asset allocation,

and potential investment performance. He shared that the prior meeting had included a presentation from the Alaska Permanent Fund Corporation and Callan Associates related to future market performance expectations. He added that the meetings were meant to be informative for the public and the committee; public testimony would not be taken during the meeting.

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MICHAEL BARNHILL, DEPUTY COMMISSIONER, DEPARTMENT OF ADMINISTRATION (DOA), provided a PowerPoint presentation titled: "Public Employees' Retirement System (PERS) Teachers' Retirement System (TRS) Update" (copy on file). The purpose of the update was to give a snapshot of the current vital statistics of PERS and TRS. He noted that the presentation was very similar to the one provided the past year.

Mr. Barnhill pointed to statistics taken from the 2011 Comprehensive Annual Financial Report (CAFR) on slide 5. There were 160 PERS member employers; the State of Alaska represented the largest employer and others included municipalities, school districts and more. He noted that due to the reporting method the 2011 CAFR used numbers from the 2010 actuarial evaluation; therefore, numbers shown were slightly out of date. The report showed approximately 26,000 retirees, but the current number was slightly over 30,000. Additionally, the report showed about 26,000 active employees; however, the current number was approximately 35,000. Employees [in the Defined Benefit (DB) plan] were spread between three benefit tiers (Tiers I, II, and III). He shared that beginning July 1, 2006, all new employees under the 160 member employers were in the Defined Contribution (DC) tier [Tier IV]; the total active employees in the DC system were just over 11,000. Between the two plans there were approximately 47,000 active employees; 75 percent in the DB system and 25 percent in the DC system.

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Mr. Barnhill addressed TRS on slide 6. There were 58 member employer school districts. He noted that many of the school districts were also PERS members. The CAFR reported approximately 10,600 retirees, but currently the number was closer to 11,800; there were approximately 10,000 active

employees. There was one DC tier that began for all new employees starting July 1, 2006; there were just over 2,700 active employees in the DC system. Approximately 79 percent of the active employees were in the DB system and 21 percent fell under the DC system.

Mr. Barnhill spoke to slide 7 titled "Basic Facts - Organization." He stated that the structure of Alaska's retirement system was different from other states' because responsibility for various aspects of the system was divided among three different organizations. He elaborated that under CalPERS in California, the benefits, investments, and management of staff were all consolidated into one organization; whereas, in Alaska, the Department of Revenue handled the investments, the Alaska Retirement Management Board was the fiduciary of the assets under management, and DOA was responsible for administering the plan of benefits (ensuring benefits were disseminated, paying medical bills, and contracting with the actuary).

Mr. Barnhill directed attention to slide 8 titled "Basic Facts - Balance Sheet." He believed that a significant amount of time would be spent on the unfunded liability shown on the slide. To determine unfunded liability the actuary computed the difference between the value of the assets and the accrued liabilities (a form of discounted net present value of all liabilities the systems would have to pay between present-day and when the last DB member dies).

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Co-Chair Stedman asked for a definition of the term "actuarial value." He requested an estimate of the June 30, 2011 market value. Mr. Barnhill replied that actuaries used a variety of techniques to smooth short-term volatility in investment markets. He detailed that a gain or loss at the end of the year was divided by five in order to smooth the gain over a five-year period. He shared that the actuarial value of assets and the fair value of assets (market value) were almost the same for June 30, 2011. The unfunded liability was essentially the same when it was computed based on actuarial value of assets and on fair value of assets.

Co-Chair Stedman asked for the market value. Mr. Barnhill responded that as of June 30, 2011 the market value of

assets was approximately \$11.3 billion; the number was closer to the actuarial value of assets than it had been in a long time. He added that the number had continued to decline; Department of Revenue Deputy Commissioner Angela Rodell would share data for December 31, 2011. He elaborated that the numbers had gone down because the third quarter in the calendar year of 2011 was a loss quarter for the plans.

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Mr. Barnhill communicated that as of June 30, 2011 the unfunded liability on an actuarial basis was \$6.9 billion; the number was slightly higher on a market value basis. The TRS actuarial value of assets was \$4.9 billion; the market value was slightly lower. The difference between the TRS actuarial value of assets of \$4.9 billion and accrued liabilities of \$9.1 billion equaled an unfunded TRS liability of \$4.19 billion. The funding ratio was calculated by dividing assets by liabilities; the ratio was 63 percent for PERS and 54 percent for TRS. He explained that funding ratios were used to gauge the overall financial health of the system (whether there were sufficient assets on hand that would meet the liabilities as they came due over the next 60 years). He relayed that actuaries liked to see a funding ratio of 80 percent or higher for a healthy plan. He shared that actuaries would indicate that the plans needed more funding, given that they were not close to 80 percent.

Mr. Barnhill referenced a Callan Associates presentation related to short-term and long-term forecasts on expected investment returns that had been provided to the committee the prior day. The presentation had also been given to the Alaska Retirement Management Board (ARMB) the previous week. He referred to discussion related to Callan's 5-year to 10-year forecast that an 8 percent return (the expected earnings return assumption adopted by ARMB) would be difficult to impossible to meet and a 7 percent return would be a challenge. The systems' actuary Buck Consultants projected that the unfunded liability would continue to rise as losses from FY 09 were smoothed in. Buck projected that under an 8 percent return scenario by FY 21 the unfunded liability (measured on an actuarial value basis) would be approximately \$10.5 billion; the projected number was closer to \$12 billion with a 7 percent return (a difference of approximately \$1.5 billion). Callan projected

that 8 percent returns over the next 30 years were still achievable.

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Co-Chair Hoffman noted that the numbers were staggering, but asked for verification that retirees did not need to be frightened by them. Mr. Barnhill did not disagree; the good news was that the legislature had historically been committed to providing responsible support to the systems. He detailed that on an annual basis, actuaries calculated their required contribution (he likened it to a mortgage payment). If the actuarially required contribution was made for the term of the "mortgage" (ARMB had adopted a 25 year amortization term) the unfunded liability would be paid off in that time. He stated that it was very promising that that the legislature had made the payment on an annual basis since ARMB's origination in 2006; therefore, retirees should not be afraid. He relayed that some legislatures did not make their actuarially required contribution, which caused the funding ratio to decline over time and led to a threatened fiscal status.

Co-Chair Stedman pointed out that the state had approximately \$16.7 billion in assets as of June 30, 2011, which did not include the state's liquid savings or the \$40 billion in the permanent fund that constitutionally backed up the liability. He observed that the state would have to exhaust its savings and the permanent fund before it was not able to meet its obligations. Mr. Barnhill agreed and remarked that the state was blessed with assets. He shared that the conversation around the table continued to be how to responsibly continue to address the issues while maintaining the state's commitments to other items (e.g. education, public safety, infrastructure, government services, etc.).

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Mr. Barnhill moved to slide 9 titled "Basic Facts - Health Cost Trends." The slide showed the change in retiree premium in the PERS and TRS healthcare plan from 1978 through 2012 and illustrated the story of rising healthcare costs in Alaska, which were the same as those in the rest of the country. Premiums had started at \$57 in 1978 and had risen to \$1,200 in 2012; reflecting an average compound growth of 9 percent per year. He relayed that DOA was

working to determine how to change the trend as the growth was not sustainable.

Mr. Barnhill stated that the department was taking efforts to implement patient wellness programs within the active plan in FY 13. If successful, the initiatives would be rolled out to other parts of the population, with a goal to ultimately cover the entire population that would roll into the retiree plans. He stated that many employers around the county had experienced some success in reducing the 9 percent annual cost growth with the method. He elaborated that the state needed to have conversations with physicians about the unsustainable nature of the cost growth and how they could develop a partnership to make healthcare cost growth sustainable for the state without bankrupting the healthcare industry. The department was pleased that the premium had only risen from \$1,176 to \$1,200 in the past year. The 2 percent increase reflected efforts underway; additionally, historically there had been years of flat growth followed by years of double-digit growth. He shared that the challenge was to convert the flat growth to sustainable modest growth.

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Mr. Barnhill turned to slide 10: "Basic Facts - Funding Ratio History - PERS/TRS," which showed the PERS funded status over time. He referenced discussions specifically regarding 2001 to 2002 when the system went from a full funded status down to less than 80 percent; the change had prompted litigation against the state's former actuary. He explained that the funding ratio had remained below 80 percent for some time due to a number of reasons and that the risks were endemic to any DB system. Risks included investment loss; there had been four investment loss years between 2001 and 2012. He furthered that during the time period ARMB's investment return assumption had been 8.25 percent (it had recently been reduced to 8 percent); whenever the return was below the assumption the system fell further behind. He cited Callan's presentation from the prior day and observed that systems would continue to struggle with the issue. Another reason for the continued struggle with funded ratio was that assumptions do not play out as expected; the actuary projects that healthcare costs would decrease over time, but costs do not decrease. The actuarial projection curve for cost growth had started close to 9 percent and had declined to 6 percent, where it

would remain for the next several decades. The department hoped that efforts to increase overall wellness would help the state reach the 6 percent figure in the future. He shared that mistakes had been made by the actuary in projecting and computing healthcare calculations in the 1990s; therefore, the state had under collected for a considerable period of time and subsequently it was still making up for the under collection. He stated that the TRS chart was similar (slide 11), but the funding ratios were slightly worse.

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Mr. Barnhill directed attention to slide 12: "Basic Facts - Contribution Rates." He relayed that contribution rates rose when funding ratios declined. He discussed how DB systems were funded and explained that the actuary discounted benefits to present value and computed what would need to be collected at present (from employees and employers) if all of the actuarial assumptions came true. Historically rates for PERS and TRS ranged from 8 percent to 12 percent, but rates had climbed dramatically beginning in the early 2000s; rates had peaked at above 50 percent for TRS and above 30 percent for PERS in 2008. As a result the legislature had enacted SB 125 in 2008 to provide pension relief to municipalities and school districts; additionally, the TRS and PERS rates had been capped at 12.56 percent and 22 percent respectively. The actuarial rate in FY 13 was back up at peak levels of 54 percent for TRS and 35 percent for PERS.

Mr. Barnhill addressed slide 13 titled "Projected Retirement Population Growth." The chart showed that the ongoing baby boomer population retirement would increase. In 2012 there were just over 40,000 retirees; the number would increase to approximately 60,000 in the next several years and would subsequently begin to decline.

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Mr. Barnhill turned to slide 14 titled "Big Picture Budget Issues PERS and TRS promises made." The slide addressed the crux of the issue and showed the benefits that the state was constitutionally required to pay between present-day and when the last DB member dies (between 2070 and 2080). Beginning in 2012 the systems would be responsible for slightly over \$1 billion per year; at the end of the 2020s

the systems would be responsible for just over \$3 billion per year; the payment would cap out at slightly over \$3.5 billion in the 2040s. The payment would not dip below \$3 billion per year until the late 2040s. The total benefit payments over the next 70 years were \$141 billion. He believed that although the amount was extraordinary, the systems were capable of handling it when all of the resources were considered (i.e. contributions from employees and employers, investment returns, and general fund assistance). He acknowledged that issue was large and one that the state was committed to.

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Co-Chair Hoffman asked if there was a chart that showed what benefit payment assistance would be required from the general fund from 2012 to 2080.

Mr. Barnhill directed the committee to a chart on slide 21. The chart showed the different ways the general fund could be called upon to provide necessary assistance in fulfilling benefit payments. The chart encompassed the time period that it would take to pay off the entirety of the unfunded liability assuming an amortization term of 25 years. There were two methodologies of amortizing the unfunded liability. The first was called "level percentage of pay"; one of the actuarial assumptions was that pay would increase by 3 percent to 4 percent per year and if payment increased at about the same amount the payment on the unfunded liability would increase (represented by the blue bar on the chart). The second form was called "level dollar"; he equated the method to a house mortgage and explained that payments were equal on a monthly basis over the course of the 30-year loan term (represented by the red bar, which declined slightly due to movement of actuarial assets).

Mr. Barnhill furthered that level percentage of pay was a more back-loaded amortization methodology; payments would be lower in the beginning and higher later on. Level dollar was a more front-loaded methodology; payments would be higher initially and lower later on. The blue bar (representing the status quo) called for an appropriation from the general fund under SB 125 of \$610 million for FY 13; the amount was included in the governor's proposed budget. The number would increase to approximately \$870

million in FY 13 (or more in future years) if the level dollar method was adopted.

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ANGELA RODELL, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, began a review of the current investment status in the retirement trust funds. She pointed to slide 16: "Investments - ARMB Assets Under Management," which showed the plan balances as of December 31, 2011. There was approximately \$11.1 billion in the PERS plan; \$5.9 billion was in the Retirement Trust and \$4.9 was in the Retirement Health Care Trust. There was a total balance of approximately \$4.6 billion in the TRS plan, with close to \$3 billion in the Retirement Trust. The remainder of the \$19 billion in total assets under management fell under the Judicial Retirement System, National Guard/Naval Militia Retirement System, Supplemental Annuity Plan, and the Deferred Compensation Plan.

Ms. Rodell moved to slide 17 titled "Investments - Asset Allocation." The slide included two pie charts showing the actual asset allocation as of December 31, 2011 versus the target asset allocation. She detailed that the majority of the assets continued to be in equities (approximately 50.6 percent in domestic and global equities); the number was slightly higher than the target allocation, which was partially due to manager selections and timing of purchases and settlements. She communicated that there was also a large portion of assets invested in fixed income and real assets.

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Ms. Rodell explained that slide 18 titled "Investments - US Stock Market Historical Returns" provided historical returns and highlighted comparisons between the years 2008 through 2011. She added that losses and gains would be smoothed out over a five-year period. Slide 19 titled "PERS/TRS Annualized Returns" showed annualized returns through June 30, 2011. She communicated that the 1-year annualized return was 21.1 percent for PERS and 21.3 percent for TRS, with an average return of 21.27 percent; the target return was 21.62 percent (slightly over the realized returns). She shared that the 10-year annualized return was 5.43 percent for PERS, with a target of 5.67 percent.

Co-Chair Stedman requested a historical 10-year rolling projection of returns recommended by Callan compared to the market value. He observed that targeted returns continued to be unattainable over time. He referred to a discussion from the prior day that market returns would potentially be around 7 percent; whereas, the target return was 8 percent (reduced from 8.25 percent, which the committee had expressed concern about for the past several years). Ms. Rodell responded that the requested information would be provided to the committee.

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Mr. Barnhill referred to Callan's 7 percent 10-year projection and explained that Callan had an imbedded inflation assumption of 2.5 percent; however, ARMB's imbedded inflation assumption was 3.12 percent (not as bullish). When Buck had run the numbers it had not adjusted the inflation assumption down to Callan's; its projection had only included a 7 percent market return (versus an 8 percent scenario), which would result in a \$1.5 billion liability in FY 21. He communicated that the unfunded liability would be adjusted down if inflation was less than 3.12 percent. He was reluctant to suggest that the actuary should reduce its inflation assumption because Callan expected inflation to rise at some point. He elaborated that Callan had indicated that given the amount of economic stimulus funds spent in the U.S. and worldwide, logically inflation would rise. He concluded that 2.5 percent inflation seemed more bullish than was wise in a long-term recommendation.

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Co-Chair Stedman believed it would be helpful to calculate historic projections without the inflation numbers. He understood the purpose of the inflation assumptions, but the committee was primarily concerned about the targets that were not met. He asked for historical real return expectations for the asset allocation. Mr. Barnhill acknowledged the request.

Mr. Barnhill turned back to slide 21 titled "State Assistance (SB 125)" and reiterated that the legislature's commitment to either method of amortizing the unfunded

liability (shown with red and blue bars) was critical to health of the PERS and TRS systems.

Co-Chair Hoffman shared concern that without a major change in the state's revenue stream it could potentially be facing a deficit and subsequently a major reduction in services by 2020. He pointed out that state assistance continued to rise in the status quo method (blue bar on slide 21). Mr. Barnhill agreed.

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Mr. Barnhill shared that the dynamic of the demands on the general fund increasing to above \$1 billion over time had been a grave concern to executive and legislative branches. In the fall of 2010 the Legislative Finance Division had asked ARMB to look at the issue and to provide information and options for consideration. As a result ARMB compiled 40-plus unfunded liability scenarios (slide 23) by adjusting five different "levers." He expounded that the unfunded liability was a "soft" liability and there were a variety of ways to pay it off (it could be paid off all at once or over time). The first lever was "amortization methodology"; the two principal forms of methodology were level dollar (front loaded) and level percentage of pay (back loaded). The second lever was "amortization term." He relayed that ARMB was currently amortizing the unfunded liability over a 25-year period; it had also looked at 30-year and 40-year amortization schedules. The third lever was "cash infusion," which had been a topic of significant discussion in the legislature; the scenario addressed what would happen to the liability if a lump sum was paid down (e.g. \$2 billion).

Mr. Barnhill looked at the fourth lever "continuation or discontinuation of state assistance." The scenario addressed what would happen if the annual payment was discontinued. The fifth lever was "additional municipal participation," which looked at increasing the employer rate cap from 22 percent to 24 percent. The actuary had run the 40-plus scenarios and had measured the outputs in various ways.

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Mr. Barnhill continued that primary measurements included how much it would cost participants to pay off the unfunded

liability, the payoff date, amount the state would pay, amount the municipalities would pay, and the near-term burden (in percentage terms) on the general fund. He referenced a spreadsheet [State of Alaska PERS Financial Projections (in thousands)] showing the actuarial measurements from FY 11 to FY 71 (copy on file). He believed the exercise was useful and showed that there were a variety of responsible ways that the status quo could be adjusted. In December 2011 ARMB passed a resolution recommending the legislature to consider certain scenarios and discard others (the recommendation did not prevent the legislative or executive branches from continuing to consider the scenarios). He noted that the work had culminated in pending legislation that would be taken up by the committee at a later date.

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Senator Thomas asked about the relationship between the actuarial assumption, annualized returns, and unfunded liability. He referenced issues associated with all pension plans (e.g. recessions caused all plans to decline). He referred to the current situation of many ERISA [Employee Retirement Income Security Act]/ Taft Hartley plans; he was not aware of any that were underfunded to the extent of the Alaska plans. He wondered why the state would continue to have an actuarial assumption; Taft Hartley plans actuarial assumptions were directed by the federal government. He was skeptical that projections would be realized based on the historical returns that were 3 percent less than actuarial assumptions.

Mr. Barnhill responded that he did not have any expertise in Taft Hartley plans. He was aware that the assumption regarding investment return for ERISA plans was more tightly controlled; it was similar to a riskless rate of return in the 4 percent to 5 percent range. He stated that ARMB could adopt a comparable riskless rate of return; the topic had been a subject of debate around the country. He relayed that a Chicago professor named Joshua Rauh was calling on public pension plans to reduce their rates of return from 8 percent down to the 4 percent to 5 percent range. He reminded the committee that a reduction to the rate of return assumption would increase the unfunded liability; if the number was dropped to 4 percent or 5 percent the unfunded liability would essentially double from \$11 billion up to \$22 billion. He furthered that if

the liability increased to \$22 billion the contribution rate would double; it would be over 100 percent of payroll for TRS and around 60 percent of payroll for PERS. Rates had been capped; therefore, pressure would not be placed on municipalities and school districts (rates would remain at 22 percent and 12.5 percent respectively), but it would put a huge demand on the general fund under SB 125. The \$610 million figure would increase sharply.

Senator Thomas understood, but reiterated his concerns about going forward with unrealistic actuarial assumptions. He speculated that the unrealistic assumptions probably existed 20 years earlier.

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Co-Chair Stedman asked the department to have the actuary run scenarios using 4 percent up to 8 percent return assumptions. Mr. Barnhill agreed. He relayed that Buck had recently begun running a sensitivity analysis in its valuations using 7 percent and 9 percent assumptions. He noted that Senator Thomas's point was well taken; the state was between a rock and a hard place and the time to have adopted lower return assumptions would have been 25 to 30 years earlier.

Senator McGuire stated that it would be difficult to double the unfunded liability from a political standpoint, but she believed it was related to how the state got into the "mess" to begin with. She recalled when the situation had begun unfolding in the past; part of the problem had arisen from bad advice, but there had also been some political sensitivity related to the size of the liability. She furthered that the returns were 4.3 percent and 5.4 percent and were not close to the 8 percent assumption. She believed it was incumbent upon the state to lay the current facts out, which she hoped would lead to thoughtful solutions. The committee had proposed a cash infusion methodology and other solutions included pension obligation bonds. She stressed the importance of laying out the facts in order to reach the needed solution. She asked Ms. Rodell to provide her opinion on the status quo versus level dollar methods shown on slide 21. Ms. Rodell replied it was important to recognize that the state had continued to fund the arc. She preferred the level dollar method that would allow the state to pay down liabilities while the resources existed versus later when it could be more difficult.

Additionally, the state would receive more credit in the national market for taking care of its liabilities quicker.

[9:54:41 AM](#)

Co-Chair Hoffman discussed that the state paid costs above 22 percent for PERS and 12.5 percent for TRS. He wondered whether other states provided financial assistance for their retirement programs. Mr. Barnhill was unsure, but he was aware of other states that did not make their actuarially required contribution. He sensed that Alaska's magnitude of general fund assistance was unusual. He communicated that a number of states were included in a disturbing trend that involved cutting benefits to current retirees in order to fully fund their systems. He shared that in Colorado and Minnesota the courts had sustained the benefit cut, which involved a reduction in the cost of living adjustment.

Co-Chair Hoffman queried why the state had elected to provide the assistance. Mr. Barnhill answered that the state chose to provide the assistance in order to do the responsible thing. Additionally, under the Diminishment Clause of the Alaska Constitution, the state was required to pay all of the benefits when due.

Co-Chair Hoffman agreed that state assistance was the responsible action. He surmised that some municipalities would have gone bankrupt if assistance was not provided. Mr. Barnhill agreed.

Co-Chair Hoffman asked whether the state had the legal responsibility to provide the benefit assistance. Mr. Barnhill stated that there were a variety of ways to handle the situation. Following SB 125 was one responsible way and there were a number of others. He observed that some municipalities may be at their contribution limit, but there were others that could probably contribute more.

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Co-Chair Stedman recalled that there had been discussion regarding the department's inability to accurately calculate potential liability sharing between different municipalities; therefore, to avoid lengthy litigation and significant insolvencies in various communities, the state had stepped in and had taken responsibility for costs above

22 percent. He shared that 22 percent had been set as a negotiated amount in order to make municipalities aware of the problem, but to avoid pushing them into insolvency. He believed it was incumbent on the committee to use all of the resources that the state had available in order to protect communities and retirement plan participants from diminished benefits.

Co-Chair Hoffman asked how much the assistance was costing the state and whether it would increase substantially. Mr. Barnhill responded that to date, under SB 125 the state had paid approximately \$2 billion between 2007 and 2012 split evenly between PERS and TRS. He shared that within state assistance provided to PERS, the state and university paid approximately 60 percent of payroll and municipalities paid 40 percent. He elaborated that the state, as the employer, was responsible for \$600 million out of \$1 billion; about \$400 million had been paid on behalf of municipalities and about \$1 billion paid on behalf of school districts. He pointed to the blue bars [status quo] on slide 21 and relayed that the state would be responsible for \$610 million in FY 13, peaking at \$1 billion in 2025 (the figure would be divided in half between PERS and TRS and the same 60/40 percent split was used for PERS).

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Senator Egan asked for detail on assumptions used in the projections. For example, he wondered whether assumptions included an annual 10 percent healthcare increase into the future. Co-Chair Stedman asked for a brief response, with follow up at a later time. Mr. Barnhill explained that the assumptions had been adopted by ARMB. The board was required to do an experience study every four years; at that time the actuary and secondary actuary looked at assumptions and made recommendations to the board. He was unsure where the 10 percent inflation figure had come from. He explained that the health cost trend graded down over the course of 100 years; the actuarial assumption going forward was 6 percent growth for the next several decades. The actual premium growth in recent years had been 9 percent (shown on slide 9); there had been a flattening down to 2 percent in the past year (the past 3-year average was around 8 percent). The change was promising, but he believed it was premature to say that the growth had flat lined at 6 percent.

Co-Chair Stedman felt the 0 percent change in 2007 and 2008 was optimistic (slide 9). Mr. Barnhill responded that the figures were based on the claims experience. He shared that in the early 1990s there had been talk of federally regulated healthcare (the "Hilary Clinton" plan); he had heard (but did not know) that the health industry had unilaterally flat lined its cost growth during that time period. The department was focused on sustainable trends; the current trend continued to be 9 percent. The state would like to get to the actuarial trend of 6 percent, but it was not there yet.

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Co-Chair Stedman stated that conversations would continue as the state worked to find a solution to the unfunded retirement liability. He reviewed the agenda for the following day.

#

ADJOURNMENT

[10:04:17 AM](#)

The meeting was adjourned at 10:04 a.m.