

SENATE FINANCE COMMITTEE
January 30, 2019
9:01 a.m.

[9:01:45 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Lyman Hoffman
Senator Peter Micciche
Senator Donny Olson
Senator Mike Shower
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Senator Cathy Giessel; Senator Mia Costello; Representative Gary Knopp; Ajay Desai, Director, Division of Retirement and Benefits, Department of Administration; Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits, Department of Administration; Kathy Lea, Chief Pension Officer, Division of Retirement and Benefits, Department of Administration.

SUMMARY

PRESENTATION: PERS/TRS UPDATE

PRESENTATION: NEGOTIATED LABOR CONTRACTS [was SCHEDULED but not HEARD.]

Co-Chair Stedman reviewed the meeting agenda. He noted it was unlikely the committee would have time to hear the labor contracts presentation during the current meeting.

^PRESENTATION: PERS/TRS UPDATE

9:03:53 AM

Co-Chair Stedman asked representatives from the department to introduce themselves and give a brief synopsis of the subject matter. He reminded presenters to give definitions of acronyms to enable the public to follow the conversation.

AJAY DESAI, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, introduced himself and other staff from Department of Administration (DOA). He thanked the committee for providing an opportunity for the Division of Retirement and Benefits (DRB) to give an annual update on the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). The presentation also included additional items based on conversations with the committee the previous year. He encouraged members to ask questions at any time.

9:06:15 AM

Mr. Desai began with an organizational chart on slide 2 of a presentation titled "Public Employees' Retirement System (PERS) - Teachers' Retirement System (TRS) 2019 UPDATE" (copy on file). The slide illustrated how the Department of Revenue (DOR) and DOA worked together with the Alaska Retirement Management Board (ARMB). He detailed that ARMB assumed fiduciary responsibility for assets of the state's retirement systems as of October 2005. He cited the DOR Treasury Division's website and detailed that ARMB's primary mission was to serve as the trustee of the assets of the state's retirement systems, Supplemental Annuity Plan, the Deferred Compensation program, and the Alaska Retiree Health Care Trusts.

Mr. Desai expounded that ARMB worked with DRB for annual actuarial evaluation to determine system assets, liabilities, funding ratios, and to certify to employers' appropriate contributions for normal costs, and appropriate contributions for past service liability. Every four years ARMB reviewed actuarial assumptions based on study

performed by actuaries. Additionally, ARMB reviewed health cost assumptions annually.

Co-Chair Stedman asked for Mr. Desai to discuss his employment background.

Mr. Desai shared that he had been in the pension administration for 32 years. He elaborated that he had lived in the U.S. for about 32 years and had begun his career in a bank's pension division, where he had worked for about five years. He had moved on to work in the pension administration for the Walt Disney Company where he had been exposed to many varieties of defined benefit plans, defined contribution plans, and other. He had then worked with the Motion Picture Industry Pension and Health Plans (a Taft-Hartley plan) for about 14 years. He had begun working for the State of Alaska in January 2017.

Co-Chair Stedman observed that Mr. Desai had a significant history dealing with retirement plans.

Mr. Desai replied in the affirmative and added that he had worked with pension funds and retirement funds for the past 30 years.

[9:08:53 AM](#)

KEVIN WORLEY, CHIEF FINANCIAL OFFICER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, shared that he had worked for the State of Alaska since November 1990 and had started working for DRB in January 2000. He listed his various positions with DRB during his tenure with the division.

Co-Chair Stedman asked who Mr. Worley replaced as chief financial officer (CFO).

Mr. Worley did not recall the name of his predecessor. He noted the position had been vacant before he had taken the job. He added that he had started as CFO with the division in October 2013.

Mr. Desai read from slide 4, "Chronology - PERS":

- January 1961: Established as a joint contributory Defined Benefit (DB) plan

- 1975: Retiree Health Insurance with system-paid premiums added
- July 1986: Tier II established
- July 1996: Tier III established
- July 2006: Defined Contribution (DC) Plan established
- July 2008: Cost Share with 22% employer contribution rate

Mr. Desai discussed slide 5, "Membership - PERS (as of 6/30/2018)":

- 157 Member Employers
- 3 Defined Benefit (DB) Plan Tiers
 - 35,139 retirees
 - 5,606 terminated members entitled to future benefits
 - 13,611 actives (40%)
 - 54,356 total DB members
- 1 Defined Contribution (DC) Plan
 - 59 retirees
 - 1,183 terminated members entitled to future benefits
 - 20,811 actives (60%)
 - 22,053 total DC members

SOURCE: Division of Retirement and Benefits. June 30, 2018 Audited Financial Statements

Co-Chair Stedman noted that members may ask questions at the end of each slide. He asked for Mr. Desai to provide a breakdown of the three Defined Benefit (DB) Plan tiers. He referenced a similar commingled plan table for the three tiers.

[9:11:54 AM](#)

Co-Chair von Imhof asked for more detail on the last bullet point on slide 4:

July 2008: Cost Share with 22% employer contribution rate

Co-Chair von Imhof elaborated that she was looking at framework for a 401(k) where an employer generally matched between 6 and 8 percent. She asked how it fit with the 22 percent employer contribution rate.

Mr. Desai replied that prior to 2008, the employer's rate fluctuated based on the cost provided by the actuary. He detailed that employee contributions were fixed but employer contributions could go up or down depending on the contribution required for the normal cost as well past service liability. In 2008 the decision was made that PERS employers would be capped at a 22 percent maximum and the state would assist with the remainder of the contributions annually based on the actuary figures.

Co-Chair Stedman asked for an explanation of normal cost.

Mr. Desai explained that the normal cost was the annual cost when participants earned additional benefit. The benefit was guaranteed and needed to be put aside based on the present value of what the benefit would be at the time of retirement for an individual who would collect the benefit. The actuary determined the value of the benefit based on the [indecipherable] rate, which explained the normal cost, what the cost would be in order to collect from the employer to secure the benefit.

Co-Chair Stedman asked for verification that all future projections for FY 18 were accurate, the normal cost would cover the cost of the benefit for the employee for his or her lifetime.

Mr. Desai answered in the affirmative.

Co-Chair Stedman asked what the additional cost would be (on top of the normal cost) if the estimate for healthcare costs and/or retirement deviated from expectations or portfolio performance.

Mr. Desai responded that once there was deviation from the assumptions and a shortfall occurred, the result was an unfunded liability. He explained that if the contributions exceeded the actuarial value of the system, the plan would be considered overfunded.

[9:14:56 AM](#)

Co-Chair von Imhof returned to the last bullet point on slide 4 and asked if it could be viewed as an inflated rate to play catch-up with some of the previous tiers. She reasoned that going forward the plans were structured so

what went in would be what came out, like a traditional 401(k) with a small employer match. Whereas, the 22 percent employer contribution rate helped "pad" previous plans.

Mr. Desai agreed. He detailed that the portion of the 22 percent normal cost (the annual projection calculated by the actuary) would show the actual amount - anywhere from 12 to 13 percent. Anything above and beyond was also calculated to cover the liability for the past service benefits. He referenced the 22 percent and explained that typically in the past few years, the cost ranged from 28 to 30 percent. The employer contribution rate included the normal cost plus a portion of the past service liability benefit. Any remaining cost was supplemented by the legislature and supported by the governor. He noted that a later slide showed the annual dollar amount put into the PERS and TRS systems since 2008. He stated that it was a tremendous help to keep the plan steady and on target.

[9:16:49 AM](#)

Co-Chair Stedman noted that Senator Wilson had joined the meeting. He recalled that before 2008 there was a past service cost (the cost for the unfunded liability). He remarked that the liability had been significant. The department had a difficult time identifying past service costs per group in the plan (e.g. Anchorage, Juneau, Sitka, some hospitals, and other). The total of the normal cost for the current employees, and the unfunded liability was growing to such magnitude, there had been concern about cities going bankrupt (Anchorage had been one of the primary concerns). There had been subsequent legislation to cap the contribution at 22 percent to keep entities from going bankrupt and causing further problems for the state. He discussed the legislature's struggle for the past decade to deal with the past service unfunded liability.

Co-Chair Stedman continued discussing the background of the 22 percent capped rate of contribution. He explained the negotiated rate of 22 percent was high enough that the legislature believed it would keep municipalities' attention, but not high enough to result in their insolvency. The goal was to give municipalities the ability to adjust their budgets to feed the [22 percent] rate. Changes had also been made to amortization and other issues to shift the liability around. The state picked up any remaining amount above 22 percent. He believed Mr. Desai

had testified that the total cost hovered around 30 percent. He asked if his statements were accurate.

Mr. Desai answered in the affirmative.

Co-Chair Stedman wanted to ensure the public was able to follow the conversation. He acknowledged the complexity of the issue.

Mr. Desai agreed.

[9:20:03 AM](#)

Mr. Desai turned to slide 6, "FY 19 Contribution Rates - PERS":

Defined Benefit

Employee:

- 6.75% All Other employees
- 7.50% Peace Officer/Firefighter
- 9.60% School District Alternate Option

Employer:

- 22% Cost Share
- State:
- 5.58% Additional State Contribution

Mr. Desai elaborated that the total cost for FY 19 was 27.58 percent (22 percent was paid by the employer and 5.58 percent was paid by the state). He reviewed the righthand side of slide 6:

Defined Contribution

Employee:

- 8% All Employees

Employer:

- 5% Investment Account
- 0.94% Health Care
- 0.76% Occupational Death & Disability - Peace Officer/Firefighter
- 0.26% Occupational Death & Disability - All Others
- HRA - flat dollar, 3% of all PERS/TRS average annual compensation

Mr. Desai expounded on the HRA [Health Reimbursement Account] and explained that any surplus outside of 22 percent contributed by an employer on behalf of a Defined Contribution (DC) Plan employee went towards the past service for the DB Plan.

[9:22:02 AM](#)

Co-Chair Stedman asked for further explanation.

Mr. Desai explained that in 2008 when the cost-share formula had been established, the DB Plan had been closed down and the DC Plan had been introduced. He detailed that the 22 percent remained as a flat employer contribution rate with the understanding that the portion of the contributions would go towards DC Plan benefits, with the remainder going towards the [DB Plan] past service unfunded liability.

Mr. Desai discussed slide 8, "Chronology - TRS":

- March 1945: Established Defined Benefit (DB) Plan
- 1951: TRS excluded from Social Security
- 1955: Became a joint contributory plan
- 1966: Retiree health insurance (RHI) added
- 1975: System-paid premiums for RHI
- 1990: Tier II established
- 2006: Defined Contribution (DC) Plan established

Mr. Desai noted that because TRS was excluded from Social Security in 1951, the system did not include SBS [Supplemental Benefit System]. He added that in 2006 the DC Plan had replaced the DB Plan [going forward].

[9:23:37 AM](#)

Co-Chair von Imhof had heard past comments that there was a desire for teachers to go back to receiving Social Security. She stated that Social Security had been removed and she wondered whether it was possible to bring it back. She believed there were individuals who would like to receive it. Alternatively, she wondered whether there was something else used instead of Social Security.

Mr. Desai replied that TRS had elected not to participate in Social Security benefits; however, there was an option

to bring it back via election. He asked a colleague to elaborate.

[9:24:33 AM](#)

KATHY LEA, CHIEF PENSION OFFICER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, noted that teachers had voted to be excluded from Social Security in 1951. She detailed the federal government had given employees who already had a retirement system the option to choose to add Social Security or continue with their existing program. Alaska's teachers had elected to remain with TRS and had been excluded from Social Security since 1951. She confirmed that teachers could opt to vote back into Social Security. She expounded it would require a referendum vote by the teachers in all of the state's school districts.

Co-Chair Stedman asked to return to slide 6 and asked how Social Security was treated within the DB Plan and SBS.

Ms. Lea replied that to be eligible for SBS or Supplemental Benefit Annuity System a person had to be eligible for Social Security. Up to about 1982, government employers could choose to remain in Social Security or withdraw and have a replacement program. In 1980, Alaska had decided to withdraw from Social Security by referendum vote of the State of Alaska employees and to go into the Alaska Supplemental Benefits Annuity Plan. Approximately 22 other public employers in Alaska also participated in SBS. Participants were required to be government entities and individual participants had to be eligible for Social Security. Teachers in Alaska could not participate in the SBS program because they were not eligible for Social Security. She explained that employees under the DC Plan and SBS contributed to the PERS DC Plan and SBS.

[9:27:24 AM](#)

Co-Chair Stedman asked about firefighters and police officers.

Ms. Lea explained that firefighters and police officers throughout the state differed depending on their employer. She recalled that most firefighters did not participate in Social Security and therefore could not participate in SBS. The ability to get into the SBS Plan had been closed in

1982 because the federal Social Security Administration no longer allowed entities to withdraw from Social Security.

Co-Chair von Imhof recalled Ms. Lea's testimony that in 1980, state employees voted to leave Social Security and join SBS, but in 1982, SBS was no longer offered. She asked for verification that it had only existed for two years.

Ms. Lea clarified that until 1982, the federal government had allowed entities to withdraw from Social Security by using a Social Security replacement program. In 1980, the state had replaced Social Security with SBS. The ability to withdraw from the program was closed by the Social Security Administration in 1982.

Co-Chair von Imhof asked how SBS was currently administered and whether payment was still available. She did not see the information in the presentation.

Ms. Lea replied that the presentation focused on PERS and TRS; therefore, the information had not been included. For participating employers, SBS was still an active plan acting as a Social Security replacement. Employees put in 6.13 percent, which was matched by the employer. She explained it was a pure defined contribution plan.

[9:29:35 AM](#)

Mr. Desai spoke to slide 9, "Membership - TRS (as of 6/30/2018)":

- 57 Member Employers
- 2 Defined Benefit (DB) Plan Tiers
 - 12,962 retirees
 - 801 terminated members entitled to future benefits
 - 4,457 actives (47%)
 - 18,220 total DB members
- 1 Defined Contribution (DC) Plan
 - 29 retirees
 - 614 terminated members entitled to future benefits
 - 4,937 actives (53%)
 - 5,580 total DC members

SOURCE: Division of Retirement and Benefits. June 30, 2018 Audited Financial Statements

Mr. Desai turned to slide 10, "FY 19 Contribution Rates - TRS":

Defined Benefit

Employee:

- 8.65% All Employees

Employer:

- 12.56% Cost Share

State:

- 16.34% Additional State Contribution

Mr. Desai noted that the TRS employer contribution rate was capped at 12.56 percent compared to the 22 percent cap under PERS. He addressed the TRS DC Plan on the righthand side of slide 10:

Defined Contribution

Employee:

- 8% All Employees

Employer:

- 7% Investment Account
- 0.79% Health Care
- 0.08% Occupational Death & Disability
- HRA - flat dollar, 3% of all PERS/TRS average annual compensation

[9:31:54 AM](#)

Co-Chair von Imhof asked about the 0.79 percent for health care as listed on the slide. She asked if the amount was for Medicaid rather than state health care plan monthly premiums.

Mr. Desai answered in the affirmative.

Co-Chair von Imhof asked if later slides addressed additional contributions for health care. She referenced Mr. Desai's earlier testimony that the cost of health care was a significant component in the actuarial calculations.

Mr. Desai responded that he was not certain whether later slides included data on health care. He offered to provide greater detail at a later time.

Co-Chair Stedman asked why the TRS structure was different from PERS in terms of normal and past service costs.

Mr. Desai replied there were variations in the design of the benefit plan structure, demographics, and benefit eligibility for PERS and TRS.

Co-Chair Stedman recalled that the TRS rate had been set at 12.56 percent, which he thought had been close to the normal cost at the time. The rate had been set at 12.56 percent with the state picking up any remaining costs because TRS fell back to a constitutional obligation of education. Consequently, the legislature had not treated TRS like PERS where the rate had been capped at 22 percent for municipalities and hospitals. The education system under TRS had been treated differently based on that fundamental reason. He recalled the adjustment to 12.56 percent had been made at the same time as the adjustment to the rate for municipalities because of the concern at the municipal level of insolvency and endless litigation over who was responsible for what portion of the unfunded liability. To alleviate the problem, the rate adjustments had been made.

[9:34:58 AM](#)

Co-Chair von Imhof asked if there was a case where an employee could be involved in both PERS and TRS over the course of their career. She wondered how DRB handled the situation.

Mr. Desai believed there were individuals who participated in both systems. He deferred to Ms. Lea for detail.

Ms. Lea answered that for participants in multiple plans there were statues pertaining to concurrent service - service in two plans simultaneously - that limited credit to one system at a time. She detailed that when a person worked consecutively in PERS and TRS, it was tracked by fund. The two systems were separate; therefore, an individual was required to meet two separate eligibility requirements for each plan. She clarified that the two systems were not combined to calculate a benefit; benefits were calculated based on the rules of the given system. She noted that statute allowed for a conditional service benefit, specifically developed for people who had worked for both systems. She elaborated that a person vested in the PERS system only had to work two years in TRS and a person vested in TRS only had to work one year in PERS to

be eligible for a benefit. Depending on the rules of the plan, if a person served ten years in both plans, they could have two retiree health benefit entitlements, but only if they met the requirements of each plan.

Ms. Lea furthered that an individual could receive a monetary monthly benefit from one under the conditional services benefit only if they were vested in the other plan. The provision had been introduced principally for teachers, many of whom started employment as aides in schools or in other positions (who had substantial time in PERS, but were not vested, prior to shifting to TRS). When the law had been introduced years earlier, the goal had been to take care of people who could end up serving eight or nine years for a government entity, but not be vested in either plan.

[9:38:18 AM](#)

Senator Micciche asked for verification that most of the rules mentioned by Ms. Lea were Internal Revenue Service (IRS) based.

Ms. Lea responded that there was a basis in IRS rules for providing a reasonable vesting period in order to obtain a benefit. She detailed it was one of the factors taken into consideration for individuals who were not able to vest in either plan but had an accumulated amount of time that would otherwise vest them.

Senator Micciche thought it seemed that when the DC Plan had been established in 2006 it would have been a logical time to reevaluate the question of membership in Social Security. He wondered if a discussion had taken place. Alternatively, he wondered if Ms. Lea believed employees had been so secure in their previous DB program that the discussion had been missed.

Ms. Lea thought conversations in 2006 had been focused on addressing the unfunded liability. She did not believe Social Security participation had entered into the discussion much, if at all.

Co-Chair Stedman agreed with Ms. Lea and shared that he had been centrally involved in establishing the DC Plan under SB 141. He remarked that a Social Security offset was a common question for many people who worked under the Social

Security rules and then came in under other rules that effect Social Security or retirement rules. He asked Ms. Lea to provide detail on the Social Security offset.

Ms. Lea replied that she was not an expert on Social Security rules, but she could provide basic rules about the offset. She explained there was two kinds of offsets. The first was for individuals and was called the windfall elimination provision. The second was for survivors of individuals who would have been subject to the windfall elimination provision and was called the government pension offset. The basic rule of thumb was if a person had served the required 30 years in Social Security there was no offset to a Social Security benefit. However, if a person had worked for an entity that did not participate in Social Security and paid no Social Security tax, there was an offset to the benefit received from Social Security. She added that the rules were by the Social Security Administration, not the state.

[9:41:24 AM](#)

Mr. Desai showed slide 12, "Balance Sheet - PERS/TRS," which showed the funding ratios under both PERS and TRS for the funding years 2016 and 2017. He noted that in 2016 the PERS funding ratio had been 77.1 percent; the ratio had decreased slightly in 2017 to 76.7 percent. He reported that as of 2017 the unfunded PERS liability was nearly \$5.1 billion. Under TRS, the unfunded liability in 2017 was \$1.8 billion with a funding ratio of 82 percent.

Co-Chair Stedman asked for a definition of actuarial value. Additionally, he requested the market value for 2017.

Mr. Worley responded that the actuarial value of assets was typically different than the fair market value of assets. He explained that the fair market value of assets was what the assets could be sold for on June 30 at the end of the fiscal year. The actuarial value of assets was the asset value of investment gains and losses smoothed over a five-year period. For example, if in year one there was an actuarial gain over the system's 8 percent rate of return, the gains would be divided by 5 and smoothed into the actuarial value of assets. The same process would occur in year two. He elaborated that rather than taking large losses in one year, the gains and losses were smoothed out over a five-year period.

Co-Chair Stedman remarked that when markets were advancing, the market value should be higher, conversely, the market value should be lower in declining markets. Mr. Worley agreed.

Co-Chair Stedman asked if Mr. Worley had a rough estimate of the asset value on June 30, 2017. Mr. Worley asked if Co-Chair Stedman was referring to the market value.

Co-Chair Stedman replied in the affirmative. Mr. Worley agreed to provide the information at a later date.

Co-Chair Stedman wanted to keep an eye on the market value and actuarial value. He was particularly concerned about the spread.

Mr. Worley replied that he would follow up with the information.

Co-Chair Stedman observed that the [PERS] funding ratio had decreased from 77.1 percent in 2016 to 76.7 percent in 2017 and the unfunded liability had increased from \$4.9 billion in 2016 to slightly over \$5 billion in 2017 (slide 12). He asked if the division had identified what was causing the change.

[9:45:34 AM](#)

Co-Chair Stedman noted the committee could look to the actuarial analysis report if needed.

Mr. Worley explained there were a number of factors that impacted the accrued liabilities. Large items such as healthcare had the biggest impact. He offered to provide written information to the committee.

Co-Chair Stedman asked for the information for 2016 through 2018. He understood there was a substantial delay in the actuarial process. He requested historical figures in a table format. He remarked that the information was included in the actuarial analysis received annually by the legislature; however, he commented that due to the dryness of the subject matter, very few legislators reviewed the information. He thought a table format would aid in understanding of cost factors including the mortality table

year, investment returns, healthcare projections, and other.

[9:47:05 AM](#)

Senator Micciche asked for verification that the actuarial value was smoothed over a five-year period, but the accrued liabilities were an annual actual figure.

Mr. Worley agreed.

Senator Micciche asked for verification that if actuarial value remained constant, the higher the accrued liabilities meant the higher the unfunded liability.

Mr. Worley replied in the affirmative.

Senator Micciche asked if the expectation was for accrued liabilities to increase or fluctuate.

Mr. Worley responded that accrued liabilities fluctuated on actuarial assumptions. The mortality tables had been recently changed to increase the number of years that members were alive, which impacted the number of payments the state would continue to make to a retiree. For example, an older mortality table may show a person living to 82 years of age compared to a newer mortality table showing a person may live to 84 years of age.

Co-Chair Stedman stated that the information should be included in the table the division would provide the committee. He asked for inclusion of actuarial value and market value of assets. He reported the committee would take a historical look at the factors to try to erode the unfunded liability the legislature had been working on for quite some time.

[9:49:46 AM](#)

Senator Shower asked if the numbers on slide 12 reflected the total unfunded liability facing the state.

Mr. Worley responded there were two additional DB Plans including the Judicial Retirement System (JRS) and the National Guard and Naval Militia Retirement System (NGNMRS). He offered to provide the additional information to the committee.

Co-Chair Stedman noted JRS had been fully funded once or twice - he thought the funding had been vetoed one of the times. He believed the JRS system had an unfunded liability again. He asked the department to include the information in the requested tables. He asked for a break-out of the information, including a small PERS group that had existed for a short time (the group needed \$65 million or so).

[9:51:04 AM](#)

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Co-Chair Stedman clarified that he was referencing a retirement system that was not currently in place - the plan had closed several decades back.

Senator Shower asked how the unfunded liability would impact the Tier IV system.

Co-Chair Stedman noted that the department would get back to the committee. He asked Senator Shower to repeat the question.

Senator Shower asked if the unfunded liability would be impacted by the Tier IV system.

Mr. Desai responded that the unfunded liability included the DC and DB Plans for PERS and TRS [slide 12].

Co-Chair Stedman asked how a DC plan had an unfunded liability.

Mr. Worley replied that they were talking about two different plans. Under the DC Plan an amount went into an individual's account. He explained that because the rate for DC and DB members was the same - 22 percent - the total of the inputs for a DC member meeting the employer match (the contribution for insurance - Health Reimbursement Account) was slightly different because the DC plan used the 22 percent and multiplied it by a member's salary. After all of the DC buckets were paid out of the 22 percent there was usually a small amount of money left over per employee. He explained that the leftover money was used to pay the unfunded liability on the DB Plan. He noted that

Mr. Desai had mentioned earlier there were carryover funds from DC members to pay the unfunded liability on the DB Plan as established in 2006.

Co-Chair Stedman clarified that the DC member did not pay the unfunded liability. He underscored that the unfunded liability was the solely the responsibility of the employer (backed up by the state constitution and the Permanent Fund).

Mr. Worley answered in the affirmative.

Co-Chair Stedman noted the issue was a point of confusion for the public.

[9:55:01 AM](#)

Mr. Desai moved to slide 13 showing a table titled "ARMB Long-Term Returns through June 30, 2018," which showed the long-term rate of returns for the past 34 years. The returns for the previous year were 9.61 percent for PERS and 9.62 percent for TRS. The three-year returns were 7.37 percent for PERS and 7.38 percent for TRS with an average of 7.38 percent. He advanced to the 30-year average return of 8.18 percent and 34-year average return (including the current year) of 9.14 percent.

Senator Bishop asked if both funds [PERS and TRS] were invested the same.

Mr. Desai responded that because the funds were managed by ARMB under DOR, he did not have the details.

Senator Bishop observed that TRS had outperformed PERS.

Co-Chair Stedman believed the committee would hear from ARMB and would receive an actuarial analysis from the actuary at a future meeting.

[9:57:02 AM](#)

Mr. Desai discussed slide 14, "Actual Rate of Return and Funding Ratio - PERS," which showed a table based on the committee's action items from the previous year. The table showed how the unfunded ratio related to the rate of return from 1996 to 2018. He explained that 1996 was the first year the plan exceeded 100 percent at 105.8 percent. The

expected rate of return had been 8 percent and the actual return had been 13.79 percent. The returns had been close to 5.79 percent more than anticipated and the trend had continued for the next five years [1996 through 2000].

Mr. Desai pointed out that there had been some issues with the actuarial firm regarding transparency and how the values had been determined. He elaborated that contribution rates set for employers during those periods were much lower than recent rates. He explained the situation had created issues beginning in 2001 and 2002 when the funded ratio had started declining. He expounded that in 2001 the funded ratio had been 100.9 percent, the expected rate of return had been 8.25 percent, and the actual return had been [negative] 5.25 percent. In 2002, the expected return had been 8.25 percent and the actual return had been negative 5.48 percent. He continued that in 2003 the expected return had been 8.25 percent and the actual return had been 3.67 percent. The poor returns created a substantial impact on top of the actuarial assumptions that had been inaccurate. He explained a substantial unfunded liability had been created beginning in 2002 that had dropped the funded ratio to 75 percent.

[9:59:24 AM](#)

Mr. Desai noted that a later slide would address the downfall of the funding ratio, the real costs, and the reason the ratio was declining. He explained the important issue was whether benefits had been increased suddenly. He detailed that typically, when the funding ratio exceeded 100 percent, most of the plans tended to increase benefits, which increased the liability. He furthered that down the road when the market declined, the unfunded liability automatically increased substantially because of the increase in benefits. However, the scenario that occurred in the early 2000s had been different. He detailed that the PERS and TRS benefit had not really increased during the given time period, but the actuary had suggested to lower the employer contribution rate. He furthered that it had been a perfect storm - after 2001 and 2002 the market had declined. Alaska was not the only state that had experienced a large gap and unfunded liability - many other U.S. plans had been part of the situation.

Mr. Desai elaborated that slide 14 showed historically how the funded ratio had decreased from 100 percent down to 75

percent [in 2002]. The funded ratio had been down ever since. He detailed that in 2009 the actual rate of return took another big hit at negative 20.49 percent. The subsequent year had seen a 11.39 percent rate of return; therefore, it had not been that hard to recoup and return to a stable condition. However, at that point, the state had developed a cost-share mechanism to further stabilize the retirement system.

[10:01:45 AM](#)

Co-Chair Stedman cautioned members to take the early years (before 2001 and 2002) with a grain of salt. He noted that when the system had been reworked in the 2004 timeframe the legislature had not gone back to have the analysis restated. He explained that the analysis at the time had been erroneous and the numbers were wrong. He relayed that when the legislature had fixed the numbers in 2004/2005 they had believed the system had already been underfunded. He explained there had been issues and litigation against the actuary and the state had prevailed with a substantial settlement. The legislature had acted to have additional actuarial study conducted to check the actuarial work and avoid incorrect data in the future. He asked for verification that the safeguard was still in place.

Mr. Worley answered in the affirmative.

Co-Chair Stedman acknowledged the safeguard was expensive, but worth the price given past history of turbulence caused to lawmakers and beneficiaries. He remarked that any liability accumulated from misestimating the future to incompetence was backed up by the state treasury. He explained that benefits were guaranteed by the state's constitution, if there was a problem it had to be addressed by the legislature, not beneficiaries. The legislature had opted to take extra precaution after the results at the end of 1999.

[10:04:24 AM](#)

Co-Chair von Imhof observed that slide 14 showed that drops in the market affected the funding ratio in 2001 and 2002 and again in 2008 and 2009. She noted that the recovery period was lengthy, which she found alarming. She asked if other states assumed 100 percent of the liability or had some type of sharing. She thought it was more academic,

because Alaska's constitution indicated the state would bear the full responsibility. She hoped that the presentation or related conversations would address the fact that market volatility impacted the funded liability. She was interested in potential ways to address the issue. She questioned whether there needed to be another cash infusion (as had occurred under the Parnell Administration), or different actuarials. She found continuing without a plan and the potential for increasing liabilities worrisome.

Co-Chair Stedman asked the department whether Callan Associates (Callan) was still the state's consultant.

Mr. Worley replied that Callan was the investment advisor for ARMB.

Co-Chair Stedman noted that the legislature would be asking Callan to provide an analysis in chart form to show its projections for various years. He explained the committee would see the state never recouped. He noted targeted values were up on the right of the chart and down on the left. He relayed the committee would have the discussion with ARMB and Callan.

[10:07:18 AM](#)

Senator Bishop added that there had been municipalities and borough governments that did not believe the [actuarial] numbers but had made the contribution even when the state had told them no contribution was necessary. He lauded the boroughs for contributing and noted the problem could be worse if those contributions had not been made. He contemplated what the unfunded liability would look like if the legislature had not made the cash infusion of \$3 billion. He did not believe the unfunded liability was too terrible at present, given what the state had been through. He envisioned the legislature may need to make another large deposit [towards the unfunded liability] because without the past cash infusion, the legislature would be faced with owing over \$1 billion annually in General Fund (GF) spend.

Co-Chair Stedman reiterated that he would ask ARMB and Callan to bring the analysis to the committee.

Senator Micciche noted there had been a substantial reduction in the funded ratio for PERS and TRS between 2001 and 2002. He wondered what had occurred to result in the substantial drop. He considered the market loss and reasoned it alone did not explain the reduction in funded ratios of close to 25 percent.

Co-Chair Stedman replied the [actuarial] analysis had been erroneous for previous years, which had triggered a rewrite in SB 141. There had been discussion about going back and restating the previous numbers, which had been erroneous for PERS and TRS. Additionally, there were the market results. He offered to share historical data in his office.

Senator Micciche surmised the five years following [2001 and 2002] reflected the realization the unfunded liability would increase, hence the change to a DC system in 2006.

Co-Chair Stedman stated that the time the Senate Finance Committee had been chaired by former Senator Lyda Green. Senator Green had shared her concern with him, and they had collaborated on a solution to the problem. They had worked to determine what had gone wrong and to identify whether the information was erroneous. The legislature had gone through a process to define and rectify the problem. He recalled that at the time, the legislature did not believe the liability would climb as high as it ultimately did. He thought the liability had peaked at about \$12 billion and the legislature had expected it to peak around \$8 billion or \$9 billion from somewhere around \$6 billion. The committee had spent long hours working to get a handle on the situation. He noted that Senator Green had ultimately become Senate President.

[10:11:49 AM](#)

Senator Shower referenced discussion about returning to a DB system for certain groups or the entire state. He asked to see how the change would impact the chart. He remarked that most private sector companies had moved away from DB plans because the unfunded liabilities were debilitating (it was economically implausible for companies to keep that much cash on hand). He wondered how going back to a DB system would impact the state.

Co-Chair Stedman thought the question may be best directed to the actuary. He detailed that the question could be

addressed during the committee's conversation with ARMB. They would consider what the expectations would have been and the impact of the additional \$3 billion contribution. He recalled the \$3 billion was substantially less because it took the normal year's contribution plus around \$1.5 billion extra. He communicated the committee would see an analysis of the extra contribution. He clarified the \$3 billion had included the normal contribution for the year as well. The committee would also ponder whether there was any ability, interest, or benefit of making another equity infusion. He thought it was important to understand the information in the event the legislature wanted to make another cash infusion in the current year or in five years.

Mr. Desai advanced to slide 15, "Actual Rate of Return and Funding Ratio - PERS," which showed a line graph as well as a data table that depicted a visual representation of the information on slide 14. The orange line on the top of the graph represented the funded ratio and the purple line reflected the actual rate of return.

[10:14:21 AM](#)

Mr. Desai moved to slide 16, "Actual Rate of Return and Funding Ratio - TRS," which showed a data table of TRS information starting in 1996. He detailed that in 1999 TRS had been funded at approximately 102 percent. He cautioned that the information may be erroneous. Similar to the PERS system, the TRS plan experienced negative returns in 2001 and 2002 instead of the actuarial earnings rate of 8.25 percent. The negative returns had contributed to the unfunded liability.

Co-Chair Stedman asked about funded ratios and at what point the legislature should be concerned.

Mr. Desai replied that in his administration of past plans, he had observed that when funded ratios exceeded 90 percent, employers may begin to contribute less to single employer plans. However, in a Taft Hartley plan, he had seen an increase in the benefit rates. He explained it kept the ratio level and kept it from exceeding 100 percent. He explained that when plans were 100 percent funded, one option was to increase a benefit. The biggest risk was not knowing how the returns would support the additional benefits in the future. He stated that when a plan hit a funded rate of 90 percent he had witnessed board meeting

discussions about considering the next strategy if the funding ratio went up to 100 percent.

Co-Chair Stedman surmised that the state should be fairly comfortable at a funded ratio of about 90 percent, while a ratio of 50 percent should set off alarm bells. He reasoned the state should not set a funded ratio goal of 100 percent and once it got to 90 percent there should be a discussion.

Mr. Desai confirmed that was his experience with all of the past plans he had administered in 15 major plans with different companies.

[10:17:20 AM](#)

Senator Micciche asked for Mr. Desai's opinion on the lower threshold. He asked if the alarm bell was ringing at the current funded ratio.

Mr. Desai answered that for the private sector under IRS and ERISA [Employee Retirement Income Security Act], a funded ratio of 80 percent or higher was considered healthy. If the funded ratio went below 80 percent, ERISA recommended the plan introduce strategy to show when and how the plan would return and maintain an 80 percent level. The entities had established a color zone including green, red, and yellow. He concluded that depending on the funded ratio, treatment would be different.

Co-Chair Stedman asked for an explanation of ERISA.

Mr. Desai replied that ERISA stood for Employee Retirement Income Security Act of 1974.

Senator Bishop remarked on Mr. Desai's lengthy work history with Taft Hartley plans and his familiarity with ERISA. He believed there was a point in time in which ERISA had stipulated that Taft Hartley plans could not be overfunded. He asked for the accuracy of his statement.

Mr. Desai concurred, but he had not seen [indecipherable]. He explained that concern often increased substantially when a plan was funded at close to 100 percent.

Senator Bishop remarked that in the past the government had specified plans could not be overfunded; therefore, plan participants received a bump on their years of service even

though they had not worked or contributed. He elaborated that there were plan years in the 1990s, until ERISA had changed the law, where plan members received a bump due to federal law. He continued that poor market performance in 2000 and 2009 had resulted in underfunded plans. He added that he had never heard of having too much money in the bank.

[10:20:28 AM](#)

Mr. Desai turned briefly to slide 17 titled "Actual Rate of Return and Funding Ratio - TRS," which provided a visual look at the data on slide 16.

Mr. Desai read from slide 18, "Actuarial Experience Study":

Experience Study Process

Alaska Statute 37.10.220(a)(9) requires an experience study be conducted at least once every four years (healthcare assumptions are reviewed annually as part of actuarial valuations)

- The experience study compares current assumptions with actual plan experience
 - Last study: Performed in 2014. Covered experience for the 4-year period July 1, 2009 through June 30, 2013.
 - New assumptions adopted by the ARMB were effective beginning with the June 30, 2014 valuations.
- Current study: Covers experience for the 4-year period July 1, 2013 through June 30, 2017.
 - New assumptions (and methods) adopted by the ARMB will be effective beginning with the June 30, 2018 valuations (which will be used to set FY21 contributions).

[10:22:06 AM](#)

Mr. Desai read from slide 19, "Actuarial Experience Study - Experience Study Process (Continued)":

Economic Assumptions

- Investment Return
- Inflation
- Salary Increases

- Payroll Growth
- Demographic Assumptions
- Mortality
 - Retirement
 - Disability
 - Withdrawal (termination of employment)
- Funding Methods
- Healthcare Normal Cost and Actuarial Accrued Liability
 - Administrative Expense Load to Normal Cost
 - Amortization of Unfunded Actuarial Accrued Liability (UAAL)

Mr. Desai explained a change recommended by the actuary was based on a study of the past four years. He elaborated that through the process, the actuary would be able to recommend new rates to ARMB and the future assumptions for the official valuations of the next four years.

[10:23:02 AM](#)

Mr. Desai turned to slide 20, "Actuarial Experience Study - Recent History":

2009 (Eff 6/30/2010 Valuation)

- Investment Return
8.25% to 8.0%
- Inflation
3.5% to 3.12%
- Payroll Growth
4.0% to 3.62%

2013 (Eff 6/30/2014 Valuation)

- Investment Return
Stayed at 8.0%
- Inflation
Stayed at 3.12%
- Payroll Growth
Stayed at 3.62%

2017 (Eff 6/30/2018 Valuation)

- Investment Return
8.0% to 7.38%
- Inflation
3.12% to 2.5%

- Payroll Growth
3.62% to 2.75%

[10:24:28 AM](#)

Co-Chair von Imhof believed Callan was also an advisor to the Alaska Permanent Fund Corporation (APFC). She remarked that a 6.25 percent return was used for modeling based on Callan's recommendation for the Permanent Fund, while slide 20 showed an investment return of 8 percent to 7.38 percent. She wondered why the recommendation [for PERS and TRS] was higher than the return used for the Permanent Fund when the same investment advisor made recommendations for both entities. She asked about the difference.

Mr. Desai replied that the Permanent Fund was more liquid than the retirement systems, which were long-term investments. He remarked that the focus on the investment may be different depending on the expectation. He continued that employees typically worked from 20 to 30 years prior to collecting a benefit. He explained there was a lengthy time period before a benefit was realized when a participant received a contribution from the employer. The strategies and focus of the two different investments were different. He shared that Callan had been one of the key players to encourage ARMB to go through the analysis with an actuary.

[10:26:20 AM](#)

Senator Shower asked for a definition of payroll growth.

Mr. Desai replied that payroll growth assumptions were based on the current population. The rates included employee and employer income contributions coming into the system. The 7.38 percent investment return rate was projected for the long-term. He explained that employer contributions came through the payroll. Depending on the participants actively contributing in the plan, the payroll growth played a key role regarding expected contributions in the future.

Co-Chair Stedman added that when the actuary presented to the committee, future budget impacts would be considered. Additionally, the actuary would address the past, payroll growth, and future expectations.

[10:27:53 AM](#)

Senator Micciche considered the unfunded PERS and TRS liability of 77 and 82 percent respectively [slides 14 and 16]. He asked where the healthcare cost factor was included in the actuarial experience study. He wondered if the number was included in inflation or elsewhere.

Mr. Desai replied that the information was not included in the presentation, but he would follow up with the data.

Co-Chair Stedman referenced Co-Chair von Imhof's question about expected rates of return. He relayed that during the years Callan had used an 8.25 percent expected rate of return, the committee had repeatedly vocalized its belief the rate was too high. He recalled that the committee had tried for years to get Callan to adjust the rate downward. He observed the presentation showed the rate had been adjusted down to 8 percent. He believed the committee would have the conversation with Callan when they addressed the committee in the future. Additionally, the committee would ask Callan to breakout healthcare versus pension. He remarked there was an asset allocation difference between APFC and ARMB in regard to expectations of inflation and especially the rate of return. He reported there would be forthcoming discussions on the issue with Callan. He explained there was a difference in risk profile, which related to the return and allocation difference.

[10:30:09 AM](#)

Mr. Desai reviewed slide 21, "Benefit Formula":

Defined Benefit Pension:

Fixed benefit amount from date of retirement to death
Contributions + Investment Earnings = Benefits + Expenses

IF:

Actuarial assumptions are accurate. Funded ratio remains at target of 100%

IF NOT:

Unfunded liability is created, if benefits and expenses are greater than contributions and investment earnings. Funding excess if contributions and

investment earnings are greater than benefits and expenses.

Mr. Desai addressed slide 22, "Additional State Contributions - PERS / TRS." He pointed out that between 2008 and 2019 the Senate Finance Committee allocated approximately \$7.2 billion into the PERS and TRS systems. He highlighted that the \$3 billion cash infusion into the systems in 2015 had helped keep the funded ratio close to 80 percent. He noted that 80 percent was the healthy level.

Co-Chair Stedman asked for verification that the legislature had added \$7.2 billion above the normal cost into the retirement plan to deal with the unfunded liability and that there was more to come.

Mr. Desai answered in the affirmative.

[10:32:15 AM](#)

Mr. Desai looked to slide 23, "Projected Additional State Contributions - PERS / TRS." The table used results from a recent study (the final data for the 2018 valuation was not yet complete) to show projections from additional state contributions to PERS and TRS from 2020 through 2039. He pointed to the last column and detailed that approximately \$9.1 billion more would be contributed to the PERS and TRS systems.

Senator Shower asked whether the \$9.1 billion on slide 23 included the roughly \$7 billion shown on a previous slide [slide 22]. Alternatively, he wondered if the figure was separate from FY 20 going forward.

Mr. Desai answered that the data on slide 23 was separate and looked at FY 20 to FY 39. The slide included the targeted dollar values suggested by the actuary for the systems to be funded at 100 percent.

Senator Shower asked for verification that the unfunded liabilities could potentially be up to \$16 billion to \$17 billion through FY 39 (when factoring in the current liability).

Mr. Desai responded that the unfunded liability was not a direct number coinciding with the number in the presentation. He explained that the data [on slide 23]

reflected something above 22 percent and above 12.56 percent (for PERS and TRS respectively) paid by employers. The state paid the additional contributions towards the unfunded liability.

Co-Chair Stedman stated there was \$9.2 billion more to retire the unfunded liability. Additionally, there was the recurring annual expenditures of its employees.

[10:34:23 AM](#)

Co-Chair von Imhof noted that the annual payment increased from \$263.3 million in FY 19 (slide 22) to \$300 million in FY 20, and \$423 million in FY 21 (slide 23) before leveling out. She asked for detail on the substantial increase of \$123 million from FY 20 to FY 21.

Mr. Desai explained that the data used a recent actuarial study submitted to ARMB. He elaborated that the rate of return had changed from 8 percent to 7.38 percent with many [actuarial] assumptions adopted by ARMB. Slide 23 reflected the impact of the study beginning in FY 21. He clarified that the study would not result in an increase in the FY 20 contributions.

Co-Chair von Imhof remarked on decreasing the rate by 8 percent to 7.25 [7.38] percent and noted that the state picked up the balance to keep the plan funded. She asked if Mr. Desai had testified that the state picked up the balance to keep the plan 100 percent funded or 80 percent funded.

Mr. Desai replied, "100 percent funded."

Co-Chair von Imhof asked what the totals [on slide 23] would be if the funded level was maintained at 80 percent.

Mr. Desai replied that the funded ratio was currently approximately 77 percent for PERS and 82 percent for TRS. He pointed out that TRS was already funded over 80 percent. He explained that the dollar value would be much less to keep the fund funded at 80 percent. He elaborated that PERS and TRS were closed plans with no new participants or contributing going forward. He detailed that in 2014 a decision had been made to fully fund the plans by 2040. Consequently, the schedule [on slide 23] had been established to project what it would cost to fund the plans

at 100 percent. He noted that PERS and TRS [employer contribution rates] were capped at 22 percent and 12.56 percent respectively.

[10:37:14 AM](#)

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RECONVENED

Mr. Desai continued to address slide 23, which showed the [projected additional state contribution] annual payment schedule [for FY 20 to FY 39] totaling approximately \$9.1 billion. He referenced an earlier question about whether the slide represented the true unfunded liability. He detailed that the slide did not reflect the unfunded liability but showed a present value. He explained that if the state paid off the liability at the present value, the payment [on slide 23] would likely go away. He furthered that the value could be much lower than the data shown on slide 23 because the table went out to FY 39; if the money was paid upfront, the value would be much less.

Co-Chair Stedman asked for verification that Mr. Desai meant the liability at present value.

Mr. Desai agreed.

Senator Wilson referenced an earlier statement that a healthy fund was funded at about 80 percent and that the state should aim for [a funded ratio of] about 90 percent. He asked if the department could provide a chart showing the liability if it was funded at the 80 and 90 percent levels.

Co-Chair Stedman thought the questions would be addressed by the actuary, and that there would be a range (e.g. 80, 85, 90, and 95 percent) provided.

Mr. Desai replied that the schedule [on slide 23] was published as part of the valuation report. He detailed that the 2017 report was on the department website and showed the detailed schedule for PERS (page 50 or 55) and TRS (page 44). He noted that the department would provide a more readable chart in a future presentation.

[10:42:34 AM](#)

Senator Micciche referenced slide 23 and believed much of the increase of projected state contributions was based on the investment return assumptions decreasing from 8 percent to 7.38 percent. He pointed out that the payments were made on a five-year average for actuals. He appreciated the conservatism but wondered if it was possible the data sent off an unnecessary alarm simply because the investment return expectations had been reduced.

Mr. Desai replied that the 7.38 percent was based on the last four-year study. The result showed that the dollar value to be paid by the state would be much higher than it had been previously. However, he believed that every four years the study would likely bring different results. He continued that depending on the true market return in the future, the value [shown on slide 23] could increase or decrease. He noted that compared to the last valuation in 2017, the number had increased about \$1 billion. He clarified that the reduction to 7.38 percent did not necessarily directly increase the value by \$1 billion - many other assumptions had gone into the study as well that impacted the value.

Mr. Desai reviewed slide 24, "Unfunded Liability - PERS/TRS." The slide showed a bar chart with a data table at the bottom (red represented TRS and blue represented PERS). The total unfunded liability as of 2017 was nearly \$6.8 billion.

Co-Chair Stedman remarked that the figure was about the same as the 2005 liability. Mr. Desai answered in the affirmative.

[10:45:10 AM](#)

Mr. Desai advanced to slide 25, "UPDATED Funding Ratio - PERS/TRS 2017 Results (in thousands)." He remarked that the numbers for 2018 were not yet available and would be finalized sometime in June. The total funded ratio was 76.7 percent for PERS and 82 percent for TRS.

Co-Chair Stedman highlighted that in 2017 the PERS unfunded ratio was 66.7 percent. He observed that healthcare under TRS was 100 percent. He remarked that not all PERS and TRS categories equally shared the liability. He asked if the

state focus on bringing areas that were funded below 80 percent up to the 80 percent mark.

Mr. Worley replied that the healthcare plans were much better funded through efforts made by DRB (e.g. by looking at different ways to contain health costs). He suggested that if the state was looking to fund something at a higher level, the pension category was a good area to focus on. He reported that the pension was 66 percent funded for PERS and 75 percent for TRS. The additional state contribution provided by the legislature several years earlier had been aimed at bolstering the DB pension as opposed to healthcare. The division had been seeing results from its actuarial studies that the health plans were getting better funded much more quickly than expected (based on efforts by the administration to contain health costs).

[10:47:24 AM](#)

Mr. Desai briefly highlighted slide 26, "PERS Funding Ratio History (Based on Valuation Assets)," which showed the funded ratio from 1979 through 2017 and slide 27 "TRS Funding Ratio History (Based on Valuation Assets)," which showed the same information for TRS.

Mr. Desai advanced to slide 28, "PERS Contribution Rates," which showed the difference between the employer contribution rate (shown in blue) and the actuarially determined rate (shown in red). He noted that employer contribution rates were flat at 22 percent beginning in 2008 going forward. The difference between the two rates showed the additional state contribution. Slide 29 included the same chart for the TRS system.

Mr. Desai turned to slide 30 titled "Projected Retirement Population Growth." The slide showed a chart depicting at what point the number of retirees under the plan would be highest. He elucidated that somewhere around 2027 the state would reach a peak of about 58,000 retirees based on estimates of service and age. Once the peak was reached it was predicted to begin declining.

Mr. Desai moved to slide 31, "Basic Facts - PERS/TRS Benefits," which showed a chart depicting the annual benefit payouts. Somewhere in 2039 the state's benefit payments would peak and begin declining. He believed the last benefits were projected to be received in 2116.

[10:49:49 AM](#)

Mr. Desai looked at slide 32, "Expenses - PERS (in thousands)," which showed a line graph depicting PERS expenses paid including pension benefits (paid as a retiree check) health claims, administrative expenses, and investment expenses. He explained that the chart showed a trend as it increased and correlated to the chart on slide 31. The slide depicted what the cost had been in 1996 through 2018.

Co-Chair Stedman asked for an explanation of a steep drop in healthcare expenses in 2008. He asked facetiously if everyone had stopped smoking that year.

Mr. Worley explained the reason for the drop. He detailed that previous to 2008, the health plans had paid a premium health insurance to a separately established retiree health fund. He elaborated that the health fund had been responsible for paying health claims for all PERS, TRS, and JRS retirement system members. He added there were other reasons individuals would be covered by the retirement systems. In order to comply with Internal Revenue Code in 2007 the systems had gone through organizational recreated health trusts. He expounded that the health trusts, which were now reported as part of the audited financial statements and actuarial reports, paid the claims. In 2008, the former retiree health fund transferred money to the PERS, TRS, and JRS systems established health care trusts; however, the state still had money in the retiree health fund and continued to pay claims through about March 2008. After that point, the health care trust paid the claims.

Co-Chair Stedman asked Mr. Worley to get back to the committee with further detail regarding the anomaly in the chart.

[10:52:36 AM](#)

Mr. Desai briefly highlighted slide 33 titled "Expenses - TRS (in thousands)," which showed the same information for TRS. He noted that the presentation also included an appendix based on a request in a previous committee meeting. The additional slides included information about PFD eligibility and how the cost of living allowance (COLA) was paid.

Co-Chair Stedman stated that the final slides [slides 35 through 37] would be rolled into future presentation materials when the committee heard from ARMB and Callan. He remarked it was nice to see that 80 percent was a reasonable target and the systems on average were getting close to that number. The committee would look at future cashflow constraints and would consider various targets (e.g. 80, 85, 90, and 100 percent). He reported the committee would have the discussions with ARMB and its consultants to come up with a solution to reach a fully benefitted plan and survive cash flow constraints.

Co-Chair Stedman discussed the agenda for the following day.

#

ADJOURNMENT

[10:54:41 AM](#)

The meeting was adjourned at 10:54 a.m.