

SENATE FINANCE COMMITTEE
February 18, 2022
9:02 a.m.

[9:02:20 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson (via teleconference)
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

Senator Natasha von Imhof

ALSO PRESENT

Ajay Desai, Director, Division of Retirement and Benefits;
Kevin Worley, Chief Finance Officer, Division of Retirement
and Benefits; Emily Ricci, Chief Health Administrator,
Department of Administration.

PRESENT VIA TELECONFERENCE

David Kershner, Actuary, Buck Global, LLC, Florida.

SUMMARY

^PERS/TRS UPDATE

[9:04:57 AM](#)

AJAY DESAI, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, introduced himself. He discussed the presentation, "State of Alaska Department of Administration; Presentation to the Senate Finance Committee" (copy on file). He looked at slide 2, "Organization - Public Employees' Retirement

System (PERS)/Teacher Retirement System (TRS)." He explained how the department works with the Alaska Retirement Management Board (ARMB).

Mr. Desai addressed slide 3, "Membership (as of June 30, 2021)." He stated that there were approximately 102,901 members in the system.

Mr. Desai pointed to slide 4, "Investment Experience":

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

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

Mr. Desai looked at slide 5, "Funded Status -Valuation Results (\$000's)." He stated that that there was a marked difference, and noted the increase in each system.

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Mr. Desai addressed slide 6, "Funded Status -Pension (\$000's)":

According to the June 30, 2020 PERS and TRS DB actuarial valuation reports, PERS DB pension trust fund was projected to be 93.4 percent funded and TRS at 96.3 percent by June 30, 2039.

It is anticipated the June 30, 2021 projections to be presented to the ARM Board at the March meeting will reflect a 100 percent funded level 2 or 3 years earlier than the last reported projections, based on the FY 2021 investment returns.

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KEVIN WORLEY, CHIEF FINANCE OFFICER, DIVISION OF RETIREMENT AND BENEFITS, explained that there was an examination of comparison of funding between the current and previous years, and projected to 2039, which was the projected 100 percent funding of the trust funds.

Senator Wielechowski asked the difference between actuarial asset value and fair asset value.

Co-Chair Stedman asked why there were two different values.

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DAVID KERSHNER, ACTUARY, BUCK GLOBAL, LLC, FLORIDA (via teleconference), explained that market value was the fair value of the investment taken directly from the financial statement. He stated that the actuary value was the comparison of the actual return and the expected return.

Co-Chair Stedman wondered whether the investment return to the mean, or should there be an expectation of similar types of returns moving forward.

Mr. Kershner stated that he was not an investment expert, but did not believe that anyone would have predicted returns as high as 30 percent.

Co-Chair Stedman wondered whether the state had ever used an ignored the actuarial valuation of the assets, and only concentrated on the market value when setting the contribution rates.

Mr. Kershner replied that as recently as 2014, the smooth value was used as the standard. He did not recall time when the actuarial value was used as the standard.

Co-Chair Stedman surmised that market values were not used for the contributions.

Senator Wielechowski asked how the state compared its funded status, versus other public and private pensions in the country.

Mr. Worley replied that annually, the National Association of State Retirement Administrators regularly monitored 119 plans. He stated that the last report, which was through June 2020, the accrued liability for TRS was 78 percent and PERS was 98 percent. He stated that California had the highest accrued liability, so Alaska had a lower accrued liability compared to other states.

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Co-Chair Stedman recalled that Alaska was one of the few states that combine the retirement health liability and pension.

Mr. Worley replied that, in the last ten years, the Governmental Accounting Standard Board had issued accounting statements for both pension and health trust plans.

Co-Chair Stedman remarked that Alaska noticed their own unfunded liability before the other states' recognized their own unfunded liability.

Mr. Morley replied that Alaska had initiated boards and statutes to review the work of the consulting actuary reporting.

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Co-Chair Bishop stressed that without the large deposit in 2014, the numbers were look much different.

Mr. Desai explained that the \$3 billion deposit created a compounding effect.

Co-Chair Stedman remarked that the department had been asked to evaluate the outcome of a smaller unfunded liability. He remarked that it would enable a lower contribution from the state to the municipalities.

Mr. Desai agreed, and stated that the presentation would show calculations of projections. He pointed to slide 7, "Funded Status -HealthCare (\$000's)."

Senator Wielechowski requested a brief historical rational for why health care and pension were separate entities.

Mr. Desai replied that the defined benefit was considered a guaranteed benefit.

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EMILY RICCI, CHIEF HEALTH ADMINISTRATOR, DEPARTMENT OF ADMINISTRATION, furthered that she could not speak specifically to the accounting, but stated that the division focused on identifying ways to offer the same set of benefits at lower prices.

Mr. Desai discussed slide 8, "Funded Ratio -History (Based on Actuarial Valuation Reports)." noted the "dive" that began in 2009.

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Mr. Desai looked at slide 9, "Unfunded Actuarial Liability -PERS / TRS (\$000's)." He looked at 2013, which showed the highest unfunded liability, but noted that the current status was under \$1 billion.

Mr. Desai addressed slide 10, "FY 2023 Employer Contribution Rates (with and without Health Plan Normal Cost)."

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Co-Chair Stedman queried the normal cost, and request that acronyms not be used in the presentation.

Mr. Desai replied that the normal cost was for the year where employees had accrued benefits. He stated that the cost was the additional cost up to the last deviation date.

Co-Chair Stedman surmised that the normal cost was for the annual year of service.

Mr. Desai replied that normal cost required an accrual of benefits.

Co-Chair Stedman remarked that there should be an addition to include all payroll.

Mr. Desai looked at line 1, which showed a total payroll for the retirement fund.

Senator Wielechowski felt that public employees and teachers expected their pensions and health care to be paid. He stressed that just because one fund was over-funded, does not mean that another fund should be cut.

[9:40:04 AM](#)

Co-Chair Stedman stated that the question was one of the main points of the meeting.

Mr. Morley stated that there would be a slide to address that concern.

Mr. Desai pointed to slide 11, "Additional State Contributions - Projected (Buck -Presented to the ARM Board at October 2021 Meeting)." He said that based o Oct.2021 the numbers of projected contributions were expected to be a total of \$1.85 billion.

Mr. Desai discussed slide 12, "Health Care Trusts":

Funded Levels with and without normal cost contributions

Buck has determined that the PERS and TRS health trusts would have to suffer the following investment losses in FY 2022 on the FAIR value of assets to return to 100 percent funded levels at June 30, 2022:

PERS:-19.9 percent

TRS:-25.5 percent

The PERS and TRS health trusts would have to suffer the following investment losses in FY 2022 on the ACTUARIAL value of assets to return to 100 percent funded levels at June 30, 2022:

PERS:-86 percent

TRS:-115 percent

Co-Chair Stedman asked about stress testing and simulations on returns. He thought that returns had to regress to the mean. He

[9:45:08 AM](#)

Mr. Worley stated that the impact of the fair value of assets had been discussed by the board. He spoke of losses and smoothing reflected in different scenarios.

Co-Chair Stedman offered that the committee had had its own projections run. He wondered whether the board used the Monte Carlo simulation in their

Mr. Worley deferred to Mr. Kershner.

Mr. Kershner replied that Monte Carlo simulation had not been run as it would offer numerous randomly generated return numbers. He spoke of years of higher than expected claims and the percentage funding of the trusts. that

Senator Wielechowski argued that the pensions and the healthcare should be funded equally. He asked whether actuaries in the 90s had advised the state to underfund pensions.

[9:50:01 AM](#)

Mr. Worley replied that he could not speak to practices in the 1990s. He elaborated on the current contributions to the healthcare and pension funds.

Co-Chair Stedman recalled that the data at the time (1990) had shown that. He noted that no matter what the funding rations was it made no difference on the receiving of retirement checks and healthcare benefits. He said that the work of the committee was to ensure proper funding.

Co-Chair Bishop reiterated that a Monte Carlo scenario had not been run.

Senator Wilson asked whether the plans were audited by two different firms.

Co-Chair Stedman asked why there were two actuaries doing the work.

Mr. Worley explained the work of the two actuaries.

Co-Chair Stedman understood that the extra review had been established to minimize the potential of an actuarial mistake.

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Mr. Worley added that Alaska statute required a full audit every four years.

Ms. Ricci interjected that detail and accuracy had improved since the 1990s.

Co-Chair Bishop asked whether the new data be a contributing factor for those who were 65 years old and

older that were not on Medicaid primary to help alleviate the cost.

Ms. Ricci replied that there was an attempt to be more precise, particularly in the age spectrum.

Mr. Desai addressed slide 13, "Additional State Contributions -History."

[10:00:12 AM](#)

Mr. Desai looked at slide 14, "Historical Rate of Return and Funded Ratio."

Co-Chair Stedman felt that the funding ratios should be "taken with a grain of salt."

Senator Wilson wondered whether health care utilization rates factored into costs in ongoing years.

Ms. Ricci replied that the upswing was not spiking, and returning to previous levels.

[10:05:46 AM](#)

Mr. Desai discussed slide 15, "SFC Request -Infusion into the PERS DB Pension Trust."

Co-Chair Stedman stressed the committee should see the benefit of the infusion, especially to eliminate the unfunded liability.

Mr. Morley replied that the results were only for the additional state contribution.

Mr. Kershner explained the different scenarios.

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Co-Chair Stedman requested a response specifically addressing the net cash flow.

Mr. Morley agreed to provide that information.

Co-Chair Stedman asked that there be efforts to "refine the numeric." He hoped to examine all avenues in order to lower the forward expenditures.

Senator Wielechowski agreed.

Mr. Desai displayed slide 16, "Additional Infusion into the DB Pension Trust Fund -PERS":

Source: Buck, October 2021 ARMB Meeting Presentation

NOTES:

In years that the PERS total employer contribution rate is 22 percent or higher -

1. State-as-an-employer contributes the total contribution rate
2. Non-State employers contribute 22 percent (capped rate)
3. Additional state contributions are greater than zero

In years that the PERS total employer contribution rate is less than 22 percent -

1. State-as-an-employer contributes the total contribution rate
2. Non-State employers contribute the total contribution rate
3. Additional state contributions are zero

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Co-Chair Stedman surmised that the goal was to eliminate the 22 percent.

Mr. Desai agreed.

Mr. Desai discussed slide 17, "SFC Request -Infusion into the TRS DB Pension Trust."

Mr. Desai pointed to slide 18, "FY2023 Contribution Rates - Defined Benefit Plans."

Mr. Desai looked at slide 19, "FY2023 Contribution Rates - Defined Contribution Plans."

Mr. Desai displayed slide 20, "Contribution Rates - History."

Co-Chair Stedman felt that good news could occur in the future.

Mr. Desai agreed.

Mr. Desai discussed slide 21, "Projected Pension Benefit Recipients."

Mr. Desai pointed to slide 22, "Projected Pension Benefits Payment (\$000's)."

[10:20:55 AM](#)

Co-Chair Stedman asked why the "tail was so long."

Mr. Desai replied that last suspected payment would be in the next century.

Co-Chair Stedman queried the year of the last suspected payment.

Ms. Desai replied that it would be in eighty years, in 2102.

Co-Chair Bishop noted that the total payments in 2023 to retirees was \$1.58 billion.

Mr. Desai agreed.

Co-Chair Bishop noted that the money goes directly into Alaska's economy.

Mr. Desai displayed slide 23, "Employers and Additional State Contributions Process Timeline."

Mr. Desai discussed slide 24, "An Employer Group Waiver Plan (EGWP) Subsidy."

Ms. Ricci explained that the program was one of the first programs implemented by the division working collaboratively with Retiree Stakeholder Group.

Senator Wielechowski asked for a brief explanation of the addition of preventative care.

Ms. Ricci stated that it was added in 2022, and included the types of screenings that were regularly available to most employee plan members.

Senator Wielechowski wondered whether colonoscopies was eligible in the preventive care.

Ms. Ricci replied in the affirmative.

[10:26:28 AM](#)

Ms. Ricci pointed to slide 25, "Health Care Cost Trend Rates."

Co-Chair Stedman asked about whether there were concerns with accounting principles.

Mr. Kershner replied that there was no choice on the accounting because there was a requirement that the state measures the fair value of assets.

Co-Chair Stedman recalled that there was a time when the actuarial return was higher than the market,

Co-Chair Bishop hoped to have the conversation in a prospective context.

Mr. Desai thanked the committee.

Co-Chair Stedman discussed the committee schedule.

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ADJOURNMENT

[10:35:20 AM](#)

The meeting was adjourned at 10:35 a.m.