

HOUSE FINANCE COMMITTEE  
February 15, 2023  
1:33 p.m.

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CALL TO ORDER

Co-Chair Johnson called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair  
Representative Neal Foster, Co-Chair  
Representative DeLena Johnson, Co-Chair  
Representative Julie Coulombe  
Representative Mike Cronk  
Representative Alyse Galvin  
Representative Sara Hannan  
Representative Andy Josephson  
Representative Dan Ortiz  
Representative Will Stapp  
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Ajay Desai, Director, Division of Retirement and Benefits, Department of Administration; Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits, Department of Administration; Betsy Wood, Chief Health Administrator, Division of Retirement and Benefits, Department of Administration; Pam Leary, Director, Treasury Division, Department of Revenue; Bob Williams, Chair, Alaska Retirement Management Board; Alysia Jones, Liaison Officer, Alaska Retirement Management Board.

SUMMARY

OVERVIEW: FUNDING STATUS OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM AND TEACHERS' RETIREMENT SYSTEM

Co-Chair Johnson reviewed the meeting agenda.

^OVERVIEW: FUNDING STATUS OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM AND TEACHERS' RETIREMENT SYSTEM

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PAM LEARY, DIRECTOR, TREASURY DIVISION, DEPARTMENT OF REVENUE, introduced herself and the PowerPoint presentation "Alaska Retirement Board Overview" dated February 15, 2023 (copy on file). She continued to slide 2 and relayed that she would be presenting on the background and mission of the Alaska Retirement Management Board (ARMB), its organizational structure, board duties and statutes, and offer an overview of the board's meetings and decision making process.

Ms. Leary continued to slide 3 and detailed the background of the ARMB board. The board was established by the legislature on October 1, 2005, as a fiduciary of the assets of the state's retirement systems. It replaced the Alaska State Pension Investment Board (ASPIB) which had been created by the legislature in 1992. The board's primary mission was to serve as a trustee of the assets of the state retirement systems. There were 14 defined benefit funds that were categorized within the four main systems: Public Employees' Retirement Trust Funds (PERS), Teachers' Retirement Trust Funds (TRS), Judicial Retirement Trust Fund (JRS), and National Guard and Naval Militia Retirement Trust Fund (NGNMR). There were also four participant-directed funds, including the PERS defined contribution plan, the TERS contribution plan, the state supplemental benefit system, and the deferred compensation plan. She turned the presentation over to her colleague.

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BOB WILLIAMS, CHAIR, ALASKA RETIREMENT MANAGEMENT BOARD, shared that he was an educator in the Mat-Su Valley for close to 30 years. He continued on slide 4 which detailed the composition of the board. He explained that there were nine members total, consisting of the commissioners of Administration and Revenue and seven members appointed by the governor: two PERS members, two TRS members, one finance officer, and two public members. There was a nomination process for the PERS and TRS seats in which the bargaining units would submit a list of four nominees to

the governor for consideration. For PERS, the nominating entity was the Alaska American Foundation of Labor and Congress of Industrial Organizations (AFL-CIO) and the TRS seat nominations were submitted by the Alaska chapter of the National Education Association (NEA). The finance officer seat and public seats followed the standard boards and commissions application process. All trustees other than the commissioners served staggered four-year terms with potential for reappointment. He advanced to slide 5, which included a list of the current board members.

Co-Chair Johnson welcomed Mr. Williams and noted she recognized him from Palmer.

Representative Hannan commented that not only was Mr. Williams a teacher in Palmer, but he was a former Alaska Teacher of the Year and National Teacher of the Year. She shared that he was a renowned and revered teacher.

Co-Chair Johnson added that Mr. Williams' family was also accomplished and she could spend the entire meeting talking about them.

Mr. Williams explained that he was the Alaska Teacher of the Year in 2009 and although he was not the National Teacher of the Year, he was inducted into the National Teachers Hall of Fame and also received an award for excellence in mathematics teaching.

Mr. Williams turned the presentation back over to Ms. Leary.

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Ms. Leary continued on slide 6, which detailed the organizational structure of ARMB. The board was established within the Department of Revenue (DOR), but it also worked with the Department of Administration (DOA) and the Division of Retirement and Benefits (DRB). The assets were managed under the treasury division, which supplied staff to the board. The liabilities were handled by DRB.

Ms. Leary began with the bottom row of the assets section of the organizational chart, which showed the key advisors who worked with the board. The first advisor was the external auditor, which was Klynveld Peat Marwick Goerdeler (KPMG). She relayed that KPMG was the auditor for the

treasury division and DRB and was responsible for measuring and validating financial statements and managing the plan. The auditor worked with the audit committee in outlining the annual audit plan.

Ms. Leary continued to the next entity, which was the investment consultant. She indicated that Callan served as the performance measurement and advisory for the board and provided objective and third party advice on investment management. Callan currently served as both the general consultant and real assets consultant. She continued to the Investment Advisory Council (IAC), which was responsible for reviewing investments made by the board and making recommendations concerning the board's investment policies, investment strategies, and investment procedures. Per statute, the council was permitted to have three to five members and there were currently three.

Ms. Leary continued on to explain the review actuary, whose role was to review and certify the results of all actuarial assumptions prepared by the primary actuary, which was currently Buck Consultants. The audit actuary was an independent auditor of the state's actuary. The work of the audit actuary occurred not less than once every four years.

Ms. Leary moved to the liabilities under DRB. She reiterated that under DRB, the external auditor was KPMG and the primary actuary was Buck. The board coordinated with DRB to conduct an annual actuarial evaluation of each retirement system, which included analyses of system assets, proving liabilities, and determining funding ratios. The entities also collaborated on the experience analysis of the retirement system which occurred not less than once every four years. The third-party administrators such as health care providers would be discussed later in the presentation.

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Ms. Leary advanced to slide 7, which was a list of the key advisors to the board. She continued to slide 8, which summarized the duties of the board. The first duty was to establish investment policies, which was important because it allowed the board to seek its long-term total return while balancing risk balances, cash flows, and liquidities. The board also established its asset allocation annually based on a review of items like the capital markets and

time horizons. Providing investment options was important for defined contribution plans as participants were responsible for their own investment decisions. She explained that ARMB also sought to provide participants with an array of investment choices across a range of asset classes, risk levels, and investment strategies to enable participants to create portfolios that addressed their individual needs. The board also had control procedures in place to monitor compliance with investment policies and objectives in order to oversee the performance of the plans.

Ms. Leary shared that Callan provided the board with a quarterly performance report including information on rates of return, assets, sub-asset classes, total investments of the fund during the past quarter as well as one-year, three-year, and five-year periods. Callan also provided performance comparisons to benchmarks and performance to other similar entities. The board collaborated with the plan administrator to hold an annual actuarial evaluation of each retirement system, determine system assets, accrued liabilities, and funding ratios, and to certify to the appropriate budgetary authority of each employer in the system. The reports were prepared annually by the primary actuary and reviewed and analyzed by the review actuary. Finally, the board would annually certify to each employer in the system the contribution rates for normal costs for liquidating any past service liability.

Ms. Leary moved to slide 9, which listed the statutes that correlated with the board's duties. She thought that most of the committee members would already be aware of the statutes. She highlighted as especially important the duty to manage and invest assets in a manner that was sufficient to meet the liabilities and pension obligations of the systems. The duty was found under AS 37.10.210. She added that AS 37.10.071 included another important duty, which was to apply the Prudent Investor Rule (PIR) and act in the sole financial best interest of the beneficiaries.

Ms. Leary moved to slide 10, which expanded upon the PIR and the statutes that governed it. Under the rule, the fiduciaries should consider the purposes and requirements of the trust, ensure that the risk and return objectives were reasonably suited to the trust, evaluate investment decisions in the context of the portfolio as a whole, diversify, delegate prudently, and incur reasonable and

appropriate costs. She turned the presentation over to her colleague.

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ALYSIA JONES, LIAISON OFFICER, ALASKA RETIREMENT MANAGEMENT BOARD, offered some of her work history. She had been with the board for about two and a half years. She continued on slide 11 of the presentation, which was an overview of the ARMB meetings. The board met quarterly to accomplish its fiduciary responsibilities and meetings were typically two days in length and included presentations from the key advisors, staff members, legal counsel, committee chairs, and investment managers.

Co-Chair Johnson suggested that Ms. Jones summarize her notes rather than reading the notes verbatim.

Representative Josephson proposed that the key features of each paragraph be addressed.

Ms. Jones continued on slide 11. There were processes that occurred during actuarial valuations that governed the review of the draft reports and the final adoption. There were also updates at every meeting on performance measurements and there were a variety of focuses on specific types of assets. She explained that DRB would cover experience analysis. She added that there were some items that happened annually and some that occurred every few years, which she considered to be checks and balances. She noted that special meetings could be called in between scheduled meetings to address pressing business.

Ms. Jones continued on slide 12, which was an overview of the board's committees. There were currently four standing committees which were not authorized to act on behalf of the board, but provided in-depth reviews, research, and recommendations to the board. The slide showed the key roles of each committee, which were the audit committee, the defined contribution plan committee, the actuarial committee, and the operations committee.

Ms. Jones moved to slide 13, which was a high-level overview of the board's decision making process. She indicated that the process was a multi-phase approach involving input from key advisors, interested parties, and plan members. The input would then be funneled to the

appropriate committee for consideration and the committee might request additional information or perspectives. The committee would ultimately make a recommendation to the board.

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Ms. Leary concluded the presentation on slide 14. She noted there were many resources on the treasury's website and the board's website. There was an appendix on slide 16 which showed an example of the amount of time it took to consider all of the variables in the valuations.

Co-Chair Edgmon noted that he had recently gone to a national conference and attended a seminar on pensions. He thought it provided interesting information on the way in which each state managed its pension program. It seemed to him that there were many variables in terms of analysis and daily oversight within the board. He noted there was a debate on defined benefits plans and whether it was a smart investment for the state. The central message from the seminar was that a state needed to closely monitor its defined benefit plan if it elected to offer the plan. Adjustments would constantly need to be made due to fluctuations in the market. He asked whether the tools needed to manage a defined benefit plan were already in existence in the state. He understood the state was already closely monitoring its accounts. He wondered if the board already had the ability to oversee a defined benefits plan if it were to be created.

Mr. Williams responded that defined benefits plans were in place in the past and managed by the board. There was some new interest in the plans and DRB was managing the potential transition process. He was confident that the board, DOR, and DRB could accommodate any changes and manage the assets that the entities were bound to as fiduciaries.

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Representative Josephson noted that in 2022, the legislature appropriated about \$125 million to the board. He asked how the figure was determined and whether it was based on the meetings of prior years.

Mr. Williams responded that the upcoming presentation by DRB would offer more information on the question. The presentation would show a history of the state's contributions and projections for future contributions.

Representative Josephson asked if Mr. Williams was empowered to distribute monies between health accounts and retirement accounts.

Mr. Williams responded that in 2006, the health and pension accounts were separated. The board could not pull money from one account and put it in the other.

Representative Josephson noted that the health portion of the trust was significantly overfunded. He understood that the legislature as a whole was in disbelief that the trust could be overfunded, and it insisted upon giving resources to the board despite resources not being requested. He thought that the health trust was damaged in 2006 and there was caution around medical defined benefit plans. It was an accepted fact amongst the legislature that medical plans were generally underfunded. He asked how the board arrived at the 130 percent funded figure.

Mr. Williams responded that he had a copy of the board's meeting packet from October 11, 2022, which was available on the board's website. He explained that the packet described some of the medical plan funding issues. In 2013, the trust funds for PERS were funded at 70 percent and TRS accounts were 60 percent funded. He had been asked before how the plans were now funded at over 100 percent. The board had conducted experience studies and the costs were different than expected. As an example, there was a new prescription contract that reduced costs. In 2020, the plans were funded at 113 percent for PERS and 121 percent for TRS. The board had zeroed out the costs in 2021 and 2022 after examining the projections and noting that the accounts were scheduled to be overfunded. He understood that there had been a recent loss of about 6 percent. Despite losses, the models all predicted that the plans would be overfunded.

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Representative Ortiz asked for more details about a lawsuit involving Mercer, the board's former actuary.

Mr. Williams responded that Mercer gave the board false numbers and lied about doing so in fear of losing the contract. He relayed that Mercer was required to pay a \$500 million settlement. When he joined the board in 2017, he was confused about the seemingly redundant actuarial process; however, he understood the reasoning after he learned about the Mercer situation.

Representative Ortiz asked if he understood correctly that the main motivation for moving away from defined benefits plans was a flawed actuarial process.

Mr. Williams responded that there were a number of contributing factors. If health care costs were higher than the board's assumptions and if the returns were lower than the board's 7.25 percent target, then the plan would be impacted. He was not comfortable providing all of the rationale behind the change and deferred to Ms. Leary.

Ms. Leary agreed that the Mercer case was impactful. She did not know the correlation between the case and the evolution of the defined benefit plans to the defined contribution plans.

Representative Josephson noted that Ms. Leary's presentation reported that the average payout of PERS and TRS was 9 percent over the past 38 years, which delighted him. He understood that the upcoming presentation reported that the returns were closer to 7.8 percent over 30 years. He asked if the discrepancy was important.

Ms. Leary responded that it was important. There were higher interest rates in the earlier years of the plan and the plans therefore enjoyed higher returns during the period.

Mr. Williams added that past performance did not necessarily predict future performance. Future returns might not be the same as in the past thirty years. The board's goal was to examine the available information and make the best estimate possible.

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Representative Galvin noted that Mr. Williams had relayed there was uncertainty in future predictions. She wondered

if future predictions could be more positive than anticipated.

Mr. Williams responded that the prior two years had illustrated the unpredictable nature of the returns and had ranged from 30 percent returns to negative 6 percent returns. The challenge was how to predict an average.

Representative Cronk highlighted that the returns could also be negative.

Mr. Williams responded that during the years 2000 through 2009 there were relatively flat returns although the board had predicted around a 7 percent return rate for the decade. He agreed that there were times when the market varied greatly from the predictions.

Co-Chair Johnson thanked the presenters.

Co-Chair Johnson noted that the next item on the agenda was an overview from the DRB.

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AJAY DESAI, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, introduced himself and the PowerPoint presentation, "State of Alaska; Department of Administration, Division of Retirement and Benefits; Presentation to the House Finance Committee," dated February 15, 2023 (copy on file). He introduced his colleagues.

Mr. Desai continued to slide 2, which showed the organizational structure of PERS and TRS. It illustrated the way in which the Department of Revenue (DOR) and the Department of Administration (DOA) worked in collaboration with ARMB. The board's primary mission was to serve as a trustee of the assets of the state's retirement systems, annuity plans, deferred compensation plans, and the retiree trust. He advanced to slide 3 which showed the membership under both the defined benefit and defined contribution plans. There were about 104,000 members under both systems. He relayed that about 27 percent of active members were under defined benefit plans and about 73 percent of active members were under defined contribution plans.

Representative Hannan asked about the members referred to as "inactive vested" on slide 3. She understood that the members were not currently working for the state but had left money invested in state plans.

Mr. Desai responded in the affirmative.

Representative Hannan asked if there was data that showed how many people participated in the defined contribution plan and then left state employment and withdrew their money from state plans.

Mr. Desai replied that he would supply the information.

Representative Hannan commented that it did not seem that there were many employees currently working. She was interested in seeing the data on individuals who had left state employment.

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Representative Ortiz asked about the Tier I category for TRS. He asked what would cause a person to be part of the 25 inactive and vested Tier 1 employees. He wondered if the employees were not drawing benefits for a particular reason.

Mr. Desai responded that Representative Ortiz was correct. There were 25 Tier I employees who had left the system but still could access benefits. There were 131 members still active under Tier I. It was possible that the 25 employees had retired prior to retirement age and would therefore receive a reduced benefits. He suggested that the employees might be waiting to reach retirement age to claim the benefits.

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KEVIN WORLEY, CHIEF FINANCIAL OFFICER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, continued to slide 4, which showed the rates of returns, the returns on assets, and the impacts on the division's evaluation reports. The division's actuary, Buck Global, worked with the board's actuary to determine the actuarial rate of return. The determination was made every four years based on an experience study reviewed by the board's actuary. There had been a reduction in the assumed

actuarial earnings rate over the prior four years from 7.38 percent to 7.25 percent. The data for 2022 was listed as "draft" on the slide because the numbers had yet to be finalized. He shared that the data was scheduled to be finalized by June of 2023. Based on the fair market value of the assets, the PERS and TRS account values had experienced a 30 percent gain in 2021 and a negative 6 percent loss in 2022. The slide also showed the actuarial value of assets based on a five-year smoothing method of recognizing investment gains and losses that were not subject to the short-term fluctuations of the market. The five-year rate of return was 11.6 percent in 2021 and 8.7 percent in 2022.

Co-Chair Johnson asked how the 2023 percentages were faring.

Mr. Worley had to defer the question.

Co-Chair Johnson suggested that Mr. Worley provide the numbers at a later date.

Representative Hannan asked if the data on the chart was based on the calendar year or the fiscal year.

Mr. Worley responded that the numbers were based on the fiscal year.

Mr. Worley continued on slide 5 which depicted the valuation results in 2020 and 2021 and the draft results for 2022. The total for the PERS defined benefit plan was 79.3 percent in 2020, 85.5 percent in 2021, and 87.7 percent in 2022. The total for the TRS defined benefit plan was 86.6 percent in 2020, 92.6 percent in 2021, and 93.1 percent in 2022. He understood it was counterintuitive considering the negative 6 percent drop in 2021 to 2022; however, he reminded the committee that the numbers were derived using a smoothing method as opposed to using the fair value of assets. The fair values of the assets were also represented on the chart and the "wild swings" were apparent in the numbers. He emphasized that DRB was trying to minimize the short term swings by using the actuarial value of assets.

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Representative Josephson asked if there was a term called the "green zone" for performances above 80 percent.

Mr. Worley replied that the topic would be covered in a subsequent slide. He noted that the presentation was combined and included information on both the health care and the pension accounts. The division conducted a funding calculation for pensions separate from the calculation for health care.

Representative Coulombe asked Mr. Worley to provide a definition of line C of the chart: "unfunded actuarial accrued liability based on actuarial value of assets."

Mr. Worley explained that the actuarial accrued liability was the liability for pension and for health care. It considered all future streams of payments for all eligible parties as well as present value up to June 30, 2022. The actuarial value of assets referred to the five-year smoothed asset value in which gains and losses over a five-year period were incorporated into the data. The difference between what the division owed as compared to what was readily available to pay for benefits was referred to as the unfunded liability. He would go through some additional modeling scenarios over the next few slides.

Mr. Desai added that as an example, the actuarial accrued liability for PERS was about \$22 billion; however, if all plans were to be shut down at once, the division would need to materialize \$22 billion to pay out all benefits. Currently, there was a shortfall of about \$2.8 billion. The unfunded liability was the shortfall that would occur if the accounts were immediately shut down.

Co-Chair Johnson asked where the information was on slide 5.

Mr. Desai responded that it was under the PERS table and the 2022 draft numbers. The actuarial accrued liability was about \$22.7 billion but with the shortfall, the actuarial value of assets was about \$19.9 billion. Each year, the purpose of the valuation was to determine the health of the plans and to project when the plans would be 100 percent funded. He relayed that both plans were projected to be funded at 100 percent by 2039.

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Representative Josephson asked if the \$22.75 billion actuarial accrued liability for PERS in 2022 was already "booked." He understood that the money was bound to grow; even if it grew poorly, it would still grow at 5 percent. He assumed that the inevitable growth was not reflected on the chart.

Mr. Desai responded that if all accounts were immediately frozen and the plans were shut down, the division would not be able to pay out the entirety of the benefits because there was a \$2.8 billion shortfall.

Co-Chair Johnson asked what information was represented by line F of the chart [unfunded actuarial accrued liability based on fair value of assets].

Mr. Desai responded that line F represented the liability based on market value rather than actuarial value. He relayed that the actuarial value used the five-year smoothing method.

Representative Cronk asked for the meaning of two acronyms that appeared on the slide: "AVA" and "FVA."

Mr. Worley responded that AVA was the actuarial value of assets and FVA was the fair value of assets.

Representative Hannan understood that the \$22.75 billion liability would be required if every member received 100 percent of the benefits owed. She commented that many beneficiaries passed away prior to drawing 100 percent of their benefits. She asked what percentage was considered a healthy funding ratio considering that most individuals would not draw 100 percent of the benefits.

Mr. Desai responded that the state plans were governed by state statutes. Whether private or public sector, the target was to fund plans at 100 percent. The guidelines for the health of a plan were set by the state for PERS and TRS. There was also a federal guideline that stated that any plan funded at 80 percent and above was considered to be within the green zone. If a plan fell below a particular funding threshold, it would be considered to be within the red zone and the governing body would be required to submit a report with a proposed strategy to bring the plan back into a healthy zone.

Co-Chair Johnson asked if there was a reason why the numbers for PERS and TRS were different.

Mr. Worley continued that in 2015, \$1 billion was invested into PERS and \$2 billion was invested into TRS. He explained that there were additional graphs later on in the presentation that would go into the differences in detail.

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Mr. Worley continued to slide 6 and explained that pensions were funded separately from health care. The actuaries presented separate rates for each trust in an annual report to ARMB. Although the rate often appeared as one number, it was broken out between the pension and health care trusts. He highlighted line D on the chart, which showed the funded ratio based on actuarial value of assets. The PERS account was funded at 63.6 percent and increased to 68.1 percent in 2022, and TRS was at 75 percent in 2020 and increased to 78.2 percent in 2022. He reiterated that the rates were based on the funding, the funding patterns, and the actuarial assumptions. Line C was the unfunded actuarial liability. Of the \$2.8 billion unfunded liability in 2022, \$5.1 billion was the actual unfunded liability for the PERS pension plan and \$1.7 billion was the actual unfunded liability for TRS. He reiterated that health care was overfunded which could be seen on the next slide.

Representative Coulombe asked if the pension alone was withdrawn, would the account be in the yellow zone.

Mr. Worley responded that the funding percentage at a particular point in time was one of the factors examined when determining the funded status of a plan. The division continued to fund the plans based on what the board asked for annually. Although there were some concerns when looking at the funding level percentage, other factors indicated that the division was moving in the right direction.

Representative Cronk appreciated Co-Chair Edgmon's earlier comments on pensions. He valued the work of DRB but without the infusion of cash from the state, the system would be "backwards."

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Representative Ortiz asked why the \$3 billion cash infusions [in 2014 from HB 119] were needed at the particular time it was.

Mr. Worley would follow up with the information. He understood that it was partially based on the way in which the board was moving forward with the additional state contribution using a new funding pattern. It would have resulted in about \$1 billion in additional contributions being deposited into the plan. There was a discussion between the administration and the legislature on the use of the funds which resulted in a change in the way in which the actuarial evaluations would be prepared.

Representative Ortiz understood that there was a different funding pattern following the \$3 billion contribution. He asked if the change related to the need of the \$3 billion. He wondered why the state needed such a significant cash infusion in the first place. There was a general concern that if the state got into defined benefits plans again, the same problems would occur. He asked why the state needed the funds at the time.

Mr. Worley responded that the \$3 billion contribution occurred about 10 years after the defined benefit plan had closed. The funding pattern at the time was called level dollars, which meant that a level dollar would be contributed to the plan each fiscal year. At the time, the dollar amount was just short of \$1 billion. The \$3 billion contribution also caused a change in statute that changed the funding pattern to one based on pay. The change in funding pattern resulted in less money than the state was required to contribute at the time.

Representative Ortiz asked Co-Chair Johnson if the issue would be addressed later on. It seemed to him that the legislature needed to be educated on the concerns about returning to a defined benefit plan.

Co-Chair Johnson noted that it was a big issue and it might be something that the legislature continued to work on. She had a high level of personal familiarity with the history of the plan and was not always certain what was common knowledge amongst other legislators. She wanted to allow time for committee members to get their questions answered.

She suggested that the testifiers return to the committee at a later date if there were still remaining questions.

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Mr. Worley continued on slide 7 which detailed the defined benefit health care trust fund. The unfunded accrued liability for both PERS and TRS for 2022 was in overfunded status. He relayed that PERS was funded at 134.9 percent and TRS was funded at 140.7 percent.

Mr. Desai continued on slide 8, which showed the funded ratio for PERS broken down by the pension and health care systems. The chart showed the funding ratios over time for both pension and health care from 2006 through 2022. He advanced to slide 9 which showed the same information for TRS. He advanced to slide 10 which showed the combined PERS and TRS funded ratios from 2001 through 2022. In 2010, the funding percentages had dropped significantly, but the percentages dramatically increased by 2014 and had continued to increase. In 2022, PERS was funded at 87.7 percent and TRS was funded at 93.1 percent.

Mr. Desai moved to slide 11 depicting the correlation between the actual rate of return and the funded ratio. The chart showed how funding patterns played out from the years 2000 through 2022. In 2001, the expected return was about 8.25 percent, but the actual rate of return was negative 5.37 percent for PERS and negative 5.44 percent for TRS. The impact of the discrepancy could be seen in the following years. The PERS and TRS accounts also saw negative returns in 2022; however, there were significantly higher rates of return in 2021. Due to the five-year smoothing process, the funding ratios were able to remain roughly the same.

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Mr. Desai moved to slide 12, which showed a breakdown of the unfunded actuarial liability for PERS. The blue color showed the unfunded liability for the PERS pension system and the orange color showed the unfunded liability for the PERS health care system. On the slide, positive dollar amounts meant a poor outcome and negative amounts meant a positive outcome because a smaller amount of unfunded liability was advantageous. He moved to slide 13 and explained that it showed the same information for TRS.

Mr. Desai moved to slide 14 which showed the unfunded actuarial liability for PERS and TRS combined. There was a significantly lower unfunded liability in recent years which would help the plans hit 100 percent funding by the year 2039.

Mr. Desai advanced to slide 15 which depicted the additional state contributions historically from 2006 up until 2022. The state had made contributions exceeding the 22 percent goal for PERS and 12.56 percent for TRS. The total state contribution from 2006 until 2022 was \$8.2 billion. He highlighted that \$1 billion went into PERS in 2015 and \$2 billion went into TRS, which added up to the aforementioned \$3 billion cash infusion.

Mr. Desai continued to slide 16 which described the projected state contributions from 2024 through 2039 based on the most recent valuation. In order to meet the goal of 100 percent funding by 2039, the state would continue contributing to both systems an amount that would add up to \$4.1 billion in total. He briefly returned to slide 15 and explained that the \$124 million was the amount that the state would contribute to both plans combined in 2023.

Representative Cronk asked if the state funding was over and above what the state was required to contribute.

Mr. Desai responded in the affirmative. The cost share statute established in 2008 stated that PERS employers would contribute up to 22 percent; however, SB 55 was passed a few years prior and the state was now contributing at an actuarial rate rather than at 22 percent. Other employers still paid at 22 percent, but the state came in to close the gap in contributions. The state paid its own employers at the actuarial rate determined by the actuary in the particular valuation year.

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Mr. Worley continued on slide 17. He explained that in September of 2022, ARMB adopted the FY 24 rates in order to use the rates in computations for the state budget as well as for the adoption of the additional state contributions. The first column on the slide was a preliminary prediction presented to the board. The preliminary cost for PERS totally payroll in FY 24 was 2.14 percent for the normal

cost of the defined benefit pension plan, 16.33 percent for the past service cost, 2.5 percent for the normal cost of the defined benefit health plan, and 6.63 percent for the summary of the defined contributions. The total rate presented to the board was 27.6 percent.

Mr. Worley continued that in FY 23, the board adopted a 0 percent contribution rate for the health care trust for the first time due to overfunding. The choice came about during a discussion regarding the National Guard, which was also overfunded. There were some conflicts in statute that might have prevented the 0 percent contribution rate. The board's attorney gave a presentation to the board to inform it that it would need to adopt a reasonable rate for contributions and for the plans. The fiduciaries examined the funded status of the health care trust and created models based on making the normal cost contribution annually through 2039.

Mr. Worley continued to slide 18 to show the funded levels of the health care trusts. If the board adopted a normal contribution rate, funding levels would be over 100 percent from 2023 through 2039. The funding levels for PERS were trending towards 200 percent, which would mean that there were twice as many assets than were needed to pay for liabilities. The board therefore decided to implement a 0 percent contribution rate. The slide showed modeling of projected percentages without the normal cost contributions [0 percent], which showed a trend toward 192.4 percent by 2039. He emphasized that even without a normal cost contribution, the trust was nowhere near dipping below 100 percent funding. He relayed that the same rationale applied to TRS and it would also be funded far over 100 percent.

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Representative Josephson asked for more information on the \$8.2 billion in total state contributions on slide 15. He thought that the figure was not inclusive of additional state contributions, but instead was included as part of the regular 22 percent rate for non-state employer contributions as identified on slide 17. He asked if his understanding was correct.

Mr. Worley asked for clarification.

Representative Josephson asked if the \$8.2 billion figure on slide 15 was the same as the additional state contributions detailed on slide 17.

Mr. Worley responded that it was the same idea, however the rates on slide 17 only referred to FY 24. The predictions were often different than what the board actually requested.

Representative Josephson asked about the \$60.9 million PERS contribution on slide 17 that the board had indicated was unnecessary. He asked whether the state could intervene and decide to fund the PERS accounts more generously. He wondered if the board could still ask for \$60.9 million for PERS despite not needing it.

Mr. Worley responded in the negative. The board could not ask for the funding because it adopted a particular contribution rate to which it was required to adhere. Since the pension and health care trusts were separated, the rates would also be separated. The board could not divert money from the health care side to pension side.

Mr. Desai commented on the difference between the information on slide 15 and on slide 17. He noted that on slide 16, the projected PERS and TERS additional state contributions for 2024 [\$37.94 million and \$98.76 million respectively] were the same as the numbers on slide 17 regarding additional state contributions for 2024. He added that the legislative body was permitted to provide additional funding for PERS and TRS if it saw fit.

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Co-Chair Edgmon noted the end of the allotted meeting time was drawing near and there were many slides left in the presentation.

Mr. Desai continued on slide 19 detailing FY 24 contribution rates for defined benefit plans. He noted that standard PERS employees were contributing at 6.75 percent, peace officers and firefighters were contributing at 7.5 percent, and school districts were contributing at 9.6 percent. He added that all TRS employees were contributing 8.65 percent towards the plan. Employer rates were 22 percent under PRS and 12.56 percent under TRS. He concluded that the actuarial rate for 2023 was 25.10 percent for PERS

and 25.52 percent for TRS. The gap of 3.1 percent between the 22 percent employer rate and the 25.52 actuarial rate was the additional state contribution for non-state employees.

Mr. Desai moved to slide 20 and explained the FY 24 contribution rates for defined contribution plans. There was a 5 percent employer contribution rate for PERS, a 7 percent employer contribution rate for TRS, and an 8 percent employee contribution rate for both PERS and TRS. He added that 1 percent of PERS contributions went to health care and the retiree major medical plan while about 0.82 percent of TRS contributions went to health care. The Health Reimbursement Account (HRA) received a flat dollar amount from both PERS and TRS based on 3 percent of all PERS and TRS employees' average annual compensation. The remaining employer contributions went towards the defined benefit plans.

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Representative Josephson asked for confirmation if a person were to retire at age 50 and be fully vested with the defined contribution plan, the individual would have to find insurance for 15 years [to reach retirement age of 65] in order to simultaneously remain on the state plan and be eligible for Medicare.

Mr. Desai responded in the affirmative.

Representative Josephson asked whether the 3 percent HRA contribution might provide about three years' worth of payment premiums. He understood that there would be a 12-year gap during which the 50-year old retiree in his example would have no health insurance as the HRA would only cover three years.

Mr. Desai responded that the intent was that if a participant retired before the age of 55 and Medicaid eligibility, the HRA contributions premiums would be held over to pay the premiums for the gap in coverage. If the gap continued, any remaining balance in the HRA would be available for the participant for future years. If there was a shortfall, the participant would have to come up with the payment on their own.

Representative Josephson thought that the HRA was wonderful for a few years, but it was not a reliable source for health care coverage for a retiree.

Mr. Desai responded that the model was adopted in 2006 when the legislature closed the defined benefit plans and opened up defined contribution plans. The existing model under defined benefits was changed and a new model was crafted. It was under the purview of the legislature to change any mechanism related to the contribution rate.

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Mr. Desai continued to slide 22 which included a graph depicting the projected pension benefit for recipients in 2024. Between PERS and TRS, about 54,000 retirees would receive monthly pension payments in 2024. By 2029, the number would increase to about 58,000. The numbers would decline in the years following as it was a closed system.

Mr. Desai moved to slide 23, which showed the same information as slide 22 but included the dollar value. The pension payout in 2024 would be about \$1.6 billion. The highest projected payment would be \$2.1 billion in 2037, then the numbers would begin to decline.

Mr. Desai advanced to slide 24 which detailed the AlaskaCare employer group waiver plan (EGWP). He explained that an EGWP was a group Medicare Part D prescription drug plan option and provided a direct subsidy which allowed it to be considered when calculating other post-employment benefits. The implementation of EGWP in 2018 reduced health care liabilities by \$959 million, which resulted in lower projected liabilities, lower projected contribution rates, and lower projected additional state contributions [\$711 million for PERS, \$248 million for TRS].

Mr. Desai continued on slide 25 which showed that the total amount of savings due to the implementation of EGWP was \$49.5 million in 2019, \$58.3 million in 2020, and \$64.4 million in 2021, and an estimated \$75.7 million for 2022.

Mr. Worley continued on slide 26 and explained that DRB looked at the health care cost trends rates annually. To project future trends, the division would take the current year's costs and increase the costs by 7 percent. The chart on the slide showed the projections through 2050.

Mr. Desai continued to slide 27 and detailed the process to determine the contribution rates of the employers. The process began with examining the 2021 valuation, liabilities, and assets while taking into consideration the actual rate of return to make predictions for the 2022 assets and the projected rate of return. With this information, the FY 24 employer contributions and additional state contributions could be determined. He noted that the remainder of the slide showed the timeline for determinations for the future years.

[3:25:41 PM](#)

Representative Tomaszewski highlighted the 7.79 percent PERS returns and 7.84 percent TRS returns from 2000 through 2022 listed on slide 11. He asked if the returns included the \$8 billion in additional contributions from the state.

Mr. Desai responded that the first column on the slide showed the assumed actuarial earnings rate starting in 2000. He noted that the rate was 8.25 in 2000, changed to 8 percent in 2011, changed again in 2019 to 7.38 percent, and finally changed to 7.25 percent in 2022. The blue and green columns on the slide showed the funding ratios for PERS and TRS, which did have an effect on the cash infusion from the state. Both systems experienced dramatic changes when there were additional state contributions.

Representative Tomaszewski asked if Mr. Desai could supply information on what the actual rate of return would have been without the \$8 billion contribution. He noticed that the additional projected contributions on slide 16 were without "health care normal cost contributions." He wondered if the health care contributions were not needed because health care was already overfunded.

Mr. Desai responded that slide 16 showed the projections of additional state contributions based strictly on the precise point in time in which the valuation was done. The chart showed that even without the normal health care cost contributions, both systems would be well-funded; however, funding levels could change in the following year based on future funding valuations.

Representative Tomaszewski asked if the state would need extra contributions for health care.

Mr. Desai responded that based on the projections, it appeared that the state would not need extra contributions for health care.

Representative Josephson asked where the state stood on plan solvency as compared to other states.

Mr. Worley responded he only had data based on pension plans as there was no cumulative data for health care. There was a 2021 survey in which PERS was ranked 86 out of 129 respondents and TRS was ranked 101 of 129. The ranking was based on based on actuarial accrued assets. Based on the unfunded liability for the pension plan, PERS was ranked 64 of 129 and TRS was 31 of 129. Based on the funded ratio, PERS was ranked 89 of 129 and TRS was ranked 58. He noted that the survey occurred after a lucrative year and more updated information would be released later in the year.

Representative Hannan commented that one of Mr. Williams' teaching strategies was to ask each student to keep a green cup on their desk if they understood the concept of the lesson and replace it with a red cup if they no longer understood the lesson. She assumed that the majority of committee members would have red cups on their desks if they were students of Mr. Williams.

Co-Chair Johnson reviewed the meeting agenda for the following day.

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ADJOURNMENT

[3:33:09 PM](#)

The meeting was adjourned at 3:33 p.m.