

SENATE FINANCE COMMITTEE
February 14, 2023
9:01 a.m.

[9:01:14 AM](#)

CALL TO ORDER

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

MEMBERS PRESENT

Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair

ALSO PRESENT

Pam Leary, Director, Treasury Division, Department of Revenue; Bob Williams, Chair, Alaska Retirement Management Board; Alysia Jones, Alaska Retirement Management Board Liaison Officer, Treasury Division, Department of Revenue; 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, Acting Chief Health Administrator, Division of Retirement and Benefits, Department of Administration.

PRESENT VIA TELECONFERENCE

SUMMARY

PRESENTATION: ALASKA RETIREMENT MANAGEMENT BOARD

PRESENTATION: PERS/TRS UPDATE

Co-Chair Stedman reviewed the agenda. He commented that the committee would consider a comparison of the retirement systems towards the end of the following week.

^PRESENTATION: ALASKA RETIREMENT MANAGEMENT BOARD

9:02:58 AM

PAM LEARY, DIRECTOR, TREASURY DIVISION, DEPARTMENT OF REVENUE, introduced herself and her team. She discussed a PowerPoint presentation entitled "Alaska Retirement Management Board Overview," (copy on file).

Ms. Leary looked at slide 2, "Agenda":

- Background & Mission
- Organizational Structure
- Board Duties & Statutes
- Meetings & Decision-Making Process

9:03:36 AM

Ms. Leary spoke to slide 3, "Background":

- The Alaska Retirement Management Board (ARMB) was established on October 1, 2005, as fiduciary of the assets of the state's retirement systems, replacing the Alaska State Pension Investment Board (ASPIB).
- The board's **primary mission** is to **serve as trustee of the assets of the state retirement systems**:
 - Public Employees' Retirement Trust Funds (PERS)
 - Teachers' Retirement Trust Funds (TRS)
 - Judicial Retirement Trust Fund (JRS)
 - National Guard and Naval Militia Retirement Trust Fund (NGNMR)
 - State Deferred Compensation Plan
 - State Supplemental Benefits System

9:04:38 AM

BOB WILLIAMS, CHAIR, ALASKA RETIREMENT MANAGEMENT BOARD, introduced himself and discussed his background. He had been on the board since 2016.

Mr. Williams referenced slide 4, "Board Composition":

- Nine Members
- Commissioners of Administration & Revenue
- Seven members appointed by the Governor
- Qualify for permanent fund dividend
- Recognized competence in investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis
- Two PERS and two TRS members, each selected from a list of four nominees submitted from PERS and TRS bargaining units
- Two members of the general public
- One member employed as finance officer for a political subdivision
- Other than commissioners, members serve staggered, four-year terms

[9:06:40 AM](#)

Mr. Williams turned to slide 5, " Board Composition cont.":

- Bob Williams (TRS), Chair
- Allen Hippler (Public), Vice Chair
- Michael Williams (PERS), Secretary
- Lorne Bretz (Finance Officer)
- Adam Crum (DOR Commissioner)
- Donald Krohn (Public)
- Dennis Moen (PERS)
- Sandra Ryan (TRS)
- Paula Vrana (DOA Commissioner)

[9:06:52 AM](#)

Ms. Leary considered slide 6, "Organizational Structure," which showed a flow chart that illustrated the organization of the ARM Board. She explained that the board was established in the Department of Revenue (DOR) and the Treasury Division staff were the board staff. The Division of retirement and Benefits administered the plans. The assets were managed under the Treasury division and the liabilities were managed by the Division of Retirement and Benefits. She highlighted that the bottom of the flow chart showed key advisors that worked with the board. She said that KPMG was the external auditor for both the treasury Division and the Division of Retirement and Benefits. She

shared that Callan LLC provided performance measurement and investment consulting.

Ms. Leary cited that IAC stood for Investment Advisory Council, which served the purpose of advising the board on investments. She highlighted that all IAC members possessed expertise in investment management. Per statute, the council was permitted to have 3 to 5 members and currently had 3. The review actuary was Gabriel, Roeder, Smith, and Company (GRS) and the role of the review actuary was to review and certify the results of all actuarial assumptions prepared by the primary actuary, which was Buck Global Consulting. She shared that the audit actuary, contracted by the state no less than every 4 years, was also GRS. She continued to discuss the boxes under the green box on the right-hand side of the slide titled, "Liabilities." She detailed that Buc was the primary actuary and the board coordinated with the Division of Retirement and Benefits to have an annual actuarial evaluation of each retirement system. She said that the primary actuary also conducted experience analysis of the retirement systems not less than once every 4 years. Third party administrators would be discussed later in the presentation.

[9:10:10 AM](#)

Ms. Leary displayed slide 7, "Key Advisors":

- Investment Consultant (General & Real Assets): Callan LLC
- Investment Advisory Council
- Primary Actuary: Buck
- Review Actuary: GRS
- Audit Actuary: GRS
- Auditors: KPMG
- Department of Revenue (DOR) Staff
- Division of Retirement & Benefits (DRB) Staff
- Department of Law

[9:10:17 AM](#)

Ms. Leary highlighted slide 8, "Summary of ARMB Duties":

- Establish Investment Policies
- Establish Asset Allocation

- Provide Investment Options
- Monitor Performance
- Review Actuarial Earnings Assumptions
- Set Contribution Rates of Employers

Ms. Leary noted that the slide gave a high-level overview of the board's duties. She explained that the annual establishing asset allocations was based on review of capital markets, risk tolerance, time horizon, and peer assumptions. She relayed the details related to the duty bullet points.

[9:12:06 AM](#)

Co-Chair Stedman asked for more detail regarding normal cost of liabilities.

Ms. Leary deferred the question to the Division of Retirement and Benefits.

Co-Chair Stedman explained that normal costs were ongoing annual costs related to payroll checks.

[9:12:49 AM](#)

Ms. Leary looked at slide 9, "Board Statutes & Duties,":

AS 37.10.210 Alaska Retirement Management Board

- Make investments as a fiduciary of a state fund under AS 37.10.071
- Serve as trustee for pension and retiree health trusts, the State of Alaska Supplemental Annuity Plan, and Deferred Compensation programs
- Manage and invest assets in a manner that is sufficient to meet the liabilities and pension obligations of the systems

AS 37.10.071 Investment Powers & Duties

- Secure safe and adequate custodial facilities for assets; maintain accounting records in accordance with Generally Accepted Accounting Principles (GAAP)
- Exercise the powers of an owner of these assets
- Concentrate or diversify investments as appropriate

- Delegate investment, custodial, and depository authority to employees of the state and to external firms
- Utilize consultants, advisors, custodians, investment services, and legal counsel
- Apply the **Prudent Investor Rule** and exercise duty in the sole financial best interest of the beneficiaries

Co-Chair Stedman offered the background that there had been separate boards for PERS, TRS, and managing assets in the past, which meant responsibility for liabilities and assets was kept separate. Currently the ARM Board had responsibility for both.

[9:14:24 AM](#)

Ms. Leary addressed slide 10, "Board Statutes & Duties cont.," which cited AS 13.36.230 - 290 (Prudent Investor Rule) and gave a consolidated list of what was stated in the Prudent Investor Rule:

AS 13.36.230 -290 (Prudent Investor Rule)

- Consider the purposes and requirements of the trust
- The risk and return objectives should be reasonably suited to the trust
- Investment decisions should be evaluated in the context of the portfolio as a whole
- Make a reasonable effort to verify the facts relevant to the investment and management of assets
- Diversify
- Prudently delegate -scope of delegation, periodically review actions to monitor performance and compliance with terms
- Incur reasonable and appropriate costs

Co-Chair Stedman asked for Ms. Leary to expand on the evolution of the Prudent Investor Rule.

Ms. Leary explained that the Prudent Man Rule was in place through the 1960s and was replaced in the 1990s with the Prudent Investor Rule. The rule stated that and stated that the individual that was the fiduciary of a trust should invest and manage the trust similarly to a prudent investor with the same type of management capabilities.

Co-Chair Stedman added that the "prudent investor" referred to a professional in the field, whereas the "prudent man" referred to the common man on the street.

Ms. Leary agreed that the Prudent Investor Rule elevated the capabilities to someone who was a professional in the field.

Co-Chair Stedman shared that the issue had come up when discussing the structure of the Power Cost Equalization (PCE) fund. He noted that there were other portfolios in the state that fell under the same credence.

[9:16:51 AM](#)

Senator Bishop asked about the last bullet on slide 10. He asked how long the board had used KPNG for auditing and whether bids went out to other contractors for audits.

Ms. Leary responded that KPNG contracted with the Division of Retirement and Benefits for over 20 years. She said that contracts went out to bid frequently and the contract had just reupped within the last two years.

[9:18:06 AM](#)

ALYSIA JONES, ALASKA RETIREMENT MANAGEMENT BOARD LIAISON OFFICER, TREASURY DIVISION, DEPARTMENT OF REVENUE, introduced herself and discussed her background. She advanced to slide 11, "ARMB Meetings," which showed an illustration of the board meeting schedule. She noted that the board met quarterly to perform their fiduciary duties. Typically, meetings were two days in length and included presentation from key advisors, legal counsel, committee chairs, staff of both Treasury and the Department of retirement and Benefits, and investment managers. The chart showed the key duties of the board and when the timeframe for execution of duties. She noted that some of the tasks listed under the purple chevron occurred annually and others every few years, with timeframes noted on the slide. She said that additional meetings could be held for issues that arose outside of the normally scheduled meeting schedule.

[9:19:57 AM](#)

Ms. Jones looked at slide 12, "ARMB Committees":

- Committees are established by the board to assist with completing board business
- Committees are not authorized to act on behalf of the board, but provide in depth review, research, and recommendations to the board
- Current standing committees:

AUDIT

Michael Williams, Chair

Provides independent oversight of the integrity of the ARMB's financial statements and reporting systems of internal controls, and compliance with legal and regulatory requirements.

DC PLAN

Bob Williams, Chair

Has the authority to research, review, and recommend policies and procedures that it believes may be beneficial to the members of the retirement systems, or that represent best practices, or that result in efficient administration of the defined contribution plan for public employee members and teachers.

ACTUARIAL

Allen Hippler, Chair

Assists the board in fulfilling the board's function of independent oversight of the integrity of the ARMB retirement systems' actuarial valuations, experience analyses, and other requested reports and analysis, including compliance with legal, accounting, and regulatory requirements.

OPERATIONS

Dennis Moen, Chair

Considers input from outside sources as well as the Department of Revenue (DOR) for the purpose of making recommendations to the board on the following matters: (a) an annual operating budget for the board; (b) salary considerations for DOR staff who work on matters relating to the board and the funds administered by the board; and (c) policies and procedures relating to the functioning of the board.

[9:22:29 AM](#)

Ms. Jones showed slide 13, "Decision Making Process," which showed a flow chart that illustrated a high-level overview of the board's decision-making process. She explained that the process was multi-phased and involved input from key advisors, plan members, and other interested parties. She said that the input was then funneled to the appropriate committee for review, followed by making a recommendation to the board. She said that once the committee made a recommendation to the board, additional discussion could occur before the decision was made whether to adopt the recommendation.

[9:23:34 AM](#)

Senator Kiehl asked about the board conducting evaluations of each employer.

Ms. Leary replied that the division would go into further detail but that schedules of evaluation for each employer were determined by the board. She noted that liabilities were one of the areas of evaluation.

Senator Kiehl understood that the state had moved to a "pooled" plan due to difficulty in apportioning the liabilities among participant employers in the plan. He wondered why the money was being spent now.

Co-Chair Stedman asked for clarification of the question. He asked whether Senator Kiehl was referring to the consolidation of contributions for all communities.

Senator Kiehl thought he needed further information on the matter to craft his question.

Ms. Leary interjected that the assets were managed together in various investment options. The liabilities of the plan rolled up into different employers. She said that the differentiation based on the Government Accounting Standards Board (GASB) was what was reviewed in the evaluations.

Co-Chair Stedman noted that there was an appendix to the presentation that pertained to the timeline for valuations.

Ms. Jones said that the timeline for the June 30, 2022, valuations had been included at the end of the presentation as a reference for the committee.

Co-Chair Stedman asked Ms. Jones to walk the committee through the timeline.

[9:27:00 AM](#)

Ms. Leary turned to slide 16, which showed the timeline for June 30, 2022, valuations. She explained that the actuaries did preliminary evaluations, which were reviewed by the board, and then returned to the actuaries. She said that the Division of Retirement and Benefits would go through the components. She said that in the end the valuations would be used to forecast funding and other assumptions.

Co-Chair Stedman hoped to discuss the delay factor when accumulating the data.

[9:28:24 AM](#)

Senator Kiehl recalled a previous discussion of the normal cost rate contribution for healthcare and wondered whether the issue would come up in the presentation.

Co-Chair Stedman thought the current year's budget recommendation was to skip the contribution for healthcare. He warned that markets did not always perform as predicted, which could result in underfunding healthcare. He suggested that if healthcare was overfunded in a budget year the extra funds could go to the underfunded pensions.

Mr. Williams shared that the ARM Board decided to zero out the normal healthcare cost in 2021, as well as in 2022, because it was overfunded. Prior to 2006, the healthcare and pensions were mixed, until the Internal Revenue Service had indicated the systems had to be separate. He said that money could not be moved from one to the other. He stated that the health trust was currently overfunded.

Co-Chair Stedman asked about the meaning of EGWP.

Mr. Williams explained that EGWP was a federal subsidy that helped with the health plan. He thought the following presentation would show the overall cost for PERS and TRS for the state had increased over time. He understood Co-Chair Stedman's idea of moving funds from healthcare to the pension but that the legislature would have to craft legislation directing the board to do so.

Co-Chair Stedman relayed that the committee could continue the discussion with the next presenter.

[9:32:38 AM](#)

Mr. Williams added that in the 2021 and 2022 votes by the board, he had voted "yes" twice, but reluctantly.

[9:33:30 AM](#)

Senator Bishop relayed that he had brought up the topic of overfunding a year previously. He mentioned his experience with the union pension trust. He expressed the philosophy that it was not possible to be overfunded.

Mr. Williams shared Senator Bishop's concern. He had questioned why there were so many actuaries. He said that the board had worked to explore what had happened with PERS and TRS in the past. He related that there were unknowns such as the rate of return.

Co-Chair Stedman thanked the testifiers for their time.

^PRESENTATION: PRS/TRS FUNDING UPDATE

[9:37:04 AM](#)

Co-Chair Stedman commented on the importance of the subject matter but noted the limit time left in the current meeting.

[9:37:35 AM](#)

AJAY DESAI, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, introduced himself. He discussed his background. He had been with the department since January 2017. He introduced his staff.

[9:39:14 AM](#)

Mr. Desai discussed a presentation entitled "Presentation to the Senate Finance Committee" (copy on file). He looked at slide 2, "Organization - PERS / TRS," which showed a graphic illustrating the two state departments (Department of Revenue and Department of Administration) and the ARMB

that worked together to facilitate the PERS and TRS programs.

[9:40:16 AM](#)

Mr. Desai spoke to slide 3, " Membership (as of June 30, 2022)," which depicted participation under both TRS and PERS systems, for active, inactive, and retired members, broken down by tier He relayed that there was a total of about 104,000 participants in the PERS/TRS systems. He pointed out 27 percent active members fell under Defined Benefit (DB) plans and 73 percent fell under Defined Contribution (DC) plans.

[9:41:17 AM](#)

KEVIN WORLEY, CHIEF FINANCIAL OFFICER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, introduced himself and discussed his background.

Mr. Worley referenced slide 4, "Investment Experience," which showed a table with a comparison of the data from the Buck Actuarial Valuation Report as of June 30, 2021, and 2022. He referred to first line, showed the assumed actuarial rates of return, which had been adopted by the ARM Board for the calculation of the accrued liability for PERS and TRS. He explained that the department had recently completed an experience study, which was required every 4 years. In 2021 the actuarial rate of return was 7.38 percent and the board had recently adopted a reduced rate of return of 7.25 percent.

Co-Chair Stedman asked for the testifiers to refrain from using acronyms as much as possible, and to define complex terms.

Mr. Worley described that the actuarial rate of return was the rate of return used to determine the present value calculation of liabilities in the plan. He explained that the actuaries looked at the cost incurred to pay off pension and healthcare cost going forward and would present value the cost in current dollars. He said that any of the investments that DOR was investing for PERS and TRS would be assumed to have a rate of return of 7.25 percent. This was the primary assumption used in the valuation reports.

[9:44:26 AM](#)

Co-Chair Stedman understood that if the assumed targets were met unfunded liability would not be incurred.

Mr. Worley answered in the affirmative.

Co-Chair Stedman thought it was important to differentiate between the unfunded liability and the normal yearly cost of employees. He believed that people new to the legislature would benefit from the clarity.

Mr. Worley reminded the committee that the assumption on the page was one of over thirty used in the creation of the report. He addressed the second line on the table on slide 4, which showed what was based on fair market value of assets. He cited that fair value was what the price the asset would sell for on the open market. He said that the 30 percent assumption of 2021 had dropped to -6 percent in 2022, which resulted in a loss to the plan. He noted line 3 showed that the smoothing happened over a five-year period, and using the smoothing method 11.6 percent was projected for 2021, and 8.7 percent in 2022. Beginning in 2015, the valuation method recognized 20 percent of the investment gain or loss each year for five years. The slide indicated that the actuarial value of assets was reinitialized to equal fair value as of June 30, 2014, with the \$3 billion infusion from HB 119.

[9:47:53 AM](#)

Senator Kiehl thought Mr. Worley had indicated that the percentage change on line 1 had been based on the experience study. He wondered how long the study had looked back to get to 7.25 percent.

Mr. Worley informed that the division looked at a four-year period while looking at assumptions versus actual experience for each of the plans. He said that Ultimately the assumed actuarial earnings rate was adopted by the board after consultation from Buck and review by the board actuary and other stakeholders.

Senator Kiehl appreciated Mr. Worley's answer. He asked about changing the assumed rate assumption and whether it would call for more money from the employer. He wondered

about the unfunded liability increasing through decreased earnings exception.

Mr. Worley said that a draft of the experience report could be made available to the committee.

Co-Chair Stedman asked for Mr. Worley to include the last 3, 5, and 10-year rates of return. He thought that the report would break down the assumptions by component parts.

Mr. Worley noted that there was a slide that would address investment rates of return going back 30 years.

Co-Chair Stedman said that the committee would wait for answers to questions if the question would be addressed by a slide further into the presentation.

[9:51:38 AM](#)

Mr. Worley turned to slide 5, " Funded Status - Valuation Results," which showed the combined totals for pension healthcare for the defined benefits plans. He pointed out that in December 2022, the consulting actuary for the division presented draft results that would be discussed in March 2023. He directed committee attention to the column heading "2022 DRAFT" for both PERS and TRS and noted a slight increase in actuarial accrued liability for PERS and TRS. He said that actuarial assets improved for both, while unfunded liability decrease. He said that overall, for PERS the total combined funded level was 87.7 percent, up 2.2 percent from 2021. He added that for the TRS system the total was 93.1 percent, a 0.5 percent increase from 2021. He said that the items used in lines A through D were what was used to determine contribution rates, adopted by the board each fiscal year. The items in E, F, and G were based on the fair value of assets. He recalled that during an update in 2021 the plans were near 100 percent funded on the combined basis for PERS and overfunded on TRS. He said that since 2021 the percentage points for PERS had decreased 11 points; TRS had decreased 14 points. He pointed to line D, which reflected more stability in 2023.

[9:54:48 AM](#)

Co-Chair Stedman asked which number represented the combined total for unfunded liability.

Mr. Worley explained that the combined totals for unfunded liability were reflected in the decrease of \$400 million for PERS and \$24 million for TRS shown on line C. He noted that pension was separate from healthcare, which meant that one could be underfunded, and one could be overfunded.

[9:55:44 AM](#)

Senator Bishop asked whether the health retirement account was invested in the healthcare portion of the pension.

Mr. Worley explained that the slide only addressed the defined benefit plan, which was granted only to tiers 1, 2, and 3.

Senator Bishop surmised that there would be a future slide related to the defined contribution plan for tier 4 employees.

Mr. Worley replied that there was no slide related to the status of those in the tier 4 plan.

Co-Chair Stedman wanted to make sure the unfunded pension liability was addressed.

[9:57:04 AM](#)

Mr. Worley considered slide 6, " Funded Status - Pension," which contained a chart depicting the funding status of the pension system. He noted that there were separate trusts funds for PERS and TRS. This slide showed numbers for tier 1, 2, and 3 under PERS, and tier 1 and 2 under TRS. He said that the PERS plan had experienced a slight increase in the actuarial accrued liability and the funded level increased 0.2 percent. He stated that there was a -6 percent rate of return on the PERS and TRS plans, reflected on line E. He relayed that the total unfunded liability was approximately \$6.8 billion.

Co-Chair Stedman asked about fair value of asset numbers.

Mr. Worley affirmed that fair value of assets was based on the actuarial value of assets. He explained that fair value of assets was based on the audited value of assets as of the end of the fiscal year and was in the report generated by KPNG. He said that that value was different than the actuarial value of assets.

Co-Chair Stedman thought that the unfunded liability was closer to \$7.1 billion, with the actuarial number being \$6.8 billion.

Mr. Worley thought 2021 was a great example of what Co-Chair Stedman had mentioned regarding high rising actuarial liabilities.

[10:00:05 AM](#)

Mr. Worley displayed slide 7, "Funded Status - HealthCare," which showed the healthcare trusts for PERS and TRS. There was a slight increase in the liability calculated by the actuaries, which was related to future cost projections that reflected less healthcare spending. He discussed the reasons for the increase. He said that 2022 showed a funding surplus on line C. Mr. Worley detailed the numerics in the chart on the slide.

Co-Chair Stedman asked for further discussion of the legal tie-in between the funding of healthcare and pensions and well as the previously mentioned federal guideline. He spoke of diverting funding from one trust to another, which he understood could be done by the legislature.

Mr. Worley relayed that the presentation would address the rates for 2024 and the funding of the normal cost calculation.

Co-Chair Stedman hoped the information was present in the current presentation.

Mr. Worley deferred the question until later in the presentation.

[10:03:15 AM](#)

Mr. Desai highlighted slide 8, "Funded Ratio - PERS Pension and HealthCare," which showed a bar graph of the funded ratio, specific to PERS, broken down by pension and healthcare. The blue color showed pension and the orange showed the healthcare funded ratio.

Mr. Desai looked at slide 9, "Funded Ratio - TRS Pension and HealthCare," which showed a similar graph for the TRS system.

Mr. Desai addressed slide 10, "Funded Ratio - Combined PERS/TRS," which showed a bar graph containing the combined information from the two previous slides for both PERS and TRS.

Mr. Worley revisited Senator Bishop's comment about overfunding of the plan in 2001. He referred to changes in the structure of the board and the addition of a statute that pertained to the review actuary. He said that the review actuary had not been present in 2001. He thought that one of the best things to come out of creation of the board in 2001, was the actuarial review by independent actuaries hired by the board and DOR.

[10:06:05 AM](#)

Mr. Desai advanced to slide 11, "Correlation between Actual Rate of Return and Funded Ratio," and highlighted that from back in 2000, the actuarial funded ratio for PERS was 101.1 percent and 99.6 percent for TRS. In 2001, marked in red in the middle columns, showed a -5.37 percent, which was 13.6 percent when combined with expected rates of return of 8.25 percent. He said that the direct impact was reflected on the next line, which showed 100.9 percent (down from 101.1 percent) for PERS and 95.0 percent (down from 99.6 percent) for TRS. He continued to detail the various drops in percentage due to smoothing and the rate of return effect on the funded ratio. He said that any year, when valuation was done by the actuary, was based on the interest rate at the time. He said that in a following year, if the expected rate of return was not met based on the assumptions, it would affect the funded ratio. He shared that the slide reflected the impact of market returns on the funding ratio.

[10:08:55 AM](#)

Co-Chair Stedman reminded that 2000 and 2001 returns were taken with a grain of salt, and he did not believe the numbers were accurate. He said that at the time of crafting the pension plan, restating those numbers had been considered. He recalled that the actuarial information had been lacking. He asked Mr. Desai to discuss when there should be concern about the funding ratio on both the high and low ends.

Mr. Desai offered a description of a healthily funded plan.

Co-Chair Stedman asked the presenter to refrain from using acronyms.

Mr. Desai continued to discuss healthy functioning plans. He referred to Co-Chair Stedman question about pension funding ratios. He said that during the year, at a point in time, the funded ratio was assessed. He spoke of dependence on market returns and what the protocol was when areas of concern were recognized. He directed committee attention to the last column on the slide and noted that the numbers reflected full funding. He believed that the plan was headed in the right direction.

[10:16:09 AM](#)

Co-Chair Stedman thought it was important for the public to realize that there was no expectation that the state would not meet its obligation. He emphasized that the state would need to grapple with the unfunded liability but, checks to recipients would not be late. He pointed out that whenever there was a larger rate of return, it was followed by a couple of years with lower return.

[10:17:42 AM](#)

Mr. Desai looked at slide 12, "Unfunded Actuarial Liability - PERS," which showed a table and bar graph with blue depicting pension and orange depicting healthcare. The data was broken down by PERS and TRS, separately, with the information for TRS reflected on the next slide - slide 13.

Co-Chair Stedman commented that the blue lines reflected the pension unfunded liability.

Mr. Desai agreed. He noted that the following slide showed the combined numbers.

Co-Chair Stedman thought that if the slide was meant to reflect a negative number, or what was owed, the blue should be inverted. He felt that at first glance it could be gleaned that the blue bars reflected a positive, and the orange a negative, when the opposite was true.

Mr. Desai agreed that the slide could be misleading.

[10:19:52 AM](#)

Mr. Desai referenced slide 14, " Unfunded Actuarial Liability - PERS / TRS," which showed a bar graph with the combined unfunded liability for PERS and TRS. He pointed out that unfunded liability was declining and both systems should be funded by 2039.

Senator Kiehl thought the chart illustrated a time before accounting rules required Alaska separated pension and healthcare into separate accounts. He asked Mr. Desai to discuss the recommendation to not pay the healthcare costs.

Mr. Worley noted that the matter would be addressed on slide 17.

[10:22:21 AM](#)

Mr. Desai turned to slide 15, which showed the history of additional state contributions. He said that from 2008 forward the state had paid approximately \$8.2 billion into PERS/TRS system.

Senator Wilson asked about the accounting in 2014 and 2015, and the percentage breakdown between pensions and healthcare.

Senator Wilson thought the \$1 billion went to the pension trust fund for PERS, and for TRS 97 percent went to pension. He offered to provide more information to the committee later.

[10:24:13 AM](#)

Senator Bishop looked at 2015 and recalled that some on the committee were supportive of a \$4 billion deposit to the systems.

Co-Chair Stedman thought it would have been nice to deposit more when the state had the cash on hand. He reflected that hindsight was 20/20.

[10:25:04 AM](#)

Mr. Desai considered slide 16, which showed a table of projected additional state contributions to PERS and TRS. He said that the projections were calculation annually and

changed from year-to-year. He said that the board could determine the contributions for healthcare.

[10:26:20 AM](#)

Mr. Desai displayed slide 17, "FY2024 Contribution Rates,".

Mr. Worley discussed slide 17 in conjunction with slide 18, which showed a table of the healthcare trust fund levels. He referenced SB 55, which required the state as an employer to pay the full actuarially determined contribution rate adopted by the arm board. For PERS, there was a capped rate in statute of 12.65. The differences in the rates adopted by the ARM Board and the statutory rates, in the case of PERS at 22 percent, and TRS at 12.96 percent, became a contribution by the state as an additional state contribution established in statute. He noted the the preliminary total payroll column. He said that there was a normal cost rate for PERS pension at 2.4 percent and a past service cost to pay out some of the unfunded liability at 16.33 percent. He said that the computed normal cost rate for the PERS defined benefit health plan at 2.5 percent, the total for all contributions, including the make-up for the contributions to the defined contribution plan for PERS, was 6.63 percent.

Mr. Worley qualified that based on the initial discussion, the state would pay at 27.6 percent and non-state employers would pay up to the 22 percent cap, and the difference would be an additional state contribution paid out of the General Fund. He said that the same was similar for TRS.

[10:29:52 AM](#)

Mr. Worley discussed the defined benefit health normal cost rate. He provided some background on the matter and discussions surrounding the National Guard plan. He noted the overfunded healthcare trust for both PERS and TRS. He said that statutes had been reviewed surrounding conflicting state statutes and ARM board statutes.

[10:32:01 AM](#)

Mr. Worley highlighted slide 18 and referenced a discussion about the funded status of the PERS and TRS healthcare trust in the case of making or not making the normal cost

contribution. He described a discussion about PERS, and the question of not making the additional contribution to He referenced prior discussion about putting money towards an overfunded plan. He mentioned a two-year lag of adoption of rates. During discussions about rates, actuaries were consulted regarding not making contributions to the plans due to overfunded status.

[10:34:59 AM](#)

Mr. Worley went back to slide 17 and continued with his discussion about statute semantics and the overfunding of the plan.

[10:36:17 AM](#)

Senator Bishop understood the slides. He asked whether the ARM Board had discussed deferring overpayments into the pension fund.

Mr. Worley relayed that there had been a discussion about the adoption of rates. In the case of PERS and TRS, two separate rates would have to be adopted. The outcome of the discussion indicated that the adopted rate for the healthcare trust could not be shifted to the pension plan. The legislature could craft legislation to allow for the practice, but the board could not adopt a rate for a healthcare trust and put those monies into the pension trust.

[10:38:40 AM](#)

Co-Chair Stedman understood that the legislature could decide to take some funds from the healthcare side and make a direct to deposit to the pension. He stated that the advantage to keeping pressure on the unfunded pension obligation could help to lower the contribution rate for municipalities.

Mr. Worley pointed that even though the ARM Board ultimately decided to adopt the normal cost rate, it did not change the amount that municipalities and school districts paid. The 22 percent for PERS went into the pension trust in its entirety and for TRS the entire 12.6 percent. He added that the board reviewed the matter every year. He relayed that the actuarial committee was reviewing guideline to consult when making determinations.

Co-Chair Stedman hoped that the ARM Board did not allow any underfunding. He suggested erring on the side of caution. He thought there should be a targeted goal for the unfunded liability before attempting to lower the 22 percent rate.

[10:42:17 AM](#)

Mr. Worley continued to address slide 17. He noted the reflected savings from the preliminary column to the adopted column for both PERS and TRS.

[10:43:37 AM](#)

Mr. Desai looked at slide 19, "FY2024 Contribution Rates - Defined Benefit Plans.":

Defined Benefit Plans

Employee

All Other employees PERS-6.75 percent

Peace Officer/Firefighter PERS-7.50 percent TRS-8.65 percent

School District Alternate Option PRS-9.60 percent

Employer (Rates capped by Alaska statute) PERS-22.00 percent TRS-12.56 percent

Additional State Contribution (for non-State employers) PRS-3.10 percent TRS 12.96 percent

Total Required Contributions for the Fiscal Year*
PERS-25.10 percent TRS-25.52 percent

*The total contribution rates for PERS and TRS include the DCR contribution rates.

Source: Buck, September 1, 2022, letter as of June 30, 2022, roll-forward for PERS and TRS DB and DCR and 2021 DCR valuations.

Mr. Desai addressed slide 20, "FY2024 Contribution Rates - Defined Contribution Plans.":

Defined Contribution Plans

Employee (to Investment Account) PERS-8.00 percent
TRS-8.00 percent

Employer

Investment Account PERS-5.00 percent TRS-7.00 percent

Health Care (Retiree Major Medical Plan PERS-1.01
percent TRS-0.82 percent

Occupational Death and Disability

- All Others PERS-0.30 percent TRS-0.08 percent
- Peace Officer/Firefighter PERS 0.68 percent TRS-
N/A

Health Reimbursement Account (HRA)
(3 percent of all PERS/TRS average annual
compensation) PERS-flat dollar TRS-flat dollar

Excess from Employers' Contributions (22 percent/12.56
percent) To DB Plans - Unfunded liability

Source: Buck, September 1, 2022, letter as of June 30,
2022, roll-forward for PERS and TRS DB and DCR and
2021 DCR valuations.

Co-Chair Stedman looked at the last line of the table on
slide 20. He asked for clarification on whether the
employee or employer was paying the unfunded liability.

[10:47:27 AM](#)

Mr. Desai said that the employer paid the difference
between the 22 percent and whatever contributions that were
paid on behalf of the employee.

Co-Chair Stedman understood that the employer paid for the
unfunded liability.

Mr. Desai agreed.

[10:48:44 AM](#)

Mr. Desai advanced to slide 21, "Contribution Rates -
History," which showed two graphs that illustrated the
actual rate per year: a flat 22 percent for PERS and 12.56
percent for TRS. He reminded the committee that each year

the actuarial rate was different, and the gap between the two lines in each box represented the state contributions paid year-by-year.

Co-Chair Stedman noted that the state set the rate at 22 percent to level out the percentage for all communities. He thought a conversation should be started regarding a plan to lower the contribution rate for municipalities.

Co-Chair Stedman added that TRS was treated differently than PERS because the state was constitutionally obligated to provide for education.

[10:51:13 AM](#)

Mr. Desai explained that the other purpose of slide 21 was to show the state contribution history from 2008 to 2024. He said that the blue area on top totaled \$3.5 billion paid for PERS and the green area reflected \$4.7 billion for TRS.

[10:51:41 AM](#)

Mr. Desai looked at slide 22, which showed a graph of projected pension benefit recipients. He cited that in 2024, it was projected that the state would be paying 54 thousand retirees, which would peak in 2029 and then begin to decline as both systems were closed system and would not be taking on new retirees.

[10:52:22 AM](#)

Mr. Desai spoke to slide 23, "Projected Pension Benefits Payment," which showed a graph depicting the dollar value of pension benefit payments. He noted that in 2024, the state would pay approximately \$1.6 billion in pensions to retirees, and that number would decline as participants passed away.

[10:52:51 AM](#)

Mr. Desai referenced slide 24, "AlaskaCare Employer Group Waiver Plan":

- An Employer Group Waiver Plan (EGWP) is a group Medicare Part D prescription drug plan option.
- EGWP provides a direct subsidy which allows it to be considered when calculating the Other Post-Employment

Benefits (OPEB) liability under both GASB & FASB accounting schemes.

- The implementation of EGWP reduced 6/30/18 healthcare liabilities by \$959M, which resulted in lower projected liabilities, lower projected contribution rates, and lower projected Additional State Contributions (\$711M for PERS, \$248M for TRS).

[10:55:11 AM](#)

Mr. Desai turned to slide 25, "An Employer Group Waiver Plan (EGWP) Subsidy," which showed a table of types of subsidy funding in millions. The 2022 amounts on the slide were estimates due to the dynamic nature of claims. The actual subsidy was subject to minor adjustments due to true-up.

[10:55:53 AM](#)

Mr. Worley considered slide 26, which showed a table of healthcare cost trend rates, which were used for projecting increases in healthcare costs. Trends rates were adopted with the June 30, 2022, actuarial valuation reports by the adoption of the board of the most recent experience study. Beginning in FY39, trend rates were revised to reach an ultimate rate of 4.5 percent in FY50.

Co-Chair Stedman asked whether the trends in healthcare seemed to be less now than the previous decade.

Mr. Worley replied in the affirmative.

[10:57:06 AM](#)

Senator Bishop asked about the longevity of the EGWP benefit.

BETSY WOOD, ACTING CHIEF HEALTH ADMINISTRATOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, explained that EGWP was a federal subsidy program run by the Centers for Medicare and Medicaid Services (CMS). She relayed that the department believed that the program would have some longevity. She pointed out that slide 25 reflected some changes in subsidy categories. She said that the subsidy rates were set by CMS and could vary but performance had remained strong.

Co-Chair Stedman requested that more information on the program be sent to Co-Chair Bishop's office.

[10:59:00 AM](#)

Mr. Desai displayed slide 27, which showed a flow chart that illustrated a process timeline including allocation of projected employer and additional state contributions with liabilities "rolled forward" two-years, with assets "rolled forward" one-year and smoothed.

Co-Chair Stedman thanked the testifiers. He commented on reducing the 22 percent rate.

Co-Chair Stedman discussed housekeeping.

#

ADJOURNMENT

[11:01:03 AM](#)

The meeting was adjourned at 11:01 a.m.