

SENATE FINANCE COMMITTEE
January 30, 2024
9:02 a.m.

[9:02:41 AM](#)

CALL TO ORDER

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

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

Senator Click Bishop

ALSO PRESENT

Ajai Desai, Director, Division of Retirement and Benefits, Department of Administration; Kathy Lea, Chief Pension Officer, Division of Retirement and Benefits, Department of Administration; Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits, Department of Administration.

PRESENT VIA TELECONFERENCE

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

SUMMARY

^PERS/TRS UPDATE

[9:05:09 AM](#)

AJAI DESAI, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, (DOA) introduced himself.

9:05:33 AM

KATHY LEA, CHIEF PENSION OFFICER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, introduced herself.

9:05:50 AM

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

Mr. Desai discussed the presentation, "State of Alaska Department of Administration Division of Retirement and Benefits" (copy on file). He looked at slide 2, "Organization -PERS / TRS":

- Dept. of Revenue, Treasury Division
 - Invests retirement system assets
 - Staff
 - General Consultants
 - Internal Investment Team
 - External Investment Management

- Alaska Retirement Management Board (ARMB)
 - Sets contribution rates, invests retirement system assets
 - Investment Advisory Committee
 - Reviewer Actuary (GRS)

- Dept. of Administration, Division of Retirement and Benefits
 - Administer retirement and benefits system
 - Staff
 - Valuation Actuary (Buck/Consultants)
 - Third Party Administrators (TPA)
 - External Audits

Mr. Worley looked at slide 3, "Membership (as of June 30, 2023)." He discussed slide 4, "Investment Experience":

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

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

Co-Chair Stedman queried more detail about the "smoothing", and the importance of fair market value.

Mr. Worley deferred to Mr. Kershner.

[9:10:11 AM](#)

DAVID KERSHNER, RETIREMENT ACTUARY, BUCK GLOBAL LLC, FLORIDA (via teleconference), replied that they do not market value of assets to determine the funding contributions because of the volatility of the market value.

Co-Chair Stedman stated that it was similar to the Permanent Fund with a five-year payout.

Mr. Worley pointed to slide 5, "Funded Status -Valuation Results (\$000's)."

Co-Chair Stedman wondered why the overfunding in health care could not be used for the underfunding of the pensions.

Mr. Worley replied that they were separate trusts.

Co-Chair Hoffman looked at the unfunded actuarial occurred liabilities, and wondered whether the difference was concerning for the department.

Mr. Worley stated that there were some slides that would address the question.

[9:16:32 AM](#)

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

Co-Chair Stedman asked about the draft numbers of PERS versus TRS.

Mr. Worley replied that the present value of future pension benefit was a five year smooth asset value, and the

unfunded liability was the difference at that particular time.

Co-Chair Stedman queried the history of the fund, and the liability.

Mr. Worley stated that there would be a slide addressing that question.

[9:20:18 AM](#)

Co-Chair Stedman wondered whether there was a forward or backward movement on the unfunded liability.

Mr. Worley looked at slide 7, "Funded Status -HealthCare (\$000's)."

Co-Chair Stedman asked when to pay attention to the overfunding and underfunding ratios.

Mr. Worley replied that the ARM Board was a topic of discussion.

Co-Chair Stedman requested a record of result of the ARM Board's discussion.

Mr. Worley replied that he would provide that information.

Mr. Desai displayed slide 8, "Funded Ratio -PERS Pension and HealthCare(Based on Actuarial Valuation Reports)."

[9:25:26 AM](#)

Co-Chair Hoffman noted the dramatic changes in health care costs, with that continuing for many years. He stressed that the money was taking from the individual paychecks. He wondered whether there was an adjustment a decade prior to address that issue.

Mr. Worley replied contributions of 6.75 percent that were deducted from an employee's paycheck on the defined benefits side went into the pension trust. He furthered that the health contributions were deposited by the employer, so there was no impact on the membership on the health side.

Co-Chair Hoffman stressed that the employer was the State of Alaska, and felt that an adjustment was necessary because of the overfunding at the same time that the state was in financial straits.

Co-Chair Stedman wondered whether there would be a specific financial number within the presentation.

Mr. Desai agreed to provide that information.

Co-Chair Stedman stressed that the pension fund needed to be addressed and fixed in the same way that the health fund has found solution.

Mr. Worley replied that one of the levers in the health care program was the switch to the employer group waiver plan, which was a reduction of the liability by approximately \$1 billion

[9:31:06 AM](#)

Mr. Desai highlighted slide 9, "Funded Ratio -TRS Pension and HealthCare(Based on Actuarial Valuation Reports)."

Mr. Desai discussed slide 10, "Funded Ratio -Combined PERS/TRS (Based on Actuarial Valuation Reports -Information Only)."

Senator Kiehl queried the first year that was skipped for the normal contributions for health care.

Mr. Worley replied that it was 2021.

Co-Chair Stedman asked for a definition of "normal cost."

Mr. Worley explained that "normal cost" was the cost to fund the benefits of the membership in that year.

Co-Chair Stedman asked how the funds resulted in liabilities and surpluses.

Mr. Worley replied that in a "perfect year" each fund was at 100 percent. He stated that deviations from the assumptions resulted in liabilities and surpluses.

Senator Kiehl queried the first year that a normal cost contribution was not made for the health side.

Mr. Worley replied that it was 2022.

[9:35:16 AM](#)

Senator Kiehl was concern about the history of the funds, because the health fund and pension funds originated as blended plans.

Co-Chair Stedman wanted to discuss the reason for the combination.

[9:36:51 AM](#)

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[9:37:28 AM](#)

RECONVENED

[9:37:33 AM](#)

Co-Chair Stedman remarked that there would be a conversation with the department on the history and reason for the dividing of the funds.

Senator Kiehl wanted the full picture of the reason for all changes.

Mr. Worley explained that there was language in the ARM Board statutes that appeared to be in slight conflict with the state statutes.

[9:40:10 AM](#)

Co-Chair Stedman remarked that there would be clarity in the future on the issue.

Mr. Desai pointed to slide 11, "Correlation between Actual Rate of Return and Funded Ratio (Information Only)."

Co-Chair Stedman recalled an error from the actuary which resulted in many issues and problems. He asked why there was still no elimination of the debt.

[9:45:00 AM](#)

Ms. Lea replied that there were two things that could not be controlled in the valuing of the plans: the market experience and the length of payment of benefits.

[9:46:55 AM](#)

Senator Wilson wondered whether a beneficiary of the Tier 1 or Tier 2 could give any unused benefit back to the trust.

Ms. Lea replied that a member could only leave their pension to a spouse, or the spouse could waive it and give it to an incapacitated child. Otherwise, all benefits cease with the member's death.

Co-Chair Stedman recalled a concern about the spouse benefits.

Co-Chair Stedman remarked that the current estimated rate of returns were "better" than previous estimates.

Mr. Worley explained that there was a recent Supreme Court cast that resulted in the allowance of those in the defined contribution plan could return to their previous defined benefit tier, which resulted in some unfunded liability.

[9:50:34 AM](#)

Co-Chair Stedman queried what controlled the diminishment of benefits.

Ms. Lea responded that retirement and benefits were guaranteed in the Alaska constitution. She stated that those that were in effect when the employee begins work are the benefits that they are entitled to upon retirement. She explained that there were several court cases regarding diminishment of benefits.

Co-Chair Stedman stressed that the diminishment of benefits was important to understand.

Co-Chair Hoffman noted that Alaska had some of the highest rates of common law marriages, but were not recognized in the retirement system. He wondered whether other states recognized those common law marriages. He also recalled a court case about the LGBTQ community, and asked how that impacted retirement and benefits.

Ms. Lea provided an overview answer, and agreed to provide that information. She stated that there were other states that recognized common law marriages, but Alaska did not. She also explained that there was a court case resulted in requiring LGBTQ couples to prove that they had assets in common and were in a long term relationship, then those benefits could be recognized for the partner. She furthered that the current law recognized the legal marriage, so that court case did not pertain to current law.

[9:55:33 AM](#)

Co-Chair Hoffman wondered why that case was not a precedent for common law marriage.

Ms. Lea replied that the court case for the LGBTQ did not include comments about common law marriage.

Co-Chair Hoffman wondered whether the decision was made prior to the state recognized same sex marriage.

Ms. Lea replied in the affirmative.

Co-Chair Stedman requested more detail on that issue.

Senator Merrick wondered whether the courts ruled that being forced to move to a defined contribution plan in a previous defined benefit was considered a "diminishment."

Ms. Lea replied in the affirmative.

Co-Chair Stedman stressed that the issue was especially important for Tier 1 employees.

[9:58:27 AM](#)

Mr. Desai looked at slide 12, "Unfunded Actuarial Liability -PERS (in \$millions)."

Co-Chair Stedman wondered why in 2013 there was an unfunded liability of \$5.4 billion, and the current liability was \$5 billion. He wanted to know why there was not a greater reduction on that liability.

Mr. Desai deferred to Mr. Kershner.

Mr. Kershner agreed to provide specific information, but pointed out that the actuarial earnings assumptions had decreased over time.

Co-Chair Stedman understood that there had been a rate assumption reduction, but wondered why there was not an increase in contributions to eliminate the debt.

Mr. Kershner remarked that an increase in the liability resulted in an increase in the contribution rate, but those changes were not made immediately.

Co-Chair Stedman assumed the \$1.736 billion was accurately calculated after the actuary issue, but now the liability had increased to \$5.5 billion. He wanted to understand that issue.

[10:05:46 AM](#)

Mr. Kershner replied that there were several factors.

[10:09:41 AM](#)

Mr. Desai discussed slide 13, "Unfunded Actuarial Liability -TRS (in \$millions)."

Co-Chair Hoffman recalled that the legislature had appropriated \$3 billion for the liability, but the ARM Board could not appropriate money. He wondered whether the legislature could address the issue monetarily again.

Co-Chair Stedman wondered if all the cash could be directed toward pension.

Co-Chair Hoffman felt that the money could not be directed toward retirement but felt that a less amount could be directed toward health care.

Co-Chair Stedman agreed.

Mr. Desai highlighted slide 14, "Unfunded Actuarial Liability -PERS / TRS (\$000's)(Information Only)."

Co-Chair Stedman felt that the combined slides may result in not recognizing the issue of the two trusts.

Mr. Desai agreed.

10:14:04 AM

Mr. Desai displayed slide 15, "Additional State Contributions -History."

Mr. Worley explained that that there was a bill that required the state to pay the full actuarial rate, which contributed to the decrease between 2022 and 2023.

Co-Chair Stedman queried the total additional payments made for the pension.

Mr. Worley agreed to provide that information.

Co-Chair Stedman wanted a focus on cash flow to the unfunded liability.

Mr. Desai pointed to slide 16, "Additional State Contributions -Projected."

Co-Chair Stedman remarked that the complexity of the issue always "had a moving target" from inflation, market reductions, and longer life expectancies.

10:21:15 AM

Mr. Worley looked at slide 17, "FY2025 Contribution Rates Health Plan -Zero Normal Cost Impact on Contribution Rates."

Co-Chair Stedman wanted to explore the redirection of the cash flow.

Co-Chair Hoffman agreed.

10:25:13 AM

Co-Chair Stedman wanted an appropriation for anything that was due on the unfunded liability.

Mr. Worley pointed to slide 18, "HealthCare Trusts Funded Level."

Co-Chair Hoffman stressed that the legislature contributed to get to the place in the market.

[10:30:09 AM](#)

Senator Kiehl remarked that health care predictions was extremely volatile, and felt that there should be further normal cost contributions.

Co-Chair Stedman stated that there would be discussions about appropriate overfunding, but stressed that the overfunding of health care was successful.

Mr. Worley commended the employees that were instrumental in running the program.

Co-Chair Hoffman pointed out that there were four members on the committee that were around 17 years prior.

Mr. Desai discussed slide 19, "FY2025 Contribution Rates - Defined Benefit Plans."

[10:35:00 AM](#)

Co-Chair Stedman corrected his statement related to TRS.

Mr. Desai highlighted slide 20, "FY2025 Contribution Rates -Defined Contribution Plans."

Mr. Desai pointed to slide 21, "Contribution Rates - History."

Co-Chair Stedman wondered whether the slide related to nonstate employers.

Mr. Desai replied that it was for all state and nonstate employers.

Mr. Desai looked at slide 22, "Projected Pension Benefit Recipients."

[10:40:38 AM](#)

Mr. Desai addressed slide 23, "Projected Pension Benefits Payment (\$000's)."

Co-Chair Stedman wondered whether the projected went to the year 2100.

Mr. Desai explained that there were 11,000 active members in the defined benefits program. It was assumed that the retirees would continue to receive payments through the end of the century.

Mr. Desai displayed 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).

[10:46:49 AM](#)

Mr. Desai discussed slide 25, "An Employer Group Waiver Plan (EGWP) Subsidy."

Mr. Worley pointed to slide 26, "HealthCare Cost Trend Rates."

Mr. Desai highlighted slide 27, "Employers and Additional State Contributions Process Timeline."

[10:50:56 AM](#)

Co-Chair Olson looked at slide 24, and wanted to know how the \$1 billion savings were the result of an additional option.

Mr. Desai replied that the previous program were expensive.

Co-Chair Olson surmised that there was also a federal inducement of funds.

Mr. Desai agreed.

Co-Chair Stedman discussed committee business.

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ADJOURNMENT
10:55:24 AM

The meeting was adjourned at 10:55 a.m.