

HOUSE FINANCE COMMITTEE
February 3, 2026
1:48 p.m.

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CALL TO ORDER

Co-Chair Josephson called the House Finance Committee meeting to order at 1:48 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Andy Josephson, Co-Chair
Representative Calvin Schrage, Co-Chair
Representative Jamie Allard
Representative Jeremy Bynum
Representative Alyse Galvin
Representative Sara Hannan
Representative Nellie Unangiq Jimmie
Representative Elexie Moore
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Kathy Lea, Director, Division of Retirement and Benefits, Department of Administration; Christopher Novell, Chief Financial Officer, Division of Retirement and Benefits, Department of Administration; Chris Murray, Acting Deputy Director of Health and Acting Chief Health Administrator, Division of Retirement and Benefits, Department of Administration; Representative Dan Saddler.

PRESENT VIA TELECONFERENCE

David Kershner, Consultant, Gallagher.

SUMMARY

PRESENTATION: FUNDING STATUS OF PUBLIC EMPLOYEES'
RETIREMENT SYSTEM AND TEACHERS' RETIREMENT SYSTEM

Co-Chair Josephson reviewed the meeting agenda.

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

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KATHY LEA, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS,
DEPARTMENT OF ADMINISTRATION, introduced herself.

CHRIS MURRAY, ACTING DEPUTY DIRECTOR OF HEALTH AND ACTING
CHIEF HEALTH ADMINISTRATOR, DIVISION OF RETIREMENT AND
BENEFITS, DEPARTMENT OF ADMINISTRATION, introduced himself.

Ms. Lea provided a PowerPoint presentation titled "State of Alaska Department of Administration Division of Retirement and Benefits: Presentation to the House Finance Committee: Funding Status Update: Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS)," dated February 3, 2026 (copy on file). She began on slide 2 and detailed that the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) were organized amongst three components. The Department of Revenue (DOR) Treasury Division handled the investments for the defined benefit (DB) plans and helped determine investments available to members in the defined contribution (DC) plan. The division employees were staff to the Alaska Retirement Management Board (ARMB) and had an internal and external investment team. Second, ARMB was charged with the fiduciary duty over the investments. The board set the contribution rates and invested all of the retirement system assets including the health insurance for retirees. The board had an investment advisory committee and had a secondary actuary to review the primary actuary's assumptions and work on rate setting for the plans. Third, the Division of Retirement and Benefits (DRB) was housed under the Department of Administration (DOA). The DRB fiduciary was the DOA commissioner, who was the plan sponsor by statute. The division administered the retirement and health benefits. The division had the valuation actuary (the primary actuary) and several third-party administrators it worked with for the retiree health plans and for record keeping. Additionally, DRB conducted audits of the employers to ensure they understood how they were supposed to report

salary and service information to the division to maintain compliance.

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CHRISTOPHER NOVELL, CHIEF FINANCIAL OFFICER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, addressed noted that DRB's principal actuary David Kershner with Gallagher was available online. He reviewed the layout of the presentation. He would speak about PERS and TRS. Mr. Murray would address the health funds. Lastly, Ms. Lea would address the e-reporting outage that occurred in November 2024 and restoration, which took until July 2025.

Mr. Novell reviewed slide 3 titled "Membership (as of June 30, 2025)." There were 105,471 [PERS and TRS] members. He detailed that active participants in PERS DB plans versus PERS DC plans were split 20/80 and the TRS split was 25/75 DB and DC respectively. The DB plan closed to new enrollment in 2006; therefore, the membership split was expected to increase favorably to the DC plan.

Mr. Novell addressed slide 4 titled "Investment Experience." The FY 25 valuation was still in draft form to be officially submitted to ARMB in March. The assumed actual earnings remained at 7.25 percent since 2022 for PERS and TRS. Basing earnings on the fair market value of assets for 2025, PERS and TRS were 10.8 and 10.9 percent respectively. The draft valuation put the actuarial value of the PERS and TRS assets at 9.3 percent. He noted that the valuation used a five-year smoothing method with the intent of eliminating market volatility or extreme peaks and troughs. The assumptions were reviewed every four years and submitted to ARMB.

Representative Bynum looked at the chart on slide 3 and noted the chart specified tiers for PERS and TRS plans. He asked for verification that the DC plans were Tier 4 under PERS and Tier 3 under TRS.

Mr. Novell replied affirmatively.

Representative Bynum wanted to ensure it was clear to the public.

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Mr. Novell turned to slide 5 titled "Funded Status - Pension (\$ thousands)." The PERS pension liability in draft form was \$17.3 billion and the actuarial valuation of assets was \$12.2 billion. The numbers left the PERS DB plan at \$5.1 billion unfunded or 70.3 percent funded. The same calculation using fair market value of assets returned a similar funded amount of 71 percent. The TRS pension liability for 2025 was \$8.1 billion and the actuarial valuation of assets was \$6.4 billion, leaving the plan at \$1.6 billion unfunded or 79.8 percent funded. The pattern across the past three years showed that both funds had increased their funded ratio each year.

Co-Chair Josephson thought it was noteworthy. He thought there were substantial improvements. He observed that funded portion was growing rather remarkably.

Mr. Novell confirmed there had been three years of year-on-year improvement on the funded ratio. He moved to slide 6 titled "Funded Status - HealthCare (\$ thousands)." He highlighted that the negative numbers on rows c and f showed DB healthcare to be over funded with a funded ratio for PERS based on actuarial valuation of assets of 132.1 percent or 133.5 percent based on the fair value of assets. The TRS DB healthcare actuarial valuation of assets was 140.6 percent or 142.2 percent based on the fair value of assets.

Representative Bynum asked for detail about why the PERS healthcare funded ratio was around 130 percent and the pension funded ratio was about 70 percent. He believed both had been implemented around the same timeframe. He asked why one was performing very well and the other was not.

Mr. Novell replied that the primary reason was the EGWP [Employer Group Waiver Plan] subsidy granted to Alaska in 2019. There was a chart later in the presentation showing that the overfunded status for PERS and TRS coincided with 2019 and the EGWP subsidy.

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Mr. Novell moved to a chart on slide 7 titled "Funded Ratio - PERS Pension and HealthCare (Based on Actuarial Valuation Reports)." He stressed that the pension and healthcare funds were separate and could not be used to offset each other. The side by side chart was for visual purposes only.

The chart showed pension in blue and healthcare in orange. The PERS pension was shown below the 80 percent mark whereas healthcare was over 130 percent. He pointed out that healthcare moved into overfunded status around 2018.

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Mr. Novell moved to slide 8 titled "Funded Ratio - TRS Pension and HealthCare (Based on Actuarial Valuation Reports)." The chart for TRS told the same story as PERS with an overfunded healthcare fund and an underfunded pension fund.

Representative Hannan asked if any of the healthcare growth was indicative of all pension health plans as retirees moved to Medicare eligibility. She was a TRS retiree and had recently moved to Medicare. She assumed she was less burden on the healthcare retiree because Medicare came first. She asked if it was impacted as retirees aged into the Medicare demographic. She noted that many Tier 3 employees could not retire until they were 65 and were immediately primarily Medicare recipients before drawing on the health trust.

Mr. Murray answered affirmatively. He explained that when retirees became Medicare eligible, Alaska statute required the plan pay supplemental to Medicare. The retiree population was aging (the DB retirees were starting to age) and year over year there was a significant increase in the number of retirees who were Medicare age eligible. The last he heard it was about 80 percent of DB retirees. The number had continued to increase and had reached a peak where it was starting to level off and perhaps even decline for DB retirees. He confirmed there was a lower burden on the AlaskaCare retiree healthcare trust and plans for retirees who were Medicare age eligible and Medicare paid primary; however, it was a much less significant contributor to the overfunded status of the plans than EGWP that was implemented in 2018. He noted that EGWP reduced the liability by about \$1 billion. He pointed to the charts on slides 7 and 8 and highlighted that the overfunded status of the healthcare trust continued to increase. The situation mentioned by Representative Hannan was a contributing factor to a small degree, but it did not come close to the impact of the EGWP implementation.

Representative Hannan asked for a reminder of what EGWP was and whether it was annual or a one-time \$1 billion infusion.

Mr. Murray noted there were slides later in the presentation on the topic. He offered to answer the question immediately or to address it in the later slides. [EGWP was addressed later on slide 21.]

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Mr. Novell advanced to a table on slide 9 titled "Correlation between Actual Rate of Return and Funded Ratio - Pension only." He highlighted that the percentages in bold showed a change in the assumed actual earnings rates. Since 2000, the assumed actual earnings rate was changed three times, most recently in 2022 to 7.25 percent. The 30-year average was shown at the bottom of the table. He remarked that in analyzing the data, it was important to consider the impact of the \$3 billion infusion in 2015 when looking at the funded ratio.

Representative Stapp remarked that the table did not show actual projected liabilities and how they had changed over time. He asked why the information did not include the number of times the accrued liability projections had been changed as opposed to the rate of return projections.

Mr. Novell offered to follow up with the information to show a side by side comparison.

Representative Stapp referenced Mr. Novell's remarks that the assumed rate of return had been ratcheted down on three occasions. He found it more interesting to see that the total liabilities had doubled on a projected basis in the past 20 years on a closed plan. He wondered why. He thought it would be helpful to hear about the driving factor behind the metric and to see it on a slide.

Mr. Novell deferred the question to Mr. Kushner online.

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DAVID KERSHNER, CONSULTANT, GALLAGHER (via teleconference), stated his understanding of the question.

Representative Stapp agreed.

Mr. Kershner replied that the assumed investment return rate was one element used to measure the value of future benefits and liability. Alaska statute required an experience study every four years, meaning that they reevaluated all of the assumptions every four years. They updated assumptions of how long people were anticipated to live, when participants were expected to retire, the rate salaries were expected to increase over time, etcetera. He explained that every time an experience study was conducted there was a resulting increase in the liability due to all of the assumptions, not just the assumed investment rate. The other factor was the actual experience of the plan. Until the most recent year, there was a series of years with very high inflation, meaning the post retirement pension adjustment (PRPA) - the Consumer Price Index (CPI) linked cost of living increases received by PERS and TRS retirees - had been considerably higher than projected based on inflation assumptions. Additionally, there had been considerably larger increases in salaries, particularly for PERS peace officers and firefighters, which had contributed to larger than expected liabilities.

Mr. Kershner summarized that a combination of the factors had caused the pension liability to increase more rapidly. Whereas, in addition to the implementation of EGWP in 2018, there were several successive years in the healthcare liability where actual claims paid by the plan had been less than assumed. He noted there had been a turnaround in the past couple of years where claims were higher. Every year it was a series of moving parts that all contributed to the effects Representative Stapp was describing.

Representative Stapp asked for verification that every time the experience study had been conducted, the projected liability of the plan was more than assumed.

Mr. Kershner answered that it was correct in the past several years.

Co-Chair Josephson stated that recently a national group challenging reform of the pension system claimed that since 2001 Alaska's pension plans earned only 5.8 percent in annual returns on average. He asked if it was consistent with Mr. Kershner's knowledge and slide 9.

Mr. Kershner responded that he was not aware of the statistic. Based on the calculations [shown on slide 9], the average return over the period shown on the slide [2000 to 2025] was about 7.6 percent. The valuation reports also included historical market rates and according to Gallagher's calculations, the cumulative market return for PERS and TRS was about 7.9 percent from 2005 to 2025. He was not certain where the statistic cited by Co-Chair Josephson came from.

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Representative Bynum asked Co-Chair Josephson to share the information he had referenced.

Co-Chair Josephson responded affirmatively.

Representative Bynum asked for the information provided by the department at Representative Stapp's request to be shared with the committee.

Co-Chair Josephson asked if Representative Stapp had requested follow up information.

Representative Stapp requested the items articulated by Mr. Kershner that were not included in the slide deck. He noted that the assumptive rate of return reflected one lever but not the others that went into the cost basis.

Co-Chair Josephson recognized Representative Dan Saddler in the room.

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Mr. Novell turned to a chart on slide 10 titled "Unfunded Actuarial Liability - PERS (in \$millions)." The chart showed the unfunded actuarial liability in dollars rather than as a percentage of funded ratio (shown on slide 7) since 2006. The pension fund was shown in blue and healthcare was shown in orange. He highlighted that from 2018 going forward, healthcare moved to being overfunded.

Representative Bynum understood that 2018 was the year of the influx of funding for the healthcare component. He looked at the trend from 2010 going forward and highlighted that the amount continued to decline and had been hovering around a neutral point starting in 2015. He asked if the

trend would have continued without the influx of dollars in 2018.

Mr. Novell responded that he would have to follow up on the question.

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Mr. Novell moved to slide 11 titled "Unfunded Actuarial Liability - TRS (in \$millions)." The slide showed healthcare for TRS as overfunded, beginning three years earlier than PERS. Slide 12 showed historic additional state contributions from 2006 to 2026 including the \$3 billion infusion into the plans in 2015 under HB 119.

Co-Chair Josephson asked why the governor's budget had about \$35 million less than the contribution recommended by ARMB.

Mr. Novell replied that DRB was not part of the discussions related to the budgeted state contribution. He deferred the question to ARMB.

Representative Bynum thought it was a great question. He wondered if the committee could get a recommendation from the professionals involved. He thought it was something the state should be fully funding at the recommendation of the ARMB. He wondered about the long-term impact.

Co-Chair Josephson asked his staff to take note of the request.

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Mr. Novell advanced to slide 13 showing additional state contributions projected from 2027 through 2039. He moved to slide 14 showing the difference in additional state contributions and employer contributions with the inclusion and omission of the health plan normal cost. The difference was \$63.8 million. In recent years, the healthcare normal cost was set at zero, which was influenced by overfunding of the health plans.

Representative Hannan looked at the table on slide 13 showing the additional state contributions for PERS in 2039 were projected to be zero. She asked if it indicated the plan was expected to be paid off by 2039.

Mr. Novell replied affirmatively. He noted that the projections had yet to be finalized by ARMB and its actuaries. The data reflected the assumption the plan would be fully funded by 2039.

Representative Hannan asked if there was reason not to anticipate that the TRS plan would be fully funded by 2039.

Mr. Novell answered that under the scenario PERS would be paid off by 2039 whereas the TRS final payment of \$81 million would be in 2039.

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Representative Hannan asked if TRS would show as paid off in 2040.

Mr. Novell replied affirmatively.

Representative Stapp remarked that it was assuming that current assumptions came to fruition. He wondered if he had asked if the liabilities projected on the plan 10 years back were accurate if the debt would have already been paid. He thought the answer was yes.

Mr. Novell asked for a repeat of the question.

Representative Stapp stated that it was assuming the assumptions were true. He thought the plan would be paid off already if the liabilities projected in 2014 came to fruition.

Mr. Novell replied that it was a fair assumption.

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Mr. Novell turned to slide 15 titled "Healthcare Trusts Funded Level." The slide showed the actuarial projections of the funded level of healthcare trusts over the next 14 years with and without the normal contributions.

Representative Bynum remarked that the fund was protected and it was not possible to move funds away from the healthcare trust. He asked what would happen when there were no more participants receiving the benefit.

Ms. Lea answered that because the health funds also served the DC funds, there was an option available when there were no longer any participants in a fund, there could be some movement [of funding] to a similar fund. She pointed out that assumptions looked over the lifetime of a member and their survivor. She detailed that when the last person retired it was at least 40 to 60 years from then when they may pass away. She explained it was very difficult to project what the balances in the accounts would be. She added that slide 15 also included EGWP, which was a federal plan that was not guaranteed and could stop at any time. She elaborated that at that point the funding for the health plans would start to regress. The last she heard it would be 6 to 12 years before the [healthcare] trusts were down to 100 percent, but they would potentially continue to trend downwards depending on claims and how long people were living. She reiterated it was very difficult to give a specific answer.

Representative Bynum stated his understanding that it was complicated.

Ms. Lea agreed.

Representative Hannan remarked that they were continuing to take contributions for people into a fund that was overfunded. She looked at slide 15 and observed that it showed growth to 220 percent overfunded in the TRS health plan [by 2039]. She understood being conservative and making sure there was sufficient funding to serve beneficiaries; however, at some point it appeared they were taking money to invest in what was perhaps not the best use of the funds in perpetuity. She asked if ARMB was recommending zero contributions from members.

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Ms. Lea replied that the slide reflected employer costs [slide 15], not employee costs. She confirmed there was the thought that no further contributions were needed for a time because the plans were overfunded.

Representative Hannan clarified that she meant employers when she used the word members. She highlighted that all of the employer groups from school districts and municipalities were struggling financially, but the state was continuing to ask them to contribute to a plan that was

overfunded. She asked if ARMB was recommending taking a brief timeout from continuing to fund at the current rate or ratcheting it down substantially. She suggested it would give some short-term economic relief without harming beneficiaries.

Ms. Lea replied that slide 15 reflected what the effect would be if there were no additional contributions taken. Without additional contributions the trend was an increase [in the funded level of the healthcare trusts]. She could not speak for ARMB, but she knew it was something the board was looking at. She noted ARMB passed a couple of resolutions to expand benefits.

Representative Stapp stated that as recently as FY 21, the healthcare portion of PERS was funded at 142.7 percent. He pointed out that five years later in FY 26, it was still overfunded, but it had declined to 131 percent. He asked how it was possible to model linear growth in funded status without contributions.

Ms. Lea replied that the figures were based on assumptions known at present and potential trends. The numbers had been determined by the actuaries. She remarked that claim experience would change the numbers. For example, there had been a \$12 million claim in the employee plan in the past year. She elaborated that new pharmaceuticals and medical treatments were very expensive, which would impact the ratio. She reiterated that the figures on the slide were based on information known in the present day.

Representative Stapp agreed. He understood the numbers were based on large claims, pharmaceutical experience, and the experience of the plan. He referenced 2013 when the healthcare projected liability was \$2.2 billion. He was concerned that without normal contribution to the plan there was a chart showing that valuation would continue to increase exponentially; however, it was evident that was not the case even with recent experience in the plan. For example, in FY 21 the funded level was 141 percent and it had subsequently trended downward because of adverse plan experiences. He did not want people on the committee to think that the funded level would continue to increase merely because it was shown on a slide. He stressed that every time an experience study had been done on the pension portion of the plan, it had been wrong and the state always ended up owing more money. He emphasized that the

expectation that the healthcare portion would continue to be overfunded even without additional contributions was likely incredibly unrealistic.

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Mr. Novell moved to slide 16 titled "FY2027 Contribution Rates - Defined Benefit Plans." The slide showed the FY 27 contribution rates for the DB plan and how they were calculated to arrive at the total actuarial required contributions for the employer and employee. The calculation included employee rates for peace officers and firefighters, all other employees, the school district alternate option and TRS employees, employer rates (capped by statute at 22 percent for PERS and 12.56 percent for TRS), and additional state contributions including the DCR contribution of 5.5 percent for PERS and 20.58 percent for TRS.

Mr. Novell turned to slide 17 titled "FY2027 Contribution Rates - Defined Contribution Plans." He detailed that 8 percent of gross was paid by the employee with an employer match of 5 percent for PERS and 7 percent for TRS. All of the employer contribution rates were added and the difference between that and the 22 percent for PERS and 12.56 percent for TRS went towards the DB plan's unfunded liability.

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Mr. Novell advanced to two graphs on slide 18 showing historical contribution rates for PERS and TRS. The slide showed the difference between the statutory rates for PERS and TRS and the actuarially determined rates. The spread between the blue and orange lines on the two graphs reflected the portion covered by additional state contributions.

Mr. Novell addressed slide 19 titled "Projected Pension Benefit Recipients." The graph showed projected benefit recipients through 2053. As more people retired, the pension benefits were forecasted to rise to a peak in 2030 for PERS and TRS in 2031. He noted that new employees went into the Tier 4 DC plan; therefore, DB recipients would become less in number.

Representative Bynum referenced slides 16 through 18. He asked if there was a historical side by side cost comparison for what the state and employers were paying for the DB plan cost including the 22 percent cap and the state's share versus what employers paid for the DC plan up to the 22 percent cap that also paid for the DB [liability]. He requested a similar chart to those on slide 18 to show the comparisons.

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

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Mr. Novell moved to slide 20 titled "Projected Pension Benefits Payment (\$ thousands)." The slide showed that TRS would peak with \$686 million in benefit payments in 2033 and PERS would peak with \$1.5 billion in 2038. Recipient dollars would gradually decrease to near zero at the end of the century.

Mr. Murray addressed slide 21 titled "AlaskaCare Employer Group Waiver Plan." He explained that EGWP was a group Medicare Part D prescription drug plan option. He detailed that just as anyone who was Medicare-age eligible could purchase their own Medicare Part D plans, EGWP was a plan purchased by an employer/group that all of the state's retirees were enrolled in. The EGWP plan, operated through the Centers for Medicare and Medicaid Services (CMS), provided direct subsidies to the plan on a monthly basis. He noted that the subsidies changed from year to year. He referenced Ms. Lea's earlier statement that there was no guarantee EGWP would continue. When EGWP was implemented in 2018, it reduced liabilities in the retiree healthcare plans by \$959 million. He clarified that it was not an injection [of funding], it was merely a reduction in future liabilities for the retiree healthcare plans, specifically pharmacy related.

Mr. Murray addressed EGWP subsidies on slide 22. The EGWP plan provided multiple types of subsidies. The direct subsidy typically came on a monthly basis. The catastrophic reinsurance was a reinsurance program that was designed to help with very high cost medications. He noted there were various other subsidies. He pointed out that subsidies had totaled \$64 million in 2021 and had reached \$107 million in 2025. He highlighted that in the earlier years the direct

subsidies were negative and the catastrophic reinsurance was significantly higher due to the [federal] Inflation Reduction Act. Some changes in the calculation of the subsidy payments were made and CMS was paying a significant increase in direct subsidies less catastrophic reinsurance; however, there was no guarantee it would continue. He pointed out that subsidy amount changed from year to year and happened to have worked out in Alaska's favor thus far.

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Representative Stapp asked how the projected liabilities and funded status of the healthcare portion of the plan would be impacted if the federal government discontinued EGWP.

Mr. Murray answered that he did not have specific numbers, but it would be a significant blow to the funding status/health of the plan. The primary reason for the overfunding starting in 2018 was due to the EGWP subsidies. He would have to take the question to the actuarial consultant in order to provide specific numbers.

Representative Stapp stated it would be helpful to know what the impact would be if CMS ended the EGWP subsidies. For example, he wondered if the funded status would drop below 100 percent.

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

Co-Chair Josephson asked for the information to be provided through his office.

Representative Hannan asked if every state's public pension program participated or was eligible to participate in the EGWP subsidies.

Mr. Murray replied that he did not have a direct answer to the question. He relayed that some states participated in EGWP, while others did not. He did not know whether all states were eligible. He would follow up with the answer.

Representative Hannan would like to know the answer in order to have an understanding whether Alaska was one of 10 states benefitting [from EGWP] or if all 50 states had

pressured Congress to continue the subsidies because pharmaceutical costs had driven up healthcare.

Co-Chair Josephson liked the question because political pressure was a powerful thing. He recognized that Social Security could also be ended.

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Representative Hannan looked at the chart on slide 22, particularly the drastic reduction to catastrophic insurance in 2025. She referenced the footnote on the slide reflecting that a true-up would occur. She thought the low number for catastrophic reinsurance was likely because of a lag time in billing and not due to a dramatic downturn in the number of beneficiaries in need of cancer treatments and oncology services. She surmised that the subsidy matched what the state paid out.

Mr. Murray responded that the number was a result of the Inflation Reduction Act. He explained that the federal government changed the formula, which had increased the direct subsidies and decreased the catastrophic reinsurance. The intent was to incentivize plans to better manage high cost drugs. He detailed that it shifted the liability from the federal government to particular plans. In 2025, the federal government significantly increased direct subsidies and decreased the catastrophic reinsurance reimbursement.

Representative Hannan asked if the state would be able to meet the needs of Alaskans who need catastrophic reinsurance. She queried whether the state was making the payments to ensure they continued their medical treatments that were "horrific and over the top."

Mr. Murray answered that the DB plan retiree health benefits were robust. Retirees were currently paying either a zero dollar premium, \$4 premium, or \$8 premium for a medication that could cost tens to hundreds of thousands of dollars. The retiree health trust funds were currently overfunded. He stated that it certainly looked good at present, but he was hesitant to say yes because it was impossible to know what could happen in the future. He noted that one of the upcoming slides showed healthcare and pharmacy trends. He noted they increased year over year. He remarked that care was very expensive in Alaska. They were

constantly reassessing and looking for ways to manage the cost in order to ensure it [catastrophic reinsurance] was available.

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Representative Bynum stated his understanding that EGWP was an opt-in program that states could choose to participate in. He asked if it was a guaranteed benefit the state was required to provide. He asked if the state could opt out of EGWP.

Mr. Murray replied that he did not know the answer and would follow up with the information.

Representative Allard asked about the statement that the [healthcare] plan was overfunded. She asked how much the plan was overfunded.

Mr. Murray returned to slide 15 showing that as of 2026 PERS was overfunded to 131 percent and TRS was overfunded to 140 percent.

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Representative Stapp asked about the amount of claim loss until the reinsurance kicked in.

Mr. Murray answered that it was a percentage and it was recently changed. He would follow up with the precise numbers.

Representative Stapp referenced Ms. Lea's earlier statement that there had already been a \$12 million claim. He believed it would clearly hit the catastrophic reinsurance portion. He asked about the ramifications if there was a claim valuation above the reinsurance numbers paid for by EGWP. He highlighted that \$15.7 million [shown on the catastrophic reinsurance funding level line for 2025 on slide 22] was relatively close to \$12 million. He considered the possibility of a couple of additional catastrophic claims [which would reach \$15.7 million]. He assumed the state was on the hook for the cost because the reinsurance would have to cap out at some point.

Mr. Murray answered affirmatively. He clarified that the \$13 million claimant was on the employee plan, not the

retiree plan and would not apply to the current discussion. With the increase cost of drugs for genetic treatments paid through the pharmacy plan and the low cost shares DB retirees were paying - \$0, \$4, and \$8 - a fair amount was covered by CMS, but it had decreased in recent years. The answer was yes; it would fall on the retiree health plan to pick up the rest. Current projections still showed the plans would remain overfunded, notwithstanding some unforeseeable disastrous change in CMS or EGWP.

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Representative Stapp wondered how many catastrophic claims it would take to have a material impact on the funded status of the plan.

Mr. Murray answered that he would follow up with the information.

Mr. Murray advanced to a table showing healthcare cost trend rates on slide 23. He detailed that rates were projected to increase annually. He highlighted that the prescription rates in the column labeled "RX/EGWP" were projected to increase by 8.5 percent in 2026 and 8.2 percent in 2027, eventually going down to 4.5 percent in 2050. He noted that the chart continued to go up and there was no expectation that healthcare would get any less expensive.

[2:50:17 PM](#)

Mr. Novell moved to the employers and additional state contributions process timeline on slide 24. The slide showed the process timeline from valuations to ARMB resolution on additional state contributions to pay down the unfunded PERS liability. The division was conducting its four-year experience study in March to reassess the demographics, economic assumptions, and payroll assumptions.

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Ms. Lea turned to slide 25 titled "eReporting Outage - Key Dates and Events." She shared that on November 4, 2024, DRB was notified by the state security office of an attempted intrusion into the agency's systems. Consequently, DRB systems were shut down while the security investigation

occurred. The investigation showed no breach of the division's information; however, it had been recommended that the division move its systems to the state cloud to provide additional protections. The agency followed the recommendation but discovered its employer reporting tool was not compatible with the cloud and needed some reprogramming. As a result, DRB was unable to accept employer contribution reporting from November 4 [2024] to February 6 [2025]. In the intervening time, the division developed a manual process to process some employer contributions, but it was laborious and time consuming. She relayed that eReporting came back online on April 9 [2025] and from that point DRB had a three-phased process in order to post all of the back contribution reports. She explained that reports had to be submitted in order of date; therefore, it took time to collect and post all of the reports. The division was grateful for the cooperation it received from employers while it caught up.

Ms. Lea explained that because DRB was not posting the contributions timely into the DC members' accounts, there was an assumed loss of gains/losses to their accounts for that intervening time. The federal government required DRB to make accounts whole; therefore, DRB requested a \$2.6 million appropriation based on an estimate of what it thought the amount would be. The division used the U.S. Department of Labor Voluntary Fiduciary Correction program calculator online. She detailed that as the division sent in contributions it was processing, its partner and record keeper Empower calculated the gains or losses and posted them to the participants' account. Empower also periodically notified DRB of the amount so DRB could transfer the money to them. The total amount paid out was \$1.3 million including \$692,000 to PERS, \$552,000 to TRS, and \$64,000 to SBS. All employers but one were caught up on their contributions. The division was still working to get the contributions processed. There was a remaining balance of \$1.3 million, which would be returned to the state on June 30, 2026.

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Ms. Lea moved to slide 27 and thanked the DRB staff for their collaboration with the communications team and counseling resources to keep members and employers notified about what was transpiring with their accounts. The division posted frequent updates on its website and sent

letters to employers and employees so they understood they would be made whole. Empower provided the resources to do the work quickly and without its help she was not certain DRB would be returning money. She noted that it would have taken the division a very long time. She added that Empower deployed resources to the project free of charge. Consequently, everyone was caught up and DRB would return \$1.3 million to the state.

Representative Hannan asked how communications to impacted employees were made. She asked how calculations were done to determine amounts to be received by employees and whether employees could challenge the number if they thought it was inaccurate.

Ms. Lea answered that employees had been notified that they could challenge the amount if they did not agree it was accurate. Upon request, Empower would provide the actual calculation that came from the federal Department of Labor calculator. The information was sent to members by letter and included on the DRB website.

Representative Hannan asked if the initial notification to employees was by letter only. She asked if there were other communications to employees that their contributions were not accruing to their accounts. She reasoned that Empower statements did not go out monthly and unless someone was checking their online portal, it may be an entire quarter before they knew a contribution had not been made.

Ms. Lea believed the first couple of notifications were given to employers and employers were asked to pass the information on to all of their employees participating in the plan.

Mr. Novell added that the information was also posted on the DRB website.

[2:58:07 PM](#)

Representative Hannan noted that putting it on the website meant that a beneficiary would have to be looking at the website for some reason. She remarked that many employees knew the process took place at payroll and only saw the numbers quarterly when they observed their account was growing. She was looking to determine if it was just a piece of mail sent and DRB instructed school districts and

municipalities to inform their employees, but how they did so was up to them. For example, if employers only included the information in one line of a newsletter, it was a fairly passive method. She remarked that the system had been set up in a way that unless employees were reached out to, they would not look to see there was a problem posted on the DRB website. She asked if certified mail had been sent.

Mr. Novell replied that the division had only communicated with employers and put the responsibility on them to contact their employees.

Representative Bynum asked if employees were still able to go to the portal to make decisions based on where they wanted their contributions to go at the time the contributions were not occurring. He asked if employees were made whole based on where their elections would have been.

Ms. Lea responded that members still had full access to their accounts to make any changes they wanted. The correction was made taking into account where an employee's funds were at any particular time. She elaborated that if an employee made a change in between, Empower would have noted that and made the calculation up to the point of change and again from the point of change until completed.

[3:01:26 PM](#)

Representative Bynum had heard historically there had been some challenges with confidence from employees on how their assets were being managed. He reasoned that the hiccup with how contributions were made into the system, although employees were made whole, could create a shaky confidence from employees in the system. He asked if there had been any efforts from Empower or employers to better educate employees to make good, wise decisions and to build confidence in the current systems used for investments.

Ms. Lea replied there had been no official notice in that regard provided to employees. She shared that DRB staff and Empower representatives made sure to stress that the situation was an anomaly and there had not been a similar situation in the 30-plus years she worked for the agency. The agencies communicated that the situation was caused not by a system failure, but by an attempted intrusion.

Representative Bynum thanked the division for the presentation. He was interested in the budget process to talk about employee retention and when employees left, why it was happening. He assumed the current meeting was not the forum but there would be time for the discussions in the future. He asked if his assumption was correct.

Ms. Lea responded that the Division of Personnel was the correct agency to speak to the issue, they conducted exit interviews when employees left state employment. She noted that state employees represented over half the members in the system. Otherwise, DRB had no idea why an employee was leaving or why they wanted to make a disbursement.

[3:04:23 PM](#)

Co-Chair Josephson noted that the Division of Personnel had recently presented to the committee.

Representative Bynum referenced legislative concerns with vacancies and recruitment. He remarked that the committee had talked about the compensation and pay study the previous day and had been told there would be another opportunity to talk about it in more detail in the future. He thought it was important for the committee to have a better understanding of the issue when considering the health of state employees and the services provided.

Co-Chair Josephson shared the concern and noted that Representative Bynum had raised the issue the prior day. He noted that it was calendar sensitive and he would ask his staff to take note of the request.

Co-Chair Josephson reviewed the schedule for the following day.

#

ADJOURNMENT

[3:05:47 PM](#)

The meeting was adjourned at 3:05 p.m.