

SENATE FINANCE COMMITTEE  
February 5, 2025  
9:01 a.m.

[9:01:15 AM](#)

CALL TO ORDER

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

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Mike Cronk  
Senator James Kaufman  
Senator Jesse Kiehl  
Senator Kelly Merrick

MEMBERS ABSENT

Senator Donny Olson, Co-Chair

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; Senator Cathy Giessel.

PRESENT VIA TELECONFERENCE

David Kershner, Lead Actuary for the Division of Retirement and Benefits, Arthur J. Gallagher and Company, South Carolina.

SUMMARY

^OVERVIEW FUNDING STATUS PERS and TRS

[9:02:34 AM](#)

KATHY LEA, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, (DOA) introduced herself

[9:02:41 AM](#)

CHRISTOPHER NOVELL, CHIEF FINANCIAL OFFICER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, introduced himself.

[9:02:58 AM](#)

Ms. Lea discussed the presentation, "Funding Status Update" (copy on file). She looked at slide 2, "Organization -PERS / TRS." She pointed to slide 3, "Membership(as of June 30, 2024)." She addressed 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").

Mr. Novell discussed slide 5, "Funded Status -Pension (\$000's)."

Co-Chair Stedman requested information about the \$5.45 billion unfunded liability, and whether it was increasing or decreasing over time.

Mr. Novell replied that he recalled that it was around that marked for some time.

[9:09:38 AM](#)

Co-Chair Hoffman wondered whether the information was considered at a critical stage, or normal compared to other retirement funds.

Mr. Novell replied that Alaska was toward the bottom third of the nation in terms of a funded liability.

Co-Chair Hoffman asked whether that was a cause for concern.

Mr. Novell deferred to Mr. Kershner.

[9:11:14 AM](#)

DAVID KERSHNER, LEAD ACTUARY FOR THE DIVISION OF RETIREMENT AND BENEFITS, ARTHUR J. GALLAGHER AND COMPANY, SOUTH CAROLINA (via teleconference), explained that the funded ratio was a point in time, so it was not an overall picture.

[9:16:23 AM](#)  
AT EASE

[9:20:45 AM](#)  
RECONVENED

[9:20:49 AM](#)

Co-Chair Stedman remarked that examining the history of the defined benefit plan, and remarked that there was a current concern about pension.

Co-Chair Hoffman asked for the history of the pension and health care information.

Ms. Lea agreed to provide that information.

Co-Chair Stedman asked about the actuarial issue as well.

Mr. Kershner agreed to provide that information.

[9:27:19 AM](#)

Senator Kiehl remarked that the 2014 changes by the legislature were a conscious decision to make the payments in the future. He queried the impact of that decision.

[9:28:07 AM](#)

Mr. Kershner agreed, and stated that in 2014, the amortization method had changed by that decision.

Senator Kiehl appreciated the full picture.

[9:30:26 AM](#)

Mr. Novell looked at slide 6, "Funded Status -HealthCare (\$000's)." He pointed to slide 7, "Funded Ratio -PERS Pension and HealthCare(Based on Actuarial Valuation Reports)." He addressed slide 8, "Funded Ratio -TRS Pension and HealthCare(Based on Actuarial Valuation Reports)."

[9:32:24 AM](#)

Mr. Novell addressed slide 8, "Funded Ratio -TRS Pension and HealthCare(Based on Actuarial Valuation Reports)." He displayed slide 9, "Correlation between Actual Rate of Return and Funded Ratio -Pension only PERS."

[9:35:58 AM](#)

AT EASE

[9:36:31 AM](#)

RECONVENED

[9:38:22 AM](#)

Senator Kiehl wondered whether the difference in methodology accounted for 50 basis points or more.

Mr. Kershner replied that he was not sure if the slide was accurate.

[9:40:30 AM](#)

Co-Chair Stedman looked at slide 9, and requested a footnote because of the confusion.

Co-Chair Hoffman specified that the years 2000 and 2001 did not show the actual figures.

Senator Kaufman asked for the target and the relationship to the target.

Mr. Novell replied that he would work with Department of Revenue (DOR) and provide that information.

[9:44:49 AM](#)

Mr. Novell highlighted slide 10, "Correlation between Actual Rate of Return and Funded Ratio -Pension only TRS." He addressed slide 13, "Additional State Contributions - History (whole dollars)."

[9:49:12 AM](#)

Co-Chair Stedman queried the total number selection.

Mr. Novell replied that the \$8.5 billion was all the totals up to 2006.

Co-Chair Stedman wondered whether the number was normal cost or past service cost.

Mr. Novell replied that it was the past service cost.

Co-Chair Stedman surmised that it was the past service cost.

Mr. Novell agreed.

Mr. Novell discussed slide 14, "Additional State Contributions -Projected (whole dollars)." He pointed to slide 15, "Additional State Contributions and Past Service Cost PERS (whole dollars)."

Co-Chair Stedman queried the 22 percent and what might occur to claims above that percentage.

Mr. Novell replied that it was the statutory rate set by statute.

[9:56:48 AM](#)

Mr. Novell addressed slide 16, "Additional State Contributions and Past Service Cost TRS (whole dollars)." He displayed slide 17, "FY2026 Contribution Rates Health Plan -Zero Normal Cost Impact on Contribution Rates (whole dollars)."

[9:58:31 AM](#)

Mr. Novell pointed to slide 18, "HealthCare Trusts Funded Level." He addressed slide 19, "FY2026 Contribution Rates - Defined Benefit Plans."

[10:07:43 AM](#)

Mr. Novell discussed slide 20, "FY2026 Contribution Rates - Defined Contribution Plans."

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

Senator Kaufman asked why the actuarial rate was large.

Ms. Lea replied that the employer rate was capped by statute, and the actuarial rate was the cap needed to be fully funding in the year.

[10:09:49 AM](#)

Mr. Novell addressed slide 22, "Projected Pension Benefit Recipients."

Mr. Novell looked at slide 23, "Projected Pension Benefits Payment (\$000's)."

Co-Chair Stedman wondered why it was so long.

Mr. Kershner relayed that that the slide was for those who were currently receiving and anticipated pensioners.

[10:14:32 AM](#)

Ms. Lea pointed to 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 (\$752M for PERS, \$266M for TRS).

Ms. Lea pointed to slide 25, "An Employer Group Waiver Plan (EGWP) Subsidy."

Ms. Lea looked at slide 26, "HealthCare Cost Trend Rates."

Senator Kiehl stated that it was prescription spending.

Ms. Lea agreed.

Senator Kiehl surmised that the remaining columns were total medical spending.

Ms. Lea agreed.

Co-Chair Stedman thanked the department for the positive result in the health care portion.

[10:19:01 AM](#)

Mr. Novell addressed slide 27, "Employers and Additional State Contributions, Process Timeline":

Allocation of Projected Employer and Additional State Contribution Rates with Liabilities  
"Rolled Forward" for two years, Assets "Rolled Forward" for one year, and Smoothed.

Co-Chair Stedman queried the reason for the delay.

Mr. Novell deferred to Mr. Kershner.

Mr. Kershner explained that the information was provided quarterly and then those were full valuations at later dates. The lag allowed for the board to review the information.

[10:22:15 AM](#)

Mr. Kershner looked back to slide 26, and stated that the trend rates were the average per person costs.

Senator Kaufman queried the picture if a medication were created to extend life span and drive up drug costs.

[10:27:20 AM](#)

Mr. Kershner explained the complication in 2022, which changed the portion paid by the state by the employer / He looked at slide 13, which showed the historical state contributions. He pointed out the increase in 2022.

[10:35:49 AM](#)

Co-Chair Stedman appreciated the detail, and hoped for a normal cost for a single employee in each tier within PERS and TRS. He reiterated the importance of historic normal cost rates for the past 20 years by employee type. He hoped to work with the Legislative Finance Division and departments.

10:36:59 AM

Co-Chair Hoffman stressed that the retirement systems would be addressed in the current session. He remarked that the different tiers would be examined in those meetings.

Ms. Lea agreed to make the presentation more comprehensive based on the day's discussion.

Senator Kaufman remarked on the fund transfer and cloud migration. He hoped to discuss that issue.

Co-Chair Hoffman discussed the following day's agenda.

#

ADJOURNMENT

10:39:52 AM

The meeting was adjourned at 10:39 a.m.