

SB

141

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SB 141 Bill Version Comparison

		Changes contained in CS for Senate Bill 141(FIN)	HCS for Senate Bill 141(STA)	Page, Line (or Sec.)	HCS for Senate Bill 141(FIN) Work Draft "C"	Page, Line (or Sec.)	House Finance Workgroup
DC RETIREMENT ACCOUNT							
1	Benefit Formula	Increased employer contribution by 1% for a total (employee + employer) contribution of 12.5%	12.5% annual contribution (employer+employee contribution) to the DC account		NO CHANGE		
2	Rollover		Rollover accepted from qualified programs and you can roll over into a qualified program		NO CHANGE		
CONTRIBUTION DETAILS							
3	Employee Contribution Rates	DB Plan: Changed maximum increase to 50 basis points per year (.5%).	DB Plan: All changes eliminated. Existing employee contribution rates remain unchanged.		NO CHANGE		
4	Employer Contribution Rates		DB Plan: Employer cost is the difference between the actuarially calculated cost (normal rate + past service rate) less the member contribution rate, but may not be less than 11% for TRS and 10% for PERS.	P 7-8, Sec. 9 and P 72, Sec. 94	NO CHANGE		
5	Base Salary						
6		<p>DC Plan: Redistributed 8.25% employer contribution,</p> <ul style="list-style-type: none"> + 4.50% to DC account + 1.75% to Medical + 2.00% to HRA <li style="border-top: 1px solid black;">8.25% Total 	<p>DC Plan: Increased contribution for medical by 2% (3.75% TRS, 3.5% PERS). New total</p> <ul style="list-style-type: none"> + 4.50% to DC account + 3.75% to Medical + 2.00% to HRA <li style="border-top: 1px solid black;">10.25% Total TRS <li style="border-top: 1px solid black;">10.00% Total PERS 	P16, L 12 and P 83, L 22	<p>DC Plan: Returns to Medical Benefits in CSSB 141(FIN) and increases HRA contribution</p> <ul style="list-style-type: none"> + 4.50% to DC account + 1.75% to Medical + 3.00% to HRA <li style="border-top: 1px solid black;">9.25% Total 	P 15, L 17 and P 83, L 1, and P 58, L2	
VESTING DETAILS							

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		Changes contained in CS for Senate Bill 141(FIN)	HCS for Senate Bill 141(STA)	Page, Line (or Sec.)	HCS for Senate Bill 141(FIN) Work Draft "C"	Page, Line (or Sec.)	House Finance Workgroup
7	Vesting		Immediate for employee contributions. Fully vested in employer contributions after 5 years (1st year 0%, 2nd yr 25%, 3rd yr 50%, 4th yr 75%, 5th yr 100%)		NO CHANGE		
MEDICAL PROGRAM							
8	Medical Benefits	Removed requirement to "retire from system" and added option to defer participation to a date specified	Restored requirement to retire directly from system with minimum of 10 years of service for medical coverage	P 26, Ls 5-18 and P 93, Ls 15-28	Returns to CSSB 141(FIN) No requirement to retire directly from the system	P 25, L10-13 and P 92, L 25-29	
9			Access to medical coverage at normal retirement age (65) 18 months prior to Medicare eligible age with 10 years of service	P 26, Ls 23-30 and P 93, Ls 15-28	Access to medical coverage at Medicare eligible age (currently 65) with 10 years of service, or at any age after (1) 25 years for peace officer firefighter, or (2) 30 years for all others	P 25, L10-13 and P 92, L 25-29	
10			Upon reaching normal retirement age, employer subsidy of medical premium is 30% for 10 years of service, incremented by 3% each year. Maximum subsidy is 90% for 30 years or more. The only thing that changes at Medicare eligibility is the subsidy base premium dollar amount	P 27, L 30 thru P 28, Ls 1-5 and P 95, Ls 9-15	Retiree share of medical premium at Medicare eligible age based on years of service	P 26, L 21 thru P 27, L 4 and P 92.	
11			"Early retirees" (meets service but not age requirements) and survivors pay full premium until normal retirement age.	P 27, Ls 28-29 and P 95, Ls 7-8	NO CHANGE		
12			Added a limitation on dependent medical coverage if a spouse or dependent child was not the spouse or dependent child of an eligible member when that person was an active member, they do not qualify for coverage	P 27, Ls 8-11 and P 94, Ls 18-21	Deleted. This situation is already handled in CSSB 141(FIN) which provides medical coverage only for the dependent children of the eligible member if they are dependent on the surviving spouse (Example: the children of a surviving spouse from a second marriage will not be covered)		

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		Changes contained in CS for Senate Bill 141(FIN)	HCS for Senate Bill 141(STA)	Page, Line (or Sec.)	HCS for Senate Bill 141(FIN) Work Draft "C"	Page, Line (or Sec.)	House Finance Workgroup	
13	Health Reimbursement Arrangement (HRA)	Clarified HRA can be used even if not participating in State's medical insurance plan.	A person is eligible to apply for reimbursement from the HRA if they have met the eligibility requirements (AS 14.25.470 or AS 39.35.870), <i>except</i> the person does <i>not</i> have to retire directly from the system.	P 59, Ls 28-31	NO CHANGE			
14		Employer contributes 2% of annual average employer's group compensation.	Employer contributes 2% of annual average employer's group compensation.		Employer contributes 3% of annual average employer's group compensation.	P 58, L 2		
15		Changed five-year return requirement from "same" employer to "a participating employer."	Removed five-year return window and added accumulated interest during intervening time to restored account balance.	P 59, Ls 24-27	Allow a 10 year window for terminated, non-vested person to return to service. Account record will be restored <i>without</i> interest or other adjustment.	P 58, L 11-15		
RETIREMENT BOARDS								
16	Board Structure	Added transition: ASPIB continues until 9/30/05; ARMB effective 10/1/2005	NO CHANGE					
17	Board Members	Added definition of "recognized competence" as a person with at least 10 years working or teaching in the specified fields	Changed trustees to 3 appointed by Governor (only one a non-participant) and 4 elected (2 PERS, 2 TRS). Elections conducted by ARMB Board. Removed requirement that all members have "recognized competence" in specified fields only required of Governor appointees	P 47, L 11 thru P 48 L 5	Returns to board structure in CSSB 141 (FIN) where all trustees are appointed. Returns to 3 non-beneficiaries and 1 from PERS and 1 from TRS. <i>Adds</i> language regarding PERS and TRS members who may be selected from a list of nominees put forward by the [appropriate] bargaining units.	P 46 Ls 10-15		

SB 141 Bill Version Comparison

		Changes contained in CS for Senate Bill 141(FIN)	HCS for Senate Bill 141(STA)	Page, Line (or Sec.)	HCS for Senate Bill 141(FIN) Work Draft "C"	Page, Line (or Sec.)	House Finance Workgroup
18			Lost PFD eligibility requirement for elected board members		Appointed trustees must be eligible for an Alaska Permanent Fund Dividend	P 45, Ls 28-29	
19	Board Terms		Six year terms, maximum of two consecutive terms. One year break required	P 48, Ls 6-9	Four year terms, maximum of two consecutive terms. One year break required	P 46, Ls 15-19	
20	Board Duties	Added requirement for Board to evaluate the impact of the board's decisions on the state's economy, environment, and health.			Added requirement for ARMB to annually evaluate the impact of the board's decisions on the state's economy, environment, and health.	P 48, Ls 11-22	
21		There is a moratorium period after initial implementation of the act for the new board to present initial findings and recommendations to the Legislature.					
22	Board Compensation	\$150 per day including travel days			New: Increases per diem to \$400 per day to mirror APFC Board	P 50, L 6	
23	Office of Administrative Hearings (OAH)				NO CHANGE		
CHANGES TO EXISTING RETIREMENT PLANS							
24	AK Resident COLA	Reinstated			NO CHANGE		
25	Ad hoc PRPAs	Defined "financial condition of the retirement fund" for ad hoc PRPAs as 110% ratio of assets to liabilities (see Editor's notes under AS 14.25.143 & AS 39.35.483)			NO CHANGE		

SB 141 Bill Version Comparison

		Changes contained in CS for Senate Bill 141(FIN)	HCS for Senate Bill 141(STA)	Page, Line (or Sec.)	HCS for Senate Bill 141(FIN) Work Draft "C"	Page, Line (or Sec.)	House Finance Workgroup
26	Refunded Prior Members			<i>NO CHANGE</i>			
27	University of Alaska Optional Retirement Program	Changed AS 14.40.661-14.40.799 giving the Board of Regents flexibility to design both optional and mandatory retirement programs for future University employees. Specifies the University's retirement programs are not subject to collective bargaining. Also provides a one-time option for current employees who chose to participate in PERS or TRS to transfer into the existing optional retirement program.		<i>NO CHANGE</i>			

SB 141 Bill Version Comparison

		Changes contained in CS for Senate Bill 141(FIN)	HCS for Senate Bill 141(STA)	Page, Line (or Sec.)	HCS for Senate Bill 141(FIN) Work Draft "C"	Page, Line (or Sec.)	House Finance Workgroup
OTHER BILL COMPONENTS							
28	Transfer of Employee to DC Plan	Added option for the transfer of current non-vested (TRS Tier II and PERS Tier III) employees to the DC plan. Unlimited enrollment period. Employer must make new contribution (cannot take from DB trust) and has first option to allow a			NO CHANGE		
29	Prescription Drug Changes				NO CHANGE		
30	Participating Employers	Added an option for political subdivisions and public organizations who do not currently participate in PERS and TRS to join the DC plan in the future.			NO CHANGE		
31		Added specific employers already participating in PERS and TRS to allow their future employees to participate in the DC plan (defined benefit plans closed on July 1, 2005).			NO CHANGE		
32	Membership Service	Added language identical to current statutes that prevents members that participate in both PERS and TRS from claiming more than one year of service (ex., a full-time teacher in TRS that works part-time in a PERS position during			NO CHANGE		
33	Penalty for False Statements	AS 14.25.210	Removed the existing language that a person who knowingly makes a false statement "forfeits all rights under this chapter". Language conforms to PERS AS 39.35.670.	P 13, Sec. 25	NO CHANGE		

SB 141 Bill Version Comparison

		Changes contained in CS for Senate Bill 141(FIN)	HCS for Senate Bill 141(STA)	Page, Line (or Sec.)	HCS for Senate Bill 141(FIN) Work Draft "C"	Page, Line (or Sec.)	House Finance Workgroup
34	Definition of "teacher" AS 14.25.220 (DB plan) and AS 14.25.590 (DC plan)		Allow DOL instructors to remain in TRS if they were previously a TRS member.	P 14, Sec. 30, Ls 16-20	Deleted. The Dept. of L&WD has changed all positions at AVTEC to non-certificated. Mandating that certificated teachers participate in TRS even though employed in a non-certificated position opens the door to discrimination lawsuits.		
35	Legislative Intent		Added intent language in Sec. 1 that R&B implement by regulation cost-saving measures in the retiree health care system and give examples	P 2, Sec 1	Deleted. Intent language that R&B implement by regulation cost-saving measures in the retiree health care system and give examples		
36	Reporting Requirement		requires annual report to legislature by R&B on implementation of cost-saving measures	P 119, Sec 139	Deleted. The annual report to the legislature by R&B on implementation of cost saving measures		

4/28/05

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	Changes contained in HCS for Senate Bill 141(STA)	Page, Line (or Sec.)	Changes contained in HCS for Senate Bill 141(FIN) Work Draft "C"	Page, Line (or Sec.)
DC RETIREMENT ACCOUNT							
Benefit Formula	11.5% per year to DC account + investment earnings.	Increased employer contribution by 1% for a total (employee + employer) contribution of 12.5%	P 16, L 8 and P 82, L 6				
Rollover	Rollover accepted from qualified programs and you can roll over into a qualified program						
CONTRIBUTION DETAILS							
Employee Contribution Rates	DC Plan: 8% all members (PERS & TRS) DB Plan: TRS 8.65% or 1/2 of the normal cost rate. PERS: 6.75% and 7.5% (Police/Fire) or 1/2 of the normal cost rate. Maximum increase of 5% per year.	DB Plan: Changed maximum increase to 50 basis points per year (.5%).	P 7, L 30 and P 69, L 13	DB Plan: All changes eliminated. Existing employee contribution rates remain unchanged.			
Employer Contribution Rates	DB Plan: 50% of normal cost plus past service cost. May not be less than total normal cost after subtracting the member contribution.			DB Plan: Employer cost is the difference between the actuarially calculated cost (normal rate + past service rate) less the member contribution rate, but may not be less than 11% for TRS and 10% for PERS.	P 7-8, Sec. 9 and P 72, Sec. 94		
Base Salary							
	DC Plan: 8.25% total. + 3.50% to DC account + 3.75% to Medical + 1.00% to HRA <u>8.25% Total</u>	DC Plan: Redistributed 8.25% employer contribution: + 4.50% to DC account + 1.75% to Medical + 2.00% to HRA <u>8.25% Total</u>	P 16, Ls 8&10 and P 82, Ls 6&8; P 58, L 10	DC Plan: Increased contribution for medical by 2% (3.75% TRS, 3.5% PERS). New total: + 4.50% to DC account + 3.75% to Medical + 2.00% to HRA <u>10.25% Total TRS</u> <u>10.00% Total PERS</u>	P16, L 12 and P 83, L 22	DC Plan: Returns to Medical Benefits in CSSB 141(FIN) and <i>increases</i> HRA contribution: + 4.50% to DC account + 1.75% to Medical + 3.00% to HRA <u>9.25% Total</u>	P 15, L 17 and P 83, L 1; and P 58, L2

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	Changes contained in HCS for Senate Bill 141(STA)	Page, Line (or Sec.)	Changes contained In HCS for Senate Bill 141(FIN) Work Draft "C"	Page, Line (or Sec.)
VESTING DETAILS							
Vesting	Immediate for employee contributions. Fully vested in employer contributions after 5 years (1st year 0%, 2nd yr 25%, 3rd yr 50%, 4th yr 75%, 5th yr 100%)						
MEDICAL PROGRAM							
Medical Benefits	Must retire directly from system with minimum of 10 years of service for medical coverage and access to HRA.	Removed requirement to "retire from system" and added option to defer participation to a date specified.	P 16, L 3 and P 92, L 1	Restored requirement to retire directly from system with minimum of 10 years of service for medical coverage.	P 26, Ls 5-18 and P 93, Ls 15-28	Returns to CSSB 141(FIN): No requirement to retire directly from the system.	P 25, L10-13 and P 92, L 25-29
	Access to medical coverage at Medicare eligible age (currently 65) with 10 years of service, or at any age after (1) 25 years for peace officer/firefighter, or (2) 30 years for all others.			Access to medical coverage at "normal retirement age" (60 months prior to Medicare eligible age) with 10 years of service.	P 26, Ls 23-30, and P 93, Ls 15-28	Access to medical coverage at Medicare eligible age (currently 65) with 10 years of service, or at any age after (1) 25 years for peace officer/firefighter, or (2) 30 years for all others.	P 25, L10-13 and P 92, L 25-29
	Retiree share of medical premium at Medicare eligible age based on years of service: + 10-14 years = 30% + 15-19 years = 25% + 20-24 years = 20% + 25-29 years = 15% => 30 years = 10%			Upon reaching normal retirement age, employer subsidy of medical premium is 30% for 10 years of service, incremented by 3% each year. Maximum subsidy is 90% for 30 years or more. The only thing that changes at Medicare eligibility is the subsidy base premium dollar amount.	P 27, L 30 thru P 28, Ls 1-6 and P 95, Ls 9-16	Retiree share of medical premium at Medicare eligible age based on years of service: + 10-14 years = 30% + 15-19 years = 25% + 20-24 years = 20% + 25-29 years = 15% => 30 years = 10%	P 26, L 21 thru P 27, L 4 and P 92,
	Retiree and survivors pay full premium until Medicare eligible.			"Early retirees" (meets service but not age requirements) and survivors pay full premium until normal retirement age.	P 27, Ls 28-29 and P 95, Ls 7-8		

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	Changes contained in HCS for Senate Bill 141(STA)	Page, Line (or Sec.)	Changes contained in HCS for Senate Bill 141(FIN) Work Draft "C"	Page, Line (or Sec.)
				Added a limitation on dependent medical coverage: if a spouse or dependent child was not the spouse or dependent child of an eligible member when that person was an active member, they do not qualify for coverage.	P 27, Ls 8-11 and P 94, Ls 18-21	Deleted. This situation is already handled in CSSB 141(FIN) which provides medical coverage only for the dependent children of the eligible member if they are dependent on the surviving spouse. (Example: the children of a surviving spouse from a second marriage will not be covered).	
Health Reimbursement Arrangement (HRA)	Retiree reimbursed for qualified medical expenses from HRA.	Clarified HRA can be used even if not participating in State's medical insurance plan.	P 26, Ls 13-14	A person is eligible to apply for reimbursement from the HRA if they have met the eligibility requirements (AS 14.25.470 or AS 39.35.870), except the person does <i>not</i> have to retire directly from the system.	P 59, Ls 28-31		
	Employer contributes 1% of employer's average annual group compensation	Employer contributes 2% of annual average employer's group compensation	P 58, L 10	Employer contributes 2% of annual average employer's group compensation		Employer contributes 3% of annual average employer's group compensation	P 58, L 2
		Changed five-year return requirement from "same" employer to "a participating" employer.	P 58, L 19	Removed five-year return window and added accumulated interest during intervening time to restored account balance.	P 59, Ls 24-27	Allow a 10-year window for terminated, non-vested person to return to service. Account record will be restored <i>without</i> interest or other adjustment.	P 58, L 11-15
RETIREMENT BOARDS							
Board Structure	Consolidates 3 existing boards (PERS, TRS, ASPIB) into 1 board (Alaska Retirement Management Board [ARMB]).	Added transition: ASPIB continues until 9/30/05; ARMB effective 10/1/2005	P 106, Sec. 134 and Sec. 135				

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Board Members	All trustees must have recognized competence in one or more fields of investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis. Includes non-beneficiaries and representatives from school districts and municipalities.	Added definition of "recognized competence" as a person with at least 10 years working or teaching in the specified fields.	P 51, Ls 6-9	Changed trustees to: 3 appointed by Governor (only one a non-participant) and 4 elected (2 PERS, 2 TRS). Elections conducted by ARM Board. Removed requirement that <i>all</i> members have "recognized competence" in specified fields; only required of Governor appointees.	P 47, L 11 thru P 48 L 5	Returns to board structure in CSSB 141(FIN) where all trustees are appointed. Returns to 3 non-beneficiaries and 1 from PERS and 1 from TRS. <i>Adds</i> language regarding PERS and TRS members: "who may be selected from a list of nominees put forward by the [appropriate] bargaining units."	P 46 Ls 10-15
	Appointed trustees must be eligible for an Alaska Permanent Fund Dividend.			Lost PFD eligibility requirement for elected board members.		Appointed trustees must be eligible for an Alaska Permanent Fund Dividend.	P 45, Ls 28-29
Board Terms	Three year terms, maximum of three consecutive terms. One year break required.			Six year terms, maximum of two consecutive terms. One year break required.	P 48, Ls 6-9	<i>Four</i> year terms, maximum of two consecutive terms. One year break required.	P 46, Ls 16-19
Board Duties	ARMB assumes prior duties of ASPIB plus coordinates with retirement system administrator on annual actuarial valuations, sets employer contribution rates, and determines interest rates to be credited to members' individual accounts (DB plan and HRA).	Added a requirement for the Board to require a second actuarial opinion on the assumptions used in the valuation by the State's primary actuary.	P 107, Sec. 138			Adds requirement for ARMB to annually evaluate that employer rate for medical insurance is adequate to cover projected costs.	P 48, Ls 16-22
		Added direction to the new Board to prepare a report for the 2nd session of the 24th Alaska Legislature.	P 49, Ls 4-6				
Board Compensation	\$150 per day including travel days					New: Increases per diem to \$400 per day to mirror APFC Board.	P 50, L 6

SB 141 Bill Version Comparison

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Office of Administrative Hearings (OAH)	Appeals of benefits decisions made by the retirement system administrator transferred to the OAH, an independent quasi-judicial agency.						
CHANGES TO EXISTING RETIREMENT PLANS							
AK Resident COLA	Repeals	Reinstated					
Ad hoc PRPAs		Defined "financial condition of the retirement fund" for ad hoc PRPAs as 110% ratio of assets to liabilities (see Editor's notes under AS 14.25.143 & AS 39.35.483)	P 11 Sec. 17, P 11 Sec. 18, and P 77 Sec. 113				
Refunded Prior Members	Closes window for reinstating past service indebtedness.						
University of Alaska Optional Retirement Program		Changed AS 14.40.661-14.40.799 giving the Board of Regents flexibility to design both optional and mandatory retirement programs for future University employees. Specifies the University's retirement programs are not subject to collective bargaining. Also provides a one-time option for current employees who chose to participate in PERS or TRS to transfer into the existing optional retirement program.	P 38, Sec. 35 thru P 42, Sec. 51				

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OTHER BILL COMPONENTS							
Transfer of Employee to DC Plan		Added option for the transfer of current non-vested (TRS Tier II and PERS Tier III) employees to the DC plan. Unlimited enrollment period. Employer must make new contribution (cannot take from DB trust) and has first option to allow a transfer.	P 30, L 2 and P 96, L 1				
Prescription Drug Changes	None						
Participating Employers		Added an option for political subdivisions and public organizations who do not currently participate in PERS and TRS to join the DC plan in the future.	P 98, Ls 9-22				
		Added specific employers already participating in PERS and TRS to allow their future employees to participate in the DC plan (defined benefit plans closed on July 1, 2005).	P 32, L 20 thru P 33, L 28 and P 93, Ls 2-17				
Membership Service		Added language identical to current statutes that prevents members that participate in both PERS and TRS from claiming more than one year of service (ex., a full-time teacher in TRS that works part-time in a PERS position during summer).	P 32, L 10 and P 98, L 23				

SB 141 Bill Version Comparison

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Penalty for False Statements AS 14.25.210				Removed the existing language that a person who knowingly makes a false statement "forfeits all rights under this chapter". Language conforms to PERS AS 39.35.670.	P 13, Sec. 25		
Definition of "teacher" AS 14.25.220 (DB plan) and AS 14.25.590 (DC plan)				Adds AVTEC instructors to the definition of "teacher" and "member" for participation in TRS regardless of whether the position requires a certificate if the instructor is certified.	P 14, Sec. 30, Ls 16-20	Deleted. The Dept. of L&WD has changed all positions at AVTEC to non-certificated. Mandating that certificated teachers participate in TRS even though employed in a non-certificated position opens the door to discrimination lawsuits.	
Legislative Intent				Added intent language in Sec. 1 that R&B implement by regulation cost-saving measures in the retiree health care system and gives examples.	P 2, Sec. 1		
				Requires annual report to legislature by R&B on implementation of cost-saving measures.	P 110, Sec. 139		

Replaces # 2
FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HCS CSSB141 (STA)
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title: An Act relation to TRS and PERS creating a RDU: Centralized Administrative Services
defined contribution and health reimbursement plans..... Component: Retirement and Benefits
Sponsor: Senate Finance Committee
Requester: Senate Finance Committee Component No.: 64

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	276.5	227.5	163.1	163.1	163.1	163.1
Travel	37.5	17.5	3.5	5.0	5.0	5.0
Contractual	667.0	327.0	352.0	397.0	397.0	397.0
Supplies	18.0	5.0	5.0	5.0	5.0	5.0
Equipment	30.0					
Land & Structures						
Grants & Claims						
Miscellaneous (Board Restructure)	(12.5)	(41.5)	(41.5)	(41.5)	(41.5)	(41.5)
TOTAL OPERATING	1,016.5	535.5	482.1	528.6	528.6	528.6

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,029.0	577.0	392.7	285.1	142.5	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
1029 PERS	(2.0)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)
1034 TRS	(10.5)	(37.4)	(37.4)	(37.4)	(37.4)	(37.4)
Other (Specify Type--Do not abbreviate)			130.9	285.0	427.6	570.1
TOTAL	1,016.5	535.5	482.1	528.6	528.6	528.6

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time	2	2	2	2	2	2
Part-time	0	0	0	0	0	0
Temporary	3	2	1	1	1	1

ANALYSIS: (Attach a separate page if necessary)

This bill will create a new defined contribution retirement plan and a health reimbursement arrangement for new employees of the PERS and TRS hired after the effective date of July 1, 2005. As the new plan significantly differs from the current defined benefit plans, the division will be required to reprogram its computer systems, set up and account for two new plans, create new plan publications and forms, train staff, employer contacts and new members, create new employee benefit education methods on the web, benefit seminars and one on one appointments, and to contract for financial planning services for members of the new plan. The fiscal note assumes fund manager fees, custody, and record keeper's individual account fees are separate. It further assumes that cost reductions for the PERS and TRS Boards will be partially offset by payments to the Office of Administrative Hearings to conduct disability hearings, previously conducted by the boards.

Prepared by: Melanie Millhorn, Director Phone: 465-4408
Division: Retirement and Benefits Date/Time: 4/22/05 3:29 PM
Approved by: Mike Tibbles, Deputy Commissioner Date: 4/22/2005
Agency: Department of Administration

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. HCS CSSB141 (STA)

ANALYSIS CONTINUATION

The estimated administrative costs to the division by fiscal year are as follows:

	FY 2006	FY 2007	FY 2008	FY 09-11
PERSONAL SERVICES:				
1 - Non Perm Analyst-Pgmr III - DC-Benefits Sys - R 16	64.4	64.4	64.4	64.4
1 - Accountant II - Range 16	52.0	52.0	52.0	52.0
1 - R&B Tech I/II - ER Rplng / Contrib. Recon. - Range 12	46.7	46.7	46.7	46.7
1-Non Permanent Publications Tech II or Spec I - Range 13	49.0	0.0	0.0	0.0
1-Non Permanent Retirement Counselor - Range 18	64.4	64.4	0.0	0.0
	<u>276.5</u>	<u>227.5</u>	<u>163.1</u>	<u>163.1</u>
TRAVEL:				
Employer Reporting Software Upgrade Install & Help	30.0	15.0	0.0	0.0
Employer Plan Education	7.5	0.0	0.0	0.0
Regional Counselor travel	0.0	2.5	3.5	5.0
	<u>37.5</u>	<u>17.5</u>	<u>3.5</u>	<u>5.0</u>
CONTRACTUAL:				
Communications & Postage	82.0	17.0	17.0	17.0
Computer System Redesign (Est. 2,500 hours in FY06)	320.0	30.0	30.0	30.0
Audit, Accting, Tax, Benefits Consulting, Legal	100.0	75.0	50.0	50.0
Training \ Risk Management	15.0	5.0	5.0	0.0
Employee financial planning services	150.0	200.0	250.0	300.0
	<u>667.0</u>	<u>327.0</u>	<u>352.0</u>	<u>397.0</u>
SUPPLIES: Office supplies, calculators, desk-top software	18.0	5.0	5.0	5.0
EQUIPMENT: Workstation & cubicle, chairs, file cabinets, computers, telephone, set-up costs	30.0	0.0	0.0	0.0
MISCELLANEOUS (BOARD RECONFIGURATION, HEARINGS)				
Board Member Election 2006/2008	0.0	0.0	0.0	0.0
Board Training	-15.0	-15.0	-15.0	-15.0
Board Attorney	-40.5	-40.5	-40.5	-40.5
Travel Members/Staff	-24.0	-24.0	-24.0	-24.0
Honorarium/Board Members	-29.0	-29.0	-29.0	-29.0
National Seminars (NASRA - NCTR)	-20.0	-20.0	-20.0	-20.0
Disability Hearings--Office of Administrative Hearings	116.0	87.0	87.0	87.0
	<u>-12.5</u>	<u>-41.5</u>	<u>-41.5</u>	<u>-41.5</u>
TOTAL	1,016.5	535.5	482.1	528.6

The above funding source is initially listed as General Fund because the existing tiers of PERS / TRS are Defined Benefit plans, and the present DC plans, SBS and DCP are legally separate from the intended plan. It is assumed that by FY2008, as more employees are hired into the new tiers, that program costs will be funded through an assessment on DC accounts, similar to the SBS program currently in place. General funds will be reduced 25% per year from FY2008-2011.

The new plan effective date is July 1, 2005. Therefore, startup costs will start in FY 05. The startup costs are not costs of the PERS and TRS Defined Benefit plans. Tiers 1, 2, and 3 are logically related; however, tier 4 PERS and Tier 3 TRS would not be. The purpose of the bill is to separate the DB and DC side. A legal opinion was sought to determine how the funding and accounting needs to occur for the new DC plan.

Alaska Retirement System Boards

Board	Alaska State Pension Investment Board (ASPIB)	Alaska Teachers' Retirement Board	Public Employees' Retirement Board	0.558 141 (FIN)
Mission	Provide prudent and productive management and investment of state pension funds	Prescribe policies and regulations necessary to administer the TRS system	Prescribe policies and regulations necessary to administer the PERS system	Trustee of retirement system assets; manage and invest these assets in a manner that is sufficient to meet the liabilities and obligations of the system
Statutory Authority	AS 37.10.210	AS 14.25.035	AS 39.35.030	SB 141 (37.10.210)
State Department	Revenue	Administration	Administration	Revenue
Board Members	8 Trustees	5	5	9 Trustees
Composition	<ul style="list-style-type: none"> Commissioner of Revenue 3 – Appointed by Governor from public at large 2 – Elected from PERS members 2 – Elected from TRS members 	<ul style="list-style-type: none"> 5 – Governor appointed from public at large 	<ul style="list-style-type: none"> 3 – Appointed by Governor from public at large 2 – Elected from PERS membership 	<u>All Appointed by the Governor</u> <ul style="list-style-type: none"> Commissioner of Revenue Commissioner of Administration 3 Alaska residents who do not participate in the retirement systems 1 finance officer of a political subdivision 1 finance officer of a school district 1 PERS member (active or retired) 1 TRS member (active or retired)
Special Requirements	<ul style="list-style-type: none"> One appointee must represent a system employer other than the State of Alaska Appointees must have business and investment experience 	<ul style="list-style-type: none"> One appointee must be a resident receiving benefits from the system 	<ul style="list-style-type: none"> One appointee must have been employed by other than the State of Alaska at some time 	<ul style="list-style-type: none"> All trustees must have recognized competence in one or more fields of investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis
Terms	<ul style="list-style-type: none"> 4 yr staggered terms No term limits 	<ul style="list-style-type: none"> Appointed – 3 yr overlapping No term limits 	<ul style="list-style-type: none"> Appointed members – 6 yr scattered Elected members – 6 yr No term limits 	<ul style="list-style-type: none"> Staggered three years Limited to three consecutive terms A year break before serving again
Special Members	3 to 5 member Investment Advisory Council	4	4	Optional Investment Advisory Council
Composition	<ul style="list-style-type: none"> Appointed by ASPIB for 3 yr staggered terms Dr. William Jennings (6/30/05) Dr. Jerrold Mitchell (6/30/07) Tim O'Brien (6/30/06) 	<ul style="list-style-type: none"> 2 – Physicians 2 – Physician alternates All appointed by the Governor PERS & TRS Boards may make recommendations to the Governor 	<ul style="list-style-type: none"> 2 – Physicians 2 – Physician alternates All appointed by the Governor PERS & TRS Boards may make recommendations to the Governor 	3 to 5 member Investment Advisory Council
Special Requirements	<ul style="list-style-type: none"> Shall possess experience & expertise in financial investments, portfolio management, etc 	<ul style="list-style-type: none"> Licensed in Alaska Hear medical disability eligibility appeals only 	<ul style="list-style-type: none"> Licensed in Alaska Hear medical disability eligibility appeals only 	<ul style="list-style-type: none"> Shall possess experience & expertise in financial investments, portfolio management, etc.
Terms	Pleasure of ASPIB	Pleasure of the Governor	Pleasure of the Governor	Pleasure of the ARMB

Board	Alaska State Pension Investment Board (ASPIB)	Alaska Teachers' Retirement Board	Public Employees' Retirement Board	CS SB 141 (FIN)
Powers/Duties	AS 37.10.220 <ul style="list-style-type: none"> • Hold regular meetings • Establish investment policies • Submit quarterly & long-range investment reports to LB&A • Select and retain external investment managers and custodians • Develop annual operating budget and present to OMB • May assume fiduciary and management responsibilities for other state funds 	<ul style="list-style-type: none"> • Hold public hearings • Adopt system policies and regulations • Set regulations and procedures for conduct of the Board • Act as an appeals board • Acquire biennial actuarial valuation • Set employer contribution rate • Determine employee's past service liquidation amounts • Waive benefit adjustment requirements when appropriate • Adopt regulations for the election and removal of ASPIB trustees 	AS 39.30.155 <ul style="list-style-type: none"> • Hold public hearings • Hold board elections • Adopt system policies and regulations • Set regulations and procedures for conduct of the Board • Act as an appeals board • Acquire biennial actuarial valuation • Set employer contribution rate • Determine employee's past service liquidation amounts • Prescribe interest rates • Prescribe policies for the supplemental employee benefit program • Waive benefit adjustment requirements when appropriate • Adopt regulations for the election and removal of ASPIB trustees • Adopt a contribution surcharge (AS 39.35.160) 	SB 141 (AS 37.10.220) <ul style="list-style-type: none"> • Manage the assets of the defined benefits trust fund to meet pension liabilities. • Adopt investment policies for each of the funds entrusted to the board • Annual actuarial valuation of system plans • Analysis of actuarial assumptions experience: <ul style="list-style-type: none"> ○ Health costs assumptions annually. ○ All other assumptions not less than every four years. • Audit of actuary not less than every four years. • Rate setting: <ul style="list-style-type: none"> ○ Employer contribution rates, including "normal cost" and "past service cost". ○ Employee contribution rates to the extent that the normal cost rate increases so that 50 percent would be higher than the current rates set in statute. ○ Interest rates credited to individual employee accounts. ○ Interest rates credited to employee HRA account records. • Provide a range of investment options for all employee-directed accounts. • Select and retain investment managers and custodians for the funds • Obtain an external performance review to evaluate the investment policies and performance of each fund • Submit regular reports on the financial condition of the systems

PERS Tier I 1/1/61 - 6/30/86	PERS Tier II Entered on or after 7/1/86	PERS Tier III Entered on or after 7/1/96	SB 141 Proposed DC Plan Entered on or after 7/1/2006
Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution: 8.0% beginning 7/1/2005
Members vest with 5 years of service.	Members vest with 5 years of service.	Members vest with 5 years of service.	<ul style="list-style-type: none"> Employee is immediately vested in their own contributions Employee's gradually vest in employer contributions <ul style="list-style-type: none"> 25% after two years 50% after three years 75% after four years 100% after five years
<ul style="list-style-type: none"> Normal retirement age is 55 Early retirement age is 50 Police/fire members can retire at any age after 20 years of police/fire service All other members can retire at any age after 30 years of membership service. 	<ul style="list-style-type: none"> Normal retirement age is 60 Early retirement at age 55 Police/fire members can retire at any age after 20 years of police/fire service "All other" members can retire at any age after 30 years of membership service 	<ul style="list-style-type: none"> Normal retirement age is 60 Early retirement at age 55 Police/fire members can retire at any age after 20 years of police/fire service "All other" members can retire at any age after 30 years of membership service 	<ul style="list-style-type: none"> Retirement Savings: Employee can terminate at any age and take vested account balance with them, leave it in the plan or rollover to another qualified plan. Medical Benefits: Member is eligible for benefits if: <ul style="list-style-type: none"> 65 years of age and at least 10 years of service; or 25 years of service police/firefighters 30 years of service all others
<ul style="list-style-type: none"> 2% defined benefit formula for first 10 years and all years of service prior to July 1, 1986 2.25% for the next 10 years; 2.5% per year thereafter (average of the high three consecutive years' salary). Police/Fire - 2% benefits formula for first 10 years and 2.5% for all years after 10. 	<ul style="list-style-type: none"> 2% defined benefit formula for first 10 years 2.25% for the next 10 years, and 2.5% per year thereafter. Benefit calculation is determined on the average of the high three consecutive years' salary. Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10. 	<ul style="list-style-type: none"> 2% defined benefit formula for first 10 years 2.25% for the next 10 years, and 2.5% per year thereafter (benefit calculation is average of the high five consecutive years' salary). Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10 (benefit calculation is three consecutive years regardless of tier (effective 2002). 	<ul style="list-style-type: none"> 8.25% employer contribution broken out as: <ul style="list-style-type: none"> 4.25% to employee retirement savings account 1.75% to retiree medical plan 2.00% to Health Reimbursement Account
<ul style="list-style-type: none"> Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system. 	<p>Medical coverage is provided to disabilitants, regardless of age and benefit recipients over age 60 or</p> <ul style="list-style-type: none"> police/fire members with 25 years of police/fire service all other members with 30 years of membership service <p>and their eligible dependents. The retirement system pays the retiree medical plan premium. Retirees and survivors under age 60 must pay the full premium cost if they want coverage.</p>	<p>Medical same as Tier II.</p> <ul style="list-style-type: none"> Except, employees must accrue a minimum of 10 years of credited service", to have system-paid coverage at age 60. Employees with less than 10 years must pay the full premiums as long as they wish to continue medical coverage. 	<ul style="list-style-type: none"> Employees must retire directly from the system with a minimum of 10 years of service to be eligible for medical plan and access to HRA Early retirees get "access" to retiree medical plan but must pay full premium until they reach age of Medicare eligibility Once reaching Medicare age eligibility, retiree pays only a portion of monthly premium based on years of service <ul style="list-style-type: none"> 10-14 years = Retiree pays 30% of premium 15-19 years = Retiree pays 25% of premium 20-24 years = Retiree pays 20% of premium 25-29 years = Retiree pays 15% of premium 30+ years = Retiree pays 10% of premium
<ul style="list-style-type: none"> The automatic PRPA legislated in 1986 applied to all members regardless of hire date. COLA of 10% of base benefit is payable to benefit recipients who remain domiciled in Alaska after retirement 	<ul style="list-style-type: none"> Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years. COLA of 10% of base benefit is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. 	<ul style="list-style-type: none"> Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years. COLA is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater. 	None

<p style="text-align: center;">TRs Tier I 7/1/55 - 6/30/90</p>	<p style="text-align: center;">TRs Tier II Entered on or after 7/1/90</p>	<p style="text-align: center;">SB 141 Proposed DC Plan Entered on or after 7/1/2006</p>
<p>Employee Pre-tax Contribution: 8.65% beginning 1/1/91</p>	<p>Employee Pre-tax Contribution: 8.65% beginning 1/1/91</p>	<p>Employee Pre-tax Contribution: 8.0 % beginning 7/1/2005</p>
<p>Members vest with 8 years of service.</p>	<p>Members vest with 8 years of service.</p>	<ul style="list-style-type: none"> • Employee is immediately vested in their own contributions • Employee's gradually vest in employer contributions <ul style="list-style-type: none"> • 25% after two years • 50% after three years • 75% after four years • 100% after five years
<ul style="list-style-type: none"> • Normal retirement age is 55 • Early retirement at age 50 • Teachers can retire at any age after 20 years of membership service. 	<ul style="list-style-type: none"> • Normal retirement age is 60 • Early retirement at age 55 • Teachers can retire at any age after 20 years 	<ul style="list-style-type: none"> • Retirement Savings: Employee can terminate at any age and take vested account balance with them, leave it in the plan or rollover to another qualified plan. • Medical Benefits: Member is eligible for benefits if: <ul style="list-style-type: none"> • 65 years of age and at least 10 years of service; or • 30 years of service
<ul style="list-style-type: none"> • 2% defined benefits formula for the first 20 years and all years of service prior to July 1, 1990 • 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries. 	<ul style="list-style-type: none"> • 2% defined benefit formula for the first 20 years • 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries. 	<ul style="list-style-type: none"> • 8.25% employer contribution broken out as: <ul style="list-style-type: none"> • 4.25% to employee retirement savings account • 1.75% to retiree medical plan • 2.00% to Health Reimbursement Account
<ul style="list-style-type: none"> • Medical coverage is provided to all benefit recipients and their eligible dependents. 	<ul style="list-style-type: none"> • Medical premiums are paid for all disabilities regardless of age and • Retirees and survivors over age 60 and for retirees with at least 25 years of service including eligible dependents. • Retirees and survivors under age 60, with less than 25 years of membership service must pay the full premium cost if they want coverage. 	<ul style="list-style-type: none"> • Employees must retire directly from the system with a minimum of 10 years of service to be eligible for medical plan and access to HRA • Early retirees get "access" to retiree medical plan but must pay full premium until they reach age of Medicare eligibility • Once reaching Medicare age eligibility, retiree pays only a portion of monthly premium based on years of service <ul style="list-style-type: none"> • 10-14 years = Retiree pays 30% of premium • 15-19 years = Retiree pays 25% of premium • 20-24 years = Retiree pays 20% of premium • 25-29 years = Retiree pays 15% of premium • 30+ years = Retiree pays 10% of premium
<ul style="list-style-type: none"> • Automatic PRPA legislated in 1990 applied to all members regardless of hire date. • COLA is payable to recipients who remain domiciled in Alaska after retirement. COLA is 10% of the base benefit. 	<ul style="list-style-type: none"> • Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years. • COLA is payable to recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. COLA is 10% of base benefit 	<p>None</p>

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	Changes contained in HCS for Senate Bill 141(STA)	Page, Line (or Sec.)
DC RETIREMENT ACCOUNT					
Benefit Formula	11.5% per year to DC account + investment earnings.	Increased employer contribution by 1% for a total (employee + employer) contribution of 12.5%.	P 16, L 8 and P 82, L 6		
Rollover	Rollover accepted from qualified programs and you can roll over into a qualified program				
CONTRIBUTION DETAILS					
Employee Contribution Rates	<p>DC Plan: 8% all members (PERS & TRS)</p> <p>DB Plan: TRS 8.65% or 1/2 of the normal cost rate. PERS: 6.75% and 7.5% (Police/Fire) or 1/2 of the normal cost rate. Maximum increase of 5% per year.</p>	<p>DB Plan: Changed maximum increase to 50 basis points per year (.5%).</p>	P 7, L 30 and P 69, L 13	<p>DB Plan: All changes eliminated. Existing employee contribution rates remain unchanged.</p>	
Employer Contribution Rates	<p>DB Plan: 50% of normal cost plus past service cost. May not be less than total normal cost after subtracting the member contribution.</p>			<p>DB Plan: Employer cost is the difference between the actuarially calculated cost (normal rate + past service rate) less the member contribution rate, but may not be less than 11% for TRS and 10% for PERS.</p>	P 7-8, Sec. 9 and P 72, Sec. 94
	<p>DC Plan: 8.25% total.</p> <p>+ 3.50% to DC account</p> <p>+ 3.75% to Medical</p> <p>+ 1.00% to HRA</p> <hr style="width: 20%; margin-left: 0;"/> <p>8.25% Total</p>	<p>DC Plan: Redistributed 8.25% employer contribution:</p> <p>+ 4.50% to DC account</p> <p>+ 1.75% to Medical</p> <p>+ 2.00% to HRA</p> <hr style="width: 20%; margin-left: 0;"/> <p>8.25% Total</p>	P 16, Ls 8&10 and P 82, Ls 6&8; P 58, L 10	<p>DC Plan: Increased contribution for medical by 2% (3.75% TRS, 3.5% PERS). New total:</p> <p>+ 4.50% to DC account</p> <p>+ 3.75% to Medical</p> <p>+ 2.00% to HRA</p> <hr style="width: 20%; margin-left: 0;"/> <p>10.25% Total TRS</p> <p>10.00% Total PERS</p>	P16, L 12 and P 83, L 22

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	Changes contained in HCS for Senate Bill 141(STA)	Page, Line (or Sec.)
VESTING DETAILS					
Vesting	Immediate for employee contributions. Fully vested in employer contributions after 5 years (1st year 0%, 2nd yr 25%, 3rd yr 50%, 4th yr 75%, 5th yr 100%)				
MEDICAL PROGRAM					
Medical Benefits	Must retire directly from system with minimum of 10 years of service for medical coverage and access to HRA.	Removed requirement to "retire from system" and added option to defer participation to a date specified.	P 16, L 3 and P 92, L 1	Restored requirement to retire directly from system with minimum of 10 years of service for medical coverage.	P 26, Ls 5-18 and P 93, Ls 15-28
	Access to medical coverage at Medicare eligible age (currently 65) with 10 years of service, or at any age after (1) 25 years for peace officer/firefighter, or (2) 30 years for all others.			Access to medical coverage at "normal retirement age" (60 months prior to Medicare eligible age) with 10 years of service.	P 26, Ls 23-30, and P 93, Ls 15-28
	Retiree share of medical premium at Medicare eligible age based on years of service: <ul style="list-style-type: none"> + 10-14 years = 30% + 15-19 years = 25% + 20-24 years = 20% + 25-29 years = 15% => 30 years = 10% 			Upon reaching normal retirement age, employer subsidy of medical premium is 30% for 10 years of service, incremented by 3% each year. Maximum subsidy is 90% for 30 years or more. The only thing that changes at Medicare eligibility is the subsidy base premium dollar amount.	P 27, L 30 thru P 28, Ls 1-6 and P 95, Ls 9-16
	Retiree and survivors pay full premium until Medicare eligible.			"Early retirees" (meets service but not age requirements) and survivors pay full premium until normal retirement age.	P 27, Ls 28-29 and P 95, Ls 7-8

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	Changes contained in HCS for Senate Bill 141(STA)	Page, Line (or Sec.)
				Added a limitation on dependent medical coverage: if a spouse or dependent child was not the spouse or dependent child of an eligible member when that person was an active member, they do not qualify for coverage.	P 27, Ls 8-11 and P 94, Ls 18-21
Health Reimbursement Arrangement (HRA)	Retiree reimbursed for qualified medical expenses from HRA.	Clarified HRA can be used even if not participating in State's medical insurance plan.	P 26, Ls 13-14	A person is eligible to apply for reimbursement from the HRA if they have met the eligibility requirements (AS 14.25.470 or AS 39.35.870), except the person does <i>not</i> have to retire directly from the system.	P 59, Ls 28-31
	Employer contributes 1% of employer's average annual group compensation	Employer contributes 2% of annual average employer's group compensation	P 58, L 10		
		Changed five-year return requirement from "same" employer to "a participating" employer.	P 58, L 19	Removed five-year return window and added accumulated interest during intervening time to restored account balance.	P 59, Ls 24-27
RETIREMENT BOARDS					
Board Structure	Consolidates 3 existing boards (PERS, TRS, ASPIB) into 1 board (Alaska Retirement Management Board [ARMB]).	Added transition: ASPIB continues until 9/30/05; ARMB effective 10/1/2005	P 106, Sec. 134 and Sec. 135		

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	Changes contained in HCS for Senate Bill 141(STA)	Page, Line (or Sec.)
Board Members	All trustees must have recognized competence in one or more fields of investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis. Includes non-beneficiaries and representatives from school districts and municipalities.	Added definition of "recognized competence" as a person with at least 10 years working or teaching in the specified fields.	P 51, Ls 6-9	Changed trustees to: 3 appointed by Governor (only one a non-participant) and 4 elected (2 PERS, 2 TRS). Elections conducted by ARMB Board. Removed requirement that <i>all</i> members have "recognized competence" in specified fields; only required of Governor appointees.	P 47, L 11 thru P 48 L 5
	Appointed trustees must be eligible for an Alaska Permanent Fund Dividend.			Lost PFD eligibility requirement for elected board members.	
Board Terms	Three year terms, maximum of three consecutive terms. One year break required.			Six year terms, maximum of two consecutive terms. One year break required.	P 48, Ls 6-9
Board Duties	ARMB assumes prior duties of ASPIE plus coordinates with retirement system administrator on annual actuarial valuations, sets employer contribution rates, and determines interest rates to be credited to members' individual accounts (DB plan and HRA).	Added a requirement for the Board to require a second actuarial opinion on the assumptions used in the valuation by the State's primary actuary.	P 107, Sec. 138		
		Added direction to the new Board to prepare a report for the 2nd session of the 24th Alaska Legislature.	P 49, Ls 4-6		
Office of Administrative Hearings (OAH)	Appeals of benefits decisions made by the retirement system administrator transferred to the OAH, an independent quasi-judicial agency.				

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	Changes contained in HCS for Senate Bill 141(STA)	Page, Line (or Sec.)
CHANGES TO EXISTING RETIREMENT PLANS					
AK Resident COLA	Repeals	Reinstated			
Ad hoc PRPAs		Defined "financial condition of the retirement fund" for ad hoc PRPAs as 110% ratio of assets to liabilities (see Editor's notes under AS 14.25.143 & AS 39.35.483)	P 11 Sec. 17, P 11 Sec. 18, and P 77 Sec. 113		
Refunded Prior Members	Closes window for reinstating past service indebtedness.				
University of Alaska Optional Retirement Program		Changed AS 14.40.661-14.40.799 giving the Board of Regents flexibility to design both optional and mandatory retirement programs for future University employees. Specifies the University's retirement programs are not subject to collective bargaining. Also provides a one-time option for current employees who chose to participate in PERS or TRS to transfer into the existing optional retirement program.	P 38, Sec. 35 thru P 42, Sec. 51		

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	Changes contained in HCS for Senate Bill 141(STA)	Page, Line (or Sec.)
OTHER BILL COMPONENTS					
Transfer of Employee to DC Plan		Added option for the transfer of current non-vested (TRS Tier II and FERS Tier III) employees to the DC plan. Unlimited enrollment period. Employer must make new contribution (cannot take from DB trust) and has first option to allow a transfer.	P 30, L 2 and P 96, L 1		
Participating Employers		Added an option for political subdivisions and public organizations who do not currently participate in PERS and TRS to join the DC plan in the future.	P 98, Ls 9-22		
		Added specific employers already participating in PERS and TRS to allow their future employees to participate in the DC plan (defined benefit plans closed on July 1, 2005).	P 32, L 20 thru P 33, L 28 and P 93, Ls 2-17		
Membership Service		Added language identical to current statutes that prevents members that participate in both PERS and TRS from claiming more than one year of service (ex., a full-time teacher in TRS that works part-time in a PERS position during summer).	P 32, L 10 and P 98, L 23		

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	Changes contained in HCS for Senate Bill 141(STA)	Page, Line (or Sec.)
Penalty for False Statements AS 14.25.210				Removed the existing language that a person who knowingly makes a false statement "forfeits all rights under this chapter". Language conforms to PERS AS 39.35.670.	P 13, Sec. 25
Definition of "teacher" AS 14.25.220 (DB plan) and AS 14.25.590 (DC plan)				Adds AVTEC instructors to the definition of "teacher" and "member" for participation in TRS regardless of whether the position requires a certificate if the instructor is certified.	P 14, Sec. 30, Ls 16-20
Legislative Intent				Added intent language in Sec. 1 that R&B implement by regulation cost-saving measures in the retiree health care system and gives examples.	P 2, Sec. 1
				Requires annual report to legislature by R&B on implementation of cost-saving measures.	P 110, Sec. 139

KEY:

Changes made in House State Affairs

(Proposed Amendments)

Walkthrough House State Affairs CS to SB141

The language for this document was taken from CSSB 141 Walkthrough provided by SB 141 sponsors. Applicable changes were made to existing document with with some rearranging of sections.

Changes to Existing Retirement System

■ Ad-hoc Post Retirement Pension Adjustments *Sec. 16 (pg 10), Sec. 17 (pg 11), Sec. 111 (pg77)*

Defines "financial condition of the retirement fund" for the ad-hoc post retirement pension adjustment as a 110% ratio of assets to liabilities applicable only to tier 1 retirees). (See editor's notes under AS14.25.143 and AS 39.35.483)

Changes to the Board

■ Consolidation of Boards

• Eliminates:

- Public Employees' Retirement System Board.
- Teachers Retirement System Board.
- Alaska State Pension Investment Board.

• Creates new Alaska Retirement Management Board (ARM Board) *Sec. 59 (pg 46)*

◦ 3 trustees appointed by the Governor

- Commissioner of Administration
- Commissioner of Revenue
- 1 Alaska resident who does not participate in the retirement system
- 1 finance officer of a political subdivision
- 1 finance officer of a school district
- 2 PERS members (active or retired)
- 2 TRS members (active or retired)
- PERS & TRS members are elected by their member groups
- ** (PERS & TRS members are appointed by the governor from a selection of nominees put forward by the appropriate bargaining units.)**

• All appointed trustees must have recognized competence (working or teaching) in one or more of the fields of investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis.

• Terms

- Staggered three years
- limited to two consecutive terms with a required one-year break
- 6 year term limits

■ Powers and duties of the ARM board *Sec. 61 (pg49,52)*

- Manage the assets and set the investment objectives of the defined benefit trust fund to met pension liabilities.
- Annual actuarial valuation of system plans, coordinating with the retirement system administrator.

KEY:

Changes made in House State Affairs

(Proposed Amendments)

- Analysis of actuarial assumptions experience, including a second opinion:
 - Health costs assumptions annually.
 - All other assumptions not less than every four years.
- Audit of actuary not less than every four years.

Medical Program Elements**■ Required Contribution by Employer for Major Medical Plan 14.25.350(b) (pg 16), 39.750(b) (pg 83)**

- 3.75% of employee compensation for TRS
- 3.5% of employee compensation for PERS
- **** (2.5% of employee compensation) ****
- Contribution is made to group health and life insurance trust fund to be used for employee's share of retiree's monthly medical premiums

■ Eligibility 14.25.470 (pg 26) 39.35.870 (pg 93)

- A member is eligible to elect medical benefits if the member:
 - is age 60 months pre-Medicare eligible and has at least 10 years of service and retires directly from the system or
 - has 30 years of service
 - **** (has 25 years of service as a peace officer/fire fighter) ****
- A member's spouse and dependents are eligible for benefits if they were dependents during the member's active service.

■ Benefits 14.25.480 (pg 26) 39.35.880 (pg 93)

- Medical benefits include access to a major medical insurance and the health reimbursement arrangement (HRA).
- Access means that an eligible person may not be denied insurance coverage except for failure to apply the required premium.
- An eligible person may participate in the medical insurance, the HRA, or both.
- An irrevocable decision to elect major medical insurance must be made by age 70.5.

■ Major Medical Insurance 14.25.480 (pg 26) 39.35.880 (pg 92)

- Insurance coverage for an eligible member includes the member's spouse and the member's dependent children.
- Insurance coverage for a surviving spouse includes the member's dependent children if they are dependent on the surviving spouse.
- Each participant shall pay a separate premium amount with the subsidy based on the member's years of service.
- Retirees who met the required years of service, but who are less than 60-months pre-Medicare eligible (presently age 60), must pay the full premium to receive coverage.
- Retirees who are 60 months pre-Medicare eligible will pay only a portion of a monthly medical premium based on years of service. The percentage subsidy

KEY:

Changes made in House State Affairs
(Proposed Amendments)

from the plan applied to the premium is determined by using a subsidy base that increases by no more than 5% per year.

•The percentage subsidy is 30% for 10 years of service, incrementing by 3% for each additional year of service until the member has 30 years of service, or a 90% subsidy.

** (Retirees who are Medicare age eligible will pay only a portion of monthly medical premiums depending on years of service:

- 10-14 years = 30%
- 15-19 years = 25%
- 20-24 years = 20%
- 25-29 years = 15%
- 30+ years = 10%**

■ Health Reimbursement Arrangement (HRA) *39.30.300 (pg 58)*

• Employer Fund

• The HRA Trust is an employer owned fund. *39.30.350 (pg 59)*

• Employee contributions are not permitted

• Employers may use surplus funds held in the trust to credit individual employee records with the annual contributions owed by the employer.

■ Required Contributions *39.30.370 (pg 59)*

• Employer contributes an annual (and equal) dollar amount per employee to the health insurance trust fund.

• Amount is 2% of employer's annual average group compensation

** (Amount is 3% of employer's annual average group compensation)**

• Contribution is recorded in both an individual employee account and an employer record.

• Interest is posted to individual accounts annually, the rate determined by the ARMB

• Contributions and interest accumulate over working lifetime of employees.

■ Termination of Employment *39.30.380 (pg 59)*

• Individual accounts are maintained for an indefinite period of time.

• A person who returns to work is attributed the account balance recorded in their name on the date of termination plus any accumulated interest or adjustments.

■ Reimbursements

• Who is eligible

• Persons who meet the eligibility requirements for medical benefits

• Dependent children are eligible if both retiree and spouse die

• A person may vest in their HRA after 10 years of service and have access to it upon reaching normal retirement age regardless of whether or not that member retires directly from the system.

• Reimbursements made for qualified medical expenses under IRC 213(d), including medical premium payments. *39.30.400 (pg 60)*.

• Total reimbursements are limited to individual's recorded account.

KEY:

Changes made in House State Affairs
(Proposed Amendments)

- no set limits other than exhaustion of account balance.

Defined Contribution (DC) Plan Elements

■ Required Contributions

- Employee: 8% of compensation, deducted pre-tax by employer. *14.25.340(a) (pg 15), 39.35.730(a) (pg 82).*
- Employer: 4.5% of employee compensation.
- Total individual account contributions: 12.5%.

■ Optional Contributions

- A member may elect to contribute additional earnings not to exceed the limits established by the Internal Revenue Code. *14.25.340 (pg 15), 39.35.730 (pg 82)*

■ Rollovers *14.25.360 (pg 16), 39.35.760 (pg 83)*

- Employees can take their individual account with them when they leave employment.
- Employees can "roll" in other qualified funds when they are hired.

■ Vesting *14.25.390 (pg 180), 39.35.790 (pg 85)*

- All members of the DC plan are immediately vested in their own contributions and related earnings.
- Members are gradually vested in the employer contributions and related earnings on the following schedule:
 - 25% after two years;
 - 50% after three years;
 - 75% after four years;
 - 100% after five years.

■ Investment Accounts *14.25.400 (pg 18), 39.35.800 (pg 85)*

- The Alaska Retirement Management Board will provide a range of investment options.
- Participants direct the investment of their funds.

■ Distribution of Accounts *14.25.410 (pg 19) – 14.25.440 (pg 22), 39.35.810 (pg 86) – 39.35.840 (pg 89)*

- Employee may elect a distribution upon termination of employment, after 60 days.
- Subject to IRC regulations
- May receive funds prior to 60 days for financial hardship.
- Rate setting:
 - Employer contribution rate, including "normal cost" and "past service cost".
 - Employee contribution rates if one-half of the "normal cost is higher than the current rates set in statute.

KEY:

Changes made in House State Affairs
(Proposed Amendments)

- Interest rates credited to individual employee accounts.
- Interest rates credited to employee HRA account recorded.
- Provide a range of investment options for all employees-directed accounts.

- Other Duties of the former PERS and TPS Boards Transferred
 - To the Commissioner of Administration:
 - Adoption of regulations governing the retirement system.
14.25.006 (pg 5), 39.35.006 (pg 65), Sec. 129 (pg 107)
 - Requests for a waiver of any adjustment made to the retirement system accounts due to a change or error in contributions or benefits computations. *Sec. 21-23 (pg 13)*
 - to the Office of Administrative Hearings:
 - Adjudication of appeals related to decision of the retirement system administrator. *14.25.006 (pg 5), 39.35.006 (pg 64), Sec. 129 (pg 107)*
 - Adjudication of appeals related to the denial of a waiver for repayment of overpayments. *Sec. 24-25 (pg 12-13)*

- Conditional Service Retirement Benefits *Sec. 111 (pg 77)*
 - Changes the credited service requirement to 120 days for legislative employees under AS 39.35.385(f).

- Repeal
 - Refunded prior members *Sec. 131 (pg 107) <AS 14.25.002 and AS 39.35.350>*
 - Repealed effective June 30, 2010.
 - The intent of the repeal is to relieve the "off books" liability of hundreds of millions of dollars represented by more than 77,000 people who have refunded out of the State's retirement system but who could return to work and be restored to the tier status they held prior to terminating by repaying the amount refunded plus interest.
 - In medical premiums alone, this amount stands at greater than \$107 million for one year in today's dollars.

- Fiscal Note
 - Appropriates \$69.5 million directly to the retirement trust funds on behalf of all PERS participating employers (includes small amount of TRS). This amount represents the 5% increase in PERS employer costs from FY2005 to FY2006.
 - PERS and TRS for school districts (\$38.1) is rolled into the BSA at \$4,919.

Other Plan Elements

- Option to Convert from BD to DC Plan *14.25.540 (pg 30), 39.35.940 (pg 97)*
 - Unvested, active members of PERS and TRS are eligible to convert to DC plan.
 - Employer must first make the choice to offer this option to all their employees.

KEY:

Changes made in House State Affairs
(Proposed Amendments)

- Participation in DC plan is in lieu of the DB plan; all rights to DB plan are forfeit.
- A member's individual account balance will be rolled into a new account under the DC plan.
- A member's employer shall make a 100% matching contribution with new funds (i.e., cannot transfer employer portion from the DB trust fund).
- A member's years of service under the DB plan will be counted towards the years of service required for medical benefits eligibility.

■ **Participating Employers**

- Mechanism is included for political subdivisions and public organizations that do not currently participate in PERS to join the DC plan in the future. 39.35.950-39.35.955 (pg 100)
- Includes specific employers already participating in PERS and TRS to allow their future employees to participate in the DC Plan (DB plan closes on July 1, 2005). 14.25.560-14.25.580 (pg 33), 39.35.965-39.35.970 (pg 100-101)
 - Legislators who have been teachers
 - National Education Association employees
 - Special Education Service Agency employees
 - Army and Air National Guard employees
 - North Pacific Fishery Management Council employees

State of Alaska

Division of Retirement & Benefits

Normal Cost Rate and Actuarial Computed Rate from FY 1983 through FY 2006

<u>Valuation report date June 30</u>	<u>Fiscal year of rate</u>	<u>Normal Cost rate PERS</u>	<u>Actuarial Computed Rate PERS</u>	<u>Normal Cost rate TRS</u>	<u>Actuarial Computed Rate TRS</u>
1980	1983	11.46%	13.78%	11.95%	16.84%
1981	1984	12.03%	13.68%	13.51%	17.42%
1982	1985	11.36%	13.62%	13.64%	17.96%
1983	1986	11.82%	13.59%	13.13%	17.36%
1984	1987	12.31%	13.84%	13.91%	13.28%
1985	1988	11.13%	9.55%	11.62%	13.28%
1986	1989	10.20%	9.38%	9.36%	11.16%
1987	1990	9.23%	9.30%	9.14%	8.19%
1988	1991	10.37%	12.00%	11.86%	12.27%
1989	1992	12.00%	14.20%	13.26%	15.16%
1990	1993	12.83%	13.58%	14.07%	19.65%
1991	1994	10.18%	13.72%	9.05%	15.59%
1992	1995	10.90%	13.70%	8.57%	13.36%
1993	1996	11.29%	12.82%	9.06%	12.48%
1994	1997	10.36%	12.14%	9.70%	14.96%
1995	1998	10.61%	11.90%	10.10%	14.94%
1996	1999	9.85%	7.74%	8.97%	10.52%
1997	2000	9.89%	7.36%	9.21%	13.00%
1998	2001	8.67%	7.03%	8.99%	10.55%
1999	2002	8.07%	6.56%	8.88%	7.09%
2000	2003	10.07%	6.12%	9.40%	8.29%
2001	2004	9.53%	6.77%	10.36%	14.44%
2002	2005	13.31%	24.91%	14.76%	35.57%
2003	2006	13.24%	25.63%	14.28%	38.85%

Normal Cost Rate: present value of benefits, which are expected to be credited with respect to service during the year beginning on the valuation date.

Actuarial Computed Rate: after comparing plan assets and liabilities, an actuarial rate is computed that would fully fund the retirement systems over 25 years. There are two components: the normal cost rate and the past service rate necessary to pay any unfunded liability. Both rates account for differences between actual experience versus anticipated results, changes in actuarial assumptions and / or methods, changes in statutory provisions, and the difference between the rate actually adopted by the Boards for a particular year versus the computed rate.

5 year average PERS 10.84% 5 year average TRS 11.54%
 24 year average PERS 10.86% 24 year average TRS 11.11%
 Page 2424

Hi Katie:

I wanted to let you know that Mercer has costed the medical benefits for House CS for CS for Senate Bill No. 141 (STA)

Mercer states, "we have analyzed the expected liabilities associated with the new tier described in House Bill 238 medical provisions. The analysis is based on the following:

- Coverage is available only to members who retire from the System at normal retirement (age 60 with 10 years of service) or after 30 years of service.
- Members or their spouses who are less than age 60 pay the full cost for their coverage.
- Upon reaching age 60, members (or their spouses) are eligible for System-subsidized medical coverage. They will receive a defined subsidy amount based on Medicare eligibility status and service duration (3% per year of service, up to 30 years). Based on these provisions we estimate that the current normal cost rate (as a percentage of total payroll) will be 1.0% for TRS and 1.1% for PERS."

It took longer because I asked Mercer to run the models again. Please let me know if you have any questions. Thanks.

--

Melanie Millhorn, Director

State of Alaska

Department of Administration - Division of Retirement & Benefits

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Cost to retiree hired today pre-Medicare eligible (each yr)	SFIN SB 141	HSTA SB 141
10 yrs service, age 64	\$15,122	\$11,518
20 yrs service, age 64	\$24,633	\$13,096
30 yrs service, age 64	\$40,124	\$11,936
Cost to retiree hired today Post-Medicare eligible (each yr)		
10 yrs service, age 65	\$2,331	\$5,439
20 yrs service, age 65	\$2,531	\$6,759
30 yrs service, age 65	\$2,062	\$6,205

PERS (SB 141)

**8% employee and 4.5% employer contribution = 12.5% DC account
Projected Benefits – Rate of Return 8.25%**

FEMALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$68,664	\$3,742	67%
20	\$243,985	\$9,220	88%
30	\$663,081	\$17,374	114%

MALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$68,664	\$4,057	72%
20	\$243,985	\$9,995	95%
30	\$663,081	\$18,834	123%

Assumptions:

Beginning Salary 32,000

Defined Contribution pension account percentage 12.5%

Anchorage CPI 3.73%

Real rate of interest 4.52%

Salary increase 3%

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)

Employer contribution to DC account	4.5%
Employer contribution to Medical Plan	2.5%
Employer contribution to HRA	3%
Total Employer contribution	10%
24 year average employer contribution	10.9% - 11.1%
5 year average employer contribution	10.8% - 11.5%

TRS (SB 141)

**8% employee and 4.5% employer contribution = 12.5% in DC account
Projected Benefits – Rate of Return 8.25%**

FEMALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	80,547	4,390	67%
20	286,210	10,816	88%
30	777,835	20,380	109%

MALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	80,547	4,759	72%
20	286,210	11,725	95%
30	777,835	22,094	119%

Assumptions:

Beginning Salary 37,538

Defined Contribution pension account percentage 12.5%

Anchorage CPI 3.73%

Real rate of interest 4.52%

Salary increase 3%

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)

Employer contribution to DC account	4.5%
Employer contribution to Medical Plan	2.5%
Employer contribution to HRA	3%
Total Employer contribution	10%
24 year average employer contribution	10.9% - 11.1%
5 year average employer contribution	10.8% - 11.5%

TRS (Alternative)

**8% employee and 5% employer contribution = 13% in DC account
Projected Benefits – Rate of Return 8.25%**

FEMALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$83,769	\$4,566	69%
20	\$297,658	\$11,248	92%
30	\$808,948	\$21,196	114%

MALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$83,769	\$4,949	75%
20	\$297,658	\$12,194	99%
30	\$808,948	\$22,978	123%

Assumptions:

Beginning Salary 37,538

Defined Contribution pension account percentage 13%

Anchorage CPI 3.73%

Real rate of interest 4.52%

Salary increase 3%

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)

Employer contribution to DC account	5%
Employer contribution to Medical Plan	2.5%
Employer contribution to HRA	3%
Total Employer contribution	10.5%
24 year average employer contribution	10.9% - 11.1%
5 year average employer contribution	10.8% - 11.5%

PERS (Amendment)

**8% employee and 5% employer contribution = 13.5% in DC account
Projected Benefits – Rate of Return 8.25%**

FEMALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$71,410	\$3,892	69%
20	\$253,745	\$9,589	92%
30	\$689,604	\$18,069	118%

MALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$71,410	\$4,219	75%
20	\$253,745	\$10,395	99%
30	\$689,604	\$19,588	128%

Assumptions:

Beginning Salary 32,000

Defined Contribution pension account percentage 13%

Anchorage CPI 3.73%

Real rate of interest 4.52%

Salary increase 3%

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)

Employer contribution to DC account	5%
Employer contribution to Medical Plan	2.5%
Employer contribution to HRA	3%
Total Employer contribution	10.5%
24 year average employer contribution	10.9% - 11.1%
5 year average employer contribution	10.8% - 11.5%

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REPRESENTATIVE Paul Seaton

District 35

April 27, 2005

Committee Members,

During Saturday's House Finance meeting Representative Hawker requested the dollar amount increase of the medical benefits in SB141 as amended by House State Affairs. The medical benefit in SB 141 as it came to House State Affairs was system subsidized medical insurance only for post-Medicare eligible age (currently age 65). House State Affairs changed the medical component to a plan based on Mercer's tier proposal the committee had been working on for weeks that provides medical benefits 60-months pre-Medicare eligible age (currently age 60). This required an increase in employer contribution of 2% (TRS) and 1.75% (PERS) bringing the employer contribution rate for medical coverage up from 1.75% in SB 141 to 3.75% (TRS) and 3.5% (PERS). For fiscal year 2007 this represents a total increase of \$37,918,353, or \$11,122,649 for TRS and \$26,795,704 for PERS (see table bellow). These numbers are based on Mecer's projections, which assumes a 1% annual employee population growth (enclosure).

	FY07 dollar amount	% of Salary
Total employer normal cost in SB 141 (PERS+TRS)	172,203,531	8.25
Total Employer normal cost in House STA CSSB 141 (PERS+TRS)	210,121,884	10 PERS 10.25 TRS
Difference between the two	26,795,704	1.75 PERS 2 TRS

It is important to note that the figures adopted by House State Affairs reflect the Mercer tier study. In fact, a slight additional cost savings can be expected because both the pre and post-Medicare medical plan include a cost sharing of health care inflation. This means that the plan does not subject itself to another possible unfunded liability if health care was to increase more than actuarially predicted. A plan without cost-basis adjustment could be greatly impacted if federal Medicare rates or coverage change and leave the State's plan holding the bag for unanticipated coverage.

I would also like to emphasis that the total employer contribution rate (including pension and medical contributions) under the House State Affairs CS to CSSB141 is 10.25% for TRS and 10% for PERS. This is less than the 24-year average normal cost rate that employers are accustomed to contributing, 11.11% for TRS and 10.86% for PERS (enclosure).

Please let me know if I can provide any additional information or assistance.

Sincerely,

A handwritten signature in cursive script that reads "Paul Seaton".

Representative Paul Seaton

State of Alaska Public Employees' Retirement System
 Projections Based on July 1, 2003 Valuation
 Population Growth 1 Percent

Valuation Year	Fiscal Year	Annual Payment To Past Service Cost (000's)*					Present Value of Past Service Cost Payments (000's)**				
		Tier 1	Tier 2	Tier 3	Tier 4	Total	Tier 1	Tier 2	Tier 3	Tier 4	Total
						9,025,483	328,745	385,141	500,233	1,660,287	2,874,406
2003	2006	-	-	-	-	-	-	-	-	-	-
2004	2007	-	-	-	-	-	-	-	-	-	-
2005	2008	17,062	17,356	21,383	5,223	61,024	13,451	13,683	16,857	4,117	48,108
2006	2009	37,866	38,986	46,758	23,097	146,707	27,576	28,392	34,052	16,821	106,841
2007	2010	56,481	59,269	70,098	53,097	238,945	37,998	39,874	47,159	35,721	160,752
2008	2011	60,548	64,671	76,335	78,725	280,279	37,630	40,192	47,441	48,926	174,189
2009	2012	58,021	63,061	75,074	98,932	295,088	33,311	36,205	43,101	56,799	169,416
2010	2013	55,292	61,191	73,799	120,062	310,344	29,325	32,454	39,140	63,677	164,596
2011	2014	52,367	58,990	72,422	142,669	326,448	25,657	28,902	35,483	69,900	159,942
2012	2015	49,239	56,745	70,815	166,451	343,250	22,286	25,683	32,052	75,337	155,358
2013	2016	45,896	54,206	69,101	191,666	360,869	19,190	22,664	28,892	80,138	150,884
2014	2017	42,451	51,531	67,178	218,188	379,348	16,397	19,904	25,947	84,275	146,523
2015	2018	38,891	48,854	65,141	245,867	398,753	13,877	17,432	23,243	87,728	142,280
2016	2019	35,178	45,472	63,011	275,138	418,799	11,595	14,988	20,770	90,690	138,043
2017	2020	31,388	41,997	60,830	305,494	439,709	9,557	12,788	18,522	93,022	133,889
2018	2021	27,647	38,426	58,610	337,093	461,776	7,777	10,809	16,486	94,821	129,893
2019	2022	23,904	35,013	55,973	369,989	484,879	6,212	9,098	14,545	96,142	125,997
2020	2023	20,393	32,052	52,542	404,164	509,151	4,895	7,694	12,613	97,019	122,221
2021	2024	17,032	29,047	48,970	439,645	534,694	3,777	6,441	10,859	97,453	118,570
2022	2025	13,998	26,096	45,306	476,267	561,667	2,867	5,346	9,281	97,565	115,059
2023	2026	11,355	23,215	41,724	513,787	590,081	2,149	4,393	7,896	97,229	111,667
2024	2027	8,953	20,489	38,132	552,345	619,919	1,565	3,582	6,666	96,560	108,373
2025	2028	6,887	17,821	34,402	589,722	648,832	1,112	2,878	5,556	95,237	104,783
2026	2029	2,192	6,473	13,174	264,403	286,242	327	966	1,965	39,445	42,703
2027	2030	1,247	4,334	9,420	220,582	235,583	172	597	1,298	30,400	32,467
2028	2031	331	1,379	3,215	88,171	93,096	42	176	409	11,225	11,852
Total		714,619	896,674	1,233,413	6,180,777	9,025,483					

* Expected employer contributions paid during fiscal year

** Expected employer contributions during fiscal year, discounted to June 30, 2003 at 8.25%

State of Alaska Public Employees' Retirement System
 Projections Based on July 1, 2003 Valuation
 Population Growth 1 Percent

Valuation Year	Fiscal Year	Number of Active Members					Projected Salaries				
		Tier 1	Tier 2	Tier 3	Tier 4	Total	Tier 1	Tier 2	Tier 3	Tier 4	Total
2003	2006	8,814	9,747	15,503	-	34,064	445,612,413	444,684,916	570,485,671	-	1,460,783,000
2004	2007	8,047	8,982	13,585	3,790	34,404	467,087,982	466,115,785	597,979,304	-	1,531,183,071
2005	2008	7,405	8,317	12,108	6,919	34,749	443,170,178	450,811,828	555,400,922	135,653,961	1,585,036,909
2006	2009	6,774	7,707	10,932	9,683	35,096	424,502,518	437,058,318	524,190,528	258,937,144	1,644,688,508
2007	2010	6,186	7,130	9,982	12,150	35,448	403,437,555	423,347,289	500,700,859	379,263,597	1,706,749,300
2008	2011	5,629	6,580	9,189	14,404	35,802	382,811,771	408,881,345	482,626,935	497,736,648	1,772,056,699
2009	2012	5,102	6,053	8,483	16,522	36,160	361,864,984	393,298,549	468,217,939	617,020,112	1,840,401,584
2010	2013	4,596	5,541	7,828	18,556	36,521	340,672,881	377,023,399	454,701,421	739,749,209	1,912,146,910
2011	2014	4,116	5,060	7,221	20,490	36,887	318,726,365	359,035,502	440,790,891	868,339,057	1,986,891,815
2012	2015	3,657	4,598	6,662	22,338	37,255	296,324,286	341,498,361	426,172,270	1,001,713,372	2,065,708,289
2013	2016	3,227	4,163	6,142	24,096	37,628	273,207,199	322,670,777	411,338,155	1,140,931,235	2,148,147,366
2014	2017	2,823	3,759	5,662	25,760	38,004	250,100,955	303,593,105	395,776,219	1,285,453,959	2,234,924,238
2015	2018	2,442	3,351	5,209	27,382	38,384	227,013,934	285,172,271	380,239,911	1,435,170,115	2,327,596,231
2016	2019	2,088	2,970	4,785	28,925	38,768	203,568,141	263,142,249	364,638,155	1,592,183,766	2,423,532,311
2017	2020	1,765	2,612	4,387	30,392	39,156	180,221,422	241,135,972	349,270,550	1,754,077,565	2,524,705,509
2018	2021	1,466	2,286	3,998	31,797	39,547	157,594,474	219,036,817	334,095,610	1,921,529,873	2,632,256,774
2019	2022	1,204	2,003	3,604	33,132	39,943	135,374,479	198,287,761	316,989,771	2,095,331,248	2,745,983,259
2020	2023	971	1,739	3,229	34,403	40,342	114,803,685	180,436,391	295,789,651	2,275,266,070	2,866,295,797
2021	2024	769	1,499	2,876	35,601	40,745	95,361,469	162,631,692	274,183,515	2,461,558,447	2,993,735,123
2022	2025	602	1,281	2,551	36,719	41,153	77,984,925	145,383,837	252,406,495	2,653,379,532	3,129,154,789
2023	2026	457	1,087	2,248	37,773	41,565	62,993,027	128,788,268	231,466,581	2,850,292,445	3,273,540,321
2024	2027	342	914	1,965	38,759	41,980	49,492,319	113,259,938	210,793,089	3,053,333,799	3,426,879,145
2025	2028	251	761	1,726	39,662	42,400	38,098,152	98,589,336	190,319,061	3,262,437,964	3,589,444,513
2026	2029	176	629	1,516	40,503	42,824	28,813,450	85,087,382	173,172,799	3,475,706,069	3,762,779,700
2027	2030	121	513	1,324	41,294	43,252	20,882,176	72,578,868	157,741,958	3,693,564,973	3,944,767,975
2028	2031	82	413	1,147	42,043	43,685	14,715,638	61,276,477	142,887,499	3,918,714,657	4,137,594,271

State of Alaska Teachers' Retirement System
Projections Based on July 1, 2003 Valuation
Population Growth 1 Percent

Valuation Year	Fiscal Year	Annual Payment To Past Service Cost (000's)*				Present Value of Past Service Cost Payments (000's)**				Valuation Year	Fiscal Year
		Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3	Total		
					6,641,180	234,981	556,468	1,292,193	2,083,642		
2003	2006	-	-	-	-	-	-	-	-	2003	2006
2004	2007	6,980	9,593	-	16,573	6,197	8,518	-	14,715	2004	2007
2005	2008	17,788	24,905	3,006	45,699	14,590	20,427	2,465	37,482	2005	2008
2006	2009	25,439	39,182	10,938	75,559	19,275	29,688	8,288	57,251	2006	2009
2007	2010	32,308	52,810	22,625	107,743	22,614	36,965	15,837	75,416	2007	2010
2008	2011	37,667	65,879	38,629	142,175	24,356	42,598	24,978	91,932	2008	2011
2009	2012	41,798	78,123	59,033	178,954	24,967	46,666	35,263	106,896	2009	2012
2010	2013	44,603	90,110	84,663	219,376	24,612	49,724	46,718	121,054	2010	2013
2011	2014	41,368	91,262	104,203	236,833	21,088	46,521	53,118	120,727	2011	2014
2012	2015	36,134	89,494	122,882	248,510	17,016	42,143	57,866	117,025	2012	2015
2013	2016	32,120	86,133	142,453	260,706	13,973	37,469	61,970	113,412	2013	2016
2014	2017	28,198	82,184	163,044	273,426	11,332	33,027	65,521	109,880	2014	2017
2015	2018	24,584	78,105	184,063	286,752	9,126	28,995	68,331	106,452	2015	2018
2016	2019	21,092	73,696	205,866	300,654	7,233	25,274	70,601	103,108	2016	2019
2017	2020	17,728	68,979	228,378	315,085	5,616	21,853	72,352	99,821	2017	2020
2018	2021	14,436	64,019	251,717	330,172	4,225	18,736	73,668	96,629	2018	2021
2019	2022	11,255	58,561	276,071	345,887	3,043	15,832	74,638	93,513	2019	2022
2020	2023	8,295	52,544	301,457	362,296	2,072	13,123	75,290	90,485	2020	2023
2021	2024	5,958	45,885	327,731	379,574	1,375	10,587	75,614	87,576	2021	2024
2022	2025	4,243	40,041	353,458	397,742	904	8,534	75,335	84,773	2022	2025
2023	2026	3,018	34,630	379,047	416,695	594	6,818	74,631	82,043	2023	2026
2024	2027	2,077	28,560	405,767	436,404	378	5,195	73,803	79,376	2024	2027
2025	2028	1,412	21,972	431,092	454,476	237	3,692	72,434	76,363	2025	2028
2026	2029	634	13,123	312,993	326,750	98	2,037	48,582	50,717	2026	2029
2027	2030	297	9,099	264,947	274,343	43	1,305	37,991	39,339	2027	2030
2028	2031	129	5,595	203,072	208,796	17	741	26,859	27,657	2028	2031
Total		459,561	1,304,484	4,877,135	6,641,180	234,981	556,468	1,292,193	2,083,642		

* Expected employer contributions paid during fiscal year

** Expected employer contributions during fiscal year, discounted to June 30, 2003 at 8.25%

State of Alaska Teachers' Retirement System
 Projections Based on July 1, 2003 Valuation
 Population Growth 1 Percent

Valuation Year	Fiscal Year	Number of Active Members				Projected Salaries				Valuation Year	Fiscal Year
		Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3	Total		
2003	2006	3,533	6,342	-	9,875	224,321,356	308,308,644	-	532,630,000	2003	2006
2004	2007	3,250	5,878	846	9,974	234,219,606	321,912,859	-	556,132,465	2004	2007
2005	2008	2,778	5,474	1,821	10,073	223,184,546	312,480,238	37,711,792	573,376,576	2005	2008
2006	2009	2,461	5,113	2,600	10,174	197,505,616	304,204,838	84,924,658	586,635,112	2006	2009
2007	2010	2,165	4,794	3,317	10,276	181,302,565	296,350,944	126,966,178	604,619,687	2007	2010
2008	2011	1,903	4,499	3,977	10,379	165,278,628	289,067,834	169,500,401	623,846,863	2008	2011
2009	2012	1,655	4,224	4,604	10,483	150,568,581	281,424,078	212,655,302	644,647,961	2009	2012
2010	2013	1,421	3,960	5,206	10,587	135,653,981	274,058,655	257,489,490	667,202,126	2010	2013
2011	2014	1,180	3,701	5,812	10,693	120,738,837	266,359,405	304,130,800	691,229,042	2011	2014
2012	2015	1,002	3,408	6,390	10,800	104,129,396	257,896,541	354,113,311	716,139,248	2012	2015
2013	2016	842	3,115	6,951	10,908	91,516,579	245,407,254	405,873,541	742,797,374	2013	2016
2014	2017	703	2,841	7,473	11,017	79,515,576	231,752,432	459,769,165	771,037,173	2014	2017
2015	2018	579	2,575	7,973	11,127	68,718,148	218,322,646	514,504,374	801,545,168	2015	2018
2016	2019	468	2,320	8,451	11,239	58,527,452	204,500,661	571,260,238	834,288,351	2016	2019
2017	2020	368	2,075	8,908	11,351	48,901,037	190,275,091	629,969,112	869,145,240	2017	2020
2018	2021	278	1,831	9,356	11,465	39,625,543	175,721,394	690,920,442	906,267,379	2018	2021
2019	2022	201	1,586	9,792	11,579	30,763,576	160,070,010	754,611,837	945,445,423	2019	2022
2020	2023	142	1,336	10,217	11,695	22,597,174	143,143,575	821,249,702	986,990,451	2020	2023
2021	2024	99	1,125	10,588	11,812	16,196,454	124,733,989	890,898,931	1,031,829,374	2021	2024
2022	2025	70	940	10,920	11,930	11,524,721	108,766,612	960,136,374	1,080,427,707	2022	2025
2023	2026	47	745	11,257	12,049	8,200,329	94,088,348	1,029,847,409	1,132,136,086	2023	2026
2024	2027	32	548	11,590	12,170	5,650,344	77,695,776	1,103,866,284	1,187,212,404	2024	2027
2025	2028	21	462	11,809	12,292	3,869,034	60,221,757	1,181,532,316	1,245,623,107	2025	2028
2026	2029	12	389	12,013	12,414	2,535,473	52,493,844	1,251,970,579	1,306,999,896	2026	2029
2027	2030	7	321	12,211	12,539	1,484,959	45,493,666	1,324,737,179	1,371,715,804	2027	2030
2028	2031	4	260	12,400	12,664	887,477	38,582,813	1,400,496,073	1,439,966,363	2028	2031

State of Alaska

Division of Retirement & Benefits

Normal Cost Rate and Actuarial Computed Rate from FY 1983 through FY 2006

<u>Valuation report date June 30</u>	<u>Fiscal year of rate</u>	<u>Normal Cost rate PERS</u>	<u>Actuarial Computed Rate PERS</u>	<u>Normal Cost rate TRS</u>	<u>Actuarial Computed Rate TRS</u>
1980	1983	11.46%	13.78%	11.95%	16.84%
1981	1984	12.03%	13.68%	13.51%	17.42%
1982	1985	11.36%	13.62%	13.64%	17.96%
1983	1986	11.82%	13.59%	13.13%	17.36%
1984	1987	12.31%	13.84%	13.91%	13.28%
1985	1988	11.13%	9.55%	11.62%	13.28%
1986	1989	10.20%	9.38%	9.36%	11.16%
1987	1990	9.23%	9.30%	9.14%	8.19%
1988	1991	10.37%	12.00%	11.86%	12.27%
1989	1992	12.00%	14.20%	13.26%	15.16%
1990	1993	12.83%	13.58%	14.07%	19.65%
1991	1994	10.18%	13.72%	9.05%	15.59%
1992	1995	10.90%	13.70%	8.57%	13.36%
1993	1996	11.29%	12.82%	9.06%	12.48%
1994	1997	10.36%	12.14%	9.70%	14.96%
1995	1998	10.61%	11.90%	10.10%	14.94%
1996	1999	9.85%	7.74%	8.97%	10.52%
1997	2000	9.89%	7.36%	9.21%	13.00%
1998	2001	8.67%	7.03%	8.99%	10.55%
1999	2002	8.07%	6.56%	8.88%	7.09%
2000	2003	10.07%	6.12%	9.40%	8.29%
2001	2004	9.53%	6.77%	10.36%	14.44%
2002	2005	13.31%	24.91%	14.76%	35.57%
2003	2006	13.24%	25.63%	14.28%	38.85%

Normal Cost Rate: present value of benefits, which are expected to be credited with respect to service during the year beginning on the valuation date.

Actuarial Computed Rate: after comparing plan assets and liabilities, an actuarial rate is computed that would fully fund the retirement systems over 25 years. There are two components: the normal cost rate and the past service rate necessary to pay any unfunded liability. Both rates account for differences between actual experience versus anticipated results, changes in actuarial assumptions and / or methods, changes in statutory provisions, and the difference between the rate actually adopted by the Boards for a particular year versus the computed rate.

TRS

Possible Medical Scenarios for member before Medicare eligible (currently age 60 – 65) according to HB 238 – 2% HRA contribution

TRS early hire, 30 years, retires at 60 mo. Pre-Medicare – 90% subsidy	Amount in dollars
Cost of medical	301,491
Amount of subsidy	200,739
Amount paid by HRA	213,838
Net out of pocket expense to retiree 60 mo. Pre-Medicare medical coverage	-113,086

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TRS late hire, 20 years, retires at 60 mo. Pre-Medicare – 60% subsidy	Amount in dollars
Cost of medical	145,022
Amount of subsidy	64,373
Amount paid by HRA	79,518
Net out of pocket expense to retiree 60 mo. Pre-Medicare medical coverage	1,131

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TRS late hire, 20 years, retires at 60 mo. Pre-Medicare with spouse – 60% subsidy	Amount in dollars
Cost of medical	290,044
Amount of subsidy	128,745
Amount paid by HRA	72,101
Net out of pocket expense to retiree 60 mo. Pre-Medicare medical coverage	89,198

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PERS

Possible Medical Scenarios for member before Medicare eligible (currently age 60 – 65) according to HB 238 – 2% HRA contribution

PERS "other" early hire, 30 years, retires at 60 mo. Pre-Medicare – 90% subsidy	Amount in dollars
Cost of medical	304,491
Amount of subsidy	200,739
Amount paid by HRA	160,578
Net out of pocket expense to retiree 60 mo. Pre-Medicare medical coverage	-56,826

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PERS "other" late hire, 20 years, retires at 60 mo. Pre-Medicare with spouse – 60% subsidy	Amount in dollars
Cost of medical	290,044
Amount of subsidy	128,745
Amount paid by HRA	54,563
Net out of pocket expense to retiree 60 mo. Pre-Medicare medical coverage	106,736

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PERS "other" late hire, 20 years, retires at 60 mo. Pre-Medicare – 60% subsidy	Amount in dollars
Cost of medical	145,022
Amount of subsidy	64,373
Amount paid by HRA	59,536
Net out of pocket expense to retiree 60 mo. Pre-Medicare medical coverage	21,113

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MEMORANDUM

State of Alaska

Department of Law

TO: Ray Matiashowksi, Commissioner
Department of Administration

DATE: April 20, 2005

OUR FILE: 663-05-0192

Thru: Scott Nordstrand
Deputy Attorney General - Civil
Attorney General's Office

TELEPHONE NO: 465-3600

FROM: Virginia B. Ragle
Assistant Attorney General
Labor & State Affairs Section - Juneau

SUBJECT: Retirement system
amendments -
constitutional issues

You have asked three questions regarding application of proposed legislative modifications of the state's public employees' (PERS) and teachers' (TRS) retirement systems to current members of the systems. Those questions are:

1. Is it allowable to increase PERS and TRS contribution rates for individuals who became members of the systems before the effective date of the rate increases?
2. Is it allowable to discontinue pre-funding the medical component or set a rate that targets less than 100 percent funding for existing members or new members?
3. Is it allowable to prospectively not pay existing members new [or additional] ad hoc post retirement pension adjustments (PRPAs)? If not, could a new statutory provision reduce the existing number of members eligible for this benefit prospectively to reduce costs to the system?

While we believe that definitive answers to these questions will only be provided by the Alaska Supreme Court, based on our review of existing case law our, short answers to these questions are:

1. PERS and TRS contribution rates may be increased for individuals who became members of the systems before the effective date of the rate increases if the increases are accompanied by comparable enhancements to benefits.

2. Pre-funding of the medical component of PERS and TRS benefits, to the extent that pre-funding would be considered an accrued benefit, may not be discontinued for members who were employed during the period that statutes required pre-funding. Funding of medical benefits may be set at less than 100% funding for new members.
3. If the financial condition of the funds does not permit payment of the PRPA, it is allowable to prospectively not pay existing members new [or additional] ad hoc PRPAs. A new statutory provision cannot reduce the existing number of members who retain a vested right to a PRPA if one is awarded, unless the new statutory provision includes comparable enhancements to benefits.

The above responses might be different if it were established that application of modification of the retirement systems to current members is necessary to allow the retirement systems to pay current benefit claims.

ALASKA CASE LAW

Each of these questions raises substantial legal issues under Alaska Constitution article XII, section 7, as interpreted by the Alaska Supreme Court. That constitutional provision provides:

Retirement Systems. Membership in employee retirement systems of the State or its political subdivisions shall constitute a contractual relationship. Accrued benefits of those systems shall not be diminished or impaired.

There is a substantial body of Alaska jurisprudence interpreting article XII, section 7 of the Alaska Constitution. Since this case law guides our advice on the issues you have raised, we provide the following synopses of the most pertinent Alaska Supreme Court cases.

State ex rel. Hammond v. Allen, 625 P.2d 844 (Alaska 1981)

The Alaska Supreme Court first interpreted Alaska Constitution article XII, section 7 in the case of *State ex rel. Hammond v. Allen*, 625 P.2d 844 (Alaska 1981). That case involved the Elected Public Officers' Retirement System (EPORS), which was established by the enactment of chapter 205, SLA 1975. A referendum petition to repeal the Act was filed in September 1975, before the Act became effective on

January 1, 1976.¹ Following passage of the referendum by a substantial majority of the voters in an election on August 24, 1976 (effective October 14, 1976), the state filed an action for declaratory judgment, arguing that article XII, section 7 did not apply and that the repeal was effective as to “officials who were participating in EPORS at the time of its repeal, but who were not then entitled to benefits.” 625 P. 2d at 845.

The court held that article XII, section 7 did apply, and that even “the extreme likelihood of the subsequent repeal” of EPORS did not constitute an implicit condition subsequent that would extinguish the state’s contractual obligation to provide benefits under EPORS.² The court concluded that “[a]ll elected officials who were participating in EPORS at the time its repeal became effective will, therefore, be entitled to the benefits provided by that system upon retirement.” Under this holding, the state was required to permit even those EPORS members who had not met the minimum age or service requirements for retirement to continue to participate in the repealed retirement system.

Hammond v. Hoffbeck, 627 P.2d 1052 (Alaska 1981)

Later in 1981, the court issued its opinion in *Hammond v. Hoffbeck*, 627 P.2d 1052 (Alaska 1981). In that case, public safety employees challenged statutory changes enacted in 1976 regarding PERS occupational disability and death benefits. Two of the challenged statutory changes reduced the amount of benefits, and one modified the eligibility requirements for occupational disability benefits.

The court first had to address whether an employee’s rights to benefits under PERS vest on employment and enrollment in the system or only at the time when the employee becomes eligible to receive those benefits. The court ruled that under the Alaska Constitution, the former applied.³ The court stated

¹ The repealed provisions of EPORS are set out in the editor’s notes to AS 39.37.

² The court observed “[w]e believe that if the possibility of repeal of a law could function as an implicit condition subsequent to a contract formed under that law, the protection of contract rights afforded by article XII, section 7, would be seriously eroded.”

³ The court noted that it had “previously held that the phrase ‘accrued rights’ is synonymous with ‘vested’ rights. *Bidwell v. Scheele*, 355 P.2d 584, 586 (Alaska 1960).” *Id.* at n.4.

We are of the view that the plain meaning of Alaska Const. Art. XII, § 7, as well as the purposes underlying its adoption, compels such a conclusion. Furthermore, a review of the relevant case authority from several jurisdictions has persuaded us that this rule represents the better reasoned of the alternative approaches that have been adopted. The rule that regards members' rights in public employees' benefits systems as vested only at the time which an individual employee is eligible to receive payment of those benefits necessarily depends in some degree upon the anachronistic notion that such benefits are in the "nature of a bounty springing from the appreciation and graciousness of the sovereign." . . . Under the rule mandated by Alaska's Constitution, on the other hand, these benefits are regarded as an element of the bargained-for consideration given in exchange for an employee's assumption and performance of his employment. This approach, in our view, more accurately reflects the realities of public employment in Alaska.

Id. at 1056-57 (citations omitted). Therefore, the court held

that benefits under PERS are in the nature of deferred compensation and that the right to such benefits vests immediately upon an employee's enrollment in that system.

Id. at 1057.

Recognizing that "rigid adherence to labels like 'gratuity,' 'compensation,' 'contract,' and vested rights' has not allowed the courts the flexibility necessary to deal properly with legitimate legislative response to changing economic and social conditions," the court found California's "'limited vesting' approach to be instructive." *Id.* The court agreed with the California court's analysis⁴ and held

⁴ Citing *Betts v. Board of Administration of the Public Employees' Retirement System*, 582 P.2d 614, 617 (1978) (1974 amendment changing "fluctuating" computation method to less beneficial "fixed" computation method included no comparable new advantages and could not constitutionally be applied to official whose employment was performed before the amendment); *Allen v. City of Long Beach*, 287 P.2d 765 (CA 1955) (invalidating city's increase in employee contribution rate, change in method of computing benefits, and change in contribution requirements upon reinstatement of employment following absence for military service).

the fact that rights in PERS vest on employment does not preclude modifications of the system; that fact does, however, require that any changes in the system that operate to a given employee's disadvantage must be offset by comparable new advantages to that employee.

Id. The court reserved judgment on changes to the retirement system that might be needed to sustain a retirement system that could not pay all the benefits it owed. In footnote 11, the court stated:

We are not called upon to consider the problem, which has frequently arisen in other jurisdictions, presented by a pension fund that is insufficient to satisfy all employee claims brought under its provisions. We intimate no view as to the appropriate legal analysis of any legislative alteration in employee benefits systems made in response to such circumstances.

Id.

Addressing the amendment to the method of computation of PERS occupational disability benefits, the court held that "at least as to some individuals, the new system cannot be said to offer advantages which outweigh its obvious disadvantages." *Id.* at 1058.

Regarding the change in eligibility requirements for occupational disability benefits, the court rejected the state's argument that eligibility standards were not part of the vested benefits protected by article XII, section 7. The court stated that the protected vested benefits "necessarily include not only the dollar amount of the benefits payable, but the requirements for eligibility as well." The court regarded "it as self-evident that this change will entail serious disadvantage" to certain injured public safety employees. *Id.*

The court rejected the state's argument that modification to PERS death benefits could be applied to current employees because rights to those benefits do not vest until the death of an employee. The court reasoned

It is not the vesting of survivors' benefits that is at issue; it is rather the vesting of employee benefits. The fact that part of an employee's benefit package is, effectively, a life insurance policy, the proceeds of which will never be received by the employee, does not make that whole package any less an element of the consideration that the state contracts to tender in exchange for services rendered by the employee.

Id. at 1059.

The court concluded that the three challenged modifications to PERS "violate Alaska Const. Art. XII, § 7, as to those public safety employees who are adversely affected by them." The court noted "that a determination of whether vested rights to benefits have been diminished must be made on a case-by-case basis" and that the "choice is best made by each affected individual." *Id.* However, the court reversed the superior court's holding that the amendments were invalid as to all public safety employees. The court's interpretation rendered "the 1976 amendments . . . constitutional except as to public safety employees hired before July 1, 1976, who opt to receive benefits under the system in effect at the time they were hired." *Id.*

Sheffield v. APEA, 732 P.2d 1083 (Alaska 1987)

The court next interpreted Alaska Constitution article XII, section 7 in the case of *Sheffield v. APEA*, 732 P.2d 1083 (Alaska 1987). That case involved statutes allowing employees to take early retirement, and also requiring that early retirement benefits be actuarially adjusted. "Actuarial adjustment" was statutorily defined as "equality in value of the aggregate expected payments under two different forms of pension payments, considering expected mortality and interest earnings on the basis of tables adopted from time to time by the board."

A new, more accurate table of early retirement factors adopted by the board in 1981 resulted in computation of slightly lower early retirement benefits than the 1972 table of factors previously in effect. APEA sued to prevent application of the factors in the new table to employees hired before the board adopted the new table. APEA also stipulated that the factors set out in the new table came "closer to achieving equality in value of aggregate payments as between early and normal retirement than would be possible under the old factors." *Id.* at 1084

The court quoted favorably from a case interpreting Massachusetts' law regarding contractual rights to public employee retirement benefits:

The minimal meaning ... is that the "contract" is formed when a person becomes a member by entering the employment, and he is entitled to have the level of rights and benefits then in force *preserved in substance in his favor without any modification downwards....* When we speak of the level of rights and benefits protected by [this statute] we mean the *practical effect of the whole complex of provisions* not excluding the [employees' contributions], for an increase in the [rate thereof] is little different from a diminution of the allowance.

Id. at 1087, quoting *Opinion of the Justices*, 303 N.E.2d 320, 327 (Mass. 1973) (emphasis added by court). Adhering to its case-by-case diminishment analysis in *Hoffbeck*, the court held that employees had a vested right to application of the more-favorable factors in effect during their employment. The court noted that

If the PERS board repeatedly revises the tables during the course of an employee's employment, we think the employee should be permitted to elect which of those tables will apply to the computation of his or her PERS early retirement benefits. *Cf. Hoffbeck*, 627 P.2d at 1059 n. 13 ("Upon remand the state is to give requisite notice to and a reasonable time for all those public safety employees affected to exercise their right to choose which system they desire to come under.").

Id. at 1089 n.13. The court explained

To hold that employees have a right only to early retirement benefits which are subject to actuarial changes until retirement would vitiate Alaska's constitutional protection of accrued benefits for those employees who anticipate early retirement: they could not count on any particular amount of pension but only that they will receive one. We therefore hold that the plain meaning of Alaska Const. Art. XII, § 7 should be interpreted to cover the diminution in early retirement benefits at issue, without regard to the fact that the diminution is accomplished through regulations (the actuarial factors) contemplated by the PERS statutes.

Id. at 1089.

Flisock v. State, Div. of Retirement and Benefits, 818 P.2d 640 (Alaska 1991)

In 1991, the court again interpreted Alaska Constitution article XII, section 7 in the case of *Flisock v. State, Div. of Retirement and Benefits, 818 P.2d 640 (Alaska 1991)*. That case involved a claim by a TRS member that the determination of the “base salary” to be used in the computation of his benefit should include a lump sum payment he received for unused leave he accrued during a six year period of employment with one of his employers.

The court stated the first issue in the case as being whether the Alaska Constitution required “that Flisock’s retirement benefits be calculated in accordance with the law and practice in 1969, the year in which he first entered” TRS. *Id.* at 643. Citing the *Hoffbeck* and *Sheffield* cases, the court held that “Flisock is entitled to have his benefits calculated according to 1969 law.” *Id.* The court interpreted the law in effect in 1969 as allowing Flisock to include in his base salary the portion of the lump sum that represented compensation for unused leave accrued during the three years used for computation of his benefit. *Id.* at 644.

Municipality of Anchorage v. Gallion, 944 P.2d 436 (Alaska 1997)

In 1997, the Alaska Supreme Court issued its opinion in the case of *Municipality of Anchorage v. Gallion, 944 P.2d 436 (Alaska 1997)*. That case involved a challenge to a Municipality of Anchorage (MOA) ordinance that affected the funding of the Anchorage Police and Fire Retirement System (APFRS). APFRS consisted of three plans with different levels of benefits and eligibility requirements, and with membership based primarily on date of hire. In 1994, Plans I and II were more than 100 percent funded, and Plan III was 89 percent funded. Although MOA had historically funded the plans separately under its ordinances, in 1994 MOA enacted an ordinance providing that contributions were not required if “the Board’s actuary determines that the funds necessary to pay the actuarial liability for the benefits for system members contained herein are available from the total assets of the system.” *Id.* at 439. MOA had already suspended contributions to Plans I and II. Based on the new ordinance, and the fact that the system considered as a whole was funded at over 100 percent of projected liabilities, MOA discontinued contributions to Plan III.

Anchorage Police and Fire Retirement System members sued on behalf of Plans I and II, contending that MOA’s diversion of funds from those plans violated Alaska Constitution article XII, section 7. In discussing the constitutional standard to be applied, the court pointed out that, in the *Sheffield* case, it had adopted the reasoning of the Massachusetts Supreme Court when

we made it clear that the benefits in force at the time of enrollment in the system will be protected, stating:

[A member] is entitled to have the level of rights and benefits then in force *preserved in substance in his favor without any modification downwards.* ... When we speak of the level of rights and benefits protected by [this statute] we mean the *practical effect of the whole complex of provisions....*

Id. at 1087 (quoting *Opinion of the Justices*, 364 Mass. 847, 303 N.E.2d 320, 327 (1973) (emphasis added)).

Id. at 441. Dispelling any notion that rights protected by the constitution are limited to the amount of and eligibility requirements for benefits,⁵ the court held that MOA's ordinance impaired

the vested right of members of Plans I and II to have the actuarial soundness of those plans evaluated and maintained separately without being affected by the soundness of other plans. That failure impairs the ability of Plans I and II to withstand future contingencies, such as increases in plan obligations, declines in investment revenue, and inability by MOA to fund any shortfall. It is therefore unconstitutional.

Id. at 444. The court declined to adopt the reasoning of case law from other jurisdictions that upheld allocations of fund earnings or surpluses to supplemental benefits because those allocations did not diminish or impair payment of full benefits⁶ or to an underfunded plan because the system remained actuarially sound.⁷ Instead, the court was persuaded by *Valdes v. Cory*, 139 Cal. App.3d 773, 189 Cal. Rptr. 212 (1983). In *Valdes*, the Court of Appeal for the Third District of California held that provisions of emergency

⁵ In the 1988 case of *Rice v. Rice*, 757 P.2d 60 (Alaska 1988), the court mentioned that "[t]he modifications to PERS which we have found to operate to disadvantage an employee are those changes which reduce the dollar amount of the benefits payable or the requirements for eligibility." 757 P.2d at 62 (citations omitted).

⁶ *Poggi v. City of New York*, 109 A.D.2d 265, 491 N.Y.S.2d 331 (1985), *aff'd*, 67 N.Y.2d 794, 501 N.Y.S.2d 397 (1986); *Halstead v. City of Flint*, 127 Mich. App. 148, 338 N.W.2d 903 (1983).

⁷ *State ex rel. Dadisman v. Caperton*, 413 S.E.2d 684 (W. Va. 1991).

legislation passed by the California legislature suspending employer contributions to the state's retirement systems for three months during a budget crisis interfered "with vested contractual rights of PERS members." 189 Cal. Rptr. at 223. The Alaska Supreme Court explained that, although the California legislature's action

had not reduced employee benefits under the system, the [California] court determined that the state could not suspend its statutorily defined contributions absent actuarial input to insure that the system would remain actuarially sound. *Id.* at 223. The court stated that although an employee may not suffer out of pocket expenses, "the interest of the employee at issue here is the security and integrity of the funds available to pay future benefits." *Id.* at 222.

944 P.2d at 445.

Duncan v. Retired Public Employees of Alaska, 71 P.3d 882 (Alaska 2003)

The Alaska Supreme Court's most recent case interpreting Alaska Constitution article XII, section 7 is *Duncan v. Retired Public Employees of Alaska*, 71 P.3d 882 (Alaska 2003). In that case, Retired Public Employees of Alaska and other plaintiffs challenged modifications to the retiree health plan made by the state in 1999 and 2000. Some of the modifications "provided greater benefits; others were disadvantageous to retirees." *Id.* at 885. In its overview of article XII, section 7, the court quoted from its *Hoffbeck* analysis of the vesting of an employee's right to benefits upon employment and enrollment in the system, and explained that "[t]his means that system benefits offered to retirees when an employee is first employed and as improved during the employee's tenure may not be 'diminished or impaired.'" *Id.* at 886-87. The court reiterated that vested benefits are subject to reasonable modification, "[b]ut to be sustained as reasonable, changes that result in disadvantages to employees should be accompanied by comparable new advantages." *Id.*

The court rejected the state's argument that health insurance benefits, which were not provided by territorial retirement systems when the Alaska Constitution was ratified, were not intended to constitute "accrued benefits." The court observed that its "case law suggests that 'accrued benefits' should be defined broadly." *Id.* at 887. The court concluded

that the term “accrued benefits” is not limited to just the benefits that were provided to public employees at the time of ratification of the constitution. Instead, the term includes all retirement benefits that make up the retirement benefit package that becomes part of the contract of employment when the public employee is hired, including health insurance benefits.

Id. at 888. The court acknowledged “that medical costs are rapidly rising, making health insurance increasingly difficult to provide. But we do not believe that this fact is of sufficient weight to change the meaning of the plain language of article XII, section 7.” *Id.*

The court also rejected the state’s argument that the “accrued benefit” was not the level of coverage provided, but was the highest amount of the monthly premium for retiree health coverage in effect during an employee’s employment. The court stated

The natural and ordinary meaning of “benefits” in a health insurance context refers to the coverage provided rather than the cost of the insurance. Further, the various employee publications promise coverage, not merely payment of a particular premium.

Id. at 888-89. The court acknowledged that “[t]he state’s argument that the pension system may at some point be threatened by increasing costs of health care is a serious one. Again however, we do not believe that this argument is sufficient to change the meaning of the constitutional language in question.” *Id.*

The court agreed with the state’s third argument, concluding that the determination of whether detrimental changes in retiree health coverage are offset by comparable new beneficial changes must be made from a group standpoint rather than on an individualized basis. The court reasoned that

Changes to fixed streams of income such as occupational disability and pension payments can be much more readily evaluated on an individual basis to determine whether they result in a net benefit than can changes to health insurance. Pension and occupational disability payments are, for the most part, predictable and fixed, while health insurance benefits change according to the unpredictable, changing medical needs of each individual.

Id. at 891. The court cautioned that

equivalent value must be proven by reliable evidence. Just as with an individual comparative analysis, offsetting advantages should be established under the group approach by solid, statistical data drawn from actual experience--including accepted actuarial sources--rather than by unsupported hypothetical projections.

Id. at 892. The court indicated that some individuals could suffer serious hardship from changes in medical coverage that are constitutionally acceptable from a group standpoint. Contrasting the serious hardship established in *Hoffbeck* with the examples of detriments offered in the *Duncan* case, which amounted to “at most several hundred dollars a year, without consideration of [offsetting] benefits,” the court stated that individuals who showed serious hardship caused by substantial detriments that are not offset by comparable advantages “should be allowed to retain existing coverage.” *Id.*

RESPONSE TO QUESTIONS

1. **PERS and TRS contribution rates may be increased for individuals who became members of the systems before the effective date of the rate increases if the increases are accompanied by comparable enhancements to benefits.**

Alaska Supreme Court case law summarized above is clear in establishing the date of enrollment in a public retirement system as the date upon which an employee's rights are “vested” or “accrued” under the retirement system.⁸ That case law also establishes that “accrued benefits” protected by article XII, section 7 broadly include not just the amount of and eligibility requirements for benefits, but also “the practical effect of the whole complex of provisions” of the systems. *Gallion*, 944 P.2d at 441; *Sheffield*, 732 P.2d at 1087 (both quoting *Opinion of the Justices*, 303 N.E.2d 320, 327 (Mass. 1973)).

Although a majority of the Alaska Supreme Court has not addressed the specific issue of the circumstances under which the state's retirement systems may be amended to raise employee contribution levels, cases that the court has cited, and on which the court has relied, do address the issue.

⁸ Following the Alaska Supreme Court's issuance of its opinion in *Hoffbeck*, this office advised the commissioner of administration that the state could not, by statute, raise the employee contribution rate for teachers employed before the rate increase. 1983 Inf. Op. Att'y. Gen. (366-329-83; February 14).

The Alaska Supreme Court cited the 1955 case of *Allen v. City of Long Beach*, 287 P.2d 765 (CA 1955), in *Hoffbeck*, adopting the California Supreme Court's "limited vesting" and "comparable advantage" approach. *Hoffbeck*, 627 P.2d at 1057. In the *City of Long Beach* case, the California court specifically considered the 1951 modification of a pension plan by the city, increasing the contribution rate of employees hired before March 29, 1945, from 2 percent to 10 percent. The court stated that the change to the city's charter:

substantially decreases plaintiffs' pension rights without offering any commensurate advantages, and there is no evidence or claim that the changes enacted bear any material relation to the integrity or successful operation of the pension system established by section 187 of the charter.

The provision raising the rate of an employee's contribution to the city pension fund from 2 percent of his salary to 10 percent obviously constitutes a substantial increase in the cost of pension protection to the employee without any corresponding increase in the amount of the benefit payments he will be entitled to receive upon his retirement.

287 P.2d at 767. The court invalidated the city charter provision increasing the contribution rate.⁹

⁹ Other California contribution rate cases include *Wisley v. City of San Diego*, 188 Cal.App.2d 482, 10 Cal. Rptr. 765 (1961) (successive amendments gradually increasing employee contribution rates from one percent to eight percent were obviously detrimental and there was no showing of commensurate benefit or that increases were necessary to the integrity or successful operation of the pension program; holding that the contribution rate increases could not be sustained as reasonable as applied to the plaintiffs); and *City of Downey v. Board of Administration, Public Employees Retirement System*, 47 Cal. App.3d 621, 121 Cal. Rptr. 295 (1975) (detrimental change in contribution rate from individual actuarial computation of portion of benefits employee would receive to flat seven percent of salary was outweighed by increase in retirement allowance, reduction in mandatory retirement age, and option of benefit for spouse).

The Massachusetts case *Opinion of the Justices*, 303 N.E.2d 320 (Mass. 1973), on which the court relied in adopting the interpretation that “accrued benefits” include “the practical effect of the whole complex of provisions” of the retirement systems (*Gallion*, 944 P.2d at 441; *Sheffield*, 732 P.2d at 1087) also involved proposed legislation to raise the employee contribution rate.¹⁰ The Massachusetts court explained that a proposed increase in the employee contribution rate from five percent to seven percent

would mean a forty percent increase of the member contributions providing the annuity share of the yearly allowance, and a comparable decrease in the pension share provided by the government, for the pension share represents roughly the difference between what the member has created in the way of an annuity and the fixed yearly retirement to which he is entitled. The member would pay more without any enlargement of the benefits.

303 N.E.2d at 324. The Massachusetts court stated

Legislation which would materially increase present members' contributions without any increase of the allowances finally payable to those members or any other adjustments carrying advantages to them, appears to be presumptively invalid--invalid, that is to say, unless saved by the reserved police powers. . . . That the maintenance of a retirement plan is heavily burdening a governmental unit has not itself been permitted to serve as justification for a scaling down of benefits figuring in the 'contract' although no case presenting proof of a catastrophic condition of the public finances has been put.

¹⁰ Massachusetts does not have a constitutional provision comparable to Alaska Constitution article XII, section 7. The court applied Massachusetts statute section 25(5) of G.L. c. 32, which provided that the retirement system statutes “shall be deemed to establish . . . membership in the retirement system as a contractual relationship under which members who are or may be retired for superannuation are entitled to contractual rights and benefits, and no amendments or alterations shall be made that will deprive any such member or any group of such members of their pension rights or benefits provided for thereunder, if such member or members have paid the stipulated contributions” 303 N.E.2d at 322-23.

Id. at 329-30 (cited). The Massachusetts court concluded that the proposed increase in contribution rate of members of the retirement system was presumptively invalid. *Id.* at 331. The court also concluded that the contribution rate could be applied to employees hired after enactment of the new rate. *Id.*

In addition to these cases from other jurisdictions on which the Alaska Supreme Court has relied, the case of *Hudson v. Johnstone*, 660 P.2d 1180 (Alaska 1983), provides insight as to the probable outcome of a challenge to application of increased contribution rates to current employees. In *Johnstone*, the Alaska Supreme Court considered amendments to the Judicial Retirement System (JRS). Before July 1, 1978, judges were not required to make contributions to JRS. Amendments enacted in 1978 kept JRS non-contributory for judges appointed before July 1, 1978, and made JRS contributory for judges hired after that date. AS 22.25.011. The court upheld the amendments, without citing Alaska Constitution article XII, section 7. Justice Rabinowitz wrote a concurring opinion analyzing that constitutional provision, and opined:

. . . . under the provisions of article XII, section 7, justices and judges appointed on or before July 1, 1978, are constitutionally entitled to receive benefits under the non-contribution retirement system established prior to the enactment of AS 22.25.011. Thus the legislature is precluded from requiring such judges to contribute toward their retirement benefits even when they commence new "terms of office."

Id. at 1187. Justice Rabinowitz reviewed the 1981 cases of *State v. Allen* and *Hammond v. Hoffbeck*, and stated his view that those cases "preclude the legislature from requiring the members of the judiciary appointed on or before July 1, 1978, from contributing toward their retirement benefits, absent some offsetting comparable new advantage." *Id.* at 1188.

In your request for advice, you mention a memorandum dated January 29, 2005, from the Legislative Affairs Agency's Division of Legal and Research Services ("LAA memorandum") to Representative Mike Kelly regarding "[a]ccrued benefits of public employment retirements systems and legislative changes to the employee contribution rate." That memorandum acknowledges that, under *Hoffbeck*, a challenge may be raised to an increase in employee contribution rates, but states that

[a] strong counter argument could be made that the employee contribution rates are not part of the ‘accrued benefit’ to which members are entitled. The accrued benefits are the rights to receive the retirement and medical plan offered upon employment; the rights accrue as they are earned. A person’s contribution rate cannot be changed retroactively for benefits that have already accrued, however, it can be argued that the employee contribution rate can change prospectively to pay for vested benefits.

These statements and the analysis that follows them in the LAA memorandum are not consistent with the Alaska Supreme Court’s repeated rulings that an employee’s rights under the retirement systems vest – i.e., are “accrued” – at the time the employee first enrolls in the system, and that those accrued rights include not only the amount of and eligibility requirements for benefits, but also “the practical effect of the whole complex of provisions” of the systems.¹¹ In the one case cited by the LAA memorandum in which an increase in the contribution rate of a group of teachers was approved, the Michigan Supreme Court relied on Michigan constitutional history indicating that the framers intended to protect retirees from diminishment of rights “after the service has been performed.” *Request for Advisory Opinion, In re Enrolled Senate Bill 1269*, 389 Mich. 659, 209 N.W.2d 200, 202 (Mich. 1973). There is no comparable Alaska constitutional history, and this is contrary to Alaska case law regarding accrual of benefits under the Alaska Constitution.¹²

¹¹ The LAA opinion discusses the *Hoffbeck* case, then states that “the next discussion of Article XII, sec. 7 by the Alaska Supreme Court occurred in 2003” citing the *Duncan* case. The LAA memorandum does not address the earlier *Hammond v. Allen* case, or the intervening *Sheffiela v. APEA*, *Flisock v. State*, and *MOA v. Gallion* cases.

¹² The case cited in the LAA memorandum in support of the proposition that public employees could choose to resign instead of paying increased contributions did not construe a retirement statute. In *Cook v. City of Binghamton*, 398 N.E.2d 525 (N.Y. 1979), the court upheld changes to a general law that provided for continued payment of salary and medical benefits to certain firemen who were disabled by injuries while performing their duties.

The LAA memorandum correctly points out that increases in contribution rates have been applied to current employees in the past – specifically in 1986 for PERS members and in 1990 for TRS members – without creating a new tier and without drawing legal challenges.¹³ However, the 1986 and 1990 legislation that raised the contribution rates included provisions intended to enhance benefits to offset the rate increases. For example, in addition to increasing the PERS contribution rate, the 1986 legislation added the automatic actuarially funded PRPA, increased some of the multipliers for computation of benefits, and made contributions pre-tax. Ch. 82, SLA 1986.

The bill review that the attorney general's office provided to the Governor in 1986 described the increase in the contribution rates for PERS members, and explained that because of the pre-tax treatment, little if any change in the take-home pay of employees would result.¹⁴ The bill review also explained that the bill provided "additional benefits to . . . offset any diminution in benefits resulting from the increase in the contribution rate. The most significant and valuable of these additional benefits is the automatic, actuarially funded (PRPA) . . ." Other provisions of the 1986 legislation that would constitute diminishment of benefits, such as the increase in early and normal retirement ages, the requirements that retirees under the age of 60 pay full premiums and retirees between the ages of 60 and 65 pay half premiums for medical coverage, and limits on inclusion of geographic cost of living differentials in computation of benefits, were made applicable only to employees hired after July 1, 1986 (this created PERS Tier II).

Similarly, Ch. 97, SLA 1990 raised the TRS contribution rates, and also made offsetting changes making the contributions pre-tax, increasing a multiplier, and adding the automatic actuarially funded PRPA. Again, the increase in the early and normal retirement ages for teachers with less than 20 years of service and the medical coverage premium requirement applied only to teachers hired after June 31, 1990 (this created TRS Tier II).

¹³ Footnote 3 of the LAA memorandum mentions that the contribution rate was "last increased in 1999" for PERS school district employees. However, the 1999 contribution rate increase was not imposed on school district PERS employees. Under the 1999 legislation, noncertificated PERS employees of school districts who worked during the school year, and therefore did not accrue a whole year of service credit under PERS each year, were allowed to elect to pay a higher contribution rate in exchange for accrual of a full year of service credit. Ch. 22, SLA 1999.

¹⁴ File no. 883-86-0140.

In applying Alaska Supreme Court case law interpreting Alaska Constitution article XII, section 7 to your first question, we conclude that legislation increasing the PERS and TRS contribution rates for employees who became members of the systems before the effective date of the rate increases is likely to face a serious legal challenge. Because this kind of dispute is resolved on a case-by-case basis, only a definitive opinion of the Alaska Supreme Court will provide certainty as to the outcome of the challenge. However, we can say that if the increases are accompanied by comparable enhancements to benefits, the prospects of prevailing are increased.

2. **Pre-funding of the medical component of PERS and TRS benefits may not be discontinued for members who were employed during the period that the statutes required pre-funding. Funding of medical benefits may be set at less than 100 percent funding for new members.**

State law requires employer contribution rates to be calculated in amounts sufficient, when combined with employee contributions, “to provide the benefits earned” AS 39.35.250; *see also* AS 14.25.070. Under PERS each employer, including the state, is required to provide in its budget for the payment of the contributions, and to remit the payments monthly. AS 39.35.260, 39.35.270, and 39.35.280. Additionally, AS 39.30.095(b), requires the commissioner of administration, after obtaining the advice of an actuary, to determine and set the rate of employer contribution and employee contribution, if any, required for payment to the group health and life benefits fund for payment of benefits including retiree health benefits.

As explained in the summary of the *Duncan* case above, the Alaska Supreme Court has held that health benefits provided by the state’s retirement system statutes are part of “the retirement benefit package that becomes part of the contract of employment when the public employee is hired.” 71 P.3d at 888. As such, retiree health benefits are among the benefits that must be included in the PERS and TRS employer contribution rates under AS 14.25.070, AS 39.30.095, and AS 39.35.250-39.35.290. We understand that, in accordance with these statutes, employer contribution rates have historically been set to fully fund retiree health benefits.

In a memorandum of advice dated December 2, 1992, this office addressed the question of “whether the governor is constitutionally or statutorily mandated to include in the budget, and the legislature is constitutionally mandated to appropriate, those employer contributions that are prescribed by the boards of the various retirement systems to keep the systems actuarially sound.” 1992 Inf. Op. Att’y Gen. (663-92-0073; December 2). We advised that “we believe the court would hold that article XII,

section 7, requires the funding of the retirement systems” *Id.* at 3. That advice was tempered by the lack of Alaska case law directly addressing the question, and by the fact that recent case law from other jurisdictions created some uncertainty.

Since 1992, the Alaska Supreme Court decided the *Gallion* case, holding that employees’ vested interest in the integrity and security of their plans could not be diminished by combining the plans with a plan that was less actuarially sound. In *Gallion*, the court was persuaded by the California Court of Appeal case relied upon in our 1992 memorandum of advice, *Valdes v. Cory*.¹⁵ The court also declined to adopt the rationale of one of the cases that created uncertainty, *State ex rel. Dadisman v. Caperton*, *supra*, n.7.

We adhere to the advice we gave in 1992. We believe that the Alaska Supreme Court would hold that the “the practical effect of the whole complex of provisions” of the systems in which employees have accrued rights includes the statutory provisions for employer contributions and the state’s practice of establishing employer contribution rates that fully fund retiree medical benefits in accordance with those statutes.

The legislature may change the employer contribution statutes to provide for less than full funding of the retiree medical benefits of employees hired after the effective date of the legislation.¹⁶ We understand that no Governmental Generally Accepted Accounting Principle requires a public entity to fully actuarially fund retiree medical benefits. If the legislature chooses to enact such a change, in accordance with the court’s holding in the *Gallion* case, past and future contributions for fully funded medical benefits for employees hired before the effective date of the legislation should be kept separate from contributions for underfunded medical benefits in the trust fund, in order to maintain the integrity and security of the fully funded benefits.

¹⁵ 139 Cal. App.3d 773, 189 Cal. Rptr. 212 (1983). See also *Board of Administration of the Public Employees’ Retirement System v. Wilson*, 52 Cal. App.4th 1109, 61 Cal. Rptr.2d 207 (1997) (state PERS employees’ contractual right to an actuarially sound system was unconstitutionally impaired by amendment to employer contribution portion of funding methodology).

¹⁶ It is also possible that such a change could be applied to benefit recipients whose benefits are based solely on service performed before the legislature first enacted legislation providing for employer-paid retiree medical benefits in 1975. Ch. 200, SLA 1975. Those benefit recipients would not have a contractual right to pre-funded medical benefits arising from employment with the state.

3. **If the financial condition of the funds does not permit payment of the PRPA, it is allowable to prospectively not pay existing members new [or additional] ad hoc PRPAs. A new statutory provision cannot reduce the existing number of members who retain a vested right to a PRPA if one is awarded, unless the new statutory provision includes comparable enhancements to benefits.**

Before July 1, 1986, for PERS, and before July 1, 1990, for TRS, the retirement system statutes provided for granting of post retirement pension adjustments to retirees if the administrator determined that the cost of living had increased, and that the financial condition of the funds permitted. AS 14.25.143 (TRS); AS 39.35.475 (PERS). The amount of the PRPA was based on the increase of the cost of living since retirement, with a cap of four percent of the base benefit compounded for each year of retirement. The PRPAs were not automatic, and were considered discretionary or "ad hoc." Potential future PRPAs were not included in the actuarially-determined employer contribution rates.

In 1986 for PERS, and in 1990 for TRS, the legislature repealed the ad hoc PRPAs, and replaced them with actuarially funded automatic PRPAs. Sec. 41, ch. 82 SLA 1986; sec. 12, ch. 97 SLA 1990. The automatic PRPAs are paid to retirees age 60 or older, or who have been retired for at least five years from PERS or eight years from TRS. The amount of the PRPA for members who are at least 65 years old or who are receiving disability benefits is the lesser of 75 percent of the cost of living increase in the preceding calendar year or nine percent. For other retirees eligible for PRPAs, the amount is the lesser of 50 percent of the cost of living increase in the preceding calendar year or six percent.

Following repeal of the PERS ad hoc PRPA and enactment of the automatic PERS PRPA in 1986, this office advised the commissioner of administration that the PERS and TRS ad hoc PRPAs could be withheld "if the administrator of the systems makes appropriate, factually supported findings regarding the condition of the retirement funds." 1990 Inf. Op. Att'y Gen. (663-90-0206; January 19). In that memorandum of advice, we

acknowledged that “[b]ecause the right to receive a specific type of retirement benefit, including the PRPA, vests upon the date of employment, the ad hoc PRPA remains viable for members of PERS hired before the effective date of ch. 82, SLA 1986.” *Id.* at 1.¹⁷

Based on the Alaska Supreme Court case law summarized above, the administrator must continue to consider annually whether the cost of living has increased and whether the financial condition of the retirement funds permits awarding of ad hoc PRPAs to retirees. It is not constitutionally allowable for legislation to reduce the existing number of members eligible to receive an ad hoc PRPA if one is awarded, unless that legislation provides comparable offsetting benefits. However, as we noted in our memorandum of advice in 1990,

[t]o the extent possible, the division should also weigh other advantages provided by ch. 82, SLA 1986 [and ch. 97 SLA 1990] (such as the increased [PERS] “multipliers” in the benefit formula applied to service accrued after June 30, 1986 in excess of 10 and 20 years) in determining whether a retiree is actually disadvantaged by the change in the . . . PRPA.

Id. at 2.¹⁸

Legislation that limits the administrator’s discretion – for example, legislation that allows award of an ad hoc PRPA only if a retirement fund is actuarially funded at over 100 percent and employer contribution rates are set at less than eight percent – would also be subject to challenge under the Alaska Supreme Court cases summarized above.

¹⁷ We also acknowledged this in pleadings filed in litigation filed by and on behalf of retirees after the TRS ad hoc PRPA was repealed. *National Education Association – Alaska v. Usera*, Case No. 3AN-91-8274 Civil. That litigation was settled in October 1996. Each year since then, the administrator has considered whether to grant an ad hoc PRPA based on the increase of the cost of living and the financial conditions of the retirement funds. The administrator denied ad hoc PRPAs for 2003 and 2004.

¹⁸ As with medical benefits, it is possible that there are benefit recipients whose benefits are based solely on service performed before the PRPA was first enacted for TRS in 1966 (ch. 151 SLA 1966) or for PERS in 1968 (ch. 235 SLA 1968). Such a benefit recipient would not have a contractual right to the ad hoc PRPA arising from employment with the state, and would be eligible only for the automatic PRPA.

The constitutional rights of members regarding the ad hoc PRPA include the right to consideration of award of a PRPA based on the discretion existing under the repealed statute.¹⁹

4. **The above responses might be different if it were established that application of modification of the retirement systems to current members is necessary to allow the retirement systems to pay current benefit claims.**

As explained above, the Alaska Supreme Court has not ruled on application to current members of changes to the retirement systems that might be necessary if a pension fund were “insufficient to satisfy all employee claims brought under its provisions.” *Hoffbeck*, 627 P.2d at 1057 n.11. Although the Alaska Supreme Court has not established standards to be applied in such a case, analysis by the California court in the *Valdes* case may be instructive:

On the other hand, a substantial impairment may be constitutional if it is “reasonable and necessary to serve an important public purpose.” . . .

Both the California and United States Supreme Courts have identified factors which may warrant legislative impairment of vested contract rights on the grounds of necessity: “(1) the enactment serves to protect basic interests of society, (2) there is an emergency justification for the enactment, (3) the enactment is appropriate for the emergency and (4) the enactment is designed as a temporary measure, during which the vested contract rights are not lost but merely deferred for a brief period, interest running during the temporary deferment.”

189 Cal. Rptr. at 225-26 (citations omitted).

¹⁹ Using the above example of potential legislative restrictions, if the administrator historically awarded a PRPA when a retirement fund was at least 95 percent funded, employer contribution rates were set at 10 percent, and no other facts existed that would cause the administrator to determine that the condition of the fund did not permit the award of a PRPA, the legislative restrictions would diminish or impair the vested rights of retirees if those historical conditions were ever achieved again.

Hon. Ray Matiashowski, Commissioner
Department of Administration
Re: Retirement system amendments – constitutional issues

April 20, 2005
Page 23

If the Alaska Supreme Court adopted these standards for approving impairments based on reasonableness and necessity, it would consider the facts specific to the legislative enactment. We are not in a position to express an opinion as to the adequacy under these standards of the reasons advanced by legislators in support of amendments to the retirement systems currently under consideration. We must emphasize the importance of establishing as complete a record as possible for any justifications supporting the change if we are to conduct an effective defense.

Please let us know if you need additional advice regarding these matters.

VBR:rca

Defined Benefits Plans vs. Defined Contribution Plans

Get the true facts

Defined Contribution plans don't cost less, THEY COST MORE.

The administration costs of defined contribution plans are higher than defined benefit plans. The average cost of administering a defined contribution plan is about 2% of assets; the average cost of administering a defined benefit plan is often times as low as 0.01% of total assets. This means 2% less money into your retirement system and more for large investment firms.

Call Alaska PERS at 465-4460 and ask what their administrative costs are. Call the Anchorage Police and Fire Retirement system at 343-8400 and ask what the administrative cost are. Call any defined benefits plan in the State of Alaska and compare those costs; you'll find they're much lower.

Defined Benefit plans outperform Defined Contribution plans in down markets.

According to Watson Wyatt Worldwide, a global consulting firm for corporations, defined benefit plans do better than defined contribution plans in down markets. Defined benefit plans have better diversified portfolios and are more professionally managed.

Don't take our word, call Watson Wyatt at 212-715-7000.

Defined Benefit plan outperform Defined ^{Contribution} ~~Benefit~~ plans in up markets.

A 2000 study found that over 20 years, public employees in a mandatory defined contribution plan posted an average return of 6-7% compared to 11% for the states with defined benefit plans.

Don't take our word, call the Nebraska's PERS at 402-471-7053 and confirm these facts and see why the State of Nebraska converted from a defined contribution plan to a defined benefit plan. That is why Nebraska's mission statement is: "The Nebraska Public Employees' Retirement System recognizes the importance of a successful retirement and is dedicated to providing the highest quality service necessary to assist members in achieving this goal." Shouldn't that be the State of Alaska's mission statement too?

Most large private companies use Defined Benefit plans.

Only 17% of Fortune 100 companies use a defined contribution plan as their primary benefit according to Watson Wyatt. Since 1985 there was an actual increase in the number of large employers that offered a defined benefit according to Employee Benefits Research Institute (EBRI). This occurred during periods of many large corporate mergers, where companies had a unique opportunity to select defined contribution plans.

Don't take our word, call Watson Wyatt at 212-715-7000. Call EBRI at 202-659-0670 and see where the trend in the private sector is really going.

We know you have difficult and complex problems to solve and are being told information that much of which is inconsistent and factually untrue. We urge you to stop...take some time and understand the impact of SB 141. The change you are about to make will affect our children's future, the next generation of our public workforce. It will also deeply impact our ability to recruit and retain the best public safety officers in the country.

This information is provided to you by the:

Anchorage Police Department Employees Association, the International Association of Firefighters, and the Public Safety Employees Association

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MERCER
Human Resource Consulting

A Mercer Perspective
on Retirement



**Exploding the Myth That
Employees Always Prefer DC Plans**

May 2004



New information about employee preferences

Many employers have decided to offer defined contribution (DC) retirement plans because they say their employees prefer them. But new evidence indicates that this stated preference is a myth. In fact, depending on the plan structure, employees at different ages and life-cycle stages may prefer defined benefit (DB) plans.

Surprising facts about employee preferences and employee understanding of retirement financing emerge from two recent studies: the Retirement Plan Preference Survey, a 2003 public opinion survey sponsored jointly by the Society of Actuaries and the American Academy of Actuaries, and the 2003 Process and Risks of Retirement Survey, sponsored by the Society of Actuaries.

Consequently, plan sponsors would be well advised to review the recent research that addresses worker preference, along with data about the elections employees actually make, before considering alternative programs.

Preferences about plan types

Myth Employees prefer DC plans.

Fact When given a choice between retirement plans, employees often choose to stay with the DB plan.

It is widely believed that employees generally prefer DC plans, particularly 401(k) plans, when given a choice of retirement plan types. Yet when traditional plans have been converted to DC plans and employees are given a choice between a DB or a DC plan, employees, including younger ones, often opt for the DB plan. Why? One possible explanation is that they tend to favor what they have. Another may be that upon learning the pros and cons of each plan, they prefer that the employer make the investment decisions and bear the risk.

The controversy over cash balance plans and the desire to enhance the perceived value of retirement programs has prompted employers to offer employees more retirement plan choices. Usually, it's between a traditional DB plan and either a new hybrid within the DB plan (usually a cash balance formula) or an enhanced DC plan. In our view, a substantial portion of the workforce frequently views traditional DB pro-

grams as competitive with or even superior to hybrid or DC plan designs - especially if employers clearly communicate the DB plan's benefits.

Consider the following examples.

- A large electronics employer offered its workers a choice between a traditional final average pay plan and a DC alternative (an enhanced match plus an annual contribution that was a fixed percentage of pay). To the employer's surprise, two-thirds of its employees, including a substantial portion of its younger employees, chose to remain under the traditional formula and forego the DC alternative.
- A large health care employer offers employees an annual option to forego additional benefit accruals in their DB plan in exchange for a substantially enhanced match on their 401(k) contributions that vest immediately. In the first year of the program, 80 percent of the employees either chose or defaulted into the traditional DB program, despite the enhanced 401(k) matching contributions.

Much of the perceived indifference that employees feel toward their DB pensions is caused by a communications gap - when this gap is closed, the indifference evaporates.



Is this research surprising?

Experience adds insights

Mercer has acquired insight and understanding in helping employers and other plan sponsors with their retirement benefit offerings. Some findings are consistent with or complement more recent analysis. We have long understood that:

- What people say and how they act are sometimes different. But by providing better communication, we can close this gap and bring people's intentions more in line with their actions.
- When private sector employees are given a choice, older employees and those with longer service want to stay with their traditional DB plans.

- Public sector employees, when given a choice of a DC or a traditional DB plan, often choose the DB plan.
- Rewards of expected high investment returns look great, but they are not guaranteed and may entail significant risk, which affects when employees can afford to retire.

Publicly available studies have consistently shown that workers misunderstand investment risk, investment options, and the impact of variability. Many employees erroneously think that money market mutual funds include stocks or that a diversified stock portfolio is riskier than company stock.

In summary

Traversing the future retirement landscape will be challenging because of the decline in the prevalence of DB plans, low savings rates in the United States, increasing retiree longevity, and the failure of many employees to plan for retirement effectively.

As research has shown, there is widespread ignorance, general confusion, and startling misperceptions about retirement planning. And any system that shifts too much of the financial burden onto employees is likely to leave some people without adequate resources.

Employers can adopt several different strategies to enhance their employees' retirement futures, including:

- Designing plans that use employer dollars most effectively and to add the most value, ensuring that plans enable employees to retire in accordance with company policy.
- Designing plans that make it easier for employees to save. For example, using a modest DB plan as a base and adding voluntary savings. Or including automatic enrollment, default investment options, and a mechanism to direct pay increases automatically into the DC plan to minimize decision making and maximize retirement savings.

- Augmenting education with fact-based research so employees can understand the implications of their choices.
- Maintaining a meaningful level of employer contributions to retirement programs, whether DB or DC.
- Managing plan administrative expenses.

DB or DC - a plan sponsor's choice

The best option depends on where you're in the life cycle. For most of your employees, the answer is the specific plan design. For younger employees who don't have retirement assets, DC plans (or cash balances DB plans) are the best because they're portable. For employees with long careers at the firm, traditional DB plans are usually better because they provide a significant, guaranteed benefit. Both types of plans can be designed to meet a specific risk level, but the DB plan is more likely to be the plan sponsor's plan of choice. For long service employees, long service employees will get much better benefits from the DB plan. So a plan sponsor should carefully consider its objectives carefully when allocating dollars to either plan. Often, the best solution is a combination of plans.

Editorial Policy

The *Mercer Perspective on Retirement* series contains articles written by senior Mercer consultants that reflect their unique insights and observations on a variety of important topics affecting retirement and benefit programs. The views expressed do not necessarily reflect the views and policies of Mercer Human Resource Consulting, Inc.

Author

Anna M. Rappaport, FSA, is a principal with Mercer Human Resource Consulting. She is concerned about human resources strategy and financial security in an aging society, and about strategies to help businesses work most effectively in light of the changing demographics. She is a past president of the Society of Actuaries, serves on several boards, and is a frequent writer and speaker.

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Mayor Mark Begich

Department of Employee Relations

November 19, 2004

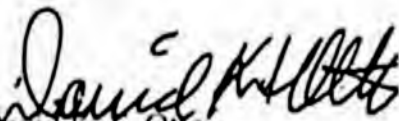
Public Employees' Retirement Board
PO Box 110203
Juneau, AK 99811-0203

Members of the Public Employees Retirement System Board:

The Municipality of Anchorage has followed the TIER IV development over the past year with much anticipation of and interest in the outcome. The Municipality is the second largest PERS employer, second only to the State of Alaska, and the decision made by the Board will potentially have a significant impact on the Municipality of Anchorage and its future employees. As the TIER IV design concept approaches finalization, the Municipality of Anchorage would like to offer an opinion on the two options before the Board for consideration. The Municipality of Anchorage strongly urges the Board adopt the "Second Alternative" or Defined Contribution Alternative as the final TIER IV design. This design holds the least liability for employers going forward while still offering a competitive retirement product for our future employees.

The Municipality of Anchorage thanks the TIER Committee and the Board for its diligent efforts on behalf of the Municipality and its PERS employees.

Sincerely,


David K. F. Otto
Director, Employee Relations

Tier Design Alternatives

• Alternative 1 - DB/DC Hybrid Plan

• Alternative 2 - Pure DC Plan - eliminates Employer Risk

Community, Security, Prosperity

Alaska State Legislature

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Fax: 465-3472
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REPRESENTATIVE Paul Seaton District 35

Actual Projections of Pension Amounts

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TRS**HB 238 Projected Benefits – Rate of Return 8.25%**

FEMALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$9,167	\$5,356	81.2%
20	\$349,176	\$13,195	107.34%
30	\$948,959	\$24,864	138.93%

MALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$98,267	\$5,806	88.02%
20	\$349,176	\$14,304	116.37%
30	\$948,959	\$26,954	150.61%

Assumptions:

Beginning Salary 37,538

Defined Contribution pension account percentage 15.25%

Anchorage CPI 3.73%

Real rate of interest 4.52%

Salary increase 3%

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)

TRS

HB 238 Projected Benefits – Rate of Return 6.25%

FEMALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$88,937	\$3,999	60.62%
20	\$282,592	\$8,809	71.66%
30	\$678,771	\$14,671	81.97%

MALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$88,937	\$4,428	67.12%
20	\$282,592	\$9,754	79.35%
30	\$678,771	\$16,245	90.77%

Assumptions:

Beginning Salary 37,538

Defined Contribution pension account percentage 15.25%

Anchorage CPI 3.73%

Real rate of interest 2.52%

Salary increase 3%

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)

PERS

HB 238 Projected Benefits – Rate of Return 8.25%

FEMALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$79,650	\$4,341	77.2%
20	\$283,023	\$10,695	102.06%
30	\$769,174	\$20,153	132.09%

MALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$79,650	\$4,706	83.69%
20	\$283,023	\$11,594	110.64%
30	\$769,174	\$21,848	143.2%

Assumptions:

Beginning Salary 32,000

Defined Contribution pension account percentage 14.5%

Anchorage CPI 3.73%

Real rate of interest 4.52%

Salary increase 3%

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)

PERS

HB 238 Projected Benefits – Rate of Return 6.25%

FEMALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DC plan
10	\$72,087	\$3,241	57.64%
20	\$229,053	\$7,140	68.14%
30	\$550,174	\$11,892	77.94%

MALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$72,087	\$3,589	63.82%
20	\$229,053	\$7,906	75.45%
30	\$550,174	\$13,167	86.3%

Assumptions:

Beginning Salary 32,000

Defined Contribution pension account percentage 14.5%

Anchorage CPI 3.73%

Real rate of interest 2.52%

Salary increase 3%

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)

PERS

SB 141 Projected Benefits – Rate of Return 8.25%

FEMALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$68,664	\$3,742	66.5%
20	\$243,985	\$9,220	87.99%
30	\$663,081	\$17,374	113.87%

MALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$68,664	\$4,057	72.15%
20	\$243,985	\$9,995	95.38%
30	\$663,081	\$18,834	123.45%

Assumptions:

Beginning Salary 32,000

Defined Contribution pension account percentage 12.5%

Anchorage CPI 3.73%

Real rate of interest 4.52%

Salary increase 3%

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)

TRS**SB 141 Projected Benefits – Rate of Return 6.25%**

FEMALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$72,899	\$3,278	49.69%
20	\$231,632	\$7,221	58.74%
30	\$556,370	\$12,026	67.19%

MALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$72,899	\$3,629	55.02%
20	\$231,632	\$7,995	65.04%
30	\$556,370	\$13,316	74.40%

Assumptions:

Beginning Salary 37,538

Defined Contribution pension account percentage 12.5%

Anchorage CPI 3.73%

Real rate of interest 2.52%

Salary increase 3%

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)

TRS
SB 141 Projected Benefits – Rate of Return 8.25%

FEMALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	80,547	4,390	66.55%
20	286,210	10,816	87.99%
30	777,835	20,380	113.87%

MALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	80,547	4,759	72.15%
20	286,210	11,725	95.38%
30	777,835	22,094	123.45%

Assumptions:

Beginning Salary 37,538

Defined Contribution pension account percentage 12.5%

Anchorage CPI 3.73%

Real rate of interest 4.52%

Salary increase 3%

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)

PERS

SB 141 Projected Benefits – Rate of Return 6.25%

FEMALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$62,144	\$2,794	49.6%
20	\$197,460	\$6,155	58.74%
30	\$474,288	\$10,251	67.19%

MALE			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$62,144	\$3,094	55.02%
20	\$197,460	\$6,816	65.04%
30	\$474,288	\$11,351	74.4%

Assumptions:

Beginning Salary 32,000

Defined Contribution pension account percentage 12.5%

Anchorage CPI 3.73%

Real rate of interest 2.52%

Salary increase 3%

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)



NEA-ALASKA

Affiliated with the National Education Association

TESTIMONY ON SB 141

HOUSE FINANCE

APRIL 23, 2005

TOM HARVEY, EXECUTIVE DIRECTOR, NEA-ALASKA

Good afternoon, Co-Chair Chenault, Co-Chair Meyer and members of the House Finance Committee. My name is Tom Harvey and I serve as the Executive Director for the 12,500 public school employees of NEA-Alaska.

I appreciate this opportunity to speak with the committee about Senate Bill 141. The House State Affairs Committee greatly improved SB 141 during the thirty-six hours it was in committee. NEA-Alaska recommends those improvements to you. As you might suspect our members cannot support this legislation in its present form. The main reason for our lack of support is SB 141 does not provide for a retirement with dignity for public school employees. There are several reasons why SB 141 does not meet retirement needs.

DC PLAN TO REPLACE DB PLAN:

One only needs to hear the testimony of the independent actuary, Joe Esuchanko, hired by the Legislative Council, to understand why a Defined Contributions (DC) plan is not Retirement Security for public school employees. Quoting him, "in general the defined contributions are not a reliable vehicle for a secure retirement..." The reasons he gave are the same provided by NEA-Alaska last May. When asked about a combination plan, his response was "that would be a very good plan."

The TRS/PERS committee voted unanimously to OPPOSE a strict DC plan. Dr. Richard Solie, an appointee of Governor Murkowski's to the TRS Board, testified that the Tier Committee "voted unanimously to support the hybrid plan." Even the present employers are against a complete shifting of risk to the employee. *NEA-Alaska recommends that House Finance adopt the ARM Board as proposed by House State Affairs and charge the ARM Board to examine the "blended plan" fashioned by the joint committee of PERS/TRS.*

It is worth noting that Mercer is using a methodology that only 11-16% of public systems utilize to determine liability of the systems. Of further note is the fact that the method being used leads to higher liability costs.

It has been NEA-Alaska's request since last May that the assumptions being used match the experience in Alaska.

Mercer's Assumptions

Inflation will be 3.5%
Wage Growth 3.75-4.5%
Investment return 8.25%
Health Care Costs 12.5% - 5%

Alaska's Experience

2.6% over any ten year period, *** uses 3% and Gov. uses 3%
1.36%
9% over any ten-year period
8% (7.5% according to Esuchanko)

Assumptions attached to Alaska's reality could definitely lead to a different liability amount.

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4123105

Harvey testimony
House Finance (4/23/05)
Page 2

There are many valid reasons why a DC program is not the option of choice for large employers, especially public employers. You have received a handout from your staff illustrating that only one state (Michigan) continues with a DC plan. Recently, Governor Schwarzenegger dropped plans in California to implement a DC plan. He suggested more time is needed to understand the complexities. Nebraska and West Virginia have recently decided against their Defined Contribution plans. A common theme is emerging; a DC plan does not allow a public employee to retire with dignity.

Alaska is NOT a Social Security state for public school employees. That means even if they earned Social security benefits in other jobs, they lose two-thirds of those benefits under federal law. Last year this legislature unanimously passed a resolution urging repeal of the law. Until that happens public school employees lack the safety net of retirement benefits that is available to private sector employees and to public sector employees in most other states. Two other non-Social Security states, Texas and California, have explored DC plans and backed-off.

One of the major reasons that the Defined Contributions (DC) is being considered is its predictability. The State will know what its liabilities are and can fund them. A major reason why the Defined Benefits Plan is not as predictable is the political whim of the legislator. When interested parties came to you for a benefit increase, you made the change because the actuary told you it would not add liability. Today we know better. NEA-Alaska recommends that you fix this loophole with an amendment regarding fiscal notes (SEE ATTACHMENT).

COMPOSITION OF A NEW BOARD:

We do not believe the current boards have erred. In fact we believe the three Boards have done an excellent job of advising the administration and Commissioners. ASPIB has invested better than the professional Permanent Fund trustees. TRS has advised against reducing the contribution rate contrary to the recommendation of the actuary. PERS has handled a large volume of hearings without much conflict or reversal.

NEA-Alaska understands the rationale of assuring that the revenue (ASPIB) and expense sides (TRS/PERS) of the equation are dealt with simultaneously. All parties get to question the actuary and receive the answers in a consistent manner.

NEA-Alaska strongly supports the amendments made by the House State Affairs Committee and urges House Finance to concur with those amendments. The changes by House State Affairs provide a good balance of gubernatorial appoints and elected representatives of the participants in the retirement systems.

POWERS AND DUTIES OF ARM BOARD:

NEA-Alaska believes that the adjudication of appeals related to decisions of the retirement system should be retained by the ARM Board. The Board could establish a subcommittee for PERS appeals and a subcommittee for TRS appeals. Each subcommittee should have five members. The main purpose of our proposal is to ensure that the appellant is heard by peers. Quoting Dr. Richard Solie, "because the boards act as a jury of peers in essence, I believe the board approach reduces the risk of further litigation and gives the beneficiaries a greater sense that their cases has been truly heard." Just look at the record of the present Boards to find the supporting evidence.

EMPLOYER/EMPLOYEE CONTRIBUTION TO THE DEFINED BENEFITS PLANS:

House State Affairs amended SB 141 to maintain the employee contribution at the present statutory levels. For TRS members that is 8.65%. NEA-Alaska applauds that amendment for three reasons: 1) prevents unrealistic employee contribution rate; 2) avoids a drain on the educator work force; and 3) stays out of troubled legal waters. Details of each issue are printed below.

The establishment of a floor for the employer contribution rate by House State Affairs is a rather improvement to SB 141. In the recent past (1998 – 2002) the lowering of the employer rate led to fewer earnings from investments. There needs to be a stable flow into the system, which will lead to appropriate investment returns.

1) After the initial stopping of hearts all throughout Alaska at the idea of losing 5% of their salary (original SB 141, Page 7), Sen. Stedman made the promised changes to the language and SB 141 required only a ½ of 1% increase to meet the "normal cost share of benefits." This proposal sounds fairly benign at first blush. But, when put into a proper context it is not such an easy pill to swallow. In 2020 the actuarially calculated costs for TRS sets the contribution rate at 52%. Thus, the employee and the employer would each contribute 26% of salary and payroll respectively. Can you imagine paying 26% of your salary for retirement benefits you are already promised? *No. The House State Affairs amendment prevents this unrealistic contribution level.*

If the cost share component in the original SB 141 were implemented it is conceivable that a number of veteran educators, who have 20 years of service, would choose to leave public service and probably leave the State of Alaska in lieu of paying increased contributions. Not only does this mean a brain drain, it means a greater increase in the liability of the system with fewer high salaried employees contributing and a longer period of time for these participants to be receiving benefits. *The House State Affairs amendment avoids the brain drain and increased liability to the system.*

One last remark on increasing employees' contributions without increasing corresponding benefits...this is clearly charting a course to troubled legal waters per Alaska's constitution. Dr. Richard J. Solie, a Governor Murkowski appointee to the TRS Board, has testified that the PERS/TRS Tier Committee did not consider this approach because of the concern "about the response of the judiciary." *The House State Affairs amendment steers clear of this legal matter.*

DEFINED CONTRIBUTION PLAN ELEMENTS:

SB 141 requires the employee to contribute 8% of compensation for pension purposes while the employer would contribute 4.5%. That is a total of 12.5%. NEA-Alaska testified before House State Affairs on April 19th that is not enough for investment purposes to provide for a retirement with dignity. *This was verified by Joe Esuchanko in his presentation to Legislative Council.*

If a teacher starts their career in Sitka this fall, they will have a salary of \$35,571 (SEE ATTACHMENT #2A & B). After a thirty-year career (That is 3 more years than the present average), the teacher will have \$800,129 in their account. That assumes a return on investment of 8.3%, which is 2.3% higher than an individual averages presently and is more the rate of return by ASPIB. They will also have an HRA of \$131,772. Their access to major medical insurance will cost \$96,602 in the first year (given an 8% annual inflation of medical costs). At age 62 the public servant will have no medical coverage or be in debt by \$141,897. *This is not retirement with dignity.* What is retirement with dignity? 70-80% of a person's salary at retirement according to most national studies and affirmed by Joe Esuchanko in his report to Legislative Council. For an educator today that would be approximately \$39,000.

The immediate response from the crafters of SB 141 is the employee can contribute more up to the IRC limits. Since 1989 the Teacher Average Salary has increased by a small 1.36% per annum, while inflation in Alaska averaged about 2.6%. Public school employees have steadily lost ground since 1989. The reality is the employee does not earn sufficient salary to make the added contributions. *NEA-Alaska recommends an increase in the employer's contribution rate for pension to 8.25% and the employee's contribution rate to 11%. This would create a total employer's contribution rate of 14% and provide for a 19.25% for pension.*

You might respond that the assumptions NEA-Alaska has made are not appropriate. NEA-Alaska believes that the assumptions made by the actuary are not appropriate or based in reality of Alaska's experience over the past three decades. *Before a true plan can be developed, agreement on the assumptions should be reached so we can determine what a public servant's retirement will actually provide.*

You might also respond that a thirty-year career is too short. In fact SB 141 actually assumes a person directly out of college would have a forty-two (42) year career. How many teachers do you know that have taught past forty-two years? The answer is very few. The reason is stress. You have recognized that a peace officer or firefighter has served well after twenty-five years. Why would you expect an educator to serve over forty-two years or leave and get another job for twelve years to have medical coverage until age 65?

The medical Program in SB 141 called for a 1.75% contribution from the employer instead of the original 3.75%, which is what is minimally needed to sustain a meaningful major medical plan. What happens when the 1.75% cannot cover the major medical plan? Are the benefits reduced? Are the premiums increased? *NEA-Alaska commends the amendment by House State Affairs that raised the medical contribution to 3.75%.* It should be noted that Joe Esuchanko testified that a contribution rate of 5% would be required to maintain a major medical plan for retirees.

Coupled with the HRA of 2% and the pension rate of 8.25% recommended above, the 3.75% medical contribution would yield a total employer's contribution rate of 14%, which is the actual amount the state and local government contributed at statehood.

Immediately after statehood, the cost share for public employees was split into about equal thirds; one-third from the State, one-third from the employer and one-third from the employee. When the State dropped their share (about 7% of salary) the promise was the State would increase revenue sharing to offset those costs. The State has deserted that commitment by no longer funding revenue sharing in the budget. Now the State proposes to shift its obligation to the employee. Instead of following the axiom that stuff flows downhill, the State should maintain the 14% original obligation. Remember this obligation was made before we had OIL!

It has been stated to House State Affairs that NEA-Alaska asked for a vesting period of five years. Let me correct the record, in testimony before the Senate Finance Committee we confirmed five years is a standard vesting period and we had no objection. We also pointed out that the five-year period coincided with the "five-year itch" that infects educational employees. The data is clear. We are losing 50% of new employees over the first five years. *If an employee can now take their contribution and return home, portability is not a factor that benefits Alaska's schools. However, if you are going to implement a Defined Contribution (DC) Plan, then we suggest that you provide the same benefit that NEA-Alaska provides to its employees, immediate vesting.*

The investment method outlined in SB 141 is a standard approach for DC plans. Sen. Stedman has confirmed to NEA-Alaska that most national data demonstrates that an individual making investment decisions is more conservative than a group responsible for investing. In fact the difference is 1 to 3% annually. *NEA-Alaska recommends that the investment responsibility be handled by ASPIB or the ARM Board.*

TIMEFRAME:

Mr. Chairman, I realize my time here is waning and there are so many other issues to touch on. I have addressed only the tip of the iceberg and have not even mentioned the mass of the iceberg which is containing medical costs/health insurance. This piece is estimated to be almost 70% of the unfunded liability problem. There have been many suggestions about how to contain these costs. I am confident that a "blended plan" with a major medical component that has built-in cost containment methods could be fashioned by all the stakeholders in six months.

I would like to go on record with a word of thanks for Sen. Stedman, Rep. Seaton and their staff. NEA-Alaska representatives have spent several hours with both legislators and their staff assigned to the PERS/TRS legislation. However, that time cannot serve as a substitution for meetings of all the stakeholders to provide a complete analysis of the legislation and its affect on public servants.

Harvey Testimony
House Finance (4/23/05)
Page 6

As we sit here on the 104th legislative day, I urge this committee to take the interim to truly study the retirement system and to make competitive changes in the retirement plan that affects over 70,000 Alaskans.

NEA-Alaska is fortunate to have many members that have served on the TRS board and understand retirement issues well. We look forward to working with all of you this summer and fall to design a plan that works for Alaska and Alaskan workers.

I appreciate your time and I would be happy to attempt to answer questions.

AMENDMENT

OFFERED IN HOUSE FINANCE

TO: House CS for CS for SB 141 (STA)

Insert new sections to read:

* Sec __. AS 24.08.035(a) is amended to read:

(a) Before a bill or resolution, except an appropriation bill, is reported from the committee of first referral, there shall be attached to the bill a fiscal note containing an estimate of the amount of the appropriation increase or decrease that would result from enactment of the bill for the current fiscal year and five succeeding fiscal years or, if the bill has no fiscal impact, a statement to that effect shall be attached. The fiscal note of a bill that makes any change to the benefit structure of the state's retirement system shall include the additional analysis required in AS 24.08.036. The fiscal note or statement shall be prepared in conformity with the requirements of this section by the department or departments affected and may be reviewed by the office of management and budget. Except as allowed in AS 24.08.036, [T] the fiscal note or statement shall be delivered to the committee requesting it within five days of the request or within two days if the request is made after the 90th day of a regular session, or during a special session of the legislature. If the bill is presented by the governor for introduction in accordance with AS 24.08.060(b) and the uniform rules of the legislature, the fiscal note or statement shall be attached to the bill before the bill is introduced. An amendment or a substitute bill proposed by a committee of referral that changes the fiscal impact of a bill shall be explained in a revised fiscal note or statement attached to the bill.

* Sec __. AS 24.08.035(b) is amended to read:

(b) In addition to the fiscal note required by this section and AS 24.08.036, the sponsor of a bill or resolution may prepare a fiscal note in conformity with the requirements of this section, and submit it to the committee of first referral or the finance committee. A committee may prepare an additional fiscal note in conformity with the requirements of this section.

* Sec __. AS 24.08.036 is repealed and reenacted to read:

Sec. 24.08.036. Fiscal notes on bills affecting the benefit structure of state retirement systems. (a) In addition to the requirements of AS 24.08.035, the fiscal note of a bill that makes any change to the benefit structure of the state's retirement system shall include an actuarial analysis of the bill's affect on the assets and liabilities of the retirement systems. This analysis shall be prepared and certified by a member of the American Academy of Actuaries and coordinated through the division of retirement and benefits.

ATTACHMENT #1

(b) The completed fiscal note shall be reviewed by the Commissioner of Administration and forwarded to the chair of the Alaska Retirement Management Board for comment and recommendations.

(c) The division of retirement and benefits shall be allowed 60 days from the time they receive a fiscal note request to complete the actuarial analysis, obtain the comments of the Alaska Retirement Management Board and deliver the fiscal note to the committee requesting it.

(d) A committee of referral proposing an amendment or a substitute bill that changes the inputs or assumptions used by the actuary in preparing the fiscal note required in this section must obtain a revised actuarial analysis prior to reporting the amended bill or committee substitute from committee. This revised actuarial analysis shall be prepared in accordance with this section except that the division of retirement and benefits shall have 30 days to deliver the fiscal note to the committee.

Sitka Teacher Employed 8/15/05

Years of service	Sitka Salary Annual 2.6% Raise plus step	8% TRS plus 4.5%	Investment Return 8.3%		1.75% Medical		2% for HRA	
1	\$35,571.00	\$4,446.38	\$48,643.34	2005-06	\$622.49	\$6,810.07	\$711.42	\$7,782.93
2	\$38,685.33	\$4,835.67	\$48,840.23	2006-07	\$676.99	\$6,837.63	\$773.71	\$7,814.44
3	\$40,510.58	\$5,063.82	\$47,194.83	2007-08	\$708.94	\$6,607.28	\$810.21	\$7,551.17
4	\$42,334.81	\$5,291.85	\$45,562.84	2008-09	\$740.86	\$6,378.80	\$846.70	\$7,290.05
5	\$44,160.07	\$5,520.01	\$43,884.07	2009-10	\$772.80	\$6,143.77	\$883.20	\$7,021.45
6	\$45,620.06	\$5,702.51	\$41,856.41	2010-11	\$798.35	\$5,859.90	\$912.40	\$6,697.03
7	\$46,806.19	\$5,850.77	\$39,668.24	2011-12	\$819.11	\$5,553.55	\$936.12	\$6,346.92
8	\$48,023.15	\$6,002.89	\$37,578.11	2012-13	\$840.41	\$5,260.94	\$960.46	\$6,012.50
9	\$49,271.75	\$6,158.97	\$35,598.84	2013-14	\$862.26	\$4,983.84	\$985.43	\$5,695.81
10	\$50,552.81	\$6,319.10	\$33,744.00	2014-15	\$884.67	\$4,724.16	\$1,011.06	\$5,399.04
11	\$51,867.19	\$6,483.40	\$31,963.15	2015-16	\$907.68	\$4,474.84	\$1,037.34	\$5,114.10
12	\$53,215.73	\$6,651.97	\$30,260.15	2016-17	\$931.28	\$4,237.30	\$1,064.31	\$4,842.63
13	\$54,599.34	\$6,824.92	\$28,664.15	2017-18	\$955.49	\$4,013.05	\$1,091.99	\$4,586.34
14	\$56,018.93	\$7,002.37	\$27,109.18	2018-19	\$980.33	\$3,803.69	\$1,120.38	\$4,347.07
15	\$57,475.42	\$7,184.43	\$25,720.25	2019-20	\$1,005.82	\$3,600.83	\$1,149.51	\$4,115.24
16	\$58,969.78	\$7,371.22	\$24,398.75	2020-21	\$1,031.97	\$3,415.82	\$1,179.40	\$3,903.80
17	\$60,502.99	\$7,562.87	\$23,066.77	2021-22	\$1,058.80	\$3,229.35	\$1,210.06	\$3,690.68
18	\$62,076.07	\$7,759.51	\$21,881.81	2022-23	\$1,086.33	\$3,063.45	\$1,241.52	\$3,501.09
19	\$63,690.05	\$7,961.26	\$20,699.27	2023-24	\$1,114.58	\$2,897.90	\$1,273.80	\$3,311.88
20	\$65,345.99	\$8,168.25	\$19,603.80	2024-25	\$1,143.55	\$2,744.53	\$1,306.92	\$3,136.61
21	\$67,044.99	\$8,380.62	\$18,604.98	2025-26	\$1,173.29	\$2,604.70	\$1,340.90	\$2,976.80
22	\$68,788.16	\$8,598.52	\$17,626.96	2026-27	\$1,203.79	\$2,467.78	\$1,375.76	\$2,820.31
23	\$70,576.65	\$8,822.08	\$16,673.73	2027-28	\$1,235.09	\$2,334.32	\$1,411.53	\$2,667.80
24	\$72,411.64	\$9,051.46	\$15,840.05	2028-29	\$1,267.20	\$2,217.61	\$1,448.23	\$2,534.41
25	\$74,294.34	\$9,286.79	\$14,951.74	2029-30	\$1,000.15	\$2,093.24	\$1,485.89	\$2,392.28
26	\$76,226.00	\$9,528.25	\$14,197.09	2030-31	\$1,333.95	\$1,987.59	\$1,524.52	\$2,271.53
27	\$78,207.87	\$9,775.98	\$13,490.86	2031-32	\$1,368.64	\$1,888.72	\$1,564.16	\$2,158.54
28	\$80,241.28	\$10,030.16	\$12,738.30	2032-33	\$1,404.22	\$1,783.36	\$1,604.83	\$2,038.13
29	\$82,327.55	\$10,290.94	\$12,040.40	2033-34	\$1,440.73	\$1,685.66	\$1,646.55	\$1,926.46
30	\$84,468.07	\$10,558.51	\$11,403.19	2034-35	\$1,478.19	\$1,596.45	\$1,689.36	\$1,824.51
Total		\$201,636.02	\$800,128.71		\$31,147.97	\$115,300.12	\$35,597.68	\$131,771.57

SITKA TEACHER HIRED 8/15/05 RETIREMENT

Sitka
2.6%
Annual
Raise

Age	Investment Total @ 8.3%	Annual Annuity	New Balance	New Investment Return	Health Insurance Payment	HRA
54	\$800,128.71	\$38,121.33	\$762,007.38	\$825,253.99	\$96,602.00	\$131,771.57
55	\$860,423.56	\$38,121.33	\$822,302.23	\$871,640.36	\$104,330.00	
56	\$767,310.36	\$38,121.33	\$729,189.03	\$772,940.37	\$112,676.00	
57	\$660,264.37	\$38,121.33	\$622,143.03	\$659,471.62	\$121,690.00	
58	\$537,781.62	\$38,121.33	\$499,660.28	\$529,639.90	\$131,425.00	
59	\$398,214.90	\$38,121.33	\$360,093.57	\$381,699.18	\$141,939.00	
60	\$239,760.18	\$38,121.33	\$201,638.85	\$213,737.18	\$153,294.00	
61	\$60,443.18	\$38,121.33	\$22,321.84	\$23,661.16	\$165,558.00	
62	-\$141,896.84	\$38,121.33	-\$180,018.18	-\$190,819.27	\$178,802.65	
63	-\$369,621.92	\$38,121.33	-\$407,743.25	-\$432,207.85	\$193,106.86	
64	-\$625,314.71	\$38,121.33	-\$663,436.04	-\$703,242.20	\$208,555.41	
65	-\$911,797.61	\$38,121.33	-\$949,918.95	-\$1,006,914.08	\$225,239.84	
66	-\$1,232,153.92	\$38,121.33	-\$1,270,275.26	-\$1,346,491.77	\$24,325.90	
67	-\$1,370,817.67	\$38,121.33	-\$1,408,939.01	-\$1,493,475.35		
68	-\$1,493,475.35	\$38,121.33	-\$1,531,596.68	-\$1,623,492.48		
69	-\$1,623,492.48	\$38,121.33	-\$1,661,613.81	-\$1,761,310.64		
70	-\$1,761,310.64	\$38,121.33	-\$1,799,431.98	-\$1,907,397.89		
71	-\$1,907,397.89	\$38,121.33	-\$1,945,519.23	-\$2,062,250.38		
72	-\$2,062,250.38	\$38,121.33	-\$2,100,371.71	-\$2,226,394.02		
73	-\$2,226,394.02	\$38,121.33	-\$2,264,515.35	-\$2,400,386.27		

Sec. 24.08.036. Fiscal notes on bills affecting state retirement systems.

Before a bill which would have an effect on the retirement systems of the state is reported to the rules committee, there shall be attached to the bill an analysis of the long-term and short-term costs to the state if the bill is adopted, as well as the impact of the bill on the actuarial soundness of the fund. The analysis is in addition to the fiscal note requirements of AS 24.08.035 .

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 22, 2005

FURTHER REFERRALS:

Date of Committee Action: 5/1/05

The FINANCE Committee considered:

CSSB 141(FIN)

CS FOR SENATE BILL NO. 141(FIN)

PUBLIC EMPLOYEE/TEACHER RETIREMENT/BOARDS

"An Act relating to the teachers' and public employees' retirement systems and creating defined contribution and health reimbursement plans for members of the teachers' retirement system and the public employees' retirement system who are first hired after July 1, 2005; relating to university retirement programs; establishing the Alaska Retirement Management Board to replace the Alaska State Pension Investment Board, the Alaska Teachers' Retirement Board, and the Public Employees' Retirement Board; adding appeals of the decisions of the administrator of the teachers' and public employees' retirement systems to the jurisdiction of the office of administrative hearings; providing for nonvested members of the teachers' retirement system defined benefit plans to transfer into the teachers' retirement system defined contribution plan and for nonvested members of the public employees' retirement system defined benefit plans to transfer into the public employees' retirement system defined contribution plan; providing for political subdivisions and public organizations to request to participate in the public employees' defined contribution retirement plan; and providing for an effective date."

Recommends it be replaced with HCS or CS for SB 141 (FIN)
 For Senate Bills with new title: Technical Title New Title: HCR Same Title New Title

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

List of Abbrev for Depts.:
 ADM
 CED
 COR
 CRT
 EED
 DEC
 DFG
 GOV
 HSS
 LEG
 LAW
 LWF
 MVA
 DNR
 DPS
 REV
 DOT
 UA

NEW FISCAL NOTES				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
DOA		✓		
HFC/DOA				✓

PREVIOUS FISCAL NOTES				
List by Dept(s):	FN#	Fiscal	Indet.	Zero
DOA	#1	✓		
DOR	#3	✓		
DOR	#4	✓		
DOR	#5	✓		
DOR	#6	✓		
DOR	#7	✓		

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
<i>Mike Hawk</i>	Hawker				*
<i>Bruce W. ...</i>	Weyhaur				X
<i>[Signature]</i>	Jokle			X	
<i>[Signature]</i>	STOLTZ			X	
<i>[Signature]</i>	Kullin	X			
<i>[Signature]</i>	MOSES			X	
<i>[Signature]</i>	FOSTER	X			
Chair: <i>[Signature]</i>	Meyer			X	
Chair: <i>[Signature]</i>	Chenault			X	

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: Fiscal Note 8 Amended
 Bill Version: SB 141
 () Publish Date: 5/1/2005

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title "An Act relating to the teachers and pt RDU _____
 Component _____
 Sponsor Senate Finance Committee
 Requester Senate Finance Committee Component No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

FUND CAPITALIZATION	0.0					
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CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

POSITIONS	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

These costs are not costs necessary to implement this legislation and can be funded through the regular budget mechanisms.

Prepared by: House Finance Committee
 Division: _____
 Approved by: Rep. Mike Chenault, Co-Chair House Finance
 Agency: Rep. Kevin Meyer, Co-Chair House Finance

Phone: 465-6619
 Date/Time: 5/1/05 2:32 PM
 Date: 5/1/2005

replaces #8

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HCS CSSB141 (STA)
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title: An Act relation to TRS and PERS creating a RDU: Centralized Administrative Services
defined contribution and health reimbursement plans..... Component: Retirement and Benefits
Sponsor: Senate Finance Committee
Requester: Senate Finance Committee Component No.: 64

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	276.5	227.5	163.1	163.1	163.1	163.1
Travel	37.5	17.5	3.5	5.0	5.0	5.0
Contractual	667.0	327.0	352.0	397.0	397.0	397.0
Supplies	18.0	5.0	5.0	5.0	5.0	5.0
Equipment	30.0					
Land & Structures						
Grants & Claims						
Miscellaneous (Board Restructure)	(12.5)	(41.5)	(41.5)	(41.5)	(41.5)	(41.5)
TOTAL OPERATING	1,016.5	535.5	482.1	528.6	528.6	528.6

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,029.0	577.0	392.7	285.1	142.5	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
1029 PERS	(2.0)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)
1034 TRS	(10.5)	(37.4)	(37.4)	(37.4)	(37.4)	(37.4)
Other (Specify Type--Do not abbreviate)			130.9	285.0	427.6	570.1
TOTAL	1,016.5	535.5	482.1	528.6	528.6	528.6

Estimate of any current year (FY2005) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time	2	2	2	2	2	2
Part-time	0	0	0	0	0	0
Temporary	3	2	1	1	1	1

ANALYSIS: (Attach a separate page if necessary)
This bill will create a new defined contribution retirement plan and a health reimbursement arrangement for new employees of the PERS and TRS hired after the effective date of July 1, 2005. As the new plan significantly differs from the current defined benefit plans, the division will be required to reprogram its computer systems, set up and account for two new plans, create new plan publications and forms, train staff, employer contacts and new members, create new employee benefit education methods on the web, benefit seminars and one on one appointments, and to contract for financial planning services for members of the new plan. The fiscal note assumes fund manager fees, custody, and record keeper's individual account fees are separate. It further assumes that cost reductions for the PERS and TRS Boards will be partially offset by payments to the Office of Administrative Hearings to conduct disability hearings, previously conducted by the boards.

Prepared by: Melanie Millhorn, Director Phone 465-4408
Division: Retirement and Benefits Date/Time 4/22/05 3:29 PM
Approved by: Mike Tiobles, Deputy Commissioner Date 4/22/2005
Agency: Department of Administration

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. HCS CSSB141 (STA)

ANALYSIS CONTINUATION

The estimated administrative costs to the division by fiscal year are as follows:

	FY 2006	FY 2007	FY 2008	FY 09-11
PERSONAL SERVICES:				
1 - Non Perm Analyst-Pgmr III - DC-Benefits Sys - R 16	64.4	64.4	64.4	64.4
1 - Accountant II - Range 16	52.0	52.0	52.0	52.0
1 - R&B Tech I/II - ER Rptng / Contrib. Recon. - Range 12	46.7	46.7	46.7	46.7
1-Non Permanent Publications Tech II or Spec I - Range 13	49.0	0.0	0.0	0.0
1-Non Permanent Retirement Counselor - Range 18	64.4	64.4	0.0	0.0
	<u>276.5</u>	<u>227.5</u>	<u>163.1</u>	<u>163.1</u>
TRAVEL:				
Employer Reporting Software Upgrade Install & Support	30.0	15.0	0.0	0.0
Employer Plan Education	7.5	0.0	0.0	0.0
Regional Counselor travel	0.0	2.5	3.5	5.0
	<u>37.5</u>	<u>17.5</u>	<u>3.5</u>	<u>5.0</u>
CONTRACTUAL:				
Communications & Postage	82.0	17.0	17.0	17.0
Computer System Redesign (Est. 2,500 hours in FY06)	320.0	30.0	30.0	30.0
Audit, Accling, Tax, Benefits Consulting, Legal	100.0	75.0	50.0	50.0
Training \ Risk Management	15.0	5.0	5.0	0.0
Employee financial planning services	150.0	200.0	250.0	300.0
	<u>667.0</u>	<u>327.0</u>	<u>352.0</u>	<u>397.0</u>
SUPPLIES: Office supplies, calculators, desk-top software	18.0	5.0	5.0	5.0
EQUIPMENT: Workstation & cubicle, chairs, file cabinets, computers, telephone, set-up costs	30.0	0.0	0.0	0.0
MISCELLANEOUS (BOARD RECONFIGURATION, HEARINGS)				
Board Member Election 2006/2008	0.0	0.0	0.0	0.0
Board Training	-15.0	-15.0	-15.0	-15.0
Board Attorney	-40.5	-40.5	-40.5	-40.5
Travel Members/Staff	-24.0	-24.0	-24.0	-24.0
Honorarium/Board Members	-29.0	-29.0	-29.0	-29.0
National Seminars (NASRA - NCTR)	-20.0	-20.0	-20.0	-20.0
Disability Hearings--Office of Administrative Hearings	116.0	87.0	87.0	87.0
	<u>-12.5</u>	<u>-41.5</u>	<u>-41.5</u>	<u>-41.5</u>
TOTAL	1,016.5	535.5	482.1	528.6

The above funding source is initially listed as General Fund because the existing tiers of PERS / TRS are Defined Benefit plans, and the present DC plans, SBS and DCP are legally separate from the intended plan. It is assumed that by FY2008, as more employees are hired into the new tiers, that program costs will be funded through an assessment on DC accounts, similar to the SBS program currently in place. General funds will be reduced 25% per year from FY2008-2011.

The new plan effective date is July 1, 2005. Therefore, startup costs will start in FY 05. The startup costs are not costs of the PERS and TRS Defined Benefit plans. Tiers 1, 2, and 3 are logically related; however, tier 4 PERS and Tier 3 TRS would not be. The purpose of the bill is to separate the DB and DC side. A legal opinion was sought to determine how the funding and accounting needs to occur for the new DC plan.

replaces

#2

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSSB 141(FIN)
(S) Publish Date: 4/8/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title: An Act relating to the teachers' and pu RDU: Central Administrative Services
Component: Office of Administrative Hearings
Sponsor: Senate Finance Committee
Requester: Senate Finance Committee Component No.: 2771

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	98.0	74.0	74.0	74.0	74.0	74.0
Travel	4.0	4.0	4.0	4.0	4.0	4.0
Contractual	11.0	8.0	8.0	8.0	8.0	8.0
Supplies	1.0	1.0	1.0	1.0	1.0	1.0
Equipment	2.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	116.0	87.0	87.0	87.0	87.0	87.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1007 Interagency Receipts	116.0	87.0	87.0	87.0	87.0	87.0
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate) Int						
TOTAL	116.0	87.0	87.0	87.0	87.0	87.0

Estimate of any current year (FY2005) cost: 00

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time	1					
Part-time		1	1	1	1	1
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill transfers to the Office of Administrative Hearings (OAH) adjudicatory hearing functions now performed by the PERS and TRS boards with assistance from contract legal counsel. OAH would conduct hearings, exercise equitable powers, and issue final decisions, as well as perform ancillary pre-hearing functions presently performed by staff of the Division of Retirement and Benefits.

The numbers of cases referred and hearings conducted, as well as the number that might be resolved through alternative dispute resolution or on motions without an evidentiary hearing, likely would vary somewhat each year. To handle the additional caseload, OAH likely would need to add to the Administrative Law Judge (ALJ) staff a 3/4 PPT in all years except in FY 06, when an ALJ PPT would be needed due to the existing backlog of approximately 150 cases likely to carry over into FY 06.

Prepared by: Terry L. Thurbon, Chief Administrative Law Judge (Acting) Phone: 465-1886
Division: Office of Administrative Hearings Date/Time: 3/29/05 11:20 AM
Approved by: Michael A. Tibbles, Deputy Commissioner Date: 3/29/2005
Agency: Department of Administration

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: CSSB 141(FIN)
(S) Publish Date: 4/8/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title An Act relation to TRS and PERS creating a RDU Centralized Administrative Services
defined contribution and health reimbursement plans..... Component Retirement and Benefits
Sponsor Senate Finance Committee
Requester Senate Finance Committee Component No. 64

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	276.5	227.5	163.1	163.1	163.1	163.1
Travel	37.5	17.5	3.5	5.0	5.0	5.0
Contractual	667.0	327.0	352.0	397.0	397.0	397.0
Supplies	18.0	5.0	5.0	5.0	5.0	5.0
Equipment	30.0					
Land & Structures						
Grants & Claims						
Miscellaneous (Board Restructure)	(92.5)	(41.5)	(121.5)	(41.5)	(41.5)	(41.5)
TOTAL OPERATING	936.5	535.5	402.1	528.6	528.6	528.6

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,029.0	577.0	392.7	285.1	142.5	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
1029 PERS	(9.0)	(4.1)	(12.1)	(4.1)	(4.1)	(4.1)
1034 TRS	(83.5)	(37.4)	(109.4)	(37.4)	(37.4)	(37.4)
Other (Specify Type--Do not abbreviate)			130.9	285.0	427.6	570.1
TOTAL	936.5	535.5	402.1	528.6	528.6	528.6

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time	3	3	3	3	3	3
Part-time	0	0	0	0	0	0
Temporary	2	1	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

This bill will create a new defined contribution retirement plan and a health reimbursement arrangement for new employees of the PERS and TRS hired after the effective date of July 1, 2005. As the new plan significantly differs from the current defined benefit plans, the division will be required to reprogram its computer systems, set up and account for two new plans, create new plan publications and forms, train staff, employer contacts and new members, create new employee benefit education methods on the web, benefit seminars and one on one appointments, and to contract for financial planning services for members of the new plan. The fiscal note assumes fund manager fees, custody, and record keeper's individual account fees are separate. It further assumes that cost reductions for the PERS and TRS Boards will be partially offset by payments to the Office of Administrative Hearings to conduct disability hearings, previously conducted by the boards.

Prepared by: Melanie Millhorn, Director Phone 465-4408
Division Retirement and Benefits Date/Time 4/5/05 1:25 PM
Approved by: Mike Tibbles, Deputy Commissioner Date 4/5/2005
Agency Department of Administration

FISCAL NOTE # 2

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. CSSB 141(FIN)

ANALYSIS CONTINUATION

The estimated administrative costs to the division by fiscal year are as follows:

	FY 2006	FY 2007	FY 2008	FY 09-11
PERSONAL SERVICES:				
1 - Non Perm Analyst-Pgrmr III - DC-Benefits Sys - R 16	64.4	64.4	64.4	64.4
1 - Accountant II - Range 16	52.0	52.0	52.0	52.0
1 - R&B Tech I/II - ER Rpting / Contrib. Recon. - Range 12	46.7	46.7	46.7	46.7
1-Non Permanent Publications Tech II or Spec I - Range 13	49.0	0.0	0.0	0.0
1-Non Permanent Retirement Counselor - Range 18	64.4	64.4	0.0	0.0
	<u>276.5</u>	<u>227.5</u>	<u>163.1</u>	<u>163.1</u>
TRAVEL:				
Employer Reporting Software Upgrade Install & Help	30.0	15.0	0.0	0.0
Employer Plan Education	7.5	0.0	0.0	0.0
Regional Counselor travel	0.0	2.5	3.5	5.0
	<u>37.5</u>	<u>17.5</u>	<u>3.5</u>	<u>5.0</u>
CONTRACTUAL:				
Communications & Postage	82.0	17.0	17.0	17.0
Computer System Redesign (Est. 2,500 hours in FY06)	320.0	30.0	30.0	30.0
Audit, Accting, Tax, Benefits Consulting, Legal	100.0	75.0	50.0	50.0
Training \ Risk Management	15.0	5.0	5.0	0.0
Employee financial planning services	150.0	200.0	250.0	300.0
	<u>667.0</u>	<u>327.0</u>	<u>352.0</u>	<u>397.0</u>
PPLIES: Office supplies, calculators, desk-top software	18.0	5.0	5.0	5.0
EQUIPMENT: Workstation & cubicle, chairs, file cabinets, computers, telephone, set-up costs	30.0	0.0	0.0	0.0
MISCELLANEOUS (BOARD RECONFIGURATION, HEARINGS)				
Board Member Election 2006/2008	-80.0	0.0	-80.0	0.0
Board Training	-15.0	-15.0	-15.0	-15.0
Board Attorney	-40.5	-40.5	-40.5	-40.5
Travel Members/Staff	-24.0	-24.0	-24.0	-24.0
Honorarium/Board Members	-29.0	-29.0	-29.0	-29.0
National Seminars (NASRA - NCTR)	-20.0	-20.0	-20.0	-20.0
Disability Hearings--Office of Administrative Hearings	116.0	87.0	87.0	87.0
	<u>-92.5</u>	<u>-41.5</u>	<u>-121.5</u>	<u>-41.5</u>
TOTAL	936.5	535.5	402.1	528.6

The above funding source is initially listed as General Fund because the exiting tiers of PERS / TRS are Defined Benefit plans, and the present DC plans, SBS and DCP are legally separate from the intended plan. It is assumed that by FY2008, as more employees are hired into the new tiers, that program costs will be funded through an assessment on DC accounts, similar to the SBS program currently in place. General funds will be reduced 25% per year from FY2008-2011.

The new plan effective date is July 1, 2005. Therefore, startup costs will start in FY 05. The startup costs are not costs of the PERS and TRS Defined Benefit plans. Tiers 1, 2, and 3 are logically related; however, tier 4 PERS and Tier 3 TRS would not be. The purpose of the bill is to separate the DB and DC side. A legal opinion was sought to determine how the funding and accounting needs to occur for the new DC plan.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 3
Bill Version: CSSB 141(FIN)
§) Publish Date: 4/8/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue #1
Title: An Act relating to the teachers' and public RDU: Taxation & Treasury
employees' retirement systems Component: Treasury Division
Sponsor: Finance
Requester: _____ Component No.: 121

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below:

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	214.5	214.5	214.5	214.5	214.5	214.5

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						0.0
1005 GF/Program Receipts						
1017 Benefit Systems (SBS/DC)						0.0
IA from Alaska Retirement Mgmt Board	214.5	214.5	214.5	214.5	214.5	214.5
TOTAL	214.5	214.5	214.5	214.5	214.5	214.5

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time	3	3	3	3	3	3
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached analysis

Prepared by: Betty Martin, Comptroller
Division: Treasury
Approved by: Tom Boulin, Deputy Commissioner
Agency: Department of Revenue

Phone: 465-2352
Date/Time: 4/5/05 3:28 PM
Date: 4/5/2005

SB141 creates a new 9 member Alaska Retirement Management (ARM) Board and replaces the current 8 member Alaska State Pension Investment Board (ASPIB) staffed by the Treasury Division. It also creates a defined contribution plan with employee and employer contributions, a separate defined benefit health fund and a health care reimbursement trust. Funds currently budgeted under the ASPIB will be transferred to the new board. A summary of the fiscal notes follows.

Summary of Fiscal Notes	FY06	FY07	FY08	FY09	FY10	FY11
Treasury Division fiscal note #1	214.5	214.5	214.5	214.5	214.5	214.5
Alaska State Pension Investment Board fiscal note #2	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4
ARM Board fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6
Total	804.7	480.7	480.7	480.7	480.7	480.7
Back out IA between the two components ¹	-214.5	-214.5	-214.5	-214.5	-214.5	-214.5
SB241 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

Note 1: Currently 100% of the Treasury Division's personal services costs are included in the Treasury Division component under personal services. These incremental costs are included in the new ARM budget (as in the prior ASPIB budget as a contractual expense). Simply adding the two budgets would double count this amount.

The following table shows the breakdown of incremental costs by budget category. Following are discussed the assumptions we have made and how these total costs have been allocated between fiscal note 1 and 3.

	FY06	FY07	FY08	FY09	FY10	FY11
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel	25.0	12.0	12.0	12.0	12.0	12.0
Contractual	337.3	39.2	39.2	39.2	39.2	39.2
Supplies	14.5	5	5	5	5	5
SB141 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

Assumptions

Following are the assumptions used in arriving at the estimate of the incremental costs of SB141:

1. A new defined contribution plan will have a similar number and type of options as the current Supplement Benefits System. All options would be available on day one of the new plan. A plan similar to SRS will result in the hire of approximately 6 managers and the establishment of over 30 additional safekeeping accounts at the custodial bank and associated accounting records.
2. There is a need to add 2 additional professional and 1 additional technical staff to include a State Investment Officer II, an Accountant IV and an Accounting Technician III. The total cost included in the fiscal notes per year of these staff is \$214.5.
3. Funding for one extra board meeting in the first year for the new board to organize and receive start-up training as well as funding to reflect 1 additional board member traveling (current budget includes 8 existing members).

4. The costs of computers, office equipment and office space reconfiguration is included in year one for the new staff. In all years funding is included for training, investment software subscriptions (Bloomberg, Yieldbook, S&P and Moody's rating services) and miscellaneous supplies for new staff.
5. In year one, the cost for the external consultant to assist the board in selecting 6 new managers. The current contract cost for manager searches is \$30.0 per search.
6. The costs of an external consultant to calculate performance of the funds quarterly. Costs are expected to be \$30.0 year based on the current contract.
7. In FY2006 \$100.0 to cover the costs of an independent audit review of the performance consultant. It is a requirement in SB141 that this contractor be audited. We expect that audit to occur every 4 to 5 years after the initial audit review.
8. There is a \$40.0 reduction in current costs associated with the election of members as the new board will be appointed by the governor.

Treasury Division fiscal note #1

The Treasury Division's fiscal note includes \$214.5 each year for personal services. There are economies of scale in managing investments. However, the new funds created by Senate Bill 141 would require considerable additional responsibilities. If the number of options paralleled the existing SBS Plan, that would translate to 13 new manager accounts, 34 new custodial accounts and 4 new sets of monthly financial statements with annual audit requirements. The Department of Revenue currently manages a large number of funds with a limited investment and back office staff. In order to prudently meet the prospective demands of Senate Bill 141, Treasury would need to hire an additional investment staff and 2 middle back office staff.

Background

Prudent and productive management of investments is a resource intensive process. Managing a modern portfolio is a broad responsibility which requires significant expertise and high attention to detail.

Investment management responsibilities include designing investment policy guidelines, developing custom asset allocations, conducting investment manager searches, performing investment manager due diligence, negotiating and contracting with prospective managers, managing investment manager relationships, performing periodic portfolio rebalancing, monitoring and evaluating investment performance, presenting and consulting with oversight organizations, and following developments in investment research and analytic tools.

In addition, investment management requires a significant interface with back and middle office functions including fund accounting and audit, managing custody and brokerage relationships, cash management, securities lending, safeguarding assets, and compliance monitoring.

Senate Bill 141 would create the equivalent of four new funds to manage: the Employee Defined Contribution Accounts, the Employer Vetting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust.

The Employee Defined Contribution Accounts would likely offer employees a reasonably wide range of investment options. As a comparison, the Supplemental Benefits System offers a suite of 6 target of life style funds and 8 separate asset class funds, for a total of 14 options that participants may select from. Deciding on the mix of investment styles to offer, searching for and hiring investment managers, and evaluating and reporting on investment manager performance would be a considerable on-going undertaking.

While Treasury may realize fee economies from existing investment relationships, it is unlikely that the contributions in this account can be commingled with existing accounts. That means that there would be a completely new set of accounts for custodial and accounting purposes.

The Employer Vesting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust would all likely call for separate custom asset allocations. All three would individually require evaluation, reporting, and periodic portfolio rebalancing. They would also require separate custodial and accounting records including monthly financial reporting and audits.

There is likely to be an additional consequence of the change to a defined contribution plan. Currently there is a population of participants in SBS and Deferred Compensation that monitor their accounts daily. They often have questions whenever there are apparent anomalies in the change in the daily prices of the options. As a general rule, we would say that members of a defined benefit plan are not as price sensitive. The new plan will greatly increase the number of individuals who are monitoring on-line data on a daily basis. This will correlate directly to an increase in the amount of time we spend answering questions.

Alaska State Pension Investment Board fiscal note #2

Alaska Retirement Management Board fiscal note #3

Fiscal note #2 transfers the existing ASPIB budgeted funding to the new ARM board. This fiscal note also includes the ARM board's share of costs expected due to the implementation of SB141.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB budgeted funding fiscal note	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4
Incremental costs from SB141	590.2	266.2	266.2	266.2	266.2	266.2
Total costs on fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6

Total first year costs in fiscal note #3 include \$180.0 for manager selection; \$100.0 for an audit of the board's performance consultant (This audit is a new requirement of SB141. It does not have to occur in the first year, but once done we would expect it to occur every 4 to 5 years.); \$15.0 associated with one additional meeting for organizing and educating the new board members; and, \$29.0 for computers and the office setup for the new positions. These total start-up costs are \$324.0.

Ongoing costs include interagency chargeback to the ARM for the costs of the 3 new positions totaling \$214.5; travel for the additional board member (the current board has 8 members versus the new board with 9 members); as well as increased due diligence of the new fund managers and training for the new staff in the amount of \$13.0; \$45.7 for the ongoing cost of phones, information technology charge backs, supplies and investment subscription services for the new staff (these include Bloomberg, Yieldbook, S&P and Moody's, and Tradeweb); a \$140.0 reduction in current cost as elections will be eliminated; \$30.0 per year for the calculation of the new funds' performance by an external consultant. These total on-going costs are \$266.2.

State Pension Custody and Management Fees #4
Alaska Retirement Management Board Fees #5

Fiscal note #4 transfers the budgeted funding of the State Pension Custody and Management Fees to a new Alaska Retirement Management Board Fees component (fiscal note #5) in the Department of Revenue for the new ARM Board. This component includes the investment management and custody costs of the existing defined benefit plans and will not be impacted in the foreseeable future by SB141. Please note that in a defined contribution plan, invest manager fees and custodian costs are deducted from the individual accounts daily (through an adjustment to the per share price of the investments). These costs are not included in the Department's budget.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 4
Bill Version: CSSB 141(FIN)
Publish Date: 4/8/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue #2
Title: An Act relating to the teachers' and public RDU: Taxation & Treasury
employees' retirement systems Component: Alaska State Pension
Sponsor: Finance Component No.: 1961
Requester: _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel	(127.9)	(127.9)	(127.9)	(127.9)	(127.9)	(127.9)
Contractual	(3,896.5)	(3,896.5)	(3,896.5)	(3,896.5)	(3,896.5)	(3,896.5)
Supplies	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)
Equipment	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	(4,144.4)	(4,144.4)	(4,144.4)	(4,144.4)	(4,144.4)	(4,144.4)

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE	(Thousands of Dollars)					
1029 PERS Retirement	(2,553.5)	(2,553.5)	(2,553.5)	(2,553.5)	(2,553.5)	(2,553.5)
1034 Teachers Retirement	(1,277.3)	(1,277.3)	(1,277.3)	(1,277.3)	(1,277.3)	(1,277.3)
1042 Judicial Retirement	(31.6)	(31.6)	(31.6)	(31.6)	(31.6)	(31.6)
1045 National Guard Retirement	(83.0)	(83.0)	(83.0)	(83.0)	(83.0)	(83.0)
1017 Benefits Systems (SBS/DC)	(199.0)	(199.0)	(199.0)	(199.0)	(199.0)	(199.0)
Other (Specify Type--Do not abbreviate)						
TOTAL	(4,144.4)	(4,144.4)	(4,144.4)	(4,144.4)	(4,144.4)	(4,144.4)

Estimate of any current year (FY2005) cost: 00
Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
See attached analysis.

Prepared by: Betty Martin, Comptroller Phone: 465-2352
Division: Treasury Date/Time: 4/8/05 3:28 PM
Approved by: Tom Boudin, Deputy Commissioner Date: 4/8/2005
Agency: Department of Revenue

SB141 creates a new 9 member Alaska Retirement Management (ARM) Board and replaces the current 8 member Alaska State Pension Investment Board (ASPIB) staffed by the Treasury Division. It also creates a defined contribution plan with employee and employer contributions, a separate defined benefit health fund and a health care reimbursement trust. Funds currently budgeted under the ASPIB will be transferred to the new board. A summary of the fiscal notes follows.

Summary of Fiscal Notes	FY06	FY07	FY08	FY09	FY10	FY11
Treasury Division fiscal note #1	214.5	214.5	214.5	214.5	214.5	214.5
Alaska State Pension Investment Board fiscal note #2	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4
ARM Board fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6
Total	804.7	480.7	480.7	480.7	480.7	480.7
Back out IA between the two components ¹	-214.5	-214.5	-214.5	-214.5	-214.5	-214.5
SB141 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

Note 1: Currently 100% of the Treasury Division's personal services costs are included in the Treasury Division component under personal services. These incremental costs are included in the new ARM budget (as in the prior ASPIB budget as a contractual expense). Simply adding the two budgets would double count this amount.

The following table shows the breakdown of incremental costs by budget category. Following are discussed the assumptions we have made and how these total costs have been allocated between fiscal note 1 and 3.

	FY06	FY07	FY08	FY09	FY10	FY11
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel	12.0	12.0	12.0	12.0	12.0	12.0
Contractual	337.3	39.2	39.2	39.2	39.2	39.2
Supplies	14.5	.5	.5	.5	.5	.5
SB141 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

Assumptions:

Following are the assumptions used in arriving at the estimate of the incremental costs of SB141.

1. A new defined contribution plan will have a similar number and type of options as the current Supplemental Benefits System. All options would be available on day one of the new plan. A plan similar to SBS will result in the hire of approximately 6 managers and the establishment of over 30 additional safekeeping accounts at the custodial bank and associated accounting records.

2. There is a need to add 2 additional professional and 1 additional technical staff to include a State Investment Officer II, an Accountant IV and an Accounting Technician III. The total cost included in the fiscal notes per year of these staff is \$214.5.

3. Funding for one extra board meeting in the first year for the new board to organize and receive start-up training as well as funding to reflect 1 additional board member traveling (current budget includes 8 existing members).

4. The costs of computers, office equipment and office space reconfiguration is included in year one for the new staff. In all years funding is included for training, investment software subscriptions (Bloomberg, Yieldbook, S&P and Moody's rating services) and miscellaneous supplies for new staff.

5. In year one, the cost for the external consultant to assist the board in selecting 6 new managers. The current contract cost for manager searches is \$30,0 per search.

6. The costs of an external consultant to calculate performance of the funds quarterly. Costs are expected to be \$30,0 year based on the current contract.

7. In FY2006 \$100,0 to cover the costs of an independent audit review of the performance consultant. It is a requirement in SB141 that this contractor be audited. We expect that audit to occur every 4 to 5 years after the initial audit/review.

8. There is a \$40,0 reduction in current costs associated with the election of members as the new board will be appointed by the governor.

Treasury Division fiscal note #1

The Treasury Division's fiscal note includes \$214.5 each year for personal services. There are economies of scale in managing investments. However, the new funds created by Senate Bill 141 would require considerable additional responsibilities. If the number of options paralleled the existing SBS Plan, that would translate to 13 new manager accounts, 34 new custodial accounts and 1 new sets of monthly financial statements with annual audit requirements. The Department of Revenue currently manages a large number of funds with a limited investment and back office staff. In order to prudently meet the prospective demands of Senate Bill 141, Treasury would need to hire an additional investment staff and 2 middle back office staff.

Background

Prudent and productive management of investments is a resource intensive process. Managing a modern portfolio is a broad responsibility which requires significant expertise and high attention to detail.

Investment management responsibilities include designing investment policy guidelines, developing custom asset allocations, conducting investment manager searches, performing investment manager due diligence, negotiating and contracting with prospective managers, managing investment manager relationships, performing periodic portfolio rebalancing, monitoring and evaluating investment performance, presenting and consulting with oversight organizations, and following developments in investment research and analytic tools.

In addition, investment management requires a significant interface with back and middle office functions including fund accounting and audit, managing custody and brokerage relationships, cash management, securities lending, safeguarding assets, and compliance monitoring.

Senate Bill 141 would create the equivalent of four new funds to manage: the Employee Defined Contribution Accounts, the Employer Vesting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust.

The Employee Defined Contribution Accounts would likely offer employees a reasonably wide range of investment options. As a comparison, the Supplemental Benefits System offers a suite of 6 target or life-style funds and 8 separate asset class funds for a total of 14 options that participants may select from. Deciding on the mix of investment styles to offer, searching for and hiring investment managers, and evaluating and reporting on investment manager performance would be a considerable on-going undertaking.

While Treasury may realize fee economies from existing investment relationships, it is unlikely that the contributions in this account can be commingled with existing accounts. That means that there would be a completely new set of accounts for custodial and accounting purposes.

The Employer Vesting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust would all likely call for separate custom asset allocations. All three would individually require evaluation, reporting, and periodic portfolio rebalancing. They would also require separate custodial and accounting records including monthly financial reporting and audits.

There is likely to be an additional consequence of the change to a defined contribution plan. Currently there is a population of participants in SBS and Deferred Compensation that monitor their accounts daily. They often have questions whenever there are apparent anomalies in the change in the daily prices of the options. As a general rule, we would say that members of a defined benefit plan are not as price sensitive. The new plan will greatly increase the number of individuals who are monitoring on-line data on a daily basis. This will correlate directly to an increase in the amount of time we spend answering questions.

Alaska State Pension Investment Board fiscal note #2

Alaska Retirement Management Board fiscal note #3

Fiscal note #2 transfers the existing ASPIB budgeted funding to the new ARM Board. This fiscal note also includes the ARM board's share of costs expected due to the implementation of SB141.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB budgeted funding fiscal note	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4
Incremental costs from SB141	590.2	266.2	266.2	266.2	266.2	266.2
Total costs on fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6

Total first year costs in fiscal note #3 include \$189.0 for manager selection; \$10.0 for an audit of the board's performance consultant (This audit is a new requirement of SB141. It does not have to occur in the first year, but once done we would expect it to occur every 4 to 5 years); \$15.0 associated with one additional meeting for organizing and educating the new board members; and, \$29.0 for computers and the office setup for the new positions. These total start-up costs are \$324.0.

On-going costs include interagency chargeback to the ARM for the costs of the 5 new positions totaling \$214.5, travel for the additional board member (the current board has 8 members versus the new board with 9 members) as well as increased due diligence of the new fund managers and training for the new staff in the amount of \$13.0; \$48.7 for the ongoing cost of phones, information technology charge backs, supplies and investment subscription services for the new staff (these include Bloomberg, Yieldbook, S&P and Moody's and Tradeweb); a \$40.0 reduction in current cost as elections will be eliminated; \$30.0 per year for the calculation of the new funds' performance by an external consultant. These total on-going costs are \$266.2.

State Pension Custody and Management Fees #4
Alaska Retirement Management Board Fees #5

Fiscal note #4 transfers the budgeted funding of the State Pension Custody and Management Fees to a new Alaska Retirement Management Board Fees component (fiscal note #5) in the Department of Revenue for the new ARM Board. This component includes the investment management and custody costs of the existing defined benefit plans and will not be impacted in the foreseeable future by SB141. Please note that in a defined contribution plan, invest manager fees and custodian costs are deducted from the individual accounts daily (through an adjustment to the per share price of the investments). These costs are not included in the Department's budget.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 5
Bill Version: CSSB 141(FIN)
Publish Date: 4/8/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue #3
Title: An Act relating to the teachers' and public RDU: Taxation & Treasury
employees' retirement systems Component: Alaska Retirement Management
Sponsor: Finance Board
Requester: _____ Component No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel	23.9	12.0	12.0	12.0	12.0	12.0
Contractual	4,481.7	4,183.6	4,183.6	4,183.6	4,183.6	4,183.6
Supplies	14.5	0.5	0.5	0.5	0.5	0.5
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	4,734.6	4,410.0	4,410.6	4,410.6	4,410.6	4,410.6

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()				292.6	339.4	386.2
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FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
1029 PERS Retirement	2,553.5	2,553.5	2,553.5	2,553.5	2,553.5	2,553.5
1034 Teachers Retirement	1,277.3	1,277.3	1,277.3	1,277.3	1,277.3	1,277.3
1042 Judicial Retirement	31.6	31.6	31.6	31.6	31.6	31.6
1045 National Guard Retirement	83.0	83.0	83.0	83.0	83.0	83.0
1017 Benefits Systems (SBS/DC)	199.0	199.0	398.6	332.1	265.6	465.2
1004 GF	590.2	266.2	66.6	133.1	199.6	0.0
TOTAL	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate report if necessary.)
See attached analysis.

Prepared by: Betty Martin, Comptroller
Division: Treasury
Approved by: Tom Boutin, Deputy Commissioner
Agency: Department of Revenue

Phone: 465-2352
Date/Time: 4/5/05 3:28 PM
Date: 4/5/2005

SB141 creates a new 9 member Alaska Retirement Management (ARM) Board and replaces the current 8 member Alaska State Pension Investment Board (ASPIB) staffed by the Treasury Division. It also creates a defined contribution plan with employee and employer contributions, a separate defined benefit health fund and a health care reimbursement trust. Funds currently budgeted under the ASPIB will be transferred to the new board. A summary of the fiscal notes follows.

Summary of Fiscal Notes	FY06	FY07	FY08	FY09	FY10	FY11
Treasury Division fiscal note #1	214.5	214.5	214.5	214.5	214.5	214.5
Alaska State Pension Investment Board fiscal note #2	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4
ARM Board fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6
Total	804.7	480.7	480.7	480.7	480.7	480.7
Back out IA between the two components ¹	-214.5	-214.5	-214.5	-214.5	-214.5	-214.5
SB241 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

Note 1: Currently 100% of the Treasury Division's personal services costs are included in the Treasury Division component under personal services. These incremental costs are included in the new ARM budget (as in the prior ASPIB budget as a contractual expense). Simply adding the two budgets would double count this amount.

The following table shows the breakdown of incremental costs by budget category. Following are discussed the assumptions we have made and how these total costs have been allocated between fiscal note 1 and 3.

	FY06	FY07	FY08	FY09	FY10	FY11
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel	23.9	12.0	12.0	12.0	12.0	12.0
Contractual	337.3	39.2	39.2	39.2	39.2	39.2
Supplies	14.5	.5	.5	.5	.5	.5
SB141 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

Assumptions:

Following are the assumptions used in arriving at the estimate of the incremental costs of SB141

1. A new defined contribution plan will have a similar number and type of options as the current Supplement Benefits System. All options would be available on day one of the new plan. A plan similar to SBS will result in the hire of approximately 6 managers and the establishment of over 30 additional safekeeping accounts at the custodial bank and associated accounting records.

2. There is a need to add 2 additional professional and 1 additional technical staff to include a State Investment Officer II, an Accountant IV and an Accounting Technician III. The total cost included in the fiscal notes per year of these staff is \$214.5.

3. Funding for one extra board meeting in the first year for the new board to organize and receive start-up training as well as funding to reflect 1 additional board member traveling (current budget includes 8 existing members).

4. The costs of computers, office equipment and office space reconfiguration is included in year one for the new staff. In all years funding is included for training, investment software subscriptions (Bloomberg, Yieldbook, S&P and Moody's rating services) and miscellaneous supplies for new staff.

5. In year one, the cost for the external consultant to assist the board in selecting 6 new managers. The current contract cost for manager searches is \$30.0 per search.

6. The costs of an external consultant to calculate performance of the funds quarterly. Costs are expected to be \$30.0/year based on the current contract.

7. In FY2006 \$100.0 to cover the costs of an independent audit review of the performance consultant. It is a requirement in SB141 that this contractor be audited. We expect that audit to occur every 4 to 5 years after the initial audit review.

8. There is a \$40.0 reduction in current costs associated with the election of members as the new board will be appointed by the governor.

Treasury Division fiscal note #1

The Treasury Division's fiscal note includes \$214.5 each year for personal services. There are economies of scale in managing investments. However, the new funds created by Senate Bill 141 would require considerable additional responsibilities. If the number of options paralleled the existing SBS Plan, that would translate to 13 new manager accounts, 34 new custodial accounts and 4 new sets of monthly financial statements with annual audit requirements. The Department of Revenue currently manages a large number of funds with a limited investment and back office staff. In order to prudently meet the prospective demands of Senate Bill 141, Treasury would need to hire an additional investment staff and 2 middle back office staff.

Background

Prudent and productive management of investments is a resource intensive process. Managing a modern portfolio is a broad responsibility which requires significant expertise and high attention to detail.

Investment management responsibilities include designing investment policy guidelines, developing custom asset allocations, conducting investment manager searches, performing investment manager due diligence, negotiating and contracting with prospective managers, managing investment manager relationships, performing periodic portfolio rebalancing, monitoring and evaluating investment performance, presenting and consulting with oversight organizations, and following developments in investment research and analytic tools.

In addition, investment management requires a significant interface with back and middle office functions including fund accounting and audit, managing custody and brokerage relationships, cash management, securities lending, safeguarding assets, and compliance monitoring.

Senate Bill 141 would create the equivalent of four new funds to manage: the Employee Defined Contribution Accounts, the Employer Vesting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust.

The Employee Defined Contribution Accounts would likely offer employees a reasonably wide range of investment options. As a comparison, the Supplemental Benefits System offers a suite of 6 target or life-style funds and 8 separate asset class funds for a total of 14 options that participants may select from. Deciding on the mix of investment styles to offer, searching for and hiring investment managers, and evaluating and reporting on investment manager performance would be a considerable on-going undertaking.

While Treasury may realize fee economies from existing investment relationships, it is unlikely that the contributions in this account can be commingled with existing accounts. That means that there would be a completely new set of accounts for custodial and accounting purposes.

The Employer Vesting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust would all likely call for separate custom asset allocations. All three would individually require evaluation, reporting, and periodic portfolio rebalancing. They would also require separate custodial and accounting records including monthly financial reporting and audits.

There is likely to be an additional consequence of the change to a defined contribution plan. Currently there is a population of participants in SBS and Deferred Compensation that monitor their accounts daily. They often have questions whenever there are apparent anomalies in the change in the daily prices of the options. As a general rule, we would say that members of a defined benefit plan are not as price sensitive. The new plan will greatly increase the number of individuals who are monitoring on-line data on a daily basis. This will correlate directly to an increase in the amount of time we spend answering questions.

Alaska State Pension Investment Board fiscal note #2

Alaska Retirement Management Board fiscal note #3

Fiscal note #2 transfers the existing ASPIB budgeted funding to the new ARM board. This fiscal note also includes the ARM board's share of costs expected due to the implementation of SB141.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB budgeted funding fiscal note	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4
Incremental costs from SB141	590.2	266.2	266.2	266.2	266.2	266.2
Total costs on fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6

Total first year costs in fiscal note #3 include \$180.0 for manager selection; \$100.0 for an audit of the board's performance consultant (This audit is a new requirement of SB141. It does not have to occur in the first year, but once done we would expect it to occur every 4 to 5 years.); \$15.0 associated with one additional meeting for organizing and educating the new board members; and, \$29.0 for computers and the office setup for the new positions. These total start-up costs are \$324.0.

On-going costs include interagency chargeback to the ARM for the costs of the 3 new positions totaling \$214.5; travel for the additional board member (the current board has 8 members versus the new board with 9 members) as well as increased due diligence of the new fund managers and training for the new staff in the amount of \$13.0; \$48.7 for the ongoing cost of phones, information technology charge backs, supplies and investment subscription services for the new staff (these include Bloomberg, Yieldbook, S&P and Moody's and Trideweb); a \$-40.0 reduction in current cost as elections will be eliminated; \$30.0 per year for the calculation of the new funds' performance by an external consultant. These total on-going costs are \$266.2.

State Pension Custody and Management Fees #4
Alaska Retirement Management Board Fees #5

Fiscal note #4 transfers the budgeted funding of the State Pension Custody and Management Fees to a new Alaska Retirement Management Board Fees component (fiscal note #5) in the Department of Revenue for the new ARM Board. This component includes the investment management and custody costs of the existing defined benefit plans and will not be impacted in the foreseeable future by SB141. Please note that in a defined contribution plan, invest manager fees and custodian costs are deducted from the individual accounts daily (through an adjustment to the per share price of the investments). These costs are not included in the Department's budget.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 6
Bill Version: CSSB 141(FIN)
g) Publish Date: 4/8/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue #4
Title: An Act relating to the teachers' and public RDU: Taxation & Treasury
employees' retirement systems Component: State Pension Custody and
Sponsor: Finance Component No.: 2311
Requester: _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual	(31,913.6)	(31,913.6)	(31,913.6)	(31,913.6)	(31,913.6)	(31,913.6)
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	(31,913.6)	(31,913.6)	(31,913.6)	(31,913.6)	(31,913.6)	(31,913.6)

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1029 PERS Retirement	(20,692.8)	(20,692.8)	(20,692.8)	(20,692.8)	(20,692.8)	(20,692.8)
1034 Teachers Retirement	(10,760.9)	(10,760.9)	(10,760.9)	(10,760.9)	(10,760.9)	(10,760.9)
1042 Judicial Retirement	(328.4)	(328.4)	(328.4)	(328.4)	(328.4)	(328.4)
1045 National Guard Retirement	(131.5)	(131.5)	(131.5)	(131.5)	(131.5)	(131.5)
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	(31,913.6)	(31,913.6)	(31,913.6)	(31,913.6)	(31,913.6)	(31,913.6)

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached analysis

Prepared by: Betty Martin, Comptroller
Division: Treasury
Approved by: Tom Boutin, Deputy Commissioner
Agency: Department of Revenue

Phone: 465-2352
Date/Time: 4/8/05 3:28 PM
Date: 4/5/2005

SB141 creates a new 9 member Alaska Retirement Management (ARM) Board and replaces the current 8 member Alaska State Pension Investment Board (ASPIB) staffed by the Treasury Division. It also creates a defined contribution plan with employee and employer contributions, a separate defined benefit health fund and a health care reimbursement trust. Funds currently budgeted under the ASPIB will be transferred to the new board. A summary of the fiscal notes follows.

Summary of Fiscal Notes:	FY06	FY07	FY08	FY09	FY10	FY11
Treasury Division fiscal note #1	214.5	214.5	214.5	214.5	214.5	214.5
Alaska State Pension Investment Board fiscal note #2	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4
ARM Board fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6
Total	804.7	480.7	480.7	480.7	480.7	480.7
Back out 1A between the two components ¹	-214.5	-214.5	-214.5	-214.5	-214.5	-214.5
SB141 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

Note 1: Currently 100% of the Treasury Division's personal services costs are included in the Treasury Division component under personal services. These incremental costs are included in the new ARM budget (as in the prior ASPIB budget as a contractual expense). Simply adding the two budgets would double count this amount.

The following table shows the breakdown of incremental costs by budget category. Following are discussed the assumptions we have made and how these total costs have been allocated between fiscal note 1 and 3.

	FY06	FY07	FY08	FY09	FY10	FY11
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel	23.9	12.0	12.0	12.0	12.0	12.0
Contractual	337.3	39.2	39.2	39.2	39.2	39.2
Supplies	14.5	.5	.5	.5	.5	.5
SB141 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

Assumptions:

Following are the assumptions used in arriving at the estimate of the incremental costs of SB141.

1. A new defined contribution plan will have a similar number and type of options as the current Supplement Benefits System. All options would be available on day one of the new plan. A plan similar to SBS will result in the hire of approximately 6 managers and the establishment of over 30 additional safekeeping accounts at the custodial bank and associated accounting records.
2. There is a need to add 2 additional professional and 1 additional technical staff to include a State Investment Officer II, an Accountant IV and an Accounting Technician III. The total cost included in the fiscal notes per year of these staff is \$214.5.
3. Funding for one extra board meeting in the first year for the new board to organize and receive start-up training as well as funding to reflect 1 additional board member traveling (current budget include 8 existing members).

4. The costs of computers, office equipment and office space reconfiguration is included in year one for the new staff. In all years funding is included for training, investment software subscriptions (Bloomberg, Yieldbook, S&P and Moody's rating services) and miscellaneous supplies for new staff.
5. In year one, the cost for the external consultant to assist the board in selecting 6 new managers. The current contract cost for manager searches is \$30.0 per search.
6. The costs of an external consultant to calculate performance of the funds quarterly. Costs are expected to be \$30.0 year based on the current contract.
7. In FY2006 \$100.0 to cover the costs of an independent audit review of the performance consultant. It is a requirement in SB141 that this contractor be audited. We expect that audit to occur every 4 to 5 years after the initial audit review.
8. There is a \$40.0 reduction in current costs associated with the election of members as the new board will be appointed by the governor.

Treasury Division fiscal note #1

The Treasury Division's fiscal note includes \$214.5 each year for personal services. There are economies of scale in managing investments. However, the new funds created by Senate Bill 141 would require considerable additional responsibilities. If the number of options paralleled the existing SBS Plan, that would translate to 13 new manager accounts, 34 new custodial accounts and 4 new sets of monthly financial statements with annual audit requirements. The Department of Revenue currently manages a large number of funds with a limited investment and back office staff. In order to prudently meet the prospective demands of Senate Bill 141, Treasury would need to hire an additional investment staff and 2 middle/back office staff.

Background

Prudent and productive management of investments is a resource intensive process. Managing a modern portfolio is a broad responsibility which requires significant expertise and high attention to detail.

Investment management responsibilities include designing investment policy guidelines, developing custom asset allocations, conducting investment manager searches, performing investment manager due diligence, negotiating and contracting with prospective managers, managing investment manager relationships, performing periodic portfolio rebalancing, monitoring and evaluating investment performance, presenting and consulting with oversight organizations, and following developments in investment research and analytical tools.

In addition, investment management requires a significant interface with back and middle office functions including fund accounting and audit, managing custody and brokerage relationships, cash management, securities lending, safeguarding assets, and compliance monitoring.

Senate Bill 141 would create the equivalent of four new funds to manage - the Employee Defined Contribution Accounts, the Employer Vetting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust.

The Employee Defined Contribution Accounts would likely offer employees a reasonably wide range of investment options. As a comparison, the Supplemental Benefits System offers a suite of 6 target or life-style funds and 8 separate asset class funds for a total of 14 options that participants may select from. Deciding on the mix of investment styles to offer, searching for and hiring investment managers, and evaluating and reporting on investment manager performance would be a considerable on-going undertaking.

While Treasury may realize fee economies from existing investment relationships, it is unlikely that the contributions in this account can be commingled with existing accounts. That means that there would be a completely new set of accounts for custodial and accounting purposes.

The Employer Vesting Account, the Medical Program Fund, and the Health Reimbursement Arrangement Trust would all likely call for separate custom asset allocations. All three would individually require evaluation, reporting, and periodic portfolio rebalancing. They would also require separate custodial and accounting records including monthly financial reporting and audits.

There is likely to be an additional consequence of the change to a defined contribution plan. Currently, there is a population of participants in SBS and Deferred Compensation that monitor their accounts daily. They often have questions whenever there are apparent anomalies in the change in the daily prices of the options. As a general rule, we would say that members of a defined benefit plan are not as price sensitive. The new plan will greatly increase the number of individuals who are monitoring on-line data on a daily basis. This will correlate directly to an increase in the amount of time we spend answering questions.

Alaska State Pension Investment Board fiscal note #2
Alaska Retirement Management Board fiscal note #3

Fiscal note #2 transfers the existing ASPIB budgeted funding to the new ARM board. This fiscal note also includes the ARM board's share of costs expected due to the implementation of SB141.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB budgeted funding fiscal note	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4
Incremental costs from SB141	500.2	266.2	266.2	266.2	266.2	266.2
Total costs on fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6

Total first year costs in fiscal note #3 include \$150.0 for manager selection, \$100.0 for an audit of the board's performance consultant (this audit is a new requirement of SB141. It does not have to occur in the first year, but once done we would expect it to occur every 4 to 5 years), \$15.0 associated with one additional meeting for organizing and educating the new board members, and, \$29.0 for computers and the office setup for the new position. These total start-up costs are \$324.0.

Ongoing costs include interagency chargeback to the ARM for the costs of the 3 new positions totaling \$214.8, travel for the additional board member (the current board has 5 members versus the new board will 9 members), as well as increased due diligence of the new fund managers and training for the new staff in the amount of \$130, \$48.7 for the ongoing cost of phones, information technology charge backs, supplies and investment subscription services for the new staff (these include Bloomberg, Yearbook, S&P and Moody's and Tradeweb), a \$40.0 reduction in current cost as elections will be eliminated, \$30.0 per year for the calculation of the new funds' performance by an external consultant. These total on-going costs are \$266.2.

State Pension Custody and Management Fees #4
Alaska Retirement Management Board Fees #5

Fiscal note #4 transfers the budgeted funding of the State Pension Custody and Management Fees to a new Alaska Retirement Management Board Fees component (fiscal note #5) in the Department of Revenue for the new ARM Board. This component includes the investment management and custody costs of the existing defined benefit plans and will not be impacted in the foreseeable future by SB141. Please note that in a defined contribution plan, invest manager fees and custodian costs are deducted from the individual accounts daily (through an adjustment to the per share price of the investments). These costs are not included in the Department's budget.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 7
Bill Version: CSSB 141(FIN)
Publish Date: 4/8/05

Revision Date/Time (Note if correction)	Dept. Affected: <u>Revenue #5</u>
Title: <u>An Act relating to the teachers' and public employees' retirement systems</u>	RDU: <u>Taxation & Treasury</u>
Sponsor: <u>Finance</u>	Component: <u>ARM Custody and Management Fees</u>
Requester: _____	Component No: _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1029 PERS Retirement	20,692.8	20,692.8	20,692.8	20,692.8	20,692.8	20,692.8
1034 Teachers Retirement	10,760.9	10,760.9	10,760.9	10,760.9	10,760.9	10,760.9
1042 Judicial Retirement	328.4	328.4	328.4	328.4	328.4	328.4
1045 National Guard Retirement	131.5	131.5	131.5	131.5	131.5	131.5
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached analysis

Prepared by: Betty Mann, Comptroller
Division: Treasury
Approved by: Tom Boudin, Deputy Commissioner
Agency: Department of Revenue

Phone: 465-2352
Date/Time: 4/5/05 3:28 PM
Date: 4/5/2005

SB141 creates a new 9 member Alaska Retirement Management (ARM) Board and replaces the current 8 member Alaska State Pension Investment Board (ASPIB) staffed by the Treasury Division. It also creates a defined contribution plan with employee and employer contributions, a separate defined benefit health fund and a health care reimbursement trust. Funds currently budgeted under the ASPIB will be transferred to the new board. A summary of the fiscal notes follows.

Summary of Fiscal Notes	FY06	FY07	FY08	FY09	FY10	FY11
Treasury Division fiscal note #1	214.5	214.5	214.5	214.5	214.5	214.5
Alaska State Pension Investment Board fiscal note #2	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4
ARM Board fiscal note #3	4,754.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6
Total	804.7	480.7	480.7	480.7	480.7	480.7
Back out 1A between the two components	-214.5	-214.5	-214.5	-214.5	-214.5	-214.5
SB241 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

Note 1: Currently 100% of the Treasury Division's personal services costs are included in the Treasury Division component under personal services. These incremental costs are included in the new ARM budget (as in the prior ASPIB budget as a contractual expense). Simply adding the two budgets would double count this amount.

The following table shows the breakdown of incremental costs by budget category. Following are discussed the assumptions we have made and how these total costs have been allocated between fiscal note 1 and 3.

	FY06	FY07	FY08	FY09	FY10	FY11
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel	23.9	12.0	12.0	12.0	12.0	12.0
Contractual	337.3	39.2	39.2	39.2	39.2	39.2
Supplies	14.5	.5	.5	.5	.5	.5
SB141 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

Assumptions:

Following are the assumptions used in arriving at the estimate of the incremental costs of SB141.

1. A new defined contribution plan will have a similar number and type of options as the current Supplement Benefits System. All options would be available on day one of the new plan. A plan similar to SBS will result in the hire of approximately 6 managers and the establishment of over 50 additional safekeeping accounts at the custodial bank and associated accounting records.

2. There is a need to add 2 additional professional and 1 additional technical staff to include a State Investment Officer II, an Accountant IV and an Accounting Technician III. The total cost included in the fiscal notes per year of these staff is \$214.5.

3. Funding for one extra board meeting in the first year for the new board to organize and receive start-up training as well as funding to reflect 1 additional board member traveling (current budget includes 8 existing members).

4. The costs of computers, office equipment and office space reconfiguration is included in year one for the new staff. In all years funding is included for training, investment software subscriptions (Bloomberg, Yieldbook, S&P and Moody's rating services) and miscellaneous supplies for new staff.

5. In year one, the cost for the external consultant to assist the board in selecting 6 new managers. The current contract cost for manager searches is \$30.0 per search.

6. The costs of an external consultant to calculate performance of the funds quarterly. Costs are expected to be \$30.0/year based on the current contract.

7. In FY2006 \$100.0 to cover the costs of an independent audit review of the performance consultant. It is a requirement in SB141 that this contractor be audited. We expect that audit to occur every 4 to 5 years after the initial audit review.

8. There is a \$40.0 reduction in current costs associated with the election of members as the new board will be appointed by the governor.

Treasury Division fiscal note #1

The Treasury Division's fiscal note includes \$214.5 each year for personal services. There are economies of scale in managing investments. However, the new funds created by Senate Bill 141 would require considerable additional responsibilities. If the number of options paralleled the existing SBS Plan, that would translate to 13 new manager accounts, 34 new custodial accounts and 4 new sets of monthly financial statements with annual audit requirements. The Department of Revenue currently manages a large number of funds with a limited investment and back office staff. In order to prudently meet the prospective demands of Senate Bill 141, Treasury would need to hire an additional investment staff and 2 middle back office staff.

Background

Prudent and productive management of investments is a resource intensive process. Managing a modern portfolio is a broad responsibility which requires significant expertise and high attention to detail.

Investment management responsibilities include designing investment policy guidelines, developing custom asset allocations, conducting investment manager searches, performing investment manager due diligence, negotiating and contracting with prospective managers, managing investment manager relationships, performing periodic portfolio rebalancing, monitoring and evaluating investment performance, presenting and consulting with oversight organizations, and following developments in investment research and analytic tools.

In addition, investment management requires a significant interface with back and middle office functions including fund accounting and audit, managing custody and brokerage relationships, cash management securities lending, safeguarding assets, and compliance monitoring.

Senate Bill 141 would create the equivalent of four new funds to manage: the Employee Defined Contribution Accounts, the Employer Vesting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust.

The Employee Defined Contribution Accounts would likely offer employees a reasonably wide range of investment options. As a comparison, the Supplemental Benefits System offers a suite of 6 target or life-style funds and 8 separate asset class funds for a total of 14 options that participants may select from. Deciding on the mix of investment styles to offer, searching for and hiring investment managers, and evaluating and reporting on investment manager performance would be a considerable on-going undertaking.

While Treasury may realize fee economies from existing investment relationships, it is unlikely that the contributions in this account can be commingled with existing accounts. That means that there would be a completely new set of accounts for custodial and accounting purposes.

The Employer Vesting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust would all likely call for separate custom asset allocations. All three would individually require evaluation, reporting, and periodic portfolio rebalancing. They would also require separate custodial and accounting records including monthly financial reporting and audits.

There is likely to be an additional consequence of the change to a defined contribution plan. Currently there is a population of participants in SBS and Deferred Compensation that monitor their accounts daily. They often have questions whenever there are apparent anomalies in the change in the daily prices of the options. As a general rule, we would say that members of a defined benefit plan are not as price sensitive. The new plan will greatly increase the number of individuals who are monitoring on-line data on a daily basis. This will correlate directly to an increase in the amount of time we spend answering questions.

Alaska State Pension Investment Board fiscal note #2

Alaska Retirement Management Board fiscal note #3

Fiscal note #2 transfers the existing ASPIB budgeted funding to the new ARM board. This fiscal note also includes the ARM board's share of costs expected due to the implementation of SB141.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB budgeted funding fiscal note	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4
Incremental costs from SB141	590.2	266.2	266.2	266.2	266.2	266.2
Total costs on fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6

Total first year costs in fiscal note #3 include \$180.0 for manager selection; \$100.0 for an audit of the board's performance consultant (This audit is a new requirement of SB141. It does not have to occur in the first year, but once done we would expect it to occur every 4 to 5 years.); \$15.0 associated with one additional meeting for organizing and educating the new board members; and, \$29.0 for computers and the office setup for the new positions. These total start-up costs are \$324.0.

On-going costs include interagency chargeback to the ARM for the costs of the 3 new positions totaling \$214.5; travel for the additional board member (the current board has 8 members versus the new board with 9 members) as well as increased due diligence of the new fund managers and training for the new staff in the amount of \$13.0; \$48.7 for the ongoing cost of phones, information technology charge backs, supplies and investment subscription services for the new staff (these include Bloomberg, Yieldbook, S&P and Moody's and Tradeweb); a \$40.0 reduction in current cost as elections will be eliminated; \$30.0 per year for the calculation of the new funds' performance by an external consultant. These total on-going costs are \$266.2.

State Pension Custody and Management Fees #4
Alaska Retirement Management Board Fees #5

Fiscal note #4 transfers the budgeted funding of the State Pension Custody and Management Fees to a new Alaska Retirement Management Board Fees component (fiscal note #5) in the Department of Revenue for the new ARM Board. This component includes the investment management and custody costs of the existing defined benefit plans and will not be impacted in the foreseeable future by SB141. Please note that in a defined contribution plan, invest manager fees and custodian costs are deducted from the individual accounts daily (through an adjustment to the per share price of the investments). These costs are not included in the Department's budget.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 8
Bill Version: CSSB 141(FIN)
(S) Publish Date: 4/11/2005

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title "An Act relating to to the teachers' and public employees' retirement systems..." RDU _____
Sponsor Senate Finance Committee Component Retirement & Benefits
Requester Senate Finance Committee Component No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

FUND CAPITALIZATION	69,531.8					
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	69,531.8					
1005 GF/Program Receipts						
1037 GF/Mental Health						
1029 PERS Trust						
1034 Teach Ret						
TOTAL	69,531.8	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This fiscal note appropriates \$69,531,800 from the general fund to the PERS and TRS trust funds:

Public Employees' Retirement System (Fund Code 1029): \$67,158.3
Teacher' Retirement System (Fund Code 1034): \$2,373.5

This is the amount required to hold the participating employers harmless from the 5% increase to the employer contribution that is effective July 1, 2005 for the 2006 fiscal year. The employer cost for school districts is handled in HB 1.

See attached summary and detail sheets for the PERS and TRS participating employers

Prepared by: Senate Finance Committee Phone 465-6600
Division: _____ Date/Time 3/17/05 8:24 AM
Approved by: _____ Date 3/17/2005
Agency: _____

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
Composite Employer Contribution Rate - Active Employers										
ESTIMATED FY 06 - 07 - 08 - 09 - Change in Employer Contribution (in Dollars)										
(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
		TOTAL BOTH PERS AND TRS	108,042,636	386,448,932	111,686,411	510,881,144	115,684,006	644,731,842	48,407,834	716,695,197
		TOTAL PERS AND TRS FOR STATE, POLITICAL SUBDIVISIONS, AND SCHOOL DISTRICTS								
		POLITICAL SUBDIVISIONS	18,426,926	55,913,660	19,117,936	77,128,359	19,834,859	99,855,531	3,996,494	107,706,448
		SCHOOL DISTRICTS	38,510,745	151,099,097	39,581,491	194,745,319	40,890,935	242,029,923	31,260,039	281,411,389
		STATE OF ALASKA	39,966,574	142,083,708	41,460,806	188,853,693	43,013,516	238,938,458	8,939,278	257,086,305
		UNIVERSITY	7,769,429	26,326,893	8,032,460	35,227,657	8,320,689	44,801,844	3,386,468	49,826,975
			104,673,675	375,423,359	108,192,693	495,955,028	112,059,999	625,625,756	47,582,278	696,031,118
		TOTAL PERS AND TRS FOR ALL OTHERS								
		ALASKA HOUSING FINANCE CORPORATION	798,115	2,576,315	828,044	3,500,971	859,096	4,491,353	173,098	4,837,817
		ALASKA MUNICIPAL LEAGUE	16,035	129,848	16,636	151,354	17,260	174,289	5,478	184,494
		ALEUTIAN HOUSING AUTHORITY	26,172	100,292	27,154	131,207	28,172	164,300	5,676	176,318
		ALEUTIANS WEST CRSA	2,817	12,148	2,923	15,527	3,033	19,142	611	20,492
		ANCHORAGE PARKING AUTHORITY	52,900	150,024	54,884	210,533	56,942	275,370	11,473	297,472
		BARANOF ISLAND HA	23,645	72,875	24,532	100,140	25,452	129,347	5,128	139,468
		BARTLETT REGIONAL HOSPITAL	890,282	2,872,049	923,667	3,903,418	958,305	5,008,100	193,087	5,394,500
		BERING STRAITS CRSA	3,546	23,248	3,679	27,799	3,817	32,658	769	34,688
		BERING STRAITS RHA	53,837	213,298	57,931	279,228	60,104	349,803	12,110	375,115
		BRISTOL BAY RHA	57,562	203,311	59,721	270,656	61,961	342,766	12,484	368,481
		COOK INLET HOUSING AUTHORITY	134,066	466,283	139,094	622,862	144,310	790,529	29,077	850,120
		COPPER RIVER BASIN RHA	27,798	90,900	28,841	123,150	29,922	157,690	6,029	169,806
		CORDOVA COMMUNITY MEDICAL CENTER	131,150	397,121	136,068	548,081	141,170	709,804	28,444	765,647
		ILISAGVIK COLLEGE	206,157	638,263	213,888	876,086	221,909	1,130,848	44,712	1,219,211
		INTERIOR RHA	52,437	184,474	54,403	245,795	56,444	311,456	11,373	334,851
		INTER-ISLAND FERRY AUTHORITY	6,605	20,582	6,853	28,206	7,110	36,374	1,433	39,211
		NOME JOINT UTILITY SYSTEM	50,792	101,584	52,697	158,090	54,673	218,692	11,016	238,149
		NORTH PACIFIC FISHERY MGMT COUNCIL	57,725	208,271	59,889	275,971	62,135	348,455	12,520	374,425
		NORTH PACIFIC RIM HA	48,977	162,408	50,814	219,313	52,719	280,256	10,622	301,697
		NORTHWEST INUPIAT HOUSING AUTHORITY	28,131	86,757	29,186	119,197	30,281	153,947	6,101	165,991
		PETERSBURG MEDICAL CENTER	149,103	328,027	154,695	495,023	160,496	674,082	32,338	732,439
		SAXMAN SEAPORT	1,996	7,639	2,070	9,996	2,148	12,518	433	13,434
		SITKA COMMUNITY HOSPITAL	225,166	763,762	233,610	1,026,013	242,370	1,306,859	48,835	1,406,138
		SOUTHEAST REGIONAL RESOURCE CENTER	136,869	475,538	141,276	631,599	146,241	799,794	73,287	901,629
		SPECIAL EDUCATION SERVICE AGENCY	84,283	326,902	86,590	422,165	89,445	525,405	69,562	612,514
		TLINGIT-HAIDA RHA	100,793	413,654	104,573	533,739	108,494	662,248	21,860	709,671
			3,368,960	11,025,574	3,493,717	14,926,116	3,624,007	19,106,086	825,556	20,664,079

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
Composite Employer Contribution Rate - Active Employers										
ESTIMATED FY 06 - 07 - 08 - 09 - Change in Employer Contribution (In Dollars)										
(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
PERS	208	AKUTAN, CITY OF	14,932	42,079	15,492	59,149	16,073	77,440	3,239	83,668
PERS	230	ALEUTIANS EAST BOROUGH	50,537	200,431	52,432	260,379	54,399	324,542	10,961	348,030
PERS	259	ALLAKAKET, CITY OF	2,564	5,127	2,660	7,979	2,759	11,038	556	12,020
PERS	173	ANCHORAGE, MUNICIPALITY OF	6,615,843	18,061,251	6,863,937	25,602,485	7,121,335	33,683,913	1,434,866	36,418,979
PERS	283	ANDERSON, CITY OF	2,009	2,009	2,084	4,168	2,162	6,486	436	7,172
PERS	289	ANGOON, CITY OF	15,955	49,206	16,553	67,604	17,174	87,314	3,460	94,144
PERS	243	ATKA, CITY OF	3,708	14,832	3,847	19,235	3,991	23,948	804	25,677
PERS	171	BARROW, CITY OF	53,772	192,072	55,788	255,063	57,880	322,507	11,662	346,618
PERS	136	BETHEL, CITY OF	235,324	644,787	244,148	913,115	253,304	1,200,661	51,038	1,298,044
PERS	144	BRISTOL BAY BOROUGH	70,944	184,313	73,605	264,830	76,365	351,126	15,387	380,066
PERS	148	CORDOVA, CITY OF	98,482	290,917	102,175	404,002	106,007	525,159	21,359	566,789
PERS	186	CRAIG, CITY OF	94,438	383,983	97,979	496,362	101,653	616,628	20,482	660,912
PERS	282	DELTA JUNCTION, CITY OF	3,419	13,059	3,547	17,095	3,680	21,416	741	22,984
PERS	258	DENALI BOROUGH	29,484	200,493	30,590	238,601	31,737	279,286	6,395	296,461
PERS	178	DILLINGHAM, CITY OF	122,152	395,285	126,733	536,841	131,485	688,458	26,493	741,525
PERS	271	EGEGIK, CITY OF	5,075	14,007	5,265	19,798	5,463	26,003	1,101	28,108
PERS	242	ELIM, CITY OF	9,077	25,980	9,418	36,372	9,771	47,507	1,969	51,310
PERS	116	FAIRBANKS NORTH STAR BOROUGH	867,894	2,765,110	900,440	3,769,241	934,206	4,844,794	188,232	5,220,035
PERS	129	FAIRBANKS, CITY OF	305,784	1,875,679	317,251	2,263,268	329,148	2,677,288	66,319	2,846,951
PERS	183	FORT YUKON, CITY OF	15,338	30,677	15,914	47,741	16,510	66,041	3,327	71,917
PERS	192	GALENA, CITY OF	68,486	136,972	71,054	213,162	73,719	294,875	14,853	321,110
PERS	189	HAINES BOROUGH	105,665	468,518	109,627	595,715	113,738	731,793	22,917	782,957
PERS	215	HOMER, CITY OF	245,743	635,001	254,959	913,772	264,520	1,212,559	53,298	1,312,661
PERS	199	HOONAH, CITY OF	33,095	104,248	34,336	142,493	35,623	183,460	7,178	197,719
PERS	285	HOOPER BAY, CITY OF	30,735	94,788	31,888	130,230	33,084	168,198	6,666	181,356
PERS	235	HUSLIA, CITY OF	4,785	17,486	4,965	23,106	5,151	29,124	1,038	31,280
PERS	126	JUNEAU, CITY AND BOROUGH OF	1,351,743	4,385,054	1,402,433	5,951,927	1,455,025	7,630,149	293,171	8,217,844
PERS	260	KACHEMAK, CITY OF	3,068	15,569	3,183	19,336	3,303	23,364	665	24,932
PERS	277	KAKE, CITY OF	15,138	51,438	15,705	69,072	16,294	87,956	3,283	94,634
PERS	237	KALTAG, CITY OF	1,479	5,471	1,535	7,211	1,593	9,074	321	9,745
PERS	180	KENAI PENINSULA BOROUGH	625,569	2,228,278	649,028	2,960,866	673,367	3,745,265	135,676	4,025,508
PERS	115	KENAI, CITY OF	278,462	761,316	288,905	1,078,770	299,739	1,418,962	60,394	1,534,128
PERS	122	KETCHIKAN GATEWAY BOROUGH	206,307	639,140	214,044	877,152	222,070	1,132,115	44,745	1,220,560
PERS	181	KETCHIKAN, CITY OF	415,937	2,073,029	431,534	2,582,302	447,717	3,126,856	90,210	3,337,762
PERS	151	KING COVE, CITY OF	53,681	157,071	55,694	218,656	57,783	284,638	11,643	307,268
PERS	227	KLAWOCK, CITY OF	42,542	95,210	44,138	142,918	45,793	194,070	9,227	210,788
PERS	174	KODIAK ISLAND BOROUGH	113,667	227,334	117,929	353,788	122,352	489,407	24,652	532,950
PERS	128	KODIAK, CITY OF	293,700	952,175	301,714	1,292,596	316,140	1,657,208	63,699	1,784,875

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
Composite Employer Contribution Rate - Active Employers										
ESTIMATED FY 06 - 07 - 08 - 09 - Change in Employer Contribution (In Dollars)										
(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
PERS	140	KOTZEBUE, CITY OF	162,767	325,534	168,871	506,612	175,203	700,813	35,301	763,165
PERS	287	KOYUK, CITY OF	1,113	3,433	1,155	4,716	1,198	6,091	241	6,568
PERS	247	LAKE AND PENINSULA BOROUGH	32,811	150,276	34,042	189,953	35,318	232,395	7,116	248,482
PERS	109	MATANUSKA-SUSITNA BOROUGH	496,101	1,586,530	514,704	2,160,729	534,006	2,775,762	107,596	2,990,502
PERS	193	NENANA, CITY OF	19,388	75,458	20,115	98,403	20,869	122,962	4,205	131,913
PERS	139	NOME, CITY OF	129,462	271,870	134,317	416,382	139,354	571,350	28,078	621,482
PERS	241	NOORVIK, CITY OF	18,250	52,559	18,934	73,465	19,644	95,864	3,958	103,522
PERS	191	NORTH POLE, CITY OF	107,535	322,604	111,567	446,269	115,751	578,755	23,322	624,418
PERS	145	NORTH SLOPE BOROUGH	2,458,409	6,214,859	2,550,600	8,998,515	2,646,247	11,982,207	533,188	12,977,908
PERS	220	NORTHWEST ARCTIC BOROUGH	36,340	104,151	37,703	145,760	39,117	190,343	7,882	205,571
PERS	134	PALMER, CITY OF	132,967	493,041	137,953	649,483	143,126	816,965	28,838	877,338
PERS	200	PELICAN, CITY OF	6,559	18,181	6,805	25,668	7,060	33,690	1,423	36,413
PERS	143	PETERSBURG, CITY OF	198,490	934,095	205,934	1,175,058	213,656	1,432,778	43,049	1,531,133
PERS	266	QUINHAGAK, CITY OF	1,552	5,380	1,610	7,192	1,671	9,133	337	9,822
PERS	216	RUBY, CITY OF	6,153	22,153	6,384	29,368	6,624	37,092	1,335	39,859
PERS	256	SAINT GEORGE, CITY OF	18,988	52,330	19,700	73,992	20,438	97,205	4,118	105,075
PERS	214	SAINT MARY'S, CITY OF	15,895	64,341	16,491	83,245	17,109	104,476	3,447	110,917
PERS	172	SAINT PAUL, CITY OF	70,881	175,077	73,539	255,182	76,297	347,548	15,373	369,586
PERS	176	SAND POINT, CITY OF	39,312	95,214	40,786	139,571	42,316	187,121	8,526	202,870
PERS	198	SAXMAN, CITY OF	21,534	141,438	22,342	169,084	23,180	198,605	4,670	210,941
PERS	222	SELAWICK, CITY OF	4,016	12,860	4,167	17,509	4,323	22,488	871	24,227
PERS	286	SELDOVIA, CITY OF	4,997	15,411	5,185	21,174	5,379	27,347	1,084	29,486
PERS	182	SEWARD, CITY OF	192,943	530,207	200,178	750,268	207,685	986,087	41,846	1,065,996
PERS	120	SITKA, CITY AND BOROUGH OF	371,607	1,413,591	385,542	1,852,143	400,000	2,321,597	80,595	2,491,806
PERS	132	SKAGWAY, CITY OF	72,524	284,729	75,244	370,650	78,065	462,615	15,729	496,201
PERS	123	SOLDOTNA, CITY OF	139,473	403,357	144,704	563,187	150,130	734,437	30,249	793,035
PERS	169	TANANA, CITY OF	11,285	46,608	11,708	60,064	12,147	74,464	2,448	79,785
PERS	206	THORNE BAY, CITY OF	14,513	43,830	15,057	60,531	15,622	78,422	3,148	84,597
PERS	280	TOKSOOK BAY, CITY OF	881	2,644	914	3,657	949	4,743	191	5,117
PERS	249	UNALAKLEET, CITY OF	13,698	40,738	14,212	56,478	14,745	73,340	2,971	79,142
PERS	179	UNALASKA, CITY OF	493,130	1,685,517	511,622	2,260,346	530,808	2,875,917	106,952	3,093,879
PERS	107	VALDEZ, CITY OF	255,619	711,133	265,205	1,003,005	275,150	1,315,768	55,440	1,421,996
PERS	131	WASILLA, CITY OF	173,593	570,773	180,103	772,280	186,856	988,097	37,649	1,063,897
PERS	202	WHITTIER, CITY OF	48,977	97,954	50,814	152,441	52,719	210,877	10,622	229,639
PERS	135	WRANGELL, CITY OF	125,854	420,855	130,573	567,211	135,470	723,951	27,296	779,191
PERS	248	YAKUTAT, CITY AND BOROUGH OF	22,773	85,535	23,627	112,370	24,513	141,096	4,939	151,482
		Subtotal: Political Subs PERS	18,426,926	55,913,660	19,117,936	77,128,359	19,834,859	99,855,531	3,996,494	107,706,448
PERS	152	ALASKA HOUSING FINANCE CORPORATION	798,115	2,576,315	828,041	3,500,971	859,096	4,491,353	173,098	4,837,817

Information provided by Division of Retirement and Benefits
Compiled by Senate Finance Committee

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
Composite Employer Contribution Rate - Active Employers										
ESTIMATED FY 06 - 07 - 08 - 09 - Change In Employer Contribution (In Dollars)										
(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
PERS	106	ALASKA MUNICIPAL LEAGUE	16,035	129,848	16,636	151,354	17,260	174,289	3,478	184,494
PERS	267	ALEUTIAN HOUSING AUTHORITY	26,172	100,292	27,154	131,207	28,172	164,300	5,676	176,318
PERS	245	ALEUTIANS WEST CRSA	2,817	12,148	2,923	15,527	3,033	19,142	611	20,492
PERS	203	ANCHORAGE PARKING AUTHORITY	52,900	150,024	54,884	210,533	56,942	275,370	11,473	297,472
PERS	281	BARANOF ISLAND HA	23,645	72,875	24,532	100,140	25,452	129,347	5,128	139,468
PERS	219	BARTLETT REGIONAL HOSPITAL	890,282	2,872,049	923,667	3,903,418	958,305	5,008,100	193,087	5,394,500
PERS	232	BERING STRAITS CRSA	3,546	23,248	3,679	27,799	3,817	32,658	769	34,688
PERS	270	BERING STRAITS RHA	55,837	213,298	57,931	279,228	60,104	349,803	12,110	375,415
PERS	223	BRISTOL BAY RHA	57,562	203,311	59,721	270,656	61,961	342,766	12,484	368,481
PERS	262	COOK INLET HOUSING AUTHORITY	134,066	466,283	139,094	622,862	144,310	790,529	29,077	850,120
PERS	224	COPPER RIVER BASIN RHA	27,798	90,900	28,841	123,150	29,922	157,690	6,029	169,806
PERS	163	CORDOVA COMMUNITY MEDICAL CENTER	131,150	397,121	136,068	548,081	141,170	709,804	28,444	765,647
PERS	275	ILISAGVIK COLLEGE	206,157	638,263	213,888	876,086	221,909	1,130,848	44,712	1,219,211
PERS	263	INTERIOR RHA	52,437	184,474	54,403	245,795	56,444	311,456	11,373	334,851
PERS	284	INTER-ISLAND FERRY AUTHORITY	6,605	20,582	6,853	28,206	7,110	36,374	1,433	39,211
PERS	175	NOME JOINT UTILITY SYSTEM	50,792	101,584	52,697	158,090	54,673	218,692	11,016	238,149
PERS	170	NORTH PACIFIC FISHERY MGMT COUNCIL	57,725	208,271	59,889	275,971	62,135	348,455	12,520	374,425
PERS	276	NORTH PACIFIC RIM HA	48,977	162,408	50,814	219,313	52,719	280,256	10,622	301,697
PERS	288	NORTHWEST INUPIAT HOUSING AUTHORITY	28,131	86,757	29,186	119,197	30,281	153,947	6,101	165,991
PERS	187	PETERSBURG MEDICAL CENTER	149,103	328,027	154,695	495,023	160,496	674,082	32,338	732,439
PERS	278	SAXMAN SEAPORT	1,996	7,639	2,070	9,996	2,148	12,518	433	13,434
PERS	165	SITKA COMMUNITY HOSPITAL	225,166	763,762	233,610	1,026,013	242,370	1,306,859	48,835	1,406,138
PERS	279	TLINGIT-HAIDA RHA	100,793	413,654	104,573	533,739	108,494	662,248	21,860	709,671
PERS	167	SOUTHEAST REGIONAL RESOURCE CENTER	86,812	265,298	90,068	365,315	93,445	472,459	18,828	509,525
PERS	218	SPECIAL EDUCATION SERVICE AGENCY	25,409	79,632	26,362	108,980	27,350	140,417	5,511	151,348
		Subtotal: Other PERS	3,260,030	10,568,064	3,382,281	14,346,647	3,509,116	18,393,763	707,046	19,810,808
PERS	101	ALASKA, STATE OF	39,655,236	140,776,087	41,142,307	187,197,498	42,685,144	236,902,548	8,600,561	254,647,547
PERS	113	UNIVERSITY OF ALASKA	5,816,153	18,123,132	6,034,258	24,837,007	6,260,543	32,028,938	1,261,427	34,526,682
		Subtotal: State & Univ PERS	45,471,388	158,899,219	47,176,566	212,034,505	48,945,687	268,931,486	9,861,988	289,174,229
PERS	255	ALASKA GATEWAY SD	74,074	225,629	76,852	310,941	79,734	402,335	16,065	433,931
PERS	162	ALEUTIAN REGION SD	0	0	7,898	7,898	8,195	16,389	1,651	18,673
PERS	244	ALEUTIANS EAST BOROUGH SD	60,500	254,705	62,769	327,025	65,122	404,411	13,121	433,142
PERS	111	ANCHORAGE SD	3,653,549	14,066,162	3,790,557	18,384,200	3,932,703	23,006,310	792,394	24,606,747
PERS	103	ANNETTE ISLAND SD	63,144	126,289	65,512	196,537	67,969	271,876	13,695	296,065
PERS	104	BERING STRAIT SD	366,736	1,013,658	380,489	1,432,159	394,757	1,880,622	79,539	2,032,753
PERS	184	BRISTOL BAY BOROUGH SD	36,254	123,989	37,614	166,252	39,024	211,511	7,863	227,538
PERS	105	CHATHAM SD	35,721	113,807	37,061	155,136	38,450	199,404	7,747	214,848

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
Composite Employer Contribution Rate - Active Employers										
ESTIMATED FY 06 - 07 - 08 - 09 - Change in Employer Contribution (In Dollars)										
(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
PERS	121	CHUGACH SD	12,060	36,687	12,512	50,576	12,982	65,454	2,616	70,596
PERS	112	COPPER RIVER SD	63,726	232,728	66,116	307,571	68,595	387,700	13,821	416,486
PERS	185	CORDOVA CITY SD	32,539	100,611	33,759	138,143	35,025	178,348	7,057	192,290
PERS	204	CRAIG CITY SD	56,375	211,292	58,489	277,704	60,682	348,800	12,227	374,491
PERS	246	DELTA/GREELY SD	47,576	150,245	49,360	205,240	51,211	264,148	10,318	284,662
PERS	118	DENALI BOROUGH SD	43,730	162,937	45,370	214,417	47,071	269,529	9,484	289,417
PERS	205	DILLINGHAM CITY SD	63,229	171,097	65,600	243,113	68,060	320,290	13,713	346,366
PERS	117	FAIRBANKS NORTH STAR BOROUGH SD	1,234,537	3,928,296	1,280,832	5,356,439	1,328,863	6,886,168	267,750	7,419,725
PERS	141	GALENA CITY SD	163,263	576,318	169,385	767,316	175,737	971,827	35,409	1,044,749
PERS	240	HAINES BOROUGH SD	51,494	181,672	53,425	241,910	55,429	306,410	11,168	329,406
PERS	138	HOONAH CITY SD	26,739	189,099	27,742	223,932	28,782	261,111	5,799	276,989
PERS	168	HYDABURG CITY SD	13,463	26,926	13,968	41,903	14,491	57,966	2,920	63,123
PERS	124	IDITAROD AREA SD	82,335	312,048	85,422	409,172	88,625	513,142	17,857	550,806
PERS	108	JUNEAU BOROUGH SD	465,932	1,670,834	483,405	2,216,895	501,533	2,801,561	101,053	3,010,754
PERS	265	KAKE CITY SD	25,057	95,818	25,997	125,408	26,972	157,083	5,434	168,581
PERS	211	KASHUNAMIUT SD	61,755	229,112	64,071	301,775	66,474	379,565	13,394	407,610
PERS	190	KENAI PENINSULA BOROUGH SD	644,117	2,165,521	668,271	2,915,000	693,332	3,717,644	139,698	4,000,843
PERS	177	KE TCHIKAN GATEWAY BOROUGH SD	187,852	595,867	194,897	813,109	202,205	1,045,806	40,742	1,126,916
PERS	251	KLAWOCK CITY SD	29,668	121,222	30,780	156,548	31,934	194,353	6,434	208,290
PERS	158	KODIAK ISLAND BOROUGH SD	235,674	699,951	244,512	970,711	253,681	1,260,793	51,114	1,360,573
PERS	125	KUSPUK SD	114,491	341,641	118,785	473,237	123,239	614,223	24,831	662,763
PERS	164	LAKE AND PENINSULA BOROUGH SD	131,433	435,832	136,362	588,538	141,476	752,084	28,506	809,620
PERS	157	LOWER KUSKOKWIM SD	859,238	2,369,779	891,459	3,350,105	924,889	4,400,623	186,354	4,756,841
PERS	153	LOWER YUKON SD	236,407	589,600	245,273	856,983	254,470	1,142,590	51,273	1,239,005
PERS	110	MATANUSKA-SUSITNA BOROUGH SD	996,633	3,187,234	1,034,007	4,340,762	1,072,782	5,576,323	216,153	6,007,722
PERS	196	NENANA CITY SD	48,549	164,291	50,370	220,822	52,259	281,362	10,530	302,752
PERS	149	NOME CITY SD	73,463	305,460	76,218	393,133	79,076	486,952	15,933	521,681
PERS	161	NORTH SLOPE BOROUGH SD	652,578	2,092,166	677,050	2,847,672	702,439	3,656,899	141,533	3,939,589
PERS	154	NORTHWEST ARCTIC BOROUGH SD	360,719	721,437	374,246	1,122,737	388,280	1,553,119	78,234	1,691,304
PERS	257	PELICAN CITY SD	4,047	16,051	4,199	20,852	4,356	25,991	878	27,872
PERS	228	PETERSBURG CITY SD	53,938	143,259	55,961	204,592	58,059	270,324	11,698	292,456
PERS	156	PRIBILOF SD	33,091	135,871	34,332	175,298	35,619	217,491	7,177	233,063
PERS	221	SAINT MARY'S SD	21,240	42,481	22,057	66,111	22,863	91,453	4,607	99,590
PERS	133	SITKA BOROUGH SD	94,373	359,372	97,912	470,761	101,584	589,998	20,468	633,240
PERS	225	SKAGWAY CITY SD	18,464	75,111	19,156	97,084	19,875	120,599	4,005	129,259
PERS	155	SOUTHEAST ISLAND SD	50,437	207,296	52,328	267,398	54,291	331,716	10,939	355,459
PERS	102	SOUTHWEST REGION SD	143,618	439,471	149,004	604,955	154,591	782,232	31,148	843,575
PERS	166	TANANA SD	8,091	47,414	8,395	57,587	8,709	68,456	1,755	72,853
PERS	209	UNALASKA CITY SD	47,987	170,257	49,786	226,428	51,653	286,573	10,408	308,042

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
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(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
PERS	137	VALDEZ CITY SD	86,400	178,848	89,640	275,195	93,002	378,517	18,739	411,866
PERS	146	WRANGELL PUBLIC SD	42,618	127,514	44,217	176,513	45,875	229,007	9,243	247,090
PERS	264	YAKUTAT SD	19,499	70,041	20,230	92,898	20,989	117,371	4,229	126,130
PERS	160	YUKON / KOYUKUK SD	109,970	219,941	114,094	342,283	118,373	473,492	23,851	515,619
PERS	159	YUKON FLATS SD	65,909	131,818	68,381	205,142	70,945	283,779	14,295	309,028
PERS	195	YUPIIT SD	109,492	297,160	113,598	421,902	117,858	555,580	23,747	600,773
Subtotal: School District PERS			12,213,786	40,651,869	12,679,702	54,856,016	13,155,191	70,068,307	2,650,618	75,423,562
TOTAL PERS			79,372,131	266,032,812	82,356,484	358,365,527	85,444,852	457,249,086	17,216,147	492,115,048
TRS	766	ALASKA GATEWAY SD	122,058	512,643	124,865	649,299	128,736	798,104	132,791	956,097
TRS	758	ALEUTIAN REGION SD	18,118	76,097	18,535	96,382	9,110	118,479	19,711	141,923
TRS	780	ALEUTIANS EAST BOROUGH SD	119,964	503,849	122,723	638,160	126,528	784,411	130,513	939,695
TRS	701	ANCHORAGE SD	8,945,912	37,572,829	9,151,668	47,588,671	9,435,369	58,499,289	9,732,583	70,074,600
TRS	770	ANNETTE ISLAND SD	81,357	341,701	83,229	432,788	85,809	532,014	88,512	637,284
TRS	752	BERING STRAIT SD	556,156	2,335,857	568,948	2,958,530	586,585	3,636,830	605,063	4,356,453
TRS	742	BRISTOL BAY BOROUGH SD	66,251	278,254	67,775	352,429	69,876	433,230	72,077	518,954
TRS	768	CHATHAM SD	65,684	275,875	67,195	349,415	69,278	429,525	71,461	514,516
TRS	771	CHUGACH SD	47,326	198,768	48,414	251,754	49,915	309,473	51,487	370,709
TRS	767	COPPER RIVER SD	144,588	607,270	147,914	769,151	152,499	945,494	157,303	1,132,580
TRS	704	CORDOVA CITY SD	104,904	440,595	107,316	558,045	110,643	685,988	114,128	821,725
TRS	705	CRAIG CITY SD	117,364	492,928	120,063	624,329	123,785	767,468	127,684	919,328
TRS	765	DELTA/GREELY SD	151,836	637,712	155,328	807,707	160,144	992,890	165,188	1,189,354
TRS	764	DENALI BOROUGH SD	84,599	355,315	86,545	450,032	89,227	553,210	92,038	662,675
TRS	744	DILLINGHAM CITY SD	145,270	610,133	148,611	772,777	153,218	949,951	158,044	1,137,919
TRS	706	FAIRBANKS NORTH STAR BOROUGH SD	2,945,480	12,371,017	3,013,226	15,668,777	3,106,636	19,261,146	3,204,495	23,072,367
TRS	735	GALENA CITY SD	227,943	957,362	233,186	1,212,568	240,415	1,490,572	247,986	1,785,513
TRS	707	HAINES BOROUGH SD	93,831	394,089	95,989	499,142	98,965	613,580	102,082	734,990
TRS	708	HOONAH CITY SD	79,670	334,615	81,503	423,813	84,029	520,981	86,676	624,067
TRS	709	HYDABURG CITY SD	35,628	149,638	36,448	189,528	37,578	232,981	38,761	279,081
TRS	761	IDITAROD AREA SD	129,851	545,375	132,838	690,756	136,956	849,125	141,270	1,017,142
TRS	710	JUNEAU BOROUGH SD	1,021,263	4,289,305	1,044,752	5,432,711	1,077,139	6,678,264	1,111,069	7,999,699
TRS	712	KAKE CITY SD	39,935	167,728	40,854	212,440	42,120	261,145	43,447	312,818
TRS	777	KASHUNAMIUT SD	73,716	309,609	75,412	392,142	77,750	482,048	80,199	577,432
TRS	746	KENAI PENINSULA BOROUGH SD	1,918,041	8,055,774	1,962,156	10,203,213	2,022,983	12,542,496	2,086,707	15,024,292
TRS	714	KETCHIKAN GATEWAY BOROUGH SD	466,086	1,957,560	476,806	2,479,389	491,587	3,047,837	507,072	3,650,915
TRS	717	KLAWOCK CITY SD	58,619	246,199	59,967	311,829	61,826	383,322	63,774	459,170
TRS	718	KODIAK ISLAND BOROUGH SD	632,619	2,657,001	647,109	3,365,281	667,232	4,136,837	688,250	4,955,397
TRS	755	KUSPIK SD	140,344	589,445	143,572	746,574	148,023	917,740	152,685	1,099,334

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
Composite Employer Contribution Rate - Active Employers										
ESTIMATED FY 06 - 07 - 08 - 09 - Change In Employer Contribution (In Dollars)										
(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
TRS	757	LAKE AND PENINSULA BOROUGH SD	163,178	685,346	166,931	868,040	172,106	1,067,055	177,527	1,278,194
TRS	754	LOWER KUSKOKWIM SD	946,224	3,974,141	967,987	5,033,533	997,995	6,187,567	1,029,432	7,411,907
TRS	753	LOWER YUKON SD	457,613	1,921,973	468,138	2,434,316	482,650	2,992,430	497,853	3,584,545
TRS	722	MATANUSKA-SUSITNA BOROUGH SD	2,589,746	10,876,933	2,649,310	13,776,413	2,731,439	16,934,921	2,817,479	20,285,850
TRS	719	NENANA CITY SD	107,508	451,535	109,981	571,901	113,390	703,020	116,962	842,128
TRS	720	NOME CITY SD	158,350	665,072	161,993	842,361	167,014	1,035,489	172,275	1,240,382
TRS	736	NORTH SLOPE BOROUGH SD	728,566	3,059,978	745,323	3,875,680	768,428	4,764,254	792,634	5,706,962
TRS	751	NORTHWEST ARCTIC BOROUGH SD	631,148	2,650,821	645,664	3,357,454	665,680	4,127,215	686,649	4,943,871
TRS	723	PELICAN CITY SD	7,422	31,173	7,593	39,483	7,828	48,535	8,075	58,139
TRS	724	PETERSBURG CITY SD	147,167	618,100	150,552	732,868	155,219	962,355	160,108	1,152,778
TRS	759	PRIBILOF SD	34,771	146,040	35,571	184,970	36,674	227,378	37,829	272,369
TRS	748	SAINT MARY'S SD	43,938	184,541	44,949	233,735	46,342	287,323	47,802	344,176
TRS	727	SITKA BOROUGH SD	345,793	1,452,330	353,746	1,839,480	364,712	2,261,216	376,201	2,708,645
TRS	728	SKAGWAY CITY SD	35,750	150,151	36,573	190,177	37,706	233,779	38,894	280,037
TRS	769	SOUTHEAST ISLAND SD	68,398	287,273	69,971	363,852	72,141	447,272	74,413	535,774
TRS	756	SOUTHWEST REGION SD	256,747	1,078,339	262,653	1,365,793	270,795	1,678,927	279,325	2,011,138
TRS	775	TANANA SD	14,438	60,640	14,770	76,805	15,228	94,414	15,708	113,096
TRS	729	UNALASKA CITY SD	108,771	456,838	111,273	578,618	114,722	711,277	118,336	852,019
TRS	730	VALDEZ CITY SD	236,952	995,200	242,402	1,260,492	249,917	1,549,483	257,789	1,856,081
TRS	731	WRANGELL PUBLIC SD	106,026	445,311	108,465	564,018	111,827	693,330	115,350	830,520
TRS	732	YAKUTAT SD	46,921	197,070	48,001	249,603	49,489	306,830	51,048	367,542
TRS	762	YUKON / KOYUKUK SD	193,646	813,312	198,099	1,030,117	204,241	1,266,291	210,674	1,516,854
TRS	763	YUKON FLATS SD	120,969	508,070	123,751	643,507	127,588	791,043	131,607	947,568
TRS	778	YUPIIT SD	112,500	472,499	115,087	598,453	118,655	735,660	122,392	881,226
		Subtotal: School District TRS	26,296,959	110,447,228	26,901,789	139,889,303	27,735,745	171,961,616	28,609,420	205,987,827
TRS	737	ALASKA DEPARTMENT OF EDUCATION	311,338	1,307,621	318,499	1,356,196	328,373	2,035,910	338,716	2,438,758
TRS	733	UNIVERSITY OF ALASKA	1,953,277	8,203,761	1,998,202	10,390,650	2,060,146	12,772,906	2,125,041	15,300,293
TRS	743	SOUTHEAST REGIONAL RESOURCE CENTER	50,057	210,240	51,208	266,284	52,796	327,335	54,459	392,105
TRS	779	SPECIAL EDUCATION SERVICE AGENCY	58,874	247,270	60,228	313,185	62,095	384,988	64,051	461,167
		Subtotal: Other TRS	2,373,546	9,968,892	2,428,137	12,626,314	2,503,410	15,521,139	2,582,267	18,592,322
		TOTAL TRS	28,670,505	120,416,120	29,329,926	152,515,617	30,239,154	187,482,755	31,191,687	224,580,150
		TOTAL BOTH PERS AND TRS	108,042,636	386,448,932	111,686,411	510,881,144	115,684,006	644,731,842	48,407,834	716,695,197

adopted 5-2-05
FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 10
Bill Version: HCS CSSB 141(FIN)
(H) Publish Date: 5/2/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title: An Act relation to TRS and PERS creating a RDU: Centralized Administrative Services
defined contribution and health reimbursement plans..... Component: Retirement and Benefits
Sponsor: Senate Finance Committee
Requester: Senate Finance Committee Component No.: 64

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	276.5	227.5	163.1	163.1	163.1	163.1
Travel	37.5	17.5	3.5	5.0	5.0	5.0
Contractual	667.0	327.0	352.0	397.0	397.0	397.0
Supplies	18.0	5.0	5.0	5.0	5.0	5.0
Equipment	30.0					
Land & Structures						
Grants & Claims						
Miscellaneous (Board Restructure)	(12.5)	(41.5)	(41.5)	(41.5)	(41.5)	(41.5)
TOTAL OPERATING	1,016.5	535.5	482.1	528.6	528.6	528.6

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,029.0	577.0	392.7	285.1	142.5	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
1029 PERS	(2.0)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)
1034 TRS	(10.5)	(37.4)	(37.4)	(37.4)	(37.4)	(37.4)
Other (Specify Type--Do not abbreviate)			130.9	285.0	427.6	570.1
TOTAL	1,016.5	535.5	482.1	528.6	528.6	528.6

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time	2	2	2	2	2	2
Part-time	0	0	0	0	0	0
Temporary	3	2	1	1	1	1

ANALYSIS: (Attach a separate page if necessary)

This bill will create a new defined contribution retirement plan and a health reimbursement arrangement for new employees of the PERS and TRS hired after the effective date of July 1, 2005. As the new plan significantly differs from the current defined benefit plans, the division will be required to reprogram its computer systems, set up and account for two new plans, create new plan publications and forms, train staff, employer contacts and new members, create new employee benefit education methods on the web, benefit seminars and one on one appointments, and to contract for financial planning services for members of the new plan. The fiscal note assumes fund manager fees, custody, and record keeper's individual account fees are separate. It further assumes that cost reductions for the PERS and TRS Boards will be partially offset by payments to the Office of Administrative Hearings to conduct disability hearings, previously conducted by the boards.

Prepared by: Melanie Millhorn, Director Phone: 465-4408
Division: Retirement and Benefits Date/Time: 4/22/05 3:29 PM
Approved by: Mike Tibbles, Deputy Commissioner Date: 4/22/2005
Agency: Department of Administration

FISCAL NOTE #10

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. HCS CSSB 141(FIN)

ANALYSIS CONTINUATION

The estimated administrative costs to the division by fiscal year are as follows:

	FY 2006	FY 2007	FY 2008	FY 09-11
PERSONAL SERVICES:				
1 - Non Perm Analyst-Pgmr III - DC-Benefits Sys - R 16	64.4	64.4	64.4	64.4
1 - Accountant II - Range 16	52.0	52.0	52.0	52.0
1 - R&B Tech I/II - ER Rplng / Contrib. Recon. - Range 12	46.7	46.7	46.7	46.7
1-Non Permanent Publications Tech II or Spec I - Range 13	49.0	0.0	0.0	0.0
1-Non Permanent Retirement Counselor - Range 18	64.4	64.4	0.0	0.0
	<u>276.5</u>	<u>227.5</u>	<u>163.1</u>	<u>163.1</u>
TRAVEL:				
Employer Reporting Software Upgrade Install & Help	30.0	15.0	0.0	0.0
Employer Plan Education	7.5	0.0	0.0	0.0
Regional Counselor travel	0.0	2.5	3.5	5.0
	<u>37.5</u>	<u>17.5</u>	<u>3.5</u>	<u>5.0</u>
CONTRACTUAL:				
Communications & Postage	82.0	17.0	17.0	17.0
Computer System Redesign (Est. 2,500 hours in FY06)	320.0	30.0	30.0	30.0
Audit, Accting, Tax, Benefits Consulting, Legal	100.0	75.0	50.0	50.0
Training \ Risk Management	15.0	5.0	5.0	0.0
Employee financial planning services	150.0	200.0	250.0	300.0
	<u>667.0</u>	<u>327.0</u>	<u>352.0</u>	<u>397.0</u>
SUPPLIES: Office supplies, calculators, desk-top software	18.0	5.0	5.0	5.0
EQUIPMENT: Workstation & cubicle, chairs, file cabinets, computers, telephone, set-up costs	30.0	0.0	0.0	0.0
MISCELLANEOUS (BOARD RECONFIGURATION, HEARINGS)				
Board Member Election 2006/2008	0.0	0.0	0.0	0.0
Board Training	-15.0	-15.0	-15.0	-15.0
Board Attorney	-40.5	-40.5	-40.5	-40.5
Travel Members/Staff	-24.0	-24.0	-24.0	-24.0
Honorarium/Board Members	-29.0	-29.0	-29.0	-29.0
National Seminars (NASRA - NCTR)	-20.0	-20.0	-20.0	-20.0
Disability Hearings--Office of Administrative Hearings	116.0	87.0	87.0	87.0
	<u>-12.5</u>	<u>-41.5</u>	<u>-41.5</u>	<u>-41.5</u>
TOTAL	1,016.5	535.5	482.1	528.6

The above funding source is initially listed as General Fund because the existing tiers of PERS / TRS are Defined Benefit plans, and the present DC plans, SBS and DCP are legally separate from the intended plan. It is assumed that by FY2006, as more employees are hired into the new tiers, that program costs will be funded through an assessment on DC accounts, similar to the SBS program currently in place. General funds will be reduced 25% per year from FY2008-2011.

The new plan effective date is July 1, 2005. Therefore, startup costs will start in FY 05. The startup costs are not costs of the PERS and TRS Defined Benefit plans. Tiers 1, 2, and 3 are logically related; however, tier 4 PERS and Tier 3 TRS would not be. The purpose of the bill is to separate the DB and DC side. A legal opinion was sought to determine how the funding and accounting needs to occur for the new DC plan.

passed
out on
H. floor
5.2.05



Proposed Alternatives



Proposed Alternatives

Overview

- ⇒ Two alternatives are being presented to the PERS and TRS Boards, with the Tier Committee recommending Alternative 1
- ⇒ Components of Alternative 1
 - defined benefit
 - defined contribution
 - medical
 - health reimbursement account (HRA)
- ⇒ Components of Alternative 2
 - defined contribution
 - medical
 - health reimbursement account (HRA)
- ⇒ Member contributions under both alternatives are higher than the current tiers
- ⇒ Contribution rates for the defined contribution component are higher for Alternative 2
- ⇒ Post-retirement medical program is the same for both alternatives



Proposed Alternatives

Defined Benefit Alternative

Key features of Alternative 1 defined benefit program

- ⇒ 1 percent of career average pay
- ⇒ Pay is indexed from year received to year preceding retirement (or termination) based on the Anchorage CPI
 - for example, 1997 pay for a member retiring on December 31, 2009 would be increased at Anchorage CPI for 12 years
- ⇒ Base pay only
- ⇒ Normal retirement at the earlier of
 - (1) age 60 with 5 years of service (8 years for TRS), or
 - (2) 25 years of service (30 years for PERS “others”)
- ⇒ Post-retirement pension adjustments similar to current tiers
- ⇒ No 10 percent Alaska cost-of-living adjustment (COLA)



Proposed Alternatives

Defined Contribution Alternatives

Key features of defined contribution components

- ⇒ Individual accounts are maintained for each member
- ⇒ Contributions are a percentage of base pay
- ⇒ Various investment options (member-directed)
- ⇒ 100% vested
- ⇒ Terminating or retiring member takes account (eligible for rollover)

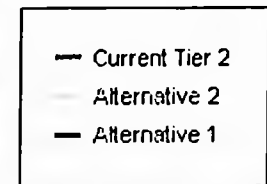
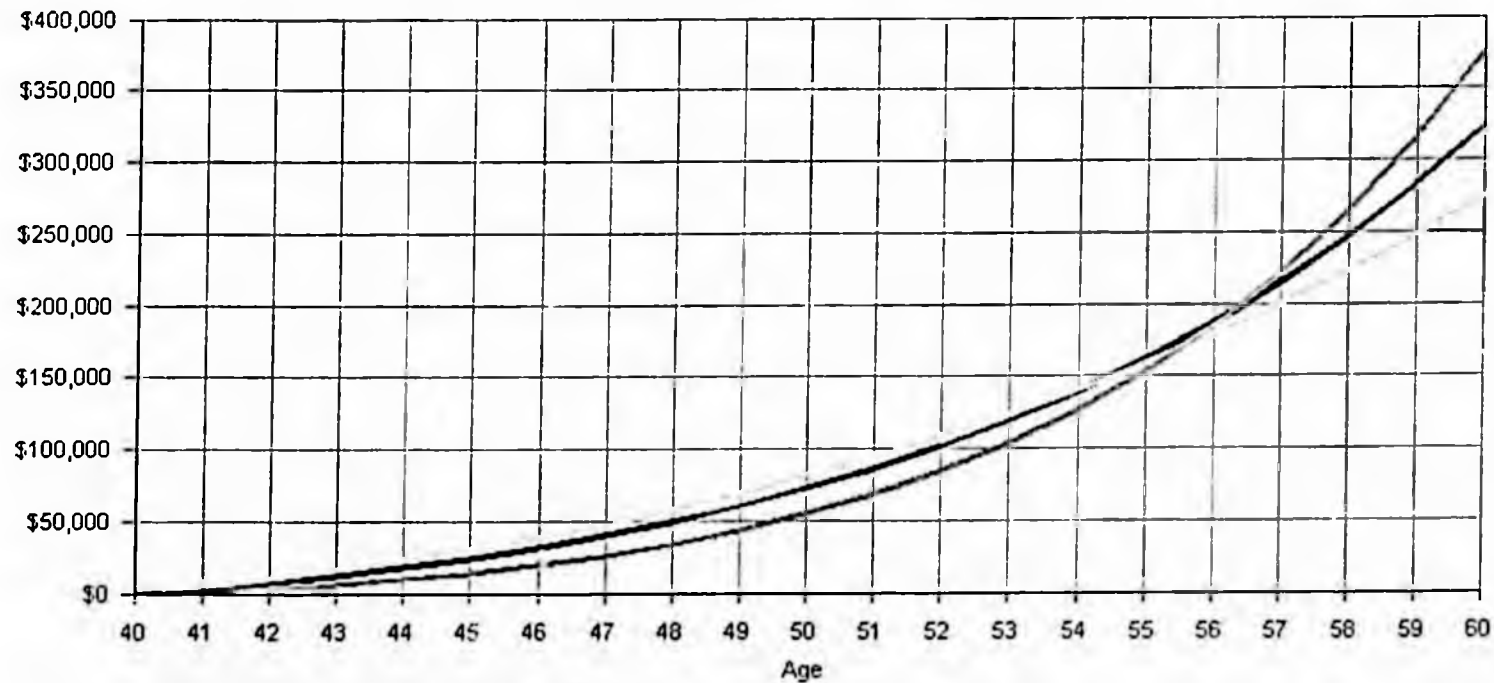


Proposed Alternatives

Accrual of Non-Medical Benefits - TRS

Present Value of Benefit Payable as a Lump Sum

Age = 40, Service = 0, Salary = \$35,000



Equity: Rate of return on account balance: 8.3%
Bond: Rate of return on account balance: 4.5%
Equity investment mix: 80% 70% 60% 50% 40% Post-retirement 20%
Salary increase rate: 5.5% 4%

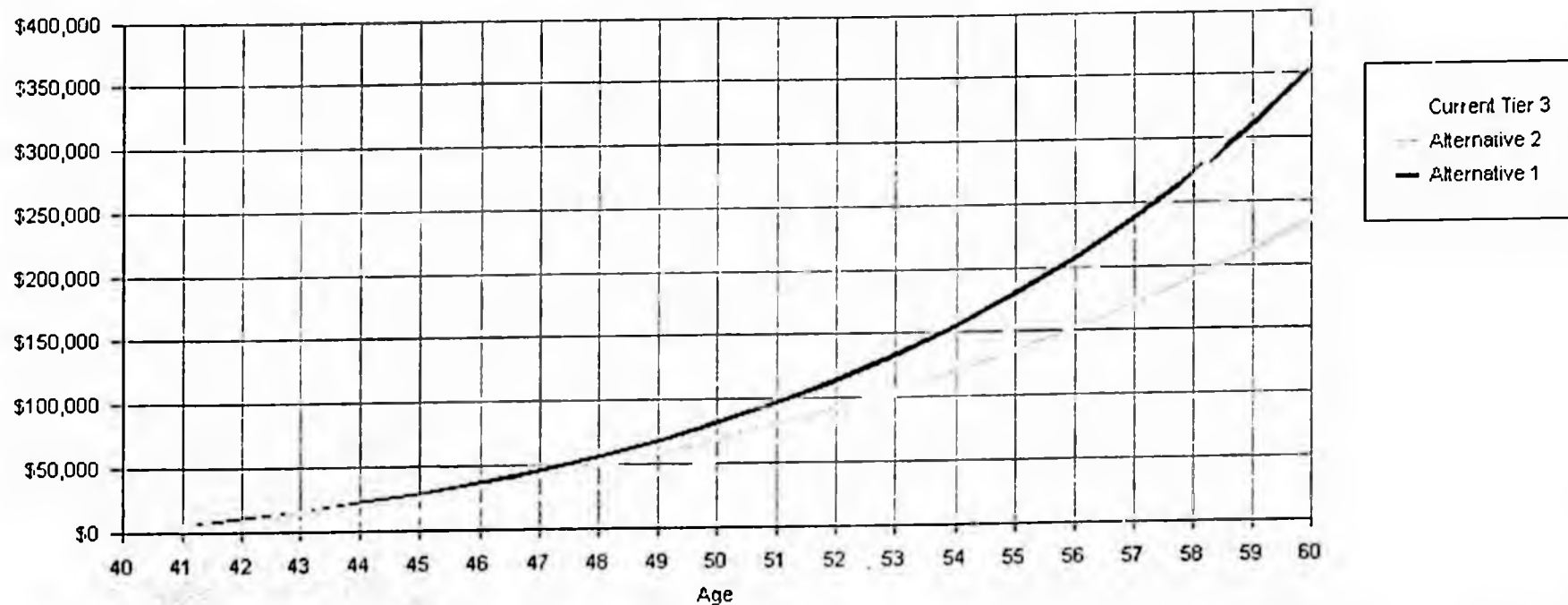


Proposed Alternatives

Accrual of Non-Medical Benefits - PERS

Present Value of Benefit Payable as a Lump Sum

Age = 40, Service = 0, Salary = \$35,000



Equity: Rate of return on account balance: 8.5%
Bond: Rate of return on account balance: 4.5%
Equity investment mix: 80% / 70% / 60% / 50% / 40% Post-retirement 10%
Salary increase rate: 5.5% / 4%



Proposed Medical Program

Key Features

Key features of post-retirement medical program

- ⇒ Members must retire directly from the System to be eligible
- ⇒ System sponsored health plan with varying levels of subsidy or cost to members
- ⇒ Early retirees get “access only” prior to normal retirement eligibility
- ⇒ Defined dollar benefit from normal retirement to Medicare eligibility (currently age 65)
- ⇒ Defined health benefit after Medicare eligibility, similar to the current program with the following key exceptions:
 - Method of coordination with Medicare
 - Retired members will share in the cost through premium contributions



Proposed Medical Program

System Sponsored Health Care Plan

- ⇒ System sponsored health plan available to all eligible retirees, but with varying levels of subsidy
- ⇒ Basic plan design elements

	Current Plan	Alternative Plan
Medical		
▪ Coordination with Medicare	Total Allowable	Maintenance of Benefits
▪ Deductible	\$150/person, \$450/family	\$250/person, \$750/family
▪ Out of Pocket	\$800	\$2,500
▪ Outpatient Surgery Coinsurance	100%	80%
Prescription Drug		
▪ Retail	90 day supply	30 day supply
- Generic	\$4	\$5
- Brand Formulary	\$8	\$15
- Brand Non-Formulary	\$8	\$30
▪ Mail Order	90 day supply	90 day supply
- Generic	\$0	\$5
- Brand Formulary	\$0	\$15
- Brand Non-Formulary	\$0	\$30
Dental, Vision, Audio	No Change	



Proposed Medical Program

Eligibility

- ⇒ Normal retirement eligibility for medical benefits will be defined as the earlier of
 - (1) age 60 with 10 years of service
 - (2) 25 years of service (30 years for PERS “others” retirees).
- ⇒ Disabled participants will be eligible
- ⇒ Terminated vested participants are not eligible. A member must retire directly from active service in order to receive coverage



Proposed Medical Program

Early Retirement

- ⇒ Early retirees who have not reached normal retirement eligibility
 - Receive “access only” plan
 - Will not be eligible for subsidized retiree health plan costs
 - Pay 100% of the pre-Medicare eligible (currently pre-age 65) per member per year (PMPY) claim costs
- ⇒ Dependent spouses of early retirees will pay 100% of the appropriate pre-Medicare or Medicare eligible PMPY claim cost



Proposed Medical Program

Normal Retirement to Medicare Eligibility

- ⇒ Members who retire directly from the Systems will be eligible for a “defined dollar” benefit upon reaching eligibility for normal retirement
- ⇒ Fixed dollar subsidy toward system sponsored health coverage
- ⇒ Access to system sponsored retiree medical plan as outlined above
- ⇒ Subsidy amount is based on length of service
- ⇒ Subsidy amount indexed each year by healthcare inflation up to a maximum of 5 percent (with a “catch-up” provision based on years when healthcare inflation is less than 5%)



Proposed Medical Program

Normal Retirement to Medicare Eligibility

- ⇒ Upon becoming eligible for Medicare, such members will become eligible for the “defined health” benefit
- ⇒ Pre-Medicare dependent spouse is eligible for the same subsidy as retiree
- ⇒ Medicare eligible dependent spouse is eligible for the Medicare eligible benefit level, with contribution percentage based on retiree length of service



Proposed Medical Program

Normal Retirement to Medicare Eligibility

⇒ Apply percentages to the applicable subsidy base to arrive at the appropriate subsidy amount.

⇒ Defined Dollar Subsidy Base Annual PMPY for fiscal year 2004:

Pre Medicare \$5,962*

⇒ Subsidy Percentage

<u>Service (yrs)</u>	<u>Subsidy %</u>
10-14	30%
15-19	45%
20-24	60%
25-29	75%
30+	90%

⇒ Member contributions are determined by subtracting the annual subsidy amount from the annual claims cost for a given year.

⇒ *Equivalent to FY2004 pre-Medicare projected claim cost.



Proposed Medical Program

Defined Dollar Subsidy Projection

⇒ Subsidy Projection Assumptions

- Pre Medicare retiree, 25 years of service
- Year 1 assumes plan cost and subsidy base are equal
- Average plan cost increases at proposed valuation trend
- Assumes inflation of 3.5%
- Subsidy base increases at healthcare inflation rate up to 5%

	Plan Cost	Subsidy Base	Retiree Subsidy	Retiree Contribution	Present Value Retiree Contribution	Percent Increase	Contribution Percent
Year 1	5,962	5,962	4,472	1,491	1,491	N/A	25%
Year 2	6,605	6,260	4,695	1,910	1,846	28%	29%
Year 5	8,714	7,247	5,435	3,278	2,857	17%	38%
Year 10	12,431	9,249	6,937	5,495	4,032	8%	44%
Year 15	15,956	11,804	8,853	7,103	4,388	5%	45%



Proposed Medical Program

After Medicare Eligibility

- ⇒ Defined health benefit similar to current program
- ⇒ Retirees who were previously eligible for 100% subsidy of retiree health plan costs will now participate in the premium cost.
- ⇒ Contributions are per covered individual
- ⇒ Pre-Medicare dependent spouses are eligible to receive a defined dollar subsidy with percentage based on retiree length of service
- ⇒ Medicare eligible dependent spouses are eligible to receive the same defined health benefits as the retiree and pay the same contributions



Proposed Medical Program

After Medicare Eligibility

⇒ Contribution Base PMPY for fiscal year 2004:

Medicare Eligible \$2,667

⇒ Contribution Percentage

<u>Service (yrs)</u>	<u>Contribution %</u>
10-14	30%
15-19	25%
20-24	20%
25-29	15%
30+	10%

⇒ Apply percentages to the contribution base to arrive at the applicable contribution amount



Proposed Alternatives

Alternative 1 – Normal Cost Rates

⇒ “Normal cost” rates for Alternative 1 are expected to be as follows:

	Normal Cost Rates			
	TRS		PERS	
Medical normal cost rate	3.75%	(9.07%)	3.5%	(8.68%)
Defined benefit normal cost rate	5.0%	(13.90%)	4.5%	(11.37%)
Defined contribution rate	8.5%	(N/A)	7.0%	(N/A)
HRA contribution rate	1.5%	(N/A)	1.0%	(N/A)
Gross normal cost rate	18.75%	(22.97%)	16.0%	(20.05%)
Member contribution rate	(10.0)%	(8.69%)	(8.0)%	(6.81%)
Employer normal cost rate	8.75%	(14.28%)	8.0%	(13.24%)

[Normal cost rates for the current program (all tiers) are shown in parentheses for comparative purposes.



Proposed Alternatives

Alternative #2 - Normal Cost Rates

⇒ "Normal cost" rates for Alternative 2 are expected to be as follows:

	<u>Normal Cost Rates</u>	
	<u>TRS</u>	<u>PERS</u>
Medical normal cost rate	3.75%	3.5%
Defined contribution rate	13.5%	11.5%
HRA contribution rate	<u>1.5%</u>	<u>1.0%</u>
Gross normal cost rate	18.75%	16.0%
Member contribution rate	<u>(10.0)%</u>	<u>(8.0)%</u>
Employer normal cost rate	8.75%	8.0%



Proposed Alternatives

Cost Projections

The following pages show the approximate effect the new tier would be expected to have over time on actuarial calculated contribution rates

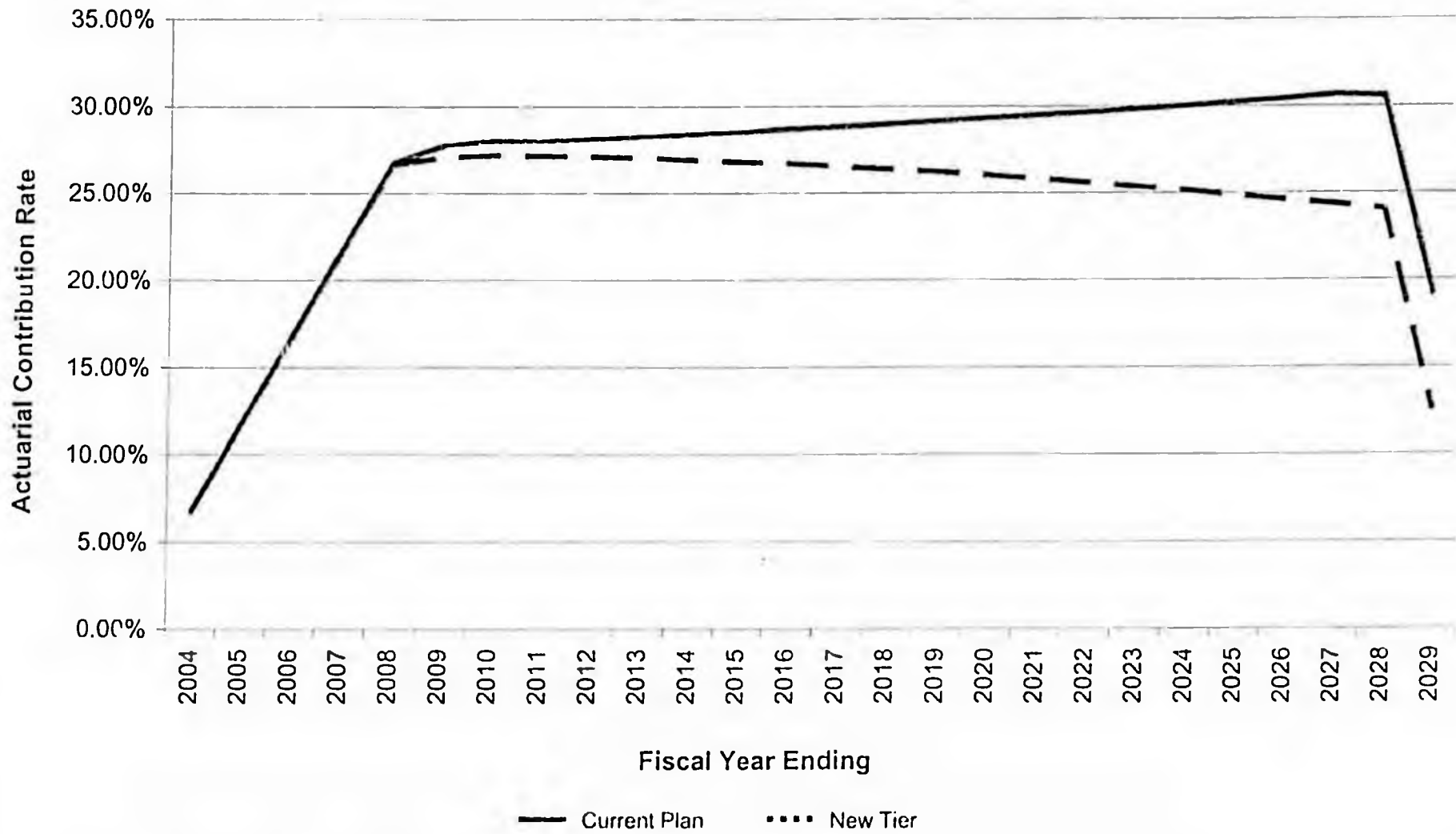
⇒ Data, assumptions and methods are as previously described, including changes to medical valuation methodology



Proposed Alternatives

Cost Projections - PERS

Contribution Comparison – PERS

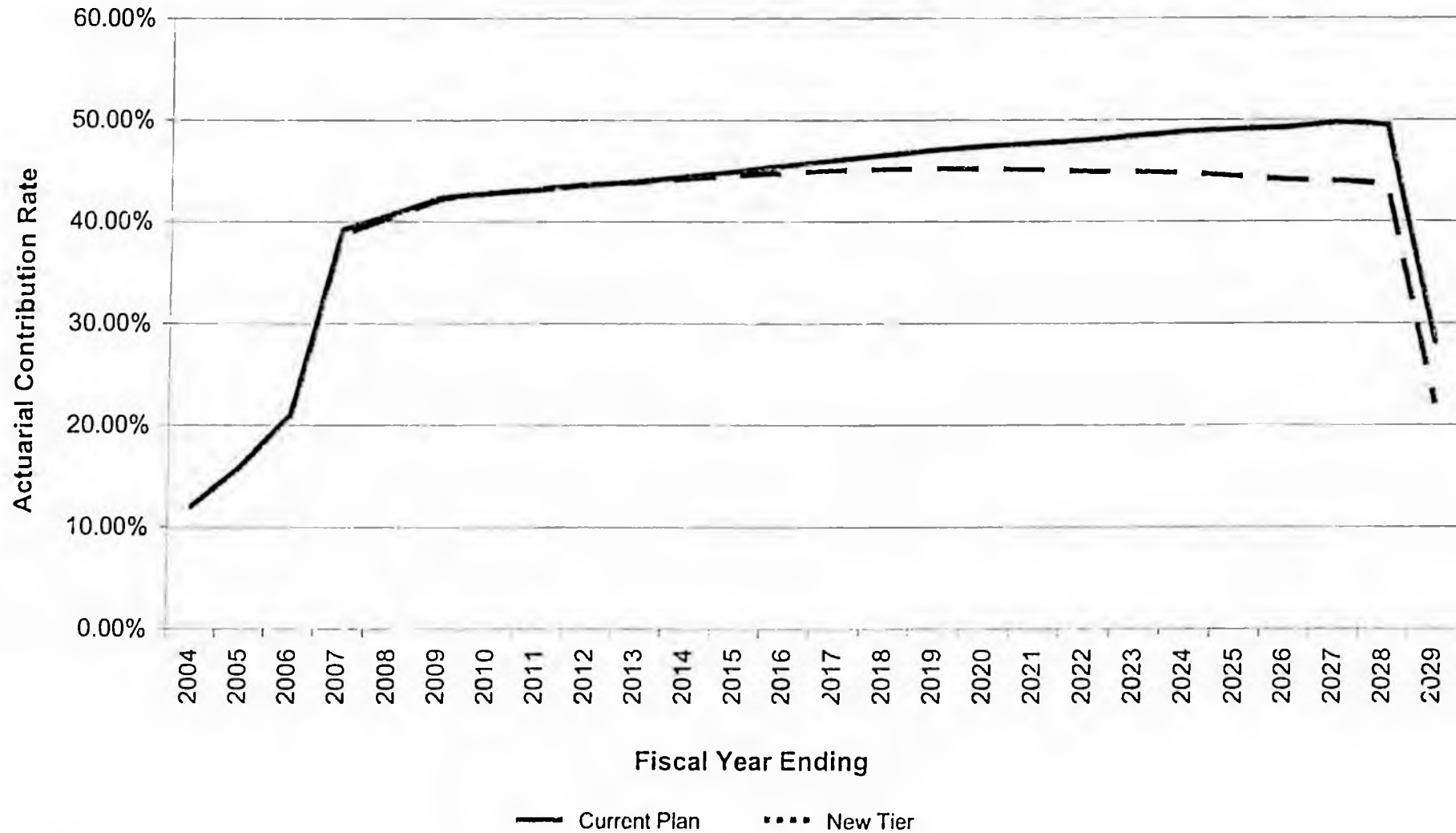




Proposed Alternatives

Cost Projections - TRS

Contribution Comparison - TRS





Health Reimbursement Accounts (HRAs)



Health Reimbursement Accounts Overview

- ⇒ Arrangement that:
 - Is solely employer paid
 - Reimburses employees for medical expenses
 - Provides reimbursements up to a maximum dollar amount for a defined coverage period
- ⇒ Unused funds are carried forward to the next coverage period
- ⇒ Usually, but not required to be, associated with high-deductible health plans or consumer directed health plans
- ⇒ Includes aspects of FSAs
- ⇒ Also known as
 - Health Reimbursement Arrangements
 - Defined contribution health care plans



Health Reimbursement Accounts Overview

Funding

- ⇒ Employer only
- ⇒ Employer sets own limits
- ⇒ Notional or funded accounts
 - general assets
 - VEBA
 - other trusts

Eligibility

- ⇒ Current and former employees (including retired employees), spouses and dependents
- ⇒ COBRA participants
- ⇒ Dependent medical expenses on death of employee



Health Reimbursement Accounts

Overview

Benefits

- ⇒ Reimbursements for medical expenses as defined in IRC section 213(d)
- ⇒ No IRS limit on reimbursements
- ⇒ Employee responsible for substantiating expenses
- ⇒ Cannot use for over-the-counter drugs
- ⇒ Can be used for after tax insurance premium payments (LTC is gray area)
- ⇒ Cannot have any right to receive cash benefit
- ⇒ Can be used with FSA, but special rules apply



Health Reimbursement Accounts

Overview

Plan design

- ⇒ Plan sponsor dictates plan design
 - Contribution amount
 - Covered expenses
 - Termination provisions

Tax Treatment

- ⇒ Requirements for exclusion from employee/retiree income:
 - Employer funding only – no employee contributions
 - Only reimbursed for qualified medical expenses
- ⇒ Subject to non-discrimination rules under IRS code section 105(h)



Health Reimbursement Accounts

Comparison of tax advantaged health care accounts

	Health Savings Account (HSA)	Health Reimbursement Account (HRA)	Flexible Spending Account (FSA)
Account requirements	Funds must be held in trust or custodial account	No requirement; often unfunded	No requirement; often unfunded
Qualifying expenses	Miscellaneous IRC 213(d) expenses, limited health premium reimbursements*	Miscellaneous IRC 213(d) expenses, unlimited premium reimbursements, subject to plan design	Miscellaneous IRC 213(d) expenses, no health premium reimbursements
Non-qualified withdrawals	Yes, but taxable, plus 10% penalty. No penalty after age 65, disability, or death (no penalty or tax after death if HSA goes to spouse)	Not allowed	Not allowed
Rollover of unused funds	Unused funds roll over indefinitely	Allowed, although employer can establish limits	Not allowed
Nonforfeitable	Yes and fully portable, can take to new employer	No, but COBRA rights apply	No, but limited COBRA rights apply

*COBRA, long-term care insurance and premiums for account holders at least 65 or receiving unemployment compensation.



Health Reimbursement Accounts

Comparison of tax advantaged health care accounts

	Health Savings Account (HSA)	Health Reimbursement Account (HRA)	Flexible Spending Account (FSA)
Eligibility	Individuals (employees) with high deductible plan (HDHP)	Employees whose employers make available	Employees whose employers make available
Health insurance requirement	Qualified high deductible health plan required	None, although employer typically requires high deductible coverage	None
Contributions - Source	Employer, employee, or both	Employer only	Employer, employee or both
Taxability of employee contributions	Tax-free	Employee contribution not allowed	Tax-free
Taxability of employer contributions	Tax-free to employee; tax deductible to employer	Tax-free to employee; tax deductible to employer	Tax-free to employee; tax deductible to employer
Annual contribution limits (employee+employer)	Lesser of 100% of deductible or fixed amount (established by law)	None legally required, employer sets its contribution amounts	None legally required, employer sets employee contribution limits



Health Reimbursement Accounts

Projection scenarios

- ⇒ Illustrate the HRA fund value at retirement, the total costs expected to be borne by the retiree during the pre-Medicare period of retirement and the retiree's expected net cost after HRA reimbursements
- ⇒ Four scenarios
 - Early hire, 1.0% funding - hire at 25, retire at 55
 - Early hire, 1.5% funding - hire at 25, retire at 55
 - Late hire, 1.0% funding - hire at 40, retire at 60
 - Late hire, 1.5% funding - hire at 40, retire at 60
- ⇒ Key assumptions
 - Hire date of 7/1/2004
 - Normal retirement at 25 years or age 60
 - Funded as percent of average salary for group
 - Average salary for group of \$35,000
 - Wage inflation 4.0%



Health Reimbursement Accounts

Projection scenarios

⇒ Key assumptions (continued)

- HRA accumulation rate 8.25%
- Early retirement access-only plan as described in the proposed medical program
- Normal retirement to Medicare eligibility defined dollar subsidy as described in the proposed medical program
- Benefit costs increase at proposed valuation trend
- Retirees transition to defined health benefit plan at Medicare eligibility

⇒ Other assumptions

- Participant retires from system and is receiving system-sponsored benefits
- Demographic composition of future pre-Medicare retiree group remains constant
- No spend down of HRA during active benefit period



Health Reimbursement Accounts

Projection scenarios

	Gross Retiree Cost	HRA at Retirement	Net Retiree Cost
Early Hire, 1.0%	\$153,721	\$64,622	\$72,348
Early Hire, 1.5%	\$153,721	\$96,933	\$12,714
Late Hire, 1.0%	\$ 68,993	\$23,052	\$44,543
Late Hire, 1.5%	\$ 68,993	\$34,579	\$30,580

- ⇒ Gross retiree cost is the total medical premium cost expected to be paid by the retiree less any System-sponsored subsidy. Does not include retiree cost sharing via plan design elements such as deductibles and coinsurance.
- ⇒ HRA at retirement is the beginning fund balance at the year of retirement.
- ⇒ Net retiree cost is the gross retiree cost less expected reimbursements from the HRA. HRA balance continues to earn interest after medical expenses are reimbursed each year.



State of Alaska
Public Employees' Retirement System

Actuarial Valuation Report as of June 30, 2003

MERCER

Human Resource Consulting

April 30, 2004

State of Alaska
Public Employees' Retirement Board
Department of Administration
Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of the Board:

Actuarial Certification

The annual actuarial valuation required for the State of Alaska Public Employees' Retirement System has been prepared as of June 30, 2003 by Mercer Human Resource Consulting. The purposes of the report include:

- (1) a review of experience under the Plan for the year ended June 30, 2003;
- (2) a determination of the appropriate contribution rate for each employer in the System which will be applied for the fiscal year ending June 30, 2006; and
- (3) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The following schedules that we have prepared are included in this report:

- (1) Summary of actuarial assumptions and methods (Section 2.3)
- (2) Schedule of active member valuation data (Section 2.2(d) and (f))
- (3) Schedule of benefit recipients added to and removed from rolls (Section 2.2(p) and 2.2(q))
- (4) Solvency test (Section 3.3)
- (5) Analysis of financial experience (Section 3.1)

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided by the audited report from KPMG LLP, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. Actuarial assumptions are based on the results of an experience study presented to the Board in October 2000 and adopted in December 2000. Actuarial methods, medical cost trend, and assumed blended medical premiums were reviewed and revised in January 2003.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY04 and a fixed 25-year level percentage of payroll amortization of the initial unfunded accrued liability and subsequent gains/losses. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain relatively constant as a percentage of payroll. The ratio of assets to liabilities changed from 75.2% to 72.8% during the year primarily due to lower than expected equity market returns. Over the years, progress has been made toward achieving the funding objectives of the System.

A summary of the actuarial assumptions and methods is presented in Section 2.3 of this report. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the System.

Future contribution requirements may differ from those determined in the valuation because of:

- (1) differences between actual experience and anticipated experience based on the assumptions;
- (2) changes in actuarial assumptions or methods;
- (3) changes in statutory provisions; or
- (4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned are members of the American Academy of Actuaries and the Society of Actuaries and are fully qualified to provide actuarial services to the State of Alaska.

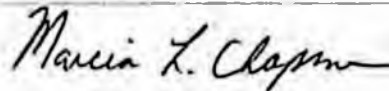
We believe that the assumptions and methods used for funding purposes and for the disclosures presented in this report satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 27.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,



Robert M. Reynolds, ASA, MAAA



Marcia L. Chapman, FSA, EA, MAAA

Report Highlights

This report has been prepared by Mercer Human Resource Consulting for the State of Alaska Public Employees' Retirement System to:

- (1) Present the results of a valuation of the Alaska Public Employees' Retirement System as of June 30, 2003;
- (2) Review experience under the plan for the year ended June 30, 2003;
- (3) Determine the appropriate contribution rate for each employer in the System; and
- (4) Provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

This report is divided into three sections. Section 1 contains the results of the valuation. It includes the experience of the plan during the 2003 Fiscal Year, the current annual costs, and reporting and disclosure information.

Section 2 describes the basis of the valuation. It summarizes the plan provisions, provides information relating to the plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

Section 3 contains additional exhibits showing historical information on system experience and unfunded liabilities.

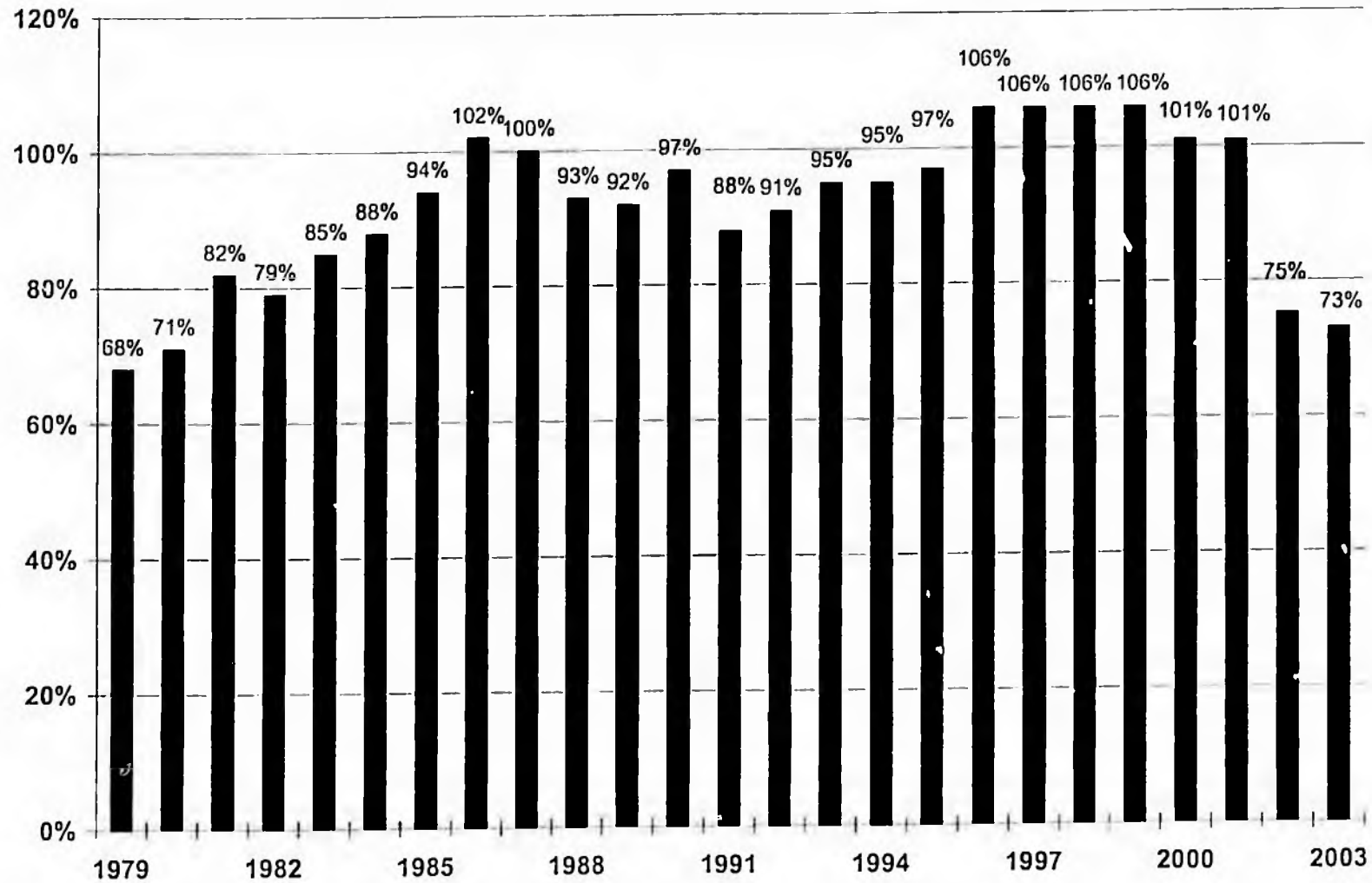
The principal results are as follows:

Funding Status as of June 30	2002	2003
(a) Valuation assets ¹	\$ 7,412,833	\$ 7,687,281
(b) Accrued liability ¹		
i) Non-medical benefits	6,133,182	6,330,541
ii) Total benefits (including medical)	9,859,591	10,561,653
(c) Funding Ratio, (a) ÷ (b)		
i) Non-medical benefits	120.9%	121.4%
ii) Total benefits (including medical)	75.2%	72.8%

¹ In thousands.

Report Highlights (continued)

PERS Funding Ratio History



Report Highlights *(continued)*

Employer Contribution Rates for Fiscal Year:	2005	2006
(a) Consolidated Rate	13.31%	13.24%
(b) Average Past Service Rate	11.60%	12.39%
(c) Average Employer Contribution Rate <i>(a) + (b)</i>	24.91%	25.63%
(d) PERS Board Adopted Average Employer Contribution Rate	11.77%	16.77%

Analysis of the Valuation *(continued)*

Summary

The following table summarizes the sources of change in the average employer contribution rate:

1. Last year's average employer contribution rate	24.91%
2. Change due to:	
a. Elimination of 102% target funding ratio	(0.90%)
b. Contribution shortfall compared to average employer contribution rate	1.10%
c. Investment experience	0.31%
d. Salary increases	(0.19%)
e. Demographic experience	0.40%
3. Average employer contribution rate this year	25.63%

1.1(c) Actuarial Value of Assets

The actuarial value of assets was set equal to the market value at June 30, 2002. Future investment gains and losses will be recognized 20% per year over 5 years. In no event may valuation assets be less than 80% or more than 120% of market value as of the current valuation date.

(1) Deferral of Investment Return for FY03

(a) Market Value, June 30, 2002	\$	7,412,833
(b) Contributions for FY03		211,310
- Weighted for Timing		105,655
(c) Benefit Payments for FY03		464,040
- Weighted for Timing		232,020
(d) Investment Return (net of expenses)		231,352
(e) Expected Return Rate (net of expenses)		8.25%
(f) Expected Return-weighted for Timing, [(a. + b. - c.) x e.]		601,134
(g) Investment Gain/(Loss) for the Year (d. - f.)		(369,782)
(h) Deferral Percentage		80%
(i) Deferred Investment Return ² , (g. x h.)	\$	(295,826)

(2) Actuarial Value, June 30, 2003

(a) Market Value, June 30, 2003	\$	7,391,455
(b) 2003 Deferred Investment Return		(295,826)
(c) Preliminary Actuarial Value, June 30, 2003 (a. - b.)	\$	7,687,281
(d) Upper Limit: 120% of Market Value, June 30, 2003		8,869,746
(e) Lower Limit: 80% of Market Value, June 30, 2003		5,913,164
(f) Actuarial Value, June 30, 2003. (c. limited by d. and e.)	\$	7,687,281

² The table below shows the development of gain (loss) to be recognized in the current year.

Plan Year Ended	Asset Gain/(Loss)	Gain/(Loss) Recognized In Prior Years	Gain/(Loss) Recognized This Year	Gain/(Loss) Deferred to Future Years
6/30/2003	\$ (369,782)	\$ 0	\$ (73,956)	\$ (295,826)
Total	\$ (369,782)	\$ 0	\$ (73,956)	\$ (295,826)

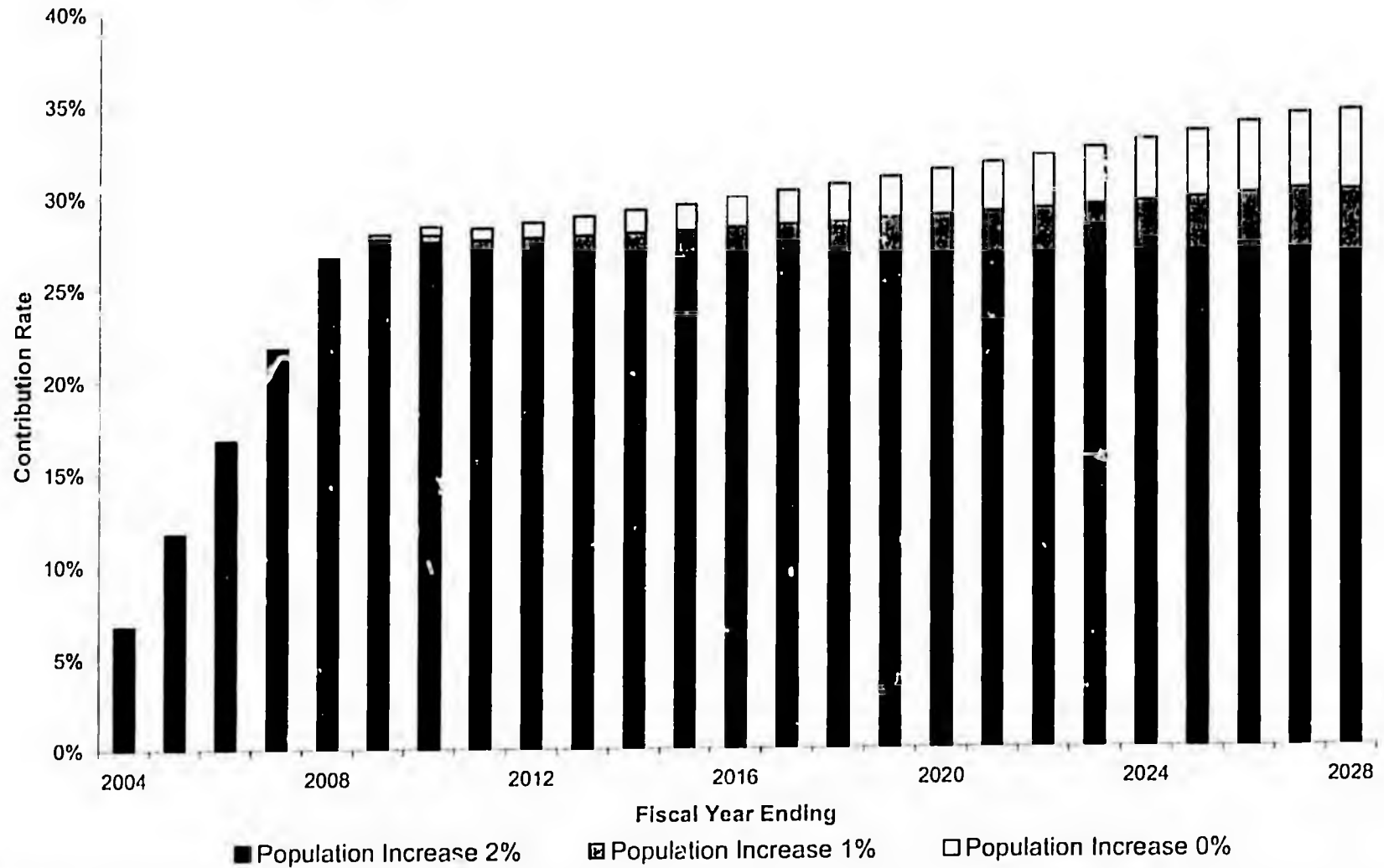
1.5(a) Actuarial Projections – Projections at Calculated Rate (continued)

Observations

- Calculated rates increase under all population scenarios
- Calculated rates begin to decline towards end of the projection period under the 1% and 2% scenarios.
- Over the past 9 years, the average annual population increase for the PERS has been 1.1%
- Calculated rates increase to above 30% under the 1% population increase scenario
- Factors contributing to the projected rate increases are:
 - Contributions are less than the actuarially calculated rate for the first 5 years of the projection
 - New entrants enter the System at lower pay levels than the exiting members they are replacing, diluting the pay-off of unfunded liabilities. Because new entrants also add additional liability, each new entrant generates a loss.
- Funding ratios are at least 96% by the end of the 25-year period, under all 3 population scenarios

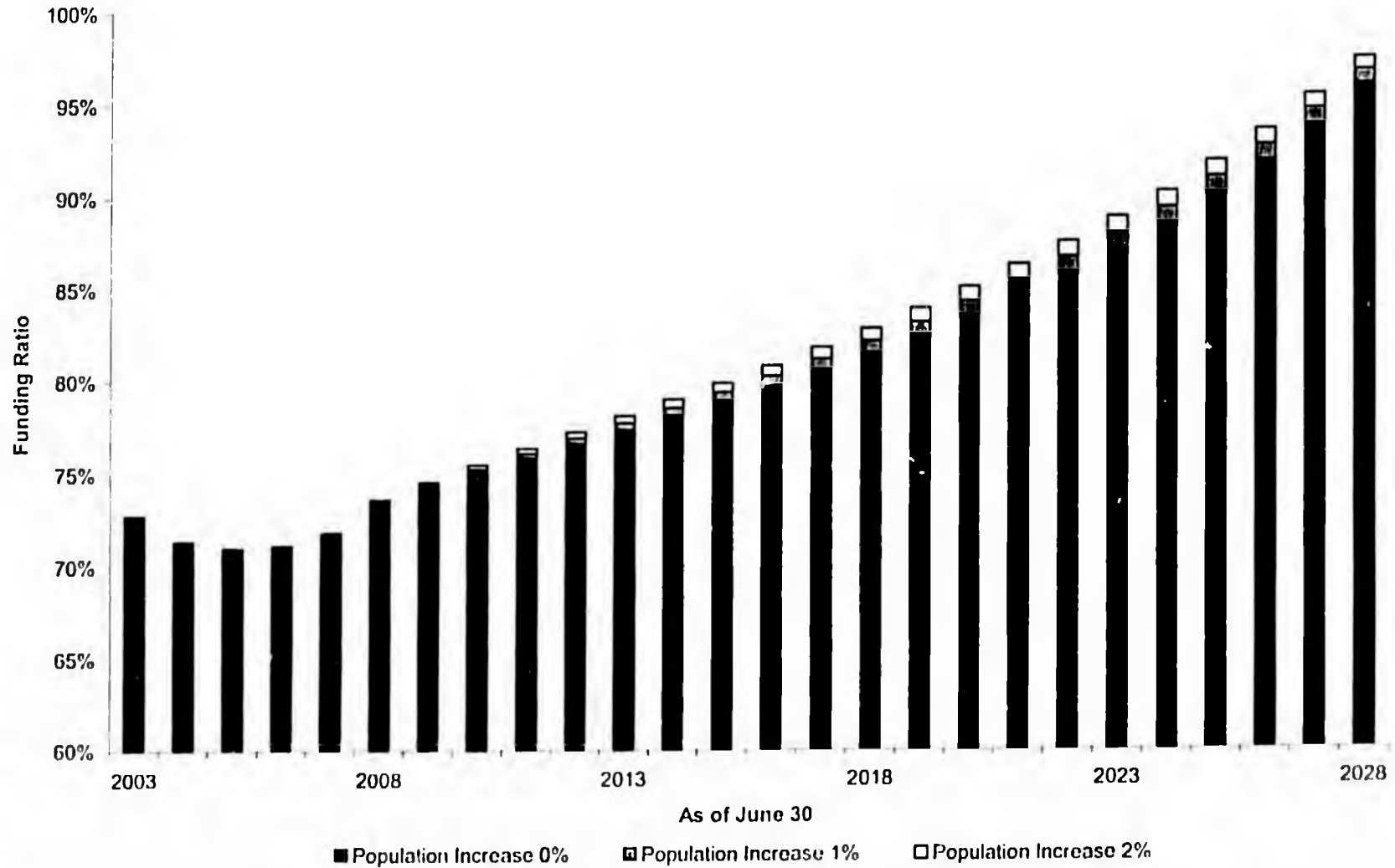
1.5(a) Actuarial Projections – Projections at Calculated Rate (continued)

Projected Contribution Rates



1.5(a) Actuarial Projections – Projections at Calculated Rate (continued)

Projected Funding Ratios



1.5(a) Actuarial Projections – Projections at Calculated Rate (continued)

Table 1

State of Alaska PERS
Financial Projections (in thousands)

As of June 30	Investment Return 8.25%				Annual Population Increase 0.00%								Recognized Asset Gain	Ending Actuarial Assets
	----- Valuation Amounts as July 1 -----				----- Flow Amounts During Following 12 Months -----									
	Actuarial Assets	Accrued Liability	Funding Ratio	Surplus (Deficit)	Total Salaries	Employer C/b Rate	Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings		
2003	7,687,281	10,561,653	72.8%	(2,874,372)	1,460,783	6.77%	98,895	99,479	198,374	526,345	(327,970)	1,228,670	52,524	8,640,504
2004	8,008,101	11,220,156	71.4%	(3,212,055)	1,531,183	11.77%	180,220	104,274	284,494	569,004	(284,510)	672,367	52,524	8,448,481
2005	8,448,481	11,898,173	71.0%	(3,449,691)	1,572,844	16.77%	263,766	107,111	370,877	617,251	(246,374)	705,938	52,524	8,960,569
2006	8,960,569	12,591,977	71.2%	(3,631,407)	1,619,105	21.77%	352,479	110,261	462,740	669,522	(206,782)	745,485	52,524	9,551,797
2007	9,551,797	13,298,892	71.8%	(3,747,095)	1,666,423	26.77%	446,101	113,483	559,585	726,337	(166,752)	791,579	126,481	10,303,105
2008	10,303,105	14,015,423	73.5%	(3,712,317)	1,715,556	28.00%	480,377	116,829	597,206	788,427	(191,221)	842,118	0	10,954,003
2009	10,954,003	14,736,883	74.3%	(3,782,880)	1,766,209	28.44%	502,343	120,279	622,622	854,570	(231,948)	894,137	0	11,616,192
2010	11,616,192	15,459,737	75.1%	(3,843,545)	1,818,672	28.36%	515,766	123,852	639,618	922,920	(283,302)	946,650	0	12,279,540
2011	12,279,540	16,180,553	75.9%	(3,901,013)	1,872,364	28.66%	536,712	127,508	664,220	992,494	(328,274)	999,521	0	12,950,787
2012	12,950,787	16,897,994	76.6%	(3,947,207)	1,928,329	28.97%	558,730	131,319	690,049	1,063,497	(373,448)	1,053,035	0	13,630,374
2013	13,630,374	17,612,028	77.4%	(3,981,654)	1,985,939	29.30%	581,913	135,242	717,155	1,135,658	(418,503)	1,107,243	0	14,319,114
2014	14,319,114	18,321,383	78.2%	(4,002,270)	2,045,810	29.60%	605,648	139,320	744,967	1,210,881	(465,914)	1,162,108	0	15,015,307
2015	15,015,307	19,023,318	78.9%	(4,008,011)	2,109,369	29.99%	632,654	143,648	776,302	1,284,686	(508,383)	1,217,792	0	15,724,716
2016	15,724,716	19,715,946	79.8%	(3,991,230)	2,173,921	30.34%	659,583	148,044	807,627	1,353,496	(545,870)	1,274,772	0	16,453,619
2017	16,453,619	20,405,934	80.6%	(3,952,316)	2,241,311	30.67%	687,404	152,633	840,037	1,421,965	(581,928)	1,333,419	0	17,205,110
2018	17,205,110	21,098,287	81.5%	(3,893,177)	2,312,521	31.06%	718,220	157,483	875,702	1,491,551	(615,849)	1,394,018	0	17,983,279
2019	17,983,279	21,791,202	82.5%	(3,807,923)	2,387,182	31.44%	750,493	162,567	913,060	1,561,508	(648,448)	1,456,872	0	18,791,703
2020	18,791,703	22,486,408	83.6%	(3,694,705)	2,465,541	31.83%	784,695	167,903	952,598	1,632,589	(679,990)	1,522,266	0	19,633,978
2021	19,633,978	23,184,799	84.7%	(3,550,821)	2,547,953	32.21%	820,640	173,516	994,156	1,703,881	(709,725)	1,590,527	0	20,514,780
2022	20,514,780	23,888,953	85.9%	(3,374,172)	2,635,107	32.60%	859,173	179,451	1,038,624	1,776,142	(737,518)	1,662,047	0	21,439,309
2023	21,439,309	24,598,928	87.2%	(3,159,619)	2,727,764	33.05%	901,460	185,761	1,087,221	1,847,080	(759,859)	1,737,399	0	22,416,849
2024	22,416,849	25,317,829	88.5%	(2,900,980)	2,825,691	33.50%	946,481	192,430	1,138,910	1,915,020	(776,109)	1,817,376	0	23,458,115
2025	23,458,115	26,041,049	90.2%	(2,582,934)	2,927,133	33.94%	993,519	199,338	1,192,856	1,984,302	(791,446)	1,902,647	0	24,569,316
2026	24,569,316	26,735,726	91.9%	(2,166,410)	3,032,217	34.41%	1,043,864	206,494	1,250,358	2,048,032	(797,673)	1,994,065	0	25,765,708
2027	25,765,708	27,447,386	93.9%	(1,681,678)	3,141,073	34.58%	1,086,109	213,907	1,300,016	2,110,813	(810,797)	2,092,226	0	27,047,136
2028	27,047,136	28,170,768	96.0%	(1,123,631)	3,253,837	34.77%	1,131,311	221,586	1,352,897	2,170,825	(817,928)	2,197,649	0	28,426,858

1.5(a) Actuarial Projections – Projections at Calculated Rate (continued)

Table 2
State of Alaska PERS
Financial Projections (In thousands)

As of June 30	Investment Return 8.25%				Annual Population Increase 1.00%								Recognized Asset Gain	Ending Actuarial Assets
	-----Valuation Amounts on July 1-----				-----Flow Amounts During Following 12 Months-----									
	Actuarial Assets	Accrued Liability	Funding Ratio	Surplus (Deficit)	Total Salaries	Employer Cth Rate	Employee Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings		
2003	7,687,281	10,561,653	72.8%	(2,874,372)	1,460,783	6.77%	98,895	99,479	198,374	526,345	(327,970)	1,228,670	52,524	8,640,504
2004	8,008,101	11,220,324	71.4%	(3,212,224)	1,531,183	11.77%	180,220	104,274	284,494	569,007	(284,513)	672,367	52,524	8,448,479
2005	8,448,479	11,899,896	71.0%	(3,451,417)	1,585,006	16.77%	265,806	107,939	373,745	617,365	(243,620)	706,051	52,524	8,963,434
2006	8,963,434	12,596,905	71.2%	(3,633,471)	1,644,687	21.77%	358,048	112,003	470,052	669,830	(199,778)	740,010	52,524	9,562,191
2007	9,562,191	13,309,044	71.8%	(3,746,854)	1,706,759	26.77%	456,899	116,230	573,130	726,921	(153,791)	792,972	126,481	10,327,852
2008	10,327,852	14,033,243	73.6%	(3,705,392)	1,772,065	27.74%	491,641	120,678	612,318	789,363	(177,045)	844,745	0	10,995,551
2009	10,995,551	14,765,321	74.5%	(3,769,770)	1,840,407	27.99%	515,183	125,332	640,515	835,776	(215,261)	894,253	0	11,678,544
2010	11,678,544	15,502,494	75.3%	(3,823,950)	1,912,174	27.73%	530,251	130,219	660,470	924,447	(263,976)	952,591	0	12,367,159
2011	12,367,159	16,242,023	76.1%	(3,874,864)	1,986,893	27.84%	553,153	135,307	688,460	994,403	(305,943)	1,007,670	0	13,068,886
2012	13,068,886	16,983,362	77.0%	(3,914,476)	2,065,722	27.96%	577,496	140,676	718,172	1,065,814	(347,642)	1,063,843	0	13,785,087
2013	13,785,087	17,727,409	77.8%	(3,942,322)	2,148,151	28.08%	603,194	146,289	749,483	1,138,456	(388,972)	1,121,225	0	14,517,340
2014	14,517,340	18,473,903	78.6%	(3,956,563)	2,234,922	28.20%	630,281	152,198	782,480	1,214,285	(431,805)	1,179,869	0	15,265,403
2015	15,265,403	19,221,061	79.4%	(3,955,658)	2,327,596	28.39%	660,814	158,509	819,323	1,288,878	(469,554)	1,240,027	0	16,035,875
2016	16,035,875	19,967,978	80.3%	(3,932,102)	2,423,538	28.53%	691,483	165,043	856,526	1,358,696	(502,170)	1,302,245	0	16,835,951
2017	16,835,951	20,722,487	81.2%	(3,886,537)	2,524,705	28.67%	723,779	171,932	895,712	1,428,434	(532,722)	1,366,991	0	17,670,220
2018	17,670,220	21,490,710	82.2%	(3,820,490)	2,632,258	28.84%	759,267	179,257	938,524	1,499,578	(561,054)	1,434,650	0	18,543,816
2019	18,543,816	22,272,117	83.3%	(3,728,301)	2,745,982	29.01%	796,577	187,001	983,578	1,571,428	(587,850)	1,505,616	0	19,461,582
2020	19,461,582	23,069,801	84.4%	(3,608,219)	2,866,296	29.17%	836,231	195,195	1,031,426	1,644,932	(613,405)	1,580,278	0	20,428,454
2021	20,428,454	23,886,053	85.5%	(3,457,599)	2,993,733	29.34%	878,335	203,873	1,082,208	1,718,975	(636,767)	1,659,081	0	21,450,768
2022	21,450,768	24,725,092	86.8%	(3,274,324)	3,129,150	29.50%	923,255	213,095	1,136,350	1,794,769	(658,419)	1,742,529	0	22,534,878
2023	22,534,878	25,588,389	88.1%	(3,053,511)	3,273,542	29.70%	972,337	222,928	1,195,265	1,869,878	(674,613)	1,831,306	0	23,691,565
2024	23,691,565	26,480,795	89.5%	(2,789,230)	3,426,878	29.90%	1,024,757	233,370	1,258,127	1,942,712	(684,585)	1,926,311	0	24,933,295
2025	24,933,295	27,364,626	91.1%	(2,431,331)	3,587,398	30.11%	1,080,246	244,302	1,324,548	2,018,010	(693,462)	2,028,392	0	26,268,225
2026	26,268,225	28,304,080	92.8%	(2,035,855)	3,755,416	30.34%	1,139,379	255,745	1,395,124	2,087,849	(692,724)	2,138,554	0	27,714,054
2027	27,714,054	29,252,224	94.7%	(1,538,170)	3,931,345	30.27%	1,189,973	267,725	1,457,697	2,157,398	(699,701)	2,257,547	0	29,271,900
2028	29,271,900	30,236,363	96.8%	(964,463)	4,115,495	30.22%	1,243,681	280,265	1,523,949	2,224,881	(700,931)	2,386,018	0	30,956,987

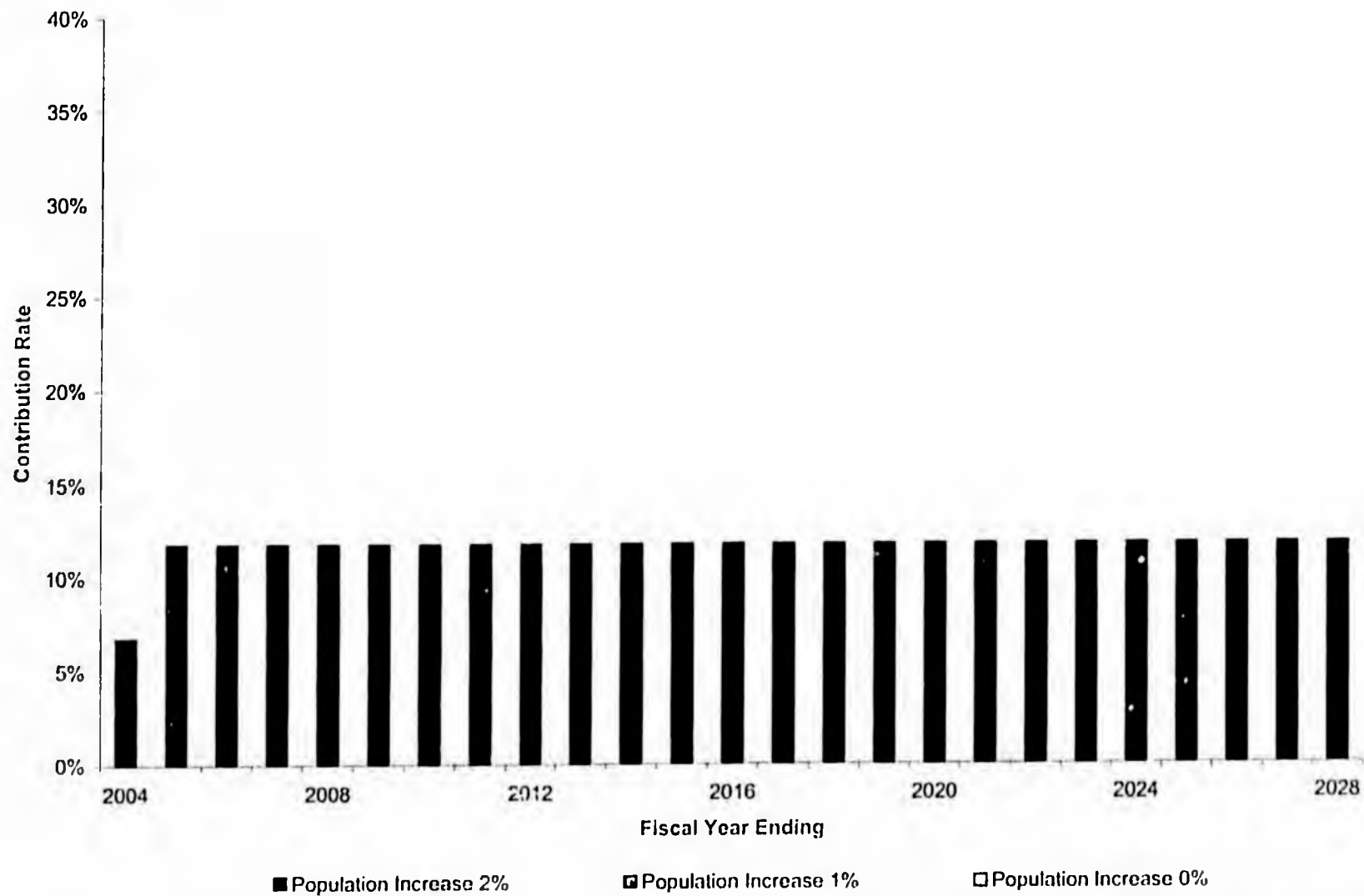
1.5(a) Actuarial Projections – Projections at Calculated Rate (continued)

Table 3
State of Alaska PERS
Financial Projections (In thousands)

As of June 30	Investment Return 8.25%				Annual Population Increase 2.00%								Recognized Asset Gain	Ending Actuarial Assets
	----- Valuation Amounts on July 1 -----				----- Flow Amounts During Following 12 Months -----									
	Actuarial Assets	Accrued Liability	Funding Ratio	Surplus (Deficit)	Total Salaries	Employer Cth Rate	Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings		
2003	7,687,281	10,561,653	72.8%	(2,874,372)	1,460,783	6.77%	98,895	99,479	198,374	526,345	(327,970)	1,228,670	52,524	8,640,504
2004	8,008,101	11,220,493	71.4%	(3,212,392)	1,531,183	11.77%	180,220	104,274	284,494	569,009	(284,515)	672,366	52,524	8,448,476
2005	8,448,476	11,901,623	71.0%	(3,453,147)	1,597,168	16.77%	267,845	108,767	376,612	617,479	(240,866)	706,165	52,524	8,966,299
2006	8,966,299	12,601,873	71.2%	(3,635,574)	1,670,523	21.77%	363,673	113,763	477,435	670,140	(192,705)	746,539	52,524	9,572,657
2007	9,572,657	13,319,342	71.9%	(3,746,684)	1,747,895	26.77%	467,911	119,032	586,943	727,514	(140,571)	794,380	126,481	10,352,947
2008	10,352,947	14,051,429	73.7%	(3,698,482)	1,830,263	27.49%	503,167	124,641	627,808	790,321	(162,513)	847,414	0	11,037,848
2009	11,037,848	14,794,520	74.6%	(3,756,672)	1,917,570	27.56%	528,567	130,587	659,154	857,024	(197,870)	902,460	0	11,742,439
2010	11,742,439	15,546,654	75.5%	(3,804,215)	2,010,366	27.12%	545,208	136,906	682,113	926,044	(241,930)	958,689	0	12,457,198
2011	12,457,198	16,305,878	76.4%	(3,848,680)	2,108,342	27.06%	570,429	143,578	714,008	996,419	(282,411)	1,016,069	0	13,190,856
2012	13,190,856	17,072,554	77.3%	(3,881,697)	2,212,837	26.99%	597,313	150,694	748,007	1,068,283	(320,276)	1,075,034	0	13,945,614
2013	13,945,614	17,848,644	78.1%	(3,903,029)	2,323,536	26.94%	626,033	158,233	784,266	1,141,463	(357,197)	1,135,779	0	14,724,197
2014	14,724,197	18,635,064	79.0%	(3,910,868)	2,441,380	26.90%	656,678	166,258	822,936	1,217,969	(395,033)	1,198,451	0	15,527,614
2015	15,527,614	19,431,191	79.9%	(3,903,577)	2,568,158	26.92%	691,247	174,892	866,138	1,293,438	(427,300)	1,263,402	0	16,363,717
2016	16,363,717	20,237,334	80.9%	(3,873,617)	2,701,386	26.89%	726,520	183,964	910,484	1,364,374	(453,890)	1,331,284	0	17,241,111
2017	17,241,111	21,062,758	81.9%	(3,821,647)	2,843,237	26.87%	763,866	193,624	957,490	1,435,518	(480,027)	1,402,673	0	18,165,756
2018	18,165,756	21,915,010	82.9%	(3,749,254)	2,995,166	26.87%	804,690	203,971	1,008,661	1,508,392	(499,731)	1,478,061	0	19,144,086
2019	19,144,086	22,795,189	84.0%	(3,651,102)	3,157,228	26.86%	848,140	215,007	1,063,148	1,582,351	(519,204)	1,557,970	0	20,182,853
2020	20,182,853	23,708,154	85.1%	(3,525,301)	3,330,149	26.86%	894,564	226,783	1,121,347	1,658,345	(536,998)	1,642,934	0	21,288,789
2021	21,288,789	24,658,054	86.3%	(3,369,264)	3,514,782	26.86%	944,130	239,357	1,183,487	1,735,674	(552,187)	1,733,547	0	22,470,150
2022	22,470,150	25,651,264	87.6%	(3,181,114)	3,712,311	26.86%	997,251	252,808	1,250,059	1,815,413	(565,354)	1,830,467	0	23,735,263
2023	23,735,263	26,691,258	88.9%	(2,955,995)	3,924,132	26.90%	1,055,538	267,233	1,322,771	1,895,206	(572,435)	1,934,546	0	25,097,373
2024	25,097,373	27,785,287	90.3%	(2,687,914)	4,150,604	26.94%	1,118,141	282,656	1,400,798	1,973,568	(572,771)	2,046,907	0	26,571,509
2025	26,571,509	28,893,212	92.0%	(2,321,703)	4,390,346	26.97%	1,184,110	298,969	1,483,078	2,055,651	(572,572)	2,168,531	0	28,167,468
2026	28,167,468	30,087,029	93.6%	(1,919,561)	4,643,513	27.01%	1,255,465	316,223	1,571,689	2,132,256	(560,567)	2,300,693	0	29,907,593
2027	29,907,593	31,318,227	95.5%	(1,410,634)	4,911,502	26.82%	1,317,380	334,473	1,651,854	2,209,241	(557,387)	2,444,384	0	31,794,590
2028	31,794,590	32,617,562	97.5%	(822,972)	5,194,958	26.64%	1,383,800	353,777	1,737,577	2,284,928	(547,351)	2,600,475	0	33,847,714

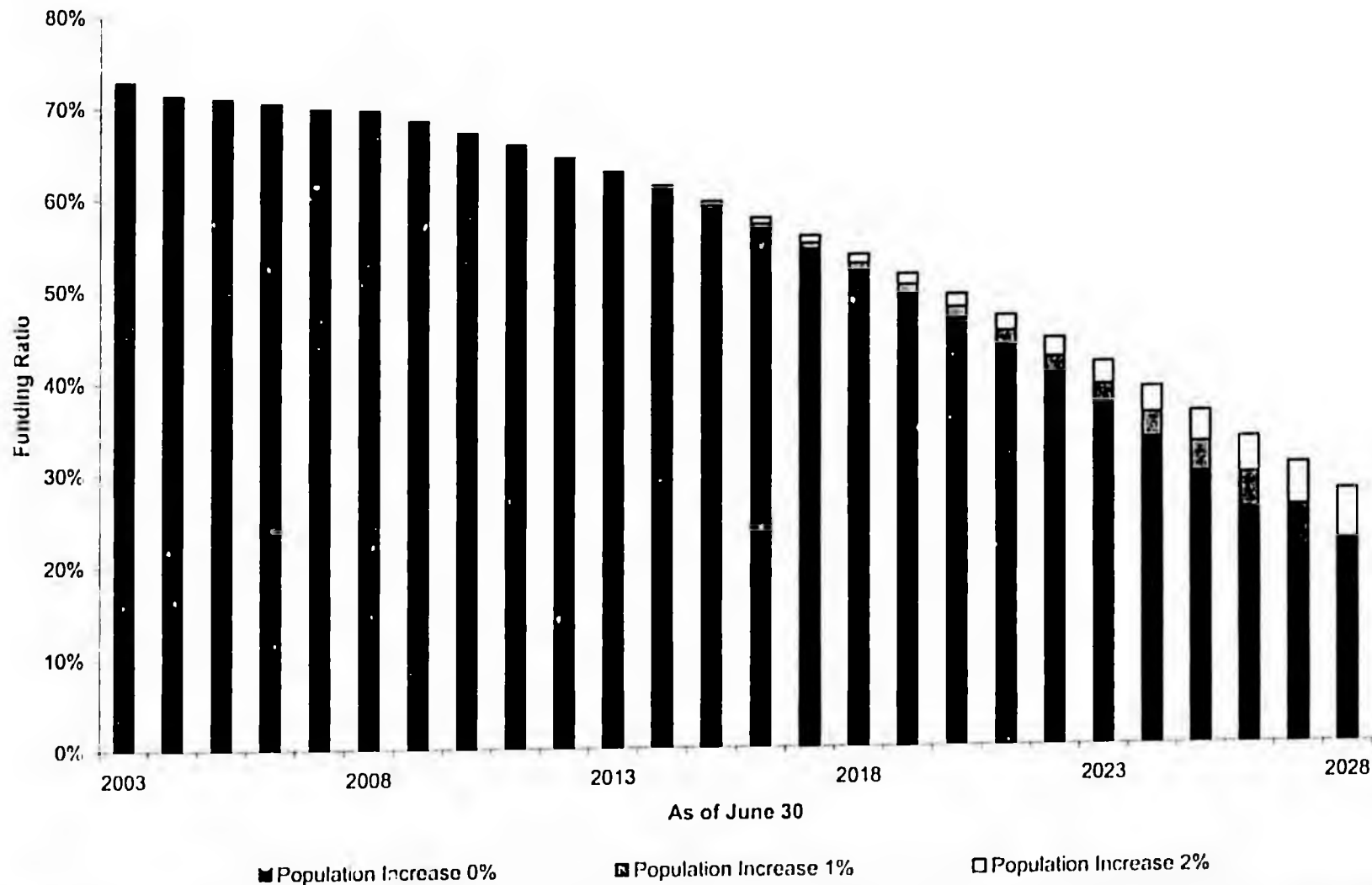
1.5(b) Actuarial Projections – Projections at Current Rate (continued)

Contribution Rate



1.5(b) Actuarial Projections – Projections at Current Rate (continued)

Funding Ratio



1.5(b) Actuarial Projections – Projections at Current Rate (continued)

Table 4
State of Alaska PERS
Financial Projections (In thousands)

As of June 30	Investment Return 8.25%				Annual Population Increase 1.00%								Recognized Asset Gain	Ending Actuarial Assets
	Actuarial Assets	Accrued Liability	Funding Ratio	Surplus* (Deficit)	Total Salaries	Employer Cth Rate	Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings		
2003	7,687,281	10,561,653	72.8%	(2,874,372)	1,460,783	6.77%	98,895	99,479	198,374	526,345	(327,970)	1,228,670	52,524	8,640,564
2004	8,008,101	11,220,324	71.4%	(3,212,224)	1,531,183	11.77%	180,220	104,274	284,494	569,007	(284,513)	672,367	52,524	8,448,479
2005	8,448,479	11,899,896	71.0%	(3,451,417)	1,585,006	11.77%	186,555	107,939	294,494	617,365	(322,870)	702,782	52,524	8,880,915
2006	8,880,915	12,596,905	70.5%	(3,715,990)	1,644,687	11.77%	193,580	112,003	305,583	669,830	(364,247)	732,418	52,524	9,301,610
2007	9,301,610	13,309,014	69.9%	(4,007,434)	1,706,759	11.77%	200,886	116,230	317,116	726,921	(409,805)	760,913	126,481	9,779,199
2008	9,779,199	14,033,243	69.7%	(4,254,044)	1,772,065	11.77%	208,572	120,678	329,250	789,363	(460,113)	787,804	0	10,106,890
2009	10,106,890	14,765,321	68.5%	(4,658,431)	1,840,407	11.77%	216,616	125,332	341,948	855,776	(513,828)	812,623	0	10,405,685
2010	10,405,685	15,502,494	67.1%	(5,096,809)	1,912,174	11.77%	225,063	130,219	355,282	924,447	(569,165)	834,991	0	10,671,511
2011	10,671,511	16,242,023	65.7%	(5,570,511)	1,986,893	11.77%	233,857	135,307	369,165	994,403	(625,237)	854,609	0	10,900,881
2012	10,900,881	16,983,362	64.2%	(6,082,481)	2,065,722	11.77%	243,135	140,676	383,811	1,065,814	(682,002)	871,190	0	11,090,069
2013	11,090,069	17,727,409	62.6%	(6,637,340)	2,148,151	11.77%	252,837	146,289	399,126	1,138,456	(739,329)	884,433	0	11,235,173
2014	11,235,173	18,473,903	60.8%	(7,238,730)	2,234,922	11.77%	263,050	152,198	415,249	1,214,285	(99,037)	893,942	0	11,330,078
2015	11,330,078	19,221,061	58.9%	(7,890,982)	2,327,596	11.77%	273,958	158,509	432,467	1,288,878	(856,410)	899,405	0	11,373,073
2016	11,373,073	19,967,978	57.0%	(8,594,905)	2,423,538	11.77%	285,250	165,043	450,293	1,358,696	(908,403)	900,807	0	11,365,477
2017	11,365,477	20,722,487	54.8%	(9,357,011)	2,524,705	11.77%	297,158	171,932	469,090	1,428,434	(959,343)	898,079	0	11,304,212
2018	11,304,212	21,490,710	52.6%	(10,186,498)	2,632,258	11.77%	309,817	179,257	489,073	1,499,578	(1,010,504)	890,914	0	11,184,622
2019	11,184,622	22,272,117	50.2%	(11,087,495)	2,745,982	11.77%	323,202	187,001	510,204	1,571,428	(1,061,224)	878,956	0	11,002,353
2020	11,002,353	23,069,801	47.7%	(12,067,447)	2,866,296	11.77%	337,363	195,195	532,558	1,644,832	(1,112,274)	861,813	0	10,751,893
2021	10,751,893	23,886,053	45.0%	(13,134,160)	2,993,733	11.77%	352,362	203,873	556,236	1,718,975	(1,162,740)	839,068	0	10,428,221
2022	10,428,221	24,725,092	42.2%	(14,296,870)	3,129,150	11.77%	368,301	213,095	581,396	1,794,769	(1,213,373)	810,277	0	10,025,125
2023	10,025,125	25,588,389	39.2%	(15,563,264)	3,273,542	11.77%	385,296	222,928	608,224	1,879,878	(1,261,654)	775,030	0	9,538,501
2024	9,538,501	26,480,795	36.0%	(16,942,294)	3,426,878	11.77%	403,344	233,370	636,714	1,942,712	(1,305,998)	733,054	0	8,965,556
2025	8,965,556	27,364,626	32.8%	(18,399,069)	3,587,398	11.77%	422,237	244,302	666,539	2,018,010	(1,351,471)	683,910	0	8,297,995
2026	8,297,995	28,304,080	29.3%	(20,006,085)	3,755,436	11.77%	442,015	255,745	697,760	2,087,849	(1,390,089)	627,243	0	7,535,149
2027	7,535,149	29,252,224	25.8%	(21,717,075)	3,931,345	11.77%	462,719	267,725	730,444	2,157,398	(1,426,954)	562,788	0	6,670,983
2028	6,670,983	30,236,363	22.1%	(23,565,380)	4,115,495	11.77%	484,394	280,265	764,659	2,224,881	(1,460,222)	490,122	0	5,700,884



State of Alaska
Teachers' Retirement System
Actuarial Valuation Report as of June 30, 2003

MERCER
Human Resource Consulting

March 19, 2004

State of Alaska
Teachers' Retirement Board
Department of Administration
Division of Retirement & Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of the Board:

Actuarial Certification

The annual actuarial valuation required for the State of Alaska Teachers' Retirement System has been prepared as of June 30, 2003 by Mercer Human Resource Consulting. The purposes of the report include:

- (1) a review of experience under the Plan for the year ended June 30, 2003;
- (2) a determination of the appropriate contribution rate for all employers in the System which will be applied for the fiscal year ending June 30, 2006; and
- (3) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The following schedules that we have prepared are included in this report:

- (1) Summary of actuarial assumptions and methods (Section 2.3)
- (2) Schedule of active member valuation data (Section 2.2(c))
- (3) Schedule of benefit recipients added to and removed from rolls (Section 2.2(i))
- (4) Solvency test (Section 3.3)
- (5) Analysis of financial experience (Section 3.1)

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided by the audited report from KPMG LLP, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The actuarial assumptions are based on the results of an experience study presented to the Board in October 2000 and adopted in December 2000. Actuarial methods, medical cost trend, and assumed blended medical premiums were reviewed and revised in January 2003.

Teacher's Retirement Board

March 19, 2004

Page 2

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY04 and a fixed 25-year amortization as a level percentage of pay of the initial unfunded accrued liability and subsequent gains/losses. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of assets to liabilities decreased from 68.2% to 64.3% during the year primarily due to lower than expected equity market returns. Over the years, progress has been made toward achieving the funding objectives of the System.

A summary of the actuarial assumptions and methods is presented in Section 2.3 of this report. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the System.

Future contribution requirements may differ from those determined in the valuation because of:

- (1) differences between actual experience and anticipated experience based on the assumptions;
- (2) changes in actuarial assumptions or methods;
- (3) changes in statutory provisions; or
- (4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned are members of the American Academy of Actuaries and the Society of Actuaries and are fully qualified to provide actuarial services to the State of Alaska.

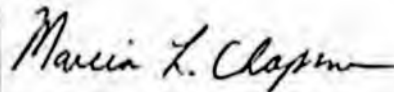
We believe that the assumptions and methods used for funding purposes and for the disclosures presented in this report satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 27.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,



Robert M. Reynolds, ASA, MAAA



Marcia L. Chapman, FSA, EA, MAAA

Report Highlights

This report has been prepared by Mercer Human Resource Consulting for the State of Alaska Teachers' Retirement System to:

- (1) Present the results of a valuation of the Alaska Teachers' Retirement System as of June 30, 2003;
- (2) Review experience under the plan for the year ended June 30, 2003;
- (3) Determine the appropriate contribution rate for each employer in the System; and
- (4) Provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The report is divided into three sections. Section 1 contains the results of the valuation. It includes the experience of the plan during the 2003 Fiscal Year, the current annual costs, and reporting and disclosure information.

Section 2 describes the basis of the valuation. It summarizes the plan provisions, provides information relating to the plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

Section 3 contains additional exhibits showing historical information on system experience and unfunded liabilities.

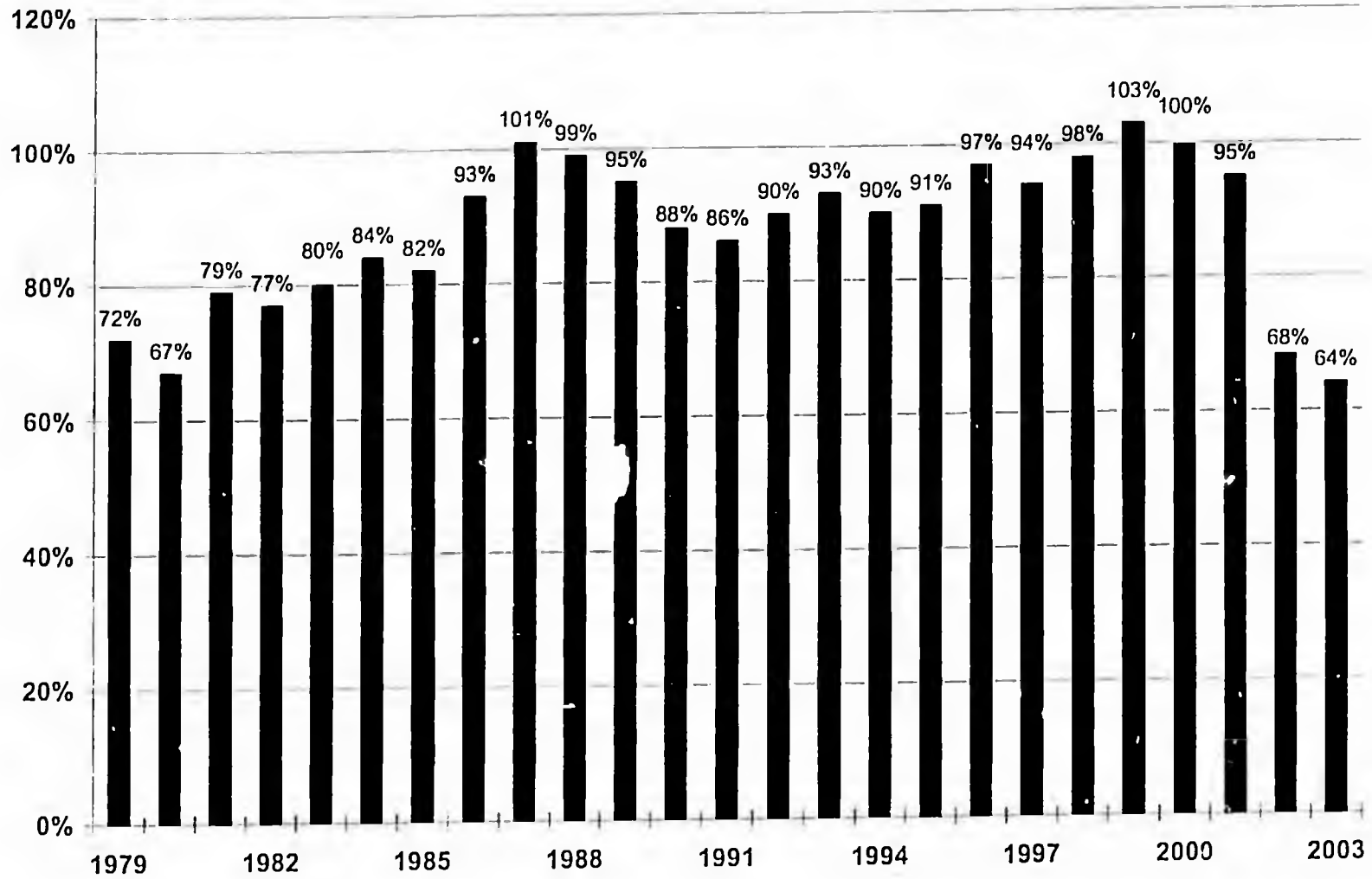
The principal results are as follows:

Funding Status as of June 30	2002	2003
(a) Valuation assets ¹	\$ 3,689,036	\$ 3,752,285
(b) Accrued liability ¹		
i) Non-medical benefits	3,959,958	4,190,970
ii) Total benefits (including medical)	5,411,642	5,835,609
(c) Funding Ratio, (a) ÷ (b)		
i) Non-medical benefits	93.2%	89.5%
ii) Total benefits (including medical)	68.2%	64.3%

¹ In thousands.

Report Highlights (continued)

TRS Funding Ratio History



Report Highlights *(continued)*

Employer Contribution Rates for Fiscal Year:	2005	2006
(a) Normal Cost Rate	14.76%	14.28%
(b) Past Service Rate	20.81%	24.57%
(c) Total Employer Contribution Rate <i>(a) + (b)</i>	35.57%	38.85%
(d) TRS Board Adopted Employer Contribution Rate	16.00%	21.00%

1.1(c) Actuarial Value of Assets

The actuarial value of assets was set equal to the market value at June 30, 2002. Future investment gains and losses will be recognized 20% per year over 5 years. In no event may valuation assets be less than 80% or more than 120% of market value as of the current valuation date.

(1) Deferral of Investment Return for FY03

(a) Market Value, June 30, 2002	\$	3,689,036
(b) Contributions for FY03		118,645
- Weighted for timing		59,323
(c) Benefit Payments for FY03		314,256
- Weighted for timing		157,128
(d) Investment Return (net of expenses)		109,194
(e) Expected Return Rate (net of expenses)		8.25%
(f) Expected Return-weighted for Timing, [(a. + b. - c.) x e.]		296,277
(g) Investment Gain (Loss) for the Year (d. - f.)		(187,083)
(h) Deferral Percentage		80%
(i) Deferred Investment Return ² , (g. x h.)	\$	(149,666)

(2) Actuarial Value, June 30, 2003

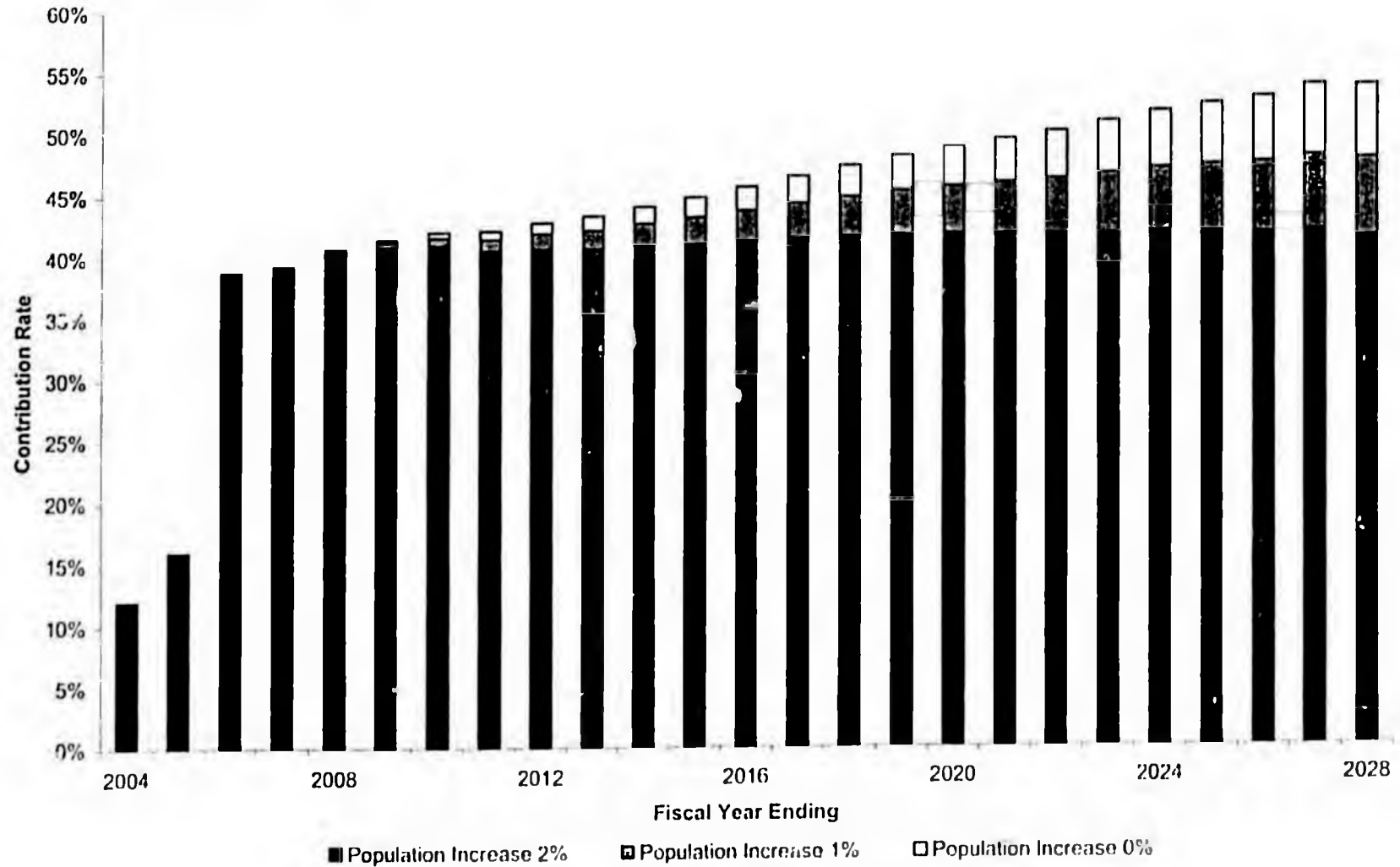
(a) Market Value, June 30, 2003	\$	3,602,619
(b) 2003 Deferred Investment Return		(149,666)
(c) Preliminary Actuarial Value, June 30, 2003 (a. - b.)	\$	3,752,285
(d) Upper Limit: 120% of Market Value, June 30, 2003		4,323,143
(e) Lower Limit: 80% of Market Value, June 30, 2003		2,882,095
(f) Actuarial Value, June 30, 2003, (c. limited by d. and e.)	\$	3,752,285

² The table below shows the development of gain (loss) to be recognized in the current year.

Plan Year Ended	Assot Gain/(Loss)	Gain/(Loss) Recognized In Prior Years	Gain/(Loss) Recognized This Year	Gain/(Loss) Deferred to Future Years
6/30/2003	\$ (187,083)	\$ 0	\$ (37,417)	\$ (149,666)
Total	\$ (187,083)	\$ 0	\$ (37,417)	\$ (149,666)

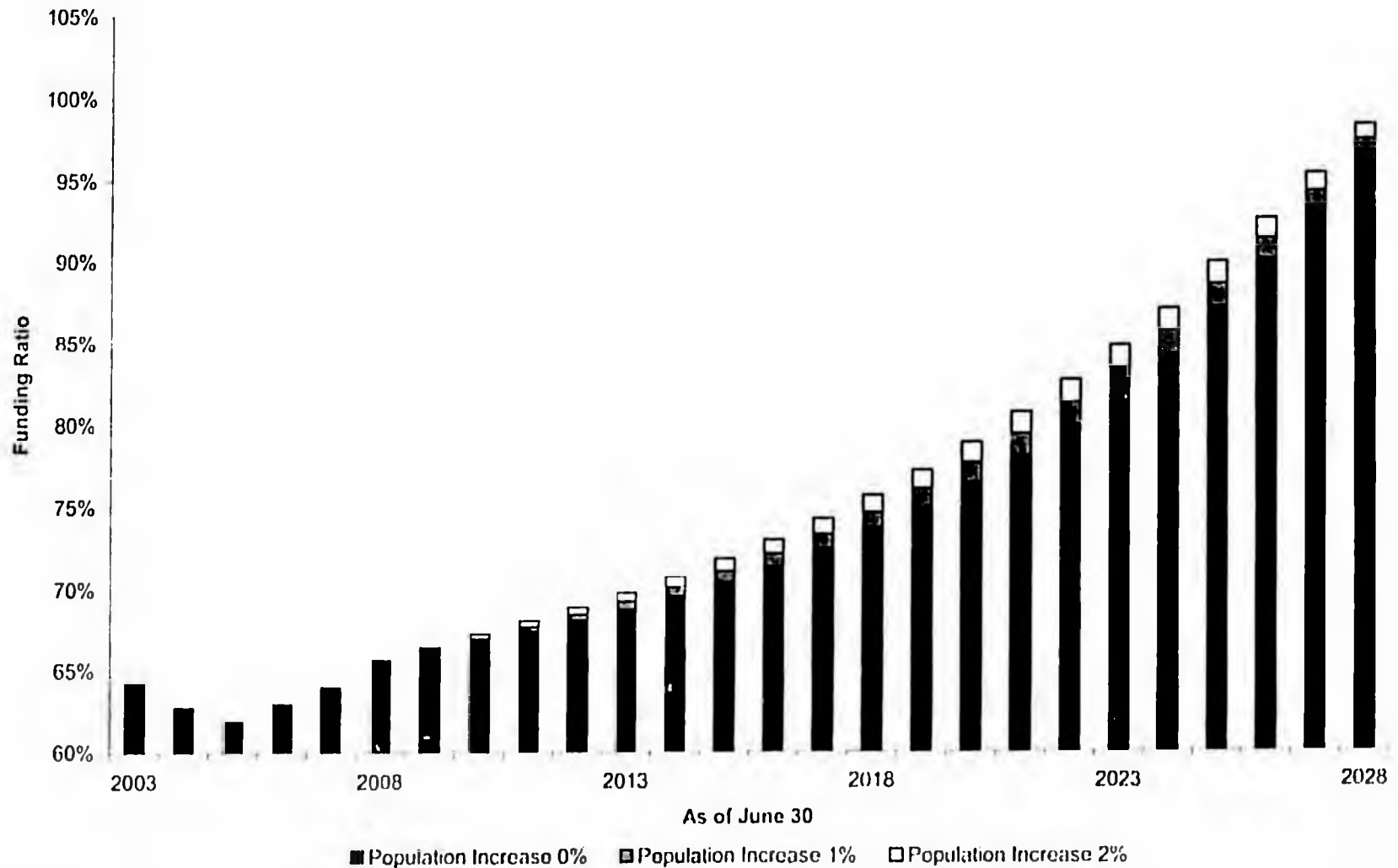
1.5(a) Actuarial Projections – Projections at Calculated Rate (continued)

Projected Contribution Rates



1.5(a) Actuarial Projections – Projections at Calculated Rate (continued)

Projected Funding Ratios



1.5(a) Actuarial Projections – Projections at Calculated Rate (continued)

Table 1
State of Alaska TRS
Financial Projections (In thousands)

As of June 30	Investment Return 8.25%				Annual Population Increase 0.00%								Recognized Asset Gain	Ending Actuarial Assets
	Actuarial Assets	Accrued Liability	Funding Ratio	Surplus* (Deficit)	Total Salaries	Employer Cth Rate	Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings		
	----- Valuation Amounts on July 1 -----				----- Flow Amounts During Following 12 Months -----									
2003	3,752,285	5,835,609	64.3%	(2,083,324)	532,630	12.00%	63,916	46,286	110,201	350,944	(240,742)	591,982	23,523	4,127,048
2004	3,822,351	6,089,875	62.8%	(2,267,524)	556,132	16.00%	88,981	48,328	137,309	378,310	(241,001)	316,252	23,523	3,921,125
2005	3,921,125	6,334,769	61.9%	(2,413,645)	568,975	38.85%	221,058	49,444	270,502	400,708	(130,205)	327,031	23,523	4,141,473
2006	4,141,473	6,579,652	62.9%	(2,438,180)	577,375	39.06%	225,521	50,174	275,695	424,090	(148,394)	342,518	23,523	4,359,119
2007	4,359,119	6,823,023	63.9%	(2,463,904)	590,015	40.76%	240,479	51,272	291,751	448,025	(156,273)	358,209	60,939	4,621,994
2008	4,621,994	7,064,811	65.4%	(2,442,817)	603,379	41.50%	250,391	52,434	302,825	473,335	(170,511)	374,281	0	4,825,764
2009	4,825,764	7,303,444	66.1%	(2,477,680)	617,765	42.06%	259,860	53,684	313,544	499,783	(186,240)	390,443	0	5,029,968
2010	5,029,968	7,537,607	66.7%	(2,507,640)	633,313	42.17%	267,044	55,035	322,079	528,128	(206,049)	406,473	0	5,230,391
2011	5,230,391	7,763,535	67.4%	(2,533,144)	649,750	42.85%	278,418	56,463	334,882	555,624	(220,742)	422,402	0	5,432,051
2012	5,432,051	7,982,896	68.0%	(2,550,845)	666,447	43.35%	288,885	57,914	346,799	582,374	(235,575)	438,427	0	5,634,902
2013	5,634,902	8,196,415	68.7%	(2,561,512)	684,228	44.08%	301,630	59,459	361,090	607,634	(246,545)	454,709	0	5,843,067
2014	5,843,067	8,405,450	69.5%	(2,562,383)	702,909	44.84%	315,166	61,083	376,249	632,158	(255,909)	471,497	0	6,058,655
2015	6,058,655	8,611,487	70.4%	(2,552,832)	723,135	45.66%	330,162	62,840	393,002	656,180	(263,178)	488,983	0	6,284,460
2016	6,284,460	8,814,836	71.3%	(2,530,375)	744,806	46.50%	346,317	64,724	411,040	678,198	(267,158)	507,448	0	6,524,750
2017	6,524,750	9,016,852	72.4%	(2,492,102)	767,757	47.32%	363,267	66,718	429,985	699,647	(269,662)	527,168	0	6,782,256
2018	6,782,256	9,220,366	73.6%	(2,438,110)	792,083	48.12%	381,137	68,832	449,969	722,442	(272,474)	548,297	0	7,058,080
2019	7,058,080	9,423,429	74.9%	(2,365,349)	817,534	48.83%	399,167	71,044	470,211	744,802	(274,591)	570,965	0	7,354,453
2020	7,354,453	9,626,807	76.4%	(2,272,354)	844,363	49.45%	417,544	73,375	490,919	764,595	(273,676)	595,453	0	7,676,230
2021	7,676,230	9,835,220	78.0%	(2,158,990)	873,415	50.09%	437,479	75,900	513,379	782,591	(269,212)	622,184	0	8,029,202
2022	8,029,202	10,051,673	79.9%	(2,022,471)	905,090	50.87%	460,460	78,652	539,112	802,007	(262,895)	651,565	0	8,417,872
2023	8,417,872	10,275,866	81.9%	(1,857,995)	938,668	51.67%	485,011	81,570	566,581	823,016	(256,435)	683,896	0	8,845,333
2024	8,845,333	10,506,521	84.2%	(1,661,188)	974,342	52.25%	509,097	84,670	593,767	838,688	(244,921)	719,637	0	9,320,049
2025	9,320,049	10,695,314	87.1%	(1,375,265)	1,012,000	52.78%	534,102	87,943	622,045	857,397	(235,352)	759,196	0	9,843,892
2026	9,843,892	10,930,203	90.1%	(1,086,310)	1,051,113	53.71%	564,530	91,342	655,872	877,242	(221,370)	802,990	0	10,425,512
2027	10,425,512	11,186,425	93.2%	(760,913)	1,091,737	54.65%	587,697	94,872	680,569	897,476	(216,907)	851,157	0	11,059,762
2028	11,059,762	11,446,359	96.6%	(386,697)	1,133,931	53.82%	610,242	98,539	708,781	916,746	(207,965)	903,852	0	11,755,649

1.5(a) Actuarial Projections – Projections at Calculated Rate (continued)

Table 2

State of Alaska TRS
Financial Projections (In thousands)

As of June 30	Investment Return 8.25%				Annual Population Increase 1.00%								Recognized Asset Gain	Ending Actuarial Assets
	----- Valuation Amounts on July 1 -----				----- Flow Amounts During Following 12 Months -----									
	Actuarial Assets	Accrued Liability	Funding Ratio	Surplus* (Deficit)	Total Salaries	Employer Cth Rate	Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings		
2003	3,752,285	5,835,609	64.3%	(2,083,324)	532,630	12.00%	63,916	46,286	110,201	350,944	(240,742)	591,982	23,523	4,127,048
2004	3,822,351	6,089,921	62.8%	(2,267,570)	556,132	16.00%	88,981	48,328	137,309	378,310	(241,001)	316,252	23,523	3,921,125
2005	3,921,125	6,335,870	61.9%	(2,414,746)	573,377	38.85%	222,768	49,826	272,595	400,744	(128,149)	327,115	23,523	4,143,614
2006	4,143,614	6,583,111	62.9%	(2,439,497)	586,635	39.22%	230,080	50,979	281,058	424,193	(143,134)	342,912	23,523	4,366,914
2007	4,366,914	6,830,369	63.9%	(2,463,454)	604,620	40.75%	246,356	52,541	298,898	448,231	(149,334)	359,138	60,939	4,637,658
2008	4,637,658	7,077,875	65.5%	(2,440,218)	623,847	41.29%	257,590	54,212	311,803	473,672	(161,870)	375,930	0	4,851,718
2009	4,851,718	7,324,422	66.2%	(2,472,704)	644,648	41.65%	268,469	56,020	324,489	500,274	(175,785)	393,016	0	5,068,948
2010	5,068,948	7,569,118	67.0%	(2,500,169)	667,202	41.53%	277,087	57,980	335,067	528,795	(193,728)	410,197	0	5,285,417
2011	5,285,417	7,808,690	67.7%	(2,523,272)	691,229	41.98%	290,177	60,068	350,245	556,483	(206,238)	427,540	0	5,506,719
2012	5,506,719	8,045,390	68.4%	(2,538,671)	716,139	42.24%	302,531	62,233	364,764	583,454	(218,690)	445,283	0	5,733,312
2013	5,733,312	8,280,370	69.2%	(2,547,058)	742,797	42.75%	317,570	64,549	382,119	609,070	(226,951)	463,637	0	5,969,998
2014	5,969,998	8,515,355	70.1%	(2,545,357)	771,037	43.25%	333,484	67,003	400,487	634,054	(233,567)	482,890	0	6,219,321
2015	6,219,321	8,752,349	71.1%	(2,533,028)	801,545	43.79%	350,994	69,654	420,649	658,670	(238,021)	503,276	0	6,484,576
2016	6,484,576	8,992,207	72.1%	(2,507,631)	834,288	44.32%	369,779	72,500	442,279	681,438	(239,160)	525,112	0	6,770,528
2017	6,770,528	9,236,885	73.3%	(2,466,357)	869,145	44.83%	389,665	75,529	465,194	703,844	(238,651)	548,724	0	7,080,602
2018	7,080,602	9,489,746	74.6%	(2,409,144)	906,267	45.30%	410,540	78,755	489,295	727,837	(238,542)	574,310	0	7,416,369
2019	7,416,369	9,749,431	76.1%	(2,333,062)	945,445	45.68%	431,833	82,159	513,993	751,588	(237,596)	602,050	0	7,780,823
2020	7,780,823	10,017,495	77.7%	(2,236,671)	986,990	45.96%	453,623	85,769	539,392	772,993	(233,600)	632,282	0	8,179,505
2021	8,179,505	10,299,492	79.4%	(2,119,987)	1,031,829	46.25%	477,229	89,666	566,895	792,856	(225,961)	665,488	0	8,619,032
2022	8,619,032	10,599,300	81.3%	(1,980,268)	1,080,428	46.68%	504,295	93,889	598,184	814,477	(216,292)	702,148	0	9,104,888
2023	9,104,888	10,917,437	83.4%	(1,812,549)	1,132,136	47.08%	533,061	98,383	631,444	838,053	(206,609)	742,631	0	9,640,909
2024	9,640,909	11,253,590	85.7%	(1,612,681)	1,187,212	47.32%	561,783	103,169	664,952	856,624	(191,671)	787,469	0	10,236,707
2025	10,236,707	11,558,848	88.6%	(1,322,142)	1,244,968	47.49%	591,297	108,188	699,484	879,275	(179,791)	837,112	0	10,894,028
2026	10,894,028	11,927,076	91.3%	(1,033,048)	1,305,533	48.01%	626,844	113,451	740,295	903,422	(163,128)	892,028	0	11,622,928
2027	11,622,928	12,329,651	94.3%	(706,722)	1,369,045	47.71%	653,171	118,970	772,141	928,486	(156,344)	952,442	0	12,419,026
2028	12,419,026	12,750,275	97.4%	(331,248)	1,435,647	47.62%	683,590	124,758	808,348	953,088	(144,740)	1,018,599	0	13,292,885

1.5(a) Actuarial Projections – Projections at Calculated Rate (continued)

Table 3
State of Alaska TRS
Financial Projections (in thousands)

As of June 30	Investment Return 8.25%				Annual Population Increase 2.00%							Recognized Asset Gain	Ending Actuarial Assets	
	----- Valuation Amounts on July 1 -----				----- Flow Amounts During Following 12 Months -----									
	Actuarial Assets	Accrued Liability	Funding Ratio	Surplus* (Deficit)	Total Salaries	Employer Cib Rate	Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings		
2003	3,752,285	5,835,609	64.3%	(2,083,324)	532,630	12.00%	63,916	46,286	110,201	350,944	(240,742)	591,982	23,523	4,127,048
2004	3,822,351	6,089,968	62.8%	(2,267,617)	556,132	16.00%	88,981	48,328	137,309	378,310	(241,001)	316,252	23,523	3,921,125
2005	3,921,125	6,336,661	61.9%	(2,415,536)	577,778	38.85%	224,479	50,209	274,688	400,780	(126,092)	327,200	23,523	4,145,755
2006	4,145,755	6,585,496	63.0%	(2,439,740)	595,987	39.34%	234,466	51,791	286,257	424,297	(138,040)	343,299	23,523	4,374,537
2007	4,374,537	6,835,398	64.3%	(2,460,861)	619,514	40.62%	251,665	53,836	305,500	448,441	(142,941)	360,031	60,939	4,652,566
2008	4,652,566	7,086,824	65.7%	(2,434,258)	644,925	40.90%	263,783	56,044	319,827	474,017	(154,190)	377,476	0	4,875,853
2009	4,875,853	7,338,846	66.4%	(2,462,993)	672,605	40.95%	275,405	58,449	333,854	500,780	(166,926)	395,372	0	5,104,299
2010	5,104,299	7,590,899	67.2%	(2,486,600)	702,790	40.55%	284,960	61,072	346,032	529,487	(183,455)	413,537	0	5,334,382
2011	5,334,382	7,840,095	68.0%	(2,505,714)	735,215	40.69%	299,194	63,890	363,084	557,384	(194,300)	432,072	0	5,572,154
2012	5,572,154	8,089,136	68.9%	(2,516,982)	769,353	40.66%	312,797	66,857	379,654	584,553	(204,899)	451,251	0	5,818,505
2013	5,818,505	8,339,612	69.8%	(2,521,106)	806,136	40.85%	329,341	70,053	399,394	610,446	(211,052)	471,321	0	6,078,774
2014	6,078,774	8,593,663	70.7%	(2,514,890)	845,443	41.03%	346,886	73,469	420,355	635,774	(215,419)	492,613	0	6,355,967
2015	6,355,967	8,853,817	71.8%	(2,497,849)	888,032	41.23%	366,135	77,170	443,305	660,823	(217,518)	515,395	0	6,653,844
2016	6,653,844	9,121,477	72.9%	(2,467,634)	933,968	41.42%	386,840	81,167	468,002	684,136	(216,135)	540,027	0	6,977,735
2017	6,977,735	9,399,227	74.2%	(2,421,492)	983,213	41.60%	408,975	85,441	494,416	707,236	(212,819)	566,883	0	7,331,800
2018	7,331,800	9,691,030	75.7%	(2,359,230)	1,036,011	41.72%	432,237	90,029	522,266	732,093	(209,827)	596,218	0	7,718,192
2019	7,718,192	9,996,210	77.2%	(2,278,019)	1,092,237	41.77%	456,208	94,915	551,123	756,857	(205,734)	628,264	0	8,140,722
2020	8,140,722	10,317,161	78.9%	(2,176,439)	1,152,307	41.73%	480,836	100,135	580,972	779,450	(198,478)	663,422	0	8,605,667
2021	8,605,667	10,660,343	80.7%	(2,054,676)	1,217,279	41.70%	507,565	105,782	613,346	800,713	(187,367)	702,239	0	9,120,538
2022	9,120,538	11,030,644	82.7%	(1,910,106)	1,287,738	41.78%	538,076	111,904	649,980	824,014	(174,034)	745,266	0	9,691,770
2023	9,691,770	11,429,585	84.8%	(1,737,815)	1,363,168	41.87%	570,736	118,459	689,195	849,564	(160,369)	792,956	0	10,324,357
2024	10,324,357	11,858,005	87.1%	(1,533,648)	1,443,955	41.80%	603,631	125,480	729,110	870,393	(141,283)	845,932	0	11,029,005
2025	11,029,005	12,366,708	89.9%	(1,237,702)	1,530,213	41.71%	638,274	132,976	771,250	896,222	(124,972)	904,738	0	11,808,771
2026	11,808,771	12,756,011	92.6%	(947,240)	1,621,625	41.91%	679,569	140,919	820,488	923,744	(103,256)	969,964	0	12,675,479
2027	12,675,479	13,293,814	95.3%	(618,335)	1,718,497	41.39%	711,260	149,337	860,597	952,577	(91,980)	1,041,933	0	13,625,433
2028	13,625,433	13,865,479	98.3%	(240,047)	1,821,156	41.07%	747,863	158,258	906,122	981,309	(75,187)	1,120,997	0	14,671,242

1.5(b) Actuarial Projections – Projections at Current Rate

Key Assumptions

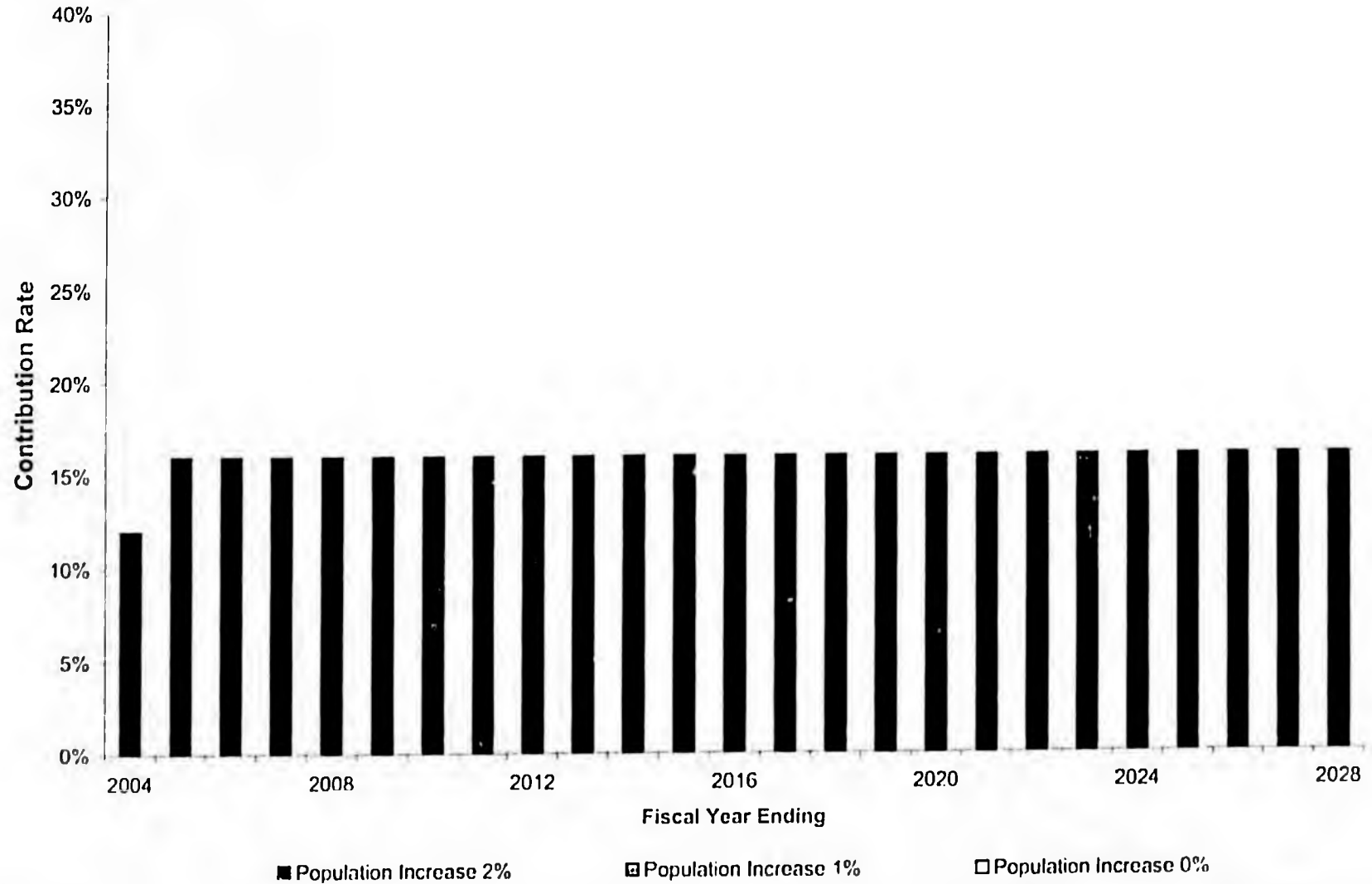
- All assumptions and methods are the same as Section 1.5(a), except:
 - Adopted contribution rate is maintained at the FY05 level for all future years

Observations

- System funding deteriorates under all three population scenarios
- Actuarially calculated rates escalate under all population scenarios
- Assuming 1% population growth, actuarially calculated rates increase to more than 100%, while the funding ratio decreases to 0% by the end of the projection period

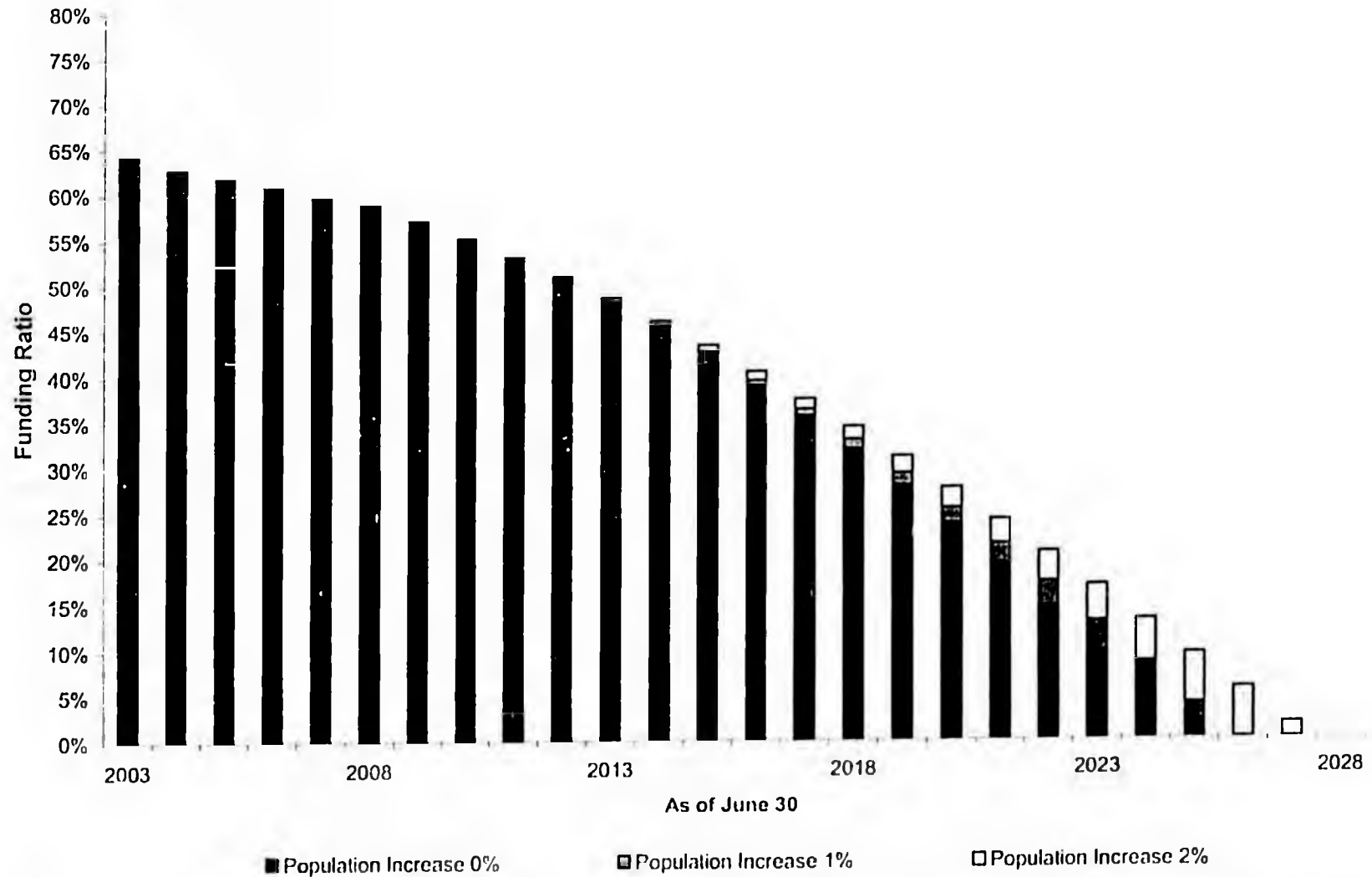
1.5(b) Actuarial Projections – Projections at Current Rate (continued)

Contribution Rate



1.5(b) Actuarial Projections – Projections at Current Rate (continued)

Funding Ratio



1.5(b) Actuarial Projections – Projections at Current Rate (continued)

Table 4
State of Alaska TRS
Financial Projections (In thousands)

As of June 30	Investment Return 8.25%				Annual Population Increase 1.00%								Recognized Asset Gain	Ending Actuarial Assets
	Actuarial Assets	Accrued Liability	Funding Ratio	Surplus (Deficit)	Total Salaries	Employer Ctb Rate	Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings		
2003	3,752,285	5,835,609	64.3%	(2,083,324)	532,630	12.00%	63,916	46,286	110,201	350,944	(240,742)	591,982	23,523	4,127,048
2004	3,822,351	6,089,921	62.8%	(2,267,570)	556,132	16.00%	88,981	48,328	137,309	378,310	(241,001)	316,252	23,523	3,921,125
2005	3,921,125	6,335,870	61.9%	(2,414,746)	573,377	16.00%	91,740	49,826	141,567	400,744	(259,177)	321,710	23,523	4,007,181
2006	4,007,181	6,583,111	60.9%	(2,575,930)	586,635	16.00%	93,862	50,979	144,840	424,193	(279,353)	326,037	23,523	4,077,388
2007	4,077,388	6,830,369	59.7%	(2,752,981)	604,620	16.00%	96,739	52,541	149,281	448,231	(298,951)	329,080	60,939	4,168,457
2008	4,168,457	7,077,875	58.9%	(2,909,418)	623,847	16.00%	99,815	54,212	154,028	473,672	(319,644)	330,712	0	4,179,525
2009	4,179,525	7,324,422	57.1%	(3,144,897)	644,648	16.00%	103,144	56,020	159,164	500,274	(341,111)	330,740	0	4,169,154
2010	4,169,154	7,569,118	55.1%	(3,399,963)	667,202	16.00%	106,752	57,980	164,732	528,795	(364,062)	328,938	0	4,134,030
2011	4,134,030	7,808,690	52.9%	(3,674,660)	691,229	16.00%	110,597	60,068	170,664	556,483	(385,819)	325,142	0	4,073,353
2012	4,073,353	8,045,390	50.6%	(3,972,037)	716,139	16.00%	114,582	62,233	176,815	583,454	(406,639)	319,278	0	3,985,992
2013	3,985,992	8,280,370	48.1%	(4,294,378)	742,797	16.00%	118,848	64,549	183,397	609,070	(425,674)	311,285	0	3,871,604
2014	3,871,604	8,515,355	45.5%	(4,643,751)	771,037	16.00%	123,366	67,003	190,369	634,054	(443,685)	301,105	0	3,729,024
2015	3,729,024	8,752,349	42.6%	(5,023,325)	801,545	16.00%	128,247	69,654	197,902	658,670	(460,768)	288,638	0	3,556,894
2016	3,556,894	8,992,207	39.6%	(5,435,313)	834,288	16.00%	133,486	72,500	205,986	681,438	(475,452)	273,831	0	3,355,273
2017	3,355,273	9,236,885	36.3%	(5,881,612)	869,145	16.00%	139,063	75,529	214,592	703,844	(489,252)	256,628	0	3,122,649
2018	3,122,649	9,489,746	32.9%	(6,367,097)	906,267	16.00%	145,003	78,755	223,757	727,837	(504,080)	236,825	0	2,855,395
2019	2,855,395	9,749,431	29.3%	(6,894,036)	945,445	16.00%	151,271	82,159	233,430	751,588	(518,158)	214,196	0	2,551,433
2020	2,551,433	10,017,495	25.5%	(7,466,061)	986,990	16.00%	157,918	85,769	243,688	772,993	(529,305)	188,659	0	2,210,788
2021	2,210,788	10,299,492	21.5%	(8,088,704)	1,031,829	16.00%	165,093	89,666	254,759	792,856	(538,098)	160,193	0	1,832,884
2022	1,832,884	10,599,300	17.3%	(8,766,416)	1,080,428	16.00%	172,868	93,889	266,758	814,477	(547,719)	128,619	0	1,413,784
2023	1,413,784	10,917,437	12.9%	(9,503,652)	1,132,136	16.00%	181,142	98,383	279,524	838,053	(558,529)	93,598	0	948,854
2024	948,854	11,253,590	8.4%	(10,304,736)	1,187,212	16.00%	189,954	103,169	293,123	856,624	(563,501)	55,036	0	440,389
2025	440,389	11,558,848	3.8%	(11,118,460)	1,245,623	16.00%	199,300	108,245	307,544	879,275	(571,731)	12,748	0	0
2026	0	11,927,076	0.0%	(11,927,076)	1,306,908	16.00%	209,105	113,570	322,675	903,422	(580,747)	0	0	0
2027	0	12,329,651	0.0%	(12,329,651)	1,371,207	16.00%	219,393	119,158	338,551	928,486	(589,935)	0	0	0
2028	0	12,750,275	0.0%	(12,750,275)	1,438,671	16.00%	230,187	125,020	355,208	953,088	(597,880)	0	0	0

Charts 1, 2, 3 and 4 reflect the analysis of the long-term past service cost distribution over current tiers and new tiers. They show the total number of employees, projected salaries, and corresponding past service cost payments. With the adoption of a new tier the past service cost is still distributed over total wages. This is independent of whether employees enter under the new tier or current tier structure.

HCS SB 141(FIN) creates a new defined contribution retirement tier to which no further past service cost will accrue. This saves the system from additional liability that could be created from adding new employees to current defined benefit tiers. In this way, HCS SB 141(FIN) limits the potential for accruing additional unfunded liability to the system.

Under HCS SB 141(FIN), the death and disability benefits to members remains unchanged from current status.

Health Care Costs

The composite health care medical plan coverage is actuarially computed at 2.5% of salary. There is language in the bill for an annual review of this figure to ensure that it is sufficient.

The analysis on pages 5 – 11 show the actuarial computed cost of providing medical benefits to members 60 month pre-Medicare eligible.

The HRA cost to the system is independent of actuarial analysis because it is a defined contribution account.

State of Alaska Public Employees' Retirement System
 Projections Based on July 1, 2003 Valuation
 Population Growth 1 Percent

Valuation Year	Fiscal Year	Annual Payment To Past Service Cost (000's)*					Present Value of Past Service Cost Payments (000's)**				
		Tier 1	Tier 2	Tier 3	Tier 4	Total	Tier 1	Tier 2	Tier 3	Tier 4	Total
						9,025,483	328,745	385,141	500,233	1,660,287	2,874,406
2003	2006	-	-	-	-	-	-	-	-	-	-
2004	2007	-	-	-	-	-	-	-	-	-	-
2005	2008	17,062	17,356	21,383	5,223	61,024	13,451	13,683	16,857	4,117	48,108
2006	2009	37,866	38,986	46,758	23,097	146,707	27,576	28,392	34,052	16,821	106,841
2007	2010	56,481	59,269	70,098	53,097	238,945	37,998	39,874	47,159	35,721	160,752
2008	2011	60,548	64,671	76,335	78,725	280,279	37,630	40,192	47,441	48,926	174,189
2009	2012	58,021	63,061	75,074	98,932	295,088	33,311	36,205	43,101	56,799	169,416
2010	2013	55,292	61,191	73,799	120,062	310,344	29,325	32,454	39,140	63,677	164,596
2011	2014	52,367	58,990	72,422	142,669	326,448	25,657	28,902	35,483	69,900	159,942
2012	2015	49,239	56,745	70,815	166,451	343,250	22,286	25,683	32,052	75,337	155,358
2013	2016	45,896	54,206	69,101	191,666	360,869	19,190	22,664	28,892	80,138	150,884
2014	2017	42,451	51,531	67,178	218,188	379,348	16,397	19,904	25,947	84,275	146,523
2015	2018	38,891	48,854	65,141	245,867	398,753	13,877	17,432	23,243	87,728	142,280
2016	2019	35,178	45,472	63,011	275,138	418,799	11,595	14,988	20,770	90,690	138,043
2017	2020	31,388	41,997	60,830	305,494	439,709	9,557	12,788	18,522	93,022	133,889
2018	2021	27,647	38,426	58,610	337,093	461,776	7,777	10,809	16,486	94,821	129,893
2019	2022	23,904	35,013	55,973	369,989	484,879	6,212	9,098	14,545	96,142	125,997
2020	2023	20,393	32,052	52,542	404,164	509,151	4,895	7,694	12,613	97,019	122,221
2021	2024	17,032	29,047	48,970	439,645	534,694	3,777	6,441	10,859	97,493	118,570
2022	2025	13,998	26,096	45,306	476,267	561,667	2,867	5,346	9,281	97,565	115,059
2023	2026	11,355	23,215	41,724	513,787	590,081	2,149	4,393	7,896	97,229	111,667
2024	2027	8,953	20,489	38,132	552,345	619,919	1,565	3,582	6,666	96,560	108,373
2025	2028	6,887	17,821	34,402	589,722	648,832	1,112	2,878	5,556	95,237	104,783
2026	2029	2,192	6,473	13,174	264,403	286,242	327	966	1,965	39,445	42,703
2027	2030	1,247	4,334	9,420	220,582	235,583	172	597	1,298	30,400	32,467
2028	2031	331	1,379	3,215	88,171	93,096	42	176	409	11,225	11,852
Total		714,619	896,674	1,233,413	6,180,777	9,025,483					

* Expected employer contributions paid during fiscal year

** Expected employer contributions during fiscal year, discounted to June 30, 2003 at 8.25%

Comparison of the States Normal Retirement by Age/Service

A = Any				Rule: Age+Service = Number				
State	Teachers			Other*				
Georgia	60/10		A/30		65/10		A/30	
Indiana	65/10	60/15	55/30		65/10	60/15		Rule 85
Massachusetts	65/10		A/20		65/10		A/20	
Colorado					65/5	50/30		Rule 80
Idaho					65/5	60/5		
Missouri	60/5		A/30	Rule 80	65/5	60/15		Rule 80
Nebraska	65/5		A/35	Rule 85	65/5			
Nevada					65/5	60/10	A/30	
New Mexico	65/5	60/15	A/25		65/5	60/20	A/25	
North Carolina					65/5	60/25	A/30	
South Carolina					65/5		A/28	
Virginia					65/5	50/30		
Washington	65/A				65/5			
Utah					65/4		A/30	
North Dakota	65/A			Rule 85	65/3			Rule 85
South Dakota					65/3			Rule 85
Maryland	65/2	62/5	A/30		65/2	62/5	A/30	
Minnesota	65/3	62/30			65/1			
Arizona					65/A	62/10		Rule 80
Iowa					65/A	62/20		Rule 88
Kansas					65/A	62/10		Rule 85
Kentucky	55/5		60/27		65/A		A/27	
Montana	60/5		A/25		65/A	60/5	A/30	
Vermont	62/A		A/30		65/A		A/30	
Wisconsin					65/A			
Hawaii					62/10	55/30		
Maine					62/10	62/5	60/5	
Oklahoma	62/5			Rule 90	62/8			Rule 90
Florida					62/6		A/30	
Delaware					62/5	60/15	A/30	
New York	62/5	55/30			62/5	55/30		
Alabama	60/10		A/25		60/10		A/25	
Louisiana	65/20	55/25	A/30		60/10	55/25	A/30	
Michigan					60/10		55/30	
New Jersey	60/10		A/25		60/10			
Rhode Island					60/10		A/28	
Illinois	62/5	60/10	55/35		60/8			Rule 85
Alaska	60/8		A/20		60/5		A/30	
California	55/5	50/30			60/5	50/5	55/5	
Ohio	60/5	55/25	A/30		60/5	55/25	A/30	
Oregon					60/5			
Tennessee					60/5		A/30	
Texas	65/5			Rule 80	60/5			Rule 80
West Virginia	60/5	55/30	A/35		60/5			Rule 80
Mississippi					60/4		A/25	
Wyoming					60/4			Rule 85
Pennsylvania	62/1	60/30	A/35		60/3		A/35	
New Hampshire					60/A			
Connecticut	60/20		A/35		55/10		A/25	
Arkansas	60/5		A/28					

* Other may include teachers and public safety personnel in some states

CSSB 141(FIN) Sectional Analysis

Defined Contribution (DC) Plan Elements

◆ Required Contributions

- Employee: 8.0% of compensation, deducted pre-tax by employer.
14.25.340(a) (pg 15), 39.35.730(a) (pg 81).
- Employer: 4.5% of employee compensation.
14.25.350(a) (pg 16), 39.35.750(a) (pg 82)
- Total individual account contributions: 12.5%.

◆ Optional Contributions

- A member may elect to contribute additional earnings not to exceed the limits established by the Internal Revenue Code.
14.25.340(b) (pg 15), 39.35.730(b) (pg 81)

◆ Rollovers 14.25.360 (pg 16), 39.35.760 (pg 82)

- Employees can take their individual account with them when they leave employment.
- Employees can "roll" in other qualified funds when they are hired.

◆ Vesting 14.25.390 (pg 18), 39.35.790 (pg 84)

- All members of the DC plan are immediately vested in their own contributions and related earnings.
- Members are gradually vested in the employer contributions and related earnings on the following schedule:
 - ⇒ 25% after two years;
 - ⇒ 50% after three years;
 - ⇒ 75% after four years;
 - ⇒ 100% after five years.

◆ Investment of Accounts 14.25.400 (pg 18), 39.35.800 (pg 84)

- The Alaska Retirement Management Board will provide a range of investment options.
- Participants direct the investment of their funds.

◆ Distribution of Accounts

14.25.410(pg 19) -- 14.25.440 (pg 22), 39.35.810 (pg 85) -- 39.35.840 (pg 87)

- Employee may elect a distribution of funds upon termination of employment, after 60 days.
- Subject to IRC regulations.
- May receive funds prior to 60 days for financial hardship.

CSSB 14(FIN) Sectional Analysis

Medical Program Elements

- ◆ **Required Contribution by Employer** 14.25.350(b) (pg 16), 39.35.750(b) (pg 82)
 - 1.75% of employee compensation.
 - Contribution is made to group health and life insurance trust fund to be used for employer share of retiree's monthly medical premiums.

- ◆ **Eligibility** 14.25.470 (pg 26), 39.35.870 (pg 92)
 - A member is eligible to elect medical benefits if the member:
 - ⇒ is 65 years of age and has at least 10 years of service; or
 - ⇒ has 25 years of service as a peace officer / firefighter; or
 - ⇒ has 30 years of service for all others.
 - A member's surviving spouse is eligible for medical benefits if the member was eligible to elect medical benefits at the time of the member's death.

- ◆ **Benefits** 14.25.480 (pg 26), 39.35.880 (pg 92)
 - Medical benefits include *access* to major medical insurance and the health reimbursement arrangement (HRA).
 - *Access* means that an eligible person may not be denied insurance coverage except for failure to pay the required premium.
 - An eligible person may participate in the medical insurance, the HRA, or both.
 - An irrevocable decision to elect major medical insurance must be made by age 70 ½.

- ◆ **Major Medical Insurance** Sec. 14.25.480 (pg 26), Sec. 39.35.880 (pg 92)
 - Insurance coverage for an eligible member includes the member's spouse and the member's dependent children.
 - Insurance coverage for a surviving spouse includes the member's dependent children if they are dependent on the surviving spouse.
 - Retirees who meet the required years of service, but who are less than Medicare age eligible (presently age 65), must pay the full premium to receive coverage.
 - Retirees who are Medicare age eligible will pay only a portion of monthly medical premiums depending on years of service:
 - + 10-14 years = 30%
 - + 15-19 years = 25 %
 - + 20-24 years = 20%
 - + 25-29 years = 15%
 - + 30+ years = 10%
 - Only one premium per retiree and family.
 - Different premiums developed for single retirees and retirees with spouse and/or children.

CSSB 141(FIN) Sectional Analysis

- ◆ **Health Reimbursement Arrangement (HRA) 39.30.300 (pg 57)**
 - **Employer Fund**
 - ⇒ The HRA Trust is an employer owned fund. 39.30.350 (pg 58)
 - ⇒ Employee contributions are not permitted.
 - ⇒ Employers may use surplus funds held in the trust to credit individual employee records with the annual contributions owed by the employer.
 - **Required Contributions 39.30.370 (pg 58)**
 - ⇒ Employer contributes an annual (and equal) dollar amount per employee to the health insurance trust fund.
 - ⇒ Amount is 2% of employer's annual average group compensation.
 - ⇒ Contribution is recorded in both an individual employee account and an employer record.
 - ⇒ Interest is posted to individual accounts annually, the rate determined by the ARMB.
 - ⇒ Contributions and interest accumulate over working lifetime of employees.
 - **Termination of Employment 39.30.380 (pg 58)**
 - ⇒ Individual accounts of record are maintained for five years if an employee terminates without retiring.
 - ⇒ Terminated employee accounts revert to the employer unless the individual returns to work within the five-year period.
 - ⇒ A person who returns to work within the five-year period is attributed the account balance recorded in their name on the date of termination.
 - **Reimbursements**
 - ⇒ Who is eligible? 39.30.390 (pg 58)
 - + Persons who meet the eligibility requirements for medical benefits.
 - + Dependent children are eligible if both retiree and spouse die.
 - ⇒ Reimbursements made for qualified medical expenses under IRC 213(d), including medical premium payments. 39.30.400 (pg 58)
 - ⇒ Total reimbursements are limited to an individual's recorded account.
 - ⇒ No set limits other than exhaustion of account balance.

CSSB 141(FIN) Sectional Analysis

Other Plan Elements

- ◆ **Option to Convert from DB to DC Plan** 14.25.540 (pg 30), 39.35.940 (pg 96)
 - Unvested, active members of PERS and TRS are eligible to convert to DC plan.
 - Employer must first make choice to offer this option to all their employees.
 - Participation in DC plan is in lieu of the DB plan; all rights to DB plan are forfeit.
 - A member's individual account balance will be rolled into a new account under the DC plan.
 - A member's employer shall make a 100% matching contribution with new funds (i.e., cannot transfer employer portion from the DB trust fund).
 - A member's years of service under the DB plan will be counted toward the years of service required for medical benefits eligibility.

- ◆ **Participating Employers**
 - Mechanism is included for political subdivisions and public organizations that do not currently participate in PERS to join the DC plan in the future.
39.35.950-39.35.955 (pg 98)
 - Includes specific employers already participating in PERS and TRS to allow their future employees to participate in the DC Plan (DB plan closes on July 1, 2005).
14.25.560-14.25.580 (pg 32-33), 39.35.965-39.35.970 (pg 99)
 - ⇒ Legislators who have been teachers
 - ⇒ National Education Association employees
 - ⇒ Special Education Service Agency employees
 - ⇒ Army and Air National Guard employees
 - ⇒ North Pacific Fishery Management Council employees

Changes to Existing Retirement System

- ◆ **Employee and Employer Contributions to the Defined Benefit Plans**
Sec. 8 (pg 7), Sec. 88 (pg 68-69)
 - The employee contribution rate is changed to the greater of:
 - ⇒ the amount set in statute prior to enactment of this bill; or
 - ⇒ one-half of the normal cost rate as determined by the ARM Board.
 - The employer contribution rate is changed so that it may not be less than the difference between the employee contribution and the normal cost rate that is set by the ARM Board. Sec. 10 (pg 8), Sec. 96 (pg 72)

- ◆ **Ad-hoc Post Retirement Pension Adjustments** Sec. 17-18 (pg 11), Sec. 113 (pg 77)
 - Defines "financial condition of the retirement fund" for the ad-hoc post retirement pension adjustment as a 110% ratio of assets to liabilities (applicable only to Tier I retirees). (See editor's notes under AS 14.25.143 and AS 39.35.483)

CSSB 141(FIN) Sectional Analysis

- ◆ **University Optional Retirement Program (ORP)**
Sec. 35 (pg 38) through Sec. 51 (pg 42)
 - Changed AS 14.40.661-14.40.799 giving the Board of Regents flexibility to design both optional and mandatory retirement programs for future University employees.
 - Specifies the University's retirement programs are not subject to collective bargaining.
 - Provides one-time option for current employees who chose to participate in PERS and TRS to transfer into the existing ORP.

- ◆ **Consolidation of Boards**
 - Eliminates:
 - ⇒ Public Employees' Retirement System Board
 - ⇒ Teachers' Retirement System Board.
 - ⇒ Alaska State Pension Investment Board.
 - Creates new Alaska Retirement Management Board (ARM Board) Sec. 59 (pg 46)
 - ⇒ 9 trustees appointed by the Governor
 - + Commissioner of Administration
 - + Commissioner of Revenue
 - + 3 Alaska residents who do not participate in the retirement systems
 - + 1 finance officer of a political subdivision
 - + 1 finance officer of a school district
 - + 1 PERS member (active or retired)
 - + 1 TRS member (active or retired)
 - ⇒ All trustees must have recognized competence (working or teaching) in one or more of the fields of investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis.
 - ⇒ Terms
 - + Staggered three years
 - + Limited to three consecutive terms with a required one-year break.

- ◆ **Powers and Duties of ARM Board** Sec. 61 (pg 47-50)
 - Manage the assets and set the investment objectives of the defined benefit trust fund to meet pension liabilities.
 - Annual actuarial valuation of system plans, coordinating with the retirement system administrator.
 - Analysis of actuarial assumptions experience, including a second opinion:
 - ⇒ Health costs assumptions annually.
 - ⇒ All other assumptions not less than every four years.
 - Audit of actuary not less than every four years.

CSSB 141(FIN) Sectional Analysis

- Rate setting:
 - ⇒ Employer contribution rates, including "normal cost" and "past service cost".
 - ⇒ Employee contribution rates if one-half of the "normal cost" is higher than the current rates set in statute.
 - ⇒ Interest rates credited to individual employee accounts.
 - ⇒ Interest rates credited to employee HRA account records.
- Provide a range of investment options for all employee-directed accounts.
- ◆ Other Duties of the former PERS and TRS Boards Transferred
 - To the Commissioner of Administration:
 - ⇒ Adoption of regulations governing the retirement systems.
14.25.003 (pg 2), 14.25.005 (pg 4), 39.35.003 (pg 61), 39.35.005 (pg 63)
 - ⇒ Requests for a waiver of any adjustment made to the retirement system accounts due to a change or error in contributions or benefit computations.
Sec. 21-23 (pg 12)
 - To the Office of Administrative Hearings:
 - ⇒ Adjudication of appeals related to decisions of the retirement system administrator. 14.25.006 (pg 5), 39.35.006 (pg 64), Sec. 129 (pg 105)
 - ⇒ Adjudication of appeals related to the denial of a waiver for repayment of overpayments. Sec. 24-25 (pg 13)
- ◆ Conditional Service Retirement Benefits Sec. 111 (pg 76)
 - Changes the credited service requirement to 120 days for legislative employees under AS 39.35.385(f).
- ◆ Repeal
 - Refunded prior members Sec. 131 (pg 105) <AS 14.25.062 and AS 39.35.350>
 - ⇒ Repealed effective June 30, 2010.
 - ⇒ The intent of the repeal is to relieve the "off books" liability of hundreds of millions of dollars represented by more than 77,000 people who have refunded out of the State's retirement system but who could return to work and be restored to the tier status they held prior to termination by repaying the amount refunded plus interest.
 - ⇒ In medical premiums alone, this amount stands at greater than \$107 million for one year in today's dollars.
- ◆ Fiscal Note
 - Appropriates \$69.5 million directly to the retirement trust funds on behalf of all PERS participating employers (includes small amount of TRS). This amount represents the 5% increase in PERS employer costs from FY2005 to FY2006.
 - PERS and TRS for school districts (\$38.1 million) is rolled into the BSA at \$4,919.



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

SENATE BILL 141 SPONSOR STATEMENT

For almost two years, the legislature has heard of the looming crisis in the State's retirement systems. The systems are underfunded by \$5 billion. Employer contribution rates have been raised by five percent per year for the past two years, and greater increases are required unless something is done soon. In the first sixty days of this legislative session, members of the Senate have worked diligently to understand and evaluate the problems in the retirement system in order to propose a solution to those problems. Senate Bill 141 offers a two-prong approach: (1) create a defined contribution retirement plan for the long-term solution to employer cost management; and (2) implement management changes to the existing system so we can begin to address the \$5 billion deficit situation there.

In 2003, the Governor appointed a subcommittee of the PERS and TRS Boards that was charged with researching and evaluating the concept of a new retirement tier. This subcommittee worked throughout 2004, performing research and analyses of information gathered from employers statewide and studying nationwide trends in both the public and private sectors. In November of 2004, the subcommittee presented two tier alternatives to the PERS and TRS Boards suggesting that a recommendation be forwarded to the Governor and the Legislature.

Unfortunately, the Boards opted not to forward a recommendation. However, the work done by the subcommittee did not go in vain. The Senate leadership used the subcommittee's work, as well as its own research and analysis, to draft this legislation. SB 141 offers a holistic solution to our problem and allows Alaska to join other states in retirement system reform.

The true long-term solution, 30 to 50 years from now, will be accomplished by the change in the retirement plan for future government employees from the traditional pension plan to a defined contribution (DC) plan, commonly known in the private sector as a 401(k). Such a plan has three clear advantages: (1) cost predictability; (2) portability between employers; and (3) clarity. Hundreds of thousands of private sector employers and other state retirement systems offer their employees this type of plan. SB 141 combines the DC plan features with the tradition of offering insurability for all retirees and an IRS allowable vehicle for tax free savings accounts used to pay for out-of-pocket medical expenses during retirement years. As Alaska's older tier employees retire out of the defined benefits system, and the new DC plan employees are brought in to replace them, the existing structure will become more stable.

Senate Bill 141
Sponsor Statement
Page Two

In the short-term, SB 141 implements the management changes needed to effectively address the \$5 billion deficit. It creates a single board to replace the separate public employees' and teachers' retirement system boards and the pension investment board. The new board is the Alaska Retirement Management (ARM) Board. The Arm Board will be more experienced with financial and pension matters than the current boards require and will be charged with greater emphasis on its fiduciary role to balance the retirement system assets to system liabilities.

SB 141 seems voluminous. The concepts, however, are simple and few. Please take the time to read the "Senate Finance Committee White Paper: SB 141". This document is a succinct compilation of much of the research undertaken to date. It describes more fully the features contained in SB 141 and provides the understanding of the framework for the discussions to come.

The Senate Finance Committee is committed to addressing this problem this legislative session.



Alaska State Legislature

Senate Majority Web: www.akrepublicans.org

Sponsor: FINANCE
Current Version: CSSB 141 (FIN)
Contact: Miles Baker, 465-3873

Fact Sheet for: Senate Bill 141

Short Title: PUBLIC EMPLOYEE/TEACHER RETIREMENT

Summary:

- Establishes a Defined Contribution (DC) Plan, Retiree Medical Benefit and Health Reimbursement Arrangement for new employees.
- Increases payroll contributions for existing employees by 0.5 percent annually until employers and employees share normal costs 50/50.
- Streamlines retirement system management by replacing the PERS, TRS and ASPIB boards with a newly created 9-member Alaska Retirement Management Board (ARMB) consisting of the commissioners of administration and revenue, 7 governor-appointed trustees with credentials or recognized competence in finance or accounting (3 non-beneficiary public members, a finance officer of PERS and one of TRS, one PERS member, one TRS member.)
- Strengthens the ARMB's fiduciary role to balance system assets and liabilities; provides more employer representation; and makes the ARMB responsible for setting employer contribution rates and adopting actuarial assumptions.
- Transfers the quasi-judicial responsibility for hearing appeals and waivers to the Office of Administrative Hearings.

Benefits:

- Strengthens management and fiduciary oversight of the state's retirement systems.
- Constrains growth of the unfunded liability.
- Establishes a portable defined contribution plan for new employees that, over time, reduces the state's dependence on riskier and less predictable defined benefit plans.

Background:

- Alaska's public retirement system assets have not kept up with obligations because of factors including rising health care costs, shifting demographic trends, market performance, and underestimation of system liabilities. The result is \$5.7 billion in underfunding. Last year, the Administration formed a work group to come up with solutions. This fall, after much research and analysis, the work group presented two alternatives to the PERS and TRS boards. The boards declined to forward a solution to the Legislature. Based on the recommendations of that work group, the Senate Finance Committee conducted its own analysis and is introducing the Retirement Security Act. Unlike a defined benefit plan in which employees are guaranteed a pension benefit regardless of cost, a DC plan provides employees with a retirement amount based on actual account contributions and investment earnings.

Testimony of Jerry Patterson
SB 141
22811 Glacier Hwy
Juneau, AK 99801
789-7328

My name is Jerry Patterson and I represent NEA Alaska Retired. I am also a former TRS board member. I would like to thank the chair and this committee for the opportunity to speak on SB 141.

What we are essentially doing is closing the defined benefit plan. When I was on the TRS board, I attended trustee training sessions and the information on closed funds tended to have two common characteristics. One, they were small and secondly, they were one hundred percent funded. We are neither small nor one hundred percent funded. I know of no precedent in the public sector for a fund of our size and with an un-funded liability being closed and thus of any model for us to follow. Basically, we are flying by the seat of our pants.

Normally, we would have a twenty-five year rolling amortization time period. But because we are closing the fund to new entrants and have a large un-funded liability, we need to front load the fund in a hurry. SB 141 requires that active member's retirement be fully funded and we need to get that money before they retire. How much money we need at this time is unknown because we apparently do not have accurate actuarial data. The other reason we need to frontload the plan is if we don't, the plan will run out of money and it will require year-by-year appropriations in the future to pay the benefits of the last group of retirees.

Another twist in SB 141 is that it requires that only the actives be fully funded. There is a large un-funded liability associated with those who are already retired that is not being addressed. What will happen is that money will go into the retirement fund with the idea that you are fully funding the actives when you are really not doing so. Current retirees will be taking out of the fund not only what was contributed for them but also the amount to cover their un-funded liability. Again, those left in the system at the end will need to be paid by a direct appropriation.

What kind of liability could a future legislature have? There are some 38,000 public employees under the age of 55. If they were to all to retire and live to 2035 they would collectively receive a 996 million dollar benefit in today's dollars. Mercer produced charts that showed that at a 16% contribution rate the TRS fund would run out of money in 2026. At an 11.77% contribution rate, PERS would be broke around 2034. Thus it is imperative that will have a solid understanding of how much money we need to put in now.

What is our funding source? It is the aggregate of all wages times the contribution rate. That funding source is going to shrink rapidly. First of all there are no new employees

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entering the system. Secondly, SB141 allows non-vested members to move to the defined contribution plan taking with them their own accumulated account plus an equal amount from the employer's previous contributions. And there will be of course a steady stream of retirements. With a shrinking salary base and smaller amounts of money coming into the fund, every downturn in the stock market, every spike in medical costs, and every new mortality table will have a profound effect on the fund and liabilities going forward.

My final comment is about the retirement funds themselves. At 12 billion dollars, they generate on average a billion a year in income. Do we really want to give up a billion dollars a year in income?

In closing, I would say that it would be prudent to learn as much as possible about the consequences of closing a retirement fund. I think it would be prudent to get a handle on the costs that are associated with closing a fund. And I think it would be prudent to get the best and latest actuarial numbers possible.

Thank you

Police & Fire

As of June 30, 2005

Death Benefit

Number	2727
Average Age	40.72
Average Credited Service	9.7
Average Annual Earnings	\$ 58,945
Number Vested	1739
Percent Vested	63.8%

	Retiree	Survivor	Disablitant
Average Age at Commencement	51.72	56.54	49.86
Average Monthly Benefit	\$ 2,835	\$ 1,265	\$ 1,945
Average Annual Benefit	\$ 34,020	\$ 15,180	\$ 23,340

Est Current Occ Death Benefit (50% Salary) or; \$ 29,473
 Est Current Occ Death Benefit (75% Retirement) \$ 25,515

Survivor Age at Death	Age	6.0%	7.0%	8.0%
25	55.4	\$31,238	\$35,844	\$40,571
26	54.5	\$31,308	\$35,899	\$40,612
27	53.5	\$31,390	\$35,963	\$40,662
28	52.5	\$31,477	\$36,033	\$40,716
29	51.6	\$31,561	\$36,100	\$40,769
30	50.6	\$31,660	\$36,179	\$40,831
31	49.6	\$31,765	\$36,265	\$40,899
32	48.7	\$31,866	\$36,347	\$40,965
33	47.7	\$31,985	\$36,446	\$41,045
34	46.7	\$32,113	\$36,551	\$41,131
35	45.8	\$32,235	\$36,653	\$41,214
36	44.8	\$32,380	\$36,775	\$41,314
37	43.9	\$32,519	\$36,892	\$41,412
38	42.9	\$32,684	\$37,032	\$41,529
39	42.0	\$32,842	\$37,168	\$41,643
40	41.0	\$33,029	\$37,330	\$41,781
41	40.1	\$33,210	\$37,486	\$41,915
42	39.1	\$33,425	\$37,674	\$42,076
43	38.2	\$33,631	\$37,855	\$42,233
44	37.3	\$33,852	\$38,050	\$42,403
45	36.3	\$34,115	\$38,284	\$42,607
46	35.4	\$34,369	\$38,511	\$42,807
47	34.5	\$34,640	\$38,755	\$43,024
48	33.6	\$34,931	\$39,018	\$43,259
49	32.7	\$35,243	\$39,301	\$43,513
50	31.8	\$35,578	\$39,606	\$43,789
51	30.9	\$35,937	\$39,936	\$44,088
52	30.0	\$36,324	\$40,293	\$44,414
53	29.1	\$36,741	\$40,679	\$44,768
54	28.2	\$37,191	\$41,098	\$45,154
55	27.4	\$37,622	\$41,500	\$45,527
56	26.5	\$38,144	\$41,990	\$45,982
57	25.6	\$38,709	\$42,523	\$46,481

State of Alaska

Division of Retirement & Benefits

Normal Cost Rate and Actuarial Computed Rate from FY 1983 through FY 2006

Valuation report date June 30	Fiscal year of rate	Normal Cost rate PERS	Actuarial Computed Rate PERS	Normal Cost rate TRS	Actuarial Computed Rate TRS
1980	1983	11.46%	13.78%	11.95%	16.84%
1981	1984	12.03%	13.68%	13.51%	17.42%
1982	1985	11.36%	13.62%	13.64%	17.96%
1983	1986	11.82%	13.59%	13.13%	17.36%
1984	1987	12.31%	13.84%	13.91%	13.28%
1985	1988	11.13%	9.55%	11.62%	13.28%
1986	1989	10.20%	9.38%	9.36%	11.16%
1987	1990	9.23%	9.30%	9.14%	8.19%
1988	1991	10.37%	12.00%	11.86%	12.27%
1989	1992	12.00%	14.20%	13.26%	15.16%
1990	1993	12.83%	13.58%	14.07%	19.65%
1991	1994	10.18%	13.72%	9.05%	15.59%
1992	1995	10.90%	13.70%	8.57%	13.36%
1993	1996	11.29%	12.82%	9.06%	12.48%
1994	1997	10.36%	12.14%	9.70%	14.96%
1995	1998	10.61%	11.90%	10.10%	14.94%
1996	1999	9.85%	7.74%	8.97%	10.52%
1997	2000	9.89%	7.36%	9.21%	13.00%
1998	2001	8.67%	7.03%	8.99%	10.55%
1999	2002	8.07%	6.56%	8.88%	7.09%
2000	2003	10.07%	6.12%	9.40%	8.29%
2001	2004	9.53%	6.77%	10.36%	14.44%
2002	2005	13.31%	24.91%	14.76%	35.57%
2003	2006	13.24%	25.63%	14.28%	38.85%

Normal Cost Rate: present value of benefits, which are expected to be credited with respect to service during the year beginning on the valuation date.

Actuarial Computed Rate: after comparing plan assets and liabilities, an actuarial rate is computed that would fully fund the retirement systems over 25 years. There are two components: the normal cost rate and the past service rate necessary to pay any unfunded liability. Both rates account for differences between actual experience versus anticipated results, changes in actuarial assumptions and / or methods, changes in statutory provisions, and the difference between the rate actually adopted by the Boards for a particular year versus the computed rate.

5 year average PERS 10.84%
 5 year average TRS 11.54%
 24 year average PERS 10.86%
 24 year average TRS 11.11%

TESTIMONY ON CS SB 141 [amHSA]

Sam Trivette

President

Retired Public Employees of Alaska

- I'm retired from the Alaska Department of Corrections after 32 yrs. of service to Alaskans. 19 years of that time I served as the Director of the Alaska Parole Board, and in that capacity, worked closely with the Legislature in a complete rewrite of the Parole Administration Act and in rewriting other legislation and developing regulations. So I understand the enormous responsibility of dealing with the 100+ page bill.
- As the President of the Retired Public Employees of Alaska, I have attended many of the PERS/TRS Board & SPIB meetings in recent years. I have watched them work and I've participated extensively in their meetings.
- I have attended or watched almost all of the Senate Finance and House State Affairs Committee hearings on the retiree bills since they were introduced. I've spent countless hours discussing issues surrounding retiree legislation with numerous people. Everyone I've talked to thinks the system needs change and RPEA agrees. But citizens are asking that the problem areas be clearly & accurately identified, and responsible viable options be studied & discussed before we try to design fixes.
- Here are some of my observations.
 1. The State's contracted actuary made significant errors in judgment and in calculations, that resulted in seriously understating the current and future liabilities of the retiree systems. [A few—mortality tables, salary schedules, medical benefits, statutory change impacts]
 2. Because of the significant errors beginning in the mid-90's, the actuary's advice to the PERS/TRS Board resulted in the adoption of artificially low rates, at a time when full funding would have resulted in a much lower shortfall today.
 3. Many unfunded "benefit enhancements" created by the legislature or employers over the years, have resulted in significant unintended liabilities for the retirement system. These "unfunded enhancements" refer to any law, regulation or practice that allows an employee to capture a benefit that is not fully actuarially funded. Many are legislative decisions, [allowing local governments & districts to provide retirement benefits to elected officials with minimal system contributions; allowing legislative staff to "vest" in the retirement system with full benefits with minimal contributions. Some others are the result of local government decisions, such as allowing senior employees significant overtime pay during the 3 high

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years, or paying employee bonuses to encourage retirement, significantly increasing the employee's retirement pay.

4. One example in a recent hearing is there are about 20 local elected officials, in just one location, that are making minimal payments into the retirement system, but these officials will be eligible for full retirement benefits. Multiply this impact around the State.

I firmly believe that benefits that are not fully funded, must not be allowed.

The logical question is if these laws and rules were changed to disallow the unfunded benefits, how much money would be saved? Would there even be A NEED to consider the drastic move to a defined contribution system? If you review the minutes of the PERS & TRS meetings last fall when they did not recommend a new Defined Contribution plan, they believed there were many other options that they were not allowed to put forth & study, that could put the retirement system on sound footing. Some options include increasing the employee contribution to the fund, reducing the employer Supplemental Benefits System contributions, raising the number of years of service before vesting, and of course adjusting the health benefits package. These & other options need to be fully studied & carefully considered BEFORE adopting a new Tier.

You've been told there has been finger pointing between the retiree Boards in recent years. That simply is not true. The three Boards meet jointly at least several times each year & work very cooperatively. In fact, many of the decisions by the PERS/TRS Boards that deal with the "cost savings" or liability side of the equation, have positively affected the fund status.

- Most of you have probably heard about the education program on generic drugs that is now saving \$5-6 Million a year by encouraging retirees to use generic vs. brand name medications, and also having prescriptions filled by mail order, resulting in further savings to the State.
- You probably haven't heard about the savings to the State in the Term Life Insurance Program. Retirees and the State had been overpaying premiums & fees to the firm administering the retiree self funded program for years. This problem was identified after probing of the PERS/TRS Board members, and the fees to the State & the retiree premiums significantly reduced.
- PERS/TRS retirees for years were paying more than necessary into the self funded retiree Dental/Audio/Visual Plan. By pushing for accurate expense information on the plan, the Boards recommended the State increase the benefits. The plan continued to make these increased reimbursements for 3 years before the premiums had to be increased. These efforts bought lots of good will from the retirees for the system's attempts to hold down retiree expenses.
- RPEA members continue to work diligently with the PERS/TRS Boards to identify responsible cost savings. Their next meeting is Monday, April 25. We will be discussing options that could save the retirement system millions more, if the Board recommendations are followed. Come see your Boards do their work.

Another important decision was made by the PERS/TRS Boards several years ago. After receiving the disturbing news in the early 2000's the funds that had been over 100% funded were now projected to be less than 80% funded, the Boards asked for a second opinion from another actuary. This second actuary report pointed out some significant problems with previous actuary assumptions, and these problems have been corrected.

Our belief is that some significant solutions to cost cutting still have not been identified. Most employees understand the current funding gap and would be more than willing to offer information and suggest potential solutions to this problem. Bring them to the table and ask their help.

Everyone involved with the system has identified health care costs as one of the primary culprits in the funding shortfall. Skyrocketing health care costs are a national crisis and are behind the massive increases in Medicare, Medicaid, & Worker Compensation costs as well. There is nothing the employees, the employers, the retirees, or any of the 3 Boards have done to cause this problem. Until ALL OF US put pressure on Congress and the health care industry to make changes, we will be stuck with relentless pressure on the retirement funds.

We agree that the employers do need relief this year and the next year in meeting their financial obligations to the retirement funds. You don't need to pass this bill to provide that funding. This bill poses significant Public Policy questions. Every Alaska citizen will be affected, not just public employees. You need to get the public buy-in for such major changes. That will be impossible at this late date in the session. Listen to our friends @ AARP & to others who urge you not to pass SB 141 this session. You need to take the time to look at reasonable, viable options. The final report by the Michigan actuary firm should provide you additional information on your next steps for a solution. Invite all the stakeholders to the table during the interim to come up with a plan.

We are here today because we want a viable system that will meet the needs of our kids, or grandkids, and all future Alaskans. Thank you again for the opportunity to testify.



Municipality of Anchorage

P.O. Box 196650 • Anchorage, Alaska 99519-0650 • Telephone: (907) 343-4425 • Fax: (907) 343-4450 <http://www.muni.org>

Mayor Mark Begich

Department of Employee Relations

November 19, 2004

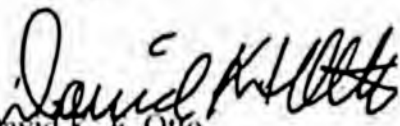
Public Employees' Retirement Board
PO Box 110203
Juneau, AK 99811-0203

Members of the Public Employees Retirement System Board:

The Municipality of Anchorage has followed the TIER IV development over the past year with much anticipation of and interest in the outcome. The Municipality is the second largest PERS employer, second only to the State of Alaska, and the decision made by the Board will potentially have significant impact on the Municipality of Anchorage and its future employees. As the TIER IV design concept approaches finalization, the Municipality of Anchorage would like to offer an opinion on the two options before the Board for consideration. The Municipality of Anchorage strongly urges the Board adopt the "Second Alternative" or Defined Contribution Alternative as the final TIER IV design. This design holds the least liability for employers going forward while still offering a competitive retirement product for our future employees.

The Municipality of Anchorage thanks the TIER Committee and the Board for its diligent efforts on behalf of the Municipality and its PERS employees.

Sincerely,


David K. F. Otto
Director, Employee Relations

Tier Design Alternatives

• Alternative 1 - DB/DC Hybrid Plan

• Alternative 2 - Pure DC Plan - eliminates Employer Risk

Community, Security, Prosperity

Hire Date	7/1/2005
Age at hire	25
Age at retirement	55
Subsidy Start Age	60
Service	30
Salary	\$42,245
Wage Inflation	3.0%
HRA contribution rate	1.0%
HRA accumulation rate	8.25%
Subsidy Base (7/1/2003)	\$5,982
Subsidy Index	5%
Subsidy percent	90%

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

HRA Fund at retirement	\$69,975
Total retiree contribution	\$336,978
Net retiree cost (w/HRA int)	\$262,959

Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
\$537,717	\$200,739	\$74,019

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pro MC Composite Premium	Pro MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	25	\$42,245	\$422	\$440	\$7,318	1.23	\$0	\$7,318	\$0	\$0	\$0	\$0
2	26	\$43,512	\$435	\$929	\$8,107	1.11	\$0	\$7,684	\$0	\$0	\$0	\$0
3	27	\$44,818	\$448	\$1,471	\$8,937	1.10	\$0	\$8,068	\$0	\$0	\$0	\$0
4	28	\$46,162	\$462	\$2,073	\$9,802	1.10	\$0	\$8,471	\$0	\$0	\$0	\$0
5	29	\$47,547	\$475	\$2,739	\$10,695	1.09	\$0	\$8,895	\$0	\$0	\$0	\$0
6	30	\$48,974	\$490	\$3,474	\$11,608	1.09	\$0	\$9,340	\$0	\$0	\$0	\$0
7	31	\$50,443	\$504	\$4,286	\$12,532	1.08	\$0	\$9,807	\$0	\$0	\$0	\$0
8	32	\$51,956	\$520	\$5,180	\$13,456	1.07	\$0	\$10,297	\$0	\$0	\$0	\$0
9	33	\$53,515	\$535	\$6,164	\$14,369	1.07	\$0	\$10,812	\$0	\$0	\$0	\$0
10	34	\$55,120	\$551	\$7,246	\$15,258	1.06	\$0	\$11,352	\$0	\$0	\$0	\$0
11	35	\$56,774	\$568	\$8,435	\$16,112	1.06	\$0	\$11,920	\$0	\$0	\$0	\$0
12	36	\$58,477	\$585	\$9,739	\$16,918	1.05	\$0	\$12,516	\$0	\$0	\$0	\$0
13	37	\$60,231	\$602	\$11,169	\$17,764	1.05	\$0	\$13,142	\$0	\$0	\$0	\$0
14	38	\$62,038	\$620	\$12,736	\$18,652	1.05	\$0	\$13,799	\$0	\$0	\$0	\$0
15	39	\$63,899	\$639	\$14,451	\$19,585	1.05	\$0	\$14,489	\$0	\$0	\$0	\$0
16	40	\$65,816	\$658	\$16,328	\$20,564	1.05	\$0	\$15,213	\$0	\$0	\$0	\$0
17	41	\$67,791	\$678	\$18,381	\$21,592	1.05	\$0	\$15,974	\$0	\$0	\$0	\$0
18	42	\$69,825	\$698	\$20,624	\$22,672	1.05	\$0	\$16,773	\$0	\$0	\$0	\$0
19	43	\$71,919	\$719	\$23,073	\$23,805	1.05	\$0	\$17,611	\$0	\$0	\$0	\$0
20	44	\$74,077	\$741	\$25,748	\$24,995	1.05	\$0	\$18,492	\$0	\$0	\$0	\$0
21	45	\$76,299	\$763	\$28,666	\$26,245	1.05	\$0	\$19,416	\$0	\$0	\$0	\$0
22	46	\$78,588	\$786	\$31,848	\$27,558	1.05	\$0	\$20,387	\$0	\$0	\$0	\$0
23	47	\$80,946	\$809	\$35,318	\$28,936	1.05	\$0	\$21,407	\$0	\$0	\$0	\$0
24	48	\$83,374	\$834	\$39,099	\$30,382	1.05	\$0	\$22,477	\$0	\$0	\$0	\$0
25	49	\$85,875	\$859	\$43,218	\$31,901	1.05	\$0	\$23,601	\$0	\$0	\$0	\$0
26	50	\$88,452	\$885	\$47,704	\$33,496	1.05	\$0	\$24,781	\$0	\$0	\$0	\$0
27	51	\$91,105	\$911	\$52,588	\$35,171	1.05	\$0	\$26,020	\$0	\$0	\$0	\$0
28	52	\$93,838	\$938	\$57,902	\$36,930	1.05	\$0	\$27,321	\$0	\$0	\$0	\$0
29	53	\$96,654	\$967	\$63,685	\$38,776	1.05	\$0	\$28,687	\$0	\$0	\$0	\$0
30	54	\$99,553	\$996	\$69,975	\$40,715	1.05	\$0	\$30,121	\$0	\$0	\$0	\$0
31	55	\$0	\$0	\$31,268	\$42,751	1.05	\$42,751	\$31,627	\$0	\$42,751	\$69,975	\$42,751
32	56	\$0	\$0	\$0	\$44,888	1.05	\$44,888	\$33,200	\$0	\$44,888	\$31,268	\$31,268
33	57	\$0	\$0	\$0	\$47,133	1.05	\$47,133	\$34,809	\$0	\$47,133	\$0	\$0
34	58	\$0	\$0	\$0	\$49,490	1.05	\$49,490	\$36,612	\$0	\$49,490	\$0	\$0
35	59	\$0	\$0	\$0	\$51,964	1.05	\$51,964	\$38,443	\$0	\$51,964	\$0	\$0
36	60	\$0	\$0	\$0	\$54,562	1.05	\$54,562	\$40,305	\$36,329	\$18,234	\$0	\$0
37	61	\$0	\$0	\$0	\$57,290	1.05	\$57,290	\$42,383	\$38,145	\$19,145	\$0	\$0
38	62	\$0	\$0	\$0	\$60,155	1.05	\$60,155	\$44,503	\$40,052	\$20,102	\$0	\$0
39	63	\$0	\$0	\$0	\$63,163	1.05	\$63,163	\$46,728	\$42,055	\$21,108	\$0	\$0
40	64	\$0	\$0	\$0	\$66,321	1.05	\$66,321	\$49,064	\$44,158	\$22,163	\$0	\$0

Projected Values for Health Reimbursement Accounts

1. PERS "other" early hire - 1% HRA
2. PERS "other" early hire - 2% HRA
3. PERS "other" late hire - 1% HRA
4. PERS "other" late hire - 2% HRA
5. PERS "other" with spouse late hire - 2% HRA
6. PERS police/ fire early hire - 1% HRA
7. PERS police/ fire early hire - 2% HRA
8. PERS police/ fire late hire - 1% HRA
9. PERS police/ fire late hire - 2% HRA
10. PERS police/ fire with spouse late hire - 2% HRA
11. TRS early hire - 1% HRA
12. TRS early hire - 2% HRA
13. TRS late hire - 1% HRA
14. TRS late hire - 2% HRA
15. TRS late hire with spouse - 2% HRA

State of Alaska Public Employees' Retirement System
 Projections Based on July 1, 2003 Valuation
 Population Growth 1 Percent

Valuation Year	Fiscal Year	Number of Active Members					Projected Salaries				
		Tier 1	Tier 2	Tier 3	Tier 4	Total	Tier 1	Tier 2	Tier 3	Tier 4	Total
2003	2006	8,814	9,747	15,503	-	34,064	445,612,413	444,684,916	570,485,671	-	1,460,783,000
2004	2007	8,047	8,982	13,585	3,790	34,404	467,087,982	466,115,785	597,979,304	-	1,531,183,071
2005	2008	7,405	8,317	12,108	6,919	34,749	443,170,178	450,811,828	555,400,922	135,653,981	1,585,036,909
2006	2009	6,774	7,707	10,932	9,683	35,096	424,502,518	437,058,318	524,190,528	258,937,144	1,644,688,508
2007	2010	6,186	7,130	9,982	12,150	35,448	403,437,555	423,347,289	500,700,859	379,263,597	1,706,749,300
2008	2011	5,629	6,580	9,189	14,404	35,802	382,811,771	408,881,345	482,626,935	497,736,648	1,772,056,699
2009	2012	5,102	6,053	8,483	16,522	36,160	361,864,984	393,298,549	468,217,939	617,020,112	1,840,401,584
2010	2013	4,596	5,541	7,828	18,556	36,521	340,672,881	377,023,399	454,701,421	739,749,209	1,912,146,910
2011	2014	4,116	5,060	7,221	20,490	36,887	318,726,365	359,035,502	440,790,891	868,339,057	1,986,891,815
2012	2015	3,657	4,598	6,662	22,338	37,255	296,324,286	341,498,361	426,172,270	1,001,713,372	2,065,708,289
2013	2016	3,227	4,163	6,142	24,096	37,628	273,207,199	322,670,777	411,338,155	1,140,931,235	2,148,147,366
2014	2017	2,823	3,759	5,662	25,760	38,004	250,100,955	303,593,105	395,776,219	1,285,453,959	2,234,924,238
2015	2018	2,442	3,351	5,209	27,382	38,384	227,013,934	285,172,271	380,239,911	1,435,170,115	2,327,596,231
2016	2019	2,088	2,970	4,785	28,925	38,768	203,568,141	263,142,249	364,638,155	1,592,183,766	2,423,532,311
2017	2020	1,765	2,612	4,387	30,392	39,156	180,221,422	241,135,972	349,270,550	1,754,077,565	2,524,705,509
2018	2021	1,466	2,286	3,998	31,797	39,547	157,594,474	219,036,817	334,095,610	1,921,529,873	2,632,256,774
2019	2022	1,204	2,003	3,604	33,132	39,943	135,374,479	198,287,761	316,989,771	2,095,331,248	2,745,983,259
2020	2023	971	1,739	3,229	34,403	40,342	114,803,685	180,436,391	295,789,651	2,275,266,070	2,866,295,797
2021	2024	769	1,499	2,876	35,601	40,745	95,361,469	162,631,692	274,183,515	2,461,558,447	2,993,735,123
2022	2025	602	1,281	2,551	36,719	41,153	77,984,925	145,383,837	252,406,495	2,653,379,532	3,129,154,789
2023	2026	457	1,087	2,248	37,773	41,565	62,993,027	128,788,268	211,466,581	2,850,292,445	3,273,540,321
2024	2027	342	914	1,965	38,759	41,980	49,492,319	113,259,938	210,793,089	3,053,333,799	3,426,879,145
2025	2028	251	761	1,726	39,662	42,400	38,098,152	98,589,336	190,319,061	3,262,437,964	3,589,444,513
2026	2029	176	629	1,516	40,503	42,824	28,813,450	85,087,382	173,172,799	3,475,706,069	3,762,779,700
2027	2030	121	513	1,324	41,294	43,252	20,882,176	72,578,868	157,741,958	3,693,564,973	3,944,767,975
2028	2031	82	413	1,147	42,043	43,685	14,715,638	61,276,477	142,887,499	3,918,714,657	4,137,594,271

State of Alaska Teachers' Retirement System
Projections Based on July 1, 2003 Valuation
Population Growth 1 Percent

Valuation Year	Fiscal Year	Annual Payment To Past Service Cost (000's)*				Present Value of Past Service Cost Payments (000's)**				Valuation Year	Fiscal Year
		Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3	Total		
					6,641,180	234,981	556,468	1,292,193	2,083,642		
2003	2006	-	-	-	-	-	-	-	-	2003	2006
2004	2007	6,980	9,593	-	16,573	6,197	8,518	-	14,715	2004	2007
2005	2008	17,788	24,905	3,006	45,699	14,590	20,427	2,465	37,482	2005	2008
2006	2009	25,439	39,182	10,938	75,559	19,275	29,688	8,288	57,251	2006	2009
2007	2010	32,308	52,810	22,625	107,743	22,614	36,965	15,837	75,416	2007	2010
2008	2011	37,667	65,879	38,629	142,175	24,356	42,598	24,978	91,932	2008	2011
2009	2012	41,798	78,123	59,033	178,954	24,967	46,666	35,263	106,896	2009	2012
2010	2013	44,603	90,110	84,663	219,376	24,612	49,724	46,718	121,054	2010	2013
2011	2014	41,368	91,262	104,203	236,833	21,088	46,521	53,118	120,727	2011	2014
2012	2015	36,134	89,494	122,882	248,510	17,016	42,143	57,866	117,025	2012	2015
2013	2016	32,120	86,133	142,453	260,706	13,973	37,469	61,970	113,412	2013	2016
2014	2017	28,198	82,184	163,044	273,426	11,332	33,027	65,521	109,880	2014	2017
2015	2018	24,584	78,105	184,063	286,752	9,126	28,995	68,331	106,452	2015	2018
2016	2019	21,092	73,696	205,866	300,654	7,233	25,274	70,601	103,108	2016	2019
2017	2020	17,728	68,979	228,378	315,085	5,616	21,853	72,352	99,821	2017	2020
2018	2021	14,436	64,019	251,717	330,172	4,225	18,736	73,668	96,629	2018	2021
2019	2022	11,255	58,561	276,071	345,887	3,043	15,832	74,638	93,513	2019	2022
2020	2023	8,295	52,544	301,457	362,296	2,072	13,123	75,290	90,485	2020	2023
2021	2024	5,958	45,885	327,731	379,574	1,375	10,587	75,614	87,576	2021	2024
2022	2025	4,243	40,041	353,458	397,742	904	8,534	75,335	84,773	2022	2025
2023	2026	3,018	34,630	379,047	416,695	594	6,818	74,631	82,043	2023	2026
2024	2027	2,077	28,560	405,767	436,404	378	5,195	73,803	79,376	2024	2027
2025	2028	1,412	21,972	431,092	454,476	237	3,692	72,434	76,363	2025	2028
2026	2029	634	13,123	312,993	326,750	98	2,037	48,582	50,717	2026	2029
2027	2030	297	9,099	264,947	274,343	43	1,305	37,991	39,339	2027	2030
2028	2031	129	5,595	203,072	208,796	17	741	26,899	27,657	2028	2031
Total		459,561	1,304,484	4,877,135	6,641,180	234,981	556,468	1,292,193	2,083,642		

* Expected employer contributions paid during fiscal year

** Expected employer contributions during fiscal year, discounted to June 30, 2003 at 8.25%

State of Alaska Teachers' Retirement System
 Projections Based on July 1, 2003 Valuation
 Population Growth 1 Percent

Valuation Year	Fiscal Year	Number of Active Members				Projected Salaries				Valuation Year	Fiscal Year
		Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3	Total		
2003	2006	3,533	6,342	-	9,875	224,321,356	308,308,644	-	532,630,000	2003	2006
2004	2007	3,250	5,878	846	9,974	234,219,606	321,912,859	-	556,132,465	2004	2007
2005	2008	2,778	5,474	1,821	10,073	223,184,546	312,480,238	37,711,792	573,376,576	2005	2008
2006	2009	2,461	5,113	2,600	10,174	197,505,616	304,204,838	84,924,658	586,635,112	2006	2009
2007	2010	2,165	4,794	3,317	10,276	181,302,565	296,350,944	126,966,178	604,619,687	2007	2010
2008	2011	1,903	4,499	3,977	10,379	165,278,628	289,067,834	169,500,401	623,846,863	2008	2011
2009	2012	1,655	4,224	4,604	10,483	150,568,581	281,424,078	212,655,302	644,647,961	2009	2012
2010	2013	1,421	3,960	5,206	10,587	135,653,981	274,058,655	257,489,490	667,202,126	2010	2013
2011	2014	1,180	3,701	5,812	10,693	120,738,837	266,359,405	304,130,800	691,229,042	2011	2014
2012	2015	1,002	3,408	6,390	10,800	104,129,396	257,896,541	354,113,311	716,139,248	2012	2015
2013	2016	842	3,115	6,951	10,908	91,516,579	245,407,254	405,873,541	742,797,374	2013	2016
2014	2017	703	2,841	7,473	11,017	79,515,576	231,752,432	459,769,165	771,037,173	2014	2017
2015	2018	579	2,575	7,973	11,127	68,718,148	218,322,646	514,504,374	801,545,168	2015	2018
2016	2019	468	2,320	8,451	11,239	58,527,452	204,500,661	571,260,238	834,288,351	2016	2019
2017	2020	368	2,075	8,908	11,351	48,901,037	190,275,091	629,969,112	869,145,240	2017	2020
2018	2021	278	1,831	9,356	11,465	39,625,543	175,721,394	690,920,442	906,267,379	2018	2021
2019	2022	201	1,586	9,792	11,579	30,763,576	160,070,010	754,611,837	945,445,423	2019	2022
2020	2023	142	1,336	10,217	11,695	22,597,174	143,143,575	821,249,702	986,990,451	2020	2023
2021	2024	99	1,125	10,588	11,812	16,196,454	124,733,989	890,898,931	1,031,829,374	2021	2024
2022	2025	70	940	10,920	11,930	11,524,721	108,766,612	960,136,374	1,080,427,707	2022	2025
2023	2026	47	745	11,257	12,049	8,200,329	94,088,348	1,029,847,409	1,132,136,086	2023	2026
2024	2027	32	548	11,590	12,170	5,650,344	77,695,776	1,103,866,284	1,187,212,404	2024	2027
2025	2028	21	462	11,809	12,292	3,869,034	60,221,757	1,181,532,316	1,245,623,107	2025	2028
2026	2029	12	389	12,013	12,414	2,535,473	52,493,844	1,251,970,579	1,306,999,896	2026	2029
2027	2030	7	321	12,211	12,539	1,484,959	45,493,666	1,324,737,179	1,371,715,804	2027	2030
2028	2031	4	260	12,400	12,664	887,477	38,582,813	1,400,496,073	1,439,966,363	2028	2031

Hi Katie:

I wanted to let you know that Mercer has costed the medical benefits for House CS for CS for Senate Bill No. 141 (STA)

Mercer states, "we have analyzed the expected liabilities associated with the new tier described in House Bill 238 medical provisions. The analysis is based on the following:

- Coverage is available only to members who retire from the System at normal retirement (age 60 with 10 years of service) or after 30 years of service.
- Members or their spouses who are less than age 60 pay the full cost for their coverage.
- Upon reaching age 60, members (or their spouses) are eligible for System-subsidized medical coverage. They will receive a defined subsidy amount based on Medicare eligibility status and service duration (3% per year of service, up to 30 years). Based on these provisions we estimate that the current normal cost rate (as a percentage of total payroll) will be 1.0% for TRS and 1.1% for PERS."

It took longer because I asked Mercer to run the models again. Please let me know if you have any questions. Thanks.

Melanie Millhorn, Director

State of Alaska

Department of Administration - Division of Retirement & Benefits

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Hire Date	7/1/2003
Age at hire	50
Age at retirement	60
Subsidy Start Age	60
Service	10

Subsidy Base Pro MC	\$5,962
Subsidy Base MC Eligible	\$2,903
Subsidy Index	5%
Discount Rate	8.25%
HB 238 Subsidy percent	30%
SB 141 Contribution percent	30%

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes 30 years to normal retirement
 Assumes demographic composition of retiree group does not change from current
 All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

House Bill 238		Senate Bill 141	
Total State Subsidy		Total State Subsidy	Total Retiree Contribution
\$179,627		\$634,600	\$279,289
\$30,220		\$55,850	\$77,819

Gross Cash Flow
Present Value at Retirement

Duration	Age	Valuation Medical Claim Cost	Medical Trend Factor	Medical Aging Factor	Valuation Rx Claim Cost	Rx Trend Factor	Rx Aging Factor	Valuation Total Claim Cost	Pro MC Composite Premium	MC Elig Composite Premium	Medical / Rx Composite Trend	Retiree Med/Rx Premium	Subsidy Base Pro-Medicare	Subsidy Base Medicare Eligible	Valuation Subsidy	Valuation Subsidy	Retiree Contribution
1	50	\$3,998	10.0%	2.5%	\$784	15.0%	3.5%	\$0	\$5,962	\$2,903	1.11	\$0	\$5,962	\$2,903	\$0	\$0	\$0
2	51	\$4,508	9.5%	2.5%	\$934	14.0%	3.5%	\$0	\$6,572	\$3,216	1.10	\$0	\$6,260	\$3,048	\$0	\$0	\$0
3	52	\$5,060	9.0%	2.5%	\$1,102	13.0%	3.5%	\$0	\$7,208	\$3,527	1.10	\$0	\$6,573	\$3,201	\$0	\$0	\$0
4	53	\$5,653	8.5%	2.5%	\$1,288	12.0%	3.5%	\$0	\$7,865	\$3,849	1.09	\$0	\$6,902	\$3,361	\$0	\$0	\$0
5	54	\$6,287	8.0%	2.5%	\$1,494	11.0%	3.5%	\$0	\$8,536	\$4,177	1.09	\$0	\$7,247	\$3,529	\$0	\$0	\$0
6	55	\$6,960	7.5%	3.5%	\$1,716	10.0%	3.0%	\$0	\$9,216	\$4,510	1.08	\$0	\$7,609	\$3,705	\$0	\$0	\$0
7	56	\$7,744	7.0%	3.5%	\$1,944	9.0%	3.0%	\$0	\$9,895	\$4,842	1.07	\$0	\$7,990	\$3,890	\$0	\$0	\$0
8	57	\$8,576	6.5%	3.5%	\$2,183	8.0%	3.0%	\$0	\$10,567	\$5,171	1.07	\$0	\$8,389	\$4,085	\$0	\$0	\$0
9	58	\$9,453	6.0%	3.5%	\$2,428	7.0%	3.0%	\$0	\$11,221	\$5,491	1.06	\$0	\$8,809	\$4,289	\$0	\$0	\$0
10	59	\$10,371	5.5%	3.5%	\$2,676	6.0%	3.0%	\$0	\$11,849	\$5,798	1.06	\$0	\$9,249	\$4,504	\$0	\$0	\$0
11	60	\$11,324	5.0%	3.5%	\$2,922	5.0%	3.0%	\$14,246	\$12,441	\$6,088	1.05	\$12,441	\$9,711	\$4,729	\$2,913	\$0	\$12,441
12	61	\$12,306	5.0%	3.5%	\$3,160	5.0%	3.0%	\$15,466	\$13,063	\$6,393	1.05	\$13,063	\$10,197	\$4,965	\$3,059	\$0	\$13,063
13	62	\$13,374	5.0%	3.5%	\$3,417	5.0%	3.0%	\$16,791	\$13,716	\$6,712	1.05	\$13,716	\$10,707	\$5,213	\$3,212	\$0	\$13,716
14	63	\$14,534	5.0%	3.5%	\$3,696	5.0%	3.0%	\$18,230	\$14,402	\$7,048	1.05	\$14,402	\$11,242	\$5,474	\$3,373	\$0	\$14,402
15	64	\$15,795	5.0%	3.5%	\$3,997	5.0%	3.0%	\$19,792	\$15,122	\$7,400	1.05	\$15,122	\$11,804	\$5,748	\$3,541	\$0	\$15,122
16	65	\$3,198	5.0%	4.0%	\$3,382	5.0%	1.5%	\$6,580	\$15,879	\$7,770	1.05	\$7,770	\$12,395	\$6,035	\$1,811	\$4,249	\$2,331
17	66	\$3,492	5.0%	4.0%	\$3,604	5.0%	1.5%	\$7,096	\$16,672	\$8,159	1.05	\$8,159	\$13,014	\$6,337	\$1,901	\$4,649	\$2,448
18	67	\$3,813	5.0%	4.0%	\$3,841	5.0%	1.5%	\$7,655	\$17,506	\$8,567	1.05	\$8,567	\$13,665	\$6,654	\$1,996	\$5,085	\$2,570
19	68	\$4,164	5.0%	4.0%	\$4,094	5.0%	1.5%	\$8,258	\$18,381	\$8,995	1.05	\$8,995	\$14,348	\$6,986	\$2,096	\$5,560	\$2,699
20	69	\$4,547	5.0%	4.0%	\$4,363	5.0%	1.5%	\$8,910	\$19,300	\$9,445	1.05	\$9,445	\$15,066	\$7,336	\$2,201	\$6,077	\$2,833
21	70	\$4,966	5.0%	4.0%	\$4,650	5.0%	1.5%	\$9,616	\$20,265	\$9,917	1.05	\$9,917	\$15,819	\$7,703	\$2,311	\$6,670	\$2,975
22	71	\$5,422	5.0%	4.0%	\$4,956	5.0%	1.5%	\$10,378	\$21,279	\$10,413	1.05	\$10,413	\$16,610	\$8,088	\$2,426	\$7,254	\$3,124
23	72	\$5,921	5.0%	4.0%	\$5,282	5.0%	1.5%	\$11,203	\$22,343	\$10,934	1.05	\$10,934	\$17,440	\$8,492	\$2,548	\$7,923	\$3,280
24	73	\$6,466	5.0%	4.0%	\$5,629	5.0%	1.5%	\$12,095	\$23,460	\$11,480	1.05	\$11,480	\$18,312	\$8,917	\$2,675	\$8,651	\$3,444
25	74	\$7,061	5.0%	4.0%	\$5,999	5.0%	1.5%	\$13,060	\$24,633	\$12,054	1.05	\$12,054	\$19,228	\$9,362	\$2,809	\$9,444	\$3,610
26	75	\$7,711	5.0%	1.5%	\$6,393	5.0%	0.5%	\$14,104	\$25,864	\$12,657	1.05	\$12,657	\$20,189	\$9,831	\$2,949	\$10,307	\$3,797
27	76	\$8,218	5.0%	1.5%	\$6,747	5.0%	0.5%	\$14,964	\$27,158	\$13,290	1.05	\$13,290	\$21,199	\$10,322	\$3,097	\$10,977	\$3,987
28	77	\$8,758	5.0%	1.5%	\$7,119	5.0%	0.5%	\$15,877	\$28,516	\$13,954	1.05	\$13,954	\$22,259	\$10,838	\$3,251	\$11,691	\$4,186
29	78	\$9,334	5.0%	1.5%	\$7,513	5.0%	0.5%	\$16,846	\$29,941	\$14,652	1.05	\$14,652	\$23,372	\$11,380	\$3,414	\$12,451	\$4,396
30	79	\$9,947	5.0%	1.5%	\$7,928	5.0%	0.5%	\$17,875	\$31,438	\$15,385	1.05	\$15,385	\$24,540	\$11,949	\$3,585	\$13,260	\$4,615
31	80	\$10,601	5.0%	1.5%	\$8,366	5.0%	0.5%	\$18,967	\$33,010	\$16,154	1.05	\$16,154	\$25,767	\$12,547	\$3,764	\$14,121	\$4,846
32	81	\$11,298	5.0%	1.5%	\$8,828	5.0%	0.5%	\$20,126	\$34,661	\$16,961	1.05	\$16,961	\$27,056	\$13,174	\$3,952	\$15,038	\$5,088
33	82	\$12,041	5.0%	1.5%	\$9,316	5.0%	0.5%	\$21,357	\$36,394	\$17,810	1.05	\$17,810	\$28,409	\$13,833	\$4,150	\$16,014	\$5,343
34	83	\$12,833	5.0%	1.5%	\$9,830	5.0%	0.5%	\$22,663	\$38,214	\$18,700	1.05	\$18,700	\$29,829	\$14,524	\$4,357	\$17,053	\$5,610
35	84	\$13,677	5.0%	1.5%	\$10,374	5.0%	0.5%	\$24,050	\$40,124	\$19,635	1.05	\$19,635	\$31,320	\$15,250	\$4,575	\$18,160	\$5,891
36	85	\$14,576	5.0%	0.5%	\$10,947	5.0%	0.0%	\$25,523	\$42,131	\$20,617	1.05	\$20,617	\$32,886	\$16,013	\$4,804	\$19,338	\$6,185
37	86	\$15,381	5.0%	0.5%	\$11,494	5.0%	0.0%	\$26,875	\$44,237	\$21,648	1.05	\$21,648	\$34,531	\$16,814	\$5,044	\$20,381	\$6,494
38	87	\$16,231	5.0%	0.5%	\$12,069	5.0%	0.0%	\$28,300	\$46,449	\$22,730	1.05	\$22,730	\$36,257	\$17,654	\$5,296	\$21,481	\$6,819
39	88	\$17,128	5.0%	0.5%	\$12,672	5.0%	0.0%	\$29,800	\$48,771	\$23,866	1.05	\$23,866	\$38,070	\$18,537	\$5,561	\$22,640	\$7,160
40	89	\$18,074	5.0%	0.5%	\$13,306	5.0%	0.0%	\$31,380	\$51,210	\$25,060	1.05	\$25,060	\$39,974	\$19,464	\$5,839	\$23,862	\$7,518
41	90	\$19,073	5.0%	0.5%	\$13,971	5.0%	0.0%	\$33,044	\$53,770	\$26,313	1.05	\$26,313	\$41,972	\$20,437	\$6,131	\$25,150	\$7,894
42	91	\$20,127	5.0%	0.5%	\$14,670	5.0%	0.0%	\$34,796	\$56,459	\$27,628	1.05	\$27,628	\$44,071	\$21,459	\$6,438	\$26,508	\$8,289
43	92	\$21,239	5.0%	0.5%	\$15,403	5.0%	0.0%	\$36,642	\$59,282	\$29,010	1.05	\$29,010	\$46,275	\$22,532	\$6,760	\$27,939	\$8,703

Hire Date	7/1/2003
Age at hire	50
Age at retirement	60
Subsidy Start Age	60
Service	10

Subsidy Base Pre MC	\$5,982
Subsidy Base MC Eligible	\$2,903
Subsidy index	5%
Discount Rate	8.25%
HB 238 Subsidy percent	30%
SB 141 Contribution percent	30%

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes 30 years to normal retirement
 Assumes demographic composition of retiree group does not change from current
 All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

House Bill 238	
Total State Subsidy	\$179,627
	\$30,220

Senate Bill 141	
Total State Subsidy	\$634,600
Total Retiree Contribution	\$279,289
	\$55,850
	\$77,819

Gross Cash Flow
Present Value at Retirement

Duration	Age	Valuation Medical Claim Cost	Medical Trend Factor	Medical Aging Factor	Valuation Rx Claim Cost	Rx Trend Factor	Rx Aging Factor	Valuation Total Claim Cost
44	93	\$22,412	5.0%	0.5%	\$16,173	5.0%	0.0%	\$38,585
45	94	\$23,650	5.0%	0.5%	\$16,982	5.0%	0.0%	\$40,632
46	95	\$24,957	5.0%	0.5%	\$17,831	5.0%	0.0%	\$42,788
47	96	\$26,336	5.0%	0.5%	\$18,723	5.0%	0.0%	\$45,058
48	97	\$27,791	5.0%	0.5%	\$19,659	5.0%	0.0%	\$47,450
49	98	\$29,326	5.0%	0.5%	\$20,642	5.0%	0.0%	\$49,968
50	99	\$30,947	5.0%	0.5%	\$21,674	5.0%	0.0%	\$52,620

Pre MC Composite Premium	MC Elig Composite Premium	Medical / Rx Composite Trend	Retiree Mod/Rx Premium
\$62,246	\$30,460	1.05	\$30,460
\$65,358	\$31,983	1.05	\$31,983
\$68,626	\$33,583	1.05	\$33,583
\$72,057	\$35,262	1.05	\$35,262
\$75,660	\$37,025	1.05	\$37,025
\$79,443	\$38,876	1.05	\$38,876
\$83,416	\$40,820	1.05	\$40,820

Subsidy Base Pre-Medicare	Subsidy Base Medicare Eligible	Valuation Subsidy
\$48,588	\$23,658	\$7,098
\$51,018	\$24,841	\$7,452
\$53,569	\$26,083	\$7,825
\$56,247	\$27,388	\$8,216
\$59,059	\$28,757	\$8,627
\$62,012	\$30,195	\$9,058
\$65,113	\$31,705	\$9,511

Valuation Subsidy	Retiree Contribution
\$29,447	\$9,138
\$31,037	\$9,595
\$32,713	\$10,075
\$34,480	\$10,578
\$36,347	\$11,107
\$38,305	\$11,663
\$40,374	\$12,246

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Hire Date 7/1/2003
 Age at hire 40
 Age at retirement 60
 Subsidy Start Age 60
 Service 20

Subsidy Base Pro MC \$5,962
 Subsidy Base MC Eligible \$2,903
 Subsidy index 5%
 Discount Rate 8.25%
 HB 238 Subsidy percent 60%
 SB 141 Contribution percent 20%

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes 30 years to normal retirement
 Assumes demographic composition of retiree group does not change from current
 All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Gross Cash Flow
 Present Value at Retirement

House Bill 238	
Total State Subsidy	\$585,187
	\$98,449

Senate Bill 141	
Total State Subsidy	\$1,148,015
Total Retiree Contribution	\$340,615
	\$102,980
	\$114,753

Duration	Age	Valuation Medical Claim Cost	Medical Trend Factor	Mortgage Aging Factor	Valuation Rx Claim Cost	Rx Trend Factor	Rx Aging Factor	Valuation Total Claim Cost	Pro MC Composite Premium	MC Elig Composite Premium	Medical / Rx Composite Trend	Retiree Mod/Rx Premium	Subsidy Base Pro-Medicare	Subsidy Base Medicare Eligible	Valuation Subsidy	Valuation Subsidy	Retiree Contribution
1	40	\$3,201	10.0%	2.0%	\$530	15.0%	4.5%	\$0	\$5,962	\$2,903	1.11	\$0	\$5,362	\$2,903	\$0	\$0	\$0
2	41	\$3,591	9.1%	2.0%	\$637	14.0%	4.5%	\$0	\$6,572	\$3,216	1.10	\$0	\$6,260	\$3,048	\$0	\$0	\$0
3	42	\$4,011	9.0%	2.0%	\$759	13.0%	4.5%	\$0	\$7,208	\$3,527	1.10	\$0	\$6,573	\$3,201	\$0	\$0	\$0
4	43	\$4,460	8.5%	2.0%	\$896	12.0%	4.5%	\$0	\$7,865	\$3,849	1.09	\$0	\$6,902	\$3,361	\$0	\$0	\$0
5	44	\$4,936	8.0%	2.0%	\$1,049	11.0%	4.5%	\$0	\$8,536	\$4,177	1.09	\$0	\$7,247	\$3,529	\$0	\$0	\$0
6	45	\$5,437	7.5%	2.5%	\$1,216	10.0%	3.5%	\$0	\$9,216	\$4,510	1.08	\$0	\$7,609	\$3,705	\$0	\$0	\$0
7	46	\$5,991	7.0%	2.5%	\$1,385	9.0%	3.5%	\$0	\$9,895	\$4,842	1.07	\$0	\$7,990	\$3,890	\$0	\$0	\$0
8	47	\$6,570	6.5%	2.5%	\$1,562	8.0%	3.5%	\$0	\$10,567	\$5,171	1.07	\$0	\$8,389	\$4,085	\$0	\$0	\$0
9	48	\$7,173	6.0%	2.5%	\$1,746	7.0%	3.5%	\$0	\$11,221	\$5,491	1.06	\$0	\$8,809	\$4,289	\$0	\$0	\$0
10	49	\$7,793	5.5%	2.5%	\$1,934	6.0%	3.5%	\$0	\$11,849	\$5,798	1.06	\$0	\$9,249	\$4,504	\$0	\$0	\$0
11	50	\$8,427	5.0%	2.5%	\$2,122	5.0%	3.5%	\$0	\$12,441	\$6,088	1.05	\$0	\$9,711	\$4,729	\$0	\$0	\$0
12	51	\$9,070	5.0%	2.5%	\$2,306	5.0%	3.5%	\$0	\$13,063	\$6,393	1.05	\$0	\$10,197	\$4,965	\$0	\$0	\$0
13	52	\$9,761	5.0%	2.5%	\$2,506	5.0%	3.5%	\$0	\$13,716	\$6,712	1.05	\$0	\$10,707	\$5,213	\$0	\$0	\$0
14	53	\$10,506	5.0%	2.5%	\$2,723	5.0%	3.5%	\$0	\$14,402	\$7,048	1.05	\$0	\$11,242	\$5,474	\$0	\$0	\$0
15	54	\$11,307	5.0%	2.5%	\$2,960	5.0%	3.5%	\$0	\$15,122	\$7,400	1.05	\$0	\$11,804	\$5,748	\$0	\$0	\$0
16	55	\$12,169	5.0%	3.5%	\$3,216	5.0%	3.0%	\$0	\$15,879	\$7,770	1.05	\$0	\$12,395	\$6,035	\$0	\$0	\$0
17	56	\$13,224	5.0%	3.5%	\$3,479	5.0%	3.0%	\$0	\$16,672	\$8,159	1.05	\$0	\$13,014	\$6,337	\$0	\$0	\$0
18	57	\$14,372	5.0%	3.5%	\$3,762	5.0%	3.0%	\$0	\$17,506	\$8,567	1.05	\$0	\$13,665	\$6,654	\$0	\$0	\$0
19	58	\$15,618	5.0%	3.5%	\$4,069	5.0%	3.0%	\$0	\$18,381	\$8,995	1.05	\$0	\$14,348	\$6,986	\$0	\$0	\$0
20	59	\$16,973	5.0%	3.5%	\$4,400	5.0%	3.0%	\$0	\$19,300	\$9,445	1.05	\$0	\$15,066	\$7,336	\$0	\$0	\$0
21	60	\$18,446	5.0%	3.5%	\$4,759	5.0%	3.0%	\$23,204	\$20,265	\$9,917	1.05	\$20,265	\$15,819	\$7,703	\$9,491	\$0	\$20,265
22	61	\$20,046	5.0%	3.5%	\$5,147	5.0%	3.0%	\$25,192	\$21,270	\$10,413	1.05	\$21,270	\$16,610	\$8,088	\$9,966	\$0	\$21,270
23	62	\$21,785	5.0%	3.5%	\$5,566	5.0%	3.0%	\$27,351	\$22,343	\$10,934	1.05	\$22,343	\$17,440	\$8,492	\$10,464	\$0	\$22,343
24	63	\$23,674	5.0%	3.5%	\$6,020	5.0%	3.0%	\$29,694	\$23,460	\$11,480	1.05	\$23,460	\$18,312	\$8,917	\$10,987	\$0	\$23,460
25	64	\$25,728	5.0%	3.5%	\$6,511	5.0%	3.0%	\$32,239	\$24,633	\$12,054	1.05	\$24,633	\$19,228	\$9,362	\$11,537	\$0	\$24,633
26	65	\$5,209	5.0%	4.0%	\$5,509	5.0%	1.5%	\$10,718	\$25,864	\$12,657	1.05	\$12,657	\$20,189	\$9,831	\$5,898	\$8,187	\$2,531
27	66	\$5,688	5.0%	4.0%	\$5,871	5.0%	1.5%	\$11,559	\$27,158	\$13,290	1.05	\$13,290	\$21,199	\$10,322	\$6,193	\$8,901	\$2,658
28	67	\$6,212	5.0%	4.0%	\$6,257	5.0%	1.5%	\$12,469	\$28,516	\$13,954	1.05	\$13,954	\$22,259	\$10,838	\$6,503	\$9,678	\$2,791
29	68	\$6,783	5.0%	4.0%	\$6,669	5.0%	1.5%	\$13,452	\$29,941	\$14,652	1.05	\$14,652	\$23,372	\$11,380	\$6,828	\$10,521	\$2,930
30	69	\$7,407	5.0%	4.0%	\$7,107	5.0%	1.5%	\$14,514	\$31,438	\$15,385	1.05	\$15,385	\$24,540	\$11,949	\$7,160	\$11,437	\$3,077
31	70	\$8,080	5.0%	4.0%	\$7,574	5.0%	1.5%	\$15,663	\$33,010	\$16,154	1.05	\$16,154	\$25,767	\$12,547	\$7,528	\$12,432	\$3,231
32	71	\$8,833	5.0%	4.0%	\$8,072	5.0%	1.5%	\$16,905	\$34,661	\$16,961	1.05	\$16,961	\$27,056	\$13,174	\$7,904	\$13,513	\$3,392
33	72	\$9,645	5.0%	4.0%	\$8,603	5.0%	1.5%	\$18,248	\$36,394	\$17,810	1.05	\$17,810	\$28,409	\$13,833	\$8,300	\$14,685	\$3,562
34	73	\$10,533	5.0%	4.0%	\$9,169	5.0%	1.5%	\$19,701	\$38,214	\$18,700	1.05	\$18,700	\$29,829	\$14,524	\$8,715	\$15,961	\$3,740
35	74	\$11,502	5.0%	4.0%	\$9,772	5.0%	1.5%	\$21,273	\$40,124	\$19,635	1.05	\$19,635	\$31,320	\$15,250	\$9,150	\$17,346	\$3,927
36	75	\$12,560	5.0%	1.5%	\$10,414	5.0%	0.5%	\$22,974	\$42,131	\$20,617	1.05	\$20,617	\$32,886	\$16,013	\$9,608	\$18,850	\$4,123
37	76	\$13,385	5.0%	1.5%	\$10,989	5.0%	0.5%	\$24,375	\$44,237	\$21,648	1.05	\$21,648	\$34,531	\$16,814	\$10,088	\$20,045	\$4,330
38	77	\$14,266	5.0%	1.5%	\$11,597	5.0%	0.5%	\$25,862	\$46,440	\$22,730	1.05	\$22,730	\$36,257	\$17,654	\$10,593	\$21,316	\$4,546
39	78	\$15,204	5.0%	1.5%	\$12,237	5.0%	0.5%	\$27,441	\$48,771	\$23,866	1.05	\$23,866	\$38,070	\$18,537	\$11,122	\$22,668	\$4,773
40	79	\$16,203	5.0%	1.5%	\$12,913	5.0%	0.5%	\$29,117	\$51,210	\$25,060	1.05	\$25,060	\$39,974	\$19,464	\$11,678	\$24,105	\$5,012
41	80	\$17,269	5.0%	1.5%	\$13,627	5.0%	0.5%	\$30,895	\$53,770	\$26,313	1.05	\$26,313	\$41,972	\$20,437	\$12,262	\$25,633	\$5,263
42	81	\$18,404	5.0%	1.5%	\$14,380	5.0%	0.5%	\$32,784	\$56,459	\$27,628	1.05	\$27,628	\$44,071	\$21,459	\$12,875	\$27,258	\$5,526
43	82	\$19,314	5.0%	1.5%	\$15,174	5.0%	0.5%	\$34,788	\$59,282	\$29,010	1.05	\$29,010	\$46,275	\$22,532	\$13,510	\$28,986	\$5,802

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Hire Date	7/1/2003
Age at hire	40
Age at retirement	60
Subsidy Start Age	60
Service	20

Subsidy Base Pro MC	\$5,982
Subsidy Base MC Eligible	\$2,903
Subsidy Index	5%
Discount Rate	8.25%
HB 238 Subsidy percent	60%
SB 141 Contribution percent	20%

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes 30 years to normal retirement
 Assumes demographic composition of retiree group does not change from current
 All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Gross Cash Flow
 Present Value at Retirement

House Bill 238	Senate Bill 141
Total State Subsidy	Total State Subsidy Total Retiree Contribution
\$585,187	\$1,148,015 \$340,615
\$98,449	\$102,980 \$114,753

Duration	Age	Valuation Medical Claim Cost	Medical Trend Factor	Medical Aging Factor	Valuation Rx Claim Cost	Rx Trend Factor	Rx Aging Factor	Valuation Total Claim Cost	Pro MC Composite Premium	MC Elig Composite Premium	Medical / Rx Composite Trend	Retiree Med/Rx Premium	Subsidy Base Pro-Medicare	Subsidy Base Medicare Eligible	Valuation Subsidy	Valuation Subsidy	Retiree Contribution
44	83	\$20,904	5.0%	1.5%	\$16,013	5.0%	0.5%	\$36,916	\$62,246	\$30,460	1.05	\$30,460	\$48,588	\$23,658	\$14,195	\$30,824	\$6,092
45	84	\$22,278	5.0%	1.5%	\$16,897	5.0%	0.5%	\$39,175	\$65,358	\$31,983	1.05	\$31,983	\$51,018	\$24,841	\$14,905	\$32,779	\$6,397
46	85	\$23,743	5.0%	0.5%	\$17,831	5.0%	0.0%	\$41,574	\$68,626	\$33,583	1.05	\$33,583	\$53,569	\$26,083	\$15,650	\$34,857	\$6,717
47	86	\$25,055	5.0%	0.5%	\$18,723	5.0%	0.0%	\$43,777	\$72,057	\$35,262	1.05	\$35,262	\$56,247	\$27,388	\$16,433	\$36,725	\$7,052
48	87	\$26,439	5.0%	0.5%	\$19,659	5.0%	0.0%	\$46,098	\$75,660	\$37,025	1.05	\$37,025	\$59,059	\$28,757	\$17,254	\$38,693	\$7,405
49	88	\$27,900	5.0%	0.5%	\$20,642	5.0%	0.0%	\$48,541	\$79,443	\$38,876	1.05	\$38,876	\$62,012	\$30,195	\$18,117	\$40,766	\$7,775
50	89	\$29,441	5.0%	0.5%	\$21,674	5.0%	0.0%	\$51,115	\$83,416	\$40,820	1.05	\$40,820	\$65,113	\$31,705	\$19,023	\$42,951	\$8,164
51	90	\$31,068	5.0%	0.5%	\$22,757	5.0%	0.0%	\$53,825	\$87,586	\$42,861	1.05	\$42,861	\$68,369	\$33,290	\$19,974	\$45,253	\$8,572
52	91	\$32,784	5.0%	0.5%	\$23,895	5.0%	0.0%	\$56,679	\$91,966	\$45,004	1.05	\$45,004	\$71,787	\$34,954	\$20,973	\$47,679	\$9,001
53	92	\$34,596	5.0%	0.5%	\$25,090	5.0%	0.0%	\$59,685	\$96,564	\$47,254	1.05	\$47,254	\$75,376	\$36,702	\$22,021	\$50,235	\$9,451
54	93	\$36,507	5.0%	0.5%	\$26,344	5.0%	0.0%	\$62,851	\$101,392	\$49,617	1.05	\$49,617	\$79,145	\$38,537	\$23,122	\$52,928	\$9,923
55	94	\$38,524	5.0%	0.5%	\$27,662	5.0%	0.0%	\$66,186	\$106,462	\$52,098	1.05	\$52,098	\$83,103	\$40,464	\$24,278	\$55,766	\$10,420
56	95	\$40,652	5.0%	0.5%	\$29,015	5.0%	0.0%	\$69,697	\$111,785	\$54,702	1.05	\$54,702	\$87,258	\$42,487	\$25,492	\$58,757	\$10,940
57	96	\$42,898	5.0%	0.5%	\$30,497	5.0%	0.0%	\$73,395	\$117,374	\$57,438	1.05	\$57,438	\$91,621	\$44,612	\$26,767	\$61,908	\$11,488
58	97	\$45,269	5.0%	0.5%	\$32,022	5.0%	0.0%	\$77,290	\$123,243	\$60,309	1.05	\$60,309	\$96,202	\$46,842	\$28,105	\$65,229	\$12,062
59	98	\$47,770	5.0%	0.5%	\$33,623	5.0%	0.0%	\$81,393	\$129,405	\$63,325	1.05	\$63,325	\$101,012	\$49,181	\$29,511	\$68,728	\$12,665
60	99	\$50,409	5.0%	0.5%	\$35,301	5.0%	0.0%	\$85,713	\$135,875	\$66,491	1.05	\$66,491	\$106,062	\$51,644	\$30,986	\$72,415	\$13,298

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Hiro Date 7/1/2003
 Ago at hiro 30
 Ago at rolloverment 60
 Subsidy Start Ago 60
 Service 30

Subsidy Base Pro MC \$5,862
 Subsidy Base MC Eligible \$2,903
 Subsidy index 6%
 Discount Rate 8.25%
 HB 238 Subsidy percent 90%
 SB 141 Contribution percent 10%

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes 30 years to normal retirement
 Assumes demographic composition of retiree group does not change from current
 All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Houso Bill 238
 Total State Subsidy \$1,429,812
 \$240,546

Senato Bill 141
 Total State Subsidy \$2,056,206
 Total Rollover Contribution \$368,614
 \$187,300 \$167,363

Gross Cash Flow Present Value at Retirement

Duration	Ago	Valuation Medical Claim Cost	Medical Trend Factor	Medical Aging Factor	Valuation Rx Claim Cost	Rx Trend Factor	Rx Aging Factor	Valuation Total Claim Cost	Pro MC Composite Premium	MC Elig Composite Premium	Pro MC Composite Trend	Retiree Mor/Rx Premium	Subsidy Base Pro-Medicare	Subsidy Base Medicare Eligible	Valuation Subsidy	Valuation Subsidy	Retiree Contribution
1	30	\$2,626	10.0%	2.0%	\$341	15.0%	4.5%	\$0	\$5,962	\$2,903	1.11	\$0	\$5,962	\$2,903	\$0	\$0	\$0
2	31	\$2,948	9.5%	2.0%	\$410	14.0%	4.5%	\$0	\$6,572	\$3,216	1.10	\$0	\$6,260	\$3,048	\$0	\$0	\$0
3	32	\$3,291	9.0%	2.0%	\$489	13.0%	4.5%	\$0	\$7,208	\$3,527	1.10	\$0	\$6,573	\$3,201	\$0	\$0	\$0
4	33	\$3,658	8.5%	2.0%	\$577	12.0%	4.5%	\$0	\$7,865	\$3,849	1.09	\$0	\$6,902	\$3,361	\$0	\$0	\$0
5	34	\$4,049	8.0%	2.0%	\$675	11.0%	4.5%	\$0	\$8,536	\$4,177	1.09	\$0	\$7,247	\$3,529	\$0	\$0	\$0
6	35	\$4,460	7.5%	2.0%	\$783	10.0%	4.5%	\$0	\$9,216	\$4,510	1.08	\$0	\$7,609	\$3,705	\$0	\$0	\$0
7	36	\$4,891	7.0%	2.0%	\$900	9.0%	4.5%	\$0	\$9,895	\$4,842	1.07	\$0	\$7,990	\$3,890	\$0	\$0	\$0
8	37	\$5,338	6.5%	2.0%	\$1,026	8.0%	4.5%	\$0	\$10,567	\$5,171	1.07	\$0	\$8,389	\$4,085	\$0	\$0	\$0
9	38	\$5,798	6.0%	2.0%	\$1,158	7.0%	4.5%	\$0	\$11,221	\$5,491	1.06	\$0	\$8,809	\$4,289	\$0	\$0	\$0
10	39	\$6,269	5.5%	2.0%	\$1,294	6.0%	4.5%	\$0	\$11,849	\$5,798	1.06	\$0	\$9,249	\$4,504	\$0	\$0	\$0
11	40	\$6,746	5.0%	2.0%	\$1,434	5.0%	4.5%	\$0	\$12,441	\$6,088	1.05	\$0	\$9,711	\$4,729	\$0	\$0	\$0
12	41	\$7,225	5.0%	2.0%	\$1,573	5.0%	4.5%	\$0	\$13,063	\$6,393	1.05	\$0	\$10,197	\$4,965	\$0	\$0	\$0
13	42	\$7,738	5.0%	2.0%	\$1,726	5.0%	4.5%	\$0	\$13,716	\$6,712	1.05	\$0	\$10,707	\$5,213	\$0	\$0	\$0
14	43	\$8,288	5.0%	2.0%	\$1,894	5.0%	4.5%	\$0	\$14,402	\$7,048	1.05	\$0	\$11,242	\$5,474	\$0	\$0	\$0
15	44	\$8,876	5.0%	2.0%	\$2,078	5.0%	4.5%	\$0	\$15,122	\$7,400	1.05	\$0	\$11,804	\$5,748	\$0	\$0	\$0
16	45	\$9,506	5.0%	2.5%	\$2,280	5.0%	3.5%	\$0	\$15,879	\$7,770	1.05	\$0	\$12,395	\$6,022	\$0	\$0	\$0
17	46	\$10,231	5.0%	2.5%	\$2,478	5.0%	3.5%	\$0	\$16,672	\$8,159	1.05	\$0	\$13,014	\$6,337	\$0	\$0	\$0
18	47	\$11,011	5.0%	2.5%	\$2,693	5.0%	3.5%	\$0	\$17,506	\$8,567	1.05	\$0	\$13,665	\$6,654	\$0	\$0	\$0
19	48	\$11,851	5.0%	2.5%	\$2,927	5.0%	3.5%	\$0	\$18,381	\$8,995	1.05	\$0	\$14,348	\$6,986	\$0	\$0	\$0
20	49	\$12,754	5.0%	2.5%	\$3,180	5.0%	3.5%	\$0	\$19,300	\$9,445	1.05	\$0	\$15,066	\$7,336	\$0	\$0	\$0
21	50	\$13,727	5.0%	2.5%	\$3,456	5.0%	3.5%	\$0	\$20,265	\$9,917	1.05	\$0	\$15,819	\$7,703	\$0	\$0	\$0
22	51	\$14,774	5.0%	2.5%	\$3,756	5.0%	3.5%	\$0	\$21,279	\$10,413	1.05	\$0	\$16,610	\$8,088	\$0	\$0	\$0
23	52	\$15,900	5.0%	2.5%	\$4,082	5.0%	3.5%	\$0	\$22,343	\$10,934	1.05	\$0	\$17,440	\$8,492	\$0	\$0	\$0
24	53	\$17,112	5.0%	2.5%	\$4,436	5.0%	3.5%	\$0	\$23,460	\$11,480	1.05	\$0	\$18,312	\$8,917	\$0	\$0	\$0
25	54	\$18,417	5.0%	2.5%	\$4,821	5.0%	3.5%	\$0	\$24,633	\$12,054	1.05	\$0	\$19,228	\$9,362	\$0	\$0	\$0
26	55	\$19,821	5.0%	3.5%	\$5,239	5.0%	3.0%	\$0	\$25,864	\$12,657	1.05	\$0	\$20,169	\$9,831	\$0	\$0	\$0
27	56	\$21,541	5.0%	3.5%	\$5,666	5.0%	3.0%	\$0	\$27,158	\$13,290	1.05	\$0	\$21,199	\$10,322	\$0	\$0	\$0
28	57	\$23,410	5.0%	3.5%	\$6,128	5.0%	3.0%	\$0	\$28,516	\$13,954	1.05	\$0	\$22,259	\$10,838	\$0	\$0	\$0
29	58	\$25,440	5.0%	3.5%	\$6,627	5.0%	3.0%	\$0	\$29,941	\$14,652	1.05	\$0	\$23,372	\$11,380	\$0	\$0	\$0
30	59	\$27,647	5.0%	3.5%	\$7,168	5.0%	3.0%	\$0	\$31,438	\$15,385	1.05	\$0	\$24,540	\$11,949	\$0	\$0	\$0
31	60	\$30,046	5.0%	3.5%	\$7,752	5.0%	3.0%	\$37,798	\$33,010	\$16,154	1.05	\$33,010	\$25,767	\$12,547	\$23,191	\$0	\$33,010
32	61	\$32,652	5.0%	3.5%	\$8,384	5.0%	3.0%	\$41,036	\$34,661	\$16,961	1.05	\$34,661	\$27,056	\$13,174	\$24,350	\$0	\$34,661
33	62	\$35,485	5.0%	3.5%	\$9,067	5.0%	3.0%	\$44,552	\$36,394	\$17,810	1.05	\$36,394	\$28,409	\$13,833	\$25,568	\$0	\$36,394
34	63	\$38,563	5.0%	3.5%	\$9,806	5.0%	3.0%	\$48,369	\$38,214	\$18,700	1.05	\$38,214	\$29,829	\$14,524	\$26,846	\$0	\$38,214
35	64	\$41,909	5.0%	3.5%	\$10,605	5.0%	3.0%	\$52,514	\$40,124	\$19,635	1.05	\$40,124	\$31,320	\$15,250	\$28,188	\$0	\$40,124
36	65	\$8,485	5.0%	4.0%	\$8,973	5.0%	1.5%	\$17,458	\$42,131	\$20,617	1.05	\$20,617	\$32,886	\$16,013	\$14,412	\$15,397	\$2,062
37	66	\$9,265	5.0%	4.0%	\$9,563	5.0%	1.5%	\$18,829	\$44,237	\$21,648	1.05	\$21,648	\$34,531	\$16,814	\$15,132	\$16,064	\$2,165
38	67	\$10,118	5.0%	4.0%	\$10,192	5.0%	1.5%	\$20,310	\$46,449	\$22,730	1.05	\$22,730	\$36,257	\$17,654	\$15,889	\$16,827	\$2,273
39	68	\$11,049	5.0%	4.0%	\$10,862	5.0%	1.5%	\$21,911	\$48,771	\$23,866	1.05	\$23,866	\$38,070	\$18,537	\$16,683	\$17,525	\$2,387
40	69	\$12,065	5.0%	4.0%	\$11,577	5.0%	1.5%	\$23,642	\$51,210	\$25,060	1.05	\$25,060	\$39,974	\$19,464	\$17,518	\$21,136	\$2,506
41	70	\$13,175	5.0%	4.0%	\$12,338	5.0%	1.5%	\$25,513	\$53,770	\$26,313	1.05	\$26,313	\$41,972	\$20,437	\$18,393	\$22,882	\$2,631
42	71	\$14,387	5.0%	4.0%	\$13,149	5.0%	1.5%	\$27,536	\$56,459	\$27,628	1.05	\$27,628	\$44,071	\$21,450	\$19,313	\$24,774	\$2,763
43	72	\$15,711	5.0%	4.0%	\$14,014	5.0%	1.5%	\$29,725	\$59,282	\$29,010	1.05	\$29,010	\$46,275	\$22,537	\$20,270	\$26,024	\$2,901

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Hire Date	7/1/2003
Age at hire	30
Age at retirement	60
Subsidy Start Age	60
Service	30

Subsidy Base Pro MC	\$5,862
Subsidy Base MC Eligible	\$2,803
Subsidy Index	5%
Discount Rate	8.25%
HB 238 Subsidy percent	90%
SB 141 Contribution percent	10%

Assumes participant rolls from system and is receiving system sponsored benefits
 Assumes 30 years to normal retirement
 Assumes demographic composition of retiree group does not change from current
 All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Gross Cash Flow
 Present Value at Retirement

House Bill 238		Senate Bill 141	
Total State Subsidy		Total State Subsidy	Total Retiree Contribution
\$1,429,812		\$2,056,206	\$368,614
\$240,546		\$187,300	\$167,363

Duration	Age	Valuation Medical Claim Cost	Medical Trend Factor	Medical Aging Factor	Valuation Rx Claim Cost	Rx Trend Factor	Rx Aging Factor	Valuation Total Claim Cost	Pro MC Composite Premium	MC Elig Composite Premium	Pro MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base Pre-Medicare	Subsidy Base Medicare Eligible	Valuation Subsidy	Valuation Subsidy	Retiree Contribution
44	73	\$17,156	5.0%	1.0%	\$14,935	5.0%	1.5%	\$32,031	\$62,246	\$30,460	1.05	\$30,460	\$48,588	\$23,658	\$21,293	\$29,045	\$3,046
45	74	\$18,735	5.0%	4.0%	\$15,917	5.0%	1.5%	\$34,652	\$65,358	\$31,983	1.05	\$31,983	\$51,018	\$24,841	\$22,357	\$31,453	\$3,198
46	75	\$20,458	5.0%	1.5%	\$16,963	5.0%	0.5%	\$37,422	\$68,626	\$33,583	1.05	\$33,583	\$53,569	\$26,083	\$23,475	\$34,064	\$3,358
47	76	\$21,804	5.0%	1.5%	\$17,901	5.0%	0.5%	\$39,704	\$72,057	\$35,262	1.05	\$35,262	\$56,247	\$27,388	\$24,649	\$36,178	\$3,526
48	77	\$23,237	5.0%	1.5%	\$18,890	5.0%	0.5%	\$42,127	\$75,660	\$37,025	1.05	\$37,025	\$59,059	\$28,757	\$25,881	\$38,424	\$3,702
49	78	\$24,765	5.0%	1.5%	\$19,933	5.0%	0.5%	\$44,698	\$79,443	\$38,876	1.05	\$38,876	\$62,012	\$30,195	\$27,175	\$40,811	\$3,888
50	79	\$26,393	5.0%	1.5%	\$21,035	5.0%	0.5%	\$47,428	\$83,416	\$40,820	1.05	\$40,820	\$65,113	\$31,705	\$28,534	\$43,346	\$4,082
51	80	\$28,129	5.0%	1.5%	\$22,197	5.0%	0.5%	\$50,325	\$87,586	\$42,861	1.05	\$42,861	\$68,369	\$33,290	\$29,961	\$46,039	\$4,286
52	81	\$29,978	5.0%	1.5%	\$23,423	5.0%	0.5%	\$53,401	\$91,966	\$45,004	1.05	\$45,004	\$71,787	\$34,954	\$31,459	\$48,901	\$4,500
53	82	\$31,949	5.0%	1.5%	\$24,717	5.0%	0.5%	\$56,666	\$96,564	\$47,254	1.05	\$47,254	\$75,376	\$36,702	\$33,032	\$51,941	\$4,725
54	83	\$34,050	5.0%	1.5%	\$26,083	5.0%	0.5%	\$60,133	\$101,392	\$49,617	1.05	\$49,617	\$79,145	\$38,537	\$34,683	\$55,171	\$4,962
55	84	\$36,289	5.0%	1.5%	\$27,524	5.0%	0.5%	\$63,813	\$106,462	\$52,098	1.05	\$52,098	\$83,103	\$40,464	\$36,418	\$58,603	\$5,210
56	85	\$38,675	5.0%	0.5%	\$29,045	5.0%	0.0%	\$67,719	\$111,785	\$54,702	1.05	\$54,702	\$87,258	\$42,487	\$38,239	\$62,249	\$5,470
57	86	\$40,811	5.0%	0.5%	\$30,497	5.0%	0.0%	\$71,308	\$117,374	\$57,438	1.05	\$57,438	\$91,621	\$44,612	\$40,150	\$65,565	\$5,744
58	87	\$43,066	5.0%	0.5%	\$32,022	5.0%	0.0%	\$75,088	\$123,243	\$60,309	1.05	\$60,309	\$96,202	\$46,842	\$42,158	\$69,057	\$6,031
59	88	\$45,446	5.0%	0.5%	\$33,623	5.0%	0.0%	\$79,069	\$129,405	\$63,325	1.05	\$63,325	\$101,012	\$49,184	\$44,266	\$72,736	\$6,332
60	89	\$47,958	5.0%	0.5%	\$35,304	5.0%	0.0%	\$83,261	\$135,875	\$66,491	1.05	\$66,491	\$106,062	\$51,644	\$46,479	\$76,611	\$6,649
61	90	\$50,606	5.0%	0.5%	\$37,069	5.0%	0.0%	\$87,675	\$142,669	\$69,816	1.05	\$69,816	\$111,365	\$54,226	\$48,803	\$80,694	\$6,982
62	91	\$53,402	5.0%	0.5%	\$38,923	5.0%	0.0%	\$92,325	\$149,802	\$73,306	1.05	\$73,306	\$116,934	\$56,937	\$51,243	\$84,994	\$7,331
63	92	\$56,352	5.0%	0.5%	\$40,869	5.0%	0.0%	\$97,221	\$157,292	\$76,972	1.05	\$76,972	\$122,780	\$59,784	\$53,805	\$89,524	\$7,697
64	93	\$59,466	5.0%	0.5%	\$42,912	5.0%	0.0%	\$102,378	\$165,157	\$80,820	1.05	\$80,820	\$128,919	\$62,773	\$56,496	\$91,296	\$8,082
65	94	\$62,751	5.0%	0.5%	\$45,058	5.0%	0.0%	\$107,809	\$173,415	\$84,861	1.05	\$84,861	\$135,365	\$65,912	\$59,320	\$99,323	\$8,486
66	95	\$66,218	5.0%	0.5%	\$47,311	5.0%	0.0%	\$113,529	\$182,086	\$89,104	1.05	\$89,104	\$142,133	\$69,207	\$62,287	\$104,619	\$8,910
67	96	\$69,877	5.0%	0.5%	\$49,676	5.0%	0.0%	\$119,553	\$191,190	\$93,560	1.05	\$93,560	\$149,240	\$72,666	\$65,401	\$110,197	\$9,356
68	97	\$73,738	5.0%	0.5%	\$52,160	5.0%	0.0%	\$125,895	\$200,749	\$98,238	1.05	\$98,238	\$156,702	\$76,301	\$68,671	\$116,074	\$9,824
69	98	\$77,812	5.0%	0.5%	\$54,708	5.0%	0.0%	\$132,580	\$210,787	\$103,150	1.05	\$103,150	\$164,537	\$80,116	\$72,104	\$122,265	\$10,315
70	99	\$82,111	5.0%	0.5%	\$57,507	5.0%	0.0%	\$139,617	\$221,326	\$108,307	1.05	\$108,307	\$172,764	\$84,122	\$75,710	\$128,787	\$10,831

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Hire Date	7/1/2005
Age at hire	40
Age at retirement	60
Subsidy Eligibility Age	60
Service	20

Salary	\$53,925
Wage inflation	3.0%

HRA contribution rate	2.0%
HRA accumulation rate	8.25%

Subsidy Base	\$5,962
Subsidy index	5%
Subsidy percent	60%

HRA Fund at retirement	\$65,733
Total retiree contribution	\$161,299
Net retiree cost (w/HRA int)	\$89,198

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current
 Assumes spouse of equal age to retiree

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Gross Retiree
Premium Cost

Total State
Subsidy

Total HRA
Spend

\$290,044

\$128,745

\$72,101

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	40	\$53,925	\$1,079	\$1,122	\$14,636	1.23	\$0	\$14,636	\$0	\$0	\$0	\$0
2	41	\$55,543	\$1,111	\$2,370	\$16,215	1.11	\$0	\$15,307	\$0	\$0	\$0	\$0
3	42	\$57,203	\$1,144	\$3,756	\$17,874	1.10	\$0	\$16,136	\$0	\$0	\$0	\$0
4	43	\$58,925	\$1,179	\$5,293	\$19,604	1.10	\$0	\$16,943	\$0	\$0	\$0	\$0
5	44	\$60,693	\$1,214	\$6,992	\$21,390	1.09	\$0	\$17,790	\$0	\$0	\$0	\$0
6	45	\$62,514	\$1,250	\$8,870	\$23,216	1.09	\$0	\$18,679	\$0	\$0	\$0	\$0
7	46	\$64,389	\$1,288	\$10,941	\$25,064	1.08	\$0	\$19,613	\$0	\$0	\$0	\$0
8	47	\$66,321	\$1,326	\$13,224	\$26,912	1.07	\$0	\$20,594	\$0	\$0	\$0	\$0
9	48	\$68,311	\$1,366	\$15,737	\$28,738	1.07	\$0	\$21,624	\$0	\$0	\$0	\$0
10	49	\$70,360	\$1,407	\$18,499	\$30,517	1.06	\$0	\$22,705	\$0	\$0	\$0	\$0
11	50	\$72,471	\$1,449	\$21,533	\$32,225	1.06	\$0	\$23,840	\$0	\$0	\$0	\$0
12	51	\$74,645	\$1,493	\$24,863	\$33,876	1.05	\$0	\$25,032	\$0	\$0	\$0	\$0
13	52	\$76,884	\$1,538	\$28,514	\$35,528	1.05	\$0	\$26,284	\$0	\$0	\$0	\$0
14	53	\$79,191	\$1,584	\$32,514	\$37,304	1.05	\$0	\$27,598	\$0	\$0	\$0	\$0
15	54	\$81,566	\$1,631	\$36,894	\$39,169	1.05	\$0	\$28,978	\$0	\$0	\$0	\$0
16	55	\$84,013	\$1,680	\$41,686	\$41,128	1.05	\$0	\$30,426	\$0	\$0	\$0	\$0
17	56	\$86,534	\$1,731	\$46,925	\$43,184	1.05	\$0	\$31,948	\$0	\$0	\$0	\$0
18	57	\$89,130	\$1,783	\$52,651	\$45,343	1.05	\$0	\$33,545	\$0	\$0	\$0	\$0
19	58	\$91,804	\$1,836	\$58,906	\$47,611	1.05	\$0	\$35,222	\$0	\$0	\$0	\$0
20	59	\$94,558	\$1,891	\$65,733	\$49,991	1.05	\$0	\$36,984	\$0	\$0	\$0	\$0
21	60	\$0	\$0	\$40,784	\$52,491	1.05	\$52,491	\$38,833	\$23,300	\$29,191	\$65,733	\$29,191
22	61	\$0	\$0	\$12,259	\$55,115	1.05	\$55,115	\$40,774	\$24,465	\$30,651	\$40,784	\$30,651
23	62	\$0	\$0	\$0	\$57,871	1.05	\$57,871	\$42,813	\$25,688	\$32,183	\$12,259	\$12,259
24	63	\$0	\$0	\$0	\$60,765	1.05	\$60,765	\$44,954	\$26,972	\$33,792	\$0	\$0
25	64	\$0	\$0	\$0	\$63,803	1.05	\$63,803	\$47,201	\$28,321	\$35,482	\$0	\$0

Hire Date	7/1/2005
Ago at hire	40
Age at retirement	60
Subsidy Start Age	60
Service	20
Salary	\$53,925
Wage inflation	3.0%
HRA contribution rate	2.0%
HRA accumulation rate	8.25%
Subsidy Base (7/1/2003)	\$5,962
Subsidy index	5%
Subsidy percent	60%
HRA Fund at retirement	\$65,733
Total retiree contribution	\$80,650
Net retiree cost (w/HRA int)	\$1,131

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

	Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
HRA Fund at retirement			
Total retiree contribution	\$145,022	\$64,373	
Net retiree cost (w/HRA int)			\$79,518

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	40	\$53,925	\$1,079	\$1,122	\$7,318	1.23	\$0	\$7,318	\$0	\$0	\$0	\$0
2	41	\$55,543	\$1,111	\$2,370	\$8,107	1.11	\$0	\$7,684	\$0	\$0	\$0	\$0
3	42	\$57,209	\$1,144	\$3,756	\$8,937	1.10	\$0	\$8,068	\$0	\$0	\$0	\$0
4	43	\$58,925	\$1,179	\$5,293	\$9,802	1.10	\$0	\$8,471	\$0	\$0	\$0	\$0
5	44	\$60,693	\$1,214	\$6,992	\$10,695	1.09	\$0	\$8,395	\$0	\$0	\$0	\$0
6	45	\$62,514	\$1,250	\$8,870	\$11,608	1.09	\$0	\$9,340	\$0	\$0	\$0	\$0
7	46	\$64,389	\$1,288	\$10,941	\$12,532	1.08	\$0	\$9,807	\$0	\$0	\$0	\$0
8	47	\$66,321	\$1,326	\$13,224	\$13,456	1.07	\$0	\$10,297	\$0	\$0	\$0	\$0
9	48	\$68,311	\$1,366	\$15,737	\$14,369	1.07	\$0	\$10,812	\$0	\$0	\$0	\$0
10	49	\$70,360	\$1,407	\$18,499	\$15,258	1.06	\$0	\$11,352	\$0	\$0	\$0	\$0
11	50	\$72,471	\$1,449	\$21,533	\$16,112	1.06	\$0	\$11,920	\$0	\$0	\$0	\$0
12	51	\$74,645	\$1,493	\$24,863	\$16,918	1.05	\$0	\$12,516	\$0	\$0	\$0	\$0
13	52	\$76,884	\$1,538	\$28,514	\$17,764	1.05	\$0	\$13,142	\$0	\$0	\$0	\$0
14	53	\$79,191	\$1,584	\$32,514	\$18,652	1.05	\$0	\$13,799	\$0	\$0	\$0	\$0
15	54	\$81,566	\$1,631	\$36,894	\$19,585	1.05	\$0	\$14,489	\$0	\$0	\$0	\$0
16	55	\$84,013	\$1,680	\$41,686	\$20,564	1.05	\$0	\$15,213	\$0	\$0	\$0	\$0
17	56	\$86,534	\$1,731	\$46,925	\$21,592	1.05	\$0	\$15,974	\$0	\$0	\$0	\$0
18	57	\$89,130	\$1,783	\$52,651	\$22,672	1.05	\$0	\$16,773	\$0	\$0	\$0	\$0
19	58	\$91,804	\$1,836	\$58,906	\$23,805	1.05	\$0	\$17,611	\$0	\$0	\$0	\$0
20	59	\$94,558	\$1,891	\$65,733	\$24,996	1.05	\$0	\$18,492	\$0	\$0	\$0	\$0
21	60	\$0	\$0	\$55,970	\$26,245	1.05	\$26,245	\$19,316	\$11,650	\$14,596	\$65,733	\$14,596
22	61	\$0	\$0	\$44,643	\$27,558	1.05	\$27,558	\$20,387	\$12,232	\$15,325	\$55,970	\$15,325
23	62	\$0	\$0	\$31,583	\$28,936	1.05	\$28,936	\$21,407	\$12,844	\$16,092	\$44,643	\$16,092
24	63	\$0	\$0	\$16,610	\$30,382	1.05	\$30,382	\$22,477	\$13,486	\$16,896	\$31,583	\$16,896
25	64	\$0	\$0	\$0	\$31,901	1.05	\$31,901	\$23,601	\$14,160	\$17,741	\$16,610	\$16,610

Hire Date	7/1/2005
Age at hire	40
Age at retirement	60
Subsidy Start Age	60
Service	20

Salary	\$53,925
Wage inflation	3.0%

HRA contribution rate	1.0%
HRA accumulation rate	8.25%

Subsidy Base (7/1/2003)	\$5,962
Subsidy index	5%
Subsidy percent	60%

HRA Fund at retirement	\$32,866
Total retiree contribution	\$80,650
Net retiree cost (w/HRA int)	\$44,599

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

	Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
	\$145,022	\$64,373	\$36,050

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	40	\$53,925	\$539	\$561	\$7,318	1.23	\$0	\$7,318	\$0	\$0	\$0	\$0
2	41	\$55,543	\$555	\$1,185	\$8,107	1.11	\$0	\$7,684	\$0	\$0	\$0	\$0
3	42	\$57,209	\$572	\$1,878	\$8,937	1.10	\$0	\$8,068	\$0	\$0	\$0	\$0
4	43	\$58,925	\$589	\$2,646	\$9,802	1.10	\$0	\$8,471	\$0	\$0	\$0	\$0
5	44	\$60,693	\$607	\$3,496	\$10,695	1.09	\$0	\$8,895	\$0	\$0	\$0	\$0
6	45	\$62,514	\$625	\$4,435	\$11,608	1.09	\$0	\$9,340	\$0	\$0	\$0	\$0
7	46	\$64,389	\$644	\$5,471	\$12,532	1.08	\$0	\$9,807	\$0	\$0	\$0	\$0
8	47	\$66,321	\$663	\$6,612	\$13,456	1.07	\$0	\$10,297	\$0	\$0	\$0	\$0
9	48	\$68,311	\$683	\$7,868	\$14,369	1.07	\$0	\$10,812	\$0	\$0	\$0	\$0
10	49	\$70,360	\$704	\$9,249	\$15,258	1.06	\$0	\$11,352	\$0	\$0	\$0	\$0
11	50	\$72,471	\$725	\$10,767	\$16,112	1.06	\$0	\$11,920	\$0	\$0	\$0	\$0
12	51	\$74,645	\$746	\$12,431	\$16,918	1.05	\$0	\$12,516	\$0	\$0	\$0	\$0
13	52	\$76,884	\$769	\$14,257	\$17,764	1.05	\$0	\$13,142	\$0	\$0	\$0	\$0
14	53	\$79,191	\$792	\$16,257	\$18,652	1.05	\$0	\$13,799	\$0	\$0	\$0	\$0
15	54	\$81,566	\$816	\$18,447	\$19,585	1.05	\$0	\$14,489	\$0	\$0	\$0	\$0
16	55	\$84,013	\$840	\$20,843	\$20,564	1.05	\$0	\$15,213	\$0	\$0	\$0	\$0
17	56	\$86,534	\$865	\$23,463	\$21,592	1.05	\$0	\$15,974	\$0	\$0	\$0	\$0
18	57	\$89,130	\$891	\$26,326	\$22,672	1.05	\$0	\$16,773	\$0	\$0	\$0	\$0
19	58	\$91,804	\$918	\$29,453	\$23,805	1.05	\$0	\$17,611	\$0	\$0	\$0	\$0
20	59	\$94,558	\$946	\$32,866	\$24,996	1.05	\$0	\$18,492	\$0	\$0	\$0	\$0
21	60	\$0	\$0	\$20,392	\$26,245	1.05	\$26,245	\$19,416	\$11,650	\$11,596	\$22,866	\$14,596
22	61	\$0	\$0	\$6,130	\$27,558	1.05	\$27,558	\$20,387	\$12,232	\$15,325	\$20,392	\$15,325
23	62	\$0	\$0	\$0	\$28,936	1.05	\$28,936	\$21,407	\$12,844	\$16,092	\$6,130	\$6,130
24	63	\$0	\$0	\$0	\$30,382	1.05	\$30,382	\$22,477	\$13,486	\$16,896	\$0	\$0
25	64	\$0	\$0	\$0	\$31,901	1.05	\$31,901	\$23,601	\$14,160	\$17,741	\$0	\$0

Hire Date	7/1/2005
Age at hire	25
Age at retirement	55
Subsidy Start Age	60
Service	30

Salary	\$53,925
Wage inflation	3.0%
HRA contribution rate	2.0%
HRA accumulation rate	8.25%

Subsidy Base (7/1/2003)	\$5,962
Subsidy Index	5%
Subsidy percent	90%

HRA Fund at retirement	\$178,643
Total retiree contribution	\$336,978
Net retiree cost (w/ HRA int)	\$123,140

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Not (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
\$537,717	\$200,739	\$213,838

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	25	\$53,925	\$1,079	\$1,122	\$7,310	1.23	\$0	\$7,318	\$0	\$0	\$0	\$0
2	26	\$55,543	\$1,111	\$2,370	\$8,107	1.11	\$0	\$7,684	\$0	\$0	\$0	\$0
3	27	\$57,209	\$1,144	\$3,756	\$8,937	1.10	\$0	\$8,068	\$0	\$0	\$0	\$0
4	28	\$58,925	\$1,179	\$5,293	\$9,802	1.10	\$0	\$8,471	\$0	\$0	\$0	\$0
5	29	\$60,693	\$1,214	\$6,992	\$10,695	1.09	\$0	\$8,895	\$0	\$0	\$0	\$0
6	30	\$62,514	\$1,250	\$8,870	\$11,608	1.09	\$0	\$9,340	\$0	\$0	\$0	\$0
7	31	\$64,389	\$1,288	\$10,941	\$12,532	1.08	\$0	\$9,807	\$0	\$0	\$0	\$0
8	32	\$66,321	\$1,326	\$13,224	\$13,456	1.07	\$0	\$10,297	\$0	\$0	\$0	\$0
9	33	\$68,311	\$1,366	\$15,737	\$14,369	1.07	\$0	\$10,812	\$0	\$0	\$0	\$0
10	34	\$70,360	\$1,407	\$18,499	\$15,258	1.06	\$0	\$11,352	\$0	\$0	\$0	\$0
11	35	\$72,471	\$1,449	\$21,533	\$16,112	1.06	\$0	\$11,920	\$0	\$0	\$0	\$0
12	36	\$74,645	\$1,493	\$24,863	\$16,918	1.05	\$0	\$12,516	\$0	\$0	\$0	\$0
13	37	\$76,884	\$1,538	\$28,514	\$17,764	1.05	\$0	\$13,142	\$0	\$0	\$0	\$0
14	38	\$79,191	\$1,584	\$32,514	\$18,652	1.05	\$0	\$13,799	\$0	\$0	\$0	\$0
15	39	\$81,566	\$1,631	\$36,894	\$19,585	1.05	\$0	\$14,489	\$0	\$0	\$0	\$0
16	40	\$84,013	\$1,680	\$41,686	\$20,564	1.05	\$0	\$15,213	\$0	\$0	\$0	\$0
17	41	\$86,534	\$1,731	\$46,925	\$21,592	1.05	\$0	\$15,974	\$0	\$0	\$0	\$0
18	42	\$89,130	\$1,783	\$52,651	\$22,672	1.05	\$0	\$16,773	\$0	\$0	\$0	\$0
19	43	\$91,804	\$1,836	\$58,906	\$23,805	1.05	\$0	\$17,611	\$0	\$0	\$0	\$0
20	44	\$94,558	\$1,891	\$65,733	\$24,996	1.05	\$0	\$18,492	\$0	\$0	\$0	\$0
21	45	\$97,395	\$1,948	\$73,182	\$26,245	1.05	\$0	\$19,416	\$0	\$0	\$0	\$0
22	46	\$100,316	\$2,006	\$81,307	\$27,558	1.05	\$0	\$20,387	\$0	\$0	\$0	\$0
23	47	\$103,326	\$2,067	\$90,165	\$28,936	1.05	\$0	\$21,407	\$0	\$0	\$0	\$0
24	48	\$106,426	\$2,129	\$99,819	\$30,382	1.05	\$0	\$22,477	\$0	\$0	\$0	\$0
25	49	\$109,618	\$2,192	\$110,335	\$31,901	1.05	\$0	\$23,601	\$0	\$0	\$0	\$0
26	50	\$112,917	\$2,258	\$121,787	\$33,496	1.05	\$0	\$24,781	\$0	\$0	\$0	\$0
27	51	\$116,294	\$2,326	\$134,254	\$35,171	1.05	\$0	\$26,020	\$0	\$0	\$0	\$0
28	52	\$119,763	\$2,396	\$147,823	\$36,930	1.05	\$0	\$27,321	\$0	\$0	\$0	\$0
29	53	\$123,376	\$2,468	\$162,585	\$38,776	1.05	\$0	\$28,687	\$0	\$0	\$0	\$0
30	54	\$127,078	\$2,542	\$178,643	\$40,715	1.05	\$0	\$30,121	\$0	\$0	\$0	\$0
31	55	\$0	\$0	\$148,901	\$42,751	1.05	\$42,751	\$31,627	\$0	\$42,751	\$178,643	\$42,751
32	56	\$0	\$0	\$114,482	\$44,888	1.05	\$44,888	\$33,209	\$0	\$44,888	\$148,901	\$44,888
33	57	\$0	\$0	\$74,888	\$47,133	1.05	\$47,133	\$34,869	\$0	\$47,133	\$114,482	\$47,133
34	58	\$0	\$0	\$29,576	\$49,490	1.05	\$49,490	\$36,612	\$0	\$49,490	\$74,888	\$49,490
35	59	\$0	\$0	\$0	\$51,964	1.05	\$51,964	\$38,443	\$0	\$51,964	\$29,576	\$29,576
36	60	\$0	\$0	\$0	\$54,562	1.05	\$54,562	\$40,365	\$36,329	\$18,234	\$0	\$0
37	61	\$0	\$0	\$0	\$57,290	1.05	\$57,290	\$42,383	\$38,145	\$19,145	\$0	\$0
38	62	\$0	\$0	\$0	\$60,155	1.05	\$60,155	\$44,503	\$40,052	\$20,102	\$0	\$0
39	63	\$0	\$0	\$0	\$63,163	1.05	\$63,163	\$46,728	\$42,055	\$21,108	\$0	\$0
40	64	\$0	\$0	\$0	\$66,321	1.05	\$66,321	\$49,064	\$44,158	\$22,163	\$0	\$0

TRS Early Hire - 2% HRA

(12)

Hire Date *	7/1/2005
Age at hire	25
Age at retirement	55
Subsidy Start Age	60
Service	30

Salary	\$53,925
Wage Inflation	3.0%

HRA contribution rate	1.0%
HRA accumulation rate	8.25%

Subsidy Base (7/1/2003)	\$5,962
Subsidy index	5%
Subsidy percent	90%

HRA Fund at retirement	\$89,321
Total retiree contribution	\$336,978
Net retiree cost (w/HRA int)	\$239,523

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Not (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Gross Retiree Premium Cost	\$537,717	Total State Subsidy	\$200,739	Total HRA Spend	\$97,454
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Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pro MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	End of Year HRA Balance	HRA Spend
1	25	\$53,925	\$539	\$561	\$7,318	1.23	\$0	\$7,318	\$0	\$0	\$0	\$0
2	26	\$55,543	\$555	\$1,185	\$8,107	1.11	\$0	\$7,684	\$0	\$0	\$0	\$0
3	27	\$57,209	\$572	\$1,878	\$8,937	1.10	\$0	\$8,068	\$0	\$0	\$0	\$0
4	28	\$58,925	\$589	\$2,646	\$9,802	1.10	\$0	\$8,471	\$0	\$0	\$0	\$0
5	29	\$60,693	\$607	\$3,496	\$10,695	1.09	\$0	\$8,895	\$0	\$0	\$0	\$0
6	30	\$62,514	\$625	\$4,435	\$11,608	1.09	\$0	\$9,340	\$0	\$0	\$0	\$0
7	31	\$64,389	\$644	\$5,471	\$12,532	1.08	\$0	\$9,807	\$0	\$0	\$0	\$0
8	32	\$66,321	\$663	\$6,612	\$13,456	1.07	\$0	\$10,297	\$0	\$0	\$0	\$0
9	33	\$68,311	\$683	\$7,868	\$14,369	1.07	\$0	\$10,812	\$0	\$0	\$0	\$0
10	34	\$70,360	\$704	\$9,249	\$15,259	1.06	\$0	\$11,352	\$0	\$0	\$0	\$0
11	35	\$72,471	\$725	\$10,767	\$16,112	1.06	\$0	\$11,920	\$0	\$0	\$0	\$0
12	36	\$74,645	\$746	\$12,431	\$16,916	1.05	\$0	\$12,516	\$0	\$0	\$0	\$0
13	37	\$76,884	\$769	\$14,257	\$17,764	1.05	\$0	\$13,142	\$0	\$0	\$0	\$0
14	38	\$79,191	\$792	\$16,257	\$18,652	1.05	\$0	\$13,799	\$0	\$0	\$0	\$0
15	39	\$81,566	\$816	\$18,447	\$19,585	1.05	\$0	\$14,489	\$0	\$0	\$0	\$0
16	40	\$84,019	\$840	\$20,843	\$20,564	1.05	\$0	\$15,213	\$0	\$0	\$0	\$0
17	41	\$86,534	\$865	\$23,463	\$21,592	1.05	\$0	\$15,974	\$0	\$0	\$0	\$0
18	42	\$89,130	\$891	\$26,326	\$22,672	1.05	\$0	\$16,773	\$0	\$0	\$0	\$0
19	43	\$91,804	\$918	\$29,453	\$23,805	1.05	\$0	\$17,611	\$0	\$0	\$0	\$0
20	44	\$94,558	\$946	\$32,866	\$24,996	1.05	\$0	\$18,492	\$0	\$0	\$0	\$0
21	45	\$97,395	\$974	\$36,591	\$26,245	1.05	\$0	\$19,416	\$0	\$0	\$0	\$0
22	46	\$100,316	\$1,003	\$40,654	\$27,558	1.05	\$0	\$20,387	\$0	\$0	\$0	\$0
23	47	\$103,326	\$1,033	\$45,083	\$28,936	1.05	\$0	\$21,407	\$0	\$0	\$0	\$0
24	48	\$106,426	\$1,064	\$49,909	\$30,382	1.05	\$0	\$22,477	\$0	\$0	\$0	\$0
25	49	\$109,618	\$1,096	\$55,167	\$31,901	1.05	\$0	\$23,601	\$0	\$0	\$0	\$0
26	50	\$112,907	\$1,129	\$60,893	\$33,496	1.05	\$0	\$24,781	\$0	\$0	\$0	\$0
27	51	\$116,294	\$1,163	\$67,127	\$35,171	1.05	\$0	\$26,020	\$0	\$0	\$0	\$0
28	52	\$119,783	\$1,198	\$73,911	\$36,930	1.05	\$0	\$27,321	\$0	\$0	\$0	\$0
29	53	\$123,376	\$1,234	\$81,293	\$38,776	1.05	\$0	\$28,687	\$0	\$0	\$0	\$0
30	54	\$127,078	\$1,271	\$89,321	\$40,715	1.05	\$0	\$30,121	\$0	\$0	\$0	\$0
31	55	\$0	\$0	\$52,211	\$42,751	1.05	\$42,751	\$31,627	\$0	\$42,751	\$89,321	\$42,751
32	56	\$0	\$0	\$9,815	\$44,888	1.05	\$44,888	\$33,209	\$0	\$44,888	\$52,211	\$44,888
33	57	\$0	\$0	\$0	\$47,133	1.05	\$47,133	\$34,869	\$0	\$47,133	\$9,815	\$9,815
34	58	\$0	\$0	\$0	\$49,490	1.05	\$49,490	\$36,612	\$0	\$49,490	\$0	\$0
35	59	\$0	\$0	\$0	\$51,964	1.05	\$51,964	\$38,443	\$0	\$51,964	\$0	\$0
36	60	\$0	\$0	\$0	\$54,562	1.05	\$54,562	\$40,365	\$36,229	\$18,234	\$0	\$0
37	61	\$0	\$0	\$0	\$57,290	1.05	\$57,290	\$42,383	\$38,145	\$19,145	\$0	\$0
38	62	\$0	\$0	\$0	\$60,155	1.05	\$60,155	\$44,503	\$40,052	\$20,102	\$0	\$0
39	63	\$0	\$0	\$0	\$63,163	1.05	\$63,163	\$46,728	\$42,055	\$21,108	\$0	\$0
40	64	\$0	\$0	\$0	\$66,321	1.05	\$66,321	\$49,064	\$44,158	\$22,163	\$0	\$0

Hire Date	7/1/2005
Age at hire	40
Age at retirement	60
Subsidy Eligibility Age	60
Service	20

Salary	\$61,855
Wage inflation	3.0%

HRA contribution rate	2.0%
HRA accumulation rate	8.25%

Subsidy Base	\$5,962
Subsidy index	5%

Subsidy percent 60%

HRA Fund at retirement	\$75,399
Total retiree contribution	\$161,299
Net retiree cost (w/HRA int)	\$77,871

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current
 Assumes spouse of equal age to retiree

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
\$290,014	\$128,745	\$83,428

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	40	\$61,855	\$1,237	\$1,287	\$14,636	1.23	\$0	\$14,636	\$0	\$0	\$0	\$0
2	41	\$63,711	\$1,274	\$2,719	\$16,215	1.11	\$0	\$15,367	\$0	\$0	\$0	\$0
3	42	\$65,622	\$1,312	\$4,309	\$17,874	1.10	\$0	\$16,136	\$0	\$0	\$0	\$0
4	43	\$67,591	\$1,352	\$6,071	\$19,604	1.10	\$0	\$16,943	\$0	\$0	\$0	\$0
5	44	\$69,618	\$1,392	\$8,020	\$21,390	1.09	\$0	\$17,790	\$0	\$0	\$0	\$0
6	45	\$71,707	\$1,434	\$10,174	\$23,216	1.09	\$0	\$18,679	\$0	\$0	\$0	\$0
7	46	\$73,858	\$1,477	\$12,550	\$25,064	1.08	\$0	\$19,613	\$0	\$0	\$0	\$0
8	47	\$76,074	\$1,521	\$15,169	\$26,912	1.07	\$0	\$20,594	\$0	\$0	\$0	\$0
9	48	\$78,356	\$1,567	\$18,051	\$28,738	1.07	\$0	\$21,624	\$0	\$0	\$0	\$0
10	49	\$80,707	\$1,614	\$21,219	\$30,517	1.06	\$0	\$22,705	\$0	\$0	\$0	\$0
11	50	\$83,128	\$1,663	\$24,700	\$32,225	1.06	\$0	\$23,840	\$0	\$0	\$0	\$0
12	51	\$85,622	\$1,712	\$28,519	\$33,836	1.05	\$0	\$25,032	\$0	\$0	\$0	\$0
13	52	\$88,190	\$1,764	\$32,707	\$35,528	1.05	\$0	\$26,284	\$0	\$0	\$0	\$0
14	53	\$90,836	\$1,817	\$37,295	\$37,304	1.05	\$0	\$27,598	\$0	\$0	\$0	\$0
15	54	\$93,561	\$1,871	\$42,319	\$39,169	1.05	\$0	\$28,978	\$0	\$0	\$0	\$0
16	55	\$96,368	\$1,927	\$47,816	\$41,128	1.05	\$0	\$30,426	\$0	\$0	\$0	\$0
17	56	\$99,259	\$1,985	\$53,826	\$43,184	1.05	\$0	\$31,948	\$0	\$0	\$0	\$0
18	57	\$102,237	\$2,045	\$60,394	\$45,343	1.05	\$0	\$33,545	\$0	\$0	\$0	\$0
19	58	\$105,304	\$2,106	\$67,568	\$47,611	1.05	\$0	\$35,222	\$0	\$0	\$0	\$0
20	59	\$108,463	\$2,169	\$75,399	\$49,991	1.05	\$0	\$36,984	\$0	\$0	\$0	\$0
21	60	\$0	\$0	\$51,248	\$52,491	1.05	\$52,491	\$38,833	\$23,300	\$29,191	\$75,399	\$29,191
22	61	\$0	\$0	\$23,586	\$55,115	1.05	\$55,115	\$40,774	\$24,465	\$30,651	\$51,248	\$30,651
23	62	\$0	\$0	\$0	\$57,871	1.05	\$57,871	\$42,813	\$25,688	\$32,183	\$23,586	\$23,586
24	63	\$0	\$0	\$0	\$60,765	1.05	\$60,765	\$44,954	\$26,972	\$33,792	\$0	\$0
25	64	\$0	\$0	\$0	\$63,803	1.05	\$63,803	\$47,201	\$28,321	\$35,482	\$0	\$0

Hire Date	7/1/2005
Age at hire	40
Age at retirement	60
Subsidy Start Age	60
Service	20
Salary	\$61,855
Wage inflation	3.0%
HRA contribution rate	2.0%
HRA accumulation rate	8.25%
Subsidy Base (7/1/2003)	\$5,962
Subsidy index	5%
Subsidy percent	60%

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Not (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

HRA Fund at retirement	\$75,399
Total retiree contribution	\$80,650
Net retiree cost (w/HRA int)	\$0

Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
\$145,022	\$64,373	\$80,650

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Prc MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	40	\$61,855	\$1,237	\$1,287	\$7,318	1.23	\$0	\$7,318	\$0	\$0	\$0	\$0
2	41	\$63,711	\$1,274	\$2,719	\$8,107	1.11	\$0	\$7,684	\$0	\$0	\$0	\$0
3	42	\$65,622	\$1,312	\$4,309	\$8,937	1.10	\$0	\$8,068	\$0	\$0	\$0	\$0
4	43	\$67,591	\$1,352	\$6,071	\$9,802	1.10	\$0	\$8,471	\$0	\$0	\$0	\$0
5	44	\$69,618	\$1,392	\$8,020	\$10,695	1.09	\$0	\$8,895	\$0	\$0	\$0	\$0
6	45	\$71,707	\$1,434	\$10,174	\$11,608	1.09	\$0	\$9,340	\$0	\$0	\$0	\$0
7	46	\$73,858	\$1,477	\$12,550	\$12,532	1.08	\$0	\$9,807	\$0	\$0	\$0	\$0
8	47	\$76,074	\$1,521	\$15,169	\$13,456	1.07	\$0	\$10,297	\$0	\$0	\$0	\$0
9	48	\$78,356	\$1,567	\$18,051	\$14,369	1.07	\$0	\$10,812	\$0	\$0	\$0	\$0
10	49	\$80,707	\$1,614	\$21,219	\$15,258	1.06	\$0	\$11,352	\$0	\$0	\$0	\$0
11	50	\$83,128	\$1,663	\$24,700	\$16,112	1.06	\$0	\$11,920	\$0	\$0	\$0	\$0
12	51	\$85,622	\$1,712	\$28,519	\$16,918	1.05	\$0	\$12,516	\$0	\$0	\$0	\$0
13	52	\$88,190	\$1,764	\$32,707	\$17,764	1.05	\$0	\$13,142	\$0	\$0	\$0	\$0
14	53	\$90,836	\$1,817	\$37,295	\$18,652	1.05	\$0	\$13,799	\$0	\$0	\$0	\$0
15	54	\$93,561	\$1,871	\$42,319	\$19,585	1.05	\$0	\$14,489	\$0	\$0	\$0	\$0
16	55	\$96,368	\$1,927	\$47,816	\$20,564	1.05	\$0	\$15,213	\$0	\$0	\$0	\$0
17	56	\$99,259	\$1,985	\$53,826	\$21,592	1.05	\$0	\$15,974	\$0	\$0	\$0	\$0
18	57	\$102,237	\$2,045	\$60,394	\$22,672	1.05	\$0	\$16,773	\$0	\$0	\$0	\$0
19	58	\$105,304	\$2,106	\$67,568	\$23,805	1.05	\$0	\$17,611	\$0	\$0	\$0	\$0
20	59	\$108,463	\$2,169	\$75,399	\$24,996	1.05	\$0	\$18,492	\$0	\$0	\$0	\$0
21	60	\$0	\$0	\$66,434	\$26,245	1.05	\$26,245	\$19,416	\$11,650	\$14,596	\$75,399	\$14,596
22	61	\$0	\$0	\$55,970	\$27,558	1.05	\$27,558	\$20,387	\$12,232	\$15,325	\$66,434	\$15,325
23	62	\$0	\$0	\$43,845	\$28,936	1.05	\$28,936	\$21,407	\$12,844	\$16,092	\$55,970	\$16,092
24	63	\$0	\$0	\$29,883	\$30,382	1.05	\$30,382	\$22,477	\$13,486	\$16,896	\$43,845	\$16,896
25	64	\$0	\$0	\$13,890	\$31,901	1.05	\$31,901	\$23,601	\$14,160	\$17,741	\$29,883	\$17,741

Hire Date	7/1/2005
Age at hire	40
Age at retirement	60
Subsidy Start Age	60
Service	20

Salary	\$61,855
Wage inflation	3.0%

HRA contribution rate	1.0%
HRA accumulation rate	8.25%

Subsidy Base (7/1/2003)	\$5,962
Subsidy index	5%
Subsidy percent	60%

HRA Fund at retirement	\$37,700
Total retiree contribution	\$80,650
Net retiree cost (w/HRA int)	\$38,936

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
\$145,022	\$64,373	\$41,714

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Me I/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	40	\$61,855	\$619	\$644	\$7,318	1.23	\$0	\$7,318	\$0	\$0	\$0	\$0
2	41	\$63,711	\$637	\$1,360	\$8,107	1.11	\$0	\$7,684	\$0	\$0	\$0	\$0
3	42	\$65,622	\$656	\$2,154	\$8,937	1.10	\$0	\$8,068	\$0	\$0	\$0	\$0
4	43	\$67,591	\$676	\$3,035	\$9,802	1.10	\$0	\$8,471	\$0	\$0	\$0	\$0
5	44	\$69,618	\$696	\$4,010	\$10,695	1.09	\$0	\$8,895	\$0	\$0	\$0	\$0
6	45	\$71,707	\$717	\$5,087	\$11,608	1.09	\$0	\$9,340	\$0	\$0	\$0	\$0
7	46	\$73,858	\$739	\$6,275	\$12,532	1.08	\$0	\$9,807	\$0	\$0	\$0	\$0
8	47	\$76,074	\$761	\$7,584	\$13,456	1.07	\$0	\$10,297	\$0	\$0	\$0	\$0
9	48	\$78,356	\$784	\$9,025	\$14,369	1.07	\$0	\$10,812	\$0	\$0	\$0	\$0
10	49	\$80,707	\$807	\$10,610	\$15,258	1.06	\$0	\$11,352	\$0	\$0	\$0	\$0
11	50	\$83,128	\$831	\$12,350	\$16,112	1.06	\$0	\$11,920	\$0	\$0	\$0	\$0
12	51	\$85,622	\$856	\$14,260	\$16,918	1.05	\$0	\$12,516	\$0	\$0	\$0	\$0
13	52	\$88,190	\$882	\$16,353	\$17,764	1.05	\$0	\$13,142	\$0	\$0	\$0	\$0
14	53	\$90,836	\$908	\$18,648	\$18,652	1.05	\$0	\$13,799	\$0	\$0	\$0	\$0
15	54	\$93,551	\$936	\$21,160	\$19,585	1.05	\$0	\$14,489	\$0	\$0	\$0	\$0
16	55	\$96,368	\$964	\$23,908	\$20,564	1.05	\$0	\$15,213	\$0	\$0	\$0	\$0
17	56	\$99,259	\$993	\$26,913	\$21,592	1.05	\$0	\$15,974	\$0	\$0	\$0	\$0
18	57	\$102,237	\$1,022	\$30,197	\$22,672	1.05	\$0	\$16,773	\$0	\$0	\$0	\$0
19	58	\$105,304	\$1,053	\$33,784	\$23,805	1.05	\$0	\$17,611	\$0	\$0	\$0	\$0
20	59	\$108,463	\$1,085	\$37,700	\$24,996	1.05	\$0	\$18,492	\$0	\$0	\$0	\$0
21	60	\$0	\$0	\$25,624	\$26,245	1.05	\$26,245	\$19,416	\$11,650	\$14,596	\$37,700	\$14,596
22	61	\$0	\$0	\$11,793	\$27,558	1.05	\$27,558	\$20,387	\$12,232	\$15,325	\$25,624	\$15,325
23	62	\$0	\$0	\$0	\$28,936	1.05	\$28,936	\$21,407	\$12,844	\$16,092	\$11,793	\$11,793
24	63	\$0	\$0	\$0	\$30,382	1.05	\$30,382	\$22,477	\$13,486	\$16,896	\$0	\$0
25	64	\$0	\$0	\$0	\$31,901	1.05	\$31,901	\$23,601	\$14,160	\$17,741	\$0	\$0

Hire Date 7/1/2005
 Age at hire 25
 Age at retirement 55
 Subsidy Start Age 60
 Service 30

Salary \$61,855
 Wage inflation 3.0%

HRA contribution rate 2.0%
 HRA accumulation rate 8.25%

Subsidy Base (7/1/2003) \$5,962
 Subsidy index 5%
 Subsidy percent 90%

HRA Fund at retirement \$204,913
 Total retiree contribution \$336,978
 Net retiree cost (w/HRA int) \$83,752

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Gross Retiree Premium Cost \$537,717
 Total State Subsidy \$200,739
 Total HRA Spend \$253,226

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Mod/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	25	\$61,855	\$1,237	\$1,287	\$7,318	1.23	\$0	\$7,318	\$0	\$0	\$0	\$0
2	26	\$63,711	\$1,274	\$2,719	\$8,107	1.11	\$0	\$7,684	\$0	\$0	\$0	\$0
3	27	\$65,622	\$1,312	\$4,309	\$8,937	1.10	\$0	\$8,068	\$0	\$0	\$0	\$0
4	28	\$67,591	\$1,352	\$6,071	\$9,802	1.10	\$0	\$8,471	\$0	\$0	\$0	\$0
5	29	\$69,618	\$1,392	\$8,020	\$10,695	1.09	\$0	\$8,895	\$0	\$0	\$0	\$0
6	30	\$71,707	\$1,434	\$10,174	\$11,608	1.09	\$0	\$9,340	\$0	\$0	\$0	\$0
7	31	\$73,858	\$1,477	\$12,550	\$12,532	1.08	\$0	\$9,807	\$0	\$0	\$0	\$0
8	32	\$76,074	\$1,521	\$15,169	\$13,458	1.07	\$0	\$10,297	\$0	\$0	\$0	\$0
9	33	\$78,356	\$1,567	\$18,051	\$14,369	1.07	\$0	\$10,812	\$0	\$0	\$0	\$0
10	34	\$80,707	\$1,614	\$21,219	\$15,258	1.06	\$0	\$11,352	\$0	\$0	\$0	\$0
11	35	\$83,128	\$1,663	\$24,700	\$16,112	1.06	\$0	\$11,920	\$0	\$0	\$0	\$0
12	36	\$85,622	\$1,712	\$28,519	\$16,918	1.05	\$0	\$12,516	\$0	\$0	\$0	\$0
13	37	\$88,190	\$1,764	\$32,707	\$17,764	1.05	\$0	\$13,142	\$0	\$0	\$0	\$0
14	38	\$90,836	\$1,817	\$37,295	\$18,652	1.05	\$0	\$13,799	\$0	\$0	\$0	\$0
15	39	\$93,561	\$1,871	\$42,319	\$19,585	1.05	\$0	\$14,489	\$0	\$0	\$0	\$0
16	40	\$96,368	\$1,927	\$47,816	\$20,564	1.05	\$0	\$15,213	\$0	\$0	\$0	\$0
17	41	\$99,259	\$1,985	\$53,826	\$21,592	1.05	\$0	\$15,974	\$0	\$0	\$0	\$0
18	42	\$102,237	\$2,045	\$60,394	\$22,672	1.05	\$0	\$16,773	\$0	\$0	\$0	\$0
19	43	\$105,304	\$2,106	\$67,568	\$23,805	1.05	\$0	\$17,611	\$0	\$0	\$0	\$0
20	44	\$108,463	\$2,169	\$75,399	\$24,996	1.05	\$0	\$18,492	\$0	\$0	\$0	\$0
21	45	\$111,717	\$2,234	\$83,944	\$26,245	1.05	\$0	\$19,416	\$0	\$0	\$0	\$0
22	46	\$115,069	\$2,301	\$93,264	\$27,558	1.05	\$0	\$20,387	\$0	\$0	\$0	\$0
23	47	\$118,521	\$2,370	\$103,425	\$28,936	1.05	\$0	\$21,407	\$0	\$0	\$0	\$0
24	48	\$122,076	\$2,442	\$114,498	\$30,382	1.05	\$0	\$22,477	\$0	\$0	\$0	\$0
25	49	\$125,738	\$2,515	\$126,560	\$31,901	1.05	\$0	\$23,601	\$0	\$0	\$0	\$0
26	50	\$129,511	\$2,590	\$139,696	\$33,496	1.05	\$0	\$24,781	\$0	\$0	\$0	\$0
27	51	\$133,396	\$2,668	\$153,997	\$35,171	1.05	\$0	\$26,020	\$0	\$0	\$0	\$0
28	52	\$137,398	\$2,748	\$169,561	\$36,930	1.05	\$0	\$27,321	\$0	\$0	\$0	\$0
29	53	\$141,520	\$2,830	\$186,494	\$38,776	1.05	\$0	\$28,687	\$0	\$0	\$0	\$0
30	54	\$145,765	\$2,915	\$204,913	\$40,715	1.05	\$0	\$30,121	\$0	\$0	\$0	\$0
31	55	\$0	\$0	\$177,339	\$42,751	1.05	\$42,751	\$31,627	\$0	\$42,751	\$204,913	\$42,751
32	56	\$0	\$0	\$145,266	\$44,888	1.05	\$44,888	\$33,209	\$0	\$44,888	\$177,339	\$44,888
33	57	\$0	\$0	\$108,212	\$47,133	1.05	\$47,133	\$34,869	\$0	\$47,133	\$145,266	\$47,133
34	58	\$0	\$0	\$65,649	\$49,490	1.05	\$49,490	\$36,612	\$0	\$49,490	\$108,212	\$49,490
35	59	\$0	\$0	\$17,000	\$51,964	1.05	\$51,964	\$38,443	\$0	\$51,964	\$65,649	\$51,964
36	60	\$0	\$0	\$0	\$54,562	1.05	\$54,562	\$40,365	\$36,329	\$18,234	\$17,000	\$17,000
37	61	\$0	\$0	\$0	\$57,290	1.05	\$57,290	\$42,383	\$38,145	\$19,145	\$0	\$0
38	62	\$0	\$0	\$0	\$60,155	1.05	\$60,155	\$44,503	\$40,052	\$20,102	\$0	\$0
39	63	\$0	\$0	\$0	\$63,163	1.05	\$63,163	\$46,728	\$42,055	\$21,108	\$0	\$0
40	64	\$0	\$0	\$0	\$66,321	1.05	\$66,321	\$49,064	\$44,158	\$22,163	\$0	\$0

Hire Date 7/1/2005
 Age at hire 25
 Age at retirement 55
 Subsidy Start Age 60
 Service 30

Salary \$61,855
 Wage inflation 3.0%

HRA contribution rate 1.0%
 HRA accumulation rate 8.25%

Subsidy Base (7/1/2003) \$5,962
 Subsidy index 5%
 Subsidy percent 90%

HRA Fund at retirement \$102,457
 Total retiree contribution \$336,978
 Net retiree cost (w/HRA int) \$224,131

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate

Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
\$537,717	\$200,739	\$112,846

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	End of Year HRA Balance	HRA Spend
1	25	\$61,855	\$619	\$644	\$7,318	1.23	\$0	\$7,318	\$0	\$0	\$0	\$0
2	26	\$63,711	\$637	\$1,360	\$8,107	1.11	\$0	\$7,684	\$0	\$0	\$0	\$0
3	27	\$65,622	\$656	\$2,154	\$8,937	1.10	\$0	\$8,068	\$0	\$0	\$0	\$0
4	28	\$67,591	\$676	\$3,035	\$9,802	1.10	\$0	\$8,471	\$0	\$0	\$0	\$0
5	29	\$69,618	\$696	\$4,010	\$10,695	1.09	\$0	\$8,895	\$0	\$0	\$0	\$0
6	30	\$71,707	\$717	\$5,087	\$11,608	1.09	\$0	\$9,340	\$0	\$0	\$0	\$0
7	31	\$73,858	\$739	\$6,275	\$12,532	1.08	\$0	\$9,807	\$0	\$0	\$0	\$0
8	32	\$76,074	\$761	\$7,584	\$13,456	1.07	\$0	\$10,297	\$0	\$0	\$0	\$0
9	33	\$78,356	\$784	\$9,025	\$14,369	1.07	\$0	\$10,812	\$0	\$0	\$0	\$0
10	34	\$80,707	\$807	\$10,610	\$15,258	1.06	\$0	\$11,352	\$0	\$0	\$0	\$0
11	35	\$83,128	\$831	\$12,350	\$16,112	1.06	\$0	\$11,920	\$0	\$0	\$0	\$0
12	36	\$85,622	\$856	\$14,260	\$16,918	1.05	\$0	\$12,516	\$0	\$0	\$0	\$0
13	37	\$88,190	\$882	\$16,353	\$17,764	1.05	\$0	\$13,142	\$0	\$0	\$0	\$0
14	38	\$90,836	\$908	\$18,648	\$18,652	1.05	\$0	\$13,799	\$0	\$0	\$0	\$0
15	39	\$93,561	\$936	\$21,160	\$19,585	1.05	\$0	\$14,480	\$0	\$0	\$0	\$0
16	40	\$96,368	\$964	\$23,908	\$20,564	1.05	\$0	\$15,213	\$0	\$0	\$0	\$0
17	41	\$99,259	\$993	\$26,913	\$21,592	1.05	\$0	\$15,974	\$0	\$0	\$0	\$0
18	42	\$102,237	\$1,022	\$30,197	\$22,672	1.05	\$0	\$16,773	\$0	\$0	\$0	\$0
19	43	\$105,304	\$1,053	\$33,784	\$23,805	1.05	\$0	\$17,611	\$0	\$0	\$0	\$0
20	44	\$108,463	\$1,085	\$37,700	\$24,996	1.05	\$0	\$18,492	\$0	\$0	\$0	\$0
21	45	\$111,717	\$1,117	\$41,972	\$26,245	1.05	\$0	\$19,416	\$0	\$0	\$0	\$0
22	46	\$115,059	\$1,151	\$46,632	\$27,558	1.05	\$0	\$20,387	\$0	\$0	\$0	\$0
23	47	\$118,521	\$1,185	\$51,712	\$28,936	1.05	\$0	\$21,407	\$0	\$0	\$0	\$0
24	48	\$122,076	\$1,221	\$57,249	\$30,382	1.05	\$0	\$22,477	\$0	\$0	\$0	\$0
25	49	\$125,738	\$1,257	\$63,280	\$31,901	1.05	\$0	\$23,601	\$0	\$0	\$0	\$0
26	50	\$129,511	\$1,295	\$69,848	\$33,496	1.05	\$0	\$24,781	\$0	\$0	\$0	\$0
27	51	\$133,396	\$1,334	\$76,998	\$35,171	1.05	\$0	\$26,020	\$0	\$0	\$0	\$0
28	52	\$137,398	\$1,374	\$84,780	\$36,930	1.05	\$0	\$27,321	\$0	\$0	\$0	\$0
29	53	\$141,520	\$1,415	\$93,247	\$38,776	1.05	\$0	\$28,687	\$0	\$0	\$0	\$0
30	54	\$145,765	\$1,458	\$102,457	\$40,715	1.05	\$0	\$30,121	\$0	\$0	\$0	\$0
31	55	\$0	\$0	\$66,430	\$42,751	1.05	\$42,751	\$31,627	\$0	\$42,751	\$102,457	\$42,751
32	56	\$0	\$0	\$25,207	\$44,888	1.05	\$44,888	\$33,209	\$0	\$44,888	\$66,430	\$44,888
33	57	\$0	\$0	\$0	\$47,133	1.05	\$47,133	\$34,869	\$0	\$47,133	\$25,207	\$25,207
34	58	\$0	\$0	\$0	\$49,490	1.05	\$49,490	\$36,612	\$0	\$49,490	\$0	\$0
35	59	\$0	\$0	\$0	\$51,964	1.05	\$51,964	\$38,443	\$0	\$51,964	\$0	\$0
36	60	\$0	\$0	\$0	\$54,562	1.05	\$54,562	\$40,305	\$36,329	\$18,234	\$0	\$0
37	61	\$0	\$0	\$0	\$57,290	1.05	\$57,290	\$42,383	\$39,115	\$19,145	\$0	\$0
38	62	\$0	\$0	\$0	\$60,155	1.05	\$60,155	\$44,503	\$40,052	\$20,102	\$0	\$0
39	63	\$0	\$0	\$0	\$63,163	1.05	\$63,163	\$46,728	\$42,055	\$21,108	\$0	\$0
40	64	\$0	\$0	\$0	\$66,321	1.05	\$66,321	\$49,064	\$44,158	\$22,163	\$0	\$0

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 11,000

Hire Date	7/1/2005
Age at hire	40
Age at retirement	60
Subsidy Eligibility Age	60
Service	20

Salary	\$42,245
Wage inflation	3.0%

HRA contribution rate	2.0%
HRA accumulation rate	8.25%

Subsidy Base	\$5,962
Subsidy index	5%
Subsidy percent	60%

HRA Fund at retirement	\$51,495
Total retiree contribution	\$161,299
Net retiree cost (w/HRA int)	\$106,736

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current
 Assumes spouse of equal age to retiree
 All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
\$290,044	\$128,745	\$54,563

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	40	\$42,245	\$845	\$879	\$14,636	1.23	\$0	\$14,636	\$0	\$0	\$0	\$0
2	41	\$43,512	\$870	\$1,857	\$16,215	1.11	\$0	\$15,367	\$0	\$0	\$0	\$0
3	42	\$44,818	\$896	\$2,943	\$17,874	1.10	\$0	\$16,136	\$0	\$0	\$0	\$0
4	43	\$46,162	\$923	\$4,146	\$19,604	1.10	\$0	\$16,943	\$0	\$0	\$0	\$0
5	44	\$47,547	\$951	\$5,478	\$21,390	1.09	\$0	\$17,790	\$0	\$0	\$0	\$0
6	45	\$48,974	\$979	\$6,919	\$23,216	1.09	\$0	\$18,679	\$0	\$0	\$0	\$0
7	46	\$50,443	\$1,009	\$8,572	\$25,064	1.08	\$0	\$19,613	\$0	\$0	\$0	\$0
8	47	\$51,956	\$1,039	\$10,360	\$26,912	1.07	\$0	\$20,594	\$0	\$0	\$0	\$0
9	48	\$53,515	\$1,070	\$12,328	\$28,738	1.07	\$0	\$21,624	\$0	\$0	\$0	\$0
10	49	\$55,120	\$1,102	\$14,492	\$30,517	1.06	\$0	\$22,705	\$0	\$0	\$0	\$0
11	50	\$56,774	\$1,135	\$16,869	\$32,225	1.06	\$0	\$23,840	\$0	\$0	\$0	\$0
12	51	\$58,477	\$1,170	\$19,478	\$33,836	1.05	\$0	\$25,032	\$0	\$0	\$0	\$0
13	52	\$60,231	\$1,205	\$22,338	\$35,528	1.05	\$0	\$26,284	\$0	\$0	\$0	\$0
14	53	\$62,038	\$1,241	\$25,472	\$37,304	1.05	\$0	\$27,598	\$0	\$0	\$0	\$0
15	54	\$63,899	\$1,278	\$28,903	\$39,169	1.05	\$0	\$28,978	\$0	\$0	\$0	\$0
16	55	\$65,816	\$1,316	\$32,657	\$41,128	1.05	\$0	\$30,426	\$0	\$0	\$0	\$0
17	56	\$67,791	\$1,356	\$36,762	\$43,184	1.05	\$0	\$31,948	\$0	\$0	\$0	\$0
18	57	\$69,825	\$1,396	\$41,247	\$45,343	1.05	\$0	\$33,545	\$0	\$0	\$0	\$0
19	58	\$71,919	\$1,438	\$46,147	\$47,611	1.05	\$0	\$35,222	\$0	\$0	\$0	\$0
20	59	\$74,077	\$1,482	\$51,495	\$49,991	1.05	\$0	\$36,984	\$0	\$0	\$0	\$0
21	60	\$0	\$0	\$25,372	\$52,491	1.05	\$52,491	\$38,833	\$23,300	\$29,191	\$51,495	\$29,191
22	61	\$0	\$0	\$0	\$55,115	1.05	\$55,115	\$40,774	\$24,465	\$30,651	\$25,372	\$25,372
23	62	\$0	\$0	\$0	\$57,871	1.05	\$57,871	\$42,813	\$25,688	\$32,183	\$0	\$0
24	63	\$0	\$0	\$0	\$60,765	1.05	\$60,765	\$44,954	\$26,972	\$33,792	\$0	\$0
25	64	\$0	\$0	\$0	\$63,803	1.05	\$63,803	\$47,201	\$28,321	\$35,482	\$0	\$0

PERS "other" w/ spouse
 Late Hire - 2% HRA

Hire Date	7/1/2005
Age at hire	40
Age at retirement	60
Subsidy Start Age	60
Service	20
Salary	\$42,245
Wage inflation	3.0%
HRA contribution rate	2.0%
HRA accumulation rate	8.25%
Subsidy Base (7/1/2003)	\$5,962
Subsidy index	5%
Subsidy percent	60%

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

HRA Fund at retirement	\$51,495
Total retiree contribution	\$80,650
Net retiree cost (w/HRA int)	\$21,114

Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
\$145,022	\$64,373	\$59,536

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	40	\$42,245	\$845	\$879	\$7,318	1.23	\$0	\$7,318	\$0	\$0	\$0	\$0
2	41	\$43,512	\$870	\$1,857	\$8,107	1.11	\$0	\$7,684	\$0	\$0	\$0	\$0
3	42	\$44,818	\$896	\$2,943	\$8,937	1.10	\$0	\$8,068	\$0	\$0	\$0	\$0
4	43	\$46,162	\$923	\$4,146	\$9,802	1.10	\$0	\$8,471	\$0	\$0	\$0	\$0
5	44	\$47,547	\$951	\$5,478	\$10,695	1.09	\$0	\$8,895	\$0	\$0	\$0	\$0
6	45	\$48,974	\$979	\$6,949	\$11,608	1.09	\$0	\$9,340	\$0	\$0	\$0	\$0
7	46	\$50,443	\$1,009	\$8,572	\$12,532	1.08	\$0	\$9,807	\$0	\$0	\$0	\$0
8	47	\$51,956	\$1,039	\$10,360	\$13,456	1.07	\$0	\$10,297	\$0	\$0	\$0	\$0
9	48	\$53,515	\$1,070	\$12,328	\$14,369	1.07	\$0	\$10,812	\$0	\$0	\$0	\$0
10	49	\$55,120	\$1,102	\$14,492	\$15,258	1.06	\$0	\$11,352	\$0	\$0	\$0	\$0
11	50	\$56,774	\$1,135	\$16,869	\$16,112	1.06	\$0	\$11,920	\$0	\$0	\$0	\$0
12	51	\$58,477	\$1,170	\$19,478	\$16,918	1.05	\$0	\$12,516	\$0	\$0	\$0	\$0
13	52	\$60,231	\$1,205	\$22,338	\$17,764	1.05	\$0	\$13,142	\$0	\$0	\$0	\$0
14	53	\$62,038	\$1,241	\$25,472	\$18,652	1.05	\$0	\$13,799	\$0	\$0	\$0	\$0
15	54	\$63,899	\$1,278	\$28,903	\$19,585	1.05	\$0	\$14,489	\$0	\$0	\$0	\$0
16	55	\$65,816	\$1,316	\$32,657	\$20,564	1.05	\$0	\$15,213	\$0	\$0	\$0	\$0
17	56	\$67,791	\$1,356	\$36,762	\$21,592	1.05	\$0	\$15,974	\$0	\$0	\$0	\$0
18	57	\$69,825	\$1,396	\$41,247	\$22,672	1.05	\$0	\$16,773	\$0	\$0	\$0	\$0
19	58	\$71,919	\$1,438	\$46,147	\$23,805	1.05	\$0	\$17,611	\$0	\$0	\$0	\$0
20	59	\$74,077	\$1,482	\$51,495	\$24,996	1.05	\$0	\$18,492	\$0	\$0	\$0	\$0
21	60	\$0	\$0	\$40,558	\$26,245	1.05	\$26,245	\$19,416	\$11,650	\$14,596	\$51,495	\$14,596
22	61	\$0	\$0	\$27,959	\$27,558	1.05	\$27,558	\$20,387	\$12,232	\$15,325	\$40,558	\$15,325
23	62	\$0	\$0	\$13,523	\$28,936	1.05	\$28,936	\$21,407	\$12,844	\$16,092	\$27,959	\$16,092
24	63	\$0	\$0	\$0	\$30,382	1.05	\$30,382	\$22,477	\$13,486	\$16,896	\$13,523	\$13,523
25	64	\$0	\$0	\$0	\$31,901	1.05	\$31,901	\$23,601	\$14,160	\$17,741	\$0	\$0

Hire Date	7/1/2005
Age at hire	40
Age at retirement	60
Subsidy Start Age	60
Service	20

Salary	\$42,215
Wage inflation	3.0%

HRA contribution rate	1.0%
HRA accumulation rate	8.25%

Subsidy Base (7/1/2003)	\$5,962
Subsidy index	5%

Subsidy percent 60%

HRA Fund at retirement	\$25,748
Total retiree contribution	\$80,650
Net retiree cost (w/HRA int)	\$53,368

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

	Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
	\$145,022	\$64,373	\$27,282

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	40	\$42,245	\$422	\$440	\$7,318	1.23	\$0	\$7,318	\$0	\$0	\$0	\$0
2	41	\$43,512	\$435	\$929	\$8,107	1.11	\$0	\$7,684	\$0	\$0	\$0	\$0
3	42	\$44,818	\$448	\$1,471	\$8,937	1.10	\$0	\$8,068	\$0	\$0	\$0	\$0
4	43	\$46,162	\$462	\$2,073	\$9,802	1.10	\$0	\$8,471	\$0	\$0	\$0	\$0
5	44	\$47,547	\$475	\$2,739	\$10,695	1.09	\$0	\$8,895	\$0	\$0	\$0	\$0
6	45	\$48,974	\$490	\$3,474	\$11,608	1.09	\$0	\$9,340	\$0	\$0	\$0	\$0
7	46	\$50,443	\$504	\$4,286	\$12,532	1.08	\$0	\$9,807	\$0	\$0	\$0	\$0
8	47	\$51,956	\$520	\$5,180	\$13,456	1.07	\$0	\$10,297	\$0	\$0	\$0	\$0
9	48	\$53,515	\$535	\$6,164	\$14,369	1.07	\$0	\$10,812	\$0	\$0	\$0	\$0
10	49	\$55,120	\$551	\$7,246	\$15,258	1.06	\$0	\$11,352	\$0	\$0	\$0	\$0
11	50	\$56,774	\$568	\$8,435	\$16,112	1.06	\$0	\$11,920	\$0	\$0	\$0	\$0
12	51	\$58,477	\$585	\$9,739	\$16,918	1.05	\$0	\$12,516	\$0	\$0	\$0	\$0
13	52	\$60,231	\$602	\$11,169	\$17,764	1.05	\$0	\$13,142	\$0	\$0	\$0	\$0
14	53	\$62,038	\$620	\$12,736	\$18,652	1.05	\$0	\$13,799	\$0	\$0	\$0	\$0
15	54	\$63,899	\$639	\$14,451	\$19,585	1.05	\$0	\$14,489	\$0	\$0	\$0	\$0
16	55	\$65,816	\$658	\$16,328	\$20,564	1.05	\$0	\$15,213	\$0	\$0	\$0	\$0
17	56	\$67,791	\$678	\$18,381	\$21,592	1.05	\$0	\$15,974	\$0	\$0	\$0	\$0
18	57	\$69,825	\$698	\$20,624	\$22,672	1.05	\$0	\$16,773	\$0	\$0	\$0	\$0
19	58	\$71,919	\$719	\$23,073	\$23,805	1.05	\$0	\$17,611	\$0	\$0	\$0	\$0
20	59	\$74,077	\$741	\$25,748	\$24,996	1.05	\$0	\$18,492	\$0	\$0	\$0	\$0
21	60	\$0	\$0	\$12,686	\$26,245	1.05	\$26,245	\$19,416	\$11,650	\$14,596	\$25,748	\$14,596
22	61	\$0	\$0	\$0	\$27,558	1.05	\$27,558	\$20,387	\$12,232	\$15,325	\$12,686	\$12,686
23	62	\$0	\$0	\$0	\$28,936	1.05	\$28,936	\$21,407	\$12,844	\$16,092	\$0	\$0
24	63	\$0	\$0	\$0	\$30,382	1.05	\$30,382	\$22,477	\$13,486	\$16,896	\$0	\$0
25	64	\$0	\$0	\$0	\$31,901	1.05	\$31,901	\$23,601	\$14,160	\$17,741	\$0	\$0

Hire Date	7/1/2005
Age at hire	25
Age at retirement	55
Subsidy Start Age	60
Service	30

Salary	\$42,245
Wage inflation	3.0%

HRA contribution rate	2.0%
HRA accumulation rate	8.25%

Subsidy Base (7/1/2003)	\$5,962
Subsidy index	5%
Subsidy percent	90%

HRA Fund at retirement	\$139,949
Total retiree contribution	\$336,978
Net retiree cost (w/ HRA Int)	\$176,399

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 30 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current

All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
\$537,717	\$200,739	\$160,579

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	25	\$42,245	\$815	\$879	\$7,318	1.23	\$0	\$7,318	\$0	\$0	\$0	\$0
2	26	\$43,512	\$870	\$1,857	\$8,107	1.11	\$0	\$7,684	\$0	\$0	\$0	\$0
3	27	\$44,818	\$896	\$2,943	\$8,937	1.10	\$0	\$8,068	\$0	\$0	\$0	\$0
4	28	\$46,162	\$923	\$4,146	\$9,802	1.10	\$0	\$8,471	\$0	\$0	\$0	\$0
5	29	\$47,547	\$951	\$5,478	\$10,695	1.09	\$0	\$8,895	\$0	\$0	\$0	\$0
6	30	\$48,974	\$979	\$6,949	\$11,608	1.09	\$0	\$9,340	\$0	\$0	\$0	\$0
7	31	\$50,443	\$1,009	\$8,572	\$12,532	1.08	\$0	\$9,807	\$0	\$0	\$0	\$0
8	32	\$51,956	\$1,039	\$10,360	\$13,456	1.07	\$0	\$10,297	\$0	\$0	\$0	\$0
9	33	\$53,515	\$1,070	\$12,328	\$14,369	1.07	\$0	\$10,812	\$0	\$0	\$0	\$0
10	34	\$55,120	\$1,102	\$14,492	\$15,258	1.06	\$0	\$11,352	\$0	\$0	\$0	\$0
11	35	\$56,774	\$1,135	\$16,869	\$16,112	1.06	\$0	\$11,920	\$0	\$0	\$0	\$0
12	36	\$58,477	\$1,170	\$19,478	\$16,918	1.05	\$0	\$12,516	\$0	\$0	\$0	\$0
13	37	\$60,231	\$1,205	\$22,338	\$17,764	1.05	\$0	\$13,142	\$0	\$0	\$0	\$0
14	38	\$62,038	\$1,241	\$25,472	\$18,652	1.05	\$0	\$13,799	\$0	\$0	\$0	\$0
15	39	\$63,899	\$1,278	\$28,903	\$19,585	1.05	\$0	\$14,489	\$0	\$0	\$0	\$0
16	40	\$65,816	\$1,316	\$32,657	\$20,564	1.05	\$0	\$15,213	\$0	\$0	\$0	\$0
17	41	\$67,791	\$1,356	\$36,762	\$21,592	1.05	\$0	\$15,974	\$0	\$0	\$0	\$0
18	42	\$69,825	\$1,396	\$41,247	\$22,672	1.05	\$0	\$16,773	\$0	\$0	\$0	\$0
19	43	\$71,919	\$1,438	\$46,147	\$23,805	1.05	\$0	\$17,611	\$0	\$0	\$0	\$0
20	44	\$74,077	\$1,482	\$51,495	\$24,996	1.05	\$0	\$18,492	\$0	\$0	\$0	\$0
21	45	\$76,299	\$1,526	\$57,331	\$26,245	1.05	\$0	\$19,416	\$0	\$0	\$0	\$0
22	46	\$78,588	\$1,572	\$63,696	\$27,558	1.05	\$0	\$20,387	\$0	\$0	\$0	\$0
23	47	\$80,946	\$1,619	\$70,636	\$28,936	1.05	\$0	\$21,407	\$0	\$0	\$0	\$0
24	48	\$83,374	\$1,667	\$78,198	\$30,382	1.05	\$0	\$22,477	\$0	\$0	\$0	\$0
25	49	\$85,875	\$1,718	\$86,436	\$31,901	1.05	\$0	\$23,601	\$0	\$0	\$0	\$0
26	50	\$88,452	\$1,769	\$95,408	\$33,496	1.05	\$0	\$24,781	\$0	\$0	\$0	\$0
27	51	\$91,105	\$1,822	\$105,175	\$35,171	1.05	\$0	\$26,020	\$0	\$0	\$0	\$0
28	52	\$93,838	\$1,877	\$115,805	\$36,930	1.05	\$0	\$27,321	\$0	\$0	\$0	\$0
29	53	\$96,654	\$1,933	\$127,370	\$38,776	1.05	\$0	\$28,687	\$0	\$0	\$0	\$0
30	54	\$99,553	\$1,991	\$139,949	\$40,715	1.05	\$0	\$30,121	\$0	\$0	\$0	\$0
31	55	\$0	\$0	\$107,016	\$42,751	1.05	\$42,751	\$31,627	\$0	\$42,751	\$139,949	\$42,751
32	56	\$0	\$0	\$69,141	\$44,888	1.05	\$44,888	\$33,209	\$0	\$44,888	\$107,016	\$44,888
33	57	\$0	\$0	\$25,806	\$47,133	1.05	\$47,133	\$34,869	\$0	\$47,133	\$69,141	\$47,133
34	58	\$0	\$0	\$0	\$49,490	1.05	\$49,490	\$36,612	\$0	\$49,490	\$25,806	\$25,806
35	59	\$0	\$0	\$0	\$51,964	1.05	\$51,964	\$38,443	\$0	\$51,964	\$0	\$0
36	60	\$0	\$0	\$0	\$54,562	1.05	\$54,562	\$40,365	\$36,329	\$18,234	\$0	\$0
37	61	\$0	\$0	\$0	\$57,290	1.05	\$57,290	\$42,383	\$38,145	\$19,145	\$0	\$0
38	62	\$0	\$0	\$0	\$60,155	1.05	\$60,155	\$44,503	\$40,052	\$20,102	\$0	\$0
39	63	\$0	\$0	\$0	\$63,163	1.05	\$63,163	\$46,728	\$42,055	\$21,108	\$0	\$0
40	64	\$0	\$0	\$0	\$66,321	1.05	\$66,321	\$49,064	\$44,158	\$22,163	\$0	\$0

MERCER

Human Resource Consulting

One Union Square
600 University Street, Suite 3200
Seattle, WA 98101-3137
206 808 8800 Fax 206 382 0627

Memo

To: **Melanie Millhorn**
Date: May 2, 2005
From: Sam Martin
Subject: **AS 24.08.036 Fiscal Notes on Bills Affecting State Retirement Systems, requires an additional analysis of the long term and short term costs to the state if a bill is adopted, as well as the impact of the bill on the actuarial soundness of the funds.**

As compared to the current PERS and TRS plans, House CS for CS for Senate Bill Number 141 (STA) Version X, will serve to significantly reduce the volatility of future costs associated with new hires, and the employer contribution rates for these new hires will be more predictable. The bill will have no negative impact on the actuarial soundness of the systems.

The major cost components as amended by House Finance include the following:

- 8% Employee contribution amount for PERS police and firefighter and "all others" and TRS
- 5% DC
- 2.5% Health Reimbursement Arrangement
- 2.5% Medical Claims*
- Death and disability benefits for all PERS members in accordance with current statute provisions

* Note: House Finance adopted a modified Tier medical plan that includes pre-65 and post-65 medical coverage. Based on the changes made from the original medical Tier design a preliminary estimate would be between 2.5% and 3.75%. It is anticipated under the House Finance medical component that there may be an offsetting savings to the initial projection of 3.75%. A follow-up analysis will be forthcoming to confirm the amount.



FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 10
Bill Version: HCS CSSB 141(FIN)
(H) Publish Date: 5/2/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title: An Act relation to TRS and PERS creating a RDU: Centralized Administrative Services
defined contribution and health reimbursement plans..... Component: Retirement and Benefits
Sponsor: Senate Finance Committee
Requester: Senate Finance Committee Component No.: 64

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	276.5	227.5	163.1	163.1	163.1	163.1
Travel	37.5	17.5	3.5	5.0	5.0	5.0
Contractual	667.0	327.0	352.0	397.0	397.0	397.0
Supplies	18.0	5.0	5.0	5.0	5.0	5.0
Equipment	30.0					
Land & Structures						
Grants & Claims						
Miscellaneous (Board Restructure)	(12.5)	(41.5)	(41.5)	(41.5)	(41.5)	(41.5)
TOTAL OPERATING	1,016.5	535.5	482.1	528.6	528.6	528.6

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,029.0	577.0	392.7	285.1	142.5	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
1029 PERS	(2.0)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)
1034 TRS	(10.5)	(37.4)	(37.4)	(37.4)	(37.4)	(37.4)
Other (Specify Type--Do not abbreviate)			130.9	285.0	427.6	570.1
TOTAL	1,016.5	535.5	482.1	528.6	528.6	528.6

Estimate of any current year (FY2005) cost: 00

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time	2	2	2	2	2	2
Part-time	0	0	0	0	0	0
Temporary	3	2	1	1	1	1

ANALYSIS: (Attach a separate page if necessary)

This bill will create a new defined contribution retirement plan and a health reimbursement arrangement for new employees of the PERS and TRS hired after the effective date of July 1, 2005. As the new plan significantly differs from the current defined benefit plans, the division will be required to reprogram its computer systems, set up and account for two new plans, create new plan publications and forms, train staff, employer contacts and new members, create new employee benefit education methods on the web, benefit seminars and one on one appointments, and to contract for financial planning services for members of the new plan. The fiscal note assumes fund manager fees, custody, and record keeper's individual account fees are separate. It further assumes that cost reductions for the PERS and TRS Boards will be partially offset by payments to the Office of Administrative Hearings to conduct disability hearings, previously conducted by the boards.

Prepared by: Melanie Millhorn, Director

Division: Retirement and Benefits

Approved by: Mike Tibbles, Deputy Commissioner

Agency: Department of Administration

Phone: 465-4408

Date/Time: 4/22/05 3 29 PM

Date: 4/22/2005

FISCAL NOTE #10

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. HCS CSSB 141(FIN)

ANALYSIS CONTINUATION

The estimated administrative costs to the division by fiscal year are as follows:

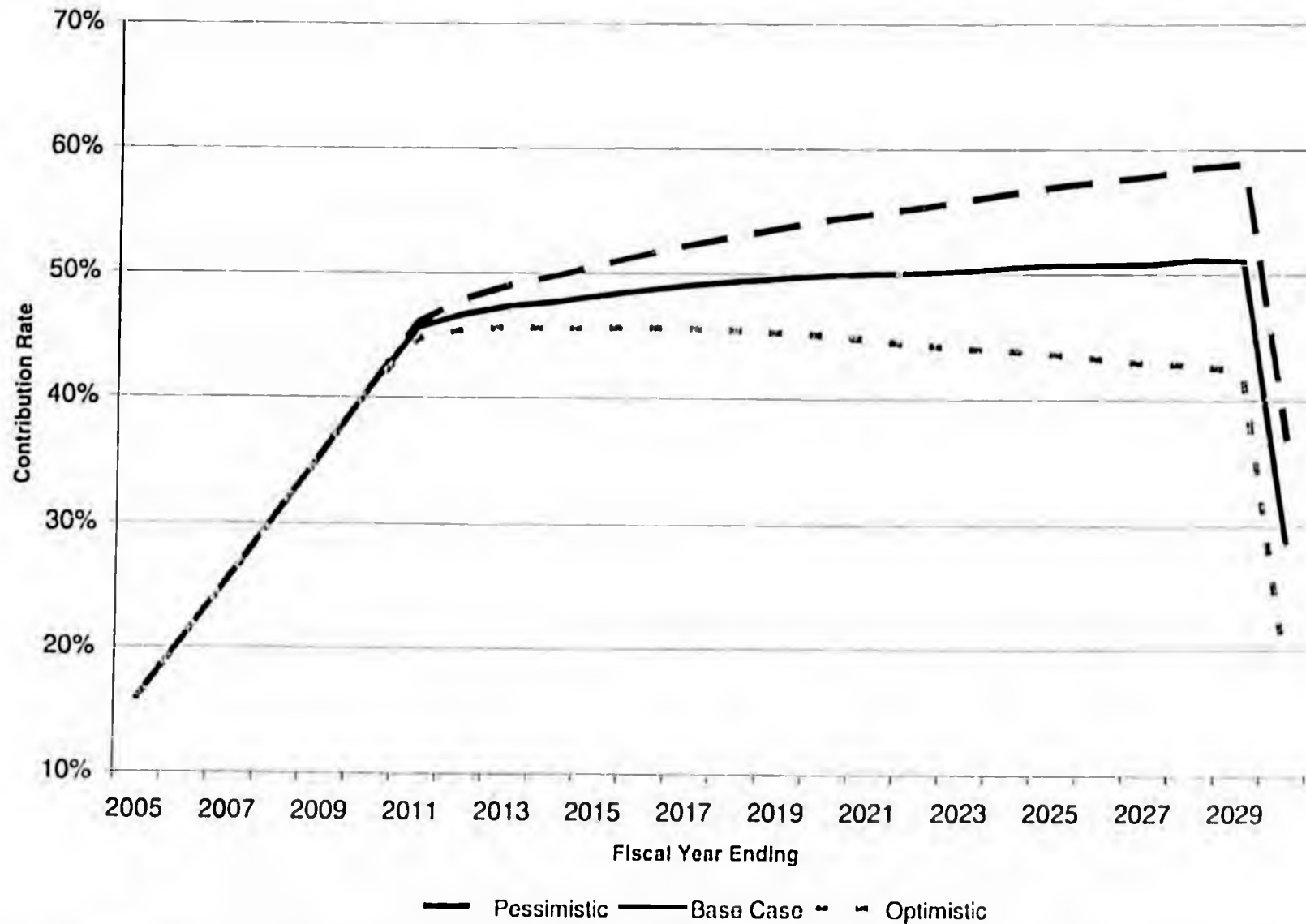
	FY 2006	FY 2007	FY 2008	FY 09-11
PERSONAL SERVICES:				
1 - Non Perm Analyst-Pgmr III - DC-Benefits Sys - R 16	64.4	64.4	64.4	64.4
1 - Accountant II - Range 16	52.0	52.0	52.0	52.0
1 - R&B Tech I/II - ER Rpting / Contrib. Recon. - Range 12	46.7	46.7	46.7	46.7
1-Non Permanent Publications Tech II or Spec I - Range 13	49.0	0.0	0.0	0.0
1-Non Permanent Retirement Counselor - Range 18	64.4	64.4	0.0	0.0
	<u>276.5</u>	<u>227.5</u>	<u>163.1</u>	<u>163.1</u>
TRAVEL:				
Employer Reporting Software Upgrade Install & Help	30.0	15.0	0.0	0.0
Employer Plan Education	7.5	0.0	0.0	0.0
Regional Counselor travel	0.0	2.5	3.5	5.0
	<u>37.5</u>	<u>17.5</u>	<u>3.5</u>	<u>5.0</u>
CONTRACTUAL:				
Communications & Postage	82.0	17.0	17.0	17.0
Computer System Redesign (Est. 2,500 hours in FY06)	320.0	30.0	30.0	30.0
Audit, Accting, Tax, Benefits Consulting, Legal	100.0	75.0	50.0	50.0
Training \ Risk Management	15.0	5.0	5.0	0.0
Employee financial planning services	150.0	200.0	250.0	300.0
	<u>667.0</u>	<u>327.0</u>	<u>352.0</u>	<u>397.0</u>
SUPPLIES: Office supplies, calculators, desk-top software	18.0	5.0	5.0	5.0
EQUIPMENT: Workstation & cubicle, chairs, file cabinets, compu. telephone, set-up costs	30.0	0.0	0.0	0.0
MISCELLANEOUS (BOARD RECONFIGURATION, HEARINGS)				
Board Member Election 2006/2008	0.0	0.0	0.0	0.0
Board Training	-15.0	-15.0	-15.0	-15.0
Board Attorney	-40.5	-40.5	-40.5	-40.5
Travel Members/Staff	-24.0	-24.0	-24.0	-24.0
Honorarium/Board Members	-29.0	-29.0	-29.0	-29.0
National Seminars (NASRA - NCTR)	-20.0	-20.0	-20.0	-20.0
Disability Hearings--Office of Administrative Hearings	116.0	87.0	87.0	87.0
	<u>-12.5</u>	<u>-41.5</u>	<u>-41.5</u>	<u>-41.5</u>
TOTAL	1,016.5	535.5	482.1	528.6

The above funding source is initially listed as General Fund because the exiting tiers of PERS / TRS are Defined Benefit plans, and the present DC plans, SBS and DCP are legally separate from the intended plan. It is assumed that by FY2008, as more employees are hired into the new tiers, that program costs will be funded through an assessment on DC accounts, similar to the SBS program currently in place. General funds will be reduced 25% per year from FY2008-2011.

The new plan effective date is July 1, 2005. Therefore, startup costs will start in FY 05. The startup costs are not costs of the PERS and TRS Defined Benefit plans. Tiers 1, 2, and 3 are logically related, however, tier 4 PERS and Tier 3 TRS would not be. The purpose of the bill is to separate the DB and DC side. A legal opinion was sought to determine how the funding and accounting needs to occur for the new DC plan.

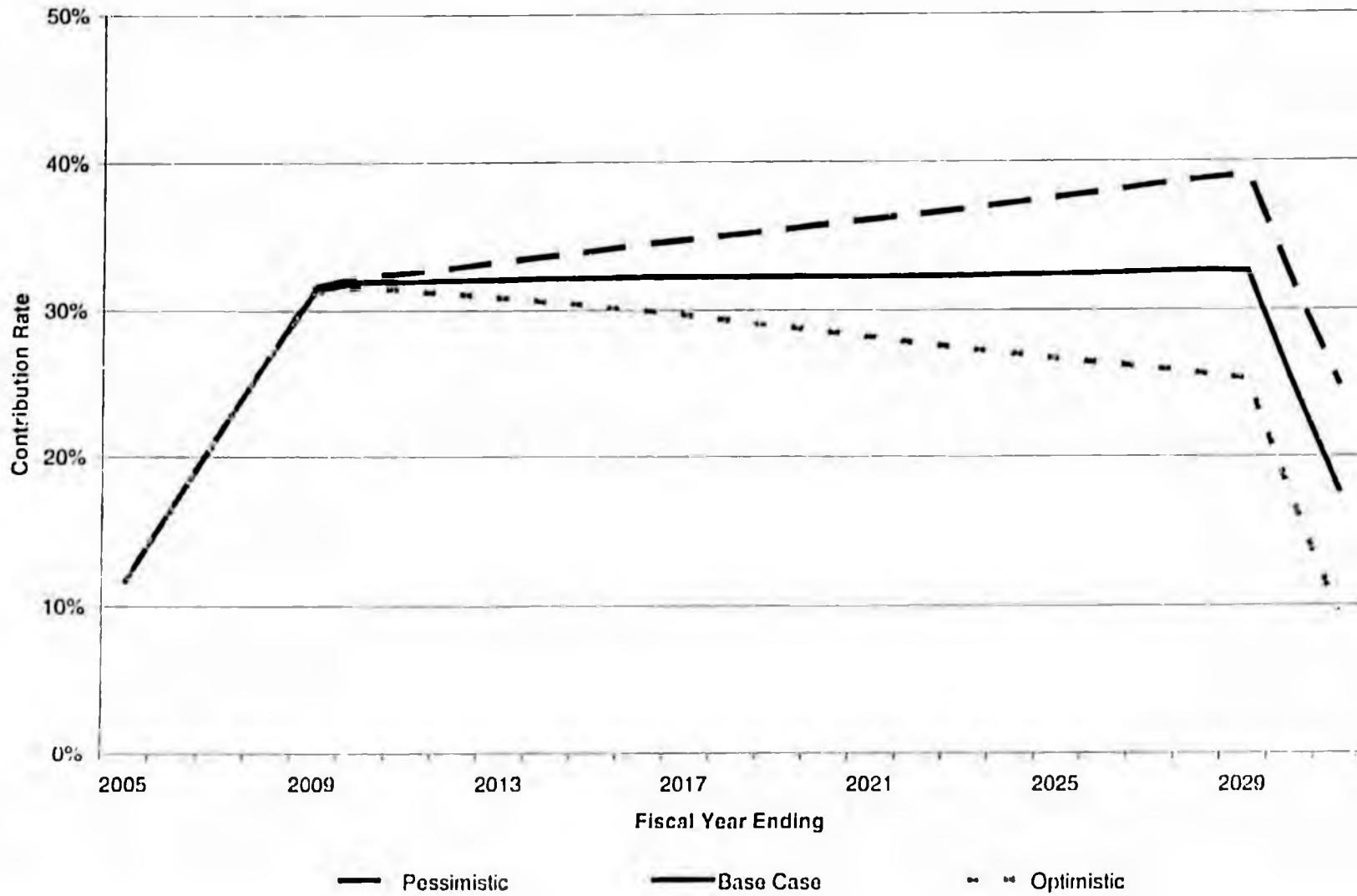
1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

Contribution Rate



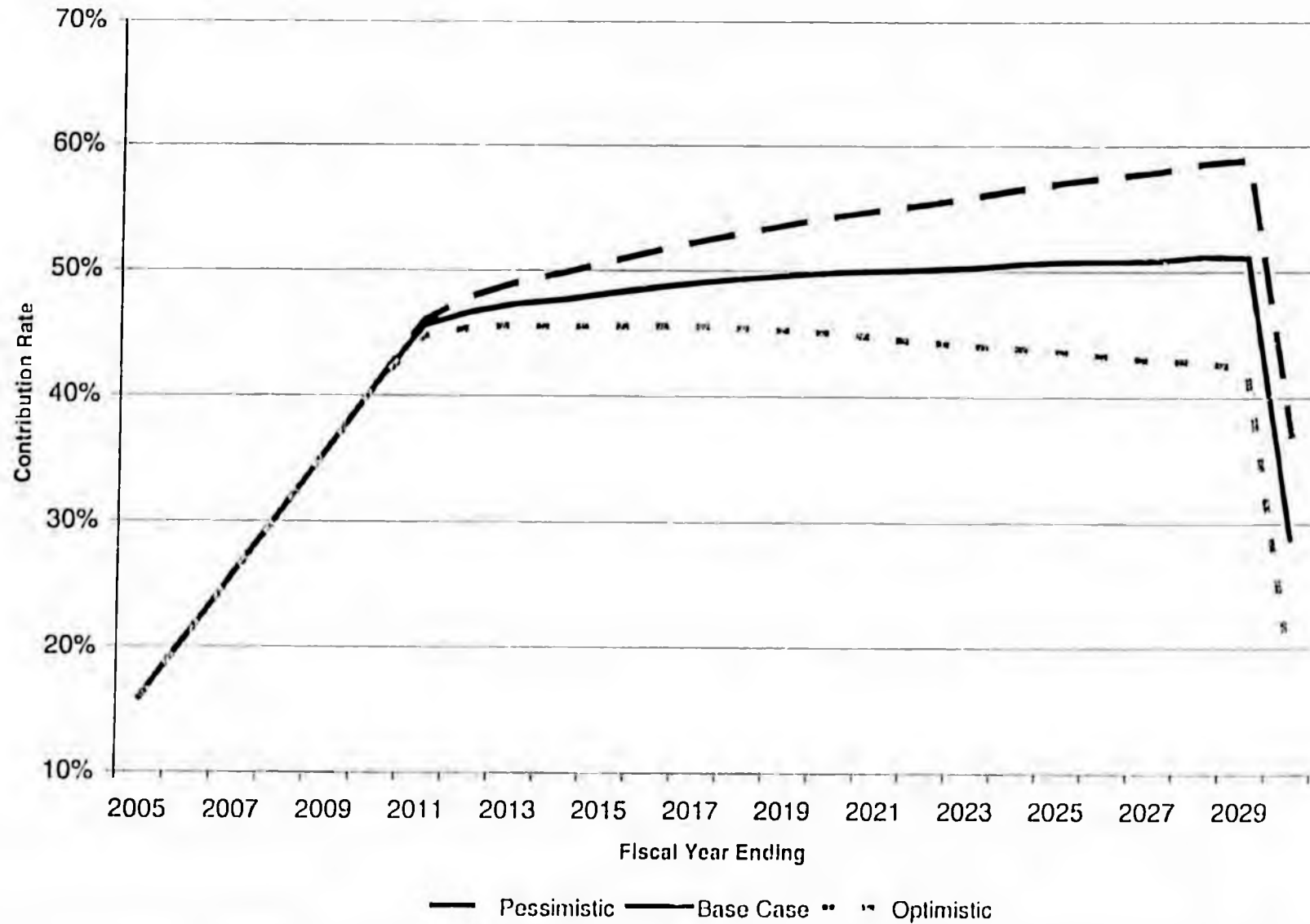
1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

Contribution Rate



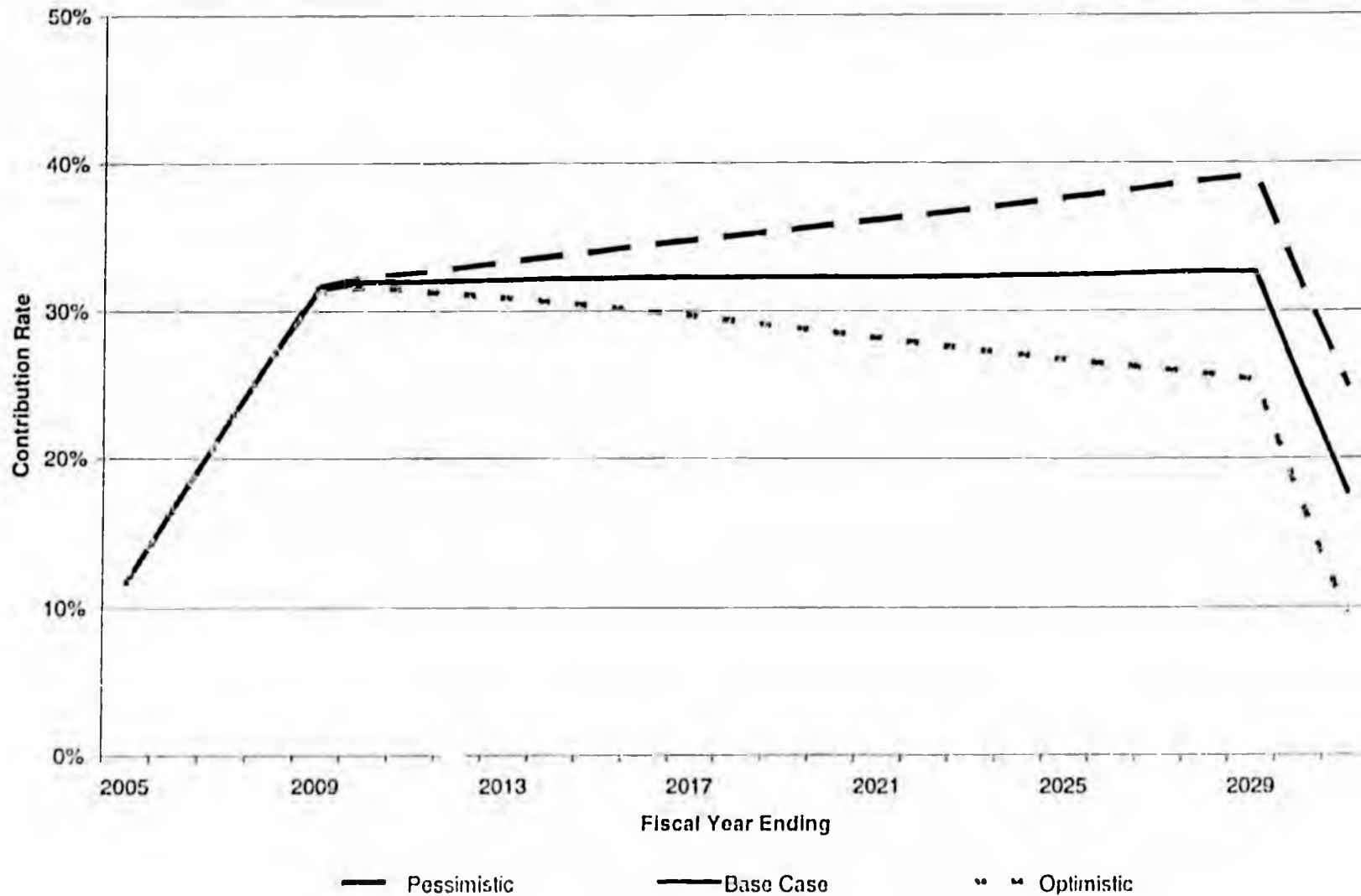
1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

Contribution Rate



1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

Contribution Rate

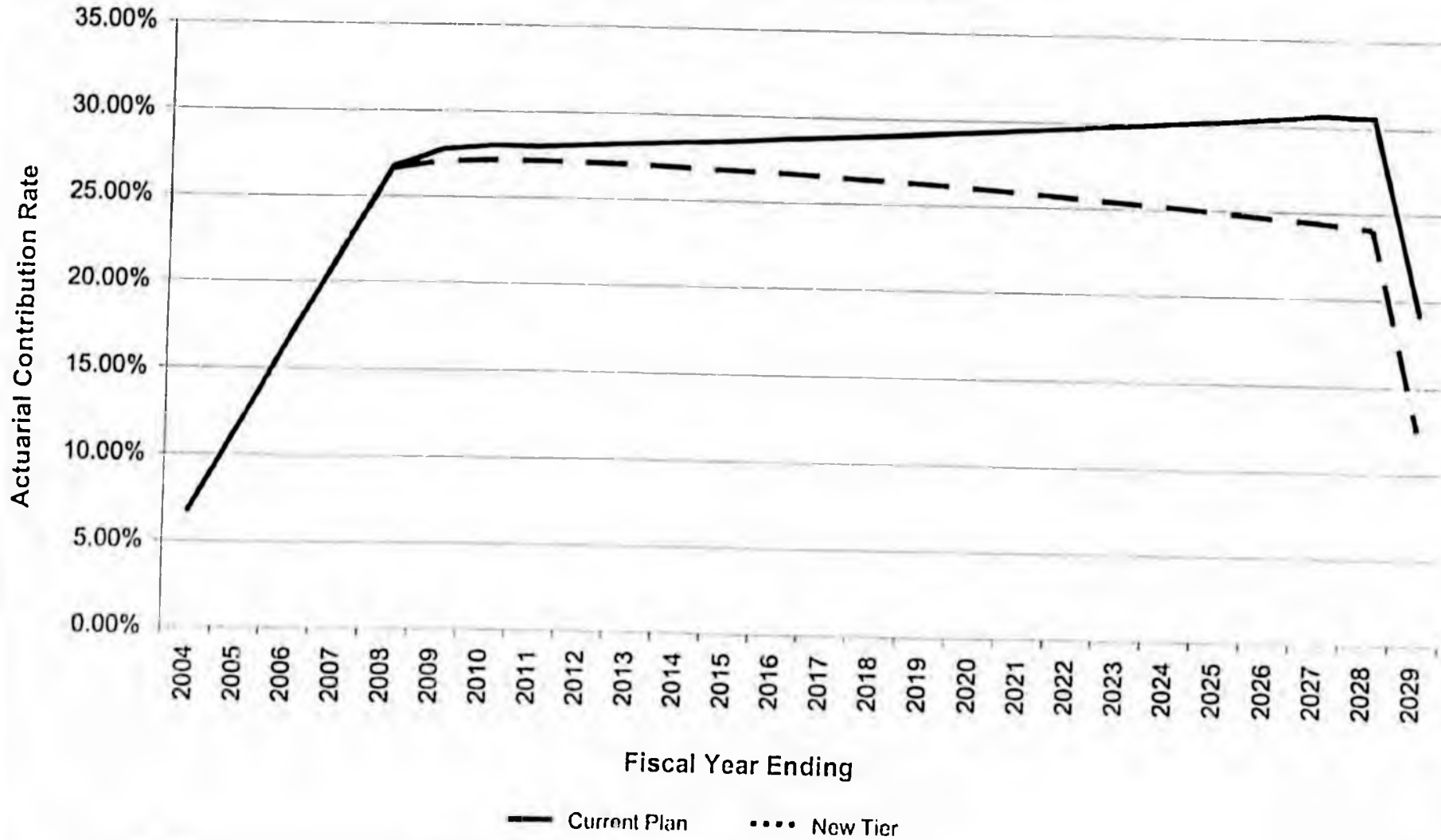




Proposed Alternatives

Cost Projections - PERS

Contribution Comparison – PERS

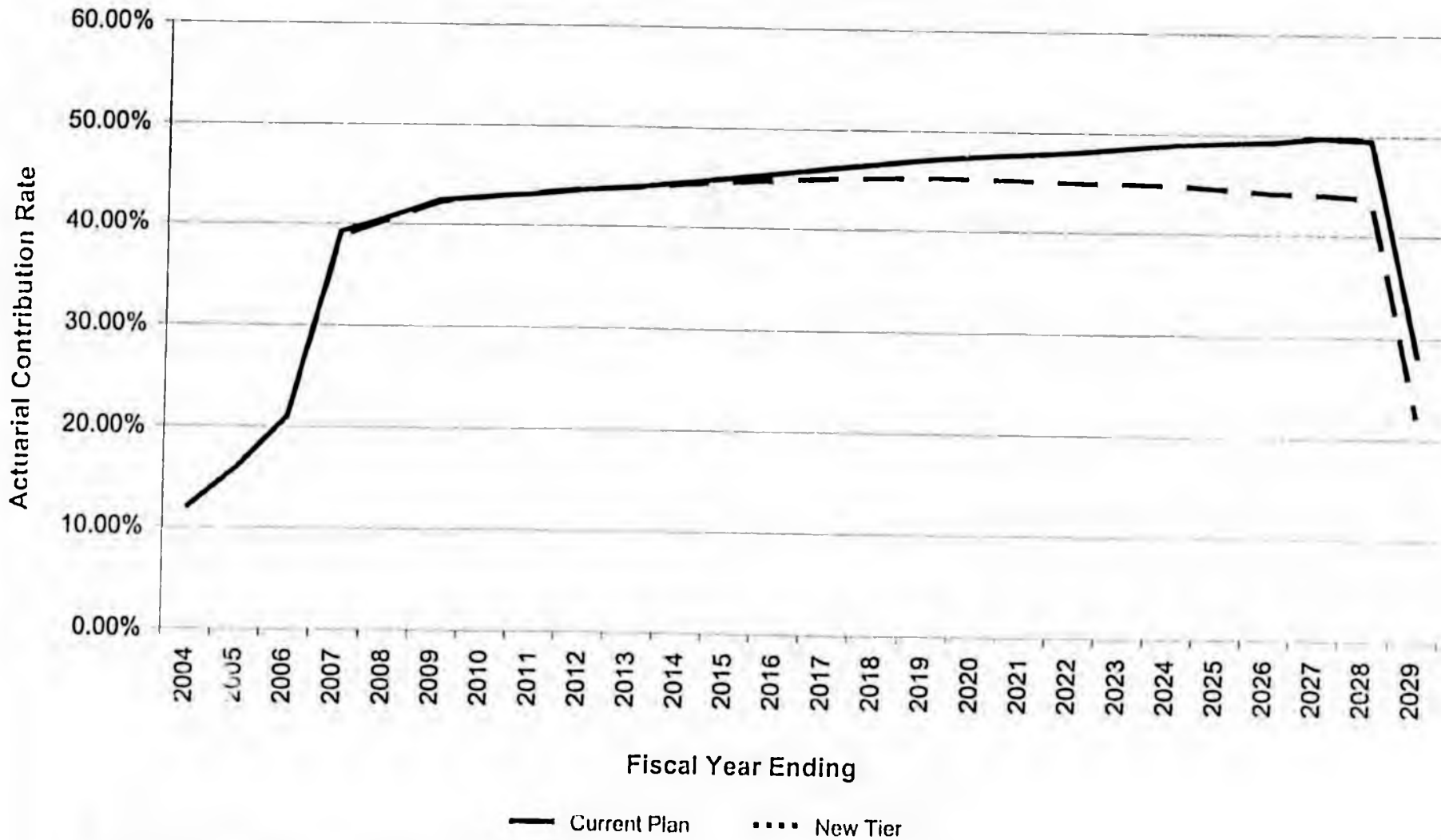




Proposed Alternatives

Cost Projections - TRS

Contribution Comparison - TRS



ALASKA PROFESSIONAL FIRE FIGHTERS LEGISLATIVE FACT SHEET

Released 4/28/2005

SB 141 PERS Tier IV

BACKGROUND

Alaska PERS has been actuarially estimated to be billions of dollars under-funded. This is due to many reasons including, poor stock market performance, unrealistic actuary statistics used in past audits, increased un-funded benefits, and most importantly, the rising cost of medical coverage. This has led to a strong movement by some to address the under-funding this session.

SB 141 Sponsored by the Senate Finance Committee, this legislation would create a Tier IV in PERS and Tier III in TRS. The new Tiers would change the pension system from a Defined Benefit to a Defined Contribution System. This is much like a traditional 401K savings account. The legislation provides for the following contributions:

- + 8.0% Employee Mandatory Contribution
- +4.5% Employer Mandatory Contribution
- +1.75% Employer Contribution to medical plan
- +3.0% Employer Contribution to HRA (Health Reimbursement Account) based on average employee compensation

The Alaska Professional Fire Fighters Association's POSITION

The AKPFFA strongly opposes this bill and believes that our state should continue to seek a solution that addresses both the participating employers' fiscal needs and the participating employees' retirement security.

AKPFF ARGUEMENTS

- The DC plan would essentially eliminate a pension system as we know it. The employee would have to link their retirement date to the performance of the stock market and the cost of the medical plan premiums. The employee bears 100% of the investment risk.
- Fire Fighters often have to retire early because of the demands of the job or injury. It is impossible to link this to stock market performance. This would force Fire Fighters to work beyond when it is safe or healthy for them to do so.
- Currently DB plan death and disability benefits are not subject to federal income taxes under Code Sections 101(h) "Fallen Hero's" and 101(a)(1). If these benefits are provided using an employer or employee sponsored insurance plan, employees will be taxed upon the amounts provided to the employee in the case of on duty injury and will be taxed on the premium payments that the employer makes for death insurance. This further erodes the disability benefit, and takes money from the pockets of employees for death benefits.
- The proposed legislation contains inadequate financial security for the families of firefighters injured or killed in the line of duty. This inadequate security is unacceptable for public safety workers who risk their lives to protect the lives of other Alaskan's.
- It is unclear what the legal ramifications on current negotiated labor agreements might be. SB 141 may force employers and employee groups to renegotiate existing labor agreements based upon the significant loss of benefits to future employees that would have been covered under these contracts.

KODIAK ISLAND BOROUGH
RESOLUTION NO. FY2005-23

A RESOLUTION OF THE KODIAK ISLAND BOROUGH ASSEMBLY URGING
THE ALASKA STATE HOUSE AND SENATE TO APPROVE THE GOVERNOR'S
PROPOSED \$37.5 MILLION APPROPRIATION TO OFFSET THE COST OF
STATE REQUIRED MUNICIPAL PERS INCREASES FOR THE NEXT TWO YEARS

WHEREAS, the State has notified the Kodiak Island Borough that its' PERS rate will increase from 5% in FY2005 to 10% in FY2006, and will continue to increase until it reaches a total rate of 28.34%; and

WHEREAS, PERS is a single employer retirement system and the Kodiak Island Borough has an unfunded liability of \$4,119,487, not shared with other PERS employers; and

WHEREAS, mandatory State PERS increases on top of the loss of municipal revenue sharing as well as fuel, insurance and other cost increases leave many municipalities without the resources to fully fund schools, police, or other basic services; and

WHEREAS, the Kodiak Island Borough would have to raise its' mill levy close to 1 mill to fully fund its state mandated PERS costs but has a tax cap that precludes such increases and will require the Borough to make deeper cuts to local basic services; and

WHEREAS, the Alaska Municipal League and many municipal elected officials and finance directors have been "at the table" to help the State adopt a new PERS/TRS "tier" to help control future costs; and

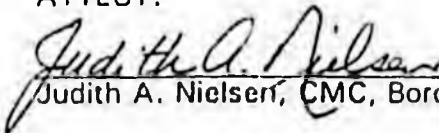
WHEREAS, the State has received a huge increase in oil revenue while communities are facing steeply higher expenses. For every \$1 increase in the price of a barrel of oil the State government receives an additional \$65 million of new revenue per year while Alaskan cities, boroughs, schools, businesses, other organizations, and families pay \$20 million of higher new costs for fuel, transportation, etc. based on federal fuel usage figures for Alaska; and

WHEREAS, if the State fails to share a small portion of its huge oil revenue increases with our community/local taxpayers to offset State required PERS payment increases for at least the next two years, the impact on Kodiak Island Borough will be higher taxes plus a reduction in the ability to pay for education, planning and zoning, health, and other basic Borough functions.

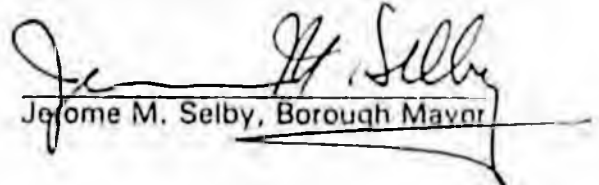
NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH that the members of the Alaska State House and Senate are strongly urged to approve the Governor's proposed \$37.5 million appropriation to offset the cost of State required municipal PERS increases for the next two years. This action will avoid large local tax increases and/or large cuts to local services including schools, maintenance of Borough buildings and other improvements, planning and zoning, equity in Borough property assessments, and other services.

ADOPTED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH
THIS SEVENTH DAY OF APRIL 2005

ATTEST:


Judith A. Nielsen, CMC, Borough Clerk

KODIAK ISLAND BOROUGH


Jerome M. Selby, Borough Mayor

Requested by: Mayor Keller
Adopted: April 11, 2005
Vote: Unanimous

CITY OF WASILLA
RESOLUTION SERIAL NO. 05-16

A RESOLUTION OF THE WASILLA CITY COUNCIL SUPPORTING PUBLIC
EMPLOYEE RETIREMENT SYSTEM (PERS) EARLY FUNDING NEEDED FOR THE
CITY OF WASILLA TO AVOID LOCAL TAX INCREASES.

WHEREAS, the State has notified communities that rates for the State Public Employee Retirement System (PERS) will increase by more than 400 percent. PERS rates have been increasing by 5 percent of total salaries paid by municipalities and will reach approximately 30 percent of the salary of every public employee for the next 25 years to pay the "unfunded liability" of the State PERS program; and

WHEREAS, mandatory State PERS increases on top of the loss of municipal revenue sharing, and fuel, insurance and other cost increases leaves many municipalities without the resources to fully fund schools, police, or other basic services; and

WHEREAS, municipalities with property taxes face 1 to 6 mill property tax increases just to pay state mandated PERS costs over the next three years (average 1.65 mills), however, many municipalities have local tax caps that preclude such increases which will require municipalities to make deeper cuts to local basic services.

WHEREAS, the Alaska Municipal League and many municipal elected officials and finance directors have been "at the table" to help the State adopt a new PERS/TRS "tier" to help control future costs; and

WHEREAS, the State has received a huge increase in oil revenue while communities face steeply higher expenses. For every \$1 increase in the price of a barrel of oil the State government receives an additional \$65 million of new revenue per year while Alaskan cities, boroughs, schools, businesses, other organizations, and families pay \$20 million of higher new costs for fuel, transportation, etc. based on federal fuel usage figures for Alaska; and

WHEREAS, if the State fails to share a small portion of its huge oil revenue increases with our community/local taxpayers to offset State required PERS payment increases for at least the next two years, the impact on the City of Wasilla will have an upward affect on property taxes or lower the service level that we provide to our citizens.

NOW THEREFORE BE IT RESOLVED, that the Wasilla City Council strongly urges the members of the Alaska State House and Senate to approve the Governor's proposed \$37.5 million appropriation to offset the cost of State required municipal PERS increases for the next two years; and

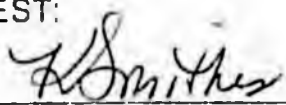
BE IT FURTHER RESOLVED, this action will avoid higher local taxes and/or large cuts to local services.

ADOPTED by the Wasilla City Council on April 11, 2005.



DIANNE M. KELLER, Mayor

ATTEST:



KRISTIE SMITHERS, MMC
City Clerk

[SEAL]



Anchorage
Police
Department
Employees
Association

Phone (907) 561-7500
PO. Box 230330
Anchorage, Alaska 99523
500 West International Airport Road
Anchorage, Alaska
www.apdea.org

April 27, 2005

Mayor Mark Begich
P.O. Box 196650
Anchorage, AK 99519-6650

Dear Mayor Begich:

In keeping with the spirit of communication between the APDEA and the Municipality, the APDEA wants to let you know of the potentially serious financial side effects of SB 141, now pending in the Legislature. SB 141 would amend the PERS system to create a "Tier 4" retirement group effective July 1, 2005. The financial risks to the Municipality posted by SB 141 may not be well understood by the Legislature and, to our knowledge, have not been carefully analyzed.

Whether SB 141 is successful in its passage or not, the Municipality is required to maintain existing levels of benefits provided to APDEA members, without regard to when they are hired. AMC Chapter 3.70, which sets forth the general rules regarding collective bargaining, mandates that:

- (1) "the Municipality shall ensure that, where matters of wages, hours and other terms and conditions of employment are involved, all written agreements are observed," AMC § 3.70.040(B); and
- (2) "[t]he Municipality or its agents may not: * * * (5) refuse to bargain collectively in good faith over wages, hours and other terms and conditions of employment . . ." AMC § 3.70.140(A).

While not expressly addressed by the AMC or Alaska courts, it is generally held that "terms and conditions of employment" includes pension and retirement benefits. Courts are rather matter-of-fact in this regard. See *Vermeer v. Tomken Const., Inc.*, 49 Or. App. 37, 41, 618 P.2d 1301, 1303 (1980) ("[P]ensions and insurance benefits are part of 'wages' and as such are subjects of mandatory collective bargaining."); *Sheeran v. General Elec. Co.*, 593 F.2d 93, 96 (9th Cir. 1979) ("[P]ension rights are within the scope of the terms 'wages' and 'conditions of employment' and therefore are mandatory subjects for collective bargaining."); *Keystone Steel & Wire, Div. of Keystone Consol. Industries, Inc. v. N.L.R.B.*, 606 F.2d 171, 178 (7th Cir. 1979) ("[T]he term 'wages' . . . must be construed to include emoluments of value, like pension and insurance benefits, which may accrue to employees out of their employment relationship.").

Employers may not unilaterally implement changes on bargainable topics. *N.L.R.B. v. Katz*, 369 U.S. 736 (1962). Because retirement benefits are a term and condition of employment, an employer may not unilaterally change the retirement benefits it provides to the members of a labor organization. *Malone*

v. White Mortor Corp., 435 US 497, 98 S.Ct. 1185, 55 L.Ed.2d 443 (1978); *National Labor Relations Board v. Black Clouston Co.*, 210 F.2d 523 (6th Cir. 1954); *Mississippi Power Co. v. NLRB*, 248 F.3d 605 (5th Cir. 2002).

An external change in the law, such as SB 141, in no way extinguishes the Municipality's obligation to bargain in good faith with respect to its contractual obligations. See generally *University of Hawaii's Professional Assembly v. Cayetano*, 183 F.3d 1096, 1102 (9th Cir. 1999). The only exception to the general proposition that an external change in the law does not alter the nature of contractual obligations is those circumstances where the intervening law makes a contract unenforceable due to its illegality. See *Price v. S.S. Fuller, Inc.*, 639 P.2d 1003 (Alaska 1982).

In *Price*, the Alaska Supreme Court stated that when evaluating whether a contract is unenforceable because of an intervening change in the law, "it is necessary to ascertain whether the Legislature intended to make unenforceable contracts entered into in violation of the statute." *Id.* at 1004 (citing *Gates v. Rivers Constr. Co.*, 515 P.2d 1020 (Alaska 1973)). SB 141 in no way limits the ability of contracting parties to provide differing or higher levels of retirement benefits. As such, the legislation is not a bar to maintaining the current retirement levels for Union members.

The APDEA's contract with Anchorage captures these very sentiments. Article V, section 2(N) of the contract, as well as corresponding language in the IAFF contract, states that it is a violation of the respective collective bargaining agreements to implement a change over which the employer has a mandatory obligation to bargain. As indicated above, retirement benefits are considered such a subject.

It should be clear by now that should SB 141 pass, the Municipality would be obligated to provide what were PERS Tier 3 benefits to all employees hired on or after July 1, 2005, without regard to what Tier 4 benefits are. This would place the Municipality in the anomalous provision of being required by state law -- SB 141 -- to provide a defined contribution retirement plan, and also being required to provide a Tier 3 look-alike defined benefit retirement plan to the very same employees. Needless to say, this would be quite costly.

I look forward to discussing this issue with you.

Sincerely,



Everett Robbins
APDEA President

April 25, 2005

VIA FACSIMILE & HAND-DELIVERY

Fax 343-4499

The Honorable Mark Begich, Mayor
Municipality of Anchorage
P.O. Box 196650
Anchorage, AK 99519-6650

Re: Municipal Liability for Changes in PERS

Dear Mayor Begich:

I represent the International Association of Fire Fighters Local 1264, which in turn represents the fire and emergency medical services bargaining unit of the City of Anchorage. We have become aware that the Alaska Legislature is considering material changes in both the contribution and benefit structure of retirement system for present and future members of our bargaining unit. The legislation is generally referred to as SB 141. The purpose of this letter is to advise you of serious financial risks associated with the legislation. These risks may not be well understood by the legislature and, to our knowledge, have not been carefully analyzed. Here is the analysis:

1. Under the Alaska Constitution, employee participation in a retirement system is contractual and accrued benefits are protected. Article XII, § 7, Constitution of Alaska. *See also, Hammond v. Hoffbeck*, 627 P.2d 1052 (Alaska 1981).

2. Retirement benefits are regarded as an element of the bargained for consideration given in exchange for an employee's assumption and performance of duties as a state employee. *Hammond v. Hoffbeck* at 1057 quoted in *Duncan v. Retired Public Employees of Alaska, Inc.*, 71 P.3d 882, 886 (Alaska 2003).

3. Retirement systems are typically considered to be a package of available services and benefits, not simply a monthly contribution rate or a monthly pension check. *Duncan* at 893. Although the courts allow modifications as long as the modifications are reasonable, one condition of reasonableness is that disadvantageous changes must be offset by comparable new beneficial changes. *Duncan* at 889 citing *Hammond* at 1057. As we understand SB 141, there are no offsetting benefits.

4. An employer's statutory duty to bargain in good faith requires it to negotiate with the Union concerning changes in pensions and retirement plans. *Malone v. White Mortor Corp.*, 435 US 497, 98 S.Ct. 1185, 55 L.Ed.2d 443 (1978); *National Labor Relations Board v. Black Clauson Co.*, 210 F.2d 523 (6th Cir. 1954); *Mississippi Power Co. v. NLRB*, 248 F.3d 605 (5th Cir. 2002).

5. AS 01.10.100(a) provides that the repeal...of any law does not release or extinguish any...liability incurred or right accruing or accrued under such law. *State ex. rel. Hammond v. Allen*, 625 P.2d 844 (Alaska 1981). Thus, the repeal or amendment of PERS does not release or extinguish the liability which the Municipality of Anchorage has already incurred to provide retirement benefits during the term of the existing collective bargaining agreements.

6. The management rights which the Municipality has reserved to itself do not include any right to make material unilateral changes in employee retirement contributions and benefits during the term of an existing collective bargaining agreement. AMC 3.70.040. *See also*, AMC 3.70.020.A.

CONCLUSIONS

1. There is serious question as to whether the State can unilaterally repudiate a pension system for governmental employees during the term of a negotiated agreement.

2. More importantly, if the State does repudiate the pension system without providing offsetting benefits then represented employees may seek damages and/or additional contract benefits from the City or State for the diminished value of the pension system imposed unilaterally upon them during the term of their collective bargaining agreement. I don't need to tell you that the monetary issues could be substantial.

Thank you for your attention to this.

Sincerely,

JERMAIN, DUNNAGAN & OWENS, P.C.

Charles A. Dunnagan

CAD\jrg

cc: Fred Boness, Municipal Attorney
David Otto, Director of Labor Relations
Dan Joyner, IAFF Local 1264
Everett Robbins, APDEA
Will Aitchison, APDEA General Counsel

April 25, 2005

**To: Everett Robbins, President
Anchorage Police Department Employees Association**

**From: Robert D. Klausner, General Counsel
National Conference on Public Employees Retirement Systems**

Re: Proposed Changes to PERS

This is in response to your request for information concerning the issues arising from the conversion of PERS to a defined contribution plan (HCS for CS for SB141).

As I am sure you are aware, a number of states have explored this alternative and found it to be unsatisfactory. The State of Florida spent \$70 million establishing a defined contribution alternative to the Florida Retirement System. Following its adoption, less than 7% of participants elected to transfer. During the process of selecting the managers, the State encountered endless threats of litigation from potentially disqualified providers, bringing the process to a grinding halt on more than one occasion.

The State of Nebraska abandoned its defined contribution plan on favor of a defined benefit plan after a study commissioned by the State Legislature determined that the plan failed to provide an adequate retirement benefit for its employees. The Legislature's findings embodied in that bill (LB 687) are outlined below:

**Chairperson: Senator Jon C. Bruning
Committee: Nebraska Retirement Systems
Date of Hearing: February 28, 2001**

**Principal Introducer:
Senator Jon C. Bruning, Chairperson
Committee on Nebraska Retirement Systems**

The following constitutes the reasons for this bill and the purposes which are sought to be accomplished thereby:

LB 687 provides that State and County plans do not meet the adequacy needs and that the systems rank below the median in the amount of initial normal retirement benefits. As such, it has been recommended that a defined benefit element be added to the state and county plans. This would be accomplished by giving employees the choice between a traditional defined benefit plan or cash balance plan, and the current defined contribution plan.

Moreover, this bill adds a guaranteed income option for retiring employees. This would be a self-funded approach to the purchase of an annuity in which the employee could elect an annuity, with or without a COLA adjustment built into the payments, using his or her account balance at retirement.

Lastly, this bill states that the county employees' contribution will be increased from 4.5% to 4.8%, and all state employees will contribute 4.8% and deletes the provision that had state employees contributing 4.33% of the first 19,954. The changes to the county

plan would go into effect in January, 2004 and the changes to the state plan would go into effect in January, 2003.

The State of Louisiana has considered the question of a defined contribution versus a defined benefit plan this year and rejected the notion as unsatisfactory for the state's public employees. The respected public interest group, The Public Affairs Research Council of Louisiana (PAR). The findings by PAR related to the choice between DB and DC plans are set forth below:

Defined Benefit Plan is Best Fit for Louisiana

Nearly all states use DB plans as their primary pension plans. A DB plan is the appropriate vehicle for providing most public sector pensions. It encourages career employment, and public employees are less mobile than private sector workers. The DB plan can provide better benefits than an equally funded DC plan, because a pension system can spread risk and invests more effectively than most individuals, who tend to invest more conservatively. The DB plan provides security, whereas a DC plan, particularly one without social security participation, would leave employees vulnerable. Recent studies show that employees tend to cash out DC accounts, fail to reinvest with their new employer's plan and spend lump-sum distributions, leaving them with much reduced retirements. The DC plan serves well for certain short term positions and as a supplement to a DB plan, but is inadequate as a general primary pension plan.

The Pension Research Council of the Wharton School of Business, University of Pennsylvania produced a report in 2004 entitled "Profitable Prudence, The Case for Public Employer Defined Benefit Plans." The report notes that the majority of the cost of maintaining a defined benefit plan comes from market return. The report's conclusions are set forth below:

Conclusions

The economic boost of public pension benefits is likely to grow as public employees of the Baby Boomer cohort begin to retire, and public retirement systems begin to pay out increasingly larger benefit amounts. In our view, public pension plans are in a strong position to handle the coming influx of retirees, since, unlike social security (mainly a pay-as-you-go program); public pensions are rather well funded (approximately 95 percent in 2003). Investing the \$2.3 trillion in public pension assets and the flow of benefit payments to annuitants promises a continuous, predictable, and growing source of economic stimulus. Moreover, through efficient asset management and pooling of resources, public defined benefit pension plans have a significant, positive effect on financial markets and the economy.

In general, public employers recognize that DC plans have many positive attributes, but to make them work well, many factors must fall into place: participants must consistently make sound investment decisions over their working and retired lives; they must remain in the workforce steadily, avoiding lengthy time off for having children, raising a family,

completing an education, or for illness; they must have a sufficient amount withheld from their pay; they must avoid borrowing against and spending their retirement assets; and they must make appropriate decisions regarding withdrawal rates during retirement. Even then, employees might exhaust their assets after retirement. Hence having a DB plan as the primary retirement benefit protects public sector employees against many of these problems. Public DB pension plans have also enabled public employers to achieve important objectives related to the recruitment and retention of quality workers. These plans create financial security in retirement and reduce reliance on public assistance programs. The fact that these plans have evolved relatively independently of the federal regulatory structure governing private pensions has allowed the public plans to engage in an ongoing process of creating and modifying plan designs and governance structures to meet the unique needs of public sector employers. The independence, flexibility, and profitable prudence of these plans will continue to support public employers in their ongoing mission to serve taxpayers, while providing financial security to retired public employees and significant economic benefits to their communities.

Public plans are, indeed, a useful component of the new retirement paradigm of the future.

The conclusions expressed in the Pension Research Council report have proven to be particularly applicable to Alaska PERS. A review of PERS prior actuarial reports indicates that of 1.4 billion dollars in payouts in 2002-2003, only 20% resulted from taxpayer contributions. An equal sum came from employees and the remaining 60% came from investment return. In a DC plan, no investment return is available to offset employer cost.

I have also reviewed SB 141 as it relates to death and disability benefits for police officers and firefighters. The current design of the bill passed by the Senate and pending before the House would not permit the payment of a disability or death benefit annuity such as that currently enjoyed by current employees. You have advised that there is consideration of adding an insurance-based death and disability program.

When this issue was recently considered in California, the Los Angeles County Firefighters sought quotes for such coverage. No such coverage was available. The National Conference on Public Employee Retirement Systems gave assistance to the firefighters by engaging its own group insurance consultant, Gallagher Byerly of Colorado to design and price a program. Gallagher also advised that, to their knowledge, such an insurance plan was unavailable in the current group market. The results of that study are expected in the next week.

Another issue also warrants consideration. You have advised that Alaska does not participate in the Social Security System pursuant to a Section 218 agreement. In order to maintain the exemption, an employer must provide a comparable retirement benefit. The proposed DC plan may not meet that minimum. This could expose participating employers to a requirement to also pay the employer matching contributions to Social Security as well as the retirement plan.

It should also be noted that disability benefits provided from an employer provided insurance policy will not be exempt from Federal Income Taxation under Internal Revenue Code Section 104(a) and the accompanying Treasury Regulations. This reduces

their effective value by a minimum of 28%. Death benefits should continue to enjoy tax favored status under the post-9/11 Hometown Heroes Act.

It is the view of NCPERS and its Executive Board, which includes an advisory committee of nationally known business and investment executives, that the proposed plan would likely diminish the ability of Alaska public agencies to attract and retain qualified employees, particularly in the field of public safety.

Additionally, the loss of new entrants to the existing DB Plan will make elimination of any unfunded liability costlier to Alaska taxpayers. The loss of new members and their contributions will diminish the cash flow to PERS. This will require a greater percentage of plan assets to be invested in low income, short term securities in order to meet cash requirements, thereby restricting the Plan's ability to meet its actuarial requirements. Further, the change on the workforce may require changes to actuarial assumptions further increasing long term costs. For example, actuarial studies of the effect of the closure of California's DB plans showed that such an action would actually have cost taxpayers tens of billions of additional dollars. No contribution relief would have been realized for 20 years.

We believe that the loss of a meaningful retirement system for future Alaska public employees will diminish public safety and government efficiency for all Alaskans and NCPERS strongly urges the Alaska Legislature to reject this rush to judgment.

TO: Alaska House of Representatives Finance Committee

FROM: Gerald P. Goupee - PERS Member
Beverly J. Goupee - PERS Member

DATE: April 27, 2005

RE: SB 1141

Both my husband and I retired from the State of Alaska after nearly twenty years of service; and are PERS members.

We are both absolutely appalled this bill is even being considered and oppose passage of this bill. The retirement trust fund belongs to the Alaska State retirees. We (at least the majority of us) worked long and hard and with steadfast dedication to our employer to earn our retirement package.

The PERS Board, TRS Board, and ASPIB Board are comprised of individuals dedicated to making the system work and suppressing costs. They have put great thought into and made recommendations to the Senate Finance and House State Affairs Committees for insliting changes.

We would request you please give consideration to opposing the passage of Bill SB141.

Gerald P. Goupee
Beverly J. Goupee



Alaska State Legislature

Please enter into the record my testimony to the House Finance Committee
committee name

Committee on SB 141 Public Employee/Teacher, dated 4/25/05
bill #/subject Retirement/Boards

From: Elvia Torres [torres@mail.ssd.k12.ak.us]
Sent: Wednesday, April 20, 2005 5:19 PM
To: LIO Sitka
Subject: Bill 141 Pers/Trs

I am against combining these two bargaining units together. I belong to both and feel that each needs to have it's own separate boards to make decisions for their members. It is my understanding that this look at changing the current system is very unfair, undemocratic, and should be part of a negotiated agreement between the parties who are affected.

It seems that the bargaining units have previously work for the good of all employees to provide the best feasible system only to have it done away with in one quick session. I am totally opposed to change of the system, so quickly. If indeed a change needs to be made because of fiscal reasons...then let's take into consideration your public employees who have made their plans according to the previous system. And let's get these bargaining units involved directly before enacting change that will affect us all.

Signed: Elvia Torres
Testifier

Representing (Optional)

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