

**OVERVIEW
PERS TIER 4
TRS TIER 3,
2/1/05**

State Affairs Special Committee – PERS/TRS open work session 2.19.05 10am

There are three ways people are approaching PERS/TRS

- I. Changing the administration of PERS / TRS (the board)
- II. Questioning the actuarial rates: weather the actuarial assumptions were good, the investment strategies, etc.

We wont be dealing with these aspects at this time.

- II. Finding a solution- a bill- that is attractive to both employers and employees

1. Defined contribution

In State Affairs we want to develop something to cure the BIG problem that we have in PERS and TRS now. We want to look at the elements involved in designing a system to solve the problem and move forward. We are trying to find a common ground between employers and employees so we can put together in a bill.

- a. Can we design a system that would be beneficial to employees? Take a look at the universities Optional Retirement Plan (ORP) model.
- b. Explain the graph on page 25 – How much money would we have to place in an account dedicated to paying off the past service rate of tier IV employees. This would give employers an incentive to undertake such drastic changes.
- c. Employee bears a portion of the risk – either an equal employee/ employer contribution or any such arrangement where the employee does not contribute at a fixed rate.

2. A new defined benefit tier

- a. Calculate using a three year average, five year average, career average
- b. Base pay only: don't base retirement benefits on geographic cost differential, overtime pay, or bonuses.
- c. Eliminate COLA.
- d. Raise retirement eligibility age
- e. Floating employee contribution
- f. Establish a floor for employer contributions
- g. Change the health care component to reduce costs (ex. HRA)

**Material for House State Affairs PERS/TRS
tier initiative oversight hearing**

**UNIVERSITY OF ALASKA
Statewide Office of Human Resources**

Summary of the
Optional Retirement Program

The university's Optional Retirement Program (ORP) is a defined contribution alternative to the state sponsored defined benefit plans for faculty and executive staff, the Teachers' Retirement System and the Public Employees' Retirement System respectively.

The university's obligation under ORP is to make a contribution that is tied to a rolling three year average of the TRS rate. In FY05, the employer contribution is 13%, the employee contribution is 8.65%, for a total of 21.65%. By comparison, the TRS rates this year are 16.00% from the employer, 8.65% from the employee, for a total of 24.65%. There is no health benefit provided by ORP. Vesting is immediate. The employee's plan choice --- whether to participate in ORP, or TRS or PERS --- is irrevocable.

ORP's advantages to the university include an enhanced ability to compete in the national market for top faculty and administrators with other universities and corporations offering primarily defined contribution plans like ORP. In addition, the university has the advantage of relieving its liability under the retirement plan from the obligation to provide a costly health benefit upon retirement. ORP participants generally prefer the plan because it provides full portability, although some are concerned about the absence of a health benefit in the plan and the inherent uncertainties of the market.

Approximately 750 faculty and staff participate in ORP. Faculty comprise 90% of plan participants and executives 10%. At present, ORP's assets are \$315 million.

January 25, 2005

RETIREMENT PROGRAM COMPARISON CHART

	Teachers Retirement System (TRS)	Public Employees Retirement System (PERS)	UA Optional Retirement Program (ORP)
Plan Type	Defined Benefit	Defined Benefit	Defined Contribution
Internal Revenue Service Governing Code	401(a)	401(a)	Employer contribution 401(a) Employee contribution 403(b)
Social Security Replacement Plan	Yes	Yes	Yes
State Of Alaska Governing Code	AS 14.24	AS 39.35	AS 14.40.661
Eligibility	Faculty	Administrative and Executive Staff	Faculty and Executive Staff
Vesting	8 years of service	5 years of service	Immediate
Health Coverage After Retirement	Yes Tier I — Medical at no cost Tier II — Medical at age 60 at no cost	Yes Tier I — Medical at no cost Tier II — Medical at age 60 at no cost Tier III — Must have 10 years of service and be 60 for no cost medical	No
Contribution Rate Setting Authority	State of Alaska Division of Retirement	State of Alaska Division of Retirement	University of Alaska
Methodology For Setting Rates	Actuarial Model	Actuarial Model	3 year rolling average of the TRS contribution rate
Rates For FY04	Employer 12% Employee 8.65% Total 20.65%	Employer 5.58% Employee 6.75% Total 12.33%	Employer 11.66% Employee 8.65% Total 20.31%
Projected Rates FY05	Employer 16.00% Employee 8.65% Total 24.65%	Employer 10.58% Employee 6.75% Total 17.33%	Employer 13.00% Employee 8.65% Total 21.65
Subject Of Bargaining	No	No	Possible
Participation Rate	ACCFT — 174 (56%) UNAC — 328 (39%) Executive — 23 (24%) Total — 525 (95% faculty)	Faculty do not participate in PERS	ACCFT — 139 (44%) UNAC — 511 (61%) Executive — 73 (76%) Total — 725 (90% faculty)
Average Age			ACCFT — 53 UNAC — 50 Executive — 55

February 10, 2005

Recommendations of the:

**AML Revenue and Finance Subcommittee of the Legislative Committee and
Ad Hoc Municipal/School District/UA Committee on PERS/TRS**

The committees have been meeting for the past seven months to propose solutions to control PERS/TRS costs and define a reasonable program for the future. Municipalities, school districts, and the U of A comprise 63% of the PERS/TRS system. The State and all other PERS/TRS employers have exactly the same interests in stabilizing the PERS/TRS programs.

Summary of recommendations:

1. **Hold all bills that could increase costs to the PERS/TRS System until:**
 - a. An adequate PERS/TRS benefit change review process has been adopted, and
 - b. New retirement program benefit "tiers" have been considered.Holding bills that could increase costs will stabilize the program immediately to avoid new irrevocable permanent costs to the State, municipalities, schools, and the University.
2. **Adopt a bill that creates an appropriate review and analysis of the impact of changes to PERS/TRS benefits.** Unlike any other legislative decision, under Alaska's Constitution a PERS/TRS benefit can never be "diminished or impaired" (Article XII, Section 7). The current "fiscal note" process for bills is not sufficient to accurately determine the long-term impacts of changes. Over a long time period the lack of an adequate analysis process has been the cause of a significant portion of the current cost crisis. Implement:
 - a. A statutory 90 day review process prior to legislative committee review that includes,
 - i. A comprehensive long-term actuarial analysis by the PERS/TRS Boards, and
 - ii. PERS/TRS hearings with all affected employers, and
 - iii. A full report and recommendation of the PERS/TRS Boards to the legislature.
3. **Introduce bills to consider the PERS/TRS "Tiers" developed by the PERS/TRS Boards:** After a close vote by the joint PERS and TRS Boards these comprehensive alternatives were not adopted for action, however, there are simply no other long term options on the table to reduce long-term costs of the program. The alternatives include a thoughtful analysis of the major provisions of the PERS/TRS retirement benefit programs and some or all of the recommendations should be implemented.
4. **Look for short-term and long-term financial solutions to meet crushing cost increases for past liability:**
 - a. Support State appropriations to offset the 5% PERS/TRS cost increase for FY 06 and the cumulative 10% cost increase for FY 07.
 - b. Consider the long-term cost impacts a direct pay down of the approximately \$5 Billion past liability. For example, a \$2 Billion pay down could lower long-term PERS/TRS rate increases significantly.

- c. Consider the creation of a State and Local Retirement Pension Bond Corporation to finance the PERS/TRS \$5 Billion past liability with low interest bonds. Estimated bond rates of 5.5 to 6% could save an estimated over \$100 million/year on the PERS/TRS unfunded liability currently charged to employers at 8.25%.

5. Balanced and Expanded Representation:

Municipalities, Schools, and the University represent 63% of the PERS/TRS programs but do not have direct representation on the PERS/TRS Boards.

- a. Consider adding direct employer representatives to the PERS/TRS Boards, or;
- b. Create a separate public retirement system corporation (somewhat similar to AHFC or AIDEA) to manage all aspects of the retirement systems. (With representation as in (a) above.)

6. Financial Administration

- a. **Third party review:** Review of actuary assumptions and rates by a disinterested third party at least every three years.
- b. **Improve forecasts of future trends:** Actuaries primarily use historical trends to make future projections. More work should be done to forecast future trends using disinterested third parties from a variety of disciplines.
- c. **Minimum employer contribution rates:** Consider setting minimum employer contribution rates in the future to avoid wide swings in employer rates.

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HOUSE STATE AFFAIRS COMMITTEE Representative Paul Seaton, Chairman

MEMORANDUM

Date: January 27, 2005

To : Melanie Millhorn, Director, Division of Retirement and Benefits

From: Louie Flora
House State Affairs Committee Aide
4963

Re: Compiled Questions on PERs /TERs from the House State Affairs Committee

1. What is a conservative discount rate for calculating pension liabilities?

Please show sensitivity based on 7.25% and 9.25% rates of return?

2. List the five primary assumptions in calculating the pension liability and detail the ramifications of forecasting errors.

a) what are the impacts of a significant error on any one of the assumptions?

b) what are the impacts of a significant error on two or more of the assumptions?

3. Would you characterize the management of both the assets and liabilities as conservative?

4. Why is the liability of the pension system managed by The Department of Administration, the assets by the Department of Revenue and what is the role of the PERS and TERS Boards?

The legislature has been provided a suggestion from the Kenai Peninsula Board calling for an "Alaska Public Employees Retirement Corporation." Have you reviewed it? Is it a more efficient manner of doing business?

5. Would it be prudent to increase the overall investment risk of the fund?
6. Could PERS and TERS invest in the gas pipeline?
7. Do all tiers pay the same price per dollar of payroll?
8. Are tier 3 employee paying the same price as tier one, but getting a whole lot less?
9. What policy decisions of the PERS and TERS board improved the financial condition of the plan?
10. What policy decisions of the PERS and TERS board impaired the financial condition of the plan?
11. What policy decisions can the Administration make to improve the plan?
12. What policy decisions can the Legislature make to improve the plan?
13. Is there anything that can be done besides adding assets to the plan to improve its fiscal condition.
14. Please provide in a graph the actual cash flows in and out of the various existing plans for the periods listed below as well as what you anticipate (base case) for the next three years – please aggregate if possible so that we can more easily see the “big picture.” Please feel free to utilize the following chart:

FY	Total Contributions	Total Benefits Paid	Difference	Total Assets of all Plans at end of Period
Pre 2000				
2000				
2001				
2002				
2003				
2004				
2005				
2006				
2007				
2008				

15. What is the effect of utilizing the “highest three years” for calculating Retirement/Benefits vs. utilizing the average wage over the employees tenure with the state?
16. Can we change to an average benefit?
17. What is the actuarial liability to the system if calculated on an average instead of “highest three years” system?
18. What is the effect if we don’t allow overtime or geographic COLA to factor into Retirement/Benefits?
19. If we went to a “defined contribution” program, what would this do to the schedules of payment/liability?
20. Please explain whether or how the rehire of retired employees under HB 242 (2001) has affected PERS/TERS

21. Please explain the great difference in increased health costs between PERS and TERS – is this due to teachers retiring in 20 years?

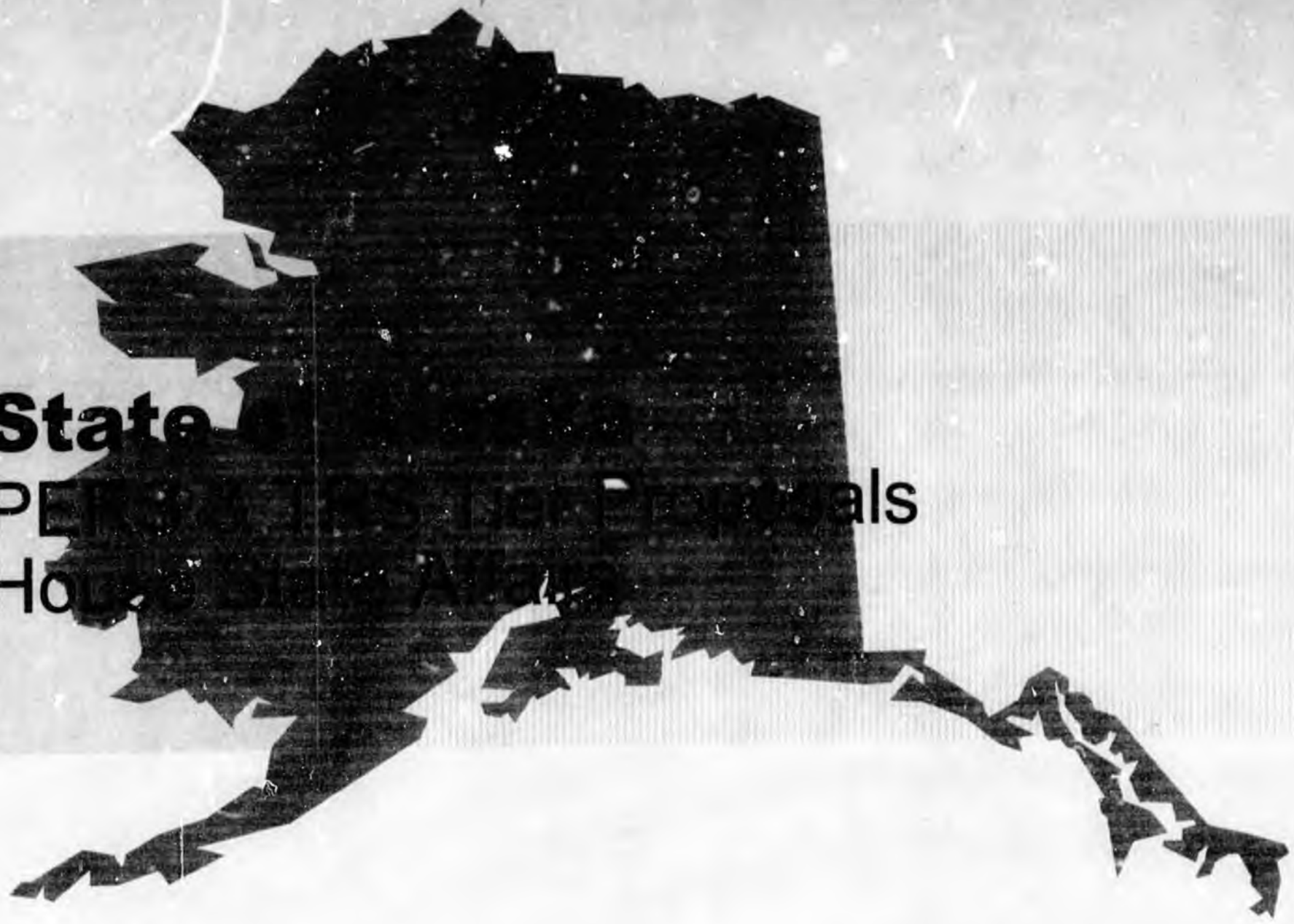
22. Explain the news GASB rules – are we sure the state is required to comply, since the state self-insures? Or are we already compliant?

State

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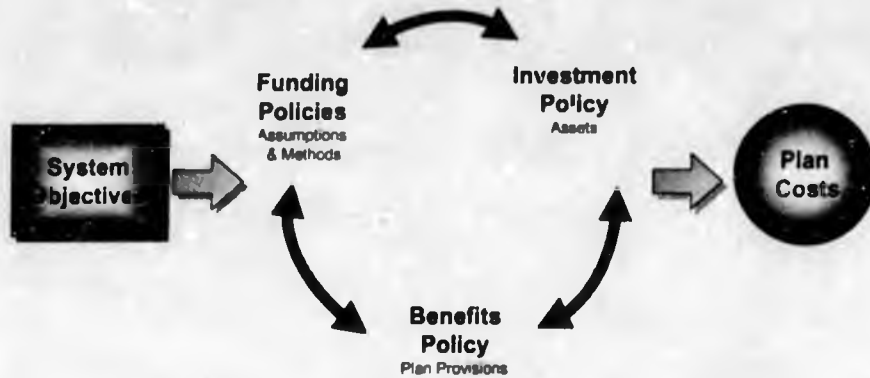
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Overview

Retirement Program Financial Management



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Financial Summary

Employer Contribution Rates - PERS

	<u>FY05</u>	<u>FY06</u>
Normal Cost Rate:	13.31%	13.24%
Average Past Service Rate:	11.60%	12.39%
Average Contribution Rate:	24.91%	25.63%
Board Adopted Rate:	11.77%	16.77%

- The normal cost rate provides for benefits expected to be earned by active members during the fiscal year
- The past service rate is the part of the contribution that is intended to pay off the unfunded liability (over 25 years)

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Financial Summary

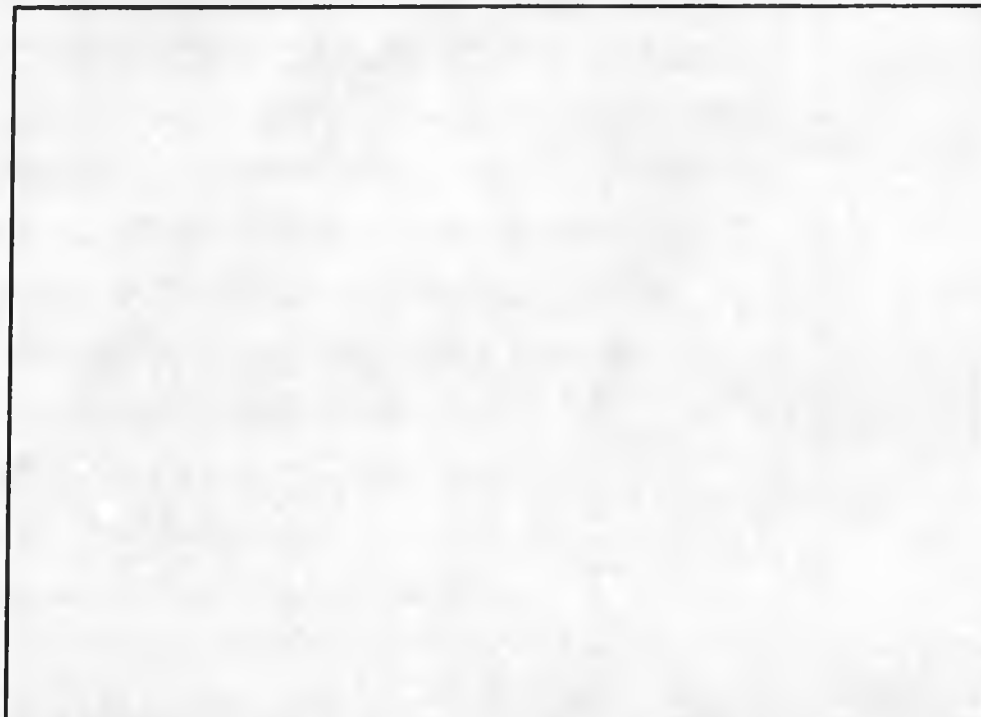
Employer Contribution Rates - TRS

	<u>FY05</u>	<u>FY06</u>
Normal Cost Rate:	14.76%	14.28%
Past Service Rate:	<u>20.81%</u>	<u>24.57%</u>
Total Contribution Rate:	35.57%	38.85%
Board Adopted Rate:	16.00%	21.00%

- The normal cost rate provides for benefits expected to be earned by active members during the fiscal year
- The past service rate is the part of the contribution that is intended to pay off the unfunded liability (over 25 years)

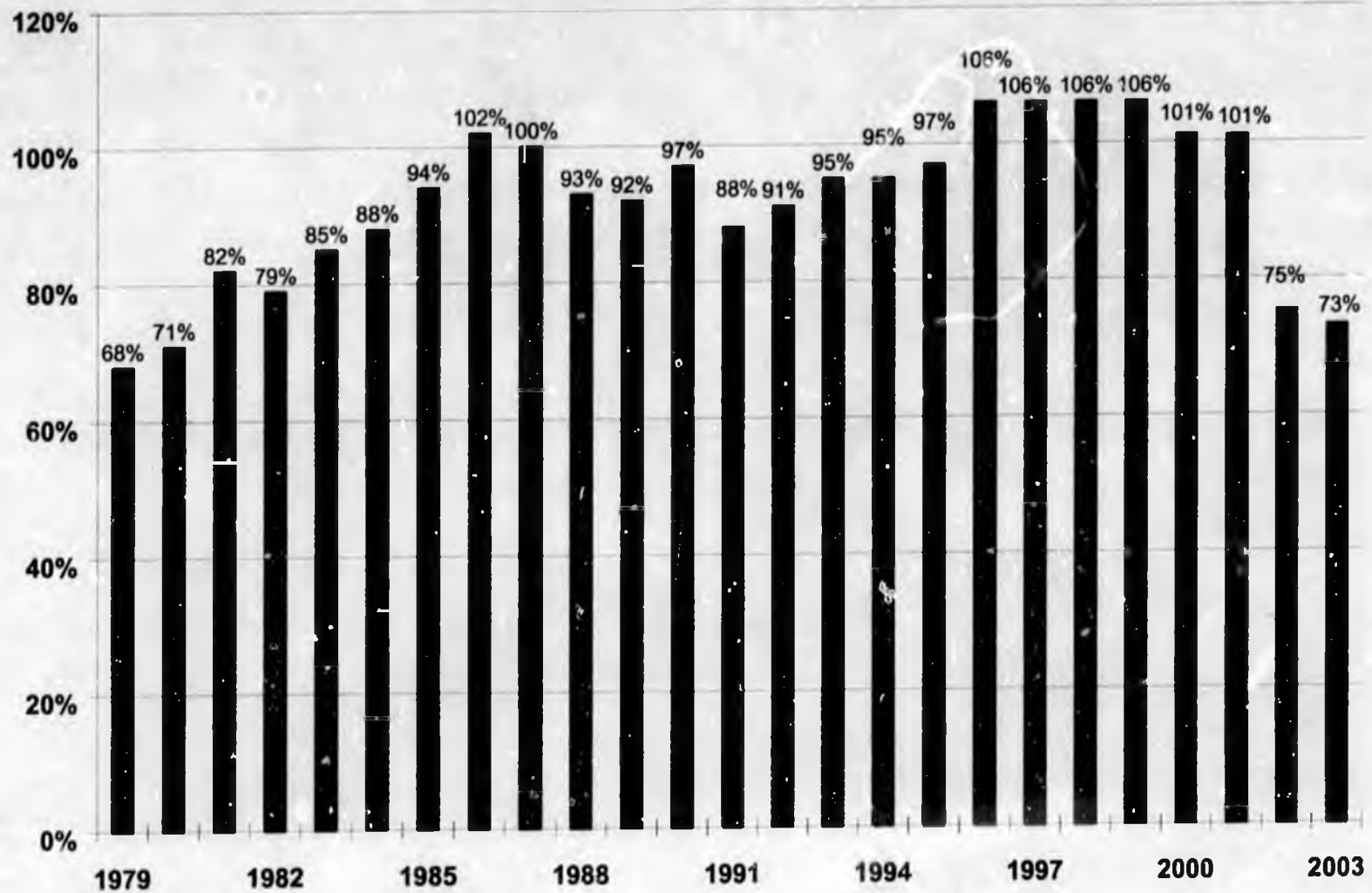
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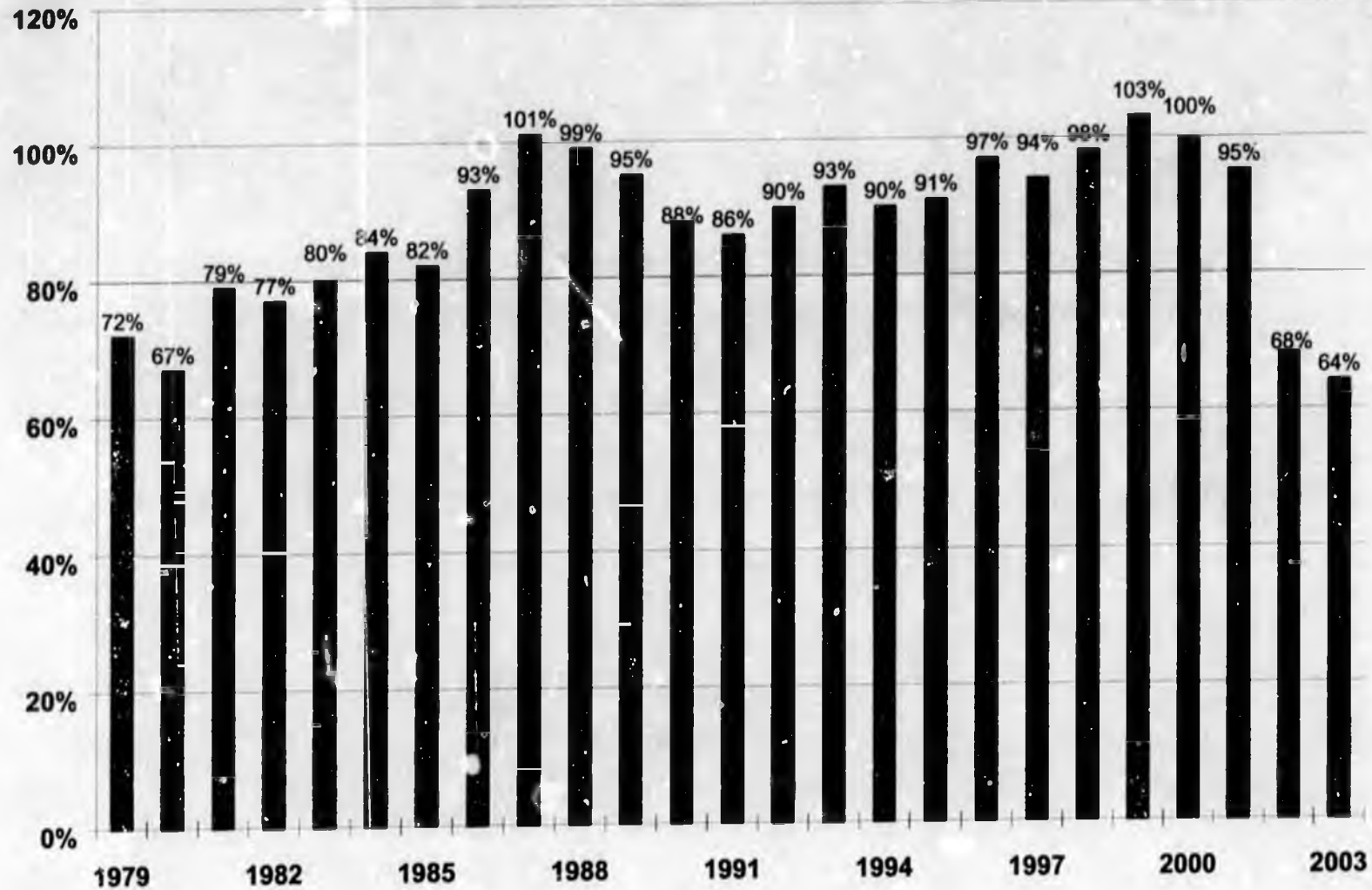
Report Highlights (continued)

PERS Funding Ratio history



Report Highlights (continued)

TRS Funding Ratio History





Overview Financial Context

- ⇒ Rising contribution levels
- ⇒ Volatile investment returns
 - Investment uncertainty
- ⇒ Rising medical costs

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Overview Key Information

Key information gathered and analyzed

- ⇒ Employer survey
- ⇒ Member focus groups
- ⇒ Benchmarking
- ⇒ Benefit levels
- ⇒ Demographic projections
- ⇒ Implications of Medicare changes
- ⇒ Trends, issues and alternatives
- ⇒ Cost analysis and projections

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Employer Survey – PERS

Important Conclusions

- ⇒ Employers want the retirement program to continue to provide medical coverage
- ⇒ Many employers open to the possibility of providing differing levels of medical coverage based on service or having members share in the cost of coverage
- ⇒ Other potential cost savings areas that some employers seem open to:
 - Lowering the post-retirement cost-of-living adjustment
 - Not providing medical coverage to vested terminated members
- ⇒ Some responses seem to favor continuing a defined benefit approach
 - Reward long service
- ⇒ However, responses leaned towards shifting investment risk to members

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Employer Survey – TRS

Important Conclusions

- ⇒ Employers want the retirement program to continue to provide medical coverage
- ⇒ Many employers, particularly the largest employers, open to the possibility of providing differing levels of medical coverage based on service or having members share in the cost of coverage
- ⇒ Other potential cost savings areas that some employers seem open to:
 - Lowering the post-retirement cost-of-living adjustment
 - Not providing medical coverage to vested terminated members
- ⇒ Some responses seem to favor continuing a defined benefit approach
 - Reward long service
- ⇒ However, responses leaned towards shifting investment risk to members

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Overview

System Objectives and Constraints

Based on information gathered and stakeholder feedback, the Tier Committee drafted the following objectives:

- ⇒ The System should provide medical benefits to retirees
 - Members should bear a greater share of the cost
 - Members should have to retire from the System to be eligible
- ⇒ Benefits should favor longer-service members
- ⇒ Employer contributions should be more predictable and stable
- ⇒ Investment risk should be shared by employers and members
- ⇒ Healthcare inflation risk should be shared by employers and members

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Overview

System Objectives and Constraints

Based on information gathered and stakeholder feedback, the Tier Committee drafted the following constraints:

- ⇒ Non-medical benefits must be sufficient to satisfy minimum requirements for employers who do not participate in Social Security
- ⇒ Benefit changes must take the form of new "tiers"
- ⇒ Annual cost of benefits should be less than the current Systems' normal cost rates

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Trends and Alternatives

Defined Benefit Observations

- ⇒ Plans have experienced higher cost levels and greater cost volatility
- ⇒ Funded status has declined in last 3 years
- ⇒ Advantages (to employer) of defined benefit plans
 - Retention incentives, lower turnover cost
 - Workforce management
 - Cost allocated to longer-service employees

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Trends and Alternatives

Defined Benefit Observations (*continued*)

- ⇒ Advantages (to employee) of defined benefit plans
 - Pooling of longevity risk
 - In most cases, employer bears investment risk
 - Predictable, stable retirement income
- ⇒ Challenges (for employer) of defined benefit plans
 - Investment risk
 - Cost volatility

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Trends and Alternatives

Defined Contribution Observations

- ⇒ Advantages (to employer) of defined contribution plans
 - Predictable cost
 - Stable cost
 - Employee assumes investment risk
 - No long-term administrative commitment
 - Contribution equity among employees
- ⇒ Advantages (to employee) of defined contribution plans
 - Portability
 - Ability to direct investments
 - Contribution equity among employees

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Trends and Alternatives

Defined Contribution Observations (*continued*)

- ⇒ Challenges for defined contribution plans
 - More difficult to manage workforce
 - Employee directed money often earns less
 - Amount needed at retirement is often underestimated
 - Employees need to contribute in excess of 10 percent, but most do not
 - Retirees generally not equipped to transform lump sum into monthly payments that last for a lifetime (difficult to manage longevity risk)

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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

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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)

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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)

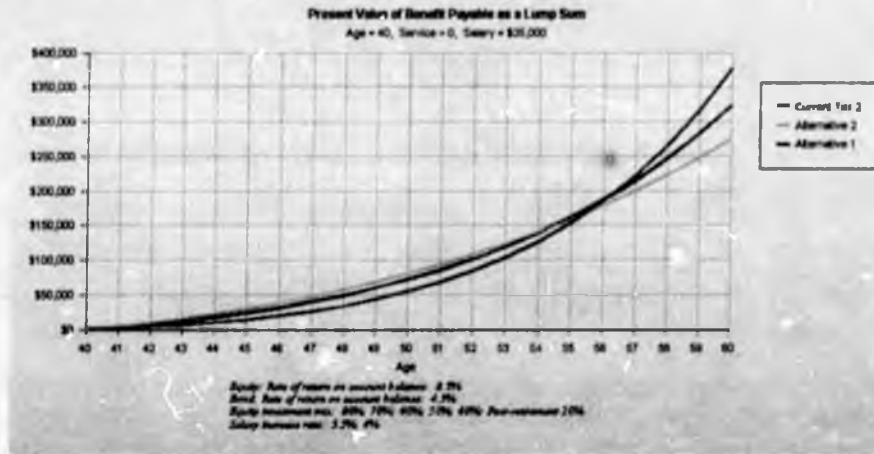
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Proposed Alternatives

Accrual of Non-Medical Benefits - TRS



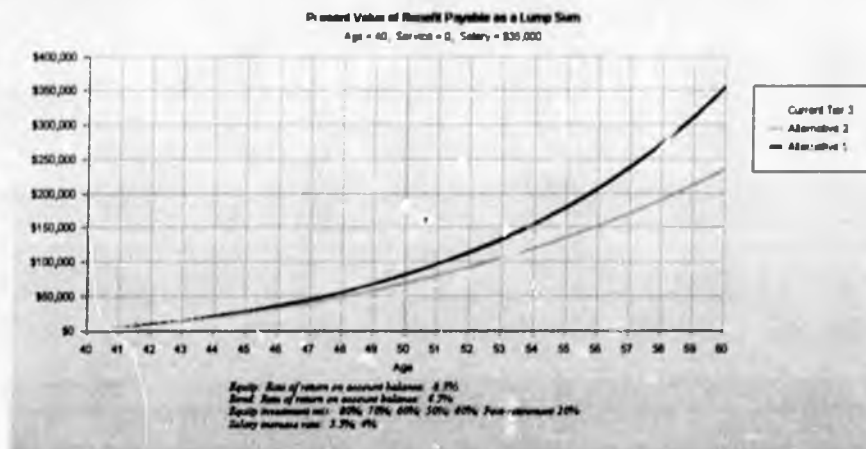
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Proposed Alternatives

Accrual of Non-Medical Benefits - PERS



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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

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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 Co-insurance	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	

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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

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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

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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%)

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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

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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

Service (yrs)	Subsidy %
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.
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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

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Proposed Medical Program After Medicare Eligibility

⇒ Contribution Base = MPY for fiscal year 2004:

Medicare Eligible \$2,667

⇒ Contribution Percentage

Service (yrs)	Contribution %
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

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With Reimbursement Amounts (HRAs)

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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

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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

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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

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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)

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Health Reimbursement Accounts

Comparison of tax advantaged health care accounts

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, qualified 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 59, 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.

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Health Reimbursement Accounts

Comparison of tax advantaged health care accounts

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 limit (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

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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%

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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

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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.

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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.

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Proposed Alternatives

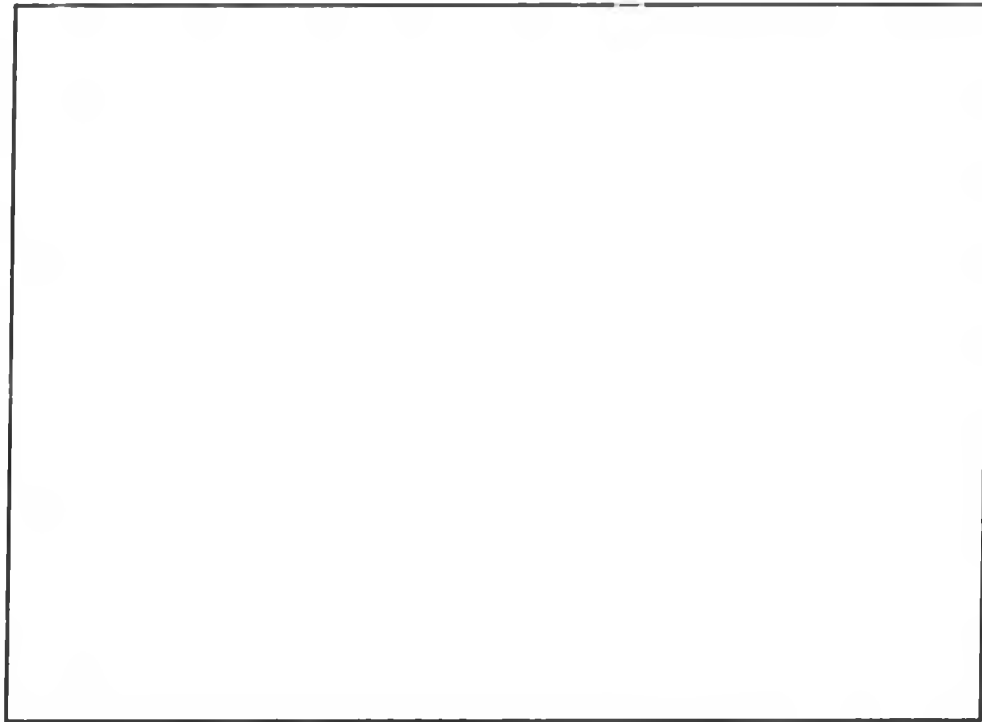
Alternative 2 – Normal Cost Rates

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

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

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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.

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 fund the retirement systems over 25 years. There are two components: the normal cost rate and the past service 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.

1.5(c) Actuarial Projections – Effect of Economic Scenarios

Key Assumptions

- All assumptions and methods are the same as Section 1.5(a) except

Results are shown only under the 1% population growth scenario

The actuarially calculated contribution rate is adopted in each year beginning in FY06, but rate cannot increase by more than 5% per year.

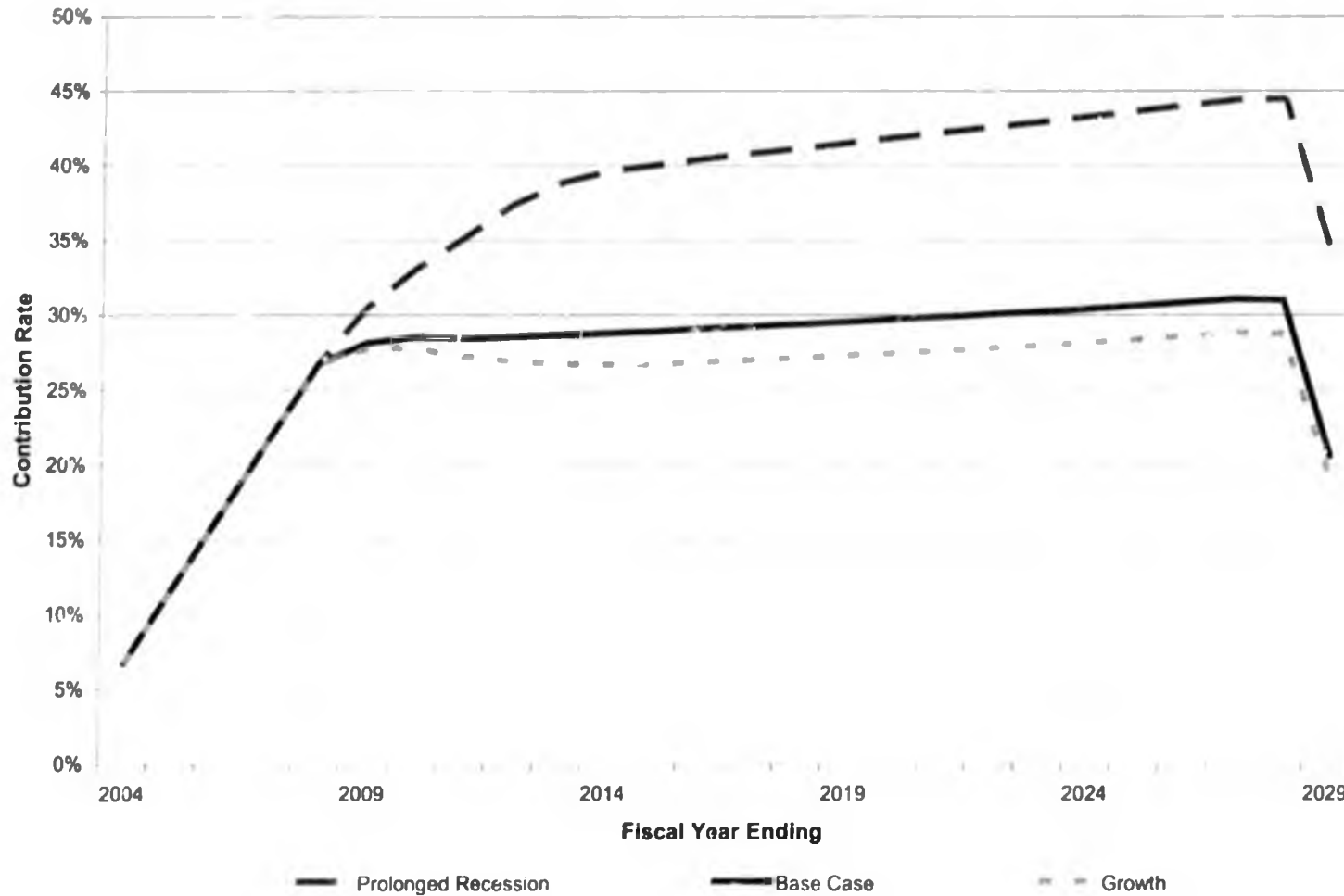
Investment returns are assumed as follows:

Total Portfolio Investment Return Under Each Scenario

Year Ending June 30	Base Case	Growth	Prolonged Recession
2004	15.08%	15.08%	15.08%
2005	8.25%	10.00%	-3.50%
2006	8.25%	10.00%	-3.50%
2007	8.25%	9.50%	2.10%
2008	8.25%	9.00%	7.75%
2009	8.25%	8.25%	7.75%
2010	8.25%	8.25%	7.75%
2011	8.25%	8.25%	7.75%
2012	8.25%	8.25%	7.75%
2013	8.25%	8.25%	7.75%
2014	8.25%	8.25%	7.75%
2015	8.25%	8.25%	7.75%
2016	8.25%	8.25%	7.75%
2017	8.25%	8.25%	7.75%
2018	8.25%	8.25%	7.75%
2019	8.25%	8.25%	7.75%
2020	8.25%	8.25%	7.75%
2021	8.25%	8.25%	7.75%
2022	8.25%	8.25%	7.75%
2023	8.25%	8.25%	7.75%
2024	8.25%	8.25%	7.75%
2025	8.25%	8.25%	7.75%
2026	8.25%	8.25%	7.75%
2027	8.25%	8.25%	7.75%
2028	8.25%	8.25%	7.75%
2029	8.25%	8.25%	7.75%

1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

Contribution Rate



1.5(c) Actuarial Projections – Effect of Economic Scenarios

Key Assumptions

- All assumptions and methods are the same as Section 1.5(a) except:

Results are shown only under the 1% population growth scenario

The actuarially calculated contribution rate is adopted in each year beginning in FY06, but rate cannot increase by more than 5% per year.

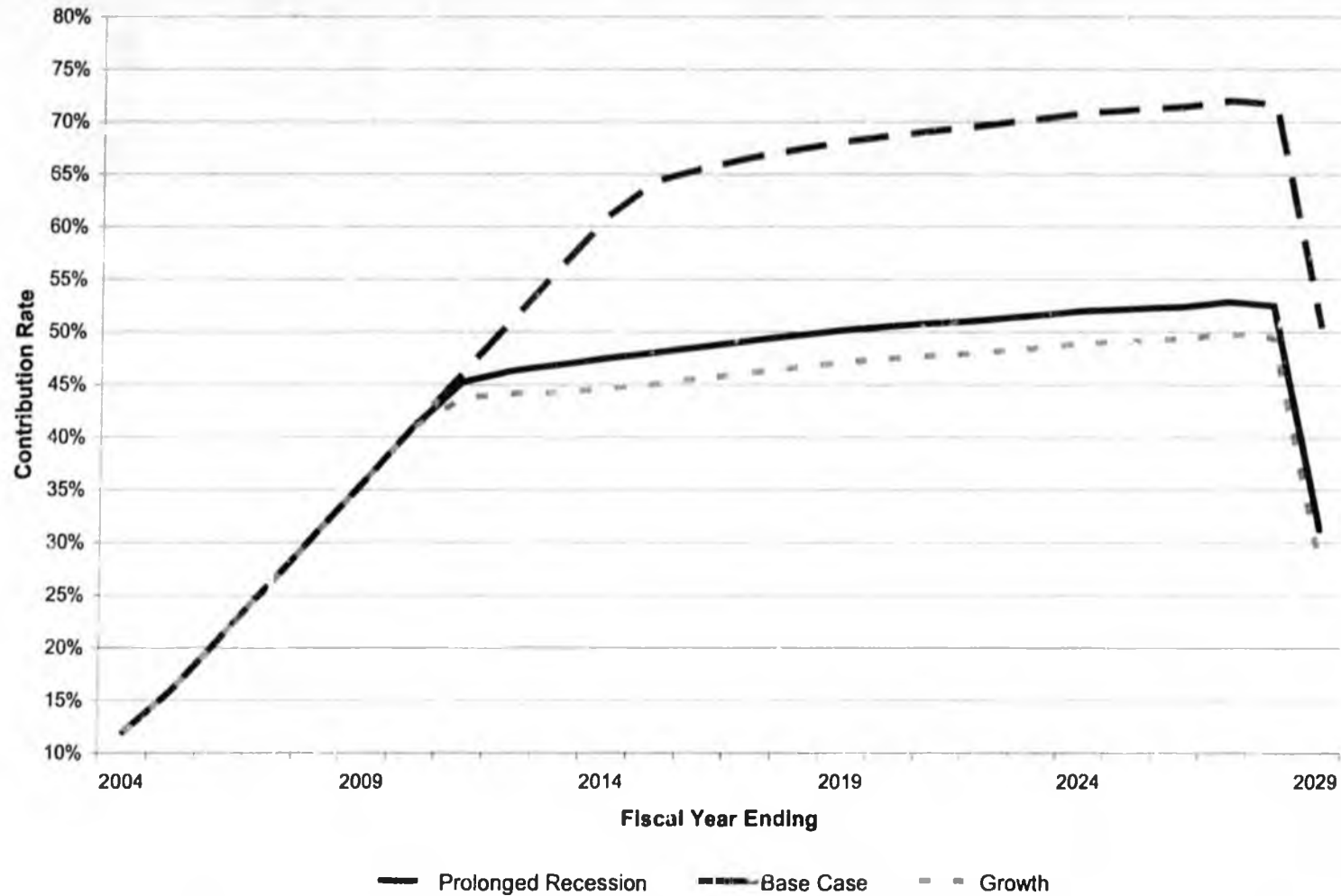
Investment returns are assumed as follows:

Total Portfolio Investment Return Under Each Scenario

Year Ending June 30	Base Case	Growth	Prolonged Recession
2004	15.08%	15.08%	15.08%
2005	8.25%	10.00%	-3.50%
2006	8.25%	10.00%	-3.50%
2007	8.25%	9.50%	2.10%
2008	8.25%	9.00%	7.75%
2009	8.25%	8.25%	7.75%
2010	8.25%	8.25%	7.75%
2011	8.25%	8.25%	7.75%
2012	8.25%	8.25%	7.75%
2013	8.25%	8.25%	7.75%
2014	8.25%	8.25%	7.75%
2015	8.25%	8.25%	7.75%
2016	8.25%	8.25%	7.75%
2017	8.25%	8.25%	7.75%
2018	8.25%	8.25%	7.75%
2019	8.25%	8.25%	7.75%
2020	8.25%	8.25%	7.75%
2021	8.25%	8.25%	7.75%
2022	8.25%	8.25%	7.75%
2023	8.25%	8.25%	7.75%
2024	8.25%	8.25%	7.75%
2025	8.25%	8.25%	7.75%
2026	8.25%	8.25%	7.75%
2027	8.25%	8.25%	7.75%
2028	8.25%	8.25%	7.75%
2029	8.25%	8.25%	7.75%

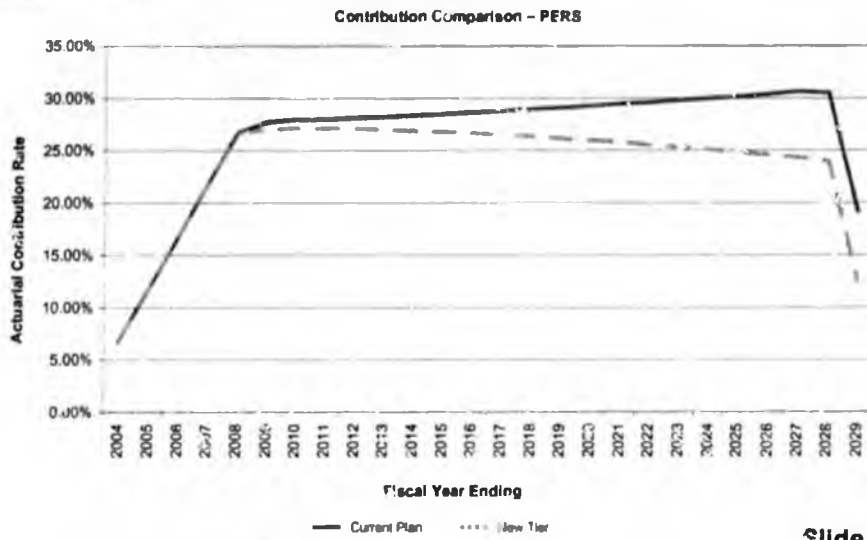
1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

Contribution Rate





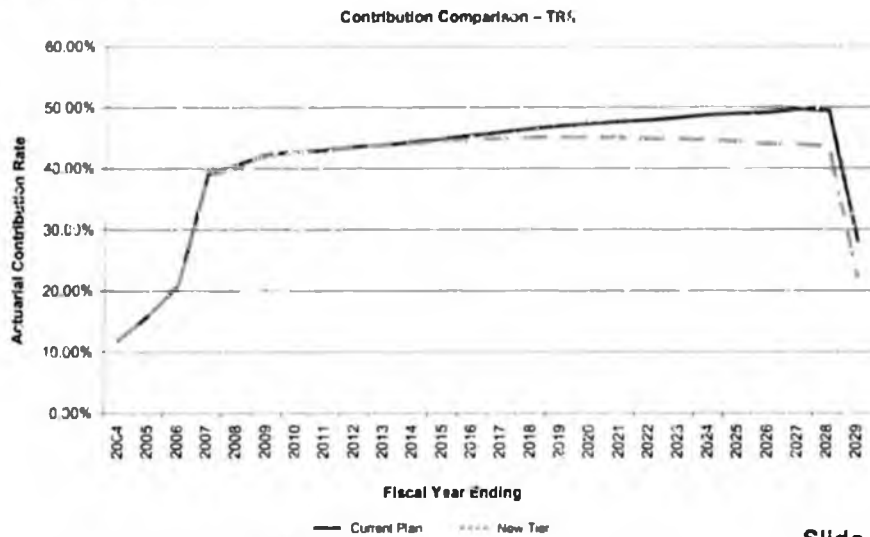
Proposed Alternatives Cost Projections - PERS



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Proposed Alternatives Cost Projections - TRS



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**PUBLIC EMPLOYEES' RETIREMENT SYSTEM
TEACHERS' RETIREMENT SYSTEM
SENATE FINANCE BRIEFING ON PROPOSALS FOR NEW TIERS**

Attached are two spreadsheets comparing the specific benefit differences in the existing and proposed Tiers for PERS and TRS. Outlined below is a summary of the major benefit changes and a cost comparison.

PERS / TRS

	Current PERS Tier III / TRS Tier II DB Plan	Alternative 1 DB/DC Plan	Alternative 2 DC Plan
PERS Employee Contribution Rate	6.75% or 7.5 Police/Fire	8% all members 8.5% Police/Fire 11.0% School District	8% all members 8.5% Police/Fire 11.0% School District
TRS Employee Contribution Rate	8.65%	10%	10%
Retirement Age	60 normal - 55 early 30 years "all others" 20 Police/Fire 20 Teachers	Same Same 25 Police/Fire members 25 Teachers	Any age
PERS Benefit Formula/Contribution Rate	2% up to 2.5% DB	1% DB; 8% DC (8% includes HRA)	12.5% DC (12.5% includes HRA)
TRS Benefit Formula/Contribution Rate	2% up to 2.5% DB	1% DB; 10% DC (10% includes HRA)	15% DC (15% includes HRA)
Medical	<ul style="list-style-type: none"> • Do not have to retire directly from system to be service or age eligible for medical coverage. • Must have 10 years of service. Minimal cost share. 	<ul style="list-style-type: none"> • Must retire directly from system to be eligible. • Must have 10 years of service. • Member pays more through "cost share" design elements. 	Same as Alternative 1
Normal Cost Rate - PERS (does not include unfunded liability portion)	13.24% - Current Normal Cost Rate	8% reduces normal cost rate by 40%	8% reduces normal cost rate by 40%
Normal Cost Rate - TRS (does not include unfunded liability portion)	14.28% - Current Normal Cost Rate	8.75% - this reduces normal cost rate by 39%	8.75% - this reduces normal cost rate by 39%
Future exposure and volatility to loss in investment earnings and increasing medical costs.	Employer bears all the risk.	Employer continues to have risk in two areas: (1) 1% DB component and (2) medical inflation component	Minimal Exposure to employer in one area only: (1) medical inflation w/capped %.

Alaska Division of Retirement and Benefits
Public Employees' Retirement System (PERS) Plan Comparison Chart
 Rev. January 15, 2005

Tier I Established on or after 7/1/86	Tier II Established on or after 7/1/86	Tier III Established on or after 7/1/86	Tier IV Proposed - Alternative 1 DB/DC Plan Entered on or after 7/1/2006	Tier IV - Alternative 2 Plan 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% all members beginning 7/1/2006 8.5% beginning 7/1/2006 – police and fire 11.0% beginning 7/1/2006 School District	Employee Pre-tax Contribution: 8% all members beginning 7/1/2006 8.5% beginning 7/1/2006 – police and fire 11.0% beginning 7/1/2006 School District
Members vest with 5 years of service	Members vest with 5 years of service	Members vest with 5 years of service	Members vest with 5 years of service	100% Vested upon enrollment
<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"> Normal retirement age is 60 Early retirement at age 55 Police/fire members can retire at any age after 25 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"> Can leave employment at any age and take account balance with them, leave account balance in plan or rollover to another qualified plan.
<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% 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 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"> 1% defined benefit formula 8.7% defined contribution rate A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA) Benefit calculation is computed on indexed career average 	<ul style="list-style-type: none"> 12.5% defined contribution rate A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA)
<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. 	<ul style="list-style-type: none"> Medical coverage is provided to disableds, regardless of age and benefit recipients over age 60 or <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 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. 	<ul style="list-style-type: none"> Medical same as Tier II 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 premium as long as they wish to continue medical coverage 	<ul style="list-style-type: none"> Medical Employees must retire directly from the system to be eligible and Accrue a minimum of 10 years of credited service Early retirees get "access only" prior to normal retirement age - must pay premium HRA contribution Defined dollar benefit from normal retirement to age 65 Defined health benefit after age 65 (cost share based on length of service) 	<ul style="list-style-type: none"> Medical Employees must retire directly from the system to be eligible and Accrue a minimum of 10 years of credited service Early retirees get "access only" prior to normal retirement age - must pay premium HRA contribution Defined dollar benefit from normal retirement to age 65 Defined health benefit after age 65 (cost share based on length of service)
<ul style="list-style-type: none"> The automatic PRPA legislation in 1986 applied to all members regardless of hire date 	<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 	<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 	<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 	<ul style="list-style-type: none"> None
<ul style="list-style-type: none"> Alaska Cost-of-Living Allowance of 10% of base benefit is payable to benefit recipients who remain domiciled in Alaska after retirement. 	<ul style="list-style-type: none"> Alaska Cost-of-Living Allowance 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"> Alaska Cost-of-Living Allowance 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. 	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> None

Alaska Division of Retirement and Benefits
Teachers' Retirement System (TRS) Plan Comparison Chart
 Rev. January 15, 2005

Tier I 7/1/55 - 6/30/80	Tier II Entered on or after 7/1/90	Tier III Proposed Alternative 1 - DB/DC Plan Entered on or after 7/1/2005	Tier III Proposed Alternative 2 - DC Plan Entered on or after 7/1/2005
Employee Pre-tax Contribution: 8.65% beginning 1/1/91	Employee Pre-tax Contribution: 8.65% beginning 1/1/91	Employee Pre-tax Contribution: 10% beginning 7/1/2005	Employee Pre-tax Contribution: 10% beginning 7/1/2005
Members vest with 8 years of service.	Members vest with 8 years of service.	Members vest with 8 years of service.	100% Vested at time of enrollment
<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"> Normal retirement age is 60 Early retirement at age 55 Teachers can retire at any age after 25 years 	<ul style="list-style-type: none"> Can leave employment at any age and take account balance with them, leave account balance in plan or rollover to another qualified plan.
<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"> 1% defined benefit formula all years of service 10% defined contribution rate A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA). Benefit calculation is computed on indexed career average 	<ul style="list-style-type: none"> 15.0% defined contribution rate A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA).
<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. 	<p>Medical</p> <ul style="list-style-type: none"> Employees must retire directly from the system to be eligible and Accrue a minimum of 10 years of credited service* Early retirees get "access only" prior to normal retirement age - must pay premium HRA contribution Defined dollar benefit from normal retirement to age 65 Defined health benefit after age 65 (cost share based on length of service) 	<p>Medical</p> <ul style="list-style-type: none"> Employees must retire directly from the system to be eligible. Accrue a minimum of 10 years of credited service* Early retirees get "access only" prior to normal retirement age - must pay premium HRA contribution Defined dollar benefit from normal retirement to age 65 Defined health benefit after age 65 (cost share based on length of service)
<ul style="list-style-type: none"> Automatic PRPA legislated in 1990 applied to all members regardless of hire date. 	<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. 	<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. 	None
<ul style="list-style-type: none"> Alaska Cost-of-Living Allowance is payable to benefit recipients who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit. 	<ul style="list-style-type: none"> Alaska Cost-of-Living Allowance 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 10% of the base benefit. 	None	None



Employer Survey - PERS

Key

The following pages illustrate the responses to the employer survey sent to all PERS employers. In total, 89 employers responded. PERS represents employers of various sizes. As a way to show the five largest employers' responses (of those who responded), we have included the letters A - E on the charts to represent how they answered. The employers have been assigned the following letters:

Employer	# Active Employees	Code Letter
State of Alaska	15,259	A
Anchorage SD	2,496	B
Anchorage, Municipality of	2,351	C
Fairbanks North Star Borough SD	790	D
North Slope Borough	788	E

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Employer Survey - PERS

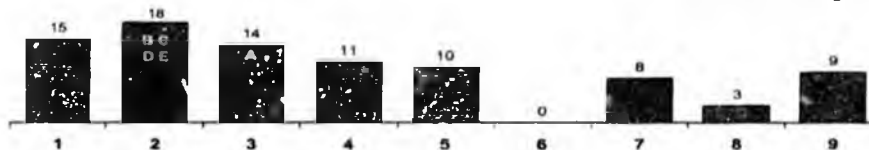
1. Long-Service Employees

Importance



Plan should favor long-service employees

Plan should not distinguish on account of length of service



Key Comments

- Retirement plans should favor long-service employees
- With over 150 employers in PERS, portability between employers is a real factor. If that can be achieved without penalizing long time PERS covered employees, there is not problem.
- One of our problems is that baby-boomer "glut" of long service employees. While they should be compensated for their time, there seems to be a shortage of professional people entering state/municipal public service.

Key Implications

- Rewarding long-service employees supports career employment.
- Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when short-service employees leave the System.

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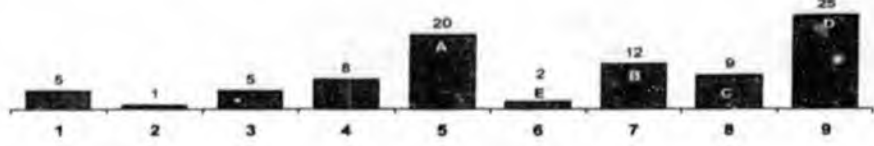
Employer Survey – PERS

2. Older Employees



Plan should favor older employees

Plan should not distinguish on account of age



Key Comments

- ⇒ Length of service should be more important than age in determining retirement benefits.
- ⇒ Inflation and decreases in salary raises are historical in Alaska. Young need to see opportunity in this state.

Key Implications

- ⇒ Rewarding older employees supports career employment.
- ⇒ Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when younger members leave the System.

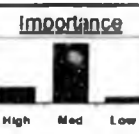
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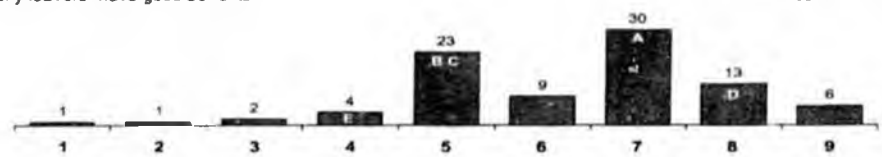
Employer Survey – PERS

3. Benefits Build Up



Benefits should build up quickly, so "early leavers" have good benefits

Benefits should build up slowly, so "early leavers" have little



Key Comments

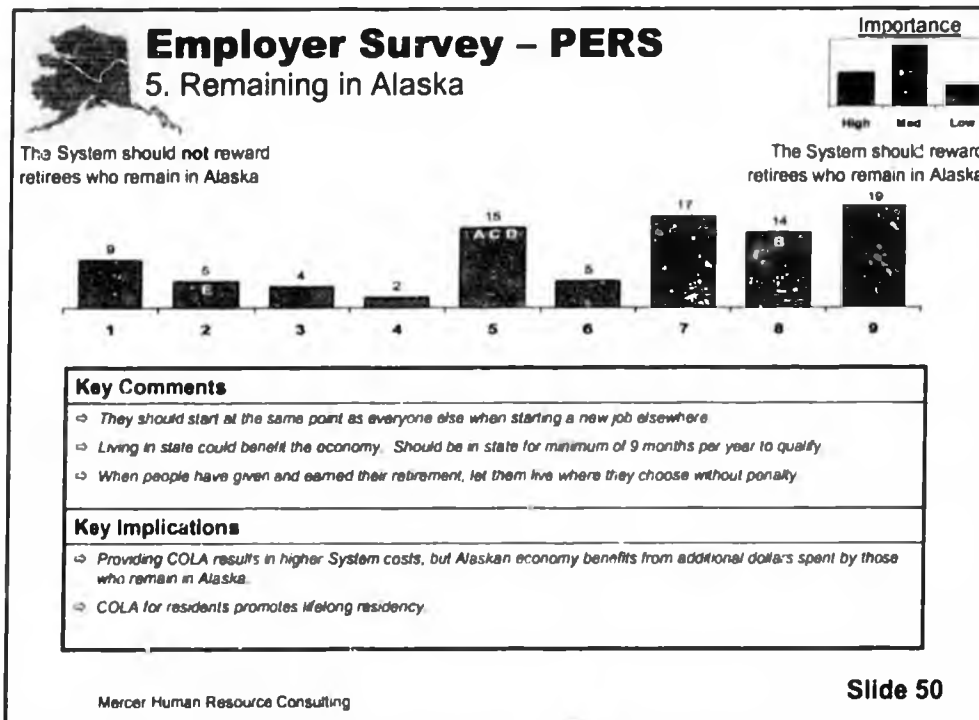
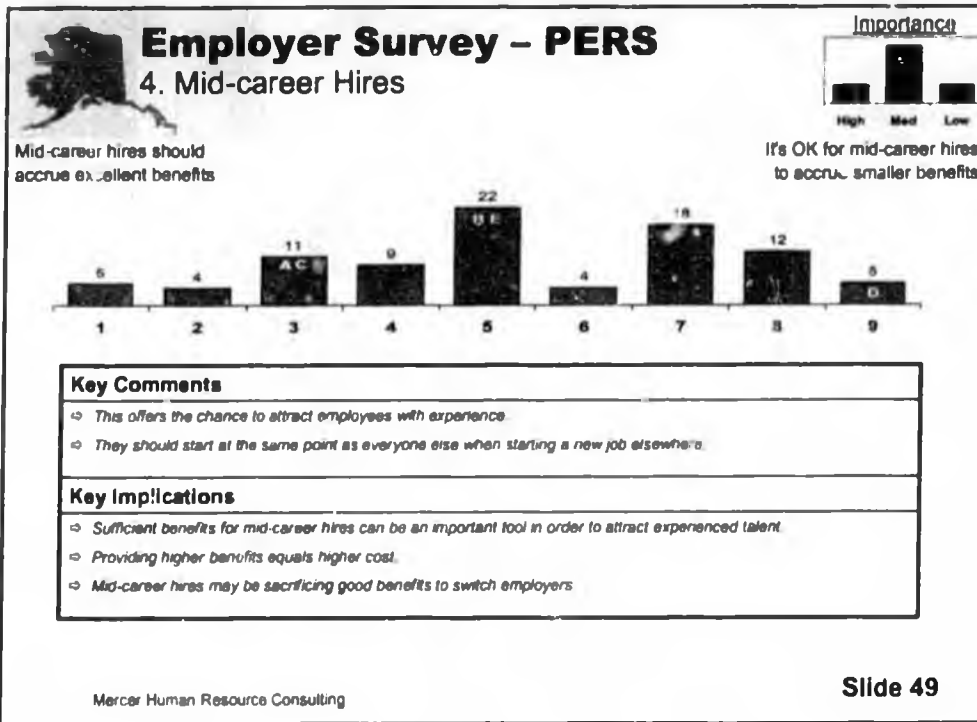
- ⇒ Benefits should accrue at a constant rate rather than increase after so many years of service.
- ⇒ It should not pay to leave system as soon as vested.
- ⇒ All employees are important. Early leavers should accrue good benefits.

Key Implications

- ⇒ Does not affect career employees who stay until retirement.
- ⇒ Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when younger members leave the System.

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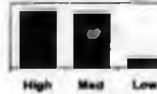




Employer Survey - PERS

6. Med Coverage to Term. Vested Members

Importance



The System should provide medical coverage to terminated vested members

The System should not provide medical coverage to terminated vested members



Key Comments

- ⇒ This area needs to be reviewed and modified to help control costs. It may be necessary to qualify for benefits or look at providing a flat dollar amount for benefits with the retiree paying the difference.
- ⇒ Perhaps the medical benefit could increase for those who retire from active service/decrease for those terminated vested members.
- ⇒ Helps with recruitment. Many come to Alaska to get vested - we need to encourage this trend.

Key Implications

- ⇒ Opportunity for cost savings exists by cutting back medical benefits for terminated vested members.
- ⇒ By eliminating, employers would lose out on a recruiting tool.

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Employer Survey - PERS

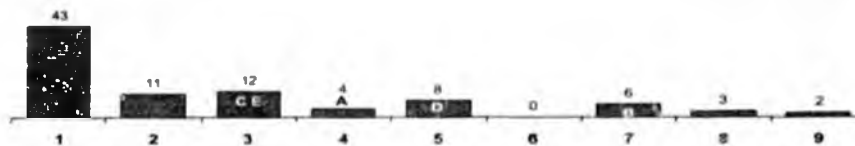
7. Medical Coverage

Importance



The retirement program should provide medical coverage

The program should not provide medical coverage



Key Comments

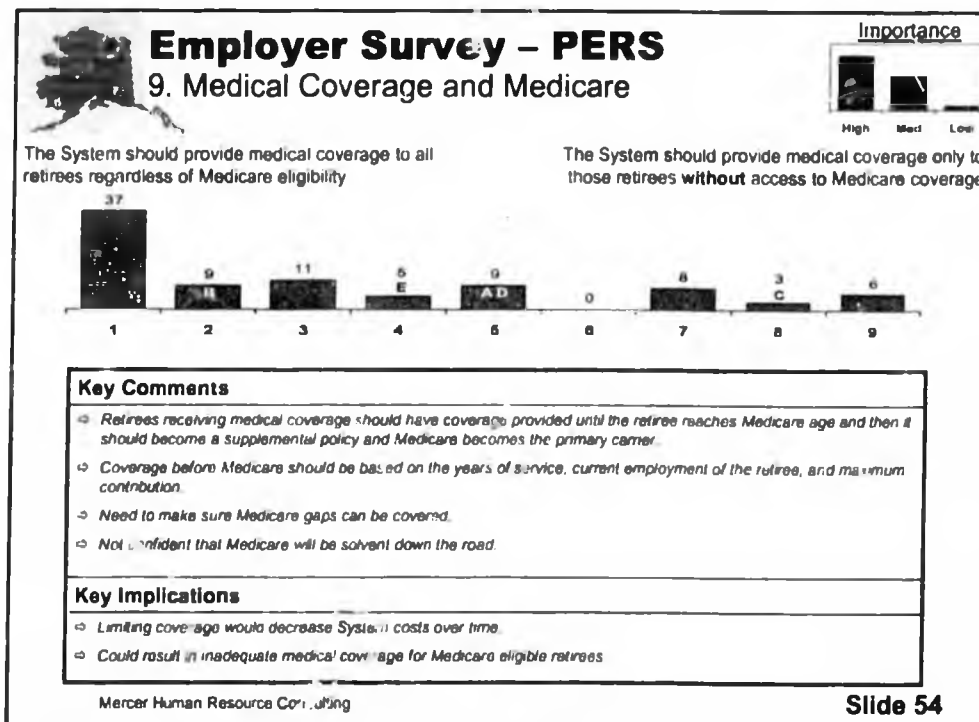
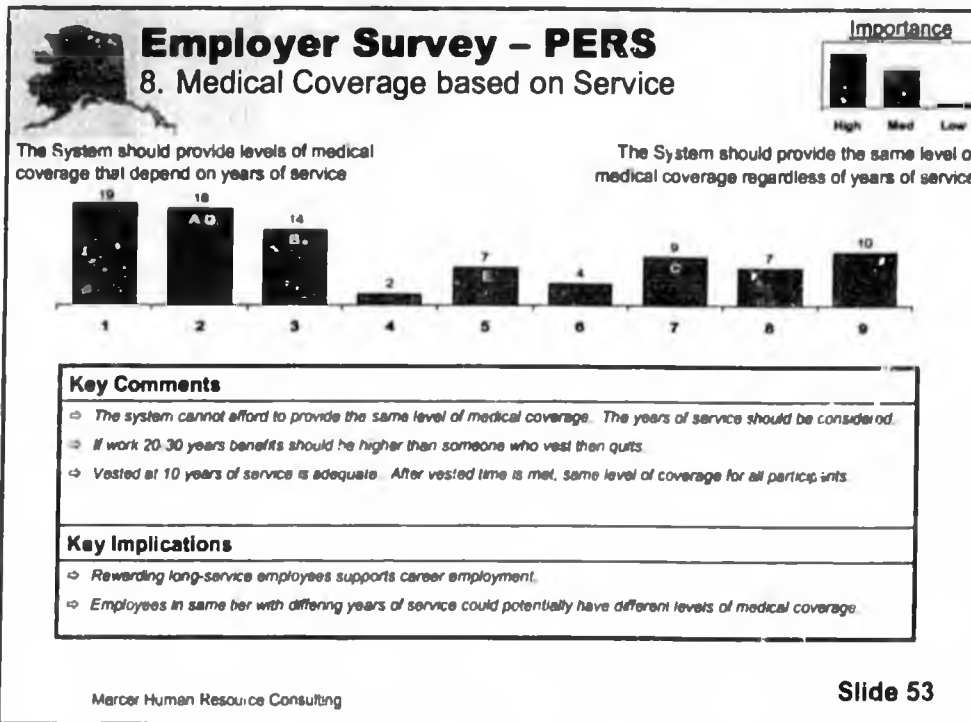
- ⇒ Biggest selling point in recruiting - medical.
- ⇒ Coverage important, but retirees could pay a share, perhaps based on years of services.
- ⇒ A must!

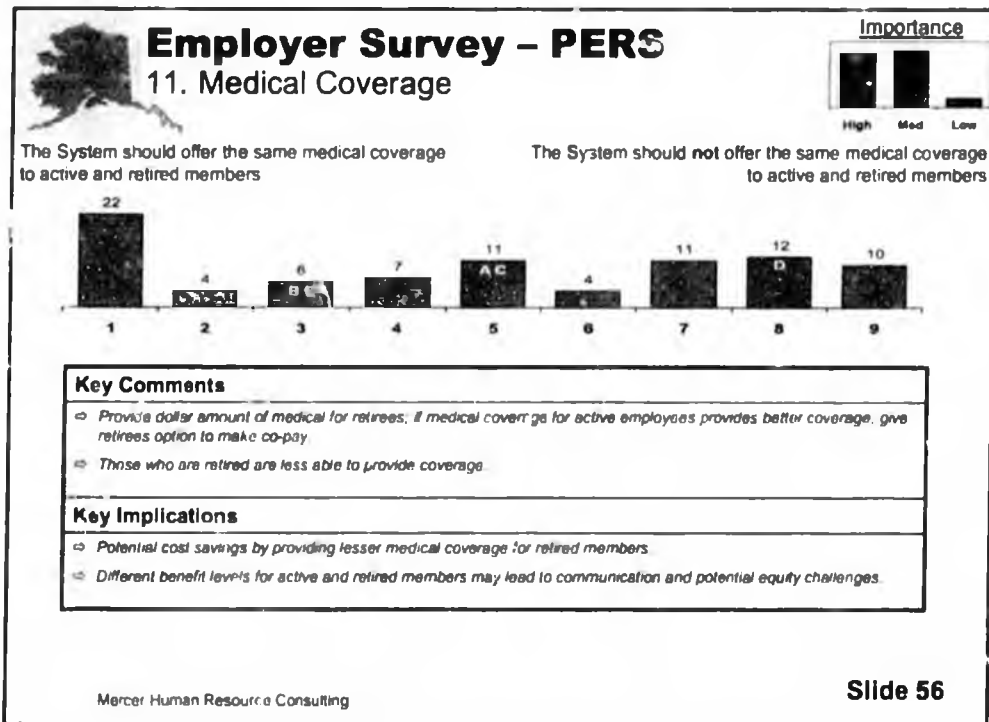
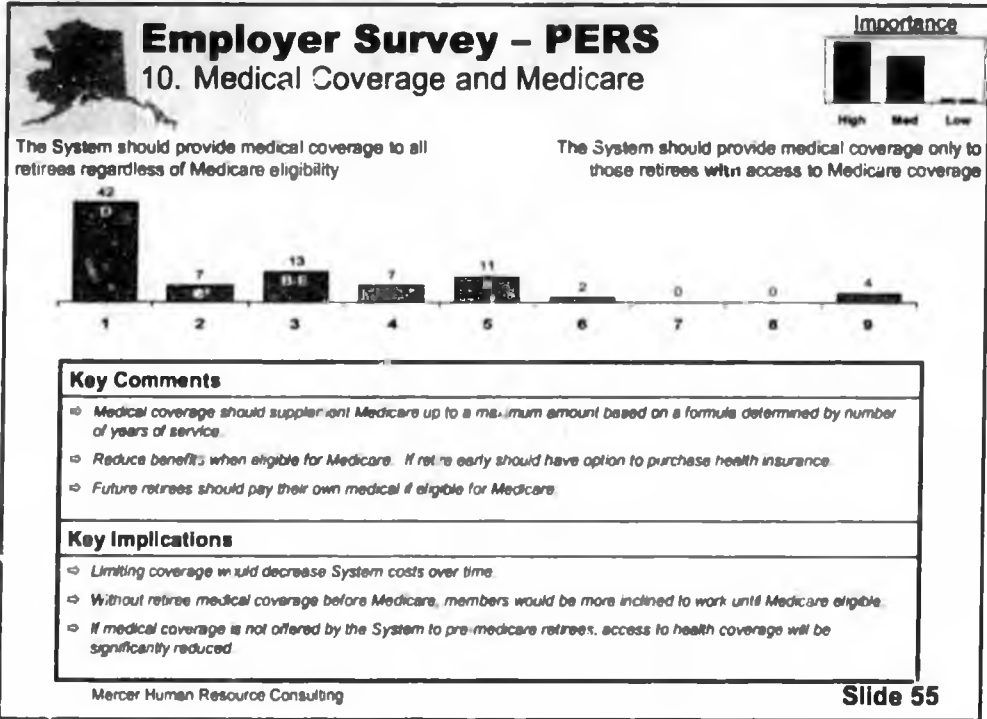
Key Implications

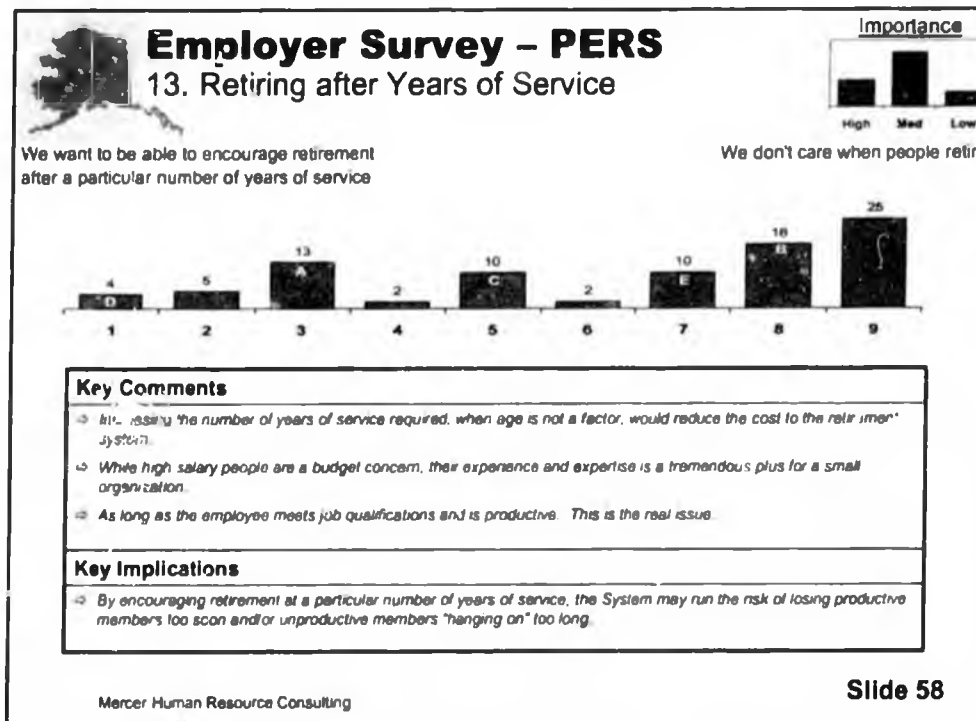
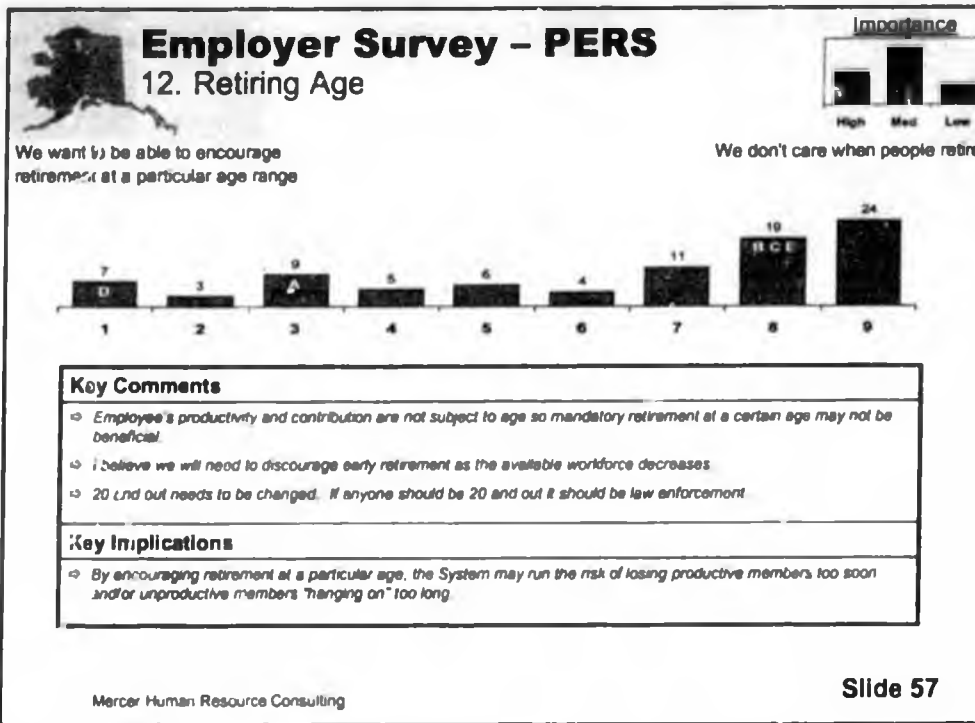
- ⇒ Elimination of medical coverage would lower System costs significantly over time.
- ⇒ Eliminating medical coverage would drastically change current design and hinder attraction and retention of employees as well as possibly providing insufficient overall retirement benefits to meet retirees' needs.

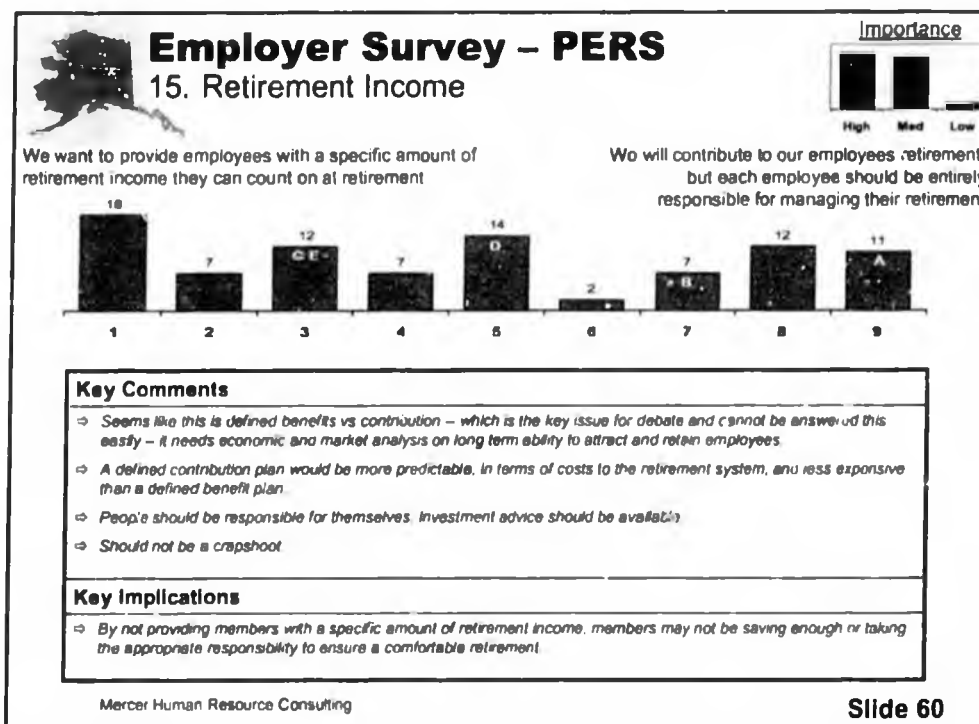
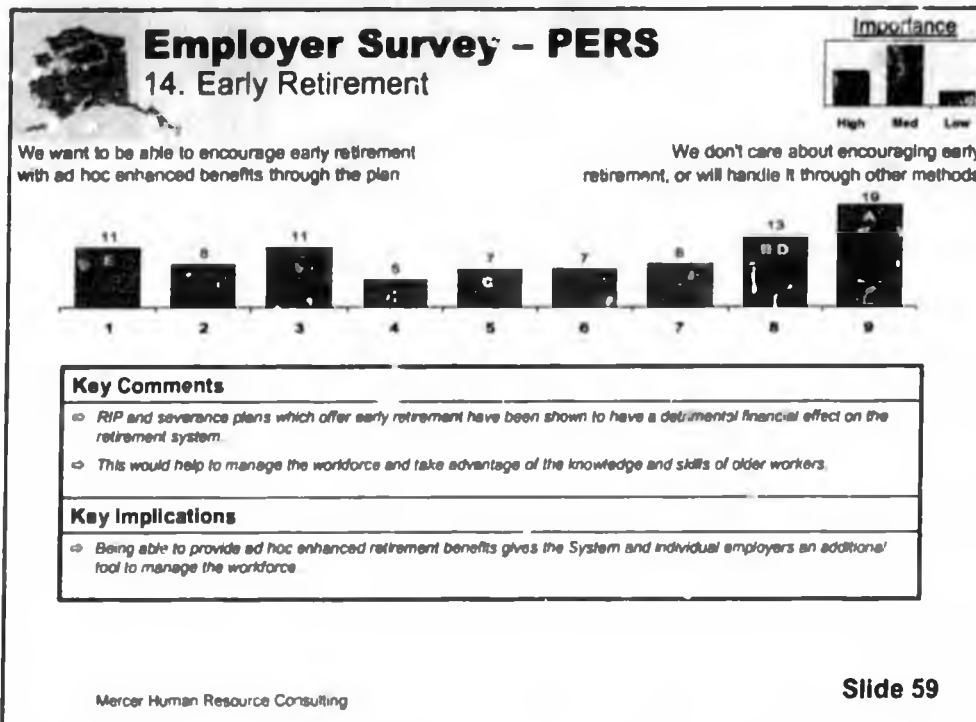
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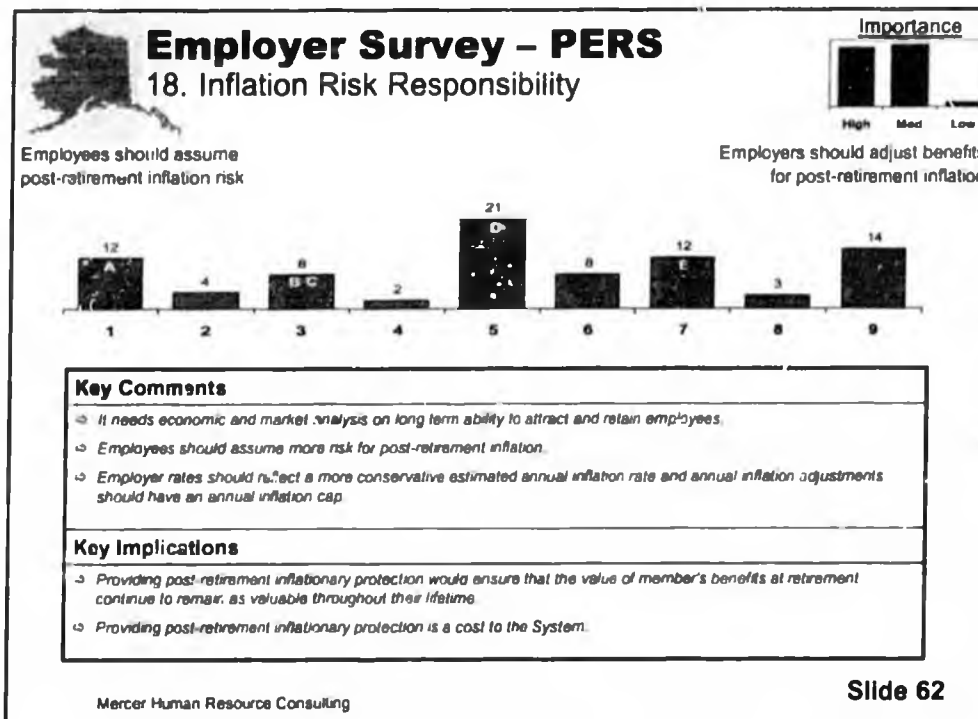
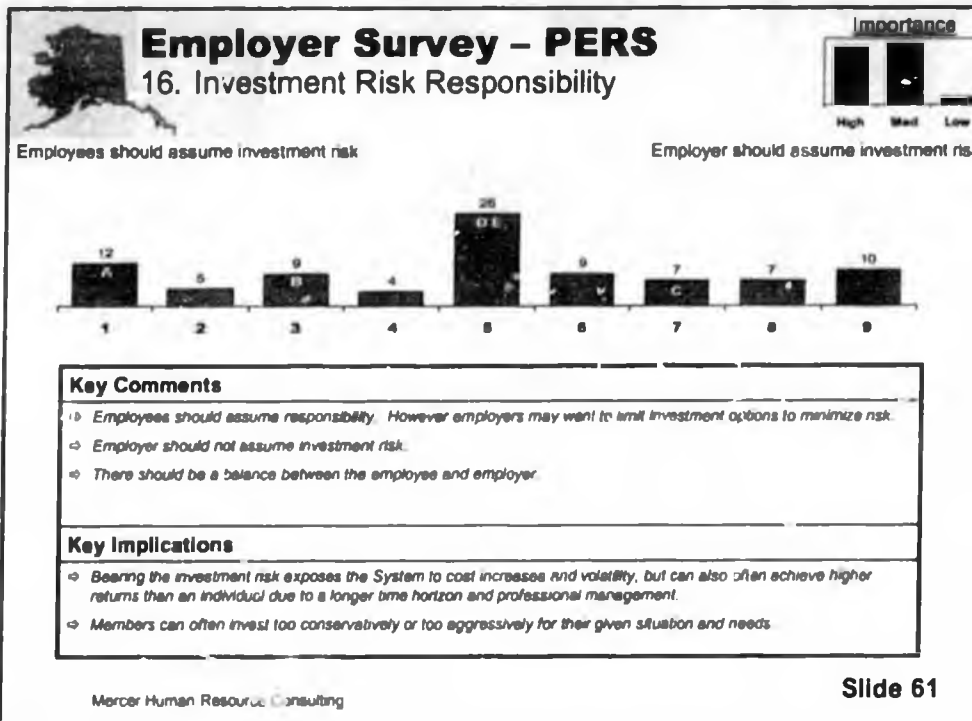
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Employer Survey – PERS

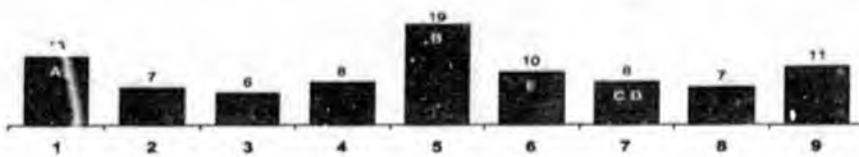
19. Longevity Risk Responsibility

Importance



Employees should assume longevity risk

Employers should assume longevity risk



Key Comments

- ⇒ Employers can no longer afford to assume all future cost increases.
- ⇒ Why should an Alaska employer become the lifetime guarantor (and lifetime risk taker) for all employees?
- ⇒ Employers can assume this risk better.
- ⇒ It should be the employees obligation to assume some risk.

Key Implications

- ⇒ Providing longevity protection is a cost to the System.
- ⇒ By assuming the longevity risk, the System could predict and manage it more accurately for the entire group than any employee could do individually.

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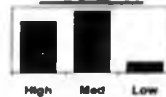
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Employer Survey – PERS

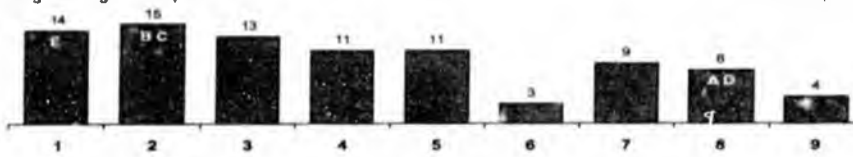
20. Savings

Importance



The retirement program should heavily encourage savings in the plan

The program should permit but not push savings



Key Comments

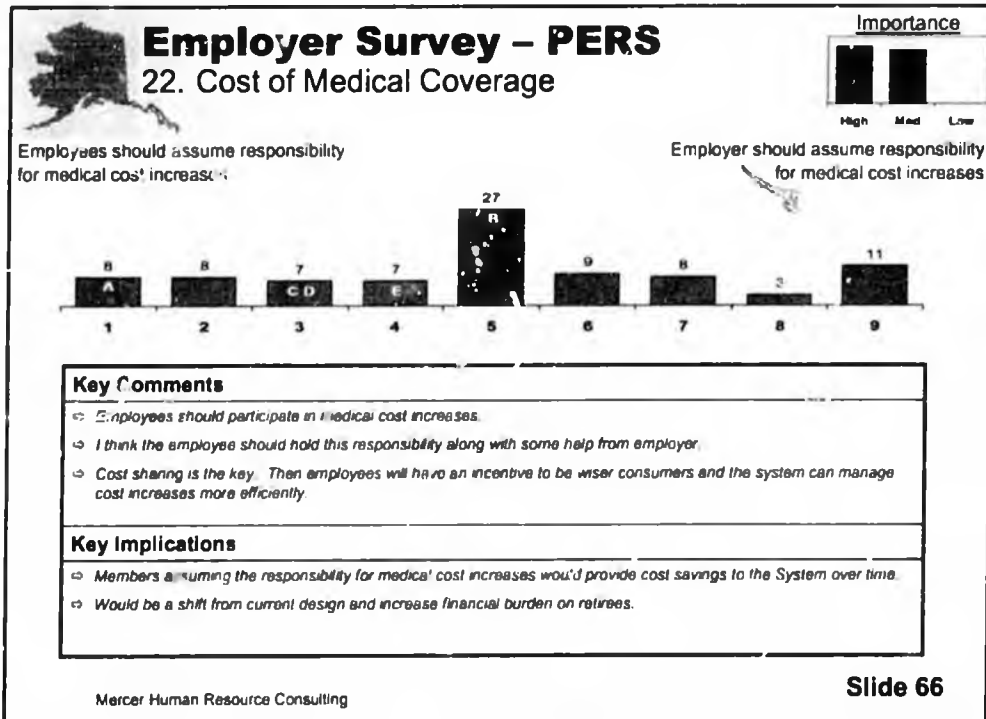
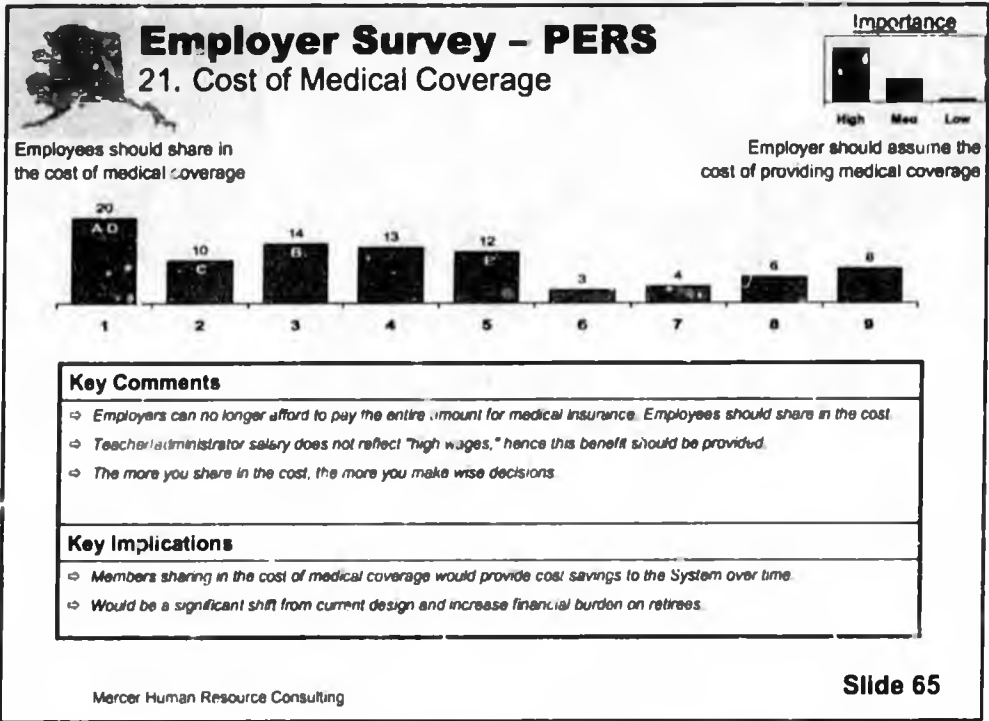
- ⇒ There are lots of other options - 401(K)'s, IRA's and 457 plans. But at least one should be heavily pushed to employee.
- ⇒ Employees need to assume more responsibility for their retirement! Programs should be structured to educate and encourage employees to save for retirement.
- ⇒ Employees should be allowed to contribute and enhance their retirement security.

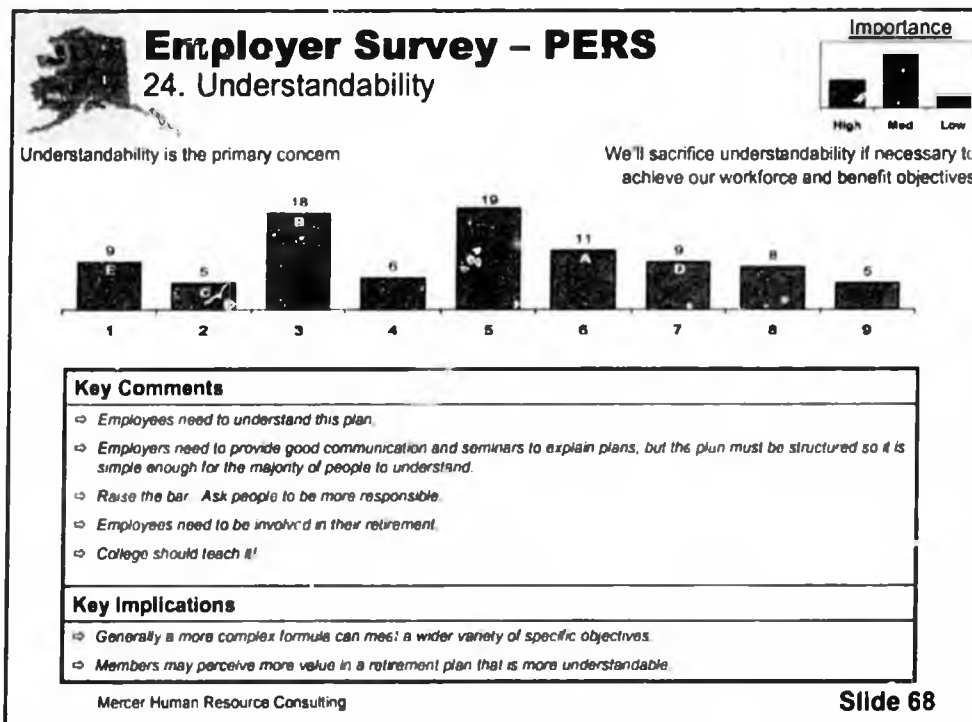
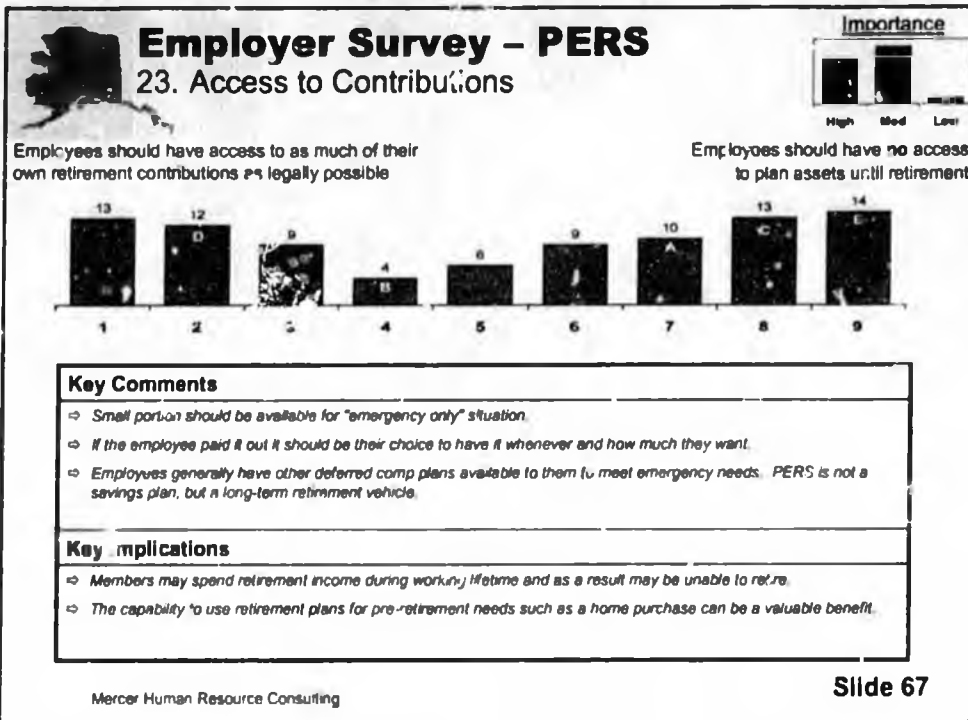
Key Implications

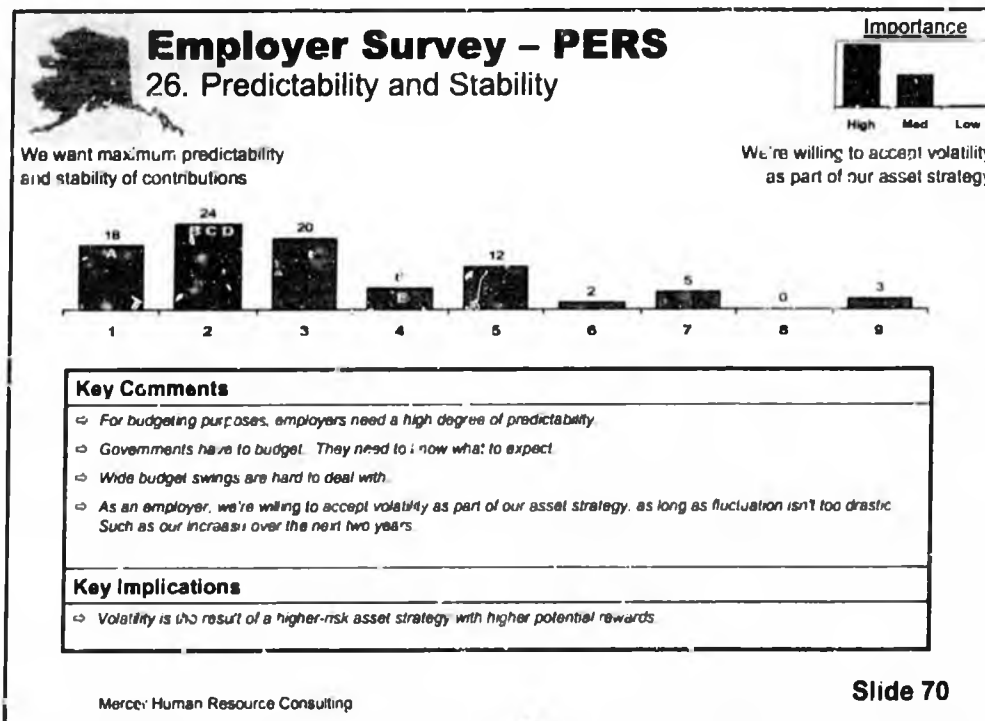
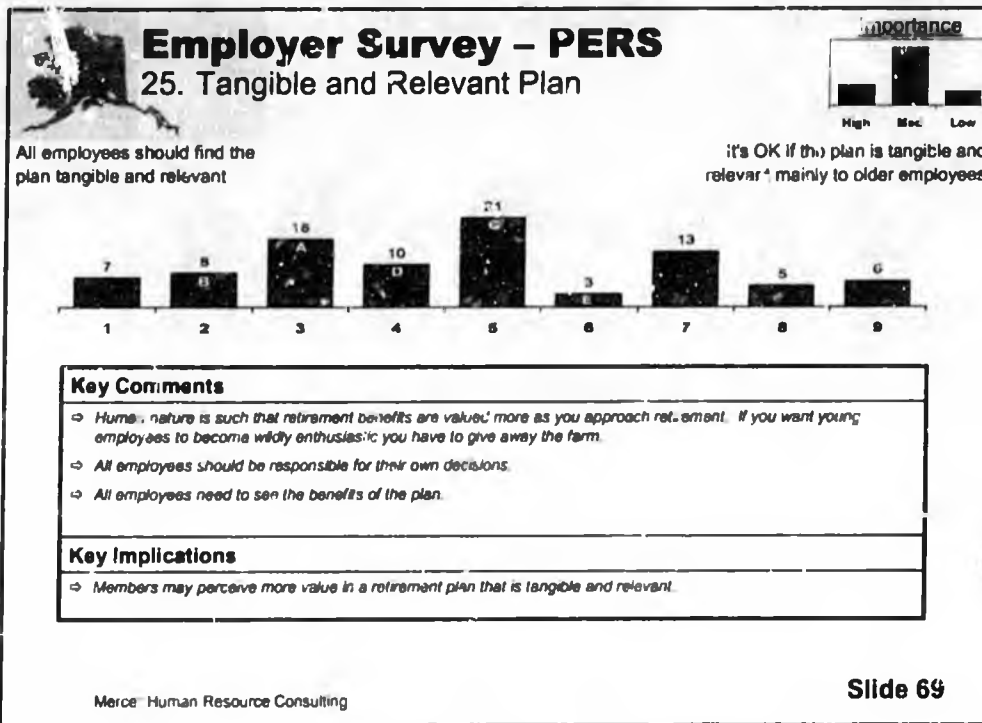
- ⇒ Without strongly encouraging members to contribute to their retirement, many will not have adequate funds to retire comfortably.

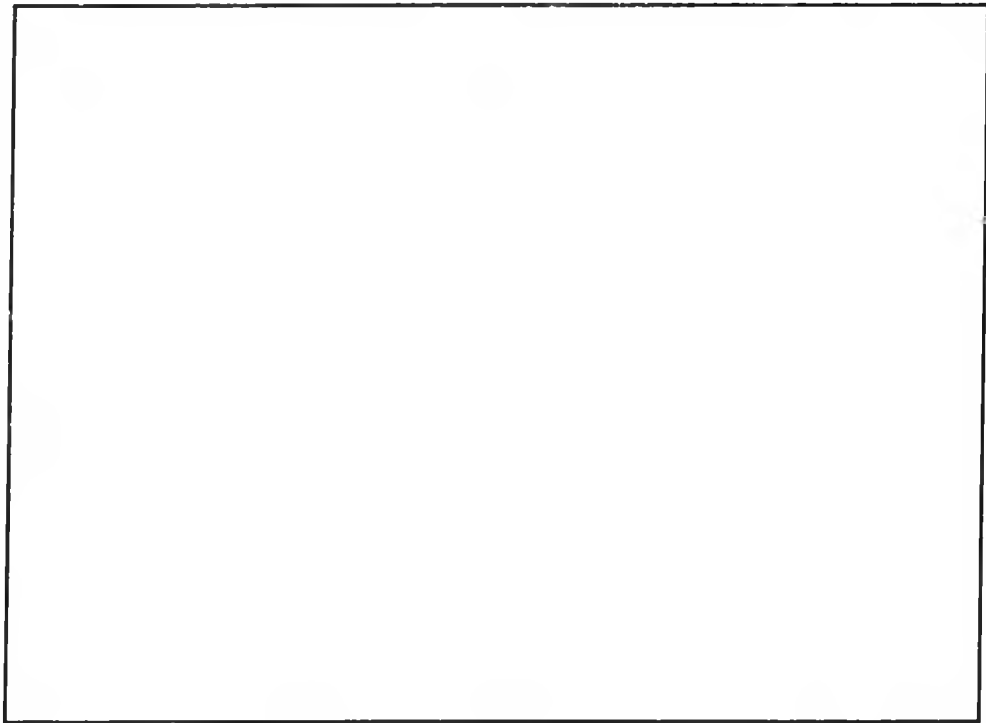
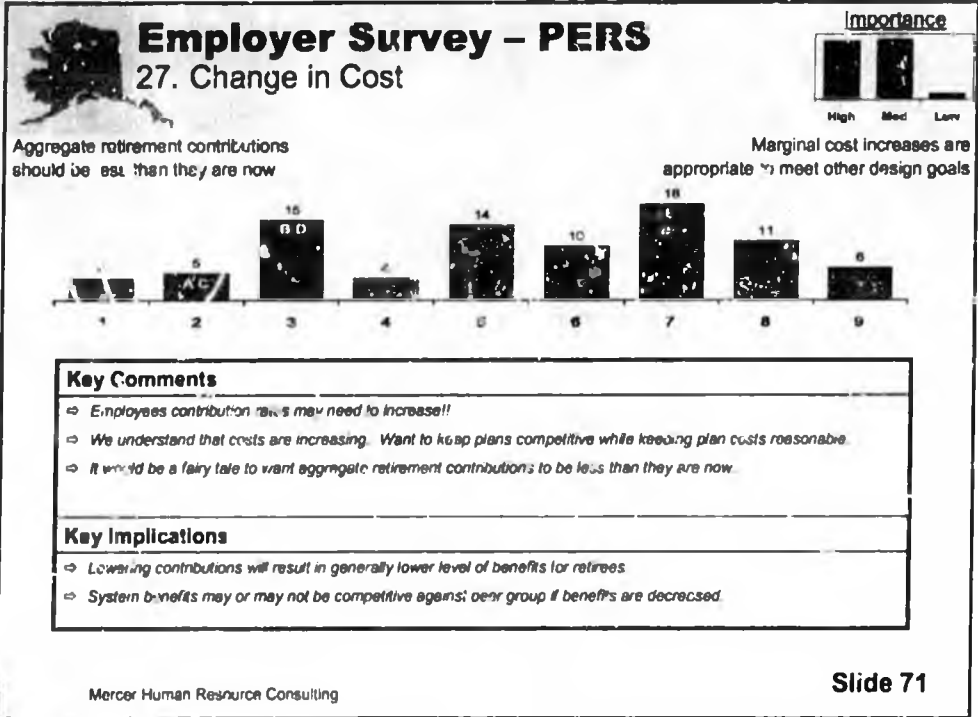
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Employer Survey - TRS

Key

The following pages illustrate the responses to the employer survey sent to all TRS employers. In total, 36 employers responded. TRS represents employers of various sizes. As a way to show the five largest employers' responses (of those who responded), we have included the letters A - E on the charts to represent how they answered. The employers have been assigned the following letters:

<u>Employer</u>	<u># Active Employees</u>	<u>Code Letter</u>
Anchorage SD	3,464	A
Fairbanks North Star Borough SD	988	B
Matanuska-Susitna Borough SD	936	C
Kenai Peninsula Borough SD	723	D
Juneau Bureau SD	372	E

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Employer Survey - TRS

1. Long-Service Employees

Importance



Plan should favor long-service employees

Plan should not distinguish on account of length of service



Key Comments

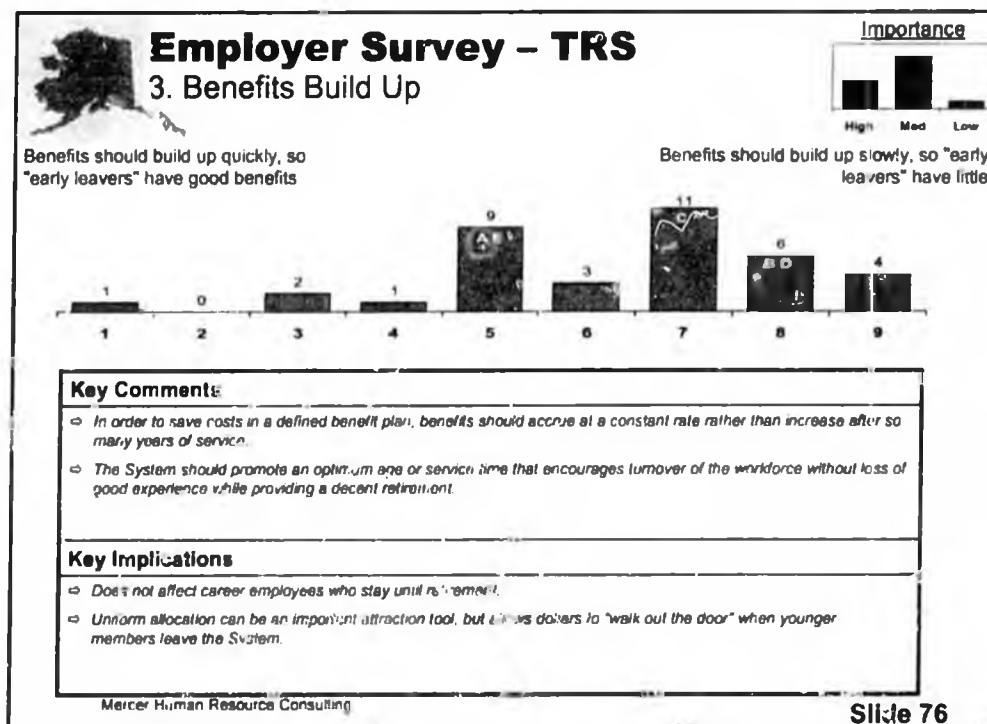
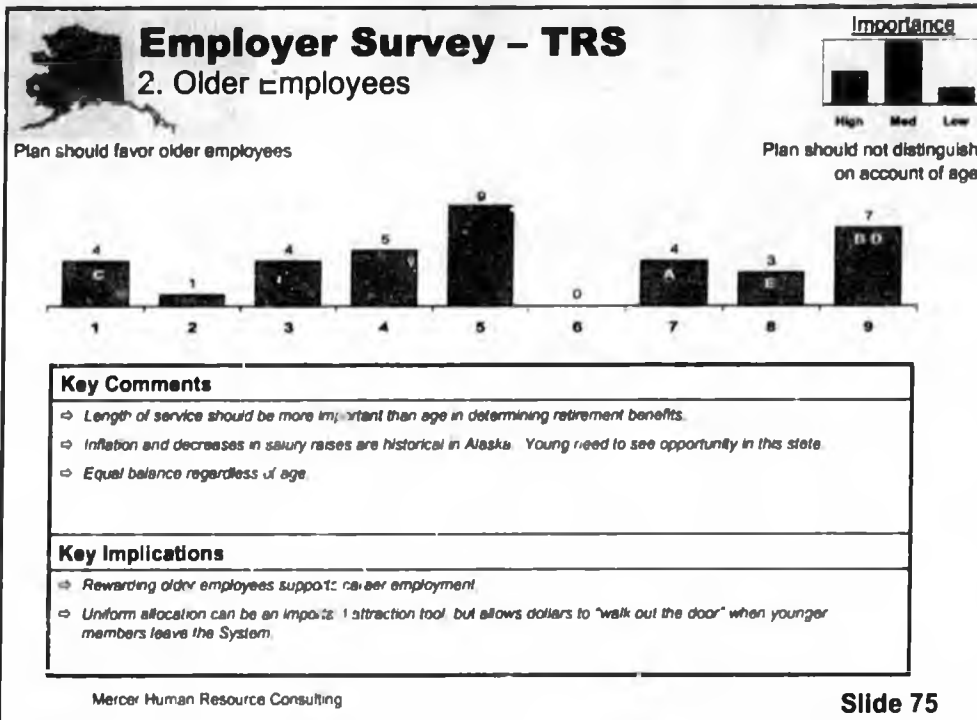
- ⇒ Incentives to reduce teacher turnover always help.
- ⇒ Anything that keeps employees, saves time in recruitment, hiring, and training.
- ⇒ Retaining quality employees is far more important. Employees for hire consider immediate compensation, not retirement. Veteran employees deserve rewards.

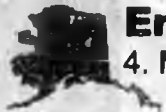
Key Implications

- ⇒ Rewarding long-service employees supports career employment.
- ⇒ Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when short-service employees leave the System.

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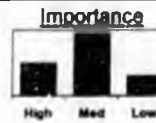




Employer Survey - TRS

4. Mid-career Hires

Mid-career hires should accrue excellent benefits



It's OK for mid-career hires to accrue smaller benefits



Key Comments

- ⇒ This offers the chance to attract employees with experience
- ⇒ Teachers/administrators need an infusion of mid-career change people. We need their experiences and insight in educating our kids. We need to not penalize them in retirement planning
- ⇒ Mid-career employees probably have other benefits.

Key Implications

- ⇒ Sufficient benefits for mid-career hires can be an important tool in order to attract experienced talent.
- ⇒ Providing higher benefits equals higher cost
- ⇒ Mid-career hires may be sacrificing good efforts to switch employers.

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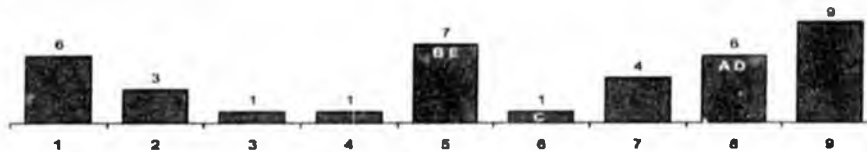
Employer Survey - TRS

5. Remaining in Alaska

The System should **not** reward retirees who remain in Alaska



The System should reward retirees who remain in Alaska



Key Comments

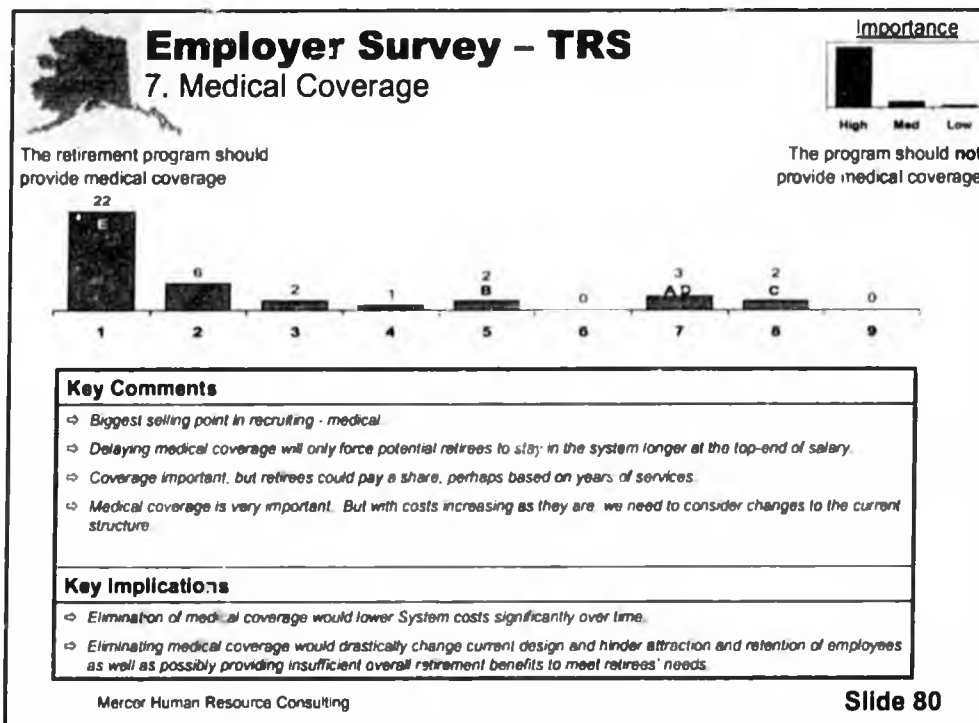
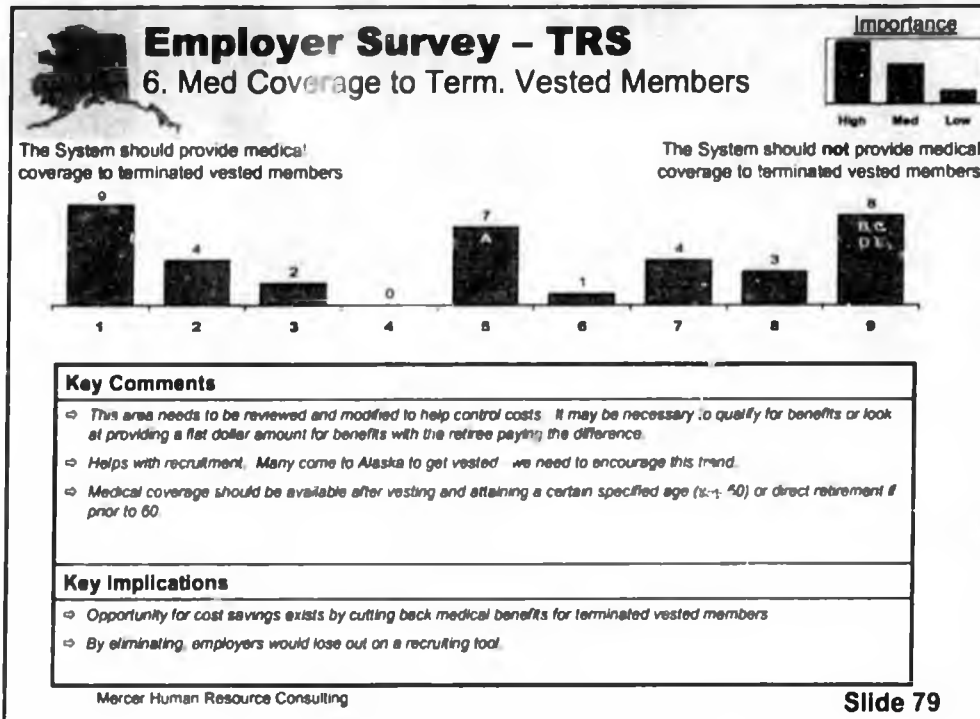
- ⇒ Retirees should be encouraged to stay in Alaska.
- ⇒ When people have given and earned their retirement, let them live where they choose without penalty
- ⇒ Alaska needs to promote lifelong state citizenship.
- ⇒ Spend money where they want. The employee has earned it

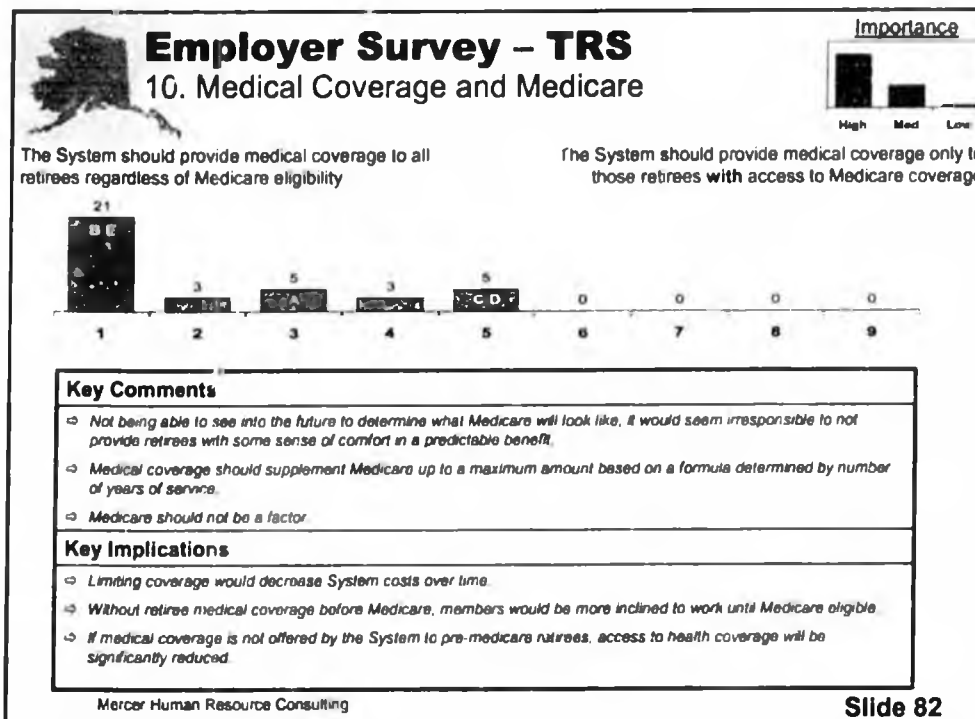
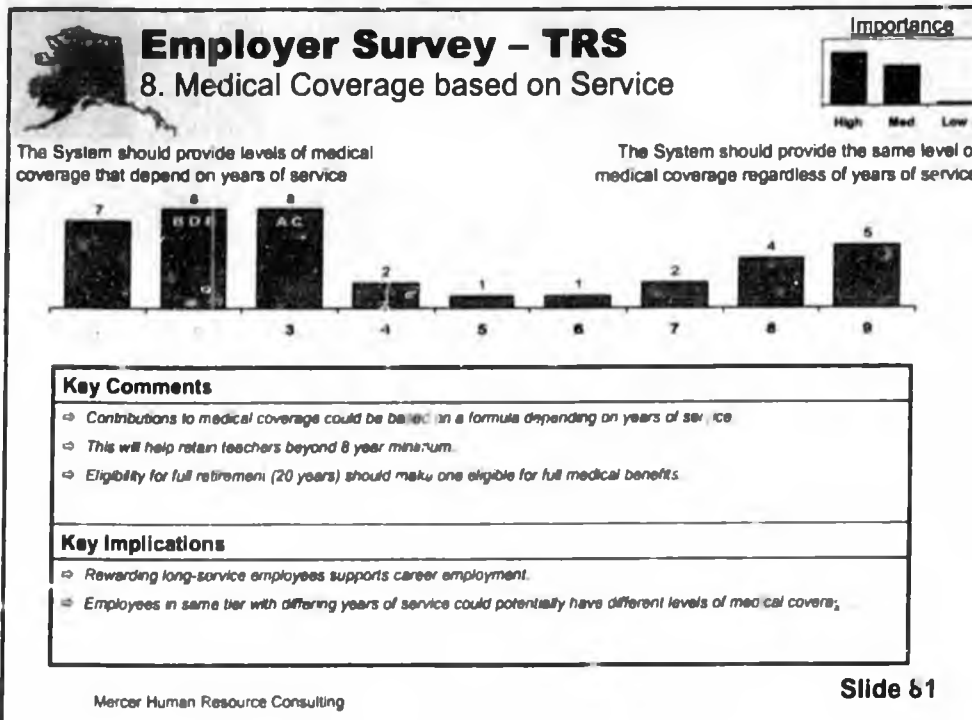
Key Implications

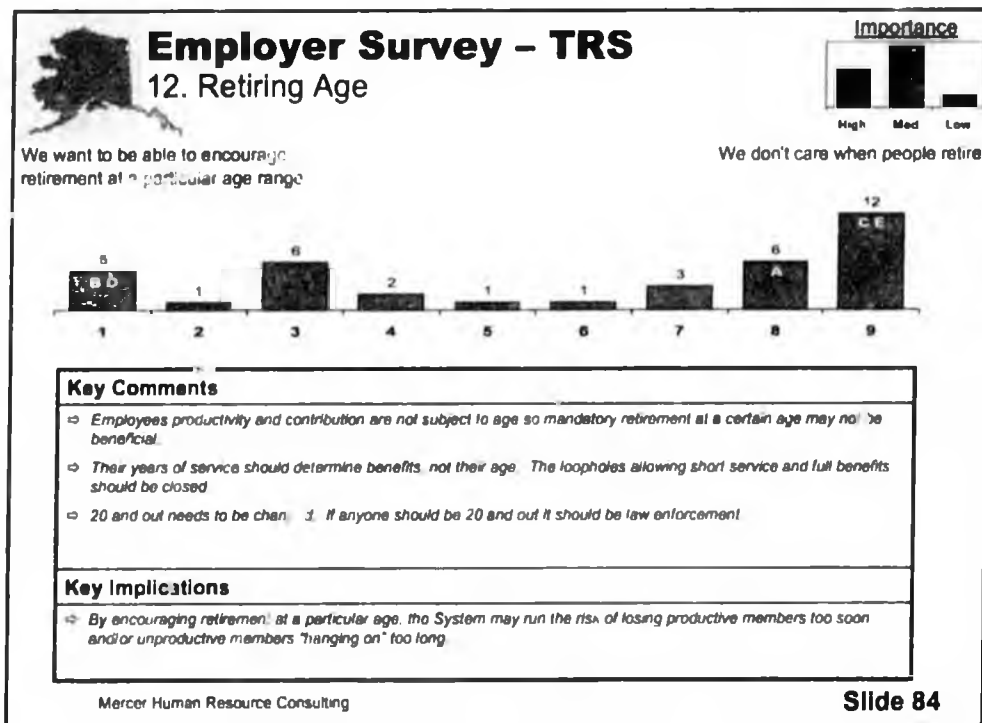
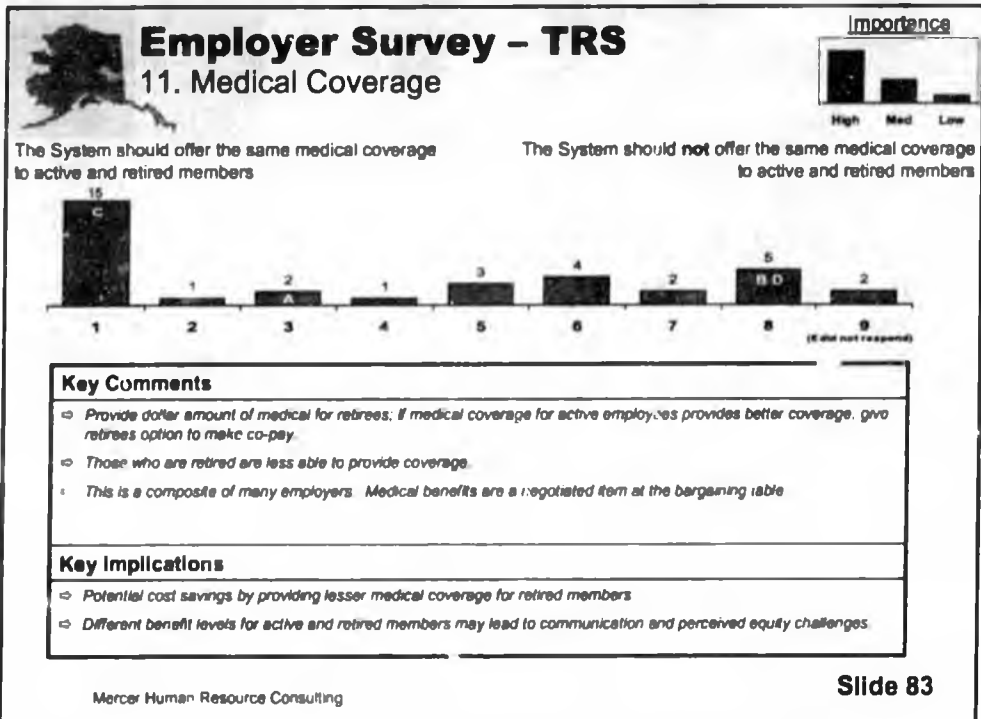
- ⇒ Providing COLA results in higher System costs, but Alaskan economy benefits from additional dollars spent by those who remain in Alaska.
- ⇒ COLA for residents promotes lifelong residency.

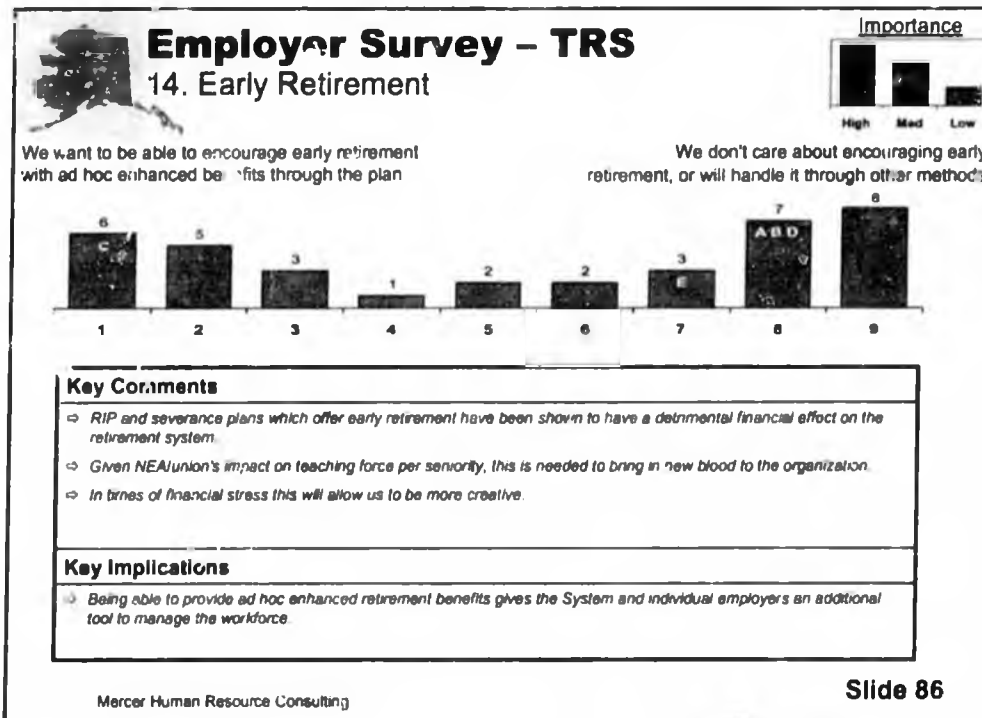
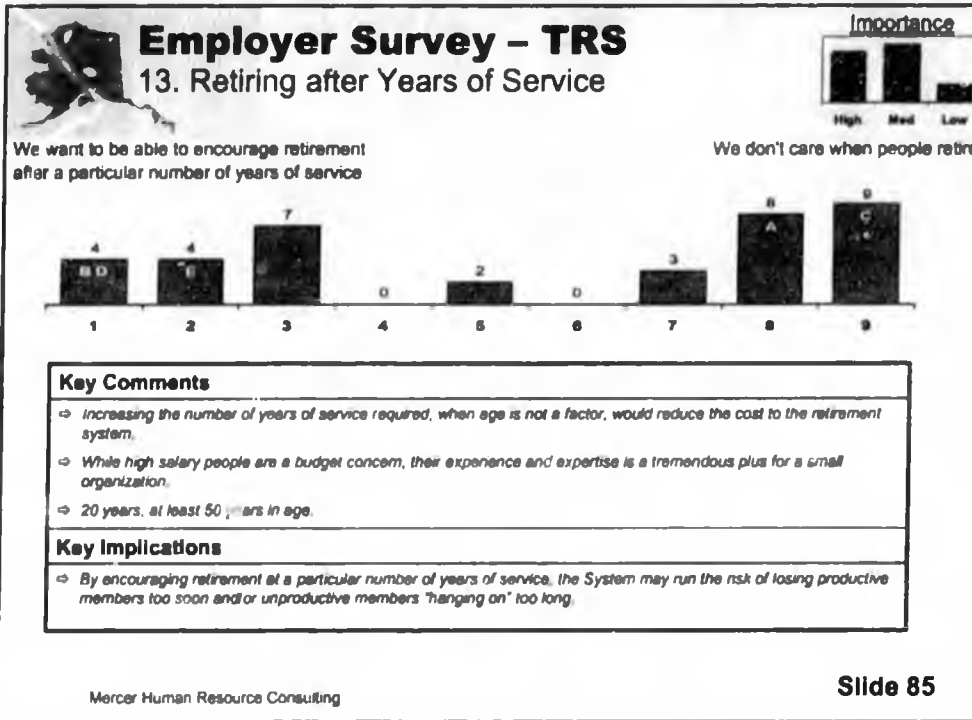
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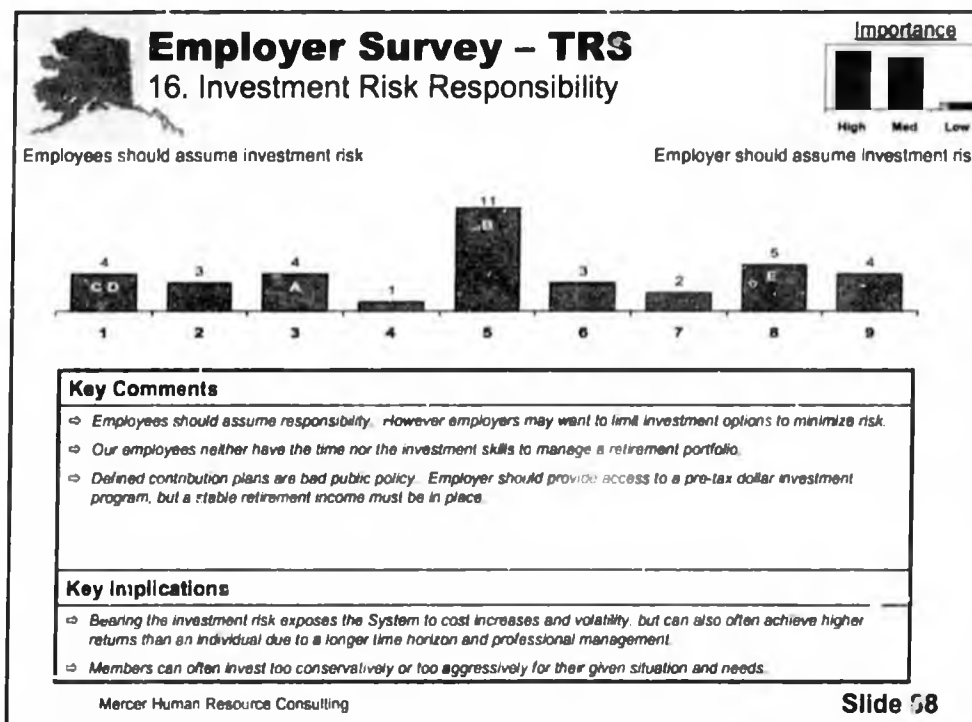
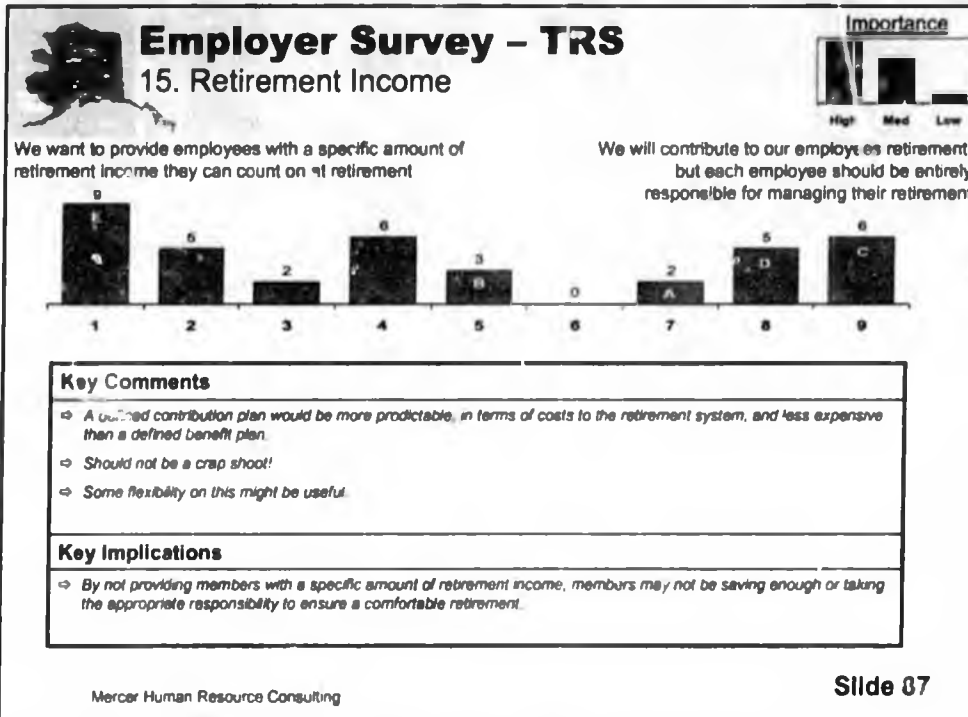
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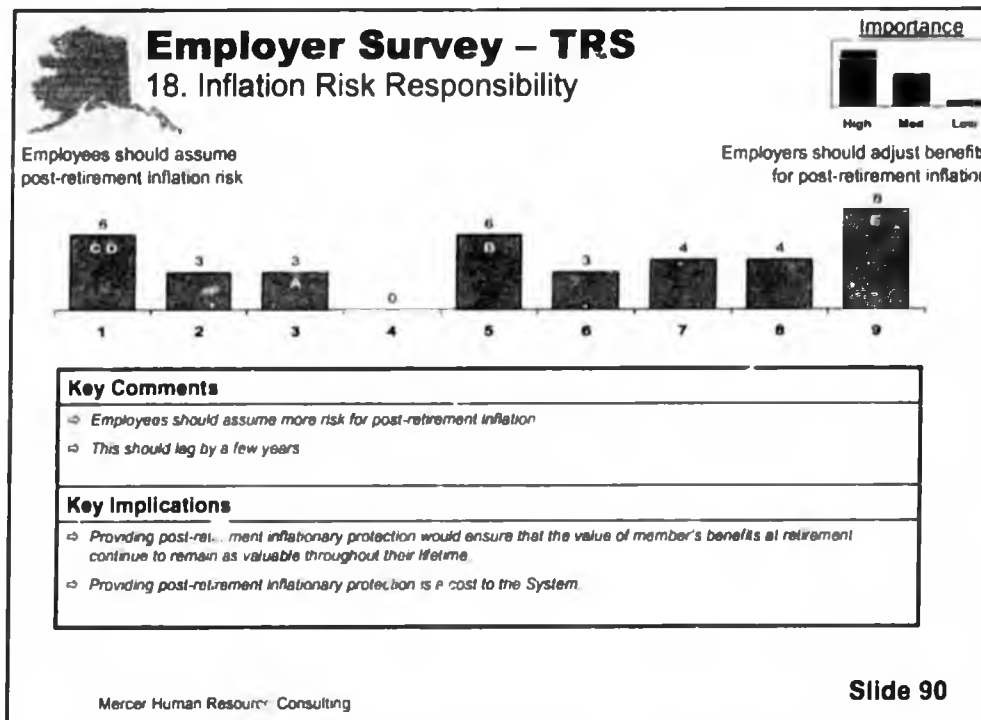
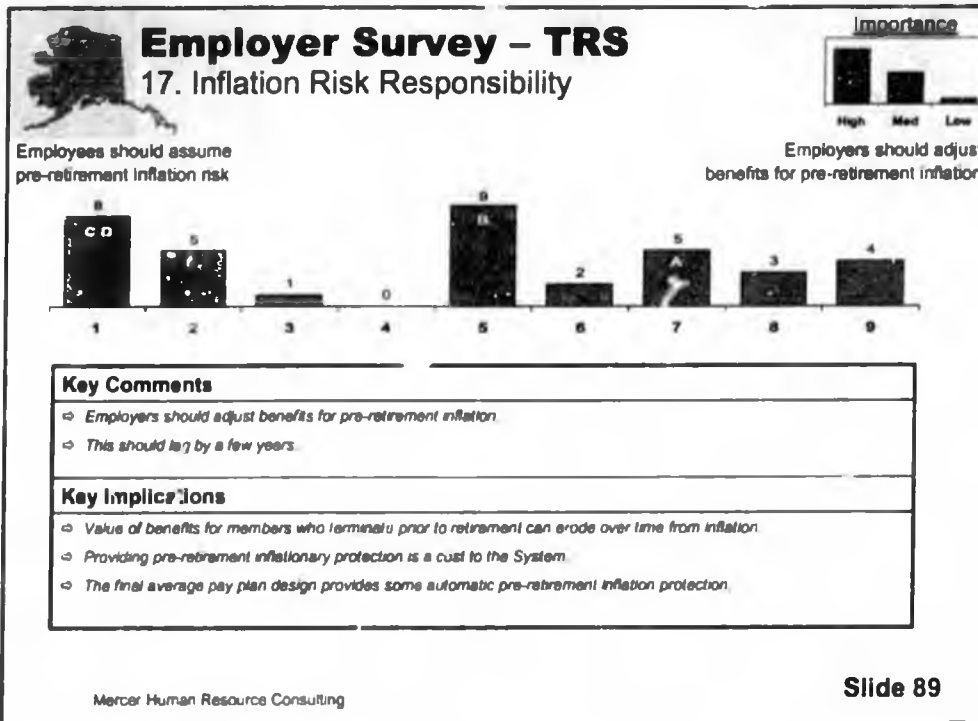


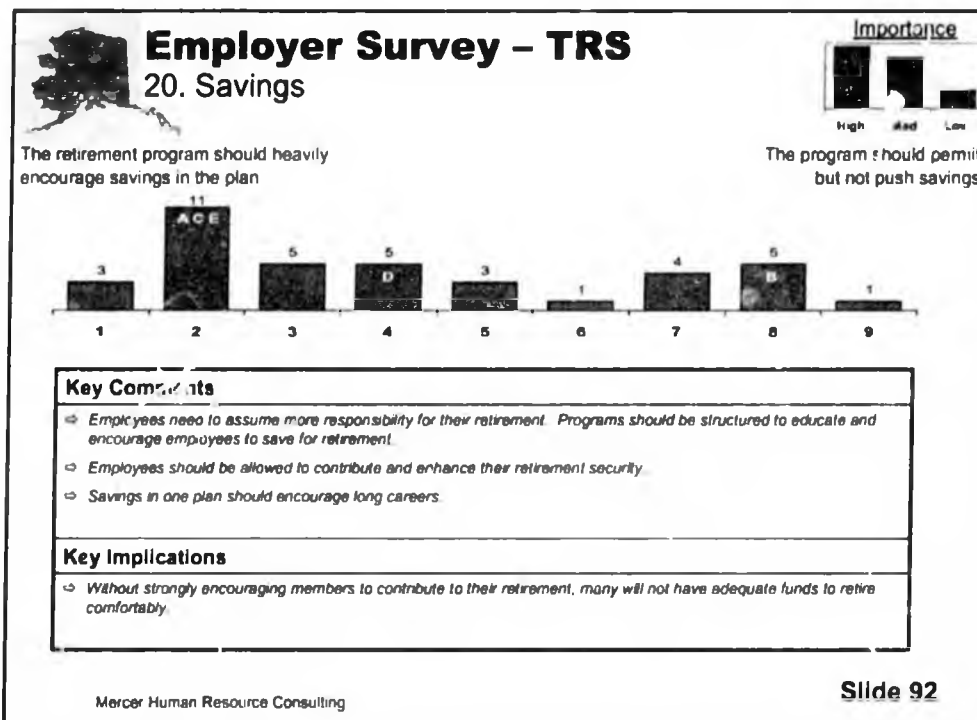
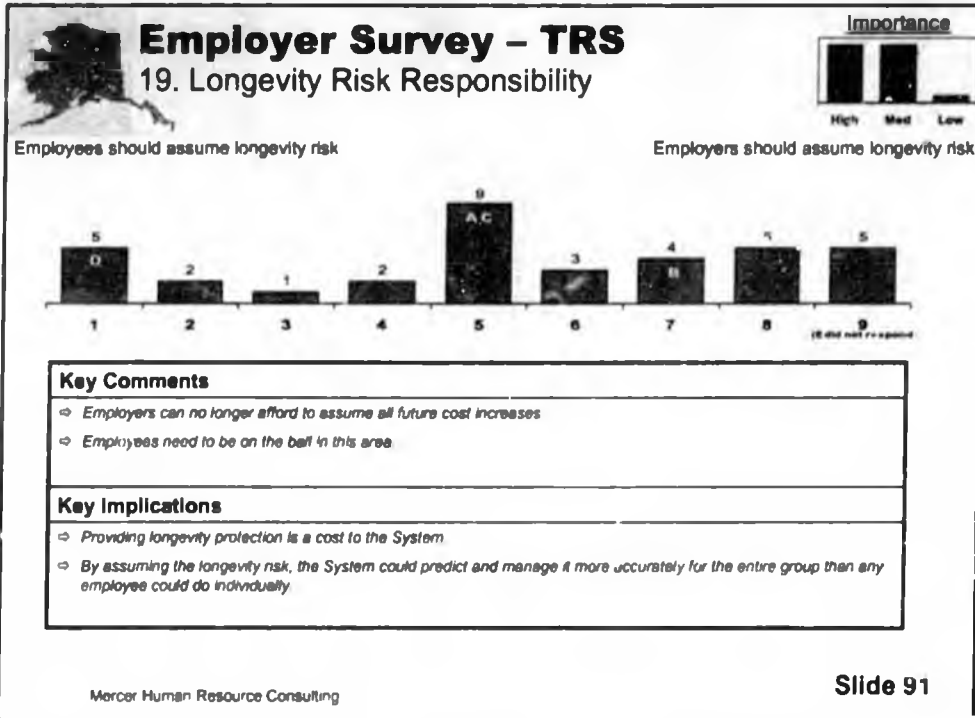














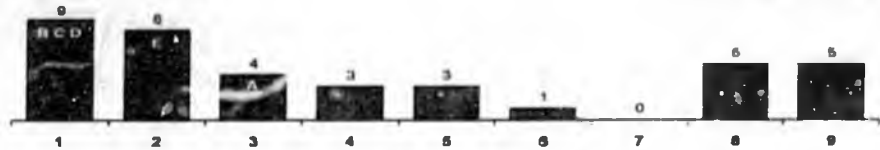
Employer Survey - TRS

21. Cost of Medical Coverage



Employees should share in the cost of medical coverage

Employer should assume the cost of providing medical coverage



Key Comments

- ⇒ Employers can no longer afford to pay the entire amount for medical insurance. Employees should share in the cost.
- ⇒ Teacher/administrator salary does not reflect "high wages," hence this benefit should be provided.
- ⇒ Employees share in the cost of medical coverage and retirement benefits through their active career contributions. They also contribute via co-pays, deductibles and Medicare Part B premiums.

Key Implications

- ⇒ Members sharing in the cost of medical coverage would provide cost savings to the System over time.
- ⇒ Would be a significant shift from current design and increase financial burden on retirees.

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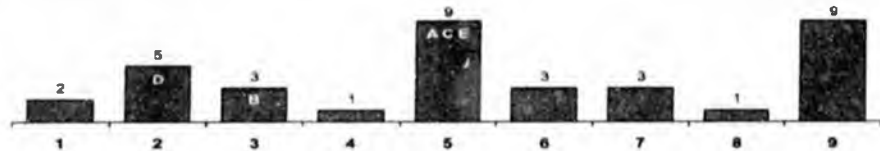
Employer Survey - TRS

22. Cost of Medical Coverage



Employees should assume responsibility for medical cost increases

Employer should assume responsibility for medical cost increases



Key Comments

- ⇒ The retirement system should be responsible for the management of the medical coverage while the retiree should be responsible for cost increases.
- ⇒ Both should assume cost responsibilities. It's not either or.

Key Implications

- ⇒ Members assuming the responsibility for medical cost increases would provide cost savings to the System over time.
- ⇒ Would be a shift from current design and increase financial burden on retirees.

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Employer Survey - TRS

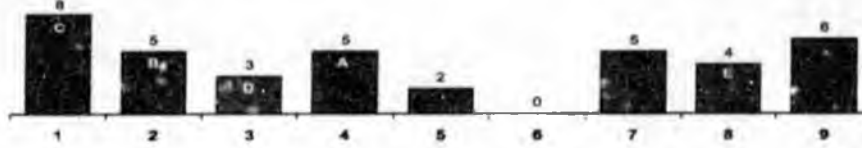
23. Access to Contributions

Importance



Employees should have access to as much of their own retirement contributions as legally possible

Employees should have no access to plan assets until retirement



Key Comments

- ⇒ Small portion should be available for "emergency only" situation
- ⇒ Access should certainly be very limited.
- ⇒ Only with benefit of understanding the consequences.

Key Implications

- ⇒ Members may spend retirement income during working lifetime and as a result may be unable to retire.
- ⇒ The capability to use retirement plans for pre-retirement needs such as a home purchase can be a valuable benefit.

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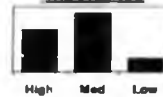
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Employer Survey - TRS

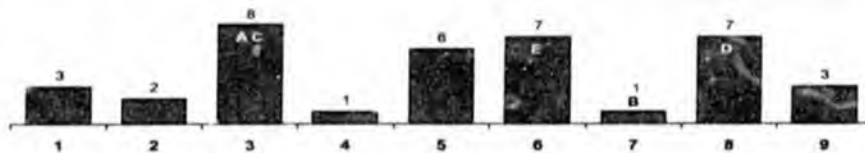
24. Understandability

Importance



Understandability is the primary concern

We'll sacrifice understandability if necessary to achieve our workforce and benefit objectives



Key Comments

- ⇒ Employers need to provide good communication and seminars to explain plans, but the plan must be structured so it is simple enough for the majority of people to understand.
- ⇒ Let individuals who want complexity and flexibility do so on their own apart from this.
- ⇒ It is their responsibility to understand it
- ⇒ College should teach it!

Key Implications

- ⇒ Generally a more complex formula can meet a wider variety of specific objectives.
- ⇒ Members may perceive more value in a retirement plan that is more understandable.

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