

**SB**

**141**

**FILE 1**

Solvency of system

Management for efficiency  
and accuracy

Employer contribution  
stability + affordability

Employer ability to  
recruit + retain employees  
Prime reason for benefit behavior

Reason: Health,  
Safety, Employment,  
Quality of Life,  
Productivity

50.171  
Note: The following conceptual amendments proposed to the attached amendments from legal

**Amendment Number 1. Changes to contribution rates. → failed**

The employee contribution rate in SB 141 is currently 8%. Amendment number 1 increases the employee contribution rate for TRS from 8% to 11%, and for PERS, from 8% to 10%. The employer contribution rate going to a member's Defined Contribution account in SB 141 is 4.5% for both PERS and TRS. Amendment number 1 increases this to 5.25% for TRS and it remains the same for PERS.

**TRS**

- p.15 line 18. Delete "eight" and insert "eleven".
- p.16. line 8. Delete "4.5", and insert "5.25"

**PERS**

- p.81 line 17. Delete "eight" and insert "ten".

**Amendment Number 2. Changes to vesting schedule. → failed**

In SB 141 a member vests fully in their Defined Contribution account after 5 years on a graduated scale incrementing 25% each year with 0% for the first year. Amendment number 2 changes the vesting schedule so that a member is fully vested after three years. The member vests in 50% of the employer contribution after 1 full year of service, 75% after two years and the full amount after 3 years.

**TRS**

- p. 18. line 12. Delete "five" insert "three" delete lines 15-17 insert;
  - (1) 50% with one year of service
  - (2) 75% with two years of service
  - (3) 100% with three years of service

**PERS**

- p.81 line 10 delete "five", insert "three" delete lines 13-15, insert;
  - (1) 50% with one year of service
  - (2) 75% with two years of service
  - (3) 100% with three years of service

**Amendment Number 3. Changes to investment options. → Not offered**

In SB 141 a member is given a series of eleven different investment options with varying degrees of risk. Amendment number 3 requires a member's account to be deposited in one account managed by the ARM board.

- p. 18. Delete lines 18-31. Insert language to require only one investment option managed by the ARM board.

**Amendment number 4.** Changes to medical plan. → *Adopted*

To become eligible for medical coverage under SB 141 you must be Medicare eligible with at least 10 years of service, or of any age with 25 years of service for police/fire and 30 for all others. If you terminate employment before Medicare eligible age but have fulfilled the minimum service requirement, you will receive access-only to the medical plan but will be required to pay the full premium. At Medicare eligible age the member receives a percentage subsidy of the premium based on the years of service ranging from 70% for 10 years of service to 90% for 30+ years of service. Retirees and their dependents are eligible, however, a different premium will be established for a single member from that of a member with dependents.

Amendment number 4 substitutes the language from HB 238 regarding the medical plan discussed extensively in committee, which provides medical coverage for members 60 months pre-Medicare eligible age.

Delete p. 26 line 3 to page 28 line 1, and p. 28 lines 12-19. Insert medical language provided and amended as necessary for drafting purposes. Corresponding medical language for PERS is found on p.92 line 20 through p.93 line 27.

Minor changes will have to be made throughout the bill to make SB 141 congruent with the inserted language from HB 238

**Amendment number 5.** Changes to the Alaska Retirement Management Board. → *Adopted*  
*changed by Amendment # 6, # 16*

SB 141 consolidates the PERS, TRS and ASPIB boards and creates a 9-member board with full fiduciary responsibility of the fund. Two of the 9 members must be active or retired PERS or TRS employees. All members are appointed by the governor. Amendment number 5 requires that nominees for PERS and TRS representatives be chosen from a list of no less than 3, and no more than 5 candidates put forth by the appropriate bargaining units. In SB 141, term lengths are 3 years, and limits members to 3 terms. Amendment number 5 changes the term lengths to 6 years, and limits members to a total of 2 terms. Amendment number 5 also ensures that the terms for the 2 finance officers and the two system representatives are staggered by 3 years.

p. 46 line 30. After "system;" insert, "The member shall be selected from no less than three and no more than five nominees put forward by the appropriate bargaining units."

p.46 line 31. After "system." Insert "The member shall be selected from no less than three and no more than five nominees put forward by the appropriate bargaining units."

p. 47 line 2. After "terms of" delete "three" and insert "six". After "total of" delete "three" and insert "two". Line 4. insert "full" between "consecutive" and "terms".

p. 105 line 26. After "AS 39.05.055(7)." Insert, "Upon establishment of the board one finance officer will be appointed to a three year term and one finance officer will be appointed to a six year term, one PERS/TRS member representative will be appointed to a three year term and the other PERS/TRS member representative will be appointed to a six year term."

**Amendment number 7.** Changes to Health Reimbursement Arrangement (HRA). → *Rollled into #4 as adopted*

In SB 141 if an individual terminates employment before reaching the 10-year requirement for medical eligibility and does not come back to work within 5 years, they forfeit the accumulated balance of their HRA. If the member leaves employment and comes back within the 5 years, their HRA is reinstated at the account balance when they terminated employment. Amendment number 6 reinstates a member's account with accumulated interest regardless of the number of years that have elapsed between employment periods. It also

allows a member to vest in their HRA after 10 years of service without retiring directly from the system. However, the member cannot access their HRA until they reach the age 60 months prior to becoming Medicare eligible, or have 30 years of service.

p. 58 line 16. Delete "AS 14.25.470" insert "(b) of this section". Delete p. 58 line 16 starting at "or" through line 21 ending at "adjustment". Insert "If a person resumes employment the balance of their account is restored plus any accumulated interest."

Insert line 22, (b) A member has access to their Health Reimbursement Arrangement after 10 years of service, whether or not they retire directly from the system. However, the member is not allowed to draw from that account until they reach the age 60 months pre-Medicare eligible, or any age with 30 years of service as defined in AS 14.25.470.

\*Note: all changes in the TRS section should be reflected in the subsequent PERS section.

AMENDMENT #1 → failed

OFFERED IN THE HOUSE  
TO: CSSB 141(FIN)

BY REPRESENTATIVE SEATON

- 1 Page 15, line 18:
- 2 Delete "eight"
- 3 Insert "11"
- 4
- 5 Page 16, line 8:
- 6 Delete "4.5"
- 7 Insert "5.25"
- 8
- 9 Page 81, line 17:
- 10 Delete "eight"
- 11 Insert "ten"

AMENDMENT <sup>#2</sup> → failed

OFFERED IN THE HOUSE  
TO: CSSB 141(FIN)

BY REPRESENTATIVE SEATON

1 Page 18, line 12:

2 Delete "five"

3 Insert "three"

4

5 Page 18, lines 15 - 17:

6 Delete all material and insert:

7 "(1) 50 percent with one year of service; and

8 (2) 75 percent with two years of service."

AMENDMENT #3 - Not offered

OFFERED IN THE HOUSE  
TO: CSSB 141(FIN)

BY REPRESENTATIVE SEATON

- 1 Page 18, line 18, through page 19, line 11:  
2 Delete all material.  
3  
4 Page 48, lines 10 - 17:  
5 Delete all material and insert:  
6 "(A) AS 39.30.150 - 39.30.180 (State of Alaska Supplementary  
7 Annuity Plan); and  
8 (B) AS 39.45.010 - 39.45.060 (public employees' deferred  
9 compensation program);"  
10  
11 Page 84, line 16, through page 85, line 9:  
12 Delete all material.

AMENDMENT

#4 → Passed  
Adopted

(#7 Amendment  
rolled in)

OFFERED IN THE HOUSE

BY REPRESENTATIVE SEATON

TO: CSSB 141(FIN)

1 Page 2, following line 4:

2 Insert a new bill section to read:

3 **\*\* Section 1.** The uncodified law of the State of Alaska is amended by adding a new  
4 section to read:

5 **LEGISLATIVE INTENT REGARDING RETIREE HEALTH CARE COST**  
6 **SAVINGS IN SECS. 33 AND 121.** It is the intent of the legislature for the division of  
7 retirement and benefits to implement by regulation cost-saving measures appropriate to  
8 current and future retirees in the health care system. This includes using manufacturer's  
9 rebates, co-pay levels, and multi-tiered co-payment structures; mandating the use of generic  
10 drugs; determining the type of drug classes in a formulary; dispensing fees; mandating or  
11 providing incentives for mail order pharmaceuticals; using a reduction in the average  
12 wholesale price; providing case management services for certain users of pharmaceuticals;  
13 capping the number of prescriptions filled each month; and restricting the number of refills  
14 that users can have at one time."

15

16 Page 2, line 5:

17 Delete "Section 1"

18 Insert "Sec. 2"

19

20 Renumber the following bill sections accordingly.

21

22 Page 26, line 3, through page 28, line 19:

23 Delete all material and insert:

1           **"Sec. 14.25.470. Retirement.** (a) In order to obtain medical benefits under  
2 AS 14.25.480 a member must retire directly from the plan. A member is eligible to  
3 retire from the plan if the member has been an active member for at least 12 months  
4 before application for retirement and

5                   (1) the member has at least 30 years of service; or

6                   (2) the member reaches the normal retirement age and has at least 10  
7 years of service.

8           (b) The normal retirement age is 60 months less than the age set for Medicare  
9 eligibility at the time the member retires.

10           (c) A member must apply to the administrator for appointment to retirement.  
11 Application shall be made on forms and in the manner prescribed by the administrator.

12           (d) A member who continues in the employ of the employer after reaching  
13 normal retirement age shall continue to participate in the plan and to have  
14 contributions allocated to the member's account.

15           **Sec. 14.25.480. Medical benefits.** (a) The medical benefits available to  
16 eligible persons are access to the retiree major medical plan. Access to the retiree  
17 major medical plan means that an eligible person may not be denied medical coverage  
18 except for failure to pay the required premium.

19           (b) The following persons are eligible for the retiree major medical plan  
20 provided under this section and may elect coverage under it:

21                   (1) a member with at least 30 years of service and who retires directly  
22 from the plan;

23                   (2) the surviving spouse of a member who elected coverage under (1)  
24 of this subsection;

25                   (3) a member who reaches the normal retirement age as provided in  
26 AS 14.25.470, has at least 10 years of service, and retires directly from the plan;

27                   (4) the surviving spouse of a member who elected coverage under (3)  
28 of this subsection.

29           (c) Retiree major medical plan coverage elected by an eligible member under  
30 this section covers the eligible member, the spouse of the eligible member, and the  
31 dependent children of the eligible member.

1 (d) Retiree major medical plan coverage elected by the surviving spouse of an  
2 eligible member under this section covers the surviving spouse and the dependent  
3 children of the eligible member who are dependent on the surviving spouse.

4 (e) A person other than an eligible member is not eligible for coverage if,  
5 during the time the eligible member was an active member, the person was

6 (1) not married to the member; or

7 (2) not a dependent child of the member.

8 (f) Major medical coverage takes effect on the first day of the month  
9 following the date of the election and stops when the person who elects coverage  
10 under (b) of this section dies or fails to make a required premium payment.

11 (g) The coverage for persons who are eligible for Medicare is the same as that  
12 available for persons who are not yet eligible for Medicare. The benefits payable to  
13 those Medicare eligible persons supplement any benefits provided under the Medicare  
14 program.

15 (h) The medical and optional insurance premiums owed by the person who  
16 elects coverage under (b) of this section shall be deducted from the health  
17 reimbursement arrangement. If the amount of the health reimbursement arrangement  
18 becomes insufficient to pay the premiums, the person who elects coverage under (b) of  
19 this section shall pay the premiums directly.

20 (i) The administrator shall set on an annual basis separate retiree health  
21 coverage premiums for participants who are Medicare eligible and for participants  
22 who are not yet Medicare eligible. An increase in the premium amount may not  
23 exceed five percentage points annually. A participant's share of the applicable  
24 premium shall be determined according to (j) and (k) of this section.

25 (j) Participants who have not attained normal retirement age are required to  
26 pay the full amount of the applicable medical health coverage premium.

27 (k) Participants who have attained normal retirement age are eligible for a  
28 subsidy applicable to the cost of the applicable premium. The subsidy percentage  
29 applicable to the cost of premiums payable by the participant is 30 percent if the  
30 member had 10 years of service; for each additional year of service after the member's  
31 10th year of service, the discount increases by three percentage points; however, the

1 maximum discount is 90 percent if the member has 30 or more years of service. The  
2 applicable subsidy percentage shall be applied to the subsidy base to determine the  
3 dollar amount of the subsidy which is applied against the cost of the premium.

4 (l) Participants who are eligible for Medicare will use the subsidy base for  
5 Medicare-eligible premiums. Participants who are not yet eligible for Medicare will  
6 use the subsidy base for non-Medicare eligible premiums.

7 (m) The subsidy base for Medicare-eligible participants will be the same as  
8 the premium amount for Medicare-eligible participants in the first year of this plan and  
9 the subsidy base for non-Medicare eligible participants will be the same as the  
10 premium amount for non-Medicare eligible participants in the first year of this plan.  
11 Each subsidy base will increase five percent each year or the rate at which the actual  
12 premium amount increases for the corresponding aged participants, whichever is less.

13 (n) The eligibility for retiree major medical coverage for an alternate payee  
14 under a qualified domestic relations order shall be determined based on the eligibility  
15 of the member to elect coverage. The alternate payee shall pay the full monthly  
16 premium for retiree major medical coverage.

17 (o) The administrator shall establish monthly group premiums for retiree  
18 major medical coverage. Nothing in AS 14.25.310 - 14.25.590 guarantees a person  
19 who elects coverage under (b) of this section a monthly group premium rate for retiree  
20 major medical coverage other than the premium in effect for the month in which the  
21 premium is due for coverage for that month.

22 (p) A member is eligible to apply for reimbursement from the health  
23 reimbursement arrangement plan after a minimum of 10 years of service and does not  
24 have to retire directly from the system.

25 (q) In this section,

26 (1) "health reimbursement arrangement" means the plan established in  
27 AS 39.30.300;

28 (2) "retires directly from the plan" means that the member has been an  
29 active member for at least 12 consecutive months immediately before the time that the  
30 member applies to the administrator for appointment to retirement and that the  
31 member continues as an active member up through the day before the day the member

1 is appointed to retirement."

2

3 Page 35, line 31, following ""normal retirement age"":

4 Delete "means 65 years of age"

5 Insert "means 60 months less than the age set for Medicare eligibility at the time the  
6 member retires"

7

8 Page 58, lines 19 - 20:

9 Delete "within five years after the date of termination"

10

11 Page 58, line 21, following "trust":

12 Delete ", without interest or other adjustment."

13 Insert "with interest. The prior period of employment with a participating employer  
14 shall be credited towards eligibility for medical benefits."

15

16 Page 58, line 24, following "plan":

17 Insert ", except members do not have to retire directly from the system"

18

19 Page 92, line 1, through page 94, line 18:

20 Delete all material and insert:

21 "Sec. 39.35.870. Retirement. (a) In order to obtain medical benefits under  
22 AS 39.35.880 an active member must retire directly from the plan. A member is  
23 eligible to retire from the plan if the member has been an active member for at least 12  
24 months before application for retirement and

25 (1) the member has at least 30 years of membership service; or

26 (2) the member reaches the normal retirement age and has at least 10  
27 years of membership service.

28 (b) The normal retirement age is 60 months less than the age set for Medicare  
29 eligibility at the time the member retires.

30 (c) A member must apply to the administrator for appointment to retirement.

31 Application shall be made on forms and in the manner prescribed by the administrator.

1 (d) A member who continues in the employ of the employer after reaching  
2 normal retirement age shall continue to participate in the plan and to have  
3 contributions allocated to the member's account.

4 **Sec. 39.35.880. Medical benefits.** (a) The medical benefits available to  
5 eligible persons are access to the retiree major medical plan. Access to the retiree  
6 major medical plan means that an eligible person may not be denied medical coverage  
7 except for failure to pay the required premium.

8 (b) The following persons are eligible for the retiree major medical insurance  
9 plan provided under this section and may elect coverage under it:

10 (1) a member with at least 30 years of service and who retires directly  
11 from the plan;

12 (2) the surviving spouse of a member who elected coverage under (1)  
13 of this subsection;

14 (3) a member who reaches the normal retirement age as provided in  
15 AS 39.35.860, has at least 10 years of service, and retires directly from the plan;

16 (4) the surviving spouse of a member who elected coverage under (3)  
17 of this subsection.

18 (c) Retiree major medical plan coverage elected by an eligible member under  
19 this section covers the eligible member, the spouse of the eligible member, and the  
20 dependent children of the qualified member.

21 (d) Retiree major medical plan coverage elected by the surviving spouse of an  
22 eligible member under this section covers the surviving spouse and the dependent  
23 children of the eligible member who are dependent on the surviving spouse.

24 (e) A person other than an eligible member is not eligible for coverage if,  
25 during the time the eligible member was an active member, the person was

26 (1) not married to the member; or

27 (2) not a dependent child of the member.

28 (f) Major medical coverage takes effect on the first day of the month  
29 following the date of the election and stops when the person who elects coverage  
30 under (b) of this section dies or fails to make a required premium payment.

31 (g) The coverage for persons who are eligible for Medicare is the same as that

1 available for persons who are not yet eligible for Medicare. The benefits payable to  
2 those Medicare eligible persons supplement any benefits provided under the Medicare  
3 program.

4 (h) The medical and optional insurance premiums owed by the person who  
5 elects coverage under (b) of this section shall be deducted from the health  
6 reimbursement arrangement. If the amount of the health reimbursement arrangement  
7 becomes insufficient to pay the premiums, the person who elects coverage under (b) of  
8 this section shall pay the premiums directly.

9 (i) The administrator shall set on an annual basis separate retiree health  
10 coverage premiums for participants who are Medicare eligible and for participants  
11 who are not yet Medicare eligible. An increase in the premium amount may not  
12 exceed five percentage points annually. A participant's share of the applicable  
13 premium shall be determined according to (j) and (k) of this section.

14 (j) Participants who have not attained normal retirement age are required to  
15 pay the full amount of the applicable medical health coverage premium.

16 (k) Participants who have attained normal retirement age are eligible for a  
17 subsidy applicable to the cost of the applicable premium. The subsidy percentage  
18 applicable to the cost of premiums payable by the participant is 30 percent if the  
19 member had 10 years of service; for each additional year of service after the member's  
20 10th year of service, the discount increases by three percentage points; however, the  
21 maximum discount is 90 percent if the member has 30 or more years of service. The  
22 applicable subsidy percentage shall be applied to the subsidy base to determine the  
23 dollar amount of the subsidy that is applied against the cost of the premium.

24 (l) Participants who are eligible for Medicare will use the subsidy base for  
25 Medicare-eligible premiums. Participants who are not yet eligible for Medicare will  
26 use the subsidy base for non-Medicare eligible premiums.

27 (m) The subsidy base for Medicare-eligible participants will be the same as  
28 the premium amount for Medicare-eligible participants in the first year of this plan and  
29 the subsidy base for non-Medicare eligible participants will be the same as the  
30 premium amount for non-Medicare-eligible participants in the first year of this plan.  
31 Each subsidy base will increase five percent each year or the rate at which the actual

1 premium amount increases for the corresponding aged participants, whichever is less.

2 (n) The eligibility for retiree major medical coverage for an alternate payee  
3 under a qualified domestic relations order shall be determined based on the eligibility  
4 of the member to elect coverage. The alternate payee shall pay the full monthly  
5 premium for retiree major medical coverage.

6 (o) The administrator shall establish the monthly group premiums for retiree  
7 major medical coverage. Nothing in AS 39.35.700 - 39.35.895 guarantees a person  
8 who elects coverage under (b) of this section a monthly group premium rate for retiree  
9 major medical coverage other than the premium in effect for the month in which the  
10 premium is due for coverage for that month.

11 (p) A member is eligible to apply for reimbursement from the health  
12 reimbursement arrangement plan after a minimum of 10 years of service and does not  
13 have to retire directly from the system.

14 (q) In this section,

15 (1) "health reimbursement arrangement" means the plan established in  
16 AS 39.30.300;

17 (2) "retires directly from the plan" means that the member has been an  
18 active member for at least 12 consecutive months immediately before the time that the  
19 member applies to the administrator for appointment to retirement and that the  
20 member continues as an active member up through the day before the day the member  
21 is appointed to retirement."  
22

23 Page 101, line 28, following ""normal retirement age"":

24 Delete "means 65 years of age"

25 Insert " means 60 months less than the age set for Medicare eligibility at the time the  
26 member retires"

27

28 Page 105, line 25:

29 Delete "sec. 60"

30 Insert "sec. 61"

31

1 Page 107, following line 30:

2 Insert a new bill section to read:

3 "\* Sec. 140. The uncodified law of the State of Alaska is amended by adding a new section  
4 to read:

5 REPORT TO THE LEGISLATURE BY THE DIVISION OF RETIREMENT AND  
6 BENEFITS. The division of retirement and benefits will provide an annual report to the  
7 legislature regarding the cost savings measures it has implemented by regulation as described  
8 in sec. 1 of this Act."

9

10 Renumber the following bill sections accordingly.

11

12 Page 109, line 19:

13 Delete "SECTIONS 139 AND 140"

14 Insert "SECTIONS 141 AND 142"

15

16 Page 109, line 20:

17 Delete "secs. 139 and 140"

18 Insert "secs. 141 and 142"

19

20 Page 109, lines 21 - 22:

21 Delete "secs. 139 and 140"

22 Insert "secs. 141 and 142"

23

24 Page 109, line 23:

25 Delete "Sections 11, 12, 14, 15, 20, 89 - 94, 107, 114, and 131"

26 Insert "Sections 12, 13, 15, 16, 21, 90 - 95, 106, 115, and 132"

27

28 Page 109, line 25:

29 Delete "Section 141"

30 Insert "Section 142"

31

- 1 Page 109, line 26:
- 2       Delete "secs. 142 and 143"
- 3       Insert "secs. 144 and 145"

AMENDMENT

# 5 → Passed  
Adopted

OFFERED IN THE HOUSE

BY REPRESENTATIVE SEATON

TO: CSSB 141(FIN)

1 Page 46, line 30, following "system":

2 Insert "selected from a list of three to five persons nominated by the members of the  
3 system"

4

5 Page 46, line 31, following "system":

6 Insert "selected from a list of three to five persons nominated by the members of the  
7 system"

8

9 Page 47, line 2:

10 Following "terms of":

11 Delete "three"

12 Insert "six"

13 Following "total of":

14 Delete "three"

15 Insert "two"

16

17 Page 47, line 3, following "served":

18 Delete "three"

19 Insert "two"

20

21 Page 105, line 26, following "AS 39.05.055(7).":

22 Insert "Notwithstanding AS 39.05.055(7), the terms of the two finance officers  
23 appointed under AS 37.10.210(b)(2) and (3), as repealed and reenacted by sec. 59 of this Act,

1 shall be set so that the term of one of the finance officers expires three years apart from the  
2 term of the other finance officer, and the terms of the two members of the retirement systems  
3 appointed under AS 37.10.210(b)(4) and (5), as repealed and reenacted by sec. 59 of this Act,  
4 shall be set so that the term of one of the members expires three years apart from the term of  
5 the other member."

Amendments per/ request of Representative Bob Lynn

*Amendment #6  
Adopted*

**Conceptual Amendments to Section 37.10.210**

- Page 46 Line 21: Include one trustee from general public
- Line 29: Include two trustees from PERS
- Line 31: Include two trustees from TRS

**Changes to CSSB 141 to be incorporated in a House State Affairs CS**

Amendment  
# 8  
Adopted

**Requires the Alaska Retirement Board to evaluate the plan's projected liabilities annually**

p. 3 line 12. Insert: "(e) A report of the valuation of the plan's projected liabilities."

Amendment  
# 9  
Held  
Adopted

**Establishes a floor for employer contributions at 11% for TRS and 10% for PERS**

p.8 line 10. Delete "less than" and insert "the lesser of"  
line 11 after "active members" insert "11 percent for TRS employer and 10 percent for PERS employers"

Amendment  
# 10  
Adopted

**Clarifies that membership to the system commences for teachers on their first day of employment**

p. 15. line 13. After "contribution retirement plan." Add "A teacher becomes a member on their first date of employment."

Amendment  
# 11  
Held  
Withdrawn

**Clarifies language**

p. 32 line 10, insert "'member contribution account' means the member's contributions to their defined contribution account plus any accumulated interest."

Amendment  
# 12  
Adopted

**Conceptual revisions to accommodate overall changes to medical portion**

p.35 line 31. Delete "65 years of age" and insert "60 months pre-Medicare eligible age"

p. 54 line 26. Delete "age 65" and insert "60 months pre-Medicare eligible age"  
line 27. Delete "age 65" and insert "60 months pre-Medicare eligible age"

p. 101 line 28. Delete "65 years of age" insert "60 months pre-Medicare eligible age"

Amendment  
# 13  
Adopted

**Allow Department of Labor Instructors to chose between PERS or TRS**

p.14 line. 19. Insert "(D) a full-time or part-time instructor of the Department of Labor and Workforce Development who is a non certificated employee who enters employment covered under AS 25.009 may elect to retain coverage under AS 29.009."

#14  
AMENDMENT - Adapted

OFFERED IN THE HOUSE  
TO: CSSB 141(FIN)

BY REPRESENTATIVE GRUENBERG

1 Page 13, following line 11:

2 Insert a new bill section to read:

3 **\*\* Sec. 26.** AS 14.25.210(a) is amended to read:

4 (a) A person who knowingly makes a false statement, or falsifies or permits to  
5 be falsified any record of this plan [SYSTEM], in an attempt to defraud this plan  
6 [SYSTEM], is guilty of a class A misdemeanor [AND FORFEITS ALL RIGHTS  
7 UNDER THIS CHAPTER]."

8

9 Renumber the following bill sections accordingly.

10

11 Page 29, line 30, following "Fraud.":

12 Insert "(a)"

13

14 Page 30, following line 1:

15 Insert a new subsection to read:

16 "(b) In this section, "knowingly" has the meaning given in AS 11.81.900(a)."

17

18 Page 95, line 29, following "Fraud.":

19 Insert "(a)"

20

21 Page 95, following line 31:

22 Insert a new subsection to read:

23 "(b) In this section, "knowingly" has the meaning given in AS 11.81.900(a)."

- 1
- 2 Page 105, line 25:
- 3 Delete "sec. 59"
- 4 Insert "sec. 60"
- 5
- 6 Page 108, line 25:
- 7 Delete "14.25.210"
- 8
- 9 Page 109, line 19:
- 10 Delete "SECTIONS 139 AND 140"
- 11 Insert "SECTIONS 140 AND 141"
- 12
- 13 Page 109, line 20:
- 14 Delete "secs. 139 and 140"
- 15 Insert "secs. 140 and 141"
- 16
- 17 Page 109, lines 21 - 22:
- 18 Delete "secs. 139 and 140"
- 19 Insert "secs. 140 and 141"
- 20
- 21 Page 109, line 23:
- 22 Delete "89 - 94, 107, 114, and 131"
- 23 Insert "90 - 95, 108, 115, and 132"
- 24
- 25 Page 109, line 25:
- 26 Delete "Section 141"
- 27 Insert "Section 142"
- 28
- 29 Page 109, line 26:
- 30 Delete "secs. 142 and 143"
- 31 Insert "secs. 143 and 144"

29. AD  
Page 7. Line 30

Page 69 Line 13

↑  
Line 29 - sub control  
and my net spend 10%

→ #15 - profits

and the employees control net my net spend 10%

passed

Line 8

1 \*Sec.59. AS 37.10.210 is repealed and reenacted to read:

2           **Sec. 37.10.210. Alaska Retirement Management Board.** (a) The Alaska  
3 Retirement Management Board is established in the Department of Revenue. The  
4 board's primary mission is to serve as the trustee of the assets of the state's retirement  
5 systems, the State of Alaska Supplemental Annuity Plan, and the deferred  
6 compensation program for state employees. Consistent with standards of prudence,  
7 the board has the fiduciary obligation to manage and invest these assets in a manner  
8 that is sufficient to meet the liabilities and pension obligations of the systems, plan,  
9 and program. The board may with the approval of the commissioner of revenue and  
10 upon agreement with the responsible fiduciary, manage and invest other state funds  
11 so long as the activity does not interfere with the board's primary mission. In making  
12 investments, the board shall exercise the powers and duties of a fiduciary of a state  
13 fund under AS 37.10.071.

14           (b) The Alaska Retirement Management Board consists of eleven [nine]  
15 trustees. The commissioner of administration and the commissioner of revenue shall  
16 serve on the board. The governor shall appoint five [SEVEN ADDITIONAL] trustees  
17 [WHO MEET THE ELIGIBILITY REQUIREMENTS FOR AN ALASKA  
18 PERMANENT FUND DIVIDEND AND] who are professionally credentialed or  
19 have recognized competence in investment management, finance, banking,  
20 economics, accounting, pension administration, or actuarial analysis as follows:

21                   (1) three trustees shall be appointed from the general public: a trustee  
22 appointed under this paragraph may not hold another state office, position, or  
23 employment and may not be a member or beneficiary of a retirement system managed  
24 by the board;

25                   (2) one trustee shall be employed as a finance officer for a political  
26 subdivision participating in the public employees' retirement system; and

27                   (3) one trustee shall be employed as a finance officer for a political  
28 subdivision participating in the teachers' retirement system[;].

→ 29           Two trustees shall be members of the Public Employees' Retirement System elected by  
30           the members of the system. Elections shall be conducted by the board. The two

1 members shall have overlapping terms. At each election, the candidate who receives  
2 the most votes cast in the election is elected to the seat. The governor shall fill a  
3 vacancy in an unexpired elective term by appointment of a member of the system for  
4 the period remaining before the next regularly scheduled election held under this  
5 subsection.

6 Two trustees shall be members of the Teachers' Retirement System elected by the  
7 members of the system. Elections shall be conducted by the board. The two members  
8 shall have overlapping terms. At each election, the candidate who receives the most  
9 votes cast in the election is elected to the seat. The governor shall fill a vacancy in an  
10 unexpired elective term by appointment of a member of the system for the period  
11 remaining before the next regularly scheduled election held under this subsection.

12 [(4) ONE TRUSTEE SHALL BE A MEMBER OF THE PUBLIC  
13 EMPLOYEES' RETIREMENT SYSTEM;

14 (5) ONE TRUSTEE SHALL BE A MEMBER OF THE TEACHERS'  
15 RETIREMENT SYSTEM.]

16 (c) The trustees[, OTHER THAN THE TWO COMMISSIONERS,] shall serve  
17 for staggered terms of three years and may be reappointed or elected to the board for  
18 a total of three consecutive terms. A person who has served three consecutive terms  
19 may not be reappointed to the board for at least one year.

20 (d) The governor may, by written notice to the trustee, remove an appointed [A]  
21 trustee for cause. After a trustee receives written notice of removal, the trustee may  
22 not participate in board business and may not be counted for purposes of establishing  
23 a quorum.

24 (e) A vacancy on the board of trustees shall be promptly filled. A person  
25 filling a vacancy holds office for the balance of the unexpired term of the person's  
26 predecessor, and the balance of the unexpired term served is not included in the three-  
27 term limitation under (c) of this section. A vacancy on the board does not impair the

AMENDMENT

#17 Adopted

OFFERED IN THE HOUSE  
TO: CSSB 141(FIN)

BY REPRESENTATIVE CRUENBERG

- 1 Page 7, lines 9 - 30:  
2 Delete all material.  
3  
4 Renumber the following bill sections accordingly.  
5  
6 Page 8, lines 9 - 10:  
7 Delete "calculated under AS 14.25.052,"  
8  
9 Page 68, line 15, through page 69, line 13:  
10 Delete all material.  
11  
12 Renumber the following bill sections accordingly.  
13  
14 Page 72, lines 5 - 6:  
15 Delete "calculated under AS 39.35 162,"  
16  
17 Page 105, line 23:  
18 Delete "sec. 59"  
19 Insert "sec. 57"  
20  
21 Page 108, line 21, following "14.25.047,"  
22 Insert "14.25.050(a),"  
23

- 1 Page 109, line 19:  
2 Delete "SECTIONS 139 AND 140"  
3 Insert "SECTIONS 135 AND 136"  
4
- 5 Page 109, line 20:  
6 Delete "secs. 139 and 140"  
7 insert "secs. 135 and 136"  
8
- 9 Page 109, lines 21 - 22:  
10 Delete "secs. 139 and 140"  
11 Insert "secs. 135 and 136"  
12
- 13 Page 109, line 23.  
14 Delete "Sections 11, 12, 14, 15, 20, 89 - 94, 107, 114, and 131"  
15 Insert "Sections 6, 10, 12, 13, 18, 85 - 90, 103, 110, and 127"  
16
- 17 Page 109, line 25:  
18 Delete "Section 141"  
19 Insert "Section 137"  
20
- 21 Page 109, line 26:  
22 Delete "secs. 142 and 143"  
23 Insert "secs. 138 and 139"

Alaska State Legislature

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**REPRESENTATIVE Paul Seaton**

District 35

**Amendments that need to be considered**

**1. Establishes a floor for employer contributions at 11% for TRS and 10% for PERS**

p.8 line 10. Delete "less than" and insert "the lesser of"  
line 11 after "active members" insert "11 percent for TRS employer and 10 percent for PERS employers"

*Amended* **2. Clarifies language**

*#18*  
*Amended* p. 32 line 10, insert <sup>(3)</sup> "member contribution account" means the member's contributions to their defined contribution account plus any change in market value."

# 18

Adopted but  
not in C.S.  
Conceptual

Amendment

Page 32, line 10:

Insert

"(3) 'member contribution account' means the member's contributions to their defined contribution account plus any change in market value and any accumulated interest."

Term not used in SB 141. In SB 141  
the term "Individual Account" is used in the Defined  
Contribution Plan. Legal felt this language  
was redundant.

# 19  
AMENDMENT

OFFERED IN THE HOUSE  
TO: CSSB 141(FIN)

BY REPRESENTATIVE SEATON

1 Page 2, following line 4:

2 Insert a new bill section to read:

3 **\*\* Section 1.** The uncodified law of the State of Alaska is amended by adding a new  
4 section to read:

5 LEGISLATIVE INTENT REGARDING RETIREE HEALTH CARE COST  
6 SAVINGS IN SECS. 33 AND 121. It is the intent of the legislature for the division of  
7 retirement and benefits to implement by regulation cost-saving measures appropriate to  
8 current and future retirees in the health care system. This includes using manufacturer's  
9 rebates, co-pay levels, and multi-tiered co-payment structures; mandating the use of generic  
10 drugs; determining the type of drug classes in a formulary; dispensing fees; mandating or  
11 providing incentives for mail order pharmaceuticals; using a reduction in the average  
12 wholesale price; providing case management services for certain users of pharmaceuticals;  
13 capping the number of prescriptions filled each month; and restricting the number of refills  
14 that users can have at one time."

15

16 Page 2, line 5:

17 Delete "Section 1"

18 Insert "Sec. 2"

19

20 Renumber the following bill sections accordingly.

21

22 Page 26, line 3, through page 28, line 19:

23 Delete all material and insert:

1           **"Sec. 14.25.470. Retirement.** (a) In order to obtain medical benefits under  
2 AS 14.25.480 a member must retire directly from the plan. A member is eligible to  
3 retire from the plan if the member has been an active member for at least 12 months  
4 before application for retirement and

5                   (1) the member has at least 30 years of service; or

6                   (2) the member reaches the normal retirement age and has at least 10  
7 years of service.

8           (b) The normal retirement age is 60 months less than the age set for Medicare  
9 eligibility at the time the member retires.

10           (c) A member must apply to the administrator for appointment to retirement.  
11 Application shall be made on forms and in the manner prescribed by the administrator.

12           (d) A member who continues in the employ of the employer after reaching  
13 normal retirement age shall continue to participate in the plan and to have  
14 contributions allocated to the member's account.

15           **Sec. 14.25.480. Medical benefits.** (a) The medical benefits available to  
16 eligible persons are access to the retiree major medical plan. Access to the retiree  
17 major medical plan means that an eligible person may not be denied medical coverage  
18 except for failure to pay the required premium.

19           (b) The following persons are eligible for the retiree major medical plan  
20 provided under this section and may elect coverage under it:

21                   (1) a member with at least 30 years of service and who retires directly  
22 from the plan;

23                   (2) the surviving spouse of a member who elected coverage under (1)  
24 of this subsection;

25                   (3) a member who reaches the normal retirement age as provided in  
26 AS 14.25.470, has at least 10 years of service, and retires directly from the plan;

27                   (4) the surviving spouse of a member who elected coverage under (3)  
28 of this subsection.

29           (c) Retiree major medical plan coverage elected by an eligible member under  
30 this section covers the eligible member, the spouse of the eligible member, and the  
31 dependent children of the eligible member.

1 (d) Retiree major medical plan coverage elected by the surviving spouse of an  
2 eligible member under this section covers the surviving spouse and the dependent  
3 children of the eligible member who are dependent on the surviving spouse.

4 (e) A person other than an eligible member is not eligible for coverage if,  
5 during the time the eligible member was an active member, the person was

6 (1) not married to the member; or

7 (2) not a dependent child of the member.

8 (f) Major medical coverage takes effect on the first day of the month  
9 following the date of the election and stops when the person who elects coverage  
10 under (b) of this section dies or fails to make a required premium payment.

11 (g) The coverage for persons who are eligible for Medicare is the same as that  
12 available for persons who are not yet eligible for Medicare. The benefits payable to  
13 those Medicare eligible persons supplement any benefits provided under the Medicare  
14 program.

15 (h) The medical and optional insurance premiums owed by the person who  
16 elects coverage under (b) of this section shall be deducted from the health  
17 reimbursement arrangement. If the amount of the health reimbursement arrangement  
18 becomes insufficient to pay the premiums, the person who elects coverage under (b) of  
19 this section shall pay the premiums directly.

20 (i) The administrator shall set on an annual basis separate retiree health  
21 coverage premiums for participants who are Medicare eligible and for participants  
22 who are not yet Medicare eligible. An increase in the premium amount may not  
23 exceed five percentage points annually. A participant's share of the applicable  
24 premium shall be determined according to (j) and (k) of this section.

25 (j) Participants who have not attained normal retirement age are required to  
26 pay the full amount of the applicable medical health coverage premium.

27 (k) Participants who have attained normal retirement age are eligible for a  
28 subsidy applicable to the cost of the applicable premium. The subsidy percentage  
29 applicable to the cost of premiums payable by the participant is 30 percent if the  
30 member had 10 years of service; for each additional year of service after the member's  
31 10th year of service, the discount increases by three percentage points; however, the

1 maximum discount is 90 percent if the member has 50 or more years of service. The  
2 applicable subsidy percentage shall be applied to the subsidy base to determine the  
3 dollar amount of the subsidy which is applied against the cost of the premium.

4 (l) Participants who are eligible for Medicare will use the subsidy base for  
5 Medicare-eligible premiums. Participants who are not yet eligible for Medicare will  
6 use the subsidy base for non-Medicare eligible premiums.

7 (m) The subsidy base for Medicare-eligible participants will be the same as  
8 the premium amount for Medicare-eligible participants in the first year of this plan and  
9 the subsidy base for non-Medicare eligible participants will be the same as the  
10 premium amount for non-Medicare eligible participants in the first year of this plan.  
11 Each subsidy base will increase five percent each year or the rate at which the actual  
12 premium amount increases for the corresponding aged participants, whichever is less.

13 (n) The eligibility for retiree major medical coverage for an alternate payee  
14 under a qualified domestic relations order shall be determined based on the eligibility  
15 of the member to elect coverage. The alternate payee shall pay the full monthly  
16 premium for retiree major medical coverage.

17 (o) The administrator shall establish monthly group premiums for retiree  
18 major medical coverage. Nothing in AS 14.25.310 - 14.25.590 guarantees a person  
19 who elects coverage under (b) of this section a monthly group premium rate for retiree  
20 major medical coverage other than the premium in effect for the month in which the  
21 premium is due for coverage for that month.

22 (p) A member is eligible to apply for reimbursement from the health  
23 reimbursement arrangement plan after a minimum of 10 years of service and does not  
24 have to retire directly from the system.

25 (q) In this section,

26 (1) "health reimbursement arrangement" means the plan established in  
27 AS 39.30.300;

28 (2) "retires directly from the plan" means that the member has been an  
29 active member for at least 12 consecutive months immediately before the time that the  
30 member applies to the administrator for appointment to retirement and that the  
31 member continues as an active member up through the day before the day the member

1 is appointed to retirement."

2

3 Page 35, line 31, following ""normal retirement age"";

4 Delete "means 65 years of age"

5 Insert "means 60 months less than the age set for Medicare eligibility at the time the  
6 member retires"

7

8 Page 58, lines 19 - 20:

9 Delete "within five years after the date of termination"

10

11 Page 58, line 21, following "trust":

12 Delete ", without interest or other adjustment."

13 Insert "with interest. The prior period of employment with a participating employer  
14 shall be credited towards eligibility for medical benefits."

15

16 Page 58, line 24, following "plan":

17 Insert ", except members do not have to retire directly from the system"

18

19 Page 92, line 1, through page 94, line 18:

20 Delete all material and insert:

21 "Sec. 39.35.879. Retirement. (a) In order to obtain medical benefits under  
22 AS 39.35.880 an active member must retire directly from the plan. A member is  
23 eligible to retire from the plan if the member has been an active member for at least 12  
24 months before application for retirement and

25 (1) the member has at least 30 years of membership service; or

26 (2) the member reaches the normal retirement age and has at least 10  
27 years of membership service.

28 (b) The normal retirement age is 60 months less than the age set for Medicare  
29 eligibility at the time the member retires.

30 (c) A member must apply to the administrator for appointment to retirement.

31 Application shall be made on forms and in the manner prescribed by the administrator.

1 (d) A member who continues in the employ of the employer after reaching  
2 normal retirement age shall continue to participate in the plan and to have  
3 contributions allocated to the member's account.

4 **Sec. 39.35.880. Medical benefits.** (a) The medical benefits available to  
5 eligible persons are access to the retiree major medical plan. Access to the retiree  
6 major medical plan means that an eligible person may not be denied medical coverage  
7 except for failure to pay the required premium.

8 (b) The following persons are eligible for the retiree major medical insurance  
9 plan provided under this section and may elect coverage under it:

10 (1) a member with at least 30 years of service and who retires directly  
11 from the plan;

12 (2) the surviving spouse of a member who elected coverage under (1)  
13 of this subsection;

14 (3) a member who reaches the normal retirement age as provided in  
15 AS 39.35.860, has at least 10 years of service, and retires directly from the plan;

16 (4) the surviving spouse of a member who elected coverage under (3)  
17 of this subsection.

18 (c) Retiree major medical plan coverage elected by an eligible member under  
19 this section covers the eligible member, the spouse of the eligible member, and the  
20 dependent children of the qualified member.

21 (d) Retiree major medical plan coverage elected by the surviving spouse of an  
22 eligible member under this section covers the surviving spouse and the dependent  
23 children of the eligible member who are dependent on the surviving spouse.

24 (e) A person other than an eligible member is not eligible for coverage if,  
25 during the time the eligible member was an active member, the person was

26 (1) not married to the member; or

27 (2) not a dependent child of the member.

28 (f) Major medical coverage takes effect on the first day of the month  
29 following the date of the election and stops when the person who elects coverage  
30 under (b) of this section dies or fails to make a required premium payment.

31 (g) The coverage for persons who are eligible for Medicare is the same as that

1 available for persons who are not yet eligible for Medicare. The benefits payable to  
2 those Medicare eligible persons supplement any benefits provided under the Medicare  
3 program.

4 (h) The medical and optional insurance premiums owed by the person who  
5 elects coverage under (b) of this section shall be deducted from the health  
6 reimbursement arrangement. If the amount of the health reimbursement arrangement  
7 becomes insufficient to pay the premiums, the person who elects coverage under (b) of  
8 this section shall pay the premiums directly.

9 (i) The administrator shall set on an annual basis separate retiree health  
10 coverage premiums for participants who are Medicare eligible and for participants  
11 who are not yet Medicare eligible. An increase in the premium amount may not  
12 exceed five percentage points annually. A participant's share of the applicable  
13 premium shall be determined according to (j) and (k) of this section.

14 (j) Participants who have not attained normal retirement age are required to  
15 pay the full amount of the applicable medical health coverage premium.

16 (k) Participants who have attained normal retirement age are eligible for a  
17 subsidy applicable to the cost of the applicable premium. The subsidy percentage  
18 applicable to the cost of premiums payable by the participant is 30 percent if the  
19 member had 10 years of service; for each additional year of service after the member's  
20 10th year of service, the discount increases by three percentage points; however, the  
21 maximum discount is 90 percent if the member has 30 or more years of service. The  
22 applicable subsidy percentage shall be applied to the subsidy base to determine the  
23 dollar amount of the subsidy that is applied against the cost of the premium.

24 (l) Participants who are eligible for Medicare will use the subsidy base for  
25 Medicare-eligible premiums. Participants who are not yet eligible for Medicare will  
26 use the subsidy base for non-Medicare eligible premiums.

27 (m) The subsidy base for Medicare-eligible participants will be the same as  
28 the premium amount for Medicare-eligible participants in the first year of this plan and  
29 the subsidy base for non-Medicare eligible participants will be the same as the  
30 premium amount for non-Medicare-eligible participants in the first year of this plan.  
31 Each subsidy base will increase five percent each year or the rate at which the actual

1 premium amount increases for the corresponding aged participants, whichever is less.

2 (n) The eligibility for retiree major medical coverage for an alternate payee  
3 under a qualified domestic relations order shall be determined based on the eligibility  
4 of the member to elect coverage. The alternate payee shall pay the full monthly  
5 premium for retiree major medical coverage

6 (o) The administrator shall establish the monthly group premiums for retiree  
7 major medical coverage. Nothing in AS 39.35.700 - 39.35.895 guarantees a person  
8 who elects coverage under (b) of this section a monthly group premium rate for retiree  
9 major medical coverage other than the premium in effect for the month in which the  
10 premium is due for coverage for that month.

11 (p) A member is eligible to apply for reimbursement from the health  
12 reimbursement arrangement plan after a minimum of 10 years of service and does not  
13 have to retire directly from the system.

14 (q) In this section,

15 (1) "health reimbursement arrangement" means the plan established in  
16 AS 39.30.300;

17 (2) "retires directly from the plan" means that the member has been an  
18 active member for at least 12 consecutive months immediately before the time that the  
19 member applies to the administrator for appointment to retirement and that the  
20 member continues as an active member up through the day before the day the member  
21 is appointed to retirement."  
22

23 Page 101, line 28, following ""normal retirement age"":

24 Delete "means 65 years of age"

25 Insert " means 60 months less than the age set for Medicare eligibility at the time the  
26 member retires"

27  
28 Page 105, line 23:

29 Delete "sec. 60"

30 Insert "sec. 61"  
31

1 Page 107, following line 30:

2 Insert a new bill section to read:

3 **\*\* Sec. 140.** The uncodified law of the State of Alaska is amended by adding a new section  
4 to read:

5 REPORT TO THE LEGISLATURE BY THE DIVISION OF RETIREMENT AND  
6 BENEFITS. The division of retirement and benefits will provide an annual report to the  
7 legislature regarding the cost savings measures it has implemented by regulation as described  
8 in sec. 1 of this Act."

9

10 Renumber the following bill sections accordingly.

11

12 Page 109, line 19:

13 Delete "SECTIONS 139 AND 140"

14 Insert "SECTIONS 141 AND 142"

15

16 Page 109, line 20:

17 Delete "secs. 139 and 140"

18 Insert "secs. 141 and 142"

19

20 Page 109, lines 21 - 22:

21 Delete "secs. 139 and 140"

22 Insert "secs. 141 and 142"

23

24 Page 109, line 23:

25 Delete "Sections 11, 12, 14, 15, 20, 89 - 94, 107, 114, and 131"

26 Insert "Sections 12, 13, 15, 16, 21, 90 - 95, 108, 115, and 132"

27

28 Page 109, line 25:

29 Delete "Section 141"

30 Insert "Section 143"

31

- 1 Page 109, line 26:
- 2       Delete "secs. 142 and 143"
- 3       Insert "secs. 144 and 145"

#20

Currently TRS employees contribute 8.65% of salary, employers contribute 14.28% of salary

= 22.93

Currently PERS employees contribute: 6.5/7.5% PERS "other", 7.5% Police/fire and 9.6% school district of salary, employers contribute 13.24% of salary

= between 19.74 and 22.84

Under SB 141 all employees contribute 8%, employers contribute 4.5% to DC account and 3.5% to the medical component

= 16

Under amendment number 4 all employees contribute 8%, employers contribute 4.5% to the individual's DC account. Employers contribute 5.75% to the TRS medical component and 5.5% to the PERS medical component.

= between 18 and 18.25

Conceptual Amendment increasing 1.75% contribution to major medical in SB 141 to 3.75% for TRS employees and 3.5% for PERS employees

p. 82, line 8 delete "1.75" and insert "3.5"

p. 16, line 10 delete "1.75" and insert "3.75"

**Amendment Number 1. Changes to contribution rates.**

The employee contribution rate in SB 141 is currently 8%. Amendment number 1 increases the employee contribution rate for TRS from 8% to 11%, and for PERS, from 8% to 10%. The employer contribution rate going to a member's Defined Contribution account in SB 141 is 4.5% for both PERS and TRS. Amendment number 1 increases this to 5.25% for TRS and it remains the same for PERS.

**TRS**

- p.15 line 18. Delete "eight" and insert "eleven".
- p.16. line 8. Delete "4.5", and insert "5.25"

**PERS**

- p.81 line 17. Delete "eight" and insert "ten".

Handwritten notes: "No" written twice, "111" written twice, and a large checkmark.

**Amendment Number 2. Changes to vesting schedule.**

In SB 141 a member vests fully in their Defined Contribution account after 5 years on a graduated scale incrementing 25% each year with 0% for the first year. Amendment number 2 changes the vesting schedule so that a member is fully vested after three years. The member vests in 50% of the employer contribution after 1 full year of service, 75% after two years and the full amount after 3 years.

**TRS**

- p. 18. line 12. Delete "five" insert "three" delete lines 15-17 insert:
  - (1) 50% with one year of service
  - (2) 75% with two years of service
  - (3) 100% with three years of service

**PERS**

- p.81 line 10 delete "five", insert "three" delete lines 13-15, insert:
  - (1) 50% with one year of service
  - (2) 75% with two years of service
  - (3) 100% with three years of service

Handwritten notes: "No" written twice, "111" written twice, and a large checkmark.

**Amendment Number 3. Changes to investment options.**

In SB 141 a member is given a series of eleven different investment options with varying degrees of risk. Amendment number 3 requires a member's account to be deposited in one account managed by the ARM board.

- p. 18. Delete lines 18-31. Insert language to require only one investment option managed by the ARM board.

**Amendment number 4.** Changes to medical plan. *Adopt*

To become eligible for medical coverage under SB 141 you must be Medicare eligible with at least 10 years of service, or of any age with 25 years of service for police/fire and 30 for all others. If you terminate employment before Medicare eligible age but have fulfilled the minimum service requirement, you will receive access-only to the medical plan but will be required to pay the full premium. At Medicare eligible age the member receives a percentage subsidy of the premium based on the years of service ranging from 70% for 10 years of service to 90% for 30+ years of service. Retirees and their dependents are eligible, however, a different premium will be established for a single member from that of a member with dependents.

Amendment number 4 substitutes the language from HB 238 regarding the medical plan discussed extensively in committee, which provides medical coverage for members 60 months pre-Medicare eligible age.

Delete p. 26 line 3 to page 28 line 1, and p. 28 lines 12-19. Insert medical language provided and amended as necessary for drafting purposes. Corresponding medical language for PERS is found on p.92 line 20 through p.93 line 27.

Minor changes will have to be made throughout the bill to make SB 141 congruent with the inserted language from HB 238

**Amendment number 5.** Changes to the Alaska Retirement Management Board. *11/11*

SB 141 consolidates the PERS, TRS and ASPIB boards and creates a 9-member board with full fiduciary responsibility of the fund. Two of the 9 members must be active or retired PERS or TRS employees. All members are appointed by the governor. Amendment number 5 requires that nominees for PERS and TRS representatives be chosen from a list of no less than 3, and no more than 5 candidates put forth by the appropriate bargaining units. In SB 141, term lengths are 3 years, and limits members to 3 terms. Amendment number 5 changes the term lengths to 6 years, and limits members to a total of 2 terms. Amendment number 5 also ensures that the terms for the 2 finance officers and the two system representatives are staggered by 3 years.

p. 46 line 30. After "system;" insert, "The member shall be selected from no less than three and no more than five nominees put forward by the appropriate bargaining units."

p.46 line 31. After "system." Insert "The member shall be selected from no less than three and no more than five nominees put forward by the appropriate bargaining units."

p. 47 line 2. After "terms of" delete "three" and insert "six". After "total of" delete "three" and insert "two". Line 4. insert "full" between "consecutive" and "terms".

p. 105 line 26. After "AS 39.05.055(7)." Insert, "Upon establishment of the board one finance officer will be appointed to a three year term and one finance officer will be appointed to a six year term, one PERS/TRS member representative will be appointed to a three year term and the other PERS/TRS member representative will be appointed to a six year term."

**Amendment number 6.** Changes to Health Reimbursement Arrangement (HRA). *adpt*

In SB 141 if an individual terminates employment before reaching the 10-year requirement for medical eligibility and does not come back to work within 5 years, they forfeit the accumulated balance of their HRA. If the member leaves employment and comes back within the 5 years, their HRA is reinstated at the account balance when they terminated employment. Amendment number 6 reinstates a member's account with accumulated interest regardless of the number of years that have elapsed between employment periods. It also

allows a member to vest in their HRA after 10 years of service without retiring directly from the system. However, the member cannot access their HRA until they reach the age 60 months prior to becoming Medicare eligible, or have 30 years of service.

p. 58 line 16. Delete "AS 14.25.470" insert "(b) of this section". Delete p. 58 line 16 starting at "or" through line 21 ending at "adjustment". Insert "If a person resumes employment the balance of their account is restored plus any accumulated interest."

Insert line 22, (b) A member has access to their Health Reimbursement Arrangement after 10 years of service, whether or not they retire directly from the system. However, the member is not allowed to draw from that account until they reach the age 60 months pre-Medicare eligible, or any age with 30 years of service as defined in AS 14.25.470.

\*Note: all changes in the TRS section should be reflected in the subsequent PERS section.

## Changes to CSSB 141 to be incorporated in a House State Affairs CS

**Requires the Alaska Retirement Board to evaluate the plan's projected liabilities annually**

p. 3 line 12. Insert "(e) A report of the valuation of the plan's projected liabilities."

**Establishes a floor for employer contributions at 11% for TRS and 10% for PERS**

p.8 line 10. Delete "less than" and insert "the lesser of"  
line 11 after "active members" insert "11 percent for TRS employer and 10 percent for PERS employers"

**Clarifies that membership to the system commences for teachers on their first day of employment**

p. 15. line 13. After "contribution retirement plan." Add "A teacher becomes a member on their first date of employment."

**Clarifies language**

p. 32 line 10, insert "'member contribution account' means the member's contributions to their defined contribution account plus any accumulated interest."

**Conceptual revisions to accommodate overall changes to medical portion**

p.35 line 31. Delete "65 years of age" and insert "60 months pre-Medicare eligible age"

p. 54 line 26. Delete "age 65" and insert "60 months pre-Medicare eligible age"  
line 27. Delete "age 65" and insert "60 months pre-Medicare eligible age"

p. 101 line 28. Delete "65 years of age" insert "60 months pre-Medicare eligible age"

**Allow Department of Labor Instructors to chose between PERS or TRS**

p.14 line. 19. Insert "(D) a full-time or part-time instructor of the Department of Labor and Workforce Development who is a non certificated employee who enters employment covered under AS 25.009 may elect to retain coverage under AS 29.009."

# Alaska State Legislature

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## REPRESENTATIVE Paul Seaton

District 35

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### MEMORANDUM

Wednesday April 19, 2005

Enclosed is a summary of the major changes made to SB 141 by the House State Affairs Committee. If you have any questions or would like more detail on the amendments adopted, please contact my staff working on this issue, Katie Shows at (907)-465-4048.

Sincerely,

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

Representative Paul Seaton

## CHANGES TO MEDICAL COVERAGE

Major Medical TRS p. 26 line 5 to p. 29 line 4, PERS p. 93 line 15 to p. 96 line 14. Amendment # 19

- Allow access to medical plan 60-month pre-Medicare eligible
- Cost share both pre-Medicare and post-Medicare medical on a scale of 30% subsidy for 10 years of service incrementing 3% for each additional year of service till 30 years or 90% subsidy.
- Increase employer contribution to 3.75% for TRS and 3.5% for PERS to pay for major medical TRS p.16 line 12, PERS p. 83 line 22. Amendment #20
- Internet language: that the division implement all cost saving measures possible to the health care plan and report annually to the legislature those changes. p. 2 lines 5-16. Amendment #19

HRA p. 59 line 20 – p. 60 line 3. Amendment #19

- Individual has access to their HRA after 10 years of service without retiring directly from the system once they hit normal retirement age. If they leave employment without accumulating 10 years of service, they may come back regardless of how much time elapses between the two employment periods. When they return to active employment, their HRA will be reinstated at the amount it was when they last terminated employment plus any additional accumulated interest.

## CHANGES TO THE ARM BOARD

- Increase the PERS/TRS representatives from one to two from each employee group (4 total PERS/TRS representatives). This decreases the members from the general public from 3 to 1. p. 47 lines 11-15. Amendment #6
- PERS/TRS representatives will be elected from their employee groups. p. 47 line 24 to p. 48 line 13. Amendment #16
- Each member can serve no more than 2 six-year terms. Terms will be offset by 3 years. p. 107 line 30, p. 108 line 4. Amendment #5

## CHANGES TO EXISTING TEIRS

- Repealed increase in employee contribution for current employees Amendment #17
- Establishes a floor for employer contributions at 11% for TRS and 10% for PERS TRS p. 8 line 2-3, PERS p. 72 line 16. Amendment #9
- A person who commits fraud with respect to their benefits is guilty of a class A misdemeanor but DOES NOT forfeit all rights to any future benefits (for current and future employees/retirees) p. 97 line 25-28. Amendment #14

## OTHER

- Department of Labor instructors who were previously in TRS will remain in TRS regardless of whether or not the instructor position requires a teaching certificate. p.14 lines 16-20, p. 80 lines 26-31. Amendment #13

## **Changes to medical coverage**

To be eligible for medical coverage under SB 141 you must be age Medicare eligible with at least 10 years of service, or any age with 25 years of service for police/fire and 30 years for all others. If you terminate employment before age Medicare eligible age but have fulfilled the minimum service requirement, you receive access-only to the medical plan but are required to pay the full premium. At Medicare eligible age the member receives a percentage subsidy of the premium based on the years of service ranging from 70% for 10 years of service to 90% for 30+ years of service. Retirees and their dependents are eligible, however, a different premium will be established for a single member from that of a member with dependents.

State Affairs changed the medical portion of SB 141 to reflect the work we have been doing in committee on a defined dollar medical plan. In a 2004 survey of employees and employers by Mercer Human Resources Consulting, medical benefits were identified as the most important element of a retirement plan. In the amendment incorporated to SB 141 an employee is eligible for medical benefits when they retire directly from the system with 30 years of service or at normal retirement age with 10 years of service. Before normal retirement age a retiree has access to a medical plan and pays the full premium amount set by the board. Once a retiree reaches normal retirement age, 60 months before Medicare eligible age (currently 60) they receive a percentage subsidy to their premium based on their years of service. The retiree and the system share the rising cost of health care. The subsidy ranges from 90% of the premium for 30+ year employees to 30% benefit for 10-year employees and increases incrementally with each additional year of service. Once a retiree reaches Medicare eligible age (currently 65) their premium amount drops by approximately 50%.

In addition to access to a medical plan, retirees have a Health Reimbursement Account (HRA) that their employer has contributed 2% of the employer group salary into over the course of their employment. The HRA is automatically used to pay the remaining portion of the premium for the medical plan after the subsidy is applied, or any qualified medical expenses. In SB 141 if an individual terminates employment before reaching the 10-year requirement for medical eligibility and does not come back to work within 5 years, they forfeit the accumulated balance of their HRA. If the member leaves employment and comes back within the 5 years, their HRA is reinstated at the account balance when they terminated employment. House State Affairs amended SB 141 to increase member accessibility to their HRA. The HRA is accessible to a member after 10 years of service at the age 60 months pre-Medicare eligible regardless of if they retire directly from the system. If they leave employment without accumulating 10 years of service, they may come back regardless of how much time elapses between the two employment periods. When they return to active employment, their HRA will be reinstated at the amount it was when they last terminated employment plus any additional accumulated interest.

### **Changes to the Alaska Retirement Management Board**

SB 141 consolidates the PERS, TRS and ASPIB boards and creates a 9-member board with full fiduciary responsibility of the fund. Two of the 9 members must be active or retired PERS or TRS employees. All members are appointed by the governor. House State Affairs amended SB 141 to increase in the PERS/TRS representatives from 2 to 4 (thereby decreasing the member's from the general public from 3 to 1) and requires that PERS/TRS representatives are elected by their employee groups. In SB 141, term lengths are 3 years, limited to 3 terms. House State Affairs changed the term lengths to 6 years and limited members to a total of 2 consecutive terms. House State Affairs also ensured that the terms for the 2 finance officers and the four system representatives are staggered by 3 years so as not to have a complete turnover of one member group at any given time.

### **Changes to existing tiers**

House State Affairs repealed the increase in employee contribution for current employees. It also established a floor on employer contributions at 11% for TRS and 10% for PERS. A change made to SB 141 by House State Affairs was to ensure that a person who commits fraud (in relation to their retirement benefits) does not forfeit their rights to any future benefits. Currently the TRS and PERS statues are different, on one they forfeit their benefits and on the other they do not.

### **Other**

House State Affairs amended SB 141 to place Department of Labor instructors in TRS if they were formerly a TRS member regardless of if the instructor position requires a teaching certificate. Otherwise, the instructor will be a PERS member.

Power Point produced by Rep. Senter's office

## Understanding PERS/TRS

Presentation to the House State Affairs  
Committee  
March 22, 2005

1

## Definition of Terms

2

**PERS/TRS** – Public Employees Retirement System/Teachers Retirement System

**Defined benefit plan** – The benefits paid to an employee are based upon a formula set in law and is NOT determined by the account balance. The benefit the retiree receives is guaranteed, regardless of if the contributions made by him/her or on his/her behalf are enough to fund the benefits.

**Defined contribution plan** – A plan in which a member and their employer contribute a fixed amount into the system. That amount collects interest and the retiree's benefit is the amount of money in the account at retirement or termination (similar to 401k programs).

**Actuarial** – Statistical calculation of future costs and benefits based on adopted assumptions.

**Past Service Cost** – The payment needed to account for the amount of benefits that were not collected because the adopted assumptions about the future were not correct.

**Past Service Cost Rate** – An actuarial determination of the yearly cost rate charged on total salary needed to pay off the Past Service Cost over a specified number of years.

**Unfunded Liability** – The sum of the actuarially computed payments that will be required to be made for benefits that were not accounted for in Normal Cost Rate collections (unfunded liability = past service cost).

**Present Dollar Value of Unfunded Liability** – Amount needed to be deposited today into a separate account that would grow with projected interest in order to be able to make the payments over time as they became due. This original deposit and interest would be completely used up when the liability was paid off.

Gross Normal Cost rate – The total percentage of salary needed to pay for future benefits of retiree (Member Normal Cost Rate + Employer Normal Cost Rate).

Member Normal Cost Rate– The percentage of salary an employee contributes to paying for their future retirement benefits.

Member contribution rate – The percentage of salary an employee contributes towards paying the actuarial computed rate.

Employer Normal Cost Rate – The percentage of salary an employer contributes towards paying the employee's projected future retirement benefits.

Actuarial Computed Rate - The percentage of salary, calculated by the actuary based on a set of assumptions that would be needed to pay the unfunded liability and the future benefits of the retiree minus the employee's contribution to those benefits.

Health Reimbursement Account – An employer paid account that reimburses employees for medical expenses up to the deposited dollar amount.

**Potential and anticipated  
variables that can create  
additional unfunded liability**

7

**Mortality Rate**

**Assumptions:**

- 1984 table
- 1994 baseline table (adopted in 2002,  
added 2.5 years per person)
- 2000 baseline table (set forward to 2004) –  
how many more years and how much more  
money per year will this add?

8

## Medical inflation rate

7.5% - what does increase or decrease of 2% do to the unfunded liability?

9

### Automatic Cost Of Living Adjustment (COLA) –

Cola was established in 1961 to encourage Alaskans to stay in Alaska. A 2004 court decision required Alaska Cost Of Living Adjustments to be distributed to all system members outside of Alaska if the cost of living in their community equals or exceeds Anchorage Alaska.

Ad Hoc PRPA –When there has been an increase in the cost of living and when the fund permits, the administrator may increase benefits to cover that increase in cost of living. This means that whenever the fund is doing well it probably will not collect additional dollars to help smooth out leaner times but pay that as unfunded benefits.

### **Legislation Impacting the System's Solvency**

Retirement Incentive Program – A program established to encourage employees to retire early so employers would be able to hire lower wage employees in their stead. RIP increased the unfunded liability because employees were collecting benefits when all the money to pay for those benefits had not been paid into the system.

### **Legislation Impacting the System's Solvency**

Re-hire of retiree's – HB 161/ SB24/ SB31. Allowing retirees to be hired back without contributing to the retirement system creates additional unfunded liability to the system. Each additional re-hire's employer does not pay the past service cost rate associated with the employee's wages. This adds to the unfunded liability for the system.

### **Legislation Impacting the System's Solvency**

Lowering vesting requirements for police/fire  
– HB 40. Lowering the number of years of service an employee has to contribute to the system before receiving benefits. Therefore they are essentially collecting benefits that have not been paid for in advance, adding extra burden to the unfunded liability.

## Overview of PERS/TRS – the problem

Presentation to House State  
Affairs Committee – 3/22/05

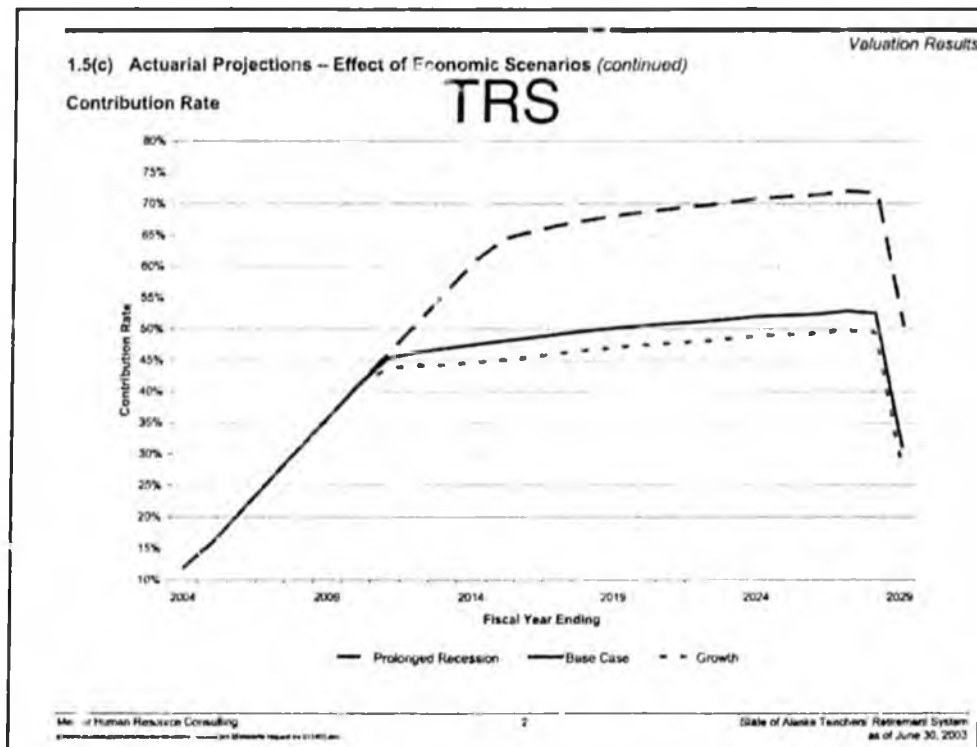
## Unfunded Liability: Percent of Total

The system is currently 69.5% funded, however new figures increasing the unfunded liability will be out by the end of March.



■ Unfunded Liability 5b  
 □ Funded Liability 11.4b

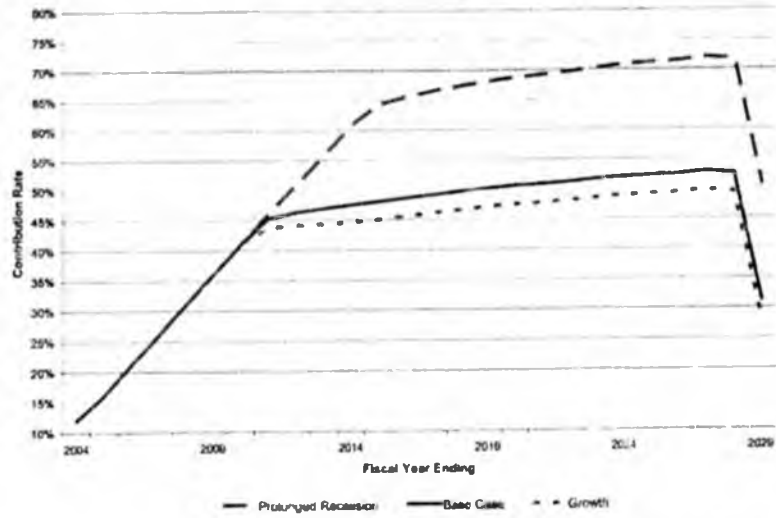
15



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

Contribution Rate

# PERS



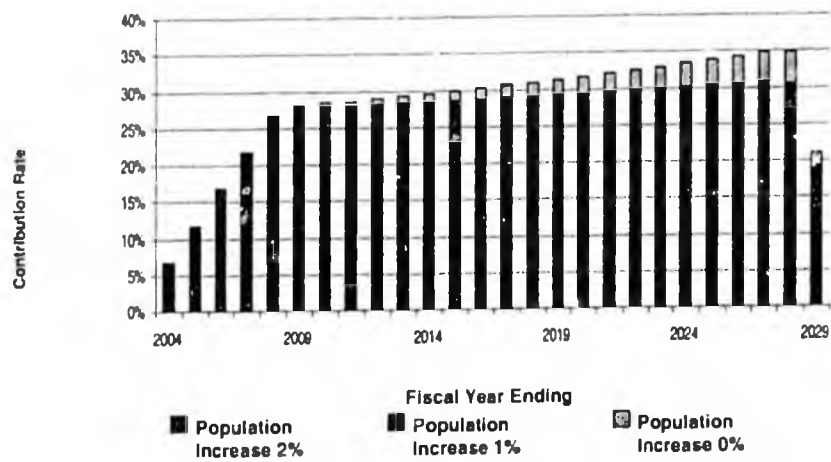
Mercer Human Resources Consulting

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

## Financial Summary

### Projections at Calculated Rate - PERS

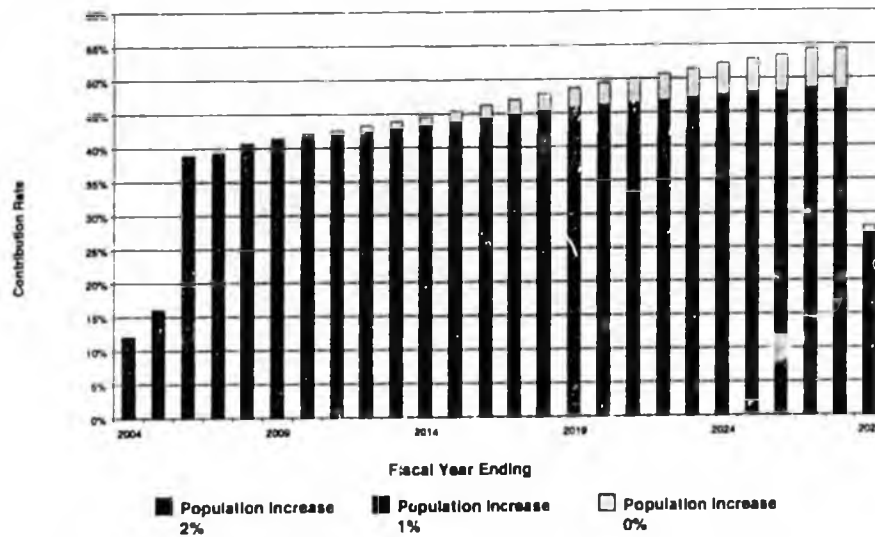
#### Contribution Rates



Slide provided by Mercer Human Resources and Division of Retirement & Benefits

## Financial Summary

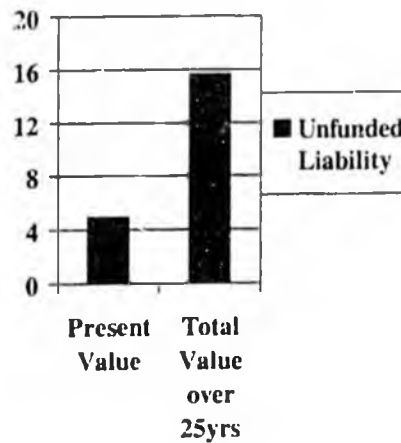
Projections at Calculated Rate - TRS  
Contribution Rates



Slide provided by Mercer Human Resources and Division of Retirement & Benefits

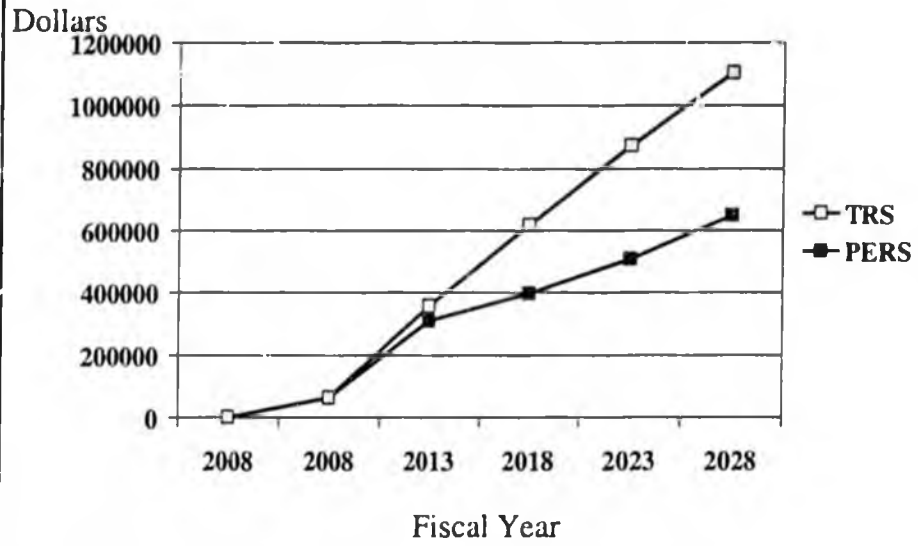
## Unfunded Liability Comparison

The 5b represents how much would have to be put in an account *today* to pay for future obligations. The 15.6b represents the *total* of all the payments over 25 years that will have to be made.



20

### Actual dollar value of increase in past service cost payments



Comparison of changes to SB 141 in House State Affairs and House Finance

DRAFT

	HSTA SB 141	Amendments	HFIN HB 141
<b>Changes to existing tiers</b>			
Current employer contribution rate	Floor of 11% TRS employers and 10% PERS employers <i>P. 8 line 2, p.72 line 16</i>		
Current employee contribution	Repealed		
Board members	-Increases the PERS and TRS members from 2 to 4 -PERS & TRS members are elected by their member groups <i>p. 4 line 24 - p.48 line 5</i>		
Board terms	-each member serves no more than 2 consecutive 6 years terms. Terms staggered by 3 years. <i>p. 48 lines 6-9</i>		-each member serves no more than 2 consecutive 4 year terms. Staggering of terms in determined by the governor. <i>P.106 lines 20-22</i>
<b>Creating a new DC account</b>			
Employee Contribution Rate	8% <i>p. 15 line 20, p.82 line 31</i>		8%
Employer Contribution Rate (to DC pension account)	4.5% <i>p.16 line 10, p. 83 line 20</i>		4.5%
Total employer contribution rate	4.5% to DC pension account; 2% to HRA, 3.5 PERS + 3.75 TRS to medical = <b>10.25% TRS, 10% PERS</b>		4.5% to DC pension account, 2% to HRA, 1.75% to medical = <b>8.25%</b>
<b>Medical Benefits</b>			
Medical eligibility	30 years of service access only until normal retirement age or retire directly from the system with 10 years of service, age 60-months pre-Medicare eligible. <i>p.26 lines 5-18, p.93 lines 15-28</i>		25 years of service police/fire, 30 years of service "other" any age receive access to the system. 10 years of service receive medical benefits at age 65. <i>p.92 lines 27-28</i>

Medical benefits package	<p>-At age 60 months pre-Medicare receive a subsidy based on years of service, 30% for 10 years increasing by 3% for each additional year until 30 years of service, or 90%.</p> <p>-health care inflation is shared by retiree and system. Subsidy is calculated from a subsidy base that increases by no more than 5% annually</p> <p>-when retiree becomes age Medicare eligible, their premium amount and subsidy base decrease by approx. 1/2</p> <p><i>p.26 line 19 - p.28 line 15, p.93 line 29 - p. 95 line 25</i></p>		<p>-At age 65 retiree receives a subsidy based on years of service, 70% for 10-14 years, 75% for 15-19 years, 80% for 20-24 years, 85% 25-29 years and 10% 30+ years.</p> <p><i>p.25 line 10 - 27 line 26</i> <i>p.92 line 25 - p.94 line 21</i></p>
Employer contribution required for medical benefits	3.75% TRS, 3.5% PERS <i>p.16 line 12, p.83 line 22</i>		1.75% <i>p.15 line 17, p.83 line 1</i>
HRA, member access	<p>An employee has access to their HRA plus accumulated interest at normal retirement age after 10 years of service. Any amount of time may pass between employment periods to fulfill vesting requirements.</p> <p><i>p. 28 lines 25 - 27 + p. 59 lines 20 - 27</i></p>		<p>An employee has access to their HRA when they become eligible for medical benefits. If an employee leaves employment for more than 10 years, their HRA account will be terminated. If they reinstate employment within 10 years the balance will be restored from when they were terminated without accrued interest or adjustments.</p> <p><i>p.58 lines 7-15</i></p>
HRA employer contribution amount	2% <i>p.59 line 15</i>		3% <i>p.58 line 2</i>
Penalty for fraud	Removed the existing language that a person who knowingly		

	<p>makes a false statement  “forfeits all rights under this  chapter. Language confirms to  PERS AS 39.35.670  <i>p.13 lines 5-8, p.97 lines 25-28</i></p>		
DOL instructors	<p>Allow DOL instructors to  remain in TRS if they were  previously a TRS member  <i>p. 14 lines 16-20, p.80lines 26-31</i></p>		Deleted.
Legislative intent	<p>-Intent language in Sec. 1 states  that R&amp;B implement by  regulation cost-saving  measures in the retiree health  care system (cites examples)  <i>p.2 line 5-16</i>  -Requires annual report to  legislature by R&amp;B on  implementation of cost saving  measures <i>p. 110 lines 11-14</i></p>		Deleted.

**PERS (Alternative)**

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

<b>FEMALE</b>			
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%

<b>MALE</b>			
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	2.5%
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%**

<b>FEMALE</b>			
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	\$297,618	\$11,248	92%
30	\$808,948	\$21,196	114%

<b>MALE</b>			
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 2%

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	2.5%
<b>Total Employer contribution</b>	<b>10.5%</b>
24 year average employer contribution	10.9% - 11.1%
5 year average employer contribution	10.8% - 11.5%

## **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

## Summary Of State Affairs PERS/TRS Bill

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### Changes to Existing Tier

**-Equal employee and employer contributions.** The employee will contribute ½ of the Actuarially Computed Rate with a ceiling of 13% for PERS and 14% for TRS. The employer will contribute ½ the Actuarially Computed Rate with a floor of 10% for PERS and 11% for TRS.

**-Preferred drug list.** Retirees will be required to use the provider's preferred drug list whenever available. If a comparable drug is not available on the provider's preferred drug list, the retiree's medical plan will pay for the non-formulary medication. However, if the choice is due to preference, the retiree must pay the difference between the generic/formulary version and the brand name one. This does not change any co-pay requirements.

**-Definition of ad hoc Post Retirement Pension Adjustment (PRPA).** The conditions upon which the administrator may distribute an ad hoc PRPA (a 4% increase in pension payment due to a rise in the cost of living) are a) when the administrator determines there is an increase in the cost of living and b) when the financial condition of the retirement fund permits. This bill defines the "financial condition of the retirement fund" as 100% funded, or the present value of all the member benefits accrued by members in the system (*in other words no outstanding unfunded past service cost liability*).

### Creating a Defined Contribution (DC) tier

**-Employee contribution.** Employee contributes 10% under PERS and 11% under TRS to their DC account.

**-Employer contribution.** Employer contributes 10% under PERS and 11% under TRS to the employee's retirement. That contribution is broken out for PERS into 3.5% for medical, 1% for a Health Reimbursement Account (HRA) and 5.5% to retiree's DC account. That contribution is broken out for TRS into 3.75% for medical, 1.5% for a Health Reimbursement Account (HRA) and 5.75% to a retiree's DC account.

**-Base Salary Only.** Employee has a one-time choice to contribute based on a) their basic pay only (excluding bonuses, cost differentials, etc) or b) on their total salary. The base used for calculating the employer's contribution will reflect the employee's choice.

**-Vesting.** Employee is immediately vested in both their portion of their DC account and their employers (excluding employer medical and HRA contributions).

**-Investment options.** The employee may choose between several investment options put forth by the PERS/TRS board with varying degrees of risk. It is the intent of this legislation to offer the State's Supplemental Annuity Plan as a framework for management and member investment options of the defined contribution retirement fund.

**-Roll over from one qualified plan to another.** A terminated employee's DC account can be rolled over into a qualified plan. A new hire can roll over an account from a previous employer's qualified plan into their State DC account. No additional employer matching liability is attributed to any roll over.

**-Transfer of employees in an existing tier to a defined contribution tier.** All non-vested current tier employees have until 90 days from the effective date of this legislation to transfer to a defined contribution plan. This is a one-time transfer and all employees will be required to sign a document confirming that they understand the implications of their transfer. Upon transfer the employee will bring with them into the new system the dollar amount they and their employer contributed towards their pension to be placed in their DC account. They will also bring with them the dollar amount from their employer's contribution to their medical benefits necessary to buy the accumulated years of service under the new DC plan. The employee's years of service will count towards their medical benefit requirements under the DC plan.

**-State aide to Past Service Cost.** The state will create the Past Service Offset Account (PSCOA), a separate fund to pay the past service cost rate associated with all employees under the defined contribution tier. This account will pay the individual employer's past service cost rate associated with their DC tier employees (new hires and transfers) up to the average past service cost rate for all members. For TRS the payment amount from the PSCOA is equal to the past service cost rate and for PERS the individual past service cost rates are based on employer history.

#### **Medical components of Defined Contribution tier**

**-Eligibility requirement for medical.** A retiree must retire directly from the system to be eligible for medical benefits, either at the age of 60 with 10 years of service or 30 years of service. The member must be employed in the system a minimum of 12 continuous months before retiring. Member's dependents (spouse and eligible children) are eligible for medical benefits. If a retiree dies, member's dependents are still eligible.

**-Early Retirement.** A retiree who has satisfied 30 years of service but has not yet reached 60 will receive access only to a the medical plan.

**-Normal Retirement.** Normal retirement is at the age of 60 whereupon the retiree is granted access to a medical plan and a subsidy to pay the premium for that plan depending on their years of service. The subsidy amount begins at 30% for 10 years of service and increases incrementally by 3% for each additional year of service until 30 years, or a 90% subsidy.

**-Medicare Eligible.** Upon becoming eligible for Medicare (age 65), the retiree's plan will remain the same, however their premium is reduced. The same percentage of state subsidy based on years of service applies.

**-Health Reimbursement Account (HRA).** A HRA is established for each member to help pay for premiums, co-pays, deductibles and any other applicable health care expenses the member or their dependents may have. The employer will contribute 1% of the employee's salary to their HRA for PERS and 1.5% for TRS.

## Changes to Current Tiers Under the Proposed Bills

Bills	SB 141	HB 177 and HB 170	State Affairs Bill
<b>Prescription drug Changes</b>	None	None	Requires retirees to purchase prescription drugs from a preferred drug list unless otherwise recommended
<b>Employee Contribution Rates</b>	One-half the NCR <sup>1</sup> set at an increase of .5% every year until the employer contribution rate reaches ½ the NCR.	HB 177- One-half the amount needed to fund the system (ACR) <sup>2</sup> with a maximum increase of 5% per year. Police/fire contribute additional 1%	One-half the amount needed to fund the system (ACR) capped at 13% for PERS <sup>3</sup> and 14% for TRS <sup>4</sup> . Maximum increase of 5% per year.
<b>Employer Contribution Rates</b>	No more than 5% increase in PSC <sup>5</sup> rate per year. Not less than the difference between the NCR and the employee contribution.	No more than 5% increase in PSC rate per year	No more than 5% increase in PSC rate per year. One-half the NCR with a floor at 10% PERS, 11% TRS
<b>Ad hoc PRPA's</b>	Places limiting conditions on ad hoc PRPA's'	None	Places limiting conditions on ad hoc PRPA's
<b>PERS/TRS Board</b>	Eliminates PERS & TRS Board and ASPIB <sup>7</sup> . Creates new ARM <sup>8</sup> Board with fiduciary responsibility only, and designates other aspects of current boards.	HB 170. Changes the requirements for members of the PERS & TRS Boards.	None
<b>COLA</b>	Repeal COLA <sup>9</sup>	None	None
<b>Refunded re-hires</b>	No longer allow re-instating past employees at current tier status. A past employee who has cashed out of the system cannot buy back that time, vest and collect benefits.	None	None

<sup>1</sup> NCR - Normal Cost Rate

<sup>2</sup> ACR - Actuarial Computed Rate

<sup>3</sup> PERS - Public Employees Retirement System

<sup>4</sup> TRS - Teacher's Retirement System

<sup>5</sup> PSC - Past Service Cost

<sup>6</sup> PRPA - Post Retirement Pension Adjustment

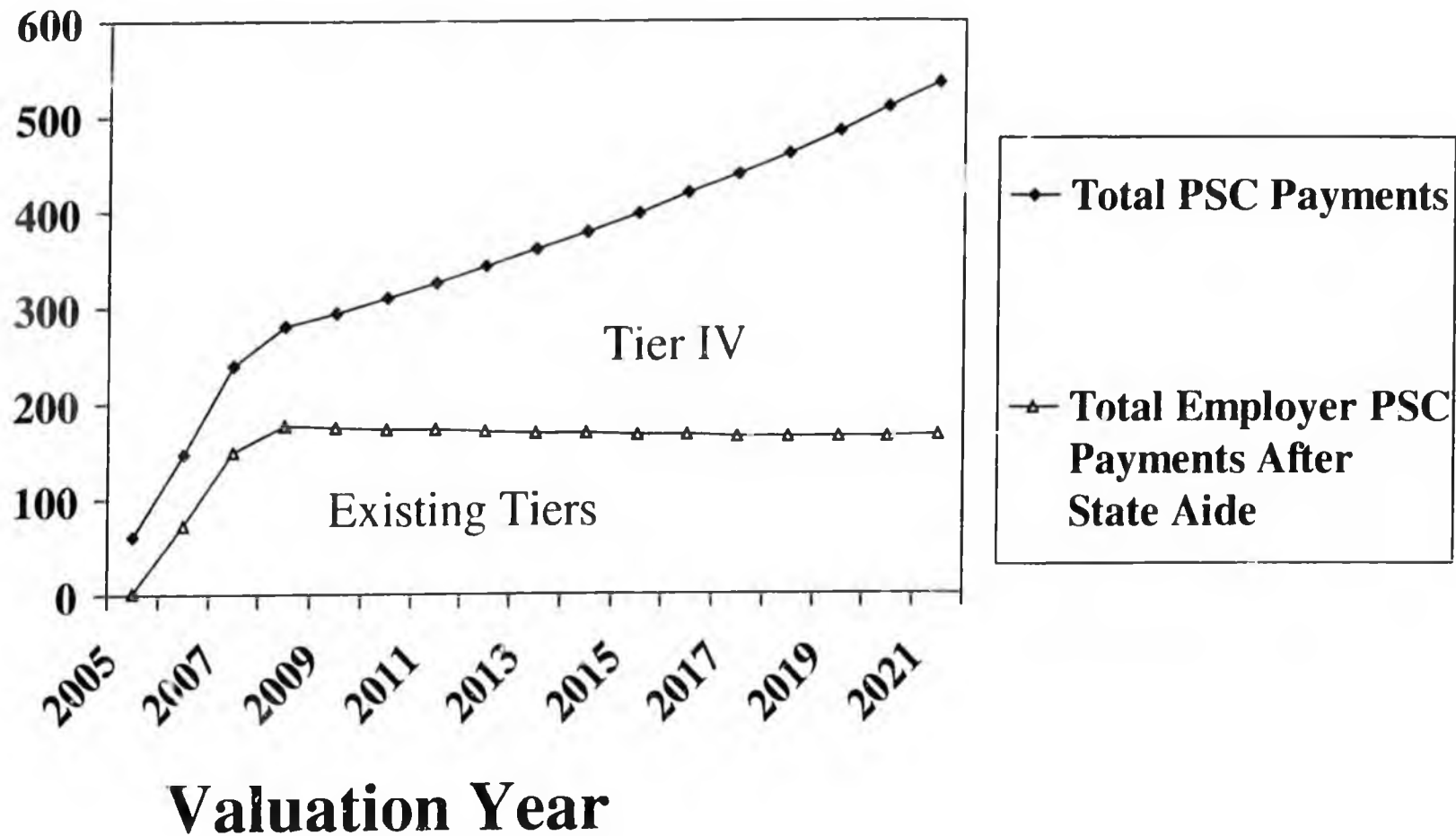
<sup>7</sup> ASPIB - Alaska State Pension Investment Board

<sup>8</sup> ARM - Alaska Retirement Management

<sup>9</sup> COLA - Cost of living adjustment

# PERS Aide to Communities From Past Service Cost Offset Account: Actual Dollar Value

Millions of dollars



<b>Aid To Communtines From Past Service Offset Account</b>						
<b>Actual Dollar Value</b>						
<b>Valuation Year</b>	<b>PSC State Aide Untill Blended Rate</b>	<b>Total PSC Paymnets</b>	<b>Total Employer PSC Payments After State Aide</b>			
2005	59,854,472	61,024,000	1,169,528.32			
2006	74,216,999	146,707,000	72,490,000.62			
2007	88,999,019	238,945,000	149,945,980.60			
2008	104,493,323	280,279,000	175,785,677.45			
2009	120,568,676	295,088,000	174,519,324.47			
2010	137,353,683	310,344,000	172,990,317.09			
2011	154,783,006	326,448,000	171,664,994.14			
2012	172,841,421	343,250,000	170,408,579.13			
2013	191,780,849	360,869,000	169,088,151.00			
2014	211,311,021	379,348,000	168,036,979.32			
2015	231,514,256	398,753,000	167,238,741.40			
2016	252,484,282	418,799,000	166,314,717.88			
2017	274,195,360	439,709,000	165,513,640.43			
2018	296,674,517	461,776,000	165,101,482.84			
2019	319,821,065	484,879,000	165,057,935.50			
2020	343,579,788	509,151,000	165,571,211.62			
2021	368,075,676	534,694,000	166,618,323.77			

	Current PERS Tier I/II TRS Tier I DB Plan	Current PERS Tier II/III & TRS Tier II DB Plan	State Affairs DC PERS/TRS Bill	Senate Bill 141 - DC	House Bill 191 - DC
<b>PERS employee contribution rate</b>	6.75% other 7.5% Police/fire 9.6% school district	6.75 or 7.5% other 7.5% Police/fire 9.6% school district	10% all members	8% all members voluntary % up to IRS limit	8% other police/fire 8.5%
<b>TRS employee contribution rate</b>	8.65%	8.65%	11% all members	8% all members	10% all members
<b>Vesting</b>	5 years PERS 8 years TRS	5 years PERS 8 years TRS	Employee is immediately vested in both employee and employer contribution	Immediate for employee contributions  Fully vested in employer contributions after 5 years (graduated scale of 25%/yr)	Employee is immediately vested in both employee and employer contribution (however employer contribution is graduated)
<b>Retirement Age</b>	55 normal – 50 early 30 "others" 20 police/fire 20 teachers	60 normal – 55 early 30 "others" 20 police/fire 20 teachers	Any age	Any age	Any age
<b>PERS &amp; TRS Benefit Formula</b>	2% up to 2.5% multiplier per year DB multiplier X years of service X high 3 year average salary	2% up to 2.5% multiplier per year DB multiplier X years of service X high 3 (TRS) or 5 (PERS) year average salary	20% PERS (includes 1% for HRA & 3.5% for medical) 22% TRS (includes 1.5% for HRA & 3.75% for medical)	16% per year to a DC account and investment earnings (includes 1% for HRA & 3.5% for medical)  5 yr graduated vesting scale of 25% increase per year  HRA - 1% average salary of employee subgroup up to \$500 annual limit	16% after five years of service - before 5 years a percentage of the employer contribution is distributed at (1 <sup>st</sup> yr 0%, 2 <sup>nd</sup> yr 25%, 3 <sup>rd</sup> yr 50%, 4 <sup>th</sup> yr 75%, 5 <sup>th</sup> yr+ 100%)
<b>Medical</b>	Do not have to retire directly from the system to be service or age eligible for medical coverage  Medical plan premium paid by retirement system for all retirees and dependents.  Except Tier II retirees	Do not have to retire directly from the system to be service or age eligible for medical coverage  Must have 10 years of service for system-paid coverage over age 60.  Employees with less than 10 years pay full	Must retire directly from the system with either 60 years adjusted to the change in mortality rate when adopted w/ 10 years of service OR 30 years service  Early retirees -	Must retire directly from the at age 65 w/ 10 years of service OR 25 yrs police/fire 30 yrs other  Access to medical coverage with one year of active service prior to retirement and age 65 with 10 years of service,	Must retire directly from the system at age 65 w/ 10 years of service OR 25 yrs police/fire 30 yrs other  Access to medical coverage with one year of active service prior to retirement and age 65 with 10 years of service,

	Current PERS Tier I/II TRS Tier I DB Plan	Current PERS Tier II/III & TRS Tier II DB Plan	State Affairs DC PERS/TRS Bill	Senate Bill 141 - DC	House Bill 191 - DC
	and survivors pay full premium under age 60.	premium for access to coverage.	Access to system, no subsidy till age 60 adjusted Retirees over 60 adjusted- Access to defined dollar medical with subsidy depending on length of service.  Retirees over Medicare eligible age - Access to medical with a reduced premium and percent subsidy based on years of service  Reimbursed for qualified medical expenses from HRA.	or at any age after (1) 25 years for peace officer/firefighter, or (2) 30 years for all others  Retiree and survivors pay full premium until Medicare eligible  After Medicare eligible, retiree shares cost based on years of service.  Reimbursed for qualified medical expenses from HRA.	or at any age after (1) 25 years for peace officer/firefighter, or (2) 30 years for all others  Retiree and survivors pay full premium until Medicare eligible  After Medicare eligible, retiree shares cost based on years of service.  Reimbursed for qualified medical expenses from HRA.
<b>Employer Normal Cost Rate PERS</b>	Current Normal Cost Rate 13.24%  20 year average 10.86%	Current Normal Cost Rate 13.24% (8.68% medical, rest pension)  20 year average 10.86%	10% (3.5% medical, 1% HRA)	8.25% (3.5% pension, 3.75% medical, 1% max \$500 HRA)	8% w/ following conditions - 1 <sup>st</sup> yr 0%, 2 <sup>nd</sup> yr 25%, 3 <sup>rd</sup> yr 50%, 4 <sup>th</sup> yr 75%, 5yr+ 100%
<b>Employer Normal Cost Rate TRS</b>	Current Normal Cost Rate 13.24%  20 year average 11.16%	Current Normal Cost Rate 13.24% (9.07% medical, rest pension)  20 year average 11.16%	11% (3.75% medical, 1.5% HRA)	8.25% (3.5% pension, 3.75% medical, 1% HRA)	8.75% w/ following conditions - 1 <sup>st</sup> yr 0%, 2 <sup>nd</sup> yr 25%, 3 <sup>rd</sup> yr 50%, 4 <sup>th</sup> yr 75%, 5yr+ 100%
<b>Risk</b>	Employer bears all the risk	Employer bears all the risk	Employer risk is minimal, employee bears investment risk	Employer risk is minimal, employee bears investment risk	Employer risk is minimal, employee bears investment risk
<b>Salary only</b>	All salary (including overtime, bonuses, etc)	All salary (including overtime, bonuses, etc)	Employee option base salary or total salary	Unknown	Base salary only
<b>Roll Over</b>	Accepts rollover from	Does not accept roll	Roll over accepted	Roll over accepted from	Does not accept roll over

	Current PERS Tier I/II TRS Tier I DB Plan	Current PERS Tier II/III & TRS Tier II DB Plan	State Affairs DC PERS/TRS Bill	Senate Bill 141 - DC	House Bill 191 - DC
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	qualified programs	over from qualified programs nor can you rollover into a qualified program	from qualified programs and you can roll over into a qualified program	qualified programs and you can roll over into a qualified program	from qualified programs but you rollover into a qualified program
Investment Options	ASPIB manages investments	ASPIB manages investments	ASPIB manages investments similar to SBS	Participant controls investments and has access to a range of investment options from the ARM Board ARM has all fiduciary responsibility. Managed similar to SBS	ASPIB manages investments
State Financial Help	N/A	N/A	Past Service Cost Offset Account 2.681 billion	69.5 million to compensate 5% increase in employer costs FY05 -FY06 (for school districts this is inc. in the BSA)	None
Transfer of employee to a DC plan	N/A	N/A	Allows the transfer of current, non-vested employees to a DC account within 90 days from the enactment of legislation	None	None

ASEA

Question: All unions were sent a Tier Survey and participate in providing input about future tiers.

Did ASEA respond to this Survey?

(Answer is no)

only NEA provided a response

# Alaska State Legislature

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## REPRESENTATIVE Paul Seaton

District 35

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### Actual Projections of Pension Amounts

#### INDEX

1. HB 238 TRS projected benefits – rate of return 8.25%
2. HB 238 TRS projected benefits – rate of return 6.25%
3. HB 238 PERS projected benefits – rate of return 8.25%
4. HB 238 PERS projected benefits – rate of return 6.25%
5. SB 141 TRS projected benefits – rate of return 8.25%
6. SB 141 TRS projected benefits – rate of return 6.25%
7. SB 141 PERS projected benefits – rate of return 8.25%
8. SB 141 PERS projected benefits – rate of return 6.25%

**TRS**

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

<b>FEMALE</b>			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	\$98,267	\$5,356	81.2%
20	\$349,176	\$13,195	107.34%
30	\$948,959	\$24,864	138.93%

<b>MALE</b>			
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%**

<b>FEMALE</b>			
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%

<b>MALE</b>			
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%**

<b>FEMALE</b>			
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%

<b>MALE</b>			
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%**

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

<b>MALE</b>			
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%**

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

<b>MALE</b>			
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%**

<b>FEMALE</b>			
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%

<b>MALE</b>			
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)



**SB 141 Projected Benefits – Rate of Return 8.25%**

<b>FEMALE</b>			
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%

<b>MALE</b>			
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%**

<b>FEMALE</b>			
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%

<b>MALE</b>			
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)

## 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 – 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	<b>-56,826</b>

Page 2

PERS "other" late hire, 20 years, retires at 60 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	<b>106,736</b>

Page 5

PERS "other" late hire, 20 years, retires at 60 – 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	<b>21,113</b>

Page 4

## TRS

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

TRS early hire, 30 years, retires at 60 – 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	<b>-113,086</b>

Page 12

TRS late hire, 20 years, retires at 60 – 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	<b>1,131</b>

Page 14

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

Page 15

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 employer 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. *Add PRPA*
- 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) —

Brad Lawson

- 1 Employee more share
- 2
- 3 more for more years favor
- 4 predictable + stable
- 5 health care inflation risk should be shared.
- 6 New Tiers
- 7 annual cost of should not exceed

5% eliminates the health inflation risk

Why not apply to past medical liability

5964

Gatto  
Greenberg

\* Preferred provider Network  
\* Loyalty



287 to actives

## TRS

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

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Page 4



**State of Alaska**

**PERS & TRS**

**Proposed Medical Program**

**House State Affairs**

**April 2, 2005**



# 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
<b>Medical</b>		
▪ 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%
<b>Prescription Drug</b>		
▪ 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
<b>Dental, Vision, Audio</b>	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.

Mercer Human Resource Consulting

**Slide 8**



# **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%

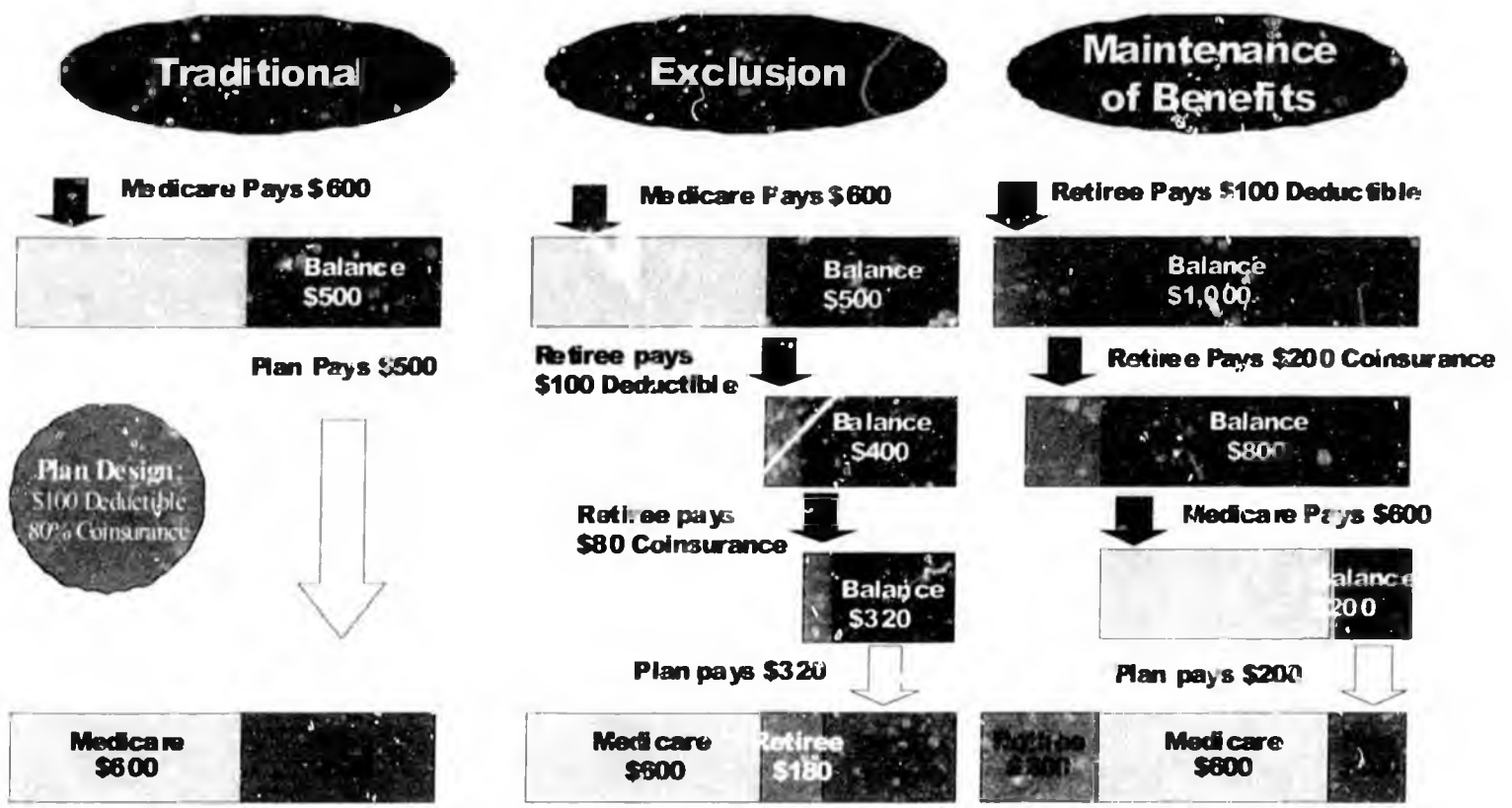
⇒ Apply percentages to the contribution base to arrive at the applicable contribution amount



# Exhibit A

## Types of Medicare Integration

Total Expense \$1,100



Traditional – Calculates what the plan would have paid as sole provider and adds what Medicare pays. If the total is more than 100% of the bill, the plan pays only enough to total 100%. The retiree often pays no deductible or coinsurance.

Exclusion – Determines the total expenses covered under the plan, reduces them by Medicare benefits and then applies the deductibles, coinsurance and other plan limits.

Maintenance of Benefits – Calculates the plan's payment as if there were no Medicare coverage, applies the deductibles, coinsurance and other plan limits and pays the remaining amount minus what Medicare pays. Also call Carve-Out.

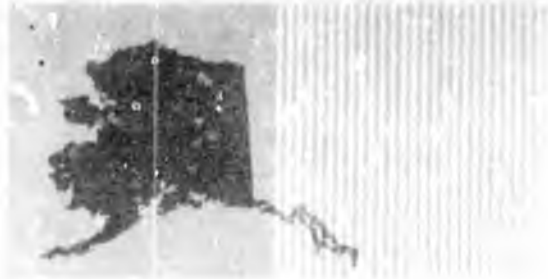


# Proposed Alternatives

## 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>
Medicaid 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%

A large, dark silhouette of the state of Alaska is centered on the left side of the slide. Overlaid on this map is the main title text.

# **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

## 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
- ⇒ Cannot have any right to receive cash benefit



# 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)

---

**AETNA**

<b>FY</b>	<b>ACTIVE (not including HCRA)</b>	<b>RETIREE</b>	<b>TOTALS</b>
FY2004	49,090,468.49	226,327,566.63	275,418,035.12
FY2003	45,494,240.37	205,456,182.54	250,950,422.91
FY2002	44,000,570.07	148,253,457.29	187,349,226.04
FY2001	80,606,702.55	128,326,641.80	208,933,344.35
FY2000	64,695,827.71	106,312,621.78	171,008,449.49

---

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**PUBLIC EMPLOYEES' / TEACHERS' RETIREMENT SYSTEM  
HOUSE STATE AFFAIRS – MEDICAL INFORMATION**

**SUBJECT: PERS / TRS Tier Classification Medical Benefits**

**DATE: APRIL 2005**

PERS	Tier 1	Tier 2	Tier 3	Total
Active	7,916	9,086	16,878	33,880
Deferred Vested	2,864	2,785	393	6,042
Deferred	1,871	3,079	7,188	12,138
Retired	17,352	2,041	101	19,494
<b>Total</b>	<b>30,003</b>	<b>16,991</b>	<b>24,560</b>	<b>71,554</b>
Medical Benefits	System paid medical benefits for all benefit recipients and their eligible dependents.  Eligible after vesting and normal retirement age of 55 or early retirement at age 50.	System paid medical benefits for Police / Firefighters after 25 years or "all others" at 30 years of service.  Eligible after vesting and age 60. Under 60 must pay premium.  Disabilitants, regardless of age receive medical coverage.	System paid medical benefits for Police and Firefighters after 25 years or "all others" at 30 years of service.  Eligible at age 60 after vesting; 10 years of credited service to qualify. Under age 50 must pay premium.  Disabilitants, regardless of age receive medical coverage.	

TRS	Tier 1	Tier 2	Total
Active	3,204	7,037	10,241
Deferred Vested	404	259	663
Deferred	601	1,947	2,548
Retired	8,462	184	8,646
<b>Total</b>	<b>12,671</b>	<b>9,427</b>	<b>22,098</b>
Medical Benefits	System paid medical benefits for all benefit recipients and their eligible dependents.  Eligible after vesting and normal retirement age of 55 or early retirement at age 50.	System paid medical benefits for teachers after 25 years of service.  Eligible after vesting and age 60. Under 60 must pay premium. Disabilitants, regardless of age receive medical coverage.	

(Above member counts for both systems are as of October 11, 2004)

Note: Medical benefits account for a significant portion of the Systems liabilities.



## Liabilities Due to Pension and Medical (000's)

	<u>PERS</u>		<u>TRS</u>	
Accrued Liability				
Non-medical	\$ 7,189,244	63%	\$ 4,216,480	69%
Medical	<u>4,254,672</u>	37%	<u>1,907,120</u>	31%
Total	11,443,916		6,123,600	

# MEMORANDUM

**STATE OF ALASKA**  
**DEPARTMENT OF ADMINISTRATION**  
**Division of Retirement and Benefits**

To: Representative Seaton  
House State Affairs

Date: April 16, 2005

From: Melanie Millhorn *M.M.*  
Director

Subject: Retiree Health Care Costs  
Comparison w/Private Sector

This memo provides information at the request of Representative Ramras regarding health care costs involving the retiree health plan and includes information about retiree health care cost trends in the private sector.

- As of the June 30, 2004 (draft actuarial valuation report) the accrued liability for retiree medical costs is \$6.1 billion dollars for PERS and TRS (attached)
- From FY2000 - FY2005 the Retiree Health Plan paid over \$800 million in health care costs - over \$1 billion was paid during this five year period when you include active employees health care costs (attached)
- Retiree Health Plan currently covers approximately 27,000 members and approximately 25,000 dependents for a total of 52,000 covered lives
- There are approximately 90,000 members (all categories) for PERS and TRS who may be eligible for system paid medical coverage (attached)

---

#### Rising Health Care Costs and Impacts to Retirees Found in Private Sector

- On March 3, 2005, Wall Street Journal article titled "Retirees' Families Face Health Cuts - As Medical Costs Increase" a growing number of big employers are excluding dependents (spouses and children) from their retirees' health plans. Lucent Technologies, International Business Machines Corp, Boeing Co. (attached)
- On April 7, 2005, Wall Street Journal examined impact of rising health care cost on GM, which expects to spend \$5.6 billion to provide health care coverage to 1.1 million active and retired members. GM has posted \$73 billion in retiree health care liability at the end of last year with a ratio of 2.4 retirees for every active employee. The average U.S. Corporate employee pays 32% of the cost of health care.

Please let me know if you have any questions about this correspondence.

#### Attachments

cc: Members of House State Affairs  
Kevin Brooks, Deputy Commissioner

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RECEIVED

FEB 15 2005

Examples of Eligibility Standards for DPA-Administered Programs

Office of the Commissioner  
DHSS - Juneau

Program	Living Arrangement	Allowable Monthly Income (2003 Need Standard)	Maximum Benefit	Allowable Resources
Alaska Temporary Assistance	Parent and one child	\$1069	\$821	\$2000
	2 Parents able to work and one child	\$1069	\$821	
	2 Parents, one too ill to work and one child	\$1202	\$923	
	Child living with non-needy relative	\$587	\$452	
	Parent over 60 and one child	\$1069	\$821	\$3000
Adult Public Assistance	Individual living independently	\$1025	\$914	\$2000
	Couple, one eligible	\$1233	\$1073	\$3000
	Couple, both eligible	\$1519	\$1357	
General Relief Assistance	One person	\$300	\$120	\$500
	Two persons	\$400	\$240	
	Burial assistance	\$300	\$1250	
Food Stamps	One person - Urban	\$1201	\$169	\$2000
	One person - Rural I		\$215	
	One person - Rural II		\$262	
	Two persons - Urban	\$1618	\$309	
	Two persons - Rural I		\$395	
	Two persons - Rural II		\$481	
	Two persons, one disabled or 60+ - Urban		\$309	\$3000

### Alaska Temporary Assistance Program (ATAP)

The ATAP program replaced the Aid to Families with Dependent Children program. This program helps families transition from welfare to work by paying for services such as tuition, transportation, and childcare. The program has a 60-month lifetime limit for most families.

Citizenship	Recipients must be U.S. citizens or qualified aliens. Aliens must have been in the U.S. for five years.
Alaska Residency	Must be resident of Alaska
Age	No age requirement for the caretaking relative. Dependent children must be under 18, except those attending school full time may continue to receive assistance until their 19th birthday.
Social Security Number	All recipients must have or apply for a social security number.
Work	Most adult participants must engage in approved work activities. Failure to do so results in reduced benefits.
Allowable Income	Allowable income varies according to the status and living arrangement of the recipients. The maximum income for a family consisting of one eligible child, adult not included is \$587 per month, and each additional child adds \$133 to the amount. The maximum income for a family consisting of one eligible child and one eligible adult is \$1,069 per month, and each additional eligible child adds \$133 per month to the amount. Deductions are allowed for some earnings and expenses.
Allowable Resources	The asset limit is \$2,000 for most households, and \$3,000 for households with a member over 60.
Effect of PFD	None
Cross-Program Effects	Participants are ineligible for Supplemental Security Income or Adult Public Assistance. Adult Temporary Assistance Program counts as income for Food Stamps, General Relief Assistance, and Alaska State Housing Authority programs.
Benefits	Benefit amounts vary according to the status and living arrangement of the recipients. The maximum benefit for a family consisting of one eligible child is \$452 per month, and each additional child raises that amount by \$102. The maximum benefit for a family consisting of one eligible child and one eligible adult is \$821 per month, and each additional eligible person raises that amount by \$102 per month.
Method of Payment	Payment is made to the recipient.
Administrator	Department of Health and Social Services, Division of Public Assistance
Funding Source	60% state and 40% federal
Caseload	Average 7,325 recipients during FY01 (includes Tribal TANF programs)

**Notes:**

ATAP is part of the federal Temporary Assistance to Needy Families (TANF) program.

**Sources:**

Angela Saierno, Legislative Liaison, Department of Health and Social Services, 907-465-3200.

Division of Public Assistance ATAP website, <http://health.hss.state.ak.us/dpa/programs/atap.html>.

### Medicaid Standards

FAMILY MEDICAID GROSS AND NET INCOME ELIGIBILITY STANDARDS					
2004			2005		
HOUSEHOLD SIZE	GROSS (185%)	NET	HOUSEHOLD SIZE	GROSS (185%)	NET
Adult Included			Adult Included		
1	1263	683	1	1296	701
2	2018	1091	2	2072	1120
3	2269	1227	3	2331	1260
4	2521	1363	4	2590	1400
5	2773	1499	5	2849	1540
6	3024	1635	6	3108	1680
7	3276	1771	7	3367	1820
Each Additional	251	136	Each Additional	259	140
Adult Not Included			Adult Not Included		
1	1108	599	1	1137	615
2	1359	735	2	1396	755
3	1611	871	3	1655	895
4	1862	1007	4	1914	1035
5	2114	1143	5	2173	1175
6	2366	1279	6	2432	1315
7	2617	1415	7	2691	1455
Each Additional	251	136	Each Additional	259	140

SSI PAYMENT STANDARDS		
SSI COLA	2.1%	2.7%
HOUSEHOLD TYPE	1/1/2004	1/1/2005
A Individual	564	579
B Individual	376	386
A Couple, Both Eligible	846	869
B Couple, Both Eligible	564	579.34
NH Personal Needs Allowance	30	30

LONG TERM CARE STANDARDS		
	1/1/2004	1/1/2005
NH, HCB Waiver, TEFRA Income Standard	1656	1656
Alaska NH Personal Needs Allowance	75	75
Alaska HCB Personal Needs Allowance	1656	1656
Alaska ALH Personal Needs Allowance (Beginning 8/1/04)	664	679
Maximum Community Spouse Resource Allowance	92,760	95,100
Community Spouse Monthly Income Maintenance Standard	2,319	2,377.50
Monthly Income Standard for Additional Household Members	773	792

2004 Monthly Federal Poverty Guidelines for Alaska Effective 4/1/2004								
HOUSEHOLD SIZE	QMB Working Disabled (premium level)	SLMB Base	SLMB Plus	Denali KidCare (limit for insured children)	Denali KidCare (limit for uninsured children) and Pregnant Women	Transitional Medicaid	QDWI	Working Disabled
	100%	120%	135%	150%		185%	200%	250%
1	\$970	\$1,163	\$1,309	\$1,454	\$1,635	\$1,793	\$1,939	\$2,423
2	\$1,301	\$1,561	\$1,757	\$1,952	\$2,208	\$2,407	\$2,602	\$3,253
3	\$1,633			\$2,449	\$2,782	\$3,021	\$3,265	\$4,082
4	\$1,965			\$2,947	\$3,355	\$3,634	\$3,929	\$4,911
5	\$2,296			\$3,444	\$3,928	\$4,248	\$4,592	\$5,740
6	\$2,628			\$3,942	\$4,501	\$4,861	\$5,255	\$6,569
7	\$2,960			\$4,439	\$5,074	\$5,475	\$5,919	\$7,398
8	\$3,291			\$4,937	\$5,647	\$6,089	\$6,582	\$8,228
Ea Addl	\$332			\$498	\$574	\$614	\$664	\$830

## Medicaid Standards

Self-Employment income Annualization Standards (185% FPG)			
Household Size	Income Standard Effective 4/1/2002	Income Standard Effective 4/1/2003	Income Standard Effective 4/1/2004
1	\$20,498	\$20,739	\$21,516
2	27,621	28,009	28,879
3	34,743	35,280	36,242
4	41,866	42,550	43,605
5	48,988	49,821	50,968
6	56,111	57,091	58,331
7	63,233	64,362	65,694
8	70,356	71,632	73,057
Addl.	7,123	7,271	7,363

2003 Monthly Federal Poverty Guidelines for Alaska								
Effective 9/1/2003								
HOUSEHOLD SIZE	QMB Working Disabled (premium level)	SLMB Base	SLMB Plus	Denall KidCare (limit for insured children)	Denall KidCare (limit for uninsured children) Pregnant Women	Transitional Medicaid	QDWI	Working Disabled (eligibility)
	100%	120%	135%	150%	175%	185%	200%	250%
1	\$935	\$1,121	\$1,262	\$1,402	\$1,635	\$1,729	\$1,869	\$2,336
2	\$1,262	\$1,514	\$1,704	\$1,893	\$2,208	\$2,335	\$2,524	\$3,155
3	\$1,590			\$2,384	\$2,782	\$2,940	\$3,179	\$3,973
4	\$1,917			\$2,875	\$3,355	\$3,546	\$3,834	\$4,792
5	\$2,245			\$3,367	\$3,928	\$4,152	\$4,489	\$5,611
6	\$2,572			\$3,858	\$4,501	\$4,758	\$5,144	\$6,430
7	\$2,900			\$4,349	\$5,074	\$5,364	\$5,799	\$7,248
8	\$3,227			\$4,840	\$5,647	\$5,970	\$6,454	\$8,086
Ea Addl	\$328			\$492	\$574	\$606	\$655	\$819

2003 Monthly Federal Poverty Guidelines for Alaska							
Effective 4/1/2003							
HOUSEHOLD SIZE	QMB Working Disabled (premium level)	SLMB Base	SLMB Plus	Denall KidCare (limit for insured children)	Transitional Medicaid	Denall KidCare (uninsured children) Pregnant Women	Working Disabled (eligibility)
	100%	120%	135%	150%	185%	QDWI 200%	250%
1	\$935	\$1,121	\$1,262	\$1,402	\$1,729	\$1,869	\$2,336
2	\$1,262	\$1,514	\$1,704	\$1,893	\$2,335	\$2,524	\$3,155
3	\$1,590			\$2,384	\$2,940	\$3,179	\$3,973
4	\$1,917			\$2,875	\$3,546	\$3,834	\$4,792
5	\$2,245			\$3,367	\$4,152	\$4,489	\$5,611
6	\$2,572			\$3,858	\$4,758	\$5,144	\$6,430
7	\$2,900			\$4,349	\$5,364	\$5,799	\$7,248
8	\$3,227			\$4,840	\$5,970	\$6,454	\$8,086
Ea Addl	\$328			\$492	\$606	\$655	\$819

**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	25,663	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	53,022	133,889
2018	2021	27,647	38,426	58,610	337,093	461,776	7,777	10,801	16,486	94,821	129,693
2019	2022	23,904	35,013	55,973	369,989	484,879	6,212	9,091	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	648,332	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
<b>Total</b>		<b>714,619</b>	<b>896,674</b>	<b>1,233,413</b>	<b>6,180,777</b>	<b>9,025,483</b>					

\* 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	135,653,981	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	1,921,527,873	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	29,698	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	57,836	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
<b>Total</b>		<b>459,561</b>	<b>1,304,484</b>	<b>4,877,135</b>	<b>6,641,180</b>	<b>234,981</b>	<b>556,468</b>	<b>1,292,193</b>	<b>2,083,642</b>		

\* 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	165,270,628	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

Hire Date	7/1/2005
Age at hire	25
Age at retirement	55
Subsidy Start Age	60
Service	30
Salary	\$42,245
Wage inflation	3.6%
HRA contribution rate	1.0%
HRA accumulation rate	8.25%
Subsidy Base (7/1/2003)	\$5,882
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	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	\$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	\$24,996	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	\$33,209	\$0	\$44,888	\$31,268	\$31,268
33	57	\$0	\$0	\$0	\$47,133	1.05	\$47,133	\$34,869	\$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	\$40,365	\$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

PERS "other" Early Hire - 1% HRA



Hire Date	7/1/2003
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%

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 projections must be interpreted as having a likely range of variability from the estimate.

HRA Fund at retirement	\$139,949		
Total retiree contribution	\$336,978	\$537,717	\$200,739
Net retiree cost (w/HRA int)	\$176,399		\$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	End of Year HRA Balance	HRA Spend
1	25	\$42,245	\$845	\$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	\$4,148	\$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

PERS "other" Early 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 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	\$16,916	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

PERS "other" Late Hire - 1% 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%

HRA Fund at retirement	\$51,495
Total retiree contribution	\$80,650
Net retiree cost (w/HRA int)	\$21,114

Assumes participant retires from system and is receiving system sponsored benefits  
 Assumes only use of HRA funds 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	\$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	\$1,035	\$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 Eligibility Age	60
Service	20

Salary	\$42,245
Wage inflation	3.0%

HRA contribution rate	2.0%
HRA accumulation rate	8.25%

Subsidy Base	\$5,982
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 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	\$290,044	Total State Subsidy	\$128,745	Total HRA Spend	\$54,563
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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	\$6,949	\$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	\$62,036	\$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	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)	\$5,932
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	\$102,457
Total retiree contribution	\$336,978
Net retiree cost (w/HRA int)	\$224,131

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	Beg 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	\$14,489	\$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	\$115,069	\$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	\$40,365	\$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

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)	\$5,982
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	\$204,913
Total retiree contribution	\$336,978
Net retiree cost (w/HRA int)	\$83,752

Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
\$537,717	\$200,739	\$253,226

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	\$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	\$10,697	1.09	\$0	\$8,895	\$0	\$0	\$0	\$0
6	30	\$71,707	\$1,434	\$10,174	\$11,600	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	\$13,456	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	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)	\$5,952
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	\$37,700
Total retiree contribution	\$80,650
Net retiree cost (w/HRA int)	\$38,936

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 Med/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	\$10,510	\$15,258	1.06	\$0	\$11,352	\$0	\$0	\$0	\$0
11	50	\$83,128	\$831	\$12,550	\$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	\$93,561	\$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	\$27,700	\$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	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%

HRA Fund at retirement	\$75,399
Total retiree contribution	\$80,650
Net retiree cost (w/HRA int)	\$0

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	\$80,650

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	Reg 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	\$11,900	\$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 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
\$290,044	\$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	\$1,653	\$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

PERS Police/Fire w/ spouse Late Hire - 2% HRA

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	3.25%
Subsidy Base (7/1/2003)	\$3,962
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	\$89,321
Total retiree contribution	\$336,978
Net retiree cost (w/HRA int)	\$239,523

Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
\$537,717	\$200,739	\$97,454

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 Contrib	Beg 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	\$15,258	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	\$16,918	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	\$84,013	\$840	\$20,843	\$20,564	1.05	\$0	\$15,213	\$0	\$0	\$0	\$0
17	41	\$86,534	\$865	\$25,463	\$21,592	1.05	\$0	\$15,971	\$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	\$38,329	\$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 - 1% HRA

Hire Date	7/1/2005
Age at hire	25
Age at retirement	55
Subsidy Start Age	60
Service	30
Salary	\$53,825
Wage inflation	3.0%
HRA contribution rate	2.0%
HRA accumulation rate	8.25%
Subsidy Base (7/1/2003)	\$5,932
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	\$178,643
Total retiree contribution	\$336,978
Net retiree cost (w/HRA int)	\$123,140

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	End of Year HRA Balance	HRA Spend
1	25	\$53,825	\$1,079	\$1,122	\$7,318	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	\$112,907	\$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	\$119,783	\$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

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	\$145,022	Total State Subsidy	\$64,373	Total HRA Spend	\$36,050
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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	\$14,596	\$32,866	\$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 40  
 Age at retirement 60  
 Subsidy Start Age 60  
 Service 20

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

Salary \$53,925  
 Wage inflation 3.0%

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 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

	Gross Retiree Premium Cost	Total State Subsidy	Total HRA Spend
	\$145,022	\$64,373	\$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	\$1,112	\$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	\$8,895	\$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	\$19,416	\$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 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	\$15,367	\$0	\$0	\$0	\$0
3	42	\$57,209	\$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	\$33,836	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

# STATE OF ALASKA

## DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

P.O. BOX 110601  
JUNEAU, ALASKA 99811-0601  
PHONE: (907) 465-3030  
FAX: (907) 465-3068

March 17, 2005

Representative Paul Seaton  
Alaska State Legislature  
State Capitol, Room 102  
Juneau, AK 99802

Dear Representative Seaton:

This is in response to your list of questions concerning the information on pharmaceutical costs in the PERS and TRS systems. While we in DHSS have some experience managing a Preferred Drug List for Medicaid, we are unable to predict any estimate of additional cost savings for two main reasons: 1) we do not have access to detailed information from Aetna on the individual pharmaceutical claims; and 2) we lack the actuarial expertise to estimate cost savings. In addition there are other complicating factors, such as the Medicaid program serves a completely different population than Retirees and thus would have a very different use of pharmaceuticals. Trying to extrapolate any experience from our Medicaid program PDL would be difficult and we lack the expertise to do it.

While it is reasonable to explore how to achieve savings and incentives with our retirees and their use of pharmaceuticals, the PDL and use of generic drugs can be only one solution to a complicated issue. The following is a list of issues that should be developed and discussed for a comprehensive view of the pharmacy program and retirees:

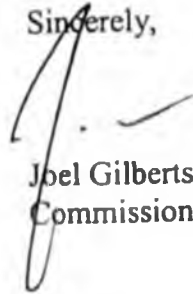
- 1) The use of Manufacturer's rebates;
- 2) Co-pay levels;
- 3) Consideration of a multi-tiered co-payment structure;
- 4) Mandating the use of generic drugs;
- 5) Develop a restrictive formulary;
- 6) Discussion of what type of drug classes is in a formulary;
- 7) Dispensing fees;
- 8) Mandating or providing incentives for mail order pharmaceuticals;
- 9) Using a reduction in the Average Wholesale price;
- 10) Providing Case Management services for certain users of pharmaceuticals;
- 11) Capping the number of prescriptions filled per month;
- 12) Restricting the number of refills that users can have at any one time.

Representative Paul Seaton  
Alaska State Legislature

March 17, 2005  
Page 2

We would certainly be interested in discussions of any and all of the factors outlined above with the Department of Administration, Aetna and the Legislature to achieve a better result for State retirees.

Sincerely,



Joel Gilbertson  
Commissioner

JSG:lb

Cc: Janet Clarke, Assistant Commissioner  
Sherry Hill, Special Assistant

	Senate Bill 141 DC Plan	Senate Bill 141 DC Plan Planned Changes	House Bill 191, 177, 170 (Kelly)	House State Affairs (Seaton)
<b>Benefit Formula</b>	11.5% per year to DC account + investment earnings.		16% after five years of service-- before 5 years a percentage of the employer contribution (see employer contribution rate below) is scaled at: 1st year 0%, 2nd yr 25%, 3rd yr 50%, 4th yr 75%, 5th yr 100%	15.5% PERS 16.75% TRS
<b>Rollover</b>	Rollover accepted from qualified programs and you can roll over into a qualified program		Does not accept rollover from qualified programs but you can rollover into a qualified program	Rollover accepted from qualified programs and you can roll over into a qualified program
<b>CONTRIBUTION DETAILS</b>				
<b>Employee Contribution Rates</b>	<b>DC Plan:</b> 8% all members (PERS & TRS) <b>DB Plan:</b> TRS 8.65% or 1/2 of the normal cost rate. <b>PERS:</b> 6.75% and 7.5% (Police/Fire) or 1/2 of the normal cost rate. Maximum increase of 5% per year.	Change: maximum increase to 50 basis points per year.	<b>DC Plan:</b> PERS 8.5% Police/Fire, 8% all others TRS 10% all members <b>DB Plan:</b> % of employee compensation needed to fund the system	<b>DC Plan:</b> PERS 10% all members TRS 11% all members. <b>DB Plan:</b> 1/2 of the amount needed to fund the system actuarially computed rate, capped at 13% for PERS and 14% for TRS. Maximum increase of 5% per year.
<b>Employer Contribution Rates</b>	<b>DB Plan:</b> 50% of normal cost plus past service cost. May not be less than total normal cost after subtracting employee contribution. <b>DC Plan:</b> 8.25% total (3.5% to DC account, 3.75% to Medical, 1% to Health Reimbursement Arrangement)		<b>DB Plan:</b> employer contributions will eventually reach 8% for TRS and 8.75% for PERS over the course of a 5 year period: Year 1-0%, Year 2-25%, Year 3-50%, Year 4-75%, Year 5-100% <b>DC Plan:</b> Equal contributions from employers and employees in the amount required to fund benefits. Maximum increase of 5% per year <b>Note:</b> medical not included in contribution total	<b>DB Plan:</b> Equal contributions from employee and employer: employer contributes 1/2 of the actuarially computed rate with a floor of 10% for PERS and 11% for TRS. <b>DC Plan:</b> PERS 10% total (5.5% to DC account, 3.5% for medical, 1% for HRA) TRS 11% total (5.75% to DC account, 3.75% for medical, 1.5% for HRA).
<b>Base Salary</b>				Employee option base salary or total salary.

	Senate Bill 141 DC Plan	Senate Bill 141 DC Plan Planned Changes	House Bill 191, 177, 170 (Kelly)	House State Affairs (Seaton)
<b>Vesting</b>	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%)		Employee is immediately vested in both employee and employer contribution	Employee is immediately vested in both employee and employer contribution
<b>MEDICAL BENEFITS</b>				
<b>Medical Benefits</b>	Must retire directly from system with minimum of 10 years of service for medical coverage and access to HRA.		Same as SB 141	Must retire directly from system with either: 60 years adjusted to the change in mortality rate when adopted w/10 years of service OR 30 years of service.
	Access to medical coverage at age 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.		Same as SB 141	Early retirees: access to system, no subsidy until age 60 adjusted.
	Retiree and survivors pay full premium until Medicare eligible.		Same as SB 141	Retirees over 60 adjusted: access to defined dollar medical with subsidy depending on length of service.
	After Medicare age eligible, retiree shares cost based on years of service.		Same as SB 141	Retirees over Medicare eligible age: Access to medical with a reduced premium and percent subsidy based on years of service.
	Reimbursed for qualified medical expenses from HRA.		Same as SB 141	Same as SB 141
<b>FINANCIAL ELEMENT</b>				
<b>State Financial Aid to System</b>	\$69.5M from State to cover the 5% increase in employer costs for FY06 (an additional \$38M for school district PERS/TRS costs is incorporated in the BSA)		None	Establishes a new Past Service Offset Account: 2.681 billion dollar deposit required.

	<b>Senate Bill 141 DC Plan</b>	<b>Senate Bill 141 DC Plan Planned Changes</b>	<b>House Bill 191, 177, 170 (Kelly)</b>	<b>House State Affairs (Sexton)</b>
<b>Board Structure</b>	Consolidates 3 existing boards (PERS, TRS, ASPIB) into 1 board (Alaska Retirement Management Board).		None	None
<b>Board Members</b>	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.		Changes the qualification requirements for existing board members to include non-beneficiaries	None
<b>OTHER BILL COMPONENTS</b>				
<b>Transfer of Employee to DC Plan</b>	None (as yet)	Allow the transfer of current non-vested (TRS Tier II and PERS Tier III) employees to a DC account. Unlimited enrollment period. Employer must make new contribution (cannot take from DB trust) and has first option to allow a transfer.	None	Allows the transfer of current, non-vested employees to a DC account within 90 days of the enactment of legislation.
<b>Prescription Drug Changes</b>	None		None	Requires retirees to purchase prescription drugs from a preferred drug list unless otherwise recommended
<b>Ad hoc PRPAs</b>	None (as yet)	Define "financial condition of the retirement fund" for ad hoc PRPAs	None	Places limiting conditions on ad hoc PRPAs
<b>COLA</b>	Repeals		None	None
<b>Refunded Prior Members</b>	Closes window for reinstating past service indebtedness.		None	None

**SB 141 Bill Version Comparison**

	<b>Senate Bill 141 DC Plan</b>	<b>Changes contained in CS for Senate Bill 141(FIN)</b>	<b>Page, Line (or Sec.)</b>
<b>DC RETIREMENT ACCOUNT</b>			
<b>Benefit Formula</b>	11.5% per year to DC account + investment earnings.	Increased employer contribution by <b>1%</b> for a total (employee + employer) contribution of <b>12.5%</b>	P 16, L 8 and P 82, L 6
<b>Rollover</b>	Rollover accepted from qualified programs and you can roll over into a qualified program		
<b>CONTRIBUTION DETAILS</b>			
<b>Employee Contribution Rates</b>	<b>DC Plan:</b> 8% all members (PERS & TRS) <b>DB Plan:</b> TRS 8.65% or 1/2 of the normal cost rate. <b>PERS:</b> 6.75% and 7.5% (Police/Fire) or 1/2 of the normal cost rate. Maximum increase of 5% per year.	<b>DB Plan:</b> Changed maximum increase to <b>50 basis points</b> per year (.5%).	P 7, L 30 and P 69, L 13
<b>Employer Contribution Rates</b>	<b>DB Plan:</b> 50% of normal cost plus past service cost. May not be less than total normal cost after subtracting employee contribution. <b>DC Plan:</b> 8.25% total (3.5% to DC account, 3.75% to Medical, 1% to Health Reimbursement Arrangement)	<b>DC Plan:</b> Redistributed 8.25% employer contribution: + <b>4.25%</b> to DC account + <b>1.75%</b> to Medical + <b>2.00%</b> to HRA <hr/> 8.25% Total	P 16, Ls 8&10 and P 82, Ls 6&8; P 58, L 10
<b>VESTING DETAILS</b>			
<b>Vesting</b>	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%)		

## SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)
<b>MEDICAL PROGRAM</b>			
<b>Medical Benefits</b>	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
	Access to medical coverage at age 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.		
	Retiree and survivors pay full premium until Medicare eligible.		
	After Medicare age eligible, retiree shares cost based on years of service.		
<b>Health Reimbursement Arrangement (HRA)</b>	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
	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
<b>RETIREMENT BOARDS</b>			
<b>Board Structure</b>	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
<b>Board Members</b>	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	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

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)
<b>Board Duties</b>	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
		Added direction to the new Board to prepare a report for the 2nd session of the 24th Alaska Legislature.	P 49, Ls 4-6
<b>Office of Administrative Hearings (OAH)</b>	Appeals of benefits decisions made by the retirement system administrator transferred to the OAH, an independent quasi-judicial agency.		
<b>CHANGES TO EXISTING RETIREMENT PLANS</b>			
<b>AK Resident COLA</b>	Repeals	<b>Reinstated</b>	
<b>Ad hoc PRPAs</b>		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 39.35.475)	P 11 Sec. 17, P 11 Sec. 18, and P 77 Sec. 113
<b>Refunded Prior Members</b>	Closes window for reinstating past service indebtedness.		
<b>University of Alaska Optional Retirement Program</b>		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**

	<b>Senate Bill 141 LC Plan</b>	<b>Changes contained in CS for Senate Bill 141(FIN)</b>	<b>Page, Line (or Sec.)</b>
<b>OTHER BILL COMPONENTS</b>			
<b>Transfer of Employee to DC Plan</b>		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 36, L 1
<b>Participating Employers</b>		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
<b>Membership Service</b>		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

**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.

**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.

- ◆ **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.

### 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)

### ◆ 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) Walkthrough

- **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.

Comparison of Other States Experience with Widespread Defined Contribution Plans

	Nebraska	West Virginia	Michigan
<b>How long with a DC plan?</b>	1961-2002	1991-2005	1997-current
<b>What employees have a DC plan?</b>	State and County (TRS is in DB plan)	Teachers and other school district employees hired between 1991 and 2005 (aprox. 22,000 members)	All public employees
<b>Employee contribution rate</b>	4.3%	4.5%	IRS Maximum, 0% minimum
<b>Employer contribution rate</b>	6.75% for 1 <sup>st</sup> 20,000, then 7.5%	7.5%	4% required, up to 3% employer match
<b>Employee investment options</b>	11 options	Many different conservative options	14 very broad options
<b>Automatically vested in employee and employer contributions?</b>	Vested after 2 years	Fully vested after 12 years (graduated scale)	Fully vested after 4 years, 25% increase per year
<b>Medical</b>	NONE- under COBRA retirees receive an extension of their active medical but have to pay the full premium amount till age 65 (Medicare eligible)	All public employees/retirees are covered by a separate health insurance (not a part of retirement system). Retirees have access to the same coverage as active employees but receive a subsidy based on years of service on a scale where after 25+ years of service retirees receive the full subsidy that is approximately 2/3 of their premium.	Retirees at age 60 pay a percentage of premium based on years of service. They must work 10 years to be medical eligible and their % subsidy increases by 3% for each additional year of service until 30 years or 90% subsidy. They do not have to retire directly from the system.
<b>Social Security Employer?</b>	Yes	Yes	Yes

### **State's experience with DB plans:**

**Nebraska** allowed employees to transfer from the DC plan to a cash balance benefit. A cash balance plan is similar to a defined contribution account however it is considered a defined benefit plan. Each individual employee has an account composed of a percent of salary over the years, however the state guarantees a minimum rate of return on investments. Their pension is paid as an annuity, although in most cases retirees may chose to withdraw it as a lump sum. In the case of Nebraska, they set the rate of return floor at 5%. When given the option, only 30% of employees switched from a DC plan to a Cash Benefit plan.

**Why the switch?** Nebraska found that because employees could not manage their investments as efficiently as a large professionally managed fund, they did not draw large enough returns to adequately provide for retirement.

**West Virginia** will give employees the election this year to revert back to the DB plan teachers hired before 1991 currently participate in.

**Why the switch?** When I asked their Chief Legal Council she responded because the legislature wanted to and that she had no idea why they do the things they do. A union position paper concludes that the legislature offered the transfer because the individual lacks investment knowledge and wasn't getting sufficient returns. Also, it states that the state did not sufficiently educate and assist retirees with their investments. Noteworthy: DB teachers contribute 1.5% more of their salary to their retirement.

**Michigan.** Michigan has had a relatively positive experience so far with their plan, although they note that they have not had anyone retire from the system yet as it has only been in place for 8 years.

**Other state' with DC components.** Florida, Montana, New Jersey, North Dakota, Ohio, Louisiana and South Carolina give some of their public employees/ teachers the freedom to choose between DC and DB plans

**In the private sector** more than twice as many employees have DC plans than DB plans.

**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

**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.

- ◆ **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.

### 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)

◆ **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.

- **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.
- ◆ **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. 21-27 (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.

## Comparison of the States Normal Retirement by Age/Service

State	A = Any				Rule: Age+Service = Number			
	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

## Comparison of the States Normal Retirement by Age/Service

State	A = Any				Rule: Age+Service = Number			
	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

# A

## Major Medical in HB 238

-Insurance coverage for an eligible member includes the member's spouse and dependents, however all dependents had to be dependents while the member was an active employee. Each member will have to pay a separate premium with subsidy based on member's years of service.

-Retirees who have 30 years of service and leave the system before normal retirement age (60 months pre-Medicare eligible) have access to the system but are required to pay 100% of the premium.

-Retirees become eligible for a subsidy based on years of service when they reach 60 months pre-Medicare (currently 60)

Retiree is eligible for subsidy with 10 years of service. Subsidy is based on years of service, 3% for each year up to 30 years (90% subsidy).

### Employee percentage of premium:

-10 years = 70%	-17 years = 49%	-24 years = 28%
-11 years = 67%	-18 years = 46%	-25 years = 25%
-12 years = 64%	-19 years = 43%	-26 years = 22%
-13 years = 61%	-20 years = 40%	-27 years = 19%
-14 years = 58%	-21 years = 37%	-28 years = 16%
-15 years = 55%	-22 years = 34%	-29 years = 13%
-16 years = 52%	-23 years = 31%	-30 years = 10%

-Member must retire directly from the system to be eligible for major medical (10 years of service at 60 months pre-Medicare or 30 years of service, any age)

-Once member becomes Medicare eligible, the structure and eligibility for a subsidy will remain the same, however the premium amount will decrease significantly.

-HRA 2% contribution from employer

-Major medical 3.75% TRS, 3.5% PERS contribution from employer

*Favors long-term employees*

*Encourages employment to 60 months pre-Medicare or longer*

## **B**

### **Major Medical in SB 141 (After Medicare eligible age only)**

- 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 younger than Medicare age eligible (presently age 65), must pay the full premium to receive coverage.
- Do not have to retire directly from the system, may opt to defer participation to a specified date.
- Retirees who are Medicare age eligible will pay only a portion of monthly medical premiums depending on years of service.

#### Employee percentage of premium:

- 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.

- HRA 2% contribution from employer
- Major medical 1.75% contribution from employee

# ALASKA STATE LEGISLATURE

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**SENATOR BERT K. STEDMAN**

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## MEMORANDUM

**TO:** Representative Paul Seaton, Chair  
House State Affairs Committee

**FROM:** Senator Bert Stedman *B.S.*

**DATE:** April 16, 2005

**RE:** CS SB 141 (FIN)

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The Senate passed SB 141, the Retirement Security Act, on April 11, 2005. Pending referral of this bill to the House State Affairs Committee, I respectfully request a hearing at your earliest convenience.

I know the members of your committee are quite familiar with the problems embedded in our current public employee retirement system and that you've been working towards crafting a comprehensive solution. The Senate Finance Committee has also spent a considerable amount of time studying this issue and have prepared what we feel is the first step towards a long-term solution.

SB 141 is a comprehensive reform of Alaska's public retirement system. It establishes a defined contribution retirement plan, retiree medical benefit and health reimbursement arrangement for new employees. In addition, it implements a number of significant management changes to the existing PERS & TRS system. These changes are designed to strengthen management and fiduciary oversight of the plan, improve our ability to predict and control costs, provide near term financial relief to employers and pave the way for developing a long-term financial solution to our \$5.7 billion funding shortfall.

I am providing a significant amount of back-up material with this request. Should you require any additional information, please don't hesitate to let me know.

Thank you for your prompt consideration of this request.



# Alaska State Legislature

## Senate Majority

Web: [www.akrepublicans.org](http://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.



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

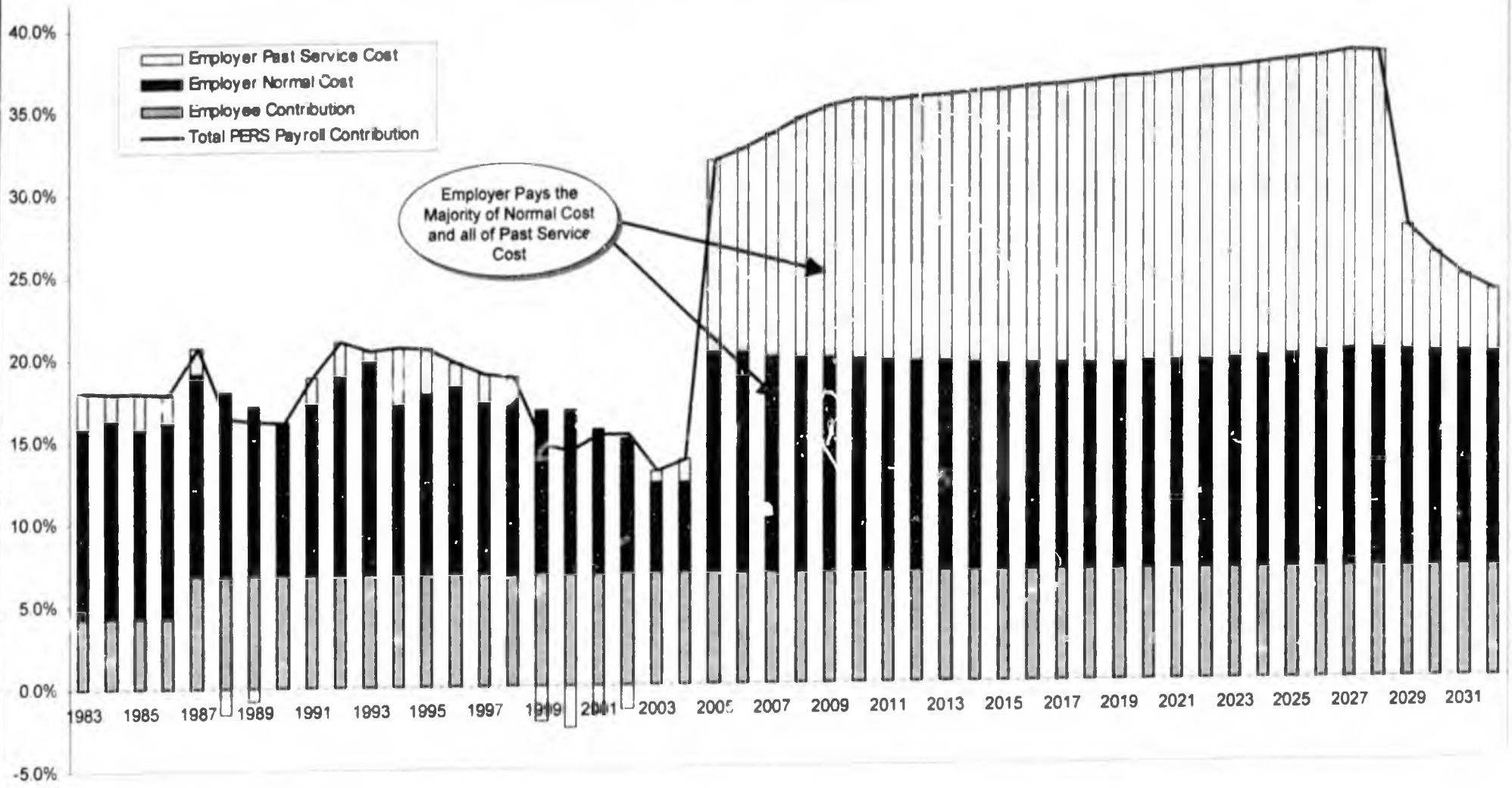
In the short-term, SB 141 implements the management changes needed to effectively address the \$5 billion deficit. It creates a single board to replace the separate public employees' and teachers' retirement system boards and the pension investment board. The new board is the Alaska Retirement Management (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.

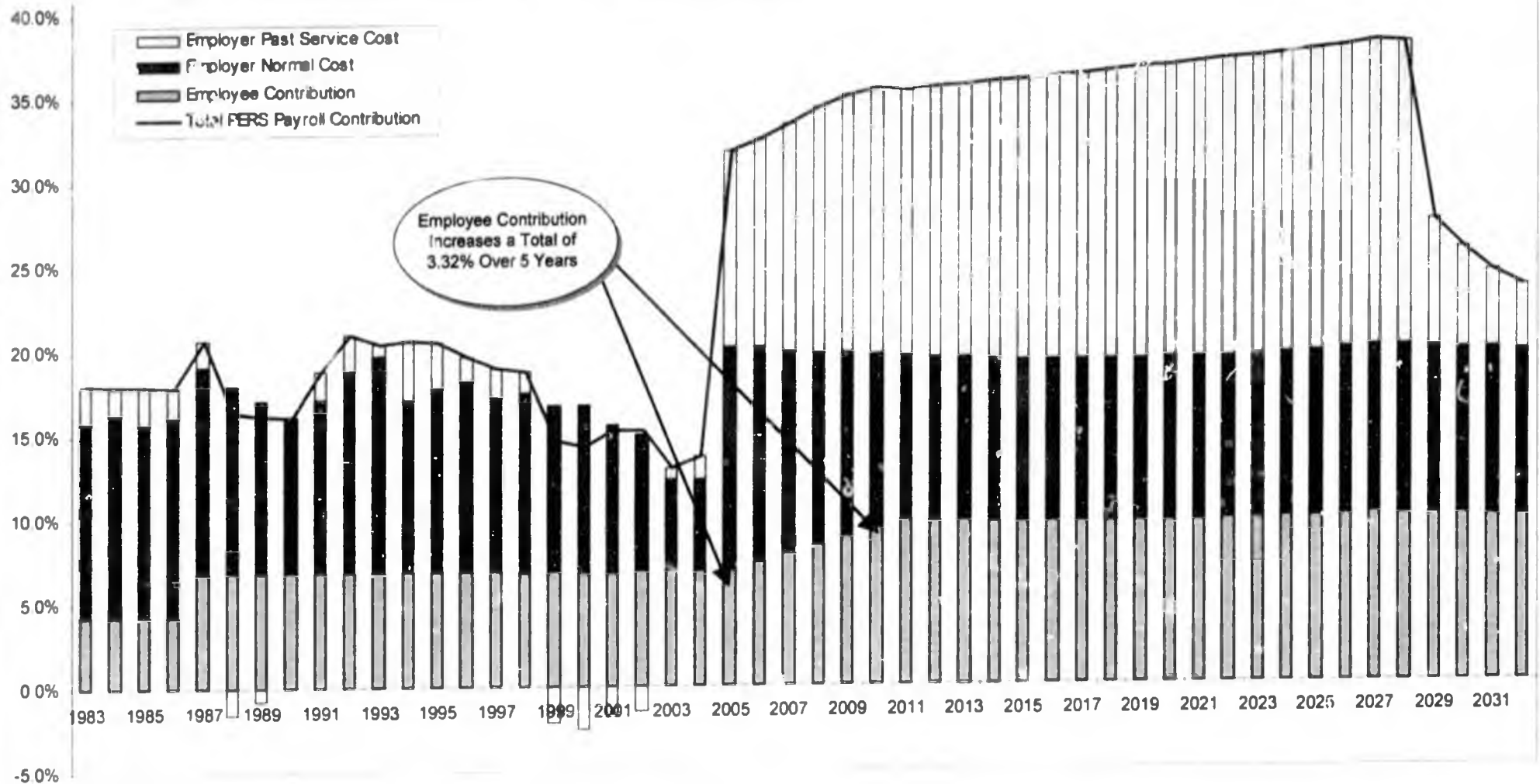
The Senate Finance Committee is committed to addressing this problem this legislative session.

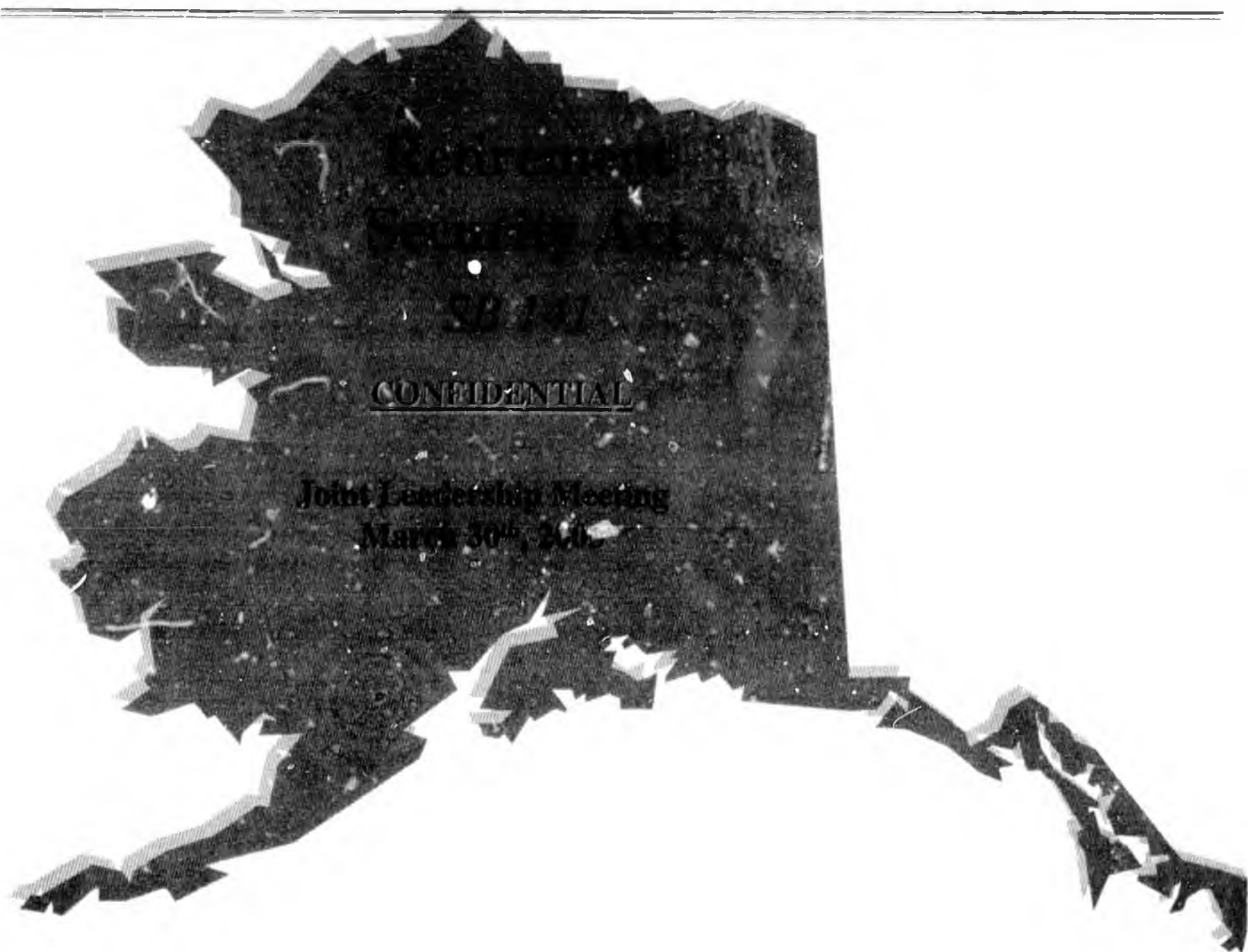


### PERS Payroll Contribution Trend & Forecast



PERS Forecast with SB 141 Language





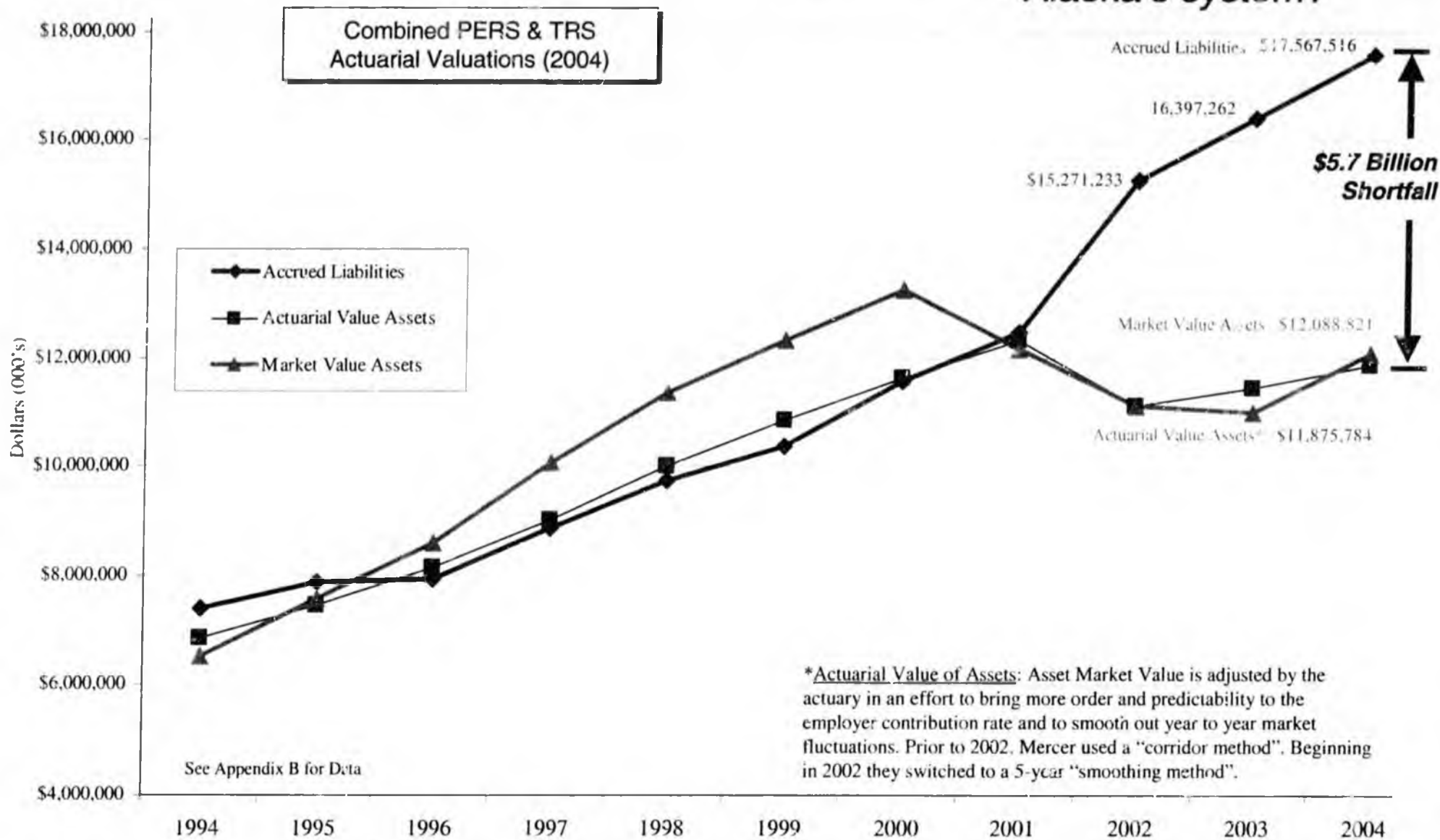
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Joint Leadership Meeting  
March 30<sup>th</sup>, 2015

## Presentation Outline

- Introduction
- Side-by-side comparison of proposed retirement bills
- Board Restructuring
- Funding Mechanism
- Employee Contributions

*What is the status of  
Alaska's system?*



**We Have Been Understating Our Liabilities For the Past Several Years**

	SENATE	HOUSE
	SB 141 (Finance Committee)	House Bill 191, 177, 170 (Kelly) House State Affairs (Senton)
<b>RETIREMENT BOARD</b>		
<b>Board Structure</b>	Consolidates 3 existing boards (PERS, TRS, ASPIB) into 1 board (Alaska Retirement Management Board).	None
<b>Board Members</b>	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.	Changes the qualification requirements for existing board members to include non-beneficiaries
<b>FINANCIAL ELEMENT</b>		
<b>State Financial Aid to System</b>	69.5M from state to cover the 5% increase in employer costs for FY06 (an additional \$38M for school district PERS/TRS costs is incorporated in the BSA)	None
<b>EMPLOYEE CONTRIBUTION DETAILS</b>		
<b>For Existing Tiers PERS- Tier 1/2/3 TRS-Tier 1/2</b>	<b>Both Pers &amp; TRS:</b> 1/2 of the total normal cost rate; can only increase 0.50% increase a year; no total cap. <i>&lt;current SB 141 language sets annual increase limit at 5%, planned CS will change it to 0.50%&gt;</i>	<b>Both PERS &amp; TRS:</b> employee contributes the % of compensation necessary to fund 1/2 of the total system costs (normal and past service costs); annual increase may not exceed 5.0%
<b>For New Tier-DC Plan</b>	<b>PERS &amp; TRS:</b> 8% all members	<b>PERS:</b> 8.5% Police/Fire, 8% all others <b>TRS:</b> 10% all members
		<b>PERS:</b> 1/2 the amount needed to fund the actuarially computed total system costs (normal and past service); maximum increase of 5% per year; total cap of 13%. <b>TRS:</b> same as PERS but total cap of 14%.

<b>Board</b>	<b>Alaska State Pension Investment Board (ASPIB)</b>	<b>Teachers' Retirement Board</b>	<b>Public Employees' Retirement Board</b>	<b>Alaska Retirement Management Board</b>
<b>Mission</b>	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
<b>State Department</b>	Revenue	Administration	Administration	Revenue
<b>Board Members</b>	8 Trustees  Commissioner of Revenue 3 – Appointed by Governor from public at large 2 – Elected from PERS members 2 – Elected from TRS members	5  5 – Governor appointed from public at large	5  3 – Appointed by Governor from public at large 2 – Elected from PERS membership	9 Trustees  <u>All AK Residents, appointed by the Governor</u> Commissioners of Revenue & Admin. 3 AK 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)

<b>Board</b>	<b>ASPIB</b>	<b>TRS Board</b>	<b>PERS Board</b>	<b>ARM Board</b>
	<p>One appointee must represent a system employer other than the State of Alaska Appointees must have business and investment experience</p>	<p>One appointee must be a resident receiving benefits from the system</p>	<p>One appointee must have been employed by other than the State of Alaska at some time</p>	<p>All trustees must have recognized competence in one or more fields of investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis.</p>
<p><b>Powers &amp; Duties</b></p>	<p>Establish investment policies Submit quarterly &amp; long-range investment reports to LB&amp;A May assume fiduciary and management responsibilities for other state funds</p>	<ul style="list-style-type: none"> <li>•Adopt system policies and regulations</li> <li>•Act as an appeals board</li> <li>•Set employer contribution rate</li> <li>•Determine employee's past service liquidation amounts</li> <li>•Waive benefit adjustment requirements when appropriate</li> <li>•Adopt regulations for the election and removal of ASPIB trustees</li> </ul>	<ul style="list-style-type: none"> <li>•Hold board elections</li> <li>•Adopt system policies and regulations</li> <li>•Act as an appeals board</li> <li>•Set employer contribution rate</li> <li>•Determine employee's past service liquidation amounts</li> <li>•Prescribe interest rates</li> <li>•Prescribe policies for the supplemental employee benefit program</li> <li>•Waive benefit adjustment requirements when appropriate</li> <li>•Adopt regulations for the election and removal of ASPIB trustees</li> <li>•Adopt a contribution surcharge</li> </ul>	<ul style="list-style-type: none"> <li>•Manage the assets of the DB trust fund to meet pension liabilities.</li> <li>•Adopt investment policies</li> <li>•Annual actuarial valuation</li> <li>•Analysis of actuarial assumptions experience.</li> <li>•Rate setting</li> <li>•Provide a range of investment options for employee-directed accounts.</li> <li>•Obtain an external performance review</li> <li>•Submit regular reports on the financial condition of the systems</li> </ul>

	Senate Bill 141 DC Plan	Senate Bill 141 DC Plan Planned Changes	House Bill 191, 177, 170 (Kelly)	House State Affairs (Seaton)
<b>Benefit Formula</b>	11.5% per year to DC account + investment earnings.		16% after five years of service-- before 5 years a percentage of the employer contribution (see employer contribution rate below) is scaled at: 1st year 0%, 2nd yr 25%, 3rd yr 50%, 4th yr 75%, 5th yr 100%	15.5% PERS 16.75% TRS
<b>Rollover</b>	Rollover accepted from qualified programs and you can roll over into a qualified program		Does not accept rollover from qualified programs but you can rollover into a qualified program	Rollover accepted from qualified programs and you can roll over into a qualified program
<b>DISTRIBUTION DETAILS</b>				
<b>Employee Contribution Rates</b>	<p><b>DC Plan:</b> 8% all members (PERS &amp; TRS)</p> <p><b>DB Plan:</b> TRS 8.65% or 1/2 of the normal cost rate. PF 6.75% and 7.5% (Police/Fire) 1/2 of the normal cost rate. Maximum increase of 5% per year.</p>	Change maximum increase to 50 basis points per year.	<p><b>DC Plan:</b> PERS 8.5% Police/Fire, 8% all others TRS 10% all members</p> <p><b>DB Plan:</b> % of employee compensation needed to fund the system</p>	<p><b>DC Plan:</b> PERS 10% all members TRS 11% all members.</p> <p><b>DB Plan:</b> 1/2 of the amount needed to fund the system actuarially computed rate, capped at 13% for PERS and 14% for TRS. Maximum increase of 5% per year.</p>
<b>Employer Contribution Rates</b>	<p><b>DB Plan:</b> 50% of normal cost plus past service cost. May not be less than total normal cost after subtracting employee contribution.</p> <p><b>DC Plan:</b> 8.25% total (3.5% to DC account, 3.75% to Medical, 1% to Health Reimbursement Arrangement)</p>		<p><b>DB Plan:</b> employer contributions will eventually reach 8% for TRS and 8.75% for PERS over the course of a 5 year period: Year 1-0%, Year 2-25%, Year 3-50%, Year 4-75%, Year 5-100%</p> <p><b>DC Plan:</b> Equal contributions from employers and employees in the amount required to fund benefits. Maximum increase of 5% per year.</p> <p><b>Note:</b> medical not included in contribution total</p>	<p><b>DB Plan:</b> Equal contributions from employee and employer: employer contributes 1/2 of the actuarially computed rate with a floor of 10% for PERS and 11% for TRS.</p> <p><b>DC Plan:</b> PERS 10% total (5.5% to DC account, 3.5% for medical, 1% for HRA) TRS 11% total (5.75% to DC account, 3.75% for medical, 1.5% for HRA).</p>
<b>Base Salary</b>				Employee option base salary or total salary.

	Senate Bill 141 DC Plan	Senate Bill 141 DC Plan Planned Changes	House Bill 191, 177, 170 (Kelly)	House State Affairs (Sutton)
<b>Vesting</b>	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%)		Employee is immediately vested in both employee and employer contribution	Employee is immediately vested in both employee and employer contribution
<b>Medical Benefits</b>	Must retire directly from system with minimum of 10 years of service for medical coverage and access to HRA.		Same as SB 141	Must retire directly from system with either: 60 years adjusted to the change in mortality rate when adopted w/10 years of service OR 30 years of service.
	Access to medical coverage at age 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.		Same as SB 141	Early retirees: access to system, no subsidy until age 60 adjusted.
	Retiree and survivors pay full premium until Medicare eligible.		Same as SB 141	Retirees over 60 adjusted: access to defined dollar medical with subsidy depending on length of service.
	After Medicare age eligible, retiree shares cost based on years of service.		Same as SB 141	Retirees over Medicare eligible age: Access to medical with a reduced premium and percent subsidy based on years of service.
	Reimbursed for qualified medical expenses from HRA.		Same as SB 141	Same as SB 141
<b>FINANCIAL ELEMENT</b>				
<b>State Financial Aid to System</b>	\$69.5M from State to cover the 5% increase in employer costs for FY06 (an additional \$38M for school district PERS/TRS costs is incorporated in the BSA)		None	Establishes a new Past Service Offset Account: 2.681 billion dollar deposit required.

	Senate Bill 141 DC Plan	Senate Bill 141 DC Plan Planned Changes	House Bill 191, 177, 170 (Kelly)	House State Affairs (Seaton)
<b>Board Structure</b>	Consolidates 3 existing boards (PERS, TRS, ASPIB) into 1 board (Alaska Retirement Management Board).		None	None
<b>Board Members</b>	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.		Changes the qualification requirements for existing board members to include non-beneficiaries	None
<b>OTHER DC COMPONENTS</b>				
<b>Transfer of Employee to DC Plan</b>	None (as yet)	Allow the transfer of current non-vested (TRS Tier II and PERS Tier III) employees to a DC account. Unlimited enrollment period. Employer must make new contribution (cannot take from DB trust) and has first option to allow a transfer.	None	Allows the transfer of current, non-vested employees to a DC account within 90 days of the enactment of legislation.
<b>Prescription Drug Changes</b>	None		None	Requires retirees to purchase prescription drugs from a preferred drug list unless otherwise recommended
<b>Ad hoc PRPAs</b>	None (as yet)	Define "financial condition of the retirement fund" for ad hoc PRPAs	None	Places limiting conditions on ad hoc PRPAs
<b>COLA</b>	Repeals		None	None
<b>Refunded Prior Members</b>	Closes window for reinstating past service indebtedness		None	None

## SB 141 LEADERSHIP PRESENTATION NARRATIVE

### I. INTRODUCTION (See 3 page Side-By-Side Hand-Out)

The retirement bills are substantially similar but some matters must be resolved.

The bill sponsors (Senate Finance, House State Affairs, and Representative Kelly) all agree that we need to:

- Move to a defined contribution retirement plan,
- Address the growing unfunded liability and
- Ask current employees to contribute more towards the cost of their retirement benefits

There are differences in vesting schedules, contribution levels, age for eligibility to medical benefits, etc., but these are minor differences and I am certain we can come to a consensus on those details through the normal committee process.

The [REDACTED] (see Power Point page 4) are what we need to focus on this afternoon. I hope today we can come to agreement on three things:

- (1) **Board Restructuring**—any significant restructuring of the retirement system must include an overhaul of the current boards.
- (2) **Funding Mechanism**—we cannot simply keep pouring money into a broken system. We must first fix the problems that got us here and then, with the help of the new board, look at a full variety of long term fiscal solutions to the unfunded liability.
- (3) **Employee Contributions**—going forward, should current employees be paying more for their benefits, and if so, what amount is appropriate and fair? **Note:** All proposed bills result in current employees paying more for their benefits.

### II. BOARD RESTRUCTURING (See Power Point pages 5-6)

SB 141 makes significant changes to the structure, composition and responsibilities of the 3 current retirement system boards. The House State Affairs bill makes no changes and Representative Kelly's bill makes small changes to the qualification requirements of the PERS/TRS board members.

- SB 141 improves the administration of the retirement systems by establishing the Alaska Retirement Management Board (ARMB) to replace the Alaska State Pension Investment Board (ASPIB), the Teacher's Retirement System (TRS) Board, and the Public Employees' Retirement System (PERS) Board.

- SB 141 puts greater emphasis in the fiduciary role of the board and in its responsibility for managing not just the assets of the system, but its liabilities. Board members will be better qualified and more experienced in financial and pension matters than current board members in order to identify and address potential system problems in a timely fashion.
- Under the current structure, system assets are managed by ASPIB and one could question if anyone is managing the systems' liabilities. ASPIB is housed within the Dept of Revenue and the PERS and TRS boards are housed within the Department of Administration.
- We need to match assets and liabilities in order to ensure proper funding of the system. Matching assets and liabilities cannot be accomplished under the current system structure.

The ARMB will have the capacity and the responsibility of jointly managing both system assets and system liabilities.

Tighter statutory language in this bill will prevent the Board from setting employer contribution rates below the actuarially computed normal cost rate and ensure that if the normal cost rate begins to climb, employees and employers will share in absorbing those costs. In addition, the ARMB will have responsibility for setting the annual employer contribution rates and the annual interest rates credited to employee accounts for the existing PERS/TRS defined benefit plans.

SB 141 moves the responsibility for hearing benefit appeals to the Office of Administrative Hearings. By transferring this function to an administrative law judge, the bill offers assurance that appeal matters will be handled consistently, professionally and by unbiased adjudicators specially trained to handle the questions presented. Additionally, it will allow the Board to focus its attention and expertise in carrying out its fiscal responsibilities.

### III. FUNDING MECHANISM

SB 141 realizes that we need to fix the retirement system before we appropriate large sums of GF into the retirement fund. The systemic fixes contained in SB 141 help ensure that the liability does not grow unchecked in order to buy time to work on the best long-term solution to the \$5 billion hole. SB 141 includes a \$108 million<sup>1</sup> GF infusion into the retirement trust (split among all participating employers). The \$108 million covers the 5% employer rate increase in PERS/TRS for FY 2006 and temporarily relieves the financial burden on political subdivisions and school districts. This funding provides the new ARM Board with some time to analyze system assets and liabilities and to present us with

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<sup>1</sup> \$69.5M fiscal note for SB 141 plus \$38.1M contained in HB 1.

recommendations on the best long-term funding solutions. The board will have the financial expertise and experience to analyze the problem along with the new perspective of viewing assets and liabilities together.

The House State Affairs Work Draft's funding mechanism is the establishment of a "Past Service Offset Account" to assist employers in paying a portion of their contribution. The account would consist of legislative appropriations and investment gains and losses. \$2.681B is supposed to go into the account; it is unclear what the source of that funding will be. **We do not believe it is responsible to pour 2.681 billion into the system at this time.**

#### IV. EMPLOYEE CONTRIBUTIONS

We all recognize that going forward, current employees should be asked to pay more for their benefits. Although the cost of providing these benefits continues to rise, employee contribution rates haven't increased since 1987 in PERS and 1991 in TRS. The issue is how much is appropriate. We feel it is appropriate to ask employees to split the cost of benefits being accrued in the current year. That means, they should be asked to pay half of the **Normal Cost Rate**. Currently they are paying about 1/3. The change would mean a 2-3% increase over what the typical employee is paying now. Note: As indicated in yesterday's Senate Finance Committee presentation: TRS members would show an increase of 2.8% over 5 years; PERS members would show an increase of 3.32% over 6 years.

The **Past Service Rate** that is applied on top of the employer's half of the Normal Cost is *the additional percent of payroll required to begin paying off the unfunded liability*. Representative Kelly's bills require the employees to pick up a share of the Past Service Rate. Under our constitution, employee contributions cannot be changed retroactively to pay for past benefits (Past Service Costs or any unfunded liability), but they can be changed prospectively to pay for future benefits. That's why we feel the employee rate increase proposed in Rep Kelly's bill wouldn't pass constitutional muster. Our solution may also be challenged, but I think it has a better chance of being successfully defended. Even if it were constitutional, it would be very difficult to sell a plan that asks current employees to contribute more from their paycheck to pay for the benefits of someone who has already retired from the system. Simply put, most employees couldn't withstand a 5-10% deduction in their take home pay.

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)
<b>DC RETIREMENT ACCOUNT</b>			
<b>Benefit Formula</b>	11.5% per year to DC account + investment earnings.	Increased employer contribution by <b>1%</b> for a total (employee + employer) contribution of <b>12.5%</b>	P 16, L 8 and P 82, L 6
<b>Rollover</b>	Rollover accepted from qualified programs and you can roll over into a qualified program		
<b>CONTRIBUTION DETAILS</b>			
<b>Employee Contribution Rates</b>	<b>DC Plan:</b> 8% all members (PERS & TRS) <b>DB Plan:</b> TRS 8.65% or 1/2 of the normal cost rate. <b>PERS:</b> 6.75% and 7.5% (Police/Fire) or 1/2 of the normal cost rate. Maximum increase of 5% per year.	<b>DB Plan:</b> Changed maximum increase to <b>50 basis points</b> per year (.5%).	P 7, L 30 and P 69, L 13
<b>Employer Contribution Rates</b>	<b>DB Plan:</b> 50% of normal cost plus past service cost. May not be less than total normal cost after subtracting employee contribution. <b>DC Plan:</b> 8.25% total (3.5% to DC account, 3.75% to Medical, 1% to Health Reimbursement Arrangement)	<b>DC Plan:</b> Redistributed 8.25% employer contribution: + <b>4.25%</b> to DC account + <b>1.75%</b> to Medical + <b>2.00%</b> to HRA <u>8.25% Total</u>	P 16, Ls 8&10 and P 82, Ls 6&8; P 58, L 10
<b>VESTING DETAILS</b>			
<b>Vesting</b>	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%)		

**SB 141 Bill Version Comparison**

	<b>Senate Bill 141 DC Plan</b>	<b>Changes contained in CS for Senate Bill 141(FIN)</b>	<b>Page, Line (or Sec.)</b>
<b>MEDICAL PROGRAM</b>			
<b>Medical Benefits</b>	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
	Access to medical coverage at age 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.		
	Retiree and survivors pay full premium until Medicare eligible.		
	After Medicare age eligible, retiree shares cost based on years of service.		
<b>Health Reimbursement Arrangement (HRA)</b>	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
	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
<b>RETIREMENT BOARDS</b>			
<b>Board Structure</b>	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
<b>Board Members</b>	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	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

SB 141 Bill Version Comparison

	<b>Senate Bill 141 DC Plan</b>	<b>Changes contained in CS for Senate Bill 141(FIN)</b>	<b>Page, Line (or Sec.)</b>
<b>Board Duties</b>	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
		Added direction to the new Board to prepare a report for the 2nd session of the 24th Alaska Legislature.	P 49, Ls 4-6
<b>Office of Administrative Hearings (OAH)</b>	Appeals of benefits decisions made by the retirement system administrator transferred to the OAH, an independent quasi-judicial agency.		
<b>CHANGES TO EXISTING RETIREMENT PLANS</b>			
<b>AK Resident COLA</b>	Repeals	<b>Reinstated</b>	
<b>Ad hoc PRPAs</b>		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 39.35.475)	P 11 Sec. 17, P 11 Sec. 18, and P 77 Sec. 113
<b>Refunded Prior Members</b>	Closes window for reinstating past service indebtedness.		
<b>University of Alaska Optional Retirement Program</b>		Changed AS 4.40.661-14.40.799 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**

	<b>Senate Bill 141 DC Plan</b>	<b>Changes contained in CS for Senate Bill 141(FIN)</b>	<b>Page, Line (or Sec.)</b>
<b>OTHER BILL COMPONENTS</b>			
<b>Transfer of Employee to DC Plan</b>		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
<b>Participating Employers</b>		Added an option for political subdivisions and public organizations who <b>do not currently</b> 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
<b>Membership Service</b>		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

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

PERS Tier I 1/1/81 - 6/3/99	PERS Tier II Entered on or after 7/1/86	PERS Tier III Entered on or after 7/1/88	SB 141 Proposed DC Plan Entered on or after 7/1/2005
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"> <li>Employee is immediately vested in their own contributions</li> <li>Employee's gradually vest in employer contributions <ul style="list-style-type: none"> <li>25% after two years</li> <li>50% after three years</li> <li>75% after four years</li> <li>100% after five years</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Normal retirement age is 55</li> <li>Early retirement age is 50</li> <li>Police/fire members can retire at any age after 20 years of police/fire service</li> <li>All other members can retire at any age after 30 years of membership service.</li> </ul>	<ul style="list-style-type: none"> <li>Normal retirement age is 60</li> <li>Early retirement at age 55</li> <li>Police/fire members can retire at any age after 20 years of police/fire service</li> <li>"All other" members can retire at any age after 30 years of membership service</li> </ul>	<ul style="list-style-type: none"> <li>Normal retirement age is 60</li> <li>Early retirement at age 55</li> <li>Police/fire members can retire at any age after 20 years of police/fire service</li> <li>"All other" members can retire at any age after 30 years of membership service</li> </ul>	<ul style="list-style-type: none"> <li><b>Retirement Savings:</b> Employee can terminate at any age and take vested account balance with them, leave it in the plan or rollover to another qualified plan.</li> <li><b>Medical Benefits:</b> Member is eligible for benefits if: <ul style="list-style-type: none"> <li>65 years of age and at least 10 years of service; or</li> <li>25 years of service police/firefighters</li> <li>30 years of service all others</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>2% defined benefit formula for first 10 years and all years of service prior to July 1, 1986</li> <li>2.25% for the next 10 years; 2.5% per year thereafter (average of the high three consecutive years' salary).</li> <li>Police/Fire - 2% benefits formula for first 10 years and 2.5% for all years after 10.</li> </ul>	<ul style="list-style-type: none"> <li>2% defined benefit formula for first 10 years</li> <li>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.</li> <li>Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10.</li> </ul>	<ul style="list-style-type: none"> <li>2% defined benefit formula for first 10 years</li> <li>2.25% for the next 10 years, and 2.5% per year thereafter (benefit calculation is average of the high five consecutive years' salary)</li> <li>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)).</li> </ul>	<ul style="list-style-type: none"> <li>8.25% employer contribution broken out as: <ul style="list-style-type: none"> <li>4.25% to employee retirement savings account</li> <li>1.75% to retiree medical plan</li> <li>2.00% to Health Reimbursement Account</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system.</li> </ul>	<ul style="list-style-type: none"> <li>Medical coverage is provided to disabled members, regardless of age and benefit recipients over age 60 or <ul style="list-style-type: none"> <li>police/fire members with 25 years of police/fire service</li> <li>all other members with 30 years of membership service</li> </ul> </li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Medical same as Tier II.</li> <li>Except, employees must accrue a minimum of 10 years of credited service*, to have system-paid coverage at age 60.</li> <li>Employees with less than 10 years must pay the full premiums as long as they wish to continue medical coverage.</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>Early retirees get "access" to retiree medical plan but must pay full premium until they reach age of Medicare eligibility</li> <li>Once reaching Medicare age eligibility, retiree pays only a portion of monthly premium based on years of service <ul style="list-style-type: none"> <li>10-14 years = Retiree pays 30% of premium</li> <li>15-19 years = Retiree pays 25% of premium</li> <li>20-24 years = Retiree pays 20% of premium</li> <li>25-29 years = Retiree pays 15% of premium</li> <li>30+ years = Retiree pays 10% of premium</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>The automatic PRPA legislated in 1986 applied to all members regardless of hire date.</li> <li>COLA of 10% of base benefit is payable to benefit recipients who remain domiciled in Alaska after retirement.</li> </ul>	<ul style="list-style-type: none"> <li>Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years.</li> <li>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.</li> </ul>	None

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

Alaska Retirement System Boards

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



Retirement Security  
Act

*CSSB 141 (FIN)*

Background  
&  
Overview



Alaska State Legislature  
*Senate Finance Committee*



# Table of Contents

- How a retirement system works
- What is the current status of Alaska's system?
- What went wrong?
- SB 141 Solution
  - Board Restructuring
  - Appeals Process Change
  - Contribution Rates for Existing Employees
  - Defined Contribution Plan
  - Medical Benefit
  - Health Reimbursement Arrangement
  - Conversion Option
  - Refunded Account Sunset
  - AdHoc PRPA
- Appendices



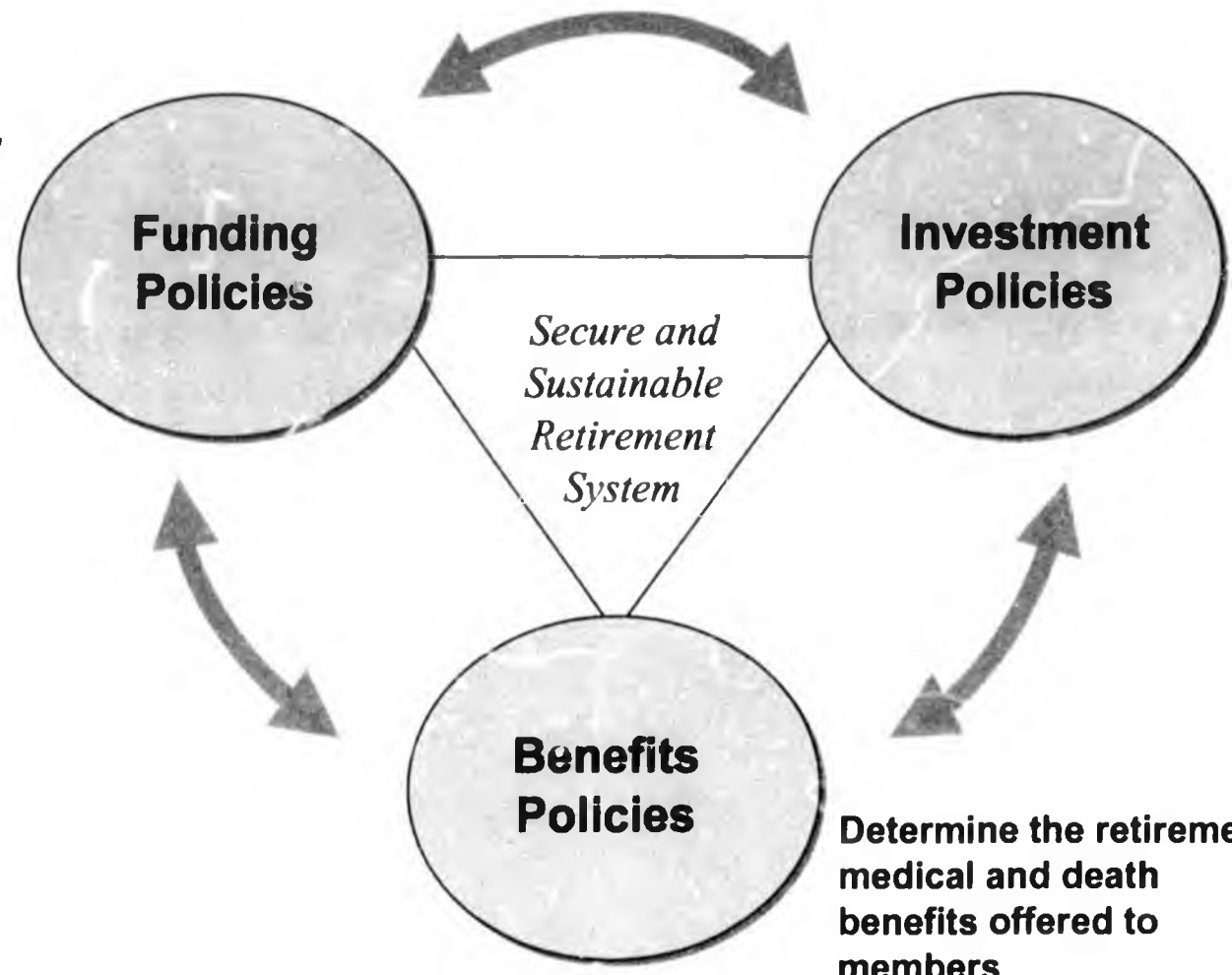


# *How a retirement system works*





Determine how new monies come into the system

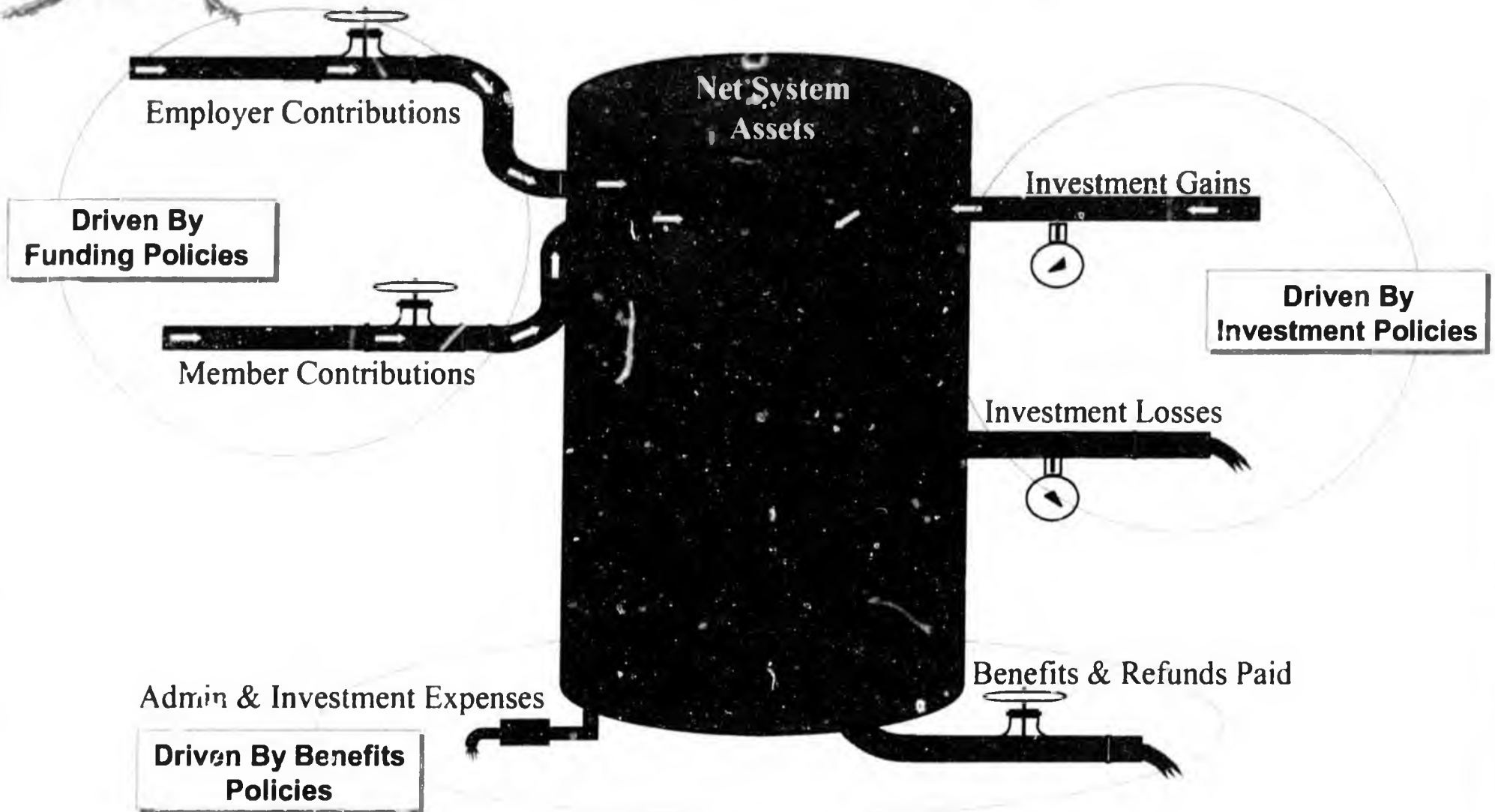


Determine how the money in the system is invested

Determine the retirement, medical and death benefits offered to members

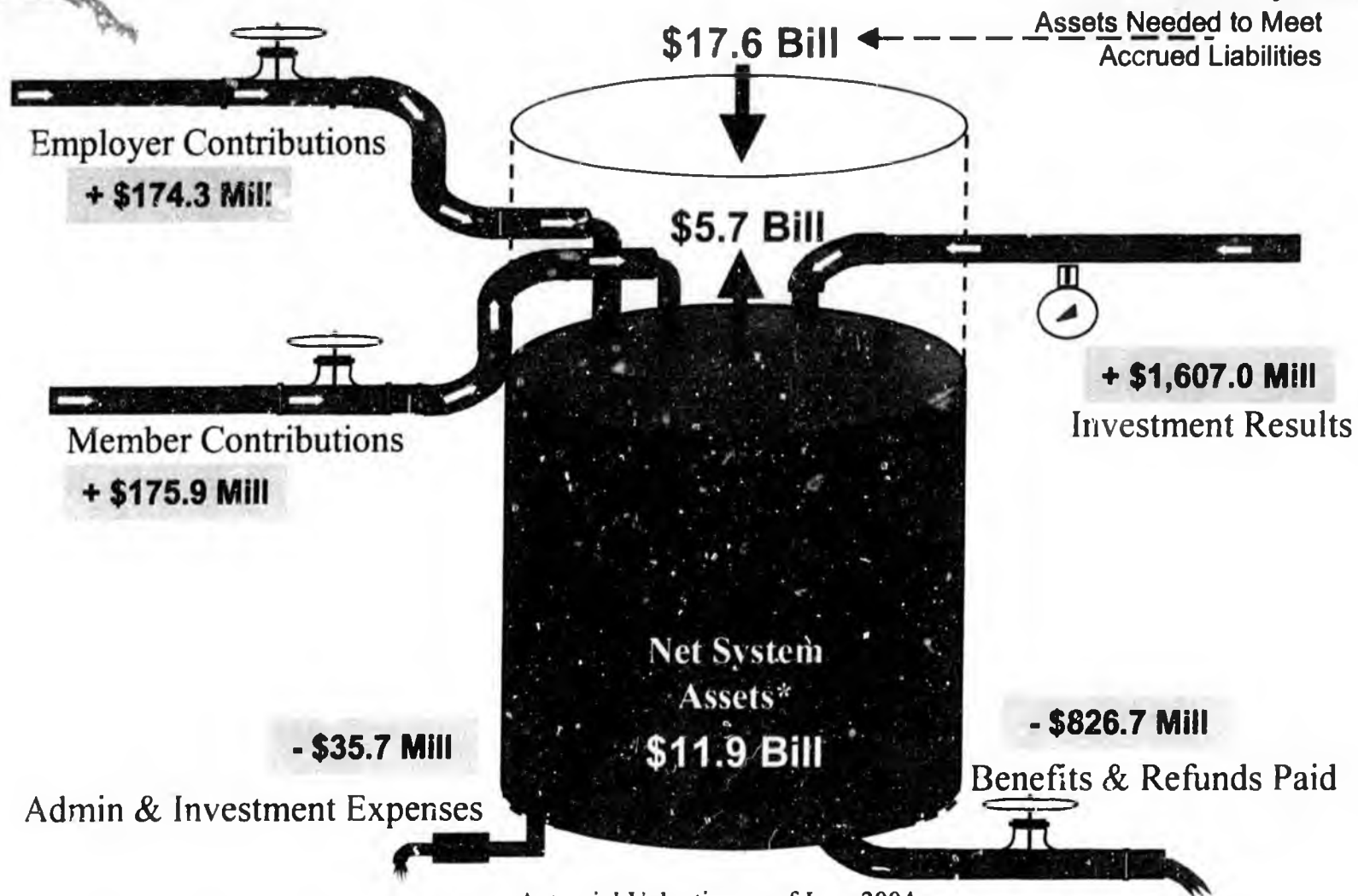
All Three System Components Must be Working in Balance





**Net System Assets Must Be Sufficient to Pay Future Benefits**



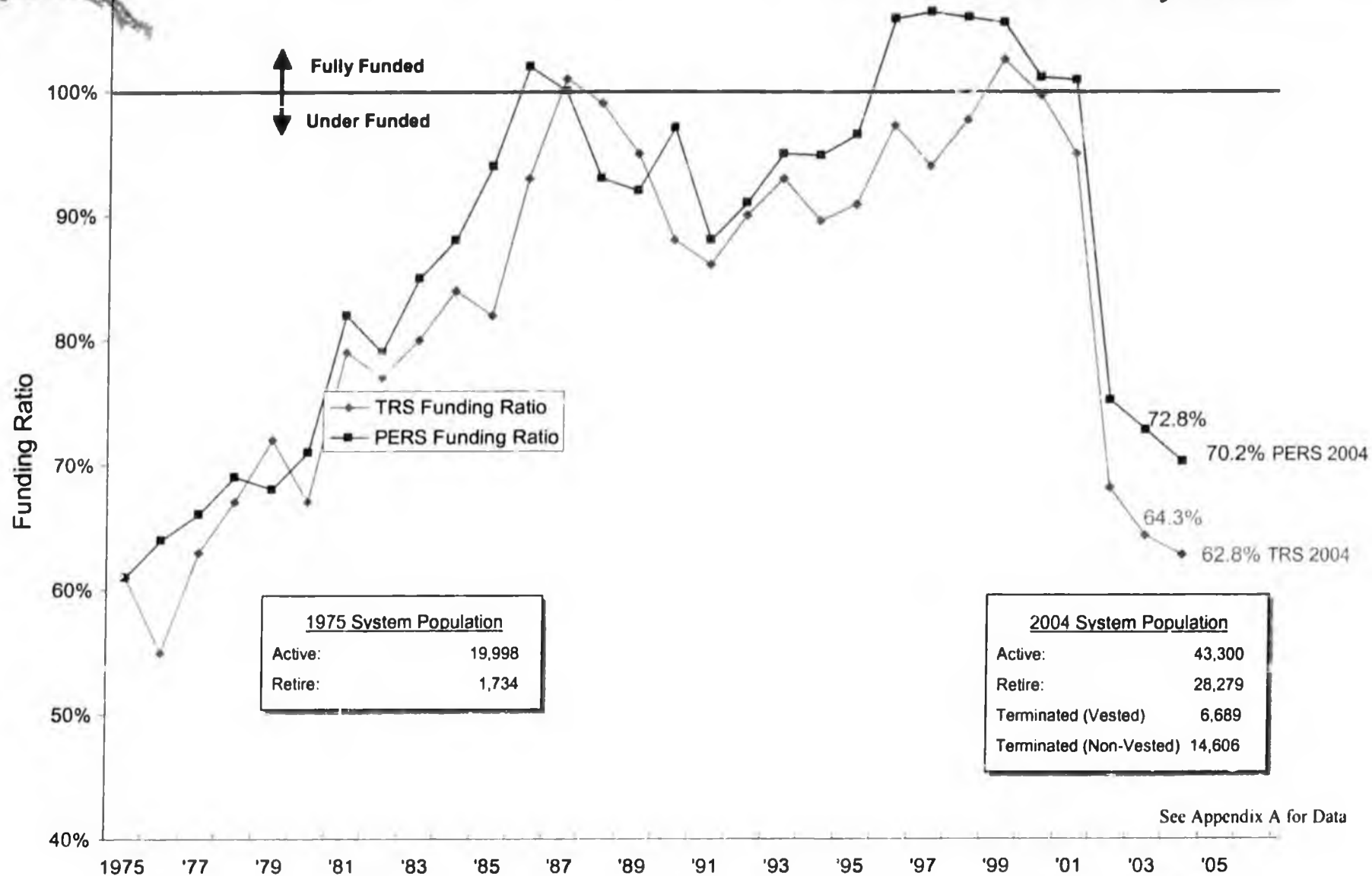


Actuarial Valuation as of June 2004  
annotated with 2004 system cash flows

\*Combined PERS & TRS Actuarial Asset Values

**PERS & TRS Have A Combined \$5.7 Billion Unfunded Liability**





### Historical PERS & TRS Funding Ratios





*What went wrong?*





*Our analysis looked at both components of the problem*

**Structural Component**

*To Identify the systemic problems in PERS/TRS*

**Financial Component**

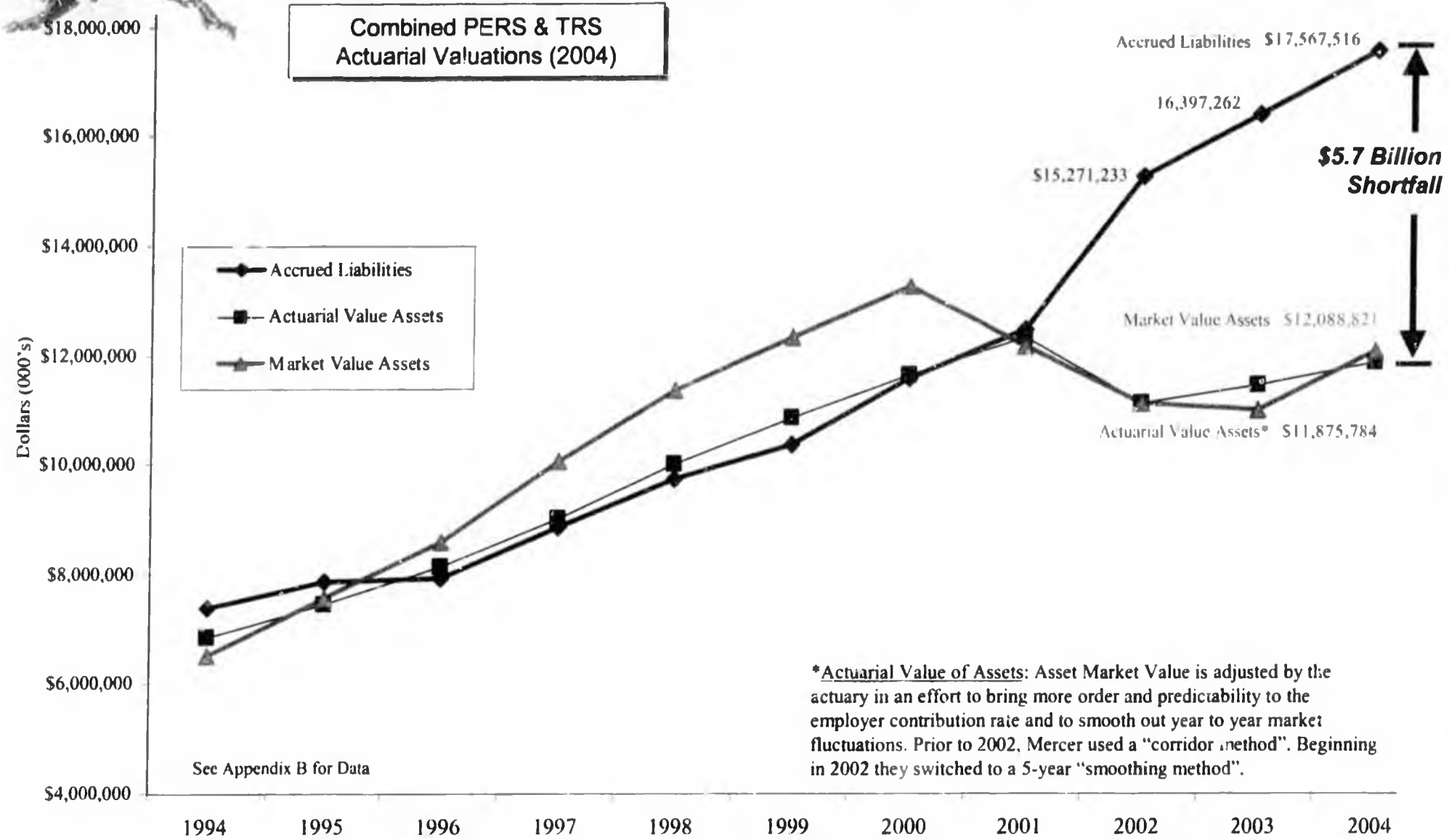
*To Identify the causes of our liability growth*

*With the goal of developing solutions*

- 1. How do we prevent this from happening again?*
- 2. How can we fix the system and bring it back into balance?*
- 3. How can we better predict and control costs going forward?*

- 1. How can we stabilize future employer contribution rates?*
- 2. How can we provide near term financial relief to employers?*
- 3. How do we develop a long term solution to funding the \$5.7 billion gap?*



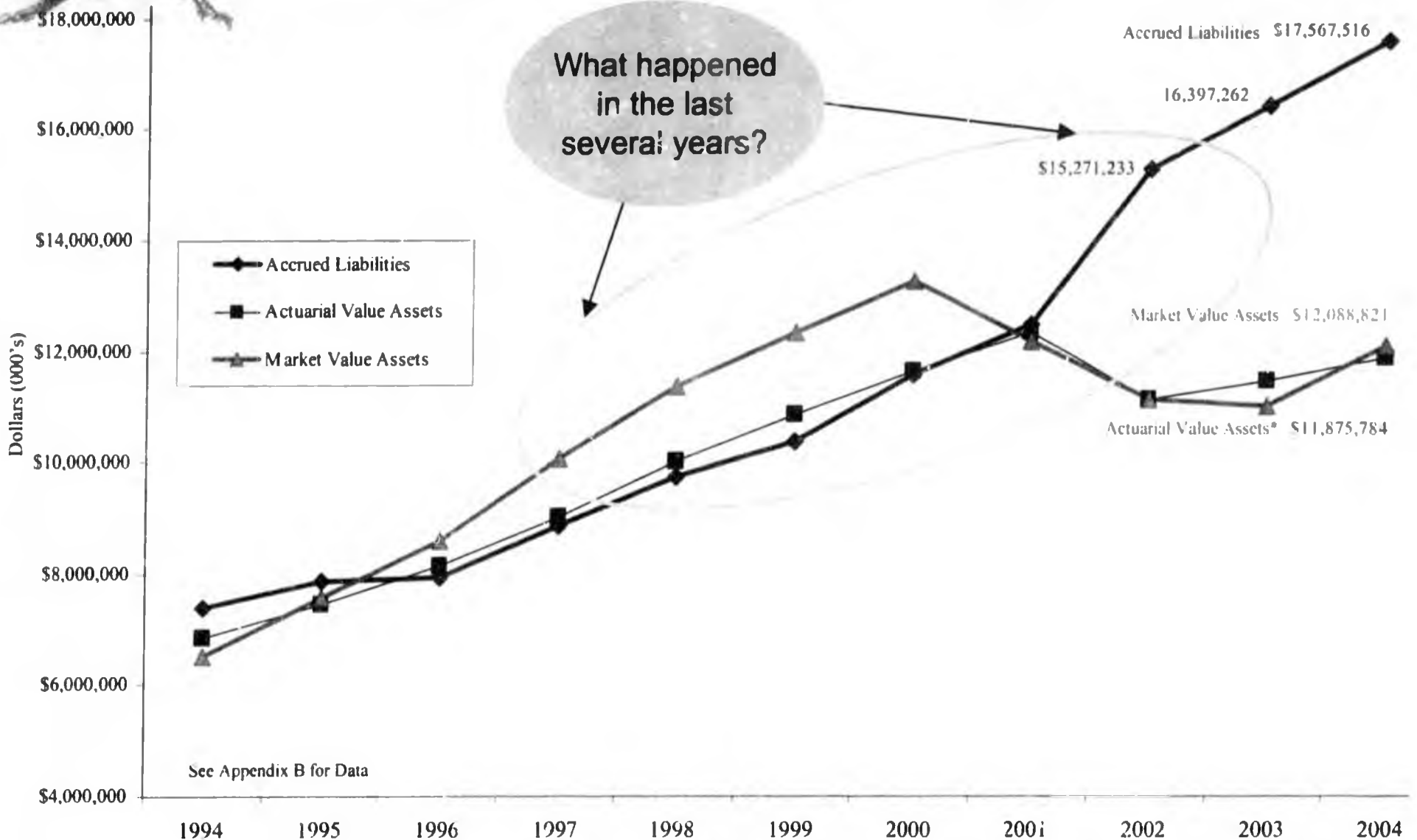


See Appendix B for Data

\*Actuarial Value of Assets: Asset Market Value is adjusted by the actuary in an effort to bring more order and predictability to the employer contribution rate and to smooth out year to year market fluctuations. Prior to 2002, Mercer used a "corridor method". Beginning in 2002 they switched to a 5-year "smoothing method".

We Have Been Understating Our Liabilities For the Past Several Years

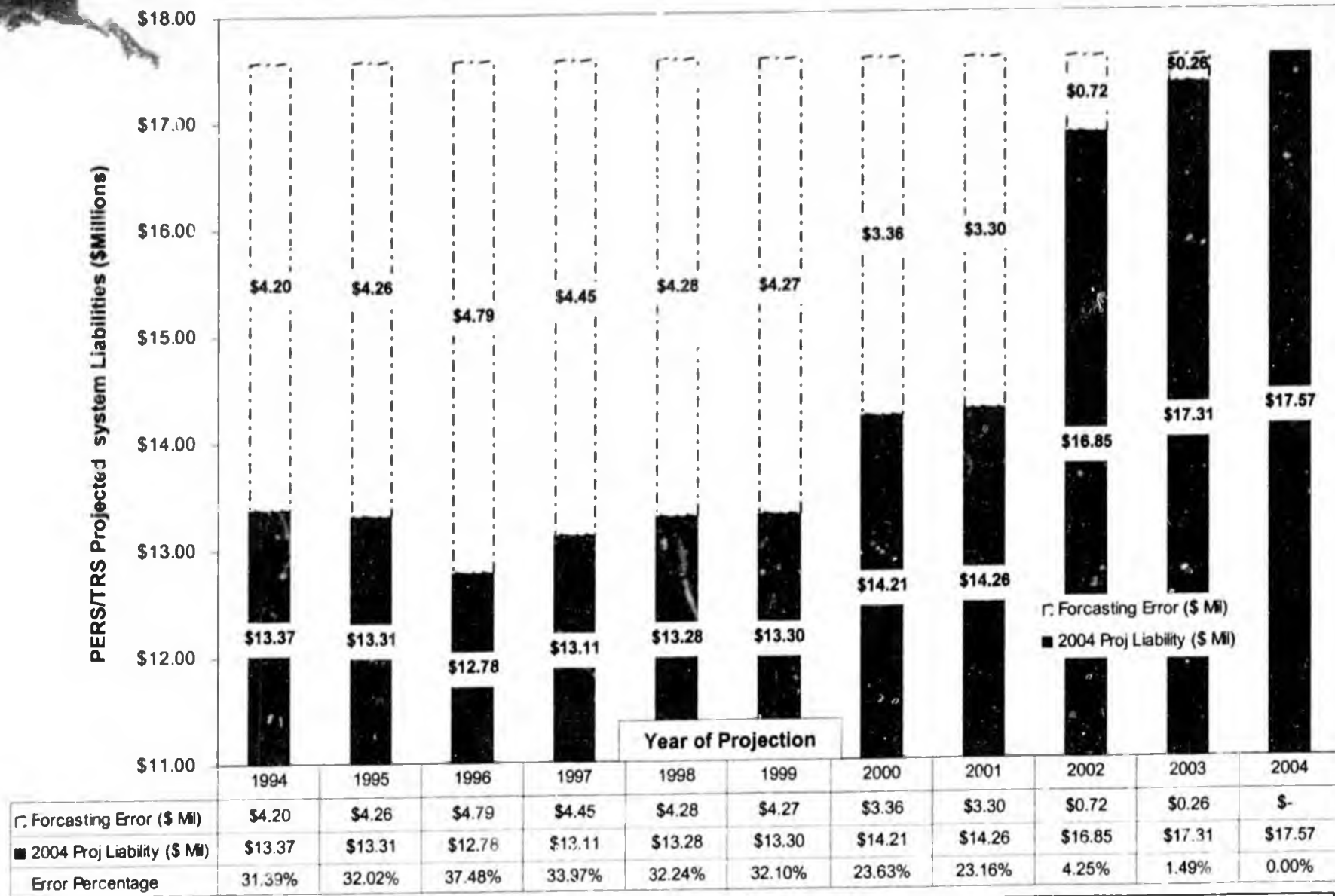




See Appendix B for Data

Clearly Something Changed Since 2000





Why Have Liabilities Grown at 9.1% vs A Projected Growth of 6.1% ?

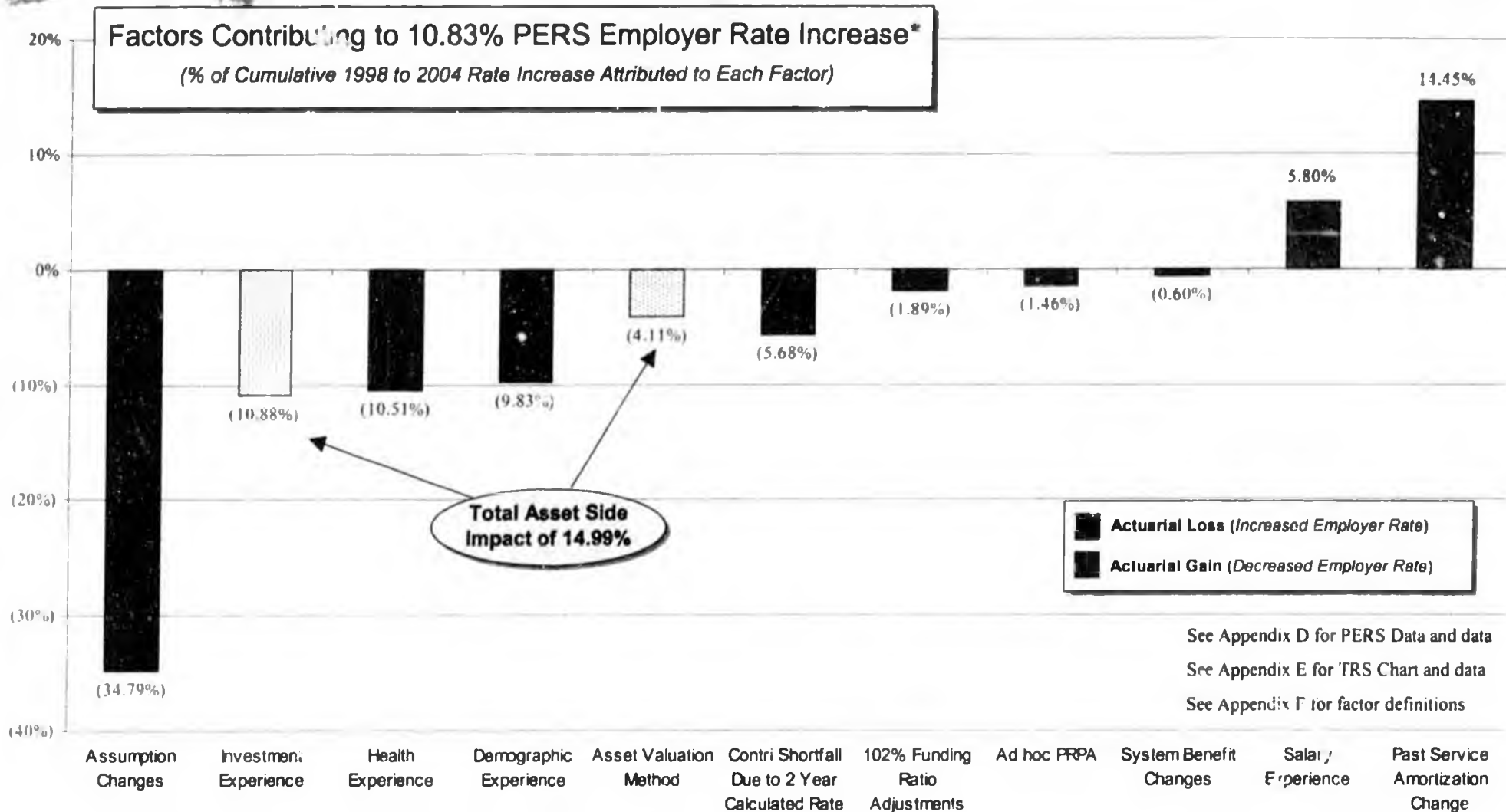




- Inaccurate assumptions
- Historical understatement of system liabilities
- Rising health costs
- 3-yr bear market
- Declining interest rates
- Unfavorable demographic changes
- Timing of the recognition of market losses
- Artificially low contribution rates in good times
- Legislation that has increased benefits
- Awarding of Post Pension Retirement Adjustments

A Combination of Factors Created Our Present Situation

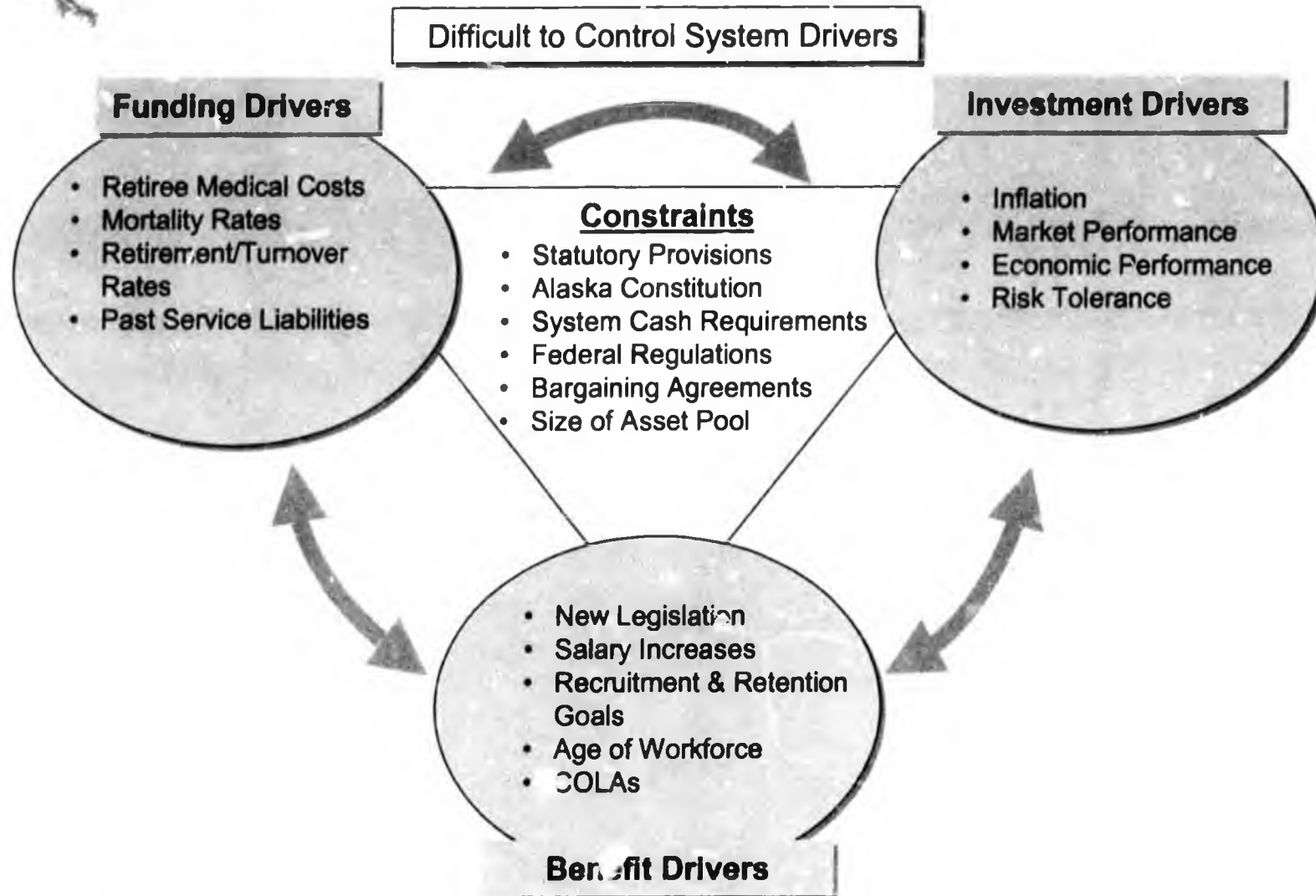




\* PERS Employer Rate increased from 7.36% in 1998 to 28.19% in 2004

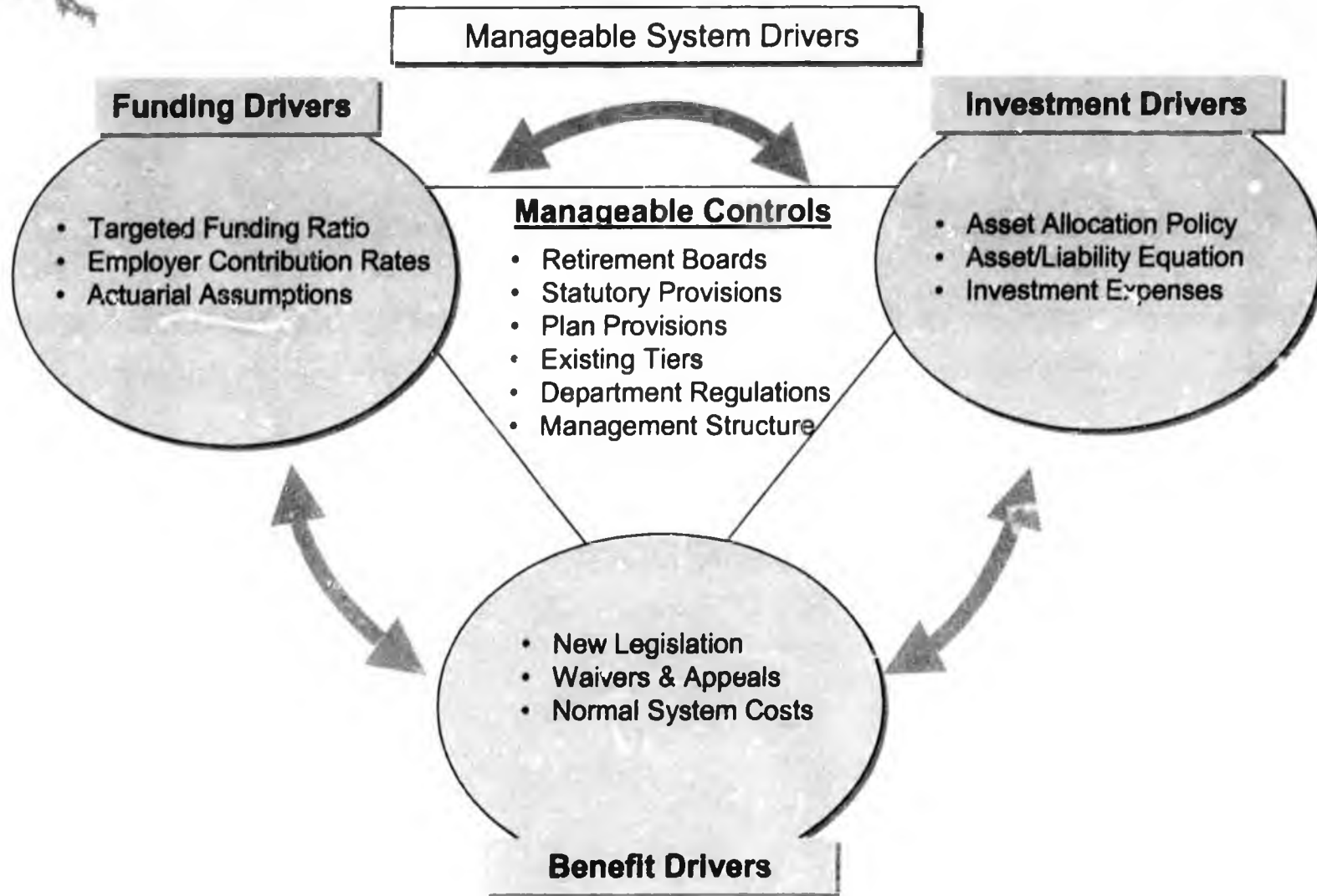
**A Combination of Factors Created Our Present Situation**





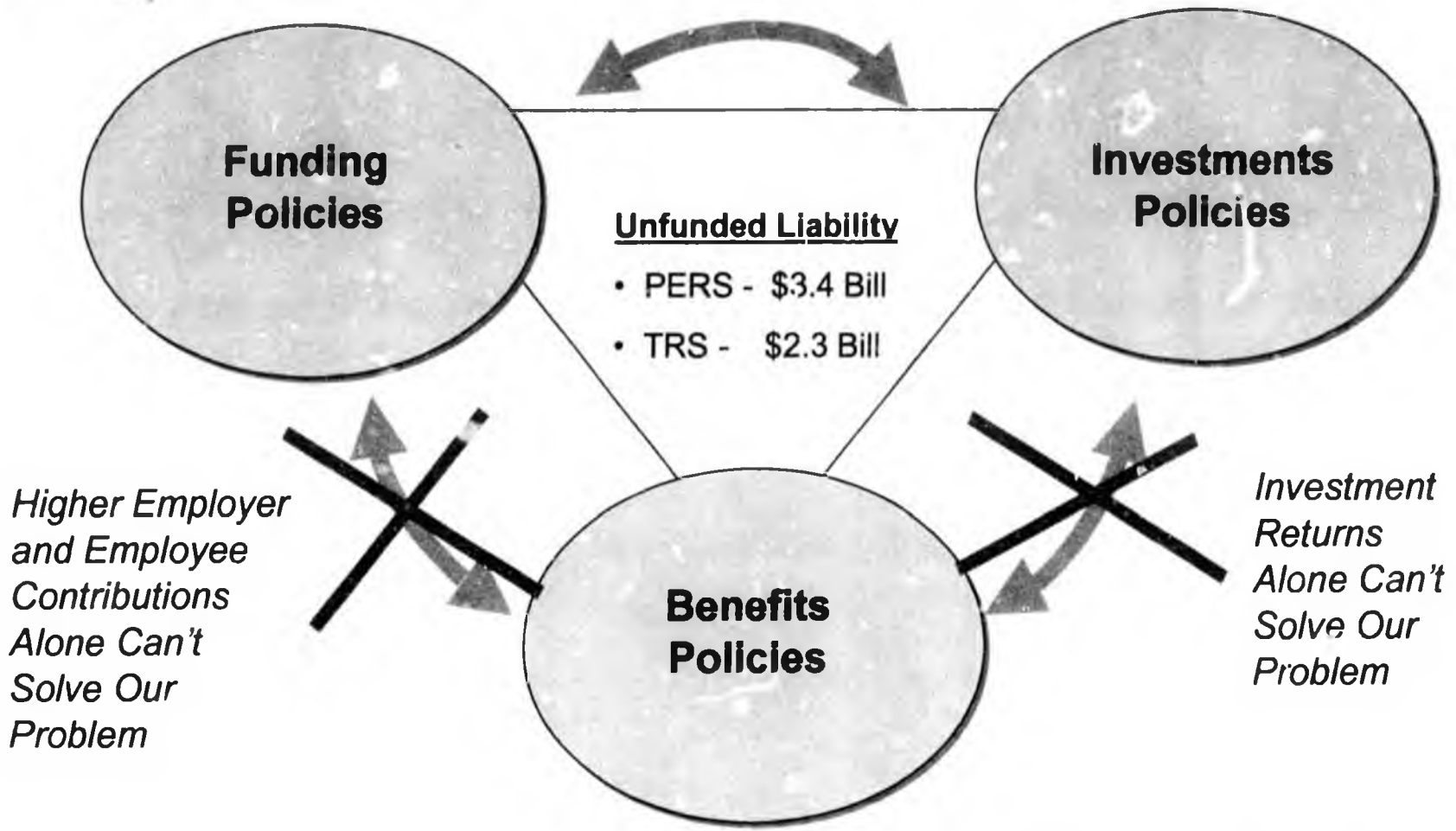
Financial & Economic Drivers are Hard To Predict and Difficult to Control





Parts of The System Can...and Should.... be Better Managed

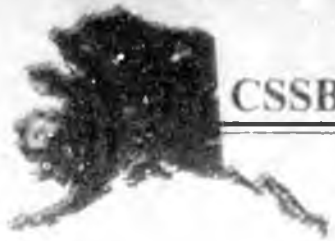




\*See Appendix G for Projected PERS/TRS Contribution Rates

**Current Funding & Investment Policies Can't Support Our Benefits Policy**





## *Important Conclusions*

- System assets and liabilities must be jointly managed
- System volatility needs to be reduced
- Cost predictability and controls must be improved
- Employer contribution rates must be stabilized
- Sources of new liability must be eliminated
- Existing liability must be reduced
- Liability growth must be contained





# *CSSB 141 Overview*





## The Retirement Security Act will

- Strengthen Management & Fiduciary Oversight
- Improve Our Ability to Predict and Control Costs
- Constrain the Growth of the Unfunded Liability
- Provide Near Term Financial Relief to Employers
- Pave the Way For Developing a Long-term Financial Fix

While still maintaining our principle objectives of

- Ensuring the Solvency of Alaska's Retirement System
- Maintaining the Attractiveness of Public Sector Employment
- Recruiting and Retaining Talent

RSA Improves the Long-term Health and Security of Our Retirement System





## CSSB 141 – Key Elements:

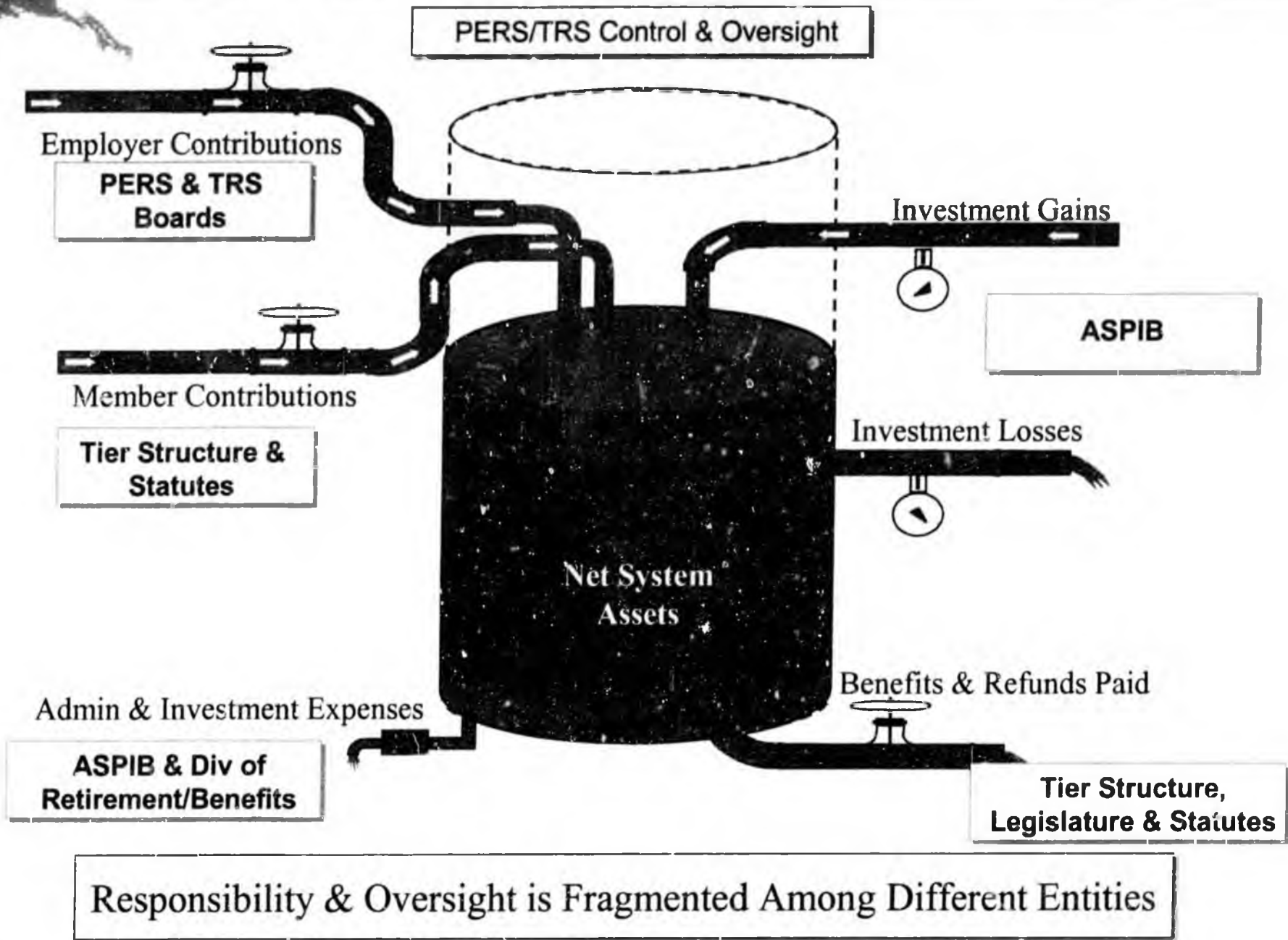
- Replaces the existing boards (PERS, TRS, ASPIB) with a new 9-member Alaska Retirement Management Board (ARMB)
- Provides more employer representation on the board; strengthens the board's fiduciary responsibilities; gives the board responsibility for setting employer contribution rates and for adopting actuarial assumptions
- Transfers the responsibility for hearing waivers and appeals to the Office of Administrative Hearings
- Increases payroll contributions for existing employees by 0.5% annually until employers and employees share normal costs 50/50
- Establishes a Defined Contribution (DC) Plan, Retiree Medical Benefit and Health Reimbursement arrangement for new employees





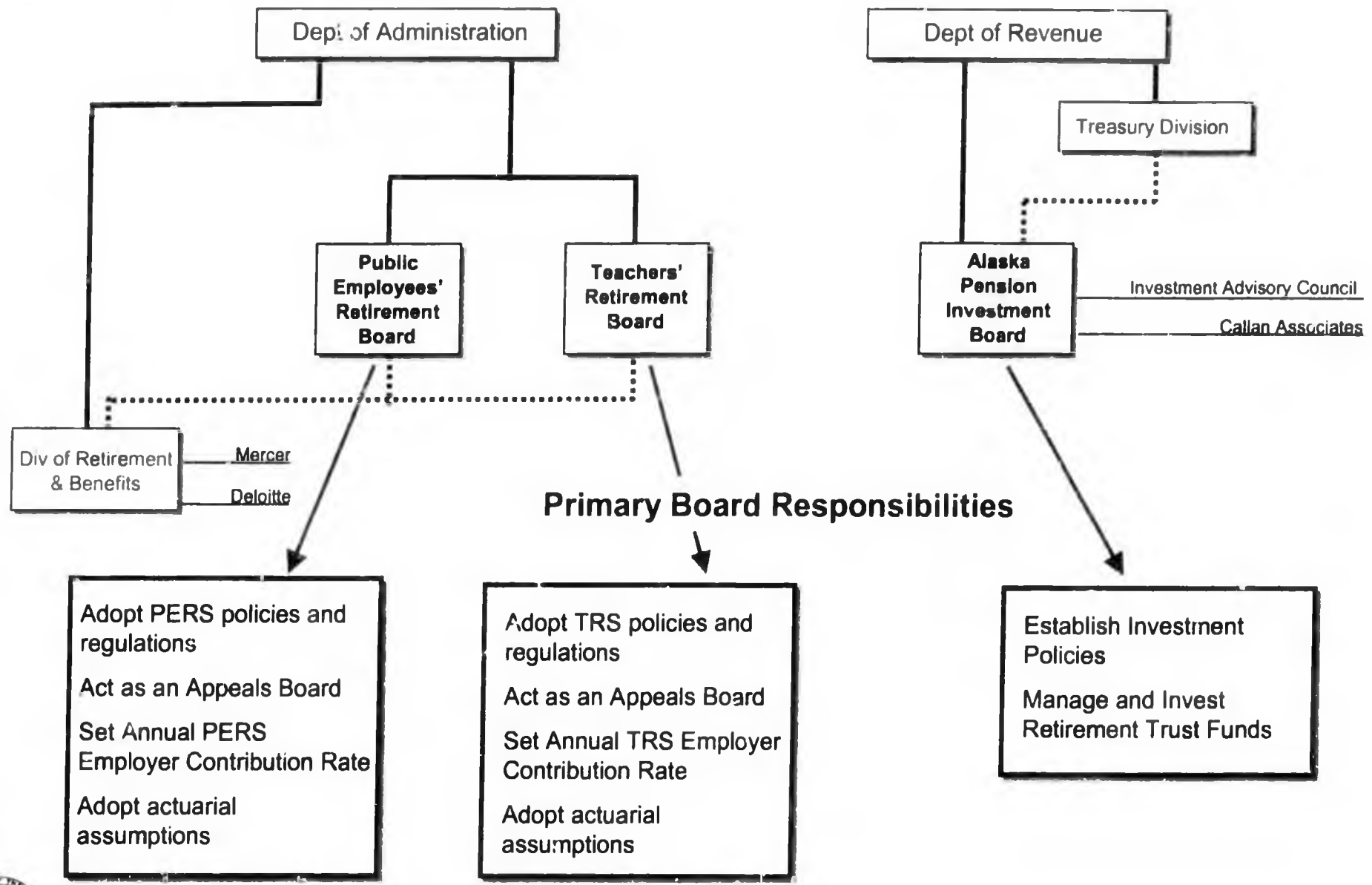
# *Board Restructuring*







# Current Retirement System Organization





## Retirement System Oversight Should Be Designed To:

- Guide and evaluate system performance
- Provide long-term strategic and financial planning
- Ensure the assets and liabilities of the systems are balanced
- Implement formal system of checks and balances
- Work in the best interests of the state and its public employees





## Retirement Board Must Be

- Representative of all system stakeholders
- Experienced and knowledgeable in relevant financial, accounting and investing issues
- Empowered to address systemic problems
- Impartial
- Independent





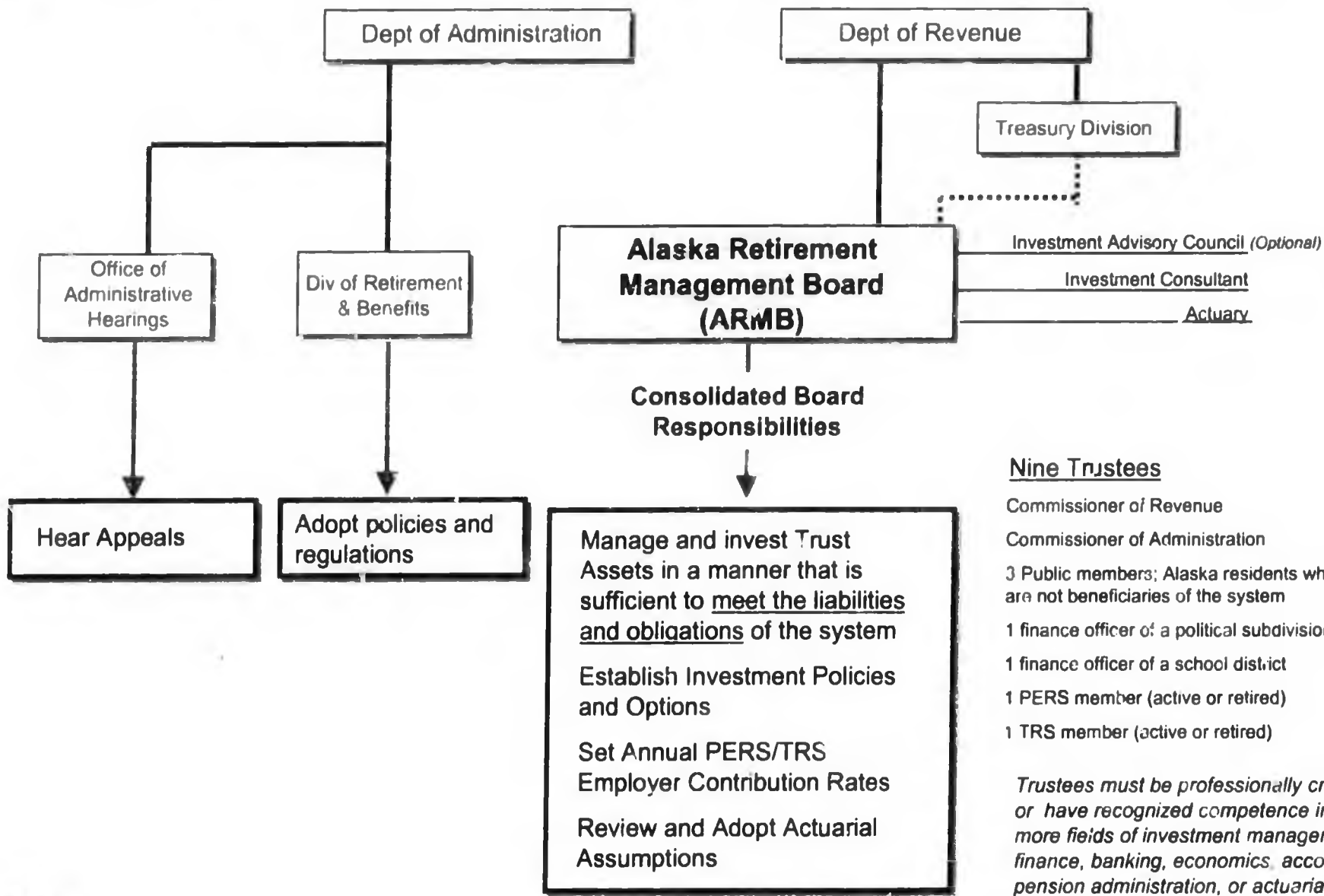
## SB 141 Board Restructuring is Designed to:

- Strengthen the fiduciary oversight of the entire retirement system
- Place system assets and liabilities within the purview of one authority
- Increase the frequency of reviewing, adopting and reporting actuarial assumptions
- Increase employer representation on the board
- Establish minimum professional qualifications for board membership
- Move the quasi-judicial appeals process to the Office of Administrative Hearings
- Empower the Commissioner of Administration to set policies and regulations for day to day system operations





# SB 141 Retirement System Organization





Board Adopted Employer Contribution Rates – FY '90 thru FY '07

Mercer Data Year	Board Adopt Year	Rate for FY	PERS					TRS						
			PERS Funding Ratio	Employer Normal Rate	Past Service Rate	Actuarial Computed Rate	Board Adopted Rate	Diff Computed Rate	TRS Funding Ratio	Employer Normal Rate	Past Service Rate	Actuarial Computed Rate	Board Adopted Rate	Diff Computed Rate
1987	1988	1990	100.0%	9.23%	0.07%	9.30%	9.30%	0.00%	101.0%	9.14%	-0.95%	8.19%	11.64%	3.45%
1988	1989	1991	93.0%	10.37%	1.63%	12.00%	12.00%	0.00%	98.8%	11.86%	0.41%	12.27%	10.54%	-1.73%
1989	1990	1992	91.6%	12.00%	2.20%	14.20%	14.20%	0.00%	95.0%	13.26%	1.90%	15.16%	11.87%	-3.29%
1990	1991	1993	97.2%	12.83%	0.75%	13.58%	13.58%	0.00%	87.7%	14.07%	5.58%	19.65%	12.00%	-7.65%
1991	1992	1994	88.1%	10.18%	3.54%	13.72%	13.72%	0.00%	85.7%	9.05%	6.54%	15.59%	12.00%	-3.59%
1992	1993	1995	91.2%	10.90%	2.80%	13.70%	13.70%	0.00%	89.7%	8.57%	4.79%	13.36%	12.00%	-1.36%
1993	1994	1996	95.4%	11.29%	1.53%	12.82%	12.82%	0.00%	93.1%	9.06%	3.42%	12.48%	12.00%	-0.48%
1994	1995	1997	94.8%	10.36%	1.78%	12.14%	12.14%	0.00%	89.6%	9.70%	5.26%	14.96%	12.00%	-2.96%
1995	1996	1998	96.5%	10.61%	1.29%	11.90%	8.00%	-3.90%	90.9%	10.10%	4.84%	14.94%	12.00%	-2.94%
1996	1997	1999	105.8%	9.85%	-2.11%	7.74%	7.74%	0.00%	97.2%	8.97%	1.55%	10.52%	12.00%	1.48%
1997	1998	2000	106.3%	8.89%	-2.53%	7.36%	7.74%	0.38%	94.0%	9.21%	3.79%	13.00%	12.00%	-1.00%
1998	1999	2001	105.9%	8.67%	-1.64%	7.03%	7.40%	0.37%	97.7%	8.99%	1.56%	10.55%	12.00%	1.45%
1999	2000	2002	105.5%	8.07%	-1.51%	6.56%	6.75%	0.19%	102.5%	8.88%	-1.79%	7.09%	11.00%	3.91%
2000	2001	2003	101.1%	5.43%	0.69%	6.12%	6.75%	0.63%	99.6%	9.40%	-1.11%	8.29%	11.00%	2.71%
2001	2002	2004	100.9%	5.42%	1.35%	6.77%	6.77%	0.00%	95.0%	10.33%	4.11%	14.44%	12.00%	-2.44%
2002	2003	2005	75.2%	13.31%	11.60%	24.91%	11.77%	-13.14%	68.2%	14.76%	20.91%	35.57%	16.00%	-19.57%
2003	2004	2006	72.8%	13.24%	12.39%	25.63%	16.77%	-8.86%	64.3%	14.28%	24.57%	38.85%	21.00%	-17.85%
2004	2005	2007	70.2%	13.32%	14.87%	28.19%	TBD	TBD	62.8%	13.76%	28.02%	41.78%	TBD	TBD

- Currently, the PERS/TRS boards set the annual Employer Contribution Rate
- When the boards adopt a rate below the Employer Normal Cost Rate, the unfunded liability may increase
- SB 141 requires the Board to adopt an Employer Contribution Rate no-less-than the Employer Normal Cost Rate





*Appeals Process to Office  
of Administrative  
Hearings*





## Office of Administrative Hearings (OAH)

- Office was established by SB 203 (ch. 163, SLA 2004) with the goals of
  - Providing better public service through a higher level of due process
  - Improving hearing efficiencies for both government and public
  - Cutting hearing costs to both government and public
  - Improving impartial decision-making





## Office of Administrative Hearings (OAH)

- Conduct administrative appeals, evidentiary hearings, dispute resolution and adjudication for
  - Child support services
  - Occupational licensing (*including tobacco enforcement and real estate surety claims*)
  - Permanent Fund Dividend eligibility
  - Other (*taxation, contracts/procurement, permitting, crime victim compensation, benefits programs*)
- All these types of appeals of decisions made by government impact people's families, their businesses, their income





## Benefits of Transfer of Appeals Hearing Function

- Operates under the supervision of a chief administrative law judge
- Impartial and highly trained adjudicator to hear cases
- Timely resolution for appellants
- Cost savings: 1 administrative law judge replaces 10 board members
- Decisions of the OAH may still be appealed to Superior Court





*Increasing Contribution  
Rates for Existing Public  
Employees*





# Contribution Rate Setting Process

- Each year, the actuary computes the **Normal Cost Rate** for the next contribution year
- The **Normal Cost Rate** is simply *the percent of payroll required to pay for the benefits expected to be earned by all members during the coming contribution year*
- The process runs two fiscal years in advance – for example, the FY 07 Normal Cost Rate was estimated this month by the state's actuary

	<u>FY 07 Normal Costs</u>	
	<b>PERS</b>	<b>TRS</b>
Medical cost component	8.86%	8.75%
<u>Pension component</u>	<u>11.27%</u>	<u>13.69%</u>
<b>Normal Cost Rate</b>	<b>20.13%</b>	<b>22.44%</b>





## Contribution Rate Setting Process

- If our economic, demographic, and financial projections were always correct – the annually reviewed **Normal Cost Rate** would fully fund the retirement system
- Unfortunately, those projections can never be 100% accurate
- If too much was contributed, the system is overfunded; if too little, it is underfunded
- The actuary amortizes the unfunded amount over 25 years and computes a **Past Service Rate**
- The **Past Service Rate** is *the additional percent of payroll required to begin paying off the unfunded liability*





## Contribution Rate Setting Process

- Once the **Normal Cost Rate** and the **Past Service Rate** are known, the employer's total contribution rate is calculated as follows:

		<u>FY 07 Contribution Rates</u>	
		<b>PERS</b>	<b>TRS</b>
	<b>Normal Cost Rate</b>	<b>20.13%</b>	<b>22.44%</b>
<i>Less</i>	<b>Employee Contribution*</b>	<b>(6.81)%</b>	<b>(8.68)%</b>
<i>Equals</i>	<b>Employer Normal Cost</b>	<b>13.32%</b>	<b>13.76%</b>
<i>Plus</i>	<b>Past Service Rate</b>	<b>14.87%</b>	<b>28.02%</b>
<i>Total</i>	<b>Employer Contribution</b>	<b>28.19%</b>	<b>41.78%</b>

\* Employee Contribution Rate shown is the average rate for all members of the systems. Actual rates vary by employee class and are 6.75%, 7.5% or 9.6% for PERS and 8.5% or 9.65% for TRS





## Weaknesses of the Process

- The Employee Contribution rate is set in statute, so *any increase in the Normal Cost Rate is borne entirely by the employer*

		FY 07 Contribution Rates	
		PERS	TRS
	<b>Normal Cost Rate</b>	20.13%	22.44%
<i>Less</i>	<b>Employee Contribution*</b>	(6.81)%	(8.68)%
<i>Equals</i>	<b>Employer Normal Cost</b>	13.32%	13.76%
<i>Plus</i>	<b>Past Service Rate</b>	14.87%	28.02%
<i>Total</i>	<b>Employer Contribution</b>	28.19%	41.78%

- These are the actuary's recommended rates....currently, *the PERS and TRS boards may adopt different rates*
- When the boards adopt lower rates, our unfunded liability increases

\* Employee Contribution Rate shown is the average rate for all members of the systems. Actual rates vary by employee class and are 6.75%, 7.5% or 9.6% for PERS and 8.65% or 9.65% for TRS

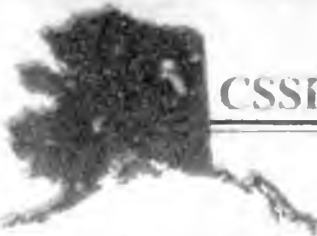




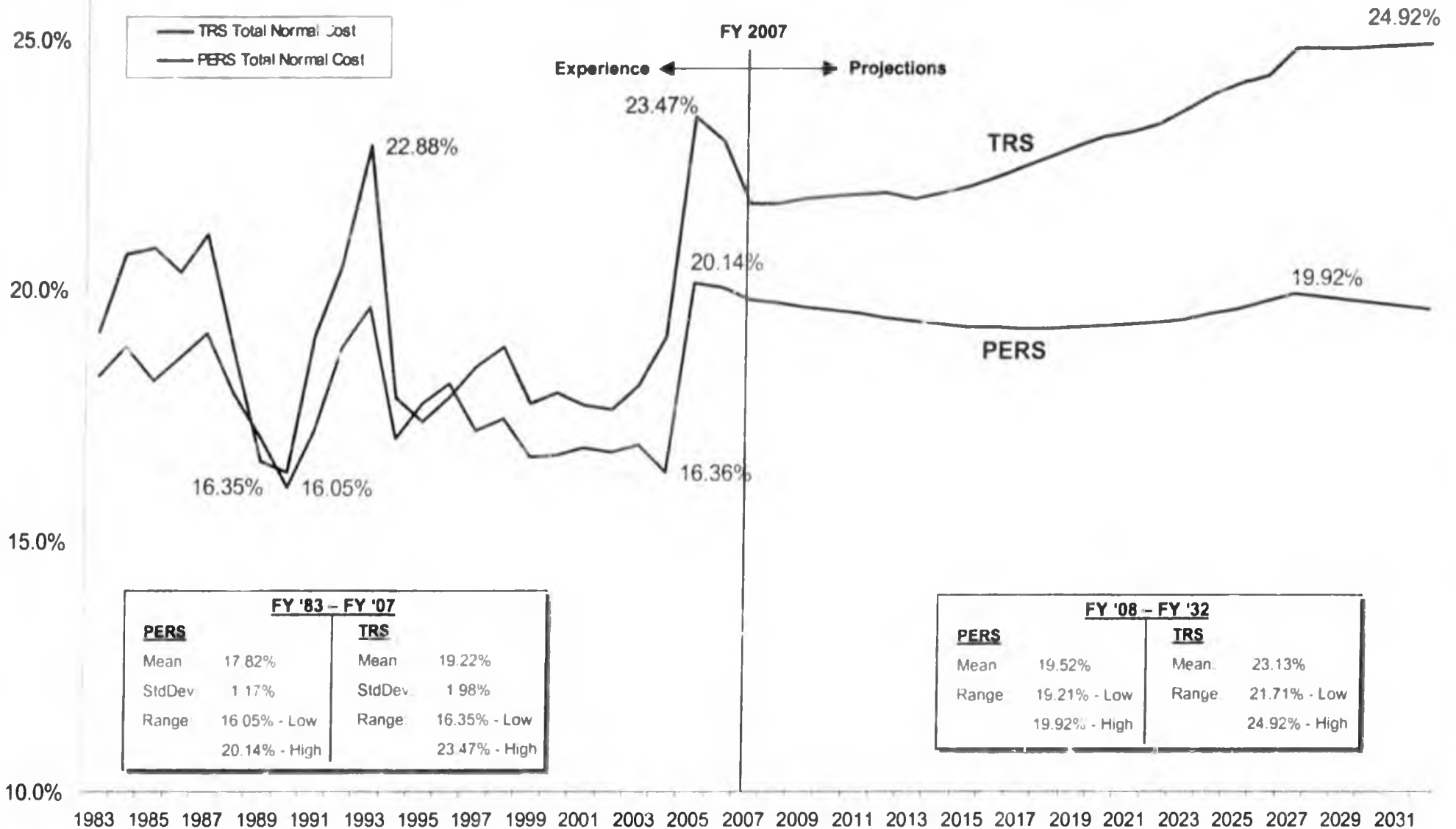
## SB 141 Addresses these Weaknesses

1. Sets the employee's contribution to the greater of:
  - Current statutory rate or
  - $\frac{1}{2}$  of the Normal Cost Rate
  - With the additional provision that the increase may not exceed 0.50% annually
  
2. Requires the new Alaska Retirement Management Board (ARMB) to adopt a contribution rate that is no less than the actuarially computed Employer Normal Cost Rate





### Historical & Projected Total Normal Cost Rate



FY '83 – FY '07				
	PERS		TRS	
Mean	17.82%		Mean	19.22%
StdDev	1.17%		StdDev	1.98%
Range	16.05% - Low		Range	16.35% - Low
				20.14% - High
				23.47% - High

FY '08 – FY '32				
	PERS		TRS	
Mean	19.52%		Mean	23.13%
Range	19.21% - Low		Range	21.71% - Low
				24.92% - High





## Employers are Paying the Majority of the Normal Cost

### FY 07 Normal Cost Rates

	<b>PERS</b>	<b>Share</b>	<b>TRS</b>	<b>Share</b>
<b>Total Normal Cost</b>	20.13%	100%	22.44%	100%
<b>Employee Cost*</b>	6.81%	<b>33.8%</b>	8.68%	<b>38.7%</b>
<b>Employer Cost</b>	13.32%	<b>66.2%</b>	13.76%	<b>61.3%</b>

Currently, increases in the Normal Cost are borne entirely by the employer

\* Employee Contribution Rate shown is the average rate for all members of the systems. Actual rates vary by employee class and are 6.75%, 7.5% or 9.6% for PERS and 8.65% or 9.65% for TRS





**Employee Contribution Rates Haven't Increased  
Since 1987 in PERS and 1991 in TRS**

**Statutory Changes in Employee Contribution Rates**

<b>PERS</b>	<b>Before 1/1/87</b>	<b>Since 1/1/87</b>	<b>Since 7/1/99</b>	<b>FY 07 Average</b>
<b>Police/Fire</b>	<b>5.00%</b>	<b>7.50%</b>	<b>7.50%</b>	<b>6.81%</b>
<b>All Others</b>	<b>4.25%</b>	<b>6.75%</b>	<b>6.75%</b>	
<b>School Districts*</b>			<b>9.60%</b>	
<b>TRS</b>		<b>Before 1/1/91</b>	<b>Since 1/1/91</b>	<b>FY 07 Average</b>
<b>Most Members</b>		<b>7.00%</b>	<b>8.00%</b>	<b>8.68%</b>
<b>Supplemental Plan**</b>		<b>8.65%</b>	<b>9.65%</b>	

\* Beginning in 7/1/99, school district PERS members can elect the higher 9.6% contribution rate and receive a full year of service credit for 9 months vs. contributing 6.75% for 12 months

\*\* TRS Members who joined the system before 7/1/82 and elected to participate in the supplemental contributions provision are required to contribute an additional 1% of their salaries





## Constitution of the State of Alaska

### Article XII – Section 7

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

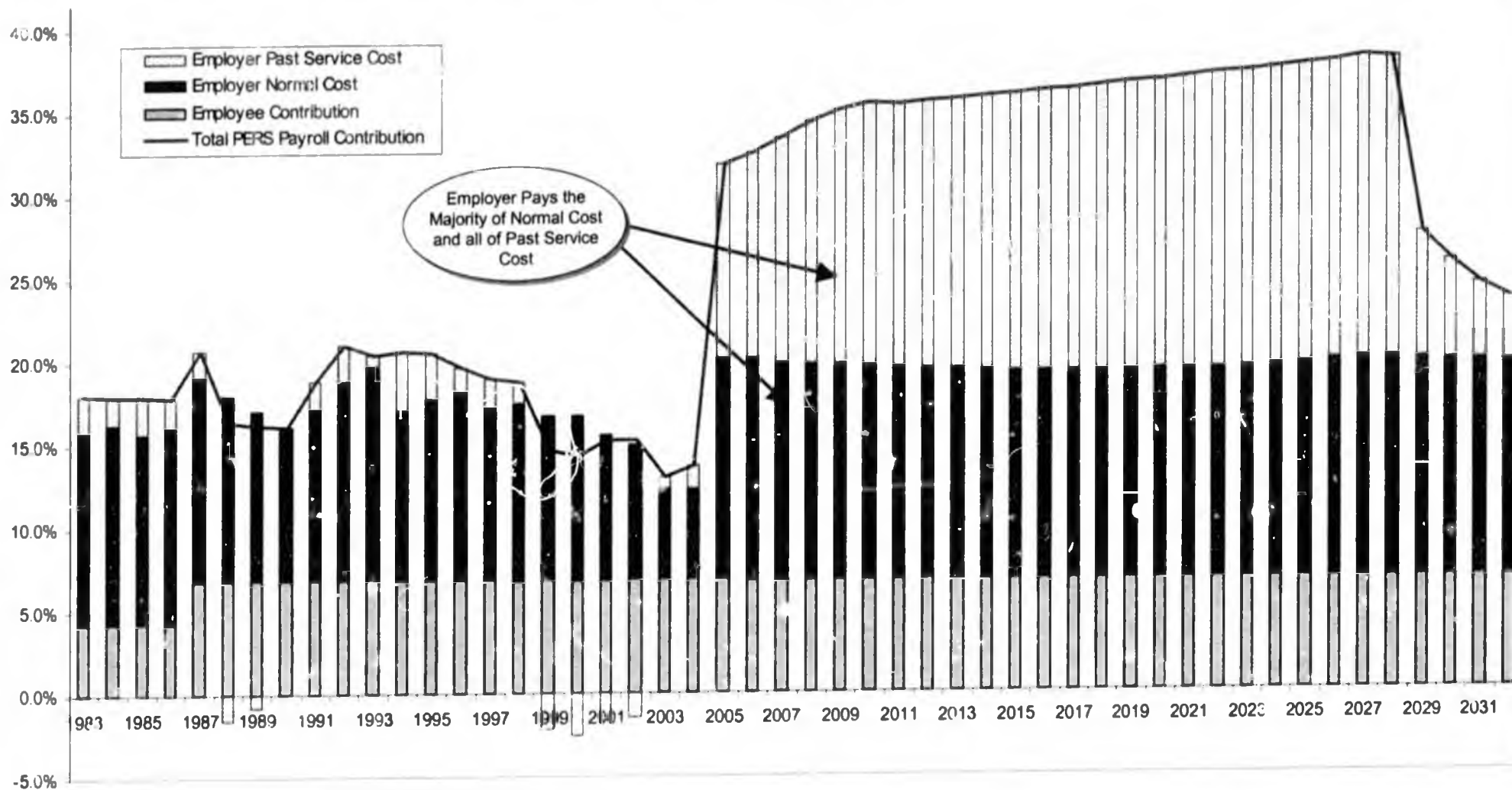
**Normal Cost Rate** is *the cost of benefits expected to be earned during the coming contribution year*

- We contend that employee contributions applied towards the **Normal Cost Rate** are not part of the accrued benefit to which members are entitled
- An accrued benefit is one that has already been earned – not one that has yet to be earned
- Benefit rights accrue as they are earned – year to year
- Employee contributions cannot be changed retroactively to pay for past benefits (Past Service Costs or any unfunded liability), but they can be changed prospectively to pay for future benefits





PERS Payroll Contribution Trend & Forecast



PERS Employee Normal Rate Projections

PERS - Average All Employees								
Rate for FY	Total Normal Cost	Projections at Current Rate			Projections at SB 141 Rate			Increase Over Previous FY
		Employee Normal Cost Rate	Employee Share of Total Normal Cost	Employer Share of Total Normal Cost	50% of Total Normal Cost	SB 141 Employee Rate	Resulting Employee Share	
2006	20.05%	6.81%	34.0%	66.0%	10.03%	7.33%	36.6%	0.50%
2007	19.80%	6.81%	34.4%	65.6%	9.90%	7.83%	39.5%	0.50%
2008	19.73%	6.81%	34.5%	65.5%	9.87%	8.33%	42.2%	0.50%
2009	19.66%	6.81%	34.6%	65.4%	9.83%	8.83%	44.9%	0.50%
2010	19.58%	6.81%	34.8%	65.2%	9.79%	9.33%	47.7%	0.50%
2011	19.52%	6.81%	34.9%	65.1%	9.76%	9.76%	50.0%	0.43%
2012	19.44%	6.81%	35.0%	65.0%	9.72%	9.72%	50.0%	-0.04%
2013	19.38%	6.81%	35.1%	64.9%	9.69%	9.69%	50.0%	-0.03%
2014	19.31%	6.81%	35.3%	64.7%	9.66%	9.66%	50.0%	-0.04%
2015	19.25%	6.81%	35.4%	64.6%	9.63%	9.63%	50.0%	-0.03%
2016	19.26%	6.81%	35.4%	64.6%	9.63%	9.63%	50.0%	0.00%
2017	19.23%	6.81%	35.4%	64.6%	9.62%	9.62%	50.0%	-0.01%
2018	19.21%	6.81%	35.5%	64.5%	9.61%	9.61%	50.0%	-0.01%
2019	19.24%	6.81%	35.4%	64.6%	9.62%	9.62%	50.0%	0.01%
2020	19.27%	6.81%	35.3%	64.7%	9.64%	9.64%	50.0%	0.02%
2021	19.31%	6.81%	35.3%	64.7%	9.66%	9.66%	50.0%	0.02%
2022	19.36%	6.81%	35.2%	64.8%	9.68%	9.68%	50.0%	0.03%
2023	19.42%	6.81%	35.1%	64.9%	9.71%	9.71%	50.0%	0.03%
2024	19.52%	6.81%	34.9%	65.1%	9.76%	9.76%	50.0%	0.05%
2025	19.63%	6.81%	34.7%	65.3%	9.82%	9.82%	50.0%	0.05%
2026	19.76%	6.81%	34.5%	65.5%	9.88%	9.88%	50.0%	0.06%
2027	19.92%	6.81%	34.2%	65.8%	9.96%	9.96%	50.0%	0.08%
2028	19.86%	6.81%	34.3%	65.7%	9.93%	9.93%	50.0%	-0.03%
2029	19.79%	6.81%	34.4%	65.6%	9.90%	9.90%	50.0%	-0.04%
2030	19.73%	6.31%	34.5%	65.5%	9.87%	9.87%	50.0%	-0.03%
2031	19.63%	6.81%	34.6%	65.4%	9.84%	9.84%	50.0%	-0.03%
2032	19.63%	6.81%	34.7%	65.3%	9.82%	9.82%	50.0%	-0.03%

SB 141 Proposes to split the Total Normal Cost 50/50 between Employer and Employee

However, the Employee Rate could never increase by more than 0.50% a year

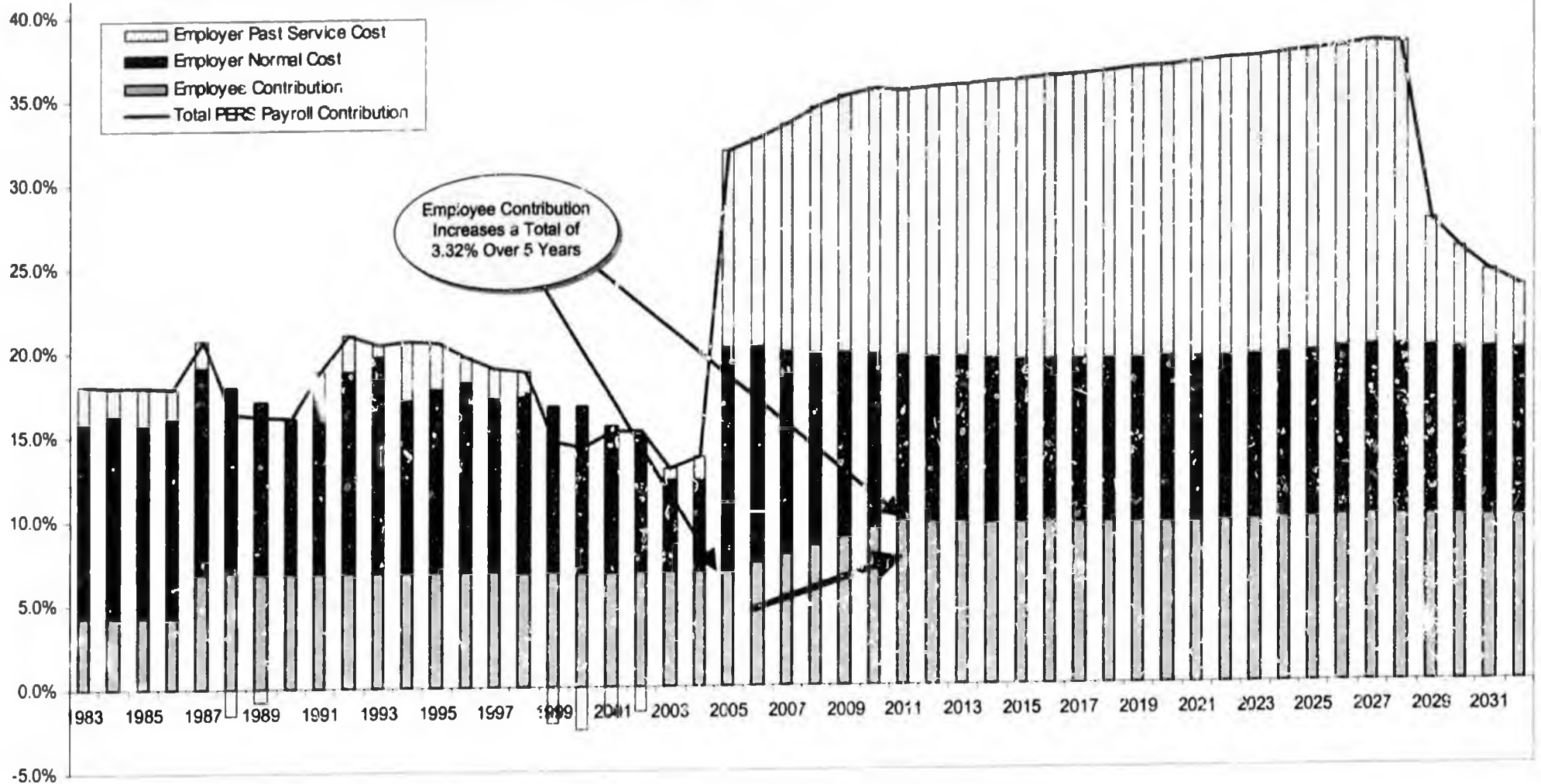
Based on current Mercer projections, it would take 6 years to reach the 50/50 shared rate

If Normal Costs drop in the future, employer and employee rates would drop accordingly





PERS Forecast with SB 141 Language





Effect of Employee Contribution Rate Increases on Average PERS Employee

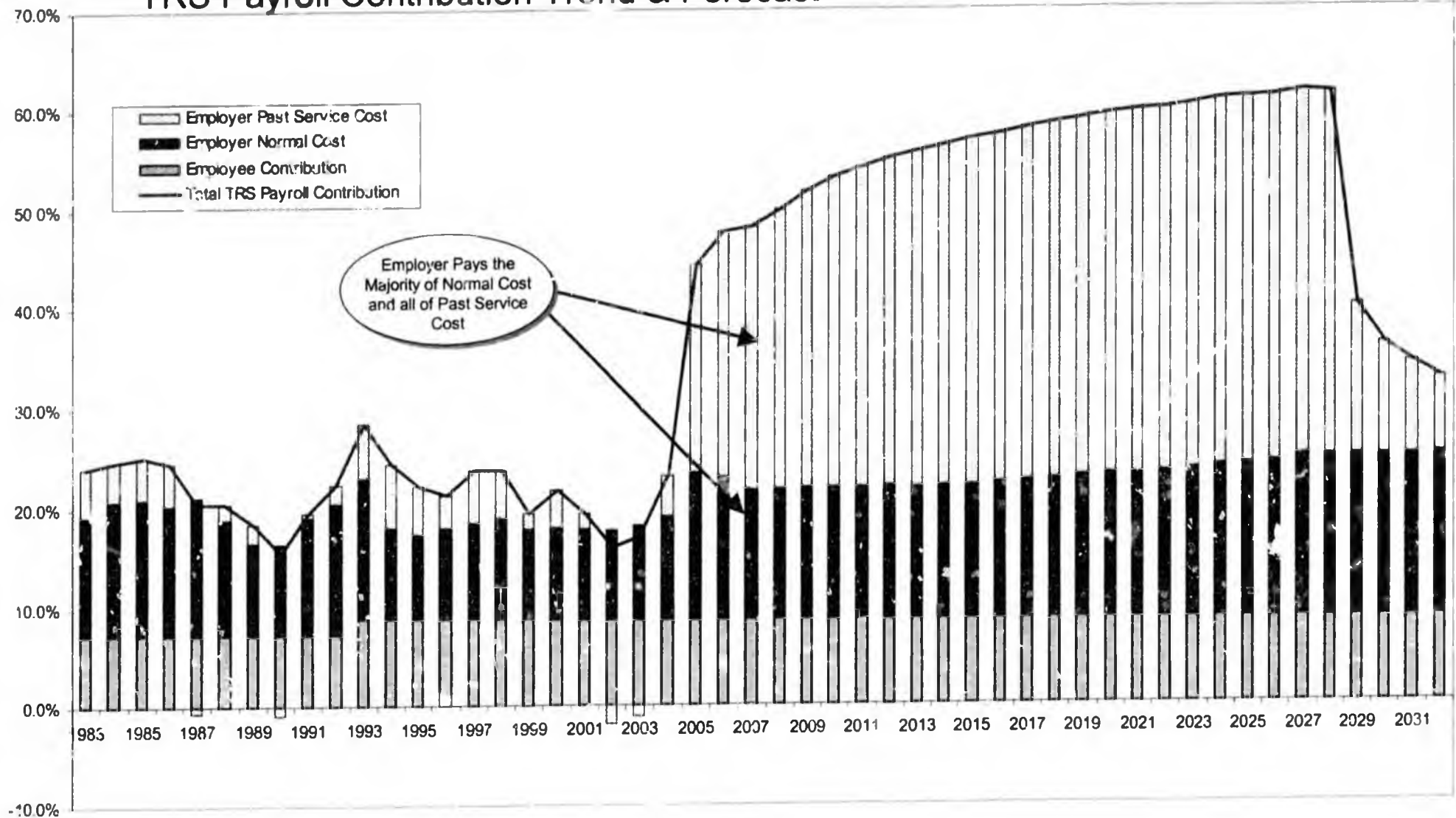
PERS 2004	Annual Earnings	Monthly Earnings	2-Week Pay	Normal Cost 20.13%	50% Normal Cost 10.07%	Current Rate @ 6.75%	SB 141 Proposed Pre-Tax Payroll Deductions (every 2 weeks)						Cumulative Increase	
							FY 06	FY 07	FY 08	FY 09	FY 10	FY 11		FY 12
							7.25%	7.75%	8.25%	8.75%	9.25%	9.75%		10.07%
ASEA GG 1-A Range 5-A	\$ 20,438.00	\$ 1,703.00	\$ 351.50	\$ 57.46	\$ 61.73	\$ 65.99	\$ 70.25	\$ 74.51	\$ 78.76	\$ 83.02	\$ 85.70			
				Yr to Yr Increase	\$ 4.26	\$ 4.26	\$ 4.26	\$ 4.26	\$ 4.26	\$ 4.26	\$ 2.68	\$ 28.23		
ASEA GG 1-A Range 10-A	\$ 27,166.00	\$ 2,264.00	\$ 1,132.00	\$ 76.41	\$ 82.07	\$ 87.73	\$ 93.39	\$ 99.05	\$ 104.71	\$ 110.37	\$ 113.94			
				Yr to Yr Increase	\$ 5.63	\$ 5.66	\$ 5.66	\$ 5.66	\$ 5.66	\$ 5.66	\$ 3.57	\$ 37.53		
ASEA GG 1-A Range 15-A	\$ 37,260.00	\$ 3,105.00	\$ 1,552.50	\$ 104.79	\$ 112.56	\$ 120.32	\$ 128.08	\$ 135.84	\$ 143.61	\$ 151.37	\$ 156.26			
				Yr to Yr Increase	\$ 7.76	\$ 7.76	\$ 7.76	\$ 7.76	\$ 7.76	\$ 7.76	\$ 4.89	\$ 51.47		
ASEA GG 1-A Range 17-A	\$ 42,652.00	\$ 3,571.00	\$ 1,785.50	\$ 120.52	\$ 129.45	\$ 138.38	\$ 147.30	\$ 156.23	\$ 165.16	\$ 174.09	\$ 179.71			
				Yr to Yr Increase	\$ 8.93	\$ 8.93	\$ 8.93	\$ 8.93	\$ 8.93	\$ 8.93	\$ 5.62	\$ 59.16		
Average PERS Members	\$ 43,823.00	\$ 3,651.92	\$ 1,825.96	\$ 123.25	\$ 132.58	\$ 141.51	\$ 150.64	\$ 159.77	\$ 168.90	\$ 178.03	\$ 183.78			
				Yr to Yr Increase	\$ 9.13	\$ 9.13	\$ 9.13	\$ 9.13	\$ 9.13	\$ 9.13	\$ 5.73	\$ 60.53		
ASEA GG 1-A Range 27-A	\$ 79,320.00	\$ 6,610.00	\$ 3,305.00	\$ 223.09	\$ 239.61	\$ 256.14	\$ 272.66	\$ 289.19	\$ 305.71	\$ 322.24	\$ 332.65			
				Yr to Yr Increase	\$ 16.53	\$ 16.53	\$ 16.53	\$ 16.53	\$ 16.53	\$ 16.53	\$ 10.41	\$ 109.56		

Estimate is based on FY 07 Total Normal Cost for PERS "Other" and assumed to be fixed for FY 07 to FY 12





### TRS Payroll Contribution Trend & Forecast

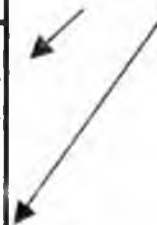




TRS Employee Normal Rate Projections

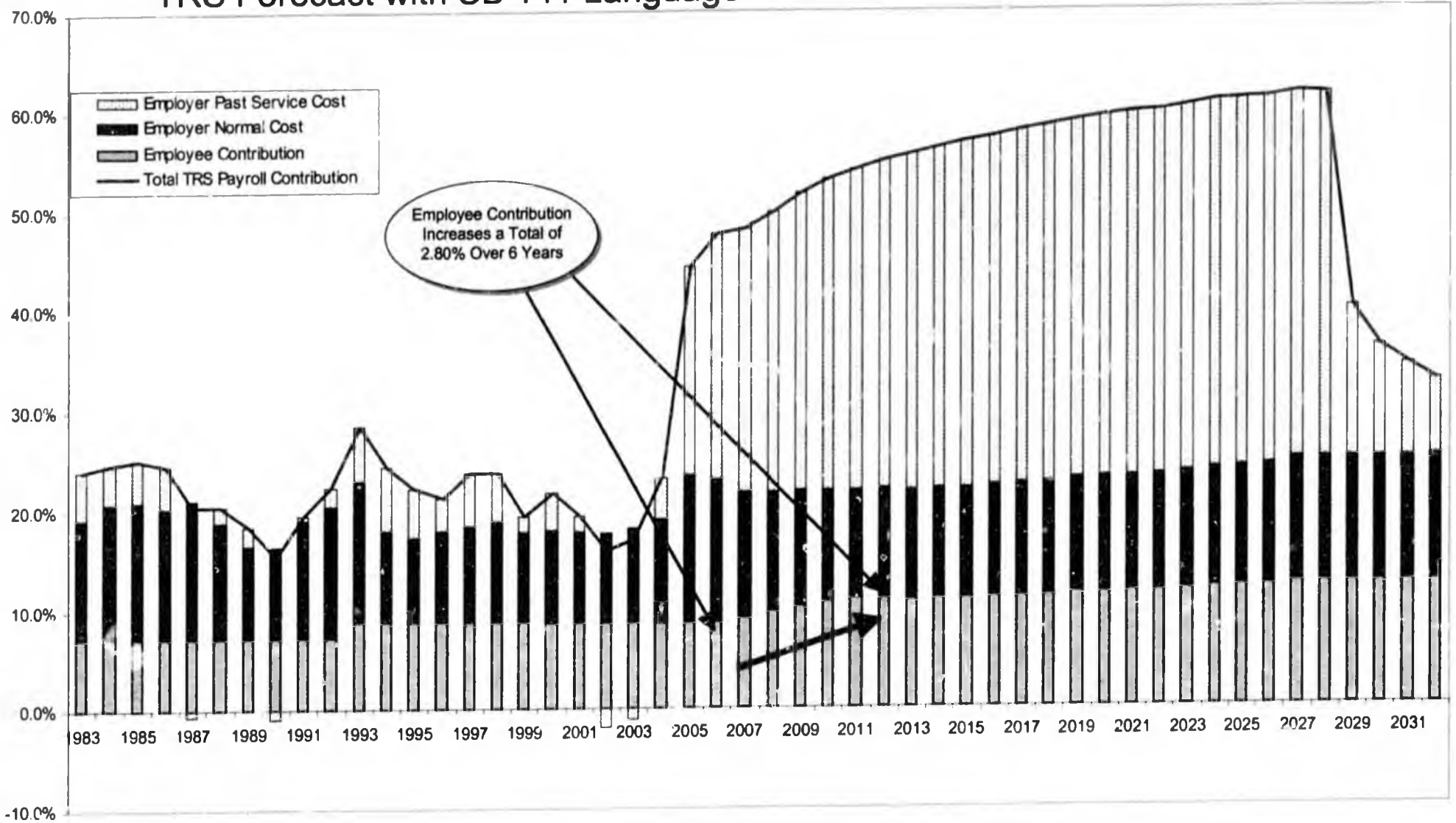
TRRS - Average Rate								
Rate for FY	Total Normal Cost	Projections at Current Rate			Projections at SB 141 Rate			Increase Over Previous FY
		Employee Normal Cost Rate	Employee Share of Total Normal Cost	Employer Share of Total Normal Cost	50% of Total Normal Cost	SB 141 Employee Rate	Resulting Employee Share	
2006	22.97%	8.69%	37.0%	14.28%	11.49%	9.21%	40.1%	0.50%
2007	21.71%	8.69%	40.0%	13.02%	10.86%	9.71%	44.7%	0.50%
2008	21.72%	8.69%	40.0%	13.03%	10.86%	10.21%	47.0%	0.50%
2009	21.81%	8.69%	39.8%	13.12%	10.91%	10.71%	49.1%	0.50%
2010	21.87%	8.69%	39.7%	13.18%	10.94%	10.94%	50.0%	0.22%
2011	21.90%	8.69%	39.7%	13.21%	10.95%	10.95%	50.0%	0.01%
2012	21.93%	8.69%	39.6%	13.24%	10.97%	10.97%	50.0%	0.01%
2013	21.81%	8.69%	39.8%	13.12%	10.91%	10.91%	50.0%	-0.06%
2014	21.94%	8.69%	39.6%	13.25%	10.97%	10.97%	50.0%	0.07%
2015	22.06%	8.69%	39.4%	13.37%	11.03%	11.03%	50.0%	0.06%
2016	22.24%	8.69%	39.1%	13.55%	11.12%	11.12%	50.0%	0.09%
2017	22.44%	8.69%	38.7%	13.75%	11.22%	11.22%	50.0%	0.10%
2018	22.66%	8.69%	38.3%	13.97%	11.33%	11.33%	50.0%	0.11%
2019	22.88%	8.69%	38.0%	14.19%	11.44%	11.44%	50.0%	0.11%
2020	23.05%	8.69%	37.7%	14.36%	11.53%	11.53%	50.0%	0.09%
2021	23.16%	8.69%	37.5%	14.47%	11.58%	11.58%	50.0%	0.05%
2022	23.30%	8.69%	37.3%	14.61%	11.65%	11.65%	50.0%	0.07%
2023	23.60%	8.69%	36.8%	14.91%	11.80%	11.80%	50.0%	0.15%
2024	23.92%	8.69%	36.3%	15.23%	11.96%	11.96%	50.0%	0.16%
2025	24.11%	8.69%	36.0%	15.42%	12.06%	12.06%	50.0%	0.10%
2026	24.27%	8.69%	35.8%	15.58%	12.14%	12.14%	50.0%	0.06%
2027	24.31%	8.69%	35.0%	16.12%	12.41%	12.41%	50.0%	0.27%
2028	24.81%	8.69%	35.0%	16.12%	12.41%	12.41%	50.0%	0.00%
2029	24.82%	8.69%	35.0%	16.13%	12.41%	12.41%	50.0%	0.01%
2030	24.85%	8.69%	35.0%	16.16%	12.43%	12.43%	50.0%	0.01%
2031	24.88%	8.69%	34.9%	16.19%	12.44%	12.44%	50.0%	0.01%
2032	24.92%	8.69%	34.9%	16.23%	12.46%	12.46%	50.0%	0.02%

Based on current Mercer projections, it would take 5 years to reach the 50/50 shared rate in TRS





TRS Forecast with SB 141 Language





Effect of Employee Contribution Rate Increases on Average TRS Employee

TRS 2004	Annual Earnings	Monthly Earnings	2-Week Pay	Normal Cost	50% Normal Cost	Current Rate @	SB 141 Proposed Pre-Tax Payroll Deductions (every 2 weeks)						Cumulative Increase
							FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	
							22.97%	11.49%	8.69%	9.19%	9.69%	10.19%	
ASD Teacher BA Step 1	\$ 35,284.00	\$ 2,940.33	\$ 1,470.17	\$ 127.76	\$ 135.11	\$ 142.46	\$ 149.81	\$ 157.16	\$ 164.51	\$ 168.85			
				Yr to Yr Increase	\$ 7.35	\$ 7.35	\$ 7.35	\$ 7.35	\$ 7.35	\$ 4.34	\$ 41.09		
ASD Teacher BA+18 Step 4	\$ 40,251.00	\$ 3,354.25	\$ 1,677.13	\$ 147.74	\$ 154.13	\$ 162.51	\$ 170.90	\$ 179.28	\$ 187.67	\$ 192.62			
				Yr to Yr Increase	\$ 8.39	\$ 8.39	\$ 8.39	\$ 8.39	\$ 8.39	\$ 4.95	\$ 46.88		
ASD Teacher BA+36 Step 9	\$ 47,274.00	\$ 3,939.50	\$ 1,969.75	\$ 171.17	\$ 181.07	\$ 190.87	\$ 200.72	\$ 210.57	\$ 220.42	\$ 226.23			
				Yr to Yr Increase	\$ 9.85	\$ 9.85	\$ 9.85	\$ 9.85	\$ 9.85	\$ 5.81	\$ 55.05		
Average TRS Member	\$ 53,948.00	\$ 4,495.67	\$ 2,247.83	\$ 195.34	\$ 206.58	\$ 217.82	\$ 229.05	\$ 240.29	\$ 251.53	\$ 258.16			
				Yr to Yr Increase	\$ 11.24	\$ 11.24	\$ 11.24	\$ 11.24	\$ 11.24	\$ 6.63	\$ 62.83		
ASD Teacher BA +72 Step 19	\$ 61,319.00	\$ 5,109.92	\$ 2,554.96	\$ 222.03	\$ 234.80	\$ 247.58	\$ 260.35	\$ 273.13	\$ 285.90	\$ 293.44			
				Yr to Yr Increase	\$ 12.77	\$ 12.77	\$ 12.77	\$ 12.77	\$ 12.77	\$ 7.54	\$ 71.41		
Rg 4 - Mid Level Principal (216 Days - Step D)	\$ 80,893.00	\$ 6,741.08	\$ 3,370.54	\$ 292.90	\$ 309.75	\$ 326.61	\$ 343.46	\$ 360.31	\$ 377.16	\$ 387.11			
				Yr to Yr Increase	\$ 16.85	\$ 16.85	\$ 16.85	\$ 16.85	\$ 16.85	\$ 9.94	\$ 94.21		

Estimate is based on FY 07 Total Normal Cost for TRS and assumed to be fixed for FY 07 to FY 11. Salaries are based on the 2004-05 Anchorage School District salary schedule





# *Defined Contribution Plan*





*We considered the Administration's 2004 Tier Committee work during our analysis and in our solutions*

**Tier Committee Data Reviewed:**

- *Tier Alternative Recommendations*
- *Employer survey*
- *Member focus group results*
- *Benchmarking*
- *Benefit levels*
- *Demographic projections*
- *Implications of Medicare changes*
- *Trends, issues and alternatives*
- *Cost analysis and projections*





**Defined Benefit Plan**

- *Benefit level is fixed*
- *Benefit is based on a formula involving salary, years of service, age, etc.*
- *Benefit is paid for life and to qualified survivors*
- *Future benefit payments are NOT driven by investment performance*

Examples: PERS & TRS

**Defined Contribution Plan**

- *Contribution level is fixed*
- *Benefit is based on the amount of money invested and earned in employee's account*
- *Benefit is paid until account runs out*
- *Future benefit payments are driven by investment performance*

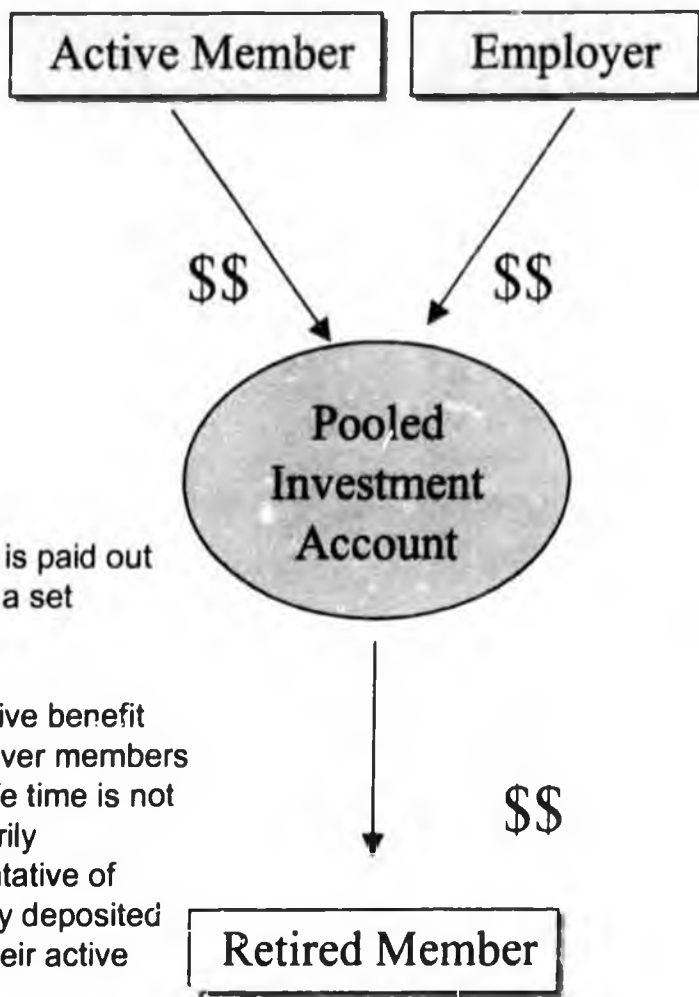
Examples: SBS & Deferred Compensation

**Defined Benefit (DB) vs Defined Contribution (DC)**





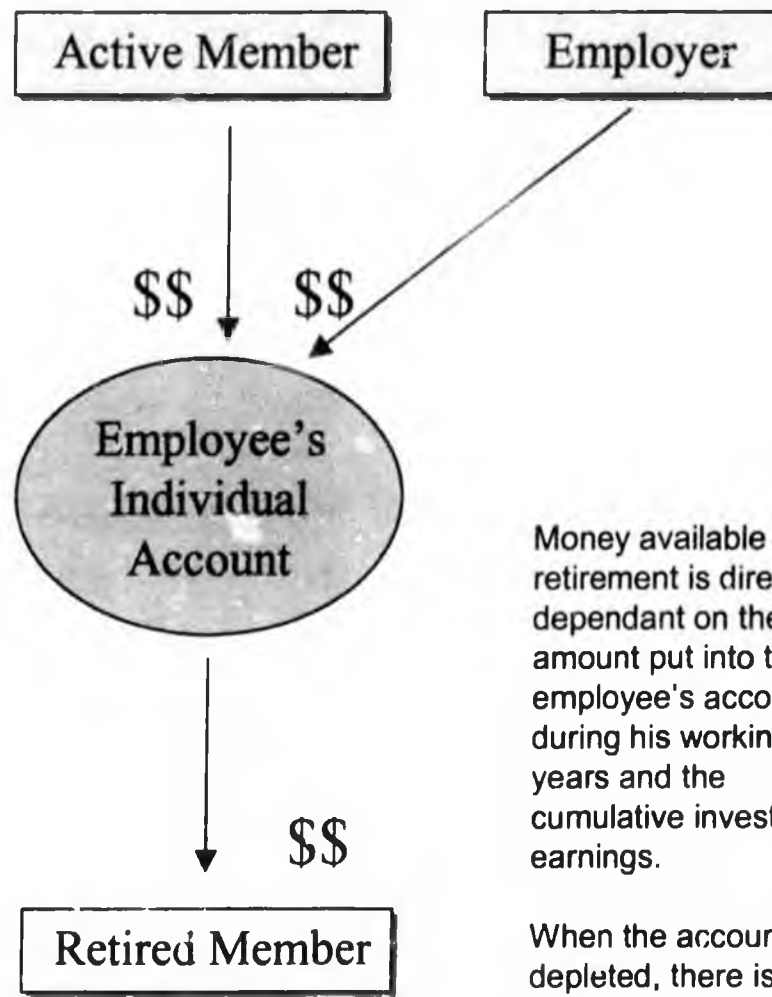
### Defined Benefit System



Pension is paid out base on a set formula.

Cumulative benefit payout over members retired life time is not necessarily representative of what they deposited during their active career

### Defined Contribution System



Money available for retirement is directly dependant on the amount put into the employee's account during his working years and the cumulative investment earnings.

When the account is depleted, there is no further benefit.





### Defined Benefit Plan

Advantages:

- *Pooling of longevity risk*
- *Guaranteed income stream*
- *System favors longer-service employees*

Challenges:

- *Employer bears investment risk*
- *Estimation of Liabilities*
- *Rising health costs*
- *Unpredictable or controllable costs*

### Defined Contribution Plan

Advantages:

- *Portability*
- *Self-directed investing*
- *Contribution equity among employees*
- *Predictability*
- *Stable costs*
- *No long-term administrative costs*

Challenges:

- *Workforce management*
- *Employee bears investment risk*
- *Employee education*
- *Accurate retirement planning*

## Defined Benefit (DB) vs Defined Contribution (DC)



<p>TRS Tier I 7/1/55 - 6/30/90</p>	<p>TRS Tier II Entered on or after 7/1/90</p>	<p>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"> <li>• Employee is immediately vested in their own contributions</li> <li>• Employee's gradually vest in employer contributions                             <ul style="list-style-type: none"> <li>• 25% after two years</li> <li>• 50% after three years</li> <li>• 75% after four years</li> <li>• 100% after five years</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• Normal retirement age is 55</li> <li>• Early retirement at age 50</li> <li>• Teachers can retire at any age after 20 years of membership service.</li> </ul>	<ul style="list-style-type: none"> <li>• Normal retirement age is 60</li> <li>• Early retirement at age 55</li> <li>• Teachers can retire at any age after 20 years</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Retirement Savings:</b> Employee can terminate at any age and take vested account balance with them, leave it in the plan or rollover to another qualified plan.</li> <li>• <b>Medical Benefits:</b> Member is eligible for benefits if                             <ul style="list-style-type: none"> <li>• 65 years of age and at least 10 years of service; or</li> <li>• 30 years of service</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• 2% defined benefits formula for the first 20 years and all years of service prior to July 1, 1990</li> <li>• 2.3% thereafter. Benefit calculation is determined on the average of the high three contract salaries.</li> </ul>	<ul style="list-style-type: none"> <li>• 2% defined benefit formula for the first 20 years</li> <li>• 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries.</li> </ul>	<ul style="list-style-type: none"> <li>• 8.25% employer contribution broken out as:                             <ul style="list-style-type: none"> <li>• 4.25% to employee retirement savings account</li> <li>• 1.75% to retiree medical plan</li> <li>• 2.00% to Health Reimbursement Account</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• Medical coverage is provided to all benefit recipients and their eligible dependents.</li> </ul>	<ul style="list-style-type: none"> <li>• Medical premiums are paid for all disabled members regardless of age and</li> <li>• Retirees and survivors over age 60 and for retirees with at least 25 years of service including eligible dependents.</li> <li>• Retirees and survivors under age 60, with less than 25 years of membership service must pay the full premium cost if they want coverage.</li> </ul>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Early retirees get "access" to retiree medical plan but must pay full premium until they reach age of Medicare eligibility</li> <li>• Once reaching Medicare age eligibility, retiree pays only a portion of monthly premium based on years of service                             <ul style="list-style-type: none"> <li>• 10-14 years = Retiree pays 30% of premium</li> <li>• 15-19 years = Retiree pays 25% of premium</li> <li>• 20-24 years = Retiree pays 20% of premium</li> <li>• 25-29 years = Retiree pays 15% of premium</li> <li>• 30+ years = Retiree pays 10% of premium</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• Automatic PRPA legislated in 1990 applied to all members regardless of hire date.</li> <li>• COLA is payable to recipients who remain domiciled in Alaska after retirement. COLA is 10% of the base benefit.</li> </ul>	<ul style="list-style-type: none"> <li>• Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years.</li> <li>• 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.</li> </ul>	<p>None</p>



<p>PRRS Tier I 1/1/83 - 6/30/86</p>	<p>PRRS Tier II Started on or after 7/1/86</p>	<p>PRRS Tier III Started on or after 7/1/96</p>	<p>SB 141 Proposed DCFA Entered on or after 7/1/2005</p>
<p>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</p>	<p>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</p>	<p>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</p>	<p>Employee Pre-tax Contribution: 8.0% beginning 7/1/2005</p>
<p>Members vest with 5 years of service.</p>	<p>Members vest with 5 years of service.</p>	<p>Members vest with 5 years of service.</p>	<ul style="list-style-type: none"> <li>Employee is immediately vested in their own contributions</li> <li>Employee's gradually vest in employer contributions                             <ul style="list-style-type: none"> <li>25% after two years</li> <li>50% after three years</li> <li>75% after four years</li> <li>100% after five years</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Normal retirement age is 55</li> <li>Early retirement age is 50</li> <li>Police/fire members can retire at any age after 20 years of police/fire service</li> <li>All other members can retire at any age after 30 years of membership service.</li> </ul>	<ul style="list-style-type: none"> <li>Normal retirement age is 60</li> <li>Early retirement at age 55</li> <li>Police/fire members can retire at any age after 20 years of police/fire service</li> <li>"All other" members can retire at any age after 30 years of membership service</li> </ul>	<ul style="list-style-type: none"> <li>Normal retirement age is 60</li> <li>Early retirement at age 55</li> <li>Police/fire members can retire at any age after 20 years of police/fire service</li> <li>"All other" members can retire at any age after 30 years of membership service</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>Medical Benefits: Member is eligible for benefits if                             <ul style="list-style-type: none"> <li>65 years of age and at least 10 years of service; or</li> <li>25 years of service police/fire fighters</li> <li>30 years of service all others</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>2% defined benefit formula for first 10 years and all years of service prior to July 1, 1986</li> <li>2.25% for the next 10 years; 2.5% per year thereafter (average of the high three consecutive years' salary).</li> <li>Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10.</li> </ul>	<ul style="list-style-type: none"> <li>2% defined benefit formula for first 10 years</li> <li>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.</li> <li>Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10.</li> </ul>	<ul style="list-style-type: none"> <li>2% defined benefit formula for first 10 years</li> <li>2.25% for the next 10 years, and 2.5% per year thereafter (benefit calculation is average of the high five consecutive years' salary).</li> <li>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)).</li> </ul>	<ul style="list-style-type: none"> <li>8.25% employer contribution broken out as:                             <ul style="list-style-type: none"> <li>4.25% to employee retirement savings account</li> <li>1.75% to retiree medical plan</li> <li>2.00% to Health Reimbursement Account</li> </ul> </li> </ul>
<p>Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system.</p>	<p>Medical coverage is provided to disabled members, regardless of age and benefit recipients over age 60 or</p> <ul style="list-style-type: none"> <li>police/fire members with 25 years of police/fire service</li> <li>all other members with 30 years of membership service</li> </ul> <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"> <li>Except, employees must accrue a minimum of 10 years of credited service*, to have system-paid coverage at age 60.</li> <li>Employees with less than 10 years must pay the full premiums as long as they wish to continue medical coverage.</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>Early retirees get "access" to retiree medical plan but must pay full premium until they reach age of Medicare eligibility</li> <li>Once reaching Medicare age eligibility, retiree pays only a portion of monthly premium based on years of service                             <ul style="list-style-type: none"> <li>10-14 years = Retiree pays 30% of premium</li> <li>15-19 years = Retiree pays 25% of premium</li> <li>20-24 years = Retiree pays 20% of premium</li> <li>25-29 years = Retiree pays 15% of premium</li> <li>30+ years = Retiree pays 10% of premium</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>The automatic PRPA legislated in 1986 applied to all members regardless of hire date.</li> <li>COLA of 10% of base benefit is payable to benefit recipients who remain domiciled in Alaska after retirement.</li> </ul>	<ul style="list-style-type: none"> <li>Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years.</li> <li>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.</li> </ul>	<p>None</p>





FY 06 Normal Cost Comparisons – TRS Tier II & PERS Tier III vs. Proposed DC Plan\*

FY 06 Normal Cost Rates

	<b>TRS II</b>	<b>PERS III</b>	<b>DC Plan</b>
Medical normal cost rate	7.93%	7.23%	1.75%
Defined contribution rate	12.43%	10.32%	12.50%
HRA contribution rate	0.0%	0.0%	2.00%
Gross normal cost rate	20.36%	17.55%	16.25%
Member contribution rate	(8.65)%	(6.81)%	(8.00)%
Employer normal cost rate	12.71%	10.74%	8.25%

\* See Appendix H for FY06 Normal Cost Comparisons for All Tiers and Appendix I for FY07 Normal Cost Comparisons for All Tiers





## Factors that drive the contribution rate discussion

- Investment Return Assumptions
- Cost/Benefit Balance for the Employer
- Total Acceptable Normal Cost
- Keeping Competitive in Northwest Region





*Medical Benefits for New  
Employees*





## What are the medical benefits?

- Access to the retiree major medical plan and the health reimbursement arrangement (HRA)
  - “Access” to the major medical plan means a person may not be denied coverage except for failure to pay the required premium
  - Participation in the retiree major medical insurance plan is not required to participate in HRA
  - Member must make irrevocable decision of coverage by age 70 ½ or termination of employment, whichever is later
- 





## Who is eligible for retiree medical benefits?

- A member is eligible for medical benefits after they meet the requisite age and/or service requirements:
  - Age 65 with 10 years of service; or
  - 25 years of service for peace officers/firefighters;
  - 30 years of service for all others
- Coverage includes the member, member's spouse, and member's dependent children
- Coverage includes the surviving spouse and children of the eligible member who are dependent on the surviving spouse





## What are the medical contributions?

### Health Trust Fund

- Employer pays 1.75% of employee compensation
  - Tier Committee initiative projected employer medical normal costs at 3.75% for TRS and 3.50% for PERS
  - Eliminating employee subsidy between ages 60 and 65 reduces these rates to 1.50% for TRS and 1.40% for PERS

### Health Reimbursement Arrangement

- Employer pays 2.00% of average employer group compensation into an employee's HRA





## Major medical plan premiums

- “Early retirees” are members and surviving spouses who meet the service requirements for eligibility but are not eligible for Medicare

‣ Pays one of the full monthly group premiums for coverage  
(*retiree only, retiree+spouse, retiree+family, retiree+children*)

- Medicare eligible (currently age 65) members and surviving spouses pay a portion based on the member’s years of service

‣30% for 10-14 years  
‣25% for 15-19 years  
‣20% for 20-24 years  
‣15% for 25-29 years  
‣10% for 30+ years





## Rationale for cost sharing only after Medicare

- 75% of the costs associated with the current AlaskaCare plan occur between the time a member retires and the date they become Medicare eligible
- Alaska has an early retirement age compared to most states
- 25 states have a normal retirement age of 65, including
  - Arizona, Idaho, Nevada, and Washington





# Medical Cost Comparisons

- Every 1% of base payroll = \$21.6 million

Employer Group	Total FY 06 Estimated Base Payroll	Medical Normal Cost Rates		
		Current DB Plans	Tier Redesign Initiative	SB 141
PERS	\$1,587,594,875	8.68%	3.50%	1.40%
TRS	\$573,410,095	9.07%	3.75%	1.50%
PERS	Medical Cost in Dollars	\$137,803,235	\$55,565,821	\$22,226,328
TRS		\$52,008,296	\$21,502,879	\$8,601,151
<b>Total Annual Medical</b>		<b>\$189,311,531</b>	<b>\$77,068,699</b>	<b>\$30,827,480</b>
<b>Total Payroll</b>	<b>\$2,161,004,970</b>	<b>Savings</b>	<b>\$112,742,832</b>	<b>\$158,984,051</b>





### Example: Medical premium costs

- FY 2004 Medicare projected claim cost: \$2,667
- Employer contribution % based on length of service of the member

<b>Member's Years of Service</b>	<b>Annual Employee Contribution</b>		<b>Annual Employer Contribution</b>	
10-14	30%	\$800	\$1,867	70%
15-19	25%	\$667	\$2,000	75%
20-24	20%	\$533	\$2,134	80%
25-29	15%	\$400	\$2,267	85%
30+	10%	\$267	\$2,400	90%





*Health Reimbursement  
Arrangement (HRA)*





## What is a Health Reimbursement Arrangement?

- Reimburses employees for qualified medical expenses during retirement years
- Intended as a supplement for medical expenses or a bridge between “early” retirement and Medicare
- Employer paid group (or pooled) fund
- Funds accumulate over working lifetime of employee
- Tax-free earnings and tax-free withdrawals
- Employer-determined flexible plan design (*contributions, covered expenses, termination provisions*)





## SB 141 HRA Plan Design

- Employer contributes 2% of the average employer group compensation
- Annual payment on behalf of each active employee into group fund
- Contributions recorded to individual account balances (also tracked by employer)
- Fund managed by Alaska Retirement Management Board (ARMB)
- Interest credited annually to individual accounts, rate determined by ARMB





## SB 141 HRA Plan Design

- Total Reimbursements limited to member's individual account balance until exhausted
- Terminated employees forfeit rights to HRA unless
  - The person returns to work for an employer in the system within 5 years
  - Account balance restored as of date of termination (accrues no additional interest)
- Employer may use forfeited funds as credits towards future HRA contributions





## Who is eligible to draw HRA reimbursements?

- A member is eligible after they meet the requisite age and/or service requirements:
  - Age 65 with 10 years of service; or
  - 25 years of service for peace officers/firefighters;
  - 30 years of service for all others
- Surviving spouse of an eligible member
- Dependent children of an eligible member if both the member and surviving spouse have died





## What costs are eligible for reimbursement?

- Premiums for a major medical plan (participation in State's retiree medical plan is not required)
- Qualified medical expenses under 26 U.S.C 213(d)
  - An eligible member
  - Member's spouse and
  - Dependent children





# Projected HRA account balance

- HRA is a retention tool as it clearly favors longevity

Interest: 8.25%		Projected HRA Account Balances				
Fiscal Year	Years of Service	SB 141				
		1% no cap	1.5% no cap	2.0% no cap	2.5% no cap	3.5% no cap
2016	10	\$6,611	\$9,917	\$13,223	\$16,528	\$23,140
2021	15	\$13,535	\$20,303	\$27,071	\$33,838	\$47,374
2026	20	\$24,631	\$36,946	<del>\$48,281</del>	\$61,577	\$86,207
2031	25	\$42,100	\$63,150	\$84,200	\$105,250	\$147,350
2036	30	\$69,256	<del>\$103,834</del>	\$138,513	\$173,141	<del>\$242,307</del>

Interest: 6.00%		Projected HRA Account Balances				
Fiscal Year	Years of Service	SB 141				
		1% no cap	1.5% no cap	2.0% no cap	2.5% no cap	3.5% no cap
2016	10	\$5,928	\$8,893	\$11,857	\$14,821	\$20,749
2021	15	\$11,446	\$17,169	\$22,893	\$28,616	\$40,062
2026	20	\$19,592	\$29,387	\$39,183	<del>\$43,979</del>	\$68,571
2031	25	\$31,418	\$47,127	\$62,835	\$78,544	\$109,962
2036	30	\$48,370	\$72,555	<del>\$98,741</del>	\$120,926	<del>\$169,298</del>

Other assumptions: FY 2006, beginning salary \$35,000  
 Salary inflation 5.5% first 5 years; 4% thereafter  
 Projected Anchorage CPI (1.8017% to 4.8859%)





# Spend down scenarios

HFA Contributions:  
2.0%, no cap

- Example: Age 65, 20 yrs service, 2% contribution

Beginning balance from table on Slide 7

Age	Years Retired	Beginning Annual Balance	Annual Health Premium	Annual Deductibles	Annual Interest Credited	Year End Balance
65	0	\$ 46,251	\$ 4,029	\$ 500	\$ 1,789	\$ 46,522
66	1	\$ 46,522	\$ 4,230	\$ 500	\$ 1,672	\$ 43,463
67	2	\$ 43,463	\$ 4,442	\$ 500	\$ 1,541	\$ 40,062
68	3	\$ 40,062	\$ 4,664	\$ 500	\$ 1,396	\$ 36,294
69	4	\$ 36,294	\$ 4,897	\$ 500	\$ 1,236	\$ 32,132
70	5	\$ 32,132	\$ 5,142	\$ 500	\$ 1,060	\$ 27,550
71	6	\$ 27,550	\$ 5,399	\$ 500	\$ 866	\$ 22,517
72	7	\$ 22,517	\$ 5,669	\$ 500	\$ 654	\$ 17,001
73	8	\$ 17,001	\$ 5,953	\$ 500	\$ 422	\$ 10,971
74	9	\$ 10,971	\$ 6,250	\$ 500	\$ 169	\$ 4,389
75	10	\$ 4,389	\$ 6,563	\$ 500	\$ (107)	\$ (2,780)

\* Life expectancy:  
 Males=16.3 yrs  
 Females = 17.9 yrs

\*Source: National Vital Statistics Reports, Vol.51, No. 3, December 19,2002, p. 29. The tables used are for all races based on year 2000 data.





*Option for Existing  
Employees to Convert to  
New DC Plan*





## Eligibility for members to convert from the DB plan to the DC plan

- An employer must first choose to allow their DB plan employees to transfer into the DC plan.
- Only unvested members of the DB plan will be eligible to transfer into the DC Plan
  - PERS members with less than 10 years of service
  - TRS members with less than 8 years of service
- Participation in the defined contribution retirement plan is in lieu of participation in the defined benefits plan.
- There is no option to return to the DB plan if you opt into the DC plan.





## Mechanics of Conversion

- Present value of the *member* contribution account balance held in DB trust will be transferred to a new account.
- A 100% matching employer contribution will be made on behalf of the employee to the new account; however, this must be *new* money.
- Service credit earned under the DB plan will be credited for purposes of vesting in medical benefits.





### Potential Cost to Employers

Service Years	PERS	Tier 1	Tier 2	Tier 3	Total System
< 5	\$	9,910,842	18,931,859	101,423,157	130,265,858
5 to < 10		55,804,740	128,224,601	96,023,581	280,052,923
10 to < 15		79,577,922	216,672,102	99,905	296,349,928
15 to < 20		166,029,809	119,618,440	0	285,648,249
20 to < 25		246,455,352	1,033,437	0	247,488,789
25 and >		141,721,266	123,906	0	141,845,172
<b>Totals</b>	\$	<b>699,499,932</b>	<b>484,604,344</b>	<b>197,546,643</b>	<b>1,381,650,918</b>

TRs	Tier 1	Tier 2	Total System	
< 8	\$	9,622,483	92,841,386	102,463,869
8 to < 10		11,597,202	41,796,620	53,393,822
10 to < 15		35,530,560	106,276,667	141,807,626
15 to < 20		136,923,592	6,547,816	143,471,408
20 and >		221,422,095	0	221,422,095
<b>Totals</b>	\$	<b>415,096,333</b>	<b>247,462,488</b>	<b>662,558,821</b>

**Grand Total By Tier \$ 1,114,596,264 732,066,832 197,546,643 2,044,209,739**

**Limit Conversion Option to: 0 290,288,124**





### Example of retirement lifetime benefits under DB plan

- PERS “Other” member, Tier III
- Beginning salary \$35,000
- Member Contribution rate = 6.75%
- Semi-annual interest = 4.25%

- Works 30 years
- Normal Retirement at age 60
- Male Life Expectancy = 19.9 years

30 Years of Member Contributions and Interest	<b>\$ 209,269</b>	13.38%
Average Highest Consecutive 5 years	\$ 68,750	
Benefit Formula = (2% x 10 yrs) + (2.25% x 10 yrs) + (2.5% x 10 yrs)	67.5%	
Annual Benefit	<b>\$ 46,406.25</b>	
Annual Benefit x Life Expectancy =	\$ 923,484	
Lifetime Medical Premiums	\$ 315,949	
Total Employer Benefits Payments	<b>\$ 1,563,859</b>	86.62%

Corrected April 8, 2005





# *Refunded Accounts*





Refunded Accounts By System

PERS	Tier 1	
	>5	5,251
	3-5	5,292
	<3	31,179
	Tier 2	14,999
	Tier 3	7,667
<hr/>		
Total		64,388
TRS	Tier 1	
	>8	388
	6-8	360
	<6	10,008
	Tier 2	2,534
<hr/>		
Total		13,299
<hr/>		
<b>PERS/TRS Total</b>		<b>77,687</b>

All these members refunded their contributions when they left state service.

However, they can come back, set up their indebtedness, pay off the indebtedness, serve until vested and then get a benefit from the system.

5,639 members are already vested.

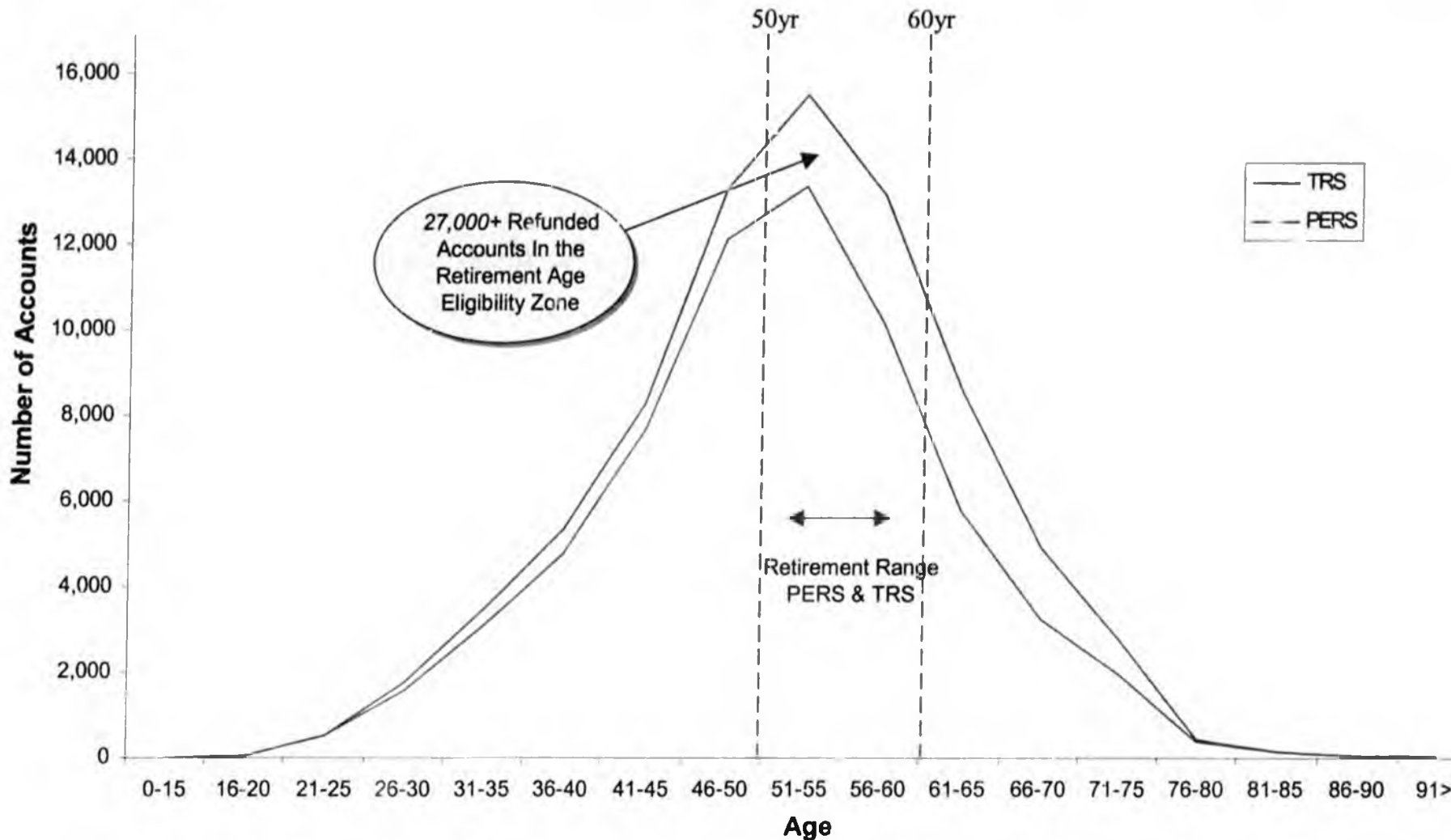
They can be rehired, pay their indebtedness, leave immediately and have 100% system paid medical at retirement.

Refunded Accounts Represent a Looming Liability for the System





Age Distribution of PERS & TRS Refunded Accounts



Refunded Accounts Represent a Looming Liability for the System





## CSSB 141 (FIN) Solution

- AS 14.25.062 and AS 39.35.350
- Repeals the provision for letting people repay their indebtedness to the state – effective June 30, 2010
- This provides for a 5 year window for members to reinstate their accounts and begin paying the indebtedness





*Post Pension Retirement  
Adjustments (PRPA)*





## Current Retirement Pension Adjustments

1. COLA – The greater of 10% or \$50 increase in base benefit amount paid to retirees 65 years of age or older living in Alaska
2. Post Pension Retirement Adjustment (PRPA) AS14.25.143 & AS39.45.475
  - Automatic – annual increase given to eligible retirees based a percentage of the year to year change in Anchorage CPI - 50% pre-65, 75% post-65
  - Discretionary (“Ad Hoc”) - **All Tier 1 retirees are eligible.** Awarded *“when the administrator determines that the cost of living has increased and that the financial condition of the retirement fund permits”*

Established in 1966 – repealed on 7/1/86 PERS and 7/1/90 TRS – but still applicable to Tier 1 members





PRPA ELIGIBILITY AND CALCULATION			
	PRPA Issued	Eligibility Requirements	Calculation
Ad Hoc	July 1st of every year. Members must meet eligibility requirements as of July 1st.	Must be a Tier I PERS or TRS member. (Appx 24,500) Must be a change in the Consumer Price Index (CPI) from date of retirement to date of PRPA issuance.	3 Step calculation: 1) Determine the % difference in the current CPI% less the CPI% at retirement. Multiply the base benefit by this percentage. 2) Determine the 4% compounded rate for each month the member has been on retirement. Multiply the base benefit times this percentage. Subtract any prior PRPAs received. 3) The Ad Hoc amount granted is the lesser of the results of steps 1 and 2.
Automatic	July 1st of every year. Members must meet eligibility requirements as of July 1st.	1) Must be age 60, or 2) have been receiving retirement benefits for 5 yrs (PERS), 8 yrs (TRS), or 3) be receiving disability benefits.	If member meets minimum age or service eligibility, receives 50% of the % change in CPI applied to the base benefit plus any prior PRPAs granted. Disability recipients and members who are age 65 receive 75% of the % of change in CPI.

AdHoc PRPA's Have a Huge Effect on Future Liabilities





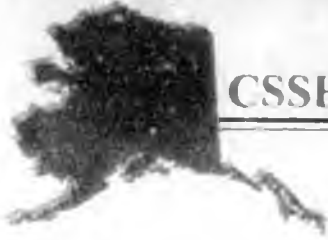
Ad hoc and Automatic PRPA Example

Tier I Retiree Retired 1/1/97 Age 50									Tier II Retiree Retired 1/1/97 Age 55			
Change in CPI	Ad Hoc PRPA % Granted*	Auto PRPA % Granted	PRPA Date	Age	Base Benefit	Ad Hoc PRPA Amt	Auto PRPA Amount	PRPA Type Paid	Age	Base Benefit	Auto PRPA Amt	PRPA % Granted
3.163%	3.000%	1.581%	7/1/1997	50	\$ 2,248.86	NE	NE	Ad hoc	55	\$ 2,248.86	NE	NE
1.045%	4.000%	0.522%	7/1/1998	51	\$ 2,248.86	\$ 15.60	NE	Ad hoc	56	\$ 2,248.86	NE	NE
1.103%	4.000%	0.551%	7/1/1999	52	\$ 2,248.86	\$ 25.00	NE	Ad hoc	57	\$ 2,248.86	NE	NE
0.954%	4.000%	0.477%	7/1/2000	53	\$ 2,248.86	\$ 21.86	NE	Ad hoc	58	\$ 2,248.86	NE	NE
2.837%	4.000%	1.418%	7/1/2001	54	\$ 2,248.86	\$ 65.58	NE	Ad hoc	59	\$ 2,248.86	NE	NE
3.022%	3.000%	1.511%	7/1/2002	55	\$ 2,248.86	\$ 71.82	\$ 37.00	Ad hoc	60	\$ 2,248.86	\$ 37.00	1.645%
1.849%	None	0.924%	7/1/2003	56	\$ 2,248.86	\$ -	\$ 22.63	Auto	61	\$ 2,248.86	\$ 22.63	1.006%
3.193%	None	1.596%	7/1/2004	57	\$ 2,248.86	\$ -	\$ 39.08	Auto	62	\$ 2,248.86	\$ 39.08	1.738%
<b>Total PRPA Granted:</b>								<b>\$261.57</b>	<b>Total PRPA Granted</b>		<b>\$ 98.71</b>	<b>\$98.71</b>

\*Note: The 4% is the maximum any member can receive. No ad hoc PRPA granted can cause the total accrued PRPAs to exceed the total change in CPI from the member's retirement date to the date the PRPA was granted

NE = Non Eligible





PRPA Awarding History					
PRPA Date	Monthly Benefit Increase			Total 12 Month Cash Increase	Resulting Actuarial Loss
	PERS	TRS	Total		
1995	Paid in '97	Paid in '97	NA		
1996	Paid in '97	Paid in '97	NA		
1997	\$ 2,289,639	\$ 2,877,374	\$ 5,167,013		
1998	\$ 171,502	\$ 149,500	\$ 321,002	\$ 3,852,024	\$ 57,158,000
1999	\$ 163,715	\$ 147,366	\$ 311,081	\$ 3,732,972	\$ 11,765,000
2000	\$ 158,034	\$ 133,226	\$ 291,260	\$ 3,495,120	\$ 17,905,000
2001	\$ 508,787	\$ 445,192	\$ 953,979	\$ 11,447,748	\$ 17,123,000
2002	\$ 585,443	\$ 502,968	\$ 1,088,411	\$ 13,060,932	\$ 39,561,000

AdHoc PRPA's Have a Huge Effect on Future Liabilities





## CSSB 141 (FIN) Solution

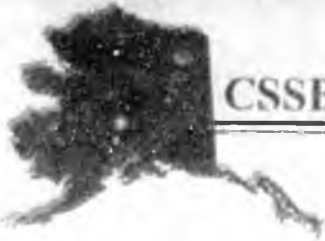
- Define what is meant in statutes by “the financial condition of the retirement fund” permitting *(AS 14.25.143 and AS 39.35.475)*
- SB 141 defines the healthy financial condition of the fund to be a minimum funding ratio of 110%





# Appendix





### Funding Ratios

*(Actuarial Asset Value/Total Accrued Benefits)*

Year	TRS Funding Ratio	PERS Funding Ratio	Year	TRS Funding Ratio	PERS Funding Ratio
1975	61.0%	61.0%	'90	87.7%	97.2%
'76	55.0%	64.0%	'91	85.7%	88.1%
'77	63.0%	66.0%	'92	89.7%	91.2%
'78	67.0%	69.0%	'93	93.1%	95.4%
'79	72.0%	68.0%	'94	89.6%	94.8%
'80	67.0%	71.0%	'95	90.9%	96.5%
'81	79.0%	82.0%	'96	97.2%	105.8%
'82	77.0%	79.0%	'97	94.0%	106.3%
'83	80.0%	85.0%	'98	97.7%	105.9%
'84	84.0%	88.0%	'99	102.5%	105.5%
'85	82.0%	94.0%	2000	99.6%	101.1%
'86	93.0%	102.0%	'01	95.0%	100.9%
'87	101.0%	100.0%	'02	68.2%	75.2%
'88	98.8%	93.0%	'03	64.3%	72.8%
'89	95.0%	91.6%	'04	62.5%	71.1%



**Summary of Accrued Assets and Liabilities - PERS**

Valuation Date	Accrued Liability (000's)	Valuation Assets (000's)	Surplus Actuarial (000's)	Market Value Asstes (000's)	Surplus Market (000's)	Funding Ratio	
						Actuarial Value of Assets	Market Value of Assets
June 30, 2004	11,443,916	8,030,414	(3,413,502)	8,177,306	(3,266,610)	70.2%	71.5%
June 30, 2003	10,561,653	7,687,281	(2,874,372)	7,391,455	(3,170,198)	72.8%	70.0%
June 30, 2002	9,859,591	7,412,833	(2,446,758)	7,412,833	(2,446,758)	75.2%	75.2%
June 30, 2001	7,868,574	7,941,756	73,182	8,088,382	219,808	100.9%	102.8%
June 30, 2000	7,376,912	7,454,758	77,846	8,756,580	1,379,668	101.1%	118.7%
June 30, 1999	6,648,673	7,016,340	367,667	8,105,358	1,456,685	105.5%	121.9%
June 30, 1998	6,203,991	6,571,562	367,571	7,438,398	1,234,407	105.9%	119.9%
June 30, 1997	5,534,116	5,885,488	351,372	6,566,155	1,032,039	106.3%	118.6%
June 30, 1996	4,979,958	5,271,253	291,295	5,567,721	587,763	105.8%	111.8%
June 30, 1995	4,971,172	4,794,754	(176,418)	4,876,808	(94,364)	96.5%	98.1%
June 30, 1994	4,620,182	4,379,305	(240,877)	4,177,013	(443,169)	94.8%	90.4%

**Summary of Accrued Assets and Liabilities - TRS**

Valuation Date	Accrued Liability (000's)	Valuation Assets (000's)	Surplus Actuarial (000's)	Market Value Asstes (000's)	Surplus Market (000's)	Funding Ratio	
						Actuarial Value of Assets	Market Value of Assets
June 30, 2004	6,123,600	3,845,370	(2,278,230)	3,911,515	(2,212,085)	62.8%	63.9%
June 30, 2003	5,835,609	3,752,285	(2,083,324)	3,602,619	(2,232,990)	64.3%	61.7%
June 30, 2002	5,411,642	3,689,036	(1,722,606)	3,689,036	(1,722,606)	68.2%	68.2%
June 30, 2001	4,603,147	4,372,229	(230,918)	4,086,848	(516,299)	95.0%	88.8%
June 30, 2000	4,198,868	4,184,015	(14,853)	4,484,902	286,034	99.6%	106.8%
June 30, 1999	3,720,954	3,815,655	94,679	4,204,019	483,065	102.5%	113.0%
June 30, 1998	3,528,757	3,446,070	(82,687)	3,915,235	386,478	97.7%	111.0%
June 30, 1997	3,320,069	3,120,044	(200,025)	3,492,071	172,002	94.0%	105.2%
June 30, 1996	2,940,437	2,858,756	(81,681)	3,030,644	90,207	97.2%	103.1%
June 30, 1995	2,913,467	2,647,392	(266,075)	2,688,451	(225,016)	90.9%	92.3%
June 30, 1994	2,761,409	2,472,957	(288,452)	2,351,719	(409,690)	89.6%	85.2%

By: The Senate Finance Committee  
Date: April 19<sup>th</sup>, 2005



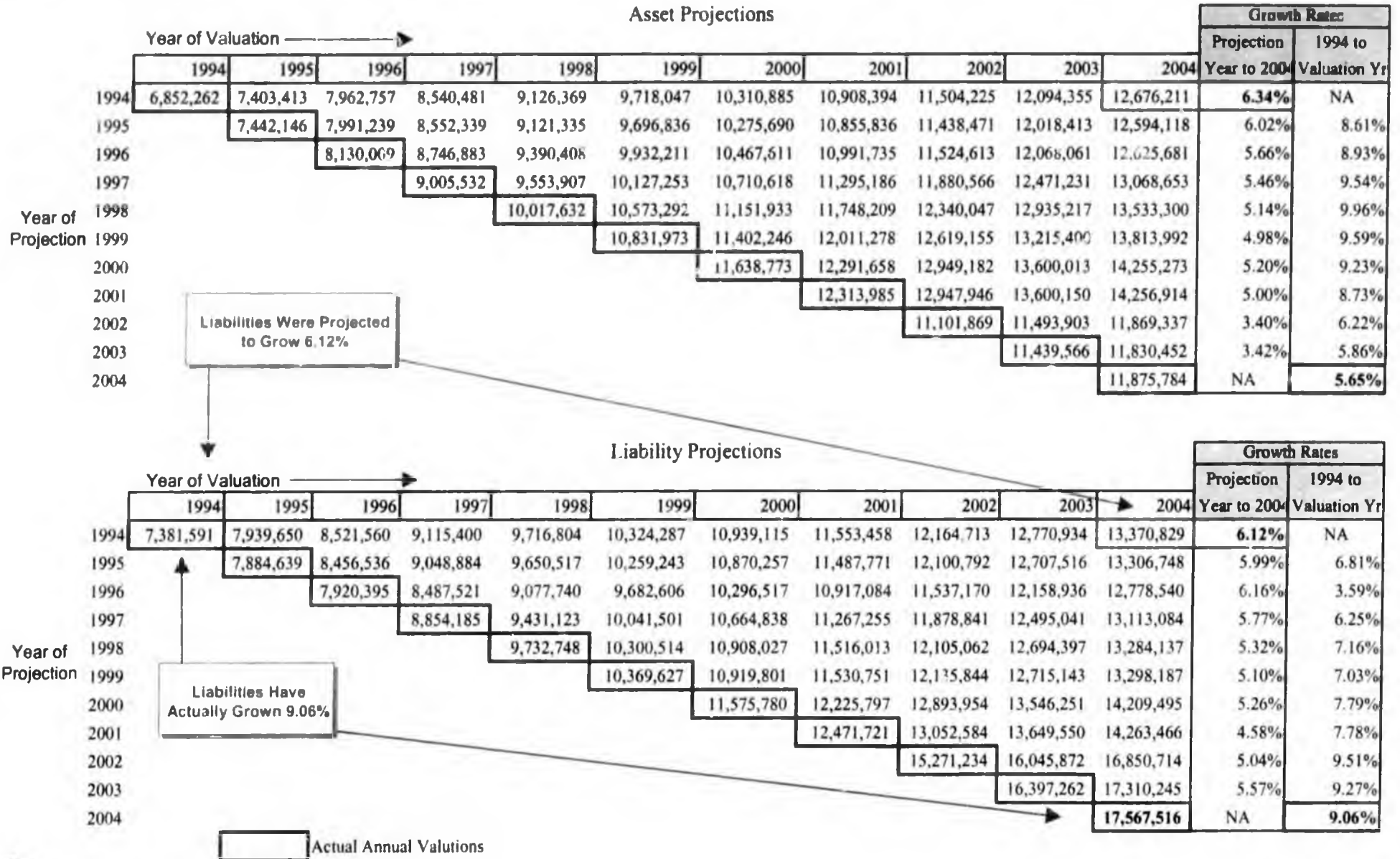


# CSSB 141(FIN) – Retirement Security Act

# Appendix C

## State of Alaska PERS & TRS Combined

Mercer Financial Projections 1994 - 2004  
(000's)





# PERS Analysis of Valuation

## Cumulative Change in Average Employer Contribution Rate 1998 through 2004

PERS Employer Rate increased cumulatively by 20.83% over 6 years - from 7.36% in 1998 to 28.19% in 2004

What factors contributed to that increase?

% of Cumulative 1998 to 2004 Rate Increase Attributed to Each Factor

Type of Gain or Loss	Impact Years	PERS		
		Weighted Absolute Change	Absolute Change 1998-2004	Payroll Impact (000's)
Assumption Changes	'98, 2000, '02, '04	(34.79%)	12.18%	\$ (82,643)
Investment Experience	All	(10.88%)	3.81%	\$ (25,851)
Health Experience	2002	(10.51%)	3.68%	\$ (24,969)
Demographic Experience	All	(9.83%)	3.44%	\$ (23,341)
Asset Valuation Method	2000, 2002	(4.11%)	1.44%	\$ (9,771)
Contri Shortfall Due to 2 Year Calculated Rate	2003, 2004	(5.68%)	1.99%	\$ (13,502)
102% Funding Ratio Adjustments	1998, 2001, 2003	(1.89%)	0.66%	\$ (4,478)
Ad hoc PRPA	1998 thru 2002	(1.46%)	0.51%	\$ (3,460)
System Benefit Changes	2001, 2002	(0.60%)	0.21%	\$ (1,425)
Salary Experience	All but 2000	5.80%	2.03%	\$ 13,774
Past Service Amortization Change	2002	14.45%	5.06%	\$ 34,333
		100.00%	35.01%	\$ 237,548

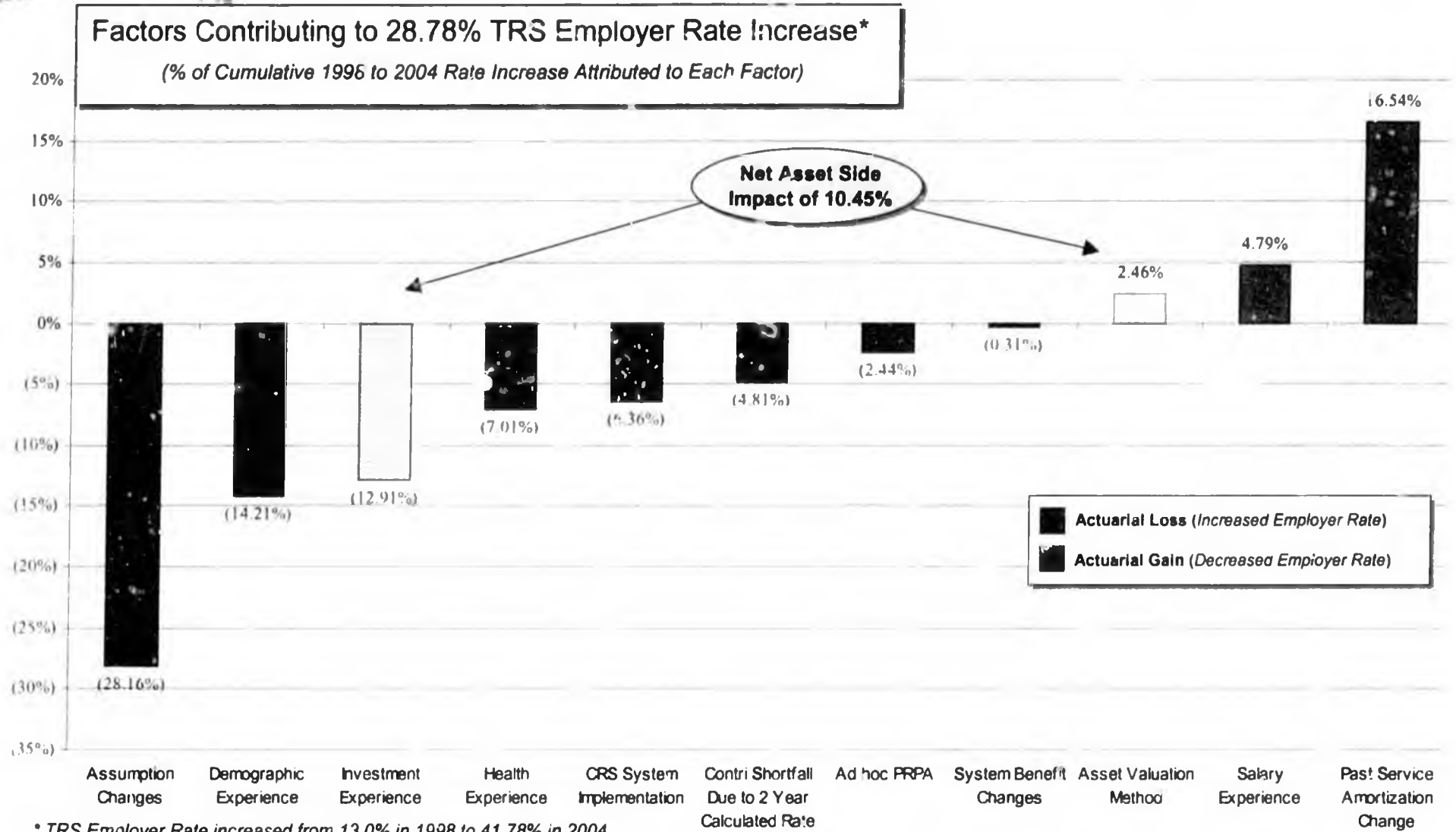




PERS Analysis of Valuation  
 Cumulative Change in Average Employer Contribution Rate  
 1998 to 2004

Type of Gain or Loss (as of June 30)	Weighted Absolute Change	Absolute Change	Total	2004	2003	2002	2001	2000	1999	1998
Health Experience	10.51%	3.68%	3.68%	0.00%	0.00%	3.68%	0.00%	0.00%	0.00%	0.00%
Salary Experience	5.80%	2.03%	(2.03%)	0.08%	(0.19%)	(0.20%)	(1.03%)	0.00%	(0.23%)	(0.46%)
Investment Experience	10.68%	3.81%	3.81%	0.02%	0.31%	7.24%	0.11%	(0.12%)	(0.49%)	(3.26%)
Demographic Experience	9.83%	3.44%	3.44%	0.54%	0.40%	1.21%	0.77%	(0.81%)	0.21%	1.12%
Net Gains & Loss Due to Experience			8.90%	0.64%	0.52%	11.93%	(0.15%)	(0.93%)	(0.51%)	(2.60%)
Asset Valuation Method	4.11%	1.44%	1.44%	0.00%	0.00%	4.11%	0.00%	(2.67%)	0.00%	0.00%
102% Funding Ratio Adjustments	1.89%	0.66%	0.66%	0.00%	(0.90%)	0.00%	0.57%	0.00%	0.00%	0.99%
Past Service Amortization Change	14.45%	5.06%	(5.06%)	0.00%	0.00%	(5.06%)	0.00%	0.00%	0.00%	0.00%
Contribution Shortfall compared to average Employer Calculated rate	5.68%	1.99%	1.99%	0.89%	1.10%					
Assumption Changes	34.79%	12.18%	12.18%	1.03%	0.00%	6.98%	0.00%	3.09%	0.00%	1.08%
System Benefit Changes	0.60%	0.21%	0.21%	0.00%	0.00%	0.04%	0.17%	0.00%	0.00%	0.00%
Ad hoc PRPA	1.46%	0.51%	0.51%	0.00%	0.00%	0.14%	0.06%	0.07%	0.04%	0.20%
Total Non-Recurring Changes	100.00%	35.01%	11.93%	1.92%	0.20%	6.21%	0.80%	0.49%	0.04%	2.27%
Composite (Gain) or Loss During Year				2.56%	0.72%	18.14%	0.65%	(0.44%)	(0.47%)	(0.33%)
Beginning Average Employer Contribution Rate				25.63%	24.91%	6.77%	6.12%	6.56%	7.03%	7.36%
Ending Average Employer Contribution Rate				28.19%	25.63%	24.91%	6.77%	6.12%	6.56%	7.03%
Annual Payroll (000's)				1472987	1460783	1402686	1360401	1321480	1283549	1235439
Annual Contribution				377527	363881	94962	83257	86689	90233	90928
Yr to Yr Change				13646	268919	11705	-3433	-3544	-695	





**A Combination of Factors Created Our Present Situation**



By: The Senate Finance Committee  
 Date: April 19<sup>th</sup>, 2005

## TRS Analysis of Valuation

### Cumulative Change in Average Employer Contribution Rate 1998 through 2004

TRS Employer Rate increased cumulatively by 28.78% over 6 years - from 13.0% in 1998 to 41.78% in 2004

What factors contributed to that increase?

% of Cumulative 1998 to 2004 Rate Increase Attributed to Each Factor

Type of Gain or Loss	Impact Years	TRS		
		Weighted Absolute Change	Absolute Change 1998-2004	Payroll Impact (000's)
Assumption Changes	2000, 2002, 2004	(28.16%)	15.46%	\$ (14,922)
Demographic Experience	All	(14.21%)	7.80%	\$ (7,528)
Investment Experience	All	(12.91%)	7.09%	\$ (6,843)
Health Experience	2002	(7.01%)	3.85%	\$ (3,716)
CRS System Implementation	2001	(6.36%)	3.49%	\$ (3,368)
Contri Shortfall Due to 2 Year Calculated Rate	2003 ~2004	(4.81%)	2.64%	\$ (2,548)
Ad hoc PRPA	1998 thru 2002	(2.44%)	1.34%	\$ (1,293)
System Benefit Changes	2001	(0.31%)	0.17%	\$ (164)
Asset Valuation Method	2000, 2002	2.46%	1.35%	\$ 1,303
Salary Experience	All but 2002	4.79%	2.63%	\$ 2,538
Past Service Amortization Change	2002	16.54%	9.08%	\$ 8,764
		100.00%	54.90%	\$ 52,988



TRS Analysis of Valuation  
 Cumulative Change in Average Employer Contribution Rate  
 1998 to 2004

Type of Gain or Loss (as of June 30)	Weighted Absolute Change	Absolute Change	Total	2004	2003	2002	2001	2000	1999	1998
Health Experience	7.01%	3.85%	3.85%	0.00%	0.00%	3.85%	0.00%	0.00%	0.00%	0.00%
Salary Experience	4.79%	2.63%	(2.63%)	0.54%	0.10%	(0.11%)	(1.68%)	0.00%	(0.64%)	(0.84%)
Investment Experience	12.91%	7.09%	7.09%	0.06%	0.43%	15.03%	1.35%	(3.35%)	(3.73%)	(2.70%)
Demographic Experience	14.21%	7.80%	7.80%	(0.85%)	1.35%	4.21%	2.66%	(0.91%)	0.80%	0.54%
Net Gains & Loss Due to Experience			16.11%	(1.25%)	1.88%	22.98%	2.33%	(4.26%)	(3.57%)	(3.00%)
Asset Valuation Method	2.46%	1.35%	(1.35%)	0.00%	0.00%	0.03%	0.00%	(1.38%)	0.00%	0.00%
CRS System Implementation	6.36%	3.49%	3.49%	0.00%	0.00%	0.00%	3.49%	0.00%	0.00%	0.00%
Past Service Amortization Change	16.54%	9.08%	(9.08%)	0.00%	0.00%	(9.08%)	0.00%	0.00%	0.00%	0.00%
Contribution Shortfall compared to average Employer Calculated rate	4.81%	2.64%	2.64%	1.24%	1.40%					
Assumption Changes	28.16%	15.46%	15.46%	1.94%	0.00%	6.84%	0.00%	6.68%	0.00%	0.00%
System Benefit Changes	0.31%	0.17%	0.17%	0.00%	0.00%	0.00%	0.17%	0.00%	0.00%	0.00%
Ad hoc PRPA	2.44%	1.34%	1.34%	0.00%	0.00%	0.36%	0.16%	0.16%	0.11%	0.55%
Total Non-Recurring Changes	100.00%	54.90%	12.67%	3.18%	1.40%	(1.85%)	3.82%	5.46%	0.11%	0.55%
Composite (Gain) or Loss During Year				2.93%	3.28%	21.13%	6.15%	1.20%	(3.46%)	(2.45%)
Beginning Average Employer Contribution Rate				38.85%	35.57%	14.44%	8.29%	7.09%	10.55%	13.00%
Ending Average Employer Contribution Rate				41.78%	38.85%	35.57%	14.44%	8.29%	7.09%	10.55%
Annual Payroll (000's)				522421	532630	509437	496188	482571	466414	469433
Annual Contribution				202961	189456	73563	41134	34214	49207	61026
Yr to Yr Change				13504	115894	32429	6920	-14992	-11820	





Assumptions:

Demographic Assumptions *Relate to the plan's populations and how they are expected to change over time*

Total Turnover Rate

Disability Rate

Retirement Rates

Assumed Retirement Date if Before Age 50

Mortality Rates

Economic Assumptions *Relate to the expected long-term financial experience of the plan*

Total Inflation

Annual investment return

Annual Salary Increases

Post Retirement Health Premium Trend

Actuarial Assumptions *In addition to Demographic and Economic Assumptions, the following additional assumptions are inputs in the actuarial analysis*

Target Funding Ratio

COLA – % of retirees receiving

Spouse's Age

Dependent Children

Contribution Refund Rates

New entrants

Post-Pension Retirement Adjustments

Expenses

Marital Status

Assumption Changes:

As a result of a 2000 experience study in which system experience was compared to actuarial assumptions, a new set of assumptions was adopted in December of 2000. The net effect of the change resulted in an actuarial loss of 3.09% in PERS and 6.68% in TRS.

As a result of the 2002 Actuarial Audit performed by Milliman USA, a new set of actuarial assumptions were adopted effective June 30, 2002. Assumption changes included Health Cost Trends, Mortality, % of Retirees receiving COLA, Turnover Rates, Assumed Retirement Ages. For 2002, changes in the health cost trend assumption only, resulted in an actuarial loss in TRS of 6.84% and in PERS by 6.98%.





Investment Experience:

Adjustments as a result of differences between assumed investment results and actual investment experience (results).

In 2002, the board changed the asset valuation method and immediately recognized all deferred losses. This resulted in an actuarial loss in PERS of 7.24% and in TRS of 15.03%.

Health Experience:

Adjustments as a result of differences between assumed health expenses and actual health experience (costs).

On June 30, 2002, the assumed total blended Health premium was reset to the actual total blended premium for FY03. The resetting increased the total employer contribution rate by 3.85% in TRS and 3.68% in PERS. Going forward, the difference between the assumed rate and the actual rate will be tracked annually and reduced if the gap becomes too wide.

Demographic Experience:

Adjustments as a result of comparing assumptions about the demographic statistics (i.e. population) of the system, with the actual statistics. Factors include - number of active participants, average age of participants, average credited service, number of beneficiaries, number of vested/terminated, etc.

CRS System Implementation:

The Div of Retirement & Benefits implemented a new administrative system (CRS) in 2000 for TRS. The new system provides more accurate data to be used in the annual actuarial valuations. Due to the differences in the data between the old and new systems, there were one-time data adjustments which affected the liabilities calculated for the System. The net effect of these changes was to increase the 2001 employer contribution rate in TRS by 3.49%.

Contribution Shortfall:

2003: An average employer calculated rate are determined 2 years prior to the fiscal year. So the 2003 valuation is setting the FY05 and FY06 rates. When the next year's valuation is finished, the difference between the new calculated rate and the one from the year prior determines the shortfall.





Asset Valuation Method:

PERS:

Prior to 2002, in developing asset valuations, PERS used what's called the corridor method. Investment returns are expected to be equal to the investment assumption of 8.25%. The valuation assets, plus (minus) the outstanding balance of previously amortized amounts, are then compared to a 5% corridor around the market value of assets. Any amount outside the corridor is amortized and applied to the employer contribution rates as a level percentage of the present value of pay over 20 years under the 1% population scenario. For 2000, recognition of additional investment gains outside the corridor resulted in an actuarial gain of 2.67%.

Effective June 30, 2002 - As a result of the Actuarial Audit performed by Milliman USA in 2002, the Board adopted a new asset valuation method. This new smoothing method - recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method is being phased in over the next five years. Due to this change, the accumulated adjustment from the corridor method is now included in the amortization of the unfunded liability. Elimination of the corridor adjustment created a 2002 actuarial loss of 4.11% in PERS.

TRS:

Prior to 2000, in developing asset valuations, TRS used a smoothing technique to smooth over five years the difference between actual and expected return. One purpose was to adopt a method which better accomplished the goal of smoothing volatility in investment returns.

Beginning in 2000, TRS began using the corridor method instead of the smoothing method. The corridor adjustment for 2000 resulted in an actuarial gain of 1.38%.

Effective June 30, 2002 - As a result of the Actuarial Audit performed by Milliman USA in 2002, the Board adopted a new asset valuation method. This new smoothing method - recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method is being phased in over the next five years. Due to this change, the accumulated adjustment from the corridor method is now included in the amortization of the unfunded liability. Elimination of the corridor adjustment created a 2002 actuarial loss of .03% in TRS.





102% Funding Ratio Adjustments:

1998: PERS Board adopted an actuarial method that would target an ultimate funding ratio of 102%. An adjustment 's made to the current and projected unfunded accrued liability so that the projected employer contributions to the System will result in an ultimate funding ratio of 102%. The 1998 adjustment created an actuarial loss of 0.99%.

2001: The adjustment for the 102% Target Funding Ratio created an actuarial loss of 0.57%

2003: Effective June 30, 2003, the PERS Board eliminated the requirement that the average employer contribution rate be calculated based on 102% of the system's accrued liability and instead adopted a target ratio of 100%. The change created an actuarial gain of 0.90%.

Ad hoc PRPA

1998: An ad hoc Post Retirement Pension Adjustment (PRPA) was granted which increased benefit payments to many Tier I (hired before July 1, 1990) retirees and producing an actuarial loss to TRS of approx. \$28,954,000 and PERS of \$28,204,000.

1999: An ad hoc PRPA was granted producing an actuarial loss to TRS of \$5,681,000/PERS of \$6,084,000

2000: An ad hoc PRPA was granted producing an actuarial loss to TRS of \$8,410,000 & PERS of \$9,495,000

2001: An ad hoc PRPA was granted producing an actuarial loss to TRS of \$8,226,000 & PERS of \$8,897,000

2002: An ad hoc PRPA was granted producing an actuarial loss to TRS of \$19,456,000 & PERS of \$20,105,000





System Benefit Changes:

2001 - TRS/PERS - Effective June 30, 2001, all retired member over age 60 and all members who retire with at least twenty-five years of membership service become eligible for full System-paid post employment healthcare benefits, regardless of hire date.

2002 - PERS - Effective June 30, 2002: For all Police/Fire member, the number of years for calculation of average monthly compensation is now 3 years; the occupational death benefit for survivors of Police/Fire members is not the greater of 50% of the member's final salary or 75% of the normal retirement benefit the member would have earned had the member survived to normal retirement age; upon reaching normal retirement age, a disabled Police/Fire member now receives the greater of his/her disability benefit or his/her normal retirement benefit.

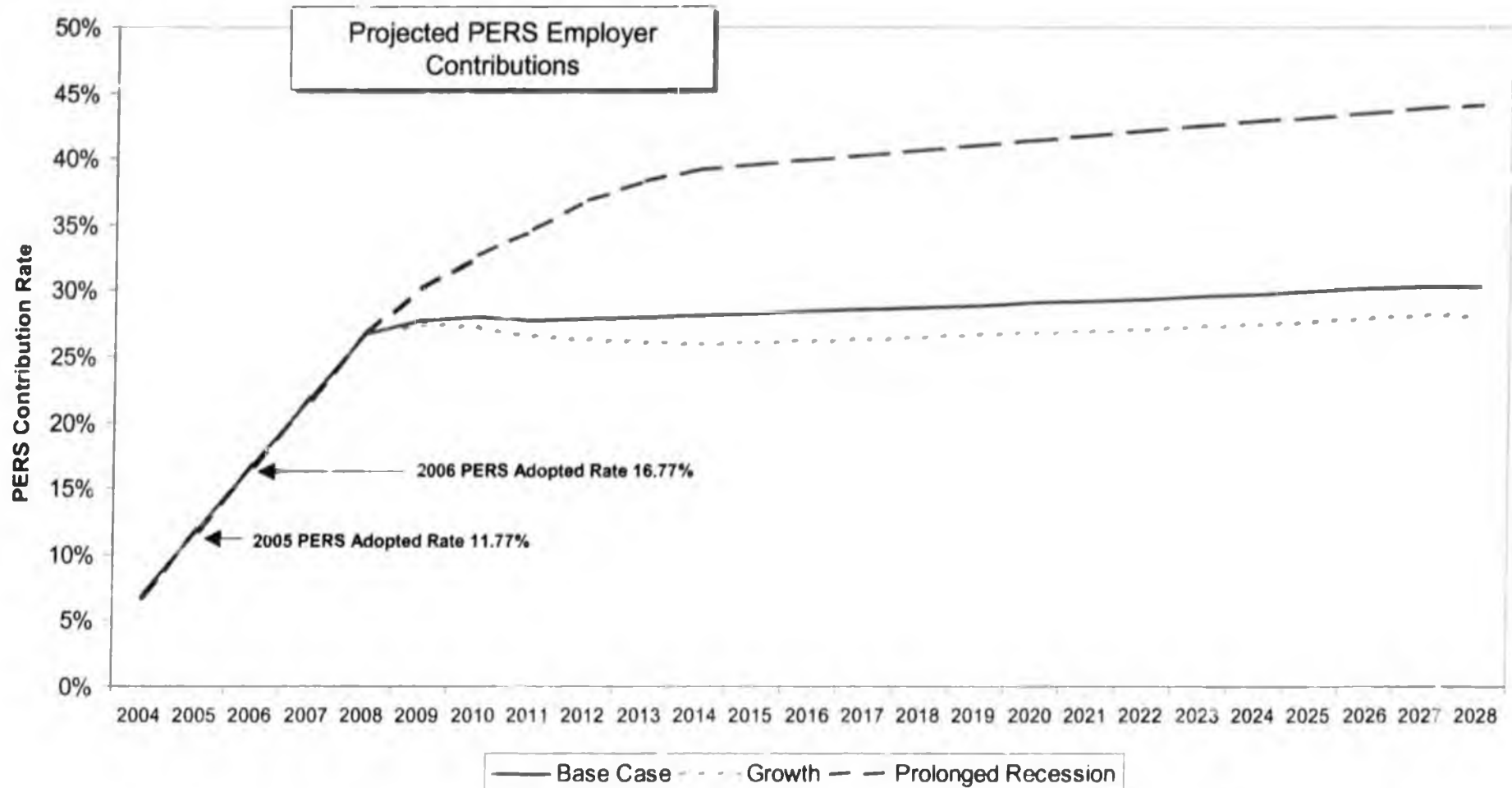
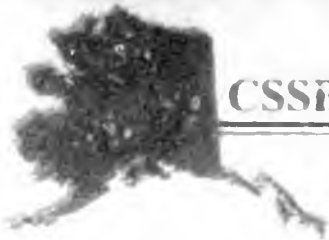
Salary Experience:

Adjustments as a result of differences between assumed salary increases and actual salary experience. For both PERS and TRS, salary increases over the past several years have been less than anticipated which has resulted in net actuarial gains to both systems.

Past Service Amortization Change:

As a result of the 2002 Actuarial Audit performed by Milliman USA in 2002, effective June 30, 2002, the Board adopted a 25-year fixed period level percentage of pay amortization of the Unfunded Accrued Liability. This change is consistent with the 5-year recognition of gains or losses used in the new asset valuation method. The change in the Past Service Amortization methodology caused an actuarial gain in TRS of 9.08% and PERS of 5.06%.

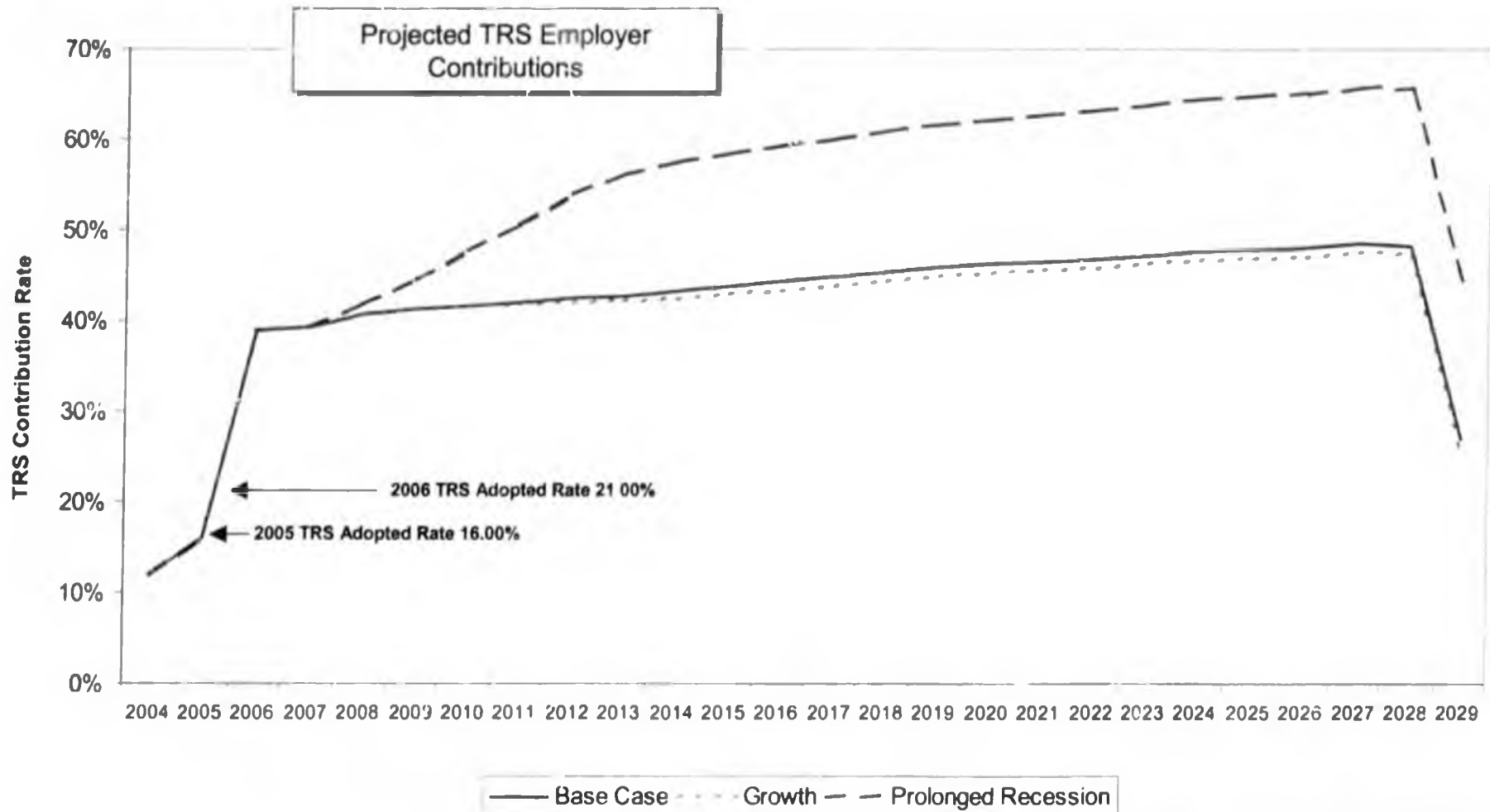




Assuming an Annual Population Increase 1%

To Catch Up, We're Now Facing Untenable Contribution Rates





To Catch Up, We're Now Facing Untenable Contribution Rates





FY 06 Normal Cost Comparisons – Proposed DC Plan vs. Existing TRS/PERS (all Tiers)

FY 06 Normal Cost Rates

	<b>TRS</b>	<b>PERS</b>	<b>DC Plan</b>
Medical normal cost rate	9.07%	8.68%	1.75%
Defined contribution rate	13.90%	11.37%	12.50%
HRA contribution rate	0.0%	0.0%	2.00%
Gross normal cost rate	22.97%	20.05%	16.25%
Member contribution rate	(8.69)%	(6.81)%	(8.00)%
Employer normal cost rate	14.28%	13.24%	8.25%





FY 07 Normal Cost Comparisons – Proposed DC Plan vs. Existing TRS/PERS (all Tiers)

FY 07 Normal Cost Rates

	<b>TRS</b>	<b>PERS</b>	<b>DC Plan</b>
Medical normal cost rate	8.75%	8.86%	1.75%
Defined contribution rate	13.69%	11.27%	12.50%
HRA contribution rate	0.0%	0.0%	2.00%
Gross normal cost rate	22.44%	20.13%	16.25%
Member contribution rate	(8.68)%	(6.81)%	(8.00)%
Employer normal cost rate	13.76%	13.32%	8.25%



Hire Date 7/1/2004  
 Age at hire 25  
 Age at retirement 55  
 Normal retirement age 50  
 Service 30

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 25 years to normal retirement  
 Assumes demographic composition of pre-Medicare retiree group, does not change from current

Salary \$35,000  
 Wage inflation 4.0%

HRA contribution rate 1.0%  
 HRA accumulation rate 8.25%

Subsidy Base \$5,982  
 Subsidy index 5%  
 Subsidy percent 90%

HRA Fund at retirement \$64,622  
 Total retiree contribution \$153,721  
 Net retiree cost (w/HRA int) \$72,348

*Mid year or monthly slightly below fund of year bonus*  
*limited by 5% growth*  
*90%*

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 Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	25	\$35,000	\$350	\$364	\$6,260	1.11	\$0	\$6,260	\$5,634	\$0	\$0	\$0	\$0
2	26	\$36,400	\$364	\$773	\$6,935	1.11	\$0	\$6,573	\$5,916	\$0	\$0	\$0	\$0
3	27	\$37,856	\$379	\$1,231	\$7,645	1.10	\$0	\$6,902	\$6,212	\$0	\$0	\$0	\$0
4	28	\$39,370	\$394	\$1,742	\$8,385	1.10	\$0	\$7,247	\$6,522	\$0	\$0	\$0	\$0
5	29	\$40,945	\$409	\$2,311	\$9,149	1.09	\$0	\$7,609	\$6,848	\$0	\$0	\$0	\$0
6	30	\$42,583	\$426	\$2,945	\$9,930	1.09	\$0	\$7,990	\$7,191	\$0	\$0	\$0	\$0
7	31	\$44,286	\$443	\$3,649	\$10,721	1.08	\$0	\$8,389	\$7,550	\$0	\$0	\$0	\$0
8	32	\$46,058	\$461	\$4,429	\$11,511	1.07	\$0	\$8,809	\$7,928	\$0	\$0	\$0	\$0
9	33	\$47,900	\$479	\$5,293	\$12,292	1.07	\$0	\$9,249	\$8,324	\$0	\$0	\$0	\$0
10	34	\$49,816	\$498	\$6,248	\$13,053	1.06	\$0	\$9,711	\$8,740	\$0	\$0	\$0	\$0
11	35	\$51,809	\$518	\$7,302	\$13,783	1.06	\$0	\$10,197	\$9,177	\$0	\$0	\$0	\$0
12	36	\$53,881	\$539	\$8,465	\$14,473	1.05	\$0	\$10,707	\$9,636	\$0	\$0	\$0	\$0
13	37	\$56,036	\$560	\$9,747	\$15,196	1.05	\$0	\$11,242	\$10,118	\$0	\$0	\$0	\$0
14	38	\$58,278	\$583	\$11,157	\$15,956	1.05	\$0	\$11,804	\$10,624	\$0	\$0	\$0	\$0
15	39	\$60,609	\$606	\$12,708	\$16,754	1.05	\$0	\$12,395	\$11,155	\$0	\$0	\$0	\$0
16	40	\$63,033	\$630	\$14,412	\$17,592	1.05	\$0	\$13,014	\$11,713	\$0	\$0	\$0	\$0
17	41	\$65,554	\$656	\$16,284	\$18,471	1.05	\$0	\$13,665	\$12,299	\$0	\$0	\$0	\$0
18	42	\$68,177	\$682	\$18,336	\$19,395	1.05	\$0	\$14,348	\$12,913	\$0	\$0	\$0	\$0
19	43	\$70,904	\$709	\$20,597	\$20,364	1.05	\$0	\$15,066	\$13,559	\$0	\$0	\$0	\$0
20	44	\$73,740	\$737	\$23,072	\$21,383	1.05	\$0	\$15,819	\$14,237	\$0	\$0	\$0	\$0
21	45	\$76,689	\$767	\$25,852	\$22,452	1.05	\$0	\$16,610	\$14,949	\$0	\$0	\$0	\$0
22	46	\$79,757	\$798	\$28,706	\$23,574	1.05	\$0	\$17,440	\$15,696	\$0	\$0	\$0	\$0
23	47	\$82,947	\$829	\$31,938	\$24,753	1.05	\$0	\$18,312	\$16,481	\$0	\$0	\$0	\$0
24	48	\$86,265	\$863	\$35,470	\$25,991	1.05	\$0	\$19,228	\$17,305	\$0	\$0	\$0	\$0
25	49	\$89,716	\$897	\$39,330	\$27,290	1.05	\$0	\$20,189	\$18,171	\$0	\$0	\$0	\$0
26	50	\$93,304	\$933	\$43,545	\$28,655	1.05	\$0	\$21,199	\$19,079	\$0	\$0	\$0	\$0
27	51	\$97,036	\$970	\$48,147	\$30,088	1.05	\$0	\$22,259	\$20,033	\$0	\$0	\$0	\$0
28	52	\$100,918	\$1,009	\$53,170	\$31,592	1.05	\$0	\$23,372	\$21,035	\$0	\$0	\$0	\$0
29	53	\$104,955	\$1,050	\$58,648	\$33,172	1.05	\$0	\$24,540	\$22,086	\$0	\$0	\$0	\$0
30	54	\$109,153	\$1,092	\$64,622	\$34,830	1.05	\$0	\$25,767	\$23,191	\$0	\$0	\$0	\$0
31	55	\$0	\$0	\$57,238	\$36,572	1.05	\$36,572	\$27,056	\$24,350	\$24,350	\$12,221	\$64,622	\$12,221
32	56	\$0	\$0	\$43,608	\$38,400	1.05	\$38,400	\$28,409	\$25,568	\$25,568	\$12,833	\$57,238	\$12,833
33	57	\$0	\$0	\$38,600	\$40,320	1.05	\$40,320	\$29,829	\$26,846	\$26,846	\$13,474	\$48,608	\$13,474
34	58	\$0	\$0	\$27,064	\$42,336	1.05	\$42,336	\$31,320	\$28,188	\$28,188	\$14,148	\$38,600	\$14,148
35	59	\$0	\$0	\$13,841	\$44,453	1.05	\$44,453	\$32,886	\$29,598	\$29,598	\$14,855	\$27,064	\$14,855
36	60	\$0	\$0	\$0	\$46,676	1.05	\$46,676	\$34,531	\$31,078	\$31,078	\$15,598	\$13,841	\$13,841
37	61	\$0	\$0	\$0	\$49,010	1.05	\$49,010	\$36,257	\$32,632	\$32,632	\$16,376	\$0	\$0
38	62	\$0	\$0	\$0	\$51,460	1.05	\$51,460	\$38,070	\$34,263	\$34,263	\$17,197	\$0	\$0
39	63	\$0	\$0	\$0	\$54,033	1.05	\$54,033	\$39,974	\$35,976	\$35,976	\$18,057	\$0	\$0
40	64	\$0	\$0	\$0	\$56,735	1.05	\$56,735	\$41,972	\$37,775	\$37,775	\$18,900	\$0	\$0

*Please contact*

*Early Hire 17.*

Hire Date 7/1/2004  
 Age at hire 25  
 Age at retirement 55  
 Normal retirement age 50  
 Service 30

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 25 years to normal retirement  
 Assumes demographic composition of pre-Medicare retiree group, does not change from current

Salary \$35,000  
 Wage inflation 4.0%

HRA contribution rate 1.5%  
 HRA accumulation rate 8.25%

Subsidy Base \$5,962  
 Subsidy index 5%  
 Subsidy percent 90%

HRA Fund at retirement \$96,933  
 Total retiree contribution \$153,721  
 Net retiree cost (w/HRA int) \$12,714

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 Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	25	\$35,000	\$525	\$546	\$6,260	1.11	\$0	\$6,260	\$5,634	\$0	\$0	\$0	\$0
2	26	\$36,400	\$546	\$1,159	\$6,935	1.11	\$0	\$6,573	\$5,916	\$0	\$0	\$0	\$0
3	27	\$37,856	\$568	\$1,846	\$7,645	1.10	\$0	\$6,902	\$6,212	\$0	\$0	\$0	\$0
4	28	\$39,370	\$591	\$2,613	\$8,385	1.10	\$0	\$7,247	\$6,522	\$0	\$0	\$0	\$0
5	29	\$40,945	\$614	\$3,467	\$9,149	1.09	\$0	\$7,609	\$6,848	\$0	\$0	\$0	\$0
6	30	\$42,583	\$639	\$4,418	\$9,930	1.09	\$0	\$7,990	\$7,191	\$0	\$0	\$0	\$0
7	31	\$44,286	\$664	\$5,472	\$10,721	1.08	\$0	\$8,389	\$7,550	\$0	\$0	\$0	\$0
8	32	\$46,053	\$691	\$6,644	\$11,511	1.07	\$0	\$8,803	\$7,928	\$0	\$0	\$0	\$0
9	33	\$47,900	\$718	\$7,939	\$12,292	1.07	\$0	\$9,249	\$8,324	\$0	\$0	\$0	\$0
10	34	\$49,816	\$747	\$9,372	\$13,053	1.06	\$0	\$9,711	\$8,740	\$0	\$0	\$0	\$0
11	35	\$51,809	\$777	\$10,953	\$13,783	1.06	\$0	\$10,197	\$9,177	\$0	\$0	\$0	\$0
12	36	\$53,881	\$808	\$12,698	\$14,473	1.05	\$0	\$10,707	\$9,636	\$0	\$0	\$0	\$0
13	37	\$56,036	\$841	\$14,620	\$15,105	1.05	\$0	\$11,242	\$10,118	\$0	\$0	\$0	\$0
14	38	\$58,273	\$874	\$16,736	\$15,656	1.05	\$0	\$11,804	\$10,624	\$0	\$0	\$0	\$0
15	39	\$60,609	\$909	\$19,062	\$16,754	1.05	\$0	\$12,395	\$11,155	\$0	\$0	\$0	\$0
16	40	\$63,033	\$945	\$21,619	\$17,592	1.05	\$0	\$13,014	\$11,713	\$0	\$0	\$0	\$0
17	41	\$65,554	\$983	\$24,425	\$18,471	1.05	\$0	\$13,665	\$12,299	\$0	\$0	\$0	\$0
18	42	\$68,177	\$1,023	\$27,504	\$19,395	1.05	\$0	\$14,348	\$12,913	\$0	\$0	\$0	\$0
19	43	\$70,904	\$1,064	\$30,860	\$20,364	1.05	\$0	\$15,066	\$13,559	\$0	\$0	\$0	\$0
20	44	\$73,740	\$1,106	\$34,579	\$21,383	1.05	\$0	\$15,819	\$14,237	\$0	\$0	\$0	\$0
21	45	\$76,689	\$1,150	\$38,628	\$22,452	1.05	\$0	\$16,610	\$14,949	\$0	\$0	\$0	\$0
22	46	\$79,757	\$1,196	\$43,060	\$23,574	1.05	\$0	\$17,440	\$15,696	\$0	\$0	\$0	\$0
23	47	\$82,947	\$1,244	\$47,907	\$24,753	1.05	\$0	\$18,312	\$16,481	\$0	\$0	\$0	\$0
24	48	\$86,265	\$1,294	\$53,205	\$25,991	1.05	\$0	\$19,228	\$17,305	\$0	\$0	\$0	\$0
25	49	\$89,716	\$1,346	\$58,995	\$27,290	1.05	\$0	\$20,189	\$18,171	\$0	\$0	\$0	\$0
26	50	\$93,304	\$1,400	\$65,318	\$28,655	1.05	\$0	\$21,199	\$19,079	\$0	\$0	\$0	\$0
27	51	\$97,036	\$1,456	\$72,221	\$30,088	1.05	\$0	\$22,259	\$20,033	\$0	\$0	\$0	\$0
28	52	\$100,918	\$1,514	\$79,754	\$31,592	1.05	\$0	\$23,372	\$21,035	\$0	\$0	\$0	\$0
29	53	\$104,955	\$1,574	\$87,972	\$33,172	1.05	\$0	\$24,540	\$22,086	\$0	\$0	\$0	\$0
30	54	\$109,153	\$1,637	\$96,933	\$34,830	1.05	\$0	\$25,767	\$23,191	\$0	\$0	\$0	\$0
31	55	\$0	\$0	\$92,214	\$36,572	1.05	\$36,572	\$27,056	\$24,350	\$24,350	\$12,221	\$96,933	\$12,221
32	56	\$0	\$0	\$86,471	\$38,400	1.05	\$38,400	\$28,409	\$25,568	\$25,568	\$12,833	\$92,214	\$12,833
33	57	\$0	\$0	\$79,586	\$40,320	1.05	\$40,320	\$29,820	\$26,846	\$26,846	\$13,474	\$86,471	\$13,474
34	58	\$0	\$0	\$71,432	\$42,336	1.05	\$42,336	\$31,320	\$28,188	\$28,188	\$14,148	\$79,586	\$14,148
35	59	\$0	\$0	\$61,869	\$44,453	1.05	\$44,453	\$32,886	\$29,598	\$29,598	\$14,855	\$71,432	\$14,855
36	60	\$0	\$0	\$50,744	\$46,676	1.05	\$46,676	\$34,531	\$31,078	\$31,078	\$15,598	\$61,869	\$15,598
37	61	\$0	\$0	\$37,890	\$49,010	1.05	\$49,010	\$36,257	\$32,632	\$32,632	\$16,378	\$50,744	\$16,378
38	62	\$0	\$0	\$23,124	\$51,460	1.05	\$51,460	\$38,070	\$34,263	\$34,263	\$17,197	\$37,890	\$17,197
39	63	\$0	\$0	\$6,245	\$54,033	1.05	\$54,033	\$39,974	\$35,976	\$35,976	\$18,057	\$23,124	\$18,057
40	64	\$0	\$0	\$0	\$56,735	1.05	\$56,735	\$41,972	\$37,775	\$37,775	\$18,960	\$6,245	\$6,245

Early Hire 1.5%

Hire Date 7/1/2004  
 Age at hire 40  
 Age at retirement 50  
 Normal retirement age 60  
 Service 20

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 25 years to normal retirement  
 Assumes demographic composition of pre-Medicare retiree group does not change from current

Salary \$35,000  
 Wage Inflation 4.0%

HRA contribution rate 1.0%  
 HRA accumulation rate 8.25%

Subsidy Base \$5,962  
 Subsidy index 5%  
 Subsidy percent 60%

HRA Fund at retirement \$23,052  
 Total retiree contribution \$68,993  
 Net retiree cost (w/HRA int) \$44,543

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 Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	40	\$35,000	\$350	\$364	\$6,260	1.11	\$0	\$6,260	\$3,756	\$0	\$0	\$0	\$0
2	41	\$36,400	\$364	\$773	\$6,935	1.11	\$0	\$6,573	\$3,944	\$0	\$0	\$0	\$0
3	42	\$37,856	\$379	\$1,231	\$7,645	1.10	\$0	\$6,902	\$4,141	\$0	\$0	\$0	\$0
4	43	\$39,370	\$394	\$1,742	\$8,385	1.10	\$0	\$7,247	\$4,348	\$0	\$0	\$0	\$0
5	44	\$40,945	\$409	\$2,311	\$9,149	1.09	\$0	\$7,609	\$4,566	\$0	\$0	\$0	\$0
6	45	\$42,563	\$426	\$2,945	\$9,930	1.09	\$0	\$7,990	\$4,794	\$0	\$0	\$0	\$0
7	46	\$44,286	\$443	\$3,649	\$10,721	1.08	\$0	\$8,389	\$5,033	\$0	\$0	\$0	\$0
8	47	\$46,058	\$461	\$4,429	\$11,511	1.07	\$0	\$8,809	\$5,285	\$0	\$0	\$0	\$0
9	48	\$47,900	\$479	\$5,293	\$12,292	1.07	\$0	\$9,249	\$5,549	\$0	\$0	\$0	\$0
10	49	\$49,816	\$498	\$6,248	\$13,053	1.06	\$0	\$9,711	\$5,827	\$0	\$0	\$0	\$0
11	50	\$51,809	\$518	\$7,302	\$13,783	1.06	\$0	\$10,197	\$6,118	\$0	\$0	\$0	\$0
12	51	\$53,881	\$539	\$8,465	\$14,473	1.05	\$0	\$10,707	\$6,424	\$0	\$0	\$0	\$0
13	52	\$56,036	\$560	\$9,747	\$15,196	1.05	\$0	\$11,242	\$6,745	\$0	\$0	\$0	\$0
14	53	\$58,278	\$583	\$11,157	\$15,956	1.05	\$0	\$11,804	\$7,083	\$0	\$0	\$0	\$0
15	54	\$60,609	\$606	\$12,708	\$16,754	1.05	\$0	\$12,395	\$7,437	\$0	\$0	\$0	\$0
16	55	\$63,033	\$630	\$14,412	\$17,592	1.05	\$0	\$13,014	\$7,809	\$0	\$0	\$0	\$0
17	56	\$65,554	\$656	\$16,284	\$18,471	1.05	\$0	\$13,665	\$8,199	\$0	\$0	\$0	\$0
18	57	\$68,177	\$682	\$18,336	\$19,395	1.05	\$0	\$14,348	\$8,609	\$0	\$0	\$0	\$0
19	58	\$70,904	\$709	\$20,587	\$20,364	1.05	\$0	\$15,066	\$9,039	\$0	\$0	\$0	\$0
20	59	\$73,740	\$737	\$23,052	\$21,383	1.05	\$0	\$15,819	\$9,491	\$0	\$0	\$0	\$0
21	60	\$0	\$0	\$11,963	\$22,452	1.05	\$22,452	\$16,610	\$9,966	\$9,966	\$12,486	\$23,052	\$12,486
22	61	\$0	\$0	\$0	\$23,574	1.05	\$23,574	\$17,440	\$10,464	\$10,464	\$13,110	\$11,963	\$11,963
23	62	\$0	\$0	\$0	\$24,753	1.05	\$24,753	\$18,312	\$10,987	\$10,987	\$13,766	\$0	\$0
24	63	\$0	\$0	\$0	\$25,991	1.05	\$25,991	\$19,226	\$11,537	\$11,537	\$14,454	\$0	\$0
25	64	\$0	\$0	\$0	\$27,290	1.05	\$27,290	\$20,189	\$12,114	\$12,114	\$15,177	\$0	\$0

Late Hire 1%

Hire Date	7/1/2004
Age at hire	40
Age at retirement	60
Normal retirement age	60
Service	20

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 25 years to normal retirement:  
 Assumes demographic composition of pre-Medicare retiree group does not change from current

Salary	\$35,000
Wage inflation	4.0%

HRA contribution rate	1.5%
HRA accumulation rate	8.25%

Subsidy Base	\$5,962
Subsidy index	5%
Subsidy percent	60%

HRA Fund at retirement	\$34,579
Total retiree contribution	\$68,393
Net retiree cost (w/HRA int)	\$30,580

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 Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	40	\$35,000	\$525	\$546	\$6,260	1.11	\$0	\$6,260	\$3,756	\$0	\$0	\$0	\$0
2	41	\$36,400	\$546	\$1,150	\$6,935	1.11	\$0	\$6,573	\$3,944	\$0	\$0	\$0	\$0
3	42	\$37,856	\$568	\$1,846	\$7,645	1.10	\$0	\$6,902	\$4,141	\$0	\$0	\$0	\$0
4	43	\$39,370	\$591	\$2,613	\$8,385	1.10	\$0	\$7,247	\$4,348	\$0	\$0	\$0	\$0
5	44	\$40,945	\$614	\$3,467	\$9,149	1.09	\$0	\$7,609	\$4,566	\$0	\$0	\$0	\$0
6	45	\$42,583	\$639	\$4,418	\$9,930	1.09	\$0	\$7,990	\$4,794	\$0	\$0	\$0	\$0
7	46	\$44,286	\$664	\$5,473	\$10,721	1.08	\$0	\$8,389	\$5,033	\$0	\$0	\$0	\$0
8	47	\$46,058	\$691	\$6,644	\$11,511	1.07	\$0	\$8,809	\$5,285	\$0	\$0	\$0	\$0
9	48	\$47,900	\$718	\$7,939	\$12,292	1.07	\$0	\$9,249	\$5,549	\$0	\$0	\$0	\$0
10	49	\$49,816	\$747	\$9,372	\$13,053	1.06	\$0	\$9,711	\$5,827	\$0	\$0	\$0	\$0
11	50	\$51,809	\$777	\$10,953	\$13,783	1.06	\$0	\$10,197	\$6,118	\$0	\$0	\$0	\$0
12	51	\$53,881	\$808	\$12,698	\$14,473	1.05	\$0	\$10,707	\$6,424	\$0	\$0	\$0	\$0
13	52	\$56,036	\$841	\$14,620	\$15,196	1.05	\$0	\$11,242	\$6,745	\$0	\$0	\$0	\$0
14	53	\$58,273	\$874	\$16,736	\$15,956	1.05	\$0	\$11,804	\$7,083	\$0	\$0	\$0	\$0
15	54	\$60,609	\$909	\$19,062	\$16,754	1.05	\$0	\$12,395	\$7,437	\$0	\$0	\$0	\$0
16	55	\$63,033	\$945	\$21,619	\$17,592	1.05	\$0	\$13,014	\$7,809	\$0	\$0	\$0	\$0
17	56	\$65,554	\$983	\$24,425	\$18,471	1.05	\$0	\$13,665	\$8,199	\$0	\$0	\$0	\$0
18	57	\$68,177	\$1,023	\$27,504	\$19,395	1.05	\$0	\$14,348	\$8,609	\$0	\$0	\$0	\$0
19	58	\$70,904	\$1,064	\$30,880	\$20,364	1.05	\$0	\$15,066	\$9,039	\$0	\$0	\$0	\$0
20	59	\$73,740	\$1,106	\$34,579	\$21,383	1.05	\$0	\$15,819	\$9,491	\$0	\$0	\$0	\$0
21	60	\$0	\$0	\$24,440	\$22,452	1.05	\$22,452	\$16,610	\$9,966	\$9,966	\$12,486	\$34,579	\$12,486
22	61	\$0	\$0	\$12,817	\$23,574	1.05	\$23,574	\$17,440	\$10,464	\$10,464	\$13,110	\$24,440	\$13,110
23	62	\$0	\$0	\$0	\$24,753	1.05	\$24,753	\$18,312	\$10,987	\$10,987	\$13,766	\$12,817	\$12,817
24	63	\$0	\$0	\$0	\$25,991	1.05	\$25,991	\$19,228	\$11,537	\$11,537	\$14,454	\$0	\$0
25	64	\$0	\$0	\$0	\$27,290	1.05	\$27,290	\$20,189	\$12,114	\$12,114	\$15,177	\$0	\$0

Late Hire 1.5%

# LEGAL SERVICES

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## MEMORANDUM

January 29, 2005

**SUBJECT:** Accrued benefits of public employment retirement systems and legislative changes to the employee contribution rate (Work Order No. 24-LS0429)

**TO:** Representative Mike Kelly  
Attn: Heath Hilyard

**FROM:** Barbara R. Cramer  
Legislative Counsel *BRC*

You have asked questions regard the scope of Article XII, sec. 7 of the Alaska constitution<sup>1</sup> and how it affects the legislature's ability to amend the employee contribution rates of the teacher's retirement system (TRS) and the public employee's retirement system (PERS).<sup>2</sup> In our conversations about this request you asked about changing the contribution rates of vested employees.<sup>3</sup>

<sup>1</sup> Alaska Constitution Article XII, Sec. 7:

SECTION 7. Retirement Systems. Membership in employee retirement systems of the State or its political subdivisions shall constitute a contractual relationship. Accrued benefits of these systems shall not be diminished or impaired.

This provision protects the "accrued benefits" of the systems. The question considered here is whether the employee contribution rate is part of the "accrued benefits."

<sup>2</sup> AS 14.25.050 and AS 39.35.160 respectively.

<sup>3</sup> PERS has three tiers at this time, the contribution rates are the same for employees in all tiers, but the benefits are decreased in Tier II and Tier III:

police and fire employees - 7.5% (last increased in 1987)

"other" employees - 6.75% (last increased in 1987)

school district employees - 9.6% (last increased in 1999)

Tier I is for employees first employed between January 1, 1961 and June 30, 1986,

Tier II is for employees entering service between July 1, 1986 through June 30, 1996,

and Tier III applies to employees entering service July 1, 1996 and later.

TRS has two tiers, the employee contribution is 8.65%, last increased in 1991.

Tier I is for teachers first employed between July 1, 1955 and June 30, 1990,

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Employee contribution rates have been raised on several occasions in the past without creating a new tier of employees. In 1986 the PERS employee contribution rates were changed from 5% to 7.5% for firefighters and police officers, and the contribution rates for all others were raised from 4.25% percent to the current 6.75%.<sup>4</sup> In 1990 the TRS employee contribution rates were raised from 7% to 8.65%.<sup>5</sup> Both of these changes in compensation rates were made after the Hammond v. Hoffbeck decision in 1981. Hammond v. Hoffbeck, 627 P.2d 1052 (Alaska 1981).<sup>6</sup> These increases in contribution rates apparently did not result in legal challenges. This memorandum, thus, considers whether a new law which raises the employee contribution rates in TRS and PERS while maintaining the accrued benefits in each Tier would be subject to constitutional challenge.

While such a challenge may certainly be brought, it is not a foregone conclusion that the argument would prevail. A strong counter argument can 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.

An employee facing an increased contribution rate for vested benefits can reject the increase by terminating employment while still preserving the employee's vested right to "accrued benefits."<sup>7</sup> An accrued benefit is one that has already been earned, it is not one

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Tier II is for teachers first employed on July 1, 1990 and later.

<sup>4</sup> sec. 15, ch. 82 SLA 1986.

<sup>5</sup> sec. 1, ch. 97 SLA 1990. There was at least one other change in PERS for noncertificated employees of school districts to 9.6% in 1999.

<sup>6</sup> The reductions in benefits in the Hammond v. Hoffbeck case involved a reduction in occupational disability benefits for public safety employees, a requirement that an employee be totally unemployable in order to be eligible for an occupational disability pension rather than "incapacitated for service in the position held" and reducing occupational death benefits from one hundred percent to forty per cent of monthly salary at the time of death.

<sup>7</sup> A New York case (New York has constitutional protection of pension benefits like Alaska) involving diminution of disability benefits to employees in the public service makes this point, that employees do not have a constitutional right to stay in public employment:

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that has not yet been earned. The constitutional promise is that earned benefits cannot be diminished, and the future right to a specified benefit is vested, however Hoffbeck recognized that "rigid adherence to labels like "gratuity," "compensation," "contract," and "vested rights" has not allowed courts the flexibility necessary to deal properly with legitimate legislative response to changing economic and social conditions."<sup>8</sup> The Hoffbeck court found the following language in a California case to be "instructive."

An employee's vested contractual pension rights may be modified prior to retirement for the purpose of keeping a pension system flexible to permit adjustments in accord with changing conditions and at the same time maintain the integrity of the system. Such modifications must be reasonable, and it is for the courts to determine upon the facts of each case what constitutes a permissible change. To be sustained as reasonable, alterations of employees' pension rights must bear some material relation to the theory of a pension system and its successful operation, and changes in a pension plan which result in disadvantage to employees should be accompanied by comparable new advantages.<sup>9</sup>

Following that discussion the decision found:

We agree with this analysis and hold that 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.

An important qualification is found in note 11 of Hoffbeck. It may apply to the situation at hand where the system finds that failing to increase employee contributions, and thus increasing the projected unsupportable burden on employees, will threaten the fiscal future of the system as a whole:

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It is long settled, however, that the fact that there can be no constitutional impairment of pension system benefits does not create a constitutional right to stay in public employment. To do this would place the regulation of public employment beyond the control of any authority, which certainly was not intended by our Constitution (Gorman v. City of New York, 280 App Div 39, 45, affd 304 NY 865).

Cook v. Binghamton, 48 N.Y.2d 323, 332 (N.Y., 1979)

<sup>8</sup> Hammond v. Hoffbeck, 627 P.2d at 1057

<sup>9</sup> Id.

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.

In this case, it may not be that the system is currently insufficient to handle current claims, and no alteration in the benefits to be received is contemplated. However, the continued fiscal health of the plan for future claims by current beneficiaries may reasonably require a prospective increased contribution rate. Such an argument is not precluded by Hammond v. Hoffbeck.

Four other states have constitutional protection for public employee retirement benefits very similar to Alaska: Hawaii,<sup>10</sup> Michigan,<sup>11</sup> New York and Illinois<sup>12</sup>. There is a case from Michigan which is squarely on point. The Michigan Supreme Court was asked to determine whether a statute increasing the employee contribution rate for certain employees was constitutional. Advisory Opinion re Constitutionality of 1972 PA 258, 389 Mich. 659, (Mich. 1973). The court found that "the Legislature cannot diminish or impair accrued financial benefits, but we think it may properly attach new conditions for earning financial benefits which have not yet accrued."<sup>13</sup> The Michigan court found that raising the employee contribution rate was a "new condition" which was not "a diminishment or impairment of such accrued benefits unless the new conditions were unreasonable and hence subversive of the constitutional protection."

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<sup>10</sup> Art. XVI, Section 2 of the Hawaii Constitution, provides:

Membership in any employees' retirement system of the State or any political subdivision thereof shall be a contractual relationship, the accrued benefits of which shall not be diminished or impaired.

<sup>11</sup> Michigan's constitution, art 9, sec. 24 reads:

The accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby. Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities.

<sup>12</sup> While the constitutional provisions are similar in Illinois and New York the cases have focused on the time of vesting, not relevant to this discussion.

<sup>13</sup> Advisory Opinion re 1972 PA 258, 389 Mich. 659, emphasis added.

A case in Hawaii involved determining the date a firefighter was considered to have begun his retirement. Chun v. Employee's Retirement Sys., 607 P.2d 415, 421 (Hawaii 1980). The court discussed its constitutional protection of public employee retirement systems and found that although benefits attributable to past services could not be reduced, the legislature could make general changes in the retirement system. While not discussed in that case, it could be argued that the employee compensation rate for continued benefits may be a condition that can be changed without violating the constitutional protection of accrued benefits.<sup>14</sup>

After Hoffbeck the next discussion of Article XII, sec. 7 by the Alaska Supreme Court occurred in 2003 where the court considered how to evaluate changes to public employee benefits, specifically health plans. Duncan v. Retired Public Employees of Alaska, Inc. (Duncan) 71 P.3d 882, (Alaska 2003) The state argued that health insurance benefits were not covered by Article XII, sec. 7, and if they were, the dollar amount of the

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<sup>14</sup> Id. at 421, citations omitted.

This court has never been called upon to examine or construe this particular provision of the Hawaii Constitution. It was proposed from the floor of the 1950 Constitutional Convention and adopted by the Committee of the Whole. The Committee of the Whole Report states:

It should be noted that the above provision would not limit the legislature in effecting a reduction in the benefits of a retirement system provided the reduction did not apply to benefits already accrued. In other words, the legislature could reduce benefits as to (1) new entrants into a retirement system, or (2) as to persons already in the system in so far as their future services were concerned. It could not, however, reduce the benefits attributable to past services. Further, the section would not limit the legislature in making general changes in a system, applicable to past members, so long as the changes did not necessarily reduce the benefits attributable to past services.

The Committee of the Whole's interpretation of the provision, which we accept, indicates that a member of the retirement system is entitled to the benefits available under the system that have been accrued by the member. From the Committee of the Whole Report, we conclude that the provision was meant to protect an employee from a reduction in accrued benefits. However, the extent of such benefits as well as the conditions under which an employee should receive benefits, are governed by applicable statutory provisions. . . .

Representative Mike Kelly

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premium was all that was protected, not the type of coverage, and third if the first two arguments failed, that changes could be made to vested health benefits so long as any disadvantages from changes were outweighed by advantages, as considered from a group perspective. The court agreed with the third argument only, and found that health benefits could be changed without violating the constitution. Duncan states that "[t]he natural and ordinary meaning of "benefits" in a health insurance context refers to the coverage provided rather than the cost of the insurance."<sup>15</sup>

The language in Duncan does not preclude an argument that the employee contribution rate, applied prospectively, does not diminish accrued benefits. The Michigan case illustrates the argument that employee contribution rates are a condition of current and prospective employment and do not diminish accrued rights. Because the Alaska court has not spoken in regard to the rate of employee contributions in public retirement systems, there can be no certainty. However, there have been changes in employee contribution rates since Hoffbeck, none of them generating a constitutional challenge. Increasing the contribution rates of employees prospectively is not explicitly barred by Hoffbeck, or Duncan. Other states with similar constitutional protections have either allowed increases in contribution rates or have acknowledged the need for some flexibility in administering the retirement programs while protecting accrued benefits of public employees.

If I may be of further assistance, please advise.

BRC:med

05-066.med

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<sup>15</sup> Duncan, 71 P.3d 882 at 888 - 889. One of the issues in Duncan was whether health benefits consisted of a certain level of coverage, or only a certain dollar amount applied towards health insurance premiums.

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## Representative Mike Kelly House District 7

### COMPARATIVE SUMMARY "Kelly Plan" v. Retirement Security Act

Key Component	"Kelly Plan" <i>(HB 170, HB 177, &amp; HB 191)</i>	Retirement Security Act <i>(SB 141)</i>
<b>Pure Defined Contribution Plan?</b>	Yes (Pg. 2; Pp. 13-14) <sup>1</sup>	Yes (Pg. 13; Pg. 69)
<b>Employee Contribution Rates</b>	TRS (Pg. 2) <sup>2</sup> 10%  PERS (Pg. 13) Public Safety 8.5% Others 8%	TRS (Pg. 13) 8%  <sup>3</sup> PERS (Pg. 69) All 8%
<b>Employer Contribution Rates (Retirement/Non-medical)</b>	Employer contributions will eventually reach 8% for TRS and 8.75% for PERS over the course of a five year period in the following increments:  Year 1 – 0% Year 2 – 25% Year 3 – 50% Year 4 – 75% Year 5 – 100% (Pg. 3, Pp. 14-15)	Employer contributions are split between the member's individual account and the retiree medical insurance.  Individual Account – 3.5% Retiree Medical – 3.75% (Pg. 14; Pg. 70)

<sup>1</sup> HB 191  
<sup>2</sup> HB 191  
<sup>3</sup> HB 191

Key Component	"Kelly Plan" (HB 170, HB 177 & HB 191)	Retirement Security Act (SB 141)
<b>Vesting</b>	100% at the time of enrollment (Pg 4, Pg. 15)	Graduated vesting in the following increments: Year 1 – 0% Year 2 – 25% Year 3 – 50% Year 4 – 75% Year 5 – 100% (Pg. 16, Pg. 72)
<b>Medical Benefits</b> (Health Reimbursement Arrangement & Retiree Major Medical Insurance)	*NOTE: This version of HB 191 does not contain this provision. We are completing a committee substitute that will incorporate this language. The new language in HB 191 will mirror SB 141.	<p>Yes. There are two components of the medical benefits provided in this bill depending upon the members' status (active or retired).</p> <p><u>Health Reimbursement Arrangement</u> Established under AS 39.30.300, which creates a managed "trust" account, which is comprised of an employer contribution in the amount of 1% employees average annual compensation not to exceed \$500. (Pp 47-48)</p> <p><u>Retiree Major Medical Insurance</u> As noted above, as part of the employer contribution to the individual retirement accounts, the employer will pay 3.75% to provide for an insurance benefit at the time of retirement. In order to access this benefit a member must meet one of several criteria. In summary, these are:</p> <ul style="list-style-type: none"> <li>• The member must retire directly from the system;</li> <li>• In order to retire, the member must have 30 years of service to the system or be 65 and have at least 10 years of service with the system</li> <li>• The member has been an active member for the whole school year during the 12 months prior (TRS only)</li> </ul> <p>(Pp. 24-27, Pp. 80-83)</p>

Key Component	"Kelly Plan" (HB 170, HB 177, & HB 191)	Retirement Security Act (SB 141)
<b>Investment Flexibility</b>	*NOTE: This version of HB 191 does not contain this provision. We are completing a committee substitute that will incorporate this language. The new language in HB 191 will mirror SB 141.	Yes. A member's ability to select from a number of investment options is expressly provided for. (Pp. 16-17; Pp. 72-73)
<b>Increased Active Employee Contribution Rates</b>	Yes <sup>4</sup> . Using language similar to that that sets annual employer contribution rates, HB 177 provides for an increase in employee contribution rates not to exceed 5% annually. The administrator would establish the contribution rate on the basis of what is necessary to "fund the system." In addition, this bill stipulates that the employee and employer contribution rates will be coordinated in an effort to maintain parity between the two groups regardless of the actuarial valuation. (Pp. 2-4)	Likely yes. The language in this bill provides that the employee will pay a contribution rate whichever is the greater of their current contribution rate or one half of the "normal cost rate as actuarially calculated." This will have the effect of creating a contribution "floor". (Pg. 7; Pp. 58-59)  <b>EXAMPLE</b> Current PERS Contribution Rates: Police/Fire – 7.5% Other – 6.75% Avg. Normal Cost Rate <sup>5</sup> - 20.05% New rate – 10.025%
<b>PERS/TRS/ASPIB Board Restructuring</b>	HB 170 proposes a modest restructuring of the PERS and TRS boards but leaves the Alaska State Pension Investment Board (ASPIB) board untouched. (Pp. 1-3) <u>HB 170 provides that:</u> <ul style="list-style-type: none"> <li>• A majority of the members of the boards will not be or ever have been employed by an employer participating in any of the State's retirement systems</li> <li>• Two of the public members of each board will have "private sector experience in administration, financing, accounting, or economic development."</li> </ul>	The Retirement Security Act completely restructures all three existing boards, by eliminating them in their current incarnations and replacing them with a single board renamed the "Alaska Retirement Management Board" under the Department of Revenue. The board will consist of nine trustees in addition to the commissioners of Administration and Revenue. Further, it provides for specific members from political subdivisions, school districts, and system membership. (Pp. 36-41)

<sup>4</sup> HB 177

<sup>5</sup> PERS 2003 Actuarial Valuation Report, Pg. 22



## Pensions and Retirement Plan Enactments in 2004 State Legislatures

Ronald K. Snell  
25 October 2004

### Introduction

This report summarizes selected pensions and retirement legislation that state legislatures enacted in 2004. I have reviewed legislation enacted in all states that held regular legislative sessions through September, 2004. The report also includes a few items of legislation enacted too late in 2003 for inclusion in the 2003 report.

The sources of this report are retirement systems' Web sites and direct communication with legislative and retirement system staff. I am indebted to the many legislative staff who write and share summaries of their Legislatures' acts, the many retirement system staff throughout the United States who have posted legislative summaries on their web sites, and the staff of Legislatures and retirement systems who have taken time to identify and explain legislation and its context to me.

The goal of this report is to help researchers and policy makers know how other states have addressed issues that could arise in any state. In keeping with that goal, I have excluded most clean-up legislation, cost-of-living adjustments, administrative procedures and technical amendments. This report is organized according to the topics that legislatures addressed in 2004. The remainder of the introduction summarizes action on the issues that received the most attention in 2004, in terms of the volume of legislation. Following it is a list of the topics the report covers and summaries of legislation, organized by topic.

### Legislative Oversight and Administrative Management

Legislation in 2004 reflected concerns over the financial and administrative management of public retirement programs. Major concerns about the management of pensions systems in Ohio were addressed in Senate Bill 133, summarized at length in Appendix A of this report. Louisiana strengthened legislative oversight of the state retirement systems, requiring legislative approval of budgets and proposals for benefits increases. Oklahoma and South Dakota also increased requirements for systems' financial transparency and reporting.

### Finances and Bonds

Funding was a major concern across the country. Across-the-board benefit increases do not appear in any substantial way in the legislation summarized below.

Pension obligation bonds, an issue in a number of states in 2003, were authorized for state government use only in California in 2004. Legislation established a unique funding method for the proposed bonds. New state employees will be members of an alternative retirement plan instead of the regular defined benefit plan for their first 24 months of employment, after which they will begin making contributions to the defined benefit plan. The state will not make contributions on their behalf during the 24 months, providing potential funding for pension bonds.

States did not otherwise authorize pension obligation bonds in 2004, although Kansas completed the authorization it initiated in 2003 with the issuance of bonds, and the 2003 authorization in West Virginia continued to work its way through the courts. Colorado and South Dakota limited some former employee benefits. A number of states statutorily increased employer contribution rates. Employee contribution rates generally continued unchanged, although Nebraska levied a one-year employee increase in response to poor investment returns, and the Arizona State Retirement System announced an increase in both employee and employer contribution rates for the fiscal years following July 1, 2005. (This report generally includes only statutory contribution changes, and has not attempted to track those made by

administrative rules.)

South Carolina prepared for future state fiscal difficulties by providing that employees who are furloughed in the course of the fiscal year will continue to accrue retirement benefits as well as receive any other employee benefits. The furloughing agency will pay the employee's share of the costs as well as the employer's share, in most cases.

### **Defined Contribution and Alternative Retirement Plans and other Structural Changes**

Structural changes in plan design were rare in 2004. The Colorado General Assembly created a defined contribution plan as an optional alternative to its defined benefit plan for state and local government employees hired after January 1, 2006. Colorado also will open its defined contribution plan for elected officials to general employees on that date. Oklahoma and Ohio broadened opportunities for alternative plan choices for employees in higher education. Hawaii created a new contributory defined benefit plan for all new state and county employees and teachers after July 1, 2006, when the existing non-contributory defined benefit plan will be closed to additional members. A New Jersey bill, not enacted at the time of writing, is notable for permitting higher education employees who are members of a defined contribution plan to transfer membership back to the state defined benefit plan or TIAA/CREF, depending on the person's earlier have been a member of one or the other. The person could return only to the plan of which he or she was formerly a member.

### **Early Retirement Options and Service Credit**

The widespread use of early retirement options in recent years may have contributed to their limited creation in 2004. Illinois offered an unusual early termination benefit to specified groups of state employees who ended their employment and waived future retirement benefits in exchange for twice their employee retirement contributions plus interest, an incentive that fewer employees than expected were willing to accept. A follow-up program of increased severance payments was not completed at the time this was being written. Iowa, Louisiana and Utah provided more traditional early retirement incentives; Michigan's legislature turned them down out of concerns about previous reductions in the size of the state workforce.

A substantial number of legislatures turned their attention to provisions for the purchase of service credit, without specifying that more generous provisions were intended as a retirement incentive. New Mexico doubled its allowance of time that may be purchased to 24 months to aid members in meeting requirements for maximum retirement benefits. A number of states, including Arizona, Georgia, Louisiana, South Dakota and Washington, specified that purchases of service credit must be at the actuarial value of the credit. Provisions in a number of states appear to be intended to assist public employees called to active military duty, explicitly so in Idaho, Iowa and Oklahoma.

### **Re-employment after Retirement**

As in other recent years, states continued to ease restrictions on teachers' and other public employees' return to covered employment after retirement. Ten states acted on the issue in 2004, generally on behalf of returning retired teachers to work.

### **List of Topics**

- Alternative Retirement Plans
- Benefits
- Charter Schools
- Contribution rates and funding issues
- Deferred Compensation Plans/Optional Retirement Plans
- Defined Benefit Plan Changes (including partial lump-sum options)
- Defined Benefit Plan--New
- Defined Contribution Plans For Broad Categories of Employees
- Disability
- Early Retirement Incentives
- Furloughs

- Governance
- Health Coverage
- Legislators' Retirement Plans
- Military Service
- Re-employment after Retirement
- Service Credit/ Purchase of Service/ Transfer of Credit
- Studies
- Taxation
- Vesting

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### Alternative Retirement Plans

**California.** Chapter 214, Laws of 2004 (SB 1105) provides that new state employees who become members of the California Public Employee Retirement system (CalPERS) shall not make contributions to CalPERS, nor receive service credit for their service, and the state employer shall not make contributions on their behalf, during their first 24 months of employment. Requires those members to make contributions to an alternative retirement program (ARP), administered by DPA, during that 24 months, after which the members shall begin contributing to CalPERS and earning service credit in the system. Provides that, in months 47 to 49, the member may elect to receive the ARP contributions as cash or transfer the accumulated contributions in the ARP to CalPERS and thereby receive service credit for that 24-month period. Provides that the 24-month period shall be treated as state service for vesting for preretirement death benefits, retirement eligibility, and retiree health coverage regardless of whether contributions are transferred to CalPERS. Provides that a member who does not transfer the contributions from ARP to CalPERS may, at any time prior to retirement, purchase the service credit at full present value cost.

**New Jersey.** Senate Bill 1967 (not enacted in October 2004) addresses the desire of some higher education employees to change their retirement plan from a defined contribution plan to the state defined benefit plan. Current law requires faculty and officers of institutions of public higher education to be members of the Alternative Benefit Plan (ABP), a defined contribution plan. This bill would require anyone who enters such a position with 10 years or more membership in TIAA/CREF or the New Jersey Public Employees Retirement System to continue membership in that plan. In addition, the bill allows any person who (1) is employed by a county college or community college as a full-time officer, full-time member of the faculty, a regularly appointed teacher or an administrative staff member; (2) is a member of the ABP; and (3) was previously a member of either the TPAF or the PERS and elected to transfer to the ABP to transfer back to the TPAF or PERS, if the person files an application within six months of the effective date of the bill.

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### Benefits

**Kentucky.** HB 290 reduced the multiplier for members of the County Employee Retirement System from 2.25 to 2% for employees whose participation begins on or after August 1, 2004.

**Louisiana.** HB 224 provides that benefits paid a member's heirs from the Teachers Retirement System must at least equal a member's accumulated contributions, whether through survivor benefits or a payment to the former member's estate.

**South Dakota.** HB 1032 provides that beginning July 1, 2004, for the purposes of calculating benefits from the SD Retirement System, compensation in a person's last quarter cannot exceed 115% of any previous quarter and the average compensation of the last four quarters cannot exceed 110% of any previous quarter. Termination pay will not be considered as compensation for SDRS purposes and no employer or member contributions will be required. Beginning July 1, 2004, the percentages mentioned above will be reduced to 105%. See also South Dakota in "Contribution rates."

**Wisconsin.** SB 344 allows the percentage threshold for fixed annuity increases to be established by rule promulgated by the Department of Employee Trust Funds, and provides that administrative rules promulgated by the department

do not require the approval of the Teachers Retirement Board or the Wisconsin Retirement Board. Previous law required that the minimum increase in annuitants' payments be 2 percent. The new law sets the threshold at 0.5 percent unless the department establishes a different threshold upon advice from its actuary. [The effect of the new legislation is to allow increases in annuity payments when resources are not sufficient to cover a 2 percent increase, as in 2004.]

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### Charter Schools

**Washington.** Chapter 22, Laws of 2004, provides for the creation of charter schools. It establishes charter schools as employers and charter school employees as members of the Teachers' Retirement System, the School Employees' Retirement System and the Public Employees' Retirement System, respectively.

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### Contribution Rates and Funding Issues

**Arizona.** On October 1, the Arizona Retirement System announced an increase in employee and employer contribution rates from 5.2 percent to approximately 7.75 percent. The system cited past benefit increases, mid-term investment returns and changing demographics of the ASRS membership as factors that helped require the increase. The increase is effective for the two fiscal years that follow July 1, 2005. *ASRS Weekly Report*, October 1, 2004

**California.** Chapter 215, Laws of 2004 (SB 1106) establishes the Pension Obligation Bond Committee, authorized to issue bonds and take other actions under the California Pension Obligation Financing Act. Enacts the California Pension Restructuring Bond Act of 2004, authorizing the issuance, during any 2 fiscal years after June 30, 2004, of bonds for the purpose of funding or refunding the state's obligations to the PERF. Authorizes the cumulative amount of the bonds to be the lesser of \$2 billion or the anticipated reduction, as estimated by the Director of Finance, in state contributions to CalPERS due to enactment of SB 1105. See *Alternative Retirement Plans*, above, for SB 1105

**Colorado.** Chapter 214, Laws of 2004 (SB 137) ends MatchMaker contributions for payrolls for which the payroll period ends June 1, 2004, or later; reduces interest credit on member contributions to a maximum of 5 percent per year; sets the due date for PERA contributions at five business days after payroll date; reallocates 0.08% of salary of employer contributions to the Public Employee Retirement Association (PERA) trust funds rather than to the PERA Health Care Trust Fund.

Chapter 393 (SB 257) provides that the state employer contribution rate will be 10.15% of salary, down from 10.4%. This amount goes to the State DC Plan if the new hire elects that plan, and it goes to PERA if the new hire elects PERA. (See "Defined Contribution Plans For Broad Categories of Employees" below.)

The legislation also provides a separate school employer contribution rate of 10.15%, formerly 10.4%, and provides that it will increase to 10.55% on January 1, 2013. This reflects the separation of PERA's state employee and school plan into two separate programs. The actuarial normal cost of PERA benefits in the School Category is about 0.4 percent of salary higher than in the State Category. This difference would be applied to the School employer rate beginning January 1, 2013 (after the Amortization Equalization Disbursement has been fully implemented, see below). At that time, the School employer rate becomes 10.55 percent (10.15 percent plus 0.4 percent), not including the AED.

Each PERA employer in the State Division will pay to PERA an amount equal to 0.5 percent of the salaries paid to all employees who are PERA members or who were eligible to elect PERA membership on or after January 1, 2006. This is called the Amortization Equalization Disbursement (AED). The AED payment begins January 1, 2006. The AED will increase by 0.5 percent of salary in 2007, and then by 0.4 percent of salary per year to a maximum of 3 percent of salary by 2012. The School Division is scheduled under the bill to have another increase effective in 2013.

If the unfunded liability amortization period drops to 40 years or less, the AED would be scaled back in that division. Any reduction in the AED would be permanent. Current projections indicate it is unlikely that the amortization period will drop to 40 years for a long time.

The legislation also require employers contributions on salaries paid to PERA retirees. This will help compensate PERA for the cost of early retirement. Beginning July 1, 2005, PERA employers will pay employer contributions on salaries of PERA retirees working for them.

**Note.** Creation of the AED seems to reflect the provision of DC plans for state employees in the same legislation. AED payments will be made to PERA on the salaries of DC plan members, rather than deposited in individual DC members' accounts.

**Florida.** Florida Retirement System contribution rates for 2004-2005 were set at levels slightly below those for 2003-2004. See Chapter 2003-260; 2004-293.

**Kansas.** SB 520 raised the statutory caps on contributions from local government employers to the Kansas Public Employee Retirement System (KPERS) so that contributions will reach approximately 7.81% in calendar year (CY) 2013 and ensure the long term stability of retirement system funding. The increases will mean about \$3.3 million additional expense for local governments in CY 2006, an additional \$8.2 million in CY 2007 and an additional \$15 million in CY 2008, with further increases in the following years.

SB 520 also separated the KPERS state and school systems for actuarial calculations and determination of employer contribution rates. Actuarial calculations indicate that the combined systems would reach equilibrium at an employer contribution rate of 12.3% in 2018, whereas separately the state employees group will reach equilibrium in FY 2009 at 6.84% and the school group in 2024 at approximately 16%.

**Louisiana.** The Public Retirement Systems' Actuarial Committee has recommended that the employer contribution rate for the Louisiana School Employees' Retirement System be set at 18.8% of payroll for FY 2005, up from 11.2% for FY 2004. The committee observed that the rate for FY 2004 should have been 17.4%, from an actuarial perspective, and that the rate of 18.8% includes the shortfall from FY 2004.

The member contribution rate for 2004-2005 will remain at 7.5%.

Act 588 (SB 622) addressed major funding issues for the State Employees' Retirement System (LASERS), the Teachers' Retirement System (TRSL) and the school employees' system. Previous legislation had established the Employee Experience Account to share actuarial gains and losses and required that the retirement boards provide COLAs when the experience account showed a sufficient balance. Investment losses in recent years removed the resources for COLAs while the legal requirement to provide them remained. Act 588 rolls the EA losses into the systems' main funds and reamortizes them over 30 years while the reamortization period for the previous fund bases remains at 25 years. Employer contributions to LASERS and TRSL must be at least 15.5% a year for 25 years. The legislation makes any future COLAs subject to legislative approval.

The reamortization reduces employer contribution rates for the three systems from previous assumptions: LASERS, from 19.1% to 17.8%; TRSL, from 17.3% to 15.5%; and School from 18.8% to 14.8%.

**Mississippi.** The Mississippi State Employees' Retirement System will increase the employer contribution rate from 9.75% to 10.75 percent effective July 1, 2005.

**Nebraska.** LB 514 increased contribution rates for employees and employers from 11 percent of salary to 12 percent of salary for one year to redress poor investment returns. LB1097 created a new optional retirement plan to benefit the spouses of judges by providing the spouse a benefit of 50 percent of a retired judge's benefit after the judge's death, provided that the judge had joined the optional plan. It requires a contribution of 8 percent of salary for 20 years and 4 percent of salary thereafter.

**New York.** A11758/S.7677 is designed to assist local governments in New York cope with rapidly rising requirements for employer contributions to the New York Employees' Retirement System. The bill will:

- allow municipal governments to set up reserve funds for future pension contributions;
- change the due date for local governments to pay retirement contributions from Dec. 15 to Feb. 1 of the year after the payment statement is issued -- providing a cash flow benefit in fiscal year 2004-2005 of

- approximately \$980 million to about 1,100 local governments that have a calendar year fiscal year;
- cap the maximum local governments must pay as a percent of payroll at 9.5% in 2005-06 and 10.5% in 2006-07. Obligations above those percentages may be amortized over 10 years at a market rate of interest to be set by the State Comptroller; and,
- modify the annual amortization payments due for local governments' fiscal year 2004-05 by making the first payment due on Feb. 1, 2006, instead of Dec. 15, 2004.
- One estimate is that the legislation provides \$1.7 billion in fiscal relief to local governments in FY 2004-05.

**Oklahoma.** SB 1134 provides for increases in employer contribution rates for the Public Employees Retirement System. Currently, all participating state agencies pay a contribution rate of 10% of the monthly compensation of each member. Beginning July 1, 2005, state agencies will contribute 11.5%. This percentage will increase by 1% annually beginning July 1, 2006, and each year thereafter, through the fiscal year ending June 30, 2011, when it tops out at a rate of 16.5%.

Non-state participating employers and their employees currently pay a total of 13.5% of the monthly compensation of each member. For the fiscal year ending June 30, 2006, the total employer and employee contributions will be 15%. That total will increase by 1% each year, finally reaching 20% in FY 2011. In addition, the maximum employer contribution rate of 10% is increased to 11.5% for FY 2006 and increases by 1% each fiscal year thereafter to a maximum of 16.5%.

**Pennsylvania.** The School Employees' Retirement System has announced the employer contribution rate for FY 2005 of 4.23%, up from a total contribution rate of 3.77% for FY2004. The total includes a decrease in the health care contribution from .77% to .23%. The SERS also has released estimates of future employer contribution requirements:

#### 10-Year Projected Employer Contribution Rates--Selected Years

(Presumes an 8.5% rate of return)

Total Employer Contribution Rate

05/06	4.82%
07/08	10.11%
09/10	11.15%
11/12	11.20%
13/14	26.61%
14/15	25.08%

**Pennsylvania.** Act 40 of 2003, signed 12/10/03, concerns the Public School Employee Retirement System (PSERS) and the State Employee Retirement System (SERS) Beginning July 1, 2004, it would change the amortization period for the increased liabilities of Act 9 of 2001 for the outstanding balances of the net actuarial losses incurred in fiscal year 2000-2001 and fiscal year 2001-2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar; 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities, the Act 38 of 2002 asset valuation method change, and for future benefit changes and cost-of-living adjustments (COLAs); and 3) Beginning July 1, 2004, increase from 1% to 4.0% the minimum employer contribution rate exclusive of the premium assistance contribution rate. The bill would amend the SERS Code to: 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001 for the outstanding balances of the net actuarial losses incurred in calendar year 2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar; 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities and for future benefit changes and cost-of-living adjustments (COLAs); 3) Increase the 1% minimum employer contribution rate in the following manner: 2% for the year beginning July 1, 2004; 3% for the year beginning July 1, 2005; and 4% for the year beginning July 1, 2006.

**Rhode Island.** The State Retirement Board has recommended that the state increase its employer contribution for retirement plans for state employees and teachers from \$196 million for FY 2005 to \$284 million for FY 2006. Workers' contributions rates set in law at 8.75 percent of pay for state workers, 9.5 percent for teachers. The state's contribution for state employees will increase from 11.51 percent of payroll this year, to 16.96 in FY 2006. That for teachers will increase from 8.4 percent this year to 20.01 percent of payroll next year. The anticipated result will be an increase of \$55.1 million, from \$124.7 million this year to \$179.8 million next year in state and local payments toward the teachers' pension, with the state responsible for paying about 60 percent of that amount, and the cities and towns where each of these teachers work, the rest. The board decided against scaling back its assumed 8.25-percent rate of return on investment. Providence Journal September 14, 2004

**South Dakota.** HB 1033 provides that for all South Dakota Retirement System members over the age of 55 who receive more than \$2,000 in termination pay (annual leave, sick leave, contract buyouts, retirement incentives), the amount will be deposited in a Special Pay Plan and not considered compensation for SDRS or Social Security purposes. Federal taxes will be deferred. No retirement system contributions will be made from the termination pay and it will not count in the calculation of final average earnings. Members will receive tax advantages, and the retirement system will reduce its long-term obligations.

HB 1034 provides that the contribution rate for members who choose optional spousal benefits will increase from 0.8% to 1.2% of compensation with the intention of making the program self-sustaining.

**Utah.** SB 83 provides that the actuarial funded ratio of the state retirement systems may reach and be maintained at 110%, as determined by the board's actuary using assumptions adopted by the board, before the board is required to certify a decrease in contribution rates, and that the board may not increase contribution rates to attain an actuarial funded ratio greater than 100%.

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#### Defined Benefit Plan Changes

**California.** AB 1852 removes an age requirement for electing a partial lump sum payment option at retirement for members of the State Teachers' Retirement System (Calstrs). In order to maintain no net actuarial effect on CALSTRS, the act requires that a lump sum payment be adjusted by a factor adopted by the governing board to account for possible adverse selection.

**Colorado.** Chapter 392, Laws of 2004 (SB 257) separates the state and school employee division of the Public Employee Retirement Association into separate divisions with different employer contribution requirements to take into account the creation of two new optional defined contribution plans for state employees. The separation protects the School Division from any actuarial losses stemming from the new DC plans. See "Contribution rates and funding issues," above.

**Iowa.** HF 2262 provides that the retirement age for sheriffs and deputy sheriffs with 22 or more years of eligible service to qualify for a full retirement benefit will be reduced from 55 to 50 over a period of five years. The increased cost will be met by increasing the share of contributions to the system that comes from employee salaries as well as increasing contributions overall.

**Georgia.** Act 248 and Act No. 547 allow a reduced retirement benefit together with a partial lump sum distribution for teachers and public employees. The amount of the lump sum may not exceed the sum of 36 months of the monthly retirement allowance that would have been received if the lump sum option had not been elected.

**New Mexico.** SB 426 provides that any elected official may gain exemption from membership in the Public Employee Retirement Association within 24 months of taking office. The exemption cannot be retroactive.

**Washington.** HB 2538 (Chapter 85, Laws of 2004) establishes a \$1,000 minimum monthly benefit for PERS Plan 1 members and TRS Plan 1 members who have at least twenty-five years of service and who have been retired at least twenty years.

### Deferred Compensation Plans/Optional Retirement Plans

**Oklahoma.** HB 2226 creates the "Alternate Retirement Plan for Eligible Employees of Participating State Institutions of Higher Education Act of 2004"

1. Allows new employees at the University of Oklahoma, the OU Health Sciences Center, or Oklahoma State University to enroll in either an alternate retirement plan established by the universities, or enrolling in the Oklahoma Teachers Retirement System (TRS).
2. Provides for a one-time election by current TRS members employed at OU, the OU Health Sciences Center, or OSU to opt out of TRS if the Internal Revenue Service approves.
3. Changes the retirement formula for TRS members employed by OU, the OU Health Sciences Center, or OSU to more closely parallel benefits received by other TRS members. A special provision will increase benefits for retired university employees effective Jan. 1, 2005, but will not allow payment of retroactive benefits
4. Requires the universities to fund the cost of this proposal over 30 years, and provides that the surcharge paid by the universities can increase if liabilities increase.

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### Defined Benefit Plan -- New

**Hawaii.** Act 179 created a contributory defined benefit plan as an optional alternative to and eventual replacement for the old (now closed) state contributory plan and the current non-contributory plan. Although the plan is referred to as a hybrid plan in Hawaii, it is not the combination of DB and DC provisions to which that term usually refers.

The new plan will go into effect on July 1, 2006. All state and county general employees and teachers and certain other public employees hired after that date will be members. Members of the existing contributory plan may transfer as may certain other employees. Legislators, judges, legislative officers, most public safety employees and employees not covered by Social Security are not eligible. The system is seeking an IRS letter ruling on the question whether non-contributory plan members can transfer to the new "hybrid" plan.

Most members will contribute 6% of salary to the new plan; some public safety and technical workers who are eligible for earlier retirement than most employees will contribute 9.75%. For general employees the unreduced retirement provisions are 62/5 or 55/30, and the benefit calculation is 2% of average final compensation times years of service. Age and service requirements are similar to those for retirement in the existing contributory plan, but its benefit calculation uses a factor of 1.25%. See <http://www2.state.hi.us/ers/> for details.

The legislation also created a "pop-up" benefit for retirees who had selected a beneficiary benefit.

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### Defined Contribution Plans For Broad Categories of Employees

**Colorado.** Chapter 392, Laws of 2004 (SB 257) created a new defined contribution plan for eligible state employees. An eligible employee is one hired on or after January 1, 2006, who has not been a member or retiree of the Public Employee Retirement Association (PERA--the state DB plan) or the (existing) DC plan for public officials and employees, and is not a higher education employee. Such new employees must elect the new DC plan within 60 days or will become a PERA member. Members of the DC plan may continue membership if they move to a state position in which the DC plan is not available. Members of the DC plan will be immediately vested in their contributions and 50% of employer contributions, plus earnings, and will be vested gradually in the remaining employer contributions over five years. Employer and employee contributions will be the same as for the DB plan. Members of the DC plan are to be provided investment options, will control the investment of their accounts, and will be provided options for disability, survivor and retiree health care coverage. Those who elect a choice of PERA or the DC plan may make an irrevocable decision to change plans during the 2<sup>nd</sup> through the 5<sup>th</sup> years of employment. A person who changes from the DC to the DB plan may use the DC account to buy service credit through a direct rollover. Any such service credit will not count toward vesting in the DB plan.

The chapter further provides an additional DC option to employees newly hired on or after January 1, 2006, by opening to them the existing DC plan administered by the state department of personnel for elected officials and other specified state employee. That plan is also authorized to provide its members options for disability, survivor and retiree health care coverage. A choice to participate in this plan is irrevocable and can be carried forward if the employee moves to a state position for which the plan is not otherwise available.

**Ohio.** SB 133 extends eligibility to participate in an alternative retirement plan to all full-time employees, with less than five years of service, of a public institution of higher education. Under current law, full-time academic and administrative employees are eligible to participate in an alternative retirement plan, rather than PERS, STRS, or SERS. The state retirement systems would not pay health and disability benefits for those employees who choose an alternative retirement plan.

**Virginia.** HB 576 created a new defined contribution plan that employers may use to provide supplemental retirement benefits to designated employees. Initially the plan will be used by local school board to provide enhanced retirement benefits to the middle school teacher corps and "turnaround specialists" in schools not meeting minimum standards.

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## Disability

**Arizona.** HB 2077 (partial summary)

- Requires existing employees of new employers to meet the same 12-month preexisting condition limitations as new employees of existing employers.
- Suspends the disability payment if the member refuses to participate in a recommended work rehabilitation program for which the member is reasonably qualified by education, training or experience.
- Requires members to pursue obtaining Social Security disability benefits through all available levels
- Clarifies that LTD benefits shall be reduced by both primary and dependent social security benefits received by the member.
- Allows a member on LTD program to elect to rely on treatment by prayer through spiritual means in accordance with the tenets and practice of a recognized church or religious denomination or Native American traditional medicine without suffering a reduction or suspension of LTD benefits.
- Prohibits an ASRS member convicted of a criminal offense and sentenced to more than six months in any penal institution from receiving LTD benefits for the period of confinement beginning the first day of the month following the first 30 days continuous of the member's confinement.

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## Early Retirement Incentives

**Illinois.** Public Act 93-0839 (SB 2206) proved an early termination incentive and a separate severance payment plan for specified job titles under the governor's purview and all other state job titles.

The early termination plan will be available to the first 3,000 employees who apply to the State Employee Retirement System (SERS). Depending on position, application had to be made by September 1 or September 30 and the employee was required to terminate service within two weeks of approval of the application, but no later than October 31, 2004. The enhanced refund will be the employee's total contributions to SERS at 6.5 percent annual interest, multiplied by two. (The regular refund is only contributions with no interest.) The recipient must waive rights to any type of SERS benefit, but retains group health insurance benefits. An employee who subsequently returns to covered employment must repay the enhanced refund (not including the employee contributions) plus interest. To re-establish the service credit forfeited by taking the refund, the employee may return the full enhanced refund plus interest from the date of the refund to the date of repayment.

The Act also specified job titles under the governor's purview eligible for a severance payment and provides that the Department of Central Management Services may limit the number of eligible people. Department or agency heads not

under the governor's purview may limit the number of their eligible staff and otherwise limit the severance payments. For those under the governor's purview, applications are due by October 31 and termination must occur between November 1 and December 31, 2004. The maximum severance payment is 25 percent of final monthly salary for each year of state service up to a maximum equal to six months' salary. Anyone who returns to state service must repay the severance payment unless returning in a temporary position or as an elected official. The payment may include up to 6 months' cost of health insurance. Payments will be funded from agencies' salary pool. *Illinois Economic and Fiscal Commission Monthly Revenue Briefing, July 2004.*

**Iowa.** Chapter 1035, Acts of 2004 (HF 2497) permits eligible executive branch employees for which the sum of the number of years of credited service under the Iowa Public Employees' Retirement System (IPERS) and the Public Safety Peace Officers' Retirement, Accident, and Disability System (PORS) and the employee's age as of December 31, 2004, equals or exceeds 75 to separate from service with the state and receive a sick leave and vacation incentive benefit payable in five fiscal years beginning with the fiscal year that ends on June 30, 2005. The incentive benefit is equal to the employee's unused vacation plus the lesser of an amount equal to 75 percent of the employee's regular annual salary or an amount equal to 75 percent of the value of the employee's sick leave. To receive the incentive benefit, an eligible employee must acknowledge the employee's ineligibility to return to permanent part time or permanent full time employment with the state, and waive any claims to unused sick leave or vacation balances otherwise payable upon termination of employment. Employees who participate in the program are eligible to continue to participate in group insurance coverage from the state in the same manner as employees who retire from state employment. The act also establishes a goal of increasing the ratio of employees per supervisor to 12 to 1 by December 31, 2005, for executive branch agencies.

**Louisiana.** Act 194 (HB 58), the "Early Retirement and Permanent Payroll Reduction Act of 2004," provides that members of the State Employees' Retirement System (LASERS) are eligible for early retirement through 12/31/06. Eligibility requirements include attaining the age of 50 with 10 years of service credit other than military service credit. Existing law provides for early retirement with 20 years of service. Actuarial reduction of benefits applies. Positions that become vacant under the new law or existing law shall remain vacant and must be abolished. They can be recreated only by specific administrative action in any branch of government. The law also limits the number that may be recreated. Reestablished positions may be filled only by moving a qualified person from another position in the agency (if such a person exists), in which case the person's previous position shall be abolished.

**Utah.** HB 263 provides an early retirement incentive by offering the possibility for members of the State Retirement System to purchase up to five years service credit on condition that the purchaser retire immediately after the purchase. The amount of time purchased must be sufficient to allow the purchaser to retire immediately with no actuarial reduction in benefits. The purchaser's employer may share the cost of the purchase, but the purchaser must pay at least 5% of the cost, which is the actuarial cost of the service. The purchaser must previously have at least five years of service credit before the purchase.

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## Furloughs

**South Carolina.** The 2004 budget bill included provisions allowing school districts, institutions of higher education and state agencies to furlough employees under certain fiscal conditions. The length of the furloughs is limited, variously by type of employer. For state agencies, the furlough may be as long as 90 days a year, but is to be voluntary. Furloughed employees are to receive all benefits except salary while furloughed, and during the furlough employers are responsible for both employee and employer contributions for the benefits, except that for benefits that require only an employee contribution, the employee remains responsible. Constitutional officers may take 45 days furlough, while retaining their authority, and may expend the savings as they see fit. Same benefit provisions apply to them.

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## Governance

**Arizona.** Chap. 217, Laws 2004, requires the state treasurer and the retirement system fund manager to report annually to the Legislature on the economic impact of global security risks of investments under their management,

including a list of companies in their portfolios known or suspected of doing business in terrorist-sponsoring countries, the total amount invested in each company and an assessment of the level of global security risk based on the "prudent investor rule."

**Ohio.** SB 133 provides various pension system governance reforms.

- Requires the Ohio Retirement Study Council (ORSC) to have an independent auditor conduct a fiduciary performance audit of each of the state retirement systems at least once every ten years;
- Requires the Auditor of State to conduct an audit of any of the five state retirement systems at the request of the ORSC;
- Makes several changes in membership to each of the boards, including an increase in the total number of board members for each board except the Ohio Police and Fire Board;
- Imposes rules upon candidates who seek election to a retirement board including filing certain disclosures with the Ohio Secretary of State;
- Requires the boards of the state retirement systems to jointly develop an ethics policy and an orientation and continuing education program for board members;
- Requires each board to review its existing travel and travel reimbursement policies and to adopt rules establishing new or revised policies pertaining to travel and bonus awards to all employees of the system
- Requires every state retirement investment officer hired after the effective date of the bill to be licensed with the Division of Securities within the Department of Commerce.

More details are available in [Appendix A](#) to this report.

**Iowa.** HF 2262 allows the Iowa Public Employee Retirement system to step up efforts to identify when wages are being manipulated to make members eligible for more benefits than they should get. A change in the schedule of when wages are paid or an increase in wages of 10% or more for any two consecutive years may trigger a review. IPERS may refer cases of wage manipulation to the state auditor and to law enforcement for prosecution.

**Kansas.** SB 520 Adjusts the limit on alternative investments by the Public Employee Retirement System (KPERS) but continues to allow only a small percentage of the total portfolio to be invested in this manner.

Under current law, KPERS alternative investments are limited to five percent of the total portfolio. This bill replaces the five percent limitation with an annual limitation of one percent of total market value in new alternative investments. Alternative investments are those that are not publicly traded on an exchange. Because they are typically less liquid and potentially more risky than more traditional investments, there have been limits on the percentage of the portfolio that may be invested in this asset class. Over time, the proposed modification is expected to have a positive fiscal impact to the extent that it provides the opportunity for additional investment opportunity and income. The amount and timing of that impact will depend on long-term market conditions.

**Louisiana.** Provisions in a number of enactments increase legislative oversight of the state retirement systems.

Act 588 (SB 622) provides that State Employees' Retirement System (LASERS), the Teachers' Retirement System (TRSL) and the School Employees' Retirement System (School) cannot provide cost-of-living increases to members without legislative approval in a concurrent resolution.

Act 686 (SB 835) requires that consultants and fund managers for state retirement systems provide full disclosure of any conflicts of interest and that consultants disclose any hard or soft payments they receive for any service from money managers.

SCR 14 requires the legislative auditor to perform a financial and compliance audit on the relationships of the public retirement systems board and investment advisors, consultants and managers.

Act 868 (HB 1215) requires persons who have or who are seeking to obtain a contractual or other relationship with a state public retirement system to disclose certain expenditures on trustees and/or employees.

Act 275 (HB 1200) requires LASERS to submit its operating budget to the Joint Legislative Committee on the Budget for review and approval.

Act 951 (HB 938) requires LASERS to report on utilization of Louisiana broker-dealers in regard to state systems.

**Oklahoma.** S.B. 1134 provides that the Public Employees Retirement System (OPERS) Board of Trustees must include a cost of living adjustment assumption in its annual actuarial valuation report.

S.B. 1434 permits OPERS to disclose a member's name, age, amount of contributions paid in, benefits being paid, amount of credited service, and any documents verifying credited service or benefits. The prior consent of the member is not required to release such information. All other information related to a member, as kept in his or her retirement file, shall be kept confidential unless the member has consented to its release. Any information in a member's retirement file is subject to subpoena or court order. [Note: the bill followed media scrutiny of state legislators' retirement benefits.]

**South Dakota.** HB 1040 clarifies and enlarges upon statutory requirements for the board of the Retirement System to report its funding status to the governor and Legislature. The new requirement includes an annual report on the system's funding status, and an analysis of the conditions required for improvement in the funding status when the funding ratio is less than 80% or the market value of assets is less than 90% of the actuarial value of assets. If such conditions exist for three consecutive years, the board is required to make recommendations for action to the Legislature.

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### Health Coverage

**Kentucky.** Chapter 33, Laws of 2004 (HB 290), provides that state and county employee retiree health insurance shall not be considered as benefits protected by the inviolable contract provisions of the Kentucky Statutes. The General Assembly reserves the right to suspend or reduce retiree insurance benefits if in its judgment the welfare of the Commonwealth so demands. The law also provides that no employee hired after July 1, 2003, is entitled to retiree health benefits unless the employee has earned 120 months of service credit in a state retirement system. The benefit will be a monthly benefit of \$10 for each year of service for employees not in hazardous duty, and \$15 per year for those in hazardous duty. The amounts will be annually adjusted for inflation measured by the CPI up to 5% a year.

Chapter 121 (HB 434), section 12, establishes an Employer Medical Insurance Fund Stabilization Contribution. These state-funded employer contributions would be utilized to provide an adequate funding formula for the teachers' retirement system's medical insurance fund that provides medical insurance for eligible participants. The percentage to be contributed by the employer would be determined by the retirement system's actuary for each biennial budget period. The retirement system actuary has determined the employer contribution to be 0.85% for fiscal year 2004-2005 and 1.87% for fiscal year 2005-2006. This amounts to \$21,250,000 in fiscal year 2004-2005 and approximately \$46,750,000 in fiscal year 2005-2006. No budget has been enacted for those fiscal years as of August 1, 2004.

**Illinois.** Public Act 93-0679, creates the Teachers' Retirement Insurance Program (TRIP) agreement which provides retired teachers a health insurance program. This replaces expiring legislation. The new legislation does not include a date of expiration. It increases the mandatory contributions from teachers and employers, includes incentives to move to managed care health plans with a slower rate increase than for the teacher-optin plan, limits future annual contribution increases to 5% a year, provides for subsidies for people in areas where managed-care options are unavailable, increases benefits, and creates a commission to find a long-term solution for funding issues.

**Maryland.** SB 548 provides that beginning in fiscal 2006, any subsidy received by the State that is provided to employers as a result of the federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 or other similar federal subsidy must be deposited in the Postretirement Health Benefits Trust Fund. For fiscal 2006 through 2016, no payments may be made from the fund. For fiscal 2016 and each fiscal year thereafter, the board must transfer to the general fund, for the sole purpose of assisting in the payment of the State's postretirement health insurance subsidy, the lesser of: (1) one-quarter of the prior year's investment gains; or (2) the amount necessary to pay the annual health insurance premium and other costs that constitute the State's postretirement health insurance

subsidy.

**Oklahoma.** SB 1226 provides for what is commonly known as a "Medicare Gap" option or "income leveling." This option allows those who retire before becoming Medicare eligible to receive a higher benefit to cover the cost of health insurance until that person becomes Medicare eligible. The year after that person becomes Medicare eligible, his or her retirement benefit will be reduced. The total benefits payable to the member over a lifetime will remain essentially the same, on average, and the calculation of the benefit must be actuarially neutral to the Public Employee Retirement System (OPERS). The option must be chosen prior to retirement, and if a member chooses this option, such election is irrevocable. OPERS has until January 2005 to make the option available. It will not be implemented until the appropriate formulas are determined with the assistance of an actuary.

SB 1144 requires an Oklahoma Teachers Retirement System retiree to have at least 10 years of credited service to continue insurance coverage and receive the premium supplement paid by the retirement system.

**Vermont.** Enacted as statute a regulatory requirement that a retired teacher must have a minimum of 10 years of service to receive the Teachers Retirement System's contribution to the cost of medical premiums.

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### Legislators' Retirement Plans

**Idaho.** HB 831 - Separation of Legislative Service from Other PERSI Service (not enacted). This bill would have segregated service as a State Legislator from all other PERSI service for benefit calculation purposes. For legislators whose service first begins after December 1, 2004, service and average salary for that service will be calculated separately from all other PERSI service.

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### Military Service

**Alaska.** Chap. 65 SLA 03 (SB 26) provides that the governor may authorize state employees who are members of a reserve or auxiliary component of the armed forces of the United States, including the Alaska Guard and the Alaska Naval Militia, and who are called to active duty by the appropriate state or federal authority to continue to receive the equivalent of their state compensation and some or all of their state benefits. Benefits include credited service in a state retirement system; membership in the supplemental employee benefits system and group life and health insurance. Retroactive to September 11, 2001.

**Delaware.** Vol. 74, chap 189 (S.B. 143) will protect the retirement benefits of those State employees who take military leave in order to serve in Operation Noble Eagle, Operation Enduring Freedom and Operational Iraqi Freedom. It will also protect such benefits for future, like operations. This will assure that the employee will not realize a reduction in pension benefits because of a reduction in their salary during a period of time that might fall in their highest three years of earnings. The law reads: If the Final Average Compensation of an employee has been reduced because of a leave of absence resulting from Presidential determinations to augment active forces, such employee shall have their Final Average Compensation adjusted by their amount of military compensation. This adjustment will be no greater than what the employee would have received had they remained in employment for the period of leave. The employee will contribute 3% of the amount that was adjusted. §5533, Chapter 55, Title 29

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### Re-employment After Retirement

**California.** SB 1852 modifies restrictions upon return to covered employment for retired teachers who received a retirement incentive from their employer.

**Florida.** Chapter 2004-355 provides that after a retired TRS member has been retired for 1 calendar month, a district school board may reemploy the retiree as a substitute or hourly teacher on a noncontractual basis, or as a classroom teacher on an annual contractual basis, without further restriction. All retirees reemployed under this paragraph will

become renewed members of the FRS, and district school boards must make appropriate contributions on such renewed members' behalf. Refunds will be provided for any TRS retiree who was reemployed by a district school board on or after July 1, 2003, if the retiree had to suspend or repay benefits under s. 121.091(9)(b)2., F.S., and for any employer held liable for such repayment. The legislation also similarly eases reemployment restrictions for instructional personnel employed by developmental research schools and the Florida School for the Deaf and the Blind, as well as for charter schools participating in the FRS.

**Georgia.** Act 758, H.B. 366, allows a member of the Teachers Retirement System who has retired to return to work and continue to receive retirement benefits. The retiree must have retired before 12/31/03. Local school districts may re-employ a retiree as a fulltime teacher, principal, superintendent, counselor or librarian, except that a retired principal may not return to the school at which he or she was employed at retirement, nor may a superintendent return to his or her previous district. System must make employer contributions to TRS as if the retiree were an active member.

**Kentucky.** Chapter 121, Laws of 2004 (HB 434) provides that the Kentucky Teachers' Retirement system may reduce a member's retirement allowance on a dollar-for-dollar basis for each dollar that a retired member earns in employment exceeding 100 days or 12 teaching hours, and provide that the board shall adopt a methodology for a pro rata apportionment of days and hours for retired members who return to work in both teaching and non-teaching positions.

**Massachusetts.** Chapter 149, Acts of 2004, section 88, allows a person retired under G.L. c. 32, §§ 5 or 10, to return to membership in the Retirement System when employed in the public sector after retirement. The retiree would become a member upon payment to the appropriate retirement system of an amount equal to the retirement allowance that the person had received while retired plus "actuarial assumed interest". The person will contribute to the retirement system at the rate in effect on the date that the person waived his or her allowance or the date that the member was reinstated to membership, whichever date is earlier. If the person remains a reinstated member (as a full-time employee) for more than 5 years, he or she will be eligible to retire again, with additional creditable service and a likely new three year average rate of regular compensation. If the person is reinstated to membership for less than 5 years, upon retirement, he or she will receive a refund of all amounts that were paid into the system.

**New Mexico.** SB 426 reduces contribution requirements for Public Employee Retirement Association (PERA) members who return to covered employment. Previous law required contributions at the same level as others working for the same employer. Starting January 1, 2007, employee contributions will not be required on the first \$25,000 earned in a calendar year. Employer contributions are required on all earnings. Someone who earns \$25,000 in one calendar year must begin making contributions on the first dollar of earnings in the next year regardless of what total earnings may be in the subsequent year.

Effective on passage, PERA retirees who return to work as session-only legislative employees are exempt from contributions as is their employer. They must apply for the exemption, and earn no service credit from the employment.

**New York.** Chapter 4, Laws of 2004, effective February 2, 2004, increased the amount of money a retired state or local employee or teacher may earn in public employment from \$25,000 to \$27,500. The law applies to salary earned in 2004 and after.

**Pennsylvania.** Act 2004--63 expands the period of time and conditions under which PSERS retirees may return to Pennsylvania public school employment without loss of their monthly retirement benefit. This law specifically defines the ability of a PSERS retiree to be employed by a Pennsylvania public school in emergency, shortage of personnel and extracurricular situations.

Whenever a school employer determines there has been an increase in workload that creates a serious impairment of service to the public, or there is a shortage of appropriate subject certified teachers or other personnel, a retiree may return to Pennsylvania public school service for a period not to extend beyond the school year during which the emergency or shortage occurs.

A retiree may be employed under separate contract by a Pennsylvania public school in an extracurricular position performed primarily outside regular instructional hours and not part of the mandated educational curriculum. The new legislation specifically includes the position of athletic director as being eligible for the extracurricular designation and extends this provision to employment with community colleges and public universities.

A retiree returning under either of the exceptions noted may not earn any service credit; no retirement contributions may not be deducted and no credit for the service may be purchased at any time.

Previous law required an emergency or shortage of subject certified teachers; New law requires emergency or shortage of any school personnel. Previous law limited employment to 95 days per school year; new law allows employment to throughout the school year in which the emergency or shortage occurs

**Rhode Island.** Chapter 379, Laws of 2004, increased the amount that a retired person who returns to service as a university or public school teacher or state employee may earn in a year from \$12,000 to \$15,000 without loss of retirement benefits: limited to specified kinds of re-employment.

**South Dakota.** HB 1037 provides new provisions for benefits for retired members who are rehired in covered employment to prevent the accrual of additional benefits who cost must be shifted to the system and other employees. Those retired and rehired before July 1, 2004, will continue to accrue benefits under the former law. Under the new provisions, regular retirees may receive benefits but no COLAs during re-employment. Early retirees will receive no benefits during re-employment. In both cases, rehired members will be considered as new members, and in both cases, benefits will be recalculated at final retirement.

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#### Service Credit/ Purchase of Service/ Transfer of Credit

**Arizona.** H.B. 2029 provided that the formula used to calculate the cost to purchase the service credit is changed to a single standard based on the actuarial present value of the additional benefit. Payment for credited service may be via a rollover contribution of the member's accrued vacation, sick leave or overtime pay as long as certain conditions are met.

**Georgia.** Act No. 533 (House Bill 480) allows a member to purchase up to three additional years of creditable service by paying the full actuarial cost. Application and payment must be made in conjunction with and simultaneously with the member's application for retirement. Creditable service shall not be used to obtain 10 years of service for vesting purposes or to qualify for a benefit at age 60.

**Idaho.** Chapter 232, Laws of 2004, (SB 1446) amended the requirements for Military Service to permit accrual of military service in the case of survivor benefits. Former law required a member to leave active PERSI service and assume active military duty within 90 days, and return to active PERSI service from military duty within 90 days. There was no provision for crediting military service in case of a member on active military duty who might be killed. This amendment provided for military service from date of active duty to date of death.

**Iowa.** H.F. 2262 allows members of the Iowa Public Employees Retirement System on unpaid leave to purchase IPERS service credit. A member on an unpaid leave of absence, other than under the Family Medical Leave Act (FMLA) and military leave qualifying under the Uniformed Services Employment and Reemployment Rights Act (USERRA), cannot earn IPERS service credit. Service credit may be purchased for period of the unpaid leave.

A member whose wages are reduced due to a reduction in hours or lay-off may replace contributions to IPERS that would have been paid on the higher wages. This change only applies to members who receive a layoff notice and stay in IPERS covered employment by exercising bumping rights. It does not apply to laid off members who completely leave IPERS covered employment, or who voluntarily take a lower paying position prior to receiving a layoff notice, without the exercise of bumping rights. This is limited to reductions in pay for the eligible group beginning January 1, 2002 through June 30, 2005.

**Louisiana.** Act 349 (HB 980) allows purchase of up to five years of service credit for members with one year of

service, requires that the purchase cost offset the increased actuarial cost to the system based upon the purchaser's current salary, repeals various provisions for the purchase of specified kinds of previous service, and permits purchases in one-month increments until 12/31/04.

**Minnesota.** SF 676, the 2004 Omnibus Retirement Bill extended the sunset date on the service credit purchase provisions for prior military service for various retirement plans to 2006, removed a prohibition against purchase if the individual is entitled to a current or deferred military pension, and modified a prior prohibition on purchases that were credited by another defined benefit plan to prohibit the multiple purchase of the same military service credit period in more than one Minnesota defined benefit pension plan.

**New Hampshire.** Chapter 216 (SB 338) makes changes to eligibility requirements for Out-of-State Service and Modifications purchases.

**Out of State:** Members who had prior service with a public employer in another state or with the federal government may apply to purchase that time as creditable service with NHRS at any point before they retire. (Previous law restricted the opportunity to make purchases to only those who had a break in service between that job and joining NHRS of no more than 18 months and to those who applied within 5 years of joining NHRS.)

**Modifications:** Members who worked for their employer (a municipality, school district or other political subdivision) before their employer joined NHRS can now apply to buy that service at any point before they retire, as long as they joined NHRS within a year of the date their employer joined.

- These purchases will not count toward eligibility for the Medical Insurance Subsidy.
- The cost of the purchases is calculated on the employee's share plus the employer's share of contributions, as a percentage of the member's current base pay.

**New Mexico.** SB 426 allows members of the Public Employee Retirement Association to purchase up to 12 months of "air time" even if they have already purchased the limit of 12 months of service credit for time not earned (for example, through military service." Such time can be used to meet requirements to achieve maximum retirement benefits.

**Oklahoma.** SB 1345 broadened the definition of military service for which the Oklahoma Public Employees Retirement System may grant military service credit. The bill adds language that allows military service credit if the member served during a period of war or combat military operation other than the conflicts listed in the statute. The war or combat military operation must have lasted for a period of *ninety (90) days or more*. The member must have served in the area of responsibility of the war or combat military operation and only the service time while in that area of responsibility may be used as credited service for retirement. A member who served on active duty for training only is excluded from claiming a military service credit unless the member was discharged from that duty for a service-connected disability. The burden of proof is on the member to provide adequate documentation of such service including exact dates served in the specified area of responsibility, and the proof must be provided in the time and manner required by the System.

**South Dakota.** HB 1036 provides that a member's cost to purchase credited service will be based on compensation and the actuarially-determined rate for the member's age in order to cover the full cost of the increased benefit. The previous purchase provisions did not cover the cost of the additional benefits.

**Utah.** HB 263 provides an early retirement incentive by offering the possibility for members of the State Retirement System to purchase up to five years service credit on condition that the purchaser retire immediately after the purchase. The amount of time purchased must be sufficient to allow the purchaser to retire immediately with no actuarial reduction in benefits. The purchaser's employer may share the cost of the purchase, but the purchaser must pay at least 5% of the cost, which is the actuarial cost of the service. The purchaser must previously have at least five years of service credit before the purchase.

**Washington.** HB 2535 (Chapter 172, Laws of 2004) provides that a member who applies for early retirement in PERS or SERS Plan 2 or Plan 3 may, at the time of retirement purchase up to five years of additional service credit. The cost

of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit. A member may pay all or part of the cost of the additional service credit with an eligible transfer from a qualified retirement plan. Additional purchased service credit could not be used to qualify a member for the three percent per year early retirement reduction available to members of PERS and SERS Plan 2 or Plan 3 with 30 years of service.

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### Studies

**Colorado.** Chapter 250, Laws of 2004 (HB 1171) requires the State Personnel Department to investigate the feasibility of a program in which active state employees could elect to make voluntary contributions to an account that would be used for their future retiree health care expenses.

**Indiana.** HB1285 requires the pension management oversight commission to study the feasibility of authorizing members of the retirement funds administered by the board of trustees of the Public Employees' Retirement Fund (PERF board) to withdraw, before retirement, a member's contributions when the member demonstrates an immediate and great financial need. Provides that individual participant records and membership information for the retirement funds administered by the PERF board are confidential.

**Louisiana.** SCR 15 requires the Commission on Public Retirement to study the feasibility of establishing a portable DC plan or a modified DB plan, as specified in the resolution, in the major state retirement plans and to report in early 2005.

**Oklahoma.** SB 1134 requires the Public Employees Retirement System (OPERS) to study the creation of a deferred retirement option plan ("DROP") for active and future members of the system. A report on the DROP study must be issued and submitted to the Legislature no later than December 1, 2004.

OPERS also is required to conduct a comparative study of retirement benefit designs used by other states regarding retirement benefits for employees engaged in public safety positions. The study is to cover retirement benefits, disability benefits and survivor benefits. The study must have a recommendation for what jobs should be included in such a benefit structure, as well as recommended employer and employee contribution rates. The study is to be submitted to the Legislature no later than December 1, 2004.

HB 2536 creates the "Task Force for the Study of Public Retirement Systems Benefit Design and Equity." Its purpose is to conduct a review of the major state public retirement systems. The Task Force is to consist of 17 members and must include the Executive Director of OPERS, or a person designated by the Executive Director. The review must cover a history of benefit designs of each state system, the funding history of each system, dedicated taxes going to certain systems, COLAs, and other relevant matters.

**Virginia.** HJR 34 establishes a joint subcommittee to study the benefit structure and funding of retirement plans administered by the Virginia Retirement System (VRS). This study will also examine line of duty benefits for public safety officers. VRS is to provide technical support to the joint subcommittee.

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### Taxation

**Georgia.** Act No. 928 (H.B. 1313) increases the State of Georgia retirement income exclusion of taxable net income from any source for income tax purposes to \$14,500 for taxable year beginning on or after January 1, 2002 and prior to January 1, 2003 and \$17,000 for taxable years beginning on or after January 1, 2003.

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### Vesting

**South Dakota.** HB 1039 provides that a minimum of three years of contributory service will be required for a members to receive a regular or disability benefit. Previous law allowed a new member to purchase credited service to

meet the three-year vesting requirement. That will no longer be allowed. A re-hired employee will not be eligible for a disability benefit without three additional years of contributory service after re-entry into SDRS, unless the disability is job-related.

**Vermont.** Act 122 (H768) clarified that members of the Vermont state employees' retirement system and the state teachers' retirement system of Vermont hired after July 1, 2004, must complete five years of creditable service for the purpose of determining the normal retirement date. Under previous law people over 62 years of age were not required to have five years of service to be eligible for retirement and retiree health benefits.

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## Appendix A.

### Summary of Ohio Senate Bill 133 of 2004.

This summary is based on the Ohio Legislative Service Commission's fiscal note for the enrolled version of SB 133, enacted in May 2004.

- The bill requires that the Ohio Retirement Study Council (ORSC) have an independent auditor conduct a fiduciary performance audit of each of the state retirement systems at least once every ten years. The cost of the audits would be paid by the retirement system being audited. This could range from \$300,000 to \$400,000 per audit. However, there could be a potential for future savings as a result of the findings and recommendations of such audits.
- The bill requires the Auditor of State to conduct an audit of any of the five state retirement systems at the request of the ORSC. This could increase expenditures in the Public Audit Expense Fund, depending on how many audits the Auditor is required to complete. The Auditor may be able to recover part or all of these costs by charging the retirement systems.
- The bill requires several changes in membership to each of the boards, including an increase in the total number of board members for each board except for the OP&F board. This could result in additional administrative expenses for the boards.
- The bill requires candidates, campaign committees, and persons making expenditures in connection with a candidate's efforts to be elected to a retirement board to file campaign financial disclosure statements with the Secretary of State. If a person fails to file a complete and accurate statement, then the Ohio Elections Commission may impose a fine of not more than \$100 per day of the violation. In addition, persons who knowingly attempt to affect the nomination or outcome of a board election may be imprisoned for up to six months and/or fined up to \$5,000. There could be a potential minimal increase in costs for the Ohio Elections Commission to investigate any violations of this provision.
- The bill requires the boards of the state retirement systems to jointly develop an ethics policy and an orientation and continuing education program for board members. There could be some administrative costs associated with developing and conducting these training and education programs.
- The bill requires each board to review its existing travel and travel reimbursement policies and to adopt rules establishing new or revised policies pertaining to travel and bonus awards to all employees of the system. This provision could present some savings to the retirement systems if the new rules are more restrictive.
- The bill requires every state retirement investment officer hired after the effective date of the bill to be licensed with the Division of Securities within the Department of Commerce. The license fee is set at \$50 and would need to be renewed on an annual basis. Current state retirement investment officers would not be required to be licensed. There could be a potential increase in administrative costs for the Division of Securities to begin licensing a new class of investment officer.
- The bill allows employees of public institutions of higher education to participate in an alternative retirement plan. While there would be a loss in revenues to the affected state retirement systems if employees choose to opt out, there would also be a decrease in expenditures for the state retirement systems. In addition, if an employee chooses an alternative retirement plan, the public institution of higher education would still be required to contribute a certain percentage (currently set at 3.5%) to the affected state retirement system.

### Detailed Fiscal Analysis

The bill makes several changes to the five state retirement systems: the Public Employees Retirement System (PERS), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), the Ohio Police & Fire Pension Fund (OP&F), and the Highway Patrol Retirement System (HPRS).

### Fiduciary Performance Audits

The bill requires that the Ohio Retirement Study Council (ORSC) have an independent auditor conduct a fiduciary performance audit of each of the state retirement systems at least once every ten years. The cost of the audits would be paid by the retirement system being audited. The cost for an audit could range from \$300,000 to \$400,000. There could be a potential for future savings as the recommendations of the audits are implemented by the retirement systems.

The bill requires the Auditor of State to conduct financial audits and any special audits of the retirement systems at the request of the ORSC. The bill also requires that the Auditor report on any findings to the ORSC. This provision could increase costs for the Auditor, depending on how many audits are requested by the ORSC.

### Board Composition and Elections

Current law provides for all elections of board members to be conducted under the supervision of the retirement boards. The bill requires the Secretary of State to adopt rules governing the election of board members to the state retirement systems. This could lead to a potential increase in administrative costs for the Secretary of State's office because the bill also requires the Secretary to oversee the administration of board member elections.

The bill also makes several changes to the compositions of the state retirement boards, as outlined below:

- The Attorney General is removed as a statutory member from the PERS, STRS, SERS, and OP&F boards and an appointee of the Treasurer of State, who has investment experience and is not a public employee, is added as a statutory member to the PERS, STRS, SERS, OP&F, and HPRS boards.
- The Director of Administrative Services is added as a member to the PERS board.
- The Auditor of State is removed as a statutory member from the PERS, STRS, SERS, OP&F, and HPRS boards.
- Three members are added to the PERS board, two who are investment experts, and one additional retired member.
- Two members are added to the OP&F and the HPRS boards who are to be investment experts.
- The municipal fiscal officer is removed as a member of the OP&F board.
- One additional retired member is added to the HPRS board.
- Three members are added to the SERS board, two who are investment experts, and one additional retired member.
- Three members are added to the STRS board, two who are investment experts, and one additional retired member.

The bill requires candidates for election to the retirement boards, campaign committees, and individuals or entities that make expenditures in connection with a candidate's efforts to be elected to a retirement board to file two itemized statements with the Secretary of State's office that detail the contributions, in-kind contributions, and expenditures relative to the board election. The first statement is required to be filed 12 days before the election and the second is required to be filed no later than 38 days following the election. The bill also requires candidates elected to fill a vacancy to a retirement board to file a single itemized statement. If the Secretary of State's office determines that a statement is incomplete or inaccurate, then the Ohio Elections Commission can fine that person up to \$100 per day that they are in violation. This could result in an increase in revenues to the Ohio Elections Commission Fund. The potential increase is dependent on the number of people who fail to properly file their campaign disclosure statements. Monitoring the elections for the retirement systems could potentially increase the expenditures for the Secretary of State's office.

### Ethics Training, Orientation and Continuing Education for Board Members

The bill requires the boards of the state retirement systems to develop an ethics policy, in consultation with the Ohio Ethics Commission, and to provide periodic ethics training to members and employees of the boards.

In addition, the bill requires the boards to jointly develop orientation and continuing education programs for board members. There could be some administrative costs associated with developing and conducting these training and education programs. The boards would jointly pay any cost for establishing and conducting the programs.

#### **Travel and Bonus Policies**

The bill requires each board to review its existing travel and travel reimbursement policies and to adopt rules establishing new or revised policies pertaining to travel and bonus awards to all employees, including board members, of the system. In addition, each board is required to submit proposed operating budgets (including administrative budgets) to the ORSC for the next immediate fiscal year, and to submit plans to improve the dissemination of public information about the board. The proposed budgets for each board are required to be submitted to ORSC 60 days prior to adoption. Provided that the new policies are more restrictive, this could offer some savings to the retirement systems.

#### **Licensing of State Retirement Investment Officers**

The bill requires investment officers with the retirement boards to hold a valid state retirement system investment officer license issued by the Division of Securities within the Department of Commerce. The bill sets the license fee at \$50 and requires holders of the license to renew on an annual basis. Current state retirement investment officers would not be required to be licensed, but anyone hired by the retirement systems as an investment officer after the effective date of the bill would be required to be licensed. All license fees collected under this provision would be paid into the Division of Securities Fund. The potential increase in revenues to this fund would be dependent on the number of new retirement investment officers hired after the effective date of the bill. There is a potential increase in administrative costs for the Department of Commerce to begin licensing a new type of investment officer.

In addition, the bill requires each retirement board to designate a person who is a licensed state retirement investment officer to be the chief investment officer for the retirement fund. The chief investment officer will supervise other investment officers and persons employed by the retirement fund with a view toward preventing violations of federal and state securities laws and rules and regulations pertaining to those laws.

#### **Investment Policy**

The bill requires that the five state retirement boards designate qualifying securities dealers as Ohio-qualified agents. Ohio-qualified agents would be so designated if, among other reasons, they have practiced as a securities dealer in Ohio for at least three years, they are subject to Ohio taxes, and employ at least five Ohio residents. In a given year, the bill requires that the retirement boards have a goal to increase utilization of Ohio-qualified agents for the execution of domestic equity and fixed income trades on behalf of the retirement systems.

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See also: [Pensions and Retirement Plan Enactments](#)

Posted 25 October 2004.

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## Education Program

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### Teacher Quality

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### Teacher Recruitment

This site contains the text of a recent report written by Eric Hirsch at NCSL as part of a larger project on teacher mobility in collaboration with the State Higher Education Executive Officers (SHEEO), the National Governors Association (NGA) and the North Central Regional Education Laboratory (NCREL). A formatted copy of this report, "[Teacher Recruitment: Staffing Classrooms with Quality Teachers](#)," with notes and an appendix of legislation enacted during the 2000 session can be downloaded. A description of the project and links to the other reports completed as part of this joint project are also available on the [SHEEO web site](#).

#### Summary

Many states are pursuing aggressive strategies to recruit high quality elementary and secondary teachers in response to teacher shortages caused by high enrollment growth, teacher retirements and attrition, and recent efforts to reduce student-teacher ratios.

This brief focuses on two particular areas:

- Increasing the pipeline of potential teachers, and
- Providing incentives for educators to work in areas of highest need.

The paper analyzes the recent trends and offers suggestions for strengthening the recruitment of high quality teachers. It proposes improving the collection and analysis of teacher supply and demand data, integrating recruitment initiatives into comprehensive strategies to address teacher quality, systemically evaluating recruitment policies, and modifying policies based on emerging knowledge of effective practices.

#### Background

The nation faces an impending teacher shortage, especially in specific high demand areas. The U.S. Department of Education estimates that school districts will need to hire more than two million new teachers over the next decade. According to recent reports by the American Association for Employment in Education, current shortages of licensed teachers are most severe in traditional high demand areas of special education, mathematics, science, bilingual education, and technology education - and it will worsen in the coming years.

There is a double challenge of increasing both the number and the quality of teachers. States are creating more rigorous licensure standards at the same time that they seek to hire more teachers. The need to find and to keep good teachers is especially critical if states and local districts are to meet rigorous education goals aimed at raising student achievement levels. Recent studies in Tennessee, Boston, and Texas confirm that students taught by the most qualified and effective teachers achieve at higher levels.

The need is especially great in low performing schools because they tend to get the most poorly trained teachers. The

deficiency of qualified teachers is most prevalent in low-income urban and isolated rural schools and places students in these schools at risk of not achieving full educational opportunities. Indeed, a recent study by *Education Week* reports that the poorest schools were the most likely to employ teachers with the lowest college entrance examination scores. Further, a joint study by The Council of Great City Schools and Recruiting New Teachers, Inc. reported that more than 87 percent of urban districts allow "noncredentialed" individuals to teach because they cannot find qualified educators.

To ensure that all students are taught by high quality teachers, policymakers and education leaders in every state will need to carefully examine the complex factors that both challenge and support the recruitment and retention of the teaching workforce.

#### Shortages in the states' teacher workforces

National and state studies have forecast impending teacher shortages every year during the past decade. Predictions for the growing demand for teachers have been based for the most part on the following factors: the number of prospective teachers in traditional and non-traditional teacher preparation programs, anticipated growth in K-12 enrollments, expected teacher retirements, and estimates of licensed teachers who will leave the profession altogether. Further, some recent studies also have focused on the impact that new or proposed state education policies - such as initiatives to reduced class size - will have on local communities. The following snapshot shows some of the key areas of concern in the teacher workforce pipeline:

Student enrollments are growing. In the fall 2000, a record 53 million students entered the nation's public and private K-12 classrooms. This enrollment level is expected to remain constant over the next decade. These high enrollments are creating demands for additional educators, especially in western and southern states. The U.S. Department of Education reports that while eight of the nine northeastern states are expecting a decline in the student population, western states such as California, Idaho, Nevada, and New Mexico are projected to have double-digit increases in enrollment. Further, class size reduction policies in approximately one-half of the states will necessitate serving these new students with more staff than ever before.

Many students preparing to teach never enter the classroom. Recent college graduates make up a significant source of new teacher hires. In 1990-91, one-third of new hires in public schools and one-fifth of new hires in private schools entered teaching directly from college. Over the past decade, a growing number of college students have indicated interest in teaching and have entered teacher preparation programs. However, upon graduation many of these students - especially those in high demand fields - decide not to apply for teaching jobs or do not accept positions when they are offered. According to a recent U.S. Department of Education study, of the 1992-93 graduates who had prepared to teach, only 9 percent of mathematics, computer science, and natural science majors entered teaching compared with 58 percent of education majors and 16 percent of humanities majors.

The teaching population is aging rapidly. According to data from the U.S. Census Bureau, almost one-half of all elementary and secondary education school teachers were 45 years old or older in 1998. While these figures illustrate a teaching corps with vast experience - nearly one-third of teachers have been in the profession for more than 20 years - they also point to new staffing dilemmas for schools. Nearly one-half of current teachers will become eligible to retire during the next decade. The impact of an aging teaching pool will affect some states more than others. About 30 percent of the teachers in 20 states have more than 20 years of classroom experience; these states are predominately in the central and northeast regions of the country.

Poor working conditions influence many well-qualified teachers to leave the profession prematurely. On average, 30 to 50 percent of teachers leave the profession altogether within the first five years. Surveys of teachers who have left reveal that working conditions have the greatest affect on whether or not they stay. Teachers claim that their decisions to leave teaching were based primarily on their dissatisfaction with administrative support and leadership, student behavior, school atmosphere, and a lack of autonomy.

#### Challenges to recruitment of quality teachers in high demand areas

In addition to the number of teachers available, state leaders are concerned about the quality of their teaching workforce. State and district leaders want qualified teachers to teach high demand subjects, and they need stronger

teachers to increase the achievement levels of students in the disadvantaged urban and rural schools that have traditionally been difficult to staff. However, several obstacles to effective recruitment and hiring act as barriers to finding these qualified teachers.

There is a mismatch in the supply and demand of quality teachers. Many students preparing to become teachers are not majoring in subject areas that match the needs of schools and districts experiencing shortages. Even in states that produce enough new teachers to meet overall demand, there remain acute shortages in mathematics, science, bilingual, and special education. Moreover, many teaching candidates prefer suburban districts. They are unwilling to teach in many urban and rural schools.

This mismatch in the supply and demand of teachers is exacerbated by the lack of targeted state strategies. For example, few states collect or analyze data that can project the hiring needs of local districts. Also problematic are gaps in communication between state and local K-12 agencies and higher education systems and institutions concerning hiring needs. State strategies that encourage institutions to reduce programs that oversupply teachers and build programs that will produce teachers in critical fields could help alleviate shortages and strengthen relationships between the K-12 and postsecondary education sectors.

Local school districts are pressured to hire minimally qualified teachers. Without an adequate supply of qualified teachers, schools and districts have hired teachers who have yet to meet state licensure requirements. Recent state studies show that these educators tend disproportionately to teach in low performing schools and schools serving low-income students. For example, more than 10 percent of the California teaching force (approximately 28,500 people during the 1998-99 school year) worked on an emergency permit. In 1999, 16 percent of California teachers in schools serving populations with the greatest proportion of students receiving free or reduced lunch did not have appropriate credentials; this compares to 4 percent of teachers in schools serving fewer low-income children.

In addition to hiring teachers without appropriate credentials, districts are also filling open positions with teachers who are teaching in a subject where they do not have a college major or minor. In North Carolina, a 1998 study found that teachers in low-performing districts are much more likely to be teaching "out of field" or with a substandard license. Out-of-field and unlicensed teachers also are prominent in specific subject areas such as mathematics and science. For example, more than one-half of districts in Colorado report difficulty finding qualified math teachers.

Low salaries and lack of incentives may discourage qualified individuals from entering and staying in the profession. Many college students and teachers view low teacher salaries as a prime deterrent to entering and staying in the profession. State and local leaders complain that salaries that are below those offered in neighboring districts or states make it difficult to find and keep good teachers. The average beginning salary for teachers nationwide was \$26,639 in 1998-99, ranging from over \$31,000 in Connecticut and Alaska to under \$20,000 in North Dakota. In today's job market, these salaries can not compete with what is being offered in other professions. According to a recent survey conducted by the American Federation of Teachers (AFT), "During the past five years, salary offers for college graduates in all fields have grown at twice the rate as those for new teachers." Well-qualified college students majoring in mathematics, science, or foreign languages see significant disparities when they compare teacher salary levels with beginning salaries in other professions. For example, AFT reports that average beginning teacher salaries are about \$7,500 less than the expected starting salary in marketing and \$15,000 less than that for computer scientists.

These challenges point to the need for a comprehensive, multifaceted approach to recruiting and retaining teachers. Every state's situation is complex, and an array of strategies will be necessary to ensure that enough qualified teachers are available across all subject areas. In addition to the challenges raised above, strategies also will need to support teachers who are willing to relocate to fill high demand positions and increase diversity of the teaching workforce.

#### Tackling Recruitment: How States Are Attracting Teachers

In general, local districts currently design and support their own recruitment programs. These isolated approaches often create inequities across the state as the wealthiest districts have the resources that poor districts lack to recruit and retain a quality workforce. To address recruitment and retention challenges, some state policymakers have

developed new strategies to expand the supply and provide incentives to teachers who work in areas of highest need. In addition to intrastate efforts, plans are underway in some regions to establish interstate agreements that support teacher recruitment across state lines. The following synthesizes approaches recently implemented in states across the country.

#### Expanding the Pipeline: Strategies to Attract Prospective Teachers to the Profession

Many states have attempted to expand the production pipeline in order to increase the number of potential teachers entering the profession. Their diverse strategies include stimulating early interest in teaching through secondary school and community college cadet programs, making it easier for potential educators to complete their degrees by offering scholarships and forgivable loans, and expediting the process for earning teaching credentials through alternative routes to licensure.

In addition, many states have increased beginning salaries to attract high caliber individuals to the teaching profession. Some states are working with districts to develop policies to provide differentiated compensation for teachers in high demand fields.

#### Increase Salaries for Teachers

States and school districts compete with each other and the public and private sectors for teaching personnel. The strong job market for recent college graduates that began in the late 1990s made it more difficult to find quality school staff. Swaying these new entry-level professionals are data showing that in 1999 new college graduates in all fields received average salary offers in excess of \$37,000 compared to an average beginning salary of \$26,639 for teachers. Some states are using these current labor force data to push for salary increases for teachers.

Both to attract new entrants and to keep experienced teachers in the profession, several states recently have passed legislation to increase salaries. Eleven states passed legislation to increase salaries for teachers in 2000. Complementing this trend, the American Federation of Teachers' 1999 teacher salary survey found a 3.3 percent increase nationally in the average teacher salary, from \$39,278 in 1998 to \$40,574 in 1999.

These states hope that more competitive salaries give them an important recruitment tool to attract the best and brightest teachers while at the same time increasing the quality of the statewide teaching workforce. For example, under the Excellent Schools Act enacted in 1997, North Carolina increased teachers' salaries by 11.3 percent over the previous year, but in return, teachers must meet more rigorous requirements for licensure and tenure. Alabama provided an 8.5 percent cost of living adjustment in 1998. Pending increases in education trust fund revenues designed to place teachers' salaries at the national average, the state approved additional pay raises in 2000. The current average teacher salary in Alabama is about \$36,000 and starting salary is more than \$29,000.

These salary increases are creating intense competition for educators among states in the same region. Supply and demand studies in Oklahoma, for example, show educators crossing the border to Texas where \$1.7 billion has been allocated to provide \$3,000 annual raises for full-time teachers over the next two years. In an attempt to keep more teachers in the state, Oklahoma raised teacher salaries \$3,000 in 2000 and established a statewide minimum starting salary of approximately \$27,000.

#### Strengthen Early Outreach -- Teacher Cadet and Future Teachers Programs

Raising students' interest in teaching as a career is another strategy for building a teacher workforce pipeline. Today's students are aware of many options, and those who may have once considered a teaching career are choosing other professions. A recent study shows that the appeal to become a teacher among college freshmen has declined from 10 percent in the early 1990s to 8 percent in 1999.

To rebuild interest, many states have developed strategies to begin teacher recruitment before college through career fairs, education clubs, and early exposure to teacher preparation programs. Currently, 12 states have state-level programs that recruit at the high school level and six offer programs at community colleges.

The South Carolina Center for Teacher Recruitment is an impressive example of a comprehensive state-level approach

to pre-collegiate teacher recruitment. In elementary school, students learn about how to become a teacher through career fairs. Middle school students may enroll in a year-long ProTeam Program that promotes teaching as a career and encourages students to make the necessary academic choices for college entry and success. Three programs target high school students: the Teacher Cadet Program, Teaching Assistant Program, and the Teaching Fellows Program. Students selected for these programs are enrolled in challenging coursework and provided extensive hands-on exposure to classroom teaching.

The state investment in these efforts is showing positive results. For example, the Teacher Cadet Program that began in 1985-86 now serves over 2,500 academically able high school students annually and operates in 149 high schools across the state. Twenty-two of the state's 30 colleges and universities with teacher education programs provide support to the Teacher Cadet sites, and over two-thirds of the college partners grant college credit for satisfactory completion of the course. More than 2,000 former cadets are currently teaching and an average of 35 percent of participants indicate plans to pursue teaching credentials. Districts in 18 states currently offer programs that replicate the Teacher Cadet Program.

#### Develop "Grow Your Own" Programs

"Grow your own" programs allow schools and districts experiencing severe shortages to create their own pipeline of new teachers by partnering with colleges to recruit, prepare, and retain teachers. "Grow your own" programs tend to target paraprofessionals and classroom aides already working in local schools. Further, these programs enable administrators to tailor preparation programs to the specific needs and resources in their communities and schools.

To date, few states have enacted policies that facilitate the creation of these programs; rather, districts and institutions of higher education have come together to design initiatives. These efforts could be expanded in the states through incentive funding or grant programs to partnerships of higher education institutions and districts.

The U.S. Department of Education's Title II Teacher Quality Enhancement Recruitment Grant program is supporting several "grow your own" efforts. For example, using federal grant dollars, the Los Angeles Unified School District partnered with the California State University System to begin its own recruitment program - the In-House Teacher Recruitment Program (ITRP). The ITRP includes a high school Internship program where participants are prepared to work as paraeducators and to study at one of the California State University campuses upon graduation. Following high school graduation, participants enroll in a university program while concurrently working as paraeducators in the schools. The program provides support services such as stipends, scholarships, and mentors. Upon completion, students will have earned a bachelor's degree and a preliminary teaching credential. Through California's federal grant, similar "grow your own" recruitment programs are being implemented in the Salinas Valley, Oakland, and San Jose.

#### Provide College Scholarships, Forgivable Loans, and Tuition Assistance

Twenty-seven states offer college scholarships, forgivable loans, or tuition assistance to recruit more high quality teachers and to motivate teachers to serve in shortage areas. In 1999, \$81 million was budgeted nationwide for these programs. Programs in 11 states specifically target academically talented candidates who are required to commit a designated number of years to teaching in K-12 schools.

For most students in these programs, the primary incentive is the financial assistance to cover the cost of their college education. However, the North Carolina Teaching Fellows Program established in 1986 offers even more. Along with scholarships of \$6,500 per year for four years, fellows are involved in extensive enrichment activities (e.g., conferences, workshops, and visits to schools across the state). Program graduates currently work in 96 of the state's 100 counties.

These student aid programs also seek to increase the diversity of the teaching workforce and to recruit teachers who have the skills needed to work with a multicultural student population. Approximately 87 percent of the teachers in public schools are non-Hispanic Caucasian, but they are teaching a student body that is approximately one-third minority. To increase the numbers of underrepresented teachers of color working in local schools, 10 states have developed scholarships or forgivable loans specifically for minority candidates. Connecticut implemented a program in 1998 that provides incentive grants of up to \$20,000 to encourage minority students to become teachers. Grants are

available for up to 50 students per year who enter teacher education programs in their junior or senior years at four-year colleges or who are enrolled in post-baccalaureate certification programs.

#### Support Effective Alternative Certification Programs

Alternative routes to achieving teacher licensure - often designed to encourage minorities and mid-career professionals to enter teaching - have grown in popularity in recent years. A combination of teacher shortages, a need to provide preparation for post-baccalaureate recruits, and criticism of traditional teacher preparation programs have made these alternative routes an attractive option for policymakers and potential teachers.

According to a National Center for Education Information (NCEI) report published in 2000, more than 115 alternative certification programs currently are operating in 40 states and the District of Columbia. To date, these programs have prepared more than 125,000 teachers. State leaders who support them have argued that they help address the recruitment and development of teachers for shortage areas and that they are preferable over emergency credentials and misassignments.

Many studies over the past decade have examined the characteristics of individuals most likely to enter teaching through alternative routes. They provide strong evidence that alternative programs have added minorities and men to the teaching ranks in urban areas. The three largest state programs are in states with large minority and urban student populations - New Jersey, California and Texas - where between 16 and 22 percent of new teacher hires earned certificates through alternative routes.

Based on NCEI and other studies, alternative certification programs deemed to be the most successful have the following criteria in common:

- They are directed to individuals who already have a baccalaureate degree.
- Successful candidates have passed rigorous screening.
- The programs are based in schools.
- The programs include coursework in professional education studies before or during teaching assignments.
- Candidates work closely with quality mentor teachers.
- Candidates meet high performance standards for completion of the programs.

Researchers have not achieved consensus about the impact of alternative programs on student achievement. Given the variety of programs currently in operation, most agree that comprehensive evaluations to assess this linkage are surely needed.

#### Streamline Hiring Processes

The complexity and timing of hiring decisions can create barriers to getting qualified teachers into classrooms. Information on district or school vacancies is not easily accessible to teachers searching for jobs. Teachers applying in several districts or at different schools must submit multiple and duplicative application forms and documentation. Because of delays in processing applications, districts often lose the most capable teachers to other competitors.

Several states have developed one-stop services in order to increase the number of applicants for open positions, to streamline the process, and to reduce the obstacles for hiring the best teacher candidates. Electronic web sites provide information about teaching opportunities across the state, allow districts to post job openings, and promote application uniformity.

In addition to state-based efforts, several national job banks, such as the National Teacher Recruitment Clearinghouse hosted by Recruiting New Teachers, Inc. (RNT), provide helpful information about how individuals can become a teacher and find a job, and how districts can locate and retain teachers. The RNT web site also contains a comprehensive job bank portal to national, state, and district job banks across the country.

#### Lure Retired Teachers Back to the Classroom

Given the difficulties of finding new teachers, a new trend is for states to draw on retired educators to staff

classrooms. States are allowing teachers to draw full pension benefits while teaching full- or part-time. In 1999, California, Maryland, Missouri, North Carolina, South Carolina, and Texas passed legislation that created new policies to attract retirees or altered existing regulations that capped returning retirees' salaries. Alabama, Kentucky, Louisiana, Maryland, Massachusetts, Oklahoma, and Tennessee passed similar policies in 2000.

Some states are using these policies as incentives to lure retired teachers to hard-to-staff schools. For example, South Carolina's plan will help channel retired educators to "critical need areas." Similarly, in Texas, the new law targets retired teachers who specialize in math, science, or technology. Additional strategies to direct teachers to areas of highest need are described in the following section.

#### Redistributing the Workforce: Strategies to Recruit New and Veteran Teachers to Areas of Highest Need

Many states are exploring incentives to encourage new and veteran teachers to work in hard-to-staff schools and to prepare to teach in subject areas with critical shortages. These will be most successful, however, if teachers can move to take advantage of them without having to meet re-licensure requirements or to lose retirement benefits or credit for accrued work experience. Activities are underway in some regions to consider initiatives that will allow states through reciprocity agreements to accept the teaching credentials and accrued experience that teachers earn in other districts and states. In addition, some states and local districts have examined strategies to ease portability of pension benefits for teachers.

#### Provide Incentives for Accomplished Teachers in Critical Areas

In addition to the general increases in teacher salaries mentioned earlier, some states are using one-time signing bonuses or other rewards to lure qualified teachers into open positions. In 1998, Massachusetts began awarding \$20,000 signing bonuses to newly hired teachers who meet qualification standards specified by the state and teach there for four years. The Massachusetts Signing Bonus Program for New Teachers is designed to attract mid-career professionals, recent college graduates, and college seniors with backgrounds in mathematics, science, and foreign language.

Other incentives to recruit teachers in shortage fields or to less desirable locations include bonuses, support to cover home loans, and relocation expenses. New York provides an annual stipend of \$3,400 for up to three years to any certified teacher agreeing to work in a critical shortage area. In Baltimore, \$5,000 is provided toward the closing costs on a home in the city and \$1,200 to cover relocation expenses. This is in addition to a recent \$3,000 starting salary increase. Similarly, Mississippi in 1998 passed legislation that targets teachers seeking a master's degree to locate in critical shortage areas. In exchange for three years of service, recipients receive tuition scholarships toward completion of a degree program, professional development opportunities, a computer, participation in a mentoring program, home loans, and up to \$1,000 for moving expenses.

To increase teacher expertise and skill in the schools, 39 states and nearly 200 school districts offer a variety of incentives and subsidies for veteran teachers who are certified by the National Board for Professional Teaching Standards. For example, California enacted legislation in 2000 that pays a \$20,000 bonus for National Board certified teachers who agree to teach in districts designated as low performing. New York created a similar program for National Board certified teachers by providing a \$10,000 bonus as part of the Teachers of Tomorrow legislation.

A new report published by the National Board found that compared to other teachers, board certified teachers were more effective educators and improved student learning in the schools where they taught. Although the scope of the study was narrow - based on 65 teachers in three states and the District of Columbia - it provides important preliminary evidence demonstrating the linkage between National Board certification and student achievement.

There is limited information about whether policies supporting salary increases and bonuses work. It appears that the most recent efforts are based on general market principles that higher salaries will attract more teachers. Some policy analysts have argued that to improve teacher quality, states should forego blanket salary increases and target their efforts on teachers filling critical shortage areas or demonstrating the greatest affect on student achievement. To ensure that monetary incentives to teachers meet their intended goals, states will need to evaluate their programs, examining the number of teachers recruited under the plans, retention rates, and the academic performance of schools.

and students where these teachers were hired.

#### Enhance Teacher Mobility

Nobody really knows the extent to which teachers are moving to take advantage of recruitment opportunities. However, a number of recent publications and public discourses on teacher quality have stressed the importance of teacher mobility. In addition, state and regional studies aimed at supply and demand and teacher salaries suggest that teachers will cross local district and state lines for jobs and better salaries. Further, the issue is being studied as part of new regional efforts sponsored by the Council for Basic Education and the North Central Regional Education Laboratory to ensure adequate supply of qualified teachers across states.

The stories of teachers who have encountered specific barriers restricting their ability to move from a teaching job in one district or state to another are driving these studies. These barriers include the lack of reciprocity of teacher licenses and certification, restrictions on pension portability, and the unwillingness or inability of most districts to pay them for accrued experience.

Available resources on teacher mobility, as well as examples of initiatives to provide reciprocity of state teaching licenses and portability of pension benefits for teachers, are identified and discussed in a reference guide and two other strategy briefs published in conjunction with this brief. These four documents are part of a national study on teacher mobility sponsored by the State Higher Education Executive Officers (SHEEO).

#### Improve Working Conditions through Induction Programs for Teachers

According to national reports aimed at explaining teacher attrition, job satisfaction appears to be influenced as much by working conditions and feelings of control as by salary and benefits. Thus, to ensure teachers remain in the profession after they are hired, state strategies also need to focus on initiatives that empower teachers and make classrooms more attractive work environments.

New teacher mentoring programs can help alleviate some of the factors that negatively affect job satisfaction. More than one-half the states have induction programs that support new teachers. However, there appears to be some disparity, even within the same state, on critical components of these mentoring programs. Research indicates that more effective induction programs include the following:

- Programs should be based in schools and classrooms.
- New models should be designed especially for novice teachers and differentiate between teachers in their first job, mid-career changers, and veterans who have changed grade levels or subject areas.
- Programs need sufficient financial resources to compensate mentor teachers for their participation and to allow mentors to work with novice teachers during class time throughout the first years of teaching.
- Programs should be evaluated and new or scaled-up efforts should be based on effective practice.
- Comparative data across programs should be collected to identify program components and capacity to support beginning teachers.

California's Beginning Teacher Support and Assessment program (BTSA) includes many of these components and is showing successful results. Begun in 1992, new California teachers are provided an extensive induction experience consisting of assessment, individual support, advanced study, and frequent reflection on the practice of teaching. This level of support works to retain teachers. A recent evaluation of the first phases of the program shows that 37 percent of teachers who did not participate in the program left the field over the first five years of teaching compared to 9 percent of those who went through BTSA.

#### Hiring and Keeping Quality Teachers: Taking a Comprehensive Approach

Approximately 450 bills addressing teacher recruitment were introduced in 41 states during the 2000 legislative sessions. The Appendix lists state legislation adopted in the past year and illustrates that many states are relying on multiple strategies to support teacher recruitment.

While most legislation creating recruitment policies focused on district activities, a few states are taking comprehensive policy approaches that address both pipeline and redistribution issues. California, for example, is attempting to link recruitment of high quality teachers to its statewide goals for quality teaching and learning. California Senate Bill 1666, passed in 2000, created a comprehensive recruitment package aimed at addressing the state's severe teacher shortage. The bill's multiple strategies (described below) are designed to support a system that aligns different parts of the teacher pipeline using local and statewide strategies.

**Teacher Preparation:** New programs are aimed at increasing the number and quality of students entering teacher preparation programs. California Teaching Fellowships provides \$20,000 in competitive awards to teaching candidates who earn credentials and agree to teach in a low performing school for four years. The Assumption Program for Loans for Education (APLE) provides loan forgiveness awards to teacher education graduates. SB 1666 provides \$43.6 million to increase the amount of annual grants from \$1,500 to \$2,500 to teacher interns. It also expands the intern and pre-intern programs from 7,300 to 12,700 students providing additional teacher trainees who will work in classrooms under mentor supervision while earning their teaching credentials.

**Teacher Recruitment:** The Teacher Recruitment Incentive Program (TRIP) establishes teacher recruitment centers in six California regions where there is a demonstrated need to aggressively recruit qualified teachers to the state's most challenging schools. Funded at more than \$9 million, centers will recruit college students and others to pursue teaching as a career and entice qualified veteran teachers to teach in schools with the greatest need. To support low performing schools, the Teaching as a Priority Block Grant Program (TAP) provides \$118.6 million for discretionary grants to schools to recruit and retain quality teachers. Incentives may be used to award signing bonuses, improve working conditions, increase salaries, provide housing subsidies, or establish a longer school year.

**Teacher Salaries and Benefits:** To encourage qualified individuals to enter teaching, \$55 million is available to California school districts to increase beginning salaries to \$34,000. A Teacher's Supplemental Retirement Account Program is aimed at increasing teacher retirement benefits. Members of the State Teacher's Retirement System (STRS) will be allowed to place 25 percent of their STRS contributions, or 2 percent of earnings, in a supplemental retirement account that will be available as a lump sum payment or an annuity when the member retires.

**Teacher Retention:** Three programs focus on retaining good teachers and rewarding them for their service to education. Beginning with the 2000 tax year, teachers who serve at least four years in public or private schools will be entitled to tax credits ranging from \$250 to \$1,500 based on their years in the profession. Teachers who achieve advanced certification under the National Board for Professional Teaching Standards will receive \$10,000 bonuses. Finally, board certified teachers who teach in low performing schools for four years will receive a \$20,000 bonus.

#### Next Steps for States

No simple solution can ensure that all students have access to quality teachers. State recruitment strategies need to be integrated into long-term, comprehensive initiatives that address both the supply and quality of the teaching workforce. The following suggestions can help state policymakers and education leaders to begin this process:

#### Gather data on teacher supply and demand

Most states do not systematically collect and analyze data to help state policymakers and local education leaders determine recruitment and hiring needs. Recruiting New Teachers, Inc. has identified some basic information that should be included in state data collection efforts.

- Estimate the number of teachers needed based on attrition, student demographics, and retirement.
- Identify diversity needs based on how well teacher staffs reflect the diversity of the student population.
- Anticipate attrition rates of new teachers.
- Assess the number of candidates coming from traditional and alternative sources of teachers, such as graduates from local universities, "grow your own" programs, recruitment programs aimed at underrepresented groups, and mid-career professionals, etc.

Along with state data collection, regional or national data collection also can help assess teacher shortages. Working

together, states with an oversupply of educators in one subject area could help teachers find good jobs in states with severe shortages. But this sort of interstate cooperation is impractical without addressing barriers to teacher mobility, such as restrictions on licensure reciprocity and pension portability.

#### Integrate recruitment initiatives into comprehensive strategies to address teacher quality

Most states have initiated reforms aimed at strengthening the quality of teachers. In some states, these efforts are part of broad systemic efforts to link K-12 and postsecondary education. Recruitment initiatives should be integrated into this work. Formalized partnerships between higher education and K-12 schools will increase cross-sector communication and ensure that institutions are preparing teachers in grade levels and subject areas of particular need. Moreover, effective collaboration will support a seamless system of teacher preparation, recruitment, induction, and professional development that will benefit both K-12 and higher education systems.

#### Evaluate recruitment policies based on data and modify practices based on what works

Despite the numerous state strategies described in this brief, little is known about how effective they are at recruiting and retaining quality teachers. Constructive program evaluation will allow states to identify and eliminate ineffective efforts and scale up promising practices.

#### Conclusion

In 1997, the National Commission on Teaching and America's Future outlined an "audacious plan" to ensure a competent, caring and qualified teacher for every child. While keen interest to expand the supply of good teachers is apparent in the recent high volume of state recruitment policies, significant challenges still exist. This brief highlights many bold and innovative strategies to build the pipeline of qualified teachers and the special efforts to place them in schools and subjects that historically have been difficult to staff.

These actions, however, may not yield the most effective results without thoughtful planning. Comprehensive data collection and analysis on teacher supply and demand, integration of recruitment efforts into well-developed state teacher quality initiatives, and evaluation and modification of strategies based on evidence of success will help to ensure that states' interests are met and the "audacious" goal for quality teachers is achieved.

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Additional information on the web:

[Recruiting New Teachers](#)

[Education Week](#)

[National Commission on Teaching and America's Future](#)

[North Carolina Teaching Fellows Program](#)

[South Carolina Teacher Teaching Fellows Program](#)

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## GM, UAW likely to discuss health care costs at annual meeting

*April 14, 2005, 12:07 AM*

DETROIT (AP) -- Skyrocketing health care costs -- and whether union workers should pay a larger share of them -- was expected to be a hot topic Thursday at an annual meeting of General Motors Corp. and the United Auto Workers.

Several hundred GM and UAW officials were scheduled to meet in the Detroit suburb of Dearborn, including UAW President Ron Gettelfinger and top GM executives.

The meeting comes at a difficult time for GM, which cited rising health care expenses when it slashed its 2005 earnings guidance by 80 percent last month. The world's largest automaker spent \$5.2 billion last year to cover 1.1 million salaried and hourly employees, retirees and family members. GM has said that could grow to \$5.8 billion this year.

Two top GM executives -- product development chief Bob Lutz and manufacturing chief Gary Cowger -- have said recently the company should adopt a health care plan that provides the same benefits for salaried and hourly workers.

GM's salaried workers pay 27 percent of their total health care costs, while the company's UAW-covered hourly workers pay 7 percent, according to GM. The average U.S. corporate employee pays 32 percent of the cost of health care, GM said.

Merrill Lynch analyst John Casesa noted GM's health care costs when he downgraded the company's rating from neutral to sell last

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month. In a research note, Casesa said GM had \$73 billion in retiree health care liability at the end of last year and a ratio of 2.4 retirees to every one active employee.

"Its liabilities for pensions and retiree health care costs have become an immense burden," Casesa said.

Gettelfinger has said the UAW recognizes that rising health care costs are a serious problem for automakers. But he also says the best solution is national health care reform, not further bargaining.

GM may ask the UAW to reopen its contract and negotiate new health care benefits. The contract was last negotiated in 2003 and expires in 2007.

The automaker also may try to negotiate a deal similar to one recently reached between the UAW and DaimlerChrysler AG's Chrysler Group. Under that agreement, which went into effect April 1, roughly 35,000 Chrysler hourly workers and retirees now pay annual deductibles of between \$100 and \$1,000 for health care that previously was free.

GM shares fell 67 cents to close at \$28.33 Wednesday in trading on the New York Stock Exchange. The shares have traded as low as \$27.98 and as high as \$50.04 in the past year.

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On the Net:

General Motors Corp.: <http://www.gm.com>

United Auto Workers: <http://www.uaw.org>  
[an error occurred while processing this directive]

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## Personal Finance

**Retirees' Families Face Health Cuts — As Medical Costs Increase, Some Big Employers Move To Trim Dependent Coverage**

By Jennifer Saranow

739 words

03/03/2005

The Wall Street Journal

D2

English

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More companies are joining the wave of employers who are cutting health-care costs by reducing the benefits they offer to their workers' dependents.

A growing number of big employers are excluding new dependents -- such as spouses and children -- from their retirees' health-care plans, while others are cutting coverage amounts for retirees' current dependents.

These moves come after many employers already have raised premiums for the dependents of active employees and imposed surcharges to encourage spouses to seek coverage from their own employer. Others are dropping current employees' future retirement benefits.

Employees of International Business Machines Corp. who retire on or after Jan. 1 won't be able to enroll new dependents in the company's health plan beyond the dependents covered on their retirement date. Similarly, Boeing Co. has told its nonunion employees who retire on or after Jan. 1 that they won't be able to seek medical coverage for new dependents after their retirement date.

Other companies are going further and making retirees pay for much of their dependents' health coverage. As of Jan. 1, for example, Lucent Technologies Inc. stopped paying for the cost of medical coverage for dependents of management retirees who retired on or after March 1, 1990, and whose annual salaries were at least \$65,000. The salary limit, first effective in 2004, was previously \$87,000.

According to a survey on retiree health benefits released in December by the Kaiser Family Foundation and consulting firm Hewitt Associates, 79% of surveyed large employers reported having increased retiree contributions to premiums in the past year and 68% reported increasing contributions for dependent coverage.

Typically, many large companies cover employees who retire before age 65 when people qualify for Medicare, and then later help pay for what Medicare doesn't cover. But with costs rising -- and retirees living longer -- a growing number of employers are considering

the potential costs of covering retirees' dependents, which until now generally has been routine.

"Companies are trying to manage their costs, and cutting back on dependents is one of the first things they look at," says Derek Guyton, a principal with Mercer Human Resource Consulting in Chicago.

The upshot is that retirees could be left bearing the brunt of covering their families, or left in the lurch if spouses with insurance elsewhere lose coverage. Some may even have to return to work.

John DeCastro estimates he paid about \$60 a month for medical coverage for himself, his wife and now 20-year-old daughter when he retired from his job as a director of manufacturing and planning at Lucent four years ago.

Now, the 56-year-old San Francisco resident pays about \$600 a month. "It's a major hit on the retiree, and that's part of the reason I decided to go back to work," says Mr. DeCastro, now a salesman for a software company.

Companies say they want to focus their resources on those who were actually employees and discourage new dependents who might have lost or lack retiree coverage elsewhere.

"Our goal has been to maintain access to health-care benefits for all our retirees, while balancing that with what the company can afford and still remain competitive," says Lucent spokesman Bill Price.

Cutting dependent coverage also enables employers to cut liabilities on their balance sheets. Accounting rules require employers offering retiree health benefits to count the future cost of paying such benefits as a liability. Lucent says the changes it made in 2004 resulted in an approximate \$1 billion reduction in future obligations.

Lucent estimates its most recent change will affect 5,400 management retirees with about 7,400 dependents. The company currently provides retiree health-care benefits for about 48,000 management retirees and 71,000 formerly union retirees.

Boeing estimates its changes will impact about half of its work force. A spokeswoman for IBM declined to comment on the impact of IBM's changes.

#### Cutting Benefits

Large companies have been making major changes to retiree health benefits, such as raising contributions and deductibles. Here's what more than 300 surveyed companies have done last year:

	PERCENTAGE INCREASED
Retiree Contributions to Premiums	79%
Dependent Contributions to Premiums	68
Retiree Coinsurance of Copayments	45
Deductibles	37
Out-of-Pocket Limits	29



## Kaiser Daily Health Policy Report

Thursday, April 07, 2005

Health Care Marketplace

### **Wall Street Journal Examines Impact of Rising Health Costs on Automaker GM**

The *Wall Street Journal* on Thursday examined the difficulties that General Motors is facing in its efforts to reduce the cost of providing health care benefits for workers, retirees and dependents, including the potential for "heated negotiations with the United Auto Workers union, which has long fought to protect the gold-plated health benefits workers enjoy." This year, GM expects to spend \$5.6 billion to provide health coverage for about 1.1 million active and retired employees and their families (Hawkins, *Wall Street Journal*, 4/7). GM is the nation's largest private health care provider. Last month, the company announced that the first quarter of fiscal year 2005 would be its second consecutive quarter reporting a loss. In an effort to achieve fiscal solvency, GM announced last month that it will negotiate with UAW union leaders to shift more health care costs to hourly employees. According to company data, salaried employees are responsible for about 27% of their health care costs, compared with about 7% for hourly workers. Salaried workers also pay deductibles and monthly premiums for health care coverage, unlike hourly workers (*Kaiser Daily Health Policy Report*, 3/24). GM's U.S. CEO Rick Wagoner "blames [health care] costs for much of GM's profit woes," the *Journal* reports. About 26% of GM's beneficiaries are obese, a figure that is "slightly below the national average," the *Journal* reports. The company estimates that it pays \$1,000 to \$3,000 more in health services to cover an obese beneficiary. In addition, according to the *Journal*, "[s]moking is one area that shows how far GM has to go just to catch up with health standards in many other parts of the country." The company has begun "cautiously encouraging" workers to initiate designated smoking areas but permits workers to smoke while on the job and "shies away from provoking union members with a blanket smoking ban," the *Journal* reports.

#### **Action Steps**

GM has begun expanding programs to discourage employees from engaging in habits such as smoking, drinking alcohol, eating unhealthy foods and leading a sedentary lifestyle. Under its LifeSteps program, which began in 1996, the company added gyms to some manufacturing plants and now offers health care seminars and classes "to get workers ready for the hunting season" -- a popular activity among GM workers that can cause heart attacks in out-of-shape people, the *Journal* reports. However, "[e]ven if employees get healthier, it's not clear how much the company can save" because 69% of the company's health care spending goes to retired employees and their families -- a demographic that is more difficult to "reach with the live healthy message," according to the *Journal* (*Wall Street Journal*, 4/7).

**ALASKA STATE PENSION INVESTMENT BOARD**  
*Biographical Listing*

**Wilson L. Condon, Chair**, was elected by the Public Employees' Retirement System. He is currently Chief of the Oil, Gas & Mining Section at the Department of Law. Previously, Mr. Condon was Commissioner of the Alaska Department of Revenue from 1995-2002. Prior to serving as commissioner, he was a partner in a private law firm from 1983-1995 and acted as lead counsel for the state in a series of oil and gas royalty and tax cases. He served as Attorney General from 1980 - 1982 and as Deputy Attorney General from 1975 - 1980. He holds an A.B. Political Science degree and a J.D. degree from Stanford University. Mr. Condon's term expires December 31, 2006.

**Dorothy Wells, Vice Chair**, was elected by the Teachers' Retirement System. A resident of Alaska for 37 years, Ms. Wells is a retired teacher who taught business education at Eielson Air Force Base, and business classes for the University of Alaska night school program at Eielson. She obtained her B.S. degree from the University of Minnesota/Minneapolis and did graduate work both there and at the University of Alaska/Fairbanks. Mrs. Wells served on the Teachers' Retirement Board for 20 years, and is active with NEA-Alaska/Retired. Her term expires December 31, 2005.

**James "Pat" Wellington, Secretary**, was elected by the Public Employees' Retirement System. Mr. Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers, Chief of Police of Juneau, Deputy Commissioner and Commissioner of the Department of Public Safety, and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also the Chairman of the Public Employees' Retirement Board. He resides in Anchorage. Mr. Wellington's term expires December 31, 2008.

**William Corbus** was appointed Commissioner of the Department of Revenue in December 2002. He oversees an agency that has very diverse responsibilities, including tax collection, investing state funds, child support enforcement and distributing permanent fund dividends. Bill Corbus is the retired president of Alaska Electric Light and Power, the electric company that serves the Juneau area, where he has lived since 1970. He served as a Lt. J.G. in the U.S. Naval Reserve, including one year as an advisor to the Vietnamese Navy in 1962-63. Mr. Corbus then worked for Stone & Webster in New York City providing public utility security analysis, financial planning, and accounting. The Commissioner sits on nine boards, including the Board of Trustees of the Alaska Permanent Fund Corporation. Mr. Corbus holds a B.S. in industrial engineering from Stanford University and an MBA from the Amos Tuck Graduate School of Business Administration at Dartmouth College.

**Merritt C. Olson** was elected in 1992 to serve as a trustee on the newly-created ASPIB and reelected for three more terms. Mr. Olson served previously as a trustee for the Teachers' Retirement Systems Board. He also served as president of NEA-Alaska/Retired and sat on the national NEA-Retired Advisory Council for six years. He earned the doctoral degree in psychology from Rutgers University and was a Fulbright scholar and lecturer at the University of Ibadan in Nigeria. Dr. Olson taught mathematics in Anchorage secondary schools and served as an adjunct professor of psychology at the University of Alaska Anchorage and at Alaska Methodist University. His term expires December 31, 2007.

**Martin Pihl** was appointed to the board in 2003 by Governor Murkowski. Mr. Pihl came to Alaska in 1962 to work for Ketchikan Pulp Company, becoming President and General Manager in 1987 until his retirement in 1994. He then served as Acting Executive Director for the Alaska Permanent Fund Corporation in 1994-1995. Mr. Pihl serves as a director of National Bank of Alaska and on Wells Fargo Bank's Alaska Statewide Advisory Board, as Chairman of the Board of Governors of the Alaska Timber Insurance Exchange, and as a regent for Pacific Lutheran University. He is also a member of several advisory boards including Holland America-Westmark-Ketchikan Advisory Board, Ketchikan Ports and Harbors Advisory Board, and Alaska Airlines Southeast Alaska Community Advisory Board. Mr. Pihl holds a BA in Accounting from the University of Washington and has been a CPA since 1958. His term expires December 31, 2006.

**Gail R. Schubert** was first appointed to the board by Governor Hickel, then reappointed by Governor Knowles and Governor Murkowski. She is currently Executive Vice President and General Counsel to Bering Straits Native Corporation, President of its two 8(a) subsidiaries, and of counsel to the law firm of Foster, Pepper Rubini & Reeves LLC in Anchorage. From 2002 to 2003, Mrs. Schubert was General Counsel to Southcentral Foundation, and from 1995 to 2002, she was a member of Foster Pepper. From 1992 to 1995, Mrs. Schubert practiced law at Birch, Horton, Bittner & Cherot, and from 1982 to 1992, Mrs. Schubert practiced law in New York City at the firms of Rogers & Wells; Fried and Frank, Harris, Shriver & Jacobson; and at the Federal Reserve Bank of New York. Mrs. Schubert attended the School of Law at Cornell University; the Johnson School of Management (MBA) at Cornell; and Stanford University. She serves as Chair of the Boards of the Alaska Native Heritage Center and Akeela Treatment Services, Inc., and on the boards of the Bering Straits Native Corporation, the Alaska Federation of Natives, Khoanic Broadcast Corporation, the Alaska Native Justice Center, and is a member of the Anchorage Downtown Rotary. Mrs. Schubert's term expires December 31, 2007.

**Jeffrey E. Sinz** was appointed to the board in 1998 by Governor Knowles. Mr. Sinz is currently employed as Chief Fiscal Officer for the Municipality of Anchorage. He has over twenty years experience in public sector financial management and analysis, including fourteen years with the Municipality of Anchorage. Prior to accepting his current position in Anchorage, he served as Director of Finance for the Kenai Peninsula Borough. Mr. Sinz has also held positions with the Alaska Railroad Corporation and prior to moving to Alaska in 1981, with a Wisconsin public school district. He also serves as vice president of the Alaska Municipal League Investment Pool Board of Directors and is on the Board of Directors for the Anchorage Parking Authority. He has an MBA in Management from the University of Alaska Anchorage and a BBA in Finance from the University of Wisconsin Eau Claire. His term expires December 31, 2004.

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## ONLINE NEWS & FEATURES

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### Duluth struggles with retiree health costs

by Bob Kelleher, Minnesota Public Radio  
December 30, 2004



City services, like snow plowing, could be at risk, unless Duluth comes to terms with escalating costs for retiree health care. That's the warning from Duluth Mayor Herb Bergson. (MPR Photo/Bob Kelleher)

**People are feeling the rising costs of health care from the living room to the board room. In Duluth, health expenses could put basic city services at risk. Officials warn that the city's generous coverage for retired employees could eventually gobble up Duluth's entire budget - with nothing left for police and firefighters, parks or street maintenance.**

Duluth, Minn. — Duluth's City Council has just finished its annual budget ritual, another painful exercise in what to cut next. But next year looks even worse. Duluth Mayor Herb Bergson says every city service is at risk unless something is done about soaring health costs.

"Unless we do, in my lifetime, we will be in the health care business, and out of public service business," Bergson says.

Blame a uniquely generous benefit package which promises life time coverage for retired city workers. And blame something we all face - which some call medflation. That's a rapid expansion in the cost of health procedures and drugs, combined with an aging population that requires more health care.

According to Bergson, even a small increase in medflation adds up to a huge bill.

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Duluth snowplow

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"If the inflationary percentage is 5.5 percent on health care, then it costs \$2.6 million to insure that employee from the day we hire him or her tomorrow until the day they die," Bergson says. "Fourteen million if the inflationary number is 10 percent."

Employee health coverage isn't just a problem for Duluth. It's a problem for other cities, and for private businesses. But according to Stephanie Lake, with the Minnesota League of Cities, businesses have options that cities don't.

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**In my lifetime, we will be in the health care business, and out of public service business.**

- Duluth Mayor  
Herb Bergson

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"Unlike, perhaps a private company, they (cities) are stuck between the rising costs and budget cuts," Lak says. "A private company might be able to go out and raise the cost for its end product, but the cities, because they face those cuts in budgets, combined with that rising health care cost, really got pinched."

You can't just change the benefit package. Retirees keep the benefits they retire under. Try to change that and expect a lawsuit. And officials with AFSCME the American Federation of State, County, and Municipal Employees - say they're not interested in re-opening current employee contracts which are good for another year. They say the city has the means to pay the coverage.

Complicating things is a new federal rule.

Duluth pays its health obligations year by year, depositing a year's worth of expenses with a plan manager. That's worked for 20 years, according to City Administrative Assistant Mark Winson.

But when you pay-as-you-go, there's nothing in the bank for future expenses. Something called The Government Accounting Standards Board, GASB, is about to change that. The board has issued new rules on how cities account for future obligations to retirees. According to Winson, until GASB rule 43, Duluth's health expenses were worrisome, but still manageable.

"But that was still looking at a kind of pay-as-you-go," says Winson. "The implementation of GASB statement 43 brought it to a much higher level of importance."

American cities will soon have to have something in the bank to back up what they'll owe retirees in coming years. If not, the city's bond rating is a risk.

Duluth is facing a 30 year health cost that tops \$150 million. By this time next year, city officials will need an \$11 million down payment on that expense in the bank. That's on top of \$10 million dollars budgeted for ongoing health care bills. The accounting standards are faced by cities everywhere, but Winson says Duluth's generosity to retirees makes the city unique in Minnesota.

"With the new accounting standards that are coming into place, we will have probably a higher liability, unfunded liability, for retiree health care, compared to any other city our size," Winson says.

The solution will likely come from several directions. Already, the city's

moved to cut costs. There are now 16 unfilled city jobs that won't be filled. And a new contract with city workers includes fewer health benefits for newly hired employees. Meanwhile, the city's share of property taxes is going up more than 5 percent. That fixes the 2005 budget. But there's still a big hole ahead in 2006, an \$11 million dollar hole, and just 12 months to figure out how to fill it.

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## State Retirement System Needs Help

*Published in the Voice of the Times on February 5, 2005*

Since the start of the legislative session I've been studying the problems with the Public Employees and Teachers Retirement Systems (PERS/TRS) in an attempt to find solutions for the \$5 billion unfunded liability. As a demonstration of my commitment, I declined participation in PERS as a new legislator.

I've come to the conclusion that solving the unfunded liability problem will require all three parties to come to the payment table – the State, local government employers, and the thousands of active, non-retired employees who receive the generous benefits which are now costing much more to provide. There is a common belief that the only employees who can participate in the fix are the ones hired in the future under a new tier to be developed by the Legislature. Without question a new tier is an essential component of the broader solution, but it isn't enough. It won't have a meaningful impact for a decade or more.

The PERS/TRS Boards, the Legislature and the Administration have been wringing their hands while the fund has slid another billion dollars under water. In an attempt to create an equitable plan to include existing non-retired employees in the \$5 billion unfunded liability solution, I've met with several Administration officials. Each time I've been told it could not be done because of a provision in our state Constitution and a 1981 court case. Following these conversations, I instructed my staff to pose the question to the Legislature's lawyers. Initially, they joined the administration saying it couldn't be done.

Constitutionally providing that the Legislature is forbidden to adjust benefits or beneficiary contributions, even to reflect dramatic changes in costs or to protect the financial viability of the system, would mean that if the State hired a 25 year-old employee today, thus beginning a 60 year relationship (30 years active and 30 years retired), the state would be powerless to change anything. This seemed to me legally questionable and managerially absurd. After I requested in-depth legal research, our Legislative lawyers offered an initial legal opinion that convinces me the Legislature may well be permitted to make changes to the plans that protect "accrued" benefits, but allow us to include active PERS/TRS members as contributors to the PERS/TRS solution.

In an effort to involve current non-retired employees in the solution, I'd start by recognizing that there has been a long-standing monthly payment-sharing scheme between our employers and employees. For example, until very recently, PERS involved roughly a 50/50 sharing between employer and employee in bearing the employees benefit cost. The legal opinion also suggests we may be able to require employees to come to the party on the health care side of the solution. Some folks in the Administration and some of my colleagues may not like this approach. Our public employees are a sizeable voter bloc, and the unions that represent them are a powerful lobbying force. There will undoubtedly be political pressure, and perhaps even a lawsuit, to prevent this measure. I am confident we will be able to build broader support among the general public and the boroughs/municipalities if our comprehensive plan to fix PERS/TRS brings all affected constituencies to the table. I believe if the employees and unions take a long-term view they may support active beneficiaries paying a fair share to get their retirement and health care programs back in good financial therefore the long term.

The public should demand no less than a detailed long-term plan for a solution to the PERS/TRS problems before the Legislature adjourns in May. I've been asked by House leadership to help formulate a PERS/TRS solution and to coordinate with efforts in the Senate. I'll be very reluctant to forego involving active employees in this solution. For more information, including a copy of the legislative legal opinion, please visit my website at [www.akrepublicans.org](http://www.akrepublicans.org).

# Alaska State Legislature

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## Representative Mike Kelly

*House District 7*

### The Coming PERS/TRS Funding Crisis

As my staff and I prepare for this Legislative Session I am studying the important issues that will drive the agenda of the House. The more I study the crisis in funding of the Public Employees' and Teachers' Retirement System (PERS/TRS), the more concerned I become. It is currently under funded by over \$5 billion. To put this in perspective, \$5 billion could fund the state portion of our University budget for 25 years, fund K-12 Education for the next decade, or fund the State operating budget for the next two years. I want to make it clear that, although I believe we must make changes to the troubled system, we also have an obligation to PERS/TRS participants who are counting on it for retirement. We must also be able to attract and retain qualified public employees and teachers. As a new legislator I am eligible for benefits under PERS. I have chosen to decline enrollment at this time. Admittedly, waiving PERS benefits is easier for me than it might be for legislators who are already participating, or have no other retirement plan.

A 20/20 hindsight view of PERS/TERS reveals a system destined to hit the rocks. Health care costs far exceeded plan expectations; the aging beneficiary population is boosting retirement costs, while fewer younger employees are paying into the plan because of cutbacks in government; the plan provides a "defined benefit" instead of a "defined contribution," which places considerable risk on government employers; and asset investment returns have fallen lower than anyone believed possible. I was disappointed to learn that the current investment rate recovery will only have a small positive impact because PERS/TERS is so far under water.

While I find reasons given for financial failure of PERS/TERS to be instructive, I believe the core problem may be more insidious. The benefits bargaining table is a "round table"! Although there have been cost and abuse control measures implemented in the past, it appears we have not consistently maintained an independent and fiscally conservative management team across the table from the motivated beneficiary team. A look at the roster of PERS/TERS participants helps one understand the problem. Our Governor; his commissioners; local and State government employees and supervisors; school board, council and assembly members; professors, teachers and even legislators are all eligible to receive benefits at the round table.

I've been told two of every five Alaskans are PERS/TERS beneficiaries, covered dependents, or are related to these participants. Several of my own extended family are public employees or teachers. The round table structure is not unique to Alaska, or to government. But wherever it exists – there is a recipe for trouble. The round table breeds patronage – and it influences votes. I mean no criticism of

participants who fully utilize PERS/TERS benefits, options and privileges. But simply stated, we cannot afford this near-bankrupt system!

Prior to the State paying it's fair share of the unfunded liability, I believe a new defined-contribution plan covering new hires and re-entrants, and establishing provisions to prevent abuse, must be in place. We must be prepared to change law, renegotiate agreements, and do whatever it takes to craft a long-term, fair and affordable solution before asking the people of Alaska to provide a \$5 billion bailout.

I suggest we begin deliberations with three stakeholders – each taking ownership of one third of the problem (we must start somewhere): 1) the State acting as employer and representing all Alaskans benefiting from the labor of the beneficiaries; 2) local government employers; 3) PERS/TERS beneficiaries. Ideally we should place non-beneficiary management representatives on one side of the table, and non-management employee beneficiaries on the other. That will be a real challenge given the "round table" configuration of PERS/TERS. Changing the make-up of the PERS/TRS boards to provide for 50% non-beneficiary directors deserves some thought. Our goal should be to craft a fiscally sound and fair solution by the end of session.

Repairing the PERS/TERS meltdown and making sure it never recurs poses a significant challenge for lawmakers. If we are successful, we will probably only upset one out of every two Alaskans. As a freshman, I obviously have much to learn in a very short time. I can perhaps be more effective in helping my colleagues to craft a sound solution if I decline PERS enrollment. So I shall.

I wish everyone abundant blessings in the New Year and look forward to serving you in Juneau.

Mike Kelly, Representative District 7

## **The State of Michigan - Defined Contribution Program**

**This does not change the retirement benefits (pension or health) of any current state employee or retiree.**

This Defined Contribution program will provide all **NEW** state employees with a portable defined contribution retirement plan. The plan will be mandatory for new state employees hired on or after March 31, 1997. The Defined Contribution plan will also be an option for current state employees who are members of the existing retirement systems or for those who are former employees who are re-hired. The current retirement systems will be closed to new state employees as of March 31, 1997.

### **Retirement benefits:**

- Mandatory employer contribution of 4 percent of each employee's annual compensation to a personal Defined Contribution Account.
- Employer match of employee voluntary contributions up to an additional 3 percent of compensation. If an employee contributes 3 percent, the employer will match the 3 percent employee contribution to total 10 percent of employee's compensation. [Calculation: 4 percent employer contribution + voluntary contribution + maximum 3 percent employer match.]
- Employees may contribute additional voluntary amounts to their Defined Contribution Account or other tax-sheltered plans to the extent permitted by the Internal Revenue Code with no employer match.
- Employees will be 100 percent vested in the employer contributions after four years of service.
- A Defined Contribution Account is portable. Employee contributions and vested employer contributions can be taken by the employee when they leave public service.

### **Retiree health benefits:**

- New employees who are enrolled in the defined contribution plan will vest in retiree health benefits after 10 years of service. The employee will be entitled to a state or school district contribution towards the insurance premium for state health insurance coverage upon retirement of 3 percent for each year of service, up to a maximum of 90 percent (for 30 or more years of service). Current or former employees who elect to be a member of the defined contribution plan will receive the same retiree health insurance premium contribution as if they had stayed in their current defined benefit plan.
- Retiree health benefits are portable. A retiree may choose their own insurance provider and may direct the employer's contribution for their health insurance premium toward payment of their private insurance coverage.
- Direct payment of employer's contribution for retiree's health insurance premium into Medical Savings Account.

### **Advantages of the program:**

- No current employee is required to leave their current retirement system.
- Defined Contribution Accounts are portable. When an employee terminates employment before retirement, they do not lose their accumulated assets. This improves career mobility and enhances the state's ability to attract well-qualified employees.
- The employee controls the investment of their funds in qualified funds.
- Michigan taxpayers no longer bear the investment risk for those employees in the defined contribution plans.

**Choice for current employees:**

- Current members of the State Employees Retirement System may choose to transfer to the defined contribution plan. Members who transfer to either of the DC plans will be 100 percent vested for employer contributions after four years of service, 75 percent after three years, and 50 percent after two years. Years of service under both the DB and DC plans will count toward retiree health benefits.
- Current vested state employees who choose to transfer to a defined contribution plan will have an amount equal to the present value of their accumulated benefits (including any employee contributions) deposited into their Defined Contribution Account. They will relinquish their membership in their defined benefit plan and the state will make future retirement contributions into their Defined Contribution Account.
- Employees who transfer from their current retirement system to their defined contribution plan will pay the same retiree health benefit insurance premium that defined benefit members pay and may count years of service under both the defined contribution and defined benefit plans for purposes of vesting in the retiree health benefit.

218 Contracts	SBS	PERS	TRS
Soldotna, City of		123	
Southwest Region School District		102	758
Special Education Service Agency		218	779
St. George, City of		256	
St. Paul, City of	0072	172	
State of Alaska - Administration	0001	101	737
Tagiugmiullu Nunamiullu Housing Authority		293	
Tanana City School		166	775
Tanana, City of		169	
Thorne Bay, City of		206	
Tlingit-Haida Regional Housing Authority		279	
University of Alaska		113	733
Upper Kalskag, City of		290	
Valdez City Schools		137	730
Valdez, City of		107	
Wasilla, City of	0031	131	
Whittier, City of		202	
Yukon-Koyukuk School District		160	762

All teachers are excluded from Social Security in Alaska.

Note: Matanuska-Susitna Borough School District employees participate in SBS with some excluded employee classifications. These excluded employees are enrolled in Default Mandatory Social Security.

PERS/TRS employers without Social Security

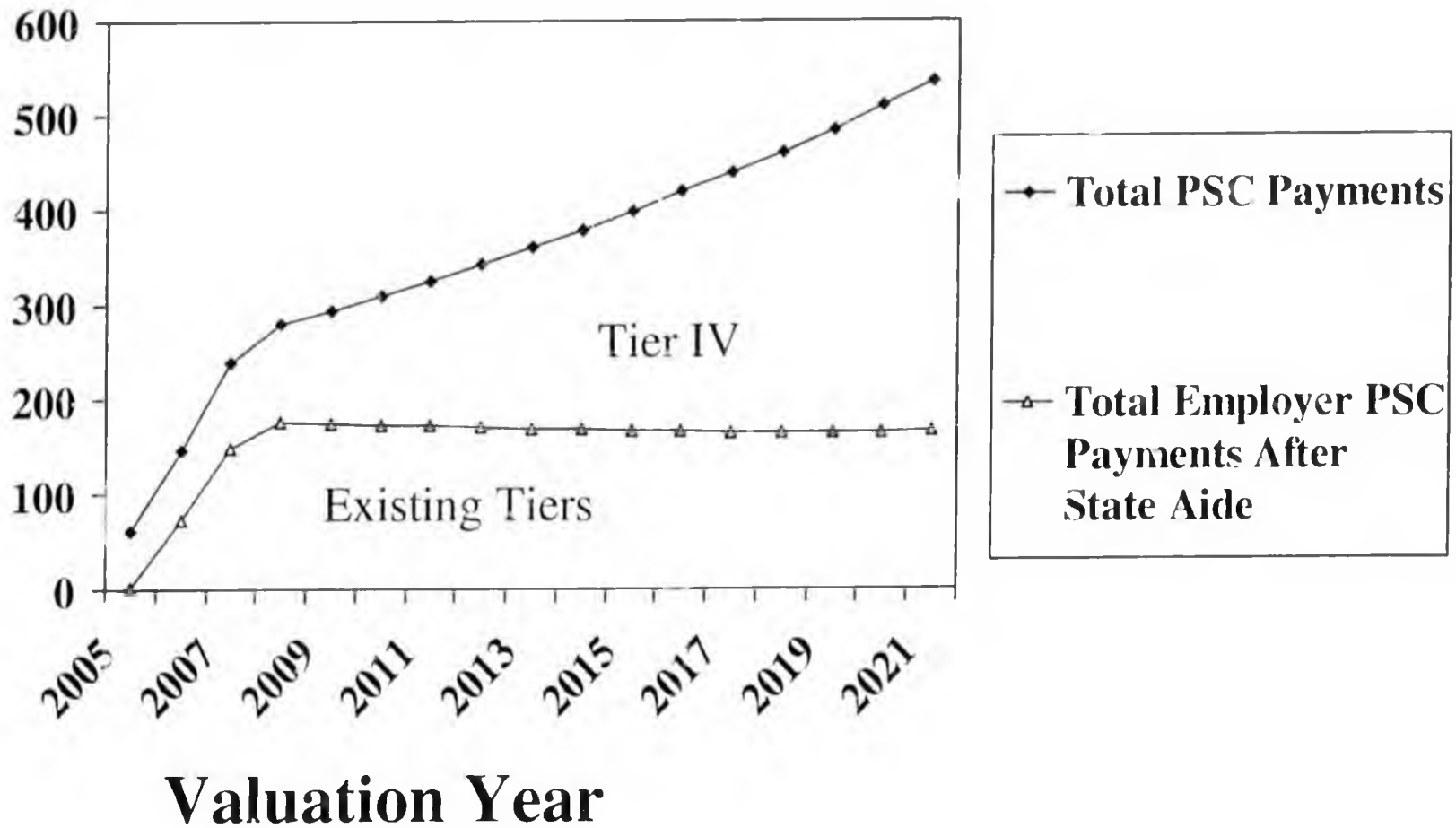
218 Contracts	Employer Number		
	SBS	PERS	TRS
Aleutian Housing Authority		267	
Aleutians East Borough		230	
Aleutians East Borough School District		244	780
Aleutians West Coastal Resource Service Area		245	
Aiakaket, City of		259	
Anaktuvuk Pass, City of		273	
Atka, City of		243	
Baranof Island Housing Authority		281	
Bering Straits Coastal Resource Service Area		232	
Bering Straits Regional Housing Authority		270	
Bethel, City of		136	
Bristol Bay Borough		144	
Bristol Bay Borough School District		184	742
Chugach School District		121	771
Cook Inlet Housing Authority	0705	262	
Copper River Basin Regional Housing Authority	0295	224	
Denali Borough		258	
Denali Borough School District (aka Railbelt)	0018	118	764
Eek, City of		292	
Egegik, City of	0795	271	
Fairbanks, City of		129	
Haines Borough	0189	189	
Haines Borough School District		240	707
Hooper Bay, City of		285	
Hydaburg City Schools		168	709
Interior Regional Housing Authority		263	
Inter-Island Ferry Authority		284	
Kachemak, City of		260	
Kaltag, City of		237	
Kashunamiut School District		211	777
Kenai, City of		115	
Kivalina, City of		231	
Kotzebue, City of		140	
Koyuk, City of		287	
Lake & Peninsula Borough	0555	247	
Lake & Peninsula School District		164	757
Marshall, City of (aka Fortuna Ledge)		268	
Matanuska-Susitna Borough	0009	109	
Matanuska-Susitna Borough School District	0010	110	722
Mekoryuk, City of		254	
North PAC Fish Management Council		170	
North Pacific Rim Housing Authority		276	
North Pole, City of		191	
Northwest Arctic Borough		220	
Northwest Arctic Borough School District		154	751
Northwest Inupiat Housing Authority		288	
Petersburg City Schools		228	724
Petersburg General Hospital		187	
Petersburg, City of		143	
Quinhagak, City of		266	
Sand Point, City of		176	
Selawik, City of		222	
Seward, City of		182	
Shaktolik, City of		291	
Sitka Borough School District	0033	133	727
Sitka Community Hospital	0065	165	
Sitka, City & Borough	0020	120	

75 PERS.  
do not  
participate  
social  
security

Aid To Communitines From Past Service Offset Account			
Actual Dolliar Value			
Valuation Year	PSC State Aide Until Blended Rate	Total PSC Paymna	Total Employer PSC Payments After State Aide
2005	59,854,472	61,024,000	1,169,528.32
2006	74,216,999	146,707,000	72,490,000.62
2007	88,999,019	238,945,000	149,945,980.60
2008	104,493,323	280,279,000	175,785,677.45
2009	120,568,676	295,088,000	174,519,324.47
2010	137,353,683	310,344,000	172,990,317.09
2011	154,783,006	326,448,000	171,664,994.14
2012	172,841,421	343,250,000	170,408,579.13
2013	191,780,849	360,869,000	169,088,151.05
2014	211,311,021	379,348,000	168,036,979.32
2015	231,514,256	398,753,000	167,238,744.40
2016	252,484,282	418,799,000	166,314,717.88
2017	274,195,360	439,709,000	165,513,640.43
2018	296,674,517	461,776,000	165,101,482.84
2019	319,821,065	484,879,000	165,057,935.50
2020	343,579,788	509,151,000	165,571,211.62
2021	368,075,676	534,694,000	166,618,323.77

# PERS Aide to Communities From Past Service Offset Account: Actual Dollar Value

Millions of dollars



PERS employers with Social Security 218 Contracts	Employer Number		
	SBS	PERS	TRS
Akutan, City of		208	
Alaska Gateway School District		255	736
Alaska Housing Finance Corporation		152	
Alaska Municipal League		106	
Aleutian Region School District		162	758
Anchorage Parking Authority		203	
Anchorage School District		111	701
Anchorage, Municipality of		173	
Anderson, City of		283	
Annette Island School District		103	770
Barrow, City of		171	
Bartlett Memorial Hospital (entity of CBJ)		219	
Bering Straits School District		104	752
Bristol Bay Regional Housing Authority		223	
Chatham School District		105	768
Copper River School District		112	767
Cordova City Schools		185	704
Cordova Community Hospital		163	
Cordova, City of		148	
Craig City Schools		204	705
Craig, City of		186	
Delta Junction, City of		282	
Delta-Greely School District		246	765
Dillingham City Schools		205	744
Dillingham, City of		178	
Elim, City of		242	
Fairbanks North Star Borough		116	
Fairbanks North Star Borough School District		117	706
Fort Yukon, City of		183	
Galena City Schools		141	735
Galena, City of		192	
Homer, City of		215	
Hoonah City Schools		138	708
Hoonah, City of		199	
Huslia, City of		235	
Iditarod Area School District		124	761
Ilisagvik College (entity of North Slope Borough)		275	
Juneau Borough School District		108	710
Juneau, City & Borough		126	
Kake City Schools		265	712
Kenai Peninsula Borough		180	
Kenai Peninsula Borough School District		190	746
Ketchikan Gateway Borough		122	
Ketchikan Gateway Borough School District		177	714
Ketchikan, City of		181	
King Cove, City of		151	
Klawock City Schools		251	717
Klawock, City of		227	
Kodiak Island Borough		174	
Kodiak Island Borough School District		158	718
Kodiak, City of		128	
Kuspuk School District		125	755
Lower Kuskokwim School District		157	754
Lower Yukon School District		153	753
Mountain Village, City of		294	
Nenana City School		196	719
Nenana, City of		193	

85  
PERS  
Employers  
Participants  
Social  
Security

<b>PERS employers with Social Security 218 Contracts</b>	<b>SBS</b>	<b>PERS</b>	<b>TRS</b>
Nome City Schools		149	720
Nome Joint Utilities		175	
Nome, City of		139	
Noorvik, City of		241	
North Slope Borough		145	
North Slope Borough School District		161	736
Palmer, City of		134	
Pelican City School		257	723
Pelican, City of		200	
Pribilof School District		156	759
Saxman Seaport (entity of Saxman City)		278	
Saxman, City of		198	
Seldovia, City of		286	
Skagway City Schools		225	728
Skagway, City of		132	
Southeast Island School District		155	769
Southeast Regional Resource Center		167	743
St. Mary's Schools		221	748
Toksook Bay, City of		280	
Unalakleet, City of		249	
Unalaska City Schools		209	729
Unalaska, City of		179	
Wrangell City Schools		146	731
Wrangell, City of		135	
Yakutat City Schools		264	732
Yakutat, City of		248	
Yukon Flats School District		159	763
Yupik School District		195	778

All teachers are excluded from Social Security in Alaska.

**Projected Benefits – Rate of Return 8.25%**

15.25 yrs  
8.75  
9.38 ten years

<b>FEMALE</b>			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	110,040	7,425	92.19%
20	413,641	17,596	103.74% (102.29)
30	1,171,954	34,567	119.52%
40	2,979,845	60,940	145.03%

<b>MALE</b>			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	110,040	7,452	92.19%
20	413,641	19,421	114.49%
30	1,171,954	38,152	131.91%
40	2,979,845	67,291	160.07%

**Assumptions:**

Beginning Salary 37,538

Defined Contribution pension account: percentage 15.5%

Anchorage CPI 3.73%

Real rate of interest 4.52%

Salary increase 5.73% the first 5 years, then 4.23% (Based on Mercer's assumptions, includes inflation)

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

SBS

$6\frac{1}{2}\% = 6\frac{1}{2}\%$

**Projected Benefits – Rate of Return 6.73%**

<b>FEMALE</b>	<i>future</i>	<i>Present Value</i>	
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	102,235	5,527	68.38%
20	354,363	13,283	78.31%
30	919,202	23,890	82.6%
40	2,125,547	38,303	91.6%

<b>MALE</b>			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	102,235	6,195	76.65%
20	354,363	14,889	87.78%
30	919,202	26,779	92.59
40	2,125,547	42,935	102.18%

**Assumptions:**

Beginning Salary 37,538

Defined Contribution pension account percentage 15.5%

Anchorage CPI 3.73%

Real rate of interest ~~4.52%~~ 3.7%

1.51%

Salary increase 5.73% the first 5 years, then 4.23% (Based on Mercer's assumptions, .57% includes inflation)

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

*real average beginning salary*



### Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended December 31, 2004. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

#### Returns for Periods Ended December 31, 2004

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years
<b>Total All Plans</b>	<b>7.58%</b>	<b>10.79%</b>	<b>7.43%</b>	<b>3.33%</b>	<b>6.24%</b>
Employees' Total Plan	7.57%	10.79%	7.42%	3.32%	6.23%
Teachers' Total Plan	7.60%	10.83%	7.44%	3.31%	6.26%
PERS & TERS Policy Target	7.73%	11.40%	8.02%	3.63%	6.64%
Judicial Total Plan	7.89%	10.66%	1.97%	4.63%	6.75%
Military Total Plan	4.90%	7.70%	6.32%	4.27%	6.09%

\* Current Quarter Target = 30.0% S&P 500, 24.0% L/B Agg, 15.0% MSCI EAFE Index, 9.0% NCREIF Total Index, 6.0% Russell 2000, 3.0% CPI-W+5.0%, 3.0% Libor-1 Month+4.0%, 2.0% MSCI EAFE Index, 2.0% S&P 500, 2.0% ML Hi Yld Cash Pay Index, 2.0% Russell 2000 and 2.0% Non-US Govt World Govt Bd.

State Of Alaska Retirement Funds



### Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended December 31, 2004. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class

#### Returns for Periods Ended December 31, 2004

	Last 10 Years	Last 13-1/4 Years
<b>Total All Plans</b>	<b>9.38%</b>	<b>8.95%</b>
Employees' Total Plan	9.35%	8.94%
Teachers' Total Plan	9.44%	9.00%
PERS & TERS Policy Target	9.67%	8.96%
Judicial Total Plan	8.81%	8.49%
Military Total Plan	7.90%	7.94%

\* Current Quarter Target = 30.0% S&P 500, 24.0% L/B Agg, 15.0% MSCI EAFE Index, 9.0% NCREIF Total Index, 6.0% Russell 2000, 3.0% CPI-W+5.0%, 3.0% Libor-1 Month+4.0%, 2.0% MSCI EAFE Index, 2.0% S&P 500, 2.0% ML Hi Yld Cash Pay Index, 2.0% Russell 2000 and 2.0% Non-US Govt World Govt Bd.