

**SB**

**141**

**(FILE 3)**

**SFIN**

**FILE**



**Retirement  
Security Act**

*SB 141*

**March 16<sup>th</sup>, 2005**



**Alaska State Legislature**  
*Senate Finance Committee*



## Presentation Outline

- How a retirement system works
- What is the current status of Alaska's system?
- What went wrong?
- SB 141 Overview
- SB 141 Walk-through *(March 17<sup>th</sup>, 2005)*
- Appendices



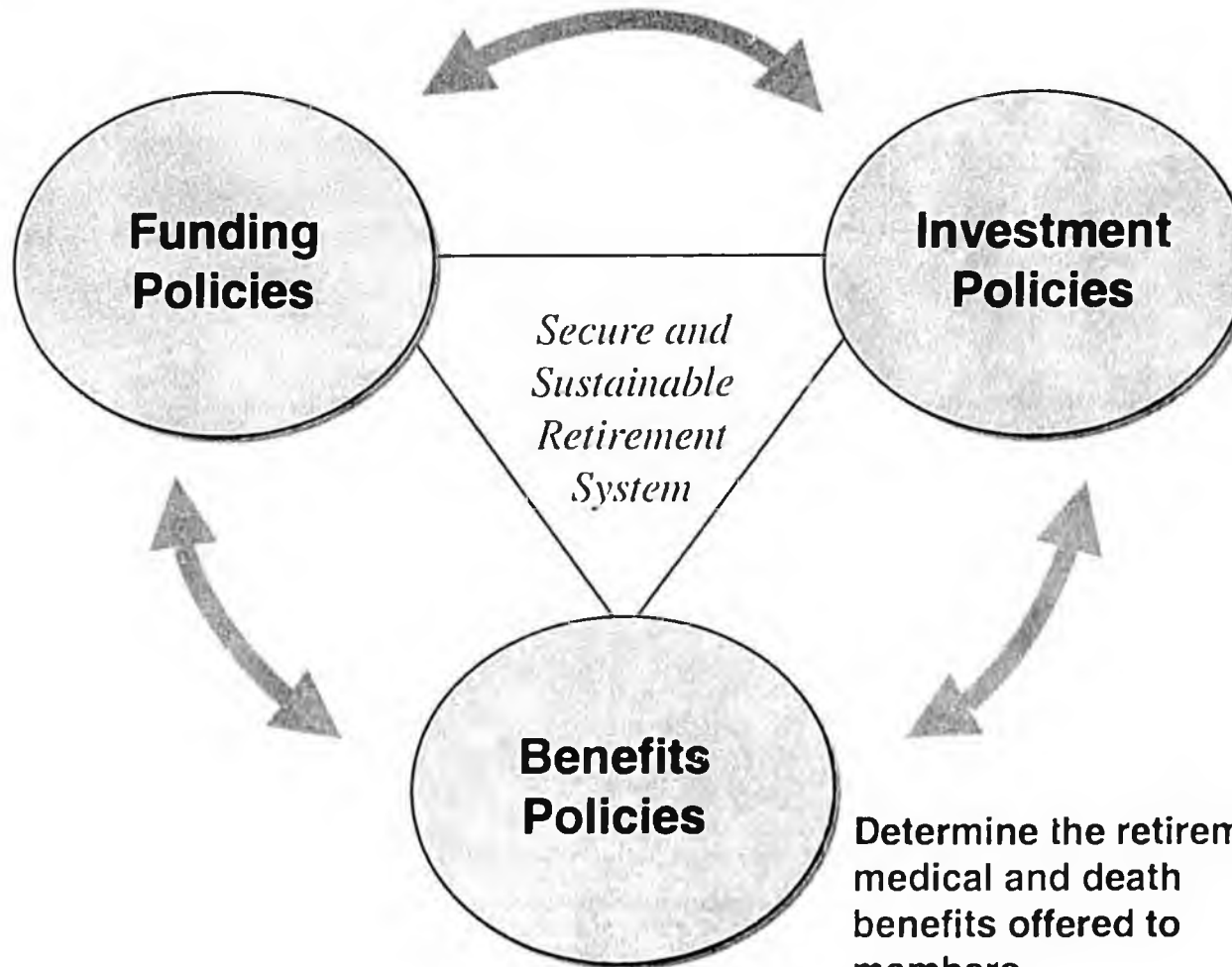


# How a retirement system works





Determine how new monies come into the system

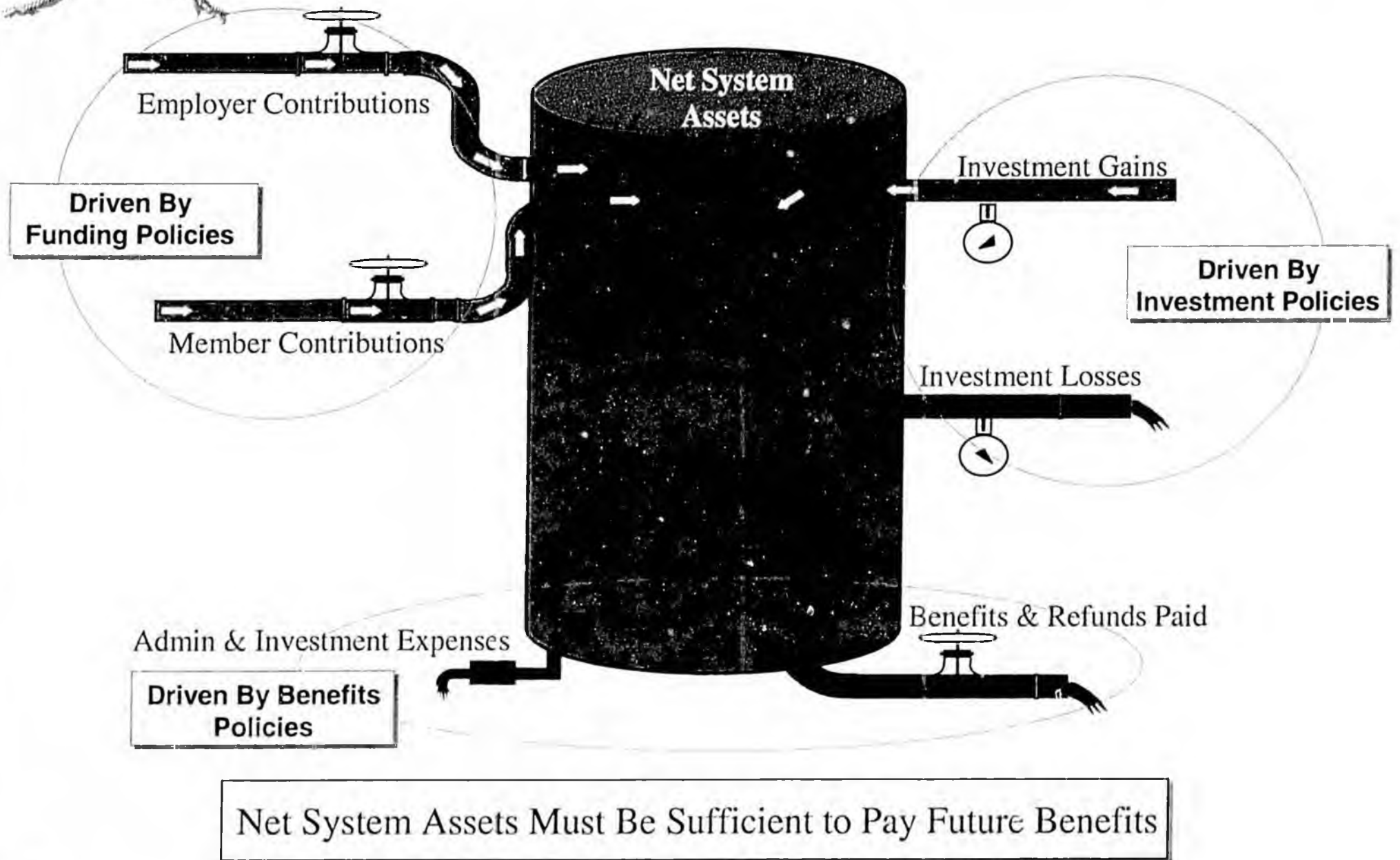


Determine how the money in the system is invested

Determine the retirement, medical and death benefits offered to members

All Three System Components Must be Working in Balance

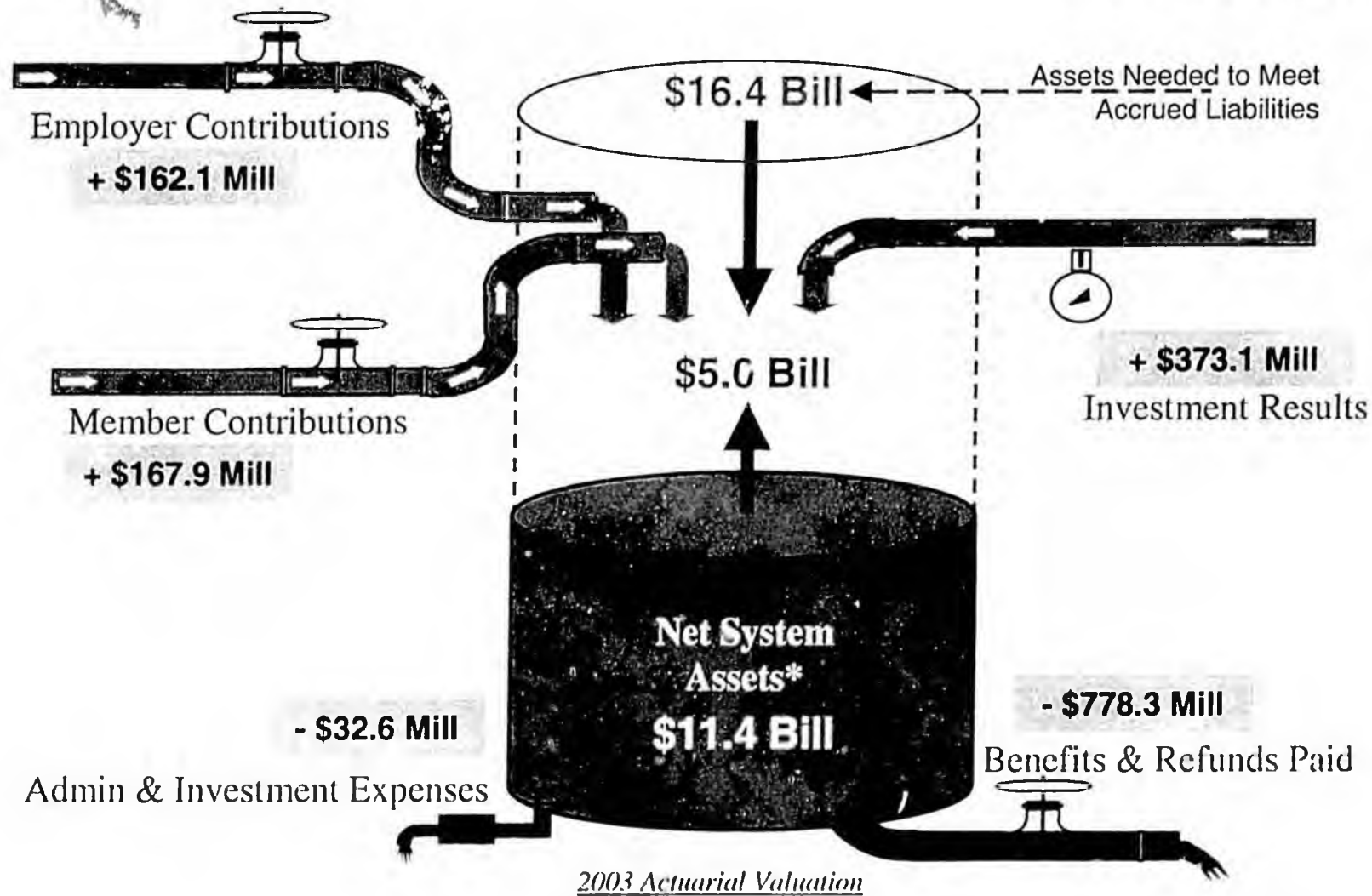






What is the status of  
Alaska's system?



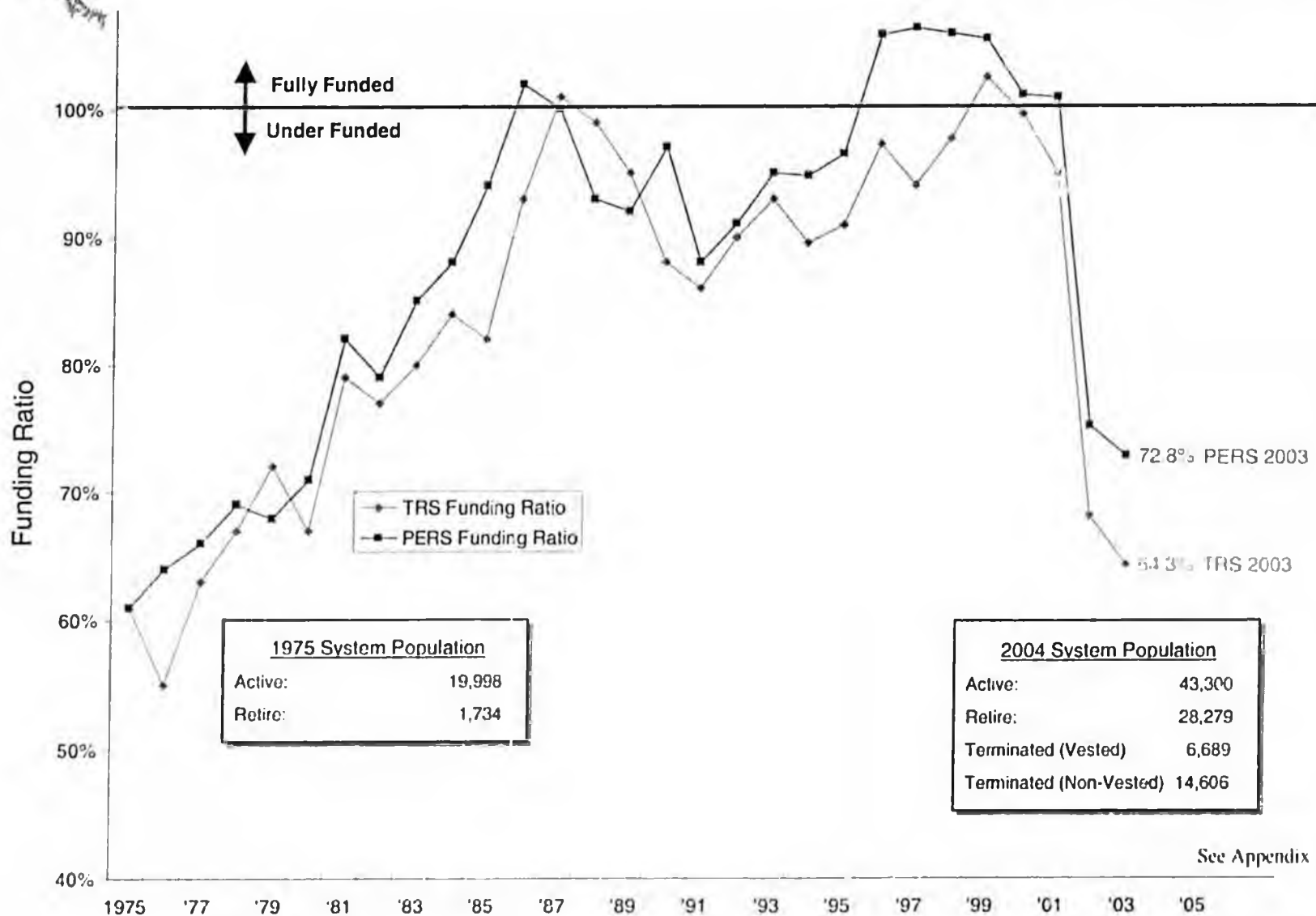


*2003 Actuarial Valuation*

\*Combined PERS & TRS Actuarial Asset Values

PERS & TRS Have A Combined \$5.0 Billion Unfunded Liability





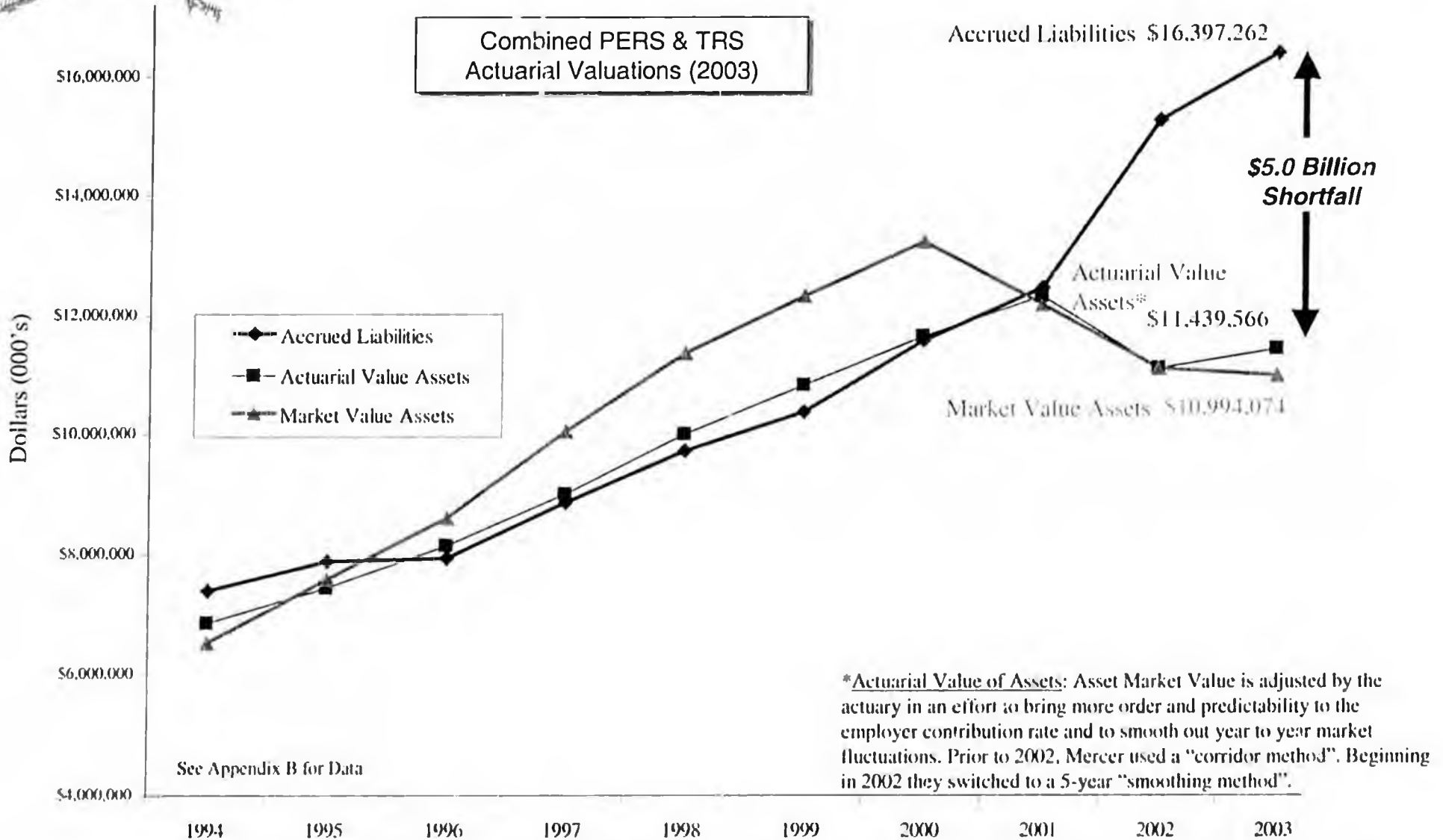
Historical PERS & TRS Funding Ratios





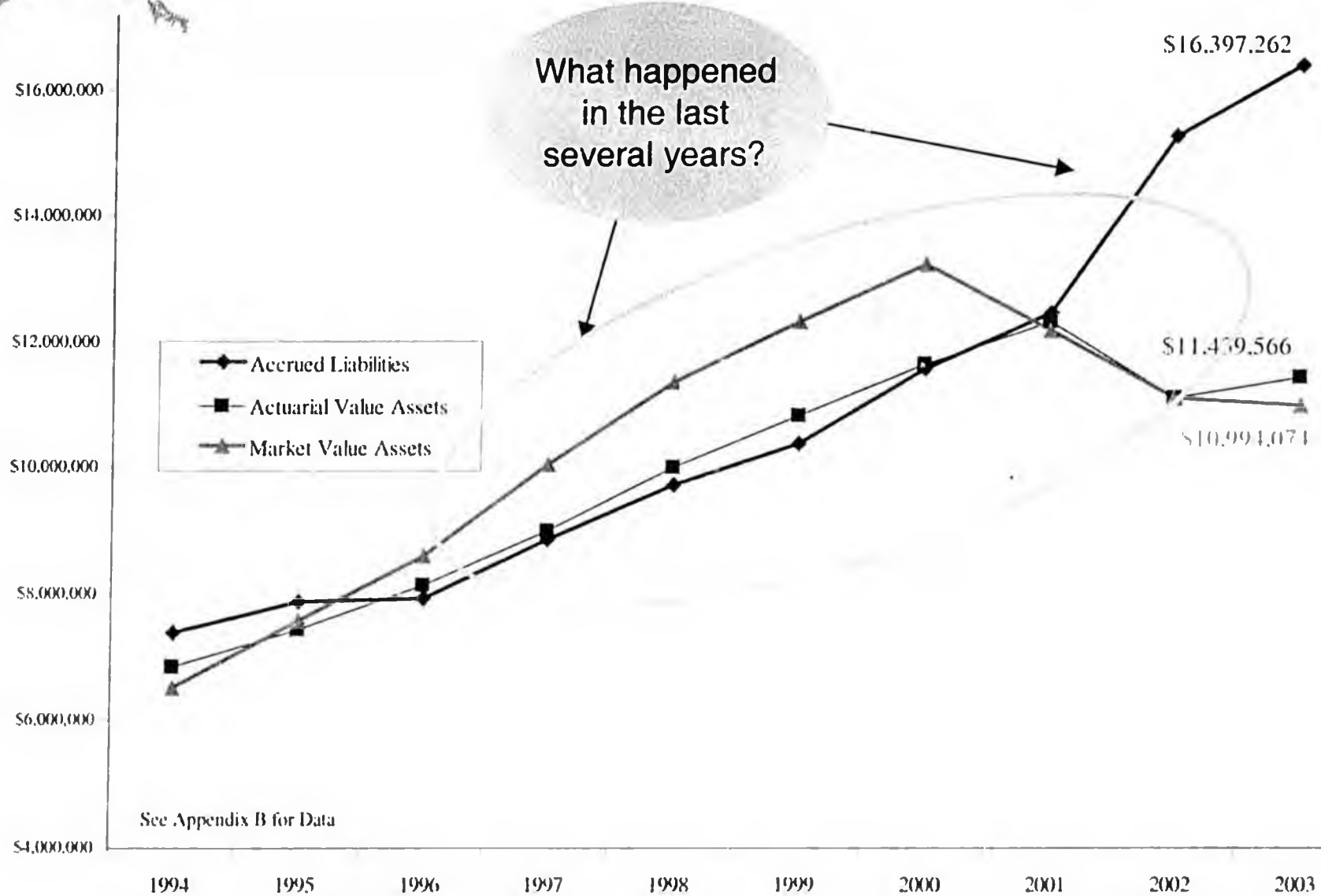
What went wrong?





We Have Been Understating Our Liabilities For the Past Several Years

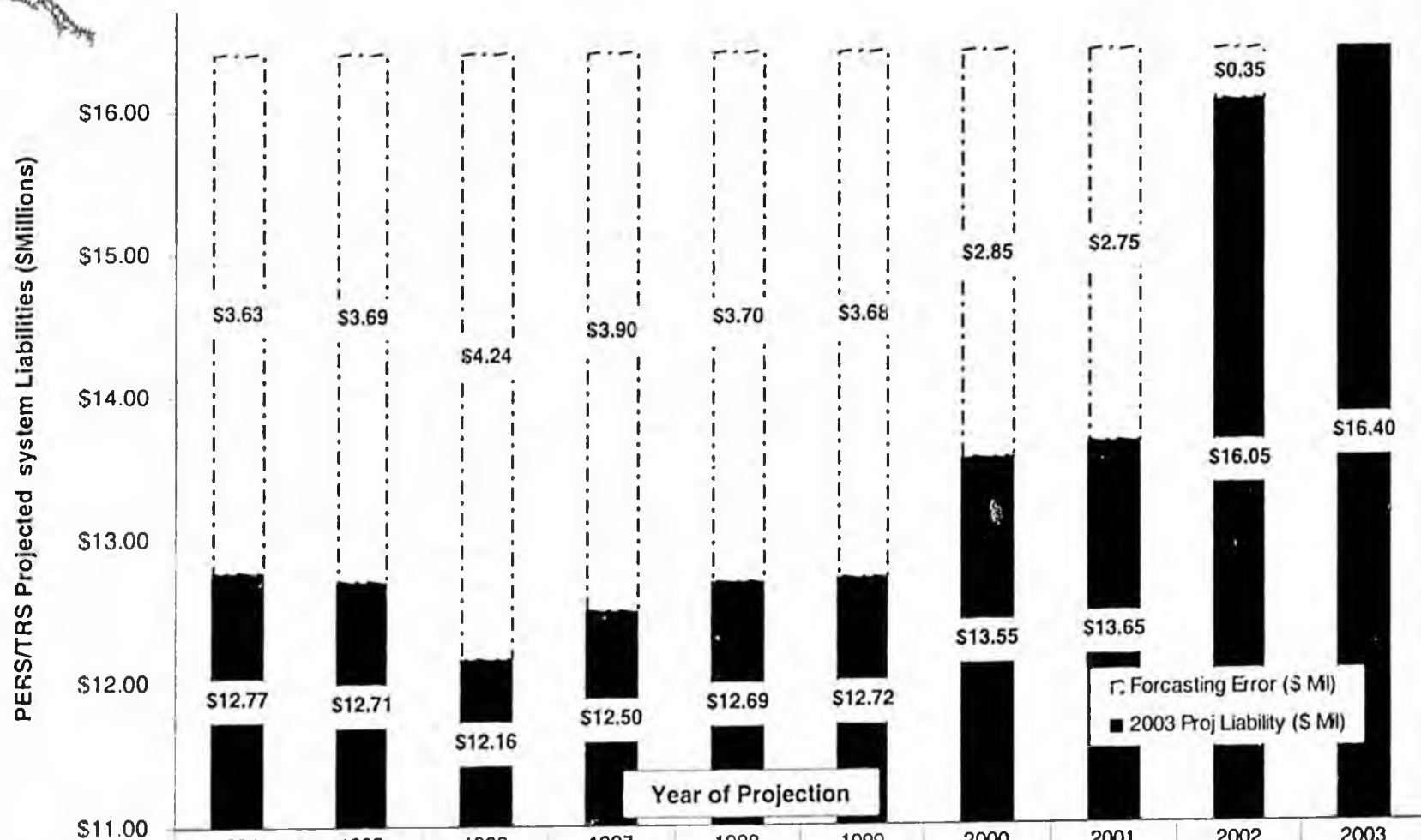




See Appendix B for Data

Clearly Something Changed Since 2000





	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Forecasting Error (\$ Mil)	\$3.63	\$3.69	\$4.24	\$3.90	\$3.70	\$3.68	\$2.85	\$2.75	\$0.35	\$-
2003 Proj Liability (\$ Mil)	\$12.77	\$12.71	\$12.16	\$12.50	\$12.69	\$12.72	\$13.55	\$13.65	\$16.05	\$16.40
Error Percentage	28.40%	29.04%	34.86%	31.23%	29.17%	27.96%	21.05%	20.13%	2.19%	0.00%

Why Have Liabilities Grown at 9.27% vs A Projected Growth of 5.60% ?

See Appendix C for Data





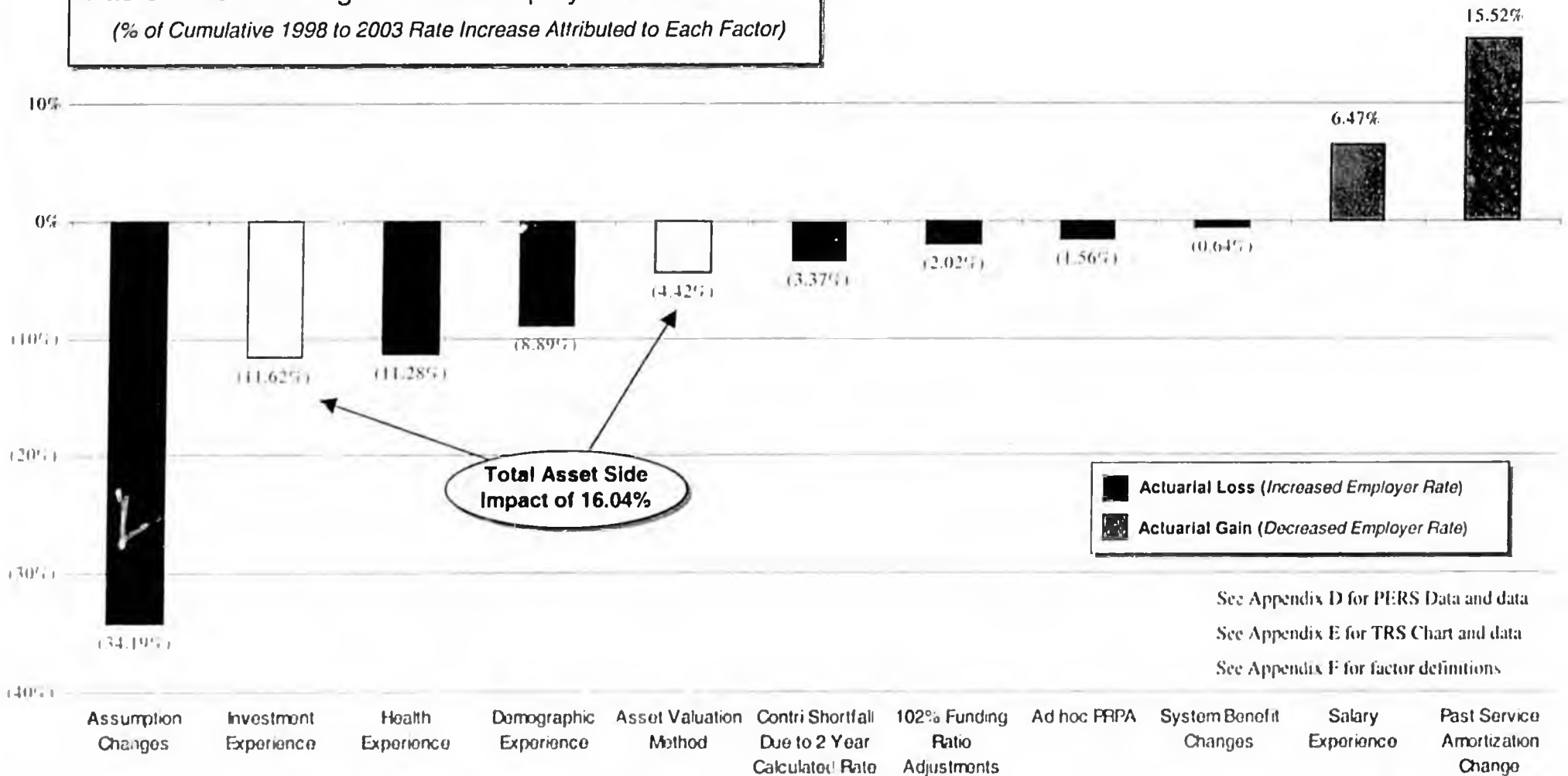
- Inaccurate assumptions
- Historical understatement of system liabilities
- Rising health costs
- 3-yr bear market
- Declining interest rates
- Unfavorable demographic changes
- Timing of the recognition of market losses
- Artificially low contribution rates in good times
- Legislation that has increased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

A Combination of Factors Created Our Present Situation





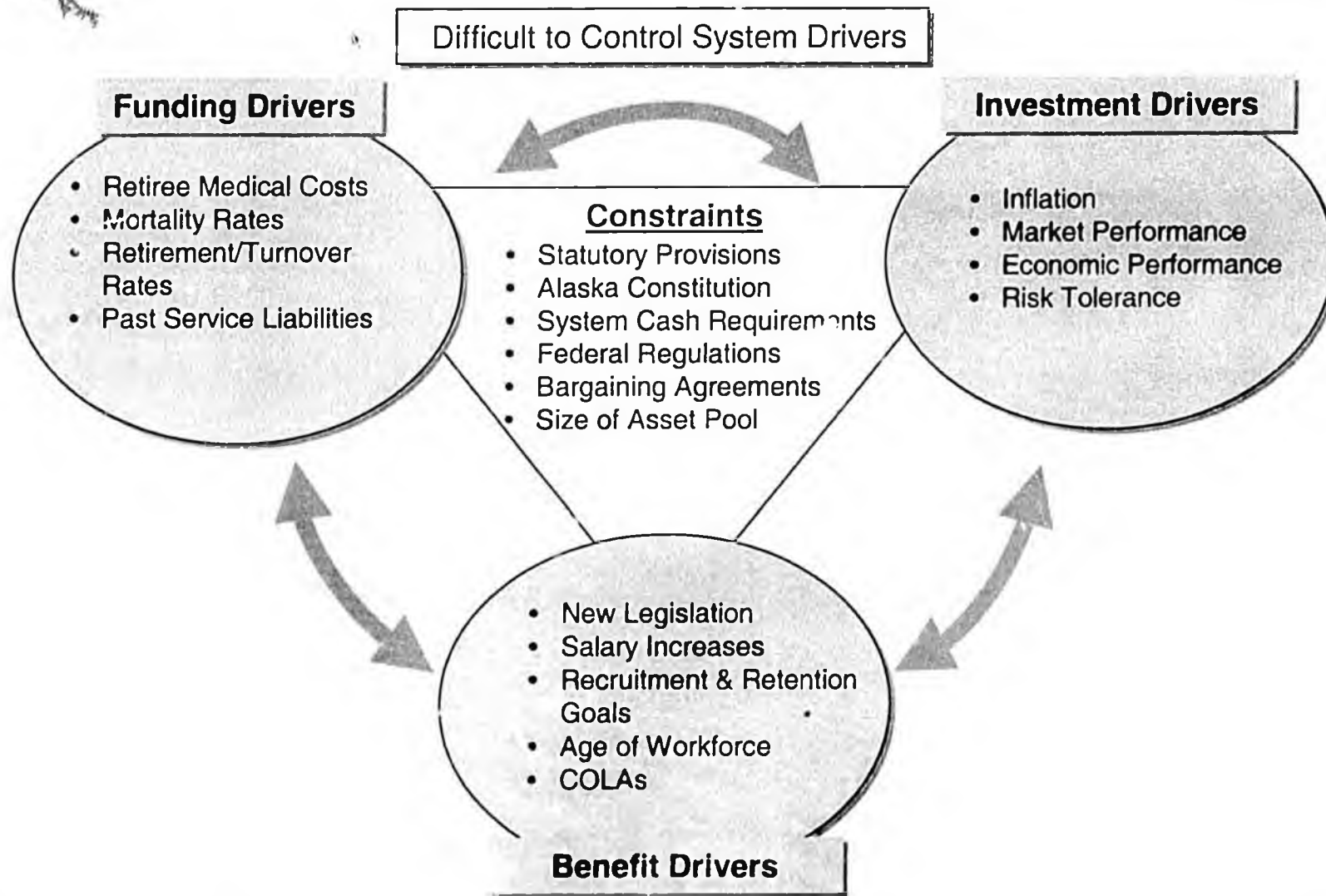
**Factors Contributing to PERS Employer Rate Increase\***  
 (% of Cumulative 1998 to 2003 Rate Increase Attributed to Each Factor)



\* PERS Employer Rate increased 18.3% from 7.36% in 1998 to 25.63% in 2003

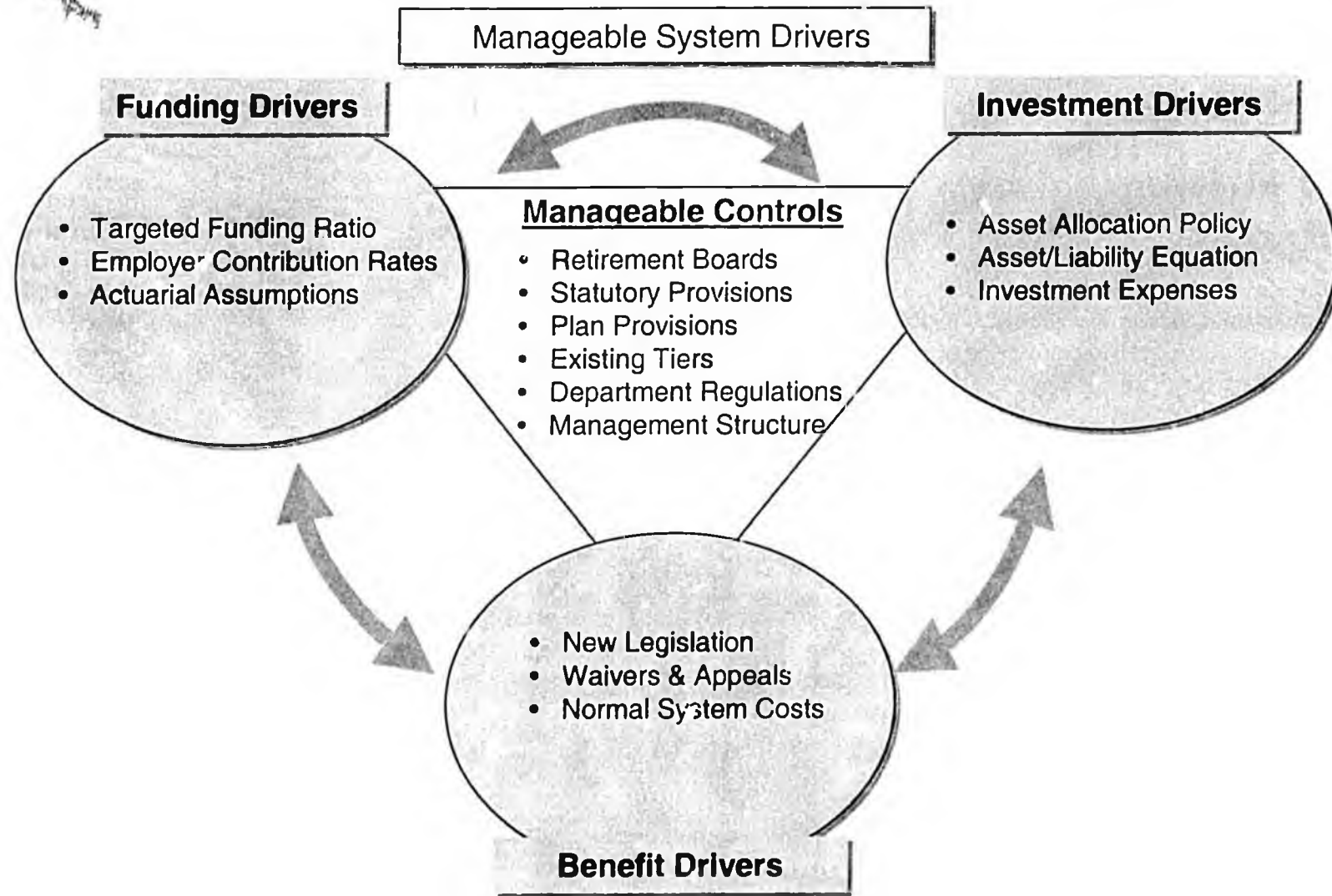
A Combination of Factors Created Our Present Situation





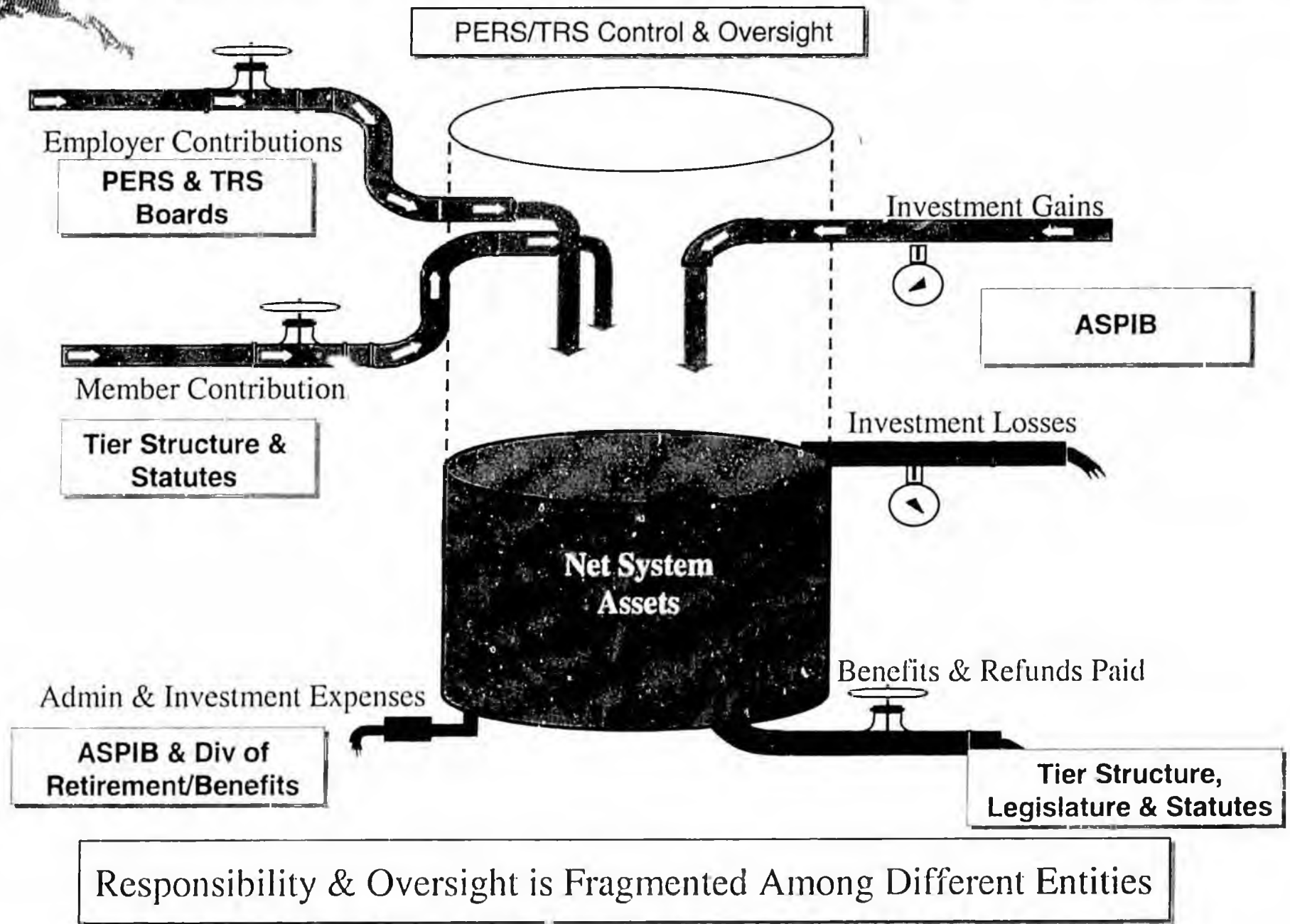
Financial & Economic Drivers are Hard To Predict and Difficult to Control

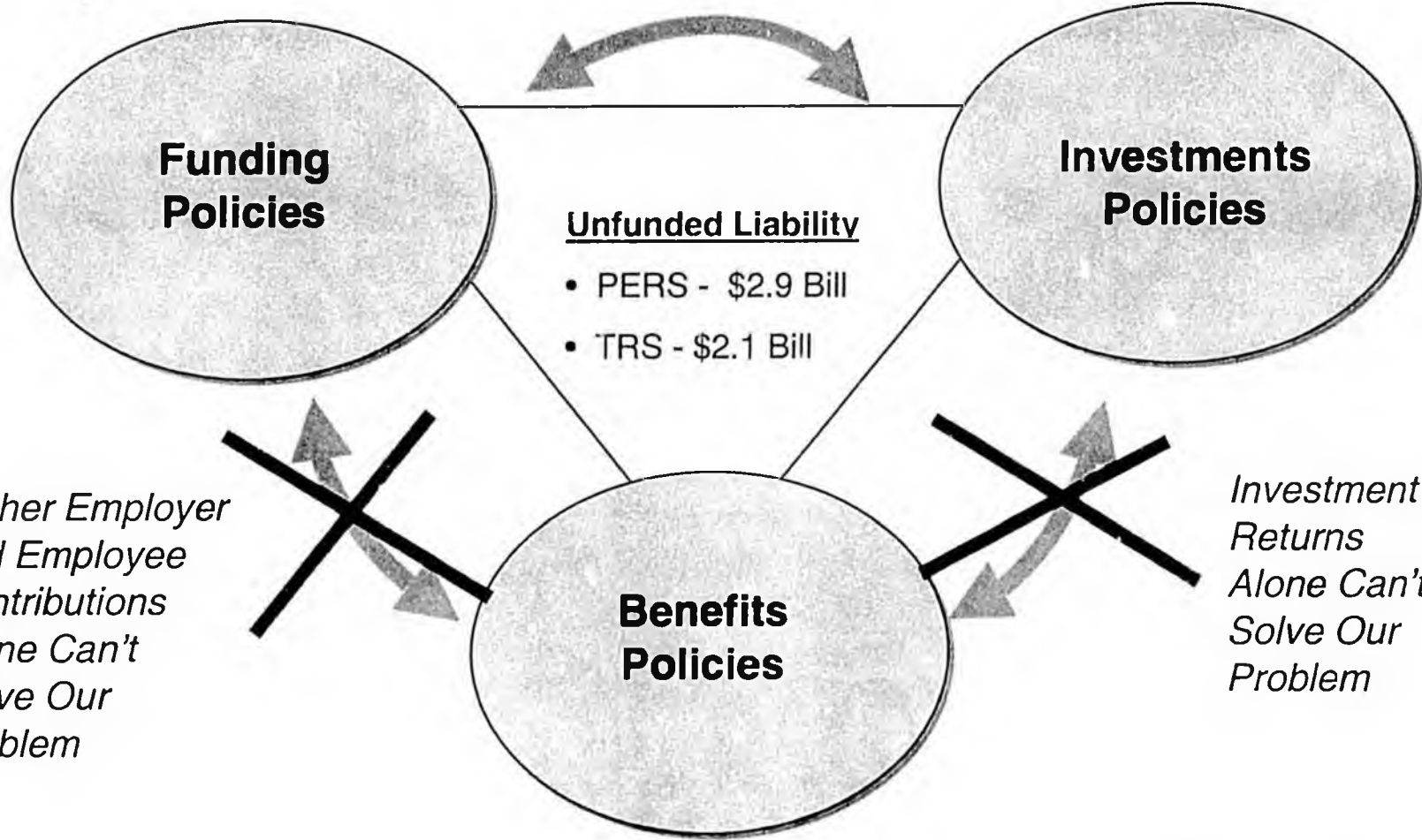




Parts of The System Can...and Should.... be Better Managed







\*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
- Liability growth must be contained
- Existing liability must be reduced





# SB 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





## SB 141 – Key Elements:

- Establishes a Defined Contribution (DC) Plan, Retiree Medical Benefit and Health Reimbursement arrangement for new employees
- Replaces the existing boards (PERS, TRS, ASPIB) with a new 9-member Alaska Retirement Management Board (ARMB)
- Establishes ARMB's role to balance system assets with liabilities
- Transfers the quasi-judicial responsibility for hearing appeals to the Office of Administrative Hearings
- Transfers to the Commissioner of Administration responsibility for adopting system regulations and reviewing waiver requests
- Sets the actuarially computed Normal Cost Rate as the floor for annual employer contribution rates

SB 141 is a Complete Solution to the Systemic Problems in PERS/TRS





# SB 141 Walk Through

To be picked up March 17<sup>th</sup>, 2005





# Appendix

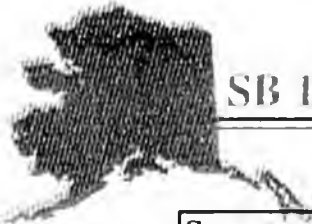




Funding Ratios (Total Benefits)

Year	TRS Funding Ratio	PERS Funding Ratio	Year	TRS Funding Ratio	PERS Funding Ratio
1975	61.0%	61.0%	'90	88.0%	97.0%
'76	55.0%	64.0%	'91	86.0%	88.0%
'77	63.0%	66.0%	'92	90.0%	91.0%
'78	67.0%	69.0%	'93	93.0%	95.0%
'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	99.0%	93.0%	'03	64.3%	72.8%
'89	95.0%	92.0%			





**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, 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, 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	3,815,633	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%





State of Alaska PERS & TRS Combined

Financial Projections ('000 omitted)

Total Assets

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2003 Projection	Actual Growth
1994	6,852,262	7,403,413	7,962,757	8,540,481	9,126,369	9,718,047	10,310,885	10,908,394	11,504,225	<b>12,094,355</b>	6.52%	
1995		7,442,146	7,991,239	8,552,339	9,121,335	9,696,836	10,275,690	10,855,836	11,438,471	<b>12,018,413</b>	6.17%	8.61%
1996			8,130,009	8,746,883	9,390,408	9,932,211	10,467,611	10,991,735	11,524,613	<b>12,068,061</b>	5.81%	8.93%
1997				9,005,532	9,553,907	10,127,253	10,710,618	11,295,186	11,880,566	<b>12,471,231</b>	5.58%	9.54%
1998					10,017,632	10,573,292	11,151,933	11,748,209	12,340,047	<b>12,935,217</b>	5.25%	9.96%
1999						10,831,973	11,402,246	12,011,278	12,619,155	<b>13,215,400</b>	5.10%	9.59%
2000							11,638,773	12,291,658	12,949,182	<b>13,600,013</b>	5.33%	9.23%
2001								12,313,985	12,947,946	<b>13,600,150</b>	5.09%	8.73%
2002									11,101,869	<b>11,493,903</b>	3.53%	6.22%
2003										<b>11,439,566</b>		5.86%
2004												

Total Liabilities

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2003 Projection	Actual Growth
1994	\$ 7,381,591	\$ 7,939,650	\$ 8,521,560	\$ 9,115,400	\$ 9,716,804	\$ 10,324,287	\$ 10,939,115	\$ 11,553,458	\$ 12,164,713	<b>\$ 12,770,934</b>	6.28%	
1995		\$ 7,884,639	\$ 8,456,536	\$ 9,048,884	\$ 9,650,517	\$ 10,259,243	\$ 10,870,257	\$ 11,487,771	\$ 12,100,792	<b>\$ 12,707,516</b>	6.15%	6.81%
1996			\$ 7,920,395	\$ 8,487,521	\$ 9,077,740	\$ 9,682,606	\$ 10,296,517	\$ 10,917,084	\$ 11,537,170	<b>\$ 12,158,936</b>	6.31%	3.59%
1997				\$ 8,854,185	\$ 9,431,123	\$ 10,041,501	\$ 10,664,838	\$ 11,267,255	\$ 11,878,841	<b>\$ 12,495,041</b>	5.91%	6.25%
1998					\$ 9,732,748	\$ 10,300,514	\$ 10,908,027	\$ 11,516,013	\$ 12,105,062	<b>\$ 12,694,397</b>	5.46%	7.16%
1999						\$ 10,369,627	\$ 10,919,801	\$ 11,530,751	\$ 12,135,844	<b>\$ 12,715,143</b>	5.23%	7.03%
2000							\$ 11,575,780	\$ 12,225,797	\$ 12,893,954	<b>\$ 13,546,251</b>	5.38%	7.79%
2001								\$ 12,471,721	\$ 13,052,584	<b>\$ 13,649,550</b>	4.62%	7.78%
2002									\$ 15,271,234	<b>\$ 16,045,872</b>	5.07%	9.51%
2003										<b>\$ 16,397,262</b>		9.27%
2004											5.60%	7.24%

Discount Rate 8.25%  
Population Growth 1.00%





**Analysis of Valuation**  
**Cumulative Change in Average Employer Contribution Rate**  
*1998 through 2003*

Type of Gain or Loss	Impact Years	PERS		
		Weighted Absolute Change	Absolute Change 1998-2003	Payroll Impact (000's)
Assumption Changes	1998, 2000, 2002	(34.19%)	11.15%	\$ (77,050)
Investment Experience	All	(11.62%)	3.79%	\$ (26,190)
Health Experience	2002	(11.28%)	3.68%	\$ (25,430)
Demographic Experience	All	(8.89%)	2.90%	\$ (20,040)
Asset Valuation Method	2000, 2002	(4.42%)	1.44%	\$ (9,951)
Contri Shortfall Due to 2 Year Calculated Rate	2003	(3.37%)	1.10%	\$ (7,601)
102% Funding Ratio Adjustments	1998, 2001, 2003	(2.02%)	0.66%	\$ (4,561)
Ad hoc PRPA	1998 thru 2002	(1.56%)	0.51%	\$ (3,524)
System Benefit Changes	2001, 2002	(0.64%)	0.21%	\$ (1,451)
Salary Experience	All but 2000	6.47%	2.11%	\$ 14,581
Past Service Amortization Change	2002	15.52%	5.06%	\$ 34,966
		100.00%	32.61%	\$ 225,344





PERS Analysis of Valuation  
 Cumulative Change in Average Employer Contribution Rate  
 1998 to 2003

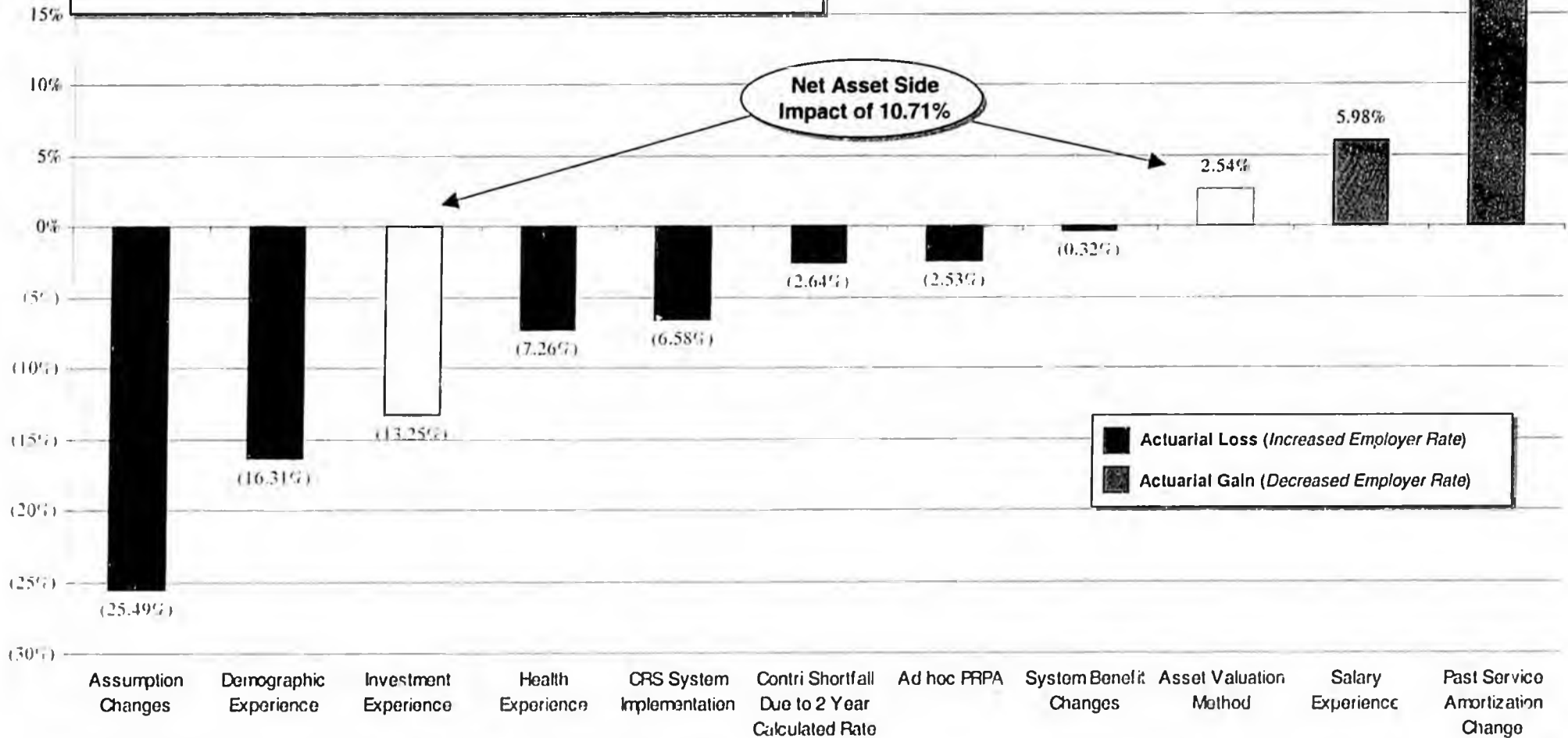
Type of Gain or Loss (as of June 30)	Weighted Absolute Change	Absolute Change	Total	2004	2003	2002	2001	2000	1999	1998
Health Experience	11.28%	3.68%	3.68%		0.00%	3.68%	0.00%	0.00%	0.00%	0.00%
Salary Experience	6.47%	2.11%	(2.11%)		(0.19%)	(0.20%)	(1.03%)	0.00%	(0.23%)	(0.46%)
Investment Experience	11.62%	3.79%	3.79%		0.31%	7.24%	0.11%	(0.12%)	(0.49%)	(3.26%)
Demographic Experience	8.89%	2.90%	2.90%		0.40%	1.21%	0.77%	(0.81%)	0.21%	1.12%
Net Gains & Loss Due to Experience			8.26%	0.00%	0.52%	11.93%	(0.15%)	(0.93%)	(0.51%)	(2.60%)
Asset Valuation Method	4.42%	1.44%	1.44%		0.00%	4.11%	0.00%	(2.67%)	0.00%	0.00%
102% Funding Ratio Adjustments	2.02%	0.66%	0.66%		(0.90%)	0.00%	0.57%	0.00%	0.00%	0.99%
Past Service Amortization Change	15.52%	5.06%	(5.06%)		0.00%	(5.06%)	0.00%	0.00%	0.00%	0.00%
Contribution Shortfall compared to average Employer Calculated rate	3.37%	1.10%	1.10%		1.10%					
Assumption Changes	34.19%	11.15%	11.15%		0.00%	6.98%	0.00%	3.09%	0.00%	1.08%
System Benefit Changes	0.64%	0.21%	0.21%		0.00%	0.04%	0.17%	0.00%	0.00%	0.00%
Ad hoc PRPA	1.56%	0.51%	0.51%		0.00%	0.14%	0.06%	0.07%	0.04%	0.20%
Total Non-Recurring Changes	100.00%	32.61%	10.01%	0.00%	0.20%	6.21%	0.80%	0.49%	0.04%	2.27%
Composite (Gain) or Loss During Year				0.00%	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				25.63%	25.63%	24.91%	6.77%	6.12%	6.56%	7.03%
Annual Payroll (000's)					1460783	1402686	1360401	1321480	1283549	1235439
Annual Contribution					363881	94962	83257	86689	90233	90928
Yr to Yr Change					268919	11705	-3433	-3544	-695	





(1)

**Factors Contributing to TFS Employer Rate Increase\***  
 (% of Cumulative 1998 to 2003 Rate Increase Attributed to Each Factor)



\* TRS Employer Rate increased 25.85% from 13.0% in 1998 to 38.85% in 2003

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





## Analysis of Valuation

### Cumulative Change in Average Employer Contribution Rate

1998 through 2003

Type of Gain or Loss	Impact Years	TRS		
		Weighted Absolute Change	Absolute Change 1998-2003	Payroll Impact (000's)
Assumption Changes	2000, 2002	(25.49%)	13.52%	\$ (16,106)
Demographic Experience	All	(16.31%)	8.65%	\$ (10,305)
Investment Experience	All	(13.25%)	7.03%	\$ (8,375)
Health Experience	2002	(7.26%)	3.85%	\$ (4,586)
CRS System Implementation	2001	(6.58%)	3.49%	\$ (4,158)
Contri Shortfall Due to 2 Year Calculated Rate	2003	(2.64%)	1.40%	\$ (1,668)
Ad hoc PRPA	1998 thru 2002	(2.53%)	1.34%	\$ (1,596)
System Benefit Changes	2001	(0.32%)	0.17%	\$ (203)
Asset Valuation Method	2000, 2002	2.54%	1.35%	\$ 1,608
Salary Experience	All but 2002	5.98%	3.17%	\$ 3,776
Past Service Amortization Change	2002	17.12%	9.08%	\$ 10,817
		<u>100.00%</u>	<u>53.05%</u>	<u>\$ 63,197</u>





TRS Analysis of Valuation  
 Cumulative Change in Average Employer Contribution Rate  
 1998 to 2003

Type of Gain or Loss (as of June 30)	Weighted Absolute Change	Absolute Change	Total	2004	2003	2002	2001	2000	1999	1998
Health Experience	7.26%	3.85%	3.85%		0.00%	3.85%	0.00%	0.00%	0.00%	0.00%
Salary Experience	5.98%	3.17%	(3.17%)		0.10%	(0.11%)	(1.68%)	0.00%	(0.64%)	(0.84%)
Investment Experience	13.25%	7.03%	7.03%		0.43%	15.03%	1.35%	(3.35%)	(3.73%)	(2.70%)
Demographic Experience	16.31%	8.65%	8.65%		1.35%	4.21%	2.66%	(0.91%)	0.80%	0.54%
Net Gains & Loss Due to Experience			16.36%	0.00%	1.88%	22.98%	2.33%	(4.26%)	(3.57%)	(3.00%)
Asset Valuation Method	2.54%	1.35%	(1.35%)		0.00%	0.03%	0.00%	(1.38%)	0.00%	0.00%
CRS System Implementation	6.58%	3.49%	3.49%		0.00%	0.00%	3.49%	0.00%	0.00%	0.00%
Past Service Amortization Change	17.12%	9.08%	(9.08%)		0.00%	(9.08%)	0.00%	0.00%	0.00%	0.00%
Contribution Shortfall compared to average Employer Calculated rate	2.64%	1.40%	1.40%		1.40%					
Assumption Changes	25.49%	13.52%	13.52%		0.00%	6.84%	0.00%	6.68%	0.00%	0.00%
System Benefit Changes	0.32%	0.17%	0.17%		0.00%	0.00%	0.17%	0.00%	0.00%	0.00%
Ad hoc PRPA	2.53%	1.34%	1.34%		0.00%	0.36%	0.16%	0.16%	0.11%	0.55%
Total Non-Recurring Changes	100.00%	53.05%	9.49%	0.00%	1.40%	(1.85%)	3.82%	5.46%	0.11%	0.55%
Composite (Gain) or Loss During Year				0.00%	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				38.85%	38.85%	35.57%	14.44%	8.29%	7.09%	10.55%
Annual Payroll (000's)					532630	509437	496188	482571	466414	469433
Annual Contribution					189456	73563	41134	34214	49207	61026
Yr to Yr Change					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 Being 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 a<sup>1</sup> 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 is 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.

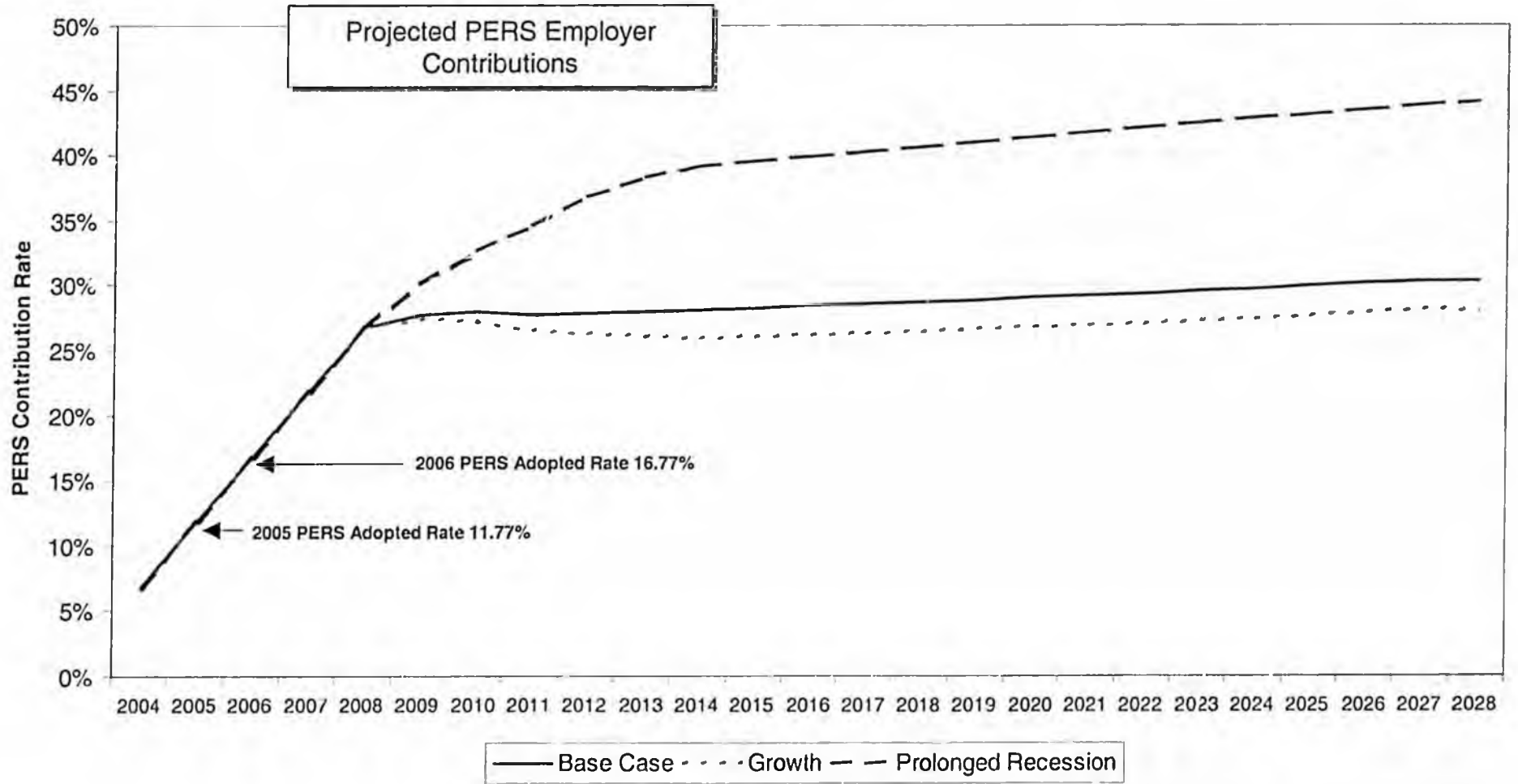
Salary Experience:

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:

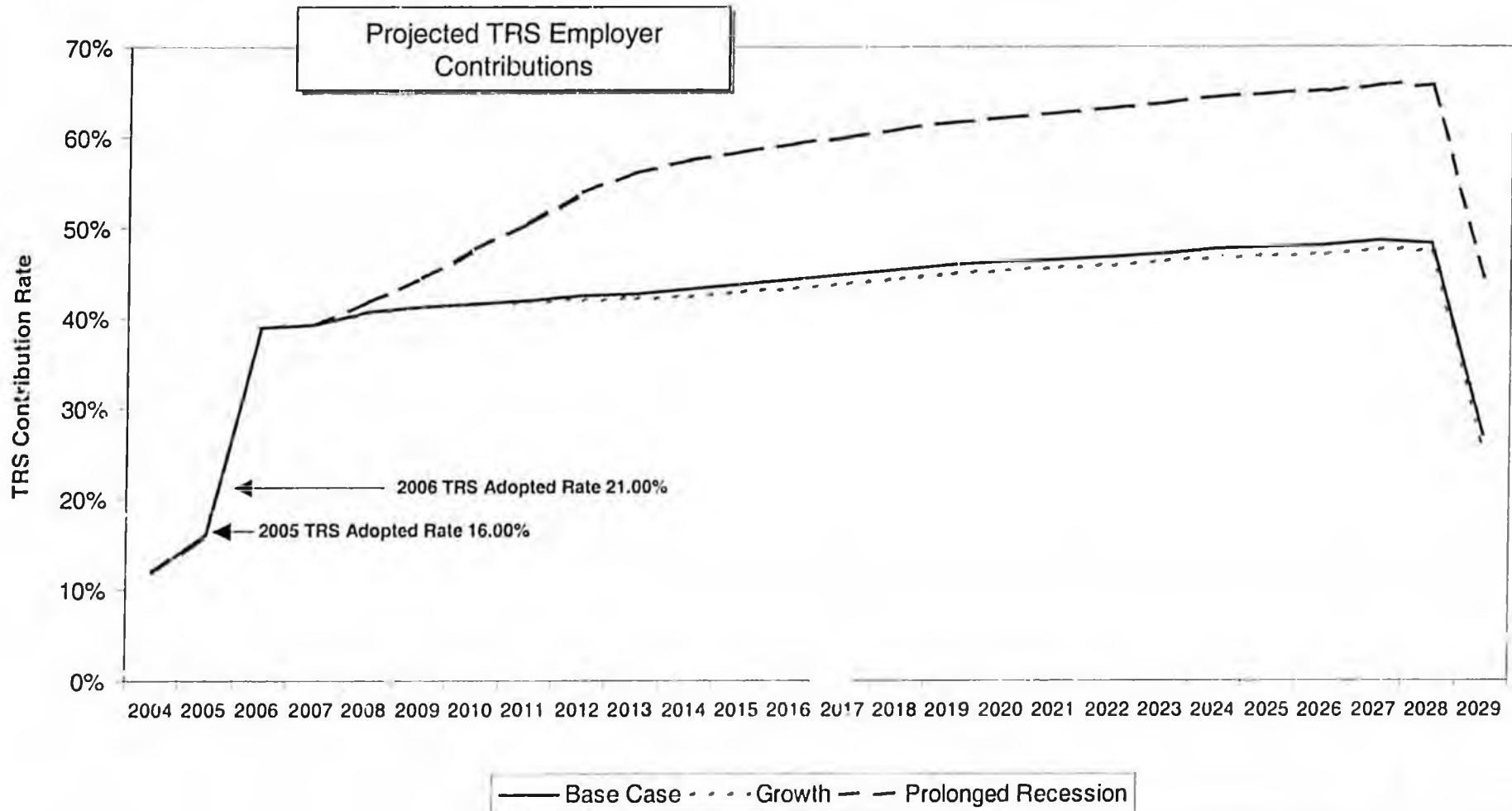
As a result of the 2002 Actuarial Audit performed by Milliman USA in 2002, effective June 30, 2002, the Board adopted a 25-year fixed period level percentage of pay amortization of the Unfunded Accrued Liability. This change is consistent with the 5-year recognition of gains or losses used in the new 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%.





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

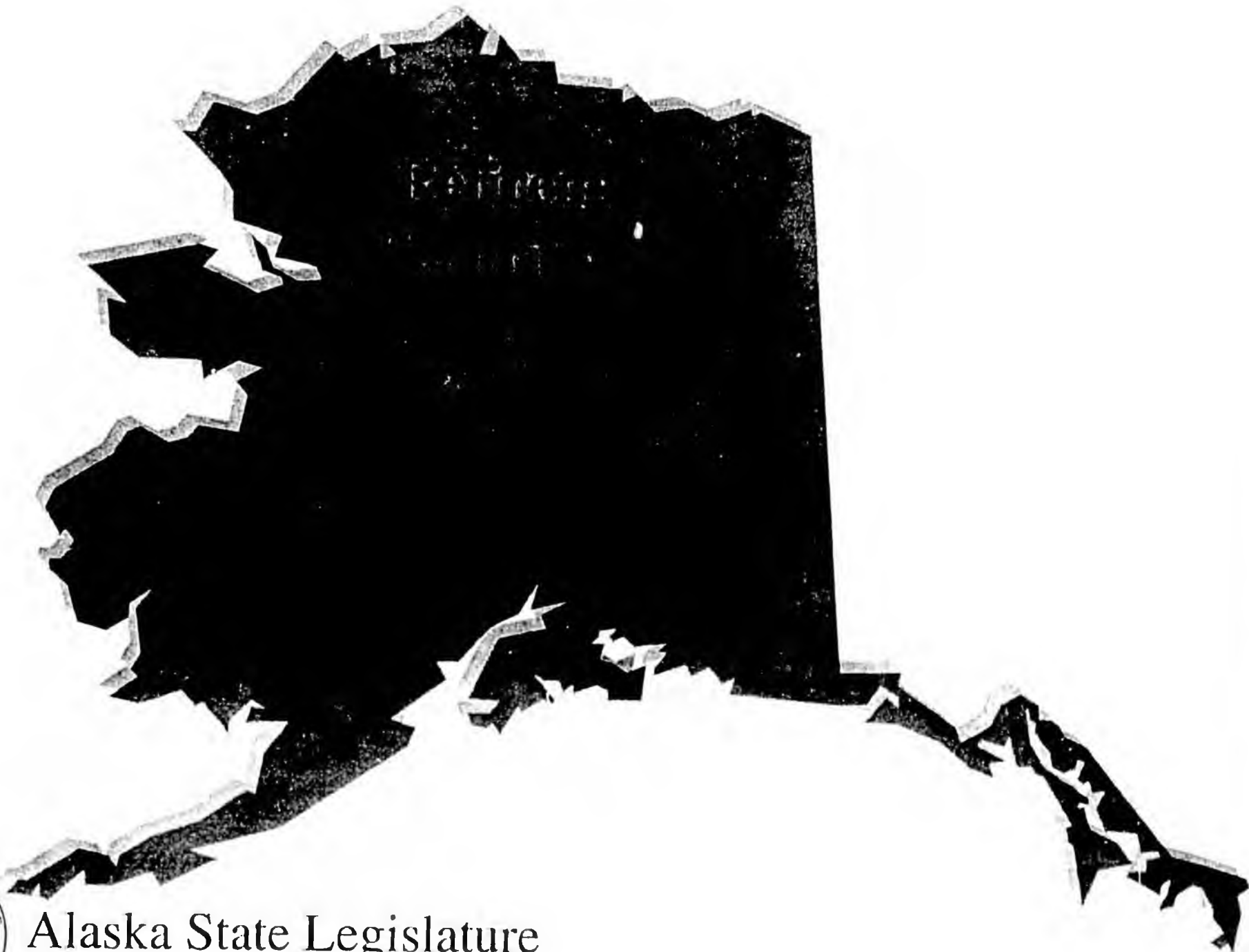




To Catch Up, We're Now Facing Untenable Contribution Rates



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Alaska State Legislature  
*Senate Finance Committee*



**SB 141 Walk Through**





*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 \$5.0 billion gap?*



*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 affected by the plan's funding level*

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 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*
- *Shifting of investment risk*
- *No long-term administrative costs*

Challenges:

- *Workforce management*
- *Employee education*
- *Accurate retirement planning*

Defined Benefit (DB) vs Defined Contribution (DC)





	Current PERS Tier I/II & TRS Tier 1 DB Plan	Current PERS Tier II/III & TRS Tier II DB Plan	Senate Bill 141 DC Plan
PERS Employee Contribution Rate	6.75% other 7.5% Police/Fire 9.6% school district	6.75% or 7.5 Police/Fire 7.5% Police/Fire 9.6% school district	8% all members voluntary % up to IRS limits
TRS Employee Contribution Rate	8.65%	8.65%	8% all members
Vesting	5 years PERS 8 year TRS	5 years PERS 8 year TRS	Immediate for employee contributions Fully vested in employer contributions after 5 years.
Retirement Age	55 normal - 50 early 30 years "all others" 20 Police/Fire 20 Teachers	60 normal - 55 early 30 years "all others" 20 Police/Fire 20 Teachers	Any age
PERS and TRS Benefit Formula	2% up to 2.5% multiplier per year DB multiplier x years of service x high 3 years avg salary	2% up to 2.5% multiplier per year DB multiplier x years of service x high 3 (TRS) or 5 (PERS) years avg salary	11.5% per year to DC account + investment earnings. HRA account accumulated over working lifetime

Overview of New Tier Benefits



	Current PERS Tier I/II & TRS Tier 1 DB Plan	Current PERS Tier II/III & TRS Tier II DB Plan	Senate Bill 141 DC Plan
<b>Medical</b>	<p>Do not have to retire directly from system to be service or age eligible for medical coverage.</p> <p>Medical plan premium paid by retirement system for all retirees and dependents.</p> <p><i>Except</i>, Tier II retirees and survivors pay full premium under age 60.</p>	<p>Do not have to retire directly from system to be service or age eligible for medical coverage.</p> <p>Must have 10 years of service for system-paid coverage over age 60.</p> <p>Employees with less than 10 years pay full premium for access to coverage.</p>	<p>Must retire directly from system with minimum of 10 years of service for medical coverage and access to HRA.</p> <p>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.</p> <p>Retiree and survivors pay full premium until Medicare eligible.</p> <p>After Medicare age eligible, retiree shares cost based on years of service.</p> <p>Reimbursed for qualified medical expenses from HRA.</p>
<b>Normal Cost Rate – PERS</b>	13.24% - Current Normal Cost Rate	13.24% - Current Normal Cost Rate	8.25% - reduces normal cost rate by 38%
<i>unfunded liability portion</i>	12.39% - Past Service Rate	12.39% - Past Service Rate	N/A
<b>Normal Cost Rate – TRS</b>	14.28% - Current Normal Cost Rate	14.28% - Current Normal Cost Rate	8.25% - reduces normal cost rate by 42%
<i>unfunded liability portion</i>	24.57% Past Service Rate	24.57% Past Service Rate	N/A
<b>Future exposure and volatility in investment earnings and increasing medical costs.</b>	Employer bears all the risk.	Employer bears all the risk.	<p>Employer risk is minimal: medical inflation with a capped percentage and shared with employee.</p> <p>Employee bears investment risk.</p>

Overview of New Tier Benefits





# “Normal cost” rate comparisons under Public Employees’ Retirement System

	<b>Normal Cost Rates</b>	
	<b>DC Plan</b>	<b>PERS</b>
Medical normal cost rate	3.75%	8.68%
Defined contribution rate	11.50%	11.37%
HRA contribution rate	1.00%	0.0%
Gross normal cost rate	16.25%	20.05%
Member contribution rate	(8.00)%	(6.81)%
Employer normal cost rate	8.25%	13.24%





“Normal cost” rate comparisons under Teachers’ Retirement System

	<b>Normal Cost Rates</b>	
	<b>DC Plan</b>	<b>TRS</b>
Medical normal cost rate	3.75%	9.07%
Defined contribution rate	11.50%	13.90%
HRA contribution rate	1.00%	0.0%
Gross normal cost rate	16.25%	22.97%
Member contribution rate	(8.00)%	(8.69)%
Employer normal cost rate	8.25%	14.28%



# SB 141 – Retirement Security Act

# SB 141 Walk-through

State of Alaska  
 Division of Retirement & Benefits  
 Normal Cost rate and Actuarial Computed Rate from FY 1983 through FY 2006

Valuation report date June 30	Fiscal year of rate	PERS				TRS			
		Normal Cost rate	Actuarial Computed Rate	Board Adopted Rate	Unfunded Liability	Normal Cost rate	Actuarial Computed Rate	Board Adopted Rate	Unfunded Liability
1980	1983	11.46%	13.78%	n	-2.32%	11.95%	16.84%	n	-4.89%
1981	1984	12.03%	13.68%	o	-1.65%	13.51%	17.42%	o	-3.91%
1982	1985	11.36%	13.62%		-2.26%	13.64%	17.96%		-4.32%
1983	1986	11.82%	13.59%	d	-1.77%	13.13%	17.36%	d	-4.23%
1984	1987	12.31%	13.84%	a	-1.53%	13.91%	13.28%	a	0.63%
1985	1988	11.13%	9.55%	l	1.58%	11.62%	13.28%	l	-1.66%
1986	1989	10.20%	9.38%	a	0.82%	9.36%	11.16%	a	-1.80%
1987	1990	9.23%	9.30%	9.30%	-0.07%	9.14%	8.19%	11.64%	0.95%
1988	1991	10.37%	12.00%	12.00%	-1.63%	11.86%	12.27%	10.54%	-0.41%
1989	1992	12.00%	14.20%	14.20%	-2.20%	13.26%	15.16%	11.87%	-1.90%
1990	1993	12.83%	13.58%	13.58%	-0.75%	14.07%	19.65%	12.00%	-5.58%
1991	1994	10.18%	13.72%	13.72%	-3.54%	9.05%	15.59%	12.00%	-6.54%
1992	1995	10.90%	13.70%	13.70%	-2.80%	8.57%	13.36%	12.00%	-4.79%
1993	1996	11.29%	12.82%	12.82%	-1.53%	9.06%	12.48%	12.00%	-3.42%
1994	1997	10.36%	12.14%	12.14%	-1.78%	9.70%	14.96%	12.00%	-5.26%
1995	1998	10.61%	11.90%	8.00%	-1.29%	10.10%	14.94%	12.00%	-4.84%
1996	1999	9.85%	7.74%	7.74%	2.11%	8.97%	10.52%	12.00%	-1.55%
1997	2000	9.89%	7.36%	7.74%	2.53%	9.21%	13.00%	12.00%	-3.79%
1998	2001	8.67%	7.03%	7.40%	1.64%	8.99%	10.55%	12.00%	-1.56%
1999	2002	8.07%	6.56%	6.75%	1.51%	8.88%	7.09%	11.00%	1.79%
2000	2003	10.07%	6.12%	6.75%	3.95%	9.40%	8.29%	11.00%	1.11%
2001	2004	9.53%	6.77%	6.77%	2.76%	10.36%	14.44%	12.00%	-4.08%
2002	2005	13.31%	24.91%	11.77%	-11.60%	14.76%	35.57%	16.00%	-20.81%
2003	2006	13.24%	25.63%	16.77%	-12.39%	14.28%	38.85%	21.00%	-24.57%

Annual Contribution Rate Must Equal Normal Cost Rate





# SB 141 – Retirement Security Act

# SB 141 Walk-through

State of Alaska Public Employees' and Teachers' Retirement Systems  
 Valuation Data as of June 30, 2003 (Actuarial Valuation Tables 1.5(a))  
 Projections Going Forward Based on 1% Population Growth

Fiscal Year	PERS					TRS				
	Total Normal Cost Rate	Member Contribution Rate	Employer Normal Cost Rate	One-Half Normal Cost Rate	Change to Employee Cost	Total Normal Cost Rate	Member Contribution Rate	Employer Normal Cost Rate	One-Half Normal Cost Rate	Change to Employee Cost
2006	20.05%	6.81%	13.24%	10.03%	3.22%	22.97%	8.69%	14.28%	11.49%	2.80%
2007	19.80%	6.81%	12.99%	9.90%	3.09%	21.71%	8.69%	13.02%	10.86%	2.17%
2008	19.73%	6.81%	12.92%	9.87%	3.06%	21.72%	8.69%	13.03%	10.86%	2.17%
2009	19.66%	6.81%	12.85%	9.83%	3.02%	21.81%	8.69%	13.12%	10.91%	2.22%
2010	19.58%	6.81%	12.77%	9.79%	2.98%	21.87%	8.69%	13.18%	10.94%	2.25%
2011	19.52%	6.81%	12.71%	9.76%	2.95%	21.90%	8.69%	13.21%	10.95%	2.26%
2012	19.44%	6.81%	12.63%	9.72%	2.91%	21.93%	8.69%	13.24%	10.97%	2.28%
2013	19.38%	6.81%	12.57%	9.69%	2.88%	21.81%	8.69%	13.12%	10.91%	2.22%
2014	19.31%	6.81%	12.50%	9.66%	2.85%	21.94%	8.69%	13.25%	10.97%	2.28%
2015	19.25%	6.81%	12.44%	9.63%	2.82%	22.06%	8.69%	13.37%	11.03%	2.34%
2016	19.26%	6.81%	12.45%	9.63%	2.82%	22.24%	8.69%	13.55%	11.12%	2.43%
2017	19.23%	6.81%	12.42%	9.62%	2.81%	22.44%	8.69%	13.75%	11.20%	2.53%
2018	19.21%	6.81%	12.40%	9.61%	2.80%	22.66%	8.69%	13.97%	11.30%	2.64%
2019	19.24%	6.81%	12.43%	9.62%	2.81%	22.88%	8.69%	14.19%	11.40%	2.75%
2020	19.27%	6.81%	12.46%	9.64%	2.83%	23.05%	8.69%	14.36%	11.53%	2.84%
2021	19.31%	6.81%	12.50%	9.66%	2.85%	23.16%	8.69%	14.47%	11.58%	2.89%
2022	19.36%	6.81%	12.55%	9.68%	2.87%	23.30%	8.69%	14.61%	11.65%	2.96%
2023	19.42%	6.81%	12.61%	9.71%	2.90%	23.60%	8.69%	14.91%	11.80%	3.11%
2024	19.52%	6.81%	12.71%	9.76%	2.95%	23.92%	8.69%	15.23%	11.96%	3.27%
2025	19.63%	6.81%	12.82%	9.82%	3.01%	24.11%	8.69%	15.42%	12.06%	3.37%
2026	19.76%	6.81%	12.95%	9.88%	3.07%	24.27%	8.69%	15.58%	12.14%	3.45%
2027	19.92%	6.81%	13.11%	9.96%	3.15%	24.81%	8.69%	16.12%	12.41%	3.72%
2028	19.86%	6.81%	13.05%	9.93%	3.12%	24.81%	8.69%	16.12%	12.41%	3.72%
2029	19.79%	6.81%	12.98%	9.90%	3.09%	24.82%	8.69%	16.13%	12.41%	3.72%
2030	19.73%	6.81%	12.92%	9.87%	3.06%	24.85%	8.69%	16.16%	12.43%	3.74%
2031	19.68%	6.81%	12.87%	9.84%	3.03%	24.88%	8.69%	16.19%	12.44%	3.75%
2032	19.63%	6.81%	12.82%	9.82%	3.01%	24.92%	8.69%	16.23%	12.46%	3.77%

Information from Mercer Human Resources Consulting

Employee Contribution Greater of Statutory Rate or 1/2 Normal Cost Rate



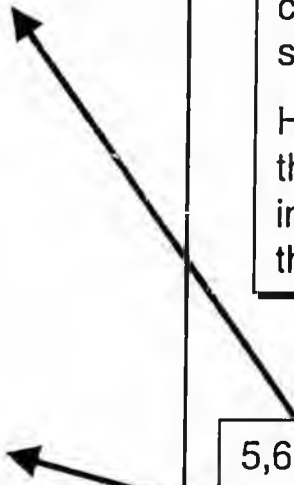


Refunded Accounts By System

PERS	Tier 1	
	>5	5,251
	3-5	5,292
	<3	31,179
	Tier 2	14,999
	Tier 3	7,667
Total		64,388
TRS	Tier 1	
	>8	388
	6-8	369
	<6	10,008
	Tier 2	2,534
Total		13,299
PERS/TRS Total		77,687

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.

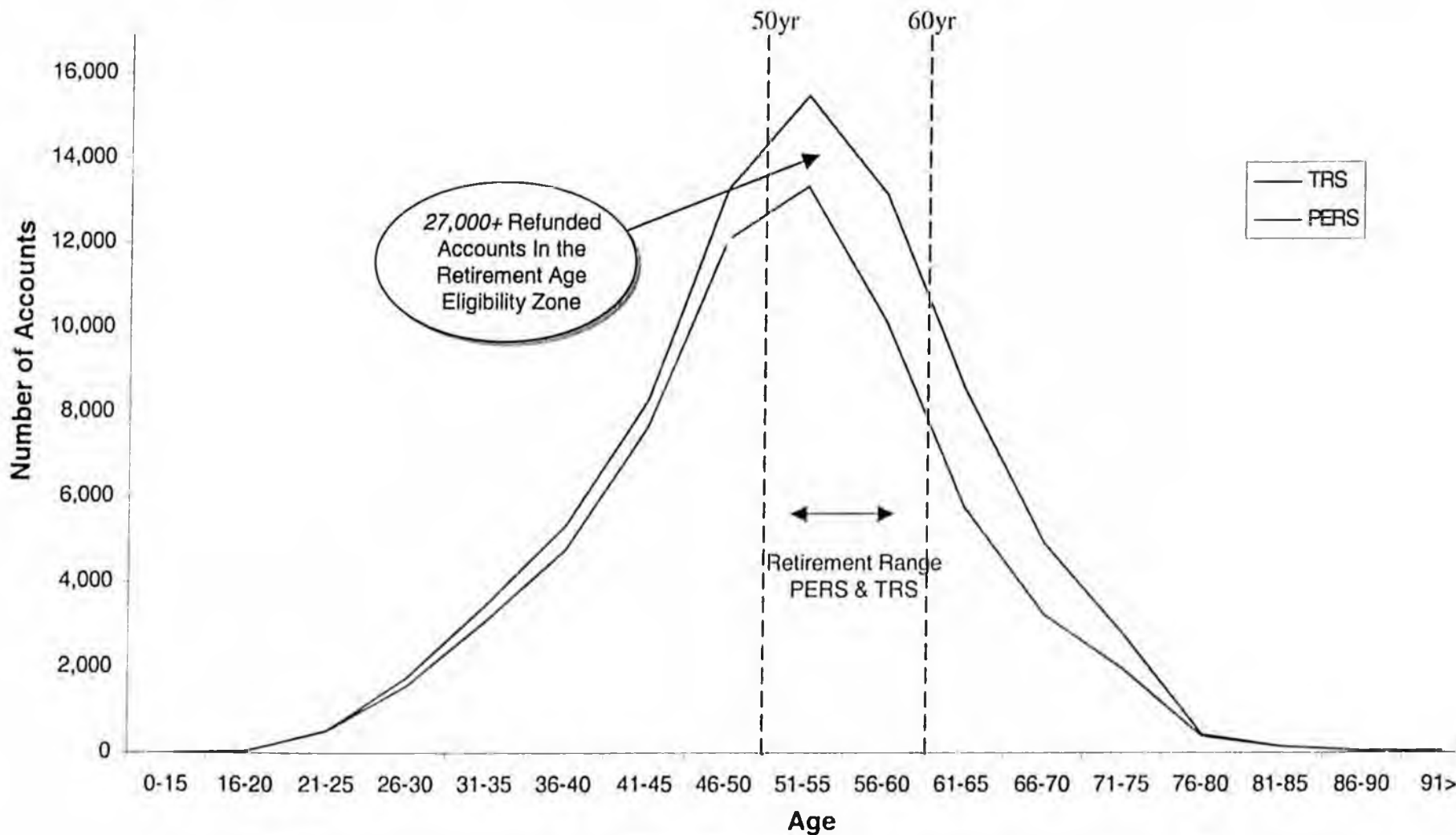
They can be rehired, pay their indebtedness, leave immediately and have 100% system paid medical at retirement.

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





Benefit enhancing legislation added **\$37.7 Million** to our *unfunded liability* in 2001 alone

Passed in 2001, HB 242

Enhanced medical benefits to existing employees by providing full system paid medical to retired members over age 60 and all members who retire with at least 25 years of service (TRS & Police/Fire) and 30 years of service (PERS) regardless of hire date.

- When it passed, the bill increased our system liabilities by **\$23.7 Million**
- Using today's health cost trends, that number has grown to **\$37.7 Million**

---

This Session, there are several new bills that if passed would enrich benefits for existing employees and increase our unfunded liability:

**HB 6** – Allowing Fish & wildlife enforcement officers to claim credit as peace officers

**HB 40** – Allowing retired peace officers medical benefits after 20 years instead of 25

**SB 21** – Adding child or vulnerable adult protection workers to the police/fire employee class

We Need Better Fiscal Analysis Before Enacting Legislation Affecting Benefits





<b>PRPA Awarding History</b>				
PRPA Date	Monthly Benefit 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	\$ 57,158,000
1999	\$ 163,715	\$ 147,366	\$ 311,081	\$ 11,765,000
2000	\$ 158,034	\$ 133,226	\$ 291,260	\$ 17,905,000
2001	\$ 508,787	\$ 445,192	\$ 953,979	\$ 17,123,000
2002	\$ 585,443	\$ 502,968	\$ 1,088,411	\$ 39,561,000

AdHoc PRPA's Have a Huge Effect on Future Liabilities





PRPA ELIGIBILITY AND CALCULATION

	<b>PRPA Issued</b>	<b>Eligibility Requirements</b>	<b>Calculation</b>
<b>Ad Hoc</b>	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% c
<b>Automatic</b>	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 75 receive 75% of the % of change in CPI.

AdHoc PRPA's Have a Huge Effect on Future Liabilities



Presentation by  
Neil Slotnick  
D Law  
4/1/05

IN THE SUPERIOR COURT FOR THE STATE OF ALASKA  
THIRD JUDICIAL DISTRICT AT ANCHORAGE

A. John Gallant, et. al., )  
 )  
 Plaintiff, )  
 vs. )  
 )  
 Public Employees' Retirement )  
 System, et. al., )  
 )  
 Defendant. )

Case No. 3AN-02-9748 Civil

ORDER

Plaintiffs are beneficiaries of Alaska's public employee pension system, denominated Public Employees' Retirement System (PERS), or Teacher Retirement System (TRS) for educators. All plaintiffs live outside Alaska or plan to do so. They represent the class of all similarly situated beneficiaries. Their class action lawsuit challenges cost of living provisos, AS 39.35.480 (PERS) and AS 14.25.142 (TRS), which add a ten per cent cost-of-living allowance to the basic monthly benefit of retirees or disabled pensioners residing in Alaska, but not to pensioners residing elsewhere, or to those traveling away from their Alaska residences for more than ninety days. Plaintiffs allege this proviso violates the right to travel and to migrate interstate, in violation of state and federal constitutional guarantees.

The parties have not submitted their constitutional dispute to the court for resolution. Instead, they have stipulated to resolution of the

Distributed 4/1/05 ✓  
Presentation by Neil Slotnick

ancillary issue of severability of the allegedly offending residency and physical presence requirements of the respective statutes. Thus, for purposes of the instant cross-motions for summary judgment regarding severability, the State concedes *arguendo* a violation of a protected right to travel.

By way of relief, the Plaintiffs seek a ruling that the cost of living allowance should be severed from the impermissible residency and physical presence requirements, thereby rendering all beneficiaries equally eligible for the supplement, regardless of their locales. They argue this result is required by Alaska's common law of severability. They also argue that the cost of living provisos cannot be invalidated in their entirety if the offending residency and physical presence clauses are deemed non-severable under Alaska common law, the normal consequence of a non-severability finding. This is because Article XII, § 7 of the Alaska Constitution precludes diminishment or impairment of accrued retirement system benefits. Since the ten per cent benefit cannot be eliminated for Alaska residents, and since the constitutionally infirm limitation excluding non-Alaskans is void, the effective result is a constitutionally mandated severance; the residency clause is void, but the benefit grant itself cannot be eliminated.

Plaintiffs intend to seek unspecified past damages for those denied the supplement, presumably reaching backward as permitted by any applicable statute of limitations, and injunctive relief decreeing the

prospective entitlement of all to the supplement. The State, in contrast, seeks a ruling that the demise of the residency and physical presence clauses so implicates the core intent of the enacting legislature that those clauses are not severable; to cure the right to travel violation, the entire ten per cent supplement must fall, as to residents and non-residents alike. The State contends the constitutional accrued benefits clause does not bar this outcome, because of an implied-in-law caveat in the employment contracts of the class, to the effect that only those benefits conferred by a constitutional statute are protected from diminishment.

A. IS THE TEN PER CENT SUPPLEMENT AN ACCRUED BENEFIT THAT MAY NOT BE DIMINISHED OR IMPAIRED?

AS 39.35.480 reads in relevant part as follows:

Cost-of-living allowance. (a) While residing the state, a person receiving a benefit under this chapter who is 65 years of age or older or who is receiving a disability benefit is entitled to receive a monthly cost-of-living allowance in addition to the basic benefit. The amount of this allowance shall be \$50 or 10 percent of the basic benefit whichever is greater.

AS 14.25.142 is identical in substance. Article XII, Section 7 of the Alaska Constitution states:

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.

Participants in the statutorily created PERS and TRS plans have a contractual relationship with their employers. The Alaska constitution's

public employees' benefit clause "equates retirement benefits with contract rights"; statutory retirement benefits are considered a bargained-for consideration, which vest at the time of employment rather than at retirement. Duncan v. Retired Public Employees of Alaska, 71 P.3d 882, 891 (Alaska 2003).

The State, conceding *arguendo* a right-to-travel violation, in effect argues that this violation triggers an implied condition subsequent in the employment contract: the vesting of the ten per cent supplement for resident beneficiaries is impliedly dependent on the outcome of subsequent constitutional litigation. Thus, the Court must determine whether such a condition subsequent is implied in the contract between beneficiaries and their respective employers. Does Alaska's law of contract require such a finding, or does Article XII, § 7 precludes such an outcome independently of the law of contract?

The answer to both questions is implied in the closely analogous case State v. Allen, 625 P.2d 844 (Alaska 1981). There, Alaska voters had repealed, by referendum, an unpopular enhanced pension plan for elected officials. The State, as here, took the position that the statutory overturn triggered a contractual implied condition subsequent, relieving the state of the duty to provide the benefits to already vested public officials, such that Article XII, § 7 no longer applied.

The Alaska Supreme Court disagreed, both on contract and on constitutional grounds. As to the contract argument, the Court held:

The *Restatement* defines "condition subsequent" as a condition which, if it occurs, "will extinguish a duty to make compensation for breach of contract after the breach has occurred."....Because conditions subsequent have the effect of causing a forfeiture of contract rights that are otherwise due and enforceable, they are not favored by the law...Generally speaking, "the intent to create a condition subsequent must appear expressly or by clear implication" if such a condition is to be found. (Id. p. 848, citations omitted).

The Court at that point factored in a constitutional analysis

Further, we share appellees' apprehension that finding a condition subsequent to be implicit in the contract under consideration would undermine article XII, Section 7. We believe that if the possibility of repeal of a law could function as an implicit condition subsequent to a contract formed under that law, the protection of contract rights afforded by article XII, section 7, would be seriously eroded. Even assuming the extreme likelihood of the subsequent repeal of a legislative enactment...we are of the view that article XII, section 7, and AS 01.10.100(a) [stating that repeal of any law does not extinguish rights vested thereunder] preclude the finding of an implicit condition subsequent in the contracts under consideration. Id. at 848-849.

It is scarcely conceivable, in light of the holding of *State v. Allen*, supra., that our Supreme Court would find that Article XII, § 7 permits divestiture of clearly stated contract rights of residential beneficiaries, merely because the constitutional rights of non-resident beneficiaries have been infringed by unequal treatment.

Plaintiffs' Motion for Partial Summary Judgment, on Article XII, § 7 grounds, is styled as a request for a finding of constitutionally required severability. The Court instead grants partial summary judgment on the related rationale that Article XII, § 7 prohibits reduction of the ten per

cent supplement as to class members, while they are Alaska residents. The reason for this limited holding is as follows.

The contract rights of the class derive from the plain meaning of the PERS/TERS statutes. Under the plain wording of those statutes, class members who remain in Alaska have a contract right to the cost of living supplement, and those who depart do not. If all class members are here found entitled to the supplement, that result will flow either from Alaska's common law of severability, to the effect that under certain circumstances unconstitutional language can be excised from a statute, leaving the remainder intact; or from the constitutionally based law of remedies for right to travel violations.

Both Plaintiffs and the State assume in their briefing that a finding that all class members are entitled to the supplement regardless of locale, will necessarily vest that right in all, so that a future legislature could not enact a constitutionally viable cost of living differential applicable to current employees. This Court does not here adopt the mutual assumption of the parties that any relief mandated by common law severability principles or constitutional right to travel remedies, as opposed to contract principles, implicates Article XII, § 7, the contract based no-diminishment clause. The parties have not thoroughly briefed this issue, and the Court takes no position thereon at this time.

**B. IS THE ENTIRE CLASS ENTITLED TO THE SUPPLEMENT AS A RIGHT TO TRAVEL VIOLATION REMEDY AS A MATTER OF CONSTITUTIONAL LAW?**

In Saenz v. Roe, supra, the United States Supreme Court reviewed a California statute imposing a durational residency requirement on newly arrived citizens, limiting their welfare benefits during the first year of residency to the benefit level of their states of prior residence. The trial court found the statute violative of the federal right to travel, because it "produces substantial disparities in benefit levels and makes no accommodation for the different costs of living that exist in different states", *Id.* p. 494, and decreed that new citizens should receive the full benefits accorded all others. The Supreme Court affirmed that decision.

Similarly, in Alaska Pacific Assurance Company v. Brown, 687 P.2d 264 (Alaska 1984), the Alaska Supreme Court reviewed a statute that reduced workers compensation benefits for out-of-state recipients, based on the lower wage rates prevailing in other states. The Court held that the statute imposed a substantial penalty upon the right of the Plaintiff class to travel outside of Alaska, and that the State had failed to meet its high burden of justification. Therefore, all workers were to be treated the same, and to receive benefits at the Alaska rate.

The PERS/TERS statutes are different in form, though not in substance, because they purport to grant Alaskans a supplement, rather than to deny non-Alaskans a benefit received by Alaskans. Elimination of the COLA statute altogether, as opposed to severance and elimination the residency and physical presence components in order to create a residence neutral supplement, is the state's proposed remedy. The State

argues that this elimination of the supplement for all is mandated by Alaska's common law principles of statutory construction in a severability determination. In fact, both parties focus on the issue of severability as central to this case, and stipulate to resolution of this issue even before predicate issues of constitutionality are definitively resolved.

The Court, however, concludes that severability is largely a moot point in this case. This is because the public retirement benefits clause of the Alaska constitution trumps the common law severability outcome sought by the State. The State wishes that the benefit be obliterated for all; as noted above, Alaska's constitution prevents that outcome. If this Court found that the residency and physical presence clauses were unalterably integral to the statutory scheme, and therefore struck the entire COLA provision, the right to travel violation would be perpetuated, rather than eliminated. The public benefits constitutional clause precludes elimination of vested contract rights; the class has a vested right to the supplement during Alaska residency, but not otherwise; and absent residence-neutral enabling legislation, non-residents would not be entitled to the supplement. Thus, residents would continue to get the supplement, and non-resident would not. The right to travel violation would endure.

On these facts, the form of the statute as conferring a benefit on Alaskans only, rather than as subtracting a benefit from non-Alaskans in

a discrete statutory section that can be surgically struck, cannot compel this Court to engage in a severability determination that could end in a constitutionally impermissible result. The normal outgrowth of a right to travel violation, as illustrated by Saenz and Alaska Pacific Assurance Company v. Brown, supra, is to confer on the non-resident the same benefit received by the resident. This is particularly appropriate where, as here, the non-residents are residual holders of the right in any event; under the statutes, they become re-eligible for the benefit simply by returning to Alaska.

On these unique facts, the constitutionally required remedy for this presumed right to travel violation is a holding that all present employees are entitled to the supplement, unless and until the Alaska legislature enacts a constitutionally permissible cost of living differential applicable to non-residents.

C. ARE THE PERS/TRS RESIDENCY AND PHYSICAL PRESENCE RULES SEVERABLE, SO THAT FUTURE EMPLOYEES ALSO GET THE SUPPLEMENT?

As noted above, present employees and beneficiaries have a constitutional trump card. Those who reside in Alaska, and those who have departed Alaska but elect to return, are constitutionally entitled to the ten per cent supplement, without diminishment. All present employees must be treated equally. Thus, a determination as to severability cannot affect present employees. It can affect future employees, however. If the COLA survives as a residence-neutral

provision, new employees will get the supplement; otherwise, they will not.

Alaska's common law severability standard was announced in Lunden Transport, Inc. v. State, 532 P.2d 700, 713 (Alaska 1975):

The test for determining the severability of a statute is twofold. A provision will not be deemed severable "unless it appears both that, standing alone, legal effect can be given to it and that the legislature intended the provision to stand, in case others included in the act and held bad should fall". (Citation omitted).

The first prong of the test turns upon whether the text remaining when offending provisions are struck makes logical sense on its own. State of Alaska v. Kenaitze Indian Tribe, 894 P.2d 632 (Alaska 1995). Here, the redacted AS 39.35.480 would read:

**Sec. 39.35.480. ~~Cost of living a~~[A]llowance.** (a) ~~While residing in the state, a~~ [A]person receiving a benefit under this chapter who is 65 years of age or older or who is receiving a disability benefit is entitled to receive a monthly ~~cost of living~~ allowance in addition to the basic benefit. The amount of this allowance shall be \$50 or ten percent of the basic benefit, whichever is greater.

~~(b) A person receiving a cost of living allowance under this section shall notify the administrator when the person expects to be absent from the state for a continuous period that exceeds 90 days. After that notification, the person is no longer entitled to receive the monthly cost of living allowance, except that a person may be absent from the state for not more than six months without loss of the cost of living allowance if the absence is the result of illness and required by order of a licensed physician. Upon returning to the state, and upon notification to the administrator, the person is again entitled to receive the monthly cost of living allowance, commencing with the first monthly benefit payment made after notification of the person's return.~~

~~(b)(c) While residing in the state, a [A] public employee of the Territory of Alaska who participated in the Public Employees' retirement Act established by ch. 41 SLA 1949, and who retired before June 22, 1981, is entitled to the cost of living [an] allowance equal to 25 percent of the amount received under ch. 41 SLA 1949.~~

~~(d) For purposes of this section, "residing in the state" means domiciled and physically present in the state. Being absent from the state for a continuous period of 90 days or less or six months or less when ordered by a physician does not change a person's status as "residing in the state."~~

With the offending provisions struck, the remainder makes logical sense on its own, affording 65-year-olds and the disabled a supplement.

To paraphrase *Kenaitze*, supra at p. 639, whether the legislature would have intended the subsection as redacted to stand had it known that the residency and physical presence limitations would be held unconstitutional on right-to-travel grounds is a question which cannot be answered with complete confidence. Alaska's generic severability statute, AS 01.10.030, creates a "slight presumption" of severability which, when coupled with the need to preserve an important state interest such as subsistence hunting, has previously carried the day in a severability determination. *Kenaitze*, supra.

The PERS statute includes a statement of legislative purpose, as follows:

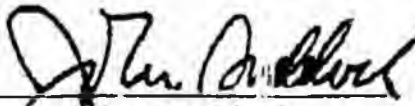
The purpose of this chapter is to encourage qualified personnel to enter and remain in the service of the state or a political subdivision or public organization of the state by establishing a system for the payment of retirement, disability, and death benefits to or on behalf of employees.

The TRS statute has an analogous provision. The State argues that the cost-of-living clauses have a secondary purpose, to encourage benefit recipients to remain in Alaska, not only by affording them the means to remain in a high cost locale, but also by discouraging migration away from Alaska to places "where their benefits, including the COLA, will go further". State's Opposition Memo., p.19. This formulation fails on two grounds. There is no legislative history demonstrating a purpose to discourage egress from Alaska by retirees or the disabled. In fact, such a purpose would be misguided, for the State has no reasonable interest in preventing her aged citizens from moving to warmer and gentler climes, her disabled citizens to superior medical facilities or better sidewalks, her grandparents to the proximity of grandchildren, or her golfers to the links. Such a purpose would not only be malign, it would violate that component of the right to travel affording all citizens free egress, the right to leave. See Saenz v. Roe, 526 U.S. 489, 119 S.Ct. 1518, 143 L.Ed.2d 689 (1999).

The reasonably inferable intent of the legislature in the COLA provision is to afford Alaskans who chose to remain relief from our generally higher cost of living, by reallocating to them a portion of the benefits of those who move to less expensive locales and who can purchase an equal standard of living with a diminished benefit. Maintaining the legislatively envisioned standard of living of Alaska retirees and disabled persons is a goal furthered by severability, and not

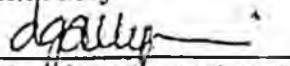
by elimination of the benefit, the effect of a finding of non-severability of the unconstitutional provisions. Similarly, the overarching goal of the entire retirement statute, to encourage qualified workers to work for the State, is furthered by retention of the benefit for Alaskans.

Dated this 4<sup>th</sup> day of August, 2003 at Anchorage, Alaska.

  
\_\_\_\_\_  
John Suddock  
Superior Court Judge

I certify that on 8-5-03 a copy of this order was mailed to counsel at their address of record.

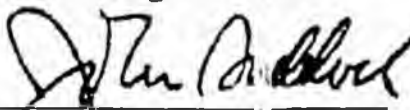
Ray Brown  
John Gaguine  
Keith Levy

  
\_\_\_\_\_  
Administrative Assistant

Addendum to Order

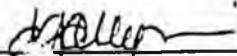
Plaintiff's Motion for Partial Summary Judgment to the effect that the residency and physical presence requirements are severable is granted consistently with this opinion.

Dated this 7<sup>th</sup> day of August, 2003 at Anchorage, Alaska.

  
\_\_\_\_\_  
John Suddock  
Superior Court Judge

I certify that on 8-7-03 a copy  
of this order was mailed to counsel  
at their address of record.

Ray Brown  
John Gaguine  
Keith Levy

  
Administrative Assistant

# **ASPIB Asset Allocation Background**

Michael J. O'Leary CFA  
Executive Vice President  
Callan Associates Inc.

April 6, 2005



# Topics

- Firm background
- Asset Allocation Concepts & Practices
  - Modeling approach
  - PERS & TRS
  - Industry perspective
- Current challenge
  - Inflation sensitivity
  - Actuarial discount rate



# Callan Associates Inc.

- Independent employee owned pure investment consulting firm serving 289 plan sponsor clients as of 12/31/04.
- 171 employees including dedicated specialists in quantitative modeling, manager research, and performance monitoring
- Largest investment consulting practice serving public funds
  - 88 Public fund clients with aggregate assets of \$692 billion
  - average more than 22 asset liability and 100 asset allocation studies annually
  - last conducted an asset liability study in 2003
  - annually update asset allocation only analysis



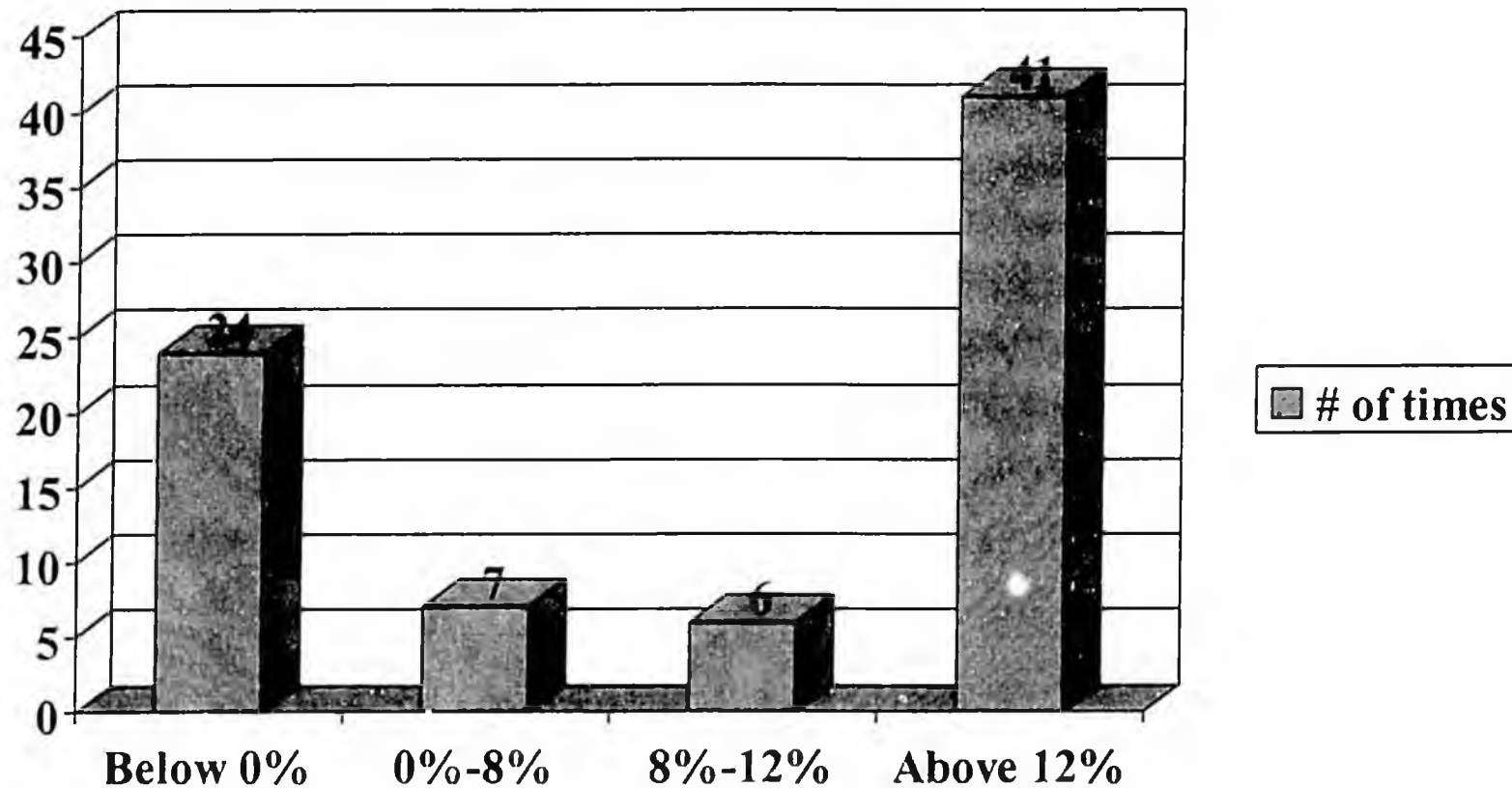
# Empirical Evidence

- On average, bearing greater risk has produced greater return.
- Table based on annual returns for 4 asset types (1926-2003):

	Average Rate of Return	Average Risk Premium over T-bills	Standard Deviation
Large Cap Stocks	10.4%	6.5%	23.1%
Small Cap Stocks	12.7%	8.8%	40.1%
LT Corporate Bonds	5.9%	2.0%	7.8%
T-bills	3.9%	0.0%	1.6%



# Annual Stock Market Returns 1926-2003



Graph & data obtained from Vanguard web site. Based on data from S&P (1926-1970) and Dow Jones Wilshire 5000 Composite Index (1971-2003). Over the 78 years, stocks were below their long-term average (10.4% plus or minus 2%) in 31 years.



## Measuring Risk

- The generally accepted view of risk involves the spread of returns in relation to an average level of performance.
- The average is the arithmetic mean.
- The spread is expressed in terms of standard deviation around the mean return.
- This view assumes all returns can be statistically represented by a normal distribution.
- Risk-adjusted returns are returns adjusted by the standard deviation.



# Measuring Risk

## *An Illustration*

**Expected Annual Return = 9.0 %**

**Standard Deviation of Return = 16.9 %**

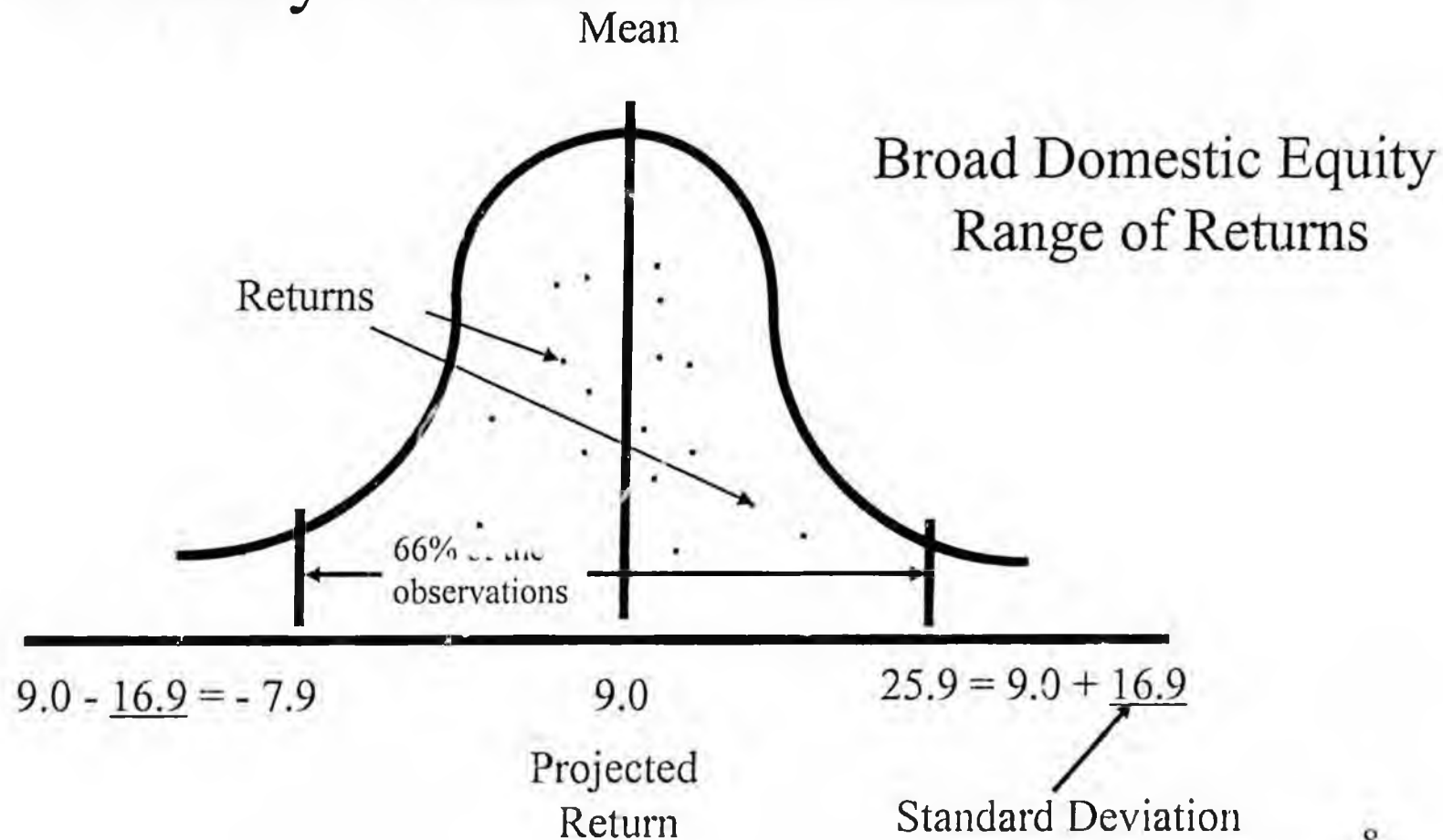
**2 out of 3 years, the return is expected to fall within a range of one standard deviation = -7.9 to 25.9%**

**95% of the time, the return is expected to fall within a range of two standard deviations = -24.8 to 42.8%**

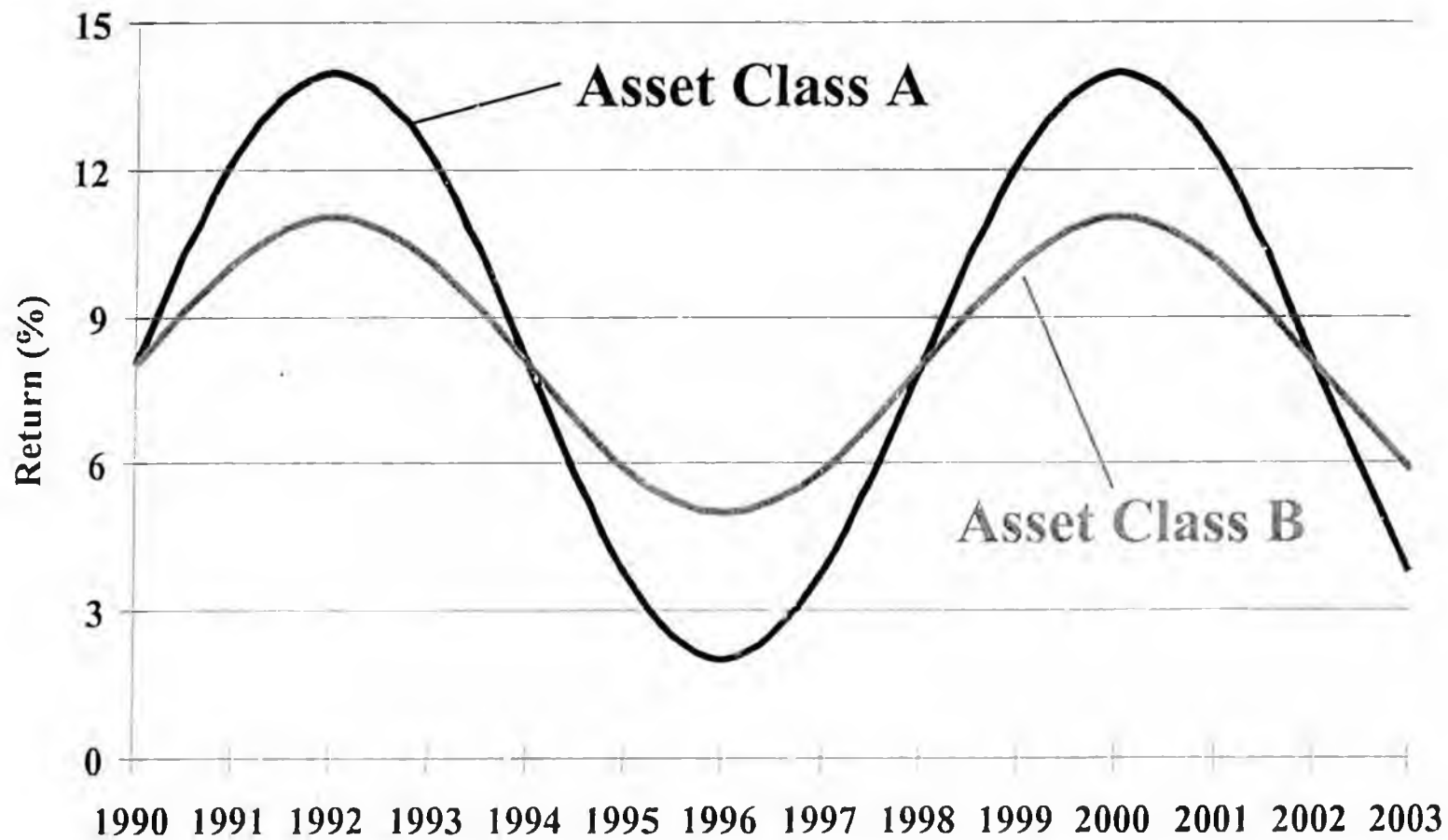


# Measuring Risk

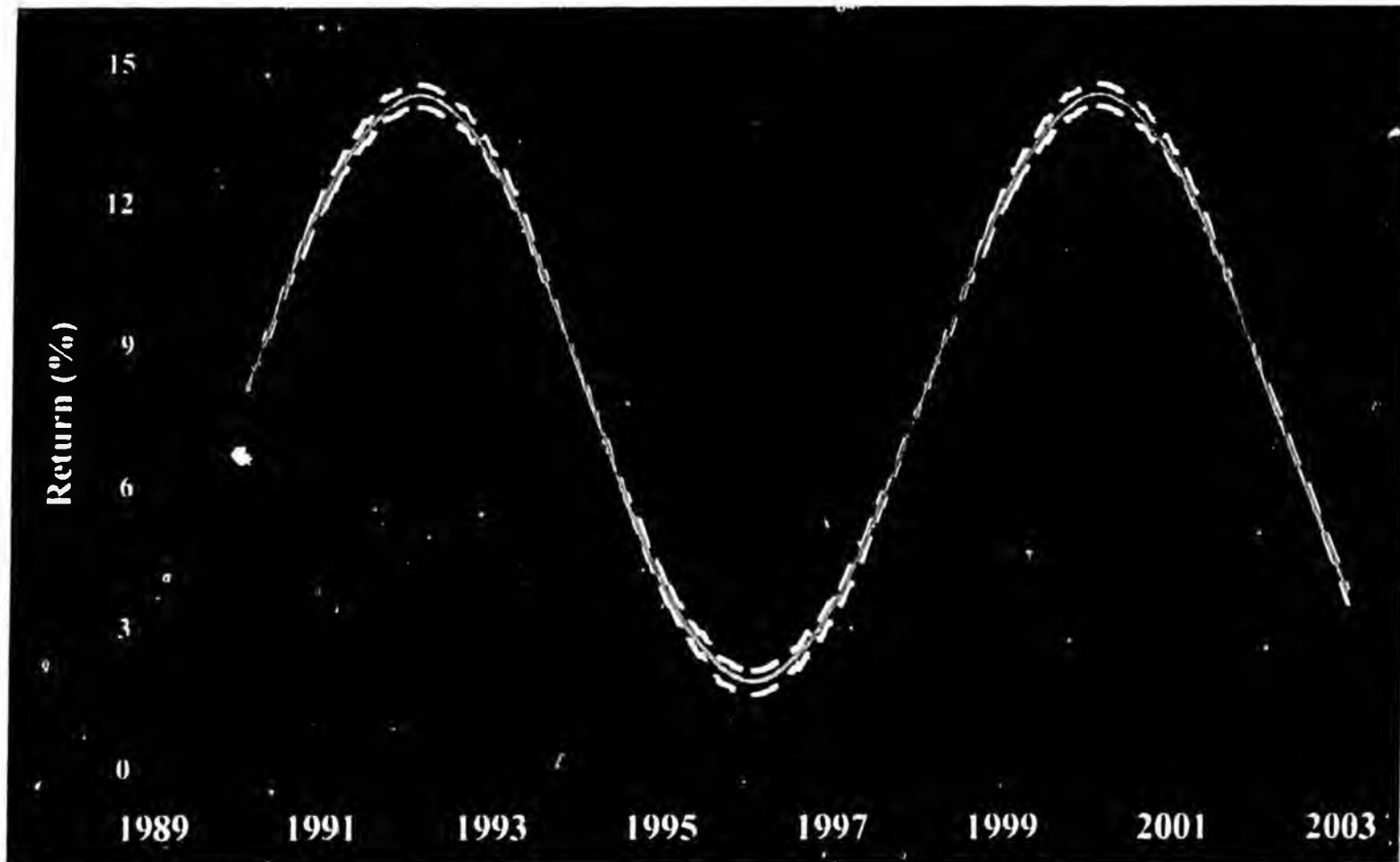
- Standard Deviation - Measures the Variability of Returns from Their Mean



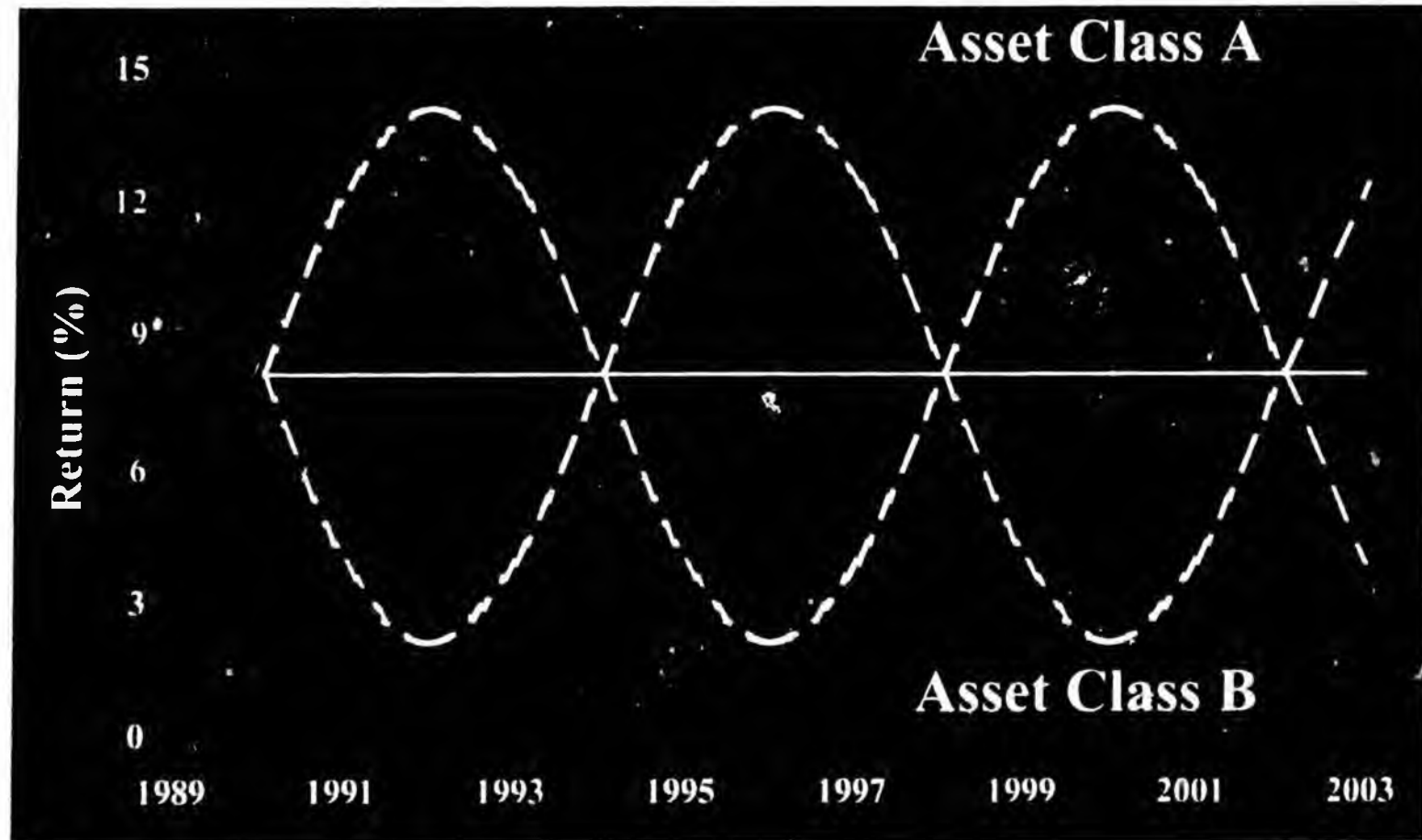
# Returns Will Go Up and Down



## Perfect Correlation (+1)

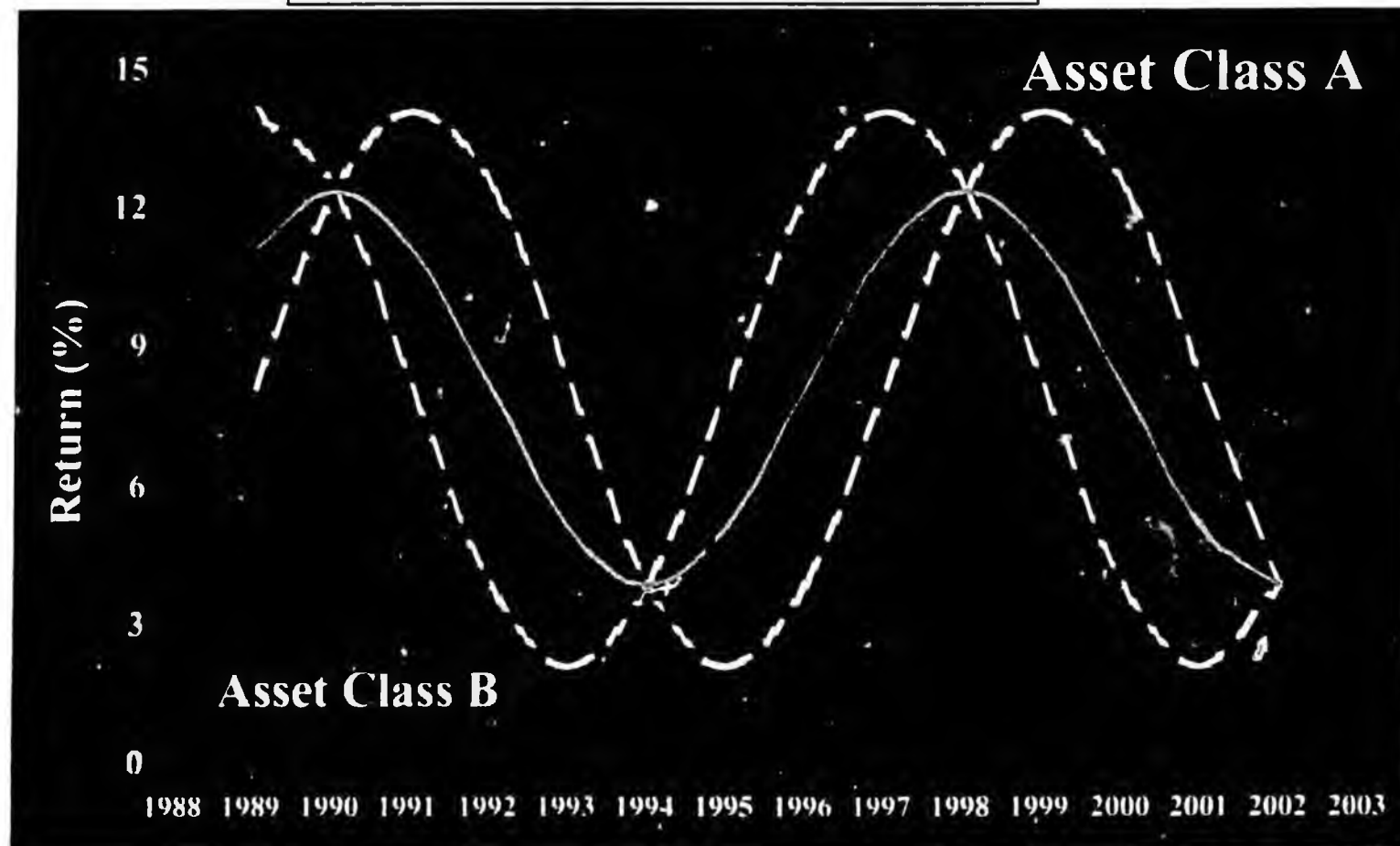


# Perfect Negative Correlation (-1)



# Correlation and Diversification

Portfolio Volatility Reduced



## Key to Diversification

- The key is to diversify across assets (or managers) that are sensitive to different macroeconomic variables.
- Combining assets (or managers) with low correlations improves diversification.
- Combining assets (or managers) with high correlations provides little or no diversification benefits.



## Efficient Portfolios

- For any given rate of return, no other portfolio has less risk.
- For any given level of risk, no other portfolio provides superior returns.
- Efficient portfolios lie somewhere on the efficient frontier.
- In practice, it is not uncommon to find portfolios that are inefficient in a risk-return context.

# Asset Liability Concepts

$$\text{Benefits} = \text{Contributions} + \text{Earnings} - \text{Expenses}$$

Benefits - traditional retirement benefits dependent on future inflation impacting salaries and post retirement adjustments

Contributions - dependent on funding status, plan demographics, expected earnings & discount rate, actuarial budgeting approach

Earnings - dependent on asset allocation policy, manager success and cost (frequently dominated by size factors but also varied by asset type).

Often misunderstood reality = actuarial loss is failure to achieve assumed actuarial return. (8.25% per year for AK). Simply failing to earn anything over 3 years results in a \$1 million liability becoming a \$1.268 liability



# Asset Projections

## *Callan 2005-2009 Risk/Return Assumptions*

<b>Asset Class</b>	<b>Index</b>	<b>Projected Annual Return</b>	<b>Projected Standard Deviation (Risk)</b>
<b>Equities</b>			
Broad Domestic Equity	Russell 3000	9.00%	16.90
Large Cap	S&P 500	8.85%	16.40
Small/Mid Cap	Russell 2500	9.85%	22.70
International Equity	MSCI EAFE	9.25%	20.10
<b>Fixed Income</b>			
Domestic Fixed	LB Aggregate	4.75%	4.50
Non-USS Fixed	Citi Non-US Gov't	4.65%	9.60
<b>Other</b>			
Real Estate	Callan Real Estate	7.60%	16.50
Private Equity	VE Post Venture Cap	12.00%	34.00
Cash Equivalents	90-Day T-Bill	3.25%	0.80
Inflation	CPI-U	2.60%	1.40

Our Capital Market Projections define uncertainty

We are not predicting a specific return, but the breadth of possible returns and the likelihood of their occurrence

Risk, equal to standard deviation of return, means how wide the range of returns can be around the expected return



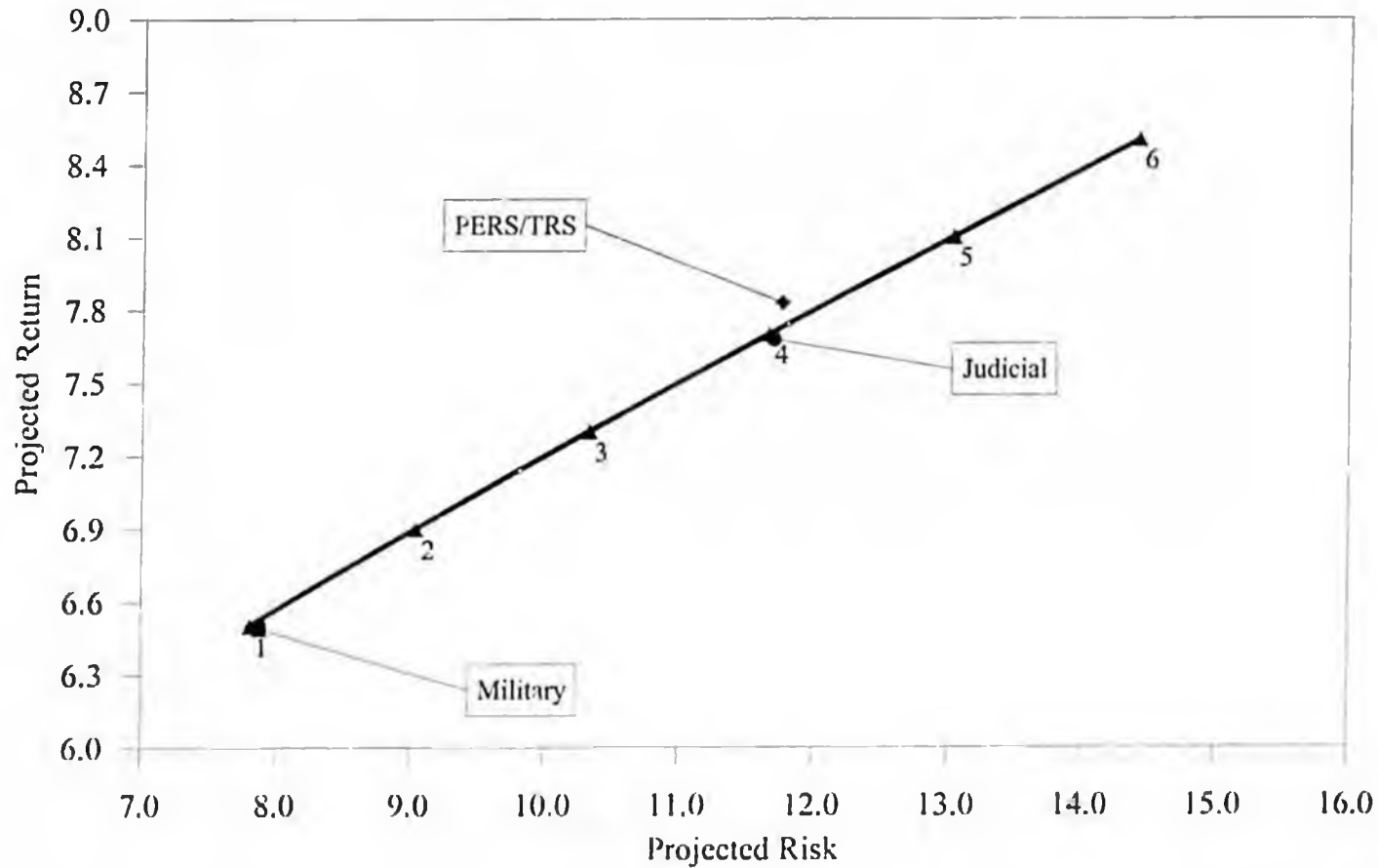
# Efficient Frontier Mixes & Proposed Asset Mix Policies

Component	Max	Portfolio								
		Military	Mix 1	Mix 2	Mix 3	Mix 4	Judicial	PERS/TRS	Mix 5	Mix 6
Large Cap	100	24	18	22	26	31	32	30	36	40
Small/Mid Cap	100	6	4	5	5	6	9	6	7	8
International Equity	100	10	8	10	12	14	18	15	16	19
Domestic Fixed	100	60	54	45	36	27	24	24	18	8
Non US Fixed	100	0	5	4	4	3	3	2	2	2
Real Estate	15	0	6	7	8	8	9	9	9	9
Private Equity	6	0	3	4	5	6	0	6	6	6
High Yield	10	0	2	3	4	5	2	2	6	8
Absolute Return	0	0	0	0	0	0	3	3	0	0
Other	0	0	0	0	0	0	0	3	0	0
Totals		100	100	100	100	100	100	100	100	100
Expected Return		6.49	6.50	6.90	7.30	7.70	7.68	7.83	8.10	8.50
Standard Deviation		7.87	7.79	9.03	10.33	11.66	11.70	11.76	13.03	14.42
Sharpe Ratio		0.44	0.45	0.43	0.42	0.40	0.40	0.41	0.39	0.38

Please note that the optimizer was not allowed to select "absolute return" or "other". Illiquid investments in private equity and "other" were not made available for use in the Judicial or Military mixes. Real estate & private equity were also excluded from consideration for the Military program.

# Efficient Frontier Graph

-Efficient Frontier  
2005 Adjusted Optimization Set



**PRS/TRS is above the efficient frontier because asset categories not available to the optimizer are included in the policy (absolute return & other)**

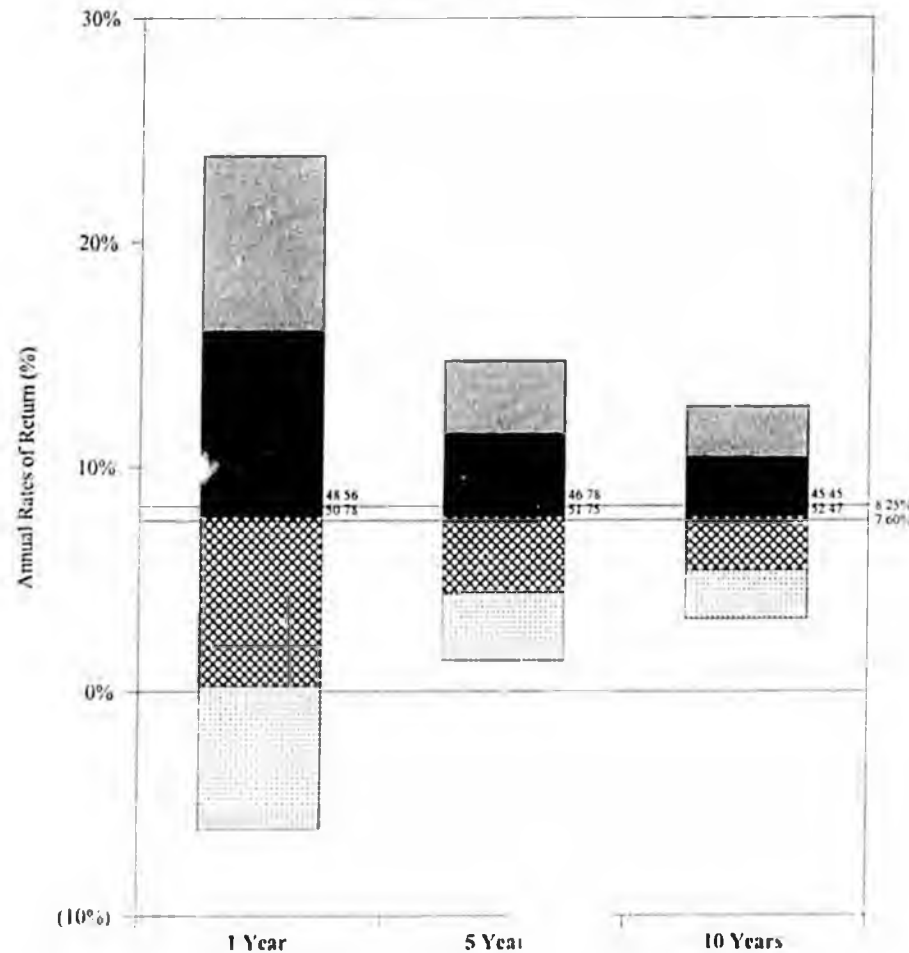


## Unique Factors

- Medical program inclusion
  - extraordinary health inflation at bad time
  - projecting medical inflation at rates well in excess of projected returns for any asset class (i.e. 10% or more for next 5 years)
  - terminal projected inflation rate = 5% versus Callan CPI projection of 2.6%.
- Embedded salary inflation assumption greater than Callan inflation projection & inflation embedded in current financial markets (e.g. TIPS)
- Actuary is assuming less than 5% “real return”

# PERS/TRS Multiple Time Horizons

Range of Projected Rates of Return  
PERS/TRS  
Optimization Set: 2005adjusted



	1 Year	5 Year	10 Years
10th Percentile	23.85%	14.72%	12.66%
25th Percentile	15.98%	11.40%	10.34%
Median	7.83%	7.83%	7.83%
75th Percentile	0.25%	4.37%	5.37%
90th Percentile	(6.12%)	1.35%	3.21%

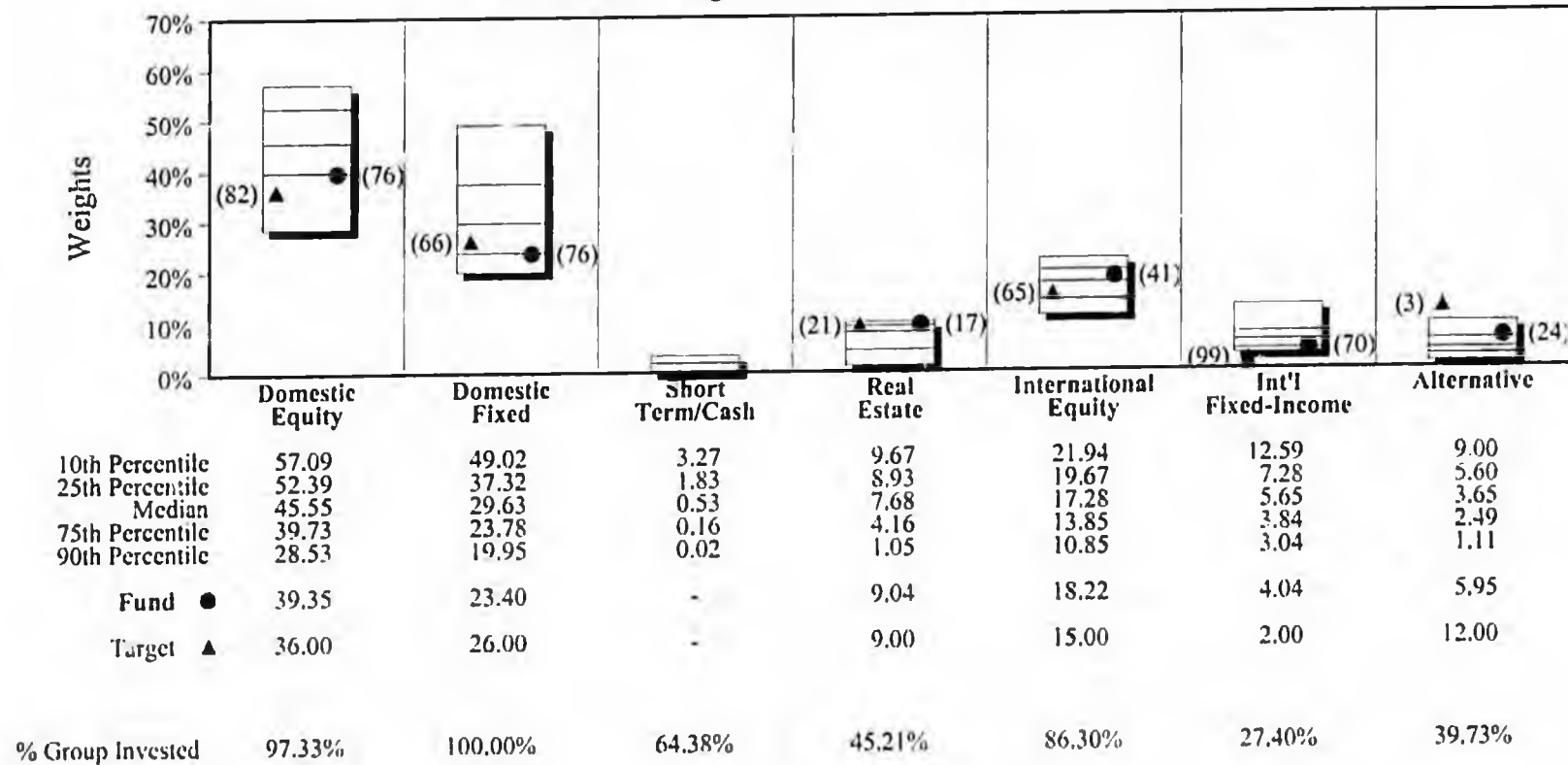
By striving for a slightly higher expected return, the PERS/TRS policy achieves a slightly greater probability of exceeding a 5% real return.

The inclusion of "other" also slightly reduces the downside return possibility (90th percentile).



# Asset Allocation Versus Public Funds

Asset Class Weights vs CAI Public Fund Sponsor Database



Note that "alternative" includes private equity, absolute return & other



# Thirteen & 1/4 Year Attribution Analysis

## Thirteen And One-Quarter Year Annualized Cumulative Attribution Effect

PERS

Asset Class	Effective Weight	Avg Trgt Weight	Actual Return	Target Return	Manager Effect	Asset Allocation
Domestic Equity	40%	39%	10.30%	11.28%	(0.39%)	0.01%
Domestic Fixed-Income	38%	37%	7.59%	7.23%	0.13%	(0.17%)
High Yield	0%	0%	-	-	0.00%	(0.00%)
Real Estate	5%	6%	7.93%	7.61%	0.00%	0.02%
International Equity	13%	12%	8.49%	6.15%	0.32%	(0.02%)
Int'l Fixed-Income	3%	3%	-	-	0.03%	0.07%
Private Equity	1%	2%	-	-	(0.09%)	0.03%
Other	0%	0%	-	-	0.00%	0.01%
Absolute Return	0%	0%	-	-	(0.00%)	0.01%
Short Term/Cash	0%	0%	-	-	0.00%	0.01%

**Total**  $8.94\% = 8.96\% \times (0.00\%) \times (0.02\%)$

## Thirteen And One-Quarter Year Annualized Cumulative Attribution Effect

TRS

Asset Class	Effective Weight	Avg Trgt Weight	Actual Return	Target Return	Manager Effect	Asset Allocation
Domestic Equity	41%	39%	10.30%	11.28%	(0.39%)	0.06%
Domestic Fixed-Income	37%	37%	7.59%	7.23%	0.13%	(0.14%)
High Yield	0%	0%	-	-	0.00%	(0.00%)
Real Estate	5%	6%	7.88%	7.61%	(0.00%)	0.01%
International Equity	13%	12%	8.56%	6.15%	0.32%	(0.03%)
Int'l Fixed-Income	3%	3%	-	-	0.02%	0.08%
Private Equity	1%	2%	-	-	(0.09%)	0.03%
Other	0%	0%	-	-	0.00%	(0.00%)
Absolute Return	0%	0%	-	-	(0.00%)	0.01%
Short Term/Cash	0%	0%	-	-	0.00%	0.01%

**Total**  $9.00\% = 8.96\% \times (0.01\%) \times 0.04\%$



## PROPOSED AMENDMENTS FOR THE ORP STATUTE

The University of Alaska is seeking amendments to AS 14.40 Article 5 which authorizes the University's Optional Retirement Program. The Optional Retirement Program is a defined contribution plan which has been in operation for several years. Current challenges regarding health care expenses and the increasing employer contributions to PERS and TRS have led the UA administration to believe that the Board of Regents need greater flexibility in the design of the ORP. Most of the requested changes are designed to give the University's Board of Regents greater flexibility in crafting a program that would meet the University's changing needs.

The major proposed changes would allow the University the flexibility to:

- Include a health plan, if needed;
- Expand the potential pool of plan participants to include all employees (currently only faculty and administrators);
- Give a one-time second opportunity for employees who previously rejected ORP to join the ORP;
- Require new employees to participate in the University Retirement Plan; and
- Include lump sum payments or other types of plan distributions so long as the plan complies with federal law for a qualifying program.

The proposed changes would also provide these clarifications:

- That like PERS/TRS, ORP is not a subject of bargaining under PERA, and
- That the University may create new tiers.

Other proposed changes are technical changes necessary for the functioning and qualification of the program.

Provided by University  
3/31/05

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

Summary of the  
Optional Retirement Program

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

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

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

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

January 25, 2005

Provided by University  
3/8/05

### RETIREMENT PROGRAM COMPARISON CHART

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

PROPOSED STATUTORY CHANGES FOR ORP

ALASKA STATUTES

Title 14. Education, Libraries, and Museums.

Chapter 40. The University of Alaska, the Community Colleges, and the Alaska Aerospace Development Corporation.

Article 5. ~~Optional~~ University Retirement Program.

Sec. 14.40.661 Authority of board.

(a) The board may establish and maintain an optional or required university retirement program for eligible employees in which retirement and death benefits (which may include a health benefit) are provided through the purchase of annuity contracts, either fixed, variable, or a combination of fixed and variable. Participation in the program is in place of participation in a state retirement system.

(b) The board shall

(1) provide for the administration of the program, including procedures for resolving complaints from participating employees;

(2) designate the company or companies to which payment of the contributions required under AS 14.40.691 may be made, after considering the

(A) nature and extent of the rights and benefits that the contracts will provide to employees who elect to participate and to their beneficiaries;

(B) relation of the contractual rights and benefits to the contributions to be made under AS 14.40.661 - 14.40.799;

(C) suitability of the contractual rights and benefits to the needs and interests of employees ~~electing to~~ who participate and to the interest of the university in the employment and retention of employees;

(D) ability of the designated company or companies to provide rights and benefits under the contracts; and

(E) efficacy of the contracts in the recruitment and retention of faculty and administrators;

(3) take other actions required to ensure that the program ~~qualifies as a qualified trust~~ complies with underapplicable provisions of 26 U.S.C. 401(a) to 417 (Internal Revenue Code);

(4) establish new tiers for employees when deemed necessary by the board.

(c) Retirement and pension plans or programs of the university are not subject to bargaining under AS 23.40.070-.260.

Sec. 14.40.671 Participation.

Provided by University  
3/31/05

(a) An employee in a participating position may elect to participate in the optional university retirement program or to participate in the appropriate state retirement system, except that the board may establish a system which requires participation by new employees in the university retirement system. Eligibility to participate in the program begins on an employee's appointment to a participating position. If the board establishes a required program for new employees, a second one-time election to participate in the program may be offered to employees who previously opted not to participate in the optional retirement program.

(b) An election to participate in the program is irrevocable. The election shall be made in writing on a form provided by the board and approved for the state by the commissioner of administration. The form must be filed with the ~~board~~ university no later than 30 days after the date on which the employee is notified of eligibility ~~first becomes eligible~~ to participate in the program. A copy of the form shall be delivered to the appropriate state retirement system. The election becomes irrevocable on the date it is received by the board.

(c) ~~The election to participate~~ Participation in the program constitutes a waiver of all rights and benefits under the state retirement systems earned on or after the effective date of the election ~~while the employee's is participating~~ participation in the program.

(d) Except as provided in (e) of this section, if a nonvested member of a state retirement system ~~elects to participate~~ participates in the program, the employee may choose to transfer the amount in the employee's contribution account to the program. If the employee chooses to transfer the account, the appropriate state retirement system shall pay to the university on behalf of the employee an amount equal to the balance in the account. The payment must be made within 45 days after the ~~election~~ notice of participation is received by the state retirement system. The financial officer of the university shall ~~immediately~~ pay the amount received to the designated company or companies for the benefit of the employee as soon as possible. An employee who transfers assets under this subsection may not reclaim the corresponding service in the state retirement system if the employee is reemployed under the state retirement system.

(e) An employee whose rights to transfer assets out of a state retirement system are subject to a qualified domestic relations order is entitled to transfer assets from the state retirement system to the program only if the requirements for receiving a refund under AS 14.25.150(b) or AS 39.35.200(c), as appropriate, are met.

(f) If a vested member of a state retirement system ~~elects to participate~~ participates in the program, the employee ceases to be an active member of the retirement system on the effective date of the participation in the program. The employee retains all benefits accrued in the state retirement system.

(g) An employee who does not ~~elect to participate~~ participate in the program under this section becomes or remains a member of the appropriate state retirement system.

**Sec. 14.40.681 Retirement system membership.**

An eligible employee ~~electing to participate~~ participating in the program may not participate in a state retirement system during the time the employee is employed in a participating position. If the employee is later employed in a position covered by a state retirement system that is not a participating position, the employee may not continue to participate

In the program and shall begin to participate in the state retirement system.

**Sec. 14.40.691 Contributions.**

- (a) The university shall contribute on behalf of each employee participating in the program an amount established by the board.
- (b) An employee participating in the program shall contribute to the program an amount established by the board.
- (c) The board may specify that contributions required by this section are made by a reduction in salary under 26 U.S.C. 414(h)(2) or similar provisions under 26 U.S.C. 403(b) (Internal Revenue Code).
- (d) The financial officer of the university shall pay the contributions authorized or required by this section to the designated company or companies for the benefit of each participant.

**Sec. 14.40.701 Benefits.**

Payment of benefits to participants of the program is the responsibility of the company or companies designated by the board and is not the responsibility of the board, the university, or the state. The benefits are payable to participants or their beneficiaries in accordance with the terms of the ~~annuity contract or contracts. However, retirement benefits must be paid in the form of a lifetime income. Except for death benefits, a single sum cash payment is not permitted under this section.~~ plan document.

**Sec. 14.40.799 Definitions.**

In AS 14.40.661 - 14.40.799,

- (1) "appropriate state retirement system" means the state retirement system that includes the employee's position;
- (2) "board" means the Board of Regents of the University of Alaska;
- (3) "contribution account" means the member contribution account under AS 14.25 or the employee contribution account under AS 39.35, whichever is appropriate;
- (4) "employee" means an employee of the University of Alaska or a community college under AS 14.40;
- (5) "participating position" means a position that is a permanent position that is at least a .5 full-time appointment as
  - (A) ~~a faculty appointment; or~~
  - (B) ~~an administrator and the position has been designated by the board for inclusion in the program;~~and is included in the plan document.

(6) "program" means the optional university retirement program;

(7) "state retirement system" means the teachers' retirement system under AS 14.25 or the public employees' retirement system under AS 39.35;

(8) "university" means the ~~University~~ University of Alaska.

#### ALASKA STATUTES

Title 39. Public Officers and Employees.

Chapter 35. Public Employees' Retirement System of Alaska.

Article 2. Membership.

##### Sec. 39.35.120 Commencement of participation.

(a) An employee of the state shall be included in this system upon commencement of employment with the state, or on January 1, 1961, whichever is later. Unless an employee has elected to participate in the optional university retirement program under AS 14.40.661 - 14.40.799, an employee of a political subdivision or public organization that becomes an employer shall be included in the system on the effective date of the employer's participation or the date of the employee's commencement of employment with the employer, whichever is later.

(b) Inclusion in the system is a condition of employment for an employee except as otherwise provided for

(1) an elected official;

(2) an employee making an election under AS 39.35.150(b); and

(3) an employee of the university who ~~has elected to~~ participate in the optional university retirement program under AS 14.40.661 - 14.40.799.

#### ALASKA STATUTES

Title 14. Education, Libraries, and Museums.

Chapter 25. Teachers' Retirement.

##### Sec. 14.25.040 Membership.

(a) Unless a teacher or member has ~~elected to~~ participated in the optional university retirement program under AS 14.40.661 - 14.40.799 or has filed an election under AS 14.25.043(b), a teacher or member contracting for service with a participating employer

is subject to this chapter.

(b) A state legislator who was an active member of this system under other sections of this chapter within the 12 months immediately preceding election to office may elect to be an active member of this system for as long as the state legislator serves continuously as a state legislator subject to the requirements of (c) of this section, if, within 90 days after taking the oath of office,

(1) the state legislator directs the employer in writing to

(A) pay into this system the employer contributions required for a member under this chapter; and

(B) deduct from the state legislator's salary and pay into this system

(i) the employee contributions required for a member under this chapter; and

(ii) an amount equal to the difference between the total employer and state contributions required for a member under this chapter and the employer contributions which would be required under the public employees' retirement system (AS 39.35) if the legislator were covered under that system; and

(2) notice is given the administrator in writing.

(c) A state legislator is not entitled to elect membership under (b) of this section if the state legislator is covered for the same period of service under the public employees' retirement system (AS 39.35). An election of membership under (b) of this section is retroactive to the date the state legislator took the oath of office. A state legislator may not receive membership credit under (b) of this section for legislative service performed before the legislative session during which the state legislator elected membership under (b) of this section. In order to continue in membership service under (b) of this section, the state legislator must earn at least 0.3 years of membership service under other sections of this chapter during each five-year period.

(d) A person who is employed at least half-time in the system during the same period that the person is employed at least half-time in a position in the public employees' retirement system under AS 39.35 shall receive credited service under each system for half-time employment. However, the amount of credited service a person receives under the public employees' retirement system during a school year may not exceed the amount necessary, when added to the amount of credited service earned during the school year under the system, to equal one year of credited service. A person who was employed at least half-time in a position in the public employees' retirement system under AS 39.35 in the same period that the person was employed at least half-time in a position in this system may claim credited service in both systems for employment before May 31, 1989. To obtain this credited service, the person shall claim the service and verify the period of half-time employment. When eligibility for half-time service credit has been established, an indebtedness shall be determined to the retirement system in which the person did not participate. The amount of the indebtedness is the full actuarial cost of providing benefits for the credited service claimed. Interest as prescribed by regulation accrues on that indebtedness beginning on the later of July 1, 1989, or the date on which the member is first eligible to claim the service. Any outstanding indebtedness existing at the time the person retires will require an actuarial adjustment to the benefits payable based on that service.

(e) A teacher who is assaulted while on the job, who files for benefits under AS 23.30, and who, as a result of a physical injury from the assault, is placed on leave without pay,

whether or not the teacher is receiving benefits under AS 23.30 for the injury, is entitled to accrue credited service while the teacher, because of the injury, is on leave-without-pay status or is receiving workers' compensation benefits under AS 23.30. Entitlement to earn credited service under this subsection ends when the teacher is eligible to receive benefits under AS 14.25.110(a) or 14.25.130(a).

### Defined Contribution (DC) Plan Elements

#### ◆ Required Contributions

- Employee: 8.0% of compensation, deducted pre-tax by employer. Sec. 14.25.340 (pg 13), Sec. 39.35.730 (pg 64).
- Employer: 3.5% of employee compensation. Sec. 14.25.350 (pg 14), Sec. 39.35.740 (pg 70)
- Total individual account contributions: 11.5%.

#### ◆ Optional Contributions

- A member may elect to contribute additional earnings not to exceed the limits established by the Internal Revenue Code. Sec. 14.25.340(b) (pg 13), Sec. 39.35.730 (c) (pg 69)

#### ◆ Vesting Sec. 14.25.390 (pg 16), Sec. 39.35.790 (pg 72)

- 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.

#### ◆ Rollovers Sec. 14.25.360 (pg 14), Sec. 39.35.760 (pg 70)

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

#### ◆ Investment of Accounts Sec. 14.25.400 (pg 16), Sec. 39.35.800 (pg 72)

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

#### ◆ Distribution of Accounts

- Employee may elect a distribution of funds upon termination of employment, after 60 days. Sec. 14.25.410 (pg 17) – Sec. 14.25.430 (pg 19), Sec. 39.35.810 (pg 73) – Sec. 39.35.840 (pg 76)
- Subject to IRC regulations.
- May receive funds prior to 60 days for financial hardship. Sec. 14.25.410(b) (pg 17), Sec. 39.35.810(b) (pg 73)

### Medical Program Elements

- ◆ **Required Contribution by Employer** Sec. 14.25.480 (pg 24), Sec. 39.35.870 (pg 80)
  - 3.75% 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.
- ◆ **Retirement** Sec. 14.25.470 (pg 24), Sec. 39.35.870 (pg 80)
  - Retirement from the DC plan is required to obtain *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.
  - A member is eligible to retire if they have reached:
    - ⇒ normal retirement age of 65 and has minimum of 10 years of service; or
    - ⇒ has 25 years of service for peace officer/firefighter; or
    - ⇒ has 30 years of service for all others; and
    - ⇒ has been an active member for at least a year prior to retirement.
- ◆ **Major Medical Insurance** Sec. 14.25.480 (pg 24), Sec. 39.35.880 (pg 80)
  - A member who meets the retirement provisions is eligible to enroll in the retiree major medical insurance plan.
    - ⇒ Insurance coverage includes the spouse and dependent children of the retiree.
  - The surviving spouse of a retiree who was enrolled in the retiree major medical insurance plan is also eligible to enroll.
    - ⇒ Insurance coverage includes the dependent children of 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)** Sec. 39.30.300 (pg 47)
  - **Required Contributions**
    - ⇒ Employer contributes an annual amount per employee to the health insurance trust fund.
    - ⇒ Calculation is 1% of average annual employer group compensation, to a maximum of \$500.

## SB 141 Walkthrough

- ⇒ Contribution is recorded in both an individual employee record of account and an employer record.
- ⇒ Interest is posted to individual records annually, the rate determined by the ARMB.
- ⇒ Contributions and interest accumulate over working lifetime of employees.
- **Employer Fund** Sec. 39.30.350 (pg 48)
  - ⇒ The HRA Trust is an employer owned fund.
  - ⇒ 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.
  - ⇒ Employers may use surplus funds held in the trust to credit individual employee records with the annual contributions owed by the employer.
- **Reimbursements**
  - ⇒ Who is eligible? Sec. 39.30.390 (pg 48)
    - + Members who retire directly from the system plus their spouse and dependent children.
    - + Spouse and dependent children are still eligible if retiree dies.
    - + Dependent children are still eligible if both retiree and spouse die.
  - ⇒ Reimbursements made for qualified medical expenses under IRC 213(d), including medical premium payments. Sec. 39.30.400 (pg 49)
  - ⇒ Total reimbursements are limited to an individual's recorded account.
  - ⇒ No set limits other than exhaustion of account balance.

### Changes to Existing Retirement System

- ◆ **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. 37.10.210 (pg 36)
    - ⇒ 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)

## SB 141 Walkthrough

- + 1 TRS member (active or retired)
- ⇒ All trustees must have recognized competence in one or more 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.
- ◆ **Authority and Responsibility of ARM Board** Sec. 37.10.220 (pg 38), Sec. 39.30.155 (pg 46)
  - Manage the assets of the defined benefits trust fund to meet pension liabilities.
  - Annual actuarial valuation of system plans, coordinating with the retirement system administrator.
  - Analysis of actuarial assumptions experience:
    - ⇒ 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 to the extent that the normal cost rate increases so that 50 percent would be higher than the current rates set in statute.
    - ⇒ Interest rates credited to individual employee accounts.
    - ⇒ Interest rates credited to employee HRA account records.
  - Provide a range of investment options for all employee-directed accounts.
- ◆ **Other Duties of the former PERS and TRS Boards Transferred** Sec. 39.35.005 (pg 53)
  - To the Commissioner of Administration:
    - ⇒ Adoption of regulations governing the retirement systems.
    - ⇒ Requests for a waiver of any adjustment made to the retirement system accounts due to a change or error in contributions or benefit computations.
  - To the Office of Administrative Hearings: Sec. 109 (pg 90)
    - ⇒ Adjudication of appeals related to decisions of the retirement system administrator.
    - ⇒ Adjudication of appeals related to the denial of a waiver for repayment of overpayments.
- ◆ **Employee and Employer Contributions to the Defined Benefits Plans**
  - The employee contribution rate is changed to the greater of: Sec. 39.35.162 (pg 58)
    - ⇒ 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. 39.35.270 (pg 61)

## SB 141 Walkthrough

### ◆ Repeals

- Reinstatement of Indebtedness (refund) (AS 14.25.062 and AS 39.35.350) Sec. 111 (pg 90)
  - ⇒ 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.
- Cost of Living Adjustment (AS 14.25.142 and AS 39.35.480) Sec. 39.35.475 (pg 66)
  - ⇒ This 10% adjustment is currently given to retirees at least 65 years old, or persons receiving a disability benefit, who reside in Alaska. (The repeal of AS 14.25.142 was inadvertently omitted from the bill.)

### ◆ Fiscal Note

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

### ◆ Intended Changes to SB 141

- Establish a statutory requirement for an actuarial analysis prior to passage of any legislation affecting retirement benefits.
- Define in statute the meaning of "the financial condition of the retirement fund" for the ad-hoc post retirement pension adjustment (applicable only to persons who were receiving a retirement or disability benefit prior to the 1986 amendments). (See editor's notes under AS 39.35.475)
- Provide an option for unvested Tier III members of PERS and unvested Tier II members of TRS to convert to the defined contribution retirement plan if their employer allows it. The conversion would be matched dollar for dollar by the employer. However, the employer match would have to be new money to avoid eroding the funding status of the defined benefits plans.
- Change the credited service requirement to 120 days for legislative employees under AS 39.35.385(f) from 60 days for persons first hired before May 30, 1987 and from 80 days for persons first hired after May 30, 1987.
- Find a workable implementation date or a workable solution to the July 1, 2005 effective date. The timeline may be too short for a full system conversion.

Senate Finance Committee  
 SB 141 Discussion Topics  
 Week of March 29<sup>th</sup> – April 3<sup>rd</sup>, 2005

Discussion Topic	Date (subject to change as needed*)
Normal Cost Rate & Existing Employee Contributions	Tuesday 3/30, 4:30 p.m.
Board Restructuring & Office of Administrative Hearings	Wednesday 3/30, 9:00 a.m.
Appropriate Contribution Rate for DC Plan	Wednesday 3/31, p.m. call of chair or Thursday 3/31, 9:00 a.m.
University Optional Retirement Program	Thursday 3/31, 9:00 a.m.
Retiree Medical Plan	Thursday 3/31, p.m. call of chair
Health Reimbursement Arrangement	Friday 4/1, 9:00 a.m.
AK Resident COLA Repeal	Friday 4/1, 9:00 a.m.
Ad Hoc PRPA	Friday 4/1, p.m. call of chair
Refunded Accounts	Friday 4/1, p.m. call of chair
Conversion Option for Existing Employees	Saturday 4/2, 10:00 a.m.
Implementation Timeline	Saturday 4/2, 10:00 a.m.
Review Committee Substitute	Sunday 4/3, 10:00 a.m.

\*Discussion topics will move up or down the schedule depending on the amount of time needed for each topic.



**Retirement Security  
Act**

*SB 141*

Discussion Topic  
*Contribution Rate of Existing  
Employees*

**March 29<sup>th</sup>, 2005**



**Alaska State Legislature**  
*Senate Finance Committee*

Updated as of: March 29, 2005



# Discussion

## *Contribution Rate for Existing 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:

		FY 07 Contribution Rates	
		PERS	TRS
	<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 8.65% 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>	<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>

- 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





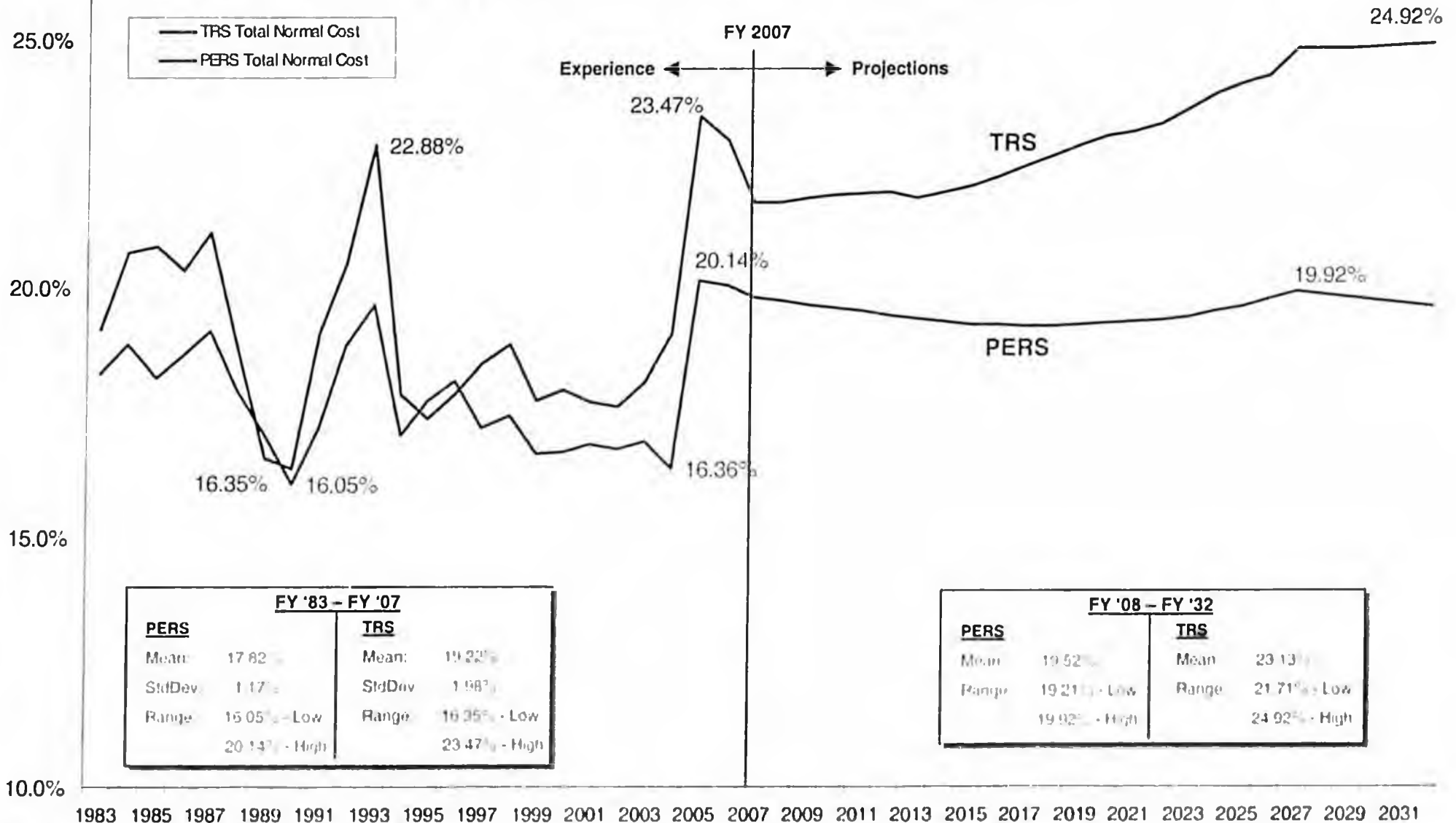
## SB 141 Addresses these Weaknesses

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 (*Current SB 141 language sets the maximum annual increase at 5.0%, but we are now proposing that be reduced to 0.50%*)
  
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:	15.05% - 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
	19.92% - High		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>
Police/Fire	5.00%	7.50%	7.50%	6.81%
All Others	4.25%	6.75%	6.75%	
School Districts*			9.60%	
<b>TRS</b>		<b>Before 1/1/91</b>	<b>Since 1/1/91</b>	<b>FY 07 Average</b>
Most Members		7.00%	8.00%	8.68%
Supplemental Plan**		8.65%	9.65%	

\* 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 Employee Normal Rate Projections

PERS - Average All Employees								
Rate for FY	Total Normal Cost	Projections at Current Rate			Projections at SB 141 Rate			
		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	Increase Over Previous FY
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%	5.81%	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%	6.81%	34.5%	65.5%	9.87%	9.87%	50.0%	-0.03%
2031	19.68%	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



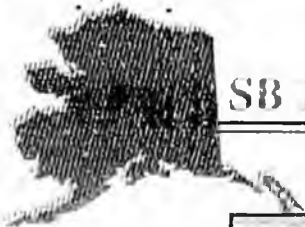


Effect of Employee Contribution Rate Increases on Average PERS Employee

				Nonnal Cost	50% Normal Cost	Current Rate @	SB 141 Proposed Pre-Tax Payroll Deductions (every 2 weeks)							
							FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	Cumulative Increase
				20.13%	10.07%	6.75%	7.25%	7.75%	8.25%	8.75%	9.25%	9.75%	10.07%	3.32%
PERS 2004	Annual Earnings	Monthly Earnings	2-Week Pay											
ASEA GG 1-A Range 5-A	\$ 20,436.00	\$ 1,703.00	\$ 851.50	\$ 57.48	\$ 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	\$ 27,168.00	\$ 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	\$ 5.66	\$ 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	\$ 42,852.00	\$ 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	\$ 59.19		
Average PERS Members	\$ 43,823.00	\$ 3,651.92	\$ 1,825.96	\$ 123.25	\$ 132.38	\$ 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	\$ 5.75	\$ 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

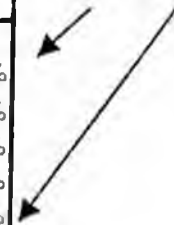




TRS Employee Normal Rate Projections

TRS - Average Rate								
Rate for FY	Total Normal Cost	Projections at Current Rate			Projections at SB 141 Rate			
		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	Increase Over Previous FY
2006	22.97%	8.69%	37.8%	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%	0.08%
2027	24.81%	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





Effect of Employee Contribution Rate Increases on Average TRS Employee

TRS 2004	Annual Earnings	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%	
Monthly Earnings	2-Week Pay										
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	\$ 145.74	\$ 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	\$ 181.02	\$ 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



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

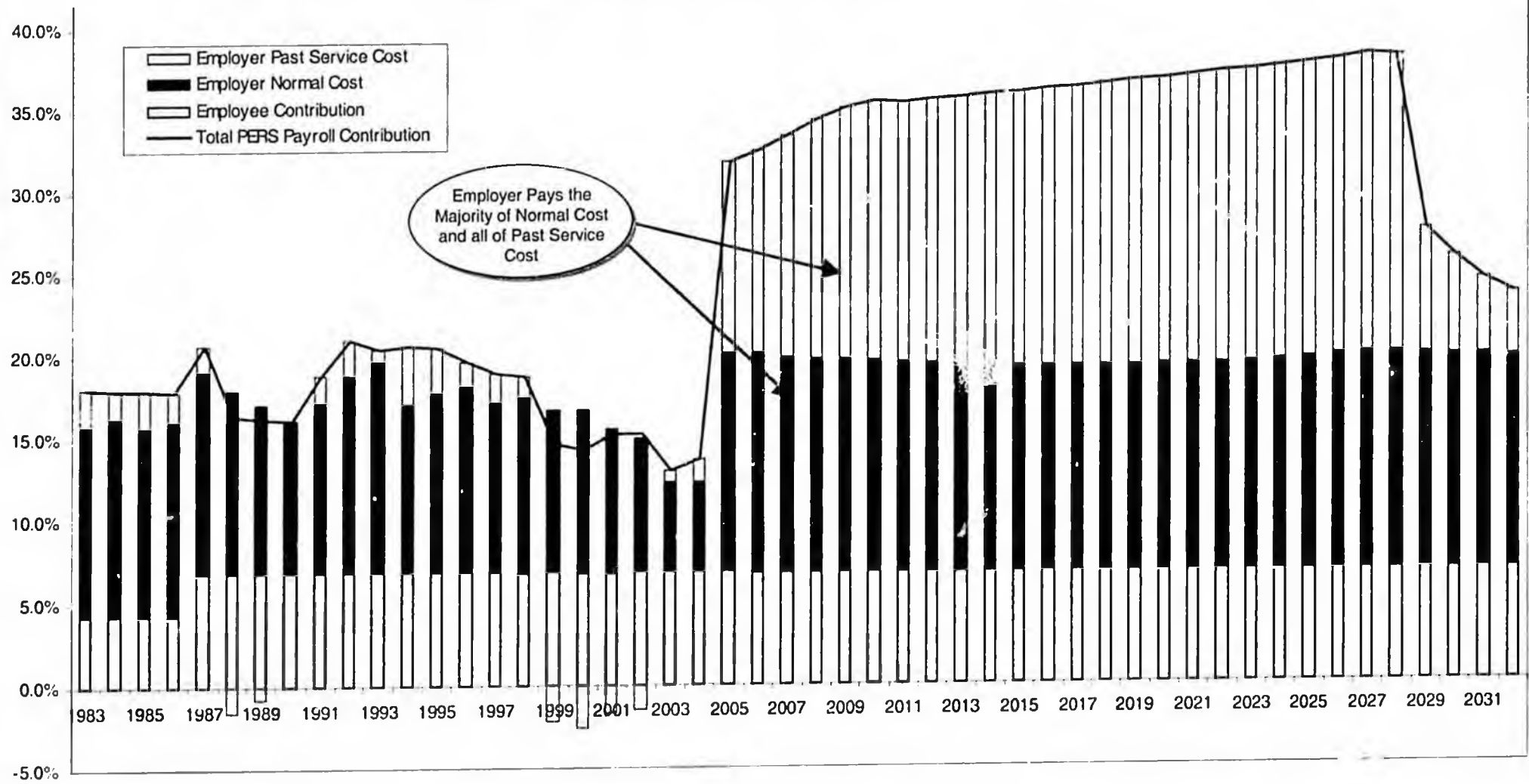
Mercer Data Year	Board Adopt Year	Rate for FY	PERS					TRS						
			PERS Funding Ratio	Employer Normal Rate	Past Service Rate	Actuarial Computed Rate	Board Adopted Rate	Diff Computed Rate	TRS Funding Ratio	Employer Normal Rate	Past Service Rate	Actuarial Computed Rate	Board Adopted Rate	Diff Computed 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%	9.89%	-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%	0.63%	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%	20.81%	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



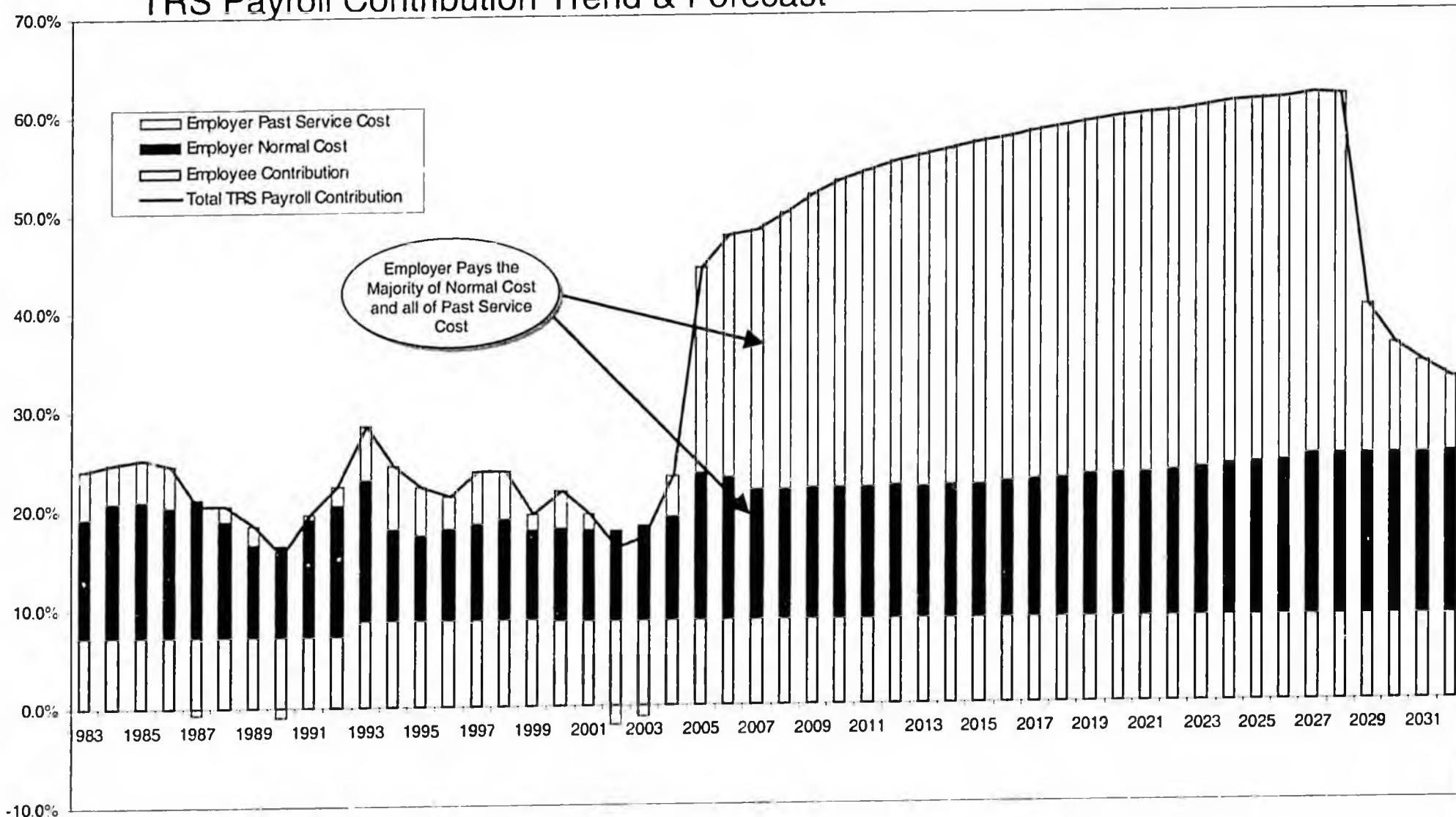


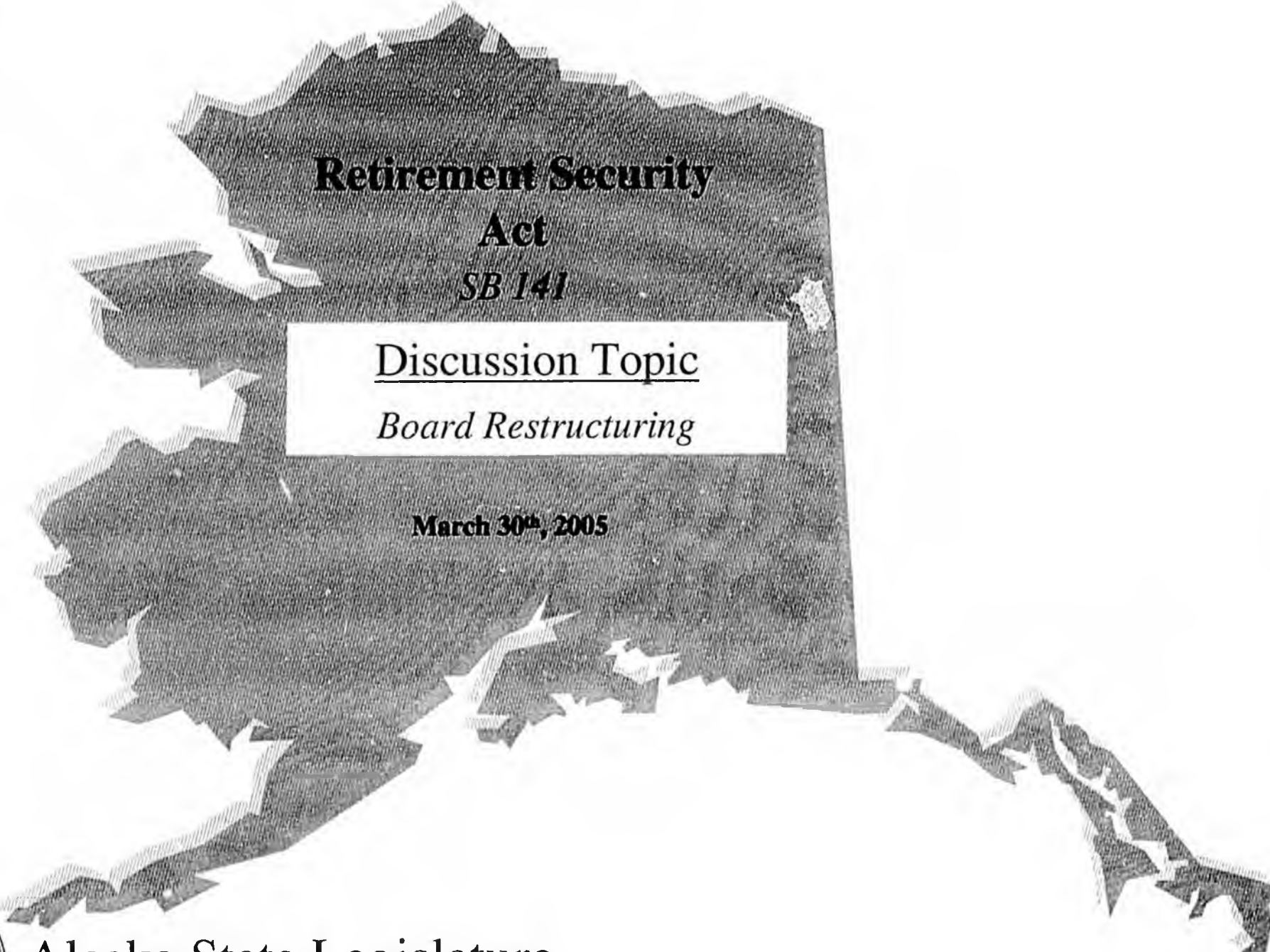
PERS Payroll Contribution Trend & Forecast





### TRS Payroll Contribution Trend & Forecast





**Retirement Security  
Act  
SB 141**

Discussion Topic  
*Board Restructuring*

**March 30<sup>th</sup>, 2005**



**Alaska State Legislature**  
*Senate Finance Committee*

Updated as of: March 30, 2005



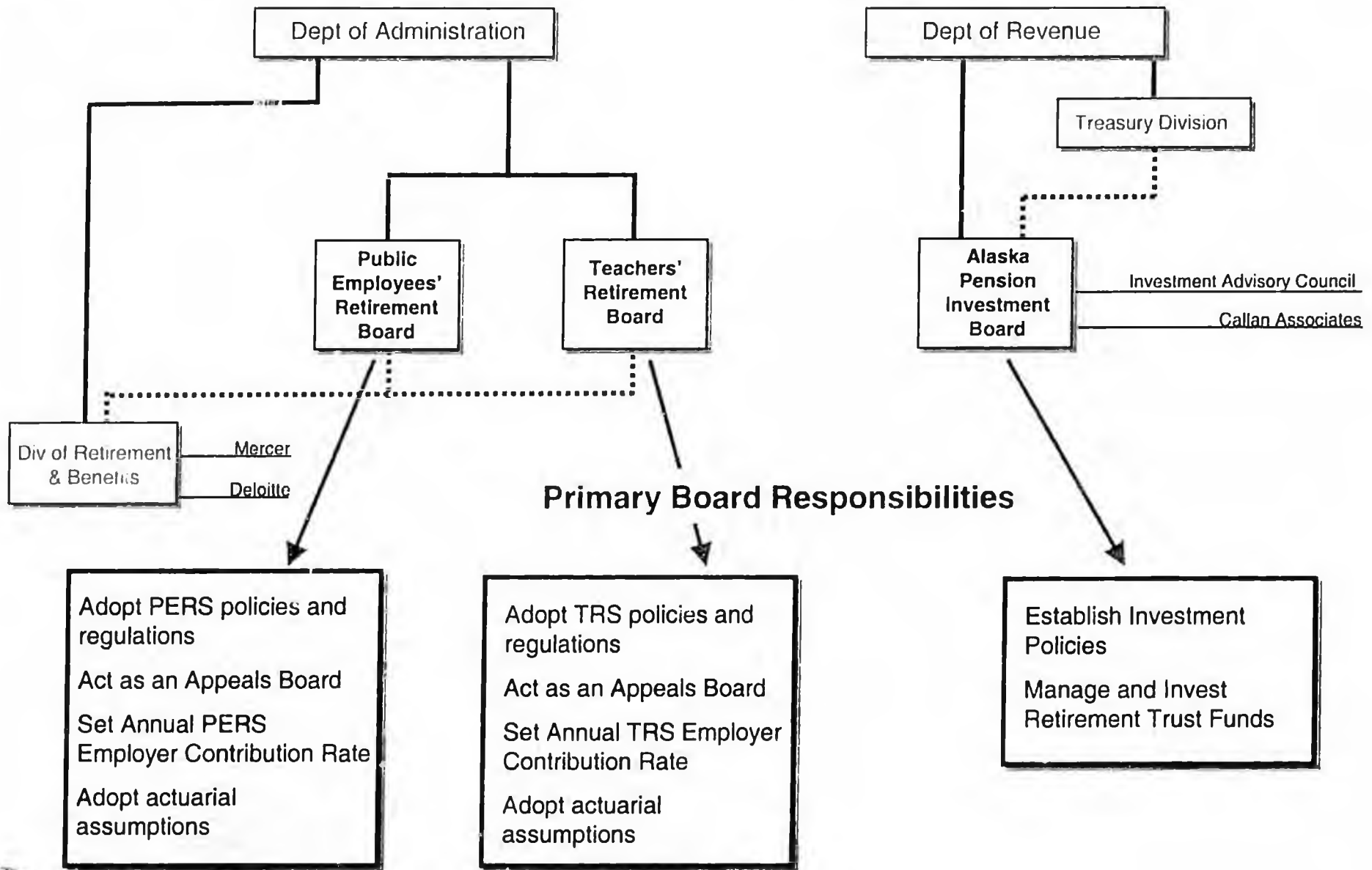
# Discussion

## *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 –include non-beneficiaries
- Independent





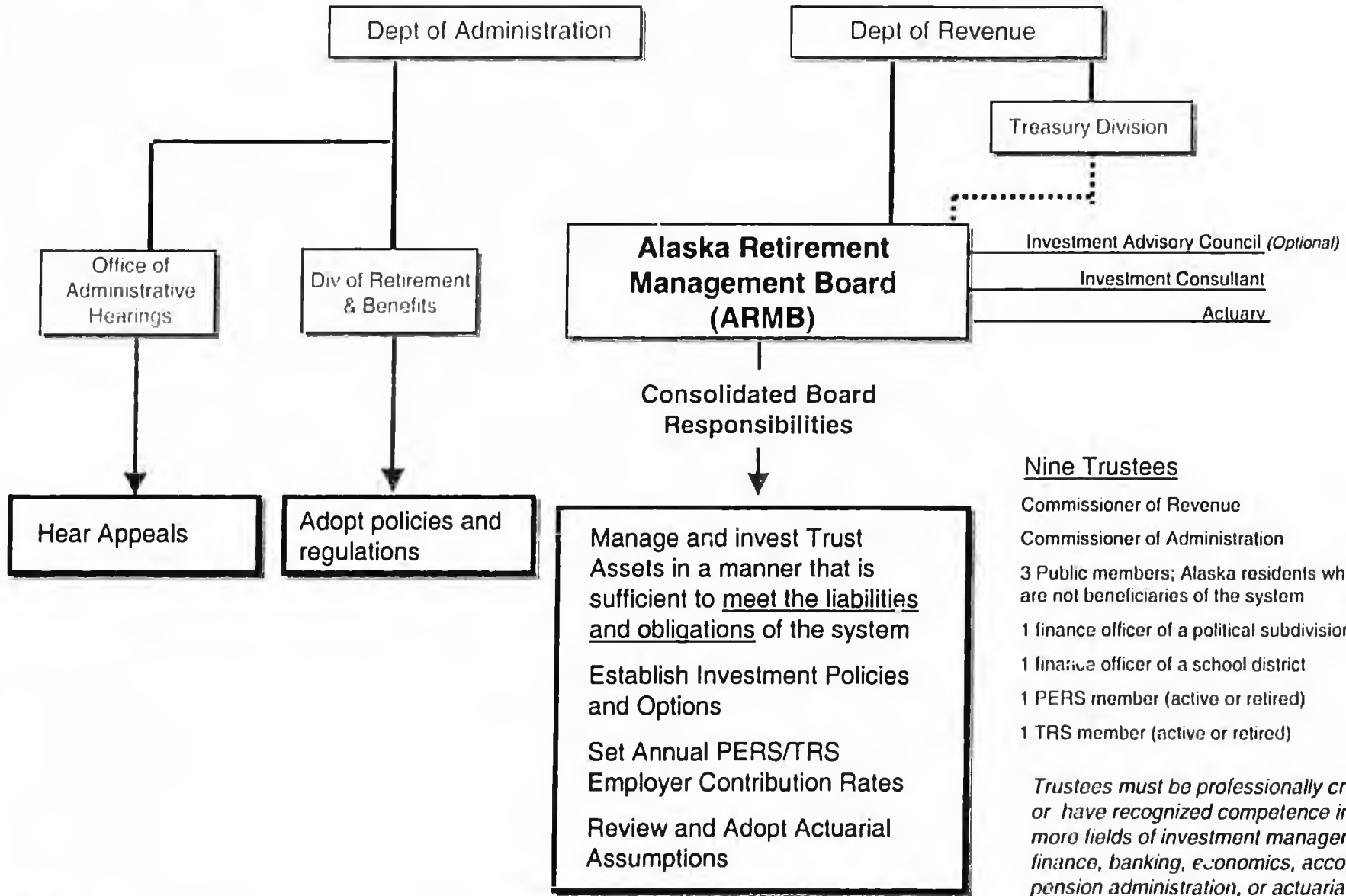
## SB 141 Board Restructuring is Designed to:

- 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 and non-beneficiary 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





## 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





# Retirement Security Act

*SB 141*

Discussion Topic

*Medical Benefits Program for DC Plan Members*

**March 31<sup>st</sup>, 2005**



Alaska State Legislature  
*Senate Finance Committee*



# Discussion

## *Medical Benefits Program for DC Plan Employees*





## Eligibility for medical benefits (*“Retirement”*)

- A member is eligible for medical benefits **when**
  - The member has been an active member for at least a year; *and*
  - Meets the requisite age and/or service requirements of
    - Age 65 with 10 years of service; or
    - 25 years of service for peace officers/firefighters; 30 years of service for all others
- The surviving spouse of an eligible member is also eligible for medical benefits





## Proposed change to eligibility

- Remove the requirement for a member to “retire directly from the system”
  - Concept originated in tier redesign initiative
  - Purpose: recruitment management tool for hiring managers who might not be aware of a person’s history in the retirement system
  - Suggest this is a management decision and should not be legislated





## Proposed changes to election of benefits

- Add a deferral of election of medical benefits to a date specified
- Member must make irrevocable decision of coverage by age 70 ½ or termination of employment, whichever is later
- Clarify that participation in the retiree major medical insurance plan is not required to participate in health reimbursement arrangement





## 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
- Coverage of an eligible member includes the member, member’s spouse, and member’s dependent children
- Coverage of a surviving spouse includes the surviving spouse and dependent children of surviving spouse





## Proposed change to coverage

- Change language to cover only “the dependent children of the eligible member who are dependent on the surviving spouse”
- Prevents coverage of second family dependents that had no relation to the member
- Keeps plan qualified under federal regulations

26 U.S.C. 152 defines a dependent child as: *a son, daughter, stepson, stepdaughter, eligible foster child, or adopted child who lives with the member, is less than age 19 (less than age 24 if a student), and has not provided more than one-half of their own support during the year*





## 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





## Major medical premiums cost example

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

<b>Member's Years of Service</b>	<b><i>Annual Employee Contribution</i></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%





## Employer contribution for major medical coverage

- Employer pays 3.75% of employee compensation into a health trust fund

- ▶ Current bill language calls for deposit into active group life and health insurance trust fund
- ▶ A legal opinion is presently being sought on accounting methods vs. true separation of assets
- ▶ Anticipated that language will have to be changed in some way

- Employer contribution was projected based on the tier redesign initiative which contains separate rates for TRS (3.75%) and PERS (3.5%)





## Rationale for cost sharing only after Medicare

- 25 states have a normal retirement age of 65, including
  - › Arizona, Idaho, Nevada, and Washington
- 75% percent of the retiree medical costs for the AlaskaCare Plan are from normal retirement age until members are Medicare eligible
- Eliminating the cost sharing between ages 60 and 65 reduces the medical normal cost rates to 1.5% (TRS) and 1.4% (PERS)





# Medical costs

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

Proposed Change

Employer Group	Total FY 06 Estimated Base Payroll	Medical Normal Cost Rates		
		Current DB Plans	Tier Redesign Initiative	SB 141 (implied)
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>\$189,811,531</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>



# MEMORANDUM

STATE OF ALASKA  
DEPARTMENT OF ADMINISTRATION  
Division of Retirement and Benefits

To: Ray Matiashowski  
Commissioner

Date: March 30, 2005

From: Melanie Millhorn  
Director

Subject: Medical Cost Containment  
Initiatives Active / Retiree  
Plans

This memo responds to your request for information regarding the medical cost containment initiatives undertaken by the Division or in concert with the Health Benefits Evaluation Committee for members of Select Benefits and the Health Subcommittee for members of the retiree plan.

### Select Benefits - Active Plan

- July 2003 - Prescription drug cost containment increasing the minimum amount employees would pay to refill a prescription at 20% of the cost for a generic drug or brand name drug up to \$50 maximum. Mail order drugs were increased from \$0 to \$8 for generic and from \$2 to \$20 for brand name. This was the first change that increased prescription drugs cost to active employees since 1989. Aetna estimated the savings at \$8-9 per employee per month.
- July 2003 - Cost shifting prevention with ASEA GGU health trust members by changing the coordination of benefits when a Select Benefits employee's dependents are covered under another State employee's union trust plan and the trust plan should be the primary plan by virtue of the "birthday rule." Estimated one-time savings of \$750,000 in transferred claims.
- March 2004 - Gastric bypass surgery. Changed the criteria for gastric bypass surgery in order to require members to meet stricter standards. Aetna estimated the savings based on 35 patients per year to be approximately \$350,000 annually.
- July 2004 - Preferred provider hospitals in Anchorage. Members must use Providence Hospital (Anchorage) and Aetna preferred hospitals outside of Alaska. Aetna has estimated the savings to be approximately \$1.5 million annually.
- July 2005 - Eliminate the coordination of benefits savings bank. Aetna has been unable to determine the cost savings to the plan at this point.
- July 2005 - Positive open enrollment for all members. This will require all members to positively enroll and provide documentation proving that the dependents they enroll are in fact eligible dependents. Aetna has estimated that plans that undertake this initiative find that on average 15% of the plan covered members are unable to provide the necessary documentation. The state has never had a positive open enrollment for its Select Benefits Plan. Positive open enrollment will be scheduled at regular intervals in the future. It is estimated this initiative will result in annual cost savings of \$4 million.

3/31/05 pm

Retiree Health Plan

- June of 2003 - the Alaska Supreme Court determined that the retiree medical benefits are accrued benefits and protected under Art. XII, Sec. 7 of the Alaska Constitution and therefore can not be diminished. The ruling indicated that any benefit decreases must be offset by benefit increases. This case has been remanded back to the Superior Court to determine if the changes made in 1999 and 2000 were balanced as required by the court's decision. As a result of the lawsuit the Division confers with the Department of Law before making any plan changes.
- January 2005 - Gastric bypass surgery. Changed the criteria for gastric bypass surgery in order to require members to meet stricter standards. Aetna estimated the savings based on 35 patients per year to be approximately \$350,000 annually.
- January 2005 - Required retiree members in accordance with statute provisions that had enrolled dependents provide documentation that the dependents over 19 and under 23 were registered at and attending on a full-time basis an accredited educational or technical institution recognized by the Department of Education and Early Development. Approximately 1,000 dependents were removed from the eligibility list when the members failed to provide supporting documentation.
- July 2005 - Eliminate the coordination of benefits savings bank. Aetna has been unable to determine the cost savings to the plan at this point.
- January 2006 - Positive open enrollment for all members. This will require all members to positively enroll and provide documentation proving that the dependents they enroll are in fact eligible dependents. Aetna has estimated that plans that undertake this initiative find that on average 15% of the plan covered members are unable to provide the necessary documentation. The state has never had a positive open enrollment for its Retiree Health Plan. Positive open enrollment will be scheduled at regular intervals in the future. It is estimated that this initiative will result in annual cost savings of \$16 million.

In addition, outlined below are several initiatives that the Division will work on with Aetna as a result of the Health Sub-committee meeting last week. Implementation schedule is estimated to be January 2006.

- Preferred provider hospitals in Anchorage and outside Alaska
- Generic drug / closed formulary
- Facility negotiated rate
- Review investment (longer term) of some of the funds in the retiree health trust fund

cc: Kevin Brooks, Deputy Commissioner  
Freda Rogers, Benefits Manager

2004 Calendar Year  
Paid Claims on AlaskaCare Benefits Plan

Claims Paid:

Medical -	\$152,069,233.00
Pharmacy -	\$ <u>69,399,868.00</u>
Total:	\$226,469,101.00

Member Records:

Members-	27,422 (52%)
Dependents-	<u>25,578 (48%)</u>
Total	53,000 (100%)

Total claims \$226,469,101.00 divided by Total Member Population 53,000 = 4273.00 per person average claim paid for the 2004 calendar year.

Total records (member & dependent): 53,000 X 15% = 7950.00

Total dependent records: 25,578 X 15% = 3836.70

Possible ineligible paid claims: Industry standard currently estimates that health insurance plans that do not utilize positive open enrollment could be covering up to 15% of total (member and dependent) population as ineligible participants. The more conservative outlook says to estimate 15% based on the total dependent population.

Using 15% total records (member & dependent):

*15% total (mbr & dpn) records:	7950.00
*Average paid claim per person:	X <u>4273.00</u>
	33,970,350.00

Using 15% total dependent records:

*15% dependent records:	3836.70
*Average paid claim per person:	X <u>4273.00</u>
	16,394,219.10

\*This is an estimate based on the current Industry Standard that maintains that health insurance plans that have not required positive enrollment in the past are paying up to 15% of total (member and dependent) population as ineligible participants. The more conservative approach is to estimate based on 15% of total dependent population.

\*This estimate is based on the member population and claims paid records for the 2004 calendar year.

2004 Calendar Year  
Paid Claims on Select Benefits Plan

Claims Paid:

Medical -	\$37,121,049.00
Pharmacy -	<u>\$ 6,170,935.00</u>
Total:	\$43,291,985.00

Member Records:

Members-	5,383 (38%)
Dependents-	<u>8,885 (62%)</u>
Total	14,268 (100%)

Total claims \$43,291,985.00 divided by Total Member Population 14,268 = 3034.20 per person average claim paid for the 2004 calendar year.

Total records (member & dependent): 14,268 X 15% = 2140.20

Total dependent records: 8,885 X 15% = 1332.75

Possible ineligible paid claims: Industry standard currently estimates that health insurance plans that do not utilize positive open enrollment could be covering up to 15% of total (member and dependent) population as ineligible participants. The more conservative outlook says to estimate 15% based on the total dependent population.

Using 15% total records (member & dependent):

*15% total (mbr & dpn) records:	2140.20
*Average paid claim per person:	<u>X 3034.20</u>
	6,493,794.84

Using 15% total dependent records:

*15% dependent records:	1332.75
*Average paid claim per person:	<u>X 3034.20</u>
	4,043,830.05

\*This is an estimate based on the current Industry Standard that maintains that health insurance plans that have not required positive enrollment in the past are paying up to 15% of total (member and dependent) population as ineligible participants. The more conservative approach is to estimate based on 15% of total dependent population.

\*This estimate is based on the member population and claims paid records for the 2004 calendar year.

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

**Update on Retirement Issues**

March 28, 2005

Public employer retirement costs are skyrocketing due to low earnings of retirement fund investments, historically low contribution rates, and rising retiree health costs. While several of the initiatives being considered in the legislature have merit, they may impact the University's ability to recruit and retain top quality faculty and staff.

Should the University take steps to ameliorate the impact of fast rising retirement plan costs and, if so, how should we proceed?

Background

*The University's Retirement Plans*

The University provides several retirement plans and options to its benefits eligible employees. A more detailed description of the plans is attached as *Appendix 1*.

- University staff participate in the Public Employee Retirement System (PERS) administered by the State of Alaska. This is a defined benefit plan with vesting and medical benefits dependent on when the employee began participation. In FY05, the employer contribution (% of salary) is 10.58% and the employee contribution rate is 6.75%, for a total of 17.33%. In FY06, the employer rate rises to 15.58% for a total of 22.33%. In FY07, the employer rate is slated to rise to 20.58% for a total of 27.33%.
- University faculty may choose between the Teacher Retirement System (TRS) administered by the State or the Optional Retirement Program (ORP) administered by the University.
  - TRS is a defined benefit plan with vesting and medical benefits dependent on when the employee began participation. In FY05, the employer contribution (% of salary) is 16% and the employee contribution rate is 8.65%, for a total of 24.65%. In FY06, the employer rate rises to 21% for a total of 29.65%. In FY07, the employer rate is slated to rise to 26% for a total of 34.65%.
  - ORP is a defined contribution plan with immediate vesting and no medical benefits. The employer rates are a three year rolling average of TRS rates. In FY05, the employer contribution is 13.00% and the employee contribution is 8.65%, for a total 21.65%. In FY06, the employer rate rises to 16.33% for a total of 24.98%. In FY07, the employer rate rises to 21%, for a total of 29.65%.

- University executive staff have the option to participate in PERS or ORP.
- All benefit eligible University employees also participate in the University Pension plan, a defined contribution plan in which the University provides 7.65% of salary up to \$42,000.

#### *Retirement Plan Costs*

The PERS and TRS retirement systems are seriously under funded. As of 2003, PERS was funded at 73% and TRS at 64%, for a total gap across the state of \$5.6 billion. The University's share of this under funding is \$281 million, \$176 million for PERS and \$105 million for TRS, or approximately \$70,000 per employee. Consequently, plan administrators have mandated employer contribution increases for the foreseeable future. The increases, if carried out as currently planned, increase university retirement costs as follows:

	<u>PERS/TRS/ORP Cost</u>	<u>Health Cost</u>
FY05	\$26,992,800	\$32,504,451
FY06	\$38,657,500	\$39,963,935
FY07	\$51,849,100	\$47,911,640
FY08	\$67,052,800	\$55,098,225
Change from FY05-FY08	\$40,060,000	\$22,593,774

The cumulative increase in retirement cost to the University from FY05 through FY08 is approximately \$77,000,000.

#### *PERS/TRS Board Efforts to Contain Costs*

On previous occasions, plan administrators added new tiers to the PERS and TRS plans. In general the new tiers in PERS and TRS include increases in the normal retirement age and the time needed to vest for retiree medical benefits.

The PERS and TRS Boards are now considering two options for a new tier. The first option is a combination defined contribution/defined benefit plan with an employee funded health plan. The second option is a pure defined contribution plan with an employee funded health plan.

The Boards did not accept either approach last fall, but under increased pressure of the employers represented by the Alaska Municipal League and the legislature, they may make progress in the near future.

The PERS and TRS Boards have been reticent to make plan changes out of concern for long term, possibly unforeseen, impacts on the plans and employer competitiveness. It may also be related to the fact that the Boards are comprised of plan beneficiaries.

*Legislative Efforts to Contain Costs*

Representative Mike Kelly has submitted three bills in an attempt address rapidly rising public employee retirement costs. The respective finance committees also have weighed in.

- House Bill 191 creates new tiers for the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). These new tiers involve a substantial shift in the structure of the retirement systems, from a Defined Benefit (DB) model to that of a Defined Contribution (DC).
- House Bill 170 modifies the composition of the PERS and TRS Boards to include individuals who are not beneficiaries of a plan.
- House Bill 177 would adjust the existing employee contribution rates in the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) from a fixed rate as currently established in statute to a floating rate similar to manner in which the employer contribution rate is calculated. Although initial adjustments to the employee contribution rates would result in increases in contribution rates, HB 177 also a mechanism for corresponding decreases in contribution rates for both employers and employees.
- In addition, the Senate Finance Committee has produced an omnibus retirement bill, Senate Bill 141, which requires all new employees to be enrolled in a new defined contribution plan funded by an employee contribution of 8% of salary and an employer contribution of 11.5%. The plan would include a retiree health benefit at age 65 and would permit increases to employee costs. The Senate leadership has indicated that their support for the K-12 budget increment is contingent on passage of retirement plan reform.
- Finally, in the coming days it is expected that the House Finance Committee will submit another omnibus bill. This bill is expected to create a new defined contribution tier, with employee contributions of 10% in PERS and 11% in TRS, which match the employer rates. Additional plan features include a medical benefit upon retirement at 60 years of age and a health reimbursement account.

While there is support from a variety of legislators for some or all of these efforts, there is strong opposition from others. The unions representing public employees strongly oppose these bills.

### Interests

The University has several compelling interests.

- We must maintain retirement programs sufficient to recruit and retain top quality faculty and staff.
- Our retirement programs should provide a responsible level of retirement benefit.
- We must mitigate the effects of rising costs either through modified benefits for future employees and/or increased legislative funding.
- We stay "out in front" of efforts to contain benefits costs.
- Any changes to our retirement plans should involve discussion with affected faculty.
- We support increasing the role of the defined contribution concept.

### Standards

#### *Alaska Constitution*

The courts have established that the constitution prohibits the diminishment of a retirement benefit. Over the years this prohibition has been interpreted very broadly. There is a fairly persuasive recent legislative counsel opinion, however, that suggests that an increase in employee contribution would not constitute a diminishment of a retirement benefit.

There is a question whether ORP enjoys the same constitutional protection as PERS and TRS. We believe it does. On the basis of the recent legislative counsel opinion, the legislature could change the ORP law or the University could modify the plan, in terms of eligibility for the program as well as future contribution rates.

#### *Collective Bargaining*

All our benefit eligible faculty and some of our staff are covered by collective bargaining agreements. Changes may be made to the PERS and TRS plans without negotiation with the unions and, because we believe ORP to enjoy the same protection from a diminished benefit enjoyed by PERS and TRS, changes to ORP also are insulated from the bargaining requirement.

### *Recruitment and Retention*

For most of our staff positions, our most significant competitors are other large public sector employers – the State, school districts, and municipal governments. Changes to the retirement plans affecting all public employees will not result, in and of themselves, in a differential effect on the University. Most of our faculty positions are recruited from a national market of other universities. More than half of the University's faculty have chosen ORP, the defined contribution plan, most likely because that was what they had before coming here and it is fully portable if they decide to leave.

### *Market Context*

The most recent annual benefits survey conducted by the College and University Personnel Association (2004) reported that 91% of universities provide a defined benefit retirement as a primary plan and 36% provide a defined contribution as a primary plan. Many universities, like the University of Alaska, provide more than one primary retirement plan.

The median contribution rates for defined contribution plans across the country was 5.9% from employers and 8% from employees (13.9%), compared to the PERS employer rate of 10.58% and employee rate of 6.75% (17.33%) and the TRS employer rate of 16% and employee rate of 8.65% (24.65%).

### *Financial Impact*

If trends continue, in FY08, the University's staff benefit rate for our faculty will rise to more than 50%. This rise in costs, unless paid for by the state or somehow reduced by plan changes, will require major program reduction.

### Recommendation

With respect to the specific efforts by the legislature, we support efforts to contain costs, but we are concerned that changes may impair our ability to recruit and retain staff and faculty. Therefore, the university seeks changes in the ORP law to provide the university the flexibility to:

- include a health plan, if considered necessary;
- expand the potential pool of participants to include all faculty and staff;
- provide a second opportunity for a one-time option to select ORP;
- require all new employees to participate in ORP; and
- allow various types of plan distributions as allowed by federal law.

In addition, we seek to clarify in statute that:

- like PERS and TRS, ORP is not a subject of bargaining, and
- the university may create new tiers.

Next Steps

Seek full funding of existing PERS and TRS obligations in FY06.

Advocate amendment of ORP statute as outlined above.

Examine ORP for modification through a consultative process with staff governance and collective bargaining representatives. The following principles will guide this consultation:

- Faculty and staff must have opportunities to provide input.
- ORP must be competitive; it must be sufficient to recruit and retain top quality faculty and staff.
- ORP must provide a reasonable level of retirement benefit.
- ORP's rising costs must be mitigated.
- ORP should be the University's primary retirement plan.

Propose ORP plan changes to the Board of Regents for discussion this fall and action in December 2005.

**University of Alaska  
Summary of Primary Retirement Programs**

	Teachers Retirement System (TRS)	Public Employees Retirement System (PERS)	UA Optional Retirement Program (ORP)	Possible UA Optional Retirement Program (ORP)
Plan Type	Defined Benefit	Defined Benefit	Defined Contribution	Defined Contribution
IRS Governing Code	401(a)	401(a)	Employer contribution 401(a) Employee contribution 403(b)	Employer contribution 401(a) Employee contribution 403(b)
SS Replace	Yes	Yes	Yes	Yes
Alaska Code	AS 14.24	AS 39.35	AS 14.40.661	AS 14.40.661
Eligibility	Faculty	Administrative and Executive Staff	Faculty and Executive Staff	Current participants, all new UA employees
Vesting	8 years of service	5 years of service	Immediate	Immediate
Health Coverage After Retirement	Yes Tier I — Medical at no cost Tier II — Medical at age 60 at no cost	Yes Tier I — Medical at no cost Tier II — Medical at age 60 at no cost Tier III — Must have 10 years of service and be 60 for no cost medical	No	No
Contribution Rate Setting Authority	State of Alaska Division of Retirement	State of Alaska Division of Retirement	University of Alaska	University of Alaska
Methodology For Setting Rates	Actuarial Model	Actuarial Model	3 year rolling average of the TRS contribution rate	Employee Rate equal to TRS rate Employer rate equal to 150% of employee rate up to 15%
Right to borrow	No	No	No	Yes, from Employee share
Rates For FY04	Employer 12% Employee 8.65% Total 20.65%	Employer 5.58% Employee 6.75% Total 12.33%	Employer 11.66% Employee 8.65% Total 20.31%	N/A
Projected Rates FY05	Employer 16.00% Employee 8.65% Total 24.65%	Employer 10.58% Employee 6.75% Total 17.33%	Employer 13.00% Employee 8.65% Total 21.65%	N/A
Subject Of Bargaining	No	No	No, but not stated in statute	No
Participation Rate	ACCFI - 174 (56%) UNAC - 328 (39%) Executive - 23 (24%) Total - 525 (95% faculty)		ACCFI - 139 (44%) UNAC - 511 (61%) Executive - 73 (76%) Total - 725 (90% faculty)	ACCFI - 139 (44%) UNAC - 511 (61%) Executive - 73 (76%) Total - 725 (90% faculty)

First Annual Report to  
the Governor of Alaska and the Alaska Legislature  
from the Office of Administrative Hearings

Prepared by  
Terry L. Thurbon  
Chief Administrative Law Judge (Acting)

Submitted  
January 31, 2005

## I. Introduction

In 2004, the Legislature passed and the Governor signed into law Senate Bill 203 (ch. 163, SLA 2004), which created the Office of Administrative Hearings (OAH), an independent office within the Department of Administration (DOA) charged with providing administrative adjudication services, regulatory review and training. *See* AS 44.64.010 – AS 44.64.020. The purpose was “to increase the separation between the adjudicatory functions of executive branch agencies and the agencies’ investigatory, prosecutory, and policy-making functions.” Sec. 1, ch. 163, SLA 2004.

OAH operates under the supervision of a chief administrative law judge (ALJ) for whom the law prescribes certain duties and goals. *See* AS 44.64.020. One of the chief ALJ’s duties is to

submit to the governor and the legislature on January 31 of each year the results of the survey [of hearing participants used to monitor the quality of hearings conducted by OAH and other state agencies] along with a report that includes a description of the activities of the office and recommendations for statutory changes that may be needed in relation to the administrative hearings held by the office or other state agencies[.]

AS 44.64.020(a)(7). This is the first such report.

Consistent with the transition provisions of Senate Bill 203 (sec. 94, ch. 163, SLA 2004), two employees of the Department of Commerce, Community and Economic Development (DCCED) and five employees of the Department of Revenue (DOR), together with the hearing functions they perform, were transferred to OAH effective January 1, 2005. Thus, as of the submittal of this first annual report, OAH has operated as an organizational unit for 30 days. This report, therefore, is predominantly forward looking. It provides a template for future reports, describes activities expected to be carried out by OAH in the coming year, and reports on the snapshot of data and information available for the first 30 days of OAH operation.

## II. Activities of the Office of Administrative Hearings

For reporting purposes, the activities of the OAH are grouped into six categories drawn from the statutory duties of OAH and the chief ALJ:

- Adjudication services;
- Peer review for OAH ALJs;
- Publication of decisions;
- Regulations review and development;
- Surveying hearing participants;
- Training of administrative adjudicators.

*See AS 44.64.020(a)(4)-(8) & AS 44.64.090.*

During the first 30 days of its operation, OAH's activities have, by necessity, focused on continuing to perform the adjudication services for the matters transferred and new matters referred to OAH. Hearings are being held, decisions are being issued and new case assignments are being made almost daily. In addition, systems have been put in place for peer review and publication of decisions. Plans for surveys, development of regulations, and formal training are being made, and OAH representatives have already participated or are scheduled to participate in training activities.

#### **A. Adjudication Services**

The adjudication services provided by OAH range from preparing proposed decisions based on written submittal of the parties in simple administrative appeals to conducting trial-like evidentiary hearings in complex matters. The services, however, do not stop at conducting hearings and writing decisions. When the final decision maker is a board or commission, or even a principal agency head, the services can include functioning as a legal adviser to that decision maker. After procedural regulations have been adopted, OAH expects to facilitate use of alternative dispute resolution methods, when appropriate, in administrative adjudication matters handled by OAH.

In terms of subject matter, OAH's case docket is varied, with referrals from DOR presently accounting for about 70% of the caseload. With the transfer of the five DOR and two DCCED employees on January 1, 2005, 321 open cases were

transferred to OAH. A few of those cases are carried as "open" simply because appeals to the courts are pending and thus the cases could be remanded for further action by the agency decision maker. Most of the 321 cases, however, are "open" in the sense that a hearing remains to be held or a decision or other action is pending.

The 321 cases transferred to OAH break down into the following agency and subject matter categories:

DOR	Child Support Services	153
DCCED	Occupational Licensing	83
DOR	Permanent Fund Dividend Eligibility	69
DOA	Other	16

The "occupational licensing" category includes not only appeals from licensing decisions but also other types of cases resulting from matters within DCCED's purview, including tobacco enforcement cases and real estate surety claims. The "other" category includes cases referred to the Office of Tax Appeals and the DOA hearing officer covering subjects such as taxation, contract and procurement disputes, victims of crime compensation awards, benefits programs, and permitting issues.

During the first four weeks of operation, OAH received 100 new case referrals. These break down into the following subject matter categories:

Child Support Services	45
Occupational Licensing	6
Permanent Fund Dividend Eligibility	36
Other	13

At the time this report was sent for printing, OAH's active caseload totaled about 400 cases, and new referrals were coming in at the rate of 25 cases each week.

It is too early in OAH's operation to provide data on case closure rates, time devoted to the different case types, the number of cases that are resolved on motions (without hearings) or by settlement, or the number that are diverted for alternative dispute resolution and the success of those efforts. Future reports will include such data, as well as other statistical information, which will serve as performance indicators for OAH's adjudication services.

## B. Peer Review

Peer review serves two purposes: it promotes consistency in decision making and it provides informal training opportunities (for both the reviewed and the reviewing ALJ). OAH's peer review system consists of selectively assigning an ALJ to review the proposed decision and/or to observe the hearing conducted by another ALJ on a case-specific basis. The reviewing ALJ provides written or oral feedback to the reviewed ALJ. The reviewing ALJ also is available for consultations on questions of law or procedure.

Presently, formal peer review assignments are being made with the goal in mind of ensuring that an ALJ venturing into a new subject area receives the benefit of informal training from a peer who has already worked on cases in the subject area. In addition, peer review of decisions occurs on an ongoing basis, especially in the high-volume case docket (child support and permanent disability appeals), when the chief ALJ or an ALJ delegate reviews decisions preliminary to adopting them as final under a delegation from the DOR Commissioner.

## C. Publication

Effective July 1, 2005, OAH will be required to "make final agency decisions reached after administrative hearings available online through an electronic data base." AS 44.64.090(a). OAH's webpage has already been updated to provide this data base service. It contains a "Decisions" link for the purpose of posting decisions. Decisions previously posted on the Office of Tax Appeals' webpage have been transferred to the OAH webpage Decisions link.

Beginning in mid-February 2005, decisions issued by OAH on or after January 1, 2005, will be scanned and uploaded to the Decisions link. New decisions will be scanned and uploaded almost immediately after they are issued. As resources permit, OAH will scan and upload pre-2005 decisions, as well from existing DOA, DCCED and DOR hardcopy libraries that date back to the early 1980s. OAH is still exploring methods for obtaining decisions from other state agencies on a routine basis and will implement webposting of those decisions no later than the July 1, 2005 effective date of the requirement.

## D. Regulations

OAH's chief ALJ was given authority to "adopt regulations ... to carry out the duties of the office" as well as to "review and comment on regulations

proposed by state agencies to govern procedures in administrative hearings.” AS 44.64.020(a)(8)&(11). In particular, the chief ALJ must adopt a hearing officer code of conduct, which will apply to hearing officers of all agencies, not just to OAH ALJs.

To satisfy these regulations-related duties, OAH has begun tracking notices of other state agencies’ proposed regulations and has established a timeline for developing OAH procedural regulations and the hearing officer code of conduct. The timeline sets March 1, 2005, as the target date for a draft of the code of conduct and March 28, 2005, as the target date for a preliminary draft of OAH procedural regulations, including regulations for use of alternative dispute resolution methods. The goal is to have both sets of regulations through the public comment process and ready for adoption no later than July 1, 2005.

### E. Surveys

OAH’s charge to survey administrative hearing participants as one method of monitoring the quality of the hearings held is not limited to OAH-conducted hearings. OAH is required to survey participants in hearings held by OAH “and other state agencies....” AS 44.64.020(a)(7). To satisfy this duty, the chief ALJ has begun conducting informal, oral surveys of counsel who repeatedly represent parties in administrative hearings and has begun developing a standard survey form that can be completed electronically or by hand.

The standard survey form will be designed to elicit numerical ratings on certain common characteristics of hearings (e.g., adequacy of the time allowed; clarity of procedures and hearing officer’s instructions; understandability of decisions, etc.) and to allow participants to offer narrative comments. All hearing participants appearing before the OAH will be encouraged to respond to the surveys.

To establish a baseline of survey comments against which to measure future responses, in the February-April 2005 period, surveys will be distributed to past hearing participants from the case dockets transferred to OAH. The survey form also will be distributed to a statistically significant sampling of hearing participants identified from the records of other state agencies that conduct administrative hearings, commencing with hearings occurring in calendar year 2005.

Data and narrative comments obtained from the surveys will be analyzed, summarized and reported in subsequent annual OAH reports. OAH also will use

the comments to identify subjects needing additional examination as part of the process of monitoring the quality of administrative hearings. The results of the surveys and the additional examinations will be considered by the chief ALJ in making recommendations for statutory changes.

## F. Training

OAH's training mandate extends beyond providing training to OAH employed or retained ALJs and hearing officers. It requires that OAH

make available and facilitate training and continuing education programs and services in administrative procedure, administrative adjudication, substantive law, alternate dispute resolution, and technical matters for administrative law judges *and other administrative adjudicators*[.]

AS 44.64.020(a)(6). (Emphasis added.) To satisfy this mandate, OAH's training plan will consist of the following components:

- Informal training for OAH ALJs through peer review assignments, periodic conferences among the ALJs, and circulation of case decisions and other materials of interest;
- Formal training for OAH ALJs by attendance at continuing education courses offered by professional associations and the National Judicial College;
- Informal training for all state administrative adjudicators by email circulation/webposting of periodic electronic bulletins/newsletters reporting on developments of interest in administrative law;
- Formal training for non-OAH administrative adjudicators through participation by OAH representatives in periodic, agency-specific conferences;
- Formal training for all administrative adjudicators in the form of course offerings made available by OAH.

In the short period of OAH's operation and the weeks leading up to that operation, OAH representatives have conducted informal training for OAH ALJs and have presented a training segment during a Child Support Services Division conference. OAH representatives are scheduled to participate in a similar Permanent Fund Dividend Division meeting early in February 2005. OAH representatives also are scheduled to present a training segment in an Alaska Bar Association-sponsored continuing legal education course on February 2, 2005.

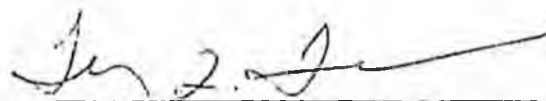
### III. Recommendations of the Chief Administrative Law Judge

In addition to the description of activities, the annual report of OAH is to include "recommendations for statutory changes that may be needed in relation to the administrative hearings held by the office or other state agencies[.]" AS 44.64.020(7). Future reports can be expected to include recommendations resulting from review and development of regulations, survey comments and other observations on how state administrative adjudication processes could be improved. As of the date of this report, no specific recommendations have been developed.

### IV. Conclusion

As of the date set for this first annual report, OAH is carrying out its primary core service by conducting hearings and issuing decisions. That service is being provided to the agencies that contributed personnel resources and transferred caseloads to OAH and to other agencies on a reimbursement basis. OAH also has taken steps to satisfy its regulatory review, survey, and training duties, and soon will be developing its regulations. OAH is well on the way to having all mission-critical processes ~~in place long before the July 1, 2005 date on which the vast~~ majority of the provisions of law governing operation of OAH take effect.

Submitted this 31<sup>st</sup> day of January, 2005.



Terry L. Thurbon  
Chief Administrative Law Judge (Acting)  
Office of Administrative Hearings  
P.O. Box 110231  
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## Appendix A

# Survey Results

*In future reports, the detailed survey results on which the narrative analysis in the body of the report will be based will be presented in this appendix.*



**Retirement Security**

**Act**

**SB 141**

Discussion Topic

*Contribution Rates for New  
Defined Contribution (DC) Plan*

**April 1<sup>st</sup>, 2005**



**Alaska State Legislature**  
*Senate Finance Committee*

Updated as of: April 1, 2005

✓



# Discussion

## *Contribution Rates for New Defined Contribution (DC) Plan*





**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*

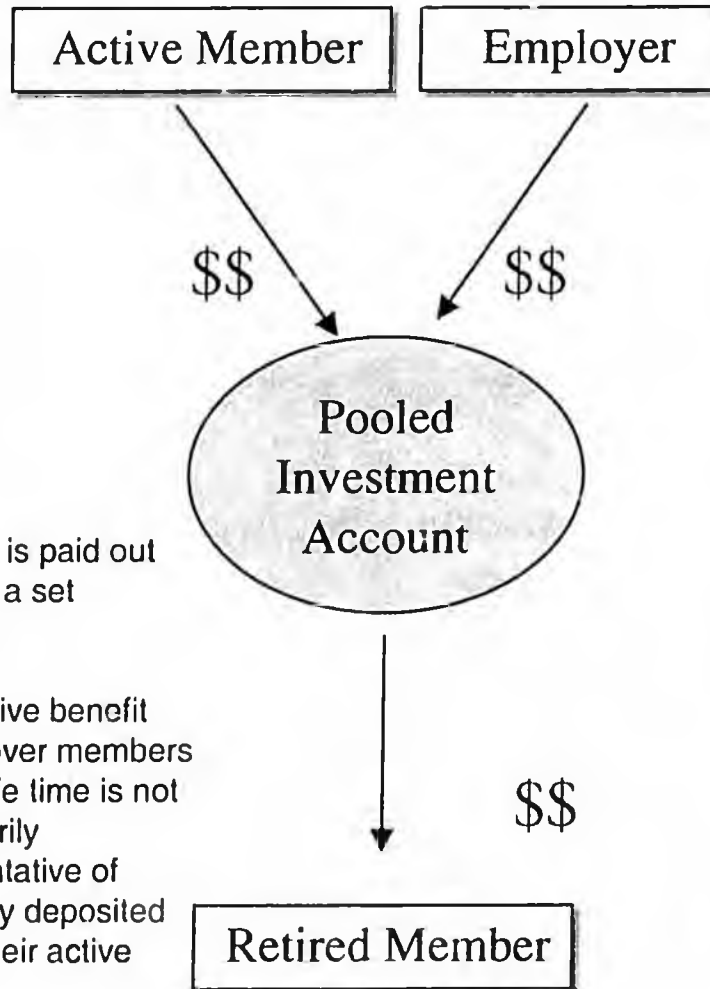
Examples: SBS & Deferred Compensation

Defined Benefit (DB) vs Defined Contribution (DC)





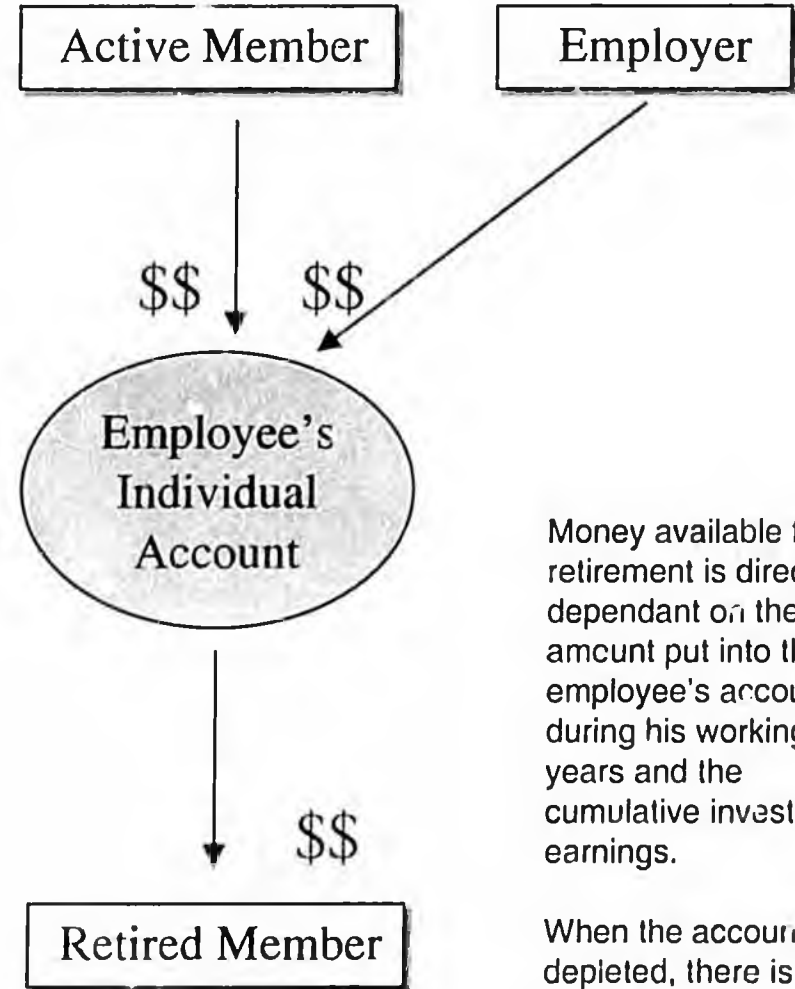
**Defined Benefit System**



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 amcunt 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.





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%	3.75%
Defined contribution rate	12.43%	10.32%	11.50%
HRA contribution rate	0.0%	0.0%	1.00%
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%





## 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





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%	3.75%
Defined contribution rate	13.90%	11.37%	11.50%
HRA contribution rate	0.0%	0.0%	1.00%
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%



**Comparison of PERS Tier III & TRS Tier II**

**Pension Benefits**

**VS**

**Defined Contribution Investment Account**



**LEGEND**

Contribution Level	Total Return	Real Return	Final Salary		Account Balance at Termination	Beginning Annuity		Annuity as % of Final Salary	Existing PERS Pension Benefit	DC vs DB
			Term Yr	PV 2004		Term Yr	PV 2004			

1            2            3            4            5            6            7            8            9            10            11

- 1 = The % of Payroll being deposited into the employee's DC account
- 2 = The assumed earnings % (Total Rate of Return) on the DC account
- 3 = Real Rate of Return after deducting a 3.5% interest assumption
- 4 = Employee's Annual Salary at the year they terminate from the system. The annual salary increase is based on the actuarial assumptions used by Mercer. An 0.5% annual productivity increase is applied annually and a 1.5% merit increase is applied for the first five years.
- 5 = Equals the salary shown in column 4 adjusted for the change in the Anchorage CPI from the year of termination to today
- 6 = The ending DC plan balance. It is the sum of annual DC plan contributions and the investment earnings. Investment earnings are calculated by multiplying the assumed investment return assumption by the beginning period balance and 1/2 of the current period's plan contributions.
- 7 = The beginning annuity on the DC Plan is estimated by assuming an annuity purchased on a person of the attained age at retirement, based on the ending balance in the DC plan account. The beginning annuity is discounted by the weighted average investment return anticipated over the expected life of the member. The weighted average rate is a blend of the expected rates over the remaining years of life expectancy - pre 60, 60-65, post 60, as necessary.
- 8 = This is the annuity adjusted to 2004 dollars by multiplying (7) by the change in Anchorage CPI from termination year to today
- 9 = This is the annuity expressed as a percentage of the member's final year of salary. So if the % shown is 55%, then a member is getting 55% of his normal working salary through this annuity
- 10 = This is the comparative annuity benefit provided in PERS III or TRS II. The benefit is calculated by the appropriate system formulas. If member elects early retirement, the benefit formula is reduced by a factor of .0067 for each month that retirement precedes age 60.

**% X years of service X salary**

<p><b>PERS</b></p> <p>Pol/Fire High 3 consecutive years 2% for first 10 years 2.5% for all years after 10</p> <p>All other Average of high 5 consecutive years 2% for first 10 years 2.25% for the next 10 years 2.50% for every year after</p>	<p><b>TRS</b></p> <p>Avg of high 3 contract salaries 2% for the first 20 years 2.5% there after</p>
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PERS

Age at Hire: 25  
 Age at Retirement: 55  
 Years of Service: 10

Life Exp: 23.8  
 Salary: \$ 39,128  
 Inflation: 3.50%

High Five: \$55,397

25 Yrs Old - 10 Yrs Service  
 Early Retire

Contribution Level	Total Return	Real Return	Final Salary		Account Balance at Termination	Beginning Annuity		Annuity as % of Final Salary	Existing PERS Pension Benefit	DC vs DB
			Term Yr	IPV 2004		Term Yr	IPV 2004			
11.50%	4.50%	1.00%	\$59,825	\$22,060	\$70,361	\$4,006	\$2,940	6.70%	\$6,625	60.47%
	5.50%	2.00%	\$59,825	\$22,060	\$73,809	\$4,674	\$3,430	7.81%	\$6,625	70.55%
	6.00%	2.50%	\$59,825	\$22,060	\$73,604	\$5,040	\$3,698	8.42%	\$6,625	76.07%
	6.50%	3.00%	\$59,825	\$22,060	\$77,449	\$5,427	\$3,982	9.07%	\$6,625	81.91%
	7.00%	3.50%	\$59,825	\$22,060	\$79,344	\$5,837	\$4,283	9.76%	\$6,625	88.10%
	7.50%	4.00%	\$59,825	\$22,060	\$81,292	\$6,271	\$4,601	10.48%	\$6,625	94.65%
	8.25%	4.75%	\$59,825	\$22,060	\$84,314	\$6,969	\$5,113	11.65%	\$6,625	105.18%
	8.75%	5.25%	\$59,825	\$22,060	\$86,398	\$7,466	\$5,478	12.48%	\$6,625	112.69%
12.50%	4.50%	1.00%	\$59,825	\$22,060	\$76,480	\$4,355	\$3,195	7.28%	\$6,625	65.73%
	5.50%	2.00%	\$59,825	\$22,060	\$80,227	\$5,081	\$3,728	8.40%	\$6,625	76.69%
	6.00%	2.50%	\$59,825	\$22,060	\$82,179	\$5,478	\$4,019	9.16%	\$6,625	82.68%
	6.50%	3.00%	\$59,825	\$22,060	\$84,184	\$5,899	\$4,328	9.86%	\$6,625	89.04%
	7.00%	3.50%	\$59,825	\$22,060	\$86,244	\$6,345	\$4,655	10.61%	\$6,625	95.77%
	7.50%	4.00%	\$59,825	\$22,060	\$88,361	\$6,817	\$5,002	11.39%	\$6,625	102.89%
	8.25%	4.75%	\$59,825	\$22,060	\$91,646	\$7,575	\$5,558	12.66%	\$6,625	114.33%
	8.75%	5.25%	\$59,825	\$22,060	\$93,911	\$8,116	\$5,955	13.57%	\$6,625	122.49%
13.00%	4.50%	1.00%	\$59,825	\$22,060	\$79,539	\$4,529	\$3,323	7.57%	\$6,625	68.36%
	5.50%	2.00%	\$59,825	\$22,060	\$83,436	\$5,284	\$3,877	8.83%	\$6,625	79.76%
	6.00%	2.50%	\$59,825	\$22,060	\$85,466	\$5,697	\$4,180	9.52%	\$6,625	85.99%
	6.50%	3.00%	\$59,825	\$22,060	\$87,551	\$6,135	\$4,501	10.25%	\$6,625	92.60%
	7.00%	3.50%	\$59,825	\$22,060	\$89,694	\$6,599	\$4,842	11.03%	\$6,625	99.60%
	7.50%	4.00%	\$59,825	\$22,060	\$91,895	\$7,089	\$5,202	11.85%	\$6,625	107.00%
	8.25%	4.75%	\$59,825	\$22,060	\$95,312	\$7,878	\$5,780	13.17%	\$6,625	118.90%
	8.75%	5.25%	\$59,825	\$22,060	\$97,668	\$8,440	\$6,193	14.11%	\$6,625	127.39%
14.00%	4.50%	1.00%	\$59,825	\$22,060	\$85,657	\$4,877	\$3,579	8.15%	\$6,625	73.61%
	5.50%	2.00%	\$59,825	\$22,060	\$89,854	\$5,691	\$4,175	9.51%	\$6,625	85.89%
	6.00%	2.50%	\$59,825	\$22,060	\$92,040	\$6,135	\$4,502	10.26%	\$6,625	92.60%
	6.50%	3.00%	\$59,825	\$22,060	\$94,286	\$6,607	\$4,848	11.04%	\$6,625	99.72%
	7.00%	3.50%	\$59,825	\$22,060	\$96,393	\$7,106	\$5,214	11.88%	\$6,625	107.26%
	7.50%	4.00%	\$59,825	\$22,060	\$98,964	\$7,635	\$5,602	12.76%	\$6,625	115.23%
	8.25%	4.75%	\$59,825	\$22,060	\$102,643	\$8,484	\$6,225	14.18%	\$6,625	128.05%
	8.75%	5.25%	\$59,825	\$22,060	\$105,181	\$9,089	\$6,669	15.19%	\$6,625	137.19%
14.50%	4.50%	1.00%	\$59,825	\$22,060	\$88,716	\$5,052	\$3,706	8.44%	\$6,625	76.24%
	5.50%	2.00%	\$59,825	\$22,060	\$93,063	\$5,894	\$4,325	9.85%	\$6,625	88.96%
	6.00%	2.50%	\$59,825	\$22,060	\$95,327	\$6,355	\$4,663	10.62%	\$6,625	95.91%
	6.50%	3.00%	\$59,825	\$22,060	\$97,653	\$6,843	\$5,021	11.44%	\$6,625	103.28%
	7.00%	3.50%	\$59,825	\$22,060	\$100,043	\$7,360	\$5,400	12.30%	\$6,625	111.09%
	7.50%	4.00%	\$59,825	\$22,060	\$102,499	\$7,907	\$5,802	13.22%	\$6,625	119.35%
	8.25%	4.75%	\$59,825	\$22,060	\$106,309	\$8,787	\$6,447	14.69%	\$6,625	132.62%
	8.75%	5.25%	\$59,825	\$22,060	\$108,937	\$9,414	\$6,907	15.74%	\$6,625	142.09%

PERS

Age at Hire: 25  
 Age at Retirement: 55  
 Years of Service: 20

Life Exp: 23.8  
 Salary: \$ 39,128  
 Inflation: 3.50%

High Five: \$82,001

25 Yrs Old - 20 Yrs Service  
 Early Retire

Contribution Level	Total Return	Real Return	Final Salary		Account Balance at Termination	Beginning Annuity		Annuity as % of Final Salary	Existing PERS Pension Benefit	DC vs DB
			Term Yr	PV 2004		Term Yr	PV 2004			
11.50%	4.50%	1.00%	\$88,556	\$32,655	\$215,681	\$12,281	\$6,388	13.87%	\$20,841	58.93%
	5.50%	2.00%	\$88,556	\$32,655	\$237,775	\$15,059	\$7,833	17.00%	\$20,841	72.26%
	6.00%	2.50%	\$88,556	\$32,655	\$249,849	\$16,655	\$8,663	18.81%	\$20,841	79.92%
	6.50%	3.00%	\$88,556	\$32,655	\$252,666	\$18,406	\$9,574	20.78%	\$20,841	88.32%
	7.00%	3.50%	\$88,556	\$32,655	\$276,276	\$20,326	\$10,572	22.95%	\$20,841	97.53%
	7.50%	4.00%	\$88,556	\$32,655	\$290,729	\$22,428	\$11,666	25.33%	\$20,841	107.62%
	8.25%	4.75%	\$88,556	\$32,655	\$314,111	\$25,962	\$13,504	29.32%	\$20,841	124.58%
	8.75%	5.25%	\$88,556	\$32,655	\$330,920	\$28,597	\$14,875	32.29%	\$20,841	137.22%
12.50%	4.50%	1.00%	\$88,556	\$32,655	\$234,436	\$13,349	\$6,943	15.07%	\$20,841	64.05%
	5.50%	2.00%	\$88,556	\$32,655	\$258,452	\$16,368	\$8,514	18.48%	\$20,841	78.54%
	6.00%	2.50%	\$88,556	\$32,655	\$271,575	\$18,103	\$9,417	20.44%	\$20,841	86.87%
	6.50%	3.00%	\$88,556	\$32,655	\$285,507	\$20,007	\$10,407	22.59%	\$20,841	96.00%
	7.00%	3.50%	\$88,556	\$32,655	\$300,300	\$22,093	\$11,492	24.95%	\$20,841	106.01%
	7.50%	4.00%	\$88,556	\$32,655	\$316,009	\$24,379	\$12,681	27.53%	\$20,841	116.98%
	8.25%	4.75%	\$88,556	\$32,655	\$341,425	\$28,220	\$14,679	31.87%	\$20,841	135.41%
	8.75%	5.25%	\$88,556	\$32,655	\$359,696	\$31,084	\$16,168	35.10%	\$20,841	149.15%
13.00%	4.50%	1.00%	\$88,556	\$32,655	\$243,814	\$13,883	\$7,221	15.68%	\$20,841	66.61%
	5.50%	2.00%	\$88,556	\$32,655	\$268,790	\$17,023	\$8,855	19.22%	\$20,841	81.68%
	6.00%	2.50%	\$88,556	\$32,655	\$282,438	\$18,827	\$9,793	21.26%	\$20,841	90.34%
	6.50%	3.00%	\$88,556	\$32,655	\$296,927	\$20,807	\$10,823	23.50%	\$20,841	99.84%
	7.00%	3.50%	\$88,556	\$32,655	\$312,312	\$22,977	\$11,951	25.95%	\$20,841	110.25%
	7.50%	4.00%	\$88,556	\$32,655	\$328,650	\$25,354	\$13,188	28.63%	\$20,841	121.66%
	8.25%	4.75%	\$88,556	\$32,655	\$355,082	\$29,349	\$15,266	33.14%	\$20,841	140.83%
	8.75%	5.25%	\$88,556	\$32,655	\$374,084	\$32,327	\$16,815	36.51%	\$20,841	155.12%
14.00%	4.50%	1.00%	\$88,556	\$32,655	\$262,568	\$14,951	\$7,777	16.88%	\$20,841	71.74%
	5.50%	2.00%	\$88,556	\$32,655	\$289,466	\$18,332	\$9,536	20.70%	\$20,841	87.97%
	6.00%	2.50%	\$88,556	\$32,655	\$304,164	\$20,276	\$10,547	22.90%	\$20,841	97.29%
	6.50%	3.00%	\$88,556	\$32,655	\$319,768	\$22,407	\$11,655	25.30%	\$20,841	107.52%
	7.00%	3.50%	\$88,556	\$32,655	\$336,336	\$24,744	\$12,871	27.94%	\$20,841	118.73%
	7.50%	4.00%	\$88,556	\$32,655	\$353,931	\$27,304	\$14,202	30.83%	\$20,841	131.01%
	8.25%	4.75%	\$88,556	\$32,655	\$382,396	\$31,606	\$16,440	35.69%	\$20,841	151.66%
	8.75%	5.25%	\$88,556	\$32,655	\$402,859	\$34,814	\$18,109	39.31%	\$20,841	167.05%
14.50%	4.50%	1.00%	\$88,556	\$32,655	\$271,946	\$15,485	\$8,054	17.49%	\$20,841	74.30%
	5.50%	2.00%	\$88,556	\$32,655	\$299,804	\$18,987	\$9,876	21.44%	\$20,841	91.11%
	6.00%	2.50%	\$88,556	\$32,655	\$315,027	\$21,000	\$10,923	23.71%	\$20,841	100.76%
	6.50%	3.00%	\$88,556	\$32,655	\$331,188	\$23,208	\$12,072	26.21%	\$20,841	111.36%
	7.00%	3.50%	\$88,556	\$32,655	\$348,348	\$25,628	\$13,330	28.94%	\$20,841	122.97%
	7.50%	4.00%	\$88,556	\$32,655	\$366,571	\$28,279	\$14,710	31.93%	\$20,841	135.69%
	8.25%	4.75%	\$88,556	\$32,655	\$396,053	\$32,735	\$17,027	36.97%	\$20,841	157.07%
	8.75%	5.25%	\$88,556	\$32,655	\$417,247	\$36,057	\$18,755	40.72%	\$20,841	173.02%

PERS

Age at Hire: 25  
 Age at Retirement: 55  
 Years of Service: 30

Life Exp: 23.8  
 Salary: \$ 39,128  
 Inflation: 3.50%

High Five: \$121,381

25 Yrs Old - 30 Yrs Service  
 Normal Retire at 55

Contribution Level	Total Return	Real Return	Final Salary		Account Balance at Termination	Beginning Annuity		Annuity as % of Final Salary	Existing PERS Pension Benefit	DC vs DB
			Term Yr	PV 2004		Term Yr	PV 2004			
11.50%	4.50%	1.00%	\$131,084	\$48,337	\$492,463	\$28,041	\$10,340	21.39%	\$82,296	34.07%
	5.50%	2.00%	\$131,084	\$48,337	\$571,497	\$36,194	\$13,347	27.61%	\$82,296	43.98%
	6.00%	2.50%	\$131,084	\$48,337	\$616,860	\$41,120	\$15,163	31.37%	\$82,296	49.97%
	6.50%	3.00%	\$131,084	\$48,337	\$666,669	\$46,716	\$17,226	35.64%	\$82,296	56.77%
	7.00%	3.50%	\$131,084	\$48,337	\$721,391	\$53,073	\$19,570	40.49%	\$82,296	64.49%
	7.50%	4.00%	\$131,084	\$48,337	\$781,542	\$60,293	\$22,233	46.00%	\$82,296	73.26%
	8.25%	4.75%	\$131,084	\$48,337	\$883,216	\$73,001	\$26,919	55.69%	\$82,296	88.71%
	8.75%	5.25%	\$131,084	\$48,337	\$959,576	\$82,924	\$30,578	63.26%	\$82,296	100.76%
12.50%	4.50%	1.00%	\$131,084	\$48,337	\$535,286	\$30,479	\$11,239	23.25%	\$82,296	37.04%
	5.50%	2.00%	\$131,084	\$48,337	\$621,192	\$39,341	\$14,507	30.01%	\$82,296	47.80%
	6.00%	2.50%	\$131,084	\$48,337	\$670,500	\$44,696	\$16,482	34.10%	\$82,296	54.31%
	6.50%	3.00%	\$131,084	\$48,337	\$724,641	\$50,778	\$18,724	38.74%	\$82,296	61.70%
	7.00%	3.50%	\$131,084	\$48,337	\$784,121	\$57,688	\$21,272	44.01%	\$82,296	70.10%
	7.50%	4.00%	\$131,084	\$48,337	\$849,502	\$65,535	\$24,166	49.99%	\$82,296	79.63%
	8.25%	4.75%	\$131,084	\$48,337	\$960,017	\$79,349	\$29,260	60.53%	\$82,296	96.42%
	8.75%	5.25%	\$131,084	\$48,337	\$1,043,017	\$90,135	\$33,237	68.76%	\$82,296	109.53%
13.00%	4.50%	1.00%	\$131,084	\$48,337	\$556,697	\$31,698	\$11,689	24.18%	\$82,296	38.52%
	5.50%	2.00%	\$131,084	\$48,337	\$646,040	\$40,915	\$15,087	31.21%	\$82,296	49.72%
	6.00%	2.50%	\$131,084	\$48,337	\$697,320	\$46,484	\$17,141	35.46%	\$82,296	56.48%
	6.50%	3.00%	\$131,084	\$48,337	\$753,626	\$52,809	\$19,473	40.29%	\$82,296	64.17%
	7.00%	3.50%	\$131,084	\$48,337	\$815,486	\$59,995	\$22,123	45.77%	\$82,296	72.90%
	7.50%	4.00%	\$131,084	\$48,337	\$883,483	\$68,157	\$25,133	51.99%	\$82,296	82.82%
	8.25%	4.75%	\$131,084	\$48,337	\$998,418	\$82,523	\$30,430	62.95%	\$82,296	100.28%
	8.75%	5.25%	\$131,084	\$48,337	\$1,084,738	\$93,740	\$34,567	71.51%	\$82,296	113.91%
14.00%	4.50%	1.00%	\$131,084	\$48,337	\$599,520	\$34,137	\$12,588	26.04%	\$82,296	41.48%
	5.50%	2.00%	\$131,084	\$48,337	\$695,735	\$44,062	\$16,248	33.61%	\$82,296	53.54%
	6.00%	2.50%	\$131,084	\$48,337	\$750,960	\$50,059	\$18,459	38.19%	\$82,296	60.83%
	6.50%	3.00%	\$131,084	\$48,337	\$811,597	\$56,872	\$20,971	43.39%	\$82,296	69.11%
	7.00%	3.50%	\$131,084	\$48,337	\$878,215	\$64,610	\$23,825	49.29%	\$82,296	78.51%
	7.50%	4.00%	\$131,084	\$48,337	\$951,443	\$73,400	\$27,066	55.99%	\$82,296	89.19%
	8.25%	4.75%	\$131,084	\$48,337	\$1,075,219	\$88,871	\$32,771	67.80%	\$82,296	107.99%
	8.75%	5.25%	\$131,084	\$48,337	\$1,168,180	\$100,951	\$37,225	77.01%	\$82,296	122.67%
14.50%	4.50%	1.00%	\$131,084	\$48,337	\$620,931	\$35,356	\$13,037	26.97%	\$82,296	42.96%
	5.50%	2.00%	\$131,084	\$48,337	\$720,583	\$45,636	\$16,828	34.81%	\$82,296	55.45%
	6.00%	2.50%	\$131,084	\$48,337	\$777,780	\$51,847	\$19,119	39.55%	\$82,296	63.00%
	6.50%	3.00%	\$131,084	\$48,337	\$840,583	\$58,903	\$21,720	44.94%	\$82,296	71.57%
	7.00%	3.50%	\$131,084	\$48,337	\$909,580	\$66,918	\$24,676	51.05%	\$82,296	81.31%
	7.50%	4.00%	\$131,084	\$48,337	\$985,423	\$76,021	\$28,033	57.99%	\$82,296	92.38%
	8.25%	4.75%	\$131,084	\$48,337	\$1,113,620	\$92,045	\$33,941	70.22%	\$82,296	111.85%
	8.75%	5.25%	\$131,084	\$48,337	\$1,209,900	\$104,556	\$38,555	79.76%	\$82,296	127.05%

PERS

Age at Hire: 30  
 Age at Retirement: 55  
 Years of Service: 20

Life Exp: 23.8  
 Salary: \$ 43,823  
 Inflation: 3.50%

High Five: \$91,840

30 Yrs Old - 20 Yrs Service  
 Early Retire

Contribution Level	Total Return	Real Return	Final Salary		Account Balance at Termination	Beginning Annuity		Annully as % of Final Salary	Existing PERS Pension Benefit	DC vs DB
			Term Yr	PV 2004		Term Yr	PV 2004			
11.50%	4.50%	1.00%	\$99,182	\$43,437	\$241,561	\$13,754	\$7,154	13.87%	\$23,341	58.93%
	5.50%	2.00%	\$99,182	\$43,437	\$256,306	\$16,866	\$8,773	17.00%	\$23,341	72.26%
	6.00%	2.50%	\$99,182	\$43,437	\$279,828	\$18,653	\$9,703	18.81%	\$23,341	79.92%
	6.50%	3.00%	\$99,182	\$43,437	\$294,184	\$20,615	\$10,723	20.78%	\$23,341	88.32%
	7.00%	3.50%	\$99,182	\$43,437	\$309,426	\$22,764	\$11,841	22.95%	\$23,341	97.53%
	7.50%	4.00%	\$99,182	\$43,437	\$325,613	\$25,120	\$13,066	25.33%	\$23,341	107.62%
	8.25%	4.75%	\$99,182	\$43,437	\$351,801	\$29,078	\$15,125	29.32%	\$23,341	124.58%
	8.75%	5.25%	\$99,182	\$43,437	\$370,627	\$32,029	\$16,660	32.29%	\$23,341	137.22%
12.50%	4.50%	1.00%	\$99,182	\$43,437	\$262,566	\$14,951	\$7,777	15.07%	\$23,341	64.05%
	5.50%	2.00%	\$99,182	\$43,437	\$289,463	\$18,332	\$9,536	18.48%	\$23,341	78.54%
	6.00%	2.50%	\$99,182	\$43,437	\$304,161	\$20,276	\$10,546	20.44%	\$23,341	86.87%
	6.50%	3.00%	\$99,182	\$43,437	\$319,765	\$22,407	\$11,655	22.59%	\$23,341	96.00%
	7.00%	3.50%	\$99,182	\$43,437	\$336,333	\$24,744	\$12,871	24.95%	\$23,341	106.01%
	7.50%	4.00%	\$99,182	\$43,437	\$353,928	\$27,304	\$14,202	27.53%	\$23,341	116.98%
	8.25%	4.75%	\$99,182	\$43,437	\$382,392	\$31,606	\$16,440	31.87%	\$23,341	135.41%
	8.75%	5.25%	\$99,182	\$43,437	\$402,856	\$34,814	\$18,109	35.10%	\$23,341	149.15%
13.00%	4.50%	1.00%	\$99,182	\$43,437	\$273,069	\$15,549	\$8,088	15.68%	\$23,341	66.61%
	5.50%	2.00%	\$99,182	\$43,437	\$301,042	\$19,066	\$9,917	19.22%	\$23,341	81.68%
	6.00%	2.50%	\$99,182	\$43,437	\$316,328	\$21,087	\$10,968	21.26%	\$23,341	90.34%
	6.50%	3.00%	\$99,182	\$43,437	\$332,555	\$23,303	\$12,121	23.50%	\$23,341	99.84%
	7.00%	3.50%	\$99,182	\$43,437	\$349,786	\$25,734	\$13,386	25.95%	\$23,341	110.25%
	7.50%	4.00%	\$99,182	\$43,437	\$368,085	\$28,396	\$14,770	28.63%	\$23,341	121.66%
	8.25%	4.75%	\$99,182	\$43,437	\$397,688	\$32,870	\$17,098	33.14%	\$23,341	140.83%
	8.75%	5.25%	\$99,182	\$43,437	\$418,970	\$36,206	\$18,833	36.51%	\$23,341	155.12%
14.00%	4.50%	1.00%	\$99,182	\$43,437	\$294,074	\$16,745	\$8,710	16.88%	\$23,341	71.74%
	5.50%	2.00%	\$99,182	\$43,437	\$324,199	\$20,532	\$10,680	20.70%	\$23,341	87.97%
	6.00%	2.50%	\$99,182	\$43,437	\$340,661	\$22,709	\$11,812	22.90%	\$23,341	97.29%
	6.50%	3.00%	\$99,182	\$43,437	\$358,137	\$25,095	\$13,054	25.30%	\$23,341	107.52%
	7.00%	3.50%	\$99,182	\$43,437	\$376,693	\$27,713	\$14,415	27.94%	\$23,341	118.73%
	7.50%	4.00%	\$99,182	\$43,437	\$396,399	\$30,580	\$15,907	30.83%	\$23,341	131.02%
	8.25%	4.75%	\$99,182	\$43,437	\$428,280	\$35,399	\$18,413	35.69%	\$23,341	151.66%
	8.75%	5.25%	\$99,182	\$43,437	\$451,199	\$38,991	\$20,282	39.31%	\$23,341	167.05%
14.50%	4.50%	1.00%	\$99,182	\$43,437	\$304,577	\$17,343	\$9,021	17.49%	\$23,341	74.30%
	5.50%	2.00%	\$99,182	\$43,437	\$335,777	\$21,266	\$11,061	21.44%	\$23,341	91.11%
	6.00%	2.50%	\$99,182	\$43,437	\$352,827	\$23,520	\$12,234	23.71%	\$23,341	100.77%
	6.50%	3.00%	\$99,182	\$43,437	\$370,927	\$25,992	\$13,520	26.21%	\$23,341	111.36%
	7.00%	3.50%	\$99,182	\$43,437	\$390,146	\$28,703	\$14,930	28.94%	\$23,341	122.97%
	7.50%	4.00%	\$99,182	\$43,437	\$410,556	\$31,673	\$16,475	31.93%	\$23,341	135.70%
	8.25%	4.75%	\$99,182	\$43,437	\$443,575	\$36,663	\$19,071	36.97%	\$23,341	157.08%
	8.75%	5.25%	\$99,182	\$43,437	\$467,313	\$40,384	\$21,006	40.72%	\$23,341	173.02%

TRS

Age at Hire: 25  
 Age at Retirement: 55  
 Years of Service: 10

Life Exp: 23.8  
 Salary: \$ 35,284 ASD Teacher BA Step 1  
 Inflation: 3.50%

Three High \$ 51,899

25 Yrs Old - 10 Yrs Service  
 Early Retire

Contribution Level	Total Return	Real Return	Final Salary		Account Balance at Termination	Beginning Annuity		Annully as % of Final Salary	Existing TRS Pension Benefit	DC vs DB
			Term Yr	PV 2004		Term Yr	PV 2004			
11.50%	4.50%	1.00%	\$53,948	\$19,893	\$63,449	\$3,613	\$2,651	6.70%	\$6,207	58.20%
	5.50%	2.00%	\$53,948	\$19,893	\$66,558	\$4,215	\$3,093	7.81%	\$6,207	67.91%
	6.00%	2.50%	\$53,948	\$19,893	\$68,177	\$4,545	\$3,335	8.42%	\$6,207	73.22%
	6.50%	3.00%	\$53,948	\$19,893	\$69,840	\$4,894	\$3,591	9.07%	\$6,207	78.84%
	7.00%	3.50%	\$53,948	\$19,893	\$71,549	\$5,264	\$3,862	9.76%	\$6,207	84.80%
	7.50%	4.00%	\$53,948	\$19,893	\$73,306	\$5,655	\$4,149	10.48%	\$6,207	91.11%
	8.25%	4.75%	\$53,948	\$19,893	\$76,031	\$6,284	\$4,611	11.65%	\$6,207	101.24%
	8.75%	5.25%	\$53,948	\$19,893	\$77,910	\$6,733	\$4,940	12.48%	\$6,207	108.47%
12.50%	4.50%	1.00%	\$53,948	\$19,893	\$68,966	\$3,927	\$2,881	7.28%	\$6,207	63.26%
	5.50%	2.00%	\$53,948	\$19,893	\$72,345	\$4,582	\$3,362	8.49%	\$6,207	73.81%
	6.00%	2.50%	\$53,948	\$19,893	\$74,105	\$4,940	\$3,625	9.16%	\$6,207	79.58%
	6.50%	3.00%	\$53,948	\$19,893	\$75,913	\$5,320	\$3,903	9.86%	\$6,207	85.70%
	7.00%	3.50%	\$53,948	\$19,893	\$77,771	\$5,722	\$4,198	10.61%	\$6,207	92.18%
	7.50%	4.00%	\$53,948	\$19,893	\$79,680	\$6,147	\$4,510	11.39%	\$6,207	99.03%
	8.25%	4.75%	\$53,948	\$19,893	\$82,642	\$6,831	\$5,012	12.66%	\$6,207	110.05%
	8.75%	5.25%	\$53,948	\$19,893	\$84,685	\$7,318	\$5,370	13.57%	\$6,207	117.90%
13.00%	4.50%	1.00%	\$53,948	\$19,893	\$71,725	\$4,084	\$2,997	7.57%	\$6,207	65.79%
	5.50%	2.00%	\$53,948	\$19,893	\$75,239	\$4,765	\$3,496	8.83%	\$6,207	76.77%
	6.00%	2.50%	\$53,948	\$19,893	\$77,069	\$5,137	\$3,770	9.52%	\$6,207	82.77%
	6.50%	3.00%	\$53,948	\$19,893	\$78,950	\$5,532	\$4,059	10.25%	\$6,207	89.13%
	7.00%	3.50%	\$53,948	\$19,893	\$80,882	\$5,950	\$4,366	11.03%	\$6,207	95.86%
	7.50%	4.00%	\$53,948	\$19,893	\$82,867	\$6,393	\$4,691	11.85%	\$6,207	102.99%
	8.25%	4.75%	\$53,948	\$19,893	\$85,948	\$7,104	\$5,212	13.17%	\$6,207	114.45%
	8.75%	5.25%	\$53,948	\$19,893	\$88,073	\$7,611	\$5,584	14.11%	\$6,207	122.62%
14.00%	4.50%	1.00%	\$53,948	\$19,893	\$77,242	\$4,398	\$3,227	8.15%	\$6,207	70.86%
	5.50%	2.00%	\$53,948	\$19,893	\$81,027	\$5,132	\$3,765	9.51%	\$6,207	82.67%
	6.00%	2.50%	\$53,948	\$19,893	\$82,998	\$5,533	\$4,059	10.26%	\$6,207	89.13%
	6.50%	3.00%	\$53,948	\$19,893	\$85,023	\$5,958	\$4,371	11.04%	\$6,207	95.98%
	7.00%	3.50%	\$53,948	\$19,893	\$87,104	\$6,408	\$4,702	11.88%	\$6,207	103.24%
	7.50%	4.00%	\$53,948	\$19,893	\$89,242	\$6,885	\$5,051	12.76%	\$6,207	110.91%
	8.25%	4.75%	\$53,948	\$19,893	\$92,560	\$7,650	\$5,613	14.18%	\$6,207	123.25%
	8.75%	5.25%	\$53,948	\$19,893	\$94,848	\$8,196	\$6,014	15.19%	\$6,207	132.05%
14.50%	4.50%	1.00%	\$53,948	\$19,893	\$80,001	\$4,555	\$3,342	8.44%	\$6,207	73.39%
	5.50%	2.00%	\$53,948	\$19,893	\$83,921	\$5,315	\$3,900	9.85%	\$6,207	85.62%
	6.00%	2.50%	\$53,948	\$19,893	\$85,962	\$5,730	\$4,204	10.62%	\$6,207	92.32%
	6.50%	3.00%	\$53,948	\$19,893	\$88,059	\$6,171	\$4,528	11.44%	\$6,207	99.41%
	7.00%	3.50%	\$53,948	\$19,893	\$90,215	\$6,637	\$4,870	12.30%	\$6,207	106.93%
	7.50%	4.00%	\$53,948	\$19,893	\$92,429	\$7,131	\$5,232	13.22%	\$6,207	114.88%
	8.25%	4.75%	\$53,948	\$19,893	\$95,865	\$7,924	\$5,814	14.69%	\$6,207	127.65%
	8.75%	5.25%	\$53,948	\$19,893	\$98,235	\$8,489	\$6,229	15.74%	\$6,207	136.76%

TRS

Age at Hire: 25  
 Age at Retirement: 55  
 Years of Service: 15

Life Exp: 23.8  
 Salary: \$ 35,284  
 Inflation: 3.50%

ASD Teacher BA Step 1

Three High \$ 63,144

25 Yrs Old 15 Yrs Service  
 Early Retire

Contribution Level	Total Return	Real Return	Final Salary		Account Balance at Termination	Beginning Annuity		Annuity as % of Final Salary	Existing TRS Pension Benefit	DC vs DB
			Term Yr	PV, 2004		Term Yr	PV 2004			
11.50%	4.50%	1.00%	\$65,636	\$24,203	\$118,031	\$6,721	\$4,152	10.24%	\$11,328	59.33%
	5.50%	2.00%	\$65,636	\$24,203	\$126,902	\$8,037	\$4,965	12.24%	\$11,328	70.95%
	6.00%	2.50%	\$65,636	\$24,203	\$131,633	\$8,775	\$5,421	13.37%	\$11,328	77.46%
	6.50%	3.00%	\$65,636	\$24,203	\$136,573	\$9,570	\$5,912	14.58%	\$11,328	84.48%
	7.00%	3.50%	\$65,636	\$24,203	\$141,733	\$10,427	\$6,442	15.89%	\$11,328	92.05%
	7.50%	4.00%	\$65,636	\$24,203	\$147,121	\$11,350	\$7,012	17.29%	\$11,328	100.19%
	8.25%	4.75%	\$65,636	\$24,203	\$155,657	\$12,866	\$7,948	19.60%	\$11,328	113.57%
	8.75%	5.25%	\$65,636	\$24,203	\$161,665	\$13,971	\$8,631	21.29%	\$11,328	123.33%
12.50%	4.50%	1.00%	\$65,636	\$24,203	\$128,295	\$7,305	\$4,513	11.13%	\$11,328	64.49%
	5.50%	2.00%	\$65,636	\$24,203	\$137,937	\$8,736	\$5,397	13.31%	\$11,328	77.12%
	6.00%	2.50%	\$65,636	\$24,203	\$143,079	\$9,538	\$5,892	14.53%	\$11,328	84.20%
	6.50%	3.00%	\$65,636	\$24,203	\$148,449	\$10,402	\$6,426	15.85%	\$11,328	91.83%
	7.00%	3.50%	\$65,636	\$24,203	\$154,057	\$11,334	\$7,002	17.27%	\$11,328	100.05%
	7.50%	4.00%	\$65,636	\$24,203	\$159,915	\$12,337	\$7,621	18.80%	\$11,328	108.91%
	8.25%	4.75%	\$65,636	\$24,203	\$169,192	\$13,904	\$8,639	21.31%	\$11,328	123.45%
	8.75%	5.25%	\$65,636	\$24,203	\$175,722	\$15,185	\$9,381	23.14%	\$11,328	134.05%
13.00%	4.50%	1.00%	\$65,636	\$24,203	\$133,427	\$7,597	\$4,693	11.57%	\$11,328	67.07%
	5.50%	2.00%	\$65,636	\$24,203	\$143,454	\$9,085	\$5,613	13.84%	\$11,328	80.20%
	6.00%	2.50%	\$65,636	\$24,203	\$148,802	\$9,919	\$6,128	15.11%	\$11,328	87.56%
	6.50%	3.00%	\$65,636	\$24,203	\$154,387	\$10,819	\$6,683	16.48%	\$11,328	95.50%
	7.00%	3.50%	\$65,636	\$24,203	\$160,220	\$11,787	\$7,282	17.96%	\$11,328	104.06%
	7.50%	4.00%	\$65,636	\$24,203	\$166,311	\$12,830	\$7,926	19.55%	\$11,328	112.26%
	8.25%	4.75%	\$65,636	\$24,203	\$175,960	\$14,544	\$8,985	22.10%	\$11,328	128.39%
	8.75%	5.25%	\$65,636	\$24,203	\$182,751	\$15,793	\$9,757	24.06%	\$11,328	139.41%
14.00%	4.50%	1.00%	\$65,636	\$24,203	\$143,690	\$8,182	\$5,055	12.47%	\$11,328	72.23%
	5.50%	2.00%	\$65,636	\$24,203	\$154,489	\$9,784	\$6,044	14.91%	\$11,328	86.37%
	6.00%	2.50%	\$65,636	\$24,203	\$160,249	\$10,682	\$6,599	16.28%	\$11,328	94.30%
	6.50%	3.00%	\$65,636	\$24,203	\$166,263	\$11,651	\$7,198	17.75%	\$11,328	102.85%
	7.00%	3.50%	\$65,636	\$24,203	\$172,544	\$12,694	\$7,842	19.34%	\$11,328	112.06%
	7.50%	4.00%	\$65,636	\$24,203	\$179,104	\$13,817	\$8,536	21.05%	\$11,328	121.97%
	8.25%	4.75%	\$65,636	\$24,203	\$189,495	\$15,662	\$9,676	23.86%	\$11,328	138.26%
	8.75%	5.25%	\$65,636	\$24,203	\$196,809	\$17,008	\$10,507	25.91%	\$11,328	150.14%
14.50%	4.50%	1.00%	\$65,636	\$24,203	\$148,822	\$8,474	\$5,235	12.91%	\$11,328	74.81%
	5.50%	2.00%	\$65,636	\$24,203	\$160,006	\$10,134	\$6,260	15.44%	\$11,328	89.46%
	6.00%	2.50%	\$65,636	\$24,203	\$165,972	\$11,064	\$6,835	16.86%	\$11,328	97.67%
	6.50%	3.00%	\$65,636	\$24,203	\$172,201	\$12,067	\$7,455	18.38%	\$11,328	106.52%
	7.00%	3.50%	\$65,636	\$24,203	\$178,707	\$13,147	\$8,122	20.03%	\$11,328	116.06%
	7.50%	4.00%	\$65,636	\$24,203	\$185,501	\$14,311	\$8,841	21.80%	\$11,328	126.33%
	8.25%	4.75%	\$65,636	\$24,203	\$196,263	\$16,222	\$10,022	24.71%	\$11,328	143.20%
	8.75%	5.25%	\$65,636	\$24,203	\$203,838	\$17,615	\$10,882	26.84%	\$11,328	155.50%

TRS

Age at Hire: 25  
 Age at Retirement: 55  
 Years of Service: 20

Life Exp: 23.8  
 Salary: \$ 35,284  
 Inflation: 3.50%

Three High \$ 76,824

25 Yrs Old - 10 Yrs Service  
 Early Retire

Contribution Level	Total Return	Real Return	Final Salary		Account Balance at Termination	Beginning Annuity		Annuity as % of Final Salary	Existing TRS Pension Benefit	DC vs DB
			Term Yr	PV 2004		Term Yr	PV 2004			
11.50%	4.50%	1.00%	\$79,856	\$29,447	\$194,492	\$11,074	\$5,760	13.87%	\$18,376	60.26%
	5.50%	2.00%	\$79,856	\$29,447	\$214,416	\$13,579	\$7,063	17.00%	\$18,376	73.90%
	6.00%	2.50%	\$79,856	\$29,447	\$225,303	\$15,019	\$7,812	18.81%	\$18,376	81.73%
	6.50%	3.00%	\$79,856	\$29,447	\$236,861	\$16,598	\$8,633	20.78%	\$18,376	90.32%
	7.00%	3.50%	\$79,856	\$29,447	\$249,134	\$18,329	\$9,534	22.95%	\$18,376	99.74%
	7.50%	4.00%	\$79,856	\$29,447	\$262,167	\$20,225	\$10,520	25.33%	\$18,376	110.06%
	8.25%	4.75%	\$79,856	\$29,447	\$283,252	\$23,412	\$12,178	29.32%	\$18,376	127.40%
	8.75%	5.25%	\$79,856	\$29,447	\$298,410	\$25,788	\$13,414	32.00%	\$18,376	140.33%
12.50%	4.50%	1.00%	\$79,856	\$29,447	\$211,405	\$12,037	\$6,261	15.07%	\$18,376	65.51%
	5.50%	2.00%	\$79,856	\$29,447	\$233,061	\$14,760	\$7,678	18.48%	\$18,376	80.32%
	6.00%	2.50%	\$79,856	\$29,447	\$244,895	\$16,325	\$8,491	20.44%	\$18,376	88.84%
	6.50%	3.00%	\$79,856	\$29,447	\$257,458	\$18,041	\$9,384	22.59%	\$18,376	98.18%
	7.00%	3.50%	\$79,856	\$29,447	\$270,798	\$19,923	\$10,363	24.95%	\$18,376	108.41%
	7.50%	4.00%	\$79,856	\$29,447	\$284,964	\$21,984	\$11,435	27.53%	\$18,376	119.63%
	8.25%	4.75%	\$79,856	\$29,447	\$307,883	\$25,448	\$13,237	31.87%	\$18,376	138.48%
	8.75%	5.25%	\$79,856	\$29,447	\$324,359	\$28,030	\$14,580	35.10%	\$18,376	152.53%
13.00%	4.50%	1.00%	\$79,856	\$29,447	\$219,861	\$12,519	\$6,512	15.68%	\$18,376	68.13%
	5.50%	2.00%	\$79,856	\$29,447	\$242,383	\$15,351	\$7,985	19.22%	\$18,376	83.54%
	6.00%	2.50%	\$79,856	\$29,447	\$254,691	\$16,978	\$8,831	21.26%	\$18,376	92.39%
	6.50%	3.00%	\$79,856	\$29,447	\$267,756	\$18,763	\$9,760	23.50%	\$18,376	102.10%
	7.00%	3.50%	\$79,856	\$29,447	\$281,630	\$20,719	\$10,777	25.95%	\$18,376	112.75%
	7.50%	4.00%	\$79,856	\$29,447	\$296,363	\$22,863	\$11,892	28.63%	\$18,376	124.42%
	8.25%	4.75%	\$79,856	\$29,447	\$320,198	\$26,465	\$13,766	33.14%	\$18,376	144.02%
	8.75%	5.25%	\$79,856	\$29,447	\$337,333	\$29,151	\$15,163	36.51%	\$18,376	158.64%
14.00%	4.50%	1.00%	\$79,856	\$29,447	\$236,773	\$13,482	\$7,013	16.88%	\$18,376	73.37%
	5.50%	2.00%	\$79,856	\$29,447	\$261,028	\$16,531	\$8,599	20.70%	\$18,376	89.96%
	6.00%	2.50%	\$79,856	\$29,447	\$274,282	\$18,284	\$9,510	22.90%	\$18,376	99.50%
	6.50%	3.00%	\$79,856	\$29,447	\$288,353	\$20,206	\$10,510	25.30%	\$18,376	109.96%
	7.00%	3.50%	\$79,856	\$29,447	\$303,293	\$22,313	\$11,606	27.94%	\$18,376	121.42%
	7.50%	4.00%	\$79,856	\$29,447	\$319,160	\$24,622	\$12,807	30.83%	\$18,376	133.99%
	8.25%	4.75%	\$79,856	\$29,447	\$344,828	\$28,501	\$14,825	35.69%	\$18,376	155.10%
	8.75%	5.25%	\$79,856	\$29,447	\$363,282	\$31,394	\$16,330	39.31%	\$18,376	170.84%
14.50%	4.50%	1.00%	\$79,856	\$29,447	\$245,229	\$13,963	\$7,263	17.49%	\$18,376	75.99%
	5.50%	2.00%	\$79,856	\$29,447	\$270,351	\$17,122	\$8,906	21.44%	\$18,376	93.17%
	6.00%	2.50%	\$79,856	\$29,447	\$284,070	\$18,937	\$9,850	23.71%	\$18,376	103.05%
	6.50%	3.00%	\$79,856	\$29,447	\$298,651	\$20,928	\$10,886	26.21%	\$18,376	113.88%
	7.00%	3.50%	\$79,856	\$29,447	\$314,125	\$23,110	\$12,021	28.94%	\$18,376	125.76%
	7.50%	4.00%	\$79,856	\$29,447	\$330,558	\$25,501	\$13,265	31.93%	\$18,376	138.77%
	8.25%	4.75%	\$79,856	\$29,447	\$357,144	\$29,519	\$15,355	36.97%	\$18,376	160.64%
	8.75%	5.25%	\$79,856	\$29,447	\$376,256	\$32,515	\$16,913	40.72%	\$18,376	176.94%

TRS Age at Hire:   
 Age at Retirement:   
 Years of Service:

Life Exp: 23.8  
 Salary: \$ 53,948 TRS Average Salary  
 Inflation: 3.50%

Three High \$ 117,461

30 Yrs Old - 20 Yrs Service  
 Normal Retire at 50

Contribution Level	Total Return	Real Return	Final Salary		Account Balance at Termination	Beginning Annuity		Annuity as % of Final Salary	Existing TRS Pension Benefit	DC vs PB
			Term Yr	PV 2004		Term Yr	PV 2004			
11.50%	4.50%	1.00%	\$122,097	\$53,473	\$297,372	\$16,932	\$8,807	13.87%	\$28,097	50.26%
	5.50%	2.00%	\$122,097	\$53,473	\$327,834	\$20,762	\$10,800	17.00%	\$28,097	73.90%
	6.00%	2.50%	\$122,097	\$53,473	\$344,481	\$22,963	\$11,944	18.81%	\$28,097	81.73%
	6.50%	3.00%	\$122,097	\$53,473	\$362,153	\$25,377	\$13,200	20.78%	\$28,097	90.32%
	7.00%	3.50%	\$122,097	\$53,473	\$380,917	\$28,024	\$14,577	22.95%	\$28,097	99.74%
	7.50%	4.00%	\$122,097	\$53,473	\$400,844	\$30,923	\$16,085	25.33%	\$28,097	110.06%
	8.25%	4.75%	\$122,097	\$53,473	\$433,082	\$35,796	\$18,619	29.32%	\$28,097	127.40%
	8.75%	5.25%	\$122,097	\$53,473	\$456,258	\$39,429	\$20,509	32.29%	\$28,097	140.33%
12.50%	4.50%	1.00%	\$122,097	\$53,473	\$323,230	\$18,405	\$9,573	15.07%	\$28,097	65.51%
	5.50%	2.00%	\$122,097	\$53,473	\$356,342	\$22,568	\$11,739	18.48%	\$28,097	80.32%
	6.00%	2.50%	\$122,097	\$53,473	\$374,436	\$24,960	\$12,983	20.44%	\$28,097	88.84%
	6.50%	3.00%	\$122,097	\$53,473	\$393,644	\$27,584	\$14,348	22.59%	\$28,097	98.18%
	7.00%	3.50%	\$122,097	\$53,473	\$414,040	\$30,461	\$15,844	24.95%	\$28,097	108.41%
	7.50%	4.00%	\$122,097	\$53,473	\$435,700	\$33,612	\$17,484	27.53%	\$28,097	119.63%
	8.25%	4.75%	\$122,097	\$53,473	\$470,742	\$38,908	\$20,238	31.87%	\$28,097	138.48%
	8.75%	5.25%	\$122,097	\$53,473	\$495,933	\$42,857	\$22,292	35.10%	\$28,097	152.53%
13.00%	4.50%	1.00%	\$122,097	\$53,473	\$336,160	\$19,141	\$9,956	15.68%	\$28,097	68.13%
	5.50%	2.00%	\$122,097	\$53,473	\$370,595	\$23,471	\$12,208	19.22%	\$28,097	83.54%
	6.00%	2.50%	\$122,097	\$53,473	\$389,413	\$25,958	\$13,502	21.26%	\$28,097	92.39%
	6.50%	3.00%	\$122,097	\$53,473	\$409,390	\$28,688	\$14,922	23.50%	\$28,097	102.10%
	7.00%	3.50%	\$122,097	\$53,473	\$430,602	\$31,679	\$16,478	25.95%	\$28,097	112.75%
	7.50%	4.00%	\$122,097	\$53,473	\$453,128	\$34,957	\$18,183	28.63%	\$28,097	124.42%
	8.25%	4.75%	\$122,097	\$53,473	\$489,571	\$40,465	\$21,048	33.14%	\$28,097	144.02%
	8.75%	5.25%	\$122,097	\$53,473	\$515,770	\$44,572	\$23,184	36.51%	\$28,097	158.64%
14.00%	4.50%	1.00%	\$122,097	\$53,473	\$362,018	\$20,613	\$10,722	16.88%	\$28,097	73.37%
	5.50%	2.00%	\$122,097	\$53,473	\$399,103	\$25,276	\$13,147	20.70%	\$28,097	89.96%
	6.00%	2.50%	\$122,097	\$53,473	\$419,368	\$27,955	\$14,541	22.90%	\$28,097	99.50%
	6.50%	3.00%	\$122,097	\$53,473	\$440,882	\$30,894	\$16,070	25.30%	\$28,097	109.96%
	7.00%	3.50%	\$122,097	\$53,473	\$463,725	\$34,116	\$17,746	27.94%	\$28,097	121.42%
	7.50%	4.00%	\$122,097	\$53,473	\$487,984	\$37,646	\$19,582	30.83%	\$28,097	133.99%
	8.25%	4.75%	\$122,097	\$53,473	\$527,231	\$43,577	\$22,667	35.69%	\$28,097	155.10%
	8.75%	5.25%	\$122,097	\$53,473	\$555,445	\$48,000	\$24,968	39.31%	\$28,097	170.84%
14.50%	4.50%	1.00%	\$122,097	\$53,473	\$374,947	\$21,350	\$11,105	17.49%	\$28,097	75.99%
	5.50%	2.00%	\$122,097	\$53,473	\$413,356	\$26,179	\$13,617	21.44%	\$28,097	93.17%
	6.00%	2.50%	\$122,097	\$53,473	\$434,345	\$28,954	\$15,060	23.71%	\$28,097	103.05%
	6.50%	3.00%	\$122,097	\$53,473	\$456,627	\$31,998	\$16,644	26.21%	\$28,097	113.88%
	7.00%	3.50%	\$122,097	\$53,473	\$480,287	\$35,335	\$18,379	28.94%	\$28,097	125.76%
	7.50%	4.00%	\$122,097	\$53,473	\$505,412	\$38,990	\$20,281	31.93%	\$28,097	138.77%
	8.25%	4.75%	\$122,097	\$53,473	\$546,060	\$45,134	\$23,477	36.97%	\$28,097	160.64%
	8.75%	5.25%	\$122,097	\$53,473	\$575,282	\$49,714	\$25,859	40.72%	\$28,097	176.94%

Pol/Fire Age at Hire: 

25
55
10

  
 Age at Retirement: 

55
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 Years of Service: 

10
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Life Exp: 23.8  
 Salary: \$ 49,412  
 Inflation: 3.50%

High Three \$ 72,680

25 Yrs Old - 10 Yrs Service  
 Early Retire

Contribution Level	Total Return	Real Return	Final Salary		Account Balance at Termination	Beginning Annuity		Annuity as % of Final Salary	Existing PERS Pension Benefit	DC vs DB
			Term Yr	PV 2004		Term Yr	PV 2004			
11.50%	4.50%	1.00%	\$75,549	\$27,859	\$88,854	\$5,059	\$3,712	6.70%	\$8,693	58.20%
	5.50%	2.00%	\$75,549	\$27,859	\$93,208	\$5,903	\$4,331	7.81%	\$8,693	67.91%
	6.00%	2.50%	\$75,549	\$27,859	\$95,475	\$6,364	\$4,670	8.42%	\$8,693	73.22%
	6.50%	3.00%	\$75,549	\$27,859	\$97,805	\$6,854	\$5,029	9.07%	\$8,693	78.84%
	7.00%	3.50%	\$75,549	\$27,859	\$100,198	\$7,372	\$5,409	9.76%	\$8,693	84.80%
	7.50%	4.00%	\$75,549	\$27,859	\$102,658	\$7,920	\$5,811	10.48%	\$8,693	91.11%
	8.25%	4.75%	\$75,549	\$27,859	\$106,475	\$8,800	\$6,457	11.65%	\$8,693	101.24%
	8.75%	5.25%	\$75,549	\$27,859	\$109,106	\$9,429	\$6,918	12.48%	\$8,693	108.47%
12.50%	4.50%	1.00%	\$111,831	\$41,237	\$296,053	\$16,857	\$8,768	15.07%	\$25,734	65.51%
	5.50%	2.00%	\$111,831	\$41,237	\$326,380	\$20,670	\$10,752	18.48%	\$25,734	80.32%
	6.00%	2.50%	\$111,831	\$41,237	\$342,953	\$22,861	\$11,891	20.44%	\$25,734	88.84%
	6.50%	3.00%	\$111,831	\$41,237	\$360,546	\$25,265	\$13,142	22.59%	\$25,734	98.18%
	7.00%	3.50%	\$111,831	\$41,237	\$379,227	\$27,900	\$14,512	24.95%	\$25,734	108.41%
	7.50%	4.00%	\$111,831	\$41,237	\$399,066	\$30,786	\$16,014	27.53%	\$25,734	119.63%
	8.25%	4.75%	\$111,831	\$41,237	\$431,161	\$35,637	\$18,537	31.87%	\$25,734	138.48%
	8.75%	5.25%	\$111,831	\$41,237	\$454,235	\$39,254	\$20,418	35.10%	\$25,734	152.53%
13.00%	4.50%	1.00%	\$75,549	\$27,859	\$100,444	\$5,719	\$4,196	7.57%	\$8,693	65.79%
	5.50%	2.00%	\$75,549	\$27,859	\$105,366	\$6,673	\$4,896	8.83%	\$8,693	76.77%
	6.00%	2.50%	\$75,549	\$27,859	\$107,929	\$7,195	\$5,279	9.52%	\$8,693	82.77%
	6.50%	3.00%	\$75,549	\$27,859	\$110,562	\$7,748	\$5,685	10.25%	\$8,693	89.13%
	7.00%	3.50%	\$75,549	\$27,859	\$113,268	\$8,333	\$6,114	11.03%	\$8,693	95.86%
	7.50%	4.00%	\$75,549	\$27,859	\$116,048	\$8,953	\$6,569	11.85%	\$8,693	102.99%
	8.25%	4.75%	\$75,549	\$27,859	\$120,363	\$9,948	\$7,299	13.17%	\$8,693	114.45%
	8.75%	5.25%	\$75,549	\$27,859	\$123,338	\$10,659	\$7,820	14.11%	\$8,693	122.62%
14.00%	4.50%	1.00%	\$75,549	\$27,859	\$108,170	\$6,159	\$4,519	8.15%	\$8,693	70.86%
	5.50%	2.00%	\$75,549	\$27,859	\$113,471	\$7,186	\$5,273	9.51%	\$8,693	82.67%
	6.00%	2.50%	\$75,549	\$27,859	\$116,231	\$7,748	\$5,685	10.26%	\$8,693	89.13%
	6.50%	3.00%	\$75,549	\$27,859	\$119,067	\$8,343	\$6,122	11.04%	\$8,693	95.98%
	7.00%	3.50%	\$75,549	\$27,859	\$121,981	\$8,974	\$6,585	11.88%	\$8,693	103.24%
	7.50%	4.00%	\$75,549	\$27,859	\$124,975	\$9,641	\$7,074	12.76%	\$8,693	110.91%
	8.25%	4.75%	\$75,549	\$27,859	\$129,621	\$10,714	\$7,861	14.18%	\$8,693	123.25%
	8.75%	5.25%	\$75,549	\$27,859	\$132,825	\$11,478	\$8,422	15.19%	\$8,693	132.05%
14.50%	4.50%	1.00%	\$75,549	\$27,859	\$112,034	\$6,379	\$4,681	8.44%	\$8,693	73.39%
	5.50%	2.00%	\$75,549	\$27,859	\$117,523	\$7,443	\$5,461	9.85%	\$8,693	85.62%
	6.00%	2.50%	\$75,549	\$27,859	\$120,382	\$8,025	\$5,888	10.62%	\$8,693	92.32%
	6.50%	3.00%	\$75,549	\$27,859	\$123,319	\$8,641	\$6,340	11.44%	\$8,693	99.41%
	7.00%	3.50%	\$75,549	\$27,859	\$126,337	\$9,295	\$6,820	12.30%	\$8,693	106.93%
	7.50%	4.00%	\$75,549	\$27,859	\$129,438	\$9,986	\$7,327	13.22%	\$8,693	114.88%
	8.25%	4.75%	\$75,549	\$27,859	\$134,250	\$11,096	\$8,142	14.69%	\$8,693	127.65%
	8.75%	5.25%	\$75,549	\$27,859	\$137,569	\$11,883	\$8,723	15.74%	\$8,693	136.76%

Pc/Fire

Age at Hire: 25  
 Age at Retirement: 50  
 Years of Service: 20

Life Exp: 23.8  
 Salary: \$ 49,412  
 Inflation: 3.50%

High Three \$ 107,585

25 Yrs Old - 20 Yrs Service  
 Normal Retire 45

Contribution Level	Total Return	Real Return	Final Salary		Account Balance at Termination	Beginning Annuity		Annuity as % of Final Salary	Existing PERS Pension Benefit	DC vs DB
			Term Yr	PV 2004		Term Yr	PV 2004			
11.50%	4.50%	1.00%	\$111,831	\$41,237	\$272,369	\$15,509	\$8,067	13.87%	\$48,413	32.03%
	5.50%	2.00%	\$111,831	\$41,237	\$300,270	\$19,017	\$9,892	17.00%	\$48,413	39.28%
	6.00%	2.50%	\$111,831	\$41,237	\$315,517	\$21,032	\$10,940	18.81%	\$48,413	43.44%
	6.50%	3.00%	\$111,831	\$41,237	\$331,703	\$23,244	\$12,090	20.78%	\$48,413	48.01%
	7.00%	3.50%	\$111,831	\$41,237	\$348,889	\$25,668	\$13,351	22.95%	\$48,413	53.02%
	7.50%	4.00%	\$111,831	\$41,237	\$367,141	\$28,323	\$14,733	25.33%	\$48,413	58.50%
	8.25%	4.75%	\$111,831	\$41,237	\$396,669	\$32,786	\$17,054	29.32%	\$48,413	67.72%
	8.75%	5.25%	\$111,831	\$41,237	\$417,896	\$36,113	\$18,785	32.29%	\$48,413	74.59%
12.50%	4.50%	1.00%	\$111,831	\$41,237	\$296,053	\$16,857	\$8,768	15.07%	\$48,413	34.82%
	5.50%	2.00%	\$111,831	\$41,237	\$326,380	\$20,670	\$10,752	18.48%	\$48,413	42.70%
	6.00%	2.50%	\$111,831	\$41,237	\$342,953	\$22,861	\$11,891	20.44%	\$48,413	47.22%
	6.50%	3.00%	\$111,831	\$41,237	\$360,546	\$25,265	\$13,142	22.59%	\$48,413	52.19%
	7.00%	3.50%	\$111,831	\$41,237	\$379,227	\$27,900	\$14,512	24.95%	\$48,413	57.63%
	7.50%	4.00%	\$111,831	\$41,237	\$399,066	\$30,786	\$16,014	27.53%	\$48,413	63.59%
	8.25%	4.75%	\$111,831	\$41,237	\$431,161	\$35,637	\$18,537	31.87%	\$48,413	73.61%
	8.75%	5.25%	\$111,831	\$41,237	\$454,235	\$39,254	\$20,418	35.10%	\$48,413	81.08%
13.00%	4.50%	1.00%	\$111,831	\$41,237	\$307,895	\$17,532	\$9,119	15.66%	\$48,413	36.21%
	5.50%	2.00%	\$111,831	\$41,237	\$339,435	\$21,497	\$11,182	19.22%	\$48,413	44.40%
	6.00%	2.50%	\$111,831	\$41,237	\$356,671	\$23,776	\$12,367	21.26%	\$48,413	49.11%
	6.50%	3.00%	\$111,831	\$41,237	\$374,968	\$26,275	\$13,667	23.50%	\$48,413	54.27%
	7.00%	3.50%	\$111,831	\$41,237	\$394,396	\$29,016	\$15,093	25.95%	\$48,413	59.93%
	7.50%	4.00%	\$111,831	\$41,237	\$415,029	\$32,018	\$16,654	28.63%	\$48,413	66.13%
	8.25%	4.75%	\$111,831	\$41,237	\$448,408	\$37,062	\$19,278	33.14%	\$48,413	76.55%
	8.75%	5.25%	\$111,831	\$41,237	\$472,404	\$40,824	\$21,235	36.51%	\$48,413	84.32%
14.00%	4.50%	1.00%	\$111,831	\$41,237	\$331,579	\$18,880	\$9,821	16.88%	\$48,413	39.00%
	5.50%	2.00%	\$111,831	\$41,237	\$365,546	\$23,151	\$12,042	20.70%	\$48,413	47.82%
	6.00%	2.50%	\$111,831	\$41,237	\$384,107	\$25,605	\$13,318	22.90%	\$48,413	52.89%
	6.50%	3.00%	\$111,831	\$41,237	\$403,812	\$28,297	\$14,719	25.30%	\$48,413	58.45%
	7.00%	3.50%	\$111,831	\$41,237	\$424,735	\$31,248	\$16,254	27.94%	\$48,413	64.54%
	7.50%	4.00%	\$111,831	\$41,237	\$446,954	\$34,481	\$17,935	30.83%	\$48,413	71.22%
	8.25%	4.75%	\$111,831	\$41,237	\$482,901	\$39,913	\$20,761	35.69%	\$48,413	82.44%
	8.75%	5.25%	\$111,831	\$41,237	\$508,743	\$43,964	\$22,868	39.31%	\$48,413	90.81%
14.50%	4.50%	1.00%	\$111,831	\$41,237	\$343,421	\$19,554	\$10,171	17.49%	\$48,413	40.39%
	5.50%	2.00%	\$111,831	\$41,237	\$378,601	\$23,978	\$12,472	21.44%	\$48,413	49.53%
	6.00%	2.50%	\$111,831	\$41,237	\$397,825	\$26,519	\$13,794	23.71%	\$48,413	54.78%
	6.50%	3.00%	\$111,831	\$41,237	\$418,234	\$29,307	\$15,244	26.21%	\$48,413	60.54%
	7.00%	3.50%	\$111,831	\$41,237	\$439,874	\$32,364	\$16,834	28.94%	\$48,413	66.85%
	7.50%	4.00%	\$111,831	\$41,237	\$462,917	\$35,712	\$18,576	31.93%	\$48,413	73.77%
	8.25%	4.75%	\$111,831	\$41,237	\$500,147	\$41,339	\$21,503	36.97%	\$48,413	85.39%
	8.75%	5.25%	\$111,831	\$41,237	\$526,912	\$45,534	\$23,685	40.72%	\$48,413	94.05%

Pol/Fire Age at Hire: 

25
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 Age at Retirement: 

50
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 Years of Service: 

25
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Life Exp: 23.8  
 Salary: 

\$ 49,412
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 Inflation: 

3.50%
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High Three 

\$ 130,893
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25 Yrs Old - 25 Yrs Service  
 Normal Retire 50

Contribution Level	Total Return	Real Return	Final Salary		Account Balance at Termination	Beginning Annuity		Annuity as % of Final Salary	Existing PERS Pension Benefit	DC vs DB
			Term Yr	FV 2004		Term Yr	PV 2004			
11.50%	4.50%	1.00%	\$136,059	\$50,172	\$420,188	\$23,926	\$10,478	17.58%	\$75,264	31.79%
	5.50%	2.00%	\$136,059	\$50,172	\$475,179	\$30,094	\$13,180	22.12%	\$75,264	39.98%
	6.00%	2.50%	\$136,059	\$50,172	\$505,973	\$33,728	\$14,772	24.79%	\$75,264	44.81%
	6.50%	3.00%	\$136,059	\$50,172	\$539,216	\$37,785	\$16,548	27.77%	\$75,264	50.20%
	7.00%	3.50%	\$136,059	\$50,172	\$575,115	\$42,311	\$18,530	31.10%	\$75,264	56.22%
	7.50%	4.00%	\$136,059	\$50,172	\$613,896	\$47,359	\$20,741	34.81%	\$75,264	62.92%
	8.25%	4.75%	\$136,059	\$50,172	\$678,010	\$56,040	\$24,543	41.19%	\$75,264	74.46%
	8.75%	5.25%	\$136,059	\$50,172	\$725,109	\$62,662	\$27,443	46.05%	\$75,264	83.26%
12.50%	4.50%	1.00%	\$136,059	\$50,172	\$456,726	\$26,006	\$11,390	19.11%	\$75,264	34.55%
	5.50%	2.00%	\$136,059	\$50,172	\$516,499	\$32,711	\$14,326	24.04%	\$75,264	43.46%
	6.00%	2.50%	\$136,059	\$50,172	\$549,971	\$36,661	\$16,056	26.95%	\$75,264	48.71%
	6.50%	3.00%	\$136,059	\$50,172	\$586,104	\$41,071	\$17,987	30.19%	\$75,264	54.57%
	7.00%	3.50%	\$136,059	\$50,172	\$625,125	\$45,990	\$20,142	33.80%	\$75,264	61.11%
	7.50%	4.00%	\$136,059	\$50,172	\$667,278	\$51,478	\$22,545	37.83%	\$75,264	68.40%
	8.25%	4.75%	\$136,059	\$50,172	\$736,967	\$60,913	\$26,677	44.77%	\$75,264	80.93%
	8.75%	5.25%	\$136,059	\$50,172	\$788,162	\$68,111	\$29,830	50.06%	\$75,264	90.50%
13.00%	4.50%	1.00%	\$136,059	\$50,172	\$474,995	\$27,046	\$11,845	19.88%	\$75,264	35.94%
	5.50%	2.00%	\$136,059	\$50,172	\$537,158	\$34,019	\$14,899	25.00%	\$75,264	45.20%
	6.00%	2.50%	\$136,059	\$50,172	\$571,969	\$38,128	\$16,698	28.02%	\$75,264	50.66%
	6.50%	3.00%	\$136,059	\$50,172	\$609,549	\$42,713	\$18,707	31.39%	\$75,264	56.75%
	7.00%	3.50%	\$136,059	\$50,172	\$650,130	\$47,830	\$20,947	35.15%	\$75,264	63.55%
	7.50%	4.00%	\$136,059	\$50,172	\$693,970	\$53,537	\$23,447	39.35%	\$75,264	71.13%
	8.25%	4.75%	\$136,059	\$50,172	\$766,446	\$63,349	\$27,744	46.56%	\$75,264	84.17%
	8.75%	5.25%	\$136,059	\$50,172	\$819,688	\$70,835	\$31,023	50.06%	\$75,264	94.12%
14.00%	4.50%	1.00%	\$136,059	\$50,172	\$511,533	\$29,127	\$12,756	21.00%	\$75,264	38.70%
	5.50%	2.00%	\$136,059	\$50,172	\$578,478	\$36,636	\$16,045	26.90%	\$75,264	48.68%
	6.00%	2.50%	\$136,059	\$50,172	\$615,967	\$41,061	\$17,983	30.18%	\$75,264	54.56%
	6.50%	3.00%	\$136,059	\$50,172	\$656,437	\$45,999	\$20,146	33.81%	\$75,264	61.12%
	7.00%	3.50%	\$136,059	\$50,172	\$700,141	\$51,509	\$22,559	37.86%	\$75,264	68.44%
	7.50%	4.00%	\$136,059	\$50,172	\$747,352	\$57,655	\$25,250	42.37%	\$75,264	76.60%
	8.25%	4.75%	\$136,059	\$50,172	\$825,403	\$68,222	\$29,879	50.14%	\$75,264	90.64%
	8.75%	5.25%	\$136,059	\$50,172	\$882,741	\$76,284	\$33,409	56.07%	\$75,264	101.36%
14.50%	4.50%	1.00%	\$136,059	\$50,172	\$529,802	\$30,167	\$13,212	22.17%	\$75,264	40.08%
	5.50%	2.00%	\$136,059	\$50,172	\$599,138	\$37,945	\$16,618	27.89%	\$75,264	50.42%
	6.00%	2.50%	\$136,059	\$50,172	\$637,966	\$42,527	\$18,625	31.26%	\$75,264	56.50%
	6.50%	3.00%	\$136,059	\$50,172	\$679,881	\$47,642	\$20,865	35.02%	\$75,264	63.30%
	7.00%	3.50%	\$136,059	\$50,172	\$725,146	\$53,349	\$23,364	39.21%	\$75,264	70.88%
	7.50%	4.00%	\$136,059	\$50,172	\$774,043	\$59,714	\$26,152	43.89%	\$75,264	79.34%
	8.25%	4.75%	\$136,059	\$50,172	\$854,882	\$70,659	\$30,946	51.93%	\$75,264	93.88%
	8.75%	5.25%	\$136,059	\$50,172	\$914,268	\$79,009	\$34,602	58.07%	\$75,264	104.98%

Pol/Fire

Ago at Hire: 30  
 Age at Retirement: 50  
 Years of Service: 20

Life Exp: 23.8  
 Salary: \$ 60,237  
 Inflation: 3.50%

High Three \$ 131,154

30 Yrs Old - 20 Yrs Service  
 Normal Retire 50

Contribution Level	Total Return	Real Return	Final Salary		Account Balance at Termination	Beginning Annuity		Annuity as % of Final Salary	Existing PERS Pension Benefit	DC vs DB
			Term Yr	PV 2004		Term Yr	PV 2004			
11.50%	4.50%	1.00%	\$136,330	\$59,707	\$332,038	\$18,906	\$9,834	13.87%	\$61,349	30.82%
	5.50%	2.00%	\$136,330	\$59,707	\$366,052	\$23,183	\$12,059	17.00%	\$61,349	37.79%
	6.00%	2.50%	\$136,330	\$59,707	\$384,639	\$25,640	\$13,337	18.81%	\$61,349	41.79%
	6.50%	3.00%	\$136,330	\$59,707	\$404,371	\$28,336	\$14,739	20.78%	\$61,349	46.19%
	7.00%	3.50%	\$136,330	\$59,707	\$425,322	\$31,291	\$16,276	22.95%	\$61,349	51.00%
	7.50%	4.00%	\$136,330	\$59,707	\$447,573	\$34,528	\$17,960	25.33%	\$61,349	56.28%
	8.25%	4.75%	\$136,330	\$59,707	\$483,569	\$39,969	\$20,790	29.32%	\$61,349	65.15%
	8.75%	5.25%	\$136,330	\$59,707	\$509,447	\$44,025	\$22,900	32.29%	\$61,349	71.76%
12.50%	4.50%	1.00%	\$136,330	\$59,707	\$360,911	\$20,550	\$10,689	15.07%	\$61,349	33.50%
	5.50%	2.00%	\$136,330	\$59,707	\$397,882	\$25,199	\$13,107	18.48%	\$61,349	41.07%
	6.00%	2.50%	\$136,330	\$59,707	\$418,086	\$27,870	\$14,497	20.44%	\$61,349	45.43%
	6.50%	3.00%	\$136,330	\$59,707	\$439,534	\$30,800	\$16,021	22.59%	\$61,349	50.20%
	7.00%	3.50%	\$136,330	\$59,707	\$462,307	\$34,012	\$17,691	24.95%	\$61,349	55.44%
	7.50%	4.00%	\$136,330	\$59,707	\$486,492	\$37,531	\$19,522	27.53%	\$61,349	61.18%
	8.25%	4.75%	\$136,330	\$59,707	\$525,618	\$43,444	\$22,598	31.87%	\$61,349	70.81%
	8.75%	5.25%	\$136,330	\$59,707	\$553,747	\$47,853	\$24,891	35.10%	\$61,349	78.00%
13.00%	4.50%	1.00%	\$136,330	\$59,707	\$375,347	\$21,372	\$11,117	15.68%	\$61,349	34.84%
	5.50%	2.00%	\$136,330	\$59,707	\$413,798	\$26,207	\$13,632	19.22%	\$61,349	42.72%
	6.00%	2.50%	\$136,330	\$59,707	\$434,809	\$28,985	\$15,076	21.26%	\$61,349	47.25%
	6.50%	3.00%	\$136,330	\$59,707	\$457,115	\$32,032	\$16,662	23.50%	\$61,349	52.21%
	7.00%	3.50%	\$136,330	\$59,707	\$480,799	\$35,372	\$18,399	25.95%	\$61,349	57.66%
	7.50%	4.00%	\$136,330	\$59,707	\$505,952	\$39,032	\$20,303	28.63%	\$61,349	63.62%
	8.25%	4.75%	\$136,330	\$59,707	\$546,643	\$45,182	\$23,502	33.14%	\$61,349	73.65%
	8.75%	5.25%	\$136,330	\$59,707	\$575,896	\$49,767	\$25,887	36.51%	\$61,349	81.12%
14.00%	4.50%	1.00%	\$136,330	\$59,707	\$404,220	\$23,016	\$11,972	16.88%	\$61,349	37.52%
	5.50%	2.00%	\$136,330	\$59,707	\$445,628	\$28,223	\$14,680	20.70%	\$61,349	46.00%
	6.00%	2.50%	\$136,330	\$59,707	\$468,256	\$31,214	\$16,236	22.90%	\$61,349	50.88%
	6.50%	3.00%	\$136,330	\$59,707	\$492,273	\$34,496	\$17,943	25.30%	\$61,349	56.23%
	7.00%	3.50%	\$136,330	\$59,707	\$517,734	\$38,093	\$19,814	27.94%	\$61,349	62.09%
	7.50%	4.00%	\$136,330	\$59,707	\$544,971	\$42,034	\$21,864	30.83%	\$61,349	68.52%
	8.25%	4.75%	\$136,330	\$59,707	\$588,693	\$48,658	\$25,309	35.69%	\$61,349	79.31%
	8.75%	5.25%	\$136,330	\$59,707	\$620,196	\$53,596	\$27,878	39.31%	\$61,349	87.36%
14.50%	4.50%	1.00%	\$136,330	\$59,707	\$418,657	\$23,838	\$12,400	17.49%	\$61,349	38.86%
	5.50%	2.00%	\$136,330	\$59,707	\$461,544	\$29,231	\$15,204	21.44%	\$61,349	47.65%
	6.00%	2.50%	\$136,330	\$59,707	\$484,979	\$32,329	\$16,816	23.71%	\$61,349	52.70%
	6.50%	3.00%	\$136,330	\$59,707	\$509,859	\$35,728	\$18,584	26.21%	\$61,349	58.24%
	7.00%	3.50%	\$136,330	\$59,707	\$536,276	\$39,454	\$20,522	28.94%	\$61,349	64.31%
	7.50%	4.00%	\$136,330	\$59,707	\$564,331	\$43,536	\$22,645	31.93%	\$61,349	70.96%
	8.25%	4.75%	\$136,330	\$59,707	\$609,717	\$50,395	\$26,213	36.97%	\$61,349	82.15%
	8.75%	5.25%	\$136,330	\$59,707	\$642,346	\$55,510	\$28,874	40.72%	\$61,349	90.48%

## 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



# Retirement Security Act

*SB 141*

*Danman Tope*

*Health Reimbursement Arrangement*

**April 2<sup>nd</sup>, 2005**



Alaska State Legislature  
*Senate Finance Committee*



## 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 to employer and employee
- Employer-determined flexible plan design  
(*contributions, covered expenses, termination provisions*)





## Alaska plan-specific design

- Employer contributes 1% of the average employer group compensation -- maximum \$500
- 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





## Alaska plan-specific design continued

- Total Reimbursements limited to member's individual account balance until exhausted
- Terminated employees forfeit rights to individual account
  - Individual account reinstated if person returns to work within 5 years
  - Account balance restored as of date of termination (accrues no additional interest)
- Employer may use surplus funds held in the trust for future credit to individual employee accounts





## Who is eligible for reimbursements?

- Members of the DC plan who meet the age and/or service requirements for medical benefits under AS 14.25.480 or AS 39.35.880
  - ▶ 25 years of service for peace officers/firefighters; 30 years of service all others; OR
  - ▶ age 65 and have at least 10 years of service
- Surviving spouse of an eligible member
- Dependent children of an eligible member if both the member and surviving spouse have died





## Benefits payable

- Monthly 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) of
  - an eligible member, member's spouse and dependent children
  - a surviving spouse of a qualified member and the member's dependent children if dependent on the surviving spouse





# Projected individual account balances

- 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%, \$500 cap	1% no cap	1.5% no cap	2.0% no cap	2.5% no cap	3.5% no cap
2016	10	\$6,549	\$6,611	\$9,917	\$13,223	\$16,528	\$23,140
2021	15	\$12,804	\$13,535	\$20,303	\$27,071	\$33,838	\$47,374
2026	20	\$22,102	\$24,631	\$36,946	\$49,251	\$61,577	\$86,207
2031	25	\$39,407	\$42,100	\$63,150	\$84,200	\$105,250	\$147,350
2036	30	\$56,465	\$69,256	\$103,884	\$138,513	\$173,141	\$242,397

Interest: 6.00%		Projected HRA Account Balances					
Fiscal Year	Years of Service	SB 141					
		1%, \$500 cap	1% no cap	1.5% no cap	2.0% no cap	2.5% no cap	3.5% no cap
2016	10	\$5,867	\$5,928	\$8,893	\$11,857	\$14,821	\$20,749
2021	15	\$10,755	\$11,446	\$17,169	\$22,893	\$28,616	\$40,062
2026	20	\$17,296	\$19,592	\$29,387	\$39,183	\$49,219	\$68,571
2031	25	\$26,048	\$31,418	\$47,127	\$62,835	\$78,544	\$109,962
2036	30	\$37,762	\$48,370	\$72,555	\$96,741	\$120,926	\$169,296

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

**HRA Contributions:**  
SB 141 = 1%, \$500 cap

- Example 1: age 65, 30 yrs service, 10% 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	\$ 56,465	\$ 2,014	\$ 500	\$ 2,158	\$ 56,109
66	1	\$ 56,109	\$ 2,115	\$ 500	\$ 2,140	\$ 55,633
67	2	\$ 55,633	\$ 2,221	\$ 500	\$ 2,116	\$ 55,029
68	3	\$ 55,029	\$ 2,332	\$ 500	\$ 2,088	\$ 54,285
69	4	\$ 54,285	\$ 2,449	\$ 500	\$ 2,053	\$ 53,389
70	5	\$ 53,389	\$ 2,571	\$ 500	\$ 2,013	\$ 52,331
71	6	\$ 52,331	\$ 2,700	\$ 500	\$ 1,965	\$ 51,097
72	7	\$ 51,097	\$ 2,835	\$ 500	\$ 1,910	\$ 49,673
73	8	\$ 49,673	\$ 2,976	\$ 500	\$ 1,848	\$ 48,044
74	9	\$ 48,044	\$ 3,125	\$ 500	\$ 1,777	\$ 46,196
75	10	\$ 46,196	\$ 3,281	\$ 500	\$ 1,697	\$ 44,111
76	11	\$ 44,111	\$ 3,445	\$ 500	\$ 1,607	\$ 41,772
77	12	\$ 41,772	\$ 3,618	\$ 500	\$ 1,506	\$ 39,161
78	13	\$ 39,161	\$ 3,799	\$ 500	\$ 1,394	\$ 36,257
79	14	\$ 36,257	\$ 3,989	\$ 500	\$ 1,271	\$ 33,039
80	15	\$ 33,039	\$ 4,188	\$ 500	\$ 1,134	\$ 29,485
81	16	\$ 29,485	\$ 4,397	\$ 500	\$ 984	\$ 25,571
82	17	\$ 25,571	\$ 4,617	\$ 500	\$ 818	\$ 21,272
83	18	\$ 21,272	\$ 4,848	\$ 500	\$ 637	\$ 16,561
84	19	\$ 16,561	\$ 5,090	\$ 500	\$ 439	\$ 11,409
85	20	\$ 11,409	\$ 5,345	\$ 500	\$ 223	\$ 5,787
	21	\$ 5,787	\$ 5,612	\$ 500	\$ (13)	\$ (338)

\* 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.





# Spend down scenarios

HRA Contribution  
2.0%, no cap

- Example 2: age 65, 20 yrs service, 20% 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	\$ 49,281	\$ 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.





HRA Contributions:  
1.5%, no cap

# Spend down scenarios

- Example 3: age 65, 30 yrs service, 10% contribution

Beginning balance from table on Slide 7

Age	Years Retired	Beginning Annual Balance	Annual Health Premium	Annual Deductibles/ Expenses	Annual Interest Credited	Year End Balance
65	0	\$103,884	\$ 2,014	\$ 3,000	\$ 3,955	\$ 102,825
66	1	\$ 102,825	\$ 2,115	\$ 3,000	\$ 3,908	\$ 101,618
67	2	\$ 101,618	\$ 2,221	\$ 3,000	\$ 3,856	\$ 100,253
68	3	\$ 100,253	\$ 2,332	\$ 3,000	\$ 3,797	\$ 98,718
69	4	\$ 98,718	\$ 2,449	\$ 3,000	\$ 3,731	\$ 97,000
70	5	\$ 97,000	\$ 2,571	\$ 3,000	\$ 3,657	\$ 95,086
71	6	\$ 95,086	\$ 2,700	\$ 3,000	\$ 3,575	\$ 92,962
72	7	\$ 92,962	\$ 2,835	\$ 3,000	\$ 3,485	\$ 90,612
73	8	\$ 90,612	\$ 2,976	\$ 3,000	\$ 3,385	\$ 88,021
74	9	\$ 88,021	\$ 3,125	\$ 3,000	\$ 3,276	\$ 85,172
75	10	\$ 85,172	\$ 3,281	\$ 3,000	\$ 3,156	\$ 82,046
76	11	\$ 82,046	\$ 3,445	\$ 3,000	\$ 3,024	\$ 78,625
77	12	\$ 78,625	\$ 3,618	\$ 3,000	\$ 2,880	\$ 74,888
78	13	\$ 74,888	\$ 3,799	\$ 3,000	\$ 2,724	\$ 70,813
79	14	\$ 70,813	\$ 3,989	\$ 3,000	\$ 2,553	\$ 66,377
80	15	\$ 66,377	\$ 4,188	\$ 3,000	\$ 2,368	\$ 61,557
81	16	\$ 61,557	\$ 4,397	\$ 3,000	\$ 2,166	\$ 56,326
82	17	\$ 56,326	\$ 4,617	\$ 3,000	\$ 1,948	\$ 50,657
83	18	\$ 50,657	\$ 4,848	\$ 3,000	\$ 1,712	\$ 44,521
84	19	\$ 44,521	\$ 5,090	\$ 3,000	\$ 1,457	\$ 37,888
85	20	\$ 37,888	\$ 5,345	\$ 3,000	\$ 1,182	\$ 30,724
86	21	\$ 30,724	\$ 5,612	\$ 3,000	\$ 884	\$ 22,997
87	22	\$ 22,997	\$ 5,893	\$ 3,000	\$ 564	\$ 14,668
88	23	\$ 14,668	\$ 6,188	\$ 3,000	\$ 219	\$ 5,700
	24	\$ 5,700	\$ 6,497	\$ 3,000	\$ (152)	\$ (3,949)

\* 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.



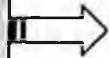


HRA Contributions:  
3.5%, no cap

# Spend down scenarios

- Example 4: age 55, 30 yrs service, pays full premiums

Beginning balance from table on Slide 7



Age	Years Retired	Beginning Annual Balance	Annual Health Premium	Annual Deductibles	Annual Interest Credited	Year End Balance
55	0	<b>\$242,397</b>	\$20,145	\$ 500	\$ 8,870	\$ 230,622
56	1	\$ 230,622	\$ 21,152	\$ 500	\$ 8,359	\$ 217,329
57	2	\$ 217,329	\$ 22,210	\$ 500	\$ 7,785	\$ 202,404
58	3	\$ 202,404	\$ 23,320	\$ 500	\$ 7,143	\$ 185,727
59	4	\$ 185,727	\$ 24,486	\$ 500	\$ 6,430	\$ 167,171
60	5	\$ 167,171	\$ 25,710	\$ 500	\$ 5,638	\$ 146,599
61	6	\$ 146,599	\$ 26,996	\$ 500	\$ 4,764	\$ 123,867
62	7	\$ 123,867	\$ 28,346	\$ 500	\$ 3,801	\$ 98,822
63	8	\$ 98,822	\$ 29,763	\$ 500	\$ 2,742	\$ 71,302
64	9	\$ 71,302	\$ 31,251	\$ 500	\$ 1,582	\$ 41,133
65	10	\$ 41,133	\$ 32,814	\$ 500	\$ 313	\$ 8,132
	11	\$ 8,132	\$ 34,454	\$ 500	\$ (1,073)	\$ (27,896)

\* 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.





# Spend down scenarios

HRA Contributions:  
3.5%, no cap

- Example 4: age 55, 30 yrs service, pays full premiums

Beginning balance from table on Slide 7

Age	Years Retired	Beginning Annual Balance	Annual Health Premium	Annual Deductibles	Annual Interest Credited	Year End Balance
55	0	\$242,397	\$20,145	\$ 500	\$ 8,870	\$ 230,622
56	1	\$ 230,622	\$ 21,152	\$ 500	\$ 8,359	\$ 217,329
57	2	\$ 217,329	\$ 22,210	\$ 500	\$ 7,785	\$ 202,404
58	3	\$ 202,404	\$ 23,320	\$ 500	\$ 7,143	\$ 185,727
59	4	\$ 185,727	\$ 24,486	\$ 500	\$ 6,430	\$ 167,171
60	5	\$ 167,171	\$ 25,710	\$ 500	\$ 5,638	\$ 146,599
61	6	\$ 146,599	\$ 26,996	\$ 500	\$ 4,764	\$ 123,867
62	7	\$ 123,867	\$ 28,346	\$ 500	\$ 3,801	\$ 98,822
63	8	\$ 98,822	\$ 29,763	\$ 500	\$ 2,742	\$ 71,302
64	9	\$ 71,302	\$ 31,251	\$ 500	\$ 1,582	\$ 41,133
65	10	\$ 41,133	\$ 3,281	\$ 500	\$ 1,494	\$ 38,845
66	11	\$ 38,845	\$ 3,445	\$ 500	\$ 1,396	\$ 36,296
67	12	\$ 36,296	\$ 3,618	\$ 500	\$ 1,287	\$ 33,465
68	13	\$ 33,465	\$ 3,799	\$ 500	\$ 1,167	\$ 30,333
69	14	\$ 30,333	\$ 3,989	\$ 500	\$ 1,034	\$ 26,879
70	15	\$ 26,879	\$ 4,188	\$ 500	\$ 888	\$ 23,078
71	16	\$ 23,078	\$ 4,397	\$ 500	\$ 727	\$ 18,908
72	17	\$ 18,908	\$ 4,617	\$ 500	\$ 552	\$ 14,343
73	18	\$ 14,343	\$ 4,848	\$ 500	\$ 360	\$ 9,354
74	19	\$ 9,354	\$ 5,090	\$ 500	\$ 151	\$ 3,914
	20	\$ 3,914	\$ 5,345	\$ 500	\$ (77)	\$ (2,008)

\* 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.





**Retirement Security  
Act**

*SB 141*

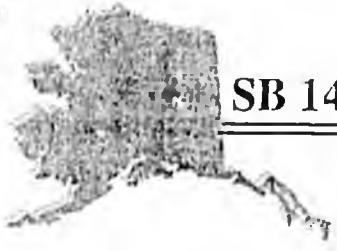
**Discussion Topic**

*Conversion Option from DB to DC*

April 2<sup>nd</sup>, 2005

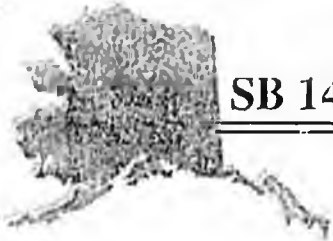


Alaska State Legislature  
*Senate Finance Committee*



Discussion: Conversion  
Option from Defined  
Benefit plan to Defined  
Contribution 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.

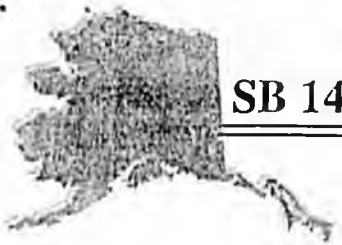




## Potential Cost to Employers

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>\$</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		
< 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		35,530,960	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>\$</b>	<b>415,096,333</b>	<b>247,462,488</b>		<b>662,558,821</b>
<b>Grand Total By Tier</b>	<b>\$</b>	<b>1,114,596,264</b>	<b>732,066,832</b>	<b>197,546,643</b>	<b>2,044,209,739</b>
					0
				Limit Conversion Option to:	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 = 23.8 years

30 Years of Member Contributions and Interest	\$ 209,269	11.48%
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	\$ 46,406.25	
Annual Benefit x Life Expectancy =	\$ 1,104,469	
Lifetime Medical Premiums	\$ 394,514	
Total Employer Benefits Payments	\$ 1,823,408	88.52%



## Memo

**Date:** April 1, 2005

**To:** Anselm Staack  
Chief Financial Officer  
Alaska Division of Retirement & Benefits

**From:** Sam. Raia and Mike Schoeberl  
Deloitte Consulting LLP

**Subject:** S.B. 141 - New PERS and TRS Operating Costs; Asset and Liability Commingle Issues

In your e-mail to us dated March 17, 2005, you requested that we review S.B. 141 and respond to five questions which you posed pertaining to the new defined contribution plans which are to be established under that proposed legislation. The provisions of S.B. 141 serve to create new defined contribution retirement plans and related medical programs for eligible employees hired on and after July 1, 2005, and to limit participation in the State's defined benefit Public Employees' Retirement System ("PERS") and Teachers' Retirement System ("TRS") to those covered employees who were hired prior to that date. The Bill also serves to create a PERS/TRS Retiree Health Reimbursement Arrangement Plan to allow medical care expenses to be reimbursed from individual saving accounts established for qualified members.

The new defined contribution plans created by S.B. 141 are intended to cover employees of Alaskan public school districts and the State of Alaska (together with employees of other specified entities who are included along with these employers), respectively, who are hired on or after the effective date of the Bill. Each of the defined contribution plans provides for mandatory employee contributions equal to 8 percent, and employer contributions equal to 3.5 percent, of the teacher's or member's compensation earned during the July 1-June 30 fiscal period. The Bill further provides for employer contributions of 3.75 percent of such compensation for the same period to be paid to the State's Group Health and Life Benefits Fund, a separate account within the State's general fund, so as to provide retiree major medical insurance for participants covered by the defined contribution plans. Finally, the Bill requires employer contributions to the PERS/TRS Retiree Health Reimbursement Arrangement Plan equal to the lesser of one percent of the employee's average annual compensation or \$500.

Our statements may be relied upon the State as consulting advice but should not be construed in any fashion as legal advice. We will respond to your questions in the order presented

**1. May the PERS and TRS Assets be used to Fund Start-Up Costs in Establishing the New Defined Contribution Plans?**

No. The PERS and TRS plan assets should not be applied toward start-up costs of the new defined contribution arrangement ("DC Plans"). Both PERS and TRS have been qualified under Code

To: Anselm Staack  
Chief Financial Officer  
Alaska Division of Retirement & Benefits  
Subject: S.B. 141 - New PERS and TRS Operating Costs; Asset and Liability Commingle Issues  
Date: April 1, 2005  
Page 2

Section 401(a). One of the requirements of that section clearly mandates that under the Plans' trust instruments, it must be "impossible, at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under the trust, for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than for the exclusive benefit [of an employer's] employees or their beneficiaries..." (Code Section 401(a)(2)). The use of PERS or TRS assets to pay the DC Plans' expenses would not be for the exclusive benefit of PERS and TRS participants and therefore would jeopardize the Plans' tax-qualified status. Loss of tax qualification would cause the contributions to the Plans and earnings thereon to become taxable to the participants.

## 2. May the DC Plans Borrow from PERS and TRS in order to Operate the Plans and be Repaid from Fees Assessed the Members in the New Plans?

It is unlikely. Code Section 503(a)(1)(B) provides that a governmental plan will not remain exempt from taxation if it engages in a prohibited transaction. The term "prohibited transaction" is defined to include any transaction in which a qualified employees' trust lends any part of its income or corpus to the creator of the organization (or an affiliate of the creator) without

- the receipt of adequate security
- a reasonable rate of interest

The Treasury Regulations define "adequate security" to mean something in addition to and supportive of the promise to pay. The pledged security must be susceptible of being sold, foreclosed upon, or otherwise disposed of in the case of a default of repayment of the loan. The value and liquidity of the security must be such that it may be reasonably anticipated that loss of principal or interest will not result from the loan (Treas. Regs. Section 1.503(b)-1(b)(1)).

Revenue Ruling 85-114 offered guidance regarding the steps that a governmental plan must take to perfect its *security interest* so as to comply with Code Sections 503(e) and 503(f). That Ruling described a loan which was made to its governmental creator. The loan was evidenced by a promissory note reflecting a reasonable rate of interest and was secured by a deed of trust on real property owned by the government. However, the deed of trust was not recorded and state law provided that the validity of such unrecorded deeds is severely restricted. The IRS held that the loan did not satisfy the conditions of either Section 503(e) or Section 503(f).

Revenue Ruling 81-145 provided elucidation on the requirement that a *reasonable rate of interest* be paid in order to avert a prohibited transaction under Code Section 503(b)(1). That Ruling described a situation where the borrower failed to pay any of the annual interest due on its loan for a period of two years and the plan trustees failed to demand payment. The IRS concluded that the effect of the trustees' failure to demand payment of the interest was to create a non-interest bearing loan in the amount of the unpaid interest, which resulted in a prohibited transaction engaged in by the plan.

Since it is unlikely that the trustees of the DC Plans would possess appropriate assets susceptible of liquidation and sufficient to secure their borrowings from the outset, it is questionable whether the requirement of adequate security contained in Code Section 503(b)(1) could be satisfied. As a practical matter, it is doubtful if such loans would be perceived in a favorable light by affected members. An alternative governmental funding source would clearly be preferable.

To: Anselm Staack  
Chief Financial Officer  
Alaska Division of Retirement & Benefits  
Subject: S.B. 141 - New PERS and TRS Operating Costs; Asset and Liability Commingle Issues  
Date: April 1, 2005  
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**3. Should the Medical Plan Covering the DC Plans' Retirees Operate Separately from the Retiree Health Fund and the DC Plans themselves?**

Yes. The Retiree Health Fund is intended to serve as a separate account pursuant to Code Section 401(h) for the reimbursement of medical expenses of retired employees, their spouses, and their dependents. As a condition for maintaining the qualification of the 401(h) accounts under PERS and TRS, respectively, it must be impossible, pursuant to Code Section 401(h)(4), for any part of the PERS or TRS Retiree Health Fund separate accounts to be "used for, or diverted to, any purpose other than the providing of such benefits" under each of the Plans. If any assets of the Retiree Health Funds are diverted to the DC Plans' participants, the qualification of PERS and TRS could be jeopardized.

The retiree medical plan for the DC Plans should likewise operate separately from the DC Plans themselves. If separate accounts are established within the DC Plans for the provision of such benefits pursuant to Code Section 401(h), the Plans would be required to ensure that retiree medical benefits at all times remain subordinate to the retirement benefits provided by the Plans. To comply with this rule, the Plans' administrator would have to monitor the cumulative contributions to ensure that the aggregate contributions for medical benefits never exceeded 25% of each Plan's aggregate contributions (Treas. Regs. Section 1.401-14(c)(1)). If the Section 401(h) requirements are not satisfied, the qualification of the DC Plans themselves would be jeopardized.

**4. Should the Medical Accounting for the PERS/TRS ("DB Plans") Medical Coverages be Integrated with the Medical Accounting for the DC Plans' Participants' Medical Coverages?**

In the following discussion, we use the definitions set forth below:

**Medical Accounting**—We are using accounting in the "recordkeeping" sense, as opposed to financial accounting (i.e., GASB). A plan is defined as having "separate medical accounting" if its assets, revenue, earnings and expenses are tracked separately from other plans and there is no ability to transfer funds directly or through a pooling mechanism.

**Fund**—The term refers to the account or trust that holds assets of the plan (or plans). Revenue is received into and payments are made from the "fund" for the operation of the plan(s).

We have researched what we believe to be the applicable Regulations and have formed our response based on this review, in conjunction with our understanding of the anticipated operation of the DC Plans' retiree programs and the above definitions. Please note that we are offering advice as your employee benefits consultant and our statements should not be construed as legal advice. Ultimately, the decision regarding the appropriate accounting procedures must be made by the State of Alaska and reviewed and approved by your auditors.

To: Anselm Staack  
Chief Financial Officer  
Alaska Division of Retirement & Benefits  
Subject: S.B. 141 - New PERS and TRS Operating Costs; Asset and Liability Commingle Issues  
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The applicable guidance for the existing Retiree Health Fund is found in Treasury Regulations Section 1.401-14, which relates to the provision of healthcare benefits (Code Section 401(h)) in a Code Section 401(a) plan. Based on our review of the Regulations and our understanding of your plans, we made the following observations:

- The Regulations require that "a separate account must be maintained with respect to contributions to fund such benefits". While the separate account is required for "recordkeeping purposes only" and "the funds in the medical benefits account need not be separately invested" from funds set aside for retirement purposes (Treas. Reg. Section 1.401-14(c)(2)), the Regulations would clearly compel that the medical accounting (as defined above) for the 401(h) benefits be separated both from the accounting for the retirement benefits within a plan and the accounting for other 401(h) arrangements outside the plan.
- It must be impossible, "at any time prior to the satisfaction of all liabilities under the plan to provide [health] benefits" for any assets of a section 401(h) account "to be . . . used for, or diverted to, any purposes other than the providing of such benefits" (Code Section 401(h)(4)). Hence, assets in the PERS and TRS accounts may not be used to make up shortfalls under any other plan, including the medical plan for DC Plans' participants.

Based on our response to Question 3 above, commingling of DC medical accounting (as defined above) with the DB Plans' Retiree Health Fund accounting would not appear to be permissible since Code Section 401(h) requires the retiree benefits provided under those plans to be separately accounted for. Furthermore the inclusion of the DC separate accounts within the Retiree Health Fund (as defined above), while not impossible in principle, would increase the risk of inadvertent diversions of assets from one plan to another, as further explained below. These two points lead us to conclude that the "medical accounting" for the DC Plans' participants can not be integrated with the DB Plans' Retiree Health Fund accounting, and that it may be advisable to maintain a separate fund for the DC plans to avoid possible errors in the use of the DB Plans' assets.

The following discussion highlights some of the critical points of future DC Plans' retirees' medical operation, which will further clarify the need to maintain and track separate accounts.

We believe that the medical benefit program for the DC Plans' retirees may not be self-sufficient and would therefore require a supplementary funding source, at least during the program's early years. In the future, when members become eligible for the program, the State will need to determine the appropriate premium rate to charge the initial retirees for their healthcare coverage. However, determining the appropriate premium rates will be problematic during the first few years of operation. The premium established will need to be high enough to adequately fund the future DC Plans' retiree medical cost, yet low enough to avoid the anti-selection concerns that would result from higher premium rates. In other words, if the premium rates are too high, only the sickest retirees will enroll, driving the premium rates even higher.

Furthermore, during the early years of operation, there will likely be small numbers of enrolled members, which will add to the volatility of the program making it difficult to maintain stable premium rates during that period. Therefore, the program may need an infusion of funds from another

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source to make the premiums low enough and stable enough to attract an appropriate population segment. As a sufficient number of retirees enter the program, there is greater likelihood that the premium could stabilize and become easier to predict. However, the program may need to be continually supplemented to guarantee that it is able to attract a sufficient number of lower cost members and avoid an anti-selection spiral. One critical question relates to the funding source that will allow these premium rates to stabilize, since it is clear that the funds cannot come from the DB Plans' Retiree Health Fund.

From a rating perspective, it may be appropriate to use the DB Plans' retiree program experience to set the initial premium rates for the DC retirees' program. If over time, however, there is a significant discrepancy in the experience of the two groups, the DC program's premiums will prove either insufficient or excessive. Either of those eventualities will require future corrective action.

Because of the difficulty of establishing premium rates and the possible necessary supplementation of program costs, it will be critical to appropriately track the DC and DB programs' experience separately. In addition, it may be critical to avoid the appearance of the DB programs supplementing the DC retiree premiums, since that may cause disputes. Ultimately, creating separate funds will reduce the possibility of the diversion of funds or the appearance of such diversion. These advantages would have to be weighed against the possible administrative complications and the possible loss of investment opportunities by separating the accounts into separate funds. We believe the State of Alaska should examine the following if it chooses to keep the separate accounts in the same fund:

- Review the adequacy of its accounting system to determine if the revenues and costs of the programs can be appropriately tracked and separated
- Discuss the proposed accounting arrangements with the State's auditor
- Develop a strategy for supplementing the initial DC rates, in the event that program experience is higher than a premium level acceptable to retirees might fund
- Develop an acceptable methodology for determining the allocation of investment income between the retiree accounts
- Appropriately define the plan terms such that they do not permit the transfer of funds between the DC plans and the DB plans

**5. May Start-Up Costs be Loaned From the Existing Health Fund to Establish the New Medical Arrangement or is Another Funding Source Preferable?**

In evaluating whether or not start-up costs may be borrowed from the Retiree Health Fund of PERS/TRS, a similar analysis as that provided in our response to Question 2 would be appropriate. Since the separate Code Section 401(h) account is required for recordkeeping purposes alone, and since the Regulations do not mandate the separation of investments from the funds set aside for retirement purposes (Treas. Reg. Section 1.401-14(c)(2)), it would appear that amounts attributable to the Retiree Health Fund could be loaned to the creator of the organization without incurring a prohibited transaction if adequate security is obtained and a reasonable rate of interest charged. For

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Chief Financial Officer  
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the reasons expressed in our response to Question 2, however, it would appear doubtful that adequate security could be provided by the new DC Plans if amounts were loaned directly to those Plans. Whether the State of Alaska itself should effect the borrowing and the manner in which the requisite security would be provided by the State should be carefully assessed from both the State's statutory and public relations standpoints.

In evaluating whether or not start-up costs may be borrowed from the Group Health and Life Benefits Fund, retirement plan qualification issues would not be presented. However, there may be equally compelling State statutory and public relations reasons for likewise avoiding this avenue as well.

If you require elaboration on any of the above responses, please do not hesitate to contact us.

cc: Melanie Millhorn  
Pat Pechacek

Employer #	Employer Name	FY 04	FY05
			7/1/04 - 12/31/04
101	STATE OF ALASKA	1576	912
102	SOUTHWEST REGION SD	23	17
103	ANNETTE ISLAND SD	11	7
104	BERING STRAIT SD	27	19
105	CHATHAM SD	5	3
106	ALASKA MUNICIPAL LEAGUE	0	0
107	CITY OF VALDEZ	11	5
108	JUNEAU BOROUGH SD	49	43
109	MATANUSKA-SUSITNA BOROUGH	56	27
110	MATANUSKA-SUSITNA BOROUGH SD	63	47
111	ANCHORAGE SD	417	326
112	COPPER RIVER SD	15	11
113	UNIVERSITY OF ALASKA	420	273
114	CITY OF HAINES	0	0
115	CITY OF KENAI	6	7
116	FAIRBANKS NORTH STAR BOROUGH	42	17
117	FAIRBANKS NORTH STAR BOROUGH SD	104	111
118	DENALI BOROUGH SD	12	4
119	UNIVERSITY OF AK GEOPHYSICAL INSTITUTE	0	0
120	CITY AND BOROUGH OF SITKA	17	11
121	CHUGACH SD	5	4
122	KETCHIKAN GATEWAY BOROUGH	19	10
123	CITY OF SOLDOTNA	5	0
124	IDITAROD AREA SD	6	1
125	KUSPUK SD	5	7
126	CITY AND BOROUGH OF JUNEAU	45	26
127	ALASKA STATE BUILDING AUTHORITY	0	0
128	CITY OF KODIAK	10	8
129	CITY OF FAIRBANKS	8	4
130	FAIRBANKS MUNICIPAL UTILITY SYSTEM	0	0
131	CITY OF WASILLA	19	9
132	CITY OF SKAGWAY	11	4
133	SITKA BOROUGH SD	7	10
134	CITY OF PALMER	19	3
135	CITY OF WRANGELL	3	2
136	CITY OF BETHEL	31	14
137	VALDEZ CITY SD	6	2
138	HOONAH CITY SD	13	4
139	CITY OF NOME	16	10
140	CITY OF KOTZEBUE	13	6
141	GALENA CITY SD	16	25
142	KING COVE SD	0	0
143	CITY OF PETERSBURG	10	5
144	BRISTOL BAY BOROUGH	4	7
145	NORTH SLOPE BOROUGH	68	45
146	WRANGELL PUBLIC SD	6	6
147	ALASKA UNORGANIZED BOROUGH SCHOOLS	0	0
148	CITY OF CORDOVA	9	2
149	NOME CITY SD	21	11
150	TERMINATED EMPLOYERS	0	0
151	CITY OF KING COVE	3	5
152	ALASKA HOUSING FINANCE CORPORATION	19	7
153	LOWER YUKON SD	2	7
154	NORTHWEST ARCTIC BOROUGH SD	36	45
155	SOUTHEAST ISLAND SD	11	11

Info Provided by R.E.B


Dept. of Admin. presentation  
4-2-05

Employer #	Employer Name	FY 04	FY05
			7/1/04 - 12/31/04
156	PRIBILOF SD	3	3
157	LOWER KUSKOKWIM SD	70	76
158	KODIAK ISLAND BOROUGH SD	33	24
159	YUKON FLATS SD	29	6
160	YUKON / KOYUKUK SD	9	20
161	NORTH SLOPE BOROUGH SD	27	10
162	ALEUTIAN REGION SD	2	2
163	CORDOVA COMMUNITY MEDICAL CENTER	16	11
164	LAKE AND PENINSULA BOROUGH SD	20	22
165	SITKA COMMUNITY HOSPITAL	18	16
166	TANANA SD	3	1
167	SOUTHEAST REGIONAL RESOURCE CENTER	13	13
168	HYDABURG CITY SD	0	0
169	CITY OF TANANA	0	0
170	NORTH PACIFIC FISHERY MGMT COUNCIL	0	0
171	CITY OF BARROW	3	1
172	CITY OF SAINT PAUL	11	3
173	MUNICIPALITY OF ANCHORAGE	211	154
174	KODIAK ISLAND BOROUGH	2	3
175	NOME JOINT UTILITY SYSTEM	2	0
176	CITY OF SAND POINT	3	2
177	KETCHIKAN GATEWAY BOROUGH SD	31	34
178	CITY OF DILLINGHAM	13	7
179	CITY OF UNALASKA	28	15
180	KENAI PENINSULA BOROUGH	20	13
181	CITY OF KETCHIKAN	17	6
182	CITY OF SEWARD	7	4
183	CITY OF FORT YUKON	9	4
184	BRISTOL BAY BOROUGH SD	3	5
185	CORDOVA CITY SD	11	4
186	CITY OF CRAIG	2	4
187	PETERSBURG MEDICAL CENTER	10	5
188	SAND POINT SD	0	0
189	HAINES BOROUGH	22	7
190	KENAI PENINSULA BOROUGH SD	71	61
191	CITY OF NORTH POLE	8	3
192	CITY OF GALENA	4	4
193	CITY OF NENANA	1	0
194	HAINES BOROUGH	0	0
195	YUPIIT SD	20	5
196	NENANA CITY SD	23	9
197	CITY OF UNALAKLEET	0	0
198	CITY OF SAXMAN	3	0
199	CITY OF HOONAH	1	0
200	CITY OF PELICAN	3	0
201	CITY OF KAKE	0	0
202	CITY OF WHITTIER	5	2
203	ANCHORAGE PARKING AUTHORITY	4	7
204	CRAIG CITY SD	14	11
205	DILLINGHAM CITY SD	16	13
206	CITY OF THORNE BAY	1	2
207	CITY OF SCAMMON BAY	0	0
208	CITY OF AKUTAN	0	0
209	UNALASKA CITY SD	6	7
210	CITY OF STEBBINS	0	0

Employer #	Employer Name	FY 04	FY05
			7/1/04 - 12/31/04
211	KASHUNAMIUT SD	6	1
212	SEWARD GENERAL HOSPITAL	0	0
213	CITY OF WAINWRIGHT	0	0
214	CITY OF SAINT MARY'S	2	0
215	CITY OF HOMER	8	3
215	CITY OF RUBY	1	0
217	CITY OF EMMONAK	0	0
218	SPECIAL EDUCATION SERVICE AGENCY	0	0
219	BARTLETT REGIONAL HOSPITAL	57	35
220	NORTHWEST ARCTIC BOROUGH	4	0
221	SAINT MARY'S SD	3	1
222	CITY OF SELAWIK	2	0
223	BRISTOL BAY RHA	12	5
224	COPPER RIVER BASIN RHA	1	0
225	SKAGWAY CITY SD	0	1
226	CITY OF HOOPER BAY	0	0
227	CITY OF KLAWOCK	8	4
228	PETERSBURG CITY SD	2	2
229	BRISTOL BAY CRSA	0	0
230	ALEUTIANS EAST BOROUGH	2	2
231	CITY OF KIVALINA	0	0
232	BERING STRAITS CRSA	0	1
233	CITY OF SHISHMAREF	0	0
234	ADAK REGION SD	0	0
235	CITY OF HUSLIA	0	0
236	CITY OF MOUNTAIN VILLAGE	0	0
237	CITY OF KALTAG	0	0
238	CITY OF KOYUK	0	0
239	CITY OF LOWER KALSKAG	0	0
240	HAINES BOROUGH SD	6	5
241	CITY OF NOORVIK	3	5
242	CITY OF ELIM	0	0
243	CITY OF ATKA	0	0
244	ALEUTIANS EAST BOROUGH SD	13	9
245	ALEUTIANS WEST CRSA	0	0
246	DELTA/GREELY SD	14	4
247	LAKE AND PENINSULA BOROUGH	1	0
248	CITY AND BOROUGH OF YAKUTAT	4	1
249	CITY OF UNALAKLEET	0	0
250	DIOMEDE JOINT UTILITIES	0	0
251	KLAWOCK CITY SD	5	1
252	CITY OF OLD HARBOR	0	0
253	CITY OF GRAYLING	0	0
254	CITY OF MEKORYUK	1	0
255	ALASKA GATEWAY SD	13	6
256	CITY OF SAINT GEORGE	0	0
257	PELICAN CITY SD	0	1
258	DENALI BOROUGH	1	1
259	CITY OF ALLAKAKET	0	0
260	CITY OF KACHEMAK	0	0
261	CITY OF NUIQSUT	0	0
262	COOK INLET HOUSING AUTHORITY	10	7
263	INTERIOR RHA	2	1
264	YAKUTAT SD	3	3
265	KAKE CITY SD	0	1

Employer #	Employer Name	FY 04	FY05
			7/1/04 - 12/31/04
266	CITY OF QUINHAGAK	1	0
267	ALEUTIAN HOUSING AUTHORITY	7	1
268	CITY OF MARSHALL (AKA FORTUNA LEDGE)	0	0
269	ANCHORAGE TELEPHONE UTILITY	0	0
270	BERING STRAITS RHA	8	2
271	CITY OF EGEGIK	0	0
272	CITY OF POINT HOPE	0	0
273	CITY OF ANAKTUVUK PASS	0	0
274	CENALIULRIIT CRSA	0	0
275	ILISAGVIK COLLEGE	16	8
276	NORTH PACIFIC RIM HA	1	3
277	CITY OF KAKE	2	0
278	SAXMAN SEAPORT	0	0
279	TLINGIT-HAIDA RHA	8	0
280	CITY OF TOKSOOK BAY	0	0
281	BARANOF ISLAND HA	0	1
282	CITY OF DELTA JUNCTION	0	0
283	CITY OF ANDERSON	0	0
284	INTER-ISLAND FERRY AUTHORITY	3	0
285	CITY OF HOOPER BAY	1	0
286	CITY OF SELDOVIA	0	0
287	CITY OF KOYUK	0	0
288	NORTHWEST INUPIAT HOUSING AUTHORITY	3	1
289	CITY OF ANGOON	0	0
290	CITY OF UPPER KALSKAG	0	0
291	CITY OF SHAKTOOLIK	0	0
292	CITY OF EEK	0	0
294	CITY OF MOUNTAIN VILLAGE	0	1
293	TAGIUGMIULLU NUNAMIULLU HOUSING AUTHORIT	0	6
701	ANCHORAGE SD	288	289
702	SELAWIK SD	0	0
703	SELAWIK CITY SD	0	0
704	CORDOVA CITY SD	4	10
705	CRAIG CITY SD	7	2
706	FAIRBANKS NORTH STAR BOROUGH SD	77	96
707	HAINES BOROUGH SD	2	3
708	HOONAH CITY SD	0	1
709	HYDABURG CITY SD	2	6
710	JUNEAU BOROUGH SD	53	39
712	KAKE CITY SD	2	2
713	NATIONAL EDUCATION ASSOCIATION OF AK	0	0
714	KETCHIKAN GATEWAY BOROUGH SD	18	9
716	KING COVE SD	0	0
717	KLAWOCK CITY SD	2	3
718	KODIAK ISLAND BOROUGH SD	27	24
719	NENANA CITY SD	4	6
720	NOME CITY SD	10	6
722	MATANUSKA-SUSITNA BOROUGH SD	78	130
723	PELICAN CITY SD	0	0
724	PETERSBURG CITY SD	4	7
727	SITKA BOROUGH SD	13	10
728	SKAGWAY CITY SD	2	4
729	UNALASKA CITY SD	4	3
730	VALDEZ CITY SD	7	6

Employer #	Employer Name	FY 04	FY05
			7/1/04 - 12/31/04
731	WRANGELL PUBLIC SD	1	1
732	YAKUTAT SD	2	2
733	UNIVERSITY OF ALASKA	67	32
734	NORTHWEST REGION RESOURCE CENTER	0	0
735	GALENA CITY SD	9	6
736	NORTH SLOPE BOROUGH SD	32	41
737	ALASKA DEPARTMENT OF EDUCATION	7	7
738	SOUTH CENTRAL REGION RESOURCE CENTER	0	0
739	NORTHERN REGION RESOURCE CENTER	0	0
740	SOUTHWEST REGION RESOURCE CENTER	0	0
741	UNIVERSITY OF AK GEOPHYSICAL INSTITUTE	0	0
742	BRISTOL BAY BOROUGH SD	8	3
743	SOUTHEAST REGIONAL RESOURCE CENTER	5	3
744	DILLINGHAM CITY SD	8	9
746	KENAI PENINSULA BOROUGH SD	41	53
748	SAINT MARY'S SD	8	7
749	STATE OPERATED SCHOOLS	0	0
751	NORTHWEST ARCTIC BOROUGH SD	53	43
752	BERING STRAIT SD	63	52
753	LOWER YUKON SD	40	31
754	LOWER KUSKOKWIM SD	75	58
755	KUSPUK SD	9	12
756	SOUTHWEST REGION SD	10	25
757	LAKE AND PENINSULA BOROUGH SD	18	12
758	ALEUTIAN REGION SD	4	3
759	PRIBILOF SD	5	1
760	ADAK REGION SD	0	0
761	IDITAROD AREA SD	17	11
762	YUKON / KOYUKUK SD	19	24
763	YUKON FLATS SD	11	9
764	DENALI BOROUGH SD	11	8
765	DELTA/GREELY SD	21	14
766	ALASKA GATEWAY SD	6	5
767	COPPER RIVER SD	5	7
768	CHATHAM SD	9	5
769	SOUTHEAST ISLAND SD	8	7
770	ANNETTE ISLAND SD	11	5
771	CHUGACH SD	3	4
772	ALASKA STATE LEGISLATURE	0	0
773	WESTERN REGION RESOURCE CENTER	0	0
774	SAND POINT SD	0	0
775	TANANA SD	2	3
776	ALASKA ASSOCIATION OF SCHOOL BOARDS	0	0
777	KASHUNAMIUT SD	10	5
778	YUPIIT SD	16	13
779	SPECIAL EDUCATION SERVICE AGENCY	0	2
780	ALEUTIANS EAST BOROUGH SD	13	9



Discussion Topic  
*Containing Liability in Our  
Current System*



Alaska State Legislature  
*Senate Finance Committee*

Updated as of: April 2, 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
Total		64,388
TRS	Tier 1	
	>8	388
	6-8	369
	<6	10,008
	Tier 2	2,534
Total		13,299
PERS/TRS Total		77,687

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.

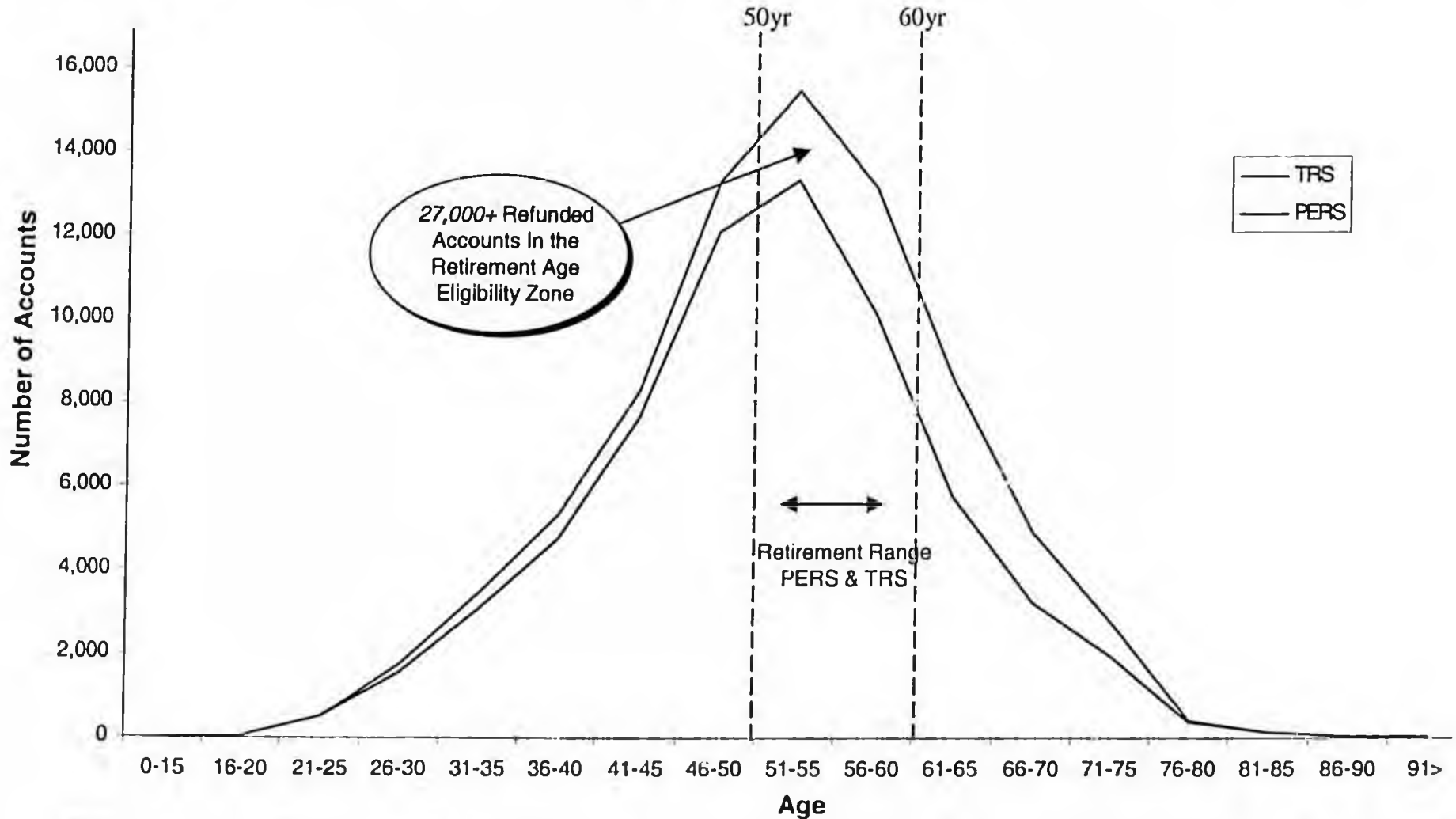
They can be required, pay their indebtedness, leave immediately and have 100% system paid medical at retirement.

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





**Fix Proposed in SB 141 (Sec 111 pg 90)**

- AS 14.25.062 and AS 39.35.350
- The change would repeal 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





*Benefit Enhancing  
Legislation*





**Benefit enhancing legislation added *\$37.7 Million* to our *unfunded liability* in 2001 alone**

Passed in 2001, HB 242

Enhanced medical benefits to existing employees by providing full system paid medical to retired members over age 60 and all members who retire with at least 25 years of service (TRS & Police/Fire) and 30 years of service (PERS) regardless of hire date.

- When it passed, the bill increased our system liabilities by **\$23.7 Million**
- Using today's health cost trends, that number has grown to **\$37.7 Million**

---

This Session, there are several new bills that if passed would enrich benefits for existing employees and increase our unfunded liability:

**HB 6** – Allowing Fish & wildlife enforcement officers to claim credit as peace officers

**HB 40** – Allowing retired peace officers medical benefits after 20 years instead of 25

**SB 21** – Adding child or vulnerable adult protection workers to the police/fire employee class

**We Need Better Fiscal Analysis Before Enacting Legislation Affecting Benefits**



Fix Proposed

- Establish enhanced Fiscal Note reporting procedures for any legislation introduced that affects existing benefits
- Fiscal impact would have to be based on an actuarial analysis of the impact on future cash flows and liability to the system





*Post Pension Retirement  
Adjustments*





## Current Retirement Pension Adjustments

1. COLA – The greater of 10% or \$50 increase in base benefit amount paid to retirees living in Alaska
  
2. Post Pension Retirement Adjustment (PRPA) 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”) - **Tier 1 members only**. Awarded *“when the administrator determines that the cost of living has increased and that the financial condition of the retirement fund permits”*





<b>Ad Hoc</b>	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.
<b>Automatic</b>	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 C. I.

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

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
3.163%	3.000%	1.581%	7/1/1997	50	\$ 2,248.86	NE	NE	Ad hoc
1.045%	4.000%	0.522%	7/1/1998	51	\$ 2,248.86	\$ 15.60	NE	Ad hoc
1.103%	4.000%	0.551%	7/1/1999	52	\$ 2,248.86	\$ 25.00	NE	Ad hoc
0.954%	4.000%	0.477%	7/1/2000	53	\$ 2,248.86	\$ 21.86	NE	Ad hoc
2.837%	4.000%	1.418%	7/1/2001	54	\$ 2,248.86	\$ 65.58	NE	Ad hoc
3.022%	3.000%	1.511%	7/1/2002	55	\$ 2,248.86	\$ 71.82	\$ 37.00	Ad hoc
1.849%	None	0.924%	7/1/2003	56	\$ 2,248.86	\$ -	\$ 22.63	Auto
3.193%	None	1.596%	7/1/2004	57	\$ 2,248.86	\$ -	\$ 39.08	Auto
<b>Total PRPA Granted:</b>								<b>\$261.57</b>

Tier II Retiree  
Retired 1/1/97  
Age 55

Age	Base Benefit	Auto PRPA Amt	PRPA % Granted
55	\$ 2,248.86	NE	NE
56	\$ 2,248.86	NE	NE
57	\$ 2,248.86	NE	NE
58	\$ 2,248.86	NE	NE
59	\$ 2,248.86	NE	NE
60	\$ 2,248.86	\$ 37.00	1.645%
61	\$ 2,248.86	\$ 22.63	1.006%
62	\$ 2,248.86	\$ 39.08	1.738%
<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	0	
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





**Fix Proposed**

- AS 39.35.475 – Include language that defines what is meant by “the financial condition of the retirement fund”.
- Proposal is to set a minimum funding ratio of 110%



Examples of Refunded Accounts

Age at Retirement	TIER	Current Status	Benefit Status	Last Employer	Total Service	Date of Last Contribution	Date of Refund	Rehire Date	Date Refund Pd	Retirement Date	Comments
55	1	Retired	Active	State of AK	4.063	1/18/1979	10/16/1980		2/28/2001	7/1/2001	conditional service benefit
60	2	Retired	Active	State of AK	3.058	7/21/1989	8/14/1989	5/10/2002	8/13/2003	10/1/2004	
58	1	Retired	Active	State of AK	7.342	9/17/1985	3/23/1992	7/6/1999	4/24/2003	5/1/2003	
56	1	Retired	Active	State of AK	5.222	1/18/1979	1/18/1979	2/24/2003	8/15/2003	4/1/2004	
53	1	Retired	Active	State of AK	7.857	7/21/1989	6/5/1989	7/13/1999	7/16/2003	7/1/2003	
54	1	Retired	Active	State of AK	10.156	1/17/1996	5/31/1996	12/30/1995	4/30/2003	7/1/2003	
55	1	Retired	Active	State of AK	14.836	8/19/1992	6/17/1992	7/16/2001	3/25/2003	8/1/2003	
60	1	Retired	Active	State of AK	5.370	4/30/1971	11/11/1971	6/26/2002	7/31/2002	8/1/2002	worked less than 1 month
60	1	Retired	Active	State of AK	2.113	6/18/1980	10/29/1980	6/6/2001	6/17/2002	1/1/2003	
65	1	Retired	Active	State of AK	2.912	8/11/1982	7/14/1982	2/15/2002	4/20/2004	5/1/2004	
53	1	Rtn to Work	Stopped	State of AK	6.389	2/15/1979	5/14/1980	1/17/2002	3/29/2002	9/1/2002	
64	2	Retired	Active	State of AK	5.411	7/29/1991	7/29/1991	11/11/1999	12/31/2002	9/1/2003	
60	1	Retired	Active	State of AK	6.238	5/2/1989	9/10/1985		9/13/2004	7/1/2004	conditional
57	1	Retired	Active	State of AK	4.277	9/13/1982	8/31/1982		7/16/2004	7/1/2004	conditional
52	1	Retired	Active	State of AK	5.570	11/13/1985	1/6/1992	5/1/2001	7/25/2001	5/1/2003	
50	1	Retired	Active	State of AK	2.095	7/14/1982	1/19/1983	12/26/2000	1/31/2001	7/1/2003	
52	1	Retired	Active	State of AK	5.614	2/24/1987	2/24/1987	5/6/2003	8/21/2003	9/1/2003	worked 3 months
51	1	Retired	Active	State of AK	1.671	4/7/1981	4/7/1981	2/22/2001	8/26/2002	8/1/2002	5 leg sessions
50	1	Retired	Active	State of AK	8.290	11/15/1988	10/24/1988	12/28/1999	12/28/1999	4/1/2000	worked 1 day
58	1	Retired	Active	State of AK	5.052	5/14/1975	5/14/1975	5/3/2004	7/30/2004	9/1/2004	worked 3 months
58	1	Retired	Active	State of AK	8.315	7/9/1980	1/25/1985	12/7/2000	1/8/2001	2/1/2001	worked 1 week
58	1	Retired	Active	State of AK	6.058	7/13/1983	6/15/1983	6/2/2000	5/27/2004	6/1/2004	
59	1	Retired	Active	State of AK	10.090	6/6/1988	1/22/2003	10/22/2003	12/12/2003	1/1/2004	worked 1 day
61	1	Retired	Active	State of AK	5.356	No data	1/13/1975	6/26/2003	1/12/2004	2/1/2004	
64	2	Retired	Active	State of AK	5.595	10/27/1992	12/21/1992	2/4/2000	10/31/2001	2/1/2002	
57	1	Retired	Active	State of AK	5.088	10/12/1982	10/12/1982	10/2/2003	6/30/2004	9/1/2004	
53	1	Retired	Active	State of AK	9.048	5/14/1980	5/14/1980	1/30/2002	2/28/2002	3/1/2002	worked less than 1 month
55	1	Retired	Active	State of AK	8.748	3/6/1984	2/28/1984	5/19/2000	8/30/2002	9/1/2004	worked 6 months
55	1	Retired	Active	State of AK	11.797	1/16/1986	10/7/1986	10/20/2003	3/25/2004	6/1/2004	
53	1	Retired	Active	State of AK	4.633	6/13/1984	6/12/1984	1/4/2000	4/30/2001	6/1/2001	
53	1	Retired	Active	State of AK	7.142	6/4/1981	6/4/1981	10/4/1999	3/12/2003	9/1/2003	
50	1	Retired	Active	State of AK	9.177	1/27/1997	7/22/1998	9/5/2000	4/10/2001	9/1/2002	
73	1	Retired	Active	State of AK	17.329	No data	4/10/1969	5/17/2004	6/28/2004	7/1/2004	worked less than 1 month
66	1	Retired	Active	State of AK	7.030	3/20/1975	3/20/1975	11/15/2001	4/17/2003	6/1/2003	
60	1	Retired	Active	State of AK	5.055	4/22/1976	4/22/1976	1/28/2003	2/27/2003	6/1/2003	worked less than 6 months
55	1	Retired	Active	State of AK	10.090	5/14/1980	2/13/1975	8/1/2000	8/31/2000	10/1/2000	worked less than 1 month
57	1	Retired	Active	State of AK	5.019	8/18/1987	7/7/1987	2/4/2003	7/20/2004	9/1/2004	
56	1	Retired	Active	State of AK	2.973	3/20/1975	10/11/1975	8/26/2002	7/29/2003	6/1/2004	
59	1	Retired	Active	State of AK	7.107	8/17/1987	8/17/1987	4/15/2002	9/11/2002	11/1/2004	worked 7 months
59	1	Retired	Active	State of AK	5.532	11/22/1975	12/21/1975	3/28/2000	1/31/2002	3/1/2002	
59	1	Retired	Active	State of AK	20.704	10/13/1986	1/28/1976	1/31/2001	7/29/2004	8/1/2004	

4/2/05

Age at Retirement	TIER	Current Status	Benefit Status	Last Employer	Total Service	Date of Last Contribution	Date of Refund	Rehire Date	Date Refund Pd	Retirement Date	Comments
55	2	Retired	Active	State of AK	10.586	3/25/1997	4/15/1997	12/20/1999	3/25/2003	6/1/2004	
55	1	Retired	Active	State of AK	5.011	3/30/1973	7/14/1973	11/16/1999	8/29/2002	11/1/2003	
57	1	Retired	Active	State of AK	8.855	5/12/1988	4/11/1988	4/2/2001	7/15/2003	9/1/2004	
56	1	Retired	Active	State of AK	6.386	4/30/1983	5/17/1983	4/24/2002	11/27/2002	12/1/2003	
55	1	Retired	Active	State of AK	9.304	6/11/1985	5/21/1985	11/13/2000	2/14/2003	6/1/2004	
55	2	Retired	Active	State of AK	5.987	2/22/1995	4/30/1995	9/27/1999	2/27/2003	3/1/2003	
51	1	Retired	Active	State of AK	5.468	4/11/1979	4/11/1979	5/4/2000	8/21/2000	2/1/2002	worked less than 1 month
68	1	Retired	Active	State of AK	1.792	3/19/1980	11/26/1980	4/20/2001	5/31/2001	6/1/2001	worked less than 1 month
57	1	Retired	Active	State of AK	7.205	10/31/1972	2/22/1973	8/19/2002	9/30/2002	7/1/2004	
50	1	Retired	Active	State of AK	5.381	2/18/1981	3/24/1981	10/14/1999	1/14/2003	2/1/2003	
50	1	Retired	Active	State of AK	8.312	8/9/1983	3/26/1985	10/25/1999	12/6/1999	3/1/2003	
50	1	Retired	Active	State of AK	5.630	7/14/1981	7/14/1981	5/1/2002	10/31/2002	11/1/2003	
50	1	Retired	Active	State of AK	6.521	1/12/1982	1/12/1982	1/6/2003	10/24/2003	11/1/2004	
57	1	Retired	Active	State of AK	5.130	8/23/1994	9/7/1994	7/1/1999	11/18/1999	9/1/2000	
52	1	Retired	Active	State of AK	6.482	8/11/1982	7/27/1982	4/26/2000	7/12/2000	12/1/2000	worked 6 months
55	1	Retired	Active	Juneau SD	8.036	11/28/1979	2/14/1980	10/19/1999	6/24/2003	3/1/2004	
57	1	Retired	Active	Juneau SD	5.008	10/21/1981	9/15/1981	11/12/2002	1/27/2004	10/1/2004	
50	1	Retired	Active	Juneau SD	7.860	2/21/1984	1/31/1984	8/24/1999	4/30/2003	5/1/2003	
57	1	Retired	Active	ASD	1.908	1/25/1979	1/31/1979	8/26/2002	12/22/2003	7/1/2004	
55	1	Retired	Active	ASD	4.357	12/7/1987	11/30/1987		7/26/2000	9/1/2000	conditional
58	1	Retired	Active	ASD	5.045	7/24/1975	8/2/1975	8/28/2002	10/3/2002	12/1/2003	
58	2	Retired	Active	ASD	3.084	11/25/1997	11/30/1998	8/28/2000	4/10/2001	7/1/2002	
71	1	Retired	Active	ASD	2.141	12/18/1984	12/4/1984	2/6/2001	1/17/2003	2/1/2003	worked 4 months termed
56	1	Retired	Active	ASD	11.419	10/12/1982	11/19/1982	10/27/1999	2/28/2003	6/1/2003	
57	1	Retired	Active	ASD	2.336	7.26/1978	11/30/1978	8/31/2000	4/30/2002	7/1/2003	
52	1	Retired	Active	ASD	5.253	2/23/1982	4/19/1983	10/11/2000	6/22/2004	7/1/2004	
61	1	Retired	Active	ASD	7.973	1/1	4/18/1972	4/24/2001	6/13/2001	7/1/2001	worked 1 month
61	1	Retired	Active	U of A	2.147	8/13/1980	8/13/1980	2/11/2002	12/11/2002	8/1/2004	
59	1	Retired	Active	U of A	2.093	7/16/1984	6/12/1984	1/27/2003	3/28/2003	6/1/2003	worked 5 months
50	1	Retired	Active	U of A	4.214	10/22/1980	11/6/1980		9/9/2003	9/1/2003	conditional
50	1	Retired	Active	U of A	5.129	5/29/1990	3/28/1995		4/30/2003	6/1/2003	conditional
57	1	Retired	Active	U of A	7.948	8/13/1980	8/6/1980	10/1/2001	1/30/2003	2/1/2003	
52	1	Retired	Active	U of A	5.959	1/26/1980	4/30/1980	7/7/1999	4/29/2004	7/1/2004	
51	1	Retired	Active	U of A	5.427	2/12/1990	11/30/1989	7/31/2000	10/20/2002	7/1/2004	
55	1	Rtn to Work	Stopped	U of A	6.784	7/30/1980	8/27/1980	11/12/2001	10/30/2003	11/1/2003	
52	1	Retired	Active	FNSBSD	7.123	2/22/1988	4/10/1990	11/4/2002	10/30/2003	11/1/2003	
50	1	Retired	Active	FNSBSD	2.138	9/30/1986	11/3/1986	8/19/2002	8/28/2002	6/1/2003	
70	1	Retired	Active	FNSBSC	9.679	7/28/1981	7/19/1978	7/23/2002	9/30/2002	10/1/2002	worked 1 day
61	1	Retired	Active	FNSBSD	6.055	9/13/1974	11/16/1974	4/10/2000	5/15/2003	6/1/2003	
50	1	Retired	Active	FNSBSD	5.253	5/31/1974	1/13/1975	11/27/2000	12/21/2000	7/1/2003	
62	1	Retired	Active	KGB	12.967	11/10/1981	12/1/1981	2/8/2000	6/30/2004	10/1/2004	
62	1	Retired	Active	CBJ	8.986	4/19/1983	4/27/1977	2/28/2000	12/18/2002	2/1/2003	
54	1	Retired	Active	CBJ	9.959	10/20/1976	10/20/1976	12/8/2000	1/31/2001	3/1/2002	worked almost 3 months
56	1	Retired	Active	C/O Wasilla	13.038	10/28/1983	10/29/1987	5/24/1999	4/26/2000	7/1/2003	worked 14 months

Age at Retirement	TIER	Current Status	Benefit Status	Last Employer	Total Service	Date of Last Contribution	Date of Refund	Rehire Date	Date Refund Pd	Retirement Date	Comments
55	1	Retired	Active	Sitka Boro	2.860	6/22/1932	3/6/1984	Conditional	3/30/2001	7/1/2001	conditional
55	1	Retired	Active	C/O Palmer	9.413	6/11/1981	6/23/1981	1/20/2000	10/30/2000	10/1/2004	
58	1	Retired	Active	NSB	10.383	3/2/1982	3/10/1992	10/3/2003	7/12/2004	7/1/2004	worked 3 months
56	1	Retired	Active	Yukon Flats St	3.056	12/21/1977	1/1/1977	Conditional	12/1/2000	12/1/2000	conditional
57	1	Retired	Active	SERRC	5.127	12/15/1977	12/8/1977	11/13/2000	6/25/2001	7/1/2004	
61	1	Retired	Active	SERRC	4.038	9/21/1974	11/16/1974	4/27/2001	8/31/2001	2/1/2004	conditional
58	1	Retired	Active	SERRC	6.677	2/22/1983	2/22/1983	10/1/2000	12/18/2002	10/1/2003	
58	1	Retired	Active	MOA	5.060	10/4/1975	10/4/1975	5/15/2001	8/28/2001	2/1/2004	
56	1	Retired	Active	MOA	5.370	6/11/1980	6/4/1980	8/12/2002	3/28/2003	4/1/2004	
56	1	Retired	Active	MOA	5.948	5/29/1984	5/15/1984	Active in TRS	3/25/2004	7/1/2004	active in TRS
63	1	Retired	Active	MOA	6.940	5/3/1971	7/19/1971	7/19/1999	11/19/1999	11/1/2001	
61	1	Retired	Active	MOA	16.375	5/14/1980	9/15/1981	9/29/2003	11/21/2003	1/1/2004	worked 2 months
60	1	Retired	Active	MOA	5.022	8/3/1978	8/31/1978	5/20/2003	11/21/2003	10/1/2004	
55	1	Retired	Active	MOA	5.145	9/15/1981	9/15/1981	8/19/2002	4/24/2003	8/1/2004	
51	1	Retired	Active	MOA	5.148	4/10/1980	4/30/1980	5/15/2003	6/18/2003	7/1/2003	worked 1 day
56	1	Retired	Active	MOA	10.258	11/12/1980	11/12/1980	10/20/2003	12/17/2003	2/1/2004	worked 3 months
62	1	Retired	Active	MOA	7.326	2/28/1990	2/22/1991	9/17/2001	9/13/2004	10/1/2004	
64	1	Retired	Active	MOA	5.307	No Data	4/11/1958	8/16/2001	4/30/2002	5/1/2004	
60	1	Retired	Active	MOA	9.485	4/12/1973	9/23/1976	8/27/2001	3/29/2002	10/1/2003	
57	1	Retired	Active	MOA	5.315	3/17/1978	10/25/1978	10/1/2001	7/30/2002	10/1/2002	11 months
57	1	Retired	Active	MCA	5.468	2/27/1973	4/24/1973	12/8/1999	7/10/2000	10/1/2003	11 months
56	1	Retired	Active	MOA	5.067	8/11/1976	8/11/1976	9/16/2002	3/27/2003	1/1/2004	
53	1	Retired	Active	MOA	6.207	6/30/1980	6/12/1980	11/19/2001	5/21/2002	12/1/2003	6 months
55	1	Retired	Active	Kodiak Boro	3.197	3/4/1991	3/18/1981	9/28/1999	6/30/2000	6/1/2001	8 months
55	1	Retired	Active	C/O Cordova	11.310	8/11/1982	7/6/1982	12/1/2001	9/19/2003	1/1/2004	
55	1	Retired	Active	KPBSD	5.559	10/12/1992	9/28/1992	Active in TRS	12/31/2002	3/1/2003	conditional
53	1	Retired	Active	Nenana SD	16.403	6/11/1990	10/8/1990	8/7/2003	11/7/2003	11/1/2003	worked 1 month, 8 days
57	1	Retired	Active	Bartlett Hosp	6.430	9/26/1988	8/22/1988	12/4/2001	8/26/2002	4/1/2004	
55	1	Retired	Active	Bartlett Hosp	5.348	2/21/1984	7/22/1986	5/22/2000	4/29/2004	5/1/2004	
57	1	Retired	Active	Bartlett Hosp	5.759	6/22/1974	4/28/1976	5/9/2004	6/29/2004	8/1/2004	
56	1	Retired	Active	C/O Klawock	5.060	4/26/1995	5/13/1997	11/18/2002	6/18/2003	11/1/2003	



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.

## Actuarial Valuation 101

The ultimate cost of any retirement system can be represented by the formula:

$$\text{System Costs} = \text{Assets} - \text{Liabilities}$$

Where  $\text{assets} = \text{Investment Returns} + \text{Plan Contributions}$   
and  $\text{Liabilities} = \text{Benefits to be Paid} + \text{Administrative Expenses}$

Since none of these factors are known until the last benefit is paid, they must be measured and estimated by something called an **Actuarial Valuation**. The primary function of an **Actuarial Valuation** is to determine:

- The annual amount, the actuarially computed employer rate that must be paid into the plan in order to pay for current and all future benefit costs.
- This results in the computation of the plan's **Actuarial Funding Ratio**: the ratio of fund assets to liabilities for benefits accrued to date.

A pension plan whose assets equal its liabilities is funded at 100% and is considered *fully funded*; any shortfall of assets is an *unfunded liability*, and a plan with an unfunded liability is considered *underfunded*.

*Underfunded* does not mean that a plan is unable to pay the benefits for which it is presently obligated to pay or to meet its current cash flow requirements. It simply means that in the unlikely event that all the plan's liabilities had to be settled today, it would be unable to meet them. Fortunately, a retirement system's obligations extend many years into the future so the plan has time to accrue the assets needed to ultimately meet all its future obligations.

Calculating the employer rate and the Actuarial Funding Ratio involves many variable financial, economic, and demographic assumptions. Over the short-term, many of these assumptions will be incorrect to one degree or another. After all, the Actuarial Valuation is only a snapshot of an arrangement of complex, long-term financial and demographic projections, "based on the theoretical supposition that the plan's liabilities are subject to settlement on the date the valuation is done."

Because no one knows what the future holds, an actuary uses a mixture of professional judgment, past experience and future expectations to estimate possible future economic outcomes. Assumptions used in the **Actuarial Valuation** should be chosen in a way that ensures:

- (1) the plan is funded in an orderly and stable way and
- (2) that the plan's accumulated annual contributions and investment returns are adequate to provide participants with their promised benefit payouts by the end of the funding period – in the case of PERS and TRS, 25 years.

## Actuarial Valuation 101

The Alaska Division of Retirement & Benefits contracts with Mercer Human Resource Consulting to prepare annual Actuarial Valuations of the state's public retirement systems – PERS & TRS.

Mercer uses the following assumptions and actuarial methods in their annual valuation analysis:

### Economic Assumptions

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

- Annual Investment Return
- Post Retirement Health Premium Trend
- Total Inflation
- Annual Salary Increases

### Demographic Assumptions

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

- Mortality Rates
- Total Turnover Rate
- Disability Rate
- Retirement Rates
- Assumed Retirement Date if Before Age 50

### Actuarial Assumptions

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

- Medical Benefit Valuation – A pre-65 and post-65 premium cost are computed, increased with a health inflation assumption and combined into a blended premium. This evaluation also is based on who is actually eligible for employer paid health care.
- Target Funding Ratio - *The ratio of Assets to Accrued Liabilities that the plan is targeting going forward – at 100% target ratio, the plan targets full funding after 25 years in the case of PERS and TRS.*
- COLA – % of retirees receiving
- Spouse's Age
- Dependent Children
- Contribution Refund Rates
- New entrants
- Post-Pension Retirement Adjustments
- Expenses
- Marital Status

## Actuarial Valuation 101

### Actuarial Methods

*The methods adopted by Mercer in determining the cost of a pension plan and for determining the annual contribution required to adequately provide for future benefits*

- Asset Valuation Method – Mercer currently uses an Asset Smoothing Method – *which recognizes 20% of assets gains & losses for the current and preceding four years*
- Actuarial Cost Method – Mercer currently uses a Projected Unit Credit (PUC) - *which produces an Accrued Liability, Unfunded Liability, a Normal Cost Rate and a Past Service Cost*
  - *Accrued Liability – the present value of benefits credited*
  - *Unfunded Liability – the excess of Accrued Liabilities over the Plan's total Assets*
  - *Normal Cost – is the present value of the benefits expected to be earned by active members during the current year*
  - *Past Service Cost – the annual payment required to pay off any Unfunded Liability over the stipulated amortization period*
- Amortization Schedule for Unfunded Liability and Future Gains & Losses – Mercer uses a 25-year fixed period level percentage of pay.



## Alaska State Legislature

**Senate Majority** Web: [www.akrepublicans.org](http://www.akrepublicans.org)

**Sponsor:** FINANCE  
**Current Version:** SB 141  
**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.
- Sets annual employer contribution rates for existing Defined Benefits Plan at an amount at least equal to the actuarially computed normal cost rate.
- 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 fields related to pension systems (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 prescribing future interest rates for employees' contribution accounts.
- 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 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 promised a benefit regardless of investment performance and system costs, a DC plan provides employees with a portable individual retirement account based on the contributions and earnings of employees and employers.

**SB 141 White Paper**

**Senate Finance Committee**

Alaska Public Employee's Retirement System and Teacher's Retirement  
System: Problems and Solutions for the Alaska Public Pension Plans

March 2005

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## Introduction

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Nationwide there are significant funding problems with pension plans both in the public and private sector. Numerous solutions are being proposed and undertaken to resolve the underfunded status of pension systems in order to prevent their collapse.

Three primary factors have contributed to national funding problems: (1) *declining interest rates*—plan liabilities are calculated as the present value of future plan obligations. The discount rate used in this calculation is linked to market yields on various fixed income securities. As interest rates have fallen, so have yields, resulting in higher plan liabilities. (2) *Negative equity returns*—From the beginning of 2000 through the end of 2002, the U.S. stock market, as measured by the Wilshire 5000 Total Market Index, returned a cumulative -37%. Even after the market rebound of 2003, the Wilshire 5000 Index had a -17% cumulative return for the four previous years ending on December 31. Most pension plans hold 60% to 65% of their assets in stocks, so they have seen both their returns and their asset base shrink significantly. (3) *Less-favorable demographics*—the aging of both pension plans and their beneficiaries translates into an increase in the cash obligations coming due within a relatively short span of time. For employees in their 20s, benefits may not be due for 35 years. In contrast, liabilities for those approaching retirement are more near-term. Near-term liabilities are discounted over a short time horizon and are, therefore, worth more in current dollars than those discounted over a long time horizon. Increasing near-term liabilities results in increasing total liabilities and lower funding ratios.<sup>1</sup>

For pension plans, a catastrophic event would be the inability to pay the benefits promised to participants. This is not the situation faced today. The degree to which a plan is underfunded—meaning that its assets are less than its projected benefit obligation—is the degree to which the plan falls short of its obligation to pay in the present all of its projected liabilities. Unless a plan is terminated, however, pension liabilities are not due today—an important fact to keep in mind when evaluating pension plan health. Participants should look to the long term in considering the health of pension plans.<sup>2</sup>

Even if the situation is not as bad as it first appears, there are legitimate concerns about the current level of pension plan funding. The most direct way for a plan sponsor to improve the funding level is to make new contributions. A healthy plan should expect its annual contributions to equal plan service costs, the amount of benefit payments accruing for the current year. Investment returns as well as annual contributions are expected to fund future benefit payments. On average, benefits paid rose (along with plan assets) in the 1979-1998 period. One would expect average contributions to increase proportionally—larger plans should make larger contributions to cover larger service costs. This did not occur. As a result, contributions as a percentage of assets or of benefits paid declined in the 1979-1998 period. If funding levels are to improve, a critical consideration is whether employers can afford to make higher contributions

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<sup>1</sup> The Vanguard Group Investment Counseling & Research/Analysis "Corporate Pension Funding" Kimberly A. Steckton, June 2004.

<sup>2</sup> Watson Wyatt-Insider, "The Changing Nature of Defined Benefits Plans" February 2005.

Watson Wyatt-Insider, "Pensions in Crisis" September 2003. Available On-Line <http://www.watsonwyatt.com>

than they have in the past ten years. The ratio of unfunded liabilities to assets is a good indicator of the potential impact on employers.

To forecast how long pension plans will take to reestablish healthy funding levels, it is necessary to make assumptions about the future. A long-term historical perspective suggests some reasonable expectations. One is that the extreme market conditions experienced in the 2000-2002 period are unlikely to be repeated soon.<sup>3</sup> Between 1926 and 2002, equity markets and interest rates declined together in only 15 of the 77 years. Before the 2000-2002 period, there was no three-year period during which both declined. If history is a guide, it seems likely that the economic and financial environment will be better for pension plans in the near future. Indeed, 2003 saw U.S. stocks on the upswing.

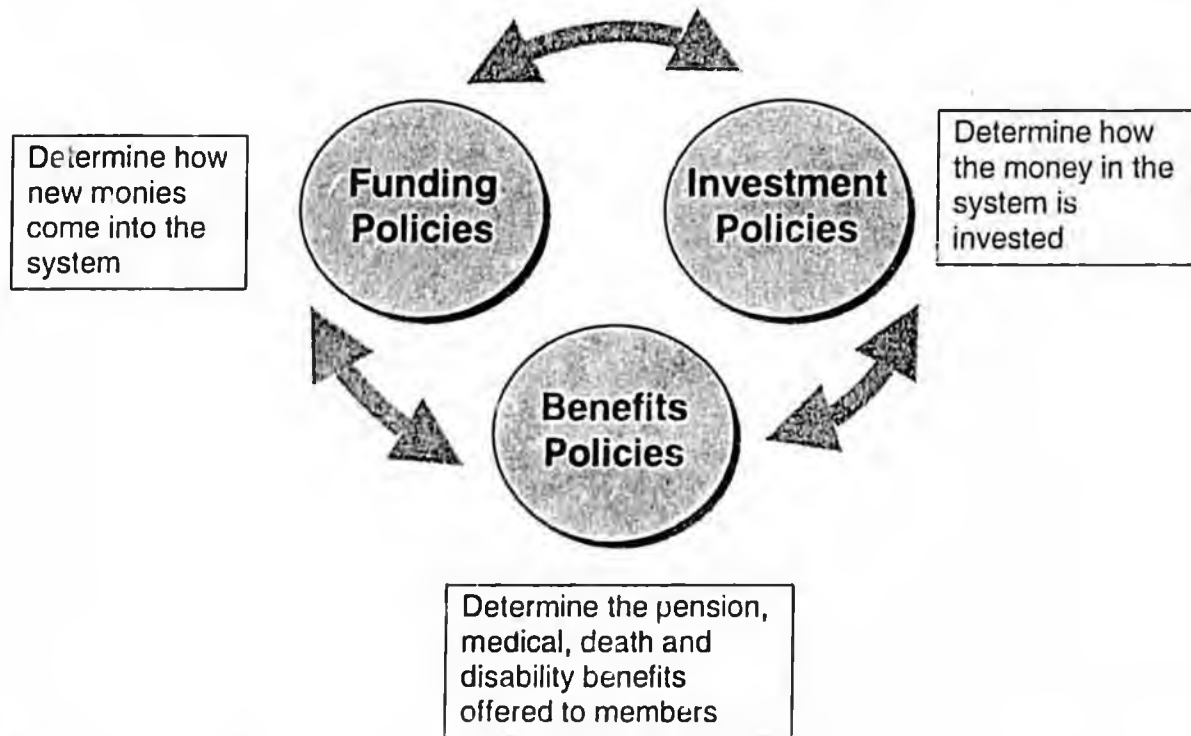
No one should be surprised if funding levels take some time to recover. If this happens, it will likely not be because of a deteriorating economy but because of the smoothing of asset returns permitted in both financial reporting and calculations of funding.<sup>4</sup> For example, financial accounting rules permit smoothing of asset values over a 5-year period. Thus, reported asset values in 2004 will reflect not only the higher equity returns of 1999 and 2003, but also the lower returns of 2000-2002. In other words, the dismal performance of the equity markets from 2000 through 2002 will drag down calculated asset levels in the future. Lower asset levels means lower funding levels. Thus, because of accounting rules, recovery from low funding levels could take some time.

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<sup>3</sup> Manhattan Institute: Civic Report "Defusing the Pension Bomb: How to Curb Public Retirement Costs in NY State." E. J. McMahon and Peter Ferrara, November 2003. Available On-Line [http://www.manhattan-institute.org/html/cr\\_40.htm](http://www.manhattan-institute.org/html/cr_40.htm)

<sup>4</sup> Milliman USA: Multiemployer Review "Multiemployer Pension Plan Funding Problems." Spring 2003. Available On-Line <http://www.milliman.com>

## Funding Retirement Systems



The most recognized measure of a public retirement plan's health is its actuarial funding level—the ratio of assets to liabilities for benefits accrued to-date.<sup>5</sup> A pension plan whose assets equal its liabilities is funded at 100% and is considered fully funded; any shortfall of assets is an unfunded liability, and a plan with an unfunded liability is considered underfunded.

Underfunded normally does not mean that a plan is unable to pay the benefits for which it is presently obligated—in fact, substantially all underfunded public pension plans are able to meet their current obligations. Fully funded can mistakenly be interpreted to mean that no future contributions to the plan will be required. In fact, fully funded means that the actuarial valuation of assets on hand equal the plan's actuarial accrued liabilities, contributions and investment earnings still will be required to cover the benefit obligations as they accrue going forward.

All plans, underfunded and fully funded alike, that are open to newly hired workers, rely on future contributions and investment returns. A key difference between underfunded and fully funded plans is that underfunded plans require contributions both to finance benefits currently being accrued as well as to eliminate the shortfall between their assets and their accrued liabilities. Because fully funded plans have no such shortfall, they require contributions only to finance the benefits currently being accrued.

<sup>5</sup>NASRA Public Fund Survey Summary of Findings FY 2003  
Keith Brainard, September 2004. Available On-Line <http://www.publicfundsurvey.org/SurveyFindingsFY03.pdf>

## Alaska Pension System Summary

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The Alaska Public Employees' and Teachers' Retirement Systems (PERS/TRS) are Defined Benefit (DB) plans. The Division of Retirement and Benefits administers the plans with oversight provided by the PERS Board and TRS Board. The PERS Board is composed of five members—two board members are elected by the PERS membership, and three are governor appointed. The TRS Board is composed of five governor-appointed members-- one of whom must be a resident receiving retirement benefits under this chapter.

The Alaska State Pension Investment Board (ASPIB)—an organization that consists of eight trustees, carries out the investment functions of Alaska's retirement systems. ASPIB is made up of the Commissioner of the Department of Revenue, three trustees are appointed by the governor, and four trustees elected by the general memberships of PERS and the TRS.

Review of the boards for other state retirement systems finds wide variety in the composition, structure, and duties of boards of public retirement systems. While many such boards oversee one of several retirement systems (as in Alaska, where separate boards oversee PERS and TRS), there are boards that oversee several systems. Many of the boards also function as investment managers, although that is not clear in every case. Evidence, or the lack thereof, of the presence of additional boards that take on investment duties leads to the reasonable belief that many of the boards either do so, or have subcommittees or other organizations that advise them on such matters.

In a DB plan the benefit paid to an employee is based upon a formula set in law and is not determined by the account balance. Future benefit payments are not affected by plan funding methods or funding level of the plan, market gains or losses, or expenses. If a member decides to cash-out the employee account, the employee only receives the employee's contributions and fixed interest on the account. Employer contributions and actual investment earnings stay with the retirement system.

An actuarial valuation is performed each year to obtain a total accrued liability for the entire system. Actuarial valuations use assumptions to determine what the total cost will be over the life of the system. These assumptions reflect major variables that will affect the total system costs and the cost of any one individual. The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future financial obligations to participants. An actuarial valuation determines the expected future obligation.

In a DB plan, the system does not know how long you will actually live, how many payments you will actually get after retirement, how much Cost Of Living Adjustment (COLA) you will actually be paid, how much your post retirement pension adjustments will be, or how much future health care costs will be. Assumptions are used to make a reasonable estimate of what the costs might be. The funding level is determined based on these assumptions.

The purpose of actuarial methods is to fund a member's retirement benefits over the member's working lifetime. The total expected liability for each member is broken down into two parts—the past service liability and future normal costs. The past service liability is the portion

attributable to prior service and is expected to have already been funded for. Future normal costs are the annual amounts expected to be earned in the future and to be paid for by future members and employer contributions. To the extent that system assets are less than the past service liability, the "unfunded liability" is amortized over 25 years and a past service rate is combined with normal cost rate in calculating employer contributions. Mercer's actuarial valuations of the systems are based on member and asset information provided by the Division of Retirement and Benefits and plan provisions as described in the Actuarial Valuation Reports. The actuarial methods and assumptions are also described in the Actuarial Valuation Reports.

The expected system liability is the value in today's dollars of all the expected future benefit payments to all of the system members. There is uncertainty as to both the amount and the timing of future benefit payments. Thus, determining system liabilities requires making assumptions regarding future events. In setting each assumption, appropriate consideration is given to historical observations as well as to expectations for the future. Professional standards require that each assumption represent Mercer's best estimate at the time of anticipated future experience. Therefore, it would not be appropriate to characterize any of the assumptions as "conservative" or "aggressive" but rather to characterize each assumption as Mercer's best estimate based on information available at the time. Several of the key actuarial assumptions are as follows: investment return, health cost trend, future inflation, mortality rates, future salary increases, and retiree/termination rates. While each assumption is the best estimate of future experience based on information available at a given point in time, changes can occur which lead to revisions in actuarial assumptions. Among others, such changes can include longevity increases, lowered expectations regarding future inflation, and increased expectations regarding future healthcare cost increases. Assumption changes cause increases or decreases in system liabilities, which are amortized over 25 years through past service rate.

The PERS and TRS Boards approve actuarial assumptions after recommendations by and discussion with the actuary. Formal assumption reviews are conducted every five years. The results of the most recent review of actuarial assumptions were presented to the Boards in October 2000. Detailed analysis of each assumption can be found in the Public Employees' Retirement System Analysis Study of Actuarial Assumptions and the Teachers' Retirement System Analysis Study of Actuarial Assumptions. In addition, an independent actuarial consulting firm performs periodic audits of actuary's assumptions and methods. Milliman, USA, performed the most recent audit with results presented to the Boards in October 2002.

The investment return assumption represents the average long-term rate of return expected to be realized on the system portfolio over the system's future lifetime. It is used to discount future benefit payments to the valuation date when calculating liabilities. Because it represents expected future earnings to provide for benefits, raising or lowering the return assumptions causes liabilities to move in the opposite direction. Lowering the return assumption to 7.25% would increase system liabilities; raising the discount rate to 9.25% would reduce system liabilities. The National Association of State Retirement Administrators survey of investment return assumptions as of June 30, 2003 produces a median rate of return assumption of 8%, with 39 funds using return assumptions of 8.25% or higher.

SENATE FINANCE COMMITTEE WHITE PAPER: SB 141

The annual investment return is comprised of three major components: the increase in overall productivity, the risk premium associated with each investment class, and inflation. The first two of these represent the "real" rate of return. Since 1996, the real rate of return implicit in the investment rate has been 4.25% for PERS.<sup>6</sup> The real rate of return expected on investments is a function of the time period over which results are measured and the types of investments chosen.

Measurement Period	National CPI	Approximate Rate on Market Value of Assets
FY 99	2.2%	10.3%
FY 98	1.6%	12.8%
FY 97	2.3%	17.9%
FY 96	3.0%	13.6%
FY 95	2.8%	15.3%

Actuarial calculated contribution rates for PERS and TRS indicate the need for higher contributions in order to eventually achieve 100 percent funding ratios. In theory, higher funding ratios could also be achieved through increasing the level of investment earnings. However, higher levels of investment earnings can generally be achieved only by taking on higher levels of risk, which may mean both increasing year-to-year volatility and increasing the likelihood of failure to meet long-term investment objectives.

Both the funding and investment policies can be thought of as "adding assets to the plan." The remaining "lever" available towards improving the fiscal condition is the benefits policy. Over the long term, the systems' fiscal condition could be improved by providing lower benefits.

In the U.S., three legal rules govern the activities of pension plan administrators, who have the legal status of fiduciaries. The three rules are the exclusive purpose rule, the prudent man rule and the diversification rule. The first obligates fiduciaries to act in the best interest of the plan's participants and beneficiaries. The second rule requires the fiduciary to act with the same care, skill, prudence and diligence that a prudent person would take. The third rule requires the fiduciary to diversify the plan's investment by type, geographic area, maturity and industrial classification to minimize the risk of losses.

Experience in recent years, with the sharp drop in the stock market, suggests that the prudent man rule might need to be interpreted to require that underfunded plans more closely match asset and liability durations and that asset characteristics should be more closely aligned with the fixed dollar nature of pension liabilities.

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<sup>6</sup> Alaska Division of Retirement and Benefits: Alaska Legislative Report, "Response to Questions from House State Affairs on the Public Employees' Retirement Systems and the Teachers' Retirement System." February 2005. Available On-Line: <http://www.state.ak.us/local/akpages/ADMIN/drb/home.htm>

## Defined Contribution Plan

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A defined contribution retirement plan provides members with individual retirement accounts. Usually both members and employers make annual contributions. Many programs allow members to perform their own asset allocations to funds selected in advance by the program administrator.<sup>7</sup>

### Advantages for Workers

**Portability.** The clearest advantage for workers of the defined contribution plan is portability. The funds would be paid directly into each individual worker's own account and immediately become the worker's direct property. When a worker leaves state employment for another job, he or she can then take this individual retirement account with them. This account would include all past employer and employee contribution plus full market investment returns. Consequently, the defined contribution plan provides for full portability.

The current defined benefit plan, by contrast, has no real portability. When a worker leaves, he or she can take with them only their own past contributions plus fixed interest. They must give up the employer contributions for all of their years of work, all investment returns on those contributions, and the full market investment returns on their own contribution in excess of the fixed interest they can withdraw. This lack of portability is highly damaging to shorter term and younger workers.<sup>8</sup> The system is skewed to favor the longer-term workers.

The defined contribution plan solves these problems with full and immediate portability. Under this plan, 100% of workers would get retirement benefits for the years they worked for state or local government. And they would take those benefits with them wherever they go. This would be highly beneficial for younger and shorter-term employees, which probably constitutes the majority of people who work for state or local government.

**Vesting.** The defined contribution plan also eliminates any vesting requirement. The funds paid into the worker's account immediately become the property of the worker and remain fully available to pay future retirement benefits. This includes the employer as well as employee contributions and all investment returns on those contributions. Under the current defined benefit system, by contrast, the 5-year vesting requirement eliminates any real benefit for workers who stay less than 5 years.

The defined contribution plan is consequently highly beneficial for these shortest term workers. A vesting requirement in a defined benefit plan makes sense to eliminate small and relatively inconsequential benefit payments to numerous short-term employees, and the burden of keeping

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<sup>7</sup> The Federal Reserve Bank of St. Louis, "The Role of Self-Regulation and Voluntary Compliance Incentives in the Design of Pension System." William Poole, September 25, 2003. Federal Reserve Bank of St. Louis, Available On-Line [http://www.stlouisfed.com/news/speeches/2003/9\\_25\\_03.html](http://www.stlouisfed.com/news/speeches/2003/9_25_03.html).

<sup>8</sup> Philadelphia Business Journal, In Depth: Human Resources, "Gen Y in search of flexibility." September 22, 2003. Available On-Line <http://philadelphia.bizjournal.com/philadelphia/stories/2003/09/22/focus1.html>

track of the financing and payment of such benefits. But in a defined contribution plan, the government simply pays a proportion of the worker's salary into the worker's own account and leaves it to the worker after that. Eliminating any vesting requirement here would allow all workers to receive retirement contributions for the years they worked for the government employer, without any significant administrative burden on the system.

**Fair Benefits.** Under traditional defined benefit plans, benefits are skewed to favor the longer term and oldest workers and disadvantage the younger and shorter-term workers. First, of course, the vesting requirements eliminate benefits for those working less than 5 years, with the funds devoted to benefits for those working longer term. Secondly, the benefits are a percentage of final salary, which tends to be much higher for those who have worked the longest, and for older workers. Thirdly, granting the same percentage of final salary for each year worked, does not give the full value to younger workers of the contributions made for them. The contributions paid into the system during years of employment, including the worker's own contributions, continue to earn investment returns for many years after the worker leaves government employment, but the worker will get nothing for all the years of investment returns on his contributions after he leaves employment. These returns will be redistributed to finance the higher benefits of older and longer-term workers.

Inflation makes the problem even worse. Salary increases over the years usually incorporate compensation for inflation. When benefits are calculated based on salary, they will incorporate the compensation for inflation included in the salary increases over the worker's career. But for younger, shorter-term workers, this inflation compensation stops when they leave government employment, as the salary used for their benefit calculations is fixed at that age. The value of the worker's benefits will consequently be depreciated by such inflation as well. By contrast, the longer term and older workers will be fully compensated for inflation through their salary increases over working years.

None of these distortions occur in the defined contribution plan. The contributions to the worker's account immediately vest as the property of the worker, so the worker gets to keep those contributions in any event. Each worker also gets the full market investment returns on the contributions for every year thereafter, giving him the full value of those contributions, rather than redistributing some to others based on a calculated percentage of final salary. Finally, those investment returns over the years will also include an inflation compensation component; again giving the worker compensation for inflation for each year after the contribution is made.

Consequently, the defined contribution plan gives fair, undistorted benefits to each and every worker. Those who work longer get proportionally higher benefits to the extent they worked longer. But they do not get disproportionately higher benefits, skewed to favor them over other workers, and effectively redistributing funds from these workers to them.

**Personal Control.** In the defined contribution plan, the retirement funds for each worker are under the direct ownership of the worker in his or her own individual account. Workers can pick the private investments that will best serve them in the private competitive market. They consequently no longer have to worry about adverse changes in their retirement plan or

politicians failing to make good on their promises, at least for the years already worked, as the contributions for those years already belong to them in full.

**Better Benefits.** Younger and shorter term workers who work roughly 20 years or less in government employment would generally get much better benefits from the defined contribution plan, because of all the factors discussed above. Even the long-term workers can achieve benefits from the defined contribution plan.

Take the example of a worker who earns \$30,000 per year over his career after inflation. Assume the same 6% of salary is paid into the defined contribution plan each year as paid currently into the defined benefit plan. After 40 years of work, this worker would retire with a fund of about \$250,000 in today's dollars. Assuming retirement at the normal Social Security retirement age, that fund would finance an annuity paying the worker almost \$35,000 per year each year for the rest of his life, or about 116% of preretirement income. The defined benefit plan would pay the worker 80% of final salary, or \$24,000 per year. So the defined contribution plan would actually pay the worker about 45% more.<sup>9</sup>

#### *Advantage for Taxpayers*

**No Investment Risk.** The most obvious advantage for taxpayers of the defined contribution plan is that it eliminates investment risk for them.<sup>10</sup> With the government managing a common pool of investment funds under a defined benefit plan the taxpayers bear the complete risk of poor investment performance. If poor performance leaves the pool unable to pay the promised defined benefits, then the taxpayers will have to make up the difference.

Under the defined contribution plan, however, the taxpayers simply make a specific contribution to the accounts of the workers each month. The government then is not liable for investment performance.

**No Political Risk.** Defined contribution plans greatly reduce another set of risks that are usually overlooked- political risks. With the government specifying benefits far in the future, as under a defined benefit plan there is always a strong danger of political giveaways by shortsighted politicians. These politicians can promise higher retirement benefits, while leaving future officials and taxpayers to pay for them. Under a defined contribution plan, where the government does not specify future benefits but only makes regular investment contributions, this risk is eliminated.

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<sup>9</sup> Americans for Tax Reform: Policy Briefs: "Pension Liberation for Arizona." Peter J. Ferrara. Available On-Line: [http://www.atr.org/policybriefs/010799pb\\_az.html](http://www.atr.org/policybriefs/010799pb_az.html)

<sup>10</sup> Cascade Policy Institute, "Pension liberation for Oregon. A proposal to reform PERS." Peter J. Ferrara, J.D., May 2001. (See pages 11-17). Available On-Line: [http://www.cascadepolicy.org/pdf/fiscal/1\\_117.pdf](http://www.cascadepolicy.org/pdf/fiscal/1_117.pdf)

**Also see:** American Legislative Exchange Council "Pension Liberation: A proactive Solution for the Nation's Public Pensions Systems." Peter J. Ferrara, August 1997. Available On-Line: <http://www.heartland.org/pdf/22664b.pdf>

Moreover, a large government investment pool, as under a defined benefit plan, is always subject to the danger of political interference that could raise costs. Political favoritism may influence investment policy, prohibiting some investments and forcing the fund into others. By taking the focus off of simply maximizing investment returns, such political favoritism will reduce investment returns and increase the cost of funding the specified defined benefits.

Politicians may seek to raid the large, tempting investment pool in other ways as well. They may seek to draw supposedly excess funds out of the pool in one way or another, perhaps by replacing an overfunded plan with a new one, or reducing the government's contributions. Or they may try to use the funds for short-term added benefits. Politicians and bureaucrats in other states have been known to siphon funds out of these plans improperly or illegally. These actions would again raise costs for taxpayers.

Government management of the funds also creates the risk of mishandling the funds by bureaucrats who lack the incentives, competitive pressures, and expertise of private investment managers. Attempts to insulate the funds from bureaucratic control by contracting out to private investment managers may not be entirely successful.

Even where there has been a good record of avoiding these abuses in the past, the danger is always present. However, none of these risks arising from a large government investment pool exist in a defined contribution plan, where the government does not maintain such a pool.

**No Unfunded Liability.** The defined contribution plan eliminates the danger of any unfunded liability, from any source, that must be covered by taxpayers. Under a defined benefit plan, the taxpayers, regardless of the cause of the shortfall, must cover any shortfall in the common investment pool that leaves the pool unable to pay the promised benefits, creating an unfunded liability. In the defined contribution plan, where the government does not maintain a common investment pool but only pays a specified amount to each worker's individual account each month, with these funds financing each worker's future benefits, there is no possibility of an unfunded liability that taxpayers would have to cover.

**Greater Control Over Costs.** The defined contribution plan provides the government and taxpayers greater control over costs. Costs under a defined benefit plan, where the government has pledged to provide a certain benefit amount regardless of cost, can vary greatly, depending on a wide range of factors outside the government's control. Retirees can live longer, greatly increasing costs. More workers may stay with the government employer long term, increasing costs. Interest rates or the stock market may decline, requiring increased contributions to make up the difference.

With the defined contribution plan, by contrast, the government is responsible only for a specified contribution each year. This contribution is completely dependent only on what the government agrees with workers or their union to pay. This means in turn greater certainty and predictability in budgeting. There is no possibility that taxpayers will be surprised with a large, unexpected unfunded liability that will require increased taxes or other funding measures.

**Reduced Costs.** A defined contribution plan will also significantly reduce costs. Defined benefit plans have large administrative costs for the government employer. The government must maintain and pay for the management of the large common pool of assets. It must also administer the benefits, determining eligibility and making payments.

With a defined contribution plan, by contrast, administrative costs for the government employer are negligible. The government simply pays an amount into each employee's own account as part of payroll processing. The worker takes over administration of the account after that.

*What are the criticisms of a defined contribution plan?*

### **Unsophisticated Workers**

One of the major criticisms of defined contribution plans is that most workers are too unsophisticated about investing to handle the responsibility of directing their own retirement investments. This underestimates the capabilities of working people. The proposed plan is carefully structured to avoid this problem. Under the plan, workers would simply pick from a wide range of sophisticated, highly reliable investments.

### **Investment Risk**

Probably the main criticism of defined contribution plans is that they shift investment risk from the employer to the worker. In a defined benefit plan, the worker receives the specified benefits regardless of investment performance, so the worker bears no investment risk. In a defined contribution plan, the worker's benefits depend entirely on the investment performance of his retirement account, so the worker bears full investment risk. Poor investment performance leads directly to lower benefits.

What is not widely recognized is that while defined contribution plans leave workers subject to investment risk, defined benefit plans without inflation adjustments leave workers subject to inflation risk. As inflation rises, the specified benefit in an unadjusted defined benefit plan is worth less and less. Under a defined contribution plan, by contrast, the worker's investments would rise along with inflation over the long run, providing a real, above inflation, market rate of return. This would tend to keep prospective long run benefits rising with inflation.

Also not sufficiently appreciated is that workers can fully handle the investment risk posed by defined contribution plans, for several reasons. First, retirement investments are very long term. The worker is investing not only for his entire career, but, indeed, for his entire life, as the remaining retirement fund will continue to be invested to support benefits throughout retirement. With such a long term investment horizon, perhaps 60 years or more, workers can weather many ups and downs in investment performance, with the average return on a diversified portfolio very likely over the long run to close in on the average long term market return.

Secondly, workers can easily invest in simple, widely available, highly diversified pools of stocks, bonds and other investments, through mutual funds and other vehicles. Such diversified pools will track the general market investment returns discussed above over the long run. Indeed,

with a sufficiently broad based investment pool, the worker would basically own a piece of the economy as a whole. If the entire economy collapses, state and local governments will not be able to support defined benefit plan promises either.

Thirdly, with professional investment managers handling the specific investments for workers, investment risk can be minimized in a sophisticated and reliable manner through diversification and other market strategies.

Workers, indeed, may be able to handle this investment risk better than state and local governments. For they can do so without all of the political risks discussed above.

### **Transition Issues**

Another argument is that the transition to a defined contribution plan will be costly because the government will have to pay the workers leaving the defined benefit plan their share of accumulated funds to take to the new plan. But if the defined benefit plan is fully funded, then it will have the money to pay the departing workers saved in its common trust fund. If the defined benefit plan is not fully funded, as is the case with Alaska's defined benefit plan, then it needs to be in any event, and the government will have to bear that cost anyway.

## Senate Bill 141

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Alaska's retirement systems currently suffer from a \$5 Billion deficit, meaning that if all liabilities came due today we would not be able to pay for them. A combination of factors contributed to the problem: a three-year bear market, declining interest rates, failure to realize negative returns, legislation that increased benefits, artificially low contribution rates, understated system liabilities, and rising health care costs. Although this may be characterized as a "perfect storm" it is a perfect storm that may reoccur in the future. Many of these factors are beyond our control, which makes it difficult to predict and manage future costs. We cannot create a law that can fix the significantly underfunded status of the defined benefit plans. What we can do is implement management changes to the existing system and structural changes for new employees in order to move toward greater cost control and a fully funded retirement system. Movement to a defined contribution plan will remove the volatility that currently confronts employers. This will provide the employers with stable and predictable contribution costs going forward for new members.

SB 141 contains the tools to make those changes. The bill also has a fiscal patch. The fiscal note for the legislation includes a \$108 million deposit into the retirement trust for every participating employer. The \$108 million will address the 5% increase in PERS/TRS costs for FY 2006 and temporarily relieve the financial burden on political subdivisions and school districts.

### Management changes to the existing system

The proposed bill streamlines 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. The new board will be more experienced with financial and pension matters than the current boards require, and will be charged with greater emphasis of its fiduciary role.

The ARMB will examine assets and liabilities in tandem in order to identify and address potential system problems in a timely fashion. Under the current structure the assets are housed in the Department of Revenue and invested by the ASPIB, while the liabilities are recorded in the Department of Administration. Accordingly, annual reports by each separate entity do not adequately put system assets and system liabilities side-by-side for a thorough analysis of the fiscal health of the entire system. SB 141 contains provisions that require greater coordination and communication between these two entities. The ARMB will have the capacity and the duty of compiling thorough system analyses, coordinating with the retirement system administrator to take into account all the system assets, liabilities and potential changes.

The ARMB will consist of nine trustees: the Commissioner of Revenue, the Commissioner of Administration, and seven appointed trustees with professional credentials or recognized competence in investment management, finance, banking, economics, accounting, pension administration or actuarial analysis. Of these seven appointed trustees, three will be members of the public, one will be a finance officer for a political subdivision in TRS, one will be a finance

officer for a political subdivision in PERS, one will be a member of PERS, and one will be a member of TRS.

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. 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. (The normal cost rate is the actuarially determined amount needed to pay for benefits expected to be earned by active members during the fiscal year.)

SB 141 also 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.

#### **Structural changes for a new system that will eliminate volatility**

The objective of SB 141 is to improve the long-term health and security of Alaska's retirement system. This bill starts with the research and conclusions in the Tier Redesign Initiative completed by the Alaska Division of Retirement and Benefits. This study is the result of the work of a taskforce formed at the request of the Commissioner of Administration in September of 2003 to study and evaluate new Tier proposals. The Tier Sub-Committee was comprised of two PERS Board members and two TRS Board members. Based on the findings of the task force, including support from employer groups, this legislation offers a new comprehensive retirement system based on a fundamental change from a defined benefit to a defined contribution plan. This will bring predictability to employer contributions and financial stability to the system while at the same time maintaining the attractiveness of public sector employment.

The bill establishes a defined contribution (DC) retirement plan for new employees that addresses the changing nature of today's workforce. National trends show that the overall workforce is aging while at the same time the likelihood of workers remaining with a single employer over their entire career is declining.<sup>11</sup> The DC plan presents the ability to accrue a meaningful benefit early in a career. In the DC plan, employees will have a retirement plan that is portable from job to job. Employees will have the ability to direct the investment of their retirement money. There will be contribution equity among employees and the contribution amount calculation is clear and easy to understand. This plan will provide the opportunity for non-career employees to realize greater retirement income and for all employees to obtain higher retirement benefits based on the financial experience of their account.<sup>12</sup>

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<sup>11</sup> American Water Works Association (AWWA), E-MainStream, "Resources for recruiting employees." October 1999. Available On-Line: <http://www.awwa.org/communications/mainstream/archives/1999/October/msfocus1.cfm>

<sup>12</sup> Watson Wyatt-Insider, "The Changing Nature of Defined Benefits Plans" February 2005. Watson Wyatt-Insider, "Pensions in Crisis" September 2003. Available On-Line <http://www.watsonwyatt.com>

SB 141 also continues the tradition of offering insurability for all employees by providing access to major medical insurance. The bill addresses rising health care costs by both decreasing employer costs associated with providing medical coverage and providing an additional savings mechanism to assist retirees with their medical expenses. This mechanism is a Health Reimbursement Arrangement (HRA). An HRA is solely employer funded and reimburses retirees for qualified medical expenses up to a maximum dollar amount for a defined coverage period. The HRA is a new benefit, funded through the working lifetime of the employee, that provides the retiree the benefit of having money available for medical expenses that is nontaxable and interest bearing.

### Defined Contribution (DC) Retirement Plan Elements

#### **Individual Accounts**

Each member will have an individual account into which both the employee and the employer will contribute a percentage of the employee's compensation, pre-tax. The rate of employee contribution to this account is a mandatory 8 percent with a mandatory employer contribution of 3.5 percent.

An employee may elect to contribute additional pre-tax earnings not to exceed the limits established by the Internal Revenue Code.

All members of the DC plan immediately vest in their own contributions and related earnings. Members gradually vest 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.

Employees can take their individual account with them when they leave employment and can "roll" in other qualified funds when they are hired. Employees will direct the investment of the funds in their individual account based on a range of investment options provided by the ARMB.

#### **Medical Benefits**

Employees will be eligible for major medical insurance and will have access to a Health Reimbursement Arrangement if the employee retires directly from the plan. An employee is eligible for retirement from the plan if: (1) the employee is at least 65 with 10 years of service; or (2) is a peace officer/firefighter with 25 years of service; or (3) has 30 years of service; and (4) has been an active member of the plan for at least a year prior to retirement.

Employees will have access to major medical insurance coverage. "Access" means that an eligible person may not be denied insurance coverage except for failure to pay the required premium. Retirees with 25 or 30 years of service, but who are less than Medicare age eligible (currently 65), must pay the full premium to receive coverage. There is one premium per retiree,

and different premiums will be calculated for single retirees versus retirees with a spouse and/or dependent children.

The defined contribution system contains shared health insurance premium payment provisions. The employer will contribute 3.75 percent of an employee's compensation to the group health insurance trust fund.

Once the retiree becomes Medicare eligible, the monthly medical premium is shared with the employer and coordinated with Medicare. The retiree's share depends on years of service:

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

The employer will contribute 1% of the average annual employer group compensation, to a maximum of \$500, to an HRA trust fund per member per year. The contribution is recorded in both an individual employee record of account and an employer record. Interest (the rate to be determined by the ARMB) on this account is posted to individual records annually. Contributions and interest accumulate over the working lifetime of employees.

The HRA Trust is an employer owned fund. Individual accounts of record are maintained for five years after 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. Employers may use surplus funds held in the trust to credit individual employee records with the annual contributions owed by the employer.

Members who retire directly from the system (as well as their spouse and dependent children) are eligible for withdrawals from the HRA. The member's spouse and children remain eligible even if the retiree dies. Dependent children remain eligible even if the member and spouse die.

The HRA Trust can be used for reimbursements for qualified medical expenses under IRC 213(d), including medical premium payments. The total reimbursement is limited to the account balance recorded for the individual. There are no set limits for appropriate reimbursement other than exhaustion of the account balance.

Contributions by the employer are non-taxable when made and are non-taxable upon distribution. There are no IRS limits on reimbursement. Unused funds will rollover year-to-year, including annual interest.

**Changes to the Defined Benefits Plans**

SB 141 addresses contribution rates in the existing defined benefit plan by changing contribution calculations. The employee contribution rate is changed to the greater of: (1) the amount set in statute prior to enactment of this bill; or (2) one-half of the normal cost rate as determined by the ARMB. 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 ARMB.

This bill also addresses the reinstatement of indebtedness provisions. It repeals the window for reinstatement effective June 30, 2010. This relieves the "off books" liability of hundreds of millions of dollars represented by more than 10,000 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.

Finally, this bill addresses the cost of living adjustment (COLA) that is given only to retirees at least 65 years old, or persons receiving a disability benefit, who reside in Alaska. The 10% COLA is removed from the statutes.

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**PUBLIC EMPLOYEES' AND TEACHERS' RETIREMENT SYSTEMS  
SUMMARY OF MAJOR BENEFIT CHANGES AND COST COMPARISON**

	<b>Current PERS Tier I/II &amp; TRS Tier 1 DB Plan</b>	<b>Current PERS Tier II/III &amp; TRS Tier II DB Plan</b>	<b>Senate Bill 141 DC Plan</b>
<b>PERS Employee Contribution Rate</b>	6.75% other 7.5% Police/Fire 9.6% school district	6.75% or 7.5 Police/Fire 7.5% Police/Fire 9.6% school district	8% all members voluntary % up to IRS limits
<b>TRS Employee Contribution Rate</b>	8.65%	8.65%	8% all members
<b>Vesting</b>	5 years PERS 8 year TRS	5 years PERS 8 year TRS	Immediate for employee contributions Fully vested in employer contributions after 5 years.
<b>Retirement Age</b>	55 normal - 50 early 30 years "all others" 20 Police/Fire 20 Teachers	60 normal - 55 early 30 years "all others" 20 Police/Fire 20 Teachers	Any age
<b>PERS and TRS Benefit Formula</b>	2% up to 2.5% multiplier per year DB multiplier x years of service x high 3 years avg salary	2% up to 2.5% multiplier per year DB multiplier x years of service x high 3 (TRS) or 5 (PERS) years avg salary	11.5% per year to DC account + investment earnings. HRA account accumulated over working lifetime
<b>Medical</b>	Do not have to retire directly from system to be service or age eligible for medical coverage.  Medical plan premium paid by retirement system for all retirees and dependents.  <i>Except</i> , Tier II retirees and survivors pay full premium under age 60.	Do not have to retire directly from 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 premium for access to coverage.	Must retire directly from system with minimum of 10 years of service for medical coverage and access to HRA.  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.  Reimbursed for qualified medical expenses from HRA.
<b>Normal Cost Rate – PERS</b>	13.24% - Current Normal Cost Rate	13.24% - Current Normal Cost Rate	8.25% - reduces normal cost rate by 38%
<i>unfunded liability portion</i>	12.39%- Past Service Rate	12.39%- Past Service Rate	N/A
<b>Normal Cost Rate – TRS</b>	14.28% - Current Normal Cost Rate	14.28% - Current Normal Cost Rate	8.25% - reduces normal cost rate by 42%
<i>unfunded liability portion</i>	24.57% Past Service Rate	24.57% Past Service Rate	N/A
<b>Future exposure and volatility in investment earnings and increasing medical costs.</b>	Employer bears all the risk.	Employer bears all the risk.	Employer risk is minimal: medical inflation with a capped percentage and shared with employee.  Employee bears investment risk.

**Defined Contribution (DC) Plan Elements**

- ◆ **Required Contributions**
  - Employee: 8.0% of compensation, deducted pre-tax by employer.
  - Employer: 3.5% of employee compensation.
  - Total individual account contributions: 11.5%.
  
- ◆ **Optional Contributions**
  - A member may elect to contribute additional earnings not to exceed the limits established by the Internal Revenue Code.
  
- ◆ **Vesting**
  - 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.
  
- ◆ **Rollovers**
  - Employees can take their individual account with them when they leave employment.
  - Employees can "roll" in other qualified funds when they are hired.
  
- ◆ **Investment of Accounts**
  - The Alaska Retirement Management Board will provide a range of investment options.
  - Participants direct the investment of their funds.
  
- ◆ **Distribution of Accounts**
  - 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**
  - 3.75% 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.

**◆ Retirement**

- Retirement from the DC plan is required to obtain *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.
- A member is eligible to retire if they have reached:
  - ⇒ normal retirement age of 65 and has minimum of 10 years of service; or
  - ⇒ has 25 years of service for peace officer/firefighter; or
  - ⇒ has 30 years of service for all others; and
  - ⇒ has been an active member for at least a year prior to retirement.

**◆ Major Medical Insurance**

- A member who meets the retirement provisions is eligible to enroll in the retiree major medical insurance plan.
  - ⇒ Insurance coverage includes the spouse and dependent children of the retiree.
- The surviving spouse of a retiree who was enrolled in the retiree major medical insurance plan is also eligible to enroll.
  - ⇒ Insurance coverage includes the dependent children of 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)**

- **Required Contributions**
  - ⇒ Employer contributes an annual amount per employee to the health insurance trust fund.
  - ⇒ Calculation is 1% of average annual employer group compensation, to a maximum of \$500.
  - ⇒ Contribution is recorded in both an individual employee record of account and an employer record.
  - ⇒ Interest is posted to individual records annually, the rate determined by the ARMB.
  - ⇒ Contributions and interest accumulate over working lifetime of employees.

## SB 141 Bullets

- **Employer Fund**
  - ⇒ The HRA Trust is an employer owned fund.
  - ⇒ 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.
  - ⇒ Employers may use surplus funds held in the trust to credit individual employee records with the annual contributions owed by the employer.
- **Reimbursements**
  - ⇒ Who is eligible?
    - + Members who retire directly from the system plus their spouse and dependent children.
    - + Spouse and dependent children are still eligible if retiree dies.
    - + Dependent children are still eligible if both retiree and spouse die.
  - ⇒ Reimbursements made for qualified medical expenses under IRC 213(d), including medical premium payments.
  - ⇒ Total reimbursements are limited to an individual's recorded account.
  - ⇒ No set limits other than exhaustion of account balance.

### Changes to Existing Retirement System

- ◆ **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)
    - ⇒ 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 in one or more 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.

## SB 141 Bullets

- ◆ **Authority and Responsibility of ARM Board**
  - Manage the assets of the defined benefits trust fund to meet pension liabilities.
  - Annual actuarial valuation of system plans, coordinating with the retirement system administrator.
  - Analysis of actuarial assumptions experience:
    - ⇒ 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 to the extent that the normal cost rate increases so that 50 percent would be higher than the current rates set in statute.
    - ⇒ Interest rates credited to individual employee accounts.
    - ⇒ Interest rates credited to employee HRA account records.
  - Provide a range of investment options for all employee-directed accounts.
  
- ◆ **Other Duties of the former PERS and TRS Boards Transferred**
  - To the Commissioner of Administration:
    - ⇒ Adoption of regulations governing the retirement systems.
    - ⇒ Requests for a waiver of any adjustment made to the retirement system accounts due to a change or error in contributions or benefit computations.
  - To the Office of Administrative Hearings:
    - ⇒ Adjudication of appeals related to decisions of the retirement system administrator.
    - ⇒ Adjudication of appeals related to the denial of a waiver for repayment of overpayments.
  
- ◆ **Employee and Employer Contributions to the Defined Benefits Plans**
  - 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.
  
- ◆ **Repeals**
  - Reinstatement of Indebtedness (refund) (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 10,000 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.

## SB 141 Bullets

- ⇒ In medical premiums alone, this amount stands at greater than \$107 million for one year in today's dollars.
- Cost of Living Adjustment (AS 14.25.142 and AS 39.35.480)
  - ⇒ This 10% adjustment is currently given to retirees at least 65 years old, or persons receiving a disability benefit, who reside in Alaska. (The repeal of AS 14.25.142 was inadvertently omitted from the bill.)
- ◆ Fiscal Note
  - Appropriates \$108 million directly to the retirement trust fund on behalf of all participating employers. This amount represents the 5% increase in PERS/TRS employer costs from FY2005 to FY2006.
- ◆ Intended Changes to SB 141
  - Establish a statutory requirement for an actuarial analysis prior to passage of any legislation affecting retirement benefits.
  - Define in statute the meaning of "the financial condition of the retirement fund" for the ad-hoc post retirement pension adjustment (applicable only to persons who were receiving a retirement or disability benefit prior to the 1986 amendments). (See editor's notes under AS 39.35.475)
  - Provide an option for unvested Tier III members of PERS and unvested Tier II members of TRS to convert to the defined contribution retirement plan if their employer allows it. The conversion would be matched dollar for dollar by the employer. However, the employer match would have to be new money to avoid eroding the funding status of the defined benefits plans.
  - Change the credited service requirement to 120 days for legislative employees under AS 39.35.385(f) from 60 days for persons first hired before May 30, 1987 and from 80 days for persons first hired after May 30, 1987.
  - Find a workable implementation date or a workable solution to the July 1, 2005 effective date. The timeline may be too short for a full system conversion.

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 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>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>	<u>All Appointed by the Governor</u> <ul style="list-style-type: none"> <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
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<b>Terms</b>	Pleasure of ASPIB	Pleasure of the Governor	Pleasure of the Governor	Pleasure of the ARMB

Board	Alaska State Pension Investment Board (ASPIB)	Alaska Teachers' Retirement Board	Public Employees' Retirement Board	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>

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 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>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>	<u>All Appointed by the Governor</u> <ul style="list-style-type: none"> <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 staggered</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>
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# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

April 2, 2005

**SUBJECT:** Need for a severability clause in CSSB 141(FIN)  
(Work Order No. 24-LS0637AF)

**TO:** Senator Lyda Green  
Attn: Traci Carpenter

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

You have asked whether a severability clause is needed in CSSB 141(FIN). In my opinion the answer is no. There is a general statutory severability provision at AS 01.10.030:

Severability. Any law heretofore or hereafter enacted by the Alaska legislature which lacks a severability clause shall be construed as though it contained the clause in the following language: "If any provision of this Act, or the application thereof to any person or circumstance is held invalid, the remainder of this Act and the application to other persons or circumstances shall not be affected thereby."

Adding a severability section to this bill would not add anything to the existing statutory presumption in fact a severability section would in turn cite to AS 01.10.030.

The courts will be looking at whether the unconstitutional sections can be separated from the constitutional sections without destroying the legislative purpose of the remaining sections. The ultimate factor determining whether an invalid provision of a bill is severable, or whether the entire bill fails due to the invalidity of single provision, is the intent of the legislature. If it is clear that the legislature intended a bill or a portion of a bill to take effect as passed by the legislature or not at all, then that bill or provision would be found to be nonseverable. *See, Lynden Transport, Inc. v. State*, 532 P.2d 700 (Alaska 1975). Having a severability clause will not make any difference to this analysis due the provisions of AS 01.10.030, however we can add one if you like.

If I may be of further assistance, please advise.

BRC:lmb  
05-102.lmb

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If I may be of further assistance, please advise.

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05-102.lmb

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## MEMORANDUM

April 4, 2005

**SUBJECT:** CSSB 141(FIN) version Y (Work Order No. 24-LS0637Y)

**TO:** Senator Lyda Green  
Attn: Traci Carpenter

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

Enclosed is CSSB 141(FIN) version Y which incorporates the amendments provided on April 3, 2005. Please note the following changes I made or issues raised in this version of the bill.

**14.25.143(a)** - In regard to the issue of the ad-hoc post retirement pension adjustments (Ad Hoc PRPA) in SFIN amendment #11, although the amendment only provided an amendment in regard to the TRS Ad Hoc PRPA in effect between 1980 - 1988, the TRS Ad Hoc PRPA continued to exist up until 1990. I added an additional section to provide the same provisions to define "financial condition" as used in the amendment. Please see sections 5 and 6 in HB 238 (24-LS0761N), which Traci said was the model for this amendment.

**14.25.550** - In SFIN amendment #8 you wanted AS 39.35.131 added to the new tiers, so although not listed, I added the TRS counterpart to that section (AS 14.25.040(d)) as AS 14.25.550.

**14.25.560 and 14.25.570** - (Added by conceptual amendment SFIN #8). These two sections concern National Education Association and Special Education Service Agency employees. As Traci and I discussed, I omitted the references to retroactive indebtedness in these new sections that appear in the defined benefit plan counterparts (AS 14.25.045 and AS 14.25.047).

**39.35.967** - (Added by conceptual amendment SFIN #8). This is a counterpart section for the new tier of PERS for the administrative director of courts, (AS 39.35.158 in earlier tiers.) I deleted references to "credited service". I remain concerned in regard to the concept of years of service which has applicability to the medical benefits in the defined contribution plan. In this case, the administrator would withdraw from the judicial retirement system, and in joining the PERS defined contribution plan, would start with zero years of membership service as far as medical benefits, although the member contribution account could be rolled into the defined contribution individual account.

If I may be of further assistance, please advise.

BRC:jad  
05-181.jad

Enclosure

UNIVERSITY OF ALASKA  
Statewide Office of Human Resources

Comment of Fiscal Impact of Proposed University Amendments to the Optional  
Retirement Program

April 5, 2005

With passage of this bill, as amended at the request of the University, it is anticipated that avoided cost up to \$200,000 can be achieved in FY06.

In subsequent years, subject to consultation and decision by the University's Board of Regents to modify the plan with added discretion provided by the bill, it is anticipated the cost avoidance will reach \$1 million per year, for cumulative cost avoidance nearing \$10 million over the next several years.

Respectfully Submitted by:



Jim Johnson  
Vice President for Faculty and Staff Relations

FAX TO : 907-465-3805