

2/24/11
DEPARTMENT OF
ADMINISTRATION:
FINANCIAL
UPDATE ON
PUBLIC EMPLOYEE
RETIREMENT
SYSTEM AND
TEACHERS
RETIREMENT
SYSTEM

<TARGET><BILL></BILL><SUBJECT>2-24-11 DEPARTMENT OF
ADMINISTRATION FINANCIAL UPDATE ON PUBLIC EMPLOYEE
RETIREMENT SYSTEM AND TEACHERS RETIREMENT
SYSTEM</SUBJECT><COMM>SFIN27</COMM></TARGET>

ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE

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AGENDA

Thursday, February 24, 2011

9:00 AM

**Financial Update of Public Employee Retirement System
and Teachers Retirement System by the Department of
Administration**

Mike Barnhill, Deputy Commissioner, Dept of Administration

Gary Bader, Chief Investment Officer, Dept of Revenue

PERS ACTIVE EMPLOYERS

Compiled on December 28, 2010

by Mindy Voigt, Information Systems Liaison

FUND	EMPLOYER NUMBER	EMPLOYER NAME
P	101	STATE OF ALASKA
P	102	SOUTHWEST REGION SD
P	103	ANNETTE ISLAND SD
P	104	BERING STRAIT SD
P	105	CHATHAM SD
P	106	ALASKA MUNICIPAL LEAGUE
P	107	CITY OF VALDEZ
P	108	JUNEAU BOROUGH SD
P	109	MATANUSKA-SUSITNA BOROUGH
P	110	MATANUSKA-SUSITNA BOROUGH SD
P	111	ANCHORAGE SD
P	112	COPPER RIVER SD
P	113	UNIVERSITY OF ALASKA
P	115	CITY OF KENAI
P	116	FAIRBANKS NORTH STAR BOROUGH
P	117	FAIRBANKS NORTH STAR BOROUGH SD
P	118	DENALI BOROUGH SD
P	120	CITY AND BOROUGH OF SITKA
P	121	CHUGACH SD
P	122	KETCHIKAN GATEWAY BOROUGH
P	123	CITY OF SOLDOTNA
P	124	IDITAROD AREA SD
P	125	KUSPUK SD
P	126	CITY AND BOROUGH OF JUNEAU
P	128	CITY OF KODIAK
P	129	CITY OF FAIRBANKS
P	131	CITY OF WASILLA
P	133	SITKA BOROUGH SD
P	134	CITY OF PALMER
P	135	CITY AND BOROUGH OF WRANGELL
P	136	CITY OF BETHEL
P	137	VALDEZ CITY SD
P	138	HOONAH CITY SD
P	139	CITY OF NOME
P	140	CITY OF KOTZEBUE
P	141	GALENA CITY SD
P	143	CITY OF PETERSBURG
P	144	BRISTOL BAY BOROUGH
P	145	NORTH SLOPE BOROUGH
P	146	WRANGELL PUBLIC SD
P	148	CITY OF CORDOVA

PERS ACTIVE EMPLOYERS

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FUND	EMPLOYER NUMBER	EMPLOYER NAME
P	149	NOME CITY SD
P	151	CITY OF KING COVE
P	152	ALASKA HOUSING FINANCE CORPORATION
P	153	LOWER YUKON SD
P	154	NORTHWEST ARCTIC BOROUGH SD
P	155	SOUTHEAST ISLAND SD
P	156	PRIBILOF SD
P	157	LOWER KUSKOKWIM SD
P	158	KODIAK ISLAND BOROUGH SD
P	159	YUKON FLATS SD
P	160	YUKON / KOYUKUK SD
P	161	NORTH SLOPE BOROUGH SD
P	162	ALEUTIAN REGION SD
P	163	CORDOVA COMMUNITY MEDICAL CENTER
P	164	LAKE AND PENINSULA BOROUGH SD
P	165	SITKA COMMUNITY HOSPITAL
P	166	TANANA SD
P	167	SOUTHEAST REGIONAL RESOURCE CENTER
P	168	HYDABURG CITY SD
P	169	CITY OF TANANA
P	170	NORTH PACIFIC FISHERY MGMT COUNCIL
P	171	CITY OF BARROW
P	172	CITY OF SAINT PAUL
P	173	MUNICIPALITY OF ANCHORAGE
P	174	KODIAK ISLAND BOROUGH
P	175	NOME JOINT UTILITY SYSTEM
P	176	CITY OF SAND POINT
P	177	KETCHIKAN GATEWAY BOROUGH SD
P	178	CITY OF DILLINGHAM
P	179	CITY OF UNALASKA
P	180	KENAI PENINSULA BOROUGH
P	181	CITY OF KETCHIKAN
P	182	CITY OF SEWARD
P	183	CITY OF FORT YUKON
P	184	BRISTOL BAY BOROUGH SD
P	185	CORDOVA CITY SD
P	186	CITY OF CRAIG
P	187	PETERSBURG MEDICAL CENTER
P	189	HAINES BOROUGH
P	190	KENAI PENINSULA BOROUGH SD
P	191	CITY OF NORTH POLE

PERS ACTIVE EMPLOYERS

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FUND	EMPLOYER NUMBER	EMPLOYER NAME
P	192	CITY OF GALENA
P	193	CITY OF NENANA
P	195	YUPIIT SD
P	196	NENANA CITY SD
P	198	CITY OF SAXMAN
P	199	CITY OF HOONAH
P	200	CITY OF PELICAN
P	202	CITY OF WHITTIER
P	203	ANCHORAGE COMMUNITY DEVELOP AUTHORITY
P	204	CRAIG CITY SD
P	205	DILLINGHAM CITY SD
P	206	CITY OF THORNE BAY
P	208	CITY OF AKUTAN
P	209	UNALASKA CITY SD
P	211	KASHUNAMIUT SD
P	215	CITY OF HOMER
P	218	SPECIAL EDUCATION SERVICE AGENCY
P	219	BARTLETT REGIONAL HOSPITAL
P	220	NORTHWEST ARCTIC BOROUGH
P	221	SAINT MARY'S SD
P	222	CITY OF SELAWIK
P	223	BRISTOL BAY RHA
P	224	COPPER RIVER BASIN RHA
P	225	SKAGWAY CITY SD
P	227	CITY OF KLAWOCK
P	228	PETERSBURG CITY SD
P	230	ALEUTIANS EAST BOROUGH
P	231	CITY OF KIVALINA
P	232	BERING STRAITS CRSA
P	235	CITY OF HUSLIA
P	237	CITY OF KALTAG
P	240	HAINES BOROUGH SD
P	241	CITY OF NOORVIK
P	242	CITY OF ELIM
P	243	CITY OF ATKA
P	244	ALEUTIANS EAST BOROUGH SD
P	245	ALEUTIANS WEST CRSA
P	246	DELTA/GREELY SD
P	247	LAKE AND PENINSULA BOROUGH
P	248	CITY AND BOROUGH OF YAKUTAT
P	249	CITY OF UNALAKLEET

PERS ACTIVE EMPLOYERS

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by Mindy Voigt, Information Systems Liaison

FUND	EMPLOYER NUMBER	EMPLOYER NAME
P	251	KLAWOCK CITY SD
P	254	CITY OF MEKORYUK
P	255	ALASKA GATEWAY SD
P	256	CITY OF SAINT GEORGE
P	257	PELICAN CITY SD
P	258	DENALI BOROUGH
P	259	CITY OF ALLAKAKET
P	260	CITY OF KACHEMAK
P	262	COOK INLET HOUSING AUTHORITY
P	263	INTERIOR RHA
P	264	YAKUTAT SD
P	265	KAKE CITY SD
P	266	CITY OF QUINHAGAK
P	267	ALEUTIAN HOUSING AUTHORITY
P	270	BERING STRAITS RHA
P	271	CITY OF EGEGIK
P	275	ILISAGVIK COLLEGE
P	276	NORTH PACIFIC RIM HA
P	278	SAXMAN SEAPORT
P	279	TLINGIT-HAIDA RHA
P	280	CITY OF TOKSOOK BAY
P	281	BARANOF ISLAND HA
P	282	CITY OF DELTA JUNCTION
P	283	CITY OF ANDERSON
P	284	INTER-ISLAND FERRY AUTHORITY
P	285	CITY OF HOOPER BAY
P	286	CITY OF SELDOVIA
P	287	CITY OF KOYUK
P	288	NORTHWEST INUPIAT HOUSING AUTHORITY
P	290	CITY OF UPPER KALSKAG
P	291	CITY OF SHAKTOOLIK
P	292	CITY OF EEK
P	293	TAGIUGMIULLU NUNAMIULLU HOUSING AUTHORIT
P	296	MUNICIPALITY OF SKAGWAY
P	297	CITY OF NULATO
P	298	CITY OF ANIAK

TRS ACTIVE EMPLOYERS

Compiled on December 28, 2010

by Mindy Voigt, Information Systems Liaison

FUND	EMPLOYER NUMBER	EMPLOYER NAME
T	701	ANCHORAGE SD
T	704	CORDOVA CITY SD
T	705	CRAIG CITY SD
T	706	FAIRBANKS NORTH STAR BOROUGH SD
T	707	HAINES BOROUGH SD
T	708	HOONAH CITY SD
T	709	HYDABURG CITY SD
T	710	JUNEAU BOROUGH SD
T	712	KAKE CITY SD
T	714	KETCHIKAN GATEWAY BOROUGH SD
T	717	KLAWOCK CITY SD
T	718	KODIAK ISLAND BOROUGH SD
T	719	NENANA CITY SD
T	720	NOME CITY SD
T	722	MATANUSKA-SUSITNA BOROUGH SD
T	723	PELICAN CITY SD
T	724	PETERSBURG CITY SD
T	727	SITKA BOROUGH SD
T	728	SKAGWAY CITY SD
T	729	UNALASKA CITY SD
T	730	VALDEZ CITY SD
T	731	WRANGELL PUBLIC SD
T	732	YAKUTAT SD
T	733	UNIVERSITY OF ALASKA
T	735	GALENA CITY SD
T	736	NORTH SLOPE BOROUGH SD
T	737	STATE OF ALASKA
T	739	NORTHERN REGION RESOURCE CENTER
T	740	SOUTHWEST REGION RESOURCE CENTER
T	742	BRISTOL BAY BOROUGH SD
T	743	SOUTHEAST REGIONAL RESOURCE CENTER
T	744	DILLINGHAM CITY SD
T	746	KENAI PENINSULA BOROUGH SD
T	748	SAINT MARY'S SD
T	751	NORTHWEST ARCTIC BOROUGH SD
T	752	BERING STRAIT SD
T	753	LOWER YUKON SD
T	754	LOWER KUSKOKWIM SD
T	755	KUSPUK SD
T	756	SOUTHWEST REGION SD
T	757	LAKE AND PENINSULA BOROUGH SD

TRS ACTIVE EMPLOYERS

Compiled on December 28, 2010

by Mindy Voigt, Information Systems Liaison

FUND	EMPLOYER NUMBER	EMPLOYER NAME
T	758	ALEUTIAN REGION SD
T	759	PRIBILOF SD
T	761	IDITAROD AREA SD
T	762	YUKON / KOYUKUK SD
T	763	YUKON FLATS SD
T	764	DENALI BOROUGH SD
T	765	DELTA/GREELY SD
T	766	ALASKA GATEWAY SD
T	767	COPPER RIVER SD
T	768	CHATHAM SD
T	769	SOUTHEAST ISLAND SD
T	770	ANNETTE ISLAND SD
T	771	CHUGACH SD
T	772	ALASKA STATE LEGISLATURE
T	775	TANANA SD
T	777	KASHUNAMIUT SD
T	779	SPECIAL EDUCATION SERVICE AGENCY
T	780	ALEUTIANS EAST BOROUGH SD
T	778	YUPIIT SD

Public Employee Retirement System (PERS)

Teachers Retirement System (TRS)

UPDATE

Presentation to Senate Finance

Department of Administration

Department of Revenue

February 24, 2011

PERS / TRS Update

- I. Basic Facts
- II. Investments
- III. Recent Assumption Changes
- IV. SB 125 State Assistance
- V. Future
- VI. Other Issues

PERS / TRS

I. Basic Facts

PERS / TRS Basic Facts

- A. Membership
- B. Organization
- C. Balance Sheet
- D. Health Cost Trends
- E. Funding Ratio History
- F. Employer Contribution Rates

PERS / TRS

Basic Facts – Membership - PERS

PERS:

160 Member Employers

3 Defined Benefit (DB) Tiers

25,015 retirees

6,566 terminated members entitled to future benefits

27,565 actives (74.55%)

59,146 total members

1 Defined Contribution (DC) Tier

0 retirees

304 terminated members entitled to future benefits

9,412 actives (25.45%)

9,716 total members

Source: FY 2010 PERS CAFR

PERS / TRS

Basic Facts – Membership - TRS

TRS:

58 Member Employers

2 Defined Benefit (DB) Tiers

10,255 retirees

884 terminated members entitled to future benefits

8,226 actives (78.4%)

19,365 total members

1 Defined Contribution (DC) Tier

0 retirees

394 terminated members entitled to future benefits

2,269 actives (21.6%)

2,663 total members

Source: FY 2010 TRS CAFR

PERS / TRS

Basic Facts – Organization



PERS / TRS

Basic Facts – Balance Sheet

PERS DB:

Assets (Mkt. Value, 12/31/10)	\$10,901,792,145
Accrued Liabilities (Net Present Value, 6/30/2010)	<u>17,190,284,000</u>
Unfunded Liability	\$ 6,288,491,855
Funding Ratio	63.42%

TRS DB:

Assets (Mkt. Value, 12/31/10)	\$4,603,709,667
Accrued Liabilities (Net Present Value, 6/30/2010)	<u>8,449,650,000</u>
Unfunded Liability	\$3,845,940,333
Funding Ratio	54.48%

Source: Treasury Division, 12/2010 Monthly Report; Buck Consultants

PERS / TRS

Basic Facts – Health Cost Trends

Time Period	Monthly Premium Per Retiree For Health Coverage	Annual Percentage Change	Average Compound Annual Increase Since FY78
2/1/77-1/31/78	\$ 57.64	66%	--
2/1/78-1/31/79	69.10	20%	20%
2/1/79-1/31/80	64.70	-6%	6%
2/1/80-1/31/81	96.34	49%	19%
2/1/81-1/31/82	96.34	0%	14%
2/1/82-1/31/83	115.61	20%	15%
2/1/83-1/31/84	156.07	35%	18%
2/1/84-1/31/85	191.85	23%	19%
2/1/85-1/31/86	168.25	-12%	14%
2/1/86-1/31/87	165.00	-2%	12%
2/1/87-1/31/88	140.25	-15%	9%
2/1/88-1/31/89	211.22	51%	13%
2/1/89-1/31/90	252.83	20%	13%
2/1/90-1/31/91	243.98	-4%	12%
2/1/91-1/31/92	243.98	0%	11%
2/1/92-1/31/93	226.90	-7%	10%
2/1/93-1/31/94	309.72	37%	11%
2/1/94-1/31/95	336.05	9%	11%
2/1/95-1/31/96	350.50	4%	11%
2/1/96-1/31/97	350.50	0%	10%
2/1/97-1/31/98	368.00	5%	10%
2/1/98-12/31/98	368.00	0%	9%
1/1/99-12/31/99	442.00	20%	10%
1/1/00-12/31/00	530.00	20%	10%
1/1/01-12/31/01	610.00	15%	10%
1/1/02-12/31/02	668.00	10%	10%
1/1/03-12/31/03	720.00	8%	10%
1/1/04-12/31/04	806.00	12%	10%
1/1/05-12/31/05	850.00	5%	10%
1/1/06-12/31/06	876.00	3%	10%
1/1/07-12/31/07	876.00	0%	10%
1/1/08-12/31/08	876.00	0%	9%
1/1/09-12/31/09	937.00	7%	9%
1/1/10-12/31/10	1,068.00	14%	9%

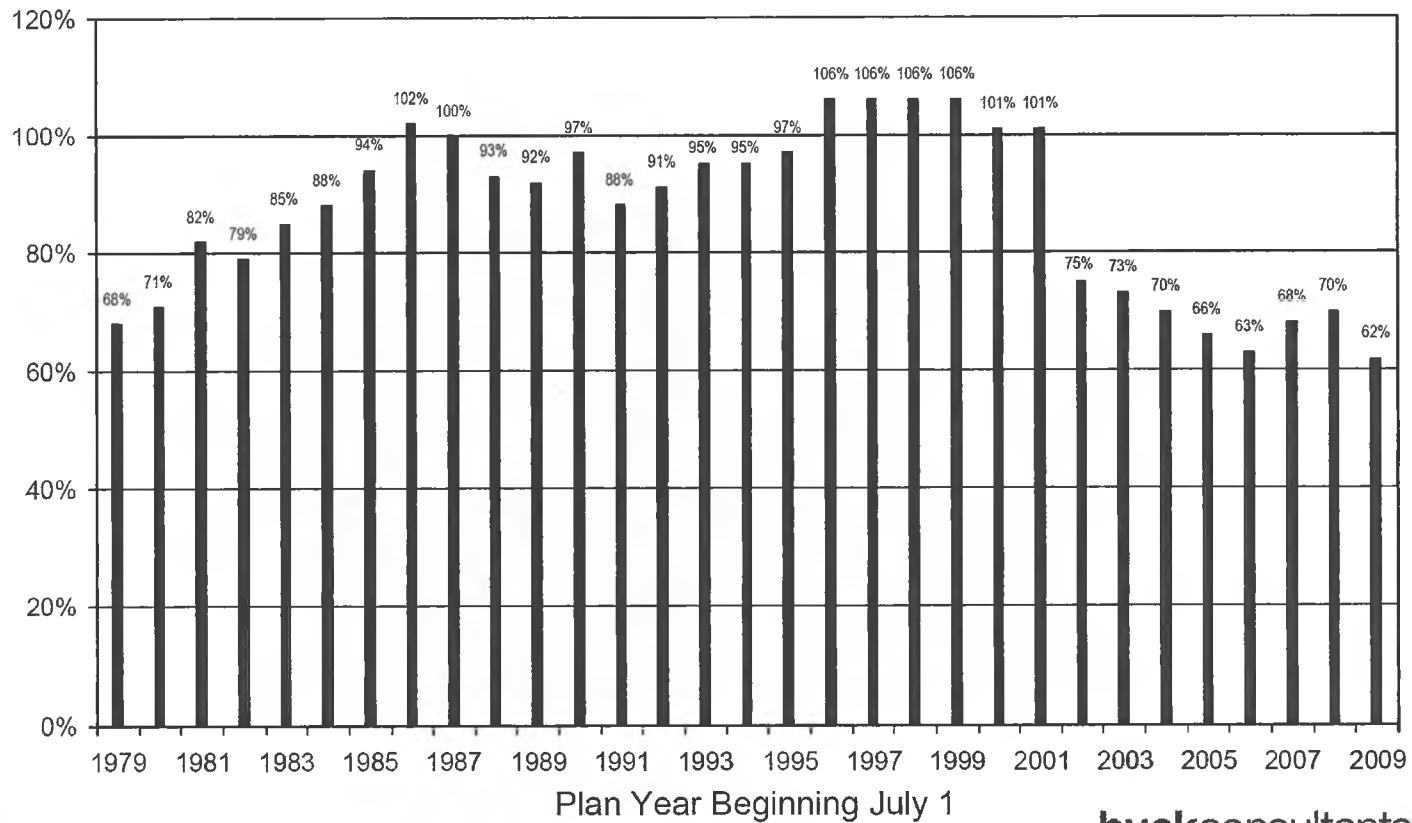
Source: Buck Consultants

PERS / TRS

Basic Facts – Funding Ratio History – PERS

PERS Funding Ratio History

Pension and Postemployment Healthcare
Based on Valuation Assets



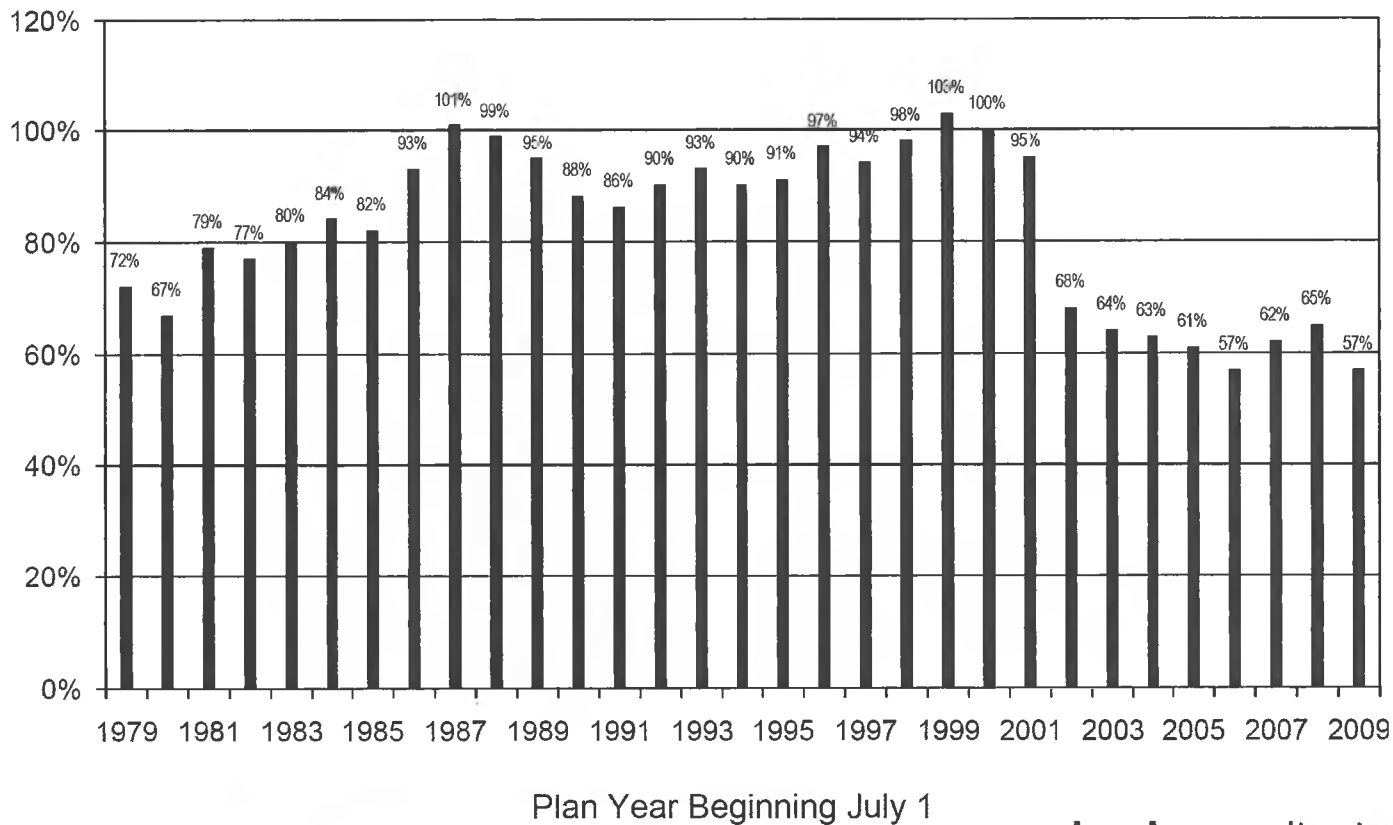
buckconsultants

PERS / TRS

Basic Facts – Funding Ratio History – TRS

TRS Funding Ratio History

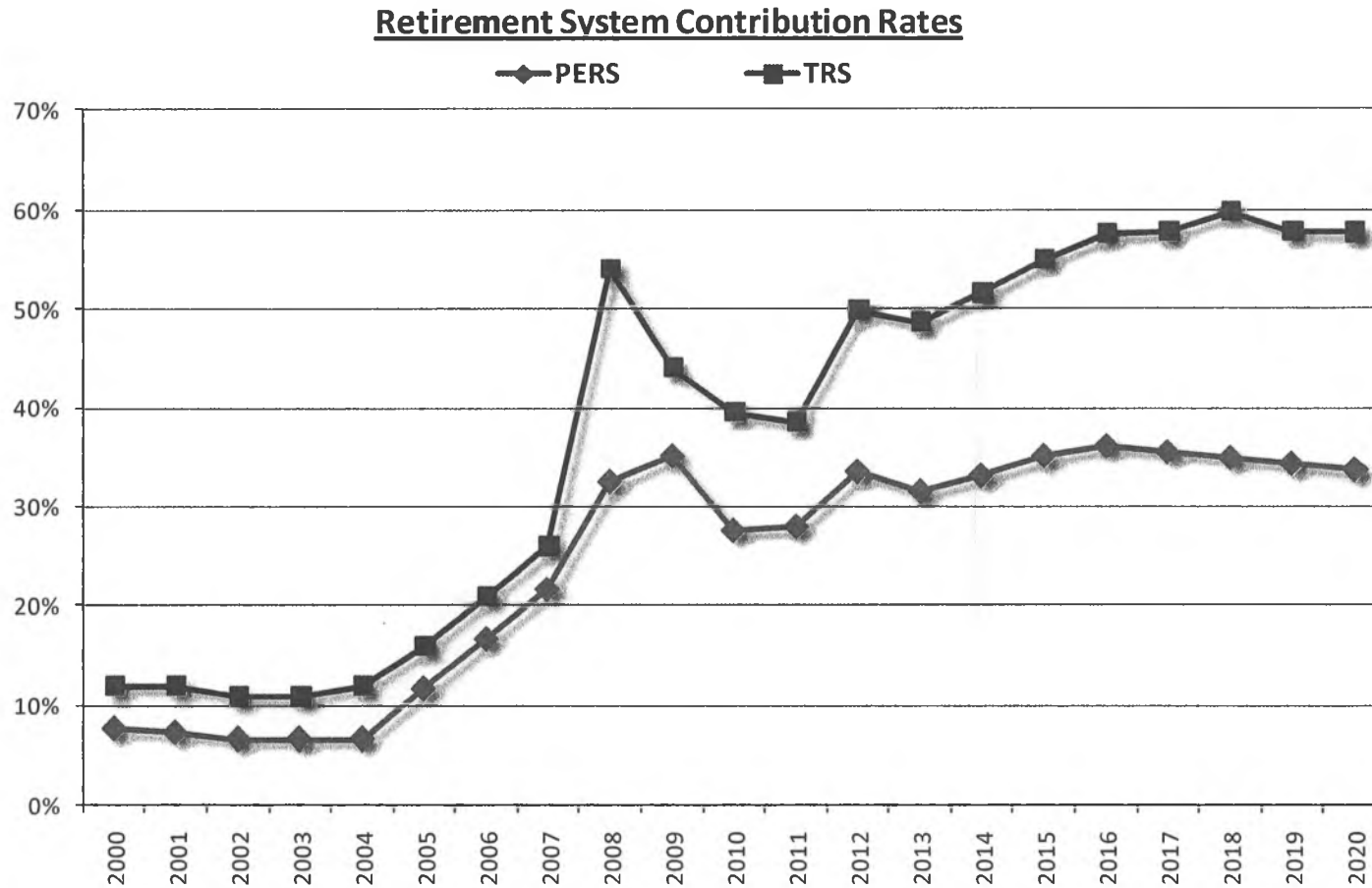
Pension and Postemployment Healthcare
Based on Valuation Assets



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PERS / TRS

Basic Facts – Contribution Rates



SB 125 capped PERS employer contribution rates at 22% and TRS employer contribution rates at 12.56% beginning in FY 2009.

PERS / TRS

II. Investments

PERS / TRS

Investments – ARMB Assets Under Management

- As of 12/31/2010, the ARMB managed \$19 billion across 18 plans:

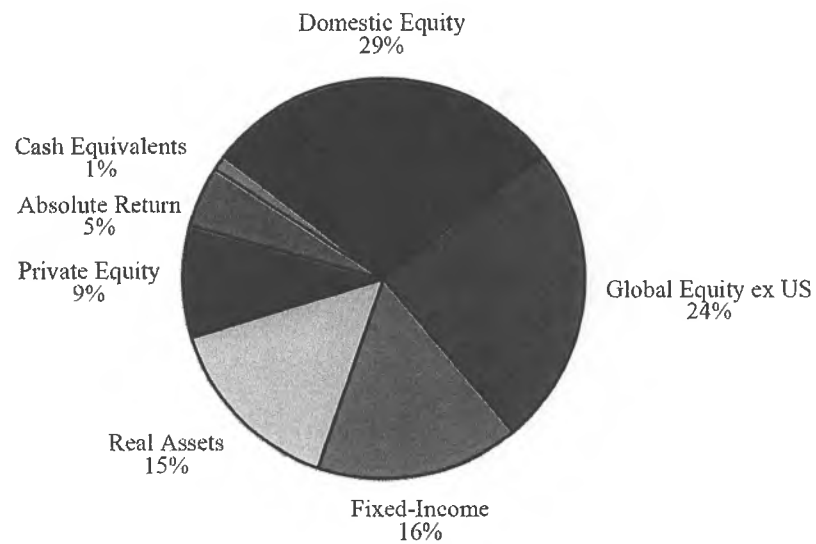
Public Employees' Retirement System (PERS)	\$11,099,635,604
Retirement Trust	6,060,467,891
Retirement Health Care Trust	4,841,324,254
<hr/>	
Defined Contribution Retirement Plan - PERS	139,507,552
Health Reimbursement Arrangement	42,190,190
Retiree Medical Plan	10,274,269
Occupational Death and Disability - PERS	4,315,404
Occupational Death and Disability - Police & Fire	1,556,044
 Teachers' Retirement System (TRS)	 \$4,685,531,280
Retirement Trust	3,059,480,622
Retirement Health Care Trust	1,544,229,045
<hr/>	
Defined Contribution Retirement Plan - TRS	61,711,488
Health Reimbursement Arrangement	13,804,502
Retiree Medical Plan	4,468,518
Occupational Death and Disability	1,837,105
 Judicial Retirement System (JRS)	 \$126,007,231
Defined Benefit Plan Retirement Trust	106,613,558
Defined Benefit Retirement Health Care Trust	19,393,673
 National Guard/Naval Militia Retirement System (MRS)	 \$32,790,838
 Supplemental Annuity Plan - SBS	 \$2,446,112,558
Deferred Compensation Plan	\$569,631,217

PERS / TRS

Investments – Asset Allocation

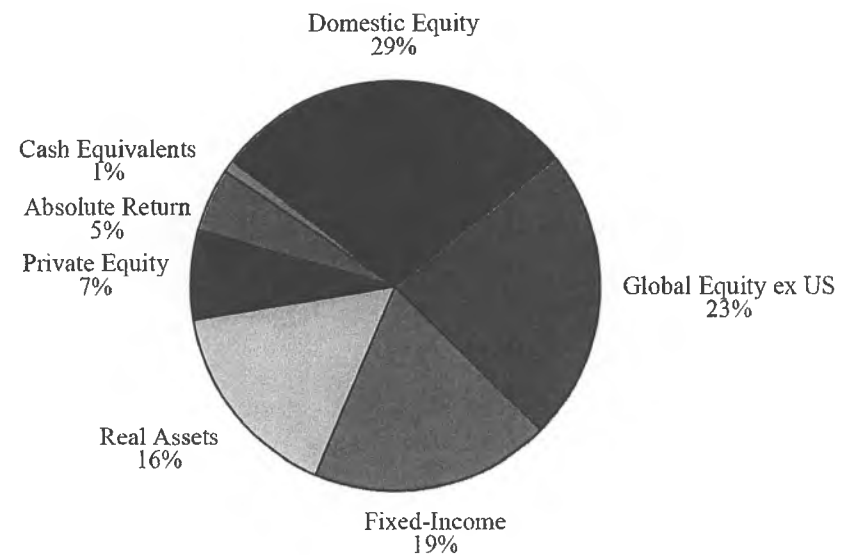
Actual Asset Allocation

September 30, 2010



Target Asset Allocation

September 30, 2010

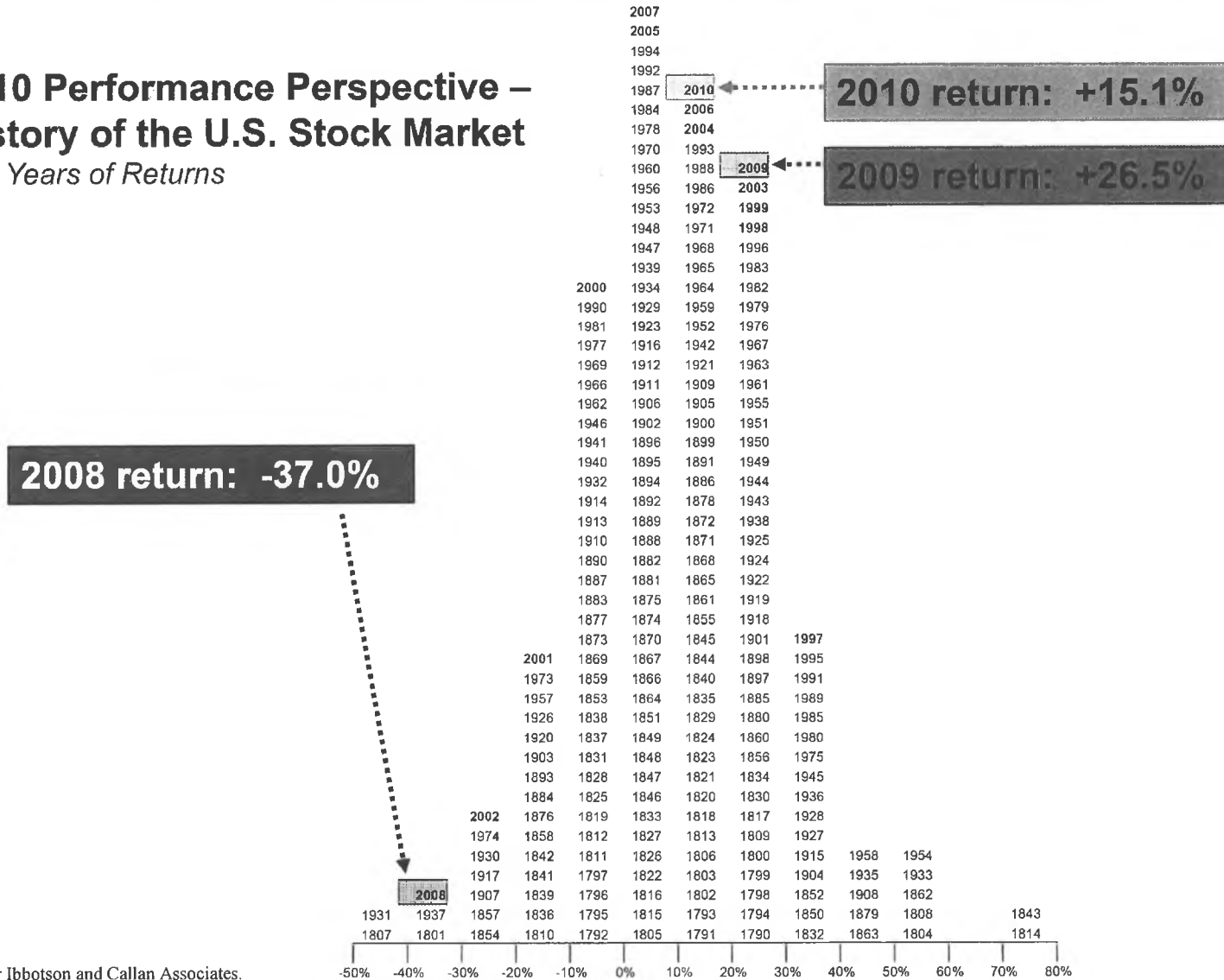


Source: Callan Associates Inc. PERS asset allocation as of 9/30/2010. The TRS target is the same and the TRS actual is similar.

PERS / TRS

Investments – US Stock Market Historical Returns

**2010 Performance Perspective –
History of the U.S. Stock Market**
223 Years of Returns



Source: Roger Ibbotson and Callan Associates.

PERS / TRS

Investments – Fiscal Year Returns

Investment Returns

- The 5 year annualized return for the period ending FY2010 was:
 - 2.65% for PERS
 - 2.67% for TRS
 - 2.80% for APFC
 - 0.79% for the S&P 500

- The 18 year annualized return for the period ending FY2010 was:
 - 6.99% for PERS
 - 7.06% for TRS
 - 7.14% for APFC
 - 7.38% for the S&P 500

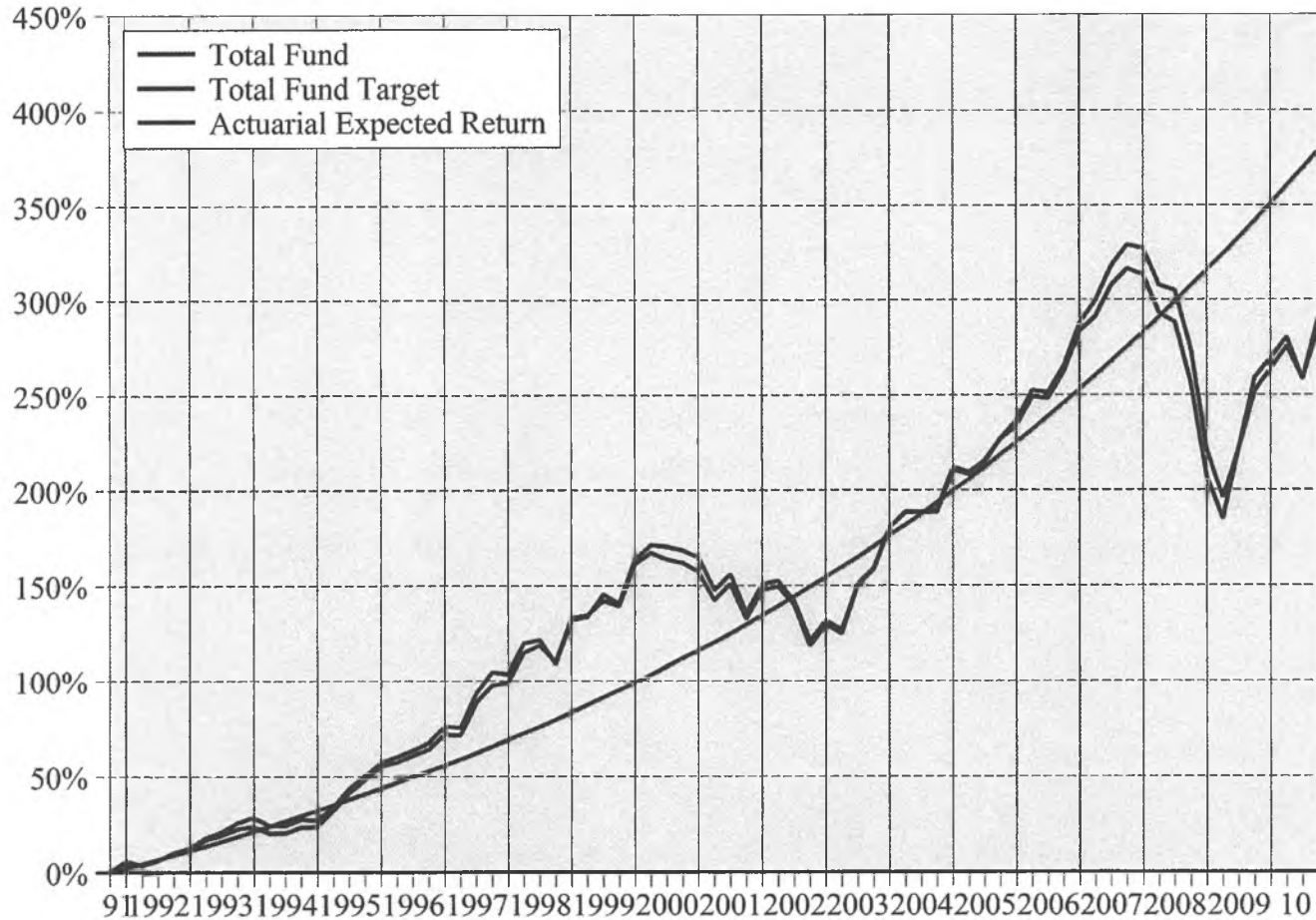
Fiscal Year	PERS	TRS	APFC	S&P 500
2010	11.39%	11.58%	11.72%	14.43%
2009	-20.49%	-20.62%	-17.96%	-26.21%
2008	-3.13%	-3.12%	-3.60%	-13.12%
2007	18.88%	18.92%	17.06%	20.59%
2006	11.74%	11.78%	10.98%	8.63%
2005	8.95%	9.01%	10.43%	6.32%
2004	15.08%	15.09%	14.23%	19.11%
2003	3.67%	3.68%	4.46%	0.25%
2002	-5.48%	-5.49%	-2.24%	-17.99%
2001	-5.25%	-5.35%	-3.26%	-14.83%
2000	10.07%	10.15%	9.18%	7.25%
1999	10.59%	10.67%	9.48%	22.76%
1998	14.73%	14.83%	16.36%	30.16%
1997	18.18%	18.12%	17.02%	34.70%
1996	13.70%	14.35%	13.43%	26.00%
1995	15.56%	15.90%	14.51%	26.07%
1994	2.71%	2.65%	1.46%	1.41%
1993	14.25%	14.38%	12.73%	13.63%

Source: Callan Associates Inc.

PERS / TRS

Investments – Cumulative Returns

Cumulative Returns Actual vs Target



Source: Callan Associates Inc. as of 9/30/2010.

PERS / TRS

III. Recent Assumption Changes

PERS / TRS

Recent Assumption Changes

- AS 37.10.220(a)(9) requires a review of actuarial assumptions every four years
- Buck Consultants performed the experience study
- Gabriel Roeder Smith & Co. reviewed and certified the Buck experience study
- Based on the Buck and GRS reports, the ARM Board modified some of its actuarial assumptions

PERS / TRS

Recent Assumption Changes – Investment Returns

- Investment Return Assumption reduced from 8.25% to 8.00%
 - 4.88% real return assumption
 - 3.12% inflation assumption

PERS / TRS

Recent Assumption Changes – Contribution Rate Impact

	<u>PERS</u>	<u>TRS</u>
FY 2012 Employer Contribution Rate	30.76%	42.61%
Change in Demographics (net) (post termination mortality)	1.25%	5.55%
<u>Change in Earnings Assumption</u>	<u>1.53%</u>	<u>1.77%</u>
<u>Total Change in Employer Contribution</u>	<u>2.78%</u>	<u>7.32%</u>
FY2012 Employer Contribution Rate - Revised	33.54%	49.93%

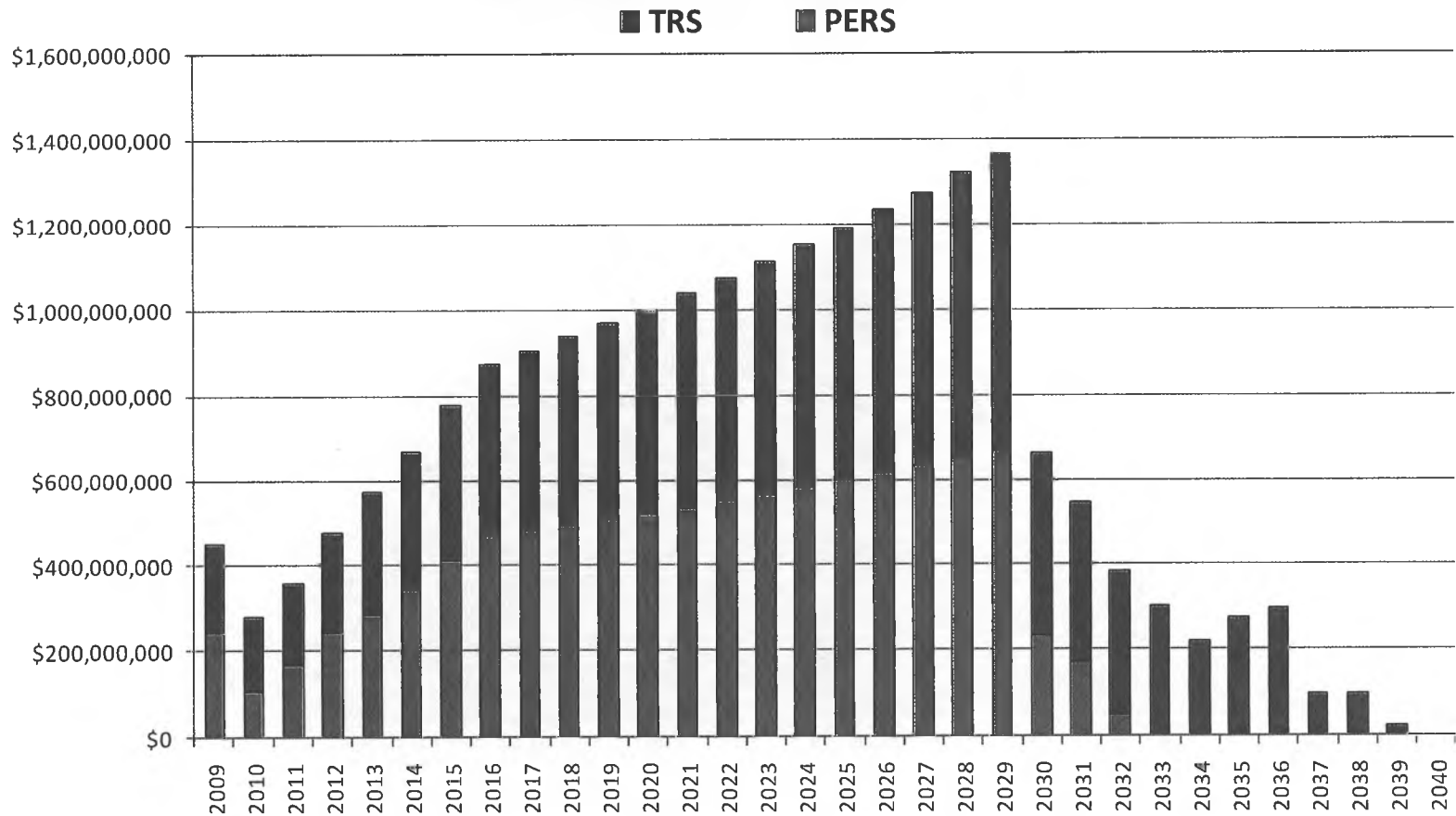
PERS / TRS

IV. SB 125 State Assistance

PERS / TRS

SB125 State Assistance

Projected State Assistance to PERS and TRS



Source: Buck Consultants

PERS / TRS

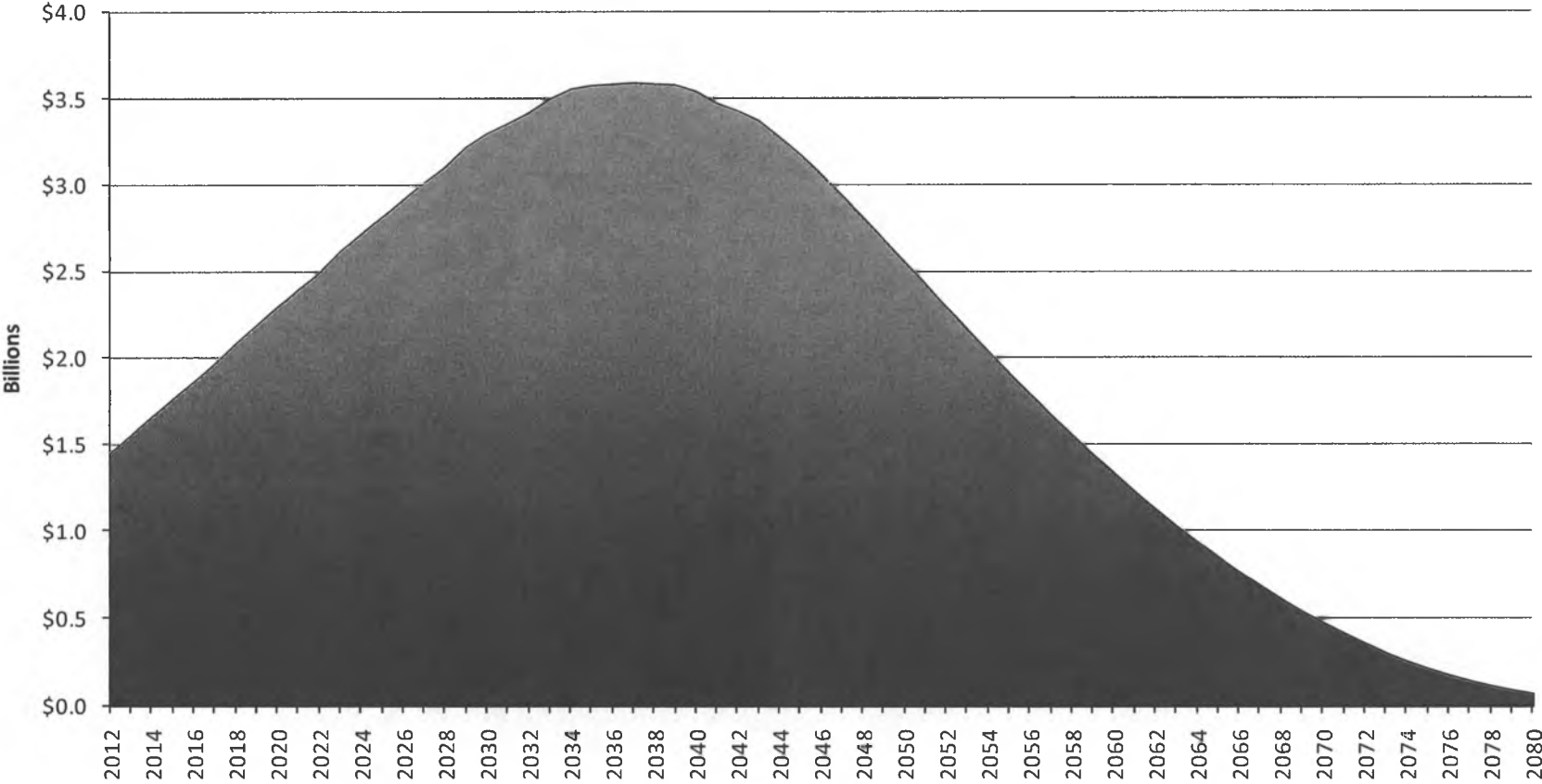
V. Future

PERS / TRS Future

- ARM Board held work session in September 2010 at the request of legislative finance.
 - Discussed how to best address unfunded liability
 - Modeled different approaches and scenarios
 - Discussion and modeling is ongoing

PERS / TRS Future

Total Projected Benefits Payments - PERS and TRS



PERS / TRS

Future

Long term observations:

- Sharply declining petroleum revenues post-2030
- Other obligations (schools and Medicaid) will compound fiscal situation – paying now versus paying more later is in sharp tension
- Paying more now and reducing state savings accounts could reduce budgeting flexibility post-2030 at a time when state savings account may be necessary to “keep the lights on”
- Paying less now increases expenses in the long term
- More critical thinking and discussion about a global approach to structuring state finances and budgeting including a long term plan for PERS/TRS funding is needed

PERS / TRS

VI. Other Issues

PERS / TRS

Other Issues – Termination Studies

PERS 2010 Termination Studies

Employer	Positions Removed	Cost of the Study	One-time Termination Cost
City of Ketchikan Gateway Center for Human Resources	8	\$ 2,500	\$ 10,364
Ketchikan Gateway Borough	1	2,500	12,392
City of Ketchikan Public Utilities	4	2,500	21,373
City of Palmer	1	2,500	12,483
Municipality of Skagway	1	2,500	17,470

PERS / TRS

Other Issues – Mercer Settlement

Allocation of Mercer Proceeds

Gross Recovery			\$500,000,000.00
Costs			\$5,836,685.11
Recovery Net of Costs			\$494,163,314.89
Contingency Fee Calculation:			
Up to \$200mm:	25%		\$50,000,000.00
Over \$200mm up to \$500 mm:	14%		\$41,182,864.08
Over \$500mm up to \$1 billion:	8.50%		\$0.00
Over \$1 billion:	5%		\$0.00
Total Contingency Fee:	18.45%		\$91,182,864.08
Net Recovery to Systems:			\$402,980,450.81

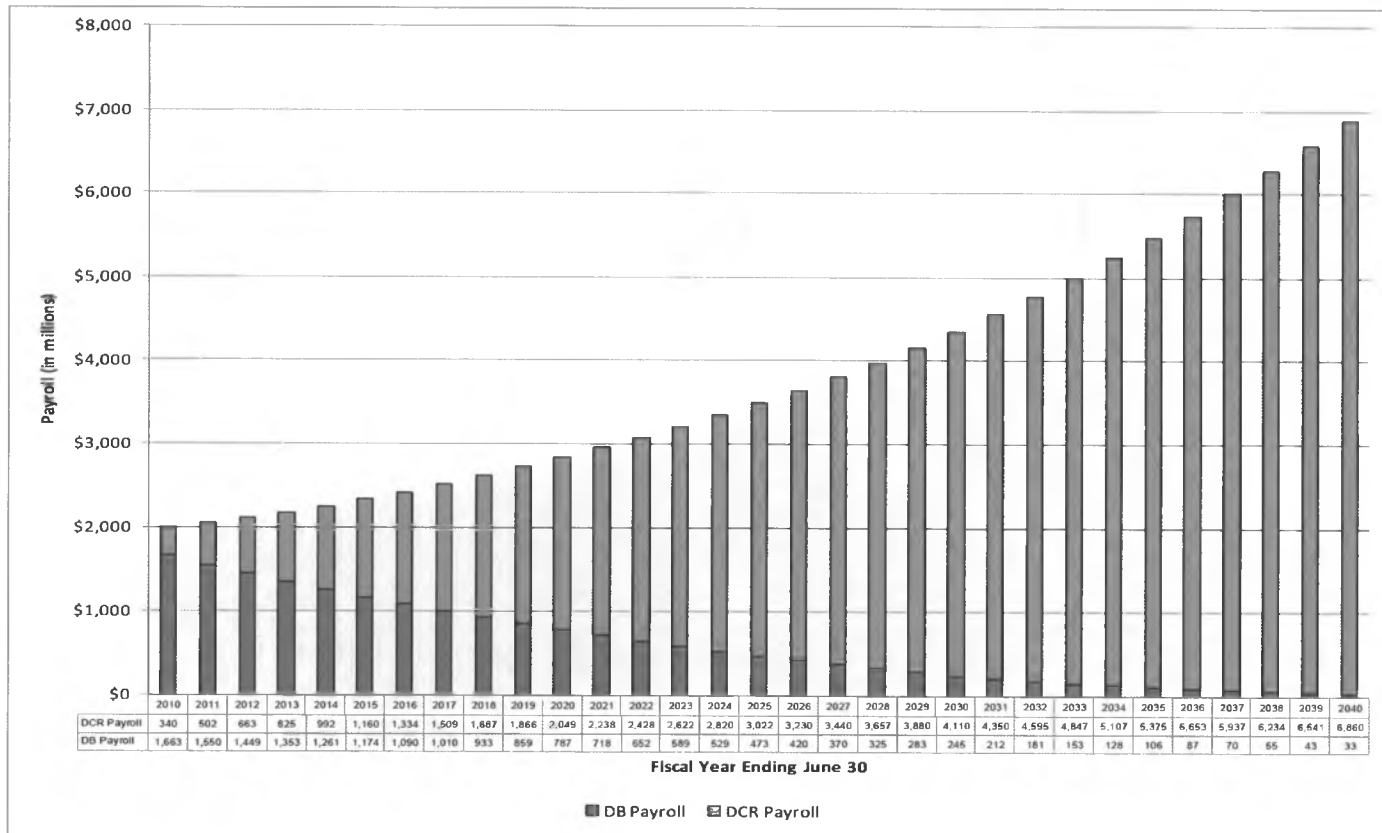
Allocation:

	PERS Share: 89.08290%		\$358,986,672.01
	TRS Share: 10.91710%		\$43,993,778.79
PERS Atty's Fees and Costs			\$86,427,827.99
TRS Atty's Fees and Costs			\$10,591,721.21

PERS / TRS

Other Issues – PERS Payroll

PERS DB and DCR Payroll

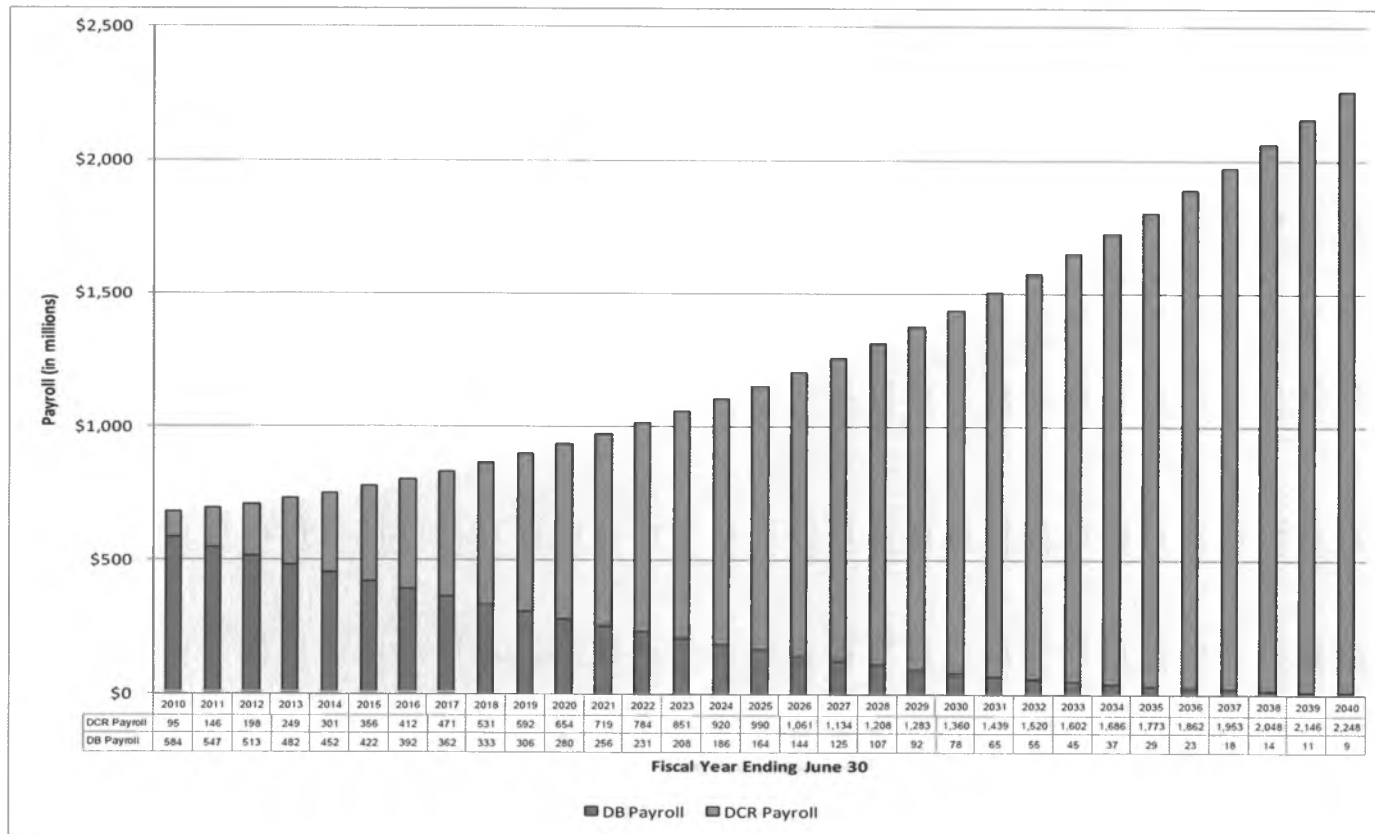


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PERS / TRS

Other Issues – TRS Payroll

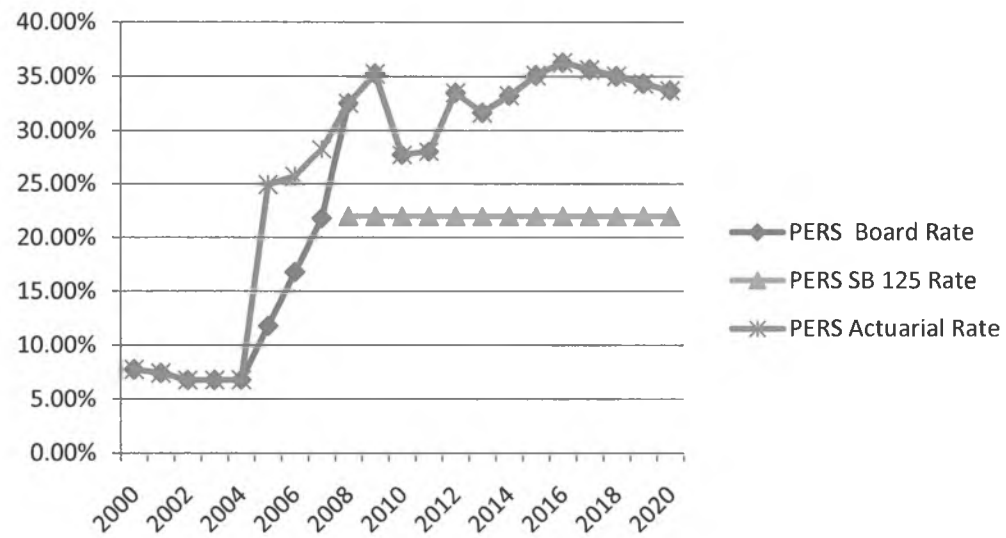
TRS DB and DCR Payroll



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PERS / TRS

- PERS Contribution Rates



PERS / TRS

- TRS Contribution Rates

