

SB

121

<TARGET><BILL>SB 121</BILL><SUBJECT>SB
121</SUBJECT><COMM>SSTA27</COMM></TARGET>

SENATE COMMITTEE REPORT

First Committee of Referral

DATE: 4/7/11

FURTHER: Finance

Date of 5-Day Notice: _____
 (in accordance with Uniform Rule 23)

DATE TURNED
 IN TO OFFICE: 2-16-12

State Affairs Committee considered SENATE BILL NO. 121

SB 121-TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

"An Act relating to the public employees' retirement system and the teachers' retirement system; and providing for an effective date."

and recommends:

- be replaced with CS SB 121 (STA) Same Title New Title
- adopt previous CS _____ SCS/CS- Forthcoming _____) Same Title New Title
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

Dept Abbr.	
ADM	LEG
CED	LAW
COR	LWF
CRT	MVA
EED	DNR
DEC	DPS
DFG	REV
GOV	DOT
DHS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
ADM	✓			1
REV	✓			2
ADM	Fiscal Info Forthcoming			3

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	Do PASS	Do NOT PASS	No REC	AMEND
	Meyer			X	
	Giessel			X	
CHAIR:	Wieledowski	X			

ALASKA STATE LEGISLATURE

Senate State Affairs Committee

Senator Bill Wielechowski, Chair

State Capitol Building, Room 101
Juneau, Alaska 99801-1182
Phone (907) 465-2435
Fax (907) 465-6615
sen.bill.wielechowski@legis.state.ak.us



Committee Members:

Senator Joe Paskvan, Vice-chair
Senator Albert Kookesh
Senator Kevin Meyer
Senator Cathy Giessel

AGENDA

September 15, 2011

9:00-9:10	Introductory remarks – Chair Wielechowski
9:10-9:25	Overview of the bill – Jesse Kiehl
9:25-9:35	Q and A from committee members
9:35-10:00	Testimony from public employees
10:00-11:00	Report from actuary Flick Fornia about the costs of the proposed system
11:00-11:10	Break
11:10-11:30	Comments from the Administration
11:30-11:45	Additional remarks from Flick Fornia
11:45-12:15	Q and A from committee members
12:15-12:30	Closing remarks

9:45

FISCAL NOTE

**STATE OF ALASKA
2011 LEGISLATIVE SESSION**

BILL NO. SB 121

Analysis

SB 121 allows future and current defined contribution PERS and TRS members an opportunity to choose between a defined contribution (DC) and a defined benefit (DB) plan. Current DC members will have a one-time opportunity to convert to the DB plan. The DC member's employee and employer contributions will be transferred to the DB plan along with the total service the employee has accrued. If the combined contributions is insufficient to purchase the employee's service, the remainder will be made up from the general fund. The general fund expenditure will occur in FY 13 during the first 60 days after the effective date of the bill that allows for DC members to convert to the DB plan.

Costs outlined below for the choice option assumes 60% of current defined contribution members will elect to convert to the DB plan and that 80% of future members will choose the DB plans either by choice or by default.

The first impact on contributions rates will occur in FY 15 considering the two-year delay in budgeting contribution payments. Results are based on the draft 2010 actuarial valuation.

Because this bill will increase employer normal costs, under SB 125 (2008), which caps employer contribution rates at 22% for PERS and 12.56% for TRS, employers will therefore contribute less to past service costs. The amount that employers are no longer paying will be paid by the general fund.

Dollars are in thousands

PERS DB Plan	FY 13	FY 14	FY 15	FY16	FY 17	FY18	FY 19
Increase in Normal Cost Amount	\$0	N/A	\$17,568	\$25,629	\$35,788	\$46,977	\$57,771
Gf Transfer to Pay Unfunded Past Service Cost	\$91,724	N/A	\$0	\$0	\$0	\$0	\$0
Total Increase in Annual Employer Contribution Amount	N/A	N/A	\$17,568	\$25,629	\$35,788	\$46,977	\$57,771

TRS DB Plan	FY 13	FY 14	FY 15	FY16	FY 17	FY18	FY 19
Increase in Normal Cost Amount	\$0	N/A	\$2,285	\$3,536	\$4,993	\$6,943	\$8,764
GF Transfer to Pay Unfunded Past Service Cost	\$32,688	N/A	\$0	\$0	\$0	\$0	\$0
Total Increase in Annual Employer Contribution Amount	N/A	N/A	\$2,285	\$3,536	\$4,993	\$6,943	\$8,764

Totals for both plans:	\$124,412	N/A	\$19,853	\$29,165	\$40,781	\$53,920	\$66,535
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October 7, 2011

VIA EMAIL

Mr. Jim Puckett
 Acting Director
 Division of Retirement and Benefits
 Department of Administration
 State of Alaska
 333 Willoughby Avenue
 6th Floor State Office Building
 Juneau, AK 99811-0208

RE: Fiscal Note for Senate Bill No. 121 – New Tier for PERS and TRS Healthcare - REVISED

Dear Jim:

As requested, we are providing the following information for a revised Fiscal Note on SB 121 which allows current Defined Contribution Retirement (DCR) members and future members to have a choice between the DCR Plan and the Defined Benefit (DB) Plan. Current DCR members or any future members that elect to go into the DB Plan will enter Tier V for PERS and Tier IV for TRS. These tiers will have the same pension benefits as the latest DB tier but they will have different healthcare benefits. Under the new tiers, members will receive system-paid healthcare benefits at Medicare eligible age (age 65) instead of at age 60. This bill affects the State of Alaska Public Employees' Retirement System Defined Benefit Plan (PERS DB) and the Teachers' Retirement System Defined Benefit Plan (TRS DB). We are assuming the proposed benefit changes would become effective as of July 1, 2012 and will first impact contribution rates during FY15 considering the two-year delay in budgeting contribution payments. Our results are based on the 2010 actuarial valuation results.

The table below shows the cost of the bill for Fiscal Years 2015 through 2019. Dollars are in thousands.

PERS DB Plan	FY15	FY16	FY17	FY18	FY19
Increase in Normal Cost Amount	\$ 17,568	\$ 25,629	\$ 35,788	\$ 46,977	\$ 57,771
General Fund Transfer to Pay Unfunded Past Service Cost	\$ 91,724	\$ 0	\$ 0	\$ 0	\$ 0
Total Increase in Annual Employer Contribution Amount	\$ 109,292	\$ 25,629	\$ 35,788	\$ 46,977	\$ 57,771

TRS DB Plan	FY15	FY16	FY17	FY18	FY19
Increase in Normal Cost Amount	\$ 2,285	\$ 3,536	\$ 4,993	\$ 6,943	\$ 8,764
General Fund Transfer to Pay Unfunded Past Service Cost	\$ 32,688	\$ 0	\$ 0	\$ 0	\$ 0
Total Increase in Annual Employer Contribution Amount	\$ 34,973	\$ 3,536	\$ 4,993	\$ 6,943	\$ 8,764

Total PERS and TRS	\$ 144,265	\$ 29,165	\$ 40,781	\$ 53,920	\$ 66,535
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Mr. Jim Puckett
October 7, 2011
Page 2

Summary for Analysis Continuation Section of Fiscal Note

The data, assumptions, plan provisions and methods used for the costs are described in the actuarial valuation reports for PERS and TRS as of June 30, 2010. The assets are based on the June 30, 2010 information provided by Christina Maiquis. We have assumed that the bill will become effective July 1, 2012. We have also assumed that 60% of current DCR members will elect to convert to the DB Plan, and that 80% of future members will choose the DB Plans either by choice or by default. A description of Tier V benefits for PERS and Tier IV benefits for TRS was provided by Kathy Lea.

Please let us know if you need any further information.

Sincerely,



David H. Sliskinsky, F.C.A., A.S.A., E.A.
Principal and Consulting Actuary

/mlp

c: Mr. Mike Barnhill, State of Alaska
Ms. Teresa Kesey, State of Alaska
Ms. Kathy Lea, State of Alaska
Mr. Chris Hulla, Buck Consultants
Ms. Kyla Kaltenbach, Buck Consultants
Mr. Aaron Jurgaitis, Buck Consultants
Mr. Colin Wein, Buck Consultants

1. This fiscal note reflects an increasing normal cost rate. The administration has been bemoaning the increases in the amount the state must pay to cover their part of increasing costs as a result of SB 125. So- they are already expecting an increase-

The increase that would be germane here is the increase that may or may not be generated by SB 121 ABOVE what is already projected.

What is the 'fiscal note' of the status quo going out into the future? And then what is the difference between the cost of the expected normal cost rate increases and the cost of our bill?

2. If you look at the transition costs \$91.7 million to \$32.7 million, the ratio is a little less than 3 to 1. The member ration is about 4 to 1 PERS over TRS and the payroll about 3.5 to 1 (\$200 million versus \$60 million). So how can it be that this fiscal note shows increases in normal cost amounts of an 8 to 1 ratio (FY 15 is \$17.6 million PERS and \$2.3 million TRS)

How can the increase in normal cost amounts in FY 15-19 be so much more dramatic in PERS than in TRS?

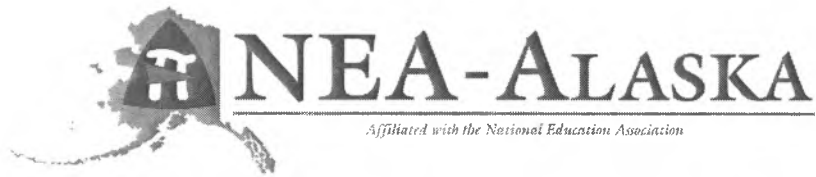
3. In reviewing a 2008 letter from Buck, it states that when an increased number of older members choose the DB plan, it increases the cost (pg. 1, paragraph 3). Now, with SB 121, Buck is saying an increased number of younger members increases it?

Is the State, Division of Retirement and Benefit, through Buck Consulting, comparing to status quo health care costs when we know increases are on the way, or are we looking at costs attributable to this bill?

4. Please explain to me how pushing out retirement to Medicare age eligibility did not significantly lower costs? (this is to see if they explain it the way Flick did in his 7:49 am e-mail today)

5. I hate to be suspicious but this legislation has been on the table for over 6 months. Now after substantial delays we get a late response that seems suspicious and over-inflated.

How Do we work with the administration to have them present legislation that provides retirement choice to public employees, realizing there is no social security safety net for them? To re-phrase how can we design a plan that is cost-neutral that allows public employees to complete a career of public service in Alaska and not be the training ground for other states to take our trained public employees out of Alaska by simply providing a dignified retirement?



For Immediate Release
February 2, 2012

Contact: Barb Angaiak, President
Lori Blakeslee, Communications Manager
907.263.8529 (direct) 907.301.8335 (cell)

**NEA-Alaska President Barb Angaiak Urges
Governor Parnell to Reconsider his Position on Pension**

Anchorage, AK – February 2, 2012. NEA-Alaska President Barb Angaiak released the following statement regarding Governor Parnell’s pension comments in the *Juneau Empire* on February 2, 2012.

“I am very disappointed in Governor Parnell’s refusal to consider returning to a defined benefit pension plan for state employees. I strongly urge Governor Parnell to reconsider. The legislation SB 121 is not a return to the old defined benefit system. SB 121 is a compromise that creates less of a benefit but provides retirement security at no additional cost to the state or other employers.

Just last week, hundreds of Alaskan teachers and support professionals were in Anchorage for NEA-Alaska’s annual Delegate Assembly. Members were very vocal on the need to return to a defined benefit pension plan.

It was one young teacher who expressed it best. He was very clear that unless there is a return to a defined benefit pension plan for all teachers, Alaska will lose its best and brightest because they will not be able to afford to continue to teach in our great state.

The defined benefit pension plan issue does not just affect educators. It has serious ramifications on the stability of our teaching staff, which ultimately impacts all Alaskan students.”

President Angaiak represents the organization’s 13,000+ educators and education support professionals. NEA-Alaska is the state’s largest union.

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SB 121

Alaska Pensions

Retirement choices for the Last Frontier



New hires get a choice

- SB 121 creates a new defined benefit tier
 - New hires can choose a guaranteed benefit or to control their money
- The new tier is:
 - less costly
 - more predictable
- Those who serve Alaskans can choose the retirement plan that fits their service
 - State, city, and school district employees
 - Teachers, biologists, firefighters, programmers, auditors, police, social workers, nurses, correctional officers, highway maintenance workers

A balanced approach

- Each system has its strengths
 - Guaranteed benefits means knowing you'll have enough to retire
 - But you can't strike it rich
 - And it takes a long time to earn
 - Controlling your investments means you could 'beat the street'
 - And you can take it with you when you move
 - But there are no guarantees



Employees differ

- Commissioner
- Highway maintenance
- Research biologist
- Management biologist
- Teacher
- City manager
- Trooper
- Eligibility Tech
- Nurse
- Investment officer



All Alaskans Benefit

- A choice of retirement plans gives the state, cities, & schools the tools to recruit and retain
 - They can deliver the best value for public dollars
- When the national unemployment rate falls
 - How does Alaska remain competitive?
 - Keeping good employees and attracting better



What stays the same?

- The Defined Contribution system does not change.
- The DB safeguards remain in place
- DB pension benefits

What's different?

- It takes longer for new hires to earn retiree health insurance
 - Pegged to Medicare
- DB retirement eligibility similar to DC tiers.
- Lower cost
- One-time chance to convert



A responsible approach

- SB 121's new tier has costs comparable to the DC tiers
- SB 121 takes longer to earn retiree health insurance
 - And eliminates the most expensive years for most employees
- All the 2004 safeguards remain:
 - Review by a second actuary
 - Minimum salaries for elected officials
 - Alaska experience studies
 - ARM Board
 - No paying less than the cost

More for Alaskans' Money

- Professional investment managers
- No added costs for running two systems
- \$800 million/year in DB benefits (state, federal, & private) are a shock absorber for the Alaska economy.
- Employees who prefer portability and control have the choice
- Cities, school districts, and the state have a great recruiting tool



SB 121: A good choice for Alaska



MEDIA ADVISORY FOR RESPONSE TO GOVERNOR'S CONFUSING STATEMENTS ON PENSION BILL

Media Advisory for February 2, 2012

Contact: Joelle Hall, APPC
907-229-3445

Advocates of a bi-partisan Senate bill to give state employees the option of choosing a 401k style pension or a traditional defined benefit pension call on governor to explain his confusing opposition

Group questions Parnell's rhetoric as divisive and confusing

In an interview yesterday with the Juneau Empire, Governor Parnell said he opposes a bill designed to give state employees a choice between a 401k style retirement and a traditional defined benefit pension, even if it saves the state millions.

"Its disappointing and confusing that the governor would take a stance against a plan that will save the states millions on what appears to be a strictly ideological stance," said Vince Beltrami, president of the Alaska AFL-CIO. "It is perplexing in that the governor will enjoy a traditional pension himself because of his state service, but he's willing to block future public employees from receiving the same benefit. Add to this the fact that most of these employees will receive no social security. Its an insult to our valued public employees."

In 2006, under pressure from then Governor Frank Murkowski, the Alaska Legislature made a controversial move, passing a bill by only one vote that eliminated a traditional pension system for the state's public employees. Since closing the defined benefit pension system the unfunded liability has ballooned.

Not only did this move not fix the problem, it has created new ones. Alaska is now a training ground for Police Officers, Firefighters, Teachers and other public employees who now have no reason to stay in the only state that offers no defined benefit pension and no social security.

In a 2011 poll paid for by the Alaska Public Pension Coalition, 75% of Alaskans favored new employees being included in the defined benefit pension system again.

The Alaska AFL CIO is a member of Alaska Public Pension Coalition and we urge Governor Parnell to review SB 121 again. SB121 is a common sense, fiscally responsible, compromise. It creates a shared risk system that gives Alaska the best of both worlds, portability for those that want it, and a guaranteed pension after decades of service. If the governor truly is concerned about doing what's right for the people of Alaska, he will put aside his ideological differences and join in supporting a truly bi-partisan effort to not only restore dignity to our valued public servants, but create the tool that will keep them here, serving Alaska.



Retired Public Employees of Alaska, APEA/AFT

3310 Arctic Blvd., Suite 200, Anchorage, Alaska 99503

Phone: (907) 274-1703 or (800) 478-9992, Fax: (907) 277-4588

Email: rpea@alaska.net

Web site: www.rpea.apea-aft.org

January 30, 2012

Senator Bill Wielechowski, Chair
Senators Paskvan, Vice Chair, Kookesh, Meyer and Giessel, Members
Senate State Affairs Committee
Alaska State Legislature
State Capitol, Room 101
Juneau, AK 99801-1182

Re: RPEA Testimony in Support of SB121

Dear Chair Wielechowski and Members of the Committee:

The Retired Public Employees of Alaska ("RPEA") once again thanks you and the Committee for the opportunity to present testimony in support of SB121, the reinstatement of a defined benefit pension option, at the public hearing held on January 26, 2012. As indicated by our witness and Legislative Director, Ted Moninski, the RPEA remains committed to ensuring an equitable and reliable pension opportunity for all public employees – past, present and future. As our testimony demonstrated, a return to a cost-neutral defined benefit pension option is not only in the best interests of employees and retirees; it is clearly in the best interest of Alaska – its citizens, its businesses and its economy.

As noted in our hearing presentation, the RPEA submits the attached written copy of its testimony and stands ready to assist the Committee and the Legislature in a full and favorable consideration of this important legislation.

Sincerely,

Robert J. Doll, President
Retired Public Employees of Alaska



Retired Public Employees of Alaska, APEA/AFT

3310 Arctic Blvd., Suite 200, Anchorage, Alaska 99503

Phone: (907) 274-1703 or (800) 478-9992, Fax: (907) 277-4588

Email: rpea@alaska.net

Web site: www.rpea.apea-aft.org

January 30, 2012

Senator Bill Wielechowski, Chair
Senators Paskvan, Vice Chair, Kookesh, Meyer and Giessel, Members
Senate State Affairs Committee
Alaska State Legislature
State Capitol, Room 101
Juneau, AK 99801-1182

Re: RPEA Testimony in Support of SB121

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As noted in our hearing presentation, the RPEA submits the attached written copy of its testimony and stands ready to assist the Committee and the Legislature in a full and favorable consideration of this important legislation.

Sincerely,

Robert J. Doll, President
Retired Public Employees of Alaska

**RPEA Testimony for Senate State Affairs Committee Hearing re SB121
January 26, 2012**

Good morning Mr. Chairman and members of the Committee. My name is Ted Moninski and I am here today to present the official position of the Retired Public Employees of Alaska, an organization of Alaska retirees that currently includes more than 2,000 active members. RPEA members have worked for public employers in every corner of the state and in virtually every service capacity. The RPEA offers its testimony today in support of SB121.

Both in the past, and again today, you have heard from a number of witnesses who have described the reasons why SB121 is good public policy and will enhance the public workforce both now and into the future. That testimony is compelling and the RPEA urges you to give it careful consideration. But, rather than repeat what you have already heard, the RPEA hopes to convince you that SB121 is also good for the state of Alaska – for all of its citizens, its businesses and its economy.

Historically, many Alaskans made the decision to leave the state after retirement. That trend is changing for public sector retirees in large part because of the availability of a monthly pension that is enhanced by the Alaska Cost of Living Allowance and Post Retirement Pension Adjustments – all features of Alaska's defined benefits plan. As a result, nearly two thirds of public employee retirees now remain in Alaska after retirement. All retirees purchase goods and services from Alaska businesses and now infuse an estimated \$2 billion into the Alaska economy each year. This direct economic input sustains as many as 12 thousand private and public sector jobs on a year round basis. Because many retirees own their own homes, they also make a substantial contribution to the local tax base in the communities where they reside. These expenditures diversify and help stabilize the economy of Alaska. It is clearly in Alaska's best interest to incent employees to remain in Alaska after retirement.

It has been noted that most public employee retirees do not have access to federal Social Security pension benefits or have had those benefits substantially reduced as a result of their public service. Going forward, in the absence of both a reliable state pension and diminished access to Social Security, public employees who were hired after 2006 must rely on their savings, including their defined contributions plan. However, national studies show that more than two thirds of defined contribution plan participants cash out their assets when terminating employment, rather than rolling them over into another retirement plan. In such cases, retirees will have substantially diminished reserves for their retirement years. Many will not be able to afford to continue to live in Alaska and the very positive contributions made by retirees to Alaska's jobs and overall economy will be lost.

Beyond the many positive direct impacts retirees have in the Alaska economy, they also provide many other indirect benefits. For example retired citizens engage in both formal and informal volunteer work the value of which is estimated to be in the tens of millions of dollars. In addition, retirees often support family members, including adult children, enabling them to seek, find and retain meaningful employment in Alaska. One estimate of the value of retiree caregiving is close to \$50 million annually. Again, providing an incentive for retirees to remain in Alaska is unquestionably in the public interest. For all of these reasons and others we do not have time to

address at this time, the RPEA urges your favorable consideration of SB121 to reinstate a defined benefit option for public employees.

The RPEA appreciates this opportunity to offer its comments and will make a written version of this testimony available to the Committee. I would be happy to answer any questions you might have.

Major Changes in SB 121

Substantive changes in Sen. L&C "R" version:

- The changes in the bill take effect 7/1/2013
- Employees currently in the DC plan who convert are not automatically entitled to credit for all the time they've worked.
 - The actuarial 'time value' of the DC account will be credited automatically.
 - The employee may choose to create an indebtedness to make up any shortage, up to the actual years of service.
- Retirees in the new Defined Benefit tiers will pay a share of the premiums for medical insurance. These will be the same as DC retirees:
 - If the retiree is eligible for Medicare, the retiree pays:
 - 30 percent with 10-15 years of service
 - 25 percent with 15-20 years of service
 - 20 percent with 20-25 years of service
 - 15 percent with 25-30 years of service
 - 10 percent with 30 or more years of service
 - If a teacher, peace officer, or firefighter works 25 years or more, the retiree pays the percentages above, *even if not eligible for Medicare*.
 - If a PERS employee who is not a peace officer or firefighter works 30 years or more, the retiree pays 10 percent of the premium *even if not eligible for Medicare*.

The CS also makes some technical and mechanical changes:

- The title is more descriptive of the bill.
- When an employee converts from one plan to another, the change is retroactive to the date of hire. (This does not change the service credit provisions in the bill.)
- Language was clarified to ensure survivors of Defined Benefit members are eligible for survivor benefits.
- References to the Alaska Retirement Management Board transferring funds were changed to the administrator (Department of Administration) to reflect current practice.
- Language requiring individual accounts to be transferred with "interest" was changed to "with investment earnings and losses" to avoid confusion with statutory interest rates under other retirement statutes.

27-LS0281\R
Wayne
1/23/12

CS FOR SENATE BILL NO. 121(STA)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE SENATE STATE AFFAIRS COMMITTEE

Offered:
Referred:

Sponsor(s): SENATORS EGAN, Menard, Paskvan, Davis, Kookesh, Wielechowski, Ellis, Thomas, French, McGuire

A BILL
FOR AN ACT ENTITLED

1 **"An Act relating to new defined benefit tiers in the public employees' retirement system**
2 **and the teachers' retirement system; providing certain employees an opportunity to**
3 **choose between the defined benefit and defined contribution plans of the public**
4 **employees' retirement system and the teachers' retirement system; and providing for an**
5 **effective date."**

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 *** Section 1.** AS 14.25.009 is repealed and reenacted to read:

8 **Sec. 14.25.009. Applicability of AS 14.25.009 - 14.25.220.** (a) The provisions
9 of AS 14.25.009 - 14.25.220 apply to teachers who are eligible to be members of the
10 teachers' retirement system under AS 14.25.009 - 14.25.220 and are not members of
11 the defined contribution retirement plan under AS 14.25.310 - 14.25.590.

12 (b) An employer that participates in the plan shall also participate in the
13 defined contribution retirement plan under AS 14.25.310 - 14.25.590.

1 * **Sec. 2.** AS 14.25.040(a) is amended to read:

2 (a) Unless a teacher or member participates in a university retirement program
3 under AS 14.40.661 - 14.40.799 or has elected under AS 14.25.330 or former
4 AS 14.25.540 to participate in the plan established in AS 14.25.310 - 14.25.590, a
5 teacher or member contracting for service with a participating employer is subject to
6 AS 14.25.009 - 14.25.220.

7 * **Sec. 3.** AS 14.25.050(a) is amended to read:

8 (a) Except as provided in (c) and (e) of this section, beginning January 1,
9 1991, each member shall contribute to the plan an amount equal to 8.65 percent of the
10 member's base salary accrued from July 1 to the following June 30. [THE
11 EMPLOYER SHALL DEDUCT THE CONTRIBUTION FROM THE MEMBER'S
12 SALARY AT THE END OF EACH PAYROLL PERIOD, AND THE
13 CONTRIBUTION SHALL BE CREDITED BY THE PLAN TO THE MEMBER
14 CONTRIBUTION ACCOUNT. THE CONTRIBUTIONS SHALL BE DEDUCTED
15 FROM EMPLOYEE COMPENSATION BEFORE THE COMPUTATION OF
16 APPLICABLE FEDERAL TAXES AND SHALL BE TREATED AS EMPLOYER
17 CONTRIBUTIONS UNDER 26 U.S.C. 414(h)(2). A MEMBER MAY NOT HAVE
18 THE OPTION OF MAKING THE PAYROLL DEDUCTION DIRECTLY IN CASH
19 INSTEAD OF HAVING THE CONTRIBUTION PICKED UP BY THE
20 EMPLOYER.]

21 * **Sec. 4.** AS 14.25.050 is amended by adding new subsections to read:

22 (e) Except as provided in (a) and (c) of this section, a member who first
23 participates in the plan after June 30, 2006, shall contribute to the plan an amount
24 equal to eight percent of the employee's base salary accrued from July 1 to the
25 following June 30.

26 (f) The employer shall deduct the contributions under (a) and (e) of this
27 section from the member's salary at the end of each payroll period, and the
28 contributions shall be credited by the plan to the member contribution account. The
29 contributions shall be deducted from employee compensation before the computation
30 of applicable federal taxes and shall be treated as employer contributions under 26
31 U.S.C. 414(h)(2). A member may not have the option of making the payroll deduction

1 directly in cash instead of having the contribution picked up by the employer.

2 * **Sec. 5.** AS 14.25.130(c) is amended to read:

3 (c) Once each year during the first five years following appointment to
4 disability under this section, and once every three-year period thereafter, the
5 administrator may require a disabled member who **first became a member before**
6 **July 1, 2006, and who** has not attained eligibility for normal retirement to undergo a
7 medical or mental examination by a competent physician. The administrator shall
8 suspend any disability benefit for a disabled member who refuses to undergo a
9 physical or mental examination when requested under this section.

10 * **Sec. 6.** AS 14.25.130 is amended by adding new subsections to read:

11 (g) A person who first becomes a member after June 30, 2006, and who is
12 receiving a benefit under this section shall undergo a medical examination as often as
13 the administrator considers advisable, but not more frequently than once each year.
14 The administrator shall determine the place of the examination and engage the
15 physician or physicians. If, in the judgment of the administrator, the examination
16 indicates that the disabled member is no longer incapacitated because of a total and
17 apparently permanent occupational disability, the administrator may not issue further
18 disability benefits to the member.

19 (h) A person who first becomes a member after June 30, 2006, and who is
20 appointed to disability benefits shall apply to the division of vocational rehabilitation
21 of the Department of Labor and Workforce Development within 30 days after the date
22 disability benefits commence. The member shall be enrolled in a rehabilitation
23 program if the member meets the eligibility requirements of the division of vocational
24 rehabilitation. Unless the member demonstrates cause, benefits shall terminate at the
25 end of the first month in which a disabled member

26 (1) fails to report to the division of vocational rehabilitation;

27 (2) is certified by the division of vocational rehabilitation as failing to
28 cooperate in a vocational rehabilitation program;

29 (3) fails to interview for a job; or

30 (4) fails to accept a position offered.

31 * **Sec. 7.** AS 14.25.168(d) is amended to read:

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(d) A benefit recipient, or the surviving spouse of a benefit recipient, who first becomes a member before July 1, 2006, may elect major medical insurance coverage in accordance with regulations and under the following conditions:

(1) a benefit recipient [PERSON] who has less than 25 years of membership service and who is younger than 60 years of age must pay an amount equal to the full monthly group premium for retiree major medical insurance coverage;

(2) a disabled member, a disabled member who is appointed to normal retirement, a person 60 years of age or older, or a person who has at least 25 years of membership service is not required to make premium payments.

* Sec. 8. AS 14.25.168 is amended by adding a new subsection to read:

(g) A benefit recipient, or the surviving spouse of a benefit recipient, who first becomes a member after June 30, 2006, may elect major medical insurance coverage in accordance with regulations and under the following conditions:

(1) if the participating member or surviving spouse is not eligible for Medicare, the cost of a monthly premium for retiree major medical insurance coverage elected under this section is equal to the full monthly group premium for retiree major medical insurance coverage;

(2) if the participating member or surviving spouse is eligible for Medicare, the cost of a monthly premium for retiree major medical insurance coverage is a percentage of the full monthly group premium, as follows:

(A) 30 percent if the member had 10 or more, but less than 15, years of service;

(B) 25 percent if the member had 15 or more, but less than 20, years of service;

(C) 20 percent if the member had 20 or more, but less than 25, years of service;

(3) the cost of a monthly premium paid by the member or the member's surviving spouse for retiree major medical insurance coverage is

(A) 15 percent of the full monthly group premium if the participating member has 25 or more years of service;

(B) 10 percent of the full monthly group premium if the

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participating member has 30 or more years of service;

(4) a disabled member or a disabled member who is appointed to normal retirement is not required to make premium payments.

* **Sec. 9.** AS 14.25.310 is amended to read:

Sec. 14.25.310. Applicability of AS 14.25.310 - 14.25.590. The provisions of AS 14.25.310 - 14.25.590 apply only to

(1) teachers who first become members on or after July 1, 2006, and before the effective date of this section who do not transfer to a defined benefit retirement plan under AS 14.25.009 - 14.25.220 or AS 39.35.095 - 39.35.680;

(2) teachers described in AS 14.25.330 who elect under that section to become [TO MEMBERS WHO ARE EMPLOYED BY EMPLOYERS THAT DO NOT PARTICIPATE IN THE DEFINED BENEFIT RETIREMENT PLAN ESTABLISHED UNDER AS 14.25.009 - 14.25.220, TO FORMER MEMBERS UNDER AS 14.25.220, OR TO] members; and

(3) teachers who transferred [TRANSFER] into the defined contribution retirement plan under former AS 14.25.540.

* **Sec. 10.** AS 14.25.310 is amended by adding a new subsection to read:

(b) An employer that participates in the plan shall also participate in the defined benefit retirement plan under AS 14.25.009 - 14.25.220.

* **Sec. 11.** AS 14.25.330 is repealed and reenacted to read:

Sec. 14.25.330. Retirement plan election option. (a) A teacher who is first hired on or after the effective date of this section may make a one-time election to participate in the defined contribution retirement plan under AS 14.25.310 - 14.25.590 retroactive to the date of hire and may transfer to that plan employer contributions, if any, and employer contributions, if any, that have been made to the defined benefit retirement plan under AS 14.25.009 - 14.25.220. Before employer contributions are transferred under this subsection, the administrator shall recalculate them under AS 14.25.070.

(b) The election to participate in the defined contribution retirement plan under (a) of this section must be made within 90 days after the date of hire, and be made in writing on a form and in the manner prescribed by the administrator. Before

1 accepting an election to participate in the defined contribution retirement plan, the
2 administrator shall, within 20 days after the administrator receives notification of the
3 teacher's date of hire, provide the teacher eligible to make an election to participate in
4 the defined contribution retirement plan under AS 14.25.310 - 14.25.590 with

5 (1) information, including calculations to illustrate the effect of
6 moving the teacher's retirement plan from the defined benefit retirement plan to the
7 defined contribution retirement plan; and

8 (2) other information clearly to inform the teacher of the potential
9 consequences of the teacher's election.

10 (c) An election made under (a) of this section to participate in the defined
11 contribution retirement plan is irrevocable. Retroactive to the date of hire, the teacher
12 shall be enrolled as a member of the defined contribution retirement plan under
13 AS 14.25.310 - 14.25.590, the member's participation in the plan shall be governed by
14 the provisions for the defined contribution retirement plan, and the member's
15 participation in the defined benefit retirement plan under AS 14.25.009 - 14.25.220
16 shall terminate. An election made by an eligible member who is married is not
17 effective unless the election is signed by the member's spouse.

18 (d) When a member makes an election under (a) of this section, the
19 administrator shall cause the total amount of the member's employee and employer
20 contributions, with investment earnings and losses through the final day of the
21 member's participation in the defined contribution retirement plan, to be actuarially
22 calculated and transferred to the member's designated account in the defined
23 contribution retirement plan. The board shall establish transfer procedures by
24 regulation, but the actual transfer may not be later than 30 days after the date the
25 administrator receives the member's election form under (b) of this section, unless the
26 major financial markets for securities available for a transfer are seriously disrupted by
27 an unforeseen event that also causes the suspension of trading on any national
28 securities exchange in the country where the securities were issued. In that event, the
29 30-day period of time may be extended by a resolution of the board. Transfers are not
30 commissionable or subject to other fees and may be in the form of securities or cash as
31 determined by the board. Securities shall be valued on the date of receipt in the

1 member's account.

2 (e) An election made by an eligible member who is married is not effective
3 unless the election is signed by the individual's spouse. An eligible member whose
4 accounts are subject to a qualified domestic relations order may not make an election
5 to participate in the defined contribution retirement plan under this section unless the
6 qualified domestic relations order is amended or vacated and court-certified copies of
7 the order are received by the administrator.

8 * **Sec. 12.** AS 39.35.095 is repealed and reenacted to read:

9 **Sec. 39.35.095. Applicability of AS 39.35.095 - 39.35.680.** (a) The provisions
10 of AS 39.35.095 - 39.35.680 apply to public employees who are eligible to be
11 members of the public employees' retirement system under AS 39.35.095 - 39.35.680
12 and are not members of the defined contribution retirement plan under AS 39.35.700 -
13 39.35.990.

14 (b) A public organization or a municipality or other political subdivision of the
15 state that participates in the plan shall also participate in the defined contribution
16 retirement plan under AS 39.35.700 - 39.35.900.

17 * **Sec. 13.** AS 39.35 is amended by adding a new section to read:

18 **Sec. 39.35.128. Participation of elected officials of political subdivisions.** (a)
19 A person who is an elected official of a political subdivision of the state and who has
20 not participated in the plan or waived participation in the plan before July 1, 2013, is a
21 member of the plan if

22 (1) the political subdivision has elected under AS 39.35.600 -
23 39.35.650 to designate elected officials in the classifications of employees entitled to
24 participate in the plan; and

25 (2) the elected official receives compensation from the political
26 subdivision for services as an elected official in the amount of at least \$2,001 a month.

27 (b) An elected official entitled to participate under this section, and who either
28 has no previous service under the system with the political subdivision or is retired
29 under the system, may file a waiver of participation in the plan with the administrator
30 within 30 days after the later of July 1, 2013, or the date that the elected official's term
31 of office begins. A waiver is irrevocable for the remainder of the elected official's

1 service as an elected official or employee of the political subdivision.

2 * **Sec. 14.** AS 39.35.160(a) is amended to read:

3 (a) **Subject to (e) of this section, beginning** [BEGINNING] January 1, 1987,
4 each peace officer or firefighter shall contribute to the plan an amount equal to seven
5 and one-half percent of the peace officer's or firefighter's compensation. Except as
6 provided in **(d) and (e)** [(d)] of this section, beginning January 1, 1987, each other
7 employee shall contribute to the plan an amount equal to six and three-quarters percent
8 of the employee's compensation. [THE CONTRIBUTIONS SHALL BE DEDUCTED
9 BY THE EMPLOYER AT THE END OF EACH PAYROLL PERIOD. THE
10 CONTRIBUTIONS SHALL BE DEDUCTED FROM EMPLOYEE
11 COMPENSATION BEFORE COMPUTATION OF APPLICABLE FEDERAL
12 TAXES, AND THE CONTRIBUTIONS SHALL BE TREATED AS EMPLOYER
13 CONTRIBUTIONS UNDER 26 U.S.C. 414(h)(2). A MEMBER MAY NOT HAVE
14 THE OPTION OF MAKING THE PAYROLL DEDUCTION DIRECTLY INSTEAD
15 OF HAVING THE CONTRIBUTION PICKED UP BY THE EMPLOYER.]

16 * **Sec. 15.** AS 39.35.160 is amended by adding new subsections to read:

17 (e) Except as provided in (a) and (d) of this section, an employee, including a
18 peace officer or firefighter, who first participates in the plan after June 30, 2006, shall
19 contribute to the plan an amount equal to eight percent of the employee's
20 compensation.

21 (f) Contributions under (a) and (e) of this section shall be deducted by the
22 employer at the end of each payroll period. The contributions shall be deducted from
23 employee compensation before computation of applicable federal taxes, and the
24 contributions shall be treated as employer contributions under 26 U.S.C. 414(h)(2). A
25 member may not have the option of making the payroll deduction directly instead of
26 having the contribution picked up by the employer.

27 * **Sec. 16.** AS 39.35.410(g) is amended to read:

28 (g) A disabled employee **who first became a member before July 1, 2006,**
29 **and who is** receiving an occupational disability benefit shall undergo a medical
30 examination as often as the administrator considers advisable but not more frequently
31 than once each year. The administrator shall determine the place of the examination

1 and engage the physician or physicians. If, in the judgment of the administrator, the
2 examination indicates that the retired employee is no longer incapacitated because of a
3 total and apparently permanent occupational disability, the administrator may not issue
4 further disability benefits to the employee.

5 * **Sec. 17.** AS 39.35.410 is amended by adding a new subsection to read:

6 (k) A person who first becomes a member after June 30, 2006, and who is
7 appointed to disability benefits shall apply to the division of vocational rehabilitation
8 within 30 days after the date disability benefits commence. The employee shall be
9 enrolled in a rehabilitation program if the employee meets the eligibility requirements
10 of the division of vocational rehabilitation. Unless the employee demonstrates cause,
11 benefits shall terminate at the end of the first month in which a disabled employee

12 (1) fails to report to the division of vocational rehabilitation;

13 (2) is certified by the division of vocational rehabilitation as failing to
14 cooperate in a vocational rehabilitation program;

15 (3) fails to interview for a job; or

16 (4) fails to accept a position offered.

17 * **Sec. 18.** AS 39.35.535(c) is amended to read:

18 (c) A benefit recipient may elect major medical insurance coverage in
19 accordance with regulations and under the following conditions:

20 (1) a person, or the surviving spouse of a person, who becomes a
21 member before July 1, 2006, other than a disabled member or a disabled member
22 who is appointed to normal retirement, must pay an amount equal to the full monthly
23 group premium for retiree major medical insurance coverage if the person is

24 (A) younger than 60 years of age and has less than

25 (i) 25 years of credited service as a peace officer under
26 AS 39.35.360 and 39.35.370; or

27 (ii) 30 years of credited service under AS 39.35.360 and
28 39.35.370 that is not service as a peace officer; or

29 (B) of any age and has less than 10 years of credited service;

30 (2) a person, or the surviving spouse of a person, who becomes a
31 member before July 1, 2006, is not required to make premium payments for retiree

1 major medical coverage if the person

2 (A) is a disabled member;

3 (B) is a disabled member who is appointed to normal
4 retirement;

5 (C) is 60 years of age or older and has at least 10 years of
6 credited service; or

7 (D) has at least

8 (i) 25 years of credited service as a peace officer under
9 AS 39.35.360 and 39.35.370; or

10 (ii) 30 years of credited service under AS 39.35.360 and
11 39.35.370 not as a peace officer;

12 **(3) a benefit recipient who first becomes a member after June 30,**
13 **2006, or a benefit recipient who is the surviving spouse of a person who first**
14 **becomes a member after June 30, 2006, except as provided in (4) and (5) of this**
15 **subsection, shall pay an amount equal to the full monthly group premium for**
16 **retiree major medical insurance coverage; however, except as provided in (4) and**
17 **(5) of this subsection, if the benefit recipient is eligible for Medicare, the cost of a**
18 **monthly premium is a percentage of the full monthly group premium, as follows:**

19 **(A) 30 percent if the member has 10 or more, but less than**
20 **15, years of service;**

21 **(B) 25 percent if the member has 15 or more, but less than**
22 **20, years of service;**

23 **(C) 20 percent if the member has 20 or more, but less than**
24 **25, years of service;**

25 **(D) 15 percent if the member has 25 or more, but less than**
26 **30, years of service not as a peace officer;**

27 **(4) except as provided in (5) of this subsection, a benefit recipient**
28 **who first becomes a member after June 30, 2006, or a benefit recipient who is the**
29 **surviving spouse of a person who first becomes a member after June 30, 2006,**
30 **shall pay a monthly premium that is**

31 **(A) 15 percent of the cost of a full monthly group premium**

1 if the member has 25 or more, but less than 30, years of service as a peace
2 officer; or

3 (B) 10 percent of the cost of a full monthly group premium
4 if the member has 30 or more years of service;

5 (5) a benefit recipient who first becomes a member after June 30,
6 2006, is not required to make premium payments for retiree major medical
7 coverage if the recipient

8 (A) is a disabled member; or

9 (B) is a disabled member who is appointed to normal
10 retirement.

11 * **Sec. 19.** AS 39.35.620(k) is amended to read:

12 (k) Termination of an employer's participation in the plan does not bar future
13 participation in the system by that employer if the employer is current with payments
14 on amounts due under AS 39.35.625. [IF A PREVIOUSLY TERMINATED
15 EMPLOYER RETURNS TO THE SYSTEM, THE EMPLOYER MAY ONLY
16 PARTICIPATE IN THE PLAN ESTABLISHED UNDER AS 39.35.700 - 39.35.990.
17 EMPLOYEES MAY BE CREDITED UNDER AS 39.35.700 - 39.35.990 ONLY
18 WITH SERVICE SUBSEQUENT TO THE DATE OF RETURN.]

19 * **Sec. 20.** AS 39.35.680(18) is amended to read:

20 (18) "employer" means

21 (A) the State of Alaska;

22 (B) a political subdivision or public organization of the state
23 that participates in the plan based on a resolution to participate in the plan that
24 was approved by the administrator [ON OR BEFORE JULY 1, 2006]; or

25 (C) a political subdivision or public organization of the state
26 that, as a result of consolidation or reorganization [THAT OCCURS ON OR
27 AFTER JULY 1, 2006], assumes liability under the plan of a political
28 subdivision or public organization described in (B) of this paragraph;

29 * **Sec. 21.** AS 39.35.700 is amended to read:

30 **Sec. 39.35.700. Applicability of AS 39.35.700 - 39.35.990.** The provisions of
31 AS 39.35.700 - 39.35.990 apply only to

1 (1) members first hired on or after July 1, 2006, and before the
2 effective date of this section who do not transfer to a defined benefit retirement
3 plan under AS 14.25.009 - 14.25.220 or AS 39.35.095 - 39.35.680;

4 (2) public employees described in AS 39.35.720 who elect under
5 that section to become [TO MEMBERS WHO ARE EMPLOYED BY
6 EMPLOYERS THAT DO NOT PARTICIPATE IN THE DEFINED BENEFIT
7 RETIREMENT PLAN ESTABLISHED UNDER AS 39.35.095 - 39.35.680, TO
8 FORMER MEMBERS AS DEFINED IN AS 39.35.680, OR TO] members; and

9 (3) members who transferred [TRANSFER] into the defined
10 contribution retirement plan under former AS 39.35.940.

11 * **Sec. 22.** AS 39.35.700 is amended by adding a new subsection to read:

12 (b) A public organization under AS 39.35.680 or a municipality or other
13 political subdivision of the state that participates in the plan shall also participate in
14 the defined benefit retirement plan under AS 39.35.095 - 39.35.680.

15 * **Sec. 23.** AS 39.35.720 is repealed and reenacted to read:

16 **Sec. 39.35.720. Retirement plan election option.** (a) A public employee who
17 is first hired on or after the effective date of this section may make a one-time election
18 to participate in the defined contribution retirement plan under AS 39.35.700 -
19 39.35.990 retroactive to the date of hire and may transfer to that plan employee
20 contributions, if any, and employer contributions, if any, that have been made to the
21 defined benefit retirement plan under AS 39.35.095 - 39.35.680. Before employer
22 contributions are transferred under this subsection, the administrator shall recalculate
23 them under AS 39.35.255.

24 (b) The election to participate in the defined contribution retirement plan
25 under (a) of this section must be made within 90 days after the date of hire, and be
26 made in writing on a form and in the manner prescribed by the administrator. Before
27 accepting an election to participate in the defined contribution retirement plan under
28 AS 39.35.700 - 39.35.990, the administrator shall, within 20 days after the
29 administrator receives notice of the public employee's date of hire, provide the
30 employee eligible to make an election to participate in the defined contribution
31 retirement plan with

1 (1) information, including calculations to illustrate the effect of
2 moving the employee's retirement plan from the defined benefit retirement plan to the
3 defined contribution retirement plan; and

4 (2) other information to clearly inform the employee of the potential
5 consequences of the employee's election.

6 (c) An election made under (a) of this section to participate in the defined
7 contribution retirement plan is irrevocable. Retroactive to the date of hire, the
8 employee shall be enrolled as a member of the defined contribution retirement plan
9 under AS 39.35.700 - 39.35.990, the member's participation in the plan shall be
10 governed by the provisions for the defined contribution retirement plan, and the
11 member's participation in the defined benefit retirement plan under AS 39.35.095 -
12 39.35.680 shall terminate. An election made by an eligible member who is married is
13 not effective unless the election is signed by the member's spouse.

14 (d) When a member makes an election under (a) of this section, the
15 administrator shall cause the total amount of the member's employee and employer
16 contributions, with investment earnings and losses through the final day of the
17 member's participation in the defined contribution retirement plan, to be actuarially
18 calculated and transferred to the member's designated account in the defined
19 contribution retirement plan. The board shall establish transfer procedures by
20 regulation, but the actual transfer may not be later than 30 days after the date the
21 administrator receives the member's completed election form under (b) of this section,
22 unless the major financial markets for securities available for a transfer are seriously
23 disrupted by an unforeseen event that also causes the suspension of trading on any
24 national securities exchange in the country where the securities were issued. In that
25 event, the 30-day period of time may be extended by a resolution of the board.
26 Transfers are not commissionable or subject to other fees and may be in the form of
27 securities or cash as determined by the board. Securities shall be valued on the date of
28 receipt in the member's account.

29 (e) An election made by an eligible member who is married is not effective
30 unless the election is signed by the individual's spouse. An eligible member whose
31 accounts are subject to a qualified domestic relations order may not make an election

1 to participate in the defined contribution retirement plan under this section unless the
2 qualified domestic relations order is amended or vacated and court-certified copies of
3 the order are received by the administrator.

4 * **Sec. 24.** AS 14.25.012(c), 14.25.540; AS 39.35.940, and 39.35.957(b) are repealed.

5 * **Sec. 25.** The uncodified law of the State of Alaska is amended by adding a new section to
6 read:

7 RETIREMENT PLAN ELECTION CHOICE. (a) A teacher who was first hired after
8 June 30, 2006, and before the effective date of this section and who is a member of the
9 defined contribution plan of the teachers' retirement system under AS 14.25.310 - 14.25.590
10 may make a one-time election, within 90 days after the effective date of this section, to
11 participate in the defined benefit retirement plan under AS 14.25.009 - 14.25.220 and to
12 transfer all contributions, including employer contributions, that have been made or should be
13 made to the defined contribution retirement plan for service the member completes before the
14 effective date of the member's participation in the defined benefit retirement plan.

15 (b) A public employee who was first hired after June 30, 2006, and before the
16 effective date of this section and who is a member of the defined contribution plan of the
17 public employees' retirement system under AS 39.35.700 - 39.35.990 may make a one-time
18 election, within 90 days after the effective date of this section, to participate in the defined
19 benefit retirement plan under AS 39.35.095 - 39.35.680 and to transfer all contributions,
20 including employer contributions, that have been made or should be made to the defined
21 contribution retirement plan for any service the member completes before the effective date of
22 the member's participation in the defined benefit retirement plan.

23 * **Sec. 26.** The uncodified law of the State of Alaska is amended by adding a new section to
24 read:

25 RETIREMENT PLAN ELECTION PROCEDURE; REGULATIONS REQUIRED.

26 (a) The election to participate in the defined benefit retirement plan under sec. 25 of this Act
27 must be made in writing on forms and in the manner prescribed by the administrator. Before
28 accepting an election to participate in the defined benefit retirement plan, the administrator
29 shall provide the employee planning on making an election to participate in the defined
30 benefit retirement plan with information, including calculations to illustrate the effect of
31 moving the employee's retirement plan from the defined contribution retirement plan to the

1 defined benefit retirement plan as well as other information clearly to inform the employee of
2 the potential consequences of the employee's election.

3 (b) An election made under sec. 25 of this Act to participate in the defined benefit
4 retirement plan is irrevocable. On the effective date of the election, the participant shall be
5 enrolled as a member of the defined benefit retirement plan, the member's participation in the
6 plan shall be governed by the provisions for the defined benefit retirement plan, and the
7 member's participation in the defined contribution retirement plan shall terminate. The
8 participant's enrollment in the defined benefit retirement plan shall be effective retroactive to
9 the date of hire. An election made by an eligible member who is married is not effective
10 unless the election is signed by the individual's spouse.

11 (c) When a member makes a one-time election under sec. 25 of this Act, the
12 administrator shall cause the total amount of the member's employee and employer
13 contributions, with investment earnings and losses through the final day of the member's
14 participation in the defined contribution retirement plan, to be actuarially calculated and,
15 subject to (d) of this section, transferred to the pension fund in the defined benefit retirement
16 plan. On the effective date of the member's participation in the defined benefit retirement
17 plan, the member shall be credited with service in the defined benefit retirement plan that is
18 equal to the member's service in years, including fractional years, recognized for computing
19 benefits that may be due from the defined contribution retirement plan. The board shall
20 establish transfer procedures by regulation, but the actual transfer may not be later than 30
21 days after the date the administrator receives the member's completed election forms under (a)
22 of this section, unless the major financial markets for securities available for a transfer are
23 seriously disrupted by an unforeseen event that also causes the suspension of trading on any
24 national securities exchange in the country where the securities were issued. In that event, the
25 30-day period of time may be extended by a resolution of the board. Transfers are not
26 commissionable or subject to other fees and may be in the form of securities or cash as
27 determined by the board. Securities shall be valued on the date of receipt in the participant's
28 account.

29 (d) If the value actuarially calculated under (c) of this section is insufficient to pay for
30 a service credit equal to the participant's actual service, the administrator shall allow the
31 participant to create an indebtedness up to the amount needed to eliminate the insufficiency;

1 however, if that value exceeds the amount needed to pay for a service credit equal to the
2 participant's actual service, the administrator shall cause the excess to be paid to the
3 participant as a rollover transfer to either an individual employee annuity account in the
4 Department of Administration under the terms of AS 39.30.150 - 39.30.180 (Alaska
5 Supplemental Annuity Plan) or, if the participant's employer does not participate in the Alaska
6 Supplemental Annuity Plan, to an eligible retirement plan under AS 14.25.360(d) or
7 AS 39.35.760(d). An excess under this subsection may not be used to purchase service credit
8 in a retirement plan administered under AS 14.25 or AS 39.25.

9 (e) The provisions of this section are subject to the requirements of the Internal
10 Revenue Code and the limitations under AS 14.25.010, 14.25.320(c) and (d), 14.25.490,
11 AS 39.35.115, 39.35.678, 39.35.710(c) and (d), and 39.35.895.

12 (f) In this section,

13 (1) "administrator" means the commissioner of administration or the person
14 designated by the commissioner of administration under AS 39.35.003 for a public
15 employees' retirement plan and under AS 14.25.003 for a teachers' retirement plan;

16 (2) "board" means the Alaska Retirement Management Board established
17 under AS 37.10.210;

18 (3) "defined benefit retirement plan" means the retirement plan established
19 under

20 (A) AS 14.25.009 - 14.25.220 for a teacher; or

21 (B) AS 39.35.095 - 39.35.680 for a public employee;

22 (4) "defined contribution retirement plan" means the retirement plan
23 established under

24 (A) AS 14.25.310 - 14.25.590 for a teacher; or

25 (B) AS 39.35.700 - 39.35.990 for a public employee;

26 (5) "Internal Revenue Code" the meaning given in AS 39.35.990.

27 * **Sec. 27.** The uncodified law of the State of Alaska is amended by adding a new section to
28 read:

29 **ADOPTION OF REGULATIONS.** The commissioner of administration shall adopt
30 regulations necessary to implement the changes made by this Act. The regulations take effect
31 under AS 44.62 (Administrative Procedure Act), but not before the effective date of the law

1 implemented by the regulation.

2 * **Sec. 28.** Sections 26 and 27 of this Act take effect immediately under AS 01.10.070(c).

3 * **Sec. 29.** Except as provided in sec. 28 of this Act, this Act takes effect July 1, 2013.



SENATOR DENNIS EGAN

SB 121 - Alaska Pensions

Sponsor Statement

SB 121 lets teachers, Troopers, firefighters and other public employees choose one of two state retirement systems: an individual defined contribution retirement account, or earning a defined benefit pension.

A defined benefit pension takes time to earn, but rewards a record of public service by paying a guaranteed monthly benefit and, for long-term employees, health insurance. An individual defined contribution account is portable from one employer to another, and flexible in how it can be used, but makes no guarantees. SB 121 will let newly hired public servants in Alaska choose the one that fits best.

SB 121 creates a new more stable, more predictable defined benefit pension tier for teachers and public employees. A few years ago, Alaska beefed up oversight of the pension system. Now we have two actuaries analyzing the health of the pension trusts, there are more frequent experience studies and the law bars the practice of sometimes paying less than the cost of benefits. SB 121 keeps these smart reforms, making Alaska pensions stronger than ever.

And the defined benefit pensions for new employees under SB 121 will cost employers less than the pension tiers that came before, saving money for schools, cities, and the State of Alaska.

Alaska teachers and public employees don't earn Social Security, and many even lose Social Security benefits they earned in past jobs. So for most, a defined benefit pension makes sense. Other employees will choose individual defined contribution accounts because they prefer flexibility, portability, and control, or because their plans do not include long-term service in the public sector. SB 121 maintains their option to choose an individual account.

The teachers who educate our children, the police and firefighters who protect our families, and the public employees who serve our state and cities will be able to choose the benefit that best fits their service.

ALASKA SENATE

STATE CAPITOL • JUNEAU, ALASKA 99801-1182 • (907) 465-4947 • FAX (907) 465-2108
SENATOR.DENNIS.EGAN@LEGIS.STATE.AK.US

March 8, 2011

CONFIDENTIAL

Alaska Public Pension Coalition

Subject: Analysis of Egan Bill

Dear Coalition Partners:

We have analyzed the actuarial impact of the February 12, 2011 draft Bill from Senator Egan which would modify the retirement program for those now covered by the Defined Contribution Retirement (DCR) program.

The primary features of the bill are:

- Those hired on or after July 1, 2006 would receive the retirement, death and disability benefits currently provided by Tier 2 of TRS and Tier 3 of PERS, rather than the DCR benefits under Tier 3 of TRS and Tier 4 of PERS.
- Peace Officers and firefighters in PERS would contribute 7.50% of pay; other PERS members would contribute 6.75%; those in TRS would contribute 8.65%
- Those individuals would be eligible to receive retiree major medical coverage without having to pay premiums, under the following conditions:
 - For teachers, after June 30, 2011 new retirees are eligible with 25 years of service or at the age of Medicare eligibility [65] with at least 8 years of service.
 - For peace officers and firefighters, after June 30, 2011 new members are eligible with 25 years of service or at the age of Medicare eligibility [65] with at least 10 years of service.
 - For other PERS members, after June 30, 2011 new members are eligible with 30 years of service or at the age of Medicare eligibility [65] with at least 10 years of service.

This information is provided according to PTA's understanding and interpretation of the Work Draft legislation. Please advise us if our interpretation above is not consistent with your understanding. If so, our findings would differ.

The major implications of the bill as we see it are:

- Pension benefits will revert to the prior defined benefit plan tiers
- Retiree health benefits will be stronger than those under DCR, but not as strong as those provided under the latest tier DB plans. Retiree health care premiums are paid as illustrated by the following table:

	Teachers	Peace Officers & Firefighters	Other PERS
Latest Tier DB Plan Health Care Eligibility	Age 60 or 25 years	Age 60 or 25 years	Age 60 or 30 years
DCR Program Health Care Eligibility	Medicare Age [65]	Medicare Age [65]	Medicare Age [65]
Egan Bill Health Care Eligibility	Medicare Age [65] with 8 years or any age with 25 years	Medicare Age [65] with 10 years or any age with 25 years	Medicare Age [65] with 10 years or any age with 30 years

Cost Comparisons

The actuary for the Alaska Department of Administration Division of Retirement Benefits regularly reports on the financial condition of the Alaska Public Employees’ Retirement System (PERS) and Alaska Teachers’ Retirement System (TRS). These analyses are conducted primarily through an “actuarial valuation”, which calculates the plans costs and liabilities. The actuary has calculated the Normal Cost under both the prior tier DB plans as well as under the DCR program. We have been asked to estimate the costs of the proposed program in the draft Egan bill. These cost estimates are being done without the benefit of the full actuarial data that would be used by the actuary. Consequently, their numbers will likely be different than ours, and more correct. We also understand that the actuarially assumed rate of investment return is being reduced from 8.25% to 8.00%. Our estimates are still based on 8.25%, so the “official” cost numbers will likely be slightly higher than ours.

The following tables develop our cost estimates and compare the three programs:

Teachers Retirement System	DB Plan Tier 2	DCR Plan Tier 3	Proposed Tier 4
Total Retirement Normal Cost	11.39%	NA	11.39%
Member Contributions	(8.65%)	(8.00%)	(8.65%)
Net Employer Retirement Normal Cost	2.74%	NA	2.74%
DC Employer Contribution Rate	NA	7.00%	NA
Occupational Death and Disability Normal Cost Rate	NA	0.05%	NA
Medical Normal Cost Rate	5.33%	0.64%	4.52%
HRA Contribution Rate	NA	3.00%	NA
Total Employer Cost	8.07%	10.69%	7.26%
DCR Payroll during FY 2011	\$59,750,000	\$59,750,000	\$59,750,000
Total Employer Cost on FY 2011 Basis	\$4,800,000	\$6,400,000	\$4,300,000

Public Employees Retirement System – Peace Officers & Firefighters	DB Plan Tier 3	DCR Plan Tier 4	Proposed Tier 5
Total Retirement Normal Cost	12.30%	NA	12.30%
Member Contributions	(7.50%)	(8.00%)	(7.50%)
Net Employer Retirement Normal Cost	4.80%	NA	4.80%
DC Employer Contribution Rate	NA	5.00%	NA
Occupational Death and Disability Normal Cost Rate	NA	1.04%	NA
Medical Normal Cost Rate	5.90%	0.43%	5.35%
HRA Contribution Rate	NA	3.00%	NA
Total Employer Cost	10.70%	9.47%	10.15%
DCR Payroll during FY 2011	\$21,192,000	\$21,192,000	\$21,192,000
Total Employer Cost on FY 2011 Basis	\$2,300,000	\$2,000,000	\$2,200,000

Other Public Employees Retirement System Members	DB Plan Tier 3	DCR Plan Tier 4	Proposed Tier 5
Total Retirement Normal Cost	9.58%	NA	9.58%
Member Contributions	(6.75%)	(8.00%)	(6.75%)
Net Employer Retirement Normal Cost	2.83%	NA	2.83%
DC Employer Contribution Rate	NA	5.00%	NA
Occupational Death and Disability Normal Cost Rate	NA	0.16%	NA
Medical Normal Cost Rate	7.00%	0.56%	3.60%
HRA Contribution Rate	NA	3.00%	NA
Total Employer Cost	9.83%	8.72%	6.43%
DCR Payroll during FY 2011	\$200,739,000	\$200,739,000	\$200,739,000
Total Employer Cost on FY 2011 Basis	\$19,700,000	\$17,500,000	\$12,900,000

Some of these cost comparisons are very intriguing. Note that the costs for the Peace Officers and Firefighters are roughly comparable to the Tier 3 and Tier 4 costs. But the costs for Other PERS member is dramatically lower than either the Tier 3 or Tier 4 costs. This is because they are losing significantly on the medical premium payments, by no longer being able to retire at age 60 with premium payment made by the plan unless they have 30 years of service. I estimate that only about a third of these Other PERS members would have 30 years by the time they attain age 65, meaning that this benefit would have no value for most of them. That is the reason the medical normal cost rate is so much lower for Other PERS Tier 5 than for Other PERS Tier 3. It will be interesting to see what the "official" actuarial cost determination is.

Please also realize that the cost determinations above do not include any cost for the retroactive feature of the bill. I understand that those costs were estimated to be \$37 million in 2009. We do not have the data necessary to make an estimate of the cost this year. Because of the market recovery, the cost might possibly have decreased since 2009.

Conclusions.

The proposed program would result in stronger pension benefits through the return of the Defined Benefit plan for members hired since 2006. It would provide improved health care plan benefits, but no future HRA contributions. Member contribution rates would decrease for PERS members and increase slightly for TRS members. As a result of all this, employer costs on a FY 2011 basis would increase by about \$200,000 for PERS Peace Officer and Firefighter members, but would decrease substantially for TRS (\$2.1 million) and Other PERS (\$4.6 million) members. In total, employer costs would fall by about \$6 million.

The PERS and TRS actuary will calculate more precise costs, based on complete data and their new actuarial assumptions. The costs above should be considered a starting point for analysis of the bill.

The work reflected herein was conducted by Pension Trustee Advisors under my direction. I look forward to discussing this with you further.

Sincerely,



William B. Fornia, FSA
President

Cc:

Joelle Hall, Alaska AFLCIO
Lydia Garcia, NEA Alaska
Derek Hsieh, APDEA
Bruce Ludwig, APEA/AFT
Jim Duncan, ASEA/AFSCME Local 52
Norm Ruggles, PTA

Alaska Division of Retirement and Benefits
Teachers' Retirement System (TRS) Plan Comparison Chart

Feature	Tier I July 1, 1955 – June 30, 1990	Tier II Entered on or after July 1, 1990	Tier III Entered on or after July 1, 2006
Employee Contribution	Pre-tax employee contribution: 8.65% beginning 1/1/91	Pre-tax employee contribution: 8.65% beginning 1/1/91	Pre-tax employee contribution: 8% Employee may make additional contributions.
Employer Contribution	Determined by annual actuarial valuation.	Determined by annual actuarial valuation.	7% - DC account 1.75% Health Plan - determined by annual actuarial valuation after FY07. HRA - Flat dollar amount per employee based on 3% of the employer's average annual employee compensation.
Vesting	Members vest with 8 years of service.	Members vest with 8 years of service.	100% vested in employee contributions from inception. Vested in employer contributions based on the following schedule: 25% after 2 years of service, 50% after 3 years, 75% after 4 years and 100% after five years.
Qualifications for Retirement	Normal retirement age is 55, with early retirement at age 50; teachers can retire at any age after 20 years of membership service.	Normal retirement age is 60, with early retirement at age 55; teachers can retire at any age after 20 years of membership service.	None for investment account. Taxes and penalties may apply if withdrawn before age 59 1/2. See requirements for Retirement Medical Coverage.
Benefit Calculation Formula	Benefit formula is 2% for the first 20 years and all years of service prior to July 1, 1990 , 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries.	Benefit formula is 2% for the first 20 years, 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries.	DC account balance plus investment earnings.
Alaska Cost-of-living Increases (COLA)	An Alaska Cost-of-Living Allowance is payable to benefit recipients who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit.	An Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit.	None provided.

More detailed information may be found on the Division website, www.state.ak.us/drb, or in the TRS Information Handbook.
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Feature	Tier I July 1, 1955 – June 30, 1990	Tier II Entered on or after July 1, 1990	Tier III Entered on or after July 1, 2006
Post Retirement Pension Adjustments (PRPA) (Inflation protection)	PRPA increases granted on an ad hoc basis. If an ad hoc is not granted, tier I employees must be age 60 or over or receiving benefits for 8 years to qualify for the automatic PRPA. The automatic PRPA legislated in 1990 applied to all members regardless of hire date.	Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years.	None provided.
Retirement Medical Coverage	Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system.	The retirement system pays the retiree medical plan premium for all disabilitants regardless of age, for retirees and survivors over age 60 and for retirees with at least 25 years of membership service. This coverage includes eligible dependents. Retirees and survivors under age 60, with less than 25 years of membership service must pay the full premium cost if they want coverage.	<p>Access to medical coverage at Medicare eligible age with 10 years of service or at any age with 30 years of service. Must retire directly from the system. If not eligible for Medicare, must pay full premium. May use health reimbursement arrangement (HRA) account to pay premiums. Once the HRA is exhausted, member self- pays premiums.</p> <p>When eligible for Medicare, the percentage of premium paid by the retiree or surviving spouse is:</p> <p>10-14 years of service - 30% 15-19 years - 25% 20-24 years - 20% 25-29 years - 15% 30 years or more - 10%</p>
Disability Benefits	Disability benefits are 50% of base salary, plus 10% for each eligible dependent child up to a maximum of 4 children.	Disability benefits are 50% of base salary, plus 10% for each eligible dependent child up to a maximum of 4 children.	<p>Must be a total and presumably permanent disability whose cause is directly related to performance of duties of the job or an on the job injury. Benefit is 40% of salary, earns service while on occupational disability. Employer continues to make all required contributions as if the member were working, plus the member's required contributions to the DC account, without deduction from the member's disability payment.</p> <p>Disability benefits cease when the member becomes eligible for normal retirement at Medicare eligible age and 10 years of service or at any age with 30 years of service. No medical insurance until eligible for normal retirement.</p>

More detailed information may be found on the Division website, www.state.ak.us/drb, or in the TRS Information Handbook.
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ALASKA

Pensionomics:

Measuring the Economic Impact of State and Local Pension Plans

Key Findings

Benefits paid by state and local pension plans support a significant amount of economic activity in the state of Alaska.

Pension benefits received by retirees are spent in the local community. This spending ripples through the economy, as one person's spending becomes another person's income, creating a *multiplier effect*.

Expenditures stemming from state and local pensions supported...

- 6,270 jobs that paid \$385.2 million in wages and salaries
- \$1.0 billion in total economic output
- \$155.5 million in federal, state, and local tax revenues

... in the state of Alaska

Each dollar paid out in pension benefits supported \$1.25 in total economic activity in Alaska.

Each dollar "invested" by Alaska taxpayers in these plans supported \$6.35 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic stimulus to Alaska communities and the state economy. In 2006, 34,962 residents of Alaska received a total of \$819.50 million in pension benefits from state and local pension plans, with \$808.64 million paid from plans within the state and the remainder originating from plans in other states.

The average pension benefit received was \$1,953 per month or \$23,440 per year. These modest benefits provide retired teachers, public safety personnel and others who served the public during their working careers income to meet basic needs in retirement.

Impact on Jobs and Incomes

Retiree expenditures stemming from state and local pension plan benefits supported 6,270 jobs in the state. The total income to state residents supported by pension expenditures was \$385.2 million.

Of this, the greatest share, \$188.0 million, was comprised of employee compensation (wages and salaries). Proprietors' income (self-employment income) represented \$33.6 million, and other property income (including payments from interest, rent, royalties, profits and dividends) totaled \$163.6 million.

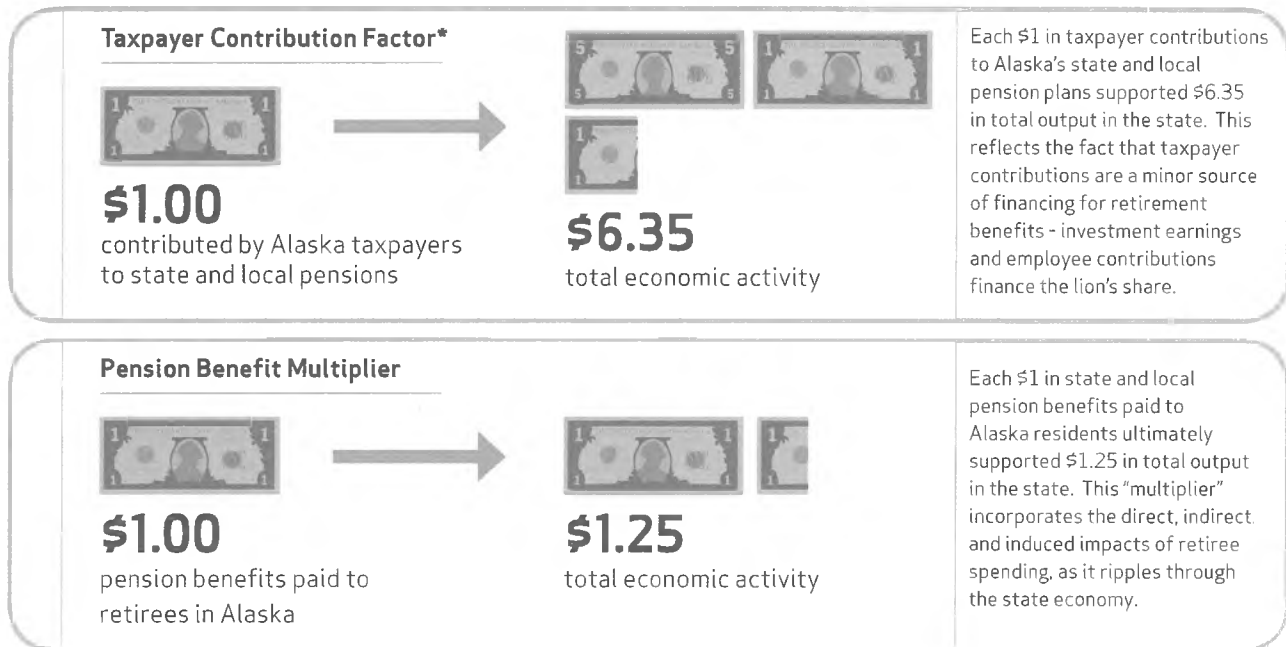
Economic Impact

State and local pension funds in Alaska and other states paid a total of \$819.50 million in benefits to Alaska residents in 2006. Retirees' expenditures from these benefits supported a total of \$1.0 billion in total economic output in the state, and \$430.7 million in value added in the state.

\$790.8 million in direct economic impacts were supported by retirees' expenditures on goods and services from businesses in the state. An additional \$120.4 million in indirect economic impact resulted when these businesses purchased additional goods and services, generating additional income in the local economy. \$112.8 million in induced impacts occurred when employees hired by businesses as a result of the direct and indirect impacts made expenditures, supporting even more additional income.



Economic Multipliers



* Caution should be used in interpreting this number, because the Census data used reflect the taxable status of contributions only; because employee contributions may be reported as taxpayer contributions, the multiplier here may be underestimated.

Impact on Tax Revenues

State and local pension payments made to Alaska residents supported a total of \$155.5 million in revenue to federal, state and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$28.7 million. Taxes attributable to direct, indirect and induced expenditures accounted for \$126.8 million in tax revenue.

Federal Tax	87.5 million
State/Local Tax	67.8 million
Other Corporate Taxes	0.2 million
Total	\$155.5 million

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in the state. The ten industry sectors with the largest employment impacts are presented in the table below.

Industry	Employment Impact (# Jobs)	Value Added Impact (\$ millions)	Income Impact (\$ millions)	Output Impact (\$ millions)
Health Care and Social Assistance	1,354	\$75.0	\$74.2	\$119.1
Retail Trade	1,331	64.4	50.9	97.0
Accommodation and Food Services	839	26.7	23.8	50.0
Other Services (Except Public Administration)	479	14.2	13.3	27.1
Real Estate and Rental and Leasing	452	33.8	28.2	50.8
Professional, Scientific, and Technical Services	229	11.8	11.5	23.2
Arts, Entertainment, and Recreation	229	6.2	5.6	10.8
Finance and Insurance	227	24.2	23.3	43.9
Public Administration	196	10.1	10.1	20.7
Transportation and Warehousing	187	11.4	10.8	22.0

Alaska Division of Retirement and Benefits
Public Employees' Retirement System (PERS) Plan Comparison Chart

Feature	Tier I 1/1/61 - 6/30/86	Tier II Entered on or after 7/1/86	Tier III Entered on or after 7/1/96	Tier IV Entered on or after 7/1/06
Employee Contribution	Pre-tax employee contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Pre-tax employee contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Pre-tax employee contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Pre-tax employee contribution: 8% all employees Employee may make additional contributions.
Employer Contribution	Determined by annual actuarial valuation.	Determined by annual actuarial valuation.	Determined by annual actuarial valuation.	5% DC Account 1.75% Health Plan - determined by annual actuarial valuation after FY07. HRA - Flat dollar amount per employee based on 3% of the employer's average annual employee compensation. .4% Disability - P/F .3 All others
Vesting	Members vest with 5 years of service.	Members vest with 5 years of service.	Members vest with 5 years of service.	100% vested in employee contributions from inception. Vested in employer contributions based on the following schedule: 25% after 2 years of service, 50% after 3 years, 75% after 4 years and 100% after five years.
Qualifications for Retirement	Normal retirement age is 55, with early retirement at age 50; police/fire members can retire at any age after 20 years of police/fire service; all other members can retire at any age after 30 years of membership service. Early retirement reduction will be 1/2% per month or 6% per year for every year less than the required normal retirement age.	Normal retirement age is 60, with early retirement at age 55; police/fire members can retire at any age after 20 years of police/fire service; all other members can retire at any age after 30 years of membership service. Early retirement reduction will be 1/2% per month or 6% per year for every year less than the required normal retirement age.	Normal retirement age is 60, with early retirement at age 55; police/fire members can retire at any age after 20 years of police/fire service; all other members can retire at any age after 30 years of membership service. Early retirement reduction will be 1/2% per month or 6% per year for every year less than the required normal retirement age.	None for investment account. Taxes and penalties may apply if withdrawn before age 59-1/2. See requirements for Retirement Medical Coverage.
Benefit Calculation Formula	Benefit formula is 2% for first 10 years and all years of service prior to July 1, 1986, 2.25% for the next 10 years, 2.5% per year thereafter. Benefit calculation is determined on the average of the high three consecutive years' salary. Police/Fire - 2% X 10, 2.5% over 10.	Benefit formula is 2% for first 10 years, 2.25% for the next 10 years, and 2.5% per year thereafter. Benefit calculation is determined on the average of the high three consecutive years' salary. Police/Fire - 2% X 10, 2.5% over 10.	Benefit formulas did not change; however, the benefit calculation is determined on the average of the high five consecutive years' salary. The benefit calculation for police and fire members is the average of the high three consecutive years regardless of tier (effective 2002).	DC account balance plus investment earnings. May be received in several different payment options. Payout options include lump sum payments, rollovers to another qualified plan, or annuities. Annuities may be taken as a lifetime annuity, joint and survivor annuity, or for a period certain.
Alaska Cost-of-living Increases (COLA)	An Alaska Cost-of-Living Allowance is payable to benefit recipients who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater.	An Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater.	An Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater.	None provided.

More detailed information may be found on the Division website, www.state.ak.us/drb, or in the PERS Information Handbook.

*Credited service includes all service used in the calculation of a retirement benefit.

Feature	Tier I 1/1/61 - 6/30/86	Tier II Entered on or after 7/1/86	Tier III Entered on or after 7/1/96	Tier IV Entered on or after 7/1/06
			the base benefit, whichever is greater.	
Post Retirement Pension Adjustments (PRPA) (Inflation Protection)	PRPA increases granted on an ad hoc basis. If an ad hoc is not granted, tier I employees must be age 60 or over or receiving benefits for 5 years to qualify for the automatic PRPA. The automatic PRPA legislated in 1986 applied to all members regardless of hire date.	Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years.	Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years.	None provided.
Retirement Medical Coverage	Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system.	Medical coverage is provided to disabilitants, regardless of age and benefit recipients over age 60 or <ul style="list-style-type: none"> Peace officer/fire members with 25 years of police/fire service all other members with 30 years of membership service and their eligible dependents. The retirement system pays the retiree medical plan premium. Retirees and survivors under age 60 must pay the full premium cost if they want coverage.	Same as Tier II. However, employees must accrue a minimum of 10 years of credited service , to have system-paid coverage at age 60. Employees with less than 10 years must pay the full premiums as long as they wish to continue medical coverage.	Access to medical coverage at Medicare eligible age with 10 years of service or at any age with 25 years of service for peace officers and firefighters or with 30 years of service for all others. Must retire directly from the system. If not eligible for Medicare, must pay full premium. May use health reimbursement arrangement (HRA) account to pay premiums. Once the HRA is exhausted, member self- pays premiums. When eligible for Medicare, the percentage of premium paid by the retiree or surviving spouse is: 10-14 years of service - 30% 15-19 years - 25% 20-24 years - 20% 25-29 years - 15% 30 years or more - 10%
Disability Benefits	Disability benefits for members: nonoccupational disability benefits are calculated as a normal retirement. Occupational disability provides 40% of the gross monthly compensation. Different occupational disability formula available before 7/1/76.	Disability benefits for members: nonoccupational disability benefits are calculated as a normal retirement. Occupational disability provides 40% of the gross monthly compensation.	Disability benefits for members: nonoccupational disability benefits are calculated as a normal retirement. Occupational disability provides 40% of the gross monthly compensation.	Must be a total and presumably permanent disability whose cause is directly related to performance of duties of the job or an on the job injury. Benefit is 40% of salary, earns service while on occupational disability. Employer continues to make all required contributions as if the member were working, plus the member's required contributions to the DC account, without deduction from the member's disability payment. Disability benefits cease when the member becomes eligible for normal retirement at Medicare eligible age and 10 years of service or at any age with 25 years of service for peace officers and firefighters or with 30 years of service for all others. Medical insurance is available to members receiving disability when member is eligible for a normal retirement.

More detailed information may be found on the Division website, www.state.ak.us/drb, or in the PERS Information Handbook.

*Credited service includes all service used in the calculation of a retirement benefit.



National Conference on Public
Employee Retirement Systems

NCPERS Research Series

May 2007



The Top Ten Advantages of Maintaining Defined Benefit Pensions

Legislation has been proposed in several states to replace state and local government defined benefit (DB) retirement plans with defined contribution (DC) plans. At issue is not whether state and local employees should have access to DC plans—many already do in conjunction with their DB plans or else through supplemental DC-type plans, which play a useful role in providing additional tax-deferred retirement savings.¹ Rather the issue is whether defined benefit plans should be eliminated and replaced with defined contribution plans.

While recognizing that DC plans are useful in providing supplemental retirement benefits, this paper discusses the advantages of maintaining state and local DB plans and argues against replacing them with DC plans. Eliminating the DB plan and switching to a DC plan is likely to be a lose-lose situation for governments, their employees, and taxpayers for many reasons. After briefly describing how DB and DC plans work, this paper will discuss the following 10 advantages of retaining DB plans:

- Retaining a DB plan is likely to cost state and local governments less over the short term. The long-term cost savings of switching to a DC plan are uncertain at best.
- Almost all state and local DB plans provide disability and survivor benefits as well as retirement income. Switching to a DC plan would require employers to obtain these benefits from another source, likely at a higher cost.
- DB plans enhance the ability of state and local governments to attract qualified employees and retain them throughout their careers. Switching to a DC plan would limit this ability, possibly producing or exacerbating labor shortages in key service areas by increasing employee turnover rates. Higher turnover rates result in increased training costs and lower levels of productivity that can, in turn, result in the need for a larger total workforce.

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¹ Examples of DC-type plans available to state and local employees include governmental deferred compensation plans (also known as “457 plans”) and 403(b) annuities. In addition, some state and local employees are also covered by 401(k) plans, if the plans were established before May 6, 1986. As reported by the Nationwide Retirement Education Institute in their 2004 report *America’s Retirement Voice: Public Sector Retirement Yesterday, Today, and Tomorrow*, governmental 457 plans are in place for most large and mid-size cities and counties and all 50 states, covering approximately 3 million participants. According to a 2006 survey by the National Association of Government Defined Contribution Administrators (NAGDCA), 7.4 million governmental employees are eligible to participate in some form of defined contribution plan. This represents about half of current state and local government employees.

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National Conference on Public Employee Retirement Systems

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- DB plans help state and local governments manage their labor force by providing flexible incentives that encourage employees to work longer or retire earlier, depending on the circumstances. Switching to a DC plan would limit this flexibility and make these incentives more expensive for the employer.
- By pooling risk over a relatively large number of participants, DB plans lower the overall risk due to investment losses and participants outliving retirement benefits. Switching to a DC plan would require each individual to bear these risks alone, consequently requiring higher contributions than if the risks were pooled.
- DB plans earn higher investment returns and pay lower investment management fees, on average, than DC plans. Switching to a DC plan is likely to lower investment earnings used to finance retirement benefits and increase management costs, to the detriment of plan participants.
- DB plan investment earnings reduce future employer contributions. Switching to a DC plan would prevent state and local governments from reducing employer contributions through investment earnings, which currently fund over two-thirds of public retirement benefits.
- DB plans provide secure retirement benefits based on a person's salary and period of service. Switching to a DC plan is likely to result in lower and less secure retirement benefits for many long-term governmental employees, including firefighters, police officers, and teachers, who constitute over half of state and local government workers.² State and local employees who are without Social Security coverage would be put at even greater risk.
- DB plans help sustain state and local economies by providing adequate and steady retirement benefits for a significant portion of the workforce. Switching to a DC plan may slow state and local economies, since a large number of retirees would likely receive lower retirement benefits.
- DB plans provide benefits that help ensure an adequate standard of living throughout retirement. Switching to a DC plan likely would result in pressure on state and local governments to augment DC plan benefits and require increased financial assistance for retirees.

Background

State and local government retirement plans in the United States cover 14.1 million active employees (about 10 percent of the U.S. labor force) and 6.9 million retirees,³ including teachers, police officers, firefighters, legislators, judges, and general employees. Ninety percent of state and local governmental employees are covered by defined benefit retirement plans.⁴ Approximately 25 percent are not covered by Social Security, including close to half of public school teachers and about 70 percent of police officers and firefighters. State and local retirement plans paid annual benefits of \$141 billion in 2005, averaging about \$20,400 per retiree.⁵ As of December 31, 2006, state and local plans had accumulated \$3 trillion in assets, which were invested in a broadly diversified mix of equity and fixed-income securities.⁶

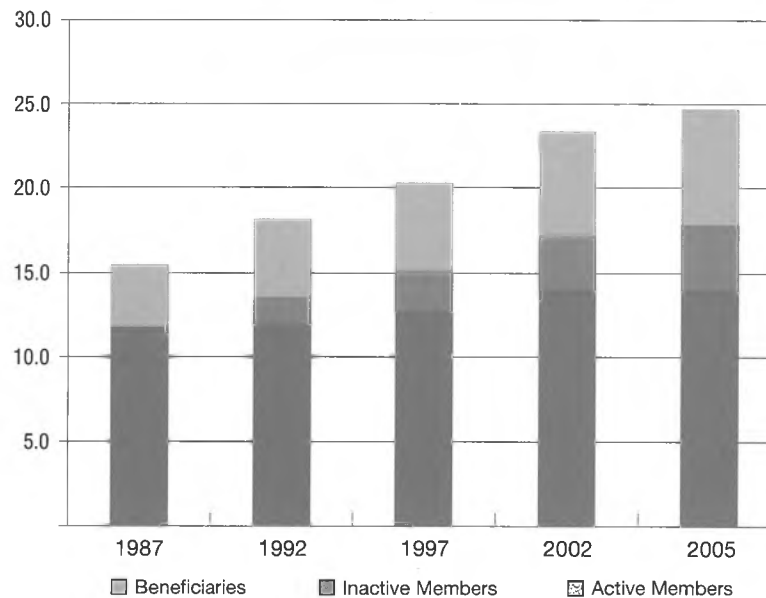
² U.S. Census Bureau, *Statistical Abstract of the United States 2004-2005* (Washington, DC: U.S. Government Printing Office, 2004), Table No. 454. Teachers, school employees, police officers, and firefighters constitute approximately 60 percent of state and local government employees.

³ U.S. Census Bureau, *State and Local Government Employee-Retirement Systems*, Fiscal Year 2005, Table 5a. In addition to active employees and retirees, state and local plans also cover 3.8 million inactive members who are eligible for retirement benefits upon reaching retirement age. (www.census.gov/govs/www/retire05.html)

⁴ U.S. Bureau of Labor Statistics, *Employee Benefits in State and Local Governments, 1998*. (Washington, DC: U.S. Government Printing Office, 2000), p. 5.

⁵ U.S. Census Bureau, *State and Local Government Employee-Retirement Systems*, Fiscal Year 2005, Table 1. Average benefit calculated by the author and rounded to the nearest hundred dollars.

⁶ Board of Governors of the Federal Reserve System, *Flow of Funds Accounts of the United States: Flows and Outstandings, Fourth Quarter 2006*, Table L-119. (www.federalreserve.gov/releases/z1/current/z1.pdf)

**Chart I: Participants in State and Local Government DB Plans**

Source: U.S. Census Bureau, State and Local Government Employee-Retirement Systems, annual

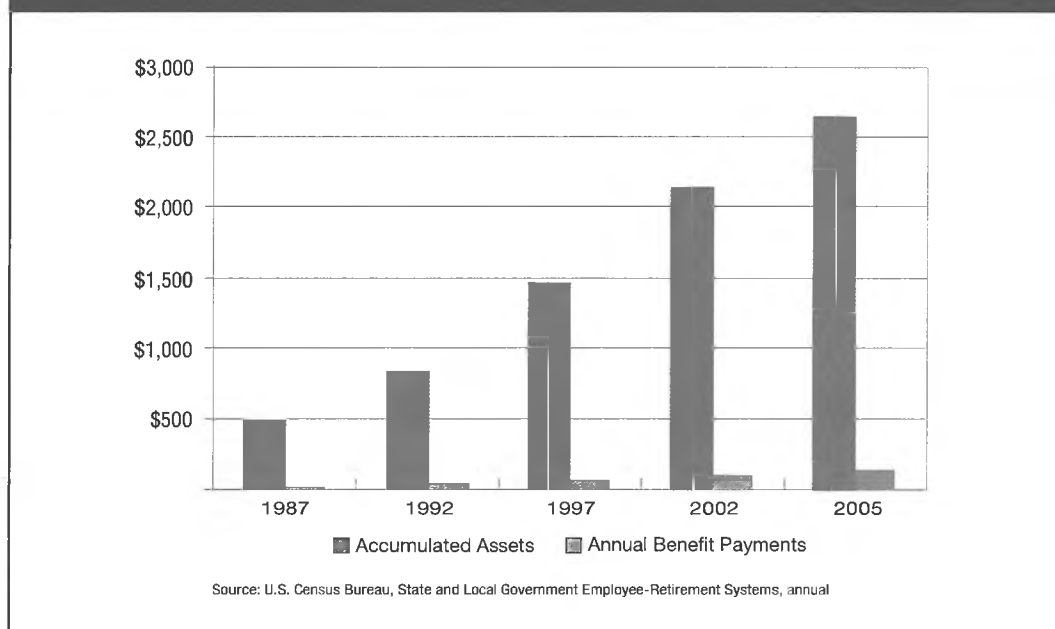
Since the mid-1990s, legislation has been proposed in several states to replace state and local DB plans with DC plans. The pace of these proposals increased from 2003 through 2006, partly due to equity market downturns in 2000 through 2002 that resulted in increased contribution rates for many DB plans, both public and private. Proponents of the change argue that switching to a DC plan would lower the government's cost of providing retirement benefits, thereby reducing state and local taxes. They also argue that DC plans would benefit public employees by giving them higher benefits through DC plan investment earnings and by making it easier for employees to take their benefits with them when they change jobs.

As this paper shows, it is likely that switching to a DC plan would increase retirement costs over the short-term and possibly over the long-term as well. In addition, recent studies indicate that retirement benefits provided through DC plans are, on average, significantly lower than those provided through DB plans. Moreover, while DC plans are useful for providing supplemental, tax-deferred retirement savings, replacing DB plans with DC plans could cause severe, unintended consequences:

- Governments could lose a valuable tool for attracting and retaining qualified employees;
- Public employees could lose a significant amount of retirement income, potentially affecting state and local economies; and
- Legislators could face additional pressure to increase DC retirement benefits and provide additional financial assistance for public-sector retirees.



Chart 2: Accumulated Assets and Annual Benefit Payments of State and Local Government DB Plans



How DB Plans Work

In a typical DB plan, employers promise to pay retirement benefits based on an employee's period of service and final average salary. A typical benefit formula for state and local general employees is 2 percent times final average salary times years of service.⁷ Under this formula, an employee who works 20 years and retires with a final average salary of \$40,000 would earn an annual benefit of \$16,000.

Eligibility for the benefit (i.e., vesting) usually requires employees to work for a minimum period of time, typically 5 years.⁸ Upon retirement, the benefit is provided as a series of monthly payments over the retiree's lifetime (and the surviving spouse's lifetime if this option is selected by the member who, in return, receives a reduced benefit). Most state and local employees are in DB plans that provide cost-of-living adjustments as protection against inflation. In addition, most also provide disability and pre-retirement death benefits.

DB plan benefits are financed by contributions from the employer (and most often from employees as well) and investment income. Employee contributions are usually established at a fixed rate of pay, averaging a little over 4 percent for general employees and almost 7 percent for public safety employees and teachers.⁹ Employer contributions are calculated so

⁷ The "2 percent" portion of this benefit formula is referred to as the "benefit multiplier." Benefit multipliers vary, depending on occupation and Social Security coverage. According to the NASRA/NCTR 2003 Public Fund Survey, the median benefit multiplier is 1.85 percent for state and local employees covered by Social Security and 2.20 percent for those not covered by Social Security.

⁸ National Education Association, *Characteristics of Large Public Education Pension Plans* (Washington, DC: National Education Association, 2004). The 88 statewide plans surveyed cover 9.4 million active workers. Fifty-seven percent of the plans had vesting periods of five years.

⁹ Public Pension Coordinating Council, *2000 Survey of State and Local Government Employee Retirement Systems*, April 2000, Table VII-7. Employee contributions as a percentage of payroll averaged 4.2 percent for general employees, 6.8 percent for teachers, and 6.9 percent for public safety employees.



that, over the long-run (50 years or more), annual contributions plus expected investment earnings are enough to pay the promised benefits plus administrative expenses. These calculations are done by actuaries and designed to maintain employer contribution rates at a level percent of payroll, by smoothing short-term investment fluctuations and using other actuarial techniques.¹⁰ Plan assets are invested in professionally managed, broadly diversified portfolios, with investment fees paid by the plan or employer. Retirement benefits are paid from accumulated contributions and investment earnings.

For employers, a key advantage of DB plans is that investment earnings reduce future employer contributions. In other words, employer and employee contributions generate investment earnings that, in turn, are used to pay benefits that would otherwise have to be paid from future employer contributions. From 1986 through 2005, state and local DB plan investments earned \$2.26 trillion, reducing the need for additional employer contributions and taxpayer revenues.¹¹

A potential disadvantage of DB plans is that when investment earnings are less than expected, additional employer contributions are required. However, it should be noted that the \$2.26 trillion earned by state and local investments over the past 20 years includes investment losses that occurred in 2000 through 2002, as well as in 1987 and 1994.

For employees, a key advantage of DB plans is that they provide secure and predictable retirement income over their lifetimes based on pre-retirement earnings. A key disadvantage is that employees who do not remain employed long enough to become vested often lose their DB plan benefits, although employee contributions are nearly always returned with interest.

How DC Plans Work

In a DC plan, employers provide employees with individual investment accounts and promise to contribute a certain amount to the accounts ranging from 3.5 percent to 8 percent (or more) of pay while the employee is employed. Employees can also contribute to their accounts and decide how the assets are invested, choosing from a number of funds representing major investment categories. Investment management fees are paid from the employee's account, reducing the funds available to pay benefits. At retirement, the employee's benefit is paid solely from the contributions and investment earnings that have accumulated in the individual's account.

For employers, one advantage of DC plans is that the employer's contribution rate is fixed and unaffected by downturns in investment markets. Moreover, the employer has no financial liability for the employees after they retire, even if the DC accounts are insufficient to provide an adequate retirement benefit. (While this may be an advantage for private-sector employers, it is a disadvantage for state and local governments—and taxpayers—who may have to pay increased public financial assistance as a result.)

A disadvantage for employers is that DC plans may not be a strong incentive for attracting and retaining qualified employees, especially if competing employers are offering DB

¹⁰ These smoothing techniques work well when investment fluctuations are moderate and short-lived.

¹¹ U.S. Department of Commerce, U.S. Census Bureau, through 1996, *Finances of Employee-Retirement Systems of State and Local Governments*, Series GF, No. 2, annual; beginning 1997, *State and Local Government Employee-Retirement Systems*, annual.



plans. Moreover, if employees' account balances are inadequate to provide retirement benefits when the employees intend to retire, employers can end up with a number of active employees who are not performing at peak productivity (also known as being "retired in place"). Another disadvantage is that, since the employer's contribution rate is fixed in a DC plan, upturns in the investment markets do not reduce the employer's contribution rate, as they do in DB plans.

For employees, one advantage of DC plans is that the vesting period is typically shorter than for DB plans. Six months to two years is typical.¹² Moreover, DC accounts are more "portable"—that is, easier to transfer if the employee changes jobs. A major disadvantage is that DC accounts are subject to investment risk and may not be enough to sustain employees throughout their retirement. Another disadvantage is that a high percentage of employees cash-out and spend some or all of their DC accounts when they change jobs, significantly reducing the amounts available to pay retirement benefits.¹³

The remainder of this paper describes the advantages of retaining DB plans.

Advantage 1: Retaining a DB plan is likely to cost state and local governments less over the short term. The long-term cost savings of switching to a DC plan are uncertain at best.

- **DC plans are costly to establish and maintain.** A DC plan must be designed, vendors must be selected, its operation must be monitored, and employees must be informed about plan features and available investments. Staff time is spent throughout this process, and the sponsoring government must pay legal and consulting fees. If a third-party administrator is not hired to operate the plan, the government must do this as well. Even if a third-party administrator is hired, the government will still have operating costs related to the DC plan, possibly ranging in the millions of dollars.
 - ❖ For example, the budget for the State of Florida's DC plan, established in 2000, totaled \$89 million from FY 2001 through FY 2004. This includes \$55 million to educate Florida's 650,000 government employees about the new plan.¹⁴ As of 2004, approximately 3 percent of DB participants had chosen to transfer to the DC plan.¹⁵
- **Pension benefits currently promised to state and local employees and retirees may not be abandoned. Switching to a DC plan does not reduce accrued DB plan benefits already earned.** Most governmental DB plan benefits are protected by the state's constitution or statutes that prevent accrued benefits from being reduced. Consequently, when an alternative DC plan is established, current DB plan members remain in the DB plan but may be given the option to transfer to the new DC plan. For current DB plan members who elect the DC plan, the value of the member's accrued DB benefit is often transferred to the DC plan.¹⁶

¹² However, some public-sector DC plans require 5 years of service (or more) for employees to completely vest in the employer's contributions.

¹³ This is surprising since the cashed-out amounts are subject to income taxes. In many cases they are also subject to a 10 percent penalty tax on early distributions.

¹⁴ Information provided by the Pension Protection Coalition, based on an analysis of the Florida Public Employee Optional Retirement Program's approved budgets and revenue collections. The analysis was done for the Coalition by the law firm of Olson, Hagel & Fishburn, LLP, January 18, 2005. The budgeted amounts exclude investment management fees paid by plan participants. Used with permission.

¹⁵ Anya Sostek, "Pension Pendulum," *Governing Magazine*, March 2004: 28.

¹⁶ If the member's accrued DB benefit is not transferred to the DC plan, it is maintained in the DB plan.



- **When given the option, most employees remain in the DB plan.** In most cases, only a small percent of employees elect to transfer from the DB plan to the DC plan.¹⁷ To increase the number of employees who eventually enter the DC plan, some governments have restricted the DB plan to current employees and have required newly hired employees to join the DC plan.¹⁸
- **Even when new hires are required to join the DC plan, long-term cost savings for employers are uncertain and may take many years to realize.** When a DB plan is closed to new hires, it still covers current employees and retirees, and benefits continue to accrue to active employees as a result of their service. To the extent that plan assets are less than accrued liabilities, unfunded liabilities remain. For DB plans with unfunded liabilities, closing the DB plan to new hires will likely increase the employer's annual required contribution rate. Because new hires are not entering the plan, the cost of funding the liabilities is spread over a declining number of active members,¹⁹ thereby increasing the employer's contribution rate as a percent of covered payroll. In addition, since a growing portion of plan assets must be used to pay benefits, a growing portion of assets will likely be held in short-term securities, thereby reducing investment returns.
 - ❖ For example, the Los Angeles County Employees Retirement Association (LACERA) estimated that the County's DB plan contribution rate would increase by 3.66 percent if employees hired after July 1, 2007, were required to join a DC plan. This would increase County contributions to the closed DB plan by \$206 million in 2008. While the contributions would gradually decline over time, the County would have to wait until 2018 to see any savings in DB plan costs as a result of the change.²⁰
- **In several cases, states have replaced (or have considered replacing) DC plans due to inadequacy of plan benefits or increased costs.**
 - ❖ In 1977, the North Dakota Public Employees Retirement System, originally established as a DC plan in 1966, was changed to a DB plan. Reasons given include the need to provide adequate retirement benefits and the need to attract and retain quality employees.²¹
 - ❖ In 2000, the State of Nebraska reviewed its two DC retirement plans for state and county workers and found that between 1983 and 1999 the DC plans' investment returns averaged only 6 percent compared with 11 percent for the state's DB plans. Recognizing these returns were inadequate to

¹⁷ Sostek, 2004. Three percent of employees covered by the DB plan elected to join the new DC plan in Florida, 6 percent in Michigan, and 2.5 percent in Ohio.

¹⁸ National Association of State Retirement Administrators, "Overview of Plan Types." Of the 14 state retirement systems discussed in this paper, only two (Michigan and West Virginia) required newly hired employees to join the DC plan. The remaining systems offered DC plans as a voluntary alternative to the DB plan or offered a new plan that combined DB and DC plan features. Available on the NASRA web site (www.nasra.org).

¹⁹ Governmental Accounting Standards Board, Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* (Norwalk, CT: Governmental Accounting Standards Board, 1994), p. 7. In situations where a DB plan is closed to new members, unfunded liabilities are amortized as a level percent of projected payroll, including projected decreases in the number of active plan members.

²⁰ Los Angeles County Employees Retirement Association, "Proposals to Close Public Defined Benefit Plans." (<http://www.lacera.com/home/ProposalsToClosePublicDefinedBenefitPlans.html>).

²¹ North Dakota Legislative Council, Employee Benefits Program Committee, "Public Employees Retirement Programs – History," October 1998.



sustain retirement benefits, the state responded by creating a new hybrid plan for state and county workers, combining both DB and DC plan features.²²

- ❖ In 2005, the West Virginia Legislature passed a law requiring teachers in the Teacher's Defined Contribution (TDC) Plan (created in 1991) to transfer into the State Teachers' Retirement System, a DB plan, effective upon approval by TDC plan members. According to the West Virginia Consolidated Public Retirement Board's actuary, the change would save the State \$1.9 billion over the next 30 years, because lower employer contributions were required for the DB plan (4.3 percent of payroll) than for the DC plan (7.5 percent of payroll). State teacher representative also indicated the change would help prevent teachers from leaving their jobs.²³ In 2006, TDC plan members voted to merge with the DB plan. However, because the law required the transfer of vested DC assets, it was contested and overturned in circuit court.²⁴

Advantage 2: Almost all state and local DB plans provide disability and survivor benefits as well as retirement income. Switching to a DC plan would require employers to obtain these benefits from another source, likely at a higher cost.

- **Almost all state and local DB plans provide disability and survivor benefits.** According to the U.S. Bureau of Labor Statistics, 97 percent of state and local government employees in DB plans have disability coverage through the plan and 93 percent may elect joint and survivor benefits.²⁵ These benefits are largely funded through contributions and investment earnings. Disability and survivor benefits are especially important for employees in hazardous occupations such as firefighters and police officers who may die or become disabled in the line of duty.
- **Few DC plans provide disability benefits. Moreover, DC plan survivor benefits are usually limited to the participant's account balance.** In the absence of a DB plan, employers would need to obtain disability and pre-retirement death benefits through commercial insurance or else would have to self-fund the benefits. Either of these options would result in additional administrative costs. If the benefits were obtained through commercial insurance, the employer's cost would also include the insurer's profit margin.

Advantage 3: DB plans enhance the ability of state and local governments to attract qualified employees and retain them throughout their careers. Switching to a DC plan would limit this ability, possibly producing or exacerbating labor shortages in key service areas by increasing employee turnover rates. Higher turnover rates result in increased training costs and lower levels of productivity that can, in turn, result in the need for a larger total workforce.

- **Employers offer retirement plans as a way to attract qualified employees and retain them so their skills and experience are used efficiently.** According to the Diversified

²² Anya Sostek, p. 28.

²³ Jim Wallace, "Teacher pension bill has hurdles," *Charleston Daily Mail*, March 31, 2005.

²⁴ *Antony J. Barbario v. West Virginia Consolidated Public Retirement Board*, Civil Action 06-C-687, Circuit Court of Kanawha County, West Virginia.

²⁵ U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in State and Local Governments, 1998* (Washington, DC: U.S. Government Printing Office, December 2000), pp 94-98.



Investment Advisors' Report on Retirement Plans, most large employers see a tangible value in offering a defined benefit plan to their employees – despite the high costs sometimes associated with it. Fifty-eight percent of plan sponsors with 25,000 or more employees believe that their DB plans have a major impact on employee retention.²⁶

- **DB plan provisions encourage employees to remain with an employer longer than DC plan provisions.** The vesting period for DB plans is typically longer (e.g., 5 years) than the vesting period for DC plans (e.g., 6 months to 2 years). Consequently, employees have a financial incentive to continue working for the employer at least until they vest. After that, DB plan benefit accruals based on continued service provide an additional financial incentive to remain.
- **Key governmental service areas, such as education and public safety, require skilled and dedicated employees to work in positions involving high levels of stress or physical activity or both.** Individuals with the skills and temperament to take on these roles usually have other opportunities in the labor market. DB plans provide strong incentives by rewarding long-term, dedicated service with a secure retirement.

Advantage 4: DB plans help state and local governments manage their labor force by providing flexible incentives that encourage employees to work longer or retire earlier, depending on circumstances. Switching to a DC plan would limit this flexibility and make these incentives more expensive for the employer.

- Governments can use DB plan benefits as a way to manage their labor force by rewarding longer employment and encouraging retirement after a certain period of employment. DB plan benefit formulas can be structured to provide incentives for longer employment by increasing the benefit multiplier after a certain period of service.
 - ❖ For example, the formula could provide benefits of 2.0 percent of final average earnings for the first 20 years of service and 2.2 percent for service over 20 years. To encourage retirement after a certain period of employment, DB benefit formulas can limit benefit accruals to a maximum percent of final average earnings or a maximum years of service. In this example, if the benefit accrual was limited to 62 percent of final average earnings, it would encourage employees to retire after 30 years of service. Other options, such as early retirement incentives (ERIs) and deferred retirement option plans (DROPs), are also available.

Advantage 5: By pooling risk over a relatively large number of participants, DB plans lower the overall risk do to investment losses and participants outliving retirement benefits. Switching to a DC plan would require each individual to bear these risks alone, consequently requiring higher contributions than if the risks were pooled.

- DC plan participants must save enough to ensure they will not outlive their accumulated assets while protecting their funds against financial market fluctuations. According to the Society of Actuaries RP-2000 mortality tables, 50 percent of U.S.

²⁶ "Majority of U.S. Companies That Offer a Pension Plan Say It Impacts Employee Retention," *Business Wire*, September 7, 2004.



males who reach age 65 will live to age 83, 10 percent will live to age 93, and about 1 percent will live to 100. Moreover, 50 percent of U.S. females who reach age 65 will live to age 85, 10 percent will live to age 96, and 2 percent will live to 100. To ensure their DC accounts will sustain them over their expected lifetimes, DC plan participants must save enough to ensure their benefits will be paid into their 90s.

- ❖ A 25 year old male would have to save 17 percent of his salary each year to age 65 in order to replace 75 percent of his pre-retirement income from age 65 to age 93 (assuming 7 percent annual investment returns). A 25 year old female would have to save 18 percent of her salary to assure 75 percent income replacement to age 96. However, if these longevity risks were pooled over a large enough group to allow the risks to be fully averaged, the required savings rate would fall to 13.6 percent of salary for both males and females.²⁷ Risk pooling is one of the main advantages of a DB plan.
- **In order to lower investment risk, DC plan participants usually shift a greater portion of their assets from stocks into bonds as they grow older. While this helps protect against equity market downturns, it also lowers likely investment return.** According to a 2004 Employee Benefit Research Institute study, 401(k) plan participants in their 20s invest 65 percent of their account balances in equities (including company stock) and 21 percent in fixed-income securities, on average. Participants in their 60s invest 49 percent in equities and 40 percent in fixed-income securities.²⁸ In contrast, large public retirement systems hold 60 percent of assets in equities, 29 percent in fixed-income securities, and the remaining 11 percent in other investments.²⁹ This pooling of assets allows DB plans to maintain a more diversified portfolio and helps to lower investment management fees.
- **By averaging longevity and investment risks over a large number of participants, DB plans lower the total costs of providing retirement benefits.** Instead of requiring contributions large enough to fund retirement benefits through each individual's maximum life expectancy, DB plans only need to fund benefits through the average life expectancy of the group. This lowers required contributions. Moreover, by spreading investment risk over a longer period, DB plans can maintain an investment mix that includes a higher percentage of equity investments. This increases likely investment returns, which further lower required contributions. In the example presented earlier in this section, if the pooling of funds could increase investment returns from 7 percent to 8 percent, then the required savings rate for the pooled participants would fall from 13.6 percent to 10.0 percent.³⁰

²⁷ Gabriel, Roeder, Smith & Company, "The Advantages of Risk Pooling for Financing Retirement Benefits," *GRS Insight*, July 2006. (<http://www.gabrielroeder.com/pubs/GRSInsight-2006-07.pdf>)

²⁸ Sara Holden and Jack VanDerhei, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2004," *EBRI Issue Brief*, No. 272, August 2004. Employee Benefit Research Institute.

²⁹ Keith Brainard, *Public Fund Survey Summary of Findings for FY 2005*, National Association of State Retirement Administrators, September, 2006, p. 5.

³⁰ Gabriel, Roeder, Smith & Company, "The Advantages of Risk Pooling for Financing Retirement Benefits," *GRS Insight*, July 2006. (<http://www.gabrielroeder.com/pubs/GRSInsight-2006-07.pdf>)



Advantage 6: DB plans earn higher investment returns and pay lower investment management fees, on average, than DC plans. Switching to a DC plan is likely to lower investment earnings used to finance retirement benefits and increase management costs, to the detriment of plan members.

- **On average, investment returns for DC plans are lower than for DB plans, resulting in significantly lower investment earnings over an individual's lifetime.** According to Boston College economist Alicia Munnell, DB plans outperformed DC plans by one percentage point annually, on average, between 1988 and 2004.³¹ For a person contributing \$5,000 to a DC plan each year for 40 years, the difference between an 8.0 percent annual return and a 7.0 percent return amounts to a loss of over \$279,000.³² Other studies show that individual, non-professional investors may underperform the market by as much as 2.0 percent annually.³³ The difference between an 8.0 percent annual return and a 6.0 percent return amounts to a loss of over \$521,000.³⁴
- **Administration and investment costs for DC plans can be more than four times higher than for DB plans. In DC plans, these costs are borne directly by individual plan participants through deductions from their DC accounts.** According to the Investment Management Institute, the operating expense ratio for DB plans averaged 31 basis points in 2003 (31 cents per \$100 of assets) compared with 96 to 175 basis points for DC plans.³⁵ According to the Illinois Municipal Retirement Fund, the total annual administrative and investment cost for their DB plan amounted to 44 basis points in 1999. Had they switched to a DC plan, total annual administrative and investment costs could have increased up to 225 basis points, or up to \$250 million more than the annual administrative and investment costs paid by the DB plan.³⁶
- **Employees direct their own investments in a DC plan, usually selecting from among several funds that reflect major investment categories. Generally, employees have limited investment experience or training.** According to a 2007 study by Watson Wyatt Worldwide, many DC plan participants "don't start saving soon enough, don't save enough, and don't follow sound investment principles in managing their retirement assets." The study also found that assets are more effectively managed in DB plans, in part because plan administrators work with consultants and professional asset managers to set and implement investment goals.³⁷
- **DC plan participants often cash-out and spend some or all of their DC accounts when they switch jobs. As a result, the accounts contain less money to earn investment returns and to pay benefits at retirement.** According to Alicia Munnell, more than half of DC plan participants withdraw funds from their DC accounts when they change jobs, removing between one-quarter and one-third of their total DC plan assets before they reached retirement.³⁸

³¹ Alicia H. Munnell et al, "Investment Returns: Defined Benefit vs. 401(k) Plans," *Issue Brief*, Center for Retirement Research at Boston College, September 2006.

³² Author's calculations.

³³ W. Michael Carter, Actuary. February 6, 1998. Letter comment on "Pension Liberation: A Proactive Solution to the Nation's Public Pension Systems." Letter is posted on the National Council on Teacher Retirement website (www.nctr.org).

³⁴ Author's calculations.

³⁵ Sean Collins, "The Expenses of Defined Benefit Pension Plans and Mutual Funds," *Perspective*, Vol. 9, No. 6, December 2003. DC plan expenses include 12-b1 marketing and distribution fees.

³⁶ Louis W. Kosiba, "The Defined Benefit vs. Defined Contribution Debate: The \$250 Million Question," Illinois Municipal Retirement Fund, October 13, 1999, p. 2. IMRF serves over 360,000 active employees, inactive members, retirees and beneficiaries.

³⁷ Watson Wyatt Worldwide, *Pension Aspirations and Realizations: A Perspective on Yesterday, Today, and Tomorrow*, March 2007.

³⁸ Alicia H. Munnell and Annika Sunden, *Coming Up Short, The Challenge of 401(k) Plans*, (Washington, DC: Brookings Institution Press, 2004), p. 132.



Advantage 7: DB plan investment earnings help to reduce future employer contributions. Switching to a DC plan would prevent state and local governments from reducing future employer contributions as a result of investment earnings, which currently fund over two-thirds of public retirement benefits.

- State and local governments have benefited from investment returns overall and many have used investment earnings to reduce employer contributions. Over the long-term, an employer's cost of providing DB plan benefits depends on investment earnings. Although investment earnings can fluctuate sharply at times (as happened from 2000 through 2002), over the last 20 years state and local governments have substantially benefited from investment returns and have used the accumulated assets to lower employer contributions. As provided in governmental accounting standards, plan assets that are greater than plan liabilities are amortized to reduce employer contributions.³⁹ A 2002 survey of Michigan state and local government retirement systems shows that of 115 independent local government retirement plans surveyed, employer contributions for 102 (89 percent) were below the normal cost of benefits as a result of this amortization.⁴⁰
- Most of the money paid into state and local retirement plans comes from investment earnings. Over the 20-year period from 1986 through 2005, state and local government investment earnings amounted to about \$2.3 trillion, compared with employer contributions of \$790 billion and employee contributions of \$400 billion.⁴¹ This means two out of every three dollars paid into state and local retirement plans over the last 20 years was received from investment earnings. According to a paper on state and local retirement plans prepared for the Wharton School's Pension Research Council: "Setting aside all the other benefits to employers and employees of DB plans, contributions to public pension plans may be among the best investments a state or local government can make."⁴²

Advantage 8: DB plans provide secure retirement benefits that are based on a person's salary and period of service. Switching to a DC plan is likely to result in lower and less secure retirement benefits for many long-term governmental employees, including firefighters, police officers, and teachers, who constitute over half of state and local government workers. State and local employees who are without Social Security coverage would be put at even greater risk.

- Retirement benefits paid from DC plans are significantly less than those paid from DB plans. The U.S. Congressional Research Service found that, for current older workers, DC-type plans will provide annual benefits of less than \$5,000 for half the workers.⁴³ This is one-quarter of the \$20,400 average annual benefits currently paid by governmental DB plans to state and local workers.
- If average state and local retirement benefits fell from \$20,000 to \$5,000, it would mean a loss of approximately \$106 billion in annual U.S. personal income.⁴⁴ This loss would be felt by state and local economies, since many retirees remain in the

³⁹ Governmental Accounting Standards Board, Statement No. 27, p. 6.

⁴⁰ Gabriel, Roeder, Smith & Company, *2002 Michigan Public Employee Retirement Systems Survey*, (Southfield, MI: Gabriel, Roeder, Smith & Company, 2002).

⁴¹ U.S. Department of Commerce, U.S. Census Bureau, through 1996, *Finances of Employee-Retirement Systems of State and Local Governments*, Series GF, No. 2, annual; beginning 1997, *State and Local Government Employee-Retirement Systems*, annual.

⁴² Gary W. Anderson and Keith Brainard, "Profitable Prudence: The Case for Public Employer Defined Benefit Plans," Pension Research Council, Wharton School, University of Pennsylvania, 2004, p. 14.

⁴³ Patrick J. Purcell, "Retirement Savings and Household Wealth: A Summary of Recent Data," Washington, DC: Library of Congress, Congressional Research Service, December 11, 2003.

⁴⁴ Author's calculation based on \$141 billion in annual pension benefits paid by state and local government retirement plans in 2005.



same location when they retire. These pension benefits are also, in most cases, subject to federal and state income taxes, thus resulting in a loss of tax revenues. Tax losses would also be seen in reductions of state sales tax revenues.

- The change would have an even greater effect on the 25 percent of state and local government employees who are not covered by Social Security, including about half of school teachers and about 70 percent of police officers and firefighters. When first enacted in 1935, Social Security excluded state and local employees, due largely to constitutional questions about the federal government's right to tax state and local governments. In 1950, Congress amended Social Security to allow state and local governments to voluntarily elect coverage. By then, however, half of the largest state and local plans had already been established, including many plans for teachers and public safety employees.⁴⁵ These DB plans provide benefits that compensate for the lack of Social Security coverage. Replacing them with defined contribution plans would put members at even greater risk, since they would not have Social Security benefits to fall back on.

Advantage 9: DB plans help sustain state and local economies by providing adequate retirement benefits for a significant portion of the workforce. Switching to a DC plan would likely slow state and local economies, since a large number of retirees would likely receive lower retirement benefits.

- Public DB plans have a substantial impact on state and local economies. For example, a 2006 economic impact study by the Perryman Group found that the \$5.4 billion in annual benefits paid by the Teacher Retirement System of Texas (TRS) to approximately 250,000 retired teachers and beneficiaries generates \$9.9 billion in total economic activity within the state. Moreover, as a result of TRS's strong investment performance, the overall return on state (and therefore taxpayer) contributions is significant: every \$1 of state funds contributed to TRS leads to \$7.85 in total spending in the Texas economy.⁴⁶
- The overall economic value added by the investment income of state and local DB plans over what would otherwise have been earned in DC plans is estimated to be about \$200 billion annually, or 2.0 percent of U.S. Gross Domestic Product.⁴⁷ In essence, state and local retirement plans act as financial engines, using employer and employee contributions to generate investment income that, when paid as retirement benefits, bolsters state and local economies by \$200 billion a year. State and local retirees purchase a wide range of goods and services with their retirement income. These purchases, in turn, promote employment and create additional economic demand, generating additional economic activity. As a result of this multiplier effect, the economic activity generated by the higher investment earnings amounts to 2.0 percent of U.S. Gross Domestic Product. As a growing number of state and local employees retire, this percentage will likely increase.

⁴⁵ Olivia S. Mitchell, et al, *Pensions in the Public Sector*, (Philadelphia, PA: University of Pennsylvania Press, 2001) p. 13.

⁴⁶ The Perryman Group, *Beyond the Classroom: The Impact of Pension Benefits Paid by the Teacher Retirement System of Texas (TRS) on Business Activity in Texas, Its Regions, Metropolitan Areas, and Counties*, July 2006.

⁴⁷ Anderson and Brainard, p. 14.



Advantage 10: DB plans provide benefits that help to ensure an adequate standard of living throughout retirement.

Switching to a DC plan would likely result in pressure on state and local governments to augment DC plan benefits and require increased financial assistance for retirees.

- If DC plan benefits are less than what is needed to ensure an adequate standard of living during retirement, continued pressure will be placed on state and local governments, legislators, and taxpayers as retirees outlive their retirement income. Since DC benefits are not indexed to inflation, extended periods of even modest inflation will mean almost constant pressure for some form of additional financial support for retirees, who would make up a growing portion of the electorate. When DC plan benefit improvements are granted, they will be paid from current government revenues and will not be offset by investment earnings.

Conclusion

This paper addresses the question, “Should state and local government defined benefit plans be eliminated and replaced with defined contribution plans?” It concludes that such a move would have significant, long-term, detrimental effects on state and local governments, their employees, their economies, and ultimately the taxpayers.

In the final analysis, the real question is, “How can state and local governments efficiently provide secure, sufficient, and sustainable retirement benefits for their employees?” To answer this question, retirement benefits should be viewed in total, including benefits from Social Security, defined benefit plans, defined contribution plans, and individual savings. No single source alone is sufficient, but together they can be used to provide effective and efficiently funded retirement income. Eliminating defined benefit plans would only intensify future problems rather than provide solutions.

Instead, decisions should be based on a clear understanding of the goals that current plan design is intended to achieve for the various stakeholders, including the employer sponsoring the plan, plan participants, and taxpayers. Retirement plan design represents a significant public policy. Therefore, the plan sponsor contemplating changes must understand the policy implications of current plan design as well as any new proposals.

Success is most likely to happen after careful analysis. With proper analysis and an understanding of the needs of a changing population, fine-tuning the basic pension plan design can produce excellent results for all – sponsors, employees, retirees, and taxpayers.



**NCPERS would like to thank the staff of Gabriel, Roeder,
Smith & Company for their help in the preparation of
this NCPERS Research Series publication.**



National Conference on Public Employee Retirement Systems

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STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

BECKY HULTBERG, COMMISSIONER

SEAN PARNELL, GOVERNOR

P.O. BOX 110200
JUNEAU, ALASKA 99811-0200
PHONE: (907) 465-2200
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April 13, 2011

The Honorable Bill Wielechowski, Chair
Senate State Affairs
State Capitol, Room 101
Juneau, AK 99801

Dear Senator Wielechowski:

Thank you for the opportunity to address the Senate State Affairs Committee during my confirmation hearing on Tuesday, April 5, 2011. Below is the response to the question that was raised during that session.

Q1: Given conservative assumptions about market performance and assuming typical step and cost of living increases, but not promotions, what would the balance of an employee's SBS account be as of July 1, 2036, assuming consistent step increases from an initial range 16, step A, over 30 years, for a PERS and TRS eligible employee?

A1: The SBS account balance for the employee after 30 years would be \$427,312 (PERS only; TRS does not participate in SBS).

The total assets for a PERS employee under this scenario, assuming a conservative 4% investment return, would be about \$880,000. This includes the defined contribution account balance accrued and invested with the same assumptions

I hope the question raised has been answered to your satisfaction. Please feel free to contact me at any time.

Sincerely,



Becky Hultberg
Commissioner

DEPARTMENT OF ADMINISTRATION

BECKY HULTBERG, COMMISSIONER

P.O. BOX 110200
JUNEAU, ALASKA 99811-0200

PHONE: (907) 465-2200

FAX: (907) 465-2135

April 4, 2011

The Honorable Johnny Ellis, Chair
Senate Finance Sub-Committee
State Capitol, Room 119
Juneau, AK 99801-1182

Dear Senator Ellis:

Thank you for your letter dated March 1, 2011, requesting information on the State's defined -contribution retirement programs. Below are the responses to questions you raised in your letter with the exception of the questions related to health reimbursement accounts, which I hope to have to you by the close of business tomorrow.

Statewide Personnel Requirements: *(Please note: Workplace Alaska, the State's online recruitment system has limited reporting capabilities which impedes our ability to provide the requested information. However, from fiscal year 2008 forward, recruitment data is available through the Alaska Data Enterprise Reporting System (ALDER). For this reason, several questions were answered for 2008 through 2010 only.)*

- Q1: What was the average number of qualified applicants for all active recruitments in each year from 2001 to 2010?
- A1: Please see attachment A, column titled: Average Qualified Applicant Count.
- Q2: What was the average duration of all active recruitments in each year from 2001 to 2010?
- A2: Due to reporting limitations, this information is not available. However, it is estimated that the average duration is 15 calendar days.
- Q3: How many active recruitments were filled by Alaska residents in each year from 2001 to 2010?
- A3: Please see attachment A, columns titled: Alaska Resident Hire Count and Percent of Resident Hire.
- Q4: How many active recruitments were filled by non-Alaska residents in each year from 2001 to 2010?
- A4: Please see attachment A, columns titled: Non-Alaska Resident Hire Count and Percent of Non-Alaska Resident Hire.

The Honorable Johnny Ellis

Page 2

April 4, 2011

Q5: How many active recruitments were filled by current or former State of Alaska (SOA) employees in each year from 2001 to 2010?

A5: See attachment A, columns titled: Current Employee Appointees and Percent Current Employee Appointees.

Due to reporting limitations, we are unable to identify the number of vacancies filled by former State of Alaska employees.

Q6: How many active recruitments were filled by individuals who were not current or former SOA employees in each year from 2001 to 2010?

A6: Please see attachment A, columns titled: Non-Employee Appointees and Percent Non-Employee Appointees.

The data provided includes all appointees who were not working for the State of Alaska at the time of appointment. Therefore, former State of Alaska employees are included.

Q7: How many active recruitments were outstanding more than six months in each year from 2001 to 2010?

A7: Due to reporting limitations, this information is not available.

Q8: How many active recruitments were closed without hire due to lack of a qualified candidate in each year from 2001 to 2010?

A8: Please see the attachment A, columns titled: No Hire Made and Percent of No Hire Made.

The data provided reflects all recruitments in which no hire was made. We are unable to identify only those for which the reason was lack of a qualified candidate. A few of the other reasons for which hires were not made during this time period include:

- Hiring freeze in 2006 and 2009
- Noncompetitive appointment of an injured worker, layoff, transfer or rehire
- Position was recruited for in more than one location (e.g., Juneau and Anchorage)
- Position was recruited for at more than one level (e.g., Engineering Assistant I and II)
- Selection was not made within 90 days from recruitment closing date
- Current incumbent rescinded resignation

Q9: How many active recruitments were altered or adjusted after initial posting, including elimination of Alaska residency requirements, a reduction of minimum qualifications, or a change in employment location or conditions, in each year from 2001 to 2010?

A9: Please see attachment A, columns titled: Number Modified and Percent Modified.

It must be noted that these numbers represent all job postings that have been modified. Modifications include but are not limited to:

- Extension of recruitment closing date per hiring manager request
- Extension of recruitment closing date due to service interruption
- Change in scope (e.g., departmental to Alaska resident or Alaska resident to all applicant)
- Error correction

These numbers do not represent modifications such as a reduction in the minimum qualifications or a change in location. Modifications of this nature require a new recruitment posting. The disposition of the original posting would be "no hire made."

Statewide Personnel Retention:

Q10: What was the average tenure of the defined-benefit eligible employees leaving State employment in each year from 2001 to 2010?

A10: See Attachment B, column titled: Average Tenure by Year

Q11: What was the average tenure of the defined-contribution eligible employees leaving State employment in each year from 2006 to 2010?

A11: See attachment B, column titled: Average Tenure by Year

Q12: How many defined-benefit eligible employees who voluntarily terminated their State employment note in their exit survey that dissatisfaction with their tier of retirement benefits was a contributing factor to their choice to leave State employment in each year from 2001 to 2010?

A12: See attachment C, columns titled: Defined Benefit (DB) Comments and Percent of DB Comments vs Exit Survey Responses.

Data is not available for a full fiscal year prior to fiscal year 2003 as the survey was not utilized.

Q13: How many defined-contribution eligible employees who voluntarily terminated their State employment note in their exit survey that dissatisfaction with their tier of retirement benefits was a contributing factor to their choice to leave State employment in each year from 2006 to 2010?

A13: See attachment C, columns titled: Defined Contribution (DC) Comments and Percent of DC Comments vs Exit Survey Responses

Cost of Recruitment and Hiring:

Q14: What was the average cost in FY2010 of an active recruitment process from posting to issuance and acceptance of an offer of employment?

A14: The State's current processes and systems do not capture this information as much of the cost is related to staff time.

Q15: What was the average cost in FY2010 of the hiring process from the issuance and acceptance of an offer of employment to the full integration of the employee in the job responsibilities (including hiring paperwork, training, stationery, personal supplies, and all other costs related to the new employee)?

A15: Again, the State's current processes and systems do not capture this information.

Retirement Account Balances, Fees & Sufficiency:

Q16: If an employee hired into a PERS-eligible position (16a) on July 1, 2006; what would the balance of her PERS account be as of December 31, 2010, if she worked continuously in that position, attained typical step and COLA increases, and elected default retirement contribution and management options?

A16: The default option in 2006, was a fully managed account option that is tailored specifically for each participant. Assuming the individual averaged a 4% return during the period July 1, 2006, and December 31, 2010, the gross contribution balance would be approximately \$32,272.

Q17: What portions of that balance would be: employee contributions, employer contributions, and interest/earnings?

A17: Employee Contributions: \$17,829
Employer Contributions: \$11,143
Investment Earnings: \$ 3,300
\$32,272

Q18: How much would have been paid in fees from that account?

A 18: \$35 flat fee per year = \$175.00
Recordkeeping fee = \$106.56
Managed Account Fee = \$429.12
Five Yr. Total \$710.68

Q19: Given conservative assumptions about market performance and assuming typical step and COLA increases (but not promotions), what would the balance of her account be as of July 1, 2036? i.e. 30-years of service.

Assuming consistent step increases from an initial range 16 step A over the 30-year period the total gross balance would be \$462,072.93

S/S (400,000)

A19: What would the account balances be (as of December 31, 2010, and as of July 1, 2036) if the employee was TRS-eligible under the same circumstances?

2010 Balance = \$ 37,237.47
2036 Balance = \$533,161.07

Q20: What is the average account balance of all members in PERS Tier IV as of December 31, 2010, and TRS III?

A20: As of December 31, 2010, the average account balance of all members were as follows:

PERS =	\$ 9,694
TRS =	\$15,864

Q21: How is the fee amount determined for managing the defined-contribution retirement accounts?

A21: Members of the defined contribution retirement plans are currently defaulted into an age-based target date fund as of the date initial contributions are received. The age-based target date fund provides exposure to a diversified mix of stocks, bonds and cash or money market securities for long-term investors. The Trust is designed to initially invest in a moderate to high risk manner and gradually invest more conservatively, with emphasis on capital preservations as the target date approaches. With the exception of the standard fund management and administrative fees that pertain to all the investment options provided by the Plan, there are no additional fees.

Members can elect a more personalized management of their account by electing either of two options provided by Great-West Retirement Services. In both options members must actively elect to participate in the advice services and they provide additional information, such as other assets outside of the plan, potential retirement benefits from all expected sources, risk tolerance level and estimated retirement date. With this information, a customize portfolio can be built.

Under the Advice option, the member signs up, then submits all the information above and then requests the advice. The advice can be accepted or denied. The member can come back and request advice as often during the year as they wish. The member's account is not monitored or changed unless the member requests advice and accepts the advice. The fee for this service is \$25 per year.

Under the Managed Accounts option, the member signs up, submits all the same information and from that point their account is monitored and adjusted by Great-West with no further intervention required by the members. The fee for this service is 0.50% of the balance annually charged on a quarterly basis.

Q22: How does that compare with members in the defined-benefit retirement system?

A22: Defined Benefit employees receive benefits based upon a formula rather than an account balance. No fees are imposed on the individual member.

Q23: How many defined-benefit members not yet vested converted to defined contributions?

A23: 46 PERS and 11 TRS members who were not vested elected to convert from the defined benefit plan to the defined contribution plan. Five employers, including the State of Alaska, offered a conversion opportunity.

Q24: How much money did they take with them?

A24: \$496,792.06 in employee contributions and \$496,792.06 in matching employer contributions. \$993,584.12 total contributions.

The Honorable Johnny Ellis

Page 6

April 4, 2011

Q25: How many of them are still public employees in the State of Alaska?

A25: Seven PERS members and three TRS members are currently active employees.

Q26: How many defined-benefit eligible employees who left state employment cashed out their accounts before June 30, 2005, returned to work for the state or local governments in order to become re-vested in a defined-benefits plan before July 1, 2010?

A26: There are 2,486 people who refunded on or before June 30, 2005 that have returned to a PERS DB position before July 1, 2010.

Classification:

Q27: Please describe the methodology of the "point factor method" and the selection of a vendor.

A27: Point Factor Evaluation System uses defined compensable factors and levels within each factor to establish the value of a position. Factors represent the requirements, responsibilities, and conditions used to measure the relative value of a particular job. The importance of each compensable factor is indicated by its relative weight. Position (job) descriptions are compared to the definitions of the factor levels to determine the appropriate level for that position. The corresponding points for that level are awarded to the position and the points for all factors are combined to derive a total score. The total score determines the job class level and salary range of the position.

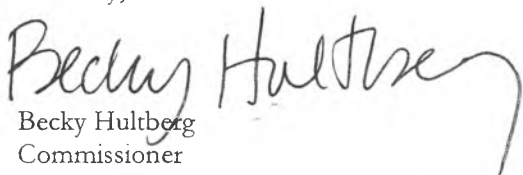
The selection of a vendor will follow the standard Request for Proposals process in accordance with AS 36.30.

Q28: Will you be requiring a full review of every job description and all associated audits?

A28: Converting to a point factor method will not require a full review of every job (position) description. It will be assumed that positions are allocated to the appropriate job class. It is the job class specification that will be reviewed against the factors. A job class specification includes the class definition, distinguishing characteristics, typical duties and responsibilities, and minimum qualifications. As is the current practice, individual position descriptions will be reviewed as necessary following implementation.

I hope the questions raised have been answered to your satisfaction. Please feel free to contact me at any time.

Sincerely,


Becky Hultberg
Commissioner

cc: Senate Finance Sub-Committee Members

**Attachment A
Recruitment Analysis**

Fiscal Year	Average Qualified Applicant Count	Non-Alaska Resident Hire Count	Percent of Non-Alaska Resident Hire	Alaska Resident Hire Count	Percent of Resident Hire	Current Employee Appointees	Percent Current Employee Appointees	Non-Employee Appointees	Percent Non-Employee Appointees	Total Appointed
2001	11									
2002	12									
2003	14									
2004	14									
2005	10									
2006	8									
2007	7									
2008	8	64	2%	3483	98%	1702	48%	1870	53%	3547
2009	9	143	5%	3028	95%	1307	41%	1889	60%	3171
2010	14	130	4%	3123	96%	1267	39%	2027	62%	3253

*More people applying for
lower 48*

Fiscal Year	Recruitments Conducted	No Hire Made*	Percent No Hire Made
2001	2906	440	15%
2002	2950	484	16%
2003	2786	539	19%
2004	2415	439	18%
2005	3242	605	19%
2006	3505	855	24%
2007	3631	1017	28%
2008	3958	1135	29%
2009	3541	1094	31%
2010	3304	809	24%

— hiring freeze

— hiring freeze

Fiscal Year	Total Recruitments	Number Modified*	Percent Modified
2008	4139	1271	31%
2009	3511	1019	29%
2010	3361	925	28%

→ ALDER just implemented

*Further explanation provided in written response to Senator Ellis' letter dated March 1, 2011.

**Attachment B
Average Tenure by Fiscal Year**

Fiscal Year	Retirement System	Separated Employee Count	Average Tenure by Days	Average Tenure by Year
2001	Defined Benefit	1252	3000.8	3.4
2002	Defined Benefit	1221	2703.8	3.3
2003	Defined Benefit	1368	3072.6	3.7
2004	Defined Benefit	1383	3004.2	3.8
2005	Defined Benefit	1521	3189.2	4.2
2006	Defined Benefit	1560	3149.3	4.3
2007	Defined Benefit	1575	3658.8	4.3
	Defined Contribution	188	330.5	0.5
2008	Defined Benefit	1270	3830.3	3.5
	Defined Contribution	430	433.2	1.2
2009	Defined Benefit	944	4615.6	2.6
	Defined Contribution	520	576.6	1.4
2010	Defined Benefit	1025	4972.6	2.8
	Defined Contribution	607	653.4	1.7

Notes:

481 employees have been excluded from calculations due to unavailability of their original hire date
Average tenure is calculated by subtracting the separation date from the original hire date

Attachment C

**Exit Survey
Retirement Tier as a Contributing Factor to Separation of Employment**

Fiscal Year	Executive Branch Separations	Total Exit Survey Responses	Exit Survey Response Rate	Defined Contribution (DC) Comments	Percent of DC Comments vs Exit Survey Responses	Defined Benefit (DB) Comments	Percent of DB Comments vs Exit Survey Responses	Unknown Tier Comments
2003	2976	90	3%			1	1%	
2004	2567	160	6%			2	1%	
2005	3037	183	6%			1	1%	
2006	2970	215	7%			1	0%	
2007	2943	242	8%			2	1%	1
2008	2649	297	11%	3	1%	1	0%	4
2009	2566	335	13%	6	2%	0	0%	7
2010	2991	499	17%	7	1%	3	1%	1
Grand Total	22699	2021	9%	16	1%	11	1%	13

In all survey responses counted in the columns titled "Defined Contribution (DC) Comments," "Defined Benefit (DB) Comments," and "Unknown Tier Comments" the separating employee indicated that their retirement benefit was a contributing factor in their decision to separate from employment.

*need to better implement exit surveys
anonymous.*

Source: Exit Survey Data Base

G:\...EPIC\Reporting\Projects\Leg Request 2011\Exit Survey Retirement Benefit Responses-Ellis-110321

Prepared by R. Morrison, HRS, EPIC, DOPLR



State of Alaska PERS and TRS

*Benefit Comparison Between Latest Tier
DB and DCR Benefits
Illustrations for SB 121*

October 13, 2011

Assumptions

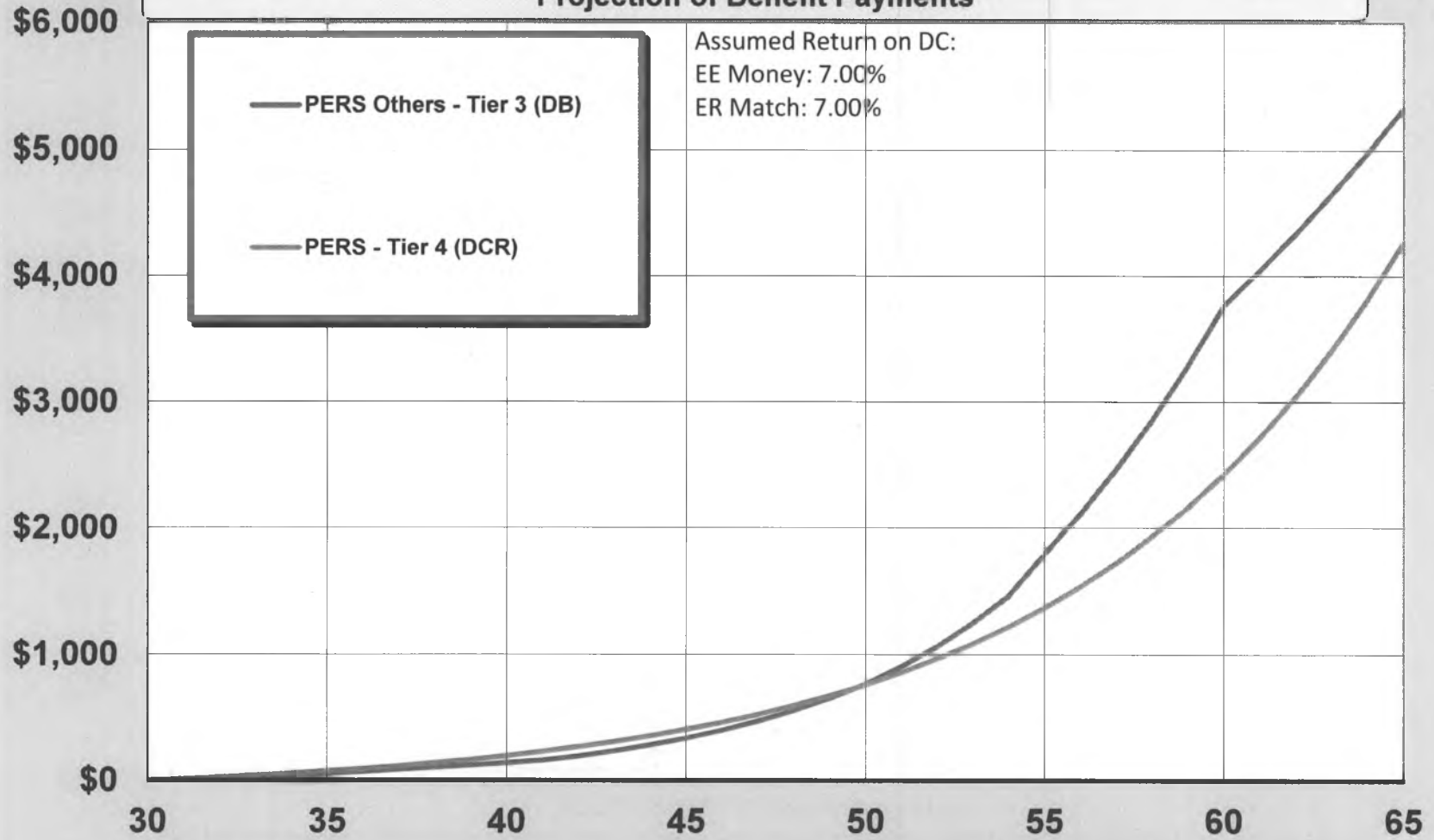
- Benefit amounts were projected for sample members based on average salary and career service for PERS and TRS
 - PERS Tier 3 DB benefit and Tier 4 DCR benefit for Peace Officers / Firefighters and Other members
 - TRS Tier 2 DB benefit and Tier 3 DCR benefit for all members
 - No Healthcare or SBS benefits were included
- Actuarial assumptions were made consistent with June 30, 2010 actuarial valuation reports
 - Life expectancy based on PERS/TRS mortality tables
 - DB benefits valued using 8% interest rate and 2% PRPA
 - DCR balances annuitized using 5% annuity conversion rate and 2% PRPA
 - DCR account balances projected with 7% rate of return for moderate investor, and 5% for conservative investor
 - Salaries were assumed to increase annually at 3.62%

State of Alaska

Current Age: 55, Past Service: 25
Current Pay: \$60,000, Salary Increase Rate: 3.62%

Projection of Benefit Payments

Monthly Benefit Amount



Age at Retirement / Termination

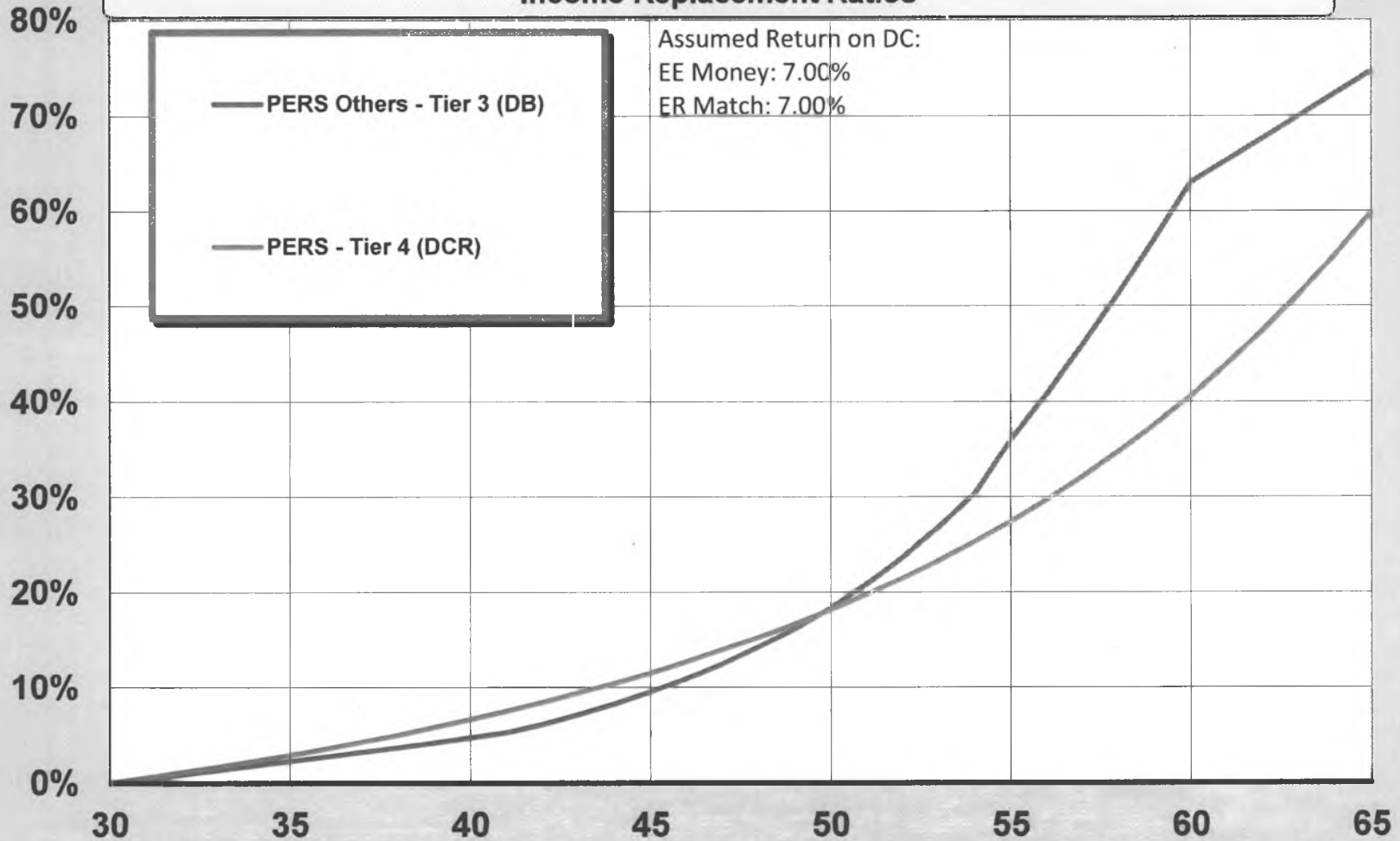
State of Alaska

Current Age: 55, Past Service: 25
Current Pay: \$60,000, Salary Increase Rate: 3.62%

Income Replacement Ratios

Assumed Return on DC:
EE Money: 7.00%
ER Match: 7.00%

Annuity as % of Final Pay



Age at Retirement / Termination

State of Alaska

Current Age: 55, Past Service: 25
Current Pay: \$60,000, Salary Increase Rate: 3.62%

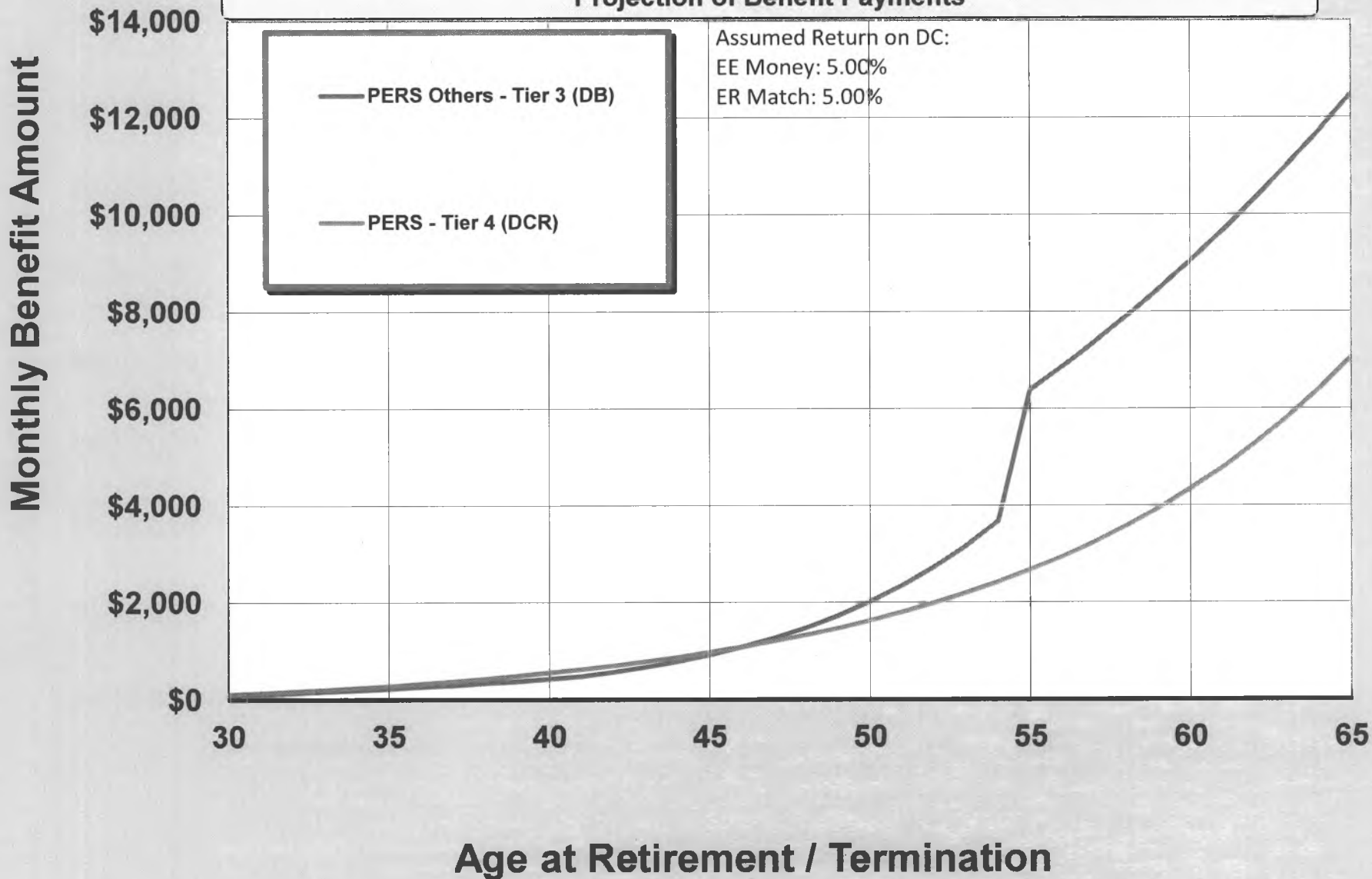
Value of Retirement Benefit



State of Alaska

Current Age: 30, Past Service: 5
Current Pay: \$50,000, Salary Increase Rate: 3.62%

Projection of Benefit Payments



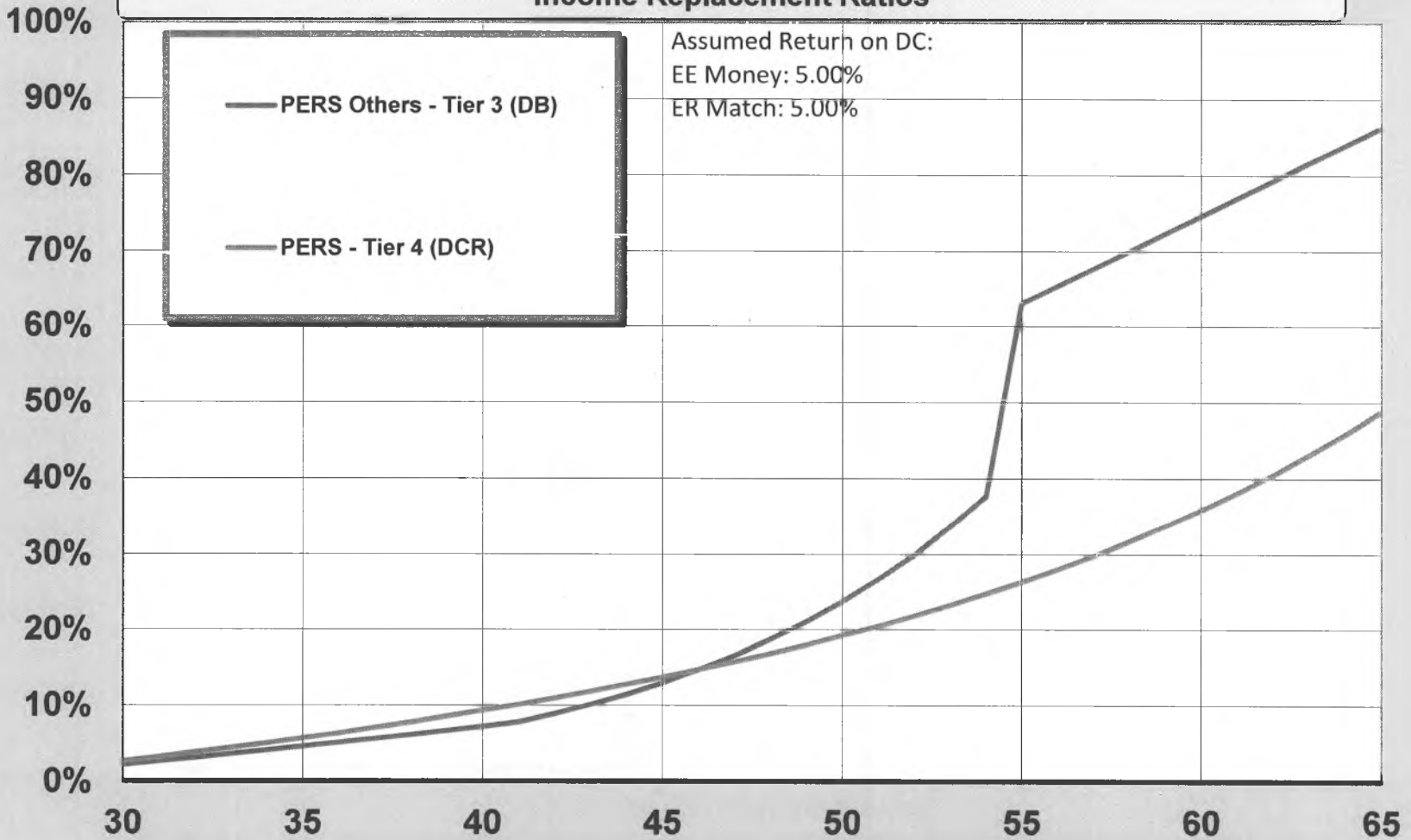
State of Alaska

Current Age: 30, Past Service: 5
Current Pay: \$50,000, Salary Increase Rate: 3.62%

Income Replacement Ratios

Assumed Return on DC:
EE Money: 5.00%
ER Match: 5.00%

Annuity as % of Final Pay

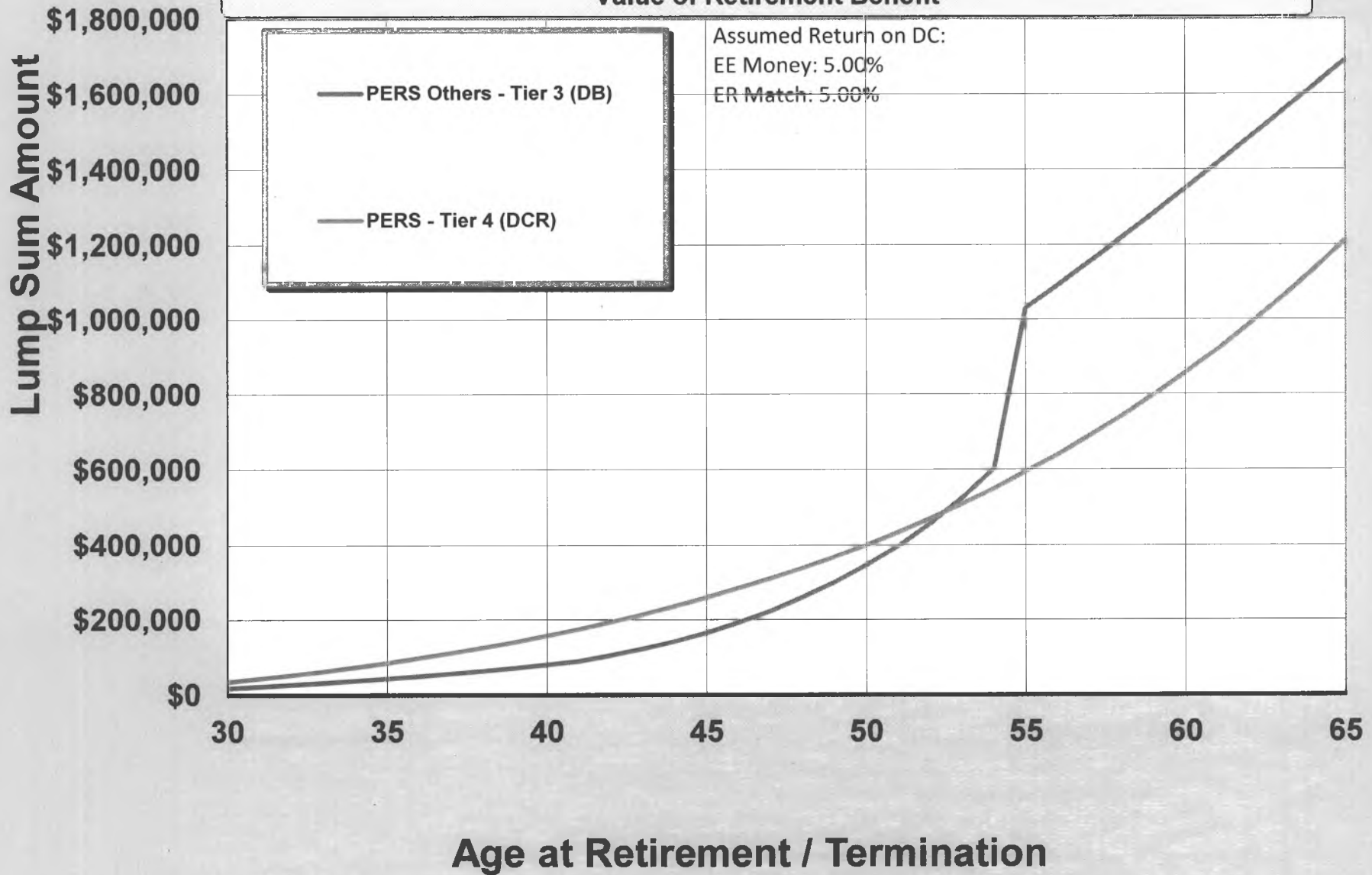


Age at Retirement / Termination

State of Alaska

Current Age: 30, Past Service: 5
Current Pay: \$50,000, Salary Increase Rate: 3.62%

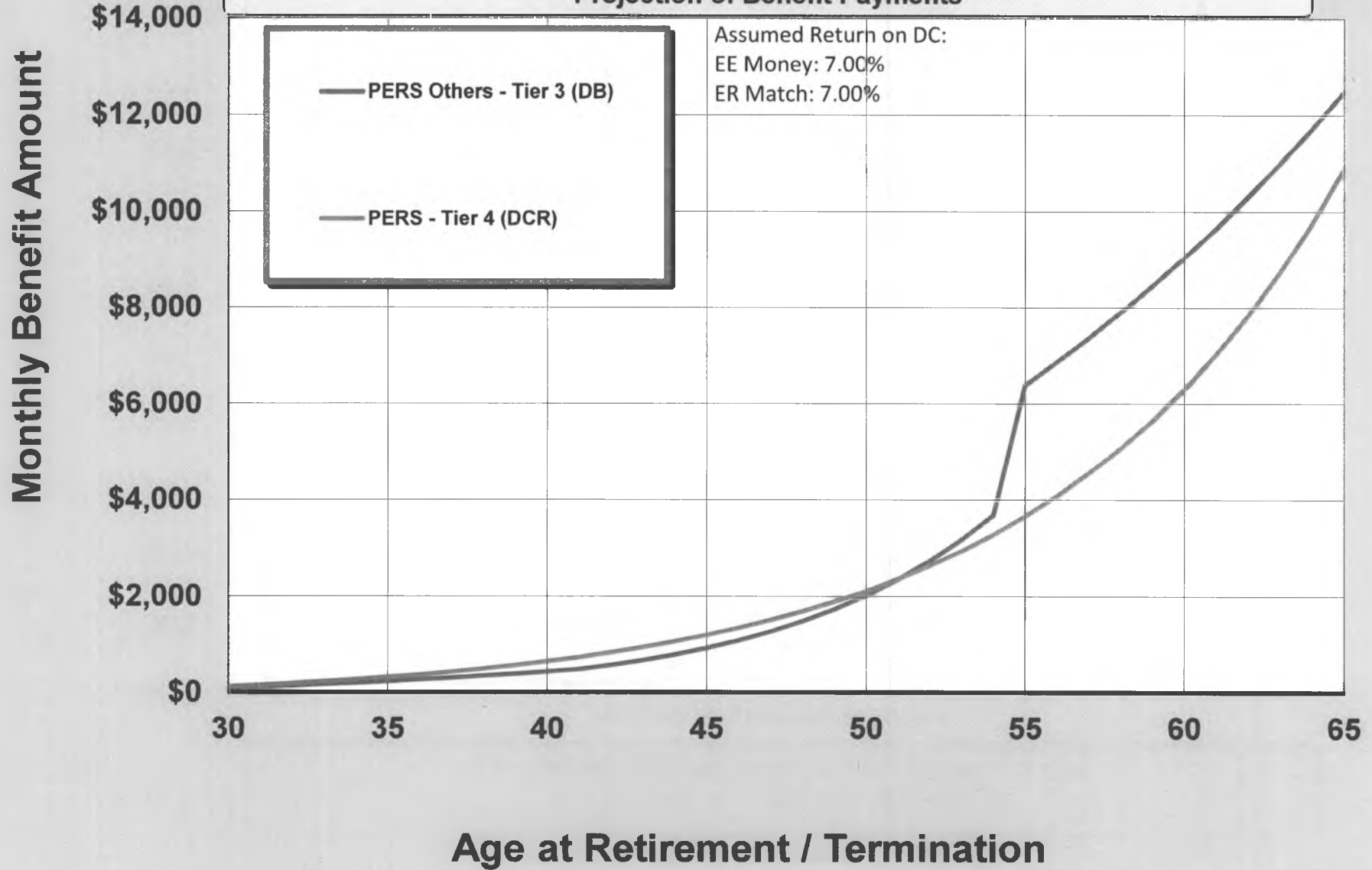
Value of Retirement Benefit



State of Alaska

Current Age: 30, Past Service: 5
Current Pay: \$50,000, Salary Increase Rate: 3.62%

Projection of Benefit Payments



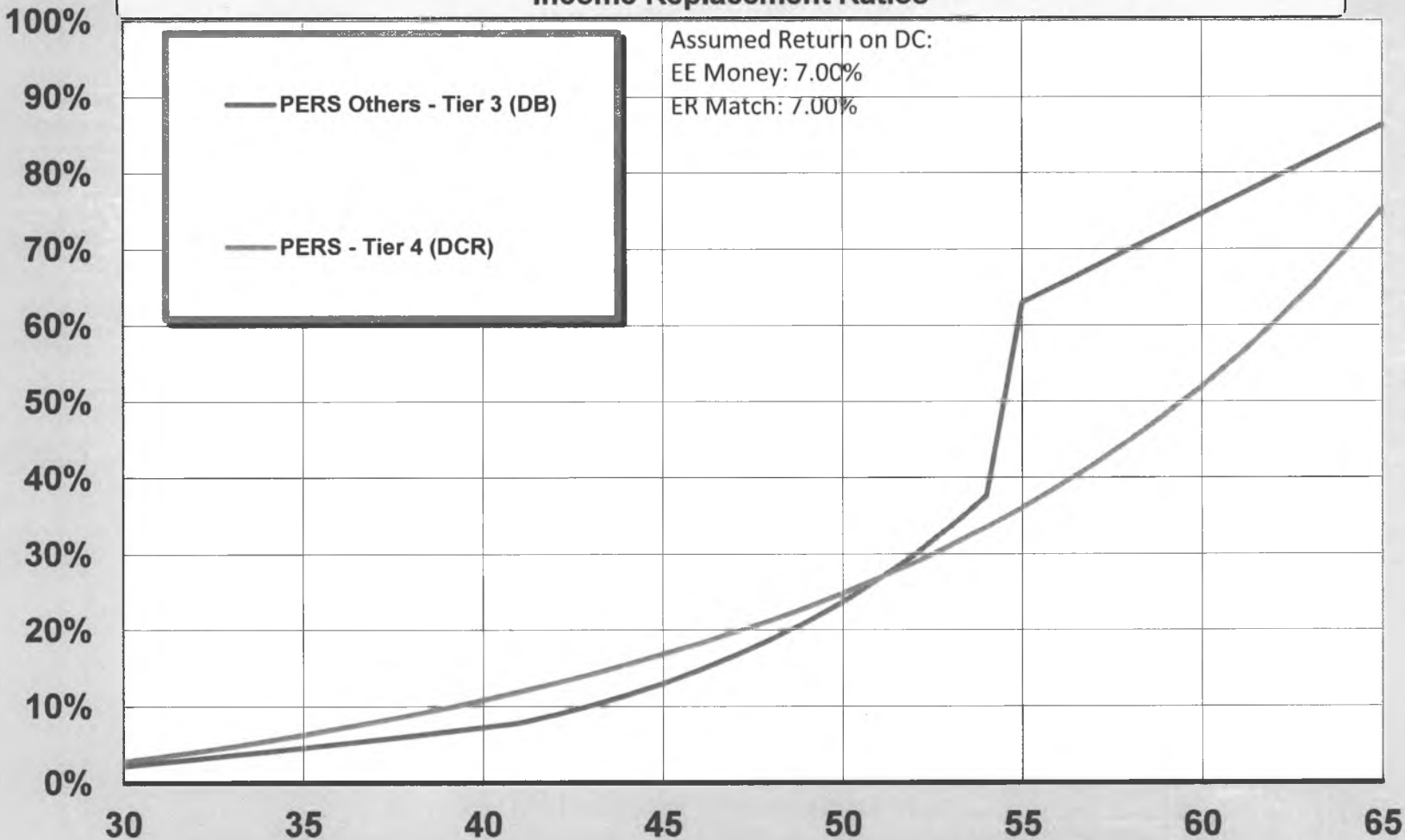
State of Alaska

Current Age: 30, Past Service: 5
Current Pay: \$50,000, Salary Increase Rate: 3.62%

Income Replacement Ratios

Assumed Return on DC:
EE Money: 7.00%
ER Match: 7.00%

Annuity as % of Final Pay



Age at Retirement / Termination

State of Alaska

Current Age: 30, Past Service: 5
Current Pay: \$50,000, Salary Increase Rate: 3.62%

Value of Retirement Benefit

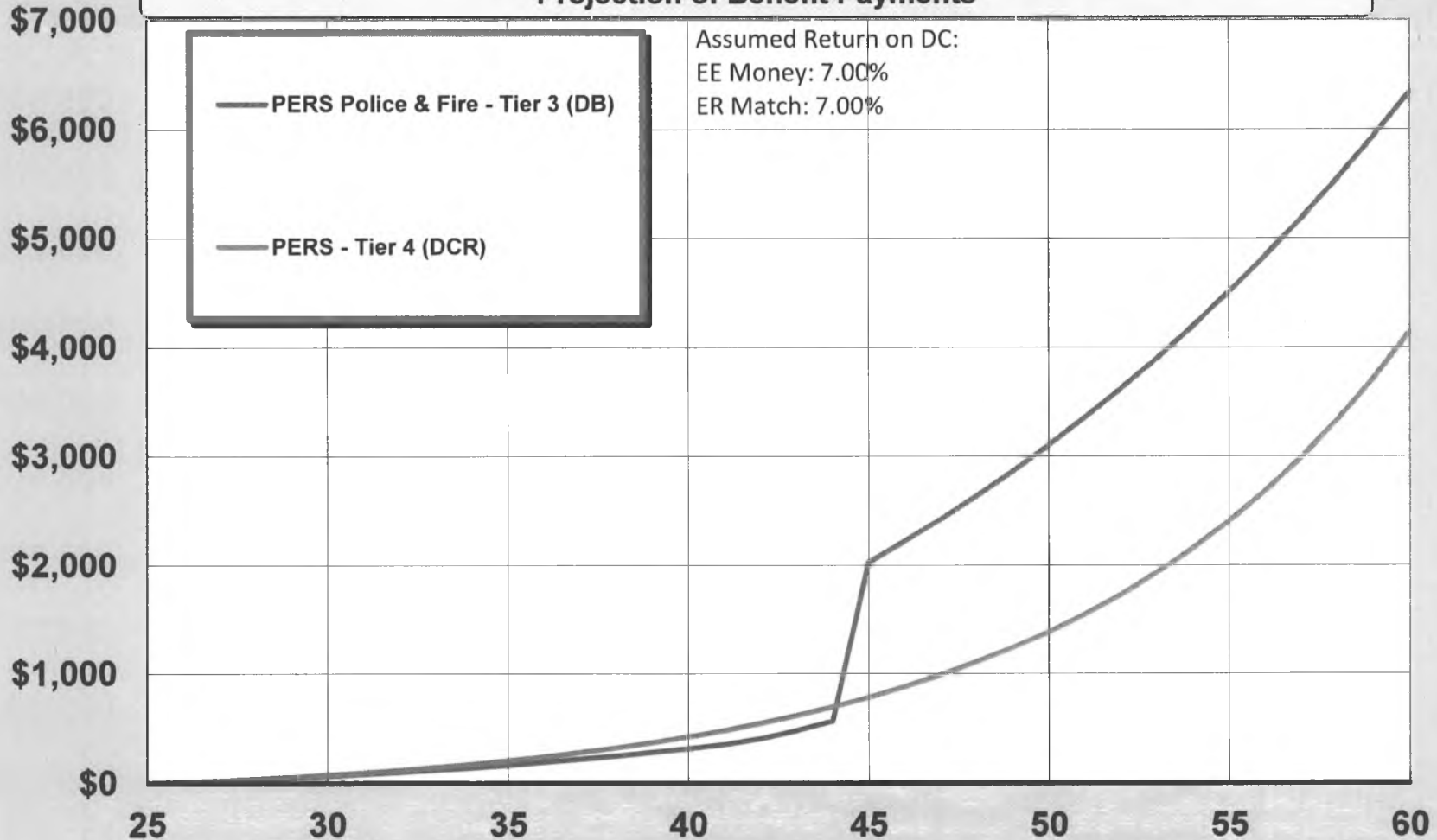


State of Alaska

Current Age: 55, Past Service: 30
Current Pay: \$80,000, Salary Increase Rate: 3.62%

Projection of Benefit Payments

Monthly Benefit Amount



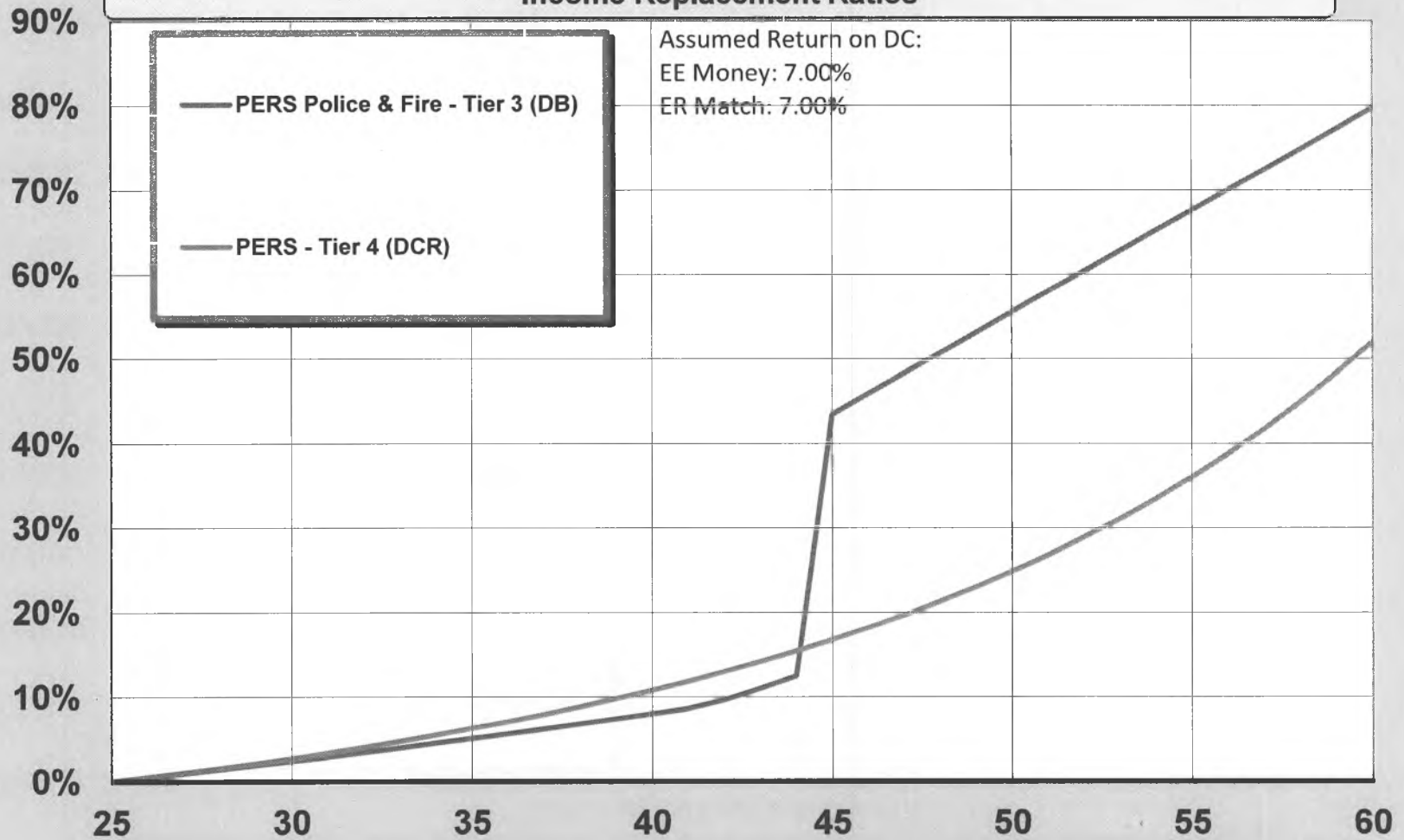
Age at Retirement / Termination

State of Alaska

Current Age: 55, Past Service: 30
Current Pay: \$80,000, Salary Increase Rate: 3.62%

Income Replacement Ratios

Annuity as % of Final Pay

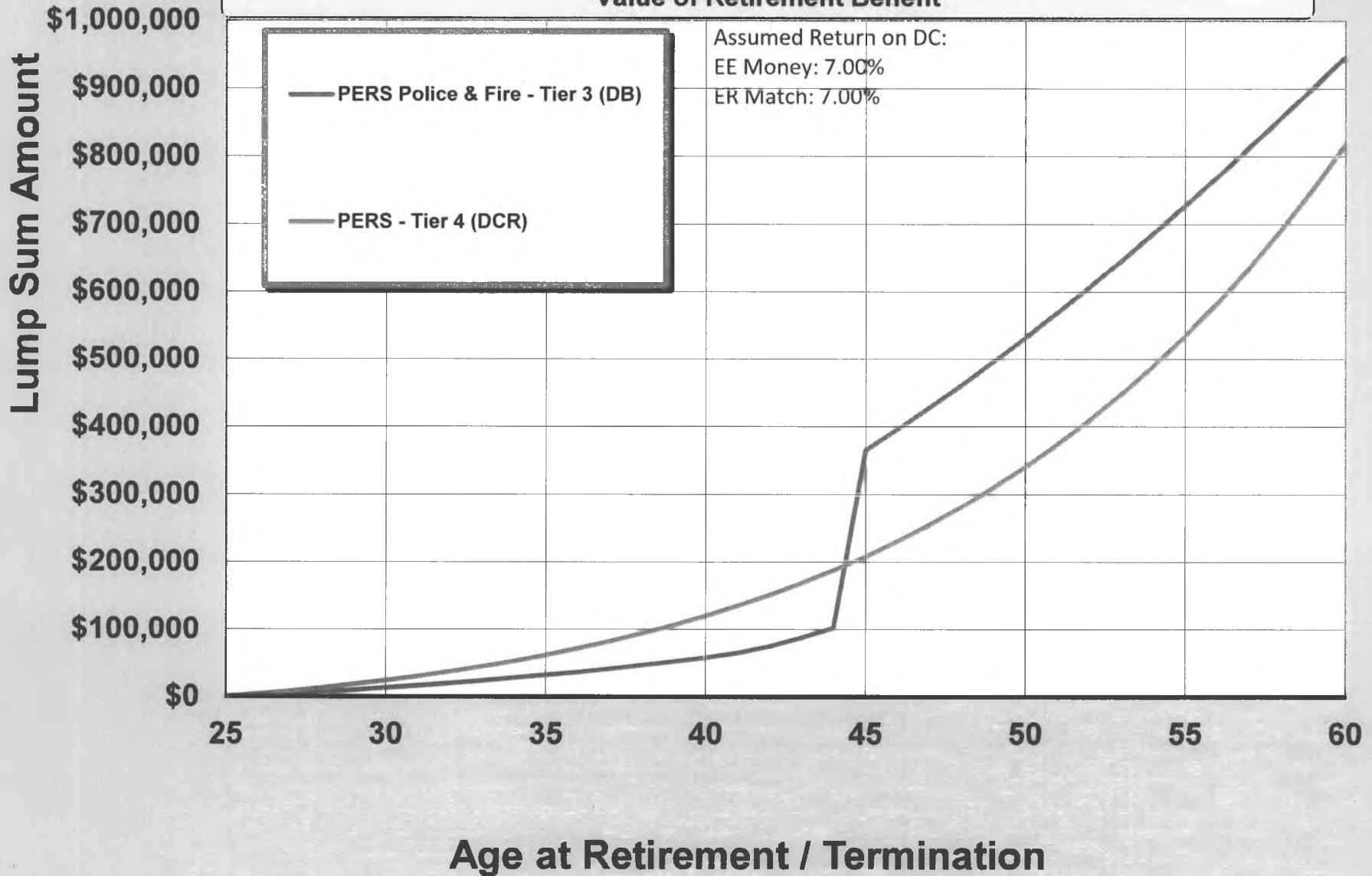


Age at Retirement / Termination

State of Alaska

Current Age: 55, Past Service: 30
Current Pay: \$80,000, Salary Increase Rate: 3.62%

Value of Retirement Benefit

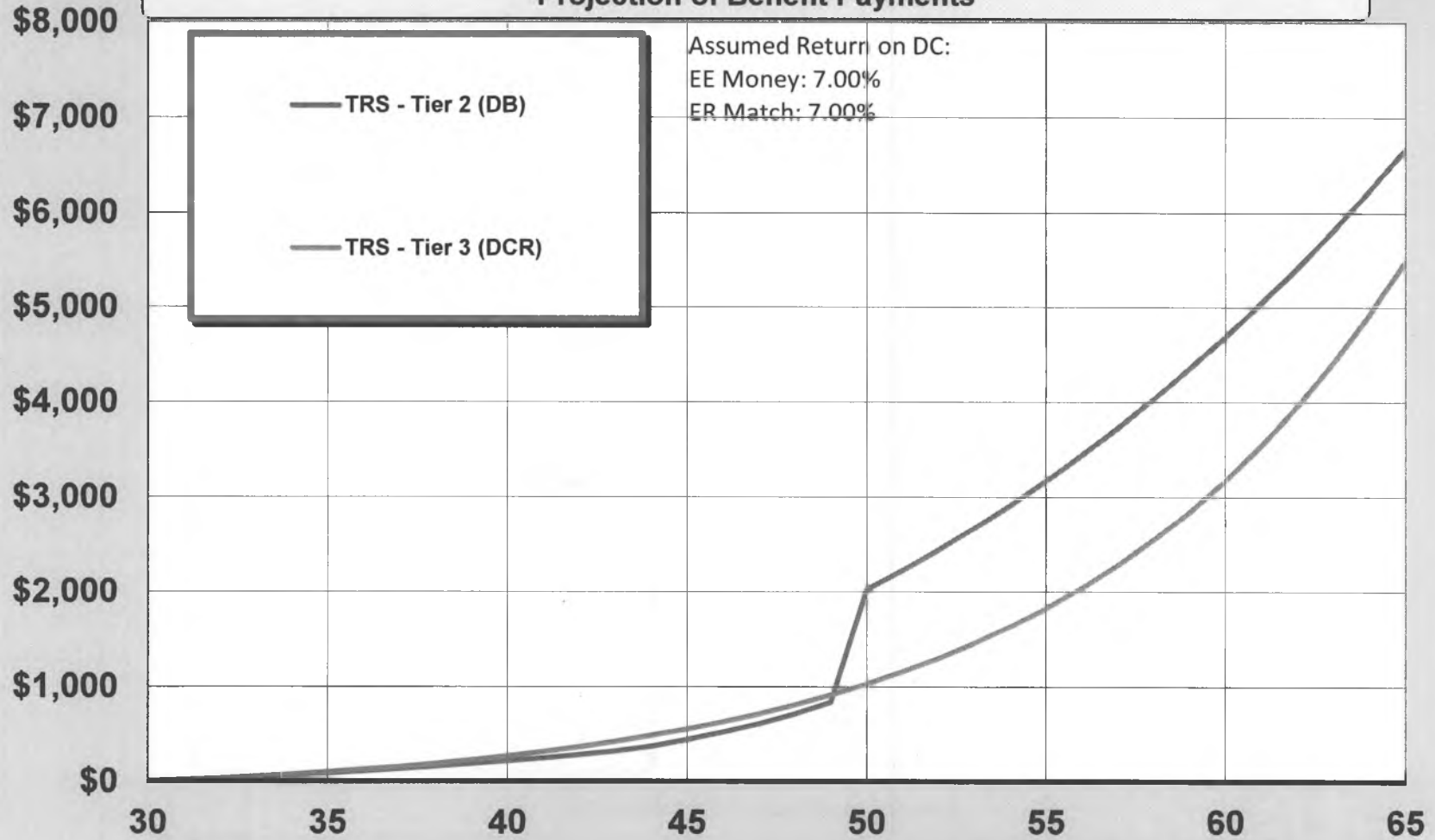


State of Alaska

Current Age: 55, Past Service: 25
Current Pay: \$75,000, Salary Increase Rate: 3.62%

Projection of Benefit Payments

Monthly Benefit Amount



Age at Retirement / Termination

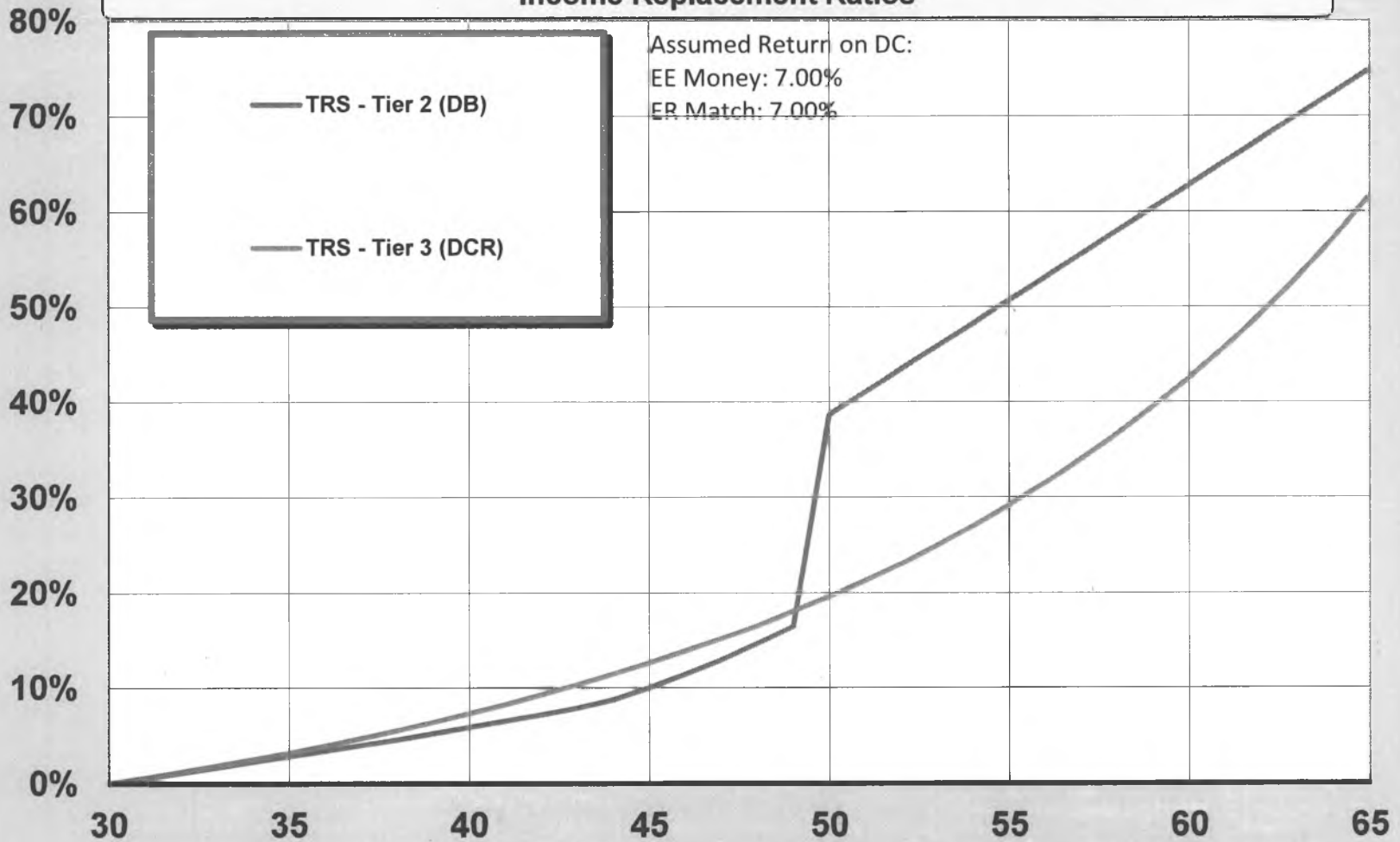
State of Alaska

Current Age: 55, Past Service: 25
Current Pay: \$75,000, Salary Increase Rate: 3.62%

Income Replacement Ratios

Assumed Return on DC:
EE Money: 7.00%
ER Match: 7.00%

Annuity as % of Final Pay

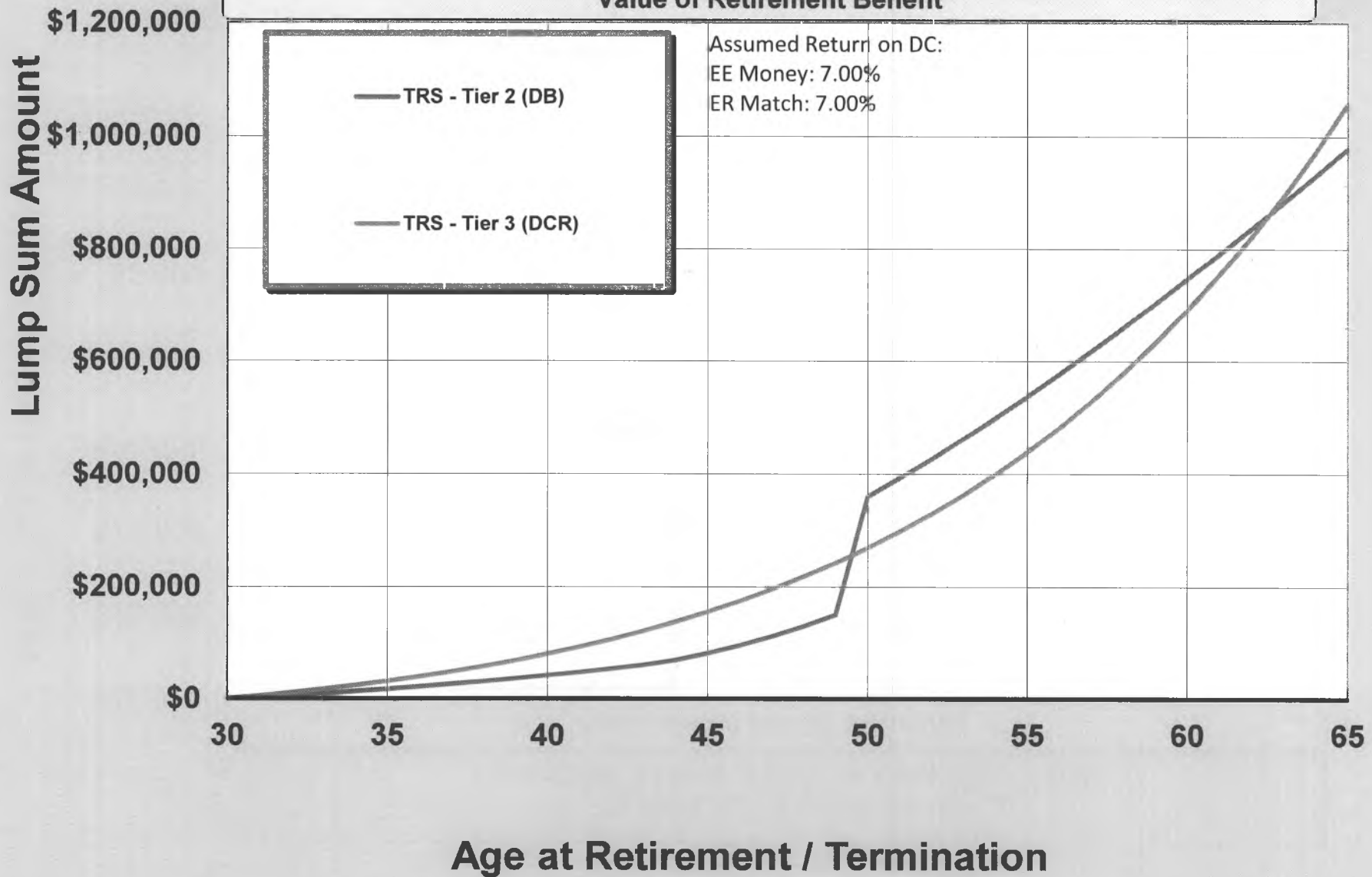


Age at Retirement / Termination

State of Alaska

Current Age: 55, Past Service: 25
Current Pay: \$75,000, Salary Increase Rate: 3.62%

Value of Retirement Benefit



State of Alaska

Current Age: 30, Past Service: 5
Current Pay: \$60,000, Salary Increase Rate: 3.62%

Projection of Benefit Payments

Monthly Benefit Amount

\$16,000
\$14,000
\$12,000
\$10,000
\$8,000
\$6,000
\$4,000
\$2,000
\$0

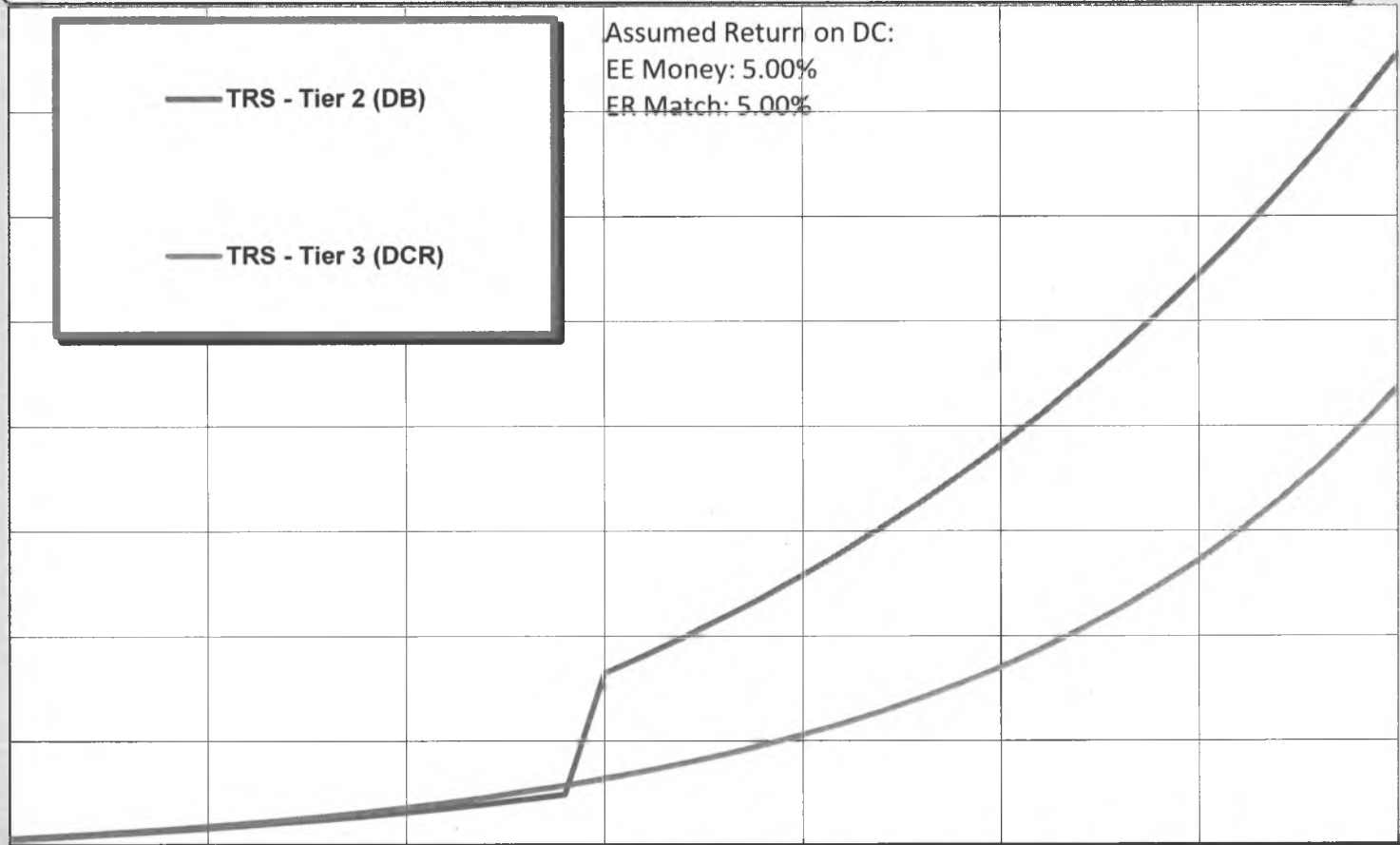
— TRS - Tier 2 (DB)

— TRS - Tier 3 (DCR)

Assumed Return on DC:
EE Money: 5.00%
ER Match: 5.00%

30 35 40 45 50 55 60 65

Age at Retirement / Termination



State of Alaska

Current Age: 30, Past Service: 5
Current Pay: \$60,000, Salary Increase Rate: 3.62%

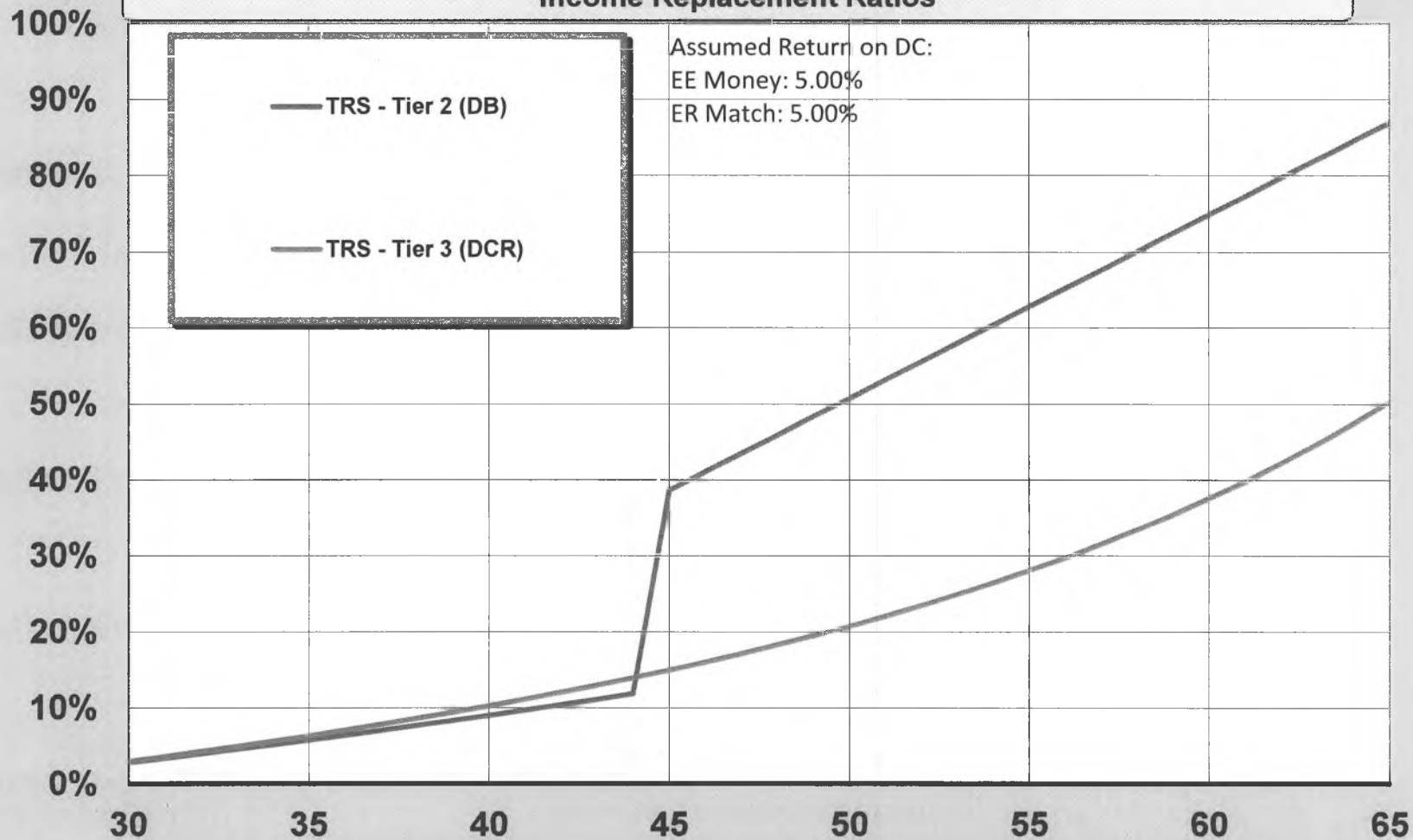
Income Replacement Ratios

Assumed Return on DC:

EE Money: 5.00%

ER Match: 5.00%

Annuity as % of Final Pay

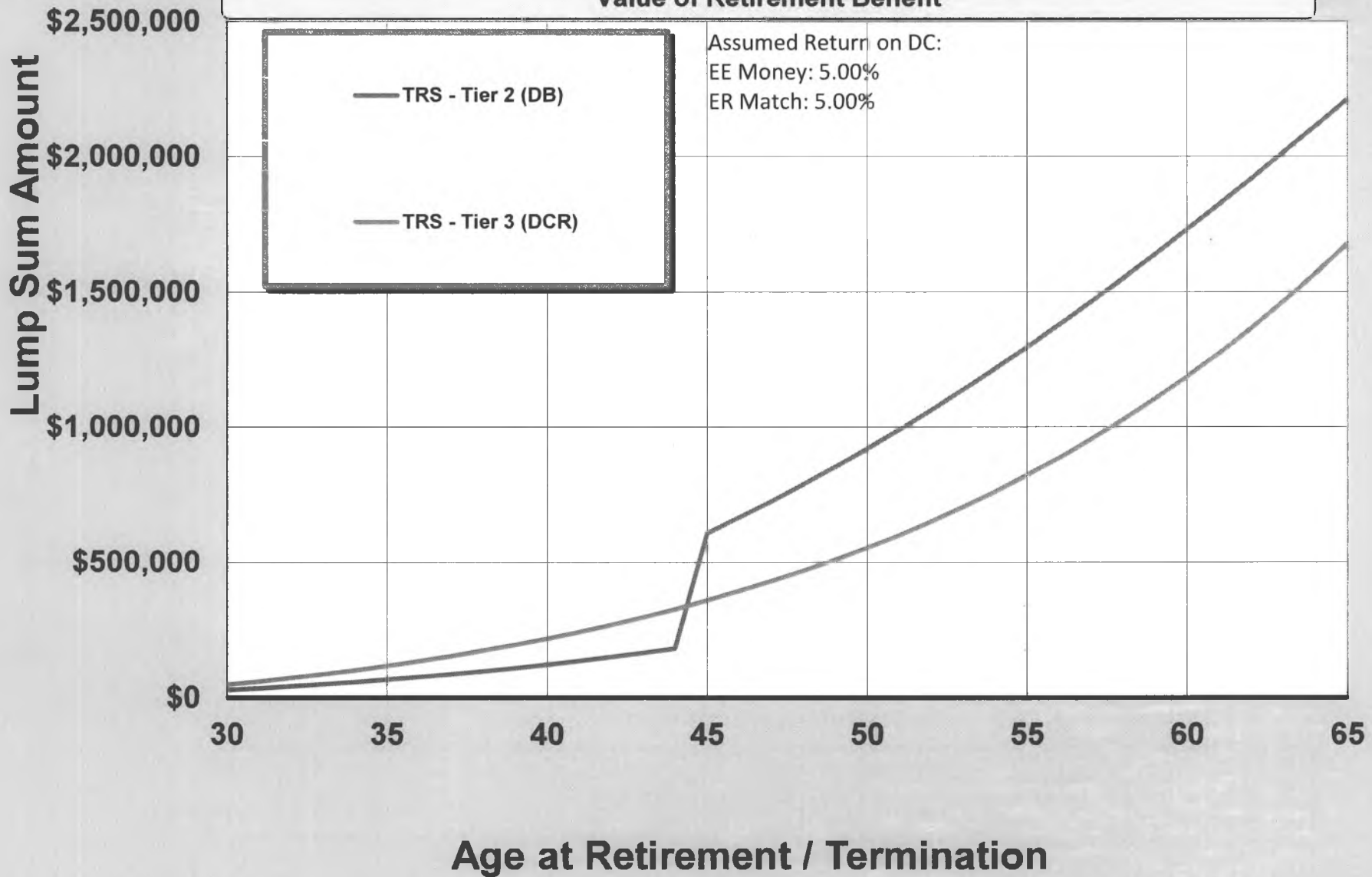


Age at Retirement / Termination

State of Alaska

Current Age: 30, Past Service: 5
Current Pay: \$60,000, Salary Increase Rate: 3.62%

Value of Retirement Benefit



State of Alaska

Current Age: 30, Past Service: 5
Current Pay: \$60,000, Salary Increase Rate: 3.62%

Projection of Benefit Payments



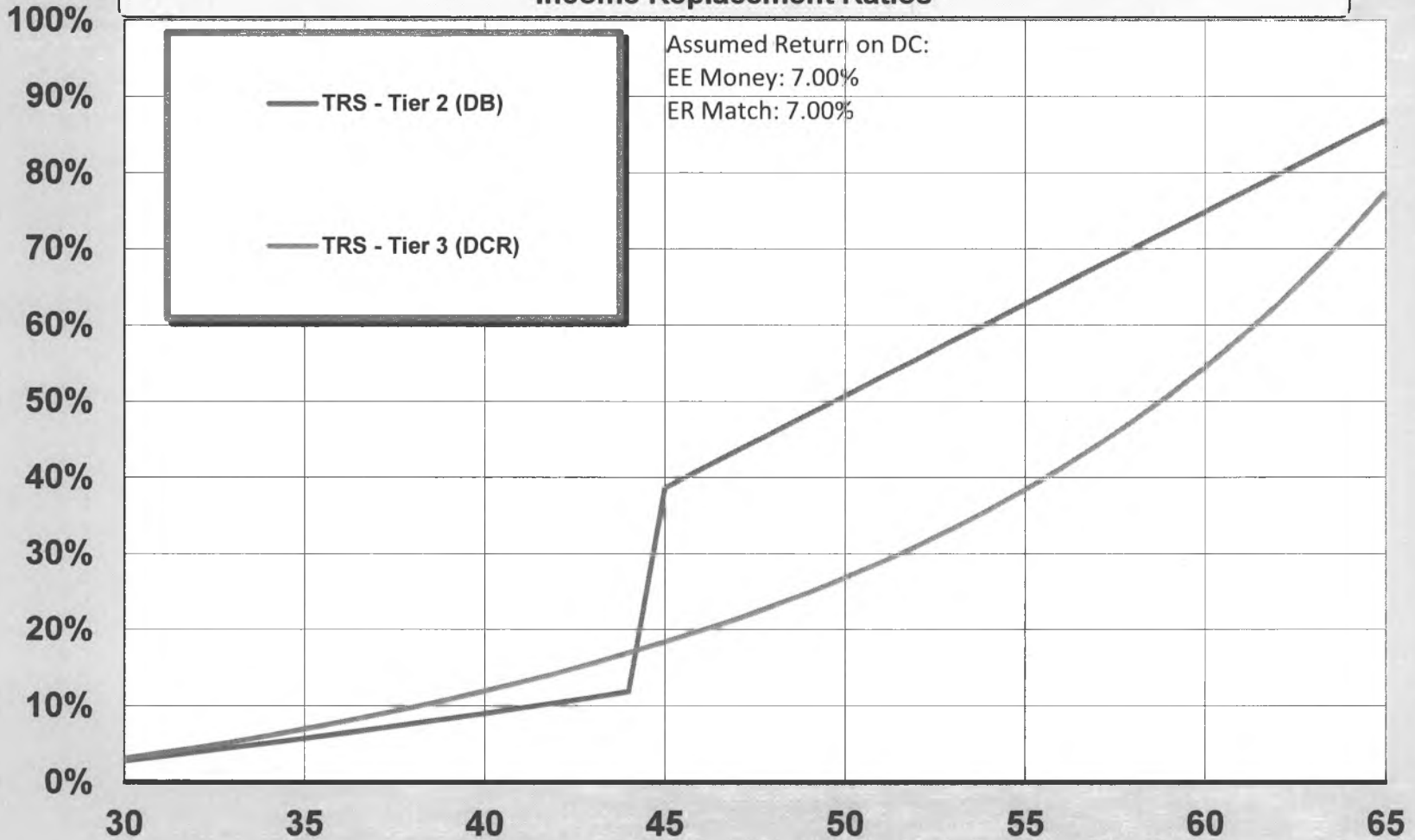
State of Alaska

Current Age: 30, Past Service: 5
Current Pay: \$60,000, Salary Increase Rate: 3.62%

Income Replacement Ratios

Assumed Return on DC:
EE Money: 7.00%
ER Match: 7.00%

Annuity as % of Final Pay

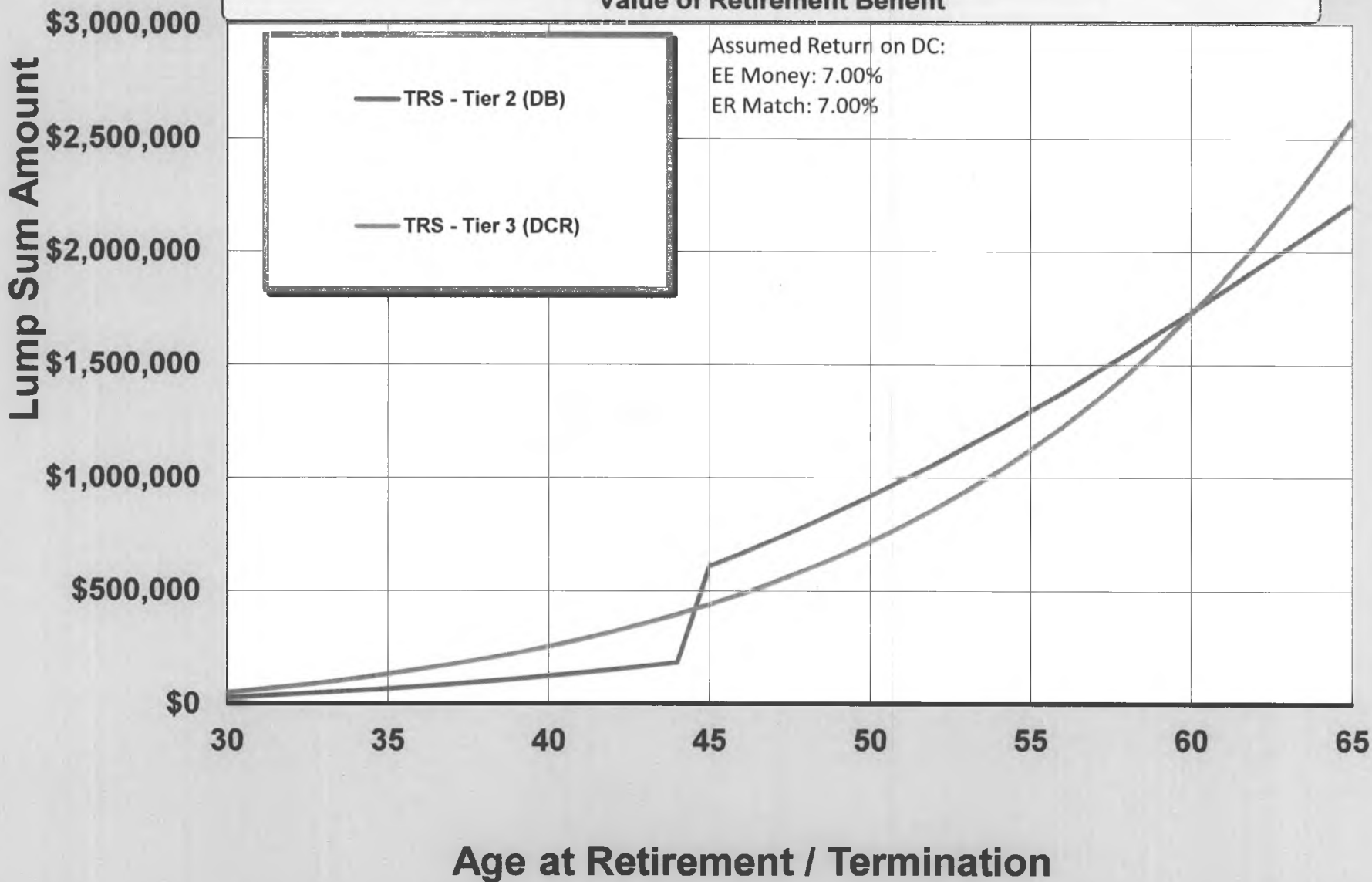


Age at Retirement / Termination

State of Alaska

Current Age: 30, Past Service: 5
Current Pay: \$60,000, Salary Increase Rate: 3.62%

Value of Retirement Benefit



Questions ?

October 7, 2011

VIA EMAIL

Mr. Jim Puckett
 Acting Director
 Division of Retirement and Benefits
 Department of Administration
 State of Alaska
 333 Willoughby Avenue
 6th Floor State Office Building
 Juneau, AK 99811-0208

RE: Fiscal Note for Senate Bill No. 121 – New Tier for PERS and TRS Healthcare - REVISED

Dear Jim:

As requested, we are providing the following information for a revised Fiscal Note on SB 121 which allows current Defined Contribution Retirement (DCR) members and future members to have a choice between the DCR Plan and the Defined Benefit (DB) Plan. Current DCR members or any future members that elect to go into the DB Plan will enter Tier V for PERS and Tier IV for TRS. These tiers will have the same pension benefits as the latest DB tier but they will have different healthcare benefits. Under the new tiers, members will receive system-paid healthcare benefits at Medicare eligible age (age 65) instead of at age 60. This bill affects the State of Alaska Public Employees' Retirement System Defined Benefit Plan (PERS DB) and the Teachers' Retirement System Defined Benefit Plan (TRS DB). We are assuming the proposed benefit changes would become effective as of July 1, 2012 and will first impact contribution rates during FY15 considering the two-year delay in budgeting contribution payments. Our results are based on the 2010 actuarial valuation results.

The table below shows the cost of the bill for Fiscal Years 2015 through 2019. Dollars are in thousands.

PERS DB Plan	FY15	FY16	FY17	FY18	FY19
Increase in Normal Cost Amount	\$ 17,568	\$ 25,629	\$ 35,788	\$ 46,977	\$ 57,771
General Fund Transfer to Pay Unfunded Past Service Cost	\$ 91,724	\$ 0	\$ 0	\$ 0	\$ 0
Total Increase in Annual Employer Contribution Amount	\$ 109,292	\$ 25,629	\$ 35,788	\$ 46,977	\$ 57,771

TRS DB Plan	FY15	FY16	FY17	FY18	FY19
Increase in Normal Cost Amount	\$ 2,285	\$ 3,536	\$ 4,993	\$ 6,943	\$ 8,764
General Fund Transfer to Pay Unfunded Past Service Cost	\$ 32,688	\$ 0	\$ 0	\$ 0	\$ 0
Total Increase in Annual Employer Contribution Amount	\$ 34,973	\$ 3,536	\$ 4,993	\$ 6,943	\$ 8,764

Total PERS and TRS	\$ 144,265	\$ 29,165	\$ 40,781	\$ 53,920	\$ 66,535
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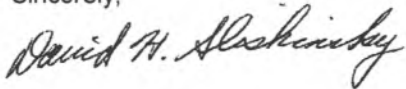
Mr. Jim Puckett
October 7, 2011
Page 2

Summary for Analysis Continuation Section of Fiscal Note

The data, assumptions, plan provisions and methods used for the costs are described in the actuarial valuation reports for PERS and TRS as of June 30, 2010. The assets are based on the June 30, 2010 information provided by Christina Maiquis. We have assumed that the bill will become effective July 1, 2012. We have also assumed that 60% of current DCR members will elect to convert to the DB Plan, and that 80% of future members will choose the DB Plans either by choice or by default. A description of Tier V benefits for PERS and Tier IV benefits for TRS was provided by Kathy Lea.

Please let us know if you need any further information.

Sincerely,



David H. Sliskinsky, F.C.A., A.S.A., E.A.
Principal and Consulting Actuary

/mlp

c: Mr. Mike Barnhill, State of Alaska
Ms. Teresa Kesey, State of Alaska
Ms. Kathy Lea, State of Alaska
Mr. Chris Hulla, Buck Consultants
Ms. Kyla Kaltenbach, Buck Consultants
Mr. Aaron Jurgaitis, Buck Consultants
Mr. Colin Wein, Buck Consultants

State of Alaska
Summary of Normal Costs for New Tier Members under SB 121 DB/DC Choice Proposal - REVISED
(\$ in thousands)

PERS Others														
	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference
FY15	7,838	\$374,608	\$10,101	\$37,621	\$47,722	2.70%	10.04%	\$4.80	5.22%	\$19,555	3.48%	\$13,036	\$32,591	\$15,131
FY16	10,183	498,502	13,442	52,185	65,626	2.70%	10.47%	5.12	5.22%	26,022	3.48%	17,348	43,370	22,256
FY17	12,261	622,231	16,778	68,508	85,286	2.70%	11.01%	5.59	5.22%	32,480	3.48%	21,654	54,134	31,152
FY18	14,124	746,155	20,119	85,684	105,803	2.70%	11.48%	6.07	5.22%	38,949	3.48%	25,966	64,915	40,888
FY19	15,822	871,246	23,492	102,776	126,268	2.70%	11.80%	6.50	5.22%	45,479	3.48%	30,319	75,798	50,470

PERS Peace Officer/Firefighter														
	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference
FY15	570	\$35,710	\$1,634	\$3,910	\$5,544	4.58%	10.95%	\$6.86	5.22%	\$1,864	3.48%	\$1,243	\$3,107	\$2,437
FY16	741	47,520	2,174	5,333	7,508	4.58%	11.22%	7.20	5.22%	2,481	3.48%	1,654	4,135	3,373
FY17	898	59,315	2,714	7,082	9,796	4.58%	11.94%	7.88	5.22%	3,096	3.48%	2,064	5,160	4,636
FY18	1,047	71,415	3,268	9,034	12,302	4.58%	12.65%	8.63	5.22%	3,728	3.48%	2,485	6,213	6,089
FY19	1,190	84,049	3,846	10,767	14,613	4.58%	12.81%	9.05	5.22%	4,387	3.48%	2,925	7,312	7,301

PERS Total														
	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference
FY15	8,408	\$410,318	\$11,735	\$41,531	\$53,266	2.86%	10.12%	\$4.94	5.22%	\$21,419	3.48%	\$14,279	\$35,698	\$17,568
FY16	10,924	546,022	15,616	57,518	73,134	2.86%	10.53%	5.27	5.22%	28,503	3.48%	19,002	47,505	25,629
FY17	13,160	681,546	19,492	75,590	95,082	2.86%	11.09%	5.74	5.22%	35,576	3.48%	23,718	59,294	35,788
FY18	15,171	817,570	23,387	94,718	118,105	2.86%	11.59%	6.24	5.22%	42,677	3.48%	28,451	71,128	46,977
FY19	17,012	955,295	27,338	113,543	140,881	2.86%	11.89%	6.67	5.22%	49,866	3.48%	33,244	83,110	57,771

Teachers' Retirement System														
	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference
FY15	2,016	\$116,432	\$2,550	\$11,949	\$14,499	2.19%	10.26%	\$5.93	7.00%	\$8,150	3.49%	\$4,063	\$12,214	\$2,285
FY16	2,663	157,186	3,442	16,583	20,025	2.19%	10.55%	6.23	7.00%	11,003	3.49%	5,486	16,489	3,536
FY17	3,249	197,916	4,334	21,420	25,754	2.19%	10.82%	6.59	7.00%	13,854	3.49%	6,907	20,761	4,993
FY18	3,795	239,377	5,242	26,812	32,054	2.19%	11.20%	7.07	7.00%	16,756	3.49%	8,354	25,111	6,943
FY19	4,307	281,784	6,171	32,152	38,324	2.19%	11.41%	7.47	7.00%	19,725	3.49%	9,834	29,559	8,764

FISCAL NOTE

STATE OF ALASKA
2011 LEGISLATIVE SESSION

Fiscal Note Number _____
 Bill Version SB 121
 () Publish Date _____

SB121-DOA-DRB-05-05-11
 Title An Act relating to the PERS and TRS
 Sponsor Sen. Egan, Menard, Paskvan, Davis, Kookesh, Wielechowski, et al
 Requester Senate State Affairs
 Dept. Affected Administration
 Appropriation Centralized Administrative Services
 Allocation Retirement and Benefits
 OMB Component Number 64

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2013	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services		124,412.0	0.0	19,853.0	29,165.0	40,781.0	53,920.0	
Commodities								
Capital Outlay								
Grants								
Miscellaneous	0.0							
TOTAL OPERATING	0.0	124,412.0	0.0	19,853.0	29,165.0	40,781.0	53,920.0	
CAPITAL EXPENDITURES								
CHANGE IN REVENUES								

FUND SOURCE (Thousands of Dollars)

	FY 2013	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
1002 Federal Receipts							
1003 GF Match							
1004 GF		124,412.0		19,853.0	29,165.0	40,781.0	53,920.0
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other (please identify)							
TOTAL	0.0	124,412.0	0.0	19,853.0	29,165.0	40,781.0	53,920.0

Estimate of any current year (FY2011) cost _____

POSITIONS

Full-time							
Part-time							
Temporary							

Why this fiscal note differs from previous version (if initial version, please note as such)

Update

Prepared by Jim Puckett, Director
 Division Retirement and Benefits
 Approved by John Cramer, Deputy Commissioner
Department of Administration

Phone 465-4471
 Date/Time 10/7/11 12:00 AM
 Date _____

FISCAL NOTE

STATE OF ALASKA
2011 LEGISLATIVE SESSION

BILL NO. SB 121 _____

Analysis

SB 121 allows future and current defined contribution PERS and TRS members an opportunity to choose between a defined contribution (DC) and a defined benefit (DB) plan. Current DC members will have a one-time opportunity to convert to the DB plan. The DC member's employee and employer contributions will be transferred to the DB plan along with the total service the employee has accrued. If the combined contributions is insufficient to purchase the employee's service, the remainder will be made up from the general fund. The general fund expenditure will occur in FY 13 during the first 60 days after the effective date of the bill that allows for DC members to convert to the DB plan.

Costs outlined below for the choice option assumes 60% of current defined contribution members will elect to convert to the DB plan and that 80% of future members will choose the DB plans either by choice or by default.

The first impact on contributions rates will occur in FY 15 considering the two-year delay in budgeting contribution payments. Results are based on the draft 2010 actuarial valuation.

Because this bill will increase employer normal costs, under SB 125 (2008), which caps employer contribution rates at 22% for PERS and 12.56% for TRS, employers will therefore contribute less to past service costs. The amount that employers are no longer paying will be paid by the general fund.

Dollars are in thousands

PERS DB Plan	FY 13	FY 14	FY 15	FY16	FY 17	FY18	FY 19
Increase in Normal Cost Amount	\$0	N/A	\$17,568	\$25,629	\$35,788	\$46,977	\$57,771
Gf Transfer to Pay Unfunded Past Service Cost	\$91,724	N/A	\$0	\$0	\$0	\$0	\$0
Total Increase in Annual Employer Contribution Amount	N/A	N/A	\$17,568	\$25,629	\$35,788	\$46,977	\$57,771

TRS DB Plan	FY 13	FY 14	FY 15	FY16	FY 17	FY18	FY 19
Increase in Normal Cost Amount	\$0	N/A	\$2,285	\$3,536	\$4,993	\$6,943	\$8,764
GF Transfer to Pay Unfunded Past Service Cost	\$32,688	N/A	\$0	\$0	\$0	\$0	\$0
Total Increase in Annual Employer Contribution Amount	N/A	N/A	\$2,285	\$3,536	\$4,993	\$6,943	\$8,764

Totals for both plans:	\$124,412	N/A	\$19,853	\$29,165	\$40,781	\$53,920	\$66,535
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FISCAL NOTE

STATE OF ALASKA cost # codes
 2012 LEGISLATIVE SESSION

Bill Version SB121
 Fiscal Note Number _____
 Publish Date _____

Identifier (file name) SB121-DOA-DRB-12-13-11 Dept. Affected Department of Administration
 Title Teachers & Pub Employee Retirement Plans Appropriation Centralized Administrative Services
 Allocation Division of Retirement and Benefits
 Sponsor Senators Egan
 Requester Senate State Affairs OMB Component Number 64

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous	124,412.0			19,853.0	29,165.0	40,781.0	53,920.0
TOTAL OPERATING	124,412.0	0.0	0.0	19,853.0	29,165.0	40,781.0	53,920.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF	124,412.0		19,853.0	29,165.0	40,781.0	53,920.0
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		124,412.0	0.0	0.0	19,853.0	29,165.0	40,781.0

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES							

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Actuarial cost update for 2012

Prepared by Jim Puckett, Director
 Division Division of Retirement and Benefits
 Approved by John Cramer, Deputy Commissioner
Department of Administration

Phone 465-4471
 Date/Time 12/1/11 4:00 PM
 Date 12/13/2011

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. SB121

Analysis

SB 121 allows future and current defined contribution PERS and TRS members an opportunity to choose between a defined contribution (DC) and a defined benefit (DB) retirement plan at the time of hire. Current DC members will have a one-time opportunity to convert to the DB plan. If the DC member elects to convert, the member's employee and employer contributions will be transferred to the DB plan along with the total service the employee has accrued. If the combined contributions are insufficient to fully purchase the employee's service, the remainder due will be paid from the general fund. The general fund expenditure will occur in FY 13 during the first 60 days after the effective date of the bill when conversion can occur.

Costs outlined below for the choice option assumes 60% of current defined contribution members will elect to convert to the DB plan and that 80% of future members will choose the DB plans either by choice or by default.

The first impact on contribution rates will occur in FY15 considering the two year delay in the plan valuation process. Results are based on the 2010 actuarial valuation.

Employer rates are capped at 22% for PERS by AS 39.35.255 and at 12.56% for TRS by AS 14.25.070. Because this bill will increase employer normal costs, employers will contribute less to the past service costs of the systems. The increased past service costs will be borne by the State of Alaska general fund.

Dollars are in thousands.

PERS DB Plan	FY 13	FY 14	FY 15	FY16	FY 17	FY 18	FY19
Increase in Normal Cost Amount	\$0.0	\$0.0	\$ 17,568	\$ 25,629	\$ 35,788	\$ 46,977	\$ 57,771
GF Transfer to Pay Unfunded Past Service Cost	\$ 91,724	\$0.0	\$0	\$0	\$0	\$0	\$0
Total Increase in Annual Employer Contribution Amount	N/A	\$0.0	\$ 17,568	\$ 25,629	\$ 35,788	\$ 46,977	\$ 57,771

TRS DB Plan	FY 13	FY 14	FY 15	FY16	FY 17	FY 18	FY19
Increase in Normal Cost Amount	\$0.0	\$0.0	\$ 2,285	\$ 3,536	\$ 4,993	\$ 6,943	\$ 8,764
GF Transfer to Pay Unfunded Past Service Cost	\$ 32,688	\$0.0	\$0	\$0	\$0	\$0	\$0
Total Increase in Annual Employer Contribution Amount	N/A		\$ 9,172	\$ 14,118	\$ 18,657	\$ 22,787	\$ 26,641
Total for both plans	\$ 124,412	\$0.0	\$ 19,853	\$ 29,165	\$ 40,781	\$ 53,920	\$ 66,535

FISCAL NOTE

STATE OF ALASKA cost # codes
 2012 LEGISLATIVE SESSION

Bill Version SB121
 Fiscal Note Number _____
 Publish Date _____

Identifier (file name) SB121-DOA-DRB-12-13-11 Dept. Affected Department of Administration
 Title Teachers & Pub Employee Retirement Plans Appropriation Centralized Administrative Services
 Allocation Division of Retirement and Benefits
 Sponsor Senators Egan
 Requester Senate State Affairs OMB Component Number 64

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services	122.0						
Travel	12.5		10.0	10.0	10.0	10.0	10.0
Services	635.2		9.3	9.3	9.3	9.3	9.3
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	769.7	0.0	19.3	19.3	19.3	19.3	19.3

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match	769.7	0.0	19.3	19.3	19.3	19.3	19.3
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		769.7	0.0	19.3	19.3	19.3	19.3	19.3

POSITIONS								
Full-time								
Part-time								
Temporary	2.0		2	2	2	2	2	2

CHANGE IN REVENUES								

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Administrative fiscal note update

Prepared by Jim Puckett, Director
 Division Division of Retirement and Benefits
 Approved by John Cramer, Deputy Commissioner
Department of Administration

Phone 465-4471
 Date/Time 12/1/11 4:00 PM
 Date 12/13/2011

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. SB121

Analysis

The Division of Retirement and Benefits will require two non-permanent employees to complete the preparation work to account for and produce the necessary documents and forms for the inception of the new tiers. Education to employers will be required to properly electronically report service and salaries of new employees and existing employees of the defined contribution plans who elect to convert to the new tier. Education to employees will be required for defined contribution employees to make an informed decision during the election period and for new members of the new tiers.

The division will be required to reprogram its existing system, the Combined Retirement System, which tracks all service and salaries reported by employers to the system, to accommodate the new provisions of the new tiers.

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

Dollars are in thousands

	FY13	FY14	FY15	FY16	FY17	FY18
PERSONAL SERVICES						
1-Non Permanent Account III	106.0	0.0	0.0	0.0	0.0	0.0
1-Non Permanent Publications Technician III	16.0	0.0	0.0	0.0	0.0	0.0
Non Perm Training	13.4	0.0	0.0	0.0	0.0	0.0
	<u>135.4</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
TRAVEL						
Employer Reporting Training/Plan Educat	7.5	5.0	5.0	5.0	5.0	5.0
Reg. Counselor Travel/Employee Ed.	5.0	5.0	5.0	5.0	5.0	5.0
	<u>12.5</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>
SERVICES						
Communication/Postage						
-Choice Kit for new employee election	30.0	0.0	0.0	0.0	0.0	0.0
-Conversion notification to DC employee	8.1	0.0	0.0	0.0	0.0	0.0
-Update to PERS DB handbooks/brochure	322.3	0.0	0.0	0.0	0.0	0.0
Computer System Redesign	207.9	9.3	9.3	9.3	9.3	9.3
Computer System User Testing	36.6	0.0	0.0	0.0	0.0	0.0
Increased audit fees	5.6	0.0	0.0	0.0	0.0	0.0
	<u>610.5</u>	<u>9.3</u>	<u>9.3</u>	<u>9.3</u>	<u>9.3</u>	<u>9.3</u>
COMMODITIES						
Computer, phone, cubicle, supplies	11.3	0.0	0.0	0.0	0.0	0.0
	<u>11.3</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
TOTAL	<u>769.7</u>	<u>19.3</u>	<u>19.3</u>	<u>19.3</u>	<u>19.3</u>	<u>19.3</u>

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version SB121
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) SB121-DOR-TRS-01-24-12 Dept. Affected Revenue
 Title An Act relating to the PERS and TRS Appropriation Taxation & Treasury
 Allocation ARMB Custody & Mgmt Fee
 Sponsor Senators Egan, Menard, Paskvan, Davis, Kookesh
 Requester Senate State Affairs OMB Component Number 2812

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services							
Travel							
Services	593.0		690.0	795.0	909.0	1,032.0	1,164.0
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	593.0	0.0	690.0	795.0	909.0	1,032.0	1,164.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1029	PERS Trust (Other)	413.0	482.0	557.0	638.0	725.0	819.0
1034	Teach Ret (Other)	180.0	208.0	238.0	271.0	307.0	345.0
	TOTAL	593.0	0.0	690.0	795.0	909.0	1,032.0

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES							

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial note.

Prepared by Pam Leary, Comptroller
 Division Treasury
 Approved by Angela Rodell, Deputy Commissioner
Department of Revenue

Phone 465-2350
 Date/Time 1/24/12 12:00 AM
 Date 1/24/12 12:00 AM

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. SB121

Analysis

SB 121 allows future and current defined contribution PERS and TRS members an opportunity to choose between a defined contribution (DC) and a defined benefit (DB) plan. Current DC members will have a one-time opportunity to convert to the DB plan. The DC member's employee and employer contributions will be transferred to the DB plan.

Assumptions:

60% of the current defined contribution plan will be elected by DC members to convert to the DB plan. 80% of future members will elect to be in the DB plan.

Rate of return assumed to be 8%

Management fees assumed at 35 basis points.

**SB 121 –
Making Promises
and
Keeping Promises**

Department of Administration
Presentation to Senate State Affairs
Committee
April 14, 2011

Making Promises

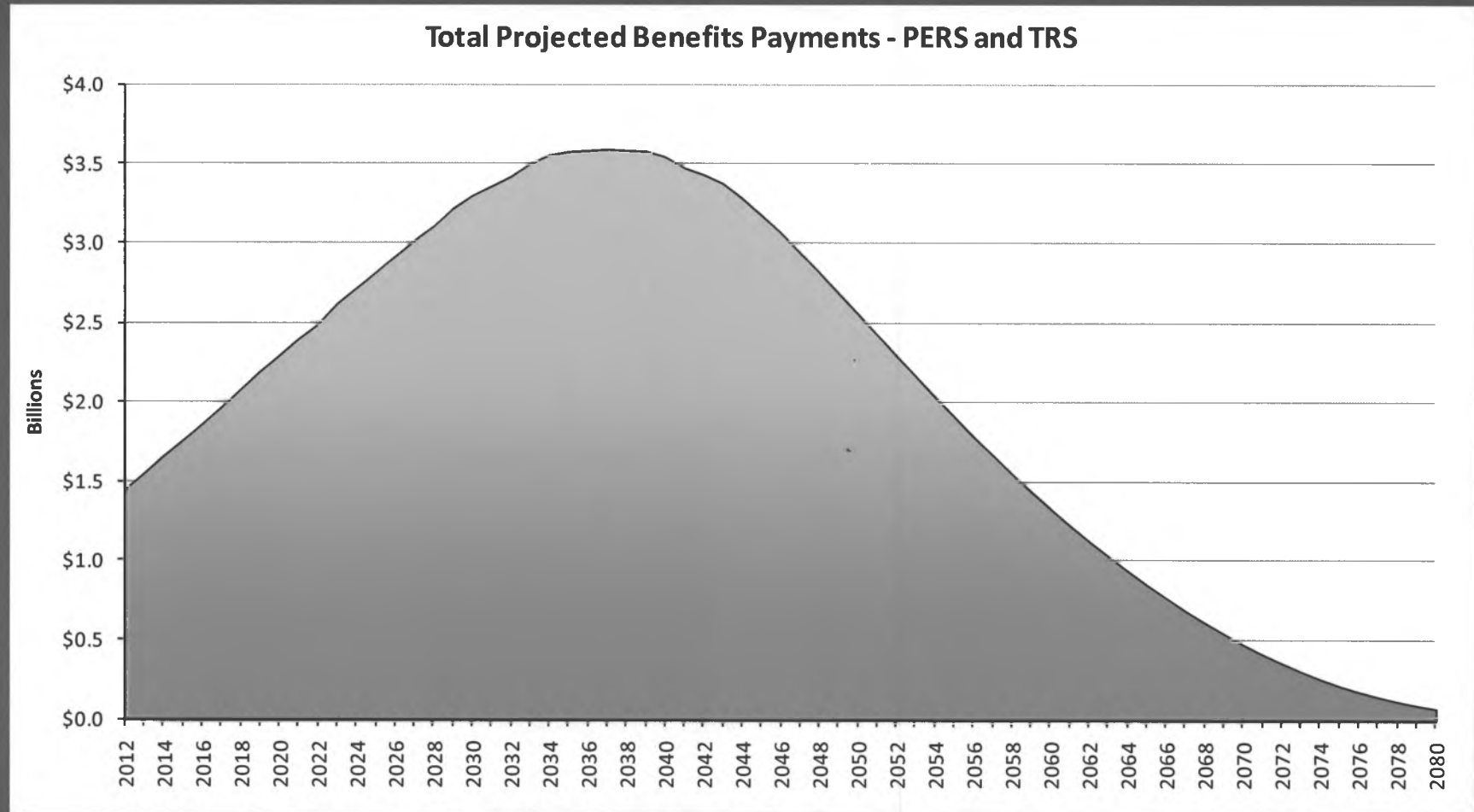
- Defined Benefit Plan Promises
 - Pension up to 67% of average salary
 - Annual cost of living increases
 - System-paid medical premiums
- Membership: 95,667

PERS	TRS
Tier I: 29,832	Tier I: 12,124
Tier II: 16,738	Tier II: 9,771
Tier III: 27,202	

Constitutional Obligation

- PERS/TRS DB Benefits will be paid until approximately 2080
- Benefit payments –
 - \$1 billion per year from now until 2063
 - \$3 billion per year from 2027-2046

PERS / TRS Hard Liabilities



Source: Buck Consultants

Increasing Cost of DB Plan Benefits

- People are living longer than expected
- People are retiring earlier than expected
- Health costs have substantially exceeded the rate of inflation

How We Plan to Keep Our Promises

- Continue to:
 - Invest \$15.8 billion in assets
 - Collect 22% of payroll from PERS employers
 - Collect 12.5% of payroll from TRS employers
 - Collect 6.75% from PERS DB employees
 - Collect 8.65% from TRS DB employees
 - Request GF Contributions
 - Make all benefits payments when due

Current Difficulties

- Cost of promised benefits keeps increasing
- Unfunded liability now projected to exceed \$11 billion
- PERS employer rate projected to increase from 30.75% in FY 12 to 32.83% for FY 13
- TRS employer rate projected to increase from 42.56% in FY 12 to 49.56% for FY 13
- Plan assets have been jeopardized by Great Recession and volatile markets

The Road Ahead

- Liabilities are projected to exceed \$3 billion a year for the 20-year period 2027-2046
- Current assets are \$16 billion with various streams of revenue
- New unfunded liabilities can develop at any time:
 - Mortality changes
 - Health care cost increases
 - Future investment loss

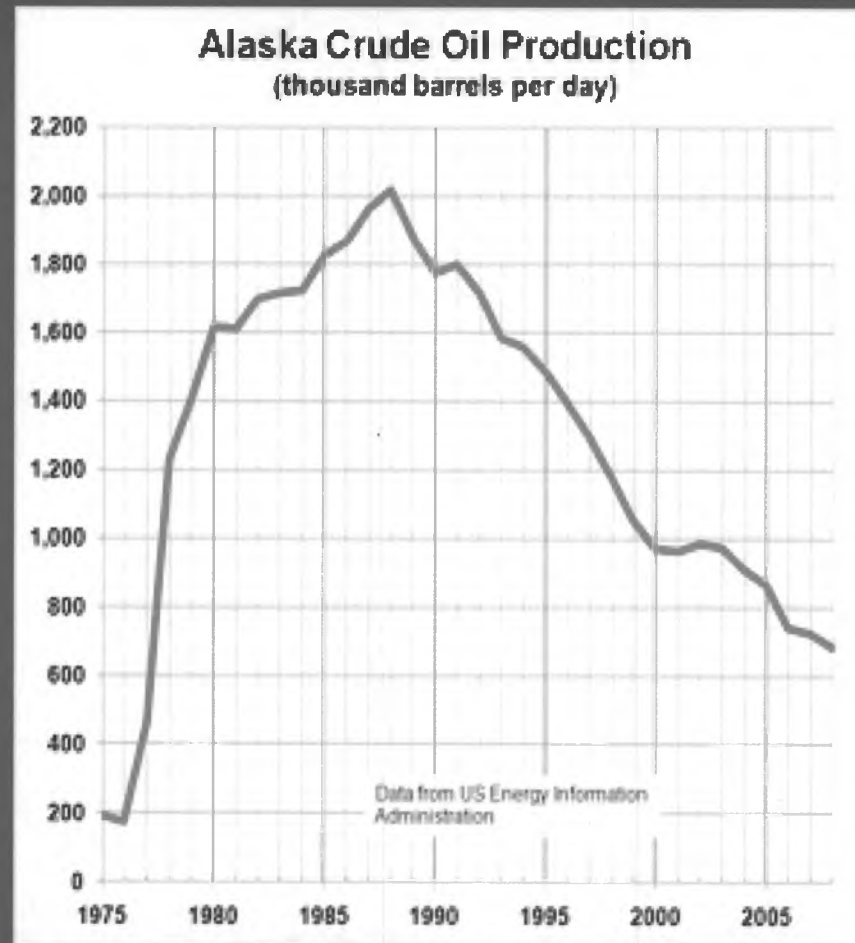
Pension Plans Need Backstops

- Alaska's experience from the 2000s
- Unfunded liabilities arise for a variety of reasons, negligent and non-negligent
- When unfunded liabilities have developed in the Alaska, by and large the GF has provided the solution

Making New Promises

- SB 121 makes new retirement promises to the next generation of state employees
- The State will need to keep those promises until at least 2080-2090
- \$3 billion in annual benefit payments for current population will extend beyond 2047
- Where is the GF income in the future to backstop these new retirement promises?
 - Investment losses
 - Mortality changes
 - Increased health care costs

Can we make new promises that retirees and their families will be able to rely on in 2060-2090?



Does SB 121 Save Money?

- Employer contribution rates are set on combined DB/DC payroll
- Contribution rates will not decrease with SB 121
- State as an employer pays 5% for DC employees, 30.76% for DB employees
- DC account balances total approximately \$300 million

Breaking Promises

- Retirement promises have been broken elsewhere
- Private employer retirement plan defaults prompted federal passage of ERISA in 1974
- Current threat of public pension defaults across the country
- Some states have broken promises and cut benefits to retirees
- Alaska has moral and constitutional obligation to keep its promises

Administration Position

- Keep the retirement promises we have made to date
- Don't make the problem worse
- Don't make new retirement promises that we cannot keep
- A revenue backstop is necessary to ensure new promises are kept; until Alaska's long term fiscal situation is solved this discussion is premature

SB 121

Technical Issues

TRS Issue

- Sec. 4 adds a requirement for SB 121 teachers who are disabled to apply for a vocational rehabilitation program.
Inoperable provision.
- Sec. 21 requires current DC teachers to elect to transfer to the DB plan within 60 days of the effective date of legislation.
Insufficient time period.

PERS Issues

- Sec. 14 removes current and future survivors from medical coverage due to new language “who becomes a member.” Survivors are not members.

PERS and TRS Issues

- Sec. 9 and 19 requires the PERS and TRS to provide a teacher or public employee with calculations to make a decision regarding participation in the DB or DC plan within 5 days of hire.
- Sec. 21 and 22 requires ARMB to ensure transfer of funds. Should be plan administrator.
- Sec. 22 requires any excess DC contributions to be paid to the member's SBS-AP account.

State of Alaska
 Summary of Normal Costs for New Tier Members under CS SB 121 DB/DC Choice Proposal
 (\$ in thousands)

PERS Others																
	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference	Pension Cost Difference	Healthcare Cost Difference
FY15	7,838	\$374,608	\$5,418	\$18,937	\$24,355	1.45%	5.06%	\$2.42	5.22%	\$19,555	3.48%	\$13,036	\$32,591	(\$8,236)	(\$14,137)	\$5,901
FY16	10,183	498,502	7,210	26,458	33,668	1.45%	5.31%	2.60	5.22%	26,022	3.48%	17,348	\$43,370	(\$9,702)	(\$18,812)	\$9,110
FY17	12,261	622,231	9,000	35,057	44,057	1.45%	5.63%	2.88	5.22%	32,480	3.48%	21,654	\$54,134	(\$10,077)	(\$23,480)	\$13,403
FY18	14,124	746,155	10,792	44,070	54,862	1.45%	5.91%	3.12	5.22%	38,949	3.48%	25,966	\$64,915	(\$10,053)	(\$28,157)	\$18,104
FY19	15,822	871,246	12,602	53,085	65,687	1.45%	6.09%	3.36	5.22%	45,479	3.48%	30,319	\$75,798	(\$10,111)	(\$32,877)	\$22,766
FY20	17,368	998,726	14,445	63,839	78,284	1.45%	6.39%	3.68	5.22%	52,133	3.48%	34,756	\$86,889	(\$8,605)	(\$37,688)	\$29,083
FY21	18,788	1,126,513	16,294	74,712	91,006	1.45%	6.63%	3.98	5.22%	58,804	3.48%	39,203	\$98,007	(\$7,001)	(\$42,510)	\$35,509
PERS Peace Officer/Firefighter																
	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference	Pension Cost Difference	Healthcare Cost Difference
FY15	570	\$35,710	\$1,456	\$2,142	\$3,598	4.08%	6.00%	\$3.76	5.22%	\$1,864	3.48%	\$1,243	\$3,107	\$491	(\$408)	\$899
FY16	741	47,520	1,937	3,043	4,980	4.08%	6.40%	4.11	5.22%	2,481	3.48%	1,654	\$4,135	\$845	(\$544)	\$1,389
FY17	898	59,315	2,418	4,122	6,540	4.08%	6.95%	4.59	5.22%	3,096	3.48%	2,064	\$5,160	\$1,380	(\$678)	\$2,058
FY18	1,047	71,415	2,911	5,317	8,228	4.08%	7.45%	5.08	5.22%	3,728	3.48%	2,485	\$6,213	\$2,015	(\$817)	\$2,832
FY19	1,190	84,049	3,426	6,376	9,802	4.08%	7.59%	5.36	5.22%	4,387	3.48%	2,925	\$7,312	\$2,490	(\$611)	\$3,451
FY20	1,329	97,175	3,961	7,730	11,691	4.08%	7.95%	5.82	5.22%	5,073	3.48%	3,382	\$8,455	\$3,236	(\$1,112)	\$4,348
FY21	1,461	110,877	4,519	8,968	13,487	4.08%	8.09%	6.14	5.22%	5,788	3.48%	3,859	\$9,647	\$3,840	(\$1,269)	\$5,109
PERS Total																
	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference	Pension Cost Difference	Healthcare Cost Difference
FY15	8,408	\$410,318	\$6,874	\$21,079	\$27,953	1.68%	5.14%	\$2.51	5.22%	\$21,419	3.48%	\$14,279	\$35,698	(\$7,745)	(\$14,545)	\$6,800
FY16	10,924	546,022	9,147	29,501	38,648	1.68%	5.40%	2.70	5.22%	28,503	3.48%	19,002	47,505	(8,857)	(19,355)	10,499
FY17	13,159	681,546	11,418	39,179	50,597	1.68%	5.75%	2.98	5.22%	35,576	3.48%	23,718	59,294	(8,697)	(24,158)	15,461
FY18	15,171	817,570	13,703	49,387	63,090	1.68%	6.04%	3.26	5.22%	42,677	3.48%	28,451	71,128	(8,038)	(28,974)	20,936
FY19	17,012	955,295	16,028	59,461	75,489	1.68%	6.22%	3.50	5.22%	49,866	3.48%	33,244	83,110	(7,621)	(33,838)	26,217
FY20	18,897	1,095,901	18,406	71,569	89,975	1.68%	6.53%	3.83	5.22%	57,206	3.48%	38,138	95,344	(5,369)	(38,800)	33,431
FY21	20,249	1,237,390	20,813	83,680	104,493	1.68%	6.76%	4.13	5.22%	64,592	3.48%	43,062	107,654	(3,161)	(43,779)	40,618
Teachers' Retirement System																
	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference	Pension Cost Difference	Healthcare Cost Difference
FY15	2,016	\$116,432	\$3,307	\$7,441	\$10,748	2.84%	6.39%	\$3.69	7.00%	\$8,150	3.49%	\$4,063	\$12,213	(\$1,465)	(\$4,843)	\$3,378
FY16	2,663	157,186	4,464	10,274	14,738	2.84%	6.54%	3.86	7.00%	11,003	3.49%	5,486	16,489	(1,751)	(6,539)	4,788
FY17	3,249	197,916	5,621	13,230	18,851	2.84%	6.68%	4.07	7.00%	13,854	3.49%	6,907	20,761	(1,910)	(8,233)	6,323
FY18	3,795	239,377	6,798	16,507	23,305	2.84%	6.90%	4.35	7.00%	16,756	3.49%	8,354	25,110	(1,805)	(9,858)	8,153
FY19	4,307	281,784	8,003	19,720	27,723	2.84%	7.00%	4.58	7.00%	19,725	3.49%	9,834	29,559	(1,836)	(11,722)	9,886
FY20	4,788	325,194	9,236	22,975	32,211	2.84%	7.07%	4.80	7.00%	22,764	3.49%	11,348	34,113	(1,902)	(13,528)	11,626
FY21	5,249	370,319	10,517	26,328	36,845	2.84%	7.11%	5.02	7.00%	25,822	3.49%	12,924	38,746	(2,001)	(15,405)	13,404
FY22	5,687	416,745	11,936	30,130	41,966	2.84%	7.23%	5.30	7.00%	29,172	3.49%	14,544	43,716	(1,750)	(17,336)	15,586
FY23	6,097	464,227	13,184	34,120	47,304	2.84%	7.35%	5.60	7.00%	32,496	3.49%	16,202	48,698	(1,394)	(19,312)	17,818
FY24	6,480	512,684	14,560	38,081	52,641	2.84%	7.43%	5.88	7.00%	35,886	3.49%	17,892	53,778	(1,137)	(21,326)	20,189

Prepared as of February 1, 2012.

AMENDMENT #1

OFFERED IN THE SENATE

TO: CSSB 121(STA), Draft Version "R"

- 1 Page 6, line 21:
- 2 Delete "contribution"
- 3 Insert "benefit"
- 4
- 5 Page 6, line 23:
- 6 Delete "board"
- 7 Insert "administrator"
- 8
- 9 Page 13, line 17:
- 10 Delete "contribution"
- 11 Insert "benefit"
- 12
- 13 Page 13, line 19:
- 14 Delete "board"
- 15 Insert "administrator"

AMENDMENT # 2

OFFERED IN THE SENATE

TO: CSSB 121(STA), Draft Version "R"

1 Page 4, line 10:

2 Delete "a new subsection"

3 Insert "new subsections"

4

5 Page 4, line 30, following "more":

6 Insert ", but less than 30,"

7

8 Page 5, following line 3:

9 Insert new subsections to read:

10 "(h) On or after July 1, 2018, and every five years thereafter, the administrator
11 shall adjust the percentages under (g)(2) and (3) of this section as needed to maintain,
12 but not to exceed, over the succeeding five years, an employer normal cost rate for the
13 members and survivors who first became members after June 30, 2006, that does not
14 exceed the combined total of the rates under AS 14.25.350(a), (b), (d), and (e) minus
15 the employer normal cost rate attributable to the members who first became members
16 after June 30, 2006, for benefits under AS 14.25.009 - 14.25.167. An adjustment made
17 under this subsection shall remain in effect for five years. In making an adjustment
18 under this subsection, the administrator shall maintain the five percent differences
19 between (g)(2)(A), (B), and (C) of this section and the five percent differences
20 between (g)(3)(A) and (B) of this section.

21 (i) When a member is appointed to retirement, the member obtains a vested
22 right to the applicable percentage under (g)(2) or (3) of this section, as adjusted under
23 (h) of this section, that is in effect when the member is appointed to retirement. A

1 member does not obtain a vested right to a percentage under (g)(2) or (3) of this
2 section, as adjusted under (h) of this section, before the member is appointed to
3 retirement."
4

5 Page 11, line 10, following "**retirement**":

6 Insert ";

7 (6) on or after July 1, 2018, and every five years thereafter, the
8 administrator shall adjust the percentages under (3) and (4) of this subsection as
9 needed to maintain, but not to exceed, over the succeeding five years, an
10 employer normal cost rate for the members and survivors who first became
11 members after June 30, 2006, that does not exceed the combined total of the rates
12 under AS 39.35.750(a), (b), (d), and (e) minus the employer normal cost rate
13 attributable to the members who first became members after June 30, 2006, for
14 benefits under AS 39.35.095 - 39.35.530; an adjustment made under this
15 paragraph shall remain in effect for five years; in making an adjustment under
16 this paragraph, the administrator shall maintain the five percent differences
17 between (3)(A), (B), (C), and (D) of this subsection and the five percent
18 differences between (4)(A) and (B) of this subsection;

19 (7) when a member is appointed to retirement, the member
20 obtains a vested right to the applicable percentage under (3) or (4) of this
21 subsection, as adjusted under (6) of this subsection, that is in effect when the
22 member is appointed to retirement; a member does not obtain a vested right to a
23 percentage under (3) or (4) of this subsection, as adjusted under (6) of this
24 subsection, before appointment to retirement."

State of Alaska
 Summary of Normal Costs for New Tier Members under CS SB 121 DB/DC Choice Proposal
 (\$ in thousands)

PERS Others

	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference	Pension Cost Difference	Healthcare Cost Difference
FY15	7,838	\$374,608	\$5,418	\$18,937	\$24,355	1.45%	5.06%	\$2.42	5.22%	\$19,555	3.48%	\$13,036	\$32,591	(\$8,238)	(\$14,137)	\$5,901
FY16	10,183	498,502	7,210	26,458	33,668	1.45%	5.31%	2.60	5.22%	26,022	3.48%	17,348	43,370	(9,702)	(18,812)	9,110
FY17	12,261	622,231	9,000	35,057	44,057	1.45%	5.63%	2.86	5.22%	32,480	3.48%	21,654	54,134	(10,077)	(23,480)	13,403
FY18	14,124	746,155	10,792	44,070	54,862	1.45%	5.91%	3.12	5.22%	38,949	3.48%	25,966	64,915	(10,053)	(28,157)	18,104
FY19	15,822	871,246	12,602	53,085	65,687	1.45%	6.09%	3.36	5.22%	45,479	3.48%	30,319	75,798	(10,111)	(32,877)	22,786
FY20	17,368	998,726	14,445	63,839	78,284	1.45%	6.39%	3.68	5.22%	52,133	3.48%	34,756	86,889	(8,605)	(37,688)	29,083
FY21	18,788	1,126,513	16,294	74,712	91,006	1.45%	6.63%	3.98	5.22%	58,804	3.48%	39,203	98,007	(7,001)	(42,510)	35,509
FY22	20,112	1,255,508	18,159	86,753	104,912	1.45%	6.91%	4.31	5.22%	65,538	3.48%	43,692	109,230	(4,318)	(47,379)	43,061
FY23	21,341	1,386,021	20,047	99,332	119,379	1.45%	7.17%	4.65	5.22%	72,350	3.48%	48,234	120,584	(1,205)	(52,303)	51,098
FY24	22,482	1,517,987	21,956	112,063	134,019	1.45%	7.38%	4.98	5.22%	79,239	3.48%	52,826	132,065	1,954	(57,283)	59,237
FY25	23,537	1,653,629	23,918	125,247	149,165	1.45%	7.57%	5.32	5.22%	86,319	3.48%	57,546	143,865	5,300	(62,401)	67,701
FY26	24,515	1,789,919	25,889	138,991	164,880	1.45%	7.77%	5.67	5.22%	93,434	3.48%	62,289	155,723	9,157	(67,545)	76,702
FY27	25,425	1,927,781	27,883	153,510	181,393	1.45%	7.96%	6.04	5.22%	100,630	3.48%	67,087	167,717	13,676	(72,747)	86,423
FY28	26,274	2,067,961	29,911	168,813	198,724	1.45%	8.16%	6.43	5.22%	107,948	3.48%	71,965	179,913	18,811	(78,037)	96,848
FY29	27,063	2,210,607	31,974	184,612	216,586	1.45%	8.35%	6.82	5.22%	115,394	3.48%	76,929	192,323	24,263	(83,420)	107,683
FY30	27,797	2,355,969	34,076	201,253	235,329	1.45%	8.54%	7.24	5.22%	122,982	3.48%	81,988	204,970	30,359	(88,906)	119,265
FY31	28,486	2,503,509	36,210	219,267	255,477	1.45%	8.76%	7.70	5.22%	130,683	3.48%	87,122	217,805	37,672	(94,473)	132,145
FY32	29,131	2,655,253	38,405	239,289	277,694	1.45%	9.01%	8.21	5.22%	138,604	3.48%	92,403	231,007	46,687	(100,199)	146,886
FY33	29,739	2,811,067	40,659	260,772	301,431	1.45%	9.28%	8.77	5.22%	146,738	3.48%	97,825	244,563	56,888	(106,079)	162,947
FY34	30,315	2,971,585	42,980	283,867	326,847	1.45%	9.55%	9.36	5.22%	155,117	3.48%	103,411	258,528	68,319	(112,137)	180,456
FY35	30,864	3,139,619	45,411	303,896	349,307	1.45%	9.68%	9.85	5.22%	163,888	3.48%	109,259	273,147	76,160	(118,477)	194,637
FY36	31,388	3,310,581	47,884	325,139	373,023	1.45%	9.82%	10.36	5.22%	172,812	3.48%	115,208	288,020	85,003	(124,928)	209,931
FY37	31,892	3,485,562	50,415	348,223	398,638	1.45%	9.99%	10.92	5.22%	181,946	3.48%	121,298	303,244	95,394	(131,531)	226,925
FY38	32,373	3,665,256	53,014	372,907	425,921	1.45%	10.17%	11.52	5.22%	191,326	3.48%	127,551	318,877	107,044	(138,312)	245,356
FY39	32,837	3,850,505	55,693	399,929	455,622	1.45%	10.39%	12.18	5.22%	200,996	3.48%	133,998	334,994	120,628	(145,303)	265,931
FY40	33,287	4,041,766	58,460	428,645	487,105	1.45%	10.61%	12.88	5.22%	210,981	3.48%	140,654	351,635	135,470	(152,521)	287,991
FY41	33,724	4,237,502	61,290	460,264	521,554	1.45%	10.86%	13.65	5.22%	221,198	3.48%	147,465	368,663	152,891	(159,908)	312,799
FY42	34,144	4,439,927	64,218	494,977	559,195	1.45%	11.15%	14.50	5.22%	231,764	3.48%	154,509	388,273	172,922	(167,546)	340,468

State of Alaska
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 (\$ in thousands)

PERS Peace Officer/Firefighter

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FY15	570	\$35,710	\$1,456	\$2,142	\$3,598	4.08%	6.00%	\$3.76	5.22%	\$1,864	3.48%	\$1,243	\$3,107	\$491	(\$408)	\$899
FY16	741	47,520	1,937	3,043	4,980	4.08%	6.40%	4.11	5.22%	2,481	3.48%	1,654	4,135	845	(544)	1,389
FY17	898	59,315	2,418	4,122	6,540	4.08%	6.95%	4.59	5.22%	3,096	3.48%	2,064	5,160	1,380	(678)	2,058
FY18	1,047	71,415	2,911	5,317	8,228	4.08%	7.45%	5.08	5.22%	3,728	3.48%	2,485	6,213	2,015	(817)	2,832
FY19	1,190	84,049	3,426	6,376	9,802	4.08%	7.59%	5.36	5.22%	4,387	3.48%	2,925	7,312	2,490	(961)	3,451
FY20	1,329	97,175	3,961	7,730	11,691	4.08%	7.95%	5.82	5.22%	5,073	3.48%	3,382	8,455	3,238	(1,112)	4,348
FY21	1,461	110,877	4,519	8,968	13,487	4.08%	8.09%	6.14	5.22%	5,788	3.48%	3,859	9,647	3,840	(1,269)	5,109
FY22	1,592	125,231	5,104	10,316	15,420	4.08%	8.24%	6.48	5.22%	6,537	3.48%	4,358	10,895	4,525	(1,433)	5,958
FY23	1,717	139,903	5,702	11,743	17,445	4.08%	8.39%	6.84	5.22%	7,303	3.48%	4,869	12,172	5,273	(1,601)	6,874
FY24	1,838	155,271	6,329	13,126	19,455	4.08%	8.45%	7.14	5.22%	8,105	3.48%	5,403	13,508	5,947	(1,776)	7,723
FY25	1,954	171,056	6,972	14,666	21,638	4.08%	8.57%	7.51	5.22%	8,929	3.48%	5,953	14,882	6,756	(1,957)	8,713
FY26	2,069	187,532	7,644	16,241	23,885	4.08%	8.66%	7.85	5.22%	9,789	3.48%	6,526	16,315	7,570	(2,145)	9,715
FY27	2,179	204,562	8,338	17,939	26,277	4.08%	8.77%	8.23	5.22%	10,678	3.48%	7,119	17,797	8,480	(2,340)	10,820
FY28	2,284	222,176	9,056	19,743	28,799	4.08%	8.89%	8.64	5.22%	11,598	3.48%	7,732	19,330	9,489	(2,542)	12,011
FY29	2,384	240,299	9,794	21,661	31,455	4.08%	9.01%	9.09	5.22%	12,544	3.48%	8,362	20,906	10,549	(2,750)	13,299
FY30	2,480	259,055	10,559	23,634	34,193	4.08%	9.12%	9.53	5.22%	13,523	3.48%	9,015	22,538	11,855	(2,964)	14,619
FY31	2,570	278,115	11,336	25,754	37,090	4.08%	9.26%	10.02	5.22%	14,518	3.48%	9,678	24,196	12,894	(3,182)	16,076
FY32	2,651	297,247	12,116	28,028	40,144	4.08%	9.43%	10.57	5.22%	15,516	3.48%	10,344	25,860	14,284	(3,400)	17,684
FY33	2,724	316,557	12,903	30,506	43,409	4.08%	9.64%	11.20	5.22%	16,524	3.48%	11,016	27,540	15,889	(3,621)	19,490
FY34	2,790	336,137	13,701	32,769	46,470	4.08%	9.75%	11.75	5.22%	17,546	3.48%	11,698	29,244	17,226	(3,845)	21,071
FY35	2,851	356,863	14,546	34,567	49,113	4.08%	9.69%	12.12	5.22%	18,628	3.48%	12,419	31,047	18,066	(4,082)	22,148
FY36	2,905	377,677	15,394	36,431	51,825	4.08%	9.65%	12.54	5.22%	19,715	3.48%	13,143	32,858	18,967	(4,321)	23,288
FY37	2,956	398,673	16,250	38,545	54,795	4.08%	9.67%	13.04	5.22%	20,811	3.48%	13,874	34,685	20,110	(4,561)	24,671
FY38	3,003	419,945	17,117	40,741	57,858	4.08%	9.70%	13.57	5.22%	21,921	3.48%	14,614	36,535	21,323	(4,804)	26,127
FY39	3,048	441,564	17,998	43,166	61,164	4.08%	9.78%	14.16	5.22%	23,050	3.48%	15,366	38,416	22,748	(5,052)	27,800
FY40	3,090	463,598	18,896	45,810	64,706	4.08%	9.88%	14.83	5.22%	24,200	3.48%	16,133	40,333	24,373	(5,304)	29,677
FY41	3,130	485,716	19,798	48,583	68,381	4.08%	10.00%	15.52	5.22%	25,354	3.48%	16,903	42,257	26,124	(5,556)	31,680
FY42	3,169	508,540	20,728	51,724	72,452	4.08%	10.17%	16.32	5.22%	26,546	3.48%	17,697	44,243	28,209	(5,818)	34,027

State of Alaska
 Summary of Normal Costs for New Tier Members under CS SB 121 DB/DC Choice Proposal
 (\$ in thousands)

PERS Total																
	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference	Pension Cost Difference	Healthcare Cost Difference
FY15	8,408	\$410,318	\$6,874	\$21,079	\$27,953	1.68%	5.14%	\$2.51	5.22%	\$21,419	3.48%	\$14,279	\$35,698	(\$7,745)	(\$14,545)	\$6,800
FY16	10,924	546,022	9,147	29,501	38,648	1.68%	5.40%	2.70	5.22%	28,503	3.48%	19,002	47,505	(8,857)	(19,356)	10,499
FY17	13,159	681,546	11,418	39,179	50,597	1.68%	5.75%	2.98	5.22%	35,576	3.48%	23,718	59,294	(8,697)	(24,158)	15,461
FY18	15,171	817,570	13,703	49,387	63,090	1.68%	6.04%	3.26	5.22%	42,677	3.48%	28,451	71,128	(8,038)	(28,974)	20,936
FY19	17,012	955,295	16,028	59,461	75,489	1.68%	6.22%	3.50	5.22%	49,866	3.48%	33,244	83,110	(7,621)	(33,838)	26,217
FY20	18,697	1,095,901	18,406	71,569	89,975	1.68%	6.53%	3.83	5.22%	57,206	3.48%	38,138	95,344	(5,369)	(38,800)	33,431
FY21	20,249	1,237,390	20,813	83,680	104,493	1.68%	6.76%	4.13	5.22%	64,592	3.48%	43,062	107,654	(3,161)	(43,779)	40,618
FY22	21,704	1,380,739	23,263	97,069	120,332	1.68%	7.03%	4.47	5.22%	72,075	3.48%	48,050	120,125	207	(48,812)	49,019
FY23	23,058	1,525,924	25,749	111,075	136,824	1.68%	7.28%	4.82	5.22%	79,653	3.48%	53,103	132,756	4,068	(53,904)	57,972
FY24	24,320	1,673,258	28,285	125,189	153,474	1.68%	7.48%	5.15	5.22%	87,344	3.48%	58,229	145,573	7,901	(59,059)	66,960
FY25	25,491	1,824,685	30,890	139,913	170,803	1.68%	7.67%	5.49	5.22%	95,248	3.48%	63,489	158,747	12,056	(64,358)	76,414
FY26	26,584	1,977,451	33,533	155,232	188,765	1.68%	7.85%	5.84	5.22%	103,223	3.48%	68,815	172,038	16,727	(69,690)	86,417
FY27	27,604	2,132,343	36,221	171,449	207,670	1.68%	8.04%	6.21	5.22%	111,308	3.48%	74,206	185,514	22,156	(75,087)	97,243
FY28	28,558	2,290,137	38,967	188,556	227,523	1.68%	8.23%	6.60	5.22%	119,546	3.48%	79,697	199,243	28,280	(80,579)	108,859
FY29	29,447	2,450,906	41,768	206,273	248,041	1.68%	8.42%	7.00	5.22%	127,938	3.48%	85,291	213,229	34,812	(86,170)	120,982
FY30	30,277	2,615,024	44,635	224,887	269,522	1.68%	8.60%	7.43	5.22%	136,505	3.48%	91,003	227,508	42,014	(91,870)	133,884
FY31	31,056	2,781,624	47,546	245,021	292,567	1.68%	8.81%	7.89	5.22%	145,201	3.48%	96,800	242,001	50,566	(97,655)	148,221
FY32	31,782	2,952,500	50,521	267,317	317,838	1.68%	9.05%	8.41	5.22%	154,120	3.48%	102,747	258,867	60,971	(103,599)	164,570
FY33	32,463	3,127,624	53,562	291,278	344,840	1.68%	9.31%	8.97	5.22%	163,262	3.48%	108,841	272,103	72,737	(109,700)	182,437
FY34	33,105	3,307,722	56,681	316,636	373,317	1.68%	9.57%	9.56	5.22%	172,663	3.48%	115,109	287,772	85,545	(115,982)	201,527
FY35	33,715	3,496,482	59,957	338,463	398,420	1.68%	9.68%	10.04	5.22%	182,516	3.48%	121,678	304,194	94,226	(122,559)	216,785
FY36	34,293	3,688,258	63,278	361,570	424,848	1.68%	9.80%	10.54	5.22%	192,527	3.48%	128,351	320,878	103,970	(129,249)	233,219
FY37	34,848	3,884,235	66,665	386,768	453,433	1.68%	9.96%	11.10	5.22%	202,757	3.48%	135,172	337,929	115,504	(136,092)	251,596
FY38	35,376	4,085,201	70,131	413,648	483,779	1.68%	10.13%	11.69	5.22%	213,247	3.48%	142,165	355,412	128,367	(143,116)	271,483
FY39	35,885	4,292,069	73,691	443,095	516,786	1.68%	10.32%	12.35	5.22%	224,046	3.48%	149,364	373,410	143,376	(150,355)	293,731
FY40	36,377	4,505,384	77,356	474,455	551,811	1.68%	10.53%	13.04	5.22%	235,181	3.48%	156,787	391,968	159,843	(157,825)	317,668
FY41	36,854	4,723,218	81,088	508,847	589,935	1.68%	10.77%	13.81	5.22%	246,552	3.48%	164,368	410,920	179,015	(165,464)	344,479
FY42	37,313	4,948,467	84,946	546,701	631,647	1.68%	11.05%	14.65	5.22%	258,310	3.48%	172,206	430,516	201,131	(173,364)	374,495

State of Alaska
 Summary of Normal Costs for New Tier Members under CS SB 121 DB/DC Choice Proposal
 (\$ in thousands)

Teachers' Retirement System																
	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference	Pension Cost Difference	Healthcare Cost Difference
FY15	2,016	\$116,432	\$3,307	\$7,441	\$10,748	2.84%	6.39%	\$3.69	7.00%	\$8,150	3.49%	\$4,063	\$12,213	(\$1,485)	(\$4,843)	\$3,378
FY16	2,663	157,186	4,464	10,274	14,738	2.84%	6.54%	3.86	7.00%	11,003	3.49%	5,486	16,489	(1,751)	(6,539)	4,788
FY17	3,249	197,916	5,621	13,230	18,851	2.84%	6.68%	4.07	7.00%	13,854	3.49%	6,907	20,761	(1,910)	(8,233)	6,323
FY18	3,795	239,377	6,798	16,507	23,305	2.84%	6.90%	4.35	7.00%	16,756	3.49%	8,354	25,110	(1,805)	(9,958)	8,153
FY19	4,307	281,784	8,003	19,720	27,723	2.84%	7.00%	4.58	7.00%	19,725	3.49%	9,834	29,559	(1,836)	(11,722)	9,886
FY20	4,788	325,194	9,236	22,975	32,211	2.84%	7.07%	4.80	7.00%	22,764	3.49%	11,349	34,113	(1,902)	(13,528)	11,626
FY21	5,249	370,319	10,517	26,328	36,845	2.84%	7.11%	5.02	7.00%	25,922	3.49%	12,924	38,846	(2,001)	(15,405)	13,404
FY22	5,687	416,745	11,836	30,130	41,966	2.84%	7.23%	5.30	7.00%	29,172	3.49%	14,544	43,716	(1,750)	(17,336)	15,586
FY23	6,097	464,227	13,184	34,120	47,304	2.84%	7.35%	5.60	7.00%	32,486	3.49%	16,202	48,688	(1,394)	(19,312)	17,918
FY24	6,480	512,664	14,560	38,081	52,641	2.84%	7.43%	5.88	7.00%	35,886	3.49%	17,892	53,778	(1,137)	(21,326)	20,189
FY25	6,837	562,375	15,971	42,331	58,302	2.84%	7.53%	6.19	7.00%	39,366	3.49%	19,627	58,993	(691)	(23,395)	22,704
FY26	7,174	613,016	17,410	46,809	64,219	2.84%	7.64%	6.53	7.00%	42,911	3.49%	21,394	64,305	(86)	(25,501)	25,415
FY27	7,496	664,940	18,884	51,705	70,589	2.84%	7.78%	6.90	7.00%	46,546	3.49%	23,206	69,752	837	(27,662)	28,499
FY28	7,799	717,892	20,388	57,010	77,398	2.84%	7.94%	7.31	7.00%	50,252	3.49%	25,054	75,306	2,092	(29,864)	31,956
FY29	8,085	771,823	21,920	62,534	84,454	2.84%	8.10%	7.73	7.00%	54,028	3.49%	26,937	80,965	3,489	(32,108)	35,597
FY30	8,354	826,955	23,486	68,248	91,734	2.84%	8.25%	8.17	7.00%	57,887	3.49%	28,861	86,748	4,988	(34,401)	39,387
FY31	8,603	882,285	25,057	74,520	99,577	2.84%	8.45%	8.66	7.00%	61,760	3.49%	30,792	92,552	7,025	(36,703)	43,728
FY32	8,833	938,353	26,649	81,372	108,021	2.84%	8.67%	9.21	7.00%	65,685	3.49%	32,749	98,434	9,587	(39,036)	48,623
FY33	9,046	995,359	28,268	88,667	116,935	2.84%	8.91%	9.80	7.00%	69,675	3.49%	34,738	104,413	12,522	(41,407)	53,929
FY34	9,245	1,053,336	29,915	96,251	126,166	2.84%	9.14%	10.41	7.00%	73,734	3.49%	36,761	110,495	15,671	(43,819)	59,480
FY35	9,429	1,112,586	31,597	103,846	135,443	2.84%	9.33%	11.01	7.00%	77,881	3.49%	38,829	116,710	18,733	(46,284)	65,017
FY36	9,604	1,172,610	33,302	111,851	145,153	2.84%	9.54%	11.65	7.00%	82,083	3.49%	40,924	123,007	22,146	(48,781)	70,927
FY37	9,767	1,233,614	35,035	120,896	155,931	2.84%	9.80%	12.38	7.00%	86,353	3.49%	43,053	129,406	26,525	(51,318)	77,843
FY38	9,923	1,295,853	36,802	130,693	167,495	2.84%	10.09%	13.17	7.00%	90,710	3.49%	45,225	135,935	31,560	(53,908)	85,468
FY39	10,069	1,359,505	38,610	141,417	180,027	2.84%	10.40%	14.04	7.00%	95,165	3.49%	47,447	142,612	37,415	(56,555)	93,970
FY40	10,211	1,424,719	40,462	153,150	193,612	2.84%	10.75%	15.00	7.00%	99,730	3.49%	49,723	149,453	44,159	(59,268)	103,427
FY41	10,347	1,491,201	42,350	166,212	208,562	2.84%	11.15%	16.06	7.00%	104,384	3.49%	52,043	156,427	52,135	(62,034)	114,169
FY42	10,478	1,559,673	44,295	180,315	224,610	2.84%	11.56%	17.21	7.00%	109,177	3.49%	54,433	163,610	61,000	(64,882)	125,882
FY43	10,607	1,630,380	46,303	195,761	242,064	2.84%	12.01%	18.46	7.00%	114,127	3.49%	56,900	171,027	71,037	(67,824)	138,861
FY44	10,732	1,703,466	48,378	212,093	260,471	2.84%	12.45%	19.76	7.00%	119,243	3.49%	59,451	178,694	81,777	(70,865)	152,642

State of Alaska
Summary of Normal Costs for New Tier Members under CS SB 121 DB/DC Choice Proposal
(\$ In thousands)

PERS Others																
Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference	Pension Cost Difference	Healthcare Cost Difference	
FY15	7,938	\$374,608	\$5,418	\$18,937	\$24,355	1.45%	5.06%	\$2.42	5.22%	\$19,555	3.48%	\$13,036	\$32,591	(\$8,236)	(\$14,137)	\$5,901
FY16	10,183	499,502	7,210	26,458	33,668	1.45%	5.31%	2.60	5.22%	26,022	3.48%	17,348	\$43,370	(\$9,702)	(\$18,812)	\$8,110
FY17	12,261	622,231	9,000	35,057	44,057	1.45%	5.63%	2.86	5.22%	32,480	3.48%	21,654	\$54,134	(\$10,077)	(\$23,480)	\$13,403
FY18	14,124	746,155	10,792	44,070	54,862	1.45%	5.91%	3.12	5.22%	38,949	3.48%	25,966	\$64,915	(\$10,053)	(\$28,157)	\$18,104
FY19	15,822	871,246	12,602	53,085	65,687	1.45%	6.09%	3.36	5.22%	45,479	3.48%	30,319	\$75,798	(\$10,111)	(\$32,877)	\$22,766
FY20	17,368	998,726	14,445	63,839	78,284	1.45%	6.39%	3.68	5.22%	52,133	3.48%	34,756	\$86,889	(\$8,605)	(\$37,688)	\$29,083
FY21	18,788	1,126,513	16,294	74,712	91,006	1.45%	6.63%	3.98	5.22%	58,804	3.48%	39,203	\$98,007	(\$7,001)	(\$42,510)	\$35,509
PERS Peace Officer/Firefighter																
Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference	Pension Cost Difference	Healthcare Cost Difference	
FY15	570	\$35,710	\$1,456	\$2,142	\$3,598	4.08%	6.00%	\$3.76	5.22%	\$1,864	3.48%	\$1,243	\$3,107	\$491	(\$408)	\$899
FY16	741	47,520	1,937	3,043	4,980	4.08%	6.40%	4.11	5.22%	2,481	3.48%	1,654	\$4,135	\$845	(\$544)	\$1,389
FY17	898	58,315	2,418	4,122	6,540	4.08%	6.95%	4.59	5.22%	3,096	3.48%	2,064	\$5,160	\$1,380	(\$678)	\$2,058
FY18	1,047	71,415	2,911	5,317	8,228	4.08%	7.45%	5.08	5.22%	3,728	3.48%	2,485	\$6,213	\$2,015	(\$817)	\$2,832
FY19	1,190	84,049	3,426	6,376	9,802	4.08%	7.59%	5.36	5.22%	4,387	3.48%	2,925	\$7,312	\$2,490	(\$961)	\$3,451
FY20	1,329	97,175	3,961	7,730	11,691	4.08%	7.95%	5.82	5.22%	5,073	3.48%	3,382	\$8,455	\$3,236	(\$1,112)	\$4,348
FY21	1,461	110,877	4,519	8,968	13,487	4.08%	8.09%	6.14	5.22%	5,788	3.48%	3,859	\$9,647	\$3,840	(\$1,269)	\$5,109
PERS Total																
Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference	Pension Cost Difference	Healthcare Cost Difference	
FY15	8,408	\$410,318	\$6,874	\$21,079	\$27,953	1.68%	5.14%	\$2.51	5.22%	\$21,419	3.48%	\$14,279	\$35,698	(\$7,745)	(\$14,545)	\$6,800
FY16	10,924	546,022	9,147	29,501	38,648	1.68%	5.40%	2.70	5.22%	28,503	3.48%	19,002	47,505	(\$8,857)	(\$19,356)	10,499
FY17	13,159	681,546	11,418	39,179	50,597	1.68%	5.75%	2.98	5.22%	35,576	3.48%	23,718	59,294	(\$8,897)	(\$24,158)	15,461
FY18	15,171	817,570	13,703	49,387	63,090	1.68%	6.04%	3.26	5.22%	42,677	3.48%	28,451	71,128	(\$8,038)	(\$28,974)	20,936
FY19	17,012	955,295	16,028	59,461	75,489	1.68%	6.22%	3.50	5.22%	49,866	3.48%	33,244	83,110	(\$7,621)	(\$33,838)	26,217
FY20	18,867	1,095,901	18,406	71,569	89,975	1.68%	6.53%	3.83	5.22%	57,208	3.48%	38,138	95,346	(\$5,369)	(\$38,800)	33,431
FY21	20,249	1,237,390	20,813	83,680	104,493	1.68%	6.76%	4.13	5.22%	64,592	3.48%	43,062	107,654	(\$3,161)	(\$43,779)	40,618
Teachers' Retirement System																
Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Healthcare Normal Cost Rate (per member)	Employer DCR Contribution Pension Rate	Employer DCR Contribution Pension Amount	Employer DCR Contribution Healthcare Rate	Employer DCR Contribution Healthcare Amount	Employer DCR Contribution Total Amount	DB / DCR Cost Difference	Pension Cost Difference	Healthcare Cost Difference	
FY15	2,016	\$116,432	\$3,307	\$7,441	\$10,748	2.84%	6.39%	\$3.69	7.00%	\$8,150	3.49%	\$4,063	\$12,213	(\$1,465)	(\$4,843)	\$3,378
FY16	2,663	157,186	4,464	10,274	14,738	2.84%	6.54%	3.86	7.00%	11,003	3.49%	5,486	16,489	(\$1,751)	(\$6,539)	4,788
FY17	3,249	197,916	5,621	13,230	18,851	2.84%	6.68%	4.07	7.00%	13,854	3.49%	6,907	20,761	(\$1,910)	(\$8,233)	6,323
FY18	3,795	239,377	6,798	16,507	23,305	2.84%	6.90%	4.35	7.00%	16,756	3.49%	8,354	25,110	(\$1,805)	(\$9,958)	8,153
FY19	4,307	281,784	8,003	19,720	27,723	2.84%	7.00%	4.58	7.00%	19,725	3.49%	9,834	29,559	(\$1,836)	(\$11,722)	9,866
FY20	4,788	325,194	9,236	22,975	32,211	2.84%	7.07%	4.80	7.00%	22,764	3.49%	11,349	34,113	(\$1,802)	(\$13,528)	11,626
FY21	5,249	370,319	10,517	26,328	36,845	2.84%	7.11%	5.02	7.00%	25,922	3.49%	12,924	38,846	(\$2,001)	(\$15,405)	13,404
FY22	5,687	416,745	11,836	30,130	41,966	2.84%	7.23%	5.30	7.00%	29,172	3.49%	14,544	43,716	(\$1,750)	(\$17,336)	15,586
FY23	6,097	464,227	13,184	34,120	47,304	2.84%	7.35%	5.60	7.00%	32,496	3.49%	16,202	48,698	(\$1,394)	(\$19,312)	17,918
FY24	6,480	512,664	14,560	38,081	52,641	2.84%	7.43%	5.88	7.00%	35,886	3.49%	17,892	53,778	(\$1,137)	(\$21,326)	20,189

Prepared as of February 1, 2012.

Major Changes in SB 121

Substantive changes in Sen. L&C "R" version:

- The changes in the bill take effect 7/1/2013
- Employees currently in the DC plan who convert are not automatically entitled to credit for all the time they've worked.
 - The actuarial 'time value' of the DC account will be credited automatically.
 - The employee may choose to create an indebtedness to make up any shortage, up to the actual years of service.
- Retirees in the new Defined Benefit tiers will pay a share of the premiums for medical insurance. These will be the same as DC retirees:
 - If the retiree is eligible for Medicare, the retiree pays:
 - 30 percent with 10-15 years of service
 - 25 percent with 15-20 years of service
 - 20 percent with 20-25 years of service
 - 15 percent with 25-30 years of service
 - 10 percent with 30 or more years of service
 - If a teacher, peace officer, or firefighter works 25 years or more, the retiree pays the percentages above, *even if not eligible for Medicare*.
 - If a PERS employee who is not a peace officer or firefighter works 30 years or more, the retiree pays 10 percent of the premium *even if not eligible for Medicare*.

The CS also makes some technical and mechanical changes:

- The title is more descriptive of the bill.
- When an employee converts from one plan to another, the change is retroactive to the date of hire. (This does not change the service credit provisions in the bill.)
- Language was clarified to ensure survivors of Defined Benefit members are eligible for survivor benefits.
- References to the Alaska Retirement Management Board transferring funds were changed to the administrator (Department of Administration) to reflect current practice.
- Language requiring individual accounts to be transferred with "interest" was changed to "with investment earnings and losses" to avoid confusion with statutory interest rates under other retirement statutes.

27-LS0281\R
Wayne
1/23/12

CS FOR SENATE BILL NO. 121(STA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE SENATE STATE AFFAIRS COMMITTEE

Offered:
Referred:

Sponsor(s): SENATORS EGAN, Menard, Paskvan, Davis, Kookesh, Wielechowski, Ellis, Thomas, French, McGuire

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to new defined benefit tiers in the public employees' retirement system
2 and the teachers' retirement system; providing certain employees an opportunity to
3 choose between the defined benefit and defined contribution plans of the public
4 employees' retirement system and the teachers' retirement system; and providing for an
5 effective date."

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 * **Section 1.** AS 14.25.009 is repealed and reenacted to read:

8 **Sec. 14.25.009. Applicability of AS 14.25.009 - 14.25.220.** (a) The provisions
9 of AS 14.25.009 - 14.25.220 apply to teachers who are eligible to be members of the
10 teachers' retirement system under AS 14.25.009 - 14.25.220 and are not members of
11 the defined contribution retirement plan under AS 14.25.310 - 14.25.590.

12 (b) An employer that participates in the plan shall also participate in the
13 defined contribution retirement plan under AS 14.25.310 - 14.25.590.

1 * **Sec. 2.** AS 14.25.040(a) is amended to read:

2 (a) Unless a teacher or member participates in a university retirement program
3 under AS 14.40.661 - 14.40.799 or has elected under AS 14.25.330 or former
4 AS 14.25.540 to participate in the plan established in AS 14.25.310 - 14.25.590, a
5 teacher or member contracting for service with a participating employer is subject to
6 AS 14.25.009 - 14.25.220.

7 * **Sec. 3.** AS 14.25.050(a) is amended to read:

8 (a) Except as provided in (c) and (e) of this section, beginning January 1,
9 1991, each member shall contribute to the plan an amount equal to 8.65 percent of the
10 member's base salary accrued from July 1 to the following June 30. [THE
11 EMPLOYER SHALL DEDUCT THE CONTRIBUTION FROM THE MEMBER'S
12 SALARY AT THE END OF EACH PAYROLL PERIOD, AND THE
13 CONTRIBUTION SHALL BE CREDITED BY THE PLAN TO THE MEMBER
14 CONTRIBUTION ACCOUNT. THE CONTRIBUTIONS SHALL BE DEDUCTED
15 FROM EMPLOYEE COMPENSATION BEFORE THE COMPUTATION OF
16 APPLICABLE FEDERAL TAXES AND SHALL BE TREATED AS EMPLOYER
17 CONTRIBUTIONS UNDER 26 U.S.C. 414(h)(2). A MEMBER MAY NOT HAVE
18 THE OPTION OF MAKING THE PAYROLL DEDUCTION DIRECTLY IN CASH
19 INSTEAD OF HAVING THE CONTRIBUTION PICKED UP BY THE
20 EMPLOYER.]

21 * **Sec. 4.** AS 14.25.050 is amended by adding new subsections to read:

22 (e) Except as provided in (a) and (c) of this section, a member who first
23 participates in the plan after June 30, 2006, shall contribute to the plan an amount
24 equal to eight percent of the employee's base salary accrued from July 1 to the
25 following June 30.

26 (f) The employer shall deduct the contributions under (a) and (e) of this
27 section from the member's salary at the end of each payroll period, and the
28 contributions shall be credited by the plan to the member contribution account. The
29 contributions shall be deducted from employee compensation before the computation
30 of applicable federal taxes and shall be treated as employer contributions under 26
31 U.S.C. 414(h)(2). A member may not have the option of making the payroll deduction

1 directly in cash instead of having the contribution picked up by the employer.

2 * **Sec. 5.** AS 14.25.130(c) is amended to read:

3 (c) Once each year during the first five years following appointment to
4 disability under this section, and once every three-year period thereafter, the
5 administrator may require a disabled member who **first became a member before**
6 **July 1, 2006, and who** has not attained eligibility for normal retirement to undergo a
7 medical or mental examination by a competent physician. The administrator shall
8 suspend any disability benefit for a disabled member who refuses to undergo a
9 physical or mental examination when requested under this section.

10 * **Sec. 6.** AS 14.25.130 is amended by adding new subsections to read:

11 (g) A person who first becomes a member after June 30, 2006, and who is
12 receiving a benefit under this section shall undergo a medical examination as often as
13 the administrator considers advisable, but not more frequently than once each year.
14 The administrator shall determine the place of the examination and engage the
15 physician or physicians. If, in the judgment of the administrator, the examination
16 indicates that the disabled member is no longer incapacitated because of a total and
17 apparently permanent occupational disability, the administrator may not issue further
18 disability benefits to the member.

19 (h) A person who first becomes a member after June 30, 2006, and who is
20 appointed to disability benefits shall apply to the division of vocational rehabilitation
21 of the Department of Labor and Workforce Development within 30 days after the date
22 disability benefits commence. The member shall be enrolled in a rehabilitation
23 program if the member meets the eligibility requirements of the division of vocational
24 rehabilitation. Unless the member demonstrates cause, benefits shall terminate at the
25 end of the first month in which a disabled member

26 (1) fails to report to the division of vocational rehabilitation;

27 (2) is certified by the division of vocational rehabilitation as failing to
28 cooperate in a vocational rehabilitation program;

29 (3) fails to interview for a job; or

30 (4) fails to accept a position offered.

31 * **Sec. 7.** AS 14.25.168(d) is amended to read:

1 (d) A benefit recipient, or the surviving spouse of a benefit recipient, who
2 first becomes a member before July 1, 2006, may elect major medical insurance
3 coverage in accordance with regulations and under the following conditions:

4 (1) a benefit recipient [PERSON] who has less than 25 years of
5 membership service and who is younger than 60 years of age must pay an amount
6 equal to the full monthly group premium for retiree major medical insurance coverage;

7 (2) a disabled member, a disabled member who is appointed to normal
8 retirement, a person 60 years of age or older, or a person who has at least 25 years of
9 membership service is not required to make premium payments.

10 * **Sec. 8.** AS 14.25.168 is amended by adding a new subsection to read:

11 (g) A benefit recipient, or the surviving spouse of a benefit recipient, who first
12 becomes a member after June 30, 2006, may elect major medical insurance coverage
13 in accordance with regulations and under the following conditions:

14 (1) if the participating member or surviving spouse is not eligible for
15 Medicare, the cost of a monthly premium for retiree major medical insurance coverage
16 elected under this section is equal to the full monthly group premium for retiree major
17 medical insurance coverage;

18 (2) if the participating member or surviving spouse is eligible for
19 Medicare, the cost of a monthly premium for retiree major medical insurance coverage
20 is a percentage of the full monthly group premium, as follows:

21 (A) 30 percent if the member had 10 or more, but less than 15,
22 years of service;

23 (B) 25 percent if the member had 15 or more, but less than 20,
24 years of service;

25 (C) 20 percent if the member had 20 or more, but less than 25,
26 years of service;

27 (3) the cost of a monthly premium paid by the member or the
28 member's surviving spouse for retiree major medical insurance coverage is

29 (A) 15 percent of the full monthly group premium if the
30 participating member has 25 or more years of service;

31 (B) 10 percent of the full monthly group premium if the

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participating member has 30 or more years of service;
(4) a disabled member or a disabled member who is appointed to normal retirement is not required to make premium payments.

* **Sec. 9.** AS 14.25.310 is amended to read:

Sec. 14.25.310. Applicability of AS 14.25.310 - 14.25.590. The provisions of AS 14.25.310 - 14.25.590 apply only to

(1) teachers who first become members on or after July 1, 2006, and before the effective date of this section who do not transfer to a defined benefit retirement plan under AS 14.25.009 - 14.25.220 or AS 39.35.095 - 39.35.680;

(2) teachers described in AS 14.25.330 who elect under that section to become [TO MEMBERS WHO ARE EMPLOYED BY EMPLOYERS THAT DO NOT PARTICIPATE IN THE DEFINED BENEFIT RETIREMENT PLAN ESTABLISHED UNDER AS 14.25.009 - 14.25.220, TO FORMER MEMBERS UNDER AS 14.25.220, OR TO] members; **and**

(3) teachers who transferred [TRANSFER] into the defined contribution retirement plan under former AS 14.25.540.

* **Sec. 10.** AS 14.25.310 is amended by adding a new subsection to read:

(b) An employer that participates in the plan shall also participate in the defined benefit retirement plan under AS 14.25.009 - 14.25.220.

* **Sec. 11.** AS 14.25.330 is repealed and reenacted to read:

Sec. 14.25.330. Retirement plan election option. (a) A teacher who is first hired on or after the effective date of this section may make a one-time election to participate in the defined contribution retirement plan under AS 14.25.310 - 14.25.590 retroactive to the date of hire and may transfer to that plan employee contributions, if any, and employer contributions, if any, that have been made to the defined benefit retirement plan under AS 14.25.009 - 14.25.220. Before employer contributions are transferred under this subsection, the administrator shall recalculate them under AS 14.25.070.

(b) The election to participate in the defined contribution retirement plan under (a) of this section must be made within 90 days after the date of hire, and be made in writing on a form and in the manner prescribed by the administrator. Before

1 accepting an election to participate in the defined contribution retirement plan, the
2 administrator shall, within 20 days after the administrator receives notification of the
3 teacher's date of hire, provide the teacher eligible to make an election to participate in
4 the defined contribution retirement plan under AS 14.25.310 - 14.25.590 with

5 (1) information, including calculations to illustrate the effect of
6 moving the teacher's retirement plan from the defined benefit retirement plan to the
7 defined contribution retirement plan; and

8 (2) other information clearly to inform the teacher of the potential
9 consequences of the teacher's election.

10 (c) An election made under (a) of this section to participate in the defined
11 contribution retirement plan is irrevocable. Retroactive to the date of hire, the teacher
12 shall be enrolled as a member of the defined contribution retirement plan under
13 AS 14.25.310 - 14.25.590, the member's participation in the plan shall be governed by
14 the provisions for the defined contribution retirement plan, and the member's
15 participation in the defined benefit retirement plan under AS 14.25.009 - 14.25.220
16 shall terminate. An election made by an eligible member who is married is not
17 effective unless the election is signed by the member's spouse.

18 (d) When a member makes an election under (a) of this section, the
19 administrator shall cause the total amount of the member's employee and employer
20 contributions, with investment earnings and losses through the final day of the
21 member's participation in the defined contribution retirement plan, to be actuarially
22 calculated and transferred to the member's designated account in the defined
23 contribution retirement plan. The board shall establish transfer procedures by
24 regulation, but the actual transfer may not be later than 30 days after the date the
25 administrator receives the member's election form under (b) of this section, unless the
26 major financial markets for securities available for a transfer are seriously disrupted by
27 an unforeseen event that also causes the suspension of trading on any national
28 securities exchange in the country where the securities were issued. In that event, the
29 30-day period of time may be extended by a resolution of the board. Transfers are not
30 commissionable or subject to other fees and may be in the form of securities or cash as
31 determined by the board. Securities shall be valued on the date of receipt in the

1 member's account.

2 (e) An election made by an eligible member who is married is not effective
3 unless the election is signed by the individual's spouse. An eligible member whose
4 accounts are subject to a qualified domestic relations order may not make an election
5 to participate in the defined contribution retirement plan under this section unless the
6 qualified domestic relations order is amended or vacated and court-certified copies of
7 the order are received by the administrator.

8 * **Sec. 12.** AS 39.35.095 is repealed and reenacted to read:

9 **Sec. 39.35.095. Applicability of AS 39.35.095 - 39.35.680.** (a) The provisions
10 of AS 39.35.095 - 39.35.680 apply to public employees who are eligible to be
11 members of the public employees' retirement system under AS 39.35.095 - 39.35.680
12 and are not members of the defined contribution retirement plan under AS 39.35.700 -
13 39.35.990.

14 (b) A public organization or a municipality or other political subdivision of the
15 state that participates in the plan shall also participate in the defined contribution
16 retirement plan under AS 39.35.700 - 39.35.900.

17 * **Sec. 13.** AS 39.35 is amended by adding a new section to read:

18 **Sec. 39.35.128. Participation of elected officials of political subdivisions.** (a)
19 A person who is an elected official of a political subdivision of the state and who has
20 not participated in the plan or waived participation in the plan before July 1, 2013, is a
21 member of the plan if

22 (1) the political subdivision has elected under AS 39.35.600 -
23 39.35.650 to designate elected officials in the classifications of employees entitled to
24 participate in the plan; and

25 (2) the elected official receives compensation from the political
26 subdivision for services as an elected official in the amount of at least \$2,001 a month.

27 (b) An elected official entitled to participate under this section, and who either
28 has no previous service under the system with the political subdivision or is retired
29 under the system, may file a waiver of participation in the plan with the administrator
30 within 30 days after the later of July 1, 2013, or the date that the elected official's term
31 of office begins. A waiver is irrevocable for the remainder of the elected official's

1 service as an elected official or employee of the political subdivision.

2 * **Sec. 14.** AS 39.35.160(a) is amended to read:

3 (a) **Subject to (e) of this section, beginning** [BEGINNING] January 1, 1987,
4 each peace officer or firefighter shall contribute to the plan an amount equal to seven
5 and one-half percent of the peace officer's or firefighter's compensation. Except as
6 provided in **(d) and (e)** [(d)] of this section, beginning January 1, 1987, each other
7 employee shall contribute to the plan an amount equal to six and three-quarters percent
8 of the employee's compensation. [THE CONTRIBUTIONS SHALL BE DEDUCTED
9 BY THE EMPLOYER AT THE END OF EACH PAYROLL PERIOD. THE
10 CONTRIBUTIONS SHALL BE DEDUCTED FROM EMPLOYEE
11 COMPENSATION BEFORE COMPUTATION OF APPLICABLE FEDERAL
12 TAXES, AND THE CONTRIBUTIONS SHALL BE TREATED AS EMPLOYER
13 CONTRIBUTIONS UNDER 26 U.S.C. 414(h)(2). A MEMBER MAY NOT HAVE
14 THE OPTION OF MAKING THE PAYROLL DEDUCTION DIRECTLY INSTEAD
15 OF HAVING THE CONTRIBUTION PICKED UP BY THE EMPLOYER.]

16 * **Sec. 15.** AS 39.35.160 is amended by adding new subsections to read:

17 (e) Except as provided in (a) and (d) of this section, an employee, including a
18 peace officer or firefighter, who first participates in the plan after June 30, 2006, shall
19 contribute to the plan an amount equal to eight percent of the employee's
20 compensation.

21 (f) Contributions under (a) and (e) of this section shall be deducted by the
22 employer at the end of each payroll period. The contributions shall be deducted from
23 employee compensation before computation of applicable federal taxes, and the
24 contributions shall be treated as employer contributions under 26 U.S.C. 414(h)(2). A
25 member may not have the option of making the payroll deduction directly instead of
26 having the contribution picked up by the employer.

27 * **Sec. 16.** AS 39.35.410(g) is amended to read:

28 (g) A disabled employee **who first became a member before July 1, 2006,**
29 **and who is** receiving an occupational disability benefit shall undergo a medical
30 examination as often as the administrator considers advisable but not more frequently
31 than once each year. The administrator shall determine the place of the examination

1 and engage the physician or physicians. If, in the judgment of the administrator, the
 2 examination indicates that the retired employee is no longer incapacitated because of a
 3 total and apparently permanent occupational disability, the administrator may not issue
 4 further disability benefits to the employee.

5 * **Sec. 17.** AS 39.35.410 is amended by adding a new subsection to read:

6 (k) A person who first becomes a member after June 30, 2006, and who is
 7 appointed to disability benefits shall apply to the division of vocational rehabilitation
 8 within 30 days after the date disability benefits commence. The employee shall be
 9 enrolled in a rehabilitation program if the employee meets the eligibility requirements
 10 of the division of vocational rehabilitation. Unless the employee demonstrates cause,
 11 benefits shall terminate at the end of the first month in which a disabled employee

- 12 (1) fails to report to the division of vocational rehabilitation;
- 13 (2) is certified by the division of vocational rehabilitation as failing to
 14 cooperate in a vocational rehabilitation program;
- 15 (3) fails to interview for a job; or
- 16 (4) fails to accept a position offered.

17 * **Sec. 18.** AS 39.35.535(c) is amended to read:

18 (c) A benefit recipient may elect major medical insurance coverage in
 19 accordance with regulations and under the following conditions:

20 (1) a person, **or the surviving spouse of a person, who becomes a**
 21 **member before July 1, 2006,** other than a disabled member or a disabled member
 22 who is appointed to normal retirement, must pay an amount equal to the full monthly
 23 group premium for retiree major medical insurance coverage if the person is

- 24 (A) younger than 60 years of age and has less than
 - 25 (i) 25 years of credited service as a peace officer under
 - 26 AS 39.35.360 and 39.35.370; or
 - 27 (ii) 30 years of credited service under AS 39.35.360 and
 - 28 39.35.370 that is not service as a peace officer; or
 - 29 (B) of any age and has less than 10 years of credited service;

30 (2) a person, **or the surviving spouse of a person, who becomes a**
 31 **member before July 1, 2006,** is not required to make premium payments for retiree

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major medical coverage if the person

(A) is a disabled member;

(B) is a disabled member who is appointed to normal retirement;

(C) is 60 years of age or older and has at least 10 years of credited service; or

(D) has at least

(i) 25 years of credited service as a peace officer under AS 39.35.360 and 39.35.370; or

(ii) 30 years of credited service under AS 39.35.360 and 39.35.370 not as a peace officer;

(3) a benefit recipient who first becomes a member after June 30, 2006, or a benefit recipient who is the surviving spouse of a person who first becomes a member after June 30, 2006, except as provided in (4) and (5) of this subsection, shall pay an amount equal to the full monthly group premium for retiree major medical insurance coverage; however, except as provided in (4) and (5) of this subsection, if the benefit recipient is eligible for Medicare, the cost of a monthly premium is a percentage of the full monthly group premium, as follows:

(A) 30 percent if the member has 10 or more, but less than 15, years of service;

(B) 25 percent if the member has 15 or more, but less than 20, years of service;

(C) 20 percent if the member has 20 or more, but less than 25, years of service;

(D) 15 percent if the member has 25 or more, but less than 30, years of service not as a peace officer;

(4) except as provided in (5) of this subsection, a benefit recipient who first becomes a member after June 30, 2006, or a benefit recipient who is the surviving spouse of a person who first becomes a member after June 30, 2006, shall pay a monthly premium that is

(A) 15 percent of the cost of a full monthly group premium

1 if the member has 25 or more, but less than 30, years of service as a peace
2 officer; or

3 (B) 10 percent of the cost of a full monthly group premium
4 if the member has 30 or more years of service;

5 (5) a benefit recipient who first becomes a member after June 30,
6 2006, is not required to make premium payments for retiree major medical
7 coverage if the recipient

8 (A) is a disabled member; or

9 (B) is a disabled member who is appointed to normal
10 retirement.

11 * **Sec. 19.** AS 39.35.620(k) is amended to read:

12 (k) Termination of an employer's participation in the plan does not bar future
13 participation in the system by that employer if the employer is current with payments
14 on amounts due under AS 39.35.625. [IF A PREVIOUSLY TERMINATED
15 EMPLOYER RETURNS TO THE SYSTEM, THE EMPLOYER MAY ONLY
16 PARTICIPATE IN THE PLAN ESTABLISHED UNDER AS 39.35.700 - 39.35.990.
17 EMPLOYEES MAY BE CREDITED UNDER AS 39.35.700 - 39.35.990 ONLY
18 WITH SERVICE SUBSEQUENT TO THE DATE OF RETURN.]

19 * **Sec. 20.** AS 39.35.680(18) is amended to read:

20 (18) "employer" means

21 (A) the State of Alaska;

22 (B) a political subdivision or public organization of the state
23 that participates in the plan based on a resolution to participate in the plan that
24 was approved by the administrator [ON OR BEFORE JULY 1, 2006]; or

25 (C) a political subdivision or public organization of the state
26 that, as a result of consolidation or reorganization [THAT OCCURS ON OR
27 AFTER JULY 1, 2006], assumes liability under the plan of a political
28 subdivision or public organization described in (B) of this paragraph;

29 * **Sec. 21.** AS 39.35.700 is amended to read:

30 **Sec. 39.35.700. Applicability of AS 39.35.700 - 39.35.990.** The provisions of
31 AS 39.35.700 - 39.35.990 apply only to

1 (1) members first hired on or after July 1, 2006, and before the
2 effective date of this section who do not transfer to a defined benefit retirement
3 plan under AS 14.25.009 - 14.25.220 or AS 39.35.095 - 39.35.680;

4 (2) public employees described in AS 39.35.720 who elect under
5 that section to become [TO MEMBERS WHO ARE EMPLOYED BY
6 EMPLOYERS THAT DO NOT PARTICIPATE IN THE DEFINED BENEFIT
7 RETIREMENT PLAN ESTABLISHED UNDER AS 39.35.095 - 39.35.680, TO
8 FORMER MEMBERS AS DEFINED IN AS 39.35.680, OR TO] members; and

9 (3) members who transferred [TRANSFER] into the defined
10 contribution retirement plan under former AS 39.35.940.

11 * **Sec. 22.** AS 39.35.700 is amended by adding a new subsection to read:

12 (b) A public organization under AS 39.35.680 or a municipality or other
13 political subdivision of the state that participates in the plan shall also participate in
14 the defined benefit retirement plan under AS 39.35.095 - 39.35.680.

15 * **Sec. 23.** AS 39.35.720 is repealed and reenacted to read:

16 **Sec. 39.35.720. Retirement plan election option.** (a) A public employee who
17 is first hired on or after the effective date of this section may make a one-time election
18 to participate in the defined contribution retirement plan under AS 39.35.700 -
19 39.35.990 retroactive to the date of hire and may transfer to that plan employee
20 contributions, if any, and employer contributions, if any, that have been made to the
21 defined benefit retirement plan under AS 39.35.095 - 39.35.680. Before employer
22 contributions are transferred under this subsection, the administrator shall recalculate
23 them under AS 39.35.255.

24 (b) The election to participate in the defined contribution retirement plan
25 under (a) of this section must be made within 90 days after the date of hire, and be
26 made in writing on a form and in the manner prescribed by the administrator. Before
27 accepting an election to participate in the defined contribution retirement plan under
28 AS 39.35.700 - 39.35.990, the administrator shall, within 20 days after the
29 administrator receives notice of the public employee's date of hire, provide the
30 employee eligible to make an election to participate in the defined contribution
31 retirement plan with

1 (1) information, including calculations to illustrate the effect of
2 moving the employee's retirement plan from the defined benefit retirement plan to the
3 defined contribution retirement plan; and

4 (2) other information to clearly inform the employee of the potential
5 consequences of the employee's election.

6 (c) An election made under (a) of this section to participate in the defined
7 contribution retirement plan is irrevocable. Retroactive to the date of hire, the
8 employee shall be enrolled as a member of the defined contribution retirement plan
9 under AS 39.35.700 - 39.35.990, the member's participation in the plan shall be
10 governed by the provisions for the defined contribution retirement plan, and the
11 member's participation in the defined benefit retirement plan under AS 39.35.095 -
12 39.35.680 shall terminate. An election made by an eligible member who is married is
13 not effective unless the election is signed by the member's spouse.

14 (d) When a member makes an election under (a) of this section, the
15 administrator shall cause the total amount of the member's employee and employer
16 contributions, with investment earnings and losses through the final day of the
17 member's participation in the defined contribution retirement plan, to be actuarially
18 calculated and transferred to the member's designated account in the defined
19 contribution retirement plan. The board shall establish transfer procedures by
20 regulation, but the actual transfer may not be later than 30 days after the date the
21 administrator receives the member's completed election form under (b) of this section,
22 unless the major financial markets for securities available for a transfer are seriously
23 disrupted by an unforeseen event that also causes the suspension of trading on any
24 national securities exchange in the country where the securities were issued. In that
25 event, the 30-day period of time may be extended by a resolution of the board.
26 Transfers are not commissionable or subject to other fees and may be in the form of
27 securities or cash as determined by the board. Securities shall be valued on the date of
28 receipt in the member's account.

29 (e) An election made by an eligible member who is married is not effective
30 unless the election is signed by the individual's spouse. An eligible member whose
31 accounts are subject to a qualified domestic relations order may not make an election

1 to participate in the defined contribution retirement plan under this section unless the
2 qualified domestic relations order is amended or vacated and court-certified copies of
3 the order are received by the administrator.

4 * **Sec. 24.** AS 14.25.012(c), 14.25.540; AS 39.35.940, and 39.35.957(b) are repealed.

5 * **Sec. 25.** The uncodified law of the State of Alaska is amended by adding a new section to
6 read:

7 **RETIREMENT PLAN ELECTION CHOICE.** (a) A teacher who was first hired after
8 June 30, 2006, and before the effective date of this section and who is a member of the
9 defined contribution plan of the teachers' retirement system under AS 14.25.310 - 14.25.590
10 may make a one-time election, within 90 days after the effective date of this section, to
11 participate in the defined benefit retirement plan under AS 14.25.009 - 14.25.220 and to
12 transfer all contributions, including employer contributions, that have been made or should be
13 made to the defined contribution retirement plan for service the member completes before the
14 effective date of the member's participation in the defined benefit retirement plan.

15 (b) A public employee who was first hired after June 30, 2006, and before the
16 effective date of this section and who is a member of the defined contribution plan of the
17 public employees' retirement system under AS 39.35.700 - 39.35.990 may make a one-time
18 election, within 90 days after the effective date of this section, to participate in the defined
19 benefit retirement plan under AS 39.35.095 - 39.35.680 and to transfer all contributions,
20 including employer contributions, that have been made or should be made to the defined
21 contribution retirement plan for any service the member completes before the effective date of
22 the member's participation in the defined benefit retirement plan.

23 * **Sec. 26.** The uncodified law of the State of Alaska is amended by adding a new section to
24 read:

25 **RETIREMENT PLAN ELECTION PROCEDURE; REGULATIONS REQUIRED.**

26 (a) The election to participate in the defined benefit retirement plan under sec. 25 of this Act
27 must be made in writing on forms and in the manner prescribed by the administrator. Before
28 accepting an election to participate in the defined benefit retirement plan, the administrator
29 shall provide the employee planning on making an election to participate in the defined
30 benefit retirement plan with information, including calculations to illustrate the effect of
31 moving the employee's retirement plan from the defined contribution retirement plan to the

1 defined benefit retirement plan as well as other information clearly to inform the employee of
2 the potential consequences of the employee's election.

3 (b) An election made under sec. 25 of this Act to participate in the defined benefit
4 retirement plan is irrevocable. On the effective date of the election, the participant shall be
5 enrolled as a member of the defined benefit retirement plan, the member's participation in the
6 plan shall be governed by the provisions for the defined benefit retirement plan, and the
7 member's participation in the defined contribution retirement plan shall terminate. The
8 participant's enrollment in the defined benefit retirement plan shall be effective retroactive to
9 the date of hire. An election made by an eligible member who is married is not effective
10 unless the election is signed by the individual's spouse.

11 (c) When a member makes a one-time election under sec. 25 of this Act, the
12 administrator shall cause the total amount of the member's employee and employer
13 contributions, with investment earnings and losses through the final day of the member's
14 participation in the defined contribution retirement plan, to be actuarially calculated and,
15 subject to (d) of this section, transferred to the pension fund in the defined benefit retirement
16 plan. On the effective date of the member's participation in the defined benefit retirement
17 plan, the member shall be credited with service in the defined benefit retirement plan that is
18 equal to the member's service in years, including fractional years, recognized for computing
19 benefits that may be due from the defined contribution retirement plan. The board shall
20 establish transfer procedures by regulation, but the actual transfer may not be later than 30
21 days after the date the administrator receives the member's completed election forms under (a)
22 of this section, unless the major financial markets for securities available for a transfer are
23 seriously disrupted by an unforeseen event that also causes the suspension of trading on any
24 national securities exchange in the country where the securities were issued. In that event, the
25 30-day period of time may be extended by a resolution of the board. Transfers are not
26 commissionable or subject to other fees and may be in the form of securities or cash as
27 determined by the board. Securities shall be valued on the date of receipt in the participant's
28 account.

29 (d) If the value actuarially calculated under (c) of this section is insufficient to pay for
30 a service credit equal to the participant's actual service, the administrator shall allow the
31 participant to create an indebtedness up to the amount needed to eliminate the insufficiency;

1 however, if that value exceeds the amount needed to pay for a service credit equal to the
2 participant's actual service, the administrator shall cause the excess to be paid to the
3 participant as a rollover transfer to either an individual employee annuity account in the
4 Department of Administration under the terms of AS 39.30.150 - 39.30.180 (Alaska
5 Supplemental Annuity Plan) or, if the participant's employer does not participate in the Alaska
6 Supplemental Annuity Plan, to an eligible retirement plan under AS 14.25.360(d) or
7 AS 39.35.760(d). An excess under this subsection may not be used to purchase service credit
8 in a retirement plan administered under AS 14.25 or AS 39.25.

9 (e) The provisions of this section are subject to the requirements of the Internal
10 Revenue Code and the limitations under AS 14.25.010, 14.25.320(c) and (d), 14.25.490,
11 AS 39.35.115, 39.35.678, 39.35.710(c) and (d), and 39.35.895.

12 (f) In this section,

13 (1) "administrator" means the commissioner of administration or the person
14 designated by the commissioner of administration under AS 39.35.003 for a public
15 employees' retirement plan and under AS 14.25.003 for a teachers' retirement plan;

16 (2) "board" means the Alaska Retirement Management Board established
17 under AS 37.10.210;

18 (3) "defined benefit retirement plan" means the retirement plan established
19 under

20 (A) AS 14.25.009 - 14.25.220 for a teacher; or

21 (B) AS 39.35.095 - 39.35.680 for a public employee;

22 (4) "defined contribution retirement plan" means the retirement plan
23 established under

24 (A) AS 14.25.310 - 14.25.590 for a teacher; or

25 (B) AS 39.35.700 - 39.35.990 for a public employee;

26 (5) "Internal Revenue Code" the meaning given in AS 39.35.990.

27 * **Sec. 27.** The uncodified law of the State of Alaska is amended by adding a new section to
28 read:

29 **ADOPTION OF REGULATIONS.** The commissioner of administration shall adopt
30 regulations necessary to implement the changes made by this Act. The regulations take effect
31 under AS 44.62 (Administrative Procedure Act), but not before the effective date of the law

1 implemented by the regulation.

2 * **Sec. 28.** Sections 26 and 27 of this Act take effect immediately under AS 01.10.070(c).

3 * **Sec. 29.** Except as provided in sec. 28 of this Act, this Act takes effect July 1, 2013.

FISCAL NOTE

STATE OF ALASKA cost # codes
 2012 LEGISLATIVE SESSION

Bill Version SB121
 Fiscal Note Number _____
 Publish Date _____

Identifier (file name) SB121-DOA-DRB-12-13-11 Dept. Affected Department of Administration
 Title Teachers & Pub Employee Retirement Plans Appropriation Centralized Administrative Services
 Allocation Division of Retirement and Benefits
 Sponsor Senators Egan
 Requester Senate State Affairs OMB Component Number 64

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous	124,412.0			19,853.0	29,165.0	40,781.0	53,920.0	
TOTAL OPERATING	124,412.0	0.0	0.0	19,853.0	29,165.0	40,781.0	53,920.0	

FUND SOURCE (Thousands of Dollars)

1002	Federal Receipts							
1003	GF Match							
1004	GF	124,412.0		19,853.0	29,165.0	40,781.0	53,920.0	
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		124,412.0	0.0	0.0	19,853.0	29,165.0	40,781.0	53,920.0

POSITIONS

Full-time			
Part-time			
Temporary			

CHANGE IN REVENUES

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Estimated SUPPLEMENTAL (FY12) operating costs _____
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please not)
 Actuarial cost update for 2012

*Do not
 adopt this
 note. A
 revised one
 is forthcoming
 based on R
 as amended*

Prepared by Jim Puckett, Director
 Division Division of Retirement and Benefits
 Approved by John Cramer, Deputy Commissioner
Department of Administration

Phone 465-4471
 Date/Time 12/1/11 4:00 PM
 Date 12/13/2011

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. SB121

Analysis

SB 121 allows future and current defined contribution PERS and TRS members an opportunity to choose between a defined contribution (DC) and a defined benefit (DB) retirement plan at the time of hire. Current DC members will have a one-time opportunity to convert to the DB plan. If the DC member elects to convert, the member's employee and employer contributions will be transferred to the DB plan along with the total service the employee has accrued. If the combined contributions are insufficient to fully purchase the employee's service, the remainder due will be paid from the general fund. The general fund expenditure will occur in FY 13 during the first 60 days after the effective date of the bill when conversion can occur.

Costs outlined below for the choice option assumes 60% of current defined contribution members will elect to convert to the DB plan and that 80% of future members will choose the DB plans either by choice or by default.

The first impact on contribution rates will occur in FY15 considering the two year delay in the plan valuation process. Results are based on the 2010 actuarial valuation.

Employer rates are capped at 22% for PERS by AS 39.35.255 and at 12.56% for TRS by AS 14.25.070. Because this bill will increase employer normal costs, employers will contribute less to the past service costs of the systems. The increased past service costs will be borne by the State of Alaska general fund.

Dollars are in thousands.

PERS DB Plan	FY 13	FY 14	FY 15	FY16	FY 17	FY 18	FY19
Increase in Normal Cost Amount	\$0.0	\$0.0	\$ 17,568	\$ 25,629	\$ 35,788	\$ 46,977	\$ 57,771
GF Transfer to Pay Unfunded							
Past Service Cost	\$ 91,724	\$0.0	\$0	\$0	\$0	\$0	\$0
Total Increase in Annual							
Employer Contribution Amount	N/A	\$0.0	\$ 17,568	\$ 25,629	\$ 35,788	\$ 46,977	\$ 57,771
TRS DB Plan	FY 13	FY 14	FY 15	FY16	FY 17	FY 18	FY19
Increase in Normal Cost Amount	\$0.0	\$0.0	\$ 2,285	\$ 3,536	\$ 4,993	\$ 6,943	\$ 8,764
GF Transfer to Pay Unfunded							
Past Service Cost	\$ 32,688	\$0.0	\$0	\$0	\$0	\$0	\$0
Total Increase in Annual							
Employer Contribution Amount	N/A		\$ 9,172	\$ 14,118	\$ 18,657	\$ 22,787	\$ 26,641
Total for both plans	\$ 124,412	\$0.0	\$ 19,853	\$ 29,165	\$ 40,781	\$ 53,920	\$66,535

FISCAL NOTE

STATE OF ALASKA cost # codes
 2012 LEGISLATIVE SESSION

Bill Version SB121
 Fiscal Note Number _____
 Publish Date _____

Identifier (file name) SB121-DOA-DRB-12-13-11 Dept. Affected Department of Administration
 Title Teachers & Pub Employee Retirement Plans Appropriation Centralized Administrative Services
 Allocation Division of Retirement and Benefits
 Sponsor Senators Egan
 Requester Senate State Affairs OMB Component Number 64

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY13	FY14	FY15	FY16	FY17
OPERATING EXPENDITURES								
Personal Services	122.0							
Travel	12.5		10.0	10.0	10.0	10.0	10.0	10.0
Services	635.2		9.3	9.3	9.3	9.3	9.3	9.3
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	769.7	0.0	19.3	19.3	19.3	19.3	19.3	19.3

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match	769.7	0.0	19.3	19.3	19.3	19.3	19.3
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		769.7	0.0	19.3	19.3	19.3	19.3	19.3

POSITIONS								
Full-time								
Part-time								
Temporary	2.0		2	2	2	2	2	2

CHANGE IN REVENUES								

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial Administrative fiscal note update)

adopt this...

Prepared by Jim Puckett, Director
 Division Division of Retirement and Benefits
 Approved by John Cramer, Deputy Commissioner
Department of Administration

Phone 465-4471
 Date/Time 12/1/11 4:00 PM
 Date 12/13/2011

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. SB121

Analysis

The Division of Retirement and Benefits will require two non-permanent employees to complete the preparation work to account for and produce the necessary documents and forms for the inception of the new tiers. Education to employers will be required to properly electronically report service and salaries of new employees and existing employees of the defined contribution plans who elect to convert to the new tier. Education to employees will be required for defined contribution employees to make an informed decision during the election period and for new members of the new tiers.

The division will be required to reprogram its existing system, the Combined Retirement System, which tracks all service and salaries reported by employers to the system, to accommodate the new provisions of the new tiers.

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

Dollars are in thousands						
	FY13	FY14	FY15	FY16	FY17	FY18
PERSONAL SERVICES						
1-Non Permanent Account III	106.0	0.0	0.0	0.0	0.0	0.0
1-Non Permanent Publications Technician III	16.0	0.0	0.0	0.0	0.0	0.0
Non Perm Training	13.4	0.0	0.0	0.0	0.0	0.0
	135.4	0.0	0.0	0.0	0.0	0.0
TRAVEL						
Employer Reporting Training/Plan Educat	7.5	5.0	5.0	5.0	5.0	5.0
Reg. Counselor Travel/Employee Ed.	5.0	5.0	5.0	5.0	5.0	5.0
	12.5	10.0	10.0	10.0	10.0	10.0
SERVICES						
Communication/Postage						
-Choice Kit for new employee election	30.0	0.0	0.0	0.0	0.0	0.0
-Conversion notification to DC employee	8.1	0.0	0.0	0.0	0.0	0.0
-Update to PERS DB handbooks/brochure	322.3	0.0	0.0	0.0	0.0	0.0
Computer System Redesign	207.9	9.3	9.3	9.3	9.3	9.3
Computer System User Testing	36.6	0.0	0.0	0.0	0.0	0.0
Increased audit fees	5.6	0.0	0.0	0.0	0.0	0.0
	610.5	9.3	9.3	9.3	9.3	9.3
COMMODITIES						
Computer, phone, cubicle, supplies	11.3	0.0	0.0	0.0	0.0	0.0
TOTAL	769.7	19.3	19.3	19.3	19.3	19.3

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version SB121
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) SB121-DOR-TRS-01-24-12 Dept. Affected Revenue
 Title An Act relating to the PERS and TRS Appropriation Taxation & Treasury
 Allocation ARMB Custody & Mgmt Fee
 Sponsor Senators Egan, Menard, Paskvan, Davis, Kookesh
 Requester Senate State Affairs OMB Component Number 2812

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services	593.0		690.0	795.0	909.0	1,032.0	1,164.0	
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	593.0	0.0	690.0	795.0	909.0	1,032.0	1,164.0	

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1029	PERS Trust (Other)	413.0	482.0	557.0	638.0	725.0	819.0	
1034	Teach Ret (Other)	180.0	208.0	238.0	271.0	307.0	345.0	
TOTAL		593.0	0.0	690.0	795.0	909.0	1,032.0	1,164.0

POSITIONS								
Full-time								
Part-time								
Temporary								

CHANGE IN REVENUES								

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriations required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please n

Initial note:

adopt
this
note

Prepared by Pam Leary, Comptroller
 Division Treasury
 Approved by Angela Rodell, Deputy Commissioner
Department of Revenue

Phone 465-2350
 Date/Time 1/24/12 12:00 AM
 Date 1/24/12 12:00 AM

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. SB121

Analysis

SB 121 allows future and current defined contribution PERS and TRS members an opportunity to choose between a defined contribution (DC) and a defined benefit (DB) plan. Current DC members will have a one-time opportunity to convert to the DB plan. The DC member's employee and employer contributions will be transferred to the DB plan.

Assumptions:

60% of the current defined contribution plan will be elected by DC members to convert to the DB plan. 80% of future members will elect to be in the DB plan.

Rate of return assumed to be 8%

Management fees assumed at 35 basis points.



SENATOR DENNIS EGAN

SB 121 - Alaska Pensions

Sponsor Statement

SB 121 lets teachers, Troopers, firefighters and other public employees choose one of two state retirement systems: an individual defined contribution retirement account, or earning a defined benefit pension.

A defined benefit pension takes time to earn, but rewards a record of public service by paying a guaranteed monthly benefit and, for long-term employees, health insurance. An individual defined contribution account is portable from one employer to another, and flexible in how it can be used, but makes no guarantees. SB 121 will let newly hired public servants in Alaska choose the one that fits best.

SB 121 creates a new more stable, more predictable defined benefit pension tier for teachers and public employees. A few years ago, Alaska beefed up oversight of the pension system. Now we have two actuaries analyzing the health of the pension trusts, there are more frequent experience studies and the law bars the practice of sometimes paying less than the cost of benefits. SB 121 keeps these smart reforms, making Alaska pensions stronger than ever.

And the defined benefit pensions for new employees under SB 121 will cost employers less than the pension tiers that came before, saving money for schools, cities, and the State of Alaska.

Alaska teachers and public employees don't earn Social Security, and many even lose Social Security benefits they earned in past jobs. So for most, a defined benefit pension makes sense. Other employees will choose individual defined contribution accounts because they prefer flexibility, portability, and control, or because their plans do not include long-term service in the public sector. SB 121 maintains their option to choose an individual account.

The teachers who educate our children, the police and firefighters who protect our families, and the public employees who serve our state and cities will be able to choose the benefit that best fits their service.

ALASKA SENATE

STATE CAPITOL • JUNEAU, ALASKA 99801-1182 • (907) 465-4947 • FAX (907) 465-2108
SENATOR.DENNIS.EGAN@LEGIS.STATE.AK.US

March 8, 2011

CONFIDENTIAL

Alaska Public Pension Coalition

Subject: Analysis of Egan Bill

Dear Coalition Partners:

We have analyzed the actuarial impact of the February 12, 2011 draft Bill from Senator Egan which would modify the retirement program for those now covered by the Defined Contribution Retirement (DCR) program.

The primary features of the bill are:

- Those hired on or after July 1, 2006 would receive the retirement, death and disability benefits currently provided by Tier 2 of TRS and Tier 3 of PERS, rather than the DCR benefits under Tier 3 of TRS and Tier 4 of PERS.
- Peace Officers and firefighters in PERS would contribute 7.50% of pay; other PERS members would contribute 6.75%; those in TRS would contribute 8.65%
- Those individuals would be eligible to receive retiree major medical coverage without having to pay premiums, under the following conditions:
 - For teachers, after June 30, 2011 new retirees are eligible with 25 years of service or at the age of Medicare eligibility [65] with at least 8 years of service.
 - For peace officers and firefighters, after June 30, 2011 new members are eligible with 25 years of service or at the age of Medicare eligibility [65] with at least 10 years of service.
 - For other PERS members, after June 30, 2011 new members are eligible with 30 years of service or at the age of Medicare eligibility [65] with at least 10 years of service.

This information is provided according to PTA's understanding and interpretation of the Work Draft legislation. Please advise us if our interpretation above is not consistent with your understanding. If so, our findings would differ.

The major implications of the bill as we see it are:

- Pension benefits will revert to the prior defined benefit plan tiers
- Retiree health benefits will be stronger than those under DCR, but not as strong as those provided under the latest tier DB plans. Retiree health care premiums are paid as illustrated by the following table:

	Teachers	Peace Officers & Firefighters	Other PERS
Latest Tier DB Plan Health Care Eligibility	Age 60 or 25 years	Age 60 or 25 years	Age 60 or 30 years
DCR Program Health Care Eligibility	Medicare Age [65]	Medicare Age [65]	Medicare Age [65]
Egan Bill Health Care Eligibility	Medicare Age [65] with 8 years or any age with 25 years	Medicare Age [65] with 10 years or any age with 25 years	Medicare Age [65] with 10 years or any age with 30 years

Cost Comparisons

The actuary for the Alaska Department of Administration Division of Retirement Benefits regularly reports on the financial condition of the Alaska Public Employees' Retirement System (PERS) and Alaska Teachers' Retirement System (TRS). These analyses are conducted primarily through an "actuarial valuation", which calculates the plans costs and liabilities. The actuary has calculated the Normal Cost under both the prior tier DB plans as well as under the DCR program. We have been asked to estimate the costs of the proposed program in the draft Egan bill. These cost estimates are being done without the benefit of the full actuarial data that would be used by the actuary. Consequently, their numbers will likely be different than ours, and more correct. We also understand that the actuarially assumed rate of investment return is being reduced from 8.25% to 8.00%. Our estimates are still based on 8.25%, so the "official" cost numbers will likely be slightly higher than ours.

The following tables develop our cost estimates and compare the three programs:

Teachers Retirement System	DB Plan Tier 2	DCR Plan Tier 3	Proposed Tier 4
Total Retirement Normal Cost	11.39%	NA	11.39%
Member Contributions	(8.65%)	(8.00%)	(8.65%)
Net Employer Retirement Normal Cost	2.74%	NA	2.74%
DC Employer Contribution Rate	NA	7.00%	NA
Occupational Death and Disability Normal Cost Rate	NA	0.05%	NA
Medical Normal Cost Rate	5.33%	0.64%	4.52%
HRA Contribution Rate	NA	3.00%	NA
Total Employer Cost	8.07%	10.69%	7.26%
DCR Payroll during FY 2011	\$59,750,000	\$59,750,000	\$59,750,000
Total Employer Cost on FY 2011 Basis	\$4,800,000	\$6,400,000	\$4,300,000

Public Employees Retirement System – Peace Officers & Firefighters	DB Plan Tier 3	DCR Plan Tier 4	Proposed Tier 5
Total Retirement Normal Cost	12.30%	NA	12.30%
Member Contributions	(7.50%)	(8.00%)	(7.50%)
Net Employer Retirement Normal Cost	4.80%	NA	4.80%
DC Employer Contribution Rate	NA	5.00%	NA
Occupational Death and Disability Normal Cost Rate	NA	1.04%	NA
Medical Normal Cost Rate	5.90%	0.43%	5.35%
HRA Contribution Rate	NA	3.00%	NA
Total Employer Cost	10.70%	9.47%	10.15%
DCR Payroll during FY 2011	\$21,192,000	\$21,192,000	\$21,192,000
Total Employer Cost on FY 2011 Basis	\$2,300,000	\$2,000,000	\$2,200,000

Other Public Employees Retirement System Members	DB Plan Tier 3	DCR Plan Tier 4	Proposed Tier 5
Total Retirement Normal Cost	9.58%	NA	9.58%
Member Contributions	(6.75%)	(8.00%)	(6.75%)
Net Employer Retirement Normal Cost	2.83%	NA	2.83%
DC Employer Contribution Rate	NA	5.00%	NA
Occupational Death and Disability Normal Cost Rate	NA	0.16%	NA
Medical Normal Cost Rate	7.00%	0.56%	3.60%
HRA Contribution Rate	NA	3.00%	NA
Total Employer Cost	9.83%	8.72%	6.43%
DCR Payroll during FY 2011	\$200,739,000	\$200,739,000	\$200,739,000
Total Employer Cost on FY 2011 Basis	\$19,700,000	\$17,500,000	\$12,900,000

Some of these cost comparisons are very intriguing. Note that the costs for the Peace Officers and Firefighters are roughly comparable to the Tier 3 and Tier 4 costs. But the costs for Other PERS member is dramatically lower than either the Tier 3 or Tier 4 costs. This is because they are losing significantly on the medical premium payments, by no longer being able to retire at age 60 with premium payment made by the plan unless they have 30 years of service. I estimate that only about a third of these Other PERS members would have 30 years by the time they attain age 65, meaning that this benefit would have no value for most of them. That is the reason the medical normal cost rate is so much lower for Other PERS Tier 5 than for Other PERS Tier 3. It will be interesting to see what the "official" actuarial cost determination is.

Please also realize that the cost determinations above do not include any cost for the retroactive feature of the bill. I understand that those costs were estimated to be \$37 million in 2009. We do not have the data necessary to make an estimate of the cost this year. Because of the market recovery, the cost might possibly have decreased since 2009.

Conclusions.

The proposed program would result in stronger pension benefits through the return of the Defined Benefit plan for members hired since 2006. It would provide improved health care plan benefits, but no future HRA contributions. Member contribution rates would decrease for PERS members and increase slightly for TRS members. As a result of all this, employer costs on a FY 2011 basis would increase by about \$200,000 for PERS Peace Officer and Firefighter members, but would decrease substantially for TRS (\$2.1 million) and Other PERS (\$4.6 million) members. In total, employer costs would fall by about \$6 million.

The PERS and TRS actuary will calculate more precise costs, based on complete data and their new actuarial assumptions. The costs above should be considered a starting point for analysis of the bill.

The work reflected herein was conducted by Pension Trustee Advisors under my direction. I look forward to discussing this with you further.

Sincerely,



William B. Fornia, FSA
President

Cc:

Joelle Hall, Alaska AFLCIO
Lydia Garcia, NEA Alaska
Derek Hsieh, APDEA
Bruce Ludwig, APEA/AFT
Jim Duncan, ASEA/AFSCME Local 52
Norm Ruggles, PTA

Alaska Division of Retirement and Benefits
Teachers' Retirement System (TRS) Plan Comparison Chart

Feature	Tier I July 1, 1955 – June 30, 1990	Tier II Entered on or after July 1, 1990	Tier III Entered on or after July 1, 2006
Employee Contribution	Pre-tax employee contribution: 8.65% beginning 1/1/91	Pre-tax employee contribution: 8.65% beginning 1/1/91	Pre-tax employee contribution: 8% Employee may make additional contributions.
Employer Contribution	Determined by annual actuarial valuation.	Determined by annual actuarial valuation.	7% - DC account 1.75% Health Plan - determined by annual actuarial valuation after FY07. HRA - Flat dollar amount per employee based on 3% of the employer's average annual employee compensation.
Vesting	Members vest with 8 years of service.	Members vest with 8 years of service.	100% vested in employee contributions from inception. Vested in employer contributions based on the following schedule: 25% after 2 years of service, 50% after 3 years, 75% after 4 years and 100% after five years.
Qualifications for Retirement	Normal retirement age is 55, with early retirement at age 50; teachers can retire at any age after 20 years of membership service.	Normal retirement age is 60, with early retirement at age 55; teachers can retire at any age after 20 years of membership service.	None for investment account. Taxes and penalties may apply if withdrawn before age 59 1/2. See requirements for Retirement Medical Coverage.
Benefit Calculation Formula	Benefit formula is 2% for the first 20 years and all years of service prior to July 1, 1990 , 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries.	Benefit formula is 2% for the first 20 years, 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries.	DC account balance plus investment earnings.
Alaska Cost-of-living Increases (COLA)	An Alaska Cost-of-Living Allowance is payable to benefit recipients who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit.	An Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit.	None provided.

More detailed information may be found on the Division website, www.state.ak.us/drbb, or in the TRS Information Handbook.
G:/publications/handbooks/trs tier chart.doc (Rev. 3/06)

Feature	Tier I July 1, 1955 – June 30, 1990	Tier II Entered on or after July 1, 1990	Tier III Entered on or after July 1, 2006
Post Retirement Pension Adjustments (PRPA) (Inflation protection)	PRPA increases granted on an ad hoc basis. If an ad hoc is not granted, tier I employees must be age 60 or over or receiving benefits for 8 years to qualify for the automatic PRPA. The automatic PRPA legislated in 1990 applied to all members regardless of hire date.	Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years.	None provided.
Retirement Medical Coverage	Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system.	The retirement system pays the retiree medical plan premium for all disabilitants regardless of age, for retirees and survivors over age 60 and for retirees with at least 25 years of membership service. This coverage includes eligible dependents. Retirees and survivors under age 60, with less than 25 years of membership service must pay the full premium cost if they want coverage.	<p>Access to medical coverage at Medicare eligible age with 10 years of service or at any age with 30 years of service. Must retire directly from the system. If not eligible for Medicare, must pay full premium. May use health reimbursement arrangement (HRA) account to pay premiums. Once the HRA is exhausted, member self- pays premiums.</p> <p>When eligible for Medicare, the percentage of premium paid by the retiree or surviving spouse is:</p> <ul style="list-style-type: none"> 10-14 years of service - 30% 15-19 years - 25% 20-24 years - 20% 25-29 years - 15% 30 years or more - 10%
Disability Benefits	Disability benefits are 50% of base salary, plus 10% for each eligible dependent child up to a maximum of 4 children.	Disability benefits are 50% of base salary, plus 10% for each eligible dependent child up to a maximum of 4 children.	<p>Must be a total and presumably permanent disability whose cause is directly related to performance of duties of the job or an on the job injury. Benefit is 40% of salary, earns service while on occupational disability. Employer continues to make all required contributions as if the member were working, plus the member's required contributions to the DC account, without deduction from the member's disability payment.</p> <p>Disability benefits cease when the member becomes eligible for normal retirement at Medicare eligible age and 10 years of service or at any age with 30 years of service. No medical insurance until eligible for normal retirement.</p>

More detailed information may be found on the Division website, www.state.ak.us/drb, or in the TRS Information Handbook.
G:/publications/handbooks/trs tier chart.doc (Rev. 3/06)

January 23, 2012

Gary Miller
20135 Cohen Dr
Juneau, AK 99801-8211

Subject: SB 121 - "An Act relating to the public employees' retirement system and the teachers' retirement system; and providing for an effective date."

Senator Bill Wielechowski – Room 101
Senator Joe Paskvan – Room 115
Senator Cathy Giessel – Room 7
Senator Albert Kookesh – Room 11
Senator Kevin Meyer – Room 103

Please vote yes on SB 121. I am tier I and retired and my son is tier III with nine and one-half years of working for the State of Alaska as an account. We know the importance of having a defined benefit retirement system where we will have a monthly income to the day that we die. The current defined contribution tiers do not protect workers for life after they retire.

I have a three year old grandson here in Juneau. When he is old enough to start working he won't have a secure retirement if he works for the State of Alaska, becomes a teacher or works for a municipality. I spent my entire working career working for the State of Alaska (27 years) and the City and Borough of Juneau (2 years). It is important for me that he be able to stay in Alaska and have public service as an option for a career.

Thank you.



Gary Miller

Wisconsin facing teacher exodus

By Scott Bauer

Associated Press / September 1, 2011

MADISON, Wis. - When students return today for the first day of school across Wisconsin, many familiar faces will be gone, as teachers chose retirement over coming back following the passage of a bill that would have forced them to pay more for benefits and taken away most of their collective bargaining rights.

Documents obtained by the Associated Press under the state's open records law show that about twice as many public school teachers decided to retire in the first half of this year as in each of the past two full years, part of a mass exit of public employees.

Their departures came after the bill passed but before the new law took effect. The bill, which was pushed by Governor Scott Walker and the Republican Legislature, led to weeks of protests at the Capitol.

The ensuing exodus of teachers and other state employees has spurred fears that the jobs might not be filled and that classroom leadership by veteran teachers will be lost.

Ginny Fleck, a German teacher from Green Bay with 30 years of experience, is among nearly 5,000 teachers who retired.

"It wouldn't make sense for me to teach one more year and basically lose \$8,000," she said. Fleck, 69, decided to retire in February, even before the bill became law, in part because of the hit she would take to her \$60,000 annual salary, and because of other changes the district was making.

In the first six months of 2011, overall public employee retirements were double that in all of either 2009 or 2010, according to data provided by the Wisconsin Retirement System. That includes 4,935 Wisconsin school district employees who started receiving retirement benefits, up from 2,527 teacher retirements in all of 2010 and 2,417 in 2009.

Teachers were not the only public employees heading for the exits. State agency retirements were particularly dramatic, nearly tripling from 747 in all of 2010 to 1,966 through June. Retirements from the University of Wisconsin System more than doubled, up from 480 last year to 1,091 this year. All told, 9,933 public workers had retired by the end of June, a 93 percent increase from 5,133 in 2010. The year before, there were 4,876 retirements.

The state Department of Administration said no decision has been made on how many of the government jobs will be filled.

"Each agency is looking at the vacancies created by retirements - case by case - and making decisions based on the needs of the agency, as well as with an eye toward keeping costs down for taxpayers," department spokeswoman Carla Vigue said.

Many public workers feel under attack by the measure, which required them to pay more for their health insurance and pension benefits and took away most of their ability to collectively bargain. Lawmakers pushed the changes as a way for schools and governments to deal with deep cuts necessitated by a state budget shortfall.

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STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

SEAN PARNELL, GOVERNOR

P.O. BOX 110200
JUNEAU, ALASKA 99811-0200

PHONE: (907) 465-2200

FAX: (907) 465-2135

July 5, 2011

The Honorable Bill Wielechowski, Chair
Senate State Affairs
State Capitol, Room 101
Juneau, AK 99801

Re: Senate Bill 121

Dear Senator Wielechowski:

During the hearing for Senate Bill (SB) 121 before the Senate State Affairs Committee on April 14, 2011, questions were asked for which I promised a response. We apologize for the delay in responding. Various items had to be compiled and data verified before we could give a complete response. The questions and responses are as follows:

Q1: Is there any other state with a defined contribution plan only that also does not participate in Social Security?

A1: Thirteen states currently do not participate in Social Security. They are: Alaska, California, Colorado, Illinois, Louisiana, Maine, Nevada, Ohio, Connecticut, Massachusetts, Missouri, Rhode Island, and Texas. Currently all have defined benefit plans for public employees. However, Nevada has introduced legislation to change to a defined contribution hybrid plan for new employees.

We understand there are three counties in Texas that do not have a defined benefit plan or a defined contribution plan. The Galveston, Matagorda, and Brazoria counties opted out of Social Security in the early 1980's and replaced it with a hybrid plan that has a defined employer contribution coupled with a fixed annuity for the employee.

Q2: What are the total savings in state accounts? (i.e. Permanent Fund, etc.)

A2: The Permanent Fund, June 30, 2010, balance from the Annual Financial Report was \$37 billion. The unaudited balance as of May 31, 2011 was \$41 billion. From the State of Alaska Combined Annual Financial Report, Total Unrestricted Assets were \$16.7 billion as of June 30, 2010.

Q3: What is the gross payroll for the Public Employees' Retirement System (PERS)?

A3: Gross payroll was approximately \$1.4 billion for PERS in FY2010. Gross payroll for the

Teachers' Retirement System (TRS) was approximately \$0.5 billion. (*Source: 2010 Draft Audit.*)

Q4: How much is paid towards the unfunded liability by employers?

A4: During FY2010 PERS employers paid 22% in employer contributions. Of that 22%, 12.54% went towards the unfunded liability, approximately \$175.5 million. The General Fund pays almost all of the TRS unfunded liability.

Q5: What was the effect when the Mercer settlement was applied?

A5: The Mercer settlement was added to the Alaska Retiree Health Care Trust Fund (PERS and TRS) assets as of June 30, 2010 and therefore will be reflected in the actuarial rates for FY2013.

Q6: Isn't the problem basic math? Increase employer money in and employee money in.

A6: To address the continuing rise in employer costs the PERS was changed in 2008 from an agent multiple, employer plan, where each employer had their own rate calculated on their own experience, to a cost share plan with all employers paying the same rate. At that time, employer rates were established in statute at 22% for PERS and 12.56% for the TRS. The State of Alaska contributes the remaining contributions necessary to fully fund the systems for the year. Employee contributions are also set in statute at 7.25% for peace officer/firefighter members and 6.75% for all others.

The 2008 change had a dramatic impact for some PERS employers. For instance, the employer contribution rate for the City of Fairbanks dropped from 140% to 22%.

While employer contribution rates can be increased by legislation, employee contribution rates cannot be increased for any existing PERS or TRS members. Any changes to employee contributions can only apply to new employees entering the systems after the effective date of the change. (*Alaska Constitution, Article XII, Section 7*)

Q7: Has the State considered raising the retirement age in the retirement systems as a way to reduce costs?

A7: Due to the contractual protection clause toward retirement benefits found in Article XII, Section 7 of the Alaska Constitution, the State of Alaska cannot raise the retirement age of current retirees or current employees. To date, raising the retirement age of future employees has only informally been discussed. No actuarial study has been done on such a change.

Q8: Has the State reviewed the recruitment and retention data for the PERS/TRS Defined Contribution Retirement Plan?

A8: Comparing the current status of DCR Plan participants hired in the first two years of the plan to the current status of members of the last DB tiers hired in the last two years before the plans closed, shows that retention appears to be slightly better in the DCR plan, but generally the same.

The number of DCR Plan participants hired July 1, 2006 to June 30, 2008 as of April, 2011:

PERS:	7,595 total hired	3,724 currently active	49.03% retained
TRS:	1,718 total hired	983 currently active	57.22% retained

The number of DB Plan participants hired July 1, 2004 to June 30, 2006, retention as of April 19, 2011:

PERS Tier III:	8,402 total hired	3,763 currently active	44.79% retained
TRS Tier II:	1,779 total hired	952 currently active	53.51% retained

The State of Alaska Division of Personnel has reported the following retention percentages:

State of Alaska Executive Branch Rate of Employee Separation

2005	2006	2007	2008	2009	2010
15%	15%	16%	14%	12%	12%

Source: ALDER

Further information is available in the report on state employee retention. The report is available through the following link:

<http://doa.alaska.gov/dop/resources/publications/>

If you have any additional questions or need clarification of the answers provided above, please contact Jim Puckett at (907)465-4471.

Sincerely,



Mike Barnhill
Deputy Commissioner

cc: Becky Hultberg, Commissioner
John Cramer, Deputy Commissioner
Heather Brakes, Director, Legislative
Jim Puckett, Director, Division of Retirement and Benefits

April 7, 2011

CONFIDENTIAL

Alaska Public Pension Coalition

Subject: Analysis of Potential Pension Bills

Dear Coalition Partners:

We have analyzed the actuarial impact of the February 12, 2011 draft Bill from Senator Egan which would modify the retirement program for those now covered by the Defined Contribution Retirement (DCR) program, and two potential modifications to this initial draft.

The primary features of the bill are:

- Those hired on or after July 1, 2006 would receive the retirement, death and disability benefits currently provided by Tier 2 of TRS and Tier 3 of PERS, rather than the DCR benefits under Tier 3 of TRS and Tier 4 of PERS.
- Contributions for various members would increase:
 - Under the February 12 draft, Peace Officers and Firefighters in PERS would contribute 7.50% of pay; other PERS members would contribute 6.75%; those in TRS would contribute 8.65%
 - Under alternative I, Peace Officers and Firefighters in PERS would contribute 8.50% of pay; other PERS members would contribute 8.00%; those in TRS would contribute 9.00%
 - Under alternative II, Peace Officers and Firefighters in PERS would contribute 9.0% of pay; other PERS members would contribute 8.0%; those in TRS would contribute 10.0%
- Those individuals would be eligible to receive retiree major medical coverage without having to pay premiums, under the following conditions:
 - For teachers, after June 30, 2011 new retirees are eligible with 25 years of service or at the age of Medicare eligibility [65] with at least 8 years of service.
 - For peace officers and firefighters, after June 30, 2011 new members are eligible with 25 years of service or at the age of Medicare eligibility [65] with at least 10 years of service.
 - For other PERS members, after June 30, 2011 new members are eligible with 30 years of service or at the age of Medicare eligibility [65] with at least 10 years of service.

This information is provided according to PTA's understanding and interpretation of the Work Draft legislation. Please advise us if our interpretation above is not consistent with your understanding. If so, our findings would differ.

The major implications of the bill as we see it are:

- Pension benefits will revert to the prior defined benefit plan tiers
- Retiree health benefits will be stronger than those under DCR, but not as strong as those provided under the latest tier DB plans. Retiree health care premiums are paid as illustrated by the following table:

	Teachers	Peace Officers & Firefighters	Other PERS
Latest Tier DB Plan Health Care Eligibility	Age 60 or 25 years	Age 60 or 25 years	Age 60 or 30 years
DCR Program Health Care Eligibility	Medicare Age [65]	Medicare Age [65]	Medicare Age [65]
Egan Bill Health Care Eligibility	Medicare Age [65] with 8 years or any age with 25 years	Medicare Age [65] with 10 years or any age with 25 years	Medicare Age [65] with 10 years or any age with 30 years

Cost Comparisons

The actuary for the Alaska Department of Administration Division of Retirement Benefits regularly reports on the financial condition of the Alaska Public Employees’ Retirement System (PERS) and Alaska Teachers’ Retirement System (TRS). These analyses are conducted primarily through an “actuarial valuation”, which calculates the plans costs and liabilities. The actuary has calculated the Normal Cost under both the prior tier DB plans as well as under the DCR program. We have been asked to estimate the costs of the proposed program in the draft Egan bill. These cost estimates are being done without the benefit of the full actuarial data that would be used by the actuary. Consequently, their numbers will likely be different than ours, and more correct.



We also have limited information to make a determination of the cost savings from additional employee contributions. An increased employee contribution does not generate a dollar for dollar reduction in employer contribution, because some employees terminate prior to retirement and receive a refund of their contributions. We also understand that the actuarially assumed rate of investment return is being reduced from 8.25% to 8.00%. Our estimates are still based on 8.25%, so the “official” cost numbers will likely be slightly higher than ours.

The following tables develop our cost estimates and compare the five programs:

Teachers Retirement System Estimated Cost Comparisons

Teachers Retirement System	DB Plan Tier 2	DCR Plan Tier 3	Proposed Tier 4 – Feb 12 Draft Bill	Proposed Tier 4 – Alternative I	Proposed Tier 4 – Alternative II
Total Retirement Normal Cost (including refunds)	11.39%	NA	11.39%	11.45%	11.62%
Member Contributions	(8.65%)	(8.00%)	(8.65%)	(9.00%)	(10.00%)
Net Employer Retirement Normal Cost	2.74%	NA	2.74%	2.45%	1.62%
DC Employer Contribution Rate	NA	7.00%	NA	NA	NA
Occupational Death and Disability Normal Cost Rate	NA	0.05%	NA	NA	NA
Medical Normal Cost Rate	5.33%	0.64%	4.52%	4.52%	4.52%
HRA Contribution Rate	NA	3.00%	NA	NA	NA
Total Employer Cost	8.07%	10.69%	7.26%	6.97%	6.14%
DCR Payroll during FY 2011	\$59,750,000	\$59,750,000	\$59,750,000	\$59,750,000	\$59,750,000
Total Employer Cost on FY 2011 Basis	\$4,800,000	\$6,400,000	\$4,300,000	\$4,200,000	\$3,700,000

PERS Police Officers & Firefighters Estimated Cost Comparisons

Public Employees Retirement System – Peace Officers & Firefighters	DB Plan Tier 3	DCR Plan Tier 4	Proposed Tier 5 – Feb 12 Draft Bill	Proposed Tier 5 – Alternative I	Proposed Tier 5 – Alternative II
Total Retirement Normal Cost (including refunds)	12.30%	NA	12.30%	12.36%	12.39%
Member Contributions	(7.50%)	(8.00%)	(7.50%)	(8.50%)	(9.00%)
Net Employer Retirement Normal Cost	4.80%	NA	4.80%	3.86%	3.39%
DC Employer Contribution Rate	NA	5.00%	NA	NA	NA
Occupational Death and Disability Normal Cost Rate	NA	1.04%	NA	NA	NA
Medical Normal Cost Rate	5.90%	0.43%	5.35%	5.35%	5.35%
HRA Contribution Rate	NA	3.00%	NA	NA	NA
Total Employer Cost	10.70%	9.47%	10.15%	9.21%	8.74%
DCR Payroll during FY 2011	\$21,192,000	\$21,192,000	\$21,192,000	\$21,192,000	\$21,192,000
Total Employer Cost on FY 2011 Basis	\$2,300,000	\$2,000,000	\$2,200,000	\$2,000,000	\$1,900,000

Other PERS Estimated Cost Comparisons

Other Public Employees Retirement System Members	DB Plan Tier 3	DCR Plan Tier 4	Proposed Tier 5 – Feb 12 Draft Bill	Proposed Tier 5 – Alternative I	Proposed Tier 5 – Alternative II
Total Retirement Normal Cost (including refunds)	9.58%	NA	9.58%	9.75%	9.75%
Member Contributions	(6.75%)	(8.00%)	(6.75%)	(8.00%)	(8.00%)
Net Employer Retirement Normal Cost	2.83%	NA	2.83%	1.75%	1.75%
DC Employer Contribution Rate	NA	5.00%	NA	NA	NA
Occupational Death and Disability Normal Cost Rate	NA	0.16%	NA	NA	NA
Medical Normal Cost Rate	7.00%	0.56%	3.60%	3.60%	3.60%
HRA Contribution Rate	NA	3.00%	NA	NA	NA
Total Employer Cost	9.83%	8.72%	6.43%	5.35%	5.35%
DCR Payroll during FY 2011	\$200,739,000	\$200,739,000	\$200,739,000	\$200,739,000	\$200,739,000
Total Employer Cost on FY 2011 Basis	\$19,700,000	\$17,500,000	\$12,900,000	\$10,700,000	\$10,700,000

Some of these cost comparisons are very intriguing. Note that the costs for the 7.50% plan for Peace Officers and Firefighters are roughly comparable to the Tier 3 and Tier 4 costs. But the costs for Other PERS member are dramatically lower than either the Tier 3 or Tier 4 costs. This is because they are losing significantly on the medical premium payments, by no longer being able to retire at age 60 with premium payment made by the plan unless they have 30 years of service. I estimate that only about a third of these Other PERS members would have 30 years by the time they attain age 65, meaning that this benefit would have no value for most of them. That is the reason the medical normal cost rate is so much lower for Other PERS Tier 5 than for Other PERS Tier 3. It will be interesting to see what the “official” actuarial cost determination is.

Please also realize that the cost determinations above do not include any cost for the retroactive feature of the bill. I understand that those costs were estimated to be \$37 million in 2009. We do not have the data necessary to make an estimate of the cost this year. Because of the market recovery, the cost might possibly have decreased since 2009.

Conclusions

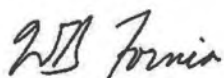
The proposed programs would result in stronger pension benefits through the return of the Defined Benefit plan for members hired since 2006. It would provide improved health care plan benefits, but no future HRA contributions. As a result of all this, employer costs on a FY 2011 basis could increase by about \$200,000, or fall slightly, for PERS Peace Officer and Firefighter members, but would decrease substantially for TRS (\$2.1 million to \$2.7 million) and Other PERS (\$4.6 million to nearly \$7 million) members. In total, employer costs would fall by about \$6 to \$9 million, depending on the alternative chosen.

*Employer
or
employee
costs?*

The PERS and TRS actuary will calculate more precise costs, based on complete data and their new actuarial assumptions. The costs above should be considered a starting point for analysis of the bill.

The work reflected herein was conducted by Pension Trustee Advisors under my direction. I look forward to discussing this with you further.

Sincerely,



William B. Fornia, FSA
President

Cc:

- Joelle Hall, Alaska AFLCIO
- Lydia Garcia, NEA Alaska
- Derek Hsieh, APDEA
- Jim Duncan, ASEA/AFSCME Local 52
- Norm Ruggles, PTA



Alaska State Legislature

Please enter into the record my testimony to the Senate State Affairs
committee name

Committee on SB 121, dated 4-14-11
bill # / subject public hearing date

April 13, 2011

Thank you to the sponsors and cosponsors of SB 121. As many of you know, returning Alaska to a defined benefit retirement plan for teachers and public employee has been the number one legislative priority of NEA-Alaska since this ill conceived legislation was enacted beginning July of 2006.

As we approach the fifth full year of implementation, it is appropriate the Alaska legislature take a serious look at this issue. Questions the legislature should ask would be: 1) is the new defined contribution system saving money? 2) is the new defined contribution system resolving the unfunded liability? 3) is Alaska having difficulty recruiting and retaining teachers and public employees because of the defined contribution retirement system currently in place?

Many are more qualified than I am to answer the above questions. As a local president working with approximately one third of our teaching force on the Kenai Peninsula currently in the defined contribution system, I know the conversations that I have had with teachers. Conversations much like the one I had last week when a Tier III teacher who has family and connections within the district called me and asked, "What advantage is it for me and my family to remain in Alaska?" These are the type of questions many of our young, best, and brightest employees are asking as they look toward their future and financial stability for their families.

When SB 141 was passed, the "portability" of the defined contribution system was one of its selling points to many legislators. I ask now as I asked then, "Why is it good to encourage people to leave our state?" Our communities are very often built around our schools and school employees are a vital part of our communities. Police officers, firefighters, and other public employees also contribute to the sense of community many of us feel. To have a retirement system that encourages people to move seems counterproductive to building strong communities in Alaska.

Thank you for introducing this legislation this session and hopefully it will get serious attention in the next legislative session.

Sincerely,

LaDawn Druce

President of the Kenai Peninsula Education Association

Signed: LaDawn Druce
Testifier

Kenai Peninsula Education Association
Representing (optional)

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Thursday, January 26, 2012

Subject: SB 121

My wife and I are both tier I retirees. We both spent most of our working lives working for the State of Alaska and both of us worked for the City and Borough of Juneau for a few years. I worked as a computer programmer with the State and my wife worked as a registered nurse for both the State and the City and Borough of Juneau. Neither of us would do that today with a defined contribution system because it does not offer the security of retirement checks for life, only the hope that the money lasts longer than our lives do.

One of my sisters-in-law is also a tier I retiree who worked for the State of Alaska as a counselor. My son works for the State as an Accountant III and one of my nephews works for the State as an Administrative Officer II. They are very fortunate to have gotten into tier III where they have a defined benefit retirement.

So why is RPEA so supportive of this legislation? Many of us have grandchildren. Some day when they reach retirement, as we have, they will need a secure retirement that lasts as long as they live. With a defined contribution retirement system the options for our grandchildren to stay in Alaska are diminished. Working for the State of Alaska or a municipality or as a teacher would leave them with a gamble for a retirement instead of a secure retirement.

How are you going to keep our grandchildren in Alaska?

Thank you.

Gary Miller, RPEA
SE Chapter Chair

Protecting and Enriching Your Retirement Years

January 23, 2012

Gary Miller
20135 Cohen Dr
Juneau, AK 99801-8211

Subject: SB 121 - "An Act relating to the public employees' retirement system and the teachers' retirement system; and providing for an effective date."

Senator Bill Wielechowski – Room 101 ✓
Senator Joe Paskvan – Room 115
Senator Cathy Giessel – Room 7
Senator Albert Kookesh – Room 11
Senator Kevin Meyer – Room 103

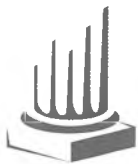
Please vote yes on SB 121. I am tier I and retired and my son is tier III with nine and one-half years of working for the State of Alaska as an account. We know the importance of having a defined benefit retirement system where we will have a monthly income to the day that we die. The current defined contribution tiers do not protect workers for life after they retire.

I have a three year old grandson here in Juneau. When he is old enough to start working he won't have a secure retirement if he works for the State of Alaska, becomes a teacher or works for a municipality. I spent my entire working career working for the State of Alaska (27 years) and the City and Borough of Juneau (2 years). It is important for me that he be able to stay in Alaska and have public service as an option for a career.

Thank you.

A handwritten signature in cursive script that reads "Gary Miller".

Gary Miller



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A Better Bang for the Buck

The Economic Efficiencies of Defined Benefit Pension Plans

by Beth Almeida and William B. Fornia, FSA

August 2008

ABOUT THE AUTHORS

Beth Almeida is the Executive Director of the National Institute on Retirement Security. Before joining NIRS, she served as assistant director for strategic resources and as senior economist with the International Association of Machinists and Aerospace Workers (IAM) where she was instrumental in transitioning some 40,000 airline employees out of terminating or freezing pensions into the IAM's multi-employer defined benefit pension plan. Earlier in her career, Ms. Almeida led research initiatives at academic centers in Germany, France, and her home state of Massachusetts. She has authored numerous economic and pension publications and is a frequent speaker at academic and industry conferences, both in the US and abroad. Beth earned a bachelor's degree in international business from Lehigh University and a master's degree in economics from the University of Massachusetts Amherst.

William B. (Flick) Fornia is Senior Vice President, human resource consultant and actuary for Aon Consulting, specializing in public sector retirement plans. He has 29 years of actuarial and consulting experience, primarily in the areas of retiree pension and healthcare benefits. Mr. Fornia is an author and frequent speaker on all aspects of retirement programs including retiree healthcare plans, and the challenges of public sector defined contribution plans. Mr. Fornia earned a Bachelor of Arts in Mathematics at Whitman College. He is a Fellow of the Society of Actuaries, Enrolled Actuary, Member of the American Academy of Actuaries, and Fellow of the Conference of Consulting Actuaries. He currently serves on the American Academy of Actuaries Public Pensions Subcommittee, the Faculty of the Society of Actuaries Fellowship Admissions Course, and the Conference of Consulting Actuaries Committee on Professionalism.

ACKNOWLEDGEMENTS

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Worries about retirement security abound. Families fear that they won't have enough to support an adequate retirement income as home values and financial markets plummet. Dwindling profit margins have employers looking to cut costs. And governments are concerned about delivering on the promises that they have made to their citizens and to their employees as tax revenues shrink amid a weakening economy.

In this environment, some have proposed replacing traditional defined benefit (DB) pensions with 401(k)-type defined contribution (DC) retirement savings plans in an effort to save money. But decision makers would be wise to look before they leap. To deliver the same level of retirement benefits, a DB plan can do the job at almost half the cost of a DC plan. Hence, DB plans should remain an integral part of retirement income security in an increasingly uncertain world because they offer employers and employees a better bang for the buck.

The value of traditional DB pensions to employees is generally recognized: they provide a secure, predictable retirement income that cannot be outlived. But less well known is the value of a DB pension to an employer. Due to their group nature, DB plans possess "built-in" savings, which make them highly efficient retirement income vehicles, capable of delivering retirement benefits at a low cost to the employer and employee. These savings derive from three principal sources.

First, DB plans better manage longevity risk, or the chance of running out of money in retirement. By pooling the longevity risks of large numbers of individuals, DB plans avoid the "over-saving" dilemma – that is, saving more than people need on average to avoid running out of cash – that is inherent in DC plans. Consequently, DB plans are able to do more with less.

Second, because DB plans, unlike the individuals in them, do not age, they are able to take advantage of the enhanced investment returns that come from a balanced portfolio throughout an individual's lifetime.

Third, DB plans, which are professionally managed, achieve greater investment returns as compared with DC plans that are made up of individual accounts. A retirement system that achieves higher investment returns can deliver any given level of benefit at a lower cost.

Because of these three factors, we find that a DB pension plan can offer the same retirement benefit at close to half the cost of a DC retirement savings plan. **Specifically, our analysis indicates that the cost to deliver the same level of retirement income to a group of employees is 46% lower in a DB plan than it is in a DC plan.** This is an important factor for policy makers to consider, especially with respect to public sector workforces, where tax dollars are an important source of funds for retirement benefits. DB plans are a more efficient use of taxpayer funds when offering retirement benefits to state and local government employees.

More specifically, this study finds that ...

- Longevity risk pooling in a DB plan saves 15%,
- Maintenance of a balanced portfolio diversification in a DB plan saves 5%, and
- A DB plan's superior investment returns save 26%

... as compared with a typical DC plan.

TWO APPROACHES TO RETIREMENT: DB AND DC PLANS

Employers who offer retirement benefits can consider two basic approaches: a traditional defined benefit (DB) pension plan and a defined contribution (DC) retirement savings plan.¹ Each type of plan has certain distinguishing characteristics that influence their cost to employers and employees.²

How DB plans work

While employers have a good degree of flexibility in designing the features of a DB plan, there are some features all DB plans share.

DB plans are designed to provide employees with a predictable monthly benefit in retirement. The amount of the monthly pension is typically a function of the number of years an employee devotes to the job and the worker's pay – usually at the end of their career.³ For example, the plan might provide a benefit in the amount of 1.5% of final average pay for each year worked. Thus, a worker whose final average salary was \$50,000, and who had devoted 30 years to the job, would earn a monthly benefit of \$1,875 (\$22,500 per year), a sum that would “replace” 45% of his final average salary after he stops working. This plan design is attractive to employees because of the security it provides. Employees know in advance of making the decision to retire that they will have a steady, predictable income that will enable them to maintain a stable portion of their pre-retirement standard of living.

Benefits in DB plans are pre-funded. That is, employers (and, in the public sector, employees) make contributions to a common pension trust fund over the course of a worker's career. These funds are invested by professional asset managers whose activities are overseen by trustees and other fiduciaries. The earnings that build up in the fund, along with the dollars initially contributed, pay for the lifetime benefits a worker receives when he retires.

How DC plans work

DC plans function very differently than DB plans.

First, there is no implicit or explicit guarantee of retirement income in a DC plan. Rather, employers (and usually employees) contribute to the plan over the course of a worker's career. Whether the funds in the account will ultimately be sufficient to meet retirement income needs will depend on a number of factors, such as the level of employer and employee contributions to the plan, the investment returns earned on assets, whether loans are taken or funds are withdrawn prior to retirement, and the individual's lifespan.

DC plans are typically “participant directed,” meaning that each individual employee can decide how much to save, how to invest the funds in the account, how to modify these investments over time, and at retirement, how to withdraw the funds.

While DC plan assets are also held in a pension trust, that trust is comprised of a large number of individual accounts. DC plans are typically “participant directed,” meaning that each individual employee can decide how much to save, how to invest the funds in the account, how to modify these investments over time, and at retirement, how to withdraw the funds. Retirement experts typically advise individuals in DC plans to change their investment patterns over their lifecycle.

In other words, at younger ages, because retirement is a long way off, workers should allocate more funds to stocks, which have higher expected returns, but also higher risks. As one gets closer to retirement, experts suggest moving money away from stocks and into safer, but lower returning assets like bonds. This is to guard against a large drop in retirement savings on the eve of retirement, or in one's retirement years.

This high degree of participant direction makes DC plans very flexible in accommodating individuals' desires, decisions, and control. Employees, however, do not always follow the best expert advice when it comes to saving and investing for retirement.⁴ Too many workers fail to contribute sufficient amounts to the plans, and individuals' lack of expertise in making investment decisions can subject individual accounts to extremely unbalanced portfolios with too little or too much invested in one particular asset, such as stocks, bonds, or cash.

For example, one study found that more than half of all DC plan participants had either no funds invested in stocks—which exposes them to very low investment returns—or had almost all their assets allocated to stocks, making for a much more volatile portfolio.⁵

Another important difference between DC and DB plans becomes apparent at retirement. Unlike in DB plans, where workers are entitled to receive regular, monthly pension payments, in DC plans it is typically left to the retiree to decide how to spend one's retirement savings. Research suggests that many individuals struggle with this task, either drawing down funds too quickly and running out of money, or holding on to funds too tightly and enjoying a lower standard of living as a result.⁶ In theory, employers that offer DC plans could provide annuity payout options, but in practice they rarely do.⁷

BOTH DB AND DC PLANS ARE IMPORTANT TO RETIREMENT SECURITY

Because individuals do not have perfect knowledge as to whether they will remain in a given job (and therefore in a given DB plan) until retirement, taking advantage of the opportunity to save in a supplemental DC plan can provide employees with useful diversification of retirement income sources.

DC plans are also flexible vehicles that can accommodate individual retirement income needs that can vary. For example, two otherwise identical workers might have different family situations, health needs, or simply different preferences and expectations about their retirement income needs. DC plans give workers the opportunity to save for retirement in a manner that reflects their individual situations.

This is why most retirement experts liken the ideal design of retirement income sources to a “three-legged stool,” consisting of Social Security, a DB plan, and a supplemental DC savings plan. Indeed, researchers have found that workers who have access to all three sources of retirement income are in the best position to achieve a secure retirement.⁸

However, to the extent that retirement benefits for private sector employees constitute a cost to employers, and since benefits for public employees are supported by taxpayer contributions, designing retirement benefits in a fiscally responsible fashion is an important public policy goal. To that end, it is important for policymakers to recognize that the features that make DB plans highly attractive to employees – a predictable monthly retirement benefit, low fees and professional management of retirement assets – also provide significant savings for employers and taxpayers.

DB PLANS ARE MORE COST EFFECTIVE

The cost of either a DB or DC plan depends primarily, but not only, on the generosity of the benefits that it provides. Economists have found that DB plans are typically more generous than DC plans, and obviously, more generous benefits are more expensive.⁹

However, for any given level of benefit, a DB plan will cost less than a DC plan.¹⁰ This makes DB plans, in the language of economists, *more efficient* since they stretch taxpayer, employer or employee dollars further in achieving any given level of retirement income.

This makes DB plans, in the language of economists, more efficient since they stretch taxpayer, employer or employee dollars further in achieving any given level of retirement income.

There are three primary reasons behind DB plans' cost advantage.

- First, because DB plans pool the longevity risks of large numbers of individuals, they avoid the “over-saving” dilemma inherent in DC plans. DB plans need only accumulate enough funds to provide benefits for the average life expectancy of the group. In contrast, individuals will need to set aside enough funds to last for the “maximum” life expectancy if they want to avoid the risk of running out of money in retirement. Since the maximum life expectancy can be substantially greater than the average life expectancy, a DC plan will have to set aside a lot more money than a DB plan to achieve the same level of monthly retirement income.
- Second, because DB plans do not age, unlike the individuals in them, they are able to take advantage of the enhanced investment returns that come from a balanced portfolio over long periods of time. For instance, ongoing DB plans generally include individuals with a range of ages. As older workers retire, younger workers enter the plan. As a result, the average age of the group in a mature DB plan does not change much. This means DB plans can ride out bear markets and take advantage of the buying opportunities that they present without having to worry about converting all of their money into cash for benefits in the near future. By contrast, individuals in DC plans must gradually shift to a more conservative asset allocation as they age, in order to protect against financial market shocks later in life. This process can sacrifice investment returns because people may have to sell assets when they are worth too little due to market fluctuations coinciding with retirement timing. Moreover, they are not able to take advantage of higher expected returns associated with a balanced portfolio.
- Third, DB plans achieve greater investment returns as compared with DC plans based on individual accounts. Superior returns can be attributed partly to lower fees that stem from economies of scale. Also, because of professional management of assets, DB plans achieve superior investment performance as compared to the average individual investor.

METHODOLOGY

We compare the relative costs of DB and DC plans by constructing a model that first calculates the cost of achieving a target retirement benefit in a typical DB plan. We express this cost as a level percent of payroll over a career. We then calculate the cost of providing the same retirement benefit under a DC plan. Additional details on our methodology can be found in the Technical Appendix to this report.

Our model is based on a group of 1,000 newly-hired employees. For the purposes of simplicity, we give all individuals a common set of features. All newly hired employees are female teachers aged 30 on the starting date of their employment. They work for three years and then take a two-year break from their careers to have and raise children. They return to work at age 35 and continue working until age 62. Thus, the length of the career is 30 years. By their final year of work, their salary has reached \$50,000, having grown by about 4% percent each year.

Next, we define a target retirement benefit that, combined with Social Security benefits, will allow our 1,000 teachers to achieve generally accepted standards of retirement income adequacy. The plan provides a benefit in retirement equal to

\$26,684 per year or \$2,224 per month. A cost of living adjustment is provided to ensure the benefit maintains its purchasing power during retirement. Thus, each teacher will receive a benefit equal to 53% of her final year's salary that adjusts with inflation, which we estimate at 2.8% per year. With this benefit and Social Security benefits, each teacher can expect to receive roughly 83% of her pre-retirement income – a level of retirement income that can be considered adequate, but not extravagant.

We define certain parameters for life expectancy and investment returns. Then, on the basis of all these inputs, we calculate the contribution that will be required to fund our target retirement benefit through the DB plan over the course of a career. We do the same for the DC plan.

WHAT IS AN “ADEQUATE” RETIREMENT BENEFIT?

Experts generally believe that in order for a retiree to maintain the same standard of living enjoyed during working years, income from all sources (Social Security, DB pensions, DC savings plans, etc.) should replace roughly 70 to 90 percent of pre-retirement income. Because some expenses (commuting costs, payroll taxes, etc.) disappear after retirement, it may be possible to maintain one's pre-retirement standard of living, even with a replacement ratio (that is, the ratio of retirement income to pre-retirement income) of less than 100%.

For example, Aon Consulting and Georgia State University estimate that a single retiree with a pre-retirement income of \$50,000 would need to achieve a replacement ratio of 80% in order to maintain pre-retirement living standards.¹¹ Other analysts have recommended that workers seek to achieve an even higher replacement ratio. Human resources consulting firm Hewitt Associates predicts that employees will actually need *more* money in retirement than during their working years, and suggests a target replacement ratio of 125% to cover retiree healthcare and other expenses.¹² In our discussion, we target a replacement rate of 83% of pre-retirement income for both the DB and the DC plan.

DB PLANS ARE MORE COST EFFECTIVE BECAUSE OF LONGEVITY RISK POOLING, PORTFOLIO DIVERSIFICATION, AND SUPERIOR RETURNS

We find that the cost to fund the target retirement benefit under the DB plan comes to 12.5% of payroll each year. By comparison, we find that the cost to provide the same target retirement benefit under the DC plan is 22.9% of payroll each year. In other words, the DB plan can provide the same benefit at a cost that is 46% lower than the DC plan, as shown in Figure 1.

The DB cost advantage stems from differences in how benefits are paid out in each type of plan, how investment allocations shift in DC plans as individuals age, and how actual investment returns in DC plans compare with those in DB plans.

Longevity Risk Pooling

Longevity risk describes the uncertainty an individual faces with respect to their exact lifespan. While actuaries can tell us that, on average, our pool of female teachers who retire at age 62 will live to be 85, they can also predict that some will live only a short time, and some will live to be over 100. Figure 2 illustrates the longevity patterns among our 1,000 teachers. With each passing year, fewer retirees are still living. Age 85 corresponds to the year when roughly half of retirees are still alive.

In a DB plan, the normal form of benefit is a lifetime annuity, that is, a series of monthly payments that lasts until death. A DB plan with a large number of participants can plan for the fact that some individuals will live longer lives and others will live shorter lives. Thus, a DB plan needs only to ensure that it has enough assets set aside to pay for the *average* life expectancy of all individuals in the plan, or in this case, to age 85. Based on our target benefit level, the DB plan needs to have accumulated approximately \$355,000 for each participant in the plan by the time they turn 62. This amount will ensure that every individual in the plan will receive a regular, inflation-adjusted monthly pension payment that lasts as long as they do. The contribution required to fund this benefit, smoothed over a career, comes to 12.5% of payroll.

FIGURE 1:
Cost of DB and DC Plan as % of Payroll

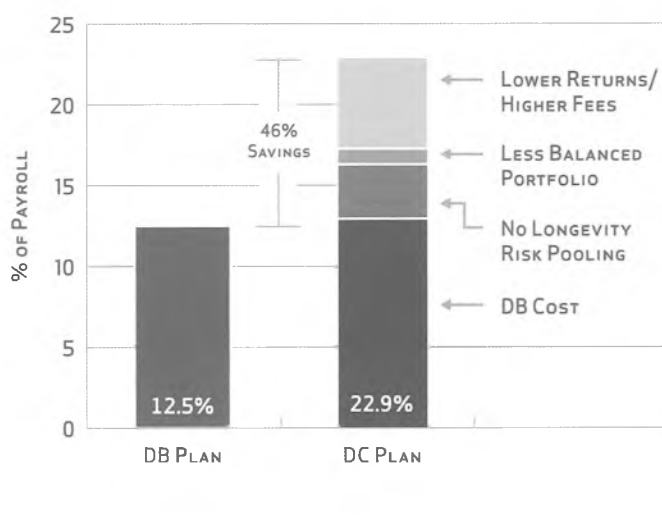
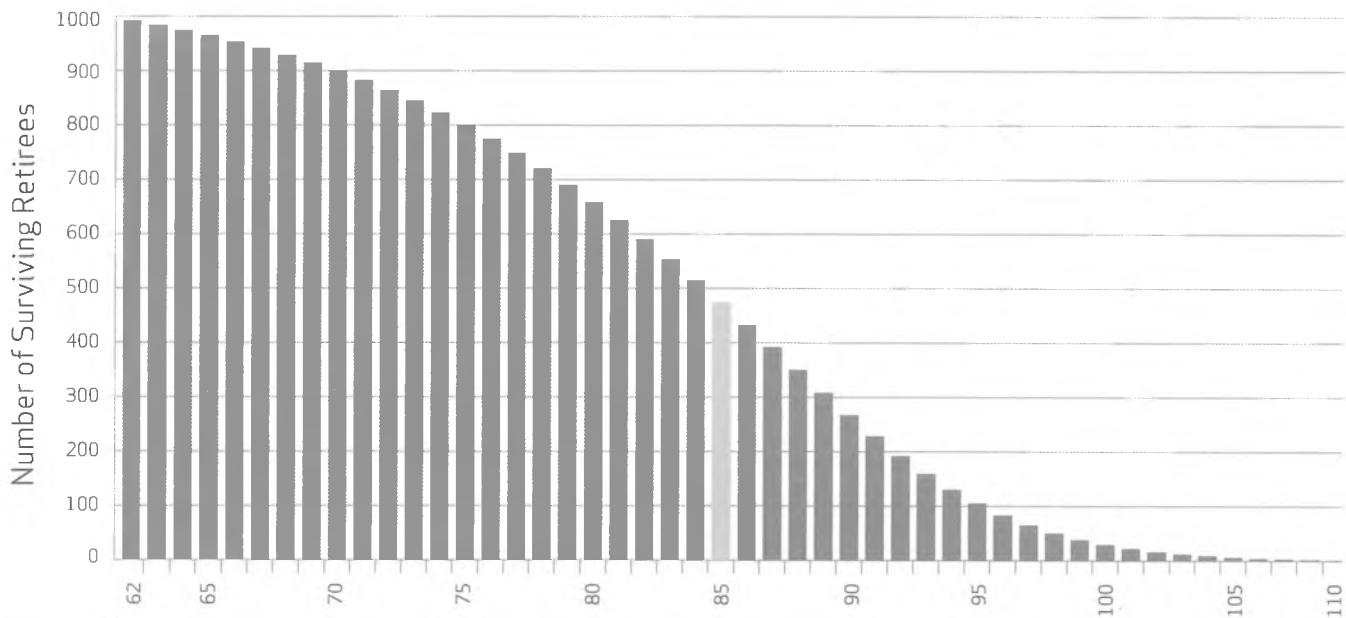


Figure 2: Longevity of 1,000 Retired Female Teachers



WHAT ABOUT MONEY FOR A SURVIVING SPOUSE?

Our analysis did not explicitly analyze the effect of providing income to a retiree's surviving spouse. But the method of providing for spouse benefits would be similar under either the DB or DC approach. Under a DB plan, a retiree has the option of electing a reduced monthly benefit in exchange for a portion of the benefit continuing on to her surviving spouse if there is one. Virtually all pension plans offer at least a "50% Joint and Survivor" option and a "100% Joint and Survivor" option. For example, in our model, the retired teacher could have three payment options:

- \$2,224 per month for as long as she lives, with no surviving spouse benefit, or
- \$2,046 per month for as long as she lives, with half (\$1,043) continuing to her surviving husband for as long as he lives, or
- \$1,882 per month for as long as either the retiree or her husband lives

These three options are roughly "actuarially equivalent," meaning that for a large group following the actuarially assumed mortality and investment return patterns, the plan costs are neutral with respect to the option chosen.

Under a DC plan, if this retiree wanted to provide her husband with retirement income should he outlive her, she would reduce the amount of her monthly withdrawals to enable him to be more likely to have residual assets available for him upon her death. If the retired couple were to make calculations as to how much to reduce their benefit, they would make calculations identical to those made by the plan to determine the actuarially equivalent benefit.

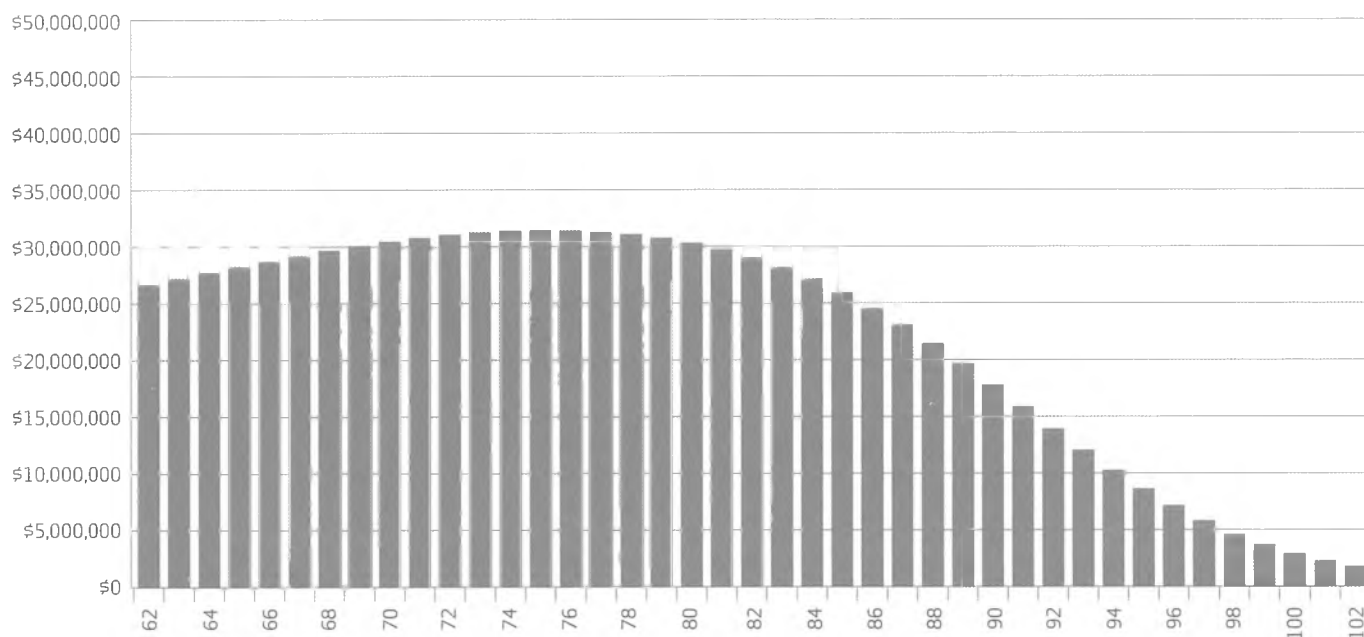
In other words, the desire of providing survivor income can be met through either a DB or DC plan.

We could have modeled our analysis based on a married retiree seeking survivor income protection, but adding this complexity would not have made a material difference in our analysis. This is because while it is difficult for a retiree to predict how long she will live, it is also difficult for a couple to predict how long they each will live.

Total annual payments out of the DB plan will have a hump-shaped pattern as seen in Figure 3. The amount of benefits paid out will increase for a number of years, because the effect of inflation adjustments is greater than the effect of individuals gradually dying off. At age 77, the impact of retiree deaths

overtakes the effect of the cost of living adjustments and payments decline with each passing year. In the DB plan, every retiree receives a steady inflation-adjusted monthly income that lasts until her death.

Figure 3: Total Payments under the Defined Benefit Plan



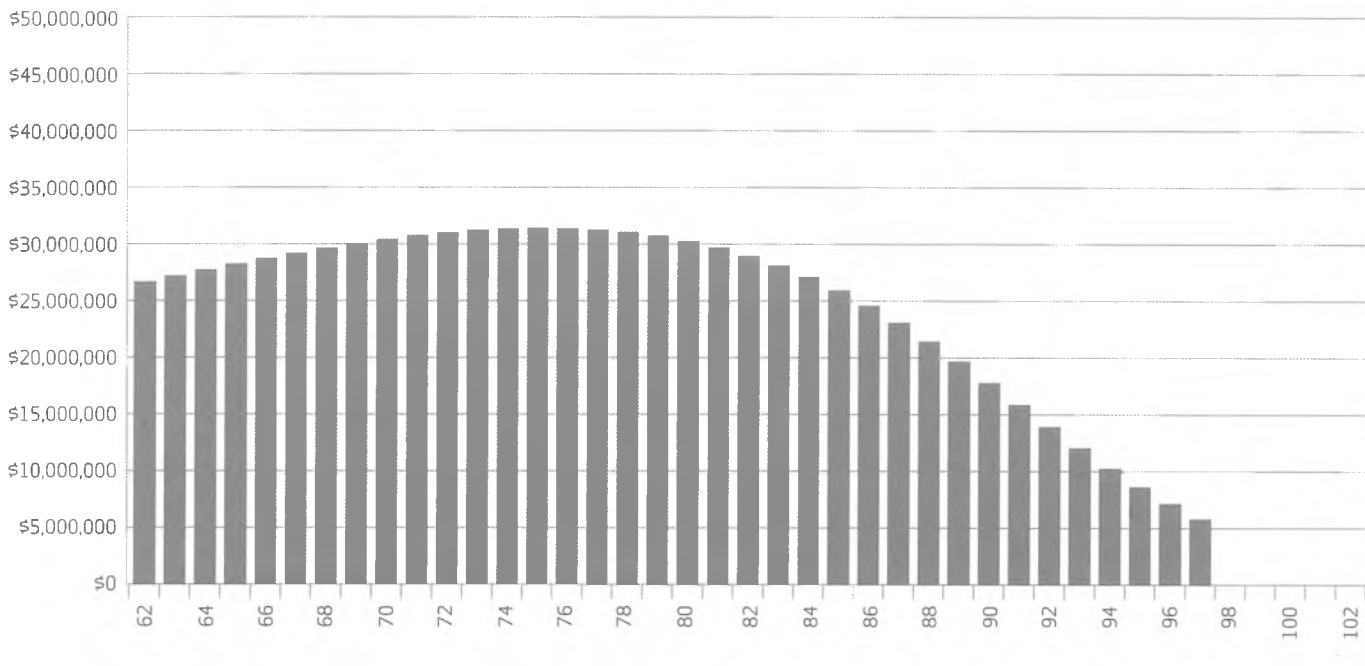
Next, we contrast this situation with that in a DC plan. Because DC plans rarely offer annuity options, individuals must self-insure longevity risks. This can be an expensive proposition. Because an individual in a DC plan does not know exactly how long she will live, she will probably not be satisfied with socking away an amount sufficient to last for the *average* life span, for if she lives past age 85, she will have depleted her retirement savings. For this reason, an individual will probably want to be sure that she has enough money saved to last for the *maximum* life span (or something close to it).

We define the “maximum life expectancy” for purposes of this analysis as 97 years old. It corresponds to the age beyond which only 10% of individuals survive, and therefore it is not a “true” measure of maximum life expectancy.¹³ In fact, our mortality table indicates that one lucky individual out of the 1,000 will celebrate her 110th birthday. This simplifying assumption is intended to be more realistic (that most individuals will be

satisfied with a 90% chance of not outliving their money, rather than a 100% chance), but it will also tend to understate the cost of the DC plan. Figure 4 illustrates the payout pattern under the DC plan, where individuals withdraw funds on an equivalent basis to the DB plan until age 97 – that is, in a series of regular, inflation adjusted payments. After age 97, there are no more withdrawals, even though 100 (10% of our initial pool of 1,000) teachers are still living. The money has simply run out.

Thus, our simplifying assumption of using a 90th percentile life expectancy of 97, rather than the true maximum life expectancy, will reduce the cost of providing the target benefit under the DC plan, but will also mean that individuals with exceptionally long lives will experience a reduced standard of living, compared to what they would experience under a DB plan. Thus, in our example, the DC plan ends up actually delivering less in total retirement benefits than the DB plan.

Figure 4: Total Benefit Payments under the DC Plan Based on Life Expectancy of 97



Of course, those 10% of individuals who do survive beyond age 97 would want to avoid the possibility of having their retirement income reduced to zero. It is likely that individuals will respond to a long life by gradually reducing their withdrawals from the plan to avoid running out of money. Thus, we assume that once an individual reaches age 90, she begins to reduce the size of annual withdrawals from the plan. This changes the withdrawal pattern to avoid the steep drop off in payments at age 97, as shown in Figure 5. However, it should be noted that those with very long lives will see their standard of living reduced significantly.

It is important to acknowledge that if a retiree dies before exhausting all of her retirement savings, the money in the account does not simply evaporate. Rather, it will pass to her estate. Benefits that were intended to be pension benefits become death benefits paid to heirs instead. This is the “over-saving” dilemma that is inherent in DC plans. As Figure 6 illustrates, the aggregate amount of money transferred to estates is substantial – totaling 24% of all assets accumulated in the plan.

While some individual heirs will benefit from these inter-generational transfers of wealth, they are not economically

efficient from a taxpayer or employer perspective. Because heirs did not provide services that the employer/taxpayer benefited from, providing additional benefits to heirs is economically inefficient. Moreover, these additional “death benefits” are not tied in any direct way to an individual employee’s productivity during her working years, rather their value is a function of living a shorter life.

DB plans avoid this problem entirely. By pooling longevity risks, DB plans can not only ensure that all participants in the plan will have enough money to last a lifetime, they can accomplish this goal with less money than would be required in a DC plan. Because DB plans need to fund only the *average* life expectancy of the group, rather than the *maximum* life expectancy for all individuals in the plan, less money needs to be accumulated in the pension fund. Remember that the DB plan needed to accumulate about \$355,000 for each participant in the plan by the time they turn 62 in order to fund the target level of benefit. Due to the “over-saving” dilemma, DC plans must accumulate at least \$455,000 per participant, or \$100,000 more, in order to minimize the likelihood of running out of funds. In order to accumulate those additional amounts, contributions to the plan would climb to 16.0% of pay, from 12.5% under the DB plan.

Figure 5: Total Benefit Payments under the DC Plan Based on Adjusted Life Expectancy

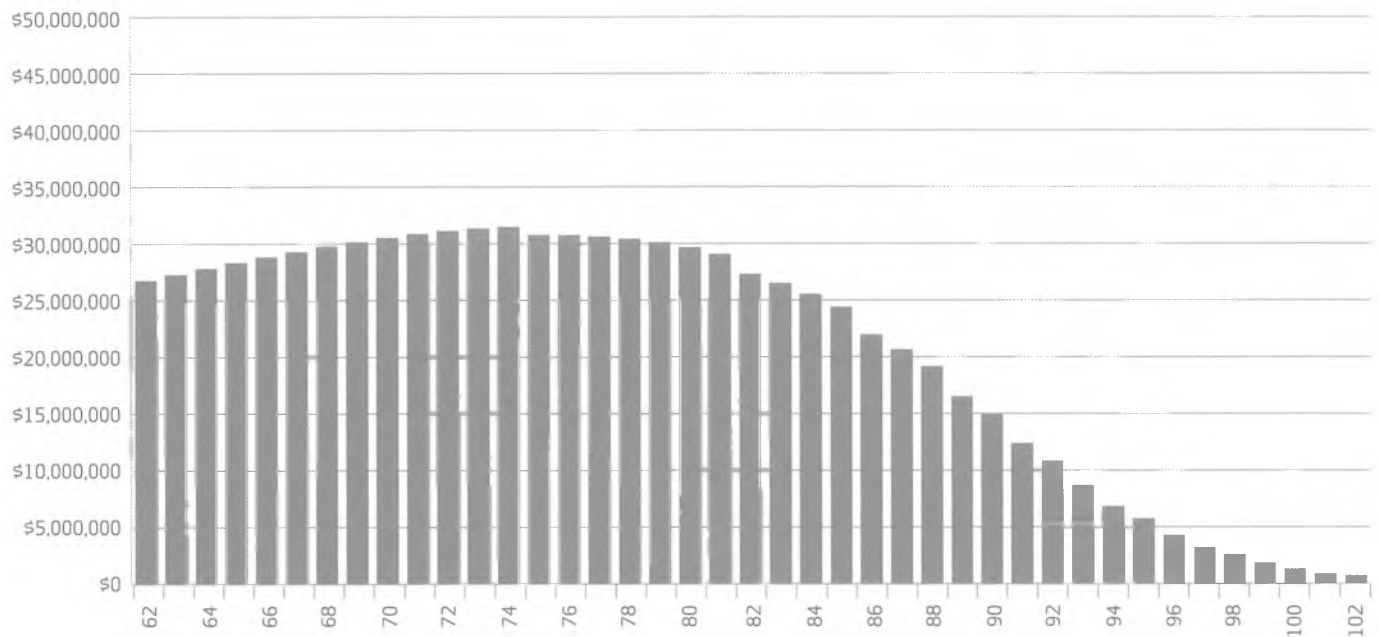
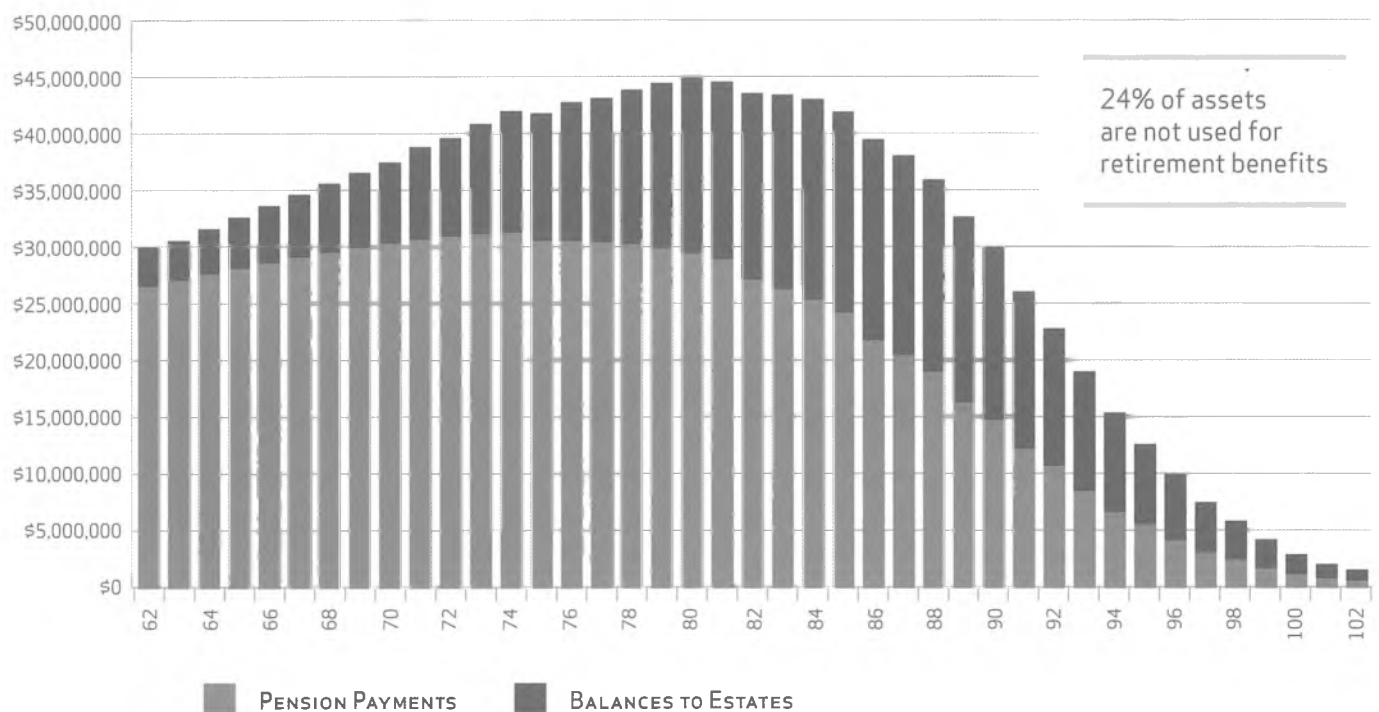


Figure 6: Total Benefit + Estate Payments under the DC Plan



Maintenance of Portfolio Diversification

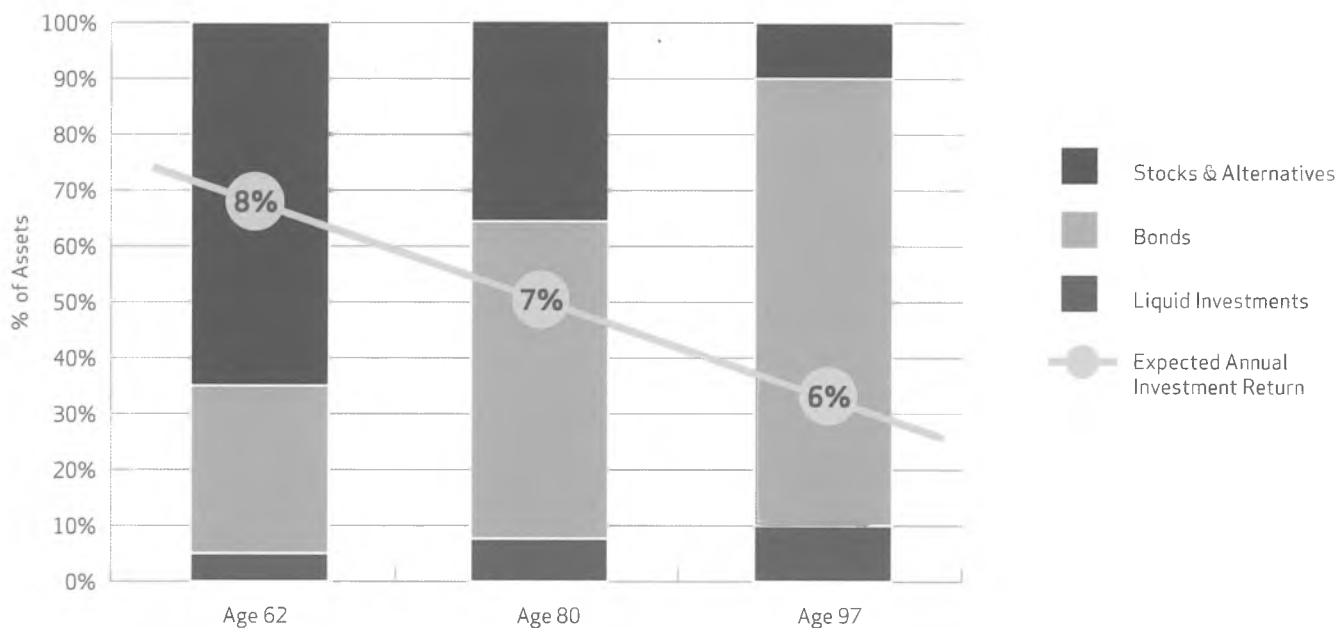
A retirement system that achieves higher investment returns can deliver a given level of benefit at a lower cost. All else equal, the greater the level of investment earnings, the lower contributions to the plan will need to be.¹⁴ Prior research substantiates DB plans' significant advantage in investment returns, as compared with DC plans.

Part of the reason why DB plans tend to achieve higher investment returns as compared with DC plans is that they are long-lived. That is, unlike individuals, who have a finite career and a finite lifespan, a DB pension fund endures across generations; thus a DB plan, unlike the individuals in it, can maintain a well-diversified portfolio over time. In DC plans, individuals' sensitivity to the risk of financial market shocks increases as they age. The consequences of a sharp stock market downturn on retirement assets when one is in their 20s

are minor, compared to when one is on the eve of retirement. For this reason, individuals are advised to gradually shift away from higher risk/higher return assets as they approach retirement. While this shift offers insurance against the downside risk of a bear market, it also sacrifices expected return since more money will be held in cash or similar assets that offer low rates of return in exchange for more security. A reduction in expected investment returns will require greater contributions to be made to the plan in order to achieve the same target benefit.

In our model, the well-diversified DB plan is expected to achieve investment returns of 8% per year, net of fees. In the DC plan, individuals gradually shift out of higher risk/higher return assets in favor of lower-risk/lower return assets. This results in a sacrifice of expected annual return of 2% by age 97, as shown in Figure 7.

Figure 7: As Portfolio Allocation Shifts, Expected Return in DC Plan Falls



We find that the shift in portfolio allocation has a modest, but nonetheless, significant effect on cost. Specifically, we find that the per-retiree amount that must be accumulated in the DC plan by retirement age now climbs to about \$485,000. By comparison, the DB plan requires about \$355,000. The contributions required to fund the target benefit level now climb to 17.0% of payroll (compared to 12.5% of payroll under the DB plan).

Another important reason why DB plans achieve higher investment returns than DC plans is that assets are pooled and professionally managed.

Superior Returns

Another important reason why DB plans achieve higher investment returns than DC plans is that assets are pooled and professionally managed. Expenses paid out of plan assets to cover the costs of administration and asset management reduce the amount of money available to provide benefits. As a result, a plan that can reduce these costs will require fewer contributions. By pooling assets, large DB plans are able to drive down asset management and other fees. For example, researchers at Boston College find that asset management fees average just 25 basis points for public sector DB plans.¹⁵ By comparison, asset management fees for private sector 401(k) plans range from 60 to 170 basis points.¹⁶ Thus, private DC plans suffer from a 35 to 145 basis point cost disadvantage, as compared with public DB plans.¹⁷ On their face, these differentials may appear small, but over a long period of time, they compound to have a significant impact. To illustrate, over 40 years, a 100 basis point difference in fees compounds to a 24% reduction in the value of assets available to pay for retirement benefits.¹⁸

Administrative costs are largely driven by scale. Thus, a similarly-sized DB plan and DC plan can have opportunities to negotiate minimized administrative expenses. A DC plan involves costs that do not exist in a DB plan, such as the costs of individual recordkeeping, individual transactions, and investment education to help employees make good decisions.

However, DB plans, unlike DC plans, bear the administrative costs of making regular monthly payments after retirement.

But fees are only part of the story – differences in the way retirement assets are managed in DB and DC plans play a substantial role. As previously discussed, investment decisions in DB plans are made by professional investment managers, whose activities are overseen by trustees and other fiduciaries. Research has found that DB plans have broadly diversified portfolios and managers who follow a long-term investment strategy.¹⁹ We also know that individuals in DC plans, despite their best efforts, often fall short when it comes to making good investment decisions. Thus, it should not be surprising that researchers find a large and persistent gap when comparing investment returns in DB and DC plans. Munnell and Sunden put the difference in annual return at 80 basis points.²⁰ A 2007 report from the global benchmarking firm, CEM, Inc., concluded that between 1998 and 2005, DB plans showed annual returns 180 basis points higher than DC plans, largely due to differences in asset mix.²¹ And Watson Wyatt found that, between 1995 and 2006, DB plans outperformed DC plans by 109 basis points, on average. Among large plans, the DB advantage was even greater – at 121 basis points.²²

In our model, we use conservative estimates of the differences in DB and DC plan costs and expected returns. We model a 100 basis point (1%) net disadvantage for the DC plan annual investment returns as compared with DB plan returns. While this is slightly higher than the estimate of Munnell and Sunden,²³ it is lower than the more recent estimates of Flynn and Lum,²⁴ and Watson Wyatt.²⁵ This 100 basis point differential persists into the retirement years and magnifies the effects of the shift in asset allocation discussed previously. However, our model separates these effects to avoid double-counting. We do not isolate the impact of expenses and fees from the impact of superior investment management skill.

We find that a 1% per year disadvantage in DC plan investment returns compounds over time to create a significant cost disadvantage. In particular, we find that the amount which must be set aside for each individual at retirement age now climbs to about \$550,000 (compared to the roughly \$355,000 required in the DB plan). The level of contributions to the plan climbs again, this time to 22.9% of payroll (compared to 12.5% under the DB plan).

“BUT I THOUGHT DC PLANS WERE CHEAPER?”

UNTANGLING BENEFIT GENEROSITY AND ECONOMIC EFFICIENCY

GM Will Freeze Salaried Pensions, Shift to 401(k)s

“...move will save the struggling automaker \$420 million in 2007.”
USA Today - April 10, 2007

IBM Adds Its Name to the List of Firms Freezing Pensions

“...cut worldwide retirement-related expenses by \$450 million to \$500 million this year.”
The Washington Post - January 6, 2006

Verizon to Halt Pension Outlay for Managers

“...company hopes to save about \$3 billion over the next decade.”
The New York Times - December 6, 2005

Headlines like these have, understandably but unfortunately, led to a good deal of confusion about the relative costs and economic efficiencies of DB plans versus DC plans. While many employers have cited the financial burden of DB plans as their main reason for shifting from a DB to a DC plan, it is important to separate the question of benefit generosity from the question of the economic efficiency of a retirement plan.²⁶

A review of the economic literature helps in this regard. Researchers have found that when employers move out of DB and into DC plans, they almost always cut the average employee benefit in the process.²⁷ Ghilarducci and Sun find, for instance, that between 1981 and 1998 the average employer pension contribution declined from \$2,140 to \$1,404 per employee, while the share of pension contributions attributed to DC plans increased from 23% to 68% in that time period.²⁸ Also, a UK study found that the average contribution per employee is 15-18% under a DB system, but only 9% under a DC system.²⁹ Thus, when employers simultaneously reduce their contributions along with the move from DB to DC, they will undoubtedly save money. Yet this does not mean that DC plans are inherently cheaper than DB plans; it simply means that employers are reducing employee benefits, while also changing the benefit design. Shifting costs from one party (the employer who reduces contributions) to another (employees who receive less in retirement) does not reduce costs overall. As the *The Economist* succinctly put it, “Whatever the arguments about the merits of the new wave of [DC] schemes, if you put less money in, you will get less money out.”³⁰

Whether an employer chooses a DB plan, a DC plan, or both, it has to decide how generous the benefits should be. But, as our analysis demonstrates, the economic efficiencies built into DB plans mean that such systems can provide the same benefit at a much lower cost, as compared with a DC plan.

SUMMARY OF RESULTS: DB PLANS REDUCE COSTS BY ALMOST HALF

Taken together, the economies that stem from investment pooling and longevity risk pooling can result in significant cost savings to employees and employers (or in the case of the public sector, taxpayers). In our model, required contributions are 46% lower in the DB plan as compared with the DC plan.

Our analysis clearly demonstrates that DB plans are far more cost-effective than DC plans. We find that to achieve roughly the same target retirement benefit that will replace 53% of final salary, the DB plan will require contributions equal to 12.5% of payroll, whereas the DC plan will require contributions to be almost twice as high – 22.9% of payroll.

We find that due to the effects of longevity risk pooling, maintenance of portfolio diversification, and greater investment returns over the lifecycle, a DB plan can provide the same level of retirement benefits at almost half the cost of a DC plan.

Figure 8: Tallying DB Plan Cost Savings

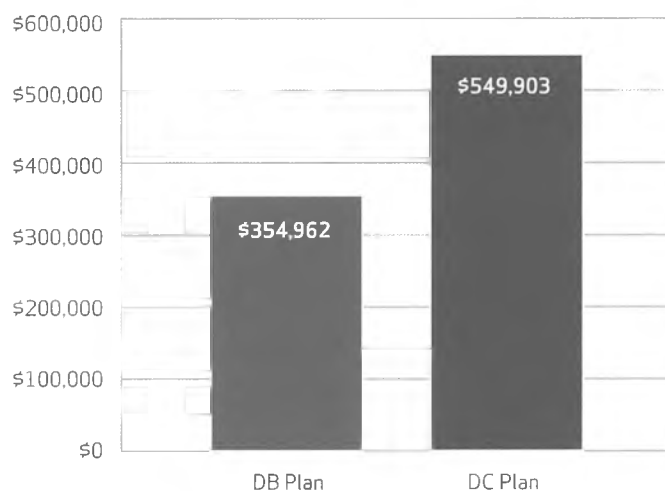
1. Longevity risk pooling saves	15%
2. Maintenance of portfolio diversification saves	5%
3. Superior investment returns save	26%
All-in costs savings in DB plan	46%

The longevity risk pooling that occurs in the DB plan accounts for 15% of the incremental cost savings. DB plans' ability to maintain a more diversified portfolio drives another 5% cost savings, and their superior investments returns across the lifecycle generate an additional 26% reduction cost.

Our results also indicate that DB plans can do more with less. That is, they can ensure that all individuals in the plan (even

those with very long lives) are able to enjoy an adequate retirement benefit that lasts a lifetime, at the same time that they require less money to be contributed to a retirement plan and fewer assets to accumulate in the plan. We calculated the amount of money that would be required to be set aside for each retiree in each type of plan, to provide a modest retirement benefit of about \$2,200 per month. As shown in Figure 9, at retirement age, the DB plan requires only about \$355,000 to be set aside for each individual, whereas the DC plan requires almost \$550,000. The difference – nearly \$195,000 for each and every employee – illustrates that the efficiencies embedded in DB plans can yield large dollar savings for employers, employees and taxpayers.³¹

Figure 9:
Per Employee Amount Required at Age 62
DB Plan vs. DC Plan



CONCLUSION

Our findings indicate that DB plans provide a better bang for the buck when it comes to providing retirement income. We find that a DB plan can provide the same level of retirement income at almost half the cost of a DC plan. Hence, DB plans should remain a centerpiece of retirement income policy and practice, especially in light of current fiscal and economic constraints.

We find that the biggest drivers of the cost advantages in DB plans are longevity pooling and enhanced investment returns that derive from reduced expenses and professional management of assets. The sacrifice of investment returns that results from life-cycle driven shifts in portfolio allocation in DC plans had a smaller, but still significant, effect. The sources of cost savings in DB plans reflect, at a very basic level, the differences in how DB and DC plans operate. Group-based DB plans provide lifetime benefits and feature pooled, cost-efficient, professionally managed assets: these features drive significant cost savings that benefit employers, employees, and taxpayers.

When considering our results, it is important to keep in mind that in our effort to construct an “apples to apples” comparison, we made a number of simplifying assumptions that actually reflected more favorably on DC plans. For instance, we did not model any asset leakage from the DC plan before retirement, through loans or early withdrawals nor any terminations of employment under either plan. We also assumed that individuals followed a sensible “goldilocks-like” withdrawal pattern in retirement – not too fast, not too slow, but just right. We used conservative estimates of the difference in actual investment returns between DB and DC plans. And, we used a 90th percentile life expectancy to project required accumulations in the DC plan, rather than “full” life expectancies. Thus, if anything, our analysis likely underestimates the cost of providing benefits in a DC plan and thereby understates the cost advantages of DB plans.

Due to the built-in economic efficiencies of DB plans, employers and policy makers should continue to carefully evaluate claims that “DC plans will save money.” As discussed, benefit generosity is a separate question from the economic

efficiency of a retirement plan. While either type of plan can offer more or less generous benefits, DB plans have a clear cost advantage for any given level of retirement benefit. Considering the magnitude of the DB cost advantage, the consequences of a decision to switch to a DC plan could be dramatic for employees, employers, and taxpayers.

While either type of plan can offer more or less generous benefits, DB plans have a clear cost advantage for any given level of retirement benefit. Considering the magnitude of the DB cost advantage, the consequences of a decision to switch to a DC plan could be dramatic for employees, employers, and taxpayers.

Finally, policymakers should consider proposals that can strengthen existing DB plans and promote the adoption of new ones. When viewed against the backdrop of workers’ increasing insecurities about their retirement prospects and the economic and fiscal challenges facing employers and taxpayers, now more than ever, policy makers ought to focus their attention and energy on this important goal. The very features that make DB plans attractive to employees drive cost savings for employers and taxpayers. In this way, DB plans represent a rare “win-win” approach to achieving economic security in retirement that should be recognized and replicated.

TECHNICAL APPENDIX: CALCULATING THE COST SAVINGS EMBEDDED IN DB PLANS

We calculate the cost, expressed as a level percent of payroll over a career, of achieving a target benefit in a typical DB plan and compare that with the cost of providing the same target benefit in a typical DC plan.

We begin by constructing a cohort of 1,000 newly-hired employees. For the purposes of simplicity, we give this cohort a common set of features. All newly hired employees are age 30 on the starting date of their employment and they are all female teachers. They work for three years and then take a two-year break from their careers to have and raise children. They return to work at age 35 and continue working until age 62. Thus, the length of the career is 30 years. By their final year of work, their salary has reached \$50,000, having grown by 4.05% percent each year.

Modeling DB Plan Benefits and Costs

The DB plan provides a benefit in retirement equal to 1.85% of final average salary for each year worked. This represents the median benefit among DB plans covering public employees who are also covered by Social Security.³² Final average salary is calculated on the basis of the final three years of one's career, which in this case is \$48,079. Thus, the initial benefit in the DB plan is \$26,684 per year or \$2,224 per month.

The DB plan provides a cost of living adjustment that ensures the benefit maintains its purchasing power during retirement. Inflation is projected at 2.8% per year. Thus, each individual in our cohort will receive a benefit equal to 53% of her final year's salary that adjusts with inflation. This DB plan (in combination with Social Security) would allow an employee to meet generally accepted standards of retirement income adequacy, or roughly 83% of pre-retirement income.

DB plans typically offer married participants the ability to receive joint-and-survivor annuity benefits, whereby when the retiree dies, her spouse can continue to receive a monthly benefit that will last the spouse's lifetime. But the retiree pays the cost of this survivor's benefit. That is, the monthly benefit that would be payable on a single-life basis will be reduced by an actuarially determined factor to account for the fact that payments may continue if the retiree dies before her spouse. Therefore, for simplicity, we model all benefit payouts on a single-life basis (and do the same for the DC plan), using the RP-2000 Healthy Female Annuitants mortality table.

In order to model the contributions that are required to fund these benefits, we start by establishing expected investment returns. The DB plan is expected to achieve nominal investment returns of 8.01% per year, net of fees. We calculate a weighted average return, based on assumptions about asset allocation and returns for each asset class.

The DB plan follows a typical asset allocation of 2% in cash/liquid assets, 15% in treasuries/agency debt, 13% in corporate bonds, and 70% in equities and alternative assets. Our expected investment returns for each asset class are based on the projections prepared by the Office of the Actuary of the Social Security Administration to support analysis of the impact of private accounts by the President's Commission to Strengthen Social Security. The Commission's report described these assumptions as "conservative," noting that these assumptions are "much lower than that used in many academic and policy studies."³³ We expect cash/liquid investments to earn a nominal 2.8% per year, treasuries and agency debt to earn 5.8%, corporate bonds to earn 6.3%, and stocks and alternatives to earn 9.3%. Asset management fees of 0.25% are deducted from these returns, reflecting the average for DB plans in the public sector.³⁴

Figure 10	% of Assets	Expected Annual Investment Return
Cash/Liquid Investments	2%	2.8%
Treasuries and Agency Debt	15%	5.8%
Corporate Bonds	13%	6.3%
Stocks and Alternatives	70%	9.3%
Less Asset Management Fees		-0.25%
Overall Portfolio		8.0%

On the basis of these inputs, we calculate the contribution that will be required to fund this benefit through the DB plan over the course of a career, and express this as a level percent of payroll. We find that the cost to fund the target retirement benefit, smoothed over a career, comes to 12.5% of payroll. Contributions could be made entirely by the employer, or, in the public sector, they may be split between the employer and employee.

Modeling DC Plan Benefits and Costs

Modeling the cost of the target retirement benefit in the DC plan requires some adjustments based on what we know about how DC plans differ from DB plans.

First, because employees are not provided with an annuity benefit at retirement under the DC plan, we determine the size of the lump sum amount that an individual would need to accumulate by their retirement date in order to fund a retirement benefit equivalent to that provided by the DB plan (including inflation adjustments) for a period of 35 years, or to age 97. This represents our estimate of the “maximum life expectancy.” It corresponds to the age beyond which only 10% of individuals survive, and therefore is not a “true” measure of maximum life expectancy. In fact, our mortality table indicates that one individual out of 1,000 will survive to 110. This simplifying assumption is intended to be more realistic (that most individuals will be satisfied with a 90% chance of not outliving their money, rather than a 100% chance). Using a 90th percentile life expectancy of 97, rather than the true maximum life expectancy will reduce the cost of providing the target benefit under the DC plan, but will also mean that individuals with exceptionally long lives will experience

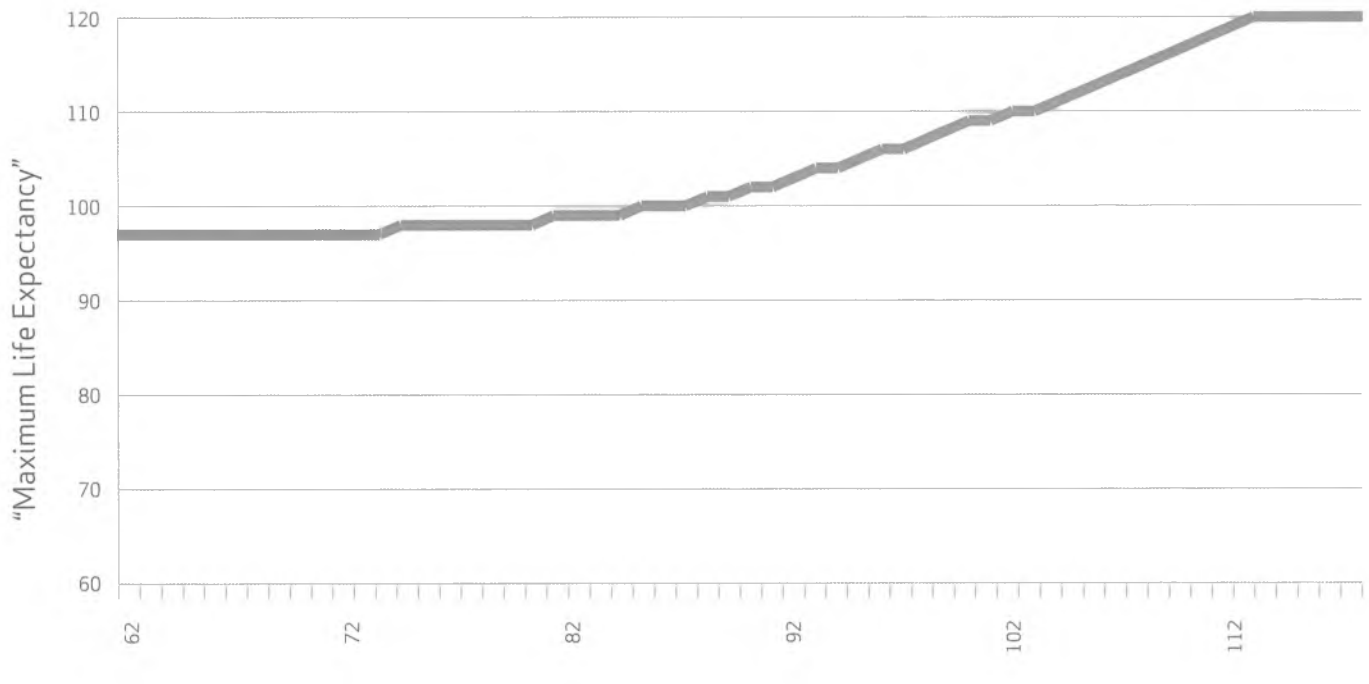
a reduced standard of living, compared to what they would experience under a DB plan.

Of course, those 10% of individuals who do survive beyond age 97 would see their standard of living drop quite dramatically once their DC accounts were depleted. In reality, individuals would be likely to respond to a long life by gradually reducing their withdrawals from the plan to avoid the possibility of having their retirement income reduced to zero. For this reason, we assume that once an individual reaches age 90, she reduces annual withdrawals from the plan. We assume that the individual monitors her “maximum life expectancy” each year, and whenever it increases by a year, she adjusts her withdrawals accordingly. Figure 11 illustrates this process.

To model the impact of the shift to a more conservative portfolio allocation, starting at age 62, we have individuals begin to shift their portfolio allocation to gradually reduce the share held in equities and increase the holdings of cash and liquid investments, treasuries and agency debt, and corporate bonds. At age 62, the portfolio holds 65% of assets in equities; by age 72 it holds 49%; by age 82, it holds 33%; by age 92, it holds 16%; and so on. This drives the expected return on the baseline portfolio down from 8% per year to 6% per year in nominal terms.

The investment/withdrawal strategy we model is not the result of an optimization rule, rather it follows ad hoc rules. The investment strategy is modeled as a “glide path,” along which the retiree gradually reduces her exposure to equities. Withdrawals are designed to mimic DB plan payouts, at least in the early years of retirement, declining in later years. Work by William Sharpe and colleagues suggests that an optimal approach would integrate investment and withdrawal

Figure 11: "Maximum Life Expectancy" increases as one gets older



strategies. Specifically, they find that a constant withdrawal rate must be paired with a riskless investment strategy in order to be optimal for an individual.³⁵ However, a post-retirement asset allocation entirely concentrated in risk-free assets would dramatically drive up the cost of the DC plan. Thus our model's ad hoc investment and withdrawal strategies would tend to understate the cost advantage of DB plans.

We use conservative estimates of the differences in DB and DC plan costs and expected returns. We assume that a large, sophisticated employer will seek to use whatever economies of scale are available to negotiate fees down on both types of plans. To capture the effect of lower DC plan returns over a lifetime, due to fee differentials and superior investment decisions, we model a 100 basis point disadvantage in net return as compared with DB plan returns. While this is slightly higher than the estimates of Munnell and Sunden,³⁶ it is lower than the more recent estimates of Flynn and Lum³⁷ and Watson Wyatt.³⁸ Thus, we assume individuals achieve a 7% nominal rate of return during their working years. This 100 basis point differential persists into the retirement years. So the return disadvantage compounds on top of the shift in portfolio allocation. (We calculate the impact of each effect separately to avoid double counting.) As a result, the expected

return on the portfolio gradually declines from 7% per year to 5% in nominal terms.

On the basis of these inputs, we calculate the contribution that will be required to fund this benefit through the DC plan over the course of a career, and express this as a level percent of payroll. We find that the cost to fund the target retirement benefit, smoothed over a career, comes to 22.9% of payroll in the DC plan.

Future extensions of our model might incorporate additional differences between DB and DC plans. For example, one could analyze the impact of "leakage" of assets from DC plans through loans or early withdrawals, two features which are rare in DB plans. Pre-retirement death and disability benefits, which are a common feature of DB plans, but not DC plans, could be considered as well. Finally, the model could be extended to capture cyclical and idiosyncratic variances in investment returns. That is, one could analyze the effects of ups and downs in financial markets and the impact that these have on investment returns and costs in both DB and DC plans over a career. Also, the fact that in DC plans some individuals will have "better luck" with investing than others means that individuals' retirement prospects will exhibit a wider dispersion than what is predicted by our model.

ENDNOTES

- 1 The most common type of DC plan in the private sector is the 401(k) plan. Public sector employees often save for retirement in 403(b) plans or through 457 plans. These nomenclatures reflect the sections of the Federal tax code that spells out the rules governing these plans.
- 2 Both types of plans also share some common features. For instance, they both are employment-based plans that make preparing for retirement easier than if employees had to tackle the job completely on their own. Both DB and DC plans benefit from tax incentives designed to encourage retirement preparedness. And both types of plans are governed by laws designed to protect employees and their benefits.
- 3 The benefit factor could also be a function of a worker's earnings over their entire career (a so-called "career average plan.") Or, the factor could be a flat dollar amount: for example, the plan will pay a monthly benefit equal to \$50 per year of service, so that a 30 year employee would have a benefit of \$1,500 per month. "Flat dollar" plans are primarily seen among blue-collar workers in the private sector.
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- 12 Hewitt Associates. 2008. *Total Retirement Income at Large Companies: The Real Deal*. Chicago, IL: Hewitt Associates.
- 13 Authors' calculations based on RP-2000 Healthy Female Annuitants mortality rates. Society of Actuaries. "Table 4-6: Female RP-2000 Rates." *RP-2000 Mortality Tables*. at http://www.soa.org/files/pdf/rp00_mortalitytables.pdf.
- 14 Another factor is particularly important in the discussion of investment – the degree to which contributions and investment earnings remain in the plan until retirement. This is generally not an issue in DB plans, but is a concern in most DC plans, where employees can borrow from their retirement account or take money out before retirement age (with the attendant tax penalties). This problem of "leakage" from DC plans has been well-documented and is receiving more attention by researchers and policy-makers. (See Weller, C., and J. Wenger. 2008. "Robbing Tomorrow to Pay for Today: Economically Squeezed Families are Turning to their 401(k)s to Make Ends Meet." CAP Economic Policy Report. Washington, DC: Center for American Progress.)
- 15 One basis point is equal to 0.01%. Thus 25 basis points is equal to one-quarter of one percent, or 0.25%.
- 16 Munnell, A.H. & M. Soto. 2007. "State and Local Pension Plans are Different from Private Plans." Center for Retirement Research State and Local Pensions, No. 1. Boston College.
- 17 This large fee gap may be attributable to several factors. One is plan size. Since most public pension plans tend to be very large compared to many private sector DC plans, their lower fees may be attributable to scale economies. Another factor may be differences in asset mix, which analysts find to be a key driver of asset management fees. However, here the direction of the effect is not entirely predictable. Although DB plans invest in less expensive index funds more often than DC plans, they also are

- more likely to invest in assets that involve higher expenses (but also higher returns), such as real estate, private equity, or hedge funds. (Flynn, C. 2008. Author's correspondence.)
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 - 28 Ghilarducci, T. and W. Sun, op. cit.
 - 29 Blake, D. op. cit.
 - 30 *The Economist*, op. cit.
 - 31 There is an additional consideration for taxpayers we do not explore. Qualified retirement plans involve a significant amount of foregone revenue to federal and state treasuries, because taxes on contributions and investment earnings are deferred. To illustrate, the exclusion of DB and DC plan contributions and income from Federal tax involved a loss of \$108.6 billion in revenue in 2007. By comparison, the mortgage interest tax deduction cost \$73.7 billion. (See Joint Committee on Taxation. 2007. *Estimates of Federal Tax Expenditures for Fiscal Years 2007-2011*. Washington, DC: US GPO. September 24.) Since our analysis demonstrates that DC plans require more assets to be accumulated to deliver the same amount of retirement benefits, it is likely that the implicit tax subsidy to deliver \$1 in retirement benefits through a DC plan exceeds that provided to deliver \$1 in benefits through a DB plan. Valuing this impact is beyond the scope of this report, however, and analysis this issue must be left for future research.
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 - 33 President's Commission to Strengthen Social Security. 2001. "Strengthening Social Security and Creating Personal Wealth for All Americans: Report of the President's Commission." Washington, DC.
 - 34 Munnell A.H. and M. Soto, op. cit.
 - 35 Sharpe, W.F., J.S. Scott, and J.G. Watson. 2007. "Efficient Retirement Financial Strategies." *Pension Research Council Working Paper PRC WP2007-19*. Philadelphia, PA: The Wharton School, University of Pennsylvania.
 - 36 Munnell, A.H. and A. Sunden, op. cit.
 - 37 Flynn, C. and H. Lum, op. cit.
 - 38 Watson Wyatt, op. cit.

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Alaska Senate State Affairs Hearing on SB 121

William B. Fornia
September 15, 2011

William B. Fornia Credentials

- Highest Actuarial Credentials
 - Fellow of the Society of Actuaries (1986)
 - Enrolled Actuary under ERISA (1984)
 - Member of the American Academy of Actuaries (1983)
 - Active in national actuarial organizations
- Author and Frequent Speaker
 - “A Better Bang for the Buck” (with National Institute on Retirement Security), 2008
 - “New Developments in DB/DC Plans”, National Council on Teacher Retirement, Anchorage, 2002
 - Frequent Testimony to Legislatures and City Councils
 - Regular Expert Witness

Sample Work History

- Corporate Actuary for Boeing 1980-1984
- Alaska related experience
 - ARMB first ongoing review actuary 2005-2006
 - Audited Alaska PERS/TRS actuarial valuations 2009
 - Former leader of Buck Consulting's Denver Retirement Practice
- Consulting services for 22 statewide retirement systems in Alaska, Colorado, Missouri, North Dakota, Oklahoma, Puerto Rico, Utah, Texas, Wyoming and others.
 - Served as system actuary for most of these (including CO, MO, ND, OK, PR, UT, WY, Houston)
- Expert Testimony and Consulting for Pension Systems, Governments, and Labor Groups
- Other clients have included the US Department of State, Cities of Baltimore, Oakland and Philadelphia, IBM, US WEST and Ford Motor Company

Agenda

- Advantages of Defined Benefit Plans
- Financial Analysis of Reversion to Defined Benefit Plan
- Considerations with SB 121 Fiscal Note
- Discussion

Findings

- SB 141 did not solve unfunded liability
- DB plans are more economical for Alaska
- DCR costs are comparable to latest tier DB costs
- Can structure reversion to DB at very little or no additional cost

Why are Defined Benefit Plans more Appropriate for Public Servants than Defined Contribution Plans?

- By their nature, Defined Benefit (DB) plans provide workers what they need for retirement
- DB plans deliver benefits more efficiently than Defined Contribution (DC) plans, thereby saving money
- Particularly necessary because vast majority of Alaska public servants not covered by Social Security

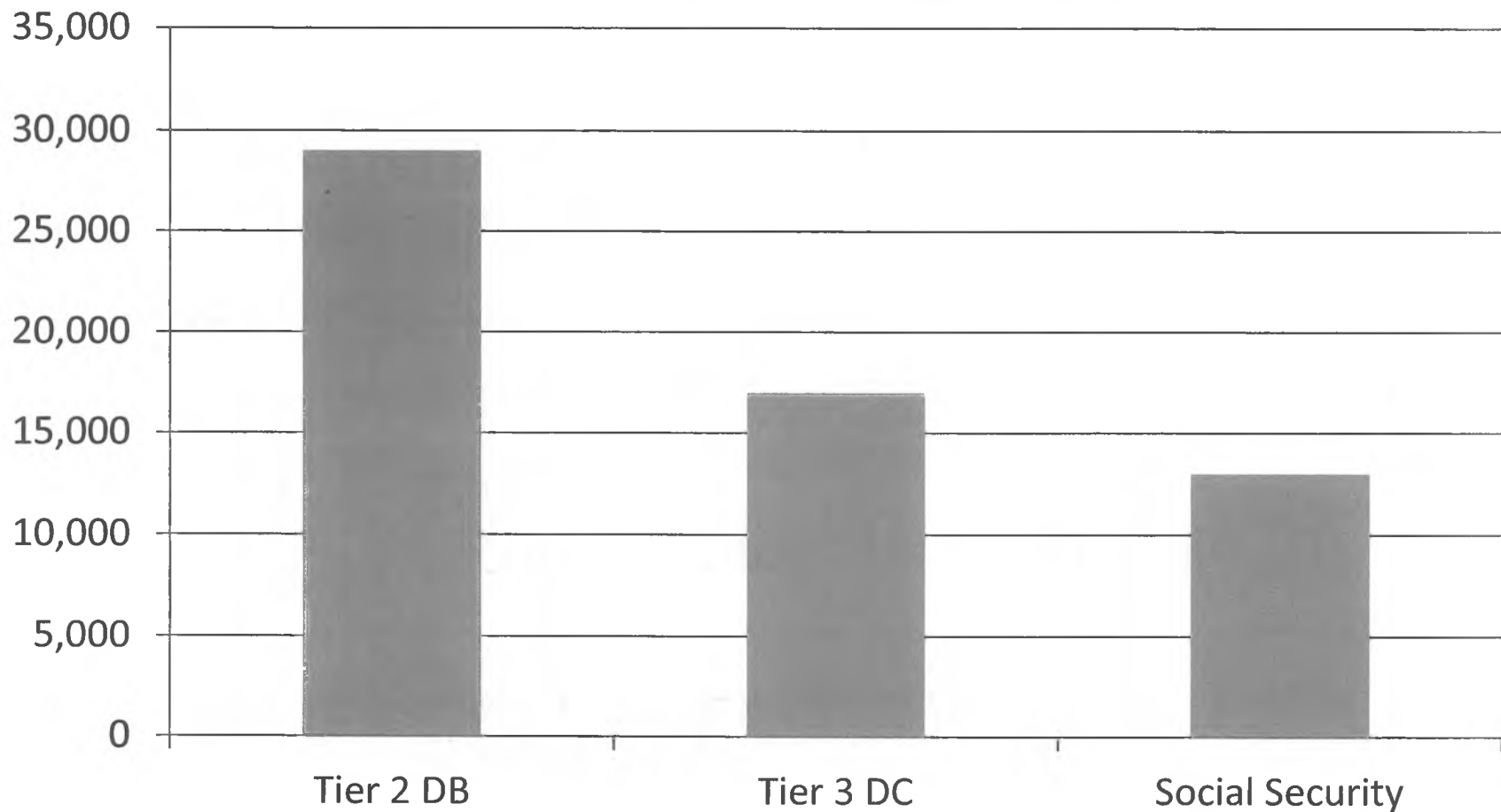
Why DB? – Secure Retirement Benefit

- Because DB plans “define” the “benefit” received by retirees, they can ensure appropriate benefit levels
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- Individuals do not need to be concerned with outliving their savings under DB plans
- A reduction in expected investment returns will require greater contributions to be made to the plan in order to achieve the same target benefit.

Benefits Available from DCR Program are Substantially Lower than from Latest DB Tier

	Teachers	Police & Fire	Other PERS
Hire Age	34	31	37
Retirement Age	59	56	60
Years of Service	25	25	23
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DCR Benefit as Percent of Final Average Compensation (calculated based on assumptions above)	34%	30%	30%
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Illustration of Hypothetical Teacher Benefits - \$50,000 Final Average Salary



Why DB? – Economic Impact

- Pensions account for more than \$1 billion in Alaskan economy
- Retirement System provides health care benefits
- DB can provide inflation protection
- Provide benefits consistent with objective of worker retention and job stability
- State is “Payer of Last Resort” – DB Plan Eliminates this Risk

DB Plans Provide a “Better Bang for the Buck”

- The DB approach saves money compared to the DC approach. Three reasons ...
 1. DB pension plans pool “longevity risks”
 2. DB pension plans can maintain a better diversified portfolio because, unlike individuals, they do not age
 3. DB pension plans achieve better investment returns because of professional asset management and lower fees

Why DB? – More Economically Efficient

- ***Longevity Risk Pooling***
 - DB plans better manage longevity risk, or the chance of running out of money in retirement
 - DB plans avoid the “over-saving” dilemma and do more with less
- ***Maintenance of Portfolio Diversification***
 - DB plans are able to take advantage of the enhanced investment returns that come from a balanced portfolio throughout an individual’s lifetime
- ***Superior Returns***
 - DB plans, which are professionally managed, achieve greater investment returns versus those of individual accounts

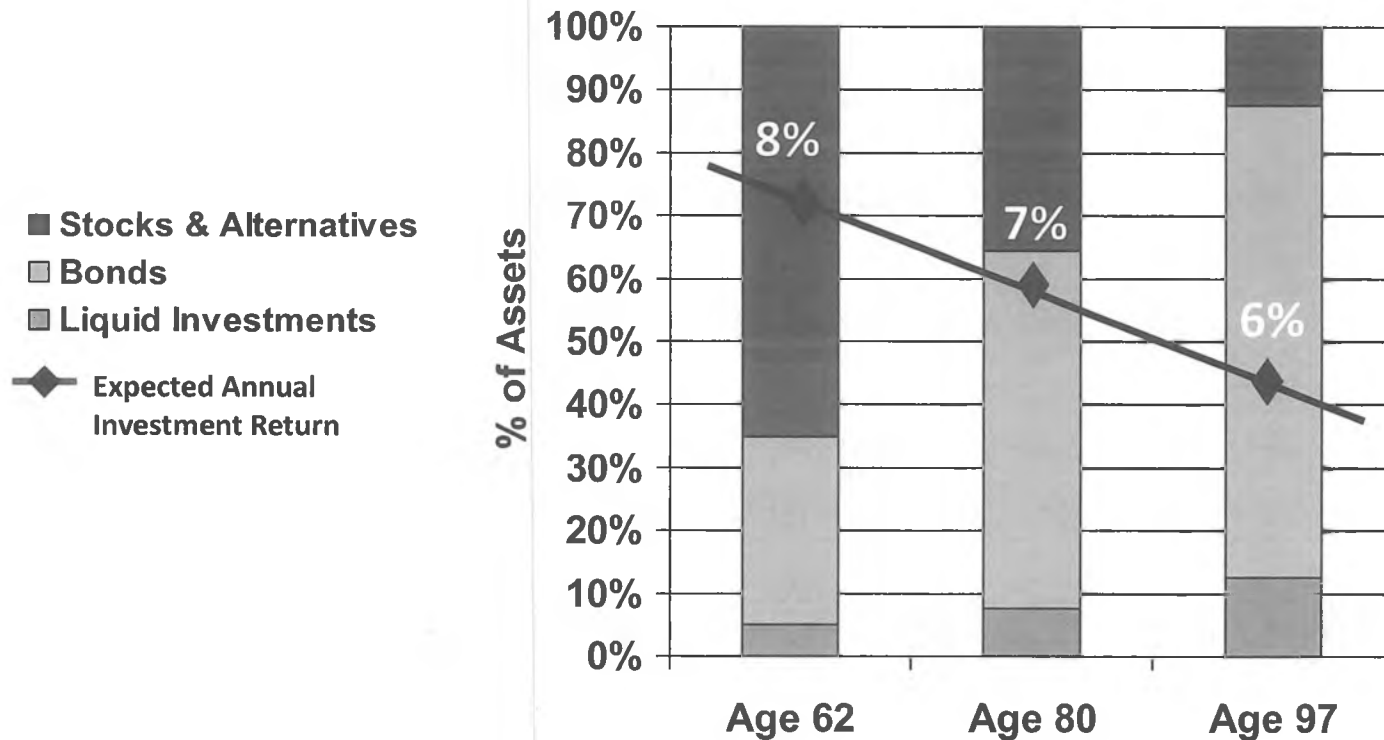
1st Strength of DB Plans Longevity Risk Pooling

- Because they cover large numbers of retirees, DB plans can pay out over the *average* life expectancy, not *maximum* life expectancy
- An individual under a DC plan will want to avoid the risk of running out of money if they live a long life
- Because individuals must plan for a maximum life expectancy, much more money must be accumulated in a DC plan, compared to a DB plan

2nd Strength of DB Pension Plans More Effective Portfolio Diversification

- DB plans can maintain a well diversified portfolio over time – unlike individuals, DB plans do not age
- To protect against market shocks, individuals in DC plans are advised to shift toward more conservative investments as they age, sacrificing some expected return
- Lower returns mean more money must be contributed to deliver the same level of benefits

As Individuals Shift DC Portfolio Allocation, Expected Return Reduced



3rd Strength of DB Pension Plans

Pooled, Professionally-Managed Assets

- Assets in DB plans are professionally managed. Despite their best efforts, individuals tend to underperform when it comes to investing in DC plans
- Pooled investments in DB plans can lower expenses
 - Large group pricing negotiation
 - Avoid expenses of individual recordkeeping, investment education, investment transactions
- Studies generally have shown that DB plan returns outperform DC plans by at least 1% annually
 - Towers Watson 1995-2008 large plans 1.27% outperformance
 - CEM Benchmarking 1998-2005 found 1.80% difference
 - Recent Alaska experience shows even larger DC shortfall
 - Even a mere 1% differential generates tremendous efficiencies – more than 20%

What about Unfunded Liabilities?

- Unfunded Liability has grown by more than \$5 billion since passage of SB 141
 - “Unfunded Liability” is attributable to prior benefits, not future benefits
 - SB 141 was not designed to solve Unfunded Liability
- Reversion to DB not anticipated to increase unfunded liabilities
 - To the extent that actuarial assumptions’ conservatism is borne out, would actually decrease unfunded liabilities
- DB systems are advance funded, not left to future generations

Findings

- SB 141 did not solve unfunded liability
- DB plans are more economical for Alaska
- DCR costs are comparable to latest tier DB costs
- Can structure reversion to DB at very little or no additional cost

Challenge is to Design DB Plan at Costs Comparable to DC Plan

- The actuary for the Alaska Department of Administration Division of Retirement Benefits regularly reports on the financial condition of the Alaska Public Employees' Retirement System (PERS) and Alaska Teachers' Retirement System (TRS).
- These analyses are conducted primarily through an "actuarial valuation", which calculates the plans costs and liabilities.
- The actuary has calculated the Normal Cost under both the prior tier DB plans as well as under the DCR program.
 - "Normal Costs" are the cost of ongoing future benefits, not including cost to pay off "Unfunded Liability"
 - "Unfunded Liability" is attributable to prior benefits, not future benefits

Major implications of the proposal

- Pension benefits will revert to the prior defined benefit plan tiers
- Retiree health benefits will be stronger than those under DCR, but not as strong as those provided under the latest tier DB plans.

Contributions for Various Members

- Peace Officers and Firefighters in PERS would contribute 7.50% of pay
 - Same as PERS Tier 3
- Other PERS members would contribute 6.75%;
 - Same as PERS Tier 3
- TRS members would contribute 8.65%
 - Same as TRS Tier 2

Retiree Medical Coverage

- Those individuals would be eligible to receive retiree major medical coverage without having to pay premiums, under the following conditions:
 - For teachers, new retirees are eligible with 25 years of service or at the age of Medicare eligibility [65] with at least 8 years of service.
 - For peace officers and firefighters, new retirees are eligible with 25 years of service or at the age of Medicare eligibility [65] with at least 10 years of service.
 - For other PERS members, new retirees are eligible with 30 years of service or at the age of Medicare eligibility [65] with at least 10 years of service.

Cost Comparison Estimates - Teachers

Teachers Retirement System	DB Plan Tier 2	DCR Plan Tier 3	Proposed Tier 4
Total Retirement Normal Cost (including refunds)	11.39%	NA	11.39%
Member Contributions	(8.65%)	(8.00%)	(8.65%)
Net Employer Retirement Normal Cost	2.74%	NA	2.74%
DC Employer Contribution Rate	NA	7.00%	NA
Occupational Death and Disability Normal Cost Rate	NA	0.05%	NA
Medical Normal Cost Rate	5.33%	0.64%	4.52%
HRA Contribution Rate	NA	3.00%	NA
Total Employer Cost	8.07%	10.69%	7.26%
DCR Payroll during FY 2011	\$59,750,000	\$59,750,000	\$59,750,000
Total Employer Cost on FY 2011 Basis	\$4,800,000	\$6,400,000	\$4,300,000

Cost Comparisons – PERS Police Officers and Firefighters

Public Employees Retirement System – Peace Officers & Firefighters	DB Plan Tier 3	DCR Plan Tier 4	Proposed Tier 5
Total Retirement Normal Cost (including refunds)	12.30%	NA	12.30%
Member Contributions	(7.50%)	(8.00%)	(7.50%)
Net Employer Retirement Normal Cost	4.80%	NA	4.80%
DC Employer Contribution Rate	NA	5.00%	NA
Occupational Death and Disability Normal Cost Rate	NA	1.04%	NA
Medical Normal Cost Rate	5.90%	0.43%	5.35%
HRA Contribution Rate	NA	3.00%	NA
Total Employer Cost	10.70%	9.47%	10.15%
DCR Payroll during FY 2011	\$21,192,000	\$21,192,000	\$21,192,000
Total Employer Cost on FY 2011 Basis	\$2,300,000	\$2,000,000	\$2,200,000

Cost Comparisons – Other PERS Members

Other Public Employees Retirement System Members	DB Plan Tier 3	DCR Plan Tier 4	Proposed Tier 5
Total Retirement Normal Cost (including refunds)	9.58%	NA	9.58%
Member Contributions	(6.75%)	(8.00%)	(6.75%)
Net Employer Retirement Normal Cost	2.83%	NA	2.83%
DC Employer Contribution Rate	NA	5.00%	NA
Occupational Death and Disability Normal Cost Rate	NA	0.16%	NA
Medical Normal Cost Rate	7.00%	0.56%	3.60%
HRA Contribution Rate	NA	3.00%	NA
Total Employer Cost	9.83%	8.72%	6.43%
DCR Payroll during FY 2011	\$200,739,000	\$200,739,000	\$200,739,000
Total Employer Cost on FY 2011 Basis	\$19,700,000	\$17,500,000	\$12,900,000

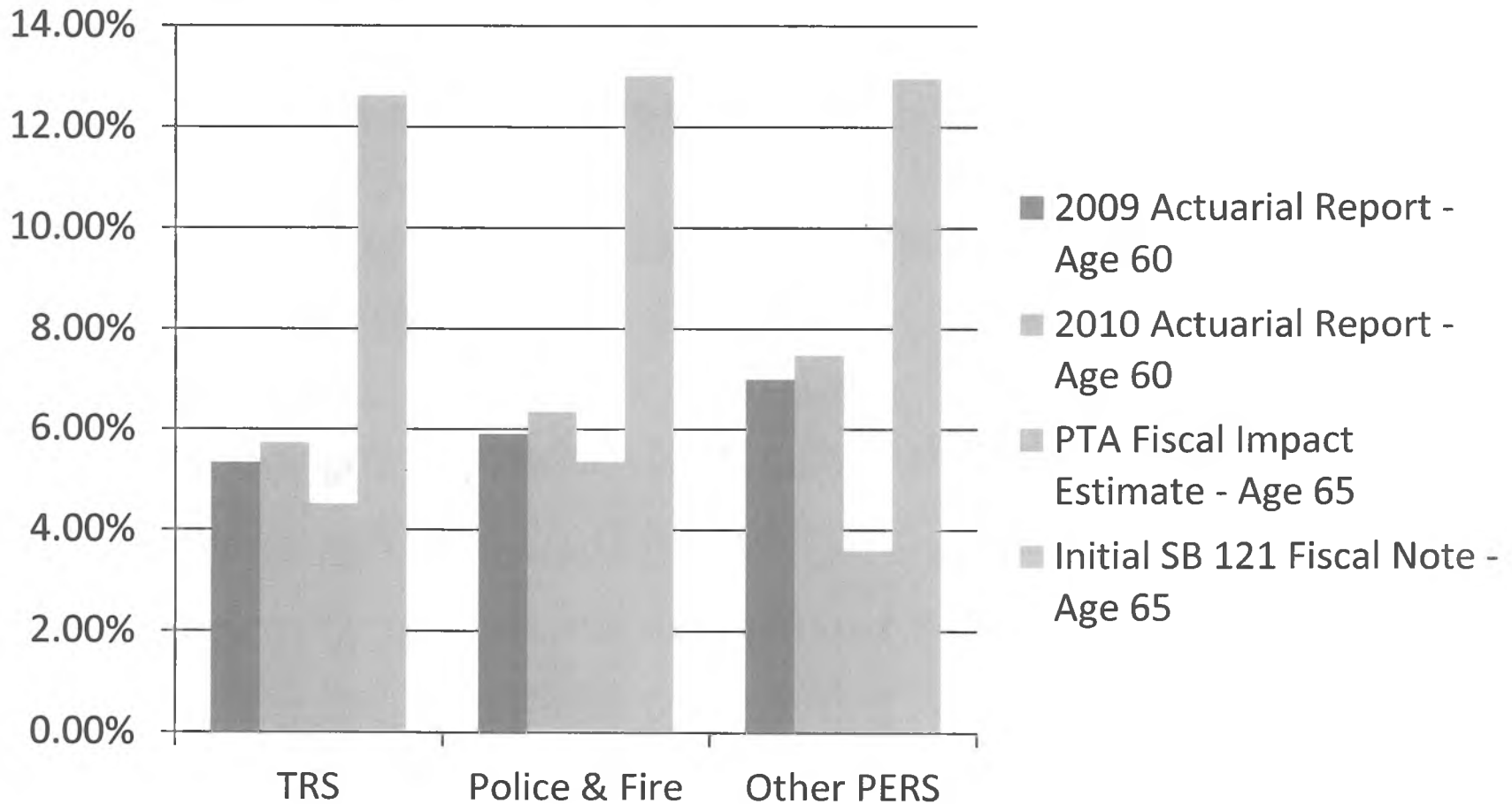
Results from Cost Comparison

- Stronger pension benefits through the return of the Defined Benefit plan for members hired since 2006.
- It would provide improved health care plan benefits, but no future HRA contributions.
- In total, employer costs would fall by about \$6 to \$9 million.

Initial Fiscal Note

- Fiscal Note Reported Sharply Higher Costs
- Costs Range From 5% to 8% of pay
- Fiscal Note Supporting Documents Indicated a Retiree Healthcare “Normal Cost Rate” of 12% to 15% of pay
 - Yet 2010 reported costs for higher benefits was less than 7.5%
 - We’re asking for lower healthcare benefits (than prior DB), not higher healthcare benefits
- Fiscal Note was Withdrawn
- Expect Revised Fiscal Note to Report Much Less Cost

Comparison of Healthcare Normal Costs



Conclusions

- SB 141 did not solve unfunded liability
- DB plans are more economical for Alaska
- DCR costs are comparable to latest tier DB costs
- Can structure reversion to DB at very little or no additional cost

Alaska Legislature Discussion of SB 121

William B. Fornia

February 29 - March 1, 2012

Update Since September, 2011

- I presented to Senate State Affairs September, 2011 on SB 121
- Bill has been modified since then to achieve cost neutrality
- This presentation is updated and made available for background information only
- For more brief summary of SB 121, please see next three pages
- For complete background, including September 2011 Senate State Affairs hearing materials as updated, review remaining pages

SB 121 – Background

- Two general types of retirement programs
 - Defined Benefit (DB): Annual pension or health care benefit are fixed in statute, contributions based on actuarial calculations
 - Defined Contribution (DC): Periodic contribution to account is statutory, benefits depend on what account accumulations will provide
- SB 141 closed defined benefit retirement and health benefits to those hired after July 1, 2006
 - Workers hired since then have DC accounts only
 - Did not solve unfunded liability problem

Key Features of SB 121

- Gives employees a choice between DC and DB
 - DC tends to be preferred by shorter service & younger workers
 - DB still very popular, particularly for full career workers
- SB 121 structures DB to be cost neutral
 - Costs will not be more than current tier DC program
 - Worker contributions same as current DC tier
 - SB 121 also shifts much of the risk from the employers to the workers
 - Healthcare benefit will be reduced if employer normal costs increase

Other motives for SB 121

- Current DC structure facilitates short service workers leaving Alaska public service for DB plan after a few years of service
- Alaska public servants not covered by Social Security
 - Alaska may be largest employer in America with workers not covered by any safety net DB plan
- Retirement in Alaska is good for the State economy

Update Since September, 2011

- Following pages are an update of full September 2011 Senate State Affairs hearing materials

William B. Fornia Credentials

- Highest Actuarial Credentials
 - Fellow of the Society of Actuaries (1986)
 - Enrolled Actuary under ERISA (1984)
 - Member of the American Academy of Actuaries (1983)
 - Active in national actuarial organizations
- Author and Frequent Speaker
 - “A Better Bang for the Buck” (with National Institute on Retirement Security), 2008
 - “New Developments in DB/DC Plans”, National Council on Teacher Retirement, Anchorage, 2002
 - Frequent Testimony to Legislatures and City Councils
 - Regular Expert Witness

Sample Work History

- Corporate Actuary for Boeing 1980-1984
- Alaska related experience
 - ARMB first ongoing review actuary 2005-2006
 - Audited Alaska PERS/TRS actuarial valuations 2009
 - Former leader of Buck Consulting's Denver Retirement Practice
- Consulting services for 22 statewide retirement systems in Alaska, Colorado, Missouri, North Dakota, Oklahoma, Puerto Rico, Utah, Texas, Wyoming and others.
 - Served as system actuary for most of these (including CO, MO, ND, OK, PR, UT, WY, Houston)
- Expert Testimony and Consulting for Pension Systems, Governments, and Labor Groups
- Other clients have included the US Department of State, Cities of Baltimore, Oakland and Philadelphia, IBM, US WEST and Ford Motor Company

Agenda

- Advantages of Defined Benefit Plans
- Financial Analysis of Reversion to Defined Benefit Plan
- Considerations with SB 121 Fiscal Note
- Discussion

Findings

- SB 141 did not solve unfunded liability
- DB plans are more economical for Alaska
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Why are Defined Benefit Plans more Appropriate for Public Servants than Defined Contribution Plans?

- By their nature, Defined Benefit (DB) plans provide workers what they need for retirement
- DB plans deliver benefits more efficiently than Defined Contribution (DC) plans, thereby saving money
- Particularly necessary because vast majority of Alaska public servants not covered by Social Security

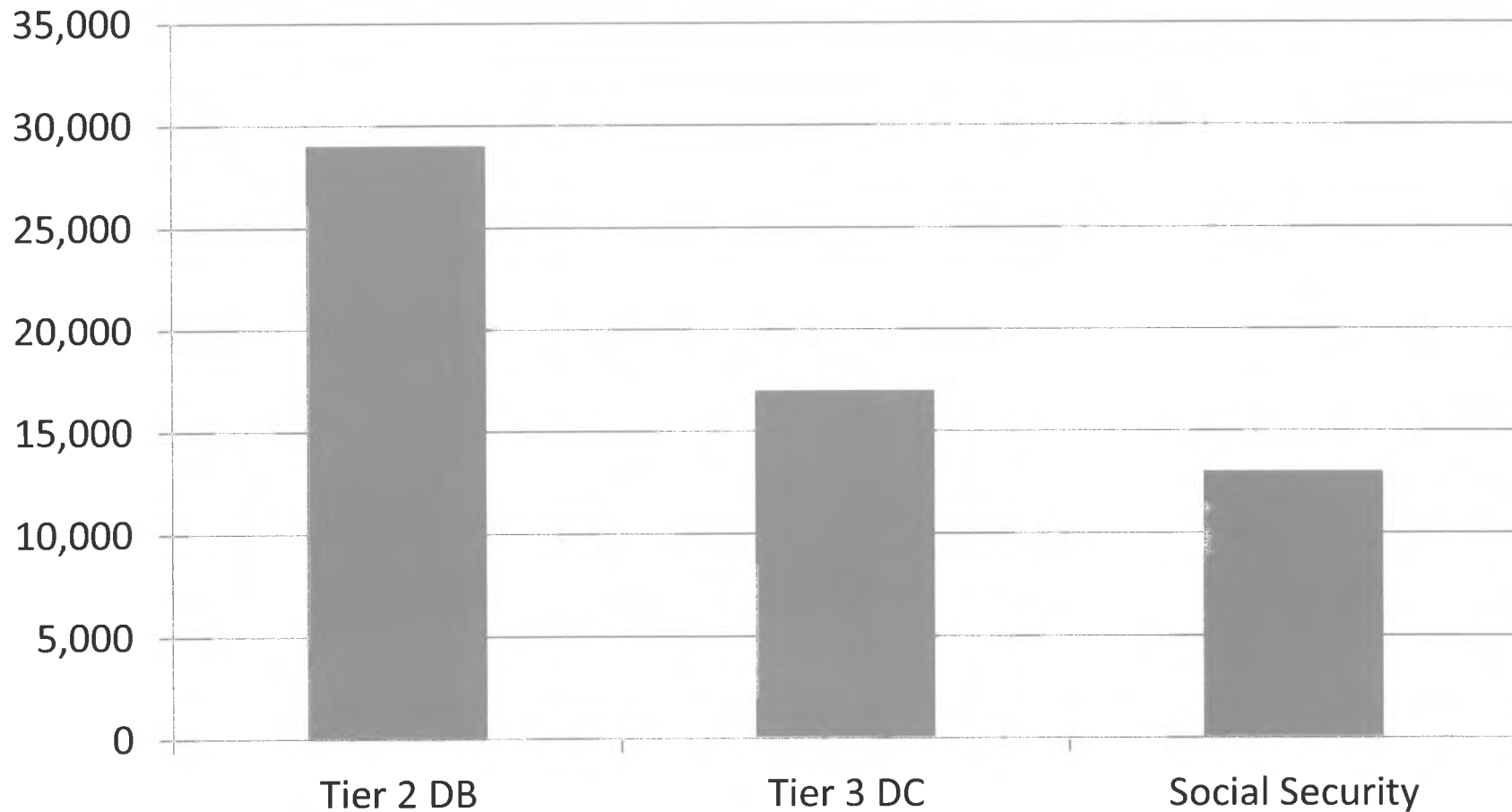
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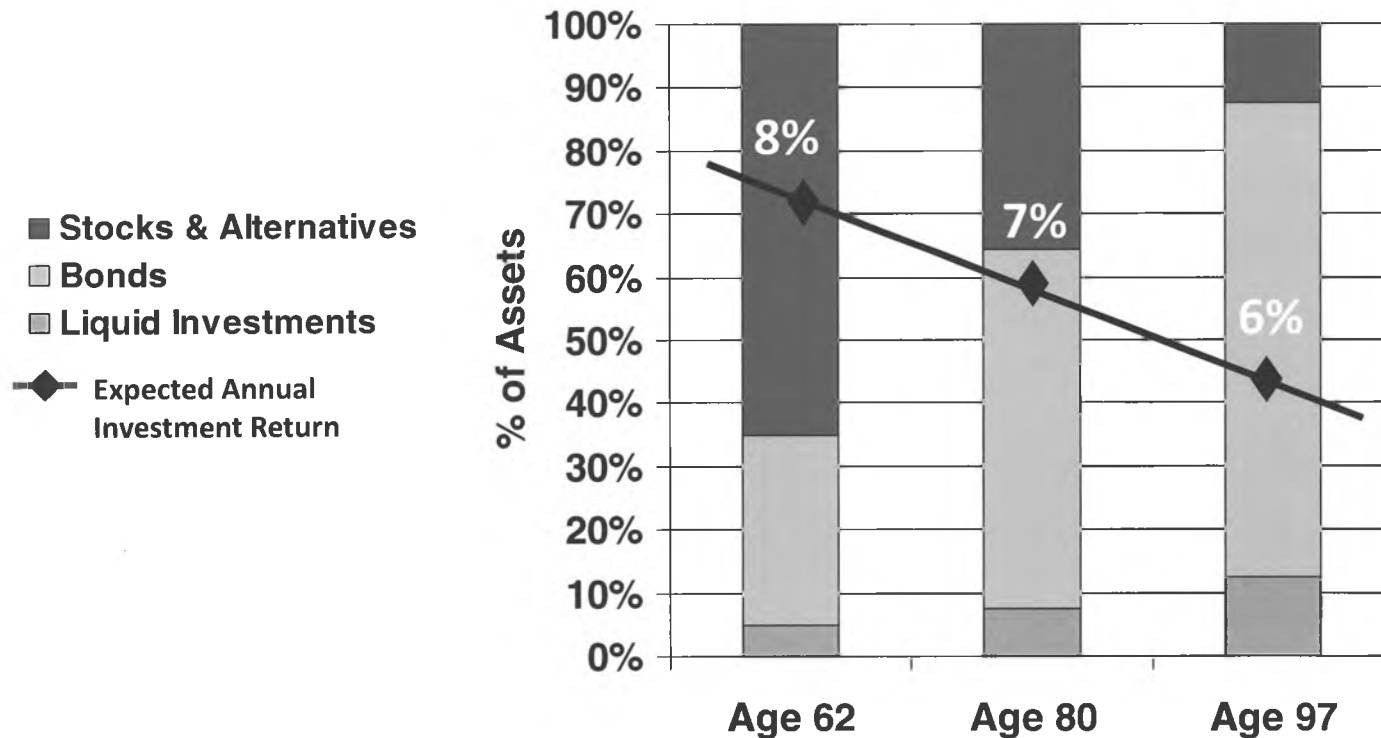
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- SB 121 has been modified to address some cost concerns

Major implications of the proposal

- Pension benefits will revert to the prior defined benefit plan tiers
- Retiree health benefits will be stronger than those under DCR, but not as strong as those provided under the latest tier DB plans.

Contributions for Various Members

- Peace Officers and Firefighters in PERS would contribute 8.00% of pay
 - Same as PERS Tier 4
 - PERS Tier 3 is 7.50%
- Other PERS members would also contribute 8.00%;
 - Same as PERS Tier 3
 - PERS Tier 3 is 6.75%
- TRS members would also contribute 8.00%
 - Same as TRS Tier 3
 - TRS Tier 2 is 8.65%

Retiree Medical Coverage

- Retirees eligible to receive retiree major medical coverage with subsidized premiums, under the following conditions:
 - Retired teachers are eligible with 25 years of service or at the age of Medicare eligibility [65] with at least 8 years of service.
 - Retired peace officers and firefighters are eligible with 25 years of service or at the age of Medicare eligibility [65] with at least 10 years of service.
 - Other PERS retirees are eligible with 30 years of service or at the age of Medicare eligibility [65] with at least 10 years of service.
- Retiree share of premiums range from 10% to 30% based on service at retirement
 - This range may increase or decrease in future based on experience

Cost Comparison Estimates - Teachers

Teachers Retirement System	DB Plan Tier 2	DCR Plan Tier 3	Proposed Tier 4
Total Retirement Normal Cost (including refunds)	11.39%	NA	10.84%
Member Contributions	(8.65%)	(8.00%)	(8.00%)
Net Employer Retirement Normal Cost	2.74%	NA	2.84%
DC Employer Contribution Rate	NA	7.00%	NA
Medical Normal Cost Rate	5.33%	0.49%*	6.39%
HRA Contribution Rate	NA	3.00%	NA
Total Employer Cost	8.07%	10.49%	9.23%
DCR Payroll during FY 2011	\$59,750,000	\$59,750,000	\$59,750,000
Total Employer Cost on FY 2011 Basis	\$4,800,000	\$6,300,000	\$5,500,000

* Includes DCR Occupational Death and Disability

Cost Comparisons – PERS Police Officers and Firefighters

Public Employees Retirement System – Peace Officers & Firefighters	DB Plan Tier 3	DCR Plan Tier 4	Proposed Tier 5
Total Retirement Normal Cost (including refunds)	12.30%	NA	12.08%
Member Contributions	(7.50%)	(8.00%)	(7.00%)
Net Employer Retirement Normal Cost	4.80%	NA	4.08%
DC Employer Contribution Rate	NA	5.22%*	NA
Medical Normal Cost Rate	5.90%	0.48%	6.00%
HRA Contribution Rate	NA	3.00%	NA
Total Employer Cost	10.70%	8.70%	10.08%
DCR Payroll during FY 2011	\$21,192,000	\$21,192,000	\$21,192,000
Total Employer Cost on FY 2011 Basis	\$2,300,000	\$1,800,000	\$2,100,000

* Includes DCR Occupational Death and Disability

Cost Comparisons – Other PERS Members

Other Public Employees Retirement System Members	DB Plan Tier 3	DCR Plan Tier 4	Proposed Tier 5
Total Retirement Normal Cost (including refunds)	9.58%	NA	9.45%
Member Contributions	(6.75%)	(8.00%)	(8.00%)
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Total Employer Cost on FY 2011 Basis	\$19,700,000	\$17,500,000	\$13,100,000

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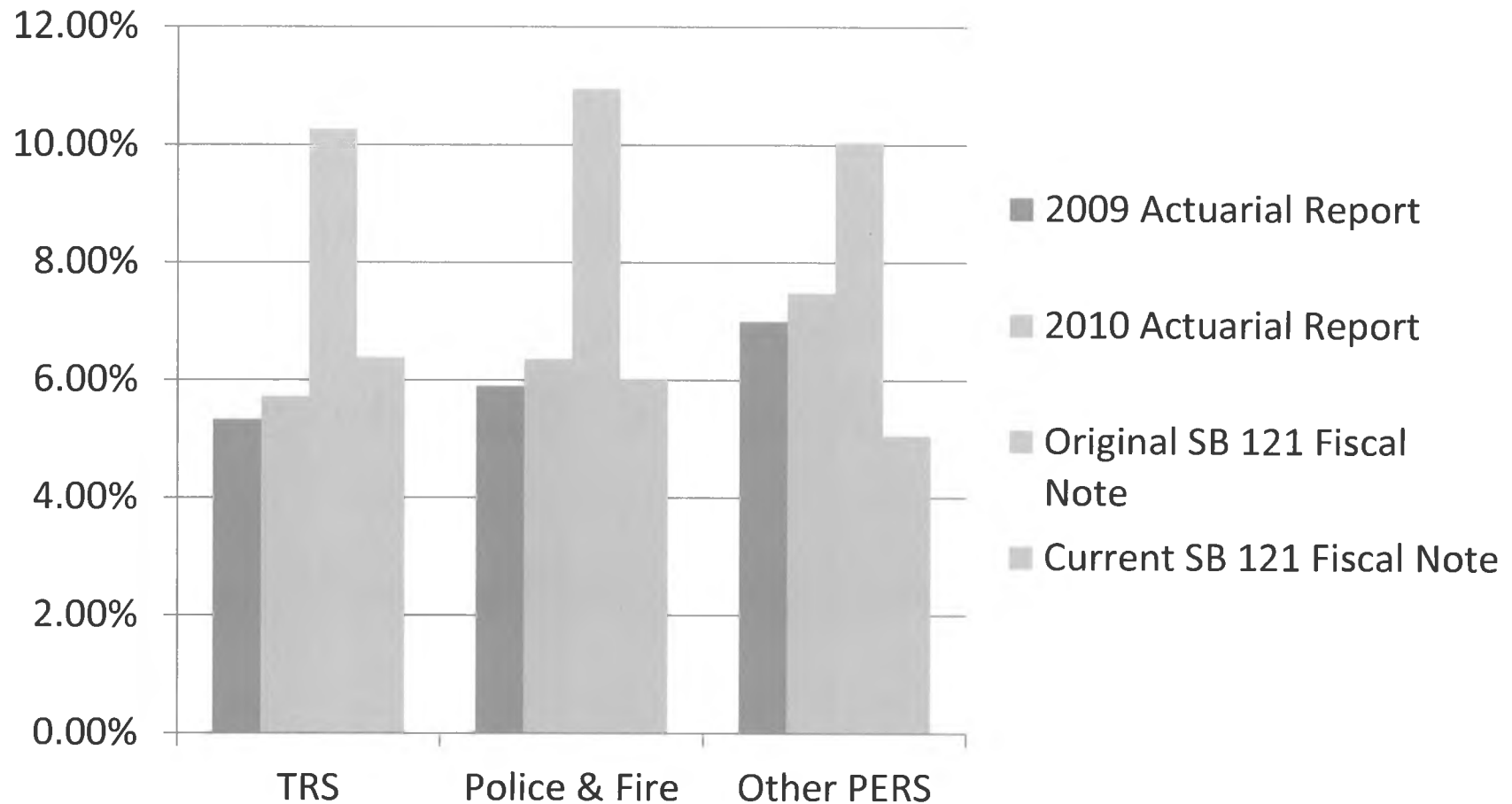
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- It would provide improved health care plan benefits, but no future HRA contributions.
- In total, employer costs would fall by about \$5 million.

Summary of Revisions to SB121

- Initial SB 121 essentially was return to prior tier
 - But with choice
 - Members could use DCR accounts to get prior DB service
 - Pension costs were neutral
 - But health costs were not neutral due to anticipated increase in health care costs
- Revisions include
 - DB prior service can be purchased only, if DCR accounts not adequate, service limited
 - Reduced healthcare benefits
 - premium share rather than full premium paid
 - only for full career retirees or post-Medicare
 - if normal costs increase, sharing would be reduced

Comparison of Healthcare Normal Costs



Conclusions

- SB 141 did not solve unfunded liability
- DB plans are more economical for Alaska
- DCR costs are comparable to latest tier DB costs
- Can structure reversion to DB at very little or no additional cost