

SB

30

<TARGET><BILL>SB 30</BILL><SUBJECT>SB
30</SUBJECT><COMM>SSTA28</COMM></TARGET>



SENATOR DENNIS EGAN

SB 30 - Alaska Pension Choices

Sponsor Statement

SB 30 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 30 lets newly hired public servants in Alaska choose the one that fits best.

SB 30 creates a new more stable, more predictable defined benefit pension tier for public employees. In 2005, 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 30 keeps these smart reforms, making Alaska pensions stronger than ever.

And because the defined benefit pensions for new employees include sharing the risk of rising health costs, they will never cost employers more than the defined contribution system, saving money for schools, municipalities, and the State of Alaska.

Alaska's public servants don't earn the private sector's defined benefit of 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 they don't plan on long-term public sector work. SB 30 lets them choose an individual account instead.

The teachers who educate our children, the police and firefighters who protect our families, and the public employees who plow the roads and 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

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 30
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB030-DOA-DRB-03-26-14
Title: TEACHERS & PUB EMPLOYEE RETIREMENT
PLANS
Sponsor: EGAN
Requester: Senate State Affairs

Department: Department of Administration
Appropriation: Centralized Administrative Services
Allocation: Retirement and Benefits
OMB Component Number: 64

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
			FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Services	***		***	***	***	***	***
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	***	0.0	***	***	***	***	***

Fund Source (Operating Only)

None							
Total	***	0.0	***	***	***	***	***

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 07/01/14

Why this fiscal note differs from previous version:

Initial version

Prepared By: <u>Mike Barnhill, Deputy Commissioner</u>	Phone: <u>(907)465-2200</u>
Division: <u>Department of Administration</u>	Date: <u>10/15/2013 08:30 AM</u>
Approved By: <u>Curtis Thayer, Deputy Commissioner</u>	Date: <u>03/26/14</u>
Agency: <u>Department of Administration</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB 30

Analysis

This bill would provide a new defined benefit tier for employees' first hired on or after July 1, 2013. New employees for the Teachers' and Public Employees' Retirement Systems would be defaulted into new defined benefit tiers, TRS Tier IV and PERS Tier V but would be able to elect participation in the defined contribution plans if they file an election to participate within 90 days of hire.

The Buck Consultants analysis (Attachment A) of the cost of the new defined benefit tier proposed in this bill shows an initial savings for the first few years; but an unfunded liability begins to accrue in FY 27 with increased employer costs. Increases in the unfunded liability are currently born by the State of Alaska under AS 14.25.085 and AS 39.35.280. This analysis was performed under the actuarial assumptions currently adopted by the Alaska Retirement Management Board (ARMB) and with data as described in the actuarial valuation reports for both systems as of June 30, 2011.

The actuary assumed that 60% of current defined contribution members will elect to convert to the defined benefit plan and that 80% of future members will choose the defined benefit plan either by choice or default. The attached calculations also anticipate the assets of the funds will achieve an annual investment rate of return of 8%. Investment returns in the future may periodically create actuarial losses, resulting in unfunded liabilities which will in turn increase employer rates at some point in the future.

Health plan premium payment for the new tiers would differ from existing defined benefit tiers in the following ways:

- Retired members under Medicare eligible age pay full premium for coverage for themselves and their dependents;
- Retired members eligible for Medicare pay a percentage of the full monthly cost
 - 30% with 10 or more but less than 15 years;
 - 25% with 15 or more but less than 20 years;
 - 20% with 20 or more but less than 25 years;*
 - 15% with 25 or more but less than 30 years;
 - 10% with 30 or more years of service;
- Disabled members pay no medical premium.

Beginning July 1, 2019 and every 5 years thereafter the administrator must adjust the medical premium percentage to maintain the employer normal cost rate in the defined benefit plan at the percentage paid for defined contribution participants. The adjustment remains in effect for 5 years and the administrator must preserve the 5% differences between premium payment percentage levels. Members are vested in the percentage of premium payment in effect at the time they retire.

The defined benefit portion of this bill is projected to cost employers less due to lower employer normal cost rates than the employer contribution rate to the defined contribution plan. The employer's costs of the healthcare benefit are projected to increase faster than payroll for future new employees due to health care cost trend rates that are higher than payroll growth rates.

While SB 30 includes adjustments to the retiree premium sharing schedule that are expected to cover the costs associated with the increasing employer normal cost, future increases are likely to reduce enrollment in the healthcare benefit resulting in higher users of healthcare benefits remaining in the plan. This will exacerbate the need for future adjustments to premium schedules for new retirees acting to reduce enrollment.

February 8, 2013

VIA EMAIL

Mr. Jim Puckett
 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 Committee Substitute Senate Bill No. 30
 New Tier for PERS and TRS Healthcare and DB/DC Choice**

Dear Jim:

As requested, we are providing the following information for a Fiscal Note on SB 30 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 all members will be contributing at 8% of pay and they will have different healthcare benefits.

Under the new tiers, members will share the cost of healthcare benefits initially based on the same retiree premium sharing schedule as Tier IV for PERS and Tier III for TRS. Retiree pays full premium until Medicare eligible age (age 65) or retired with 25 years of service for TRS and PERS Peace Officer/Firefighters (30 years for PERS Others) instead of at age 60. On or after July 1, 2019 and every five years thereafter, the retiree premium sharing schedule percentages shall be adjusted, maintaining the five percent differences that exist in the current retiree premium sharing schedule, to cover the changes in the employer normal cost rates for members retiring on or after the date of the change in the schedule.

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, 2014 and will first impact contribution rates during FY17 considering the two-year delay in budgeting contribution payments. Our results are based on the 2011 actuarial valuation data.

The table below shows the employer cost/(savings) of the bill for Fiscal Years 2017 through 2021. Dollars are in thousands.

PERS DB Plan	FY17	FY18	FY19	FY20	FY21
Increase in Normal Cost Amount	\$ (7,781)	\$ (7,119)	\$ (5,925)	\$ (4,749)	\$ (1,925)
General Fund Transfer to Pay Unfunded Past Service Cost	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Increase in Annual Employer Contribution Amount	\$ (7,781)	\$ (7,119)	\$ (5,925)	\$ (4,749)	\$ (1,925)

TRS DB Plan	FY17	FY18	FY19	FY20	FY21
Increase in Normal Cost Amount	\$ (2,486)	\$ (2,870)	\$ (3,019)	\$ (3,253)	\$ (3,606)
General Fund Transfer to Pay Unfunded Past Service Cost	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Increase in Annual Employer Contribution Amount	\$ (2,486)	\$ (2,870)	\$ (3,019)	\$ (3,253)	\$ (3,606)
Total PERS and TRS	\$ (10,267)	\$ (9,989)	\$ (8,944)	\$ (8,002)	\$ (5,531)

Comments on Actuarial Analysis

Our actuarial analysis indicates that the employer costs of the healthcare benefit are projected to increase faster than payroll for the future new employees expected to choose the DB plan benefits due to healthcare cost trend rates that are higher than the payroll growth rate. The DB pension benefit is projected to cost employers less due to a lower employer normal cost rate than the employer contribution rate to the DCR plan. The initial savings in employer costs for pension more than compensate for the cost of the healthcare benefit, resulting in a net savings over the five-period shown above. Without any changes, we would expect the rising healthcare benefit cost to exceed the pension savings resulting in a net employer cost some point in the future.

SB 08 includes a provision that allows for adjustments in the retiree premium sharing schedule to cover the costs associated with increasing employer normal cost rates. This increasing cost is then paid by members retiring after the date of the change in the schedule. This provision should prevent increases in employer costs due to anticipated rising healthcare benefit normal costs. However, a future increase in the retiree premium sharing schedule is likely to reduce enrollment in the healthcare benefit, resulting in only higher users of healthcare continuing to participate in the healthcare benefit. This will then exacerbate the need for future adjustments to the retiree premium sharing schedule. This provision has not been valued as part of this fiscal note since the first change in the retiree premium sharing schedule would not affect costs until FY22.

In addition, these calculations assume the assets of the funds achieve an annual investment rate of return of 8%. Volatility of returns due to the investment risk may periodically create actuarial losses, which may result in unfunded liabilities that will increase the employer costs not covered by the adjustments to the retiree premium sharing schedule.

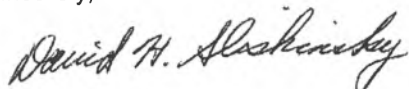
Summary for Analysis Continuation Section of Fiscal Note

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, 2011. The assets are based on the June 30, 2011 information provided by Christina Maiquis. We have based this study on the June 30, 2013 valuation data because the June 30, 2012 actuarial valuation results are only preliminary and are subject to approval by the ARM Board. We have assumed that the bill will become effective July 1, 2014. 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. We have attached a detailed summary of the allocation of DB costs and DCR savings as a result of the expected elections.

Mr. Jim Puckett
February 8, 2013
Page 3

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

attachment

c: Mr. Mike Barnhill, State of Alaska
Ms. Kathy Lea, State of Alaska
Mr. Chris Hulla, Buck Consultants
Ms. Melissa Bissett, Buck Consultants
Ms. Kyla Kaltenbach, Buck Consultants
Ms. Tammy Ringel, Buck Consultants

LEGAL SERVICES

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LEGISLATIVE AFFAIRS AGENCY
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Juneau, Alaska 99801-1182
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MEMORANDUM

April 3, 2014

SUBJECT: Constitutional prohibition on diminishment of public employee benefits (Work Order No. 28-LS0215\A; SB 30)

TO: Senator Fred Dyson
Chair of the Senate State Affairs Committee
Attn: Joshua Banks

FROM: Dan Wayne
Legislative Counsel

You have asked the following questions regarding SB 30:

- 1. If the State adds a new tier to the retirement system where new public employees are put onto the new tier and current employees remain on the old tier, could there be a potential violation of Article 12 Section 7 of the Constitution?*
- 2. If the State of Alaska was to return its retirement system to a "Defined Benefit Plan", as SB 30 proposes, would we be putting the State in a precarious position that would disallow it to go to a "Defined Contribution Plan" in the future?*
- 3. When the PERS Tiers II - IV/TRS Tiers II - III were created, were there issues raised about the potential for the State violating Article 12 Section 7? In particular, was this possibility raised when the State moved to a Defined Contribution Plan from the Defined Benefit Plan in PERS IV/TRS III?*

Limitation in art. XII, sec. 7, Constitution of the State of Alaska

There is a constitutional limitation on the state's authority to make or authorize changes to pension benefits provided to public employees and public employee retirees who are members of the defined benefit retirement plan in the Public Employees' Retirement System of Alaska. Article XII, sec. 7 of the Constitution of the State of Alaska¹ protects

¹ Constitution of the State of Alaska, art. XII, sec. 7:

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

public employees from cuts in accrued² pension benefits. The constitutional promise is that earned pension benefits cannot be diminished, and the future right to a specified benefit is vested. *Hammond v. Hoffbeck*, 627 P.2d 1052 (Alaska 1981).³ This protects public employees from cuts in accrued pension benefits.

In *Sheffield v. Alaska Public Employees Association, Inc.*, the Alaska Supreme Court considered whether the executive branch could adopt a new formula for computing an employee's early retirement benefits when the formula would reduce the amount of those benefits.⁴ The Alaska court quoted from a case in which a Massachusetts court considered the contractual rights of a public employee in Massachusetts to employee benefits as follows:

The minimal meaning . . . is that the "contract" is formed when a person becomes a member by entering the employment, and he is entitled to have the level of rights and benefits then in force *preserved in substance in his favor without any modification downwards*. . . . When we speak of the level of rights and benefits protected by [this statute] we mean the *practical effect of the whole complex of provisions* not excluding the [employees' contributions], for an increase in the [rate thereof] is little different from a diminution of the allowance.^[5]

Question 1: adding a new "tier" to PERS or TRS:

SB 30 would allow employees who are hired after the bill's effective date and, for a limited time, employees who are already in the PERS or TRS defined contribution plan, to make a one-time irrevocable choice between membership in their system's defined benefit plan or their system's defined contribution plan. A change made to the Public Employees' Retirement System that affects only those employees who are first hired after the effective date of the change does not violate art. XII, sec. 7 of the Constitution of the

² The term "accrued rights" is synonymous with "vested" rights. *Bidwell v. Scheele*, 355 P.2d 584, 586 (Alaska 1960).

³ The reductions in benefits found invalid in the *Hammond v. Hoffbeck* case involved a reduction in occupational disability benefits for public safety employees, a requirement that an employee be totally unemployable in order to be eligible for an occupational disability pension, rather than "incapacitated for service in the position held," and a reduction in occupational death benefits from 100 percent to 40 percent of monthly salary at the time of death.

⁴ *Sheffield v. Alaska Public Employees Association, Inc.*, 732 P.2d 1083 (Alaska 1987).

⁵ *Sheffield*, 732 P.2d at 1087, quoting *Opinion of the Justices*, 303 N.E.2d 320, 327 (Massachusetts 1973) (emphasis added by the Alaska court).

State of Alaska.⁶ Because SB 30 does not require employees hired prior to the effective date of the bill to become members in the PERS or TRS defined benefit plan, the changes proposed in SB 30 are not prohibited by art. XII, sec. 7, Constitution of the State of Alaska.

Question 2: returning to a "defined benefit plan" as proposed in SB 30:

The constitutional protection against diminishing or impairing retirement benefits only applies to the benefits of employees who have vested, which, as noted above, occurs upon hire. It does not permanently lock the state into a single retirement plan. In fact, the state has already established two retirement plans under PERS and two under TRS -- a defined benefit plan and a defined contribution plan. If SB 30 were adopted and other legislation were adopted in the future that required employees to become members of the defined contribution plan under PERS or TRS, the future defined contribution plan requirement would not be prohibited by art. XII, sec. 7, Constitution of the State of Alaska, if it only applies to employees first hired after the requirement's effective date.

Question 3: constitutionality of past benefit "tiers":

"In 1986 for PERS and 1990 for TRS substantial changes were made by lowering benefits and increasing the retirement age for employees starting work *after these dates*. The changes thus resulted in a second tier of retirees."⁷ Article XII, sec. 7, Constitution of the State of Alaska, applied to those changes; however, it did not prohibit the changes because the changes only applied to members of the new tiers -- those employees first hired after the effective date of the changes. I understand your primary question as asking whether establishment of a defined contribution plan for teachers and public employees hired after June 30, 2006 violated art. XII, sec. 7, Constitution of the State of Alaska.⁸ The answer is no, because only those employees first hired after June 30, 2006 are required to participate in the defined contribution plan; employees hired on or before that date were not required to participate.⁹

DCW:ray
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⁶ *Hammond v. Hoffbeck*, 627 P.2d 1052, 1059.

⁷ *Duncan v. Retired Public Employees of Alaska, Inc.*, 71 P.3d 882, 885 (Alaska 2003). (Italics added for emphasis).

⁸ The constitutional issue was discussed by the legislature on more than one occasion in 2005 deliberations leading up to establishment of the defined contribution plan by the 24th Alaska Legislature. See, for example, minutes of the Senate Finance Committee, March 29, 2005.

⁹ Secs. 35 and 122, ch. 9 FSSLA 2005.



SENATOR FRED DYSON

FACSIMILE TRANSMITTAL

TO:	LAA Legal	FROM:	Senator Fred Dyson, Chair Senate State Affairs Committee
ATTN:	LAA Legal	DATE:	April 2, 2014
FAX NUMBER:	907-465-2029	TOTAL NO. OF PAGES INCLUDING COVER:	1
RE:	Alaska Constitution – Retirement Systems		
NOTES/COMMENTS:			

The Senate State Affairs Committee conducted a hearing on Senate Bill 30: *Teachers & Pub Employee Retirement Plans* on Tuesday, April 1, 2014. A number of questions were raised by the Committee, including constitutional questions that the Committee requested to consult Legislative Legal about.

The questions that were brought up are related to the Alaska Constitution Article 12 Section 7 which states that “Accrued benefits of these [retirement] systems shall not be diminished or impaired”. The Committee would like answers to the following questions:

1. If the State adds a new tier to the retirement system where new public employees are put onto the new tier and current employees remain on the old tier, could there be a potential violation of Article 12 Section 7 of the Constitution?
2. If the State of Alaska was to return its retirement system to a “Defined Benefit Plan”, as SB 30 proposes, would we be putting the State in a precarious position that would disallow it to go to a “Defined Contribution Plan” in the future?
3. When the PERS Tiers II-IV/TRS Tiers II-III were created, were there issues raised about the potential for the State violating Article 12 Section 7? In particular, was this possibility raised when the State moved to a Defined Contribution Plan from the Defined Benefit Plan in PERS IV/TRS III?

Please include the answers to these questions in a memo addressed to the Senate State Affairs Committee. If you have any questions, you may contact the Committee Aide Joshua Banks at 465-3723.

CONFIDENTIAL

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During Interim (May-December): 12641 Old Glenn Highway, Suite 201 • Eagle River, Alaska 99577 • (907) 694-6683 • (907) 694-1015
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Sen.Fred.Dyson@akleg.gov



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March 26, 2014

Senator Dennis Egan
State Capitol, Room 9
Juneau, AK 99801-1182

SB 30 – Alaska Pension Choices - SUPPORT

Dear Senator Egan,

On behalf of AARP Alaska's 90,000 members, many of whom are retired public employees and educators, I wish to offer our support for SB 30, which offers a choice of retirement compensation plans – defined benefit, or defined contribution – for current and new employees. AARP strongly supports policies and statutes that protect the financial security of retirees from all types of work situations, and somewhat uniquely, public employees.

Because Alaska's public employees do not participate in Social Security (which is a defined benefit system), their reliance on the state's retirement system is immeasurably greater. Depending on an individual's or family's circumstances, realistic retirement planning requires some confidence of what their state retirement benefits will be. Defined contribution plans provide assurance only about what is put into the retirement pot, not what can be taken out. This might work well for a savvy investor, who may also have a working spouse covered under a more predictable and sure plan. But, for a retiree who wants a predictable and secure financial retirement, the choice for a defined benefit plan is all the more desirable. AARP Alaska supports giving public employees a choice.

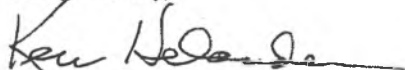
It is also concerning that since the State switched from a defined benefit to a defined contribution system for all state employees (in 2006), the unfunded pension liability has increased alarmingly. We applaud the Governor's proposal to contribute three billion dollars from the Constitutional Budget Reserve Fund to help pay down the liability. However, the liability has grown in part because there are no longer current employees paying in to the fund, as there would be with a defined benefit system. For this reason, we believe it makes good fiscal sense to resume employee contributions through the option of a defined benefit plan, along with the Governor's pay-down proposal.

Finally, we support SB 30 because it would encourage more stability for the public employee workforce. Because defined contribution plans are portable, they encourage turnover, whereas a defined benefit plan is an incentive to employment longevity. Turnover, rehiring and retraining, as well as the drain of experienced and skilled workers is extremely costly to any employer, and the State is no exception. Particularly because these are workers who protect

us, educate us, and are our public servants, we believe Alaskans collectively benefit by honoring their service through increased choice and ability to realistically plan their retirement.

Thank you for sponsoring this bill, and we encourage its passage and enactment.

Respectfully,



Ken Helander
Associate State Director - Advocacy
AARP Alaska

762-3314

khelander@aarp.org

CC:

Senator Click Bishop, Co-Sponsor

Senator Fred Dyson, Chair Senate State Affairs Committee



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Administration

CURTIS W. THAYER, COMMISSIONER

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April 7, 2014

The Honorable Fred Dyson, Chair
Senate State Affairs Standing Committee
Alaska State Capitol, Rm. 205
Juneau, AK 99801

Dear Senator Dyson:

Thank you for the opportunity to respond to the committee's questions about SB 30 presented on April 1, 2014.

Q1: What is the long-term expectation of growth, and what would Alaska's Defined Benefit Plan fund look like if the State received an average 4%, 6%, and 8% return on its investments?

A1: The long term growth expectation is 8%. At 4% return on investment the unfunded liability roughly doubles to \$24 billion. At 6% return, the unfunded liability would be approximately \$18 billion.

Q2: What is the most current breakdown of costs between healthcare and other pension costs for Alaska's retired public employees?

A2: Per the PERS and TRS most recent valuations, pension benefits account for 69.4% of the unfunded liability and health care accounts for 30.6% of the total unfunded liability.

Q3: Please provide a graph with two trend lines, one being the smoothed rate of return compared to a trend showing the fluctuations in Alaska's historic rates of return (i.e. high/low years)

A3: See graph provided in attachment "PERS-TRS 25-Year Rates of Return.pdf"

Q4: If investment rates go down would the system proposed in SB 30 provide lower risk for the state than the current Defined Contribution plan?

A4: In a Defined Benefit plan, the risk is borne by the participating employers. Since the employers' rates are capped at 22%, lower investment earnings could increase the actuarially required contribution. Since employers pay 22%, if the ARC is over 22%, that burden belongs to the State via the on-behalf payment in AS 39.35.280.

In a Defined Contribution plan, the risk is transferred to the member. Please see attachment "SB 30 Participant balance info 35 yr.pdf" for more detail.

Q5: If one tier of the Defined Benefit plan took a disproportionate amount from the retirement fund, would this affect the other Defined Benefit tiers? Would it affect the Defined Contribution tier?

A5: All defined benefit tiers would be affected since all the defined benefit funds reside in the same trust fund – one each for pension and healthcare.

There would be little affect to the Defined Contribution tier as the employer and employee contributions reside in the individual employee accounts.

Depending on the Defined Benefit plan being affected, there could be an effect on the occupational death and disability and retiree medical plans, which are part of the Defined Contribution Retirement plan.

Q6: Will the unfunded liability decrease with more employees in the system?

A6: No. The unfunded liability reflects liability for retired and current defined benefit employees. Additional employees in the system will not affect the unfunded liability for this group. New employees in the system pay contributions that will be used to fund their own future benefits.

An unfunded liability on the new group of defined benefit members could develop over time if actuarial assumptions are not met for investment purposes (under-performing the 8% assumption), and are exceeded on items like mortality (living longer than projected), health care costs (costing more than anticipated), and changes in demographics.

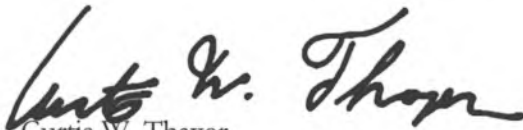
Q7: What number does the administration use to calculate the investment returns? What does the ARM Board use?

A7: The Administration, actuary and the ARMB use 8% investment returns.

Q8: Please provide a graph that shows the effects of SB 30 and the employee contribution and employer contribution juxtaposed with the cost of retired employees receiving benefits (i.e. what is the projected growth of the retirement fund and the anticipated growth of the demand on that fund?).

A8: Please see attached chart "Fiscal_Note_Calculations_SB30_020813.pdf". Addition information would require an analysis from the state's actuary, Buck Consulting.

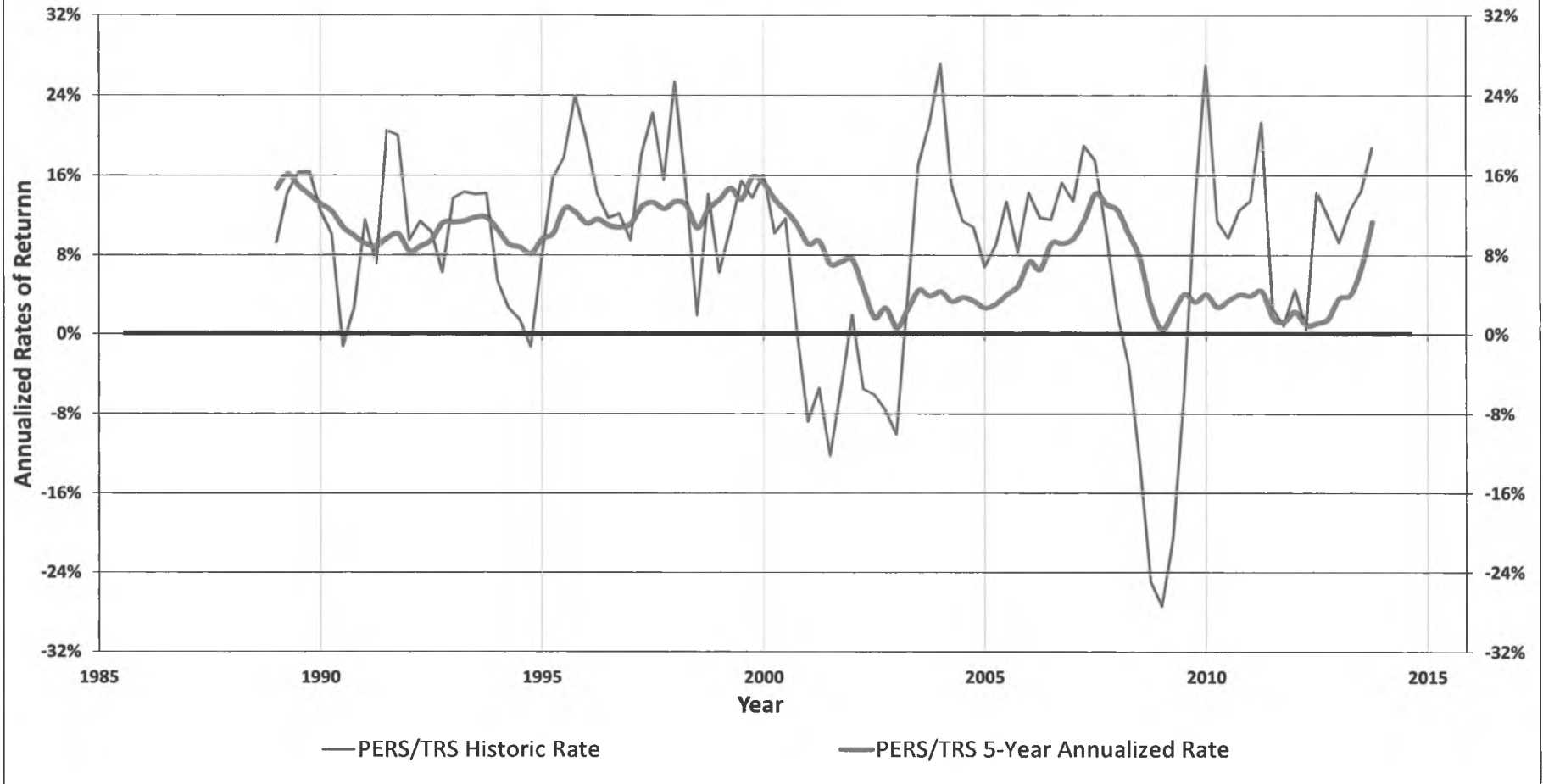
Sincerely,

A handwritten signature in black ink that reads "Curtis W. Thayer". The signature is written in a cursive, flowing style.

Curtis W. Thayer
Commissioner

cc: Senate State Affairs Standing Committee Members
Senator Dennis Egan

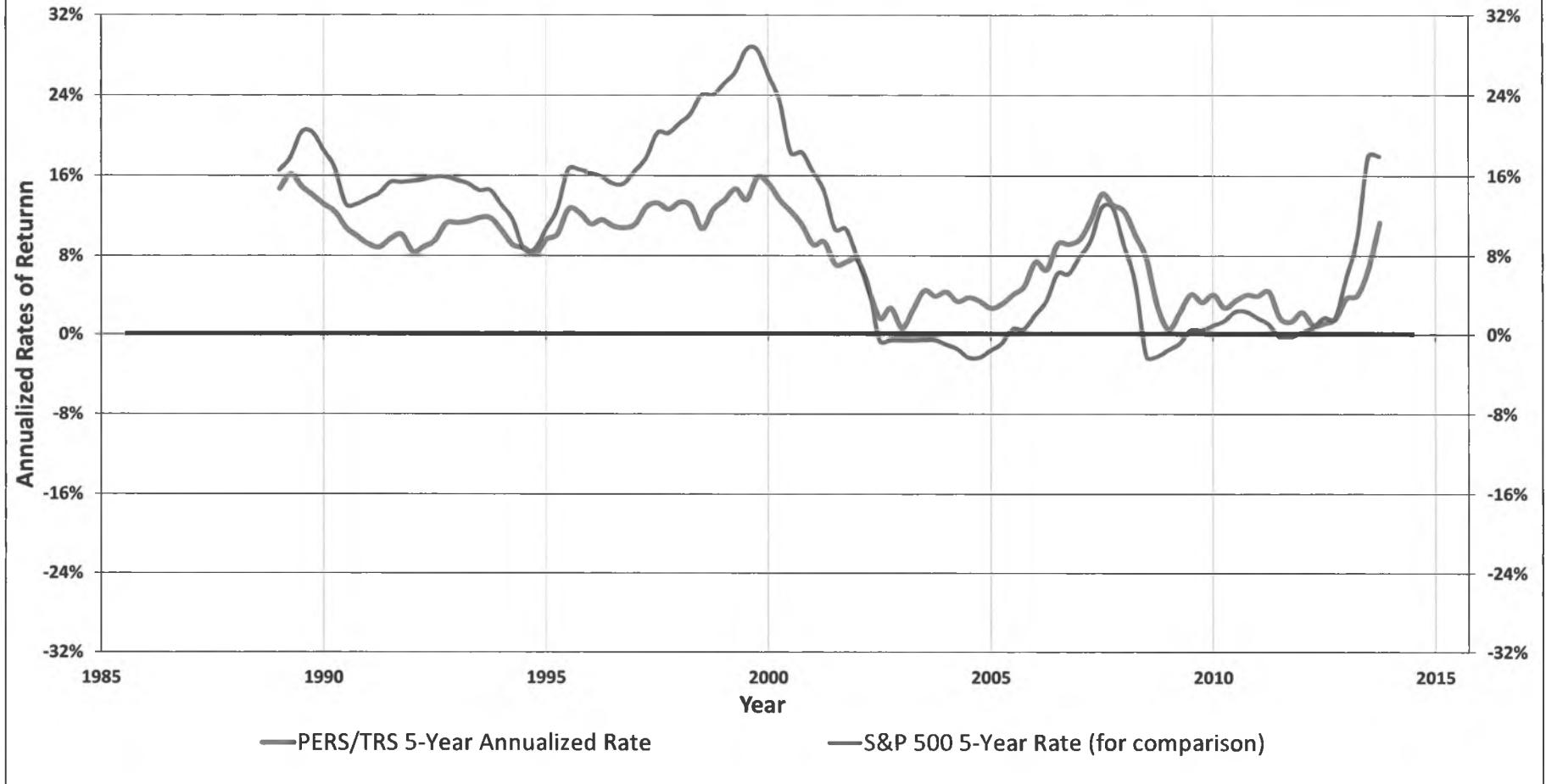
PERS/TRS 25-Year Rates of Return



PERS/TRS is based on quarterly rates of return, annualized on a quarterly and 5-year basis.

Prepared by the Division of Retirement and Benefits

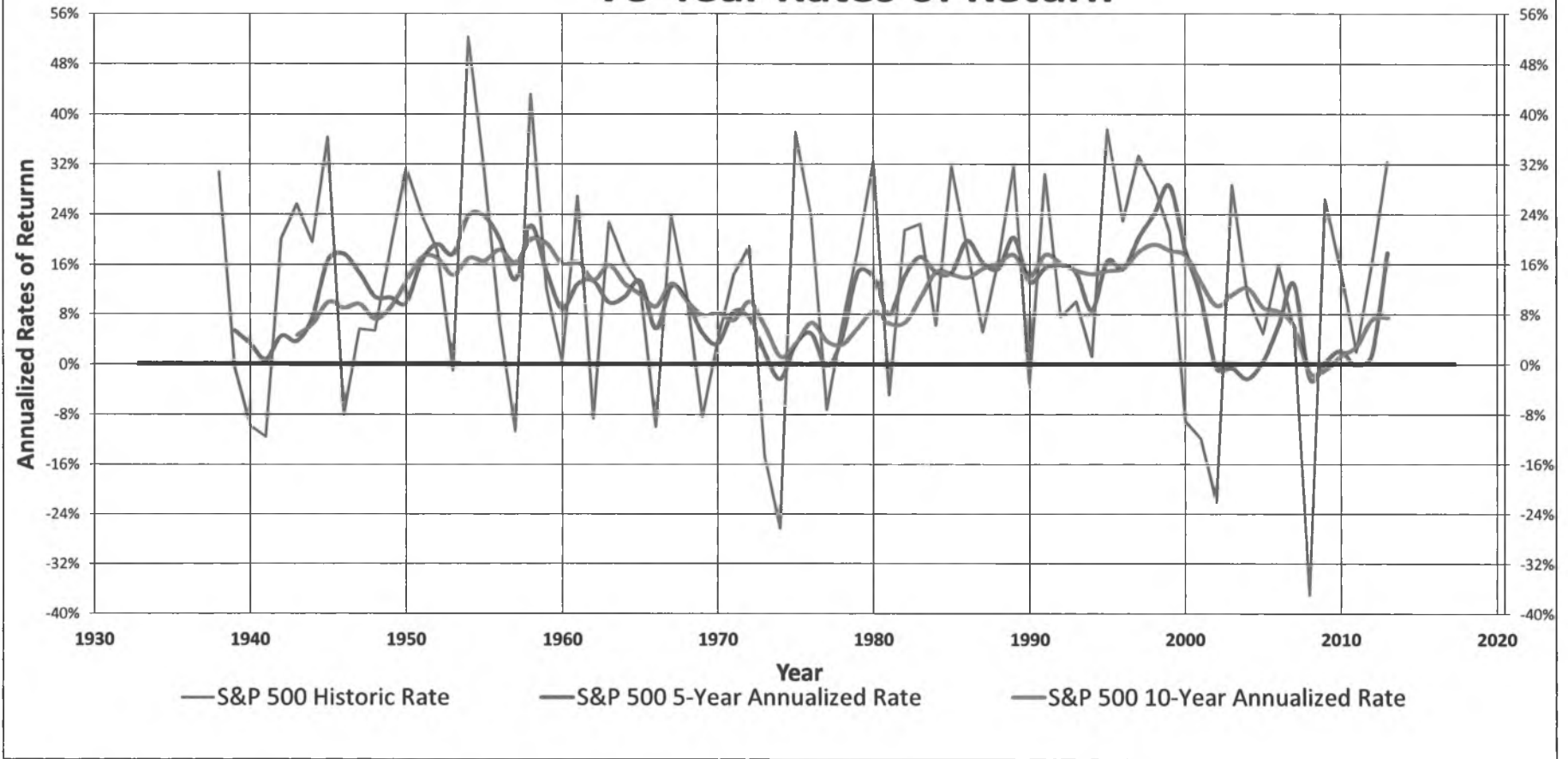
PERS/TRS vs. S&P 500 25-Year Rates of Return



PERS/TRS is based on quarterly rates of return, annualized on a 5-year basis. S&P 500 is based on annual rates of return, annualized on a 5-year basis.

Prepared by the Division of Retirement and Benefits

S&P 500 75-Year Rates of Return



S&P 500 is based on annual rates of return, annualized on a 5-year and 10-year basis.

Prepared by the Division of Retirement and Benefits

State of Alaska
Summary of Normal Costs for New Tier Members under SB 30 DB/DC Choice Proposal
(\$ in thousands)

PERS Others

	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Increase In Retiree Premium	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Inc. Retiree Premium (% of Pay)	Employer Healthcare Normal Cost Rate	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
FY17	8,686	\$451,266	\$8,990	\$21,285	\$0	\$30,275	1.99%	4.72%	0.00%	4.72%	5.22%	\$23,556	3.48%	\$15,704	\$38,260	(\$8,985)	(\$14,566)	\$5,581
FY18	10,934	581,688	11,588	30,022	0	41,610	1.99%	5.16%	0.00%	5.16%	5.22%	30,364	3.48%	20,243	50,607	(8,997)	(18,776)	9,779
FY19	12,913	711,673	14,178	38,165	0	53,343	1.99%	5.50%	0.00%	5.50%	5.22%	37,149	3.48%	24,766	61,915	(8,572)	(22,971)	14,399
FY20	14,696	842,654	16,787	48,424	0	65,211	1.99%	5.75%	0.00%	5.75%	5.22%	43,987	3.48%	29,324	73,311	(8,100)	(27,200)	19,100
FY21	16,305	974,330	19,410	59,152	0	78,562	1.99%	6.07%	0.00%	6.07%	5.22%	50,860	3.48%	33,907	84,767	(6,205)	(31,450)	25,245
FY22	17,772	1,108,824	22,090	70,210	0	92,300	1.99%	6.33%	0.00%	6.33%	5.22%	57,881	3.48%	38,587	96,468	(4,168)	(35,791)	31,623
FY23	19,135	1,243,162	24,765	82,304	0	107,070	1.99%	6.62%	0.00%	6.62%	5.22%	64,894	3.48%	43,263	108,157	(1,087)	(40,128)	39,041
FY24	20,401	1,378,670	27,465	95,092	2,613	119,945	1.99%	6.90%	0.19%	6.71%	5.22%	71,967	3.48%	47,978	119,945	0	(44,501)	44,501
FY25	21,568	1,514,796	30,177	108,193	6,583	131,767	1.99%	7.14%	0.43%	6.71%	5.22%	79,072	3.48%	52,715	131,787	0	(48,895)	48,895
FY26	22,657	1,652,977	32,930	121,954	11,075	143,809	1.99%	7.38%	0.67%	6.71%	5.22%	86,285	3.48%	57,524	143,809	0	(53,355)	53,355
FY27	23,661	1,794,815	35,756	135,875	15,482	156,148	1.99%	7.57%	0.86%	6.71%	5.22%	93,689	3.48%	62,460	156,149	0	(57,933)	57,933
FY28	24,594	1,938,068	38,610	150,811	20,909	168,612	1.99%	7.78%	1.07%	6.71%	5.22%	101,167	3.48%	67,445	168,612	0	(62,557)	62,557
FY29	25,460	2,083,334	41,504	166,578	26,832	181,250	1.99%	8.00%	1.29%	6.71%	5.22%	108,750	3.48%	72,500	181,250	0	(67,246)	67,246
FY30	26,263	2,230,858	44,443	182,837	33,195	194,085	1.99%	8.20%	1.49%	6.71%	5.22%	116,451	3.48%	77,634	194,085	0	(72,008)	72,008
FY31	27,015	2,381,393	47,442	199,667	39,928	207,181	1.99%	8.38%	1.69%	6.71%	5.22%	124,309	3.48%	82,872	207,181	0	(76,867)	76,867
FY32	27,714	2,534,610	50,494	217,927	47,910	220,511	1.99%	8.50%	1.88%	6.71%	5.22%	132,307	3.48%	88,204	220,511	0	(81,813)	81,813
FY33	28,370	2,690,959	53,597	238,315	57,851	234,061	1.99%	8.66%	2.15%	6.71%	5.22%	140,437	3.48%	93,624	234,061	0	(86,840)	86,840
FY34	28,988	2,850,427	56,765	259,961	68,789	247,987	1.99%	8.83%	2.41%	6.71%	5.22%	148,752	3.48%	99,195	247,987	0	(92,007)	92,007
FY35	29,572	3,014,756	60,059	283,441	81,216	262,284	1.99%	9.00%	2.68%	6.71%	5.22%	157,370	3.48%	104,914	262,284	0	(97,311)	97,311
FY36	30,129	3,184,490	63,441	303,738	90,130	277,050	1.99%	9.24%	2.83%	6.71%	5.22%	166,230	3.48%	110,820	277,050	0	(102,789)	102,789
FY37	30,658	3,363,850	67,014	325,125	99,844	292,655	1.99%	9.47%	2.96%	6.71%	5.22%	175,593	3.48%	117,062	292,655	0	(108,579)	108,579
FY38	31,166	3,546,606	70,655	348,669	110,769	308,555	1.99%	9.67%	3.12%	6.71%	5.22%	185,139	3.48%	123,422	308,555	0	(114,478)	114,478
FY39	31,652	3,733,803	74,384	373,510	123,053	324,841	1.99%	10.00%	3.29%	6.71%	5.22%	194,905	3.48%	129,936	324,841	0	(120,521)	120,521
FY40	32,117	3,925,931	78,211	400,906	137,561	341,556	1.99%	10.21%	3.50%	6.71%	5.22%	204,834	3.48%	136,622	341,556	0	(126,723)	126,723
FY41	32,568	4,123,753	82,152	430,374	153,759	358,767	1.99%	10.44%	3.73%	6.71%	5.22%	215,260	3.48%	143,507	358,767	0	(133,108)	133,108
FY42	33,005	4,326,869	86,199	462,551	172,312	376,438	1.99%	10.69%	3.98%	6.71%	5.22%	225,863	3.48%	150,575	376,438	0	(139,654)	139,654
FY43	33,425	4,533,623	90,318	501,912	247,805	394,425	1.99%	12.17%	5.46%	6.71%	5.22%	236,655	3.48%	157,770	394,425	0	(146,337)	146,337

State of Alaska
Summary of Normal Costs for New Tier Members under SB 30 DB/DC Choice Proposal
(\$ in thousands)

PERS Peace Officer/Firefighter

	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Increase in Retiree Premium	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Inc. Retiree Premium (% of Pay)	Employer Healthcare Normal Cost Rate	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
FY17	642	\$44,148	\$2,223	\$2,822	\$0	\$5,045	5.04%	6.35%	0.00%	6.39%	\$4.40	5.22%	\$2,305	3.48%	\$1,536	\$3,841	\$1,204	(\$82)	\$1,286
FY18	808	56,908	2,866	3,963	0	6,829	5.04%	6.96%	0.00%	6.96%	4.91	5.22%	2,971	3.48%	1,980	4,951	1,878	(105)	1,983
FY19	963	69,624	3,506	5,198	0	8,704	5.04%	7.47%	0.00%	7.47%	5.40	5.22%	3,634	3.48%	2,423	6,057	2,647	(128)	2,775
FY20	1,112	82,379	4,149	6,368	0	10,518	5.04%	7.73%	0.00%	7.73%	5.73	5.22%	4,300	3.48%	2,867	7,167	3,351	(151)	3,502
FY21	1,256	95,799	4,825	7,790	0	12,615	5.04%	8.13%	0.00%	8.13%	6.20	5.22%	5,001	3.48%	3,334	8,335	4,280	(176)	4,456
FY22	1,393	109,787	5,529	9,154	963	13,720	5.04%	8.34%	0.88%	7.46%	6.57	5.22%	5,731	3.48%	3,821	9,552	4,168	(202)	4,370
FY23	1,527	124,525	6,271	10,594	4,945	11,920	5.04%	8.51%	3.97%	4.54%	6.94	5.22%	6,500	3.48%	4,333	10,833	1,087	(229)	1,316
FY24	1,654	139,660	7,033	12,124	7,007	12,150	5.04%	8.68%	5.02%	3.65%	7.33	5.22%	7,290	3.48%	4,860	12,150	0	(257)	257
FY25	1,779	155,334	7,823	13,649	7,958	13,514	5.04%	8.79%	5.13%	3.65%	7.67	5.22%	8,108	3.48%	5,406	13,514	0	(285)	285
FY26	1,899	171,578	8,641	15,274	8,988	14,927	5.04%	8.90%	5.24%	3.65%	8.04	5.22%	8,956	3.48%	5,971	14,927	0	(315)	315
FY27	2,016	188,561	9,496	16,897	9,988	16,405	5.04%	9.05%	5.30%	3.65%	8.38	5.22%	9,843	3.48%	6,562	16,405	0	(347)	347
FY28	2,130	206,050	10,377	18,646	11,096	17,927	5.04%	9.14%	5.39%	3.65%	8.75	5.22%	10,756	3.48%	7,171	17,927	0	(379)	379
FY29	2,237	224,060	11,284	20,486	12,277	19,493	5.04%	9.27%	5.48%	3.65%	9.16	5.22%	11,696	3.48%	7,797	19,493	0	(412)	412
FY30	2,339	242,509	12,213	22,486	13,601	21,098	5.04%	9.40%	5.61%	3.65%	9.61	5.22%	12,659	3.48%	8,439	21,098	0	(446)	446
FY31	2,437	261,480	13,168	24,572	14,991	22,749	5.04%	9.50%	5.74%	3.65%	10.08	5.22%	13,640	3.48%	9,100	22,749	0	(481)	481
FY32	2,529	280,944	14,149	26,685	16,392	24,442	5.04%	9.68%	5.84%	3.65%	10.55	5.22%	14,665	3.48%	9,777	24,442	0	(516)	516
FY33	2,611	300,410	15,129	28,066	18,060	26,135	5.04%	9.86%	6.02%	3.65%	11.13	5.22%	15,681	3.48%	10,454	26,135	0	(552)	552
FY34	2,686	320,012	16,116	31,562	19,837	27,841	5.04%	9.99%	6.28%	3.65%	11.75	5.22%	16,705	3.48%	11,136	27,841	0	(589)	589
FY35	2,752	339,745	17,110	33,939	21,491	29,558	5.04%	9.94%	6.33%	3.65%	12.33	5.22%	17,735	3.48%	11,823	29,558	0	(625)	625
FY36	2,814	359,801	18,120	35,772	22,589	31,303	5.04%	9.94%	6.28%	3.65%	12.71	5.22%	18,782	3.48%	12,521	31,303	0	(662)	662
FY37	2,870	380,580	19,166	37,784	23,840	33,110	5.04%	9.93%	6.27%	3.65%	13.17	5.22%	19,866	3.48%	13,244	33,110	0	(700)	700
FY38	2,921	400,995	20,195	39,952	25,260	34,887	5.04%	9.96%	6.30%	3.65%	13.68	5.22%	20,932	3.48%	13,955	34,887	0	(737)	737
FY39	2,970	421,264	21,215	42,208	26,773	36,650	5.04%	10.02%	6.36%	3.65%	14.21	5.22%	21,990	3.48%	14,660	36,650	0	(775)	775
FY40	3,015	441,597	22,239	44,732	28,552	38,419	5.04%	10.13%	6.47%	3.65%	14.84	5.22%	23,051	3.48%	15,368	38,419	0	(812)	812
FY41	3,058	462,164	23,275	47,431	30,498	40,208	5.04%	10.26%	6.60%	3.65%	15.51	5.22%	24,125	3.48%	16,083	40,208	0	(850)	850
FY42	3,098	483,097	24,329	50,394	32,693	42,030	5.04%	10.43%	6.77%	3.65%	16.27	5.22%	25,218	3.48%	16,812	42,030	0	(889)	889
FY43	3,137	504,307	25,398	(32)	(18,509)	43,875	5.04%	-0.01%	-3.67%	3.65%	(0.01)	5.22%	26,325	3.48%	17,550	43,875	0	(927)	927

State of Alaska
Summary of Normal Costs for New Tier Members under SB 30 DB/DC Choice Proposal
(\$ in thousands)

PERS Total																			
Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Increase In Retiree Premium	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Inc. Retiree Premium (% of Pay)	Employer Healthcare Normal Cost Rate	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	
FY17	9,328	495,414	11,213	24,107	\$0	\$35,320	2.26%	4.87%	0.00%	4.87%	2.58	5.22%	25,861	3.48%	17,240	\$43,101	(\$7,781)	(\$14,648)	\$6,867
FY18	11,742	638,596	14,454	33,995	0	48,439	2.26%	5.32%	0.00%	5.32%	2.89	5.22%	33,335	3.48%	22,223	55,558	(7,119)	(18,881)	11,762
FY19	13,876	781,297	17,684	44,363	0	62,047	2.26%	5.68%	0.00%	5.68%	3.20	5.22%	40,783	3.48%	27,189	67,972	(5,925)	(23,099)	17,174
FY20	15,808	925,033	20,936	54,793	0	75,729	2.26%	5.92%	0.00%	5.92%	3.47	5.22%	48,287	3.48%	32,191	80,478	(4,749)	(27,351)	22,602
FY21	17,561	1,070,129	24,235	66,942	0	91,177	2.26%	6.26%	0.00%	6.26%	3.81	5.22%	55,861	3.48%	37,241	93,102	(1,925)	(31,626)	29,701
FY22	19,165	1,218,611	27,619	79,364	963	108,020	2.26%	6.51%	0.08%	6.43%	4.14	5.22%	63,612	3.48%	42,408	106,020	0	(35,993)	35,993
FY23	20,662	1,367,707	31,037	92,898	4,945	118,890	2.26%	6.79%	0.35%	6.43%	4.50	5.22%	71,394	3.48%	47,596	118,990	0	(40,357)	40,357
FY24	22,055	1,518,330	34,489	107,216	9,620	132,095	2.26%	7.06%	0.63%	6.43%	4.86	5.22%	79,257	3.48%	52,838	132,095	0	(44,758)	44,758
FY25	23,347	1,670,130	38,000	121,842	14,541	145,301	2.26%	7.30%	0.88%	6.42%	5.22	5.22%	87,190	3.48%	58,121	145,301	0	(48,180)	48,180
FY26	24,556	1,824,555	41,571	137,226	20,063	158,736	2.26%	7.52%	1.10%	6.42%	5.59	5.22%	95,241	3.48%	63,495	158,736	0	(53,670)	53,670
FY27	25,677	1,983,376	45,252	152,772	25,470	172,554	2.26%	7.70%	1.28%	6.42%	5.95	5.22%	103,532	3.48%	69,022	172,554	0	(58,280)	58,280
FY28	26,724	2,144,118	48,987	168,457	31,905	186,539	2.26%	7.90%	1.48%	6.42%	6.34	5.22%	111,923	3.48%	74,816	186,539	0	(62,935)	62,935
FY29	27,697	2,307,394	52,788	187,064	38,109	200,743	2.26%	8.11%	1.70%	6.41%	6.75	5.22%	120,446	3.48%	80,297	200,743	0	(67,658)	67,658
FY30	28,602	2,473,367	56,656	205,323	46,796	215,183	2.26%	8.30%	1.89%	6.41%	7.18	5.22%	129,110	3.48%	86,079	215,183	0	(72,454)	72,454
FY31	29,452	2,642,673	60,610	224,239	54,919	229,930	2.26%	8.48%	2.07%	6.41%	7.61	5.22%	137,958	3.48%	91,972	229,930	0	(77,348)	77,348
FY32	30,243	2,815,554	64,643	244,612	64,302	244,953	2.26%	8.69%	2.23%	6.40%	8.09	5.22%	146,972	3.48%	97,981	244,953	0	(82,329)	82,329
FY33	30,981	2,990,769	68,726	267,381	75,911	260,196	2.26%	8.94%	2.54%	6.40%	8.63	5.22%	156,118	3.48%	104,078	260,196	0	(87,392)	87,392
FY34	31,674	3,170,439	72,901	291,553	88,626	275,828	2.26%	9.20%	2.80%	6.40%	9.20	5.22%	165,497	3.48%	110,331	275,828	0	(92,596)	92,596
FY35	32,324	3,354,501	77,169	317,380	102,707	291,842	2.26%	9.46%	3.06%	6.40%	9.82	5.22%	175,105	3.48%	116,737	291,842	0	(97,936)	97,936
FY36	32,943	3,544,291	81,561	338,511	112,719	308,353	2.26%	9.58%	3.18%	6.40%	10.31	5.22%	185,012	3.48%	123,341	308,353	0	(103,451)	103,451
FY37	33,528	3,744,430	86,180	362,909	123,324	325,765	2.26%	9.69%	3.29%	6.40%	10.82	5.22%	195,459	3.48%	130,306	325,765	0	(109,279)	109,279
FY38	34,087	3,947,601	90,850	388,621	136,029	343,442	2.26%	9.84%	3.44%	6.40%	11.40	5.22%	206,065	3.48%	137,377	343,442	0	(115,215)	115,215
FY39	34,622	4,155,067	95,599	415,718	149,826	361,491	2.26%	10.01%	3.61%	6.40%	12.01	5.22%	216,895	3.48%	144,596	361,491	0	(121,296)	121,296
FY40	35,132	4,367,528	100,450	445,638	166,113	379,975	2.26%	10.20%	3.80%	6.40%	12.68	5.22%	227,985	3.48%	151,990	379,975	0	(127,536)	127,536
FY41	35,626	4,585,917	105,427	477,805	184,257	398,975	2.26%	10.42%	4.02%	6.40%	13.41	5.22%	239,385	3.48%	159,590	398,975	0	(133,958)	133,958
FY42	36,103	4,809,966	110,528	512,945	205,005	418,468	2.26%	10.66%	4.26%	6.40%	14.21	5.22%	251,081	3.48%	167,367	418,468	0	(140,553)	140,553
FY43	36,562	5,037,930	115,716	551,880	229,296	438,300	2.26%	10.95%	4.55%	6.40%	15.09	5.22%	262,980	3.48%	175,320	438,300	0	(147,264)	147,264

State of Alaska
Summary of Normal Costs for New Tier Members under SB 30 DB/DC Choice Proposal
(\$ in thousands)

Teachers' Retirement System

	Headcount	Salary	Employer Pension Normal Cost	Healthcare Normal Cost	Increase In Retiree Premium	Total Employer Normal Cost	Employer Pension Normal Cost Rate	Healthcare Normal Cost Rate (% of Pay)	Inc. Retiree Premium (% of Pay)	Employer Healthcare Normal Cost Rate	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
FY17	2,258	\$142,516	\$3,663	\$8,801	\$0	\$12,464	2.57%	6.18%	0.00%	6.18%	\$3.90	7.00%	\$9,976	3.49%	\$4,974	\$14,950	(\$2,486)	(\$6,313)	\$3,827
FY18	2,869	185,167	4,759	11,795	0	16,554	2.57%	6.37%	0.00%	6.37%	4.11	7.00%	12,962	3.49%	6,462	19,424	(2,870)	(8,203)	5,333
FY19	3,430	228,261	5,866	15,059	0	20,925	2.57%	6.60%	0.00%	6.60%	4.39	7.00%	15,978	3.49%	7,996	23,974	(3,019)	(10,112)	7,093
FY20	3,955	272,195	6,995	18,306	0	25,301	2.57%	6.73%	0.00%	6.73%	4.63	7.00%	19,054	3.49%	9,500	28,554	(3,253)	(12,059)	8,806
FY21	4,444	317,061	8,148	21,505	0	29,653	2.57%	6.78%	0.00%	6.78%	4.84	7.00%	22,194	3.49%	11,095	33,289	(3,606)	(14,046)	10,440
FY22	4,911	363,199	9,334	24,876	0	34,210	2.57%	6.85%	0.00%	6.85%	5.07	7.00%	25,424	3.49%	12,676	38,100	(3,890)	(16,090)	12,200
FY23	5,354	410,860	10,559	28,687	0	39,246	2.57%	6.98%	0.00%	6.98%	5.36	7.00%	28,760	3.49%	14,338	43,098	(3,953)	(18,201)	14,348
FY24	5,776	460,027	11,823	32,670	0	44,493	2.57%	7.10%	0.00%	7.10%	5.66	7.00%	32,202	3.49%	16,055	48,257	(3,794)	(20,379)	16,815
FY25	6,173	510,338	13,116	36,707	0	49,823	2.57%	7.19%	0.00%	7.19%	5.95	7.00%	35,724	3.49%	17,811	53,535	(3,719)	(22,608)	18,886
FY26	6,541	561,601	14,433	41,019	0	55,452	2.57%	7.30%	0.00%	7.30%	6.27	7.00%	39,312	3.49%	19,600	58,912	(3,450)	(24,879)	21,419
FY27	6,885	614,054	15,781	45,541	0	61,322	2.57%	7.42%	0.00%	7.42%	6.61	7.00%	42,984	3.49%	21,430	64,414	(3,092)	(27,203)	24,111
FY28	7,212	667,838	17,163	50,468	0	67,631	2.57%	7.56%	0.00%	7.56%	7.00	7.00%	46,748	3.49%	23,308	70,057	(2,426)	(29,586)	27,160
FY29	7,522	722,638	18,572	55,733	0	74,305	2.57%	7.71%	0.00%	7.71%	7.41	7.00%	50,585	3.49%	25,220	75,805	(1,500)	(32,013)	30,513
FY30	7,815	778,515	20,008	61,227	0	81,235	2.57%	7.86%	0.00%	7.86%	7.83	7.00%	54,496	3.49%	27,170	81,666	(431)	(34,488)	34,057
FY31	8,091	835,634	21,476	66,991	809	87,658	2.57%	8.02%	0.10%	7.92%	8.28	7.00%	58,494	3.49%	29,164	87,658	0	(37,018)	37,018
FY32	8,347	893,555	22,964	73,214	2,444	93,734	2.57%	8.19%	0.27%	7.92%	8.77	7.00%	62,549	3.49%	31,185	93,734	0	(39,586)	39,586
FY33	8,584	951,552	24,455	80,023	4,660	99,818	2.57%	8.41%	0.49%	7.92%	9.32	7.00%	66,609	3.49%	33,209	99,818	0	(42,154)	42,154
FY34	8,803	1,010,539	25,971	87,164	7,129	106,006	2.57%	8.63%	0.71%	7.92%	9.90	7.00%	70,738	3.49%	35,268	106,006	0	(44,767)	44,767
FY35	9,008	1,070,505	27,512	94,688	9,904	112,296	2.57%	8.85%	0.93%	7.92%	10.51	7.00%	74,935	3.49%	37,361	112,296	0	(47,423)	47,423
FY36	9,198	1,131,826	29,088	102,406	12,765	118,729	2.57%	9.05%	1.13%	7.92%	11.13	7.00%	79,228	3.49%	39,501	118,729	0	(50,140)	50,140
FY37	9,377	1,194,444	30,697	110,330	15,730	125,297	2.57%	9.24%	1.32%	7.92%	11.77	7.00%	83,611	3.49%	41,686	125,297	0	(52,914)	52,914
FY38	9,545	1,258,021	32,331	119,296	19,661	131,966	2.57%	9.48%	1.56%	7.92%	12.50	7.00%	88,061	3.49%	43,905	131,966	0	(55,730)	55,730
FY39	9,704	1,322,852	33,997	129,361	24,560	138,768	2.57%	9.78%	1.86%	7.92%	13.33	7.00%	92,600	3.49%	46,168	138,768	0	(58,603)	58,603
FY40	9,854	1,388,058	35,699	140,273	30,260	145,712	2.57%	10.10%	2.18%	7.92%	14.23	7.00%	97,234	3.49%	48,478	145,712	0	(61,535)	61,535
FY41	9,999	1,456,917	37,443	152,379	36,992	152,830	2.57%	10.46%	2.54%	7.92%	15.24	7.00%	101,984	3.49%	50,846	152,830	0	(64,541)	64,541
FY42	10,138	1,526,611	39,234	165,684	44,776	160,142	2.57%	10.85%	2.93%	7.92%	16.34	7.00%	106,863	3.49%	53,279	160,142	0	(67,629)	67,629
FY43	10,271	1,597,814	41,064	180,242	53,695	167,611	2.57%	11.28%	3.36%	7.92%	17.55	7.00%	111,847	3.49%	55,764	167,611	0	(70,783)	70,783
FY44	10,400	1,671,208	42,950	196,096	63,736	175,310	2.57%	11.73%	3.81%	7.92%	18.86	7.00%	116,985	3.49%	58,325	175,310	0	(74,035)	74,035
FY45	10,527	1,747,049	44,899	212,884	74,518	183,265	2.57%	12.19%	4.27%	7.92%	20.22	7.00%	122,293	3.49%	60,972	183,265	0	(77,394)	77,394

Accumulation and Disbursement Scenarios for the PERS/TRS Defined Contribution Plans.

Members of the PERS Defined Contribution Retirement Plan and the TRS Defined Contribution Retirement Plan accumulate funds in an investment account that includes employee contributions, employer contributions and investment losses/gains over their career. Members are also able to roll in funds accumulated in other qualified retirement plans to the PERS/TRS DCR Plans. At termination of employment, members have several options available to them. They can elect:

- The leave the account in investments and access it at a later date;
- Elect a single payment of the balance of the account to either roll out to another qualified plan or to use as desired;
- Elect a periodic payment no more than twice per year;
- Period certain annuity-payment of entire balance over 60, 120 or 180 months;
- Life annuity with a period certain guarantee of 120 or 180 months;
- Single life annuity for the lifetime of the member;
- Joint and survivor annuity of 50% or 100% for the survivor.

For this example, the comparison is between two lifetime income options, the Single Life Annuity and the Periodic Payment.

Assumptions

- Employee begins employment as a range 16A (\$51,732 annually) and receives step increases over their career based on State of Alaska employee rules. Ending salary after 35 years is \$107,316 annually.
- 35 years of service at retirement
- Lifetime annuity: Monthly payment for life. Does not include increases for inflation. Does not include reduction for continued payments to a surviving spouse. Assumes a 2% return on investment for the lifetime of the annuity.
- Periodic Payment: Member can choose to receive a set amount or a percentage of the balance monthly, quarterly, semi-annually or annually. Payments set to pay for 40 years.

Scenario 1. 8% rate of return on investment

Account Balance after 35 years: \$1,603,646

Lifetime Annuity

Annual Amount: \$ 58,176

Monthly Amount: \$4,848

Periodic Payment (Assumes continued 8% return on balance)

Semi-annual withdrawal: \$64,475

Annual Amount: \$128,950

Monthly: \$10,745

Scenario 2. 6% Return on Investment on investment

Account Balance after 35 years: \$1,052,752

Lifetime Annuity

Annual Amount: \$38,184

Monthly Amount: \$3,182

Periodic Payment (Assumes continued 6% return on balance)

Semi-annual withdrawal: \$33,843

Annual Amount: \$67,686

Monthly: \$5,640

Scenario 3. 4% Return on Investment on investment

Account Balance after 35 years: \$708,726

Lifetime Annuity

Annual Amount: \$25,704

Monthly Amount: \$2,142

Periodic Payment (Assumes continued 4% return on balance)

Semi-annual withdrawal: \$17,482

Annual Income Amount: \$34,964

Monthly Income: \$2,913



SENATOR DENNIS EGAN

MEMORANDUM

March 31, 2014

To: Sen. Fred Dyson, Chair
State Affairs Committee

From: Sen. Dennis Egan 

Re: SB 30 Follow-up Questions

I appreciate the chance to respond to the questions you asked during the Thursday, March 27 State Affairs Committee hearing.

1. Are pension payments under SB 30's new defined benefit tiers based on high years' pay?

The pension check calculations are identical to those under the Public Employee Retirement System tier III and the Teachers' Retirement System tier II. For teachers and public safety employees that is the average of the highest three years' compensation. For other public employees it is based on the average of the highest five years' compensation.

2. Under what circumstances does the employer contribution change under SB 30, and what element of that is pension vs. retiree health care?

As the attached sheet shows, employer contributions will be lower under SB 30 for several years than under the status quo. As the pre-funding costs of retiree health benefits rise, the state's cost for the new tier will come to equal the Defined Contribution tier. If health care cost inflation continues at the historic rate, retiree premiums will offset the increase beyond that point. This risk-sharing provision, along with the oversight reforms the legislature enacted in 2005, dramatically reduces the likelihood of a future unfunded liability. If one were to arise, an actuarially calculated contribution would be needed to close it. The state's actuary does not anticipate the cost of pre-funding pension benefits to change.

3. How did Alaska teachers and other public employees come to opt out of Social Security coverage?

Mr. Barnhill answered this question in committee, although it is important to add that the votes took place when all public servants in Alaska were members of the first tier of the defined benefit retirement plans.

4. Mr. Forna seemed to imply if a employee lives a lot longer than he planned and outlives his or her individual account, the citizens of Alaska will end up making up that delta.

I cannot speak for Mr. Forna, but this is an important point. A retiree who outlives his or her defined contribution retirement account, having no access to Social Security, would very likely be eligible for benefits including Senior Care, Medicaid, home heating assistance, Supplemental Nutrition, and others. These benefits are not pre-funded and so weigh heavily against the treasury.

Joshua Banks

From: Sen. Fred Dyson
Sent: Wednesday, March 26, 2014 1:36 PM
To: Joshua Banks
Subject: FW: support for SB 30

From: MarkusJen Doerry [<mailto:midoerry@gmail.com>]
Sent: Sunday, March 23, 2014 1:46 PM
To: Sen. Fred Dyson
Subject: support for SB 30

Dear Senator Dyson,
I realize that SB 30 will be discussed in a hearing this coming week and would like to point out the following.

Ever since the State of Alaska switched to a defined contribution retirement system in 2006, we have been fighting to restore the defined benefit system. Under the Senate Bipartisan Working Group, we were able to pass defined benefit legislation through the Senate in 2012. Under the current Senate Majority leadership, SB 30 has yet to receive a hearing in its first committee of referral.

SB 30 would give teachers and public employees the choice between a defined benefit and a defined contribution retirement plan. Our actuarial analysis shows that SB 30 would be cost neutral or even save the state money. It's a fiscally responsible bill that would give public servants a decent retirement that they could count on.

Please support SB 30. Doing so very positively impacts teachers, students and education.

Thank you,
Jennifer Doerry

--

Markus and Jen Doerry

Joshua Banks

From: Sen. Fred Dyson
Sent: Wednesday, March 26, 2014 1:36 PM
To: Joshua Banks
Subject: FW: to support SB 30

From: Renaldo Esp. [<mailto:renaldoesperand@yahoo.com>]
Sent: Sunday, March 23, 2014 2:38 PM
To: Sen. Fred Dyson
Subject: to support SB 30

Hello Senator Dyson,

Please support SB 30 to make a defined benefit retirement a choice for teachers in Alaska.

Our daughter, born and raised here in Alaska, graduated summa cum laude from an Oregon University and returned to get her MA in teaching in Alaska.

She was discouraged to find that a defined benefit retirement was no longer in place and so has been teaching in Nevada, a defined benefit state.

On behalf of my very talented daughter and all those other talented teachers who would be more likely to choose Alaska to teach if SB 30 passed, I ask you to support the passage of SB 30.

My thanks,
Ron Weishahn
Retired Alaskan Teacher
40 year Resident of the state

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## Joshua Banks

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**From:** Sen. Fred Dyson  
**Sent:** Wednesday, March 26, 2014 1:36 PM  
**To:** Joshua Banks  
**Subject:** FW: SB 30 Hearing on Thursday

**From:** Dennis Ricker [<mailto:dennis.ricker@gmail.com>]  
**Sent:** Monday, March 24, 2014 11:17 AM  
**To:** Sen. Fred Dyson; Sen. John Coghill; Sen. Bert Stedman; Sen. Bill Wielechowski; Sen. Cathy Giessel  
**Subject:** SB 30 Hearing on Thursday

Senators,

If you want efficient government,....you hire good people who work hard, advance, and want to stay,....You guys are business people,...you know this.

After 30 years in working for the State, believe me, you want to attract good people.  
Someone has to implement the regulations that you pass and the programs you prioritize.

SB 30 restores a reliable, competitive Defined Benefit retirement for public employees in Alaska.

State services are more efficient and effective when qualified employees are attracted and invested. Providing retirement options through the passage of SB 30 will help recruit and retain these employees.

Please put your support behind stable and tested services to the public. Training employees who later leave for jobs with better retirement benefits is not an effective use of resources.

Alaska industry needs the support and structure provided by qualified public employees who are attracted by competitive retirement benefits. Providing retirement options will facilitate stability in government service and will provide a lasting return for the public.

SB 30 is cost neutral and will not cost more than the existing Tier IV retirement plan for the public employer.

Please support SB 30.

Dennis Ricker  
5691 West Raspberry Loop  
Wasilla, Alaska 99623-9451  
907-376-6544

## Joshua Banks

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**From:** Sen. Fred Dyson  
**Sent:** Tuesday, March 25, 2014 11:06 AM  
**To:** Joshua Banks  
**Subject:** FW: SB 30

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**From:** Lucy Kunkler [mailto:lkunkler@aci.net]  
**Sent:** Monday, March 24, 2014 9:40 AM  
**To:** Sen. Cathy Giessel; Sen. Bill Wielechowski; Sen. Fred Dyson; Sen. John Coghill; Sen. Bert Stedman  
**Subject:** SB 30

Dear Senators of the State Affairs Committee,

SB30 restores a reliable, competitive Defined Benefit retirement for public employees in Alaska.

State services are more efficient and effective when qualified employees are attracted and invested. Providing retirement options retirement benefits is not an effective use of resources.

Alaska industry needs the support and structure provided by qualified public employees who are attracted by competitive retirement benefits. Providing retirement options will facilitate stability in government service and will provide a lasting return for the public.

SB30 is cost neutral and will not cost more than the existing Tier IV retirement plan for the public employer.

Please support SB30.

Regards,

Lucy Kunkler

PO Box 15418

Fritz Creek, AK 99603

## Joshua Banks

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**From:** Sen. Fred Dyson  
**Sent:** Tuesday, March 25, 2014 11:05 AM  
**To:** Joshua Banks  
**Subject:** FW: SB 30

**From:** Sharon Clark [<mailto:sclark0831@gmail.com>]  
**Sent:** Monday, March 24, 2014 9:52 AM  
**To:** Sen. Fred Dyson  
**Subject:** SB 30

Dear Senators of the State Affairs Committee,

SB 30 restores a reliable, competitive Defined Benefit retirement for public employees in Alaska.

State services are more efficient and effective when qualified employees are attracted and invested. Providing retirement options through the passage of SB 30 will help recruit and retain these employees.

Please put your support behind stable and tested services to the public. Training employees who later leave for jobs with better retirement benefits is not an effective use of resources.

Alaska industry needs the support and structure provided by qualified public employees who are attracted by competitive retirement benefits. Providing retirement options will facilitate stability in government service and will provide a lasting return for the public.

SB 30 is cost neutral and will not cost more than the existing Tier IV retirement plan for the public employer.

Please support SB 30.

Thank you,

Sharon Clark

Kodiak, AK

## Joshua Banks

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**From:** Sen. Fred Dyson  
**Sent:** Tuesday, March 25, 2014 11:00 AM  
**To:** Joshua Banks  
**Subject:** FW: SB 30

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**From:** Amy Sparks [<mailto:amyvaloisia@yahoo.com>]  
**Sent:** Monday, March 24, 2014 10:56 AM  
**To:** Sen. Fred Dyson; Sen. Cathy Giessel; Sen. John Coghill; Sen. Bert Stedman; Sen. Bill Wielechowski  
**Subject:** SB 30

Dear Senators of the State Affairs Committee,

SB 30 restores a reliable, competitive Defined Benefit retirement for public employees in Alaska.

State services are more efficient and effective when qualified employees are attracted and invested. Providing retirement options through the passage of SB 30 will help recruit and retain these employees.

Please put your support behind stable and tested services to the public. Training employees who later leave for jobs with better retirement benefits is not an effective use of resources.

Alaska industry needs the support and structure provided by qualified public employees who are attracted by competitive retirement benefits. Providing retirement options will facilitate stability in government service and will provide a lasting return for the public.

SB 30 is cost neutral and will not cost more than the existing Tier IV retirement plan for the public employer.

Please support SB 30.

Respectfully,

Amy Sparks