

**ALASKA LEGISLATURE**

**2452**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 2003-2004**

CS FOR HOUSE JOINT RESOLUTION NO. 26(JUD)  
 IN THE LEGISLATURE OF THE STATE OF ALASKA  
 TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE HOUSE JUDICIARY COMMITTEE

Offered: 5/8/03  
 Referred: Finance

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE LEGISLATIVE BUDGET AND AUDIT COMMITTEE

A RESOLUTION

1 Proposing amendments to the Constitution of the State of Alaska relating to and limiting  
 2 appropriations from the Alaska permanent fund based on an averaged percent of the  
 3 fund market value to protect the fund from inflation and assure that the real value of  
 4 the fund will be preserved over the long term.

5 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

6 \* Section 1. Article IX, sec. 15, Constitution of the State of Alaska, is amended to read:

7 Section 15. Alaska Permanent Fund. (a) At least twenty-five per cent of all  
 8 mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing  
 9 payments and bonuses received by the State shall be placed in a permanent fund,  
 10 Except as appropriated under (b) of this section, money in the permanent fund [,  
 11 THE PRINCIPAL OF WHICH] shall be used only for those income-producing  
 12 investments specifically designated by law as eligible for permanent fund investments.  
 13 [ALL INCOME FROM THE PERMANENT FUND SHALL BE DEPOSITED IN  
 14 THE GENERAL FUND UNLESS OTHERWISE PROVIDED BY LAW.]

15 \* Sec. 2. Article IX, sec. 15, Constitution of the State of Alaska, is amended by adding a

1 new subsection to read:

2 (b) Appropriations from the permanent fund for a fiscal year may not exceed  
3 five percent of the average of the market values of the fund on June 30 for the first  
4 five of the six fiscal years immediately preceding that fiscal year.

5 \* **Sec. 3.** Article XV, Constitution of the State of Alaska, is amended by adding a new  
6 section to read:

7 **Section 30. Transition.** On the effective date of the 2004 amendment relating  
8 to the Alaska Permanent Fund (art. IX, sec. 15), the unencumbered, unappropriated  
9 balance of the earnings reserve account established under AS 37.13.145(a) is added to  
10 the balance in the Alaska Permanent Fund.

11 \* **Sec. 4.** The amendments proposed by this resolution shall be placed before the voters of  
12 the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the  
13 State of Alaska, and the election laws of the state.

*Tape Log #*

**House Special Committee  
on Ways and Means**

**Alaska's Fiscal  
Dilemma**

December 10, 2003 -

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**Ways and Means Committee  
Established by HR 6**

WHEREAS it is urgent that the state government bring its spending and revenue into balance to ensure that essential services are provided and to protect the economic stability of the state...

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**Ways and Means Committee  
Established by HR 6**

1. Consider methods to control state spending;
2. Identify ways in which state government programs may be made more efficient; and
3. Propose new measures to raise additional state revenue...

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### Why We Need a Fiscal Plan

- State spending exceeds revenue
- Our savings account is running out
- Revenue will not significantly increase in the near future
- Consequences of doing nothing are not acceptable

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### The "Fiscal Gap"

- Annual Deficit = \$400 million to \$1.1 Billion
- One dollar drop in oil price increases deficit approximately \$65 million
- <sup>CBR</sup> Budget Reserve Fund = \$1.7 billion
- <sup>CBR</sup> Budget Reserve Fund gone in 2-5 years

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### Alaska's Fiscal "Toolbox"

1. New resource revenue – Gas pipeline project
2. Cost cutting
3. Use of some Permanent Fund earnings
4. Taxes and fees

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### Ways and Means Co-chairmen's Proposed Fiscal Plan

1. Control the cost and growth of government
2. Promote real economic development *Gas pipeline*
3. Manage the Permanent Fund to protect its real value over time while providing a substantial individual dividend and a contribution to the cost of public services
4. Structure the State's general revenue system to minimize taxation of individuals and to accommodate local governments' revenue systems
5. Maintain a balanced budget with a mechanism mitigating the consequences of oil price volatility

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### Budget Cuts in Perspective Current General Fund Budgets

Power Cost Equalization	\$ 0
Denali Kid Care	\$ 10 million
Medicaid	\$200 million
10% of General Fund	\$230 million
Dept. of Public Safety	\$ 78 million
Dept. of Transportation	\$ 96 million
University of Alaska	\$212 million
Dept. of Health and Social Services	\$527 million
Dept. of Education	\$743 million
All other departments combined	\$471 million
PF and other PF appropriations	\$1.3 billion

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### Department of Health and Social Services General Fund Budget

• Pioneer Homes	\$ 25 million
• Mental Health Services	\$ 75 million
• Children's Services	\$ 53 million
• General Medicaid	\$106 million
• Juvenile Justice	\$ 33 million
• Public Assistance	\$115 million
• Senior and Disabilities	\$ 93 million
• Public Health Service	\$ 22 million
• Administration	\$ 4 million
• Community grants	\$ 1 million

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## Permanent Fund Facts

- The Statehood Act gave Alaska resource wealth "For the purposes of furthering the development of and expansion of communities..." \$25 billion of that wealth is protected in the Permanent Fund.
- Currently, one-half of the Fund's earnings are used to pay dividends - \$680 million this year.
- Under an endowment management plan, we could continue to pay dividends while using the other half of the Fund's earnings towards balancing the budget.

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## Alaska Tax Facts

-Possible New Revenues in Millions -

- Motor/Marine fuel tax      \$50 - \$75
- Gaming                              \$10 - \$100+
- Tourism taxes                  \$7.5 - \$75
- Broad based taxes
  - Employment head tax      \$100/person = \$37
  - Income tax                  1% = \$100
  - Sales tax                      1% = \$50 - \$100

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## Alaska's Dilemma

We only need to tax ourselves to the extent we are unwilling to use part of the Permanent Fund's earnings ...

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**The Financial Issues Today**

1. How much, if any, should the budget be cut and where?
2. Should we use any Permanent Fund earnings to balance the budget?
3. What, if any, other revenues are needed to balance the budget after we decide 1 and 2?
4. What do we do when oil prices drop?

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**Where Do We  
Go From  
Here?**

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**Be Ever Frugal...**

Mindful of the consequences of every decision on individual Alaskans

**Adopt a Constitutional Spending Limit**

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**Alaska's Highest  
Economic Development  
Priorities**

"In Alaska, only oil pays its own way"  
UAA - ISER

- Gas Pipeline Project
- ANWR Exploration

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**Adopt Endowment Management  
for the Permanent Fund**

**Consider new uses of  
Permanent Fund earnings**

1. Protect the value of the Permanent Fund
2. Continue paying dividends using 50% formula
3. Use non-PFD designated earnings to balance the budget today without statewide taxes

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**General Revenue System  
Components**

Minimize the need for broad based taxes

- Non-resident worker "commuter" taxes
- Gaming alternatives
- Targeted tourism fees or taxes
- "Head tax" designated for education
- Motor and marine fuel excise tax rates

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**Continue Development  
of Budget Stabilization  
Legislation**

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**Budget Stabilization  
Objectives**

- Maintain adequate cash reserve to balance budget when oil prices drop
- Trigger a revenue mechanism to rebuild reserve if balance falls below a "floor"
- Reduce any individual taxes or increase dividends when reserves are adequate

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**House Special Committee on  
Ways and Means**

- Rep. Mike Hawker – Chairman
- Rep. Norman Rokeberg
- Rep. Vic Kohring
- Rep. Peggy Wilson
- Rep. Cheryll Heinze
- Rep. Bruce Weyhrauch
- Rep Carl Moses
- Rep. Max Gruenberg

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121 W. Fireweed Lane, Suite 250  
Anchorage, Alaska 99503

October 29, 2003

Representative Michael Hawker  
716 W 4th Ave  
Anchorage, AK 99501-2133

Dear Representative Hawker:

3903

The undersigned business, civic and trade associations, representing hundreds of Alaskan companies and organizations, and tens of thousands of Alaskan workers, urge the Legislature to work with the Administration during the upcoming session to develop a comprehensive, long-range fiscal plan for the state.

While the ultimate decisions regarding Alaska's revenues and expenditures rest with you and your colleagues in the Legislature, the undersigned associations commit to fully participate in the debate, and pledge to help resolve this issue in a manner that will do the most good for the greatest number of Alaskans over the long term.

Details of any prospective plan will no doubt be both practically and politically difficult to develop. Nonetheless, we believe the following general steps must be taken:

1) Budget Discipline

Alaska must adjust to the reality of lower revenues just as a family or business would — by controlling spending. Reasonable spending controls should be incorporated into any long-term fiscal plan. However, our organizations do not believe it possible or wise to correct the entire fiscal imbalance through budget cuts alone.

2) New Uses of Permanent Fund Earnings

We believe appropriating a portion of the earnings from the Permanent Fund to help support state services is a legitimate use of those funds. Furthermore, we strongly support the creation of a "percent of market value" structure for the Permanent Fund. Using some of the Permanent Fund earnings for state government should not preclude the Alaska Permanent Fund Dividend program from continuing and growing.

3) Institution of a Broad-Based Tax

Spending controls and new uses of Permanent Fund earnings may not be enough to close the state's fiscal gap over time. In light of this fact, we believe it is appropriate for the Legislature to consider the implementation of a broad-based, statewide tax. Any discussion of statewide taxes should include a thorough, public analysis of an income tax, a sales tax and any other broad-based taxes.

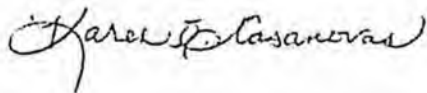
The fiscal challenges facing Alaska are not new and the tools available to address the problem have been well defined. However, without a sound fiscal management plan there is a growing risk to the state's economic health with every passing year. In fact, uncertainty regarding Alaska's

fiscal regime has been mentioned as a primary disincentive to private investment in the state. Fortunately, at this time, Alaska has a wide array of potential options to address this challenge.

Each of the steps outlined above encompasses a multitude of variations. In creating a fiscal package, we encourage the Legislature to incorporate elements from all three general recommendations beginning with spending controls, moving to new uses of the Permanent Fund earnings and finishing with a new broad-based tax, if necessary.

We are eager to support you in a responsible, committed effort to address this issue during the next legislative session. With leadership and courage from the Legislature, a long-term fiscal plan for Alaska can become a reality. The challenge of addressing our state's fiscal imbalance is daunting, but the successful creation of a sound management plan will provide long-term economic benefits to Alaska. Failing to address this challenge now risks irreparable harm to future generations of Alaskans.

Sincerely,



Karen Casanovas, Executive Director  
Alaska Air Carriers Association



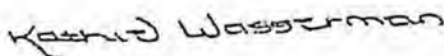
Dave Tyler, President  
Alaska Fire Chiefs Association



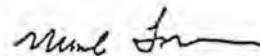
R.B. Stiles, President  
Alaska Coal Association



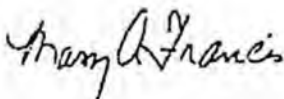
Dean Baugh, President  
Alaska Government Finance Officers  
Association



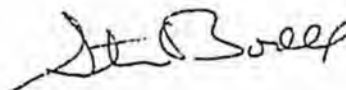
Mayor Kathie Wasserman, President  
Alaska Conference of Mayors



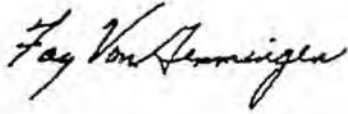
Mike Tavella, Chairman  
Alaska Hi-Tech Business Council



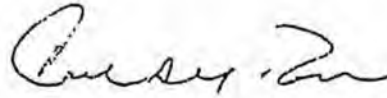
Mary Francis, Executive Director  
Alaska Council of School Administrators



Steve Borell, Executive Director  
Alaska Miners Association



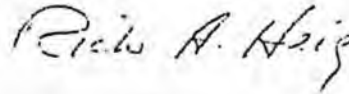
Fay Von Gemmingen, President  
Alaska Municipal League



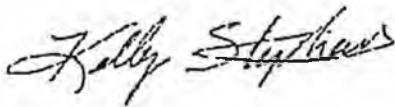
Carl Rose, President  
Association of Alaska School Boards



James A. Sampson, President  
Alaska State AFL-CIO



Rich Heig, President  
Council of Alaska Producers



Kelly Stephens, President  
Alaska State Home Building Association



George Lochner, President  
Eagle River and Chugiak Chamber of  
Commerce



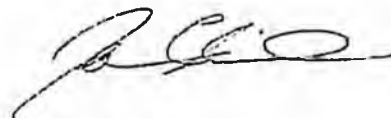
Larry Houle, General Manager  
Alaska Support Industry Alliance



Lance Miller, Executive Director  
Juneau Economic Development Corporation



Stacy Schubert, President  
Anchorage Chamber of Commerce



John Shively, President  
Resource Development Council  
for Alaska, Inc.



Richard Cattanach, Executive Director  
Associated General Contractors of Alaska

### **Board Resolution 2003-25**

Whereas, the Anchorage Economic Development Corporation recognizes the growing risk to the state's economy and the need for fiscal stability; and

Whereas, a group of community leaders combined their efforts and have asked the Board of the Anchorage Economic Development Corporation to be one of the signatories on a letter in support of fiscal stability; now

Therefore, be it resolved that the AEDC Board of Directors supports the development of a long-range fiscal plan for the state and agrees to sign on to the attached letter.

Passed and approved this 10th day of December 2003.

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Kathy Porterfield, Chair

**HOUSE RESOLUTION NO. 6**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-THIRD LEGISLATURE - FIRST SESSION**

**BY THE HOUSE RULES COMMITTEE**

**Introduced: 3/28/03**  
**Referred: Special Order of Business**

**A RESOLUTION**

1 **Establishing a House Special Committee on Ways and Means.**

2 **BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES:**

*Tapo Log*  
*4018*

3 **WHEREAS** it is urgent that the state government bring its spending and revenue into  
4 balance to ensure that essential services are provided and to protect the economic stability of  
5 the state;

6 **BE IT RESOLVED** by the House of Representatives that a House Special Committee  
7 on Ways and Means is established to

8 (1) consider methods to control state spending;

9 (2) identify ways in which state government programs may be made more  
10 efficient; and

11 (3) propose new measures to raise additional state revenue; and be it

12 **FURTHER RESOLVED** that the Speaker of the House of Representatives shall  
13 appoint the representatives to be members of the committee and shall designate a member to  
14 chair the committee; and be it

15 **FURTHER RESOLVED** that the House Special Committee on Ways and Means  
16 may meet during and between sessions of the Twenty-Third Alaska State Legislature and is

1 terminated on the convening of the First Session of the Twenty-Fourth Alaska State  
2 Legislature.

Representative Mike Hawker  
Alaska State Legislature



*Session:*

State Capitol  
Juneau, AK 99801  
907 465-4949 direct  
800 478-4950 toll free  
907 465-4979 fax

*Interim:*

716 W 4<sup>th</sup> Avenue  
Anchorage, AK 99501  
907 269-0244 office  
907 269-0248 fax

*Member:*

House Finance Committee  
Legislative Budget  
& Audit Committee

*House District 32:*

Eagle River  
Anchorage  
Rainbow  
Indian  
Bird  
Girdwood  
Portage  
Whittier  
Sunrise  
Hope

## House Special Committee on Ways and Means

### Components of a Comprehensive Fiscal Plan

1. Control the cost and growth of government
2. Promote real economic development
3. Manage the Permanent Fund to protect its real value over time while providing a substantial individual dividend and a contribution to the cost of public services
4. Structure the State's general revenue system to minimize taxation of individuals and to accommodate local governments' revenue systems
5. Maintain a balanced budget with a mechanism mitigating the consequences of oil price volatility on the general revenue system

## STATEMENT IN FAVOR OF PROPOSITION NO. 2

Alaskans Should Strongly Support the Establishment of a "Permanent Fund"

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Just as a wise and prudent family sets aside money in a savings account for the future, so should Alaska's state government set aside a rainy day fund to benefit this and future generations of Alaskans. In a "Permanent Fund", you - the voter - can prevent a major source of income from being doled out for day-to-day needs or desires of state government by placing up to 25% of all revenue generated from non-renewable resources such as mineral leases, rentals, royalties and federal mineral revenue sharing payments and bonuses into such a fund.

In recent years the state legislature has been spending \$2.00 for every \$1.00 taken in. Authorities estimate that if the present rate of spending continues, Alaska will require a budget in excess of one billion dollars by or before 1980. Establishment of this "Permanent Fund" will provide for the use of the principal for income-producing investments only and provide a businesslike approach of permitting the State to meet countless community needs.

Today, as the result of anticipated oil and gas revenues, Alaska stands on the brink of unprecedented prosperity. No one, but no one, argues that these non-renewable resources will last but for a few decades. Similarly, no one should fail to recognize that in those years ahead the cost of state government will continue to spiral upwards. Now is the time to ask ourselves the question: "When the oil and gas is depleted, where will the funds to feed our giant government come from?" The answer is: the "Permanent Fund".

While it is to be hoped that such a fund may contribute to cutting cost or, at least, holding the line on state spending, its major

value would be that it would require our elected officials to pause, reflect and research any proposal before blindly authorizing expenditure of taxpayers' monies. This would provide needed time for the press and the public to also be aware of the pending project and its merit, instead of being out of public view and hidden in the spending pattern of normal day-to-day operations. Projects invested in with sources from the "Permanent Fund" could help broaden Alaska's narrow based economy and bring more stability to our State.

We would caution the public that while a "Permanent Fund" could provide a tool for accomplishing real needs - community improvements, it will, in the final analysis, not replace our collective responsibility to elect state administrators and legislators who will use the same reason and restraint in spending the public money as they would their own funds.

Establishment of a "Permanent Fund" is an exciting concept and when approved and properly used can serve long and well the best public interest of Alaskans.

VOTE "FOR"

THE ESTABLISHMENT OF A "PERMANENT FUND"

-- Alaska State Chamber of Commerce

## STATEMENT AGAINST PROPOSITION NO. 2

The drafters of the Alaska Constitution wisely prohibited the dedication of state moneys based on the experience of other states of our nation.

This is being sold on the basis that it will cut back expenditures of state government. Such is a worthy goal but a permanent fund will not obtain that result. Those who would spend large sums of money are well aware of methods of increasing taxes. In 1975 when the state apparently ran out of money, it imposed a new oil and gas reserve tax amounting to over \$200 million a year. If this amendment passes and large sums go into the fund, the legislature and administration will impose additional taxes. The only restraint that we'll ever have on the growth of the state budget will be to elect fiscally responsible people.

Various federal government revenue sharing programs must be considered. Since the federal government takes such a large share of the taxes, each state must, by necessity, look to revenue sharing to get part of that money back. If Alaska establishes a multi-billion dollar permanent fund, you can be assured that Congress will change revenue sharing formulas so that Alaska will be cut back. Congress will say other states and municipalities are having a very difficult time raising funds to meet the necessities of government while Alaska has a large permanent fund.

It is axiomatic that government should never have more money than it needs to meet its immediate requirements. Alaska ought not to have funds excess to its needs for current operating budgets and an adequate reserve for income fluctuations.

The State of Alaska will not have a surplus until about 1979. At that time we should invest our large sums in the following manner:

1. Build all new capital improvements, i.e. roads, bridges, schools and harbors with cash rather than incurring additional bonded indebtedness.
2. Pay off our existing bonded indebtedness.
3. Increase revenue sharing to local government.
4. Reduce state taxes.

The argument that we should set some money aside from non-renewable income for future generations sounds well and even has merit. I suggest that it would be more meritorious, however, to give future generations adequate school buildings, adequate roads, adequate docks and not give them a huge pile of cash and an onerous bonded indebtedness.

The supporters of this amendment have also dangled in front of the public the idea that the money will be used to make credit available for such things as home mortgages. This is a worthy goal but does not follow from the creation of a permanent fund. The drafters of this amendment had the opportunity to include language that the fund be used for credit. They chose not to include such language. Further, the State can make money available for home mortgages without the need of any permanent fund. A good example is the current Veterans Loan Program.

The public rightly is concerned about very large government expenditures. A permanent fund will not reduce them. Only a fiscally responsible governor and legislature can do that.

Tom Fink, C.L.U.  
Former Member of Alaska  
House of Representatives

Arguments printed on this page are the opinions of the authors and have not been checked for accuracy by any official agency.

**1/20/04**

**OVERVIEW:**

**WORKERS'**

**COMP.,**

**AHFC, AK**

**STUDENT**

**LOAN CORP.**

**HFIN**

**FILE**

## Workers Compensation Overview

January 20, 2004

### I. MARKET AND MARKET SHARES

A. There are fewer but different workers compensation companies doing business in Alaska today than there have been over the past couple years. There are four work comp companies who wrote business in Alaska who are insolvent today (to discuss later). Alaska National is one major company which remains a stable market for Alaskan businesses and then there are companies who were not particularly active in Alaska in prior years which have growing market shares – AIG, Liberty Mutual, Liberty Northwest are all increasing the business they write in Alaska

### II. ASSIGNED RISK MARKET AND TYPES

- A. If coverage is unavailable in traditional, voluntary companies – Provides source of coverage for mandatory workers compensation
- B. Approx. 17% of market share
- C. 93% are policies with premiums under \$10,000 (2<sup>nd</sup> Q 2003) (92% 2002)
- D. Varied types of business  
**By Policy Count** – Clerical, Retail Stores, Restaurants, Carpentry – Detached, Physicians

write property and casualty business in Alaska. The purpose of the Association is to "minimize financial loss to claimants or policyholders because of the insolvency of an insurer". Assessments are made to provide funds to pay the claims of insolvent insurers.

B. In July of 2003, Fremont Indemnity Company was declared insolvent by the Los Angeles Superior court and put in liquidation. While Fremont has not actively written workers compensation business for nearly three years, approximately \$60 million in claims and claim reserves remained outstanding in July. When an active insurer in Alaska they wrote approximately 27% of the Alaska premium.

C. The magnitude of the Fremont insolvency far surpasses any prior insolvency and exceeds the resources of the Association, thus creating a substantial cash flow deficit. Additionally, there are three other workers compensation companies which have been declared insolvent and have claims in the Association.

D. When there are insufficient funds in the Association, statute allows the pro-rating of payments. In August, I received a letter from the AIGA that it was their intent to begin pro-rating payments. This is an absolutely an unacceptable action as it would mean that injured workers would receive lower weekly wage checks and that medical care expenses would not be paid in full. The impact on the claimant could be disastrous.

F. The workers compensation obligation is that of the employer who generally then satisfies this obligation with the purchase of a workers compensation insurance policy.

- A. Effective January 1<sup>st</sup>, rate increase of 21.2% average.  
First substantial increase since 1988.  
Still at 1992 rate levels
- B. Decreases for 9 years, 2 years flat, and 5 years with increases
- C. Increases due to increased costs of claims – particularly medical care costs, including large increases in costs of prescription drugs
- D. Over past several years, a decreasing number of claims which indicates safer work places. However, rising costs of those claims that do occur – tended to be masked by fewer claims. The decreasing number of claims has leveled out and but the cost of individual claims continues to increase.
- E. Rate increases will affect many employers across the state. The State of Alaska is self-insured and thus does not pay premiums to insurance companies but rather fund the cost of claims directly. While the rate increase will not directly impact the SOA, the increasing costs of claims certainly does.

## V. AIGA – FUNCTION AND STATUS

- A. Alaska Insurance Guaranty Association formed under statute and whose members are insurance companies who

**By Premium Volume - Carpentry- Detached,  
Restaurant, Nursing & Home Health, Carpentry NOC,  
Outside Guide Services**

E. The current assigned risk plan has been losing money for the past four years. When losses exceed the premiums collected, insurance companies are assessed for the difference. Currently this charge to companies is at 6% of their direct written premium and is the highest such charge in the country. This expense has become a major burden to insurance companies who write business in Alaska.

### III. PROFITABILITY

A. From 1997 to today, the Alaska Loss and expense ratios have exceeded 100% in all but one year. These ranged from 99.9% to 154.3%. The Alaska loss ratio averaged 123.7 for the six year period while the national average loss ratio for this time period was 118.8%

B. For the same time period, the underwriting loss for Alaska workers compensation ranged from a 4.1% to a low of 54.3% in 2000. 2002 saw an improvement but still was a loss of 5.3%.

### IV. RATE INCREASES

When the carrier becomes insolvent, the claims are transferred to the guaranty fund of the State. When there are no funds to continue to pay claims, the obligation for benefits to injured workers will fall back to the employer. Employers who in good faith purchased an insurance policy to meet their workers compensation obligation would now be faced with the cost of benefits for the injured workers. This additional, unanticipated cost could potentially force small businesses to close their doors.

- G. This potential was averted by diligent searches for temporary sources of funds, including loans from the California Office of the Liquidator on the anticipated share of the Fremont estate and an early access distribution from Pennsylvania and the Reliance estate.

In closing, I would emphasize that Alaska needs a healthy workers compensation marketplace. We need a stable environment that is sustainable and that will encourage current companies to continue to do business in Alaska and to attract new markets. A healthy environment depends on adequate rates, a self-funded assigned risk plan, a cooperative regulatory atmosphere and a sound workers compensation system. Bills will be forthcoming in the near future which will seek to address these issues.

# A New Direction



## Protecting Workers' Compensation Insurance and Alaska Businesses

In the 2004 Legislative Session Governor Frank H. Murkowski will introduce two bills to help address a national crisis that has affected workers' compensation insurance in Alaska. The aim of the bills is to protect Alaskan workers and Alaskan businesses.

### **What is workers' compensation insurance and why is it required by the state?**

Workers' compensation insurance was put into place to assure speedy payment of medical bills and lost wages in case of an on-the-job injury. In addition, workers' compensation insurance is considered to be an "exclusive remedy" – meaning the employee gives up the right to file a lawsuit against the employer and in return an employee gets lost wages and medical treatment without having to prove fault. Every state requires this type of insurance because it is in the best interest of both workers and employers.

### **Why is there a problem with workers' compensation insurance in Alaska?**

In July 2003, the Alaska Insurance Guaranty Association learned that California-based Fremont Indemnity Company was declared insolvent by the Los Angeles Superior Court and was put into liquidation. Fremont became one of 41 insurance carriers in California that have either gone into insolvency or voluntarily pulled out of the California market to avoid insolvency after deregulation of the market in 1995. Fremont was a significant writer of workers' compensation insurance in Alaska prior to 2001, when the Alaska Division of Insurance suspended its authority to write insurance coverage. Even though the company had not actively written insurance policies for more than two years, when the company was declared insolvent there were more than \$60 million in claims and claims reserves still outstanding.

### **How did the Fremont failure impact Alaska?**

The Alaska Insurance Guaranty Association is an association formed under Alaska statute whose members are insurance companies with approval to write both property and casualty insurance in Alaska. The association's purpose is to "minimize financial loss to claimants or policyholders because of the insolvency of an insurer." The association pays the claims of insurance companies that are put into liquidation by insurance regulators through assessments. The law places a cap of two percent (2%) on the amount each company is assessed for premiums it writes each year. Currently, the assessment on workers compensation premiums generates about \$4.2 million each year. But because the Fremont insolvency surpassed the magnitude of any prior insurance insolvency in Alaska's history, it exceeded the resources of the Association and created a substantial deficit. Alaska law allows the Alaska Insurance Guaranty Association to pro-rate the amount it pays on claims based on the funds available. But to do so would place a financial burden on workers who filed compensation claims and would also place a burden on businesses that paid for insurance in good faith, thinking their workers would be covered only to find they are themselves responsible for the claims or even worse threats of large lawsuits.

### **How can the state help workers and businesses?**

The Murkowski administration has proposed a four-part approach to help both workers and businesses in this unfortunate situation. The administration's bills include the following provisions: funding measures that will help the Association continue to pay workers' compensation claims; reforms to statutory deposit requirements that should provide an additional source of claims payments in the future; granting authority to the Department of

Labor to meaningfully sanction employers that refuse to buy workers compensation insurance; and restructuring the Workers Compensation Board in a way that will bring quick, fair and consistent resolution of claims. These changes to current law should benefit employers and employees alike.

#### **Was the state to blame for the failure of the insurance company?**

No. Unfortunately, in the last three years there have been 43 property and casualty insurance company insolvencies in the United States. The higher cost of claims has been cited as one reason these companies have failed. Three other workers' compensation insurance companies serving Alaska besides Fremont – Paula Insurance of California, and Reliance and Legion Insurance Companies from Pennsylvania- also failed in this same time frame. However, the administration recognizes that the state must take steps to protect workers and businesses in the future.

#### **Why did the state approve the rate increases businesses must pay for workers' compensation insurance?**

Once every year the rates for workers' compensation insurance are reviewed by a national organization called the National Council on Compensation Insurance. The National Council looks at both historical data on the cost of compensation claims and looks at "trending data" to project forward losses. Since 1988, the last time there was a significant rise in costs to employers, there were actually nine years when the state had rate decreases, two years when rates were flat, and five years when rates were increased. State statutes give the state the authority to approve or modify the rates set by the National Council on Compensation Insurance and require that rates be "neither inadequate, excessive, or unfairly discriminatory." The state does its own analysis of information to insure the rates charged meet the statutory standards. Because of escalating medical costs, the cost of claims has significantly increased and the rates charged did not keep pace, leading to the tough decision to approve the increase in workers' compensation rates charged to employers an average of 21.2 percent. Of the 580 classes of employees, 30 will receive rate decreases while 17 classifications will experience rate increases over 50%. While the administration recognized this would have a significant impact on employers, it would have been irresponsible not to allow insurers to increase rates charged based on the consequences to employers and workers of not having a favorable insurance climate in Alaska.

#### **Why would not raising rates have been irresponsible?**

If the rates charged to Alaskan businesses are not adequate, many insurance companies might refuse to do business in Alaska. Since the law requires workers compensation insurance, failure to have a state climate that attracts a number of insurers actually puts workers and especially small businesses at greater risk. In addition to rate decreases in the mid-1990s, the decade also saw significant price-cutting by insurers in order to attract business. Fremont was one of the major companies that cut prices, a factor leading to its insolvency.

#### **By raising rates are you putting the burden for insurance company problems on local businesses?**

That is exactly why the Murkowski administration is proposing two bills to address workers compensation insurance problems in Alaska. The administration believes that additional legislation is important because it isn't fair to just increase costs to employers. The system needs other modifications to make the workers compensation insurance system work better, and eventually to be able to decrease insurance costs. Besides a proposal to use various methods of funding Guarantee Association costs, the changes proposed include:

- Change the cost of living allowance for out-of-state workers to keep them on parity with in-state workers, thereby decreasing the cost of insurance;
- Increase statutory deposits required from insurance companies;
- Modify and streamline the appeals process to protect the rights of injured workers and their employers.
- Mandate that workers compensation assigned risk pool be self-funding.

#### **Do the Murkowski administration proposed changes go far enough?**

The administration believes that the changes it has proposed to the Legislature address both the short term and the long-term problems of Alaskan workers and businesses. The goal of its proposed legislation is to address the immediate need to continue to pay claims without having to pro-rate benefits to injured workers or assess employers for the costs and to improve the workers compensation environment in Alaska in order to mitigate problems of this magnitude from occurring in the future.

## **Alaska Student Loan Corporation Return of Contributed Assets to State**

Diane Barrans, Executive Officer/Director  
Alaska Student Loan Corporation/Alaska Commission on  
Postsecondary Education

In 2003, the Murkowski Administration communicated its management expectation to all executive staff—that each state governmental unit is to scrutinize its structure and processes with respect to operational efficiency and effectiveness.

The management team for the Alaska Commission on Postsecondary Education (commission or ACPE) and its partner agency, the Alaska Student Loan Corporation (corporation or ASLC) engaged in that process. Subsequently, in July 2003, ASLC board members and management, in consultation with financial advisors, proposed a mechanism through which the state could 1) optimize the use of its financial assets; and 2) continue to effectively administer ACPE/ASLC financial aid programs.

Simply put, the plan is to convert future ASLC cash flow that is in excess of that needed for effective and efficient operation of corporation programs and mission-directed activities into cash today by issuing bonds. The cash is then made available to the State in lump disbursements to be used in funding other State capital needs. The following discussion focuses on the financing plan, as well as ASLC's historical and current contexts, which may be helpful in better understanding how this option is feasible at this time.

### **Financing Mechanics**

In 2004, the corporation intends to issue tax exempt bonds in an amount sufficient to support a \$75 million return of assets payment to the State. The financing, composed of Capital Project Revenue Bonds, will be issued under a closed, single-issue indenture. The corporation will pledge its 2003 consolidation loan portfolio to the indenture as collateral or "security." These loans are of relatively high credit quality with repayment terms of up to fifteen years in length. The repayment stream from those loan assets will be used to pay the principal and interest on the 2004 Capital Project Revenue bonds.

### **Corporation History**

The corporation was created and first issued bonds as a primary funding source for its programs in 1988 pursuant to a master trust indenture (1988 Indenture). At that time, there were no real meaningful performance data for the commission as a servicing agency, or for the loan portfolio as a whole. The corporation itself was a brand-new, untested issuer. Therefore, the corporation's Master Trust

Indenture (the rules within which bonds could be issued, loans made and serviced, etc.), contained a number of extremely conservative and restrictive terms. Bonds were issued under the 1988 Indenture through 2001. The indenture's terms subsequently were proven to be appropriate and prudent as the corporation experienced a number of years of operating with a growing equity deficit. The end result was an equity deficit that eventually totaled \$50 million.

In 1994, program managers initiated an effort to curtail and reverse the negative financial trend. Without action, within the next three years it was likely the loan programs would have been severely curtailed or ended altogether (erosion of assets through annual losses was pushing the corporation to the point where income was insufficient to pay bonds and make new loans, and no additional debt could be issued). Commission managers asked the legislature for the tools and managerial flexibility to operate as an enterprise agency of the State. Authorized changes to the programs included tying interest costs to the actual cost of funds, limiting interest-free borrowing periods, implementing credit reviews to identify applicants with poor credit records, and expanded use of authorized collection levers.

By the late '90s, as a result of these changes, the corporation and its servicing partner, ACPE, began experiencing a gradual, positive reversal of the agency's financial standing. In 1999, performance and finances had improved so markedly, both Moody's and Standard and Poor's raised the credit ratings on the corporation's outstanding bonds from A/A to Aa2/AA. That year, reinforcing its operational identity as an enterprise agency of the State, the corporation's management priorities included providing an annual return to the State on the more than \$300 million in loans and cash it had contributed to the corporation to capitalize its start up. In 2000, at the corporation's behest, the legislature passed a bill that set out the terms under which ASLC would annually return to the State a portion of its net income.

To date, the corporation has met this objective, while also maintaining financial stability and meeting its mission to provide postsecondary education access for Alaskans. As of FY2004, the corporation has returned \$16.45 million to the State.

### **Recent Management Enhancements**

In 2002, the corporation took steps to increase its options for leveraging ASLC assets by creating a new master trust indenture (2002 Indenture). At this juncture, the corporation was a recognized issuer with a strong track record in the bond market and had shown significant financial improvement for six consecutive years, as reported in its audited financial statements and illustrated in the credit rating upgrade. As a result, the limitations appropriate and reasonable within the original 1988 Indenture (particularly the very conservative debt coverage covenant which required trust cash flows document no less than

150% of annual debt service coverage in each year bonds were outstanding), were no longer necessary. Instead, under the 2002 Indenture, with respect to bonds issued within the new trust, the corporation is subject to a more relaxed rating confirmation test.

Over the last two years, the 2002 Indenture has effectively replaced the 1988 Indenture, eliminating the need to issue bonds within the original master indenture. The 2002 Indenture has been the source of funding for AlaskAdvantage™ Loans. Relative to this discussion was the corporation's ability to finance more than \$75 million in consolidation loans. The underlying loans (from the state's legacy program, Alaska Student Loans) were purchased from the 1988 Indenture through the consolidation process. Due to the structure of the 2002 Trust, the corporation was able to satisfy all relevant requirements of that trust without the need to also pledge the consolidation loans. Therefore, these assets are available for use as collateral for the Capital Project Revenue Bonds.

### **Timeline and Market Conditions**

With the 2002 Indenture in place and the debt outstanding under the 1988 Indenture declining, management proposed the following to insure the State's maximal use of assets:

- 1) The corporation issues government obligation bonds under a closed, 2004 Indenture to return approximately \$75 million to the State. These bonds will be issued at fixed rates with a final maturity of 15 years.
- 2) Subsequently, in 2005 and 2006, the corporation will determine its capacity to issue additional bonds with the objective of returning up to a total of \$260 million to the State (inclusive of the 2004 issue). These bonds would be repaid and secured with cash flows remaining after the currently outstanding bonds in the 1988 Trust were called or matured.

Current market conditions are extremely attractive with the rate environment issuers now enjoy. The issuance of government obligations in the manner described above may also provide the corporation with some refunding options in future years when volume cap may be tight for the State.

### **AlaskAdvantage™ Programs Held Harmless**

The corporation has no need to rely on the assets being pledged to the Capital Project Revenue Bonds and is prepared and able to fully meet future loan demand through its normal annual issuance of bonds under the 2002 Indenture.

Additionally, a Board priority since 1999, the corporation has actively identified ways to lower costs for existing customers who borrowed loans in years when

rates had been substantially higher than they are today. Since 2001, an annual rebate has been applied to all outstanding loans with rates of up to 9%, which has the effect of capping interest rates at 8.3%. More significantly, through the ASL Consolidation option in 2003, qualifying borrowers were able to lower their interest rates by as much or more<sup>1</sup> than 3%. Program managers plan to make this option available on an ongoing basis beginning in July 2004, and it will continue to be the primary means through which former borrowers may reduce their financing costs.

### **Estimated Effect on ASLC Dividend**

The corporation expects to continue to operate with modest but stable annual earnings, with a portion of those earnings available as its annual dividend to the State. Under the current dividend formula, absent use of the bonding mechanism described above for the stated purpose, the corporation could expect to return to the State an average of an additional \$700,000 per year over a fifteen-year period as the consolidation loans are repaid. While not an inconsiderable amount of money, clearly the availability of these substantially smaller amounts greatly limits the State's options for asset reinvestment.

### **Summary**

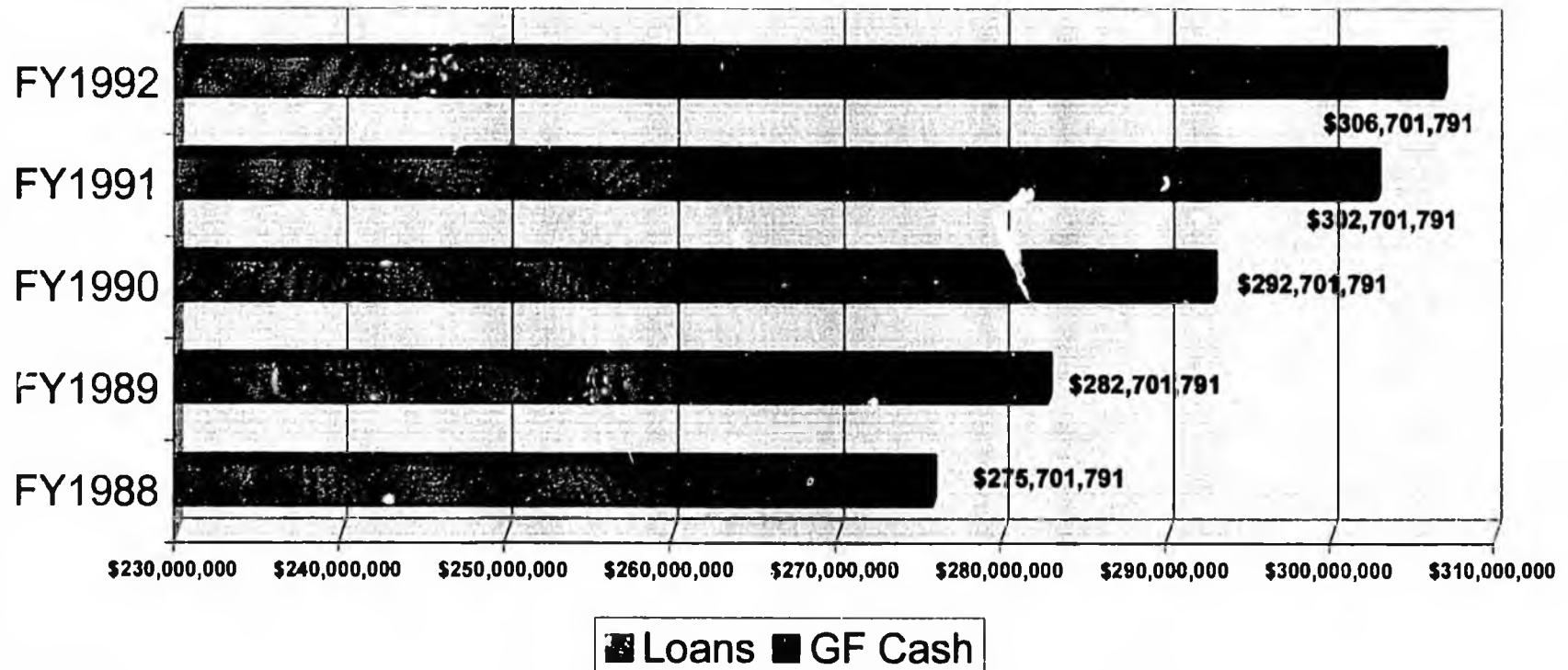
Notwithstanding the plan outlined above, the corporation intends to continue to deliver cost saving options to prior borrowers and to continue offering an annual package of borrower benefits for all qualifying borrowers. Prior to developing this recommended financing option, program managers exercised due diligence, working with the corporation's financial advisors on the feasibility of such a return to the State. Cash flow models were developed to insure the corporation has, *and will continue to have*, the financial capacity to discount loan interest rates and deliver outstanding borrower benefits to our primary customers—Alaska students and the families assisting them. Only after reserving for those ongoing expenses was the issue of capacity for a return of assets to the State (and in what amount) examined.

The corporation has no intention to or interest in abrogating its role in advancing its mission—to support, promote, and provide access to postsecondary education for Alaskans. The objective of this plan is to continue to serve that mission, but to do so in a way that permits ASLC to serve broader State interests through the efficient allocation of financial resources. As an enterprise agency of the State, it is both reasonable and appropriate that ASLC assets be managed in ways that permit benefit not only under the agency's organizational mission and purpose, but also deliver broader purpose benefits to the State.

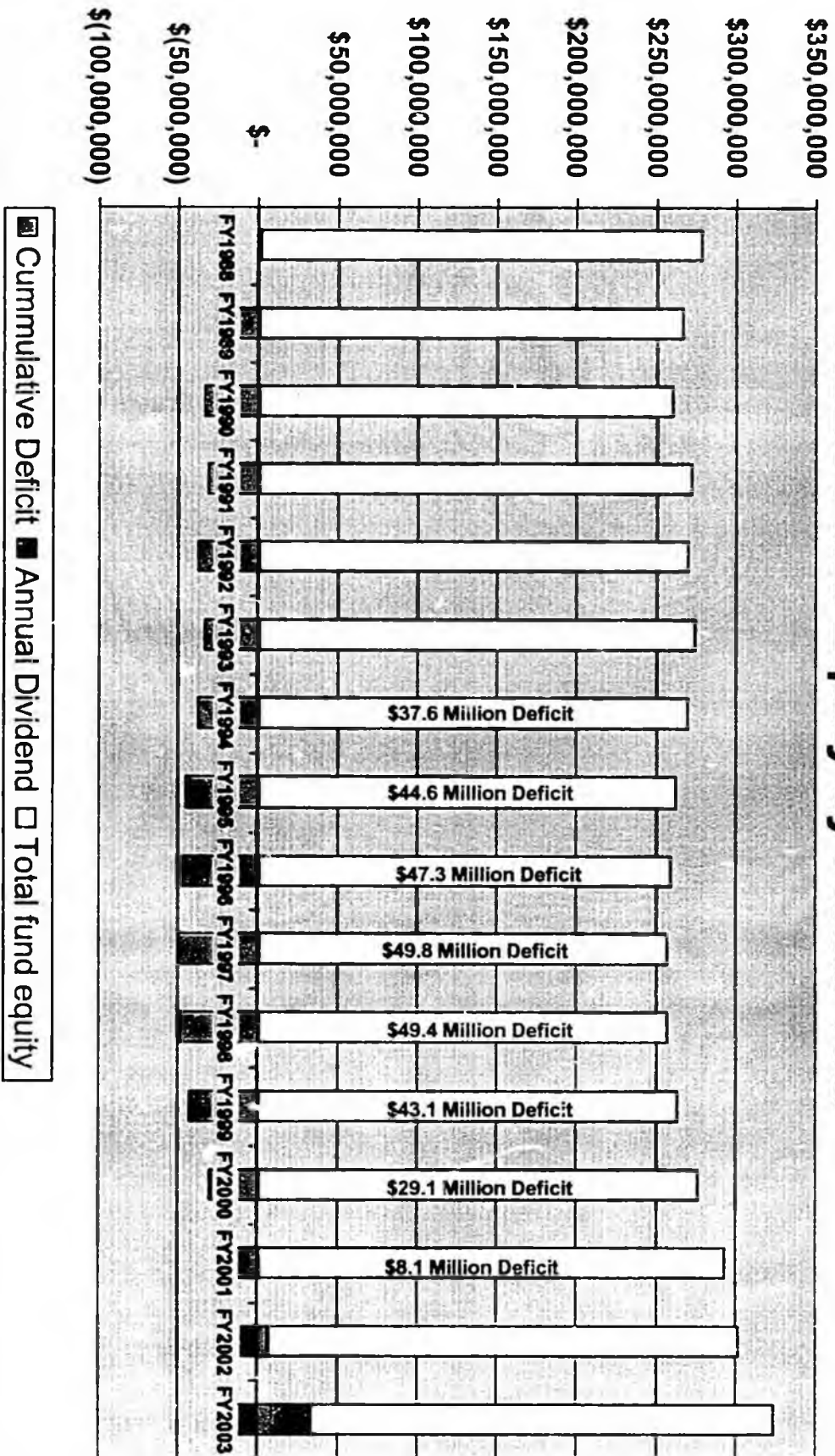
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<sup>1</sup> Underlying loans being consolidated carry interest rates of 7.8% – 9%. The base interest rate on the 2003 consolidation loan is 5.8%. The application of borrower benefits to qualifying individuals' loans results in rate reductions of .25% to 2.25%.

## Cummulative State Contributions To ASLC



# ASLC Fund Equity by Fiscal Year



Cumulative Deficit
  Annual Dividend
  Total fund equity

**1/21/04**

**OVERVIEW:**

**DENALI**

**COMM.**

**HFIN**

**FILE**

1/21/04



**DENALI COMMISSION**

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**Denali Commission Update  
House/Senate Finance Committee  
January 21, 2004**

**1. Total obligated funds (1999 – 2003)**

Denali Commission funds	\$292M
Matching funds	\$251M
<u>Total</u>	<u>\$543M</u>

**2. Cumulative Commission funding allocations (1999 – 2003)<sup>1</sup>**

Energy (bulk fuel & power projects)	61%
Health Care	22%
Other Infrastructure	5%
Training	4%
Economic Development	3%
Administration	5%

**3. Sources of potential FY04 funding<sup>2</sup>**

Energy & Water	\$52.25M
TAPL	\$3.99M
DOE	\$47.5M
HRSA	\$33.5M
USDA – RUS	\$14.25M
Labor	\$6.65M
EPA	\$3.33M
USDA –RD	\$0.95M
HUD	\$1.9M
<u>Total</u>	<u>\$164.3M</u>

**4. FY04 Legislative Initiatives<sup>3</sup>**

Elder Assisted Care	\$4M
Domestic Violence Shelters	\$5M
Teacher Housing	\$5M
Multi-Use Facilities	\$2.5M
Washeterias	\$2.5M
Solid Waste	\$0.95M
Public Broadcasting	\$4.75M
Training	\$6.65M
Economic Development	\$1.9M
S.E. Intertie System	\$6.1M
Hope line relocation	\$0.1M
Tok/Chistochina line	\$2M
Fire Island line	\$0.75M
<u>Total</u>	<u>\$32.1M</u>

<sup>1</sup> As a percentage of total obligated Denali Commission funds (\$292M)

<sup>2</sup> Only funds from the Energy & Water Appropriations bill have been secured to date (\$52.25M)

<sup>3</sup> In addition to core Commission programs (bulk fuel, rural power, & health care).

# Denali Commission

Alaska State Legislature

January 21, 2004

Good afternoon and thank you for the opportunity to share this time with you.

Each year since its' inception, I have come before you in my capacity as Federal Co-chair of the Denali Commission to provide you a report on our activities, to share our lessons learned and our intentions for the upcoming year, and to seek your guidance. We have our next Quarterly Meeting in Sitka later this week, so I appreciate this opportunity to touch base with you before that.

I also think of this meeting as an opportunity for you to hold me accountable.

Of course, I am the Commissioner responsible to the federal government for what the Commission as a whole does, or fails to do, within the authorities provided to us. I am the one charged with day to day effective and efficient operation of the Commission.

I enjoy the help of several Congressional Committees of Jurisdiction, of our Federal Office of Management and Budget, our Inspector General and Auditors, and of the Secretaries of Commerce, Health and Human Services, Agriculture, Energy, among other departments of federal government, and of Alaska's Congressional Delegation.

But I have also committed to our State Co-chair, and to the Alaskan public we jointly serve, to be accountable to them. Today I look to you as representatives of all the people of Alaska to express your thoughts on what we are doing, how we are doing it and to offer any suggestions how to proceed next year.

We seek to be the most transparent agency possible. We seek comprehensive community based and regionally supported planning of sustainable public infrastructure, particularly in rural communities. We seek sustainability and efficient use of federal funds through effective collaborations among tribal, local, regional, state, and federal agencies, as well as non-profit and other entities throughout the State.

I have provided ready access to all our projects, performance measures and outcomes with our annual report, and at our web site – which includes real time data that is updated daily. Our results speak for themselves, so without delay – I'd like to invite your comments, questions and suggestions.

Thank you.



1/21/04

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## **DRAFT**

# **Denali Commission Investment Policy**

## **January 2004**

### **Objective**

The Denali Commission (Commission) is committed to accelerating the building of sustainable infrastructure in rural Alaska to enhance the health and safety of rural residents and to provide the underpinnings for economic opportunity. The Commission will invest the limited funds with which it is entrusted in the most conscientious and sustainable manner possible with the objective of maximizing the benefits to rural Alaskans.

### **General Policy**

Commission investments are directed by federal law, by the Commission's Guiding Principles and by specific allocation decisions made by the Commission. Infrastructure needs of rural Alaska are enormous compared to available funding, thus, it is imperative that each dollar be invested in a way that will maximize the sustainable long term benefits to Alaskans.

The Commission will promote investment in infrastructure where the promise of sustainability (facility and services) can reasonably be demonstrated both now, and in the future. Infrastructure sustainability can be enhanced by adapting available technology and appropriately sizing facilities to meet the particular needs and circumstances of communities.

The Commission will site infrastructure so as to minimize potential damage from environmental threats such as flooding and erosion. If it is not possible to do so, long term investments will not be made.

Where the needs of two or more communities in close proximity to one another can be adequately and more cost effectively served by a single facility, that option will be selected over separate facilities for each community.

The long term sustainability of Commission investments is highly dependent on the good faith of the recipients of those investments. In evaluating potential investments the Commission will give priority to project proponents who have historically demonstrated good faith in making and keeping financial commitments. Previous demonstrations of bad faith, particularly for previous Commission investments, may preclude additional investments.

**Factors which will influence investment decisions:**

- **Size of community and population trends**

Infrastructure will be sized to meet needs that can reasonably be projected over the design life of the project. If population is increasing, appropriate excess capacity will be provided to accommodate growth. Decreasing population may result in a smaller facility than the current population would dictate. For communities with populations under 100, particularly those with populations declining 20% or greater over a 10 year census period, special attention will be given to appropriate design and sizing of facilities. Some small communities have demonstrated significant economic potential. These communities may serve as a shipping hub, have a seafood processing plant or be in close proximity to other communities. Such examples establish a case for economic potential and reliability in predicted revenue streams, all to be considered when determining an appropriate scale of infrastructure for a community.

- **Imminent environmental threats**

Facilities will be placed so as to be protected from imminent environmental threats such as flooding and erosion. Long term investments generally will not be made in areas that are subject to imminent environmental threats.

- **Proximity/access to existing services and/or facilities**

In determining the need for a new facility, a careful evaluation of existing access to services or facilities will be performed. Investments will be made where critical unmet needs are demonstrated. When like facilities or services can be merged or collocated to avoid duplication, enhance services, or reduce operating costs, a joint use agreement may be used as a condition for investment. Where existing facilities can be renovated or expanded to adequately meet community needs at significantly lower life-cycle costs than new construction, that option will be favored. Where a single facility can reasonably serve the needs of two or more communities, and is more cost effective than multiple facilities, the Commission will invest in a single facility.

- **Per capita investment**

While there are many factors which may explain extreme variations in per capita investment in communities, the Commission will compile and review this data to ensure that there is reasonable equity in the distribution of funds across all rural Alaska communities.

- **Unit cost**

Unit cost of construction varies widely across the state for a number of reasons including the technology employed and/or designs utilized. High unit cost tends to work counter to project sustainability. Some of the variables impacting unit cost (project location, soil conditions, etc.) are not controllable, but many others are. The Commission will make every reasonable effort to control unit cost by working with award recipients through its Partners to ensure that the most appropriate technology and designs are used.

- **Good Faith**

The long term sustainability of Commission investments is highly dependent on the good faith of the recipients of those investments. In evaluating potential investments the Commission will give priority to advocates who have historically demonstrated good faith in making and keeping financial commitments. Previous demonstrations of bad faith, particularly for previous state or federal investments or failure to pay taxes, may preclude additional investments.

- **Priority to be placed on needs of existing communities**

The Commission will give priority to the critical infrastructure needs of existing communities before considering proposals to create new communities unless there is a congressionally directed relocation of an existing community.

- **Borough Government**

The Commission recognizes that borough governments promote equity among Alaskans and that the existence of a state-chartered regional government increases the probability that basic infrastructure and services provided with Denali Commission funds will be sustained over the long term.

## **Implementation**

The Commission will consider all available information regarding each of the factors identified above and any other relevant information in making investment decisions. In cases where sustainability of an investment is questionable, the Commission, either directly or through its Partners, will work with project proponents to attempt to find workable solutions. It will be incumbent on requestors to provide pertinent information that is not otherwise available and to actively engage in the effort to develop workable solutions. Solutions may involve smaller scale or mobile facilities and may include multi-community or regional management approaches. If no workable sustainable solution is apparent, the Commission or its Partners may suggest alternative means to access critical services.

Decisions regarding questionable investments will be made by the Commission's Chief of Staff. Any decisions made relative to this policy may be appealed first to the Federal Co-Chair and ultimately to the full Commission.

Issued by: \_\_\_\_\_ Date: \_\_\_\_\_

1/21/04



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**RESOLUTION NO. 01-15**  
**A RESOLUTION REGARDING SUSTAINABILITY FOR DENALI COMMISSION FUNDED**  
**INFRASTRUCTURE PROJECTS**

WHEREAS, the Commission is charged with developing infrastructure to serve rural Alaskan communities, with preference given to those that are economically distressed and with particular regard to health and safety needs; and

WHEREAS, the Commission recognizes that healthy and safe communities depend on sustainable infrastructure; and

WHEREAS, one of the Commission's GUIDING PRINCIPLES states that projects must be sustainable, and sustainability is one of the Commission's CORE VALUES; and

WHEREAS, the U.S. Congress, through legislation drafted by Senator Ted Stevens, has directed the Commission to ensure that all infrastructure projects demonstrate sustainability as a prerequisite for Denali Commission funding; and

WHEREAS, both the U.S. Congress and the Alaska State Legislature have strongly advised the Denali Commission to avoid the creation of un-funded future liabilities for either the State or Federal governments; and

WHEREAS, the cost of constructing, operating, maintaining, renewing, and replacing infrastructure in rural Alaska is considerably more expensive than infrastructure in urban Alaska or the 48 contiguous states; and

WHEREAS, most communities in rural Alaska are economically distressed with unemployment levels several times the national average, and with income levels a fraction of the national level; and

WHEREAS, the high cost of services in rural Alaska and the operation and maintenance of rural infrastructure is currently assisted by a number of programs including the Power Cost Equalization Program, Low Income Heating and Electric Assistance Program, Remote Maintenance Worker Program, Rural Utility Business Advisor Program, government subsidized loans, and other means; and

WHEREAS, operating efficiencies and cost reduction can be achieved through a variety of means including, simplification and standardization, increasing the scale or regionalization of utility systems or other infrastructure system in order to achieve the required management capacity, and combining fuel orders to acquire economies of scale; and

WHEREAS, consistent application of sound business principles is a fundamental prerequisite to sustainable infrastructure or services; and

WHEREAS, life cycle cost of infrastructure increases dramatically when sustainability principles are not applied:

NOW THEREFORE BE IT RESOLVED, that the Denali Commission reconfirms its commitment to sustainability for Commission funded infrastructure projects as a CORE VALUE and as a GUIDING PRINCIPLE with the following understanding:

- Sustainability, by definition, includes all costs associated with management, operation and maintenance, renewal and replacement (after the design life has been achieved) necessary to maintain an acceptable level of service.
- The high cost of infrastructure in rural Alaska makes it infeasible for the total costs of all services in all communities to be borne by local users, however, **to the extent feasible**, user rates should include all costs necessary to achieve sustainability.
- All practical steps should be taken, including simplification of projects, standardization of infrastructure, combining of utilities, regionalization of utility management structures, bulk purchase of fuels, training and development of management personnel and other actions that reduce the cost of sustainable infrastructure.
- Before Denali Commission funding is applied to the construction of any infrastructure project there must be a sound business plan. The Denali Commission considers sound business planning as a key process in defining sustainability to ensure funded infrastructure projects will be operated and maintained and demonstrating how all costs, which are necessary to assure a sustainable project or level of service, will be covered.
- All parties to the Commission within their spheres of responsibility, as individual entities or in collaborative efforts, will seek to reduce the cost of sustainable rural utilities and support subsidies that are demonstrated as necessary to ensure that basic infrastructure and essential services are available in rural Alaska at an affordable cost.

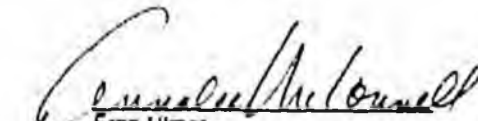
#### CERTIFICATION

We, the undersigned, hereby certify that the Denali Commission is comprised of seven members (or their duly appointed alternate), of whom six, constituting a quorum, were present at a meeting duly and regularly called, noticed, convened and held this 20th day of September, 2001, and that the foregoing Resolution was duly adopted at said meeting by the affirmative vote of seven members (Jeff Staser voting proxy for Jim Sampson), and opposed by 0 members, and that said Resolution has not been rescinded or amended in any way.

DATED this 20th day of September, 2001

SIGNED

  
Jeff Staser  
Federal Co-Chair

  
Fran Ulmer  
State Co-Chair



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1/22/04

OVERVIEW:  
INCREASED  
COSTS OF  
PERS &  
TRS

**HFIN**

**FILE**



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# **State of Alaska**

**Public Employees' Retirement System  
Teachers' Retirement System**

**Presentation to the House Finance Committee**

**January 22, 2004**

# Outline PERS / TRS Funding

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White Paper - Retirement System Funding

Funding Status

Valuation Report Results June 30, 2002 - PERS / TRS

Primary Factors Contributing to Funding Status

Increase in Health Care Cost

Loss of Investment Earnings

Employer Rates FY01 through FY05

Employer Contribution Rate Savings FY98 - FY04

FY05 Change by Employer

PERS Tier IV - TRS Tier III Subcommittee

Comparison with other retirement systems funding of healthcare

white

Paper

# EMPLOYEE BENEFITS AND RETIREMENT SYSTEM FUNDING WHITE PAPER

## Public Employees' Retirement System Teachers' Retirement System

The purpose of the following is to review the differences between a plan such as PERS / TRS (Defined Benefit plans) and the SBS Annuity / Deferred Compensation Plan (Defined Contribution plans). This covers: how the "benefit" is constructed for both plan types – and how very different they are, a broad description about how PERS / TRS are funded, what is an "Actuarial Valuation," how employer liabilities are determined, who sets the rates, and what causes the variation in employer rates from year to year and among employers.

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## What Kind of Plan is it? Defined *Benefit* v. Defined *Contribution* Plan

The type of retirement plan makes a big difference in the benefits employees can expect and the related present and future costs of a retirement system.

The Alaska Public Employees' and Teachers' Retirement Systems (PERS / TRS) are Defined Benefit plans. (Social Security is a Defined Benefit plan.) The Alaska Supplemental Annuity Plan (SBS Annuity) and Deferred Compensation Plan (DCP) are Defined Contribution plans.

Most employers, both government and private, use a combination of both plans. Private industry traditionally uses Social Security and adds a defined contribution plan like either a 401(k), or a defined benefit plan, or both. Except where benefits are negotiated, the additional plan, if any, is at the employer's discretion.

Governments traditionally use a defined benefit plan (like a PERS) and / or Social Security, and / or use an optional defined contribution plan such as Deferred Compensation (457). For Alaska State employees (and some political subdivisions) PERS is combined with SBS Annuity (as a substitute for Social Security). Deferred Compensation is purely elective, and not employer matched. Some political subdivisions use a combination of Social Security and PERS (i.e., the Anchorage Municipality); some use PERS only.

### Defined Benefit

In a Defined Benefit plan the benefit paid to an employee is based upon a formula set in law (determined by statute, regulation, plan document), and is NOT determined by the account balance.

Key features of this type benefit for PERS / TRS are:

- Benefit is based upon a formula (involves service, salary, age, etc.), and paid for the life of the member, with adjusted levels that continue the payment for a survivor.
- Benefit usually increases with post retirement pension adjustments and / or COLA.
- Plan paid health care, or a special low cost health care fee paid for by the member.
- Future benefit payments are NOT affected by plan funding methods or funding level of the plan, market gains or losses, or expenses.
- There is no separate refundable account balance once benefits start.
- If a member decides to cash-out the employee account, they only get employee contributions and fixed interest on that account. Employer contributions and actual investment earnings stay with the retirement system.
- Plan can reduce benefits for new entering members first hired after the date of the change (i.e., the tier system), *but the plan can not retroactively reduce benefits for members hired prior to the date of the plan benefit change.*

## Defined Contribution

In a Defined Contribution Benefit plan, the benefit is the amount of money in the account at retirement or termination - no more, no less.

Key features of this type benefit for SBS Annuity and DCP are:

- Benefit is the account balance. No extra survivor payment.
- Benefit does NOT increase with post retirement pension adjustments and / or COLA. The value of the account will increase *or decrease* with individual investment performance.
- NO paid health care and no special low cost health care options.
- The total benefit is affected by market gains or losses and expenses.
- When the money in the account runs out, no further benefits are payable. (Member can purchase their own annuity.)

## **Funding Sources – “Additions” To The Plan - Defined Benefits**

All retirement plans usually have three basic funding sources:

- Employee Contributions
- Employer Contributions
- Investment Earnings, including gains and losses

*Over the broad time horizon, investment earnings, including gains and losses, typically provide 75% of the total funding for retirement plans; with the 25% balance provided by employee and employer contributions.*

## **Expenses – “Deductions” From Plan Assets - Defined Benefits**

The major categories of expenditures (and their relative percentages) for PERS and TRS are as follows (based on actual results for the past year). The differences between the plans are due to benefit differences, number of members, variety of job classifications, etc.:

<u>PERS</u>	<u>TRS</u>	
• 65.5%	77.2%	- Pension benefit payments
• 30.5%	20.8%	- Post employment health care
• 2.8%	1.2%	- Refunds of contributions
• 1.2%	0.8%	- Administrative expenses

## **Funding Needs = Pension Benefits + Health Care Costs + Admin. Expenses**

The funding goal is to collect enough contributions during the working lifetime of the employee, and earnings on those contributions, to pay for retirement benefits. The benefits themselves will be paid out after retirement for the life of the member (and / or survivor).

For the entire system, the sum of all benefits owed determines the system *liability*, after taking into account inflation and the timing of future payments.

As an example, with a \$40,000 salary and 20 years of service, the normal retirement benefit for a police officer would be about \$17,000 per year, *for life*. The plan must accumulate about \$210,000 during the 20-year career to pay that benefit over time (including the cost of health coverage). However, once the employee is retired and collecting payments, the plan can no longer charge the employee for the increase and the following usually changes the benefit cost:

- The employee collects more payments than the original assumed life expectancy.
- Health care and other costs continually rise higher than the actuarial assumptions.
- Legislative changes or judicial interpretations that grant increases to all members.

Since the retirement fund cannot get further contributions from the employee, it must obtain the additional funding from the former employers of the employee. If the plan does not earn enough money from investments, the remaining uncovered costs must be paid for by contributions from employers. Employee contributions are set in statute; they cannot be raised for current employees without an offsetting increase in benefits.

Total system costs / funding can be defined by:

$$\begin{array}{r} \text{Benefits Paid + Administrative Expenses (LIABILITIES)} \\ = \\ \text{Employer and Member Contributions + Net Investment Income / Loss (ASSETS)} \end{array}$$

Therefore: Calculated LIABILITIES *greater* than ASSETS = Funding Shortfall  
Calculated LIABILITIES less than ASSETS = Excess Funding

### Actuarial Valuation

An Actuarial Valuation is performed each year to obtain an up to date number of the total accrued liability for the entire system. An actuarial valuation produces an estimate of total liabilities, at a given point in time; *it does not change the ultimate cost of the system*.

Actuarial Valuations use assumptions to determine what the total cost will be over the life of the system. These assumptions reflect the major variables that will affect the total system costs, and the cost of any one individual. The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future financial obligations to participants. An Actuarial Valuation determines the expected future obligation.

In a Defined Benefit plan, the system does not know how long you will actually live, how many payments you will actually get after retirement, how much COLA you will actually be paid, how much your post retirement pension adjustments will be, or how much future health care costs will be – therefore, assumptions are used to make a reasonable estimate of what the cost might be – and the funding level is determined as a result.

Although there are over 20 separate assumptions, the major ones are:

- **Investment Return** – 8.25% average annual rate of return on plan assets over the long term, compounded annually, net of expenses. Returns less than the assumed rate lead to funding shortfalls.

*The assets of the PERS and TRS are invested by the Alaska State Pension Investment Board, Department of Revenue. They are not invested by the Division of Retirement & Benefits.*

- **Health Cost Trend** – The average compound annual rate of increase since 1978 has been 10%. The plan uses an estimate for health cost increases at a compounded annual rate for the life of the system, that decreases over time to the rate of inflation plus 1.5%. Current trends are closely followed and adjustments made.

*The PERS and TRS Pre-fund health insurance costs. This is NOT common to most retirement systems – they generally only fund the cost of the current year. This means the PERS and TRS systems are far better funded, and have accounted for all liabilities. This is why PERS and TRS funding levels may appear to be unfavorable compared to their counterparts; but are in fact quite favorable compared to their counterparts.*

*For instance, even in a dramatic down year like 2002, PERS is funded for non-medical benefits at the 125.8% level. When including health insurance costs – total benefits – the funding ratio drops to 75.7% (within the top quartile of nationwide plan funding levels)*

- **Mortality** – The expected “life expectancy” of a member. This translates directly into how many payments the plan will make. We use the 1994 Group Annuity Mortality Basic Table. To illustrate, when the 1994 table came into effect it added 2.5 years of life on average mortality versus the 1983 table. (2.5 years more of payments than were originally anticipated for each member!)
- **Past Service Amortization** – When a member actually retires, often 20-30 years after starting employment, *their benefit cost for those early years to the system can dramatically increase* as compared to the present day health care costs, longevity and more payments, etc. The employers for whom they worked are responsible to pay these additional costs even if the employee no longer works for them.

Further, employers create large past service liability when they grant newly hired, experienced employees generous rights to purchase additional service. All of that cost now, and in the future, must be paid. This generates an unfunded liability to the employer (or a surplus if costs are less). That unfunded liability or surplus is spread over 25 years.

- **“Smoothing” Method – Level Out The Highs and Lows of Investment Earnings** – It is important not to allow extreme market volatility to affect any one year. That means gains and losses on marketable securities in any particular year are not charged to the asset base for actuarial purposes. The plan spreads out gains and losses of any one year over five years.

Additional assumptions include: asset valuation methods, methods of recognizing gain or loss, COLA, Post-Retirement Pension Adjustment, system benefit changes that affect future costs, inflation, total employee turnover, salary scale, expected disability, rates of retirement, spouse's ages, dependent children, contribution refunds, new entrants, marital status, expenses, etc.

### **Individual Employer Rates v. Cost Sharing**

#### **PERS is an “agent multiple-employer plan” that results in individual employer rates**

An agent multiple-employer plan can be thought of as a collection of single-employer plans that are managed by a single administrative agency – such as the Division's PERS Plan. The plans' assets are pooled for investment purposes and administrative costs are shared. However, the benefit obligations (actuarial accrued liabilities) are not pooled. Each employer remains individually responsible for its own obligations.

Employers covered by PERS, unlike TRS, have a variety of job functions. The functions operated, and the extent to which they operate varies greatly among political subdivisions or the State of Alaska. In TRS, they are essentially all teachers.

Small employers tend to be more affected by liability cost increases because of the smaller employee base. Also, larger plans (PERS), and less mature and more diverse plans (PERS) tend to have more insulation from volatility and funding swings versus less diverse, more mature, and smaller plans (TRS). It is a matter of size and function spread. The bigger the pie, the greater the place to spread common costs.

#### **TRS is a “cost-sharing multiple-employer plan” that results in one uniform rate**

Cost-sharing employers are not individually responsible for plan benefit obligations. In a cost-sharing plan, the actuarial accrued liabilities of the various employers are shared, and the plan assets are pooled and are available to pay the shared actuarial accrued liabilities as they become due. The contribution rate is the same for all employers.

The justification for a single rate is the uniform nature of the employees allowed into TRS and the job that they do (they must be certificated teachers) versus the far greater functional diversity and selective inclusion of employees for a PERS employer.

### **Who Adopts The Rates – How High Can They Go?**

By Alaska Statute, the PERS Board adopts the employer rate after review of the Actuarial Valuation and factors surrounding that decision. However, no matter how high the calculated rates go in any one year, the change in an employer's rate for any one year, up or down, by

regulation is limited to 5.0%. That means if the full calculated rate is not used, liabilities go uncovered into future years.

PERS individual employer rates, after considering the 5.0% annual limit, for FY 05, vary between 0.00% (over funded) and 35.49% (large unfunded liability).

TRS has a single rate for all employers. Rates have traditionally been set by the TRS Board, but the Plan Administrator has the final authority. The rate for TRS is not limited by statute. However, along with its cost sharing policy, the TRS Board has maintained a more level rate over the past several years, between 11 and 12%.

With the dramatic health care increases and investment losses of the last three years, the TRS Board raised the employer rate to 16% for FY 05.

*Actuarial valuations are two years ahead in rate setting. For instance, the financial results as of June 30, 2002 are used in the 2003 Actuarial Valuation, which will be used to set the FY 05 employer rates. Each year, 100% of the employee and retiree data, updated and modified for all changes in the past year, maintained by Retirement & Benefits, is used to update the liability calculation.*

**Employer Rates and Funding Levels – FY 04 v. FY 05**

<u>Key PERS Results:</u>	<u>FY 04</u>	<u>FY05</u>	<u>Change</u>
Average Calculated Contribution Rate	6.77%	24.91%	
Board Adopted Average Employer Rate	6.77	11.77	+ 5.0%
Funding Ratio			
Non-Medical Benefits	143.7%	120.9%	
TOTAL Benefits	100.9	75.2%	(25.7%)

(Represents the AVERAGE rates, individual employer rates vary)

<u>Key TRS Results:</u>	<u>FY 04</u>	<u>FY05</u>	<u>Change</u>
Calculated Contribution Rate	14.44%	35.57%	
Board Adopted Employer Rate	12.00	16.00	+ 4.0%
Funding Ratio			
Non-Medical Benefits	119.7%	93.2%	
TOTAL Benefits	95.0	68.2%	(26.8%)

## Why the Big Difference Between FY 04 and FY 05?

Basically two reasons:      *Lower investment earnings*  
   *Increasing health care costs*

### Investment Earnings

From July 2000 to June 2002, PERS lost \$927 million, and TRS lost \$471 million dollars. This puts overall earnings at a negative 5.4% for two years. (For the 2003 fiscal year earnings came in at 3.6%.)

*The amount of earnings loss for the period July 2000 to June 2002 was equal to about eight years of employer and employee contributions.*

In order for unfunded liabilities NOT to increase, the funds have to earn at least 8.25% - the long term assumed rate. If the funds earn consistently less than the assumed rate, the liabilities are not covered, the plan is under funded, and consequently rates go up. The 8.25% rate is well within nationally accepted boundaries for such a rate.

(It has been suggested that lowering the earnings assumed rate would help – in fact, the opposite would happen. The lower the long-term earnings, the less the ability to cover rising obligations. The result is even lower fund levels and higher employer rates!)

### Health Care Costs

The rate of increase for each of the last five calendar years has been as follows:

<u>Period</u>	<u>Premium To Plan</u>	<u>Increase</u>
1998	\$ 368	-
1999	442	20%
2000	530	20
2001	610	15
2002	668	10
2003	720	8

*The average compounded annual increase since FY 78 has been 10%.*

When members 20 years ago were paying into PERS or TRS, the employer rates were calculated using a far lower rate of health care cost increases. When these employees retire, their employer has to make up for the new higher rates through past service costs.

*That is how a defined benefit plan works. The retiree gets the benefit they were promised; not a reduced benefit based upon what was actually accrued for them over their working life.*

*Resources must be found to make up the difference – either more investment earnings, or higher contributions from employers.*

## **What Does a One-Year Increase in Employer Rates Mean?**

The 5% employer rate increase for PERS, for FY 05, for all PERS employers, results in an additional \$73,000,000 in costs. (The State of Alaska will pay about 50% of those costs and all other PERS employers, 50%.)

The 4% employer rate increase for TRS, for FY 05, for all TRS employers, results in an additional \$22,000,000 in costs.

## **Who Takes The Risk? – The “Bottom Line”**

In a **Defined Benefit** plan, the **employer** takes the risk of lower than expected earnings and higher than expected costs.

In a **Defined Contribution** plan, the *employee* takes the risk of lower than expected earnings and higher than expected costs.

# Background

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Total system costs can be defined by the following equation:

$$\begin{aligned} & \text{Benefits Paid} \\ & + \\ & \text{Administration Expenses} \\ & = \\ & \text{Employer and Member Contributions} \\ & + \\ & \text{Net Investment Income/Loss} \end{aligned}$$

# Background

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Actuarial methods are used to allocate system costs over time in an orderly fashion. They do not, however, change the ultimate cost of the system.

Results are based on the most recent valuations for PERS and TRS as of June 30, 2002.

# System Funding Goals

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The following are proposed system funding goals based on observed board discussions:

- Relatively stable contribution rates over time
- Actuarial funding of retiree medical benefits
- 100% (102% for PERS) funded ratio of assets to accrued liabilities (including retiree medical)
- Pay for benefits during working lifetime



# Data, Assumptions & Methods

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The results in this presentation are based on the following:

- Participant data as of projected to June 30, 2002
- Asset data as of June 30, 2002
- Actuarial assumptions, procedures and methods as described in the June 30, 2002 actuarial valuation reports

# Current Issues and Challenges

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Rising employer contribution levels and deteriorating funded status

- Primary reasons:
  - financial market performance
  - rising cost of medical care

# Funding Status

FY 04 - FY 05

# Employer Rates

## Employer Rates and Funding Levels – FY 04 v. FY 05

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Employer  
Savings  
FY 98 - FY 04

## SAVINGS DUE TO LOWER EMPLOYER CONTRIBUTIONS FY 98 – FY 04

### PERS

Attached is a spreadsheet that reviews the results of dropping the Average Employer Contribution Rate for the year 1998, estimated through 2004. 1998 was the year of the first major lowering of the contribution rates (12.14 to 8.00%), and in 2005 the rate will be raised by 5.00% (6.77 to 11.77%)

This is based on the "Average" consolidated employer contribution rate that is a base for all employers. Each employer is affected by the consolidated rate that applies to all employers, and then by their individual Past Service Rate. The TOTAL employer rate is usually higher because of Past Service Rate. For instance, the State of Alaska Total rate for FY 04 is 7.75%; the Total State rate is 12.75% for FY05 (because of the 5% cap). The actual total calculated rate was 25.71% if the cap was not in effect.

The spreadsheet applies this average rate to reported salaries and other includable taxable compensation. The calculated savings are derived through comparing the salaries reported with the change in rate from the base. This gives the gross savings due only to the component of the change in the average rate for all employers.

In the last two columns there is a reflection of the actual drop in contributions. The rise in past service costs, changes in employee base, etc. will offset some of the calculated savings, because what was saved has been used for other payroll purposes. The last column gives a net savings after all factors. In very simple terms, while calculated total savings from the base year were \$463 million (using a 3% total payroll increase factor for FY 04 – merit plus growth), employers at least saved \$360 million because other costs absorbed a portion of the "savings."

No employer was given a rebate of actual cash; that is prevented by statute. Some employers had found themselves in an over funded condition, even after considering past service costs, and they went to very low to even 0.00% employer contribution rates.

PERS rate reduction were pushed because they generated savings that all employers could point to. It generated savings for legislative budget purposes. (The rate lowering also made a good argument for granting post retirement pension adjustments and at the same time showing legislative budget reductions). The savings generated to employers were quite real.

### TRS

TRS, because it is a multiple employer cost sharing system, has used a more uniform rate (basically disregarding for the most part the investment gains or losses). TRS employer rates were FY 1993-2001 at 12%, FY 2002 and 2003 was 11%, FY 2004 back to 12%, and FY 2005 set at 16%. Calculated rates were usually higher, and lower for several years due to "boom" earnings, but quickly reversed when the market collapsed.

TRS did have savings from the 1% change in 2002 and 2003. For 2002, total TRS payroll was \$558 million (updated for changes through 12/03) - which translates to a \$5.5 million savings in employer contributions for 2002, and near the same amount in 2003. A total savings of just over \$11 million during the two year 1% drop period.

January 20, 2004

**Public Employees' Retirement System**  
**Average Employer Contribution Rate & Payroll**  
**Savings Due To Lower Employer Contributions - FY 98 - FY 04**

Fiscal Year	Payroll State AK Only (actual data)	Percent Change From PY	Payroll All Others (actual data)	Percent Change From PY	Payroll Total	PERS Board Adopted Average ER Contribution Rate	Chg From FY 97 Base	Calculated State of Alaska Change	Calculated All Other PERS Employer Change	Calculated Total Employer Contrib. Less Due To Base Change	Actual Total Employer Contrib	Actual Change In Total Net ER Contrib (includes all changes)
1996	619,492,911		602,373,652		1,221,866,563	12.82%						
1997	617,556,456	-0.31%	611,578,056	1.53%	1,229,134,512	12.14%					154,599,000	
1998	622,044,248	0.73%	613,394,989	0.30%	1,235,439,237	8.00% A	-4.14%	(25,752,632)	(25,394,553)	(51,147,184)	112,384,000	(42,215,000)
1999	640,906,256	3.03%	642,642,366	4.77%	1,283,548,622	7.74%	-4.40%	(28,199,875)	(28,276,264)	(56,476,139)	109,938,000	(44,661,000)
2000	661,362,372	3.19%	660,548,849	2.79%	1,321,911,221 B	7.74%	-4.40%	(29,099,944)	(29,064,149)	(58,164,094)	107,596,000	(47,003,000)
2001	681,818,488	3.09%	678,455,331	2.71%	1,360,273,819	7.40%	-4.74%	(32,318,196)	(32,158,783)	(64,476,979)	96,484,000	(58,115,000)
2002	701,531,848	2.89%	700,820,331	3.30%	1,402,352,179	6.75%	-5.39%	(37,812,567)	(37,774,216)	(75,586,782)	94,769,000	(59,830,000)
2003	722,577,803	3.00% C	721,844,941	3.00% C	1,444,422,744	6.75%	-5.39%	(38,946,944)	(38,907,442)	(77,854,386)	99,198,000	(55,401,000)
2004	744,255,138	3.00% C	743,500,289	3.00% C	1,487,755,427	6.77%	-5.37%	(39,966,501)	(39,925,966)	(79,892,466)	102,173,940 C est.	(52,425,060) C est.
2005	766,582,792	3.00% C	765,805,298	3.00% C	1,532,388,090	11.77%	-0.37%					
								(232,096,659)	(231,501,372)	(463,598,031)		(359,650,060)

A - Revised August 29, 1997 to 8.00% from a prior rate of 11.90%

B - Because of Y2K Transition of Computer System, used 50 \ 50 prior, after FY.

C - Estimate of an increase amount for future (rounded ave. of 99-02 increase - 3.0% - updated from 1.5% used in earlier version); and last yr. total cost for purposes of equal comparison

D-1 - Savings based on lower average rate applied to all employers

D-2 - Actual drop in employer contributions compared to the high; AFTER individual past service cost increases, other hiring, and all other factors, unrelated to lowering base rate.

## Public Employees' Retirement System (PERS) &amp; Teachers' Retirement System (TRS)

01/20/04 10:20 AM

## Average Employer Contribution Rate &amp; Payroll - Active Employers

## ESTIMATED FY 05 Change In Employer Contribution - Sort By System \ Employer

## Division of Retirement &amp; Benefits

Fund	ER Num	Employer	(B) Ave. Inc. \ yr.>>>	3.00%	<<<PERS>>>	5.0%	(D)
			(B) Ave. Inc. \ yr.>>>	3.00%	<<<TRS >>>	4.0%	(D)
			(A) FY 02 Total Earnings	(Chg\Yr x 3 Yrs) FY02-FY05 Increase Earn Est.	(C) FY 05 Estimated Earnings	Ave ER Rate Increase	(E) AVE Increase Dollars
PERS	208	AKUTAN, CITY OF	264,162	109.00%	287,937	5.0%	14,397
PERS	255	ALASKA GATEWAY SD	1,310,423	109.00%	1,428,361	5.0%	71,418
PERS	152	ALASKA HOUSING FINANCE CORPORATION	14,119,271	109.00%	15,390,005	5.0%	769,500
PERS	106	ALASKA MUNICIPAL LEAGUE	283,665	109.00%	309,195	5.0%	15,460
PERS	101	ALASKA, STATE OF	701,531,848	109.00%	764,669,714	5.0%	38,233,486
PERS	267	ALEUTIAN HOUSING AUTHORITY	463,009	109.00%	504,680	5.0%	25,234
PERS	162	ALEUTIAN REGION SD	134,678	109.00%	146,799	5.0%	7,340
PERS	230	ALEUTIANS EAST BOROUGH	894,043	109.00%	974,507	5.0%	48,725
PERS	244	ALEUTIANS EAST BOROUGH SD	1,070,290	109.00%	1,166,616	5.0%	58,331
PERS	245	ALEUTIANS WEST CRSA	49,841	109.00%	54,327	5.0%	2,716
PERS	259	ALLAKAKET, CITY OF	45,352	109.00%	49,434	5.0%	2,472
PERS	203	ANCHORAGE PARKING AUTHORITY	935,838	109.00%	1,020,063	5.0%	51,003
PERS	111	ANCHORAGE SD	64,634,105	109.00%	70,451,174	5.0%	3,522,559
PERS	173	ANCHORAGE, MUNICIPALITY OF	117,039,389	109.00%	127,572,934	5.0%	6,378,647
PERS	283	ANDERSON, CITY OF	35,532	109.00%	38,730	5.0%	1,936
PERS	289	ANGOON, CITY OF	282,259	109.00%	307,662	5.0%	15,383
PERS	103	ANNETTE ISLAND SD	1,117,072	109.00%	1,217,608	5.0%	60,880
PERS	243	ATKA, CITY OF	65,598	109.00%	71,502	5.0%	3,575
PERS	281	BARANOF ISLAND HA	418,305	109.00%	455,952	5.0%	22,798
PERS	171	BARROW, CITY OF	951,260	109.00%	1,036,873	5.0%	51,844
PERS	219	BARTLETT REGIONAL HOSPITAL	15,749,772	109.00%	17,167,251	5.0%	858,363
PERS	104	BERING STRAIT SD	6,487,845	109.00%	7,071,751	5.0%	353,588
PERS	232	BERING STRAITS CRSA	62,733	109.00%	68,379	5.0%	3,419
PERS	270	BERING STRAITS RHA	987,804	109.00%	1,076,706	5.0%	53,835
PERS	136	BETHEL, CITY OF	4,163,059	109.00%	4,537,734	5.0%	226,887
PERS	144	BRISTOL BAY BOROUGH	1,255,061	109.00%	1,368,016	5.0%	68,401
PERS	184	BRISTOL BAY BOROUGH SD	641,364	109.00%	699,087	5.0%	34,954
PERS	223	BRISTOL BAY RHA	1,018,325	109.00%	1,109,974	5.0%	55,499
PERS	105	CHATHAM SD	631,934	109.00%	688,808	5.0%	34,440
PERS	121	CHUGACH SD	213,355	109.00%	232,557	5.0%	11,628
PERS	262	COOK INLET HOUSING AUTHORITY	2,371,737	109.00%	2,585,193	5.0%	129,260
PERS	224	COPPER RIVER BASIN RHA	491,773	109.00%	536,033	5.0%	26,802
PERS	112	COPPER RIVER SD	1,127,364	109.00%	1,228,827	5.0%	61,441
PERS	185	CORDOVA CITY SD	575,642	109.00%	627,450	5.0%	31,372
PERS	163	CORDOVA COMMUNITY MEDICAL CENTER	2,320,138	109.00%	2,528,950	5.0%	126,448
PERS	148	CORDOVA, CITY OF	1,742,230	109.00%	1,899,031	5.0%	84,952
PERS	204	CRAIG CITY SD	997,311	109.00%	1,087,069	5.0%	54,353
PERS	186	CRAIG, CITY OF	1,670,674	109.00%	1,821,035	5.0%	91,052
PERS	282	DELTA JUNCTION, CITY OF	60,476	109.00%	65,919	5.0%	3,296
PERS	246	DELTA/GREELY SD	841,659	109.00%	917,408	5.0%	45,870
PERS	258	DENALI BOROUGH	521,599	109.00%	568,543	5.0%	28,427
PERS	118	DENALI BOROUGH SD	773,615	109.00%	843,240	5.0%	42,162
PERS	205	DILLINGHAM CITY SD	1,118,566	109.00%	1,219,237	5.0%	60,962
PERS	178	DILLINGHAM, CITY OF	2,160,968	109.00%	2,355,455	5.0%	117,773
PERS	271	EGEGIK, CITY OF	89,782	109.00%	97,862	5.0%	4,893
PERS	242	ELIM, CITY OF	160,588	109.00%	175,041	5.0%	8,752
PERS	116	FAIRBANKS NORTH STAR BOROUGH	15,353,714	109.00%	16,735,548	5.0%	836,777
PERS	117	FAIRBANKS NORTH STAR BOROUGH SD	21,839,911	109.00%	23,805,503	5.0%	1,190,275
PERS	129	FAIRBANKS, CITY OF	5,409,556	109.00%	5,898,416	5.0%	294,821
PERS	183	FORT YUKON, CITY OF	271,347	109.00%	295,768	5.0%	14,788
PERS	141	GALENA CITY SD	2,888,249	109.00%	3,148,191	5.0%	157,410
PERS	192	GALENA, CITY OF	1,211,569	109.00%	1,320,610	5.0%	66,031
PERS	189	HAINES BOROUGH	1,869,294	109.00%	2,037,530	5.0%	101,877
PERS	240	HAINES BOROUGH SD	910,974	109.00%	992,962	5.0%	49,648
PERS	216	HOMER, CITY OF	4,347,392	109.00%	4,738,657	5.0%	236,933
PERS	131	HOONAH CITY SD	473,035	109.00%	515,508	5.0%	25,780

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)

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Average Employer Contribution Rate & Payroll - Active Employers

ESTIMATED FY 05 Change in Employer Contribution - Sort By System \ Employer

Division of Retirement & Benefits

			(B) Ave. inc. \ yr.>>>	3.00% << :PERS>>>	5.0% (D)		
			(B) Ave. inc. \ yr.>>>	3.00% <<<TRS >>>	4.0% (D)		
			(A)	(Chg\Yr x 3 Yrs) (C)	(E)		
Fund	ER Num	Employer	FY 02 Total Earnings	FY02-FY05 Increase Earn Est.	FY 05 Estimated Earnings	Ave ER Rate Increase	AVE Increase Dollars
PERS	199	HOONAH, CITY OF	585,470	109.00%	638,162	5.0%	31,908
PERS	285	HOOPER BAY, CITY OF	543,733	109.00%	592,669	5.0%	29,633
PERS	235	HUSLIA, CITY OF	84,657	109.00%	92,276	5.0%	4,614
PERS	168	HYDABURG CITY SD	238,167	109.00%	259,602	5.0%	12,980
PERS	124	IDITAROD AREA SD	1,456,563	109.00%	1,587,654	5.0%	79,383
PERS	275	ILISAGVIK COLLEGE	3,647,081	109.00%	3,975,318	5.0%	198,766
PERS	263	INTERIOR RHA	927,652	109.00%	1,011,141	5.0%	50,557
PERS	284	INTER-ISLAND FERRY AUTHORITY	116,851	109.00%	127,368	5.0%	6,368
PERS	108	JUNEAU BOROUGH SD	8,242,706	109.00%	8,984,550	5.0%	449,227
PERS	126	JUNEAU, CITY AND BOROUGH OF	23,913,382	109.00%	26,065,586	5.0%	1,303,279
PERS	260	KACHEMAK, CITY OF	54,282	109.00%	59,167	5.0%	2,958
PERS	265	KAKE CITY SD	443,280	109.00%	483,175	5.0%	24,159
PERS	277	KAKE, CITY OF	267,796	109.00%	291,898	5.0%	14,595
PERS	237	KALTAG, CITY OF	26,173	109.00%	28,529	5.0%	1,426
PERS	211	KASHUNAMIUT SD	1,092,499	109.00%	1,190,824	5.0%	59,541
PERS	180	KENAI PENINSULA BOROUGH	11,066,805	109.00%	12,062,817	5.0%	603,141
PERS	190	KENAI PENINSULA BOROUGH SD	11,394,928	109.00%	12,420,472	5.0%	621,024
PERS	115	KENAI, CITY OF	4,926,214	109.00%	5,369,573	5.0%	268,479
PERS	122	KETCHIKAN GATEWAY BOROUGH	3,649,736	109.00%	3,978,212	5.0%	198,911
PERS	177	KETCHIKAN GATEWAY BOROUGH SD	3,323,252	109.00%	3,622,345	5.0%	181,117
PERS	181	KETCHIKAN, CITY OF	7,358,245	109.00%	8,020,487	5.0%	401,024
PERS	151	KING COVE, CITY OF	949,662	109.00%	1,035,132	5.0%	51,757
PERS	251	KLAWOCK CITY SD	524,844	109.00%	572,080	5.0%	28,604
PERS	227	KLAWOCK, CITY OF	752,608	109.00%	820,343	5.0%	41,017
PERS	174	KODIAK ISLAND BOROUGH	2,010,855	109.00%	2,191,832	5.0%	109,592
PERS	158	KODIAK ISLAND BOROUGH SD	4,169,251	109.00%	4,544,484	5.0%	227,224
PERS	128	KODIAK, CITY OF	5,195,780	109.00%	5,663,400	5.0%	283,170
PERS	140	KOTZEBUE, CITY OF	2,879,470	109.00%	3,138,622	5.0%	156,931
PERS	287	KOYUK, CITY OF	19,691	109.00%	21,463	5.0%	1,073
PERS	125	KUSPUK SD	2,025,436	109.00%	2,207,725	5.0%	110,386
PERS	247	LAKE AND PENINSULA BOROUGH	580,459	109.00%	632,700	5.0%	31,635
PERS	164	LAKE AND PENINSULA BOROUGH SD	2,325,155	109.00%	2,534,419	5.0%	126,721
PERS	157	LOWER KUSKOKWIM SD	15,200,587	109.00%	16,568,640	5.0%	828,432
PERS	153	LOWER YUKON SD	4,182,229	109.00%	4,558,630	5.0%	227,931
PERS	109	MATANUSKA-SUSITNA, BOROUGH	8,776,404	109.00%	9,566,280	5.0%	478,314
PERS	110	MATANUSKA-SUSITNA BOROUGH SD	17,631,217	109.00%	19,218,027	5.0%	960,901
PERS	196	NENANA CITY SD	858,876	109.00%	936,175	5.0%	46,809
PERS	193	NENANA, CITY OF	342,988	109.00%	373,857	5.0%	18,693
PERS	149	NOME CITY SD	1,299,621	109.00%	1,416,587	5.0%	70,829
PERS	175	NOME JOINT UTILITY SYSTEM	898,551	109.00%	979,421	5.0%	48,971
PERS	139	NOME, CITY OF	2,290,282	109.00%	2,496,407	5.0%	124,820
PERS	241	NOORVIK, CITY OF	322,853	109.00%	351,910	5.0%	17,595
PERS	170	NORTH PACIFIC FISHERY MGMT COUNCIL	1,021,196	109.00%	1,113,104	5.0%	55,655
PERS	276	NORTH PACIFIC RIM HA	866,445	109.00%	944,425	5.0%	47,221
PERS	191	NORTH POLE, CITY OF	1,902,373	109.00%	2,073,587	5.0%	103,679
PERS	145	NORTH SLOPE BOROUGH	43,491,164	109.00%	47,405,369	5.0%	2,370,268
PERS	161	NORTH SLOPE BOROUGH SD	11,544,616	109.00%	12,583,631	5.0%	629,182
PERS	220	NORTHWEST ARCTIC BOROUGH	642,887	109.00%	700,747	5.0%	35,037
PERS	154	NORTHWEST ARCTIC BOROUGH SD	6,381,393	109.00%	6,955,718	5.0%	347,786
PERS	288	NORTHWEST INUPIAT HOUSING AUTHORITY	497,665	109.00%	542,455	5.0%	27,123
PERS	134	PALMER, CITY OF	2,352,286	109.00%	2,563,992	5.0%	128,200
PERS	257	PELICAN CITY SD	71,599	109.00%	78,043	5.0%	3,902
PERS	200	PELICAN, CITY OF	116,031	109.00%	126,474	5.0%	6,324
PERS	228	PETERSBURG CITY SD	954,205	109.00%	1,040,083	5.0%	52,004
PERS	187	PETERSBURG MEDICAL CENTER	2,837,752	109.00%	2,875,150	5.0%	143,757
PERS	143	PETERSBURG, CITY OF	3,511,447	109.00%	3,827,477	5.0%	191,374

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)

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Average Employer Contribution Rate & Payroll - Active Employers

ESTIMATED FY 05 Change in Employer Contribution - Sort By System \ Employer

Division of Retirement & Benefits:

(B) Ave. Inc. \ yr.>>> 3.00% <<<PERS>>> 5.0% (D)  
 (B) Ave. Inc. \ yr.>>> 3.00% <<<TRS >>> 4.0% (D)

Fund	ER Num	Employer	(A)	(ChglYr x 3 Yrs)	(C)	Ave ER	(E)
			FY 02 Total Earnings	FY02-FY05 Increase Earn Est.	FY 05 Estimated Earnings	Rate Increase	AVE Increase Dollars
PERS	156	PRIBILOF SD	585,402	109.00%	638,088	5.0%	31,904
PERS	266	QUINHAGAK, CITY OF	27,461	109.00%	29,932	5.0%	1,497
PERS	216	RUBY, CITY OF	108,860	109.00%	118,657	5.0%	5,933
PERS	256	SAINT GEORGE, CITY OF	335,905	109.00%	366,136	5.0%	18,307
PERS	221	SAINT MARY'S SD	375,758	109.00%	409,576	5.0%	20,479
PERS	214	SAINT MARY'S, CITY OF	281,188	109.00%	306,495	5.0%	15,325
PERS	172	SAINT PAUL, CITY OF	1,253,946	109.00%	1,366,801	5.0%	68,340
PERS	176	SAND POINT, CITY OF	695,464	109.00%	758,056	5.0%	37,903
PERS	278	SAXMAN SEAPORT	35,302	109.00%	38,479	5.0%	1,924
PERS	198	SAXMAN, CITY OF	380,961	109.00%	415,247	5.0%	20,762
PERS	222	SELAWICK, CITY OF	71,048	109.00%	77,442	5.0%	3,872
PERS	286	SELDOVIA, CITY OF	88,403	109.00%	96,359	5.0%	4,818
PERS	182	SEWARD, CITY OF	3,413,307	109.00%	3,720,505	5.0%	186,025
PEHS	133	SITKA BOROUGH SD	1,669,532	109.00%	1,819,790	5.0%	90,989
PERS	165	SITKA COMMUNITY HOSPITAL	3,983,358	109.00%	4,341,860	5.0%	217,093
PERS	120	SITKA, CITY AND BOROUGH OF	6,574,007	109.00%	7,165,668	5.0%	358,283
PERS	225	SKAGWAY CITY SD	326,640	109.00%	356,038	5.0%	17,802
PERS	132	SKAGWAY, CITY OF	1,283,006	109.00%	1,398,477	5.0%	69,924
PERS	123	SOLDOTNA, CITY OF	2,467,394	109.00%	2,689,459	5.0%	134,473
PERS	155	SOUTHEAST ISLAND SD	892,269	109.00%	972,573	5.0%	48,629
PERS	167	SOUTHEAST REGIONAL RESOURCE CENTER	1,535,777	109.00%	1,673,997	5.0%	83,700
PERS	102	SOUTHWEST REGION SCHOOL DISTRICT (SD)	2,540,714	109.00%	2,769,378	5.0%	138,469
PERS	218	SPECIAL EDUCATION SERVICE AGENCY	449,505	109.00%	489,960	5.0%	24,498
PERS	166	TANANA SD	143,139	109.00%	156,022	5.0%	7,801
PERS	169	TANANA, CITY OF	199,643	109.00%	217,611	5.0%	10,881
PERS	206	THORNE BAY, CITY OF	256,748	109.00%	279,855	5.0%	12,993
PERS	279	TLINGIT-HAIDA RHA	1,783,104	109.00%	1,943,583	5.0%	97,179
PERS	280	TOKSOOK BAY, CITY OF	15,591	109.00%	16,994	5.0%	850
PERS	249	UNALAKLEET, CITY OF	242,330	109.00%	264,140	5.0%	12,207
PERS	209	UNALASKA CITY SD	848,924	109.00%	925,327	5.0%	46,266
PERS	179	UNALASKA, CITY OF	8,723,847	109.00%	9,508,993	5.0%	475,450
PERS	113	UNIVERSITY OF ALASKA	102,892,246	109.00%	112,152,548	5.0%	5,607,627
PERS	137	VALDEZ CITY SD	1,528,485	109.00%	1,633,049	5.0%	83,302
PERS	107	VALDEZ, CITY OF	4,522,102	109.00%	4,929,091	5.0%	246,455
PERS	131	WASILLA, CITY OF	3,070,992	109.00%	3,347,381	5.0%	167,369
PERS	202	WHITTIER, CITY OF	866,442	109.00%	944,422	5.0%	47,221
PERS	146	WRANGELL PUBLIC SD	753,953	109.00%	821,809	5.0%	41,090
PERS	135	WRANGELL, CITY OF	2,226,452	109.00%	2,426,833	5.0%	121,342
PERS	264	YAKUTAT, SD	344,955	109.00%	376,001	5.0%	18,800
PERS	248	YAKUTAT, CITY AND BOROUGH OF	402,871	109.00%	439,129	5.0%	21,956
PERS	160	YUKON / KOYUKUK SD	1,945,463	109.00%	2,120,555	5.0%	106,028
PERS	159	YUKON FLATS SD	1,165,980	109.00%	1,270,918	5.0%	63,546
TOTAL PERS			1,402,352,179		1,528,563,875		78,428,194
TRS	737	ALASKA DEPARTMENT OF EDUCATION	6,056,769	109.00%	6,601,878	4.0%	264,075
TRS	766	ALASKA GATEWAY SD	2,374,512	109.00%	2,588,218	4.0%	103,529
TRS	758	ALEUTIAN REGION SD	352,472	109.00%	384,194	4.0%	15,368
TRS	780	ALEUTIANS EAST BOROUGH SD	2,333,776	109.00%	2,543,816	4.0%	101,753
TRS	701	ANCHORAGE SD	174,033,538	109.00%	189,696,556	4.0%	7,587,862
TRS	770	ANNETTE ISLAND SD	1,582,724	109.00%	1,725,189	4.0%	69,007
TRS	752	BERING STRAIT SD	10,819,453	109.00%	11,793,204	4.0%	471,728
TRS	742	BRISTOL BAY BOROUGH SD	1,288,846	109.00%	1,404,842	4.0%	58,194
TRS	768	CHATHAM SD	1,277,824	109.00%	1,392,828	4.0%	55,713
TRS	771	CHUGACH SD	920,673	109.00%	1,003,534	4.0%	40,141

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)

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Average Employer Contribution Rate & Payroll - Active Employers

ESTIMATED FY 05 Change in Employer Contribution - Sort By System \ Employer

Division of Retirement & Benefits

Fund	ER Num	Employer	(B) Ave. Inc. \ yr.>>>	3.00%	<<<PERS>>>	5.0%	(D)
			(B) Ave. Inc. \ yr.>>>	3.00%	<<<TRS >>>	4.0%	(D)
			(A) FY 02 Total Earnings	(Chg\Yr x 3 Yrs) FY02-FY05 Increase Earn Est.	(C) FY 05 Estimated Earnings	Ave ER Rate Increase	(E) AVE Increase Dollars
TRS	767	COPPER RIVER SD	2,812,815	109.00%	3,065,969	4.0%	122,639
TRS	704	CORDOVA CITY SD	2,040,792	109.00%	2,224,463	4.0%	88,979
TRS	705	CRAIG CITY SD	2,283,193	109.00%	2,488,681	4.0%	99,547
TRS	765	DELTA/GREELY SD	2,953,816	109.00%	3,219,659	4.0%	128,786
TRS	764	DENALI BOROUGH SD	1,645,783	109.00%	1,793,904	4.0%	71,756
TRS	744	DILLINGHAM CITY SD	2,826,074	109.00%	3,080,420	4.0%	123,217
TRS	706	FAIRBANKS NORTH STAR BOROUGH SD	57,301,300	109.00%	62,458,417	4.0%	2,498,337
TRS	735	GALENA CITY SD	4,434,405	109.00%	4,833,501	4.0%	193,340
TRS	707	HAINES BOROUGH SD	1,825,381	109.00%	1,989,665	4.0%	79,587
TRS	708	HOONAH CITY SD	1,549,901	109.00%	1,689,392	4.0%	67,576
TRS	709	HYDABURG CITY SD	693,110	109.00%	755,490	4.0%	30,220
TRS	761	IDITAROD AREA SD	2,526,120	109.00%	2,753,471	4.0%	110,139
TRS	710	JUNEAU BOROUGH SD	19,867,625	109.00%	21,655,711	4.0%	866,228
TRS	712	KAKE CITY SD	776,899	109.00%	846,820	4.0%	33,873
TRS	777	KASHUNAMIUT SD	1,434,079	109.00%	1,563,146	4.0%	62,526
TRS	746	KENAI PENINSULA BOROUGH SD	37,313,529	109.00%	40,671,746	4.0%	1,626,870
TRS	714	KETCHIKAN GATEWAY BOROUGH SD	9,067,218	109.00%	9,883,267	4.0%	395,331
TRS	717	KLAWOCK CITY SD	1,140,371	109.00%	1,243,004	4.0%	49,720
TRS	718	KODIAK ISLAND BOROUGH SD	12,306,959	109.00%	13,414,585	4.0%	536,583
TRS	755	KUSPUK SD	2,730,248	109.00%	2,975,971	4.0%	119,039
TRS	757	LAKE AND PENINSULA BOROUGH SD	3,174,455	109.00%	3,460,156	4.0%	138,406
TRS	754	LOWER KUSKOKWIM SD	18,407,816	109.00%	20,064,520	4.0%	802,581
TRS	753	LOWER YUKON SD	8,902,385	109.00%	9,703,599	4.0%	388,144
TRS	722	MATANUSKA-SUSITNA BOROUGH SD	50,380,854	109.00%	54,915,131	4.0%	2,196,605
TRS	719	NENANA CITY SD	2,091,464	109.00%	2,279,695	4.0%	91,188
TRS	720	NOME CITY SD	3,080,546	109.00%	3,357,796	4.0%	134,312
TRS	736	NORTH SLOPE BOROUGH SD	14,173,506	109.00%	15,449,122	4.0%	617,965
TRS	751	NORTHWEST ARCTIC BOROUGH SD	12,278,335	109.00%	13,383,385	4.0%	535,335
TRS	723	PELICAN CITY SD	144,390	109.00%	157,385	4.0%	6,295
TRS	724	PETERSBURG CITY SD	2,862,977	109.00%	3,120,645	4.0%	124,826
TRS	759	PRIBILOF SD	676,442	109.00%	737,321	4.0%	29,493
TRS	748	SAINT MARY'S SD	854,777	109.00%	931,707	4.0%	37,268
TRS	727	SITKA BOROUGH SD	6,727,047	109.00%	7,332,481	4.0%	293,299
TRS	728	SKAGWAY CITY SD	695,485	109.00%	758,078	4.0%	30,323
TRS	769	SOUTHEAST ISLAND SD	1,330,619	109.00%	1,450,375	4.0%	58,015
TRS	743	SOUTHEAST REGIONAL RESOURCE CENTER	973,810	109.00%	1,061,453	4.0%	42,458
TRS	756	SOUTHWEST REGION SD	4,994,756	109.00%	5,444,284	4.0%	217,771
TRS	779	SPECIAL EDUCATION SERVICE AGENCY	1,145,329	109.00%	1,248,408	4.0%	49,936
TRS	775	TANANA SD	280,879	109.00%	306,158	4.0%	12,246
TRS	729	UNALASKA CITY SD	2,116,028	109.00%	2,306,471	4.0%	92,259
TRS	733	UNIVERSITY OF ALASKA	37,998,992	109.00%	41,418,901	4.0%	1,656,756
TRS	730	VALDEZ CITY SD	4,609,664	109.00%	5,024,534	4.0%	200,981
TRS	731	WRANGELL PUBLIC SD	2,062,636	109.00%	2,248,273	4.0%	89,931
TRS	732	YAKUTAT SD	912,808	109.00%	994,961	4.0%	39,798
TRS	762	YUKON / KOYUKUK SD	3,767,177	109.00%	4,106,223	4.0%	164,249
TRS	763	YUKON FLATS SD	2,353,329	109.00%	2,565,129	4.0%	102,675
TRS	778	YUPIIT SD	2,188,565	109.00%	2,385,536	4.0%	95,421
		TOTAL TRS	557,755,273		607,953,247		24,318,130
		TOTAL BOTH PERS AND TRS	1,960,107,452		2,136,517,122		100,746,324

Note A - Represents total earnings base for FY02; for PERS Actuarial Valuation;  
 for TRS actual CRS (no valuation supplement produced because all have same ER rate)  
 Because of numerous changes in a year since base established, some employers have shifted around

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)

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Average Employer Contribution Rate & Payroll - Active Employers

ESTIMATED FY 05 Change In Employer Contribution - Sort By System \ Employer

Division of Retirement & Benefits

(B) Ave. inc. \ yr.>>> 3.00% <<<PERS>>> 5.0% (D)  
 (B) Ave. inc. \ yr.>>> 3.00% <<<TRS >>> 4.0% (D)

Fund	ER Num	Employer	(A)	(Chg\Yr x 3 Yrs)	(C)	Ave ER Rate	(E)
			FY 02 Total Earnings	FY02-FY05 Increase Earn Est.	FY 05 Estimated Earnings		AVE Increase Dollars

Purpose here is to give an overall idea of where FY 05 would be.

Note B - To update FY 02 base to FY 05

Rounded Ave. of FY 99-02 increase, 3.0% -- multiplied -- by 3 years (FY 03,04,05)

(Updated from prior version that used last actual year change of 4.5% PERS - 2.4% TRS to 3% average)

Accounts for both salary increase and growth.

Note C - Adjusted FY 05 based on increase in earnings in earnings base.

Note D - The AVERAGE employer rate increase applied to all employers; by Board action.

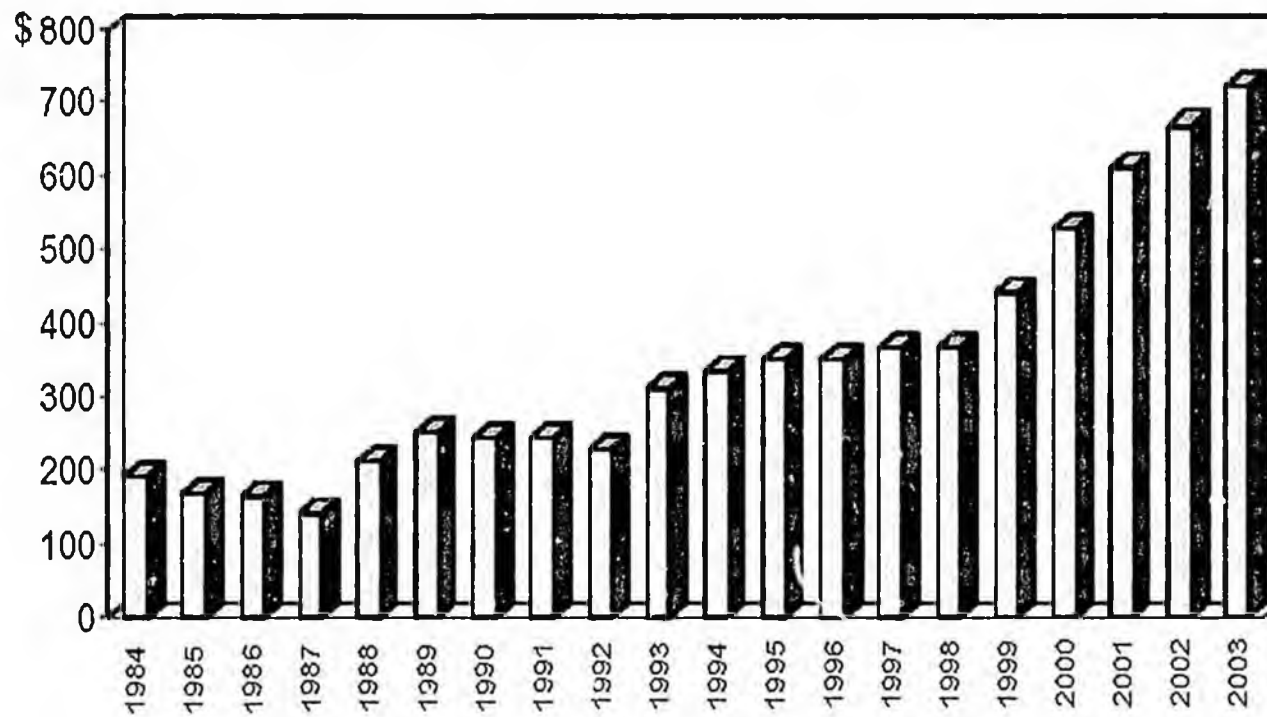
Note E - The "estimated" increase in dollars due to average employer rate increase.

# Retiree Medical Insurance

The following table summarizes the monthly premium per benefit recipient since retiree medical benefits have been provided under PERS and TRS.

Time Period	Monthly Premium Per Retiree For Health Coverage	Annual Percentage Change	Average Compound Annual Increase Since FY78
2/1/76-1/31/77	\$ 34.75	--	--
2/1/77-1/31/78	57.64	66%	--
2/1/78-1/31/79	69.10	20%	20%
2/1/79-1/31/80	64.70	-6%	6%
2/1/80-1/31/81	96.34	49%	19%
2/1/81-1/31/82	96.34	0%	14%
2/1/82-1/31/83	115.61	20%	15%
2/1/83-1/31/84	156.07	35%	18%
2/1/84-1/31/85	191.85	23%	19%
2/1/85-1/31/86	168.25	-12%	14%
2/1/86-1/31/87	165.00	-2%	12%
2/1/87-1/31/88	140.25	-15%	9%
2/1/88-1/31/89	211.22	51%	13%
2/1/89-1/31/90	252.83	20%	13%
2/1/90-1/31/91	243.98	-4%	12%
2/1/91-1/31/92	243.98	0%	11%
2/1/92-1/31/93	226.90	-7%	10%
2/1/93-1/31/94	309.72	37%	11%
2/1/94-1/31/95	336.05	9%	11%
2/1/95-1/31/96	350.50	4%	11%
2/1/96-1/31/97	350.50	0%	10%
2/1/97-1/31/98	368.00	5%	10%
2/1/98-12/31/98	368.00	0%	9%
1/1/99-12/31/99	442.00	20%	10%
1/1/00-12/31/00	530.00	20%	10%
1/1/01-12/31/01	610.00	15%	10%
1/1/02-12/31/02	668.00	10%	10%
1/1/03-12/31/03	720.00	8%	10%

## PUBLIC EMPLOYEES' AND TEACHERS' RETIREMENT SYSTEM 20-YEAR COMPARISON OF RETIREE MONTHLY HEALTH INSURANCE PREMIUMS



# Investment Experience

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Investment loss/gain	FY01	FY02	FY03
	(5.25%)	(5.48%)	+3.67

## Actuarial Earning Rate

	8.25%	8.25%	8.25%
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PERS

Employer

Rates

FY 01 - FY 05

# PERS Employer Rate Change

## Employer Rate Change Last 5 Years

Public Employees' Retirement System Analysis of Financial Experience					
Change in Average Employer Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience					
Type of Gain or Loss	Change in Average Contribution Rate During Fiscal Year				
	2002	2001	2000	1999	1998
Health Experience	3.68%	-	-	-	-
Salary Experience	(0.20)%	(1.03)%	-	(0.23)%	(0.46)%
Investment Experience	7.24%	0.11%	(0.12)%	(0.49)%	(3.26)%
Demographic Experience	<u>1.21%</u>	<u>0.77%</u>	<u>(0.81)%</u>	<u>0.21%</u>	<u>1.12%</u>
(Gain) or Loss During Year From Experience	11.93%	(0.15)%	(0.93)%	(0.51)%	(2.60)%
<b>Non-recurring changes</b>					
Asset Valuation Method	4.11%	-	(2.67)%	-	-
Past Service Amortization Change	(5.06)%	-	-	-	-
Assumption Changes	6.98%	-	3.09%	-	1.08%
System Benefit Changes	0.04%	0.17%	-	-	-
Liability Loading Adjustment	-	0.57%	-	-	0.99%
Ad hoc PRPA	<u>0.14%</u>	<u>0.06%</u>	<u>0.07%</u>	<u>0.04%</u>	<u>0.20%</u>
Composite (Gain) or Loss During Year	<u>16.14%</u>	<u>0.65%</u>	<u>(0.44)%</u>	<u>(0.47)%</u>	<u>(0.33)%</u>
Beginning Average Employer Contribution Rate	<u>6.77%</u>	<u>6.12%</u>	<u>6.56%</u>	<u>7.03%</u>	<u>7.36%</u>
Ending Average Employer Contribution Rate	<u>24.91%</u>	<u>6.77%</u>	<u>6.12%</u>	<u>6.56%</u>	<u>7.03%</u>
Board Adopted Employer Contribution Rate	<u>11.77%</u>	<u>6.77%</u>	<u>6.75%</u>	<u>6.75%</u>	<u>7.40%</u>
Fiscal Year above rate is applied	FY05	FY04	FY03	FY02	FY01

TRS

Employer

Rates

FY01 - FY05

# TRS Employer Rate Change

## Employer Rate Change Last 5 Years

Teachers' Retirement System Analysis of Financial Experience					
Change in Employer Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience					
Type of Gain or Loss	Change in Employer Contribution Rate During Fiscal Year				
	2002	2001	2000	1999	1998
Health Experience	3.85%	-	-	-	-
Salary Experience	(0.11)%	(1.68)%	-	(0.64)%	(0.84)%
Investment Experience	15.03%	1.35%	(3.35)%	(3.73)%	(2.70)%
Demographic Experience	<u>4.21%</u>	<u>2.66%</u>	<u>(0.91)%</u>	<u>0.80%</u>	<u>0.54%</u>
(Gain) or Loss During Year from Experience	22.98%	2.33%	(4.26)%	(3.57)%	(3.00)%
<b>Non-recurring changes</b>					
Asset Valuation Method	0.03%	-	(1.38)%	-	-
Past Service Amortization Change	(9.08)%	-	-	-	-
Assumption Changes	6.84%	-	6.68%	-	-
System Benefit Changes	-	0.17%	-	-	-
Administrative System Changes	-	3.49%	-	-	-
Ad hoc PRPA	<u>0.36%</u>	<u>0.16%</u>	<u>0.16%</u>	<u>0.11%</u>	<u>0.55%</u>
Composite (Gain) or Loss During Year	<u>21.13%</u>	<u>6.15%</u>	<u>1.20%</u>	<u>(3.46)%</u>	<u>(2.45)%</u>
Beginning Total Employer Contribution Rate	<u>14.44%</u>	<u>8.29%</u>	<u>7.09%</u>	<u>10.55%</u>	<u>13.00%</u>
Ending Total Employer Contribution Rate	<u>35.57%</u>	<u>14.44%</u>	<u>8.29%</u>	<u>7.09%</u>	<u>10.55%</u>
Board Adopted Employer Contribution Rate	<u>16.00%</u>	<u>12.00%</u>	<u>11.00%</u>	<u>11.00%</u>	<u>12.00%</u>
Fiscal Year above rate is applied	FY05	FY04	FY03	FY02	FY01