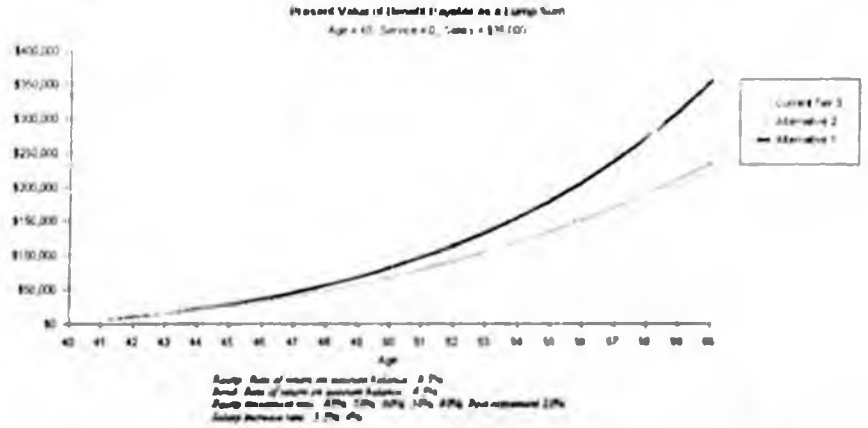
Proposed Alternatives

Accrual of Non-Medical Benefits - PERS



Proposed Medical Program

Key Features

Key features of post-retirement medical program

- Members must retire directly from the System to be eligible
- System sponsored health plan with varying levels of subsidy or cost to members
- Early retirees get "access only" prior to normal retirement eligibility
- Defined dollar benefit from normal retirement to Medicare eligibility (currently age 65)
- Defined health benefit after Medicare eligibility, similar to the current program with the following key exceptions:
  - Method of coordination with Medicare
  - Retired members will share in the cost through premium contributions

Proposed Medical Program

System Sponsored Health Care Plan

- System sponsored health plan available to all eligible retirees, but with varying levels of subsidy
- Basic plan design elements

	Current Plan	Alternative Plan
Medical		
• Coordination with Medicare	Total Allowable	Maintenance of Benefits
• Deductible	$150/person, $450/family	$250/person, $750/family
• Out of Pocket	$800	$2,500
• Outpatient Surgery Consurance	100%	80%
Prescription Drug		
• Retail	90 day supply	30 day supply
- Generic	$4	$5
- Brand Formulary	$8	$15
- Brand Non-Formulary	$8	$30
• Mail Order	90 day supply	90 day supply
- Generic	$0	$5
- Brand Formulary	$0	$15
- Brand Non-Formulary	$0	$30
Dental, Vision, Audio	No Change	

Proposed Medical Program

Eligibility

- Normal retirement eligibility for medical benefits will be defined as the earlier of
  - (1) age 60 with 10 years of service
  - (2) 25 years of service (30 years for PERS "others" retirees).
- Disabled participants will be eligible
- Terminated vested participants are not eligible. A member must retire directly from active service in order to receive coverage

Proposed Medical Program
Early Retirement

- ⇨ Early retirees who have not reached normal retirement eligibility
  - Receive "access only" plan
  - Will not be eligible for subsidized retiree health plan costs
  - Pay 100% of the pre-Medicare eligible (currently pre-age 65) per member per year (PMPY) claim costs
- ⇨ Dependent spouses of early retirees will pay 100% of the appropriate pre-Medicare or Medicare eligible PMPY claim cost

Proposed Medical Program
Normal Retirement to Medicare Eligibility

- ⇨ Members who retire directly from the Systems will be eligible for a "defined dollar" benefit upon reaching eligibility for normal retirement
- ⇨ Fixed dollar subsidy toward system sponsored health coverage
- ⇨ Access to system sponsored retiree medical plan as outlined above
- ⇨ Subsidy amount is based on length of service
- ⇨ Subsidy amount indexed each year by healthcare inflation up to a maximum of 5 percent (with a "catch-up" provision based on years when healthcare inflation is less than 5%)

Proposed Medical Program
Normal Retirement to Medicare Eligibility

- Upon becoming eligible for Medicare, such members will become eligible for the "defined health" benefit
- Pre-Medicare dependent spouse is eligible for the same subsidy as retiree
- Medicare eligible dependent spouse is eligible for the Medicare eligible benefit level, with contribution percentage based on retiree length of service

Proposed Medical Program
Normal Retirement to Medicare Eligibility

- Apply percentages to the applicable subsidy base to arrive at the appropriate subsidy amount.
- Defined Dollar Subsidy Base Annual PMPY for fiscal year 2004:

  Pre Medicare $5,962*

- Subsidy Percentage

Service (yrs)	Subsidy %
10-14	30%
15-19	45%
20-24	60%
25-29	75%
30+	90%

- Member contributions are determined by subtracting the annual subsidy amount from the annual claims cost for a given year.

* Equivalent to FY2004 pre-Medicare projected claim cost.

Proposed Medical Program
After Medicare Eligibility

- Defined health benefit similar to current program
- Retirees who were previously eligible for 100% subsidy of retiree health plan costs will now participate in the premium cost.
- Contributions are per covered individual
- Pre-Medicare dependent spouses are eligible to receive a defined dollar subsidy with percentage based on retiree length of service
- Medicare eligible dependent spouses are eligible to receive the same defined health benefits as the retiree and pay the same contributions

Proposed Medical Program
After Medicare Eligibility

- Contribution Base PMPY for fiscal year 2004:

  Medicare Eligible $2,667

- Contribution Percentage

Service (yrs)	Contribution %
10-14	30%
15-19	25%
20-24	20%
25-29	15%
30+	10%

- Apply percentages to the contribution base to arrive at the applicable contribution amount

Health Reimbursement Accounts (HRAs)

Health Reimbursement Accounts
Overview

- Arrangement that:
  - Is solely employer paid
  - Reimburses employees for medical expenses
  - Provides reimbursements up to a maximum dollar amount for a defined coverage period
- Unused funds are carried forward to the next coverage period
- Usually, but not required to be, associated with high-deductible health plans or consumer directed health plans
- Includes aspects of FSAs
- Also known as
  - Health Reimbursement Arrangements
  - Defined contribution health care plans

Health Reimbursement Accounts
Overview

Funding

- ⇨ Employer only
- ⇨ Employer sets own limits
- ⇨ Notional or funded accounts
  - general assets
  - VEBA
  - other trusts

Eligibility

- ⇨ Current and former employees (including retired employees), spouses and dependents
- ⇨ COBRA participants
- ⇨ Dependent medical expenses on death of employee

Health Reimbursement Accounts
Overview

Benefits

- ⇨ Reimbursements for medical expenses as defined in IRC section 213(d)
- ⇨ No IRS limit on reimbursements
- ⇨ Employee responsible for substantiating expenses
- ⇨ Cannot use for over-the-counter drugs
- ⇨ Can be used for after tax insurance premium payments (LTC is gray area)
- ⇨ Cannot have any right to receive cash benefit
- ⇨ Can be used with FSA, but special rules apply

Health Reimbursement Accounts
Overview

Plan design

⇨ Plan sponsor dictates plan design

- Contribution amount
- Covered expenses
- Termination provisions

Tax Treatment

⇨ Requirements for exclusion from employee/retiree income:

- Employer funding only – no employee contributions
- Only reimbursed for qualified medical expenses
- Subject to non-discrimination rules under IRS code section 105(h)

Health Reimbursement Accounts
Comparison of tax advantaged health care accounts

	HRA	[illegible]	HSA
Account requirements	Funds must be held in trust or custodial account	No requirement, often unfunded	No requirement, often unfunded
Qualifying expenses	Miscellaneous IRC 213(d) expenses, limited health premium reimbursements*	Miscellaneous IRC 213(d) expenses, unlimited premium reimbursements, subject to plan design	Miscellaneous IRC 213(d) expenses, no health premium reimbursements
Non-qualified withdrawals	Yes, but taxable, plus 10% penalty No penalty after age 65, disability, or death (no penalty or tax after death if HSA goes to spouse)	Not allowed	Not allowed
Rollover of unused funds	Unused funds roll over indefinitely	Allowed, although employer can establish limits	Not allowed
Nonforfeitable	Yes and fully portable, can take to new employer	No, but COBRA rights apply	No, but limited COBRA rights apply

*[illegible]

Health Reimbursement Accounts
Comparison of tax advantaged health care accounts

Eligibility	Individuals (employees) with high deductible plan (HDHP)	Employees whose employers make available	Employees whose employers make available
Health insurance requirement	Qualified high deductible health plan required	None, although employer typically requires high deductible coverage	None
Contributions - Source	Employer, employee, or both	Employer only	Employer, employee or both
Taxability of employee contributions	Tax-free	Employee contribution not allowed	Tax-free
Taxability of employer contributions	Tax-free to employee; tax deductible to employer	Tax-free to employee; tax deductible to employer	Tax-free to employee; tax deductible to employer
Annual contribution limits (employee+employer)	Lesser of 100% of deductible or fixed amount (established by law)	None legally required, employer sets its contribution amounts	None legally required, employer sets employee contribution limits

Health Reimbursement Accounts
Projection scenarios

- ⇨ Illustrate the HRA fund value at retirement, the total costs expected to be borne by the retiree during the pre-Medicare period of retirement and the retiree's expected net cost after HRA reimbursements
- ⇨ Four scenarios
  - Early hire, 1.0% funding - hire at 25, retire at 55
  - Early hire, 1.5% funding - hire at 25, retire at 55
  - Late hire, 1.0% funding - hire at 40, retire at 60
  - Late hire, 1.5% funding - hire at 40, retire at 60
- ⇨ Key assumptions
  - Hire date of 7/1/2004
  - Normal retirement at 25 years or age 60
  - Funded as percent of average salary for group
  - Average salary for group of $35,000
  - Wage inflation 4.0%

Health Reimbursement Accounts
Projection scenarios

- Key assumptions (continued)
  - HRA accumulation rate 8.25%
  - Early retirement access-only plan as described in the proposed medical program
  - Normal retirement to Medicare eligibility defined dollar subsidy as described in the proposed medical program
  - Benefit costs increase at proposed valuation trend
  - Retirees transition to defined health benefit plan at Medicare eligibility
- Other assumptions
  - Participant retires from system and is receiving system-sponsored benefits
  - Demographic composition of future pre-Medicare retiree group remains constant
  - No spend down of HRA during active benefit period

Health Reimbursement Accounts
Projection scenarios

	Gross Retiree Cost	HRA at Retirement	Net Retiree Cost
Early Hire, 1.0%	$153,721	$64,622	$72,348
Early Hire, 1.5%	$153,721	$96,933	$12,714
Late Hire, 1.0%	$ 68,993	$23,052	$44,543
Late Hire, 1.5%	$ 68,993	$34,579	$30,580

- Gross retiree cost is the total medical premium cost expected to be paid by the retiree less any System-sponsored subsidy. Does not include retiree cost sharing via plan design elements such as deductibles and coinsurance.
- HRA at retirement is the beginning fund balance at the year of retirement.
- Net retiree cost is the gross retiree cost less expected reimbursements from the HRA. HRA balance continues to earn interest after medical expenses are reimbursed each year.

Proposed Alternatives
Alternative 1 – Normal Cost Rates

⇨ "Normal cost" rates for Alternative 1 are expected to be as follows:

	Normal Cost Rates			
	TRS		PERS	
Medical normal cost rate	3.75%	(9.07%)	3.5%	(8.68%)
Defined benefit normal cost rate	5.0%	(13.90%)	4.5%	(11.37%)
Defined contribution rate	8.5%	(N/A)	7.0%	(N/A)
HRA contribution rate	1.5%	(N/A)	1.0%	(N/A)
Gross normal cost rate	18.75%	(22.97%)	16.0%	(20.05%)
Member contribution rate	(10.0)%	(8.69%)	(8.0)%	(6.81%)
Employer normal cost rate	8.75%	(14.28%)	8.0%	(13.24%)

⇨ Normal cost rates for the current program (all tiers) are shown in parentheses for comparative purposes.

Proposed Alternatives
Alternative 2 – Normal Cost Rates

⇨ "Normal cost" rates for Alternative 2 are expected to be as follows:

	Normal Cost Rates	
	TRS	PERS
Medical normal cost rate	3.75%	3.5%
Defined contribution rate	13.5%	11.5%
HRA contribution rate	1.5%	1.0%
Gross normal cost rate	18.75%	16.0%
Member contribution rate	(10.0)%	(8.0)%
Employer normal cost rate	8.75%	8.0%

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

Valuation report date June 30	Fiscal year of rate	Normal Cost rate PERS	Actuarial Computed Rate PERS	Normal Cost rate TRS	Actuarial Computed Rate TRS
1980	1983	11.46%	13.78%	11.95%	16.84%
1981	1984	12.03%	13.68%	13.51%	17.42%
1982	1985	11.36%	13.62%	13.64%	17.96%
1983	1986	11.82%	13.59%	13.13%	17.36%
1984	1987	12.31%	13.84%	13.91%	13.28%
1985	1988	11.13%	9.55%	11.62%	13.28%
1986	1989	10.20%	9.38%	9.36%	11.16%
1987	1990	9.23%	9.30%	9.14%	8.19%
1988	1991	10.37%	12.00%	11.86%	12.27%
1989	1992	12.00%	14.20%	13.26%	15.16%
1990	1993	12.83%	13.58%	14.07%	19.65%
1991	1994	10.18%	13.72%	9.05%	15.59%
1992	1995	10.90%	13.70%	8.57%	13.36%
1993	1996	11.29%	12.82%	9.06%	12.48%
1994	1997	10.36%	12.14%	9.70%	14.96%
1995	1998	10.61%	11.90%	10.10%	14.94%
1996	1999	9.85%	7.74%	8.97%	10.52%
1997	2000	9.89%	7.36%	9.21%	13.00%
1998	2001	8.67%	7.03%	8.99%	10.55%
1999	2002	8.07%	6.56%	8.88%	7.09%
2000	2003	10.07%	6.12%	9.40%	8.29%
2001	2004	9.53%	6.77%	10.36%	14.44%
2002	2005	13.31%	24.91%	14.76%	35.57%
2003	2006	13.24%	25.63%	14.28%	38.85%

Normal Cost Rate: present value of benefits, which are expected to be credited with respect to service during the year beginning on the valuation date.

Actuarial Computed Rate: after comparing plan assets and liabilities, an actuarial rate is computed that wo fund the retirement systems over 25 years. There are two components: the normal cost rate and the past s necessary to pay any unfunded liability. Both rates account for differences between actual experience ver anticipated results, changes in actuarial assumptions and / or methods, changes in statutory provisions, ar difference between the rate actually adopted by the Boards for a particular year versus the computed rate.

1.5(c) Actuarial Projections – Effect of Economic S[illegible]narios

Key Assumptions

- All assumptions and methods are the same as Section 1.5(a) except

  Results are shown only under the 1% population growth scenario

  The actuarially calculated contribution rate is adopted in each year beginning in FY06, but rate cannot increase by more than 5% per year.

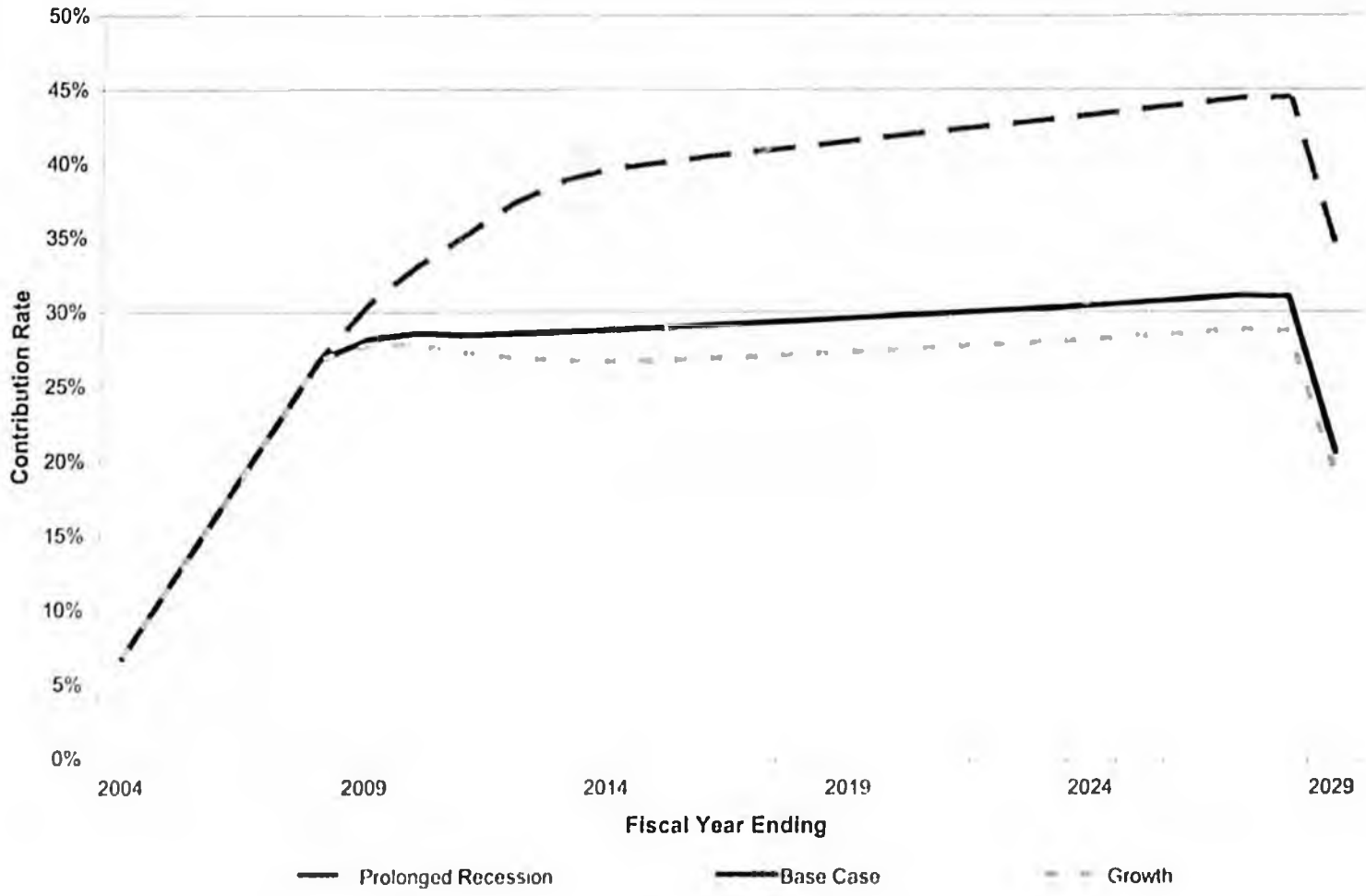
  Investment returns are assumed as follows:

Total Portfolio Investment Return Under Each Scenario

Year Ending June 30	Base Case	Growth	Prolonged Recession
2004	15.08%	15.08%	15.08%
2005	8.25%	10.00%	-3.50%
2006	8.25%	10.00%	-3.50%
2007	8.25%	9.50%	2.10%
2008	8.25%	9.00%	7.75%
2009	8.25%	8.25%	7.75%
2010	8.25%	8.25%	7.75%
2011	8.25%	8.25%	7.75%
2012	8.25%	8.25%	7.75%
2013	8.25%	8.25%	7.75%
2014	8.25%	8.25%	7.75%
2015	8.25%	8.25%	7.75%
2016	8.25%	8.25%	7.75%
2017	8.25%	8.25%	7.75%
2018	8.25%	8.25%	7.75%
2019	8.25%	8.25%	7.75%
2020	8.25%	8.25%	7.75%
2021	8.25%	8.25%	7.75%
2022	8.25%	8.25%	7.75%
2023	8.25%	8.25%	7.75%
2024	8.25%	8.25%	7.75%
2025	8.25%	8.25%	7.75%
2026	8.25%	8.25%	7.75%
2027	8.25%	8.25%	7.75%
2028	8.25%	8.25%	7.75%
2029	8.25%	8.25%	7.75%

1.5(c) Actuarial Projections – Effect of Economic Scenarios *(continued)*

Contribution Rate



1.5(c) Actuarial Projections – Effect of Economic Scenarios

Key Assumptions

- All assumptions and methods are the same as Section 1.5(a) except:

  Results are shown only under the 1% population growth scenario

  The actuarially calculated contribution rate is adopted in each year beginning in FY06, but rate cannot increase by more than 5% per year.

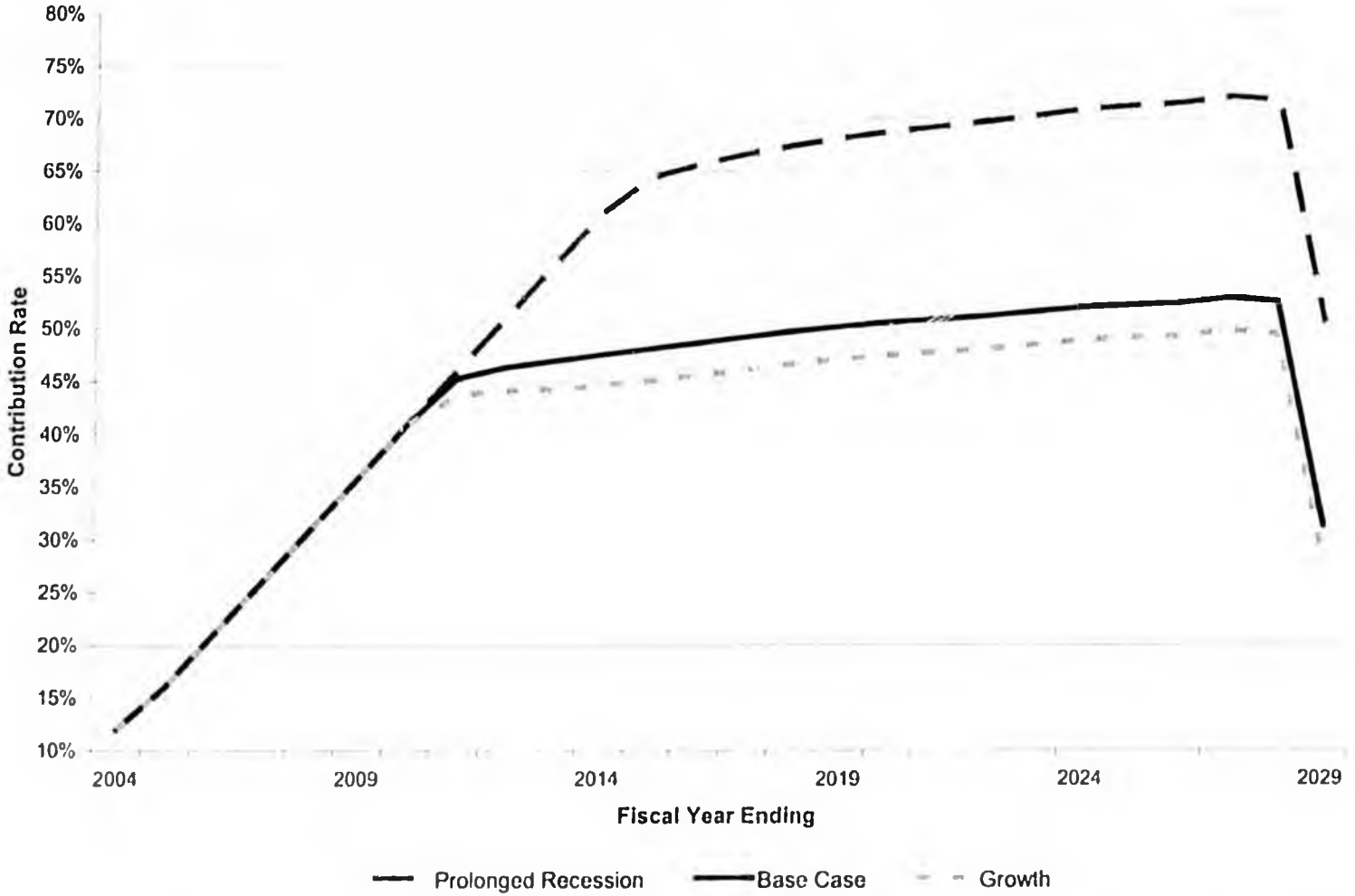
  Investment returns are assumed as follows:

Total Portfolio Investment Return Under Each Scenario

Year Ending June 30	Base Case	Growth	Prolonged Recession
2004	15.08%	15.08%	15.08%
2005	8.25%	10.00%	-3.50%
2006	8.25%	10.00%	-3.50%
2007	8.25%	9.50%	2.10%
2008	8.25%	9.00%	7.75%
2009	8.25%	8.25%	7.75%
2010	8.25%	8.25%	7.75%
2011	8.25%	8.25%	7.75%
2012	8.25%	8.25%	7.75%
2013	8.25%	8.25%	7.75%
2014	8.25%	8.25%	7.75%
2015	8.25%	8.25%	7.75%
2016	8.25%	8.25%	7.75%
2017	8.25%	8.25%	7.75%
2018	8.25%	8.25%	7.75%
2019	8.25%	8.25%	7.75%
2020	8.25%	8.25%	7.75%
2021	8.25%	8.25%	7.75%
2022	8.25%	8.25%	7.75%
2023	8.25%	8.25%	7.75%
2024	8.25%	8.25%	7.75%
2025	8.25%	8.25%	7.75%
2026	8.25%	8.25%	7.75%
2027	8.25%	8.25%	7.75%
2028	8.25%	8.25%	7.75%
2029	8.25%	8.25%	7.75%

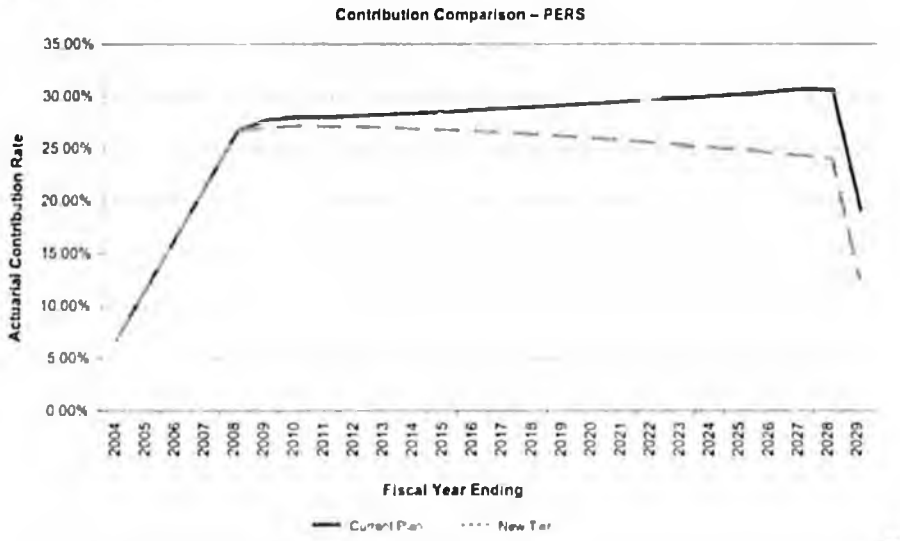
1.5(c) Actuarial Projections – Effect of Economic Scenarios *(continued)*

Contribution Rate



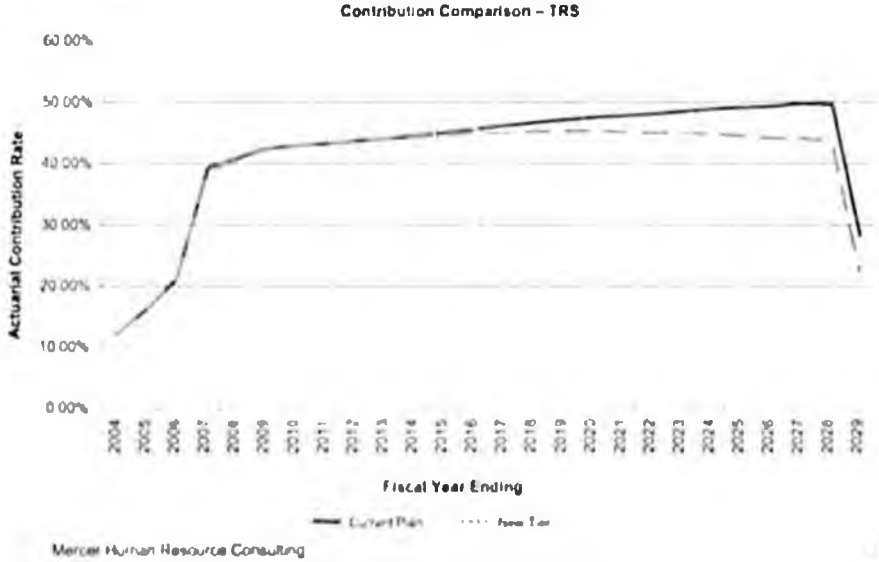
Proposed Alternatives

Cost Projections - PERS



Proposed Alternatives

Cost Projections - TRS



PUBLIC EMPLOYEES' RETIREMENT SYSTEM
TEACHERS' RETIREMENT SYSTEM
SENATE FINANCE BRIEFING ON PROPOSALS FOR NEW TIERS

Attached are two spreadsheets comparing the specific benefit differences in the existing and proposed Tiers for PERS and TRS. Outlined below is a summary of the major benefit changes and a cost comparison.

PERS / TRS

	Current PERS Tier III / TRS Tier II DB Plan	**Alternative 1 DB/DC Plan**	**Alternative 2 DC Plan**
PERS Employee Contribution Rate	6.75% or 7.5 Police/Fire	8% all members 8.5% Police/Fire 11.0% School District	8% all members 8.5% Police/Fire 11.0% School District
TRS Employee Contribution Rate	8.65%	10%	10%
Retirement Age	60 normal - 55 early 30 years "all others" 20 Police/Fire 20 Teachers	Same Same 25 Police/Fire members 25 Teachers	Any age
PERS Benefit Formula/Contribution Rate	2% up to 2.5% DB	1% DB; 8% DC (8% includes HRA)	12.5% DC (12.5% includes HRA)
TRS Benefit Formula/Contribution Rate	2% up to 2.5% DB	1% DB; 10% DC (10% includes HRA)	15% DC (15% includes HRA)
Medical	• Do not have to retire directly from system to be service or age eligible for medical coverage. • Must have 10 years of service. Minimal cost share.	• Must retire directly from system to be eligible. • Must have 10 years of service. • Member pays more through "cost share" design elements.	Same as Alternative 1
Normal Cost Rate – **PERS** (does not include unfunded liability portion)	13.24% - Current Normal Cost Rate	8% reduces normal cost rate by 40%	8% reduces normal cost rate by 40%
Normal Cost Rate – **TRS** (does not include unfunded liability portion)	14.28% - Current Normal Cost Rate	8.75% - this reduces normal cost rate by 39%	8.75% - this reduces normal cost rate by 39%
Future exposure and volatility to loss in investment earnings and increasing medical costs.	Employer bears all the risk.	Employer continues to have risk in two areas: (1) 1% DB component and (2) medical inflation component.	Minimal Exposure to employer in one area only: (1) medical inflation w/capped %.

Alaska Division of Retirement and Benefits
Public Employees' Retirement System (PERS) Plan Comparison Chart
Rev. January 15, 2005

Tier I 1/1/61 - 6/30/86	Tier II Entered on or after 7/1/86	Tier III Entered on or after 7/1/96	Tier IV Proposed - Alternative 1 DB/DC Plan Entered on or after 7/1/2006	Tier IV – Alternative 2 Pure DC Plan Entered on or after 7/1/2006
Employee Pre-tax Contribution 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution 8% all members beginning 7/1/2006 8.5% beginning 7/1/2006 – police and fire 11.0% beginning 7/1/2006 School District	Employee Pre-tax Contribution 8% all members beginning 7/1/2006 8.5% beginning 7/1/2006 – police and fire 11.0% beginning 7/1/2006 School District
Members vest with 5 years of service	Members vest with 5 years of service	Members vest with 5 years of service	Members vest with 5 years of service	100% Vested upon enrollment
• Normal retirement age is 55 • Early retirement age is 50 • Police/fire members can retire at any age after 20 years of police/fire service • All other members can retire at any age after 30 years of membership service	• Normal retirement age is 60 • Early retirement at age 55 • Police/fire members can retire at any age after 20 years of police/fire service • "All other" members can retire at any age after 30 years of membership service	• Normal retirement age is 60 • Early retirement at age 55 • Police/fire members can retire at any age after 20 years of police/fire service • "All other" members can retire at any age after 30 years of membership service	• Normal retirement age is 60 • Early retirement at age 55 • Police/fire members can retire at any age after **25** years of police/fire service • "All other" members can retire at any age after **30** years of membership service	• Can leave employment at any age and take account balance with them, leave account balance in plan or rollover to another qualified plan
• **2%** defined benefit formula for first 10 years and all years of service prior to July 1, 1986 • **2.5%** for the next 10 years, **2.5%** per year thereafter (average of the high three consecutive years' salary) • Police/Fire - **2%** benefits formula for first 10 years and **2.5%** for all years after 10	• **2%** defined benefit formula for first 10 years • **2.25%** for the next 10 years, and **2.5%** per year thereafter (benefit calculation is determined on the average of the high **three** consecutive years' salary • Police/Fire - **2%** benefit formula for first 10 years and **2.5%** for all years after 10	• **2%** defined benefit formula for first 10 years • **2.25%** for the next 10 years, and **2.5%** per year thereafter (benefit calculation is average of the high **five** consecutive years' salary) • Police/Fire - **2%** benefit formula for first 10 years and **2.5%** for all years after 10 (benefit calculation is **three** consecutive years regardless of tier (effective 2002)	• **1%** defined benefit formula • **8.0%** defined contribution rate • A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA) • Benefit calculation is computed on indexed career average	• **12.5%** defined contribution rate • A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA)
• **Medical** coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system	**Medical** coverage is provided to disabilitants regardless of age and benefit recipients over age 60 or • police/fire members with 25 years of police/fire service • all other members with 30 years of membership service and their eligible dependents. The retirement system pays the retiree medical plan premium. Retirees and survivors under age 60 must pay the full premium cost if they want coverage	**Medical** same as Tier II • Except employees must accrue a minimum of 10 years of **credited service***, to have system paid coverage at age 60 • Employees with less than 10 years must pay the full premiums as long as they wish to continue medical coverage	**Medical** • Employees must retire directly from the system to be eligible and • Accrue a minimum of 10 years of credited service* • Early retirees get "access only" prior to normal retirement age - must pay premium • HRA contribution • Defined dollar benefit from normal retirement to age 65 • Defined health benefit after age 65 (cost share based on length of service)	**Medical** • Employees must retire directly from the system to be eligible and • Accrue a minimum of 10 years of credited service* • Early retirees get "access only" prior to normal retirement age – must pay premium • HRA contribution • Defined dollar benefit from normal retirement to age 65 • Defined health benefit after age 65 (cost share based on length of service)
• The automatic PRIPA legislated in 1986 applied to all members regardless of hire date	• Automatic PRIPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years	• Automatic PRIPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years	• Automatic PRIPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years	• None
• Alaska Cost-of-Living Allowance of 10% of base benefit is payable to benefit recipients who remain domiciled in Alaska after retirement	• Alaska Cost-of-Living Allowance of 10% of base benefit is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement	• Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is $50 or 10% of the base benefit, whichever is greater	• None	• None

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

Alaska Division of Retirement and Benefits
Teachers' Retirement System (TRS) Plan Comparison Chart
Rev. January 15, 2005

Tier I 7/1/55 - 6/30/90	Tier II Entered on or after 7/1/90	Tier III Proposed Alternative 1 – DB/DC Plan Entered on or after 7/1/2006	Tier III Proposed Alternative 2 – DC Plan Entered on or after 7/1/2006
Employee Pre-tax Contribution: 8.65% beginning 1/1/91	Employee Pre-tax Contribution: 8.65% beginning 1/1/91	Employee Pre-tax Contribution: 10 % beginning 7/1/2005	Employee Pre-tax Contribution: 10 % beginning 7/1/2005
Members vest with 8 years of service	Members vest with 8 years of service	Members vest with 8 years of service	100% Vested at time of enrollment
• Normal retirement age is 55 • Early retirement at age 50 • Teachers can retire at any age after 20 years of membership service	• Normal retirement age is 60 • Early retirement at age 55 • Teachers can retire at any age after 20 years	• Normal retirement age is 60 • Early retirement at age 55 • Teachers can retire at any age after 25 years	• Can leave employment at any age and take account balance with them, leave account balance in plan or rollover to another qualified plan
• 2% defined benefits formula for the first 20 years **and all years of service prior to July 1, 1990** • 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries	• 2% defined benefit formula for the first 20 years • 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries	• 1% defined benefit formula all years of service • 10% defined contribution rate • A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA) • Benefit calculation is computed on indexed career average	• 15.0% defined contribution rate • A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA)
• Medical coverage is provided to all benefit recipients and their eligible dependents	• Medical premiums are paid for all disabilitants regardless of age and • Retirees and survivors over age 60 and for retirees with at least 25 years of service including eligible dependents • Retirees and survivors under age 60, with less than 25 years of membership service must pay the full premium cost if they want coverage	**Medical** • Employees must retire directly from the system to be eligible and • Accrue a minimum of 10 years of credited service* • Early retirees get "access only" prior to normal retirement age – must pay premium • HRA contribution • Defined dollar benefit from normal retirement to age 65 • Defined health benefit after age 65 (cost share based on length of service)	**Medical** • Employees must retire directly from the system to be eligible and • Accrue a minimum of 10 years of credited service* • Early retirees get "access only" prior to normal retirement age – must pay premium • HRA contribution • Defined dollar benefit from normal retirement to age 65 • Defined health benefit after age 65 (cost share based on length of service)
• Automatic PRPA legislated in 1990 applied to all members regardless of hire date	• Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years	• Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years	None
• Alaska Cost of Living Allowance is payable to benefit recipients who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit	• Alaska Cost of Living Allowance is payable to benefit recipients 65 or older or disabilty benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit	None	None

Employer Survey – PERS
Key

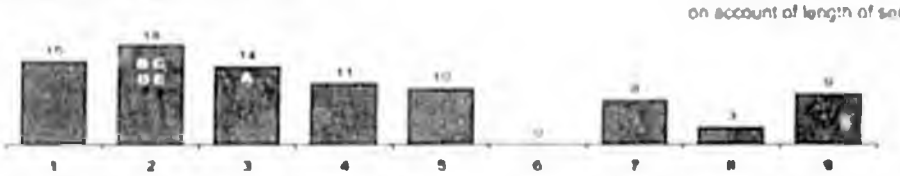
The following pages illustrate the responses to the employer survey sent to all PERS employers. In total, 89 employers responded. PERS represents employers of various sizes. As a way to show the five largest employers' responses (of those who responded), we have included the letters A – E on the charts to represent how they answered. The employers have been assigned the following letters:

Employer	# Active Employees	Code Letter
State of Alaska	15,259	A
Anchorage SD	2,496	B
Anchorage, Municipality of	2,351	C
Fairbanks North Star Borough SD	700	D
North Slope Borough	788	E

Employer Survey – PERS
1. Long-Service Employees

Plan should favor long-service employees

Plan should not distinguish on account of length of service



Key Comments

- Retirement plans should favor long-service employees
- With over 150 employers in PERS, portability between employers is a real factor. It has can be helped without penalizing long time PERS covered employees. There is not problem.
- One of our problems is that baby-boomer "glut" of long service employees. While they should be compensated for their time, there seems to be a shortage of professional people entering state/municipal public service.

Key Implications

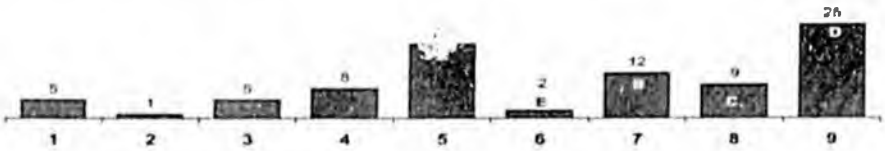
- Rewarding long service employees supports career employment
- Uniform service can be an important attraction tool, but allows states to "walk out the door" when short service employees leave the System.

Employer Survey – PERS
2. Older Employees

Importance

Plan should favor older employees

Plan should not distinguish on account of age



Key Comments

- Length of service should be more important than age in determining retirement benefits
- Inflation and decreases in salary raises are historical in Alaska. Young need to see opportunity in this state

Key Implications

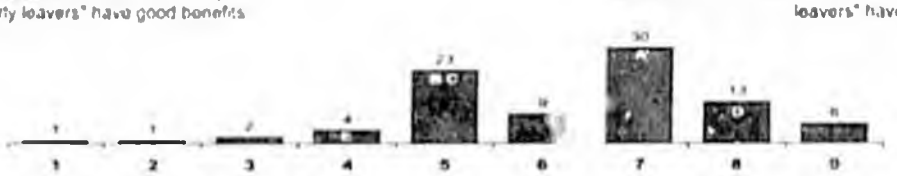
- Rewarding older employees supports career employment
- Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when younger members leave the System

Employer Survey – PERS
3. Benefits Build Up

Importance

Benefits should build up quickly, so "early leavers" have good benefits

Benefits should build up slowly, so "early leavers" have little



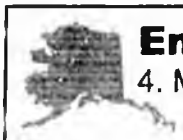
Key Comments

- Benefits should accrue at a constant rate rather than increase after so many years of service
- It should not pay to leave system as accruals vested
- All employees are important. Early leavers should accrue good benefits

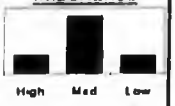
Key Implications

- Does not affect career employees who stay until retirement
- Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when younger members leave the System

Employer Survey – PERS
4. Mid-career Hires



Importance



Mid-career hires should accrue excellent benefits

It's OK for mid-career hires to accrue smaller benefits

Key Comments

- This offers the chance to attract employees with experience
- They should start at the same point as everyone else when starting a new job elsewhere

Key Implications

- Sufficient benefits for mid-career hires can be an important tool in order to attract experienced talent
- Providing higher benefits equals higher cost
- Mid-career hires may be sacrificing good benefits to switch employers

Employer Survey – PERS
5. Remaining in Alaska

Importance

The System should **not** reward retirees who remain in Alaska

The System should reward retirees who remain in Alaska

Key Comments

- They should start at the same point as everyone else when starting a new job elsewhere
- Living in state could benefit the economy. Should be in state for minimum of 9 months per year to qualify
- When people have given and earned their retirement, let them live where they choose without penalty

Key Implications

- Providing COLA results in higher System costs but Alaskan economy benefits from additional dollars spent by those who remain in Alaska
- COLA for residents promotes lifelong residency

Employer Survey – PERS

6. Med Coverage to Term. Vested Members

The System should provide medical coverage to terminated vested members

The System should **not** provide medical coverage to terminated vested members

Key Comments

- *This area needs to be reviewed and modified to help control costs. It may be necessary to qualify for benefits or look at providing a flat dollar amount for benefits with the retiree paying the difference*
- *Perhaps the medical benefit could increase for those who retire from active service/decrease for those terminated vested members*
- *Helps with recruitment. Many come to Alaska to get vested - we need to encourage this trend*

Key Implications

- *Opportunity for cost savings exists by cutting back medical benefits for terminated vested members*
- *By eliminating, employers would lose out on a recruiting tool*

Employer Survey – PERS

7. Medical Coverage

The retirement program should provide medical coverage

The program should **not** provide medical coverage

Key Comments

- *Biggest selling point in recruiting - medical*
- *Coverage important, but retirees could pay a share, perhaps based on years of service*
- *A must!*

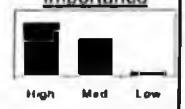
Key Implications

- *Elimination of medical coverage would lower System costs significantly over time*
- *Eliminating medical coverage would drastically change current design and hinder attraction and retention of employees as well as possibly providing insufficient overall retirement benefits to meet retirees' needs*

Employer Survey – PERS

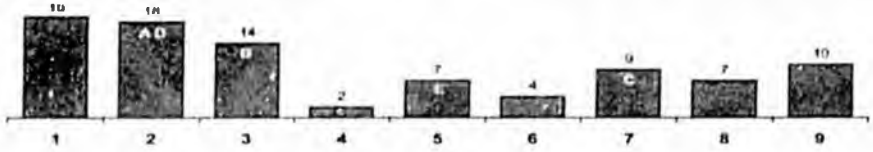
8. Medical Coverage based on Service

Importance



The System should provide levels of medical coverage that depend on years of service

The System should provide the same level of medical coverage regardless of years of service



Key Comments

- *The system cannot afford to provide the same level of medical coverage. The years of service should be considered*
- *If work 20-30 years benefits should be higher than someone who vest then quits*
- *Vested at 10 years of service is adequate. After vested time is met, same level of coverage for all participants*

Key Implications

- *Rewarding long-service employees supports career employment*
- *Employees at same tier with differing years of service could potentially have different levels of medical coverage*

Employer Survey – PERS

9. Medical Coverage and Medicare

Importance

The System should provide medical coverage to all retirees regardless of Medicare eligibility

The System should provide medical coverage only to those retirees **without** access to Medicare coverage

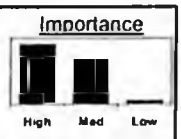
Key Comments

- *Retirees receiving medical coverage should have coverage provided until the retiree reaches Medicare age and then it should become a supplemental policy and Medicare becomes the primary carrier*
- *Coverage before Medicare should be based on the years of service, current employment of the retiree, and maximum contribution*
- *Need to make sure Medicare gaps can be covered*
- *Not confident that Medicare will be around down the road*

Key Implications

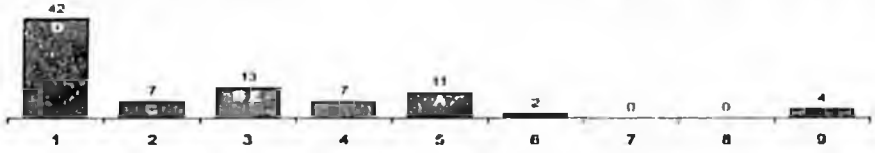
- *Limiting coverage would decrease System costs over time*
- *Could result in inadequate medical coverage for Medicare eligible retirees*

Employer Survey – PERS
10. Medical Coverage and Medicare



The System should provide medical coverage to all retirees regardless of Medicare eligibility

The System should provide medical coverage only to those retirees with access to Medicare coverage



Key Comments

- *Medical coverage should supplement Medicare up to a maximum amount based on a formula determined by number of years of service*
- *Reduce benefits when eligible for Medicare. If retire early should have option to purchase health insurance*
- *Future retirees should pay their own medical if eligible for Medicare*

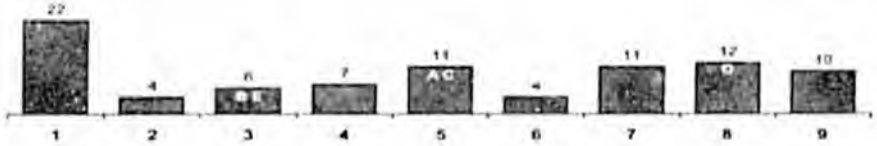
Key Implications

- *Limiting coverage would decrease System costs over time*
- *Without retiree medical coverage before Medicare, members would be more inclined to work until Medicare eligible*
- *If medical coverage is not offered by the System to pre-medicare retirees, access to health coverage will be significantly reduced*

Employer Survey – PERS
11. Medical Coverage

The System should offer the same medical coverage to active and retired members

The System should **not** offer the same medical coverage to active and retired members



Key Comments

- *Provide dollar amount of medical for retirees. If medical coverage for active employees provides better coverage, give retirees option to make co pay*
- *Those who are retired are less able to provide coverage*

Key Implications

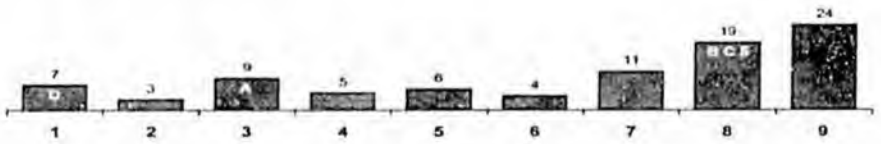
- *Potential cost savings by providing lesser medical coverage for retired members*
- *Different benefit levels for active and retired members may lead to communication and potential equity challenges*

Employer Survey – PERS
12. Retiring Age

Importance

We want to be able to encourage retirement at a particular age range

We don't care when people retire



Key Comments

- *Employee's productivity and contribution are not subject to age so mandatory retirement at a certain age may not be beneficial.*
- *I believe we will need to discourage early retirement as the available workforce decreases*
- *20 and out needs to be changed. If anyone should be 20 and out it should be law enforcement.*

Key Implications

- *By encouraging retirement at a particular age, the System may run the risk of losing productive members too soon and/or unproductive members "hanging on" too long*

Employer Survey – PERS
13. Retiring after Years of Service

Importance

We want to be able to encourage retirement after a particular number of years of service

We don't care when people retire

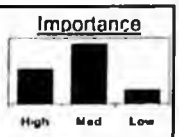
Key Comments

- *Increasing the number of years of service required, when age is not a factor, would reduce the cost to the retirement system*
- *While high salary people are a budget concern, their experience and expertise is a tremendous plus for a small organization*
- *As long as the employee meets job qualifications and is productive. This is the real issue*

Key Implications

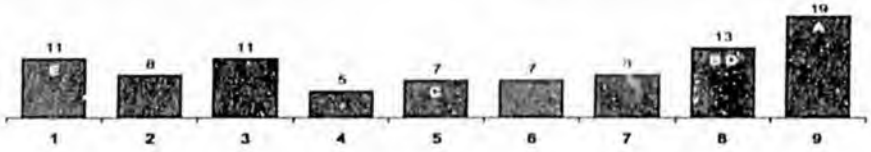
- *By encouraging retirement at a particular number of years of service, the System may run the risk of losing productive members too soon and/or unproductive members "hanging on" too long*

Employer Survey – PERS
14. Early Retirement



We want to be able to encourage early retirement with ad hoc enhanced benefits through the plan

We don't care about encouraging early retirement, or will handle it through other methods



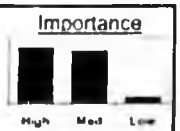
Key Comments

- *RIP and severance plans which offer early retirement have been shown to have a detrimental financial effect on the retirement system.*
- *This would help to manage the workforce and take advantage of the knowledge and skills of older workers*

Key Implications

- *Being able to provide ad hoc enhanced retirement benefits gives the System and individual employers an additional tool to manage the workforce*

Employer Survey – PERS
15. Retirement Income



We want to provide employees with a specific amount of retirement income they can count on at retirement

We will contribute to our employees retirement, but each employee should be entirely responsible for managing their retirement

Key Comments

- *Seems like this is defined benefits vs contribution – which is the key issue for debate and cannot be answered this easily -- it needs economic and market analysis on long term ability to attract and retain employees*
- *A defined contribution plan would be more predictable in terms of costs to the retirement system, and less expensive than a defined benefit plan*
- *People should be responsible for themselves. Investment advice should be available*
- *Should not be a crapshoot*

Key Implications

- *By not providing members with a specific amount of retirement income, members may not be saving enough or taking the appropriate responsibility to ensure a comfortable retirement*

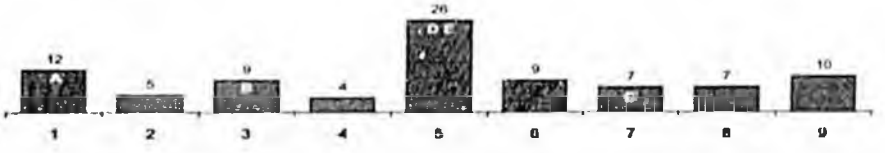
Employer Survey – PERS

16. Investment Risk Responsibility

Importance

Employees should assume investment risk

Employer should assume investment risk



Key Comments

- *Employees should assume responsibility. However employers may want to limit investment options to minimize risk*
- *Employer should not assume investment risk*
- *There should be a balance between the employee and employer*

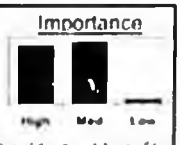
Key Implications

- *Leaning the investment risk exposes the System to cost increases and volatility, but can also often achieve higher returns than an individual due to a longer time horizon and professional management*
- *Members can often invest too conservatively or too aggressively for their given situation and needs*

Employer Survey – PERS

18. Inflation Risk Responsibility

Importance



Employees should assume post-retirement inflation risk

Employers should adjust benefits for post-retirement inflation

Key Comments

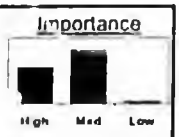
- *It needs economic and market analysis on long term ability to attract and retain employees*
- *Employees should assume more risk for post-retirement inflation*
- *Employer rates should reflect a more conservative estimated annual investment rate and annual inflation adjustments should have an annual inflation cap*

Key Implications

- *Providing post-retirement inflationary protection would ensure that the value of member's benefits at retirement continue to remain as valuable throughout their lifetime*
- *Providing post-retirement inflationary protection is a cost to the System*

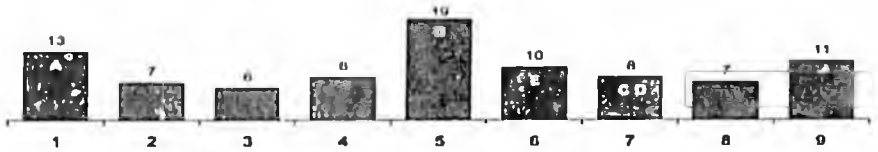
Employer Survey – PERS

19. Longevity Risk Responsibility



Employees should assume longevity risk

Employers should assume longevity risk



Key Comments

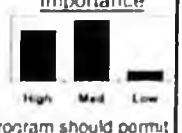
- *Employers can no longer afford to assume all future cost increases*
- *Why should an Alaska employer become the lifetime guarantor (and lifetime risk taker) for all employees?*
- *Employers can assume this risk better*
- *It should be the employees obligation to assume some risk*

Key Implications

- *Providing longevity protection is a cost to the System*
- *By assuming the longevity risk, the System could predict and manage it more accurately for the entire group than any employee could do individually*

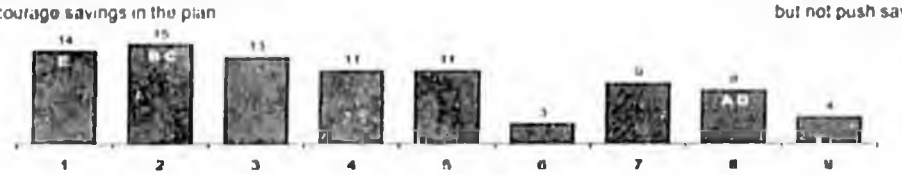
Employer Survey – PERS

20. Savings



The retirement program should heavily encourage savings in the plan

The program should permit but not push savings



Key Comments

- *There are lots of other options - 401(K)'s, IRA's and 457 plans. But at least one should be heavily pushed to employee*
- *Employees need to assume more responsibility for their retirement. Programs should be structured to educate and encourage employees to save for retirement*
- *Employees should be allowed to contribute and enhance their retirement security*

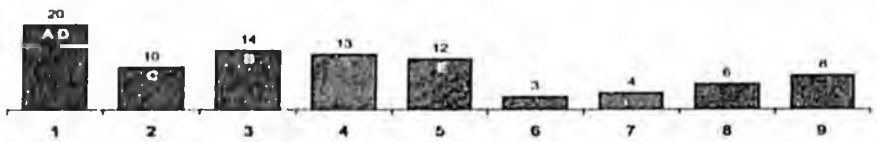
Key Implications

- *Without strongly encouraging employees to contribute to their retirement, many will not have adequate funds to retire comfortably*

Employer Survey – PERS
21. Cost of Medical Coverage

Employees should share in the cost of medical coverage

Employer should assume the cost of providing medical coverage



Key Comments

- *Employers can no longer afford to pay the entire amount for medical insurance. Employees should share in the cost*
- *Teacher/administrator salary does not reflect "high wages," hence this benefit should be provided*
- *The more you share in the cost, the more you make wise decisions*

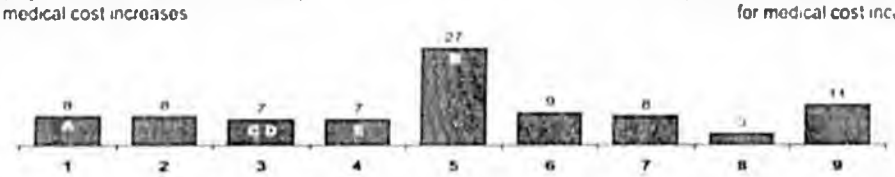
Key Implications

- *Members sharing in the cost of medical coverage would provide cost savings to the System over time*
- *Would be a significant shift from current design and increase financial burden on retirees*

Employer Survey – PERS
22. Cost of Medical Coverage

Employees should assume responsibility for medical cost increases

Employer should assume responsibility for medical cost increases



Key Comments

- *Employees should participate in medical cost increases*
- *I think the employee should hold this responsibility along with some help from employer*
- *Cost sharing is the key. Then employees will have an incentive to be wiser consumers and the system can manage cost increases more efficiently*

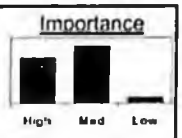
Key Implications

- *Members assuming the responsibility for medical cost increases would provide cost savings to the System over time*
- *Would be a shift from current design and increase financial burden on retirees*

Employer Survey – PERS

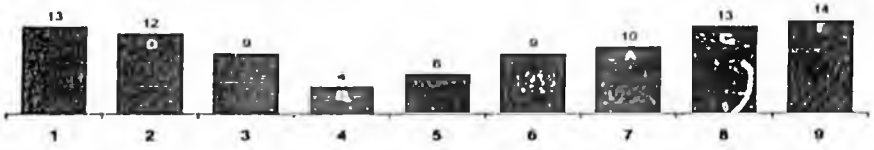
23. Access to Contributions

Importance



Employees should have access to as much of their own retirement contributions as legally possible

Employees should have no access to plan assets until retirement



Key Comments

- *Small portion should be available for "emergency only" situation*
- *If the employee paid it out it should be their choice to have it whenever and how much they want*
- *Employees generally have other deferred comp plans available to them to meet emergency needs. PERS is not a savings plan, but a long-term retirement vehicle*

Key Implications

- *Members may spend retirement income during working lifetime and as a result may be unable to retire*
- *The capability to use retirement plans for pre-retirement needs such as a home purchase can be a valuable benefit*

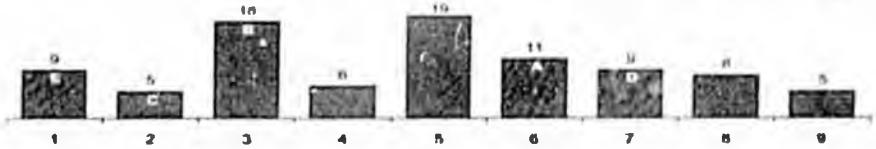
Employer Survey – PERS

24. Understandability

Importance

Understandability is the primary concern

We'll sacrifice understandability if necessary to achieve our workforce and benefit objectives



Key Comments

- *Employees need to understand the plan*
- *Employers need to provide good communication and seminars to explain plans. But the plan must be structured so it is simple enough for the majority of people to understand*
- *Raise the bar. Ask people to be more responsible*
- *Employees need to be involved in their retirement*
- *College should teach it!*

Key Implications

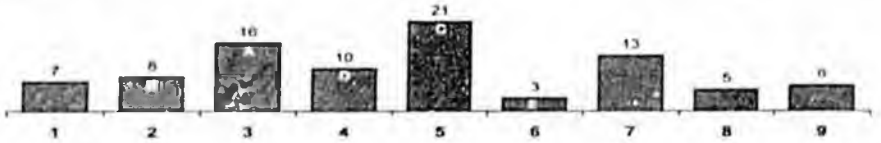
- *Generally a more complex form is can meet a wider variety of specific objectives*
- *Members may perceive more value in a retirement plan that is more understandable*

Employer Survey – PERS

25. Tangible and Relevant Plan

All employees should find the plan tangible and relevant

It's OK if the plan is tangible and relevant mainly to older employees



Key Comments

- *Human nature is such that retirement benefits are valued more as you approach retirement. If you want young employees to become wildly enthusiastic you have to give away the farm.*
- *All employees should be responsible for their own decisions.*
- *All employees need to see the benefits of the plan.*

Key Implications

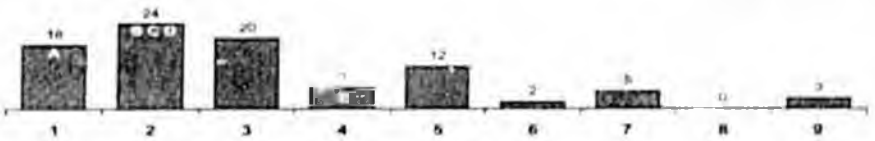
- *Members may perceive more value in a retirement plan that is tangible and relevant.*

Employer Survey – PERS

26. Predictability and Stability

We want maximum predictability and stability of contributions

We're willing to accept volatility as part of our asset strategy



Key Comments

- *For budgeting purposes, employers need a high degree of predictability.*
- *Governments have to budget. They need to know what to expect.*
- *Wide budget swings are hard to deal with.*
- *As an employer, we're willing to accept volatility as part of our asset strategy as long as fluctuations don't have drastic such as our increase over the next two years.*

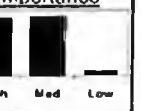
Key Implications

- *Volatility is the result of a higher-risk asset strategy with higher potential rewards.*

Employer Survey – PERS

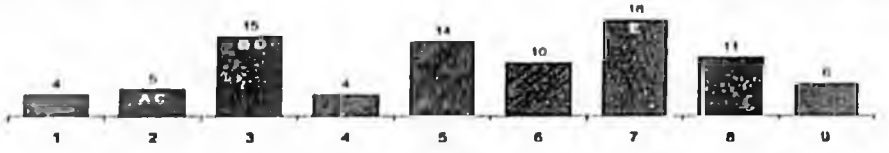
27. Change in Cost

Importance



Aggregate retirement contributions should be less than they are now

Marginal cost increases are appropriate to meet other design goals



Key Comments

- *Employees contribution rates may need to increase!!*
- *We understand that costs are increasing. Want to keep plans competitive while keeping plan costs reasonable*
- *It would be a fairy tale to want aggregate retirement contributions to be less than they are now*

Key Implications

- *Lowering contributions will result in generally lower level of benefits for employees*
- *System benefits may or may not be competitive against peer group if benefits are decreased*

Employer Survey – TRS
Key

The following pages illustrate the responses to the employer survey sent to all TRS employers. In total, 36 employers responded. TRS represents employers of various sizes. As a way to show the five largest employers' responses (of those who responded), we have included the letters A – E on the charts to represent how they answered. The employers have been assigned the following letters:

Employer	# Active Employees	Code Letter
Anchorage SD	3,464	A
Fairbanks North Star Borough SD	988	B
Matanuska-Susitna Borough SD	936	C
Kenai Peninsula Borough SD	723	D
Juneau Bureau SD	372	E

Employer Survey – TRS
1. Long-Service Employees

Plan should favor long service employees

Plan should not distinguish on account of length of service

Key Comments

- Incentives to reduce teacher turnover would help
- Anything that keeps employees saves time in recruitment, hiring and training
- Retaining quality employees is far more important. Employees for hire consider immediate compensation, not retirement. Veteran employees deserve rewards

Key Implications

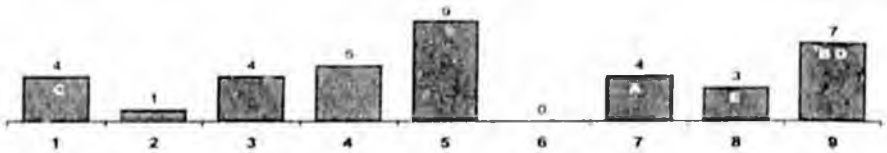
- Rewarding long service employees supports career employment
- Uniform allocation can be an important attraction tool, but allows districts to "trade up the ladder" when short service employees leave the System

Employer Survey – TRS

2. Older Employees

Plan should favor older employees

Plan should not distinguish on account of age



Key Comments

- *Length of service should be more important than age in determining retirement benefits*
- *Inflation and decreases in salary raises are historical in Alaska. Young need to see opportunity in this state*
- *Equal balance regardless of age*

Key Implications

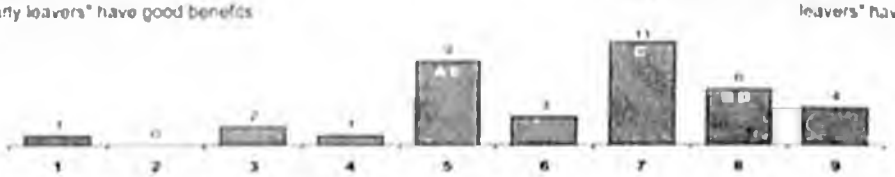
- *Rewarding older employees supports career employment*
- *Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when younger members leave the System*

Employer Survey – TRS

3. Benefits Build Up

Benefits should build up quickly, so "early leavers" have good benefits

Benefits should build up slowly, so "early leavers" have little



Key Comments

- *In order to have costs in a defined benefit plan, benefits should accrue at a constant rate rather than increase after so many years of service*
- *The System should promote an optimum age or service time that encourages turnover of the workforce without loss of good experience while providing a decent retirement*

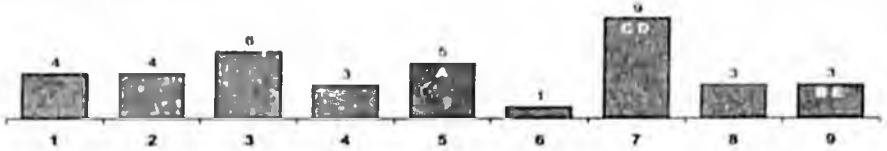
Key Implications

- *Does not affect career employees who stay until retirement*
- *Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when younger members leave the System*

Employer Survey – TRS
4. Mid-career Hires

Mid-career hires should accrue excellent benefits

It's OK for mid-career hires to accrue smaller benefits



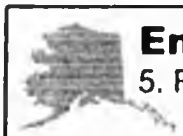
Key Comments

- *This offers the chance to attract employees with experience*
- *Teachers/administrators need an infusion of mid-career change people. We need their experiences and insight in educating our kid... We need to not penalize them in retirement planning*
- *Mid-career employees probably have other benefits*

Key Implications

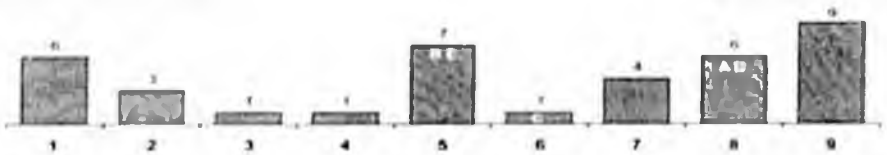
- *Sufficient benefits for mid-career hires can be an important tool in order to attract experienced talent*
- *Providing higher benefits equals higher cost*
- *Mid career hires may be sacrificing good benefits to switch employers*

Employer Survey – TRS
5. Remaining in Alaska



The System should **not** reward retirees who remain in Alaska

The System should reward retirees who remain in Alaska



Key Comments

- *Retirees should be encouraged to stay in Alaska*
- *When people have given and earned their retirement, let them live where they choose without penalty*
- *Alaska needs to promote lifelong state citizenship*
- *Spend money where they earn it. The employee has earned it*

Key Implications

- *Providing COLA results in higher System costs, but Alaskan economy benefits from additional dollars spent by those who remain in Alaska*
- *COLA for residents promotes lifelong residency*

Employer Survey – TRS

6. Med Coverage to Term. Vested Members

The System should provide medical coverage to terminated vested members

The System should **not** provide medical coverage to terminated vested members

Key Comments

- *This area needs to be reviewed and modified to help control costs. It may be necessary to qualify for benefits or look at providing a flat dollar amount for benefits with the retiree paying the difference*
- *Helps with recruitment. Many come to Alaska to get vested - we need to encourage this trend*
- *Medical coverage should be available after vesting and attaining a certain specified age (say 60) or date retirement if prior to 60*

Key Implications

- *Opportunity for cost savings exists by cutting back medical benefits for terminated vested members*
- *By eliminating, employers would lose out on a recruiting tool*

Employer Survey – TRS

7. Medical Coverage

The retirement program should provide medical coverage

The program should **not** provide medical coverage

Key Comments

- *Biggest selling point in recruiting - medical*
- *Delaying medical coverage will only keep potential retirees to stay at the system longer at the top-end of salary*
- *Coverage important, but retirees could pay a share, perhaps based on years of services*
- *Medical coverage is very important. But with costs increasing as they are, we need to consider changes to the current structure*

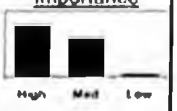
Key Implications

- *Elimination of medical coverage would lower System costs significantly over time*
- *Eliminating medical coverage would drastically change current design and hinder attraction and retention of employees as well as possibly providing insufficient overall retirement benefits to meet retiree needs*

Employer Survey – TRS

8. Medical Coverage based on Service

Importance



The System should provide levels of medical coverage that depend on years of service

The System should provide the same level of medical coverage regardless of years of service

Key Comments

- Contributions to medical coverage could be based on a formula depending on years of service
- This will help retain teachers beyond 8 year minimum
- Eligibility for full retirement (20 years) should make one eligible for full medical benefits

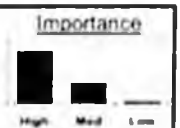
Key Implications

- Rewarding long-service employees supports career employment
- Employees in same tier with differing years of service could potentially have different levels of medical coverage

Employer Survey – TRS

10. Medical Coverage and Medicare

Importance



The System should provide medical coverage to all retirees regardless of Medicare eligibility

The System should provide medical coverage only to those retirees with access to Medicare coverage

Key Comments

- Not being able to see into the future to determine what Medicare will look like, it would seem responsible to not provide retirees with some sense of comfort in a predictable benefit
- Medical coverage should supplement Medicare up to a maximum amount based on a formula determined by number of years of service
- Medicare should not be a factor

Key Implications

- Limiting coverage would decrease System costs over time
- Without retiree medical coverage before Medicare, members would be more inclined to work until Medicare eligible
- If medical coverage is not offered by the System to pre-medicare retirees, access to health coverage will be significantly reduced

Employer Survey – TRS

11. Medical Coverage

Importance

The System should offer the same medical coverage to active and retired members

The System should **not** offer the same medical coverage to active and retired members

Key Comments

- *Provide dollar amount of medical for retirees, if medical coverage for active employees provides better coverage, give retirees option to make co pay*
- *Those who are retired are less able to provide coverage*
- *This is a composite of many employers. Medical benefits are a negotiated item at the bargaining table*

Key Implications

- *Potential cost savings by providing lesser medical coverage for retired members*
- *Different benefit levels for active and retired members may lead to communication and perceived equity challenges*

Employer Survey – TRS

12. Retiring Age

Importance

We want to be able to encourage retirement at a particular age range

We don't care when people retire

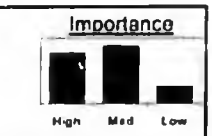
Key Comments

- *Employees productivity and contribution are not subject to age so mandatory retirement at a certain age may not be beneficial*
- *Their years of service should determine benefits, not their age. The loopholes allowing short service and full benefits should be closed*
- *20 and out needs to be changed. If anyone should be 20 and out it should be law enforcement*

Key Implications

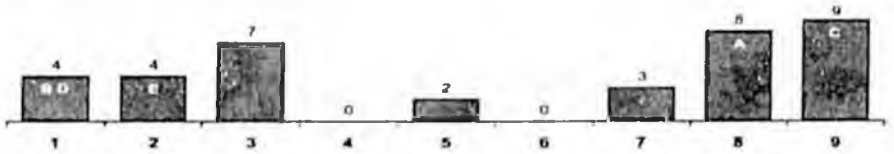
- *By encouraging retirement at a particular age, the System may run the risk of losing productive members too soon and/or unproductive members "hanging on" too long*

Employer Survey – TRS
13. Retiring after Years of Service



We want to be able to encourage retirement after a particular number of years of service

We don't care when people retire



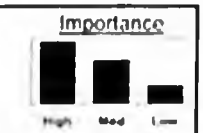
Key Comments

- *Increasing the number of years of service required, when age is not a factor, would reduce the cost to the retirement system*
- *While high salary people are a budget concern, their experience and expertise is a tremendous plus for a small organization*
- *20 years, at least 50 years in age*

Key Implications

- *By encouraging retirement at a particular number of years of service, the System may run the risk of losing productive members too soon and/or unproductive members "hanging on" too long*

Employer Survey – TRS
14. Early Retirement



We want to be able to encourage early retirement with ad hoc enhanced benefits through the plan

We don't care about encouraging early retirement, or will handle it through other methods

Key Comments

- *RIF and severance plans which offer early retirement have been shown to have a detrimental financial effect on the retirement system*
- *Given Mr. Alaska's impact on teaching force per seniority, this is needed to bring in new blood to the organization*
- *In times of financial stress this will allow us to be more creative*

Key Implications

- *Being able to provide ad hoc enhanced retirement benefits gives the System and individual employers an additional tool to manage the workforce*

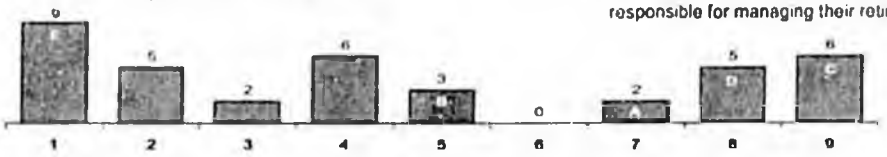
Employer Survey – TRS

15. Retirement Income

Importance

We want to provide employees with a specific amount of retirement income they can count on at retirement

We will contribute to our employees retirement, but each employee should be entirely responsible for managing their retirement



Key Comments

- *A defined contribution plan would be more predictable, in terms of costs to the retirement system, and less expensive than a defined benefit plan*
- *Should not be a crap shoot!*
- *Some flexibility on this might be useful*

Key Implications

- *By not providing members with a specific amount of retirement income, members may not be saving enough or taking the appropriate responsibility to ensure a comfortable retirement*

Employer Survey – TRS

16. Investment Risk Responsibility

Importance

Employees should assume investment risk

Employer should assume investment risk

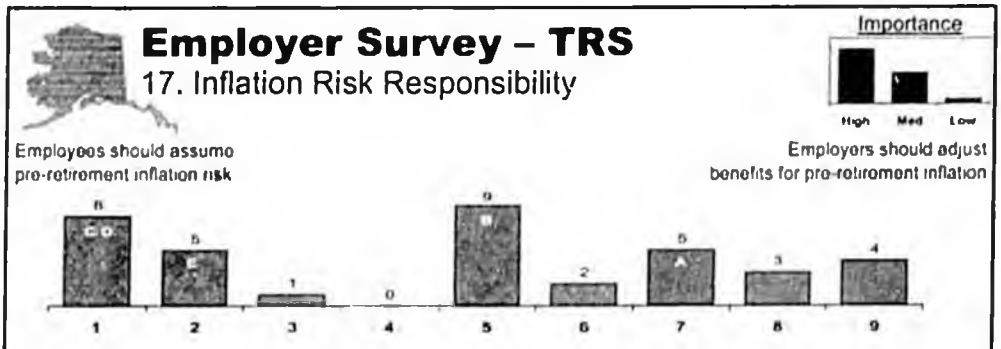
Key Comments

- *Employees should assume responsibility. However employers may want to limit investment options to minimize risk*
- *Our employees neither have the time nor the investment skills to manage a retirement portfolio*
- *Defined contribution plans are bad public policy. Employer should provide access to a pre-tax dollar investment program, but a stable retirement income must be in place*

Key Implications

- *By using the investment risk exposes the System to cost increases and volatility, but can also often achieve higher returns than an individual due to a longer time horizon and professional management*
- *Members can often invest too conservatively or too aggressively for their given situation and needs*

Employer Survey – TRS
17. Inflation Risk Responsibility



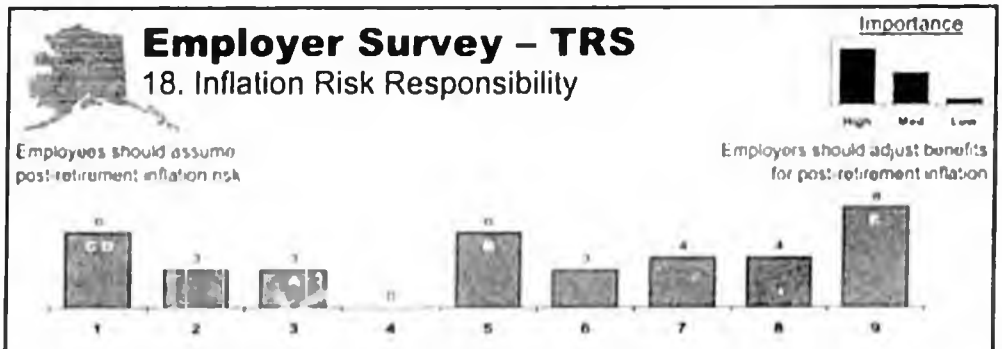
Key Comments

- *Employers should adjust benefits for pre-retirement inflation*
- *This should lag by a few years*

Key Implications

- *Value of benefits for members who terminate prior to retirement can erode over time from inflation*
- *Providing pre-retirement inflationary protection is a cost to the System*
- *The final average pay plan design provides some automatic pre-retirement inflation protection*

Employer Survey – TRS
18. Inflation Risk Responsibility



Key Comments

- *Employees should assume more risk for post-retirement inflation*
- *This should lag by a few years*

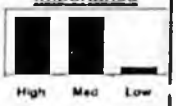
Key Implications

- *Providing post-retirement inflationary protection would ensure that the value of member's benefits at retirement continue to remain as valuable throughout their lifetime*
- *Providing post-retirement inflationary protection is a cost to the System*

Employer Survey – TRS

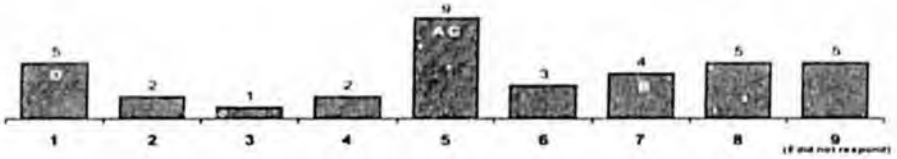
19. Longevity Risk Responsibility

Importance



Employees should assume longevity risk

Employers should assume longevity risk



Key Comments

- *Employers can no longer afford to assume all future cost increases*
- *Employees need to be on the ball in this area*

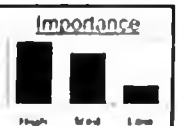
Key Implications

- *Providing longevity protection is a cost to the System*
- *By assuming the longevity risk, the System could predict and manage it more accurately for the entire group than any employee could do individually*

Employer Survey – TRS

20. Savings

Importance



The retirement program should heavily encourage savings in the plan

The program should permit but not push savings

Key Comments

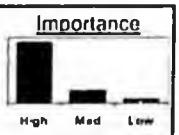
- *Employees need to assume more responsibility for their retirement. Programs should be structured to educate and encourage employees to save for retirement*
- *Employees should be allowed to contribute and enhance their retirement security*
- *Savings in one plan should encourage long careers*

Key Implications

- *Without strongly encouraging members to contribute to their retirement, many will not have adequate funds to retire comfortably*

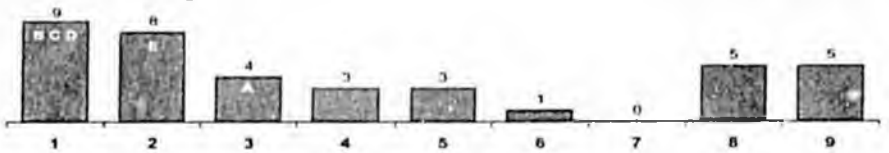
Employer Survey – TRS

21. Cost of Medical Coverage



Employees should share in the cost of medical coverage

Employer should assume the cost of providing medical coverage



Key Comments

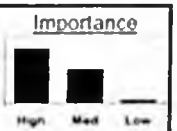
- *Employers can no longer afford to pay the entire amount for medical insurance. Employees should share in the cost.*
- *Teacher/administrator salary does not reflect "high wages," hence this benefit should be provided.*
- *Employees share in the cost of medical coverage and retirement benefits through their active career contributions. They also contribute via co-pays, deductibles and Medicare Part B premiums.*

Key Implications

- *Members sharing in the cost of medical coverage would provide cost savings to the System over time.*
- *Would be a significant shift from current design and increase financial burden on retirees.*

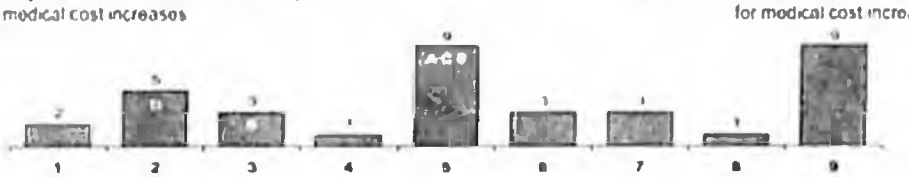
Employer Survey – TRS

22. Cost of Medical Coverage



Employees should assume responsibility for medical cost increases

Employer should assume responsibility for medical cost increases



Key Comments

- *The retirement system should be responsible for the management of the medical coverage while the retirees should be responsible for cost increases.*
- *Both should assume cost responsibilities. It's not either or.*

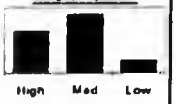
Key Implications

- *Members assuming the responsibility for medical cost increases would provide cost savings to the System over time.*
- *Would be a shift from current design and increase financial burden on retirees.*

Employer Survey – TRS

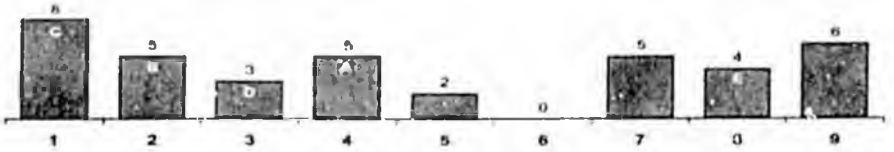
23. Access to Contributions

Importance



Employees should have access to as much of their own retirement contributions as legally possible

Employees should have no access to plan assets until retirement



Key Comments

- *Small portion should be available for "emergency only" situation*
- *Access should certainly be very limited*
- *Only with benefit of understanding the consequences*

Key Implications

- *Members may spend retirement income during working lifetime and as a result may be unable to retire*
- *The capability to use retirement plans for pre-retirement needs such as a home purchase can be a valuable benefit*

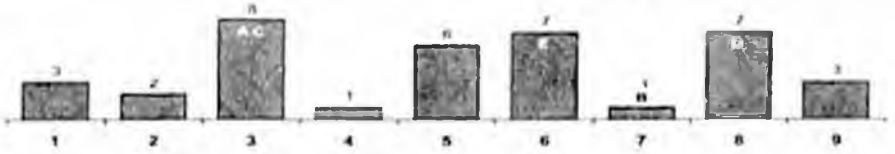
Employer Survey – TRS

24. Understandability

Importance

Understandability is the primary concern

We'll sacrifice understandability if necessary to achieve our workforce and benefit objectives



Key Comments

- *Employers need to provide good communication and seminars to explain plans, but the plan must be structured so it is simple enough for the majority of people to understand*
- *Let individuals who want complexity and flexibility do so on their own apart from this*
- *It is their responsibility to understand it*
- *College should teach it!*

Key Implications

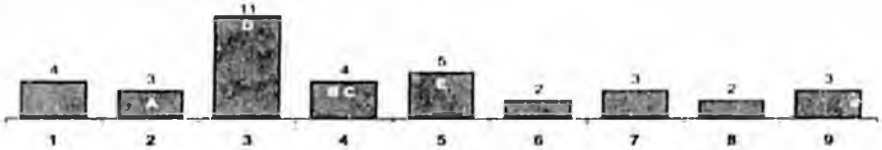
- *Generally a more complex formula can meet a wider variety of specific objectives*
- *Members may perceive more value in a retirement plan that is more understandable*

Employer Survey – TRS

25. Tangible and Relevant Plan

All employees should find the plan tangible and relevant

It's OK if the plan is tangible and relevant mainly to older employees



Key Comments

- *All employees should understand and value the retirement plan*
- *Recruiting tool*

Key Implications

- *Members may perceive more value in a retirement plan that is tangible and relevant*

Employer Survey – TRS

26. Predictability and Stability

We want maximum predictability and stability of contributions

We're willing to accept volatility as part of our asset strategy

Key Comments

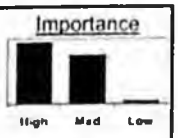
- *For budgeting purposes, employers need a high degree of predictability*
- *Until schools are adequately funded, predictability and stability are very important. If adequate funding is ever established, volatility can be more easily handled*
- *Can't swing in a major way in a short period. 5% is too much of a swing. 1-2% is doable*

Key Implications

- *Volatility is the result of a higher-risk asset strategy with higher potential rewards*

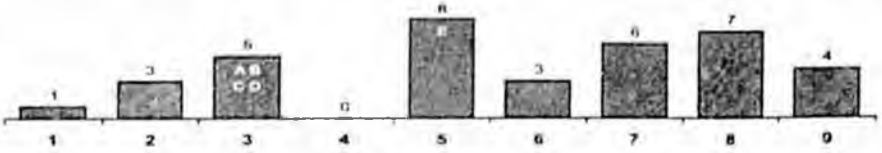
Employer Survey – TRS

27. Change in Cost



Aggregate retirement contributions should be less than they are now

Marginal cost increases are appropriate to meet other design goals



Key Comments

- *Employees contribution rates may need to increase!!*
- *We understand that costs are increasing. Want to keep plans competitive while keeping plan costs reasonable*
- *We have to contain costs or everyone loses*
- *Costs need to be sufficient to do the job*

Key Implications

- *Lowering contributions will result in generally lower level of benefits for retirees*
- *System benefits may or may not be competitive against peer group if benefits are decreased*

Employer Survey – TRS

29. Most Important Questions

(Responses are weighted)

The four most important questions with preferred spectrum comment

- **Question # 7:** "The retirement program should provide medical coverage"
- **Question #26:** "We want maximum predictability and stability of contributions"
- **Question #1:** "Plan should favor long-service employees"
- **Question #6:** (The responses did not indicate a significant difference between the two)
- "The System should provide medical coverage to terminated vested members"
- "The System should **not** provide medical coverage to terminated vested members"

1/27/05 ROLES OF ASPIB & TREASURY DIVISION, DEPT. OF REVENUE

Alaska State Pension Investment Board

Presentation to the Senate Finance Committee:

The Role of ASPIB and the Treasury Division

Gary M. Bader, Chief Investment Officer

January 27, 2005

Agenda

- Present reasoning behind capital market projection process
  - economic background
  - specific projections
- Discuss implications generally
- Outline next steps

Capital Market Projections

(from Callan Associates Inc., January 2004)

Callan's Capital Market Projection Process

Economic Outlook Drives Our Projections

- Evaluate the current environment and economic outlook for the U.S. and other major industrial countries:
  - Business cycles, relative growth, inflation.
- Examine the relationships between the economy and asset class performance patterns.
- Examine recent and long-run trends in asset class performance.
- Apply market insight:
  - Consultant experience - Plan Sponsor, Manager Search, Specialty
  - Industry consensus
  - Client Policy Review Committee
- Test the projections for reasonable results.

2004 Capital Market Projections

Guiding Objectives

- Our best thinking regarding the 5-year outlook, recognizing our median projections represent the midpoint of a range, rather than a specific number.
- Results that are readily defensible both for individual asset classes and for total portfolios.
- Conscious of the level of change suggested in strategic allocations for DB, DC and foundation/endowment clients.
- Reflect common sense and recent market developments.
- Balance conflicting goals and conflicting opinions.

Back in Black After the Longest Equity Bear Market Since 1930's

	1999	2000	2001	2002	2003	Avg Ann Return Last Five Years
Russell 3000	20.90	-7.46	-11.46	-21.54	31.06	0.37
S&P Super Composite 1500	20.27	-6.98	-10.64	-21.31	29.59	0.39
Russell 1000	20.91	-7.79	-12.45	-21.65	29.89	-0.13
S&P 500	21.04	-9.10	-11.88	-22.10	28.80	-0.57
Russell 2000	21.26	-3.02	2.49	-20.48	47.25	7.13
S&P 600 Small Cap	12.40	11.80	6.54	-14.63	38.79	9.67
EAFE ($US)	26.96	-14.17	-21.44	-15.94	38.59	-0.06
LB Aggregate	-0.82	11.63	8.43	10.26	4.10	6.62
SB Non-US Bonds	-5.07	-2.63	-3.54	21.99	18.52	5.21
90-day T-bill	4.85	6.18	4.42	1.78	1.15	3.66

An Investment-Led Global Recession

- The recession was triggered by an investment bubble that resulted in excess capacity and reduced returns on capital.
- The manufacturing recession was deep and global.
- Deflation became a greater concern than inflation.
- Expansionary fiscal and monetary policies cushioned the downturn.
- Consumers kept spending and housing markets boomed.
- A succession of shocks impeded recovery—terrorist attacks, corporate governance scandals, the Iraq war, SARS.
- Investment will recover as excess capacity is cleared and profitability improves.

The Current Economic Environment

Recovery Rolls Across The U.S. Economy

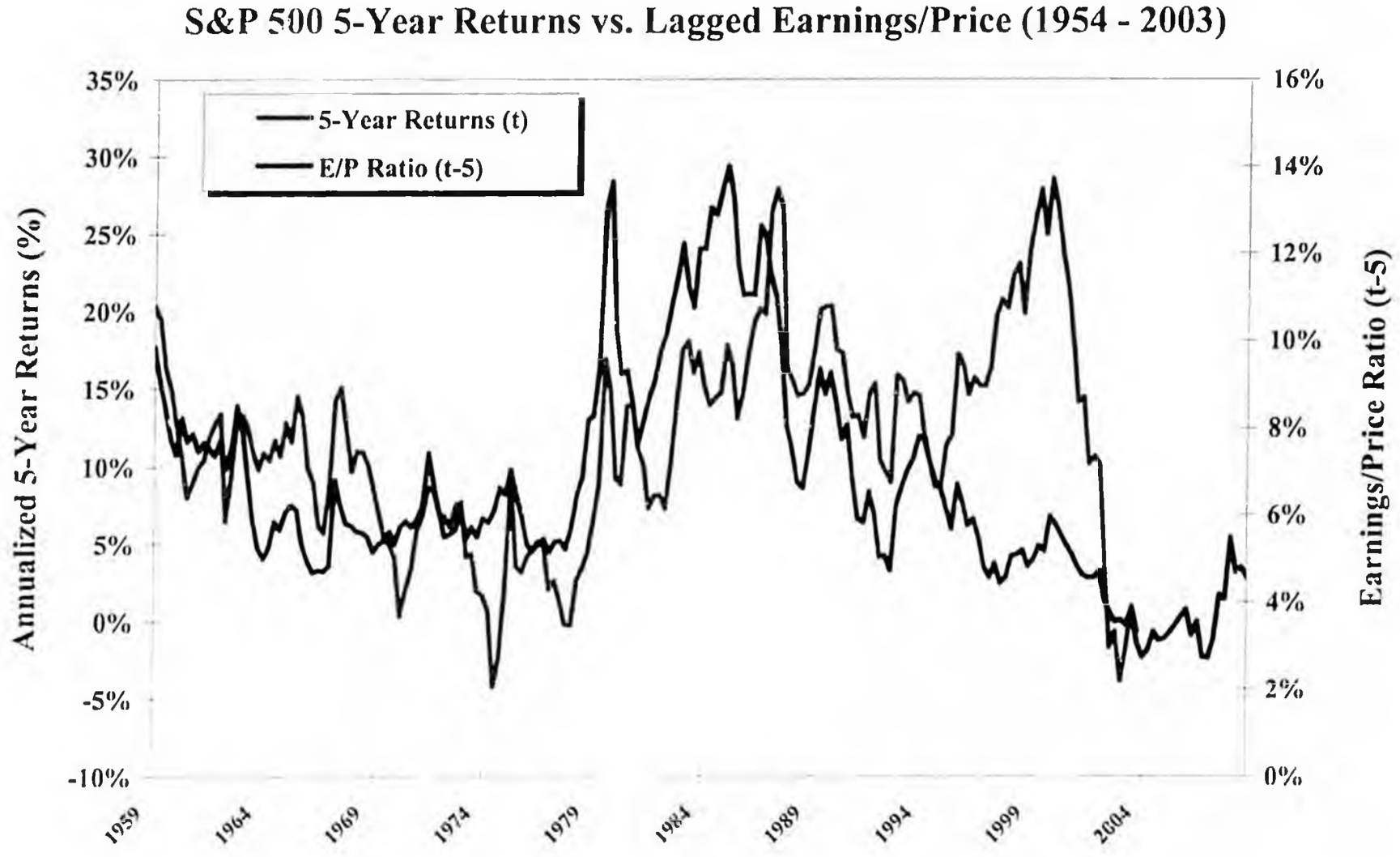
- The recession is over, but it hadn't felt like it until recently - in part because we're following the mildest recession in postwar history.
- Economy is growing, but unemployment is stuck at 6%.
- Business investment continues to be weak, as many of the growth industries of the 1990s are plagued with overcapacity.
- Inflation remains non-existent. Last over 3% in 2000; just 1.9% in 2003.
- Interest rates are still extraordinarily low:
  - Treasury bonds yields were at their lowest in 40-years, due to
    - Aggressive Fed action to lower interest rates,
    - Investors, afraid of equity, favoring bonds and driving yields lower.
  - Fed policy still seems to work, at least on consumers...
- Credit spreads and equity risk premium have been higher than normal.
- Consumers have been tireless, and the federal government has been spending to boost the economy and for the war in Iraq.

2004 Capital Market Preview:

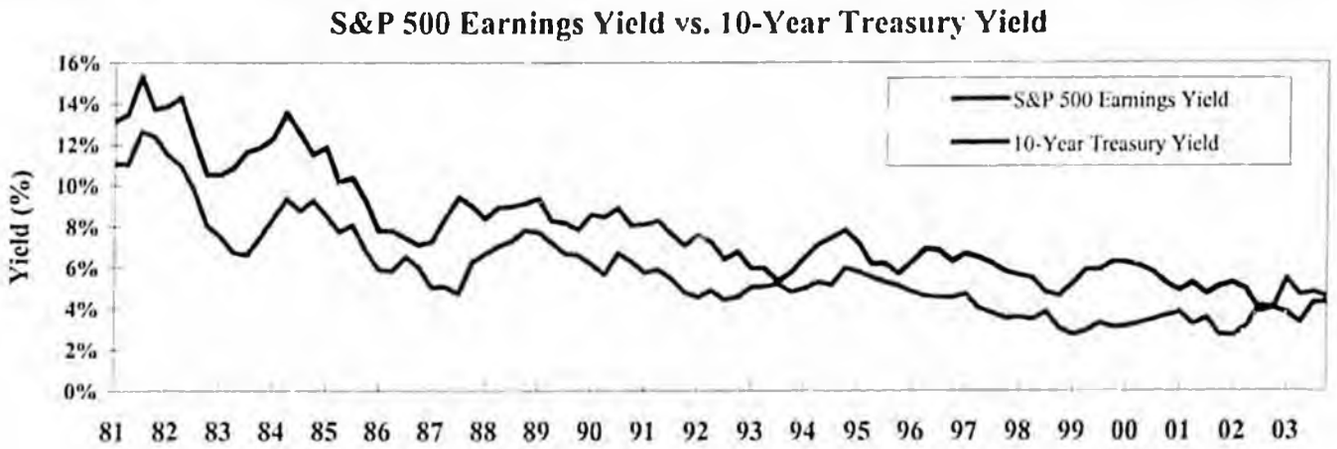
Keep Those Expectations Low

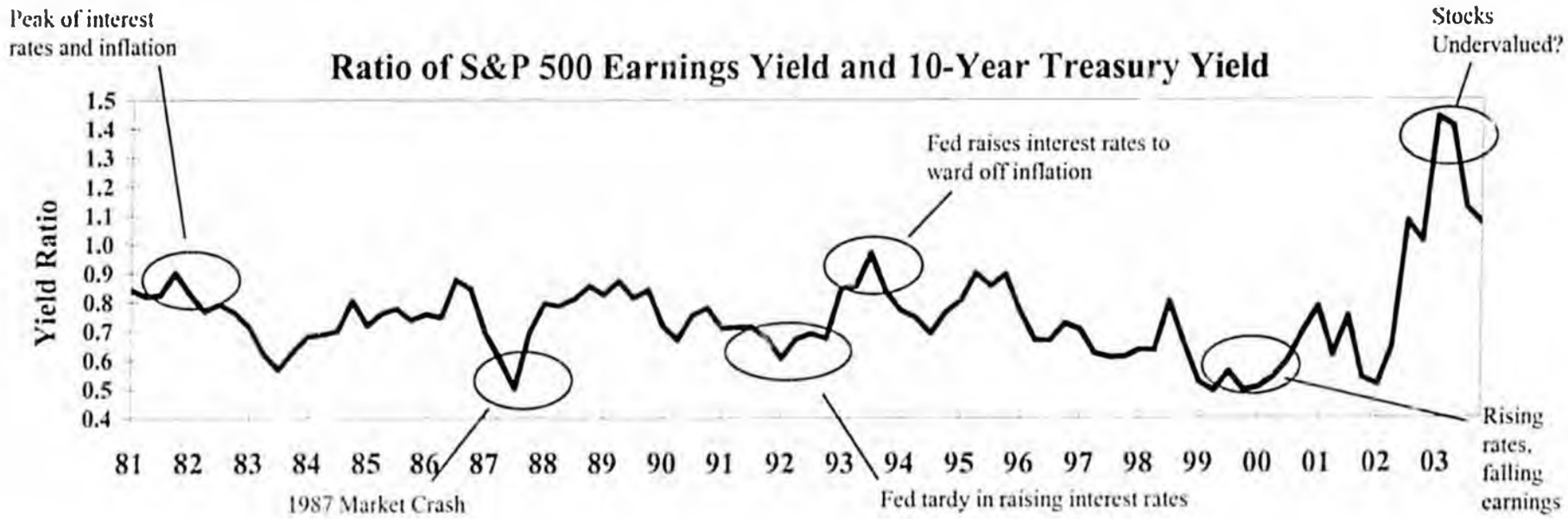
- The economic recovery will continue, but growth will remain modest. Capital spending will ultimately follow GDP.
- Fed will ultimately shift to tightening monetary policy.
- The stock market recovery will be slow. U.S. stocks are still expensive relative to their valuations and to other markets.
- Callan's outlook in a nutshell: expect a low inflation, low interest rate, single digit return environment.
- Low return expectations mean 8% nominal return assumptions may be difficult to achieve. Callan's 2004 assumptions generate an expected return for a 60% stock/40% bond allocation of 7.4% over the next five years. Plans may need to shift their focus to real return expectations.

Equity Is Now More Reasonably Priced



Domestic Equity vs. Bond Yields





S&P data includes negative earnings from 1988 onward

Domestic Fixed Income

Current Yield Is A Strong Predictor of Returns

Lehman Aggregate Index 5 Year Returns vs. Lagged Yield to Worst

2004 Capital Market Projections

- Practically no changes from last year's projections!
- Inflation is held at 2.6%, depicting inflation rising from current low levels.
- Cash returns reflect rising short-term yields, but still low real return of 0.1%.
- Bond returns held at 4.75% :
  - reflects current yield-to-worst, plus small adjustment
  - build in moderate increase in short rates, relatively stable long rates, a little more narrowing of credit spreads.
- Equity returns built from fundamentals: 3-4% real GDP growth which means 5.5%-6.5% nominal earnings growth, 2% dividend yield, 0.5%-1% "buyback" yield.
- Real estate return held at 7.6%, reflecting income component & potential valuation pressure.
- Private equity return held at 12%, a 3% premium over public markets.
- Premiums of international equity over domestic and small cap over large cap have been narrowed, reflecting recent performance and relative valuations.

2004 Capital Market Projections

Asset Class	Index	Projected Annual Return	Projected Standard Deviation (Risk)	Projected Yield	2003 Projections	
Equities						
Broad Domestic Equity	S&P 1500	9.00%	16.90	2.10	9.00%	17.30
Large Cap	S&P 500	8.80%	16.20	2.20	8.70%	16.20
Small Cap	S&P 1000	10.10%	23.50	1.20	10.30%	25.00
International Equity	MSCI EAFE	9.30%	20.30	2.20	9.60%	21.50
Emerging Markets Equity	MSCI EMF	9.80%	33.00	0.00	10.10%	35.00
Fixed Income						
Domestic Fixed	LB Aggregate	4.75%	4.50	4.75	4.75%	4.50
Defensive	LB Gov't 1-3 Year	3.75%	2.30	3.75	3.75%	2.30
TIPS	LB TIPS	4.40%	6.00	4.40	4.40%	6.00
High Yield	FB High Yield	6.75%	12.10	6.75	6.75%	12.30
Non USS Fixed	SB Non-US Gov't	4.65%	9.60	4.65	4.65%	9.60
Other						
Real Estate	Callan Real Estate	7.60%	16.50	7.00	7.60%	16.50
Private Equity	Post Venture Cap	12.00%	34.00	0.00	12.00%	34.00
	Absolute Return	6.50%	10.50	0.00	6.50%	10.50
Cash Equivalents	90-Day T-Bill	2.70%	0.70	2.70	3.00%	0.70
Inflation	CPI-U	2.60%	1.40		2.60%	1.40

2004 Correlation Coefficient Matrix

Key to Constructing Efficient Portfolios

2004 Correlation Matrix

	Broad	Lrg Cap	Sml Cap	Int'l Eq	Emerg	Dom Fix	Defensive	TIPS	Hi Yield	NUS Fix	Real Est	Pvt Equity	Abs Ret	T-Bill
Broad Dom Eq	1.00													
Large Cap Eq	0.96	1.00												
Small Cap Eq	0.92	0.82	1.00											
Int'l Equity	0.72	0.73	0.60	1.00										
Emerging Mkts	0.50	0.50	0.44	0.43	1.00									
Domestic Fixed	0.25	0.27	0.16	0.22	0.15	1.00								
Defensive	0.27	0.29	0.18	0.20	0.00	0.94	1.00							
TIPS	0.01	0.01	-0.01	-0.09	-0.14	0.40	0.36	1.00						
High Yield	0.65	0.64	0.58	0.50	0.35	0.41	0.44	0.15	1.00					
Non SUS Fixed	0.01	0.03	-0.03	0.20	-0.03	0.32	0.40	0.11	0.05	1.00				
Real Estate	0.62	0.53	0.52	.50	0.35	0.20	0.30	0.00	0.53	0.03	1.00			
Private Equity	0.64	0.63	0.59	0.63	0.55	0.20	0.20	-0.03	0.45	0.10	0.45	1.00		
Absolute Return	0.65	0.64	0.60	0.58	0.33	0.45	0.44	0.00	0.50	0.15	0.45	0.46	1.00	
T-Bills	-0.12	-0.10	-0.15	-0.25	-0.15	0.30	0.28	0.29	0.07	-0.05	-0.06	0.07	0.50	1.00

Where Do We Go From Here?

Is There Something I Should Be Doing?

- Despite the chaotic markets and the pain suffered by pension plans, foundations and endowments, most sponsors have maintained a long-term focus and have resisted the urge to do something drastic.

- Sponsors are carefully re-examining their strategic plans:
  - Asset allocation, and the assumptions driving their allocations.
  - Long-term return assumptions.
  - Asset class portfolio structures.
  - New asset classes or investment strategies
    - Real estate
    - Hedge funds
    - Private equity
    - Market timing & the "new" TAA
    - "All-weather" portfolios

Asset Class Round-Up

No easy answers - Issues & Questions

- Bonds?
  - Yields are well below 5%, and not likely to rise much. Market suffered a violent correction last July, as prices plummeted and yields shot up. The "best case" for bonds is a weak recovery, where consumers lose confidence and the Fed holds off raising interest rates - not exactly fertile ground for strong returns in any part of the capital market.
- High Yield?
  - Current pricing is still somewhat attractive by historical standards - 4.5% premium over Treasuries - but the big gains may have already happened.
  - Companies that survived should do well as the economy expands.
  - Defaults soared during the recession - 10.5% of below-investment grade companies defaulted in 2001, 8.4% in 2002. Rate for 2003 will be close to 6%, long-run average is below 4%.
  - If growth remains slow and inflation is absent, credit problems may linger. One more accounting scandal...

Potential Mixes For IAC Discussion

Efficient Frontier Segment

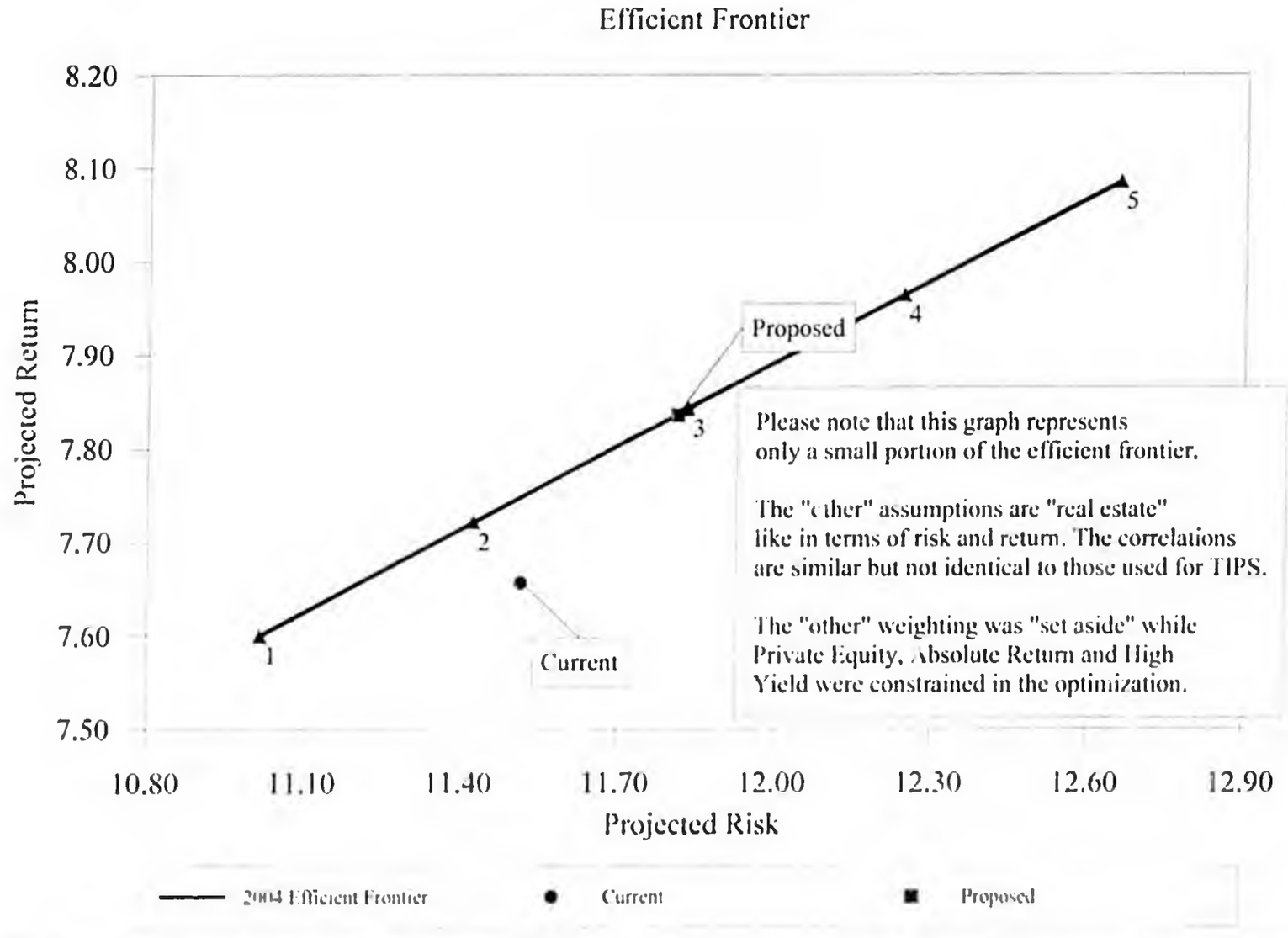
Note the use of constraints & "set aside"

Portfolio Component	Set Aside	Max	Mix 1	Mix 2	Current	Proposed	Mix 3	Mix 4	Mix 5
Large Cap	0	100	29	30	31	30	32	33	34
Small Cap	0	100	6	6	6	6	6	7	7
International Equity	0	100	12	13	15	15	14	14	15
Domestic Fixed	0	100	29	26	30	24	24	21	19
Non US$ Fixed	0	100	2	3	3	2	2	2	2
Real Estate	0	100	8	8	9	9	8	9	9
Private Equity	0	6	6	6	6	6	6	6	6
Cash Equivalents	0	100	0	0	0	0	0	0	0
High Yield	0	2	2	2	0	2	2	2	2
Absolute Return	0	3	3	3	0	3	3	3	3
Other (Agriculture & Energy)	3	0	3	3	0	3	3	3	3
Totals			100	100	100	100	100	100	100
Expected Return			7.60	7.72	7.70	7.84	7.84	7.96	8.09
Standard Deviation			11.02	11.42	11.65	11.81	11.83	12.24	12.66

Note that HY, Absolute Return & Private Equity have all been constrained. "Other" was "set aside" so that it would have minimal effect on the optimization process since the inputs were highly subjective.

Efficient Frontier Segment

TRS & PERS

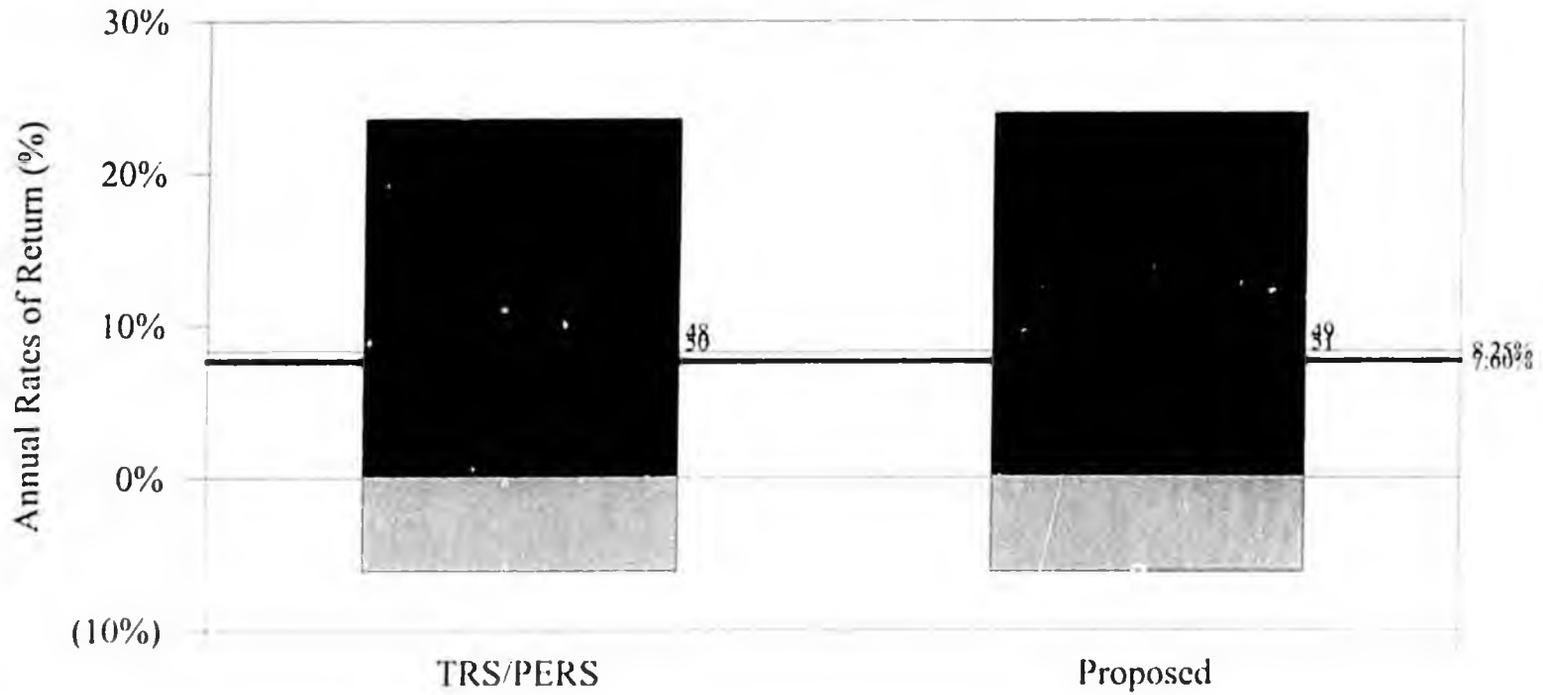


Range of Returns & Threshold Return Probabilities

- The graphs on the following pages depict the range of returns for ASPIB's current policy and the proposed policy
  - Neither produces an expected return equal to the actuarial discount rate. The difference reflects Callan's use of a lower inflation assumption than that embedded in the actuary's discount rate.
  - Callan's projection is a 5-year projection while the actuary understandably must focus on a much longer horizon.
  - One way to make the assumptions comparable is to consider "expected" real returns. A 7.60% nominal return would be consistent with a 5% expected real return.
  - We have plotted two threshold return lines on each of the graphs. One illustrates the probability of each mix producing a return of 7.6% while the other illustrates the probability of achieving an 8.25% annual return.

1-Year Range of Return Comparison

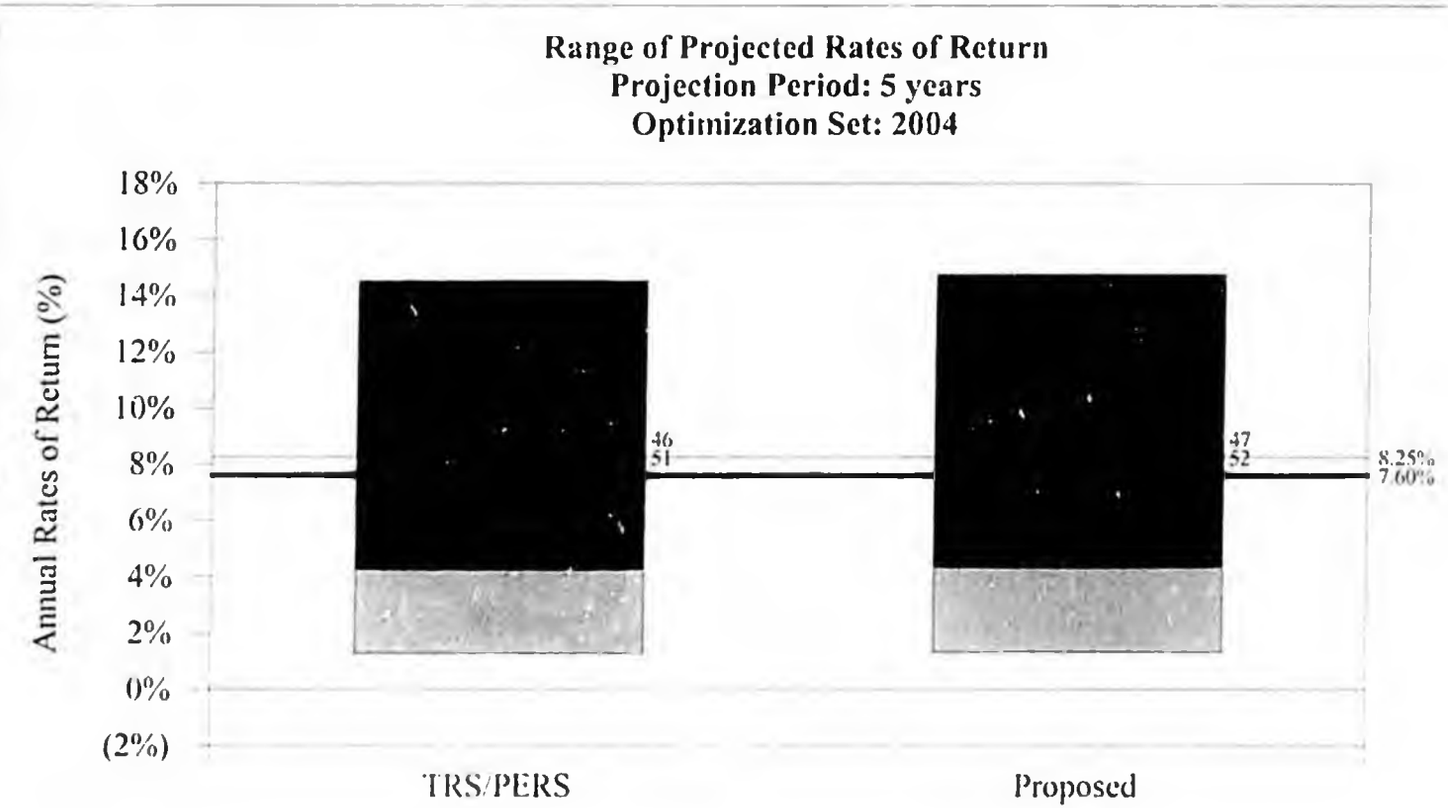
Range of Projected Rates of Return
Projection Period: 1 year
Optimization Set: 2004



10th Percentile	23.57%	23.94%
25th Percentile	15.78%	16.03%
Median	7.70%	7.84%
75th Percentile	0.18%	0.22%
90th Percentile	(6.13%)	(6.17%)

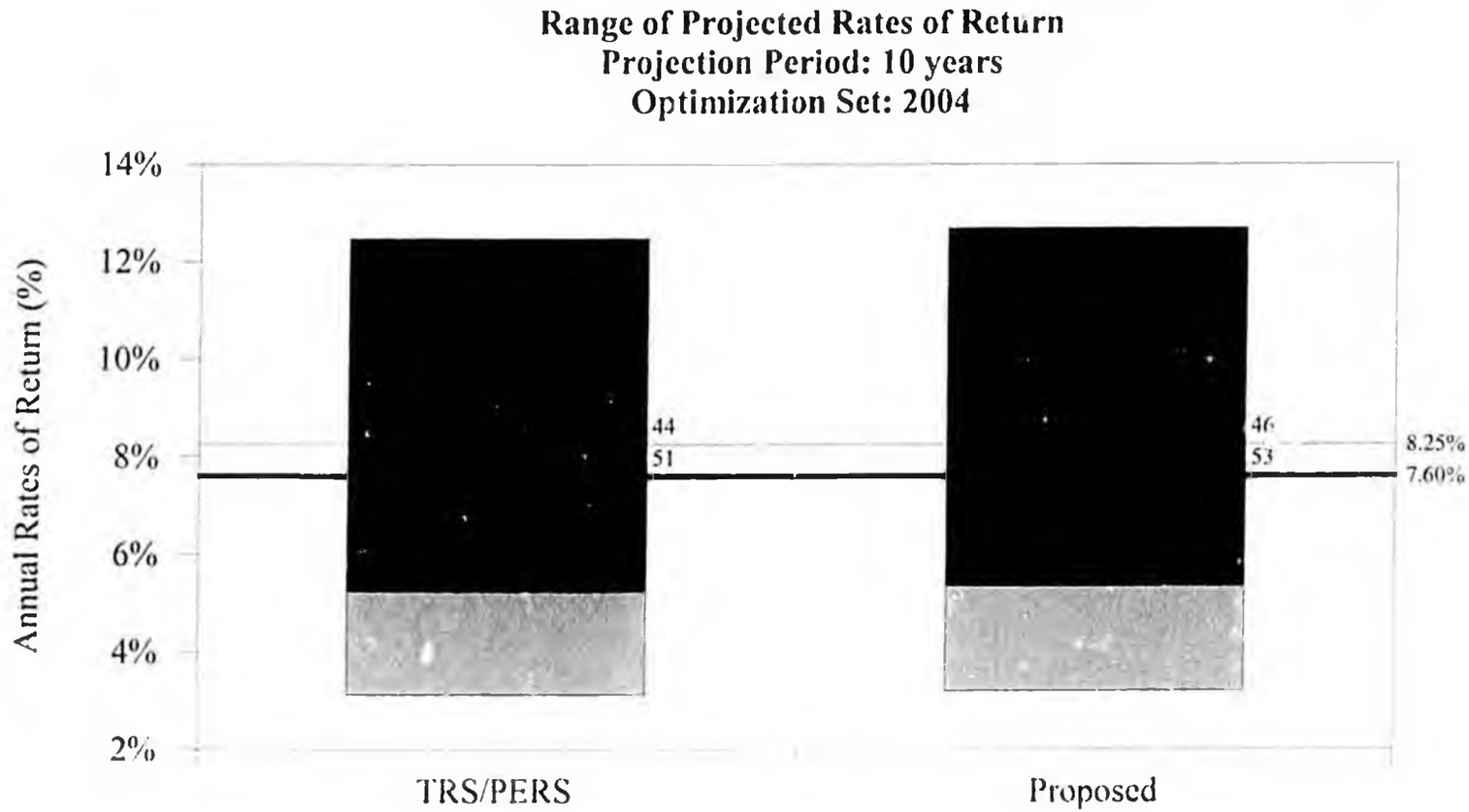
Five Year Horizon

This graph demonstrates that the proposed policy has a 52% probability of achieving a 5-year return of 7.6% or greater. The current policy has a 51% probability.



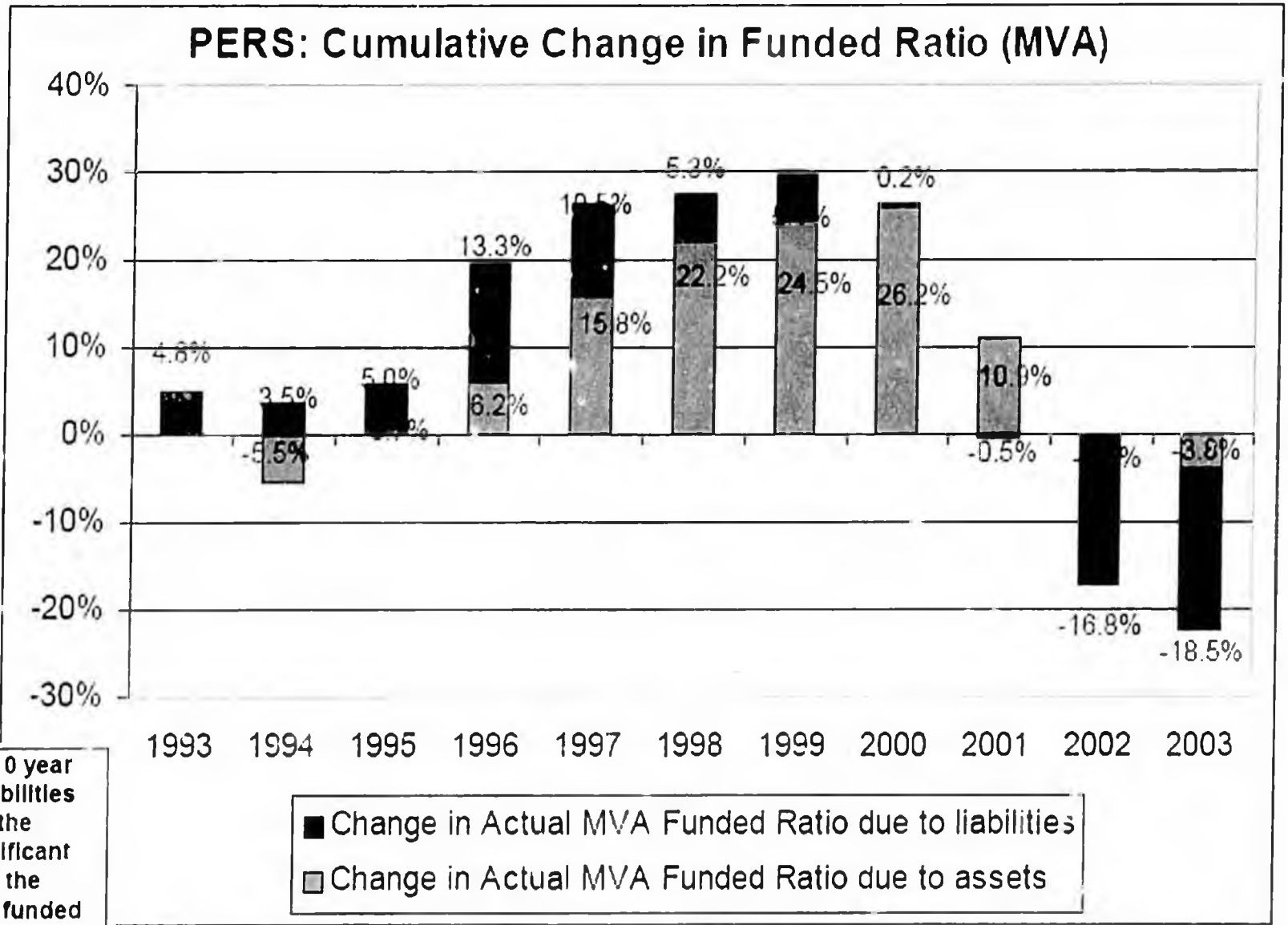
	TRS/PERS	Proposed
10th Percentile	14.53%	14.76%
25th Percentile	11.24%	11.43%
Median	7.70%	7.84%
75th Percentile	4.27%	4.36%
90th Percentile	1.28%	1.33%

10-Year Range of Return Comparison



10th Percentile	12.48%	12.69%
25th Percentile	10.19%	10.36%
Median	7.70%	7.84%
75th Percentile	5.26%	5.37%
90th Percentile	3.12%	3.19%

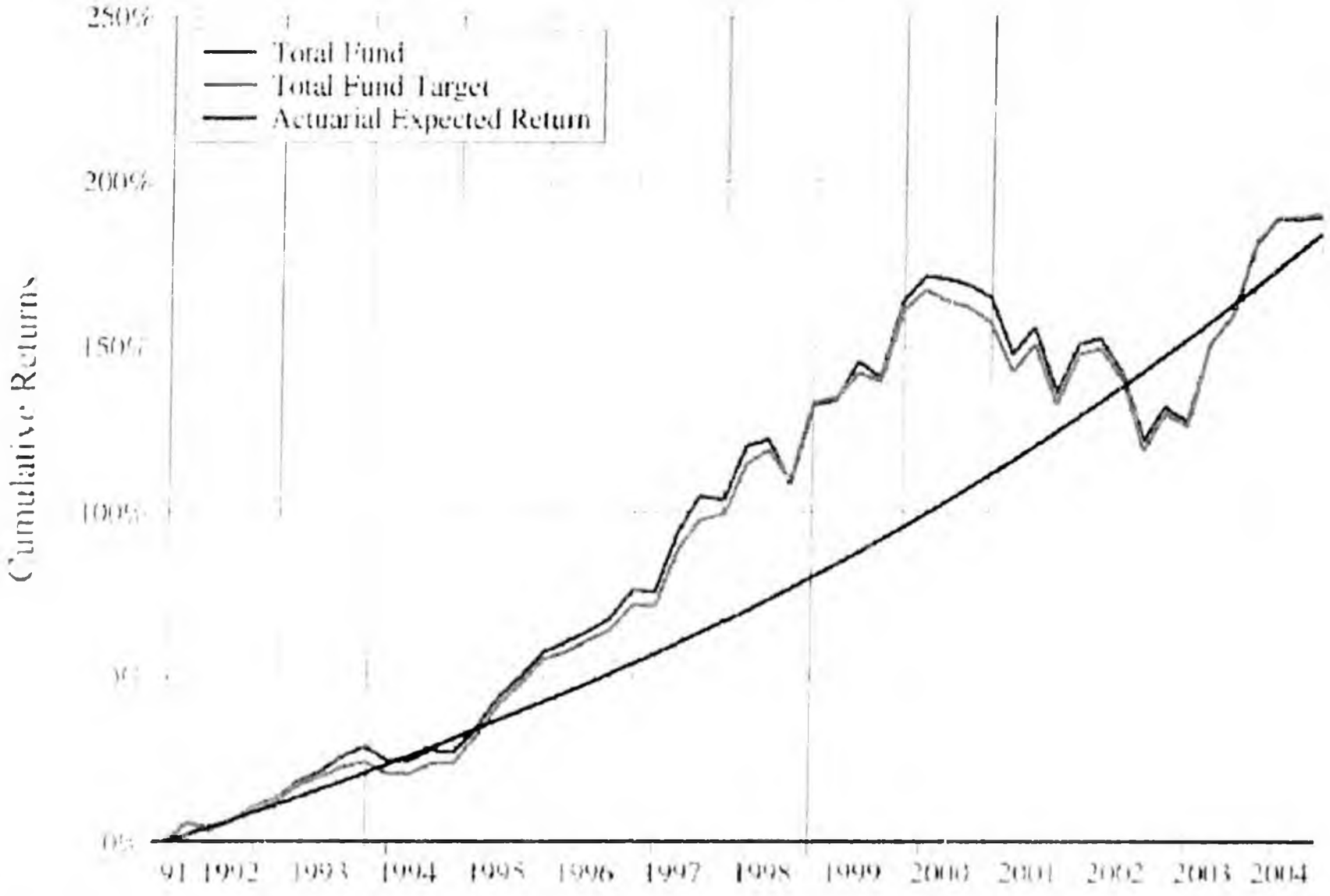
Investment Returns and Funded Status



Over the 10 year period, liabilities have had the more significant impact on the decline in funded status (MVA basis)

Mercer Human Resource Consulting

Cumulative Returns Actual vs. Target



Changes in Funded Status – PERS and TRS

MERCER

January 3, 2005

Ms. Melanie Millhorn
Director of Retirement and Benefits
State of Alaska
Department of Administration
Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Subject
Changes in Funded Status - PERS and TRS

Dear Melanie:

Part of our December 1 presentation to the Alaska State Pension Investment Board (ASPIB) focused on changes in the funded percentages for PERS and TRS. From July 1, 1992 to June 30, 2003, the funded percentage for the PERS declined from 92.3% to 70.0%, based on the market value of assets. The funded percentage for TRS declined from 91.0% to 61.7%. The dollar amount increases in the unfunded accrued liabilities (UAL) were $3.2 billion for PERS and $2.2 billion for TRS. We found that the total change in funded status for the PERS and TRS from July 1, 1992 to June 30, 2003 was due to asset and liability sources as follows:

	PERS		TRS	
	Change in Funded Status	Increase in UAL (billions)	Change in Funded Status	Increase in UAL (billions)
Change due to assets	(3.8)%	$1.[illegible]	(2.7)%	$0.6
Change due to liabilities	(18.5)	2.[illegible]	(26.6)	1.6
Total	(22.3)%	$3.2	(29.3)%	$2.2

This letter provides further breakdown of the changes in funded status attributable to liabilities. The percentages have been revised slightly from those quoted at the ASPIB meeting based on further research on the effect of the various factors.

	PERS		TRS	
	Change in Funded Status	Increase in UAL (billions)	Change in Funded Status	Increase in UAL (billions)
Asset experience	(3.8)%	$0.6	(2.7)%	$0.2
Liability assumption changes	(9.2)	1.1	(14.7)	0.3
Plan changes	(3.7)	0.3	(5.3)	0.2
Demographic experience	0.4	(0.1)	(5.6)	0.5
Non-benefit assumption changes	0.2	0.2	(0.8)	0.4
Total change due to liabilities	(18.5)%	$2.1	(26.6)%	$1.6

[illegible]

Health experience and changes in health assumptions were relatively large contributors to the decline in funded status. Benefit improvements also contributed to the decline. For both Systems, plan changes include benefit improvements enacted by the legislature, as well as ad-hoc Post-Retirement Pension Adjustments (PRPAs).

I hope this information is helpful. Please call or email if you have questions or need additional information.

Sincerely,

Robert M. Reynolds

Robert M. Reynolds, ASA, MAAA

[illegible]

Copy:
Anselm Staack
Chris Byrnes
Marcia Chapman

[illegible]

Range of Returns
(in dollars)

	Proposed	PERS $8,185,108,000 Gain/(Loss)	TRS $3,913,423,000 Gain/(Loss)
10th Percentile	23.94%	1,959,514,855	936,873,466
25th Percentile	16.03%	1,312,072,812	627,321,707
Median	7.84%	641,712,467	306,812,363
75th Percentile	0.22%	18,007,238	8,609,531
90th Percentile	-6.17%	(505,021,164)	(241,458,199)

Provided by Gary BoderDoe
1/28/05