

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 3016

March 2004

SECTION: FEATURE; Pg. 28

LENGTH: 1759 words

HEADLINE: PENSION PENDULUM

BYLINE: Anya Sostek

HIGHLIGHT:

A few years ago, defined-contribution plans were hot. Now they're not.

BODY:

In the mid-1960s, the Nebraska legislature embarked on what would ultimately turn out to be a very expensive experiment. Nebraska had just decided to provide all state and county workers with retirement benefits, something that the state had done two decades earlier for its teachers and judges in the form of a traditional "defined-benefit" pension plan. But in the spirit of the '60s, the state decided to blaze new ground, selecting an up-and-coming idea called "defined contribution" for the state and county workers.

Where defined-benefit plans gave employees a fixed amount of money at retirement, usually based on their salary and years of service, the new defined-contribution plans created individual employee savings accounts, allowing workers to invest the money on their own. As the 20th century drew to a close, Nebraska's decision seemed positively prescient. Many other state governments were considering legislation to adopt similar plans, which had already caught fire in the private sector in the form of 401(k) accounts.

But Nebraskans' feelings about such plans changed in the year 2000, after a large-scale study of the state pension system. The results shocked even those who already had doubts about the defined-contribution approach. During the period from 1983 to 1999, state and county workers averaged a 6 percent return on their money--versus an 11 percent return for the state's professional investors handling the traditional pension money.

Faced with such a disparity, legislators acted almost immediately to change the system, ending the defined-contribution plan for new hires and giving all other workers the option

to switch into a hybrid plan. "We had to take a look in the mirror and think, is this really providing a true pension?" says Anna Sullivan, executive director of Nebraska Public Employee Retirement Systems. "It's really sad what they retire with. It's nothing compared to what people in our defined-benefit plan receive."

Nebraska's experience is unlike that of any other state--in the duration of the plan, the level of data collected and the abrupt shift away from defined contribution. But Nebraska's experience was a harbinger for a nationwide trend. Momentum for defined-contribution plans, which peaked nationwide with the red-hot stock market of the late 1990s, has slowed significantly in the wake of the market downturn. Since then, no states have adopted new plans and participation in optional plans is far below projected levels. "I don't think Nebraska is unique," says Sullivan, who has worked for the state pension system for 28 years. "I read every article I can get my hands on, and the patterns are very similar."

FLEXIBILITY VS. RISK

Virtually all governments started out offering their workers defined-benefit plans: As long as employees worked the number of years required to be vested in the system, they were guaranteed a fixed, annual amount based on their salaries and years of service. In the 1980s, the private-sector shift to defined-contribution plans took off as small employers realized they offered a way to provide retirement benefits with essentially no financial risk. Younger workers, who tend to change jobs frequently, appreciate the portability. When they leave a job, they can take the contributed funds with them.

Of the nearly two-thirds of private-sector workers who had pension plans in 2000, 22 percent were in defined-benefit programs; 42 percent were in defined-contribution plans. In contrast, 90 percent of government workers are in defined-benefit, with only 10 percent in defined-contribution programs. It is increasingly common, however, for governments to offer supplemental defined-contribution plans, in addition to their defined-benefit plan.

The most important difference between the two plans boils down to who is left holding the bag if investments turn sour. In a defined-benefit plan, the risk lies with the employer. If an employer--private or public--is lax in its funding, or if it invests its money poorly, it is still on the hook to pay employees their guaranteed benefits. With governments under constant fiscal pressures, underfunding of pension plans is not uncommon. In one of the worst such cases in the early 1990s, the West Virginia teachers' pension fund had a total liability of \$3.2 billion and had assets of less than \$300 million. The few places that are still considering defined-contribution plans--notably New York and Massachusetts--are doing so mainly because of concerns about their ability to fund a traditional plan.

Defined-contribution plans have no possibility of incurring a funding deficit, because each employee has his or her own money already saved in an account. "Defined-contribution plans mean that there's no future liability that has to be paid for," says Trevor Martin, director of the commerce and economic development task force for the

American Legislative Exchange Council. With the defined-benefit plan, on the other hand, if pension funds "default or underperform severely, it all boils down to costing taxpayers," Martin says.

To force itself to straighten out its finances, West Virginia switched to a defined-contribution plan in 1993. The funding is now stable, but teachers are asking to switch back to a defined-benefit plan--a proposal that the legislature is considering this session.

It turns out that, as Nebraska learned, employees are not comfortable investing their own money. "It's like sitting in a car and you've never seen a steering wheel before, and they say to drive this thing," says David Haney, executive director of the West Virginia Education Association. "You may figure it out eventually, but it may wreck in the process." Haney contends that an aggressive education program is a necessary component of a defined-contribution plan, and that West Virginia teachers weren't given any semblance of an education.

Even in Nebraska, where employees were given the option of taking off work to attend full-day financial seminars, investment performance was woeful. "I don't think that people have the discipline, the time or the temperament to manage their own defined-contribution account and to have that be their whole retirement," says Sullivan.

TEPID INTEREST

The flip side of the risk in defined-contribution plans comes when an employee invests well and ends up flush in retirement money. If investments don't pan out as expected, however, it's the individual employee's retirement savings on the line. For that reason, employee enthusiasm for defined-contribution plans often mirrors the Dow Jones index. "When the market is doing well, people are very excited about defined contribution," says ALEC's Martin. "When the market is doing poorly, people get excited about defined benefit."

Florida learned that lesson the hard way. The state enacted a law in 2000 creating a defined-contribution plan and also making reforms to its defined-benefit plan, such as a shorter vesting period. The measure, passed at the height of the stock market boom, was designed mainly to compete for younger workers tempted by the private sector. It was estimated at the time that 30 percent of the state's 600,000 eligible public employees would switch into the defined-contribution plan.

Two years later, when it came time for people to make a decision, the market was severely battered. Furthermore, the nation had grown very familiar with the fate of some Enron workers and the complete evaporation of their retirement savings. Even though government defined-contribution plans don't allow risky investments in a single company, employees were skittish about the market and frightened about their retirement savings. Thus far, only 3 percent of Florida employees have actually exercised their option to switch plans--far below the 30 percent projection.

Other states that recently established optional defined-contribution plans saw similar results. In Ohio, a defined-contribution plan and a hybrid plan for teachers have attracted only 2.5 percent of existing employees and 25 percent of new hires. Even though the market was still soaring when Michigan introduced its defined-contribution plan in 1997, only 6 percent of employees decided to join.

The issue of risk also recently propelled the city of Alexandria, Virginia, to begin the process of switching from a defined-contribution plan to a defined-benefit plan for its police and firefighters. "With the changes in the stock market, we started asking ourselves, why do the employees have the investment risk," says finance director Daniel Neckel. "Why doesn't the city have the investment risk?"

HYBRIDS TO THE RESCUE?

Even though the stock market rebound is boosting investment returns, state and local governments still face intense budget pressures, and some are looking to hybrid plans for relief. On the brink of fiscal disaster, the state of Oregon was forced to completely overhaul its unusually generous pension system. Among the reforms, the state legislature agreed on a mandatory hybrid plan for new and existing employees.

Under the plan, which went into effect this year, employer contributions go into a defined-benefit fund, with a guaranteed retirement benefit. Employee contributions go into a defined-contribution fund, which employees can invest as they please and take with them if they leave the job. In some ways, the plan provides the best of both worlds. "That could be the trend," says Randy Taylor, senior vice president of CitiStreet, a private company that administers government defined-contribution plans. "A hybrid program giving members defined benefits but also allowing some self-direction."

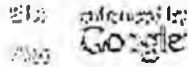
Nebraska's solution is also a hybrid, called a cash balance plan. Workers were given the option to keep whatever money was in their defined-contribution accounts, and to transfer it into the new cash balance account. All employees in the new plan still get a quarterly statement with their account balance, and can take whatever is in their account with them if they leave. But they no longer have control over the investments in the account. The money is now pooled and invested by the state, with a guaranteed return.

For Sullivan, the new plan provides an acceptable compromise. She is still frustrated by employees who cash out their savings for a big purchase when they leave government. But she is much more at ease with the investment activity. "I think that in a defined-benefit plan, your dollars work harder for you," she says. "For the same amount of money, you can provide a better benefit."

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Bush Points to a Retirement System With Mixed Results

By Peter G. Gosselin and Edwin Chan, Times Staff Writers

KIRTLAND, Ohio — President Bush came to Ohio on Friday to highlight a state retirement savings system that he said showed that Americans would be better off handling their own old-age investments through personal accounts than relying on traditional Social Security.

But that state's version of personal accounts has attracted few takers among the people eligible — Ohio's 750,000 public employees. And records show that the most widely chosen version of the state-offered accounts has racked up a five-year earning record of 1.86%, about the same return that the president says Social Security produces.

"Boy, does he have a hard sell ahead of him in using Ohio as his example," said Keith Brainard, research director of the National Assn. of State Retirement Directors, which represents virtually all of the nation's public employee pension plans.

"Ohio's individual account programs are only a few years old, and in the short time they've been around, investment returns have been relatively weak," Brainard said.

Coming two weeks before the end of his "60 Steps in 60 Days" campaign to convince the nation that Social Security needs to be reshaped, Bush's Ohio appearance illustrated the difficulty the president faced in promoting his plan to a nation edgy about a still-uncertain economic recovery and a stock market that had taken a steep dive in recent days.

Bush has proposed allowing workers under 55 to divert a portion of their Social Security taxes into private stock and bond accounts. In return, they would agree to a cut in their traditional Social Security benefit.

The president has said the private accounts should be part of a broader plan to shore up the shaky finances of the Social Security system. That broader, still-undefined plan might include further benefit cuts or tax increases.

But several recent polls show the president's proposal losing ground amid concerns that private accounts would require Americans to shoulder more economic risk for the possibility of a greater reward.

And the president's cause was unlikely to be helped by a stock market that wrapped up its worst week in two years Friday, with the Dow Jones industrial average diving 191 points.



Section front from today's newspaper

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The Dow slumped 3.6% for the week, and the tech-heavy Nasdaq index fell nearly 5%.

None of this appeared to faze Bush, however, as he took the stage at Lakeland Community College in Kirtland to lavish praise on an Ohio public employee retirement system that he said held important lessons for the White House and Congress in how to restructure Social Security.

"We need to come together in Washington ... to work on a permanent fix [for Social Security]. All options are on the table," Bush declared.

But he quickly suggested that any overhaul include personal accounts, which congressional Democrats have said they will adamantly oppose if — as Bush has proposed — they involve diverting payroll tax revenue from the existing system.

Part of any Social Security fix, the president told his audience, should be "to trust people with their own money, to devise a system that would work similar to the state of Ohio, that would say, 'We're going to let you earn a better rate of return for your money.'"

But in the biggest of Ohio's several state retirement programs, the popularity of the private accounts and the returns they produce are relatively low.

Ohio is one of half a dozen states that have begun to offer 401(k)-like retirement accounts through which eligible employees can invest in a handful of state-screened mutual funds or other portfolios.

Employees who choose accounts risk losing money if the value of their investments falls, but reap most of the reward if the value rises.

Ohio has continued to offer traditional pensions, where the state bears the risk and promises to pay retirees a certain amount for as long as they live. Employees can choose between the traditional pension and the private accounts, or pick a plan that mixes the two.

The state began offering the private accounts to state college faculties in 1998, and extended them to other workers early in this decade. Ohio has five major retirement systems for teachers, police, firefighters and other public employees.

It was unclear from the president's remarks and from an administration-issued news release which of the five plans Bush was discussing in his appearance Friday, or what option he was focusing on. The White House referred calls to spokesman Trent Duffy, who could not be reached.

But in the biggest of the state's plans — the 522,000-member Ohio Public Employees Retirement System, or OPERS — the personal account option has not proven particularly popular among state workers, or delivered a particularly good rate of return.

About 10,000 of those eligible for personal accounts — less than 5% — have signed up for the accounts since they became available at the start of 2003, according to Laurie Fiori Hacking, OPERS' executive director.

Of those who have chosen the accounts, most have directed that their money be invested in the system's "moderate" or "aggressive" pre-mixed portfolios, according to spokesman Richard Baker.

OPERS records show that the "moderate" account lost money in two of the last four years and during the first three months of this year. It posted a five-year annualized return of 1.86%.

That compares to the 1.8% that Bush said Friday was the rate of return for Social Security.

The OPERS "aggressive" portfolio had a five-year return of 0.26%.

Subject: Pers/Fers

Date: Sat, 23 Apr 2005 15:52:23 -0800

From: Lois Heine <lheine@northstar.k12.ak.us>

To: Fairbanks_LIO@legis.state.ak.us

Please be careful when making decisions on this retirement system. As an individual we already are putting money away for our retirement. I don't want to have more taken out and put into places where we have no control of them. You are taking over the rights of individuals with this bill. Please look into other areas, such as lengthening the time needed to retire, reducing medical benefits, but implementing a Health Savings Account that allows us to put away money from our checks to pay for deductibles and other medical costs in retirement.

I pray that you will make wise choices that will protect our benefits and those of future employees and also protect the state. Thank you.
Lois Heine



Alaska State Legislature

Please enter into the record my testimony to the House Finance committee name

committee on SB 141 bill/subject, dated 4/23/05

I am 45 years old and tired. I am a School Psychologist in Mat-Su and cannot see myself working until the age of 65. I strongly oppose any retirement that is a pure Defined Contribution Plan (D.C.P). A D.C.P. will significantly adversely affect the ability of school districts accross the state from recruiting and retaining quality educators. I want to retire with dignity as I was promised when I entered the TRS.

Respectfully, Glen Ramos, Vice Pres, M. SEA.

Signed: Glen Ramos

Testifier

MSEA NEA AK

Representing (Optional)

PO. Box 4002 PALMER, AK 99645

Mailing Address

(907) 745-2451

Phone Number



Alaska State Legislature

Please enter into the record my testimony to the House Finance Committee
committee name

committee on SB 141 dated 4-23-05

My name is ^{bill/subject} Lynn Kracke. I have been an Alaska resident since 1979 and a Valley resident since 1982. I am a Republican Supervisor and a public school employee.

I just came back from speaking with my Valley legislators in Juneau concerning the proposed changes in the public employee retirement system. I opposed the current proposed changes that include a strict defined contribution plan for future employees. It will severely inhibit the attraction and retention of education professionals and other public employees. I also oppose drastically changing the structures of the current PERS/TRS Boards.

Signed: Lynn D Kracke

Testifier Mat-Su Educators

Representing (Optional) PO Box 1428 Palmer, AK 99645

Mailing Address (907) 745-2451

Phone Number

page 2 of 2 Lynn Kracke



Alaska State Legislature

Please enter into the record my testimony to the House Finance
committee name
committee on SB 141, dated 4-23-05
bill/subject

Please take the summer to appoint a task force that will carefully consider the testimony and research of the independent actuary hired by the Legislative Council, Joe Esuchenko. You need to consider the impact on Public Employees, not only employers. Don't make a knee jerk reaction based on Mercer's less than accurate figures.

Signed: Lynn Kracke
Testifier
Mat-Su education professionals
Representing (Optional)
PO Box 1428 Palmer, AK 99645
Mailing Address
(907) 745-2451
Phone Number

April 23, 2005

To Whom It Concerns:

I urge the rejection of SB 141 (also, similar bills HB 177 & HB 170).

There *may be* serious problems within the TRS & PERS retirement systems. However, the Legislature's reliance on sole source statistics must raise a *Red Flag* to all concerned voters, those in the PERS & TERS systems, and any elected representative seriously concerned with representing the people of Alaska. The statistics, especially the assumptions used to derive the numbers, need to be examined by a second, independent source acceptable to both political parties. *IF adopted*, SB 141 will negatively impact thousands of hard working Alaskan public servants. The accuracy and reliability of its statistical conclusions must be thoroughly verified *before* the draconian solutions offered by SB 141 are considered.

I labeled the changes made by SB 141 as draconian. The impacts on current and future PERS and TERS employees are highly negative. Hikes in the employee contributions to PERS and TERS, loss of disability & death benefits, other health care benefit reductions are draconian measures.

Forcing future employees into a defined contribution system (410K) will guarantee that top level managers & supervisors will not work for the state. When I moved to Alaska in 1985, the quality of the retirement programs in PERS & TERS were a key factor. Tier 1 and Tier 2 were excellent programs. Tier 3 is marginal, but at least somewhat competitive. The proposed Tier 4 is simply a joke. If the state thinks there is a loss of its young to the lower-48 now, it will be shocked when its children moved outside rather than work for the state.

I will retire in just a few years. I had planned to remain in Alaska after retirement. The loss of the COLA for retirees in SB 141 sends a message to me and many others who helped build this state.

I will be blunt. There are two senators from the Mat-Su region I will be criticizing in the future. One I will be honored to vote against. Over 25 friends are now committed to vote against one or the other. Carl Gato, I live in your district. You voted SB 141 out of committee. IF SB 141 passes, expect to lose a substantial number of fire service votes.

Johnny Murdock
PO Box 872671
Wasilla, AK 99687
Assistant Fire Chief
Mat-Su Emergency Services Dept.





Alaska State Legislature

Please enter into the record my testimony to the House Finance Committee
committee name

committee on SB 141, dated 4/23/05
bill/subject

My name is Doug Wright. I've been an employee of the Matanuska-Susitna Borough for 14 years. I do not support SB 141, I recommend you slow down and get an accurate account of the true costs of the current PERS program. I believe if the proposed changes to the current PERS system take place, it will be impossible to attract qualified, quality employees to fill the void as our current employees begin to retire. I am very concerned about the elimination of the 'Death Benefit': Why would any police officer or firefighter consider staying in Alaska? I ask that you please do not pass this legislation but look at other options. Also, current employees consider their current benefits a condition of employment and do not wish to have the contribution from their paychecks increased.

Signed: D Wright
Testifier

MSBEA
Representing (Optional)
HC 30 Box 5328-7 Wasilla, Alaska 99654

Mailing Address
1-907-376-4185
Phone Number



Alaska State Legislature

Please enter into the record my testimony to the House Finance Committee
Committee name

Committee on SB 141 dated April 23, 2005
Bill/Subject

Thank you, Committee Chairs and members, for the opportunity to testify today on the proposed changes to the TRS/PERS system. After 25 years of teaching special education in the Mat Su Borough School District, I now am serving as Assistant Director for Special Education. For the first time, I am involved in recruiting & recommending for hire certified special education teachers and specialists in our district.

This morning, I was on the phone with a speech therapy candidate in Indiana. As you know, we →

Signed: Lucy Hope
Testifier

slf
Representing (Optional)

2901 Cottle Loop Wasilla AK 99654
Address

376-4796
Phone number

Page 1 Lucy Hope

Page 2 of 2

Thank you, Judy Hope

contribution proposal,
this process and rethink the defined
of these proposed changes, slow down
to think of the unintended consequences
if this goes forward, I ask the committee
This is the reality that districts will face

sted in working here,
she thanked me and said she is not inter-
the proposed possible changes to yes,
Report, after telling this person about
education profession, I am sorry to
common concern among people new to the
do you have?" This has become a much more
The first was "what type of retirement system
This applicant had two questions for me,

shortage,
national, statewide, and local district
state. Also, as you know, this is an area if
hire all of our applicants from outside the
graduate speech therapists, therefore we must
do not have a University program in Alaska to

page 1 of 2 GLEN RAMOS



Alaska State Legislature

Please enter into the record my testimony to the House Finance
Committee name

Committee on SB 141 dated 4/23/05
Bill/Subject

Thank you for reviewing my testimony.
I hope you gave Mr. Tom Harvey Ex Director
of NEA Alaska an opportunity to give
public testimony. I support Mr. Harvey
and the position he has offered as a
leader of educators and public employees
of Alaska.

I ask that you slow this process down
and gather comprehensive information from
a wide range of stakeholders regarding
the PERS/TRS programs. Please re-evaluate
the information provided by Mercer and apply
actuarial data based on Alaska experience.

Signed: Glen Ramos
Testifier

Mat-Su Education Association NEA Alaska
Representing (Optional)

P.O. Box 4002 Palmer AK 99645
Address

(907) 745-2451
Phone number



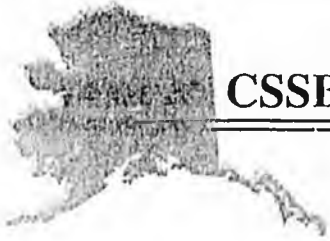
**Retirement Security
Act**

CSSB 141(FIN)

**Background
&
Overview**

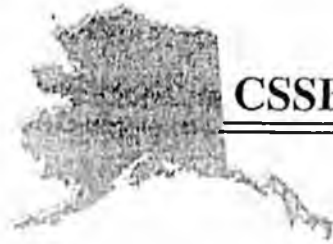


Alaska State Legislature
Senate Finance Committee



CSSB 141 Overview





The **Retirement Security Act** will

- Strengthen Management & Fiduciary Oversight
- Improve Our Ability to Predict and Control Costs
- Constrain the Growth of the Unfunded Liability
- Provide Near Term Financial Relief to Employers
- Pave the Way For Developing a Long-term Financial Fix

While still maintaining our principle objectives of

- Ensuring the Solvency of Alaska's Retirement System
- Maintaining the Attractiveness of Public Sector Employment
- Recruiting and Retaining Talent

RSA Improves the Long-term Health and Security of Our Retirement System





CSSB 141 – Key Elements:

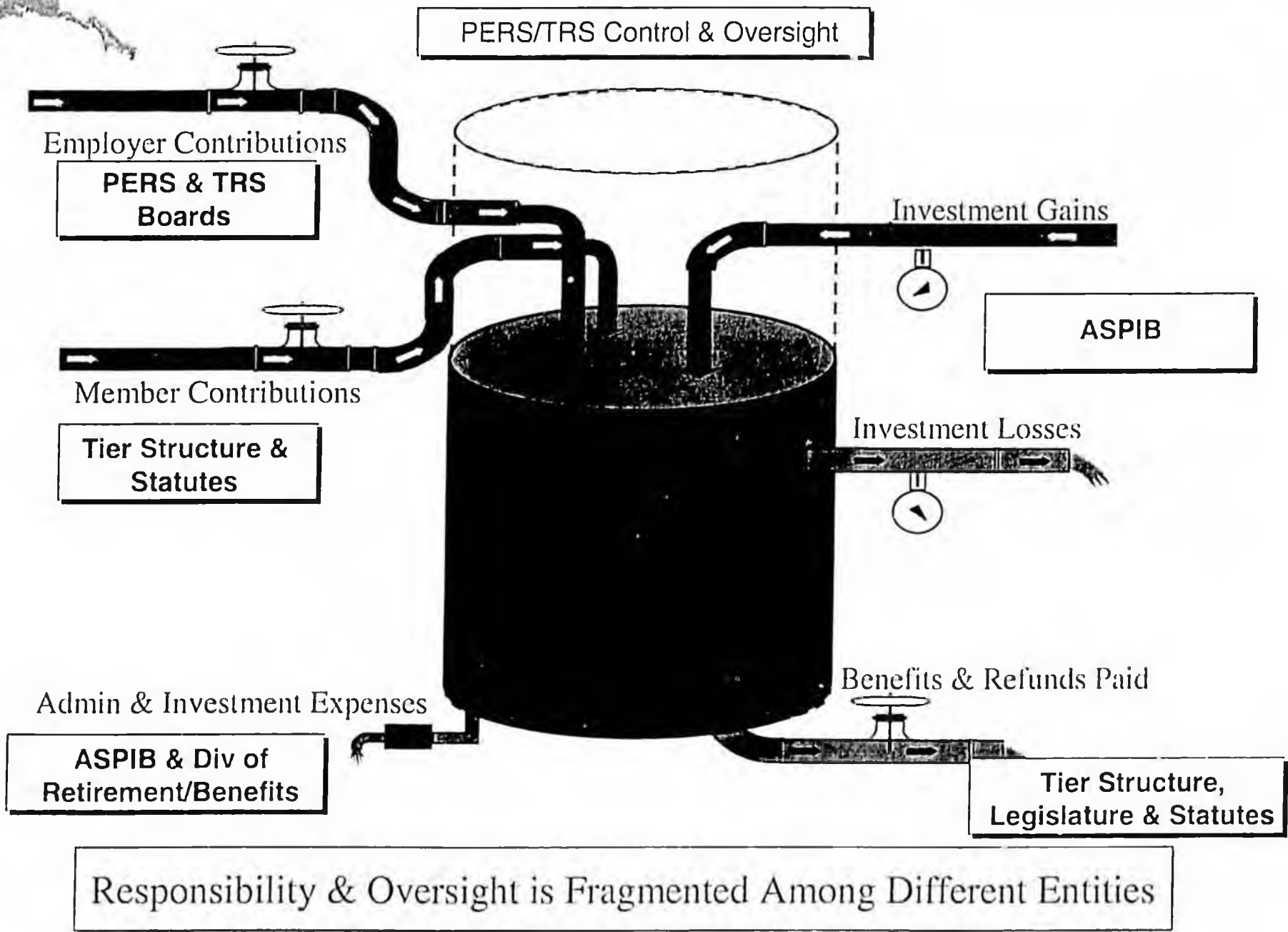
- Replaces the existing boards (PERS, TRS, ASPIB) with a new 9-member Alaska Retirement Management Board (ARMB)
- Provides more employer representation on the board; strengthens the board's fiduciary responsibilities; gives the board responsibility for setting employer contribution rates and for adopting actuarial assumptions
- Transfers the responsibility for hearing waivers and appeals to the Office of Administrative Hearings
- Increases payroll contributions for existing employees by 0.5% annually until employers and employees share normal costs 50/50
- Establishes a Defined Contribution (DC) Plan, Retiree Medical Benefit and Health Reimbursement arrangement for new employees





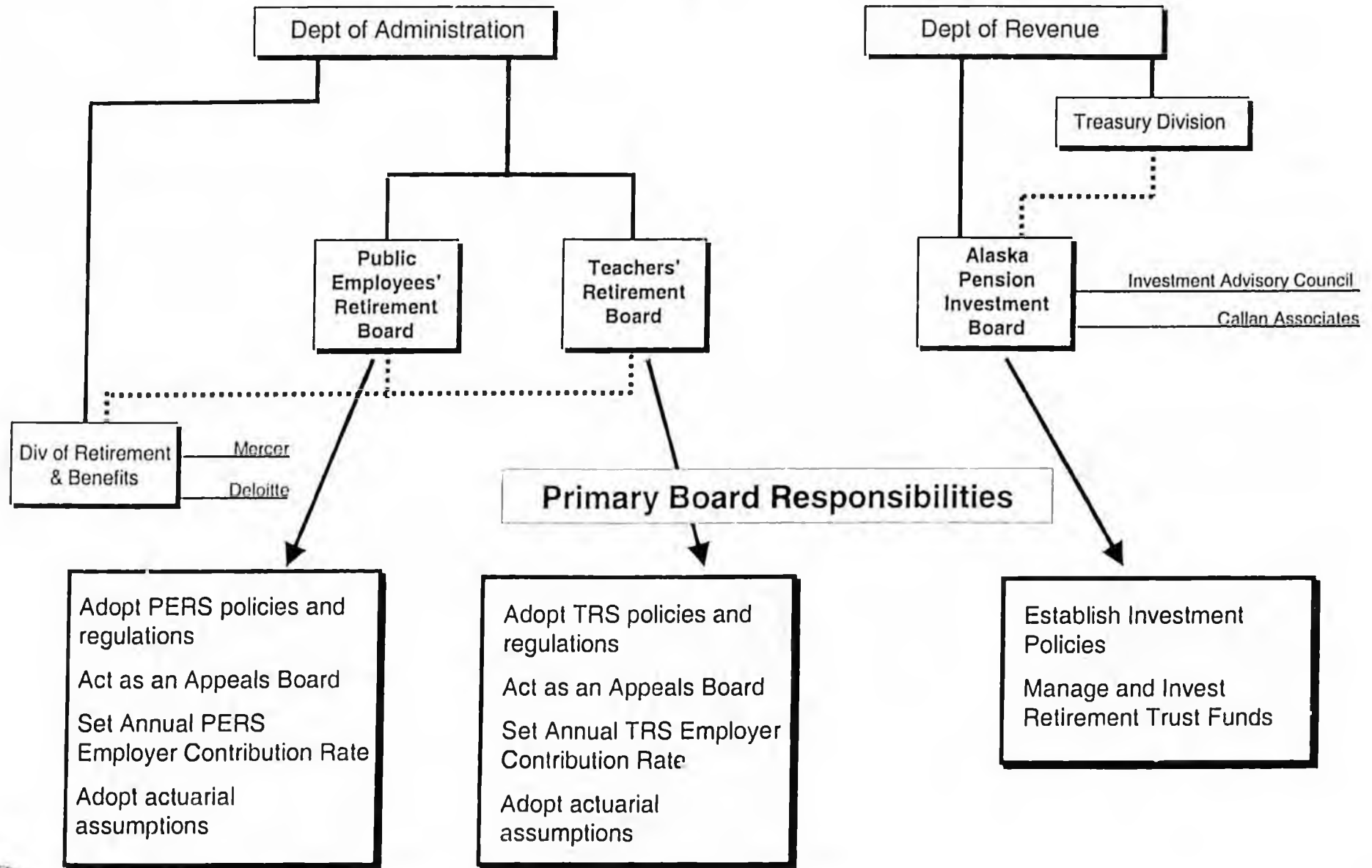
Board Restructuring







Current Retirement System Organization





Retirement System Oversight Should Be Designed To:

- Guide and evaluate system performance
- Provide long-term strategic and financial planning
- Ensure the assets and liabilities of the systems are balanced
- Implement formal system of checks and balances
- Work in the best interests of the state and its public employees





Retirement Board Must Be

- Representative of all system stakeholders
- Experienced and knowledgeable in relevant financial, accounting and investing issues
- Empowered to address systemic problems
- Impartial
- Ir.dependent

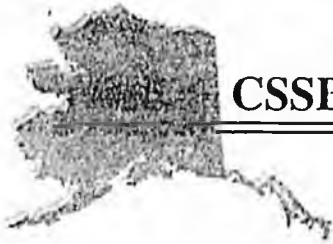




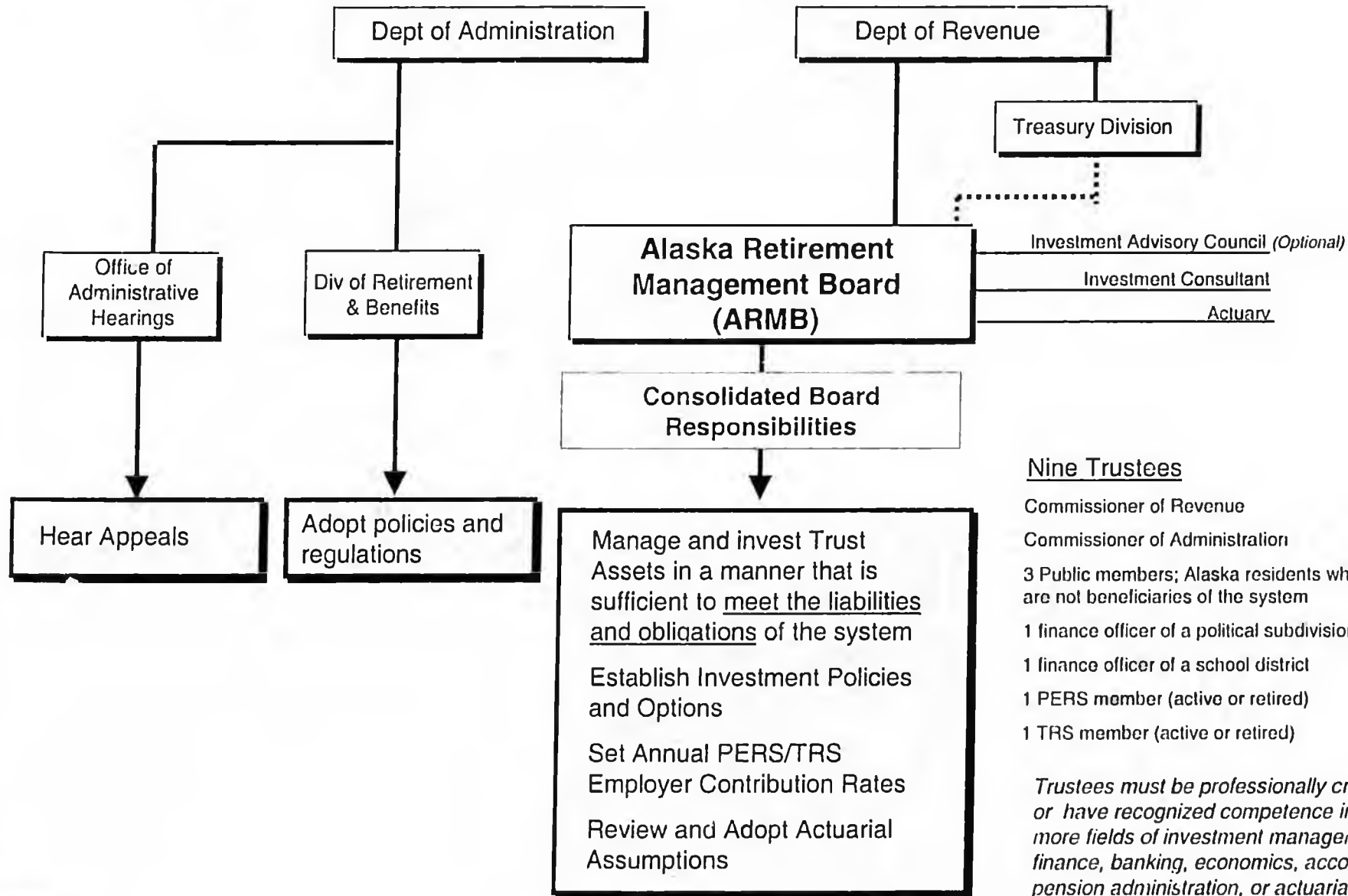
SB 141 Board Restructuring is Designed to:

- Strengthen the fiduciary oversight of the entire retirement system
- Place system assets and liabilities within the purview of one authority
- Increase the frequency of reviewing, adopting and reporting actuarial assumptions
- Increase employer representation on the board
- Establish minimum professional qualifications for board membership
- Move the quasi-judicial appeals process to the Office of Administrative Hearings
- Empower the Commissioner of Administration to set policies and regulations for day to day system operations





SB 141 Retirement System Organization



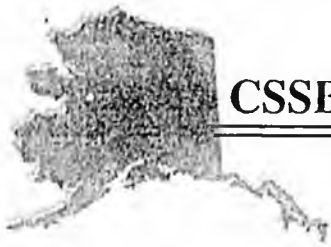


Board Adopted Employer Contribution Rates – FY '90 thru FY '07

Mercer Board Rate Data Adopt for Year Year FY	PERS						TRS					
	PERS Funding Ratio	Employer Normal Rate	Past Service Rate	Actuarial Computed Rate	Board Adopted Rate	Diff = Computed Rate	TRS Funding Ratio	Employer Normal Rate	Past Service Rate	Actuarial Computed Rate	Board Adopted Rate	Diff = Computed Rate
1987 1988 1990	100.0%	9.23%	0.07%	9.30%	9.30%	0.00%	101.0%	9.14%	-0.95%	8.19%	11.64%	3.45%
1988 1989 1991	93.0%	10.37%	1.63%	12.00%	12.00%	0.00%	98.8%	11.86%	0.41%	12.27%	10.54%	-1.73%
1989 1990 1992	91.6%	12.00%	2.20%	14.20%	14.20%	0.00%	95.0%	13.26%	1.90%	15.16%	11.87%	-3.29%
1990 1991 1993	97.2%	12.83%	0.75%	13.58%	13.58%	0.00%	87.7%	14.07%	5.58%	19.65%	12.00%	-7.65%
1991 1992 1994	88.1%	10.18%	3.54%	13.72%	13.72%	0.00%	85.7%	9.05%	6.54%	15.59%	12.00%	-3.59%
1992 1993 1995	91.2%	10.90%	2.80%	13.70%	13.70%	0.00%	89.7%	8.57%	4.79%	13.36%	12.00%	-1.36%
1993 1994 1996	95.4%	11.29%	1.53%	12.82%	12.82%	0.00%	93.1%	9.06%	3.42%	12.48%	12.00%	-0.48%
1994 1995 1997	94.8%	10.36%	1.78%	12.14%	12.14%	0.00%	89.6%	9.70%	5.26%	14.96%	12.00%	-2.96%
1995 1996 1998	96.5%	10.61%	1.29%	11.90%	8.00%	-3.90%	90.9%	10.10%	4.84%	14.94%	12.00%	-2.94%
1996 1997 1999	105.8%	9.85%	-2.11%	7.74%	7.74%	0.00%	97.2%	8.97%	1.55%	10.52%	12.00%	1.48%
1997 1998 2000	106.3%	9.89%	-2.53%	7.36%	7.74%	0.38%	94.0%	9.21%	3.79%	13.00%	12.00%	-1.00%
1998 1999 2001	105.9%	8.67%	-1.64%	7.03%	7.40%	0.37%	97.7%	8.99%	1.56%	10.55%	12.00%	1.45%
1999 2000 2002	105.5%	8.07%	-1.51%	6.56%	6.75%	0.19%	102.5%	8.88%	-1.79%	7.09%	11.00%	3.91%
2000 2001 2003	101.1%	5.43%	0.69%	6.12%	6.75%	0.63%	99.6%	9.40%	-1.11%	8.29%	11.00%	2.71%
2001 2002 2004	100.9%	5.42%	1.35%	6.77%	6.77%	0.00%	95.0%	10.33%	4.11%	14.44%	12.00%	-2.44%
2002 2003 2005	75.2%	13.31%	11.60%	24.91%	11.77%	-13.14%	68.2%	14.76%	20.81%	35.57%	16.00%	-19.57%
2003 2004 2006	72.8%	13.24%	12.39%	25.63%	16.77%	-8.86%	64.3%	14.28%	24.57%	38.85%	21.00%	-17.85%
2004 2005 2007	70.2%	13.32%	14.87%	28.19%	TBD	TBD	62.8%	13.76%	28.02%	41.78%	TBD	TBD

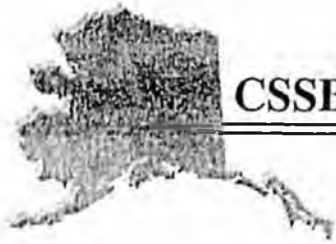
- Currently, the PERS/TRS boards set the annual Employer Contribution Rate
- When the boards adopt a rate below the Employer Normal Cost Rate, the unfunded liability may increase
- SB 141 requires the Board to adopt an Employer Contribution Rate no-less-than the Employer Normal Cost Rate





*Appeals Process to Office
of Administrative
Hearings*

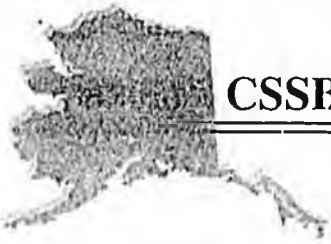




Office of Administrative Hearings (OAH)

- Office was established by SB 203 (ch. 163, SLA 2004) with the goals of
 - Providing better public service through a higher level of due process
 - Improving hearing efficiencies for both government and public
 - Cutting hearing costs to both government and public
 - Improving impartial decision-making





Office of Administrative Hearings (OAH)

- Conduct administrative appeals, evidentiary hearings, dispute resolution and adjudication for
 - Child support services
 - Occupational licensing (*including tobacco enforcement and real estate surety claims*)
 - Permanent Fund Dividend eligibility
 - Other (*taxation, contracts/procurement, permitting, crime victim compensation, benefits programs*)
- All these types of appeals of decisions made by government impact people's families, their businesses, their income





Benefits of Transfer of Appeals Hearing Function

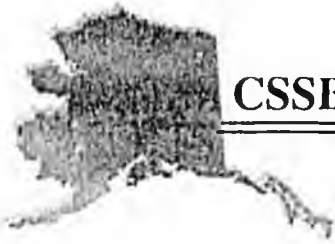
- Operates under the supervision of a chief administrative law judge
- Impartial and highly trained adjudicator to hear cases
- Timely resolution for appellants
- Cost savings: 1 administrative law judge replaces 10 board members
- Decisions of the OAH may still be appealed to Superior Court





*Increasing Contribution
Rates for Existing Public
Employees*





Contribution Rate Setting Process

- Each year, the actuary computes the **Normal Cost Rate** for the next contribution year
- The **Normal Cost Rate** is simply *the percent of payroll required to pay for the benefits expected to be earned by all members during the coming contribution year*
- The process runs two fiscal years in advance – for example, the FY 07 Normal Cost Rate was estimated this month by the state's actuary

	<u>FY 07 Normal Costs</u>	
	PERS	TRS
Medical cost component	8.86%	8.75%
<u>Pension component</u>	<u>11.27%</u>	<u>13.69%</u>
Normal Cost Rate	20.13%	22.44%

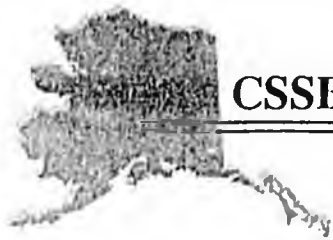




Contribution Rate Setting Process

- If our economic, demographic, and financial projections were always correct – the annually reviewed **Normal Cost Rate** would fully fund the retirement system
- Unfortunately, those projections can never be 100% accurate
- If too much was contributed, the system is overfunded; if too little, it is underfunded
- The actuary amortizes the unfunded amount over 25 years and computes a **Past Service Rate**
- The **Past Service Rate** is *the additional percent of payroll required to begin paying off the unfunded liability*





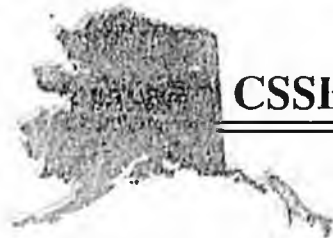
Contribution Rate Setting Process

- Once the **Normal Cost Rate** and the **Past Service Rate** are known, the employer's total contribution rate is calculated as follows:

		FY 07 Contribution Rates	
		PERS	TRS
	Normal Cost Rate	20.13%	22.44%
<i>Less</i>	Employee Contribution*	(6.81)%	(8.68)%
<i>Equals</i>	Employer Normal Cost	13.32%	13.76%
<i>Plus</i>	Past Service Rate	14.87%	28.02%
<i>Total</i>	Employer Contribution	28.19%	41.78%

* Employee Contribution Rate shown is the average rate for all members of the systems. Actual rates vary by employee class and are 6.75%, 7.5% or 9.6% for PERS and 8.65% or 9.65% for TRS





Weaknesses of the Process

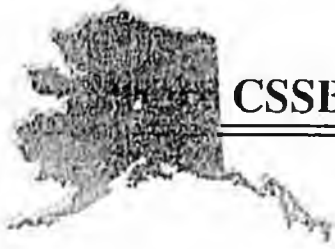
- The Employee Contribution rate is set in statute, so *any increase in the Normal Cost Rate is borne entirely by the employer*

		FY 07 Contribution Rates	
		PERS	TRS
	Normal Cost Rate	20.13%	22.44%
<i>Less</i>	Employee Contribution*	(6.81)%	(8.68)%
<i>Equals</i>	Employer Normal Cost	13.32%	13.76%
<i>Plus</i>	Past Service Rate	14.87%	28.02%
<i>Total</i>	Employer Contribution	28.19%	41.78%

- These are the actuary's recommended rates....currently, *the PERS and TRS boards may adopt different rates*
- When the boards adopt lower rates, our unfunded liability increases

* Employee Contribution Rate shown is the average rate for all members of the systems. Actual rates vary by employee class and are 6.75%, 7.5% or 9.6% for PERS and 8.65% or 9.65% for TRS



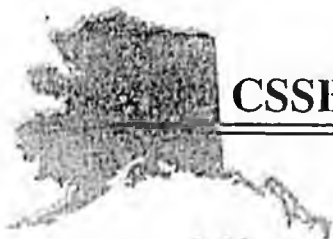


SB 141 Addresses these Weaknesses

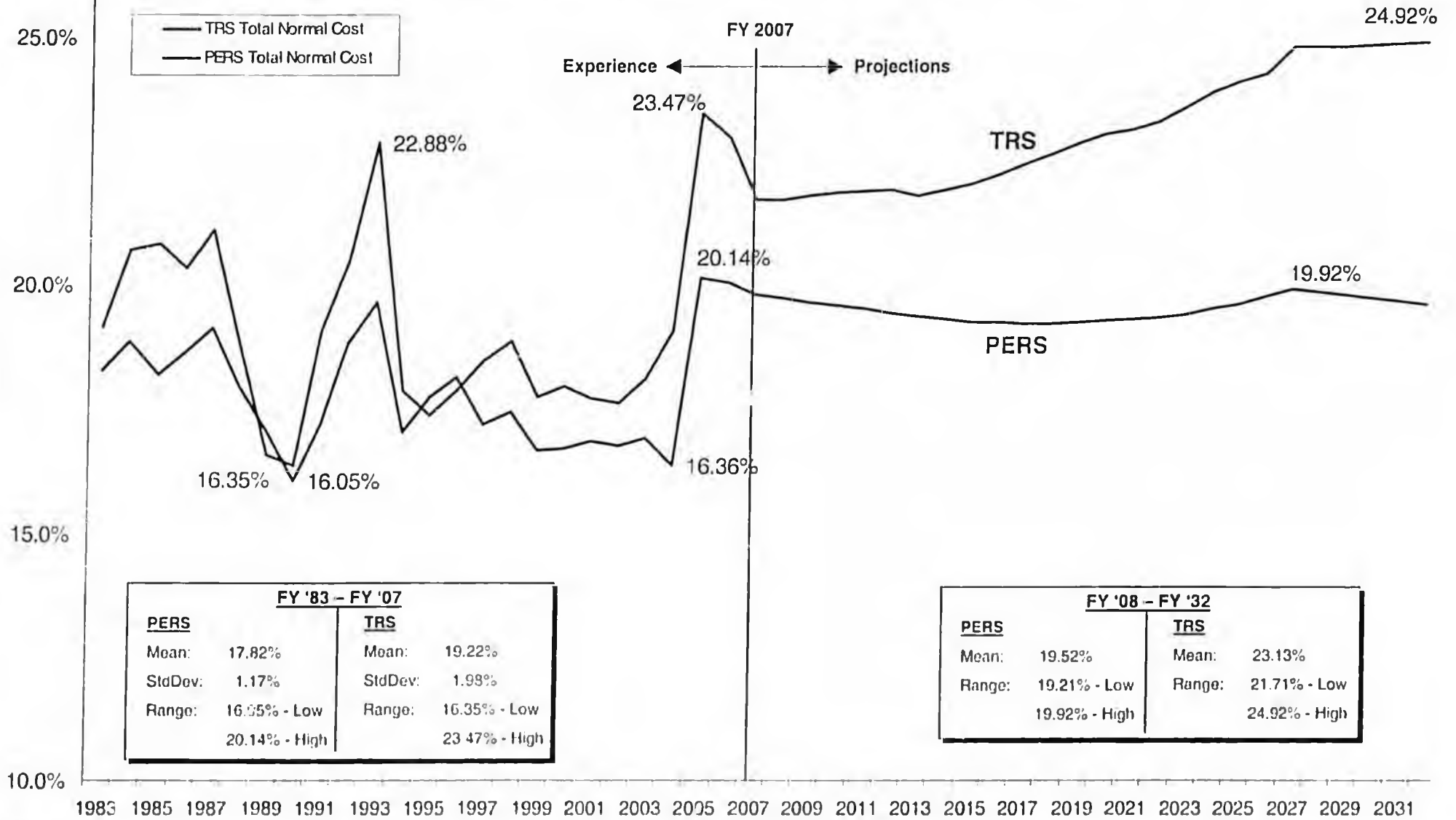
1. Sets the employee's contribution to the greater of:
 - Current statutory rate or
 - $\frac{1}{2}$ of the Normal Cost Rate
 - With the additional provision that the increase may not exceed 0.50% annually

2. Requires the new Alaska Retirement Management Board (ARMB) to adopt a contribution rate that is no less than the actuarially computed Employer Normal Cost Rate





Historical & Projected Total Normal Cost Rate





Employers are Paying the Majority of the Normal Cost

FY 07 Normal Cost Rates

	PERS	Share	TRS	Share
Total Normal Cost	20.13%	100%	22.44%	100%
Employee Cost*	6.81%	33.8%	8.68%	38.7%
Employer Cost	13.32%	66.2%	13.76%	61.3%

Currently, increases in the Normal Cost are borne entirely by the employer

* Employee Contribution Rate shown is the average rate for all members of the systems. Actual rates vary by employee class and are 6.75%, 7.5% or 9.6% for PERS and 8.65% or 9.65% for TRS





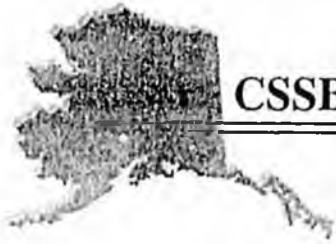
Employee Contribution Rates Haven't Increased
Since 1987 in PERS and 1991 in TRS

Statutory Changes in Employee Contribution Rates

PERS	Before 1/1/87	Since 1/1/87	Since 7/1/99	FY 07 Average
Police/Fire	5.00%	7.50%	7.50%	6.81%
All Others	4.25%	6.75%	6.75%	
School Districts*			9.60%	
TRS		Before 1/1/91	Since 1/1/91	FY 07 Average
Most Members		7.00%	8.00%	8.68%
Supplemental Plan**		8.65%	9.65%	

- * Beginning in 7/1/99, school district PERS members can elect the higher 9.6% contribution rate and receive a full year of service credit for 9 months vs. contributing 6.75% for 12 months
- ** TRS Members who joined the system before 7/1/82 and elected to participate in the supplemental contributions provision are required to contribute an additional 1% of their salaries





Constitution of the State of Alaska

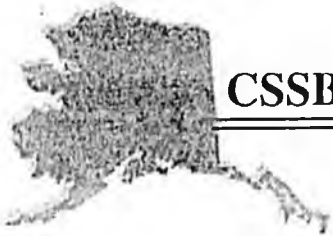
Article XII – Section 7

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

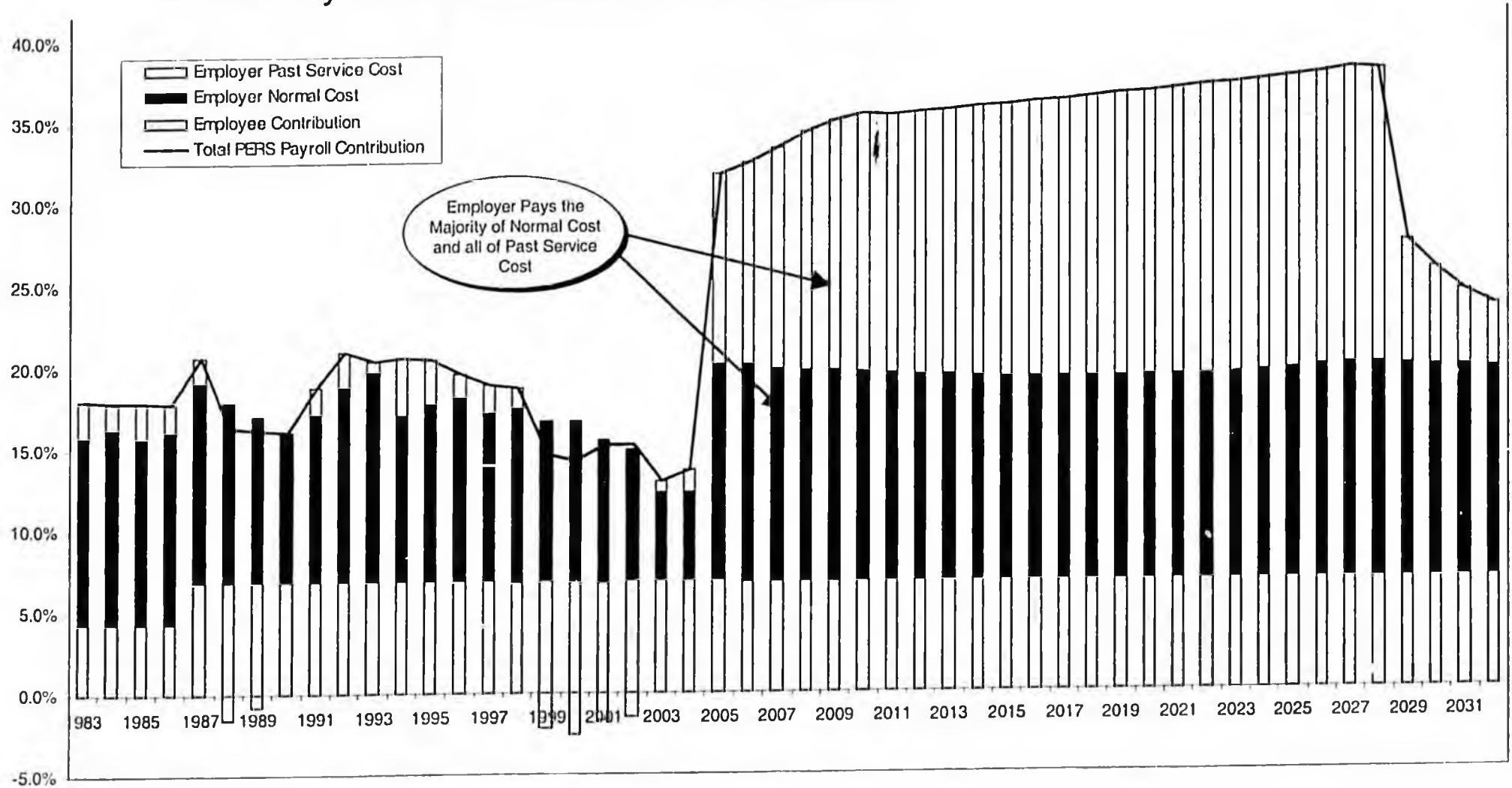
Normal Cost Rate *is the cost of benefits expected to be earned during the coming contribution year*

- We contend that employee contributions applied towards the **Normal Cost Rate** are not part of the accrued benefit to which members are entitled
- An accrued benefit is one that has already been earned – not one that has yet to be earned
- Benefit rights accrue as they are earned – year to year
- Employee contributions cannot be changed retroactively to pay for past benefits (Past Service Costs or any unfunded liability), but they can be changed prospectively to pay for future benefits





PERS Payroll Contribution Trend & Forecast





CSSB 141(FIN) – Retirement Security Act

Increasing Contribution Rates of Existing Employees

PERS Employee Normal Rate Projections

PERS - Average All Employees								
Rate for FY	Total Normal Cost	Projections at Current Rate			Projections at SB 141 Rate			
		Employee Normal Cost Rate	Employee Share of Total Normal Cost	Employer Share of Total Normal Cost	50% of Total Normal Cost	SB 141 Employee Rate	Resulting Employee Share	Increase Over Previous FY
2006	20.05%	6.81%	34.0%	66.0%	10.03%	7.33%	36.6%	0.50%
2007	19.80%	6.81%	34.4%	65.6%	9.90%	7.83%	39.5%	0.50%
2008	19.73%	6.81%	34.5%	65.5%	9.87%	8.33%	42.2%	0.50%
2009	19.66%	6.81%	34.6%	65.4%	9.83%	8.83%	44.9%	0.50%
2010	19.58%	6.81%	34.8%	65.2%	9.79%	9.33%	47.7%	0.50%
2011	19.52%	6.81%	34.9%	65.1%	9.76%	9.76%	50.0%	0.43%
2012	19.44%	6.81%	35.0%	65.0%	9.72%	9.72%	50.0%	-0.04%
2013	19.38%	6.81%	35.1%	64.9%	9.69%	9.69%	50.0%	-0.03%
2014	19.31%	6.81%	35.3%	64.7%	9.66%	9.66%	50.0%	-0.04%
2015	19.25%	6.81%	35.4%	64.6%	9.63%	9.63%	50.0%	-0.03%
2016	19.26%	6.81%	35.4%	64.6%	9.63%	9.63%	50.0%	0.00%
2017	19.23%	6.81%	35.4%	64.6%	9.62%	9.62%	50.0%	-0.01%
2018	19.21%	6.81%	35.5%	64.5%	9.61%	9.61%	50.0%	-0.01%
2019	19.24%	6.81%	35.4%	64.6%	9.62%	9.62%	50.0%	0.01%
2020	19.27%	6.81%	35.3%	64.7%	9.64%	9.64%	50.0%	0.02%
2021	19.31%	6.81%	35.3%	64.7%	9.66%	9.66%	50.0%	0.02%
2022	19.36%	6.81%	35.2%	64.8%	9.68%	9.68%	50.0%	0.03%
2023	19.42%	6.81%	35.1%	64.9%	9.71%	9.71%	50.0%	0.03%
2024	19.52%	6.81%	34.9%	65.1%	9.76%	9.76%	50.0%	0.05%
2025	19.63%	6.81%	34.7%	65.3%	9.82%	9.82%	50.0%	0.05%
2026	19.76%	6.81%	34.5%	65.5%	9.88%	9.88%	50.0%	0.06%
2027	19.92%	6.81%	34.2%	65.8%	9.96%	9.96%	50.0%	0.08%
2028	19.86%	6.81%	34.3%	65.7%	9.93%	9.93%	50.0%	-0.03%
2029	19.79%	6.81%	34.4%	65.6%	9.90%	9.90%	50.0%	-0.04%
2030	19.73%	6.81%	34.5%	65.5%	9.87%	9.87%	50.0%	-0.03%
2031	19.68%	6.81%	34.6%	65.4%	9.84%	9.84%	50.0%	-0.03%
2032	19.63%	6.81%	34.7%	65.3%	9.82%	9.82%	50.0%	-0.03%

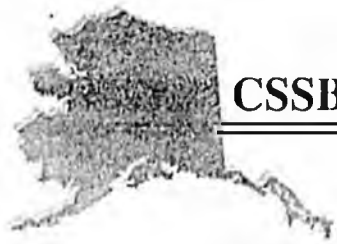
SB 141 Proposes to split the Total Normal Cost 50/50 between Employer and Employee

However, the Employee Rate could never increase by more than 0.50% a year

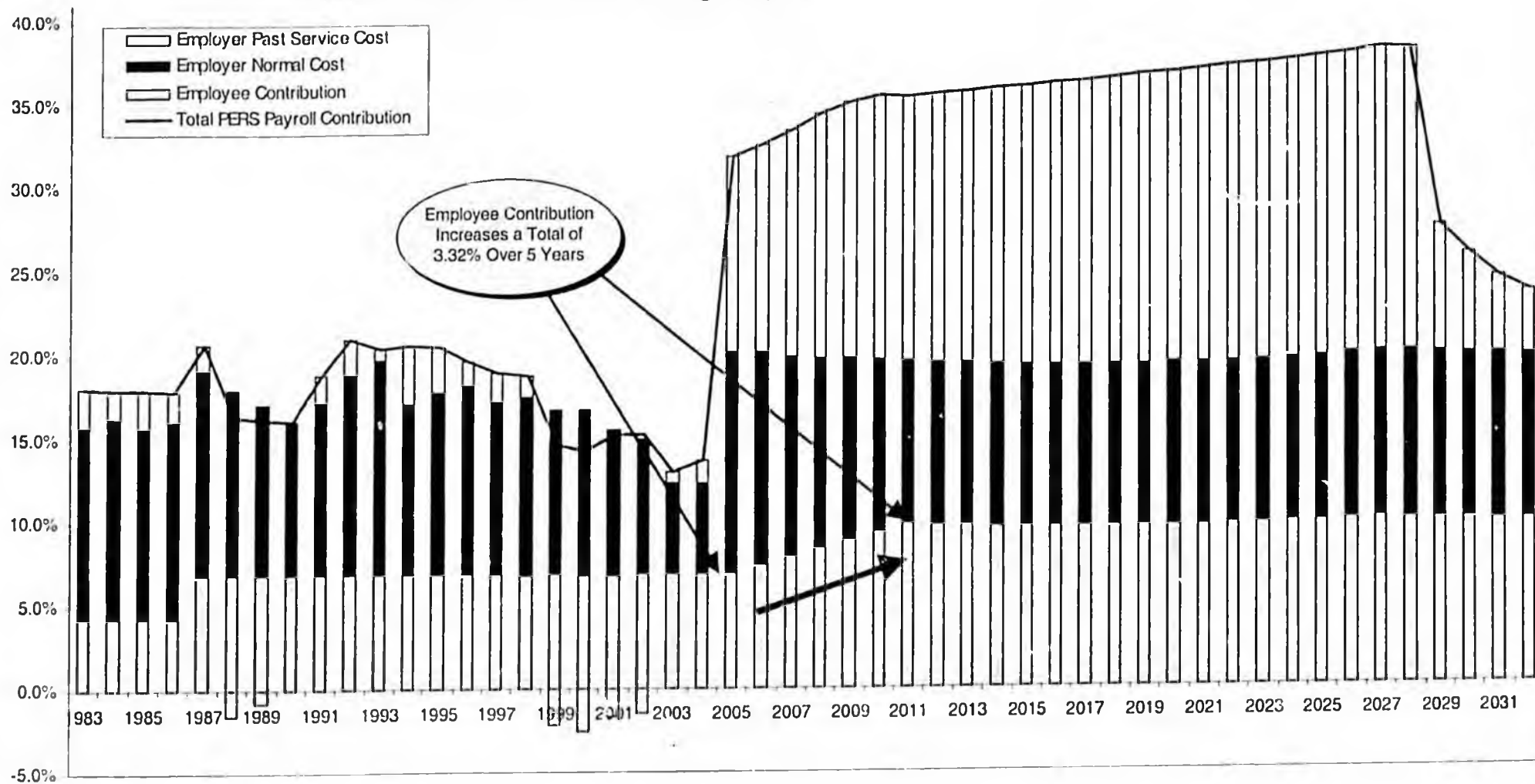
Based on current Mercer projections, it would take 6 years to reach the 50/50 shared rate

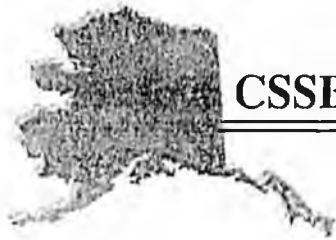
If Normal Costs drop in the future, employer and employee rates would drop accordingly





PERS Forecast with SB 141 Language



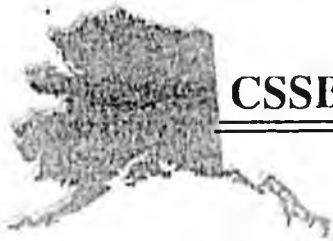


Effect of Employee Contribution Rate Increases on Average PERS Employee

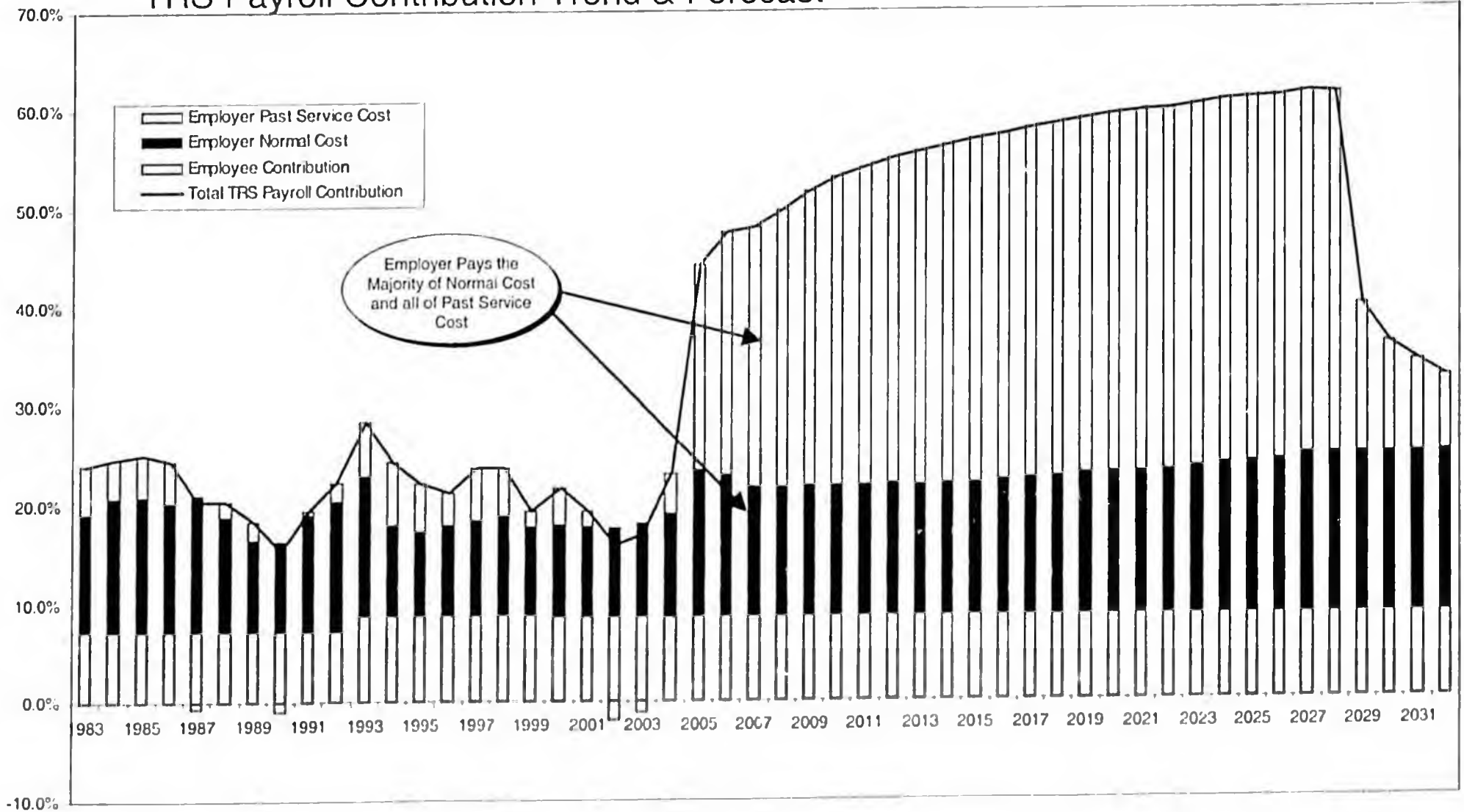
PERS 2004	Annual Earnings	Monthly Earnings	2-Week Pay	Normal Cost	50% Normal Cost	Current Rate @	SB 141 Proposed Pre-Tax Payroll Deductions (every 2 weeks)						Cumulative Increase
							FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	
							7.25%	7.75%	8.25%	8.75%	9.25%	9.75%	
ASEA GG 1-A Range 5-A	\$ 20,436.00	\$ 1,703.00	\$ 851.50	\$ 57.48	\$ 61.73	\$ 65.99	\$ 70.25	\$ 74.51	\$ 78.76	\$ 83.02	\$ 85.70		
				Yr to Yr Increase	\$ 4.26	\$ 4.26	\$ 4.26	\$ 4.26	\$ 4.26	\$ 4.26	\$ 2.68	\$ 28.23	
ASEA GG 1-A Range 10-A	\$ 27,168.00	\$ 2,264.00	\$ 1,132.00	\$ 76.41	\$ 82.07	\$ 87.73	\$ 93.39	\$ 99.05	\$ 104.71	\$ 110.37	\$ 113.94		
				Yr to Yr Increase	\$ 5.66	\$ 5.66	\$ 5.66	\$ 5.66	\$ 5.66	\$ 5.66	\$ 3.57	\$ 37.53	
ASEA GG 1-A Range 15-A	\$ 37,260.00	\$ 3,105.00	\$ 1,552.50	\$ 104.79	\$ 112.56	\$ 120.32	\$ 128.08	\$ 135.84	\$ 143.61	\$ 151.37	\$ 156.26		
				Yr to Yr Increase	\$ 7.76	\$ 7.76	\$ 7.76	\$ 7.76	\$ 7.76	\$ 7.76	\$ 4.89	\$ 51.47	
ASEA GG 1-A Range 17-A	\$ 42,852.00	\$ 3,571.00	\$ 1,785.50	\$ 120.52	\$ 129.45	\$ 138.38	\$ 147.30	\$ 156.23	\$ 165.16	\$ 174.09	\$ 179.71		
				Yr to Yr Increase	\$ 8.93	\$ 8.93	\$ 8.93	\$ 8.93	\$ 8.93	\$ 8.93	\$ 5.62	\$ 59.19	
Average PERS Members	\$ 43,823.00	\$ 3,651.92	\$ 1,825.96	\$ 123.25	\$ 132.38	\$ 141.51	\$ 150.64	\$ 159.77	\$ 168.90	\$ 178.03	\$ 183.78		
				Yr to Yr Increase	\$ 9.13	\$ 9.13	\$ 9.13	\$ 9.13	\$ 9.13	\$ 9.13	\$ 5.75	\$ 60.53	
ASEA GG 1-A Range 27-A	\$ 79,320.00	\$ 6,610.00	\$ 3,305.00	\$ 223.09	\$ 239.61	\$ 256.14	\$ 272.66	\$ 289.19	\$ 305.71	\$ 322.24	\$ 332.65		
				Yr to Yr Increase	\$ 16.53	\$ 16.53	\$ 16.53	\$ 16.53	\$ 16.53	\$ 16.53	\$ 10.41	\$ 109.56	

Estimate is based on FY 07 Total Normal Cost for PERS "Other" and assumed to be fixed for FY 07 to FY 12





TRS Payroll Contribution Trend & Forecast





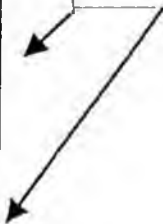
CSSB 141(FIN) – Retirement Security Act

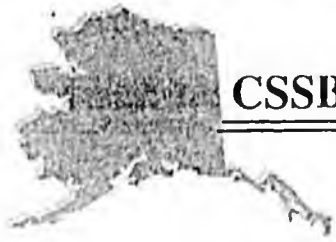
*Increasing Contribution Rates
of Existing Employees*

TRS Employee Normal Rate Projections

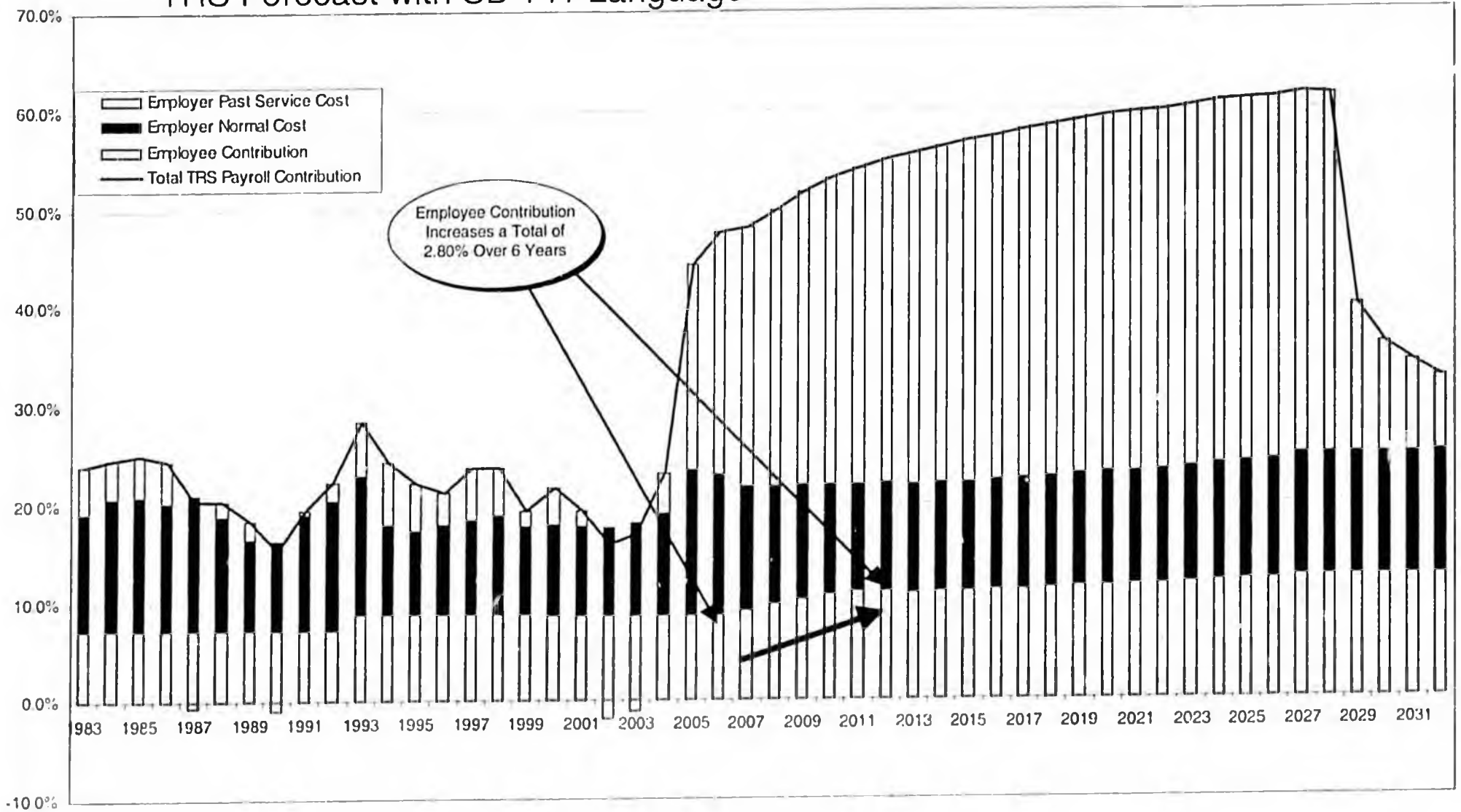
TRS - Average Rate								
Rate for FY	Total Normal Cost	Projections at Current Rate			Projections at SB 141 Rate			
		Employee Normal Cost Rate	Employee Share of Total Normal Cost	Employer Share of Total Normal Cost	50% of Total Normal Cost	SB 141 Employee Rate	Resulting Employee Share	Increase Over Previous FY
2006	22.97%	8.69%	37.8%	14.28%	11.49%	9.21%	40.1%	0.50%
2007	21.71%	8.69%	40.0%	13.02%	10.86%	9.71%	44.7%	0.50%
2008	21.72%	8.69%	40.0%	13.03%	10.86%	10.21%	47.0%	0.50%
2009	21.81%	8.69%	39.8%	13.12%	10.91%	10.71%	49.1%	0.50%
2010	21.87%	8.69%	39.7%	13.18%	10.94%	10.94%	50.0%	0.22%
2011	21.90%	8.69%	39.7%	13.21%	10.95%	10.95%	50.0%	0.01%
2012	21.93%	8.69%	39.6%	13.24%	10.97%	10.97%	50.0%	0.01%
2013	21.81%	8.69%	39.8%	13.12%	10.91%	10.91%	50.0%	-0.06%
2014	21.94%	8.69%	39.6%	13.25%	10.97%	10.97%	50.0%	0.07%
2015	22.06%	8.69%	39.4%	13.37%	11.03%	11.03%	50.0%	0.06%
2016	22.24%	8.69%	39.1%	13.55%	11.12%	11.12%	50.0%	0.09%
2017	22.44%	8.69%	38.7%	13.75%	11.22%	11.22%	50.0%	0.10%
2018	22.66%	8.69%	38.3%	13.97%	11.33%	11.33%	50.0%	0.11%
2019	22.88%	8.69%	38.0%	14.19%	11.44%	11.44%	50.0%	0.11%
2020	23.05%	8.69%	37.7%	14.36%	11.53%	11.53%	50.0%	0.09%
2021	23.16%	8.69%	37.5%	14.47%	11.58%	11.58%	50.0%	0.05%
2022	23.30%	8.69%	37.3%	14.61%	11.65%	11.65%	50.0%	0.07%
2023	23.60%	8.69%	36.8%	14.91%	11.80%	11.80%	50.0%	0.15%
2024	23.92%	8.69%	36.3%	15.23%	11.96%	11.96%	50.0%	0.16%
2025	24.11%	8.69%	36.0%	15.42%	12.06%	12.06%	50.0%	0.10%
2026	24.27%	8.69%	35.8%	15.58%	12.14%	12.14%	50.0%	0.08%
2027	24.81%	8.69%	35.0%	16.12%	12.41%	12.41%	50.0%	0.27%
2028	24.81%	8.69%	35.0%	16.12%	12.41%	12.41%	50.0%	0.00%
2029	24.82%	8.69%	35.0%	16.13%	12.41%	12.41%	50.0%	0.01%
2030	24.85%	8.69%	35.0%	16.16%	12.43%	12.43%	50.0%	0.01%
2031	24.88%	8.69%	34.9%	16.19%	12.44%	12.44%	50.0%	0.01%
2032	24.92%	8.69%	34.9%	16.23%	12.46%	12.46%	50.0%	0.02%

Based on current Mercer projections, it would take 5 years to reach the 50/50 shared rate in TRS





TRS Forecast with SB 141 Language



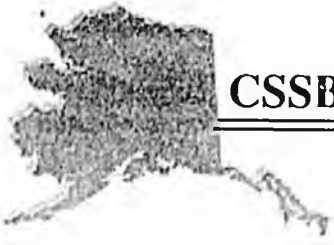


Effect of Employee Contribution Rate Increases on Average TRS Employee

TRS 2004	Annual Earnings	Monthly Earnings	2-Week Pay	Normal Cost	50% Normal Cost	Current Rate @	SB 141 Proposed Pre-Tax Payroll Deductions (every 2 weeks)						Cumulative Increase
							FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	
							22.97%	11.49%	8.69%	9.19%	9.69%	10.19%	
ASD Teacher BA Step 1	\$ 35,284.00	\$ 2,940.33	\$ 1,470.17	\$ 127.76	\$ 135.11	\$ 142.46	\$ 149.81	\$ 157.16	\$ 164.51	\$ 168.85			
				Yr to Yr Increase	\$ 7.35	\$ 7.35	\$ 7.35	\$ 7.35	\$ 7.35	\$ 4.34	\$ 41.09		
ASD Teacher BA+18 Step 4	\$ 40,251.00	\$ 3,354.25	\$ 1,677.13	\$ 145.74	\$ 154.13	\$ 162.51	\$ 170.90	\$ 179.28	\$ 187.67	\$ 192.62			
				Yr to Yr Increase	\$ 8.39	\$ 8.39	\$ 8.39	\$ 8.39	\$ 8.39	\$ 4.95	\$ 46.88		
ASD Teacher BA+36 Step 9	\$ 47,274.00	\$ 3,939.50	\$ 1,969.75	\$ 171.17	\$ 181.02	\$ 190.87	\$ 200.72	\$ 210.57	\$ 220.42	\$ 226.23			
				Yr to Yr Increase	\$ 9.85	\$ 9.85	\$ 9.85	\$ 9.85	\$ 9.85	\$ 5.81	\$ 55.05		
Average TRS Member	\$ 53,948.00	\$ 4,495.67	\$ 2,247.83	\$ 195.34	\$ 206.58	\$ 217.82	\$ 229.05	\$ 240.29	\$ 251.53	\$ 258.16			
				Yr to Yr Increase	\$ 11.24	\$ 11.24	\$ 11.24	\$ 11.24	\$ 11.24	\$ 6.63	\$ 62.83		
ASD Teacher BA +72 Step 19	\$ 61,319.00	\$ 5,109.92	\$ 2,554.96	\$ 222.00	\$ 234.80	\$ 247.58	\$ 260.35	\$ 273.13	\$ 285.90	\$ 293.44			
				Yr to Yr Increase	\$ 12.77	\$ 12.77	\$ 12.77	\$ 12.77	\$ 12.77	\$ 7.54	\$ 71.41		
Rg 4 - Mid Level Principal (216 Days - Step D)	\$ 80,893.00	\$ 6,741.08	\$ 3,370.54	\$ 292.90	\$ 309.75	\$ 326.61	\$ 343.46	\$ 360.31	\$ 377.16	\$ 387.11			
				Yr to Yr Increase	\$ 16.85	\$ 16.85	\$ 16.85	\$ 16.85	\$ 16.85	\$ 9.94	\$ 94.21		

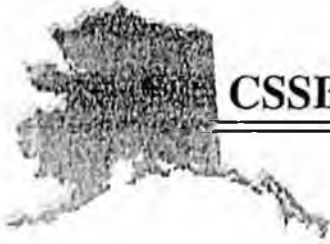
Estimate is based on FY 07 Total Normal Cost for TRS and assumed to be fixed for FY 07 to FY 11. Salaries are based on the 2004-05 Anchorage School District salary schedule





Defined Contribution Plan



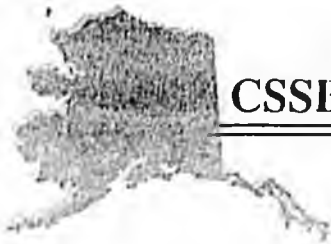


We considered the Administration's 2004 Tier Committee work during our analysis and in our solutions

Tier Committee Data Reviewed:

- *Tier Alternative Recommendations*
- *Employer survey*
- *Member focus group results*
- *Benchmarking*
- *Benefit levels*
- *Demographic projections*
- *Implications of Medicare changes*
- *Trends, issues and alternatives*
- *Cost analysis and projections*





Defined Benefit Plan

- *Benefit level is fixed*
- *Benefit is based on a formula involving salary, years of service, age, etc.*
- *Benefit is paid for life and to qualified survivors*
- *Future benefit payments are NOT driven by investment performance*

Examples: PERS & TRS

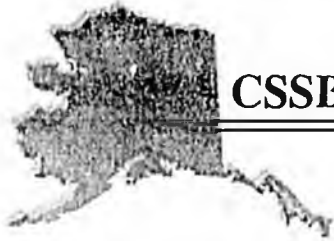
Defined Contribution Plan

- *Contribution level is fixed*
- *Benefit is based on the amount of money invested and earned in employee's account*
- *Benefit is paid until account runs out*
- *Future benefit payments are driven by investment performance*

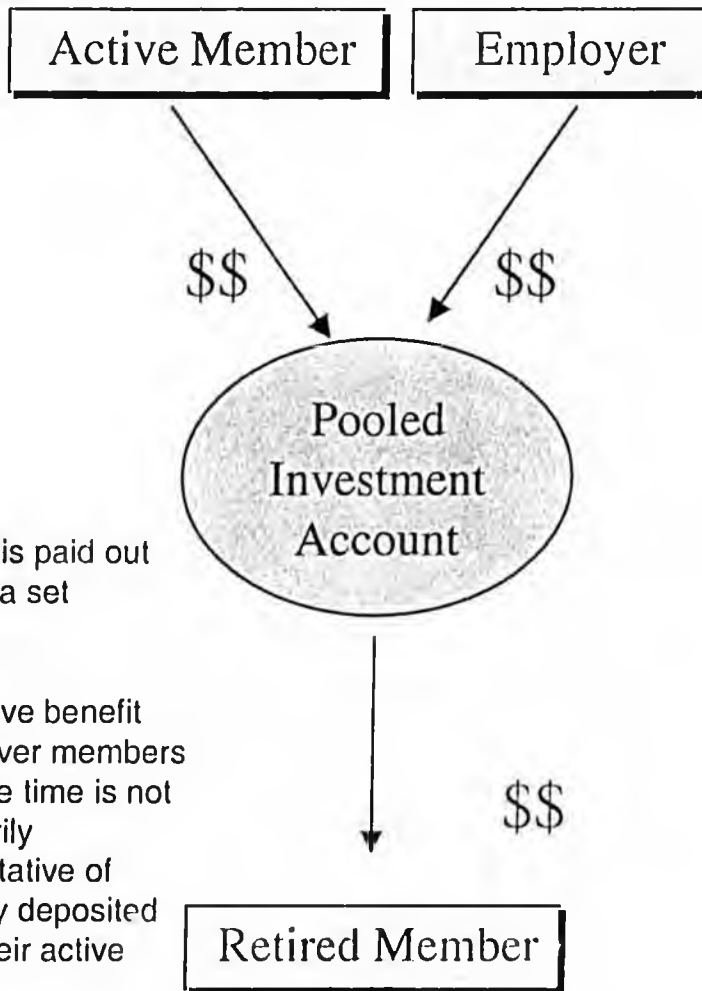
Examples: SBS & Deferred Compensation

Defined Benefit (DB) vs Defined Contribution (DC)



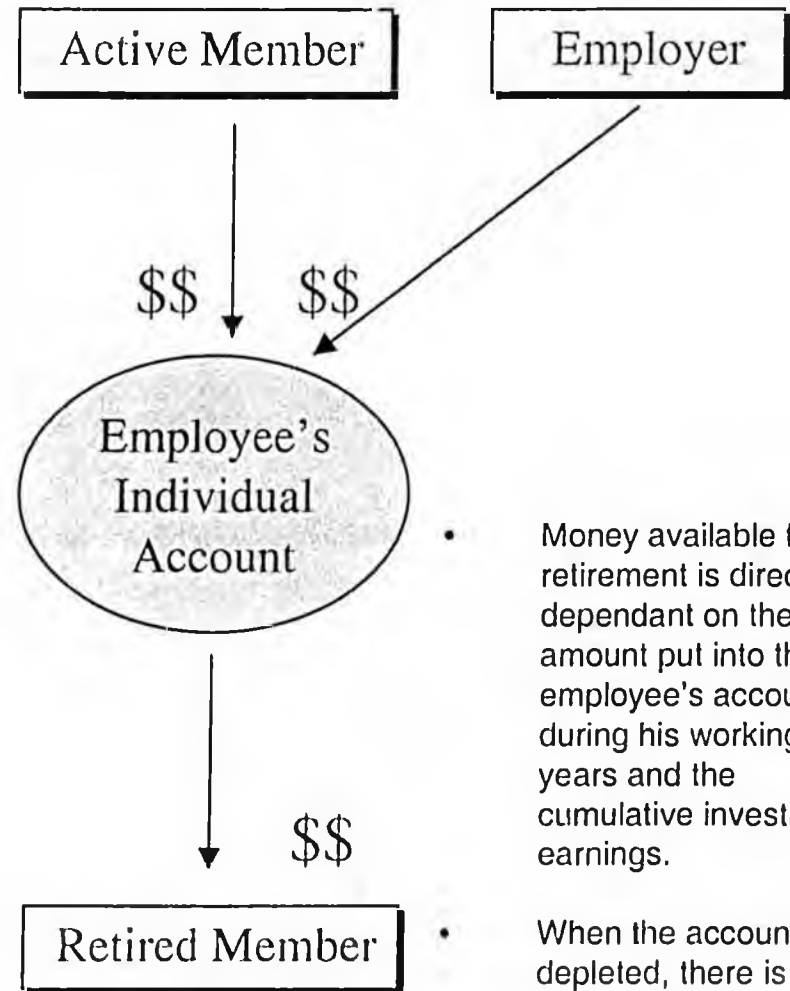


Defined Benefit System



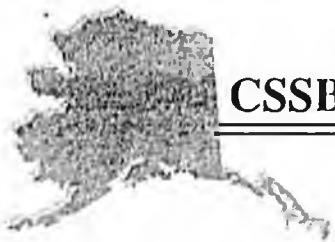
- Pension is paid out base on a set formula.
- Cumulative benefit payout over members retired life time is not necessarily representative of what they deposited during their active career

Defined Contribution System



- Money available for retirement is directly dependant on the amount put into the employee's account during his working years and the cumulative investment earnings.
- When the account is depleted, there is no further benefit.





Defined Benefit Plan

Advantages:

- *Pooling of longevity risk*
- *Guaranteed income stream*
- *System favors longer-service employees*

Challenges:

- *Employer bears investment risk*
- *Estimation of Liabilities*
- *Rising health costs*
- *Unpredictable or controllable costs*

Defined Contribution Plan

Advantages:

- *Portability*
- *Self-directed investing*
- *Contribution equity among employees*
- *Predictability*
- *Stable costs*
- *No long-term administrative costs*

Challenges:

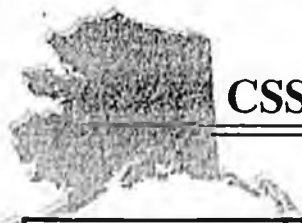
- *Workforce management*
- *Employee bears investment risk*
- *Employee education*
- *Accurate retirement planning*

Defined Benefit (DB) vs Defined Contribution (DC)



<p>TRS Tier I 7/1/55 - 6/30/90</p>	<p>TRS Tier II Entered on or after 7/1/90</p>	<p>SB 141 Proposed DC Plan Entered on or after 7/1/2006</p>
<p>Employee Pre-tax Contribution: 8.65% beginning 1/1/91</p>	<p>Employee Pre-tax Contribution: 8.65% beginning 1/1/91</p>	<p>Employee Pre-tax Contribution: 8.0 % beginning 7/1/2005</p>
<p>Members vest with 8 years of service.</p>	<p>Members vest with 8 years of service.</p>	<ul style="list-style-type: none"> • Employee is immediately vested in their own contributions • Employee's gradually vest in employer contributions <ul style="list-style-type: none"> • 25% after two years • 50% after three years • 75% after four years • 100% after five years
<ul style="list-style-type: none"> • Normal retirement age is 55 • Early retirement at age 50 • Teachers can retire at any age after 20 years of membership service. 	<ul style="list-style-type: none"> • Normal retirement age is 60 • Early retirement at age 55 • Teachers can retire at any age after 20 years 	<ul style="list-style-type: none"> • Retirement Savings: Employee can terminate at any age and take vested account balance with them, leave it in the plan or rollover to another qualified plan. • Medical Benefits: Member is eligible for benefits if: <ul style="list-style-type: none"> • 65 years of age and at least 10 years of service; or • 30 years of service
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 8.25% employer contribution broken out as: <ul style="list-style-type: none"> • 4.25% to employee retirement savings account • 1.75% to retiree medical plan • 2.00% to Health Reimbursement Account
<ul style="list-style-type: none"> • Medical coverage is provided to all benefit recipients and their eligible dependents. 	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Employees must retire directly from the system with a minimum of 10 years of service to be eligible for medical plan and access to HRA • Early retirees get "access" to retiree medical plan but must pay full premium until they reach age of Medicare eligibility • Once reaching Medicare age eligibility, retiree pays only a portion of monthly premium based on years of service <ul style="list-style-type: none"> • 10-14 years = Retiree pays 30% of premium • 15-19 years = Retiree pays 25% of premium • 20-24 years = Retiree pays 20% of premium • 25-29 years = Retiree pays 15% of premium • 30+ years = Retiree pays 10% of premium
<ul style="list-style-type: none"> • Automatic PRPA legislated in 1990 applied to all members regardless of hire date. • COLAs payable to recipients who remain domiciled in Alaska after retirement. COLAs 10% of the base benefit. 	<ul style="list-style-type: none"> • Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years. • COLAs payable to recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. COLAs 10% of base benefit. 	<p>None</p>



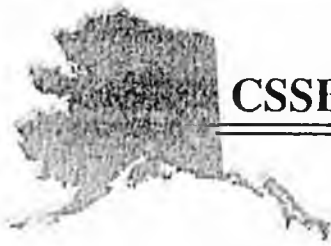


CSSB 141(FIN) – Retirement Security Act

Defined Contribution Plan

<p align="center">PIRS Tier I 1/1/61 - 6/30/86</p>	<p align="center">PIRS Tier II Entered on or after 7/1/86</p>	<p align="center">PIRS Tier III Entered on or after 7/1/96</p>	<p align="center">SB 141 Proposed DC Plan Entered on or after 7/1/2006</p>
<p>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</p>	<p>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</p>	<p>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</p>	<p>Employee Pre-tax Contribution: 8.0% beginning 7/1/2005</p>
<p>Members vest with 5 years of service.</p>	<p>Members vest with 5 years of service.</p>	<p>Members vest with 5 years of service.</p>	<ul style="list-style-type: none"> Employee is immediately vested in their own contributions Employee's gradually vest in employer contributions <ul style="list-style-type: none"> 25% after two years 50% after three years 75% after four years 100% after five years
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Retirement Savings: Employee can terminate at any age and take vested account balance with them, leave it in the plan or rollover to another qualified plan. Medical Benefits: Member is eligible for benefits if: <ul style="list-style-type: none"> 65 years of age and at least 10 years of service; or 25 years of service police/firefighters 30 years of service all others
<ul style="list-style-type: none"> 2% defined benefit formula for first 10 years and all years of service prior to July 1, 1986 2.25% for the next 10 years; 2.5% per year thereafter (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. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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)). 	<ul style="list-style-type: none"> 8.25% employer contribution broken out as: <ul style="list-style-type: none"> 4.25% to employee retirement savings account 1.75% to retiree medical plan 2.00% to Health Reimbursement Account
<ul style="list-style-type: none"> Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system. 	<p>Medical coverage is provided to disabled members, regardless of age and benefit recipients over age 60 or</p> <ul style="list-style-type: none"> police/fire members with 25 years of police/fire service all other members with 30 years of membership service <p>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.</p>	<p>Medical same as Tier II</p> <ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Employees must retire directly from the system with a minimum of 10 years of service to be eligible for medical plan and access to HRA Early retirees get "access" to retiree medical plan but must pay full premium until they reach age of Medicare eligibility Once reaching Medicare age eligibility, retiree pays only a portion of monthly premium based on years of service <ul style="list-style-type: none"> 10-14 years = Retiree pays 30% of premium 15-19 years = Retiree pays 25% of premium 20-24 years = Retiree pays 20% of premium 25-29 years = Retiree pays 15% of premium 30+ years = Retiree pays 10% of premium
<ul style="list-style-type: none"> The automatic PRPA legislated in 1986 applied to all members regardless of hire date. COLA of 10% of base benefit is payable to benefit recipients who remain domiciled in Alaska after retirement. 	<ul style="list-style-type: none"> Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years. COLA 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. 	<ul style="list-style-type: none"> Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years. COLA 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 	<p>None</p>





FY 06 Normal Cost Comparisons – TRS Tier II & PERS Tier III vs. Proposed DC Plan*

FY 06 Normal Cost Rates

	TRS II	PERS III	DC Plan
Medical normal cost rate	7.93%	7.23%	1.75%
Defined contribution rate	12.43%	10.32%	12.50%
HRA contribution rate	0.0%	0.0%	2.00%
Gross normal cost rate	20.36%	17.55%	16.25%
Member contribution rate	(8.65)%	(6.81)%	(8.00)%
Employer normal cost rate	12.71%	10.74%	8.25%

* See Appendix II for FY06 Normal Cost Comparisons for All Tiers and Appendix I for FY07 Normal Cost Comparisons for All Tiers

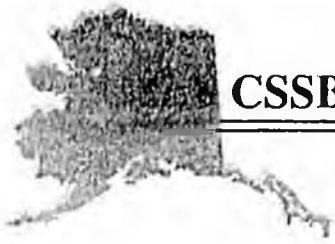




Factors that drive the contribution rate discussion

- Investment Return Assumptions
- Cost/Benefit Balance for the Employer
- Total Acceptable Normal Cost
- Keeping Competitive in Northwest Region





*Medical Benefits for New
Employees*

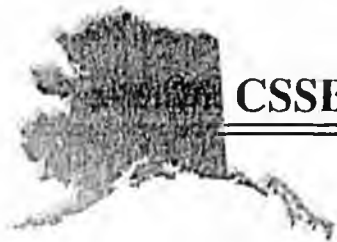




What are the medical benefits?

- Access to the retiree major medical plan and the health reimbursement arrangement (HRA)
- “Access” to the major medical plan means a person may not be denied coverage except for failure to pay the required premium
- Participation in the retiree major medical insurance plan is not required to participate in HRA
- Member must make irrevocable decision of coverage by age 70 ½ or termination of employment, whichever is later

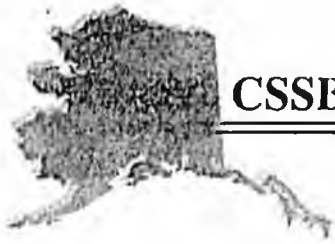




Who is eligible for retiree medical benefits?

- A member is eligible for medical benefits after they meet the requisite age and/or service requirements:
 - Age 65 with 10 years of service; or
 - 25 years of service for peace officers/firefighters;
 - 30 years of service for all others
- Coverage includes the member, member's spouse, and member's dependent children
- Coverage includes the surviving spouse and children of the eligible member who are dependent on the surviving spouse





What are the medical contributions?

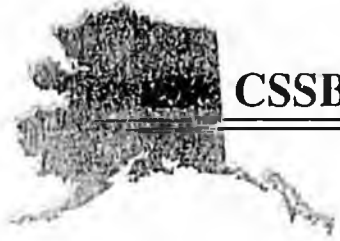
Health Trust Fund

- Employer pays 1.75% of employee compensation
 - Tier Committee initiative projected employer medical normal costs at 3.75% for TRS and 3.50% for PERS
 - Eliminating employee subsidy between ages 60 and 65 reduces these rates to 1.50% for TRS and 1.40% for PERS

Health Reimbursement Arrangement

- Employer pays 2.00% of average employer group compensation into an employee's HRA





Major medical plan premiums

- “Early retirees” are members and surviving spouses who meet the service requirements for eligibility but are not eligible for Medicare

‣ Pays one of the full monthly group premiums for coverage
(*retiree only, retiree+spouse, retiree+family, retiree+children*)

- Medicare eligible (currently age 65) members and surviving spouses pay a portion based on the member’s years of service

‣ 30% for 10-14 years
‣ 25% for 15-19 years
‣ 20% for 20-24 years
‣ 15% for 25-29 years
‣ 10% for 30+ years

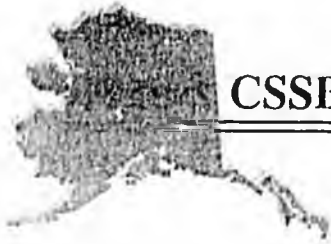




Rationale for cost sharing only after Medicare

- 75% of the costs associated with the current AlaskaCare plan occur between the time a member retires and the date they become Medicare eligible
- Alaska has an early retirement age compared to most states
- 25 states have a normal retirement age of 65, including
 - Arizona, Idaho, Nevada, and Washington





Medical Cost Comparisons

- Every 1% of base payroll = \$21.6 million

Employer Group	Total FY 06 Estimated Base Payroll	Medical Normal Cost Rates		
		Current DB Plans	Tier Redesign Initiative	SB 141
PERS	\$1,587,594,875	8.68%	3.50%	1.40%
TRS	\$573,410,095	9.07%	3.75%	1.50%
PERS	Medical Cost in Dollars	\$137,803,235	\$55,565,821	\$22,226,328
TRS		\$52,008,296	\$21,502,879	\$8,601,151
Total Annual Medical		\$189,811,531	\$77,068,699	\$30,827,430
Total Payroll	\$2,161,004,970	Savings	\$112,742,832	\$158,984,051



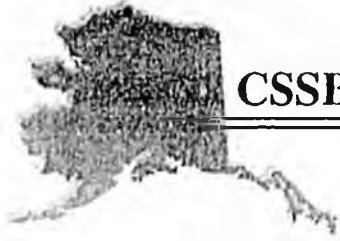


Example: Medical premium costs

- FY 2004 Medicare projected claim cost: \$2,667
- Employer contribution % based on length of service of the member

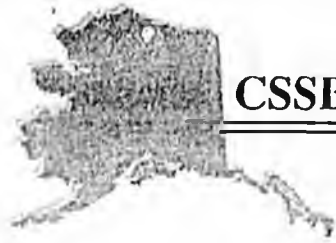
Member's Years of Service	Annual Employee Contribution		Annual Employer Contribution	
10-14	30%	\$800	\$1,867	70%
15-19	25%	\$667	\$2,000	75%
20-24	20%	\$533	\$2,134	80%
25-29	15%	\$400	\$2,267	85%
30+	10%	\$267	\$2,400	90%





*Health Reimbursement
Arrangement (HRA)*

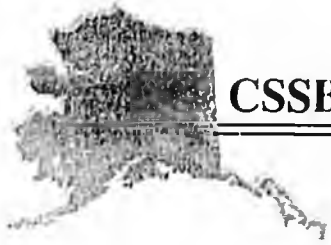




What is a Health Reimbursement Arrangement?

- Reimburses employees for qualified medical expenses during retirement years
- Intended as a supplement for medical expenses or a bridge between “early” retirement and Medicare
- Employer paid group (or pooled) fund
- Funds accumulate over working lifetime of employee
- Tax-free earnings and tax-free withdrawals
- Employer-determined flexible plan design (*contributions, covered expenses, termination provisions*)





SB 141 HRA Plan Design

- Employer contributes 2% of the average employer group compensation
- Annual payment on behalf of each active employee into group fund
- Contributions recorded to individual account balances (also tracked by employer)
- Fund managed by Alaska Retirement Management Board (ARMB)
- Interest credited annually to individual accounts, rate determined by ARMB

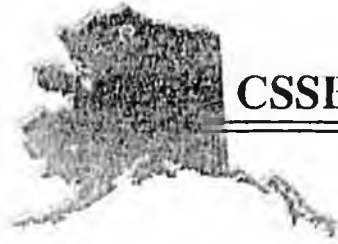




SB 141 HRA Plan Design

- Total Reimbursements limited to member's individual account balance until exhausted
- Terminated employees forfeit rights to HRA unless
 - The person returns to work for an employer in the system within 5 years
 - Account balance restored as of date of termination (accrues no additional interest)
- Employer may use forfeited funds as credits towards future HRA contributions

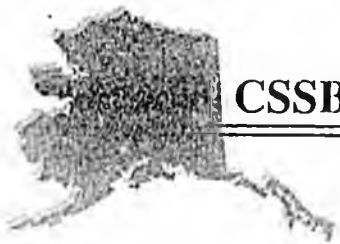




Who is eligible to draw HRA reimbursements?

- A member is eligible after they meet the requisite age and/or service requirements:
 - Age 65 with 10 years of service; or
 - 25 years of service for peace officers/firefighters;
 - 30 years of service for all others
- Surviving spouse of an eligible member
- Dependent children of an eligible member if both the member and surviving spouse have died

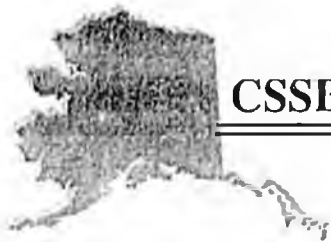




What costs are eligible for reimbursement?

- Premiums for a major medical plan (participation in State's retiree medical plan is not required)
- Qualified medical expenses under 26 U.S.C 213(d)
 - An eligible member
 - Member's spouse and
 - Dependent children





Projected HRA account balance

- HRA is a retention tool as it clearly favors longevity

Interest: 8.25%		Projected HRA Account Balances				
Fiscal Year	Years of Service	SB 141				
		1% no cap	1.5% no cap	2.0% no cap	2.5% no cap	3.5% no cap
2016	10	\$6,611	\$9,917	\$13,223	\$16,528	\$23,140
2021	15	\$13,535	\$20,303	\$27,071	\$33,838	\$47,374
2026	20	\$24,631	\$36,946	\$49,261	\$61,577	\$86,207
2031	25	\$42,100	\$63,150	\$84,200	\$105,250	\$147,350
2036	30	\$69,256	\$103,884	\$138,513	\$173,141	\$242,397

Interest: 6.00%		Projected HRA Account Balances				
Fiscal Year	Years of Service	SB 141				
		1% no cap	1.5% no cap	2.0% no cap	2.5% no cap	3.5% no cap
2016	10	\$5,928	\$8,893	\$11,857	\$14,821	\$20,749
2021	15	\$11,446	\$17,169	\$22,893	\$28,616	\$40,062
2026	20	\$19,592	\$29,387	\$39,183	\$48,979	\$68,571
2031	25	\$31,418	\$47,127	\$62,835	\$78,544	\$109,962
2036	30	\$48,370	\$72,555	\$96,741	\$120,926	\$169,296

Other assumptions: FY 2006, beginning salary \$35,000
 Salary inflation 5.5% first 5 years; 4% thereafter
 Projected Anchorage CPI (1.8017% to 4.8859%)

