

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 3027

is subject to this chapter.

(b) A state legislator who was an active member of this system under other sections of this chapter within the 12 months immediately preceding election to office may elect to be an active member of this system for as long as the state legislator serves continuously as a state legislator subject to the requirements of (c) of this section, if, within 90 days after taking the oath of office,

(1) the state legislator directs the employer in writing to

(A) pay into this system the employer contributions required for a member under this chapter; and

(B) deduct from the state legislator's salary and pay into this system

(i) the employee contributions required for a member under this chapter; and

(ii) an amount equal to the difference between the total employer and state contributions required for a member under this chapter and the employer contributions which would be required under the public employees' retirement system (AS 39.35) if the legislator were covered under that system; and

(2) notice is given the administrator in writing.

(c) A state legislator is not entitled to elect membership under (b) of this section if the state legislator is covered for the same period of service under the public employees' retirement system (AS 39.35). An election of membership under (b) of this section is retroactive to the date the state legislator took the oath of office. A state legislator may not receive membership credit under (b) of this section for legislative service performed before the legislative session during which the state legislator elected membership under (b) of this section. In order to continue in membership service under (b) of this section, the state legislator must earn at least 0.3 years of membership service under other sections of this chapter during each five-year period.

(d) A person who is employed at least half-time in the system during the same period that the person is employed at least half-time in a position in the public employees' retirement system under AS 39.35 shall receive credited service under each system for half-time employment. However, the amount of credited service a person receives under the public employees' retirement system during a school year may not exceed the amount necessary, when added to the amount of credited service earned during the school year under the system, to equal one year of credited service. A person who was employed at least half-time in a position in the public employees' retirement system under AS 39.35 in the same period that the person was employed at least half-time in a position in this system may claim credited service in both systems for employment before May 31, 1989. To obtain this credited service, the person shall claim the service and verify the period of half-time employment. When eligibility for half-time service credit has been established, an indebtedness shall be determined to the retirement system in which the person did not participate. The amount of the indebtedness is the full actuarial cost of providing benefits for the credited service claimed. Interest as prescribed by regulation accrues on that indebtedness beginning on the later of July 1, 1989, or the date on which the member is first eligible to claim the service. Any outstanding indebtedness existing at the time the person retires will require an actuarial adjustment to the benefits payable based on that service.

(e) A teacher who is assaulted while on the job, who files for benefits under AS 23.30, and who, as a result of a physical injury from the assault, is placed on leave without pay,

whether or not the teacher is receiving benefits under AS 23.30 for the injury, is entitled to accrue credited service while the teacher, because of the injury, is on leave-without-pay status or is receiving workers' compensation benefits under AS 23.30. Entitlement to earn credited service under this subsection ends when the teacher is eligible to receive benefits under AS 14.25.110(a) or 14.25.130(a).

SB 141 Walkthrough

Defined Contribution (DC) Plan Elements

◆ Required Contributions

- Employee: 8.0% of compensation, deducted pre-tax by employer. Sec. 14.25.340 (pg 13), Sec. 39.35.730 (pg 64).
- Employer: 3.5% of employee compensation. Sec. 14.25.350 (pg 14), Sec. 39.35.740 (pg 70)
- Total individual account contributions: 11.5%.

◆ Optional Contributions

- A member may elect to contribute additional earnings not to exceed the limits established by the Internal Revenue Code. Sec. 14.25.340(b) (pg 13), Sec. 39.35.730 (c) (pg 69)

◆ Vesting Sec. 14.25.390 (pg 16), Sec. 39.35.790 (pg 72)

- All members of the DC plan are immediately vested in their own contributions and related earnings.
- Members are gradually vested in the employer contributions and related earnings on the following schedule:
 - ⇒ 25% after two years;
 - ⇒ 50% after three years;
 - ⇒ 75% after four years;
 - ⇒ 100% after five years.

◆ Rollovers Sec. 14.25.360 (pg 14), Sec. 39.35.760 (pg 70)

- Employees can take their individual account with them when they leave employment.
- Employees can "roll" in other qualified funds when they are hired.

◆ Investment of Accounts Sec. 14.25.400 (pg 16), Sec. 39.35.800 (pg 72)

- The Alaska Retirement Management Board will provide a range of investment options.
- Participants direct the investment of their funds.

◆ Distribution of Accounts

- Employee may elect a distribution of funds upon termination of employment, after 60 days. Sec. 14.25.410 (pg 17) – Sec. 14.25.430 (pg 19), Sec. 39.35.810 (pg 73) – Sec. 39.35.840 (pg 76)
- Subject to IRC regulations.
- May receive funds prior to 60 days for financial hardship. Sec. 14.25.410(b) (pg 17), Sec. 39.35.810(b) (pg 73)

Medical Program Elements

- ◆ **Required Contribution by Employer** Sec. 14.25.480 (pg 24), Sec. 39.35.870 (pg 80)
 - 3.75% of employee compensation.
 - Contribution is made to group health and life insurance trust fund to be used for employer share of retiree's monthly medical premiums.
- ◆ **Retirement** Sec. 14.25.470 (pg 24), Sec. 39.35.870 (pg 80)
 - Retirement from the DC plan is required to obtain *access* to major medical insurance and the health reimbursement arrangement (HRA).
 - *Access* means that an eligible person may not be denied insurance coverage except for failure to pay the required premium.
 - A member is eligible to retire if they have reached:
 - ⇒ normal retirement age of 65 and has minimum of 10 years of service; or
 - ⇒ has 25 years of service for peace officer/firefighter; or
 - ⇒ has 30 years of service for all others; and
 - ⇒ has been an active member for at least a year prior to retirement.
- ◆ **Major Medical Insurance** Sec. 14.25.480 (pg 24), Sec. 39.35.880 (pg 80)
 - A member who meets the retirement provisions is eligible to enroll in the retiree major medical insurance plan.
 - ⇒ Insurance coverage includes the spouse and dependent children of the retiree.
 - The surviving spouse of a retiree who was enrolled in the retiree major medical insurance plan is also eligible to enroll.
 - ⇒ Insurance coverage includes the dependent children of the surviving spouse.
 - Retirees who meet the required years of service, but who are less than Medicare age eligible (presently age 65), must pay the full premium to receive coverage.
 - Retirees who are Medicare age eligible will pay only a portion of monthly medical premiums depending on years of service:
 - + 10-14 years = 30%
 - + 15-19 years = 25 %
 - + 20-24 years = 20%
 - + 25-29 years = 15%
 - + 30+ years = 10%
 - Only one premium per retiree and family.
 - Different premiums developed for single retirees and retirees with spouse and/or children.
- ◆ **Health Reimbursement Arrangement (HRA)** Sec. 39.30.300 (pg 47)
 - **Required Contributions**
 - ⇒ Employer contributes an annual amount per employee to the health insurance trust fund.
 - ⇒ Calculation is 1% of average annual employer group compensation, to a maximum of \$500.

SB 141 Walkthrough

- ⇒ Contribution is recorded in both an individual employee record of account and an employer record.
- ⇒ Interest is posted to individual records annually, the rate determined by the ARMB.
- ⇒ Contributions and interest accumulate over working lifetime of employees.
- **Employer Fund** Sec. 39.30.350 (pg 48)
 - ⇒ The HRA Trust is an employer owned fund.
 - ⇒ Individual accounts of record are maintained for five years if an employee terminates without retiring.
 - ⇒ Terminated employee accounts revert to the employer unless the individual returns to work within the five-year period.
 - ⇒ A person who returns to work within the five-year period is attributed the account balance recorded in their name on the date of termination.
 - ⇒ Employers may use surplus funds held in the trust to credit individual employee records with the annual contributions owed by the employer.
- **Reimbursements**
 - ⇒ Who is eligible? Sec. 39.30.390 (pg 48)
 - + Members who retire directly from the system plus their spouse and dependent children.
 - + Spouse and dependent children are still eligible if retiree dies.
 - + Dependent children are still eligible if both retiree and spouse die.
 - ⇒ Reimbursements made for qualified medical expenses under IRC 213(d), including medical premium payments. Sec. 39.30.400 (pg 49)
 - ⇒ Total reimbursements are limited to an individual's recorded account.
 - ⇒ No set limits other than exhaustion of account balance.

Changes to Existing Retirement System

- ◆ **Consolidation of Boards**
 - Eliminates:
 - ⇒ Public Employees' Retirement System Board
 - ⇒ Teachers' Retirement System Board.
 - ⇒ Alaska State Pension Investment Board.
 - Creates new Alaska Retirement Management Board (ARM Board) Sec. 37.10.210 (pg 36)
 - ⇒ 9 trustees appointed by the Governor
 - + Commissioner of Administration
 - + Commissioner of Revenue
 - + 3 Alaska residents who do not participate in the retirement systems
 - + 1 finance officer of a political subdivision
 - + 1 finance officer of a school district
 - + 1 PERS member (active or retired)

SB 141 Walkthrough

- + 1 TRS member (active or retired)
 - ⇒ All trustees must have recognized competence in one or more fields of investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis.
 - ⇒ Terms
 - + Staggered three years
 - + Limited to three consecutive terms with a required one-year break.
- ◆ **Authority and Responsibility of ARM Board** Sec. 37.10.220 (pg 38), Sec. 39.30.155 (pg 46)
 - Manage the assets of the defined benefits trust fund to meet pension liabilities.
 - Annual actuarial valuation of system plans, coordinating with the retirement system administrator.
 - Analysis of actuarial assumptions experience:
 - ⇒ Health costs assumptions annually.
 - ⇒ All other assumptions not less than every four years.
 - Audit of actuary not less than every four years.
 - Rate setting:
 - ⇒ Employer contribution rates, including "normal cost" and "past service cost".
 - ⇒ Employee contribution rates to the extent that the normal cost rate increases so that 50 percent would be higher than the current rates set in statute.
 - ⇒ Interest rates credited to individual employee accounts.
 - ⇒ Interest rates credited to employee HRA account records.
 - Provide a range of investment options for all employee-directed accounts.
- ◆ **Other Duties of the former PERS and TRS Boards Transferred** Sec. 39.35.005 (pg 53)
 - To the Commissioner of Administration:
 - ⇒ Adoption of regulations governing the retirement systems.
 - ⇒ Requests for a waiver of any adjustment made to the retirement system accounts due to a change or error in contributions or benefit computations.
 - To the Office of Administrative Hearings: Sec. 109 (pg 90)
 - ⇒ Adjudication of appeals related to decisions of the retirement system administrator.
 - ⇒ Adjudication of appeals related to the denial of a waiver for repayment of overpayments.
- ◆ **Employee and Employer Contributions to the Defined Benefits Plans**
 - The employee contribution rate is changed to the greater of: Sec. 39.35.162 (pg 58)
 - ⇒ the amount set in statute prior to enactment of this bill; or
 - ⇒ one-half of the normal cost rate as determined by the ARM Board.
 - The employer contribution rate is changed so that it may not be less than the difference between the employee contribution and the normal cost rate that is set by the ARM Board. Sec. 39.35.270 (pg 61)

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◆ Repeals

- Reinstatement of Indebtedness (refund) (AS 14.25.062 and AS 39.35.350) Sec. 111 (pg 90)
 - ⇒ Repealed effective June 30, 2010.
 - ⇒ The intent of the repeal is to relieve the "off books" liability of hundreds of millions of dollars represented by more than 77,000 people who have refunded out of the State's retirement system but who could return to work and be restored to the tier status they held prior to termination by repaying the amount refunded plus interest.
 - ⇒ In medical premiums alone, this amount stands at greater than \$107 million for one year in today's dollars.
- Cost of Living Adjustment (AS 14.25.142 and AS 39.35.480) Sec. 39.35.475 (pg 66)
 - ⇒ This 10% adjustment is currently given to retirees at least 65 years old, or persons receiving a disability benefit, who reside in Alaska. (The repeal of AS 14.25.142 was inadvertently omitted from the bill.)

◆ Fiscal Note

- Appropriates \$69.5 million directly to the retirement trust fund on behalf of all PERS participating employers. This amount represents the 5% increase in PERS employer costs from FY2005 to FY2006.
- PERS and TRS for school districts is rolled into the BSA at \$4,919.

◆ Intended Changes to SB 141

- Establish a statutory requirement for an actuarial analysis prior to passage of any legislation affecting retirement benefits.
- Define in statute the meaning of "the financial condition of the retirement fund" for the ad-hoc post retirement pension adjustment (applicable only to persons who were receiving a retirement or disability benefit prior to the 1986 amendments). (See editor's notes under AS 39.35.475)
- Provide an option for unvested Tier III members of PERS and unvested Tier II members of TRS to convert to the defined contribution retirement plan if their employer allows it. The conversion would be matched dollar for dollar by the employer. However, the employer match would have to be new money to avoid eroding the funding status of the defined benefits plans.
- Change the credited service requirement to 120 days for legislative employees under AS 39.35.385(f) from 60 days for persons first hired before May 30, 1987 and from 80 days for persons first hired after May 30, 1987.
- Find a workable implementation date or a workable solution to the July 1, 2005 effective date. The timeline may be too short for a full system conversion.

Senate Finance Committee
 SB 141 Discussion Topics
 Week of March 29th – April 3rd, 2005

Discussion Topic	Date (subject to change as needed*)
Normal Cost Rate & Existing Employee Contributions	Tuesday 3/30, 4:30 p.m.
Board Restructuring & Office of Administrative Hearings	Wednesday 3/30, 9:00 a.m.
Appropriate Contribution Rate for DC Plan	Wednesday 3/31, p.m. call of chair or Thursday 3/31, 9:00 a.m.
University Optional Retirement Program	Thursday 3/31, 9:00 a.m.
Retiree Medical Plan	Thursday 3/31, p.m. call of chair
Health Reimbursement Arrangement	Friday 4/1, 9:00 a.m.
AK Resident COLA Repeal	Friday 4/1, 9:00 a.m.
Ad Hoc PRPA	Friday 4/1, p.m. call of chair
Refunded Accounts	Friday 4/1, p.m. call of chair
Conversion Option for Existing Employees	Saturday 4/2, 10:00 a.m.
Implementation Timeline	Saturday 4/2, 10:00 a.m.
Review Committee Substitute	Sunday 4/3, 10:00 a.m.

*Discussion topics will move up or down the schedule depending on the amount of time needed for each topic.



**Retirement Security
Act**

SB 141

Discussion Topic
*Contribution Rate of Existing
Employees*

March 29th, 2005



Alaska State Legislature
Senate Finance Committee

Updated as of: March 29, 2005



Discussion

Contribution Rate for Existing Employees



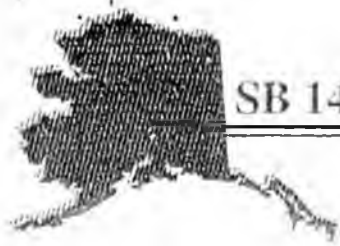


Contribution Rate Setting Process

- 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%
Pension component	11.27%	13.69%
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

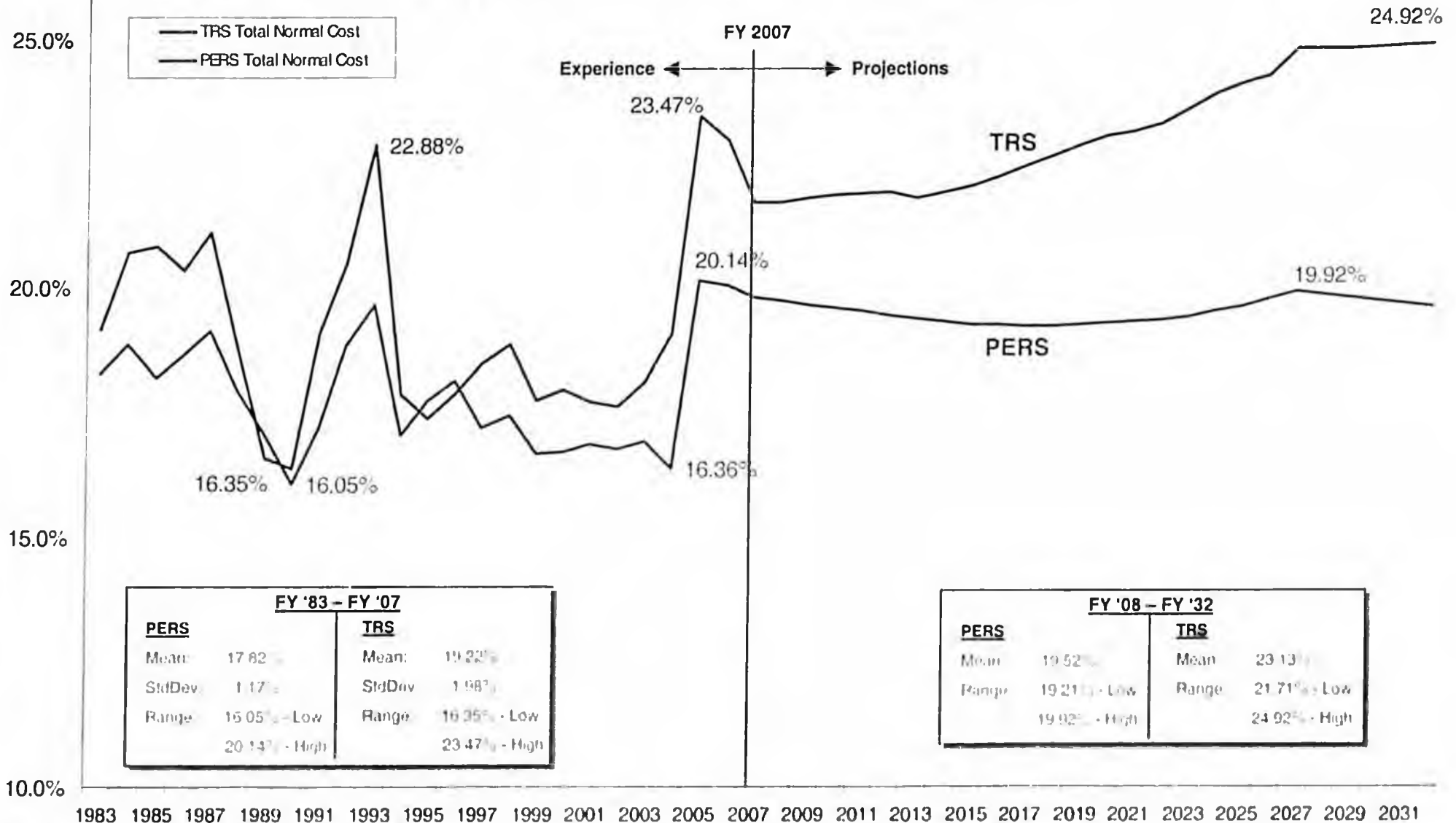
1. Sets the employee's contribution to the greater of:
 - Current statutory rate or
 - $\frac{1}{2}$ of the Normal Cost Rate
 - With the additional provision that the increase may not exceed 0.50% annually (*Current SB 141 language sets the maximum annual increase at 5.0%, but we are now proposing that be reduced to 0.50%*)

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



FY '83 – FY '07				
	PERS		TRS	
Mean:	17.82%		19.22%	
StdDev:	1.17%		1.98%	
Range:	15.05% - Low		16.35% - Low	
	20.14% - High		23.47% - High	

FY '08 – FY '32				
	PERS		TRS	
Mean:	19.52%		23.13%	
Range:	19.21% - Low		21.71% - Low	
	19.92% - High		24.92% - High	





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 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%	5.81%	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



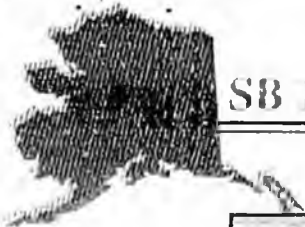


Effect of Employee Contribution Rate Increases on Average PERS Employee

PERS 2004	Annual Earnings	Monthly Earnings	2-Week Pay	Nonnal Cost	50% Normal Cost	Current Rate @	SB 141 Proposed Pre-Tax Payroll Deductions (every 2 weeks)							
							FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	Cumulative Increase
							20.13%	10.07%	6.75%	7.25%	7.75%	8.25%	8.75%	9.25%
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

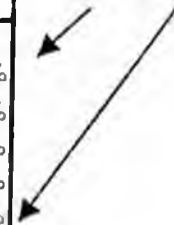




TRS Employee Normal Rate Projections

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





Effect of Employee Contribution Rate Increases on Average TRS Employee

TRS 2004	Annual Earnings	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%	
Monthly Earnings	2-Week Pay										
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	\$ 222.03	\$ 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



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

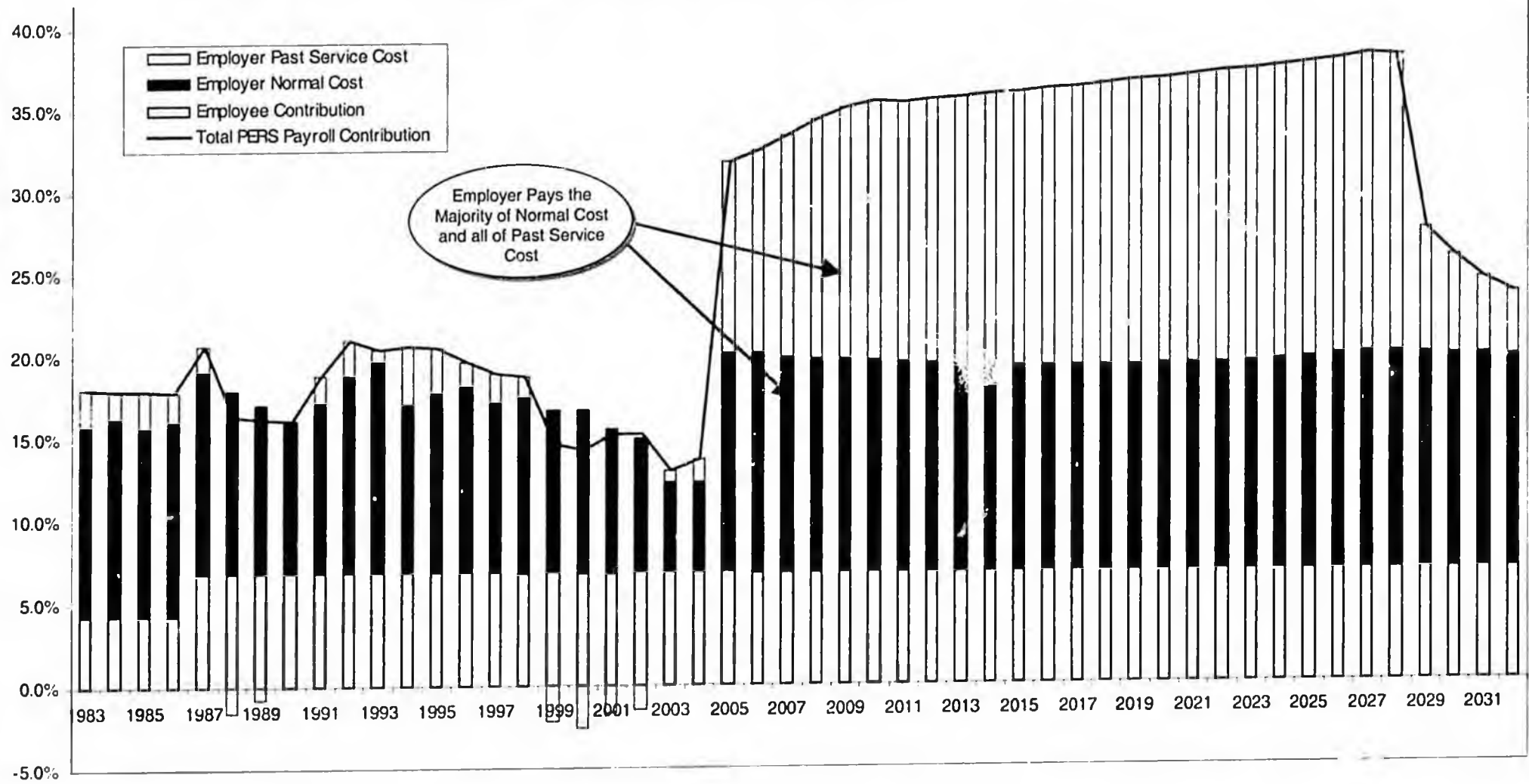
Mercer Data Year	Board Adopt Year	Rate for FY	PERS					TRS						
			PERS Funding Ratio	Employer Normal Rate	Past Service Rate	Actuarial Computed Rate	Board Adopted Rate	Diff Computed Rate	TRS Funding Ratio	Employer Normal Rate	Past Service Rate	Actuarial Computed Rate	Board Adopted Rate	Diff Computed 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%	0.63%	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



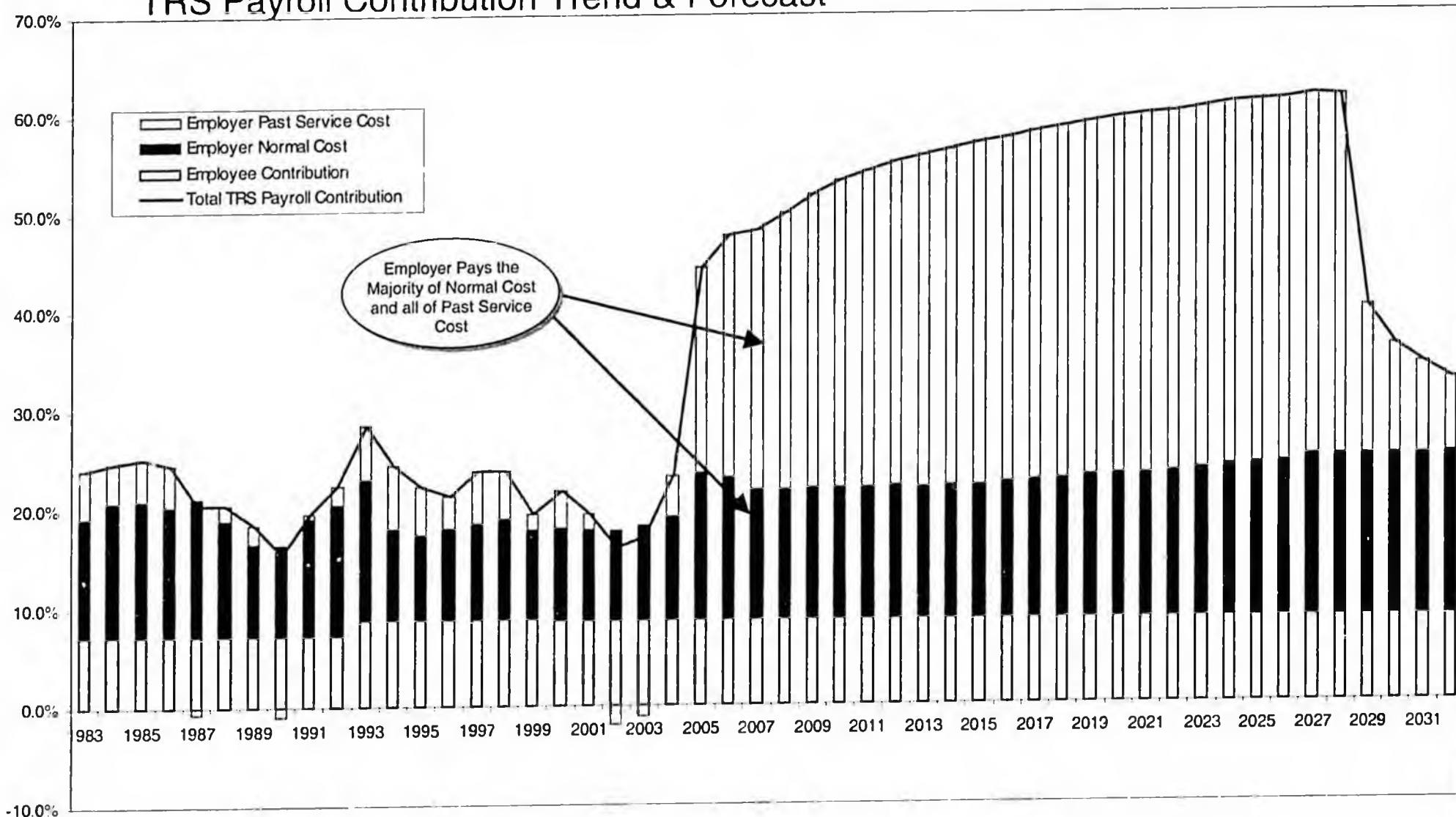


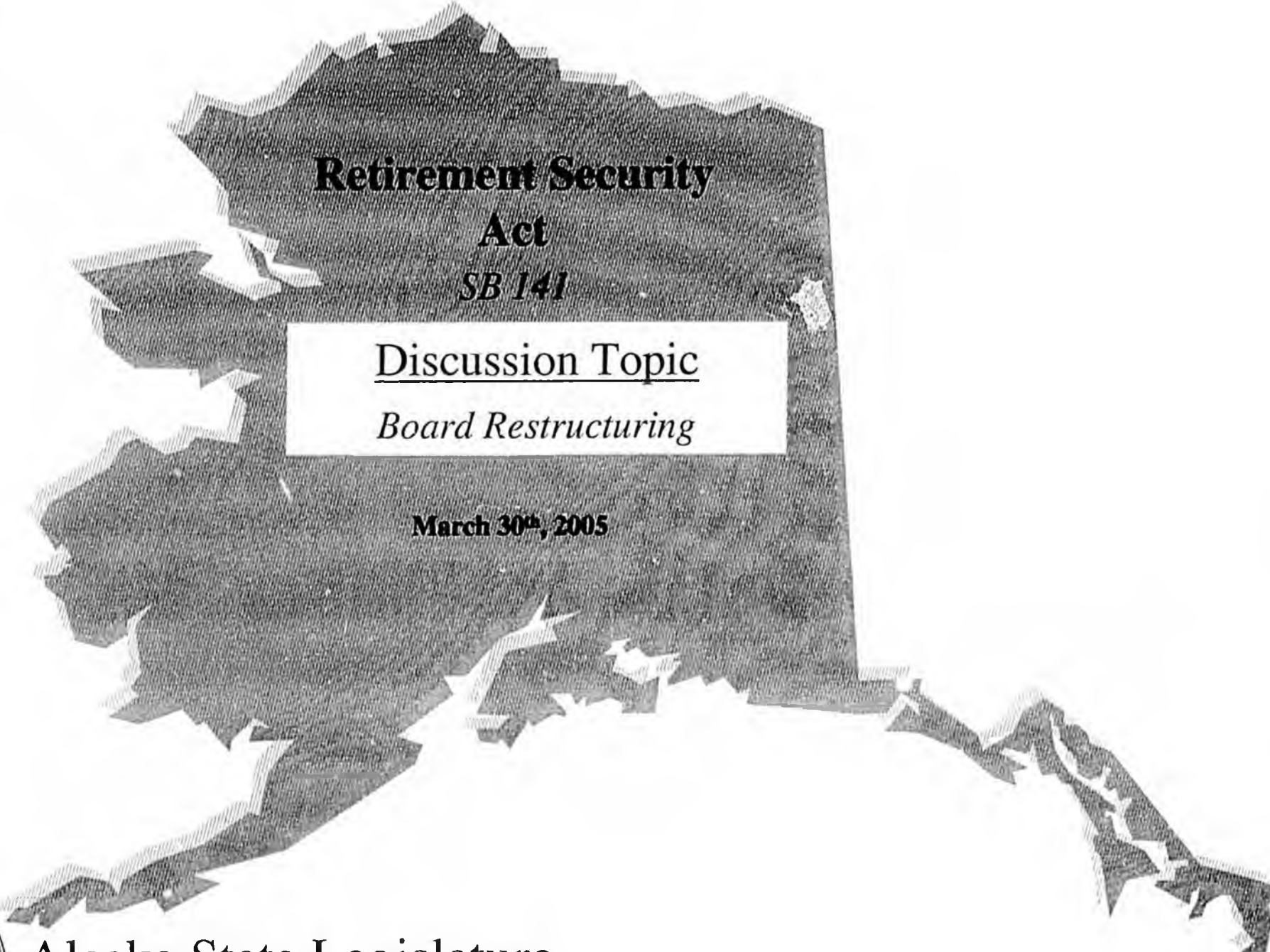
PERS Payroll Contribution Trend & Forecast





TRS Payroll Contribution Trend & Forecast





**Retirement Security
Act
SB 141**

Discussion Topic
Board Restructuring

March 30th, 2005



Alaska State Legislature
Senate Finance Committee

Updated as of: March 30, 2005



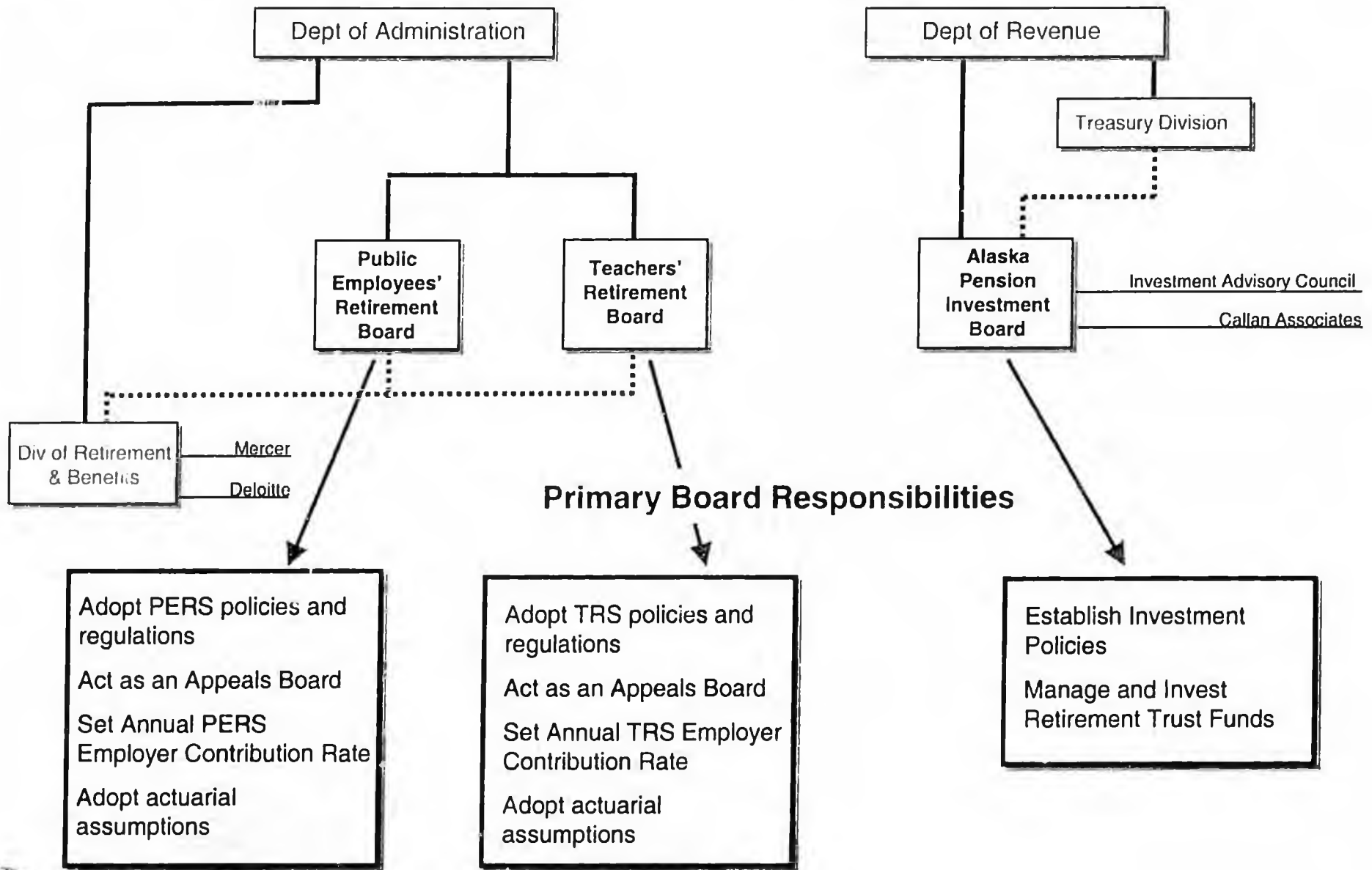
Discussion

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 –include non-beneficiaries
- Independent





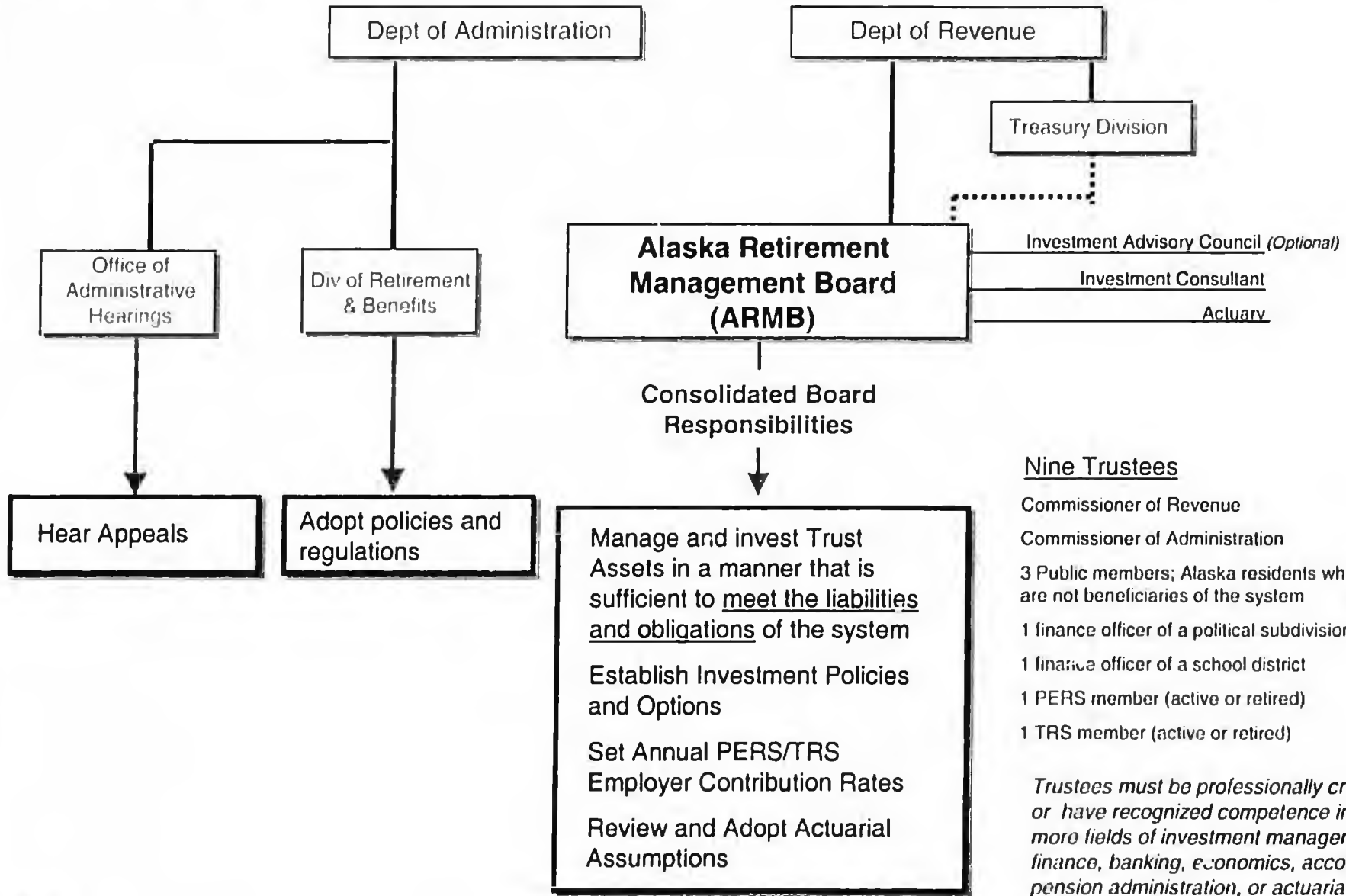
SB 141 Board Restructuring is Designed to:

- 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 and non-beneficiary 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





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





Retirement Security Act

SB 141

Discussion Topic

Medical Benefits Program for DC Plan Members

March 31st, 2005



Alaska State Legislature
Senate Finance Committee



Discussion

Medical Benefits Program for DC Plan Employees





Eligibility for medical benefits (*“Retirement”*)

- A member is eligible for medical benefits **when**
 - The member has been an active member for at least a year; *and*
 - Meets the requisite age and/or service requirements of
 - Age 65 with 10 years of service; or
 - 25 years of service for peace officers/firefighters; 30 years of service for all others
- The surviving spouse of an eligible member is also eligible for medical benefits





Proposed change to eligibility

- Remove the requirement for a member to “retire directly from the system”
 - Concept originated in tier redesign initiative
 - Purpose: recruitment management tool for hiring managers who might not be aware of a person’s history in the retirement system
 - Suggest this is a management decision and should not be legislated





Proposed changes to election of benefits

- Add a deferral of election of medical benefits to a date specified
- Member must make irrevocable decision of coverage by age 70 ½ or termination of employment, whichever is later
- Clarify that participation in the retiree major medical insurance plan is not required to participate in health reimbursement arrangement





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
- Coverage of an eligible member includes the member, member’s spouse, and member’s dependent children
- Coverage of a surviving spouse includes the surviving spouse and dependent children of surviving spouse





Proposed change to coverage

- Change language to cover only “the dependent children of the eligible member who are dependent on the surviving spouse”
- Prevents coverage of second family dependents that had no relation to the member
- Keeps plan qualified under federal regulations

26 U.S.C. 152 defines a dependent child as: *a son, daughter, stepson, stepdaughter, eligible foster child, or adopted child who lives with the member, is less than age 19 (less than age 24 if a student), and has not provided more than one-half of their own support during the year*





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





Major medical premiums cost example

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

Member's Years of Service	<i>Annual Employee Contribution</i>		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%





Employer contribution for major medical coverage

- Employer pays 3.75% of employee compensation into a health trust fund

- ▶ Current bill language calls for deposit into active group life and health insurance trust fund
- ▶ A legal opinion is presently being sought on accounting methods vs. true separation of assets
- ▶ Anticipated that language will have to be changed in some way

- Employer contribution was projected based on the tier redesign initiative which contains separate rates for TRS (3.75%) and PERS (3.5%)





Rationale for cost sharing only after Medicare

- 25 states have a normal retirement age of 65, including
 - › Arizona, Idaho, Nevada, and Washington
- 75% percent of the retiree medical costs for the AlaskaCare Plan are from normal retirement age until members are Medicare eligible
- Eliminating the cost sharing between ages 60 and 65 reduces the medical normal cost rates to 1.5% (TRS) and 1.4% (PERS)





Medical costs

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

Proposed Change

Employer Group	Total FY 06 Estimated Base Payroll	Medical Normal Cost Rates		
		Current DB Plans	Tier Redesign Initiative	SB 141 (implied)
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	\$30,827,480
Total Payroll	\$2,161,004,970	Savings	\$112,742,832	\$158,984,051



MEMORANDUM

STATE OF ALASKA
DEPARTMENT OF ADMINISTRATION
Division of Retirement and Benefits

To: Ray Matiashowski
Commissioner

Date: March 30, 2005

From: Melanie Millhorn
Director

Subject: Medical Cost Containment
Initiatives Active / Retiree
Plans

This memo responds to your request for information regarding the medical cost containment initiatives undertaken by the Division or in concert with the Health Benefits Evaluation Committee for members of Select Benefits and the Health Subcommittee for members of the retiree plan.

Select Benefits - Active Plan

- July 2003 - Prescription drug cost containment increasing the minimum amount employees would pay to refill a prescription at 20% of the cost for a generic drug or brand name drug up to \$50 maximum. Mail order drugs were increased from \$0 to \$8 for generic and from \$2 to \$20 for brand name. This was the first change that increased prescription drugs cost to active employees since 1989. Aetna estimated the savings at \$8-9 per employee per month.
- July 2003 - Cost shifting prevention with ASEA GGU health trust members by changing the coordination of benefits when a Select Benefits employee's dependents are covered under another State employee's union trust plan and the trust plan should be the primary plan by virtue of the "birthday rule." Estimated one-time savings of \$750,000 in transferred claims.
- March 2004 - Gastric bypass surgery. Changed the criteria for gastric bypass surgery in order to require members to meet stricter standards. Aetna estimated the savings based on 35 patients per year to be approximately \$350,000 annually.
- July 2004 - Preferred provider hospitals in Anchorage. Members must use Providence Hospital (Anchorage) and Aetna preferred hospitals outside of Alaska. Aetna has estimated the savings to be approximately \$1.5 million annually.
- July 2005 - Eliminate the coordination of benefits savings bank. Aetna has been unable to determine the cost savings to the plan at this point.
- July 2005 - Positive open enrollment for all members. This will require all members to positively enroll and provide documentation proving that the dependents they enroll are in fact eligible dependents. Aetna has estimated that plans that undertake this initiative find that on average 15% of the plan covered members are unable to provide the necessary documentation. The state has never had a positive open enrollment for its Select Benefits Plan. Positive open enrollment will be scheduled at regular intervals in the future. It is estimated this initiative will result in annual cost savings of \$4 million.

3/31/05 pm

Retiree Health Plan

- June of 2003 - the Alaska Supreme Court determined that the retiree medical benefits are accrued benefits and protected under Art. XII, Sec. 7 of the Alaska Constitution and therefore can not be diminished. The ruling indicated that any benefit decreases must be offset by benefit increases. This case has been remanded back to the Superior Court to determine if the changes made in 1999 and 2000 were balanced as required by the court's decision. As a result of the lawsuit the Division confers with the Department of Law before making any plan changes.
- January 2005 - Gastric bypass surgery. Changed the criteria for gastric bypass surgery in order to require members to meet stricter standards. Aetna estimated the savings based on 35 patients per year to be approximately \$350,000 annually.
- January 2005 - Required retiree members in accordance with statute provisions that had enrolled dependents provide documentation that the dependents over 19 and under 23 were registered at and attending on a full-time basis an accredited educational or technical institution recognized by the Department of Education and Early Development. Approximately 1,000 dependents were removed from the eligibility list when the members failed to provide supporting documentation.
- July 2005 - Eliminate the coordination of benefits savings bank. Aetna has been unable to determine the cost savings to the plan at this point.
- January 2006 - Positive open enrollment for all members. This will require all members to positively enroll and provide documentation proving that the dependents they enroll are in fact eligible dependents. Aetna has estimated that plans that undertake this initiative find that on average 15% of the plan covered members are unable to provide the necessary documentation. The state has never had a positive open enrollment for its Retiree Health Plan. Positive open enrollment will be scheduled at regular intervals in the future. It is estimated that this initiative will result in annual cost savings of \$16 million.

In addition, outlined below are several initiatives that the Division will work on with Aetna as a result of the Health Sub-committee meeting last week. Implementation schedule is estimated to be January 2006.

- Preferred provider hospitals in Anchorage and outside Alaska
- Generic drug / closed formulary
- Facility negotiated rate
- Review investment (longer term) of some of the funds in the retiree health trust fund

cc: Kevin Brooks, Deputy Commissioner
Freda Rogers, Benefits Manager

2004 Calendar Year
Paid Claims on AlaskaCare Benefits Plan

Claims Paid:

Medical -	\$152,069,233.00
Pharmacy -	<u>\$ 69,399,868.00</u>
Total:	\$226,469,101.00

Member Records:

Members-	27,422 (52%)
Dependents-	<u>25,578 (48%)</u>
Total	53,000 (100%)

Total claims \$226,469,101.00 divided by Total Member Population 53,000 = 4273.00 per person average claim paid for the 2004 calendar year.

Total records (member & dependent): 53,000 X 15% = 7950.00

Total dependent records: 25,578 X 15% = 3836.70

Possible ineligible paid claims: Industry standard currently estimates that health insurance plans that do not utilize positive open enrollment could be covering up to 15% of total (member and dependent) population as ineligible participants. The more conservative outlook says to estimate 15% based on the total dependent population.

Using 15% total records (member & dependent):

*15% total (mbr & dpn) records:	7950.00
*Average paid claim per person:	<u>X 4273.00</u>
	33,970,350.00

Using 15% total dependent records:

*15% dependent records:	3836.70
*Average paid claim per person:	<u>X 4273.00</u>
	16,394,219.10

*This is an estimate based on the current Industry Standard that maintains that health insurance plans that have not required positive enrollment in the past are paying up to 15% of total (member and dependent) population as ineligible participants. The more conservative approach is to estimate based on 15% of total dependent population.

*This estimate is based on the member population and claims paid records for the 2004 calendar year.

2004 Calendar Year
Paid Claims on Select Benefits Plan

Claims Paid:

Medical -	\$37,121,049.00
Pharmacy -	<u>\$ 6,170,935.00</u>
Total:	\$43,291,985.00

Member Records:

Members-	5,383 (38%)
Dependents-	<u>8,885 (62%)</u>
Total	14,268 (100%)

Total claims \$43,291,985.00 divided by Total Member Population 14,268 = 3034.20 per person average claim paid for the 2004 calendar year.

Total records (member & dependent): 14,268 X 15% = 2140.20

Total dependent records: 8,885 X 15% = 1332.75

Possible ineligible paid claims: Industry standard currently estimates that health insurance plans that do not utilize positive open enrollment could be covering up to 15% of total (member and dependent) population as ineligible participants. The more conservative outlook says to estimate 15% based on the total dependent population.

Using 15% total records (member & dependent):

*15% total (mbr & dpn) records:	2140.20
*Average paid claim per person:	<u>X 3034.20</u>
	6,493,794.84

Using 15% total dependent records:

*15% dependent records:	1332.75
*Average paid claim per person:	<u>X 3034.20</u>
	4,043,830.05

*This is an estimate based on the current Industry Standard that maintains that health insurance plans that have not required positive enrollment in the past are paying up to 15% of total (member and dependent) population as ineligible participants. The more conservative approach is to estimate based on 15% of total dependent population.

*This estimate is based on the member population and claims paid records for the 2004 calendar year.

UNIVERSITY OF ALASKA
Statewide Office of Human Resources

Update on Retirement Issues

March 28, 2005

Public employer retirement costs are skyrocketing due to low earnings of retirement fund investments, historically low contribution rates, and rising retiree health costs. While several of the initiatives being considered in the legislature have merit, they may impact the University's ability to recruit and retain top quality faculty and staff.

Should the University takes steps to ameliorate the impact of fast rising retirement plan costs and, if so, how should we proceed?

Background

The University's Retirement Plans

The University provides several retirement plans and options to its benefits eligible employees. A more detailed description of the plans is attached as *Appendix 1*.

- University staff participate in the Public Employee Retirement System (PERS) administered by the State of Alaska. This is a defined benefit plan with vesting and medical benefits dependent on when the employee began participation. In FY05, the employer contribution (% of salary) is 10.58% and the employee contribution rate is 6.75%, for a total of 17.33%. In FY06, the employer rate rises to 15.58% for a total of 22.33%. In FY07, the employer rate is slated to rise to 20.58% for a total of 27.33%.
- University faculty may choose between the Teacher Retirement System (TRS) administered by the State or the Optional Retirement Program (ORP) administered by the University.
 - TRS is a defined benefit plan with vesting and medical benefits dependent on when the employee began participation. In FY05, the employer contribution (% of salary) is 16% and the employee contribution rate is 8.65%, for a total of 24.65%. In FY06, the employer rate rises to 21% for a total of 29.65%. In FY07, the employer rate is slated to rise to 26% for a total of 34.65%.
 - ORP is a defined contribution plan with immediate vesting and no medical benefits. The employer rates are a three year rolling average of TRS rates. In FY05, the employer contribution is 13.00% and the employee contribution is 8.65%, for a total 21.65%. In FY06, the employer rate rises to 16.33% for a total of 24.98%. In FY07, the employer rate rises to 21%, for a total of 29.65%.

- University executive staff have the option to participate in PERS or ORP.
- All benefit eligible University employees also participate in the University Pension plan, a defined contribution plan in which the University provides 7.65% of salary up to \$42,000.

Retirement Plan Costs

The PERS and TRS retirement systems are seriously under funded. As of 2003, PERS was funded at 73% and TRS at 64%, for a total gap across the state of \$5.6 billion. The University's share of this under funding is \$281 million, \$176 million for PERS and \$105 million for TRS, or approximately \$70,000 per employee. Consequently, plan administrators have mandated employer contribution increases for the foreseeable future. The increases, if carried out as currently planned, increase university retirement costs as follows:

	<u>PERS/TRS/ORP Cost</u>	<u>Health Cost</u>
FY05	\$26,992,800	\$32,504,451
FY06	\$38,657,500	\$39,963,935
FY07	\$51,849,100	\$47,911,640
FY08	\$67,052,800	\$55,098,225
Change from FY05-FY08	\$40,060,000	\$22,593,774

The cumulative increase in retirement cost to the University from FY05 through FY08 is approximately \$77,000,000.

PERS/TRS Board Efforts to Contain Costs

On previous occasions, plan administrators added new tiers to the PERS and TRS plans. In general the new tiers in PERS and TRS include increases in the normal retirement age and the time needed to vest for retiree medical benefits.

The PERS and TRS Boards are now considering two options for a new tier. The first option is a combination defined contribution/defined benefit plan with an employee funded health plan. The second option is a pure defined contribution plan with an employee funded health plan.

The Boards did not accept either approach last fall, but under increased pressure of the employers represented by the Alaska Municipal League and the legislature, they may make progress in the near future.

The PERS and TRS Boards have been reticent to make plan changes out of concern for long term, possibly unforeseen, impacts on the plans and employer competitiveness. It may also be related to the fact that the Boards are comprised of plan beneficiaries.

Legislative Efforts to Contain Costs

Representative Mike Kelly has submitted three bills in an attempt address rapidly rising public employee retirement costs. The respective finance committees also have weighed in.

- House Bill 191 creates new tiers for the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). These new tiers involve a substantial shift in the structure of the retirement systems, from a Defined Benefit (DB) model to that of a Defined Contribution (DC).
- House Bill 170 modifies the composition of the PERS and TRS Boards to include individuals who are not beneficiaries of a plan.
- House Bill 177 would adjust the existing employee contribution rates in the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) from a fixed rate as currently established in statute to a floating rate similar to manner in which the employer contribution rate is calculated. Although initial adjustments to the employee contribution rates would result in increases in contribution rates, HB 177 also a mechanism for corresponding decreases in contribution rates for both employers and employees.
- In addition, the Senate Finance Committee has produced an omnibus retirement bill, Senate Bill 141, which requires all new employees to be enrolled in a new defined contribution plan funded by an employee contribution of 8% of salary and an employer contribution of 11.5%. The plan would include a retiree health benefit at age 65 and would permit increases to employee costs. The Senate leadership has indicated that their support for the K-12 budget increment is contingent on passage of retirement plan reform.
- Finally, in the coming days it is expected that the House Finance Committee will submit another omnibus bill. This bill is expected to create a new defined contribution tier, with employee contributions of 10% in PERS and 11% in TRS, which match the employer rates. Additional plan features include a medical benefit upon retirement at 60 years of age and a health reimbursement account.

While there is support from a variety of legislators for some or all of these efforts, there is strong opposition from others. The unions representing public employees strongly oppose these bills.

Interests

The University has several compelling interests.

- We must maintain retirement programs sufficient to recruit and retain top quality faculty and staff.
- Our retirement programs should provide a responsible level of retirement benefit.
- We must mitigate the effects of rising costs either through modified benefits for future employees and/or increased legislative funding.
- We stay "out in front" of efforts to contain benefits costs.
- Any changes to our retirement plans should involve discussion with affected faculty.
- We support increasing the role of the defined contribution concept.

Standards

Alaska Constitution

The courts have established that the constitution prohibits the diminishment of a retirement benefit. Over the years this prohibition has been interpreted very broadly. There is a fairly persuasive recent legislative counsel opinion, however, that suggests that an increase in employee contribution would not constitute a diminishment of a retirement benefit.

There is a question whether ORP enjoys the same constitutional protection as PERS and TRS. We believe it does. On the basis of the recent legislative counsel opinion, the legislature could change the ORP law or the University could modify the plan, in terms of eligibility for the program as well as future contribution rates.

Collective Bargaining

All our benefit eligible faculty and some of our staff are covered by collective bargaining agreements. Changes may be made to the PERS and TRS plans without negotiation with the unions and, because we believe ORP to enjoy the same protection from a diminished benefit enjoyed by PERS and TRS, changes to ORP also are insulated from the bargaining requirement.

Recruitment and Retention

For most of our staff positions, our most significant competitors are other large public sector employers – the State, school districts, and municipal governments. Changes to the retirement plans affecting all public employees will not result, in and of themselves, in a differential effect on the University. Most of our faculty positions are recruited from a national market of other universities. More than half of the University's faculty have chosen ORP, the defined contribution plan, most likely because that was what they had before coming here and it is fully portable if they decide to leave.

Market Context

The most recent annual benefits survey conducted by the College and University Personnel Association (2004) reported that 91% of universities provide a defined benefit retirement as a primary plan and 36% provide a defined contribution as a primary plan. Many universities, like the University of Alaska, provide more than one primary retirement plan.

The median contribution rates for defined contribution plans across the country was 5.9% from employers and 8% from employees (13.9%), compared to the PERS employer rate of 10.58% and employee rate of 6.75% (17.33%) and the TRS employer rate of 16% and employee rate of 8.65% (24.65%).

Financial Impact

If trends continue, in FY08, the University's staff benefit rate for our faculty will rise to more than 50%. This rise in costs, unless paid for by the state or somehow reduced by plan changes, will require major program reduction.

Recommendation

With respect to the specific efforts by the legislature, we support efforts to contain costs, but we are concerned that changes may impair our ability to recruit and retain staff and faculty. Therefore, the university seeks changes in the ORP law to provide the university the flexibility to:

- include a health plan, if considered necessary;
- expand the potential pool of participants to include all faculty and staff;
- provide a second opportunity for a one-time option to select ORP;
- require all new employees to participate in ORP; and
- allow various types of plan distributions as allowed by federal law.

In addition, we seek to clarify in statute that:

- like PERS and TRS, ORP is not a subject of bargaining, and
- the university may create new tiers.

Next Steps

Seek full funding of existing PERS and TRS obligations in FY06.

Advocate amendment of ORP statute as outlined above.

Examine ORP for modification through a consultative process with staff governance and collective bargaining representatives. The following principles will guide this consultation:

- Faculty and staff must have opportunities to provide input.
- ORP must be competitive; it must be sufficient to recruit and retain top quality faculty and staff.
- ORP must provide a reasonable level of retirement benefit.
- ORP's rising costs must be mitigated.
- ORP should be the University's primary retirement plan.

Propose ORP plan changes to the Board of Regents for discussion this fall and action in December 2005.

University of Alaska
Summary of Primary Retirement Programs

	Teachers Retirement System (TRS)	Public Employees Retirement System (PERS)	UA Optional Retirement Program (ORP)	Possible UA Optional Retirement Program (ORP)
Plan Type	Defined Benefit	Defined Benefit	Defined Contribution	Defined Contribution
IRS Governing Code	401(a)	401(a)	Employer contribution 401(a) Employee contribution 403(b)	Employer contribution 401(a) Employee contribution 403(b)
SS Replace	Yes	Yes	Yes	Yes
Alaska Code	AS 14.24	AS 39.35	AS 14.40.661	AS 14.40.661
Eligibility	Faculty	Administrative and Executive Staff	Faculty and Executive Staff	Current participants, all new UA employees
Vesting	8 years of service	5 years of service	Immediate	Immediate
Health Coverage After Retirement	Yes Tier I — Medical at no cost Tier II — Medical at age 60 at no cost	Yes Tier I — Medical at no cost Tier II — Medical at age 60 at no cost Tier III — Must have 10 years of service and be 60 for no cost medical	No	No
Contribution Rate Setting Authority	State of Alaska Division of Retirement	State of Alaska Division of Retirement	University of Alaska	University of Alaska
Methodology For Setting Rates	Actuarial Model	Actuarial Model	3 year rolling average of the TRS contribution rate	Employee Rate equal to TRS rate Employer rate equal to 150% of employee rate up to 15%
Right to borrow	No	No	No	Yes, from Employee share
Rates For FY04	Employer 12% Employee 8.65% Total 20.65%	Employer 5.58% Employee 6.75% Total 12.33%	Employer 11.66% Employee 8.65% Total 20.31%	N/A
Projected Rates FY05	Employer 16.00% Employee 8.65% Total 24.65%	Employer 10.58% Employee 6.75% Total 17.33%	Employer 13.00% Employee 8.65% Total 21.65%	N/A
Subject Of Bargaining	No	No	No, but not stated in statute	No
Participation Rate	ACCFI - 174 (56%) UNAC - 328 (39%) Executive - 23 (24%) Total - 525 (95% faculty)		ACCFI - 139 (44%) UNAC - 511 (61%) Executive - 73 (76%) Total - 725 (90% faculty)	ACCFI - 139 (44%) UNAC - 511 (61%) Executive - 73 (76%) Total - 725 (90% faculty)

First Annual Report to
the Governor of Alaska and the Alaska Legislature
from the Office of Administrative Hearings

Prepared by
Terry L. Thurbon
Chief Administrative Law Judge (Acting)

Submitted
January 31, 2005

I. Introduction

In 2004, the Legislature passed and the Governor signed into law Senate Bill 203 (ch. 163, SLA 2004), which created the Office of Administrative Hearings (OAH), an independent office within the Department of Administration (DOA) charged with providing administrative adjudication services, regulatory review and training. *See* AS 44.64.010 – AS 44.64.020. The purpose was “to increase the separation between the adjudicatory functions of executive branch agencies and the agencies’ investigatory, prosecutory, and policy-making functions.” Sec. 1, ch. 163, SLA 2004.

OAH operates under the supervision of a chief administrative law judge (ALJ) for whom the law prescribes certain duties and goals. *See* AS 44.64.020. One of the chief ALJ’s duties is to

submit to the governor and the legislature on January 31 of each year the results of the survey [of hearing participants used to monitor the quality of hearings conducted by OAH and other state agencies] along with a report that includes a description of the activities of the office and recommendations for statutory changes that may be needed in relation to the administrative hearings held by the office or other state agencies[.]

AS 44.64.020(a)(7). This is the first such report.

Consistent with the transition provisions of Senate Bill 203 (sec. 94, ch. 163, SLA 2004), two employees of the Department of Commerce, Community and Economic Development (DCCED) and five employees of the Department of Revenue (DOR), together with the hearing functions they perform, were transferred to OAH effective January 1, 2005. Thus, as of the submittal of this first annual report, OAH has operated as an organizational unit for 30 days. This report, therefore, is predominantly forward looking. It provides a template for future reports, describes activities expected to be carried out by OAH in the coming year, and reports on the snapshot of data and information available for the first 30 days of OAH operation.

II. Activities of the Office of Administrative Hearings

For reporting purposes, the activities of the OAH are grouped into six categories drawn from the statutory duties of OAH and the chief ALJ:

- Adjudication services;
- Peer review for OAH ALJs;
- Publication of decisions;
- Regulations review and development;
- Surveying hearing participants;
- Training of administrative adjudicators.

See AS 44.64.020(a)(4)-(8) & AS 44.64.090.

During the first 30 days of its operation, OAH's activities have, by necessity, focused on continuing to perform the adjudication services for the matters transferred and new matters referred to OAH. Hearings are being held, decisions are being issued and new case assignments are being made almost daily. In addition, systems have been put in place for peer review and publication of decisions. Plans for surveys, development of regulations, and formal training are being made, and OAH representatives have already participated or are scheduled to participate in training activities.

A. Adjudication Services

The adjudication services provided by OAH range from preparing proposed decisions based on written submittal of the parties in simple administrative appeals to conducting trial-like evidentiary hearings in complex matters. The services, however, do not stop at conducting hearings and writing decisions. When the final decision maker is a board or commission, or even a principal agency head, the services can include functioning as a legal adviser to that decision maker. After procedural regulations have been adopted, OAH expects to facilitate use of alternative dispute resolution methods, when appropriate, in administrative adjudication matters handled by OAH.

In terms of subject matter, OAH's case docket is varied, with referrals from DOR presently accounting for about 70% of the caseload. With the transfer of the five DOR and two DCCED employees on January 1, 2005, 321 open cases were

transferred to OAH. A few of those cases are carried as "open" simply because appeals to the courts are pending and thus the cases could be remanded for further action by the agency decision maker. Most of the 321 cases, however, are "open" in the sense that a hearing remains to be held or a decision or other action is pending.

The 321 cases transferred to OAH break down into the following agency and subject matter categories:

DOR	Child Support Services	153
DCCED	Occupational Licensing	83
DOR	Permanent Fund Dividend Eligibility	69
DOA	Other	16

The "occupational licensing" category includes not only appeals from licensing decisions but also other types of cases resulting from matters within DCCED's purview, including tobacco enforcement cases and real estate surety claims. The "other" category includes cases referred to the Office of Tax Appeals and the DOA hearing officer covering subjects such as taxation, contract and procurement disputes, victims of crime compensation awards, benefits programs, and permitting issues.

During the first four weeks of operation, OAH received 100 new case referrals. These break down into the following subject matter categories:

Child Support Services	45
Occupational Licensing	6
Permanent Fund Dividend Eligibility	36
Other	13

At the time this report was sent for printing, OAH's active caseload totaled about 400 cases, and new referrals were coming in at the rate of 25 cases each week.

It is too early in OAH's operation to provide data on case closure rates, time devoted to the different case types, the number of cases that are resolved on motions (without hearings) or by settlement, or the number that are diverted for alternative dispute resolution and the success of those efforts. Future reports will include such data, as well as other statistical information, which will serve as performance indicators for OAH's adjudication services.

B. Peer Review

Peer review serves two purposes: it promotes consistency in decision making and it provides informal training opportunities (for both the reviewed and the reviewing ALJ). OAH's peer review system consists of selectively assigning an ALJ to review the proposed decision and/or to observe the hearing conducted by another ALJ on a case-specific basis. The reviewing ALJ provides written or oral feedback to the reviewed ALJ. The reviewing ALJ also is available for consultations on questions of law or procedure.

Presently, formal peer review assignments are being made with the goal in mind of ensuring that an ALJ venturing into a new subject area receives the benefit of informal training from a peer who has already worked on cases in the subject area. In addition, peer review of decisions occurs on an ongoing basis, especially in the high-volume case docket (child support and permanent disability appeals), when the chief ALJ or an ALJ delegee reviews decisions preliminary to adopting them as final under a delegation from the DOR Commissioner.

C. Publication

Effective July 1, 2005, OAH will be required to "make final agency decisions reached after administrative hearings available online through an electronic data base." AS 44.64.090(a). OAH's webpage has already been updated to provide this data base service. It contains a "Decisions" link for the purpose of posting decisions. Decisions previously posted on the Office of Tax Appeals' webpage have been transferred to the OAH webpage Decisions link.

Beginning in mid-February 2005, decisions issued by OAH on or after January 1, 2005, will be scanned and uploaded to the Decisions link. New decisions will be scanned and uploaded almost immediately after they are issued. As resources permit, OAH will scan and upload pre-2005 decisions, as well from existing DOA, DCCED and DOR hardcopy libraries that date back to the early 1980s. OAH is still exploring methods for obtaining decisions from other state agencies on a routine basis and will implement webposting of those decisions no later than the July 1, 2005 effective date of the requirement.

D. Regulations

OAH's chief ALJ was given authority to "adopt regulations ... to carry out the duties of the office" as well as to "review and comment on regulations

proposed by state agencies to govern procedures in administrative hearings.” AS 44.64.020(a)(8)&(11). In particular, the chief ALJ must adopt a hearing officer code of conduct, which will apply to hearing officers of all agencies, not just to OAH ALJs.

To satisfy these regulations-related duties, OAH has begun tracking notices of other state agencies’ proposed regulations and has established a timeline for developing OAH procedural regulations and the hearing officer code of conduct. The timeline sets March 1, 2005, as the target date for a draft of the code of conduct and March 28, 2005, as the target date for a preliminary draft of OAH procedural regulations, including regulations for use of alternative dispute resolution methods. The goal is to have both sets of regulations through the public comment process and ready for adoption no later than July 1, 2005.

E. Surveys

OAH’s charge to survey administrative hearing participants as one method of monitoring the quality of the hearings held is not limited to OAH-conducted hearings. OAH is required to survey participants in hearings held by OAH “and other state agencies....” AS 44.64.020(a)(7). To satisfy this duty, the chief ALJ has begun conducting informal, oral surveys of counsel who repeatedly represent parties in administrative hearings and has begun developing a standard survey form that can be completed electronically or by hand.

The standard survey form will be designed to elicit numerical ratings on certain common characteristics of hearings (e.g., adequacy of the time allowed; clarity of procedures and hearing officer’s instructions; understandability of decisions, etc.) and to allow participants to offer narrative comments. All hearing participants appearing before the OAH will be encouraged to respond to the surveys.

To establish a baseline of survey comments against which to measure future responses, in the February-April 2005 period, surveys will be distributed to past hearing participants from the case dockets transferred to OAH. The survey form also will be distributed to a statistically significant sampling of hearing participants identified from the records of other state agencies that conduct administrative hearings, commencing with hearings occurring in calendar year 2005.

Data and narrative comments obtained from the surveys will be analyzed, summarized and reported in subsequent annual OAH reports. OAH also will use

the comments to identify subjects needing additional examination as part of the process of monitoring the quality of administrative hearings. The results of the surveys and the additional examinations will be considered by the chief ALJ in making recommendations for statutory changes.

F. Training

OAH's training mandate extends beyond providing training to OAH employed or retained ALJs and hearing officers. It requires that OAH

make available and facilitate training and continuing education programs and services in administrative procedure, administrative adjudication, substantive law, alternate dispute resolution, and technical matters for administrative law judges *and other administrative adjudicators*[.]

AS 44.64.020(a)(6). (Emphasis added.) To satisfy this mandate, OAH's training plan will consist of the following components:

- Informal training for OAH ALJs through peer review assignments, periodic conferences among the ALJs, and circulation of case decisions and other materials of interest;
- Formal training for OAH ALJs by attendance at continuing education courses offered by professional associations and the National Judicial College;
- Informal training for all state administrative adjudicators by email circulation/webposting of periodic electronic bulletins/newsletters reporting on developments of interest in administrative law;
- Formal training for non-OAH administrative adjudicators through participation by OAH representatives in periodic, agency-specific conferences;
- Formal training for all administrative adjudicators in the form of course offerings made available by OAH.

In the short period of OAH's operation and the weeks leading up to that operation, OAH representatives have conducted informal training for OAH ALJs and have presented a training segment during a Child Support Services Division conference. OAH representatives are scheduled to participate in a similar Permanent Fund Dividend Division meeting early in February 2005. OAH representatives also are scheduled to present a training segment in an Alaska Bar Association-sponsored continuing legal education course on February 2, 2005.

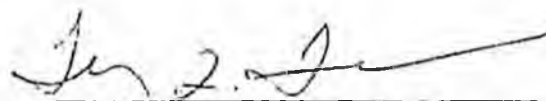
III. Recommendations of the Chief Administrative Law Judge

In addition to the description of activities, the annual report of OAH is to include "recommendations for statutory changes that may be needed in relation to the administrative hearings held by the office or other state agencies[.]" AS 44.64.020(7). Future reports can be expected to include recommendations resulting from review and development of regulations, survey comments and other observations on how state administrative adjudication processes could be improved. As of the date of this report, no specific recommendations have been developed.

IV. Conclusion

As of the date set for this first annual report, OAH is carrying out its primary core service by conducting hearings and issuing decisions. That service is being provided to the agencies that contributed personnel resources and transferred caseloads to OAH and to other agencies on a reimbursement basis. OAH also has taken steps to satisfy its regulatory review, survey, and training duties, and soon will be developing its regulations. OAH is well on the way to having all mission-critical processes ~~in place long before the July 1, 2005 date on which the vast~~ majority of the provisions of law governing operation of OAH take effect.

Submitted this 31st day of January, 2005.



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Appendix A

Survey Results

In future reports, the detailed survey results on which the narrative analysis in the body of the report will be based will be presented in this appendix.



Retirement Security

Act

SB 141

Discussion Topic

*Contribution Rates for New
Defined Contribution (DC) Plan*

April 1st, 2005



Alaska State Legislature
Senate Finance Committee

Updated as of: April 1, 2005

✓



Discussion

Contribution Rates for New Defined Contribution (DC) Plan





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*

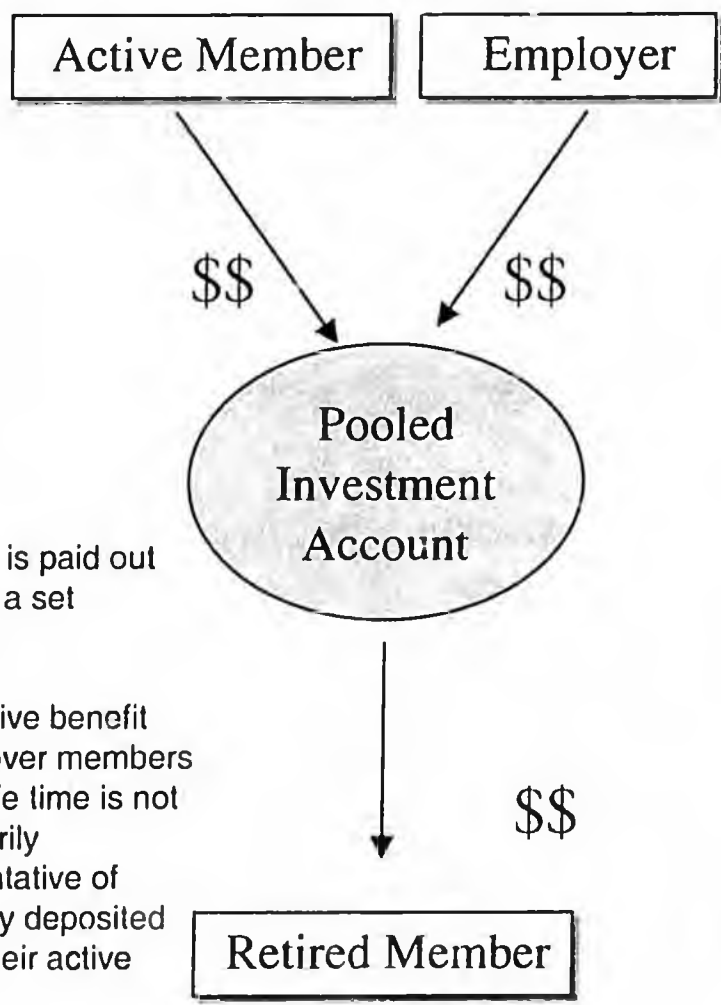
Examples: SBS & Deferred Compensation

Defined Benefit (DB) vs Defined Contribution (DC)





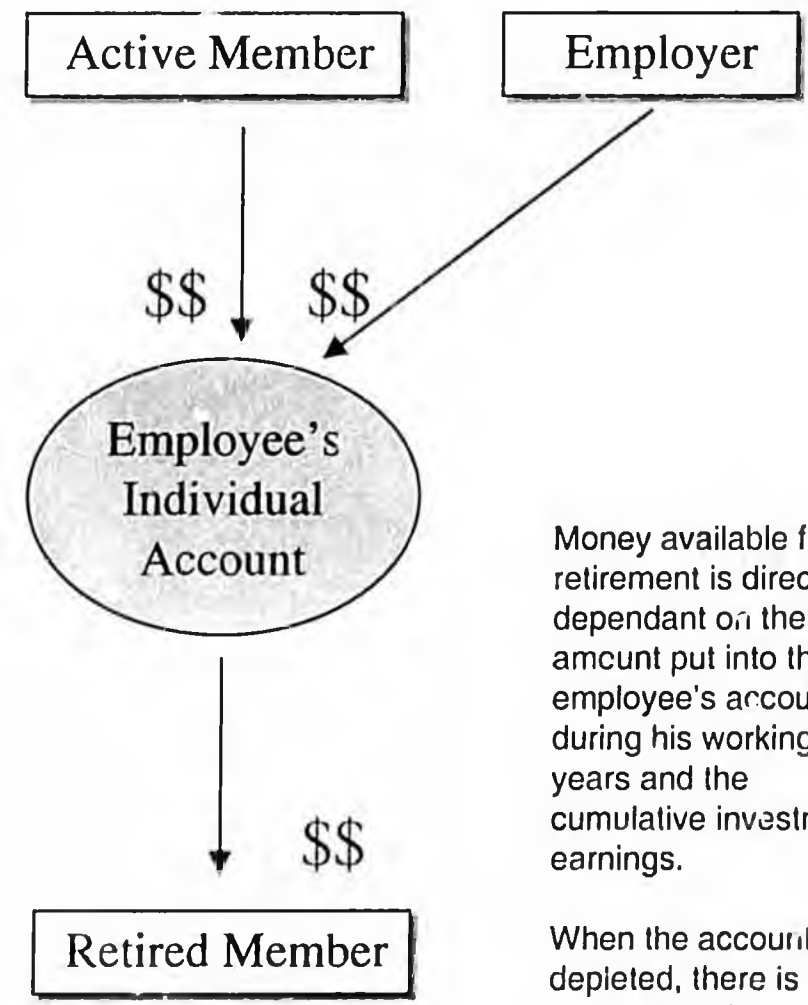
Defined Benefit System



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.





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%	3.75%
Defined contribution rate	12.43%	10.32%	11.50%
HRA contribution rate	0.0%	0.0%	1.00%
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%





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





Normal Cost Comparisons – Proposed DC Plan vs.
Existing TRS/PERS (all Tiers)

FY 06 Normal Cost Rates

	TRS	PERS	DC Plan
Medical normal cost rate	9.07%	8.68%	3.75%
Defined contribution rate	13.90%	11.37%	11.50%
HRA contribution rate	0.0%	0.0%	1.00%
Gross normal cost rate	22.97%	20.05%	16.25%
Member contribution rate	(8.69)%	(6.81)%	(8.00)%
Employer normal cost rate	14.28%	13.24%	8.25%

