

SCOMM

142.11

ALASKA STATE LEGISLATURE

REPRESENTATIVE BRUCE WEYHRAUCH



ALASKA
STATE CAPITOL
JUNEAU, ALASKA 99801-1182

(907) 465-3744
FAX (907) 465-2273

WAYS AND MEANS COMMITTEE

PERS/TRS Funding Shortfall Issue

Kenai Legislative Information Office

145 main St. Loop, Suite 217
Juneau location Terry Miller Building Conference Room
(Teleconferenced)

December 7, 2005
1:30 p.m. – 4 p.m.

AGENDA

Introduction - Chair Bruce Weyhrauch

Public Testimony (3 minutes per person)

David Teal, Director, Legislative Finance Division (15 minutes)

Melanie Millhorn, Director Retirement and Benefits (15 minutes)

Gail Schubert, Chair, Alaska Retirement Management Board (15 minutes)

Community Perspective –

Larry Semmens – Finance Director, City of Kenai (15 minutes)

Richard Alstrom - City Manager, City of St. Mary's (15 minutes)

Rick Gifford - Manager, Kodiak Island Borough and

Jerome Selby – Mayor, Kodiak Island Borough (15 minutes)

Jeff Sinz - Director of Finance, Municipality of Anchorage (15 minutes)

Public Testimony (3 minutes per person)

Adjournment

1,000,000

<u>Fiscal Years</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Assets	9.0	10.0	10.8	11.6	12.3	11.1	11.4	11.9
PERS	5.89	6.57	7.02	7.45	7.94	7.41	7.69	8.03
TRS	3.12	3.45	3.82	4.18	4.37	3.69	3.75	3.85
Liabilities	9.1	9.5	10.4	11.6	12.5	15.3	16.4	17.6
PERS	5.53	6.20	6.65	7.38	7.87	9.86	10.56	11.44
TRS	3.53	3.32	3.72	4.20	4.60	5.41	5.84	6.12
 Deficit/ Surplus	 (0.0573)	 0.49	 0.46	 0.06	 (0.16)	 (4.17)	 (4.96)	 (5.69)
 Funding Ratio	 99%	 105%	 104%	 101%	 99%	 73%	 70%	 68%

	\$	3.30
State PERS	\$	1.96
Local PERS	\$	0.68
School PERS	\$	0.41
Univ PERS	\$	0.20
Other PERS	\$	0.05
TRS	\$	2.28
	\$	5.58

Figure 1
PERS/TRS
Assets vs. Accrued Liability
(billions)

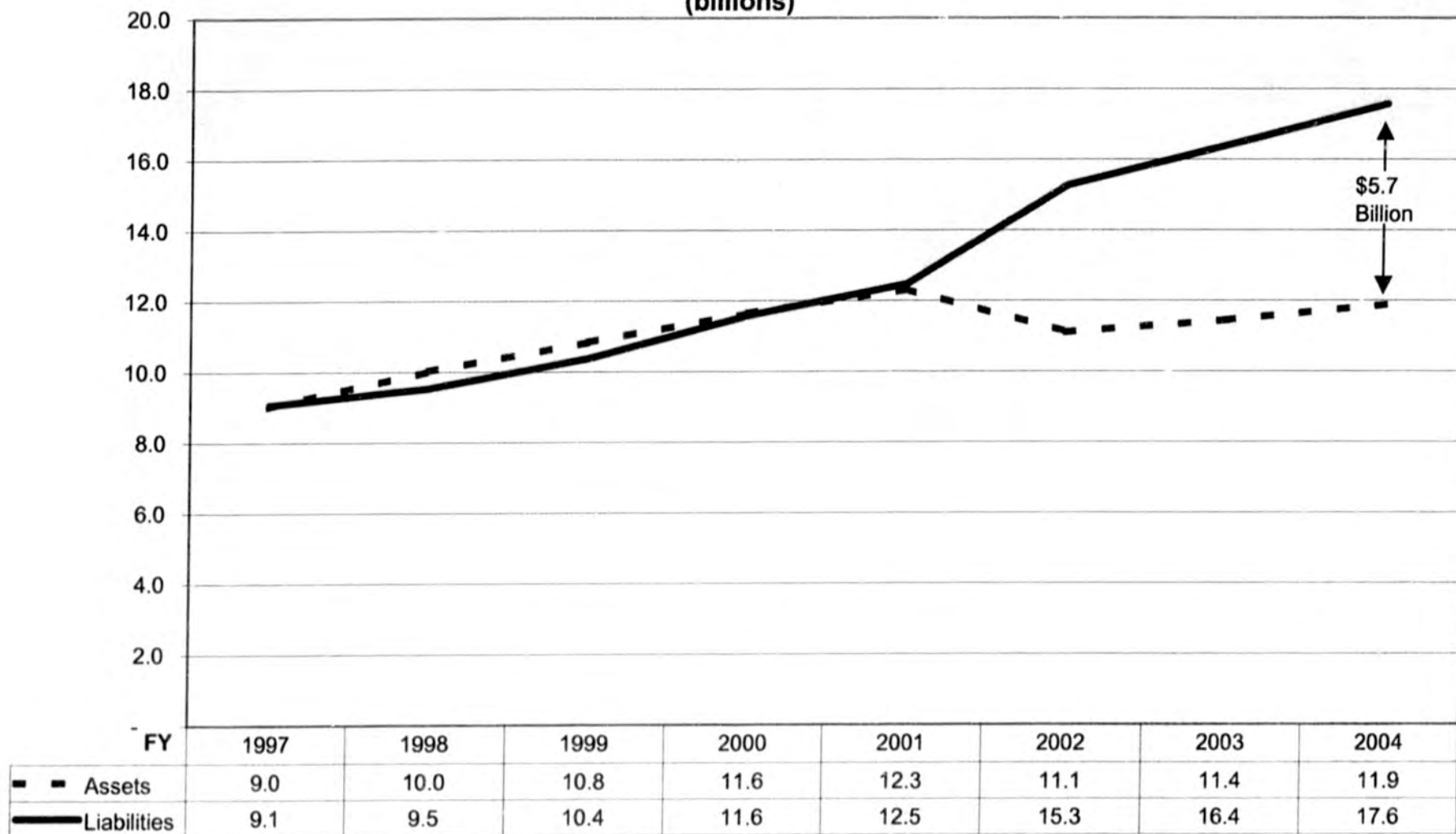


Figure 2. Shares of Alaska Retirement System Unfunded Liability (\$ billions)

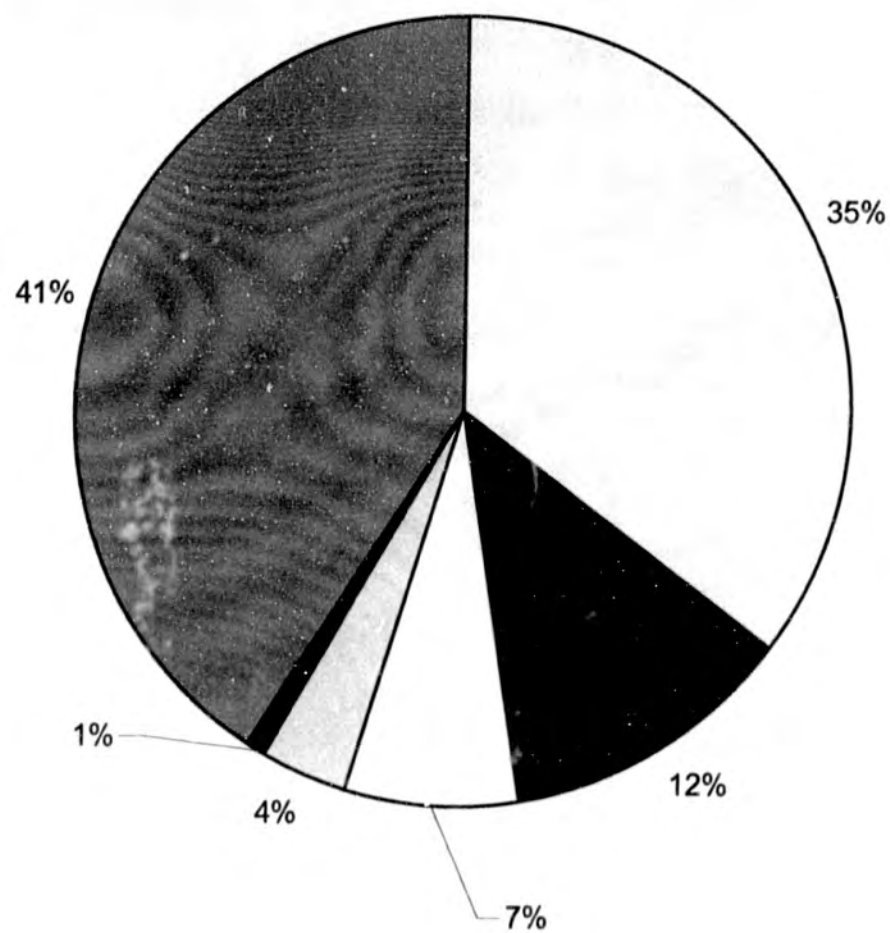


Figure 3. Projection of "Cash on the Table" during the FY07 Budget Process									
		FY05	FY06	FY07					
1	Operating	2,321.7	2,225.5	2,225.5	Start with the FY06 budget as a base				
2	Adjust for Public Education Fund			414.2					
3					Add:				
4				20.0	Contractual Salary Adjustments				
5				25.0	Agency PERS Costs				
6				40.0	Local Govt PERS Relief				
7				40.0	K-12 TRS Relief				
8					FMAP				
9				25.0	AMHS				
10				4.0	Elections				
11				50.0	Medicaid				
12	Note: Shading indicates Governor's proposals outlined in a speech to the AFN			5.0	Youth Success Initiative				
13				5.0	Public Cost Equalization				
14				5.0	UNEMP				
15				4.0	Bring the Kids Home				
16				50.0	K-12 Formula				
17				50.0	UA request				
18				80.0	K-12 Geographic Differential???				
19				408.5	Total Additions				
20									
21	Total Operating	2,321.7	2,225.5	3,048.2					
22									
23	Capital	8.8	338.7	100.0	Minimum required for matching funds				
24	Additional Capital	128.8		25.0	Authorized in FY06				
25	Total Capital	137.6	338.7	125.0					
26	Public Education Fund	414.2							
27	FY05 supplemental Appropriations	181.2							
28	Total Budget	3,054.7	2,564.2	3,173.2					
29									
30	Revenue	3,054.7	3,815.0	3,409.0	FY06 and FY07 revenue is based on oil at \$60/bbl and \$51.5/bbl, respectively.				
31	Surplus	-	1,250.8	235.8					
32									
33	Supplemental Operating		156.5	75.0					
34	FMAP								
35	Fairshare		50.0						
36	AMHS		25.0						
37	Small City Energy Impact Program		6.5						
38	Other		75.0	75.0					
39									
40	Surplus after Supplemental Appropriations	-	1,094.3	160.8	Cash available after estimated supplemental appropriations				



"Village with a Past, City with a Future"

210 Fidalgo Avenue, Kenai, Alaska 99611-7794

Telephone: (907) 283-7535 / Fax: (907) 283-3014

www.ci.kenai.ak.us

House Ways and Means Committee, December 7, 2005

Testimony of Larry Semmens, Finance Director

Intergenerational Equity is a term that essentially means that services provided today are paid for by the people who are using those services. In Alaska we all thought we were putting the correct amount of money into the retirement systems to pay the cost of benefits that employees were earning. To do otherwise would have been passing the financial burden on to future generations. Unfortunately the actuarial projections that indicated an over-funded status were incorrect and we now realize that we have huge liabilities for services already rendered.

The impact of rising PERS rates is significant. In Kenai property taxes may need to increase over 50% to cover the increased rates. To say that this could negatively impact the ability of the City to provide services is an understatement. PERS rates of 30% and higher for the next 25 years are difficult to contemplate.

So what can be done?

Normally in a budget crisis there are two tools that can be used to solve the problem: cut expenses and raise revenues. These tools are normally used together; however, in this situation the cut tool is largely unavailable. The retirement benefits that were promised and earned are guaranteed by the Alaska Constitution. So that leaves us with only the raise revenues tool to deal with the problem.

Revenues to the system could be generated slowly by paying down the debt over 25, 40 or more years. The system currently uses 25 years, but the mortgage rate on this amortization schedule is staggering – 30% or more. The payback period could be extended, but that means that people who aren't born yet will be paying for services provided in years past.

Another option is to pay down some of the debt now and either reduce the payback period or reduce the mortgage rate. There are options for how to do this, some will be more attractive than others.

We could borrow money at say 5.5% and put it in the system to be invested. As long as investments yield more than the interest rate on the new debt this would be a positive action. But there are risks and everyone needs to be fully aware of the risks prior to embarking on this course.

We are \$6 billion in debt. Fortunately we are not broke, in fact this year there will be a substantial surplus in State revenues. Perhaps a meaningful contribution could be made from this surplus to pay down the debt. This will not be an easy choice for legislators to make - unless they believe that this is the right thing to do so that the cost is not passed on to future generations.

We have \$32 billion in the Permanent Fund. Clearly there will be little popular support for using revenues of the Permanent Fund to pay down the debt. Yet I wonder if it makes sense to pay out these revenues as dividends, thereby incurring federal taxation, only to use what is left to make the 30% mortgage payment.

Most municipalities are financially strapped and will find it very difficult to absorb a quadrupling of the cost of funding PERS. The Governor recognizes this impact and is including \$38 million to fund the 10% increase in PERS rates over the last two years. I recently heard an idea that has merit. Instead of an outright grant, make this program a matching grant. In order to receive the PERS aid, municipalities would have to pay last years 5% increase out of their own resources. If a municipality pays the full 10% increase from their own resources they would get the 10% match from the State along with a 2% incentive contribution. The biggest benefit of this idea is that it gets more money into the retirement system which reduces the unfunded liability and future rates. It also gets municipalities used to the idea that they are going to have to fund the higher rates and it rewards those that make the hard choice to pay down this liability now rather than pass it on to others in the future.

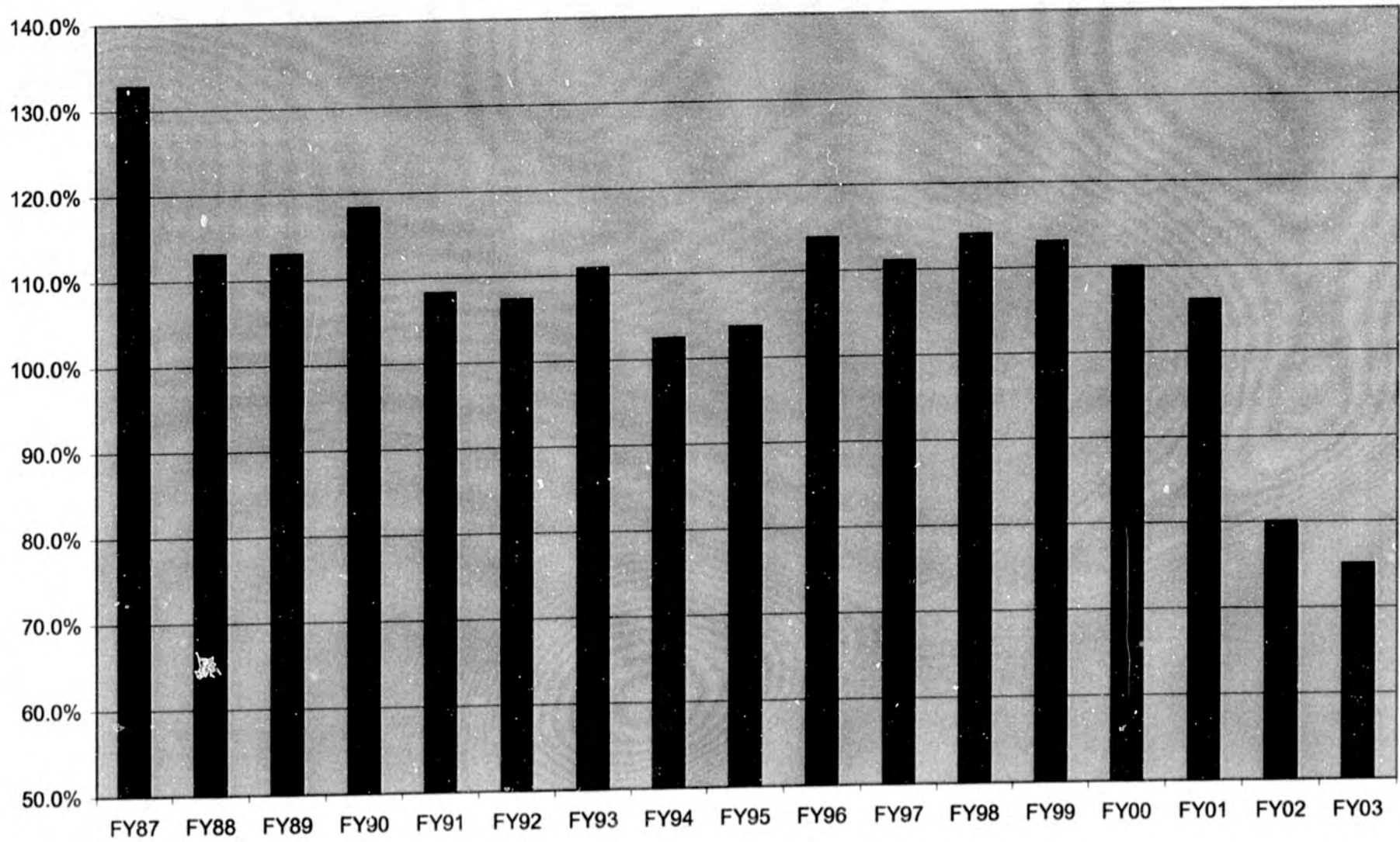
Finally and most significantly, I would like to see the State make a meaningful contribution to the system this year.

Thank you for your time, if you have any questions I would be happy to try to answer them.

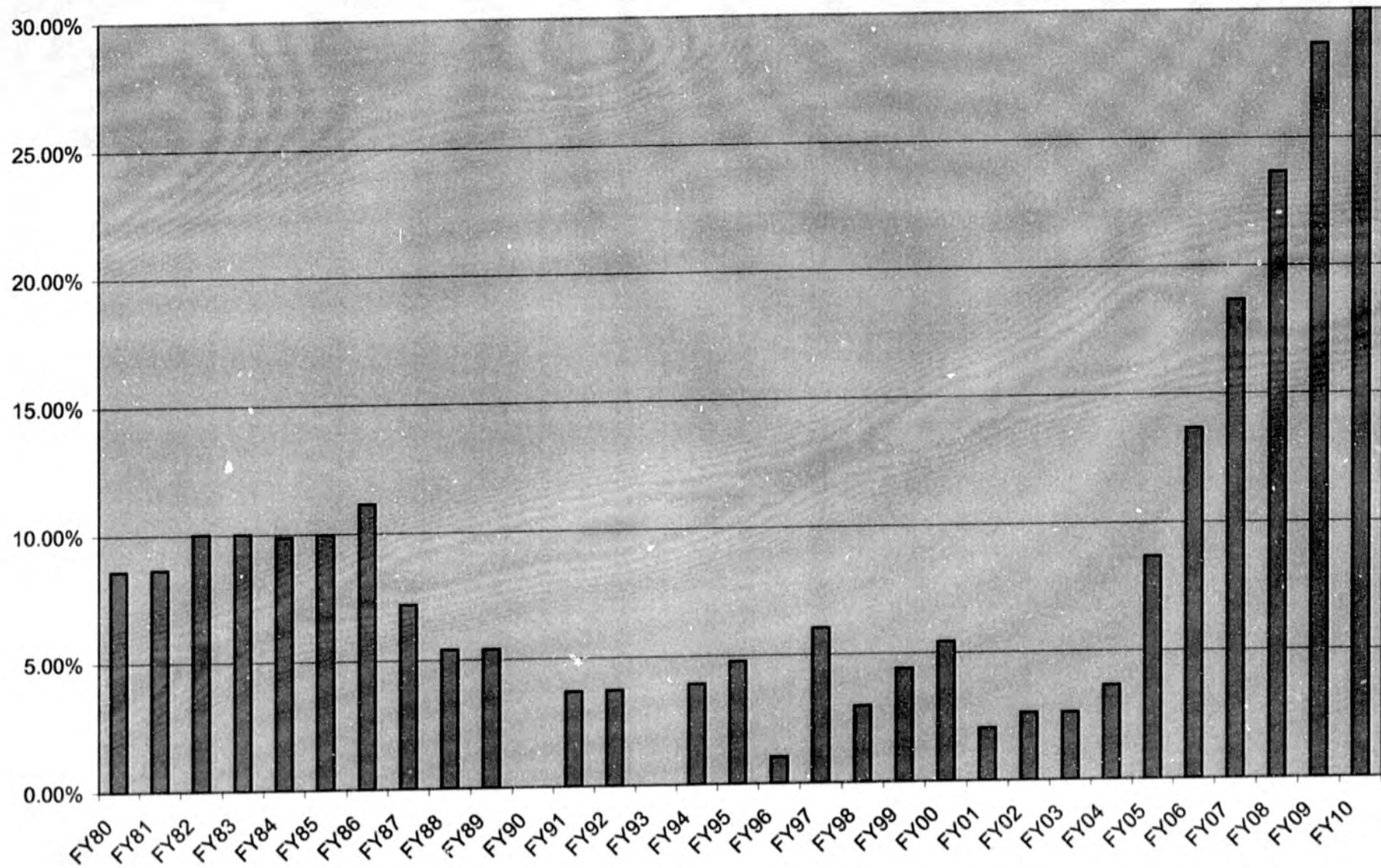
Larry Semmens
Finance Director
City of Kenai

Larry Semmens' graphs for 12/7 W & M hearing

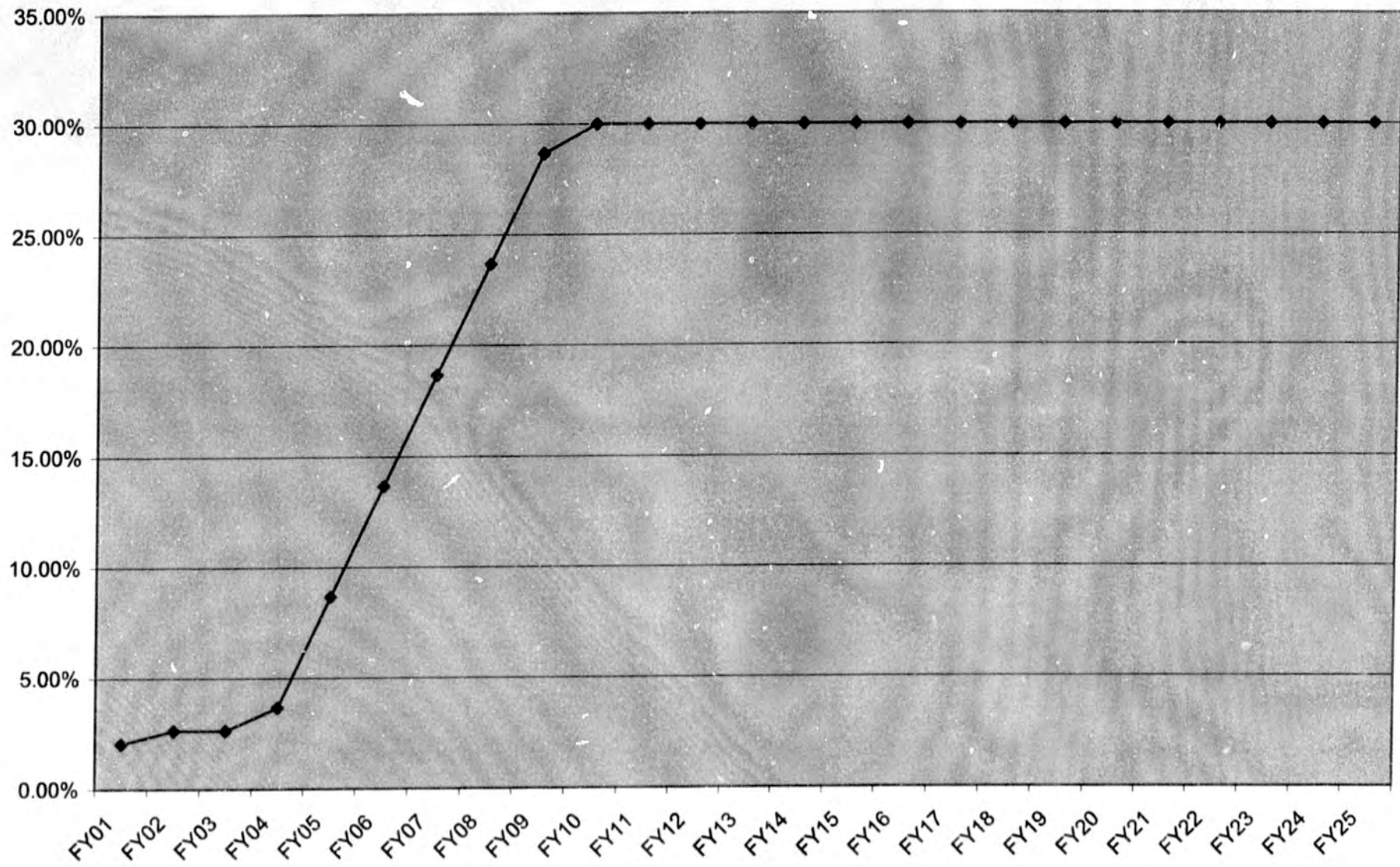
**City of Kenai
Funded Status**



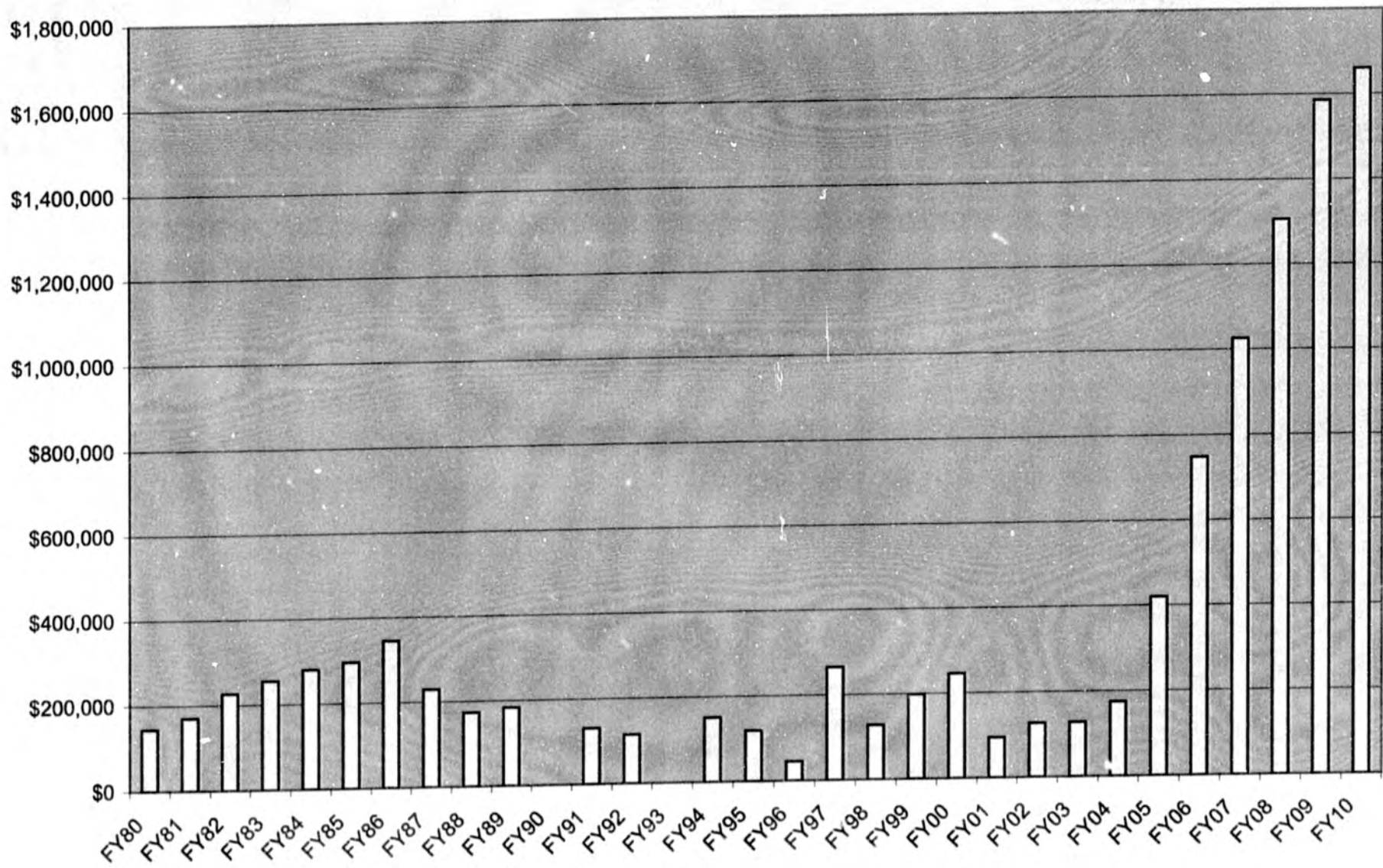
City of Kenai PERS Rates



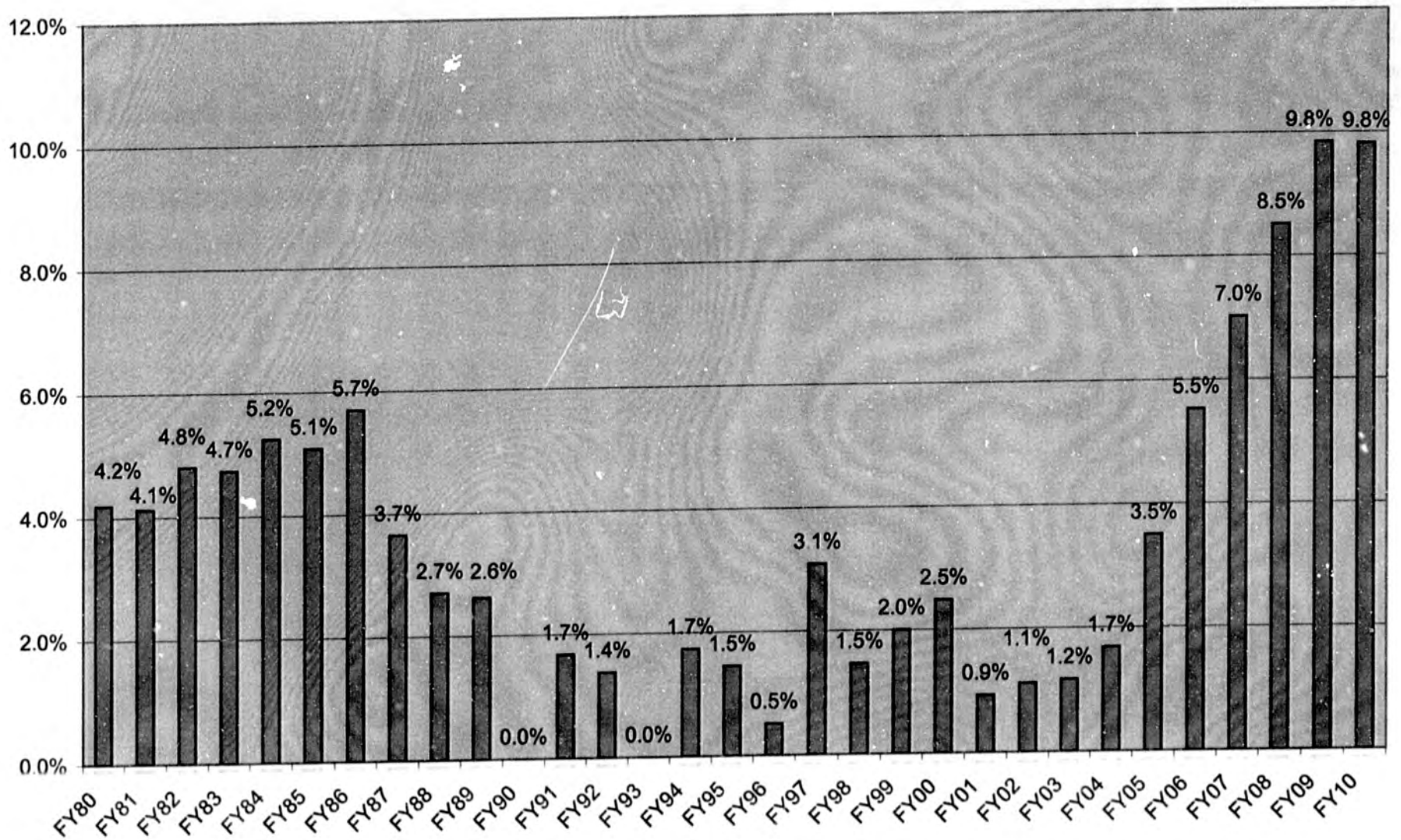
City of Kenai Future PERS Rates



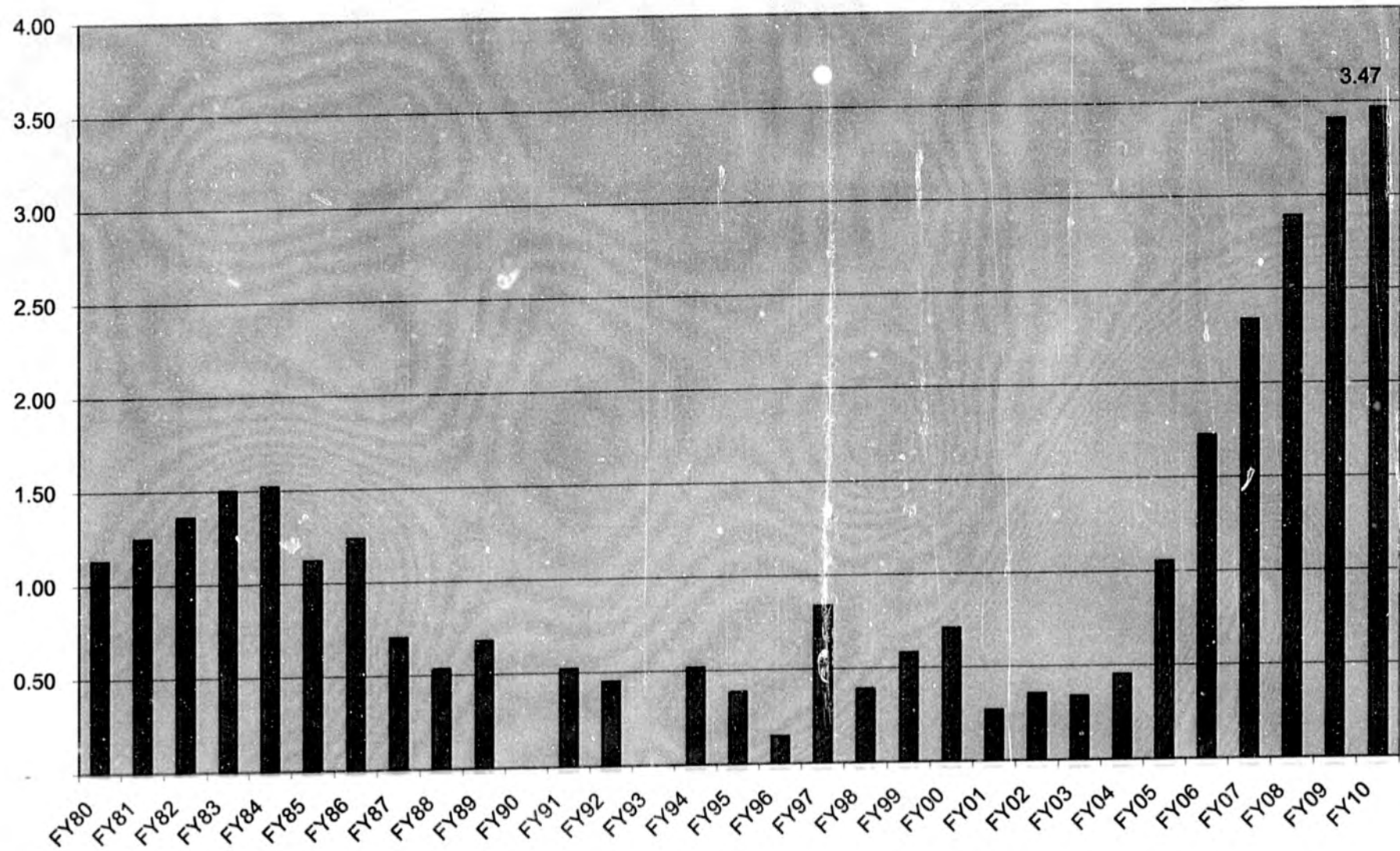
City of Kenai Contribution Amount



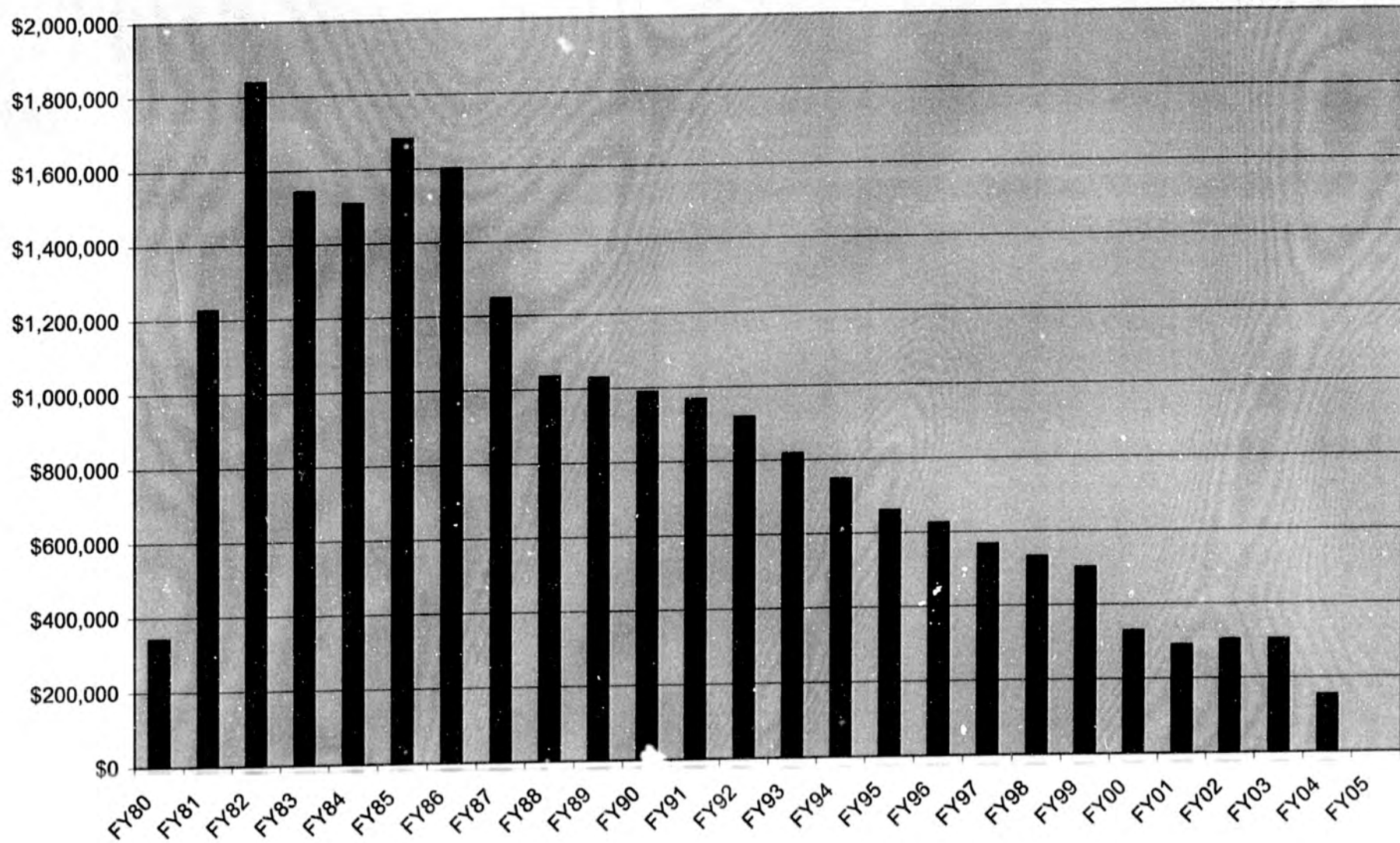
City of Kenai
Percentage of General & Special Revenue Expenditures



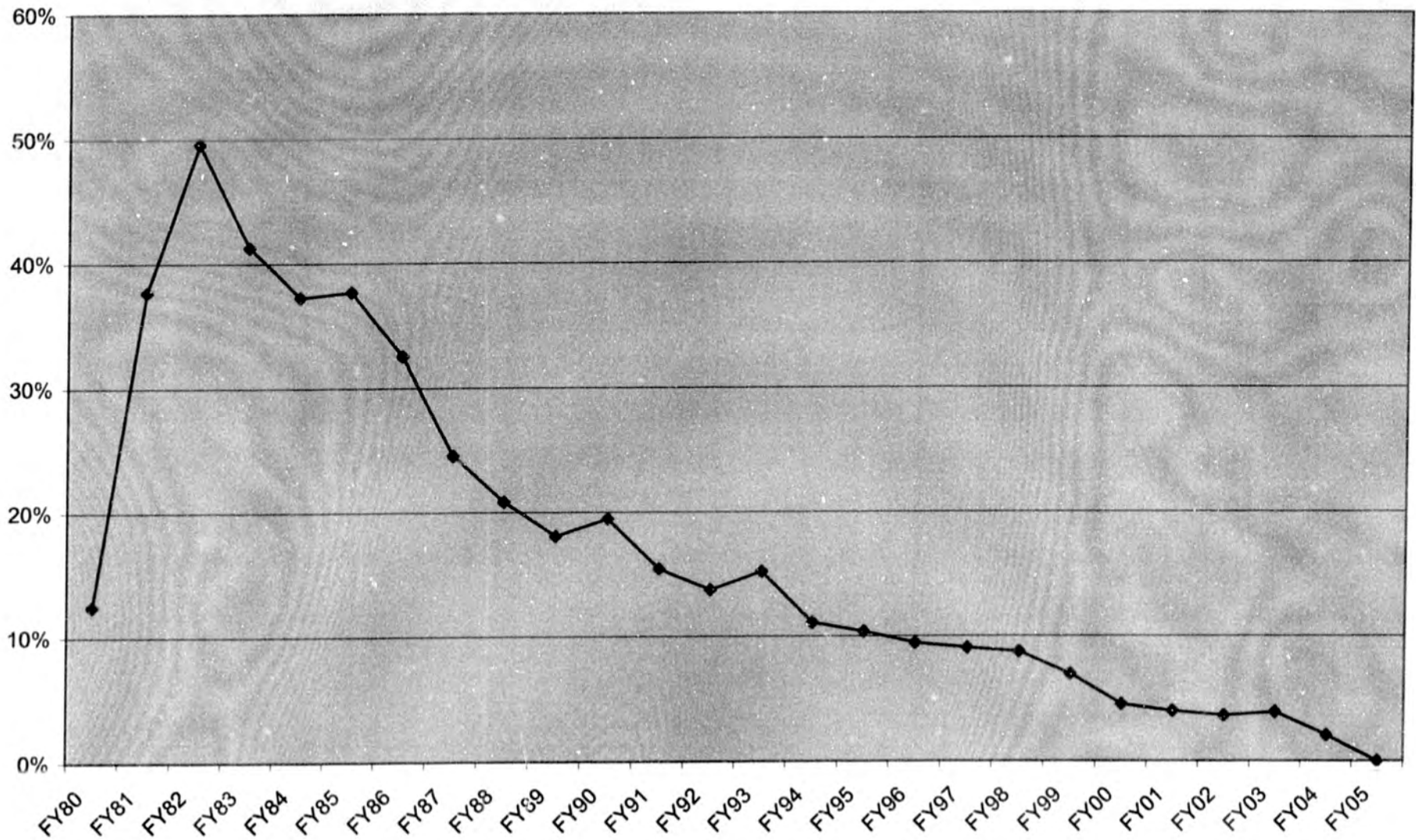
**City of Kenai
Mill Rate Equivalent**



**City of Kenai
Revenue Sharing & Municipal Assistance**



City of Kenai
Revenue Sharing as a Percent of General Fund Expenditure



City of St. Mary's
P.O. Box 209
St. Mary's, AK 99658
(907) 438-2515, Fax (907) 438-2719

12 July, 2005

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

**Re: City of Saint Mary's Termination from the Alaska Public Employees'
Retirement System ("PERS")**

Dear Ms. Millhorn:

The City of Saint Mary's (the "City") in accordance with attached City Council Resolution #2005-10, dated 5 July, 2005, rescinds its termination from PERS, which termination previously was deemed effective 30 June, 2004, pursuant to City Council Resolution #2004-02 that was adopted on 04/15/04. Please take immediate steps to return the City's status and participation under PERS to the status quo that was in effect immediately prior to any notice of termination by the City.

Let me explain why the City has been forced to take this step. As you are aware, the City of Saint Mary's, similar to other small Municipalities in Rural Alaska, has faced severe financial crises in recent years. As part of the City's continuing efforts toward sustaining financial stability, the City took steps to terminate its participation from PERS, effective 30 June, 2004, thinking such action would provide some fiscal relief.

Prior to the City taking these steps, the City researched the amount of its termination liability from PERS. In particular, the City based its decision to terminate participation in PERS on the amounts published by PERS as representing the unfunded liability attributable to the City. For example, the City reviewed the Supplement to PERS Actuarial Valuation report, dated 30 June, 2002, which computed the City's unfunded liability to be \$144,435. Also the Supplement, dated 30 June, 2003, reported this amount to be \$163,890, a relatively small \$19,455 difference from the June, 2002 figure. Former City Manager Walton Smith likewise spoke to PERS Staff concerning the liability amount. This was confirmed in the telephone conference on 20 May, 2005, between City representatives and PERS Staff, including yourself and Defined Benefits Accounting Supervisor, Kevin Worley. During this conference, Mr. Worley clearly stated he had told former City Manager Smith, prior to the City's termination becoming effective, that the City's unfunded liability would be \$163,890.

On 19 April, 2005, the City was presented with a notification of final billing (termination liability). Lo and behold, the City was astonished to learn that the amount of termination

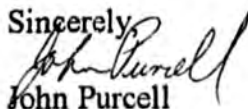
liability had ballooned to a whopping \$541,624 sum, nearly *four times* the amount previously reported by PERS as the unfunded liability amount. No one ever had informed the City that the termination liability could be so astronomically higher than the unfunded liability amount previously reported by PERS and stated by Mr. Worley. Indeed, if the City had any inkling or had been informed by Division Staff in the spring of 2004 that the final liability would have been of such a magnitude, the City never would have decided to terminate from the PERS system in the first place.

To make matters even worse, PERS intends to charge interest of 8.25% until the entire unfunded termination liability amount is completely paid. Simply stated, the City is unable to incur such a massive liability without devastating the City's resources and its ability to provide essential services, particularly public safety services, to the Saint Mary's Community.

The City, therefore, is left with no other choice but to rescind its termination from PERS and return its participation to the status quo that was in place immediately prior to the City's 2004 notice of termination. Please contact me as soon as possible in order that we may make arrangements to remit the payments that would have been made in the normal course of the past year, had the City never served notice of termination -- which notice hereby is rescinded and withdrawn, in accordance with Resolution #2005-10.

Thank you for your prompt attention to this matter.

Sincerely,


John Purcell
City Manager

cc. Sven Pauken, Mayor
& City Council Members (6)
City of Saint Mary's

Ray Matiashowski, Commissioner
Department of Administration

James Clark, Chief of Staff
Office of the Governor

Representative Richard Foster, HD-39

Senator Donald Olson, SD-T

Walton Smith, Former City Manager

Kevin Ritchie, Executive Director
Alaska Municipal League

· 4 Representative Woodie Salmon

..

Senator Lyman Hoffman

Senator Albert Kookish

Senator Gary Wilken

Senator Bert Stedman

Representative Mary Kapsner ✓

Representative Carl Moses

Representative Bill Thomas

Former Representative Andrew Halcro

Alaska Conference of Mayors

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.. Alaska Municipal Managers Association

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City of St. Mary's
P.O. Box 209
St. Mary's, AK 99658
(907) 438-2515, Fax (907) 438-2719

CITY OF SAINT MARY'S, ALASKA

RESOLUTION 2005-10

RESCINDING THE CITY OF SAINT MARY'S 2004 TERMINATION FROM THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM; AND AUTHORIZING THE ALASKA DIVISION OF RETIREMENT AND BENEFITS TO RETURN THE CITY'S STATUS AND PARTICIPATION IN THE PERS SYSTEM TO THE STATUS QUO THAT WAS IN PLACE IMMEDIATELY PRIOR TO THE CITY'S 06/30/04 EFFECTIVE DATE OF TERMINATION FROM THE SYSTEM.

WHEREAS, in the fourth quarter of FY-04, the City of Saint Mary's, classified as a First Class City within the State of Alaska, solely because of its budgetary inability to continue making payments into the Public Employees' Retirement System (PERS) and with the understanding, based on information provided by the Alaska Department of Administration-Division of Retirement and Benefits (hereafter Division) that its unfunded PERS liability at the time of termination would be in a bearable \$144,435 to \$163,890 range, passed and submitted Resolution 2004-02, on 04/15/04, requesting to be terminated as an employer member within the PERS system effective 06/30/04; and,

WHEREAS, both the City Manager in 2004 and the City Council were not given any explicit higher computation amount by Division Staff during the period 04-15-06/30/04, different than the \$163,890 unfunded liability figure that Department Staff explicitly had provided during that period -- a fact that recently was confirmed during a telephone conference on 05/20/05 between City Staff and PERS Staff that included the Division Director; and,

WHEREAS, understandably, this City Council was shocked to learn from a 19 April, 2005 Notification Letter from Division Staff (one year subsequent to the Council having passed Resolution 04-02) that its final PERS termination liability had been determined to be a whopping sum of \$541,624 -- some \$377,734 more than the maximum figure that the City had received from the Division prior to 06/30/04; and,

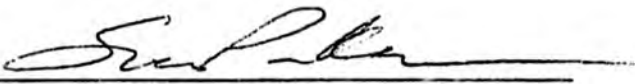
WHEREAS, the City Council never would have submitted the 04/15/04 PERS termination Resolution 02-04, if it should have had any indication that its final termination liability, apparently determined some eight and one half months after the City's effective date of termination, would finally have been computed at an unfathomable sum of \$541,624; plus interest payments set at 8.25% if the entire principal amount was not paid by 06/01/05 -- a Division determination that this Council has appealed in its entirety; and,

WHEREAS, this City Council, having already been forced to cut municipal services to the Saint Mary's Community to the bone -- particularly Public Safety services which, to a large extent, will have to be covered by the Alaska State Troopers -- has no other choice but to rescind its termination from PERS and return its PERS participation to that which existed prior to the City's rendered 2004 notice of PERS termination;

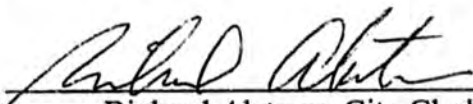
NOW, THEREFORE, BE IT RESOLVED, that the Saint Mary's City Council hereby rescinds its 2004 termination from the Public Employees' Retirement System and authorizes the Director, Division of Retirement and Benefits, to return the City's status and participation under PERS to the status quo that was in place immediately prior to any notice of termination by the City.

BE IT FURTHER RESOLVED, that this City Council asks that the Division Director contact the Saint Mary's City Manager as soon as possible, in order that arrangements may be made for the City to remit payments that would have been made over the past year had the City never served notice of termination.

PASSED AND APPROVED BY A DULY CONSTITUTED QUORUM OF THE SAINT MARY'S CITY COUNCIL, THIS 5TH DAY OF JULY, 2005.

Signed: 
Sven Paukan, Mayor

Attest:


Richard Alstrom, City Clerk



STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS
August 5, 2005

FRANK H. MURKOWSKI, GOVERNOR

PO BOX 110203
JUNEAU, AK 99811-0203
TDD: (907) 465-2805
FAX: (907) 465-3088
PHONE: (907) 465-4460
TOLL-FREE 1-800-821-2251

John Purcell
City Manager
City of St. Mary's
P.O. Box 209
St. Mary's, Alaska 99658

Re: City of St. Mary's Termination of Participation Agreement with
Public Employees' Retirement System

Dear Mr. Purcell:

This letter is written in response to your letter received on July 18, 2005, and the concerns raised regarding the information the City of St. Mary's received about its termination costs from PERS. Your letter indicates that the Division did not make the City of St. Mary's aware of the termination costs and that had the City been aware of the costs to terminate its PERS participation agreement the City would not have taken this action. Additionally, the City of St. Mary's wants to rescind its termination of participation in PERS.

I have noted below the relevant correspondence sent by the Division regarding the termination by the City of St. Mary's. This correspondence is enclosed for your review.

- On July 1, 2004, the Division sent a letter to Mayor Paukan citing the statutory provisions AS 39.35.615, 39.35.630, 39.35.640, and 39.35.650 that govern an employer's termination process from PERS. The letter stated in part, "each employee whose coverage is so terminated, regardless of the employee's employment status at the date of termination, shall be considered fully vested in actuarially adjusted accrued retirement benefits as of the date of termination, unless the employee's contributions have been refunded." Section (d) states, "For each employee who elects to obtain a vested benefit, the amount actuarially determined as necessary to fully fund the benefits to be received shall be transferred first from the employee contribution account and, after the employee contribution account has been exhausted, then from the employer contribution account into the retirement reserve account." Item number 6 states, an actuary will prepare the "final" liability. AS 39.35.640 states, "in making a distribution, the determinations, divisions, appraisals, apportionment, and allotments made are final and conclusive and not subject to question."

- On January 13, 2005, a letter was sent to Mayor Paukan providing a listing of the employees and former employees and their elections i.e., to vest or refund out of the retirement system. The letter indicated that the Division was working with the actuary to determine the City's final termination liability. The letter stated a second time, *"You should be aware that for every employee who elects to obtain a vested benefit, our actuary will calculate the amount needed to fully fund the benefits."* (Emphasis added).
- On April 19, 2005, the Division sent Mayor Paukan the termination billing that had been prepared by the actuary.

Regarding the amount of the City's PERS termination liability, you indicate that the City based its decision to terminate participation in PERS on Supplement report to actuarial valuation report dated June 30, 2002, and June 30, 2003, which set out the City's unfunded liability to PERS. You also note that former City Manager Walton Smith spoke with Division staff concerning the liability amount owed by the City of St. Mary's.

However, the Supplement report did not provide a basis for determination of the City's liability upon termination of its participation agreement. Division staff do not advise an employer to use the Supplement report for this purpose. The primary reason employer termination liabilities are larger than the Supplement liabilities is attributable to the valuation of the medical benefits. In determining the medical liabilities as an ongoing concern for the Supplement, the accrued liability is based on each member's medical liability allocated based on accrued service to date divided by total expected service. When valuing medical liabilities on a termination basis, the medical benefits are fully accrued and there is no allocation of the liability to future years of service.

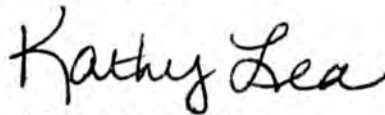
The staff member responsible for working with employers that terminate their participation agreements is well versed in this process. He would not, and did not, represent that the City's termination liability would be the same as its unfunded liability. He stated when talking with Mr. Walton Smith, former City Manager, that he did not know what amount would be due, but that it would be a large amount, and would be required at time of termination. Additionally, during the teleconference that I participated in with you and Kevin Worley, Supervisor Defined Benefit Plan, he did not indicate that a termination cost amount had been provided to the City of St. Mary's before the actuary had completed its termination report, which was sent to the employer on April 19, 2005.

Regarding your request for rescission of the City of St. Mary's termination of its participation agreement, under AS 39.35.620, the City's request for termination gave rights to its employees to either refund their PERS contributions or to elect to be vested regardless of the number of years of service they had. The employees were contacted by the Division and have made their elections. Seven of the active employees have elected to be vested, and the remainder have elected to have their PERS contributions refunded. By filing the election, the employees now have rights that cannot be easily reversed.

There is no precedent for rescission of termination of a PERS participation agreement. If the City has a proposal for rescission that would adequately handle the statutory and constitutional rights of its employees without resulting litigation, I will certainly consider the proposal. Absent an acceptable proposal, we will not be able to reverse this action.

Please let me know if you have any questions about this correspondence.

Sincerely,



Melanie Millhorn
Director

Enclosure(s)

cc: Ray Matiashowski, Commissioner
Department of Administration

Kevin Brooks, Deputy Commissioner
Department of Administration

James Clark, Chief of Staff
Office of the Governor

Virginia Ragle, Assistant Attorney General
Department of Law

Sven Pauken, Mayor
City of Council Members for City of St. Mary's

Representative Richard Foster

Senator Donald Olson

Walton Smith, former City Manager

Kevin Ritchie, Executive Director
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Representative Woodie Salmon

Senator Lyman Hoffman

Senator Albert Kookish

Senator Gary Wilken

Senator Bert Stedman

Representative Mary Kapsner

Representative Carl Moses

Representative Bill Thomas

Former Representative Andrew Halcro

Alaska Conference of Mayors

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

CERTIFIED MAIL: 7002-3150-0000-1969-7637

Return Receipt Requested

July 1, 2004

FRANK H. MURKOWSKI, GOVERNOR

PO BOX 110203
JUNEAU, AK 99811-0203
TDD: (907) 465-2805
FAX: (907) 465-3086
PHONE: (907) 465-4460
TOLL-FREE 1-800-821-2251

The Honorable Sven Paukan
Mayor
City of Saint Mary's
P.O. Box 209
Saint Mary's, AK 99658-0209

Dear Mayor Paukan:

The Division of Retirement and Benefits has received the City of Saint Mary's (City) Resolution #2004-02 "A Resolution by the City of St. Mary's to Unilaterally Terminate the Participation Agreement between the Public Employees' Retirement System (PERS) and the City of St. Mary's, as required by AS 39.35.615. 'Effect of Termination by Amendment of Agreement'". Thank you for submitting your resolution so that the Division can act on it timely.

The resolution states that it was passed, approved, and adopted on April 15, 2004. Per the participation agreement signed by the City, at least 90 days notice must be given to the Division. Based on my email to Walton Smith, City Administrator, on Tuesday, May 18, 2004, we have reached an agreement regarding the City's termination date. The termination date established is June 30, 2004. The Division will process all payrolls submitted by the City through that date.

Since the City is terminating participation in the PERS by amending your participation agreement via resolution, Alaska Statute (AS) 39.35.615 governs the termination process. I have presented the statute for your information:

Sec. 39.35.615. Effect of termination by amendment of agreement.

(a) A political subdivision or public organization may request that its participation agreement be amended. The request may be made only after adoption of a resolution by the legislative body of the political subdivision and approval of the resolution by the person required by law to approve the resolution, or, in the case of a public organization, after adoption of a resolution by the governing body of that public organization. A certified copy of the resolution shall be filed with the administrator. If a political subdivision or public organization amends its participation agreement so as to terminate coverage of a department, group, or other classification of employees, each employee whose coverage is so terminated, regardless of the employee's employment status at the date of termination, shall be considered fully vested in actuarially adjusted accrued retirement benefits as of the date of termination, unless

(1) the employee's contributions have been refunded; or

(2) the political subdivision or public organization amended its participation agreement to exclude coverage for the affected department, group, or other classification of employees at the written request of a majority of the employees employed in that department, group, or other classification at the time the request was made.

(b) Each employee whose coverage is terminated must, within 60 days after the date of termination, inform the administrator, in writing, whether the employee wishes to obtain a refund or a vested benefit.

(c) Each employee who elects to obtain a refund shall receive a refund of the balance of the employee contribution account. The vesting in accrued benefits for each employee who elects to obtain a refund is voided upon receipt of the refund, and the corresponding credited service may not be reinstated under this chapter. A partial refund may not be allowed under this section.

(d) For each employee who elects to obtain a vested benefit, the amount actuarially determined as necessary to fully fund the benefits to be received shall be transferred first from the employee contribution account and, after the employee contribution account has been exhausted, then from the employer contribution account into the retirement reserve account.

(e) After all of the employees whose coverage is terminated have either received refunds or have been vested in their accrued benefits, the remaining funds in the employer contribution account attributable to those employees shall be refunded to the employer.

(f) Termination of coverage of a department, group, or other classification of employees does not bar future coverage of that department, group, or classification. If coverage of a department, group, or classification is terminated under (a) of this section and the employer later amends its participation agreement to provide renewed coverage of that department, group, or classification, an affected employee may be credited only with future service.

The following Alaska Statutes also apply during the termination process:

Sec. 39.35.630. Distribution.

A distribution made as a result of termination of participation by an employer may, to the extent that no discrimination in value results, be paid in cash or in annuity contracts, in the discretion of the board.

Sec. 39.35.640. Conclusiveness of action taken upon termination.

In making a distribution, the determinations, divisions, appraisals, apportionments, and allotments made are final and conclusive and not subject to question.

Sec. 39.35.650. Refunds to employers.

An employer may not receive an amount from the system, except as provided under AS 39.35.615 (e) and 39.35.620(g).

July 1, 2004

TERMINATION PROCESS – SUMMARIZED:

To summarize the termination process, the Division will work with the City and follow the listed steps:

1. Receive notification of termination via resolution from the City (**COMPLETE**).
2. Identify termination date (**COMPLETE** – termination date is June 30, 2004).
3. Notify City of statutes, termination process, and time frame (**COMPLETE** – this letter).
4. Notify all current and former employees of the City regarding termination from PERS. A listing of all employees who worked for the City of Saint Mary's will be sent for your review.
5. Receive "Termination Election" form from current members. Active employees of the City must choose between a refund of their PERS account, or can choose to vest.
6. Have actuary prepare "final" liability listing. Provide to City.
7. If liability is less than City assets with PERS, PERS will refund difference. If liability is greater than City assets with PERS, PERS will bill the City for difference.
8. Notify City that termination process is complete.

You should be aware that for every employee who elects to obtain a vested benefit, our actuary will calculate the amount needed to fully fund the benefits and we will transfer that amount, first from the employee's account, then from the City's account, to the retirement reserve. After all employees have either selected a vested benefit, or a refund of their contribution account, any remaining amount in the City's account will be refunded to the City. **Any liability still owed will be billed to the City at that time.**

A final review of your participation in the PERS and your reporting process will be undertaken to determine if unusual circumstances exist which require adjustment. We would appreciate your continued cooperation in researching any questions that come up. The entire process should be completed in approximately 90 – 120 days. This termination does not bar future participation in the PERS by the City.

Thank you for your time and cooperation to this very important matter.

Sincerely,



Kevin Worley
Defined Benefits Accounting Supervisor

cc: Ray Matiashowski, Commissioner
Department of Administration

Kevin Brooks, Deputy Commissioner
Department of Administration

The Honorable Sven Paul
City of Saint Mary's

-4-

July 1, 2004

Melanie Millhorn, Director
Division of Retirement & Benefits

Anselm Staack, CFO
Division of Retirement & Benefits

Kathy Lea, Retirement Supervisor
Division of Retirement & Benefits

Walton Smith, City Administrator
City of Saint Mary's
P.O. Box 209
Saint Mary's, AK 99658-0209

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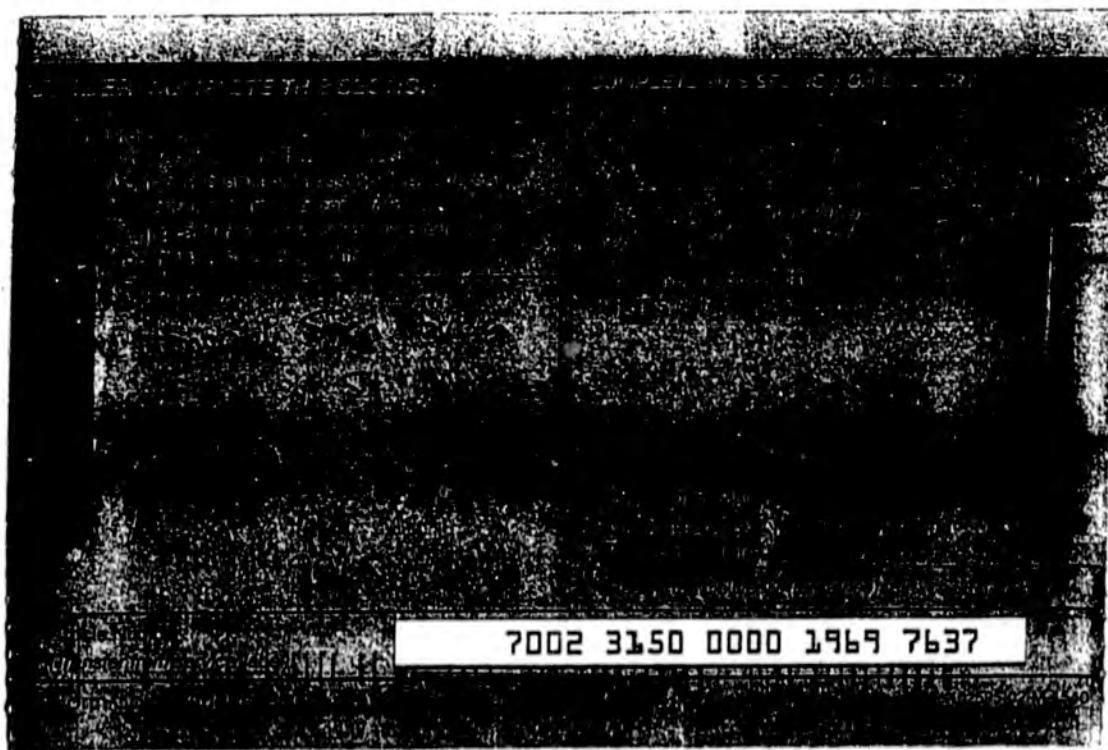
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STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

CERTIFIED MAIL: 7002-3150-0000-2025-0258

Return Receipt Requested

January 13, 2005

FRANK H. MURKOWSKI, GOVERNOR

PO BOX 110203
JUNEAU, AK 99811-0203
TDD: (907) 465-2805
FAX: (907) 465-3086
PHONE: (907) 465-4460
TOLL-FREE 1-800-821-2251

The Honorable Sven Paukan
Mayor
City of Saint Mary's
P.O. Box 209
Saint Mary's, AK 99658-0209

Dear Mayor Paukan:

As you are aware, the City of Saint Mary's (City) adopted Resolution #2004-02 "A Resolution by the City of St. Mary's to Unilaterally Terminate the Participation Agreement between the Public Employees' Retirement System (PERS) and the City of St. Mary's, as required by AS 39.35.615. 'Effect of Termination by Amendment of Agreement'". The Division was working with Mr. Walton Smith prior to his retirement during this termination process.

As identified by item #4 on page 3 of our letter to you dated July 1, 2004 (Attachment 1), here is the listing of all employees and former employees of the City. The breakdown is noted on the listing for your review. As you recall, employees who are active at the time of termination are allowed to vest (if not already vested in PERS) or choose a refund and lose all associated credited service with the City. Four employees were already vested and three additional active employees chose to vest.

We have completed item #5 on page 3 of Attachment 1, and are currently working with our actuary to determine the City's final termination liability.

Two active employees chose to refund their contributions and lose all credited service with the City. The City no longer has a PERS liability for those two former members. Also, one former employee chose to refund his account balance and loses his credited service also.

Besides the seven (7) active employees who are vested or chose to vest via the termination process, the City also is responsible for an additional twenty-five (25) members who have credited service with the City. There are nine (9) vested, terminated members and 16 non-vested, terminated members. The City is responsible for all or a portion of these members pension and post-employment healthcare liability. You should be aware that for every employee who elects to obtain a vested benefit, our actuary will calculate the amount needed to fully fund the benefits and we will transfer that amount, first from the employee's account, then from the City's account, to the retirement reserve. After all employees have either selected a vested benefit, or a refund of their contribution account, any remaining amount in the City's account will be refunded to the City. Any liability still owed will be billed to the City at that time.

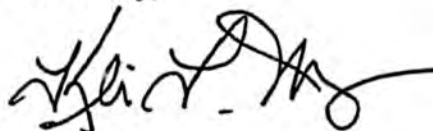
January 13, 2004

The City also has a liability to four (4) currently retired members. These members are already included in your liability, but we wanted to point out that the City is still responsible to the PERS for making benefit payments to those already retired at the time of termination.

A final review of your participation in the PERS and your reporting process will be undertaken to determine if unusual circumstances exist which require adjustment. We would appreciate your continued cooperation in researching any questions that come up. The entire process should be completed in approximately 60 days. This termination does not bar future participation in the PERS by the City.

Thank you for your time and cooperation to this very important matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin Worley", with a stylized flourish at the end.

Kevin Worley
Defined Benefits Accounting Supervisor

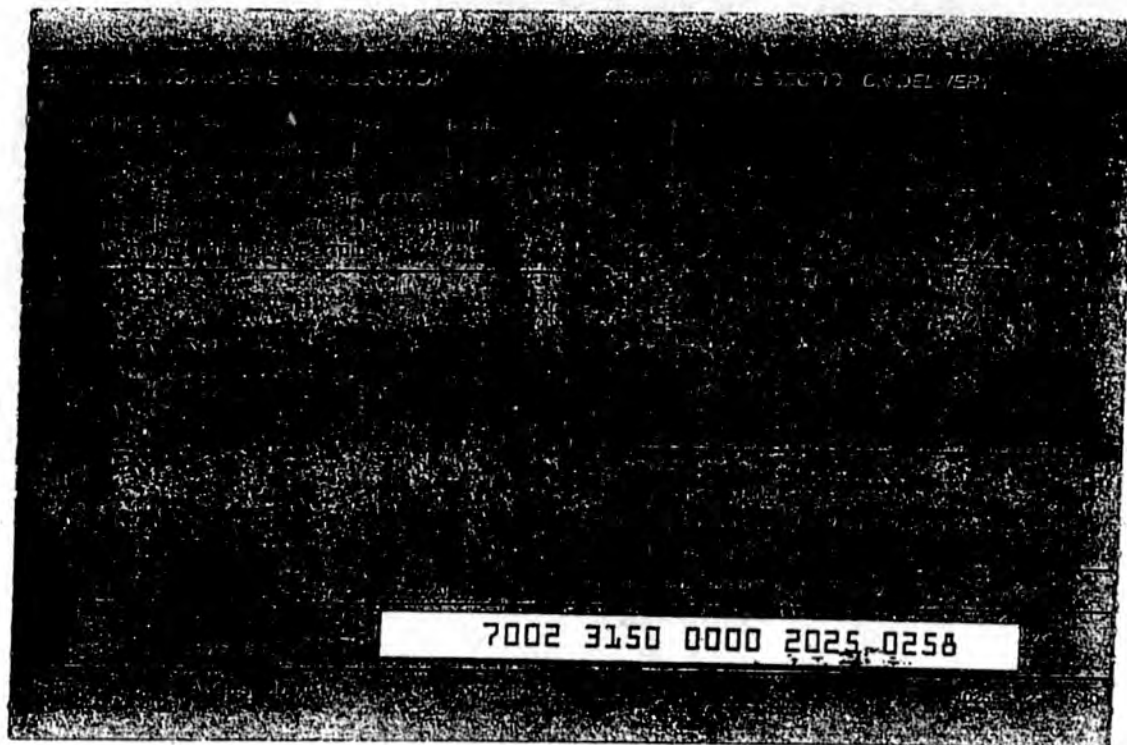
cc: Ray Matiashowski, Commissioner
Department of Administration

Kevin Brooks, Deputy Commissioner
Department of Administration

Melanie Millhorn, Director
Division of Retirement & Benefits

Anselm Staack, CFO
Division of Retirement & Benefits

Kathy Lea, Retirement Supervisor
Division of Retirement & Benefits



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STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

FRANK H. MURKOWSKI, GOVERNOR

PO BOX 110203
JUNEAU, AK 99811-0203
TDD: (907) 465-2805
FAX: (907) 465-3086
PHONE: (907) 465-4460
TOLL-FREE 1-800-821-2251

CERTIFIED MAIL: 7002-3150-0000-2026-4200

April 19, 2005

The Honorable Sven Paukan
City of Saint Mary's
P.O. Box 209
Saint Mary's, AK 99658-0209

RE: City of Saint Mary's Termination from the Alaska Public Employees' Retirement System (PERS)

Dear Mayor Paukan:

This letter is your notification of the final billing (termination liability) with respect to employer # 214 - City of Saint Mary's (City). The City terminated from the PERS effective June 30, 2004 based on Resolution #2004-02 by the City.

Since the City and its employees are terminated from PERS via an amendment of the participation agreement, Alaska Statute 39.35.615 was followed in terminating the City from PERS. Alaska Statute 39.35.615 is shown below:

Sec. 39.35.615. Effect of termination by amendment of agreement.

(a) A political subdivision or public organization may request that its participation agreement be amended. The request may be made only after adoption of a resolution by the legislative body of the political subdivision and approval of the resolution by the person required by law to approve the resolution, or, in the case of a public organization, after adoption of a resolution by the governing body of that public organization. A certified copy of the resolution shall be filed with the administrator. If a political subdivision or public organization amends its participation agreement so as to terminate coverage of a department, group, or other classification of employees, each employee whose coverage is so terminated, regardless of the employee's employment status at the date of termination, shall be considered fully vested in actuarially adjusted accrued retirement benefits as of the date of termination, unless

(1) the employee's contributions have been refunded; or

(2) the political subdivision or public organization amended its participation agreement to exclude coverage for the affected department, group, or other classification of employees at the written request of a majority of the employees employed in that department, group, or other classification at the time the request was made.

(b) Each employee whose coverage is terminated must, within 60 days after the date of termination, inform the administrator, in writing, whether the employee wishes to obtain a refund or a vested benefit.

(c) Each employee who elects to obtain a refund shall receive a refund of the balance of the employee contribution account. The vesting in accrued benefits for each employee who elects to obtain a refund is voided upon receipt of the refund, and the corresponding credited service may not be reinstated under this chapter. A partial refund may not be allowed under this section.

(d) For each employee who elects to obtain a vested benefit, the amount actuarially determined as necessary to fully fund the benefits to be received shall be transferred first from the employee contribution account and, after the employee contribution account has been exhausted, then from the employer contribution account into the retirement reserve account.

(e) After all of the employees whose coverage is terminated have either received refunds or have been vested in their accrued benefits, the remaining funds in the employer contribution account attributable to those employees shall be refunded to the employer.

(f) Termination of coverage of a department, group, or other classification of employees does not bar future coverage of that department, group, or classification. If coverage of a department, group, or classification is terminated under (a) of this section and the employer later amends its participation agreement to provide renewed coverage of that department, group, or classification, an affected employee may be credited only with future service.

Alaska Statute 39.35.640 also applies when completing the employer termination process from PERS.

Sec. 39.35.640. Conclusiveness of action taken upon termination.

In making a distribution, the determinations, divisions, appraisals, apportionments, and allotments made are final and conclusive and not subject to question.

TOTAL LIABILITY AS OF JUNE 30, 2004

The total termination liability for the City as of June 30, 2004 is \$1,392,366. The market value of assets as of June 30, 2004 is \$850,742. The total unfunded termination liability as of June 30, 2004, therefore, is \$541,624 (\$1,392,366 - \$850,742). This is shown on page 17 of the "April 2005 - City of St. Mary's - Termination Study as of June 30, 2004".

The above figures have been calculated under the same methods and assumptions as presented in the June 30, 2003 Actuarial Valuation Report to the PERS with the addition of a 10% load to the Total Accrued Liability to account for the additional financial risk the PERS is assuming on behalf of this terminating employer. Employee data used in the calculations was the same data provided by the State for the June 30, 2004 actuarial valuation report for PERS.

AMOUNT DUE TO PERS

The total amount due to the PERS for the termination of the City from the PERS effective June 30, 2004 is \$541,624. The amount due is for the total unfunded termination liability as of the June 30, 2004 termination study enclosed for your files.

PAYMENT OF UNFUNDED LIABILITY TO THE PERS

Please contact me so that we can make arrangements for payment. If we do not have payment by June 1, 2005, we will begin to charge the City interest of 8.25% (effective June 1, 2005) until the unfunded termination liability of \$541,624 is completely paid.

To ensure proper credit, please make check payable to:

Alaska Public Employees' Retirement System.
ATTN: Kevin Worley
Division of Retirement & Benefits
P.O. Box 110203
Juneau, AK 99811-0203

APPEAL OF UNFUNDED TERMINATION LIABILITY

You may appeal this decision to the Public Employees' Retirement Board. Enclosed are the current regulations outlining appeal procedures. If you wish to appeal, please review the regulations and complete and return the enclosed Notice of Appeal form within 30 days of receipt of this letter. If you do not respond within the prescribed 30 days, you waive your right to appeal to the Board (see 02 AAC 35.100).

Please note that the 30-day filing period applies to receipt of the form only; your appeal will be scheduled at a future date and you will have sufficient time to submit evidence before your hearing (see 02 AAC 35.140 and 02 AAC 35.150).

The Honorable Sven P. Pukan
City of Saint Mary's

-4-

April 19, 2005

Thank you for your time and consideration to this very important matter.

Sincerely,



Kevin Worley
Defined Benefits Accounting Supervisor

Enclosure

cc: Ray Matiashowski, Commissioner
Department of Administration

Kevin Brooks, Deputy Commissioner
Department of Administration

Melanie Millhorn, Director
Anselm Staack, CFO
Kathy Lea, Retirement Supervisor
Larry Davis
Division of Retirement & Benefits

Mr. Walton Smith
City Manager
City of Saint Mary's
3619 Checkmate Dr., Apt B
Anchorage, AK 99503-4905

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- Attach this card to the back of the mailpiece, or on the front if space permits.

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The Honorable Sven Parkan
City of Saint Mary's
PO Box 209
Saint Mary's, AK
99658-0209

2. Article Number
(Transfer from service label)

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 If YES, enter delivery address below: ☐ No

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4. Restricted Delivery? (Extra Fee) ☐ Yes

102-02-M-1540

My name is **Jeffrey Sinz**

Currently employed as the **Chief Fiscal Officer for the Municipality of Anchorage**

I have over 25 years of experience in local government and school system financial management, 21 of which has been in Alaska.

I have also served about 7 years on the Alaska State Pension Investment Board with my term on the Board ending this past October when the new ARM Board was appointed.

My testimony is representative of the views held by the administration of Mayor Begich.

It has not been heard or endorsed by the Municipal Assembly

Early on, I would like to thank this committee for providing local government representatives with an opportunity to be heard on this important matter. Rapidly increasing employer contribution rates associated with PERS participation is clearly one of the most significant financial challenges facing local governments during the foreseeable future. Unfortunately, there are no painless or readily available solutions.

My testimony today will address the following PERS related topics:

- Valuation Status – Statewide
- Valuation Status – Anchorage (All)
- Financial Impact on Municipality
- Impact and Municipal Treatment of Temporary Funding Provided Under SB46
- Possible Solutions
- Pension Obligation Bonds and their potential Impact on Anchorage Contribution Rates

Most of the numbers I will use today are based on the 2003 Valuation Report and Supplement.

Valuation Status – Statewide

- Problem Surfaced with PERS Valuation Report Dated June 30, 2002.
 - Funding Decreased from 101% to 75% in one year
 - Unfunded Pension Liability = \$2,874,000,000 (System Wide)
 - Average Employer Contribution Increased from 6.8% to 24.9% (+266%)
- Drop in Funding Status Based Primarily on Changes in Assumptions and Actuarial Methodologies that changed the actuaries forecast of future costs.
- Lessons Learned... Two points often overlooked:
 - Same Actuaries looking at the same situation reached radically different Valuation Conclusions one year to the next – significance of actuarial assumptions and methodologies in defining and addressing problem.
 - What Constitutes Fully Funded?
 - Accounting Perspective - GAAP
 - Plan Administration Perspective – Drives Contribution Rates

Valuation Status – Anchorage (All) (2003 Valuation)

- Three Employer ID's
 - Municipality of Anchorage (76% of employees participate in PERS)
 - Unfunded Liability = \$229 million
 - Funded Ratio = 74%
 - Employer Contribution Rate FY04 = 3.7%
 - Actuarial Determined Rate FY06 = 24.9%
 - Actuarial Determined Increase = 21.2%
 - Adjusted Rate FY06 = 13.7%
 - Anchorage School District
 - Unfunded Liability = \$145 million
 - Funded Ratio = 70%
 - Employer Contribution Rate FY04 = 9.3%
 - Actuarial Determined Rate FY06 = 26.1%
 - Actuarial Determined Increase = 16.8%
 - Adjusted Rate FY06 = 19.3%
 - Anchorage Parking Authority
 - Unfunded Liability = \$1.1 million
 - Funded Ratio = 73%
 - Employer Contribution Rate FY04 = 4.2%
 - Actuarial Determined Rate FY06 = 20.5%
 - Actuarial Determined Increase = 16.3%
 - Adjusted Rate FY06 = 14.2%

Financial Impact Municipality of Anchorage (Only)

- Annual Contribution Rate Full Impact in Dollars = \$28 million
- Annual Tax Supported Impact = \$21.3 million
- Local Areawide Property Tax Rate Equivalent = 1 mill
- Impact on Average Owner Occupied Residence = \$222 per year

- Annual Contribution Rate 5% Impact in Dollars = \$ 6.6 million
- Annual Tax Supported Impact = \$ 5.0 million
- Local Areawide Property Tax Equivalent = 0.25 mills
- Impact on Average Owner Occupied Residence = \$ 55 per year

Anchorage Tax Limitation: The Anchorage Charter contains a voter approved tax limitation that limits the annual increase in revenue from all taxes to corresponding increases in CPI and population. It also provides for new taxes associated with new construction, voter approved debt service and certain other voter approved taxes. The property tax related impacts identified above would not be an allowable increase under the tax limitation. The Municipality therefore has no ability to increase taxes to pay for the PERS cost increases. As a result, increases in PERS contribution rates will require offsetting reductions in other expenditures or the generation of new non-tax revenues.

Note: The above impacts are calculated based on 2003 valuation Report and Supplement. Dollar impacts and assessed valuation used for calculating tax impacts are based on the Municipality of Anchorage approved 2005 budget. Actual impacts are likely to be higher as indicated by the preliminary 2004 Valuation Report.

Impact and Municipal Treatment of Temporary Funding Provided Under SB46

In March of 2005, the Anchorage Assembly passed Resolution 2005-76, stating their intent to use any new operating assistance received from the State of Alaska for local tax relief. Of the \$6.6 million received under SB46, \$5 million was applicable to tax supported activities. Consistent with the stated intent of Resolution 2005-76, \$5 million was isolated and will be used to fund a one-time reduction in property taxes in 2006.

Possible Solutions

- Statewide
 - Direct
 - SOA Unfunded Liability Buy Down
 - Maximum Annual Employer Contribution (20%)
 - Indirect
 - Facilitate Pension Obligation Debt (HB 278 type legislation)
 - Define Fully Funded – Target for rate setting might not be 100%
 - Protection for those who act prior to SOA (Hold Harmless)
 - Limitations on Changes to Actuary Assumptions/Methodologies
- Local
 - Pension Obligation Bonds (more to follow)
 - Increased Contribution Rates
 - Limited Ability to Raise Additional Revenue (tax limit)
 - Effective Budget Cut

Pension Obligation Bonds (POB's)

- Currently no clear statutory authority to issue POB's
- Few local governments have the financial resources to plan and execute a POB sale without assistance
- Potential benefit of POB's extends to almost all PERS participant employers
- State of Alaska facilitated mechanism (HB278) would create a clear legal and structural vehicle that PERS employers could access to evaluate and pursue potential benefits of POB's

Magnitude of Potential Savings with POB's
Anchorage as an Example (25 Year Period)

	<u>Current Unfunded Liability</u>	<u>POB Future Dollar Savings</u>	<u>Annual Dollar Savings</u>	<u>POB Rate Reduction</u>
Municipality of Anchorage	\$229 million	\$166 million	\$6.6 million	3.14%
Anchorage School District	\$145 million	\$104 million	\$4.1 million	3.44%

These numbers assume that the entire past service rate component of the employer contribution which is in effect a liability with an interest rate of 8.25%, the PERS earnings assumption, is replaced with a 25 year taxable POB at a rate of 5.908%. The nominal savings that occurs over 25 years due to the lower rate of interest produces the POB Future Dollar savings listed above. The Annual Dollar Savings is the total divided by 25 years, the amortization period of the past service liability and the term of the POB's. The POB Rate Reduction is the anticipated reduction in the employer contribution rate resulting from the annual savings. These estimates were calculated by Merrill Lynch. They assume the actuarial earnings assumption is achieved along with other growth assumptions included in Mercer's actuarial forecast. The numbers are intended to be representative of potential savings only.

Payment to Unfunded Liability per Tier - Actual Dollar Value

based on 2003 valuation data

	2005	2010	2015	2020	2025	2028	Total
Alaska, State of (Tiers 1, 2 & 3)	27,984,459	85,959,795	65,432,375	43,334,096	23,976,007	2,469,795	1,259,038,718
Alaska, State of (Tier 4)	2,619,186	54,238,157	105,226,178	166,821,723	239,200,826	44,218,011	2,638,242,355
Total	30,603,645	140,197,952	170,658,553	210,155,819	263,176,833	46,687,805	3,897,281,073
Aleutian Housing Authority (Tiers 1, 2 & 3)	15,744	12,735	9,694	6,420	3,552	1,584	208,921
Aleutian Housing Authority (Tier 4)	1,474	8,036	15,590	24,716	35,439	28,005	456,525
Total	17,218	20,771	25,284	31,136	38,991	29,569	665,446
Aleutians East Borough (Tiers 1, 2 & 3)	18,005	14,584	11,086	7,342	4,062	2,209	239,345
Aleutians East Borough (Tier 4)	1,685	9,190	17,829	28,265	40,529	39,543	529,606
Total	19,691	23,754	28,915	35,607	44,591	41,751	768,951
Aleutians E Borough School District (Tiers 1, 2 & 3)	30,697	80,381	61,171	40,512	22,414	2,709	1,198,872
Aleutians E Borough School District (Tier 4)	2,873	50,706	98,373	155,957	223,622	48,504	2,516,401
Total	33,570	131,067	159,544	196,468	246,036	51,213	3,715,273
Aleutians West CRSA (Tiers 1, 2 & 3)	2,015	6,618	5,037	3,336	1,846	178	95,913
Aleutians West CRSA (Tier 4)	189	4,176	8,101	12,843	18,415	3,184	201,476
Total	2,204	10,793	13,138	16,179	20,261	3,362	297,389
Anchorage Parking Authority (Tiers 1, 2 & 3)	36,836	55,956	42,594	28,209	15,607	3,251	879,892
Anchorage Parking Authority (Tier 4)	3,448	35,307	68,498	108,594	155,709	58,205	1,907,304
Total	40,284	91,263	111,091	136,802	171,316	61,456	2,787,196
Anchorage School District (Tiers 1, 2 & 3)	2,702,043	7,323,406	5,574,558	3,691,879	2,042,653	238,471	108,876,344
Anchorage School District (Tier 4)	252,896	4,620,859	8,964,820	14,212,496	20,378,886	4,269,476	228,293,890
Total	2,954,939	11,944,265	14,539,378	17,904,376	22,421,539	4,507,948	337,170,234
Anchorage, Municipality of (Tier's 1, 2 & 3)	4,745,824	11,586,408	8,819,544	5,840,946	3,231,695	418,847	174,120,449
Anchorage, Municipality of (Tier 4)	444,182	7,310,690	14,183,299	22,485,682	32,241,566	7,498,837	366,261,047
Total	5,190,006	18,897,098	23,002,843	28,326,628	35,473,261	7,917,684	540,381,496
Fairbanks North Star Borough (Tiers 1, 2 & 3)	608,400	1,062,237	808,572	535,496	296,281	53,695	16,558,048
Fairbanks North Star Borough (Tier 4)	56,943	670,241	1,300,319	2,061,479	2,955,894	961,328	35,429,486
Total	665,343	1,732,479	2,108,892	2,596,974	3,252,175	1,015,023	51,987,534

Prepared by the office of Rep. Paul Seaton

Payment to Unfunded Liability per Tier - Actual Dolar Value

based on 2003 valuation data

	2005	2010	2015	2020	2025	2028	Total
Fairbanks N S School District (Tiers 1, 2 & 3)	887,718	1,878,174	1,429,661	946,826	523,862	78,346	28,694,529
Fairbanks N S School District (Tier 4)	83,085	1,185,074	2,299,134	3,644,962	5,226,406	1,402,677	60,647,824
Total	970,804	3,063,248	3,728,795	4,591,788	5,750,268	1,481,023	89,342,354
Fairbanks, City of (Tiers 1, 2 & 3)	208,345	710,453	570,832	391,989	220,699	18,388	10,621,260
Fairbanks, City of (Tier 4)	19,500	448,276	917,993	1,509,025	2,201,842	329,204	23,077,136
Total	227,845	1,158,729	1,488,825	1,901,014	2,422,541	347,592	33,698,396
Homer, City of (Tiers 1, 2 & 3)	160,072	315,464	240,130	159,032	87,990	14,127	4,863,093
Homer, City of (Tier 4)	14,982	199,049	386,169	612,219	877,843	252,929	10,304,816
Total	175,054	514,512	626,300	771,251	965,832	267,056	15,167,909
Juneau Borough School District (Tiers 1, 2 & 3)	323,413	830,347	632,058	418,595	231,801	28,543	12,412,254
Juneau Borough School District (Tier 4)	30,270	523,925	1,016,454	1,611,450	2,310,611	511,022	26,068,311
Total	353,682	1,354,272	1,648,512	2,030,044	2,542,212	539,565	38,480,564
Juneau, City & Borough of (Tiers 1, 2 & 3)	950,284	2,843,115	2,164,172	1,433,272	793,005	83,868	41,822,786
Juneau, City & Borough of (Tier 4)	88,941	1,793,923	3,480,349	5,517,618	7,911,552	1,501,535	87,549,430
Total	1,039,225	4,637,038	5,644,520	6,950,890	8,704,557	1,585,404	129,372,217
Kenai Peninsula Borough (Tiers 1, 2 & 3)	454,935	1,217,728	926,931	613,882	339,650	40,151	18,126,201
Kenai Peninsula Borough (Tier 4)	42,579	768,351	1,490,660	2,363,238	3,388,578	718,840	38,021,273
Total	497,515	1,986,079	2,417,591	2,977,119	3,728,228	758,990	56,147,474
Kenai Peninsula School District (Tiers 1, 2 & 3)	400,698	1,260,288	959,328	635,337	351,521	35,364	18,389,261
Kenai Peninsula School District (Tier 4)	37,503	795,206	1,542,760	2,445,835	3,507,012	633,139	38,567,719
Total	438,201	2,055,494	2,502,088	3,081,172	3,858,533	668,503	56,956,980
Lake & Peninsula Borough (Tiers 1, 2 & 3)	12,507	37,129	28,262	18,717	10,356	1,104	546,875
Lake & Peninsula Borough (Tier 4)	1,171	23,427	45,450	72,055	103,318	19,761	1,144,455
Total	13,677	60,556	73,713	90,773	113,674	20,865	1,691,329
Lake & Peninsula Borough School District (Tiers 1, 2 & 3)	58,408	123,330	93,878	62,173	34,399	5,155	1,884,678
Lake & Peninsula Borough School District (Tier 4)	5,467	77,818	150,972	239,345	343,190	92,290	3,983,672
Total	63,874	201,147	244,850	301,518	377,590	97,444	5,868,349
Unalaska City School District (Tiers 1, 2 & 3)	30,378	35,104	26,721	17,697	9,791	2,681	561,217
Unalaska City School District (Tier 4)	2,843	22,150	42,972	68,126	97,684	48,000	1,227,950
Total	33,221	57,253	69,693	85,822	107,475	50,681	1,789,168

Payment to Unfunded Liability per Tier - Actual Dolar Value

based on 2003 valuation data

	2005	2010	2015	2020	2025	2028	Total
Unalaska, City of (Tiers 1, 2 & 3)	341,871	276,378	210,377	139,327	77,087	30,233	4,530,139
Unalaska, City of (Tier 4)	31,978	174,385	338,321	536,361	769,072	541,277	9,840,719
Total	373,649	450,761	548,697	675,688	846,159	571,510	14,370,858
Wrangell Public School District (Tiers 1, 2 & 3)	25,007	51,017	38,834	25,719	14,230	2,207	782,970
Wrangell Public School District (Tier 4)	2,341	32,190	62,451	99,008	141,964	39,513	1,657,006
Total	27,348	83,207	101,285	124,726	156,194	41,720	2,439,976
Wrangell, City of	92,458	281,865	214,555	142,094	78,618	8,160	4,133,502
Wrangell, City of	8,654	177,849	345,040	547,014	784,347	146,091	8,659,041
Total	92,458	281,865	214,555	142,094	78,618	8,160	4,133,502
SYSTEM PERS TOTAL							-
Total PERS (Tiers 1, 2 & 3)	54,173,087	141,050,838	107,477,292	71,225,784	39,419,761	4,837,602	2,094,609,781
Total PERS (Tier 4)	5,070,292	88,999,019	172,841,421	274,195,360	393,278,131	86,610,086	4,408,064,674
Total	59,243,379	230,049,857	280,318,713	345,421,143	432,697,892	91,447,688	6,502,674,455

LEGEND

Past Service Cost Associated with Tiers 1, 2 & 3
 Past Service Cost Associated with Tier 4
 Total Past Service Costs Payment Amount

***Note:** The past service cost payments are calculated for each individual employer only up to the system wide average. Therefore, the total of payments will be less than the actual unfunded liability for 2003. For example, the total unfunded liability for communities such as Fairbanks that have a higher past service cost payment than the average are not reflected in this chart.

Payment to Unfunded Liability per Tier - Actual Dolar Value

based on 2003 valuation data

2005	2010	2015	2020	2025	2028	Total
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December 8, 2005

Representative Weyhrauch, Chair
House Ways and Means Committee

Dear Representative Weyhrauch and members of the Ways and Means Committee:

Thank you for holding the committee meeting in Kenai on December 7. I thought the testimony helped get valuable information out and will serve to increase understanding and facilitate a solution.

However, I am concerned about the reaction that I saw regarding municipalities that were not among the twenty that were listed in Attachment #4 of Melanie Millhorn's report as 'Employers who chose to stay at their previously reported (FY06) rate'. The reality is that employers do not have the option to pay less than the rate established by the PERS Board. All of the employers are paying at least the rate that they were told to pay, which is the FY06 rate. Twenty employers have chosen to pay an additional 5% above the required rate.

SB 46 says: **Sec. 59. RETIREMENT SYSTEM FUNDING FOR INCREASED EMPLOYER COSTS FOR POLITICAL SUBDIVISIONS.** (a) The sum of \$18,426,923 is appropriated from the general fund to the Department of Administration to reduce the liability to the public employees' retirement system of political subdivisions that are members of that system, **in order to reduce the increased employer costs resulting from fiscal year 2006 employer contribution rate increases.** The Department of Administration shall allocate the appropriation to the public employees' retirement system account of each political subdivision based on the increased employer cost for that political subdivision resulting from fiscal year 2006 employer contribution rate increases, as estimated by the Department of Administration as of September 29, 2004, and as set out in (b) of this section. **The appropriation made by this subsection is intended to reduce these increased employer costs, based on current estimates, but may not fully eliminate the increased employer costs because of changes in political subdivision payroll amounts and other factors.** The appropriation made by this subsection is a one-time appropriation and is not intended to recur for fiscal year 2007.

(b) For purposes of allocating the appropriation made by (a) of this section to the public employees' retirement system account of each member political subdivision, the increased employer costs of the political subdivisions are as follows:

(emphasis added)

Clearly the intent of this legislation was to reduce the impact of the 5% increase in PERS rates on municipalities by contributing State money equal to the 5% increase directly to the PERS. Municipalities never touched this money, it went directly to the PERS. They had no ability to spend the money at all, let alone spend it for some purpose other than what it was intended for.

Most municipalities (other than the 20) are simply paying the remaining portion of their PERS rate through the regular system of deposits to the PERS. In my opinion, this is exactly what was expected to happen. Rates were going up 5%, but municipalities would not be impacted because the State was paying the 5%. So municipalities were expected to subtract the 5% from the required rate because the State already paid it on their behalf.

The twenty that chose to pay the full 5% increase from their own resources have actually paid more than the PERS required. Everyone should have that prerogative, but those that were not able to make that extra commitment (or that simply had other priorities) should not be viewed unfavorably. The legislation was intended to reduce the impact of the 5% rate increase and for most municipalities that is exactly what happened.

Personally, I do not have any problem if future legislation providing similar PERS aid contains a requirement for municipalities to contribute some of their own resources. But SB 46 did not contain any such requirement and to my knowledge there was no expectation that municipalities would pay more than the rate the PERS told them to pay.

I hope that this clarifies this issue.

If you have any questions please contact me.

Sincerely,



Lawrence A. Semmens
Finance Director

Cc: Senator Tom Wagoner
Representative Mike Chenault
Melanie Millhorn
Kevin Richie

3763 Mitchell Avenue B
Fairbanks AK 99709-4636

(907) 374-0597
drobbins@gci.net

December 7, 2005

Representative Bruce Weyhrauch
House Ways and Means
State Capitol, Room 421
Juneau, AK 99801-1182

RE: Funding of Public Employees Retirement System Shortfall

Chair Weyhrauch and Committee,

I retired from the Alaska Department of Labor, Employment Security Division in December 1999. I am a member of the Retired Public Employees of Alaska (RPEA) and serve as their new Director of Legislative Affairs. However, today I speak for myself and not for RPEA.

Below I have outlined a few of the reasons that I ask you to act quickly to restore solvency to the pension fund. The majority of state employees who worked many years were never paid the high salaries that are so often referred to when talking about the great retirement benefits that state employees receive. Most of us worked at average and lower pay rates, often forgoing cost of living increases or getting increases less than the actual cost of living. That took its toll over time and resulted in lesser pension payments now. Employees remained in positions longer than they might have because they believed their job contract would be honored and, speaking for myself, felt that in that position they were providing an important public service. Those who worked in the managerial and supervisory positions earned every penny they received as well, having the responsibility of oversight to assure that state operations were carried out according to statute.

I ask you to act quickly to restore security to Alaska's Public Employee Retirees by using some of the surplus oil earnings to restore the funding short fall, or at least a large portion of it. If necessary, pay off the remainder over time. I appreciate your efforts to take a hard look at the funding problem and hope you will follow through with a plan to get it back to appropriate levels. The retirees are even more anxious than you are that the under funding is fixed.

The previous cooperative efforts of Retirement & Benefits, former PERS and TRS Boards, Retiree Organizations and the Health Care Administrator produced millions of dollars in savings annually. For this reason I ask the legislature to find a way to give the ARM Board oversight of retirement system expenditures. The former board was the one, which first questioned the practices that got our retirement fund into the condition that brought us here today. The retirees want to continue to work with you to conserve the fund. It is in our best interest to make every effort to keep it solvent through wise practices and finding ways to reduce health care costs. We have voluntarily, through our own efforts, saved much money by encouraging our members to request generic prescription drugs whenever possible.

Another troubling matter has come to mind in recent weeks. Recently, I observed what seemed to be an attempt to make villains out of public employees because of their concern. I have a real fear of further loss. The majority of retired public employees that I have spoken

with, as well as myself, are feeling the pinch of reduced benefits. We are greatly concerned as we grow older, and the pension benefits do not keep up with other cost of living increases. We have already had health care benefits diminish, and now when reaching age 65 get a new insurance bill that seems to go up every year, a Medicare premium.

This happens at the same time that Medicare pays doctors so little that they are, in growing numbers, beginning to refuse to take Medicare patients. On top of that, unless Medicare is billed first, the state retiree insurance plan will pay nothing at all. Looking at the possibility of finding no doctor to accept you, while becoming more in need of care with increasing age, is an unsettling situation. Working with such frustrating problems becomes even more difficult with the onset of illness and increasing age.

Is it any wonder that many retirees fear the current situation of under funding? The loss of pension benefits is occurring all across the country. Now there has been talk, of amending the Alaska Constitution in order to reduce our pension benefits. I know that in the past the fund has fluctuated without such an outcry and always rebalanced with the use of good investment practices. Now, with no new employees contributing into the fund there is another realistic fear that the fund could run out of money and leave us in the same situation that many are experiencing in other states. In the current climate of devaluing retirees, contractual obligations do not seem to be taken seriously anymore. Why wouldn't we worry?

I was never allowed to be involved in the decision making process for setting an employee or employer contribution rate, or any issue related to how much would be set aside from me or my employer for my retirement benefit. My share was simply removed from my paycheck before I ever saw it. I believe the state is responsible to make good on the missing dollars and use greater care to see that such matters are done by the book and not according to some political agenda in the future.

Thank you for your efforts outside of the regular session to look for a solution to this serious problem.

Sincerely,

Doris Robbins

cc: Representative Rokeberg
Representative Samuels
Representative Seaton
Representative Wilson
Representative Gruenberg
Representative Moses

Ginny Austerman

From: Darwin Walter [darwal@gci.net]
Sent: Wednesday, November 30, 2005 10:18 PM
To: Ginny Austerman
Subject: PERS/TRS Trust Fund Comments

The PERS and TRS trust fund "crisis" needs to be put into perspective: the fund has often been funded at less than 100% but over time, it has recovered to 100% funding. This is typical of most public pension trust funds.

The "crisis" was generated in part by the original actuary, hired by the state, who made significant errors which contributed to the underfunding, including inaccurate information about health care costs, salaries, costs of legislation, mortality tables, etc. Also a system not commonly used to determine the "unfunded liability" was used. The Legislature should follow the advice of its own actuary to recalculate the numbers using more commonly used systems, since even minor changes in calculation methods can have a major impact upon the calculated funding ratio.

A good retirement plan and an employer that honors its commitment to its employees is essential to the current and future recruitment and retention of quality employees. The State is already having problems by not providing an adequate level of compensation to compete for well qualified employees in many critical occupations. Failure by the State to maintain the proper funding for the retirement programs will compound the recruitment and retention problems as well as put the future economy of the state in jeopardy. Economically strapped senior citizens are a drag on the economy. A good retirement program encourages retired State workers to remain in Alaska and spend that money largely in the Alaskan economy. If the State cries "poor mouth" it will indeed be poor.

Since they are not on-going recurring costs, the Legislature should fund the additional 5% employer contribution to the PERS/TRS funds and pay down the "unfunded liability" from the anticipated budget surplus.

PERS/TRS trust funds were also impacted by the high cost of health care.

The previous cooperative efforts of Retirement & Benefits, former PERS and TRS Boards, Retiree Organizations, and the health care administrator produced millions of dollars in savings annually. The Legislature needs to amend SB141 to give the ARM Board oversight of retirement system expenditures.

Ginny Austerman

From: Heath Hilyard
Sent: Tuesday, September 20, 2005 3:36 PM
To: Phelan Straube; Miles Baker; Katie Shows
Cc: Ginny Austerman
Subject: FW: CAPITOL REVIEW: PERA's Problems Are Real But Not Unique

From: Heath Hilyard [mailto:heathedward@hotmail.com]
Sent: Tuesday, September 20, 2005 3:35 PM
Cc: Heath Hilyard
Subject: FW: CAPITOL REVIEW: PERA's Problems Are Real But Not Unique

"Do your damndest in an ostentatious manner all the time."
- General George Patton Jr

From: "Treasurer Hillman" <treasurer.hillman@state.co.us>
To: "Mark Hillman" <treasurer.hillman@state.co.us>
Subject: *CAPITOL REVIEW: PERA's Problems Are Real But Not Unique*
Date: Tue, 20 Sep 2005 15:29:29 -0600
>CAPITOL REVIEW: PERA's Problems Are Real But Not Unique
>By State Treasurer Mark Hillman
>
>State employees - and taxpayers, in general - are rightly concerned
>about the long-term health of the Colorado Public Employees
>Retirement Association (PERA). Unfortunately, PERA's predicament
>isn't unique. In fact, it's entirely too typical among public
>pension plans nationwide.
>
>A Wilshire and Associates survey of state retirement systems found
>that a stunning 93 percent don't have enough assets to meet existing
>liabilities and that 16 states have pension deficits that exceed
>their entire state budget.
>
>West Virginia's state pension system can cover only 40 percent of
>its existing liabilities. Meanwhile, Illinois holds the dubious
>distinction of the nation's largest public pension deficit, \$43
>billion, equal to 197 percent the state's annual budget.
>
>In Colorado, PERA's assets currently cover just 71 percent of its
>liabilities, leaving a deficit of \$11.3 billion. For perspective,
>the state's general fund budget - that portion of spending supported
>by income and sales taxes - is \$6.3 billion. The spending increase

- >proposed by Referendum C is estimated at \$3.6 billion over five
- >years.
- >
- >By contrast, some state pension plans remain strong. Both Florida
- >and North Carolina have more than enough assets to meet existing
- >liabilities. Right here in Colorado, municipal pension plans in
- >Aurora and Denver are funded at 99 and 98 percent, respectively. All
- >of these plans offer "defined benefits."
- >
- >Like many public plans, PERA seemed to be on solid footing when the
- >stock market was booming. In 2000, PERA's assets represented 105
- >percent of its liabilities.
- >
- >Most state plans experienced similar declines, but Lance Weiss of
- >Deloitte Consulting recently told a gathering of state treasurers
- >not to expect the stock market to rescue pension systems.
- >
- >"No market recovery will be enough to fix it," Weiss said of the
- >nationwide pension crisis.
- >
- >In fact, the booming conditions in the late 1990s masked existing
- >problems in pensions systems across the country.
- >
- >Private sector pension plans are required to meet minimum funding
- >standards set by the federal Employee Retirement and Income Security
- >Act (ERISA), but no federal law establishes similar standards for
- >government pension systems.
- >
- >That's a big problem because governments are notoriously
- >short-sighted and for perfectly understandable reasons, not the
- >least of which is the "moral hazard" which affects elected lawmakers
- >and especially those subject to term limits.
- >
- >Lawmakers who vote to increase benefits are lauded by state workers
- >and their unions. Lawmakers who vote against increases or for
- >changes that improve the plan's long-term stability are vilified.
- >Thus, the political incentive becomes to increase benefits and pass
- >the problem along to someone else.
- >
- >"The fact that policymakers are able to make decisions for which
- >they do not have to bear the consequences actually encourages risky
- >behavior," write George Passantino and Adam Summers of Reason
- >Foundation. Worse still, some interpretations of court decisions
- >conclude that once a pension benefit has been raised it cannot be
- >lowered, except for future employees. Certainly, workers and
- >retirees are entitled to the benefits they have already earned.
- >
- >However, this "ratchet-up" interpretation suggests that a first-year
- >worker who was on the job when a benefit increase was adopted has a
- >contractual right to continue to rack up those same benefits for the
- >next 20 or 30 years - no matter how much that endangers the plan's
- >ability to pay benefits to everyone else.
- >
- >By contrast, it is a widely accepted constitutional standard that
- >this year's legislature cannot obligate next year's legislature to
- >spend money in a certain way, so the one-way ratchet-up doctrine is
- >ripe for further examination.
- >
- >A final, unavoidable problem for state pension plans is the changing
- >demographics of the work force. As baby boomers age, 40 percent of
- >government workers may retire in the next 10 years. Early retirement
- >incentives complicate the problem by taking experienced workers off
- >the job and enabling them to draw benefits even longer, which
- >creates yet another costly burden.
- >
- >State workers deserve a pension plan they can count on, and
- >taxpayers deserve a plan they can afford. To meet those objectives
- >will require bold, decisive action and a spirit of cooperation from

>state officials, PERA, and its members.

>

>Mark Hillman is Colorado's acting State Treasurer. His e-mail

>address is mail@markhillman.com.

>

>

Ginny Austerman

From: Larry Semmens [lsemmens@ci.kenai.ak.us]
Sent: Thursday, November 10, 2005 8:06 AM
To: Ginny Austerman
Subject: FW: Arthur Levitt on pension accounting - WSJ today

Ginny:
This is a good article
Larry

Subject: Arthur Levitt on pension accounting - WSJ today

COMMENTARY**Pensions Unplugged**

By ARTHUR LEVITT, JR.
November 10, 2005; Page A16

As the wave of pension defaults that began with the steel companies and the airlines now threatens to engulf auto-parts makers and even car companies themselves, the pension crisis has grabbed headlines. Proposals to shore up the Pension Benefit Guaranty Corporation (PBGC) are making their way through Congress. Meanwhile, the problem -- in the private and the public sector -- will only get worse unless immediate action is taken to bring accuracy, transparency and accountability to pension accounting.

Over the past three decades, we have allowed a system of pension accounting to develop that is a shell game, misleading taxpayers and investors about the true fiscal health of their cities and companies -- and allowing management to make promises to workers that saddle future generations with huge costs. The result: According to a recent estimate by Credit Suisse First Boston, unfunded pension liabilities of companies in the S&P 500 could hit \$218 billion by the end of this year. Others estimate that public pensions -- the benefits promised by state and local governments -- could be in the red upwards of \$700 billion.

Claims on the PBGC have skyrocketed. If serious reform is not undertaken, the non-partisan Center on Federal Financial Institutions estimates that the PBGC could easily face a \$100 billion hole, delivering to our overburdened treasury a crisis exceeding the massive savings-and-loan bailout of the late 1980s. It's imperative that we reform the regulatory incentives and accounting rules that encourage employers to make, and employees to accept, promises that can't be kept.

- First, we need to bring transparency and honesty back to

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pension accounting. Currently, there is far too much subjectivity and outright guesswork. The real economic liability for a company's pension plan and the actual value of assets that will be used to meet that obligation are often not reflected on the balance sheet. Instead, the rules allow companies to hide the obligations in footnotes that sometimes not even the most skilled analysts can understand, and to rely on projected numbers, too often unrealistic, of what they anticipate their pension plans' earnings and liabilities will be.

In all my years in and around Wall Street, I have never met anyone who could accurately forecast the market for a 30- or 40-year period. Yet that is precisely what we allow companies to do. The "smoothing" of assets and obligations masks underlying volatility and is producing financial statements that are deceptive. These projected numbers not only hide the true financial health of a company and can be used to artificially boost earnings (and in many cases executive compensation); they also save companies from making additional contributions to the PBGC that they might otherwise be obligated to make if their real financial status were revealed. The financial community recently rejected this sort of Potemkin accounting with regards to the expensing of stock options, and we should reject it as well with regards to pensions.

The Financial Accounting Standards Board (FASB) will reportedly soon address this issue -- and it cannot do so quickly enough. Pension plan assets and obligations are real assets and liabilities and should be reflected as such on the balance sheet. They should be valued accurately to give a realistic and transparent picture of what pension obligations are; what assets have been accumulated to meet them; and what the overall financial situation of a pension plan's sponsor is.

- Second, investors and pensioners deserve relevant and understandable information from pension plans about their fiscal health and operations, not impenetrable financial statement footnotes. It's time that we got away from jargon and addressed the average individual in a language that he can understand.

This should start with lifting the shroud of mystery around discount rates used to compute the present value of pension obligations (and thus the size of the liability or asset reported). For too long, companies have played with various variables to devise a rate that helps them to recalibrate employee retirement plan assets and liabilities in order to manage earnings. At the same time, many unions have been the willing victims, trading current wage increases for pension promises -- and ultimately getting neither. And instead of exercising sound professional judgment, too many accountants and actuaries, the ultimate

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gatekeepers, have been all too willing to go along for the ride, giving these estimates and assumptions their seal of approval while arguing that everyone else is "doing the same."

As a result, according to a Glass, Lewis and Co. study of the largest U.S. companies, the average company in this group could be understating future health care costs by 4% annually, adding billions to their bottom line that they don't actually have. The SEC and the Public Company Accounting Oversight Board should use their enforcement capabilities to stop the misleading of investors by companies who have fudged or abused accounting and disclosure rules -- and by the accountants and actuaries facilitating it. Actuaries must be held accountable to regulators in the same way as are accountants.

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The FASB has recently required companies to give investors a projection of the benefit payments the plan is expected to make to pension plan participants in each of the next five years. It should build on this by requiring companies to disclose in their footnotes projected income from changes in asset values in the plan. To hold companies accountable for these projections, the FASB should require them to tell the public how those projections held up against reality. Such disclosure will help to create a system where off-base projections will be transparent and the gaming of the numbers will not have any real upside.

- Third, while the most recent headlines have focused on the impending crisis in corporate pension plans, there is perhaps an even larger problem with the public pensions of state and local governments. Not only are unfunded liabilities moving toward \$1 trillion, but the accounting standards in this arena lag behind that of corporate America. Weakened disclosure rules fail to reflect accurately the assets and liabilities of public pension plans; alternative actuarial procedures are allowed that can be abused to lower reported costs; and the current rules fail to provide citizens and elected officials with a clear picture of what claims these programs will be making on future tax revenues. Contributing to these loose standards is a constituency of public pension officials and government finance officers who resist any moves to greater transparency.

Unrealistic pension assumptions already have gotten a number of public entities -- such as the city of San Diego and the states of Colorado and Illinois -- into economic difficulty, trouble that will spread if these impractical assumptions are not reined in. This past year, I have served as a member of the audit committee charged with investigating and remediating allegations of problems surrounding San Diego's pension funds and finances. I have seen firsthand how devastating apparent examples of bad pension accounting and mismanagement can be, and how vital correcting both are to the overall health of the capital markets and the retirements of tens of millions of workers and retirees.

Untangling the web of problems plaguing the automotive and airline industries, as well as those of municipalities and states, has not been easy. Putting their pension plan and finances on sound footing will require great sacrifice for all affected: investors, employees, management and citizens. To avoid the pain that Delphi and San Diego are undergoing, we must now place defined-benefit pension plans on solid ground. Doing so may be difficult for many cities and companies. But it will be very good for America.

Mr. Levitt is former chairman of the SEC.

Alaska State Legislature
House Ways and Means Committee, December 7, 2005
PERS/TRS Funding Shortfall Issue

Testimony of Melody Douglas, CFO

Good afternoon. My name is Melody Douglas and I am the Chief Financial Officer for Kenai Peninsula Borough School District (District). Thank you for the opportunity to speak on this important matter. The District is the 4th largest school district in the State. It is also the largest employer on the Kenai Peninsula, employing approximately 1200 people.

First of all, thank you for the additional funding approved for education in recent years that has included funds to address increased retirement rates and other operating costs. Thank you also for the additional funds to municipalities to address their rising PERS rates – this legislation allowed the Kenai Peninsula Borough Assembly to abandon discussions to reduce local education funding for FY06. However, I am extremely concerned that the Kenai Peninsula Borough might not be able to continue supporting the District to the funding formula cap, which they have done since its inception, due to their increased costs and revenue sharing and other losses.

KPBSD has used the increased education funds received in recent years to pay the 5% retirement rate increases and to directly affect the classroom. Most recently, pupil teacher ratios were decreased for FY06. Unfortunately, it appears the District will have to increase pupil teacher ratios to address rising fuel, insurance and other operating costs. The District is also slated to negotiate the collective bargaining agreements with all employee groups early in 2006.

Preliminary work has begun on our FY07 budget....we are unable to maintain current operations even if we use the Governor's proposed base student allocation of \$5,347. The TRS 5% increase equates to about \$2 million for the District which equates to 29 teaching positions. The estimated retirement benefits (both TRS and PERS) for the District are 13.5% of the total general fund budget; health care costs will be in that same percentage ballpark.

With this District snapshot, unprioritized recommendations to address the PERS and TRS unfunded liability are:

1. Re-evaluate all actuarial assumptions and estimates
2. Establish a maximum employer contribution rate for PERS and TRS - ongoing increases will eventually crush budgets in many Alaska public entities
3. Continue to control guaranteed health care costs
4. Pass legislation to allow municipalities and boroughs to issue pension bonds if they choose
5. Change State Statutes so that what happened when the City of St. Mary's exited PERS doesn't occur – perhaps apply, wait two years (or however long it takes for accurate data to be available) and then reconfirm intent to withdraw from PERS. Entities need accurate information to make such decisions.
6. Continue to offset 5% increases until a solution is determined
7. Use some of the State's favorable oil revenue this year to pay down the retirement system unfunded debt

Thank you, Mr. Chairman and committee members, for your time today.

Ginny Austerman

From: N. Rick Meyer [raom50@msn.com]
Sent: Monday, November 28, 2005 5:07 PM
To: Ginny Austerman
Cc: Lyda_green@legis.state.ak.us; Rep. Carl Gatto; Rep. Vic Kohring
Subject: Underfunding of PERS/TRS retirement fund

Dear Committee members:

I respectfully ask that you take steps necessary to fully fund the PERS/TRS trust funds. The Legislature could use part of the anticipated budget surplus to pay down the unfunded liability and correct the problem. I say problem because it appears that the original actuary for the State made several significant errors which contributed to the underfunding. Please help Alaska's retirees. Thank you. Norman R. Meyer

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

FRANK H. MURKOWSKI, GOVERNOR

PO BOX 110203
JUNEAU, AK 99811-0203
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December 2, 2005

The Honorable Bruce Weyhrauch
Chair, Special Committee on Ways and Means
House of Representatives
State Capitol, Room 421
Juneau, Alaska 99801

Re: Response to Questions for December 7, 2005 Meeting

Dear Representative Weyhrauch:

This letter is written in response to the questions received from you on October 7, 2005. I have re-stated your questions below in italics with my responses immediately following.

1. *What was the impact on the state budget beginning in 1997 (ending 7 years later) due to the decrease in the employers and employees (if any) share for PERS?*

Attachment #1 contains the estimated savings to PERS employers over the period FY 1998 through FY 2004. These savings are calculated using FY 1997 as the base year. Employee contributions are set by statute and did not change during this period of time.

2. *Regarding the repeal of the 5% cap-Was the cap in place only for PERS? TRS? UofA? What is the effect on the budget-are we obligated to pay 100% of the unfunded liability?*

The 5% cap was set by regulation (2 AAC 35.900) and applies only to PERS employers, which includes the University of Alaska and school districts. The cap applies to both increases and decreases; however, SB 141 has since set in statute that the employer contribution cannot be less than the normal cost rate. There is no cap for TRS.

There is no legal (i.e., statutory) requirement for the State to pay the accrued liability of other employers that participate in the Public Employees' and Teachers' Retirement Systems. Of course, the State of Alaska is itself an employer and represents approximately 50% of the Public Employees' Retirement System.

3. *Please break down the sectors (SOA, TRS, Univ., local) by dollar amounts for several years out (say 5 years) and the amount of the state GF required in each sector (e.g. effect of Federal funds).*

Attachment #2 details by employer the estimated annual increases and total contributions over the period FY 2007 through FY 2012. The spreadsheet also summarizes the contributions by the following five employer groups: State of Alaska; University of Alaska; Political Subdivisions; School Districts; and other Public Organizations.

Attachment #3 estimates the amount of State general funds contributed to the PERS and TRS, by employer group, over this same period. These are very rough estimates based on information from Legislative Finance and FY 04 audited statements for the school districts.

4. *Did the communities and school districts use the funds from the Legislature to pay down their PERS/TRS debt?*

The FY 06 appropriation to municipalities (sec. 59, Ch. 3, FSSLA 2005) was deposited to each employer's asset account as directed. The wording of the appropriation, however, allowed the local governments to have their contribution rates remain at FY 05 levels and the State general funds covered the 5% difference that is the required contribution. Twenty municipalities chose to pay the FY 06 contribution rate, effectively contributing an additional 5% to their unfunded liability. See attachment #4.

The appropriation for TRS was included as part of the K-12 Foundation Formula funding through the increase to the base student allocation. For FY 06, \$38.5 million of the increased education funding was identified as needed to pay the 5% increase in the TRS employer contribution rate. There is no way to track those specific funds; however, all TRS employers are paying the FY 06 Board adopted rate of 21% which is a 5% increase over the FY 05 rate.

5. *Why are medical costs rising for the State of Alaska health plans?*

See attached report.

6. *What initiatives are being done nationally to control health care costs by employers without changing benefits?*

See attached report.

Chair Weyhrauch
Special Subcommittee on Ways and Means
December 2, 2005
Page 3

Please let me know if you have any questions about this correspondence.

Sincerely,

A handwritten signature in black ink, appearing to be 'M' followed by a long, sweeping horizontal line that curves slightly upwards at the end.

Melanie Millhorn
Director

Enclosure(s)

cc: Members of Special Committee on Ways and Means

Scott J. Nordstrand, Commissioner
Department of Administration

Kevin Brooks, Deputy Commissioner
Department of Administration

Michael Tibbles, Deputy Commissioner
Department of Administration

PUBLIC EMPLOYEES' RETIREMENT SYSTEM
AVERAGE EMPLOYER CONTRIBUTION RATE & TOTAL PAYROLL
SAVINGS DUE TO LOWER EMPLOYER CONTRIBUTIONS - FY 98 - FY 04

Fiscal Year	Payroll State of AK Only (actual data)	Percent Change from PY	Payroll All Others (actual data)	Percent Change from PY	Payroll Total	Payroll Total PERS Board Adopted Avg ER Cont. Rate	Chg from FY 97 Base	Calculated State of AK Change	Calculated All Other PERS Employer Change	Calculated Total Employer Cont. Less Due to Base Change	Actual Total Employer Cont.	Actual Change in Total Net ER Cont. (includes all changes)
1996	619,402,911		602,373,652		1,221,776,563	12.82%						
1997	617,556,456	-0.30%	611,578,056	1.53%	1,229,134,512	12.14%					154,599,000	
1998	622,044,248	0.73%	613,394,989	0.30%	1,235,439,237	8.00%	A -4.14%	(25,752,632)	(25,394,553)	(51,147,184)	112,384,000	(42,215,000)
1999	640,906,256	3.03%	642,642,366	4.77%	1,283,548,622	7.74%	-4.40%	(28,199,875)	(28,276,264)	(56,476,139)	109,938,000	(44,661,000)
2000	661,362,372	3.19%	660,548,849	2.79%	1,321,911,221	B 7.74%	-4.40%	(29,099,944)	(29,064,149)	(58,164,094)	107,596,000	(47,003,000)
2001	681,818,488	3.09%	678,455,331	2.71%	1,360,273,819	7.40%	-4.74%	(32,318,196)	(32,158,783)	(64,476,979)	96,484,000	(58,115,000)
2002	701,531,848	2.89%	700,820,331	3.30%	1,402,352,179	6.75%	-5.39%	(37,812,567)	(37,774,216)	(75,586,782)	94,769,000	(59,830,000)
2003	732,429,517	4.40%	728,041,012	3.88%	1,460,470,529	6.75%	-5.39%	(39,477,951)	(39,241,411)	(78,719,362)	99,198,000	(55,401,000)
2004	741,793,900	1.28%	749,924,181	3.01%	1,491,718,081	6.77%	-5.37%	(39,834,332)	(40,270,928)	(80,105,261)	105,585,000	(49,014,000)
2005	743,110,399	0.18%	764,148,859	1.90%	1,507,259,257	11.77%	-0.37%					
								(232,495,498)	(232,180,304)	(464,675,801)		(356,239,000)
										C - 1		C - 2

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

B - Because of Y2K Transition of Computer System, used 50/50 of preceding and succeeding FY

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

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

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)
Composite Employer Contribution Rate - Active Employers
ESTIMATED FY 07 - 08 - 09 - 10 - 11 - 12 Annual Change in Employer Contribution

			PERS Composite Rate		New		Diff		New		Diff		New		Diff	
			TRs Rate		21.77%		10.00%		26.77%		5.00%		31.47%		4.70%	
					26.00%		10.00%		31.00%		5.00%		36.00%		5.00%	
			Fiscal Year 2007				Fiscal Year 2008				Fiscal Year 2009					
Fund	ER Num	Employer	Avg Increase		Avg Increase		Avg Increase		Avg Increase		Avg Increase		Avg Increase		Avg Increase	
			C	\$ Total Cont. \$	C	\$ Total Cont. \$	C	\$ Total Cont. \$	C	\$ Total Cont. \$	C	\$ Total Cont. \$	C	\$ Total Cont. \$		
PERS	208	AKUTAN, CITY OF		33,800		63,274		17,407		82,580		16,854		101,910		
PERS	230	ALEUTIANS EAST BOROUGH		68,028		142,927		35,034		182,249		33,920		221,636		
PERS	259	ALLAKAKET, CITY OF		792		1,188		408		1,631		395		2,075		
PERS	173	ANCHORAGE, MUNICIPALITY OF		13,843,869		25,818,815		7,129,592		33,722,972		6,902,871		41,637,533		
PERS	283	ANDERSON, CITY OF		4,365		2,182		2,248		4,496		2,176		6,807		
PERS	243	ATKA, CITY OF		9,869		24,673		5,083		30,495		4,921		36,331		
PERS	171	BARROW, CITY OF		94,659		216,390		48,749		271,631		47,199		326,979		
PERS	136	BETHEL, CITY OF		565,432		1,057,358		291,198		1,380,276		281,937		1,703,622		
PERS	144	BRISTOL BAY BOROUGH		163,869		294,800		84,392		388,037		81,709		481,387		
PERS	148	CORDOVA, CITY OF		216,609		428,237		111,554		552,638		108,006		677,223		
PERS	186	CRAIG, CITY OF		149,283		378,133		76,881		466,358		74,436		554,784		
PERS	282	DELTA JUNCTION, CITY OF		26,823		50,321		13,814		65,644		13,375		80,988		
PERS	258	DENALI BOROUGH		18,171		70,865		9,358		82,349		9,060		93,880		
PERS	178	DILLINGHAM, CITY OF		220,853		467,766		113,739		595,539		110,122		723,527		
PERS	271	EGEGIK, CITY OF		5,491		10,323		2,828		13,460		2,738		16,602		
PERS	116	FAIRBANKS NORTH STAR BOROUGH		1,861,790		3,896,726		958,822		4,972,450		928,331		6,049,955		
PERS	129	FAIRBANKS, CITY OF		667,522		2,381,050		343,774		2,796,255		332,842		3,212,985		
PERS	183	FORT YUKON, CITY OF		47,402		71,103		24,412		97,648		23,636		124,213		
PERS	192	GALENA, CITY OF		185,798		278,696		95,686		382,743		92,643		486,868		
PERS	189	HAINES BOROUGH		162,350		441,105		83,610		537,949		80,952		635,039		
PERS	215	HOMER, CITY OF		476,588		854,046		245,443		1,125,111		237,638		1,396,502		
PERS	199	HOONAH, CITY OF		70,461		146,206		36,287		186,880		35,133		227,620		
PERS	285	HOOPEE BAY, CITY OF		2,487		4,886		1,281		6,313		1,240		7,742		
PERS	235	HUSLIA, CITY OF		10,634		24,746		5,477		30,965		5,302		37,196		
PERS	126	JUNEAU, CITY AND BOROUGH OF		2,793,446		5,927,693		1,438,625		7,544,149		1,392,877		9,163,350		
PERS	260	KACHEMAK, CITY OF		2,397		7,279		1,234		8,732		1,195		10,189		
PERS	237	KALTAG, CITY OF		1,227		2,882		632		3,600		612		4,320		
PERS	180	KENAI PENINSULA BOROUGH		1,412,258		3,221,361		727,313		4,045,315		704,184		4,870,859		
PERS	115	KENAI, CITY OF		512,897		957,579		264,142		1,250,448		255,742		1,543,704		
PERS	122	KETCHIKAN GATEWAY BOROUGH		430,725		882,556		221,824		1,130,857		214,770		1,379,552		
PERS	181	KETCHIKAN, CITY OF		800,918		2,396,348		412,473		2,880,712		399,356		3,366,489		

ATTACHMENT #2

Fund	ER Num	Employer	Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
			Avg Increase [C]	\$ Total Cont. \$	Avg Increase [C]	\$ Total Cont. \$	Avg Increase [C]	\$ Total Cont. \$
PERS	151	KING COVE, CITY OF	99,408	195,139	51,195	252,188	49,567	309,321
PERS	227	KLAWOOCK, CITY OF	66,198	107,174	34,092	144,481	33,008	181,823
PERS	174	KODIAK ISLAND BOROUGH	211,467	317,201	108,906	435,622	105,442	554,133
PERS	128	KODIAK, CITY OF	602,310	1,277,499	310,190	1,626,014	300,326	1,975,120
PERS	140	KOTZEBUE, CITY OF	340,073	510,110	175,138	700,551	169,568	891,136
PERS	287	KOYUK, CITY OF	3,034	5,859	1,563	7,598	1,513	9,339
PERS	247	LAKE AND PENINSULA BOROUGH	39,279	109,588	20,229	133,105	19,585	156,683
PERS	109	MATANUSKA-SUSITNA BOROUGH	1,131,756	2,375,556	582,854	3,029,677	564,320	3,684,887
PERS	254	MEKORYUK, CITY OF	1,026	2,100	528	2,692	512	3,284
PERS	294	MOUNTAIN VILLAGE, CITY OF	3,573	6,517	1,840	8,552	1,781	10,590
PERS	193	NENANA, CITY OF	23,763	58,123	12,238	72,105	11,849	86,116
PERS	139	NOME, CITY OF	247,689	383,918	127,560	522,996	123,504	662,189
PERS	241	NOORVIK, CITY OF	30,627	57,640	15,773	75,142	15,271	92,667
PERS	191	NORTH POLE, CITY OF	167,000	334,000	86,005	430,025	83,270	526,196
PERS	145	NORTH SLOPE BOROUGH	3,909,528	6,896,408	2,013,407	9,116,707	1,949,381	11,339,589
PERS	220	NORTHWEST ARCTIC BOROUGH	90,180	174,317	46,443	225,989	44,966	277,735
PERS	134	PALMER, CITY OF	297,225	699,667	153,071	873,728	148,203	1,048,143
PERS	200	PELICAN, CITY OF	15,257	28,774	7,857	37,494	7,607	46,226
PERS	143	PETERSBURG, CITY OF	414,669	1,183,050	213,554	1,432,096	206,763	1,681,823
PERS	266	QUINHAGAK, CITY OF	3,321	4,443	1,710	6,287	1,656	8,131
PERS	172	SAINT PAUL, CITY OF	138,741	240,716	71,452	319,389	69,180	398,150
PERS	176	SAND POINT, CITY OF	76,935	131,636	39,621	175,206	38,362	218,824
PERS	198	SAXMAN, CITY OF	10,887	41,196	5,607	48,038	5,428	54,908
PERS	286	SELDOVIA, CITY OF	4,485	8,737	2,310	11,309	2,236	13,885
PERS	182	SEWARD, CITY OF	371,334	695,880	191,237	907,993	185,156	1,120,389
PERS	120	SITKA, CITY AND BOROUGH OF	877,039	2,106,648	451,675	2,621,523	437,312	3,137,481
PERS	132	SKAGWAY, CITY OF	178,372	439,329	91,861	544,371	88,940	649,642
PERS	123	SOLDOTNA, CITY OF	273,512	532,254	140,859	689,081	136,379	846,133
PERS	169	TANANA, CITY OF	14,509	24,331	7,472	32,533	7,234	40,743
PERS	206	THORNE BAY, CITY OF	22,866	45,961	11,776	59,116	11,402	72,291
PERS	280	TOKSOOK BAY, CITY OF	927	1,824	477	2,356	462	2,889
PERS	249	UNALAKLEET, CITY OF	23,028	45,756	11,859	58,988	11,482	72,239
PERS	179	UNALASKA, CITY OF	1,001,508	2,211,330	515,777	2,793,447	499,375	3,376,625
PERS	107	VALDEZ, CITY OF	519,843	983,024	267,719	1,280,234	259,206	1,577,847
PERS	131	WASILLA, CITY OF	444,050	952,043	228,686	1,209,290	221,414	1,466,982
PERS	202	WHITTIER, CITY OF	89,818	134,726	46,256	185,024	44,785	235,360
PERS	135	WRANGELL, CITY OF	264,260	573,973	136,094	727,286	131,766	880,871
PERS	248	YAKUTAT, CITY AND BOROUGH OF	67,632	160,829	34,831	200,484	33,723	240,222
Subtotal: Political Subs PERS			36,937,940	74,578,795	19,023,039	95,839,198	18,418,107	117,132,481

ATTACHMENT #2

Fund	ER Num	Employer	Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
			Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$
PERS	152	ALASKA HOUSING FINANCE CORPORATION	1,694,803	3,582,813	872,823	4,563,120	845,068	5,545,081
PERS	106	ALASKA MUNICIPAL LEAGUE	30,509	138,786	15,712	158,661	15,213	178,634
PERS	267	ALEUTIAN HOUSING AUTHORITY	78,441	169,904	40,397	215,398	39,113	260,972
PERS	245	ALEUTIANS WEST CRSA	5,814	15,443	2,994	18,900	2,899	22,366
PERS	203	ANCHORAGE PARKING AUTHORITY	111,175	213,234	57,255	276,887	55,435	340,628
PERS	281	BARANOF ISLAND HA	46,169	82,458	23,777	108,709	23,021	134,991
PERS	219	BARTLETT REGIONAL HOSPITAL	2,020,322	4,268,941	1,040,466	5,437,475	1,007,379	6,607,978
PERS	232	BERING STRAITS CRSA	5,399	15,410	2,781	18,653	2,692	21,905
PERS	270	BERING STRAITS RHA	104,931	217,417	54,039	277,979	52,321	338,639
PERS	223	BRISTOL BAY RHA	134,027	288,829	69,024	366,517	66,829	444,342
PERS	262	COOK INLET HOUSING AUTHORITY	373,469	734,988	192,337	949,374	186,220	1,164,076
PERS	224	COPPER RIVER BASIN RHA	60,904	113,769	31,366	148,548	30,368	183,372
PERS	163	CORDOVA COMMUNITY MEDICAL CENTER	226,309	455,787	116,549	586,009	112,843	716,433
PERS	275	ILISAGVIK COLLEGE	412,848	762,530	212,617	998,022	205,855	1,233,819
PERS	263	INTERIOR RHA	140,929	282,139	72,573	363,182	70,270	444,348
PERS	284	INTER-ISLAND FERRY AUTHORITY	84,612	152,471	43,575	200,620	42,190	248,828
PERS	175	NOME JOINT UTILITY SYSTEM	80,149	120,224	41,277	165,107	39,964	210,024
PERS	170	NORTH PACIFIC FISHERY MGMT COUNCIL	139,454	321,302	71,819	402,760	69,535	484,378
PERS	276	NORTH PACIFIC RIM HA	104,644	198,405	53,892	258,248	52,178	318,173
PERS	288	NORTHWEST INUPIAT HOUSING AUTHORITY	113,273	226,206	58,336	291,328	56,481	356,549
PERS	187	PETERSBURG MEDICAL CENTER	364,937	583,899	187,943	789,359	181,966	995,006
PERS	278	SAXMAN SEAPORT	6,572	15,864	3,384	19,724	3,277	23,593
PERS	165	SITKA COMMUNITY HOSPITAL	397,127	872,091	204,520	1,102,774	198,017	1,333,874
PERS	167	SOUTHEAST REGIONAL RESOURCE CENTER	139,117	282,130	71,645	362,239	69,367	442,473
PERS	218	SPECIAL EDUCATION SERVICE AGENCY	47,385	97,045	24,403	124,359	23,627	151,718
PERS	293	TAGIUGMIULLU NUNAMIULLU HOUSING AUTHI	137,328	250,486	70,724	328,725	68,475	407,061
PERS	279	TLINGIT-HAIDA RHA	213,568	503,807	109,987	628,908	106,490	754,265
Subtotal: Other PERS			7,274,216	14,966,374	3,746,221	19,161,587	3,627,092	23,363,526
PERS	101	ALASKA, STATE OF	78,836,582	179,353,224	40,600,840	225,334,661	39,309,733	271,404,434
PERS	113	UNIVERSITY OF ALASKA	12,950,735	26,652,613	6,669,629	34,121,820	6,457,534	41,603,009
Subtotal: State & Univ PERS			91,787,318	206,005,838	47,270,469	259,456,481	45,767,268	313,007,443
PERS	255	ALASKA GATEWAY SD	110,411	223,361	56,862	286,923	55,053	350,584
PERS	162	ALEUTIAN REGION SD	13,576	0	6,992	6,992	6,769	13,971
PERS	244	ALEUTIANS EAST BOROUGH SD	66,279	172,658	34,134	211,971	33,048	251,379

ATTACHMENT #2

			Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$
PERS	111	ANCHORAGE SD	7,866,314	19,075,812	4,051,152	23,699,238	3,922,325	28,332,540
PERS	103	ANNETTE ISLAND SD	59,133	66,229	30,454	98,669	29,485	131,115
PERS	104	BERING STRAIT SD	665,450	1,252,376	342,707	1,632,654	331,808	2,013,442
PERS	184	BRISTOL BAY BOROUGH SD	48,875	108,014	25,171	136,425	24,370	164,887
PERS	105	CHATHAM SD	35,747	74,818	18,410	95,472	17,824	116,161
PERS	121	CHUGACH SD	32,510	65,703	16,743	84,417	16,210	103,159
PERS	112	COPPER RIVER SD	119,416	277,761	61,499	347,593	59,543	417,564
PERS	185	CORDOVA CITY SD	60,449	123,678	31,131	158,519	30,141	193,416
PERS	204	CRAIG CITY SD	89,338	212,089	46,009	264,461	44,546	316,941
PERS	246	DELTA/GREELY SD	108,148	224,839	55,696	287,280	53,925	349,823
PERS	118	DENALI BOROUGH SD	92,074	217,571	47,418	271,517	45,910	325,573
PERS	205	DILLINGHAM CITY SD	101,185	187,496	52,110	245,231	50,453	303,042
PERS	117	FAIRBANKS NORTH STAR BOROUGH SD	2,636,121	5,512,129	1,357,602	7,035,095	1,314,430	8,560,578
PERS	141	GALENA CITY SD	322,954	702,748	166,321	890,152	161,032	1,077,889
PERS	240	HAINES BOROUGH SD	54,041	122,348	27,831	153,850	26,946	185,411
PERS	138	HOONAH CITY SD	76,684	309,496	39,492	358,273	38,236	407,257
PERS	168	HYDABURG CITY SD	13,028	19,542	6,709	26,837	6,496	34,138
PERS	124	IDITAROD AREA SD	95,290	228,220	49,074	284,141	47,514	340,179
PERS	108	JUNEAU BOROUGH SD	897,184	2,057,242	462,050	2,581,009	447,356	3,105,796
PERS	265	KAKE CITY SD	31,623	76,275	16,286	94,849	15,768	113,462
PERS	211	KASHUNAMIUT SD	115,394	268,407	59,428	335,887	57,538	403,502
PERS	190	KENAI PENINSULA BOROUGH SD	1,224,015	2,669,576	630,367	3,380,030	610,322	4,091,753
PERS	177	KETCHIKAN GATEWAY BOROUGH SD	333,480	695,638	171,742	888,249	166,281	1,081,177
PERS	251	KLAWOCK CITY SD	42,289	107,541	21,779	132,546	21,086	157,608
PERS	158	KODIAK ISLAND BOROUGH SD	476,278	945,411	245,283	1,219,056	237,483	1,493,111
PERS	125	KUSPUK SD	156,579	311,905	80,638	401,900	78,074	492,031
PERS	164	LAKE AND PENINSULA BOROUGH SD	156,105	336,875	80,394	427,376	77,838	518,034
PERS	157	LOWER KUSKOKWIM SD	1,535,674	2,885,532	790,872	3,762,970	765,723	4,641,582
PERS	153	LOWER YUKON SD	463,236	809,273	238,566	1,072,117	230,980	1,335,260
PERS	110	MATANUSKA-SUSITNA BOROUGH SD	2,179,967	4,575,750	1,122,683	5,835,706	1,086,982	7,097,759
PERS	196	NENANA CITY SD	141,776	310,773	73,015	393,111	70,693	475,598
PERS	149	NOME CITY SD	168,398	434,298	86,725	534,052	83,967	634,041
PERS	161	NORTH SLOPE BOROUGH SD	1,028,595	2,163,135	529,726	2,757,755	512,881	3,353,369
PERS	154	NORTHWEST ARCTIC BOROUGH SD	758,215	1,137,323	390,481	1,561,923	378,064	1,986,845
PERS	257	PELICAN CITY SD	12,423	22,721	6,398	29,800	6,194	36,888
PERS	228	PETERSBURG CITY SD	84,117	153,766	43,320	201,699	41,943	249,693
PERS	156	PRIBILOF SD	49,852	127,273	25,674	156,765	24,857	186,325
PERS	221	SAINT MARY'S SD	38,242	57,363	19,695	78,779	19,068	100,210
PERS	133	SITKA BOROUGH SD	187,931	451,786	96,785	562,124	93,707	672,695

ATTACHMENT #2

			Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$
PERS	225	SKAGWAY CITY SD	25,399	57,477	13,080	72,282	12,664	87,114
PERS	155	SOUTHEAST ISLAND SD	61,886	158,118	31,871	194,733	30,858	231,433
PERS	102	SOUTHWEST REGION SD	223,007	452,704	114,849	581,134	111,196	709,765
PERS	166	TANANA SD	27,958	74,341	14,399	90,970	13,941	107,640
PERS	209	UNALASKA CITY SD	87,505	198,986	45,065	250,020	43,632	301,152
PERS	137	VALDEZ CITY SD	184,556	283,293	95,046	386,838	92,024	490,467
PERS	146	WRANGELL PUBLIC SD	74,508	148,717	38,371	191,550	37,151	234,448
PERS	264	YAKUTAT SD	30,307	69,586	15,608	87,282	15,112	105,012
PERS	160	YUKON / KOYUKUK SD	153,391	230,086	78,996	315,985	76,484	401,949
PERS	159	YUKON FLATS SD	111,299	166,948	57,319	229,275	55,496	291,649
PERS	195	YUPIIT SD	166,063	308,380	85,523	403,154	82,803	498,051
Subtotal: School District PERS			23,894,272	51,923,387	12,305,550	65,786,639	11,914,234	79,674,472
TOTAL PERS			159,893,746	347,474,395	82,345,279	440,243,906	79,726,699	533,177,922
TRS	766	ALASKA GATEWAY SD	253,813	659,915	129,952	805,705	133,071	958,113
TRS	758	ALEUTIAN REGION SD	34,889	90,711	17,863	110,751	18,292	131,701
TRS	780	ALEUTIANS EAST BOROUGH SD	225,852	587,214	115,636	716,944	118,411	852,561
TRS	701	ANCHORAGE SD	19,687,802	51,188,286	10,080,155	62,496,959	10,322,078	74,318,965
TRS	770	ANNETTE ISLAND SD	207,997	540,792	106,494	660,265	109,050	785,161
TRS	752	BERING STRAIT SD	1,092,149	2,839,588	559,180	3,466,918	572,601	4,122,725
TRS	742	BRISTOL BAY BOROUGH SD	79,218	205,968	40,560	251,471	41,533	299,039
TRS	768	CHATHAM SD	107,844	280,395	55,216	342,341	56,541	407,098
TRS	771	CHUGACH SD	122,068	317,376	62,499	387,492	63,999	460,791
TRS	767	COPPER RIVER SD	254,852	662,615	130,484	809,002	133,616	962,034
TRS	704	CORDOVA CITY SD	197,409	513,263	101,073	626,655	103,499	745,193
TRS	705	CRAIG CITY SD	236,022	613,657	120,843	749,227	123,743	890,952
TRS	765	DELTA/GREELY SD	389,476	1,012,637	199,412	1,236,352	204,198	1,470,222
TRS	764	DENALI BOROUGH SD	205,425	534,106	105,178	652,102	107,702	775,454
TRS	744	DILLINGHAM CITY SD	290,452	755,176	148,712	922,012	152,281	1,096,421
TRS	706	FAIRBANKS NORTH STAR BOROUGH SD	6,116,617	15,903,205	3,131,708	19,416,590	3,206,869	23,089,457
TRS	735	GALENA CITY SD	443,953	1,154,278	227,304	1,409,285	232,759	1,675,867
TRS	707	HAINES BOROUGH SD	151,926	395,006	77,786	482,273	79,653	573,500
TRS	708	HOONAH CITY SD	106,708	277,442	54,635	338,735	55,946	402,810
TRS	709	HYDABURG CITY SD	74,560	193,856	38,175	236,684	39,091	281,455
TRS	761	IDITAROD AREA SD	174,834	454,567	89,515	554,992	91,663	659,974
TRS	710	JUNEAU BOROUGH SD	2,203,846	5,730,000	1,128,369	6,995,890	1,155,450	8,319,241
TRS	712	KAKE CITY SD	71,761	186,580	36,742	227,799	37,624	270,890

ATTACHMENT #2

Fund	ER Num	Employer	Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
			Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$
TRS	777	KASHUNAMIUT SD	180,367	468,955	92,348	572,558	94,564	680,863
TRS	746	KENAI PENINSULA BOROUGH SD	3,910,434	10,167,128	2,002,142	12,413,281	2,050,194	14,761,393
TRS	714	KETCHIKAN GATEWAY BOROUGH SD	1,042,828	2,711,352	533,928	3,310,352	546,742	3,936,542
TRS	717	KLAWOCK CITY SD	109,229	283,995	55,925	346,736	57,267	412,325
TRS	718	KODIAK ISLAND BOROUGH SD	1,394,021	3,624,455	713,739	4,425,180	730,868	5,262,253
TRS	755	KUSPUK SD	270,574	703,492	138,534	858,910	141,859	1,021,382
TRS	757	LAKE AND PENINSULA BOROUGH SD	348,153	905,199	178,255	1,105,178	182,533	1,314,235
TRS	754	LOWER KUSKOKWIM SD	1,966,062	5,111,761	1,006,624	6,241,067	1,030,783	7,421,636
TRS	753	LOWER YUKON SD	1,004,324	2,611,242	514,214	3,188,125	526,555	3,791,195
TRS	722	MATANUSKA-SUSITNA BOROUGH SD	6,154,979	16,002,945	3,151,349	19,538,365	3,226,982	23,234,268
TRS	719	NENANA CITY SD	162,427	422,310	83,163	515,608	85,158	613,141
TRS	720	NOME CITY SD	331,710	862,446	169,836	1,052,981	173,912	1,252,164
TRS	736	NORTH SLOPE BOROUGH SD	1,477,722	3,842,076	756,594	4,690,800	774,752	5,578,213
TRS	751	NORTHWEST ARCTIC BOROUGH SD	1,280,498	3,329,295	655,615	4,064,813	671,350	4,833,719
TRS	723	PELICAN CITY SD	12,621	32,815	6,462	40,065	6,617	47,644
TRS	724	PETERSBURG CITY SD	285,625	742,624	146,240	906,687	149,750	1,078,197
TRS	759	PRIBILOF SD	88,327	229,649	45,223	280,384	46,309	333,422
TRS	748	SAINT MARY'S SD	86,051	223,732	44,058	273,159	45,115	324,830
TRS	727	SITKA BOROUGH SD	742,503	1,930,509	380,162	2,357,003	389,286	2,802,856
TRS	728	SKAGWAY CITY SD	74,566	193,872	38,178	236,703	39,094	281,478
TRS	769	SOUTHEAST ISLAND SD	143,926	374,208	73,690	456,879	75,459	543,303
TRS	756	SOUTHWEST REGION SD	543,634	1,413,449	278,341	1,725,712	285,021	2,052,150
TRS	775	TANANA SD	29,999	77,997	15,359	95,229	15,728	113,242
TRS	729	UNALASKA CITY SD	229,073	595,591	117,286	727,171	120,100	864,723
TRS	730	VALDEZ CITY SD	446,815	1,161,720	228,769	1,418,371	234,260	1,686,671
TRS	731	WRANGELL PUBLIC SD	178,492	464,078	91,388	566,603	93,581	673,783
TRS	732	YAKUTAT SD	76,205	198,134	39,017	241,906	39,954	287,666
TRS	762	YUKON / KOYUKUK SD	510,999	1,328,598	261,632	1,622,116	267,911	1,928,958
TRS	763	YUKON FLATS SD	209,491	544,676	107,259	665,008	109,834	790,802
TRS	778	YUPIIT SD	289,846	753,598	148,401	920,086	151,963	1,094,130
Subtotal: School District TRS			56,310,975	146,408,534	28,831,219	178,753,558	29,523,168	212,566,811
TRS	737	ALASKA DEPARTMENT OF EDUCATION	473,867	1,232,055	242,620	1,504,245	248,443	1,788,790
TRS	743	SOUTHEAST REGIONAL RESOURCE CENTER	86,487	224,866	44,281	274,544	45,344	326,477
TRS	779	SPECIAL EDUCATION SERVICE AGENCY	97,210	252,745	49,771	308,583	50,966	366,954
TRS	733	UNIVERSITY OF ALASKA	4,408,095	11,461,047	2,256,945	13,993,057	2,311,111	16,640,002
Subtotal: Other TRS			5,065,659	13,170,714	2,593,617	16,080,428	2,655,864	19,122,223

			Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$
		TOTAL TRS	61,376,634	159,579,248	31,424,836	194,833,986	32,179,033	231,689,034
		TOTAL BOTH PERS AND TRS	221,270,380	507,053,642	113,770,116	635,077,892	111,905,732	764,866,957
TOTAL PERS AND TRS FOR STATE, POLITICAL SUBDIVISIONS, AND SCHOOL DISTRICTS								
		POLITICAL SUBDIVISIONS	36,937,940	74,578,795	19,023,039	95,839,198	18,418,107	117,132,481
		SCHOOL DISTRICTS	80,205,247	198,331,921	41,136,769	244,540,197	41,437,402	292,241,283
		STATE OF ALASKA	78,923,069	179,578,090	40,645,121	225,609,205	39,355,077	271,730,910
		UNIVERSITY	13,424,603	27,884,669	6,912,249	35,626,065	6,705,978	43,391,799
		OTHER PUBLIC ORGANIZATIONS	11,779,521	26,680,167	6,052,937	33,463,227	5,989,169	40,370,483
			221,270,380	507,053,642	113,770,116	635,077,892	111,905,732	764,866,957

Note A - Represents estimated total payroll base for the fiscal year.

Based on FY05 payroll from Combined Retirement System (data pulled 11/18/05)

Rounded Avg. of FY 01-05 increase: 3.0% annually PERS; and 2.4% annually TRS; applied annually beginning with FY06.

Accounts for both salary increase and growth based on actual experience.

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

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

Note D - FY07 change is shown from the FY 05 rate due to FY 06 appropriation that held employers "harmless" from the FY 06 rate increase.

**Public Employees' Retirement System (PERS) & Teachers
Composite Employer Contribution Rate - Active Employee
ESTIMATED FY 07 - 08 - 09 - 10 - 11 - 12 Annual Change in**

PERS Composite Rate TRS Rate			New 31.97%	Diff 0.50% 5.00%	New 31.98%	Diff 0.01% 5.00%	New 32.04%	Diff 0.06% 5.00%
			Fiscal Year 2010		Fiscal Year 2011		Fiscal Year 2012	
Fund	ER Num	Employer	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$
PERS	208	AKUTAN, CITY OF	1,847	106,815	38	110,057	235	113,594
PERS	230	ALEUTIANS EAST BOROUGH	3,717	232,002	77	239,039	473	246,683
PERS	259	ALLAKAKET, CITY OF	43	2,180	1	2,246	6	2,319
PERS	173	ANCHORAGE, MUNICIPALITY OF	756,378	43,643,037	15,581	44,967,910	96,293	46,413,240
PERS	283	ANDERSON, CITY OF	238	7,250	5	7,472	30	7,726
PERS	243	ATKA, CITY OF	539	37,960	11	39,110	69	40,352
PERS	171	BARROW, CITY OF	5,172	341,960	107	352,326	658	363,554
PERS	136	BETHEL, CITY OF	30,893	1,785,624	636	1,839,829	3,933	1,898,957
PERS	144	BRISTOL BAY BOROUGH	8,953	504,781	184	520,109	1,140	536,852
PERS	148	CORDOVA, CITY OF	11,835	709,375	244	730,900	1,507	754,333
PERS	186	CRAIG, CITY OF	8,156	579,584	168	597,140	1,038	616,092
PERS	282	DELTA JUNCTION, CITY OF	1,466	84,884	30	87,460	187	90,271
PERS	258	DENALI BOROUGH	993	97,689	20	100,640	126	103,786
PERS	178	DILLINGHAM, CITY OF	12,067	757,300	249	780,267	1,536	805,211
PERS	271	EGEGIK, CITY OF	300	17,400	6	17,928	38	18,504
PERS	116	FAIRBANKS NORTH STAR BOROUGH	101,721	6,333,175	2,095	6,525,266	12,950	6,733,974
PERS	129	FAIRBANKS, CITY OF	36,471	3,345,845	751	3,446,972	4,643	3,555,024
PERS	183	FORT YUKON, CITY OF	2,590	130,530	53	134,499	330	138,864
PERS	192	GALENA, CITY OF	10,151	511,625	209	527,183	1,292	544,291
PERS	189	HAINES BOROUGH	8,870	662,960	183	683,032	1,129	704,652
PERS	215	HOMER, CITY OF	26,039	1,464,436	536	1,508,906	3,315	1,557,488
PERS	199	HOONAH, CITY OF	3,850	238,298	79	245,526	490	253,382
PERS	285	HOOPER BAY, CITY OF	136	8,111	3	8,357	17	8,625
PERS	235	HUSLIA, CITY OF	581	38,893	12	40,072	74	41,348
PERS	126	JUNEAU, CITY AND BOROUGH OF	152,624	9,590,875	3,144	9,881,745	19,430	10,197,627
PERS	260	KACHEMAK, CITY OF	131	10,626	3	10,947	17	11,292
PERS	237	KALTAG, CITY OF	67	4,516	1	4,653	9	4,801
PERS	180	KENAI PENINSULA BOROUGH	77,161	5,094,145	1,590	5,248,559	9,823	5,415,839
PERS	115	KENAI, CITY OF	28,023	1,618,037	577	1,667,156	3,568	1,720,738
PERS	122	KETCHIKAN GATEWAY BOROUGH	23,533	1,444,472	485	1,488,291	2,996	1,535,935
PERS	181	KETCHIKAN, CITY OF	43,759	3,511,243	901	3,617,482	5,571	3,731,577

ATTACHMENT #2

			Fiscal Year 2010		Fiscal Year 2011		Fiscal Year 2012	
Fund	ER Num	Employer	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$
PERS	151	KING COVE, CITY OF	5,431	324,032	112	333,865	691	344,573
PERS	227	KLAWOCK, CITY OF	3,617	190,895	75	196,696	460	203,058
PERS	174	KODIAK ISLAND BOROUGH	11,554	582,311	238	600,018	1,471	619,490
PERS	128	KODIAK, CITY OF	32,908	2,067,282	678	2,129,978	4,189	2,198,067
PERS	140	KOTZEBUE, CITY OF	18,580	936,450	383	964,927	2,365	996,240
PERS	287	KOYUK, CITY OF	166	9,785	3	10,082	21	10,405
PERS	247	LAKE AND PENINSULA BOROUGH	2,146	163,530	44	168,480	273	173,808
PERS	109	MATANUSKA-SUSITNA BOROUGH	61,835	3,857,269	1,274	3,974,260	7,872	4,101,360
PERS	254	MEKORYUK, CITY OF	56	3,439	1	3,543	7	3,657
PERS	294	MOUNTAIN VILLAGE, CITY OF	195	11,103	4	11,440	25	11,808
PERS	193	NENANA, CITY OF	1,298	89,998	27	92,725	165	95,672
PERS	139	NOME, CITY OF	13,533	695,588	279	716,734	1,723	739,959
PERS	241	NOORVIK, CITY OF	1,673	97,121	34	100,069	213	103,284
PERS	191	NORTH POLE, CITY OF	9,124	551,106	188	567,827	1,162	586,023
PERS	145	NORTH SLOPE BOROUGH	213,602	11,893,379	4,400	12,254,581	27,193	12,649,412
PERS	220	NORTHWEST ARCTIC BOROUGH	4,927	290,994	101	299,825	627	309,447
PERS	134	PALMER, CITY OF	16,239	1,095,827	335	1,129,036	2,067	1,164,975
PERS	200	PELICAN, CITY OF	834	48,447	17	49,917	106	51,521
PERS	143	PETERSBURG, CITY OF	22,656	1,754,933	467	1,808,048	2,884	1,865,174
PERS	266	QUINHAGAK, CITY OF	181	8,556	4	8,817	23	9,104
PERS	172	SAINT PAUL, CITY OF	7,580	417,675	156	430,362	965	444,238
PERS	176	SAND POINT, CITY OF	4,203	229,592	87	236,567	535	244,199
PERS	198	SAXMAN, CITY OF	595	57,150	12	58,877	76	60,719
PERS	286	SELDOVIA, CITY OF	245	14,547	5	14,988	31	15,469
PERS	182	SEWARD, CITY OF	20,288	1,174,289	418	1,209,935	2,583	1,248,816
PERS	120	SITKA, CITY AND BOROUGH OF	47,918	3,279,523	987	3,378,896	6,100	3,486,363
PERS	132	SKAGWAY, CITY OF	9,746	678,877	201	699,444	1,241	721,668
PERS	123	SOLDOTNA, CITY OF	14,944	886,460	308	913,362	1,902	942,665
PERS	169	TANANA, CITY OF	793	42,758	16	44,057	101	45,480
PERS	206	THORNE BAY, CITY OF	1,249	75,709	26	78,006	159	80,505
PERS	280	TOKSOOK BAY, CITY OF	51	3,026	1	3,118	6	3,218
PERS	249	UNALAKLEET, CITY OF	1,258	75,665	26	77,960	160	80,459
PERS	179	UNALASKA, CITY OF	54,719	3,532,643	1,127	3,639,749	6,966	3,755,908
PERS	107	VALDEZ, CITY OF	28,402	1,653,585	585	1,703,777	3,616	1,758,506
PERS	131	WASILLA, CITY OF	24,261	1,535,253	500	1,581,810	3,089	1,632,353
PERS	202	WHITTIER, CITY OF	4,907	247,328	101	254,849	625	263,119
PERS	135	WRANGELL, CITY OF	14,438	921,736	297	949,685	1,838	980,014
PERS	248	YAKUTAT, CITY AND BOROUGH OF	3,695	251,124	76	258,734	470	266,966
Subtotal: Political Subs PERS			2,018,154	122,664,610	41,574	126,386,122	256,927	130,434,633

ATTACHMENT #2

			Fiscal Year 2010		Fiscal Year 2011		Fiscal Year 2012	
Fund	ER Num	Employer	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$
PERS	152	ALASKA HOUSING FINANCE CORPORATION	92,598	5,804,032	1,908	5,980,060	11,788	6,171,250
PERS	106	ALASKA MUNICIPAL LEAGUE	1,667	185,660	34	191,264	212	197,214
PERS	267	ALEUTIAN HOUSING AUTHORITY	4,286	273,087	88	281,368	546	290,355
PERS	245	ALEUTIANS WEST CRSA	318	23,355	7	24,062	40	24,825
PERS	203	ANCHORAGE PARKING AUTHORITY	6,074	356,921	125	367,754	773	379,560
PERS	281	BARANOF ISLAND HA	2,523	141,563	52	145,862	321	150,559
PERS	219	BARTLETT REGIONAL HOSPITAL	110,383	6,916,600	2,274	7,126,372	14,053	7,354,216
PERS	232	BERING STRAITS CRSA	295	22,857	6	23,548	38	24,292
PERS	270	BERING STRAITS RHA	5,733	354,531	118	365,285	730	376,974
PERS	223	BRISTOL BAY RHA	7,323	464,995	151	479,096	932	494,401
PERS	232	COOK INLET HOUSING AUTHORITY	20,405	1,219,403	420	1,256,406	2,598	1,296,695
PERS	224	COPPER RIVER BASIN RHA	3,328	192,201	69	198,036	424	204,400
PERS	163	CORDOVA COMMUNITY MEDICAL CENTER	12,365	750,290	255	773,054	1,574	797,819
PERS	275	ILISAGVIK COLLEGE	22,556	1,293,390	465	1,332,656	2,872	1,375,507
PERS	263	INTERIOR RHA	7,700	465,378	159	479,498	980	494,863
PERS	284	INTER-ISLAND FERRY AUTHORITY	4,623	260,916	95	268,839	589	277,493
PERS	175	NOME JOINT UTILITY SYSTEM	4,379	220,704	90	227,415	557	234,795
PERS	170	NORTH PACIFIC FISHERY MGMT COUNCIL	7,619	506,529	157	521,882	970	538,508
PERS	276	NORTH PACIFIC RIM HA	5,717	333,436	118	343,557	728	354,591
PERS	288	NORTHWEST INUPIAT HOUSING AUTHORITY	6,189	373,434	127	384,765	788	397,095
PERS	187	PETERSBURG MEDICAL CENTER	19,939	1,044,795	411	1,076,549	2,538	1,111,384
PERS	278	SAXMAN SEAPORT	359	24,660	7	25,407	46	26,215
PERS	165	SITKA COMMUNITY HOSPITAL	21,698	1,395,587	447	1,437,902	2,762	1,483,801
PERS	167	SOUTHEAST REGIONAL RESOURCE CENTER	7,601	463,348	157	477,405	968	492,695
PERS	218	SPECIAL EDUCATION SERVICE AGENCY	2,589	158,858	53	163,677	330	168,917
PERS	293	TAGIUGMIULLU NUNAMIULLU HOUSING AUTH	7,503	426,776	155	439,734	955	453,881
PERS	279	TLINGIT-HAIDA RHA	11,669	788,562	240	812,459	1,486	838,318
Subtotal: Other PERS			397,437	24,461,869	8,187	25,203,912	50,597	26,010,626
PERS	101	ALASKA, STATE OF	4,307,343	283,853,910	88,731	292,458,259	548,359	301,780,366
PERS	113	UNIVERSITY OF ALASKA	707,581	43,558,681	14,576	44,880,017	90,081	46,316,499
Subtotal: State & Univ PERS			5,014,924	327,412,591	103,307	337,338,276	638,440	348,096,864
PERS	255	ALASKA GATEWAY SD	6,032	367,134	124	378,272	768	390,389
PERS	162	ALEUTIAN REGION SD	742	15,132	15	15,601	94	16,163
PERS	244	ALEUTIANS EAST BOROUGH SD	3,621	262,541	75	270,492	461	279,068

ATTACHMENT #2

			Fiscal Year 2010		Fiscal Year 2011		Fiscal Year 2012	
Fund	ER Num	Employer	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$
PERS	111	ANCHORAGE SD		429,787 29,612,303		8,854 30,509,526		54,715 31,479,527
PERS	103	ANNETTE ISLAND SD		3,231 138,279		67 142,494		411 147,180
PERS	104	BERING STRAIT SD		36,358 2,110,203		749 2,174,258		4,629 2,244,114
PERS	184	BRISTOL BAY BOROUGH SD		2,670 172,504		55 177,735		340 183,407
PERS	105	CHATHAM SD		1,953 121,598		40 125,287		249 129,294
PERS	121	CHUGACH SD		1,776 108,030		37 111,308		226 114,873
PERS	112	COPPER RIVER SD		6,524 436,616		134 449,849		831 464,175
PERS	185	CORDOVA CITY SD		3,303 202,521		68 208,665		420 215,345
PERS	204	CRAIG CITY SD		4,881 331,331		101 341,371		621 352,234
PERS	246	DELTA/GREELY SD		5,909 366,227		122 377,335		752 389,408
PERS	118	DENALI BOROUGH SD		5,031 340,371		104 350,685		640 361,846
PERS	205	DILLINGHAM CITY SD		5,528 317,661		114 327,305		704 337,828
PERS	117	FAIRBANKS NORTH STAR BOROUGH SD		144,028 8,961,423		2,967 9,233,233		18,336 9,528,566
PERS	141	GALENA CITY SD		17,645 1,127,871		363 1,162,070		2,246 1,199,179
PERS	240	HAINES BOROUGH SD		2,953 193,926		61 199,804		376 206,174
PERS	138	HOONAH CITY SD		4,190 423,665		86 436,461		533 450,088
PERS	168	HYDABURG CITY SD		712 35,874		15 36,965		91 38,165
PERS	124	IDITAROD AREA SD		5,206 355,591		107 366,366		663 378,020
PERS	108	JUNEAU BOROUGH SD		49,019 3,247,989		1,010 3,346,438		6,240 3,453,072
PERS	265	KAKE CITY SD		1,728 118,594		36 122,187		220 126,073
PERS	211	KASHUNAMIUT SD		6,305 421,912		130 434,699		803 448,543
PERS	190	KENAI PENINSULA BOROUGH SD		66,876 4,281,381		1,378 4,411,200		8,514 4,552,050
PERS	177	KETCHIKAN GATEWAY BOROUGH SD		18,220 1,131,833		375 1,166,163		2,320 1,203,468
PERS	251	KLAWOCK CITY SD		2,311 164,647		48 169,634		294 175,017
PERS	158	KODIAK ISLAND BOROUGH SD		26,022 1,563,927		536 1,611,380		3,313 1,663,035
PERS	125	KUSPUK SD		8,555 515,347		176 530,983		1,089 548,002
PERS	164	LAKE AND PENINSULA BOROUGH SD		8,529 542,104		176 558,543		1,086 576,385
PERS	157	LOWER KUSKOKWIM SD		83,904 4,864,733		1,728 5,012,404		10,682 5,173,457
PERS	153	LOWER YUKON SD		25,309 1,400,628		521 1,443,168		3,222 1,489,685
PERS	110	MATANUSKA-SUSITNA BOROUGH SD		119,105 7,429,797		2,454 7,655,144		15,163 7,899,962
PERS	196	NENANA CITY SD		7,746 497,612		160 512,700		986 529,067
PERS	149	NOME CITY SD		9,201 662,263		190 682,320		1,171 703,961
PERS	161	NORTH SLOPE BOROUGH SD		56,199 3,510,168		1,158 3,616,631		7,155 3,732,285
PERS	154	NORTHWEST ARCTIC BOROUGH SD		41,426 2,087,876		853 2,151,366		5,274 2,221,181
PERS	257	PELICAN CITY SD		679 38,674		14 39,848		86 41,130
PERS	228	PETERSBURG CITY SD		4,596 261,779		95 269,727		585 278,404
PERS	156	PRIBILOF SD		2,724 194,638		56 200,534		347 206,896
PERS	221	SAINT MARY'S SD		2,089 105,306		43 108,508		266 112,029
PERS	133	SITKA BOROUGH SD		10,268 703,144		212 724,449		1,307 747,490

ATTACHMENT #2

			Fiscal Year 2010		Fiscal Year 2011		Fiscal Year 2012	
Fund	ER Num	Employer	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$	Avg Increase C	\$ Total Cont. \$
PERS	225	SKAGWAY CITY SD	1,388	91,116	29	93,878	177	96,871
PERS	155	SOUTHEAST ISLAND SD	3,381	241,757	70	249,079	430	256,982
PERS	102	SOUTHWEST REGION SD	12,184	743,242	251	765,790	1,551	790,315
PERS	166	TANANA SD	1,528	112,397	31	115,800	194	119,469
PERS	209	UNALASKA CITY SD	4,781	314,968	98	324,515	609	334,860
PERS	137	VALDEZ CITY SD	10,083	515,265	208	530,931	1,284	548,142
PERS	146	WRANGELL PUBLIC SD	4,071	245,552	84	253,003	518	261,111
PERS	264	YAKUTAT SD	1,656	109,819	34	113,147	211	116,753
PERS	160	YUKON / KOYUKUK SD	8,381	422,388	173	435,233	1,067	449,357
PERS	159	YUKON FLATS SD	6,081	306,480	125	315,800	774	326,048
PERS	195	YUPIIT SD	9,073	522,066	187	537,915	1,155	555,207
Subtotal: School District PERS			1,305,496	83,370,202	26,893	85,898,201	166,200	88,641,347
TOTAL PERS			8,736,011	557,909,271	179,962	574,826,511	1,112,164	593,183,470
TRS	766	ALASKA GATEWAY SD	136,265	1,117,373	139,535	1,283,725	142,884	1,457,419
TRS	758	ALEUTIAN REGION SD	18,731	153,592	19,180	176,459	19,641	200,335
TRS	780	ALEUTIANS EAST BOROUGH SD	121,253	994,276	124,163	1,142,302	127,143	1,296,860
TRS	701	ANCHORAGE SD	10,569,808	86,672,428	10,823,484	99,576,051	11,083,247	113,049,123
TRS	770	ANNETTE ISLAND SD	111,667	915,673	114,347	1,051,996	117,092	1,194,336
TRS	752	BERING STRAIT SD	586,343	4,808,014	600,415	5,523,821	614,825	6,271,218
TRS	742	BRISTOL BAY BOROUGH SD	42,530	348,746	43,551	400,667	44,596	454,879
TRS	768	CHATHAM SD	57,898	474,767	59,288	545,449	60,711	619,251
TRS	771	CHUGACH SD	65,535	537,384	67,108	617,389	68,718	700,924
TRS	767	COPPER RIVER SD	136,823	1,121,945	140,106	1,288,978	143,469	1,463,383
TRS	704	CORDOVA CITY SD	105,983	869,061	108,527	998,445	111,131	1,133,539
TRS	705	CRAIG CITY SD	126,713	1,039,048	129,754	1,193,740	132,868	1,355,258
TRS	765	DELTA/GREELY SD	209,098	1,714,606	214,117	1,969,873	219,255	2,236,405
TRS	764	DENALI BOROUGH SD	110,287	904,352	112,934	1,038,990	115,644	1,179,570
TRS	744	DILLINGHAM CITY SD	155,935	1,278,671	159,678	1,469,037	163,510	1,667,804
TRS	706	FAIRBANKS NORTH STAR BOROUGH SD	3,283,834	26,927,438	3,362,646	30,936,343	3,443,349	35,122,165
TRS	735	GALENA CITY SD	238,346	1,954,434	244,066	2,245,406	249,923	2,549,219
TRS	707	HAINES BOROUGH SD	81,564	668,828	83,522	768,402	85,526	872,370
TRS	708	HOONAH CITY SD	57,289	469,766	58,664	539,704	60,071	612,729
TRS	709	HYDABURG CITY SD	40,029	328,239	40,990	377,107	41,974	428,131
TRS	761	IDITAROD AREA SD	93,863	769,677	96,116	884,265	98,423	1,003,910
TRS	710	JUNEAU BOROUGH SD	1,183,181	9,702,084	1,211,577	11,146,511	1,240,655	12,654,682
TRS	712	KAKE CITY SD	38,527	315,918	39,451	362,952	40,398	412,060

ATTACHMENT #2

Fund	ER Num	Employer	Fiscal Year 2010		Fiscal Year 2011		Fiscal Year 2012	
			Avg Increase		Avg Increase		Avg Increase	
			C	\$ Total Cont. \$	C	\$ Total Cont. \$	C	\$ Total Cont. \$
TRS	777	KASHUNAMIUT SD		96,834 794,038		99,158 912,253		101,538 1,035,685
TRS	746	KENAI PENINSULA BOROUGH SD		2,099,398 17,215,065		2,149,784 19,778,010		2,201,379 22,454,061
TRS	714	KETCHIKAN GATEWAY BOROUGH SD		559,864 4,590,883		573,301 5,274,365		587,060 5,988,009
TRS	717	KLAWOCK CITY SD		58,642 480,862		60,049 552,452		61,490 627,201
TRS	718	KODIAK ISLAND BOROUGH SD		748,409 6,136,957		766,371 7,050,615		784,764 8,004,594
TRS	755	KUSPUK SD		145,263 1,191,159		148,750 1,368,496		152,320 1,553,660
TRS	757	LAKE AND PENINSULA BOROUGH SD		186,913 1,532,690		191,399 1,760,874		195,993 1,999,128
TRS	754	LOWER KUSKOKWIM SD		1,055,522 8,655,276		1,080,854 9,943,857		1,106,795 11,289,304
TRS	753	LOWER YUKON SD		539,192 4,421,376		552,133 5,079,622		565,384 5,766,916
TRS	722	MATANUSKA-SUSITNA BOROUGH SD		3,304,429 27,096,319		3,383,735 31,130,366		3,464,945 35,342,440
TRS	713	NENANA CITY SD		87,202 715,058		89,295 821,515		91,438 932,669
TRS	720	NOME CITY SD		178,086 1,460,301		182,360 1,677,708		186,736 1,904,709
TRS	736	NORTH SLOPE BOROUGH SD		793,346 6,505,435		812,386 7,473,952		831,883 8,485,210
TRS	751	NORTHWEST ARCTIC BOROUGH SD		687,462 5,637,190		703,961 6,476,444		720,856 7,352,735
TRS	723	PELICAN CITY SD		6,776 55,563		6,939 63,835		7,105 72,473
TRS	724	PETERSBURG CITY SD		153,344 1,257,417		157,024 1,444,619		160,792 1,640,082
TRS	759	PRIIBILOF SD		47,420 388,844		48,558 446,735		49,724 507,180
TRS	748	SAINT MARY'S SD		46,198 378,824		47,307 435,223		48,442 494,110
TRS	727	SITKA BOROUGH SD		398,628 3,268,753		408,196 3,755,399		417,992 4,263,521
TRS	728	SKAGWAY CITY SD		40,032 328,266		40,993 377,137		41,977 428,165
TRS	769	SOUTHEAST ISLAND SD		77,270 633,612		79,124 727,943		81,023 826,437
TRS	756	SOUTHWEST REGION SD		291,861 2,393,263		298,866 2,749,568		306,039 3,121,506
TRS	775	TANANA SD		16,106 132,065		16,492 151,727		16,888 172,250
TRS	729	UNALASKA CITY SD		122,983 1,008,459		125,934 1,158,597		128,957 1,315,360
TRS	730	VALDEZ CITY SD		239,882 1,967,034		245,639 2,259,882		251,535 2,565,654
TRS	731	WRANGELL PUBLIC SD		95,827 785,781		98,127 902,766		100,482 1,024,914
TRS	732	YAKUTAT SD		40,912 335,482		41,894 385,428		42,900 437,578
TRS	762	YUKON / KOYUKUK SD		274,341 2,249,594		280,925 2,584,509		287,667 2,934,204
TRS	763	YUKON FLATS SD		112,470 922,250		115,169 1,059,553		117,933 1,202,915
TRS	778	YUPIIT SD		155,610 1,275,999		159,344 1,465,967		163,169 1,664,319
Subtotal: School District TRS				30,231,724 247,900,139		30,957,286 284,807,028		31,700,261 323,342,658
TRS	737	ALASKA DEPARTMENT OF EDUCATION		254,406 2,086,126		260,511 2,396,705		266,764 2,720,989
TRS	743	SOUTHEAST REGIONAL RESOURCE CENTER		46,432 380,744		47,547 437,429		48,688 496,615
TRS	779	SPECIAL EDUCATION SERVICE AGENCY		52,189 427,950		53,442 491,663		54,724 558,187
TRS	733	UNIVERSITY OF ALASKA		2,366,578 19,405,940		2,423,376 22,295,059		2,481,537 25,311,677
Subtotal: Other TRS				2,719,605 22,300,761		2,784,876 25,620,855		2,851,713 29,087,468

			Fiscal Year 2010		Fiscal Year 2011		Fiscal Year 2012	
Fund	ER Num	Employer	Avg Increase		Avg Increase		Avg Increase	
			C	\$ Total Cont. \$	C	\$ Total Cont. \$	C	\$ Total Cont. \$
		TOTAL TRS		32,951,329 270,200,900		33,742,161 310,427,883		34,551,973 352,430,125
		TOTAL BOTH PERS AND TRS		41,687,340 828,110,171		33,922,123 885,254,394		35,664,137 945,613,595
		TOTAL PERS AND TRS FOR STATE, POLITICAL SUBDI						
		POLITICAL SUBDIVISIONS		2,018,154 122,664,610		41,574 126,386,122		256,927 130,434,633
		SCHOOL DISTRICTS		31,537,220 331,270,341		30,984,179 370,705,229		31,866,461 411,984,005
		STATE OF ALASKA		4,353,775 284,234,654		136,278 292,895,687		597,047 302,276,980
		UNIVERSITY		961,987 45,644,807		275,088 47,276,722		356,844 49,037,488
		OTHER PUBLIC ORGANIZATIONS		2,816,204 44,295,759		2,485,005 47,990,633		2,586,858 51,880,490
				41,687,340 828,110,171		33,922,123 885,254,394		35,664,137 945,613,595

Note A - Represents estimated total payroll base for the fiscal year.
 Based on FY05 payroll from Combined Retirement
 Rounded Avg. of FY 01-05 increase: 3.0% annually
 Accounts for both salary increase and growth base

Note B - The AVERAGE employer rate increase applied to all emplo

Note C - The "estimated" increase in dollars due to average employe

Note D - FY07 change is shown from the FY 05 rate due to FY 06 ap

**Estimate of State General Funds Contributed
Public Employees' and Teachers' Retirement Systems**

ATTACHMENT #3

Fiscal Year 2007					
Employer Group	Avg Increase \$	Total Cont. \$	Estimated % GF	GF Dollars Toward Avg Increase	GF Dollars Toward Total Contr.
POLITICAL SUBDIVISIONS	36,937,940	74,578,795	unk	unk	unk
SCHOOL DISTRICTS	80,205,247	198,331,921	53%	42,508,781	105,115,918
STATE OF ALASKA	78,923,069	179,578,090	50%	39,461,534	89,789,045
UNIVERSITY	13,424,603	27,884,669	58%	7,786,270	16,173,108
OTHER PUBLIC ORGANIZATIONS	11,779,521	26,680,167	unk	unk	unk

Fiscal Year 2008					
Employer Group	Avg Increase \$	Total Cont. \$	Estimated % GF	GF Dollars Toward Avg Increase	GF Dollars Toward Total Contr.
POLITICAL SUBDIVISIONS	19,023,039	95,839,198	unk	unk	unk
SCHOOL DISTRICTS	41,136,769	244,540,197	53%	21,802,488	129,606,304
STATE OF ALASKA	40,645,121	225,609,205	50%	20,322,561	112,804,602
UNIVERSITY	6,912,249	35,626,065	58%	4,009,104	20,663,118
OTHER PUBLIC ORGANIZATIONS	6,052,937	33,463,227	unk	unk	unk

Fiscal Year 2009					
Employer Group	Avg Increase \$	Total Cont. \$	Estimated % GF	GF Dollars Toward Avg Increase	GF Dollars Toward Total Contr.
POLITICAL SUBDIVISIONS	18,418,107	117,132,481	unk	unk	unk
SCHOOL DISTRICTS	41,437,402	292,241,283	53%	21,961,823	154,887,880
STATE OF ALASKA	39,355,077	271,730,910	50%	19,677,539	135,865,455
UNIVERSITY	6,705,978	43,391,799	58%	3,889,467	25,167,244
OTHER PUBLIC ORGANIZATIONS	5,989,169	40,370,483	unk	unk	unk

Fiscal Year 2010					
Employer Group	Avg Increase \$	Total Cont. \$	Estimated % GF	GF Dollars Toward Avg Increase	GF Dollars Toward Total Contr.
POLITICAL SUBDIVISIONS	2,018,154	122,664,610	unk	unk	unk
SCHOOL DISTRICTS	31,537,220	331,270,341	53%	16,714,727	175,573,281
STATE OF ALASKA	4,353,775	284,234,654	50%	2,176,888	142,117,327
UNIVERSITY	961,987	45,644,807	58%	557,952	26,473,988
OTHER PUBLIC ORGANIZATIONS	2,816,204	44,295,759	unk	unk	unk

Fiscal Year 2011					
Employer Group	Avg Increase \$	Total Cont. \$	Estimated % GF	GF Dollars Toward Avg Increase	GF Dollars Toward Total Contr.
POLITICAL SUBDIVISIONS	41,574	126,386,122	unk	unk	unk
SCHOOL DISTRICTS	30,984,179	370,705,229	53%	16,421,615	196,473,771
STATE OF ALASKA	136,278	292,895,687	50%	68,139	146,447,844
UNIVERSITY	275,088	47,276,722	58%	159,551	27,420,499
OTHER PUBLIC ORGANIZATIONS	2,485,005	47,930,633	unk	unk	unk

Fiscal Year 2012					
Employer Group	Avg Increase \$	Total Cont. \$	Estimated % GF	GF Dollars Toward Avg Increase	GF Dollars Toward Total Contr.
POLITICAL SUBDIVISIONS	256,927	130,434,633	unk	unk	unk
SCHOOL DISTRICTS	31,866,461	411,984,005	53%	16,889,224	218,351,522
STATE OF ALASKA	597,047	302,276,980	50%	298,523	151,138,490
UNIVERSITY	356,844	49,037,488	58%	206,970	28,441,743
OTHER PUBLIC ORGANIZATIONS	2,586,858	51,880,490	unk	unk	unk

State of Alaska
Public Employees Retirement System
Employer Rates
for Fiscal Year 2006

ER No.	ER Name	FY 2005 Employer Rate	FY 2006 Employer Rate	Change Due to SB 46
EMPLOYERS WHO CHOSE TO STAY AT THEIR PREVIOUSLY REPORTED (FY 06) RATE				
144	Bristol Bay Borough	7.99	12.99	0.00
148	Cordova, City of	9.77	14.77	0.00
282	Delta Junction, City of	14.10	13.76	0.00
129	Fairbanks, City of	25.67	30.67	0.00
192	Galena, City of	5.00	10.00	0.00
260	Kachemak, City of	20.37	25.37	0.00
122	Ketchikan Gateway Borough	10.49	15.49	0.00
181	Ketchikan, City of	19.92	24.92	0.00
128	Kodiak, City of	11.21	16.21	0.00
247	Lake and Peninsula Borough	17.90	22.90	0.00
191	North Pole, City of	10.00	15.00	0.00
134	Palmer, City of	13.54	18.54	0.00
143	Petersburg, City of	18.53	23.53	0.00
266	Quinhagak, City of	12.33	8.38	0.00
182	Seward, City of	8.74	13.74	0.00
123	Soldotna, City of	9.46	14.46	0.00
169	Tanana, City of	15.65	11.77	0.00
249	Unalakleet, City of	9.87	14.87	0.00
107	Valdez, City of	8.91	13.91	0.00
248	Yakutat, City and Borough of	13.78	18.78	0.00
EMPLOYERS WHO CHOSE TO USE THE REDUCED (FY 05) RATE				
208	Akutan, City of	9.09	13.72	-4.63
230	Aleutians East Borough	14.83	16.01	-1.18
259	Allakaket, City of	5.00	10.00	-5.00
173	Anchorage, Municipality of	8.65	13.37	-4.72
173a	Anchorage, Municipality of -- Police and Fire members	9.90	14.90	-5.00
283	Anderson, City of	0.00	0.00	0.00
243	Atka, City of	15.00	20.00	-5.00
171	Barrow, City of	12.86	17.86	-5.00
136	Bethel, City of	8.70	13.70	-5.00
186	Craig, City of	15.33	20.33	-5.00
258	Denali Borough	29.00	34.00	-5.00
178	Dillingham, City of	11.18	16.18	-5.00
271	Egegik, City of	8.80	13.80	-5.00
242	Elim, City of	9.31	14.31	-5.00
116	Fairbanks North Star Borough	10.93	15.93	-5.00
183	Fort Yukon, City of	5.00	10.00	-5.00
189	Haines Borough	17.17	22.17	-5.00
215	Homer, City of	7.92	12.92	-5.00
199	Hoonah, City of	10.75	15.75	-5.00
285	Hooper Bay, City of	10.42	14.65	-4.23
235	Huslia, City of	13.27	18.27	-5.00

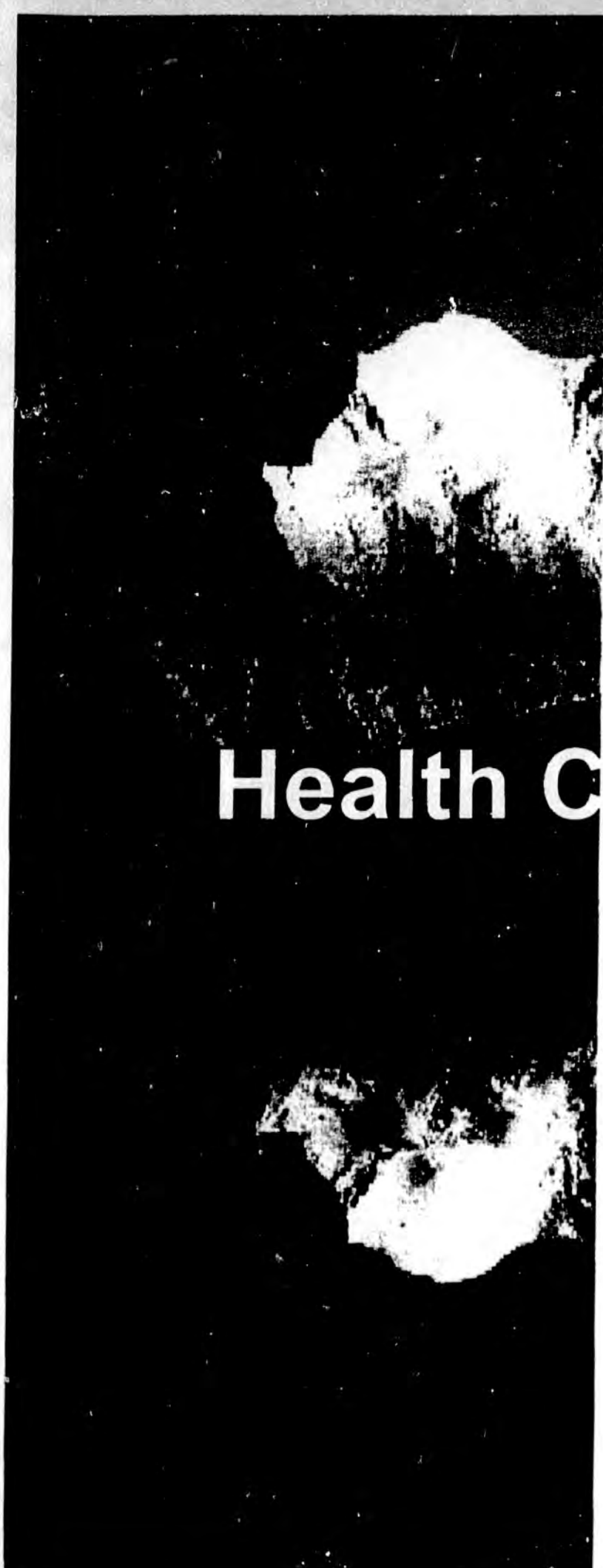
State of Alaska
Public Employees Retirement System
Employee Rates
for Fiscal Year 2006

ER No.	ER Name	FY 2005 Employer Rate	FY 2006 Employer Rate	Change Due to SB 46
126	Juneau, City and Borough of	11.22	16.22	-5.00
237	Kaltag, City of	13.49	18.49	-5.00
180	Kenai Peninsula Borough	12.81	17.81	-5.00
115	Kenai, City of	8.67	13.67	-5.00
151	King Cove, City of	9.63	14.63	-5.00
227	Klawock, City of	6.19	11.19	-5.00
174	Kodiak Island Borough	5.00	10.00	-5.00
140	Kotzebue, City of	5.00	10.00	-5.00
287	Koyuk, City of	10.42	14.31	-3.89
109	Matanuska-Susitna Borough	10.99	15.99	-5.00
193	Nenana, City of	14.46	19.46	-5.00
139	Nome, City of	5.50	10.50	-5.00
241	Noorvik, City of	9.40	13.82	-4.42
145	North Slope Borough	7.64	12.64	-5.00
220	Northwest Arctic Borough	9.33	14.33	-5.00
200	Pelican, City of	8.86	13.86	-5.00
256	Saint George, City of	8.78	13.78	-5.00
172	Saint Paul, City of	7.35	12.35	-5.00
176	Sand Point, City of	7.11	12.11	-5.00
198	Saxman, City of	27.84	32.84	-5.00
222	Selawik, City of	11.01	7.88	3.13
286	Seldovia, City of	10.42	14.48	-4.06
120	Sitka, City and Borough of	14.02	19.02	-5.00
132	Skagway, City of	14.63	19.63	-5.00
206	Thorne Bay, City of	10.10	15.10	-5.00
280	Toksook Bay, City of	10.00	14.69	-4.69
179	Unalaska, City of	12.09	17.08	-4.99
131	Wasilla, City of	11.44	16.44	-5.00
202	Whittier, City of	5.00	10.00	-5.00
135	Wrangell, City of	11.72	16.72	-5.00

inactive in FY 06 →

TERMINATED EMPLOYERS THAT DRB WILL USE THE APPROPRIATION TO OFFSET A TERMINATION LIABILITY

214	Saint Mary's, City of (TERMINATED)
216	Ruby, City of (TERMINATED)
277	Kake, City of (TERMINATED)
289	Angoon, City of (TERMINATED)



Department of Administration
Division of Retirement and Benefits

AlaskaCare Health Plans
Health Cost Analysis

Special Committee
Ways and Means
Report

December 7, 2005

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Bargaining Unit Descriptions

Alaska Vocational Technical Center Teachers (TA)

Exempt, nonsupervisory teachers in the Department of Labor and Workforce Development employed by the Alaska Vocational Technical Center. Employees in this bargaining unit are represented by Alaska Vocational Technical Teachers Association, which is affiliated with National Education Association-Alaska (NEA).

Health eligible members: 33

Confidential Unit (KK)

Classified employees of the Executive Branch who assist or act in a confidential capacity to a person who formulates, determines, and effectuates management policies in the area of collective bargaining. Employees in this bargaining unit are represented by Confidential Employees Association, which is affiliated with Alaska Public Employees Association-AFT/AFL-CIO.

Health eligible members: 191

Correctional Officers Unit (GC)

Classified, nonsupervisory employees of the Department of Corrections who perform duties in adult correctional institutions. Alaska Correctional Officers Association represents employees in this bargaining unit.

Health eligible members: 689

Licensed Engine Room Employees (BB)

Exempt, licensed engineers responsible for mechanical and electrical functions of the vessels of the Alaska Marine Highway System. Employees in this bargaining unit are represented by Marine Engineers Beneficial Association, District No. 1-Pacific Coastal, which is affiliated with AFL-CIO.

Health eligible members: 72

Supervisory Unit (SS)

A statewide unit of classified, supervisory employees of the Executive Branch. A supervisory employee is an individual, regardless of job description or title, who has authority to act or to effectively recommend action in the interest of the public employer. Employees in this union are represented by Alaska Public Employees Association, which is affiliated with American Federation of Teachers, AFL-CIO.

Health eligible members: 1,763

Unlicensed Deck Employees (MM)

Exempt, unlicensed employees aboard the vessels of the Alaska Marine Highway System. Unit includes personnel in deck, engineer, steward, and purser departments. Employees in this bargaining unit are represented by Inland Boatmen's Union of the Pacific, Alaska Region, which is affiliated with AFL-CIO.

Health eligible members: 413

Noncovered and Exempt Employees (EE, XE, PX, XJ, SL)

Health eligible members: 2,239

General Government Unit (GG, GP, GY, GZ)

Classified, nonsupervisory employees of the Executive Branch not included in another bargaining unit. This statewide unit includes technical, professional, and clerical personnel. Employees in this bargaining unit are represented by Alaska State Employees Association, Local 52, which is affiliated with American Federation of State, County, and Municipal Employees, AFL-CIO.

Health coverage through ASEA Health Trust. (Previous health coverage was provided by the AlaskaCare health plan through 6/30/01.)

Health eligible members: 7,545

Labor Trades and Crafts (LL)

A statewide unit of classified, nonsupervisory, labor, trade, and craft employees of the Executive Branch. Employees in this bargaining unit are represented by Public Employees Local 71, which is affiliated with Laborers International Union of North America, AFL-CIO.

Health coverage through Public Employees Local 71 Trust Fund.

Health eligible members: 1,500

Licensed Deck Employees (CC)

Exempt, licensed deck officers responsible for the navigation of the vessels of the Alaska Marine Highway System. Employees in this bargaining unit are represented by International Organization of Masters, Mates and Pilots, which is affiliated with AFL-CIO.

Health coverage through MM&P Health and Benefit Plan.

Health eligible members: 85

Regularly Commissioned Public Safety Officers Unit (AA & AP)

(AA) Classified, nonsupervisory employees of the Department of Public Safety who have primary responsibility for the prevention and detection of crime and the enforcement of State laws (i.e., fish and game, penal, traffic, or highway) and require certification as a police officer by the Alaska Police Standards Council.

(AP) Classified, nonsupervisory employees of the Department of Transportation and Public Facilities who have primary responsibility for international airport safety and fire protection and require certification by the Alaska Police Standards Council. The Public Safety Employees Association represents employees in both these bargaining units.

Health coverage through PSEA Health & Welfare Trust.

Health eligible members: 422



AlaskaCare Health Plan Information

There are two health plans available to eligible employees and retirees of the State of Alaska.

The **Retiree AlaskaCare** (retired members) health plan covers medically necessary expenses at 80% of usual, customary, and reasonable charge after a \$150 individual, \$450 per family deductible. Routine services are not covered. Expenses for travel round trip to the nearest available medical treatment facility is available with pre-certification. Retail prescription drug copays are \$4 generic and \$8 brand for a 90-day or 100-unit supply. Mail order drugs have no copay. Mental health benefits are available at 50% without pre-certification and 80% with pre-certification.

Certain services require pre-authorization in order to be covered or pre-certification to receive the highest benefit. Coverage offers a network of participating providers and hospitals.

The **Select Benefits AlaskaCare** (active employees) health plan covers medically necessary expenses at one of the three options of coverage: 70%, 80%, or 90% of the usual, customary, and reasonable charge. The deductibles range from \$250 individual, \$500 family to \$500 individual, \$1,000 family. One routine annual exam is covered per year. Expenses for travel round trip to the nearest available medical treatment facility is available with pre-certification.

Retail prescription drug copay for a 30-day supply is 20% of the total cost of the drug with a minimum of \$8 and maximum of \$50. Copay for a 90-day supply is 20% of the total cost of the drug with a minimum of \$16 and maximum of \$100. Mail order drugs have a \$20 brand, \$8 generic copay for a 90-day supply. There is an annual maximum drug copay of \$1,000 per individual, \$2,000 per family after which drugs are purchased with no copay charged.

Mental health benefits are available at 50% without pre-certification or at the selected option's copay of 70%, 80%, or 90% with pre-certification. Certain services require pre-authorization in order to be covered or pre-certification to receive the highest benefit. Coverage offers a network of participating providers and hospitals with steerage to Providence Alaska Medical Center. Benefits are reduced by 20% for inpatient hospitalization at a facility other than Providence Alaska Medical Center in Anchorage and for any inpatient services provided in the remaining 49 states at nonparticipating hospitals.

Both AlaskaCare health plans became self-funded in 1997. NYLCare Health Plans Northwest was the first Third Party Administrator from 1997-2000. Aetna is the current Third Party Administrator from 2000-present.

I. Population Demographics

ACTIVE AlaskaCare Health Cost Analysis June 2001-April 2005					
Demographics of active membership					
	June 2001- Dec. 2001	2002	2003	2004	January 2004- April 2005
Number of Employees	4,550	5,582	5,563	5,513	5,505
Number of Dependents	8,617	9,775	9,316	9,049	8,954
Ratio of Dependents to Employees	1.9	1.8	1.7	1.6	1.6
Percent Male Members	49.8%	49.9%	50.1%	49.9%	49.8%
Percent Female Members	50.2%	50.1%	49.9%	50.1%	50.2%
Average Age – Employee	45	44	44	45	45

RETIREE AlaskaCare Health Cost Analysis June 2001-April 2005					
Demographics of retiree membership					
	June 2001- Dec. 2001	2002	2003	2004	January 2004- April 2005
Number of Retirees	22,463	23,967	25,345	26,672	27,485
Number of Dependents	22,830	22,881	23,299	24,668	24,709
Ratio of Dependents to Retirees	1.0	0.95	0.92	0.92	0.90
Percent Male Retirees	47.1%	47.1%	47.0%	47.1%	46.9%
Percent Female Retirees	52.9%	52.9%	53.0%	52.9%	53.1%
Average Age – Retiree	63	63	64	64	64

II. Cost Drivers in Alaska

In July 2005, Commonwealth North issued a report titled, "Alaska Primary Health Care: Opportunities and Challenges." Highlights of the report conclude the following (attached):

- Approximately 110,000 Alaskans have no health insurance coverage.
- Thousands are turning to hospital emergency rooms as a source of primary care many without ability to pay.
- Inadequate health care in remote areas is a significant logistical, financial and educational challenge.
- Alaska health care costs are approximately 40% higher than Seattle (per Premiera, corroborated by Providence and Alaska Regional).
- Alaska hospitals are losing tens of millions of dollars from uncollectible accounts arising from excessive emergency room use and they are unable to reduce the amount of emergency room care provided due to Federal law (see attached).

III. Cost Drivers Specific to AlaskaCare Health Plans

Growth in enrollment: Retirees increased from 45,293 members to 52,194 from December 2001 to April 2005. Medical enrollment increased 5.3% and Dental-Vision-Audio (DVA) enrollment increased 6.2% on a year over year basis. Most of the growth represents retirees who are under the age of 65. This population often receives a richer benefit as a retiree than they had as an active employee. Between 1,800 to 2,000 members retire annually and receive system-paid medical benefits for themselves and eligible dependents.

Active membership increased from 13,167 members to 14,459 from December 2001 to April 2005.

Increase in claim costs: There continues to be an increase in claims per employee/retiree. The lines of coverage that hold the largest increase in claim dollars from one fiscal year to the next are medical services and prescription drugs. Claims per employee/retiree increased 5.5% for medical and 13.1% for prescriptions, annually, trended after growth has been factored out. The plan's experience continues to be lower than the national trend averages across the board.

The retiree plan's increase can be broken down into the following categories:

\$15.7M	Medical
\$ 0.4M	Mental Health Services
\$11.9M	Prescription Drugs
\$ 1.2M	Dental
\$ 0.2M	Vision
-\$0.09M	Hearing

Utilizing network providers can reduce medical costs, however, Alaska has relatively few providers who participate. Prescription drug costs can be decreased by many different mechanisms. The active population pays a percentage of their drug costs, which provides incentive for them to choose the most cost-effective method to purchase their drugs. The retirees have little incentive to control their drug costs due to minimal copay combined with coordination of benefits (COB) which also reimburses the retiree for the copay amount as well. Retirees do not pay anything for their prescriptions if they use the mail order pharmacy service or if both retiree and spouse cover each other under dual AlaskaCare retiree plans.

As technological advances in medicine are made, the increase in medical costs is proportionate to the new technology's utilization.

The accrued liability to the retirement systems for medical costs to retirees represents 37% for PERS and 31% for TRS.

Seventy-five percent of the retiree medical costs are incurred for pre-65 members. The costs are reduced to 25% for post-65 medical costs because this is when the AlaskaCare Plan coordinates with Medicare.

IV. Authority

Active Health Plan--Authority Source

AS 39.35.090 Group Life and Health Insurance

(a) The Department of Administration may obtain a policy or policies of group insurance covering State employees, persons entitled to coverage under AS 14.25.168, AS 22.25.090, AS 39.35.535 or former AS 39.37.145, employees of other participating governmental units, or persons entitled to coverage under AS 23.15.136, subject to the following conditions:

- (1) A group insurance policy shall provide one or more of the following benefits: life insurance, accidental death and dismemberment insurance, weekly indemnity insurance, hospital expense insurance, surgical expense insurance, dental expense insurance, audiovisual insurance, or other medical care insurance.
- (2) Each eligible employee of the State, the spouse and the unmarried children chiefly dependent on the eligible employee for support shall be covered by the group policy, unless exempt under regulations adopted by the commissioner of administration.

1978 AG Opinion File No. J-66-444-78

Health and Retirement Bargainability

It was determined that AS 39.30.090 does not specify what levels of coverage or benefits must be included in the policy (or policies) obtained, we believe the issue of group life and health insurance benefits is negotiable under PERA. The labor relations section for the State of Alaska does not bargain the plan design changes. The only provision that is bargained deals with the increased premium amounts for the active health plan (Select Benefits). Health care plan design changes are the purview of Scott J. Nordstrand, Commissioner of Administration.

The active employee "Select Benefits" Health Plan is referred to as the Commissioner's Plan. The Commissioner has authority to determine and make plan changes.

Retiree Medical Plan--Authority Source

PERS - AS 39.35.535 Medical Benefits

(a) Except as provided in (d) of this section, the following persons are entitled to coverage if a benefits recipient elects major medical insurance coverage under this section:

- (1) a person receiving a monthly benefit from the system.

- (2) the spouse of a person receiving a monthly benefit from the system.
- (3) a natural or adopted child of a person receiving a monthly benefit from the system, if the dependent child as defined in AS 39.35.680.

TRS – AS 14.25.168 Medical Benefits

- (b) Except as provided in (c) of this section, the following persons are entitled to coverage if a benefits recipient elects major medical insurance coverage under this section:
 - (4) a person receiving a monthly benefit from the system
 - (5) the spouse of a person receiving a monthly benefit from the system
 - (6) a natural or adopted child of a person receiving a monthly benefit from the system, if the dependent child as defined in AS 14.25.220.

The Commissioner of Administration has the authority to determine and make changes to the retiree "AlaskaCare" Health Plan.

Legal Constraints Regarding Making Changes – Retiree Health Plan

Alaska State Constitution, Article 12 Section 7.

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. Retired State workers are protected by this section from the loss or reduction of retirement benefits due them.

In 1999, the Commissioner approved seven changes to the retiree health plan. Each of the changes had advantages with corresponding disadvantages to the benefits for the retiree membership. The changes were intended to be offsetting and cost neutral to the plan. RPEA (Retired Public Employees' Association), ASEA and NEA brought suit regarding the plan design changes.

In 2003, the Alaska Supreme Court held that (1) health insurance benefits are benefits protected from diminishment or impairment by the Alaska Constitution; (2) Constitution protects health insurance benefits themselves rather than the costs of those benefits; and (3) when determining if changes were reasonable to pass constitutional muster, *comparative analysis of disadvantages and compensating advantages of changes to health insurance benefits must be made* [Emphasis added] by focusing on the entire group of employees rather than the individuals.

This case has been remanded back to the Superior Court to analyze the plan changes based on the Supreme Court's ruling and determine damages, if any, regarding these changes (scheduled for trial in January of 2006).

V. Cost Containment Initiatives

The Division works has a task force that reviews and recommends cost containment initiatives for the Select Benefits and Retiree AlaskaCare health plans. This task force is the Health Benefit Evaluation Committee, a labor taskforce consisting of union members selected who meet in accordance with Article 28 of the Supervisory Contract on a quarterly basis to discuss options for decreasing health costs to the Select Benefits plan.

The Health Benefit Subcommittee was a subcommittee of the PERB and TRB boards. This group would discuss options regarding the Retiree AlaskaCare plan, until June 30 when their duties were dissolved by SB 141 legislation. For example, this group initiated the generic drug campaign, which has been successful in reducing drug costs by moving members to generic drugs from Brand name drugs. The Alaska Retirement Management Board, which replaced the PERB and TRB, has decided to have a Health Subcommittee.

Active AlaskaCare Plan Initiatives

2003 - Increase in prescription drug copay to a percentage of the total cost of the drug rather than a flat dollar amount for active employees. Utilizing this type of benefit rather than a dollar copay amount, regardless of the price of the drug purchased, provides incentive for the member to choose carefully when deciding whether to purchase a brand drug versus a less expensive generic equivalent, if their provider is in agreement that the generic is sufficient to treat their condition. Aetna estimated the savings at \$8-9 per employee per month. This plan provision change has demonstrated its success associated with cost containment for rising prescription drugs.

2003 - Coordination of Benefits methodology was revised. This was initiated as a result of State Health Trusts offering a 30% plan to their employees who had secondary coverage. The implication of this offering is that costs would be shifted from the Health Trust plans to another plan covering the family. Where the normal course would be for the primary plan to pay their portion and the coinsurance amount would be paid by the secondary plan, these 30% plans would have paid only 30% of a primary benefit and the secondary plan (many are AlaskaCare members) would have been burdened with the 70% cost remaining. Regulations were amended to curtail this cost shifting to the active plan's population. Estimated savings at \$750,000 in transferred claims.

2004 - The active plan took several steps to reduce health care expenditures last year. Treatment guidelines for morbid obesity were revised to more restrictive requirements. Aetna estimated the savings based on 35 patients per year to be approximately \$350,000 annually.

Effective July 1, 2005, a hospital-only preferred provider agreement was made effective for hospital services in the Municipality of Anchorage and in the remaining 49 states. A 20% reduction in benefits for utilizing a nonpreferred hospital was an incentive to receive services from a preferred hospital. This steerage has produced plan savings. Deloitte estimated the savings to be approximately \$400,000 to \$600,000 annually.

2005 – Elimination of the coordination of benefit savings bank occurred this year. Although a dollar figure was not provided in potential savings, there will undoubtedly be savings realized. COB savings was a mechanism that rationalized if an AlaskaCare plan was a secondary plan, yet a member was paying a full premium for a small percentage of benefit, then members were not realizing a full benefit of the premium amount paid. As claims processed through the plan, a portion of the realized savings were "banked" and then rebated back to the member to repay the deductible and coinsurance amounts charged by the plan. The amount of "banked" savings paid the member additional dollars over and above the original charge for the medical services. When Deloitte conducted its audit in 2004, one recommendation included that the COB savings bank be eliminated.

In May and June positive open enrollment was conducted for all members of Select Benefits AlaskaCare. This required all members to positively enroll and provide documentation proving that the dependents enrolled are in fact eligible dependents. Industry standards estimate that plans that undertake this initiative find that on average 15% of the plan's covered members are unable to provide the necessary documentation.

The State has never had a positive open enrollment for its Select Benefits Plan. Additionally, as a tax qualified health plan, the Division must be able to provide documentation ensuring that only qualified members receive benefits under this plan. Positive open enrollment will be scheduled at regular intervals in the future.

The preliminary results of the positive open enrollment for the Select Benefits Plan indicate 1,243 or 13.6% of dependents previously enrolled were not enrolled as of July 1, 2005. This represents baseline information as of July 1, 2005, and is subject to change as eligibility documentation is verified. The Division is allowing a 60-day grace period, through August 30, for employees to provide necessary documentation, with coverage retroactive to July 1, 2005. Based on the above figures, it is estimated that the cost savings to the plan will be approximately \$3 million annually.

Deloitte Consulting has been requested to provide an analysis of implementing a high deductible health plan combined with a health savings account component as requested in introduced legislation, namely SB94. The Division awaits this analysis to provide further potential cost savings information.

Noted below are the premium Increases, trend projections and Aetna Corporate Trends:

	FY05	FY06	FY07
Plan Actual Percentage Premium Increase	5.7%	10.5%	2.0%
Active AlaskaCare Trend	7% Medical 20% RX	10-14% Medical 12-15% RX	2-6% Medical 6-12% RX
Aetna Corporate Trend	13% Medical 15 RX	16% Medical 15% RX	18% Medical 14.5% RX

Noted below are the active plan claims costs for FY 2005 through FY 2000.

Health Claims Cost by Fiscal Year	Amount
FY2005	\$49 Million
FY2004	\$49 Million
FY2003	\$45 Million
FY2002	\$44 Million
FY2001	\$80 Million
FY2000	\$64 Million

AlaskaCare Retiree Health Plan

The AlaskaCare Retiree plan faces challenges in containing health care costs due to the provisions noted under Section III. Some initiatives have been undertaken due to mandatory State and federal regulatory compliance.

2004 - Retiree AlaskaCare members were required to submit proof of full-time student status at an accredited educational or technical institution recognized by the Department of Education and Early Development for their dependents between the ages of 19 and 23. Prior to this date, coverage was extended to dependents up to age 23 regardless of full time student status. Approximately 1,000 dependents were removed from eligibility on January 1, 2005, when members failed to provide supporting student documentation. The potential savings to the plan based on \$3,034.20 claim dollars paid per dependent in FY04 is \$3.03M.

2005 - Gastric Bypass Surgery criteria was amended in order to require members to meet stricter standards prior to the surgery being pre-authorized. Aetna estimated the savings based on 35 patients per year to be approximately \$350,000 annually.

2005 - Elimination of the coordination of benefit savings bank occurred this year. Although a dollar figure was not provided in potential savings, there will undoubtedly be savings realized. COB savings was a mechanism that rationalized if an AlaskaCare plan was a secondary plan, yet a member was paying a full premium for a small percentage of benefit, then members were not realizing a full benefit for the premium

amount paid. As claims processed through the plan, a portion of the realized savings would be "banked" and then rebated back to the member to repay the deductible and coinsurance amounts charged by the plan.

This amount of "banked" savings would often pay additional monies over and above the original charge for the medical services. In the case of retirees who have Medicare as their primary health plan, the AlaskaCare plan's reimbursement for COB savings occasionally included monies paid to the retiree over and above the amount charged by the provider and in excess of the amount Medicare authorizes the provider to collect on behalf of the retiree. When Deloitte conducted its audit in 2004, one recommendation included that the COB savings bank be eliminated.

2005 - Retiree Eligibility Verification is scheduled to begin November through January 2006 and become effective January 2006. The State has never required dependent eligibility verification for retirees covered under the AlaskaCare Plan. It is estimated that this initiative will result in annual cost savings of \$16 million.

2005 - Subrogation of third party liability claims is being undertaken for both the active and retiree plans. Previous to this method being used, there was little or no oversight of these health care dollars that may have been the responsibility of a third party, such as with medical claims incurred due to an automobile accident or personal property settlements. The cost to the plan is 27% of any monies collected, however, that represents 73% more than the plan realized previously in subrogated claims payments.

Generic Drugs - Generic drug utilization versus Brand name drugs increased from 36% for the active plan in 2001 to 48% in 2005. For the retiree plan, generic drug utilization increased from 35% in 2001 to 45% in 2005 (most plans do not rise above 50% for generic drug usage). Continued education and encouragement to the membership to utilize generic equivalent drugs is an ongoing campaign. For the retiree plan every 1% movement from Brand name drugs to generic represents a \$1 million savings to the plan.

Network Savings - Aetna as the Third Party Administrator for the State of Alaska's health plans has established a comprehensive network system with providers and health facilities. Members who receive services from preferred providers or facilities that are in the network system-represent millions of dollars of savings to both plans each year. The State has negotiated with Aetna to meet certain performance guarantees through the use of network providers and facilities in order to increase the savings amount.

Medicare Part D - The Retiree Drug Subsidy, part of the Medicare Modernization Act of 2003, will provide a 28% subsidy of qualified retiree drug costs back to the plan if the plan maintains the same level of drug benefit available today. Because the AlaskaCare health plan provides a better benefit than Medicare's Part D drug plan, CMS will pay the State up to 28% of eligible costs for maintaining prescription drug coverage for Medicare participants.

The electronic application process became available on August 1. The Division has been successfully approved to participate in the subsidy program and payments back to

the retiree health trust fund are expected to begin in February of 2006. As retiree's drug expenses alone in 2005 were \$96M, the potential if a mere 10% of the plan's drug expenditures for this population qualifies for the subsidy, the payment back to the plan is projected to be \$7M annually.

Noted below are the retiree health plan premium increases, trend projections, and Aetna corporate trends:

	CY04	CY05	CY06
Plan Actual Percentage Premium Increase	12.0%	5.5%	3.0%
Retiree AlaskaCare Plan	13% Medical 15% RX	6-10% Medical 12-14% RX	3-5% Medical 20-22% RX
Aetna Corporate Trend		15-16% Medical 15% RX	18% Medical 14.5% RX

Noted below are the retiree plan claims costs for FY 2005 through FY 2000:

Health Claims Cost by Fiscal Year	Amount
FY2005	\$256 Million
FY2004	\$226 Million
FY2003	\$205 Million
FY2002	\$148 Million
FY2001	\$128 Million
FY2000	\$106 Million

How do these initiatives impact the overall costs for the health plans?

These initiatives act to reduce the claims cost for each of the plans, which in turn reduces the percent of increase in the annual premium amount established for the active and retiree health plans. To calculate the annual premium increase for each of the plans, Deloitte uses the prior year *claims cost*, national trend, and cost savings measures to arrive at the premium increase for that fiscal (active plan) and calendar year (retiree plan).

For example, beginning on July 1, 2005, the active plan implemented a Preferred Provider Option (PPO) and changed the criteria associated with gastric bypass surgeries to be more stringent. As a consequence, Deloitte estimated 4.0% savings to the health plan from the two changes. This reduced the FY05 premium increase to 5.7%. In the absence of the two plan changes the premium increase as recommended by Deloitte would have been 10% for FY05.

For the retiree plan, the claims cost for CY04 was lower than that projected by Deloitte, which resulted in a premium increase of 5.5% for CY05 as compared with 12% for CY04. In summary, plan changes and dependent verification for the active and retiree

health plans act to reduce the annual year-after-year premium cost increases and *help slow the escalation of health care costs* [emphasis added] associated with these health plans.

How does the Alaska Retiree Health Plan compare with other state retiree health plans?

The short answer is "favorably." The retained actuary conducted a robust analysis in 2004 as part of the Tier redesign study associated with the medical plan and the resultant costs to provide medical coverage to eligible retirees. The actuary concluded that the benefits provided to retirees are "rich" when compared to their other clients. 37% of the PERS accrued unfunded liability is attributed to medical costs. This amount is 31% for TRS.

Workplace Economics conducted a study that was issued in 2004. The study reviewed 50 states regarding retiree medical coverage. The report (attached) indicates what percentage of states and what level of retiree medical coverage is provided. The percentage noted below are for the pre-65 health care coverage:

- 24% of states provide access only to health care; the retirees must pay 100% of the premium
- 44% of state's cost share with employees (i.e., low plan \$159 per month to \$925 per month
- 32% of states pay all of the premium

Trends by National Government and Employers / Plans to Reduce Claims Costs

On a federal or national level there are things like EMR/EHR (Electronic Medical/Health Records - CMS is giving physicians free software), and review/accreditation organizations trying to provide information (AHRQ, NCQA-HEDIS, JCAHO, URAC, Leapfrog, eValue8, etc).

On an Employer/Plan perspective, some initiatives would include:

- Prescription Drug Initiatives
 - Increase generic usage via education or voucher programs*
 - Specialty drug network for serious/chronic conditions, typically injectables
 - Step Therapy or prior approval for certain drugs **
 - Further restricting formulary **
- High Deductible Health Plan (HDHP) with Health Savings Accounts **
- Disease Management and enhanced disease management (expanding conditions managed) for active members ** can be part of HDHP
- Incentives for Wellness Programs (i.e., Health Risk Assessments) ** can be part of HDHP
- Centers of Excellence (Transplant, Cardiac, Bariatric Surgery, Cancer)**
- Further restricting networks (most often using Tiered Networks)
- Health Advocate Programs
- Consumer Education (Transparency of Costs) **

The State of Alaska has implemented the items identified above by *. Further, the items identified above as ** are in the process of being researched/studied for possible future implementation.

COMMONWEALTH NORTH

Alaska Primary Health Care: *OPPORTUNITIES & CHALLENGES*

Approved by the Board of Directors on June 7, 2005
Updated July 31, 2005

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EXECUTIVE SUMMARY

Why Alaska health care issues must be addressed and solved

Health care is not a goal or end in itself. The ultimate goal of health care and of this study is health and wellness for Alaskans. Alaskans must identify and improve the aspects of health care that are under our control. Many health care issues are national, that Alaskans cannot affect. Therefore, it is even more important to address and solve issues we can do something about. Furthermore, the demographics of an aging population will put foreseeable pressure on all fronts.

ACCESS

- Approximately 110,000 Alaskans have no health insurance coverage.
- Many others have minimal or inadequate coverage.
- Thousands are turning to hospital emergency rooms as a source of primary health care, often without ability to pay.
- Adequate health care in remote areas is a significant logistical, financial and educational challenge.

QUALITY

- Based on the 2004 National Healthcare Quality Report, Alaska has low rankings in several key measures of cancer, heart disease, maternal and child health, respiratory diseases, and nursing and home health care.
- Many Alaskans are in high-risk health categories, many are not receiving adequate care.

COST

- Alaska health care costs are approximately 40% higher than Seattle (per Premera, corroborated by Providence and Alaska Regional)
- Medicaid costs to the State of Alaska are rising dramatically, to over \$1 billion in 2005. It is placing a strain on the state budget.
- Health care insurance premiums are also rising dramatically, creating a significant burden on employers and employees.
- Alaska hospitals are losing tens of millions of dollars from uncollectable accounts arising from excessive emergency room use and they are unable to reduce the amount of emergency room care provided due to Federal law.

What can we do?

There are four major interrelated factors driving primary healthcare in Alaska today:

1. Health and wellness of the population
2. Availability of care and insurance
3. Affordability of care and insurance
4. Financial health of the stakeholders, such as employers, providers and individuals

These drivers are currently interacting in a "cost spiral" that is creating a very serious situation nationally and in Alaska. The rate of increase in the cost of health care is unsustainable—if unchecked health care increases will price employers out of the market. Already industries such as automobiles are threatened. We need to avoid similar impacts in Alaska.

We believe that with focus and coordination Alaskans can impact this "cost spiral" positively through specific actions in the four areas mentioned above:

1. Lifestyle and prevention: Raise public awareness and increase personal responsibility for wellness
2. Access: Make services and insurance more widely available
3. Quality: Continue improving quality of care that is delivered
4. Costs: Reduce costs of service delivery and insurance to make them more affordable

There are many health care initiatives already underway in these areas by various governmental and non-governmental entities. Some have proven to be effective and cost-efficient. Others show significant promise. Health care reform is complex and controversial, with multiple players and competing interests. Inconsistent tracking and trending create significant factual disputes about healthcare systems. Any major reform has potential to create both winners and losers.

Given this environment, the Study Group came to three overarching conclusions:

1. The Study Group process itself has been enlightening, educational and productive.
2. Every aspect of health care is complex. Understanding the system and improving it is beyond the capacity of any one element within the system.
3. The Study Group recommends that an ongoing body be established to continue and deepen this Group's work.

The time to act is now. Involvement of Alaskans in the health care debate is vital. Reform of some sort is inevitable, and Alaskans should control it as much as possible to our own benefit. Since there is no single forum today where the disparate players can come together to agree on facts, share solutions and craft a win-win for our unique Alaskan conditions, this Study Group recommend formation of—

The Alaska Health Care Roundtable ("Roundtable")

The goals of the Roundtable are to continue communication and foster action among parties that have a long-term vested interest in health care reform. It must set a standard of credibility and create timely actionable ideas that can gather bipartisan support, get quick approval and become part of a long-term fiscal plan for Alaska. It would be a sounding board and facilitator for ideas and recommendations, with a focus on lifestyle and prevention, access, quality and cost.

The core membership in the Roundtable would be self-selecting, comprised of members with a long-term compelling interest in improving the Alaska health care system. Examples of core members would be major employers at risk, health care providers and local foundations. A wide variety of other potential members, resources and ad hoc participants could be included as needed. Funding would be by voluntary contributions by the participants and the community.

INTRODUCTION

The big picture: National background issues and the state of health in the U.S.

While the focus of this study is factors controllable in Alaska, it is important to understand the national context in which we operate. The United States spends more on health care than any other country, measured either as a percentage of gross domestic product, or in terms of money spent per person. The OECD, or Organization for Economic Cooperation and Development, is a group of industrialized nations that are an appropriate benchmark for U.S. expenditures and performance.

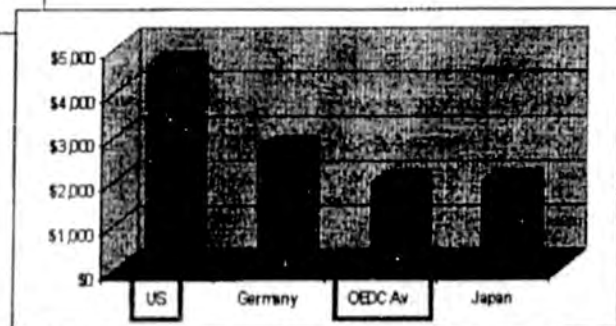
The National Situation - Spending



Source: Commonwealth Fund

OECD—Organization for
Economic Cooperation and
Development

Per capita health care expenditures by country



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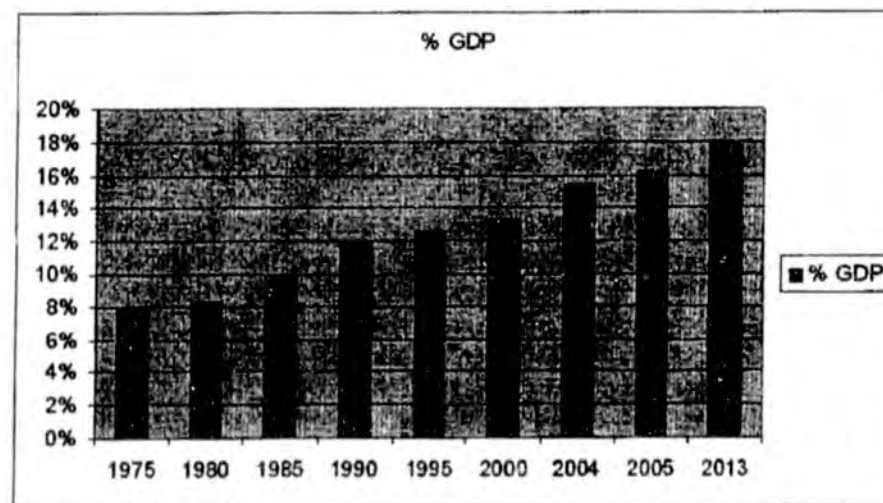
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Health care spending has risen dramatically in recent years, increasing from about 8 % of the gross domestic product in 1975 to over 16% today. The Commonwealth Fund, a private nonpartisan foundation that supports independent research on health and social issues, projects that by 2013 the U.S. will be spending 18% of GDP on health care.

Many factors contribute to these increases. Often cited are huge costs caring for the last three months of life, advertising driven consumerism, high cost of technology, defensive medicine practiced to avoid malpractice suits, malpractice insurance, a fractionated payment system and massive cost shifting to those able to pay caused by inadequate or no health insurance for many Americans (and Alaskans). The crushing cost of health care threatens whole industries and affects our worldwide ability to compete economically.

The National Spending Situation: Trend in Healthcare Costs as a % of GDP



Source: Commonwealth Fund

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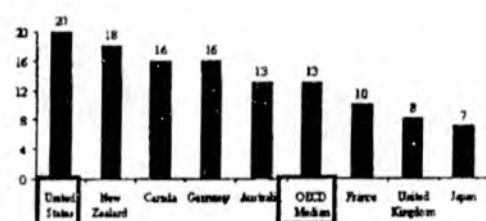
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The **Commonwealth Fund** is a foundation specializing in health care issues.

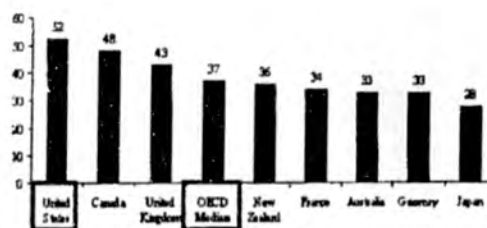
In terms of outcomes, the United States has obtained poor results from the massive amounts invested. By many measures, the U.S. trails other industrialized nations, as represented by Organization of Economic Cooperation and Development averages. We also have a higher percentage of uninsured than most advanced countries, which tend to have centralized health care systems.

The National Situation: Outcomes



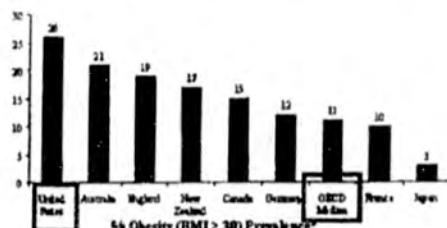
Age-Standardized Mortality Rates for Diabetes Mellitus per 100,000 Population in 1999³⁴

DIABETES



Age-Standardized Mortality Rates for Lung Cancer per 100,000 Population in 1999

LUNG CANCER



OBESITY

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And, the U.S. ranks only

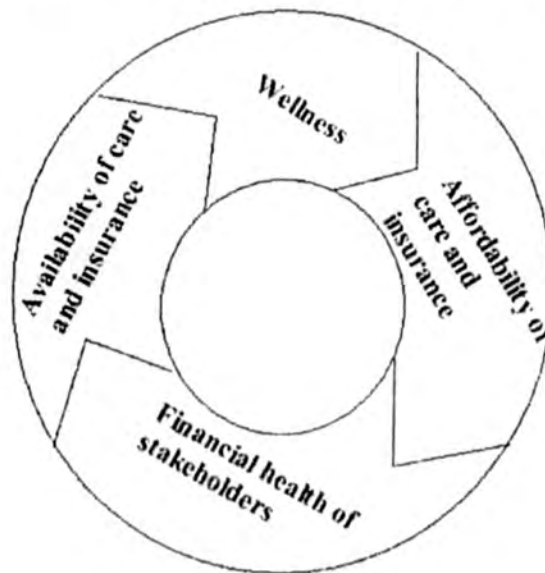
- #28 overall in infant mortality
- #24 in life expectancy

Sources: OECD Health Data 2002,
March of Dimes Data Center 2002
World Health Organization 2000

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A conceptual framework of four primary healthcare factors can help us understand how all the different factors are interrelated.

Four Primary Healthcare Factors and how they are interrelated



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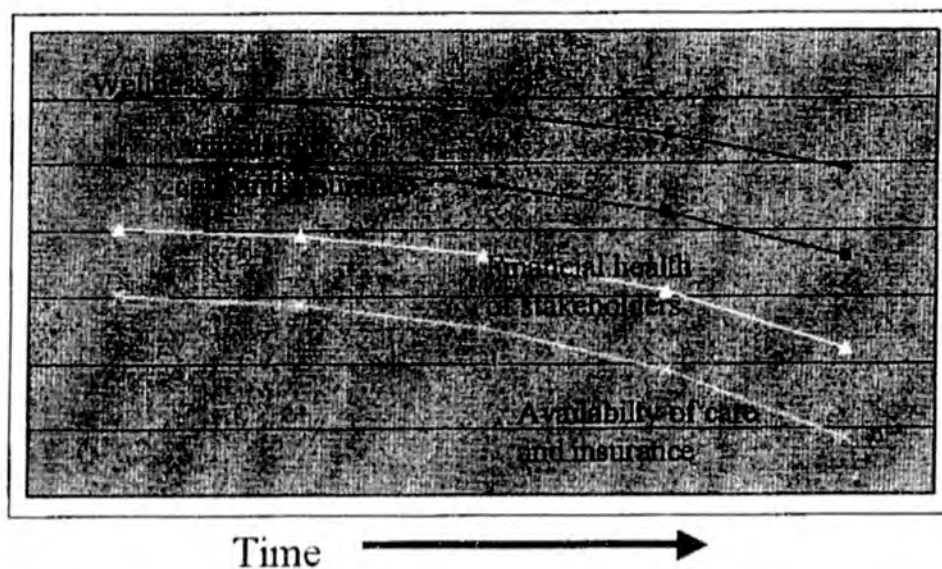
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- Wellness of the population
- Affordability, coordination and quality of care and insurance
- Availability of care and insurance
- Financial health of stakeholders including:
 - Health care providers (physicians, clinics, hospitals)
 - Companies, institutions and government

These factors are all part of a complete cycle. Each factor affects the other. Therefore they are portrayed in a circle.

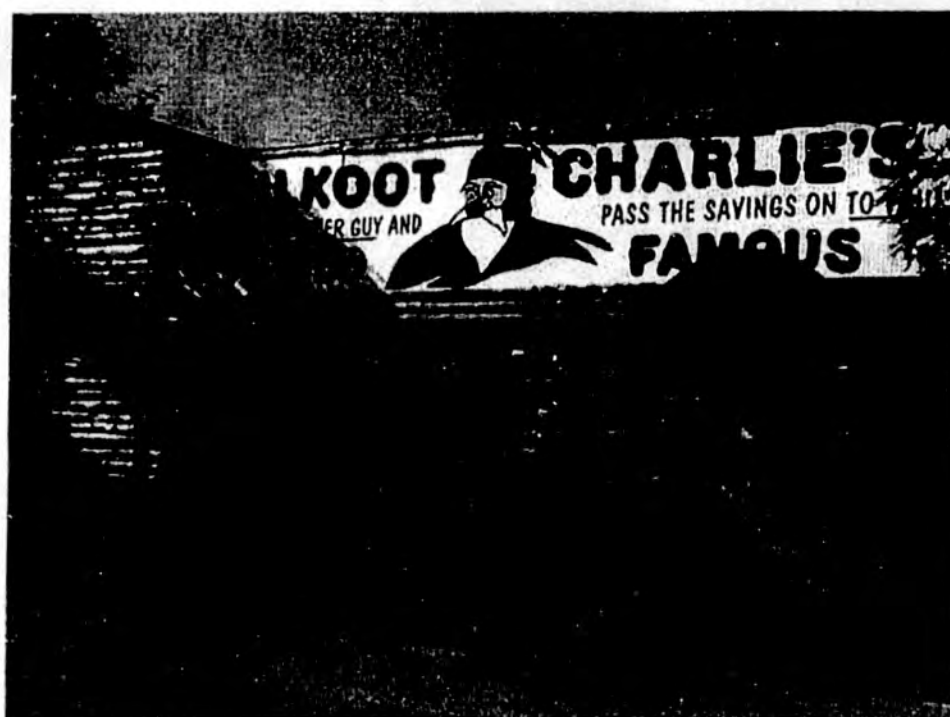
As time goes on, each of these factors influences the others, with the ultimate result of either undermining or improving the health and wellness of our people.

The conceptual crux of the problem



A significant problem is a de facto dynamic in our current U.S. health care policy.

The motto of a popular Alaska establishment embodies this unintended and unwanted de facto policy, to wit—



“We cheat the other guy and pass the savings on to you!”

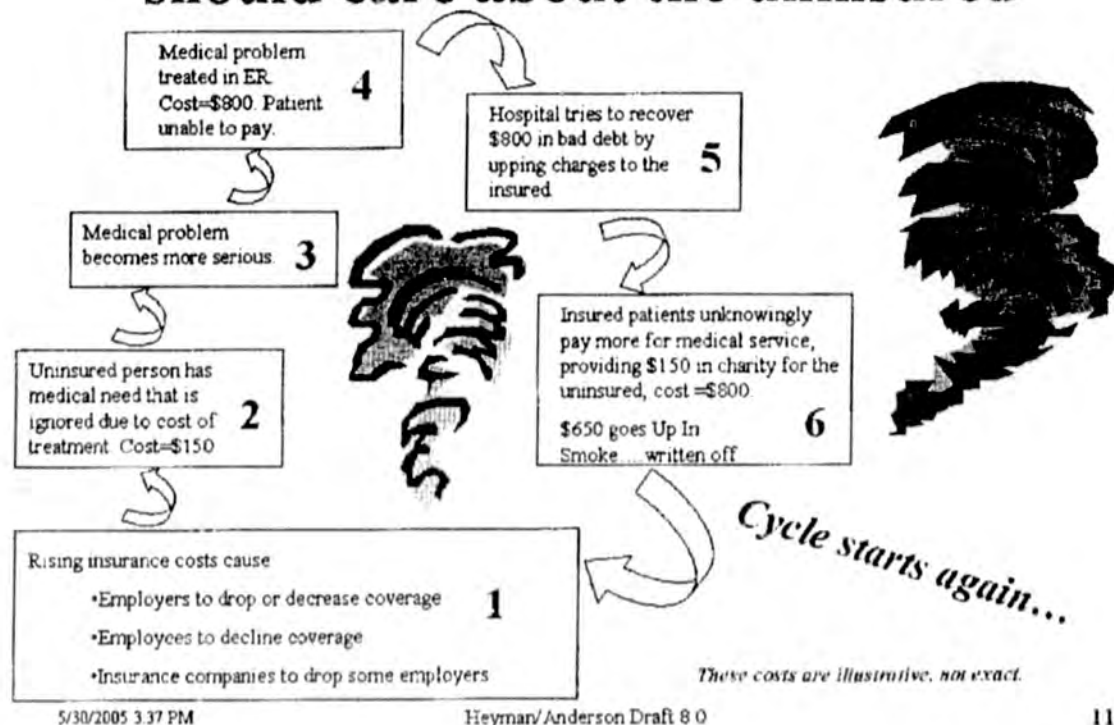
This phenomenon has impacts both nationally and in Alaska, and Alaskans are not always the beneficiary, creating serious cost shifting and economic dislocations.

A SIGNIFICANT ISSUE FOR HEALTH CARE IN ALASKA

The focus of this study is what can be done in Alaska. It does not address national issues such as a single payer system, rationing of health care or national structural issues. However, the following conceptual illustration is both a national and Alaska problem.

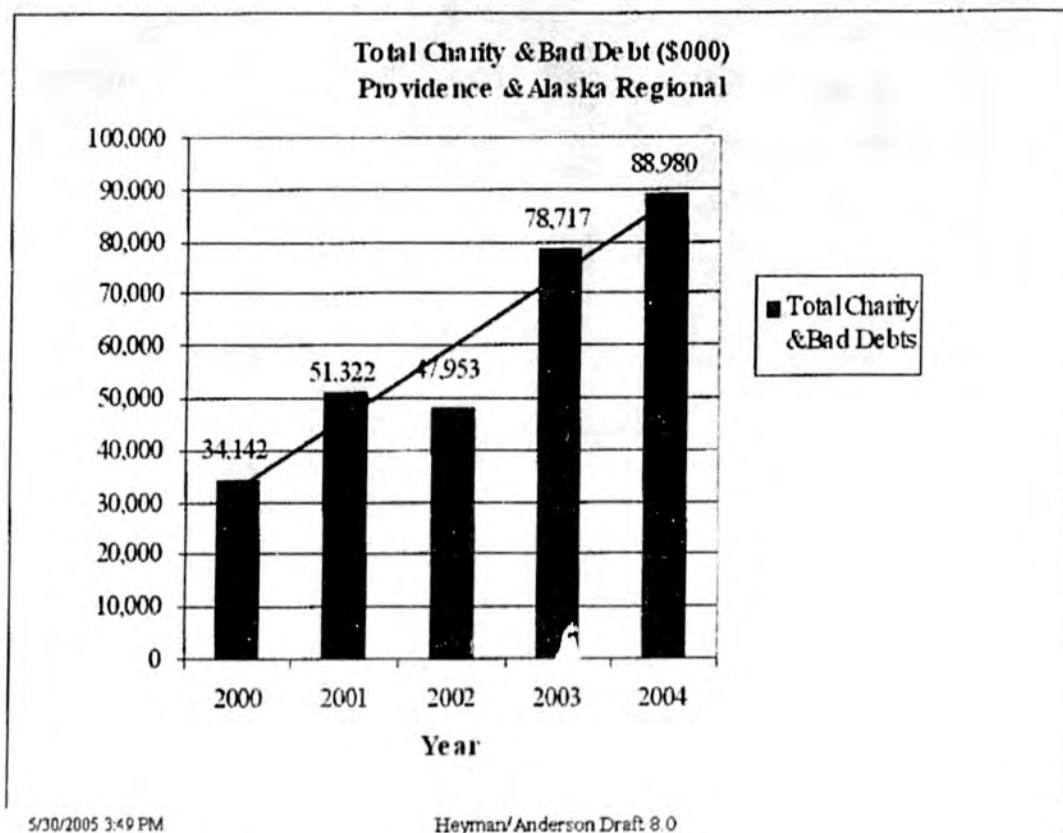
It shows how the high cost of health care causes people to postpone needed care, which increases ultimate costs of treatment, frequently and reluctantly performed by practitioners at unneeded and inappropriate levels. Often the emergency room of a hospital becomes a highly expensive primary care facility. If treated earlier, medical conditions could have better outcomes at a lower cost.

Why even a non-compassionate insured should care about the uninsured

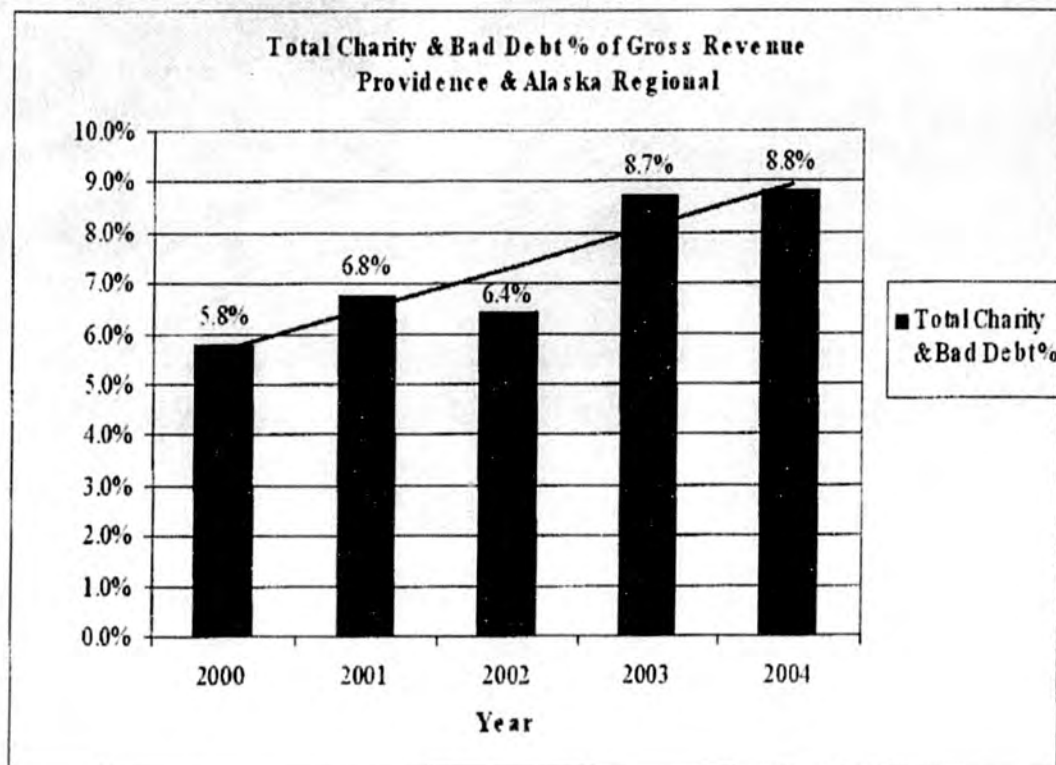


A federal law, the Emergency Medical Treatment and Active Labor Act ("EMTALA") requires that hospital emergency rooms treat and not turn away any patients who show up, regardless of ability to pay.

Emergency rooms are becoming primary care treatment centers for those without access to, or awareness of, alternatives. Current waits can be up to two hours, especially during high traffic times like early evenings or weekends. This creates inefficient use of specially trained staff and is enormously expensive. Many ER patients have no insurance coverage or other means to pay their bill. The financial burden then falls on the hospital to write off uncollectible accounts.



Note: the numbers above are in thousands of dollars. E.g. 88,980 = \$88,980,000



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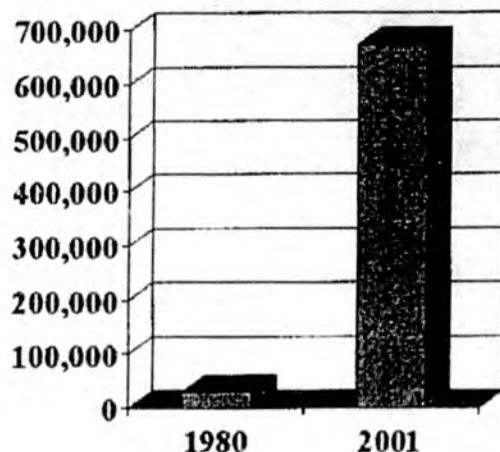
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The financial impact on hospitals is even more acute than the slide above suggests. While the percentage of charity and bad debt compared to gross revenue has increased dramatically in recent years, the bottom line impact is significantly greater because actual hospital cash collections are much less than the gross revenue billings used in the chart above.

Hospitals are not the only ones affected. Individuals unable to pay medical expenses are filing for bankruptcy at staggering rates. Although Alaska data are not available, national data are noted below.

Personal Bankruptcies due to Health Care Costs-U.S.



- Between 1980 and 2001 medically driven bankruptcies increased 23 times
- 60% skipped doctors visits
- 47% skipped prescription medicines

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Source: American Medical Association 2/05 and a Harvard Law School/Medical School 2/05 studies.

70% of these debtors had some form of health insurance at the start.

Main factors cited for declaring bankruptcy were:

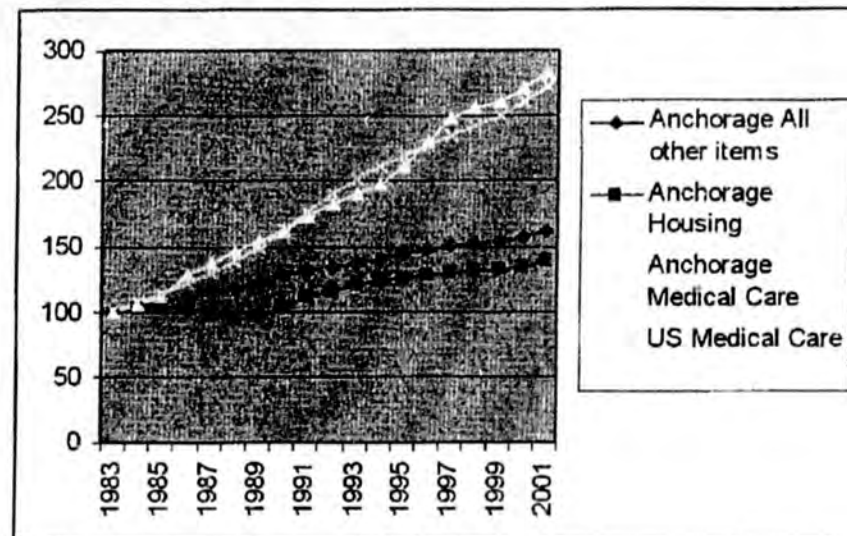
Hospital costs	42%
Prescription drug costs	21%
Doctor bills	20%

Cost: What do Alaskans pay? Why?

The impact of **bad debt** on the health care system has been clearly illustrated in the preceding charts.

Increasing Cost of Medical Care in Alaska

Anchorage CPI-U for selected components 1982-2001



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Source: Alaska Economic Trends / June 2004

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Premiera, Alaska's largest health care insurer, reports that their **Alaska costs are about 40% higher than Seattle**. General observations by resource people have referenced a 40% differential overall, more in some specialties, less in others. Local hospitals have corroborated this differential. Other information points to even larger discrepancies on reimbursement rates for physicians. The Alaska Division of Medical Assistance Health Care Cost Analysis Report placed Alaska in the top five states in terms of the cost of medical and surgical procedures.

Small practices and increasing personnel costs contribute to the high cost of medicine in Alaska. Also there is general, but not substantiated, belief that the **Alaska population is too small to support HMOs**. Any discussion of managed care has been resisted by medical providers.

Dependence on "Fair Share" and other sources of federal dollars place about \$800 million potentially at risk, an important share of current health care funding to Alaska. Alaska also faces **competition from other states** for willing providers. Furthermore, **reimbursement**

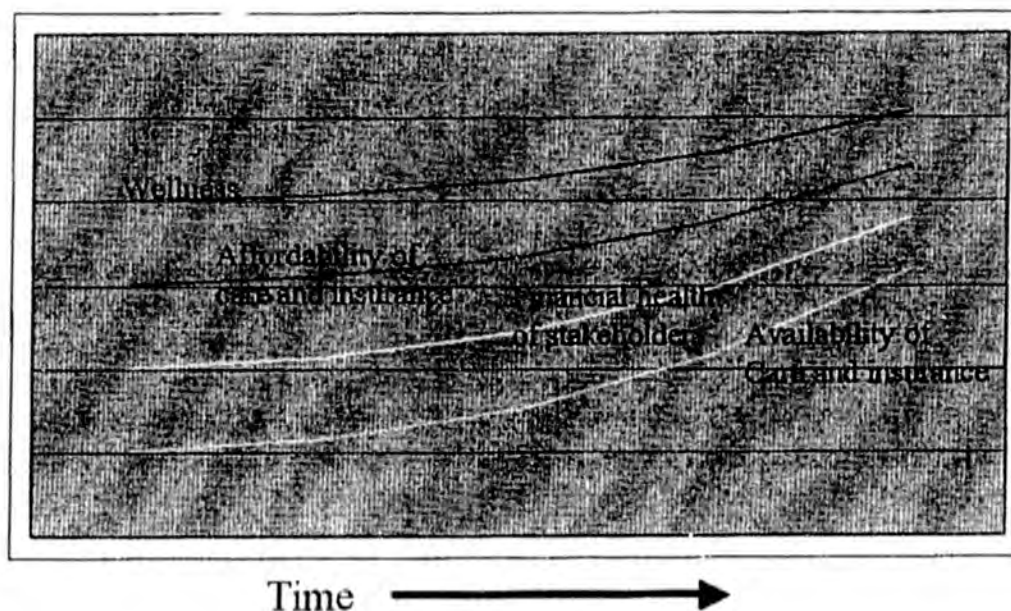
formulas are going down. The state is now paying over one billion dollars annually to pay Medicaid expenses.

Cost of health insurance—there is no public oversight of health care insurance rates by the Division of Insurance as there is in some other states. They are a result of negotiations between insurance companies and large groups.

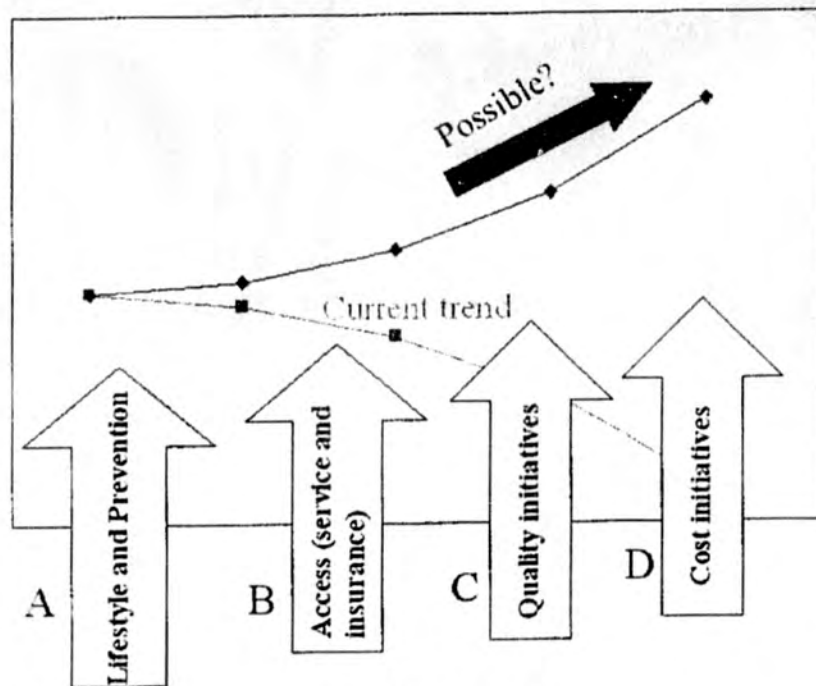
The **Certificate of Need** situation needs to be objectively analyzed and considered as a component in a comprehensive statewide health care plan. Critics of the Certificate of Need claim the process stifles competition and innovation. Supporters claim it prevents unnecessary duplication of facilities and allows more rational allocation of assets.

The impact of tort issues on health care. The cost of malpractice insurance and defensive medicine is hard to quantify, but is deemed to be substantial. OB/GYN liability insurance is \$60-65k/year. SB 67 puts a 250k cap on non-economic suffering. The California experience with a similar cap since 1975 has been positive. Alaska has only two traditional liability carriers. However, compared to U.S. averages, malpractice insurance costs in Alaska are middle of the pack.

Is a trend reversal possible in Alaska?



Perhaps, with coordinated and focused effort



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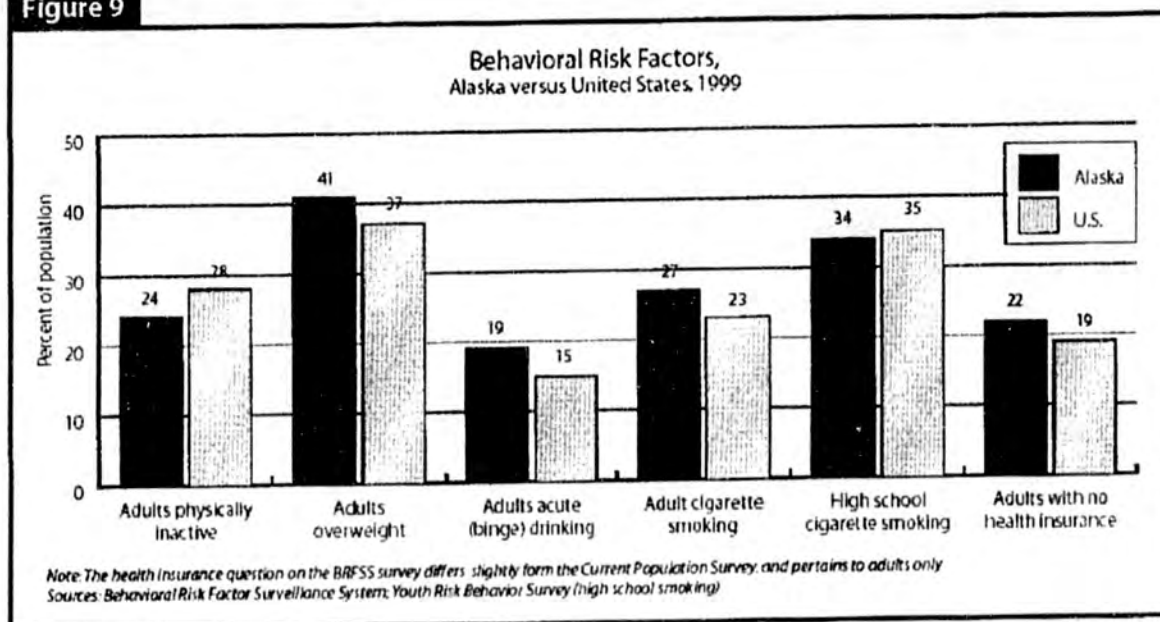
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Quality of Alaska's health: Based on the 2004 National Health Care Quality Report of 100 measures of health care quality, Alaska is about average for the U.S. However, as the charts on page 7 indicate, the U.S. trails many other industrialized nations.

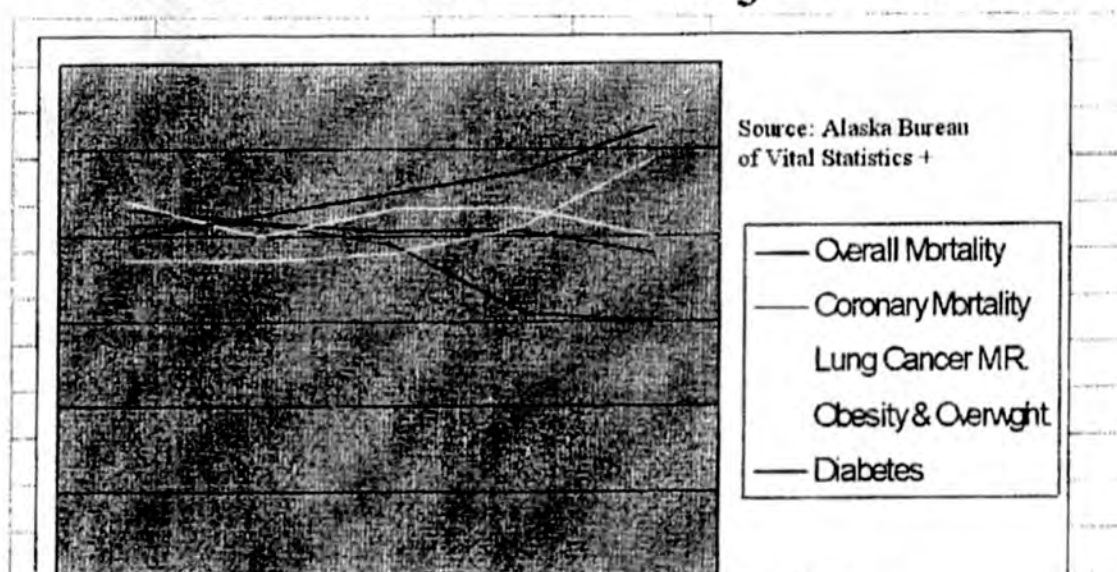
Unfortunately, Alaska mirrors poor National behavioral risk factors

Figure 9





Alaska Trends in major disease



Trends only—not incidence rates

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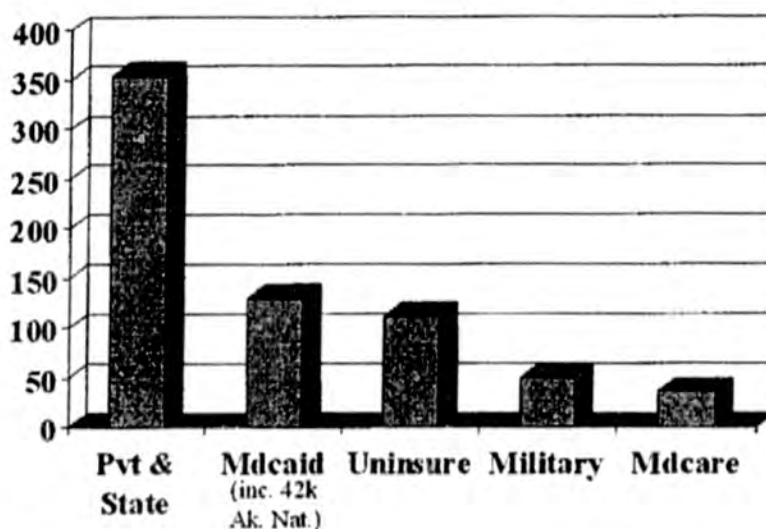
(Vertical axis is rates of disease, horizontal axis is time)

While progress has been made in heart and lung disease, obesity and diabetes have negative trends.

How is Alaska's health care being paid? What about those without coverage?

Currently about 110,000 Alaskans do not have health care insurance. Approximately 82% of Alaskans have some type of insurance coverage, as illustrated by the chart below. The column for private and state coverage includes state employees. Medicaid covers over 40,000 Alaska Natives, the remainder of which are covered under federal programs. Military and Medicare coverage rounds out the picture. However, an unquantified, but suspected to be substantial, number of people have inadequate insurance coverage.

Alaska's Insurance Coverage



Source: Navigant Consulting, Ak. Journal of Commerce

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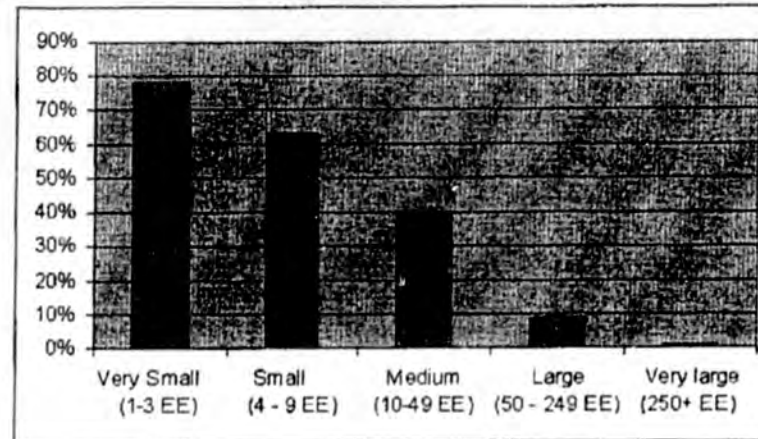
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The majority of Alaskans without insurance work for smaller businesses.

Alaskan firms NOT offering health insurance



And only 0.00% of Alaskans were employed in firms with over 50 employees...

Source: Alaska Dept. of Labor and Workforce Development, 2002

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Safety net providers

There are 34 federally sponsored Community Health Centers (CHCs) in Alaska. They see all patients and charge a sliding fee schedule based upon income. Although there are the Neighborhood Health Center in Anchorage and the Interior Community Health Center in Fairbanks (both federally sponsored CHCs), a large number of uninsured patients receive their care in the city's emergency rooms.

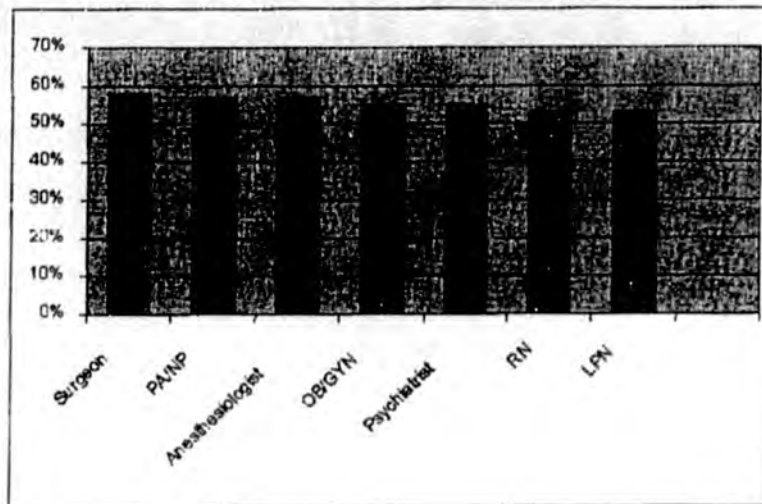
Under federal law, patients who visit the emergency rooms must be seen regardless of their ability to pay. This results in the uncompensated care that was referenced previously.

Although not safety net providers, the Alaska Native Health system provides care to an estimated 125,000 Alaska Natives through an extensive network of community health aid clinics, regional hospitals and a major referral center.

Healthcare Provider Shortages are Projected for Alaska



PERCENT OF PROVIDERS CURRENTLY MORE THAN 45 YEARS OF AGE:



Sources: AK Department of Labor

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Shortage of doctors: ½ doctors in Alaska are over 50. Fewer doctors are practicing than are licensed. Compared to the rest of the U.S., Alaska has 17-30% fewer doctors per capita, partly because we have a relatively younger population. However Alaskans are aging, and the need will increase. Today Alaska needs 472 more doctors than it has. The shortage will increase in the future. Statewide Alaska has a 25-30% shortage of physicians. Physicians are practicing fewer hours and retiring younger than in past decades. As a result it may require more than one new physician to replace a retiring one. 70% of doctors in the lower 48 practice near where they did their residency. The rate of return on a medical education is diminishing compared to other professions. Medical students average \$100,000 of debt; specialties can be \$250,000 with an average of 8 years post-graduate education. Similarly, graduating dentists average nearly \$200,000 in debt. In contrast, graduating attorneys and MBA's begin earning money faster and with less debt.

Nurse Practitioners and Physician Assistants provide care to Alaskans in a wide variety of settings, including rural and urban primary care clinics, urban specialty practices, and remote critical access hospitals that were historically difficult to staff with other providers. There are over 200 physician assistants and 420 nurse practitioners working in Alaska. This gives Alaska one of the highest ratios of nurse practitioners per capita in the nation.

As in 25 other states nurse practitioners are licensed to practice autonomously. A recent Columbia University study (JAMA, 2000) and another from Yale University (1992), compared physician and nurse practitioner practice. They found that patients expressed a high degree of satisfaction with the care they received, that accuracy of diagnosis and health outcomes were equivalent, and that Nurse Practitioners provide quality, cost-effective care to their patients.

The role and extent of coverage of complementary and alternative medicine (chiropractic, acupuncture, etc.) in Alaska is undefined, but substantial. As of May 25, 2005, the Alaska Division of Occupational licensing listed the following numbers of active licenses for the following types of doctors:

Allopathic doctors (M.D.)	2,377
Chiropractic doctors (D.C.)	227
Osteopathic doctors (D.O.)	183
Podiatrist (D.P.M.)	20

SPECIFIC ALASKAN RECOMMENDATIONS FOR IMPROVEMENT

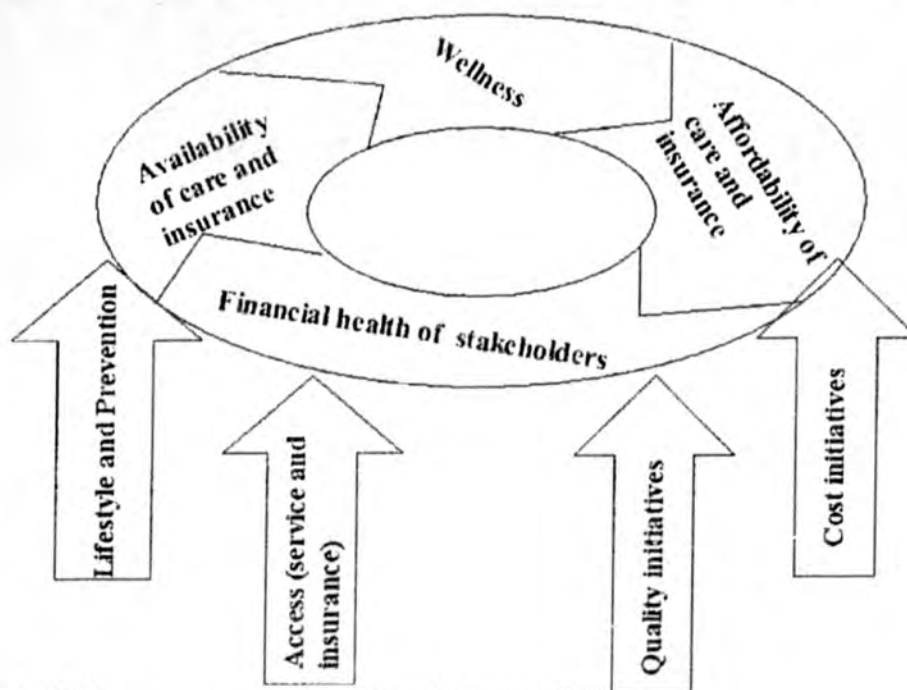
This Study Group has identified a continuum of challenges, many of which are interrelated to each other. While they may all be part of a whole, the Study Group identified discrete categories to more readily focus on how each recommendation may be best implemented. A chart below summarizes the recommendations and identifies which parties are affected by, or responsible for, each recommendation.

However, in the process of assessing health care in Alaska, and looking for improvements, the Study Group developed consensus on three overarching conclusions:

- 1. The Study Group process itself, which includes representatives of all key components of the health care system in Alaska, has been enlightening, educational and productive. For the first time in recent years, key players have been able to share experiences and ideas in a supportive and cooperative environment.**
- 2. Every aspect of health care is complex. Education, technology, funding, social and demographic factors, economics, federal and state laws and regulations all have many interrelated facets. Understanding the health care system, and improving it, are beyond the capacity of any one element within the system.**
- 3. Therefore, a fundamental recommendation of the Study Group is that an ongoing body be established to achieve multiple goals:**
 - a. Continue the communication process started by this Study Group among the key elements in the Alaska health care system and the broader Alaska community.**
 - b. Create a body that will have a long-term vested interest in understanding and improving the system. Some solutions are immediate, others will take generations. But without consistent advocacy, the system is unlikely to make needed fundamental changes.**
 - c. Through the quality of its participants, and the comprehensiveness and depth of its vision, the body will set a standard of credibility that will sustain its ongoing operations and facilitate implementation of its recommendations.**

In that spirit, this Study Group offers the "Yarmon Plan" as a starting point for structuring such a body.

The Roundtable Proposal (The Yarmon Plan)



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The Alaska Health Care Roundtable

Goals: a, b, c on the previous page. Create a timely, actionable package that will gather bipartisan political support, get quick approval, and become a significant part of a long-term fiscal plan for Alaska.

Focus: Access, quality and cost. Function as both a sounding board and facilitator for ideas and recommendations.

Structure: Create the "Alaska Health Care Roundtable"

Membership in the Roundtable: Self-selecting. Must have a core of members who have a long-term compelling interest in improving access, quality and cost of health care in Alaska. Examples of potential members would be:

- a. Major employers
- b. Providers
- c. Foundations
- d. Other participants as invited by the Roundtable

Funding: Voluntary contributions by the participants.

Strategic relationships: Form a research relationship with the **University of Alaska/Institute of Social and Economic Research (ISER)**. The Roundtable itself could focus on strategic policy and political analysis. UA would provide in-depth research as needed on a contract basis.

Tactics: Secure the support of major employers and secure their interest in funding such a Roundtable. There is no point in CWN issuing a major recommendation that will fall flat on its face. Get seven or more CEOs of major employers to make a financial commitment to the project and be present at its unveiling.

Create a package of recommendations that will be dynamic, compelling and politically impossible not to accept. Create a "win-win" atmosphere so all participants can claim victory.

Local or regional Roundtables can address "nuts and bolts" issues of cooperation, implementation, sharing and efficiency.

Potential resources, ad hoc participants or additional members: Business leaders of large businesses, business leaders of small businesses, Alaska Natives, labor, non-profit (Foraker Group), education, military, insurance industry, state government (legislature, administration), health care providers, Medicare, Medicaid

Summary table of recommendations with affected and responsible parties

The following chart summarizes various recommendations that were suggested in the course of our study. They are a starting point of menu items for the Roundtable to analyze and prioritize.

A = Parties affected by or benefiting from the listed Recommendation

R = Parties responsible for implementing the listed recommendation

Recommendation	Individuals	Legislature	Governor	Local Governments	Private Sector	Health Care Professionals & Institutions	Universities (or schools)	Insurance Companies
Lifestyle & Prevention								
1. Walkable community	AR			AR	AR	AR	AR	AR
2. Public Health role	A	R	R	AR	A	A	AR	A
3. School phys ed	A	R	R	AR	A	AR	R	A
4. Schools nix bad foods	AR	R	R	AR	A	AR	AR	A
5. Incentivize behaviors	AR	AR	AR	AR	AR	A	AR	AR
7. Rural dentistry	A	A	A	AR	A	AR	AR	AR
8. Drug/psych facilities	A	AR	AR	AR	A	AR	A	AR
9. U.S. preventive health recommendations	AR	AR	AR	AR	AR	AR	AR	AR
10. Circumpolar health studies	A	AR	AR	AR	A	A	A	A

Access	Indiv.	Legis.	Gov.	Loc Gv	Private	HC	Univ/Sc	Ins. Cos
1a. Expand WWAMI	A	R	R	A	A	AR	AR	AR
1b. Market AK To MDs	A	R	R	AR	AR	AR	A	AR
2. Cut liability ins. Cost factors	A	R	R	A	A	AR		AR
3. Cover uninsured	AR	AR	AR	AR	AR	AR	AR	AR
4. Pool small cos.	A	R	R	AR	AR	A		AR
5. Promote lower cost centers	A	AR	AR	AR	AR	AR	A	A
6. Same day non ER alternatives	A	R	R	AR	A	AR	A	AR
7. Examine other state models e.g. UT, ME	A	R	R	A		R	R	AR
8. More GME \$ for family practice	A	R	R	A	A	AR	AR	A
9. Improve MD reimbursements	A	R	R	A	A	AR		AR
10. Medicare licensing requirement	A	R	R	A	A	A	A	A
11. Public insurance hearings	A	R	R	A	A	A	A	AR
Quality								
1. Evidence based prevention, Intervention	AR	AR	AR	AR	AR	AR	AR	AR
2. Use bench-marks	A	R	R	AR	AR	AR	AR	AR
3. Measure, disclose quality info	AR	AR	AR	AR	AR	AR	AR	AR
Costs								
1. Prevention education, intervention	AR	AR	AR	AR	AR	AR	AR	AR
2. Electronic medical records	A	AR	AR	AR	AR	AR	AR	AR
3. Drug formularies	AR	AR	AR	AR	AR	AR	A	AR
4. Health care <> State fiscal plan	A	AR	AR	AR	AR	AR	AR	AR
5. Disclose fees clearly	A	R	R	A	A	AR	A	AR
6. Community duplication dialogue	A			AR	AR	AR		AR
7. Joint purchasing	A			AR	AR	AR		A
8. Allocation & rationing	A	AR	AR	AR	A	AR	AR	AR
9. Fee transparency legislation	A	R	R	AR	A	AR	AR	AR
10. Legislative ins., reimbursement, tort solutions	A	R	R	AR	AR	AR	AR	AR

The impact of lifestyle and prevention

First and foremost, this is an issue of individual responsibility. This means that each of us is ultimately responsible for our own health, how we eat, exercise and live. Nevertheless, many collective societal educational and social efforts can help further acceptance of this individual responsibility through application of sound health maintenance principles.

Our society is not used to facing the facts of collective issues. They are not part of the national or state non-Native psyche. Currently, the health care industry plugs holes in the dike that are the result of unhealthy lifestyles. We need to go way upstream and focus on prevention.

Fortunately, we can learn from the positive example of reduction of smoking in America. Much remains to be done. Today's limited but meaningful success is the result of a long-term effort that lasted over a generation. Extensive public education, warning labels, laws banning smoking in public places and a consistent message from the health care community ultimately resulted in societal changes that now appear to have gained a self-reinforcing life of their own.

1. Plan a "walkable community."

- a. Land use designed to facilitate walking and biking can encourage cardiovascular health. Maintaining safe municipal trail systems, seasonal bike paths, and cleared wintertime walkways permit citizens to practice healthful life habits year around.
- b. Enlightened city planning and architecture can promote a more active lifestyle.
- c. As public demand for exercise opportunities grow, their inclusion in real estate development and city planning can improve property values.

2. The role of public health as community educator and provider. Municipal health departments need to serve many more people than those who seek care at the clinic. Promoting wellness and healthful living habits to the entire community is an essential part of the public health mission. This portion of the mission needs to be funded adequately in the budget.

3. The importance of physical education in the schools— (not a "frill") It is important to teach children about the relationship between health, diet and exercise. Not every child will want to join a sports team, but learning to be responsible for their own health by incorporating physical activity into their daily lives is an important health lesson that cannot be ignored.

4. Eliminate internal inconsistencies and conflicts between programs and objectives. For example, eliminate financial incentives in schools to promote unhealthy foods. Provide a financial alternative to schools that have come to rely upon income from selling junk foods in the schools.

5. **Incentivize healthy behaviors through workplace activities.** Convince the Top 49 Alaska businesses to educate their employees on healthy lifestyles and offer healthful workplace activities. The Top 49 businesses would represent a large percentage of the Alaska population not already covered by Federal or Alaska Native health care systems. Encourage a **Top 49 Health Summit** to facilitate understanding and participation of these large Alaska businesses.
6. Develop intervention programs for **promoting the traditional rural diet.**
7. **Reconsider rural access to dentistry as part of the study.** Many rural communities lack a sufficient population to support construction of a simple dental facility to house a full time dental practice. The investment required to maintain a facility for use by an itinerant dentist would likely need to be made by the community, possibly partnering with the state. Lack of roads prevents the use of mobile dental clinics that are used in other remote locations worldwide.
8. **Reduce the critical shortage of facilities for alcohol and drug detox, and psychiatric facilities. The lack of services these facilities provide can increase costs in the long run.** Persons affected by alcohol and drug use, and the accidents they cause, account for a significant portion of the population needing care in hospital emergency rooms and psychiatric facilities. Yet Alaska has too few beds to treat those in need of drug and alcohol recovery. As a result we are forced to tolerate that burden of higher healthcare costs. Detox beds make good economic and health policy sense.
9. Find ways to incorporate **U.S Task Force on Preventive Health** recommendations into medical practices, schools, work environments and homes.
10. **Continue the Institute of Circumpolar Health Studies** to analyze common problems and look for solutions that will work for all circumpolar peoples. Similar environments and cultures may result in shared knowledge that can benefit those in northern latitudes. Many health issues in Alaska relate to weather, the environment, subsistence food quantity and quality, potable water and sanitation issues. These are issues shared by other circumpolar peoples. Alliances with other circumpolar countries, and organizations like the Institute for Circumpolar Health Studies may provide new insights in resolving some of these issues.

Access improvement recommendations

1. **Workforce development issues**
 - a. **Expand the WWAMI program.** Improve the supply of primary care providers (family practice physicians, internists, nurse practitioners, physician's assistants), especially outside of Anchorage. Current or potential shortages can be identified in specific specialties.
 - b. **Market the Alaska lifestyle to Outside doctors.** JV with tourism, the State Medical Board, ASMA. Create a dog and pony show.

2. **Investigate and modify the factors that influence the cost of professional liability insurance**
3. **Reduce the number of uninsured Alaskans**— A non-government designed system is probably preferable to a government-operated system.
4. **Investigate pooling smaller companies a la the Foraker Group in an effort to reduce premium costs.**
5. **Promote lower cost models such as neighborhood health centers where appropriate**
6. **Educate the public and promote same day access to alternatives other than hospital emergency rooms.** This involves creation of more readily available and timely access to primary care. Alternatives could include increasing the number of primary care providers and clinics, establishing a variety of disincentives for visits for minor complaints, and establishing a system for care for the uninsured. Emergency rooms themselves may need to be reorganized and redesigned to separate life-threatening emergencies from routine medical needs.
7. **Examine uninsured models elsewhere; e.g. Utah, Maine and Florida.**
8. **Adjust the Medicare (GME) reimbursement formula for Family Practice Residency programs.**
9. **Ensure adequate government reimbursement to doctors, hospitals, community health centers, mid-level practitioners and community health aides without unreasonable bureaucratic burdens.**
10. **Consider making accepting Medicare patients a condition of licensure in Alaska. This has been done in Massachusetts.** Weigh the advantages of increased access for Medicare patients against the negative effect of attracting practitioners to Alaska.
11. **Consider public hearings for health care insurance and professional liability insurance rates** to facilitate price transparency. Currently insurance rates are largely negotiated between large institutional users and insurance carriers. As private contracts, the resulting rates are not disclosed. Individuals have little or no negotiating power and either have to accept or reject rates offered to them. The thought is that greater transparency could result in more favorable, or at least understandable, rates for individual consumers.

Quality improvement recommendations

1. **Promote and encourage primary prevention, early intervention, and evidence based practices by providers and payers of health care.**
2. **Use meaningful benchmarks; e.g. the Alaska 20/20 example.**
3. **Measure quality of service and make the information publicly available.**

Cost reduction recommendations

1. **Prevention through Public health education, and early intervention** Preventing illness will save more lives, more lost work time and more healthcare dollars than any other option available to us as a community. Consider the adage "the cheapest health insurance is healthcare you don't need." Measures include flu shots when they are recommended and vaccinations against common diseases. Encourage the following behaviors: weight control, regular exercise, avoiding cigarettes and excessive alcohol, fat, salt, and sugar, adequate water consumption, and controlling blood pressure.
2. **Encourage and promote the establishment of an Electronic Medical Record** with a common interface as a means to improved safety and efficiency of health care.
3. **Drug formularies**—utilize where appropriate and effective.
4. **Promote the strong interrelationship between cost of health care and a state fiscal plan** as a means of putting health and budget decisions in perspective.
5. **Fee and billing transparency.** Mandatory disclosure of fees in advance of treatment and "understandability" standards for medical billing.
6. **Encourage local cooperation and sharing of services and facilities.** Promote community by community dialogue on the cost of duplication
7. **Analyze the possibility of saving money by joint purchasing** by appropriate parties.
8. **Allocation and rationing** might be considered if other measures fail to stabilize health care costs.
9. **Suggest legislation to mandate fee transparency**
10. **Consider legislative solutions to tort and liability issues.** Quantify professional liability insurance, patient reimbursement and tort issues—are there legislative solutions? Look at tort reform experiences Outside, such as MICRA, for ideas that might apply to Alaska.

SUCCESS STORIES AND PROMISING PROGRAMS

Alaska has a number of programs that have proven to be successful:

Lifestyle and prevention

- The South Central Foundation Primary Care Clinics place great emphasis on prevention. This results in some of the best state data for immunization rates, colorectal screening, mammograms and other standard preventive health interventions.

Access

- Anchorage Neighborhood Health Center
- Other community health centers
- Health aides in rural Alaska
- South Central Foundation has programs that have established same day access. Utilization rates for emergency room use and specialty services have fallen dramatically. Utilization rates of primary care services have also had a modest decrease.

Quality

- Hospital quality control programs have been established in all the major hospitals in Alaska with excellent results. For example, Providence Hospital received national recognition for reducing surgical site infections after joining a national collaborative focus on this issue. Alaska Regional Hospital was recognized for reducing pneumonias after intubations. The Alaska Native Medical Center has developed a national reputation for quality improvement activities working in close association with the Institute for Health Care Improvement. All of our major hospitals have joined the national initiative known as the "100,000 Lives Campaign" to save this many lives in U.S. hospitals by June 2006.

Costs

- The Alaska Federal Health Care Partnership, consisting of the DOD, VA, Coast Guard and the Alaska Native Health System, have been able to reduce costs by bulk purchasing and the sharing of clinical resources.

Other programs show promise:

- The State of Alaska has developed benchmarks for population health improvement targets in a document called "Healthy Alaskans 2010."

Lifestyle and prevention

- The Anchorage Daily News and a growing number of businesses are discussing wellness incentives in an effort to reduce health care costs. Generally all of these approaches are similar. Employees who agree to join this effort receive personal health care improvement plans and personalized coaching on a regular basis. Some companies offer health care premium discounts as an incentive to participate.

APPENDIX

Key ideas in the 1994 CWN study "Health Care: Finding an Alaskan Solution"

1. The health care reform debate is complex and controversial, with multiple players with competing interests.
2. There are significant factual disputes about the health care system.
3. Health care reform creates winners and losers.
4. The most important conclusion for Alaskans: Involvement of Alaskans in the health care debate is vital. Some type of reform is inevitable and Alaskans must work to ensure that reform is responsive to our unique Alaskan conditions.

Study Group Participants

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Eric Wohlforth	Attorney, Wohlforth, Vassar, Johnson and Brecht
James Yarmon	CEO, Yarmon Investments, Inc.
Duane Heyman	Executive Director, Commonwealth North

The Charge

Alaska Primary Health Care – Opportunities & Challenges

Approved by the Commonwealth North Board on July 20, 2004

1. Questions to be addressed:

- a) How is primary health care currently being delivered to Alaskans?
- b) Are Alaskans receiving quality health care under the current scenario?
- c) What does the future hold for health care in Alaska?
- d) Are there ways to do a better job, such as by bridging the current multiple systems?

2. Scope of study:

The intention of this study is to focus on primary care – the need for Alaskans to receive basic health care. Recognizing there are a number of health care areas which merit similar attention such as long-term care, behavioral health, dental care, etc., the focus of this particular study is to address the past, present and future of primary health care in Alaska. The study will include an update/compilation of previous reports to provide a context.

- The study will briefly explore the historical delivery of health care and how that history impacts the present challenges Alaska faces. In providing this background, the study will also look at the health status of Alaskans – is it above/below that of other states or are we keeping pace?
- The study will explore the “drivers” behind the cost of health care in Alaska and will assess its impact, if any, upon economic development in the State. Access and quality of care/services are a critical determinant of cost within the various health systems in Alaska.
- This study will identify principal health care entities and look at the current multiple health systems – what are the benefits and challenges? Are they sustainable? What impact, if any, do these multiple systems have on the cost and quality of health care?
- There are a number of challenges facing health care providers and recipients. This study will identify those challenges and where possible, potential solutions.
- There are a number of examples where health care entities are collaborating. The study will highlight the best practices and identify additional areas of collaboration. The study will also take into account lessons learned from other states.

3. Nature of report to be issued (Technical, Analytical, or Opinion):

This report will analyze issues, identify a process for addressing them and suggest guiding principles. The report will provide background, current status and recommendations for change or further study. While the report will largely express opinions, it will address technical issues that are necessary aspects of the larger picture.

4. Conflict of interest standards:

The intent of the study is to represent a balance between the geographic, demographic, ethnic and economic interests in Alaska. It is expected that persons with interests in the outcome of the study will be members of the study group and will participate in its deliberations. Study group leaders should request that study group members identify their interests relative to specific points they advocate.

5. Measure of success:

This study will succeed by generating a greater understanding of and insight into health care issues in Alaska and areas in which health providers can work together for the mutual benefit of all Alaskans.

Resource People Interviewed

- 9.23.04 Ed Lamb, Al Parrish—Hospital perspectives
- 9.30.04 Barbara Russell—Premera
- 10.07.04 Alex Spector—VA, Lt. Col. Vic Rosenbaum—Elmendorf Hospital, Maj. Ward Hinger-
-TRICARE
- 10.14.04 Commissioner Joel Gilbertson
- 10.21.04 Paul Sherry—Alaska Native Tribal Health Consortium
- 10.28.04 Tessa Rinner—Denali Commission
- 10.28.04 The Maine Plan (Sergei Bogojavlensky, MD)
- 11.11.04 Norman Wilder MD, MBA (Regional), Roy Davis MD (Providence)—Quality and cost
control initiatives
- 11.18.04 Rod Betit—State Hospital & Nursing Home Association
- 12.02.04 Catherine Schumacher MD—Access to health care in Anchorage
- 12.09.04 Cathy Giessel, MS, FNP-CS—The role of nurse practitioners
- 12.09.04 Harold Johnston, MD— Program Director, Alaska family Practice Residency
- 1.06.05 Joan Fisher – Executive Director, Anchorage Neighborhood Health Center and Medical
Director, Dr. Tom Hunt and Beverly Wooley, Director, Anchorage Municipal Health
Department
- 1.27.05 Janet Trautwein – VP Government Affairs, National Assn of Health Underwriters
- 1.28.05 (Forum) panel discussion with Commissioner Joel Gilbertson, Al Parrish, Randall
Burns—Alaska Small Hospital Performance Improvement Network, Dr. David Snyder—
Alaska Native Medical Center
- 2.03.05 James Jordan, Executive Director, Alaska State Medical Association
- 3.10.05 Ann Conway, Maine Center for Public Health
- 3.25.05 Joseph Ditre, Executive Director, Consumers for Affordable Health Care Foundation
(Maine)

State of Alaska

2006-2007

Select Benefits

Renewal Report

October 13, 2005

EXECUTIVE SUMMARY

Deloitte Consulting LLP (Deloitte Consulting) has been retained by the State of Alaska to provide recommended funding rates for its Select Benefits medical, dental, and vision benefit plans. The State currently contracts with Aetna and VSP to administer the plans on a self funded basis. The State currently offers three medical and dental plans (Premium, Standard and Economy) and two vision plans (Standard and Managed Care).

Deloitte Consulting calculated the funding rates using commonly accepted underwriting methodologies and assumptions. This report outlines our approach and observations from our analysis and projection.

The State of Alaska has also requested that Deloitte Consulting perform a study regarding offering a high deductible health plan that would permit the individual to participate in a federally qualified health savings account. If a high deductible health plan were offered on an optional basis, these rates may need to be adjusted to reflect the impact of adverse selection of healthier individuals moving to the new plan. That analysis is being performed and will be provided under a separate report.

Renewal Process

Deloitte Consulting has reviewed three years of claims experience, enrollment, trends, premium data; administrative fees and other information provided in order underwrite these benefits. The results of our analysis were discussed with the Division of Retirement and Benefits prior to finalizing the recommended funding levels. Based on our analysis, we are recommending that the FY07 funding levels for the period 7/1/06 – 6/30/07 increase 2% for the medical plan with no increase for the dental and vision plans.

FY07 Funding Levels

	Economy – Single/Family		
	Medical	Dental	Medical & Dental
Total FY06 Funding Rate	\$775.00	\$45.00	\$820.00
Renewal Change	2.0%	0.0%	1.8%
Total FY07 Funding Rate	\$790.00	\$45.00	\$835.00

UNDERWRITING PROCESS

In order to project needed premium levels for the State's benefit plans we reviewed claims experience, trends, current premium levels, administrative fees, applicable benefit or plan changes and reserve fund levels. These processes will be discussed below.

Claims Experience

Aetna HealthCare provided Deloitte Consulting State specific paid claims experience by month for the most recent 36 months. In this case we were able to obtain data from 8/1/2002 through 7/31/2005. The claims were separated into medical, prescription drugs (Rx), dental and vision. Deloitte Consulting used this paid claim experience to project monthly incurred claims using an actuarial completion factor methodology.

The most recent 12 months of claims experience has been much better than expected and is exhibiting trends lower than being experienced by other employers or insurance carriers. Some factors contributing to better than average experience include:

- Significant reduction in the number of catastrophic cases (> \$50,000 per individual per 12 months). Catastrophic cases comprised 34.4% of paid claims in 2003 and fell to 30.5% in 2004.
- Reduction in emergency room visits by 14.3% (2004 vs. 2003).
- Lower than expected prescription drug costs:
 - 2.1% increase in generic drug utilization resulting in reduced brand drug costs.
 - The revised coinsurance with minimum/maximum limits which leverages cost sharing as cost inflation increases.

Although not directly considered in our rate setting analysis, we must note that Deloitte was notified of a high cost claim incurred in July 2005 (not in the experience period analyzed) which is expected to exceed \$750,000. The Division also completed its positive enrollment project in July 2005 that resulted in a reduction of dependents covered by nearly 10%.

The most recent 12, 24 and 36 months of claims experience was reviewed to determine the effect on the needed premiums. After applying trend and other underwriting adjustments (described later), all of these time periods produced similar results with calculated premium changes of -0.4% to 2.0%. Historically the most recent 12 months of claims experience has been used in renewal calculation. Due to recent variations in claim experience, we believe it would be prudent to put more credibility on the 24-month and 36-month analysis resulting in a recommended rate increase of 2% for the medical while continuing with no rate increase for dental and vision. The overall result is an increase of 1.8%.

Trend Assumptions

In order to determine the appropriate trend rate used to project claims for FY07 we review State specific claims trend along with industry norms provided by Aetna. The experience trend is

determined by reviewing the rolling 12-month per employee per month costs. The chart below shows this analysis.

	Medical	Rx	Dental	Vision
Experience Trend	2 to 6%	6 to 12%	0 to 2%	0 to 3%
Aetna Corporate Trend (Alaska & NW Region)	18%	14.5%	9%	NA
Applied Trend	9%	12%	3%	3%

These trends are applied to the State's historical incurred claim amounts in order to project future claims using a midpoint to midpoint trend calculation.

Current Premium Levels

Deloitte Consulting calculated aggregate current premium levels for Medical/Rx, Dental and Vision using a membership weighted average of the various plan levels. This approach arrives at one overall Medical/Rx increase percentage to be applied for all plans and not a separate increase for Premium/Standard/Economy plans. The actuarial value of the three plans and premiums would continue in the current relationship.

Administrative Fees

Based on the most current contract between the State and Aetna the administrative fee for the Select Benefits group for FY06 is \$43.02. In order to project this fee into FY07 we have increased the fee 5% to \$45.17. The final fee has not yet been negotiated with Aetna.

The administrative fee includes Aetna administrative fees, network access fees, Informed Health Line, VSP fees and payment for Magellan Behavior Health. In addition, the Aetna contract also includes provisions around operational performance guarantees, network savings guarantees and prescription drug rebates being refunded to the State.

Reserve Adjustment & Contingency Margin

The current cash fund balance for the Group Health and Life Fund is estimated to be about \$18.6 million as of June 30, 2005. We assume that the entire net fund balance is available to pay plan claims as necessary.

A reasonable objective would be to maintain a net fund balance equal to 15% to 25% of annual plan incurred claims as a hedge against future adverse experience. The net fund balance as of June 30, 2005, is approximately 30.0% of projected FY07 incurred claims. Year-to-year fluctuations in medical costs and utilization can occur even for a program of this size.

We believe this fund balance is in the reasonable range and are not recommending any explicit adjustments to the renewal to adjust the level of the reserves.

Benefit or Plan Changes

In order to forecast future claim levels we need to account for historic changes in the plan design and abnormal occurrences such as non-recurring catastrophic claims. We have made two adjustments to the historical claims for this projection.

Prescription drug plan change - Beginning 7/1/03 the prescription drug benefit changed from a \$5 generic and \$10 brand copay structure to a 20% generic and 30% brand coinsurance structure with an \$8 minimum and \$50 maximum copay. The value of this change has been estimated at 15.0% savings (applied to the prescription drug claims only). When adjusting for this change in the renewal projections, 15% savings was applied to claims incurred prior to 7/1/03 to adjust the claims to the same benefit level.

Medical plan changes – beginning 7/1/04 Aetna implemented a PPO program and advised that they had modified their process for handling gastric bypass surgeries. We estimated 4.0% savings due to these changes. In addition, Aetna notified Deloitte that there was a catastrophic claim in 2003 that was not expected to affect future claims resulting in a 1.1% favorable adjustment.

The Division has requested that Deloitte perform a study of the feasibility of offering a high deductible plan that would permit an employee or the State to make a contribution to a federally qualified Health Savings Account (HSA). If such a plan were offered on an optional basis, the rates developed may need to be adjusted to reflect the impact of the additional offering.

Rate Recommendations

Deloitte reviewed a couple different approaches when determining the final rate recommendations. Based on the past year's favorable experience and placing additional credibility on the 24-month and 36-month experience periods, Deloitte recommends the following premium rate structure for FY07:

Medical/Audio/Rx				
	Premium (Standard Family)	Premium	Standard	Economy
FY06 Rates	\$980.00	\$1,156.00	\$898.00	\$775.00
Renewal Change	2.0%	2.0%	2.0%	2.0%
FY07 Rates	\$1,000.00	\$1,179.00	\$916.00	\$790.00

Dental			
	Premium	Standard	Preventive
FY06 Rates	\$175.00	\$105.00	\$45.00
Renewal Change	0.0%	0.0%	0.0%
FY07 Rates	\$175.00	\$105.00	\$45.00

Total Economy Plan	Single/Family
Total FY06 Funding Rate	\$820.00
Renewal Change	1.8%
Total FY07 Funding Rate	\$835.00

Vision		
	Standard	Managed Care
FY06 Rates	\$33.00	\$22.00
Renewal Change	0.0%	0.0%
FY07 Rates	\$33.00	\$22.00

State of Alaska

2006

Retiree Benefits

Renewal Report

October 31, 2005

EXECUTIVE SUMMARY

Deloitte Consulting LLP (Deloitte Consulting) has been retained by the State of Alaska to provide recommended funding rates for its Retiree medical, dental, and vision benefit plans. The State currently contracts with Aetna to administer the plans on a self funded basis. The State currently offers medical and dental/vision/audio (DVA) plans.

Deloitte Consulting calculated the funding rates using common underwriting methodology and assumptions. This report outlines our approach and observations from our analysis and projection.

Renewal Process

Deloitte Consulting reviewed three years of claims experience data, enrollment, trends, premium, administrative fees and other information provided in order underwrite these benefits. This process is detailed in this report. This analysis was discussed with the Division of Retirement and Benefits prior to the final setting of the recommended funding levels. Based on our analysis, we are recommending that the calendar year 2006 (CY06) composite rate levels should increase 3.0% for the medical plan and 0.0% for the DVA plan (See detailed rating exhibits). It should be noted that the overall medical plan increase would have needed to be 7.8% if we had not adjusted our rating for improved drug rebates and the Medicare Part D subsidy.

FY06 Funding Levels

	Medical	DVA
Total CY05 Composite Rate	\$850.15	\$87.26
Renewal Change	3.0%	0.0%
Total CY06 Composite Rate	\$875.65	\$87.26

In arriving at our recommended increase we rated this group in 4 ways. Results of each method are shown below.

In addition, we looked at projections using 12, 24 and 36 months of experience. All of these time periods produced similar results.

In past years we have not made an explicit adjustment for drug rebates and performance guarantees. It was assumed that rebates along with performance guarantees would provide reserve and contingency funding. If we were to continue rating in this manner the medical and drug rate increase would be 7.8%.

Due to the growth in drug rebates, we performed a rating with an explicit adjustment for rebates. Rebates are received monthly for a negotiated amount and used to offset Aetna administrative fees. There is also an annual additional amount received to reconcile actual rebates to amount

already received for the year. If we were to rate the retirees with this adjustment the medical and drug rate increase would be 6.1%.

This year we also could incorporate the value the of the Medicare Part D subsidy the State of Alaska will be receiving by continuing to provide prescription drug coverage to their retirees. It has been determined that the State of Alaska will qualify for the 28% subsidy and an explicit factor for this adjustment is included in this rating. It should be noted that the actual receipt of subsidy payments will be many months after claims have been paid. However, these reimbursements will be made and can be used to offset rates. This adjustment would reduce the increase to 4.7%

Due to the adequacy of the current fund balance, we are recommending that the rates reflect both the improved drug rebates and eventual receipt of the subsidy payments. These two adjustments result in a calendar year 2006 (CY06) composite rate level increase of 3.0% for the medical plan and 0.0% for the DVA plan.

UNDERWRITING PROCESS

In order to project needed premium levels for the State's benefit plans we review claims experience, trends, current premium levels, administrative fees, applicable benefit or plan changes and reserve fund levels. These processes will be discussed below.

Claims Experience

Aetna HealthCare provides Deloitte Consulting State-specific paid claims experience by month for the most recent 36 months. In this case we were able to obtain data from 8/1/2002 through 7/31/2005. The claims are separated into medical, prescription drugs (Rx), dental and vision. Deloitte Consulting uses this paid claim experience to project monthly incurred claims using an actuarial completion factor methodology. Due to the credible size of this group, we concentrated on the most recent 12 months of claims experience.

The most recent 12 months of experience has been better than forecasted last year and slightly lower than being experienced by other employers and insurance carriers. Some factors contributing to the better than average experience include:

- Average length of hospital stays down 8.7%
- This reduction in length of stay kept inpatient costs to a reasonable 5.8% increase
- In-Network utilization improved 5-7%
- Ancillary unit costs such as lab services improved dramatically (up to 22%)
- Generic utilization improved from 41.3% to 45%

Trend Assumptions

In order to determine the appropriate trend rate used to project claims for CY06 we reviewed State specific claims trend along with industry norms provided by Aetna. The experience trend is determined by reviewing the rolling 12-month and 3-month per retiree per month (PRPM) costs. The chart below shows this analysis.

	Medical	Rx	Dental	Vision	Audio
Experience Trend	3 - 5%	20 - 22%	3 - 4%	0 to 3%	-10 to -20%
Aetna Corporate Trend	18%	14.5%	9%	NA	NA
Applied Trend	7%	21%	4%	2%	0%

These trends are applied to the State's historical incurred claim amounts in order to project future claims using a midpoint to midpoint trend calculation. Due to the credible size of this group, we concentrated on the most recent 12 months of claims experience.

We have used a slightly higher trend than the experience suggests for medical to account for the impact the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) will have on Alaska providers. Under MMA, there is a special provision affecting physicians in Alaska that resulted in more than a 52% increase in average Medicare physician fee schedule payments for 2004. It is our understanding that most Aetna providers in the State of Alaska accept Medicare payments and since only approximately 45% of State of Alaska retirees are eligible for Medicare the affect of the MMA on Alaska is adequately reflected in a slight increase in trend over the observed experience trend.

Administrative Fees

Based on the most current contract between the State and Aetna the FY06 (7/1/05 - 6/30/06) administrative fee for the Medical plan is \$29.22 and \$4.43 for the DVA plan. We used a 5% trend to forecast the FY07 (7/1/06 - 6/30/07) administrative fee. The final fee has not yet been negotiated with Aetna.

The administrative fee includes Aetna administrative fees, network access fees, VSP fees and payment for Magellan Behavior Health. In addition, the Aetna contract also includes provisions around operational performance guarantees, network savings guarantees and prescription drug rebates to be refunded to the State.

Reserve Adjustment & Contingency Margin

The current cash fund balance for the Retiree Health Fund is estimated to be about \$126.0 million for Medical as of June 30, 2005. This indicates a growth of approximately 51.9% over the June 30, 2004 Retiree Health Fund for Medical of approximately \$83.0 million. We assume that the entire net fund balance is available to pay plan claims as necessary.

A reasonable objective would be to maintain a net fund balance equal to 15% to 25% of annual plan incurred claims as a hedge against future adverse experience. The net fund balance as of June 30, 2005, is estimated to be between 42.2% and 44.2% of projected CY06 incurred claims for the Medical plan. Year-to-year fluctuations in medical costs and utilization can occur even for a program as large as this.

We believe this fund balance for the Medical plan is adequate and are not recommending an explicit adjustment to the renewal to adjust the level of the reserves.

The current cash fund balance for the Retiree Health Fund is estimated to be about \$10.5 million for DVA as of June 30, 2005. This indicates a growth of approximately 9.3% over the June 30, 2004 Retiree Health Fund for DVA of approximately \$9.6 million. The net fund balance as of June 30, 2005, is estimated to be 50.8% of projected CY06 incurred claims for the DVA plan.

We believe this fund balance for the DVA plan is sufficiently adequate and we recommend no increase for the DVA plan.

Benefit or Plan Changes

In order to forecast future claim levels we need to account for historic changes in the plan design. We have made adjustments to the historical claims for this projection for the DVA plan.

Dental plan change - Beginning 1/1/03 the dental benefit changed from 80% to 100% for preventive services. The value of this change has been estimated at 9.4% cost. When adjusting for this change in the renewal projections, 9.4% of additional cost was applied to claims incurred prior to 1/1/03 to adjust the claims to the same benefit level.

Vision plan change - Beginning 1/1/03 the vision plan added coverage for anti-reflective, polycarbonate and scratch resistant lenses. The value of this change has been estimated at 8.4% cost. When adjusting for this change in the renewal projections, 8.4% of additional cost was applied to claims incurred prior to 1/1/03 to adjust the claims to the same benefit level.

Audio plan change - Beginning 1/1/03 the audio maximum benefit increased from \$800 to \$2,000 every three consecutive benefit years. The value of this change has been estimated at 36.4% cost. When adjusting for this change in the renewal projections, 36.4% additional cost was applied to claims incurred prior to 1/1/03 to adjust the claims to the same benefit level. In 2003 and 2004 we observed a significant increase in audio claims due to the increase in this benefit. It should be noted that for this upcoming year (2006) the annual benefit maximum for the majority of participants will "reset".

Rate Recommendations

In order to meet expected claims experience, Deloitte recommends the following premium rate structure for CY06.

Medical		
	2005	2006 - Recommended
Retiree Only	\$573	\$590
Retiree & Spouse	\$1,146	\$1,179
Retiree & Child(ren)	\$809	\$833
Retiree & Family	\$1,382	\$1,423

DVA		
	2005	2006 - Recommended
Retiree Only	\$54	\$54
Retiree & Spouse	\$108	\$108
Retiree & Child(ren)	\$97	\$97
Retiree & Family	\$152	\$152

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**State Government Retiree Health Benefits:
Current Status and Potential Impact of New
Accounting Standards**

by
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Workplace Economics, Inc.**

The AARP Public Policy Institute, formed in 1985, is part of the Policy and Strategy group at AARP. One of the missions of the Institute is to foster research and analysis on public issues of importance to older Americans. This publication represents part of that effort. The views expressed herein are for information, debate, and discussion, and do not necessarily represent formal policies of AARP.

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Foreword

The likelihood that an employer offers retiree health benefits varies by size of employer, region, and industry. State and local governments continue to offer retirees health coverage at a higher rate than any other industry. While there are some common factors that influence health benefit decisions of employers in both the public and private sectors, there are also factors that distinguish public and private sector employers.

One such distinction is that state and local governments follow accounting standards for financial reporting different from those followed by private companies. State and local governments follow standards set out by the Governmental Accounting Standards Board (GASB), whereas private companies follow those of the Financial Accounting Standards Board (FASB). In the early 1990s, FASB implemented accounting standards for retiree health benefits that changed how a company's costs for retiree health benefits have to be reported. The standards required a change from reporting the expense of retiree health benefits on the basis of the cost of benefits in the period in which they are paid to reporting the cost of benefits as they are earned, which involves estimating and accruing both the future cost of these commitments and current spending for these commitments. This change has been widely cited as one factor, along with rising cost of these benefits, that has led companies to revise their retiree health benefit programs. Although GASB did not implement similar standards at the same time, it is now issuing new standards for state and local governments to report the costs of their Other Postemployment Benefits (OPEB), i.e., benefits other than pensions. The new standards raise the question of how their implementation will affect retiree health benefits in the future.

The AARP Public Policy Institute commissioned Workplace Economics, Inc. to conduct this research on retiree health benefits in state governments. In addition to providing a snapshot of state government retiree health benefits under existing accounting rules, the report gives an overview of current accounting practices for these benefits and of the changes that the new standards require. Based on this information, the report discusses potential issues that the new standards may raise for governments, taxpayers, and retirees. For example, reports based on the new accounting standards will make information on the long-term costs of retiree health benefits to state and local governments more readily available. Such information may focus attention on the challenge of honoring past and future commitments for retiree health benefits.

We hope this report will help inform debates that implementation of the new GASB standards may stimulate.

Gerry Smolka
Senior Policy Advisor
AARP Public Policy Institute

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Executive Summary

Purpose

The Governmental Accounting Standards Board (GASB) issued an Exposure Draft¹ early in 2003, and a revision to the draft in early 2004, detailing proposed new accounting standards for state and local government retiree health care and other non-pension benefits. The Board adopted Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in May 2004 and a related Statement, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in June 2004. The earliest these will go into effect is for fiscal years starting in December 2006. To the extent that the new GASB standards require changes in assumptions or methods currently used by public sector entities to account for and report the costs of retiree health care, decision-makers' consideration of the more comprehensive information developed may result in changes in behavior and practices by both providers and users of retiree health benefits. To assess the potential impact of the new GASB standards on public policy, this paper examines retiree health care benefits currently provided in state government employment by the 50 states excluding the District of Columbia and practices employed by state governments to account for and finance their retiree health benefit obligations. The results can be used as a baseline against which to gauge the implications of the changes in accounting standards.

Background

Current practices used by state governments to account for and report their retiree health benefit obligations diverge from private sector practice and are shaped by existing accounting standards such as GASB 12, 25, 26, and 27. The new standards for governmental employer reporting of OPEB are broadly similar to standards applicable to the private sector issued by the Financial Accounting Standards Board (FASB) in 1990; they understand that OPEB is deferred compensation and their objective is to achieve accrual of benefit costs and liabilities during periods when employees render services. However, the new GASB standards are modeled after previous GASB standards on employers' reporting of pension benefits and include differences from FASB requirements designed to address the accounting and reporting practices of the public sector. For many states, the new OPEB standards will require accrual accounting for such benefits for the first time.

Methodology

To provide a current snapshot of health benefits for retired employees, Workplace Economics, Inc. analyzed information in its proprietary database on benefits provided to state government employees in all 50 states (the District of Columbia is not part of the state government database). To provide the overview of current state financial reporting practices, Workplace Economics analyzed state governments' annual financial reports.

¹ Standards for "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" and "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" can be ordered from GASB at its internet website (www.gasb.org).

Findings

1. Many states play a substantial role in the provision of retiree health benefits. Current retiree health care programs available to state government retirees vary significantly by key plan characteristics such as number and type of plans offered; premium costs; cost-sharing features such as copayments, coinsurance, and deductibles; and prescription drug plan features. For example, total monthly premiums for individual coverage for pre-Medicare retirees range from \$159.92 for the lowest-cost plan offering available among the 50 states to \$925.42 for the highest-cost plan offered in any state. For Medicare-eligible retirees, total monthly premiums for single coverage range from \$46.40 for the lowest-cost available plan to \$448.52 for the highest-cost plan offered in any state.
2. State financial statement reports provide some insight into the dimensions of retiree health insurance programs and their aggregate cost. Significantly, 41 states report providing some contribution towards defraying the cost of state retiree health insurance through programs covering more than 1.7 million retirees. Of the 41 states that reported providing some contribution towards retiree health insurance, 30 finance the state costs on a pay-as-you-go basis, while only 11 reported a prefunding arrangement. In the aggregate, state spending on OPEB approximated \$4.4 billion in FY2001. About \$3.8 billion was financed on a pay-as-you-go basis.
3. There are currently four GASB standards that provide guidance for existing state government accounting and reporting for postemployment health insurance benefits. GASB 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Government Employers*, became effective June 15, 1990 and requires that all employers who finance all or some portion of their retiree health insurance should provide: (1) a description of the benefits provided, employee groups covered, and the employer and participant obligations to contribute; (2) a description of the statutory, contractual, or other authority under which the benefit provisions and obligations to contribute are established; (3) a description of the accounting and financing or funding policies followed for those benefits; and (4) the expenditures/expenses for those benefits recognized for the period. These disclosures are typically accomplished through a note to the governmental entity's financial statement. However, unlike the new OPEB standards, GASB 12 does not require that particular practices be employed in recognizing and measuring retiree health insurance benefits. Subsequently, three additional GASB standards were implemented which affected the treatment of retiree health care benefits when provided through a public employee retirement system. First, GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, issued in late 1994 but not effective until mid-1997, provides guidance to employers that elect to apply their pension accounting standards to retiree health care. In June 1996, GASB 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB 26, *Financial Reporting for Postemployment Health Care Plans Administered by Defined Benefit Pension Plans*, became effective. GASB 25 and GASB 26 have delineated the applicable standards, not only for retiree health care plans that are advance funded through a public employee retirement system, but, more broadly, for any retiree health care plan administered by a governmental defined benefit pension plan, regardless of whether the health care plan is funded on an actuarially determined basis or by some other mechanism. In its OPEB project, the Board decided to apply the same overall approach adopted in GASB 25 and GASB 27 to the reporting of OPEB by employers and plans, with such modifications as the Board considered necessary to reflect differences between pension benefits and OPEB.

4. While GASB's new OPEB standards are similar to FAS 106 in requiring those government employers to accrue the costs of postretirement health insurance during the years of service of their employees just as private sector employers are required to accrue the costs of such benefits, it appears likely there will be some significant differences in the standards as well as differences in the impact of the standards.

Impact and Implications

Employer-sponsored retiree health care provided by public employers is an important component of our nation's system of health care insurance for retirees. Therefore, any significant changes to state government employer retiree health care insurance resulting from the new OPEB standards or from the impact of underlying cost drivers necessarily will call for a response from policymakers if insurance gaps arise.

1. The private sector experience with FAS 106 provides mixed lessons for trying to anticipate the outcome of the new OPEB standards as formulated by GASB.
2. State government employers are typically large employers, and large employers generally provide postemployment benefit programs that remain relatively stable over time.
3. The financial information produced by the application of the new OPEB standards may encourage state governments to think about reducing retiree health benefit programs in the future in order to avoid liabilities. Yet, while the new OPEB standards may result in the consideration of changes that would minimize adverse accounting effects on public budgets, health benefit program changes seem more likely to be prompted by the availability of a drug benefit through Medicare and the underlying cost drivers, e.g., health care inflation, an expanding retiree population relative to active employees.
4. The new OPEB standards may encourage greater prefunding of retiree health care benefits. Because prefunding typically produces higher short-term costs as compared to pay-as-you-go financing, it may add to state government financial obligations at an inopportune time for those states and may, therefore, prompt a reconsideration of the level of state commitments for future retirees. At the same time, states which do begin prefunding (and those already prefunding) may find that their direct employer costs will be lower in the long run and that their credit rating may be bolstered.
5. To the extent the new OPEB standards may encourage greater prefunding of retiree health care benefits, they may produce greater intergenerational equity for taxpayers. This is because each generation, at least in theory, can assure itself that it is paying only for the personnel costs associated with the services provided by employees active during the taxpayer's lifetime, not previous lifetimes.

Conclusion

Economic and demographic factors are putting upward pressure on the cost of retiree health insurance provided by state public employers and, unless adequately prefunded, increasing

retiree health insurance costs may result in mounting deferred liabilities for state employers with the potential for an adverse impact on credit ratings. The concern over the future potential effect of such liabilities has prompted an examination of current governmental accounting standards for financial reporting to determine if such reporting achieves a sufficient consideration of the impact of providing retiree health care benefits on overall government operations. However, the implementation of new governmental accounting standards concerning retiree health insurance and other postemployment benefits, while adding to short-term pressures on government employees, appears unlikely to change what are typically the stable benefit provision patterns of large state employers, unless coupled with significant health care cost inflation for the foreseeable future and a continued deterioration of the active-to-retiree workforce ratio.

Introduction

It is the widespread practice of state governments to provide health benefits to former employees when they retire. In fact, the share of public sector employers offering retiree health benefits remains high in comparison to private employers.

The Governmental Accounting Standards Board (GASB) issued an Exposure Draft early in 2003 detailing proposed new accounting standards for state and local government retiree health care and other non-pension benefits; the Board adopted Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and a related statement, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in June 2004. The new standards for employer reporting of Other Postemployment Benefits (OPEB) are broadly similar to standards applicable to the private sector issued by the Financial Accounting Standards Board (FASB) in 1990; they understand that OPEB is deferred compensation and their objective is to achieve accrual of benefit costs and liabilities during periods when employees render services. However, the new GASB standards are modeled after previous GASB standards on employers' reporting of pension benefits and include differences from FASB requirements designed to address the accounting and reporting practices of the public sector. Some additional differences from private sector requirements are associated with GASB's simplified alternative measurement method for small plans, e.g., single employer OPEB plans with fewer than 100 members.

To the extent that the new GASB standards require changes in assumptions or methods currently used by public sector entities to account for and report the costs of retiree health care, the introduction of these new standards may result in changes in behavior and practices by both providers and users of retiree health benefits. Faced with more comprehensive financial information and revised expectations regarding current and future health care costs, it is generally assumed that public employers, retiree health care plans, plan participants (including both retiree participants and actively employed future participants) and policymakers may alter their decision-making regarding the structure and level of postretirement health benefits.

Organization of Paper. This paper begins with a description of how retiree health care benefits are provided in state government employment in fiscal year 2003. This "current" state of retiree health care benefits provided by state government employers then can be used as a baseline against which the impact of any policy changes can be assessed. Next, this paper reviews the current practices used by state governments to account for and finance their retiree health benefit obligations. This involves a review of existing accounting standards, such as GASB 12, 25, 26, and 27, where relevant, and a delineation of how these standards have set the stage for movement to new OPEB standards. Then, this paper examines the potential impact of the new OPEB standards on accounting practices and contrasts the standards' likely effect with the impact of the adoption of FASB 106, highlighting the major similarities and differences between the standards. Finally, this paper concludes with an assessment of the potential impact of the new OPEB

standards on current and future state government retirees, public employers, taxpayers, and policymakers.

Methodology. In order to provide an overview of current state government retiree health insurance benefits, Workplace Economics, Inc. analyzed information in its proprietary database, developed over 15 years, on benefits provided to state government employees in all 50 states (the District of Columbia is not part of the state government database). The database is the product of an annual survey of state governments on their employee benefits as well as an analysis of state employee health insurance plan documents; the database includes information on health benefits for retired employees. The information in Appendix A comes from this database. To provide the overview of current state financial reporting practices and the information in Appendix B, Workplace Economics analyzed state governments' annual financial reports.

The discussions of the current and new standards are based on the authors' knowledge of the two sets of standards, and the section on the impact reflects the authors' own assessment of some of the potential effects of the implementation of new GASB accounting standards.

Overview of Current State Government Retiree Health Benefits

In order to properly assess the impact of any new OPEB standard, both the depth and breadth of retiree health care benefits received by state government retirees needs to be determined. That is, it is important to identify the scope of such state programs and to understand the share of the financial burden borne by each state government for such benefits. To shed light on these issues, Workplace Economics, Inc. undertook two data analyses in this paper: (1) an examination of the key plan characteristics of state retiree health care programs and (2) a review of state government annual financial reports on the scope and aggregate annual cost of state OPEB spending.

Key Characteristics of State Retiree Health Care Plans

Fiscal year 2003 data for each state were examined in order to determine: (1) the actual dollar amount of premiums paid for retiree health care coverage by the state and by the retiree, respectively; (2) the deductibles, coinsurance, physician co-payments, and out-of-pocket maximums associated with the plans reviewed; and (3) the key characteristics of any prescription drug plans offered as part of the retiree health care program. When more than two plans were offered, the lowest-cost and the highest-cost plans were included in the analysis.¹ As summarized below, retiree health care programs available to state government retirees varied significantly in design.

Plan Offerings. In fiscal year 2003, all 50 state government employers surveyed offered health care benefits for retirees under the age of 65, and 48 states—all but Indiana and Nebraska—offered health care benefits to retirees age 65 and older. (See Appendix Table A1.) Roughly one in five states offered a single plan statewide, while some others offered as many as 10 or more plans. However, in states with multiple options, generally no more than three or four plans were available statewide, while additional offerings—usually HMOs—were available only in limited service areas. A retiree therefore typically had no more than three or four options available, based on the location of his or her residence.

In a number of cases, health coverage options offered to pre-Medicare retirees were the same as or similar to those available to active employees. In some cases, pre-Medicare and/or Medicare-eligible retirees selected from either additional or different options offered by the state and the retirement system. In Arizona, for example, retirees could

¹ Because some states offer a large number of pre-Medicare and Medicare retiree health care plans that would make a complete inventory of the key characteristics of all such plans unwieldy, this analysis was limited to providing information on the key plan characteristics of the lowest-cost and highest-cost plans offered to retirees, where "lowest-cost" and "highest-cost" refers to the retiree premium cost in dollars for retiree-only coverage. These plans were selected for analysis because they set the lower and upper bounds for the premium costs for all available plans and because such plans often attracted the largest enrollments among available plans. For example, a survey of state plan sponsors revealed that, for 72% of the responding states, the retiree health plan with the largest enrollment was either the "lowest-cost" plan or the "highest-cost" plan that was described for that state in Appendix A.

select from separate sets of plans offered by the retirement system and by the state Department of Administration.

Upon reaching age 65, when retirees become eligible for Medicare, plan payment and/or coverage changed. Retirees of the states of Indiana and Nebraska were no longer covered under the state's health plan after age 65 and had to seek individual coverage elsewhere to supplement Medicare. In the remaining 48 states, many retirees were able to continue coverage in the same health plan that they had while working or as an early retiree, but in 20 states they were also offered options for Medicare supplement plans.² A few states offered only Medicare supplement plans to retirees over the age of 65. In either case, Medicare was the primary payer for retirees age 65 and over, so individuals had to sign up for Medicare as soon as they became eligible. Comprehensive plans were not explicitly designed to complement Medicare as were the supplement plans, but they all coordinated coverage with Medicare to avoid duplicate payment for services covered by both plans.³

The majority of states offered the two groups of retirees—pre-Medicare and Medicare eligible—the same number of plan options. Nevertheless, 14 states offered fewer options, and seven states offered more options to retirees age 65 and over than their younger counterparts.

Eligibility for Retiree Health Benefits. In most states, individuals eligible for pensions based on their years of service could opt for continued health care coverage, although 17 states had additional requirements such as some minimum number of years of active service with the state or prior coverage in the health plan as an active employee. (See Appendix Tables A2 and B1.) States also differed as to when the retiree could opt for coverage. A dozen states required the individual to enroll within a limited time period—usually 30 to 90 days—surrounding the retirement date. A few allowed the retiree to defer enrollment in specific situations, such as when the retiree was already covered as a dependent under a state-sponsored plan but later lost that coverage upon the spouse's death, or when an employee terminated employment prior to retirement but with specified service credit.

Premium Contribution. Eligibility requirements for state subsidization of the premium frequently differed from requirements for participation in the plan, i.e., a retiree who was eligible to participate in the health plan may not have been eligible for a premium

² The Centers for Medicare and Medicaid Services (CMS) and the National Association of Insurance Commissioners (NAIC) have defined 10 standardized "Medicare supplement" or "Medigap" plans that may be offered to Medicare-eligible retirees. Employers that offer Medicare supplement plans to retirees over age 65 conform to one of these types. The plans (designated "A" through "J") are designed to complement Medicare coverage by paying for varying degrees of deductibles, coinsurance, prescription drugs and other services not covered by Medicare.

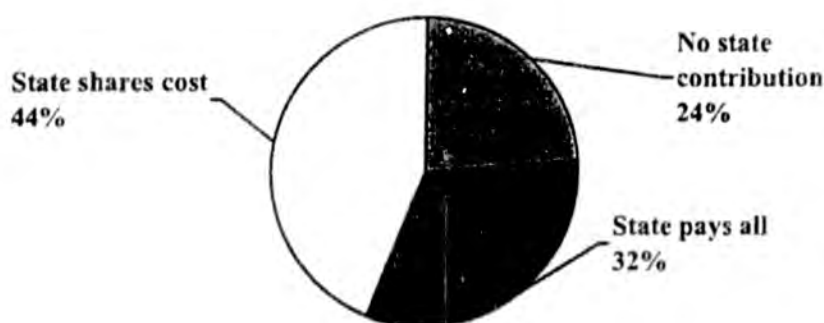
³ Retirees who do not enroll in Medicare are effectively treated by state government health plans "as if" they were enrolled. Some plans make allowances for individuals not eligible for Medicare because their employer did not pay taxes into the program to retain some level of coverage. See Appendix Table A2.

subsidy. (See Appendix Tables A2 and B1 for details about eligibility for subsidies from health plan documents and financial reports, respectively, and also the notes to Tables A3 and A4 on premium costs for early retirees and Medicare-eligible retirees.) Almost one-third of states varied the portion of the subsidy based on the individual's years of credited service at retirement, with long-service employees (typically with 20 to 30 years) eligible for the maximum subsidy.

Figure 1 summarizes how states shared premium costs with pre-Medicare retirees for single coverage assuming the individual was eligible for the maximum subsidy.⁴ For pre-Medicare retirees, 16 states (32%) paid the full amount of the premium for at least the lowest-cost plan offered and, in 12 states (24%), the retiree paid 100 percent of the premium.

Figure 2 summarizes premium cost-sharing requirements for Medicare-eligible retirees for single coverage assuming the individual was eligible for the maximum subsidy. Seventeen states (34%) paid the full premium for at least the lowest-cost plan offered to eligible retirees over the age of 65, while Medicare-eligible retirees in 11 states (22%) paid the full amount of the premium themselves. Of the remaining states, 20 states (40%) shared premium costs for individual coverage between the state and the retiree (shown in Appendix Tables A3 and A4), and two states (4%) had no plan.

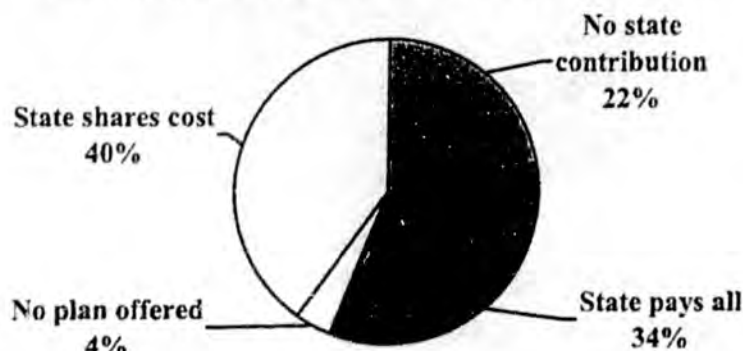
Figure 1. Premium Cost Sharing For Pre-Medicare Retirees, FY 2003



Note: Data are for single coverage and assumes maximum subsidy. Other conditions may apply, e.g., enrollment in the lowest-cost plan.
Source: Workplace Economics

⁴ The information cited and provided in the Appendix tables applies to individual coverage for the retiree only. States vary in their practices regarding coverage and the extension of subsidies to dependents.

Figure 2. Premium Cost Sharing For Medicare-Eligible Retirees, FY 2003



Note: Data are for single coverage and assumes maximum subsidy. Other conditions may apply, e.g., enrollment in the lowest cost plan.
Source: Workplace Economics

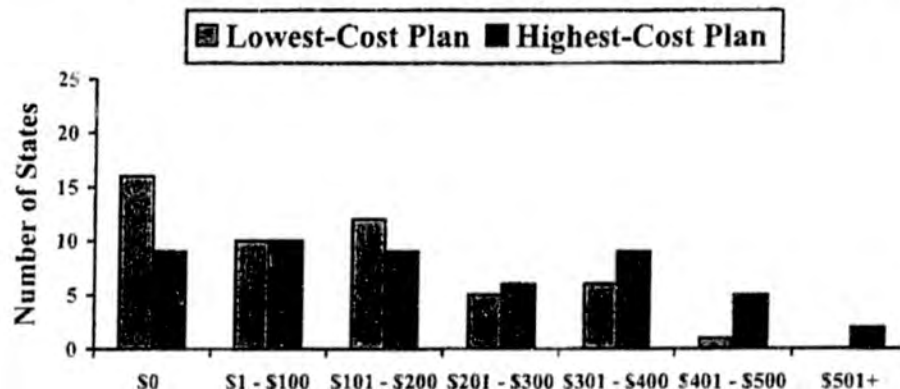
Across all 50 states, total monthly premiums for individual coverage for pre-Medicare retirees ranged from \$159.92 in South Dakota for the state's low-option preferred provider plan (PPO) to a high of \$925.42 for a PPO plan in Arizona. Among the 34 states where the pre-Medicare retiree paid either all or some portion of the premium costs, the monthly payment varied from \$5.01 in Utah for an HMO to \$795.40 for an indemnity plan in Wisconsin, assuming the retiree qualifies for the maximum subsidy. Figure 3 shows the distribution of pre-Medicare retiree premium contributions in \$100 increments. The figure includes the highest-cost plan and the lowest-cost plan for each of the 50 states.

For Medicare-eligible retirees, total monthly premiums for single coverage ranged from \$46.40 for an HMO in New Mexico to \$464.23 for a regional HMO in New York. Among plans requiring retirees to pay all or a portion of premium costs, the monthly premium share for individual coverage paid by Medicare-eligible retirees varied from \$10.00 in Georgia for a Medicare HMO to \$448.52 for Iowa's open access plan, assuming the retiree qualifies for the maximum subsidy. Figure 4 shows the Medicare-eligible retiree premium contribution within \$100 increments. The figure includes the highest-cost plan and the lowest-cost plan for each of the 50 states.

These findings clearly show the substantial role played by many states in the provision of retiree health care benefits in terms of the dollar amount of premium contributions that they made. It should also be noted that, in many cases, the health insurance premium applicable to pre-Medicare retirees might have been the same premium applicable to active employees. This may have been the case particularly where pre-Medicare retirees continued to be pooled for health insurance together with active employees. As a result, the premiums reported in such cases may have understated the actual claims costs incurred on behalf of the pre-Medicare participants. While such pooling of individuals

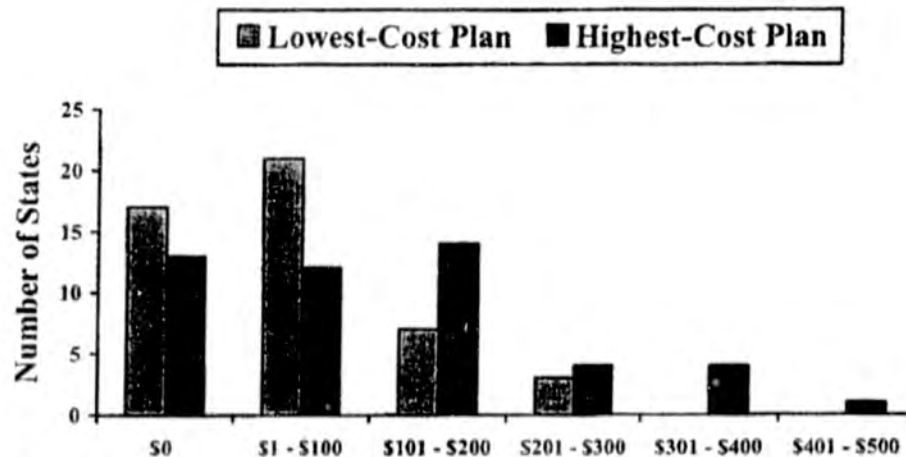
who are offered the same benefits (even though they may have different health or age characteristics) is at the heart of the insurance principle of spreading the risk, a few states took the position in their plan reporting that they were providing an implicit premium subsidy to their pre-Medicare retirees.

Figure 3. Premium Contributions Paid by Pre-Medicare Retirees by State, FY 2003



Note: Data are for single coverage and assumes maximum subsidy.
Source: Workplace Economics

Figure 4. Premium Amounts Paid by Medicare-Eligible Retirees by State, FY 2003



Note: Data are for single coverage and assumes maximum subsidy.
Source: Workplace Economics

Types of Plans and Cost-sharing Features. Key features of the lowest-cost and highest-cost plans available to retirees in each state are detailed in Appendix Tables A5 (pre-Medicare retirees) and A6 (Medicare-eligible retirees). Note that plan types in the tables — for example, HMO, PPO, and point-of-service (POS) — reflect the terminology of the particular state, i.e., the terms are not uniformly defined from state to state. Furthermore, the traditional distinctions between plan types have blurred as providers, plan administrators, and the state employers or retirement systems that offer the plans have altered plan features and added options to both minimize costs and provide alternatives.

Most common among the plans offered to pre-Medicare state retirees were plans that offer a different level of coverage and out-of-pocket payment depending on whether the member chooses to obtain care from in-network providers or out-of-network providers. Deductibles were common in most plans, except plans that only offer benefits when network providers were used. Many plans required copays that vary by the type of service obtained (e.g., specialty physicians, mental health, laboratory, physical therapy). Though not widespread, some plans (such as those that do not have deductibles) required hospital copays, typically from about \$100 to \$300 per admission, after which the plan paid all or most covered charges. A majority of plans reviewed had out-of-pocket maximums to limit the annual expenses paid by members. The per person maximums (using in-plan services where provider networks are part of the plan design) varied from \$400 to \$10,000 per year, but typical maximums were \$1,000 or \$2,000. Nonetheless, nearly a third of plans reviewed had no out-of-pocket maximum. Deductibles, copays, coinsurance and out-of-pocket maximums could vary considerably within a plan depending on whether the individual has obtained care from in-network or out-of-network providers.

Plan options available to Medicare-eligible retirees either were the same or similar in structure and characteristics to the options offered to pre-Medicare retirees, or were Medicare supplement plans (see Appendix Table A6). Yet plans without an out-of-pocket maximum were more likely in offerings to Medicare-eligible retirees. Plans that were not Medicare supplements differed from those described in the preceding paragraph only in how the benefit payment was calculated. Because Medicare was the primary payer, remaining charges were submitted to the insurance plan, which paid in accordance with the features of the plan. Copayments and out-of-pocket limits still applied (and, where applicable, continued to vary depending on whether the provider was part of the plan network). Medicare supplement plans, as noted previously, were explicitly designed to pay certain covered charges that are not paid by Medicare, such as all or part of the deductibles required under Medicare, or the retiree's 20 percent share of coinsurance for physician services.

In general, the lowest-cost plans were those requiring the retiree to pay the greatest share of covered benefits in the form of higher deductibles, copays or out-of-pocket maximums. In addition, plans with the greatest restrictions on where and how a member receives care tended to have lower premium costs.

Prescription Drug Benefits. Almost all of the highest- and lowest-cost state plans reviewed included some level of prescription drug coverage (see Appendix Tables A7 (pre-Medicare) and A8 (Medicare-eligible)). Since Medicare currently does not cover prescription drugs, this benefit was of particular importance to retirees over the age of 65. The majority of states offered the same drug benefit to early retirees and retirees on Medicare. However, in one state (South Dakota), both the lowest-cost and highest-cost Medicare-eligible plans did not include a drug benefit, although this benefit was available for early retirees. In a few other states, a drug benefit may have been available in one, but not both, of the plans examined in this study.

Many states offered a single prescription drug benefit as part of all (or most) of the health plans. Generally, under these plans, the retiree made a payment when purchasing the drug at a participating retail pharmacy. The vast majority of plans required copayments of a certain dollar amount, but a dozen or so plans required retirees to pay coinsurance of a certain percent of the drug price; the plan paid the balance. Some of these plans had a minimum or maximum coinsurance amount. Plans may have had different levels of copayments or coinsurance. The levels typically differed depending on whether the drug was classified as generic, brand name/formulary, or nonformulary. Of state government drug benefits reviewed, a small share had a single copayment level and a slightly larger share had two copayment levels. The majority had three levels of copayment. Among the plans reviewed, typical copayments were \$5 or \$10 for the lowest level; \$15, \$20, or \$25 for the second level; and \$30, \$35, or \$40 for a third level. The copays typically applied to a 30-34 day supply, and many plans offered further discounts for retirees who purchased maintenance or other medications by mail order (e.g., a requirement of two copays for a 90-day supply is typical). In addition, a few plans required a drug deductible or limit out-of-pocket payments for drugs. Limits on out-of-pocket payments be limited to generic and preferred drugs and drugs purchased in the plan's network. While benefits commonly included a mail order pharmacy option, this option was not included in at least one plan in about a dozen states.

State Retiree Health Care Program Financial Report Data

The analysis of health plan documents in the previous section provides information on the availability of, premiums for, and nature of benefits offered to state retirees. While that is an important part of the picture of current state retiree health benefits, it does not describe the current size, funding, or costs of these benefits to the state. To develop a picture of these aspects of state retiree health benefit plans and because, ultimately, any change in the OPEB accounting standards is most likely to be reflected in the comprehensive annual financial report (CAFR) of the state or the entity through which the benefit is provided (e.g., state retirement plan), each state's most recently available CAFR was reviewed with respect to OPEB reporting.

Each state's relevant annual reports were examined for the following categories of information: (1) the number of eligible retirees reported (generally as of mid-year

2001);⁵ (2) the scope or nature of the retiree health care benefit program, particularly in terms of eligibility; (3) the reported percentage of employer contributions; (4) whether the state finances its retiree health care insurance obligations on a pay-as-you-go or prefunded basis; and (5) the most recent annual total cost reported by the state in connection with providing retiree health care insurance (details for items 1-3 and 4-5 are presented in Appendices B1 and B2, respectively).

Generally, the information of interest for each state was included in its CAFR in a note disclosure as required by applicable GASB reporting standards.⁶ Some states did not include an OPEB disclosure note, usually indicating—as borne out by the absence of state contributions to retiree health insurance premiums—that the state determined that it had no OPEB impact to report. Of the 50 states, only six states (Arkansas, Indiana, Iowa, Nebraska, South Dakota, and Wyoming) did not include an OPEB disclosure; only one of these states (Arkansas) in fact provided some retiree health care insurance subsidy. On the other hand, Mississippi included an OPEB disclosure note in the CAFR, notwithstanding the fact that the state incurred no expense for retiree health care benefits. Vermont included a note disclosing a retiree health benefit obligation, but not the number of retirees, funding, or cost.

Wisconsin—whose “contribution” to the financing of retiree health care benefits consisted solely of a program that converts accumulated sick leave to retiree health insurance credits⁷—reported these programs in an OPEB disclosure note. This last reporting approach arguably may have overstated Wisconsin’s retiree health care contribution relative to other states that provided accumulated sick leave cash-out programs⁸ inasmuch as these states’ retirees receiving such lump sum payments at retirement could use the payments to finance some portion of their health insurance costs.⁹

Excluding the nonreporting states and the other exceptions noted above (Mississippi, Vermont, and Wisconsin), 41 states reported providing some contribution towards

⁵ Data reported in state CAFRs typically follow a fiscal year format; not every state or relevant reporting entity follows the same fiscal year.

⁶ See *infra* at pp. 13 to 16 for a discussion of currently applicable GASB reporting standards for state postemployment health benefit obligations.

⁷ Upon retirement, all or some portion of accumulated sick leave, instead of being paid as cash termination benefit, is converted to credits to pay the retiree’s own group health insurance premiums.

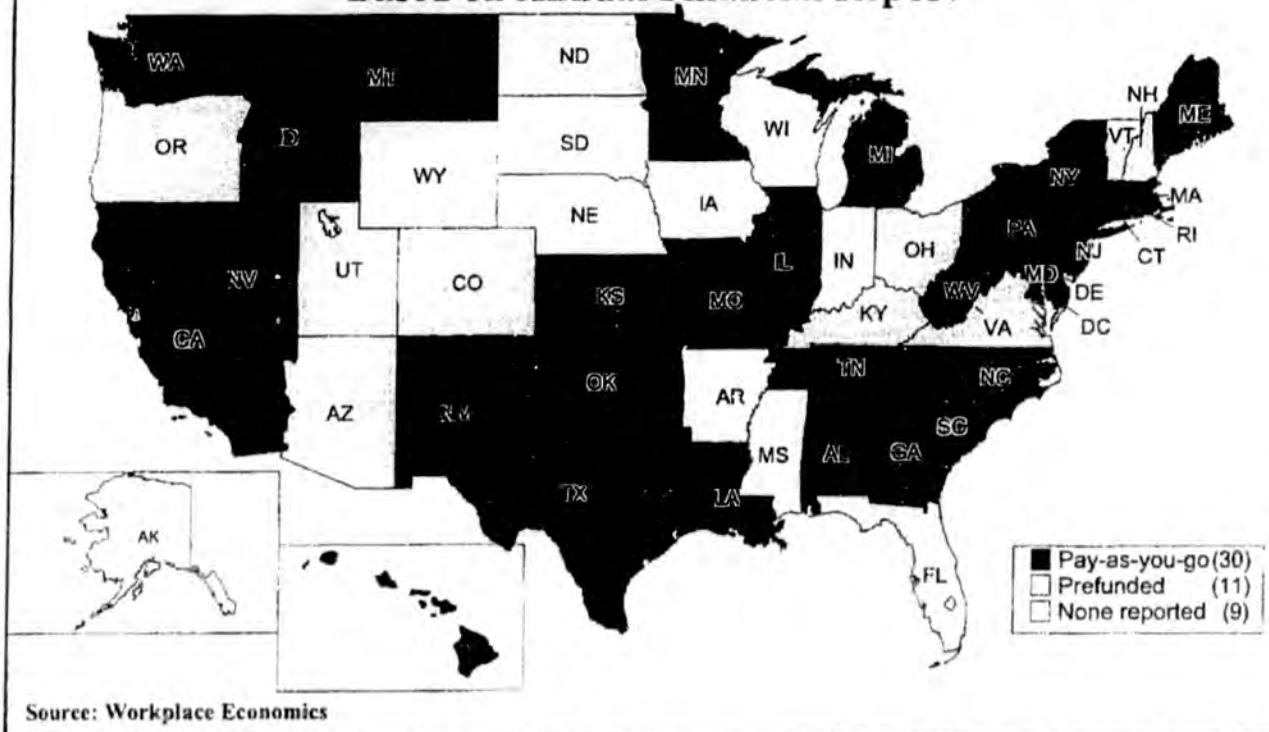
⁸ In such programs, upon retirement, accumulated unused sick leave is converted at some rate to cash and paid to the retiring employee in a lump sum (typically, conversion is at a 25% rate, rather than a one-for-one or 100% rate).

⁹ More consistent comparisons across states would appear possible in part if the dollar value of such sick leave conversion programs were reported only in the “compensated absences” disclosure note found in most state CAFRs along with lump sum sick leave and annual leave cash out programs. For a discussion of the governmental accounting treatment of sick leave conversion programs, see Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*.

defraying the cost of state retiree health insurance through programs covering more than 1.7 million retirees (see Figure 5). The OPEB disclosure note in the state CAFR provided some information about the dimensions of their postretirement health care programs.¹⁰ In some cases, when the benefit was provided through a separate retirement system, the information was augmented by additional information presented in the state retirement system's CAFR.

Of the states that reported providing some contribution towards retiree health insurance (other than expenditures for sick leave conversion credits), 30 states financed these costs on a pay-as-you-go basis, while only 11 states percent reported a prefunding arrangement.

**Figure 5. State Financing of Retiree Health Benefits, 2001
Based on Annual Financial Report**



Moreover, in states where retiree health benefits were prefunded separately from pension benefits, the funded levels reported for retiree health benefits often were lower than the funded levels reported for pension benefits. In short, both the predominance of pay-as-you-go financing among state retiree health care programs, as well as the low funded levels of many of those state retiree health care plans which are prefunded, could presage larger future cash outflows for such programs. This may be especially the case if the ratio of retired to active state employees continues to increase and retiree medical cost inflation continues to rise faster than the general rate of inflation.

¹⁰ While providing some information about their programs, three states did not indicate the total fiscal year costs of the benefits provided in their OPEB disclosure notes.

Total annual spending on retiree health care benefits was reported by most of the 41 states that reported OPEB benefits.¹¹ In the aggregate, state spending on OPEB retiree health benefits approximated \$4.4 billion in FY2001.¹² About \$3.8 billion was financed on a pay-as-you-go basis. It should be noted that the remainder – roughly \$600 million – that was financed on a prefunded basis represented the actual state contributions made to plan assets, rather than total expenditures made by those plans for the current provision of postemployment benefits.

Given the current prevalence of retirement health care benefits provided by state public employers, the substantial cost involved, and the relatively small number of states prefunding to meet their potential liabilities, it is not surprising that OPEB transactions have received GASB attention.

¹¹ Three states (Tennessee, Vermont and Washington) included an OPEB disclosure note in their 2001 comprehensive annual financial report but did not report an annual cost expense or total dollar amount of annual contribution in their OPEB disclosure notes.

¹² It should also be noted that not every state segregated retiree health care expenses from expenditures on other postemployment benefits provided such as life insurance. Such other expenditures are typically very modest relative to the cost of retiree health insurance. At the same time, some state reporting also included state expenditures for retiree health insurance subsidies provided to public employees other than state employees (e.g., teachers); usually such expenditures were reported as separate amounts from the amounts spent on state employee retirees.

Current Standards Applicable to Accounting for State Retiree Health Insurance Obligations and the Implications of the New OPEB Standards for Accounting Practices

Four GASB standards currently provide guidance regarding existing state government accounting and reporting for postemployment¹³ health insurance benefits: GASB No. 12, 27, 25, and 26. This section describes the evolution of these standards which govern the current practices of state governmental entities that provide postemployment health benefits to retirees of various state government agencies. Since 1990, GASB standards have progressed from requiring financial disclosure by entities that finance some portion of retiree health benefits to providing guidance about how different types of entities might adapt pension accounting standards for the purposes of reporting on health benefits for all categories of retirees. Much of the content in the current standards is reflected in the new standards which will be implemented over the several years beginning in fiscal years starting in December 2006.

Not all of the standards apply to all governmental entities providing retiree health benefits. Retiree health benefits are provided through a number of different organizational/administrative arrangements (e.g., as part of the state employee benefit system, through a separate public employees retirement system, under the auspices of a defined benefit pension plan), and some of the standards are particular to the type of organizational arrangement responsible for the plan. Other standards are particular to the methods used to finance the health benefits, e.g., pay-as-you-go vs. prefunded basis.

Governmental Accounting Standards Board Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Government Employers*, became effective June 15, 1990 and requires that all governmental employers who finance all or some portion of their retiree health benefit costs should provide: (1) a description of the benefits provided, employee groups covered, and the employer and participant obligations to contribute; (2) a description of the statutory, contractual, or other authority under which the benefit provisions and obligations to contribute are established; (3) a description of the accounting and financing or funding policies followed for those benefits; and (4) the expenditures/expenses for those benefits recognized for the period.¹⁴

¹³ While the focus of this paper is retiree health insurance benefits, it should be noted that the term postemployment as used by GASB is not synonymous with retirement. Rather, the term postemployment has a broader meaning that embraces not only retirement but also any period after termination but before retirement during which benefits may be provided.

¹⁴ GASB 12 permits state government employers to simply state that OPEB expenditures/expenses "cannot be reasonably estimated" if a reasonable approximation of OPEB expenditures/expenses is not possible because OPEB expenditures cannot be separated from similar expenditures for active employees, e.g., where pre-Medicare retirees participate in the same health insurance plans offered to active employees.

These required disclosures are accomplished through a note to the governmental entity's financial statement. A GASB 12 footnote disclosure for OPEB financed on a pay-as-you-go basis might read as follows:

"In addition to the pension benefits described in NOTE X, the State provides postretirement health care benefits, in accordance with State statutes, to all employees who retire from the State on or after attaining age 60 with at least 15 years of service. Currently, 25,000 retirees meet those eligibility requirements. The State reimburses 75 percent of the amount of validated claims for medical, dental, and hospitalization costs incurred by pre-Medicare retirees and their dependents. The State also reimburses a fixed amount of \$25 per month for a Medicare supplement for each retiree eligible for Medicare. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the State. During the year, expenditures of \$30 million were recognized for post-retirement health care. Approximately \$500,000 of the \$3 million increase in expenditures over the previous year was caused by the addition of dental benefits, effective July 1, 19XX" (Governmental Accounting Standards Board Statement No. 12, 1990, Appendix B).

If the retiree health program is prefunded, a GASB 12 footnote disclosure would include the employer's actuarially required contributions, the amount of net assets available for OPEB, and the actuarial accrued liability and unfunded accrued liability for OPEB according to the actuarial cost method in use.

GASB 12 is an interim standard pending the new OPEB standards. However, unlike the new OPEB standards, GASB 12 does not require that particular practices be employed when recognizing and measuring retiree health insurance benefits; therefore, when GASB 12 became effective in 1990, state and local government employers were not required to change their accounting for those benefits. In short, GASB 12 addresses only the disclosure of the nature and extent of retiree health insurance benefits, but does not establish recognition and measurement standards applicable to those benefits.

Moreover, GASB 12 permits employers that advance fund their retiree health insurance benefits on an actuarially determined basis through a public employee retirement system to elect to apply alternative disclosure standards applicable to public employee pension plans. Those alternative standards are part of **Governmental Accounting Standards Board Statement No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Government Employers***. The impact of electing this alternative is that: (1) the employer has to disclose its health care cost inflation assumption along with the other actuarial assumptions it is already disclosing for pension purposes; and (2) the employer has to calculate the funded status and funding progress of retiree health care benefits in a manner consistent with the requirements already applicable to pension benefits. While the disclosure of the funded status and

funding progress of retiree health care benefits separate from that of pension benefits is encouraged, such disclosure is not required.

Subsequently, three additional GASB standards were implemented which both move beyond disclosure requirements and affect how retiree health care benefits are to be treated for accounting purposes when provided through a public employee retirement system. First, **Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers***, issued in late 1994 but not effective until mid-1997, supersedes that part of GASB 12 that permits employers the option of reporting under GASB 5 standards if they prefund their retiree health care benefits through a public employee retirement system. GASB 27 provides guidance to employers that elect¹⁵ to apply their pension accounting standards to retiree health care benefits on an interim basis pending the issuance of the OPEB standards. Essentially, employers who elect to apply GASB 27 to retiree health care benefits, are instructed to: (1) apply not only the measurement and recognition requirements of GASB 27 to those retiree health care benefits but also to provide notes to the financial statements required by GASB 27 instead of the note disclosures required by GASB 12; (2) to measure required supplementary information in the same manner as the pension plans if the retiree health benefits are administered through a defined benefit pension plan;¹⁶ (3) to disclose the health care cost inflation assumption used in the valuation; and (4) to provide information on retiree health care benefits separately from information on pension benefits. While this elective standard governs *employer* reporting, other GASB standards address financial reporting by government defined benefit pension plans when such pension plans administer a retiree health care plan.

In June 1996, **Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans***, and **Governmental Accounting Standards Board Statement No. 26, *Financial Reporting for Postemployment Health Care Plans Administered by Defined Benefit Pension Plans***, became effective. GASB 25 and GASB 26 delineate the applicable standards, not only for retiree health care plans that are prefunded through a public employee retirement system but also for any retiree health care plan administered by a governmental defined benefit pension plan, regardless of how the health care plan is funded, e.g., on a prefunded, pay-as-you-go, or partially prefunded basis. GASB 26 is an interim standard meant to apply until the new OPEB standards become effective; it basically requires that retiree health care benefit plans administered by defined benefit pension plans apply the reporting standards of GASB 25 which are also applicable to pension plans. Essentially, under GASB 26, retiree health care benefit plans are required to present a statement of plan net assets, a statement of changes in net assets, and note disclosures similar to those required of pension plans (providing for a brief description of benefit eligibility requirements and the required employer

¹⁵ Employers are not required to apply GASB 27 pension accounting rules to retiree health benefits; the application remains an election.

¹⁶ Required supplementary information under GASB 27 includes, among other information, such disclosures as the plan's funded ratio, the unfunded actuarial liability or funding excess as a percentage of covered payroll, and the actuarial methods and assumptions used in the plan valuation.

contribution rates). However, GASB 26 does not require that these retiree health plans provide the "required supplementary information" applicable to pension plans, i.e., a schedule of funding progress, a schedule of employer contributions, and related note disclosures such as valuation methodology and key assumptions employed in the valuation. GASB 26 simply says that, if such disclosures are elected for the retiree health care plan, they should mirror the disclosures required for the pension plan and such information should be presented separately for the retiree health care plan and for the pension plan.

GASB 26 applies to only retiree health insurance plans administered by retirement systems (rather than state and local government employers) and does not require the disclosure of the "required supplementary information" applicable to pension plans. Nevertheless, the reporting guidance it provides to such retiree health benefit plans that choose to report this information is a precursor of the GASB standards for reporting of OPEB plans generally.

In its **Project**, charged with developing the standards, the Government Accounting Standards Board decided to apply the same overall approach adopted in GASB 27 and GASB 25 to the reporting of OPEB by employers and plans, with such modifications as the Board considered necessary to reflect differences between pension benefits and OPEB. For example, in early 2001, the Board decided to allow the use of the same six actuarial cost methods used for pension financial reporting, although it added the requirement that employers using the aggregate cost method for financial purposes should prepare the required supplementary schedule of funding progress using, as a surrogate, the entry age normal cost method.¹⁷ Similarly, in 2002, the Board decided to require valuations of the largest OPEBs at least biennially, unless significant changes had occurred in benefit provisions or the population covered by the plan which would precipitate a more frequent valuation. Other GASB 27 and GASB 25 approaches have also been approved.

With regard to disclosures, staff's recommendations to the Board generally were that OPEB disclosure requirements track GASB 27 and GASB 25 disclosure requirements fairly closely. Although a number of disclosure modifications to the GASB 27 and 25 approach were considered by the Board, few were adopted. Those few adopted include: (1) disclosure of the health care cost trend rate; (2) the use of the entry age normal actuarial cost method as a surrogate for the aggregate cost method in presenting the schedule of funding progress; and (3) an indication that financial reporting is based on the current substantive plan as well as on an assumption of continuation of benefit coverage and historical patterns of cost sharing with employees. In short, the new OPEB regime may not so much produce new retiree health care disclosure or reporting standards as require the application of standards that are now elective, but which the authors' analysis of states' financial reports indicate are seldom applied.

¹⁷ Unlike alternative cost methods such as the entry age normal cost method, the aggregate cost method does not separately measure or amortize an unfunded actuarial liability.

The Board adopted **Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans***, in May 2004 and a related Statement, ***Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions***, in June 2004. The new standards will be phased in over a three-year period with the effective date dependent upon the size of the governmental unit sponsoring the plan. The standards will become effective for the largest governmental units first; the earliest effective date under the proposal would be in 2006.¹⁸

GASB's new OPEB standards appear likely to impact current governmental accounting practice in some important ways. Those government employers who are currently recording the costs of postretirement health insurance on a pay-as you-go basis will be required to accrue the future costs during the years of active service of their employees for financial reporting purposes, just as private sector employers were required to accrue the cost of postretirement health care benefits by the Financial Accounting Standards Board's Statement 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. However, to the extent that state governments are advance funding OPEB plans¹⁹ or providing them through state retirement systems, they may already be meeting what new OPEB standards require.

In addition, the discount rate used in such valuations (i.e., the investment return assumption) is identified in current GASB 27 as being "based on an estimated long-term investment yield for the plan, with consideration given to the nature and mix of current and expected plan investments." This discount rate sharply contrasts with the FAS 106 discount rate. The latter standard calls for use of the current low-risk investment rate of return and may change substantially from year to year, whereas the GASB 27 discount rate is less volatile and produces more level employer contribution rates.

The FAS 106 paradigm of a "substantive plan" has been adopted by the Board for the new OPEB standards rather than the GASB 27 approach to determining the nature of the retiree health care benefit plan. The former requires actuaries to consider evidence other than just written plan documentation when determining the benefits provided by the plan. The GASB has determined that this approach will be employed in the OPEB standards so that actuaries will be required to consider not only the written plan document (as they are today), but also other communications between the employer and employees and the employer's historical pattern of sharing costs with the employees. Such an approach may well capture costs that a consideration of only written documents might minimize.

¹⁸ GASB is phasing in the implementation of the new OPEB standards. Public employers would be required to implement the standards for fiscal years beginning after either December 15, 2006, December 15, 2007, or December 15, 2008. The magnitude of a government's revenues determines in which year the standard will apply. The governments with the largest revenues will implement the standard first.

¹⁹ As noted *supra* at p.11, of the 41 states that reported providing some contribution towards retiree health insurance (other than expenditures for sick leave conversion credits) in FY2001, 11 states reported a prefunding arrangement.

Given such similarities and differences of the new OPEB standards with FAS 106, can the impact of that standard in the private sector translate directly to the public sector? The answer is obviously mixed. For most large state employers, shifting to the notion of a "substantive plan" does not seem likely to produce a very large difference in the value of retiree health insurance benefit liabilities inasmuch as most statewide benefits programs are well documented, rather than based on historical cost-sharing patterns. Indeed, many retiree health care benefit programs have been statutorily amended to specifically change benefit levels for groups of state employees hired at different times.²⁰ On the other hand, as shown earlier, the overwhelming majority of states offering retiree health care benefits currently are funding such benefits on a pay-as-you-go basis. Shifting to an accrual basis will certainly raise the amount of long-term obligations reported by the states.²¹ Further, assuming that the current level of benefits remains unchanged and the number of state government retirees grows faster than the state's active employee workforce, then shifting to accrual reporting will accelerate the relative proportion of state funds reported annually to finance retiree health care benefits.

²⁰ Moreover, guided particularly by developments in private sector litigation in recent years (e.g., courts in public plan litigation may recognize ERISA decisions as persuasive authority), public employers no doubt have noted the significance of defining, by statute or other formal action taken by the plan's governing body, what benefits are being promised and how and by whom those promises may be limited. In the private sector, courts have been reluctant to find that a lifetime benefits commitment has been made by an employer absent clear and express language in a contract, summary plan description, or formal plan document; nevertheless, courts have upheld obligations to employees based on alternative theories such as the breach of a fiduciary duty to accurately disclose the level of obligations assumed by the employer. The latter theory can be traced to the Supreme Court decision in *Verity v. Howe*, 516 U.S. 489, 116 S. Ct. 1065 (1996) which held that an employer acted as a fiduciary when it communicated about benefits to its employees and thus had a fiduciary duty not to misrepresent plan benefits. In short, even absent any OPEB reporting requirements, state government employers have had greater incentive in recent years to formally define their retiree health benefit programs. By contrast, private employers did not have quite the same amount of litigation experience on which to draw when FAS 106 was implemented.

²¹ Once the new standard is implemented, all states with such programs will start reporting as a liability the cumulative difference between the amounts accrued as expense and the amounts actually paid or contributed each year. They also would disclose the full actuarial accrued liability (the portion of the present value of projected benefits attributed by an actuarial cost method to services already rendered) and the unfunded actuarial accrued liability in a note to the financial statements and in a required multi-year trend schedule of funding progress.

Potential Impact of the New GASB OPEB Standards on Current and Future Retirees, Public Employers, Taxpayers and Policymakers

Employer-sponsored retiree health benefits provided by public employers are an important component of our nation's system of health insurance for retirees. Therefore, any significant changes to such benefit programs may consequentially impact current and future retirees, public employers, taxpayers and public policy. The relevant question is in what way and to what degree might the new OPEB standards have an impact.

1. The private sector experience with FAS 106 provides mixed lessons for trying to anticipate the outcome of the new OPEB standards as formulated by GASB.

In December 1990, the Financial Accounting Standards Board (FASB) approved Statement 106 (FAS 106), which required employers, who previously merely recorded the existence of a postretirement medical benefit and the cost for the current period, to report unfunded retiree health benefit liabilities on their financial statements beginning with the fiscal years after December 15, 1992. In other words, firms which largely reported retiree health insurance on a pay-as-you-go basis prior to 1991 were required to report their postretirement benefit liabilities on an accrual basis, often resulting in reported liabilities far in excess of those costs reported prior to the implementation of FAS 106.

As Fronstin notes, FAS 106 "caused many employers to reexamine their role in providing health benefits for current and future retirees" (Fronstin, 1995). Yet, while fewer private sector employees received employer-financed retiree coverage as a benefit after 1993, the role that FAS 106 implementation played in this trend is not clear. For example, the U.S. Bureau of Labor Statistics (BLS) surveys of retiree health benefit incidence among employees of medium and large establishments showed that, for plans covering retirees under age 65, employer-related coverage dropped from 45 percent in 1988 to 35 percent in 1997; between 1991 and 1993 (the period between the approval of FAS 106 and its required implementation date), coverage actually increased from 43 percent to 44 percent (U.S. Department of Labor, BLS, 1989, 1990, 1993, 1995, 1997, 1999). Employer-sponsored coverage of retirees age 65 and over reached its highest level during 1991 and 1993 as compared to the rest of the 1988-97 period. For both retirees under age 65 and age 65 and over, BLS reported that the percentage of employees participating in retiree health plans for whom the employer paid the full cost fell between 1991 and 1993 (from 16 percent to 13 percent and from 17 percent to 14 percent, respectively), but this downward trend appears to represent a continuation of a pattern largely evident throughout the 1988-97 period (U.S. Department of Labor, BLS, 1989, 1990, 1993, 1995, 1997, 1999). Using a different data source, Fronstin reports that between 1994 and 2000, the percentage of retirees ages 55 through 64 covered by health benefits through a former employer or union was largely unchanged (Fronstin; August 2001 and August 2002).

Kalman and Anderson describe the aftermath of FAS 106 as follows:

“... once the transition obligation was recognized (and the significant pain it inflicted on some income statements), the furor over FASB Statement 106 subsided. Plan designs did change, but the seeds for that came from annual double-digit increases in health care costs and the possibility that the federal government would step in to take a far larger role in ensuring that all Americans had access to health care” (Kalman and Anderson, 1997).

In short, it is difficult to pinpoint the extent to which the change in the FASB standard was responsible for employer decisions on benefit reductions.²² In part, that difficulty lay in putting a value on the informational consequences of the new accounting standard, rather than any increase in real costs generated by the standard. After all, the standard simply requires reporting estimates of full liability based on promises already made to employees; assuming such promises are intended to be honored, the standard imposes no “new” benefit costs on the employer that were not already envisioned.

Nevertheless, private employers were concerned that, as the FAS 106 accounting changes were implemented, there would be large changes in reported corporate income and net worth, with negative implications for stockholder values. Some research has shown that retiree health benefit liabilities impact stock prices, but the same research suggests that, if such liabilities have already reduced share prices in a manner similar to other liabilities, then the introduction of new, even more revealing, accounting standards for these benefits would not lead to great financial pressure to reduce or cancel the benefits (Warshawsky and Mittelstaedt, 1993). One study of the impact of FAS 106 found that near the time of the issuance of the exposure draft for the new standard in February 1989, a group of 143 firms offering retiree benefits suffered a decline in equity values of about 3 percent, while a control group of 100 firms not offering the benefits did not experience similar losses (Espahbodi, Strock, and Tehranian, 1991). Other research conducted after implementation of FAS 106 failed to show any significant negative impact on stock prices and led the authors to conclude that “in efficient markets, adoption of an accounting rule should not affect stock prices since cash flows and other investor relevant factors would not be influenced” (Haddad, et al., 1995).

2. State government employers are typically large employers and large employers generally provide postemployment benefit programs that remain relatively stable over

²² It is not clear how many employers changed their existing plans versus how many new or growing employers did not offer a plan. For example, based on Current Population Survey (CPS) data reviewed for the period 1994-99, Paul Fronstein reported that “(o)verall, there have been no statistically significant changes in sources of health insurance for early retirees since 1994. In addition, the likelihood of their being uninsured remains statistically unchanged since 1994.” The percentage of early retirees with retiree health benefits largely fluctuated in a narrow band ranging from 36 percent to 39 percent. This apparent stability may be explained by the movement of workers from smaller firms without such benefits to larger firms that more typically have such programs. See Paul Fronstin, “Employment-Based health Benefits: Trends and Outlook,” *EBRI Issue Brief*, May 2001, pp. 1-23 at pp.14-15.

time. More than an OPEB accounting standard effect would appear to be necessary to prompt major changes to the patterns of benefits provided by large state employers.

One important measure of employment health insurance program stability is premium sharing over time. State employee retiree health insurance programs have been fairly stable over the past decade with respect to the share of premium contributed by the sponsor. In 1992, 17 states reported contributing as much as 100 percent of the premium costs for pre-Medicare state government retirees and 20 states reported contributing as much as 100 percent of the premium costs of Medicare-eligible state retirees.²³ A decade later, 17 states reported contributing 100 percent of the premium costs of pre-Medicare state retirees, while 21 states reported contributing 100 percent of the premium costs of Medicare-eligible state retirees. In other words, the number of states paying 100 percent of the premium costs of retiree health insurance was virtually unchanged.²⁴ Similarly, in 1992, some 12 states reported making no contribution toward pre-Medicare retiree premium costs and 15 states reported making no contribution toward Medicare-eligible premium costs. As of 2002, the number of states reporting no contribution toward pre-Medicare premiums remained unchanged at 12, and the number of states reporting no contribution toward Medicare eligible premiums fell by one to 14. The remaining states share premium costs with their retirees in varying amounts, but overall pre-Medicare and Medicare-eligible premium sharing patterns for these states as a group also appear relatively stable over the past ten years (Workplace Economics, Inc., 1992, 1997, and 2002).

This relative stability in premium sharing patterns is not surprising as state employers are more typically large employers, which are more likely to offer retiree health insurance benefits (Bokemaier, et al., 1990; Kohler and Sutch, 1994) and to not change premium cost-sharing dramatically from year to year. Nor do large employers tend to totally abandon such programs completely, even when faced with challenges. For example, notwithstanding the implementation of FAS 106, the number of retirees covered by large private employers has changed very slowly.²⁵

3. The financial information produced by the application of the new OPEB standards may encourage state governments to think about reducing retiree health benefit programs (and their associated liabilities) in the future. Yet, while the new OPEB standards may lead to the consideration of changes that would minimize adverse accounting effects, health benefit program changes seem more likely to be prompted by the availability of a

²³ In some states, the contribution rate varies by plan selected and/or retiree length of service so that, while a retiree has the potential to receive fully paid health insurance at retirement, the choice of plan selected and service at retirement may result in an employer contribution of less than 100% of the premium.

²⁴ It should be noted that while premium shares are a broad measure of cost-sharing stability, premiums alone do not capture all relevant costs. For example, other aspects of plan costs such as participant copays, deductibles and out-of-pocket maximums and plan sponsor administrative costs are also relevant. Moreover, stable premium sharing may have been preserved by substituting managed care plan designs for traditional indemnity plan designs.

²⁵ See *infra* at p.19.

drug benefit through Medicare and the underlying cost drivers, e.g., health care inflation, an expanding retiree population relative to active employees.

The potential impact of new OPEB standards should not be evaluated in a vacuum, given that other important factors may more fundamentally influence the provision of retiree health care benefits by state employers. The cost of these benefits is a critical factor and cost, in turn, depends on factors such as health care cost inflation and demographic trends and how the state responds to the addition of a drug benefit in Medicare. Indeed, the interest in establishing new OPEB reporting standards may well have been prompted, in part, by concern over these same factors.

A recent Kaiser Family Foundation survey of public and private employee health insurance costs showed that the premium costs of private and public employer-based health insurance programs rose 13.9 percent in 2003, following a 12.9 percent increase in 2002, and a 10.9 percent increase in 2001 (Kaiser Family Foundation, 2003). Double-digit medical care inflation rate, which characterized the late 1980s and early 1990s but had been quiescent during the spread of managed care plans in the mid 1990s, has apparently returned, as the rate of medical inflation has accelerated from its nadir in 1996. Costs have increased due to a combination of factors such as an aging population, pharmaceutical prices, utilization (generally higher with age, particularly with respect to prescription drugs), and new technology (Miller, 2001).

In addition, like the U.S. population generally, the public sector has a growing retiree population that is living longer. As a result, the ratio of active employees to retirees has become less favorable in recent years. For example, in 1996, the ratio of active employees to retirees in large public pension plans covering state employees was 2.8 to 1. By 2002, that ratio had declined to 2.4 to 1 (National Education Association, 1996 and 2002).

In short, both recent trends in medical inflation and long-term declines in the number of active employees to retired employees represent a significant challenge for state governments that help finance their retirees' health insurance costs.

Adding the new OPEB standards into this mix may encourage state governments to reduce retiree health benefit programs in the future in order to reduce liabilities. Yet it seems unlikely that the adoption of the new accounting standards alone will produce a wholesale abandonment of these programs. It seems more likely that other factors that impinge on whether retiree health benefits are offered and the level at which they are offered will ultimately prove more important to the continuation of benefit programs. For example, if health care insurance costs were to continue to climb at current double-digit levels for the foreseeable future, this alone will prompt public employers to reexamine the levels of continued commitment that they can afford. In such an inflationary environment, the new OPEB standards may bring added pressure but, even without the new OPEB standards, employers will feel considerable pressure to contain health insurance expenditures. To the extent that employers respond to this pressure by reducing

their retiree health insurance commitments, policymakers may become increasingly concerned with how to address these gaps.

4. The new OPEB standards may encourage greater prefunding of retiree health care benefits. Because prefunding typically produces higher short-term costs as compared to pay-as-you-go financing, it may add to state government financial obligations at an inopportune time for those states and may, therefore, prompt a reconsideration of the level of state commitments for future retirees. At the same time, states that do begin prefunding (and those already prefunding) may find that their direct employer costs will be lower in the long run and that their credit rating may be bolstered.

Generally, if state employers begin to prefund the cost of postretirement health insurance benefits that were previously financed on a pay-as-you-go basis, then their short-term contributions will likely be higher because part of future cash flow requirements for retiree benefits will be financed by current period contributions. For states already faced with fiscal crises — and many currently are²⁶ — a higher outlay in the short-term may not be attractive and may prompt these states to look at curbing benefits rather than prefunding existing levels of benefits.²⁷

On the other hand, states that do begin prefunding retiree health benefits, in time may see investment income from the fund paying for a significant portion of the benefits cost that they otherwise would have shouldered. This long-term result coupled with the stability of an annual prepayment and the more accurately disclosed long-term obligation may also have a salutary, rather than a negative, effect on the state's bond rating. Harris, Raymond and Zorn describe the benefits of prefunding as follows:

“Advance funding reduces direct employer costs over time, increases security for employees, and stabilizes the cash flow commitment for benefits. By recognizing these costs and implementing a plan to prefund them, a jurisdiction can increase its long-term financial strength, possibly improving its credit rating” (Harris, Raymond, and Zorn, 1998).

As previously noted, of 41 states that reported contributing to the cost of state retiree health insurance costs, 11 already prefund their retiree health insurance programs. It is

²⁶ For example, the Wall Street Journal reported that at least 46 states struggled to close a combined budget gap of \$37 billion in a recently completed fiscal year and that the subsequent year's gap was an even wider \$58 billion, as the economy continues to maintain a sluggish pace and state revenues feel the consequences. See Russell Gold and Robert Gavin, “Fiscal Crises Force States To Endure Painful Choices,” *The Wall Street Journal*, October 7, 2002 at pp. A1, A14. Similarly, the National Conference of State Legislatures reported that two-thirds of the states indicated declining revenues and that more than half of the states face budget deficits. See National Conference of State Legislatures, *State Budget Update*, November 2002.

²⁷ At the same time, state employers who choose to reduce retiree health benefits may prompt affected active and retired employees to seek stronger guarantees of security such as mandatory prefunding and vesting through collective bargaining or the legislative process. In other words, the ultimate outcome of a state's consideration of reducing such benefits is not necessarily determined unilaterally by the employer.

the remaining 30 that will be faced with determining whether they can manage these costs in the short-run.

Yet it should be noted that the current fiscal difficulties faced by many states, to the extent they are cyclical rather than structural in nature, may be alleviated if the general state of the economy improves over the next several years. Because large governments probably will have until their fiscal year 2007 to implement the new OPEB standards, the economic environment in which they make their consequent decisions regarding their retiree health care programs may be improved over current conditions.

5. To the extent the new OPEB standards may encourage greater prefunding of retiree health care benefits, it may produce greater intergenerational equity for taxpayers. This is because each generation, at least in theory, can assure itself that it is paying only for the personnel costs associated with the services provided by employees active during the taxpayer's lifetime, not previous lifetimes.

Employer-financed retiree health care benefits, like employer-financed pension benefits, represent deferred compensation for services provided by state employees while active. To the extent that employers currently finance deferred compensation benefits on a pay-as-you-go basis, they are paying for the deferred compensation costs of past employees. That is, current generations of taxpayers are paying for services rendered to previous generations of taxpayers. At the same time, current taxpayers are shifting to future taxpayers the burden of paying for the benefits costs associated with services currently received. This arrangement might advantage or disadvantage current taxpayers, depending upon the relative level of services previously provided as compared to the level of services currently provided.²⁸

By encouraging more prefunding of retiree health care benefits, the new OPEB standards could result in taxpayers paying for the deferred compensation of state government employees who provide the public services that these taxpayers receive. Better intergenerational tax equity would result. Of course, while some may argue strongly in favor of intergenerational equity, others would argue that allocating the burden of retiree health care costs accurately across generations may be difficult in practice, i.e., who should pay for what service and when raise thorny issues. Arriving at accurate assumptions about the trends in retiree health care costs and state government employment growth over several generations may prove to be challenging. Moreover, even if current and future costs can be satisfactorily allocated across generations of taxpayers, there remains the question of which generation will be burdened with the cost of transitioning to the new system. Should the cost of past services currently being paid for be fully assumed by the current generation together with the cost of current services or should it be spread over all future generations to some degree? Then too, the effects of

²⁸ Only the initial generation of taxpayers clearly gains from a pay-as-you-go approach that postpones full payment for current benefits because only that generation of taxpayers has inherited no bills to pay from a prior generation. Each successive generation is either a winner or loser depending on whether the bills it creates are higher or lower than the bills it has inherited.

decisions to prefund are unlikely to be incurred instantaneously. Because the contribution the new OPEB standards might make toward achieving intergenerational equity may be difficult to assess practically and may never fully be achieved, this potentially worthwhile impact should not be overstated.

Conclusion

Economic and demographic factors are putting upward pressure on the cost of retiree health insurance provided by state public employers and, unless adequately prefunded, increasing retiree health insurance costs may result in mounting deferred liabilities for state employers with the potential for an adverse impact on credit ratings. The concern over the future potential effect of such liabilities has prompted GASB's examination of current governmental accounting standards for financial reporting and adoption of new reporting standards that achieve sufficient consideration of the impact of providing retiree health care benefits on overall government operations. However, the implementation of that new governmental accounting standards for retiree health insurance and other postemployment benefits, while adding to short-term pressures on government employers, appears unlikely to change what are typically the stable benefit provision patterns of large state employers, unless coupled with significant health care cost inflation for the foreseeable future and a further deterioration of the active-to-retiree workforce ratio. In short, the continued prevalence of retiree health benefits among large employers will be based on the strength of real economic pressures. To the extent that employers respond to economic pressures by reducing their retiree health insurance commitments, policymakers will need to determine how to meet these gaps, inasmuch as the benefits now provided by these employers are an important component of the nation's system of health insurance for retirees.

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Our Duty To Maximize Alaska's Share

“The Legislature shall provide for the utilization, *development and conservation of all natural resources* belonging to the State, including land and waters, for the maximum benefit of its people.”

Alaska Const. Art. VIII, Sec. 2.

The ELF & Alaska's Oil Taxes

- The Production Tax is Alaska's Main source of Oil Revenue outside of our Royalty Share:

For FY 2004 Alaska received:

- Royalty - \$1.6 billion
- Production Taxes - \$652 million
- Property Tax - \$47 million
- Corporate Oil Tax - \$299 million

Source: Alaska Dept. of Revenue, 2004

The ELF & The Production Tax

- The 15% “Oil Production”, or “Severance” Tax varies because of the ELF, or economic limit factor.
- At its simplest, the ELF is a number between 0 and 1. (Production Tax = ELF X 15).

The ELF Rate

- The ELF ranges between 0 and 1 depending upon a combination of factors. Generally speaking, they are:
 - The size of a field
 - The field's per well production

The ELF: Intent & Effect

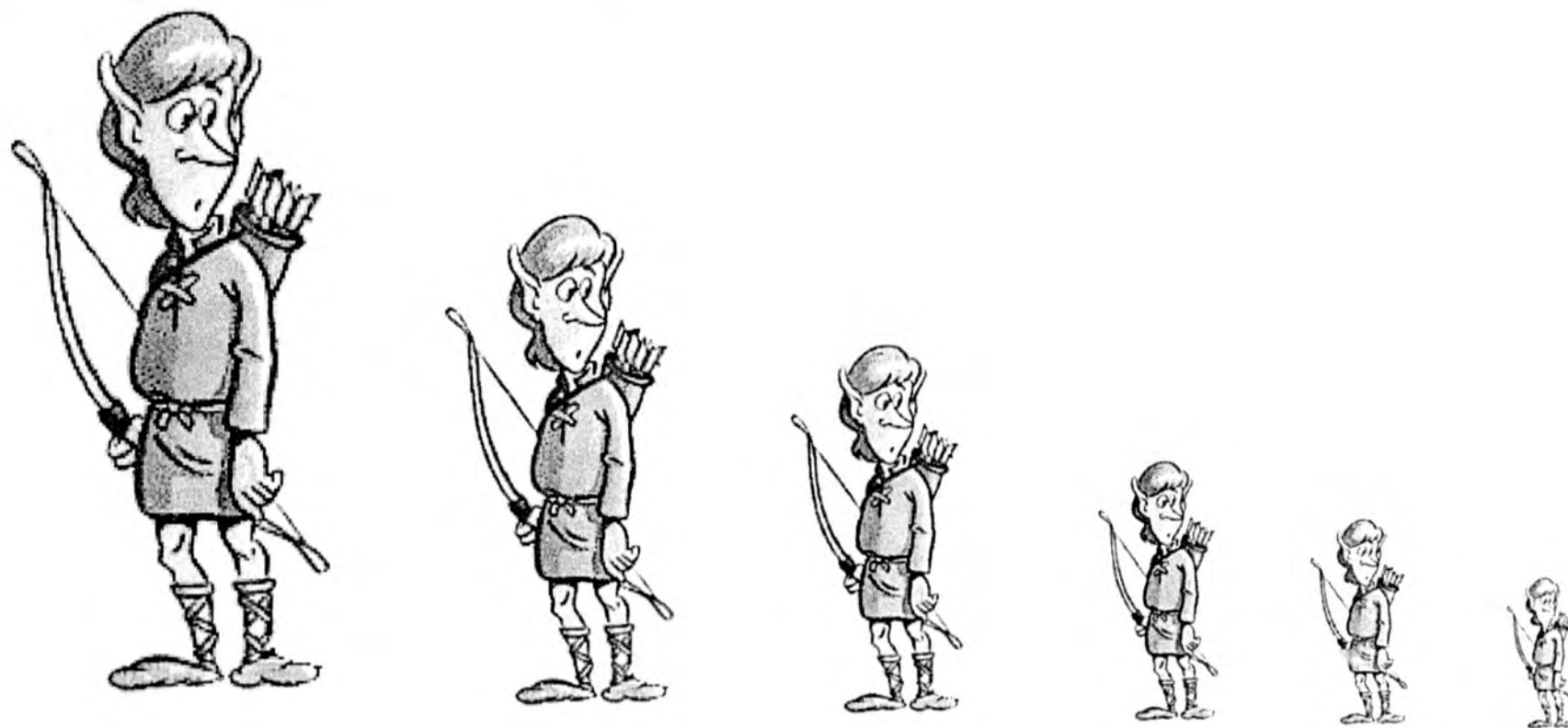
- Designed to promote the development of less profitable small and older fields.
- Has it provided producers with more of a benefit than needed?

ELF Now Exempts Blockbuster Fields

Field	Rank Among U.S. 100 Largest Fields	Annual Production (barrels)	FY '06 Production Tax Rate
Kuparuk	2 nd largest in U.S.	51,100,000	0.81 %
Milne Point (Milne Point Unit)	13 th largest in U.S.	9,490,000	0 %
Endicott (Duck Island Unit)	27 th largest in U.S.	8,395,000	0 %
West Sak (Heavy oil) (Kuparuk River Unit)	39 th largest in U.S.	10,950,000	0.075 %
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** Prudhoe Bay aggregated fields included Polaris (57th), Orion (83rd), Borealis (44th) and Pt. McIntyre (28th)

Alaska's Shrinking ELF



The Shrinking ELF

- 1993 avg. North Slope Production Tax: 13.5%
- In 2004 it had fallen to 7.5%.
- Will keep falling, though Aggregation Order has spiked it higher this year.

The ELF Ignores Economic Reality

- A field that pays 0% in production taxes pays that rate at \$20/bbl, \$40/bbl, even \$100/bbl oil.

Why Make a Change?

- “Despite its name of Economic Limit Factor, it ignores the biggest single economic determinant, **which is price.**”

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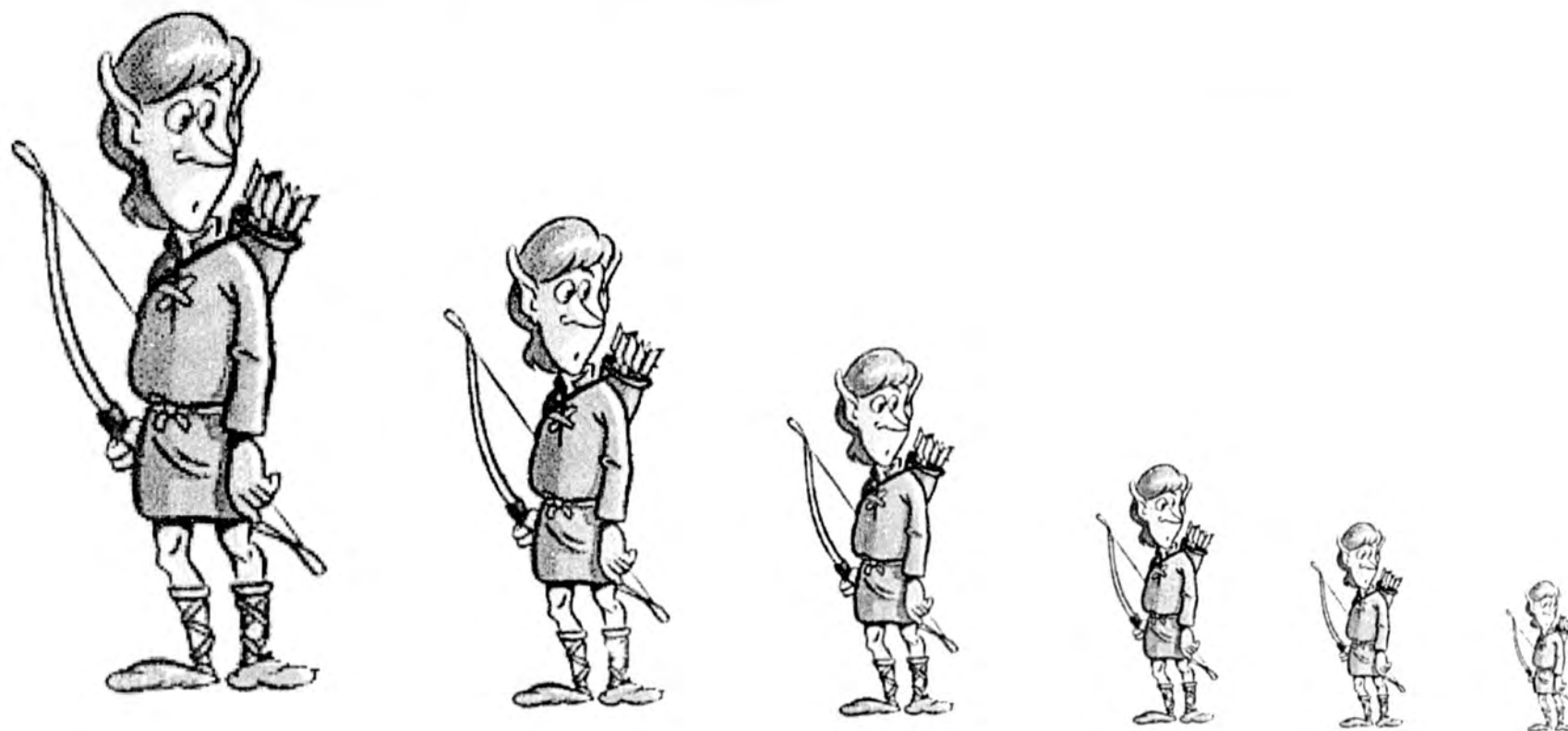
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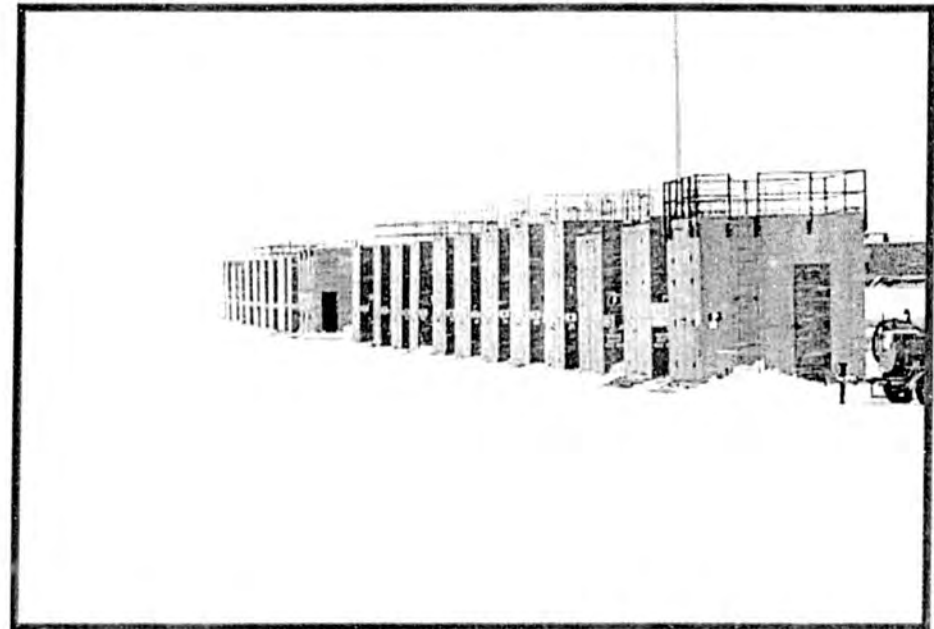
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Cost Savings at Tarn

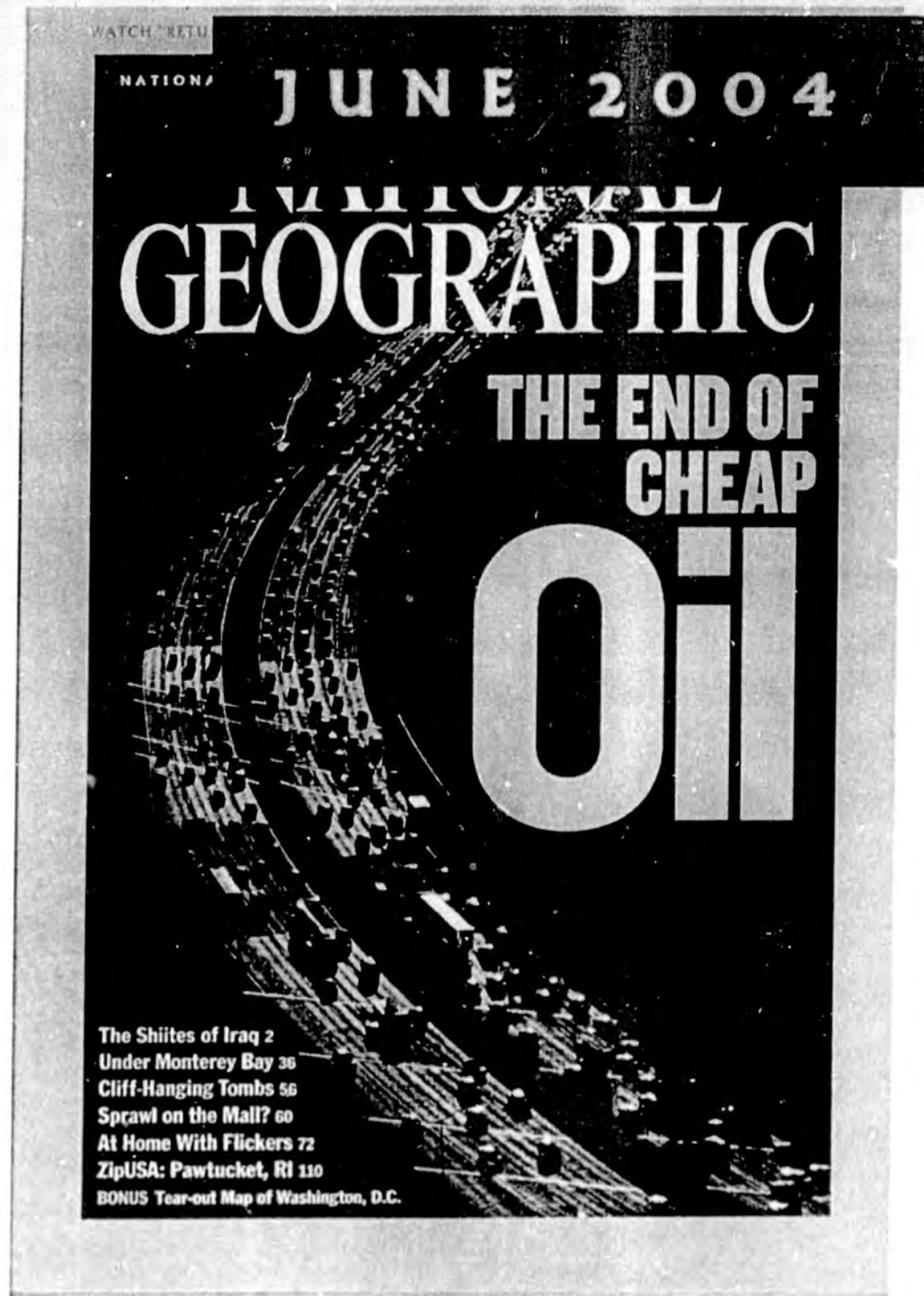
- Nation's 67th largest oil field.
- Tarn required only two drill sites and three ten mile pipelines to Kuparuk's facilities.
- Pays 0% Production Tax.



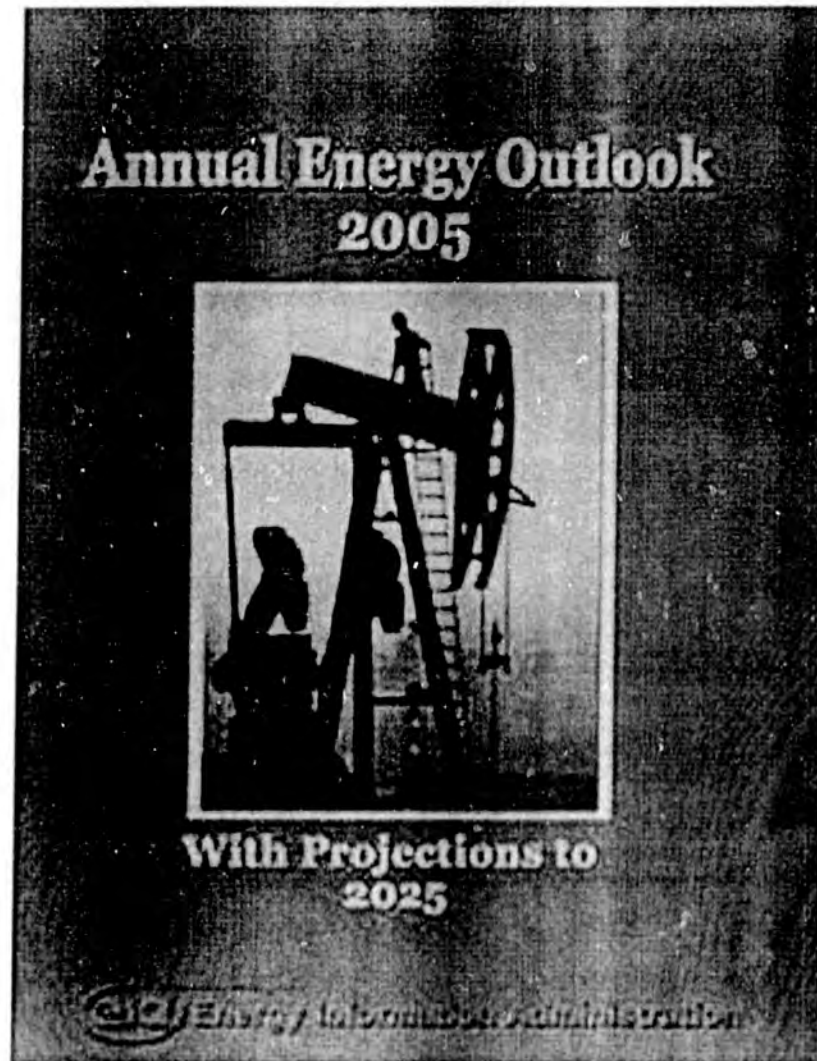
How Much Oil Flows Through ELF Exemptions?

- 25% of North Slope Oil pays between 0% and 1% in Production Taxes this year (not including heavy oil).
- Aggregation order affected approximately 100,000 bbl/day (10% of daily production) that largely escaped Production Tax.

Why Make a Change?



According to the U.S. Energy Information Administration:



- The annual average world oil price “rises to **30.31** per barrel in 2025.”
- Without inflation, “in nominal dollars, the average world oil price is about **\$52** per barrel in 2025.”



BP to buy back shares with free cash flow when oil price exceeds \$20 a barrel

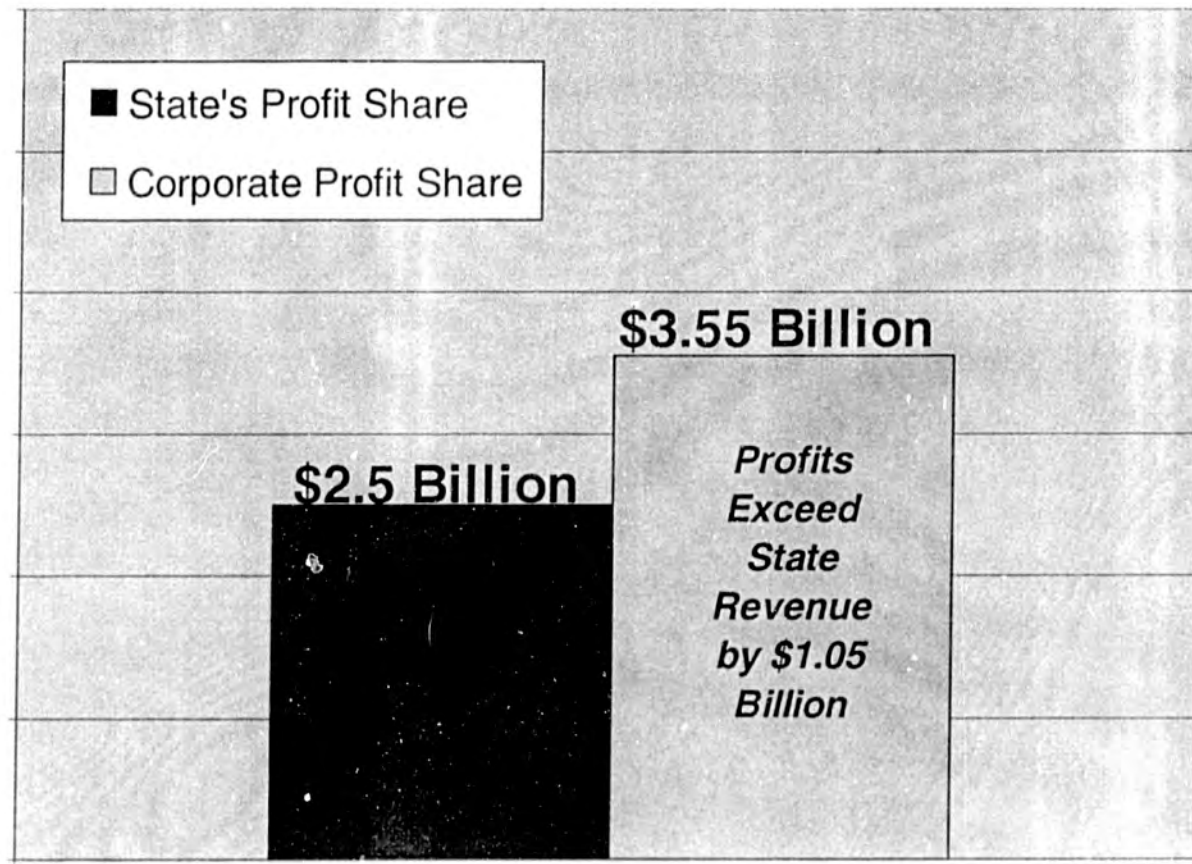
Release date: 29 March 2004

“... all the free cash generated when the oil price is above that level would be returned to shareholders through buybacks.”

Source: BP Press Release 3/29/04

Thin Profit Margins?

- In FY '04 Oil Company North Slope Profits *\$1 Billion More* Than State Share.



Source: AK Dept of Revenue, Feb. 2005 Estimates

This Year's Profits?

- This Year ANS Prices Have Averaged approximately \$42/bbl (thru March 15, 2005)

- At \$42/bbl:

Producer Gross Revenue:	<u>\$12.4 Billion</u>
-------------------------	------------------------------

Producer Net Profit:	<u>\$4.9 Billion</u>
----------------------	-----------------------------

Exceeds State Share by:	<u>\$1.8 Billion</u>
-------------------------	-----------------------------

Source: Alaska Dept. of Revenue, 2005

Healthy Profits

(For Last 12 Months)

<u>Company</u>	<u>Net Profit Margin</u>
General Electric	11.00%
Johnson & Johnson	18.00%
DELL	6.20%
Amazon.com	8.50%

Source: msn.com

Very Healthy Profits

- The Profit Margin (Corporate Profits / Gross Revenue) for North Slope Producers is:

Profit Margin

Annual Price

39.3%

at

\$42 / barrel

25.4%

at

\$22 / barrel

6.7%

at

\$15 / barrel

10.9%

=

Average of GE, Dell, Amazon
and Johnson & Johnson

Source: Feb. 2005 Dept. of Revenue Estimate

Oil Industry Profits

- ExxonMobil: Fourth quarter 2004 profits were \$8.4 billion, the biggest quarterly profit ever for a U.S. company.
- BP: \$4.4 billion
- ConocoPhillips: \$2.4 billion
- Total quarterly profits: \$15.2 billion in ninety days. \$7 million per hour.

Profits At Lower Prices?

- AOGA states \$12.82/bbl is a “high end estimate” of what producers need to “find, produce and transport” ANS oil.

Source: Juneau Empire, 12/13/04

WOOD MACKENZIE

GLOBAL OIL AND GAS — RISKS AND REWARDS 2004

Alaska's Profitability – Full Cycle, Post Government Take

Rate of Return (IRR – Nominal)

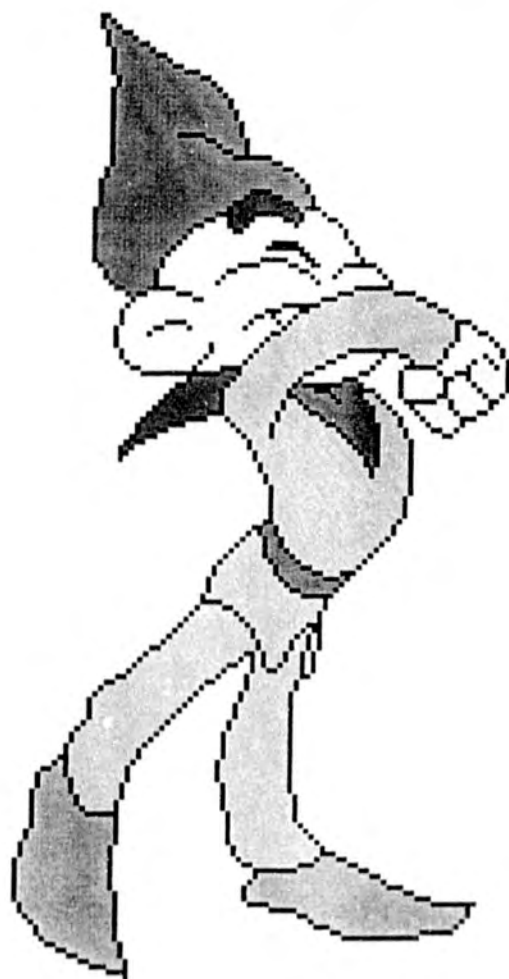
	Low Price (\$16)	Base Price (\$22)	High Price (\$35)
Alaska's Ranking	15/49	14/52	14/53
Alaska's IRR	18.09%	23.57%	29.11%
Global Average IRR	15.20%	18.94%	23.07%

Full Cycle Government Take

Full Cycle Gov't Take (% Of Pre-Take Net Cash Flow, Undiscounted)

	Low Price (\$16)	Base Price (\$22)	High Price (\$35)
Alaska's Ranking	33/54	24/54	19/55
Take on AK Production	71.70%	63.63%	58.40%
Global Ave. Take	70.86%	70.26%	73.34%

We Can Make the ELF Work Better



How the bill works – 5% “Minimum” Tax

- Two principal reforms:
- The first simply establishes a minimum 5% production tax. All fields must pay the minimum 5%.
- This differs from “Shelf The ELF” efforts, which impose a flat 15% tax on all fields.

How the bill works – Price Factor

- The second major reform bases the production tax on the price on Company profitability.
- As the price rises (above \$20/bbl), so does the Production Tax
- BP: profits at prices above \$20/bbl are “in excess of the financial needs” of the company. Source: BP Press Release 3/29/04
- Company Upside Reward Protected: 25% Max. Tax.
- As price of oil falls (below \$16/bbl), so does the tax.

HB63: A Fair Share

- HB63 raises:
 - An additional \$90 million at \$22/barrel
 - An additional \$400 million at \$30/barrel
 - An additional \$1 billion at \$42/barrel
- HB63 cuts production taxes:
 - \$50 million at \$10/barrel

HB 63 Levels The Profit Share

- State and Corporate Shares Equalized in range from \$10/bbl - \$50/bbl – prior to aggregation under HB 63.

(State 51% - Company Profit Share 49%)

- Shares Altered slightly since Aggregation Order *(State 52.6% : Company Profit Share 47.4%)*
- *Gov. Jay Hammond: Intent Was for parties to Share Approx. Equally.*

Incentive Rebate At Very Low Prices

- If oil prices fall below \$10 per barrel, the bill would waive half the production tax and would defer payment of the other half until prices rise above \$16 per barrel.

Incentives for Heavy Oil

- The bill exempts 'heavy oil' (less than 20 API gravity) from any of its measures. Heavy oil, like that contained in the West Sak reservoir, requires more expensive drilling and production measures.

Fair Tax Relief

- Finally, the bill allows taxpayers “production tax relief.” Borrows from 2003’s Royalty Relief law (HB 28).
- If Production Tax Relief is needed for field to be “*economically feasible*”, DOR has the power to waive all of any of the additional Production Tax, and Royalties for that field. Uses standards in AS 38.05.180(j).



What Will the Industry Say?

- Won't discuss the fact the bill lowers taxes at low prices.
- Suggest profits are thin when they exceed profits of most companies / most places in the world.
- Won't discuss the fact the bill allows for production tax relief if it is justified.
- A "Deal is a Deal." Tax laws changed 3 times since 1989. Under 1st Deal ELF didn't exist, and state has a real corporate income tax.

Does The Bill Raise More Revenue?

- The real issue is the “net” effect. Increasing tax rates may decrease new investment and production, but it will also increase state revenues. The real analysis is to compare the increase in revenues with the decrease in investment.

Claims About ELF Changes in 1989

“ [This bill] would place an onerous additional tax burden on the oil industry that would remove to other states or countries funds that otherwise would be spent on additional investments in Alaska.”

-- Ben Odom, Senior VP of Operations, ARCO Alaska, on 1/13/89 before the House Resources Committee.

Giving Companies More Profit Doesn't Guarantee More Investment

- “...as the world grapples with high prices, tight refining capacity and fears of shortages throughout the business, executives are finding that that’s *more money than they can spend.*” Source: N.Y. Times, “Oil Companies in Quandary Over Cash Glut,” 2/12/05
- “BP, which earned *\$16.2 billion* in 2004, will return as much as *\$23 billion* to its investors this year and next, mostly as dividends.” Source: N.Y. Times 2/12/05

Reform Needed By Any Measure

- The Production Tax effectively exempts Huge Fields.
- The exemptions apply even at prices where oil companies earn windfall profits.
- At average & high prices, Corporate Profits Share Vastly Exceeds Alaska's Share.
- Corporate Profit Margins Bigger in Alaska than in less safe places.

What if we do nothing?



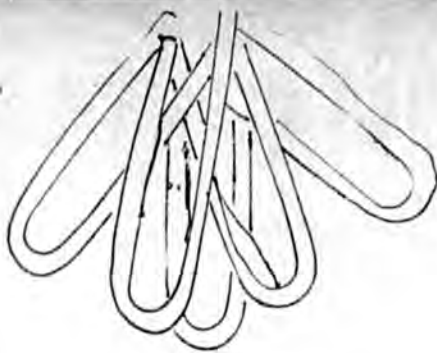
Conclusion

- The bill lowers taxes at low prices.
- The bill allows the “original” rise with inflation.
- The bill allows for production tax relief where it is justified.

Fair Deal!

Conclusion

- Exempting Nation's Biggest Fields Unwise.
- Profit Margins 200% & 300% Higher Than Most Big Wall Street Companies.



City of St. Mary's
P.O. Box 209
St. Mary's, AK 99658
(907) 438-2515, Fax (907) 438-2719

12 July, 2005

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

Re: **City of Saint Mary's Termination from the Alaska Public Employees'
Retirement System ("PERS")**

Dear Ms. Millhorn:

The City of Saint Mary's (the "City") in accordance with attached City Council Resolution #2005-10, dated 5 July, 2005, rescinds its termination from PERS, which termination previously was deemed effective 30 June, 2004, pursuant to City Council Resolution #2004-02 that was adopted on 04/15/04. Please take immediate steps to return the City's status and participation under PERS to the status quo that was in effect immediately prior to any notice of termination by the City.

Let me explain why the City has been forced to take this step. As you are aware, the City of Saint Mary's, similar to other small Municipalities in Rural Alaska, has faced severe financial crises in recent years. As part of the City's continuing efforts toward sustaining financial stability, the City took steps to terminate its participation from PERS, effective 30 June, 2004, thinking such action would provide some fiscal relief.

Prior to the City taking these steps, the City researched the amount of its termination liability from PERS. In particular, the City based its decision to terminate participation in PERS on the amounts published by PERS as representing the unfunded liability attributable to the City. For example, the City reviewed the Supplement to PERS Actuarial Valuation report, dated 30 June, 2002, which computed the City's unfunded liability to be \$144,435. Also the Supplement, dated 30 June, 2003, reported this amount to be \$163,890, a relatively small \$19,455 difference from the June, 2002 figure. Former City Manager Walton Smith likewise spoke to PERS Staff concerning the liability amount. This was confirmed in the telephone conference on 20 May, 2005, between City representatives and PERS Staff, including yourself and Defined Benefits Accounting Supervisor, Kevin Worley. During this conference, Mr. Worley clearly stated he had told former City Manager Smith, prior to the City's termination becoming effective, that the City's unfunded liability would be \$163,890.

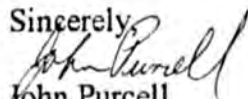
On 19 April, 2005, the City was presented with a notification of final billing (termination liability). Lo and behold, the City was astonished to learn that the amount of termination

liability had ballooned to a whopping \$541,624 sum, nearly *four times* the amount previously reported by PERS as the unfunded liability amount. No one ever had informed the City that the termination liability could be so astronomically higher than the unfunded liability amount previously reported by PERS and stated by Mr. Worley. Indeed, if the City had any inkling or had been informed by Division Staff in the spring of 2004 that the final liability would have been of such a magnitude, the City never would have decided to terminate from the PERS system in the first place.

To make matters even worse, PERS intends to charge interest of 8.25% until the entire unfunded termination liability amount is completely paid. Simply stated, the City is unable to incur such a massive liability without devastating the City's resources and its ability to provide essential services, particularly public safety services, to the Saint Mary's Community.

The City, therefore, is left with no other choice but to rescind its termination from PERS and return its participation to the status quo that was in place immediately prior to the City's 2004 notice of termination. Please contact me as soon as possible in order that we may make arrangements to remit the payments that would have been made in the normal course of the past year, had the City never served notice of termination -- which notice hereby is rescinded and withdrawn, in accordance with Resolution #2005-10.

Thank you for your prompt attention to this matter.

Sincerely,

John Purcell
City Manager

cc. Sven Pauken, Mayor
& City Council Members (6)
City of Saint Mary's

Ray Matiashowski, Commissioner
Department of Administration

James Clark, Chief of Staff
Office of the Governor

Representative Richard Foster, HD-39

Senator Donald Olson, SD-T

Walton Smith, Former City Manager

Kevin Ritchie, Executive Director
Alaska Municipal League

1 Representative Woodie Salmon

Senator Lyman Hoffman

Senator Albert Kookish

Senator Gary Wilken

Senator Bert Stedman

Representative Mary Kapsner ✓

Representative Carl Moses

Representative Bill Thomas

Former Representative Andrew Halcro

Alaska Conference of Mayors

1
.. Alaska Municipal Managers Association

City of St. Mary's
P.O. Box 209
St. Mary's, AK 99658
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CITY OF SAINT MARY'S, ALASKA

RESOLUTION 2005-10

RESCINDING THE CITY OF SAINT MARY'S 2004 TERMINATION FROM THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM; AND AUTHORIZING THE ALASKA DIVISION OF RETIREMENT AND BENEFITS TO RETURN THE CITY'S STATUS AND PARTICIPATION IN THE PERS SYSTEM TO THE STATUS QUO THAT WAS IN PLACE IMMEDIATELY PRIOR TO THE CITY'S 06/30/04 EFFECTIVE DATE OF TERMINATION FROM THE SYSTEM.

WHEREAS, in the fourth quarter of FY-04, the City of Saint Mary's, classified as a First Class City within the State of Alaska, solely because of its budgetary inability to continue making payments into the Public Employees' Retirement System (PERS) and with the understanding, based on information provided by the Alaska Department of Administration-Division of Retirement and Benefits (hereafter Division) that its unfunded PERS liability at the time of termination would be in a bearable \$144,435 to \$163,890 range, passed and submitted Resolution 2004-02, on 04/15/04, requesting to be terminated as an employer member within the PERS system effective 06/30/04; and,

WHEREAS, both the City Manager in 2004 and the City Council were not given any explicit higher computation amount by Division Staff during the period 04-15-06/30/04, different than the \$163,890 unfunded liability figure that Department Staff explicitly had provided during that period -- a fact that recently was confirmed during a telephone conference on 05/20/05 between City Staff and PERS Staff that included the Division Director; and,

WHEREAS, understandably, this City Council was shocked to learn from a 19 April, 2005 Notification Letter from Division Staff (one year subsequent to the Council having passed Resolution 04-02) that its final PERS termination liability had been determined to be a whopping sum of \$541,624 -- some \$377,734 more than the maximum figure that the City had received from the Division prior to 06/30/04; and,

WHEREAS, the City Council never would have submitted the 04/15/04 PERS termination Resolution 02-04, if it should have had any indication that its final termination liability, apparently determined some eight and one half months after the City's effective date of termination, would finally have been computed at an unfathomable sum of \$541,624; plus interest payments set at 8.25% if the entire principal amount was not paid by 06/01/05 -- a Division determination that this Council has appealed in its entirety; and,

WHEREAS, this City Council, having already been forced to cut municipal services to the Saint Mary's Community to the bone -- particularly Public Safety services which, to a large extent, will have to be covered by the Alaska State Troopers -- has no other choice but to rescind its termination from PERS and return its PERS participation to that which existed prior to the City's rendered 2004 notice of PERS termination;

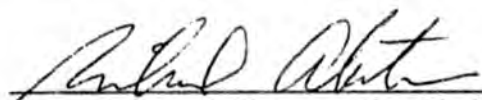
NOW, THEREFORE, BE IT RESOLVED, that the Saint Mary's City Council hereby rescinds its 2004 termination from the Public Employees' Retirement System and authorizes the Director, Division of Retirement and Benefits, to return the City's status and participation under PERS to the status quo that was in place immediately prior to any notice of termination by the City.

BÉ IT FURTHER RESOLVED, that this City Council asks that the Division Director contact the Saint Mary's City Manager as soon as possible, in order that arrangements may be made for the City to remit payments that would have been made over the past year had the City never served notice of termination.

PASSED AND APPROVED BY A DULY CONSTITUTED QUORUM OF THE SAINT MARY'S CITY COUNCIL, THIS 5thTH DAY OF JULY, 2005.

Signed: 
Sven Paukan, Mayor

Attest:


Richard Alstrom, City Clerk



Notes for Ways and Means Meeting
December 7, 2005
Anchorage LIO

The Chairman asked me to recap my testimony in Fairbanks, where I addressed three questions:

1. What is the significance of the unfunded liability of Alaska's retirement systems?
2. What financial resources are available to address the problem?
3. How do available resources and the unfunded liability affect fiscal planning?

Defining the Problem

Figure 1 Graph showing PERS/TRS Unfunded Liability of \$5.7 billion

- Retirement systems all over the country look about the same—a gap appears in 2002. This gap is the unfunded liability.
- Some systems are worse off than Alaska—they tend to be systems that increased benefits when surpluses were available (from the stock market boom).
- Alaska did not increase benefits—we were just hit with the normal factors that caused assets to decline while liabilities increased.
 - Poor investment returns
 - Health care cost increases
 - New life expectancy tables

The graph prompts the following questions:

1. Why do we have a problem if we didn't do anything wrong?

People have asked how bureaucrats, or the administration, or the actuaries could have been surprised by the appearance of a gap. But the Chairman indicated early in this process that he was more interested in looking forward than in assessing blame, so I will point again to the three major factors that created the gap—investment returns, health costs and actuarial assumptions—and turn to the future.

2. What does this \$5.7 billion unfunded liability mean to retirees, employees, state finances, communities, school districts?

- Retirees—not much; benefits are pretty well set in stone.
- Employees—no rate increase, but it is tough to negotiate higher take-home pay when total compensation is under so much pressure.
- Employers—higher rates, in the absence of massive cash infusions. Rates will go up 5 points annually until they reach roughly 50% of salary for TRS and 30% of salary for PERS. This is the impact of most significance to the state.

3. The gap appeared in a flash, can it vanish as quickly? Will it? Is action required to close the gap?

This is opinion, but I think you should expect the gap to grow before it begins to shrink. Less assets means less earnings, so even better market

performance is unlikely to close the gap by a significant amount. The rate increases are designed to close the gap over a period of 25 years.

4. If rate increases will solve the problem, are we looking for a solution when none needs to be found?

- While it may be fair to say that we do not face a crisis in the sense that the legislature does not have to come up with \$5.7 billion this session, the rate increases will apply significant financial pressure to communities, school districts and state agencies (and to legislators who will be expected to help).
- The primary reason to be concerned about solutions other than rate increases is that rate increases are unacceptable or unaffordable.

5. Does the state have a responsibility for the entire \$5.7 billion gap? Should it accept higher rates or try to stabilize rates with infusions of cash?

- See **Figure 2** for shares of the system liability.
- If the focus is the **state** itself, rate increases may be an acceptable solution. The state's share of the unfunded liability is about \$2 billion (35%). Adding the University brings the state total to \$2.2 billion (39%). Money for personnel costs comes from various fund sources, only half is General Funds. So why fix the problem with a pure general fund cash infusion? It would cost an extra \$1 billion GF.
- But look at **school districts**. Their share of the gap is \$2.3 billion for TRS (41%) plus another \$400 million for PERS, (for a total \$2.7 billion, or 48%). Essentially, the state will fill the gap with general funds now or later, because the state pays for most of the cost of K-12 education. It may make sense to contribute cash now to avoid higher costs in the future.
- The same goes for **communities**, except that the state arguably is not responsible for operating costs of communities, at least not in the same direct manner as school district funding. Their share of the gap is about \$700 million (12%).

6. Can the state afford to contribute enough cash to make a difference?

This starts a discussion of the second question the Chairman asked me to address.

State resources available to address the problem

Figure 3 Projections of surplus revenue

This figure shows we face limitations on actions because we don't have \$5.7 billion.

FY05—no surplus available. (line 31)

FY06—the year began with no surplus projected, but oil is much higher than projected, giving a projected surplus of \$1.2 billion. (line 31)

FY07—line 31 shows another projected surplus (\$235 million)

These numbers are before supplemental appropriations, (line 33). Subtracting money that is likely to be spent in the supplemental process gives a total surplus of \$1.2 billion. (line 40)

FY08 and beyond—expenditures are likely to increase, and deficits are likely.

The bottom line:

- we have a **one-time** surplus of about \$1.2 billion
- that amount is insufficient to fill the entire \$5.7 billion gap
- but using the surplus to reduce the unfunded liability would reduce future costs, effectively rolling the surplus forward to a time when surpluses are not anticipated.

Fiscal Planning

You know three things

1. The legislature will not be forced to come up with money to fill the entire \$5.7 billion gap.
2. \$1.2 billion is available to address the problem.
3. There will be competing needs/desires for this surplus.

There really aren't that many options

1. Spend it now
2. Save it
 - Deposit to Permanent Fund (untouchable)
 - Let it fall into the Constitutional Budget Reserve Fund (CBR) as the system was designed to work (requires a supermajority vote to access)
 - Pay some of the retirement systems unfunded liability (rolls money forward to distant future)
 - Capitalize the Public Education Fund (rolls surplus forward to next year)

If you are looking for recommendations, I would put the FY06 surplus in the Public Education Fund to fund FY07 K-12 education. This doesn't save (or cost) anything, it just takes the surplus off the table early and moves decisions to the full FY07 process rather than the more abbreviated supplemental process. As part of that process, the legislature could pay up to \$1.2 billion of the unfunded liability of the retirement system. I would put it all toward TRS. The impacts of doing so include:

- TRS rates would stabilize after FY08 (at about 30% of salary), avoiding massive annual increases in the education formula.
- Rates for state employees would increase (to about 30% of salary), but nongeneral funds would pay half of the increase.
- Local government rate increases would have to be addressed through a municipal assistance/revenue sharing program, if the state chooses to address the problem at the local government level.

**Testimony of
Michael Lamb, CFO
Fairbanks North Star Borough
Ways and Means Committee PERS/TRS Funding Shortfall Issue
December 7, 2005, 1:30 p.m. – 4:00 p.m.**

Thank you Mr. Chairman and Committee members.

My name is Michael Lamb. I hold professional certifications as a certified public accountant and as a certified government financial manager (Association of Government Accountants). I am and have been the Chief Financial Officer for the Fairbanks North Star Borough since 1998. Prior to that I was the Chief Financial Officer for the City of Saint Paul since January 1990. Accordingly, I have over fifteen years experience as a chief financial officer for Alaskan municipalities fairly evenly split between a smaller City government and a larger borough.

Let me thank you for the opportunity to testify today on what I believe is an issue that has impacted most, if not all, of our communities already and will continue to well into the future.

This issue impacts the State's delivery of its services, the universities delivery of its programs, it impacts municipalities programs and services, accordingly it impacts all residents of the State. As I only have three minutes I shall try to be concise and make, or reconfirm, some points that others have made that need to be kept in mind when **conceptualizing funding shortfall solutions**.

1st, the PERS program I think is misnamed as the Public Employees Retirement Program because of the perception that it sets. PERS is, by design and in reality, an employee and elected officials retirement program. This statement of reality is in no way intended to suggest elected officials should not be part of this or any other program. The purpose of this statement is that whatever financial condition the program finds itself in it, it must be kept in mind when thinking about funding solutions one must consider who all of the benefactors of the Program are. I suggest that those direct benefactors indeed are employees, but also are school board members, council members, assembly members and legislators. I would also suggest for consideration that all of our respective entities are also benefactors of the Program in that this Program has been the reason that we have been able to deliver our programs and services in that it has been a hiring and a retention tool. Accordingly, the funding solution should not be seen as a solution that only benefits employees, as that would be in my opinion inaccurate.

2nd, I don't remember the City of St. Paul's numbers and percentages but I do know the Borough's numbers and percentages as it relates to who has paid into the system in the past, in other words, who has paid more or less in the past, which is important to consider when looking at future options. From FY 1983 to FY 2004 the cumulative percentage of payroll to be paid into the PERS program per the actuary was 80.95%. In five fiscal years (94, 95, 96, 97 & 98) the Borough paid in cumulatively 13.03% more than the actuarially determined rate, bringing the

entities contribution up to 93.98%. During this same time period employees cumulative percentage of payroll paid in was 145.25%! Essentially, given the actuaries determined amount the Borough should pay into the system, which it 100% funded, for every \$1 dollar the Borough paid in, employees paid in \$1.79. This relationship is important to understand because I have heard that employees haven't paid their fair share and they should pay more. In the case of the Borough, any under-funding that has occurred shouldn't be believed that it is because employees didn't pay their fair share, the numbers don't support this and this should be kept in mind when talking about funding solutions. Employees are potentially part of the solution mix, I just want the record to reflect that their contribution rates impact has been to lessen the under-funding, not make it larger.

3rd, Let me now speak about the Borough's role in this under-funding and the consequential impacts. The Borough has year, after year, after year always written the checks to the Program for 100% of what can only be fairly perceived and described as a demand for payment letter, and all of those checks cleared! Essentially, the Borough like all of the other recipients of those demand for payment letters that set the rates to be submitted, paid what they had a contractual obligation to pay. On the other side of the contract were the State and the actuary. I believe that it is fairly well accepted as fact that in summary their obligation and responsibility was to determine and then send a materially accurate demand for payment letter such that the Program would function as obligated when those obligations came due. Why is this important, because in trying to construct a fair funding solution consideration needs to be given to whose lack of performance caused the shortfall that is now being discussed.

4th, Even if one could reasonably suggest that the Borough somehow benefited from the lower rates in the past because its benefit costs were kept artificially low the problem is that the Borough operates under a locally approved tax cap. The cap was designed, and the public recognizes, that without adding programs or services from year to year inflationary costs will drive up the costs to deliver those services yearly, they are willing to pay those increases and have a CPI component built into the cap to raise it from year to year. Once the tax assessments are set for a fiscal year they become the baseline for the next year that the CPI can be added to. The Cap allows for the ability to absorb increases, but if they aren't recognized or budgeted for you can't go back and get those funds. The Borough 100% funded the PERS demand letters and rates. It could have over the years absorbed through incrementally higher base lines been able to pay more. The Cap does not allow for these kinds of under budgeting scenarios caused by understated third-party expenditure projections. What this means for the Borough is that any funding solution that continues to ratchet up the payroll percentage rate, and therefore real dollar contributions to the Program, must come by reducing some other program or service delivered to the residents because the Cap doesn't allow for unlimited taxing. And in this instance, again, our Cap would have allowed the Borough to pay more in the past, that was taken away by the understated demand letters.

5th, As a second class borough, not only are we and the residents confronted with a huge PERS underfunded liability, but the Fairbanks North Star Borough School District is a component unit of the Borough. What's the relevance for this issue? Their financial problems are also our financial problem! This relationship compounds the tax cap problem I just spoke about. Education funding is the number one priority in our budget. Funding for all other programs and

services at the Borough dwarf in size compared to what goes to the school district. When money has to shift from other programs and services to cover ever increasing PERS costs in the Borough there seems no way to not also reduce in some fashion the amount of funding that goes to the District because they are they are by far the biggest slice of funding pie. So, when considering funding solutions and options there will be a direct impact on the education of the students of this State, especially for Boroughs with school districts.

Though I have a lot of thoughts on this topic, time is short. Let me say that I do think there is a funding issue. I think it is an issue with a large price tag. I think that though there is a large price tag I think the number is perhaps quite fuzzy because of widely swinging actuarial results from year to year. I think a great deal of consideration needs to be given to the significant detrimental financial impacts some solutions could try to shift to municipalities that have already seen their capital matching grant program funding go away, their municipal assistance funding go away and their revenue sharing funding go away. I think that the number of local governments that have already in the last couple of years literally closed their doors and no longer exist will grow and hit larger communities if a funding solution doesn't consider capping local contribution rates. I very much support the resolution put forth by the AML to limit local contributions and that actuarially determined rates higher get paid for by the State. Though the actual unfunded liability number is in question there is no doubt that it is a large number. I very much support the concept of pension bonds to reduce the 8.25% rate of earning the Program demands from those that they sent understated demand for payment letters to!

Let me conclude with saying thank you for the time to testify and end by saying that I am not blind to the fact that a funding solution must include all parties. I, for the reasons I have just spoken on think that local governments share of a funding solution ought to be reflective of and limited to local governments role in creating the shortfall.

Testimony to the House Ways and Means Committee – December 7, 2005

Good afternoon Mr. Chairman and members of the committee.

My name is Judy Salo. I live in Kenai and have since 1969. I am a former teacher, former state president of NEA/Alaska, and a former member of both bodies of the Alaska Legislature.

I realize that the purpose of this hearing and others that you have held around the state is to deal with budget shortfall issues related to the retirement systems. I am sure that you do not wish to rehash the arguments for and against the passage of SB 141. With that in mind I will try to keep the issues separate.

I must first say, however, that the passage of SB 141 did little to address the real problems faced by the state, employers, and employees in Alaska. To the contrary it potentially causes new financial issues as the system will not be sustained with the contributions of new members after the effective date of July '06. I come before you today to ask you to consider specific legislation before that effective date and I'd like to give you a few reasons that you should do so.

1. Temporary financial circumstances were used to insinuate a demise of the Retirement systems – those circumstances have changed.
2. Mercer's change in actuarial assumptions in 2003 created a distorted picture of crisis – and thus the Chicken Little approach that served other political agendas.
3. Hearings like this one should have been held around the state prior to introduction of this sweeping legislation.
4. The State of Alaska has no financial crisis and as part of an alternative solution would have funds to make the systems sound (and make-up for the lack of contributions over time that helped create the underfunding.)
5. Health care cost containment needs to be a part of any solution rather than just shifting that burden totally to future retirees (it's kind of like amassing a huge federal deficit – it doesn't hurt now – it undoubtedly will later).

6. The anticipated consequences of SB 141 on Alaskan education are all negative. The only group likely to be advantaged would be those choosing to leave in mid-career.

I would like to see this committee propose legislation that would delay the effective date of SB141 and establish the Retirement Revision Task Force. The Task Force would meet during 2006 and submit to the 2007 legislature alternatives to SB141 that address the issues of long term financial solvency of our state retirement systems especially in regard to rising Health Care Costs.

Passage of this type of legislation would give the legislature the opportunity to turn a terrible situation into an opportunity to fairly and thoroughly address the real problems of rising retirement obligations. There would be great incentive for all parties at the table to work to maximize the quality and integrity of the retirement systems. The additional time to allow thoughtful input and debate would be a welcome alternative to the politics of last session, which brought about this legislation.

It's not often that a legislature admits error, but it has been done. Errant laws have actually been repealed – I'm not asking you to do that – I'm asking you to take the time to do it right – and to see if there is a way to solve the real issue and maintain the type of retirement system that the founders of our constitution envisioned – one that will continue to help attract and keep good employees in the state of Alaska.

Testimony to the House Ways and Means Committee – December 7, 2005

Good afternoon Mr. Chairman and members of the committee.

My name is Judy Salo. I live in Kenai and have since 1969. I am a former teacher, former state president of NEA/Alaska, and a former member of both bodies of the Alaska Legislature.

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Representative Weyhrauch and members of the Ways and Means Committee:

Fifty years ago, 55 delegates from around the Territory of Alaska drafted the Alaska Constitution

The National Municipal League named our Constitution "one of the best, if not THE best, state constitutions ever written".

These distinguished Alaskans must have been aware of the value of public service when they wrote that "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." In one archived report of recommendations from the Executive Director of the Public Administration Service to the young state in 1959 stressed, "Successful public personnel programs throughout the country seems to indicate that an effective personnel program requires ... a sound retirement system". (H.G. Pope)

We respectfully ask the members of the (H) Ways and Means Committee to ensure the soundness of the retirement systems for current and future retirees. In these days of corporations reneging on promises to their own employees, we ask that the State of Alaska, like the delegates to the constitutional convention, renew its commitment to the people who have built this state: the teachers who taught our engineers; the engineers who designed our highways; the public road crews that maintain and plow those roads; the public safety officers who ensure our safety. As many legislators have said repeatedly over the last year, absolutely none of the liability in PERS or TRS is the fault of the employees.

How can you resolve the liability? We are fortunate to be in a position where there are choices including using the surplus to honor your commitments; exploring using funds from the AHFC, or reviewing the use of Amerada Hess funds. The State has the means to fulfill its promise and if there is one thing we hope to see from this committee, it is a statement emphasizing the will to do so.

Thank you for taking the time out of your busy personal schedules during the interim to tackle a difficult subject. We appreciate your willingness and interest in resolving the problem. And thank you for allowing us to add our comments.

Cindy Spanyers

PERS/TRS UNDERFUNDING

**Testimony of Sam Trivette, President
Retired Public Employees of Alaska
Alaska House Ways & Means Committee
December 7, 2005**

- PERS and TRS trust funds have been less than 100% funded most of the time over the last 25 years. This is true of most other public pension trust funds. Only a few times have PERS/TRS been over 100% funded. Over time, the funds have always returned to 100% funding. Current funding status should not be considered a crisis needing drastic measures. Don't Panic!!
- Much of the less than 100% funding can be attributed to changes in the actuary assumptions. The previous actuary hired by the State made significant errors. These include inaccurate information about the cost of health care, salary assumptions, true costs of legislation, mortality tables, etc. These mistakes were not made by PERS/TRS employers or the employees. And the employers and employees should not be required to pay the increased premiums because of this inaccurate information. The Legislature should fund these increases, helping out every municipality and school district in Alaska who relied on the State's contract actuary.
- With the significant budget surplus anticipated next Fiscal Year, the Legislature should fund the additional 5% employer contribution to the PERS/TRS funds.
- The Legislature should consider using some additional surplus money to pay down the "unfunded liability" for the reasons noted above.
- The "unfunded liability" figures provided by the State's former actuary are based upon systems that are used by a small number of actuary professionals. The Legislature's actuary has urged the numbers be recalculated using more commonly used system of calculations. Research has shown that even minor changes [even a quarter of a percent in an assumption] in calculation methods can have a major impact upon the calculated funding ratio.
- It is well established that the cost of health care is what is causing the problem with the PERS/TRS trust funds. If the Legislature wants to address this issue, it must give the Alaska Retirement Management Board oversight of the retirement system expenditures. SB 141 did not provide this authority. The ARM Board has the responsibility to balance assets and liabilities, but no authority over spending. The previous cooperative efforts of Retirement & Benefits, former PERS and TRS Boards, Retiree Organizations, and the health care administrator produced millions of dollars in savings ANNUALLY.

- Once a report is available by the new contract actuary in the Spring 2006, we will be able to assess our true funding status and begin to implement a plan to reduce the underfunding in rational manner.
- RPEA looks forward to working with the Legislature, the administration and the ARM Board to address these issues. New legislation may be necessary to achieve the full funding goal.