

ALASKA LEGISLATURE COMMITTEE FILES, 2000-2000 86/2

11640 HOUSE STATE AFFAIRS

**Claimed Military Service Proposal One  
EMPLOYEE Pays Indebtedness Interest accrued**

<b>All Military Service Allowed</b>					
<b>PERS</b>			<b>TRS</b>		
Salaries	Past Service Rate	Additional Past Service Liability	Salaries	Past Service Rate	Additional Past Service Liability
(In Thousands)					
\$1,402,686	0.04%	\$ 561.07	\$532,630	0.03%	\$160

<b>National Guard and Reservists Only</b>					
<b>PERS</b>			<b>TRS</b>		
Salaries	Past Service Rate	Additional Past Service Liability	Salaries	Past Service Rate	Additional Past Service Liability
(In Thousands)					
\$1,402,686	0.01%	\$ 140.27	\$ 532,630	0.00%	\$ -

<b>Career Military Service</b>					
<b>PERS</b>			<b>TRS</b>		
Salaries	Past Service Rate	Additional Past Service Liability	Salaries	Past Service Rate	Additional Past Service Liability
(In Thousands)					
\$ 1,402,686	0.03%	\$ 421	\$ 532,630	0.03%	\$ 160

**Claimed Military Service Proposal One  
EMPLOYER Pays Indebtedness Interest Accrued**

<b>All Military Service Allowed</b>					
PERS			TRS		
Salaries	Past Service Rate	Additional Past Service Liability	Salaries	Past Service Rate	Additional Past Service Liability
(In Thousands)					
\$1,402,686	0.12%	\$ 1,683.22	\$532,630	0.10%	\$533

<b>National Guard and Reservists Only</b>					
PERS			TRS		
Salaries	Past Service Rate	Additional Past Service Liability	Salaries	Past Service Rate	Additional Past Service Liability
(In Thousands)					
\$1,402,686	0.02%	\$ 280.54	\$ 532,630	0.01%	\$ 53.26

<b>Career Military Service</b>					
PERS			TRS		
Salaries	Past Service Rate	Additional Past Service Liability	Salaries	Past Service Rate	Additional Past Service Liability
(In Thousands)					
\$ 1,402,686	0.10%	\$ 1,403	\$ 532,630	0.09%	\$ 479

**Louie Flora**

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**From:** Will Files [will@wfiles.us]  
**Sent:** Monday, February 07, 2005 1:15 PM  
**To:** Louie Flora  
**Subject:** TRS tiers

Hi Louie,

I went to the web site about tiers, and found the whole subject somewhat confusing. But I am opposed to the idea of "tiers". This creates different classes of people, which is not constitutionally viable. With high teacher turnover, particularly in the bush (I heard it has been averaging 60% in the Kotzebue area), and the need for quality instruction, we need to strengthen our retirement system, not water it down. It's time whoever is supposed to pay, pays up.

Will

Will Files  
Homer, AK

✓

**DRAFT Recommendations of the:**  
**AML Revenue and Finance Subcommittee of the Legislative Committee and**  
**Special Municipal/School District/UA Committee on PERS/TRS**

The committees have been meeting for the past six months to propose solutions to control PERS/TRS costs and define a reasonable program for the future. Municipalities, school districts, and the U of A comprise 63% of the PERS/TRS system. The State and all other PERS/TRS employers have exactly the same interests in stabilizing the PERS/TRS programs.

Summary of recommendations:

1. **Hold all bills that could increase costs to the PERS/TRS System until:**
  - a. An adequate PERS/TRS benefit change review process has been adopted, and
  - b. New retirement program benefit "tiers" have been considered.Holding bills that could increase costs will stabilize the program immediately to avoid new irrevocable permanent costs to the State, municipalities, schools, and the University.
  
2. **Adopt a bill that creates an appropriate review and analysis of the impact of changes to PERS/TRS benefits.** Unlike any other legislative decision, under Alaska's Constitution a PERS/TRS benefit can never be "diminished or impaired" (Article XII, Section 7). The current "fiscal note" process for bills is not sufficient to accurately determine the long-term impacts of changes. Over a long time period the lack of an adequate analysis process has been the cause of a significant portion of the current cost crisis. Implement:
  - a. A statutory 90 day review process prior to legislative committee review that includes,
    - i. A comprehensive long-term actuarial analysis by the PERS/TRS Boards, and
    - ii. PERS/TRS hearings with all affected employers, and
    - iii. A full report and recommendation of the PERS/TRS Boards to the legislature.
  
3. **Introduce bills to consider the PERS/TRS "Tiers" developed by the PERS/TRS Boards:** After a close vote by the joint PERS and TRS Boards these comprehensive alternatives were not adopted for action, however, there are simply no other long term options on the table to reduce long-term costs of the program. The alternatives include a thoughtful analysis of the major provisions of the PERS/TRS retirement benefit programs and some or all of the recommendations should be implemented.
  
4. **Look for short-term and long-term financial solutions to meet crushing cost increases for past liability:**
  - a. Support State appropriations to offset the 5% PERS/TRS cost increase for FY 06 and the cumulative 10% cost increase for FY 07.
  - b. Consider the long-term cost impacts a direct pay down of the approximately \$5 Billion past liability. For example, a \$2 Billion pay down could lower long-term PERS/TRS rate increases significantly.
  - c. Consider the creation of a State and Local Retirement Pension Bond Corporation to finance the PERS/TRS \$5 Billion past liability with low interest bonds.
  - d. Set minimum contributions and do more work to forecast future trends.
  
5. **Representation:** Municipalities, Schools, and the University represent 63% of the PERS/TRS programs but do not have direct representation on the PERS/TRS Boards. Consider adding employer representatives to the PERS/TRS Boards and/or creating a separate Public Retirement System Corporation (somewhat similar to AHFC or AIDEA) to manage all aspects of the retirement systems.

**DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
FY2006 RETIREMENT SYSTEMS COST INCREASE**

Component	71000	1002	1003	1004	1005	1007	1052	1061	1075	1079	1093	1100	1108	1156	1166	Total
		Fed	GFM	GF	GFPR	IA	RF	CIP	ACWF	Tanks	CAPF	ADWF	SDPR	RSS	CPVF	
Office of the Commissioner	20.9	9.8		11.1												20.9
Information and Administrative Services	95.5	26.8	3.5	14.9		2.0	41.7	4.1			2.5					95.5
Environmental Health Director	9.7			9.7												9.7
Food Safety & Sanitation Laboratory Services	92.1	8.1		32.5		0.1								51.4		92.1
Drinking Water	51.9	10.2	2.1	31.8	3.5	3.9	0.4									51.9
Solid Waste Management	98.9	75.3	20.8		2.8											98.9
Air Quality Director	44.2	8.0	2.0	29.5	4.7											44.2
Air Quality Spill Prevention and Response Director	5.6			5.6												5.6
Contaminated Sites Program	168.0	28.2	23.8	1.2	2.5			4.5			75.5			32.3		168.0
Industry Preparedness and Pipeline Operations	6.2						6.2									6.2
Prevention and Emergency Response	166.1	75.8				0.8	89.5									166.1
Response Fund Administration	92.6	3.7				2.8	86.1									92.6
Water Quality	96.5						96.5									96.5
Facility Construction	12.7	1.3					11.4									12.7
	182.0	69.0	9.9	90.5		6.6									2.0	182.0
	102.9	2.0	0.5	8.8				65.9	12.0			13.7				102.9
<b>Total</b>	<b>1,245.8</b>	<b>318.2</b>	<b>62.6</b>	<b>235.5</b>	<b>13.5</b>	<b>16.2</b>	<b>331.8</b>	<b>74.5</b>	<b>12.0</b>	<b>0.0</b>	<b>78.0</b>	<b>13.7</b>	<b>0.0</b>	<b>83.7</b>	<b>6.0</b>	<b>1,245.8</b>

**TOTAL FEDERAL**    318.2  
**TOTAL GF**        311.7  
**TOTAL OTHER**    615.9  
1,245.8

**DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
FY2005 BARGAINING UNIT CONTRACT TERMS: GGU**

Component	71000	1002	1003	1004	1005	1007	1052	1061	1075	1079	1093	1100	1108	1156	1166	Total
		Fed	GFM	GF	CPR	IA	RF	CIP	ACWF	Tanks	CAPF	ADWF	SDPR	RSS	CPVF	
Office of the Commissioner	1.3	0.6		0.7												1.3
Information and Administrative Services	15.9	4.6	0.6	2.8		0.4	6.9	0.2			0.4					15.9
Environmental Health Director	1.2			1.2												1.2
Food Safety & Sanitation	22.1	1.8		7.8										12.5		22.1
Laboratory Services	10.6	2.2	0.2	6.9	0.7	0.5	0.1									10.6
Drinking Water	22.2	17.0	4.9	0.3												22.2
Solid Waste Management	9.7	1.8	0.5	6.3	1.1											9.7
Air Quality Director	0.4			0.4												0.4
Air Quality	31.6	3.9	4.5	0.3	0.6			0.9			21.4					31.6
Spill Prevention and Response Director	0.7						0.7									0.7
Contaminated Sites Program	32.0	15.2				0.1	16.7									32.0
Industry Preparedness and Pipeline Operations	18.2	1.0					17.2									18.2
Prevention and Emergency Response	18.2						18.2									18.2
Response Fund Administration	2.1	0.4					1.7									2.1
Water Quality	30.6	10.0	1.4	14.0	3.6	0.9									0.7	30.6
Facility Construction	14.6			0.5				10.1	2.0			2.0				14.6
	231.4	58.5	12.1	41.2	6.0	1.9	61.5	11.2	2.0	0.0	21.8	2.0	0.0	12.5	0.7	231.4

**TOTAL FEDERAL 58.5**  
**TOTAL GF 59.3**  
**TOTAL OTHER 113.6**  
**231.4**

**DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
FY2006 HEALTH INSURANCE AND WAGE INCREASES  
OTHER BARGAINING UNITS & NON-COVERED EMPLOYEES**

Component	71000	1002 Fed	1003 GFM	1004 GF	1005 GFPR	1007 IA	1052 RF	1061 CIP	1075 ACWF	1079 Tanks	1093 CAPF	1100 ADWF	1108 SDPR	1156 RSS	1166 CPVF	Total
Office of the Commissioner Information and Administrative Services	8.3	3.9		4.4												8.3
Environmental Health Director	71.1	19.9	2.6	11.0		1.5	31.3	2.9			1.9					71.1
Food Safety & Sanitation Laboratory Services	5.5			5.5												5.5
Drinking Water	73.6	6.0		26.4		0.1								41.1		73.6
Solid Waste Management	39.5	7.6	1.7	24.8	2.5	2.6	0.3									39.5
Air Quality Director	74.5	56.7	15.8		2.0											74.5
Air Quality Spill Prevention and Response Director	32.5	5.9	1.5	21.8	3.3											32.5
Contaminated Sites Program	1.8			1.8												1.8
Industry Preparedness and Pipeline Operations	126.2	23.7	18.8	0.8	1.7			3.4			54.5			23.3		126.2
Prevention and Emergency Response	2.5						2.5									2.5
Response Fund Administration	125.8	56.0				0.6	69.2									125.8
Water Quality	67.6	2.8				2.0	62.8									67.6
Facility Construction	72.6						72.6									72.6
	10.3	1.0					9.3									10.3
	140.0	54.8	8.0	68.8		4.3									4.1	140.0
	74.2	1.5	0.4	6.4				47.8	8.5			9.6				74.2
	926.0	239.8	48.8	171.7	9.5	11.1	248.0	54.1	8.5	0.0	56.4	9.6	0.0	64.4	4.1	926.0

**TOTAL FEDERAL 239.8**  
**TOTAL GF 230.0**  
**TOTAL OTHER 456.2**  
926.0

**DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
FY2006 WORKING RESERVE RATE AND SBS CHANGES**

Component	71000	1002	1003	1004	1005	1007	1052	1061	1075	1079	1093	1100	1108	1156	1166	Total
	Fed	GF	GF	GFPR	IA	RF	CIP	ACWF	Tanks	CAPF	ADWF	SDPF	RSS	CPVF		
Office of the Commissioner	1.9	0.9		1.0												1.9
Information and Administrative Services	7.4	2.0	0.3	1.2		0.2	3.2	0.3			0.2					7.4
Environmental Health Director	0.7			0.7												0.7
Food Safety & Sanitation	7.0	0.6		2.5										3.9		7.0
Laboratory Services	4.0	0.8	0.2	2.4	0.3	0.3										4.0
Drinking Water	7.5	5.7	1.6		0.2											7.5
Solid Waste Management	3.4	0.6	0.2	2.2	0.4											3.4
Air Quality Director	0.5			0.5												0.5
Air Quality	12.8	2.1	1.8	0.1	0.2			0.3			6.5			1.8		12.8
Spill Prevention and Response Director	0.6						0.6									0.6
Contaminated Sites Program	12.7	5.8				0.1	6.8									12.7
Industry Preparedness and Pipeline Operations	7.0	0.3				0.2	6.5									7.0
Prevention and Emergency Response	7.3						7.3									7.3
Response Fund Administration	1.0	0.1					0.9									1.0
Water Quality	14.2	5.4	0.8	7.0		0.5									0.5	14.2
Facility Construction	8.0	0.2		0.7				5.1	0.9			1.1				8.0
	96.0	24.5	4.9	18.3	1.1	1.3	25.3	5.7	0.9	0.0	6.7	1.1	0.0	5.7	0.5	96.0

<b>TOTAL FEDERAL</b>	<b>24.5</b>
<b>TOTAL GF</b>	<b>24.3</b>
<b>TOTAL OTHER</b>	<b>47.2</b>
	<b>96.0</b>

# 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

February 18, 2005

The Honorable Representative Seaton  
Members of House State Affairs  
Alaska State Legislature  
State Capitol  
Juneau, Alaska 99801

Dear Representative Seaton:

Re: Employer Contribution Rates - Valuation 2002

Enclosed per your request, is a summary of the assumptions and experience changes that resulted in increases in the employer contribution rates for PERS and TRS as of the Actuarial Valuation Report dated June 30, 2002. Please let me know if you have any questions about this correspondence.

Sincerely,



Melanie Millhorn  
Director

Attachments

MM/mm

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## Analysis of the Valuation (continued)

### Summary

The following table summarizes the sources of change in the average employer contribution rate:

1. Last year's average employer contribution rate	6.77%
2. Change due to:	
a. Resetting FY03 assumed total blended medical premium	3.68%
b. Health Cost trend assumption change	6.98%
c. Asset methodology change - immediate recognition of deferred losses	7.24%
d. Asset methodology change - elimination of corridor adjustments	4.11%
e. System benefit changes	0.04%
f. Ad hoc PRPA	0.14%
g. Salary increases	(0.20%)
h. Demographic experience	1.21%
i. Past service amortization change	(5.06%)
3. Average employer contribution rate this year	24.91%


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## Analysis of the Valuation (continued)

### Summary

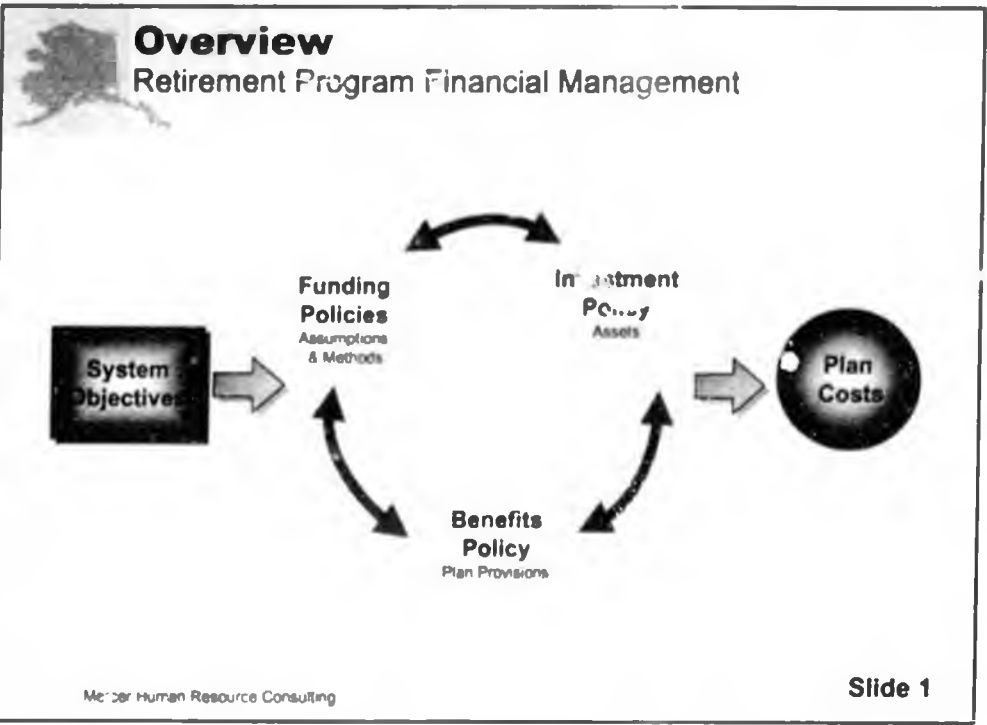
The following table summarizes the sources of change in the total employer contribution rate:

1. Last year's total employer contribution rate	14.44%
2. Change due to:	
a. Resetting FY03 assumed total blended medical premium	3.85%
b. Health cost trend assumption change	6.84%
c. Asset methodology change – immediate recognition of deferred losses	15.03%
d. Asset methodology change – elimination of corridor adjustment	0.03%
e. Salary increases	(0.11%)
f. Demographic experience	4.21%
g. Ad hoc PRPA	0.36%
h. Past service amortization change	(9.08%)
3. Total employer contribution rate this year	35.57%



**State of Alaska**  
**PERS & TRS Tier Proposals**  
**House State Affairs**

**February 19, 2005**



### Financial Summary

#### Employer Contribution Rates - PERS

	FY05	FY06
Normal Cost Rate:	13.31%	13.24%
Average Past Service Rate:	11.60%	12.39%
Average Contribution Rate:	24.91%	25.63%
Board Adopted Rate:	11.77%	16.77%

- The normal cost rate provides for benefits expected to be earned by active members during the fiscal year
- The past service rate is the part of the contribution that is intended to pay off the unfunded liability (over 25 years)

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## Financial Summary

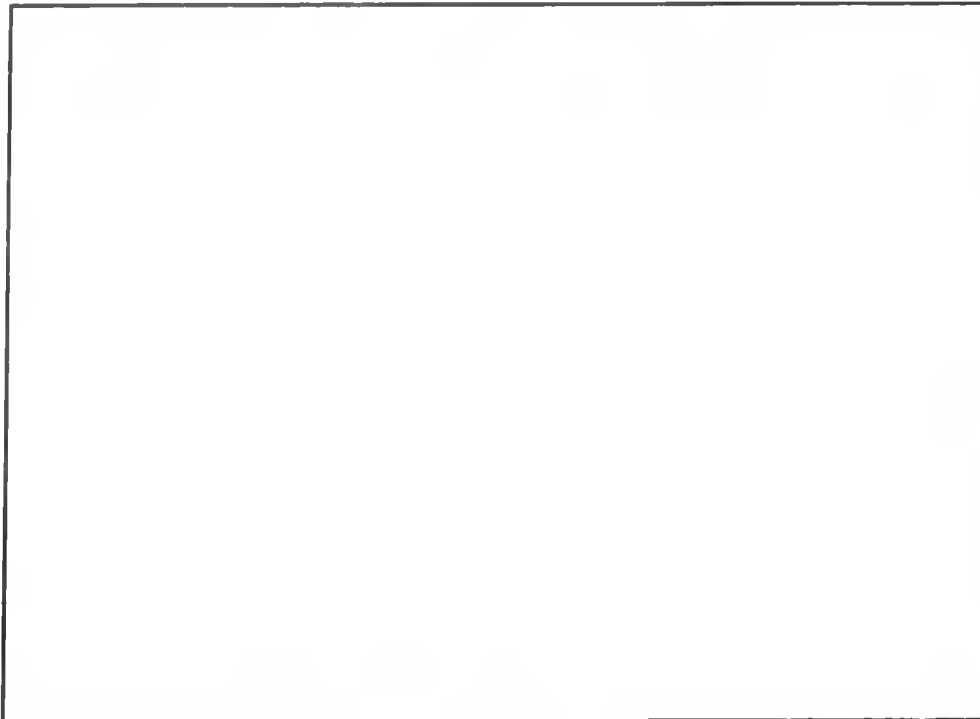
### Employer Contribution Rates - TRS

	<u>FY05</u>	<u>FY06</u>
Normal Cost Rate:	14.76%	14.28%
Past Service Rate:	<u>20.81%</u>	<u>24.57%</u>
Total Contribution Rate:	35.57%	38.85%
Board Adopted Rate:	16.00%	21.00%

- The normal cost rate provides for benefits expected to be earned by active members during the fiscal year
- The past service rate is the part of the contribution that is intended to pay off the unfunded liability (over 25 years)

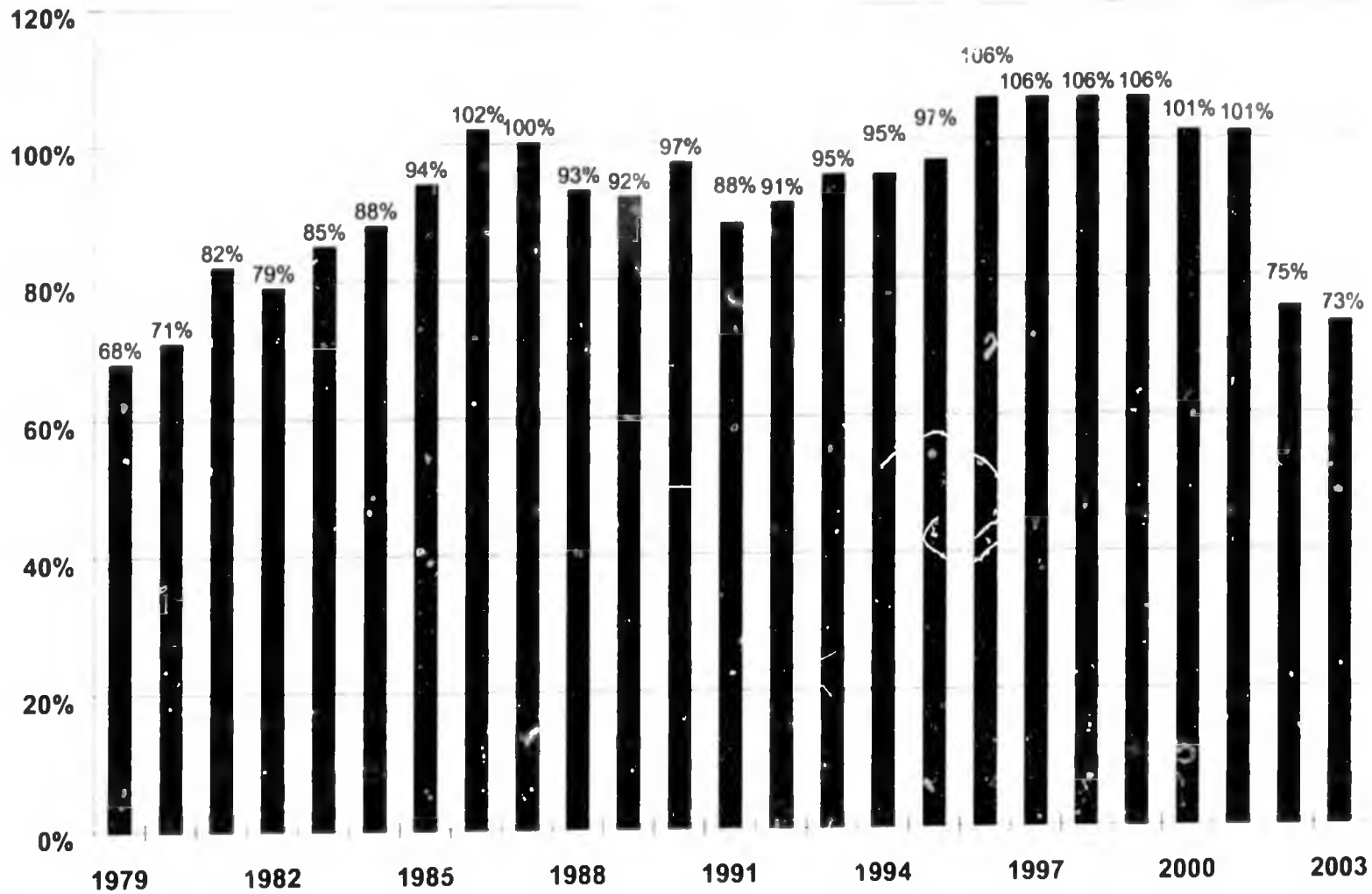
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Report Highlights (continued)

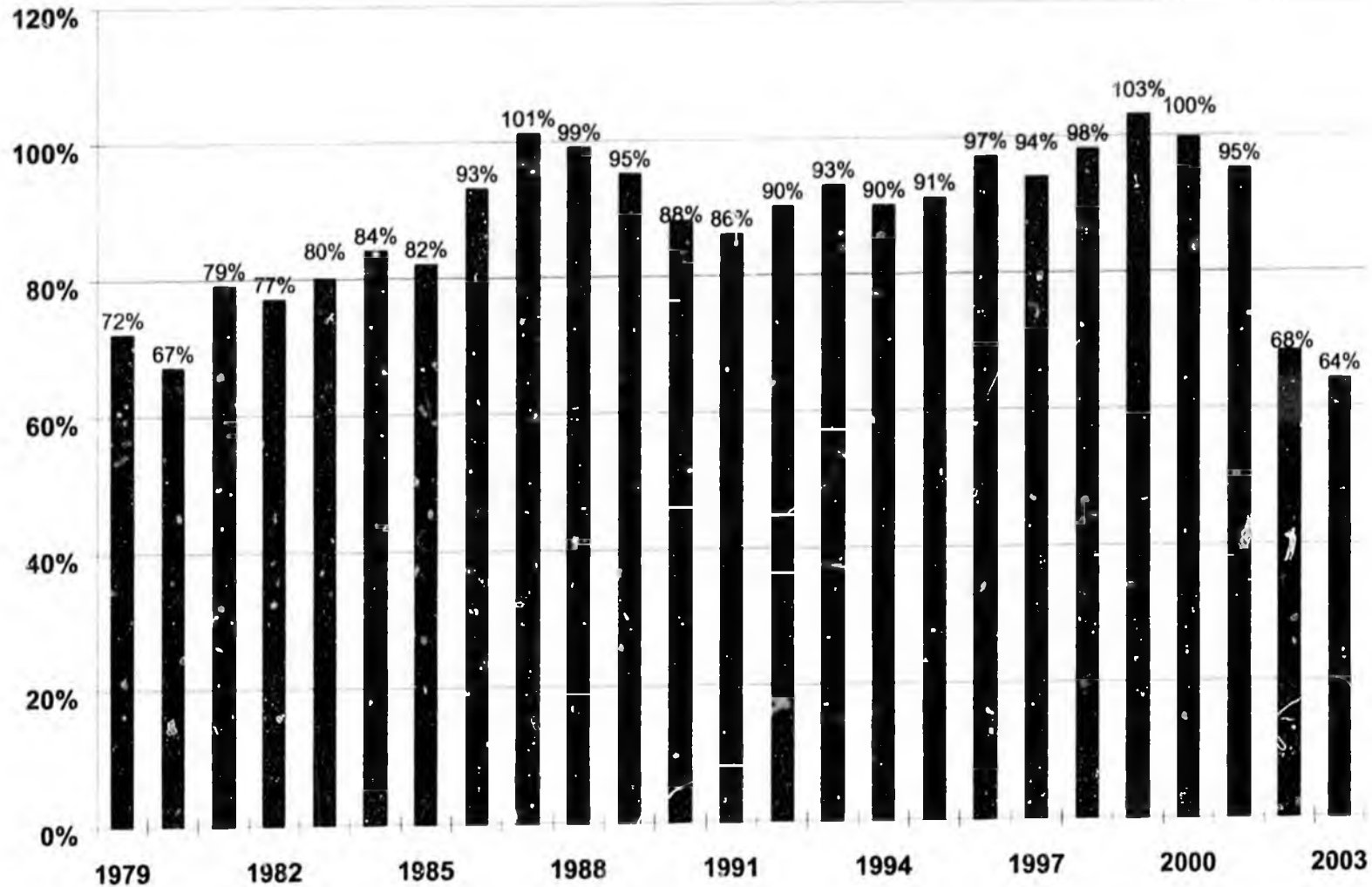
PERS Funding Ratio History



Page 3

Report Highlights (continued)

TRS Funding Ratio History



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## **Overview**

### Financial Context

- ⇒ Rising contribution levels
- ⇒ Volatile investment returns
  - Investment uncertainty
- ⇒ Rising medical costs

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## **Overview**

### Key Information

Key information gathered and analyzed

- ⇒ Employer survey
- ⇒ Member focus groups
- ⇒ Benchmarking
- ⇒ Benefit levels
- ⇒ Demographic projections
- ⇒ Implications of Medicare changes
- ⇒ Trends, issues and alternatives
- ⇒ Cost analysis and projections

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## Employer Survey - PERS

### Important Conclusions

- ⇒ Employers want the retirement program to continue to provide medical coverage
- ⇒ Many employers open to the possibility of providing differing levels of medical coverage based on service or having members share in the cost of coverage
- ⇒ Other potential cost savings areas that some employers seem open to:
  - Lowering the post-retirement cost-of-living adjustment
  - Not providing medical coverage to vested terminated members
- ⇒ Some responses seem to favor continuing a defined benefit approach
  - Reward long service
- ⇒ However, responses leaned towards shifting investment risk to members

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## Employer Survey - TRS

### Important Conclusions

- ⇒ Employers want the retirement program to continue to provide medical coverage
- ⇒ Many employers, particularly the largest employers, open to the possibility of providing differing levels of medical coverage based on service or having members share in the cost of coverage
- ⇒ Other potential cost savings areas that some employers seem open to:
  - Lowering the post-retirement cost-of-living adjustment
  - Not providing medical coverage to vested terminated members
- ⇒ Some responses seem to favor continuing a defined benefit approach
  - Reward long service
- ⇒ However, responses leaned towards shifting investment risk to members

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## Overview

### System Objectives and Constraints

Based on information gathered and stakeholder feedback, the Tier Committee drafted the following objectives:

- ⇒ The System should provide medical benefits to retirees
  - Members should bear a greater share of the cost
  - Members should have to retire from the System to be eligible
- ⇒ Benefits should favor longer-service members
- ⇒ Employer contributions should be more predictable and stable
- ⇒ Investment risk should be shared by employers and members
- ⇒ Healthcare inflation risk should be shared by employers and members

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## Overview

### System Objectives and Constraints

Based on information gathered and stakeholder feedback, the Tier Committee drafted the following constraints:

- ⇒ Non-medical benefits must be sufficient to satisfy minimum requirements for employers who do not participate in Social Security
- ⇒ Benefit changes must take the form of new "tiers"
- ⇒ Annual cost of benefits should be less than the current Systems' normal cost rates

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## **Trends and Alternatives**

### **Defined Benefit Observations**

- ⇒ Plans have experienced higher cost levels and greater cost volatility
- ⇒ Funded status has declined in last 3 years
- ⇒ Advantages (to employer) of defined benefit plans
  - Retention incentives, lower turnover cost
  - Workforce management
  - Cost allocated to longer-service employees

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## **Trends and Alternatives**

### **Defined Benefit Observations (continued)**

- ⇒ Advantages (to employee) of defined benefit plans
  - Pooling of longevity risk
  - In most cases, employer bears investment risk
  - Predictable, stable retirement income
- ⇒ Challenges (for employer) of defined benefit plans
  - Investment risk
  - Cost volatility

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## **Trends and Alternatives**

### Defined Contribution Observations

- ⇒ Advantages (to employer) of defined contribution plans
  - Predictable cost
  - Stable cost
  - Employee assumes investment risk
  - No long-term administrative commitment
  - Contribution equity among employees
- ⇒ Advantages (to employee) of defined contribution plans
  - Portability
  - Ability to direct investments
  - Contribution equity among employees

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## **Trends and Alternatives**

### Defined Contribution Observations (*continued*)

- ⇒ Challenges for defined contribution plans
  - More difficult to manage workforce
  - Employee directed money often earns less
  - Amount needed at retirement is often underestimated
  - Employees need to contribute in excess of 10 percent, but most do not
  - Retirees generally not equipped to transform lump sum into monthly payments that last for a lifetime (difficult to manage longevity risk)

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**Proposed Alternatives**  
Overview

- ⇒ Two alternatives are being presented to the PERS and TRS Boards, with the Tier Committee recommending Alternative 1
- ⇒ Components of Alternative 1
  - defined benefit
  - defined contribution
  - medical
  - health reimbursement account (HRA)
- ⇒ Components of Alternative 2
  - defined contribution
  - medical
  - health reimbursement account (HRA)
- ⇒ Member contributions under both alternatives are higher than the current tiers
- ⇒ Contribution rates for the defined contribution component are higher for Alternative 2
- ⇒ Post-retirement medical program is the same for both alternatives

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## **Proposed Alternatives**

### **Defined Benefit Alternative**

#### Key features of Alternative 1 defined benefit program

- ⇒ 1 percent of career average pay
- ⇒ Pay is indexed from year received to year preceding retirement (or termination) based on the Anchorage CPI
  - for example, 1997 pay for a member retiring on December 31, 2009 would be increased at Anchorage CPI for 12 years
- ⇒ Base pay only
- ⇒ Normal retirement at the earlier of
  - (1) age 60 with 5 years of service (8 years for TRS) or
  - (2) 25 years of service (30 years for PERS "others")
- ⇒ Post-retirement pension adjustments similar to current tiers
- ⇒ No 10 percent Alaska cost-of-living adjustment (COLA)

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## **Proposed Alternatives**

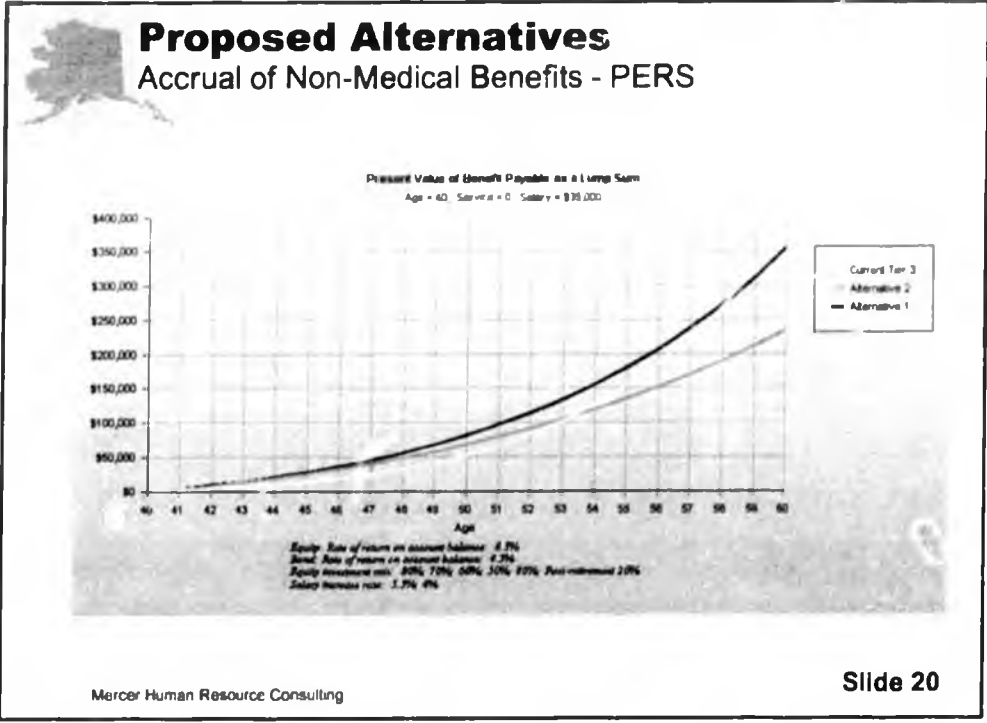
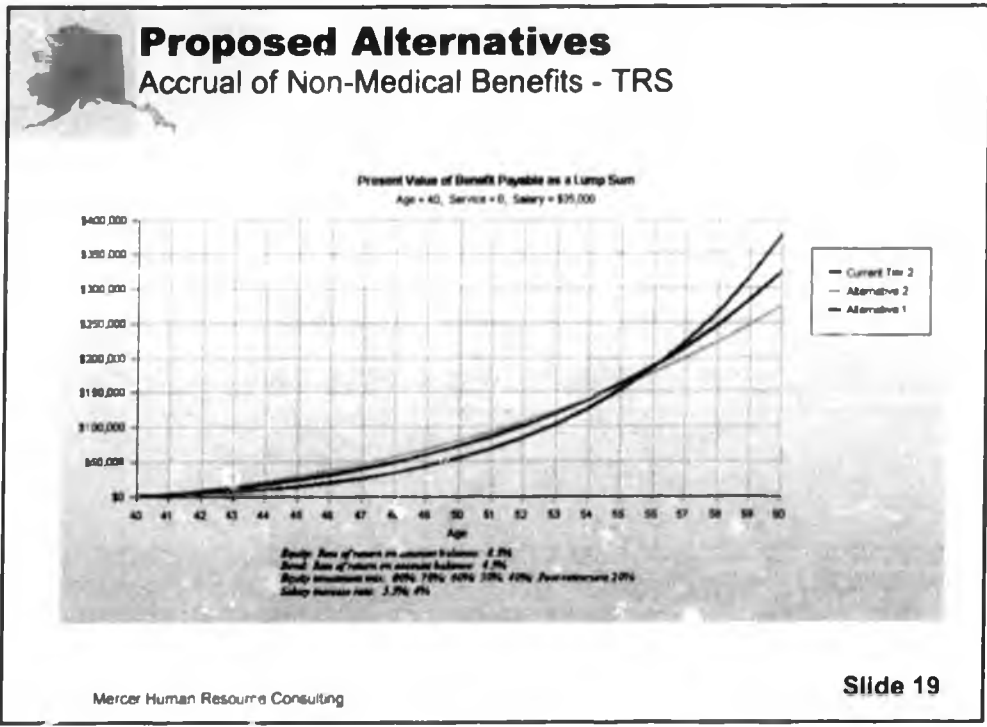
### **Defined Contribution Alternatives**

#### Key features of defined contribution components

- ⇒ Individual accounts are maintained for each member
- ⇒ Contributions are a percentage of base pay
- ⇒ Various investment options (member-directed)
- ⇒ 100% vested
- ⇒ Terminating or retiring member takes account (eligible for rollover)

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## Proposed Medical Program

### Key Features

Key features of post-retirement medical program

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

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## Proposed Medical Program

### System Sponsored Health Care Plan

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

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

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## **Proposed Medical Program**

### **Eligibility**

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

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## **Proposed Medical Program**

### **Early Retirement**

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

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## **Proposed Medical Program**

### **Normal Retirement to Medicare Eligibility**

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

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## **Proposed Medical Program**

### **Normal Retirement to Medicare Eligibility**

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

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## Proposed Medical Program

### Normal Retirement to Medicare Eligibility

⇒ Apply percentages to the applicable subsidy base to arrive at the appropriate subsidy amount.

⇒ Defined Dollar Subsidy Base Annual PMPY for fiscal year 2004:

Pre Medicare                      \$5,962\*

⇒ Subsidy Percentage

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

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

\*Equivalon: to FY2004 pre Medicare projected claim cost.  
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## Proposed Medical Program

### After Medicare Eligibility

⇒ Defined health benefit similar to current program

⇒ Retirees who were previously eligible for 100% subsidy of retiree health plan costs will now participate in the premium cost.

⇒ Contributions are per covered individual

⇒ Pre-Medicare dependent spouses are eligible to receive a defined dollar subsidy with percentage based on retiree length of service

⇒ Medicare eligible dependent spouses are eligible to receive the same defined health benefits as the retiree and pay the same contributions

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## **Proposed Medical Program** After Medicare Eligibility

⇒ Contribution Base PMPY for fiscal year 2004:

Medicare Eligible            \$2,667

⇒ Contribution Percentage

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

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

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## **Health Reimbursement Accounts (HRAs)**

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## Health Reimbursement Accounts Overview

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

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## Health Reimbursement Accounts Overview

### Funding

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

### Eligibility

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

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## Health Reimbursement Accounts Overview

### Benefits

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

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## Health Reimbursement Accounts Overview

### Plan design

- ⇒ Plan sponsor dictates plan design
  - Contribution amount
  - Covered expenses
  - Termination provisions

### Tax Treatment

- ⇒ Requirements for exclusion from employee/retiree income:
  - Employer funding only – no employee contributions
  - Only reimbursed for qualified medical expenses
- ⇒ Subject to non-discrimination rules under IRS code section 105(h)

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## Health Reimbursement Accounts

### Comparison of tax advantaged health care accounts

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

\*COBRA long-term care insurance and premiums for account holders at least 65 or receiving unemployment compensation

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## Health Reimbursement Accounts

### Comparison of tax advantaged health care accounts

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

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## Health Reimbursement Accounts Projection scenarios

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

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## Health Reimbursement Accounts Projection scenarios

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

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## Health Reimbursement Accounts Projection scenarios

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

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

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## Proposed Alternatives Alternative 1 – Normal Cost Rates

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

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

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

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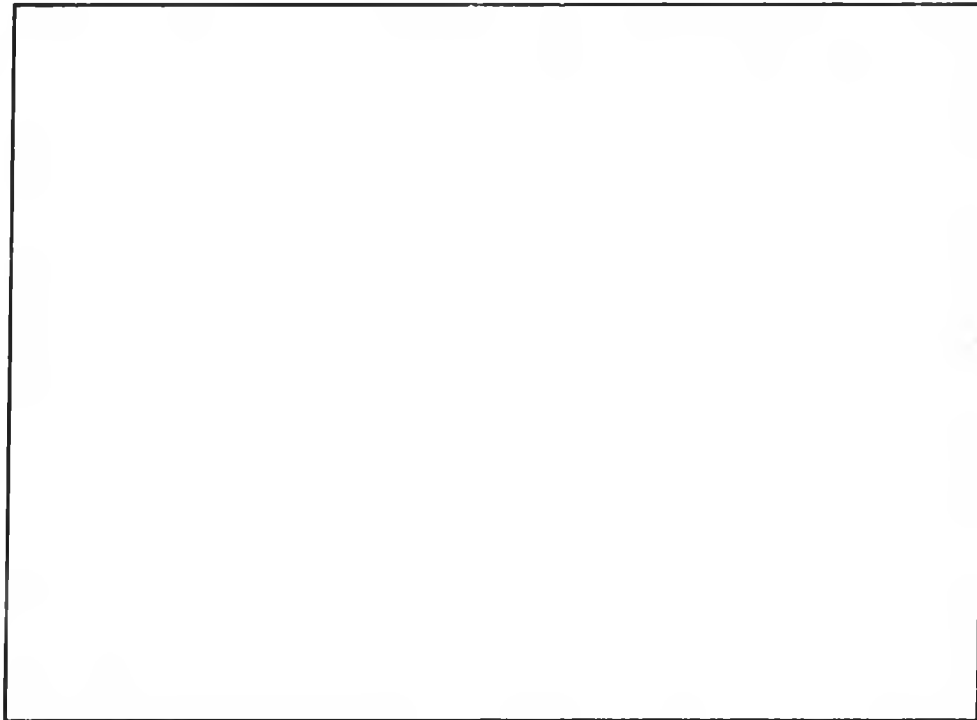


## Proposed Alternatives

### Alternative 2 – Normal Cost Rates

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

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



State of Alaska

Division of Retirement & Benefits

Normal Cost Rate and Actuarial Computed Rate from FY 1983 through FY 2006

Valuation report date June 30	Fiscal year of rate	Normal Cost rate PERS	Actuarial Computed Rate PERS	Normal Cost rate TRS	Actuarial Computed Rate TRS
1980	1983	11.46%	13.78%	11.95%	16.84%
1981	1984	12.03%	13.68%	13.51%	17.42%
1982	1985	11.36%	13.62%	13.64%	17.95%
1983	1986	11.82%	13.59%	13.13%	17.36%
1984	1987	12.31%	13.84%	13.91%	13.28%
1985	1988	11.13%	9.55%	11.62%	13.28%
1986	1989	10.20%	9.38%	9.36%	11.16%
1987	1990	9.23%	9.30%	9.14%	8.19%
1988	1991	10.37%	12.00%	11.86%	12.27%
1989	1992	12.00%	14.20%	13.26%	15.16%
1990	1993	12.83%	13.58%	14.07%	19.65%
1991	1994	10.18%	13.72%	9.05%	15.59%
1992	1995	10.90%	13.70%	8.57%	13.36%
1993	1996	11.29%	12.82%	9.06%	12.48%
1994	1997	10.36%	12.14%	9.70%	14.96%
1995	1998	10.61%	11.90%	10.10%	14.94%
1996	1999	9.85%	7.74%	8.97%	10.52%
1997	2000	9.89%	7.36%	9.21%	13.00%
1998	2001	8.67%	7.03%	8.99%	10.55%
1999	2002	8.07%	6.56%	8.89%	7.09%
2000	2003	10.07%	6.12%	9.40%	8.29%
2001	2004	9.53%	6.77%	10.36%	14.44%
2002	2005	13.31%	24.91%	14.76%	35.57%
2003	2006	13.24%	25.63%	14.28%	38.85%

$270.71 \div 24$

$266.78 \div 24 =$

11.16%

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

10.86%

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

### 1.5(c) Actuarial Projections – Effect of Economic Scenarios

#### Key Assumptions

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

Results are shown only under the 1% population growth scenario

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

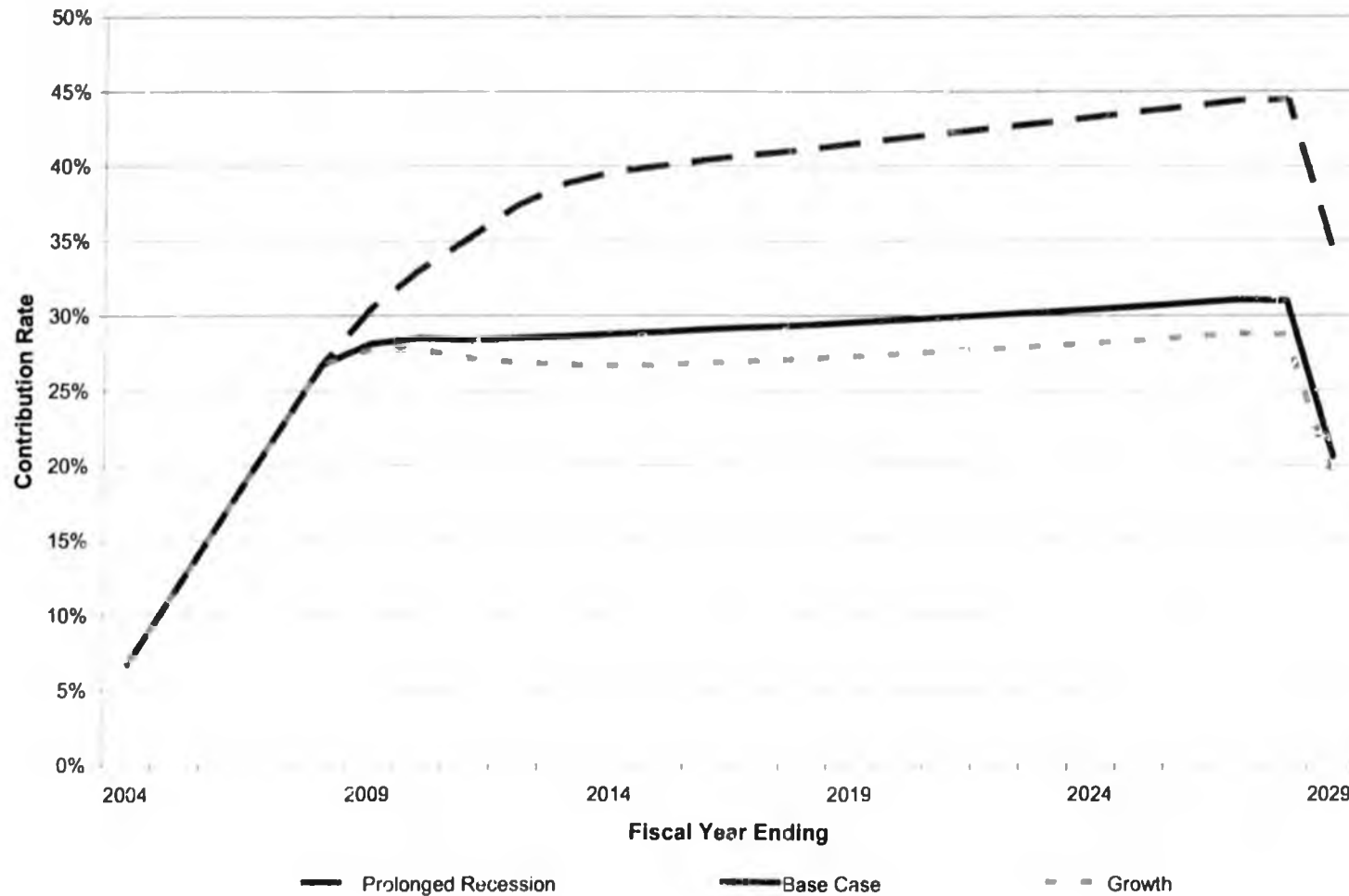
Investment returns are assumed as follows:

**Total Portfolio Investment Return Under Each Scenario**

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

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

Contribution Rate



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### 1.5(c) Actuarial Projections – Effect of Economic Scenarios

#### Key Assumptions

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

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2012	8.25%	8.25%	7.75%
2013	8.25%	8.25%	7.75%
2014	8.25%	8.25%	7.75%
2015	8.25%	8.25%	7.75%
2016	8.25%	8.25%	7.75%
2017	8.25%	8.25%	7.75%
2018	8.25%	8.25%	7.75%
2019	8.25%	8.25%	7.75%
2020	8.25%	8.25%	7.75%
2021	8.25%	8.25%	7.75%
2022	8.25%	8.25%	7.75%
2023	8.25%	8.25%	7.75%
2024	8.25%	8.25%	7.75%
2025	8.25%	8.25%	7.75%
2026	8.25%	8.25%	7.75%
2027	8.25%	8.25%	7.75%
2028	8.25%	8.25%	7.75%
2029	8.25%	8.25%	7.75%

# CORRECTION

THE FOLLOWING DOCUMENT(S)  
HAVE BEEN REFILMED TO  
ASSURE LEGIBILITY OR PAGINATION



Central Microfilm Services  
Department of Education & Early Development  
State of Alaska

### 1.5(c) Actuarial Projections – Effect of Economic Scenarios

#### Key Assumptions

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

Results are shown only under the 1% population growth scenario

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

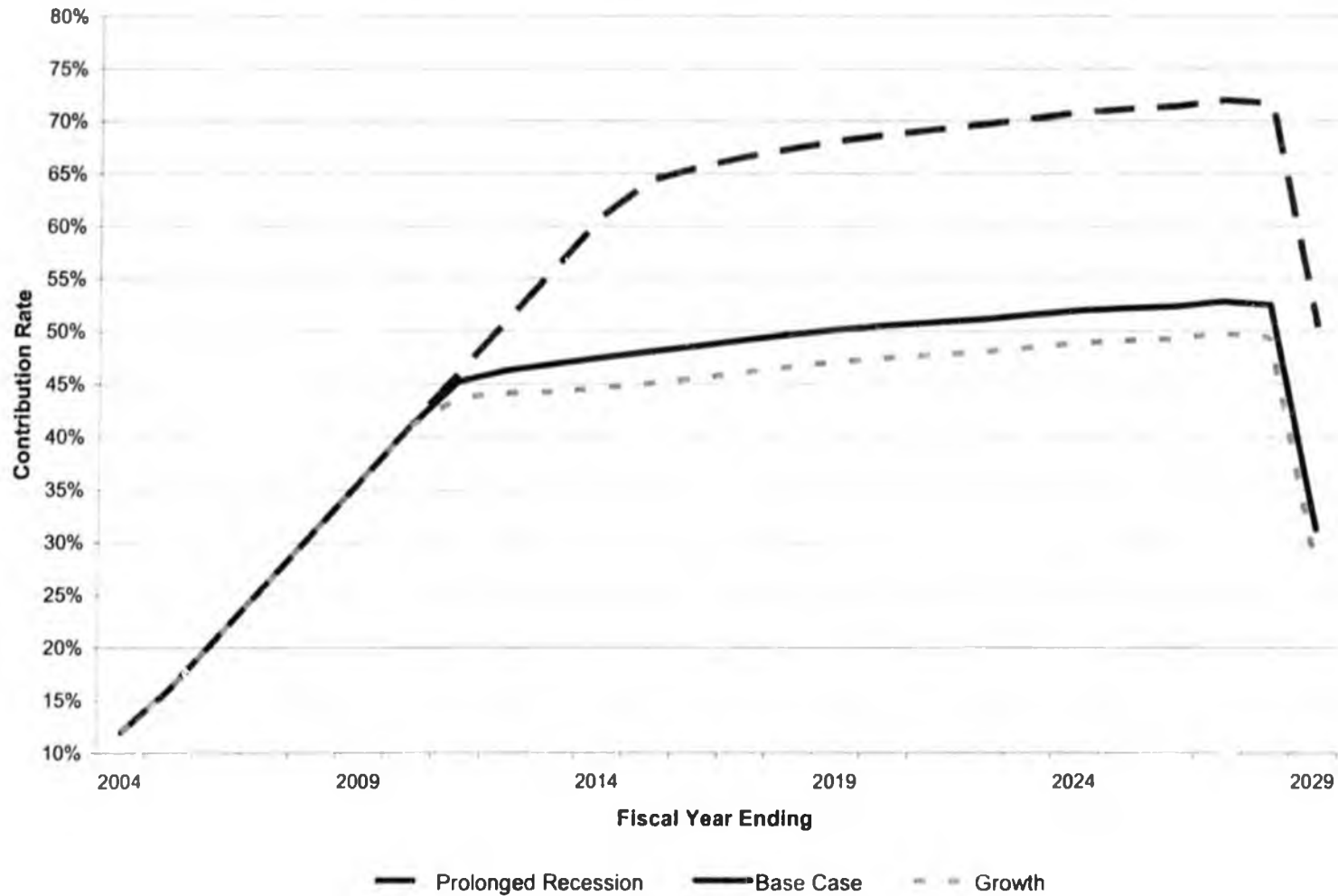
Investment returns are assumed as follows:

Total Portfolio Investment Return Under Each Scenario

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

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

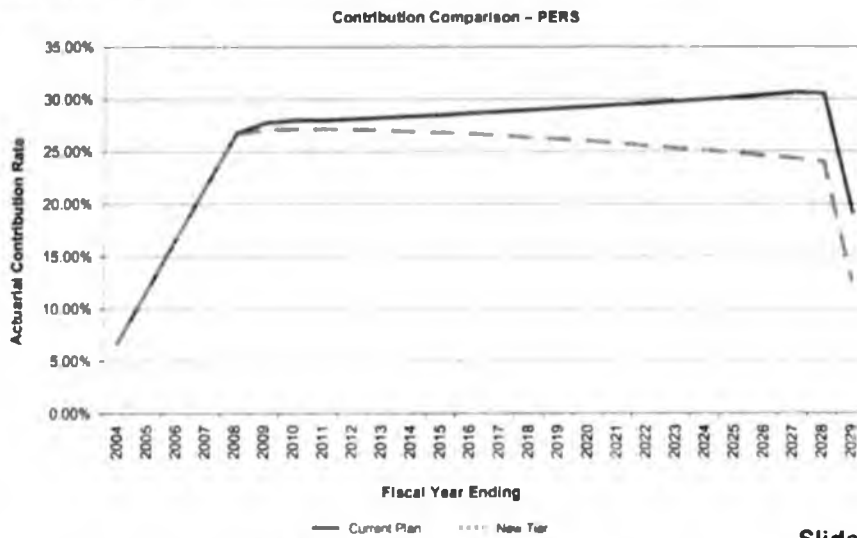
Contribution Rate



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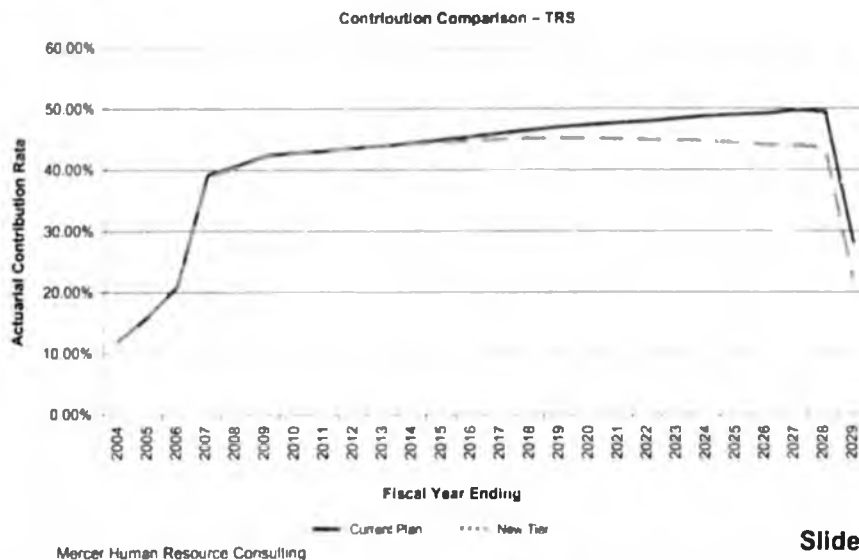
## Proposed Alternatives Cost Projections - PERS



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## Proposed Alternatives Cost Projections - TRS



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

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

**PERS / TRS**

	<b>Current PERS Tier III / TRS Tier II DB Plan</b>	<b>Alternative 1 DB/DC Plan</b>	<b>Alternative 2 DC Plan</b>
<b>PERS Employee Contribution Rate</b>	6.75% or 7.5 Police/Fire	8% all members 8.5% Police/Fire 11.0% School District	8% all members 8.5% Police/Fire 11.0% School District
<b>TRS Employee Contribution Rate</b>	8.65%	10%	10%
<b>Retirement Age</b>	60 normal - 55 early 30 years "all others" 20 Police/Fire 20 Teachers	Same Same 25 Police/Fire members 25 Teachers	Any age
<b>PERS Benefit Formula/Contribution Rate</b>	2% up to 2.5% DB	1% DB; 8% DC (8% includes HRA)	12.5% DC (12.5% includes HRA)
<b>TRS Benefit Formula/Contribution Rate</b>	2% up to 2.5% DB	1% DB; 10% DC (10% includes HRA)	15% DC (15% includes HRA)
<b>Medical</b>	<ul style="list-style-type: none"> <li>Do not have to retire directly from system to be service or age eligible for medical coverage.</li> <li>Must have 10 years of service. Minimal cost share.</li> </ul>	<ul style="list-style-type: none"> <li>Must retire directly from system to be eligible.</li> <li>Must have 10 years of service.</li> <li>Member pays more through "cost share" design elements.</li> </ul>	Same as Alternative 1
<b>Normal Cost Rate – PERS (does not include unfunded liability portion)</b>	13.24% - Current Normal Cost Rate	8% reduces normal cost rate by 40%	8% reduces normal cost rate by 40%
<b>Normal Cost Rate – TRS (does not include unfunded liability portion)</b>	14.28% - Current Normal Cost Rate	8.75% - this reduces normal cost rate by 39%	8.75% this reduces normal cost rate by 39%
<b>Future exposure and volatility to loss in investment earnings and increasing medical costs.</b>	Employer bears all the risk.	Employer continues to have risk in two areas: (1) 1% DB component and (2) medical inflation component.	Minimal Exposure to employer in one area only: (1) medical inflation w/capped %.

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

<b>Tier I</b> Entered on or after 1/1/81	<b>Tier II</b> Entered on or after 7/1/86	<b>Tier III</b> Entered on or after 7/1/86	<b>Tier IV Proposed - Alternative 1 DBDC Plan</b> Entered on or after 7/1/2006	<b>Tier IV - Alternative 2 Prop DB Plan</b> Entered on or after 7/1/2006
Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/89—school district	Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/89—school district	Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/89—school district	Employee Pre-tax Contribution: 8% all members beginning 7/1/2006 8.5% beginning 7/1/2006 – police and fire 11.0% beginning 7/1/2006 School District	Employee Pre-tax Contribution: 8% all members beginning 7/1/2006 8.5% beginning 7/1/2006 – police and fire 11.0% beginning 7/1/2006 School District
Members vest with 5 years of service.	Members vest with 5 years of service.	Members vest with 5 years of service.	Members vest with 5 years of service.	100% Vested upon enrollment
<ul style="list-style-type: none"> <li>Normal retirement age is 55</li> <li>Early retirement age is 50</li> <li>Police/fire members can retire at any age after 20 years of police/fire service</li> <li>All other members can retire at any age after 30 years of membership service</li> </ul>	<ul style="list-style-type: none"> <li>Normal retirement age is 60</li> <li>Early retirement at age 55</li> <li>Police/fire members can retire at any age after 20 years of police/fire service</li> <li>"All other" members can retire at any age after 30 years of membership service</li> </ul>	<ul style="list-style-type: none"> <li>Normal retirement age is 60</li> <li>Early retirement at age 55</li> <li>Police/fire members can retire at any age after 20 years of police/fire service</li> <li>"All other" members can retire at any age after 30 years of membership service</li> </ul>	<ul style="list-style-type: none"> <li>Normal retirement age is 60</li> <li>Early retirement at age 55</li> <li>Police/fire members can retire at any age after 25 years of police/fire service</li> <li>"All other" members can retire at any age after 30 years of membership service</li> </ul>	<ul style="list-style-type: none"> <li>Can leave employment at any age and take account balance with them, leave account balance in plan or rollover to another qualified plan.</li> </ul>
<ul style="list-style-type: none"> <li>2% defined benefit formula for first 10 years and all years of service prior to July 1, 1986</li> <li>2.25% for the next 10 years, 2.5% per year thereafter (average of the high three consecutive years' salary)</li> <li>Police/Fire - 2% benefits formula for first 10 years and 2.5% for all years after 10.</li> </ul>	<ul style="list-style-type: none"> <li>2% defined benefit formula for first 10 years</li> <li>2.25% for the next 10 years, and 2.5% per year thereafter. Benefit calculation is determined on the average of the high three consecutive years' salary</li> <li>Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10.</li> </ul>	<ul style="list-style-type: none"> <li>2% defined benefit formula for first 10 years</li> <li>2.25% for the next 10 years, and 2.5% per year thereafter (benefit calculation is average of the high five consecutive years' salary)</li> <li>Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10 (benefit calculation is three consecutive years regardless of tier (effective 2002).</li> </ul>	<ul style="list-style-type: none"> <li>1% defined benefit formula</li> <li>8.0% defined contribution rate</li> <li>A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA)</li> <li>Benefit calculation is computed on indexed career average</li> </ul>	<ul style="list-style-type: none"> <li>12.5% defined contribution rate</li> <li>A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA)</li> </ul>
<ul style="list-style-type: none"> <li>Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system.</li> </ul>	<ul style="list-style-type: none"> <li>Medical coverage is provided to disabled, regardless of age and benefit recipients over age 60 or               <ul style="list-style-type: none"> <li>police/fire members with 25 years of police/fire service</li> <li>all other members with 30 years of membership service</li> </ul> </li> <li>and their eligible dependents. The retirement system pays the retiree medical plan premium. Retirees and survivors under age 60 must pay the full premium cost if they want coverage.</li> </ul>	<ul style="list-style-type: none"> <li>Medical same as Tier II.</li> <li>Except, employees must accrue a minimum of 10 years of credited service* to have system-paid coverage at age 60.</li> <li>Employees with less than 10 years must pay the full premiums as long as they wish to continue medical coverage</li> </ul>	<ul style="list-style-type: none"> <li>Medical               <ul style="list-style-type: none"> <li>Employees must retire directly from the system to be eligible and</li> <li>Accrue a minimum of 10 years of credited service*</li> <li>Early retirees get "access only" prior to normal retirement age - must pay premium</li> <li>HRA contribution</li> <li>Defined dollar benefit from normal retirement to age 65</li> <li>Defined health benefit after age 65 (cost share based on length of service)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Medical               <ul style="list-style-type: none"> <li>Employees must retire directly from the system to be eligible and</li> <li>Accrue a minimum of 10 years of credited service*</li> <li>Early retirees get "access only" prior to normal retirement age - must pay premium</li> <li>HRA contribution</li> <li>Defined dollar benefit from normal retirement to age 65</li> <li>Defined health benefit after age 65 (cost share based on length of service)</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>The automatic PRPA legislated in 1986 applied to all members regardless of hire date.</li> </ul>	<ul style="list-style-type: none"> <li>Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years</li> </ul>	<ul style="list-style-type: none"> <li>Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years.</li> </ul>	<ul style="list-style-type: none"> <li>Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>
<ul style="list-style-type: none"> <li>Alaska Cost-of-Living Allowance of 10% of base benefit is payable to benefit recipients who remain domiciled in Alaska after retirement.</li> </ul>	<ul style="list-style-type: none"> <li>Alaska Cost-of-Living Allowance of 10% of base benefit is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement</li> </ul>	<ul style="list-style-type: none"> <li>Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater.</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>

Page 31

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

Tier I 7/1/55 - 6/30/90	Tier II Entered on or after 7/1/90	Tier III Proposed Alternative 1 - DB/DC Plan Entered on or after 7/1/2005	Tier III Proposed Alternative 2 - DC Plan Entered on or after 7/1/2005
Employee Pre-tax Contribution: 8.55% beginning 1/1/91	Employee Pre-tax Contribution: 8.65% beginning 1/1/91	Employee Pre-tax Contribution: 10% beginning 7/1/2005	Employee Pre-tax Contribution: 10% beginning 7/1/2005
Members vest with 8 years of service.	Members vest with 8 years of service.	Members vest with 8 years of service.	100% Vested at time of enrollment
<ul style="list-style-type: none"> <li>• Normal retirement age is 55</li> <li>• Early retirement at age 50</li> <li>• Teachers can retire at any age after 20 years of membership service.</li> </ul>	<ul style="list-style-type: none"> <li>• Normal retirement age is 60</li> <li>• Early retirement at age 55</li> <li>• Teachers can retire at any age after 20 years</li> </ul>	<ul style="list-style-type: none"> <li>• Normal retirement age is 60</li> <li>• Early retirement at age 55</li> <li>• Teachers can retire at any age after 25 years</li> </ul>	<ul style="list-style-type: none"> <li>• Can leave employment at any age and take account balance with them, leave account balance in plan or rollover to another qualified plan.</li> </ul>
<ul style="list-style-type: none"> <li>• 2% defined benefit formula for the first 20 years and all years of service prior to July 1, 1990</li> <li>• 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries.</li> </ul>	<ul style="list-style-type: none"> <li>• 2% defined benefit formula for the first 20 years</li> <li>• 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries.</li> </ul>	<ul style="list-style-type: none"> <li>• 1% defined benefit formula all years of service</li> <li>• 10% defined contribution rate</li> <li>• A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA).</li> <li>• Benefit calculation is computed on indexed career average</li> </ul>	<ul style="list-style-type: none"> <li>• 15.0% defined contribution rate</li> <li>• A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA)</li> </ul>
<ul style="list-style-type: none"> <li>• Medical coverage is provided to all benefit recipients and their eligible dependents.</li> </ul>	<ul style="list-style-type: none"> <li>• Medical premiums are paid for all disability recipients regardless of age and</li> <li>• Retirees and survivors over age 60 and for retirees with at least 25 years of service including eligible dependents.</li> <li>• Retirees and survivors under age 60, with less than 25 years of membership service must pay the full premium cost if they want coverage.</li> </ul>	<p><b>Medical</b></p> <ul style="list-style-type: none"> <li>• Employees must retire directly from the system to be eligible and</li> <li>• Accrue a minimum of 10 years of credited service*</li> <li>• Early retirees get "access only" prior to normal retirement age - must pay premium</li> <li>• HRA contribution</li> <li>• Defined dollar benefit from normal retirement to age 65</li> <li>• Defined health benefit after age 65 (cost share based on length of service)</li> </ul>	<p><b>Medical</b></p> <ul style="list-style-type: none"> <li>• Employees must retire directly from the system to be eligible and</li> <li>• Accrue a minimum of 10 years of credited service*</li> <li>• Early retirees get "access only" prior to normal retirement age - must pay premium</li> <li>• HRA contribution</li> <li>• Defined dollar benefit from normal retirement to age 65</li> <li>• Defined health benefit after age 65 (cost share based on length of service)</li> </ul>
<ul style="list-style-type: none"> <li>• Automatic PRPA legislated in 1990 applied to all members regardless of hire date.</li> </ul>	<ul style="list-style-type: none"> <li>• Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years.</li> </ul>	<ul style="list-style-type: none"> <li>• Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years.</li> </ul>	None
<ul style="list-style-type: none"> <li>• Alaska Cost-of-Living Allowance is payable to benefit recipients who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit.</li> </ul>	<ul style="list-style-type: none"> <li>• Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit.</li> </ul>	None	None





## Employer Survey – PERS

### Key

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

<u>Employer</u>	<u># Active Employees</u>	<u>Code Letter</u>
State of Alaska	15,259	A
Anchorage SD	2,496	B
Anchorage, Municipality of	2,351	C
Fairbanks North Star Borough SD	790	D
North Slope Borough	788	E

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## Employer Survey – PERS

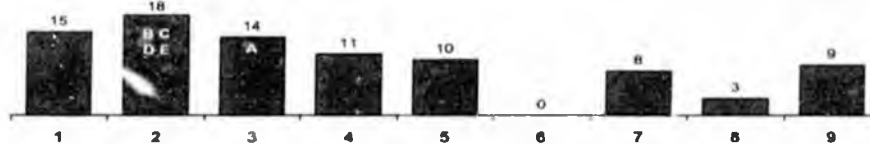
### 1. Long-Service Employees

Importance



Plan should favor long-service employees

Plan should not distinguish on account of length of service



#### Key Comments

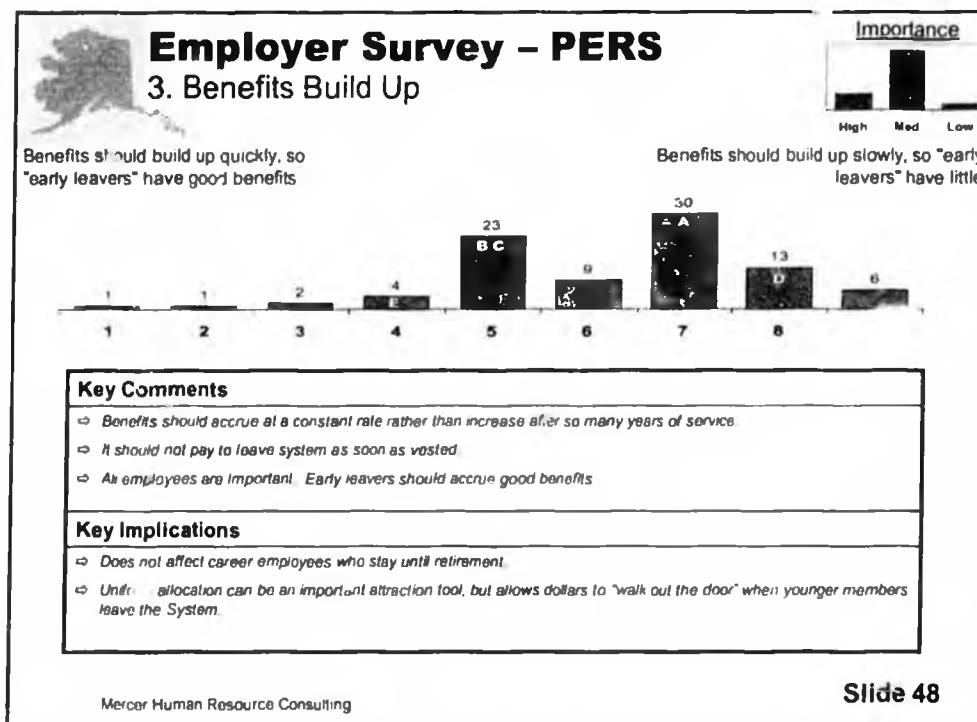
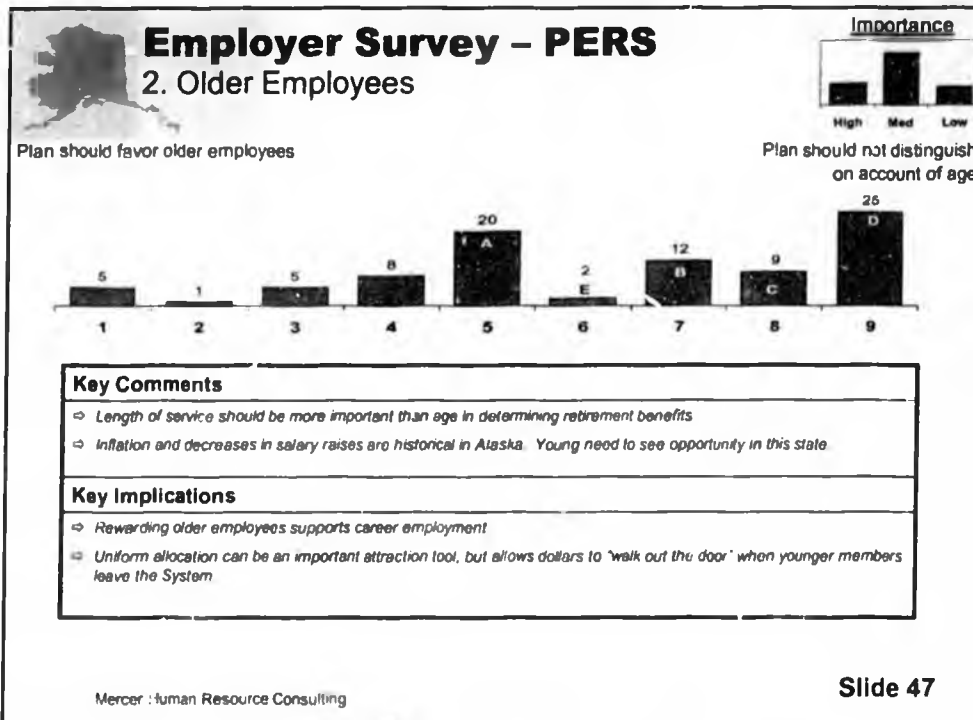
- ⇒ Retirement plans should favor long-service employees
- ⇒ With over 150 employers in PERS, portability between employers is a rev. factor. If that can be achieved without penalizing long time PERS covered employees, there is not problem.
- ⇒ One of our problems is that baby-boomer "glut" of long service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

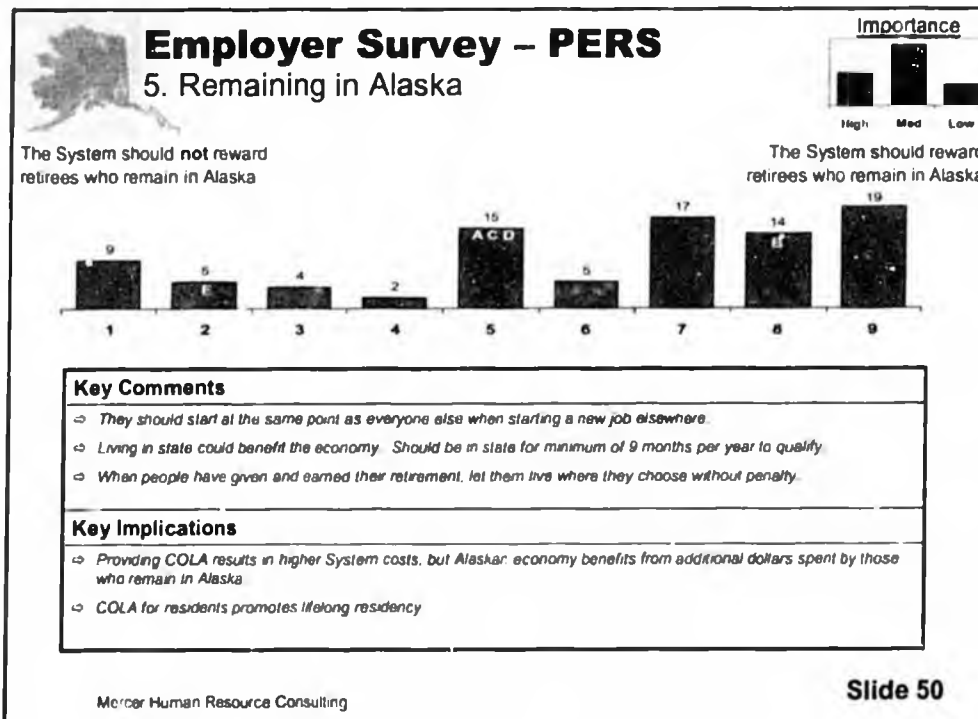
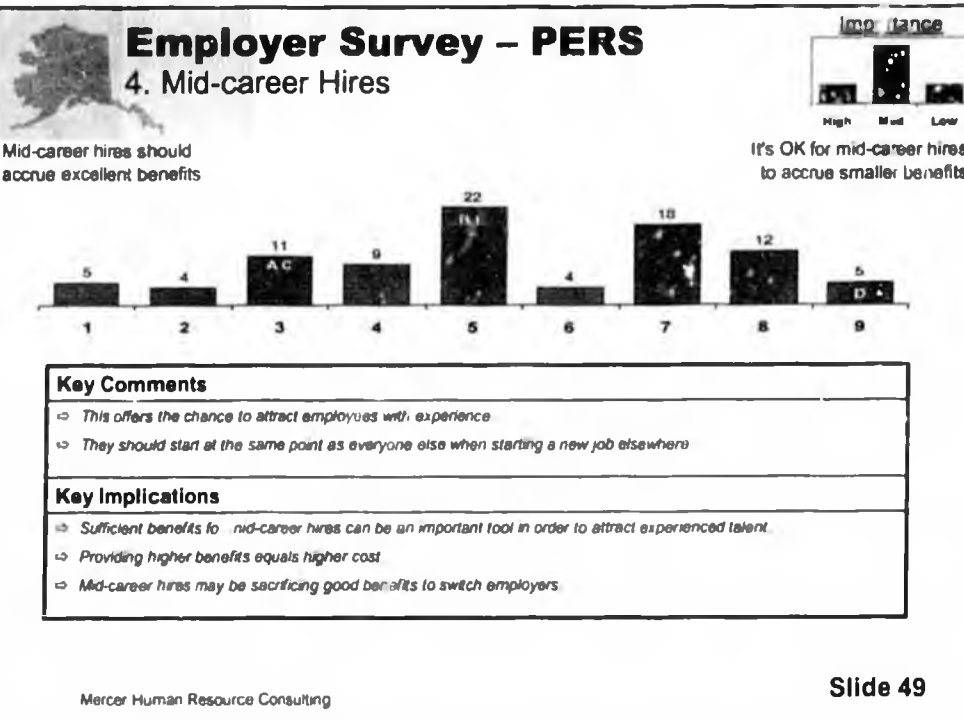
#### Key Implications

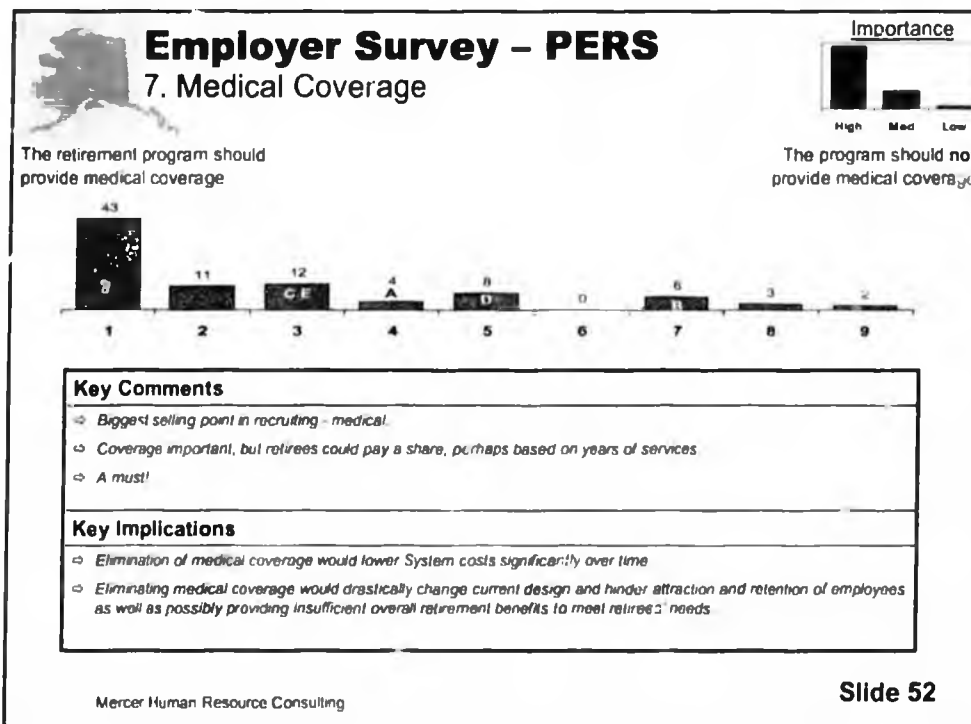
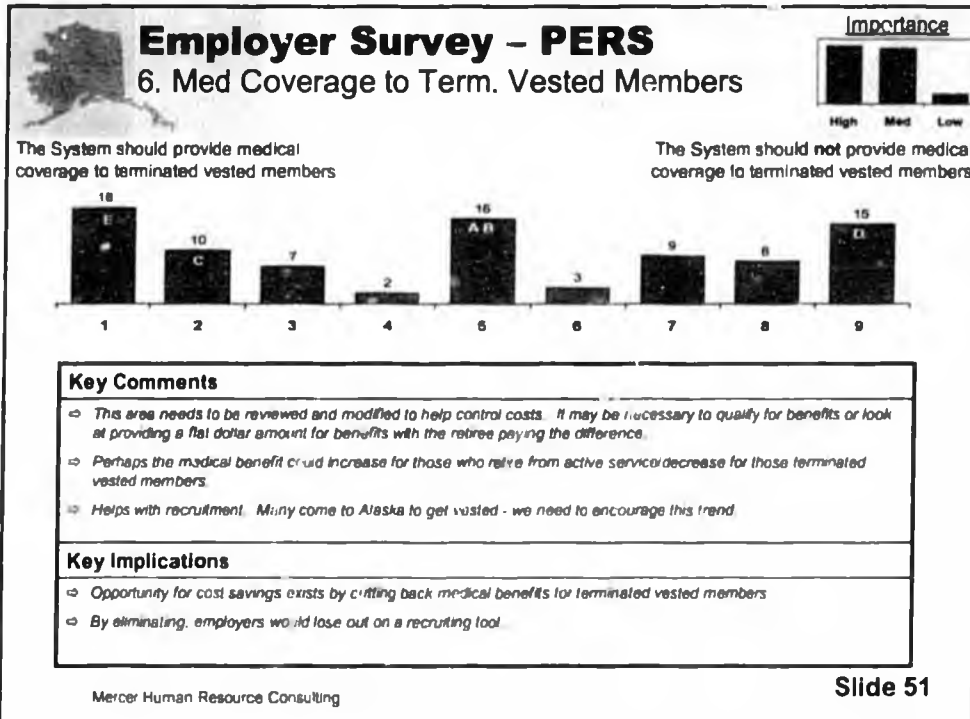
- ⇒ Rewarding long-service employees supports career employment.
- ⇒ Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when short-service employees leave the System.

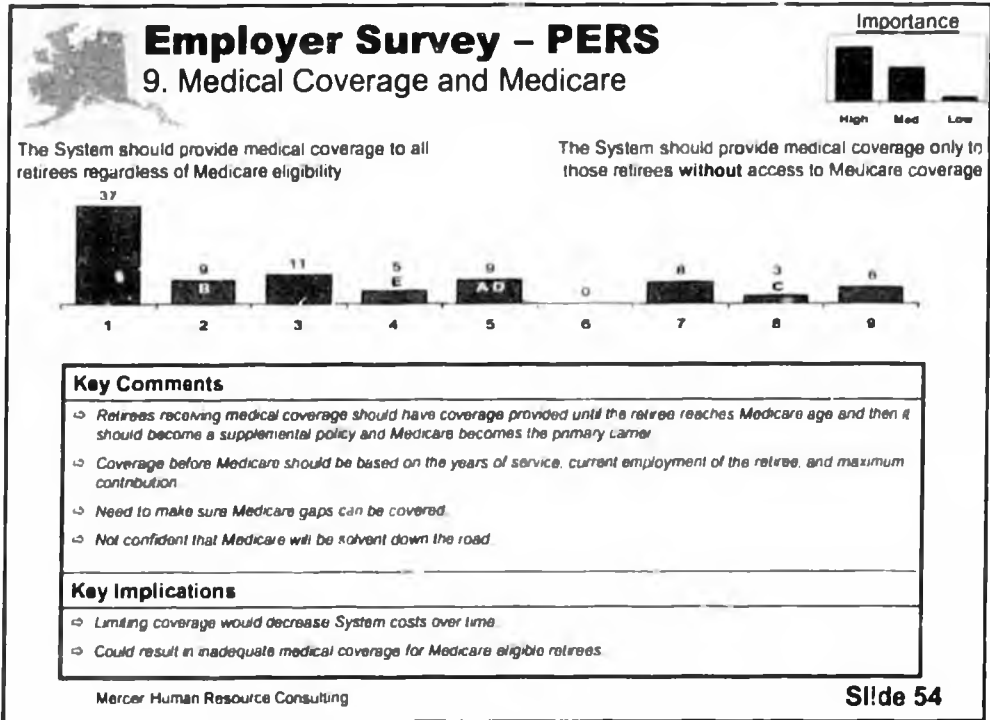
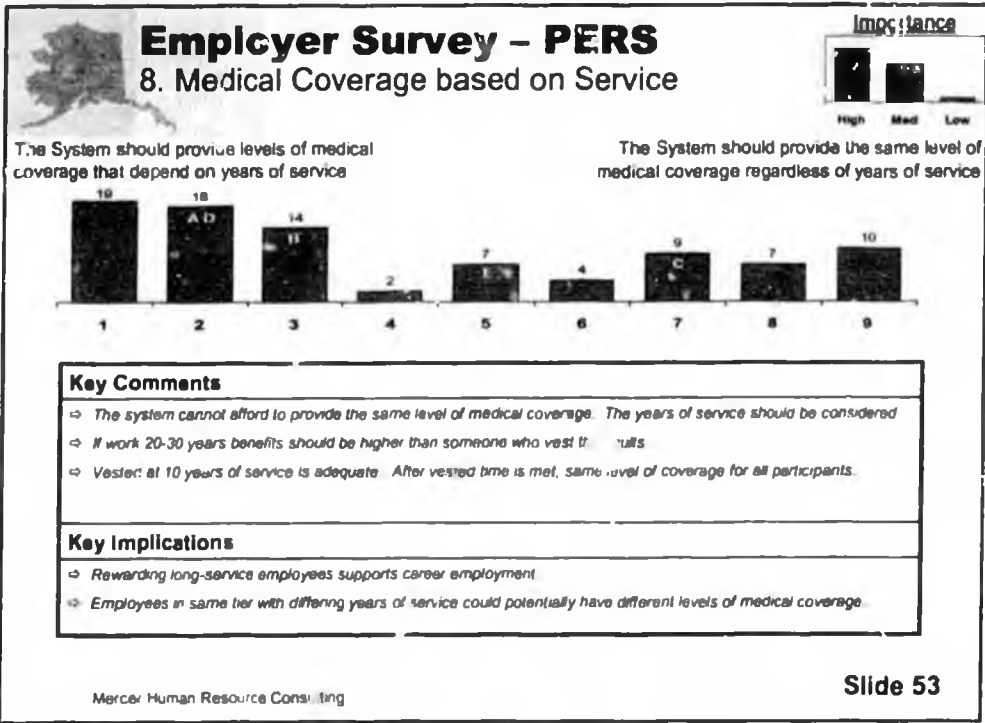
Mercer Human Resource Consulting

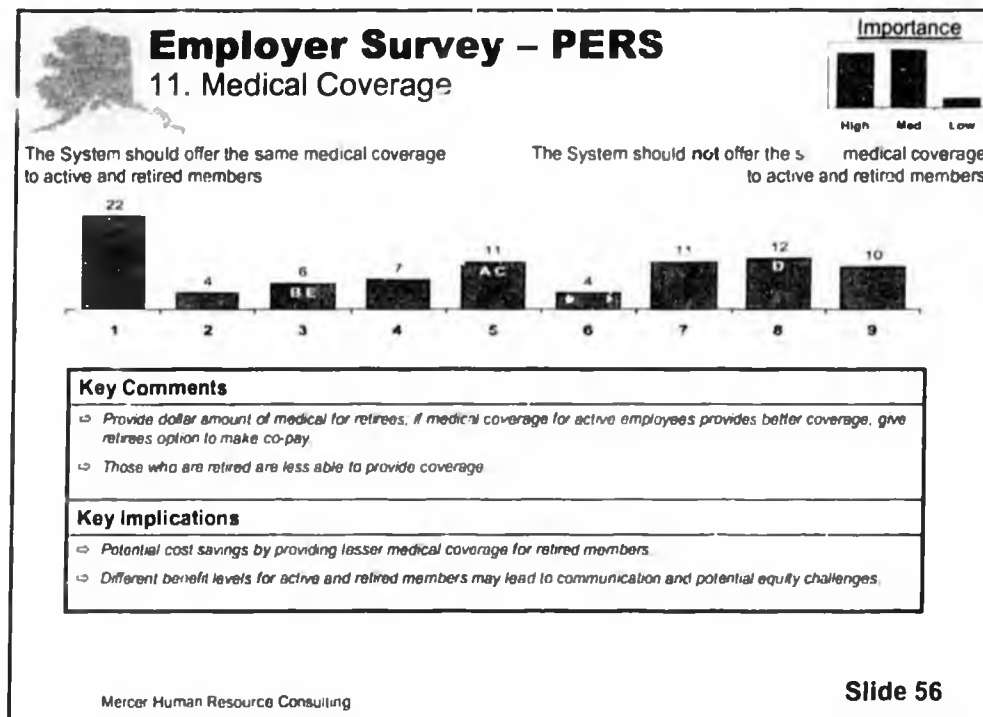
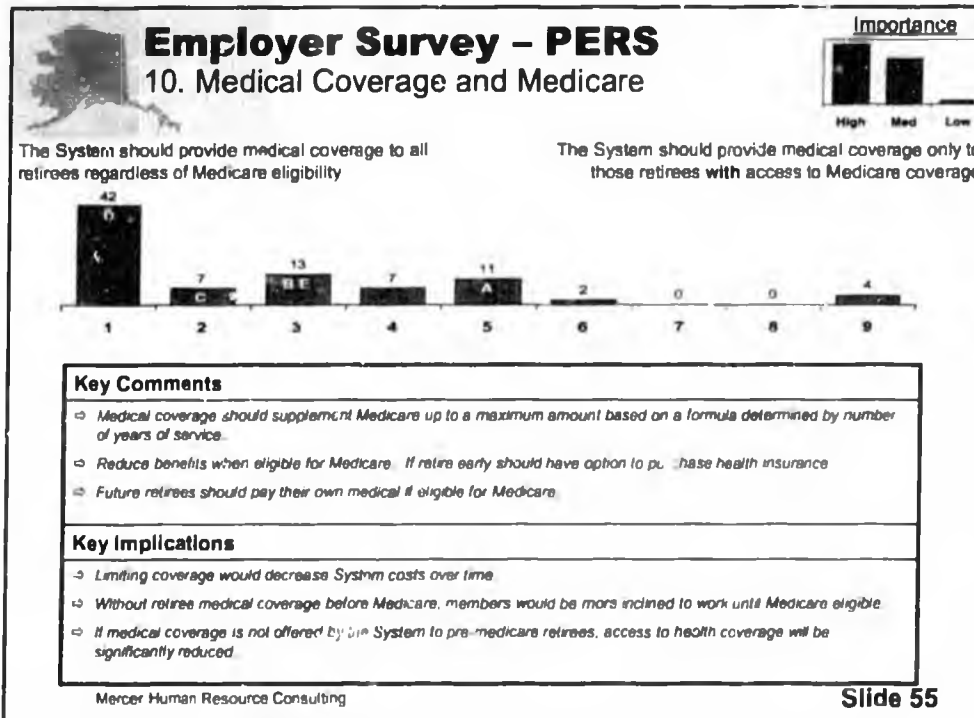
Slide 46

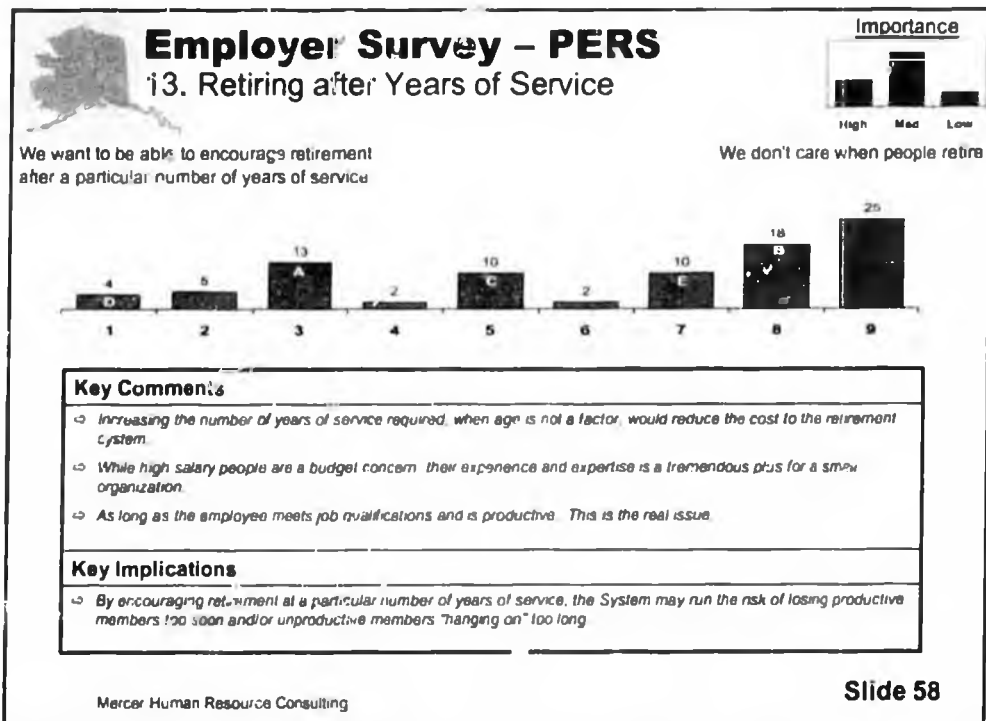
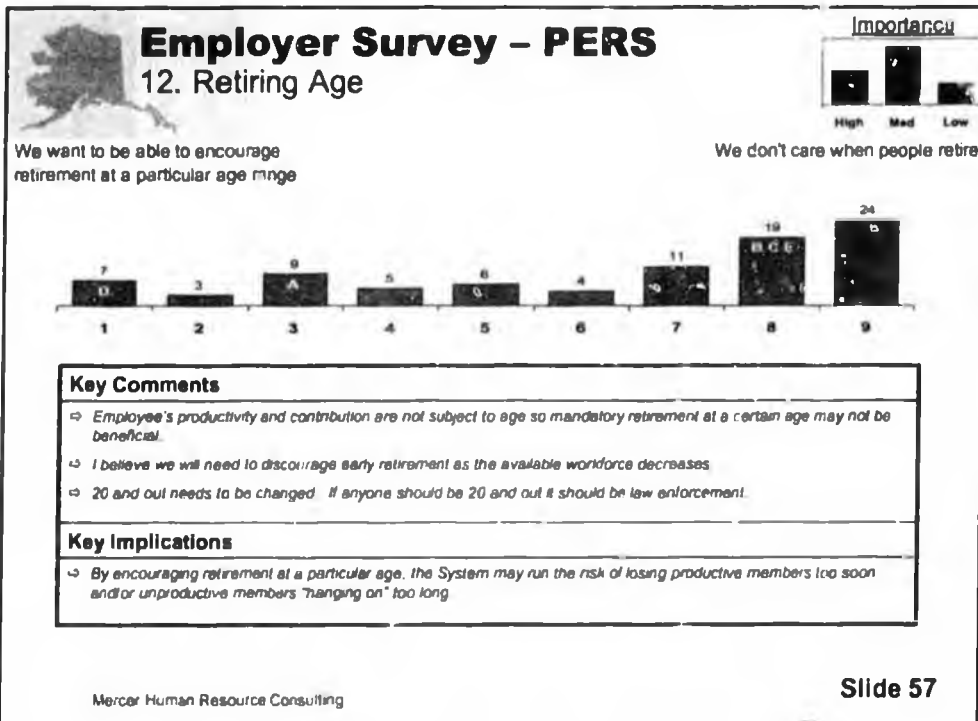


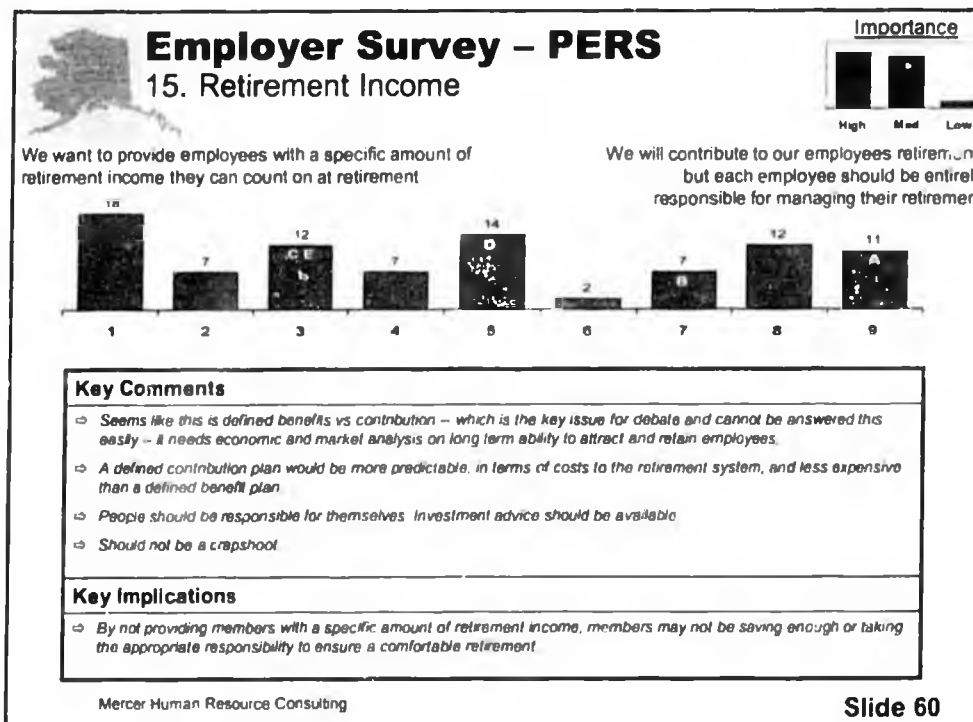
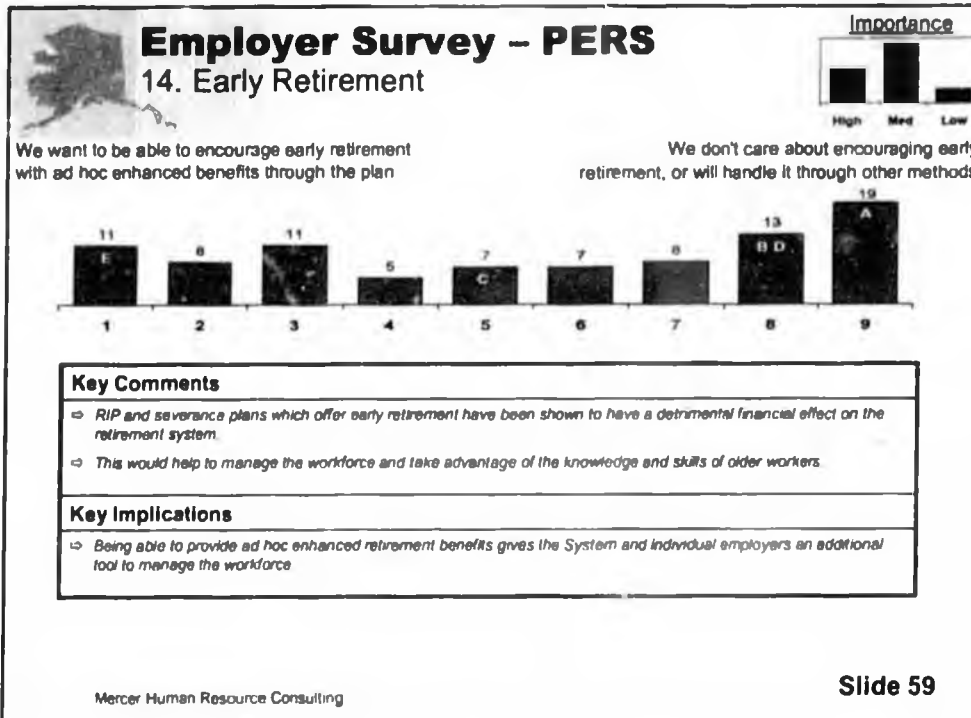














## Employer Survey – PERS

### 16. Investment Risk Responsibility

Importance



Employees should assume investment risk

Employer should assume investment risk



#### Key Comments

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

#### Key Implications

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

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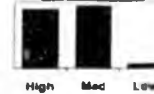
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## Employer Survey – PERS

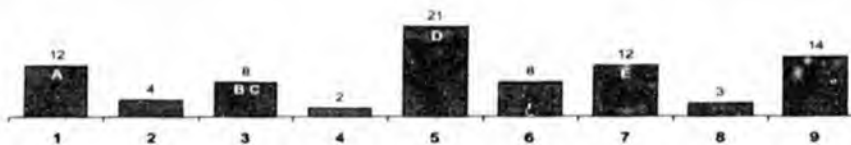
### 18. Inflation Risk Responsibility

Importance



Employees should assume post-retirement inflation risk

Employers should adjust benefits for post-retirement inflation



#### Key Comments

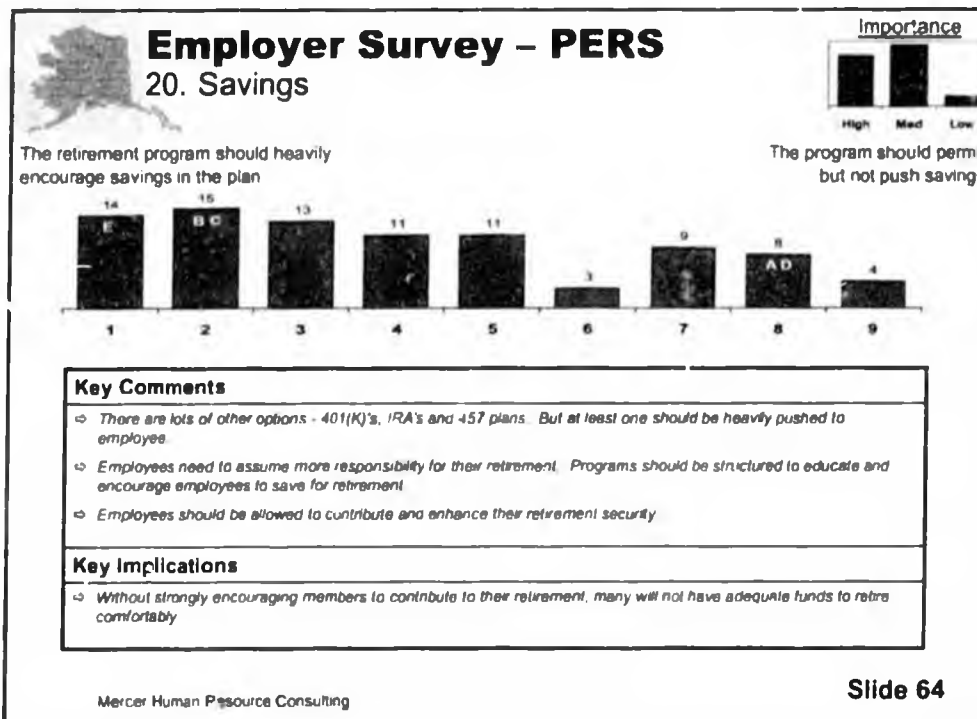
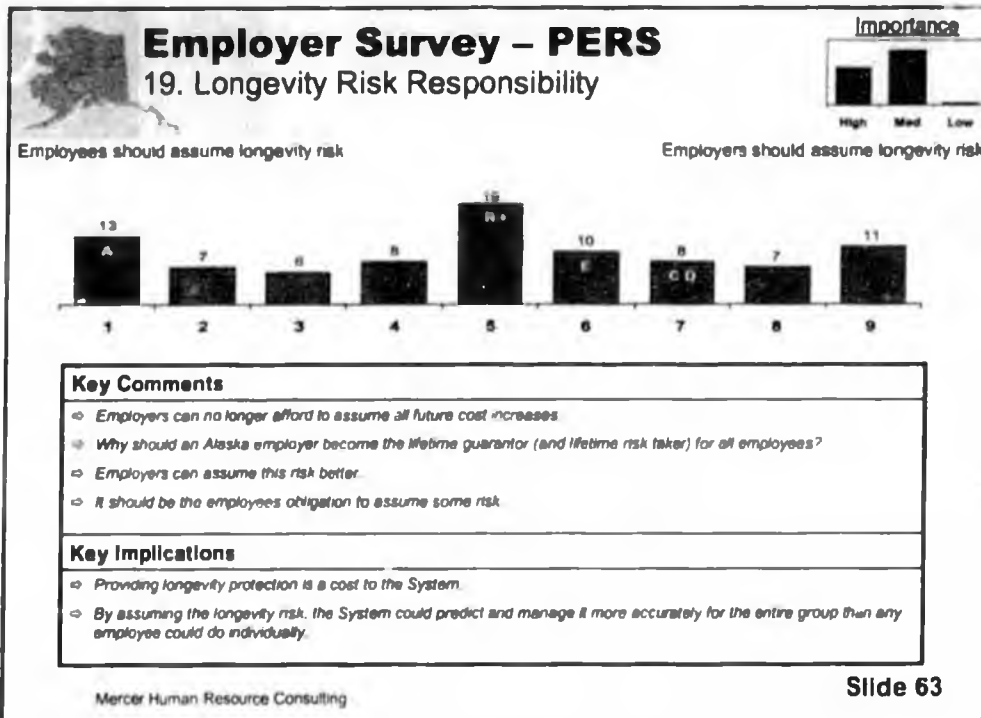
- ⇒ It needs economic and market analysis on long term ability to attract and retain employees.
- ⇒ Employees should assume more risk for post-retirement inflation.
- ⇒ Employer rates should reflect a more conservative estimated annual inflation rate and annual inflation adjustments should have an annual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

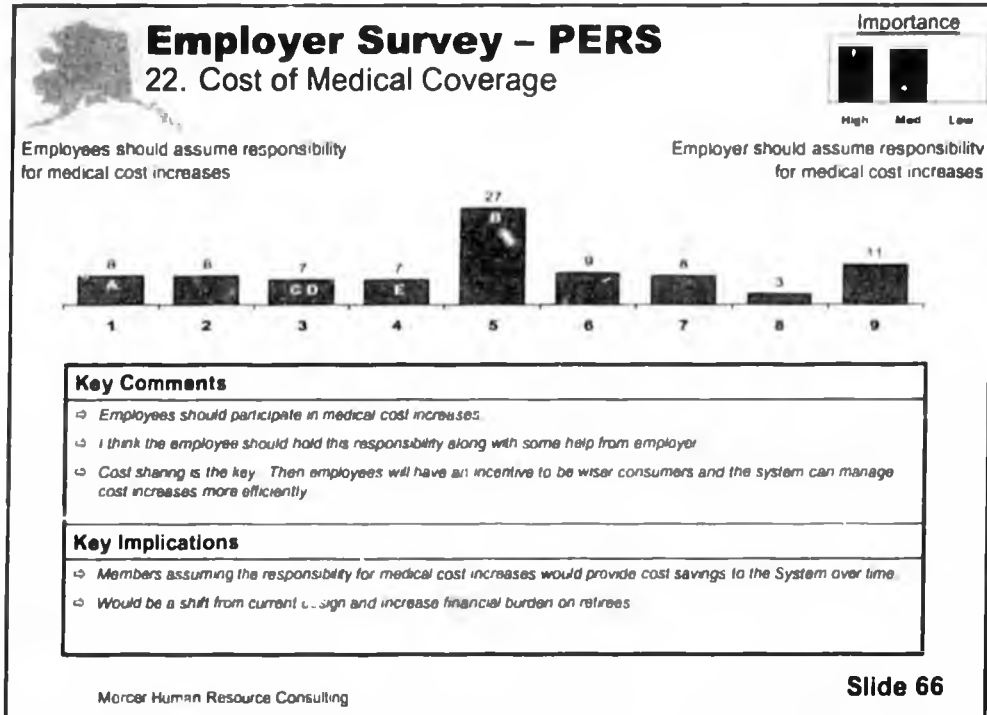
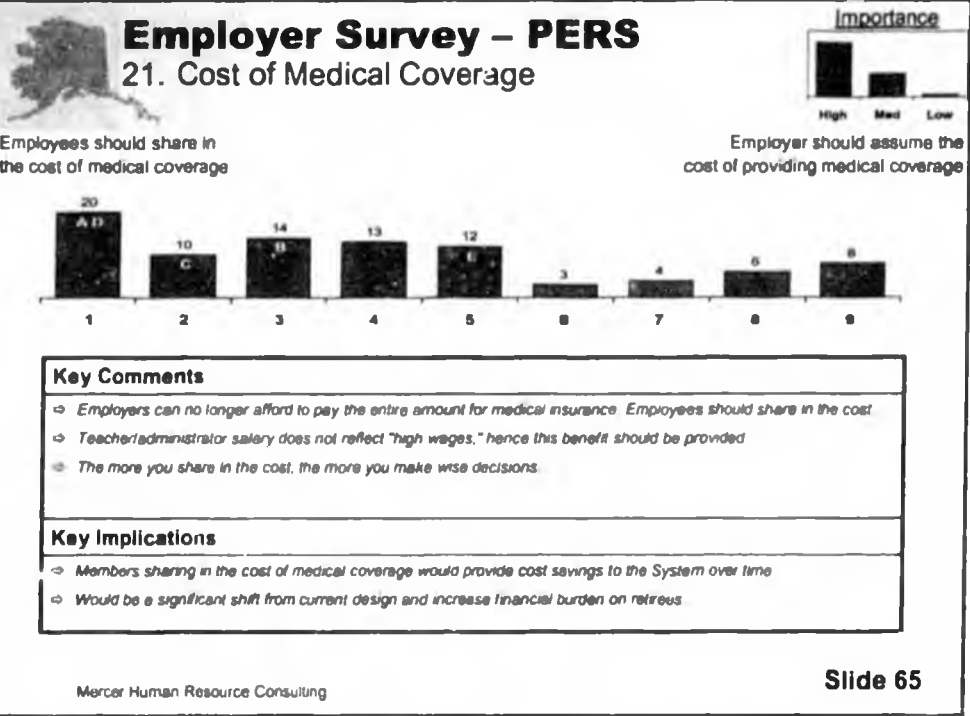
#### Key Implications

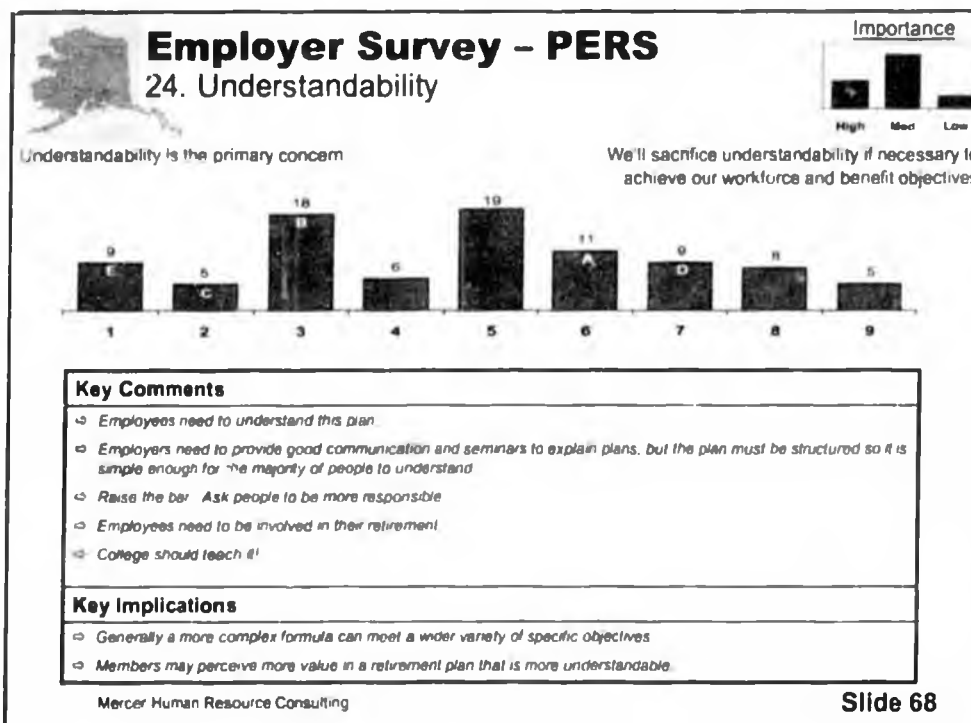
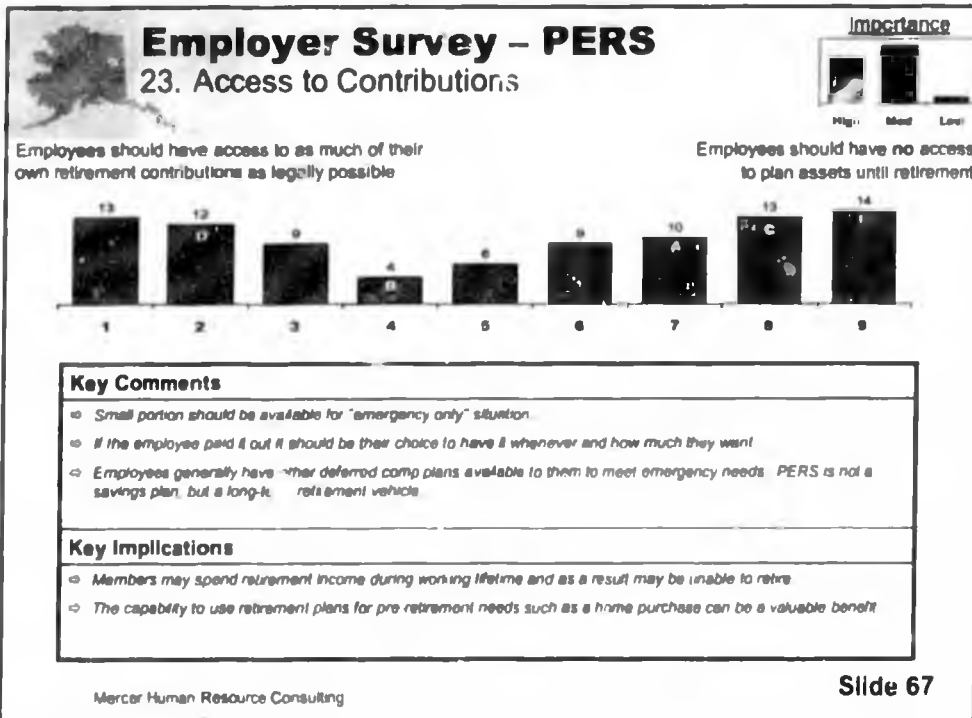
- ⇒ Providing post-retirement inflationary protection would ensure that the value of member's benefits at retirement continue to remain as valuable throughout their lifetime.
- ⇒ Providing post-retirement inflationary protection is a cost to the System.

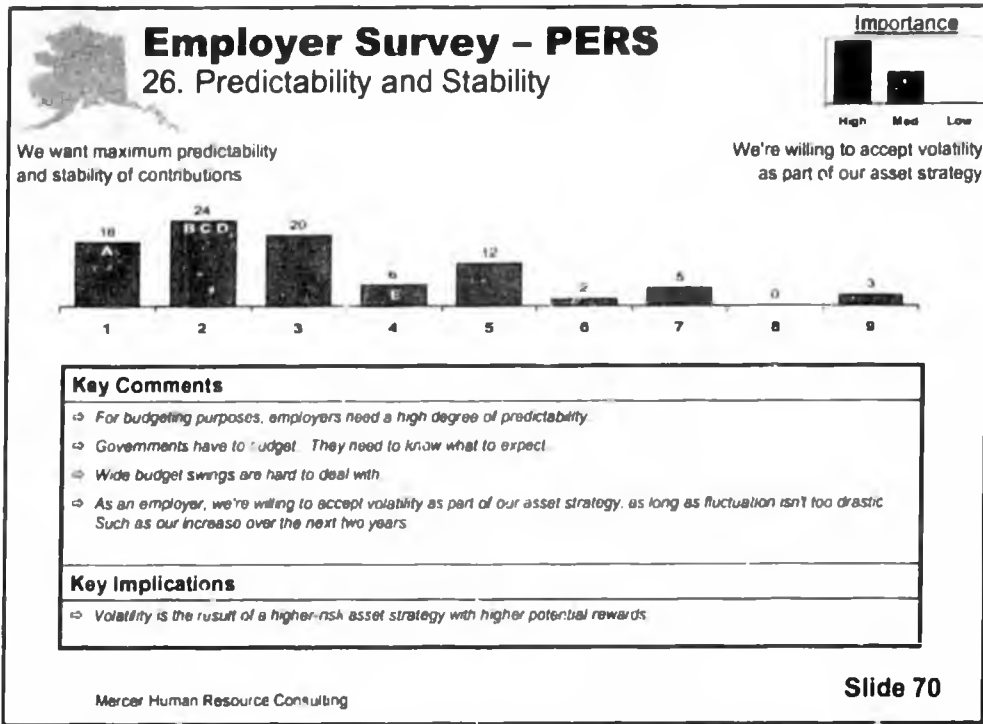
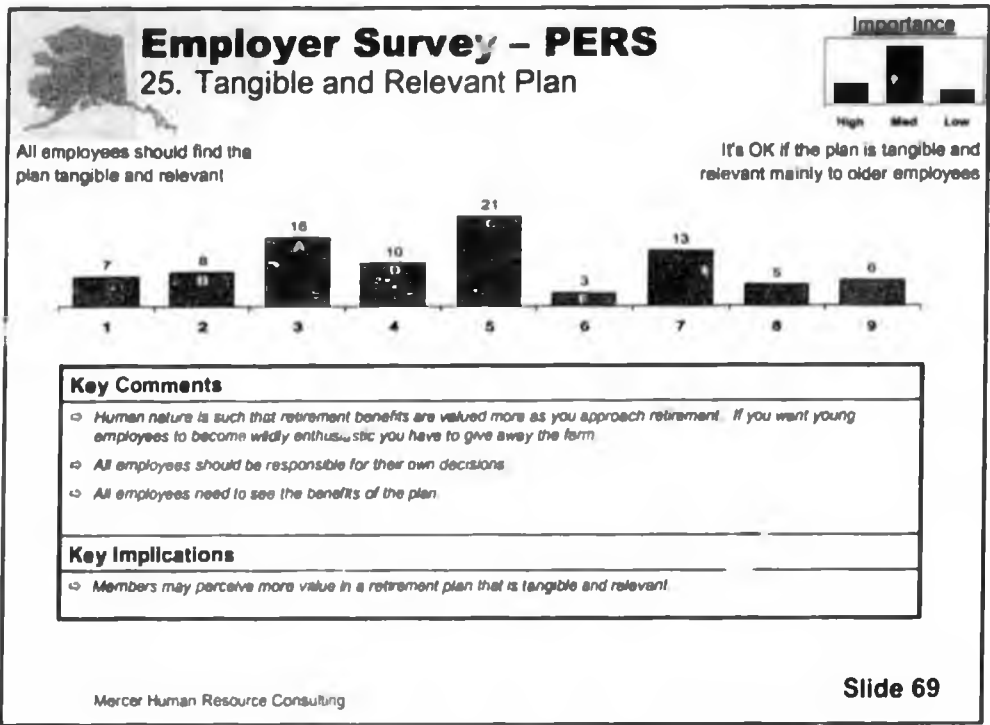
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# Employer Survey – PERS

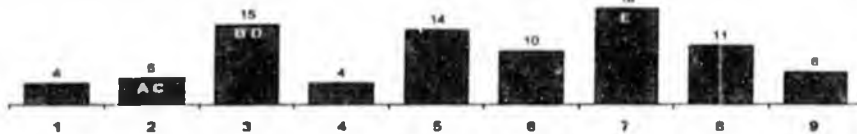
## 27. Change in Cost

Importance



Aggregate retirement contributions should be less than they are now

Marginal cost increases are appropriate to meet other design goals



### Key Comments

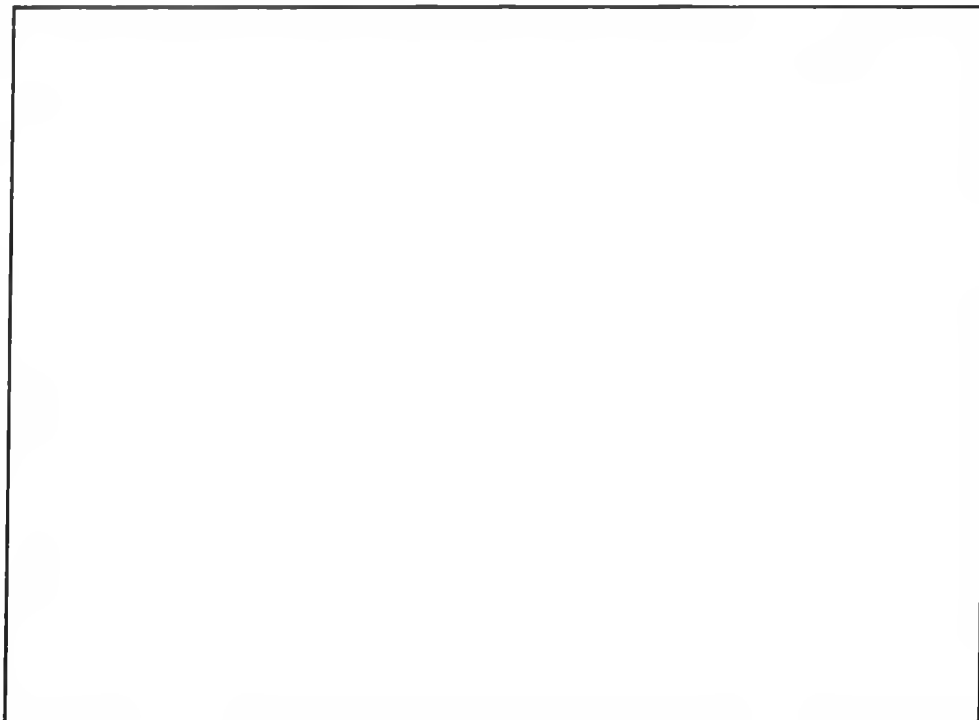
- ⇒ Employees contribution rates may need to increase!!
- ⇒ We understand that costs are increasing. Want to keep plans competitive while keeping plan costs reasonable.
- ⇒ It would be a fairly tale to want aggregate retirement contributions to be less than they are now.

### Key Implications

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

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## Employer Survey – TRS

### Key

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

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

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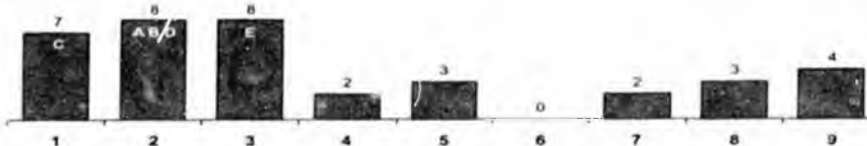
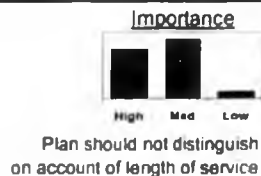
Slide 73



## Employer Survey – TRS

### 1. Long-Service Employees

Plan should favor long-service employees



#### Key Comments

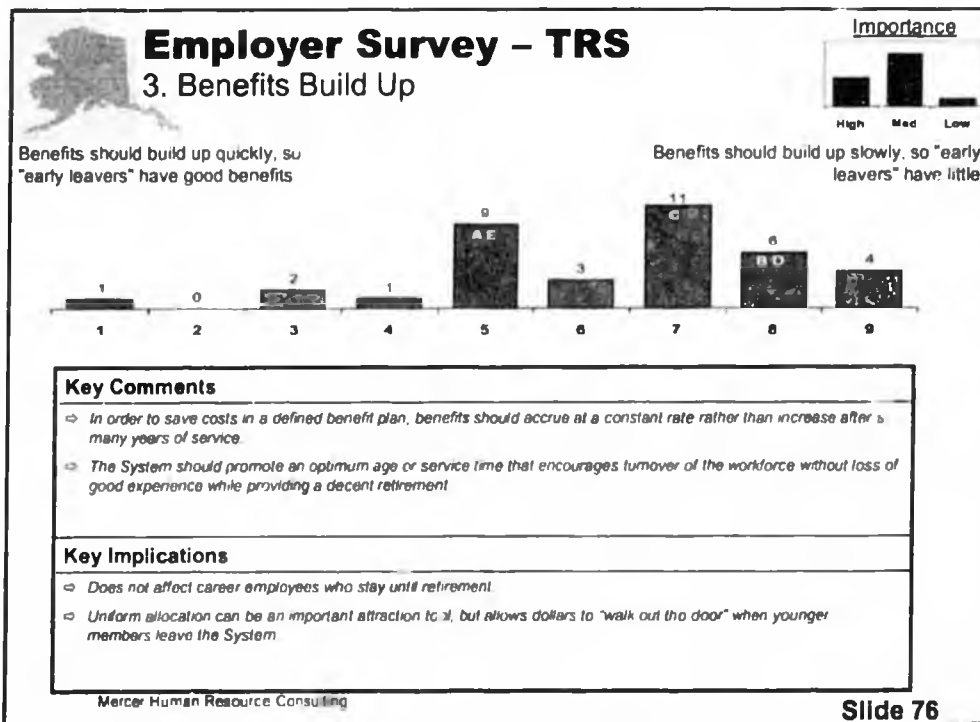
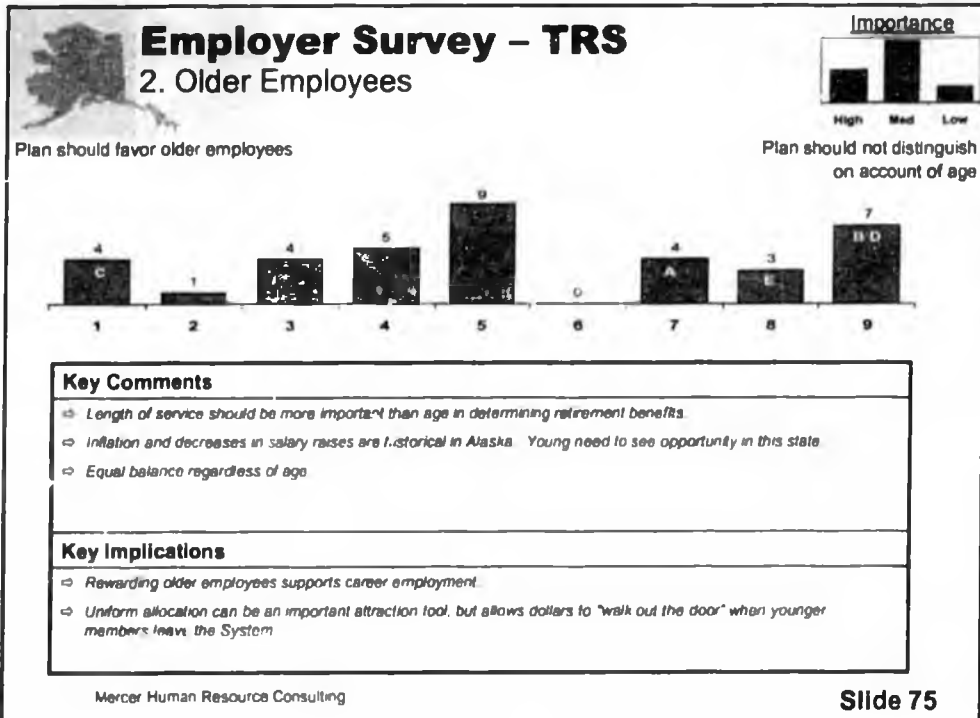
- ⇒ Incentives to reduce teacher turnover always help
- ⇒ Anything that keeps employees, saves time in recruitment, hiring, and training
- ⇒ Retaining quality employees is far more important. Employees for hire consider immediate compensation, not retirement. Veteran employees deserve rewards.

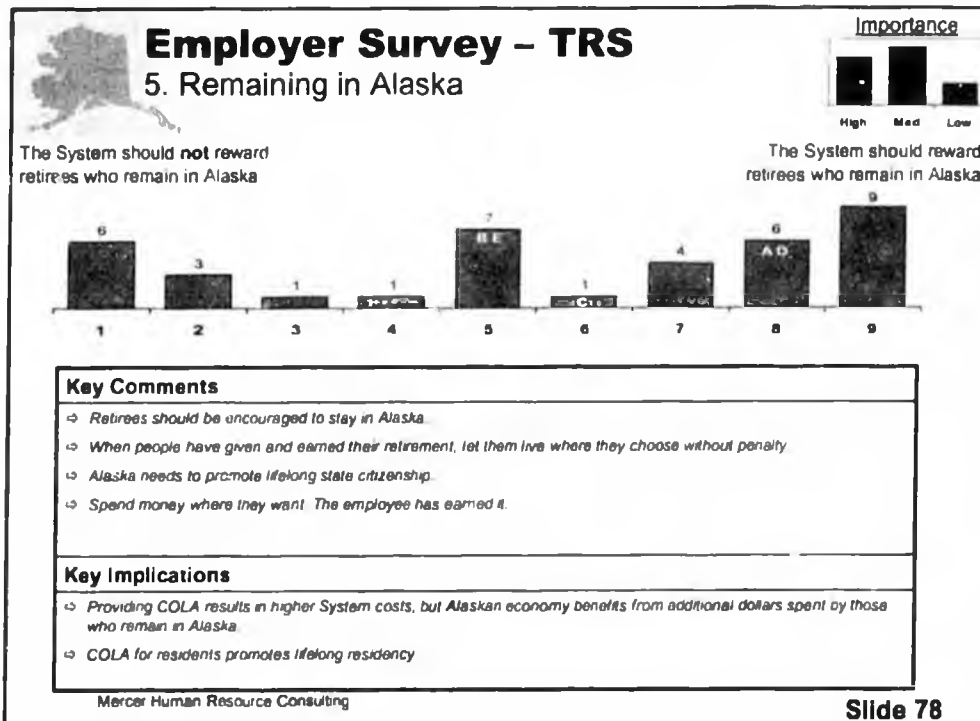
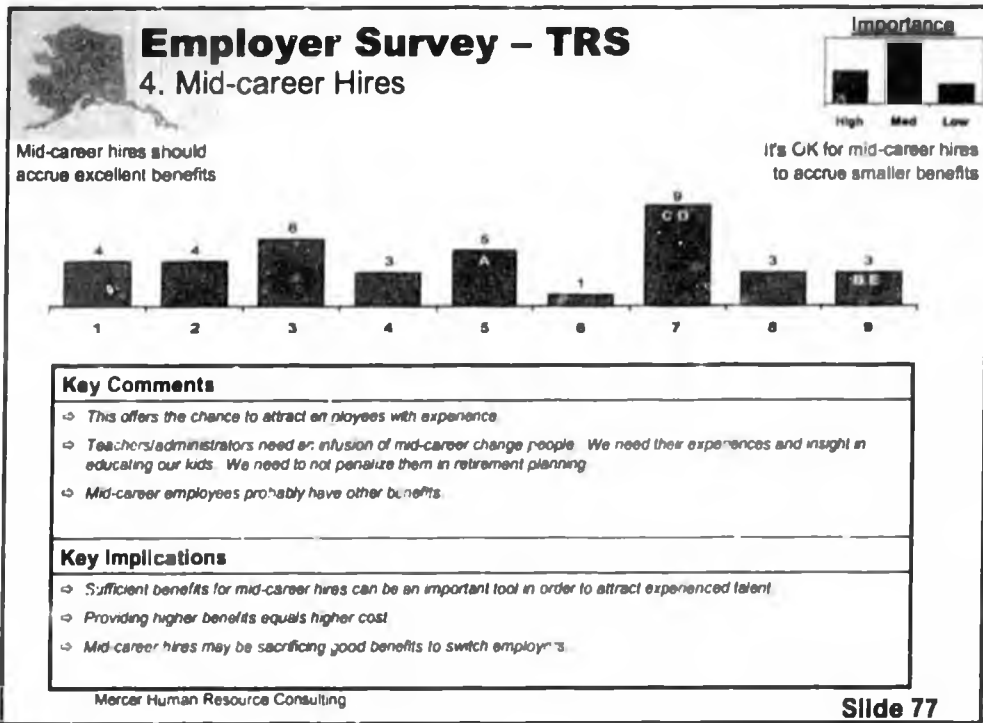
#### Key Implications

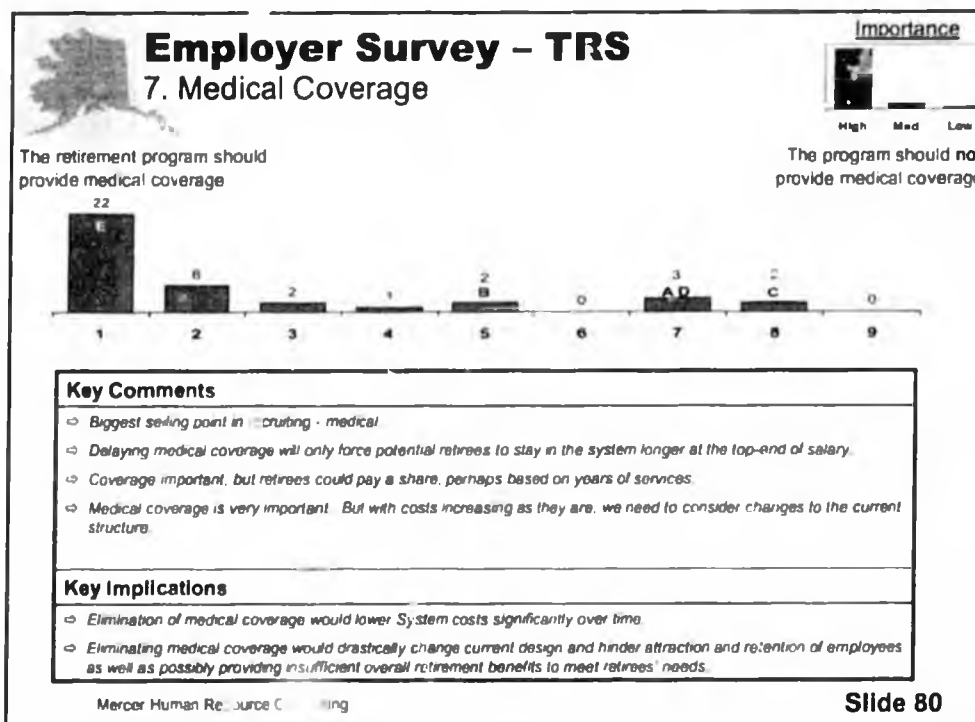
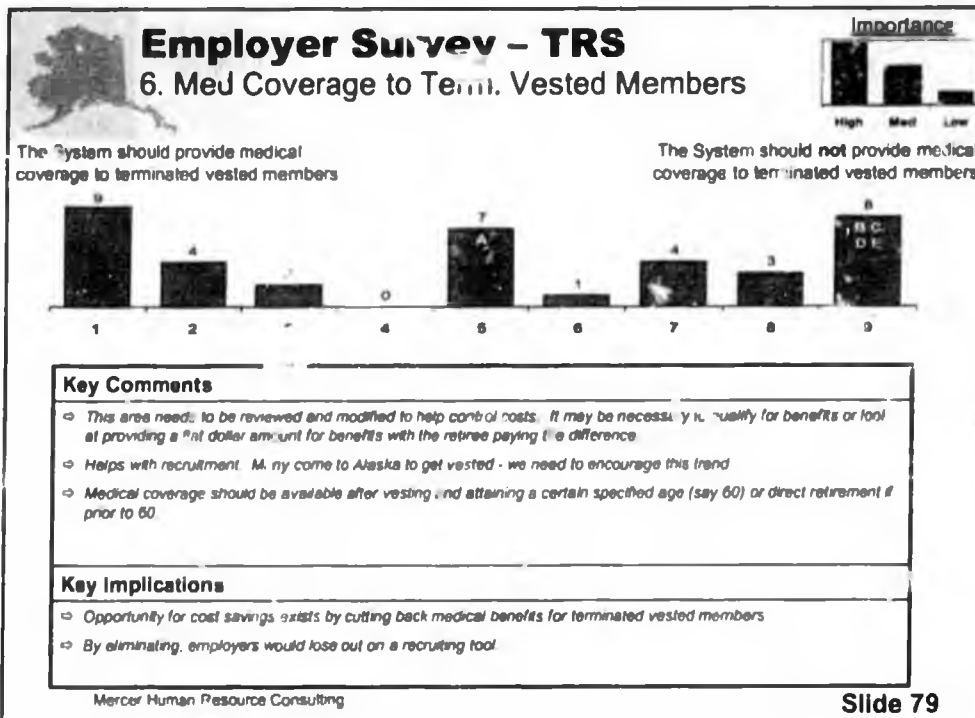
- ⇒ Rewarding long-service employees supports career employment.
- ⇒ Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when short-service employees leave the System.

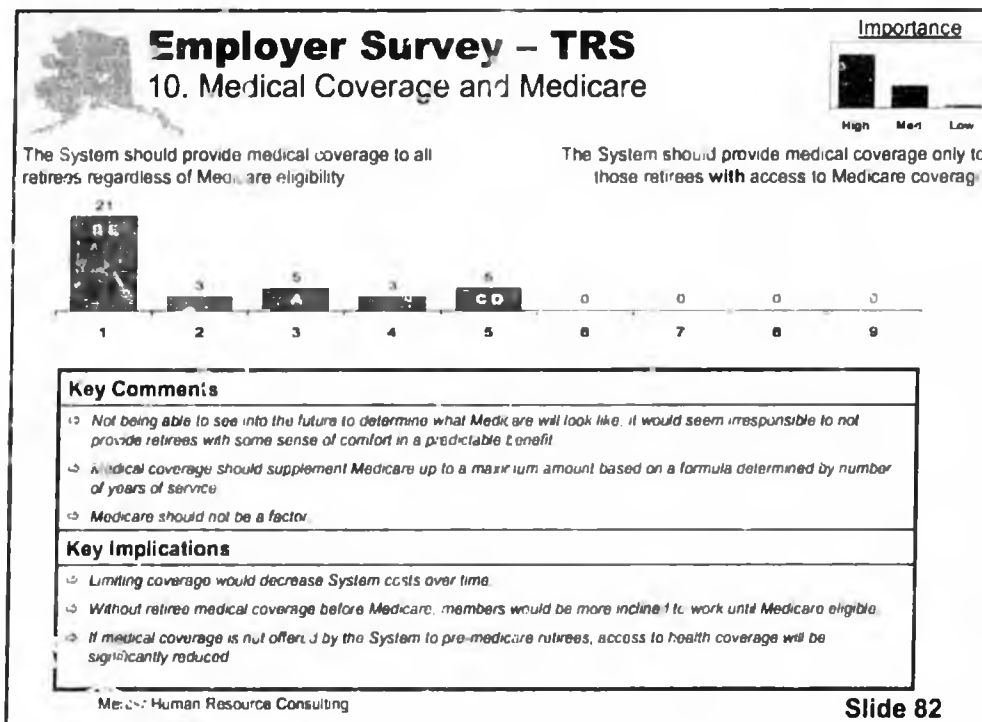
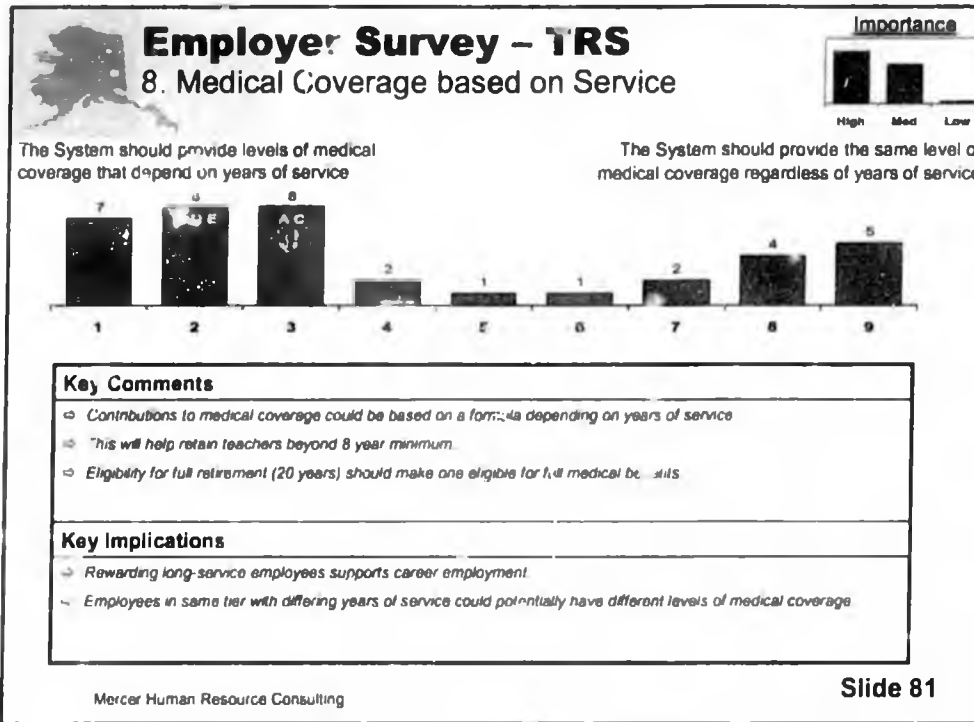
Mercer Human Resource Consulting

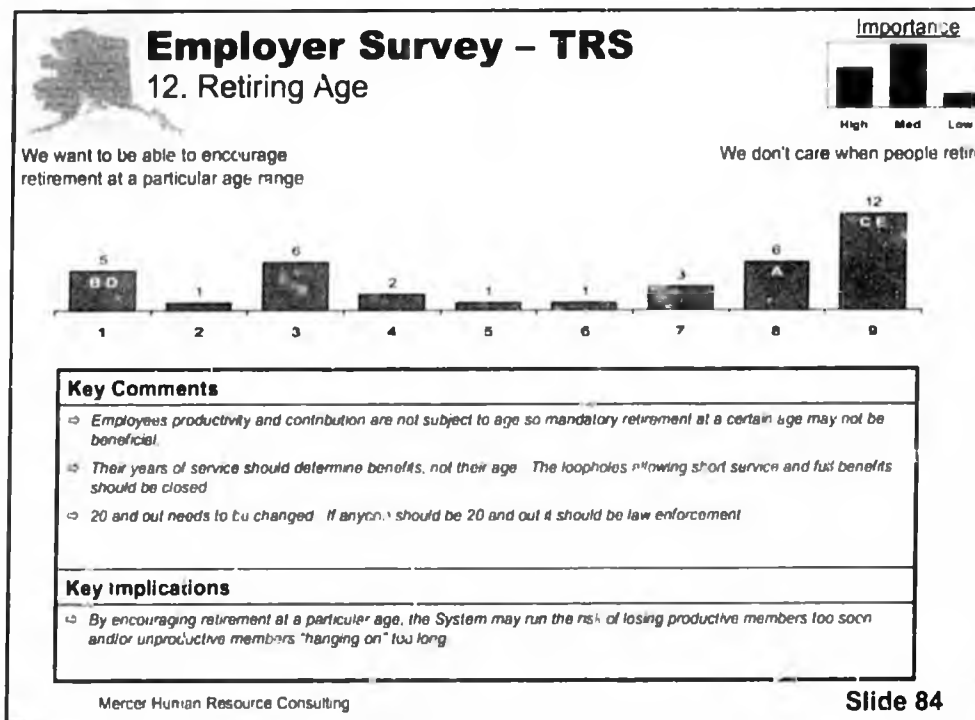
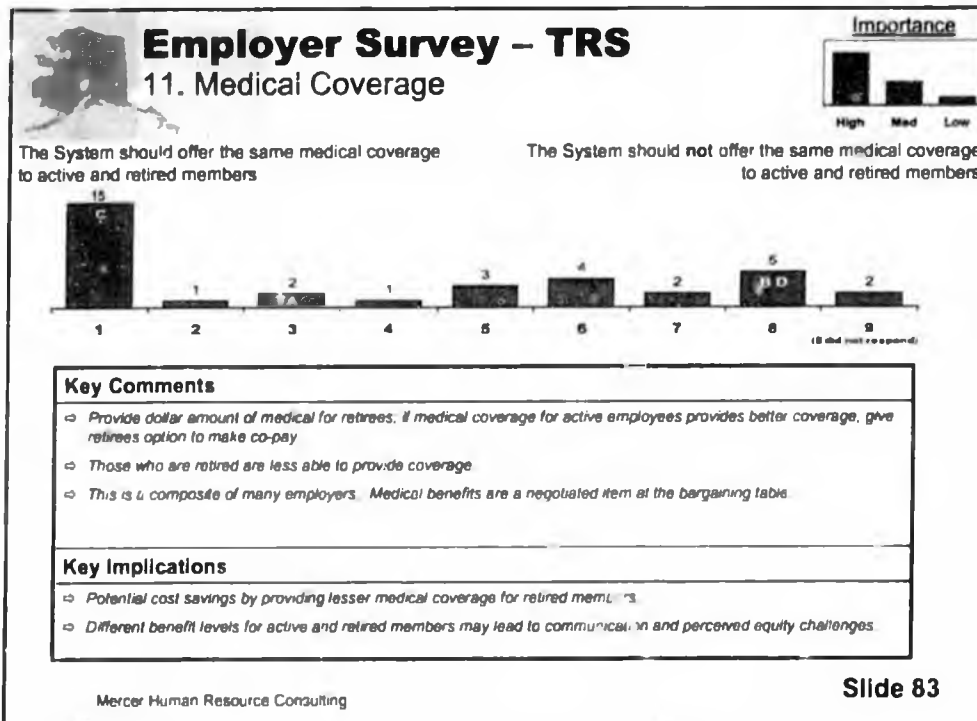
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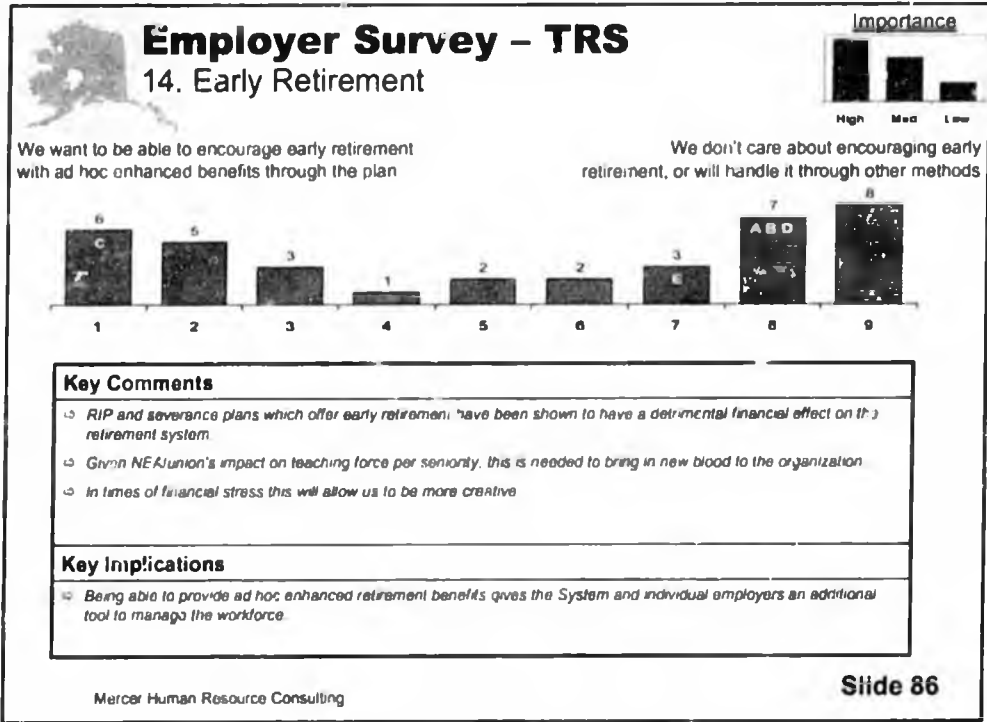
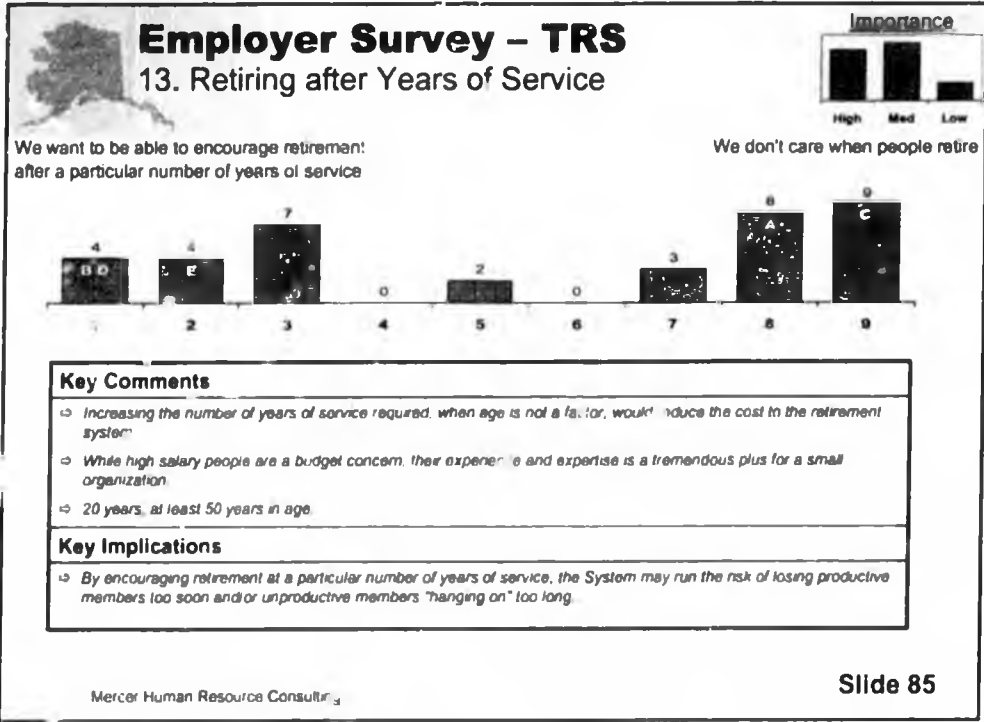


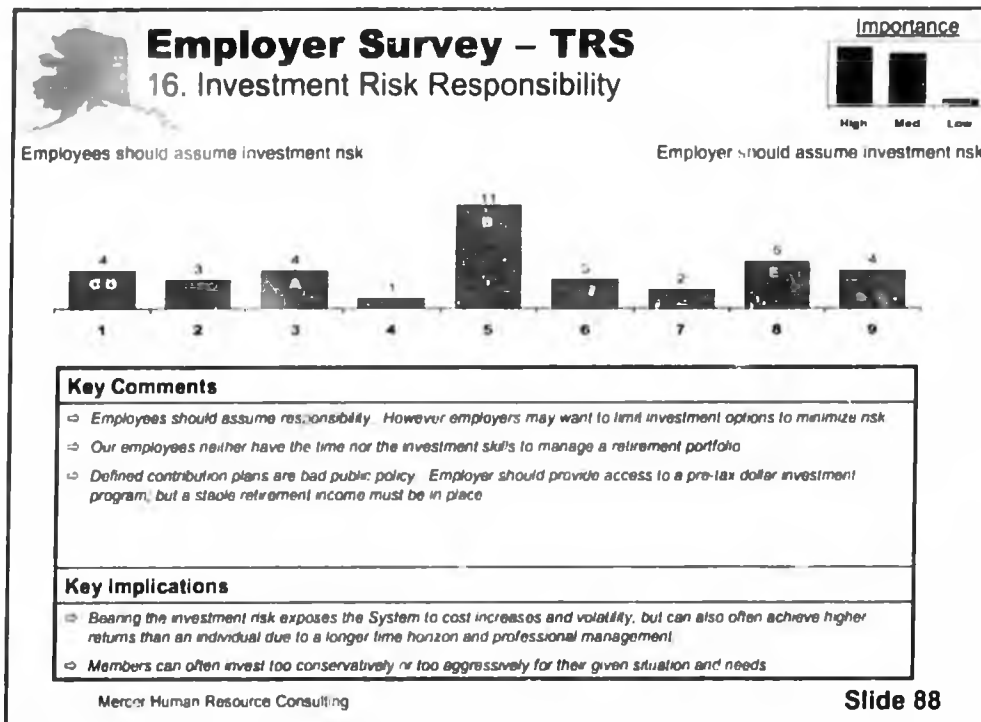
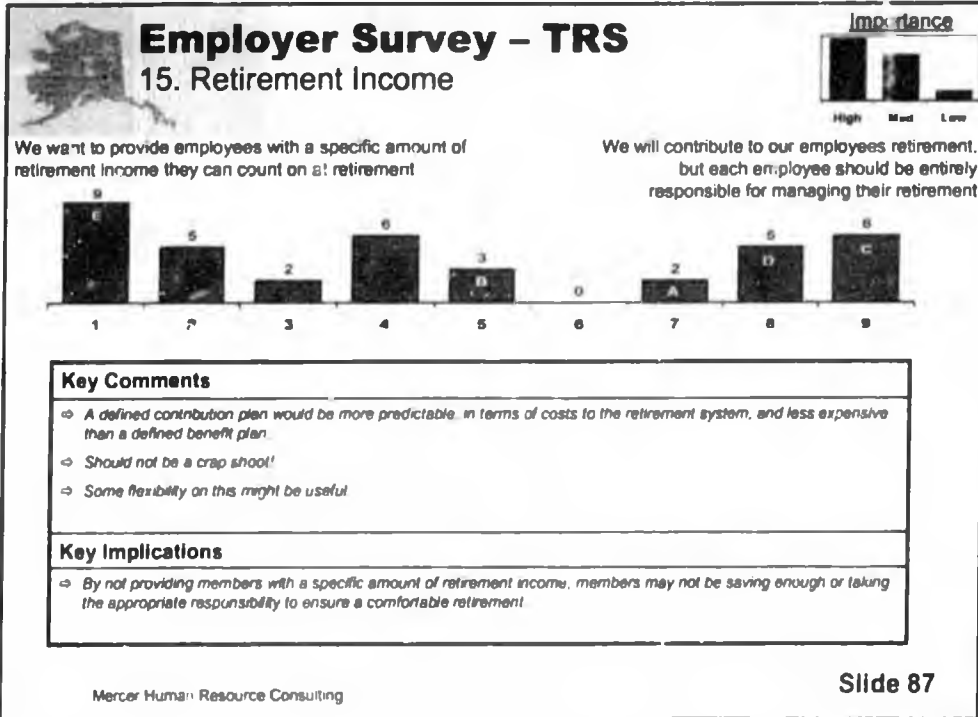


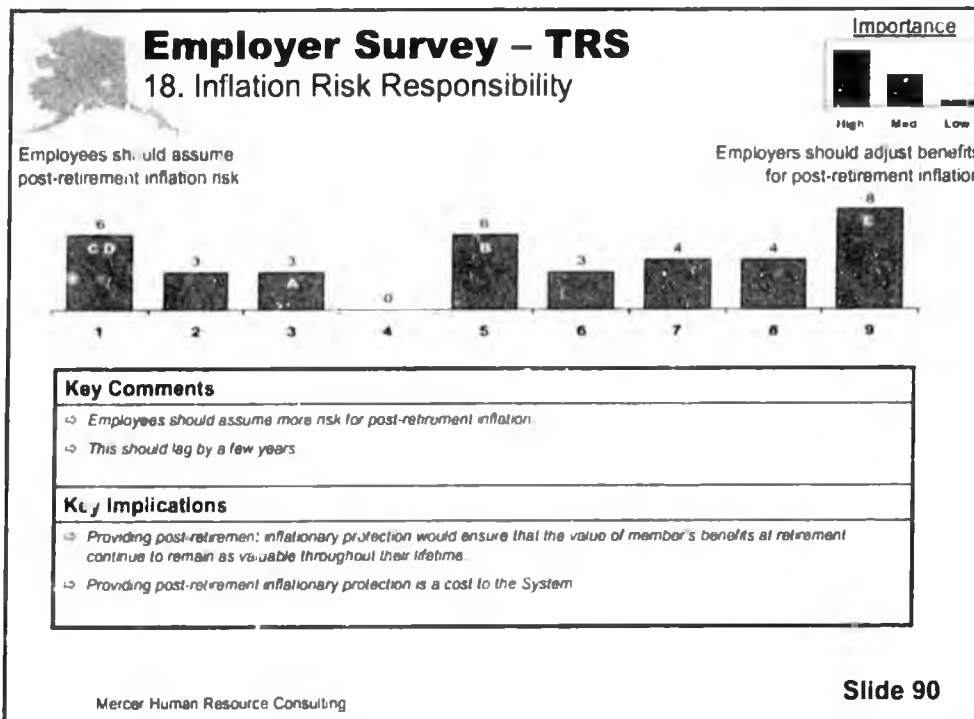
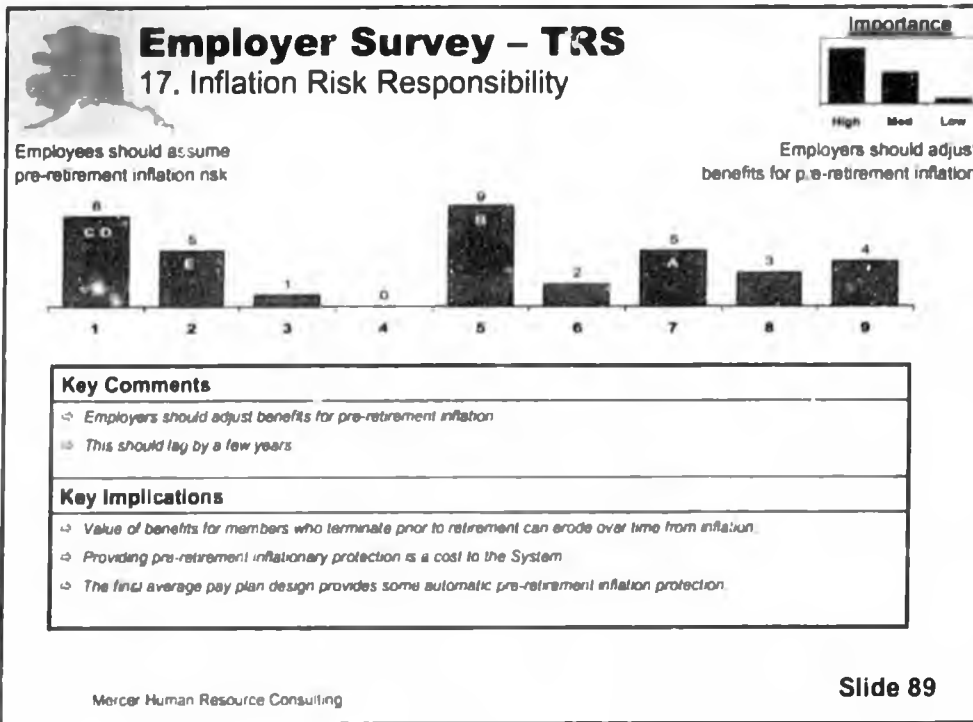


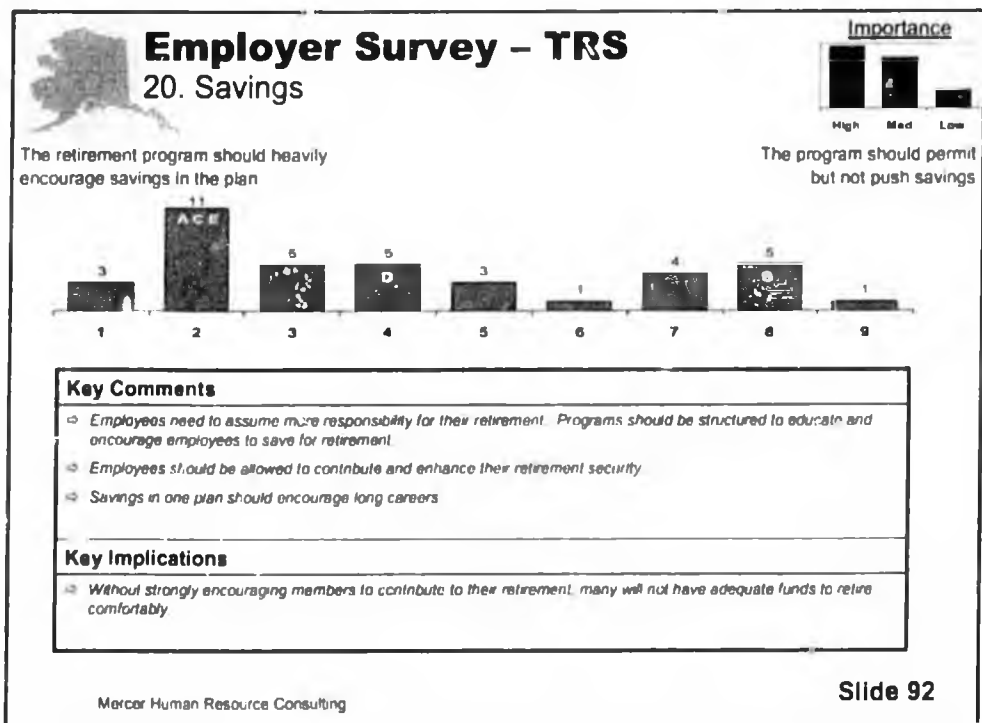
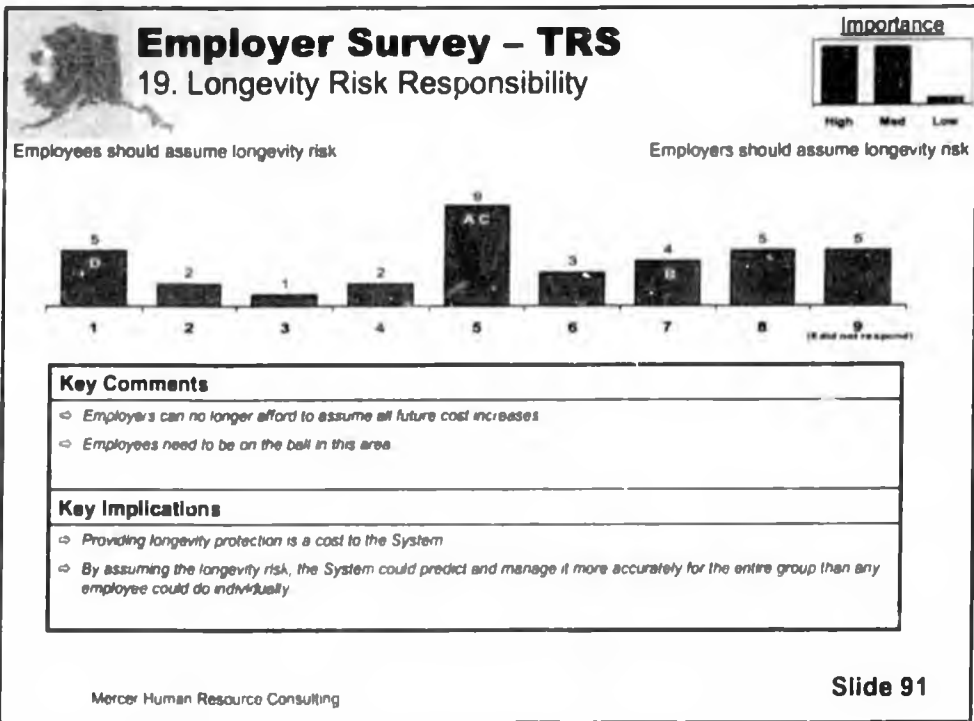


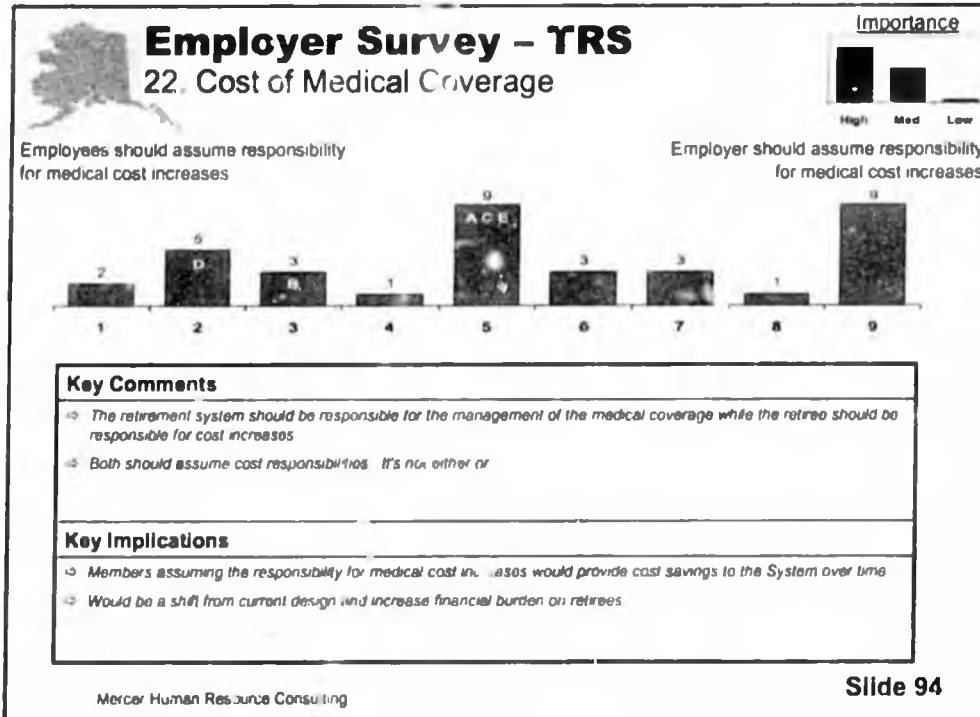
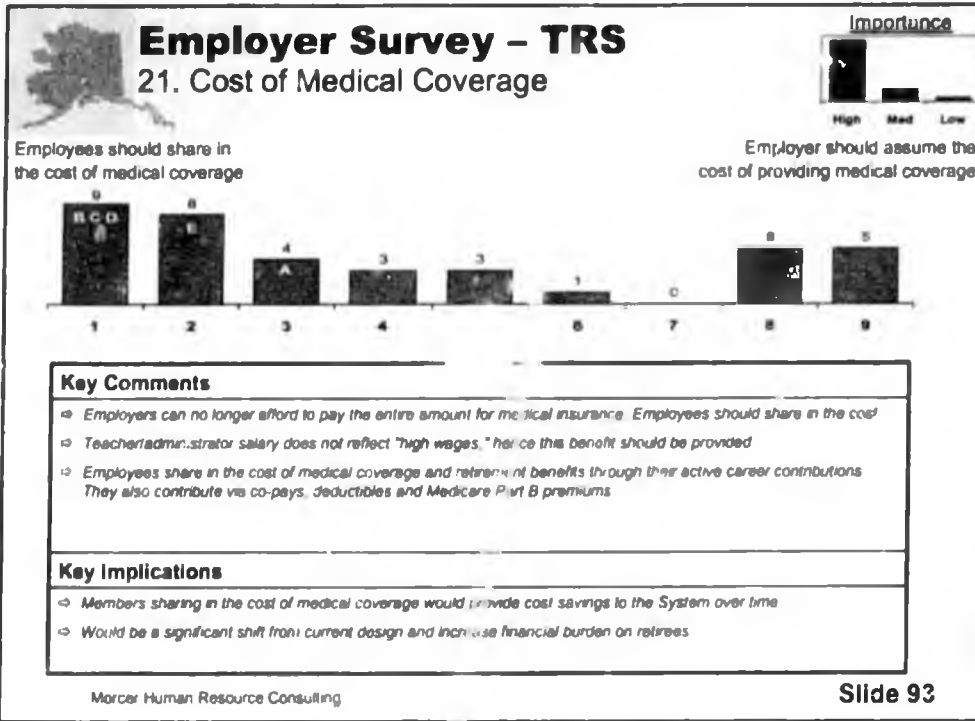














# Employer Survey - TRS

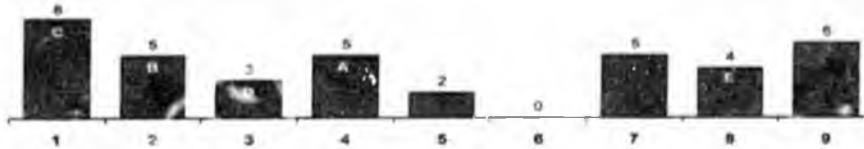
## 23. Access to Contributions

Importance



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

Employees should have no access to plan assets until retirement



### Key Comments

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

### Key Implications

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

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# Employer Survey - TRS

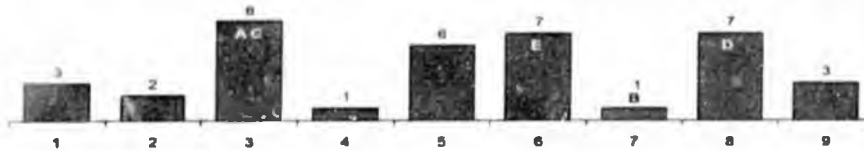
## 24. Understandability

Importance



Understandability is the primary concern

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



### Key Comments

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

### Key Implications

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

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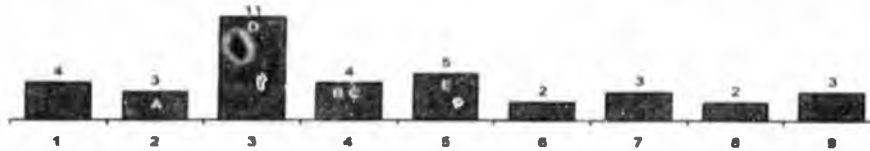
## Employer Survey – TRS

### 25. Tangible and Relevant Plan



All employees should find the plan tangible and relevant

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



#### Key Comments

- ⇒ All employees should understand and value LIRA retirement plan
- ⇒ Recruiting tool

#### Key Implications

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

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## Employer Survey – TRS

### 26. Predictability and Stability



We want maximum predictability and stability of contributions

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



#### Key Comments

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

#### Key Implications

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

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## Employer Survey - TRS

### 27. Change in Cost



Aggregate retirement contributions should be less than they are now

Marginal cost increases are appropriate to meet other design goals



#### Key Comments

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

#### Key Implications

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

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## Employer Survey - TRS

### 29. Most Important Questions



#### The four most important questions with preferred spectrum comment

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

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## Alaska Division of Retirement and Benefits 2002 Actuarial Audit of TRS & PERS

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These capital market assumptions were combined with the asset allocation policy shown in the 2000 Study to generate expected returns over a thirty-year period. The model assumes that investment returns are normally distributed and are based on mathematical formulas from *The Long-Term Expected Rate of Return: Setting it Right* by Olivier de la Grandville as published in the *Financial Analysts Journal*, Nov/Dec 1998.

The expected real rate of return of a portfolio allocated in this way is 5.94% for one year, which is slightly higher than the Mercer results shown in the 2000 Study. However, the return is subject to significant volatility. The model provides a guide to see if it is reasonable to expect this return to compound over longer periods of time. The results are summarized in the following table.

**Table 7**

Horizon in Years	Mean	Std Dev	Percentile Results				
			5th	25th	50th	95th	
1	5.94%	10.5%	(10.5)%	(1.4)%	5.4%	7.7%	24.1%
10	5.47	3.3	0.1	3.2	5.4	7.7	11.0
20	5.44	2.3	1.6	3.8	5.4	7.0	9.3
30	5.43	1.9	2.3	4.1	5.4	6.7	8.6

In the first year, the mean real return is 5.94%, but due to the volatility associated with the asset allocation, the range of probable outcomes is quite large. For example, for a single year there is a 5% chance the return will be less than -10.5% and a 5% chance it will be greater than 24.1% based on these capital market assumptions. As the time horizon lengthens, the range of cumulative average results narrows.

Over a thirty-year time horizon, there is a 25% chance the real return will be less than 4.1% and a 25% chance the return will be greater than 6.7% (bold numbers on the bottom line in the table above). Therefore, we can say the real return is just as likely to be within the range from 4.1% to 6.7% as not. The median return over thirty years is expected to be 5.4%.

The investment return is assumed to be net of all investment-related and administrative expenses. The investment and administrative expenses, taken from the System's financial statements, are very modest. The expense ratio is calculated as the total expenses divided by the average asset balance during the year. Based on this data, it appears the annual investment and administrative expenses represent are about 0.3% of the Systems' assets.

Based on the ASOP No. 27 guidelines, we conclude that a reasonable range for the net investment return is from 7.3% to 9.9%.



How many PERS have taken 242 waiver?  
" " TRS: " " " " ?

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SEP 07 2004

Div. of Ret. & Benefits

September 2, 2004

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

Subject:

**Retiree Return under HB 242/SB 149**

Dear Melanie:

As you described in your August 10 email, the legislation enacted in July of 2001 allows PERS and TRS retirees who retired under the normal retirement provisions to return to covered employment. Such retirees can sign an irrevocable waiver allowing the member to continue to receive his or her retirement benefit. Neither the employer nor the employee makes further contributions to the Retirement System. In your email you asked for an indication of the effect of this election on System funding. The chart that follows might help to illustrate this issue:

Number of Members Electing the Waiver	Increase in Average PERS Employer Contribution Rate	Increase in Average TRS Employer Contribution Rate
100	negligible	0.02%
500	0.01%	0.10%
1,000	0.02%	0.20%

A member who elects the waiver earns no additional benefits from the Retirement System. Therefore, such a member has no "normal cost" and there is no normal cost rate. However, a portion of the employer contribution for each member is needed to amortize the Systems' unfunded past service liability. This portion is referred to as the "past service rate." When a member elects the waiver, the payroll base that can be used to amortize the unfunded liability is reduced. A higher past service rate must be applied to the remaining payroll to arrive at the same payment towards the unfunded liability.



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Div. of Ret. & Benefits

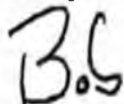
Page 2  
September 2, 2004  
Ms. Melanie Millhorn  
State of Alaska

The waivers have a greater impact on employer rates for TRS than PERS. This is because (1) the total payroll for PERS is higher so the loss of one member's contribution to the unfunded has a smaller impact and (2) the current past service rate for TRS is almost twice as high as PERS. Our analysis is extremely dependent on the current funded status of the Systems. For example, if the Systems were 100 percent funded and remained so, the waiver would have virtually no impact on employer rates.

We based our analysis on actuarial valuation information as of June 30, 2003. We assumed annual earnings for returning retirees of \$46,000 for PERS and \$64,000 for TRS. This is based on the average annual earning of current active PERS and TRS members of ages 55 to 59.

We hope you find this information helpful. Please call if you have any questions.

Sincerely,



Robert M. Reynolds, ASA, MAAA

RMR/CMB/lmp

Copy: Chris Byrnes

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