

ALASKA LEGISLATURE COMMITTEE FILES, 2000-2000 / 2

11705 HOUSE STATE AFFAIRS

Medical Program Elements

- ◆ **Required Contribution by Employer** 14.25.350(b) (pg 16), 39.35.750(b) (pg 82)
 - 1.75% of employee compensation.
 - Contribution is made to group health and life insurance trust fund to be used for employer share of retiree's monthly medical premiums.

- ◆ **Eligibility** 14.25.470 (pg 26), 39.35.870 (pg 92)
 - A member is eligible to elect medical benefits if the member:
 - ⇒ is 65 years of age and has at least 10 years of service; or
 - ⇒ has 25 years of service as a peace officer/firefighter; or
 - ⇒ has 30 years of service for all others.
 - A member's surviving spouse is eligible for medical benefits if the member was eligible to elect medical benefits at the time of the member's death.

- ◆ **Benefits** 14.25.480 (pg 26), 39.35.880 (pg 92)
 - Medical benefits include *access* to major medical insurance and the health reimbursement arrangement (HRA).
 - *Access* means that an eligible person may not be denied insurance coverage except for failure to pay the required premium.
 - An eligible person may participate in the medical insurance, the HRA, or both.
 - An irrevocable decision to elect major medical insurance must be made by age 70 ½.

- ◆ **Major Medical Insurance** Sec. 14.25.480 (pg 26), Sec. 39.35.880 (pg 92)
 - Insurance coverage for an eligible member includes the member's spouse and the member's dependent children.
 - Insurance coverage for a surviving spouse includes the member's dependent children if they are dependent on the surviving spouse.
 - Retirees who meet the required years of service, but who are less than Medicare age eligible (presently age 65), must pay the full premium to receive coverage.
 - Retirees who are Medicare age eligible will pay only a portion of monthly medical premiums depending on years of service:
 - + 10-14 years = 30%
 - + 15-19 years = 25 %
 - + 20-24 years = 20%
 - + 25-29 years = 15%
 - + 30+ years = 10%
 - Only one premium per retiree and family.
 - Different premiums developed for single retirees and retirees with spouse and/or children.

- ◆ **Health Reimbursement Arrangement (HRA) 39.30.300 (pg 57)**
 - **Employer Fund**
 - ⇒ The HRA Trust is an employer owned fund. 39.30.350 (pg 58)
 - ⇒ Employee contributions are not permitted.
 - ⇒ Employers may use surplus funds held in the trust to credit individual employee records with the annual contributions owed by the employer.
 - **Required Contributions 39.30.370 (pg 58)**
 - ⇒ Employer contributes an annual (and equal) dollar amount per employee to the health insurance trust fund.
 - ⇒ Amount is 2% of employer's annual average group compensation.
 - ⇒ Contribution is recorded in both an individual employee account and an employer record.
 - ⇒ Interest is posted to individual accounts annually, the rate determined by the ARMB.
 - ⇒ Contributions and interest accumulate over working lifetime of employees.
 - **Termination of Employment 39.30.380 (pg 58)**
 - ⇒ Individual accounts of record are maintained for five years if an employee terminates without retiring.
 - ⇒ Terminated employee accounts revert to the employer unless the individual returns to work within the five-year period.
 - ⇒ A person who returns to work within the five-year period is attributed the account balance recorded in their name on the date of termination.
 - **Reimbursements**
 - ⇒ Who is eligible? 39.30.390 (pg 58)
 - + Persons who meet the eligibility requirements for medical benefits.
 - + Dependent children are eligible if both retiree and spouse die.
 - ⇒ Reimbursements made for qualified medical expenses under IRC 213(d), including medical premium payments. 39.30.400 (pg 58)
 - ⇒ Total reimbursements are limited to an individual's recorded account.
 - ⇒ No set limits other than exhaustion of account balance.

Other Plan Elements

- ◆ **Option to Convert from DB to DC Plan** 14.25.540 (pg 30), 39.35.940 (pg 96)
 - Unvested, active members of PERS and TRS are eligible to convert to DC plan.
 - Employer must first make choice to offer this option to all their employees.
 - Participation in DC plan is in lieu of the DB plan; all rights to DB plan are forfeit.
 - A member's individual account balance will be rolled into a new account under the DC plan.
 - A member's employer shall make a 100% matching contribution with new funds (i.e., cannot transfer employer portion from the DB trust fund).
 - A member's years of service under the DB plan will be counted toward the years of service required for medical benefits eligibility.

- ◆ **Participating Employers**
 - Mechanism is included for political subdivisions and public organizations that do not currently participate in PERS to join the DC plan in the future.
39.35.950-39.35.955 (pg 98)
 - Includes specific employers already participating in PERS and TRS to allow their future employees to participate in the DC Plan (DB plan closes on July 1, 2005).
14.25.560-14.25.580 (pg 32-33), 39.35.965-39.35.970 (pg 99)
 - ⇒ Legislators who have been teachers
 - ⇒ National Education Association employees
 - ⇒ Special Education Service Agency employees
 - ⇒ Army and Air National Guard employees
 - ⇒ North Pacific Fishery Management Council employees

Changes to Existing Retirement System

- ◆ **Employee and Employer Contributions to the Defined Benefit Plans**
Sec. 8 (pg 7), Sec. 88 (pg 68-69)
 - The employee contribution rate is changed to the greater of:
 - ⇒ the amount set in statute prior to enactment of this bill; or
 - ⇒ one-half of the normal cost rate as determined by the ARM Board.
 - The employer contribution rate is changed so that it may not be less than the difference between the employee contribution and the normal cost rate that is set by the ARM Board. Sec. 10 (pg 8), Sec. 96 (pg 72)

- ◆ **Ad-hoc Post Retirement Pension Adjustments** Sec. 17-18 (pg 11), Sec. 113 (pg 77)
 - Defines "financial condition of the retirement fund" for the ad-hoc post retirement pension adjustment as a 110% ratio of assets to liabilities (applicable only to Tier I retirees). (See editor's notes under AS 14.25.143 and AS 39.35.483)

◆ **University Optional Retirement Program (ORP)**

Sec. 35 (pg 38) through Sec. 51 (pg 42)

- Changed AS 14.40.661-14.40.799 giving the Board of Regents flexibility to design both optional and mandatory retirement programs for future University employees.
- Specifies the University's retirement programs are not subject to collective bargaining.
- Provides one-time option for current employees who chose to participate in PERS and TRS to transfer into the existing ORP.

◆ **Consolidation of Boards**

- Eliminates:

- ⇒ Public Employees' Retirement System Board
- ⇒ Teachers' Retirement System Board.
- ⇒ Alaska State Pension Investment Board.

- Creates new Alaska Retirement Management Board (ARM Board) Sec. 59 (pg 46)

⇒ 9 trustees appointed by the Governor

- + Commissioner of Administration
- + Commissioner of Revenue
- + 3 Alaska residents who do not participate in the retirement systems
- + 1 finance officer of a political subdivision ←
- + 1 finance officer of a school district ←
- + 1 PERS member (active or retired)
- + 1 TRS member (active or retired)

⇒ All trustees must have recognized competence (working or teaching) in one or more of the fields of investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis.

⇒ Terms

- + Staggered three years
- + Limited to three consecutive terms with a required one-year break.

◆ **Powers and Duties of ARM Board Sec. 61 (pg 47-50)**

- Manage the assets and set the investment objectives of the defined benefit trust fund to meet pension liabilities.
- Annual actuarial valuation of system plans, coordinating with the retirement system administrator.
- Analysis of actuarial assumptions experience, including a second opinion:
 - ⇒ Health costs assumptions annually.
 - ⇒ All other assumptions not less than every four years.
- Audit of actuary not less than every four years.

- **Rate setting:**
 - ⇒ Employer contribution rates, including "normal cost" and "past service cost".
 - ⇒ Employee contribution rates if one-half of the "normal cost" is higher than the current rates set in statute.
 - ⇒ Interest rates credited to individual employee accounts.
 - ⇒ Interest rates credited to employee HRA account records.
- ◆ **Other Duties of the former PERS and TRS Boards Transferred**
 - **To the Commissioner of Administration:**
 - ⇒ Adoption of regulations governing the retirement systems. 14.25.003 (pg 2), 14.25.005 (pg 4), 39.35.003 (pg 61), 39.35.005 (pg 63)
 - ⇒ Requests for a waiver of any adjustment made to the retirement system accounts due to a change or error in contributions or benefit computations. Sec. 21-27 (pg 12)
 - **To the Office of Administrative Hearings:**
 - ⇒ Adjudication of appeals related to decisions of the retirement system administrator. 14.25.006 (pg 5), 39.35.006 (pg 64), Sec. 129 (pg 105)
 - ⇒ Adjudication of appeals related to the denial of a waiver for repayment of overpayments. Sec. 24-25 (pg 13)
- ◆ **Conditional Service Retirement Benefits Sec. 111 (pg 76)**
 - Changes the credited service requirement to 120 days for legislative employees under AS 39.35.385(f).
- ◆ **Repeal**
 - **Refunded prior members Sec. 131 (pg 105) <AS 14.25.062 and AS 39.35.350>**
 - ⇒ Repealed effective June 30, 2010.
 - ⇒ The intent of the repeal is to relieve the "off books" liability of hundreds of millions of dollars represented by more than 77,000 people who have refunded out of the State's retirement system but who could return to work and be restored to the tier status they held prior to termination by repaying the amount refunded plus interest.
 - ⇒ In medical premiums alone, this amount stands at greater than \$107 million for one year in today's dollars.
- ◆ **Fiscal Note**
 - Appropriates \$69.5 million directly to the retirement trust funds on behalf of all PERS participating employers (includes small amount of TRS). This amount represents the 5% increase in PERS employer costs from FY2005 to FY2006.
 - PERS and TRS for school districts (\$38.1 million) is rolled into the BSA at \$4,919.

Comparison of the States Normal Retirement by Age/Service

State	A = Any				Rule: Age+Service = Number			
	Teachers				Other*			
Georgia	60/10		A/30		65/10		A/30	
Indiana	65/10	60/15	55/30		65/10	60/15		Rule 85
Massachusetts	65/10		A/20		65/10		A/20	
Colorado					65/5	50/30		Rule 80
Idaho					65/5	60/5		
Missouri	60/5		A/30	Rule 80	65/5	60/15		Rule 80
Nebraska	65/5		A/35	Rule 85	65/5			
Nevada					65/5	60/10	A/30	
New Mexico	65/5	60/15	A/25		65/5	60/20	A/25	
North Carolina					65/5	60/25	A/30	
South Carolina					65/5		A/28	
Virginia					65/5	50/30		
Washington	65/A				65/5			
Utah					65/4		A/30	
North Dakota	65/A			Rule 85	65/3			Rule 85
South Dakota					65/3			Rule 85
Maryland	65/2	62/5	A/30		65/2	62/5	A/30	
Minnesota	65/3	62/30			65/1			
Arizona					65/A	62/10		Rule 80
Iowa					65/A	62/20		Rule 88
Kansas					65/A	62/10		Rule 85
Kentucky	55/5		60/27		65/A		A/27	
Montana	60/5		A/25		65/A	60/5	A/30	
Vermont	62/A		A/30		65/A		A/30	
Wisconsin					65/A			
Hawaii					62/10	55/30		
Maine					62/10	62/5	60/5	
Oklahoma	62/5			Rule 90	62/8			Rule 90
Florida					62/6		A/30	
Delaware					62/5	60/15	A/30	
New York	62/5	55/30			62/5	55/30		
Alabama	60/10		A/25		60/10		A/25	
Louisiana	65/20	55/25	A/30		60/10	55/25	A/30	
Michigan					60/10		55/30	
New Jersey	60/10		A/25		60/10			
Rhode Island					60/10		A/28	
Illinois	62/5	60/10	55/35		60/8			Rule 85
Alaska	60/8		A/20		60/5		A/30	
California	55/5	50/30			60/5	50/5	55/5	
Ohio	60/5	55/25	A/30		60/5	55/25	A/30	
Oregon					60/5			
Tennessee					60/5		A/30	
Texas	65/5			Rule 80	60/5			Rule 80
West Virginia	60/5	55/30	A/35		60/5			Rule 80
Mississippi					60/4		A/25	
Wyoming					60/4			Rule 85
Pennsylvania	62/1	60/30	A/35		60/3		A/35	
New Hampshire					60/A			
Connecticut	60/20		A/35		55/10		A/25	
Arkansas	60/5		A/28					

* Other may include teachers and public safety personnel in some states

Comparison of the States Normal Retirement by Age/Service

State	A = Any				Rule: Age+Service = Number			
	Teachers				Other*			
Georgia	60/10		A/30		65/10		A/30	
Indiana	65/10	60/15	55/30		65/10	60/15		Rule 85
Massachusetts	65/10		A/20		65/10		A/20	
Colorado					65/5	50/30		Rule 80
Idaho					65/5	60/5		
Missouri	60/5		A/30	Rule 80	65/5	60/15		Rule 80
Nebraska	65/5		A/35	Rule 85	65/5			
Nevada					65/5	60/10	A/30	
New Mexico	65/5	60/15	A/25		65/5	60/20	A/25	
North Carolina					65/5	60/25	A/30	
South Carolina					65/5		A/28	
Virginia					65/5	50/30		
Washington	65/A				65/5			
Utah					65/4		A/30	
North Dakota	65/A			Rule 85	65/3			Rule 85
South Dakota					65/3			Rule 85
Maryland	65/2	62/5	A/30		65/2	62/5	A/30	
Minnesota	65/3	62/30			65/1			
Arizona					65/A	62/10		Rule 80
Iowa					65/A	62/20		Rule 88
Kansas					65/A	62/10		Rule 85
Kentucky	55/5		60/27		65/A		A/27	
Montana	60/5		A/25		65/A	60/5	A/30	
Vermont	62/A		A/30		65/A		A/30	
Wisconsin					65/A			
Hawaii					62/10	55/30		
Maine					62/10	62/5	60/5	
Oklahoma	62/5			Rule 90	62/8			Rule 90
Florida					62/6		A/30	
Delaware					62/5	60/15	A/30	
New York	62/5	55/30			62/5	55/30		
Alabama	60/10		A/25		60/10		A/25	
Louisiana	65/20	55/25	A/30		60/10	55/25	A/30	
✓ Michigan					60/10		55/30	
New Jersey	60/10		A/25		60/10			
Rhode Island					60/10		A/28	
Illinois	62/5	60/10	55/35		60/8			Rule 85
Alaska	60/8		A/20		60/5		A/30	
California	55/5	50/30			60/5	50/5	55/5	
Ohio	60/5	55/25	A/30		60/5	55/25	A/30	
Oregon					60/5			
Tennessee					60/5		A/30	
Texas	65/5			Rule 80	60/5			Rule 80
✓ West Virginia	60/5	55/30	A/35		60/5			Rule 80
Mississippi					60/4		A/25	
Wyoming					60/4			Rule 85
Pennsylvania	62/1	60/30	A/35		60/3		A/35	
New Hampshire					60/A			
Connecticut	60/20		A/35		55/10		A/25	
Arkansas	60/5		A/28					

* Other may include teachers and public safety personnel in some states

A

Major Medical in HB 238

-Insurance coverage for an eligible member includes the member's spouse and dependents, however all dependents had to be dependents while the member was an active employee. Each member will have to pay a separate premium with subsidy based on member's years of service.

-Retirees who have 30 years of service and leave the system before normal retirement age (60 months pre-Medicare eligible) have access to the system but are required to pay 100% of the premium.

-Retirees become eligible for a subsidy based on years of service when they reach 60 months pre-Medicare (currently 60)

Retiree is eligible for subsidy with 10 years of service. Subsidy is based on years of service, 3% for each year up to 30 years (90% subsidy).

Employee percentage of premium:

-10 years = 70%	-17 years = 49%	-24 years = 28%
-11 years = 67%	-18 years = 46%	-25 years = 25%
-12 years = 64%	-19 years = 43%	-26 years = 22%
-13 years = 61%	-20 years = 40%	-27 years = 19%
-14 years = 58%	-21 years = 37%	-28 years = 16%
-15 years = 55%	-22 years = 34%	-29 years = 13%
-16 years = 52%	-23 years = 31%	-30 years = 10%

-Member must retire directly from the system to be eligible for major medical (10 years of service at 60 months pre-Medicare or 30 years of service, any age)

-Once member becomes Medicare eligible, the structure and eligibility for a subsidy will remain the same, however the premium amount will decrease significantly.

-HRA 2% contribution from employer

-Major medical 3.75% TRS, 3.5% PERS contribution from employer

Favors long-term employees

Encourages employment to 60 months pre-Medicare or longer

B

Major Medical in SB 141 (After Medicare eligible age only)

- Insurance coverage for an eligible member includes the member's spouse and the member's dependent children.
- Insurance coverage for a surviving spouse includes the member's dependent children if they are dependent on the surviving spouse.
- Retirees who meet the required years of service, but who are younger than Medicare age eligible (presently age 65), must pay the full premium to receive coverage.
- Do not have to retire directly from the system, may opt to defer participation to a specified date.
- Retirees who are Medicare age eligible will pay only a portion of monthly medical premiums depending on years of service.

Employee percentage of premium:

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

- Only one premium per retiree and family
- Different premiums developed for single retirees and retirees with spouse and/ or children.

- HRA 2% contribution from employer
- Major medical 1.75% contribution from employee

ALASKA STATE LEGISLATURE

SESSION
State Capitol, Rm 30
Juneau, Alaska 99801-1182
(907) 465-3873 Phone
(907) 465-3922 Fax
(877) 463-3873 Toll Free
Senator_Bert_Stedman@legis.state.ak.us



INTERIM
50 Front Street
Suite 203
Ketchikan, AK 99901-6442
Phone (907) 225-8088
Fax (907) 225-0713

SENATOR BERT K. STEDMAN

MEMORANDUM

TO: Representative Paul Seaton, Chair
House State Affairs Committee

FROM: Senator Bert Stedman *B.S.*

DATE: April 16, 2005

RE: CS SB 141 (FIN)

The Senate passed SB 141, the Retirement Security Act, on April 11, 2005. Pending referral of this bill to the House State Affairs Committee, I respectfully request a hearing at your earliest convenience.

I know the members of your committee are quite familiar with the problems embedded in our current public employee retirement system and that you've been working towards crafting a comprehensive solution. The Senate Finance Committee has also spent a considerable amount of time studying this issue and have prepared what we feel is the first step towards a long-term solution.

SB 141 is a comprehensive reform of Alaska's public retirement system. It establishes a defined contribution retirement plan, retiree medical benefit and health reimbursement arrangement for new employees. In addition, it implements a number of significant management changes to the existing PERS & TRS system. These changes are designed to strengthen management and fiduciary oversight of the plan, improve our ability to predict and control costs, provide near term financial relief to employers and pave the way for developing a long-term financial solution to our \$5.7 billion funding shortfall.

I am providing a significant amount of back-up material with this request. Should you require any additional information, please don't hesitate to let me know.

Thank you for your prompt consideration of this request.



Alaska State Legislature

Senate Majority

Web: www.akrepublicans.org

Sponsor: FINANCE
Current Version: CSSB 141 (FIN)
Contact: Miles Baker, 465-3873

Fact Sheet for: Senate Bill 141

Short Title: PUBLIC EMPLOYEE/TEACHER RETIREMENT

Summary:

- Establishes a Defined Contribution (DC) Plan, Retiree Medical Benefit and Health Reimbursement Arrangement for new employees.
- Increases payroll contributions for existing employees by 0.5 percent annually until employers and employees share normal costs 50/50.
- Streamlines retirement system management by replacing the PERS, TRS and ASPIB boards with a newly created 9-member Alaska Retirement Management Board (ARMB) consisting of the commissioners of administration and revenue, 7 governor-appointed trustees with credentials or recognized competence in finance or accounting (3 non-beneficiary public members, a finance officer of PERS and one of TRS, one PERS member, one TRS member.)
- Strengthens the ARMB's fiduciary role to balance system assets and liabilities; provides more employer representation; and makes the ARMB responsible for setting employer contribution rates and adopting actuarial assumptions.
- Transfers the quasi-judicial responsibility for hearing appeals and waivers to the Office of Administrative Hearings.

Benefits:

- Strengthens management and fiduciary oversight of the state's retirement systems.
- Constrains growth of the unfunded liability.
- Establishes a portable defined contribution plan for new employees that, over time, reduces the state's dependence on riskier and less predictable defined benefit plans.

Background:

- Alaska's public retirement system assets have not kept up with obligations because of factors including rising health care costs, shifting demographic trends, market performance, and underestimation of system liabilities. The result is \$5.7 billion in underfunding. Last year, the Administration formed a work group to come up with solutions. This fall, after much research and analysis, the work group presented two alternatives to the PERS and TRS boards. The boards declined to forward a solution to the Legislature. Based on the recommendations of that work group, the Senate Finance Committee conducted its own analysis and is introducing the Retirement Security Act. Unlike a defined benefit plan in which employees are guaranteed a pension benefit regardless of cost, a DC plan provides employees with a retirement amount based on actual account contributions and investment earnings.



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

SENATE BILL 141 SPONSOR STATEMENT

For almost two years, the legislature has heard of the looming crisis in the State's retirement systems. The systems are underfunded by \$5 billion. Employer contribution rates have been raised by five percent per year for the past two years, and greater increases are required unless something is done soon. In the first sixty days of this legislative session, members of the Senate have worked diligently to understand and evaluate the problems in the retirement system in order to propose a solution to those problems. Senate Bill 141 offers a two-prong approach: (1) create a defined contribution retirement plan for the long-term solution to employer cost management; and (2) implement management changes to the existing system so we can begin to address the \$5 billion deficit situation there.

In 2003, the Governor appointed a subcommittee of the PERS and TRS Boards that was charged with researching and evaluating the concept of a new retirement tier. This subcommittee worked throughout 2004, performing research and analyses of information gathered from employers statewide and studying nationwide trends in both the public and private sectors. In November of 2004, the subcommittee presented two tier alternatives to the PERS and TRS Boards suggesting that a recommendation be forwarded to the Governor and the Legislature.

Unfortunately, the Boards opted not to forward a recommendation. However, the work done by the subcommittee did not go in vain. The Senate leadership used the subcommittee's work, as well as its own research and analysis, to draft this legislation. SB 141 offers a holistic solution to our problem and allows Alaska to join other states in retirement system reform.

The true long-term solution, 30 to 50 years from now, will be accomplished by the change in the retirement plan for future government employees from the traditional pension plan to a defined contribution (DC) plan, commonly known in the private sector as a 401(k). Such a plan has three clear advantages: (1) cost predictability; (2) portability between employers; and (3) clarity. Hundreds of thousands of private sector employers and other state retirement systems offer their employees this type of plan. SB 141 combines the DC plan features with the tradition of offering insurability for all retirees and an IRS allowable vehicle for tax free savings accounts used to pay for out-of-pocket medical expenses during retirement years. As Alaska's older tier employees retire out of the defined benefits system, and the new DC plan employees are brought in to replace them, the existing structure will become more stable.

Senate Bill 141
Sponsor Statement
Page Two

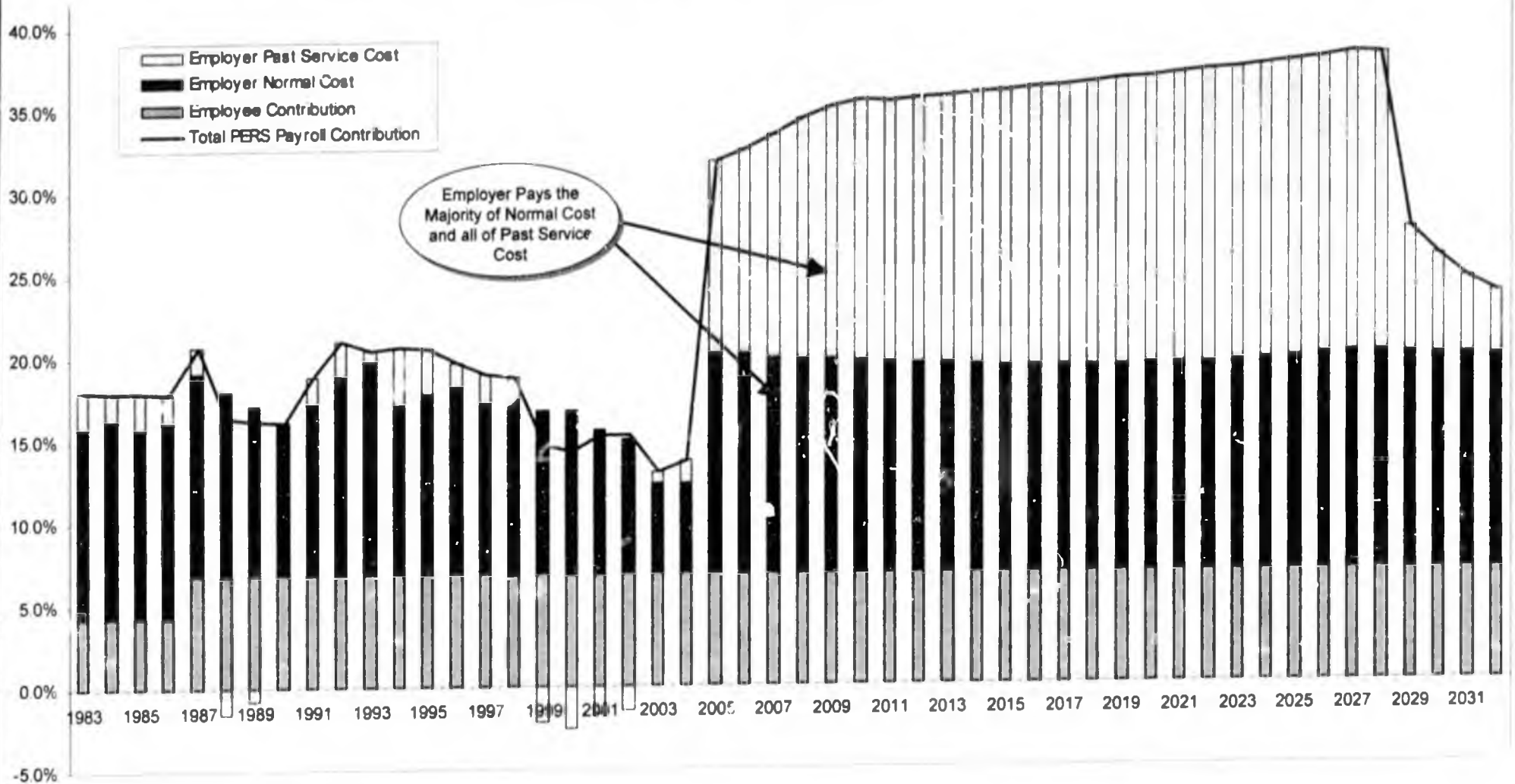
In the short-term, SB 141 implements the management changes needed to effectively address the \$5 billion deficit. It creates a single board to replace the separate public employees' and teachers' retirement system boards and the pension investment board. The new board is the Alaska Retirement Management (ARM) Board. The ARM Board will be more experienced with financial and pension matters than the current boards require and will be charged with greater emphasis on its fiduciary role to balance the retirement system assets to system liabilities.

SB 141 seems voluminous. The concepts, however, are simple and few. Please take the time to read the "Senate Finance Committee White Paper: SB 141". This document is a succinct compilation of much of the research undertaken to date. It describes more fully the features contained in SB 141 and provides the understanding of the framework for the discussions to come.

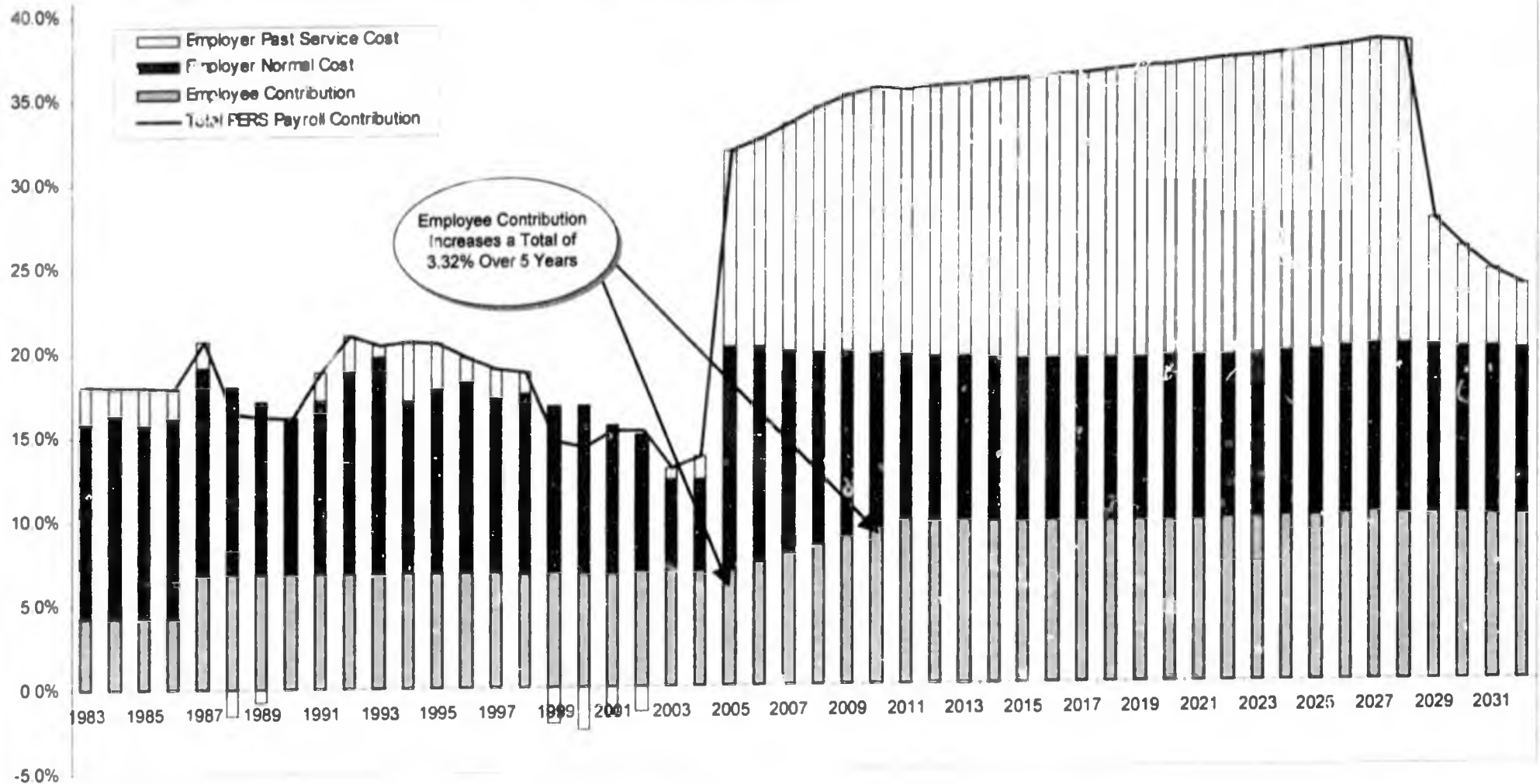
The Senate Finance Committee is committed to addressing this problem this legislative session.

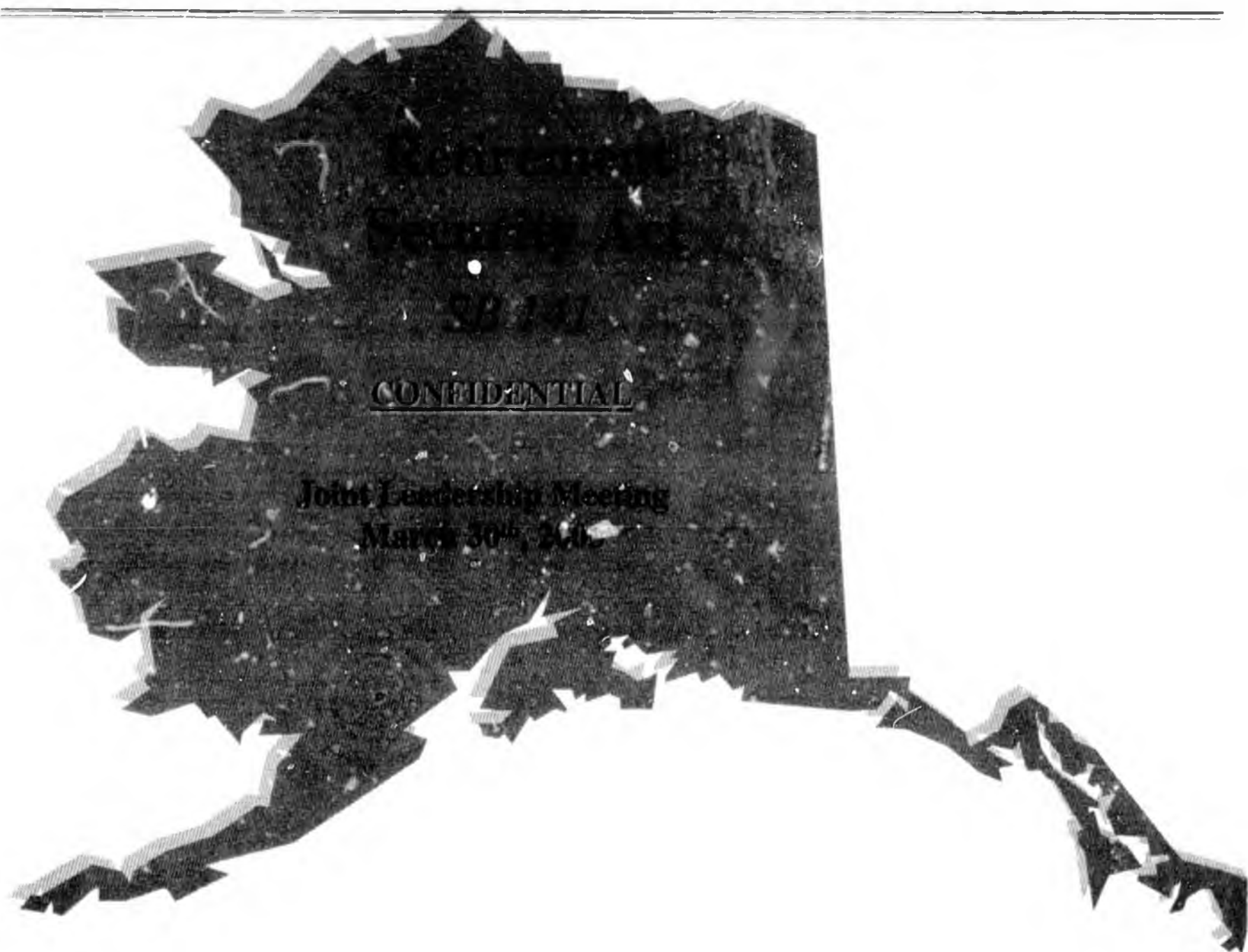


PERS Payroll Contribution Trend & Forecast



PERS Forecast with SB 141 Language





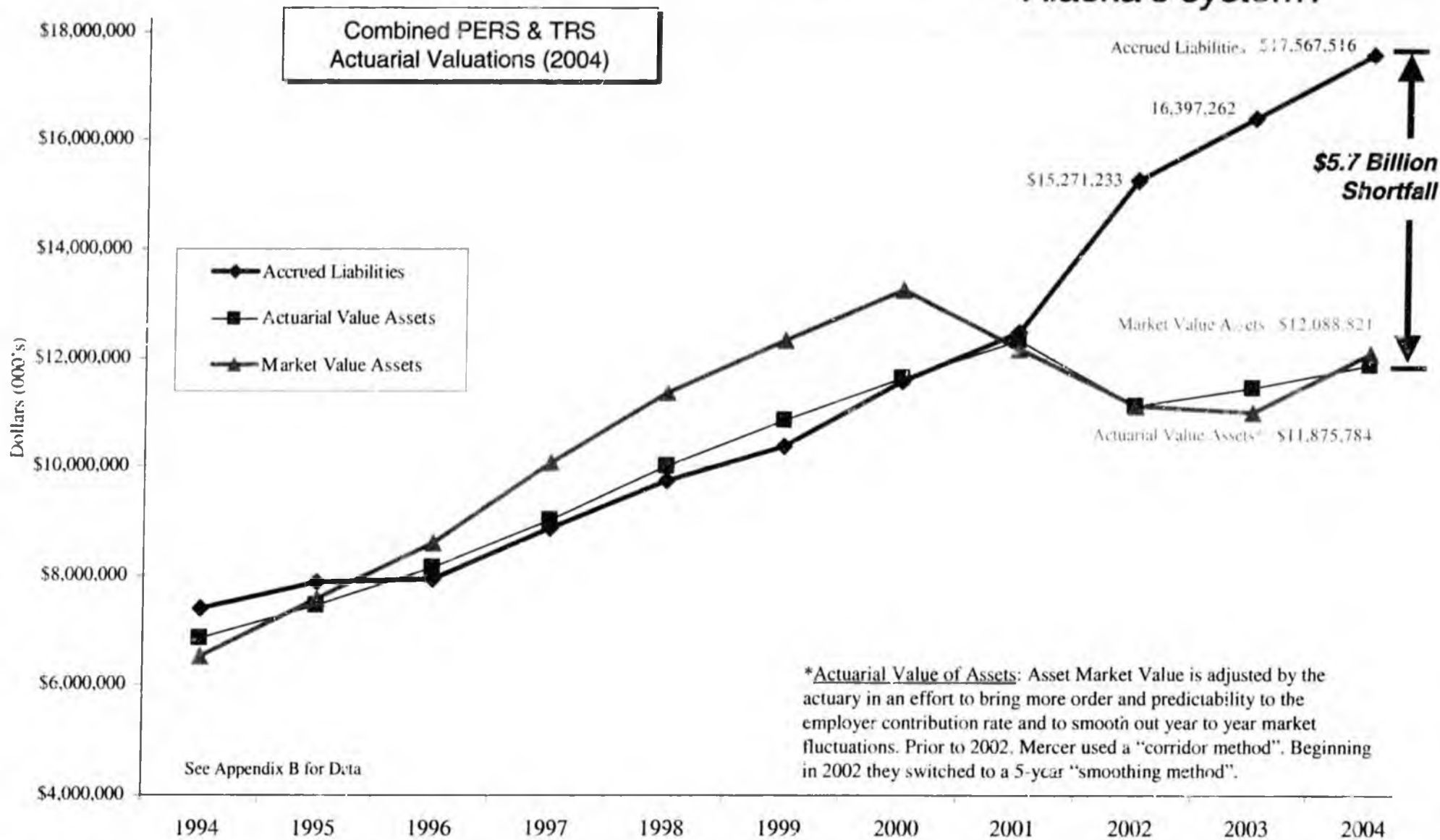
CONFIDENTIAL

Joint Leadership Meeting
March 30th, 2015

Presentation Outline

- Introduction
- Side-by-side comparison of proposed retirement bills
- Board Restructuring
- Funding Mechanism
- Employee Contributions

What is the status of Alaska's system?



We Have Been Understating Our Liabilities For the Past Several Years

	SENATE	HOUSE	
	SB 141 (Finance Committee)	House Bill 191, 177, 170 (Kelly)	House State Affairs (Senton)
RETIREMENT BOARD			
Board Structure	Consolidates 3 existing boards (PERS, TRS, ASPIB) into 1 board (Alaska Retirement Management Board).	None	None
Board Members	All trustees must have recognized competence in one or more fields of investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis. Includes non-beneficiaries and representatives from school districts and municipalities.	Changes the qualification requirements for existing board members to include non-beneficiaries	None
FINANCIAL ELEMENT			
State Financial Aid to System	69.5M from state to cover the 5% increase in employer costs for FY06 (an additional \$38M for school district PERS/TRS costs is incorporated in the BSA)	None	Establishes a new Past Service Offset Account: 2.681 billion dollar deposit required.
EMPLOYEE CONTRIBUTION DETAILS			
For Existing Tiers PERS- Tier 1/2/3 TRS-Tier 1/2	Both Pers & TRS: 1/2 of the total normal cost rate; can only increase 0.50% increase a year; no total cap. <i><current SB 141 language sets annual increase limit at 5%, planned CS will change it to 0.50%></i>	Both PERS & TRS: employee contributes the % of compensation necessary to fund 1/2 of the total system costs (normal and past service costs); annual increase may not exceed 5.0%	PERS: 1/2 the amount needed to fund the actuarially computed total system costs (normal and past service); maximum increase of 5% per year; total cap of 13%. TRS: same as PERS but total cap of 14%.
For New Tier-DC Plan	PERS & TRS: 8% all members	PERS: 8.5% Police/Fire, 8% all others TRS: 10% all members	PERS: 10% all members TRS: 11% all members

Board	Alaska State Pension Investment Board (ASPIB)	Teachers' Retirement Board	Public Employees' Retirement Board	Alaska Retirement Management Board
Mission	Provide prudent and productive management and investment of state pension funds	Prescribe policies and regulations necessary to administer the TRS system	Prescribe policies and regulations necessary to administer the PERS system	Trustee of retirement system assets; manage and invest these assets in a manner that is sufficient to meet the liabilities and obligations of the system
State Department	Revenue	Administration	Administration	Revenue
Board Members	8 Trustees Commissioner of Revenue 3 – Appointed by Governor from public at large 2 – Elected from PERS members 2 – Elected from TRS members	5 5 – Governor appointed from public at large	5 3 – Appointed by Governor from public at large 2 – Elected from PERS membership	9 Trustees <u>All AK Residents, appointed by the Governor</u> Commissioners of Revenue & Admin. 3 AK residents who do not participate in the retirement systems 1 finance officer of a political subdivision 1 finance officer of a school district 1 PERS member (active or retired) 1 TRS member (active or retired)

Board	ASPIB	TRS Board	PERS Board	ARM Board
	<p>One appointee must represent a system employer other than the State of Alaska Appointees must have business and investment experience</p>	<p>One appointee must be a resident receiving benefits from the system</p>	<p>One appointee must have been employed by other than the State of Alaska at some time</p>	<p>All trustees must have recognized competence in one or more fields of investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis.</p>
<p>Powers & Duties</p>	<p>Establish investment policies Submit quarterly & long-range investment reports to LB&A May assume fiduciary and management responsibilities for other state funds</p>	<ul style="list-style-type: none"> •Adopt system policies and regulations •Act as an appeals board •Set employer contribution rate •Determine employee's past service liquidation amounts •Waive benefit adjustment requirements when appropriate •Adopt regulations for the election and removal of ASPIB trustees 	<ul style="list-style-type: none"> •Hold board elections •Adopt system policies and regulations •Act as an appeals board •Set employer contribution rate •Determine employee's past service liquidation amounts •Prescribe interest rates •Prescribe policies for the supplemental employee benefit program •Waive benefit adjustment requirements when appropriate •Adopt regulations for the election and removal of ASPIB trustees •Adopt a contribution surcharge 	<ul style="list-style-type: none"> •Manage the assets of the DB trust fund to meet pension liabilities. •Adopt investment policies •Annual actuarial valuation •Analysis of actuarial assumptions experience. •Rate setting •Provide a range of investment options for employee-directed accounts. •Obtain an external performance review •Submit regular reports on the financial condition of the systems

	Senate Bill 141 DC Plan	Senate Bill 141 DC Plan Planned Changes	House Bill 191, 177, 170 (Kelly)	House State Affairs (Seaton)
Benefit Formula	11.5% per year to DC account + investment earnings.		16% after five years of service-- before 5 years a percentage of the employer contribution (see employer contribution rate below) is scaled at: 1st year 0%, 2nd yr 25%, 3rd yr 50%, 4th yr 75%, 5th yr 100%	15.5% PERS 16.75% TRS
Rollover	Rollover accepted from qualified programs and you can roll over into a qualified program		Does not accept rollover from qualified programs but you can rollover into a qualified program	Rollover accepted from qualified programs and you can roll over into a qualified program
DISTRIBUTION DETAILS				
Employee Contribution Rates	DC Plan: 8% all members (PERS & TRS) DB Plan: TRS 8.65% or 1/2 of the normal cost rate. PF 6.75% and 7.5% (Police/Fire) 1/2 of the normal cost rate. Maximum increase of 5% per year.	Change maximum increase to 50 basis points per year.	DC Plan: PERS 8.5% Police/Fire, 8% all others TRS 10% all members DB Plan: % of employee compensation needed to fund the system	DC Plan: PERS 10% all members TRS 11% all members. DB Plan: 1/2 of the amount needed to fund the system actuarially computed rate, capped at 13% for PERS and 14% for TRS. Maximum increase of 5% per year.
Employer Contribution Rates	DB Plan: 50% of normal cost plus past service cost. May not be less than total normal cost after subtracting employee contribution. DC Plan: 8.25% total (3.5% to DC account, 3.75% to Medical, 1% to Health Reimbursement Arrangement)		DB Plan: employer contributions will eventually reach 8% for TRS and 8.75% for PERS over the course of a 5 year period: Year 1-0%, Year 2-25%, Year 3-50%, Year 4-75%, Year 5-100% DC Plan: Equal contributions from employers and employees in the amount required to fund benefits. Maximum increase of 5% per year. Note: medical not included in contribution total	DB Plan: Equal contributions from employee and employer: employer contributes 1/2 of the actuarially computed rate with a floor of 10% for PERS and 11% for TRS. DC Plan: PERS 10% total (5.5% to DC account, 3.5% for medical, 1% for HRA) TRS 11% total (5.75% to DC account, 3.75% for medical, 1.5% for HRA).
Base Salary				Employee option base salary or total salary.

	Senate Bill 141 DC Plan	Senate Bill 141 DC Plan Planned Changes	House Bill 191, 177, 170 (Kelly)	House State Affairs (Sutton)
Vesting	Immediate for employee contributions. Fully vested in employer contributions after 5 years (1st year 0%, 2nd yr 25%, 3rd yr 50%, 4th yr 75%, 5th yr 100%)		Employee is immediately vested in both employee and employer contribution	Employee is immediately vested in both employee and employer contribution
Medical Benefits	Must retire directly from system with minimum of 10 years of service for medical coverage and access to HRA.		Same as SB 141	Must retire directly from system with either: 60 years adjusted to the change in mortality rate when adopted w/10 years of service OR 30 years of service.
	Access to medical coverage at age 65 with 10 years of service, or at any age after (1) 25 years for peace officer/firefighter, or (2) 30 years for all others.		Same as SB 141	Early retirees: access to system, no subsidy until age 60 adjusted.
	Retiree and survivors pay full premium until Medicare eligible.		Same as SB 141	Retirees over 60 adjusted: access to defined dollar medical with subsidy depending on length of service.
	After Medicare age eligible, retiree shares cost based on years of service.		Same as SB 141	Retirees over Medicare eligible age: Access to medical with a reduced premium and percent subsidy based on years of service.
	Reimbursed for qualified medical expenses from HRA.		Same as SB 141	Same as SB 141
FINANCIAL ELEMENT				
State Financial Aid to System	\$69.5M from State to cover the 5% increase in employer costs for FY06 (an additional \$38M for school district PERS/TRS costs is incorporated in the BSA)		None	Establishes a new Past Service Offset Account: 2.681 billion dollar deposit required.

	Senate Bill 141 DC Plan	Senate Bill 141 DC Plan Planned Changes	House Bill 191, 177, 170 (Kelly)	House State Affairs (Seaton)
Board Structure	Consolidates 3 existing boards (PERS, TRS, ASPIB) into 1 board (Alaska Retirement Management Board).		None	None
Board Members	All trustees must have recognized competence in one or more fields of investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis. Includes non-beneficiaries and representatives from school districts and municipalities.		Changes the qualification requirements for existing board members to include non-beneficiaries	None
OTHER DC PLAN COMPONENTS				
Transfer of Employee to DC Plan	None (as yet)	Allow the transfer of current non-vested (TRS Tier II and PERS Tier III) employees to a DC account. Unlimited enrollment period. Employer must make new contribution (cannot take from DB trust) and has first option to allow a transfer.	None	Allows the transfer of current, non-vested employees to a DC account within 90 days of the enactment of legislation.
Prescription Drug Changes	None		None	Requires retirees to purchase prescription drugs from a preferred drug list unless otherwise recommended
Ad hoc PRPAs	None (as yet)	Define "financial condition of the retirement fund" for ad hoc PRPAs	None	Places limiting conditions on ad hoc PRPAs
COLA	Repeals		None	None
Refunded Prior Members	Closes window for reinstating past service indebtedness		None	None

SB 141 LEADERSHIP PRESENTATION NARRATIVE

I. INTRODUCTION (See 3 page Side-By-Side Hand-Out)

The retirement bills are substantially similar but some matters must be resolved.

The bill sponsors (Senate Finance, House State Affairs, and Representative Kelly) all agree that we need to:

- Move to a defined contribution retirement plan,
- Address the growing unfunded liability and
- Ask current employees to contribute more towards the cost of their retirement benefits

There are differences in vesting schedules, contribution levels, age for eligibility to medical benefits, etc., but these are minor differences and I am certain we can come to a consensus on those details through the normal committee process.

The [REDACTED] (see Power Point page 4) are what we need to focus on this afternoon. I hope today we can come to agreement on three things:

- (1) **Board Restructuring**—any significant restructuring of the retirement system must include an overhaul of the current boards.
- (2) **Funding Mechanism**—we cannot simply keep pouring money into a broken system. We must first fix the problems that got us here and then, with the help of the new board, look at a full variety of long term fiscal solutions to the unfunded liability.
- (3) **Employee Contributions**—going forward, should current employees be paying more for their benefits, and if so, what amount is appropriate and fair? **Note:** All proposed bills result in current employees paying more for their benefits.

II. BOARD RESTRUCTURING (See Power Point pages 5-6)

SB 141 makes significant changes to the structure, composition and responsibilities of the 3 current retirement system boards. The House State Affairs bill makes no changes and Representative Kelly's bill makes small changes to the qualification requirements of the PERS/TRS board members.

- SB 141 improves the administration of the retirement systems by establishing the Alaska Retirement Management Board (ARMB) to replace the Alaska State Pension Investment Board (ASPIB), the Teacher's Retirement System (TRS) Board, and the Public Employees' Retirement System (PERS) Board.

- SB 141 puts greater emphasis in the fiduciary role of the board and in its responsibility for managing not just the assets of the system, but its liabilities. Board members will be better qualified and more experienced in financial and pension matters than current board members in order to identify and address potential system problems in a timely fashion.
- Under the current structure, system assets are managed by ASPIB and one could question if anyone is managing the systems' liabilities. ASPIB is housed within the Dept of Revenue and the PERS and TRS boards are housed within the Department of Administration.
- We need to match assets and liabilities in order to ensure proper funding of the system. Matching assets and liabilities cannot be accomplished under the current system structure.

The ARMB will have the capacity and the responsibility of jointly managing both system assets and system liabilities.

Tighter statutory language in this bill will prevent the Board from setting employer contribution rates below the actuarially computed normal cost rate and ensure that if the normal cost rate begins to climb, employees and employers will share in absorbing those costs. In addition, the ARMB will have responsibility for setting the annual employer contribution rates and the annual interest rates credited to employee accounts for the existing PERS/TRS defined benefit plans.

SB 141 moves the responsibility for hearing benefit appeals to the Office of Administrative Hearings. By transferring this function to an administrative law judge, the bill offers assurance that appeal matters will be handled consistently, professionally and by unbiased adjudicators specially trained to handle the questions presented. Additionally, it will allow the Board to focus its attention and expertise in carrying out its fiscal responsibilities.

III. FUNDING MECHANISM

SB 141 realizes that we need to fix the retirement system before we appropriate large sums of GF into the retirement fund. The systemic fixes contained in SB 141 help ensure that the liability does not grow unchecked in order to buy time to work on the best long-term solution to the \$5 billion hole. SB 141 includes a \$108 million¹ GF infusion into the retirement trust (split among all participating employers). The \$108 million covers the 5% employer rate increase in PERS/TRS for FY 2006 and temporarily relieves the financial burden on political subdivisions and school districts. This funding provides the new ARM Board with some time to analyze system assets and liabilities and to present us with

¹ \$69.5M fiscal note for SB 141 plus \$38.1M contained in HB 1.

recommendations on the best long-term funding solutions. The board will have the financial expertise and experience to analyze the problem along with the new perspective of viewing assets and liabilities together.

The House State Affairs Work Draft's funding mechanism is the establishment of a "Past Service Offset Account" to assist employers in paying a portion of their contribution. The account would consist of legislative appropriations and investment gains and losses. \$2.681B is supposed to go into the account; it is unclear what the source of that funding will be. **We do not believe it is responsible to pour 2.681 billion into the system at this time.**

IV. EMPLOYEE CONTRIBUTIONS

We all recognize that going forward, current employees should be asked to pay more for their benefits. Although the cost of providing these benefits continues to rise, employee contribution rates haven't increased since 1987 in PERS and 1991 in TRS. The issue is how much is appropriate. We feel it is appropriate to ask employees to split the cost of benefits being accrued in the current year. That means, they should be asked to pay half of the **Normal Cost Rate**. Currently they are paying about 1/3. The change would mean a 2-3% increase over what the typical employee is paying now. Note: As indicated in yesterday's Senate Finance Committee presentation: TRS members would show an increase of 2.8% over 5 years; PERS members would show an increase of 3.32% over 6 years.

The **Past Service Rate** that is applied on top of the employer's half of the Normal Cost is *the additional percent of payroll required to begin paying off the unfunded liability*. Representative Kelly's bills require the employees to pick up a share of the Past Service Rate. Under our constitution, employee contributions cannot be changed retroactively to pay for past benefits (Past Service Costs or any unfunded liability), but they can be changed prospectively to pay for future benefits. That's why we feel the employee rate increase proposed in Rep Kelly's bill wouldn't pass constitutional muster. Our solution may also be challenged, but I think it has a better chance of being successfully defended. Even if it were constitutional, it would be very difficult to sell a plan that asks current employees to contribute more from their paycheck to pay for the benefits of someone who has already retired from the system. Simply put, most employees couldn't withstand a 5-10% deduction in their take home pay.

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)
DC RETIREMENT ACCOUNT			
Benefit Formula	11.5% per year to DC account + investment earnings.	Increased employer contribution by 1% for a total (employee + employer) contribution of 12.5%	P 16, L 8 and P 82, L 6
Rollover	Rollover accepted from qualified programs and you can roll over into a qualified program		
CONTRIBUTION DETAILS			
Employee Contribution Rates	DC Plan: 8% all members (PERS & TRS) DB Plan: TRS 8.65% or 1/2 of the normal cost rate. PERS: 6.75% and 7.5% (Police/Fire) or 1/2 of the normal cost rate. Maximum increase of 5% per year.	DB Plan: Changed maximum increase to 50 basis points per year (.5%).	P 7, L 30 and P 69, L 13
Employer Contribution Rates	DB Plan: 50% of normal cost plus past service cost. May not be less than total normal cost after subtracting employee contribution. DC Plan: 8.25% total (3.5% to DC account, 3.75% to Medical, 1% to Health Reimbursement Arrangement)	DC Plan: Redistributed 8.25% employer contribution: + 4.25% to DC account + 1.75% to Medical + 2.00% to HRA <hr/> 8.25% Total	P 16, Ls 8&10 and P 82, Ls 6&8; P 58, L 10
VESTING DETAILS			
Vesting	Immediate for employee contributions. Fully vested in employer contributions after 5 years (1st year 0%, 2nd yr 25%, 3rd yr 50%, 4th yr 75%, 5th yr 100%)		

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)
Board Duties	ARMB assumes prior duties of ASPIB plus coordinates with retirement system administrator on annual actuarial valuations, sets employer contribution rates, and determines interest rates to be credited to members' individual accounts (DIB plan and HRA).	Added a requirement for the Board to require a second actuarial opinion on the assumptions used in the valuation by the State's primary actuary.	P 107, Sec. 138
		Added direction to the new Board to prepare a report for the 2nd session of the 24th Alaska Legislature.	P 49, Ls 4-6
Office of Administrative Hearings (OAH)	Appeals benefits decisions made by the retirement system administrator transferred to the OAH, an independent quasi-judicial agency.		
CHANGES TO EXISTING RETIREMENT PLANS			
AK Resident COLA	Repeals	Reinstated	
Ad hoc PRPAs		Defined "financial condition of the retirement fund" for ad hoc PRPAs as 110% ratio of assets to liabilities (see Editor's notes under AS 14.25.143 & AS 39.35.475)	P 11 Sec. 17, P 11 Sec. 18, and P 77 Sec. 113
Refunded Prior Members	Closes window for reinstating past service indebtedness.		
University of Alaska Optional Retirement Program		Changed AS 14.40.661-14.40.799 giving the Board of Regents flexibility to design both optional and mandatory retirement programs for future University employees. Specifies the University's retirement programs are not subject to collective bargaining. Also provides a one-time option for current employees who chose to participate in PERS or TRS to transfer into the existing optional retirement program.	P 38, Sec. 35 thru P 42, Sec. 51

CORRECTION

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



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

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)
DC RETIREMENT ACCOUNT			
Benefit Formula	11.5% per year to DC account + investment earnings.	Increased employer contribution by 1% for a total (employee + employer) contribution of 12.5%	P 16, L 8 and P 82, L 6
Rollover	Rollover accepted from qualified programs and you can roll over into a qualified program		
CONTRIBUTION DETAILS			
Employee Contribution Rates	DC Plan: 8% all members (PERS & TRS) DB Plan: TRS 8.65% or 1/2 of the normal cost rate. PERS: 6.75% and 7.5% (Police/Fire) or 1/2 of the normal cost rate. Maximum increase of 5% per year.	DB Plan: Changed maximum increase to 50 basis points per year (.5%).	P 7, L 30 and P 69, L 13
Employer Contribution Rates	DB Plan: 50% of normal cost plus past service cost. May not be less than total normal cost after subtracting employee contribution. DC Plan: 8.25% total (3.5% to DC account, 3.75% to Medical, 1% to Health Reimbursement Arrangement)	DC Plan: Redistributed 8.25% employer contribution: + 4.25% to DC account + 1.75% to Medical + 2.00% to HRA <u>8.25% Total</u>	P 16, Ls 8&10 and P 82, Ls 6&8; P 58, L 10
VESTING DETAILS			
Vesting	Immediate for employee contributions. Fully vested in employer contributions after 5 years (1st year 0%, 2nd yr 25%, 3rd yr 50%, 4th yr 75%, 5th yr 100%)		

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)
MEDICAL PROGRAM			
Medical Benefits	Must retire directly from system with minimum of 10 years of service for medical coverage and access to HRA.	Removed requirement to "retire from system" and added option to defer participation to a date specified.	P 16, L 3 and P 92, L 1
	Access to medical coverage at age 65 with 10 years of service, or at any age after (1) 25 years for peace officer/firefighter, or (2) 30 years for all others.		
	Retiree and survivors pay full premium until Medicare eligible.		
	After Medicare age eligible, retiree shares cost based on years of service.		
Health Reimbursement Arrangement (HRA)	Retiree reimbursed for qualified medical expenses from HRA.	Clarified HRA can be used even if not participating in State's medical insurance plan.	P 26, Ls 13-14
	Employer contributes 1% of employer's average annual group compensation	Employer contributes 2% of annual average employer's group compensation	P 58, L 10
		Changed five-year return requirement from "same" employer to "a participating" employer.	P 58, L 19
RETIREMENT BOARDS			
Board Structure	Consolidates 3 existing boards (PERS, TRS, ASPIB) into 1 board (Alaska Retirement Management Board [ARMB]).	Added transition: ASPIB continues until 9/30/05; ARMB effective 10/1/2005	P 106, Sec. 134 and Sec. 135
Board Members	All trustees must have recognized competence in one or more fields of investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis. Includes non-beneficiaries and representatives from school districts and	Added definition of "recognized competence" as a person with at least 10 years working or teaching in the specified fields.	P 51, Ls 6-9

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)
Board Duties	ARMB assumes prior duties of ASPIB plus coordinates with retirement system administrator on annual actuarial valuations, sets employer contribution rates, and determines interest rates to be credited to members' individual accounts (DB plan and HRA).	Added a requirement for the Board to require a second actuarial opinion on the assumptions used in the valuation by the State's primary actuary.	P 107, Sec. 138
		Added direction to the new Board to prepare a report for the 2nd session of the 24th Alaska Legislature.	P 49, Ls 4-6
Office of Administrative Hearings (OAH)	Appeals of benefits decisions made by the retirement system administrator transferred to the OAH, an independent quasi-judicial agency.		
CHANGES TO EXISTING RETIREMENT PLANS			
AK Resident COLA	Repeals	Reinstated	
Ad hoc PRPAs		Defined "financial condition of the retirement fund" for ad hoc PRPAs as 110% ratio of assets to liabilities (see Editor's notes under AS 14.25.143 & AS 39.35.475)	P 11 Sec. 17, P 11 Sec. 18, and P 77 Sec. 113
Refunded Prior Members	Closes window for reinstating past service indebtedness.		
University of Alaska Optional Retirement Program		Changed AS 4.40.661-14.40.799 giving the Board of Regents flexibility to design both optional and mandatory retirement programs for future University employees. Specifies the University's retirement programs are not subject to collective bargaining. Also provides a one-time option for current employees who chose to participate in PERS or TRS to transfer into the existing optional retirement program.	P 38, Sec. 35 thru P 42, Sec. 51

SB 141 Bill Version Comparison

	Senate Bill 141 DC Plan	Changes contained in CS for Senate Bill 141(FIN)	Page, Line (or Sec.)
OTHER BILL COMPONENTS			
Transfer of Employee to DC Plan		Added option for the transfer of current non-vested (TRS Tier II and PERS Tier III) employees to the DC plan. Unlimited enrollment period. Employer must make new contribution (cannot take from DB trust) and has first option to allow a transfer.	P 30, L 2 and P 96, L 1
Participating Employers		Added an option for political subdivisions and public organizations who do not currently participate in PERS and TRS to join the DC plan in the future.	P 98, Ls 9-22
		Added specific employers already participating in PERS and TRS to allow their future employees to participate in the DC plan (defined benefit plans closed on July 1, 2005).	P 32, L 20 thru P 33, L 28 and P 93, Ls 2-17
Membership Service		Added language identical to current statutes that prevents members that participate in both PERS and TRS from claiming more than one year of service (ex., a full-time teacher in TRS that works part-time in a PERS position during summer).	P 32, L 10 and P 98, L 23

Board	Alaska State Pension Investment Board (ASPIB)	Alaska Teachers' Retirement Board	Public Employees' Retirement Board	Alaska Retirement Management Board
Powers/Duties	<p>AS 37.10.220</p> <ul style="list-style-type: none"> • Hold regular meetings • Establish investment policies • Submit quarterly & long-range investment reports to LB&A • Select and retain external investment managers and custodians • Develop annual operating budget and present to OMB • May assume fiduciary and management responsibilities for other state funds 	<ul style="list-style-type: none"> • Hold public hearings • Adopt system policies and regulations • Set regulations and procedures for conduct of the Board • Act as an appeals board • Acquire biennial actuarial valuation • Set employer contribution rate • Determine employee's past service liquidation amounts • Waive benefit adjustment requirements when appropriate • Adopt regulations for the election and removal of ASPIB trustees 	<p>AS 39.30.155</p> <ul style="list-style-type: none"> • Hold public hearings • Hold board elections • Adopt system policies and regulations • Set regulations and procedures for conduct of the Board • Act as an appeals board • Acquire biennial actuarial valuation • Set employer contribution rate • Determine employee's past service liquidation amounts • Prescribe interest rates • Prescribe policies for the supplemental employee benefit program • Waive benefit adjustment requirements when appropriate • Adopt regulations for the election and removal of ASPIB trustees • Adopt a contribution surcharge (AS 39.35.160) 	<p>SB 141 (AS 37.10.220)</p> <ul style="list-style-type: none"> • Manage the assets of the defined benefits trust fund to meet pension liabilities. • Adopt investment policies for each of the funds entrusted to the board • Annual actuarial valuation of system plans • Analysis of actuarial assumptions experience: <ul style="list-style-type: none"> ○ Health costs assumptions annually ○ All other assumptions not less than every four years. • Audit of actuary not less than every four years. • Rate setting: <ul style="list-style-type: none"> ○ Employer contribution rates, including "normal cost" and "past service cost". ○ Employee contribution rates to the extent that the normal cost rate increases so that 50 percent would be higher than the current rates set in statute. ○ Interest rates credited to individual employee accounts. ○ Interest rates credited to employee HRA account records. • Provide a range of investment options for all employee-directed accounts. • Select and retain investment managers and custodians for the funds • Obtain an external performance review to evaluate the investment policies and performance of each fund • Submit regular reports on the financial condition of the systems

PERS Tier I 1/1/81 - 6/3/98	PERS Tier II Entered on or after 7/1/86	PERS Tier III Entered on or after 7/1/88	SB 141 Proposed DC Plan Entered on or after 7/1/2005
Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution: 8.0% beginning 7/1/2005
Members vest with 5 years of service.	Members vest with 5 years of service.	Members vest with 5 years of service.	<ul style="list-style-type: none"> Employee is immediately vested in their own contributions Employee's gradually vest in employer contributions <ul style="list-style-type: none"> 25% after two years 50% after three years 75% after four years 100% after five years
<ul style="list-style-type: none"> Normal retirement age is 55 Early retirement age is 50 Police/fire members can retire at any age after 20 years of police/fire service All other members can retire at any age after 30 years of membership service. 	<ul style="list-style-type: none"> Normal retirement age is 60 Early retirement at age 55 Police/fire members can retire at any age after 20 years of police/fire service "All other" members can retire at any age after 30 years of membership service 	<ul style="list-style-type: none"> Normal retirement age is 60 Early retirement at age 55 Police/fire members can retire at any age after 20 years of police/fire service "All other" members can retire at any age after 30 years of membership service 	<ul style="list-style-type: none"> Retirement Savings: Employee can terminate at any age and take vested account balance with them, leave it in the plan or rollover to another qualified plan. Medical Benefits: Member is eligible for benefits if: <ul style="list-style-type: none"> 65 years of age and at least 10 years of service; or 25 years of service police/firefighters 30 years of service all others
<ul style="list-style-type: none"> 2% defined benefit formula for first 10 years and all years of service prior to July 1, 1986 2.25% for the next 10 years; 2.5% per year thereafter (average of the high three consecutive years' salary). Police/Fire - 2% benefits formula for first 10 years and 2.5% for all years after 10. 	<ul style="list-style-type: none"> 2% defined benefit formula for first 10 years 2.25% for the next 10 years, and 2.5% per year thereafter. Benefit calculation is determined on the average of the high three consecutive years' salary. Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10. 	<ul style="list-style-type: none"> 2% defined benefit formula for first 10 years 2.25% for the next 10 years, and 2.5% per year thereafter (benefit calculation is average of the high five consecutive years' salary) Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10 (benefit calculation is three consecutive years regardless of tier (effective 2002)). 	<ul style="list-style-type: none"> 8.25% employer contribution broken out as: <ul style="list-style-type: none"> 4.25% to employee retirement savings account 1.75% to retiree medical plan 2.00% to Health Reimbursement Account
<ul style="list-style-type: none"> Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system. 	<ul style="list-style-type: none"> Medical coverage is provided to disabled members, regardless of age and benefit recipients over age 60 or <ul style="list-style-type: none"> police/fire members with 25 years of police/fire service all other members with 30 years of membership service 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. 	<ul style="list-style-type: none"> Medical same as Tier II. Except, employees must accrue a minimum of 10 years of credited service*, to have system-paid coverage at age 60. Employees with less than 10 years must pay the full premiums as long as they wish to continue medical coverage. 	<ul style="list-style-type: none"> Employees must retire directly from the system with a minimum of 10 years of service to be eligible for medical plan and access to HRA Early retirees get "access" to retiree medical plan but must pay full premium until they reach age of Medicare eligibility Once reaching Medicare age eligibility, retiree pays only a portion of monthly premium based on years of service <ul style="list-style-type: none"> 10-14 years = Retiree pays 30% of premium 15-19 years = Retiree pays 25% of premium 20-24 years = Retiree pays 20% of premium 25-29 years = Retiree pays 15% of premium 30+ years = Retiree pays 10% of premium
<ul style="list-style-type: none"> The automatic PRPA legislated in 1986 applied to all members regardless of hire date. COLA of 10% of base benefit is payable to benefit recipients who remain domiciled in Alaska after retirement. 	<ul style="list-style-type: none"> Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years. COLA of 10% of base benefit is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. 	<ul style="list-style-type: none"> Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years. COLA is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater. 	None

<p style="text-align: center;">TRS Tier I 7/1/55 - 6/30/90</p>	<p style="text-align: center;">TRS Tier II Entered on or after 7/1/90</p>	<p style="text-align: center;">SB 141 Proposed DC Plan Entered on or after 7/1/2006</p>
<p>Employee Pre-tax Contribution: 8.65% beginning 1/1/91</p>	<p>Employee Pre-tax Contribution: 8.65% beginning 1/1/91</p>	<p>Employee Pre-tax Contribution: 8.0 % beginning 7/1/2005</p>
<p>Members vest with 8 years of service.</p>	<p>Members vest with 8 years of service.</p>	<ul style="list-style-type: none"> • Employee is immediately vested in their own contributions • Employee's gradually vest in employer contributions <ul style="list-style-type: none"> • 25% after two years • 50% after three years • 75% after four years • 100% after five years
<ul style="list-style-type: none"> • Normal retirement age is 55 • Early retirement at age 50 • Teachers can retire at any age after 20 years of membership service. 	<ul style="list-style-type: none"> • Normal retirement age is 60 • Early retirement at age 55 • Teachers can retire at any age after 20 years 	<ul style="list-style-type: none"> • Retirement Savings: Employees can terminate at any age and take vested account balance with them, leave it in the plan or rollover to another qualified plan. • Medical Benefits: Member is eligible for benefits if: <ul style="list-style-type: none"> • 65 years of age and at least 10 years of service; or • 30 years of service
<ul style="list-style-type: none"> • 2% defined benefits formula for the first 20 years and all years of service prior to July 1, 1990 • 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries. 	<ul style="list-style-type: none"> • 2% defined benefit formula for the first 20 years • 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries. 	<ul style="list-style-type: none"> • 8.25% employer contribution broken out as: <ul style="list-style-type: none"> • 4.25% to employee retirement savings account • 1.75% to retiree medical plan • 2.00% to Health Reimbursement Account
<ul style="list-style-type: none"> • Medical coverage is provided to all benefit recipients and their eligible dependents. 	<ul style="list-style-type: none"> • Medical premiums are paid for all disabilities regardless of age and • Retirees and survivors over age 60 and for retirees with at least 25 years of service including eligible dependents. • Retirees and survivors under age 60, with less than 25 years of membership service must pay the full premium cost if they want coverage. 	<ul style="list-style-type: none"> • Employees must retire directly from the system with a minimum of 10 years of service to be eligible for medical plan and access to HRA • Early retirees get "access" to retiree medical plan but must pay full premium until they reach age of Medicare eligibility • Once reaching Medicare age eligibility, retiree pays only a portion of monthly premium based on years of service <ul style="list-style-type: none"> • 10-14 years = Retiree pays 30% of premium • 15-19 years = Retiree pays 25% of premium • 20-24 years = Retiree pays 20% of premium • 25-29 years = Retiree pays 15% of premium • 30+ years = Retiree pays 10% of premium
<ul style="list-style-type: none"> • Automatic PRPA legislated in 1990 applied to all members regardless of hire date. • COLA is payable to recipients who remain domiciled in Alaska after retirement. COLA is 10% of the base benefit. 	<ul style="list-style-type: none"> • Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years. • COLA is payable to recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. COLA is 10% of base benefit. 	<p>None</p>

Alaska Retirement System Boards

Board	Alaska State Pension Investment Board (ASPIB)	Alaska Teachers' Retirement Board	Public Employees' Retirement Board	Alaska Retirement Management Board
Mission	Provide prudent and productive management and investment of state pension funds	Prescribe policies and regulations necessary to administer the TPS system	Prescribe policies and regulations necessary to administer the PERS system	Trustee of retirement system assets; manage and invest these assets in a manner that is sufficient to meet the liabilities and obligations of the system
Statutory Authority	AS 37.10.210	AS 14.25.035	AS 39.35.030	SB 141 (37.10.210)
State Department	Revenue	Administration	Administration	Revenue
Board Members	8 Trustees	5	5	9 Trustees
Composition	<ul style="list-style-type: none"> • Commissioner of Revenue • 3 – Appointed by Governor from public at large • 2 – Elected from PERS members • 2 – Elected from TRS members 	<ul style="list-style-type: none"> • 5 – Governor appointed from public at large 	<ul style="list-style-type: none"> • 3 – Appointed by Governor from public at large • 2 – Elected from PERS membership 	<ul style="list-style-type: none"> • All Appointed by the Governor • Commissioner of Revenue • Commissioner of Administration • 3 Alaska residents who do not participate in the retirement systems • 1 finance officer of a political subdivision • 1 finance officer of a school district • 1 PERS member (active or retired) • 1 TRS member (active or retired)
Special Requirements	<ul style="list-style-type: none"> • One appointee must represent a system employer other than the State of Alaska • Appointees must have business and investment experience 	<ul style="list-style-type: none"> • One appointee must be a resident receiving benefits from the system 	<ul style="list-style-type: none"> • One appointee must have been employed by other than the State of Alaska at some time 	<ul style="list-style-type: none"> • All trustees must have recognized competence in one or more fields of investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis.
Terms	<ul style="list-style-type: none"> • 4 yr staggered terms • No term limits 	<ul style="list-style-type: none"> • Appointed – 3 yr overlapping • No term limits 	<ul style="list-style-type: none"> • Appointed members – 6 yr scattered • Elected members – 6 yr • No term limits 	<ul style="list-style-type: none"> • Staggered three years • Limited to three consecutive terms • A year break before serving again
Special Members	3 to 5 member Investment Advisory Council	4	4	Optional Investment Advisory Council
Composition	<ul style="list-style-type: none"> • Appointed by ASPIB for 3 yr staggered terms • Dr. William Jennings (6/30/05) • Dr. Jerrold Mitchell (6/30/07) • Tim O'Brien (6/30/06) 	<ul style="list-style-type: none"> • 2 – Physicians • 2 – Physician alternates • All appointed by the Governor • PERS & TRS Boards may make recommendations to the Governor 	<ul style="list-style-type: none"> • 2 – Physicians • 2 – Physician alternates • All appointed by the Governor • PERS & TRS Boards may make recommendations to the Governor 	3 to 5 member Investment Advisory Council
Special Requirements	<ul style="list-style-type: none"> • Shall possess experience & expertise in financial investments, portfolio management, etc. 	<ul style="list-style-type: none"> • Licensed in Alaska • Hear medical disability eligibility appeals only 	<ul style="list-style-type: none"> • Licensed in Alaska • Hear medical disability eligibility appeals only 	<ul style="list-style-type: none"> • Shall possess experience & expertise in financial investments, portfolio management, etc.
Terms	Pleasure of ASPIB	Pleasure of the Governor	Pleasure of the Governor	Pleasure of the ARMB



Retirement Security
Act
CSSB 141 (FIN)
Background
&
Overview



Alaska State Legislature
Senate Finance Committee



Table of Contents

- How a retirement system works
- What is the current status of Alaska's system?
- What went wrong?
- SB 141 Solution
 - Board Restructuring
 - Appeals Process Change
 - Contribution Rates for Existing Employees
 - Defined Contribution Plan
 - Medical Benefit
 - Health Reimbursement Arrangement
 - Conversion Option
 - Refunded Account Sunset
 - AdHoc PRPA
- Appendices



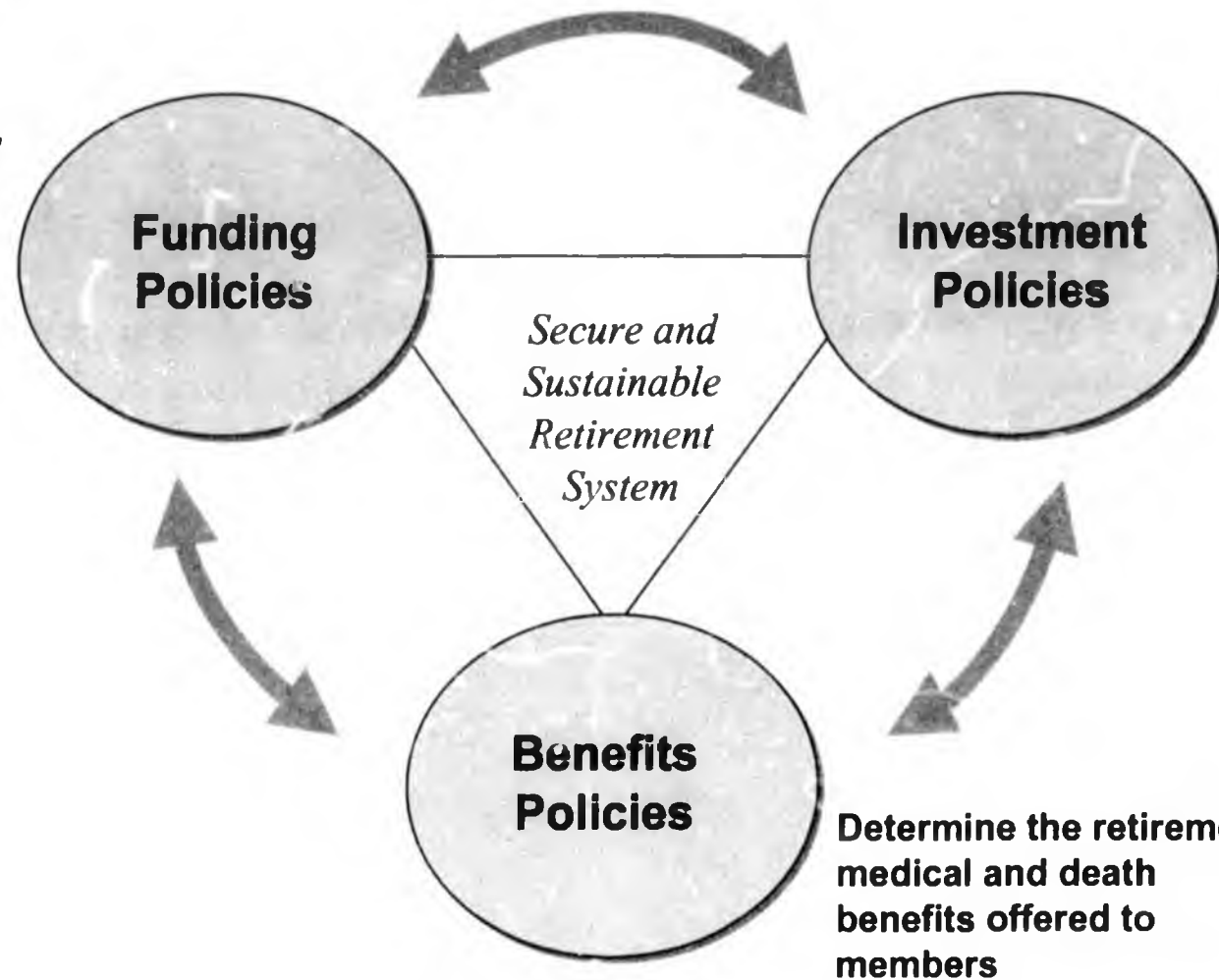


How a retirement system works





Determine how new monies come into the system

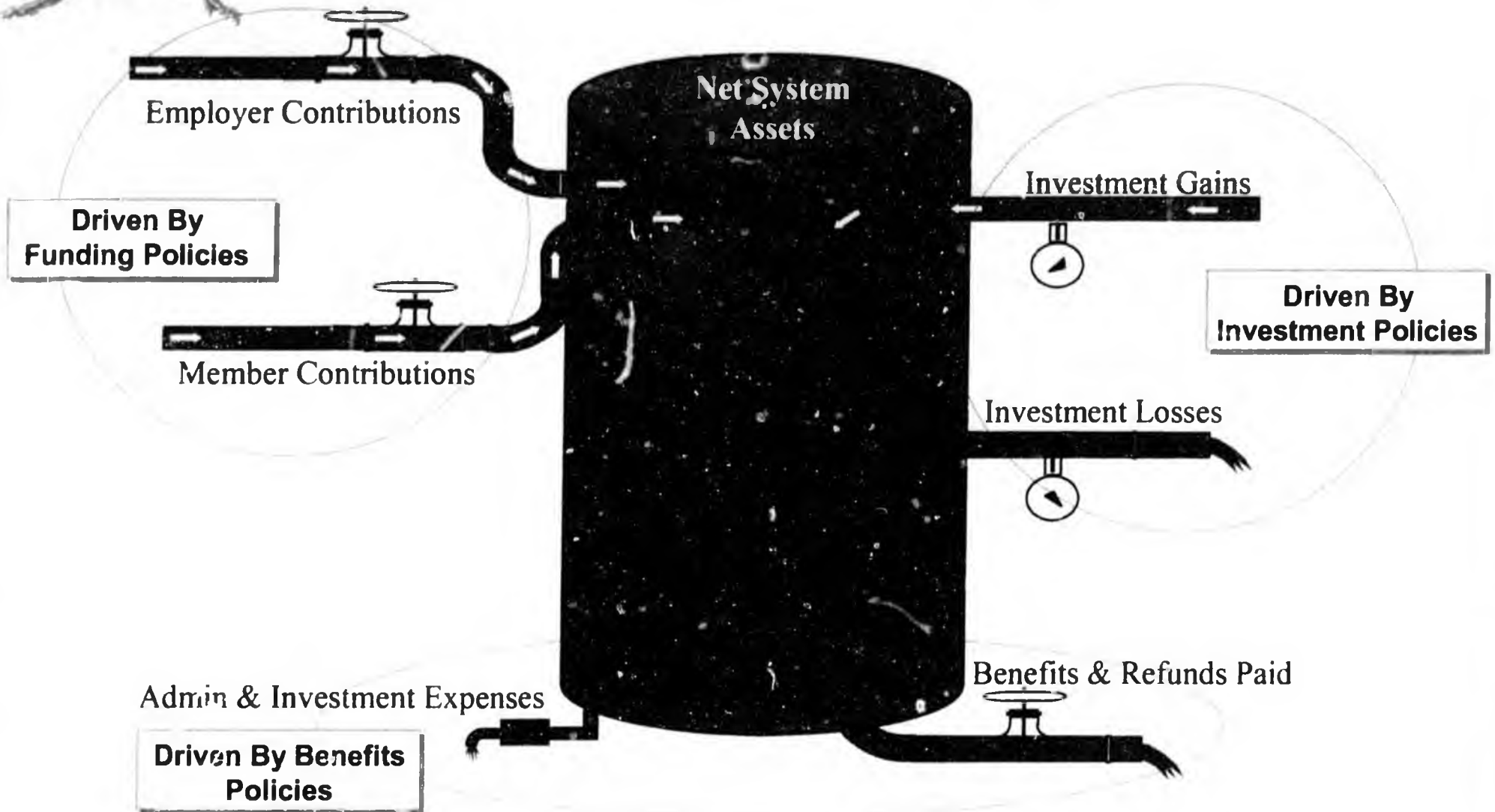


Determine how the money in the system is invested

Determine the retirement, medical and death benefits offered to members

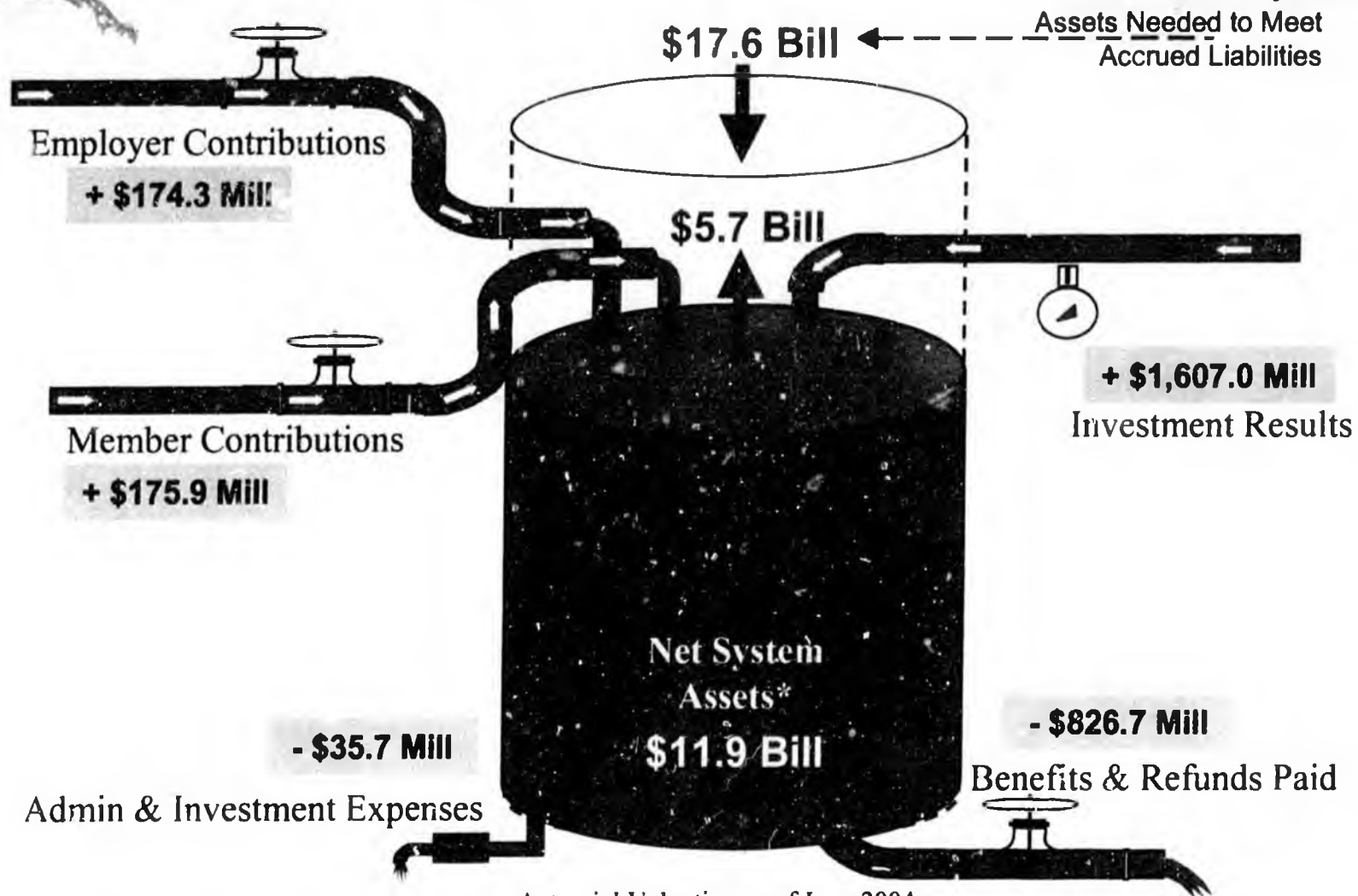
All Three System Components Must be Working in Balance





Net System Assets Must Be Sufficient to Pay Future Benefits



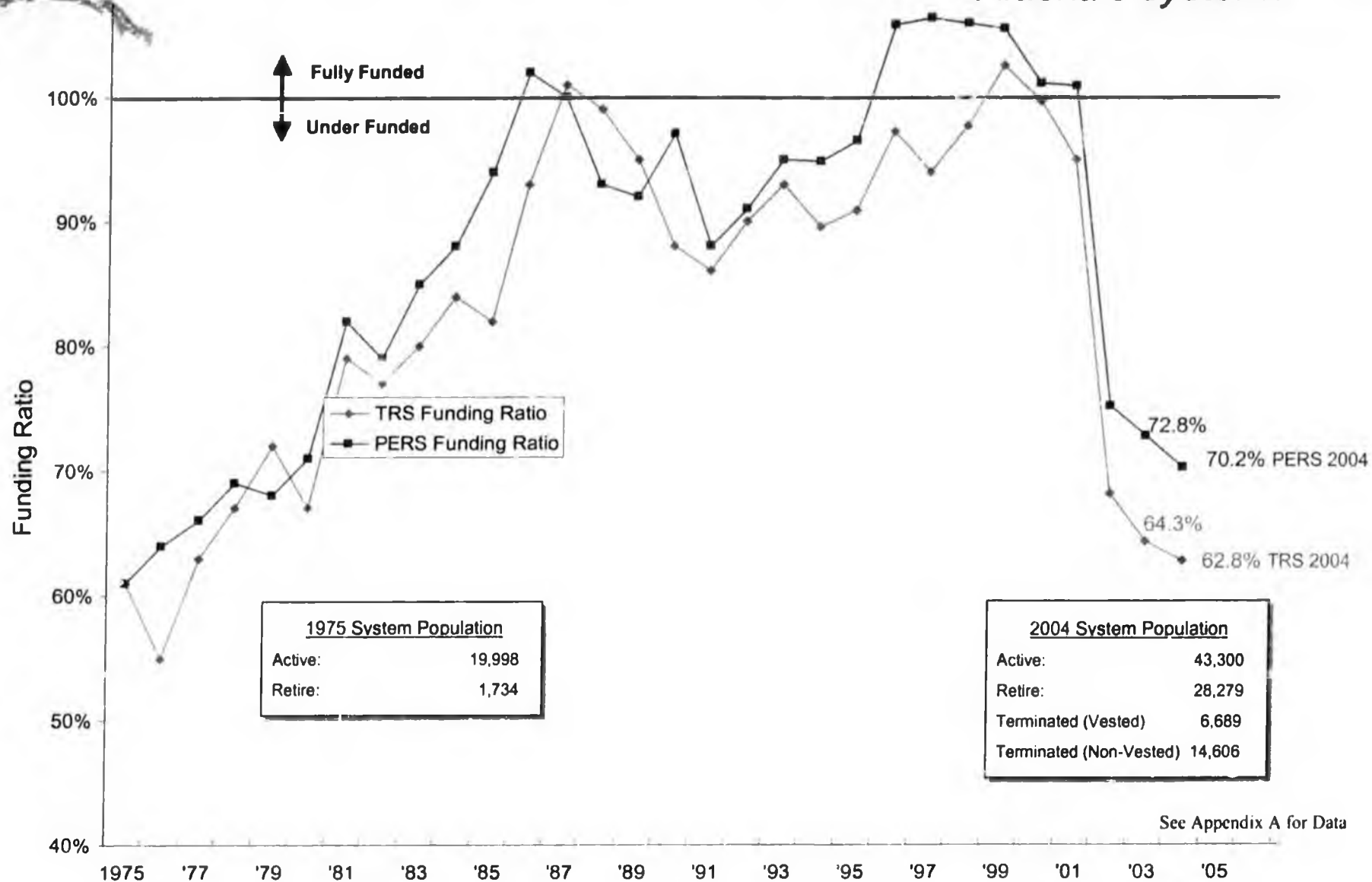


Actuarial Valuation as of June 2004
annotated with 2004 system cash flows

*Combined PERS & TRS Actuarial Asset Values

PERS & TRS Have A Combined \$5.7 Billion Unfunded Liability





Historical PERS & TRS Funding Ratios





What went wrong?





Our analysis looked at both components of the problem

Structural Component

To Identify the systemic problems in PERS/TRS

Financial Component

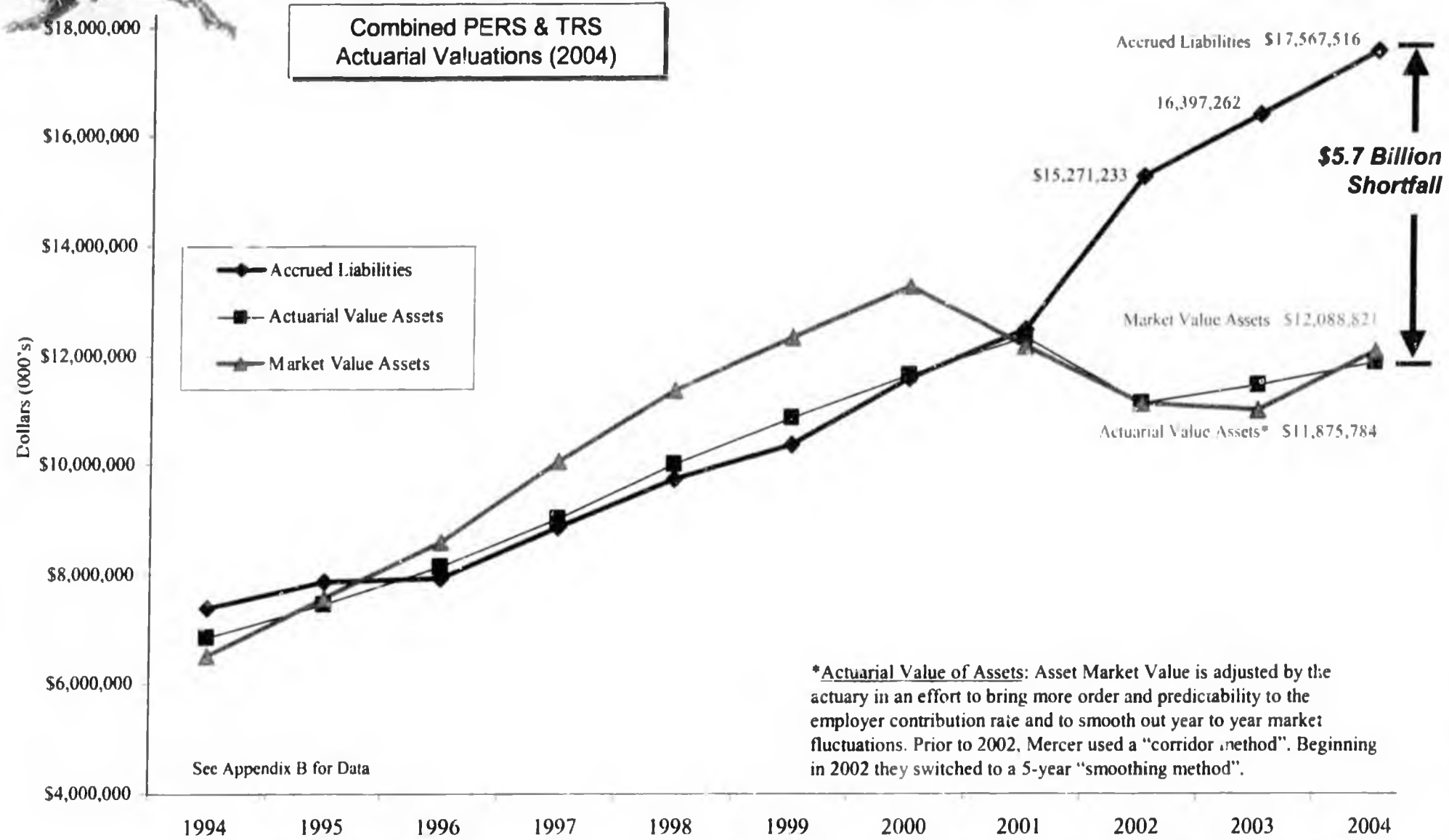
To Identify the causes of our liability growth

With the goal of developing solutions

- 1. How do we prevent this from happening again?*
- 2. How can we fix the system and bring it back into balance?*
- 3. How can we better predict and control costs going forward?*

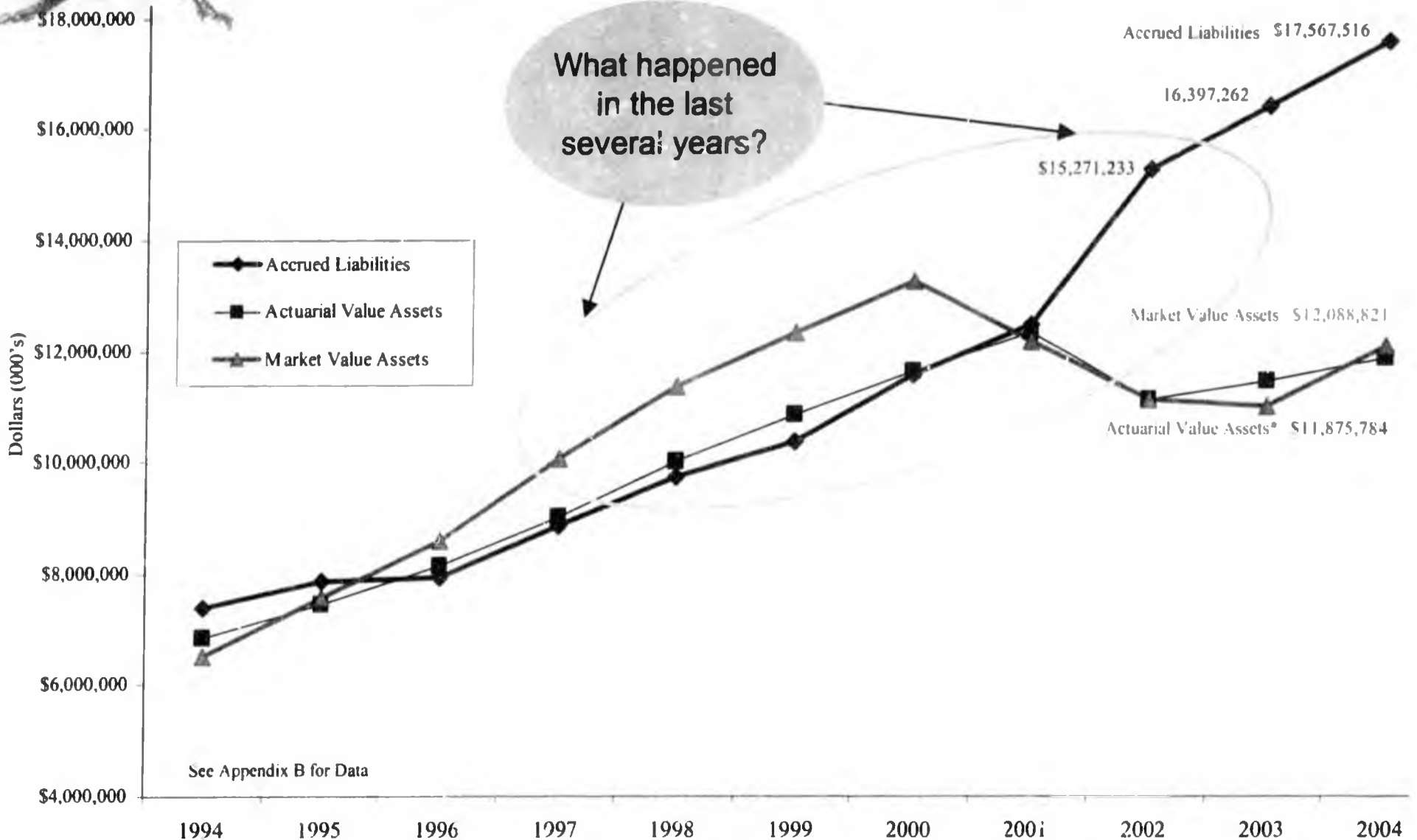
- 1. How can we stabilize future employer contribution rates?*
- 2. How can we provide near term financial relief to employers?*
- 3. How do we develop a long term solution to funding the \$5.7 billion gap?*





We Have Been Understating Our Liabilities For the Past Several Years

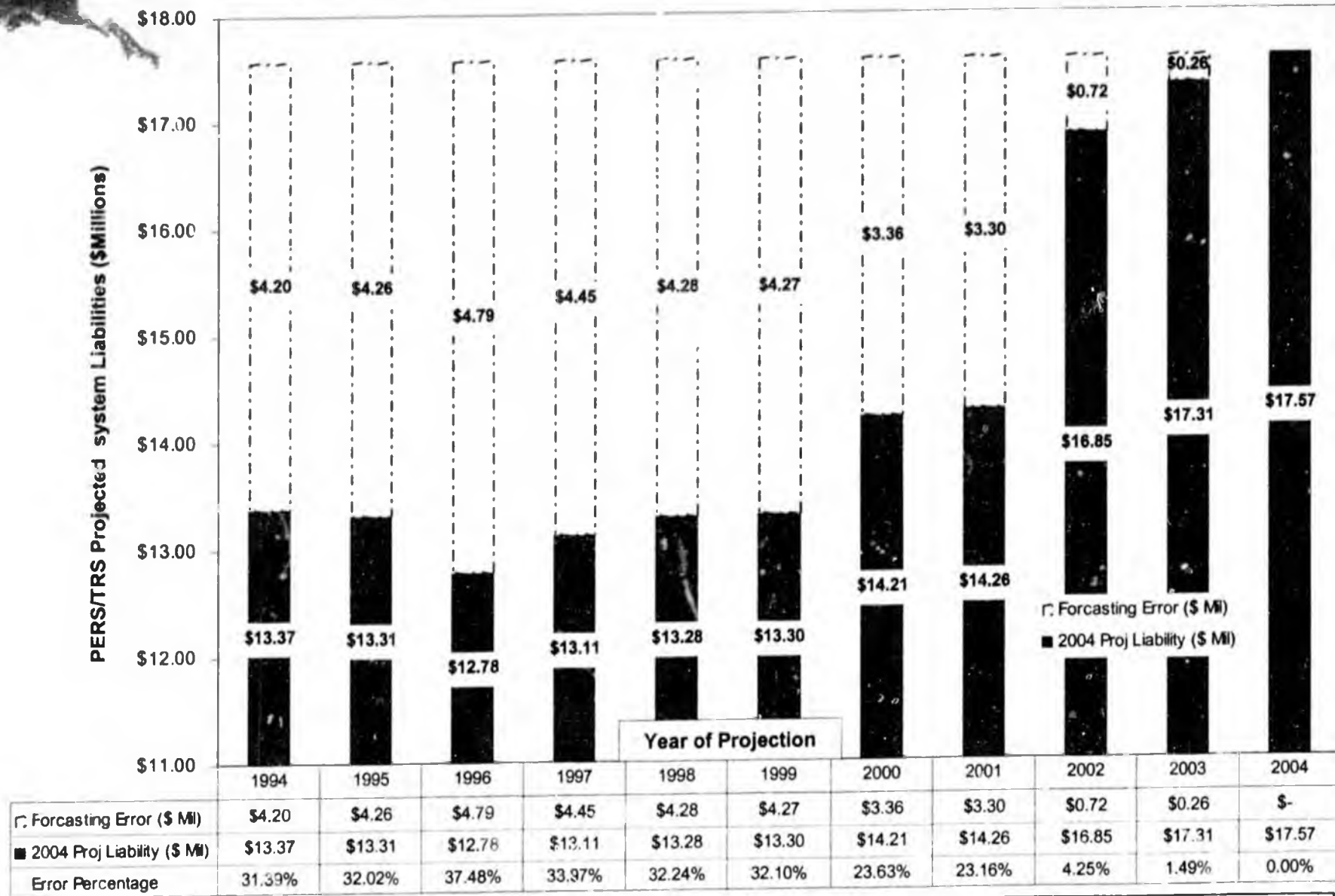




See Appendix B for Data

Clearly Something Changed Since 2000





Why Have Liabilities Grown at 9.1% vs A Projected Growth of 6.1% ?

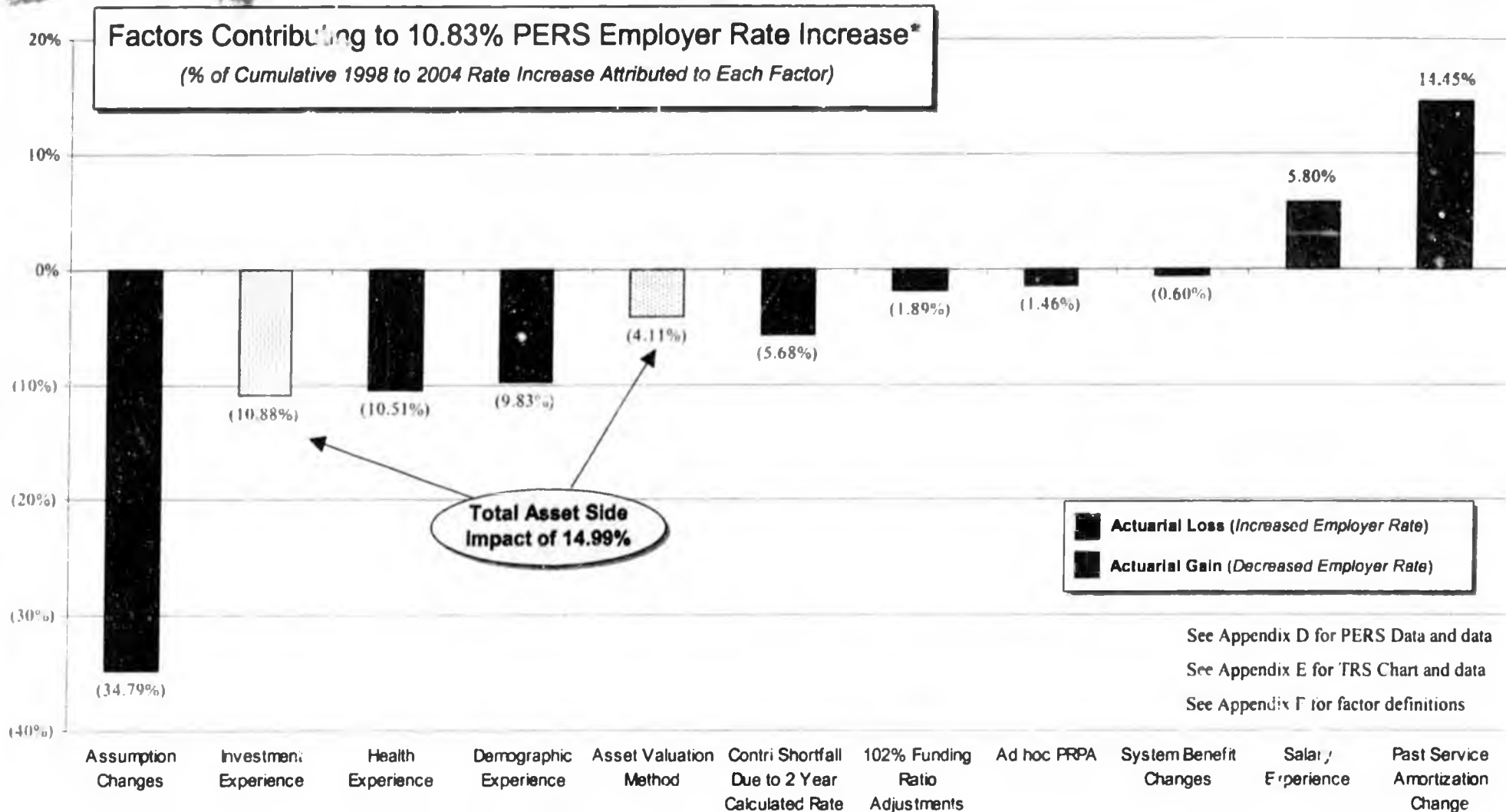




- Inaccurate assumptions
- Historical understatement of system liabilities
- Rising health costs
- 3-yr bear market
- Declining interest rates
- Unfavorable demographic changes
- Timing of the recognition of market losses
- Artificially low contribution rates in good times
- Legislation that has increased benefits
- Awarding of Post Pension Retirement Adjustments

A Combination of Factors Created Our Present Situation

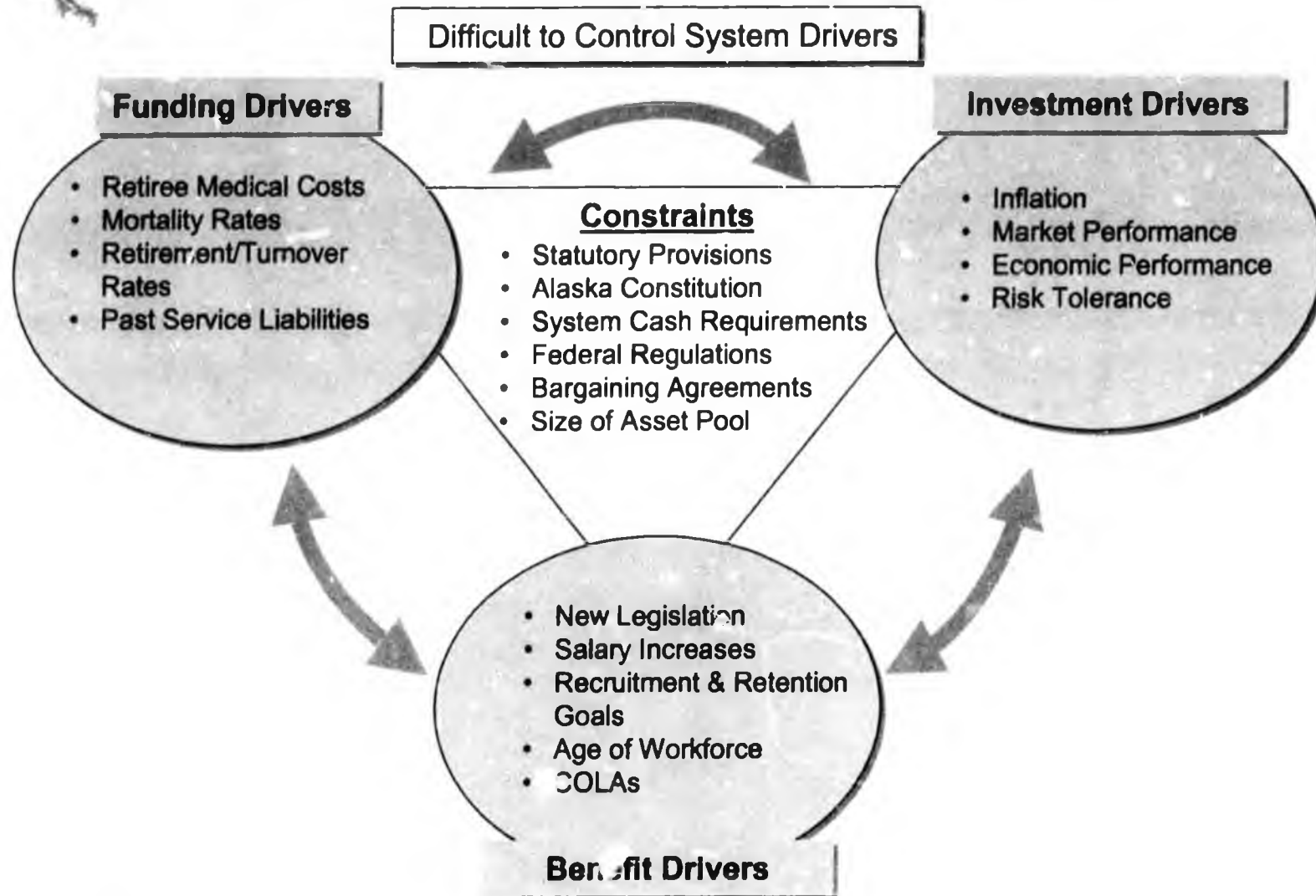




* PERS Employer Rate increased from 7.36% in 1998 to 28.19% in 2004

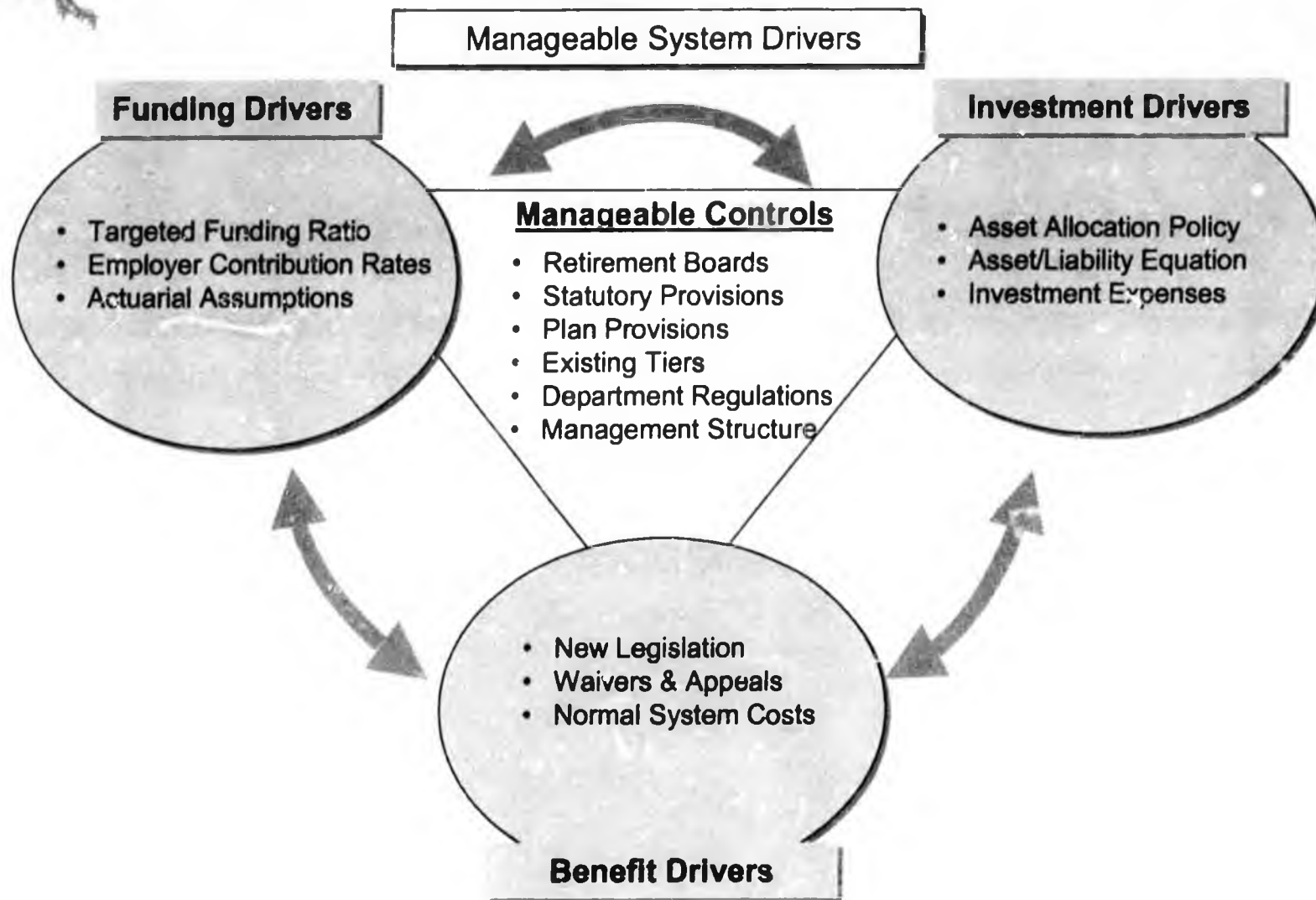
A Combination of Factors Created Our Present Situation





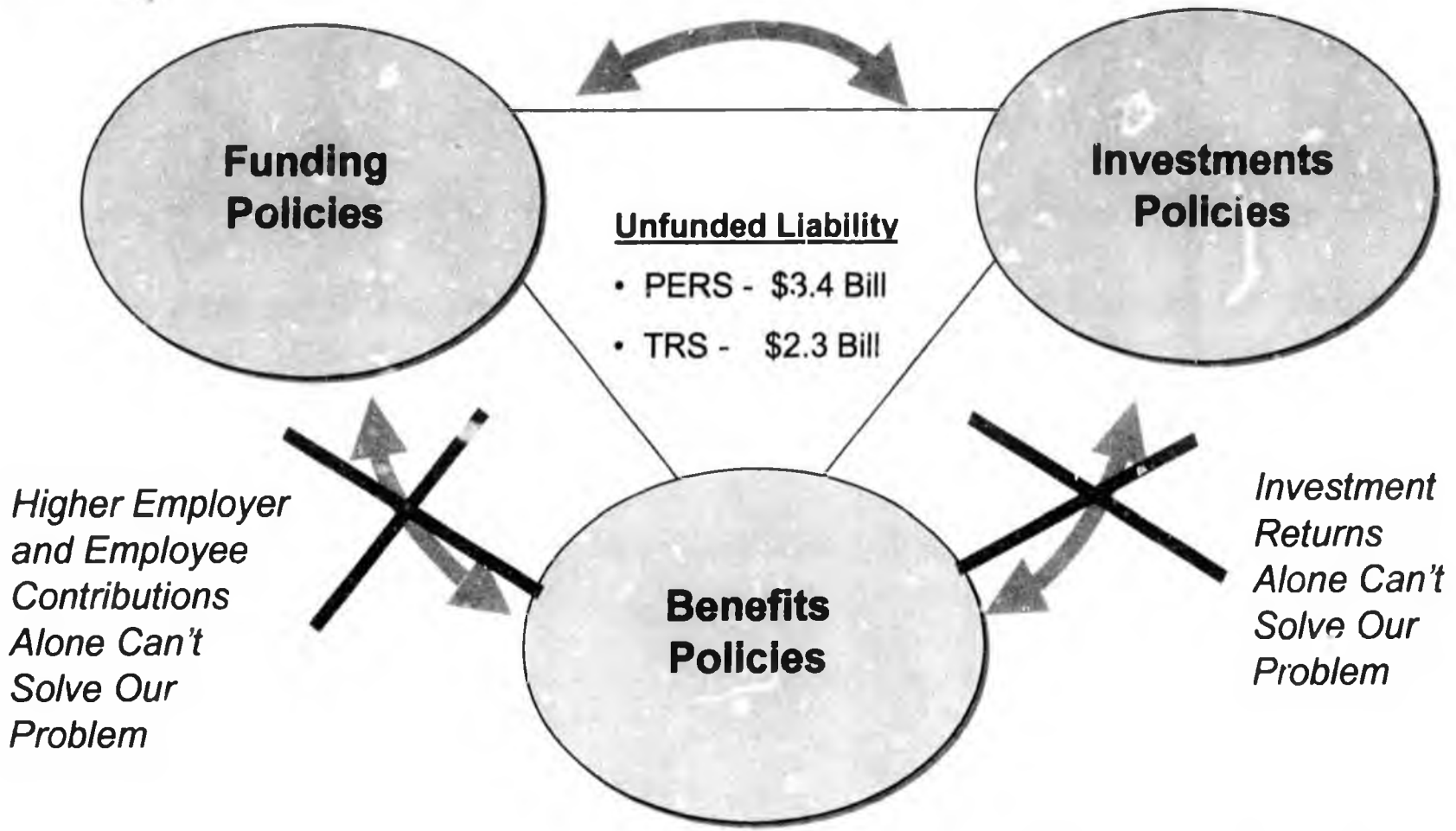
Financial & Economic Drivers are Hard To Predict and Difficult to Control





Parts of The System Can...and Should.... be Better Managed

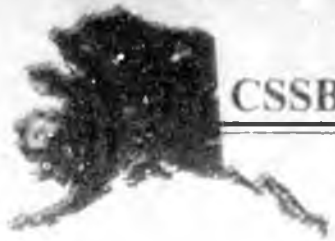




*See Appendix G for Projected PERS/TRS Contribution Rates

Current Funding & Investment Policies Can't Support Our Benefits Policy





Important Conclusions

- System assets and liabilities must be jointly managed
- System volatility needs to be reduced
- Cost predictability and controls must be improved
- Employer contribution rates must be stabilized
- Sources of new liability must be eliminated
- Existing liability must be reduced
- Liability growth must be contained





CSSB 141 Overview





The Retirement Security Act will

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

While still maintaining our principle objectives of

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

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





CSSB 141 – Key Elements:

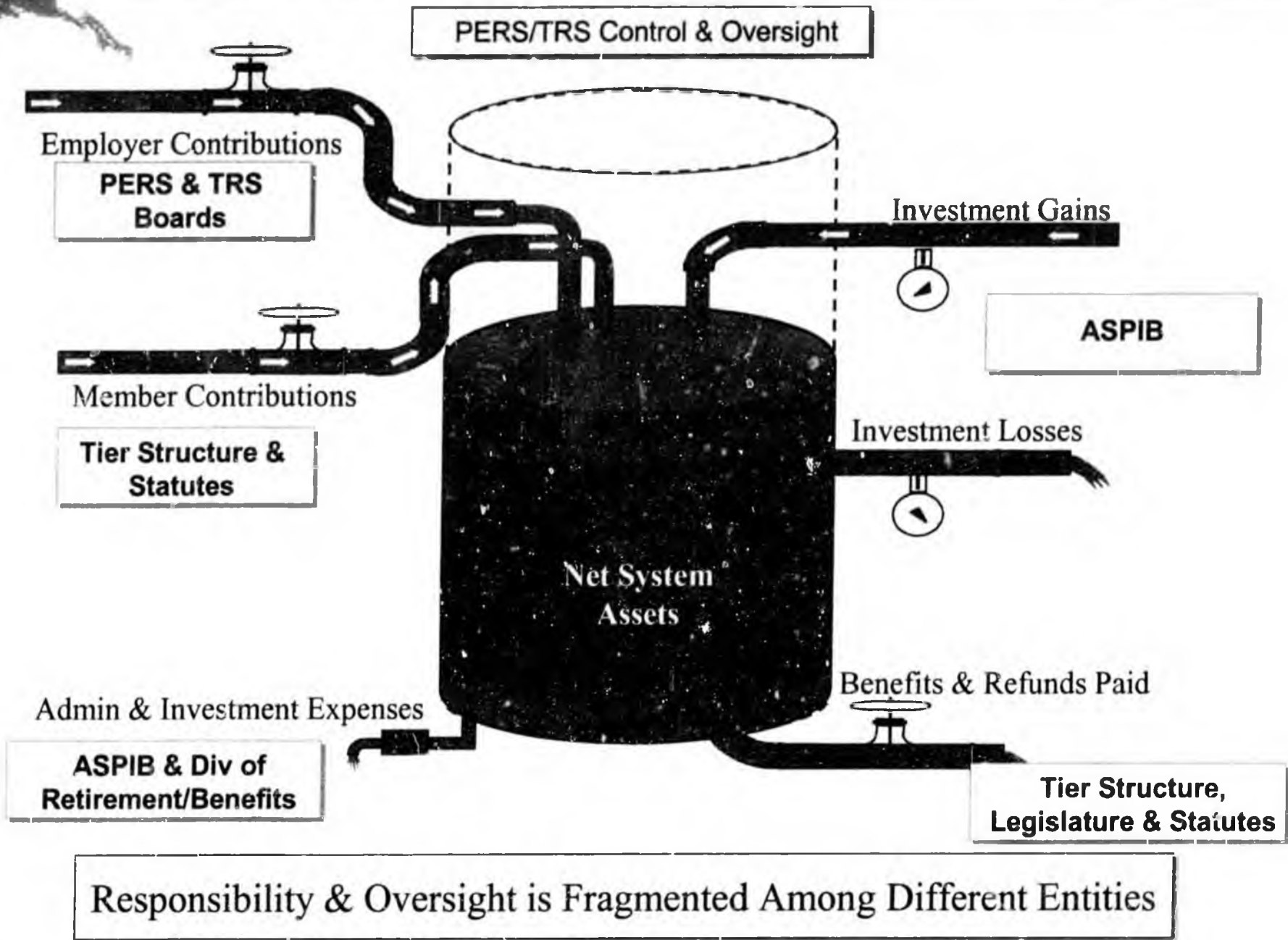
- Replaces the existing boards (PERS, TRS, ASPIB) with a new 9-member Alaska Retirement Management Board (ARMB)
- Provides more employer representation on the board; strengthens the board's fiduciary responsibilities; gives the board responsibility for setting employer contribution rates and for adopting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





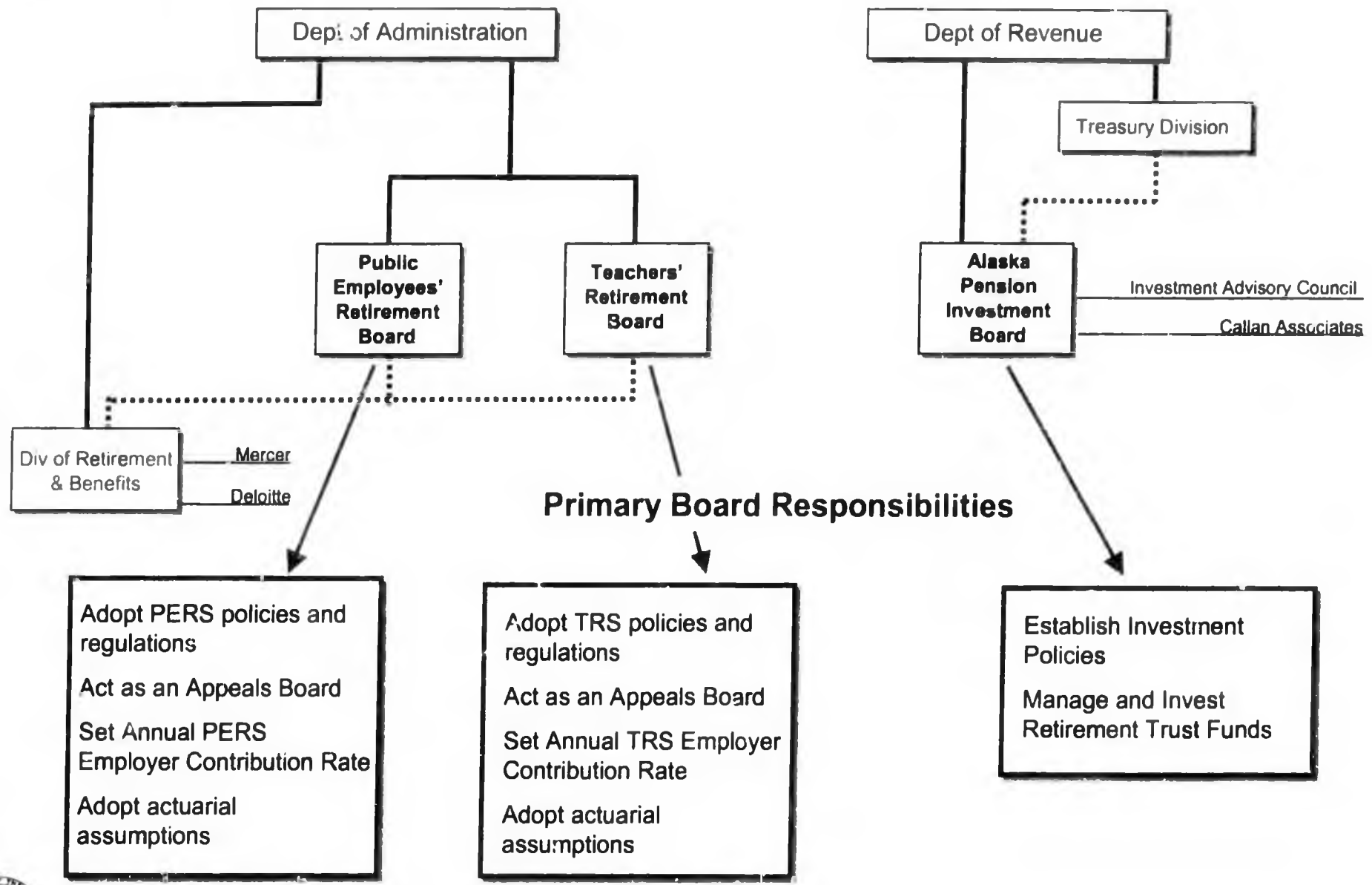
Board Restructuring







Current Retirement System Organization





Retirement System Oversight Should Be Designed To:

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





Retirement Board Must Be

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





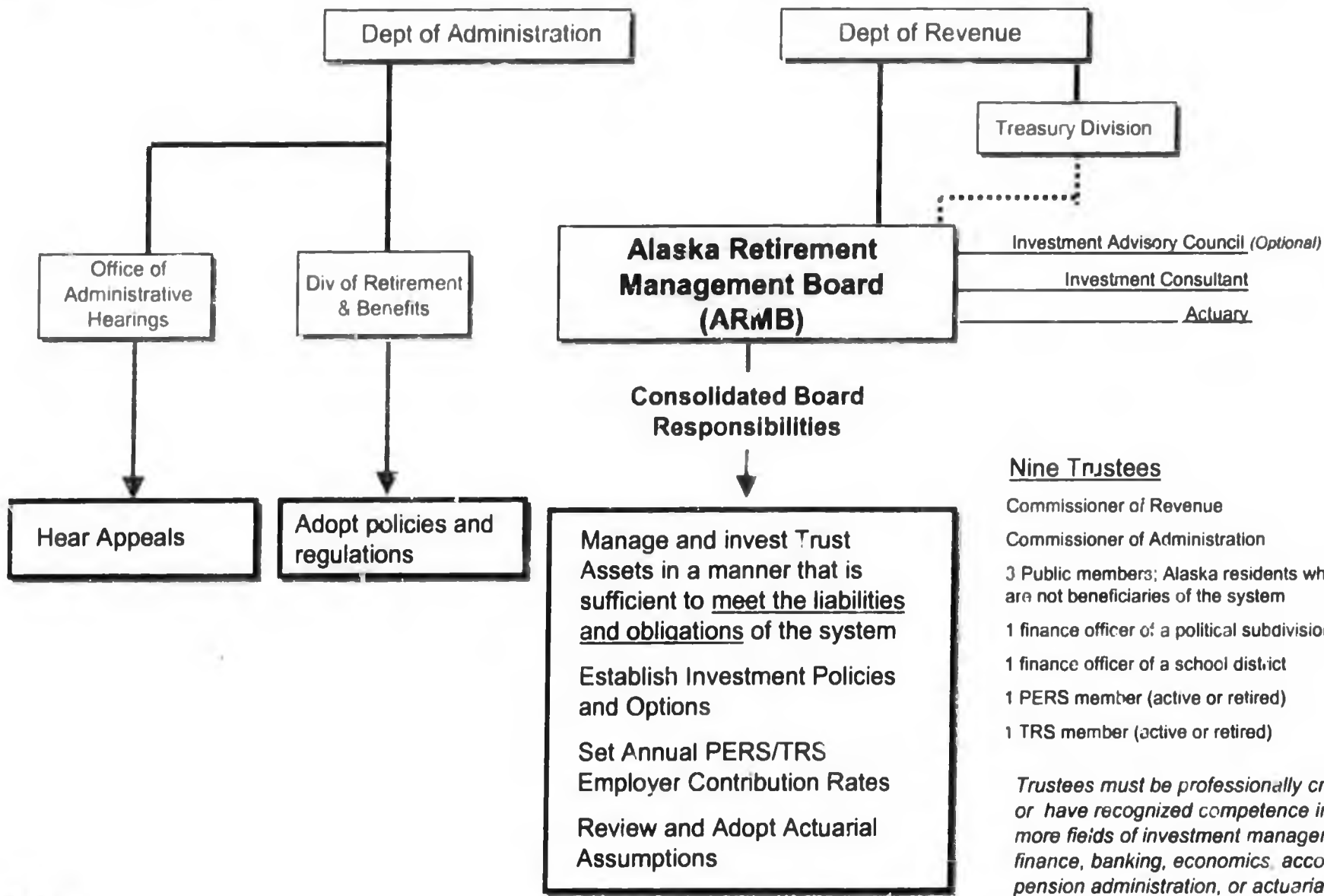
SB 141 Board Restructuring is Designed to:

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





SB 141 Retirement System Organization





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

Mercer Data Year	Board Adopt Year	Rate for FY	PERS					TRS						
			PERS Funding Ratio	Employer Normal Rate	Past Service Rate	Actuarial Computed Rate	Board Adopted Rate	Diff Computed Rate	TRS Funding Ratio	Employer Normal Rate	Past Service Rate	Actuarial Computed Rate	Board Adopted Rate	Diff Computed Rate
1987	1988	1990	100.0%	9.23%	0.07%	9.30%	9.30%	0.00%	101.0%	9.14%	-0.95%	8.19%	11.64%	3.45%
1988	1989	1991	93.0%	10.37%	1.63%	12.00%	12.00%	0.00%	98.8%	11.86%	0.41%	12.27%	10.54%	-1.73%
1989	1990	1992	91.6%	12.00%	2.20%	14.20%	14.20%	0.00%	95.0%	13.26%	1.90%	15.16%	11.87%	-3.29%
1990	1991	1993	97.2%	12.83%	0.75%	13.58%	13.58%	0.00%	87.7%	14.07%	5.58%	19.65%	12.00%	-7.65%
1991	1992	1994	88.1%	10.18%	3.54%	13.72%	13.72%	0.00%	85.7%	9.05%	6.54%	15.59%	12.00%	-3.59%
1992	1993	1995	91.2%	10.90%	2.80%	13.70%	13.70%	0.00%	89.7%	8.57%	4.79%	13.36%	12.00%	-1.36%
1993	1994	1996	95.4%	11.29%	1.53%	12.82%	12.82%	0.00%	93.1%	9.06%	3.42%	12.48%	12.00%	-0.48%
1994	1995	1997	94.8%	10.36%	1.78%	12.14%	12.14%	0.00%	89.6%	9.70%	5.26%	14.96%	12.00%	-2.96%
1995	1996	1998	96.5%	10.61%	1.29%	11.90%	8.00%	-3.90%	90.9%	10.10%	4.84%	14.94%	12.00%	-2.94%
1996	1997	1999	105.8%	9.85%	-2.11%	7.74%	7.74%	0.00%	97.2%	8.97%	1.55%	10.52%	12.00%	1.48%
1997	1998	2000	106.3%	8.89%	-2.53%	7.36%	7.74%	0.38%	94.0%	9.21%	3.79%	13.00%	12.00%	-1.00%
1998	1999	2001	105.9%	8.67%	-1.64%	7.03%	7.40%	0.37%	97.7%	8.99%	1.56%	10.55%	12.00%	1.45%
1999	2000	2002	105.5%	8.07%	-1.51%	6.56%	6.75%	0.19%	102.5%	8.88%	-1.79%	7.09%	11.00%	3.91%
2000	2001	2003	101.1%	5.43%	0.69%	6.12%	6.75%	0.63%	99.6%	9.40%	-1.11%	8.29%	11.00%	2.71%
2001	2002	2004	100.9%	5.42%	1.35%	6.77%	6.77%	0.00%	95.0%	10.33%	4.11%	14.44%	12.00%	-2.44%
2002	2003	2005	75.2%	13.31%	11.60%	24.91%	11.77%	-13.14%	68.2%	14.76%	20.91%	35.57%	16.00%	-19.57%
2003	2004	2006	72.8%	13.24%	12.39%	25.63%	16.77%	-8.86%	64.3%	14.28%	24.57%	38.85%	21.00%	-17.85%
2004	2005	2007	70.2%	13.32%	14.87%	28.19%	TBD	TBD	62.8%	13.76%	28.02%	41.76%	TBD	TBD

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





*Appeals Process to Office
of Administrative
Hearings*





Office of Administrative Hearings (OAH)

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

