




ALASKA LEGISLATURE COMPTROLLER FILES 2007-2008  
HSTA 12343



# Medicare Reform and Implications

## HSA Illustrations

- The following graphs are for only illustrative purposes
- Projections are based on reasonable assumptions for "typical" plans
- Assumes the Medicare Rx benefit is effective
- Illustrations reflect only single employees/retirees
- All dollar amounts are shown in future dollars
- Funds Needed at Retirement Age (FNARA) reflect an actuarial present value and include:
  - Employer plan contributions
  - Utilization costs (e.g., deductibles, coinsurance)
  - Medicare Part B and Part D premiums (assumes employer does not reimburse any Medicare premiums)



# Medicare Reform and Implications

## HSA Illustrations

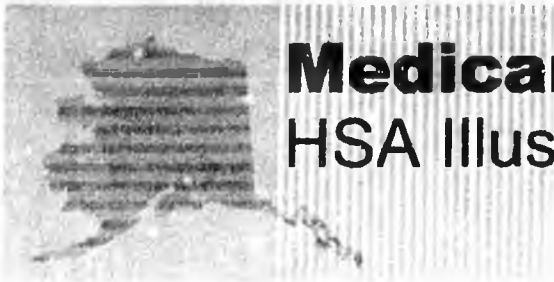
- FNARAs are shown on a post-tax basis. The additional tax advantages of HSA are not illustrated
- HSA Accumulation:
  - Assumes contributions equal the maximum amount allowed in each year, based on the assumed deductible
  - The minimum deductible equals \$1,000 (indexed) and the maximum deductible equals \$2,600 (indexed)
  - Maximum catch-up contributions are included in some scenarios
  - Assumes no employer HSA contributions
  - "No Outflow" scenarios imply that the participant pays all active medical costs from outside the HSA. Other scenarios reflect deterministic outflow every five years and imply all other active employee medical costs are paid outside the HSA



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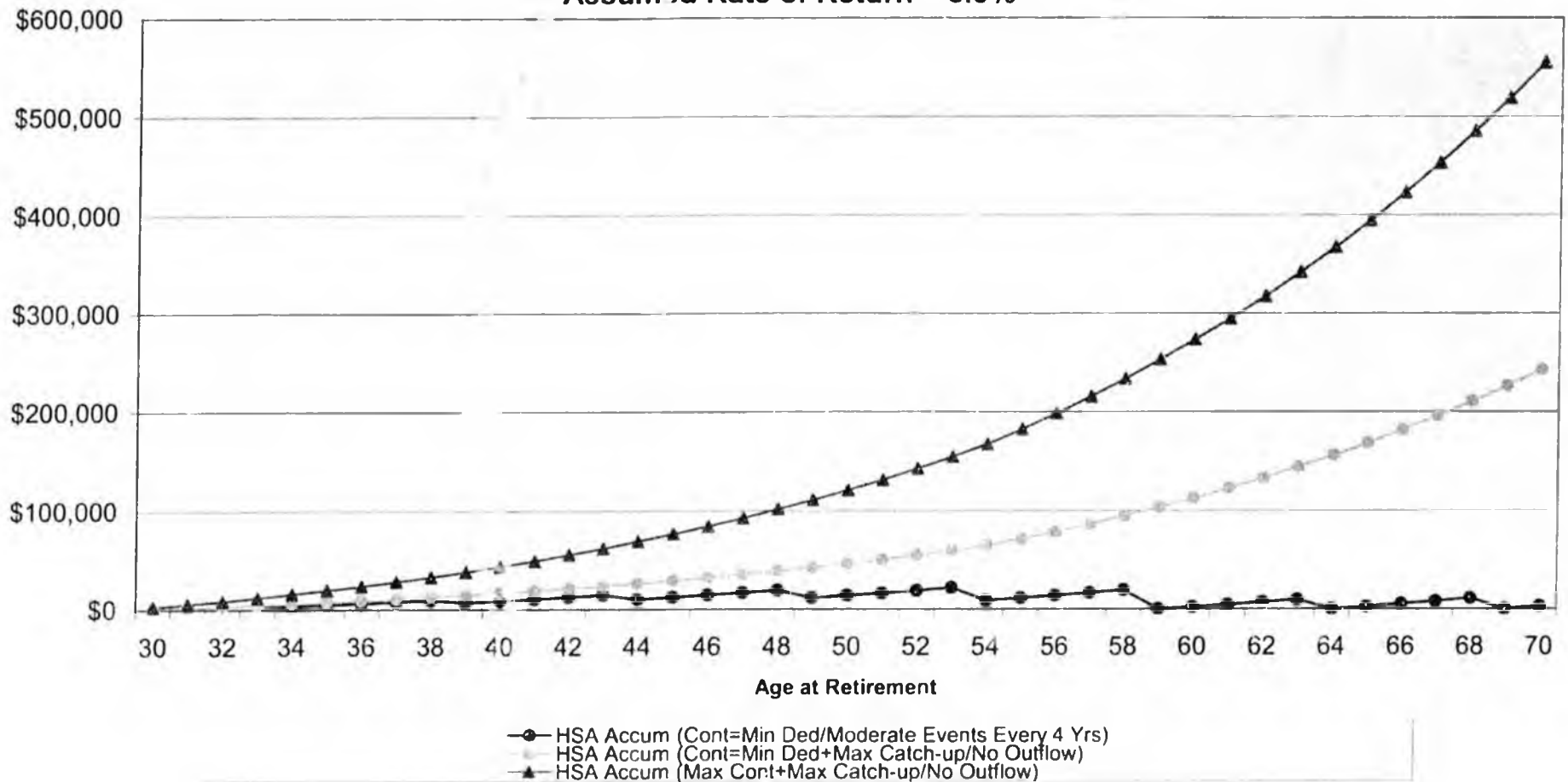
- Employees are assumed to participate in HDHPs in all years until retirement. Retirees are assumed to participate in "typical" retiree plans
- Key Assumptions
  - Interest Rate: 5.0% or 8.0% (as noted)
  - Typical 2004 pre-65 employer plan rate (at age 65): \$7,462
  - Typical 2004 post-65 employer plan rate (at age 65): \$2,175 (before the new Medicare prescription drug benefit); \$915 (after the new Medicare prescription drug benefit)
  - Initial trend rates are assumed to be between 11% and 12% and step-down to 5% in 8 years
  - The post-65 employer plan uses the carve-out Medicare integration method
  - HDHP and related HSA threshold amounts are indexed at CPI
  - Retiree contributions under employer plans: 30%
  - Medicare Part B and Part D premium indexing
  - Beginning of year payments



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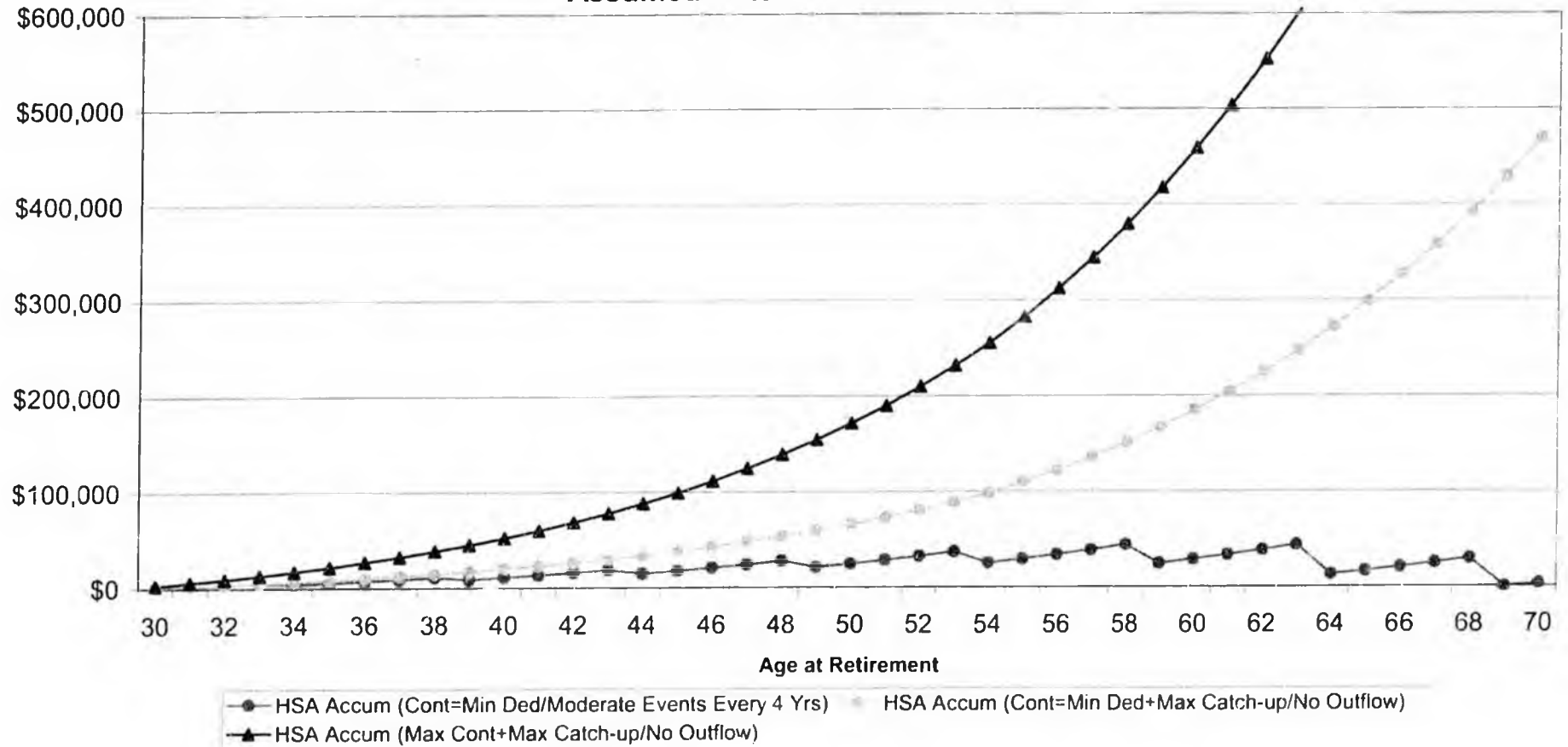
HSA Accumulation Under Various Savings Scenarios  
2004 Age = 30  
Assumed Rate of Return = 5.0%



# Medicare Reform and Implications

## HSA Illustrations

HSA Accumulation Under Various Savings Scenarios  
 2004 Age = 30  
 Assumed Rate of Return = 8.0%





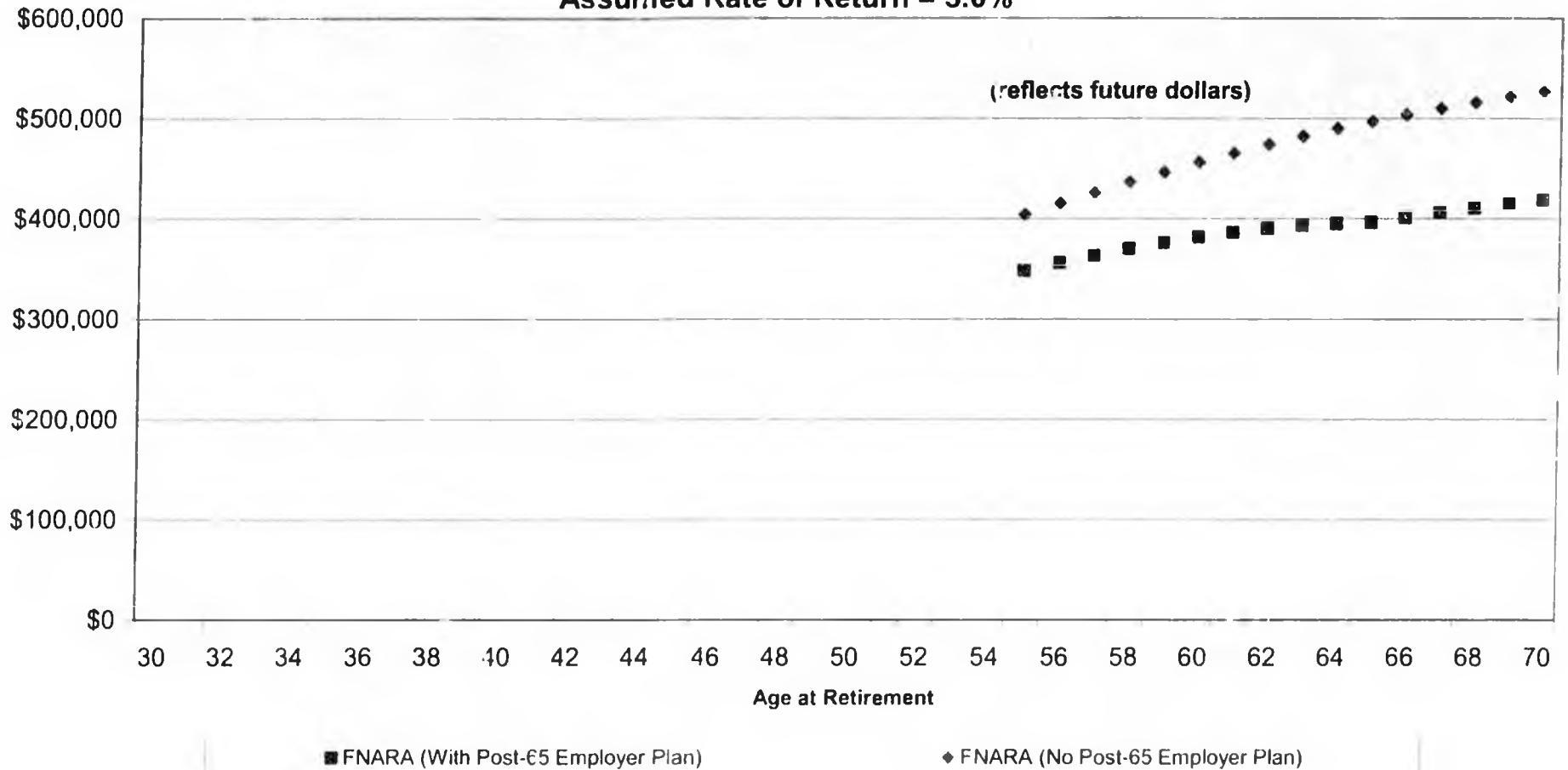
# Medicare Reform and Implications

## HSA Illustrations

Funds Needed at Retirement Age (FNARA) With and Without Post-65 Employer Coverage

2004 Age = 30

Assumed Rate of Return = 5.0%

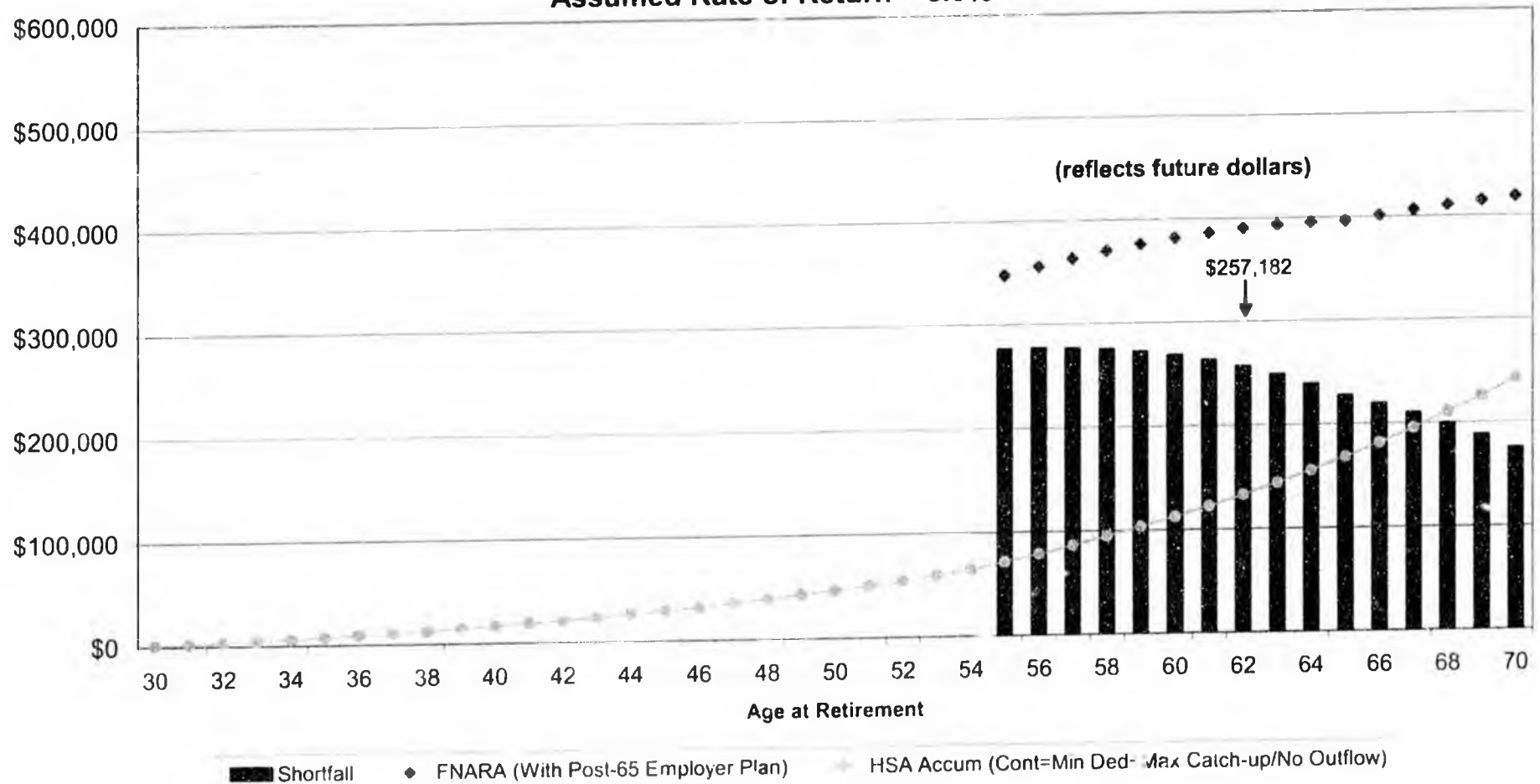




# Medicare Reform and Implications

## HSA Illustrations

Shortfall at Retirement Age - With Post-65 Employer Plan  
2004 Age = 30  
Assumed Rate of Return = 5.0%

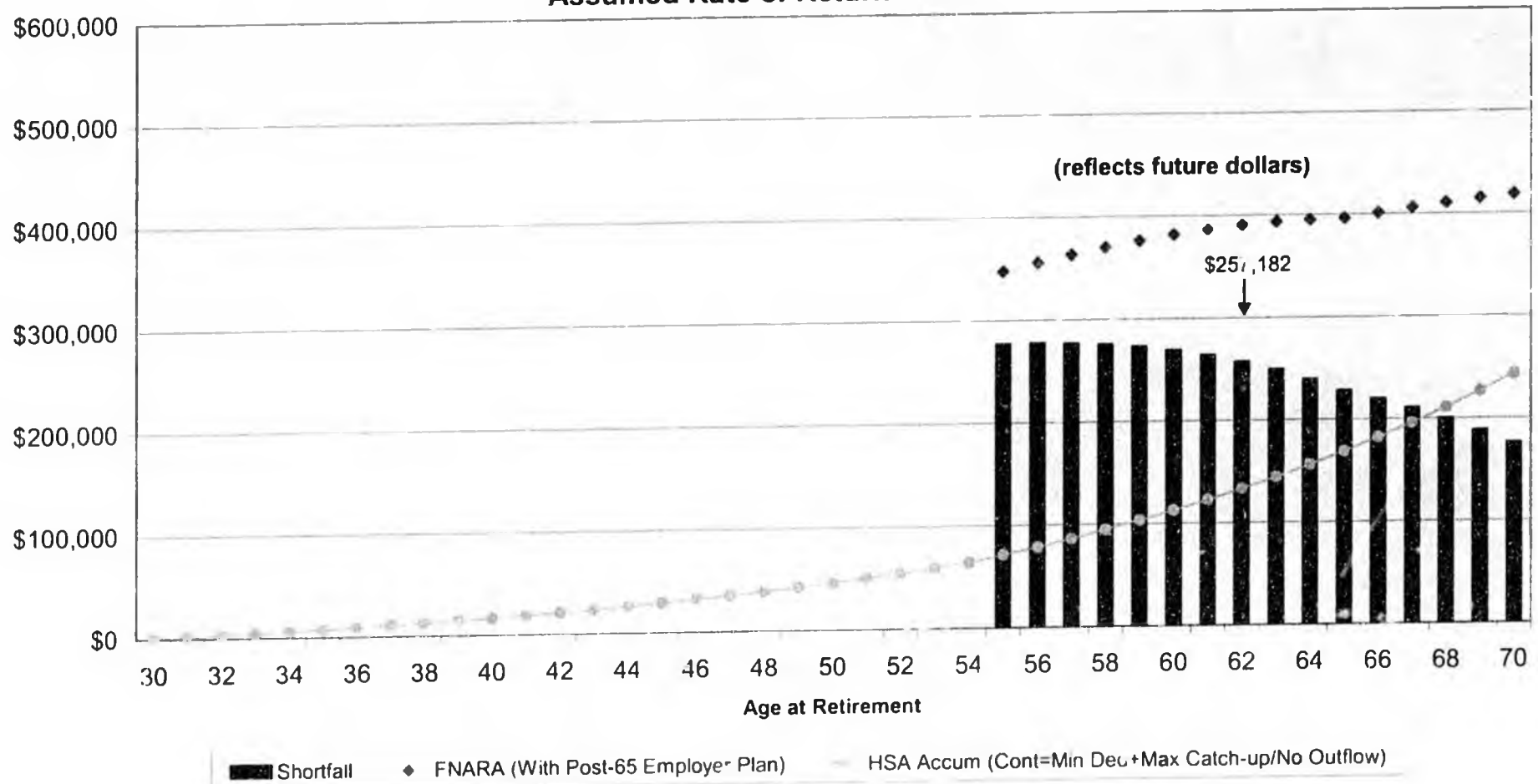




# Medicare Reform and Implications

## HSA Illustrations

Shortfall at Retirement Age - With Post-65 Employer Plan  
2004 Age = 30  
Assumed Rate of Return = 5.0%

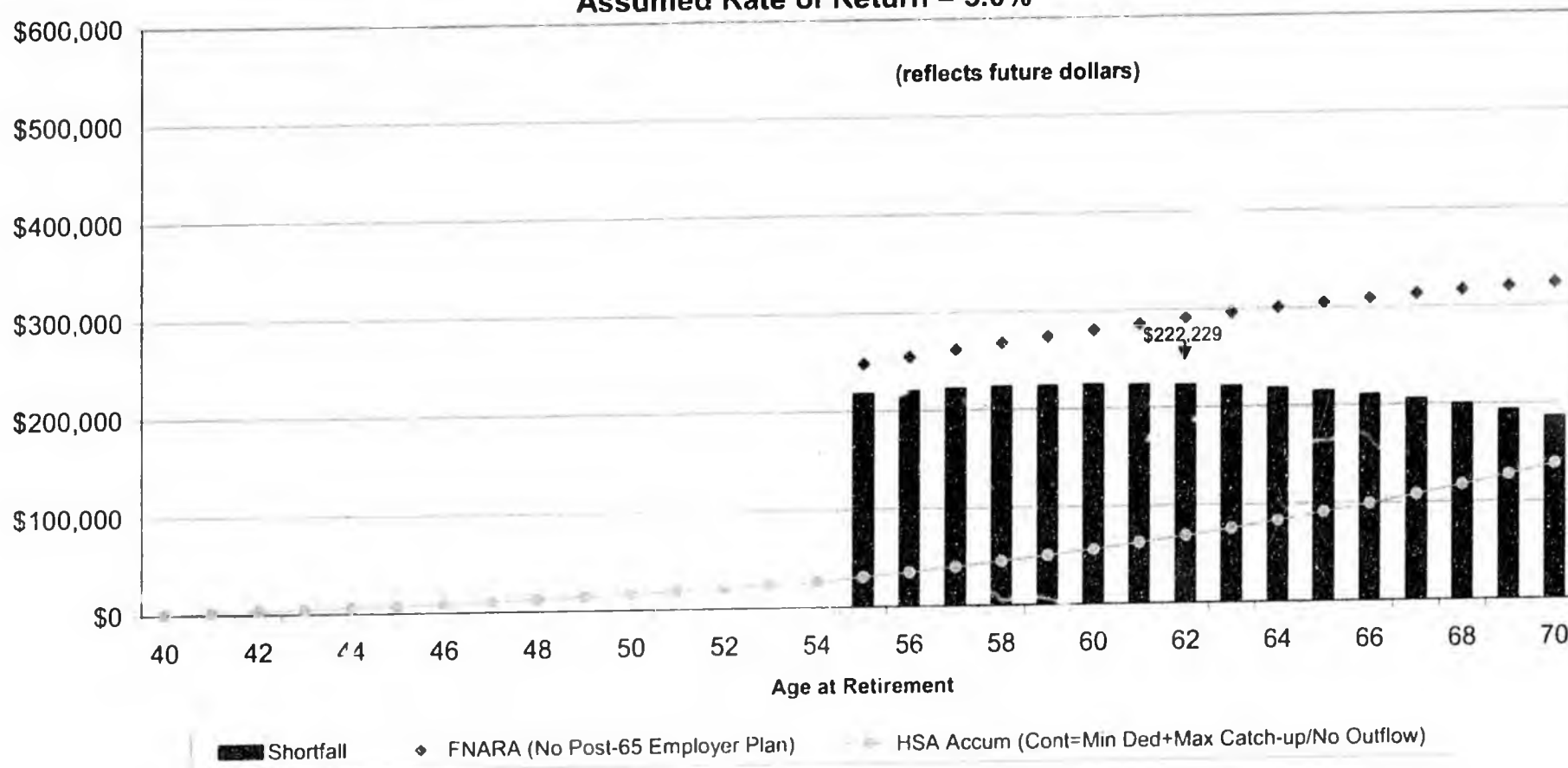




# Medicare Reform and Implications

## HSA Illustrations

Shortfall at Retirement Age - No Post-65 Employer Plan  
2004 Age = 40  
Assumed Rate of Return = 5.0%

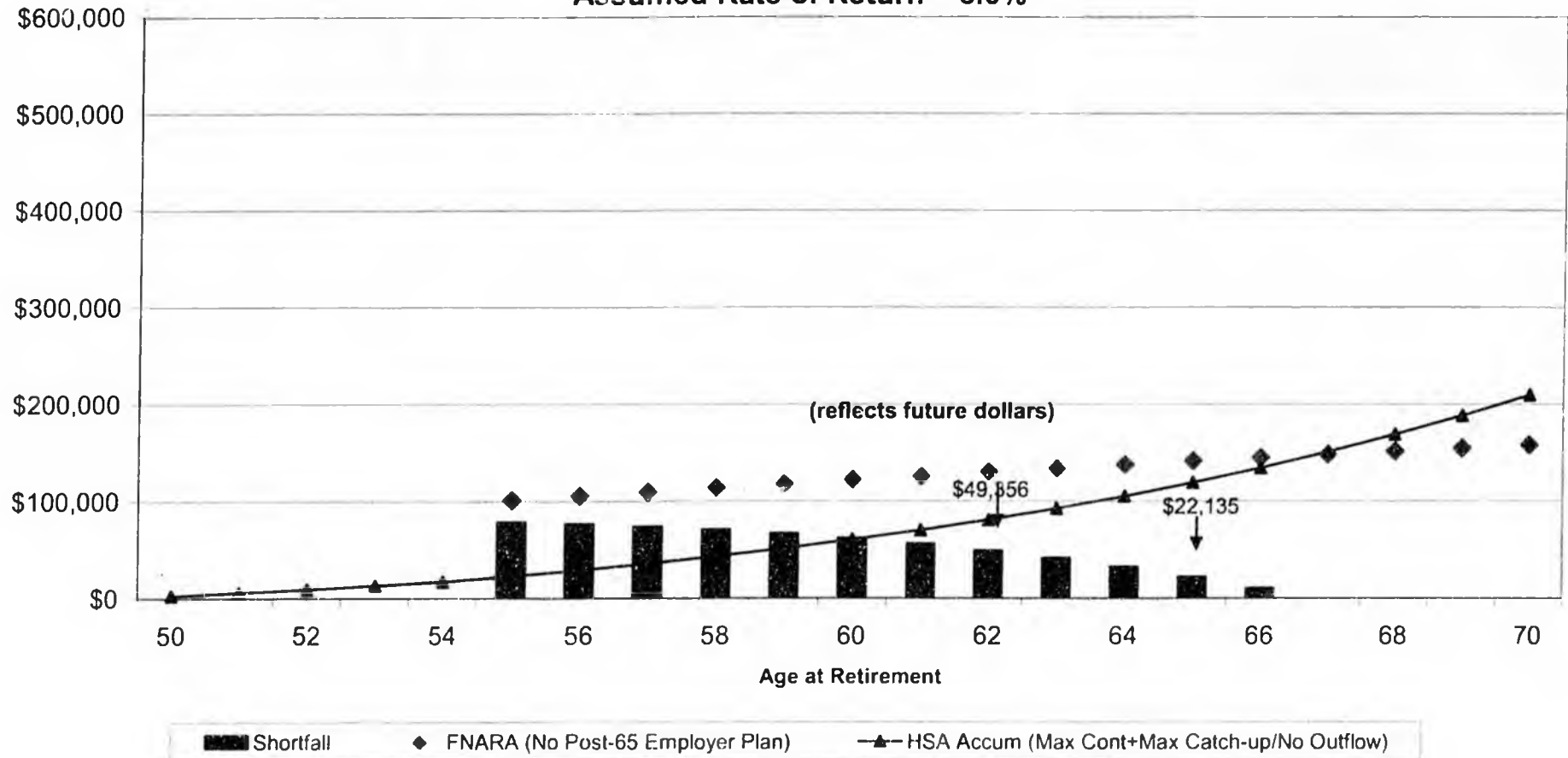




# Medicare Reform and Implications

## HSA Illustrations

Shortfall at Retirement Age - No Post-65 Employer Plan  
2004 Age = 50  
Assumed Rate of Return = 8.0%



# Medicare Reform and Implications

## HSAs, HRAs, Health FSAs

### Comparison of tax-advantaged healthcare accounts

	Health Savings Account (HSA)	Health Reimbursement Account (HRA)	Flexible Spending Account (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 plan 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
Rollover 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

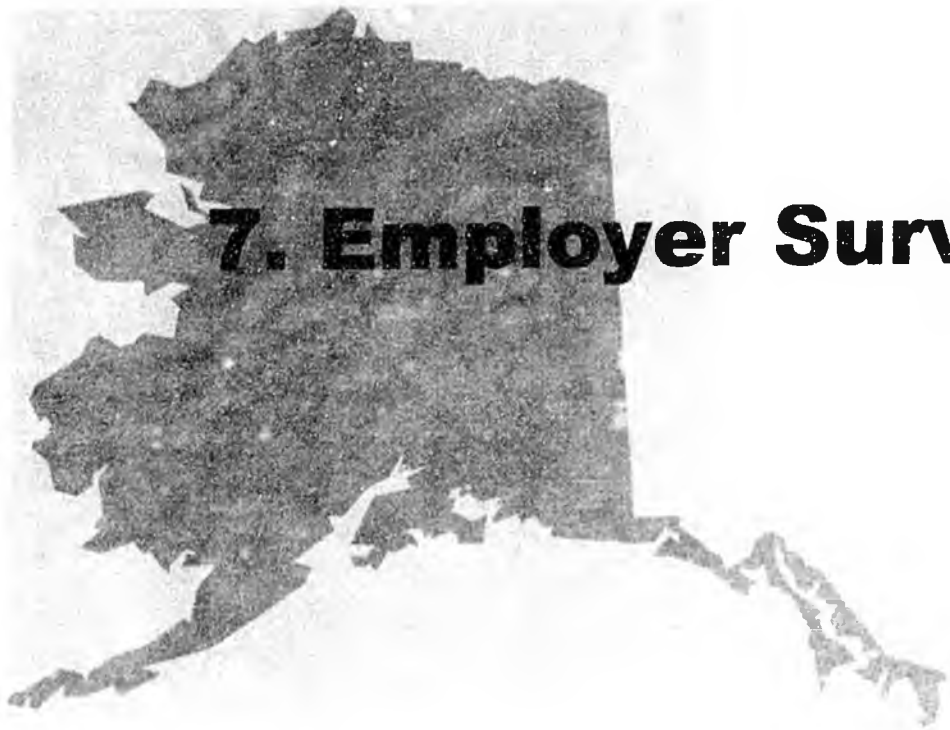


# Medicare Reform and Implications

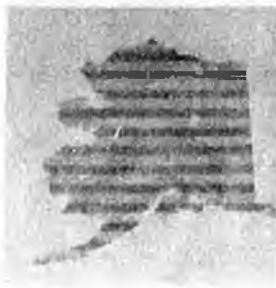
## HSAs, HRAs, Health FSAs

### Comparison of tax-advantaged healthcare accounts (continued)

	Health Savings Account (HSA)	Health Reimbursement Account (HRA)	Flexible Spending Account (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



## **7. Employer Survey Results**



# 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



# Employer Survey – TRS

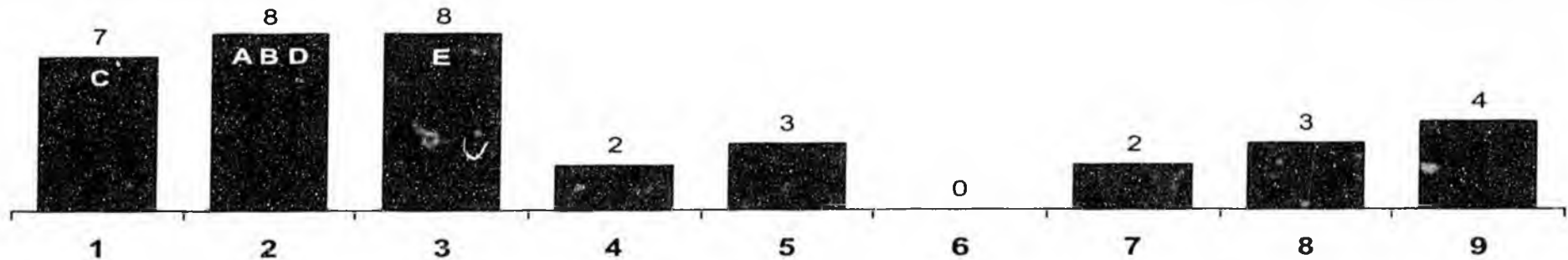
## 1. Long-Service Employees

### Importance



Plan should favor long-service employees

Plan should not distinguish on account of length of service



### Key Comments

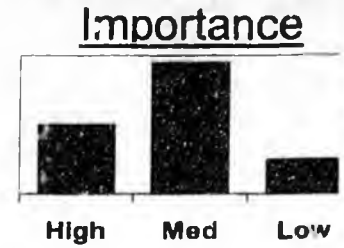
- *Incentives to reduce teacher turnover always help.*
- *Anything that keeps employees, saves time in recruitment, hiring, and training.*
- *Retaining quality employees is far more important. Employees for hire consider immediate compensation, not retirement. Veteran employees deserve rewards.*

### 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.*

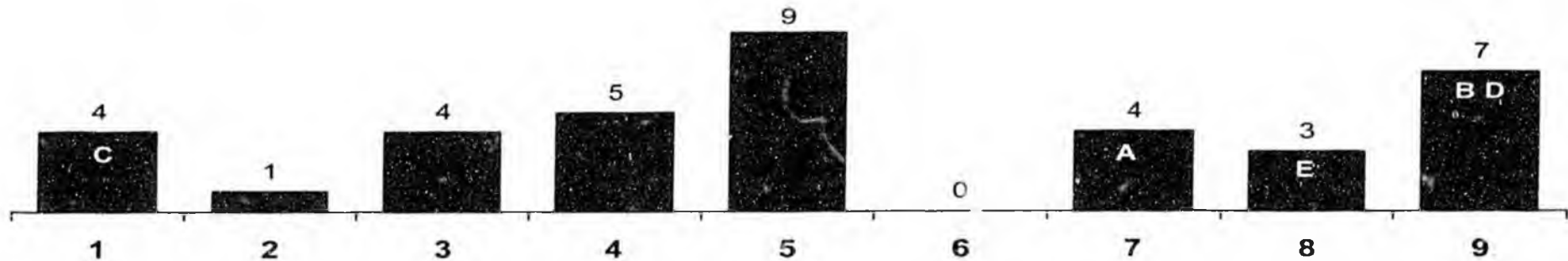
# Employer Survey – TRS

## 2. Older Employees



Plan should favor older employees

Plan should not distinguish on account of age

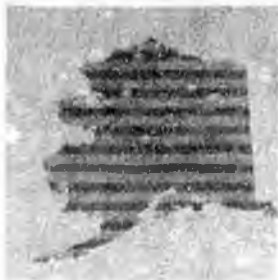


### Key Comments

- Length of service should be more important than age in determining retirement benefits.
- Inflation and decreases in salary raises are historical in Alaska. Young need to see opportunity in this state.
- Equal balance regardless of age.

### Key Implications

- Rewarding older employees supports career employment.
- Uniform allocation can be an important attraction tool, but allows dollars to “walk out the door” when younger members leave the System.



# Employer Survey - TRS

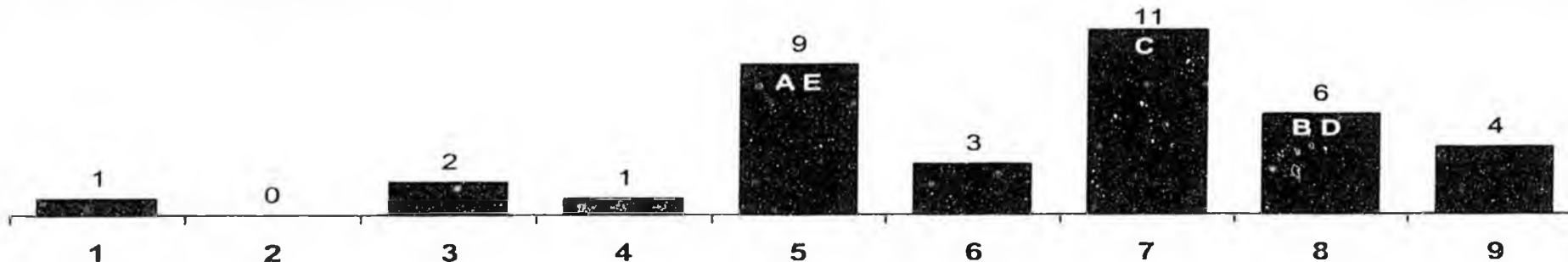
## 3. Benefits Build Up

### Importance



Benefits should build up quickly, so "early leavers" have good benefits

Benefits should build up slowly, so "early leavers" have little



### Key Comments

- *In order to save costs in a defined benefit plan, benefits should accrue at a constant rate rather than increase after so many years of service.*
- *The System should promote an optimum age or service time that encourages turnover of the workforce without loss of good experience while providing a decent retirement.*

### Key Implications

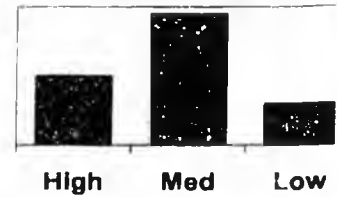
- *Does not affect career employees who stay until retirement.*
- *Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when younger members leave the System.*



# Employer Survey - TRS

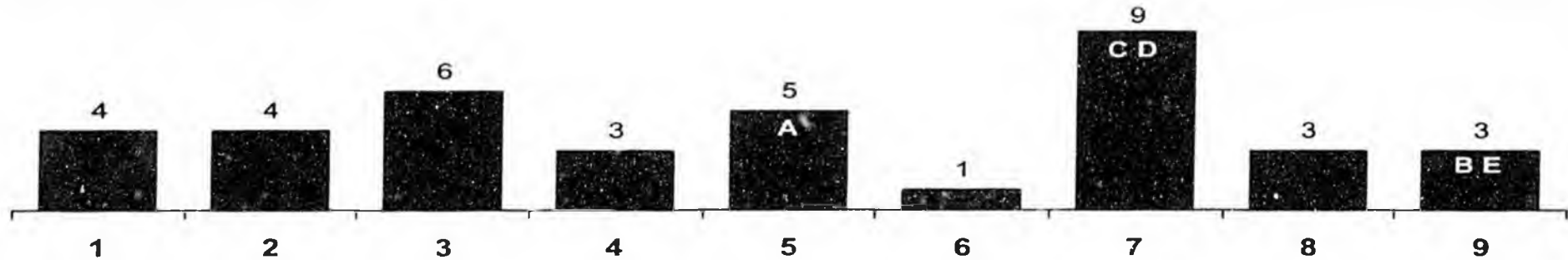
## 4. Mid-career Hires

### Importance



Mid-career hires should accrue excellent benefits

It's OK for mid-career hire: to accrue smaller benefit:



### Key Comments

- *This offers the chance to attract employees with experience.*
- *Teachers/administrators need an infusion of mid-career change people. We need their experiences and insight in educating our kids. We need to not penalize them in retirement planning.*
- *Mid-career employees probably have other benefits.*

### Key Implications

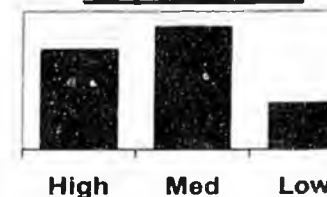
- *Sufficient benefits for mid-career hires can be an important tool in order to attract experienced talent.*
- *Providing higher benefits equals higher cost.*
- *Mid-career hires may be sacrificing good benefits to switch employers.*



# Employer Survey – TRS

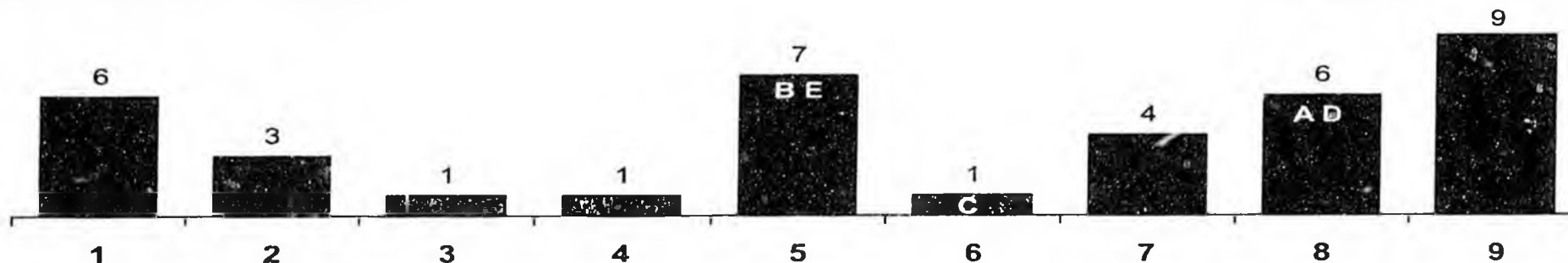
## 5. Remaining in Alaska

Importance



The System should **not** reward retirees who remain in Alaska

The System should reward retirees who remain in Alaska



### Key Comments

- Retirees should be encouraged to stay in Alaska.
- When people have given and earned their retirement, let them live where they choose without penalty.
- Alaska needs to promote lifelong state citizenship.
- Spend money where they want. The employee has earned it.

### Key Implications

- Providing COLA results in higher System costs, but Alaskan economy benefits from additional dollars spent by those who remain in Alaska.
- COLA for residents promotes lifelong residency.

# Employer Survey - TRS

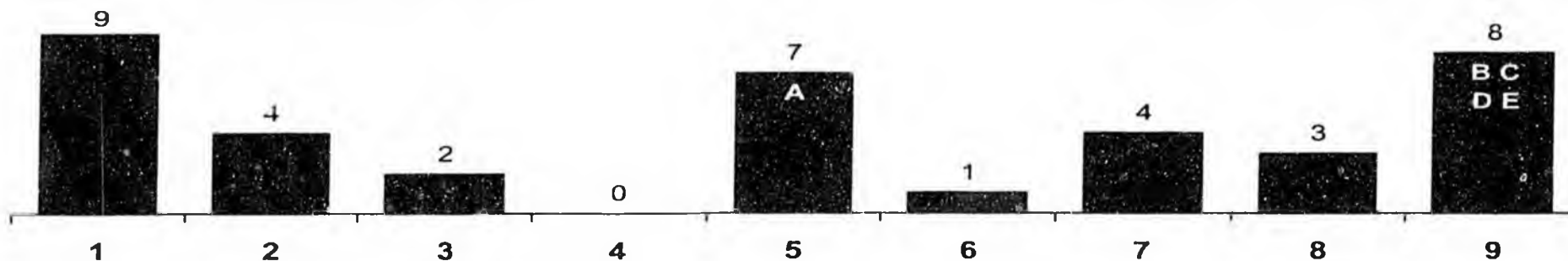
## 6. Med Coverage to Term. Vested Members

Importance



The System should provide medical coverage to terminated vested members

The System should **not** provide medical coverage to terminated vested member:



### Key Comments

- *This area needs to be reviewed and modified to help control costs. It may be necessary to qualify for benefits or look at providing a flat dollar amount for benefits with the retiree paying the difference.*
- *Helps with recruitment. Many come to Alaska to get vested - we need to encourage this trend.*
- *Medical coverage should be available after vesting and attaining a certain specified age (say 60) or direct retirement if prior to 60.*

### Key Implications

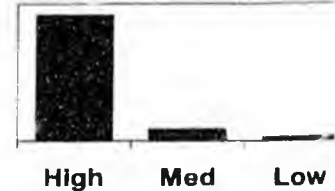
- *Opportunity for cost savings exists by cutting back medical benefits for terminated vested members*
- *By eliminating, employers would lose out on a recruiting tool.*



# Employer Survey – TRS

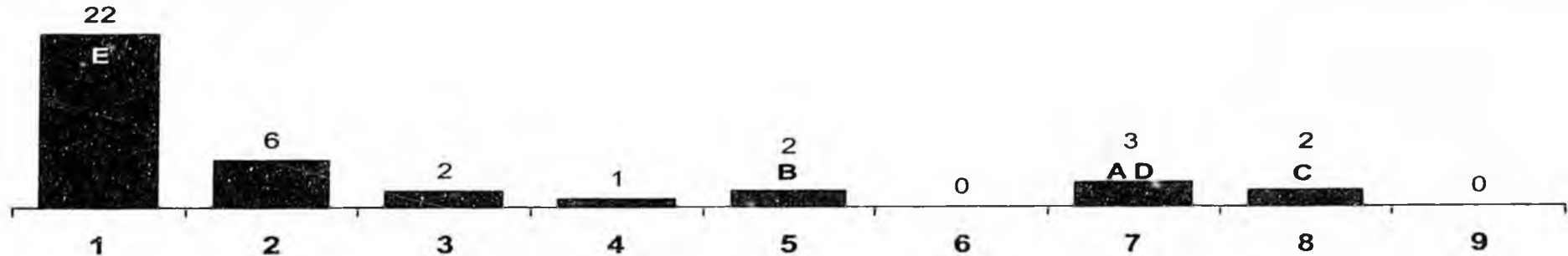
## 7. Medical Coverage

### Importance



The retirement program should provide medical coverage

The program should no provide medical coverage



### Key Comments

- *Biggest selling point in recruiting - medical.*
- *Delaying medical coverage will only force potential retirees to stay in the system longer at the top-end of salary.*
- *Coverage important, but retirees could pay a share, perhaps based on years of services.*
- *Medical coverage is very important. But with costs increasing as they are, we need to consider changes to the current structure.*

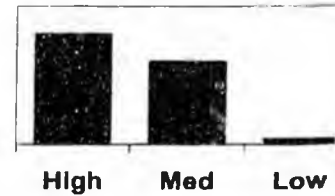
### Key Implications

- *Elimination of medical coverage would lower System costs significantly over time.*
- *Eliminating medical coverage would drastically change current design and hinder attraction and retention of employees as well as possibly providing insufficient overall retirement benefits to meet retirees' needs.*

# Employer Survey – TRS

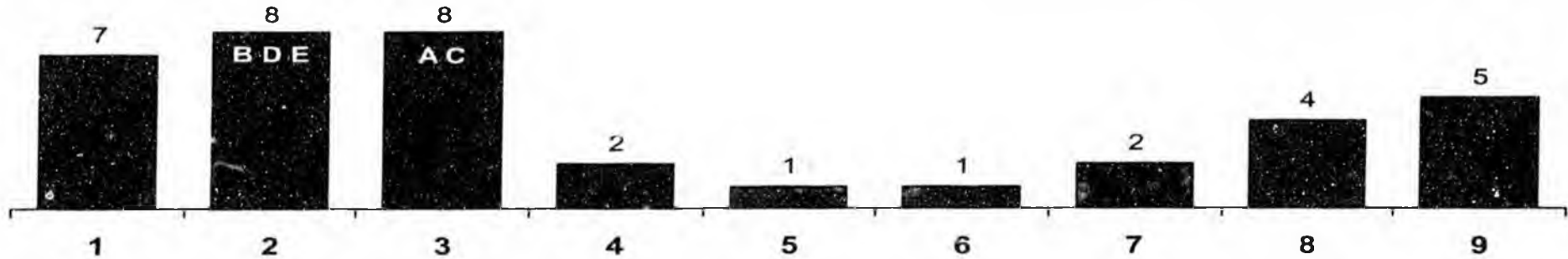
## 8. Medical Coverage based on Service

Importance



The System should provide levels of medical coverage that depend on years of service

The System should provide the same level of medical coverage regardless of years of service



### Key Comments

- Contributions to medical coverage could be based on a formula depending on years of service.
- This will help retain teachers beyond 8 year minimum.
- Eligibility for full retirement (20 years) should make one eligible for full medical benefits.

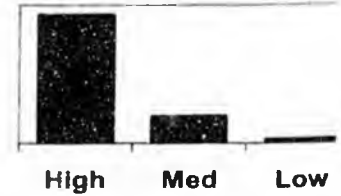
### Key Implications

- Rewarding long-service employees supports career employment.
- Employees in same tier with differing years of service could potentially have different levels of medical coverage.

# Employer Survey – TRS

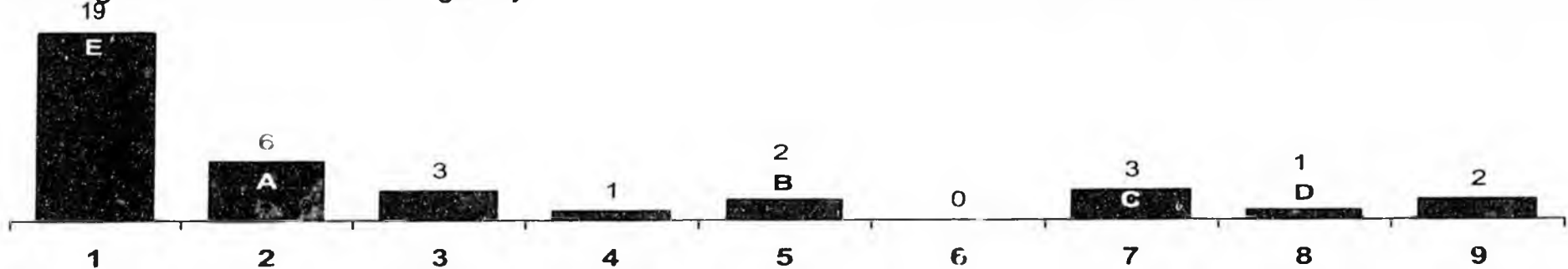
## 9. Medical Coverage and Medicare

Importance



The System should provide medical coverage to all retirees regardless of Medicare eligibility

The System should provide medical coverage only to those retirees **without** access to Medicare coverage



### Key Comments

- *Need to make sure Medicare gaps can be covered.*
- *Medical coverage should be based on years of service.*

### Key Implications

- *Limiting coverage would decrease System costs over time.*
- *Could result in inadequate medical coverage for Medicare eligible retirees.*

# Employer Survey – TRS

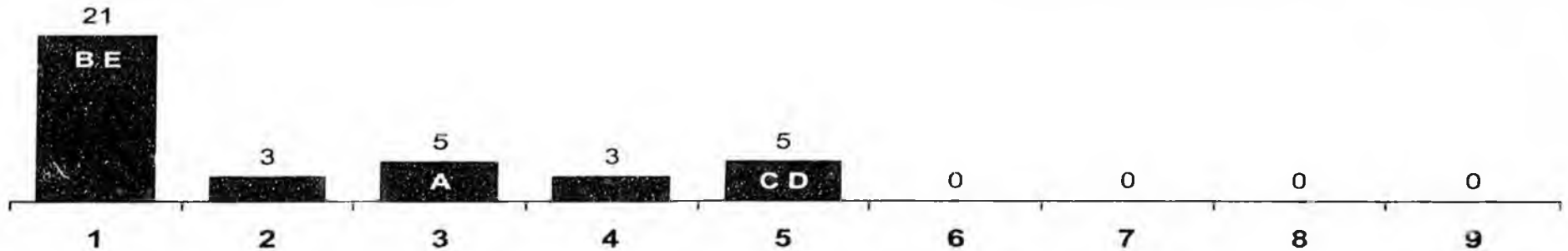
## 10. Medical Coverage and Medicare

Importance



The System should provide medical coverage to all retirees regardless of Medicare eligibility

The System should provide medical coverage only to those retirees **with** access to Medicare coverage



### Key Comments

- *Not being able to see into the future to determine what Medicare will look like, it would seem irresponsible to not provide retirees with some sense of comfort in a predictable benefit.*
- *Medical coverage should supplement Medicare up to a maximum amount based on a formula determined by number of years of service.*
- *Medicare should not be a factor.*

### Key Implications

- *Limiting coverage would decrease System costs over time.*
- *Without retiree medical coverage before Medicare, members would be more inclined to work until Medicare eligible.*
- *If medical coverage is not offered by the System to pre-medicare retirees, access to health coverage will be significantly reduced.*

# Employer Survey – TRS

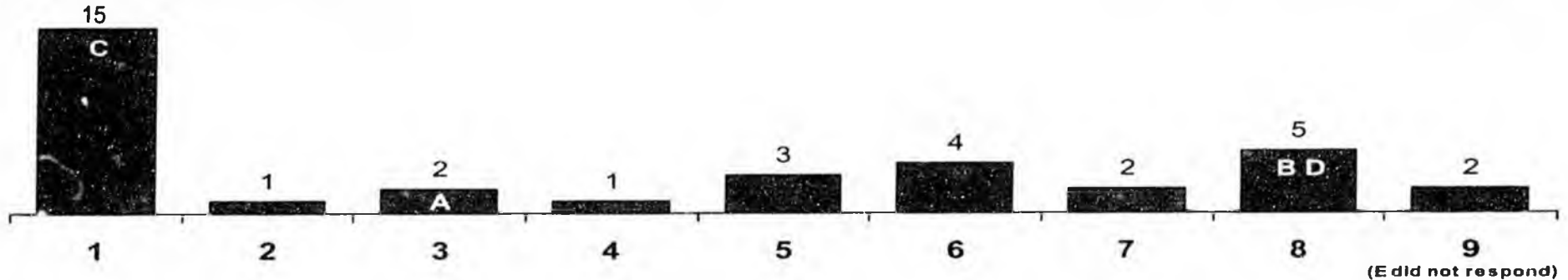
## 11. Medical Coverage

### Importance



The System should offer the same medical coverage to active and retired members

The System should **not** offer the same medical coverage to active and retired member:



### Key Comments

- Provide dollar amount of medical for retirees; if medical coverage for active employees provides better coverage, give retirees option to make co-pay.
- Those who are retired are less able to provide coverage.
- This is a composite of many employers. Medical benefits are a negotiated item at the bargaining table.

### Key Implications

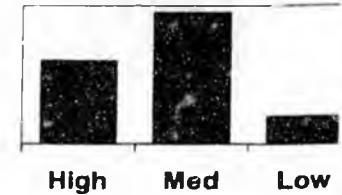
- Potential cost savings by providing lesser medical coverage for retired members.
- Different benefit levels for active and retired members may lead to communication and perceived equity challenges.



# Employer Survey – TRS

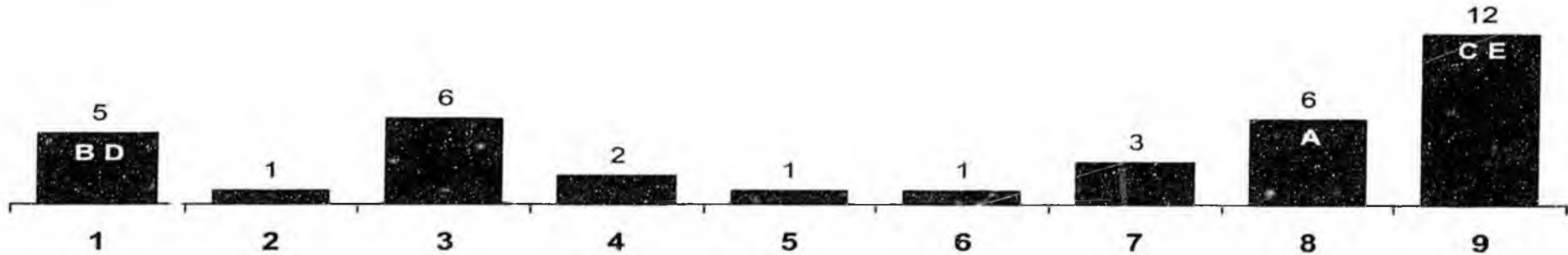
## 12. Retiring Age

### Importance



We want to be able to encourage retirement at a particular age range

We don't care when people retire



### Key Comments

- *Employees productivity and contribution are not subject to age so mandatory retirement at a certain age may not be beneficial.*
- *Their years of service should determine benefits, not their age. The loopholes allowing short service and full benefits should be closed.*
- *20 and out needs to be changed. If anyone should be 20 and out it should be law enforcement.*

### Key Implications

- *By encouraging retirement at a particular age, the System may run the risk of losing productive members too soon and/or unproductive members "hanging on" too long.*

# Employer Survey - TRS

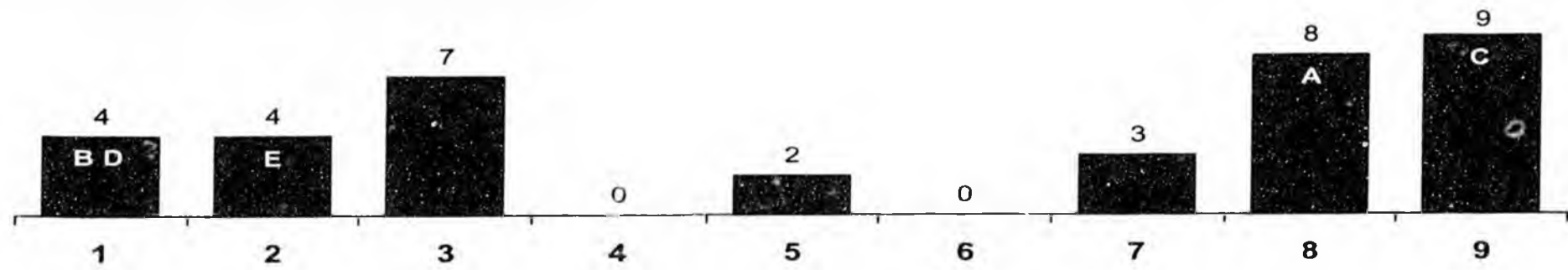
## 13. Retiring after Years of Service

Importance



We want to be able to encourage retirement after a particular number of years of service

We don't care when people retire



Key Comments	
■	<i>Increasing the number of years of service required, when age is not a factor, would reduce the cost to the retirement system.</i>
■	<i>While high salary people are a budget concern, their experience and expertise is a tremendous plus for a small organization.</i>
■	<i>20 years, at least 50 years in age.</i>
Key Implications	
■	<i>By encouraging retirement at a particular number of years of service, the System may run the risk of losing productive members too soon and/or unproductive members "hanging on" too long.</i>

# Employer Survey - TRS

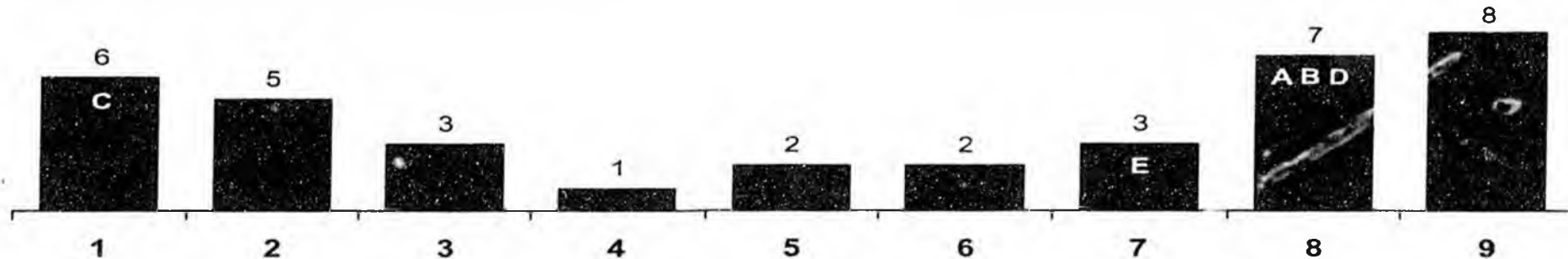
## 14. Early Retirement

Importance



We want to be able to encourage early retirement with ad hoc enhanced benefits through the plan

We don't care about encouraging early retirement, or will handle it through other method



### Key Comments

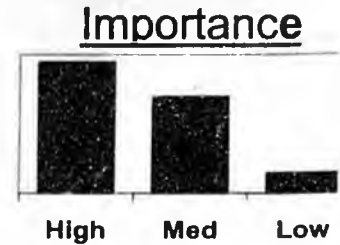
- *RIP and severance plans which offer early retirement have been shown to have a detrimental financial effect on the retirement system.*
- *Given NEA/union's impact on teaching force per seniority, this is needed to bring in new blood to the organization.*
- *In times of financial stress this will allow us to be more creative.*

### Key Implications

- *Being able to provide ad hoc enhanced retirement benefits gives the System and individual employers an additional tool to manage the workforce.*

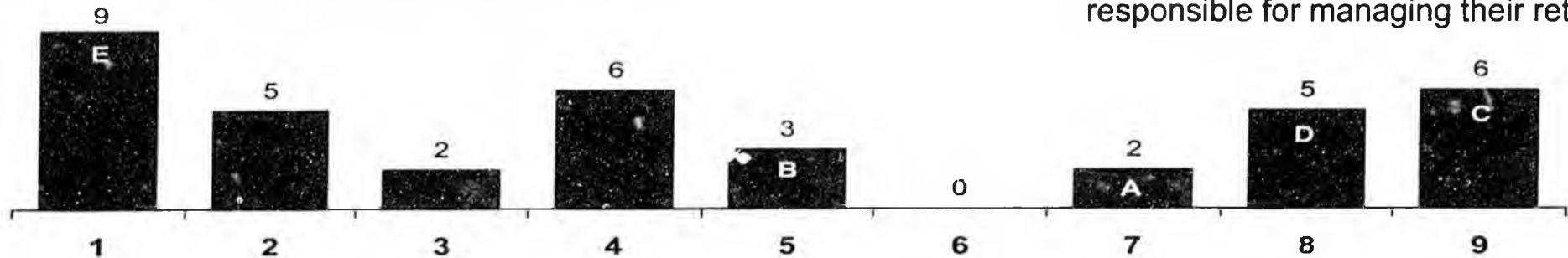
# Employer Survey - TRS

## 15. Retirement Income



We want to provide employees with a specific amount of retirement income they can count on at retirement

We will contribute to our employees retirement but each employee should be entirely responsible for managing their retirement



### Key Comments

- A defined contribution plan would be more predictable, in terms of costs to the retirement system, and less expensive than a defined benefit plan.
- Should not be a crap shoot!
- Some flexibility on this might be useful.

### Key Implications

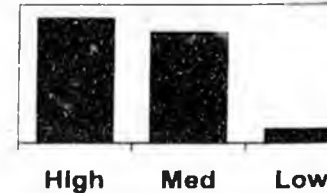
- By not providing members with a specific amount of retirement income, members may not be saving enough or taking the appropriate responsibility to ensure a comfortable retirement.



# Employer Survey – TRS

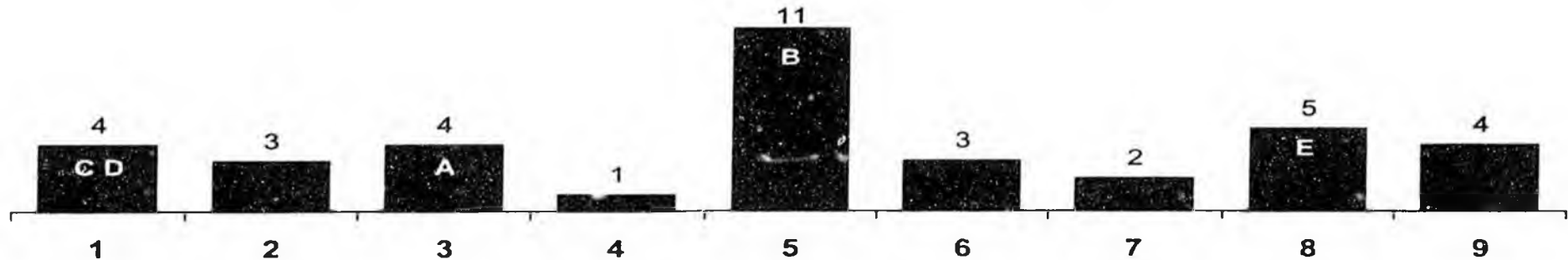
## 16. Investment Risk Responsibility

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.*
- *Our employees neither have the time nor the investment skills to manage a retirement portfolio.*
- *Defined contribution plans are bad public policy. Employer should provide access to a pre-tax dollar investment program; but a stable retirement income must be in place.*

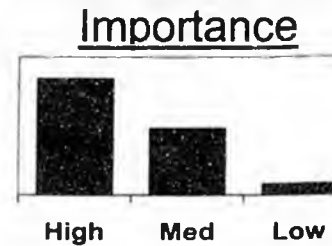
### Key Implications

- *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.*



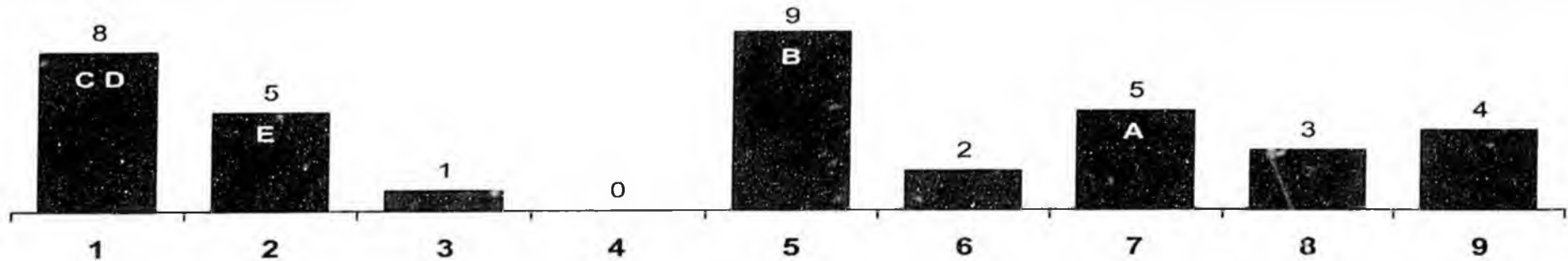
# Employer Survey - TRS

## 17. Inflation Risk Responsibility



Employees should assume pre-retirement inflation risk

Employers should adjust benefits for pre-retirement inflation



### Key Comments

- *Employers should adjust benefits for pre-retirement inflation.*
- *This should lag by a few years.*

### Key Implications

- *Value of benefits for members who terminate prior to retirement can erode over time from inflation.*
- *Providing pre-retirement inflationary protection is a cost to the System.*
- *The final average pay plan design provides some automatic pre-retirement inflation protection.*

# Employer Survey – TRS

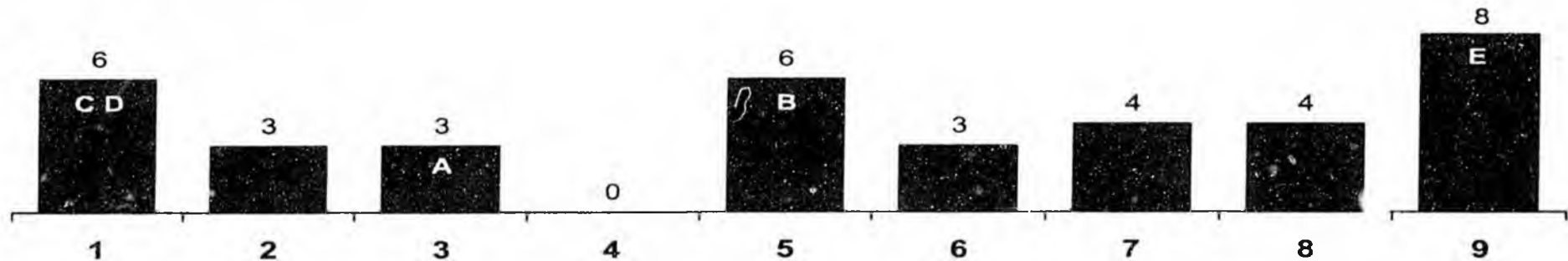
## 18. Inflation Risk Responsibility

### Importance



Employees should assume post-retirement inflation risk

Employers should adjust benefit for post-retirement inflation



### Key Comments

- *Employees should assume more risk for post-retirement inflation.*
- *This should lag by a few years.*

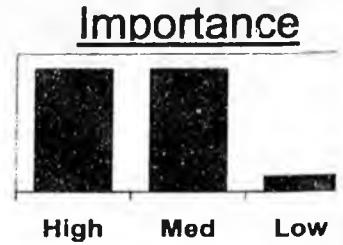
### Key Implications

- *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.*



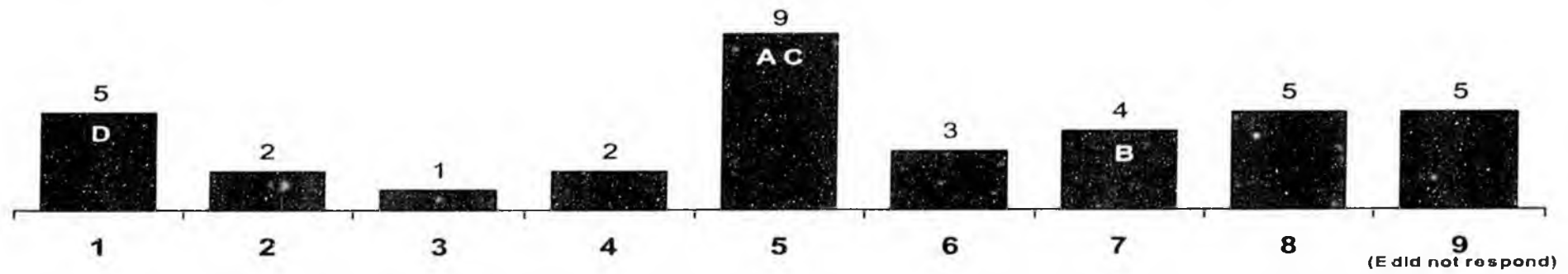
# Employer Survey - TRS

## 19. Longevity Risk Responsibility



Employees should assume longevity risk

Employers should assume longevity risk



### Key Comments

- *Employers can no longer afford to assume all future cost increases.*
- *Employees need to be on the ball in this area.*

### Key Implications

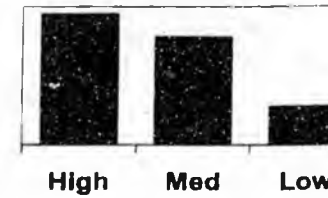
- *Providing longevity protection is a cost to the System.*
- *By assuming the longevity risk, the System could predict and manage it more accurately for the entire group than any employee could do individually.*



# Employer Survey – TRS

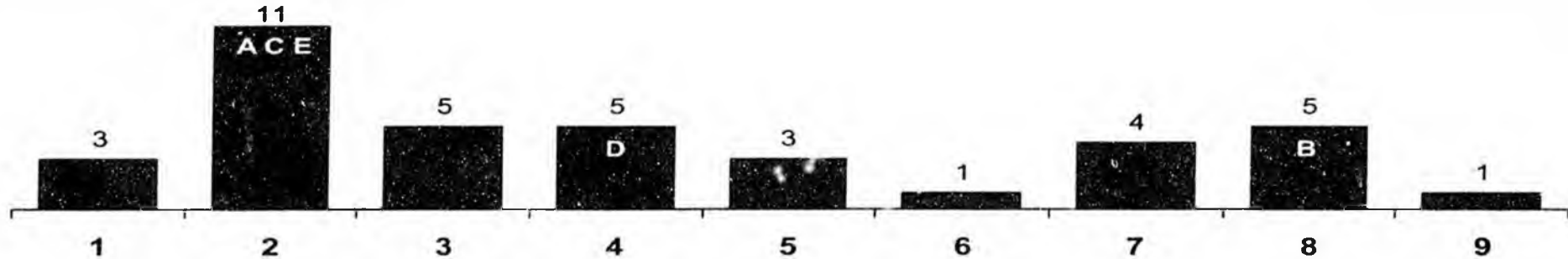
## 20. Savings

### Importance



The retirement program should heavily encourage savings in the plan

The program should permit but not push savings



### Key Comments

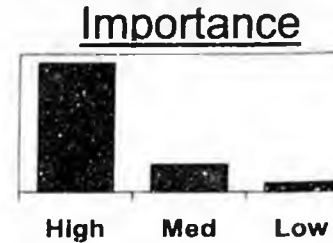
- *Employees need to assume more responsibility for their retirement. Programs should be structured to educate and encourage employees to save for retirement.*
- *Employees should be allowed to contribute and enhance their retirement security.*
- *Savings in one plan should encourage long careers.*

### Key Implications

- *Without strongly encouraging members to contribute to their retirement, many will not have adequate funds to retire comfortably.*

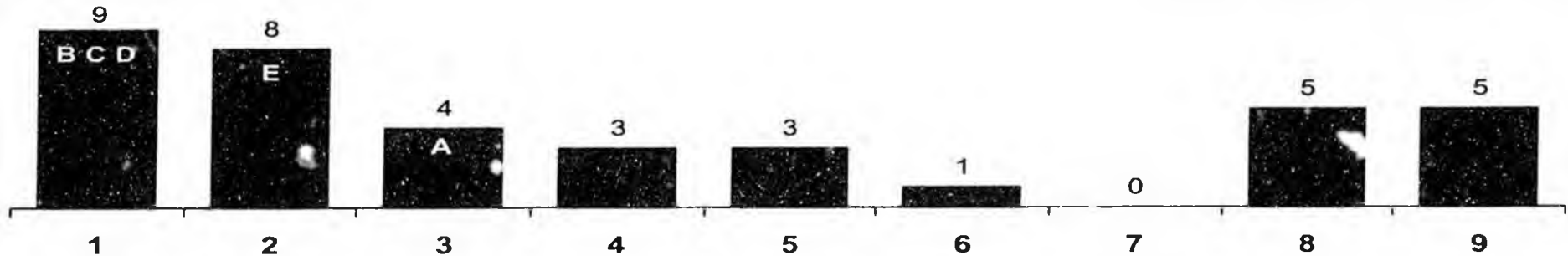
# Employer Survey – TRS

## 21. Cost of Medical Coverage



Employees should share in the cost of medical coverage

Employer should assume the cost of providing medical coverage

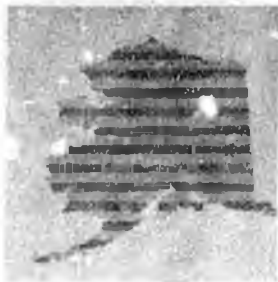


### Key Comments

- *Employers can no longer afford to pay the entire amount for medical insurance. Employees should share in the cost.*
- *Teacher/administrator salary does not reflect "high wages," hence this benefit should be provided.*
- *Employees share in the cost of medical coverage and retirement benefits through their active career contributions. They also contribute via co-pays, deductibles and Medicare Part B premiums.*

### Key Implications

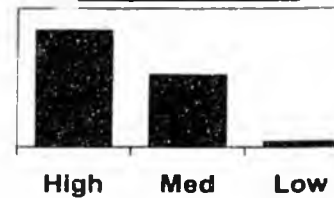
- *Members sharing in the cost of medical coverage would provide cost savings to the System over time.*
- *Would be a significant shift from current design and increase financial burden on retirees.*



# Employer Survey - TRS

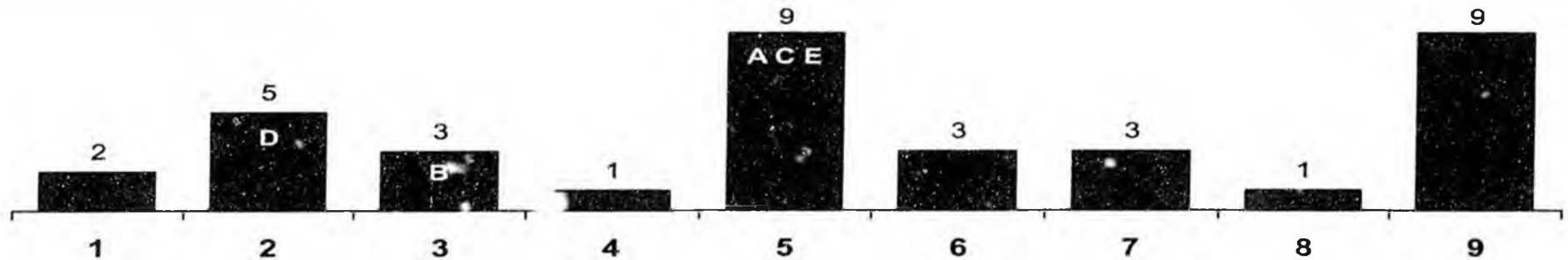
## 22. Cost of Medical Coverage

Importance



Employees should assume responsibility for medical cost increases

Employer should assume responsibility for medical cost increase:



### Key Comments

- *The retirement system should be responsible for the management of the medical coverage while the retiree should be responsible for cost increases.*
- *Both should assume cost responsibilities. It's not either or.*

### Key Implications

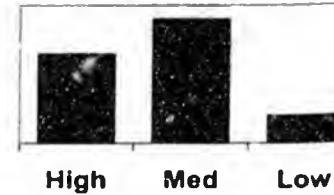
- *Members assuming the responsibility for medical cost increases would provide cost savings to the System over time.*
- *Would be a shift from current design and increase financial burden on retirees.*



# Employer Survey - TRS

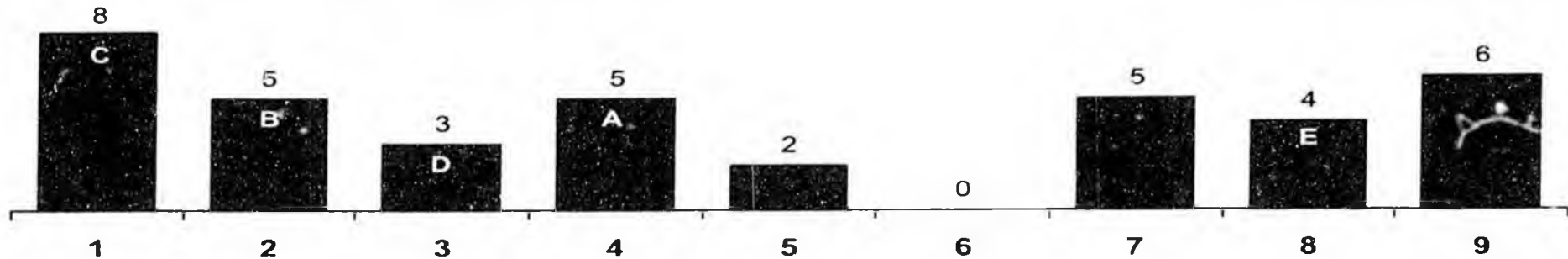
## 23. Access to Contributions

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

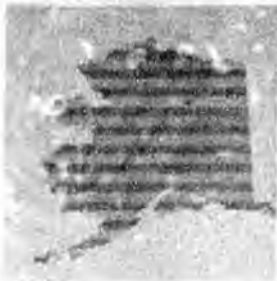


### Key Comments

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

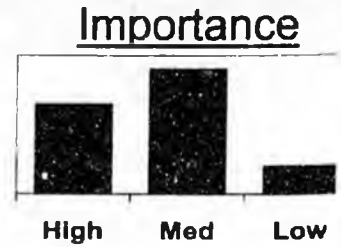
### Key Implications

- *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.*



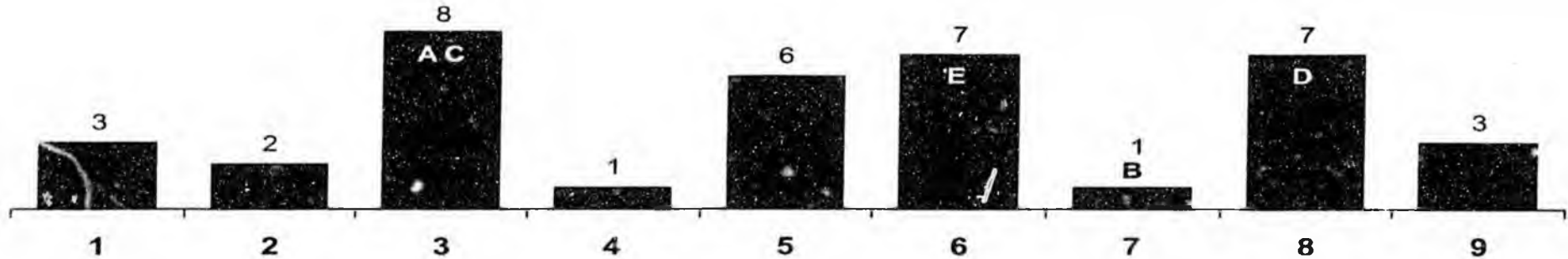
# Employer Survey - TRS

## 24. Understandability



Understandability is the primary concern

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



### 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

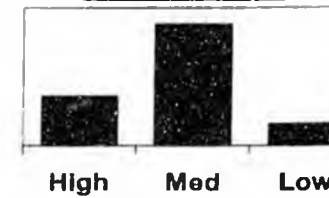
- *Generally a more complex formula can meet a wider variety of specific objectives.*
- *Members may perceive more value in a retirement plan that is more understandable.*



# Employer Survey – TRS

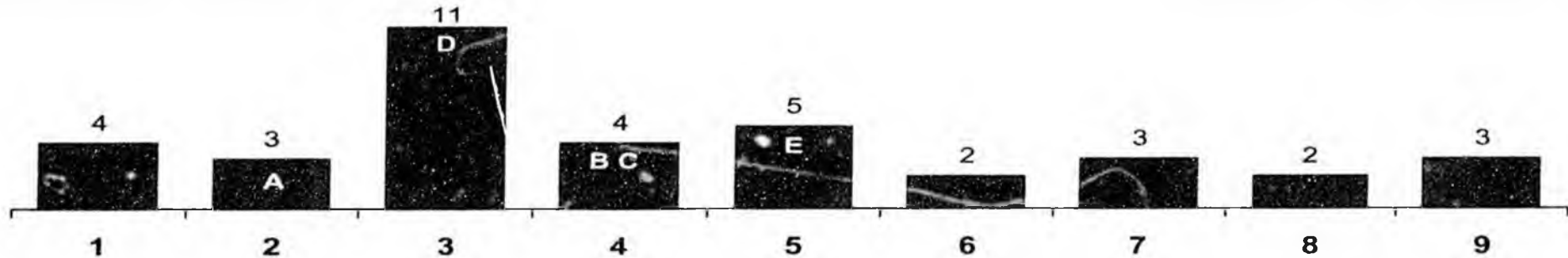
## 25. Tangible and Relevant Plan

Importance



All employees should find the plan tangible and relevant

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



### Key Comments

- All employees should understand and value the retirement plan.
- Recruiting tool.

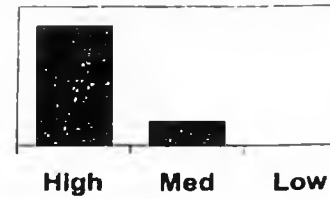
### Key Implications

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

# Employer Survey - TRS

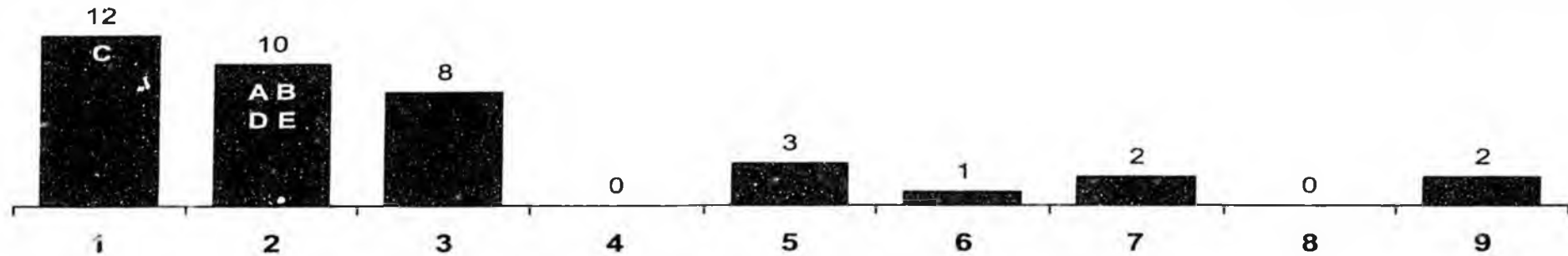
## 26. Predictability and Stability

Importance



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.



# Employer Survey – TRS

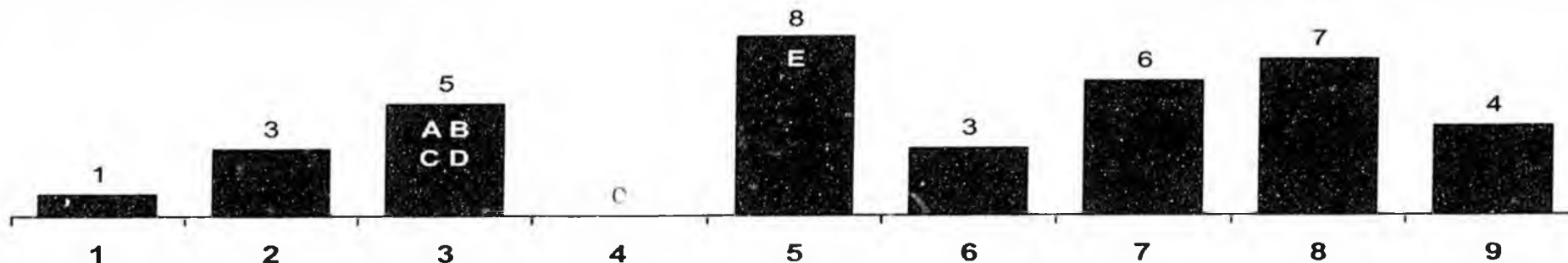
## 27. Change in Cost

### Importance



Aggregate retirement contributions should be less than they are now

Marginal cost increases are appropriate to meet other design goal



### 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.*

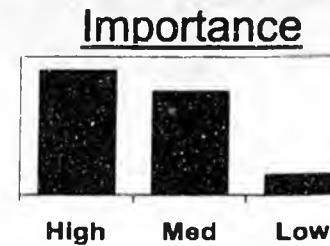
### Key Implications

- *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.*



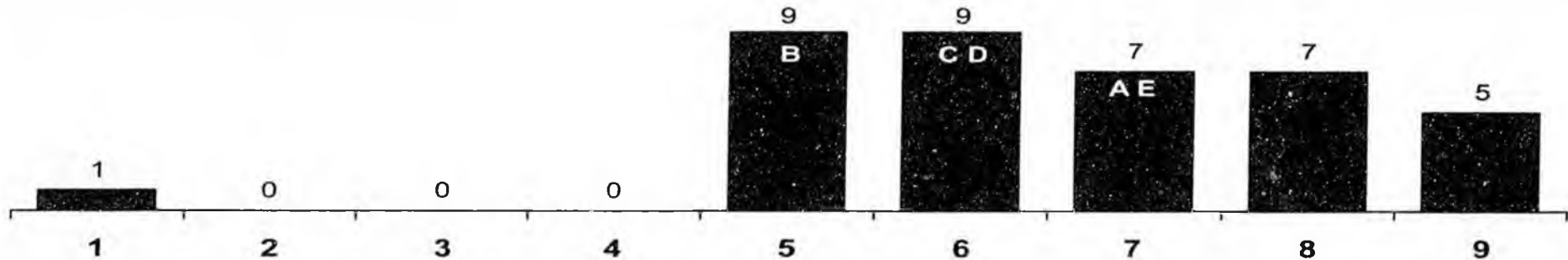
# Employer Survey - TRS

## 28. Comparison with the Market



We would like our retirement program to be low compared to the market

We would like our retirement program to be high compared to the market

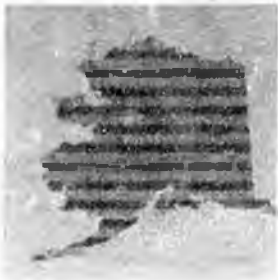


### Key Comments

- *An attractive retirement package is valuable in terms of helping to retain employees. The retirement package we offer needs to be competitive in order to recruit and retain quality individuals.*
- *Make K - 12 public education more attractive to some.*
- *A good running Chevy will be fine.*

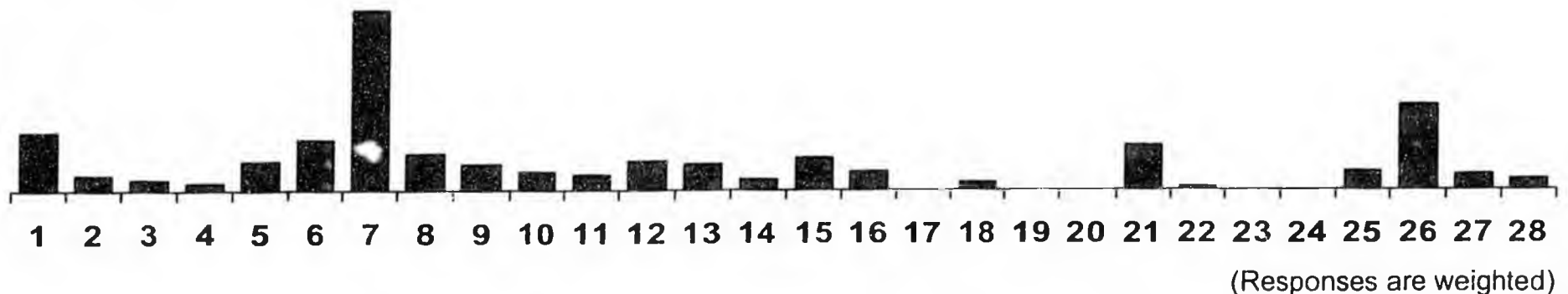
### Key Implications

- *High-end benefits are an important attraction and retention tool.*
- *High-end benefits can be costly.*



## 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”



## **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



# 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



# Employer Survey - PERS

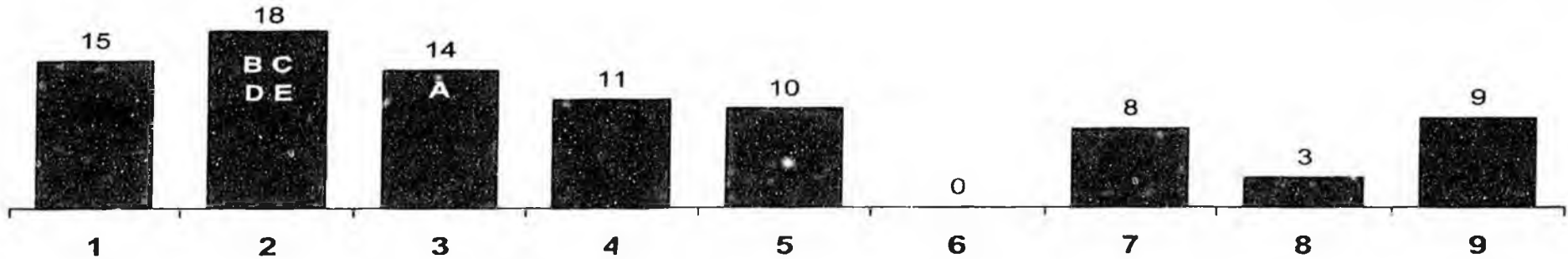
## 1. Long-Service Employees

### 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 real 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.

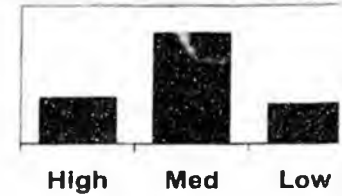
### Key Implications

- 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.

# Employer Survey - PERS

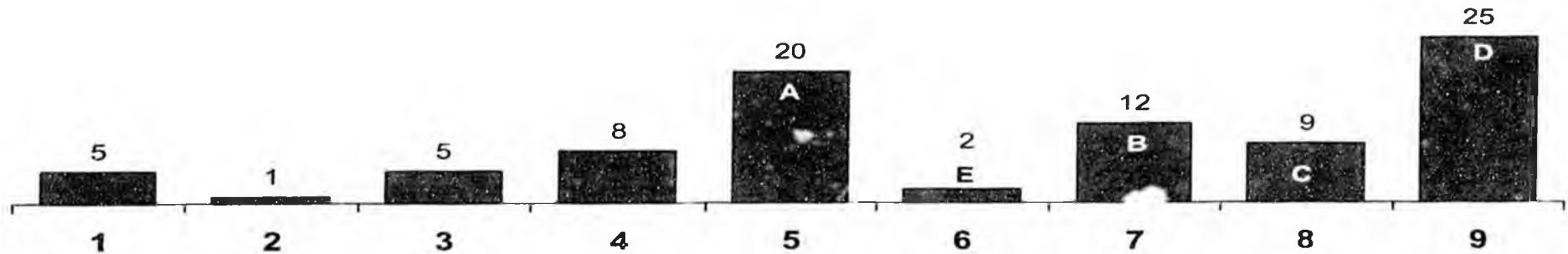
## 2. Older Employees

### Importance



Plan should favor older employees

Plan should not distinguish on account of age



### Key Comments

- Length of service should be more important than age in determining retirement benefits.
- Inflation and decreases in salary raises are historical in Alaska. Young need to see opportunity in this state.

### Key Implications

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



# Employer Survey – PERS

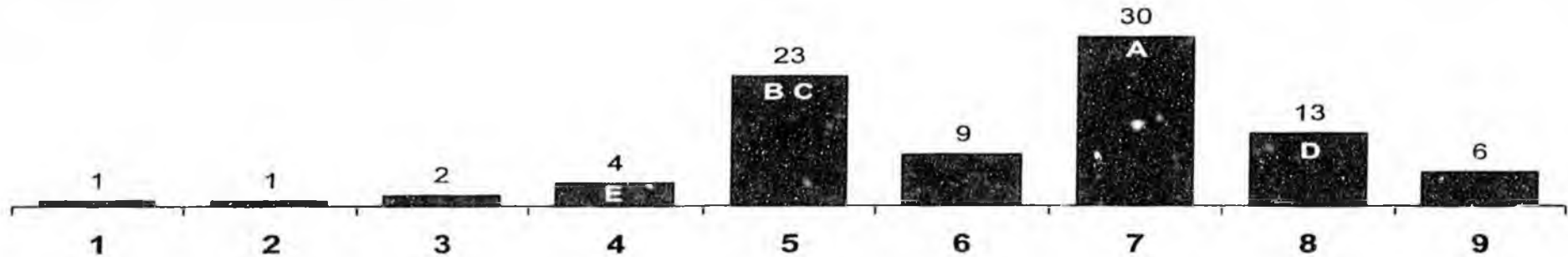
## 3. Benefits Build Up

### Importance



Benefits should build up quickly, so "early leavers" have good benefits

Benefits should build up slowly, so "early leavers" have little

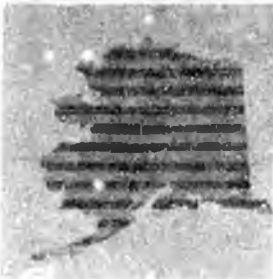


### Key Comments

- *Benefits should accrue at a constant rate rather than increase after so many years of service.*
- *It should not pay to leave system as soon as vested.*
- *All employees are important. Early leavers should accrue good benefits.*

### Key Implications

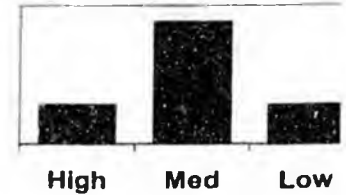
- *Does not affect career employees who stay until retirement.*
- *Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when younger members leave the System.*



# Employer Survey – PERS

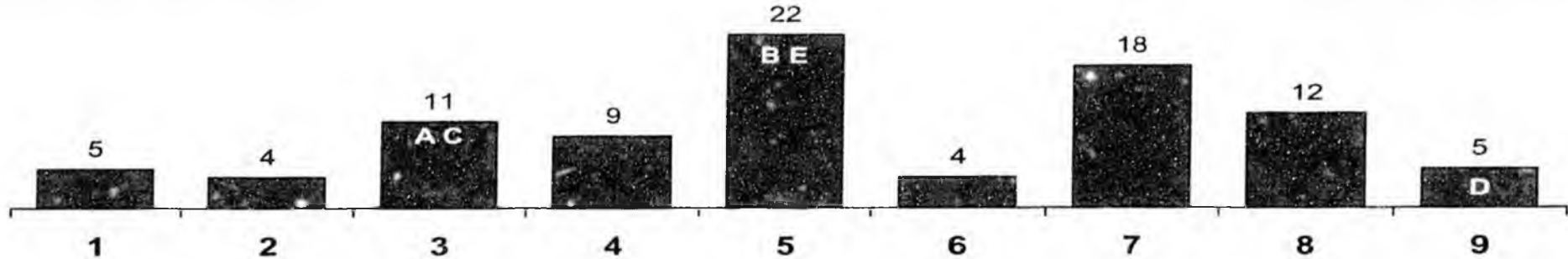
## 4. Mid-career Hires

### Importance



Mid-career hires should accrue excellent benefits

It's OK for mid-career hires to accrue smaller benefits



### Key Comments

- *This offers the chance to attract employees with experience.*
- *They should start at the same point as everyone else when starting a new job elsewhere.*

### Key Implications

- *Sufficient benefits for mid-career hires can be an important tool in order to attract experienced talent.*
- *Providing higher benefits equals higher cost.*
- *Mid-career hires may be sacrificing good benefits to switch employers.*

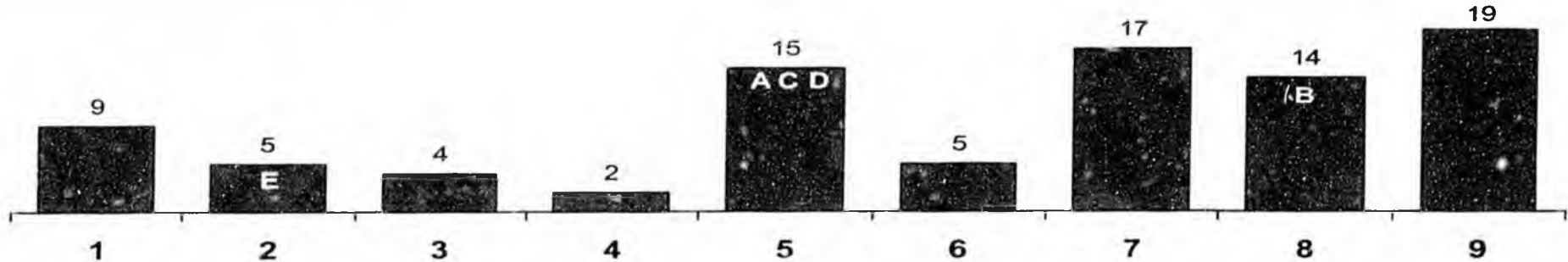
# Employer Survey – PERS

## 5. Remaining in Alaska



The System should **not** reward retirees who remain in Alaska

The System should reward retirees who remain in Alaska



### Key Comments

- They should start at the same point as everyone else when starting a new job elsewhere.
- Living in state could benefit the economy. Should be in state for minimum of 9 months per year to qualify.
- When people have given and earned their retirement, let them live where they choose without penalty

### Key Implications

- Providing COLA results in higher System costs, but Alaskan economy benefits from additional dollars spent by those who remain in Alaska.
- COLA for residents promotes lifelong residency.

# Employer Survey – PERS

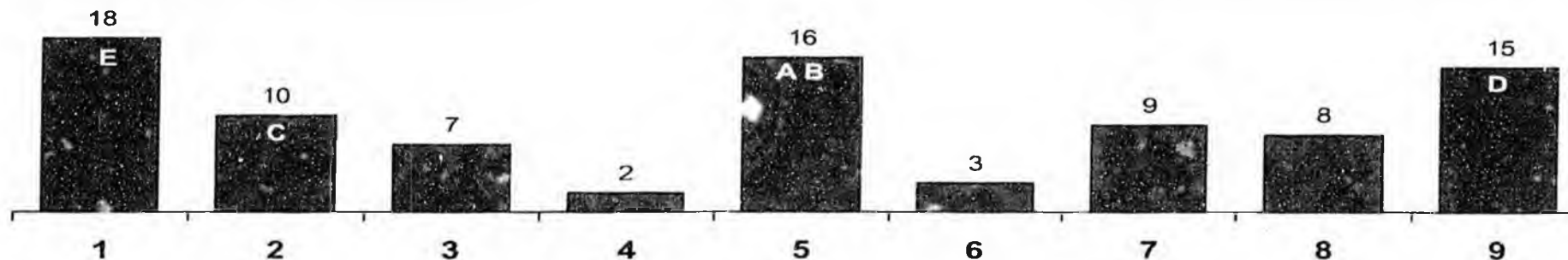
## 6. Med Coverage to Term. Vested Members

Importance



The System should provide medical coverage to terminated vested members

The System should **not** provide medical coverage to terminated vested member:



### Key Comments

- *This area needs to be reviewed and modified to help control costs. It may be necessary to qualify, for benefits or look at providing a flat dollar amount for benefits with the retiree paying the difference.*
- *Perhaps the medical benefit could increase for those who retire from active service/decrease for those terminated vested members.*
- *Helps with recruitment. Many come to Alaska to get vested - we need to encourage this trend.*

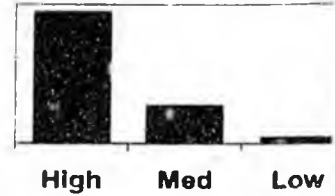
### Key Implications

- *Opportunity for cost savings exists by cutting back medical benefits for terminated vested members*
- *By eliminating, employers would lose out on a recruiting tool.*

# Employer Survey – PERS

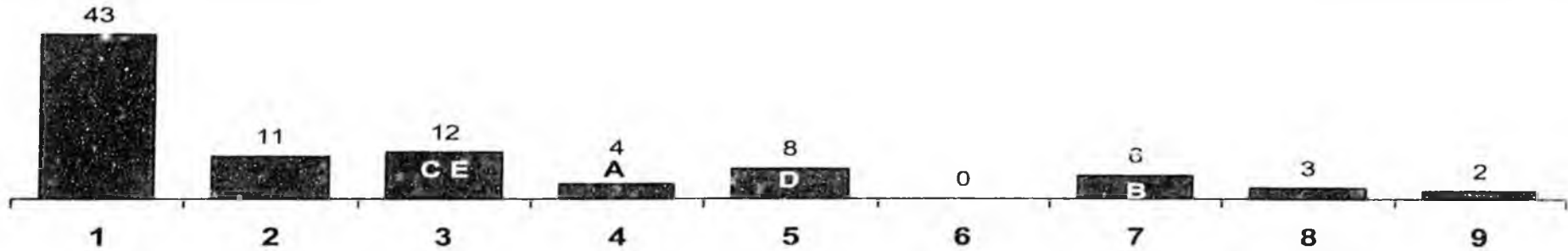
## 7. Medical Coverage

### Importance



The retirement program should provide medical coverage

The program should **no** provide medical coverage



### Key Comments

- *Biggest selling point in recruiting - medical.*
- *Coverage important, but retirees could pay a share, perhaps based on years of services.*
- *A must!*

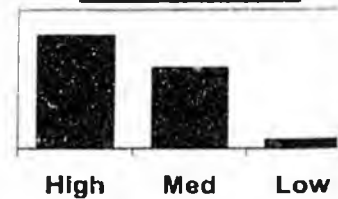
### Key Implications

- *Elimination of medical coverage would lower System costs significantly over time.*
- *Eliminating medical coverage would drastically change current design and hinder attraction and retention of employees as well as possibly providing insufficient overall retirement benefits to meet retirees' needs.*

# Employer Survey - PERS

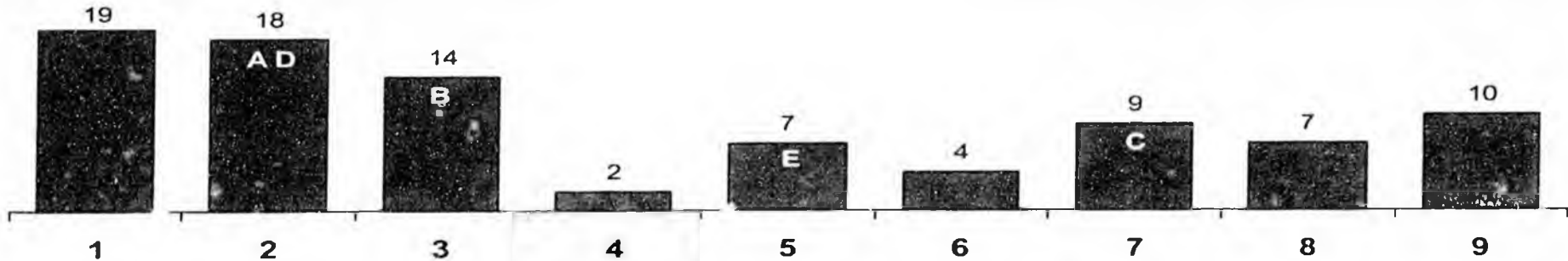
## 8. Medical Coverage based on Service

Importance



The System should provide levels of medical coverage that depend on years of service

The System should provide the same level of medical coverage regardless of years of service



### Key Comments

- The system cannot afford to provide the same level of medical coverage. The years of service should be considered.
- If work 20-30 years benefits should be higher than someone who vest then quits.
- Vested at 10 years of service is adequate. After vested time is met, same level of coverage for all participants.

### Key Implications

- Rewarding long-service employees supports career employment.
- Employees in same tier with differing years of service could potentially have different levels of medical coverage.



# Employer Survey – PERS

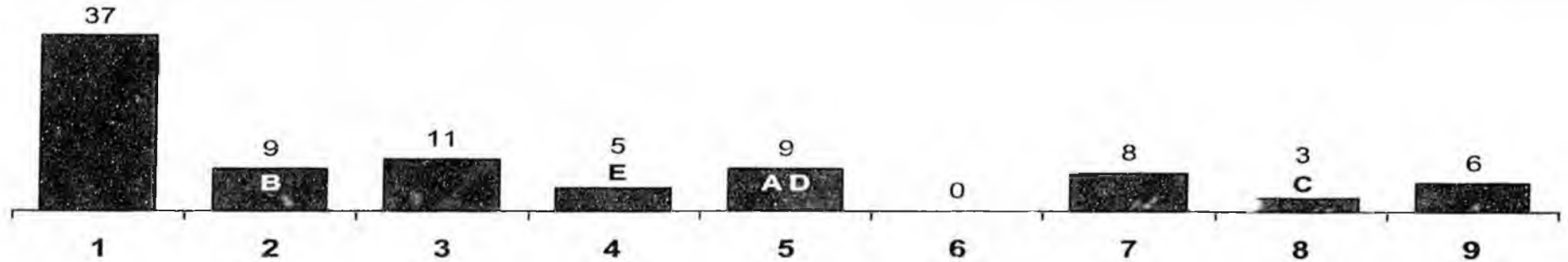
## 9. Medical Coverage and Medicare

### Importance



The System should provide medical coverage to all retirees regardless of Medicare eligibility

The System should provide medical coverage only to those retirees **without** access to Medicare coverage



### Key Comments

- Retirees receiving medical coverage should have coverage provided until the retiree reaches Medicare age and then it should become a supplemental policy and Medicare becomes the primary carrier.
- Coverage before Medicare should be based on the years of service, current employment of the retiree, and maximum contribution.
- Need to make sure Medicare gaps can be covered.
- Not confident that Medicare will be solvent down the road.

### Key Implications

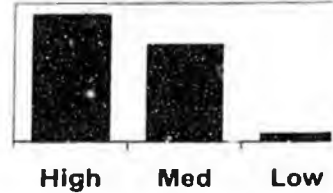
- Limiting coverage would decrease System costs over time.
- Could result in inadequate medical coverage for Medicare eligible retirees.



# Employer Survey – PERS

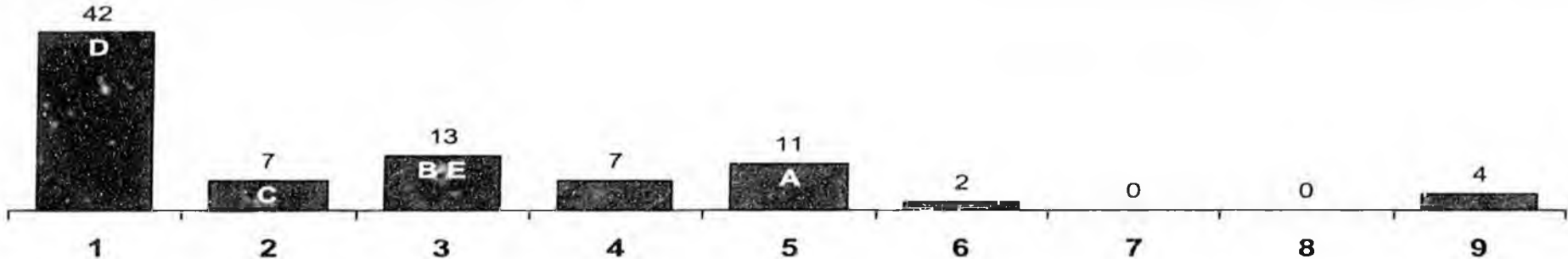
## 10. Medical Coverage and Medicare

Importance



The System should provide medical coverage to all retirees regardless of Medicare eligibility

The System should provide medical coverage only to those retirees **with** access to Medicare coverage



### Key Comments

- *Medical coverage should supplement Medicare up to a maximum amount based on a formula determined by number of years of service.*
- *Reduce benefits when eligible for Medicare. If retire early should have option to purchase health insurance.*
- *Future retirees should pay their own medical if eligible for Medicare.*

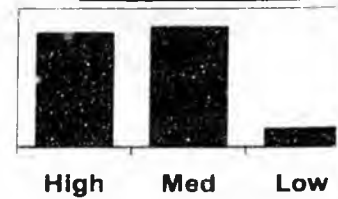
### Key Implications

- *Limiting coverage would decrease System costs over time.*
- *Without retiree medical coverage before Medicare, members would be more inclined to work until Medicare eligible.*
- *If medical coverage is not offered by the System to pre-medicare retirees, access to health coverage will be significantly reduced.*

# Employer Survey – PERS

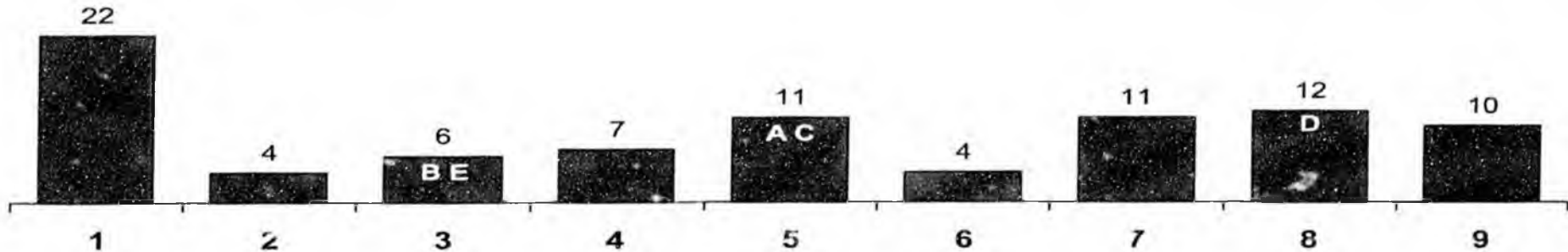
## 11. Medical Coverage

### Importance



The System should offer the same medical coverage to active and retired members

The System should **not** offer the same medical coverage to active and retired member:



### Key Comments

- Provide dollar amount of medical for retirees; if medical coverage for active employees provides better coverage, give retirees option to make co-pay.
- Those who are retired are less able to provide coverage.

### Key Implications

- Potential cost savings by providing lesser medical coverage for retired members.
- Different benefit levels for active and retired members may lead to communication and potential equity challenges.



# Employer Survey – PERS

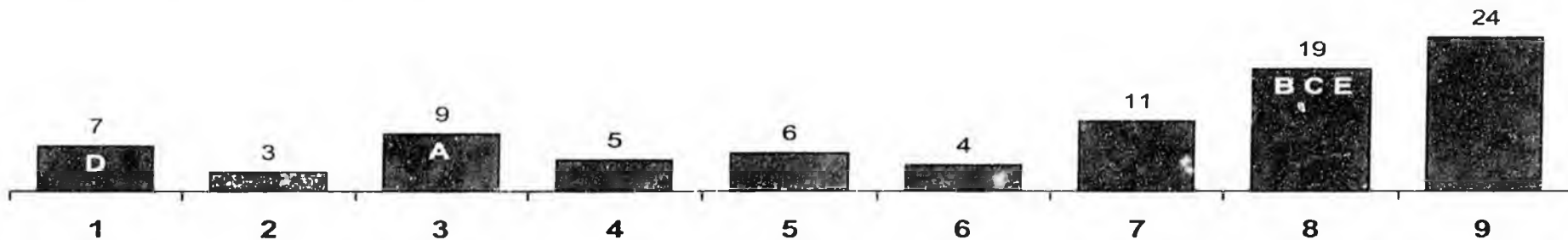
## 12. Retiring Age

### Importance



We want to be able to encourage retirement at a particular age range

We don't care when people retire



### Key Comments

- *Employee's productivity and contribution are not subject to age so mandatory retirement at a certain age may not be beneficial.*
- *I believe we will need to discourage early retirement as the available workforce decreases.*
- *20 and out needs to be changed. If anyone should be 20 and out it should be law enforcement.*

### Key Implications

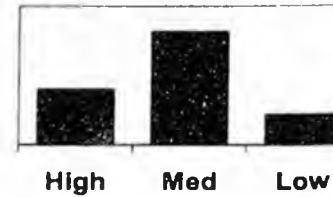
- *By encouraging retirement at a particular age, the System may run the risk of losing productive members too soon and/or unproductive members "hanging on" too long.*



# Employer Survey – PERS

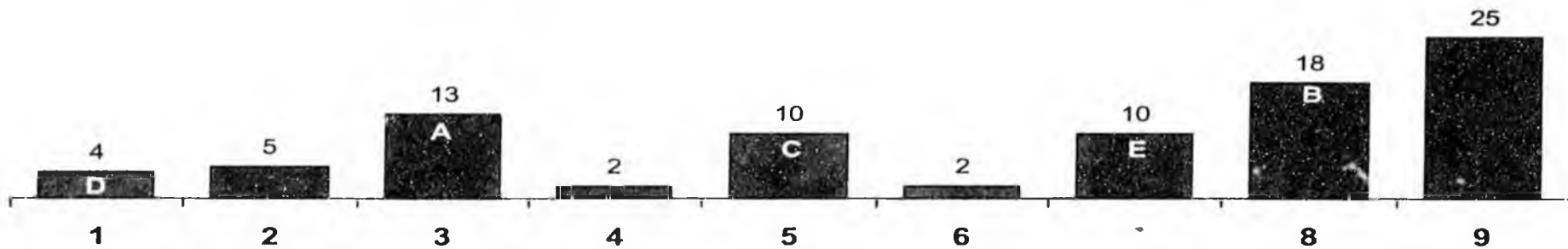
## 13. Retiring after Years of Service

Importance



We want to be able to encourage retirement after a particular number of years of service

We don't care when people retire

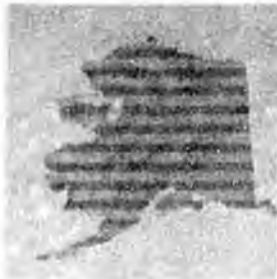


### Key Comments

- *Increasing the number of years of service required, when age is not a factor, would reduce the cost to the retirement system.*
- *While high salary people are a budget concern, their experience and expertise is a tremendous plus for a small organization.*
- *As long as the employee meets job qualifications and is productive. This is the real issue.*

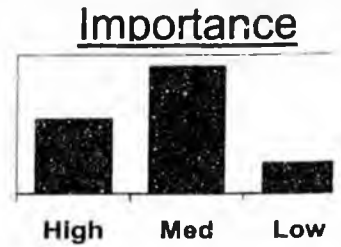
### Key Implications

- *By encouraging retirement at a particular number of years of service, the System may run the risk of losing productive members too soon and/or unproductive members "hanging on" too long.*



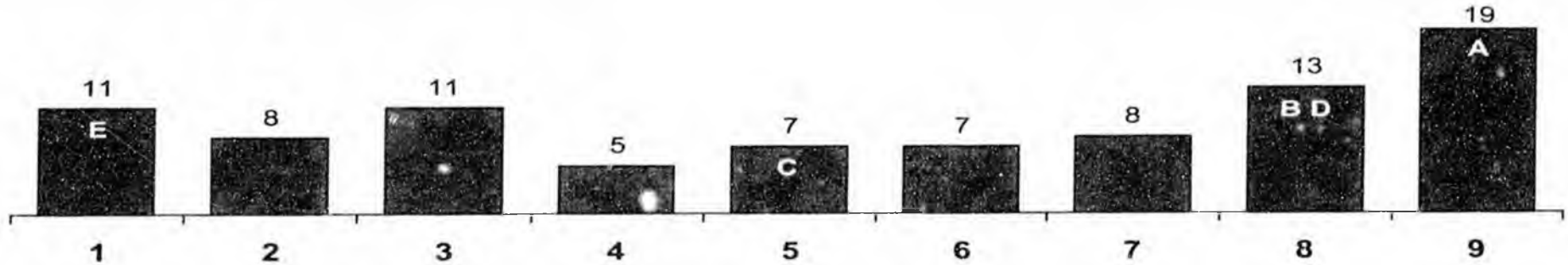
# Employer Survey – PERS

## 14. Early Retirement



We want to be able to encourage early retirement with ad hoc enhanced benefits through the plan

We don't care about encouraging early retirement, or will handle it through other method



### Key Comments

- *RIP and severance plans which offer early retirement have been shown to have a detrimental financial effect on the retirement system.*
- *This would help to manage the workforce and take advantage of the knowledge and skills of older workers.*

### Key Implications

- *Being able to provide ad hoc enhanced retirement benefits gives the System and individual employers an additional tool to manage the workforce.*

# Employer Survey – PERS

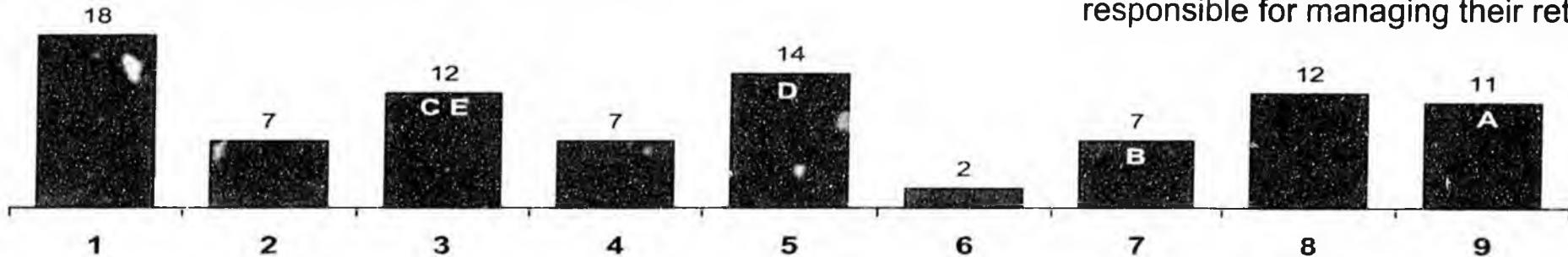
## 15. Retirement Income

Importance



We want to provide employees with a specific amount of retirement income they can count on at retirement

We will contribute to our employees retirement but each employee should be entirely responsible for managing their retirement



### Key Comments

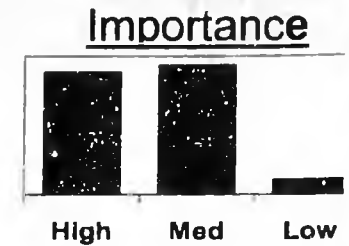
- Seems like this is defined benefits vs contribution -- which is the key issue for debate and cannot be answered this easily -- it needs economic and market analysis on long term ability to attract and retain employees.
- A defined contribution plan would be more predictable, in terms of costs to the retirement system, and less expensive than a defined benefit plan.
- People should be responsible for themselves. Investment advice should be available.
- Should not be a crapshoot.

### Key Implications

- By not providing members with a specific amount of retirement income, members may not be saving enough or taking the appropriate responsibility to ensure a comfortable retirement.

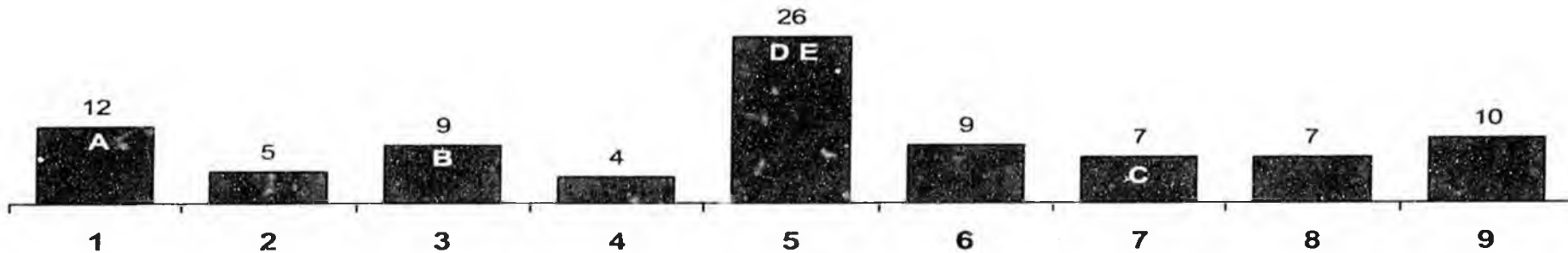
# Employer Survey – PERS

## 16. Investment Risk Responsibility



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

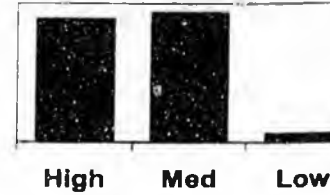
- *Bearing the investment risk exposes the System to cost increases and volatility, but can also often achieve higher returns than an individual due to a longer time horizon and professional management.*
- *Members can often invest too conservatively or too aggressively for their given situation and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



# Employer Survey – PERS

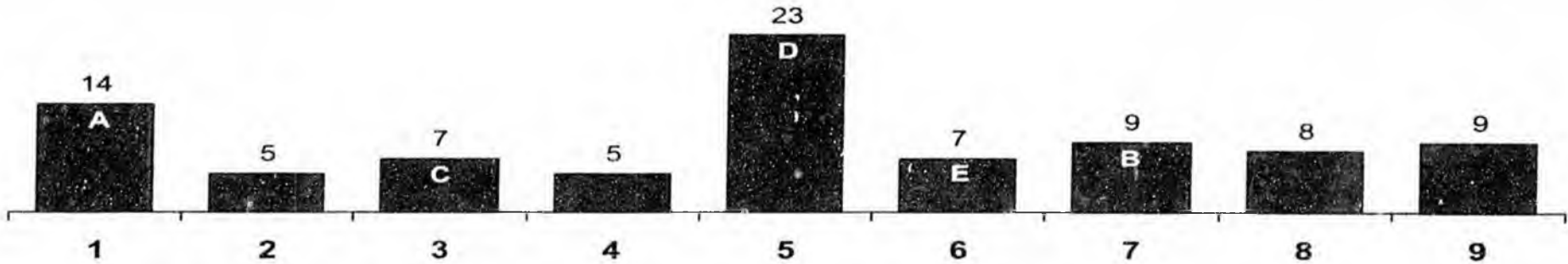
## 17. Inflation Risk Responsibility

### Importance



Employees should assume pre-retirement inflation risk

Employers should adjust benefits for pre-retirement inflation



### Key Comments

- *Their benefits should be equal to the inflation or what's the use of having a retirement plan if you can't pay.*
- *Don't support automatic increases for inflation. It's fine to offer it as investment returns and demands on the fund permit it*

### Key Implications

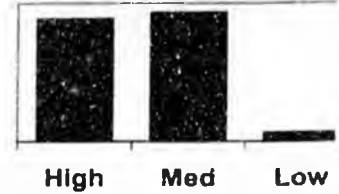
- *Value of benefits for members who terminate prior to retirement can erode over time from inflation.*
- *Providing pre-retirement inflationary protection is a cost to the System.*
- *The final average pay plan design provides some automatic pre-retirement inflation protection.*



# Employer Survey – PERS

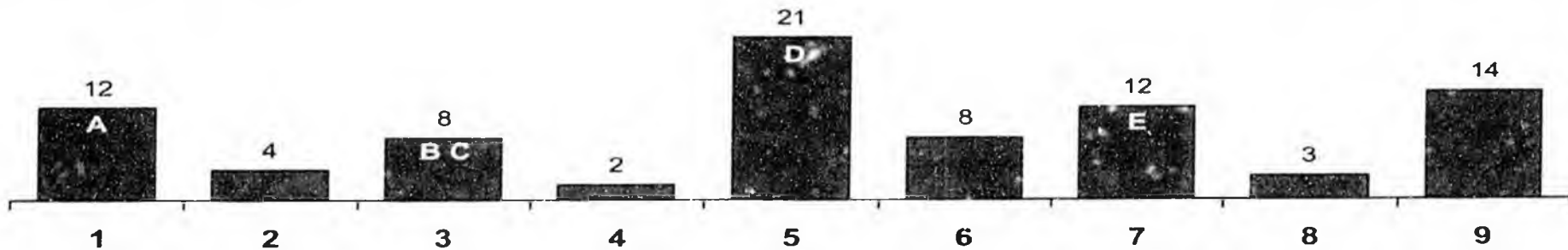
## 18. Inflation Risk Responsibility

### Importance



Employees should assume post-retirement inflation risk

Employers should adjust benefit 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.*

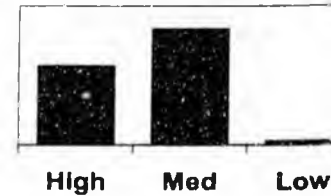
### Key Implications

- *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.*

# Employer Survey – PERS

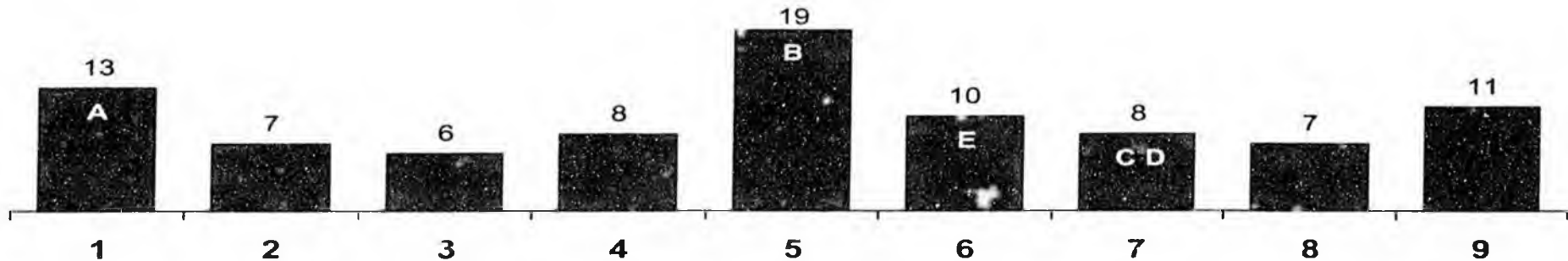
## 19. Longevity Risk Responsibility

Importance



Employees should assume longevity risk

Employers should assume longevity risk



### Key Comments

- *Employers can no longer afford to assume all future cost increases.*
- *Why should an Alaska employer become the lifetime guarantor (and lifetime risk taker) for all employees?*
- *Employers can assume this risk better.*
- *It should be the employees obligation to assume some risk.*

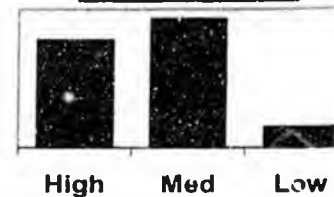
### Key Implications

- *Providing longevity protection is a cost to the System.*
- *By assuming the longevity risk, the System could predict and manage it more accurately for the entire group than any employee could do individually.*

# Employer Survey - PERS

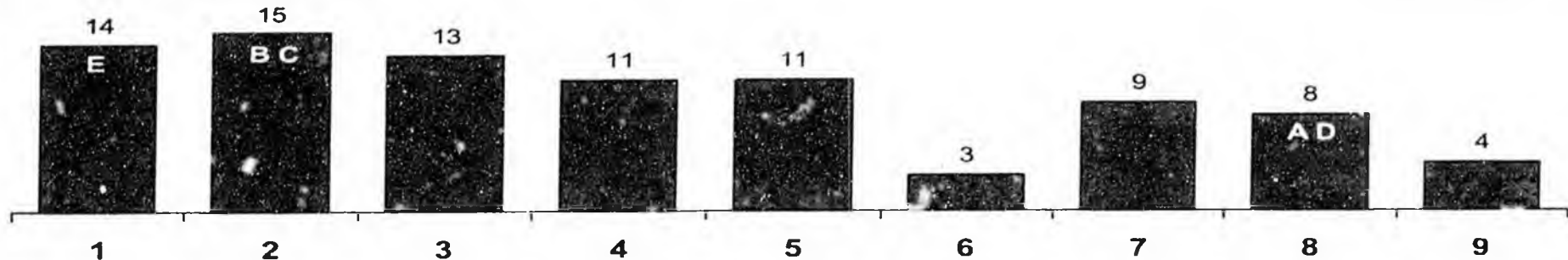
## 20. Savings

importance



The retirement program should heavily encourage savings in the plan

The program should permit but not push saving



### Key Comments

- *There are lots of other options - 401(K)'s, IRA's and 457 plans. But at least one should be heavily pushed to employee.*
- *Employees need to assume more responsibility for their retirement. Programs should be structured to educate and encourage employees to save for retirement.*
- *Employees should be allowed to contribute and enhance their retirement security.*

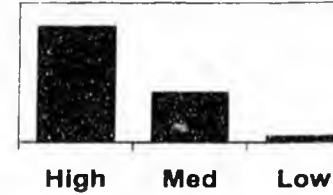
### Key Implications

- *Without strongly encouraging members to contribute to their retirement, many will not have adequate funds to retire comfortably.*

# Employer Survey – PERS

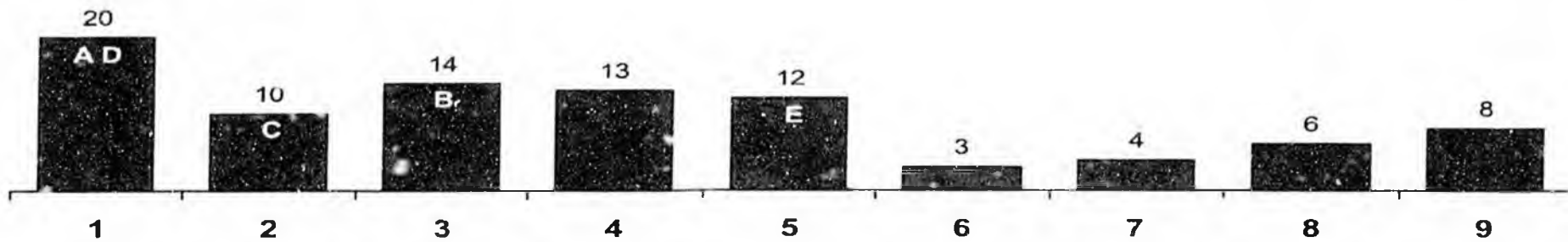
## 21. Cost of Medical Coverage

Importance



Employees should share in the cost of medical coverage

Employer should assume the cost of providing medical coverage



### Key Comments

- *Employers can no longer afford to pay the entire amount for medical insurance. Employees should share in the cost.*
- *Teacher/administrator salary does not reflect "high wages," hence this benefit should be provided.*
- *The more you share in the cost, the more you make wise decisions.*

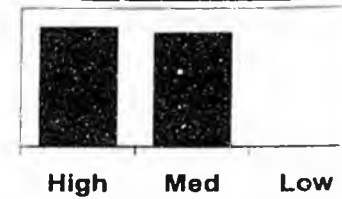
### Key Implications

- *Members sharing in the cost of medical coverage would provide cost savings to the System over time.*
- *Would be a significant shift from current design and increase financial burden on retirees.*

# Employer Survey – PERS

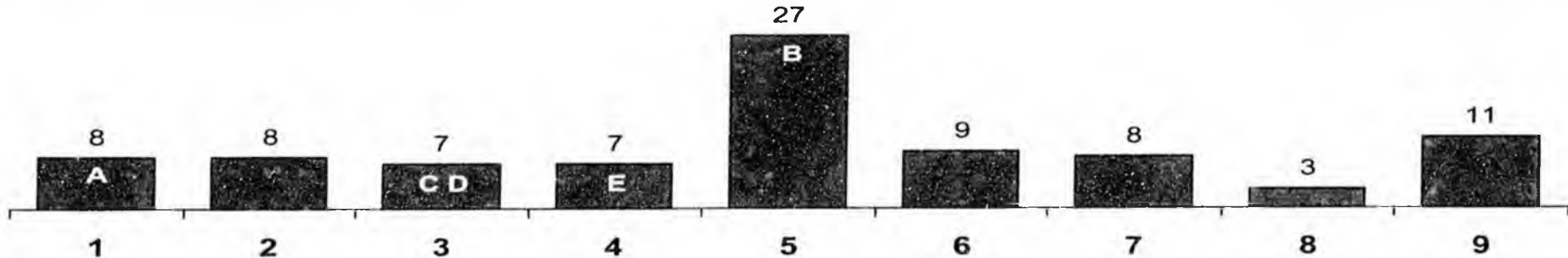
## 22. Cost of Medical Coverage

Importance



Employees should assume responsibility for medical cost increases

Employer should assume responsibility for medical cost increase



### Key Comments

- *Employees should participate in medical cost increases.*
- *I think the employee should hold this responsibility along with some help from employer.*
- *Cost sharing is the key. Then employees will have an incentive to be wiser consumers and the system can manage cost increases more efficiently.*

### Key Implications

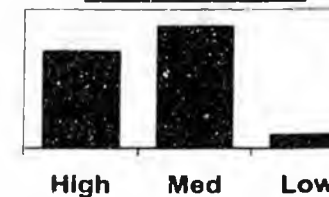
- *Members assuming the responsibility for medical cost increases would provide cost savings to the System over time.*
- *Would be a shift from current design and increase financial burden on retirees.*



# Employee Survey – PERS

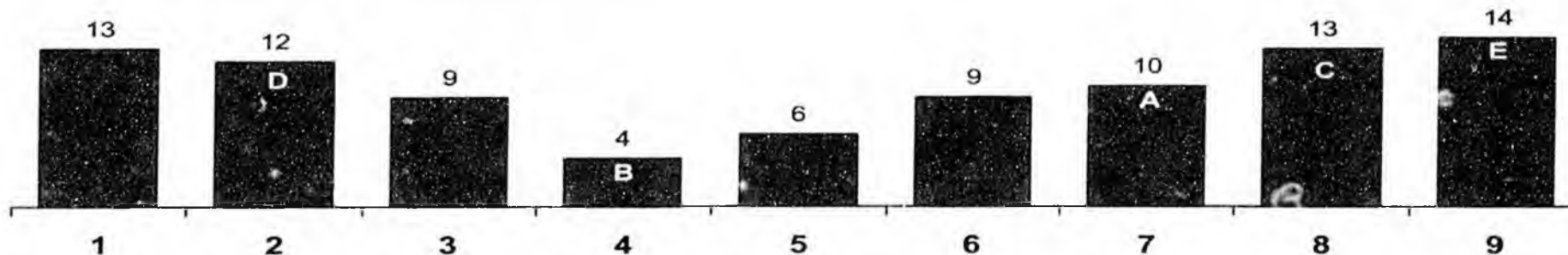
## 23. Access to Contributions

### 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

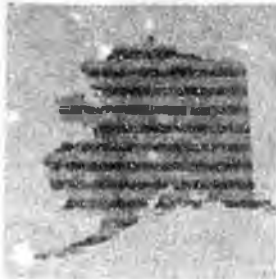


### Key Comments

- *Small portion should be available for "emergency only" situation.*
- *If the employee paid it out it should be their choice to have it whenever and how much they want.*
- *Employees generally have other deferred comp plans available to them to meet emergency needs. PERS is not a savings plan, but a long-term retirement vehicle.*

### Key Implications

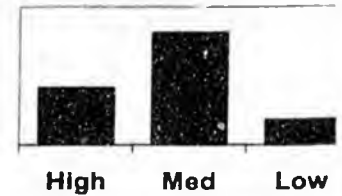
- *Members may spend retirement income during working lifetime and as a result may be unable to retire.*
- *The capability to use retirement plans for pre-retirement needs such as a home purchase can be a valuable benefit.*



# Employer Survey – PERS

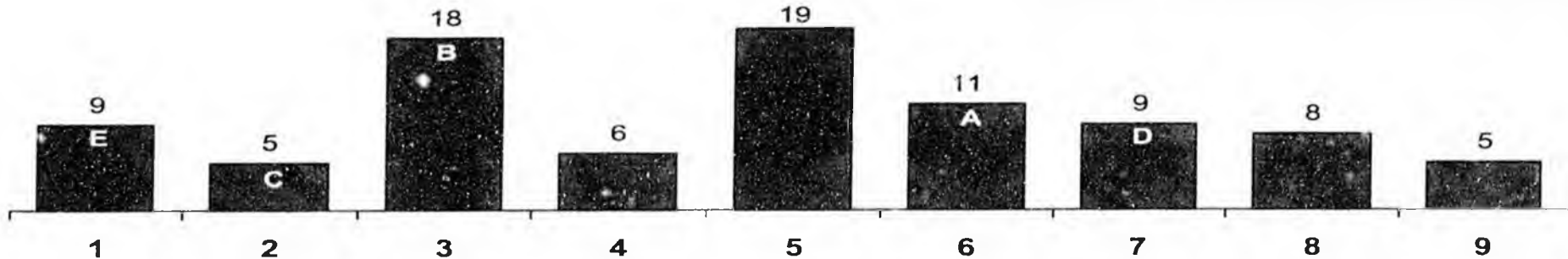
## 24. Understandability

Importance



Understandability is the primary concern

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



### Key Comments

- *Employees need to understand this plan.*
- *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.*
- *Raise the bar. Ask people to be more responsible.*
- *Employees need to be involved in their retirement.*
- *College should teach it!*

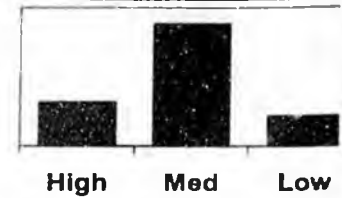
### Key Implications

- *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.*

# Employer Survey - PERS

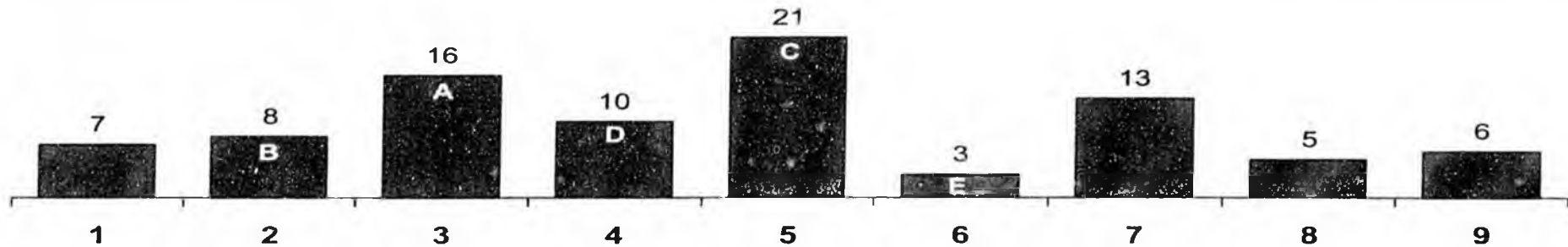
## 25. Tangible and Relevant Plan

Importance



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

- *Human nature is such that retirement benefits are valued more as you approach retirement. If you want young employees to become wildly enthusiastic you have to give away the farm.*
- *All employees should be responsible for their own decisions.*
- *All employees need to see the benefits of the plan.*

### Key Implications

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