

Defined Contribution (DC) Plan Elements

◆ **Required Contributions**

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

◆ **Optional Contributions**

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

◆ **Vesting** [Sec. 14.25.390 \(pg 16\)](#), [Sec. 39.35.790 \(pg 72\)](#)

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

◆ **Rollovers** [Sec. 14.25.360 \(pg 14\)](#), [Sec. 39.35.760 \(pg 70\)](#)

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

◆ **Investment of Accounts** [Sec. 14.25.400 \(pg 16\)](#), [Sec. 39.35.800 \(pg 72\)](#)

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

◆ **Distribution of Accounts**

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

Medical Program Elements

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

- ⇒ Calculation is 1% of average annual employer group compensation, to a maximum of \$500.
- ⇒ Contribution is recorded in both an individual employee record of account and an employer record.
- ⇒ Interest is posted to individual records annually, the rate determined by the ARMB.
- ⇒ Contributions and interest accumulate over working lifetime of employees.
- **Employer Fund** [Sec. 39.30.350 \(pg 48\)](#)
 - ⇒ The HRA Trust is an employer owned fund.
 - ⇒ Individual accounts of record are maintained for five years if an employee terminates without retiring.
 - ⇒ Terminated employee accounts revert to the employer unless the individual returns to work within the five-year period.
 - ⇒ A person who returns to work within the five-year period is attributed the account balance recorded in their name on the date of termination.
 - ⇒ Employers may use surplus funds held in the trust to credit individual employee records with the annual contributions owed by the employer.
- **Reimbursements**
 - ⇒ Who is eligible? [Sec. 39.30.390 \(pg 48\)](#)
 - + Members who retire directly from the system plus their spouse and dependent children.
 - + Spouse and dependent children are still eligible if retiree dies.
 - + Dependent children are still eligible if both retiree and spouse die.
 - ⇒ Reimbursements made for qualified medical expenses under IRC 213(d), including medical premium payments. [Sec. 39.30.400 \(pg 49\)](#)
 - ⇒ Total reimbursements are limited to an individual's recorded account.
 - ⇒ No set limits other than exhaustion of account balance.

Changes to Existing Retirement System

◆ **Consolidation of Boards**

- Eliminates:
 - ⇒ Public Employees' Retirement System Board
 - ⇒ Teachers' Retirement System Board.
 - ⇒ Alaska State Pension Investment Board.
- Creates new Alaska Retirement Management Board (ARM Board) [Sec. 37.10.210 \(pg 36\)](#)
 - ⇒ 9 trustees appointed by the Governor
 - + Commissioner of Administration
 - + Commissioner of Revenue
 - + 3 Alaska residents who do not participate in the retirement systems
 - + 1 finance officer of a political subdivision

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

- The employer contribution rate is changed so that it may not be less than the difference between the employee contribution and the normal cost rate that is set by the ARM Board. [Sec. 39.35.270 \(pg 61\)](#)

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

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

- ◆ **Intended Changes to SB 141**
 - Establish a statutory requirement for an actuarial analysis prior to passage of any legislation affecting retirement benefits.
 - Define in statute the meaning of “the financial condition of the retirement fund” for the ad-hoc post retirement pension adjustment (applicable only to persons who were receiving a retirement or disability benefit prior to the 1986 amendments). (See editor’s notes under AS 39.35.475)
 - Provide an option for unvested Tier III members of PERS and unvested Tier II members of TRS to convert to the defined contribution retirement plan if their employer allows it. The conversion would be matched dollar for dollar by the employer. However, the employer match would have to be new money to avoid eroding the funding status of the defined benefits plans.
 - Change the credited service requirement to 120 days for legislative employees under AS 39.35.385(f) from 60 days for persons first hired before May 30, 1987 and from 80 days for persons first hired after May 30, 1987.
 - Find a workable implementation date or a workable solution to the July 1, 2005 effective date. The timeline may be too short for a full system conversion.