



**Retirement Security
Act**

SB 141

March 17th, 2005



Alaska State Legislature
Senate Finance Committee

SB 141 Walk Through



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 \$5.0 billion gap?*



We considered the Administration's 2004 Tier Committee work during our analysis and in our solutions

Tier Committee Data Reviewed:

- *Tier Alternative Recommendations*
- *Employer survey*
- *Member focus group results*
- *Benchmarking*
- *Benefit levels*
- *Demographic projections*
- *Implications of Medicare changes*
- *Trends, issues and alternatives*
- *Cost analysis and projections*



Defined Benefit Plan

- *Benefit level is fixed*
- *Benefit is based on a formula involving salary, years of service, age, etc.*
- *Benefit is paid for life and to qualified survivors*
- *Future benefit payments are NOT affected by the plan's funding level*

Examples: PERS & TRS

Defined Contribution Plan

- *Contribution level is fixed*
- *Benefit is based on the amount of money invested and earned in employee's account*
- *Benefit is paid until account runs out*
- *Future benefit payments are driven by investment performance*

Examples: SBS & Deferred Compensation

Defined Benefit (DB) vs Defined Contribution (DC)



Defined Benefit Plan

Advantages:

- *Pooling of longevity risk*
- *Guaranteed income stream*
- *System favors longer-service employees*

Challenges:

- *Employer bears investment risk*
- *Estimation of Liabilities*
- *Rising health costs*
- *Unpredictable or controllable costs*

Defined Contribution Plan

Advantages:

- *Portability*
- *Self-directed investing*
- *Contribution equity among employees*
- *Predictability*
- *Stable costs*
- *Shifting of investment risk*
- *No long-term administrative costs*

Challenges:

- *Workforce management*
- *Employee education*
- *Accurate retirement planning*

Defined Benefit (DB) vs Defined Contribution (DC)

**PUBLIC EMPLOYEES' AND TEACHERS' RETIREMENT SYSTEMS
SUMMARY OF MAJOR BENEFIT CHANGES AND COST COMPARISON**

	Current PERS Tier I & TRS Tier 1 DB Plan	Current PERS Tier II/III & TRS Tier II DB Plan	Senate Bill 141 DC Plan
PERS Employee Contribution Rate	6.75% other 7.5% Police/Fire 9.6% school district	6.75% or 7.5 Police/Fire 7.5% Police/Fire 9.6% school district	8% all members voluntary % up to IRS limits
TRS Employee Contribution Rate	8.65%	8.65%	8% all members
Vesting	5 years PERS 8 year TRS	5 years PERS 8 year TRS	Immediate for employee contributions Fully vested in employer contributions after 5 years.
Retirement Age	55 normal - 50 early 30 years "all others" 20 Police/Fire 20 Teachers	60 normal - 55 early 30 years "all others" 20 Police/Fire 20 Teachers	Any age
PERS and TRS Benefit Formula	2% up to 2.5% multiplier per year DB multiplier x years of service x avg of high 3 years salary	2% up to 2.5% multiplier per year DB multiplier x years of service x avg of high 3 years (TRS & PERS P/F) or high 5 years (PERS Other) salary	11.5% per year to DC account + investment earnings. Health Reimbursement Arrangement (HRA) account accumulated over working lifetime
Medical	Do not have to retire directly from system to be service or age eligible for medical coverage.	Do not have to retire directly from system to be service or age eligible for medical coverage.	Must retire directly from system with minimum of 10 years of service for medical coverage and access to HRA.

Overview of New Tier Benefits



	Current PERS Tier I & TRS Tier 1 DB Plan	Current PERS Tier II/III & TRS Tier II DB Plan	Senate Bill 141 DC Plan
Medical cont'd.	Medical plan premium paid by retirement system for all retirees and dependents.	Medical plan premium paid by retirement system for P/F & Teachers with 25 years of service. Retirees with less than 25 years (TRS & PERS P/F) or 30 years (PERS) pay full premium under age 60. Tier III only. Must have 10 years of service for system-paid coverage over age 60. Tier III only. Employees with less than 10 years pay full premium for access to coverage regardless of age.	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. Reimbursed for qualified medical expenses from HRA.
Employer Normal Cost Rate – PERS <i>unfunded liability portion</i>	13.24% - Current Normal Cost Rate 12.39%- Past Service Rate	13.24% - Current Normal Cost Rate 12.39%- Past Service Rate	8.25% - reduces normal cost rate by 38% N/A
Employer Normal Cost Rate – TRS <i>unfunded liability portion</i>	14.28% - Current Normal Cost Rate 24.57% Past Service Rate	14.28% - Current Normal Cost Rate 24.57% Past Service Rate	8.25% - reduces normal cost rate by 42% N/A
Future exposure and volatility in investment earnings and increasing medical costs.	Employer bears all the risk.	Employer bears all the risk.	Employer risk is minimal: medical inflation with a capped percentage and shared with employee. Employee bears investment risk.

March 18, 2005 (Corrected)

Overview of New Tier Benefits



“Normal cost” rate comparisons under Public Employees’ Retirement System

	Normal Cost Rates	
	DC Plan	PERS
Medical normal cost rate	3.75%	8.68%
Defined contribution rate	11.50%	11.37%
HRA contribution rate	1.00%	0.0%
Gross normal cost rate	16.25%	20.05%
Member contribution rate	(8.00)%	(6.81)%
Employer normal cost rate	8.25%	13.24%



“Normal cost” rate comparisons under Teachers’ Retirement System

	Normal Cost Rates	
	DC Plan	TRS
Medical normal cost rate	3.75%	9.07%
Defined contribution rate	11.50%	13.90%
HRA contribution rate	1.00%	0.0%
Gross normal cost rate	16.25%	22.97%
Member contribution rate	(8.00)%	(8.69)%
Employer normal cost rate	8.25%	14.28%



State of Alaska

Division of Retirement & Benefits

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

Valuation report date June 30	Fiscal year of rate	PERS				TRS			
		Normal Cost rate	Actuarial Computed Rate	Board Adopted Rate	Unfunded Liability	Normal Cost rate	Actuarial Computed Rate	Board Adopted Rate	Unfunded Liability
1980	1983	11.46%	13.78%	n o d a t a	-2.32%	11.95%	16.84%	n o d a t a	-4.89%
1981	1984	12.03%	13.68%		-1.65%	13.51%	17.42%		-3.91%
1982	1985	11.36%	13.62%		-2.26%	13.64%	17.96%		-4.32%
1983	1986	11.82%	13.59%		-1.77%	13.13%	17.36%		-4.23%
1984	1987	12.31%	13.84%		-1.53%	13.91%	13.28%		0.63%
1985	1988	11.13%	9.55%	1.58%	11.62%	13.28%	-1.66%		
1986	1989	10.20%	9.38%	0.82%	9.36%	11.16%	-1.80%		
1987	1990	9.23%	9.30%	9.30%	-0.07%	9.14%	8.19%	11.64%	0.95%
1988	1991	10.37%	12.00%	12.00%	-1.63%	11.86%	12.27%	10.54%	-0.41%
1989	1992	12.00%	14.20%	14.20%	-2.20%	13.26%	15.16%	11.87%	-1.90%
1990	1993	12.83%	13.58%	13.58%	-0.75%	14.07%	19.65%	12.00%	-5.58%
1991	1994	10.18%	13.72%	13.72%	-3.54%	9.05%	15.59%	12.00%	-6.54%
1992	1995	10.90%	13.70%	13.70%	-2.80%	8.57%	13.36%	12.00%	-4.79%
1993	1996	11.29%	12.82%	12.82%	-1.53%	9.06%	12.48%	12.00%	-3.42%
1994	1997	10.36%	12.14%	12.14%	-1.78%	9.70%	14.96%	12.00%	-5.26%
1995	1998	10.61%	11.90%	8.00%	-1.29%	10.10%	14.94%	12.00%	-4.84%
1996	1999	9.85%	7.74%	7.74%	2.11%	8.97%	10.52%	12.00%	-1.55%
1997	2000	9.89%	7.36%	7.74%	2.53%	9.21%	13.00%	12.00%	-3.79%
1998	2001	8.67%	7.03%	7.40%	1.64%	8.99%	10.55%	12.00%	-1.56%
1999	2002	8.07%	6.56%	6.75%	1.51%	8.88%	7.09%	11.00%	1.79%
2000	2003	10.07%	6.12%	6.75%	3.95%	9.40%	8.29%	11.00%	1.11%
2001	2004	9.53%	6.77%	6.77%	2.76%	10.36%	14.44%	12.00%	-4.08%
2002	2005	13.31%	24.91%	11.77%	-11.60%	14.76%	35.57%	16.00%	-20.81%
2003	2006	13.24%	25.63%	16.77%	-12.39%	14.28%	38.85%	21.00%	-24.57%

Annual Contribution Rate Must Equal Normal Cost Rate



State of Alaska Public Employees' and Teachers' Retirement Systems
 Valuation Data as of June 30, 2003 (Actuarial Valuation Tables 1.5(a))
 Projections Going Forward Based on 1% Population Growth

Fiscal Year	PERS					TRS				
	Total Normal Cost Rate	Member Contribution Rate	Employer Normal Cost Rate	One-Half Normal Cost Rate	Change to Employee Cost	Total Normal Cost Rate	Member Contribution Rate	Employer Normal Cost Rate	One-Half Normal Cost Rate	Change to Employee Cost
2006	20.05%	6.81%	13.24%	10.03%	3.22%	22.97%	8.69%	14.28%	11.49%	2.80%
2007	19.80%	6.81%	12.99%	9.90%	3.09%	21.71%	8.69%	13.02%	10.86%	2.17%
2008	19.73%	6.81%	12.92%	9.87%	3.06%	21.72%	8.69%	13.03%	10.86%	2.17%
2009	19.66%	6.81%	12.85%	9.83%	3.02%	21.81%	8.69%	13.12%	10.91%	2.22%
2010	19.58%	6.81%	12.77%	9.79%	2.98%	21.87%	8.69%	13.18%	10.94%	2.25%
2011	19.52%	6.81%	12.71%	9.76%	2.95%	21.90%	8.69%	13.21%	10.95%	2.26%
2012	19.44%	6.81%	12.63%	9.72%	2.91%	21.93%	8.69%	13.24%	10.97%	2.28%
2013	19.38%	6.81%	12.57%	9.69%	2.88%	21.81%	8.69%	13.12%	10.91%	2.22%
2014	19.31%	6.81%	12.50%	9.66%	2.85%	21.94%	8.69%	13.25%	10.97%	2.28%
2015	19.25%	6.81%	12.44%	9.63%	2.82%	22.06%	8.69%	13.37%	11.03%	2.34%
2016	19.26%	6.81%	12.45%	9.63%	2.82%	22.24%	8.69%	13.55%	11.12%	2.43%
2017	19.23%	6.81%	12.42%	9.62%	2.81%	22.44%	8.69%	13.75%	11.22%	2.53%
2018	19.21%	6.81%	12.40%	9.61%	2.80%	22.66%	8.69%	13.97%	11.33%	2.64%
2019	19.24%	6.81%	12.43%	9.62%	2.81%	22.88%	8.69%	14.19%	11.44%	2.75%
2020	19.27%	6.81%	12.46%	9.64%	2.83%	23.05%	8.69%	14.36%	11.53%	2.84%
2021	19.31%	6.81%	12.50%	9.66%	2.85%	23.16%	8.69%	14.47%	11.58%	2.89%
2022	19.36%	6.81%	12.55%	9.68%	2.87%	23.30%	8.69%	14.61%	11.65%	2.96%
2023	19.42%	6.81%	12.61%	9.71%	2.90%	23.60%	8.69%	14.91%	11.80%	3.11%
2024	19.52%	6.81%	12.71%	9.76%	2.95%	23.92%	8.69%	15.23%	11.96%	3.27%
2025	19.63%	6.81%	12.82%	9.82%	3.01%	24.11%	8.69%	15.42%	12.06%	3.37%
2026	19.76%	6.81%	12.95%	9.88%	3.07%	24.27%	8.69%	15.58%	12.14%	3.45%
2027	19.92%	6.81%	13.11%	9.96%	3.15%	24.81%	8.69%	16.12%	12.41%	3.72%
2028	19.86%	6.81%	13.05%	9.93%	3.12%	24.81%	8.69%	16.12%	12.41%	3.72%
2029	19.79%	6.81%	12.98%	9.90%	3.09%	24.82%	8.69%	16.13%	12.41%	3.72%
2030	19.73%	6.81%	12.92%	9.87%	3.06%	24.85%	8.69%	16.16%	12.43%	3.74%
2031	19.68%	6.81%	12.87%	9.84%	3.03%	24.88%	8.69%	16.19%	12.44%	3.75%
2032	19.63%	6.81%	12.82%	9.82%	3.01%	24.92%	8.69%	16.23%	12.46%	3.77%

Information from Mercer Human Resources Consulting

Employee Contribution Greater of Statutory Rate or 1/2 Normal Cost Rate

Refunded Accounts By System

PERS	Tier 1	
	>5	5,251
	3-5	5,292
	<3	31,179
	Tier 2	14,999
	Tier 3	7,667
Total		64,388
TRS	Tier 1	
	>8	388
	6-8	369
	<6	10,008
	Tier 2	2,534
Total		13,299
PERS/TRS Total		77,687

All these members refunded their contributions when they left state service.

However, they can come back, set up their indebtedness, pay off the indebtedness, serve until vested and then get a benefit from the system.

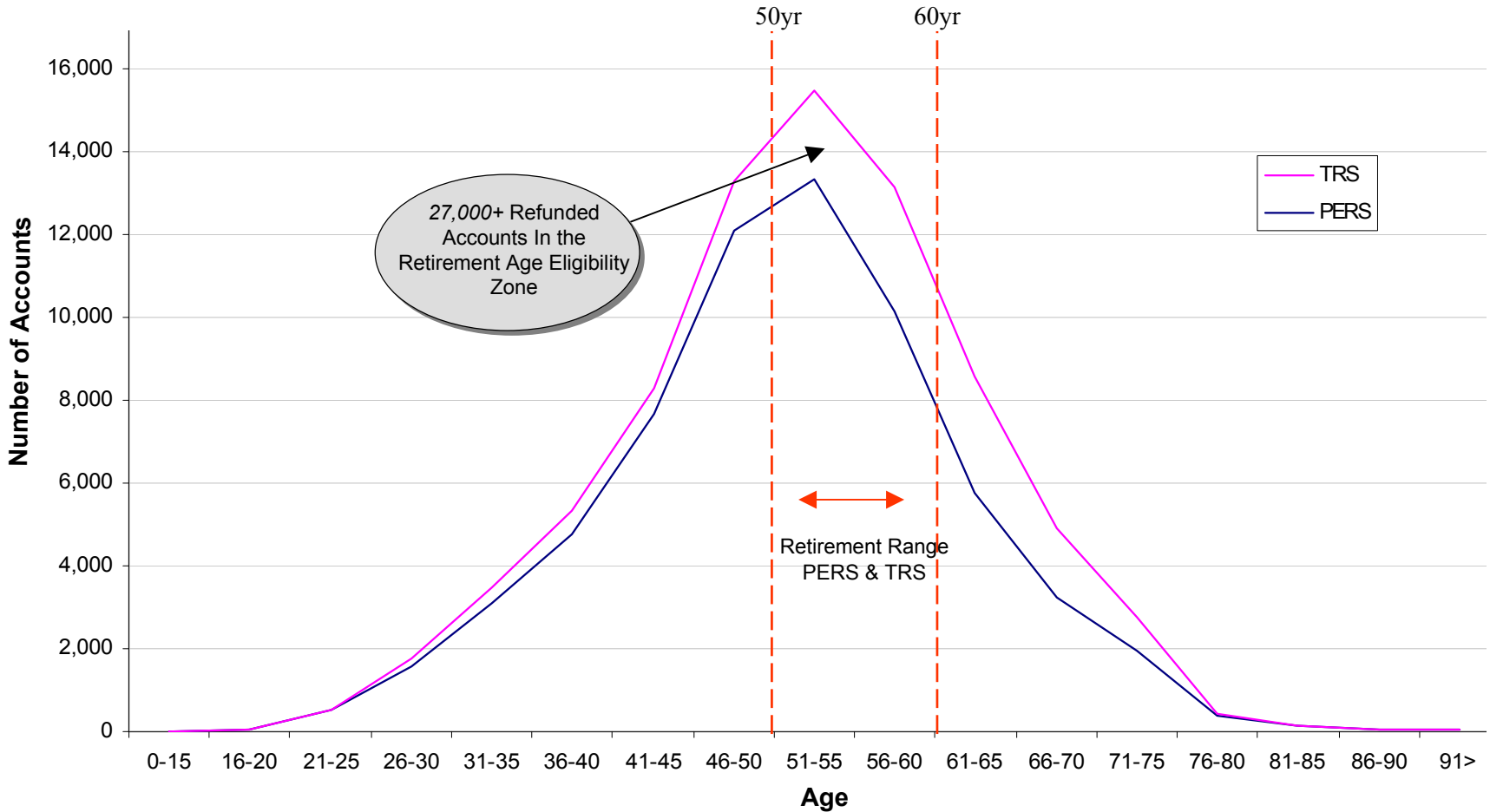
5,639 members are already vested.

They can be rehired, pay their indebtedness, leave immediately and have 100% system paid medical at retirement.

Refunded Accounts Represent a Looming Liability for the System



Age Distribution of PERS & TRS Refunded Accounts



Refunded Accounts Represent a Looming Liability for the System



Benefit enhancing legislation added **\$37.7 Million** to our *unfunded liability* in 2001 alone

Passed in 2001, HB 242

Enhanced medical benefits to existing employees by providing full system paid medical to retired members over age 60 and all members who retire with at least 25 years of service (TRS & Police/Fire) and 30 years of service (PERS) regardless of hire date.

- When it passed, the bill increased our system liabilities by **\$23.7 Million**
- Using today's health cost trends, that number has grown to **\$37.7 Million**

This Session, there are several new bills that if passed would enrich benefits for existing employees and increase our unfunded liability:

HB 6 – Allowing Fish & wildlife enforcement officers to claim credit as peace officers

HB 40 – Allowing retired peace officers medical benefits after 20 years instead of 25

SB 21 – Adding child or vulnerable adult protection workers to the police/fire employee class

We Need Better Fiscal Analysis Before Enacting Legislation Affecting Benefits



PRPA Awarding History				
PRPA Date	Monthly Benefit Increase			Resulting Actuarial Loss
	PERS	TRS	Total	
1995	Paid in '97	Paid in '97	NA	
1996	Paid in '97	Paid in '97	NA	
1997	\$ 2,289,639	\$ 2,877,374	\$ 5,167,013	
1998	\$ 171,502	\$ 149,500	\$ 321,002	\$ 57,158,000
1999	\$ 163,715	\$ 147,366	\$ 311,081	\$ 11,765,000
2000	\$ 158,034	\$ 133,226	\$ 291,260	\$ 17,905,000
2001	\$ 508,787	\$ 445,192	\$ 953,979	\$ 17,123,000
2002	\$ 585,443	\$ 502,968	\$ 1,088,411	\$ 39,561,000

AdHoc PRPA's Have a Huge Effect on Future Liabilities



PRPA ELIGIBILITY AND CALCULATION

	PRPA Issued	Eligibility Requirements	Calculation
Ad Hoc	July 1st of every year. Members must meet eligibility requirements as of July 1st.	Must be a Tier I PERS or TRS member. (Appx 24,500) Must be a change in the Consumer Price Index (CPI) from date of retirement to date of PRPA issuance.	3 Step calculation: 1) Determine the % difference in the current CPI% less the CPI% at retirement. Multiply the base benefit by this percentage. 2) Determine the 4% c
Automatic	July 1st of every year. Members must meet eligibility requirements as of July 1st.	1) Must be age 60, or 2) have been receiving retirement benefits for 5 yrs (PERS), 8 yrs (TRS), or 3) be receiving disability benefits.	If member meets minimum age or service eligibility, receives 50% of the % change in CPI applied to the base benefit plus any prior PRPAs granted. Disability recipients and members who are age 75 receive 75% of the % of change in CPI.

AdHoc PRPA's Have a Huge Effect on Future Liabilities

