



**Retirement Security  
Act**

*SB 141*

Discussion Topic

*Contribution Rates for New  
Defined Contribution (DC) Plan*

**April 1<sup>st</sup>, 2005**



**Alaska State Legislature**  
*Senate Finance Committee*

**Updated as of: April 8, 2005**



# Discussion

## *Contribution Rates for New Defined Contribution (DC) Plan*





**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 driven by investment performance*

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*

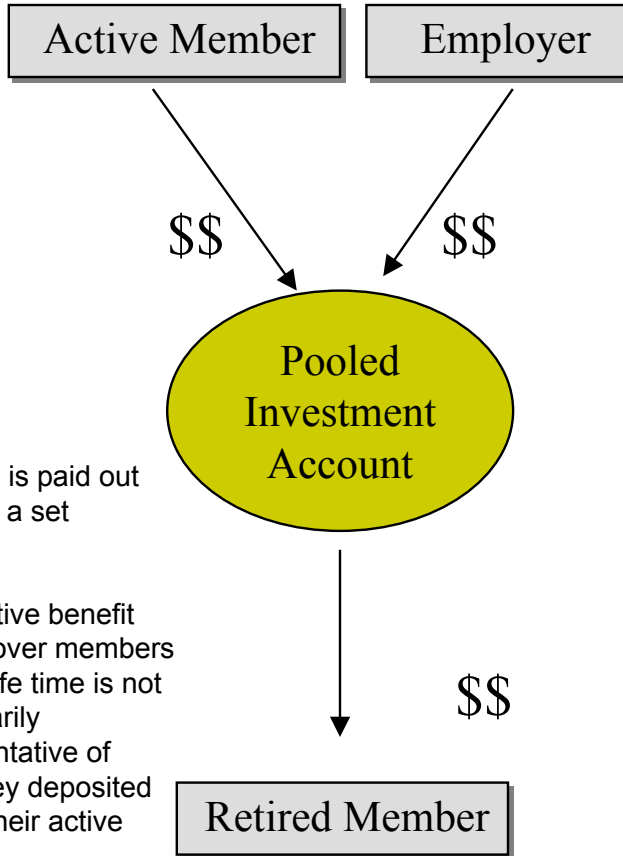
Examples: SBS & Deferred Compensation

**Defined Benefit (DB) vs Defined Contribution (DC)**





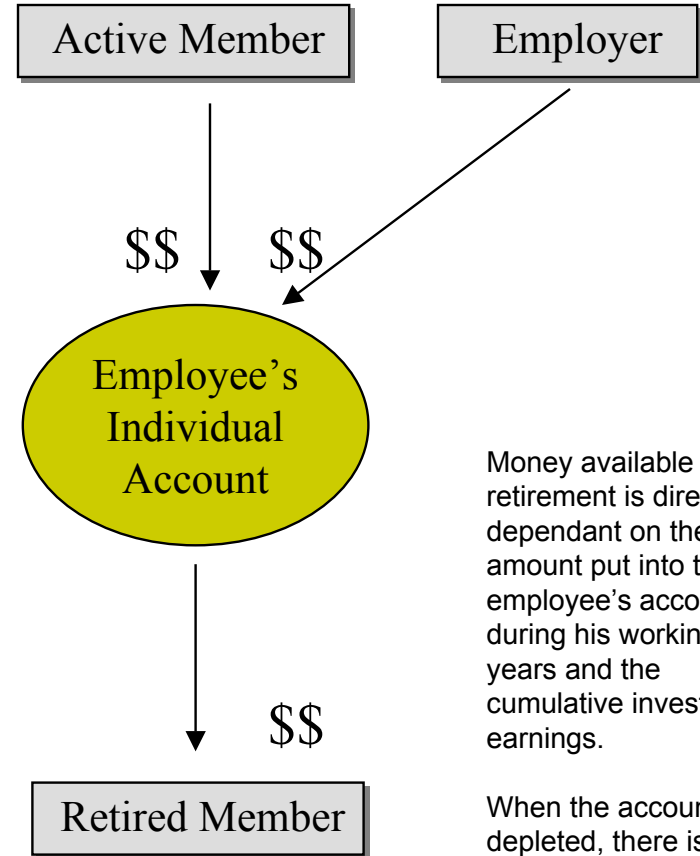
**Defined Benefit System**



Pension is paid out base on a set formula.

Cumulative benefit payout over members retired life time is not necessarily representative of what they deposited during their active career

**Defined Contribution System**



Money available for retirement is directly dependant on the amount put into the employee's account during his working years and the cumulative investment earnings.

When the account is depleted, there is no further benefit.





Normal Cost Comparisons – TRS Tier II & PERS Tier III vs. Proposed DC Plan

FY 06 Normal Cost Rates

	<b>TRS II</b>	<b>PERS III</b>	<b>DC Plan</b>
Medical normal cost rate	7.93%	7.23%	3.75%
Defined contribution rate	12.43%	10.32%	11.50%
HRA contribution rate	0.0%	0.0%	1.00%
Gross normal cost rate	20.36%	17.55%	16.25%
Member contribution rate	(8.65)%	(6.81)%	(8.00)%
Employer normal cost rate	12.71%	10.74%	8.25%





## Factors that drive the contribution rate discussion

- Investment Return Assumptions
- Cost/Benefit Balance for the Employer
- Total Acceptable Normal Cost
- Keeping Competitive in Northwest Region





Normal Cost Comparisons – Proposed DC Plan vs. Existing TRS/PERS (all Tiers)

FY 06 Normal Cost Rates

	<b>TRS</b>	<b>PERS</b>	<b>DC Plan</b>
Medical normal cost rate	9.07%	8.68%	3.75%
Defined contribution rate	13.90%	11.37%	11.50%
HRA contribution rate	0.0%	0.0%	1.00%
Gross normal cost rate	22.97%	20.05%	16.25%
Member contribution rate	(8.69)%	(6.81)%	(8.00)%
Employer normal cost rate	14.28%	13.24%	8.25%

