



**Retirement Security
Act**

SB 141

Discussion Topic

Conversion Option from DB to DC

April 2nd, 2005



Alaska State Legislature
Senate Finance Committee



Discussion: Conversion
Option from Defined
Benefit plan to Defined
Contribution plan





Eligibility for members to convert from the DB plan to the DC plan

- An employer must first choose to allow their DB plan employees to transfer into the DC plan.
- Only unvested members of the DB plan will be eligible to transfer into the DC Plan
 - PERS members with less than 10 years of service
 - TRS members with less than 8 years of service
- Participation in the defined contribution retirement plan is in lieu of participation in the defined benefits plan.
- There is no option to return to the DB plan if you opt into the DC plan.





Mechanics of Conversion

- Present value of the *member* contribution account balance held in DB trust will be transferred to a new account.
- A 100% matching employer contribution will be made on behalf of the employee to the new account; however, this must be *new* money.
- Service credit earned under the DB plan will be credited for purposes of vesting in medical benefits.





Potential Cost to Employers

Service Years					
PERS		Tier 1	Tier 2	Tier 3	Total System
< 5	\$	9,910,842	18,931,859	101,423,157	130,265,858
5 to < 10		55,804,740	128,224,601	96,023,581	280,052,923
10 to < 15		79,577,922	216,672,102	99,905	296,349,928
15 to < 20		166,029,809	119,618,440	0	285,648,249
20 to < 25		246,455,352	1,033,437	0	247,488,789
25 and >		141,721,266	123,906	0	141,845,172
Totals	\$	699,499,932	484,604,344	197,546,643	1,381,650,918
TRS		Tier 1	Tier 2		
< 8	\$	9,622,483	92,841,386		102,463,869
8 to < 10		11,597,202	41,796,620		53,393,822
10 to < 15		35,530,960	106,276,667		141,807,626
15 to < 20		136,923,592	6,547,816		143,471,408
20 and >		221,422,095	0		221,422,095
Totals	\$	415,096,333	247,462,488		662,558,821
Grand Total By Tier	\$	1,114,596,264	732,066,832	197,546,643	2,044,209,739
					0
		Limit Conversion Option to:			290,288,124





Example of retirement lifetime benefits under DB plan

- PERS “Other” member, Tier III
- Beginning salary \$35,000
- Member Contribution rate = 6.75%
- Semi-annual interest = 4.25%

- Works 30 years
- Normal Retirement at age 60
- Male Life Expectancy = 19.9 years

30 Years of Member Contributions and Interest	\$ 209,269	13.38%
Average Highest Consecutive 5 years	\$ 68,750	
Benefit Formula = (2% x 10 yrs) + (2.25% x 10 yrs) + (2.5% x 10 yrs)	67.5%	
Annual Benefit	\$ 46,406.25	
Annual Benefit x Life Expectancy =	\$ 923,484	
Lifetime Medical Premiums	\$ 315,949	
Total Employer Benefits Payments	\$ 1,563,859	86.62%

Corrected April 8, 2005

