SB 141 Overview

SB 141 accomplishes the following:

I. Establishes a new retirement plan for public employees and teachers first hired on or after July 1st, 2006

II. Implements changes in the oversight and management of the state's existing defined benefit Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) effective July 1st, 2005

I. New Retirement Benefit Plan.

SB 141 creates a new defined contribution retirement plan for Alaska's public employees and teachers.

- The new plan is mandatory for all new employees hired on or after July 1st, 2006.
- Current, non-vested employees (PERS Tier III with less than 5 years service and TRS Tier II with less than 8 years service) may elect to switch to the new retirement plan if their employer consents to such transfers. Once made, the election to switch is irrevocable.

The four key components of the new retirement plan – sometimes referred to as a "new tier" – are outlined below:

A. **Individual retirement savings account** – a 401(k)-style savings account into which employees and employers both make payroll contributions.
B. **Retiree medical benefit** – retiree medical plan similar to what is provided to Alaska's retired public employees today. The significant differences being that

    1. Employees have no right to this benefit unless they retire directly from the system
    2. Retirees must pay 100% of the cost of monthly medical premiums until they reach Medicare eligible age (currently 65 years old).

C. **Health Reimbursement Arrangement (HRA)** – an employer funded medical savings account retirees may use to pay qualified medical expenses and/or monthly health plan premiums.
D. **Occupational death and disability benefit** – members whose employment is terminated because of a total and permanent occupational disability or survivors of members who die in the performance of their duties, are entitled to a monthly benefit.

A. Individual Retirement Savings Account

- 401(k)-style savings account into which employees and employers both make payroll contributions
- Participation by employees is mandatory. Employee may contribute additional money up to the annual federal limits under 26 U.S.C 415
- Employee directs how money is allocated across a group of professionally managed investment vehicles, similar to the state's existing SBS annuity plan.
- Employees are immediately vested in 100% of their contributions and investment earnings.

- Employees vest in employer contributions and earnings over 5 years based on the following schedule:
  - 25% after two years
  - 50% after three years
  - 75% after four years
  - 100% after five years

B. Retiree Medical Benefit

- Member must retire directly from service to have medical benefits.
- To retire, a member must have a minimum of 10 years of service.
- Normal retirement is set at the federal Medicare eligible age – currently 65 years. If the federal government raises the Medicare eligibility age in the future, Alaska's retirement age rises as well.
- To retire prior to Medicare eligible age a member must have 30 years of service. Police Officer and Fire employees can retire after 25 years of service.
- A member who retires before reaching Medicare age has access to the retiree major medical plan but must pay the full monthly premium.
- Once retirees reach Medicare eligibility they pay a percentage of the premium based on their years of service:

Years of Service	% of Premium	
	Retiree	Employer
10-14	30%	70%
15-19	25%	75%
20-24	20%	80%
25-29	15%	85%
30+	10%	90%

- An eligible member does not have to participate immediately in the state's medical plan and participation in the medical plan is not necessary to access one's HRA. However, an eligible member must make an irrevocable election to participate prior to reaching age 70 ½.

C. Health Reimbursement Arrangement (HRA)

- An employer funded, tax-advantaged medical savings account used during retirement for paying qualified medical expenses and/or monthly health plan premiums for the retiree, their spouse and/or their dependent children.
- Qualified medical care expenses are defined in federal statute 26 U.S.C. 213(d).
- Member vests in HRA after 10 years of service; however, to access the account and begin making withdrawals, member must also have reached normal retirement age.
- An employee forfeits rights to the HRA account if they terminate before acquiring 10 years of service, unless they return to service by December 31st of the year they turn 65 and acquire a combined total of 10 years of service prior to retiring.
- If a terminated member returns to service, the HRA account will be restored to its original balance and will be credited interest at the annual Anchorage CPI for each year since termination.
- Credited interest is not taxed and withdrawals are tax-free. As with any federally recognized retirement account, withdrawals are subject to IRS limitations and restrictions.
- HRA can be accessed even if the retired member chooses not to participate in the Retiree Medical plan – and vice versa.

D. Occupational Death & Disability Benefit

- An employee whose employment is terminated due to a total and permanent occupational disability is entitled to a monthly benefit equal to 40% of gross monthly compensation at the time of termination.
- Disability payments end when the member no longer qualifies for the disability, reaches normal retirement age, or dies. The member or the member's beneficiaries then become eligible for the retirement benefit to which the member would have been entitled had the member continued working.
- If a member dies while receiving disability benefits, the surviving spouse and/or dependent children will continue to get the disability benefit until the date at which the member would have been eligible for retirement.
- If an employee dies in the performance of duties, the member's survivor is entitled to a monthly pension equal to 40% of the member's gross monthly compensation at the time of death. The pension for survivors of members who were police officers and fire fighters is 50% of gross compensation.
- Survivor's pension benefits end the month following the month the member would have been eligible for normal retirement. The member's beneficiaries then become eligible for the retirement benefit to which the member would have been entitled.
- In addition to the normally required employer benefit contributions, an employer will also make the member's retirement savings account contribution for as long as a monthly survivor's pension or disability benefit is being paid.

Plan Funding and Contribution Levels

	PERS		**TRS**	*Contribution applied towards…..*
	Police/Fire	Others		
Employees*	8.00%	8.00%	8.00%	Retirement savings account
Employers	5.00%	5.00%	7.00%	Retirement savings account
	3.00%	3.00%	3.00%	HRA
	1.75%**	1.75%**	1.75%**	Retiree medical plan
	0.40%+	0.30%+	0.22%++	Occ death & disability
Employers Cost	10.15%	10.05%	11.97%	
Total Cost	18.15%	18.05%	19.97%	

* At a minimum, employees must contribute this amount. However, they may elect to make additional contributions up to the annual maximum established under 26 U.S.C 415.

** SB141 sets the beginning rate at 1.75%, however beginning in FY08, this rate will be set annually by the Alaska Retirement Management Board (ARMB) based on the actuarially projected cost of providing this benefit.

+ SB141 sets the beginning rates at 0.40% for Police/Fire and 0.30% for "All Others" based on Mercer estimates. Beginning in FY08, this rate may be adjusted periodically by the ARMB to reflect the actual cost of providing this benefit as determined by the state's actuary.

++ This is a Mercer estimate. The actual employer rate will be set by the ARMB and adjusted periodically to reflect the actual cost of providing this benefit as determined by the state's actuary.

II. Changes to Existing Retirement System

SB 141 improves the oversight and management of the existing PERS and TRS system. However, the bill has no affect on the existing benefits - pension, medical, vesting, contribution amounts or service requirements - of active or retired PERS (Tier I, II and III) and TRS (Tier I and II) members.

- Dissolves the Public Employees Retirement Board, Teachers Retirement Board and the Alaska Pension Investment Board and creates one new Alaska Retirement Management Board (ARMB).
- Raises the professional qualifications necessary to serve on the retirement board and increases employer representation. Increases per day honorarium for board members from $150 to $400.
- Redefines and clarifies the duties of the Alaska Retirement Management Board, the Department of Administration, Department of Revenue and the Division of Retirement & Benefits with respect to the management and oversight of the public pension systems.
- Makes the ARMB responsible for managing the assets and liabilities of all the public retirement systems, establishing investment objectives, setting annual employer contribution rates for the current defined benefit system, setting interest rates for employee contribution accounts within the current defined benefit system and prescribing interest rates for the HRA accounts.
- Sets the actuarially computed normal cost rate as the floor for annual employer contribution rates.
- Charges the ARMB with providing a preliminary assessment of the financial health of the state's retirement systems, and recommendations for improving it, to the legislature within 120 days of all board members being appointed, or 15 days after the start of the next legislative session, whichever is sooner.
- Transfers the authority for establishing the policies and regulations that govern the day-to-day operation of the state's retirement systems from the PERS/TRS Boards to the Commissioner of Administration.
- Transfers the responsibility for hearing appeals and waivers from the PERS/TRS Boards to the Office of Administrative Hearings.
- Establishes a requirement to annually review the health cost assumptions used in actuarial projections.
- Creates a statutory requirement for a peer audit of the state's actuary and investment consultant at least once every four years.
- Establishes a requirement for the Department of Administration to provide an annual report to the legislature on retirement system cost-savings measures implemented during the prior year.
- Repeals the plan provision that allows an employee to reinstate credited service associated with a previous refund of employee contributions as of June 30, 2010.
- Prevents the awarding of "ad-hoc" post retirement pension adjustments to Tier 1 retirees unless the retirement fund has a funding ratio of at least 105%.