

March 12, 2009

VIA EMAIL

Mr. Pat Shier
Director
State of Alaska
Department of Administration
Division of Retirement and Benefits
333 Willoughby Avenue
6th Floor State Office Building
Juneau, AK 99811-0208

Re: FY11 Employer Rates for the Defined Contribution Retirement Plan

Dear Pat:

We have completed the calculation of the Fiscal Year 2011 (FY11) employer contribution rates for the Defined Contribution Retirement Plan (DCR) effective for members who hire on or after July 1, 2006 into the State of Alaska Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). These members are Tier 3 in TRS and Tier 4 in PERS. The results are shown as a percent of DCR pay below:

TOTAL OCCUPATIONAL DEATH & DISABILITY AND RETIREE MEDICAL COMBINED (\$ IN THOUSANDS)					
PERS					
	Peace Officer / Firefighter	Others	Total	TRS	
(1) Total Normal Cost	\$ 400	\$ 1,835	\$ 2,235	\$	632
(2) Total DCR Salaries	\$ 21,192	\$ 200,739	\$ 221,931	\$	59,750
(3) Employer Normal Cost Rate, (1) ÷ (2)	1.89%	0.91%	1.00%		1.06%
(4) Accrued Liability	\$ 284	\$ 1,734	\$ 2,018	\$	801
(5) Actuarial Value of Assets	<u>1,037</u>	<u>2,970</u>	<u>4,007</u>		<u>1,728</u>
(6) Total Unfunded Liability, (4) – (5)	\$ (753)	\$ (1,236)	\$ (1,989)	\$	(927)
(7) Funded Ratio, (5) ÷ (4)	365.14%	171.28%	198.56%		215.73%
(8) Past Service Cost Amortization Payment	\$ (48)	\$ (78)	\$ (126)	\$	(60)
(9) Past Service Rate, (8) ÷ (2)	(0.23%)	(0.04%)	(0.06%)		(0.10%)
(10) Total Employer Contribution Rate Based on DCR Salaries, (3) + (9)	1.66%	0.87%	0.94%		0.96%

There are two reasons for favorable experience on the results. First, there were more terminations than expected so liability is lower than expected for the continuing group. Second, favorable claims experience from prior years is being averaged for the claims cost used to value the retiree medical plan.

OCCUPATIONAL DEATH & DISABILITY (\$ IN THOUSANDS)

		PERS			
		Peace Officer / Firefighter	Others	Total	TRS
(1)	Total Normal Cost	\$ 295	\$ 645	\$ 940	\$ 189
(2)	Total DCR Salaries	\$ 21,192	\$ 200,739	\$ 221,931	\$ 59,750
(3)	Employer Normal Cost Rate, (1) ÷ (2)	1.39%	0.32%	0.42%	0.32%
(4)	Accrued Liability	\$ 159	\$ 83	\$ 242	\$ 44
(5)	Actuarial Value of Assets	<u>846</u>	<u>442</u>	<u>1,288</u>	<u>420</u>
(6)	Total Unfunded Liability, (4) – (5)	\$ (687)	\$ (359)	\$ (1,046)	\$ (376)
(7)	Funded Ratio, (5) ÷ (4)	532.08%	532.53%	\$ 532.23%	954.55%
(8)	Past Service Cost Amortization Payment	\$ (44)	\$ (22)	\$ (66)	\$ (24)
(9)	Past Service Rate, (8) ÷ (2)	(0.21%)	(0.01%)	(0.03%)	(0.04%)
(10)	Total Employer Contribution Rate Based on DCR Salaries, (3) + (9)	1.18%	0.31%	0.39%	0.28%

RETIREE MEDICAL (\$ IN THOUSANDS)

		PERS			
		Peace Officer / Firefighter	Others	Total	TRS
(1)	Total Normal Cost	\$ 105	\$ 1,190	\$ 1,295	\$ 443
(2)	Total DCR Salaries	\$ 21,192	\$ 200,739	\$ 221,931	\$ 59,750
(3)	Employer Normal Cost Rate, (1) ÷ (2)	0.50%	0.59%	0.58%	0.74%
(4)	Accrued Liability	\$ 125	\$ 1,651	\$ 1,776	\$ 757
(5)	Actuarial Value of Assets	<u>191</u>	<u>2,528</u>	<u>2,719</u>	<u>1,308</u>
(6)	Total Unfunded Liability, (4) – (5)	\$ (66)	\$ (877)	\$ (943)	\$ (551)
(7)	Funded Ratio, (5) ÷ (4)	152.80%	153.12%	153.10%	172.79%
(8)	Past Service Cost Amortization Payment	\$ (4)	\$ (56)	\$ (60)	\$ (36)
(9)	Past Service Rate, (8) ÷ (2)	(0.02%)	(0.03%)	(0.03%)	(0.06%)
(10)	Total Employer Contribution Rate Based on DCR Salaries, (3) + (9)	0.48%	0.56%	0.55%	0.68%

MEMBER CENSUS INFORMATION

The data for the DCR plan was provided by the State during the standard data collection process for PERS and TRS and was analyzed for consistency and reasonability. Below is a summary of the member information.

	PERS			TRS
	Peace Officer / Firefighter	Others	Total	
Number	390	4,662	5,052	1,198
Average Age	33.04	37.36	37.03	36.82
Average Credited Service	0.94	0.91	0.91	1.29
Average Annual Earnings	\$54,339	\$43,058	\$43,929	\$49,874
Average Entry Age	32.10	36.45	36.12	35.53

ASSET INFORMATION

OCCUPATIONAL DEATH & DISABILITY (\$ IN THOUSANDS)

	PERS	TRS
Actuarial Value of Assets	\$1,288	\$420
Market Value of Assets	1,205	400
Approximate Market Value Investment Return Rate During FY08, Net of All Expenses	(6.00%)	(3.92%)

RETIREE MEDICAL (\$ IN THOUSANDS)

	PERS	TRS
Actuarial Value of Assets	\$2,719	\$1,308
Market Value of Assets	2,479	1,246
Approximate Market Value Investment Return Rate During FY08, Net of All Expenses	(7.46%)	(0.55%)

BENEFIT PROVISIONS

Below is a summary of the DCR plan (Tier 4 for PERS and Tier 3 for TRS):

Retiree Medical

- Member must retire directly from the plan to be eligible for medical coverage. Normal retirement eligibility is the earlier of a) 30 years of service for TRS and PERS Others members and 25 years of service for PERS Peace Officer / Firefighter members, or b) Medicare eligible and 10 years of service.
- No medical benefits are provided until normal retirement eligibility. The member's premium is 100% until they are Medicare eligible.
- Coverage cannot be denied except for failure to pay premium.

- Members who are receiving disability benefits or survivors who are receiving monthly survivor benefits are not eligible until the member meets, or would have met if he/she had lived, the normal retirement eligibility requirements.
- The plan's coverage is supplemental to Medicare.
- The Medicare-eligible premium will be based on the member's years of service. The percentage of premium paid by the member is as follows:

Years of Service	Percent of Premium Paid by Member
Less than 15 years	30%
15 – 19	25%
20 – 24	20%
25 – 29	15%
30 years or more	10%

Occupational Disability

- Benefit is 40% of salary at date of disability.
- There is no increase in the benefit after commencement.
- Member earns service while on occupational disability.
- Benefits cease when the member becomes eligible for normal retirement at Medicare-eligible age and 10 years of service, or
 - For PERS, at any age with 25 years of service for Peace Officer / Firefighter members or with 30 years of service for Others.
 - For TRS, at any age with 30 years of service.
- Peace Officer / Firefighter members may select the defined contribution account or the monthly benefit payable as if they were retiring under Tier 3 (service continues during disability, final average salary is as of date of disability).
- No medical benefits are provided until normal retirement eligibility. The member's premium is 100% until they are Medicare eligible. Medicare-eligible premiums follow the service-based schedule above.

Occupational Death

- Benefit is 50% of salary for Peace Officer / Firefighter members and 40% of salary for PERS Others and TRS members.
- There is no increase in the benefit after commencement.
- Benefits cease when the member would have become eligible for normal retirement.
- The period during which the survivor is receiving benefits is counted as service credit toward medical benefits.
- No medical benefits are provided until the member would have been eligible for normal retirement. The surviving spouse's premium is 100% until the member would have been Medicare eligible. Medicare-eligible premiums follow the service-based schedule above.

ASSUMPTIONS AND METHODS

The calculations were based on the June 30, 2008 valuation, methods and assumptions for the DB Plans for PERS and TRS unless otherwise indicated below:

- The asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method will be phased in over the five-year period beginning July 1, 2006. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.
- We assume that 100% of the PERS Peace Officer / Firefighter members will elect the monthly benefit at Medicare-eligible age (assumed to be 65) as opposed to the defined contribution plan.
- The retirement rates were changed to the following for both PERS and TRS:

Age	Rate
<55	2%
55-59	3%
60	5%
61	5%
62	10%
63	5%
64	5%
65	25%
66	25%
67	25%
68	20%
69	20%
70	100%

- The select and ultimate termination rates were changed for PERS and TRS. The ultimate rates were set to the corresponding system’s pension valuation rates loaded by 10%. The select period is 5 years and the rates are as follows:

Select Rates of Turnover During the First 5 Years of Employment

Years of Employment	PERS Peace Officer / Firefighter	PERS Others	TRS
1	14%	25%	18%
2	12%	23%	15%
3	10%	20%	12%
4	9%	16%	10%
5	8%	15%	8%

- Occupational death and disability is assumed to be 100% of all disabilities and deaths. This conservatism is built in to provide a cushion in case adverse experience is realized in the first few years of this plan. If we were to apply our valuation occupational assumptions, the portion assumed for each group would be:
 - 75% of all death or disabilities for PERS Peace Officer / Firefighter.
 - 50% of all death or disabilities for PERS Others members.
 - 0% of all death or disabilities for TRS.
- We assume that 100% of the members eligible for the medical benefits will elect to participate.

- Due to the lack of experience for the DCR plan only, base claims costs are based on those described in the actuarial valuations as of June 30, 2008 for PERS and TRS with some adjustments. The claims costs were adjusted to reflect the differences between the DCR medical plan and the DB medical plan. These differences include different coverage levels and an indexing of the retiree out-of-pocket dollar amounts. To account for higher initial copays, deductibles and out-of-pocket limits, FY09 claims costs were reduced 5.9% for medical and 0.7% for prescription drugs. Retiree out-of-pocket amounts were indexed 4.8% each year to reflect the effect of the deductible leveraging on trend, putting the annual projected trend closer to the ultimate trend rate.

CAUTION REGARDING ASSUMED PARTICIPATION AND COSTS

Normal cost calculated for the PERS and TRS DCR members is based on June 30, 2008 valuation data plus claims experience for the four-year period ending June 30, 2008. However, long-term costs will be a function of demographic characteristics that may not become credible for as many as 10 years into the future. Healthcare claims credibility will mature over an even longer period. Transferring employees with sufficient service can retire under the new plan as early as July 1, 2011, but it will likely be 2016 or even 2021 before there are 500 or more retirees and covered dependents. At that point, there will begin to be credible claims experience under the plan. We hope to convey that healthcare, death benefit and disability benefit costs will take many years to emerge on a credible basis under the new plan, and that actuarial valuations in the meantime may be more variable year-to-year than is otherwise the case.

CHANGES SINCE THE PRIOR VALUATION

There were no changes in benefit provisions or actuarial methods. There were two changes in assumptions from the prior valuation. First, future increases in healthcare cost trend rates were changed to the Society of Actuaries' Healthcare Cost Trend Model. Second, the portion of all Medicare retirees assumed to be Part B only was decreased from 5% to 4%.

The undersigned are members of the American Academy of Actuaries and the Society of Actuaries, are fully qualified to provide actuarial services to the State of Alaska, meet the Academy's Qualification Standards to issue this statement of Actuarial Opinion, and are available to answer questions regarding this letter.

We believe that these results conform with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Please let us know if you have any questions or if we can be of further assistance.

Sincerely,



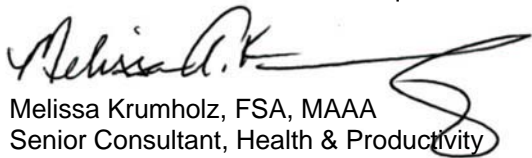
David H. Slishinsky, ASA, EA, MAAA
Principal, Consulting Actuary



Michelle Reding DeLange, FSA, EA, MAAA
Director, Consulting Actuary

Mr. Pat Shier
March 12, 2009
Page 7

The undersigned actuary is responsible for all assumptions related to the average annual per capita health claims cost and the health care cost trend rates, and hereby affirms her qualification to render opinions in such matters, in accordance with the qualification standards of the American Academy of Actuaries.



Melissa Krumholz, FSA, MAAA
Senior Consultant, Health & Productivity

/mlp

c: Mr. Kevin Worley, State of Alaska
Ms. Monica DeGraff, Buck Consultants
Mr. Chris Hulla, Buck Consultants
Mr. Aaron Jurgaitis, Buck Consultants
Ms. Kyla O'Rourke, Buck Consultants