

Legislative Update...and other things

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**Division of Retirement and Benefits
Department of Administration**



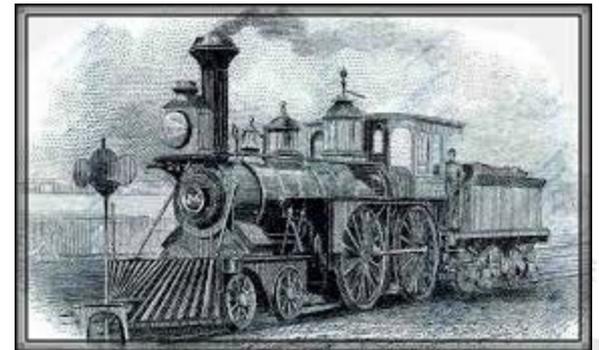
Legislative Update

- HB 116—2014 Session
- 2015 Legislative session
 - DB or DC
 - Termination costs
 - Benefit enhancements of some type



History of Pension Plans in the US

- Industrial Revolution Set Stage
- First pension plan -1875
- Predominately railroads, public utilities and banks.



American Express Plan Assumptions

- Employer pays contribution to a fund for every employee
- Fund is invested
- Age to receive benefit set at 65
- Life expectancy was age 45



Large Fund



Small Payouts



Great Depression

- October 1929-Stock Market Crashes
- By March 1930 3.2 million are unemployed
- February 1931 food riots break out
- December 1931 Bank of the US collapses.
\$200 million lost



THIS

SOCIAL SECURITY MEASURE

gives at least some protection to

THIRTY MILLION OF OUR CITIZENS

who will reap direct benefits through

UNEMPLOYMENT COMPENSATION,

THROUGH AGE-OLD PENSIONS,

and through increased services for the

**PROTECTION OF CHILDREN AND
THE PREVENTION OF ILL HEALTH.**

-President Franklin Delano Roosevelt

**THINK
PROGRESS**

THE
SOCIAL SECURITY
ACT

Signed AUGUST 14, 1935

Old Benefits

Social Security Established

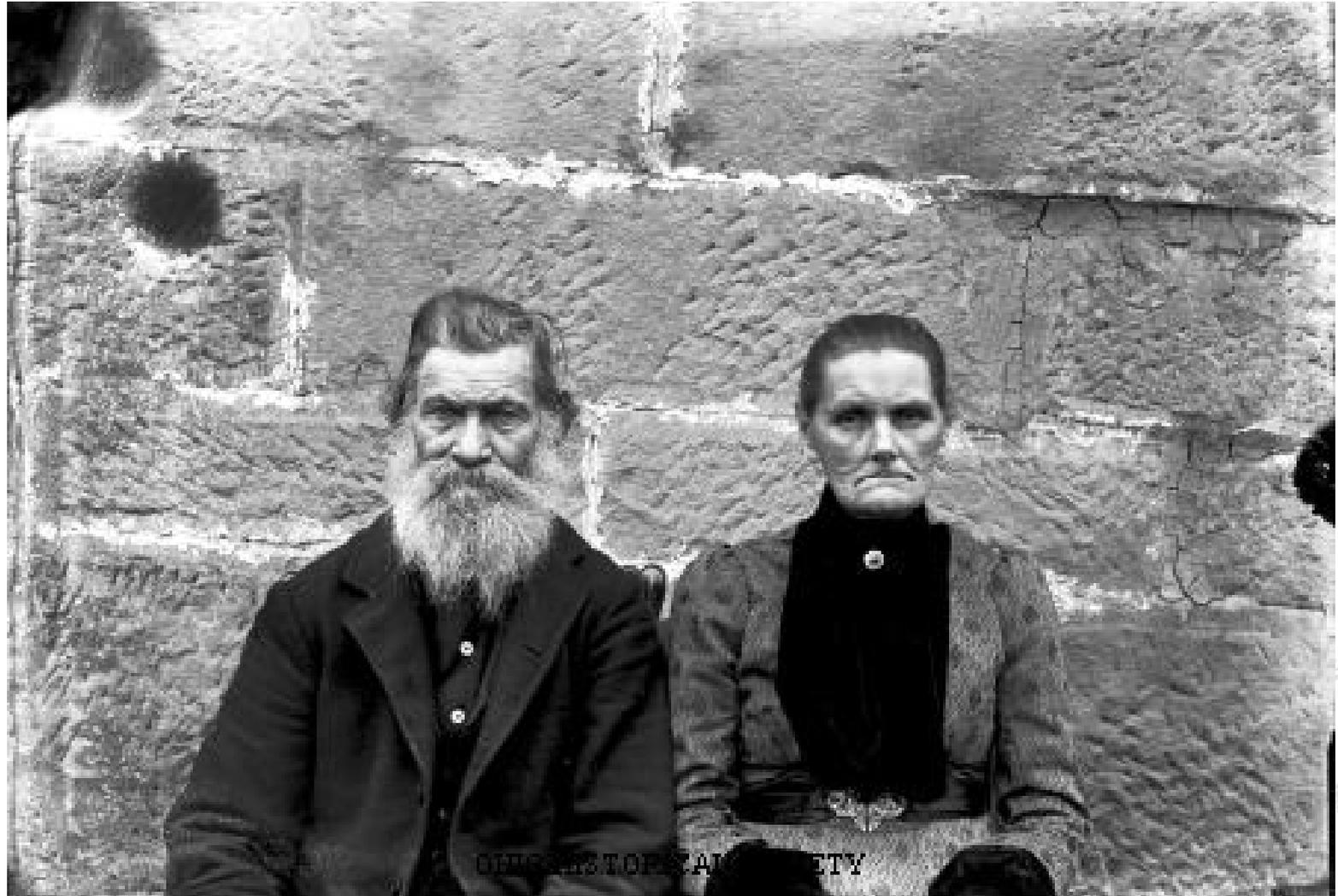
- First Government Plan
 - Employer and employee contributions
 - Favors lower income groups
 - Pay as you go
 - Retirement age set at 65
 - Only a small number lived to collect
 - Contributions received exceeded expenses



DB Plan Challenges

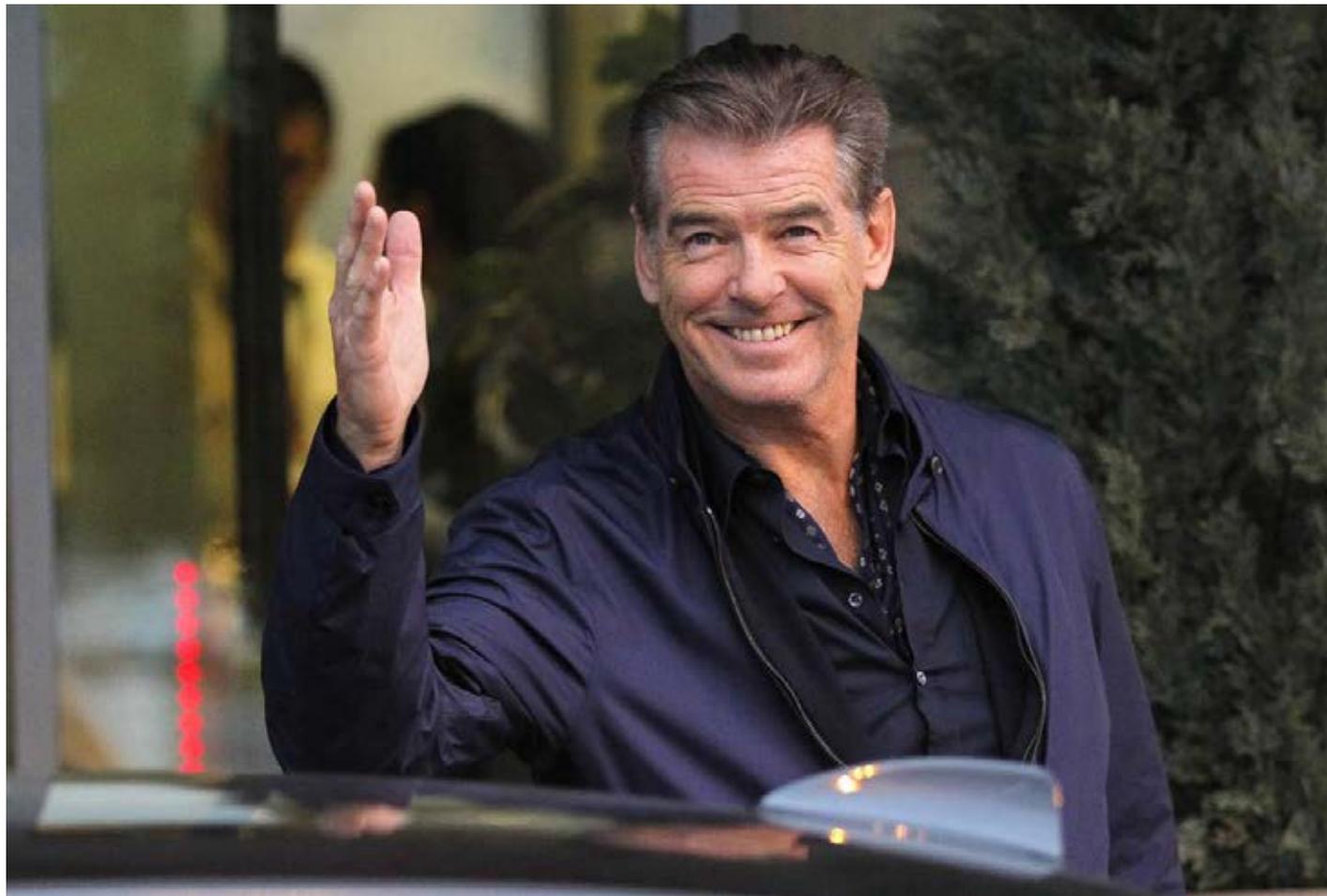
- Structure-formula driven
 - Contributions paid/invested
 - Service
 - Salary
 - Benefit multiplier
- Pays benefits for lifetime of member
- Pays benefits for lifetime of survivor







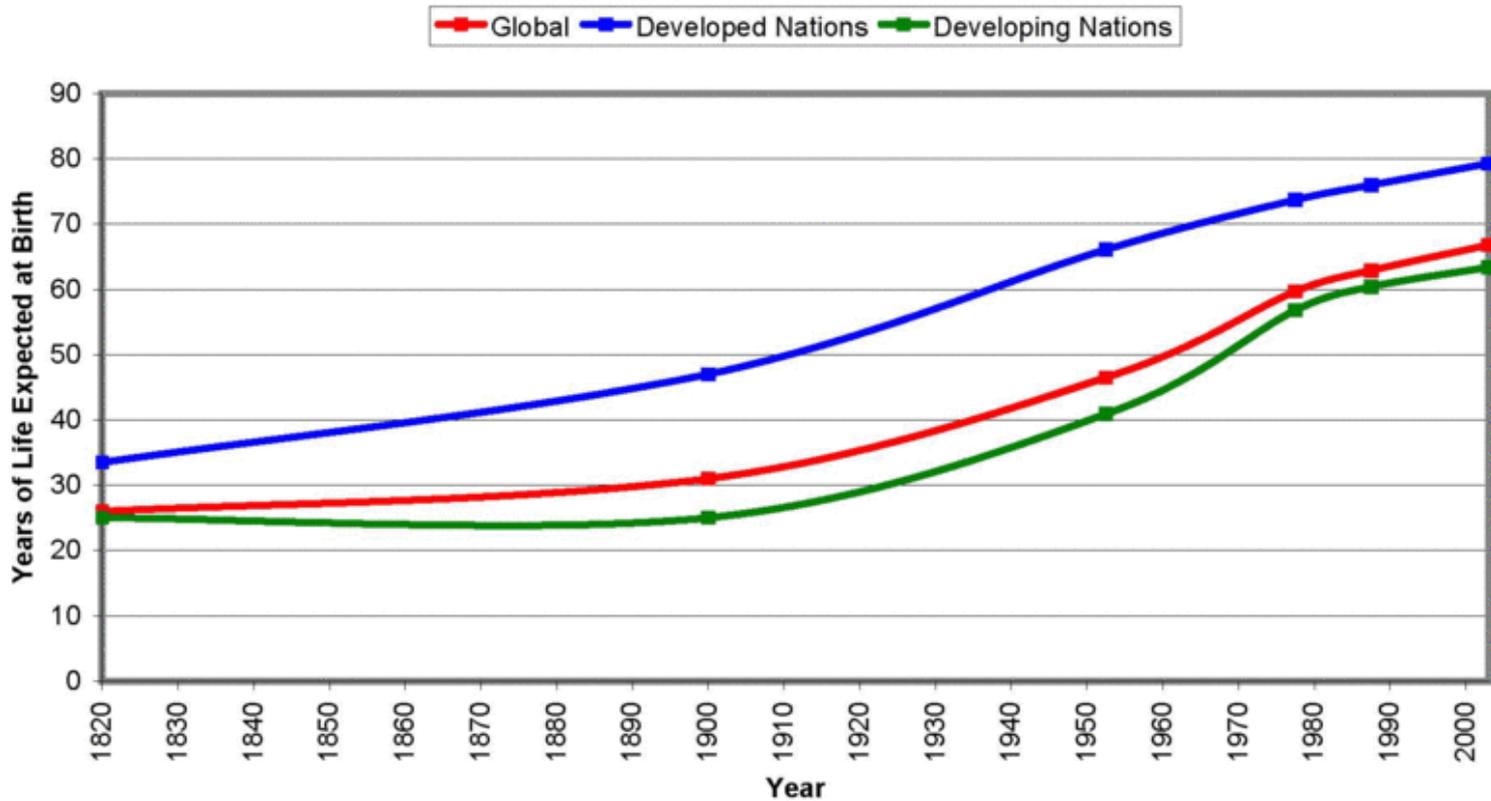
ment and Benefits



ment and Benefits



Life Expectancy

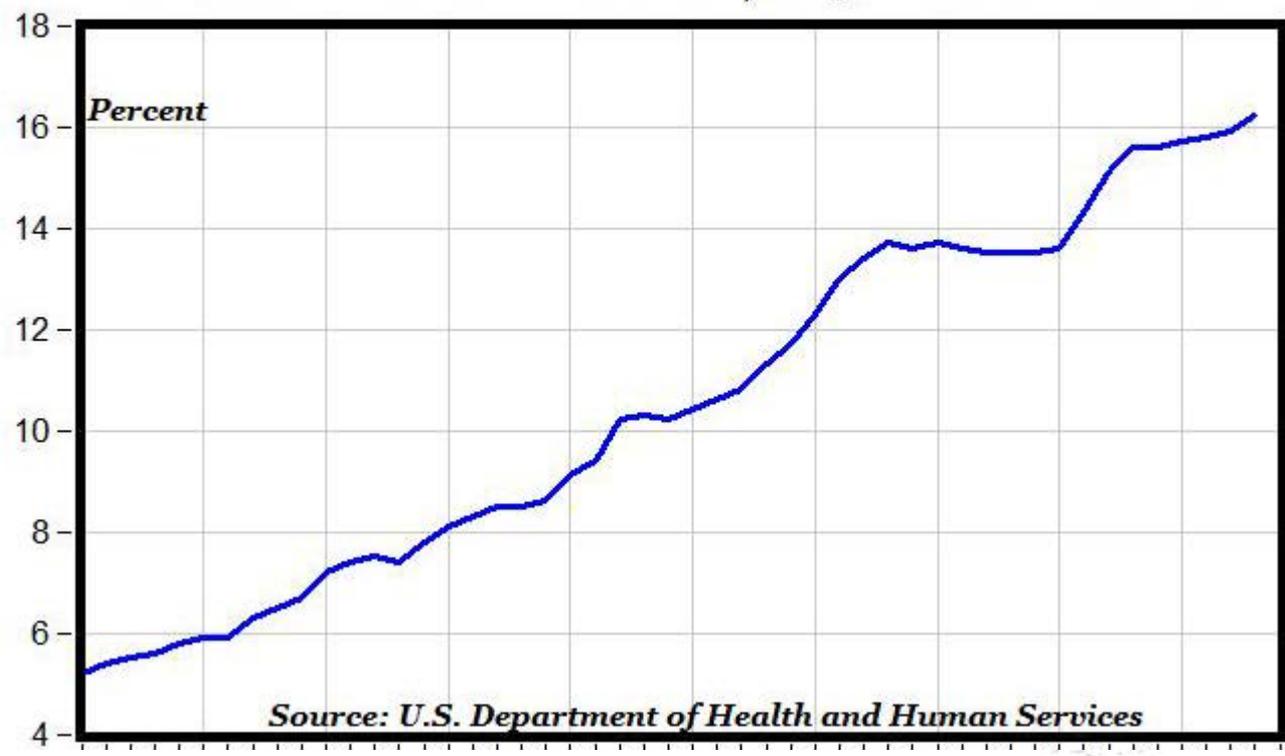


Source: Indur M. Goklany. "The Improving State of our World." Washington, DC: Cato Institute, 2007. 36. France used as a proxy for Developed Nations 1900 and earlier

and Benefits

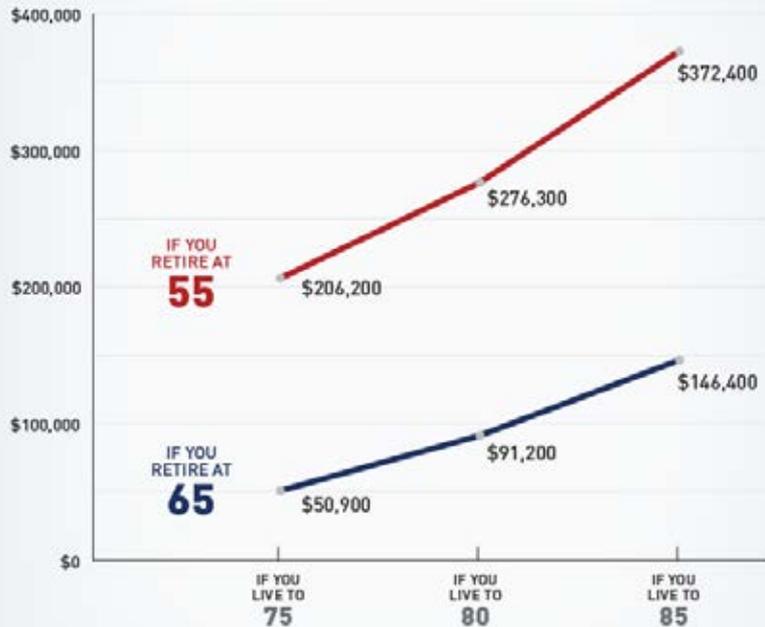
Total Health Care Expenditures

Percent of GDP, 1960-2008



Retiree Health Care Spend

Medical Costs in Retirement



Note: Data represent the present value of future expected health care costs that are not paid by Medicare. These amounts are for the "average" retiree and do not include long term care costs that some retirees may incur.

Source: Yamamoto, 2013. Health Care Costs From Birth to Death. Society of Actuaries.



HCC HEALTH CARE COST INSTITUTE

Alaska Division of Retirement and Benefits



DB Plan Challenges

- Employer Expense Rise
 - Life expectancy is increasing
 - Health care cost is increasing
 - Health care cost increases with age
 - More paid out in benefits than contributions paid in



Smaller Fund



Larger Payout



The Perfect Storm



Major Challenge

- Stock market downturn-investment losses
- Actuarial error in health cost calculation
- Change in government accounting standards
- \$3 Billion Dollar Unfunded Liability
- Aging public workforce



Results

- Soaring employer rates-PERS and TRS becoming unaffordable for the majority of employers in the very near future.
- State assistance required-Cities and school districts would be seeking additional funds for basic services in light of high pension costs.



PERS/TRS Defined Contribution Plan

- Established July 1, 2006
 - Hybrid Plan-DB elements and DC elements
 - Significantly reduces the creation of unfunded liability for the DB elements.
 - Eliminates unfunded liability for the DC elements.



Which is Better?

- DB Plan
 - Favors long term worker
 - “Guaranteed” income
 - Not portable
 - Employer assumes risk



Which is Better

- DC Plan
 - Portable
 - Income greater or smaller than DB
 - Roll-in other accounts
 - Employee assumes risk



DC Plan Best Practices

- 12%-18% contribution to reach 70% income replacement
- Financial education and advice
- Default investment option to provide best outcome
- Payout options that include a lifetime monthly income



Alaska DCR Plans

- 12%-18% required –DCR 13%-15%
- Financial Education and Advice—DCR Reality Investing
- Default option—DCR Target Date Fund
- Payout options—DCR 5 Annuity options

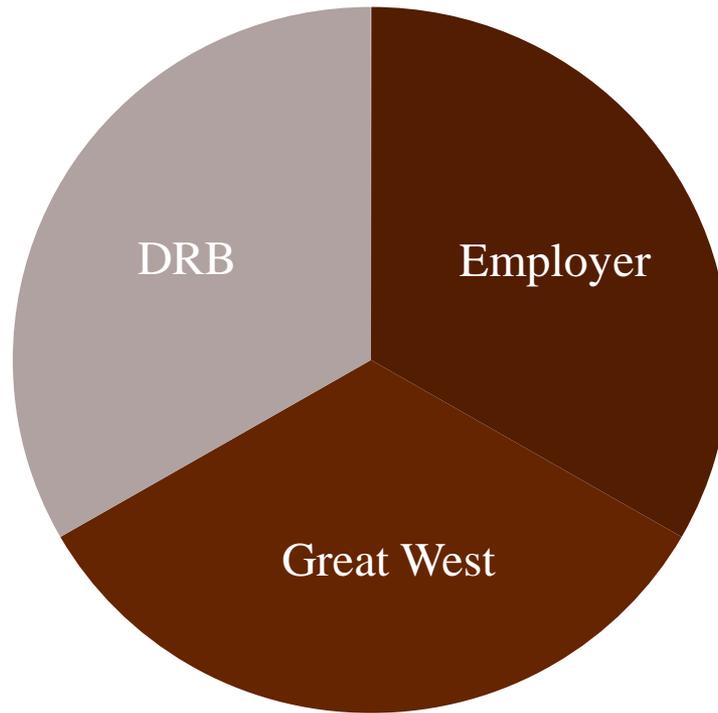


PLUS

- Occupational disability
- Occupational death
- Retiree Health Insurance
- Health Reimbursement Arrangement



The Circle of Trust



Duties of the Circle

- Employer promotes access to information, seminars, education
- Great West delivers education, financial advice
- DRB delivers benefit education, employer assistance



Working Together

Understand the issues

Understand the reason for the plans

Know who the resources are





Retirement and Benefits

WE MAKE
good things
HAPPEN

