

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

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Dear Employer:

As an employer participating in the State sponsored defined benefit (DB) plans, you have the opportunity to either allow or not allow your nonvested DB members to convert to the new defined contribution retirement (DCR) plan. The Division of Retirement and Benefits (Division) has developed and distributed an Employer Guide to Conversion booklet and a sample Participation Agreement Amendment and Resolution to assist employers with this process and ultimate decision. Missing during that distribution was the actuarial data specific to each employer that the Division is now making available on the Division's web site at: www.state.ak.us/drb/employer/er-guide-to-conversion.shtml.

This letter summarizes the data presented and provides basic guidance to help you evaluate the data. Representatives from the Division and the Division's actuary (Buck Consultants) will be available in Anchorage on August 30, 2006, to answer questions. You are welcome to join us in Anchorage or dial into a conference line to participate in this meeting. We will communicate the meeting's location and the conference number prior to the meeting.

To obtain your specific actuarial conversion data you need to first ensure that your macro security level on your computer is set to medium. To set your macro security level to medium select "Macro" from the "Tools" menu and then select "Security." On the "Security Level" tab, select "Medium." You are now ready to open the actuarial data spreadsheet so browse to the link provided above and:

- click on the link "Actuarial data specific to each employer;"
- click on "Enable Macros;"
- click on "Print One;"
- enter your three digit Employer Number;
- click "Print;" and
- re-set your macro security level.

Following is a summary of the actuarial data provided and basic guidance to help you evaluate the data:

Number of Non-Vested Members (line 1) – this is the number of members you had enrolled on April 16, 2006 that were not vested on April 16, 2006. This number will differ from the result you get running the SB141 Conversion Eligibility report as the SB141 Conversion Eligibility report reflects enrollments and service credits through the day the report is requested.

Projected Annual Compensation for Fiscal Year 2007 (line 2) – this is the projected annual FY07 compensation for the nonvested members included in the calculations. The actuary used compensation reported to the Division through April 16, 2006, to estimate compensation for FY07. The salary information was annualized to get a FY06 annual salary and then projected to FY07 with the assumed salary scale used in the June 30, 2005 valuation report.

Accumulated Refundable Member Balance with Interest (line 3) – this is the member's refundable balance including interest credited through April 16, 2006. The balance has been projected to June 30, 2006. This is the amount that will transfer to the DCR Plan if all members convert. This transfer will represent a decrease in employer assets at the time of conversion.

Accrued Liability (Pension and Postemployment Healthcare) (line 4) – this is the liability at June 30, 2006, associated with employees who were nonvested members at April 16, 2006. This is the liability that will be eliminated if the members convert.

Decrease in Unfunded Liability related to the Defined Benefit (DB) Plan (line 5) – this is simply the difference between the accrued liability and the member's refundable balance that will be eliminated if the members convert. It is represented as the net present value of the employer's savings due to past service for all the nonvested members converting to the DCR plan.

25 Year Amortization of Decrease in Unfunded Liability (Based on no Payroll Growth Assumption) (line 6) – this is simply the amount of the decrease in the unfunded liability (past service cost) that will be included in your contribution rate calculation each year for the next 25 years (using 8.25% as the discount factor).

Total Normal Cost Amount Reduction for DB Plan (line 7) – This is the cost associated with an additional year of service for those members who are assumed to have converted to the DCR Plan. The normal cost used in this analysis is not the consolidated normal cost rate component of the FY07 rates. The normal cost in this analysis is the normal cost associated with the specific members who would qualify for conversion. The consolidated normal cost rate component of your FY07 rate is an average normal cost rate for all members in the plan.

Total Decrease in Employer Contribution (line 8) – This figure represents the annual DB savings for FY07, assuming that all nonvested members convert to the DCR Plan.

Estimated Ongoing Cost/(Savings) if All Members Elect to Convert (line 9f) – this reflects the estimated annual savings for FY07 if all nonvested members choose to convert to the DCR plan. You can expect additional cost/(savings) in future years based on the difference between the normal cost of the DB plan (line 7) compared to the normal cost of the DCR plan (line 9e).

One Time Cost (Matching Employer Contribution) (line 10) – this is the out-of-pocket contribution the employer will be required to make into the DCR plan if all members choose to convert. This contribution must be new money and cannot come from the employer's assets held in the DB plan. The employer's conversion match must be paid within 30 days of the effective date of the member's participation in the DCR plan.

Basic Guidance

To analyze the maximum savings you as an employer will experience if all nonvested members convert, we suggest you compare the reduction in the unfunded liability in the DB plan (line 5) with the out-of-pocket cost associated with that savings (line 10). In addition, compare lines 7 and 9e which contrast the difference in the normal cost associated with the two plans. All of these costs are presented in today's dollars.

Some items to consider:

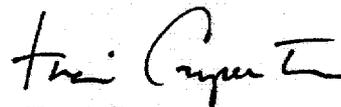
- How many of your nonvested members will take advantage of the conversion option?
- Do you have the financial resources available to meet the out-of-pocket cost associated with participating in the conversion option?

For members who choose to convert in FY07, the employer related effect of their conversion will be included in the valuation performed at June 30, 2007. The June 30, 2007, valuation is used to set contribution rates for FY10. The actuarial analysis presented here does not take this delay into consideration.

The Division is prepared to entertain an adjustment to rates prior to FY10 if an employer experiences a high rate of conversion. Rate adjustments would have to be approved on an employer by employer basis by the Alaska Retirement Management Board.

Please refer to the Employer Guide to Conversion booklet for information related to the conversion option. Page 7 of this booklet provides the names and contact numbers for regional counselors who can answer questions about this option.

Sincerely,



Traci Carpenter
Director

TC/CM/dkk

G:/publications/mailouts/sb141/accounting section/conversion/conversion date cover letter.doc

cc: Melanie Millhorn, Deputy Commissioner
Kathy Lea, Retirement and Benefits Manager
Charlene Morrison, Chief Financial Officer