

# Memorandum

Department of Administration  
Division of Retirement & Benefits

**To:** Annette Kreitzer  
Commissioner  
Department of Administration

**Date:** January 27, 2009

**From:** Pat Shier  
Director  
Division of Retirement & Benefits  
Department of Administration

**Phone:** 465-4817

**Subject:** FY 2010 Contribution Rate for the Judicial Retirement System

## BACKGROUND

AS 22.25.046 (a) states, "The state court system shall contribute to the judicial retirement system at the rate established by the commissioner of administration. The contribution rate shall be based on the results of an actuarial valuation of the judicial retirement system. The result of the actuarial valuation shall be based on actuarial methods and assumptions adopted by the commissioner of administration."

## DISCUSSION

At the request of the Division, Buck Consultants, an ACS Company, completed an actuarial valuation roll forward as of June 30, 2007, for the Judicial Retirement System (JRS). The letter dated February 28, 2008 is attached for your review. Traditionally, actuarial valuations for the JRS are completed every even year (e.g. 2004, 2006, and 2008) and are prepared to calculate the actuarially required contribution rate for two consecutive future fiscal years. In the odd years (e.g. 2005 and 2007), a roll forward analysis is prepared using data from the previous report with financial data and assumptions rolled forward. In this case, the roll forward June 30, 2006 actuarial valuation data is analyzed with the June 30, 2007 financial data to determine the contribution rate for Fiscal Year 2010.

As stated in the valuation report, the valuation is based on the provisions of the State's Judicial Retirement System as well as employee and financial data as of June 30, 2006. The valuation report reflects a funding ratio of 62.41%; down from the funding ratio reflected in the June 30, 2004, valuation report of 88.01%. Most of the decrease in the funding ratio relates to increased pension benefits for retired judges, whose pension benefits are tied to the current salaries of active judges and increases the accrued liability. Due to HB 98 and SB 237, average salaries increased by 17.93% during that two year period.

The decrease in the funding ratio prompted the Alaska State Legislature to fund the JRS with \$49,000,000 in Fiscal Year 2008 that was deposited into the pension and retiree healthcare trusts in June 2008. This additional funding virtually eliminated the JRS unfunded liability as of June 30, 2007. Also, based on the change in how the JRS will be funded, the Alaska Court System will only pay the normal cost as part of their operating budget. The Legislature will fund the "Past Service" via an appropriation, much like that seen in Fiscal Year 2008.

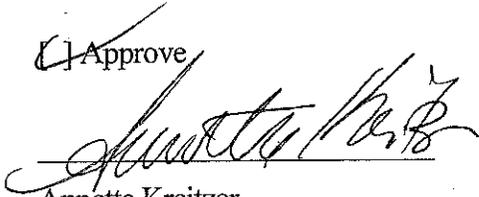
The attached JRS and NGNMRS valuation roll forward report recommends a normal cost employer contribution rate of 26.20% for Fiscal Year 2010.

**RECOMMENDATION**

Please note your approval or disapproval of the Fiscal Year 2010 Judicial Retirement System's contribution rate of 26.20% below:

Approve

Disapprove



Annette Kreitzer  
Commissioner

1-27-09

Date

Attachment – Buck Consultants letter dated February 28, 2008

cc: Kevin Brooks, Deputy Commissioner  
Kevin Worley, Chief Financial Officer  
Kathy Lea, Retirement Manager  
Tim Adair, Administrative Manager  
~~Christina Maiquis, Accounting Supervisor~~



February 28, 2008

**VIA EMAIL**

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

**Re: Judicial Retirement System and National Guard and  
Naval Militia Retirement System Actuarial Valuations as of June 30, 2007**

Dear Pat:

We have completed the actuarial valuations for the State of Alaska Judicial Retirement System (JRS) and the National Guard and Naval Militia Retirement System (NGNMRS) as of June 30, 2007. The valuations have been performed by a projection or "roll forward" of liabilities from the last valuation date to June 30, 2007. A summary of our results and methods is included in this letter.

**RESULTS**

The actuarial valuation produced an increase of 1.00% in the employer contribution rate for JRS and a slight decrease of \$58,205 in the contribution for NGNMRS. A full description of the results can be found in the attachments. A summary of the results are as follows:

	<u>June 30, 2006</u>	<u>June 30, 2007</u>
Judicial Retirement System	57.70%	58.70%
National Guard and Naval Militia Retirement System	\$2,473,282	\$2,415,077

**ACTUARIAL ASSUMPTIONS AND METHODS**

In lieu of collecting new data as of June 30, 2007 and performing a full actuarial valuation, it is an acceptable practice to project or "roll forward" liabilities calculated in the last complete valuation as of June 30, 2006 to June 30, 2007 by assuming the actuarial assumptions during the year are exactly realized. This process produces liabilities and normal costs which reflect the best available estimates of the major factors that would be reflected in a full actuarial valuation, including salary increases, cost of living adjustments and increases in medical costs. All data, actuarial assumptions, methods and plan provisions are the same as those used for the June 30, 2006 valuation unless otherwise noted in this letter, including a valuation interest rate of 8.25% for JRS, a valuation interest rate of 7.25% for NGNMRS, and salary scale for JRS of 4.00%.

Mr. Pat Shier  
February 28, 2008  
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The actuarial value of assets was calculated as of June 30, 2007 using actual assets and cash flows during the year. We are phasing in the five-year smoothing method, and investment gains experienced during FY07 are recognized at 20%.

Contributions during the year were less than the 2006 actuarial valuation requirement, creating actuarial losses. The net actuarial loss for JRS was \$555,000, and was \$669,000 for NGNMRS. The net actuarial loss has the affect of increasing the unfunded liability from what was expected, given expected contributions and investment return, and results in changes in the employer contributions from the previous year.

For the June 30, 2006 valuation liabilities and normal costs, we used the results shown in the actuarial valuation reports as of June 30, 2006.

Please let us know if you have any questions.

Sincerely,



David H. Slisinsky, A.S.A.  
Principal and Consulting Actuary

/mlp

Attachments

c: Mr. Kevin Worley, State of Alaska  
Mr. Joseph Cooper, Buck Consultants  
Ms. Michelle DeLange, Buck Consultants  
Mr. Chris Hulla, Buck Consultants  
Ms. Melissa Krumholz, Buck Consultants

**State of Alaska  
Judicial Retirement System**

FY10

	June 30, 2006	June 30, 2007
Total Pension Accrued Liability	\$ 111,819,972	\$ 117,378,824
Annual Pension Normal Cost	\$ 2,607,777	\$ 2,712,088
Total Postemployment Healthcare Accrued Liability	\$ 15,905,786	\$ 16,610,082
Annual Postemployment Healthcare Normal Cost	\$ 379,514	\$ 413,670
Total Accrued Liability	\$ 127,725,758	\$ 133,988,906
Actuarial Value of Assets	\$ 79,710,103	\$ 84,773,226
Unfunded Liability	\$ 48,015,655	\$ 49,215,680
Funded Ratio	62.4%	63.3%
Total Normal Cost	\$ 2,987,291	\$ 3,125,758
Pension Contribution Rate		
- Employer Normal Cost Rate	22.08%	22.09%
- Past Service Rate	22.78%	24.00%
- Pension Contribution Rate	44.86%	46.09%
Postemployment Healthcare Contribution Rate		
- Employer Normal Cost Rate	3.93%	4.11%
- Past Service Rate	8.91%	8.50%
- Postemployment Healthcare Contribution Rate	12.84%	12.61%
Total Employer Contribution Rate		
- Employer Normal Cost Rate	26.01%	26.20%
- Past Service Rate	31.69%	32.50%
- Total Employer Contribution Rate	57.70%	58.70%

This exhibit is an attachment to a letter dated February 28, 2008.

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Pension 22.09 +  
Healthcare 4.11 +  
002  
Total ER 26.26 +  
Contribution Rate

**State of Alaska  
National Guard and Naval Militia Retirement System**

	June 30, 2006	June 30, 2007
Total Accrued Liability	\$ 25,457,589	\$ 26,289,978
Actuarial Value of Assets	15,587,569	16,882,529
Unfunded Liability	9,870,020	9,407,449
Funded Ratio	61.2%	64.2%
Normal Cost	\$ 750,758	\$ 773,281
Past Service Payment	1,722,524	1,641,796
Total Contribution	\$ 2,473,282	\$ 2,415,077

This exhibit is an attachment to a letter dated February 28, 2008.