

Memorandum

Department of Administration
Division of Retirement & Benefits

To: Annette Kreitzer
Commissioner
Department of Administration

Date: November 3, 2010

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

Phone: 465-4817

Subject: FY 2012 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 results 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 of Retirement & Benefits (Division), Buck Consultants, a Xerox Company, completed an actuarial valuation roll-forward as of June 30, 2009, for the Judicial Retirement System (JRS). The letter dated September 21, 2010, is attached for your review.

Traditionally, actuarial valuations for the JRS are completed after the end of every even fiscal year (e.g. 2006, 2008, and 2010) to calculate the actuarially required contribution rate for the fiscal year three years forward. In the odd fiscal years (e.g. 2005, 2007, and 2009), analysis is prepared using data from the previous fiscal year's actuarial valuation report, with financial data and assumptions rolled forward to calculate the actuarially required contribution rate (in this case, Fiscal Year 2012).

As stated in the roll-forward valuation report, in lieu of collecting new data as of June 30, 2009, and performing a full actuarial valuation, it is an acceptable practice to project FY 2009 liabilities based on the last complete valuation as of June 30, 2008, by assuming the actuarial assumptions for the year are exactly realized. The valuation report reflects a funding ratio of 81.2%; down from the funding ratio reflected in the June 30, 2008, valuation report of 94.96%. The majority of the decrease in the funding ratio relates to large investment losses during the year.

The Alaska Court System will pay the normal cost percentage as part of their operating budget. The Legislature is expected to fund "Past Service" via a separate appropriation, much like that seen in Fiscal Years 2009, 2010 and 2011.

When setting the budget for FY 2011 the Alaska Court System requested and is currently paying an employer contribution rate of 36.20% which is composed of both the employer normal cost rate of 29.94% and the past service rate of 6.26%. In addition, the Department of Administration requested a direct appropriation for the past service cost of \$788,937. The result is a duplicate funding of the past service cost. In order to make sure the past service cost is only paid once, the Alaska Court System should request legislative authorization and appropriation to pay only the employer normal cost rate of 29.79% for FY 2012. The Department of Administration will ask for a direct appropriation in the amount of \$2,331,725 for FY 2012 to fund the past service rate cost.

RECOMMENDATION

The attached JRS roll-forward actuarial valuation report recommends an employer normal cost contribution rate of 29.79% for Fiscal Year 2012, a decrease from the Fiscal Year 2011 employer normal cost contribution rate of 29.94%. The report recommends a past service cost employer contribution rate of 17.79%, an increase from the Fiscal Year 2011 past service cost employer contribution rate of 6.26%. The total employer contribution rate for Fiscal year 2012 is 47.58%, an increase from the Fiscal Year 2011 total employer contribution rate of 36.20%.

Please note your approval or disapproval of the Fiscal Year 2012 Judicial Retirement System's employer normal cost contribution rate of 29.79%, contingent on the Alaska State legislature separately appropriating an amount for the past service cost percentage of 17.79%, or \$2,331,725.00, below:

Approve

Disapprove



Annette Kreitzer
Commissioner

11-12-10

Date

Attachments:

Judicial Retirement System Roll-Forward Actuarial Valuation Report as of June 30, 2009 including State Appropriation dated September 21, 2010

Judicial Retirement System Allocation of the Additional State Contributions for FY 12 dated October 26, 2010

cc: Rachael Petro, Deputy Commissioner

FY 2012 JRS employer rate

Kevin Brooks, Deputy Commissioner

Teresa Kesey, Chief Financial Officer

Kathy Lea, Retirement Manager

Tim Adair, Administrative Manager

Christina Maiquis, Accounting Supervisor

September 21, 2010

VIA EMAIL

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

REVISED

Re: Judicial Retirement System Roll-Forward Actuarial Valuation as of June 30, 2009 Including State Appropriation

Dear Pat:

We have revised the roll-forward actuarial valuation for the State of Alaska Judicial Retirement System (JRS) as of June 30, 2009. These results incorporate a \$788,937 State appropriation made to the JRS fund for FY09. The valuation was performed by a projection or "roll forward" of liabilities from the last valuation date of June 30, 2008 to June 30, 2009. A summary of our results and methods is included in this letter.

RESULTS

The actuarial valuation produced an increase of 11.38% in the employer contribution rate from FY11 to FY12 if the appropriation is included. A full description of the results can be found in the attachments. A summary of the results are as follows:

	FY11 Contribution Rate	FY12 Contribution Rate	
	June 30, 2008	June 30, 2009 Without State Appropriation	June 30, 2009 With State Appropriation
Judicial Retirement System	36.20%	48.07%	47.58%

ACTUARIAL ASSUMPTIONS AND METHODS

In lieu of collecting new data as of June 30, 2009 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, 2008 to June 30, 2009 by assuming the actuarial assumptions during the year are exactly realized. This process produces liabilities and normal costs which reflect the best available estimates

Mr. Pat Shier
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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, 2008 valuation unless otherwise noted in this letter, including a valuation interest rate of 8.25%, and salary scale of 4.00%.

The actuarial value of assets was calculated as of June 30, 2009 using actual assets and cash flows during the year and includes the State Appropriation of \$788,937 for FY09 (\$727,183 for pension, \$61,754 for postemployment healthcare). We are phasing in the five-year smoothing method, and investment gains experienced during FY09 are recognized at 20%.

Contributions during the year were more than the 2008 actuarial valuation requirement creating actuarial gains. However, large investment losses were experienced during the year by JRS. The net result was an overall actuarial loss. The net actuarial loss was \$22,175,000. The net actuarial loss has the effect of increasing the unfunded liability from what was expected. Given the differences between actual and expected contributions and investment return, this results in changes in the employer contributions from the previous year.

Please let us know if you have any questions.

Sincerely,



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

/mlp

Attachment

c: Ms. Teresa Kesey, State of Alaska
Ms. Melissa Bissett, Buck Consultants
Ms. Michelle DeLange, Buck Consultants
Mr. Chris Hulla, Buck Consultants

State of Alaska Judicial Retirement System

	June 30, 2008	June 30, 2009 Without State Appropriation	June 30, 2009 With State Appropriation
Total Pension Accrued Liability	\$ 130,596,048	\$ 137,586,315	\$ 137,586,315
Annual Pension Normal Cost	\$ 3,593,057	\$ 3,736,779	\$ 3,736,779
Pension Actuarial Value of Assets (AVA)	\$ 122,822,726	\$ 107,818,399	\$ 108,691,018
Pension Funded Ratio based on AVA	94.1%	78.4%	79.0%
Pension Market Value of Assets (MVA)	\$ 116,209,622	\$ 89,848,666	\$ 90,575,849
Pension Funded Ratio based on MVA	89.0%	65.3%	65.8%
Total Postemployment Healthcare Accrued Liability	\$ 18,141,832	\$ 19,093,191	\$ 19,093,191
Annual Postemployment Healthcare Normal Cost	\$ 462,781	\$ 462,781	\$ 462,781
Postemployment Healthcare Actuarial Value of Assets (AVA)	\$ 18,352,929	\$ 18,408,493	\$ 18,482,598
Postemployment Healthcare Funded Ratio based on AVA	101.2%	96.4%	96.8%
Postemployment Healthcare Market Value of Assets (MVA)	\$ 17,602,098	\$ 15,340,411	\$ 15,402,165
Postemployment Healthcare Funded Ratio based on MVA	97.0%	80.3%	80.7%
Total Accrued Liability	\$ 148,737,880	\$ 156,679,506	\$ 156,679,506
Actuarial Value of Assets	\$ 141,235,655	\$ 126,226,892	\$ 127,173,616
Unfunded Liability	\$ 7,502,225	\$ 30,452,614	\$ 29,505,890
Funded Ratio based on Actuarial Value of Assets	95.0%	80.6%	81.2%
Market Value of Assets	\$ 133,811,720	\$ 105,189,077	\$ 105,978,014
Funded Ratio based on Market Value of Assets	90.0%	67.1%	67.6%
Total Normal Cost	\$ 4,055,838	\$ 4,199,560	\$ 4,199,560
Pension Contribution Rate			
– Employer Normal Cost Rate	25.97%	25.97%	25.97%
– Past Service Rate	5.77%	17.28%	16.83%
– Pension Contribution Rate	31.74%	43.25%	42.80%
Postemployment Healthcare Contribution Rate			
– Employer Normal Cost Rate	3.97%	3.82%	3.82%
– Past Service Rate	0.49%	1.00%	0.96%
– Postemployment Healthcare Contribution Rate	4.46%	4.82%	4.78%
Total Employer Contribution Rate			
– Employer Normal Cost Rate	29.94%	29.79%	29.79%
– Past Service Rate	6.26%	18.28%	17.79%
– Total Employer Contribution Rate	36.20%	48.07%	47.58%

This exhibit is an attachment to a letter dated September 21, 2010.

October 26, 2010

VIA EMAIL

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

REVISED

Re: Alaska PERS, TRS, and JRS – Allocation of the Additional State Contributions for FY12

Dear Pat:

As requested, we have revised the allocation between the pension and healthcare funds of the Additional State Contributions for FY12 for the State of Alaska Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS) and Judicial Retirement System (JRS). We have revised the JRS contribution allocation to incorporate a \$788,937 State appropriation made to the JRS fund for FY09.

SUMMARY OF RESULTS

The enclosed exhibit summarizes the allocation of the State of Alaska employer relief funds to the pension and healthcare funds for PERS and TRS. Please note that all contribution rate determinations for PERS and TRS are based on total payroll (Defined Benefit (DB) and Defined Contribution Retirement (DCR) payrolls combined). We have also included the projected FY10 and FY12 annual salaries for PERS and TRS split by employer in the attached spreadsheet.

The allocation of the past service cost rate between pension and healthcare contributions for JRS is shown below:

JRS			
	FY12 Projected Pay	Past Service Cost Rate	FY12 Past Service Contribution Amount
Pension Plan	\$ 13,106,942	16.83%	\$ 2,205,898
Healthcare Plan	13,106,942	0.96%	125,827
Total	\$ 13,106,942	17.79%	\$ 2,331,725

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DATA, ASSUMPTIONS, METHODS AND PROVISIONS

The data, assumptions, plan provisions and methods used for the DB and DCR plan costs are described in the draft June 30, 2009 valuation reports. For PERS and TRS, the allocation of the contribution between pension and healthcare is based on the past service portion of the contribution rate.

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

Sincerely,



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

/mlp

Attachment

c: Ms. Teresa Kesey, State of Alaska
Ms. Kathy Lea, State of Alaska
Ms. Michelle DeLange, Buck Consultants
Mr. Chris Hulla, Buck Consultants
Ms. Kyla O'Rourke, Buck Consultants

State of Alaska
Allocation of Projected FY12 Employer and State Assistance Contributions

	PERS	TRS
Projected FY12 DB Payroll *	\$1,448,703,000	\$513,301,000
Projected FY12 DCR Payroll *	<u>\$662,780,000</u>	<u>\$197,573,000</u>
Projected Total FY12 Payroll *	\$2,111,483,000	\$710,874,000

	Percent of Total Payroll	Dollar Amount	Percent of Total Payroll	Dollar Amount
<u>Employer Contributions</u>				
DB Plan	8.45%	\$178,420,314	4.47%	\$31,776,067
DB Healthcare Plan	10.82%	228,462,460	5.15%	36,610,011
DCR Plan	2.73% ***	57,740,559	2.94% ***	20,903,223
Total	<u>22.00%</u>	<u>\$464,623,333</u>	<u>12.56%</u>	<u>\$89,289,301</u>

State Assistance Contributions to DB

DB Plan	6.20% **	\$130,911,946	22.14% **	\$157,387,504
DB Healthcare Plan	5.29% **	111,697,451	10.85% **	77,129,829
Total	<u>11.49%</u>	<u>\$242,609,397</u>	<u>32.99%</u>	<u>\$234,517,333</u>

Total DB

DB Plan	14.65%	\$309,332,260	26.61%	\$189,163,571
DB Healthcare Plan	16.11%	340,159,911	16.00%	113,739,840
Total	<u>30.76%</u>	<u>\$649,492,171</u>	<u>42.61%</u>	<u>\$302,903,411</u>

* Based on projections from June 30, 2009 valuation.

** Contribution was allocated based on the past service portion of the contribution rate as of June 30, 2009 for pension and healthcare.

***Based on total payroll.

Data, assumptions, plan provisions and methods used for the DB plan costs are described in the actuarial valuation reports as of June 30, 2009.

Data, assumptions, plan provisions and methods used for the DCR plan costs are described in the actuarial valuation reports and are as of June 30, 2009.

This exhibit is an attachment to the October 26, 2010 letter.