PERS and TRS Tier Comparison Chart

PERS Tiers	Tier I 1/1/61 - 6/30/86	Tier II Entered after 6/30/86	Tier III Entered after 6/30/96	Tier IV Entered after 6/30/2006
Employee Contribution Rates **(% of pay)**	Pre-tax employee contribution: 6.75% begin 1/1/87—all others 7.5% begin 1/1/87—police and fire 9.6% begin 7/1/99—school district	Pre-tax employee contribution: 6.75% begin 1/1/87—all others 7.5% begin 1/1/87—police and fire 9.6% begin 7/1/99—school district	Pre-tax employee contribution: 6.75% begin 1/1/87—all others 7.5% begin 1/1/87—police and fire 9.6% begin 7/1/99—school district	Pre-tax employee contribution: 8% for all employees
Employer Contribution **(% of payroll)**	22% Cost Share PERS on-behalf payment paid by the State of Alaska is 10.51% State of Alaska FY 2010 Contribution is $241,600,000	22% Cost Share PERS on-behalf payment paid by the State of Alaska is 10.51% State of Alaska FY 2010 Contribution is $241,600,000	22% Cost Share PERS on-behalf payment paid by the State of Alaska is 10.51% State of Alaska FY 2010 Contribution is $241,600,000	5% - Retirement 0.99% - Health Plan – adjusted by annual actuarial valuation annually. plus Health Reimbursement Arrangement (HRA)- Flat dollar amount per employee based on 3% of the average annual compensation of all employees of all employers in the system. Occupational Death & Disability 1.33% – Police /Fire 0.58% – All others
Vesting	Employees vest with 5 years of service.	Employees vest with 5 years of service.	Employees vest with 5 years of service in the pension plan and with 10 years of service for the medical plan.	100% vested in employee contributions immediately. % vested in employer contributions: 25% after 2 years of service, 50% after 3 years, 75% after 4 years 100% after 5 years.

PERS and TRS Tier Comparison Chart

PERS Tiers	Tier I 1/1/61 - 6/30/86	Tier II Entered after 6/30/86	Tier III Entered after 6/30/96	Tier IV Entered after 6/30/2006
Qualifications for Retirement	Normal retirement age is 55, with early retirement at age 50; ▪ police/fire members can retire at any age after 20 years of police/fire service; ▪ all other members can retire at any age after 30 years of membership service. Early retirement reduction will be 1/2% per month or 6% per year for every year less than the required normal retirement age.	Normal retirement age is 60, with early retirement at age 55; ▪ police/fire members can retire at any age after 20 years of police/fire service; ▪ all other members can retire at any age after 30 years of membership service. Early retirement reduction will be 1/2% per month or 6% per year for every year less than the required normal retirement age.	Normal retirement age is 60, with early retirement at age 55; ▪ police/fire members can retire at any age after 20 years of police/fire service; ▪ all other members can retire at any age after 30 years of membership service. Early retirement reduction will be 1/2% per month or 6% per year for every year less than the required normal retirement age.	None for investment account. Taxes and penalties may apply if withdrawn before age 59-1/2. See requirements for Retirement Medical Coverage.
Benefit Calculation Formula	Benefit formula: ▪ 2% for first 10 years and all years of service prior to July 1, 1986, ▪ 2.25% for the next 10 years, and ▪ 2.5% per year thereafter. Benefit calculation is determined on the average of the high three consecutive years' salary. Police/Fire - 2% X 10, 2.5% over 10.	Benefit formula: ▪ 2% for first 10 years, ▪ 2.25% for the next 10 years, and ▪ 2.5% per year thereafter. Benefit calculation is determined on the average of the high three consecutive years' salary. Police/Fire - 2% X 10, 2.5% over 10.	Benefit formulas did not change. However, the benefit calculation is determined on the average of the high five consecutive years' salary. The benefit calculation for police and fire members is the average of the high three consecutive years regardless of tier (effective 2002).	DC account balance plus investment earnings. May be received in several different payment options. Payout options include lump-sum payments, rollovers to another qualified plan, or annuities. Annuities may be taken as a lifetime annuity, joint and survivor annuity, or for a period certain.
Alaska Cost-of-living Increases (COLA)	An Alaska Cost-of-Living Allowance is payable to benefit recipients who remain domiciled in Alaska after retirement. The allowance is $50 or 10% of the base benefit, whichever is greater.	An Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is $50 or 10% of the base benefit, whichever is greater.	An Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is $50 or 10% of the base benefit, whichever is greater.	None provided.

PERS and TRS Tier Comparison Chart

PERS Tiers	Tier I 1/1/61 - 6/30/86	Tier II Entered after 6/30/86	Tier III Entered after 6/30/96	Tier IV Entered after 6/30/2006
Post Retirement Pension Adjustments (PRPA) (Inflation Protection)	PRPA increases granted on an ad hoc basis. If an ad hoc is not granted, Tier I employees must be age 60 or over or receiving benefits for 5 years to qualify for the automatic PRPA. The automatic PRPA passed in 1986 applied to all members regardless of hire date.	Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years.	Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years.	None provided.
Retirement Medical Coverage	Medical coverage is provided to all benefit recipients and their eligible dependents for life. The retiree medical plan premium is paid by the retirement system. 5 year vesting.	Medical coverage is provided to disabilitants, regardless of age and benefit recipients over age 60 or, ▪ Peace officer/fire members with 25 years of police/fire service, ▪ all other members with 30 years of membership service and their eligible dependents for life. The retirement system pays the retiree medical plan premium. Retirees and survivors under age 60 must pay the full premium cost if they want coverage. 5 year vesting.	Same as Tier II. However, employees must accrue a minimum of 10 years of credited service* to have system-paid coverage at age 60. Employees with less than 10 years must pay the full premiums as long as they wish to continue medical coverage. 100% vested with 10 years of credited service.	Access to medical coverage at Medicare eligible age with 10 years of service or at any age with 25 years of service for peace officers and firefighters or with 30 years of service for all others. Must retire directly from the system. If not eligible for Medicare, must pay full premium. May use health reimbursement arrangement (HRA) account to pay premiums. Once the HRA is exhausted, member self- pays premiums. When eligible for Medicare, the percentage of premium paid by the retiree or surviving spouse is: ▪ 10-14 years of service - 30% ▪ 15-19 years - 25% ▪ 20-24 years - 20% ▪ 25-29 years - 15% ▪ 30 years or more - 10%

PERS and TRS Tier Comparison Chart

PERS Tiers	Tier I 1/1/61 - 6/30/86	Tier II Entered after 6/30/86	Tier III Entered after 6/30/96	Tier IV Entered after 6/30/2006
Disability Benefits	Nonoccupational disability benefits are calculated as a normal retirement. Occupational disability provides 40% of the gross monthly compensation. Different occupational disability formula available before 7/1/76.	Nonoccupational disability benefits are calculated as a normal retirement. Occupational disability provides 40% of the gross monthly compensation.	Nonoccupational disability benefits are calculated as a normal retirement. Occupational disability provides 40% of the gross monthly compensation.	Must be a total and presumably permanent disability whose cause is directly related to performance of duties of the job or an on the job injury. Benefit is 40% of salary, earns service while on occupational disability. Employer continues to make all required contributions as if the member were working, plus the member's required contributions to the DCR account, without deduction from the member's disability payment. Disability benefits cease when the member becomes eligible for normal retirement at Medicare eligible age and 10 years of service or at any age with 25 years of service for peace officers and firefighters or with 30 years of service for all others. Medical insurance is available to members receiving disability when member is eligible for a normal retirement.

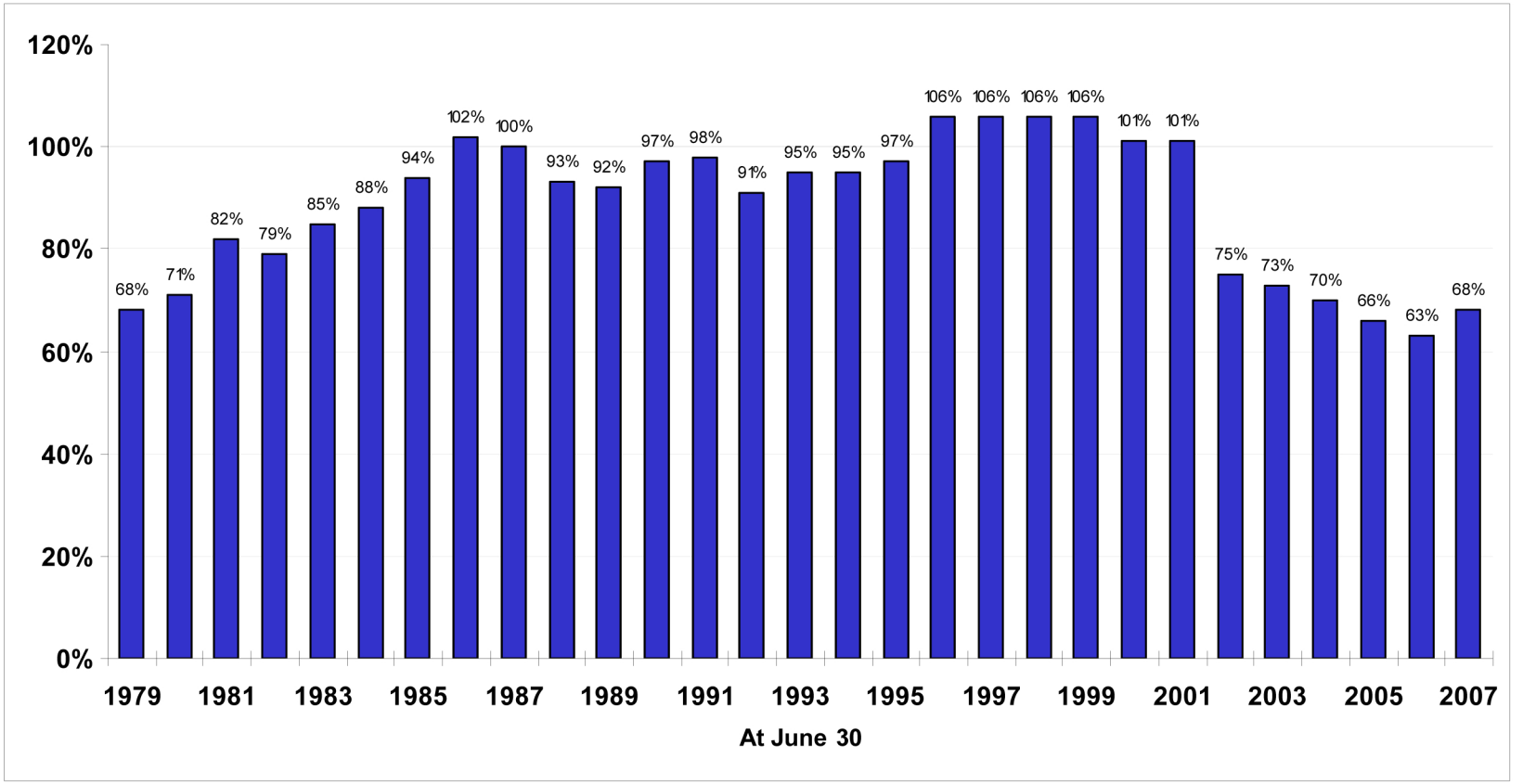
PERS and TRS Tier Comparison Chart

TRS Tier	Tier I 7/1/1955 – 6/30/90	Tier II Entered after 6/30/90	Tier III Entered after 6/30/06
Employee Contribution	Pre-tax employee contribution: 8.65% beginning 1/1/91	Pre-tax employee contribution: 8.65% beginning 1/1/91	Pre-tax employee contribution: 8%
Employer Contribution	12.56% Cost Share TRS on-behalf 42.26% State of Alaska FY 2010 Contribution is $206,300,000	12.56% Cost Share TRS on-behalf 42.26% State of Alaska FY 2010 Contribution is $206,300,000	7% - DCR account 1.61% Health Plan - determined by annual actuarial valuation after FY07. plus Heath Reimbursement Arrangement (HRA) - Flat dollar amount per employee based on 3% of the average annual compensation of all employees of all employers in the system.
Vesting	Members vest with 8 years of service.	Members vest with 8 years of service.	100% vested in employee contributions from inception. Vested in employer contributions based on the following schedule: 25% after 2 years of service 50% after 3 years 75% after 4 years and 100% after five years.
Qualifications for Retirement	Normal retirement age is 55, with early retirement at age 50; teachers can retire at any age after 20 years of membership service.	Normal retirement age is 60, with early retirement at age 55; teachers can retire at any age after 20 years of membership service.	None for investment account. Taxes and penalties may apply if withdrawn before age 59 1/2. See requirements for Retirement Medical Coverage.
Benefit Calculation Formula	Benefit formula is 2% for the first 20 years and all years of service prior to July 1, 1990, 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries.	Benefit formula is 2% for the first 20 years, 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries.	DC account balance plus investment earnings. May be received in several different payment options. Payout options include lump sum payments, rollovers to another qualified plan, or annuities. Annuities may be taken as a lifetime annuity, joint and survivor annuity, or for a period certain.
Alaska Cost-of-living Increases (COLA)	An Alaska Cost-of-Living Allowance is payable to benefit recipients who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit.	An Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit.	None provided.

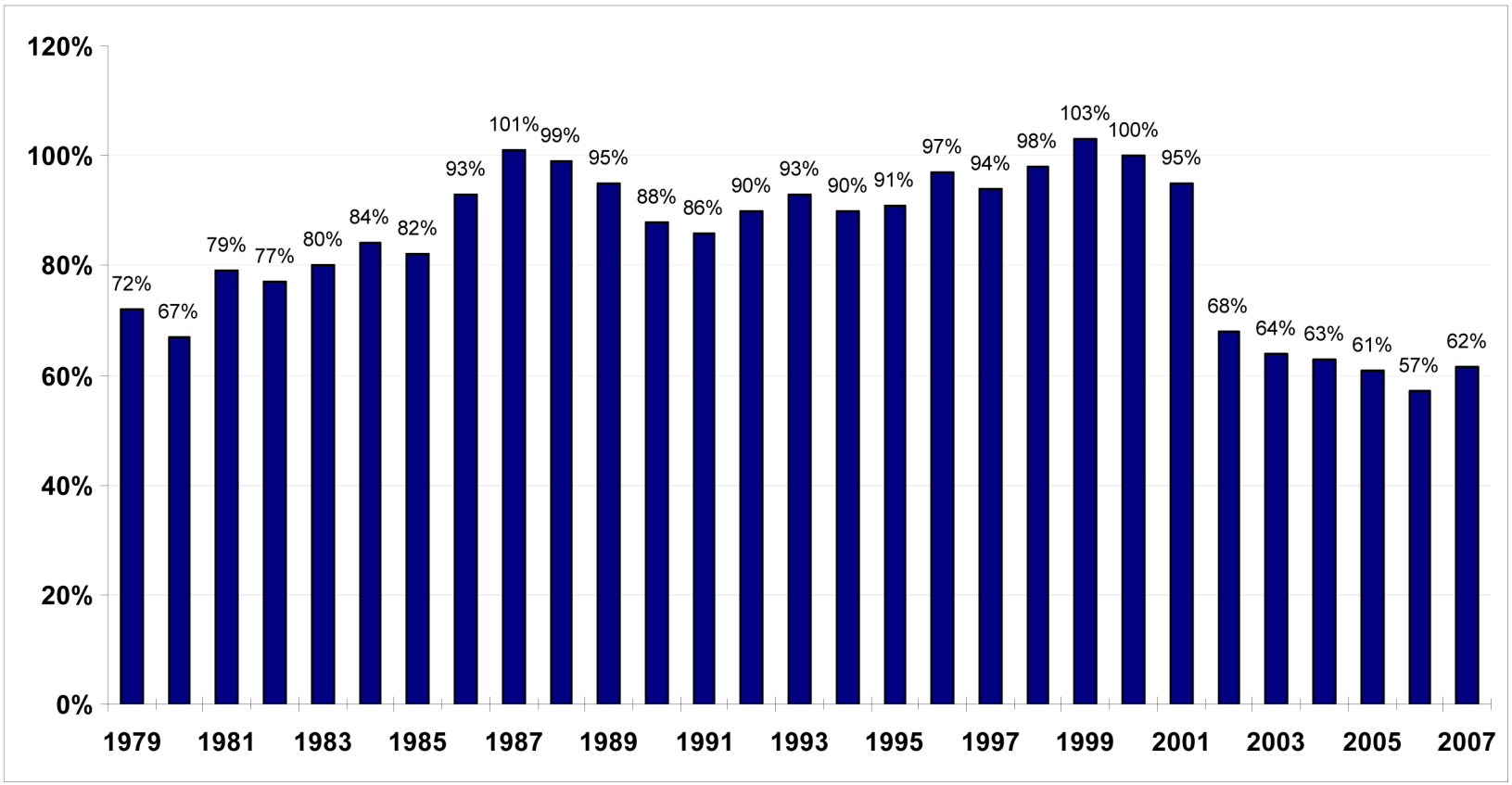
PERS and TRS Tier Comparison Chart

TRS Tier	Tier I 7/1/5555 – 6/30/90	Tier II Entered after 6/30/90	Tier III Entered after 6/30/06
Post Retirement Pension Adjustments (PRPA) *Inflation protection*	PRPA increases granted on an ad hoc basis. If an ad hoc is not granted, Tier I employees must be age 60 or over or receiving benefits for 8 years to qualify for the automatic PRPA. The automatic PRPA passed in 1990 applied to all members regardless of hire date.	Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years.	None provided.
Retirement Medical Coverage	Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system.	The retirement system pays the retiree medical plan premium for all disabilitants regardless of age, for retirees and survivors over age 60 and for retirees with at least 25 years of membership service. This coverage includes eligible dependents. Retirees and survivors under age 60, with less than 25 years of membership service must pay the full premium cost if they want coverage.	Access to medical coverage at Medicare eligible age with 10 years of service or at any age with 30 years of service. Must retire directly from the system. If not eligible for Medicare, must pay full premium. May use health reimbursement arrangement (HRA) account to pay premiums. Once the HRA is exhausted, member self- pays premiums. When eligible for Medicare, the percentage of premium paid by the retiree or surviving spouse is: 10-14 years of service - 30% 15-19 years - 25% 20-24 years - 20% 25-29 years - 15% 30 years or more - 10%
Disability Benefits	Disability benefits are 50% of base salary, plus 10% for each eligible dependent child up to a maximum of 4 children.	Disability benefits are 50% of base salary, plus 10% for each eligible dependent child up to a maximum of 4 children.	Must be a total and presumably permanent disability whose cause is directly related to performance of duties of the job or an on the job injury. Benefit is 40% of salary, earns service while on occupational disability. Employer continues to make all required contributions as if the member were working, plus the member's required contributions to the DC account, without deduction from the member's disability payment. Disability benefits cease when the member becomes eligible for normal retirement at Medicare eligible age and 10 years of service or at any age with 30 years of service. No medical insurance until eligible for normal retirement.

PERS Funding Ratio History
(Based on Valuation Assets)



TRS Funding Ratio History
(Based on Valuation Assets)



ALASKA PERS TIMELINE

1960 1965 1970 1975 1980 1985 1990 1995 2000 2005 2006

TIER I

TIER II

TIER III

1959
Statehood

1961
PERS DB Plan Established

1975
Retirement age changes from 60 to 55

1975
Medical Insurance provided for all retirees

1976
Disability retirement calculation changes

1977
Calculation rules change for retirees returning to work

1986
Tier II established
(6 significant changes)

1986
1st RIP

1989
2nd RIP

1992
Pension Investment Board established

1996
Tier III established

1996- 00
3rd RIP

1997
State Managed Health Plan & Long Term Care

2001
Retirees' return to employment provision

2001
System paid medical coverage expanded

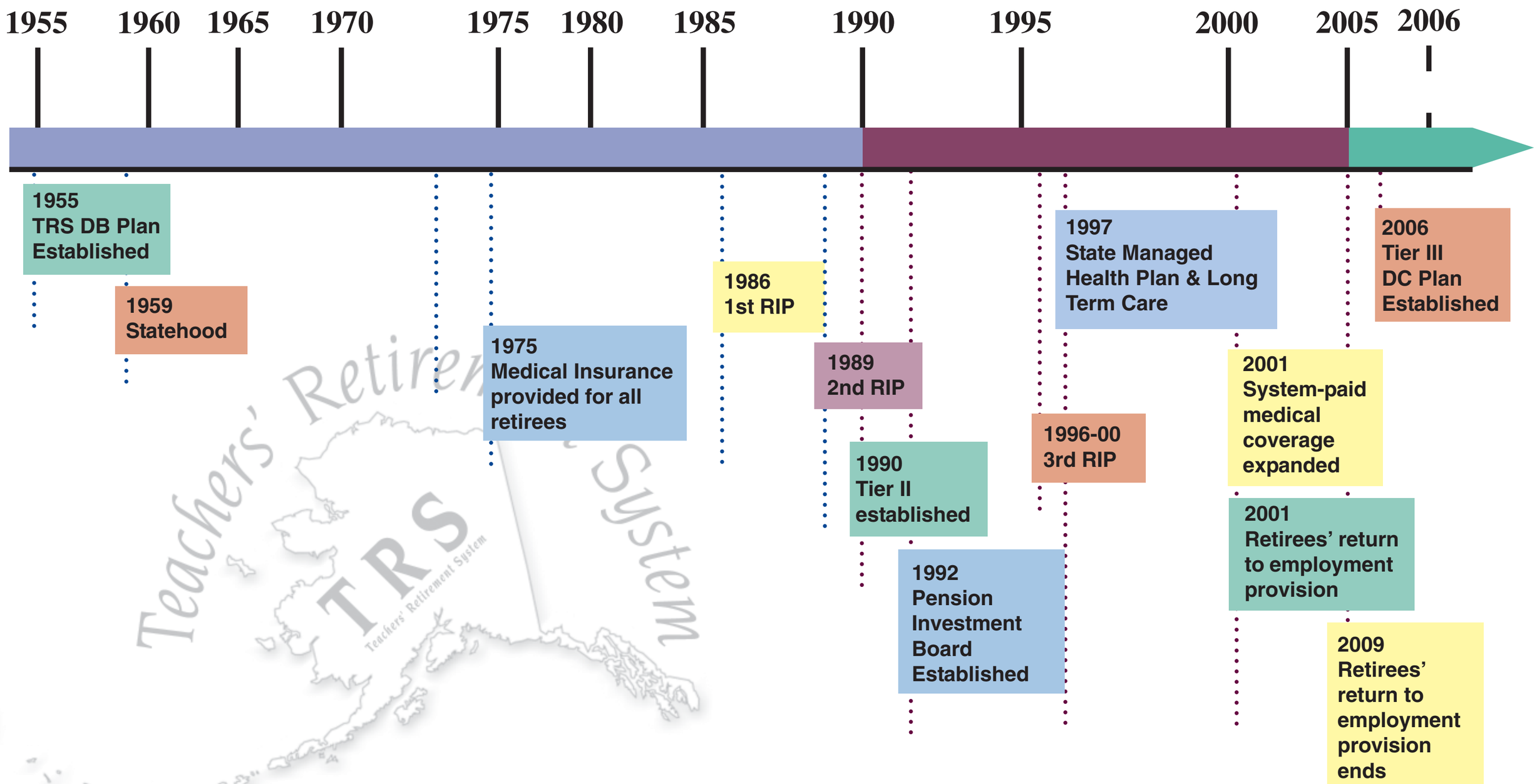
2002
Pre-tax payment of indebtedness

2006
Tier IV DC Plan Established

2009
Retirees' return to employment provision ends

The information on this timeline is not intended to replace the Alaska Statutes, the Alaska Administrative Code or Federal law. Language contained in the Alaska Statutes and the Alaska Administrative Code govern the plans.
G:/publications/timelines/perstimeline.pmd (Rev. 12/08). Prepared by the State of Alaska, Department of Administration, Division of Retirement & Benefits. Contact Jim Puckett at 907-465-4471 for more information.

ALASKA TRS TIMELINE



The information on this timeline is not intended to replace the Alaska Statutes, the Alaska Administrative Code or Federal law. Language contained in the Alaska Statutes and the Alaska Administrative Code govern the plans. G:/publications/timelines/trstimeline.pmd (Rev. 12/07). Prepared by the State of Alaska, Department of Administration, Division of Retirement & Benefits. Contact Jim Puckett at 907-465-4471 for more information.

Alaska's Retirement Systems Glossary

Actuarial Accrued Liability (Past Service Cost)
The excess of the present value of a pension fund's total liability for future benefits and fund administrative expenses over the present value of the normal cost of those benefits as accrued for the current year.

Actuarial Assumptions
Factors which actuaries use in estimating the cost of funding a defined benefit pension plan. Examples include: the rate of return on plan investments; mortality rates; and the rates at which plan participants are expected to leave the system because of retirement, disability, termination, etc

Actuarial Cost Method
An actuarial method which defines the allocation of pension costs (and contributions) over a member's working career. All standard actuarial cost methods are comprised of two components: normal cost and the actuarial accrued liability (past service cost). An actuarial cost method determines the estimated pension costs, not the ultimate cost of a pension plan; that cost is determined by the actual benefits paid less the actual investment income.

Actuarial Valuation Report
Actuarial valuations are technical reports providing full disclosure of the financial and funding status of public retirement systems administered by the Department of Administration, Division of Retirement and Benefits.

Actuarially Required Contribution (ARC)
The ARC is equal to the sum of (1) the employer's "normal cost" of retirement benefits earned by employees in the current year, and (2) the amount needed to amortize any existing unfunded accrued liability over a period of 25 years.

Alaska Retirement Management Board (ARMB)
The Alaska Retirement Management Board serves as the trustee of the assets of the state's retirements systems, the State of Alaska Supplemental Annuity Plan and the deferred compensation program for state employees. The board manages and invests fund assets in a manner that is sufficient to meet the liabilities and the pension obligations of the system.

Funded Ratio
The ratio of a plan's current assets to the present value of earned pensions. There are several acceptable methods of measuring a plan's assets and liabilities. In financial reporting of public pension plans, funded status is reported using consistent measures by all governmental entities. According to the Government Accounting Standards Board (GASB), the funded ratio equals the actuarial value of assets divided by the actuarial accrued liability calculated under the Projected Unit Credit cost method.

Market Value of Assets
Market value is the amount for which fund assets would sell on the open market if put up for sale in the ordinary course of business.

Normal Cost
The normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions

Past Service Cost
The present value of benefits earned to date not covered by current plan assets.

PERS
The Public Employees' Retirement System (PERS) includes a defined benefit plan that is for government employees first hired on or before June 30, 2006 and a hybrid defined contribution plan that has some defined benefit components for employees first hired on or after July 1, 2006.

Pension
A series of periodic payments, usually for life, payable monthly or at other specified intervals. The term is frequently used to describe the part of a retirement allowance financed by employer contributions.

Political Subdivision
Any political entity, such as a municipality, city, or borough, governed by its own legislative body.

Pre-Funding
To accumulate a reserve fund in advance of paying benefits. This is the opposite of "pay-as-you-go."

Present Value
The current worth of an amount or series of amounts payable in the future, after discounting each amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Qualified Plan
An employee benefit plan approved by the Internal Revenue Service, meeting requirements set forth in IRS Code Section 401 or 457. Contributions to such plans are subject to favorable tax treatment.

SB 141
Closed the defined benefit plans and created a new retirement and retiree health plan. Signed into law July 27, 2005 Chapter 9 FSSLA 05.

SB 123
Technical correction bill. Allowed the Alaska Retirement Management Board to apply the percent of pay past service cost against both defined benefit and defined contribution salaries. Signed into law June 6, 2007 Chapter 20 SLA 07.

SB 125
Changed the PERS to a cost-share plan and set the employer rate at 22%. Established that the State will pay the difference between the 22% and the actuarially determined rate. Signed into law April 8, 2008 Chapter 13 SLA 08

TRS
The Teachers' Retirement System (TRS) includes a defined benefit plan that is for government employees first hired on or before June 30, 2006 and a hybrid defined contribution plan that has some defined benefit components for employees first hired on or after July 1, 2006.

Unfunded Actuarial Accrued Liability (UAAL)
The excess, if any, of the Actuarial Accrued Liability over the Actuarial Value of Assets. In other words, the present value of benefits earned to date that are not covered by current plan assets.

Valuations
The process of determining the value of the funds. There are many assumptions used in the valuation, some are objective, such as the actual monetary assets some are subjective, such as member mortality or project cost of health insurance.

Actuarial Valuation 101

The ultimate cost of any retirement system can be represented by, the formula:

System Costs = Assets - Liabilities

Where assets = Investment Returns + Plan Contributions
and Liabilities = Benefits to be Paid + Administrative Expenses

Since none of these factors are known until the last benefit is paid, they must be measured and estimated by something called an **Actuarial Valuation**. The primary function of an **Actuarial Valuation** is to determine:

- The annual amount, the actuarially computed employer rate that must be paid into the plan in order to pay for current and all future benefit costs.

- This results in the computation of the plan's **Actuarial Funding Ratio**: the ratio of fund assets to liabilities for benefits accrued to date.

A pension plan whose assets equal its liabilities is funded at 100% and is considered *fully funded;* any shortfall of assets is an *unfunded liability,* and a plan with an unfunded liability is considered *underfunded.*

Underfunded does not mean that a plan is unable to pay the benefits for which it is presently obligated to pay or to meet its current cash flow requirements. It simply means that in the unlikely event that all the plan's liabilities had to be settled today, it would be unable to meet them. Fortunately, a retirement system's obligations extend many years into the future so the plan has time to accrue the assets needed to ultimately meet all its future obligations.

Calculating the employer rate and the Actuarial Funding Ratio involves many variable financial, economic, and demographic assumptions. Over the short-term, many of these assumptions will be incorrect to one degree or another. After all, the Actuarial Valuation is only a snapshot of an arrangement of complex, long-term financial and demographic projections, "based on the theoretical supposition that the plan's liabilities are subject to settlement on the date the valuation is done."

Because no one knows what the future holds, an actuary uses a mixture of professional judgment, past experience and future expectations to estimate possible future economic outcomes. Assumptions used in the **Actuarial Valuation** should be chosen in a way that ensures:

1) the plan is funded in an orderly and stable way and
2) that the plan's accumulated annual contributions and investment returns are adequate to provide participants with their promised benefit payouts by the end of the funding period - in the case of PERS and TRS, 25 years.

The Alaska Division of Retirement & Benefits contracts with an actuarial consultant to prepare annual Actuarial Valuations of the state's public retirement systems -PERS & TRS.

The actuarial consultant uses the following assumptions and actuarial methods in their annual valuation analysis:

Actuarial Valuation 101

Economic Assumptions

Relate to the expected long-term financial experience of *the plan*

- Annual Investment Return
- Post Retirement Health Premium Trend
- Total Inflation
- Annual Salary Increases

Demographic Assumptions

Relate to the plan's populations and how they are expected to change over time

- Mortality Rates
- Total Turnover Rate
- Disability Rate
- Retirement Rates
- Assumed Retirement Date if Before Age 50

Actuarial Assumptions

In addition to the Demographic and Economic Assumptions stated above, the following additional assumptions are inputs in the actuarial analysis

- Medical Benefit Valuation - A pre-65 and post-65 premium cost are computed, increased with a health inflation assumption and combined into a blended premium. This evaluation also is based on who is actually eligible for employer paid health care.
- Target Funding Ratio - *The ratio* of *Assets to Accrued Liabilities that the plan is targeting going forward - at 100% target ratio, the plan targets full funding after* 25 *years in the case* of *PERS and TRS.*
- COLA -% of retirees receiving
- Spouse's Age
- Dependent Children
- Contribution Refund Rates
- New Entrants
- Post-Pension Retirement Adjustments
- Expenses
- Marital Status

Actuarial Methods

The methods adopted by the actuarial consultant in determining the cost of a pension plan and for determining the annual contribution required to adequately provide for future benefits

- Asset Valuation Method -Actuarial currently uses an Asset Smoothing Method -*which recognizes 20%* of *assets gains* & *losses for the current and preceding four years*
- Actuarial Cost Method -Actuarial currently uses a Projected Unit Credit (PUC) -*which produces an Accrued Liability, Unfunded Liability,* a *Normal Cost Rate and* a *Past Service Cost* Accrued Liability -*the present value* of *benefits credited*
    - Unfunded Liability -*the* excess of *Accrued Liabilities over the Plan's total Assets*
    - Normal Cost -*is the present value* of *the benefits expected to be earned by active members during the current year*
    - Past Service Cost -*the annual payment required to payoff any Unfunded Liability over the stipulated amortization period*
- Amortization Schedule for Unfunded Liability and Future Gains & Losses – the actuarial uses a 25-year fixed period level percentage of pay.