

Department of Administration

PERS and TRS

Elements of Defined Benefit Plans and
Future Challenges

Senate Finance

February 15, 2007



Overview

I. Health Care Costs

–A primary cost driver

II. Projected Contribution Amounts

III. Level-Dollar Amortization

IV. Closing Defined Benefit Plans

–Does not increase unfunded liability

AlaskaCare Retiree Health Plan

Article 12, Section 7 of the Alaska Constitution protects pension and medical benefits for members from diminishment or impairment.

How does the AlaskaCare Retiree Health Plan compare with retiree health plans for other state pension plans?

- Workplace Economics, Inc. studied all 50 states in 2004 regarding retiree health plans and found that, for Medicare-eligible retirees, 2 states offer no medical plan; 11 provide no funding; 20 cost share; and 17 have system-paid medical.
- Of the 17 states that offer system-paid medical, research indicates there are only 8 that have constitutional protection for medical benefits.
- The total PERS and TRS actuarial accrued liability as of June 30, 2005, is \$8 billion for medical and \$11.3 billion for pension.

AlaskaCare Retiree Health Plan (cont'd)

- Retirees and dependents increased from 45,293 members to 53,235 from December 2001 to December 2006. This represents an increase of just over 17.5% during this period.
- Annually, the medical plan enrolls approximately 2,000 retired members and, with dependents, adds approximately 4,000 lives to the retiree plan.
- The universe of members who are or may become eligible for a medical benefit in the future is approximately 100,000, not including dependents.

AlaskaCare Retiree Health Plan (cont'd)

- Medical share of PERS liability has grown from just under 30% to approximately 45% in last nine years. Medical share of TRS liability has grown from just under 20% to approximately 33% in last nine years.
- Medical plan is the same for all members of PERS/TRS Defined Benefit (DB) plan. Differences are found in the eligibility criteria for PERS and TRS.
- 75% of medical costs is for DB plan members between ages 55 and 65. Alaska statute requires that the AlaskaCare plan becomes supplemental to Medicare at age 65. Medical cost for members age 65 and over represents 25% of total medical costs.

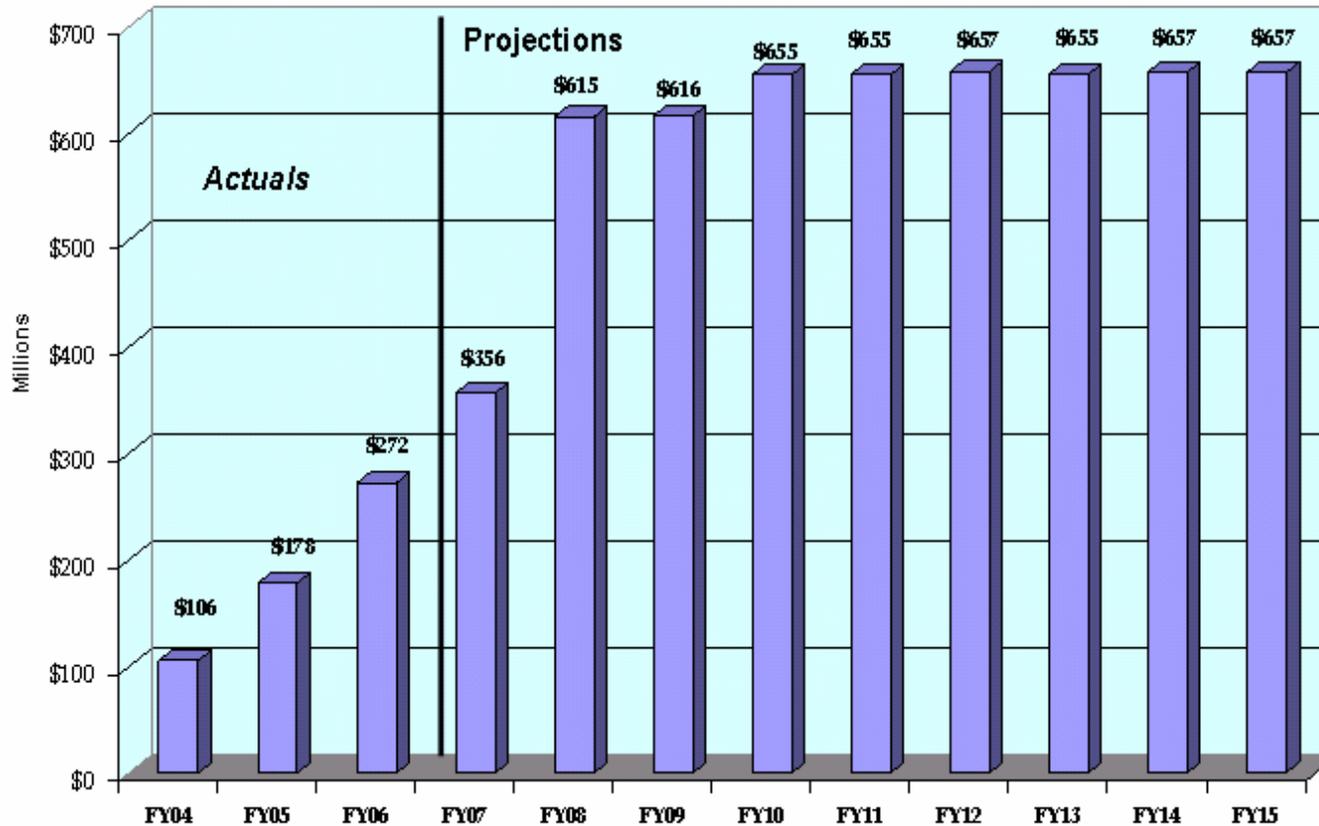
Retiree Plan Claims Costs

Noted below are the retiree plan claims costs for FY 2001 through FY2006.

Health Claims Cost by Fiscal Year	Amount
FY 2006	\$285 Million
FY 2005	\$256 Million
FY 2004	\$226 Million
FY 2003	\$205 Million
FY 2002	\$148 Million
FY 2001	\$128 Million

PERS Projected Contribution Amounts FY04 through FY15

Projections at Calculated Rate



[Data, Assumptions, Methods and Plan Provisions.](#)

No payroll growth is used for FY08 rates and later.

No new members after July 1, 2006.

All other data, assumptions, methods and plan provisions are the same as those described in the June 30, 2005 valuation reports.

Source: Buck Consultants

TRS Projected Contribution Amounts FY04 through FY15

Projections at Calculated Rate



[Data, Assumptions, Methods and Plan Provisions.](#)

No payroll growth is used for FY08 rates and later.

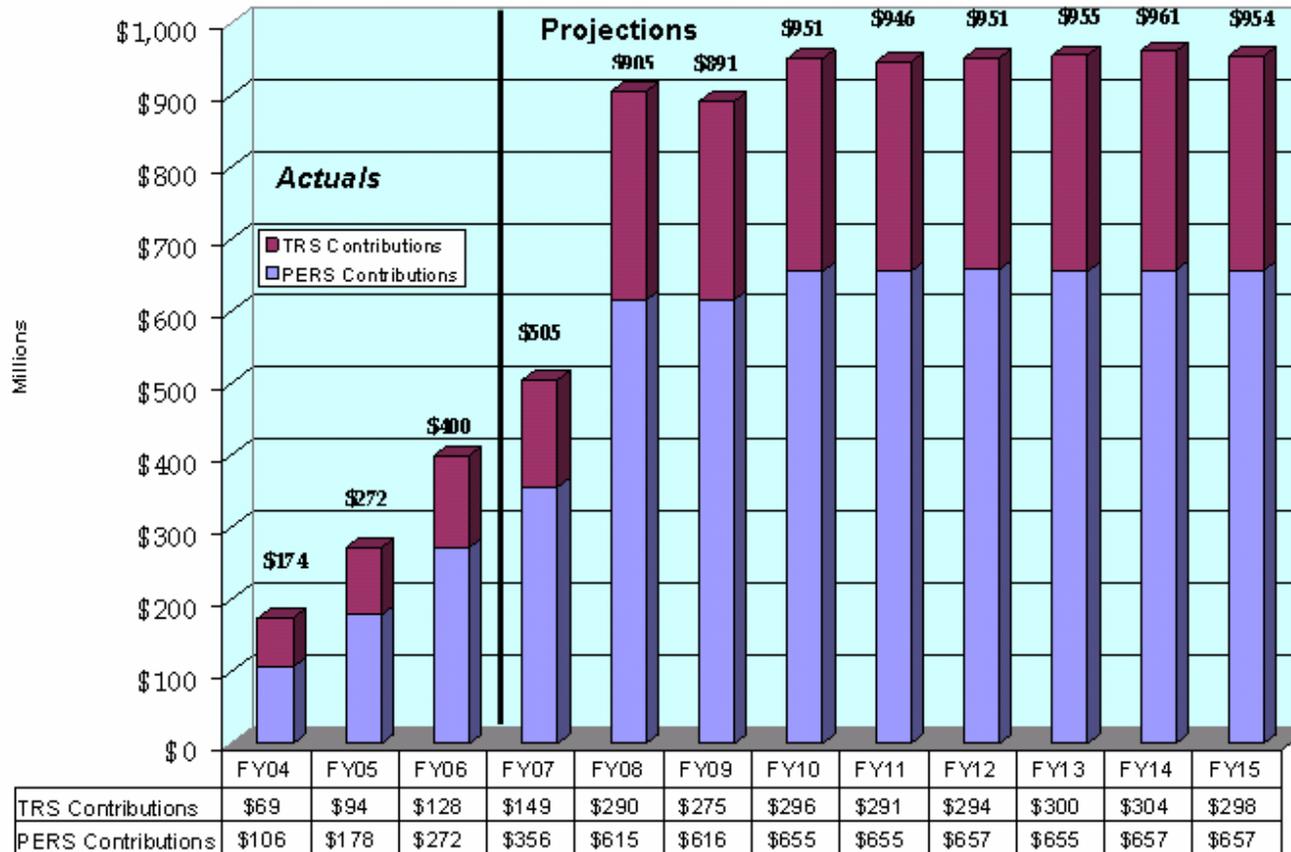
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PERS/TRS Projected Contribution Amounts FY04 through FY15

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How is the PERS Employer Contribution Rate Calculated?

2005 Valuation/2008 Rate
(\$ Billions)

	\$12.844	System's Accrued Liabilities Estimated
-	\$8.443	System's Asset Values Determined
<hr/>		
=	\$4.402	Unfunded Liability
÷	25 yrs	Amortization Period (<i>w/payroll growth included</i>)
<hr/>		
≈	\$0.286	FY08 Unfunded Liability Payment
÷	\$1.587	FY08 PERS Payroll Base
<hr/>		
=	18.03%	Past Service Contribution Rate
+	7.25%	Additional Increment for Level Dollar Amortization
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=	25.28%	Past Service Cost
+	14.48%	Normal Cost Rate (\$0.338)
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=	39.76%	Consolidated Board Adopted Rate

PERS Contributions as a Percent of Payroll

(\$ Millions)

	Annual Contribution	Employee Payroll			Contribution Rate	
		DB	DC	Total	% DB	% Total
FY07	\$ 356	\$ 1,635	\$ -	\$ 1,635	21.77%	21.77%
FY08	\$ 615	\$ 1,547	\$ 139	\$ 1,686	39.75%	36.48%
FY12	\$ 657	\$ 1,286	\$ 578	\$ 1,864	51.09%	35.25%
FY15	\$ 657	\$ 1,106	\$ 876	\$ 1,982	59.40%	33.15%

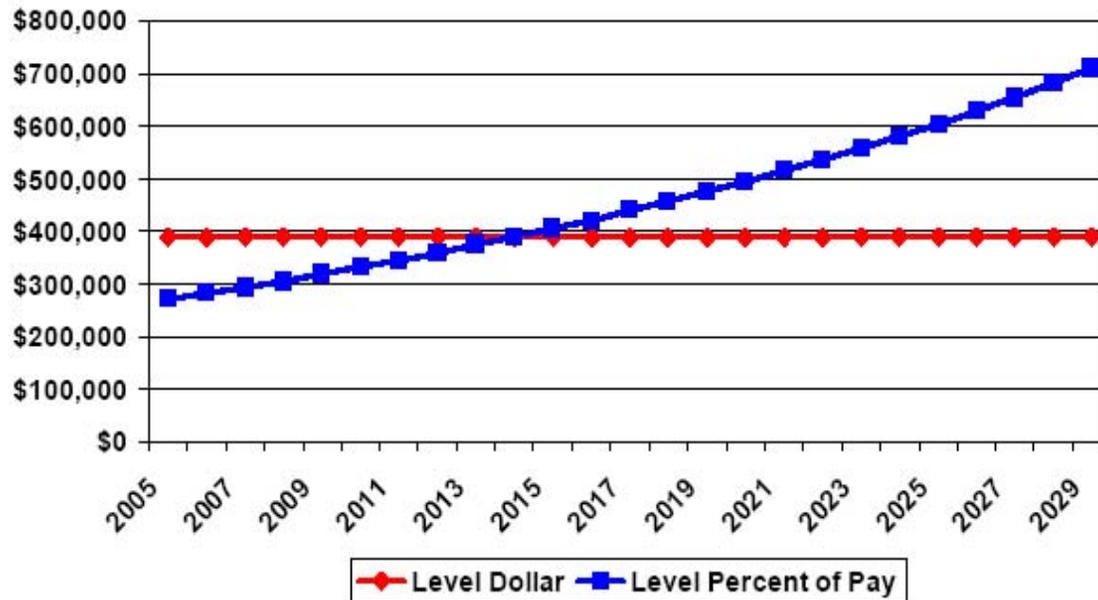


..... payment amount remains fairly stable

As the DB payroll base declines, the contribution rate goes up

Using both DB and DCR payroll base results in lower rate

Illustration of Amortization Methods Amortization Payment Over 25-Year Period

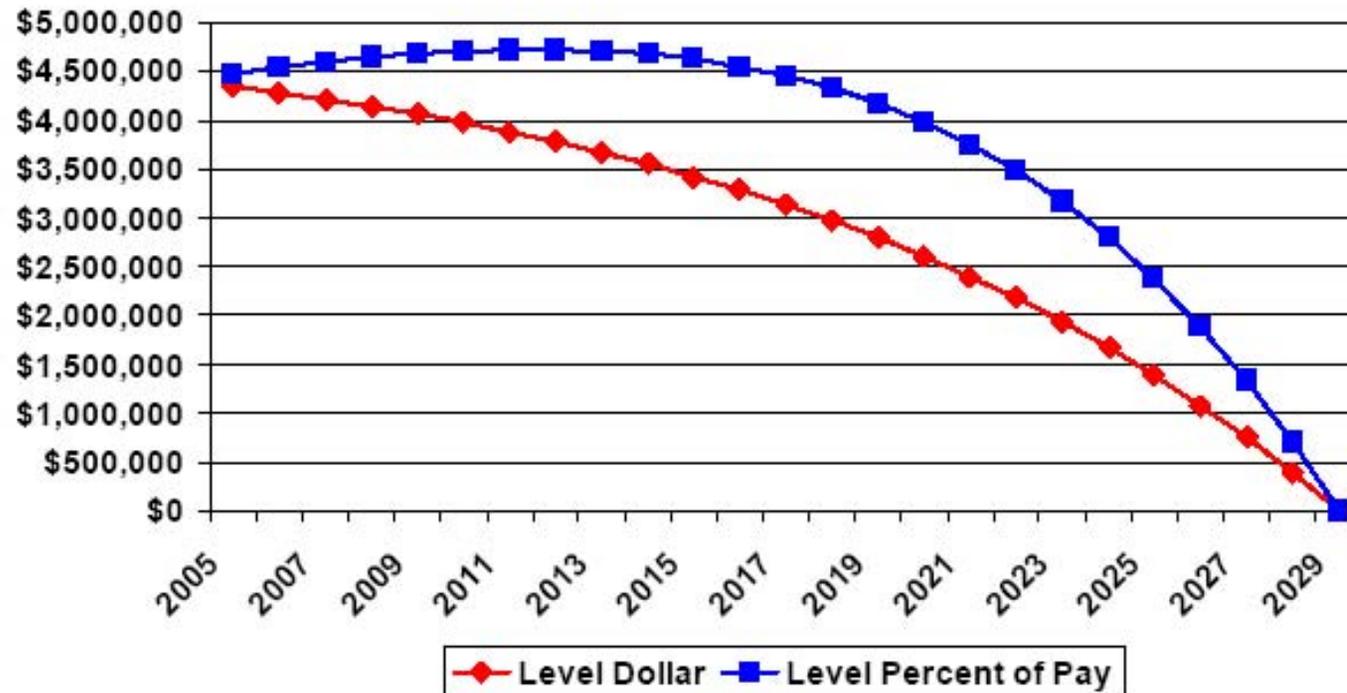


- Level dollar amortization amount stays the same over the entire period.
- Level percent of pay starts out at a lower amount and increases as payroll increases.
- Contribution amount is greater over the entire period under level percent of pay amortization method.



Adopting level-dollar amortization schedule is expected to save \$140 million for PERS and \$74 million for TRS over the 25-year amortization schedule FY08 through FY2031.

Illustration of Amortization Methods Unfunded Balance Over 25-Year Period



- Level dollar amortization method reduces unfunded balance more quickly.
- Unfunded balance increases under level percent of pay amortization method at first since amortization payments do not cover interest in early years.
- More interest is paid under level percent of pay amortization method.

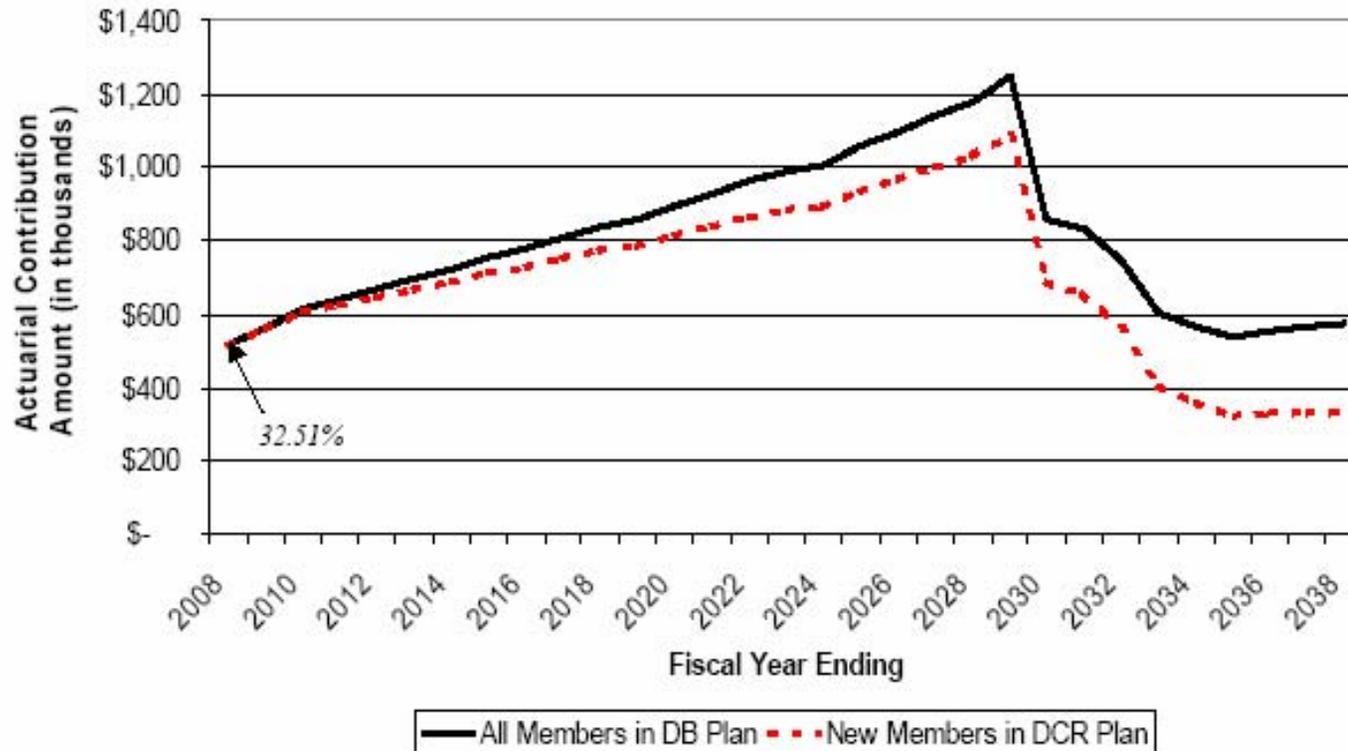
PERS Defined Benefit (DB) Plan (in billions)

Assets	-	Liabilities	=	Surplus or (Unfunded Liability)
\$8.44	-	\$12.84	=	(\$4.4) (2005 PERS Valuation)



- Defined Contribution Retirement (DCR) Plan employee does not contribute to DB plan
- DCR Plan employee does not receive DB benefits, so does not impact DB liabilities or the DB unfunded liability
- DCR Plan payroll not subject to DB employer contribution rates

PERS Contribution Comparison



Data, Assumptions, Methods, and Plan Provisions

- Normal cost for new members under the DB plan remains constant as of June 30, 2005 (14.48%).
- New tier members are assumed to get the employer DCR contribution rate of 5%, 3% for the HRA, 1% for the medical plan, and .67% for occupational death and disability. These rates are assumed to remain constant.
- Assets are assumed to earn 8.25% and there are no actuarial gains or losses assumed.
- Amortization is based on level percent of pay.
- All other data, assumptions, methods, and plan provisions are the same as those described in the June 30, 2005 valuation report.

Board Adopted Employer Contribution Rates – *FY '90 thru FY '08*

			PERS						TRS					
Actua Data Year	Board Adopt Year	Rate for FY	PERS Funding Ratio	Employer Normal Rate	Past + Service Rate	Actuarial = Computed Rate	Board - Adopted Rate	+/- = Computed Rate	TRS Funding Ratio	Employer Normal Rate	Past + Service Rate	Actuarial = Computed Rate	Board - Adopted Rate	+/- = Computed Rate
1987	1988	1990	100.0%	9.23%	0.07%	9.30%	9.30%	0.00%	101.0%	9.14%	-0.95%	8.19%	11.64%	3.45%
1988	1989	1991	93.0%	10.37%	1.63%	12.00%	12.00%	0.00%	98.8%	11.86%	0.41%	12.27%	10.54%	-1.73%
1989	1990	1992	91.6%	12.00%	2.20%	14.20%	14.20%	0.00%	95.0%	13.26%	1.90%	15.16%	11.87%	-3.29%
1990	1991	1993	97.2%	12.83%	0.75%	13.58%	13.58%	0.00%	87.7%	14.07%	5.58%	19.65%	12.00%	-7.65%
1991	1992	1994	88.1%	10.18%	3.54%	13.72%	13.72%	0.00%	85.7%	9.05%	6.54%	15.59%	12.00%	-3.59%
1992	1993	1995	91.2%	10.90%	2.80%	13.70%	13.70%	0.00%	89.7%	8.57%	4.79%	13.36%	12.00%	-1.36%
1993	1994	1996	95.4%	11.29%	1.53%	12.82%	12.82%	0.00%	93.1%	9.06%	3.42%	12.48%	12.00%	-0.48%
1994	1995	1997	94.8%	10.36%	1.78%	12.14%	12.14%	0.00%	89.6%	9.70%	5.26%	14.96%	12.00%	-2.96%
1995	1996	1998	96.5%	10.61%	1.29%	11.90%	8.00%	-3.90%	90.9%	10.10%	4.84%	14.94%	12.00%	-2.94%
1996	1997	1999	105.8%	9.85%	-2.11%	7.74%	7.74%	0.00%	97.2%	8.97%	1.55%	10.52%	12.00%	1.48%
1997	1998	2000	106.3%	9.89%	-2.53%	7.36%	7.74%	0.38%	94.0%	9.21%	3.79%	13.00%	12.00%	-1.00%
1998	1999	2001	105.9%	8.67%	-1.64%	7.03%	7.40%	0.37%	97.7%	8.99%	1.56%	10.55%	12.00%	1.45%
1999	2000	2002	105.5%	8.07%	-1.51%	6.56%	6.75%	0.19%	102.5%	8.88%	-1.79%	7.09%	11.00%	3.91%
2000	2001	2003	101.1%	5.43%	0.69%	6.12%	6.75%	0.63%	99.6%	9.40%	-1.11%	8.29%	11.00%	2.71%
2001	2002	2004	100.9%	5.42%	1.35%	6.77%	6.77%	0.00%	95.0%	10.33%	4.11%	14.44%	12.00%	-2.44%
2002	2003	2005	75.2%	13.31%	11.60%	24.91%	11.77%	-13.14%	68.2%	14.76%	20.81%	35.57%	16.00%	-19.57%
2003	2004	2006	72.8%	13.24%	12.39%	25.63%	16.77%	-8.86%	64.3%	14.28%	24.57%	38.85%	21.00%	-17.85%
2004	2005	2007	70.2%	13.32%	14.87%	28.19%	21.77%	-6.42%	62.8%	13.76%	28.02%	41.78%	26.00%	-15.78%
2005	2006	2008	65.7%	14.48%	18.03%	32.51%	39.76%	7.25%	60.9%	12.56%	29.70%	42.26%	54.03%	11.77%

Large jump between FY07 and FY08 reflects need to get to the actuarially computed contribution rate.