

September 16, 2016

VIA EMAIL

Mr. John Boucher
Deputy Commissioner
Division of Retirement and Benefits
Department of Administration
State of Alaska
333 Willoughby Avenue
6th Floor State Office Building
Juneau, AK 99811-0208

Larry Langer
Principal, Wealth
Buck Consultants, LLC.
Larry.Langer@xerox.com
tel 312.846.3669

David J. Kershner
Principal, Wealth
Buck Consultants, LLC.
David.Kershner@xerox.com
tel 602.864.3507

Melissa A. Bissett
Senior Consultant, Health
Buck Consultants, LLC.
Melissa.Bissett@xerox.com
tel 720.359.7735

Re: PERS, TRS, and JRS –Allocation of the Additional State Contributions for FY18

Dear John:

As requested, we have calculated the preliminary allocation between the pension and healthcare funds of the Additional State Contributions for FY18 for the State of Alaska Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS) and Judicial Retirement System (JRS).

The results for PERS and TRS reflect preliminary June 30, 2016 asset statements that were provided to us on September 9, 2016.

Summary of Results

At the February 2016 Actuarial Committee meeting, a decision was made to allocate the FY17 State Assistance contributions 100% to pension. These results reflect that decision.

For the allocation of the FY18 State Assistance contributions, we have attached two exhibits. In Exhibit 1, the FY18 State Assistance contributions are allocated based on the past service portion of the projected contribution rate as of June 30, 2017 (i.e., based on the relative funded status of the pension and healthcare funds). In Exhibit 2, the FY18 State Assistance contributions are allocated 100% to pension consistent with the FY17 State Assistance contributions. Otherwise, the exhibits are the same.

In the exhibits:

- Liabilities from June 30, 2015 were rolled forward two years using valuation assumptions. FY16 benefit payments based on the preliminary June 30, 2016 asset statements were used for this roll-forward.
- Assets from June 30, 2015 were rolled forward one year using FY16 benefit payments, contributions, and investment return based on the preliminary June 30, 2016 asset statements, and then another year using valuation assumptions.

- Investment gains and losses are recognized over 5 years beginning June 30, 2014. Unfunded actuarial accrued liabilities are amortized over a closed 25-year period effective June 30, 2014. For FY18, the unfunded actuarial accrued liabilities are amortized over 22 years.
- All contribution rates are based on total payroll [Defined Benefit (DB) and Defined Contribution Retirement (DCR) payrolls combined].

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

JRS			
	FY18 Projected Pay	Past Service Cost Rate¹	FY18 Past Service Contribution Amount
Pension	\$ 15,028,000	35.83%	\$ 5,385,000
Healthcare	\$ 15,028,000	0.00%	\$ 0
Total	\$ 15,028,000	35.83%	\$ 5,385,000

Data, Provisions, Assumptions, and Methods

The data, assumptions, plan provisions and methods used for the PERS, TRS and JRS DB and DCR plan costs are described in the June 30, 2015 valuation reports. Preliminary June 30, 2016 asset statements for PERS and TRS were reflected as noted above.

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

Sincerely,



Larry Langer, ASA, EA, MAAA, FCA
Principal, Wealth



David J. Kershner, FSA, EA, MAAA, FCA
Principal, Wealth



Melissa A. Bissett, FSA, MAAA
Senior Consultant, Health

Attachment

cc: Mr. Kevin Worley, State of Alaska
Ms. Kathy Lea, State of Alaska

¹ Based on the June 30, 2015 valuation, but not less than zero.

Exhibit 1

**State of Alaska
Preliminary Allocation of Projected FY18 Employer and State Assistance Contributions
Based on June 30, 2015 Valuations
with Liabilities "Rolled Forward" Two years, Assets "Rolled Forward" One year and Smoothed
State Assistance Contributions Allocated Based on Past Service Rate**

	<u>PERS</u>		<u>TRS</u>	
Projected FY18 DB Payroll		\$1,198,763,000		\$423,128,000
Projected FY18 DCR Payroll		<u>\$1,212,231,000</u>		<u>\$362,785,000</u>
Projected FY18 Total Payroll		\$2,410,994,000		\$785,913,000
	Percent of Total Payroll	Dollar Amount	Percent of Total Payroll	Dollar Amount
Employer Contributions				
DB Plan - Pension	14.45%	\$348,389,000	5.60%	\$44,011,000
<i>Employer Normal Cost</i>	2.94%	70,883,000	2.22%	17,447,000
<i>Past Service Cost Payment</i>	11.51%	277,506,000	3.38%	26,564,000
DB Plan - Healthcare	2.92%	\$70,401,000	1.93%	\$15,168,000
<i>Employer Normal Cost</i>	2.16%	52,077,000	1.77%	13,911,000
<i>Past Service Cost Payment</i>	0.76%	18,324,000	0.16%	1,257,000
DCR Plan	4.63%	\$111,742,000	5.03%	\$39,580,000
Total	22.00%	\$530,532,000	12.56%	\$98,759,000
State Assistance Contributions to DB				
Pension	2.82%	\$67,990,000	13.56%	\$106,570,000
Healthcare	0.19%	4,581,000	0.66%	5,187,000
Total	3.01%	\$72,571,000	14.22%	\$111,757,000
Total DB				
Pension	17.27%	\$416,379,000	19.16%	\$150,581,000
Healthcare	3.11%	74,982,000	2.59%	20,355,000
Total	20.38%	\$491,361,000	21.75%	\$170,936,000
Total DB and DCR	25.01%	\$603,103,000	26.78%	\$210,516,000

Notes:

1. Projected FY18 payroll based on the June 30, 2015 valuation roll-forward projections assuming 0% population growth.
2. State Assistance contributions allocated based on the past service portion of the projected contribution rate as of June 30, 2017 for pension and healthcare.
3. DCR contribution rates are based on total payroll.
4. FY16 investment return, benefit payments and contributions based on preliminary 6/30/16 asset statements provided by the State on 9/9/16. FY17 investment return, benefit payments and contributions based on the June 30, 2015 valuation roll-forward projection assuming 0% population growth. All investment gains and losses are recognized over 5 years beginning June 30, 2014.
5. Data, plan provisions, assumptions, and methods used for the DB and DCR plan costs are described in the final actuarial reports as of June 30, 2015.

Exhibit 2

**State of Alaska
Preliminary Allocation of Projected FY18 Employer and State Assistance Contributions
Based on June 30, 2015 Valuations
with Liabilities "Rolled Forward" Two years, Assets "Rolled Forward" One year and Smoothed
State Assistance Contributions Allocated 100% to Pension**

	PERS		TRS	
Projected FY18 DB Payroll	\$1,198,763,000		\$423,128,000	
Projected FY18 DCR Payroll	<u>\$1,212,231,000</u>		<u>\$362,785,000</u>	
Projected FY18 Total Payroll	\$2,410,994,000		\$785,913,000	
	Percent of Total	Dollar Amount	Percent of Total	Dollar Amount
	Payroll		Payroll	
Employer Contributions				
DB Plan - Pension	14.45%	\$348,389,000	5.60%	\$44,011,000
<i>Employer Normal Cost</i>	2.94%	70,883,000	2.22%	17,447,000
<i>Past Service Cost Payment</i>	11.51%	277,506,000	3.38%	26,564,000
DB Plan - Healthcare	2.92%	\$70,401,000	1.93%	\$15,168,000
<i>Employer Normal Cost</i>	2.16%	52,077,000	1.77%	13,911,000
<i>Past Service Cost Payment</i>	0.76%	18,324,000	0.16%	1,257,000
DCR Plan	4.63%	\$111,742,000	5.03%	\$39,580,000
Total	<u>22.00%</u>	<u>\$530,532,000</u>	<u>12.56%</u>	<u>\$98,759,000</u>
State Assistance Contributions to DB				
Pension	3.01%	\$72,571,000	14.22%	\$111,757,000
Healthcare	<u>0.00%</u>	<u>-</u>	<u>0.00%</u>	<u>-</u>
Total	3.01%	\$72,571,000	14.22%	\$111,757,000
Total DB				
Pension	17.46%	\$420,960,000	19.82%	\$155,768,000
Healthcare	2.92%	70,401,000	1.93%	15,168,000
Total	<u>20.38%</u>	<u>\$491,361,000</u>	<u>21.75%</u>	<u>\$170,936,000</u>
Total DB and DCR	25.01%	\$603,103,000	26.78%	\$210,516,000

Notes:

1. Projected FY18 payroll based on the June 30, 2015 valuation roll-forward projections assuming 0% population growth.
2. State Assistance contributions allocated 100% to pension consistent with the decision to allocate the FY17 State Assistance contributions 100% to pension.
3. DCR contribution rates are based on total payroll.
4. FY16 investment return, benefit payments and contributions based on preliminary 6/30/16 asset statements provided by the State on 9/9/16. FY17 investment return, benefit payments and contributions based on the June 30, 2015 valuation roll-forward projection assuming 0% population growth. All investment gains and losses are recognized over 5 years beginning June 30, 2014.
5. Data, plan provisions, assumptions, and methods used for the DB and DCR plan costs are described in the final actuarial reports as of June 30, 2015.