

May 24, 2006

VIA EMAIL

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

RE: FY2008 Employer Rates for Medical, Death and Disability Plans

Dear Melanie:

We have completed the calculation of the Fiscal Year 2008 (FY2008) employer rates for the medical, death and disability plans effective for members who hire on or after July 1, 2006 into the State of Alaska Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). The results are shown as a percent of pay below:

Plan	Medical	Death and Disability
TRS	N/A	0.56%
PERS	N/A	
- Police/Fire	N/A	1.33%
- All Others	N/A	0.58%
Total PERS	N/A	0.67%
Total	0.99%	N/A

BENEFIT PROVISIONS

Below is a summary of the plan for members who are hired on or after July 1, 2006 (Tier 4 for PERS and Tier 3 for TRS):

Medical Insurance

- Member must retire directly from the plan. Retirement eligibility is the earlier of a) 30 years of service for TRS and PERS all other members and 25 years of service for PERS police / fire members, and b) Medicare eligible and 10 years of service.
- No medical benefits are provided until normal retirement eligibility. The member's premium is 100% until they are Medicare eligible.
- Coverage cannot be denied except for failure to pay premium.

- The Medicare-eligible premium will be based on the member's years of service. The percentage of premium paid by the member is as follows:

Years of Service	Percent of Premium Paid by Member
Less than 15 years	30%
15 – 19	25%
20 – 24	20%
25 – 29	15%
30 years or more	10%

Occupational Disability

- Benefit is 40% of salary.
- There is no increase in the benefit after commencement.
- Member earns service while on occupational disability.
- Benefits cease when the member becomes eligible for normal retirement at Medicare-eligible age and 10 years of service, or
 - For PERS, at any age with 25 years of service for peace officers and firefighters or with 30 years of service for all others.
 - For TRS, at any age with 30 years of service.
- Police / Fire members may select the defined contribution account or the monthly benefit payable as if they were retiring under Tier 3 (service continues during disability, final average salary is as of date of disability).
- No medical benefits are provided until normal retirement eligibility. The member's premium is 100% until they are Medicare eligible. Medicare-eligible premiums follow the service-based schedule above.

Occupational Death

- Benefit is 50% of salary for peace officers and firefighters and 40% of salary for all other PERS and TRS members.
- There is no increase in the benefit after commencement.
- Benefits cease when the member would have become eligible for normal retirement.
- No medical benefits are provided until the member would have been eligible for normal retirement. The surviving spouse's premium is 100% until the member would have been Medicare eligible. Medicare-eligible premiums follow the service-based schedule above.

ASSUMPTIONS, DATA AND METHODS

The calculations were based on the June 30, 2005 valuation data, methods, and assumptions unless otherwise indicated below:

- We used only Tier 3 members under PERS and Tier 2 members under TRS for the study.

- We assumed that 100% of the police / fire members will elect the monthly benefit at Medicare-eligible age (assumed to be 65) as opposed to the defined contribution plan.
- The retirement rates were changed to assume 100% retirement at 30 years of service (25 years for Police / Fire) or age 65 and 5 years. Retirement rates begin at the earlier of age 55 and 5 years of service or any age and 30 years of service (25 for PERS Police / Fire). All other rates were unchanged. Please note that since we have assumed that 100% of members will retire at 30 years (25 years for Police / Fire), no members are assumed to die and have beneficiaries who receive post-employment healthcare.
- Occupational death and disability is assumed to be 100% of all disabilities and deaths. This conservatism is built in to provide a cushion in case adverse experience is realized in the first few years of this plan. If you were to apply our valuation occupational assumptions, the portion assumed for each group is:
 - 85% of all death or disabilities for PERS Police / Fire.
 - 35% of all death or disabilities for PERS all other members.
 - 10% of all death or disabilities for TRS.
- 100% of the members eligible for the medical benefits will elect to participate.

CAUTION REGARDING ASSUMED PARTICIPATION AND COSTS

Normal cost calculated for the PERS Tier 4 and TRS Tier 3 members is based on July 1, 2005 PERS Tier 3 and TRS Tier 2 active employees, plus claims experience for the three-year period ending June 30, 2005. We believe this is a reasonable basis for projecting these healthcare, disability and death benefit costs but caution that greater variability can be expected once actual participation and plan costs emerge. We will have a much better picture of the demographics of the group in December 2007 when participant data as of July 1, 2007 is reported (note that the July 1, 2006 valuation will still be based on assumed demographics). However, long-term costs will be a function of demographic characteristics that may not become credible for as many as 10 years into the future. Healthcare claim credibility will mature over an even longer period. Transferring employees with sufficient service can retire under the new plan as early as July 1, 2011, but it will likely be 2016 or even 2021 before there are 500 or more retirees and covered dependents. At that point there will begin to be credible claims experience under the plan. We hope to convey that healthcare, death benefit and disability costs will take many years to emerge on a credible basis under the new plan, and that actuarial valuations in the meantime may be more variable year-to-year than is otherwise the case.

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

Sincerely,



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

/kr

c: Ms. Traci Carpenter
Ms. Charlene Morrison

Ms. Michelle DeLange
Mr. Chris Hulla