ALASKA RETIREMENT MANAGEMENT BOARD

Oct 11, 2021

BOARD OF TRUSTEES MEETING

Alaska Retirement Management Board

Board of Trustees Meeting

Monday, October 11, 2021

Call In (Audio Only): 1-907-202-7104	**Code:** 343 511 188#

I. **9:00 AM** **Call to Order**

II. **Roll Call**

III. **Public Meeting Notice**

IV. **Approval of Agenda**

V. **Public/Member Participation, Communications, and Appearances**
(Three Minute Limit)

VI. **9:20 AM** **FY2023 Contribution Rates**

A. Discussion of Resetting to Market Value of Assets at 6/30/2021
Lucinda Mahoney, Commissioner of Revenue

B. Review of Statutes
Ben Hofmeister, Assistant Attorney General, Department of Law

C. Discussion of FY2023 PERS/ TRS Additional State Contributions
Kevin Worley, Chief Financial Officer, Division of Retirement & Benefits
David Kershner & Scott Young, Buck

D. Discussion of NGNMRS and "Normal Cost" & Statutory Requirements
Ben Hofmeister, Assistant Attorney General, Department of Law
Kevin Worley, Chief Financial Officer, Division of Retirement & Benefits

E. Review of Trustee Questions & Responses *(to extent not previously discussed)*
Allen Hippler, Actuarial Committee Chair
& Representatives from Buck, Callan, GRS, IAC, & Law

F. FY2023 Contribution Discussion & Review

1. History of PERS/ TRS Employer Contribution Rates
2. Action Items

Action: Resolution 2021-10 - FY23 NGNMRS Contribution Amount
Action: Resolution 2021-04 - FY23 PERS Contribution Rate
Action: Resolution 2021-07 - FY23 TRS Contribution Rate

VIII. **Unfinished Business**

IX. **New Business**

X. **Other Matters to Properly Come Before the Board**

XI. **Public/Member Comments**

XII. **Investment Advisory Council Comments**

XIII. **Trustee Comments**

XIV. **Future Agenda Items**

XV. **Adjournment**

NOTE: Times are approximate, every attempt will be made to stay on schedule; however, adjustments may be made.

LEGAL REVIEW

Alaska Retirement Management Board

October 11, 2021

FIDUCIARY OBLIGATION
AS 37.10.210

1. **Consistent with standards of prudence**

2. **Manage and invest assets entrusted to the Board**

3. **Manner sufficient to meet liabilities and obligations – to ultimately benefit the members**

FIDUCIARY OF A STATE FUND
AS 37.10.071

1. Exercise powers of an owner

2. Perform necessary and proper acts to administer assets

3. Prudent Investor Rule

SETTING CONTRIBUTION RATE
AS 37.10.220

1. **Power and duty of the Board**

2. **Setting "an appropriate contribution rate for normal costs" and "past service liability"**

3. **Take into consideration expert advice**

DIMINISHMENT CLAUSE
ARTICLE XII, SEC. 7

1. *Hoffbeck* Rule

2. *Sheffield* Rule

3. *Gallion* Rule

HOFFBECK RULE
627 P.2D 1052 (1981)

"…the right to benefits vests when the employee enrolls in the retirement system, rather than when the employee is eligible to receive benefits."

Changes in the system that disadvantage an employee result in a constitutional claim for diminishment of vested rights – unless offset

SHEFFIELD RULE

732 P.2D 1083 (1987)

“…when we speak of the level of rights and benefits protected by [this statute] we mean the practical effect of the whole complex of provisions...”

More than just an individual benefit to a specific member

GALLION RULE
944 P.2D 436 (1997)

Members have the vested right to "ACTUARIAL SOUNDNESS" in their plans

Right to have "those plans evaluated and maintained separately"

Lack of ACTUARIAL SOUNDNESS will lead to diminishment

“105% ISSUE”

1. Involves the application of the *ad hoc* Post-Retirement Pension Adjustment (PRPA)
2. Only applies to Tier I employees
3. Involves a cost of living adjustment
4. Not a means of distributing surpluses
5. Not a means of defining overfunding

QUESTIONS

BUCK

State of Alaska Retirement Systems

Presentation to the ARMB

FY23-FY39 State Contribution Projections

October 11, 2021

Background

Background

- All projections are based on the June 30, 2020 valuations and reflect SB 55 for PERS
- Under SB 55, which went into effect July 1, 2021:
  - The State-as-an-employer contributes the Actuarially Determined Contribution rate
  - Other employers continue to contribute 22% of pay
- State contribution projections for FY23-FY39 are provided under the following scenarios for PERS and TRS:

	Expected Returns After FY21				Adverse Returns After FY21		
Scenario:	1	2	3	4	2A	3A	4A
FY21 market return	7.38%	28%	28%	28%	28%	28%	28%
FY22 market return	7.38%	7.38%	7.38%	7.38%	0%	0%	0%
FY23 market return	7.38%	7.38%	7.38%	7.38%	4%	4%	4%
FY24+ market return	7.38%	7.38%	7.38%	7.38%	7.38%	7.38%	7.38%
AVA reset to MVA as of 6/30/21	no	no	yes	no	no	yes	no
Asset smoothing period – before FY21	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Asset smoothing period – FY21+	5 years	5 years	5 years	3 years	5 years	5 years	3 years

- For additional projection assumptions, please see Section 3.1 of the PERS/TRS June 30, 2020 valuation reports

Summary of Projection Results

Summary of Projection Results – PERS

($000’s)

FY23-FY39 State Contributions

Scenario:	1	2	3	4	2A	3A	4A
State-as-an-Employer	5,282,941	3,877,169	3,846,730	3,864,330	4,683,121	4,651,794	4,679,182
Additional State Contributions	2,157,491	719,297	688,155	706,159	1,543,835	1,511,784	1,539,805
Total	7,440,432	4,596,466	4,534,885	4,570,489	6,226,956	6,163,578	6,218,987

Increase in FY23-FY39 State Contributions due to Illustrative FY22 and FY23 Adverse Returns

	2A vs 2	3A vs 3	4A vs 4
State-as-an-Employer	805,952	805,064	814,852
Additional State Contributions	824,538	823,629	833,646
Total	1,630,490	1,628,693	1,648,498

Adverse returns lead to more contribution volatility with 3-year smoothing (4A vs 4).

Adverse returns with 5-year smoothing have relatively same contribution volatility with or without reset (3A vs 3 and 2A vs 2).

Summary of Projection Results – TRS

($000's)

FY23-FY39 State Contributions

Scenario:	1	2	3	4	2A	3A	4A
Additional State Contributions	3,163,031	1,532,350	1,499,029	1,518,794	2,442,305	2,407,128	2,437,733

Increase in FY23-FY39 State Contributions due to Illustrative FY22 and FY23 Adverse Returns

	2A vs 2	3A vs 3	4A vs 4
Additional State Contributions	909,955	908,099	918,939

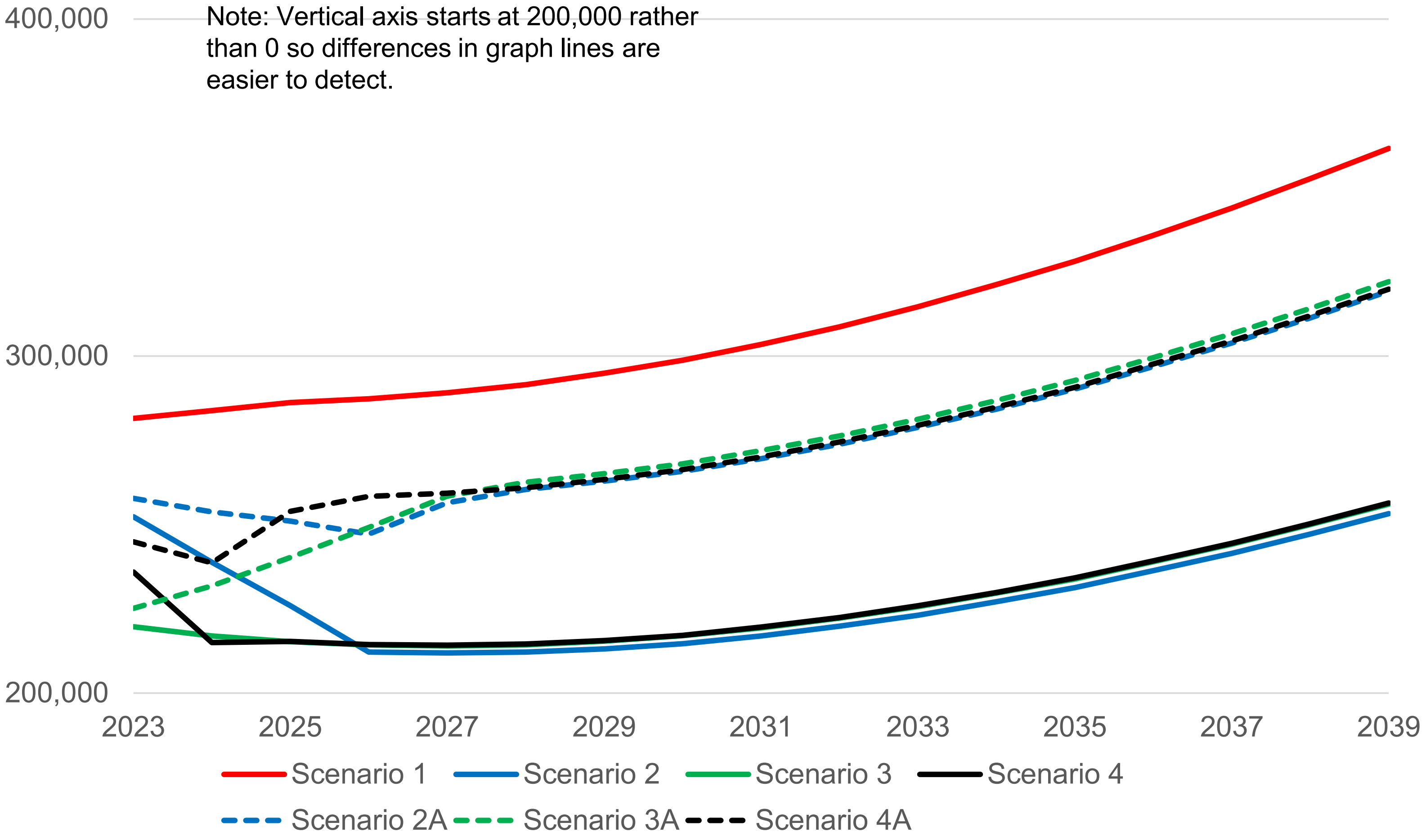
Adverse returns lead to more contribution volatility with 3-year smoothing (4A vs 4).

Adverse returns with 5-year smoothing have relatively same contribution volatility with or without reset (3A vs 3 and 2A vs 2).

State Contribution Projections – PERS (Employer and ASC’s)

State-as-an-Employer Contributions – PERS

($000's)



Note: Vertical axis starts at 200,000 rather than 0 so differences in graph lines are easier to detect.

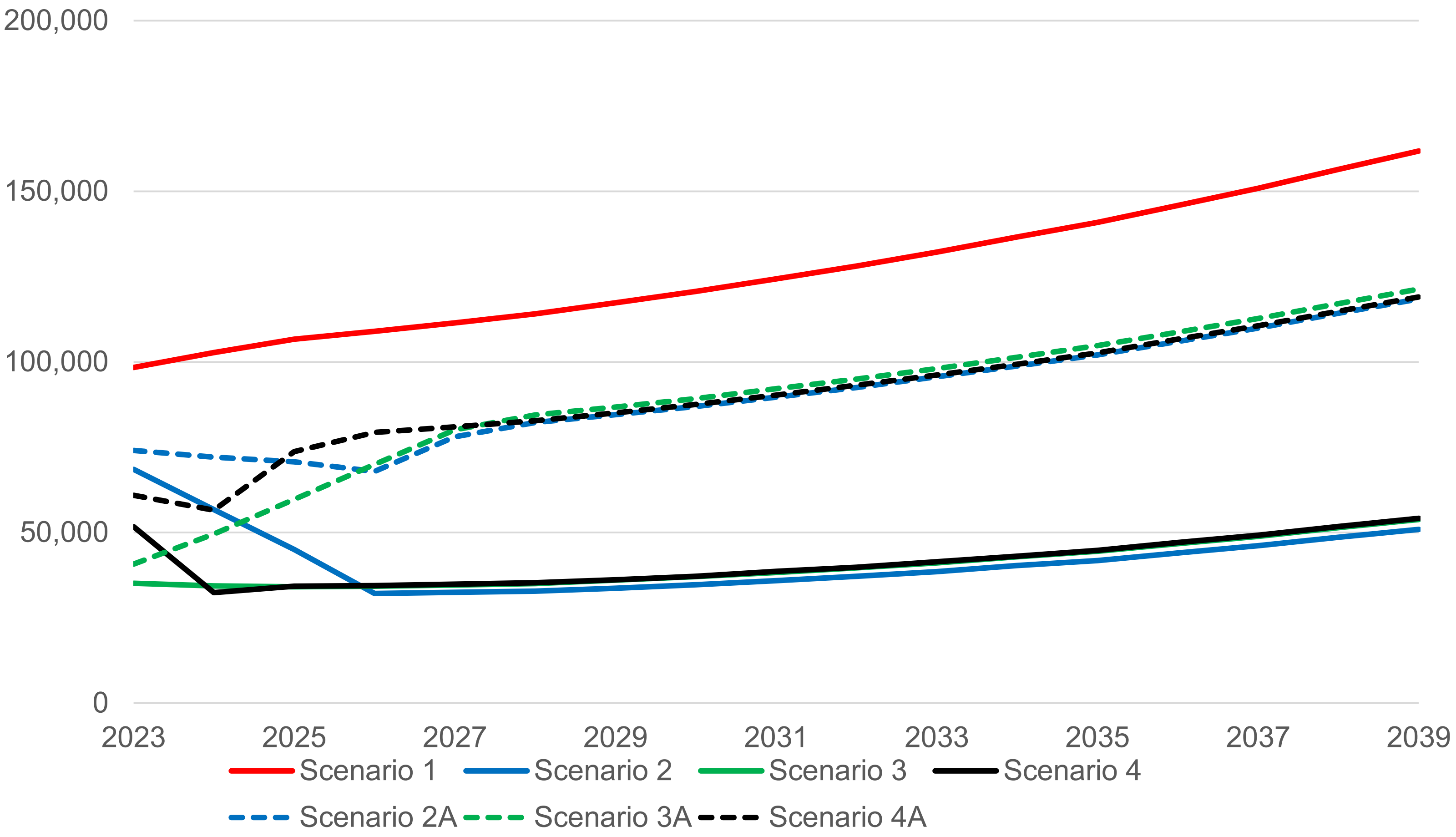
Total projected contributions for FY23-FY39:

- Scenario 1 = $5.28B
- Scenario 2 = $3.88B
- Scenario 3 = $3.85B
- Scenario 4 = $3.86B
- Scenario 2A = $4.68B
- Scenario 3A = $4.65B
- Scenario 4A = $4.68B

Beyond the smoothing periods, expected return scenarios 2, 3 and 4 track closely together, as do adverse return scenarios 2A, 3A and 4A.

Additional State Contributions – PERS

($000’s)



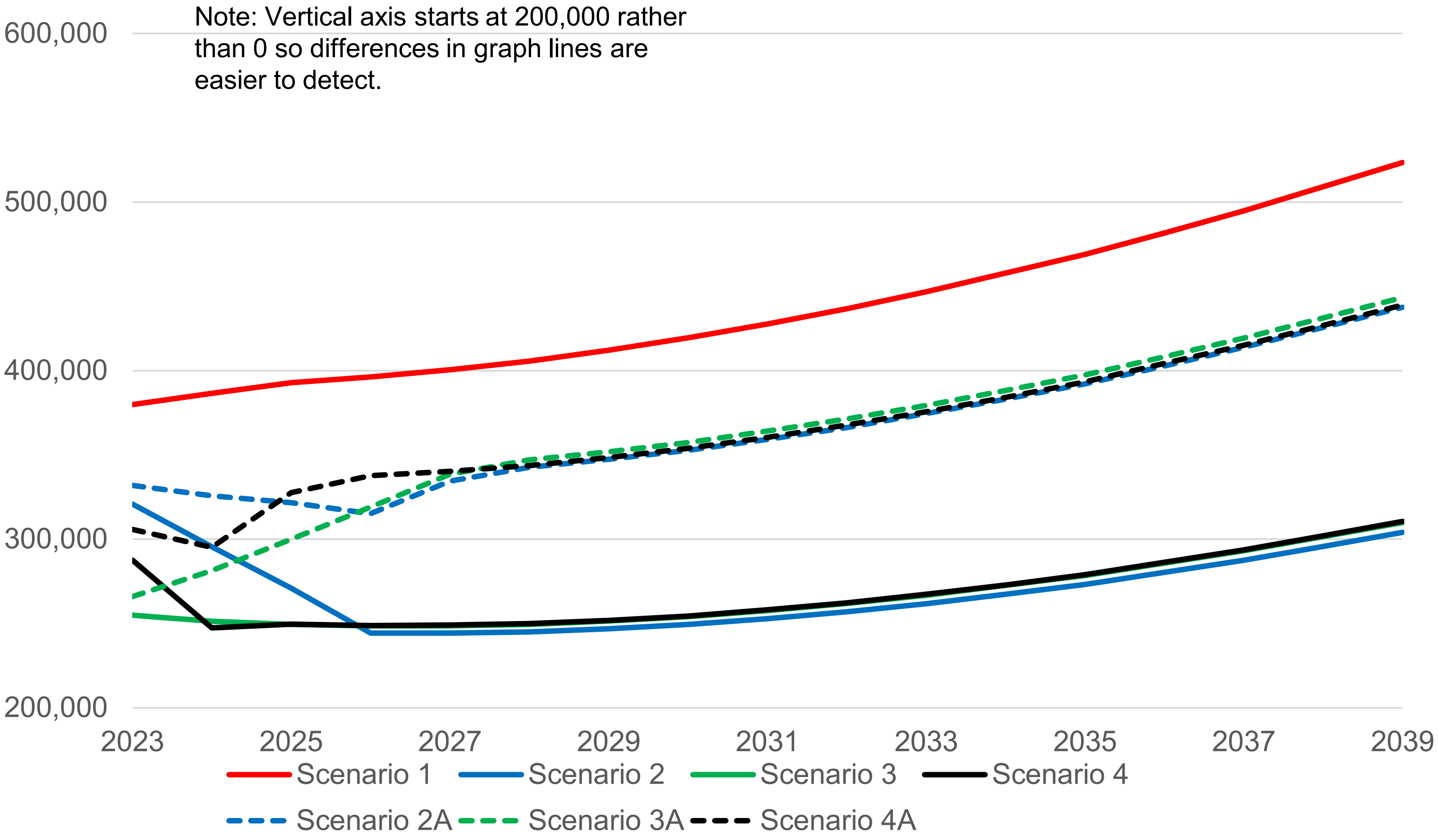
Total projected contributions for FY23-FY39:

- Scenario 1 = $2.16B
- Scenario 2 = $719M
- Scenario 3 = $688M
- Scenario 4 = $706M
- Scenario 2A = $1.54B
- Scenario 3A = $1.51B
- Scenario 4A = $1.54B

Beyond the smoothing periods, expected return scenarios 2, 3 and 4 track closely together, as do adverse return scenarios 2A, 3A and 4A.

Total State Contributions – PERS

($000's)



Note: Vertical axis starts at 200,000 rather than 0 so differences in graph lines are easier to detect.

Total projected contributions for FY23-FY39:

- Scenario 1 = $7.44B
- Scenario 2 = $4.60B
- Scenario 3 = $4.53B
- Scenario 4 = $4.57B
- Scenario 2A = $6.23B
- Scenario 3A = $6.16B
- Scenario 4A = $6.22B

Beyond the smoothing periods, expected return scenarios 2, 3 and 4 track closely together, as do adverse return scenarios 2A, 3A and 4A.

State Contribution Summary – PERS

State-as-an-Employer

($000’s)

Fiscal Year	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 2A	Scenario 3A	Scenario 4A
2023	281,515	252,270	219,696	235,864	257,739	225,165	244,899
2024	283,761	238,767	216,930	215,011	253,765	231,808	238,647
2025	286,172	225,906	215,235	215,357	251,007	240,215	253,917
2026	287,279	212,176	214,263	214,385	247,151	249,114	258,318
2027	289,059	211,877	213,994	214,243	256,444	258,435	259,307
2028	291,514	212,125	214,275	214,527	260,416	262,565	260,922
2029	294,885	213,130	215,444	215,572	262,877	265,063	263,392
2030	298,769	214,659	217,013	217,144	265,805	268,029	266,328
2031	303,403	216,926	219,324	219,591	269,559	271,957	270,092
2032	308,682	219,807	222,256	222,392	273,839	276,289	274,520
2033	314,627	223,104	225,608	225,886	278,880	281,245	279,436
2034	321,228	227,092	229,652	229,794	284,256	286,816	284,825
2035	328,119	231,254	233,872	234,163	290,159	292,777	290,741
2036	335,837	236,292	238,970	239,268	296,852	299,531	297,596
2037	343,873	241,426	244,166	244,471	303,838	306,578	304,447
2038	352,600	247,162	249,966	250,277	311,328	314,131	311,951
2039	361,618	253,196	256,066	256,385	319,206	322,076	319,844
Total	5,282,941	3,877,169	3,846,730	3,864,330	4,683,121	4,651,794	4,679,182

State Contribution Summary – PERS

Additional State Contributions

($000’s)

Fiscal Year	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 2A	Scenario 3A	Scenario 4A
2023	98,394	68,475	35,150	51,690	74,069	40,744	60,934
2024	102,742	56,711	34,370	32,406	72,055	49,591	56,588
2025	106,688	45,032	34,115	34,239	70,712	59,671	73,689
2026	108,975	32,140	34,274	34,400	67,921	69,930	79,346
2027	111,439	32,476	34,641	34,896	78,071	80,108	81,000
2028	114,070	32,850	35,049	35,307	82,254	84,453	82,772
2029	117,308	33,667	36,034	36,166	84,562	86,797	85,088
2030	120,711	34,661	37,070	37,204	86,987	89,262	87,522
2031	124,324	35,852	38,306	38,579	89,699	92,152	90,244
2032	128,103	37,178	39,684	39,823	92,457	94,963	93,153
2033	132,197	38,563	41,125	41,409	95,626	98,045	96,195
2034	136,605	40,298	42,916	43,062	98,780	101,399	99,362
2035	140,911	41,812	44,490	44,788	102,075	104,753	102,670
2036	145,836	43,994	46,735	47,039	105,952	108,692	106,713
2037	150,907	46,097	48,901	49,212	109,948	112,752	110,571
2038	156,466	48,597	51,465	51,783	114,242	117,110	114,880
2039	161,815	50,894	53,830	54,156	118,425	121,362	119,078
Total	2,157,491	719,297	688,155	706,159	1,543,835	1,511,784	1,539,805

State Contribution Summary – PERS

Total

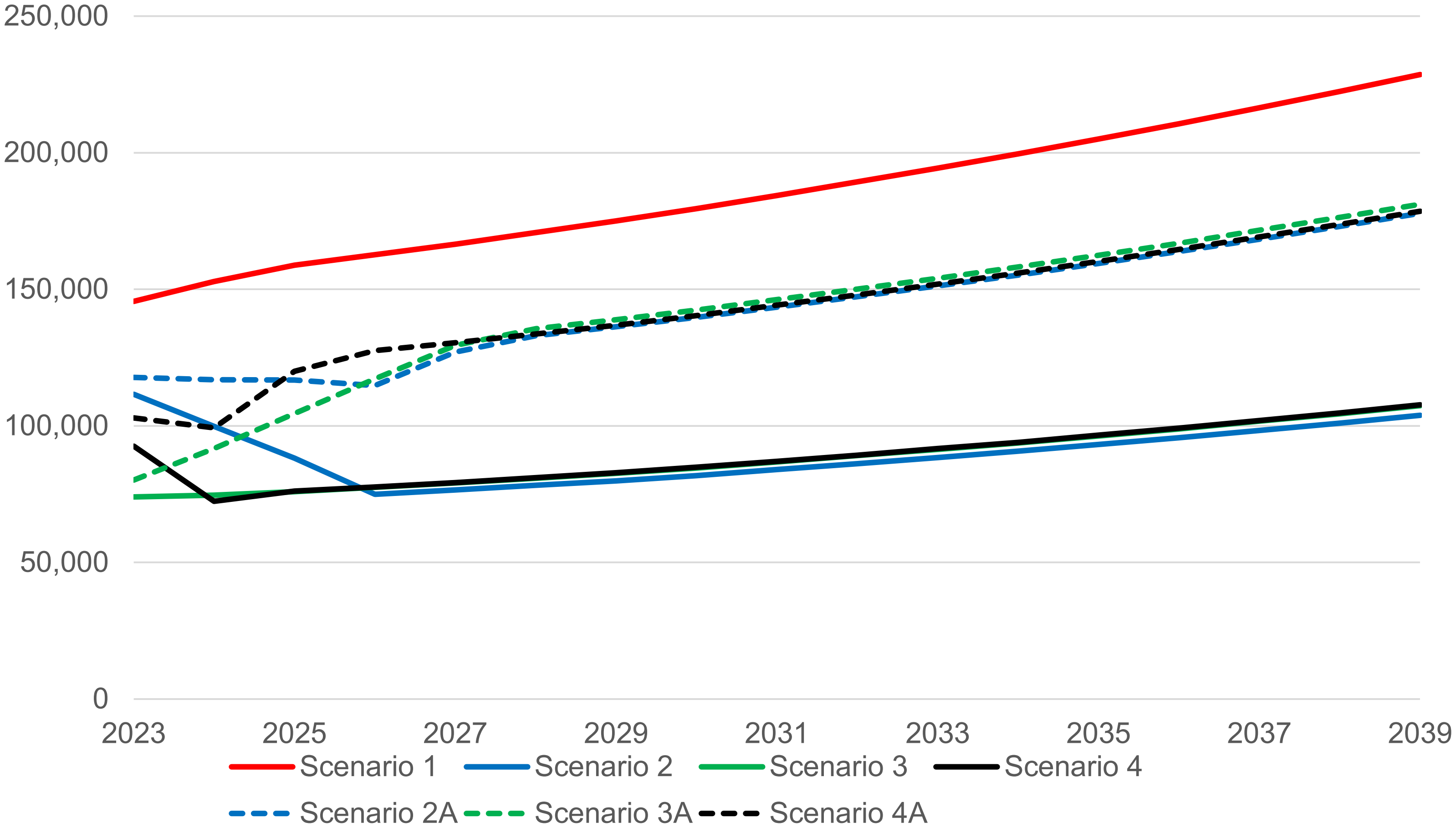
($000's)

Fiscal Year	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 2A	Scenario 3A	Scenario 4A
2023	379,909	320,745	254,846	287,554	331,808	265,909	305,833
2024	386,503	295,478	251,300	247,417	325,820	281,399	295,235
2025	392,860	270,938	249,350	249,596	321,719	299,886	327,606
2026	396,254	244,316	248,537	248,785	315,072	319,044	337,664
2027	400,498	244,353	248,635	249,139	334,515	338,543	340,307
2028	405,584	244,975	249,324	249,834	342,670	347,018	343,694
2029	412,193	246,797	251,478	251,738	347,439	351,860	348,480
2030	419,480	249,320	254,083	254,348	352,792	357,291	353,850
2031	427,727	252,778	257,630	258,170	359,258	364,109	360,336
2032	436,785	256,985	261,940	262,215	366,296	371,252	367,673
2033	446,824	261,667	266,733	267,295	374,506	379,290	375,631
2034	457,833	267,390	272,568	272,856	383,036	388,215	384,187
2035	469,030	273,066	278,362	278,951	392,234	397,530	393,411
2036	481,673	280,286	285,705	286,307	402,804	408,223	404,309
2037	494,780	287,523	293,067	293,683	413,786	419,330	415,018
2038	509,066	295,759	301,431	302,060	425,570	431,241	426,831
2039	523,433	304,090	309,896	310,541	437,631	443,438	438,922
Total	7,440,432	4,596,466	4,534,885	4,570,489	6,226,956	6,163,578	6,218,987

State Contribution Projections – TRS (ASC’s)

Additional State Contributions – TRS

($000's)



Total projected contributions for FY23-FY39:

- Scenario 1 = $3.16B
- Scenario 2 = $1.53B
- Scenario 3 = $1.50B
- Scenario 4 = $1.52B
- Scenario 2A = $2.44B
- Scenario 3A = $2.41B
- Scenario 4A = $2.44B

Beyond the smoothing periods, expected return scenarios 2, 3 and 4 track closely together, as do adverse return scenarios 2A, 3A and 4A.

State Contribution Summary – TRS

Additional State Contributions

($000’s)

Fiscal							
Year	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 2A	Scenario 3A	Scenario 4A
2023	145,601	111,560	74,046	92,539	117,749	80,235	102,879
2024	152,859	99,793	74,597	72,383	116,896	91,700	99,259
2025	158,813	88,186	75,964	76,119	116,808	104,508	119,980
2026	162,694	74,993	77,503	77,660	114,765	117,196	127,551
2027	166,575	76,519	79,067	79,226	127,081	129,549	130,505
2028	170,766	78,261	80,851	81,013	133,052	135,561	133,699
2029	175,032	79,897	82,615	82,862	136,319	138,872	136,896
2030	179,570	81,814	84,583	84,834	139,796	142,398	140,384
2031	184,399	84,028	86,851	87,022	143,497	146,235	144,182
2032	189,331	86,147	89,118	89,292	147,306	150,102	148,005
2033	194,428	88,376	91,411	91,679	151,222	154,078	151,936
2034	199,591	90,715	93,726	94,000	155,237	158,158	155,967
2035	205,075	93,157	96,330	96,610	159,524	162,511	160,270
2036	210,628	95,618	98,866	99,153	163,822	166,879	164,586
2037	216,515	98,381	101,706	101,999	168,401	171,628	169,183
2038	222,475	101,025	104,429	104,729	173,014	176,318	173,815
2039	228,679	103,880	107,366	107,674	177,816	181,200	178,636
Total	3,163,031	1,532,350	1,499,029	1,518,794	2,442,305	2,407,128	2,437,733

Actuarial Certification

Actuarial Certification

The purpose of this presentation is to provide the ARMB with the impact on the projected PERS/TRS State contributions for FY23-FY39 under four different scenarios, including illustrative market losses in FY22 and FY23. The projections are based on the data, assumptions, methods and plan provisions described in the June 30, 2020 actuarial valuation reports, except as noted herein. Preliminary June 30, 2021 asset statements were reflected in all scenarios except Scenario 1. All scenarios for PERS reflect SB 55 effective July 1, 2021.

Please see the June 30, 2020 actuarial valuation reports for a detailed description of (i) Buck's projection models which are the same ones used for this presentation (ASOP 56), and (ii) risk factors related to future funding of the plans (ASOP 51).

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

The results were prepared under the direction of David Kershner and Scott Young, both of whom meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. These results have been prepared in accordance with all applicable Actuarial Standards of Practice.

David Kershner
FSA, EA, MAAA, FCA
Principal, Retirement

Scott Young
FSA, EA, MAAA, FCA
Director, Health

BUCK

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Alaska Retirement Management Board

Applicable Constitutional and Statutory Provisions Related to Contribution Rates and Determination of Normal Costs

October 11, 2021

Alaska Constitution, Article 12, § 7. Retirement Systems

Membership in employee retirement systems of the State or its political subdivisions shall constitute a contractual relationship. Accrued benefits of these systems shall not be diminished or impaired

AS 37.10.210. Alaska Retirement Management Board

(a) The Alaska Retirement Management Board is established in the Department of Revenue. The board's primary mission is to serve as the trustee of the assets of the state's retirement systems, the State of Alaska Supplemental Annuity Plan, and the deferred compensation program for state employees, and the Alaska retiree health care trusts established under AS 39.30.097. Consistent with standards of prudence, the board has the fiduciary obligation to manage and invest these assets in a manner that is sufficient to meet the liabilities and pension obligations of the systems, plan, program, and trusts. The board may, with the approval of the commissioner of revenue and upon agreement with the responsible fiduciary, manage and invest other state funds so long as the activity does not interfere with the board's primary mission. In making investments, the board shall exercise the powers and duties of a fiduciary of a state fund under AS 37.10.071.

AS 37.10.071. Investment powers and duties

(a) In making investments under this section, the fiduciary of a state fund shall

(6) exercise the powers of an owner with respect to the assets;

(7) perform all acts, not prohibited by this section, whether or not expressly authorized, that the fiduciary considers necessary or proper in administering the assets;

(c) In exercising investment, custodial, or depository powers or duties under this section, the fiduciary of a state fund shall apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the fund entrusted to the fiduciary. Among beneficiaries of a fund, the fiduciaries shall treat beneficiaries with impartiality.

AS 37.10.220. Powers and duties of the board

(a) The board shall

(8) coordinate with the retirement system administrator to have an annual actuarial valuation of each retirement system prepared to determine system assets, accrued liabilities, and funding ratios and to certify to the appropriate budgetary authority of each employer in the system

(A) an appropriate contribution rate for normal costs; and

(B) an appropriate contribution rate for liquidating any past service liability; in this subparagraph, the appropriate contribution rate for liquidating the past service liability of the defined benefit retirement plan under AS 14.25.009--14.25.220 or the past service liability of the defined benefit retirement plan under AS 39.35.095--39.35.680 must be determined by a level percent of pay method based on amortization of the past service liability for a closed term of 25 years;

AS 39.35.255. Contributions by employers (PERS)

(a) Each employer, except as provided in (i) of this section, shall contribute to the system every payroll period an amount calculated by applying a rate of 22 percent of the greater of the total of all base salaries

(1) paid by the employer to employees who are active members of the system, including any adjustments to contributions required by AS 39.35.520; or

(2) paid by the employer to employees who were active members of the system during the corresponding payroll period for the fiscal year ending

(A) June 30, 2008; or

(B) June 30, 2012, if that total is less than the total under (A) of this paragraph, and the employer is a municipality in which the population decreased by more than 25 percent between 2000 and 2010, according to the decennial census conducted by the United States Bureau of the Census.

(b) The administrator shall allocate contributions received for full payment of

(1) the actuarially determined employer normal cost for the plan; and

(2) all contributions required by AS 39.30.370 and AS 39.35.750 for the fiscal year.

(c) If, after allocation of contributions under (b) of this section, a portion of the employer contributions remains, the administrator shall apply that remaining portion toward payment of the past service liability of the plan.

(d) Notwithstanding (a) of this section, the annual employer contribution rate may not be less than the rate sufficient to allow payment of the employer normal cost and the employer contributions required under AS 39.30.370 and AS 39.35.750.

(h) In this section, “normal cost” means the cost of providing the benefits expected to be credited, with respect to service, to all active members of the plan during the year beginning after the last valuation date.

AS 14.25.070. Contributions by employers (TRS)

(a) Each employer shall contribute to the system every payroll period an amount calculated by applying a rate of 12.56 percent to the total of all base salaries paid by the employer to active members of the system and to members who are retired from the plan and reemployed under AS 14.20.136, including any adjustments to contributions required by AS 14.25.173(a).

(b) The employer shall transmit the contributions calculated in (a) of this section to the administrator in accordance with AS 14.25.065. The administrator shall allocate contributions received for full payment of

(1) the actuarially determined employer normal cost for the plan; and

(2) all contributions required by AS 14.25.350 and AS 39.30.370 for the fiscal year.

(c) If, after allocation of contributions under (b) of this section, a portion of the employer contributions remains, the administrator shall apply that remaining portion toward payment of the past service liability of the plan.

(d) Notwithstanding (a) of this section, the annual employer contribution rate may not be less than the rate sufficient to allow payment of the employer normal cost and the employer contributions required under AS 14.25.350 and AS 39.30.370.

(h) In this section, “normal cost” means the cost of providing the benefits expected to be credited, with respect to service, to all active members of the plan during the year beginning after the last valuation date.

AS 26.05.226. Contributions (NGNMRS)

(a) The Department of Military and Veterans’ Affairs shall contribute to the Alaska National Guard and Alaska Naval Militia retirement system the amounts determined by the Alaska Retirement Management Board as necessary to

(1) fund the system based on the actuarial requirements of the system as established by the Alaska Retirement Management Board; and

(2) administer the system.

Amended Trustee Questions & Requests for October 11th ARMB Board of Trustees Meeting

(Amendments include addition of question 11)

FMV/ AV Reset Discussion

1. A brief opinion (written if possible) from the following regarding the proposed change:

    a. Buck - *Please address Q.4 & Q.5 specifically in your response*

    b. GRS - *Please address Q.4 & Q.5 specifically in your response*

    c. Each of the three Investment Advisory Council members - *Please address Q.5 specifically in your response*

    d. Callan on whether any of their other public pension fund clients have adopted such a change (there are many pension funds with earnings above 25 % this past year)

2. What is risk to fund of overfunding?

    a. Clarify 105% issue, to whom does this apply?

    b. Does this overfunding risk apply to the health plans as well? and to the NGNMRS plan?

    c. Is it just Tier I? What is number of participants? If for example, there was only 1 impacted participant, would ALL the excess over 105% have to be given to him?

3. Apparently, the Commissioner's option for a reduced contribution rate was submitted recently to Senate Finance (at one of the special sessions this summer). How was the proposal received? What was presented and what were the legislators' objections?

    Response requested from DOR and as appropriate DOA

4. A constructively cynical person could contend that the Commissioner's option for a reduced contribution rate would solely benefit the state as employer and payor of significant contributions, rather than the "systems, plan, program, and trusts"? Please submit your best arguments that the foregoing contention is wrong.

    Response requested from DOR, Buck, GRS, and legal

5. Would adoption of the Commissioner's option for a reduced contribution rate be consistent with

    (a) Actuarial Standard 44 (referenced by Paul Wood of GRS);

    (b) best practices in the actuarial community; and

    (c) the standards of prudence underlying AS 37.10.210 and AS 37.10.071.

    Response requested from DOR, Buck, GRS, IAC, and legal

6. A response to all of the concerns raised by Paul Wood of GRS.

    a. We need to thoroughly consider GRS actuaries' concerns regarding disparate treatment of introducing bias into system.

    Refer to Attachment A: GRS Five Points Reset AVA document.

7. A brief summary of the funding ratios from 1999 to the present time. Prior to the separation into separate trusts in 2007, the pension and health care liabilities were combined, and we had funding

ratios in the late 90s of close to 100 %. The tech bubble and the Mercer errors changed all that around 2003 and resulted in SB141 which created the ARM Board.

8. The separation of the pension and health graphs that were shared in the Buck presentation and online actuarial dashboard:

a. A breakdown of unfunded liability over time as a percentage and as a dollar amount for the PERS and TRS pensions over several years. We see actuarially we are funded to 67% for PERS but how many dollars is that in terms of unfunded liability? A historical table would be good.

b. The projection of unfunded liability before the 2014 legislative allocation to the fund

c. A description of why we have 25 years of layering

9. A chart and table showing ARM Board Returns each year since inception.

10. It appears if we reset to market value, Other Employers and School districts are still contributing the same amount, but the State of Alaska is reducing its payments by about $34 million for non-state employees, $33 million for state employees, and $38 million for TRS for a total reduction of about $105 million.

a. Is the result this year that the state is reducing its payments by $105 million this year? What's the implications for the next five years?

Refer to Attachment B: Page 8 from 9/22 Actuarial Committee meeting packet

11. An evaluation of a change to 3 year smoothing.

Response requested from DOR, DOA, Buck and GRS, as appropriate

Normal Cost Funding Discussion

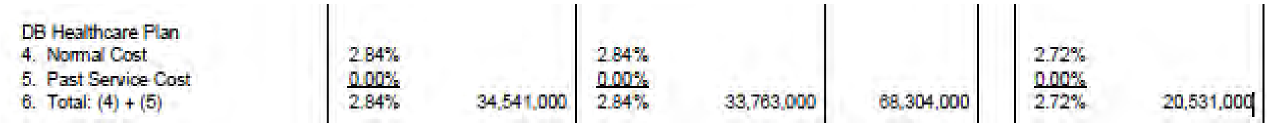
1. A description of any repercussions if the Board rejects Normal Costs for Health Care for plans that are overfunded.

a. A summary of why the health plans is now overfunded and why the expected costs have changed over time.

b. The expected results for the health funds if Normal Costs were removed and not automatically set

2. Presentation on all statutes relating to normal cost funding, and current interpretations if any are applicable

3. If the following is eliminated:



DB Healthcare Plan							
4. Normal Cost	2.84%		2.84%			2.72%	
5. Past Service Cost	0.00%		0.00%			0.00%	
6. Total: (4) + (5)	2.84%	34,541,000	2.84%	33,763,000	68,304,000	2.72%	20,531,000

Does this impact the 22% that all employers, including the state, are required to pay? For example, if we eliminate the normal cost, does this thereby increase the 'past service cost' funding required from all employers? Or would the 22% actually be reduced to 19.XX%?

4. If the normal cost is therefore moved to past service liability, does this impact the additional state contribution required?

5. Please provide a template paper suggesting statutory change, such as the Alaska Permanent Fund Board of Trustees may have submitted in the past.

Time Permitting Discussion:

1. Comments from Buck Health Care Consultant, Scott Young, on future health care increases

2. Comments from NASRA on whether this is a common practice and if not, why not

3. Summary from DRB regarding the possible numbers of Tier I members, both TRS and PERS who might reinstate because of the Metcalfe decision. (I know it is not going to be 77 K, but however many decide to buy back in it will be an automatic 16K annual health care benefit. So 1K, 5 K 10 K ???)

ATTACHMENT A: GRS Five Points Reset AVA

MEMORANDUM

Date: September 30, 2021

To: Actuarial Committee, Alaska Retirement Management Board

From: Paul T. Wood, ASA, FCA, MAAA

cc: Ms. Pamela Leary
Mr. Zachary Hanna
Ms. Alysia Jones

Re: Summary of Remarks Regarding the Resetting of the Actuarial Value of Assets to the Market Value of Assets

Here is a summary of my remarks from the September Committee Meeting

1. We are concerned you are setting yourself up for future budgetary pain. Reducing a contribution in any given year does not really create “savings.” The long-term cost of the plan is unchanged. While the projections look great if we assume a 7.38% return for the next five years, have we done any analysis on the likelihood of that happening? One year of poor investments performance would not just be a one-year contribution shortfall, rather, it would be artificially suppressed for the entire asset smoothing period without offsetting gains if the actuarial value of assets is reset. Furthermore, if more money did have to be put in eventually, the State would have to PAY interest, instead of the plan EARNING that interest. Pay me now or pay me a whole lot more later.
2. A lot of hard work has been done to get these plans on track. This committee has spent countless hours listening to the actuaries, strengthening the assumptions and implementing an appropriate funding policy that is built to last and more importantly, built to handle situations like this. Asset smoothing and the layered amortization approach help control contribution volatility and provide budgetary stability. Any time we inject a human decision into these strong and appropriate policies, the likelihood of disrupting that stability occurs.
3. The pension plans are in no danger of being overfunded any time soon. One may think you could look to the OPEB as a direct comparison. Certainly, with the policy of contributing the normal cost as a contribution floor, the funded status of the OPEB plans continue to improve. But I think we need to analyze the reasons for the overfunded position of the OPEB plans. We are not in this position solely as a result of over contributing. Rather, a combination of plan design and actuarial gains on the liability side have led to this situation, both items that would be unlikely to occur to the pension plans. Furthermore, the current funding policy will begin to slow the rate of necessary contributions to the plan once we approach full funding. If overfunding truly is a concern, we would recommend consideration of removing the normal cost contribution floor in the event of a surplus.

4. Actuarial Standards of Practice Concerns – ASOP 44 guides the actuary on the selection of an asset valuation method. It contains a section pertaining to “Bias.” In that section, it talks about how an asset method may have systematic bias toward significant understatement or overstatement relative to market value. For example, resetting the actuarial value of assets to market value only when the market value exceeds the actuarial value of assets under the normal operation of the asset valuation method may constitute significant systematic bias in the de facto asset valuation method toward overstatement relative to market value. Granted, the resetting is not an automatic provision in the current asset valuation method, but this is the second time in seven years in which this practice has been proposed and, in this case, the purpose appears to be short term budgetary relief. It should be noted that the fourth exposure draft of ASOP 44 included a direct reference to resetting the actuarial value of assets but was subsequently removed. However, the ASOP still requires that significant systematic bias be disclosed, and multiple applications of the reset at peak times could be considered significant systematic bias. The standard now requires the actuary to disclose the reason for any changes in asset valuation method (section 4.1.3).
5. We are about to embark on another experience study, and there are some major assumptions that may need to be updated. The most recent survey released by NASRA shows that the median discount rate in the public sector is now 7.0% which is below our 7.38% assumption. So, there will be pressure to come down on that rate somewhat which could increase contribution requirements. An option that we would fully support would be to take some of these gains and use them to offset any additional cost that may arise as a result of the experience study. Otherwise, new assumptions will be implemented in the next valuation, and then it will still take years before the proper level of contributions flow into the plan. Resetting the AVA now could further exacerbate that issue.

I hope you seriously consider these risks and whether or not it makes sense at this point to reset the actuarial value of assets to the market value of assets.

Attachment B: Summary of FY23 Contribution Rates *(Pg. 8 9/22 Actuarial Cmte Packet)*

State of Alaska
Summary of FY23 Contributions - With and Without Reset of AVA to MVA as of June 30, 2021

Without Reset of AVA to MVA[1]

	PERS					TRS	
	Non-State Employers		State as an Employer		All Employers		
	Percent of Total Payroll	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount
Employer Contributions							
DB Pension Plan							
1. Normal Cost	2.37%		2.37%			2.24%	
2. Past Service Cost	10.38%		16.01%			0.88%	
3. Total: (1) + (2)	12.75%	$ 155,071,000	18.38%	$ 218,507,000	$ 373,578,000	3.12%	$ 23,550,000
DB Healthcare Plan							
4. Normal Cost	2.84%		2.84%			2.72%	
5. Past Service Cost	0.00%		0.00%			0.00%	
6. Total: (4) + (5)	2.84%	34,541,000	2.84%	33,763,000	68,304,000	2.72%	20,531,000
7. DCR Plan	6.41%	77,961,000	6.41%	76,204,000	154,165,000	6.72%	50,723,000
8. Total: (3) + (6) + (7)	22.00%	$ 267,573,000	27.63%	$ 328,474,000	$ 596,047,000	12.56%	$ 94,804,000
Additional State Contributions to DB							
9. DB Pension Plan	5.63%	$ 68,475,000	0.00%	$ 0	$ 68,475,000	14.78%	$ 111,560,000
10. DB Healthcare Plan	0.00%	0	0.00%	0	0	0.00%	0
11. Total: (9) + (10)	5.63%	$ 68,475,000	0.00%	$ 0	$ 68,475,000	14.78%	$ 111,560,000
Total DB							
12. DB Pension Plan: (3) + (9)	18.38%	$ 223,546,000	18.38%	$ 218,507,000	$ 442,053,000	17.90%	$ 135,110,000
13. DB Healthcare Plan: (6) + (10)	2.84%	34,541,000	2.84%	33,763,000	68,304,000	2.72%	20,531,000
14. Total: (12) + (13)	21.22%	$ 258,087,000	21.22%	$ 252,270,000	$ 510,357,000	20.62%	$ 155,641,000
Total DB and DCR: (7) + (14)	27.63%	$ 336,048,000	27.63%	$ 328,474,000	$ 664,522,000	27.34%	$ 206,364,000

With Reset of AVA to MVA[2]

	PERS					TRS	
	Non-State Employers		State as an Employer		All Employers		
	Percent of Total Payroll	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount
Employer Contributions							
DB Pension Plan							
1. Normal Cost	2.37%		2.37%			2.24%	
2. Past Service Cost	10.38%		13.27%			0.88%	
3. Total: (1) + (2)	12.75%	$ 155,071,000	15.64%	$ 185,933,000	$ 341,004,000	3.12%	$ 23,550,000
DB Healthcare Plan							
4. Normal Cost	2.84%		2.84%			2.72%	
5. Past Service Cost	0.00%		0.00%			0.00%	
6. Total: (4) + (5)	2.84%	34,541,000	2.84%	33,763,000	68,304,000	2.72%	20,531,000
7. DCR Plan	6.41%	77,961,000	6.41%	76,204,000	154,165,000	6.72%	50,723,000
8. Total: (3) + (6) + (7)	22.00%	$ 267,573,000	24.89%	$ 295,900,000	$ 563,473,000	12.56%	$ 94,804,000
Additional State Contributions to DB							
9. DB Pension Plan	2.89%	$ 35,150,000	0.00%	$ 0	$ 35,150,000	9.81%	$ 74,046,000
10. DB Healthcare Plan	0.00%	0	0.00%	0	0	0.00%	0
11. Total: (9) + (10)	2.89%	$ 35,150,000	0.00%	$ 0	$ 35,150,000	9.81%	$ 74,046,000
Total DB							
12. DB Pension Plan: (3) + (9)	15.64%	$ 190,221,000	15.64%	$ 185,933,000	$ 376,154,000	12.93%	$ 97,596,000
13. DB Healthcare Plan: (6) + (10)	2.84%	34,541,000	2.84%	33,763,000	68,304,000	2.72%	20,531,000
14. Total: (12) + (13)	18.48%	$ 224,762,000	18.48%	$ 219,696,000	$ 444,458,000	15.65%	$ 118,127,000
Total DB and DCR: (7) + (14)	24.89%	$ 302,723,000	24.89%	$ 295,900,000	$ 598,623,000	22.37%	$ 168,850,000

[1] Please see letter dated August 25, 2021 for additional details.

[2] Please see letter dated September 16, 2021 for additional details.

9/16/2021

BUCK

Responses to Trustee Questions

The following pages contain responses to the questions submitted by the ARM Board Trustees in the document titled *Amended Trustee Questions for October 11th ARMB Board of Trustees Meeting.*

The majority of written responses received address multiple questions. As such, responses are organized by respondent as noted here:

Buck

- FMV to AVA Reset Discussion questions: 4., 5.a.-c., 6.a., 8.a.-c., 10.a., and 11.
- Normal Cost Funding Discussion questions: 1.a. and b., 3., 4.
- Time Permitting Discussion questions: 1.

GRS

- FMV to AVA Reset Discussion questions: 4., 5.a.-c., and 11.

Investment Advisory Council Members

- Ms. Ryerson

Callan – Response to FMV to AVA Reset Discussion Q. 1

ADDITIONAL RESPONSES TO FMV TO AVA RESET DISCUSSION QUESTIONS

- **Division of Retirement & Benefits** – Q. 2: Risk to Fund of Overfunding
- **Division of Retirement & Benefits** – Q. 7: Summary of Funding Ratios
- **Division of Treasury** –Q. 9: Chart of ARM Board Returns

ADDITIONAL RESPONSES TO TIME PERMITTING DISCUSSION

- **Division of Retirement & Benefits** – Q. 3 Summary of possible numbers of Tier 1 members (TRS & PERS) who might reinstate because of the Metcalfe decision

BUCK

State of Alaska

Buck's Response to Questions from the Alaska Retirement Management Board

for the October 11, 2021 Meeting

FMV/AVA Reset Discussion

4. A constructively cynical person could contend that the Commissioner's option for a reduced contribution rate would solely benefit the state as employer and payor of significant contributions, rather than the "systems, plan, program, and trusts"? Please submit your best arguments that the foregoing contention is wrong.

Buck response:

It is important to remember that the costs of each plan depend on the benefits and expenses that are ultimately paid from the trust. The ARMB's funding policy (which includes the actuarial cost method, the asset valuation method, and the amortization method) and the actuarial assumptions only affect the *pattern* and *timing* of contributions – they do *not* impact the costs of the plan.

For all years through FY39, the actuarially determined contribution rates (DB and DCR combined) are projected to exceed the statutory employer contribution limits of 22% (PERS) and 12.56% (TRS). This is true with or without the AVA reset. Therefore, the AVA reset has no impact on contributions of non-State employers. For example, the table below summarizes the PERS FY23-FY39 contributions with and without the reset (these projections were provided at the September 22, 2021 Actuarial Committee meeting):

($000's)	Without AVA Reset	With AVA Reset	Increase/ (Decrease)
State-as-an-employer	3,877,169	3,846,730	(30,439)
Non-State employers	3,247,289	3,247,289	0
Additional State Contribution	719,297	688,155	(31,142)
Total	7,843,755	7,782,174	(61,581)

The State's contributions (as an employer and the Additional State Contributions) decrease as a result of the AVA reset. However, the State's contributions are also at risk of increasing if future experience results in higher contribution rates. If this happens, the non-State employers' contributions will be unchanged because of the 22% statutory limit.

The situation is similar for TRS, except the State-as-an-employer contributions are limited to 12.56% of pay as are the non-State employer contributions.

Managing the pattern and timing of contributions benefits all stakeholders, because it (i) ensures the funding is affordable, (ii) avoids introducing a new tier of reduced benefits with lower contribution rates for new hires, and (iii) allows State funds to be used for the most urgent needs without sacrificing the long-term funding of the retirement systems.

5. Would adoption of the Commissioner's option for a reduced contribution rate be consistent with:

(a) Actuarial Standard 44 (referenced by Paul Wood of GRS);

(b) best practices in the actuarial community; and

(c) the standards of prudence underlying AS 37.10.210 and AS 37.10.071.

Buck response:

(a) Actuarial Standard of Practice 44 (ASOP 44) describes the factors that should be considered "in the selection and use of asset valuation methods for pension valuations". Under ASOP 44, if the asset valuation method uses a value other than market value: (i) the method should produce actuarial asset values that are sometimes greater than and sometimes less than the corresponding market values, (ii) the actuarial asset values should fall within a reasonable range of the corresponding market values, (iii) differences between the actuarial and market values are recognized within a reasonable period of time, (iv) the method should not have significant systematic bias relative to market value.

ASOP 44 states that an asset valuation method has significant systematic bias if, in the actuary's professional judgment, the method's design is expected to produce a distribution of actuarial values that is significantly skewed toward understatement or overstatement relative to the corresponding market values.

We do not believe that resetting the actuarial value to market value violates the "significant systematic bias" considerations of ASOP 44. Additionally, in the case of an asset smoothing method that does not incorporate a "corridor" around market value, periodic resets to market value could be helpful in ensuring that differences between actuarial and market value are recognized within a reasonable period of time. Moreover, while ASOP 44 requires the disclosure of bias, it does not prohibit it.

(b) The vast majority of U.S. public pension plans use an asset valuation method as a way to mitigate contribution volatility caused by swings in market values. For those that use an asset valuation method that produces actuarial values that are different than market values, the most common period of asset smoothing is 5 years. There is no available data to indicate the prevalence of resetting the actuarial value to market value.

Actuarial Standards of Practice, such as ASOP 44, codify *required* practice for actuaries. There is no universally accepted codification of "best practices" for actuaries. In the particular case of public pension plan funding, a "white paper" issued in 2014 by the Conference of Consulting Actuaries, *Actuarial Funding Policies and Practices for Public Pension Plans*, might be regarded as something close to that, as it offers rank orderings of asset smoothing techniques and other pension funding practices. The paper does caution against a tendency to "selectively restart smoothing at market value only when market value is greater than smoothed value." At the same time, a restart of a smoothing method would not relegate the smoothing method chosen by the ARMB to the categories of "non-recommended" or "unacceptable" practices as defined by this document (unless there is a discernible pattern of resetting to market value frequently or only when the market value exceeds the actuarial value).

Thinking more broadly about "best practices," the best approach to the question of whether the asset smoothing method should now be restarted would be to consider the possibility that some or all of recent gains on assets will prove to be transitory, and to examine the probable effects on contribution requirements, funded status, and other actuarial outcomes. This could be done using deterministic or stochastic projections[1]. The outcomes, particularly those related to cash contribution requirements, could be compared with forecasts of the availability of revenues to meet the resulting demands on the State treasury.

[1] Deterministic projections with illustrative adverse market returns in FY22 and FY23 have been run, with the results provided in a separate document for the October 11 meeting.

(c) Under Alaska Statutes 37.10.210 and 37.10.071, the standard of prudence is related to the ARMB's fiduciary obligation to manage and invest the plan assets in a manner that is sufficient to meet the liabilities and obligations of the retirement systems.

Resetting of the actuarial value to market value would increase the short-term funded status of the PERS and TRS pension trusts. However, the pension trusts will continue toward 100% funding with or without the reset.

Accordingly, we do not believe that resetting the actuarial value to market value violates the ARMB's fiduciary responsibility or standard of prudence as defined in the Alaska Statutes.

6. A response to all of the concerns raised by Paul Wood of GRS.

a. We need to thoroughly consider GRS actuaries' concerns regarding disparate treatment of introducing bias into system.

Buck response:

As we stated at the September 22 Actuarial Committee meeting, consideration should be given to the impact resetting the actuarial value to market value could have if there is a market correction or downturn in the near-term.

Without the reset, the current deferred asset gains/losses would serve as a buffer against a potential asset loss in the near-term. If the reset occurs, the current deferred asset gains/losses would be eliminated, in which case any asset loss in the near-term would have a bigger impact on the actuarial value of assets and contribution rates.

Introducing bias in the asset valuation method is a legitimate concern. A pattern of resetting the actuarial value to market value only when it is advantageous to do so would be considered bias. However, we do not believe that resetting the actuarial value to market value a second time (the first time was in 2014 when other significant events were occurring) would necessarily indicate a pattern.

8. The separation of the pension and health graphs that were shared in the Buck presentation and in the login site

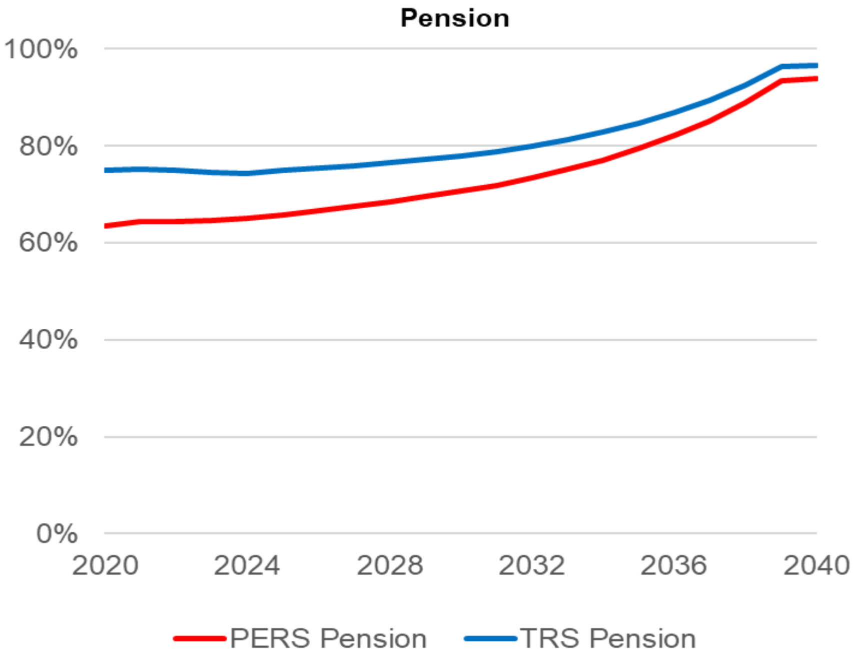
a. A breakdown of unfunded liability over time as a percentage and as a dollar amount for the PERS and TRS pensions over several years. We see actuarially we are funded to 67% for PERS but how many dollars is that in terms of unfunded liability? A historical table would be good.

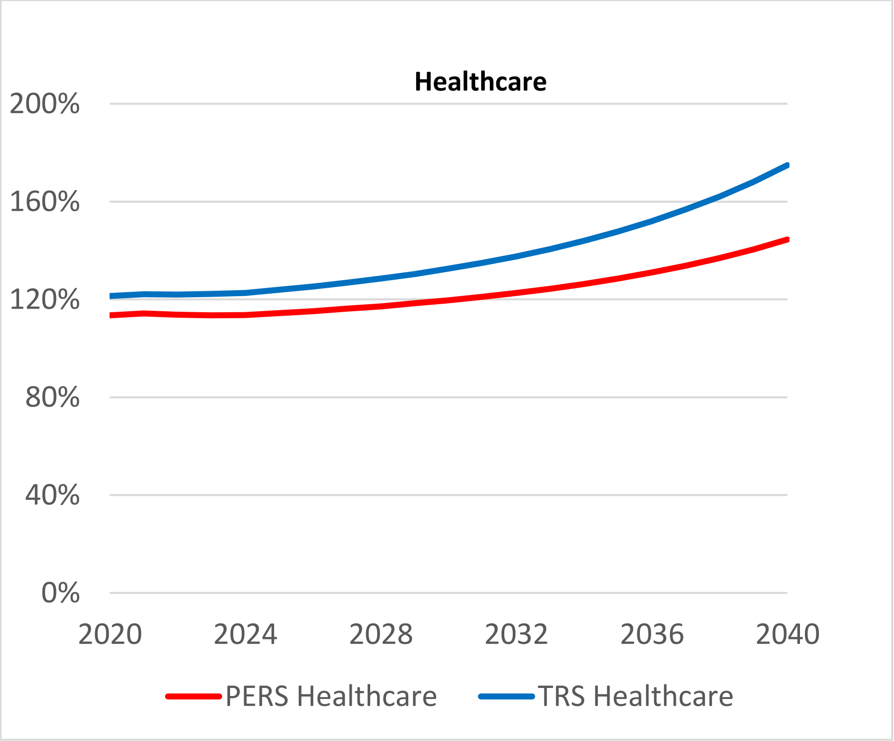
b. The projection of unfunded liability before the 2014 legislative allocation to the fund

c. A description of why we have 25 years of layering

Buck response:

The graphs below show the projected pension and healthcare funded ratios (Actuarial Value of Assets vs. Actuarial Accrued Liability) for PERS and TRS. These figures are based on the June 30, 2020 valuation projections that assume no experience gains or losses in FY21 or later. The healthcare funded ratios are currently above 100%. Because the healthcare Normal Cost is to be contributed at a minimum each year per Alaska Statutes, the healthcare funded ratios continue to increase.

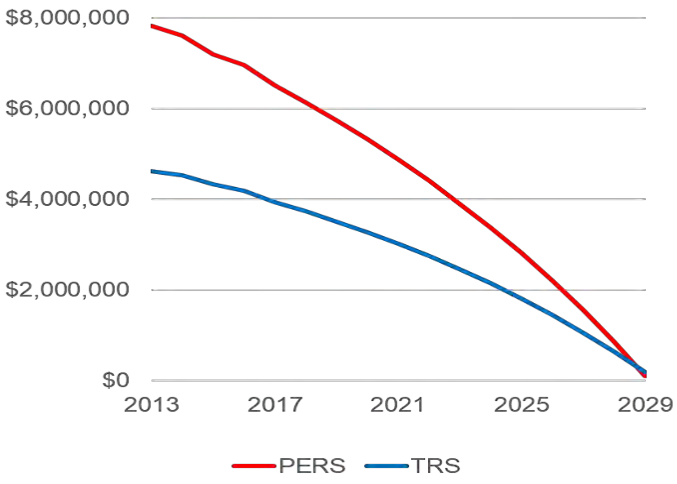

Pension
100%
80%
60%
40%
20%
0%
2020
2024
2028
2032
2036
2040
PERS Pension
TRS Pension


Healthcare
200%
160%
120%
80%
40%
0%
2020
2024
2028
2032
2036
2040
PERS Healthcare
TRS Healthcare

(a) The table below shows the pension Unfunded Actuarial Accrued Liability (UAAL) and funded ratio (FR) for PERS and TRS for 2010 through 2020. The funded ratio is based on the Actuarial Value of Assets.

Valuation	PERS Pension		TRS Pension	
Date	UAAL	FR	UAAL	FR
6/30/2010	3,901,840	62.4%	2,747,113	54.3%
6/30/2011	4,156,898	61.9%	2,850,155	54.0%
6/30/2012	4,898,523	57.1%	3,204,783	49.9%
6/30/2013	5,435,132	54.5%	3,419,240	48.1%
6/30/2014	5,216,321	59.7%	3,150,223	54.5%
6/30/2015	4,406,769	67.0%	1,629,073	76.9%
6/30/2016	4,576,371	66.4%	1,731,101	75.8%
6/30/2017	4,602,427	66.7%	1,740,690	75.9%
6/30/2018	5,175,841	64.6%	1,734,690	76.2%
6/30/2019	5,462,487	63.7%	1,824,089	75.3%
6/30/2020	5,565,815	63.6%	1,859,972	75.0%

(b) The graph below shows the projected total[2] unfunded liabilities (Actuarial Accrued Liability less Actuarial Value of Assets) for PERS and TRS. These figures (in $000's) are based on the 2013 valuation projections that assume no experience gains or losses in FY14 or later.



[2] Separate 2013 valuation projections for pension and healthcare are not available. These projections reflect the assumptions and methods that were used in the 2013 valuation, which include level dollar amortization of the Unfunded Actuarial Accrued Liability and an investment return assumption of 8%.

(c) As part of the 2017 experience study, the amortization method was changed effective for the June 30, 2018 valuation:

i. Prior to the change, the Unfunded Actuarial Accrued Liability was being amortized over a closed 25-year period that started in 2014.

ii. After the change, (i) the Unfunded Actuarial Accrued Liability at June 30, 2018 based on the 2017 valuation is amortized over the remainder of the 25-year closed period that started in 2014, (ii) the impact on the June 30, 2018 Unfunded Actuarial Accrued Liability due to the experience study and EGWP implementation is amortized over a 25-year closed period that started in 2018, and (iii) future annual differences between the actual and expected Unfunded Actuarial Accrued Liability are amortized over separate 25-year closed periods.

The new method is commonly referred to as “25-year layered amortization”. The layered approach was recommended to avoid potential volatility of the Additional State Contributions in the last few years of the closed 25-year period that started in 2014. For example, prior to the change, if a large asset and/or liability loss were to occur in 2034, the loss would be amortized over a 5-year period, which could cause a significant increase in Additional State Contributions for FY35-FY39.

The choice of 25 years was made primarily to be consistent with Alaska Statutes 37.10.220(8)(B) that states the amount to liquidate the past service liability be determined on a “level percent of pay method based on amortization of the past service liability for a closed term of 25 years”.

10. It appears if we reset to market value, Other Employers and School districts are still contributing the same amount, but the State of Alaska is reducing its payments by about $34 million for non-state employees, $33 million for state employees, and $38 million for TRS for a total reduction of about $105 million.

a. Is the result this year that the state is reducing its payments by $105 million this year? What’s the implications for the next five years?

Refer to Attachment B: Pages from 9/22 Actuarial Committee Meeting packet

Buck response:

The table below shows the changes in the State’s projected contributions to PERS and TRS for FY23-FY28 due to the reset to market value[3]. The corresponding amounts of PERS non-State employer contributions and TRS employer contributions are unaffected because the total contribution rates for these years exceed 22% (PERS) and 12.56% (TRS) with or without the reset to market value. Figures are in $000’s.

	PERS State-as-an-Employer			PERS Additional State Contributions			TRS Additional State Contributions			
Fiscal Year	Without Reset	With Reset	Inc/(Dec)	Without Reset	With Reset	Inc/(Dec)	Without Reset	With Reset	Inc/(Dec)	total Inc/(Dec)
2023	252,270	219,696	(32,574)	68,475	35,150	(33,325)	111,560	74,046	(37,514)	(103,413)
2024	238,767	216,930	(21,837)	56,711	34,370	(22,341)	99,793	74,597	(25,196)	(69,374)
2025	225,906	215,235	(10,671)	45,032	34,115	(10,917)	88,186	75,964	(12,222)	(33,810)
2026	212,176	214,263	2,087	32,140	34,274	2,134	74,993	77,503	2,510	6,731
2027	211,877	213,994	2,117	32,476	34,641	2,165	76,519	79,067	2,548	6,830
2028	212,125	214,275	2,150	32,850	35,049	2,199	78,261	80,851	2,590	6,939

[3] Projections are based on the 2020 valuations and preliminary June 30, 2021 asset statements.

11. An evaluation of a change to 3-year smoothing.

Buck response:

The goal of the asset smoothing method is to mitigate the impact on contribution rates due to volatility in market returns. To best achieve this objective, we recommend 5-year smoothing rather than 3-year smoothing.

Switching to 3-year asset smoothing starting in FY21 (with 5-year smoothing continuing for the pre-FY21 asset gains/losses) does provide short-term savings in projected contributions to PERS and TRS[4]. The savings should be evaluated relative to the risk of increased contribution volatility in the future due to the shorter smoothing period.

Normal Cost Funding Discussion

1. A description of any repercussions if the Board rejects Normal Costs for Health Care for plans that are overfunded.

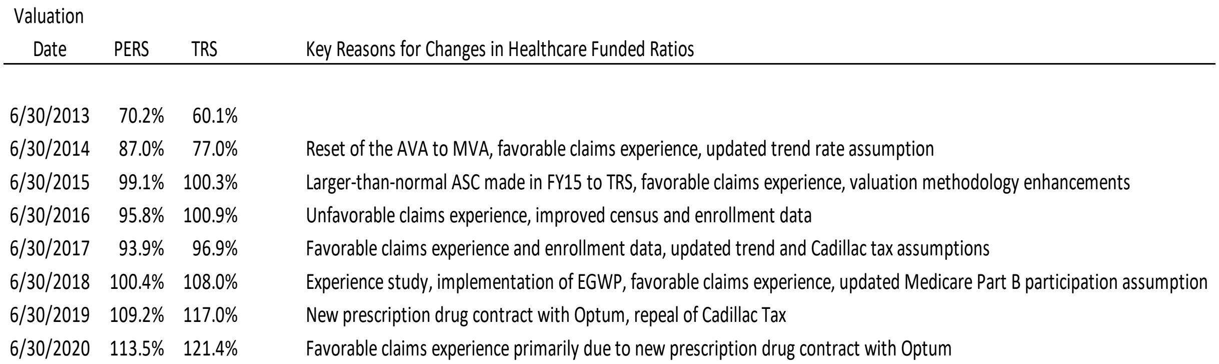
a. A summary of why the health plans is now overfunded and why the expected costs have changed over time.

b. The expected results for the health funds if Normal Costs were removed and not automatically set

Buck response:

From an actuarial perspective, not contributing the healthcare Normal Cost means the funded ratios of the healthcare trusts will not grow as rapidly as currently projected. There may be legal (i.e., statutory) considerations as well, but Buck is not qualified to opine on legal matters.

(a) The table below shows the PERS and TRS healthcare funded ratio (Actuarial Value of Assets basis) for 2013-2020:



Valuation Date	PERS	TRS	Key Reasons for Changes in Healthcare Funded Ratios
6/30/2013	70.2%	60.1%	
6/30/2014	87.0%	77.0%	Reset of the AVA to MVA, favorable claims experience, updated trend rate assumption
6/30/2015	99.1%	100.3%	Larger-than-normal ASC made in FY15 to TRS, favorable claims experience, valuation methodology enhancements
6/30/2016	95.8%	100.9%	Unfavorable claims experience, improved census and enrollment data
6/30/2017	93.9%	96.9%	Favorable claims experience and enrollment data, updated trend and Cadillac tax assumptions
6/30/2018	100.4%	108.0%	Experience study, implementation of EGWP, favorable claims experience, updated Medicare Part B participation assumption
6/30/2019	109.2%	117.0%	New prescription drug contract with Optum, repeal of Cadillac Tax
6/30/2020	113.5%	121.4%	Favorable claims experience primarily due to new prescription drug contract with Optum

The key reasons for the improvement in the healthcare funded ratios since 2013 are further described below:

i. Favorable claims experience used in setting the per capita claims cost assumption
ii. Changes in healthcare-specific and other assumptions used to measure healthcare liabilities
iii. Resetting of the actuarial value of assets to market value in 2014

[4] Please see the separate document we provided for the October 11 meeting that quantifies the potential savings.

iv. Improvements in the healthcare census and enrollment data reported to us beginning with the 6/30/16 valuations
v. Implementation of EGWP effective January 1, 2019, reflected in the 6/30/18 valuations
vi. New prescription drug contract with Optum effective January 1, 2019, reflected in the 6/30/19 valuations
vii. Repeal of the Cadillac Tax, reflected in the 6/30/19 valuations

The favorable claims experience reflected in setting the per capita claims cost assumption used to measure healthcare liabilities is primarily attributable to the following reasons:

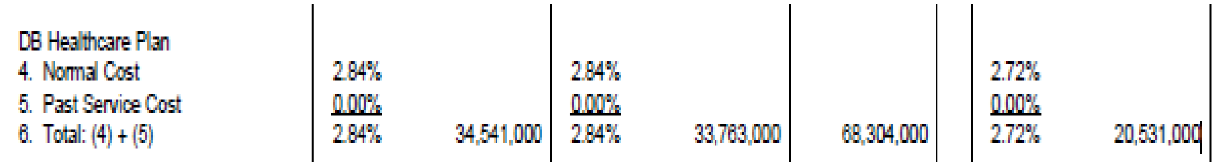
- Improved sources of claims and enrollment data
    - Claims are now obtained from Alaska's data warehouse
    - Enrollment is now obtained from monthly reports provided by Aetna
- The new prescription drug contract with Optum has resulted in lower claims and larger prescription drug rebates

For the last two valuations (6/30/19 and 6/30/20), the medical (non-prescription drug) per capita claims cost assumption has been within 1% (or less) of the prior year's assumption.

(b) The table below shows the healthcare funded ratios through FY39 based on the 2020 valuation projections, with and without the healthcare Normal Cost being contributed to the healthcare trusts:

	PERS		TRS	
	With NC Contributed	Without NC Contributed	With NC Contributed	Without NC Contributed
6/30/2020	113.5%	113.5%	121.4%	121.4%
6/30/2021	114.2%	112.8%	122.1%	121.1%
6/30/2022	113.8%	111.3%	122.0%	120.1%
6/30/2023	113.5%	110.0%	122.2%	119.3%
6/30/2024	113.6%	109.0%	122.6%	118.9%
6/30/2025	114.4%	108.8%	123.9%	119.4%
6/30/2026	115.2%	108.7%	125.3%	119.9%
6/30/2027	116.2%	108.7%	126.8%	120.7%
6/30/2028	117.2%	108.7%	128.5%	121.6%
6/30/2029	118.4%	108.9%	130.4%	122.7%
6/30/2030	119.6%	109.2%	132.6%	124.0%
6/30/2031	121.1%	109.5%	135.0%	125.5%
6/30/2032	122.6%	110.0%	137.6%	127.2%
6/30/2033	124.4%	110.5%	140.6%	129.2%
6/30/2034	126.3%	111.2%	144.0%	131.4%
6/30/2035	128.5%	111.9%	147.8%	134.0%
6/30/2036	131.0%	112.9%	152.0%	136.9%
6/30/2037	133.8%	113.9%	156.8%	140.1%
6/30/2038	136.9%	115.1%	162.1%	143.8%
6/30/2039	140.5%	116.5%	168.1%	148.0%

3 .If the following is eliminated:



DB Healthcare Plan							
4. Normal Cost	2.84%		2.84%			2.72%	
5. Past Service Cost	0.00%		0.00%			0.00%	
6. Total: (4) + (5)	2.84%	34,541,000	2.84%	33,763,000	68,304,000	2.72%	20,531,000

Does this impact the 22% that all employers, including the state, are required to pay? For example, if we eliminate the normal cost, does this thereby increase the 'past service cost' funding required from all employers? Or would the 22% actually be reduced to 19.XX%?

Buck response:

The healthcare Normal Cost is the present value of healthcare benefits expected to accrue in the upcoming year for active participants. It can't be "eliminated" because active participants are accruing these benefits. Therefore, it would still be included in the actuarially determined contribution rates.

Whether the healthcare Normal Cost is deposited in the healthcare trusts is a decision for the ARMB and the Department of Administration to make. The considerations surrounding this decision are legal (rather than actuarial) in terms of the requirements stated in the Alaska Statutes.

This question may be asking about what would happen if the negative healthcare past service contribution rate were allowed to offset the healthcare Normal Cost rate. This would result in a zero healthcare FY23 contribution rate for PERS and TRS. In this case, the FY23 Additional State Contributions would decrease from $68.475M to $33.933M for PERS, and from $111.560M to $91.029M for TRS. In addition, the projected FY23 State-as-an-Employer contribution to PERS would decrease from $252.270M to $218.507M.

4. If the normal cost is therefore moved to past service liability, does this impact the additional state contribution required?

Buck response:

As stated above in Q3, the healthcare Normal Cost would still be a component of the actuarially determined contribution rates. Therefore, the Additional State Contributions would not change. However, if the negative healthcare past service contribution rate were allowed to offset the Normal Cost rate, then the FY23 Additional State Contributions would be reduced as described above in Q3.

Time Permitting Discussion

1. Comments from Buck Health Care Consultant, Scott Young, on future health care increases

Buck response:

Since 2012, the valuations have used a model developed by the Society of Actuaries (known as the "Getzen" model) for projecting future healthcare increases. Two key components of the model include:

- Short-term increases based on the user's expectations. These increases reflect survey data (from firms like Buck, Segal, and other organizations) as well as recent Alaska-specific experience.
- Long-term increases based on inflation, real per capita GDP, and the assumption that healthcare increases can't continue to grow at a rate higher than nominal per capita GDP (inflation plus real per capita GDP).

The current trend rate assumptions reflected in the 6/30/20 valuations are as follows:

- Initial rates during FY21 of 6.5% for pre-Medicare medical benefits, 5.4% for Medicare medical benefits, and 7.5% for prescription drug / EGWP benefits.

- These rates are assumed to decline over time (according to the Getzen model) to an ultimate rate of 4.5% (which is equal to the current inflation assumption of 2.5% plus the real per capita GDP assumption of 2.0%).

The healthcare trend assumption is reviewed every year. For the last two valuations (6/30/19 and 6/30/20), the medical (non-prescription drug) per capita claims cost assumption has been within 1% of the prior year's assumption, which means the assumption has been a good estimate of the expected (and actual) increase for Alaska's plans. The prescription drug per capita claims cost has been lower than assumed due to the new prescription drug contract with Optum that has resulted in lower claims and higher rebates. Once the prescription drug claims from Optum are fully phased-in to the per capita claims assumption (the methodology uses a 2-year smoothing of experience that started with the 6/30/19 valuation), we expect that the increases will be closer to the valuation assumption.

Just as with all actuarial assumptions, actual healthcare cost increases can be higher or lower than the assumption in any particular year.

GRS

MEMORANDUM

Date: October 8, 2021

To: Actuarial Committee, Alaska Retirement Management Board

From: Paul T. Wood, ASA, FCA, MAAA

cc: Ms. Pamela Leary
Mr. Zachary Hanna
Ms. Alysia Jones

Re: Responses to the Trustees Questions Regarding Asset Smoothing

We have been asked to respond to questions 4, 5, and 11 in the document entitled "Amended Trustee Questions & Requests for October 11th ARMB Board of Trustees Meeting." Below are our responses:

4. A constructively cynical person could contend that the Commissioner's option for a reduced contribution rate would solely benefit the state as employer and payor of significant contributions, rather than the "systems, plan, program, and trusts"? Please submit your best arguments that the foregoing contention is wrong.

GRS Response

We are unaware of any benefit to the systems, plan, program, or trust from a short-term reduction in contribution. It could also be argued that any possible benefit to the State is likely to be of a very short-term nature at the cost of additional budgetary strain later. Please see Point #1 in "Attachment A: GRS Five Points Reset AVA."

5. Would adoption of the Commissioner's option for a reduced contribution rate be consistent with

(a)Actuarial Standard 44 (referenced by Paul Wood of GRS);

GRS Response

Please see our response contained in Point #4 in "Attachment A: GRS Five Points Reset AVA."

(b)best practices in the actuarial community; and

GRS Response

There is one resource in particular that we can point to with regards to some best practices regarding funding policies in the public sector. That is, a paper published by the Conference of Consulting Actuaries titled "Actuarial Funding Policies and Practices for Public Pension Plans." This paper does an incredible deep and robust dive into the development of an appropriate funding policy. The white paper is intended as advice to actuaries and retirement boards in the setting of funding policy.

Specific policy objective and consideration number 3 in the asset smoothing section of the paper, states "the asset smoothing method should not be selectively reset at market value only when market value is greater than actuarial value." Furthermore, it goes on to state in section *(6)(c.)(ii.)*of the asset smoothing method discussion that:

> *(6)(c.)(ii.) Restarts of fixed, separate smoothing periods should not be used:*
>
> > *A. Too frequently, as this would produce a de facto rolling smoothing period, or*
> > *B. To selectively restart smoothing at market value only when market value is greater than smoothed value. This would violate General Policy Objective 5, since it would selectively change the policy only when the effect is to reduce contributions*

General Policy Objective 5 in the paper reads as follows:

> *The funding policy should take into consideration the nature of public sector pension plans and their governance. These governance issues include (1) agency risk issues associated with the desire of interested parties (agents) to influence the cost calculations in directions viewed as consistent with their particular interests, and (2) the need for a sustained budgeting commitment from plan sponsors.*

Finally, as part of the asset smoothing methods model practice, it is recommended to avoid restarting smoothing only to accelerate recognition of deferred gains, i.e., only when market value is greater than actuarial value.

> *(c)the standards of prudence underlying AS 37.10.210 and AS 37.10.071.*

GRS Response

These sections of the Alaska Code reference fiduciary responsibilities of the ARMB. As such, we would defer to the opinion of your legal staff as to whether or not a decision such as this is in line with the standards of prudence.

11.An evaluation of a change to 3-year smoothing.

GRS Response

We believe 3-year asset smoothing is a perfectly acceptable actuarial method, especially when used in conjunction with the current 25-year layer amortization method. However, switching from 5-year asset smoothing to 3-year asset smoothing only when the market value exceeds the actuarial value of assets may also constitute a bias, as further detailed in our response contained in Point #4 in "Attachment A: GRS Five Points Reset AVA." The Plan's current actuary (Buck) would need to have an appropriate rationale for this bias, or disclose it in their reports.

TO: Alaska Retirement Management Board

FROM: Ruth Ryerson, IAC Member

DATE: October 6, 2021

RE: October 11, 2021 Board Meeting to Discuss Actuarial Matters

This memo is in response to your request for a brief written opinion regarding certain aspects of the proposed change in actuarial smoothing methodology.

Adoption of a second reset to market value for the portfolio within 7 years appears to be inconsistent with Actuarial Standard 44, in that it shows a bias to only reset values when the portfolio market value significantly exceeds actuarial value. To avoid bias the ARM Board must be willing to reset both when the markets are significantly up or down. Since this practice would make future contribution rates fluctuate much more than they do now, it does not seem like a practical solution. Actuarial standards require that the asset smoothing method used must be unbiased relative to the investment environment and portfolio values, as it currently is.

The Conference of Consulting Actuaries published a paper called "Actuarial Funding Policies and Practices for Public Pension Plans". In it, under the actuarial smoothing methods section, some of the specific policy objectives and considerations listed were:

- The asset smoothing method should be unbiased relative to market
- The asset smoothing method should not selectively reset at market value only when market value is greater than actuarial value
- The asset smoothing method should be unbiased relative to realized vs unrealized gain/loss
- The asset smoothing method should incorporate the ASOP 44 concepts

The ARM Board could also choose to use only market value and not a smoothed value (both now and going forward), but the contribution rates would fluctuate a great deal and make future budgeting very difficult. Also, since markets do not advance or decline in a smooth linear fashion, using a value from one point in time (June 30 of each year) will likely skew the results of the annual valuations. Market values are generally just used for closed, terminating plans whose assets may have to be liquidated in the near future rather than public plans like PERS and TRS, which while closed to new entrants, have very long accumulation and payout periods ahead of them.

The purpose of smoothing is to keep the market and actuarial values of the portfolio within a reasonable range of each other, and to keep contribution rates relatively stable. While 5 year smoothing and a 20% corridor or 10 year smoothing and a 10% corridor are most common, the ARM Board could potentially decide to keep 5 year smoothing but a add more narrow corridor. A policy change such as that should be one that the ARM Board is willing to stick with and not change again when the investment environment is different though. For example, if you put a 90-110% corridor in place, you would have a 1% gain to recognize immediately, but you would also have to recognize any losses immediately if the market value dipped to less than 90% of the actuarial value sometime in the future. In 2009 pension plans were very glad to have an 80-120% corridor due to the large portfolio losses sustained.

Paul Wood made a good point in the fifth paragraph of his September 30th memo. With the experience study coming up, and with the average actuarial rate throughout the country averaging 7% (as of August 2021), it is likely that the actuaries will recommend lowering the assumption rate. That would be an excellent time to realize some of the gains in order to offset the impact of the assumption changes on contribution rates, and sounds like something the actuaries would think was appropriate.

One way a number of State pension funds are dealing with reducing actuarial rates and the recent good investment environment is to include in their funding policy a provision that every time the portfolio experiences an above average return, they reduce their actuarial rate by a certain increment. This allows them to reduce rates in good times when there are excess returns, and to be more certain they can achieve their actuarial targets in future years. This provides additional security for the members of the plan without putting pressure on contribution rates.

Examples of State plans utilizing this type of funding policy are: CalPERS, Georgia ERS, Michigan PSERS & SERS and Mississippi PERS. For example, the Mississippi policy states that with a 2% excess return over the assumed rate, the assumption is lowered by 5 basis points, 5% excess return lowers it by 10 basis points, 8% excess lowers it by 15 basis points, and 12% excess lowers it by 20 basis points.

With regard to the Alaska State Statutes (37.10.210 and 37.10.071) they say that "... {the ARM Board} shall exercise the powers and duties of a fiduciary of a state fund", and "the fiduciary of a state fund shall apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the fund." One of the key responsibilities of a fiduciary is to act solely in the interest of plan participants and their beneficiaries with the exclusive purpose of providing benefits to them (according to plan provisions). Resetting actuarial value to market at this time would immediately reduce State contributions and not benefit the beneficiaries of the system.

I will be happy to discuss any of this further at the upcoming ARM Board meeting. It is wonderful to see a Board so willing to put in the extra time and effort it takes to analyze and discuss a change that has such impact to the portfolio and contributions, especially with an actuarial issue that has guidelines and standards but not one specific "correct" answer.

Callan

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October 5, 2021

Robert Johnson, Chair
Allen Hippler, Actuarial Committee Chair
Alaska Retirement Management Board
PO Box 110405
Juneau, AK 99811-0405

VIA EMAIL

Alysia Jones, Board Liaison Officer, passed on the following question to Callan related to the upcoming special Board of Trustees Meeting:

1. A brief opinion (written if possible) from the following regarding the proposed change:

> ***d. Callan on whether any of their other public pension fund clients have adopted such a change (there are many pension funds with earnings above 25% this past year).***

Callan is not aware of any public pension fund clients contemplating similar actions as a result of recent market performance.

We plan on attending the special Board of Trustees Meeting on Monday, October 11, and will be available for comment as needed.

Regards,

Steven J. Center, CFA
Senior Vice President, Fund Sponsor Consulting
Callan LLC

White Paper: Post-Retirement Pension Adjustment (PRPA)

Statutory Authority: PERS AS 39.35.475 and TRS AS 14.25.143

PRPA's are based on the Anchorage Consumer Price Index (CPI) which is calculated by the federal Bureau of Labor Statistics (BLS). The BLS uses Anchorage urban wage earners and clerical workers data.

PRPA calculations are based in statute. The only way for PRPA calculations to change is for the applicable statutes to be changed by legislative action or by a ballot initiative.

PRPA eligible recipients automatically receive an annual PRPA effective July 1 of each year when the CPI increased during the preceding calendar year. (**Note:** There was **not** a PRPA issued in 2021. The last time a PRPA was not issued was in 1987.)

There are two types of PRPA's – automatic and ad hoc. A retiree who was first hired before July 1, 1986, in the PERS, and July 1, 1990, in the TRS, is eligible for both the automatic and ad hoc PRPA. Qualified employees first hired after those dates are only eligible for the automatic PRPA.

"Automatic" PRPA's are issued to qualified PERS and TRS recipients when there has been an increase in the Alaska CPI. All members at least 60 years of age but less than age 65, PERS members younger than age 60 who have received benefits for at least 5 years, and TRS members under age 60 who have received benefits for at least 8 years, are eligible to receive 50% of the CPI increase. Members 65 and older and members receiving a disability pension are eligible to receive 75% of the CPI increase.

"Ad Hoc" PRPA's were only granted when the Commissioner of Administration determined that the cost of living has increased, and the funding ratio of the retirement trust is 105% or higher. These conditions permit the granting of an ad hoc increase to qualified retiree pensions. The Ad Hoc PRPA is based: on the increase in the Anchorage CPI or 4% per annum compounded from the date of retirement, whichever is less, offset by prior PRPA's that have been issued.

If both PRPA's are granted in the same year, the retiree received the larger increase.

The last Ad Hoc PRPA granted was issued in 2002.

PRPA's are not applicable to the health plans nor the JRS, EPORS, and NGNMRS retirement systems.

BUCK

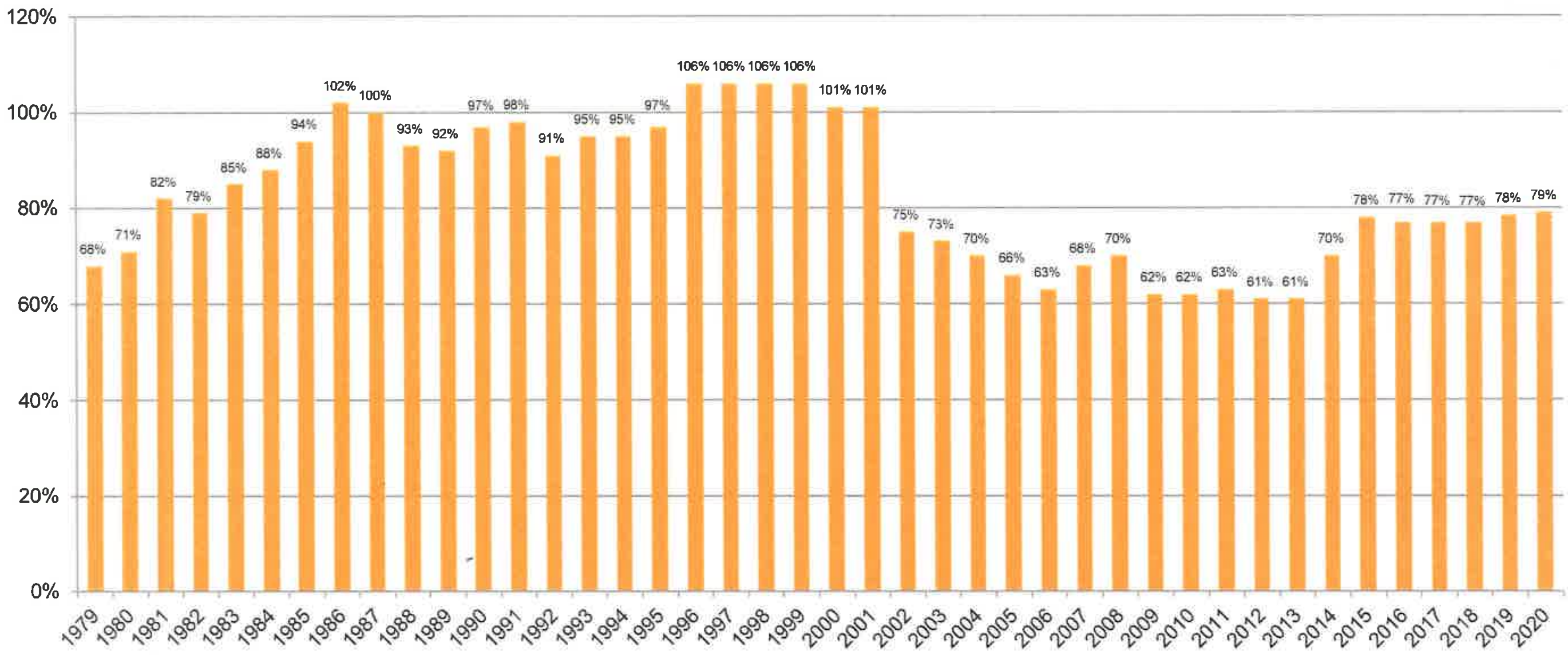
State of Alaska

Public Employees' Retirement System

Actuarial Valuation Report
As of June 30, 2020

May 2021

Funded Ratio History (Based on Valuation Assets)



Section 1.7: History of Unfunded Liability and Funded Ratio ($'s in 000's)

Valuation Date	Total Actuarial Accrued Liability	Valuation Assets	Assets as a Percent of Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)
June 30, 2003	$ 10,561,653	$ 7,687,281	72.8%	$ 2,874,372
June 30, 2004	11,443,916	8,030,414	70.2%	3,413,502
June 30, 2005	12,844,841	8,442,919	65.7%	4,401,922
June 30, 2006	14,388,413	9,040,908	62.8%	5,347,505
June 30, 2007	14,570,933	9,900,960	68.0%	4,669,973
June 30, 2008	15,888,141	11,040,106	69.5%	4,848,035
June 30, 2009	16,579,371	10,242,978	61.8%	6,336,393
June 30, 2010	18,132,492	11,157,464	61.5%	6,975,028
June 30, 2011	18,740,550	11,813,774	63.0%	6,926,776
June 30, 2012	19,292,361	11,832,030	61.3%	7,460,331
June 30, 2013	19,992,759	12,162,626	60.8%	7,830,133
June 30, 2014	20,897,372	14,644,598	70.1%	6,252,774
June 30, 2015	20,648,663	16,173,459	78.3%	4,475,204
June 30, 2016	21,369,490	16,467,992	77.1%	4,901,498
June 30, 2017	21,881,395	16,786,771	76.7%	5,094,624
June 30, 2018	22,264,137	17,116,701	76.9%	5,147,436
June 30, 2019	22,190,874	17,387,184	78.4%	4,803,690
June 30, 2020	22,316,075	17,703,068	79.3%	4,613,007

BUCK

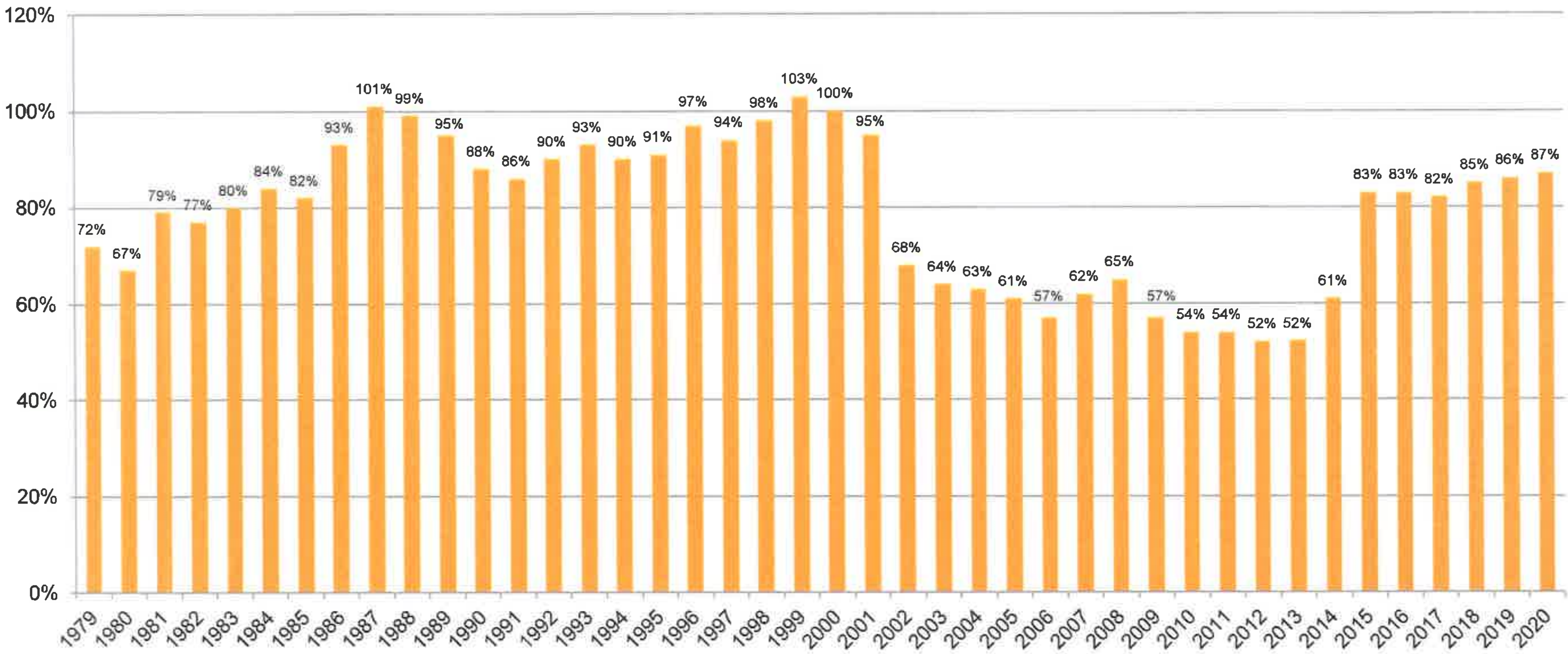
State of Alaska

Teachers' Retirement System

Actuarial Valuation Report
As of June 30, 2020

May 2021

Funded Ratio History (Based on Valuation Assets)



Section 1.7: History of Unfunded Liability and Funded Ratio ($'s in 000's)

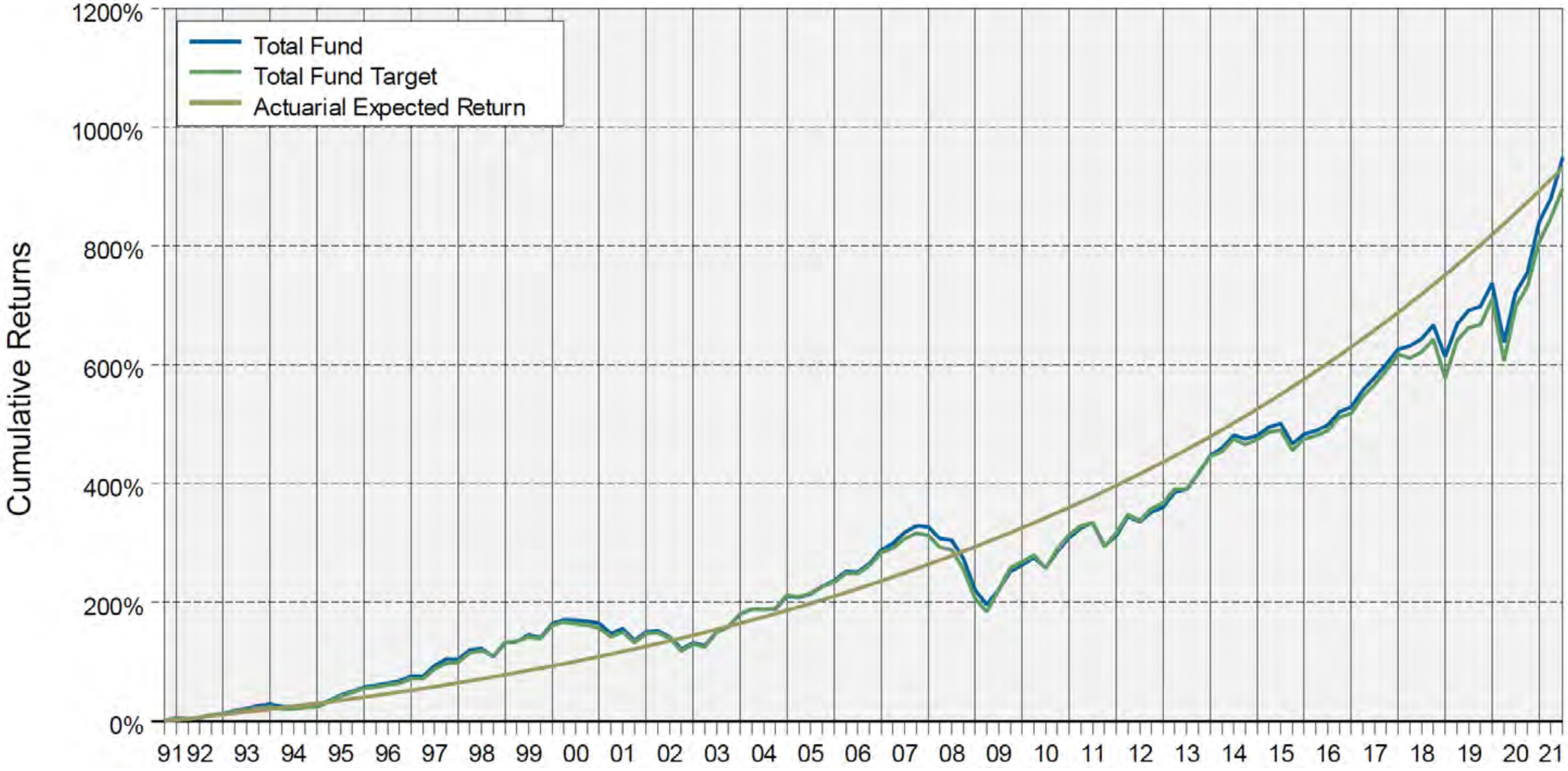
Valuation Date	Total Actuarial Accrued Liability	Valuation Assets	Assets as a Percent of Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)
June 30, 2003	$ 5,835,609	$ 3,752,285	64.3%	$ 2,083,324
June 30, 2004	6,123,600	3,845,370	62.8%	2,278,230
June 30, 2005	6,498,556	3,958,939	60.9%	2,539,617
June 30, 2006	7,229,851	4,141,700	57.3%	3,088,151
June 30, 2007	7,189,403	4,424,399	61.5%	2,765,004
June 30, 2008	7,619,178	4,936,976	64.8%	2,682,202
June 30, 2009	7,847,514	4,472,958	57.0%	3,374,556
June 30, 2010	8,847,788	4,739,128	53.6%	4,108,660
June 30, 2011	9,128,795	4,937,937	54.1%	4,190,858
June 30, 2012	9,346,444	4,869,154	52.1%	4,477,290
June 30, 2013	9,592,107	4,974,076	51.9%	4,618,031
June 30, 2014	9,841,032	6,019,274	61.2%	3,821,758
June 30, 2015	9,729,117	8,108,923	83.3%	1,620,194
June 30, 2016	9,907,624	8,200,391	82.8%	1,707,233
June 30, 2017	10,144,618	8,313,637	82.0%	1,830,981
June 30, 2018	9,960,440	8,440,309	84.7%	1,520,131
June 30, 2019	9,906,664	8,511,493	85.9%	1,395,171
June 30, 2020	9,936,711	8,608,347	86.6%	1,328,364

ARMB Long Term Returns - Through 6/30/2021

Annualized Returns	PERS	TRS	Average	Inflation	PERS Real	TRS Real	Avg. Real
37 Year	9.22%	9.53%	9.38%	2.64%	6.62%	6.93%	6.77%
30 Year	8.33%	8.37%	8.35%	2.33%	6.04%	6.08%	6.06%
25 Year	7.94%	7.99%	7.96%	2.22%	5.54%	5.56%	5.55%
20 Year	6.67%	6.69%	6.68%	2.14%	5.24%	5.27%	5.25%
15 Year	7.82%	7.85%	7.83%	1.97%	5.68%	5.70%	5.69%
10 Year	10.26%	10.29%	10.27%	1.87%	7.41%	7.42%	7.42%
7 Year	9.96%	9.96%	9.96%	1.89%	6.97%	6.98%	6.98%
5 Year	9.73%	9.73%	9.73%	2.42%	9.52%	9.52%	9.52%
3 Year	11.50%	11.50%	11.50%	2.54%	9.73%	9.73%	9.73%
1 Year	27.62%	27.65%	27.64%	5.39%	22.23%	22.26%	22.25%

Fiscal Year Returns	PERS	TRS	Average	Inflation	PERS Real	TRS Real	Avg. Real
1985	23.03%	36.65%	29.84%	3.76%	19.27%	32.89%	26.08%
1986	25.49%	25.45%	25.47%	1.76%	23.73%	23.69%	23.71%
1987	11.83%	10.73%	11.28%	3.65%	8.17%	7.08%	7.63%
1988	2.03%	1.84%	1.94%	3.96%	-1.93%	-2.13%	-2.03%
1989	14.12%	14.19%	14.16%	5.16%	8.95%	9.03%	8.99%
1990	10.05%	10.15%	10.10%	4.67%	5.38%	5.48%	5.43%
1991	7.21%	7.05%	7.13%	4.70%	2.51%	2.34%	2.43%
1992	11.60%	11.17%	11.38%	3.09%	8.51%	8.07%	8.29%
1993	14.25%	14.38%	14.32%	2.99%	11.26%	11.39%	11.33%
1994	2.71%	2.65%	2.68%	2.48%	0.23%	0.17%	0.20%
1995	15.56%	15.90%	15.73%	3.05%	12.51%	12.85%	12.68%
1996	13.79%	14.44%	14.11%	2.75%	11.03%	11.69%	11.36%
1997	18.18%	18.11%	18.15%	2.30%	15.88%	15.82%	15.85%
1998	14.73%	14.83%	14.78%	1.68%	13.05%	13.15%	13.10%
1999	10.59%	10.67%	10.63%	1.96%	8.63%	8.71%	8.67%
2000	10.16%	10.25%	10.21%	3.67%	6.50%	6.58%	6.54%
2001	-5.37%	-5.44%	-5.40%	3.25%	-8.62%	-8.69%	-8.65%
2002	-5.48%	-5.49%	-5.49%	1.07%	-6.55%	-6.56%	-6.56%
2003	3.67%	3.68%	3.67%	2.11%	1.56%	1.56%	1.56%
2004	15.08%	15.09%	15.09%	3.27%	11.81%	11.83%	11.82%
2005	8.95%	9.01%	8.98%	2.53%	6.42%	6.48%	6.45%
2006	11.74%	11.78%	11.76%	4.32%	7.43%	7.46%	7.44%
2007	18.93%	18.97%	18.95%	2.69%	16.24%	16.28%	16.26%
2008	-3.13%	-3.12%	-3.12%	5.02%	-8.15%	-8.14%	-8.15%
2009	-20.53%	-20.67%	-20.60%	-1.43%	-19.11%	-19.24%	-19.17%
2010	11.39%	11.58%	11.48%	1.05%	10.33%	10.52%	10.43%
2011	21.18%	21.36%	21.27%	3.56%	17.62%	17.80%	17.71%
2012	0.46%	0.51%	0.49%	1.66%	-1.20%	-1.16%	-1.18%
2013	12.50%	12.59%	12.54%	1.75%	10.74%	10.84%	10.79%
2014	18.56%	18.56%	18.56%	2.07%	16.48%	16.49%	16.48%
2015	3.29%	3.30%	3.29%	0.12%	3.16%	3.17%	3.17%
2016	-0.36%	-0.36%	-0.36%	1.00%	-1.35%	-1.35%	-1.35%
2017	13.35%	13.36%	13.35%	1.63%	11.71%	11.72%	11.72%
2018	9.61%	9.62%	9.61%	2.87%	6.74%	6.74%	6.74%
2019	6.40%	6.39%	6.39%	1.65%	4.75%	4.74%	4.75%
2020	3.83%	3.82%	3.83%	0.65%	3.19%	3.18%	3.18%
2021	27.62%	27.65%	27.64%	5.39%	22.23%	22.26%	22.25%

PERS Cumulative Performance – 6/30/2021



Division of Retirement and Benefits
Time Permitting Discussion Question
For October 11, 2021 ARM Board meeting

Below is a summary of possible PERS (Tier I, II, and III) and TRS (Tier I & II) who could reinstate as a result of the Metcalfe decision

		PERS	TRS
Tier I		360	13
Tier II		1,165	202
Tier III		1,782	N/A
	TOTAL	3,307	215

NOTE: This is considered the most likely number of former members who would consider reinstatement, which would require repayment of the refunded amounts PLUS interest from the date of refund.

ALASKA RETIREMENT MANAGEMENT BOARD

SUBJECT: History of PERS / TRS Employer Contribution Rates

ACTION: _______

DATE: October 11, 2021

INFORMATION: X

Below is a history of employer contribution rates adopted by the Alaska Retirement Management Board for Fiscal Years 2014 through 2022.

ARM BOARD ADOPTED RATES											
		FY14 (a)	**FY15 (a)**	**FY15 (b)**	**FY16**	**FY17**	**FY18**	**FY19 (c)**	**FY20**	**FY21**	**FY22**
Public Employees' Retirement System (PERS)											
	Total Employer Contribution Rate	35.68%	44.03%	31.90%	27.19%	26.14%	25.01%	27.58%	28.62%	30.85%	30.11%
	- DB Employer Contribution Rate	32.31%	39.85%	27.72%	22.58%	21.78%	20.38%	22.64%	23.18%	24.93%	24.01%
	- DCR Employer Contribution Rate	3.37%	4.18%	4.18%	4.61%	4.36%	4.63%	4.94%	5.44%	5.92%	6.10%
	DCR - Retiree Medical Plan	0.48%	1.66%	1.66%	1.68%	1.18%	1.03%	0.94%	1.32%	1.27%	1.07%
	DCR - OD&D - All Others	0.20%	0.22%	0.22%	0.22%	0.17%	0.16%	0.26%	0.26%	0.31%	0.31%
	DCR - OD&D - P/F	1.14%	1.06%	1.06%	1.05%	0.49%	0.43%	0.76%	0.72%	0.70%	0.68%
Teachers' Retirement System (TRS)											
	Total Employer Contribution Rate	53.62%	70.75%	48.69%	29.27%	28.02%	26.78%	28.90%	30.47%	30.47%	31.85%
	- DB Employer Contribution Rate	50.10%	66.31%	44.25%	24.48%	23.40%	21.75%	23.56%	24.62%	24.34%	25.49%
	- DCR Employer Contribution Rate	3.52%	4.44%	4.44%	4.79%	4.62%	5.03%	5.34%	5.85%	6.13%	6.36%
	DCR - Retiree Medical Plan	0.47%	2.04%	2.04%	2.04%	1.05%	0.91%	0.79%	1.09%	0.93%	0.83%
	DCR - OD&D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.08%	0.08%	0.08%	0.08%

(a) As noted in the June 30, 2012 actuarial valuation reports, "The Board changed the amortization method used for funding from the level percentage of payroll method to the level dollar method in June 2012, effective June 30, 2012."

(b) During the FY 2014 legislative session, HB 385 enacted certain changes into law. In AS 37.10.220(a), item (a)(8)(B) was amended to define that "an appropriate contribution rate for liquidating the past service liability of the defined benefit retirement plan under AS 14.25.009 - 14.25.220 or the past service liability of the defined benefit retirement plan under AS 39.35.095 - 39.35.680 must be determined by a level percent of pay method based on amortization of the past service liability for a closed term of 25 years;"

The PERS DB and TRS DB Employer Contribution Rates for FY 2015 were updated to the level percentage of pay methodology from the previously determined rates that were prepared using the level dollar methodology, and have been done so going forward.

(c) Beginning in Fiscal Year 2019, employer contribution rates for plans which have no past service liability as determined by the actuarial valuation process will not reflect a contribution rate for liquidating past service liability under AS 37.10.220(a)(8)(B).

FISCAL YEAR 2023 PERS AND TRS EMPLOYER CONTRIBUTION RATES

The Board has three (3) options before them:

(A) no change to actuarial methods or assumption
(SCENARIO 2 IN BUCK PRESENTATION)

(B) reset June 30, 2021 Actuarial Value of Assets = Market Value of Assets or AVA = MVA
(SCENARIO 3 IN BUCK PRESENTATION)

(C) change from 5-year smoothing to 3-year smoothing on investment returns
(SCENARIO 4 IN BUCK PRESENTATION)

NOTE: The Board had previously adopted the PERS and TRS DCR employer rates for the retiree medical plans and the occupational death & disability plans. Those rates do not change in the options listed below.

FY 2023 - ARM BOARD OPTIONS

		PROPOSED FY23 Option A (Status Quo)	**PROPOSED FY23 Option B (Reset AVA=MVA)**	**PROPOSED FY23 Option C (Change to 3-year smoothing)**	
Public Employees' Retirement System (PERS)					
	Total Employer Contribution Rate	27.63%	24.89%	26.25%	
	- DB Employer Contribution Rate	21.22%	18.48%	19.84%	
	- DCR Employer Contribution Rate	6.41%	6.41%	6.41%	No change
	DCR - Retiree Medical Plan	1.10%	1.10%	1.10%	No change
	DCR - OD&D - All Others	0.30%	0.30%	0.30%	No change
	DCR - OD&D - P/F	0.68%	0.68%	0.68%	No change
Teachers' Retirement System (TRS)					
	Total Employer Contribution Rate	27.34%	22.37%	24.82%	
	- DB Employer Contribution Rate	20.62%	15.65%	18.10%	
	- DCR Employer Contribution Rate	6.72%	6.72%	6.72%	No change
	DCR - Retiree Medical Plan	0.87%	0.87%	0.87%	No change
	DCR - OD&D	0.08%	0.08%	0.08%	No change
		SCENARIO 2	SCENARIO 3	SCENARIO 4	

Option A - Status Quo - no changes to actuarial methods or assumptions
Option B - Reset June 30, 2021 Actuarial Value of Assets = Market Value of Assets
Option C - Change from 5-year smoothing to 3-year smoothing on investment returns

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Relating to the Fiscal Year 2023 Contribution Amount
For the Alaska National Guard and Naval Militia Retirement System

Resolution 2021-10

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee to the assets of the State's retirement systems; and

WHEREAS, under AS 37.10.210-220, the Board is to establish and determine the investment objectives and policy for each of the funds entrusted to it; and

WHEREAS, AS 37.10.071 and AS 37.10.210-220 require the Board to apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries thereof with impartiality; and

WHEREAS, AS 37.10.220(a)(8) requires the Board to coordinate with the retirement system administrator to conduct an annual actuarial valuation of each retirement system to determine system assets, accrued liabilities and funding ratios, and to certify to the appropriate budgetary authority of each employer in the system an appropriate contribution rate for normal costs and an appropriate contribution rate for liquidating any past service liability; and

WHEREAS, the June 30, 2020 Alaska National Guard and Naval Militia Retirement System actuarial valuation report determines that the actuarially determined contribution amount is $0, composed of the normal cost of $503,140, past service cost amortization of ($3,224,638), and administrative expense load of $256,000; and

NOW THEREFORE, BE IT RESOLVED BY THE ALASKA RETIREMENT MANAGEMENT BOARD, that the Fiscal Year 2023 contribution amount for the State of Alaska, Department of Military and Veterans' Affairs to the Alaska National Guard and Naval Militia Retirement System is set at $0.

DATED at Juneau, Alaska this 11th day of October, 2021.

Chair

ATTEST:

Gayle Harbo

Secretary

BUCK

State of Alaska

National Guard and Naval Militia Retirement System

Actuarial Valuation Report
As of June 30, 2020

May 2021

Funded Status

Where presented, references to "funded ratio" and "unfunded actuarial accrued liability" typically are measured on an actuarial value of assets basis. It should be noted that the same measurements using market value of assets would result in different funded ratios and unfunded actuarial accrued liabilities. Moreover, the funded ratio presented is appropriate for evaluating the need and level of future contributions but makes no assessment regarding the funded status of the plan if the plan were to settle (i.e. purchase annuities) for a portion or all of its liabilities.

Funded Status as of June 30		2018		2020
a. Actuarial Accrued Liability	$	21,934,014	$	22,417,247
b. Valuation Assets		41,031,353		43,020,393
c. Unfunded Actuarial Accrued Liability, (a) – (b)	$	(19,097,339)	$	(20,603,146)
d. Funded Ratio based on Valuation Assets, (b) ÷ (a)		187.1%		191.9%
e. Fair Value of Assets	$	39,418,117	$	42,095,708
f. Funding Ratio based on Fair Value of Assets, (e) ÷ (a)		179.7%		187.8%

Actuarially Determined Contribution Amounts		FY21		FY23
a. Normal Cost	$	483,551	$	503,140
b. Past Service Cost		(2,988,961)		(3,224,638)
c. Expense Load		242,000		256,000
d. Total Annual Contribution, (a) + (b) + (c), not less than 0	$	0	$	0

The Actuarially Determined Contribution amount for FY22 based on a roll-forward valuation as of June 30, 2019 was $0.

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Relating to the Fiscal Year 2023 Employer Contribution Rate
For the Public Employees' Retirement System

Resolution 2021-04

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee to the assets of the State's retirement systems; and

WHEREAS, under AS 37.10.210-220, the Board is to establish and determine the investment objectives and policy for each of the funds entrusted to it; and

WHEREAS, AS 37.10.071 and AS 37.10.210-220 require the Board to apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries thereof with impartiality; and

WHEREAS, AS 37.10.220(a)(8) requires the Board to coordinate with the retirement system administrator to conduct an annual actuarial valuation of each retirement system to determine system assets, accrued liabilities and funding ratios, and to certify to the appropriate budgetary authority of each employer in the system an appropriate contribution rate for normal costs and an appropriate contribution rate for liquidating any past service liability determined by a level percent of pay method based on amortization of the past service liability for a closed term of 25 years; and

WHEREAS, AS 39.35.255 establishes a statutory non-State employer contribution rate of 22.00 percent and the actuarially determined contribution rate for the State as an employer, and AS 39.35.280 requires additional state contribution to make up the difference between 22.00 percent for non-State employers and the actuarially determined contribution rate; and

WHEREAS, the Buck schedule dated October 11, 2021 determines that the actuarially determined contribution rate for pension benefits is 18.38 percent composed of the normal cost rate of 2.37 percent and past service rate of 16.01 percent; and

WHEREAS, the Buck schedule dated October 11, 2021 determines that the actuarially determined contribution rate for postemployment healthcare benefits is 0.00 percent composed of the normal cost rate of 2.84 percent and past service rate of negative 4.94 percent; and

WHEREAS, the Buck schedule dated October 11, 2021 presents the employer rate incorporating the total cost of the Defined Contribution Retirement Plan of 6.41 percent;

NOW THEREFORE, BE IT RESOLVED BY THE ALASKA RETIREMENT MANAGEMENT BOARD, that the Fiscal Year 2023 actuarially determined contribution rate attributable to employers participating in the Public Employees' Retirement System is set at 24.79 percent, composed of the contribution rate for defined benefit pension of 18.38 percent, the contribution rate for postemployment healthcare of 0.00 percent, and the contribution rate for defined contribution pension of 6.41 percent and the non-state employer contribution per the attached Buck schedule dated October 11, 2021.

DATED at Juneau, Alaska this 11th day of October, 2021.

Chair

ATTEST:

Gayle Harbo

Secretary

State of Alaska
Allocation of Projected FY23 Employer and Additional State Contributions

Based on June 30, 2020 Valuations
with Liabilities Rolled Forward Two Years and
Assets Rolled Forward One Year and Smoothed
Healthcare Normal Cost of Zero

	PERS					TRS	
	Non-State Employers		State as an Employer		All Employers		
Projected FY23 DB Payroll		$ 391,701,000		$ 382,871,000	$ 774,572,000		$ 291,514,000
Projected FY23 DCR Payroll		824,546,000		805,958,000	1,630,504,000		463,287,000
Projected FY23 Total Payroll		$ 1,216,247,000		$ 1,188,829,000	$ 2,405,076,000		$ 754,801,000
	Percent of Total Payroll	**Estimated Dollar Amount**	**Percent of Total Payroll**	**Estimated Dollar Amount**	**Estimated Dollar Amount**	**Percent of Total Payroll**	**Estimated Dollar Amount**
Employer Contributions							
DB Pension Plan							
1. Normal Cost	2.37%		2.37%			2.24%	
2. Past Service Cost	13.22%		16.01%			3.60%	
3. Total: (1) + (2)	15.59%	$ 189,613,000	18.38%	$ 218,507,000	$ 408,120,000	5.84%	$ 44,080,000
DB Healthcare Plan							
4. Normal Cost	0.00%		0.00%			0.00%	
5. Past Service Cost	0.00%		0.00%			0.00%	
6. Total: (4) + (5)	0.00%	0	0.00%	0	0	0.00%	0
7. DCR Plan	6.41%	77,961,000	6.41%	76,204,000	154,165,000	6.72%	50,723,000
8. Total: (3) + (6) + (7)	22.00%	$ 267,574,000	24.79%	$ 294,711,000	$ 562,285,000	12.56%	$ 94,803,000
Additional State Contributions to DB							
9. DB Pension Plan	2.79%	$ 33,933,000	0.00%	$ 0	$ 33,933,000	12.06%	$ 91,029,000
10. DB Healthcare Plan	0.00%	0	0.00%	0	0	0.00%	0
11. Total: (9) + (10)	2.79%	$ 33,933,000	0.00%	$ 0	$ 33,933,000	12.06%	$ 91,029,000
Total DB							
12. DB Pension Plan: (3) + (9)	18.38%	$ 223,546,000	18.38%	$ 218,507,000	$ 442,053,000	17.90%	$ 135,109,000
13. DB Healthcare Plan: (6) + (10)	0.00%	0	0.00%	0	0	0.00%	0
14. Total: (12) + (13)	18.38%	$ 223,546,000	18.38%	$ 218,507,000	$ 442,053,000	17.90%	$ 135,109,000
Total DB and DCR: (7) + (14)	24.79%	$ 301,507,000	24.79%	$ 294,711,000	$ 596,218,000	24.62%	$ 185,832,000

Notes:

1. Projected FY23 payroll is based on the June 30, 2020 valuation projections assuming 0% population growth.
2. Additional State Contributions for FY22 were assumed to be made 100% to pension.
3. All contribution rates are expressed as a percentage of total payroll of DB and DCR combined.
4. FY21 investment return, contributions, subsidies, benefit payments, and administrative expenses are based on preliminary June 30, 2021 asset statements provided by the State. FY22 investment return, contributions, subsidies, benefit payments, and administrative expenses are based on the June 30, 2020 valuation projections assuming 0% population growth. Investment gains and losses are recognized over 5 years beginning June 30, 2014.
5. Total contribution rates for pension and healthcare are not less than the Normal Cost rates.
6. SB 55, which became effective July 1, 2021, is reflected for PERS. Payroll for the State's PERS employees was assumed to be 49.43% of total PERS payroll based on the June 30, 2020 valuation data.
7. Healthcare past service rates are allowed to reduce the total Healthcare rates to zero. The Pension past service rates were adjusted to keep the total contribution rates at 22% (PERS) and 12.56% (TRS).
8. Data, plan provisions, assumptions, and methods are as described in the June 30, 2020 actuarial valuation reports, except as noted above.

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Relating to the Fiscal Year 2023 Employer Contribution Rate
For the Teachers' Retirement System

Resolution 2021-07

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee to the assets of the State's retirement systems; and

WHEREAS, under AS 37.10.210-220, the Board is to establish and determine the investment objectives and policy for each of the funds entrusted to it; and

WHEREAS, AS 37.10.071 and AS 37.10.210-220 require the Board to apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries thereof with impartiality; and

WHEREAS, AS 37.10.220(a)(8) requires the Board to coordinate with the retirement system administrator to conduct an annual actuarial valuation of each retirement system to determine system assets, accrued liabilities and funding ratios, and to certify to the appropriate budgetary authority of each employer in the system an appropriate contribution rate for normal costs and an appropriate contribution rate for liquidating any past service liability determined by a level percent of pay method based on amortization of the past service liability for a closed term of 25 years; and

WHEREAS, AS 14.25.070 establishes a statutory employer contribution rate of 12.56 percent and AS 14.25.085 requires additional state contribution to make up the difference between 12.56 percent and the actuarially determined contribution rate; and

WHEREAS, the Buck schedule dated October 11, 2021 determines that the actuarially determined contribution rate for pension benefits is 17.90 percent composed of the normal cost rate of 2.24 percent and past service rate of 15.66 percent; and

WHEREAS, the Buck schedule dated October 11, 2021 determines that the actuarially determined contribution rate for postemployment healthcare benefits is 0.00 percent composed of the normal cost rate of 2.72 percent and past service rate of negative 7.93 percent; and

WHEREAS, the Buck schedule dated October 11, 2021 presents the employer rate incorporating the total cost of the Defined Contribution Retirement Plan of 6.72 percent;

NOW THEREFORE, BE IT RESOLVED BY THE ALASKA RETIREMENT MANAGEMENT BOARD, that the Fiscal Year 2023 actuarially determined contribution rate attributable to employers participating in the Teachers' Retirement System is set at 24.62 percent, composed of the contribution rate for defined benefit pension of 17.90 percent, the contribution rate for postemployment healthcare of 0.00 percent, and the contribution rate for defined contribution pension of 6.72 percent.

DATED at Juneau, Alaska this 11th day of October, 2021.

Chair

ATTEST:

Gayle Harbo

Secretary

State of Alaska
Allocation of Projected FY23 Employer and Additional State Contributions

Based on June 30, 2020 Valuations
with Liabilities Rolled Forward Two Years and
Assets Rolled Forward One Year and Smoothed
Healthcare Normal Cost of Zero

	PERS					TRS	
	Non-State Employers		State as an Employer		All Employers		
Projected FY23 DB Payroll		$ 391,701,000		$ 382,871,000	$ 774,572,000		$ 291,514,000
Projected FY23 DCR Payroll		824,546,000		805,958,000	1,630,504,000		463,287,000
Projected FY23 Total Payroll		$ 1,216,247,000		$ 1,188,829,000	$ 2,405,076,000		$ 754,801,000
	Percent of Total Payroll	**Estimated Dollar Amount**	**Percent of Total Payroll**	**Estimated Dollar Amount**	**Estimated Dollar Amount**	**Percent of Total Payroll**	**Estimated Dollar Amount**
Employer Contributions							
DB Pension Plan							
1. Normal Cost	2.37%		2.37%			2.24%	
2. Past Service Cost	13.22%		16.01%			3.60%	
3. Total: (1) + (2)	15.59%	$ 189,613,000	18.38%	$ 218,507,000	$ 408,120,000	5.84%	$ 44,080,000
DB Healthcare Plan							
4. Normal Cost	0.00%		0.00%			0.00%	
5. Past Service Cost	0.00%		0.00%			0.00%	
6. Total: (4) + (5)	0.00%	0	0.00%	0	0	0.00%	0
7. DCR Plan	6.41%	77,961,000	6.41%	76,204,000	154,165,000	6.72%	50,723,000
8. Total: (3) + (6) + (7)	22.00%	$ 267,574,000	24.79%	$ 294,711,000	$ 562,285,000	12.56%	$ 94,803,000
Additional State Contributions to DB							
9. DB Pension Plan	2.79%	$ 33,933,000	0.00%	$ 0	$ 33,933,000	12.06%	$ 91,029,000
10. DB Healthcare Plan	0.00%	0	0.00%	0	0	0.00%	0
11. Total: (9) + (10)	2.79%	$ 33,933,000	0.00%	$ 0	$ 33,933,000	12.06%	$ 91,029,000
Total DB							
12. DB Pension Plan: (3) + (9)	18.38%	$ 223,546,000	18.38%	$ 218,507,000	$ 442,053,000	17.90%	$ 135,109,000
13. DB Healthcare Plan: (6) + (10)	0.00%	0	0.00%	0	0	0.00%	0
14. Total: (12) + (13)	18.38%	$ 223,546,000	18.38%	$ 218,507,000	$ 442,053,000	17.90%	$ 135,109,000
Total DB and DCR: (7) + (14)	24.79%	$ 301,507,000	24.79%	$ 294,711,000	$ 596,218,000	24.62%	$ 185,832,000

Notes:

1. Projected FY23 payroll is based on the June 30, 2020 valuation projections assuming 0% population growth.
2. Additional State Contributions for FY22 were assumed to be made 100% to pension.
3. All contribution rates are expressed as a percentage of total payroll of DB and DCR combined.
4. FY21 investment return, contributions, subsidies, benefit payments, and administrative expenses are based on preliminary June 30, 2021 asset statements provided by the State. FY22 investment return, contributions, subsidies, benefit payments, and administrative expenses are based on the June 30, 2020 valuation projections assuming 0% population growth. Investment gains and losses are recognized over 5 years beginning June 30, 2014.
5. Total contribution rates for pension and healthcare are not less than the Normal Cost rates.
6. SB 55, which became effective July 1, 2021, is reflected for PERS. Payroll for the State's PERS employees was assumed to be 49.43% of total PERS payroll based on the June 30, 2020 valuation data.
7. Healthcare past service rates are allowed to reduce the total Healthcare rates to zero. The Pension past service rates were adjusted to keep the total contribution rates at 22% (PERS) and 12.56% (TRS).
8. Data, plan provisions, assumptions, and methods are as described in the June 30, 2020 actuarial valuation reports, except as noted above.

APPENDICES

Appendix A: DRAFT 9/22/2021 Actuarial Committee Meeting Minutes

Appendix B: *Actuarial Funding Policies and Practices for Public Pension Funds*, Conference of Consulting Actuaries Public Plans Community (CCA PPC*),* October 2014

Appendix C: FY23-F39 State Contribution Projections *With 10 Years of Volatile Market Return*s, Buck

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
ACTUARIAL COMMITTEE MEETING

Videoconference

MINUTES OF
September 22, 2021

Wednesday, September 22, 2021

ATTENDANCE

Committee Present:	Allen Hippler, *Chair* Lorne Bretz Gayle Harbo Robert Johnson Acting Commissioner Amanda Holland Commissioner Lucinda Mahoney Bob Williams Dennis Moen
Committee Absent:	None

ARM Board Trustees Present:
Donald Krohn

Investment Advisory Council Members Present:
Ruth Ryerson
Dr. William Jennings

Department of Revenue Staff Present:
Zachary Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Kayla Wisner, State Comptroller
Stephen Sikes, State Investment Officer
Kevin Elliott, State Investment Officer
Mark Moon, State Investment Officer
Scott Jones, State Investment Officer
Michelle Prebula, State Investment Officer
Scott Jones, Head of Investment Operations, Performance & Analytics
Hunter Romberg, Investment Data Analyst
Ryan Kauzlarich, Accountant V
Grant Ficek, Business Analyst
Alysia Jones, Board Liaison

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Department of Administration Staff Present:
Ajay Desai, Director, Division of Retirement and Benefits
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits
Robert Aceveda, Benefits and Counseling Manager

ARMB Legal Counsel Present:
Benjamin Hofmeister, Assistant Attorney General, Department of Law

Others Present:
Steve Center, Callan
Paul Wood, Gabriel Roeder Smith
Bill Detweiler, Gabriel Roeder Smith
David Kershner, Buck
Scott Young, Buck
Tonya Manning, Buck
Paul Miranda, Public
Alexei Painter, Legislative Finance Division
Caroline Schultz, Office of Management and Budget

I. CALL TO ORDER

CHAIR ALLEN HIPPLER called the meeting of the ARM Board Actuarial Committee to order at 1:00 p.m.

II. ROLL CALL

MR. BRETZ, MS. HARBO, ACTING COMMISSIONER HOLLAND, MR. JOHNSON, COMMISSIONER MAHONEY, MR. MOEN, MR. WILLIAMS, and CHAIR HIPPLER were present at roll call.

III. PUBLIC MEETING NOTICE

ALYSIA JONES confirmed that public meeting notice requirements had been met.

IV. A. APPROVAL OF AGENDA

MS. HARBO moved to approve the agenda. MR. JOHNSON seconded the motion. The agenda was approved without objection.

B. Approval of Minutes: June 16, 2021

MS. HARBO moved to approve the minutes of the June 16, 2021 meeting. MR. WILLIAMS seconded the motion. The minutes were approved without objection.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES – None.

VI. FY2023 CONTRIBUTION RATES

A. Discussion of Resetting to Market Value of Assets at 6/30/2021

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COMMISSIONER MAHONEY started by thanking the Actuarial committee for giving her the opportunity to speak to them about the $7 billion increase in the TRS/PERS funds for FY2021. She noted that the Treasury team did an outstanding job delivering a 28 percent return on the investments for the year. She also noted that the State of Alaska and other employers had been paying down the PERS and TRS unfunded liability for over 10 years and that the healthcare systems were significantly overfunded due to positive asset returns and positive liability experience. COMMISSIONER MAHONEY then turned their attention to page 71 of the meeting packet which contained a chart mapping out the projected funded status.

COMMISSIONER MAHONEY said that the excess funds and payments were locked in the system and could not be used for anything other than healthcare and that they could not be moved into the pension plans because they were set up in separate trusts. She noted that the administration was concerned that the TRS and PERS pensions were to the point where close attention would need to be paid as to what the state's contributions were. She also noted that it was a good situation to be in, but they needed to consider how much contributions they would continue to make, taking into consideration that the fair market value was $7 billion higher than the actuarial value. She said the administration was uncomfortable making high past service payments using five-year smoothing and the State was working towards a sustainable balanced fiscal plan and to stop operating in a deficit environment.

COMMISSIONER MAHONEY said that each department was required to identify savings through reductions in department budgets. She noted that businesses throughout the state were requiring more fiscal certainty to invest in the state, and the state economists were saying that more fiscal certainty was needed, but based on the 10-year forecast, the next two to three fiscal years would be the most challenging. She stated that the administration wanted the ARM Board to consider resetting the actuarial asset value to the market value to reduce the potential of pension funds becoming overfunded and to prevent contributions from being locked in the system.

COMMISSIONER MAHONEY stated that resetting to market value would have the effect of front-loading expected savings and reducing the potential for overfunding in the future. She noted that in 2014 the Legislature appropriated a $3 billion infusion of funds into the retirement systems and required the actuarial value be reset to fair market value and moved back into a five-year smoothing environment. She stated that they would be amortizing the state's contribution payments into the system until 2039. She also noted that the fund had earned an average return since inception of 9.38 percent.

COMMISSIONER MAHONEY stated that the adjustment would not diminish the benefits to the plans' participants; they would continue to receive their benefits. She said that she believed a reduced contribution to PERS and TRS would still fulfill the fiduciary duties and requirements.

CHAIR HIPPLER asked if anyone had any comments or questions.

MS. HARBO noted that the Metcalfe decision was a concern for her. She said that there were 77,000 potential DB beneficiaries who may come back into the system, and they would all be entitled to full healthcare benefits in the amount of approximately $15,000 per year. She said that until they know the outcome of the decision in the Metcalfe case, she was hesitant to make the change.

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CHAIR HIPPLER asked MR. KERSHNER if he would address MS. HARBO'S concerns.

MR. KERSHNER stated that resetting to market value was not done regularly and that they would prefer that the actuarial value and market value stay close to each other, that the actuarial value and market value tended to be around a 3 or 4 percent differential until this year. The actuarial value and market value are off by approximately 11 percent which justified the discussion.

MR. KERSHNER said that that it would be no problem if the Board elected to reset the actuarial value to market value, however in addition to the Metcalfe decision, a market correction, or a downturn in the next year or so to correct from the return in 2021 - by resetting the actuarial value to market value, they would lose all of the existing investment gains and losses that were smoothed into the assets that were currently under the five-year smoothing method.

MR. KERSHNER also pointed out that they were starting on the 2021 experience study with the new assumptions expected to be adopted by the Board beginning with the 2022 valuation. The valuations that they were starting to work on were the 2021 valuations which were the last of the four-year cycle for the current assumptions. He said they expected with the changing capital market expectations and different asset allocations, the current 7.38 percent investment return assumption would likely decrease to 7 percent or below.

MR. KERSHNER stated that investment returns coming into plans have to equal the benefits and expenses paid out over time and when investment returns were insufficient, contribution rates go up, when investment returns are excessive, contributions go down.

MR. WOOD said that there would be a lot of pressure on the discount rate to come down from 7.38, inflation could go up and they were currently at a 2.5 percent assumption with no room for it to come down if inflation does go up. He noted that some of the benefits for the retirees were tied to inflation. He said that for clients who have higher than reasonable assumptions, they suggest an experience study which would be something to consider. He said that reducing a contribution does not really create savings because the long-term cost to the plan remains unchanged. He also suggested that although projections put together by Buck assumed a 7.38 percent return for the next five years, he questioned the likelihood of it especially if there was one year of poor investment performance, it would be artificially suppressed for four or five years due to asset smoothing. He then stated that the way the current funding policy was built, it was going to start to slow down the contributions as they get closer to being fully funded; it would automatically adjust for that.

MR. WOOD addressed the danger of being overfunded. He said that in their opinion it did not seem as though the pension plans were in any danger of being overfunded as the OPEB plans were. He said it was not due to over-contributing by the state, but a good actuarial experience and good asset returns that had been the two main drivers. He said the plan design and positive experience was unlikely to happen on the pension side, that the funding policy was built to slow down the contributions as it gets closer to being fully funded.

MR. WOOD explained that they look at the Actuarial Standards of Practice to help guide their decisions and Actuarial Standard of Practice No. 44 discussed the actuarial valuation method and

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bias. He said that section states that they do not want to have any systematic bias towards understatement or overstatement relative to the market value. He noted that it stated, “For example, resetting the actuarial value of assets to market value only when the market value exceeds the actuarial value of assets under the normal operation of the asset valuation may constitute significant systematic bias.”

CHAIR HIPPLER asked at what deviation from actuarial value to market should they have a discussion about resets; MR. WOOD stated that it would not be a reset but more of a corridor of 120 percent to 80 percent to keep the relationship in line. He said he thought that brining it down somewhat would help.

MR. JOHNSON commended Commissioner Mahoney for her excellent piece of advocacy. He said that he was concerned that they may have a situation where they could potentially violate Actuarial Practice No. 44, that they would be acting inappropriately because they had a great experience for FY2021, which did not mean that they would achieve it again because what goes up does come down which is why they have five-year smoothing. He said that he was worried that they were taking the pension beneficiaries’ money and potentially betting that things were going to come up in order to save money. He reminded the board that their fiduciary duty was to make investments that were sufficient to meet liabilities and pension obligations. He also stated that they should continue to take into account the issues and concerns of the state’s primary source of funding on a contribution basis.

MR. JOHNSON said that he was looking to hear more from Buck and GRS as to the justification for utilizing the victory they had as a basis for a change to the market value basis and that he was very concerned with a major change occurring as a consequence of one successful year.

MR. WILLIAMS noted that he was surprised by the rush on it and that it felt like a quick reaction to something that he thought should not be rushed. He said he was concerned to have a strong return and then to suddenly pretend that it was the new normal, that there was a high hurdle to move off of the five-year smoothing processes and move away from what had been accomplished.

CHAIR HIPPLER acknowledged the rush in the time frame and that there would be a discussion of that later in the meeting. He then asked COMMISSIONER MAHONEY if there was a risk, and could they quantify that risk to the fund; He also repeated what MR. JOHNSON had pointed out that the fiduciary obligation was for the best interest of the fund and then asked if there was a risk to the fund if they became overfunded, or the fund being obligated to change its payment to the beneficiaries; COMMISSIONER MAHONEY said that was a legal question; MS. HARBO said that there was a provision that if they become 105 percent funded that there would be an ad hoc PRPA paid to the beneficiaries.

MR. HOFMEISTER said that what MS. HARBO had mentioned was an artifact from the Hoffbeck decision which applied to Tier I employees. He then asked CHAIR HIPPLER to repeat his question; CHAIR HIPPLER asked what was the impact to the fund if they become overfunded; Was the fund then obligated to increase payments to the beneficiaries beyond what was currently promised; MR. HOFMEISTER said no, but he did not think that the question had been completely vetted by the Supreme Court. That it had been touch on in a case from 1997 called Gallion which discussed any surplus in the pension fund that was being evaluated in that case and that the indication was that the

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participants did not have a right to have their benefits increased as a result of a surplus.

MS. HARBO said that there was a provision in SB 141 that addressed the funds reaching 105 percent funding; there would be an ad hoc PRPA given to the beneficiaries.

CHAIR HIPPLER stated that they have experts on the issue but that it seemed that the experts were not in alignment, which proved the need for further research. He said that the subject was important enough that if they have a follow-up meeting to further consider the action, that they would need to have more thorough vetting by a follow-up meeting.

MS. RYERSON commented that the market corridor could be made more narrow; that outsized returns over or under a certain amount would be recognized immediately. CHAIR HIPPLER asked her if she had seen other funds at roughly 10 percent deviation from actuarial and fair market value; MS. RYERSON said she had not, that it was usually 20 percent and it could be narrowed, and 11 percent was not huge, but they would also have to be willing to reset on the downside.

MR. WILLIAMS noted that if they were seriously considering it, that it would be important to have all IAC members at the meeting; COMMISSIONER MAHONEY commented that the sense of urgency related to the budget deadlines for 2023 and that if they do decide as a group to discuss it, they could schedule a special meeting possibly alongside the Audit Committee meeting on October 11th so they could identify the questions of some Trustees.

MR. KERSHNER said that they had discussed what may happen in FY2022 and FY2023, either recovery or continued excess returns. He said that it may be prudent to have an asset/liability modeling study, which forecasts potential outcomes. He said those forecasts and projection are more thorough and would provide the information needed as to where future returns may be.

MR. HANNA said he didn't know the pure answer on the interplay between the State's general fiduciary standard of sole financial best interest and the ARMB's creation statute which discusses acting in a manner sufficient to meet liabilities. He said he understands the asymmetric risk the State faces in potentially overfunding the systems. He said that the ARM Board taking an action to fund the systems so that they were likely to be overfunded may not be the right decision even though it may be in the best interest of the plans because it might be more than sufficient to meet the liabilities. He said that last year's strong performance may have just accelerated the discussion of this issue, which instead of would continue to grow as the systems move closer to being fully funded. However, he noted that overfunding is not the median expected outcome in the short-term.

DR. JENNINGS noted that it was a fair market value discussion and that market values were what finance theory would support. He said he was involved with a UK pension that was performing single-day snapshots and the head triennial valuations and the snapshot day was April of 2009 and by the time they had received the report, the market had significantly recovered. He said the policy could be adapted as they learn from the snapshot dates.

CHAIR HIPPLER said they had two possibilities; one to continue the discussion on October 11th after having completed research on the 105 percent issue, and the other option would be not to go down that road.

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MR. JOHNSON stated that it was an important issue and that it would not hurt to have more information. He recommended that they have a special meeting on October 11th along with the Audit Committee. He said that if he there were a vote at that time, he would vote against it. He said he felt they need more information.

MR. JOHNSON moved to continue the discussion till October 11th or on a date to be set. MS. HARBO seconded the motion.

MS. JONES clarified that the motion would table the discussion of resolutions 2021-04 and 2021-07.

MR. BRETZ asked if they could get the answers to some of the question in time for the discussion at the main board meeting; COMMISSIONER MAHONEY said that she would try to work on the issue but would need to work with MR. WORLEY and the Department of Law. She noted that they would need to have a full discussion and not be rushed so they could be thorough with the discussion and research.

MR. JOHNSON said that he too felt that there needed to be a thorough discussion and that the decision the Board faced was controversial.

MS. HARBO stated that she believed that SB 141 required an actuary and another actuary to run checks on the first actuary.

ACTING COMMISSIONER HOLLAND said that one of the things they discussed was if there would be a follow-up meeting, there would need to be questions presented in this meeting to be answered at the follow-up meeting. She said before they move forward with the motion, she wanted to have the issues noted so there would be a more meaningful discussion in October.

CHAIR HIPPLER asked if the Board felt that they should have specific questions laid out in the motion; COMMISSIONER MAHONEY suggested that they could assign a point of contact that they could send their questions to, which would be MS. JONES. She would then circulate them to ensure everyone would be heard. She also suggested that some of the slides from Buck could be consolidated to make a clearer picture of the full impact to the state.

CHAIR HIPPLER agreed that it was important to give the staff more time to get the information put together.

MS. JONES asked that they set a deadline so she could ensure she had everything needed and was able to get it to the appropriate people in a timely manner.

CHAIR HIPPLER clarified that they were tabling Resolution 2021-04 and 2021-07 until October and asked for a roll call vote.

A roll call vote was taken, and the motion passed unanimously.

B. Discussion of 2023 PERS/TRS/JRS Additional State Contributions

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MR. WORLEY noted that they would not be discussing the PERS and TRS Defined Benefit Plans as that discussion was placed on hold until the October 11th meeting.

MR. KERSHNER offered to give a walk-through that showed the basic steps to help explain the documents in the packet.

CHAIR HIPPLER stated that as time was limited an abbreviated review would be best.

MR. KERSHNER explained that the presentation started on page 9 of the packet and contained the development of the FY2023 additional state contribution for TRS; that there was a similar one for PERS starting on page 30. He said employers under TRS contribute 12.56 percent of total salaries, including DB and DCR participants. He said they used the information from the valuations to calculate the percentages of total salaries projected for FY2023. He explained that the outputs from the valuations are the two components of the actuarially determined contribution as shown on slide 4. He further explained that the second component was the layered amortizations of the unfunded liability which changes when the funded status of the plans change because the unfunded liabilities change. He said they then take those outputs from the valuation and project them to FY2023 then divide those amounts by the projected FY2023 payroll figures to get the rates which were then combined in step 6.

COMMISSIONER MAHONEY asked if MR. KERSHNER would explain why the Defined Benefit payrolls for 2023 were going down significantly for PERS and TRS; MR. KERSHNER said because the Defined Benefit plans were closed to new entrants after July of 2006, the payroll for current active members - their pay was expected to increase according to the assumptions and there were people exiting from the active population each year due to retirement and death. He also noted that the DCR payrolls increased due to new entrants coming in to replace the members who exited the DB Plan active population; COMMISSIONER MAHONEY then asked if they saw retirements that would be above and beyond the norm such as a result from the pandemic, that would cause that; MR. KERSHNER stated that they had just received the June 30, 2021 data but had not had a chance to thoroughly review it, but they did anticipate more retirements and more deaths than they had seen in the past.

MR. KERSHNER continued the slide presentation noting slide 6 which showed the six steps and slide 8 which referenced the 25-year layered amortizations. He then moved to slide 10 which showed outputs from the valuation on the DCR for occupational death and disability and the healthcare benefits and noted that the percentage of projected FY2023 pay was shown on slide 14. He then moved to slide 16 which showed the dollar amounts for the DB plans. He stated that the Defined Benefit Plan contribution as a percentage of FY2023 pay without the reset was 20.62 percent and the reset would take it to 15.65 percent. He noted that it all came to fruition on slide 18 which displayed step 6.

MR. HIPPLER then identified the difference with PERS by switching to slide 3 of the PERS presentation and noted that each employer contributed 22 percent of total pay under PERS, but SB 55 was passed and stated that the state, as an employer -- the state's employees would contribute the full actuarially determined contribution based on the total pay of their employees. He explained that the total dollar amount did not change, just the bucket it came out of. He said the DCR Plan had to separate the peace/fire participants from the other participants due to different occupational death and disability rates for them.

C. FY2023 Contribution Discussion and Review

1. History of PERS/TRS Employer Contribution Rates

Action: The Actuarial Committee recommends that the Alaska Retirement Management Board set Fiscal Year 2023 PERS Defined Contribution Retirement Plan Retiree Major Medical Insurance and Occupational Death & Disability Benefit rates as set out in the following resolutions:

Resolution 2021-05: Public Employees' Defined Contribution Retirement Plan Retiree Major Medical Insurance Rate
MS. HARBO so moved. COMMISSIONER MAHONEY seconded the motion.

A roll call vote was taken, and the action item passed unanimously.

Resolution 2021-06: Public Employees' Defined Contribution Retirement Plan Occupational Death & Disability Benefit Rates
MS. HARBO so moved. MR. WILLIAMS seconded the motion.

A roll call vote was taken, and the action item passed unanimously.

Action: The Actuarial Committee recommends that the Alaska Retirement Management Board set Fiscal Year 2023 TRS Defined Contribution Retirement Plan Retiree Major Medical Insurance and Occupational Death & Disability Benefit rates as set out in the following resolutions:

Resolution 2021-08: Teachers' Defined Contribution Retirement Plan Retiree Major Medical Insurance Rate
MS. HARBO so moved. MR. WILLIAMS seconded the motion.

A roll call vote was taken, and the action item passed unanimously.

Action: Resolution 2021-09: Teachers' Defined Contribution Retirement Plan Occupational Death & Disability Benefit Rate
MS. HARBO so moved. MR. WILLIAMS seconded the motion.

A roll call vote was taken, and the action item passed unanimously.

Action: The Actuarial Committee recommends that the Alaska Retirement Management Board set the Fiscal Year 2023 NGNMRS annual contribution amount consistent with its fiduciary duty, as set out in the attached form of Resolution 2021-10:
MS. HARBO so moved. MR. BRETZ seconded the motion.

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MR. WORLEY noted that the resolution did not propose a dollar amount and that they were in a similar discussion last year and after discussing the issue with Mr. Goering, he indicated that the Board did have a fiduciary responsibility to adopt an amount that was actuarially determined for the National Guard Plan without consideration of past service cost. He reminded the Board that they had passed a resolution for a dollar amount to be contributed to the National Guard Plan, but as it was overfunded, the Legislature did not appropriate funds to it; COMMISSIONER MAHONEY asked what the percentage of the plan was overfunded; MR. WORLEY said it was on page 117 and it was at 191 percent on an actuarial value.

COMMISSIONER MAHONEY asked CHAIR HIPPLER if it should be an item for discussion at the meeting on the 11th and why were they continuing to suggest funding when it was out of a bracket for funding.

CHAIR HIPPLER noted that there had been a motion that was seconded and suggested to either withdraw the motion, vote on the motion, or discuss it further.

COMMISSIONER MAHONEY suggested they discuss it further so they could determine if they wanted to continue to seek contributions to a fund that was already 191 percent funded.

MR. BRETZ suggested that instead of voting it down, it would fit into the discussion that was scheduled for the meeting on the 11th.

COMMISSIONER MAHONEY suggested they could vote not to fund it.

MR. BRETZ suggested that they could vote it down and still discuss it as part of the discussion later.

MR. HANNA noted that his recollection of Mr. Goering's recommendation was to continue to set rates at the normal cost since that it was required in the statute.

COMMISSIONER MAHONEY stated that if it was a normal cost and the statute stated the normal costs needed to be funded, but the Legislature did not fund it.

MR. BRETZ stated that it was funded.

COMMISSIONER MAHONEY stated that the Legislature did not appropriate the funds for it; MR. WORLEY stated that was correct, he further stated that it was the fiduciary responsibility of the Board to fund the normal cost. He said what had been sent to OMB was a request for normal cost plus administrative expenses. The OMB said "Because the plan is so overfunded, we're not going to include it in the budget process this year."

MR. HANNA pointed out the distinction in the statute was the difference of what was required by the Board and what was required to be OMB funded.

CHAIR HIPPLER asked MR. WORLEY if he was suggesting that the Board was required by statute to fund, what they considered to be normal costs and they were required to have the resolution; MR.

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WORLEY confirmed that was so, based on the Department of Law.

MR. WILLIAMS asked what the risks were if the Board voted no; MR. HOFMEISTER stated that he could not answer that without doing additional research. He stated that he could not think of any risk to not contributing to an overfunded plan.

MR. BRETZ then asked what the statute was; MR. JOHNSON stated it was AS 37.103220(a)8(A).

MR. HOFFMEISTER added that the statute stated "an appropriate contribution rate." He noted that if something was funded 191 percent, the appropriate contribution rate would not be the maximum. He said that if there was a minimal amount that kept the program going, that was fine and if they could continue to maintain without further contributions, that would work as well as it would meet the obligation of the statute.

A roll call vote was taken, and the action failed unanimously.

2. JRS Contribution

CHAIR HIPPLER stated that the JRS Contribution was slated for a 70 percent contribution rate and there was not resolution for it, that it was a topic for discussion.

MR. WORLEY stated that it was information for the Board and the committee to see. He explained that it was the rate for the Judicial Retirement System for FY2023, the normal cost if paid through payroll. He noted the past service amount was funded as a separate line-item much like the additional PERS and TRS contribution.

VII. Discussion on FY2021 Valuation Timeline

MR. KERSHNER noted that the timeline was on page 123 of the packet. He said since the timeline was prepared on August 31st, Steps 6 through 9 had been completed and they were on target to meet the deadlines shown in Item 21. They would be meeting in December to present the preliminary valuation results from the 2021 valuation and to discuss the economic assumptions for the 2021 experience study. He said Item 29 would be discussed in the meeting in March 2022 where they would review the valuation results in more detail and would show the latest projections of contributions. They would also discuss the demographic assumptions for the experience study. He said that Item 31 was a follow-up meeting, if needed, scheduled for April as a follow-up to the March meeting. Item 33 would be the June meeting where the Board would adopt the valuation reports and have a follow-up discussion on the assumptions if needed. The Board would then decide to adopt the new assumptions from the experience study at the June 2022 meeting.

VIII. Online Actuarial Dashboards

MR. KERSHNER shared his screen to take the committee through Buck's dashboards. He said they offered updated dashboards for the 2020 valuation results. He then proceeded to explain the steps of logging in and changing the password if needed. He then displayed the two State of Alaska dashboards and explained the various pages he landed upon.

COMMISSIONER MAHONEY asked if the projection for 2040 in the historical metrics page was showing that by year 2040 the plan would be 121 percent funded; MR. KERSHNER stated that was

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for TRS and 112 percent funded for PERS. He said the reason was the funding policy which was amortizing the unfunded liability over 25 years -- those would ultimately reach 100 percent per statutes, once they reach 100 percent they have to continue to contribute the normal cost, so the surplus continues to grow. He noted that it was on a combined pension and healthcare basis, the pension trust was not expected to exceed on a combined basis, pension, and healthcare in the future; COMMISSIONER MAHONEY stated that her point was that they were on a trajectory for overfunding; MR. KERSHNER noted that they were on a trajectory to fully fund the plans, and at that point, the statues could be amended to not require the normal cost be contributed as a minimum. He said the DCR plans were still being contributed to because the statutes require the normal cost be contributed regardless of the funded status of the plan; COMMISSIONER MAHONEY stated that she understood that but was uncomfortable with it because it could trigger excess benefits, then a PRPA.

MR. JOHNSON asked if the actual amounts were being expended were lower as the beneficiaries become actuarially insignificant; MR. KERSHNER explained that the amounts of the contributions do not necessarily decrease; under the method to fund the unfunded liability, that was on a level percentage of pay basis. He noted that as payroll is expected to increase in the future, the dollar amounts were expected to increase because those amounts were projected to be the same percentage of payroll; COMMISSIONER MAHONEY asked if the payroll was going down for the DB components; MR. KERSHNER affirmed they were but the funding per the statutes was on a total payroll basis, including DCR.

MR. WILLIAMS asked if it was easy to break it out between health trust and the pension; MR. KERSHNER affirmed that it was; MR. WILLIAMS requested directions on what to do when he logged in so he could review that. MR. KERSHNER said he would have to create a separate graph to show the pension and healthcare separately.

IX. Actuarial Education Modules

MR. KERSHNER said that they had provided access to the modules after the June meeting and that he did not have anything to discuss unless there were questions from the committee members or others in the meeting.

X. Update Independent Audit of State's Actuary per AS 37.10.220(a)(10)

MR. DETWEILER reminded the Board that the audit was different than the normal work they complete as review actuary. He said they selected a number of members and received from Buck detailed test lives. They reviewed the different benefit details for those lives to make sure they agreed as to how Buck valued the liabilities for the different components. He said as part of their normal review, they picked members with different demographic and special types of data elements to ensure they covered as much of the population they could. He said the full replication audit allowed them to review the liabilities for all members and compare that with what Buck had provided. He said they would provide the initial results and findings at the December Actuarial Committee meeting; COMMISSIONER MAHONEY asked if there were any areas of assumption where it was a known difference between Buck; MR. DETWEILER said they had not found any at that time. He said that in the past there had been a few that they had not agreed 100 percent with Buck, and that Buck had updated all assumptions, and the committee and the Board had adopted all those assumptions.

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XI. Periodic Self-Assessment

CHAIR HIPPLER gave a background stating that according to the charter the committee was directed to conduct an annual self-assessment twice a year and that he and CHAIR JOHNSON had looked into it and had tried to come up with something to meet the criteria that would be helpful and not overly burdensome, and the proposed solution could be found on page 146.

MR. JOHNSON commented that it effectively created on opportunity for further conversations within the committee about their performance and an objective way of getting it done, hopefully expeditiously.

CHAIR HIPPLER suggested they conduct the self-assessment for the committee and determine if they would want it done differently than as suggested. He also noted that many of the members were also on other committees and were required to conduct self-assessments for those as well and that it would be a good opportunity to determine how to apply the self-assessment to the other committees.

CHAIR HIPPLER read the first question: "Are discussions at the committee level meaningful and, if not, what can be done about it?" No response was given. Question No 2: "What key issues are being missed?" CHAIR HIPPLER said that the answer was yes as evidenced by the fact that they had tabled the discussion of resetting to market value to October 11th to give time for more careful consideration. Question No. 3 was not read. Question No. 4: "Is the committee rationally reducing time spent by the Board on Actuarial discussion?" CHAIR HIPPLER noted that they did not want to have an Actuarial Committee meeting and then duplicate all the work at the Board. He then asked if they were saving the Board time, were they doing it effectively, and how could they do it better; MR. JOHNSON said that with CHAIR HIPPLER's leadership, he thought they were doing a great job.

CHAIR HIPPLER noted the lack of comments and to let him know if there was any way the committee could improve.

XII. Review Committee Charter – None.

XIII. Future Meetings

A. Calendar Review

CHAIR HIPPLER stated that there would be a follow-up meeting in October.

B. Agenda Items

MS. HARBO said that she thought it would be a good idea to have the new counsel go through the provisions of Senate Bill 141, which created the DC system and set up the ARM Board as a refresher for all members; CHAIR HIPPLER asked if she was suggesting they ask their counsel to review SB 141 and report to the Board on the material facts; MS. HARBO said only if the other members would like that, but as there were several issues that had come up that were covered under SB 141, such as requiring two actuaries and the 105 percent funding as well as other requirements, she thought that it might be good to do so.

MR. BRETZ suggested that it be part of the suggested reading list instead of using meeting time; CHAIR HIPPLER asked if he was suggesting that counsel could advise the Board what portions of SB 141 would be appropriate to read; MR. BRETZ said that the Trustees could listen to the audio

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recordings as there was good discussions and a refresher is always a good idea.

CHAIR HIPPLER noted that the Board had voted down the normal cost contributions for the National Guard because they were at 191 percent, but that it was a statutory requirement. He also noted that the TRS healthcare plan was at 140 percent. He said they need to review the “Normal cost” and determine if the statute needed to be amended; MR. BRETZ asked if they were reading the statute correctly; CHAIR HIPPLER that it might be appropriate to recommend a statutory change.

MR. JOHNSON suggested that MR. HOFMEISTER could give a legal report on that point. MR. BRETZ said that the interpretation of a paragraph might be taken two different ways. He said the notion that they required funds that they did not need every year because the law said as much that it could not be what the statute says; CHAIR HIPPLER stated that is what they were currently doing. He said the healthcare plan was 143 percent funded and they were collecting 2.8 percent which he believed was the normal cost for the healthcare fund; MR. BRETZ again suggested a statute review; CHAIR HIPPLER agreed.

C. Requests/Follow-ups

CHAIR HIPPLER asked if there were other agenda items or follow-ups for the future meetings.

COMMISSIONER MAHONEY suggested in regard to the statute associate with normal cost, the Trustees could write a paper, assuming they all support it, they would sign it and provide it to the Legislature indicating the need and desire to change the normal cost for healthcare.

CHAIR HIPPLER said that would be something they could look into for the meeting on the 11th, assuming the staff had the time. He noted that he would coordinate with MS. JONES and review the list of questions the Trustees submitted within the timeframe dictated by CHAIR JOHNSON.

COMMISSIONER MAHONEY said that would work and they would not have to have a document completed that day, just a conceptual discussion and have it completed in time for the start of the Legislative session in January.

MR WILLIAMS suggested they consider if there was anything needed for the new members to bring them up to speed. He also stated that they had received the login information from Buck and that they should make sure that everyone had been able to log in to it. He also thought there could be notes on certain items that explained what was being viewed and how the numbers lined up.

MR. BRETZ asked if the October meeting was going to be a similar setup for attendance; CHAIR HIPPLER said that he would have to get back with him about that.

MR. JOHNSON said that would be a meeting of the ARM Board itself and MS. JONES would look into the logistics of how that would be done.

XIV. PUBLIC/MEMBER COMMENTS – None.

XV. ADJOURNMENT

MS. HARBO moved to adjourn the meeting. MR. BRETZ seconded the motion. The motion passed

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without objection.

The meeting was adjourned at 3:26 p.m.

ATTEST:

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Corporate Secretary

Note: An outside contractor recorded the meeting and prepared the summary minutes. For in-depth discussion and more presentation details, please refer to the recording of the meeting and presentation materials on file at the ARMB office.

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Conference of Consulting Actuaries
Public Plans Community (CCA PPC)

Actuarial Funding Policies and Practices for Public Pension Plans

October 2014

Advancing the Practice®
Conference of Consulting Actuaries
Public Plans Community

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Paul Angelo

Tom Lowman

An Open Letter

From: **Paul Angelo, Chair and**
Tom Lowman, Vice Chair Conference of
Consulting Actuaries Public Plans Community

To: **Interested Parties in the Public Pension Arena**

Re: **Public Plans Community White Paper on**
Public Pension Funding Policy

On behalf of the Conference of Consulting Actuaries' Public Plans Community (CCA PPC), the following "White Paper" is presented to provide guidance to policymakers and other interested parties on the development of actuarially based funding policies for public pension plans. The CCA PPC includes over 50 leading actuaries whose firms are responsible for the actuarial services provided to the majority of public-sector retirement systems in the US. All of the major actuarial firms serving the public sector are represented in the CCA PPC as well as in-house actuaries from several state plans. As a result, the CCA PPC represents a broad cross section of public-sector actuaries with extensive experience providing valuation and consulting services to public plans, and it is that experience that provides the knowledge base for this paper.

The White Paper is based on over two years of extensive and detailed funding policy discussions among the members of the CCA PPC, and reflects the experience of those members in providing actuarial consulting services to state and local public pension plans throughout the US. While there were naturally disagreements and compromises during those discussions, the White Paper reflects the resulting majority opinions of the CCA PPC as developed through those discussions. We believe this White Paper reflects a substantial consensus among the actuaries who provide valuation and consulting services to public pension plans.

This White Paper represents groundbreaking actuarial research in that it develops a principles based, empirically grounded Level Cost Allocation Model (LCAM) for use as a basis for funding policies for public pension plans throughout the US. In particular, we believe that the funding policies developed herein could serve as a rigorously defensible basis for an "actuarially determined contribution" under Statements 67 and 68 of the Governmental Accounting Standards Board.

The distinguishing feature of this approach is that it is begins with stated policy objectives and then develops specific policy guidance consistent with those objectives. One of the main results is that an effective funding policy often represents a balancing of policy objectives. Another is that adherence to the policy objectives may lead to a narrower range of acceptable practices than is sometimes found in current practice.

The LCAM White Paper is intended to provide guidance not just in the evaluation of particular current policy practices but also in the development of actuarially based funding policies in a consistent and rational manner. For that reason, the reader is strongly encouraged to focus not only on the specific practice guidance but also on the detailed discussions and rationales that lead to that guidance. Also note that while this discussion is comprehensive it is not all-inclusive. There is a list of "items for future discussion" at the end of the paper. In addition, there may be other "level cost allocation models" that are appropriate in some circumstances.

The CCA PPC would like to acknowledge and thank the California Actuarial Advisory Panel for their seminal work in developing the principles-based level cost allocation model on which this White Paper is based. We also thank all the members of the Conference of Consulting Actuaries Public Plans Community who helped in the development of this paper.

Introduction

This "white paper" is based on funding policy discussions among the members of the Conference of Consulting Actuaries Public Plans Community (CCA PPC) and reflects the majority opinions the CCA PPC members[1]. Those discussions relied heavily upon and generally concurred with the funding policy white paper prepared by the California Actuarial Advisory Panel (CAAP) and the level cost allocation model developed therein[2]. For that reason, the CCA PPC has chosen to build directly on the CAAP document in developing its own funding policy guidance.

The CCA PPC wishes to express its sincere appreciation to the CAAP for its seminal work in preparing a principles-based funding policy development. However, while much of the text of this CCA PPC white paper comes directly from the CAAP document, this white paper is presented solely as the majority opinions of the CCA PPC.

This CCA PPC white paper is intended for a national audience, as part of a nation-wide review and discussion of funding policies for public pension plans. Our hope is that the principles and policies developed herein may provide an actuarial basis for others developing funding practices and that legislative, regulatory and other industry groups may build these concepts into their guidance.

This white paper develops the principal elements and parameters of an actuarial funding policy[3] for US public pension plans. It includes the development of a Level Cost Allocation Model (LCAM) as a basis for setting funding policies. This white paper does not address policy issues related to benefit plans where a member's benefits are not funded during the member's

[1] *These comments were developed through the coordinated efforts of the Conference of Consulting Actuaries' (CCA) Public Plans Steering Committee. However, these comments do not necessarily reflect the views of the CCA, the CCA's members, or any employers of CCA members, and should not be construed as being endorsed by any of those parties.*

[2] *See "Actuarial Funding Policies and Practices for Public Pension and OPEB Plans and Level Cost Allocation Model" at http://www.sco.ca.gov/caap_resources.html*

[3] *As used in this paper, an "actuarial funding policy" has the same meaning as a "Contribution Allocation Procedure" as defined in the Actuarial Standards of Practice (ASOPs). We further note that the actuarial policies that determine the level and timing of contributions must also include policies related to setting the actuarial assumptions. As noted at the end of this section, this paper does not address policies and practices related to setting actuarial assumptions.*

working career, e.g., plans receiving "pay-as-you-go" funding or "terminal" funding.

While this white paper develops guidance primarily for pension plans, we believe the general policy objectives presented here are applicable to the funding of OPEB plans as well. However, application of those policy objectives to OPEB plans may result in different specific funding policies based on plan design, legal status and other features distinctive to OPEB plans. We encourage those involved in the valuation and funding of OPEB plans to consider the applicability to those plans of the policy guidance developed here.

Some pension plans have contributions rates that are set on a fixed basis, rather than being regularly reset to a specific, actuarially determined rate. The CCA PPC believes that such plans should develop an actuarially determined contribution rate for comparison to the fixed rate. However, this white paper does not address procedures for evaluating that comparison, or for determining whether the fixed rate is sufficient or when and how the fixed rate should be changed. The CCA PPC intends to prepare a separate white paper on fixed rate plans including these considerations.

As developed here the LCAM is a level cost actuarial methodology[4], which is consistent with well-established actuarial practice. The LCAM is a principles-based mathematical model of pension cost. The model policy elements are developed in a logical sequence based on stated general policy objectives, and in a manner consistent with primary factors that affect the cost of the pension obligation.

The particular model that we develop is based on a combination of policy objectives and policy elements that has been tested over many years and, we believe, is well understood and broadly applicable. However, there are other models and policy objectives that practitioners may use that are internally consistent and may be as appropriate in some circumstances as the model that is developed herein, and it is not our intention to discourage consideration of such other policies[5]. Furthermore, there are situations where the policy parameters developed herein may require additional analysis to establish the appropriate parameters for each such situation[6]. It is up to the actuary to apply professional judgment to the particulars of the situation and recommend the most appropriate policies for that situation, including considerations of materiality.

Our approach begins with identifying the policy objectives of such a funding policy, and then evaluating the structure and parameters for each of the particular policy elements in a manner consistent with those objectives, as well as with current and emerging actuarial science and governing actuarial standards of practice.

This white paper is intended as advice to actuaries and retirement boards[7] in the setting of funding policy. While the analysis is somewhat restrictive in the categorization of practices, this guidance is not intended to supplant or replace the applicable Actuarial Standards of Practice (ASOPs). Like all opinions of the CCA PPC, this guidance is nonbinding and advisory only. Furthermore, it is not intended as a basis for litigation, and should not be referenced in a litigation context.

Given the wide range of such policies currently in practice in the U.S., this development also acknowledges that plan sponsors and retirement boards may require some level of policy flexibility

[4] *Here a "level cost actuarial methodology" is characterized by economic assumptions based on the long term expected experience of the plan and a cost allocation designed to produce a level cost over an employee's active service. This is in contrast to a "market-consistent" actuarial methodology where economic assumptions are based on observations of current market interest rates, and costs are allocated based on the (non-level) present value of an employee's accrued benefit.*

[5] *In particular, the LCAM developed here incorporates the widely prevalent practice of managing asset volatility directly through the use of an asset smoothing policy element. Some practitioners are developing direct contribution rate smoothing techniques as an alternative to asset smoothing. The CCA PPC is considering development of a separate white paper on direct smoothing as an alternative to asset smoothing.*

[6] *For example, plans that are closed to new entrants may require additional analyses and forecasts to determine whether the policy parameters herein provide for adequate funding.*

[7] *Here "retirement boards" is meant to refer generally to whatever governing bodies have authority to set funding policy for public sector plans.*

to reflect both their specific policy objectives and their individual circumstances. To accommodate that need for reasonable flexibility and yet also provide substantive guidance, this development evaluates various policy element structures and parameters or ranges according to the following categories:

- LCAM Model practices (i.e., practices most consistent with the LCAM developed herein)
- Acceptable practices
- Acceptable practices, with conditions
- Non-recommended practices
- Unacceptable practices.

These categories are best understood in the context of the different elements that comprise an actuarial funding policy and the various policy alternatives for each of those policy elements. They are intended to assist in the evaluation of specific policy elements and parameters relative to the general policy objectives stated herein, and are developed separately for each of the three principal policy elements discussed in this white paper (cost methods, asset smoothing methods and amortization policy). They are not intended as a grading or scoring mechanism for a system's overall actuarial funding policy.

Generally, throughout this discussion, "model practices" means those practices most consistent with general policy objectives and the LCAM as developed here based on those policy objectives[8]. Acceptable practices are generally those that while not fully consistent with the LCAM as developed here, are well established in practice and typically do not require additional analysis to demonstrate their consistency with the general policy objectives. Practices that are acceptable with conditions may be acceptable in some circumstances, on the basis of additional analysis to show consistency with the general policy objectives or to address risks or concerns associated with the practices. Systems that adopt practices that under this model analysis are not recommended should consider doing so with the understanding that they reflect policy objectives different from those on which this LCAM is based or should consider the policy concerns identified herein.

This evaluation of practice elements and parameters was developed in relation to the LCAM and its general policy objectives, based on experience with the many independent public plans sponsored by states, counties, cities and other local public employers in the US, and is intended to have general applicability to such plans. However, for some plans, special circumstances or situations may apply. The specific applicability of the results developed here should be evaluated by their governing boards based on the advice of their actuaries.

Note that while the selection of actuarial assumptions is an essential part of actuarial policy for a public sector pension plan, the selection of actuarial assumptions is outside the scope of this discussion. For example, a pension plan should perform a comprehensive review of both economic and demographic assumptions on a regular basis as part of its actuarial policies. Another important consideration in determining a plan's funding requirements is the plan's investment policy and related investment portfolio risks. While actuarial assumptions, plan investments and even benefit design are all elements that affect funding requirements, they are beyond the scope of this paper.

This white paper is also not intended to address the measurement of liabilities for purposes other than funding, e.g., settlement obligations or other market-consistent measures[9].

Finally note that some retirement systems have features that may require funding policy provisions and analyses that are not specifically addressed herein. One example is systems with "gain sharing" provisions whereby favorable investment experience is used as the basis for increasing member benefits and/or reducing employer and/or member contributions. The policies developed here should not be interpreted as being adequate to address these plan features without additional analysis specific to those features.

[8] *Some commentators have interpreted "model practices" as synonymous with "best practices." That is not the intent of this categorization of practices. Given their circumstances retirement boards may find that other practices, particularly those categorized and acceptable or acceptable with conditions, are considered both appropriate and reasonably consistent with the policy objectives stated herein.*

[9] *See footnote 4*

Transition Policies

In order to avoid undue disruption to a sponsor's budget, it may not be feasible to adopt policies consistent with this white paper without some sort of transition from current policies. For example, a plan using longer than model amortization periods could adopt model periods for future unfunded liabilities while continuing the current (declining) periods for the current unfunded liabilities. Such transition policies should be developed with the advice of the actuary in a manner consistent with the principles developed herein. We have included in our discussion transition policies appropriate to each of the principal policy elements.

General Policy Objectives

The following are policy objectives that apply generally to all elements of the funding policy. Objectives specific to each principal policy element are identified in the discussion of that policy element.

1. The principal goal of a funding policy is that future contributions and current plan assets should be sufficient to provide for all benefits expected to be paid to members and their beneficiaries when due.
2. The funding policy should seek a reasonable allocation of the cost of benefits and the required funding to the years of service (i.e. demographic matching). This includes the goal that annual contributions should, to the extent reasonably possible, maintain a close relationship to the both the expected cost of each year of service and to variations around that expected cost.
3. The funding policy should seek to manage and control future contribution volatility (i.e., have costs emerge as a level percentage of payroll) to the extent reasonably possible, consistent with other policy goals.
4. The funding policy should support the general public policy goals of accountability and transparency. While these terms can be difficult to define in general, here the meaning includes that each element of the funding policy should be clear both as to intent and effect, and that each should allow an assessment of whether, how and when the plan sponsor is expected to meet the funding requirements of the plan.
5. The funding policy should take into consideration the nature of public sector pension plans and their governance. These governance issues include (1) agency risk issues associated with the desire of interested parties (agents) to influence the cost calculations in directions viewed as consistent with their particular interests, and (2) the need for a sustained budgeting commitment from plan sponsors.

Policy objective 1 means that contributions should include the cost of current service plus a series of amortization payments or credits to fully fund or recognize any unfunded or overfunded past service costs (note that the latter is often described as “Surplus”).

Policy objectives 2 and 3 reflect two aspects of the general policy objective of interperiod equity (IPE). The “demographic matching” goal of policy objective 2 promotes intergenerational IPE, which seeks to have each generation of taxpayers incur the cost of benefits for the employees who provide services to those taxpayers, rather than deferring those costs to future taxpayers. The "volatility management" goal of policy objective 3 promotes period-to-period IPE, which seeks to have the cost incurred by taxpayers in any period compare equitably to the cost for just before and after.

These two aspects of IPE will tend to move funding policy in opposite directions. Thus the combined effect of policy objectives 2 and 3 is to seek an appropriate balance between intergenerational and period-to-period IPE, that is, between demographic matching and volatility management.

Policy objective 3 (and the resulting objective of balancing policy objectives 2 and 3) depends on the presumed ongoing status of the public sector plan and its sponsors. The level of volatility management appropriate to a funding policy may be less for plans where this presumption does not apply, e.g., plans that are closed to new entrants.

Policy objective 4 will generally favor policies that allow a clear identification and understanding of the distinct role of each policy component in managing both the expected cost of current service and any unexpected variations in those costs, as measured by any unfunded or overfunded past service costs. Such policies can enhance the credibility and objectivity of the cost calculations, which is also supportive of policy objective 5.

Policy objective 5 seeks to enhance a retirement board's ability to resist and defend against efforts to influence the determination of plan costs in a manner or direction inconsistent with the other policy objectives. This favors policies based on a cost model where the parameters are set in reference to factors that affect costs rather than the particular cost result. This separation between the selection of model parameters and the resulting costs enhances the objectivity of the cost results. As a result, any attempt to influence those results must address the objective parameters rather than the cost result itself.

A common example of agency risk is that, because plan sponsors may be more aware of and responsive to the interests of current versus future taxpayers, there may be incentives to defer necessary contributions to future periods. This may be countered by avoiding policy changes that selectively reduce contributions.

For plans with an ongoing service cost for active members, policy objective 5 also reflects a policy objective to avoid encumbering for other uses the budgetary resources necessary to support that ongoing service cost. This introduces an asymmetry between funding policies for unfunded liabilities versus surpluses, which is discussed in the policy development for surplus amortization.

Note that the model funding policies developed here are substantially driven by these policy objectives. In some situations other plan features or policies (e.g., investment policy, reserving requirements, and plan maturity) may also be a consideration in setting funding policy. Such considerations are not addressed in this analysis.

Principal Elements of Actuarial Funding Policy

The type of comprehensive actuarial funding policy developed here is made up of three components:

1. An **actuarial cost method**, which allocates the total present value of future benefits to each year (Normal Cost) including all past years (Actuarial Accrued Liability or AAL).
2. An **asset smoothing method**, which reduces the effect of short term market volatility while still tracking the overall movement of the market value of plan assets.
3. An **amortization policy**, which determines the length of time and the structure of the increase or decrease in contributions required to systematically (1) fund any Unfunded Actuarial Accrued Liability or UAAL, or (2) recognize any Surplus, i.e., any assets in excess of the AAL.

An actuarial funding policy can also include some form of "direct rate smoothing" in addition to both asset smoothing and UAAL/Surplus amortization. Two types of this form of direct rate smoothing policies were evaluated for this development:

1. Phase-in of certain extraordinary changes in contribution rates, e.g., phasing-in the effect of assumption changes element over a three year period.
2. Contribution "collar" where contribution rate changes are limited to a specified amount or percentage from year to year.

As noted earlier, it is also possible to use direct contribution rate smoothing techniques as an *alternative* to asset smoothing, rather than in addition to asset smoothing. While that approach is outside the scope of this discussion, the CCA PPC is considering development of a separate white paper on direct rate smoothing as an alternative to asset smoothing.

Actuarial Cost Method

The Actuarial Cost Method allocates the total present value of future benefits to each year (Normal Cost) including all past years (Actuarial Accrued Liability[1] or AAL).

Specific policy objectives and considerations

1. Each participant's benefit should be funded under a reasonable allocation method by the expected retirement date(s), assuming all assumptions are met.
2. Pay-related benefit costs should reflect anticipated pay at anticipated decrement.
3. The expected cost of each year of service (generally known as the Normal Cost or service cost) for each active member should be reasonably related to the expected cost of that member's benefit.
4. The member's Normal Cost should emerge as a level percentage of member compensation[2].
5. No gains or losses should occur if all assumptions are met, except for:
    a. Investment gains and losses deferred under an asset smoothing method consistent with these model practices, or
    b. Contribution losses or gains due to a routine lag between the actuarial valuation date and the date that any new contributions rates are implemented, or
    c. Contribution losses or gains due to the phase-in of a contribution increase or decrease.
6. The cost method should allow for a comparison between plan assets and the accumulated value of past Normal Costs for current participants, generally known as the Actuarial Accrued Liability (AAL).

[1] *Here "liability" indicates that this is a measure of the accrued (normal) cost while "actuarial" distinguishes this from other possible measures of liability: legal, accounting, etc.*

[2] *This objective applies most clearly to benefits (like, for example, most public pension benefits) that are determined and budgeted for as a percentage of individual and aggregate salary, respectively. For benefits that are not pay related it may be appropriate to modify this objective and the resulting policies accordingly.*

Discussion

1. Any actuarial cost model for retirement benefits begins with construction of a series or array of Normal Costs that, if funded each year, under certain stability conditions will be sufficient to fund all projected benefits for current active members. The following considerations serve to specify the cost model developed here.

   a. The usual stability conditions are that the current benefit structures and actuarial assumptions have always been in effect, the benefit structures will remain in effect, and future experience will match the actuarial assumptions. Special considerations apply if in the past the benefit structure has been changed for current active members changing the benefits for members with service after some fixed date.

   b. Consistent with Cost Method policy objective #3 and with the general policy objective of transparency, the Normal Cost for each member is based on the benefit structure for that member. This means that a separate Normal Cost array is developed for each tier of benefits within a plan. This argues against Ultimate Entry Age, where Normal Cost is based on an open tier of benefits even for members not in that open tier.

   c. Consistent with Cost Method policy objective #4, the Normal Cost is developed as a level percentage of pay for each member, so that the Normal Cost rate for each member (as a percentage of pay) is designed to be the same for all years of service. This provides for a more stable Normal Cost rate for the benefit tier in case of changing active member demographics. This argues against Projected Unit Credit.

   d. Also consistent with Cost Method policy objective #4, the Normal Cost for all types of benefits incurred at all ages is developed as a level percentage of the member's career compensation. This argues against funding to decrement. For plans with a DROP (Deferred Retirement Option Program) this also argues for allocating Normal Cost over all years of employment, including those after a member enters a DROP.

   e. Consistent with Cost Method policy objective #6, the Normal Cost is developed independent of plan assets, and the Actuarial Accrued Liability (and so also the UAAL) is based on the Normal Costs developed for past years. This argues against Aggregate and FIL as model practices.

      i. These methods should be considered as a fundamentally different approach to the determination and funding of variations from Normal Cost.

      ii. Plans using these methods should also measure and disclose costs and liabilities under the Entry Age method, similar to the requirements of current accounting standards.

   f. Historical practice includes the use of a variation of the Entry Age method (an "Aggregated" Entry Age method) where the Normal Cost and AAL are first determined for each member in a tier of benefits under the usual Entry Age method. However, the actual Normal Cost for the tier is then determined as the Normal Cost rate for the tier applied to the compensation for the tier, where the Normal Cost rate for the tier of benefits is determined as the present value of future Normal Costs for all active members in the tier, divided by the present value of compensation for all members in the tier.

      i. This variation introduces an inconsistency between the Normal Cost that is funded and the Normal Cost on which the AAL is based.

      ii. This inconsistency can be shown to produce small but systematic gains or losses, generally losses.

2. Consistent with all the above, under the cost model developed here the Normal Cost rate would change only when the projected benefits for the tier change either in amounts or in present value.

    a. The Normal Cost rate (both in total and by member) will vary from valuation to valuation due to demographic experience and assumption changes.

    b. The Normal Cost rate will not change when an individual member reaches an age or service where, under the consistent benefit structure for the member's tier, the member's benefit eligibility or accrual rate changes. This is because that event was anticipated in the projected benefits for the tier, so that the projected benefits are substantially unaffected by such predictable changes in eligibility or benefit accrual.

    c. Similarly the Normal Cost rate for a member should be unaffected by the closing of the member's tier and the creation of a new tier for future hires, as discussed under item 1.b above.

    d. However, if the benefit structure of a continuing, open tier is changed for members with service after some fixed date, then the Normal Cost rate should change to reflect the unanticipated change in projected benefits for members in the tier[3]. This calls for an extension or variation of the Entry Age method in order to value this type of benefit change.

        i. There are two methods in practice to adjust the Normal Cost rate for this type of plan change. While a detailed analysis of these two variations is beyond the scope of this discussion, our summary conclusions are:

            A. The "replacement life" Entry Age method would base the Normal Cost on the new benefit structure as though it had always been in place, thereby producing a consistent Normal Cost rate for all members in the tier. This has the advantages of a change in Normal Cost (both individual and total) more consistent with what would be expected for a change in future benefit accruals, a stable future Normal Cost rate for the tier and a relatively smaller (compared to the alternative) change in Actuarial Accrued Liability. Its disadvantages are that it may be more complicated to explain and to implement.

            B. The "averaged" Entry Age method would base each member's Normal Cost on the new projected benefit for that member, thereby producing a different Normal Cost rate for different members in the tier, based generally on their service at the time of the change in benefit structure. The advantages and disadvantages are essentially the reverse of those for the replacement life version of Entry Age. The change in Normal Cost is less than what would be expected for a change in future benefit accruals, the future Normal Cost rate for the tier will be unstable (as it eventually reaches the same rate as under the replacement life variation) and there is a relatively larger (compared to the alternative) change in Actuarial Accrued Liability. Its advantages are that it may be less complicated to explain and to implement (where the latter may depend on the valuation software used).

3. While not recommended for funding, the Normal Cost under the Ultimate Entry Age method discussed above may nonetheless be useful when a new open tier is adopted for future hires. The combined normal cost rate for the open and closed tiers (as determined under the LCAM Entry Age method) will change over time as members of the closed tier are replaced by members in the new tier. This will result in an increasing or decreasing

[3] *Note that, as of this writing, for public sector pension plans this is relatively uncommon because of legal protections that are understood to apply both to accrued benefits and to future benefit accruals for current members.*

combined normal cost rate (depending on whether the new tier has higher or lower benefits), consistent with the transition of the workforce over time to the new benefit level. However, the Ultimate Entry Age method Normal Cost for the combined tiers will reflect the expected long term Normal Cost for the entire workforce (unlike the LCAM Normal Cost which reflects only the recent hires in the new tier). For that reason, Normal Cost under Ultimate Entry Age may be useful for projecting longer-term costs or for evaluating a fixed contribution rate.

Practices

Based on the above discussion, and consistent with the policy objectives, actuarial cost methods and parameters are categorized as follows:

LCAM Model Practices

- Entry Age cost method with level percentage of pay Normal Cost.
  - Normal Costs are level even if benefit accrual or eligibility changes with age or service.
  - All types and incidences of benefits are funded over a single measure of expected future service[4].
  - The Normal Cost for a tier of benefits is the sum of the individually determined Normal Costs for all members in that tier.
  - Exception: for plans with benefits unrelated to compensation the Entry Age method with level dollar Normal Cost may be more appropriate.
- For multiple tiers:
  - Normal Cost is based on each member's benefit.
- For benefit formula or structure changes within a tier (generally after a fixed date):
  - Normal Cost is based on current benefit structure (replacement life Entry Age[5]).

Acceptable Practices

- Aggregate cost method: Plans using the Aggregate method should disclose costs and liabilities determined under the Entry Age method.
  - Calculate Normal Cost and UAAL under Entry Age method.
  - Determine single amortization period for the Entry Age UAAL that, combined with the Entry Age Normal Cost, is equivalent to Aggregate method Normal Cost.
- Frozen Initial Liability cost method: This method should disclose costs and liabilities under the Entry Age method.
  - Calculate Normal Cost and UAAL under Entry Age method.
  - Deduct the FIL amortization bases from the Entry Age UAAL.
  - Determine single amortization period for the remaining Entry Age UAAL that, combined with the Entry Age Normal Cost, is equivalent to FIL method Normal Cost.
- Funding to Decrement Entry Age method, where each type and incidence of benefit is funded to each age at decrement.
  - This method may be appropriate for some plan designs or for plans closed to new entrants[6].
- For benefit formula or structure changes within a tier (generally after a fixed date):

[4] *Under the LCAM model practice, Normal Cost is allocated over service that continues until the member is no longer working. For active members in or expected to enter a DROP (Deferred Retirement Option Program) this includes service through the expected end of the DROP period. This is not the method adopted by GASB in Statements 67 and 68, where service cost is allocated only through the beginning of the DROP period. The GASB method for DROPs is categorized as an Acceptable Practice for funding.*

[5] *Note that this is not the method used in GASB's Statements 67 and 68. The GASB method is categorized as an Acceptable Practice.*

[6] *For example, a Plan that provides very valuable early career-benefits (such as heavily subsidized early retirement or disability benefits) may prefer to have the higher early-career Normal Costs associated with the Funding to Decrement Entry Age method.*

  - Normal Cost is based on each member's composite projected benefit (averaged Entry Age[7]).

Acceptable Practices, with Conditions

- Projected Unit Credit cost method.
- Entry Age method variation ("Aggregated" Entry Age method) where the Normal Cost for a tier of benefits is determined as the Normal Cost rate for the tier applied to the compensation for the tier, and where the Normal Cost rate for the tier of benefits is determined as the present value of future Normal Costs for all active members in the tier, divided by the present value of compensation for all members in the tier.
- Aggregate or Frozen Initial Liability methods without the disclosures of costs and liabilities determined under the Entry Age method discussed above.

Non-recommended Practices

- Normal Cost based on open tier of benefits even for members not in that open tier (Ultimate Entry Age).
  - Ultimate Entry Age Normal Cost may be useful to illustrate the longer-term Normal Cost for combined tiers or to evaluate fixed contribution rates.

Unacceptable Practices

- Traditional (non-Projected) Unit Credit cost method for plans with pay-related benefits as the primary benefit.
- Note that while this white paper does not address policy issues related to pay-as-you-go funding or terminal funding, such practices would be unacceptable if the policy intent is to fund the members' benefits during the members' working careers.

Transition Policies

- There are no transition policies that apply to funding methods. For substantial method changes (e.g., changing from Projected Unit Credit to Entry Age) special amortization periods could apply. These are discussed in the section on Amortization Policy.

[7] Note that this is the version of the Entry Age method required for financial reporting under GASB Statements 67 and 68 for plans with benefit formula or structure changes within a tier.

Asset Smoothing Methods

An asset smoothing method reduces the effect of short term market volatility while still tracking the overall movement of the market value of plan assets.

Specific policy objectives and considerations

1. The funding policy should specify all components of asset smoothing method:
    a. Amount of return subject to deferred recognition (smoothing).
    b. The smoothing period or periods.
    c. The range constraints on smoothed value (market value corridor), if any.
    d. The method of recognizing deferred amounts: fixed or rolling smoothing periods.
2. The asset smoothing method should be unbiased relative to market.
    a. The same smoothing period should be used for gains and for losses.
    b. Any market value corridor should be symmetrical around market value.
3. The asset smoothing method should not be selectively reset at market value only when market value is greater than actuarial value.
    a. Bases may be combined but solely to reduce future, non-level recognition of relatively small net unrecognized past gains and losses (i.e., when the smoothed and market values are already relatively close together).
4. The asset smoothing method should be unbiased relative to realized vs unrealized gain loss.
    a. Base deferrals on total return gain/loss relative to assumed earnings rate.
5. The asset smoothing method should incorporate the ASOP 44 concepts of:
    a. Likely to return to market in a reasonable period and likely to stay within a reasonable range of market, or
    b. Sufficiently short period to return to market or sufficiently narrow range around market.
6. The policy parameters should reflect empirical experience from historical market volatility.
7. The asset smoothing method should support the policy goal of

demographic matching (the intergenerational aspect of interperiod equity) described in general policy objective 2. This leads to a preference for smoothing methods that provide for full recognition of deferred gains and losses in the UAAL by some date certain.

   a. Note that this objective is also consistent with the accountability and transparency goals described in general policy objective 4.

Discussion

1. Longer smoothing periods generally reduce contribution volatility. A discussion of smoothing periods could include the following considerations:
   a. To the extent that smoothing periods are considered as being tied to economic or market cycles, those cycles may be believed to be longer or shorter than in past years.
   b. If markets are more volatile, then longer smoothing would be needed even if only to maintain former levels of contribution stability.
   c. Better funded plans, more mature plans and higher benefit plans (i.e., plans with a higher "volatility index") have inherently more volatile contribution rates, so may justify longer smoothing.
   d. Sponsors may be more sensitive to contribution volatility.
2. However, ASOP 44 implies that longer smoothing periods call for narrower market value corridors.
   a. In effect, the corridor imposes a demographic matching style constraint on the use of longer smoothing periods which otherwise would obtain greater volatility management.
3. The model interpretation is that five year smoothing is "sufficiently short" under ASOP 44.
   a. This reflects long and consistent industry practice, as well as GASB Statement 68.
   b. This implies that five year smoothing with no market value corridor is ASOP compliant.
   c. It still may be useful to have a market value corridor as part of the asset smoothing policy.
      i. This avoids having to introduce the corridor structure in reaction to some future discussion of longer smoothing periods.
4. Consider the extensive data available on the impact of smoothing periods and market value corridors after large market downturn (such as occurred in 2008).
   a. The smoothing method manages the transition from periods of lower cost to periods of higher cost.
      i. The level of those higher costs is determined primarily by size of the market loss and UAAL amortization period, not the asset smoothing policy.
   b. The smoothing period determines length of the transition period.
   c. The market value corridor determines cost pattern during the transition.
      i. A wide corridor or no corridor produces a straight line transition.
      ii. "Hitting the corridor" accelerates the cost increases or decreases in early years of transition.
         A. In effect the corridor inhibits the smoothing method after years of large losses (or gains).
      iii. There are various possible policy justifications for such an accelerated transition.
         A. Market timing: get more contributions in while the market is down.
         B. Cash flow management: low market values may impair plan liquidity.
         C. Employer solvency: if the employer eventually is going to default on making contributions, then get as much contribution income as possible before that happens.
         D. Employer preference: employers may prefer to have the higher costs in their rates as soon as possible.

iv. Following the 2008 market decline, these justifications were generally not found to be compelling.

A. The normal lag in implementing new contributions rates defeats iii. A and B.

B. Employers are presumed solvent and if not, accelerating contributions would make things worse.

C. Many employers clearly preferred more time to absorb the contribution increases.

v. Absent these considerations, 2008 experience argues for permitting a wide corridor with a five year smoothing period, based on the fact that five year smoothing produced actuarial value to market value ratios that exceeded 140%.

A. Projections in early 2009 actually showed these ratios could have been as high as 150% if markets had not recovered some before the June 30, 2009 valuations.

5. Other industry indicators for market corridor selection with long smoothing periods

a. CalPERS 2005 policy: 15 year rolling smoothing with 20% corridor.

6. Structural issue: Fixed, separate smoothing periods vs. a single, rolling smoothing period

a. Fixed, separate smoothing periods for each year of market gain or loss insure that all deferred gains and losses are included in the UAAL (and so in the contribution rates) by a known date. This is consistent with accountability and with demographic matching.

b. A single rolling smoothing period avoids "tail volatility" where contributions are volatile not only when gains and losses first occur but also when (under a layered approach) each year's gain or loss is fully recognized.

i. Rolling smoothing is consistent with volatility management but substantially extends the recognition period for deferred investment gains and losses.

A. This will extend the time when the actuarial value of assets is consistently above or below the market value of assets.

B. That argues for narrower corridors than are appropriate for fixed (layered) smoothing periods.

ii. In effect, rolling smoothing recognized a fixed percentage of deferred investment gains and losses each year.

A. For example, 5 year rolling amortization recognizes 20% of the deferred amount.

B. Base corridors on this deferral recognition percentage.

c. With fixed, separate smoothing periods, tail volatility due to alternating periods of market gains and losses can be controlled by limited active management of the separate deferral amounts.

i. One such adjustment involves combining the separate deferral amounts when the net deferral amount is relatively small (i.e., the smoothed and market values are very close together) but the recognition pattern of that net deferral is markedly non-level.

A. The net deferral amount is unchanged as of the date of the adjustment.

B. The period over which the net deferral amount is fully recognized is unchanged as of the date of the adjustment.

ii. Other uses of active management of the deferral amounts may add complexity to the application of the policy and may reduce transparency.

iii. Restarts of fixed, separate smoothing periods should not be used:

A. Too frequently, as this would produce a de facto rolling smoothing period, or

B. To selectively restart smoothing at market value only when market value is greater than smoothed value. This would violate General Policy Objective 5, since it would selectively change the policy only when the effect is to reduce contributions.

Practices

Based on the above discussion, and consistent with the policy objectives, asset smoothing methods and parameters are categorized as follows:

LCAM Model Practices

- Deferrals based on total return gain/loss relative to assumed earnings rate.
- Deferrals recognized in smoothed value over fixed smoothing periods not less than 3 years.
- Maximum market value corridors for various smoothing periods:
  - 5 or fewer years, 50%/150% corridor.
  - 7 years, 60%/140% corridor.
- Combine smoothing periods or restart smoothing only to manage tail volatility.
  - Appropriate when the net deferral amount is relatively small (i.e., the actuarial and market values are very close together).
    - The net deferral amount is unchanged as of the date of the adjustment.
    - The period over which the net deferral amount is fully recognized is unchanged as of the date of the adjustment.
  - Avoid using frequent restart of smoothing to achieve de facto rolling smoothing.
  - Avoid restarting smoothing only accelerate recognition of deferred gains, i.e., only when market value is greater than actuarial value.
- Additional analysis, such as solvency projections, is likely to be appropriate for closed plans.

Acceptable Practices

- Maximum market value corridors for various smoothing periods:
  - 10 years, 70%/130% corridor.
- Five year (or shorter) smoothing with no corridor (including use of market value of assets without smoothing).
- Rolling smoothing periods with the following maximum market value corridors for various smoothing periods:
  - Express rolling smoothing period as a percentage recognition of deferred amount and set corridor at that same percentage. For example:
    - 3 year rolling smoothing means 33% recognition, with a 33% corridor.
    - 4 year rolling smoothing means 25% recognition, with a 25% corridor.
    - 5 year rolling smoothing means 20% recognition, with a 20% corridor.
    - 10 year rolling smoothing means 10% recognition, with a 10% corridor.
  - Perform additional analysis including projections of when the actuarial value is expected to return to within some narrow range of market value.

Acceptable Practices, with Conditions

- Maximum market value corridors for various smoothing periods:
  - 15 years, 80%/120% corridor.

Non-recommended Practices

- Longer than 5 year smoothing with no corridor.
- 15 years or shorter smoothing with corridors wider than shown above.

Unacceptable Practices

- Smoothing periods longer than 15 years

Transition Policies

Generally, transition policies for asset smoothing would allow current layered smoothing to continue subject to the appropriate model corridors (as determined by the future smoothing periods, if changed from the past/current layers). Transition from rolling asset smoothing would fix the rolling layer at its current period.

Amortization Policy

An amortization policy determines the length of time and the structure of the increase or decrease in contributions required to systematically (1) fund any Unfunded Actuarial Accrued Liability or UAAL, or (2) recognize any Surplus, i.e., any assets in excess of the AAL.

Specific policy objectives and considerations

1. Variations in contribution requirements from simply funding the Normal Cost will generally arise from gains or losses, method or assumption changes or benefit changes and will emerge as a UAAL or Surplus. As discussed in the general policy objectives, such variations should be funded over periods consistent with an appropriate balance between the policy objectives of demographic matching and volatility management.
2. As with the Normal Cost, the cost for changes in UAAL should emerge as a level percentage of member compensation[8].
3. The amortization policy should reflect explicit consideration of these different sources of change in UAAL, even if the resulting policy treats different changes in the same way:
    a. Experience gains and losses.

    b. Changes in assumptions and methods.

    c. Benefit or plan changes.
4. The amortization policy should reflect explicit consideration of the level and duration of negative amortization, if any.
    a. This consideration should not necessarily preclude some negative amortization that may occur under an amortization policy that is otherwise consistent with the policy objectives.

    b. Amortization periods developed in consideration of negative amortization (along with other policy goals) may be relevant for level dollar amortization (where negative amortization does not occur).
5. The amortization policy should support the general policy objectives of

[8] As with the Normal Cost, this amortization policy objective applies most clearly to benefits (like, for example, most public pension benefits) that are determined and budgeted for as a percentage of individual and aggregate salary, respectively. For benefits that are not pay related, or when costs are budgeted on a basis other than compensation it may be appropriate to modify this objective and the resulting policies accordingly.

accountability and transparency. This leads to a preference for:

a. Amortization policies that reflect a history of the sources and treatment of UAAL.

b. Amortization policies that provide for a full amortization date for UAAL.

i. Note that this objective is also consistent with the demographic matching aspect of general policy objective 2.

6. The amortization of Surplus requires special consideration, consistent with general policy objective 5 (nature of public plan governance).

a. Amortization of Surplus should be considered as part of a broader discussion of Surplus management techniques, including:

i. Excluding some level of Surplus from amortization.

ii. "Derisking" some portion of plan liabilities by changing asset allocation.

Discussion

1. The policy objectives lead to a general preference for level percentage of pay amortization.

a. Consistent with policy objectives and with the Normal Cost under the Model Actuarial Cost Method.

b, This discussion of amortization periods presumes level percentage amortization. Level dollar amortization is discussed separately as an alternative to level percentage amortization.

2. The policy objectives lead to a general preference for multiple, fixed amortization layers.

a. Fixed period amortization is clearly better for accountability, since UAAL is funded as of a date certain.

b. Single layer, fixed period amortization is not a stable policy, since period would have to be restarted when remaining period gets too short.

c. Multiple layer amortization is also more transparent, since it tracks the UAAL by source. However, layered amortization is more complicated and can require additional policy actions to achieve stable contribution rates (including active management of the bases).

d. Discussion of periods will assume multiple, fixed amortization and then revisit the use of rolling periods to manage volatility.

3. For gains and losses, balancing demographic matching and volatility control leads to an ideal amortization period range of 15 to 20 years.

a. Lesson learned from the 1990s is that less than 15 years gives too little "volatility control", especially for gains.

i. Short amortization of gains led to partial contribution holidays (contributions less than Normal Cost) and even full contribution holidays (no contribution required).

ii. This is inconsistent with general policy objective 5, in that it led to insufficient budgeting for ongoing pension costs and to pressure for benefit increases.

b. Longer than 20 years becomes difficult to reconcile with demographic matching, the intergenerational aspect of interperiod equity described in general policy objective 2.

i. 20 years is substantially longer than either average future service for actives or average life expectancy for retirees.

c. Periods longer than 20 years also entail negative amortization (which starts at around 16 to 18 years for many current combinations of assumptions)[9].

i. Here negative amortization is an indicator for not enough demographic matching but based on economic rather than demographic assumptions.

[9] *Note that for emerging lower investment return and salary increase assumptions even twenty year amortization may entail no negative amortization.*

ii. Consider observed consistency between the period of onset of negative amortization and the periods related to member demographics.

iii. As discussed later in this section, negative amortization is a much greater concern when using open or rolling amortization periods.

d, Two case studies — CalPERS and GASB:

i. CalPERS 2005 analysis focused on volatility management. Resulting funding policy uses exceptionally long periods for gain and loss amortization (as well as for asset smoothing.)

ii. GASB Statements 67 and 68 focus on demographic matching. Resulting expensing policy uses very short recognition periods. (This is cited for comparison only, as the GASB statements govern financial reporting and not funding.)

iii. Our general policy objectives indicate a balance between these two extremes.

4. For assumption changes, while the amortization periods could be the same, a case can be made for longer amortization than for gain/loss, since liabilities are remeasured to anticipate multiple years of future gains or losses.

a. A similar or even stronger case for longer periods could be made for changing cost method (such as from Projected Unit Credit to Entry Age), or for the initial liability for a newly funded plan.

b. However longer than 25 years entails substantial (arguably too much) negative amortization.

5. For plan amendments that increase liabilities, volatility management is not an issue, only demographic matching.

a. Use actual remaining active future service or retiree life expectancy.

b. Could use up to 15 years as an approximation for actives.

i. Any period that would entail negative amortization is inconsistent with general policy goals 2 (demographic matching) and 5 (nature of public plan governance).

c. Could use up to 10 years as an approximation for inactives.

i. Particularly for retiree benefit increases, amortization period should control for negative cash flow where additional amortization payments are less than additional benefit payments.

d. For Early Retirement Incentive Programs use a period corresponding to the period of economic savings to the employer.

i. Shorter than other plan amendments, typically no more than five years[10]

e. For benefit improvements with accelerated payments (e.g. one time "13th check" or other lump sum payments) amortization may not be appropriate as any amortization will result in negative cash flows.

6. Plan amendments that reduce liabilities require separate considerations so as to avoid taking credit for the reduction over periods shorter than the remaining amortization of the original liabilities.

a. Reductions in liability due to such benefit reductions should not be amortized more rapidly than the pre-existing unfunded liabilities, as measured by the average or the longest current amortization period.

b. Benefit "restorations[11]" should similarly be amortized on a basis consistent with the pre-existing unfunded liabilities or with the "credit" amortization base established when the benefits were reduced.

7. For Surplus, similar to short amortization of

[10] For example, a Government Finance Officers Association (GFOA) 2004 recommended practice states that "the incremental costs of an early retirement incentive program should be amortized over a short-term payback period, such as three to five years. This payback period should match the period in which the savings are realized."

[11] A benefit restoration occurs when a previous benefit reduction has been fully or partially restored for a group of members who were subject to the earlier benefit reduction.

gains, the lesson from the 1990s is that short amortization of surplus leads to partial or full contribution holidays (contributions less than Normal Cost, or even zero).

a. This is inconsistent with general policy objective 5, and led to insufficient budgeting for ongoing pension costs and to pressure for benefit increases.

b. General consensus is that this is not good public policy.

   i. See for example Recommendation 7 by California's 2007 Public Employee Post-Employment Benefits Commission, and also CalPERS 2005 funding policy.

c. Because of both the ongoing nature of the Normal Cost and the nature of public plan governance, amortization of UAAL and Surplus should not be symmetrical.

   i. It may be appropriate to amortize surplus over a period longer than would be acceptable for UAAL.

   ii. Such an asymmetric policy would reduce the magnitude and/or likelihood of partial or full contribution holidays.

   iii. One approach would be to disregard the Surplus and always contribute at least the Normal Cost. However if Surplus becomes sufficiently large then some form of Surplus management may be called for.

d. Note that long amortization of Surplus does not preclude other approaches to Surplus management that are beyond the scope of this discussion, including:

   i. Treating some level of Surplus as a non-valuation asset.

   ii. Changing asset allocation to reflect Surplus condition.

8. Separate Surplus related issue: When plan first goes into Surplus, should existing UAAL amortization layers be maintain or eliminated?

   a. Could maintain amortization layers and have minimum contribution of Normal Cost less 30 year amortization of Surplus.

   b. However, maintaining layers can result in net amortization charge even though overall plan is in Surplus.

   c. Alternative is to restart amortization of initial surplus, and any successive Surpluses.

      i. In effect, this is 30 year rolling amortization of current and future Surpluses.

      ii. Restart amortization layers when plan next has a UAAL.

9. Level dollar amortization is fundamentally different from level percent of pay amortization.

   a. No level dollar amortization period is exactly equivalent to a level percent period.

   b. Level dollar is generally faster amortization than level percent of pay, so longer periods may be reasonable.

   c. Plan and/or sponsor circumstances could determine appropriateness of level dollar method.

      i. Level dollar would be appropriate for plans where benefits are not pay related and could be appropriate if the plan is closed to new entrants.

      ii. Level dollar could be appropriate for sponsors and plans that are particularly averse to future cost increases, e.g., utilities setting rates for current rate payers.

      iii. Level dollar could be appropriate for sponsors and plans that want an extra measure of conservatism or protection against low or no future payroll growth.

      iv. Level dollar could be useful as a step in developing amortization payments in proportion to some basis other than payroll.

10. Multiple, fixed period layers vs. single, rolling period layer for gains and losses.

   a. Multiple, fixed amortization periods for each year's gain or loss ensures that all gains and losses are funded by a known date. This is consistent with accountability and with demographic matching.

b. A single rolling smoothing period avoids tail volatility where contributions are volatile not only when gains and losses occur but also when each year's gain or loss is fully amortized. This is consistent with volatility management.

c. With fixed, separate smoothing periods, tail volatility can be controlled by limited active management of the amortization layers, including combining consecutive gain and loss layers as necessary to reduce tail volatility.

   i. As with asset smoothing, active management should be used to manage the pattern of future UAAL funding and not to accomplish a short-term manipulation of contributions.

   ii. In particular the net remaining amortization period should be relatively unaffected by any combination of offsetting UAAL amortization layers.

   iii. The use of active management of the amortization layers may add complexity to the application of the policy and may reduce transparency.

11. Plans with layered amortization of an unfunded liability should consider actions to achieve a minimum net amortization charge that is not less than the payment required under a single 25 year amortization layer. This may be accomplished through active management of the amortization layers or through other means.

12. Rolling amortization periods for a single layer of gains and losses or for the entire UAAL.

a. Similar to level dollar, acknowledge that rolling amortization is fundamentally different from fixed period amortization.

   i. Rolling amortization will have a substantial unamortized UAAL at the end of the nominal amortization period.

b. Argument can be made for a single, rolling amortization layer for gains and losses if the actuarial valuation assumptions are expected to be unbiased so that there is an equal likelihood of future gains and losses that will offset each other.

   i. Such rolling amortization also requires that there are no systematic sources of future actuarial losses from plan design features, such as a subsidized service purchase option.

   ii. Extraordinarily large gains or losses that are not reasonably expected to be offset by future losses or gains should be isolated from the single rolling gain/loss amortization layer and amortized over separate, fixed periods.

   iii. Plans with a significant single rolling gain/loss amortization layer should affirmatively show that policy objectives will be achieved, without substantial violation of intergenerational equity.

c. This argument is substantially weaker for rolling amortization for assumption changes (especially if consistently in a single direction, such as mortality assumption adjustments or recent changes in investment earnings assumptions.)

   i. Inconsistent with policy objective of intergenerational equity, as well as accountability and transparency.

   ii. Similar concerns for rolling amortization of gains and losses in the presence of biased assumptions or other systematic sources of actuarial losses.

d. It is very difficult to reconcile rolling amortization of plan amendments with intergenerational equity, as well as with accountability and transparency objectives.

e. Specific exception for rolling, lengthy amortization of Surplus, since as described earlier this helps meet general policy objective 5

13. Rolling amortization and the Aggregate cost method.

a. The Aggregate cost method produces contribution levels and patterns similar to using the Entry Age method with a single rolling level percent of pay amortization layer for the entire UAAL and a relatively short rolling amortization period.

i. Effective rolling amortization period reflects average future service of active members.

b. However, the Aggregate cost method is fundamentally different from Entry Age (and from Projected Unit Credit) in that Aggregate does not measure an AAL or a UAAL.

i. Aggregate combines a high level of tail volatility management (policy objective #3) with high levels of demographic matching and accountability (policy objectives 2 and 4).

ii. Aggregate also provides no policy flexibility in the selection of an amortization period (since no UAAL is calculated) which provides protection from some agency risk issues, consistent with policy objective #5.

c. Retirement boards desirous of the high level of tail volatility management and computational simplicity associated with rolling amortization of the entire Entry Age UAAL should consider adopting the Aggregate cost method.

i. If a UAAL is measured (as under the Entry Age or Projected Unit Credit cost methods) then, as discussed above, the policy objectives indicate layered amortization with the possible exception of a single rolling amortization layer for gains and losses.

Practices

Based on the above discussion, and consistent with the policy objectives, amortization methods and parameters are categorized as follows:

LCAM Model Practices

- Layered fixed period amortization by source of UAAL
- Level percent of pay amortization
- Amortization periods

Source	Period
Active Plan Amendments[12]	Lesser of active demographics[13], or 15 years
Inactive Plan Amendments	Lesser of inactive demographics[13], or 10 years
Experience Gain/Loss	15 to 20 years
Assumption or Method Changes[14]	15 to 25 years
Early Retirement Incentives	5 years or less

- 30 year amortization of surplus (for plans with ongoing Normal Cost and/or plan expenses)
  - Eliminate all prior UAAL layers upon going into Surplus
- Combine gain/loss (and other) layers or restart amortization only to avoid tail volatility.
  - Combining layers should result in substantially the same current amortization payment.
  - Avoid using restart of amortization to achieve de facto rolling amortization.
  - Restart amortization layers when moving from Surplus to UAAL condition.
- Additional analysis, such as solvency projections, is likely to be appropriate for closed plans.

[12] *The effect of assumption changes integral to the measurement of the cost of plan amendments (e.g., change in rates of retirement to anticipate the effect of new benefit levels) should be included in the UAAL change associated with the plan amendment.*

[13] *Demographics based periods include remaining active future service or retiree life expectancy. Amortization period should also control for negative cash flow where additional amortization payments are less than additional benefit payments.*

[14] *Method change includes the initial liability for a newly funded plan.*

Acceptable Practices

- Up to 15 years for inactive plan amendments.
- Level dollar fixed period layered amortization by source of UAAL, using the same model amortization periods as above.
  - Ideally, some rationale should be given if used with pay related benefits.

Acceptable Practices, with Conditions

- Up to 25 year layered fixed period amortization by source, for all sources of UAAL.
  - Ideally with some rationale given for using periods outside the model ranges.
- Rolling amortization of a single combined gain/loss layer with an amortization period that does not entail any negative amortization.
  - With model periods for other sources of UAAL.
  - Use separate, fixed period layers for extraordinary gain or loss events.
  - Plans with a significant single rolling gain/loss amortization layer should demonstrate that policy objectives will be achieved.
- Up to 30 year fixed amortization of change in funding method (e.g. from PUC to Entry Age) or initial liability for a newly funded plan (i.e. an existing plan previously funded on a pay-as-you-go basis but not a new plan creating new past service benefits.)
  - Ideally some rationale should be given for using periods outside the model ranges.

Non-recommended Practices

- Fixed period amortization of the entire UAAL as a single combined layer, with periodic reamortization over a new (longer) starting amortization period.
- Layered fixed period amortization by source of UAAL over longer than 25 years (i.e., 26 to 30 years).
- Rolling amortization of a single combined gain/loss layer with an amortization period that does entail any negative amortization, but no longer than 25 years.
  - Same three conditions that apply to Acceptable with Conditions rolling gain/loss amortization.
- Rolling/open amortization of entire UAAL as a single combined layer (exclusive of plan amendments but inclusive of gain/loss, assumption and method changes) even where the amortization period does not entail negative amortization.

Unacceptable Practices

- Layered fixed period amortization by source of UAAL over longer than 30 years.
- Rolling/open amortization over longer than 25 years of a single combined gain/loss layer.
- Rolling/open amortization of entire UAAL as a single combined layer (exclusive of plan amendments) where the amortization period entails negative amortization.
- Rolling/open amortization of entire UAAL as a single combined layer (including plan amendments) even where the amortization period does not entail negative amortization.

Transition Policies

Transition policies are particularly applicable to amortization policy. Generally, transition policies for amortization would allow current fixed period amortization layers (with periods not to exceed 30 years) to continue, with new amortization layers subject to these guidelines. Transition from rolling amortization would fix any rolling layer at its current period, with future liability changes amortized in accordance with these guidelines. During the transition (i.e., as long as the remaining period for the formerly rolling base is longer than model or acceptable periods) any new credit layers (e.g., due to actuarial gains or less conservative assumptions) should be amortized over no longer than that same remaining period.

Direct Rate Smoothing

An actuarial funding policy may include some form of direct rate smoothing, where the contribution rates that result from applying the three principal elements of funding policy (including asset smoothing) are then directly modified.

As noted in the Introduction, some practitioners are developing direct contribution rate smoothing techniques as an alternative to asset smoothing. At this time, there are no widely accepted practices established for this type of direct rate smoothing. This discussion does not address the use of direct rate smoothing techniques as an alternative to asset smoothing. The CCA PPC is considering development of a separate white paper on direct rate smoothing as an alternative to asset smoothing.

The balance of this discussion pertains only to direct rate smoothing when used in conjunction with asset smoothing. Two types of such direct rate smoothing policies that are known to be in current practice were evaluated for this development:

1. Phase-in of certain changes in contribution rates, specifically, phasing-in the effect of assumption changes element over short period, consistent with the frequency of experience analyses.
2. Contribution collar where contribution rate changes are limited to a specified amount or percentage from year to year.

Discussion

1. Contribution rate phase-in can be an effective and reasonable way to address the contribution rate impact of assumption changes.
    a, Ideally the phase-in period should be no longer than the time period until the next review of assumptions (experience analysis).
        i. This approach is most appropriate when experience analyses are performed on a regular schedule.
        ii. For systems with no regular schedule for experience analyses, the phase-in period would ideally be chosen so as to avoid overlapping phase-in periods.

a. The plan and its sponsors should be clearly aware of the additional time value of money cost (or savings) of the phase-in, due to the plan receiving less (or more) than the actuarially determined contributions during the phase-in.

b. Any ongoing policy to phase-in the effect of assumption changes should be applied symmetrically to both increases and decreases in contribution rates.

c. Ongoing policy may be to phase-in only significant cost increases or decreases.

d. Note that the phase-in of the contribution rate impact of an assumption change is clearly preferable to phasing in the assumption change itself. While a detailed discussion is outside the scope of this discussion, phasing in an assumption change may be difficult to reconcile with the governing actuarial standards of practice.

2. Contribution collars have the policy drawback that the collar parameters arbitrarily override the contribution results produced by the other funding policy parameters (including asset smoothing), each of which have a well-developed rationale.

   a. If contribution collars are used they should be supported by analysis and projections to show the effect on future funded status and future policy based contribution requirements (prior to the application of the contribution collar).

   b. There may also need to be a mechanism to ensure adequate funding following extraordinary actuarial losses.

3. Using either form of direct rate smoothing for other than assumption changes (i.e., for actuarial experience or plan amendments) appears inconsistent with the development of parameter ranges for the other elements of the funding policy.

Practices

Based on the above discussion, and consistent with the policy objectives, parameters are categorized as follows:

LCAM Model Practices

- None

Acceptable Practices

- For systems that review actuarial assumptions on a regularly scheduled basis, phase-in of the cost impact of assumption changes over a period no longer than the shorter of the time period until the next scheduled review of assumptions (experience analysis) or five years.
  - Phase-in should be accompanied by discussion and illustration of the impact of the phase-in on future contribution rates.
  - Phase-in may be applied only to cost impacts deemed material, but should be applied consistently to both cost increases and decreases.

Acceptable Practices, with Conditions

- For systems that do not review actuarial assumptions on a regularly scheduled basis, phase-in of the cost impact of assumption changes over a period of up to five years.
  - Phase-in of the cost impact of any prior assumption changes must be completed before commencing another phase-in period.
  - Phase-in should be accompanied by discussion and illustration of the impact of the phase-in on future contribution rates.
  - Phase-in may be applied only to cost impacts deemed material, but should be applied consistently to both cost increases and decreases.

Non-recommended Practices

- Phase-in of the cost impact of assumption changes over a period greater than five years.
- Phase-in of the cost impact of actuarial experience, in conjunction with model or acceptable practices for asset smoothing and UAAL amortization.
- Contribution collars in conjunction with model or acceptable practices for asset smoothing and UAAL amortization.
- Phase-in or contribution collars for the cost impact of plan amendments.

Items for Future Discussion

This white paper is intended to address the principal elements of an actuarial funding policy as applicable in most but not all situations. Other issues related to funding policy that may be of varying significance are listed in this section, including some of a more technical nature. These items may be the subjects of future guidance.

Impact of Risk/Employer ability to pay/Level of benefit protection–These are three considerations that could affect the development of an actuarial funding policy. While this white paper notes that these factors should be considered, it does not develop policies or procedures for doing so. This paper also does not address appropriate disclosure items, including disclosures related to risk. These considerations (and interrelationships) are outside of our current scope but are important items for future discussion.

OPEB Plans – As noted earlier, while we believe the general policy objectives developed here apply to OPEB plans as well, application of those policy objectives to OPEB plans may result in different specific funding policies based on plan design, legal status and other features distinctive to OPEB plans. Many of the actuaries who participated in developing this paper work on both pension and OPEB funding. We may address funding policies specific to OPEB plans in a later document. That process would also draw on experts in the design, underwriting and valuation of OPEB plans.

Self Adjusting System–We expect that an increasing number of plans will have self adjusting provisions (in this context we are referring to benefit adjustments). These provisions could impact the selection of funding methods.

Transfers of Service Credit–New entrants (or even current member) are sometimes eligible to transfer service credit for employment prior to plan membership. This generally creates actuarial losses, which is inconsistent with our policy objectives. Later we may discuss whether and how this should be anticipated in the valuation.

Purchase of Service–This can raise the same type of issues as Transfers of Service Credit since unfunded actuarial liabilities often increase when employees purchase service credit.

Actuarially determined contribution as a dollar amount or percentage of pay–Sometimes the contribution requirement is determined prior to the year it is due and shown as a dollar amount or a percentage of payroll. Either can be used to determine the contribution amount required.

Role for Open/Stochastic Valuations and risk disclosures–Our guidelines are developed in the context of a closed group, deterministic valuation. This is in part due to the belief that such a valuation best achieves our policy objectives. However, there are also advantages associated with other valuation practices.

Lag time between valuation date and fiscal year – Because of the time needed to produce the valuation and to budget for rate changes, the contribution made for a given fiscal year is often based on an earlier valuation date. This will generate contribution gains or losses when rates decrease or increase, respectively. Some systems adjust for these gains or losses in setting the rates but many do not.

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BUCK

State of Alaska Retirement Systems

Presentation to the ARMB

FY23-FY39 State Contribution Projections
With 10 Years of Volatile Market Returns

October 11, 2021

Background

Background

- This is a supplement to other projections that have been provided for the October 11 meeting (Scenario 1 is not included in this supplement)
- All projections are based on the June 30, 2020 valuations and reflect SB 55 for PERS
- All scenarios reflect an FY21 market return of approx. 28%
- Scenarios 2-4 are defined as follows:

	Scenario 2	**Scenario 3**	**Scenario 4**
AVA reset to MVA as of 6/30/21	no	yes	no
FY22+ market return	7.38%	7.38%	7.38%
Asset smoothing period – before FY21	5 years	5 years	5 years
Asset smoothing period – FY21+	5 years	5 years	3 years

Background (cont'd)

- State contribution projections for FY23-FY39 are provided under Scenarios 2-4 and 2B-4B
  - Scenarios 2-4 assume market returns of 7.38% in all years after FY21
  - To illustrate potential contribution volatility due to future market returns, Scenarios 2B-4B assume that the last 10 years of actual market returns (FY12-FY21) will be replicated over the next 10 years (FY22-FY31)

Fiscal Year	Actual Market Return	Future Year Market Return Assumed
FY12	0.2%	FY22
FY13	12.1%	FY23
FY14	18.1%	FY24
FY15	2.9%	FY25
FY16	(0.7)%	FY26
FY17	12.8%	FY27
FY18	8.2%	FY28
FY19	6.0%	FY29
FY20	4.1%	FY30
FY21	28.0%	FY31

  - Scenarios 2B-4B assume market returns of 7.38% in FY32+
- For additional projection assumptions, please see Section 3.1 of the PERS/TRS June 30, 2020 valuation reports

Summary of Projection Results

Summary of Projection Results – PERS

($000’s)

FY23-FY39 State Contributions

Scenario:	2	3	4	2B	3B	4B
State-as-an-Employer	3,877,169	3,846,730	3,864,330	3,431,142	3,410,041	3,372,703
Additional State Contributions	719,297	688,155	706,159	438,585	392,289	387,814
Total	4,596,466	4,534,885	4,570,489	3,869,727	3,802,330	3,760,517

Increase/(Decrease) in FY23-FY39 State Contributions due to Illustrative FY22-FY31 Returns

	2B vs 2	3B vs 3	4B vs 4
State-as-an-Employer	(446,027)	(436,689)	(491,627)
Additional State Contributions	(280,712)	(295,866)	(318,342)
Total	(726,739)	(732,555)	(809,969)

The 10-year geometric average return for FY12-FY21 is 8.9%. Since this exceeds the 7.38% expected return, future contributions are expected to be lower than under the expected return scenarios.

The decrease under 3-year smoothing (809,969) is *greater* than the decrease under 5-year smoothing (726,739). Similarly, if a different set of assumed future returns resulted in an increase in future contributions, the increase would be *greater* under 3-year smoothing than under 5-year smoothing.

Conclusion: Future contribution volatility will be greater under 3-year smoothing than under 5-year smoothing. The increased volatility can be seen in the graphs on slides 9-11.

Summary of Projection Results – TRS

($000's)

FY23-FY39 State Contributions

Scenario:	2	3	4	2B	3B	4B
Additional State Contributions	1,532,350	1,499,029	1,518,794	1,085,243	1,063,322	1,026,322

Increase/(Decrease) in FY23-FY39 State Contributions due to Illustrative FY22-FY31 Returns

	2B vs 2	3B vs 3	4B vs 4
Additional State Contributions	(447,107)	(435,707)	(492,472)

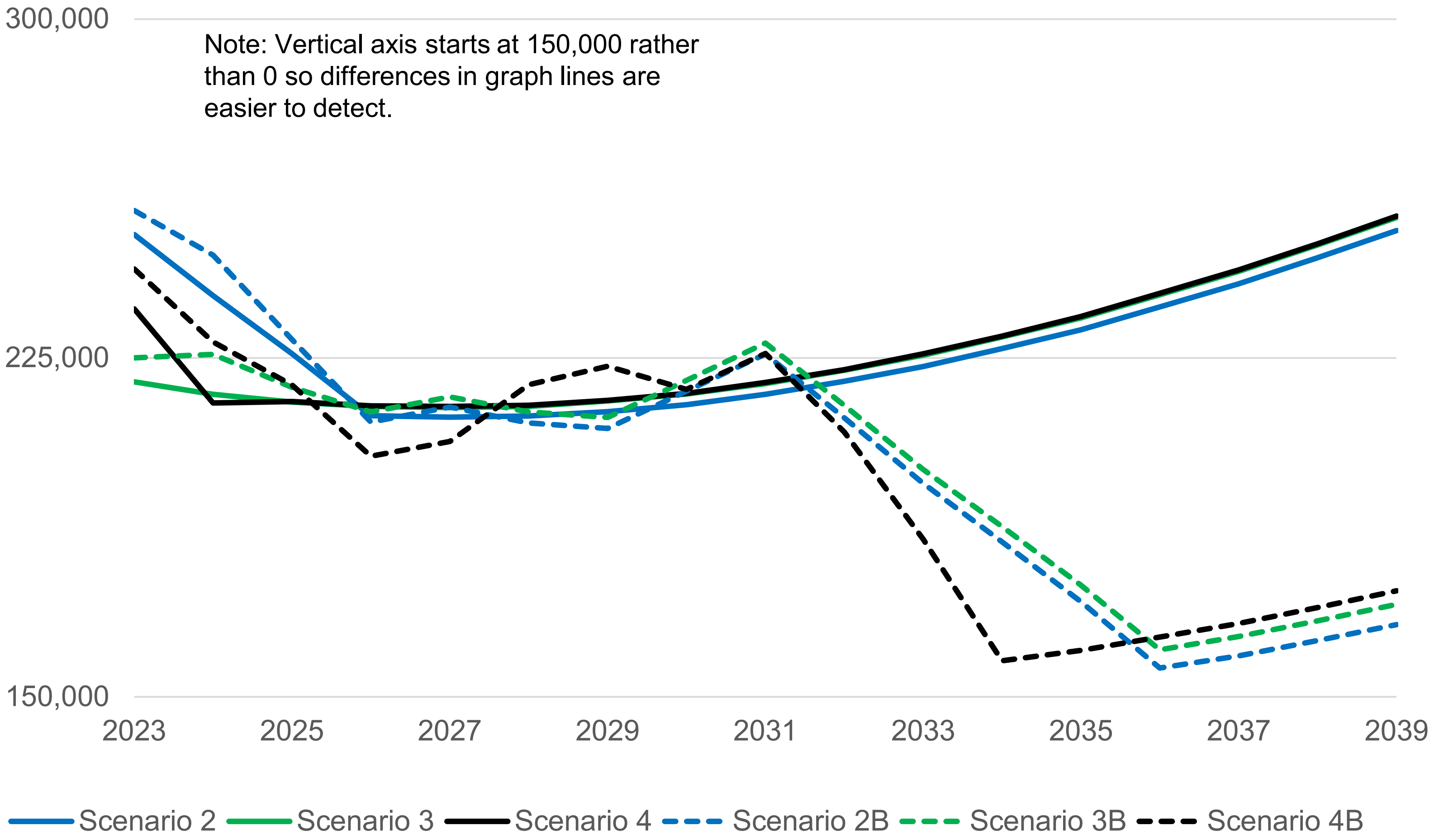
The 10-year geometric average return for FY12-FY21 is 8.9%. Since this exceeds the 7.38% expected return, future contributions are expected to be lower than under the expected return scenarios.

The decrease under 3-year smoothing (492,472) is *greater* than the decrease under 5-year smoothing (447,107). Similarly, if a different set of assumed future returns resulted in an increase in future contributions, the increase would be *greater* under 3-year smoothing than under 5-year smoothing.

Conclusion: Future contribution volatility will be greater under 3-year smoothing than under 5-year smoothing. The increased volatility can be seen in the graph on slide 16.

State Contribution Projections – PERS (Employer and ASC’s)

State-as-an-Employer Contributions – PERS
($000's)



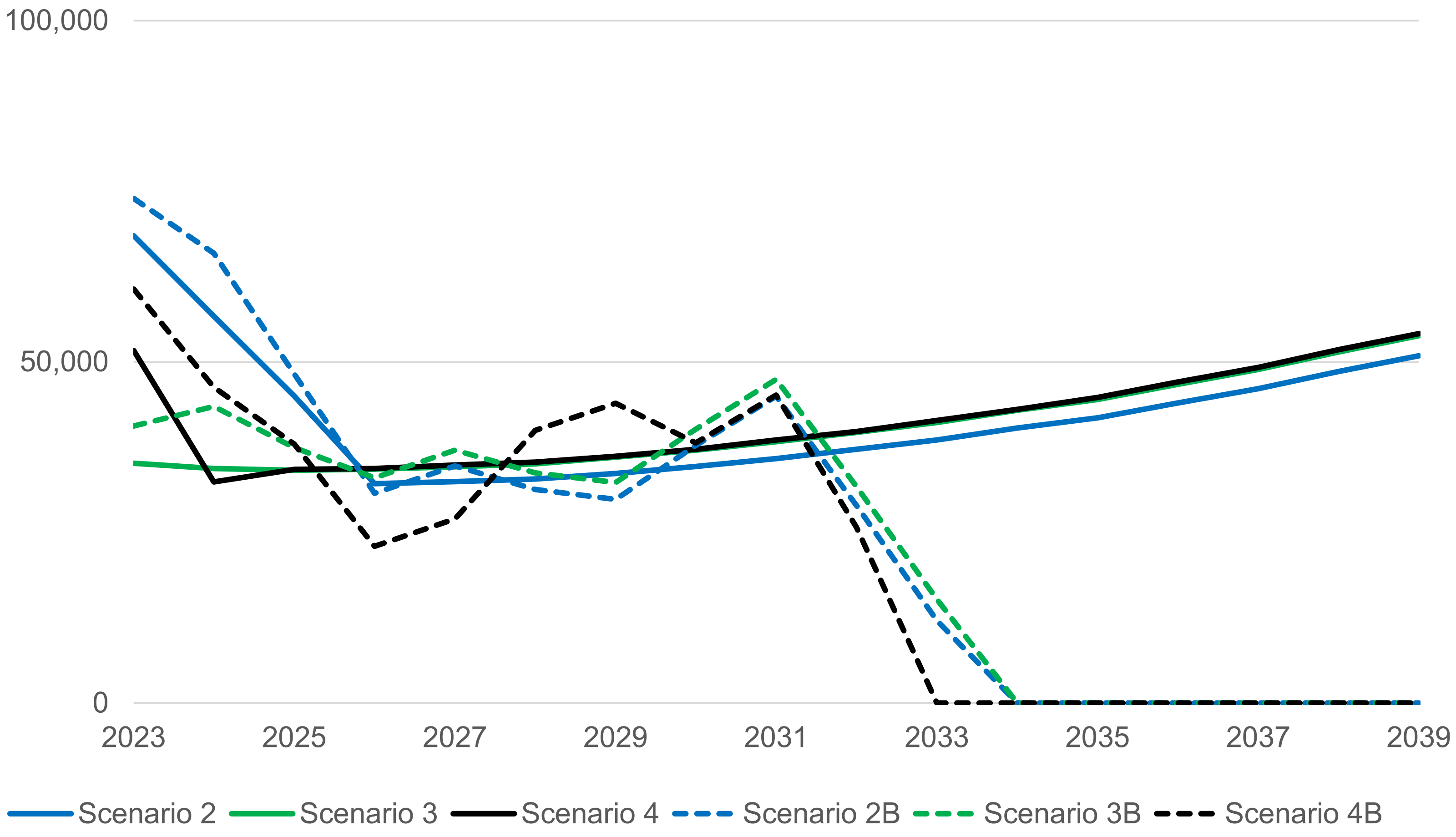
Note: Vertical axis starts at 150,000 rather than 0 so differences in graph lines are easier to detect.

Total projected contributions for FY23-FY39:

- Scenario 2 = $3.88B
- Scenario 3 = $3.85B
- Scenario 4 = $3.86B
- Scenario 2B = $3.43B
- Scenario 3B = $3.41B
- Scenario 4B = $3.37B

Additional State Contributions – PERS

($000’s)

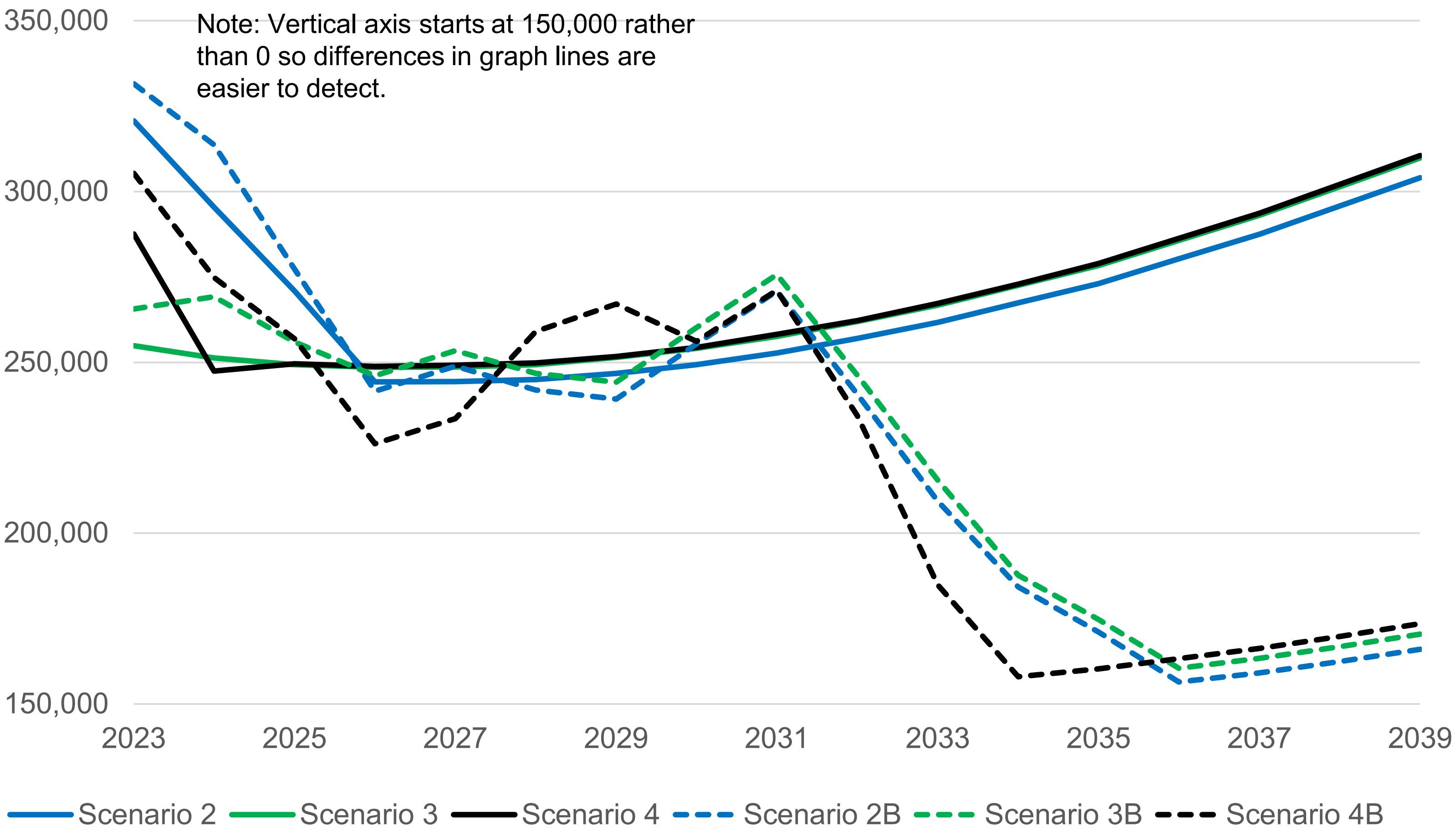


Total projected contributions for FY23-FY39:

- Scenario 2 = $719M
- Scenario 3 = $688M
- Scenario 4 = $706M
- Scenario 2B = $439M
- Scenario 3B = $392M
- Scenario 4B = $388M

Total State Contributions – PERS

($000’s)



Note: Vertical axis starts at 150,000 rather than 0 so differences in graph lines are easier to detect.

Total projected contributions for FY23-FY39:

- Scenario 2 = $4.60B
- Scenario 3 = $4.53B
- Scenario 4 = $4.57B
- Scenario 2B = $3.87B
- Scenario 3B = $3.80B
- Scenario 4B = $3.76B

State Contribution Summary – PERS

State-as-an-Employer

($000's)

Fiscal						
Year	Scenario 2	Scenario 3	Scenario 4	Scenario 2B	Scenario 3B	Scenario 4B
2023	252,270	219,696	235,864	257,620	225,046	244,662
2024	238,767	216,930	215,011	247,766	225,809	228,569
2025	225,906	215,235	215,357	229,059	218,509	218,994
2026	212,176	214,263	214,385	210,827	213,035	203,218
2027	211,877	213,994	214,243	214,118	216,359	206,524
2028	212,125	214,275	214,527	210,609	213,010	219,078
2029	213,130	215,444	215,572	209,402	211,844	223,157
2030	214,659	217,013	217,144	217,667	220,022	218,060
2031	216,926	219,324	219,591	225,854	228,252	225,987
2032	219,807	222,256	222,392	211,776	214,498	208,646
2033	223,104	225,608	225,886	197,233	200,293	184,854
2034	227,092	229,652	229,794	184,291	187,703	157,984
2035	231,254	233,872	234,163	171,041	174,677	160,278
2036	236,292	238,970	239,268	156,387	160,404	163,231
2037	241,426	244,166	244,471	159,073	163,336	166,228
2038	247,162	249,966	250,277	162,438	166,799	169,758
2039	253,196	256,066	256,385	165,981	170,445	173,475
Total	3,877,169	3,846,730	3,864,330	3,431,142	3,410,041	3,372,703

State Contribution Summary – PERS

Additional State Contributions

($000’s)

Fiscal Year	Scenario 2	Scenario 3	Scenario 4	Scenario 2B	Scenario 3B	Scenario 4B
2023	68,475	35,150	51,690	73,948	40,623	60,691
2024	56,711	34,370	32,406	65,917	43,454	46,277
2025	45,032	34,115	34,239	48,258	37,465	37,961
2026	32,140	34,274	34,400	30,759	33,019	22,975
2027	32,476	34,641	34,896	34,769	37,061	27,000
2028	32,850	35,049	35,307	31,298	33,755	39,963
2029	33,667	36,034	36,166	29,853	32,352	43,925
2030	34,661	37,070	37,204	37,739	40,148	38,140
2031	35,852	38,306	38,579	44,986	47,439	45,122
2032	37,178	39,684	39,823	28,962	31,747	25,760
2033	38,563	41,125	41,409	12,096	15,226	0
2034	40,298	42,916	43,062	0	0	0
2035	41,812	44,490	44,788	0	0	0
2036	43,994	46,735	47,039	0	0	0
2037	46,097	48,901	49,212	0	0	0
2038	48,597	51,465	51,783	0	0	0
2039	50,894	53,830	54,156	0	0	0
Total	719,297	688,155	706,159	438,585	392,289	387,814

State Contribution Summary – PERS

Total

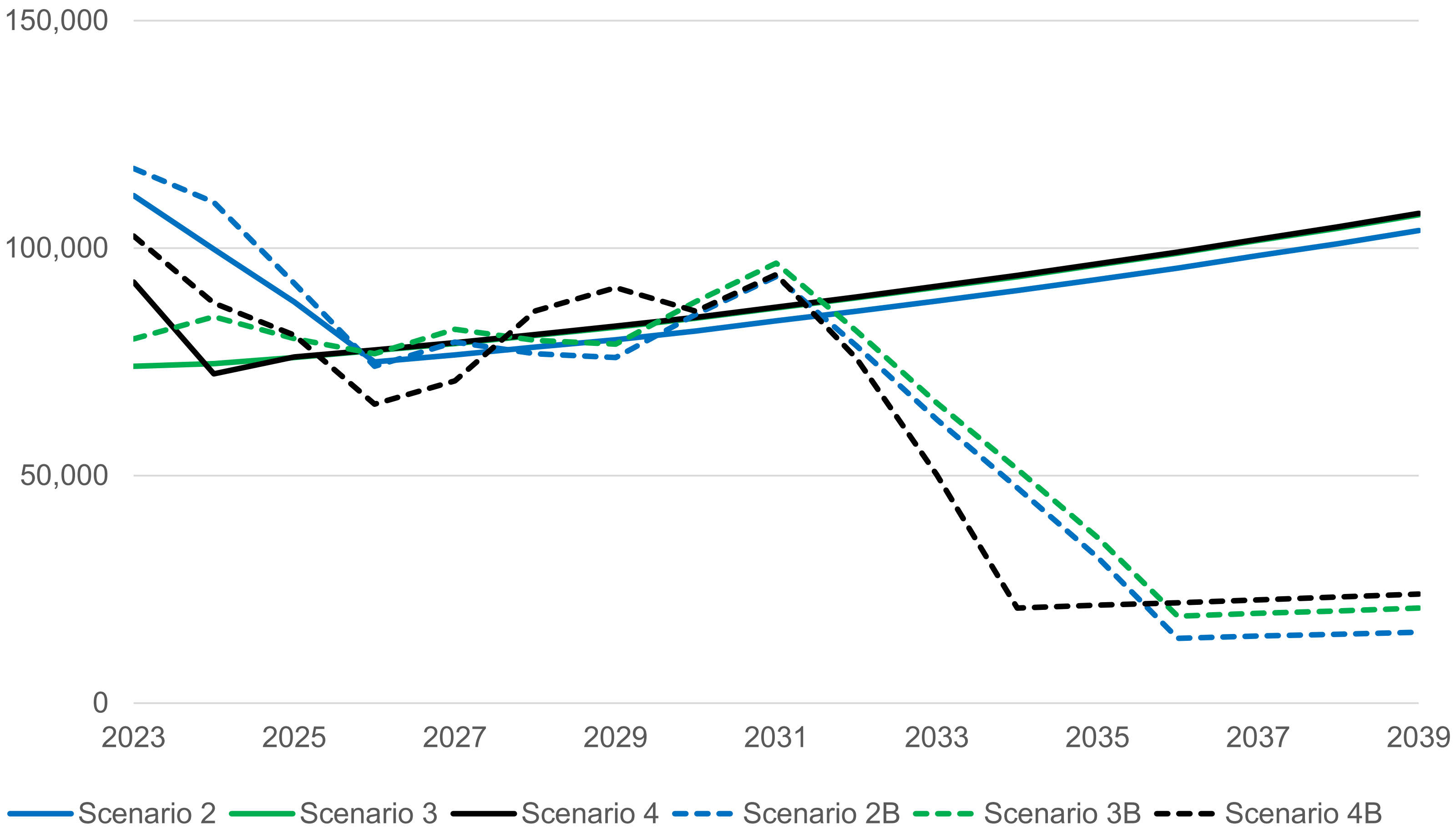
($000's)

Fiscal						
Year	Scenario 2	Scenario 3	Scenario 4	Scenario 2B	Scenario 3B	Scenario 4B
2023	320,745	254,846	287,554	331,568	265,669	305,353
2024	295,478	251,300	247,417	313,683	269,263	274,846
2025	270,938	249,350	249,596	277,317	255,974	256,955
2026	244,316	248,537	248,785	241,586	246,054	226,193
2027	244,353	248,635	249,139	248,887	253,420	233,524
2028	244,975	249,324	249,834	241,907	246,765	259,041
2029	246,797	251,478	251,738	239,255	244,196	267,082
2030	249,320	254,083	254,348	255,406	260,170	256,200
2031	252,778	257,630	258,170	270,840	275,691	271,109
2032	256,985	261,940	262,215	240,738	246,245	234,406
2033	261,667	266,733	267,295	209,329	215,519	184,854
2034	267,390	272,568	272,856	184,291	187,703	157,984
2035	273,066	278,362	278,951	171,041	174,677	160,278
2036	280,286	285,705	286,307	156,387	160,404	163,231
2037	287,523	293,067	293,683	159,073	163,336	166,228
2038	295,759	301,431	302,060	162,438	166,799	169,758
2039	304,090	309,896	310,541	165,981	170,445	173,475
Total	4,596,466	4,534,885	4,570,489	3,869,727	3,802,330	3,760,517

State Contribution Projections – TRS (ASC’s)

Additional State Contributions – TRS

($000's)



Total projected contributions for FY23-FY39:

- Scenario 2 = $1.53B
- Scenario 3 = $1.50B
- Scenario 4 = $1.52B
- Scenario 2B = $1.09B
- Scenario 3B = $1.06B
- Scenario 4B = $1.03B

State Contribution Summary – TRS

Additional State Contributions

($000’s)

Fiscal Year	Scenario 2	Scenario 3	Scenario 4	Scenario 2B	Scenario 3B	Scenario 4B
2023	111,560	74,046	92,539	117,523	80,084	102,653
2024	99,793	74,597	72,383	110,101	84,904	87,959
2025	88,186	75,964	76,119	92,286	80,141	80,915
2026	74,993	77,503	77,660	74,052	76,797	65,737
2027	76,519	79,067	79,226	79,386	82,173	70,866
2028	78,261	80,851	81,013	76,804	79,718	86,192
2029	79,897	82,615	82,862	75,943	78,909	91,346
2030	81,814	84,583	84,834	85,422	88,275	86,177
2031	84,028	86,851	87,022	93,782	96,692	94,210
2032	86,147	89,118	89,292	78,546	81,779	75,750
2033	88,376	91,411	91,679	62,310	65,970	50,169
2034	90,715	93,726	94,000	47,365	51,472	20,899
2035	93,157	96,330	96,610	32,017	36,404	21,562
2036	95,618	98,866	99,153	14,233	19,105	22,066
2037	98,381	101,706	101,999	14,767	19,754	22,688
2038	101,025	104,429	104,729	15,119	20,225	23,329
2039	103,880	107,366	107,674	15,587	20,920	23,996
Total	1,532,350	1,499,029	1,518,794	1,085,243	1,063,322	1,026,514

Actuarial Certification

Actuarial Certification

The purpose of this presentation is to provide the ARMB with the impact on the projected PERS/TRS State contributions for FY23-FY39 under different scenarios, including illustrative market returns in FY22-FY31. The projections are based on the data, assumptions, methods and plan provisions described in the June 30, 2020 actuarial valuation reports, except as noted herein. Preliminary June 30, 2021 asset statements were reflected in all scenarios. All scenarios for PERS reflect SB 55 effective July 1, 2021.

Please see the June 30, 2020 actuarial valuation reports for a detailed description of (i) Buck's projection models which are the same ones used for this presentation (ASOP 56), and (ii) risk factors related to future funding of the plans (ASOP 51).

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

The results were prepared under the direction of David Kershner and Scott Young, both of whom meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. These results have been prepared in accordance with all applicable Actuarial Standards of Practice.

David Kershner
FSA, EA, MAAA, FCA
Principal, Retirement

Scott Young
FSA, EA, MAAA, FCA
Director, Health

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Alaska Retirement Management Board

BOARD of TRUSTEES MEETING

October 11, 2021

PUBLIC COMMENT SUMMARY

Oral Testimony provided by:

1. Randall Burns, RPEA President
2. Kris Erchinger
3. John Davies
4. Douglas Greg
5. Bill Hill
6. Steven Bradford
7. Melody Douglas
8. Arthur Allen
9. Luann McVey

Written Comments provided by:

1. Randall Burns on behalf of Executive Board of the Retired Public Employees of Alaska, opposed to Market value reset
2. James Dennis, opposed to Market value reset
3. Joan Williams, opposed to Market value reset
4. Al Setera, opposed to Market value reset
5. Shonti Elder, opposed to Market value reset
6. Nils Andreassen, Alaska Municipal League, opposed to Market value reset
7. Ruby Hollembaek, opposed to Market value reset
8. TJ O'Donnell, opposed to Market value reset
9. Arthur Nash, opposed to Market value reset
10. Siri Hari Hari Singh Khalsa, opposed to Market value reset
11. Mary Chouinard, opposed to Market value reset
12. G. Higgins, opposed to Market value reset
13. Tyler Henegan, opposed to Market value reset
14. Joseph Liddle, opposed to Market value reset
15. Heidi Wimmer, opposed to Market value reset
16. Ryan Quigley, opposed to Market value reset
17. Raven Amos, opposed to Market value reset
18. Cheryl Cameron, opposed to Market value reset
19. Britteny Cioni-Haywood, opposed to Market value reset
20. Steve Click, opposed to Market value reset
21. Russ Newell, opposed to Market value reset
22. Barry Johnson, opposed to Market value reset

23. Scott Raygor, Alaska Professional Firefighters, opposed to Market value reset
24. Nick Clark, Fairbanks Firefighters Union, opposed to Market value reset
25. Tom Richards, opposed to Market value reset
26. Dan & Randy Busch, opposed to Market value reset
27. Victoria O'Connell, opposed to Market value reset
28. Caroline Venuti, opposed to Market value reset
29. Katherine Peterson, opposed to Market value reset
30. Emily Becker, opposed to Market value reset
31. Representative Zach Fields, opposed to Market value reset
32. Sylvia Burford, opposed to Market value reset
33. Tom Klaameyer, NEA-Alaska, opposed to Market value reset
34. Jake Metcalfe, ASEA/AFSCME Local 52, opposition to Market value reset
35. Douglas Blockcolsky, opposition to Market value reset
36. Lon Garrison, Association of Alaska School Boards, opposition to Market value reset
37. Mary Burtness, opposition to Market value reset
38. Kirsten Poss, opposition to Market value reset
39. Alexei Basargin, opposition to Market value reset
40. Duncan Marriott, opposition to Market value reset
41. Sheryl Baechler, opposition to Market value reset
42. Forrest Kuiper, opposition to Market value reset
43. Luann McVey, opposition to Market value reset
44. Pamela Lloyd, opposition to Market value reset
45. Paul Miranda, Alaska Professional Fire Fighters Association, opposition to Market value reset
46. Tom McKenna, opposition to Market value reset
47. Leon Jaimes, opposition to Market value reset
48. Janice Caulfield, opposition to Market value reset
49. Maureen Conerton, opposition to Market value reset
50. Linda Schandelmeier, opposition to Market value reset
51. Jane Hanchett, opposition to Market value reset
52. Sue Johnson, opposition to Market value reset
53. Mike and Mariellen Hanchett, opposition to Market value reset
54. Kathleen Oliver, opposition to Market value reset
55. Lili Misel, opposition to Market value reset
56. Hannah Etengoff, opposition to Market value reset
57. Robert McHattie, opposition to Market value reset
58. Shar Fox and Jim Simard, opposition to Market value reset
59. Sally Schlichting, opposition to Market value reset
60. Barbara Ward, opposition to Market value reset
61. Steve Bouta, opposition to Market value reset

62. Shgen George, opposition to Market value reset
63. Dianne Holmes, opposition to Market value reset
64. Dr. Lisa Parady, Alaska Council of School Administrators, opposition to Market value reset
65. Linda Kruger, opposition to Market value reset
66. John Klapproth, opposition to Market value reset
67. Margaret Wiedeman, opposition to Market value reset
68. Sharon John, opposition to Market value reset
69. Tom Reimer, opposition to Market value reset

Retired Public Employees of Alaska, APEA/AFT
8005 Schoon Street, Anchorage, AK 99518
P. O. Box 110650, Anchorage, AK 99511-0650
Phone: (907) 274-1703 Fax: (907) 277-4588\
Email: manager@rpea-ak.org
Web site: rpea-ak.org

October 7, 2021

Robert M. Johnson, Chair
Alaska Retirement Management Board of Trustees
P. O. Box 110405
Juneau, AK 99811-0405

Dear Mr. Johnson:

I am writing on behalf of the Executive Board of the Retired Public Employees of Alaska (RPEA) and its over 4,000 members to take exception to the proposal presently before the Alaska Retirement Management Board (ARMB) to change the ARMB's historical approach to how it calculates the State of Alaska's annual contribution rate.

The RPEA certainly appreciates the present economic pressures on the State of Alaska's annual operating and capital budgets and the various strategies being considered by both the Administration and the Legislature (now in engaged in its fourth special session this year) to balance the State's revenues and expenses.

However, given the present difficult and increasingly complex economic climate, the RPEA does not feel that this is the time – nor would it ever be – to abandon long-held, sound fiscal policy to potentially benefit short-term rosier revenue projections.

There is a reason why successful fund managers rely on and prefer an actuarial approach to the evaluation of assets (AVA) as opposed to relying on a current market evaluation of assets (MVA): the AVA methodology contributes important stability to fund management. Indeed, in materials presented on September 22, 2021, to the ARMB's most recent Actuarial Committee Meeting, one power point slide entitled "Why Do We Perform Actuarial Valuations?" listed the reasons for this favored practice:

- Compares assets and liabilities
- Sets contribution rates and amounts for fiscal year beginning two years later
- Allows for better budgeting
- Ensures sufficient assets on hand to pay promised future benefits; and
- Estimates future contributes via multi-year projections of assets and liabilities.

We are aware that recent market gains have suggested that abandoning the AVA approach in favor of adopting a market valuation of assets would bring some substantial short-term gains to the State's General Fund balance sheet. However, we also believe that introducing substantive policy changes in the management of the State's retirement funds simply to take advantage of recent market gains fails to fully grasp the current tenuous financial conditions facing global financial markets.

Even as I write this letter, and as I am sure you are aware, today's news is filled with evidence that "volatile" is the best and only way to describe this nation's and the world's financial markets for the foreseeable future. Recent market successes may well be the buffer the State needs to maintain its retirement fund values and maintain some level of financial stability over time.

The RPEA respects and appreciates the important role that the ARM Board and its Trustees play in protecting the pension contributions of the many public employees throughout Alaska, regardless of role or profession, and we encourage the Board to stay the course and continue to manage the assets it holds in trust for these workers and retirees according to those conservative and sound principals that guide all the most successful funds. We ask that you maintain your commitment to well-established actuarial value asset calculations when setting contribution rates.

Sincerely,

Randall Burns

Randall P. Burns
RPEA President

cc: RPEA Executive Board Members
Sandra Wallace Thompson, President, APEA/AFT of Alaska

From: Eldon Dennis
To: Jones, Alysia D (DOR)
Subject: Asset reset values
Date: Saturday, October 9, 2021 11:56:50 AM

As a member of TRS I'm absolutely opposed to Lucinda Mahoney's proposal! The current stock market values are very inflated and not reflective of reality!! If enacted this proposal would very likely damage the long term financial health of TRS which I and many, many others depend on.

During the last meeting of the ARM Board Commissioner of the Department of Revenue Lucinda Mahoney presented a proposal to reset the values of PERS and TRS retirement funds to their market value from their actuarial value as June 30, 2021.

James Dennis (retired from Juneau High School after 20 years)
[redacted]

From: JOAN WILLIAMS
To: Jones, Alysia D (DOR)
Subject: Please do NOT reset the values
Date: Saturday, October 9, 2021 12:07:23 PM

Dear Alysia,
(and to the Alaska retirement management board)

Please do NOT reset the values of PERS and TRS retirement funds to the market value as of a specific date, June 30, 2021.

It is my understanding that it would be much more accurate if value is taken over a number of years rather than add a specific date when the market value has been Greater than the actuarial value.

It is important to us all to keep retirement systems healthy by providing accurate numbers and monetary support

Thank you,
Joan Williams
retired teacher from ASD

Sent from my iPhone

From:	Al Setera
To:	Jones, Alysia D (DOR)
Subject:	Reset
Date:	Saturday, October 9, 2021 1:09:58 PM

Please do not address reset goals as presented to ARM board. That action will be significantly harmful to PERS & TRS in the future. Retirees depend on the ARM board to monitor & protect our funds. Thank you for your help!!!

Sent from my iPhone

From: Shonti Elder
To: Jones, Alysia D (DOR)
Subject: TRS/PRS
Date: Saturday, October 9, 2021 1:38:14 PM

I am against the proposal to reset the values of PERS and TRS to only one date. The traditional method of using a five year average method is more accurate. I'm a retired teacher and am concerned that this might lower my retirement wages and underfund the accounts. In addition, this could threaten Alaska's credit rating.

Please drop this new proposal for all of these reasons.

Thank you.
Shonti Elder
Retired ASD teacher
[redacted]

ALASKA MUNICIPAL LEAGUE

ONE SEALASKA PLAZA, SUITE 200 • JUNEAU, ALASKA 99801
TEL (907) 586-1325 • FAX (907) 463-5480 • WWW.AKML.ORG

Member of the National League of Cities and the National Association of Counties

October 11, 2021

Dear ARM Board Trustees,

The Alaska Municipal League (AML) responds to the needs and interest of 165 cities and boroughs, 64 of which are PERS employers. Members have repeatedly stressed how critical stability within PERS is to them, even as they have encouraged additional investment reduces the net pension liability. The goal for employers is to see the actuarial rate reduced such that employers have greater ability to attract and retain a workforce that benefits from a robust retirement plan.

While AML appreciates more recent legislative changes that allow the State to apply the full actuarial rate as an employer, thereby increasing its ability to spread those costs to all funding sources, we are concerned that the proposal to reset the system according to market value will have unintended and negative consequences over the long-term.

It is clear that the system benefited from incredible investment returns this last year. That increase as part of the actuarial value and five-year average will mean, under the current structure, a decrease in the PERS actuarial rate from over 30% to 27.63% - 10% decrease to the overall rate, which will assist in reducing the additional state contribution as well. That's a positive step, consistent with AML member interests and system goals overall. It means that the net pension liability is reduced and PERS fundedness continues its upward trend.

That one year growth isn't a reason to make policy decisions that will affect the system into the future and increase risk therein. We understand the temptation – an opportunity to see an additional decrease will help further offset the State's obligation. That opportunity, however, cannot come at the expense of destabilizing the system and increasing the risk that market disruption in the future won't accommodate this one-time offset.

Trustees should maintain their fiduciary responsibility by keeping the current structure of AVA in place and reject an MVA reset. The PERS and TRS systems must be managed for the long-term; one year of strong growth is good for the system and the State, but it cannot be used as a measure for how growth may occur in the future. A steady hand is needed in these challenging times, which we expect of ARM board trustees.

Thank you for your attention to this, including that you postponed a vote earlier to take extra consideration of the matter. The State pension system's good governance is a critical reflection of the trust that employers and retirees have in you and the State.

Respectfully,

Nils Andreassen
Alaska Municipal League

From: Ruby Peck-Hollembaek
To: Jones, Alysia D (DOR)
Subject: Asset Smoothing Method
Date: Sunday, October 10, 2021 7:13:30 AM

Being tier 1 gave me wonderful options to be able to retire at 50 years old and assist our second business of helping on our family farm. Our children were all raised. My husband and I depend on my TRS to fill our financial needs.

The proposal to reset the value of TRS and PRS funds to their market value less than what we receive now is devastating. I can imagine how retirees like me will suffer.

The asset smoothing method should not be selectively reset at market value only when the market value is greater than the actuarial value.

Thank you.

Ruby K. Hollembaek

From: Elbridge Barnette
To: Jones, Alysia D (DOR)
Subject: Public testimony
Date: Sunday, October 10, 2021 7:52:19 AM

Please consider this public testimony for the 9am, 10/11/21 meeting regarding retirement funds. I am in opposition to resetting assets to market value instead of actuarial and would encourage those with a vote to oppose such a scheme as well.

Thank you for your consideration,

TJ O’Donnell
[redacted]

From: Art Nash
To: Jones, Alysia D (DOR)
Subject: Comment to proposed change to PERS/TERS
Date: Sunday, October 10, 2021 9:12:47 AM

Hi Alysia,
Let me know if you have received this please for comment:

Please do NOT put state workers at undue risk bu changing our pension formulation from an actuarial to market valuation. Moving average determinations are certainly safer (for those of us who have invested our careers serving Alaska) than pegging outcomes on a higher risk roulette wheel-like scheme as it sounds is going to be proposed!

For what it is worth I began my service to this state in the mid 80’s, was educated as an economist here, and have invested my life teaching other residents - don’t throw our pensions under the bus of risk please!! Arthur L. Nash
[redacted]

From: Siri HHS Khalsa
To: Jones, Alysia D (DOR)
Subject: Proposal comment
Date: Sunday, October 10, 2021 10:08:01 AM

It want to urge the Management Board to reject the proposal to reset the values of the PERS and TERS accounts to their market value from the actuarial value. This goes against best practices and would cause significant problems down the line.

Siri Hari Hari Singh Khalsa
Anchorage

Sent from my iPad

From: Mary Chouinard
To: Jones, Alysia D (DOR)
Subject: Proposed changes to valuation method PERS
Date: Sunday, October 10, 2021 10:08:32 AM

The money in PERS/TERS is not state money. It belongs to every state employee and retiree. Do not change the valuation method to benefit the state. It is the job of the Retirement Board to act in the best interests of the beneficiaries of the retirement plan not the State of Alaska.

From:	ghiggins@gci.net
To:	Jones, Alysia D (DOR)
Subject:	Management of TRS/PRS
Date:	Sunday, October 10, 2021 11:26:55 AM

I am a retired Alaskan educator dependent on the pension program. We are in unsettling pandemic financial times. It cannot be safely predicted that markets will continue to perform on an upswing. This is not the time to reduce the State's contribution to the pension fund. This has the serious possibility of destabilizing the financial foundation of our retirement system.

Thank you for reviewing my concern and the work you do to keep the program intact.

From:	Tyler Henegan
To:	Jones, Alysia D (DOR)
Subject:	Testimony on Changes to TERS/PERS
Date:	Sunday, October 10, 2021 12:05:14 PM

Good afternoon,

As an Alaska resident, and employee of the State of Alaska for the past ten years, I would like to testify that I am OPPOSED to the changes proposed by Dunleavy and Mahoney. I would like to submit this testimony in regards to the Board of Trustees Meeting that will be held Monday, October 11, 2021. Retirement assets need to be valued at long-term performance, not the quick whim of political play. My continued employment with the state is thanks in part to what is an excellent retirement service, and this should not be downgraded for the sake of face-value politics.

Thank you for your time, and again, I OPPOSE the changes proposed by Gov. Dunleavy and Luncinda Mahoney.

Tyler Henegan

From: Joseph Liddle
To: Jones, Alysia D (DOR)
Subject: Proposed changes to retirement formulas
Date: Sunday, October 10, 2021 12:06:14 PM

Dear Ms Jones,
I am a TRS, Tier II employee at Univ. of Alaska. I am strongly opposed to the proposal to change TRS to a market-rate valuation. First of all, this is not the State's money, it belongs to the employees and the retirees. The State should not be messing with this at all, especially from political appointees such as Commissioner Mahoney. It violates the whole premise of TRS and PRS. Please do not go down this route at all.
Take care
Joseph Liddle

From: heidi wimmer
To: Jones, Alysia D (DOR)
Subject: Retirement Funding
Date: Sunday, October 10, 2021 12:10:06 PM

Hello Alyssa,
Don't change it. Thanks.
Heidi Wimmer
LKEA, 1979-1997

From: Ryan Quigley
To: Jones, Alysia D (DOR)
Subject: Charges to retirement valuation
Date: Sunday, October 10, 2021 12:34:45 PM

I do not support changes to the retirement valuation. Why are we making changes that go against sound practices and jeopardizing state employee retirement?

Ryan Quigley
[redacted]

From: Raven Amos
To: Jones, Alysia D (DOR)
Subject: Public Comment for Proposed Changes to State Retirement
Date: Sunday, October 10, 2021 1:28:44 PM

Good afternoon,

I am writing to you as the daughter of the former Lead Petroleum Inspector for the AOGCC, the late Alan Douglas “Doug" Amos.

My father passed away in 1997 as a direct result of the incredible pressures and stresses put upon him by his position. He went above and beyond in his job, helped modernize the AOGCC in the late 80’s and early 90’s with his extensive knowledge of computer systems, ensured the safe operation of the Alyeska Pipeline and the myriad oil rigs across all reaches of this great state, and was instrumental in designing portions of the Pipeline itself. He was away from his family more often than he was with us. We endured, though, and as hard as it was to endure his death at the age of 16, my mom and I still persevered. This is due in no small part to the retirement payout from the State of Alaska.

My mom is herself retired now, far beyond working age, and relies more than ever on my father’s retirement. We walk the thinnest of razor’s edges every month keeping the bills paid and the lights on and food in the pantry, but we endure. What we CANNOT endure is a drastic change such has been proposed by Commissioner Mahoney. This short-sighted “money-saving effort” is not the solution to the state’s fiscal issues, and I am only thankful my father did not live to see the day when former Gov. Sean Parnell introduced his “improved oil taxes” which has landed us in this gigantic fiscal mess in the first place.

Instead of cutting or “reevaluating” the state retirement program, I urge the Commissioner to look for cost savings and improved revenue streams by rolling back former Gov. Parnell’s disastrous bonuses to Outside oil companies.

Attached to this email, you will find a copy of the memorial published for my father in the 1997 AOGCC Statistical report.

Thank you for your time and consideration.

Sincerely,

Raven Amos

This year's Statistical Report is dedicated to the Memory of

ALAN D. AMOS

June 14, 1949 – September 12, 1997

Doug was born in Knoxville, Tennessee and attended Farragut High School in Concord, Tennessee. He worked as a surveyor prior to joining the U.S. Air Force in 1969 where he was an Aircraft Maintenance Specialist. In 1970, he was discharged from the service because of a knee injury and returned to Concord as a surveyor, then moved to Pasadena, Texas.

In 1974, he worked for Pipeline Technologists as a design draftsman for pump stations, river crossings, vertical supports, and accesses roads for the pipeline. In 1975 for Gulf Interstate Engineering Company, a Senior Designer and Inspector for various gas and oil gathering lines and product lines for the Federal government. In 1978 for the U.S. Geological Survey in Alaska, as a Petroleum Engineering Technician witnessing BOP test and inspecting drilling and workover rigs as well as varies well operations including cementing, logging, drill stem test, and related flow control equipment.

In March 1980, he started work with the commission as a petroleum inspector. His vast knowledge and prior experience in the oil and gas industry prepared him for the numerous duties conducted by the commission inspectors. He was instrumental in "computerizing" the inspection group to enhance field inspection effectiveness. For eighteen years, Doug carried out his inspection functions in an outstanding manner with professional skill, courtesy and integrity. Doug was a "true leader", inspiring others to achieve their very best.

Our thoughts are with Doug's family, wife Val, daughter Raven, and sons Neil and Doug Jr.

From: Cheryl Cameron
To: Jones, Alysia D (DOR)
Subject: request for the Alaska Retirement Management Board
Date: Sunday, October 10, 2021 1:52:26 PM

Dear Alaska Retirement Management Board,

I'm a tier 3 current State employee. I heard the Board plans to consider moving from an actuarial valuation to market rate valuation -- and I am strongly against this. Using actuarial valuation is best for the longevity and safety of the accounts, and is best practice. To move to actuarial valuation is short-sighted and likely to create an unnecessary shortfall later, especially worrisome as Pew and other outlets report we have less than 70% funded. I encourage and urge the ARM to not change to market rate valuation.

Thank you,
Cheryl Cameron

From: Britteny Cioni-Haywood
To: Jones, Alysia D (DOR)
Subject: Proposed Change to PERS/TRS
Date: Sunday, October 10, 2021 2:41:19 PM

Good afternoon,
I would like to submit testimony in regards to changing the PERS/TRS system from an actuarial to a market value valuation that will be heard at the Alaska Retirement Management board meeting on Monday, October 11. As an economist, I consider this an incredibly bad idea. The stock market has enjoyed recent increases but those are in no way guaranteed to continue. In fact, a quick Google search would result in the opposite being true. The stock market is always subject to corrections, re-evaluations, and declines. This suggested change puts the retirements of Alaska citizens at risk. Please deny this request.
Sincerely,
Britteny Cioni-Haywood

From: Steve Click
To: Jones, Alysia D (DOR)
Subject: ARMS Board meeting
Date: Sunday, October 10, 2021 3:02:27 PM

To the ARMS Board members,

I am greatly concerned that the ARMS Board will reset the value of the PERS and TRS retirement fund, due in part to the possible higher value at this time (actual vs actuarial).

The proposed reset seems to be a temporary fix to possibly plan for decreasing current funding (new dollars) in both retirement systems. Possible, future unfunded liabilities are extremely hard to pay for at a later time, to catch up that what may be lost now.

Please do not reset the values of the TRS and PERS retirement funds, at this time.

Thank you,
Steven Click
Retired teacher from Barrow (1971-1983) and Fairbanks (1983-1997)
[redacted]

From:	Russ Newell
To:	Jones, Alysia D (DOR)
Date:	Sunday, October 10, 2021 3:14:30 PM

Markets go down as well as up. Governor Dunleavy should know this. You cannot realistically make a future assumption based only on last year's returns. Remember the financial crisis of 2008? Before that we had the dot com bust in 2001. The crash of 1929 took the country into the Great Depression for close to a decade.

An excellent book on the topic of markets & dangers that are always present is John Cassidy's "How Markets Fail" from 2009 after the crash of 2008. Cassidy discusses economic theories & goes into how our prosperous times will lead us to poorer times again and again.

From: Russ Newell
To: Jones, Alysia D (DOR)
Subject: (continued) material for testimony on
Date: Sunday, October 10, 2021 3:19:29 PM

This is the link for the John Cassidy book:

https://www.amazon.com/How-Markets-Fail-Market-Economics/dp/1250781280/ref=sr_1_2?dchild=1&keywords=how+markets+fail&qid=1633907404&sr=8-2

Cassidy is the financial writer for the New Yorker magazine.

It is unwise to take money from the Permanent Fund with the expectation that the money will be regained by stock market growth. What happens to the retirees when the money that they depend on is gone? Who hires 80 years old people?

My prior message below got prematurely sent.

----- Forwarded Message -----
From: Russ Newell [redacted]
To: alysia.jones@alaska.gov <alysia.jones@alaska.gov>
Sent: Sunday, October 10, 2021, 03:14:23 PM AKDT
Subject:

Markets go down as well as up. Governor Dunleavy should know this. You cannot realistically make a future assumption based only on last year's returns. Remember the financial crisis of 2008? Before that we had the dot com bust in 2001. The crash of 1929 took the country into the Great Depression for close to a decade.

An excellent book on the topic of markets & dangers that are always present is John Cassidy's "How Markets Fail" from 2009 after the crash of 2008. Cassidy discusses economic theories & goes into how our prosperous times will lead us to poorer times again and again.

From: Barry Johnson
To: Jones, Alysia D (DOR)
Subject: Proposed Retirement Account Change
Date: Sunday, October 10, 2021 4:25:18 PM

I am in TRS Tier 1. Please do NOT change the formula for the retirement system. It is working as designed.

Barry Johnson
[redacted]

Sent from my iPhone

From:	scott raygor
To:	Jones, Alysia D (DOR)
Subject:	PERS/TRS contribution rates
Date:	Sunday, October 10, 2021 4:46:31 PM

I am writing to encourage you to continue to make contributions to the PERS system. While the stock market has had a good year, that can not be counted on every year. There are many examples of what bad happens when states decide not to continue their contributions in good economic times. Please continue with account best practices and continue to make contributions to the PERS/TRS system during these good economic times.

Thank You
Scott Raygor
Alaska Professional Firefighters

From:	Nick Clark
To:	Jones, Alysia D (DOR)
Cc:	Paul Miranda
Subject:	Opposition to Dunleavy plan
Date:	Sunday, October 10, 2021 5:00:44 PM

To whom it may concern,

I am writing to you and the ARM board to reject Governor Dunleavy’s proposal. Continuing with best practice is essential for the health of the fund. I urge you to reject the Governors plan and do what we all know is right for responsible investment. Long term is better than the short term.

Respectfully,

Nick Clark
President
Fairbanks Firefighters Union

From:	Tom Richards
To:	Jones, Alysia D (DOR)
Subject:	Reseting the values of PERS and TRS retirement funds to their market value from their actuarial value
Date:	Sunday, October 10, 2021 5:22:59 PM

Ms. Jones,

I am a former ARM Board member, and I am opposed to the new proposal concerning reseting PERS and TRS values.

After the debacle when the State of Alaska changed the retirement systems from a Defined Benefit to a Defined Contribution the unfunded liability became an issue.

Now that the ARM Board has worked hard to get the funds in a solid position again, the State has another idea to weaken the funds.

Since the DB funds are closed please let the ARM Board have every advantage to maintain the fund's wealth.

PERS and TRS pensioners who worked hard making contributions and rely on the monthly benefits want the ARM Board to be given a fair chance to keep the accounts as full as possible.

Why, move to potentially underfund the retirement systems, possibly affect Alaska’s credit rating, and ultimately make public employees a pariah when the money runs out and pensions are subject to the general fund?

I am opposed to the reseting of fund values from market value from their actuarial value.

Respectfully,

Tom Richards

From: Randy Busch
To: Jones, Alysia D (DOR)
Subject: Proposal to reset the values of PERS and TRS Retirement Funds
Date: Sunday, October 10, 2021 6:45:02 PM

To ARM Board-

My husband and I are both retired teachers who began teaching in Kodiak in 1970 and 1973, and still live right here in Kodiak. We hope that you will NOT vote to reset the values of PERS and TERS retirement funds as described in this proposal.

We remember when the State of Alaska was the victim of the poor actuarial work done by Mercer, Inc. from 1992 until 2004, which resulted in the retirement systems being underfunded. It took until 2010, to litigate that mess and finally come to a deal that fell far short of the actual deficit and still required new pension contributions to be increased significantly. In that case, it was the fault of the hired company. In this case, the State will have no one to blame but themselves when the retirement systems become underfunded.

Please use good sense and reject this proposal.

Thank you,
Dan and Randy Busch
[redacted]

From: Victoria OConnell
To: Jones, Alysia D (DOR)
Subject: Do NOT move valuation of retirement funds to a market rate valuation
Date: Sunday, October 10, 2021 7:07:17 PM

Hello - I am a retiree of the State of Alaska having worked for ADFG for more than 2 decades. Please do not approve the proposal from Commissioner Mahoney to move from an actuarial to market rate valuation of the State’s retirement funds. This proposal is based on the strong performance of a single year and is playing chicken with our retirement and the health of our state future for a short term political gain. No one with any financial experience would ever approve this.
from my iPhone

From: Franco Venuti
To: Jones, Alysia D (DOR)
Subject: Retirement fund changes
Date: Sunday, October 10, 2021 7:26:57 PM

Hello, I am a lifelong Alaskan. I taught for 30 years in Alaska and I'm very grateful for my retirement benefits. I am alarmed and do not support the proposal to reset the values of PERS and TRS retirement funds. This could lead to future unfunded liabilities by under funding their retirement system.
That would be a disaster for the retired educators and employees that count on the retirement to pay living costs. Most Alaskan retirees have little social security and paid into this system only. It was a promise made for the good of Alaska to keep retired educators in Alaska.
I hope the idea of changing this plan prematurely will be reconsidered.
Thank you,
Caroline Venuti
[redacted]

From:	kathy & john
To:	Jones, Alysia D (DOR)
Subject:	Asset Smoothing
Date:	Sunday, October 10, 2021 7:28:24 PM

Asset smoothing is a risky move. It sets a precident that changes can be made at any time for any reason. Think of the future not just today!

Katherine Peterson, Retired teacher
Sent from my iPad

From: Emily Becker
To: Jones, Alysia D (DOR)
Subject: Comments on Resetting to Market Value of Assets
Date: Sunday, October 10, 2021 8:47:18 PM

To the Alaska Retirement Management Board:

Thank you for your work in protecting the assets that pay for the benefits I earned as part of my contract as a public school teacher in Alaska for 20 years.

I was alarmed to hear recent proposals for the PRS/TRS funds described as "risky management." I place my trust in professionals for good financial guidance and advice.

I do not trust Commissioner Lucinda Mahoney's proposal to reset the values of PERS and TRS retirement funds to their market value from their actuarial value. This goes against best practices and seems aimed at possibly freeing up money for the state legislature rather than safeguarding pension funds. Unfunded liabilities have been an ongoing concern with our pension system. It seems radically unwise to lower the State's contribution just because of one good stock market year, especially given the ongoing pandemic.

Fiscal prudence requires sticking to best practices and rejecting this fantasy plan.

Thank you,
Emily Becker
[redacted]

From: Rep. Zack Fields
To: Jones, Alysia D (DOR)
Subject: Testimony on FY2023 contribution rates
Date: Sunday, October 10, 2021 8:59:45 PM

Hi Ms. Jones,

I am writing to offer public testimony on the Department of Revenue’s (DOR) FY2023 contribution rates and resetting based on a “market valuation.” DOR’s proposal is a reprehensible and likely unconstitutional attempt to steal retirees’ savings, resulting in under-funded pension liabilities.

It should be obvious why a single year of good stock market returns cannot justify or excuse stealing from long term investment accounts: The stock market is inherently volatile, and only through long term prudent management can retirement funds grow sustainably. If we cut contribution rates every time there was a bull market, we’d never be able to fund the retirement obligations to which we are constitutionally obligated.

With this comment, and others I am sure, the record will be very clear: If Gov. Dunleavy’s administration moves forward with this proposal, he will be stealing the retirement savings of hard-working Alaskans, in clear violation of the Constitution.

Zack Fields
Representative, House District 20

From: Sylvia Burford
To: Jones, Alysia D (DOR)
Subject: TRS/PRS
Date: Sunday, October 10, 2021 9:08:46 PM

My theory if it’s not broken why fix/change it. Leave the scale alone!

Sent from my iPad

NEA-ALASKA

Reach. Teach. Inspire.

October 10, 2021

Mr. Rob Johnson, Chair
Alaska Retirement Management Board
Department of Revenue
P.O. Box 110405
Juneau, AK 99811

Dear Chair Johnson and Trustees of the Alaska Retirement Management Board,

On behalf of NEA-Alaska members and retirees, I am writing today to express our concern with the action proposed by Department of Revenue Commissioner Lucinda Mahoney at the September 22nd meeting of the Alaska Retirement Management Board Actuarial Committee to reset the value of the assets of the PERS/TRS retirement system to the market value as of June 30th, 2021. It is my understanding that you will be considering this proposal at your October 11th meeting.

We are asking that you consider the potential adverse effects this policy change would have on the Alaska public pension system and reject this proposal at that time.

This action would be contrary to established best actuarial practice.

- As you know, the S&P 500 is experiencing the longest-running bull market in its history.
- We are likely at or near the peak of tremendous market gains.
- According to the Conference of Consulting Actuaries Public Plans Community, in their 2014 publication, Actuarial Funding Policies and Practices for Public Pension Plans, “the asset smoothing method should not be selectively reset at market value only when market value is greater than actuarial value.”
- Actuarial Standard 44 provides reasons for which an actuary would “review the appropriateness of the asset valuation method if an event such as the following has occurred”
    a. A significant change in the plan provisions affecting cash flow (such as adding a lump sum payment option, or freezing or terminating the plan), in the actuarial cost method or funding policy, or in participant demographics;
    b. A significant change in the plan’s investment policy (such as adding a new asset class or significantly changing the proportion of assets invested in each class);
    c. A prolonged significant deviation from market value; or
    d. Changes in relevant law, regulations, or accounting guidance.
- To our knowledge, none of these events have occurred.

The State of Alaska's credit rating could be threatened by this kind of maneuver.

- The New York State and Local Retirement System (NYSLRS) recently lowered their assumed rate of return. In tandem with this reduction, the NYSLRS also reset its actuarial "asset smoothing" policy so that recent investment gains are recognized immediately rather than over several years.
- Regarding the asset smoothing policy, the Moody's Investment Service commented: *"We view actuarial maneuvers like the smoothing reset negatively for governments' credit quality because they typically just defer costs."*

Over time this could potentially lead to exacerbating PERS/TRS unfunded liabilities by underfunding based on one year of significant market gains.

- To NEA-Alaska members and retirees, a resetting of the market value of assets at the peak of a huge market run-up, as a tool to reduce contributions to PERS and TRS is extremely concerning.
- It seems unlikely, that in a year of significant market losses, which inevitably will occur, that there will be the same enthusiasm or capacity for the state government to make parallel adjustments to invest more in PERS/TRS when the market is down.

We appreciate your consideration and attention to this important matter.

Tom Klaameyer, President NEA-Alaska

From:	Jake Metcalfe
To:	Jones, Alysia D (DOR)
Subject:	discussion on resetting to market value.
Date:	Sunday, October 10, 2021 11:55:51 PM

Dear Ms. Jones:

Please accept this email as testimony regarding the “discussion on resetting to market value of assets at 6/30/2021.”

My name is Jake Metcalfe. I’m the Executive Director of ASEA/AFSCME Local 52. My organization represents 8,000 state employees. These members pay into Alaska’s public employee retirement system. Thousands of our former members are current State of Alaska retirees and they all paid into PERS too. I am also one of those State of Alaska retirees.
First, I urge you not to reset to market value of assets at 6/30/2021. While it’s great we did well in the market investments this past year, all of us know the market fluctuates. Resetting could potentially lead to future unfunded liabilities by underfunding the retirement systems now. This is a huge risk. Alaska retirees and potential retirees have already faced the consequences of an underfunded retirement system. The last thing Alaska retirees need now is more risky behavior that leads to continual underfunding of our retirement systems.

Please make the best public policy decision you can here. Before you make any decisions, please invite and listen to retiree’s testimony. Please also invite multiple experts to advise you on this before you make a decision. You need as much information as possible before you take such a risky and ill advised move.

Thank you for listening and considering my testimony.

Sincerely,

Jake Metcalfe
Executive Director
ASEA/AFSCME Local 52

[redacted]

From: Douglas Blockcolsky
To: Jones, Alysia D (DOR)
Cc: Douglas Blockcolsky
Subject: ARM Board Comment, Respectfully ..
Date: Monday, October 11, 2021 5:14:17 AM

Greetings,

Please do NOT reset the values of PERS & TRS retirement funds to their market value, from their actuarial value! This is a terrible idea.

‘Deferring Costs,’ like this just increases the debts of our children.

You're threatening Alaska's Credit Rating, destroying the teaching quality of your children (& your children’s children), & lowering the morale of every person working for Alaska’s infrastructure needs & governing systems.

I moved to Alaska in 1972, am a member of the 1st ever graduating class of Sydney Huntington High School in Galena, have 2 degree’s from the University of Alaska, Fairbanks. I pay property taxes in Anchorage, Fairbanks & Healy, and I vote.

Please don't Destroy Alaska's Future,.. just because you can.

Sincerely,

Douglas Blockcolsky B.S., M.A. Special Education (Ret.)
Ryan M.S., Lathrop H.S., Whaley M.S./H.S., Colony M.S., East H.S./ANC
[redacted]

[redacted]

Advocates for Alaska's Youth

association of
ALASKA
school boards

October 11, 2021

Dear ARM Board Trustees,

The Association of Alaska School Boards (AASB) consists of 51 of the 53 school districts across the state. As an association of school boards, we advocate on their behalf regarding state and federal issues that have impacts which affect their capability to provide an excellent education for every student every day. Of particular importance to each school district is the viability and stability of the PERS and TRS pension benefit plans. A robust, stable, and attractive retirement system must be offered for each local school district to attract and retain high-quality staff.

In combination with improved investment returns, significant investments in reducing the unfunded liability in the last several years have helped provide that stability and reduced the actuarial rate. Using the 5-year AVA, this long-term approach builds confidence that Alaska is using sound practices to address the existing unfunded liability. Employees of school districts will be more likely to benefit from a pension plan, while the state and school districts can more reliably anticipate costs.

AASB has significant concerns that the proposed plan to reset the value-based a single exceptional year of investment returns and moving to an MVA with a 3-year smoothing, in our opinion, is not a sound policy decision. We believe that this does not provide the type of long-term stability that creates a responsible public pension system. The following points highlight the concerns and observations we have regarding the proposal put forward by Commissioner Mahoney:

- Five-year averaging avoid volatility and spreads the gains and losses of the market out over a more extended period;
- Five-year averaging permits participants in the retirement system to plan for any increases in their contributions;
- The industry standard for actuarial analysis appears to be a five-year averaging protocol;
- Conversion to a three-year market value averaging has the potential for significant increases to employer contributions with possible significant impacts for school districts and municipalities;
- In the past, the state, acting on flawed actuarial recommendations, placed the state and its retirement system in jeopardy, requiring significant appropriations for contributions. The recent legislative contributions are

contributing to a more affordable glide path to pay down the unfunded liability. Changing the paydown protocol is likely to negatively impact the state with more significant long-term uncertainty and lower financial ratings;

- Alaska is currently on "shaky ground" with the financial industry. Making significant changes such as this could cause a "ripple effect" in the financial market affecting Alaska in multiple financial ratings.

AASB wishes to express its gratitude for the Board's postponement on consideration of this issue and to take the time to gather more information and input before making such an important policy decision. We understand as well as anyone, the temptation to take advantage of such phenomenal gains. However, from our experience working with school districts all across the state, one of the single most significant factors in recruiting and retaining high-quality staff is the ability to provide a viable and stable retirement benefit plan. We urge the Board to take the long view and maintain the AVA methodology. Our hope is that you recognize and exorcise your fiduciary responsibility to the retirement system for the good of both the beneficiaries and the State of Alaska.

With respect,

Lon D. Garrison
Executive Director
Association of Alaska School Boards

From: Mary Burtness
To: Jones, Alysia D (DOR)
Subject: Pls share with the board this AM
Date: Monday, October 11, 2021 7:16:13 AM

Good Morning: I am not able to make the public comment period for the board meeting this morning but would like my views made known.

As a person enrolled in the TRS retirement program (Tier 1), I believe it is not fiscally prudent to reduce contributions to the system based on just one year of growth as proposed by Governor Dunleavy. The fund contributions should focus on the long haul, not one year's growth. This would be so very short-sited.

Thank you for passing this comment on.

Mary C Burtness

From:	Kirsten Poss
To:	Jones, Alysia D (DOR)
Subject:	New funding formula for state portion ofcontributions to teacher retirement.
Date:	Monday, October 11, 2021 7:34:06 AM

To Whom it may concern:

Changing the formula in such a way results in a risk of underfunding teacher retirement. As a retired teacher I depend on the income to survive. I also know that under tier I I have more privelege financially than more recently hired teachers in the system.
Looking forward, if our fund suffers and retirements for future hires dwindle further, our state will face even more difficulty attracting qualified teachers as the job continues to become more demanding, stressful, expensive, less financially rewarding and less secure already.
We are losing qualified candidates to other employment sectors already. Putting retirement security at risk is another factor which will turn teachers to other fields.

Sincerely,
Kirsten L. Poss
1984 Hire

[redacted]

From: Alexei Basargin
To: Jones, Alysia D (DOR)
Subject: Against Market Value Reset Proposal
Date: Monday, October 11, 2021 7:57:28 AM

Hi Alysia,

I am a retired Alaskan teacher. I am against Lucinda Mahoney's proposal to reset the values of PERS and TRS retirement funds to their market value from their actuarial value as June 30, 2021. Please do not go against the actuarial recommendations. Alaska should do its financial responsibility, without jeopardizing its future.

Thank you,

Alexei V Basargin

From:	Duncan Marriott
To:	Jones, Alysia D (DOR)
Subject:	Constituent request: Maintain Actuarial Valuation.
Date:	Monday, October 11, 2021 8:17:40 AM

Dear Alaska Retirement Management Board,

I am an employee of the UA system. Thank you for your work to maintain and manage the retirement accounts for Alaska.

Please maintain the current use of Actuarial Valuation for our state retirement accounts. The State of Alaska is facing challenging economic times, where funding decisions are hard fought, and there is significant pressure to reduce payments into the retirement system, creating an unfunded liability. Moving to Market Rate valuation at this point in time would create the false impression that the current short term market gains reduce the need for providing the contractually required support. The current market growth rate is not representative of long term expected performance, and is likely to be a poor predictor of future value.

Please do not put the long term health of our retirement system at risk by switching to Market Rate valuation.

Thank You,
Duncan Marriott

From: Shere Baechler
To: Jones, Alysia D (DOR)
Subject: TRS funding
Date: Monday, October 11, 2021 8:25:10 AM

Hello Ms. Jones,

The following has come to my attention:

During the last meeting of the ARM Board, Commissioner of the Department of Revenue Lucinda Mahoney presented a proposal to reset the values of PERS and TRS retirement funds to their market value from their actuarial value as June 30, 2021.

This is concerning for a number of reasons.

Trust that you and the Board will make a decision based on what is in the best interest of TRS recipients such as myself for the future. I depend on the current income I receive for now and into the future.

Sincerely,

Sheryl Baechler

Sheryl Baechler

[redacted]

From:	Forrest Kuiper
To:	Jones, Alysia D (DOR)
Subject:	Please reject proposal to reset the value of PERS fund
Date:	Monday, October 11, 2021 8:32:55 AM

To whom this may concern,

I am urgently requesting that you reject the proposal from Governor Dunleavy's administration regarding the reset of the PERS fund value. This would not be best practices, and would make the PERS fund vulnerable to the immediate large gains but also the losses. This is no way to fund a retirement plan that state and government employees rely on.

Respectfully,

Forrest Kuiper
[redacted]

From: Luann McVey
To: Jones, Alysia D (DOR)
Subject: ARM Board Public Comment Re TRS/PERS management
Date: Monday, October 11, 2021 8:35:51 AM

Members of the Alaska Retirement Management Board

I am a 66-year-old retired Alaskan teacher living in Juneau. Throughout my 29-year career, I paid into the Teachers Retirement System, expecting to support myself after I retired. I am very concerned about the governor's proposal to reset the values of PERS and TRS retirement funds to their market value from their actuarial value as of June 30, 2021.

The so-called smoothing" process the governor proposed puts the retirement systems at risk. Resetting the value of assets at the peak of a bull market will reduce the required contributions to our PERS and TRS state retirement systems and will negatively affect the tens of thousands of people enrolled in these systems. The conference of Consulting Actuaries states that "the asset smoothing method should not be selectively reset at market value only when market value is greater than actuarial value."

I understand the Alaska Municipal; League called this plan one that "goes against best practice" and I urge members of the ARM board to veto it.

Thank you for your attention to this concerning matter.

Sincerely,

Luann McVey
[redacted]

From:	Pamela Lloyd
To:	Jones, Alysia D (DOR)
Subject:	Opposition to proposed TRS/PERS management
Date:	Monday, October 11, 2021 8:40:21 AM

To whom it may concern,
I oppose this proposal to reset the values of PERS and TERS retirement funds to their market value from their actuarial value. The current five year smoothing process is effective and and fair to retirees. This action could potentially lead to future unfunded liabilities by underfunding the retirement systems now. This was something the state legislature agreed to when a decent retirement was manipulated away from Alaskan workers.

Alaskan retirees worked for and depend on their retirement. Please don’t change what is in place.

Pamela J Lloyd
[redacted]

Sent from my iPhone
Pamela Lloyd

From: Paul Miranda
To: Jones, Alysia D (DOR)
Subject: Public Comment re: Resetting Market Value of Assets
Date: Monday, October 11, 2021 8:44:05 AM

Good morning Alysia. I would like to submit the following comments to the ARM Board for their meeting today. Thank you for your help.

Members of the ARM Board,

I urge you to reject the proposal put forth to move from actuarial valuation to market valuation of assets. It is excellent that the fund has performed so well and that the current market valuation is sitting in a strong position. Having said that, it would seem quite short-sighted to approve a reset based on a single year of strong market performance. I ask you to continue with current practice and reject this proposal. It is prudent to protect the assets of the fund against future market uncertainty, and rejecting this proposal would allow the board to continue with sound financial management practices.

Thank you,

Paul Miranda

Paul Miranda
President
[redacted]

Alaska Professional
Fire Fighters Association
PO Box 11122
Anchorage, AK 99511

From: Tom McKenna
To: Jones, Alysia D (DOR)
Subject: "Smoothing" is Against Best Practice
Date: Monday, October 11, 2021 9:09:44 AM

Dear Members of the Alaska Retirement Management Board:

I am a retired Alaskan teacher living in Juneau. I am asking you to oppose the governor's ill-conceived "smoothing" of the value of our retirement systems. Throughout my 29-year career, I paid into the Teachers' Retirement System. I am very concerned about the governor’s proposal to reset the values of PERS and TRS retirement funds to their market value from their actuarial value as of June 30, 2021.

The so-called "smoothing” process the governor proposed puts the retirement systems at risk. Resetting the value of assets at the peak of a bull market will reduce the required contributions to our PERS and TRS state retirement systems and will negatively affect the tens of thousands of people enrolled in these systems. The conference of Consulting Actuaries states that “the asset smoothing method should not be selectively reset at market value only when market value is greater than actuarial value.”

I understand the Alaska Municipal; League called this plan one that “goes against best practice” and I urge members of the ARM board to veto it.

Thank you for your attention to this concerning matter.

Sincerely,

Tom McKenna

[redacted]

[redacted]

From: Leon J.
To: Jones, Alysia D (DOR)
Subject: Mahoney Proposal
Date: Monday, October 11, 2021 9:17:48 AM

Hello,

I oppose Commissioner Mahoney’s proposal to move from an actuarial to market rate valuation. Basing changes on the strong performance of a single year is fiscally irresponsible and goes against best practice. This would put the retirement assets at risk.

Warm regards,

Leon Jaimes [mobile]
[redacted]

From: Janice Caulfield
To: Jones, Alysia D (DOR)
Subject: Resetting value of PERS & TRS - We oppose this proposal
Date: Monday, October 11, 2021 9:19:10 AM

Members of the Alaska Retirement Management Board,

We are retired Alaskan employees living in Juneau. We are very concerned about the governor's proposal to reset the values of PERS and TRS retirement funds to their market value from their actuarial value as of June 30, 2021. We are also concerned that PERS and TRS retirees have not been sufficiently notified about this potential change and risks to future solvency and benefits, and given the opportunity to consider this change and comment on it.

The "smoothing" process the governor proposed puts the retirement systems at risk. Resetting the value of assets at the peak of a bull market will reduce the required contributions to our PERS and TRS state retirement systems and will negatively affect the tens of thousands of people enrolled in these systems. The conference of Consulting Actuaries states that "the asset smoothing method should not be selectively reset at market value only when market value is greater than actuarial value." We see in the ARM packet for today's meeting a strong caution from one of your analysts (GRS Consulting) to fully consider the risks to this move, which he outlined in detail (Sept 30, 2021 memo from GRS, Attachment A).

The Alaska Municipal League said that this proposed change "goes against best practice". We urge members of the ARM board to veto it.

Thank you for your attention to this concerning matter.

Sincerely,

Jan Caulfield & Tom Paul
[redacted]

From: Maureen Conerton
To: Jones, Alysia D (DOR)
Subject: No to Dunleavy’s proposal
Date: Monday, October 11, 2021 9:19:20 AM

Good morning Board Members!
Please do not accept Dunleavy’s proposal to reset the PERS/TRS retirement funds!
Both the Alaska Municipal League and Conference of Consulting Actuaries have identified this move at this time - when the actuarial value is greater than market value - as a bad practice.

As a SOA retiree I ask you to reject this proposal. The PERS/TRS retirement fund is working just fine. Please leave it alone.

Thank You,
Maureen Conerton
SOA Retiree

Sent from my iPad

From: Linda Schandelmeier
To: Jones, Alysia D (DOR)
Subject: Testimony to the Arm Board Proposed Changes to the Retirement
Date: Monday, October 11, 2021 9:23:54 AM

Dear ARM Board,

I am opposed to the proposal to restructure the management of the State Retirement Funds suggested by the Dunleavy administration that is before the ARM Board.

The assets to a market-value approach
is an idea based on short-term goals.
It is important to follow sound actuarial practices.

Sincerely,

Linda Schandelmeier
[redacted]

From: Jane Hanchett
To: Jones, Alysia D (DOR)
Subject: Reset of values of PERS and TERS retirement fund assets
Date: Monday, October 11, 2021 9:31:47 AM

Hi Alysia,   1011-21

Please convey to all decision makers on this subject to NOT reset the values of PERS and TERS retirement funds to their market value from their actuarial value as of June 30, 2021.

As a PERS retired person I worry that this may lead to underfunding in the future, and like so many retirees, we can not afford to live on less or go without while their is wrangling over funding at the state level.

Thank-you for your consideration,
Jane Hanchett
[redacted]

From: Sue Johnson
To: Jones, Alysia D (DOR)
Subject: Oppose Setting Assets to Market Value
Date: Monday, October 11, 2021 9:39:48 AM

Dear Ms Jones,

As a Tier 1 retiree, I would like to go on record in opposition of the administration's proposed reset of our retirement funds to fair market value.

We have fought very hard with prior administrations and the legislature for payments to unfunded liabilities of our plans, with little avail. I do not believe there is any guarantee that our benefits will be forever available to us.

Thank you.

Sue Johnson

From: Mike Hanchett
To: Jones, Alysia D (DOR)
Subject: Don"t change the smoothing process
Date: Monday, October 11, 2021 9:47:16 AM

This reminds me of the 90's when the state decided TRS and PERS was so well funded that the state didn't need to contribute it's half of the funding. That coupled with a rosey forecast of how well the fund would perform led to the multi billion dollar underfunding we have now.

This is a bad idea, again. Please leave the politician's "good ideas" out of running the fund.

Mike & Mariellen Hanchett,
[redacted]

From: kate kamp
To: Jones, Alysia D (DOR)
Subject: Reset Proposal for PERS/TERS Plans
Date: Monday, October 11, 2021 10:07:25 AM

Dear Ms. Jones,

I wish to send the Alaska Retirement Management Board some brief thoughts about Commissioner Mahoney’s proposal to move from an actuarial to market rate valuation for the PERS/TERS funds.

As an Alaska resident and PERS recipient, I DO NOT support this proposal as it does not serve the long-term fiscal health of these important retirement funds. The proposed change, based on a single year’s stock market returns, does not reflect best practices for ensuring the future health of these important funds.

In the best interest of Alaska’s current and future PERS/TERS retirees, please do not pass this proposal.

Sincerely,

Kathleen Oliver
[redacted]

From: Lili Misel
To: Jones, Alysia D (DOR)
Cc: Myers, Robert H (LEG); Representative.Grier.Hopkins@akleg.gov
Subject: Concern over $65 million cut proposed by Dunleavy to Retirement
Date: Monday, October 11, 2021 10:11:05 AM

Dear Ms. Jones,

I recently read Dermot Cole's article about Governor Dunleavy and Revenue Commission Lucinda Mohoney's idea to reduce the annual payments by the state to fund the public employee pensions. I believe this is a very short sighted idea and would impact thousands of Alaskans who have paid into and are relying on that pension when they retire. I was unable to attend the public testimony today, but I ask the board reject this idea from the governor.

Thank you
Lili Misel
[redacted]

From: Hannah Etengoff
To: Jones, Alysia D (DOR)
Subject: Please stick with our best practices
Date: Monday, October 11, 2021 10:28:28 AM

Good Morning,

My name is Hannah Etengoff and I am state employee of two years. I am emailing you to ask to not adapt the new proposal to move from actuarial to market rate valuation. A big reason I moved back to Alaska and took a state job was because of our PERs system and the stability our retirement program offers. The new proposal causes me serious concerns and appears to not be recommended by the "best practices"

Thank you for your time and consideration of my position,

Sincerely,

Hannah Etengoff

From: McHattie
To: Jones, Alysia D (DOR)
Subject: Comment for ARM Board
Date: Monday, October 11, 2021 10:34:32 AM

From Robert McHattie
[redacted]

I say NO regarding the following proposal! Must consider market volubility.

> **proposal to reset the values of PERS and TRS retirement funds to their market value from their actuarial value as June 30, 2021**

From:	sharfox@gci.net
To:	Jones, Alysia D (DOR)
Subject:	October 11th Board Meeting
Date:	Monday, October 11, 2021 10:35:13 AM

Members of the Alaska Retirement Management Board

Good morning,

We are 40 year residents of Alaska. For many years we worked for the State of Alaska, contributing to PERS system. It was our plan to be able to retire with those earned funds, without financial stress, to maintain our simple lifestyle. We are now in our 70's, blessed to have grandchildren here in Juneau. Their families are also working hard to support themselves. Jim and I are committed to not becoming an added burden to them. Our matched PERS contributions in the Alaskans Retirement System are essential to that plan.

We are very concerned about the governor’s proposal to reset the values of PERS and TRS retirement funds to their market value from their actuarial value as of June 30, 2021.

The so-called smoothing” process the governor proposed puts the retirement systems at risk. Resetting the value of assets at the peak of a bull market will reduce the required contributions to our PERS and TRS state retirement systems and will negatively affect the tens of thousands of people enrolled in these systems. The conference of Consulting Actuaries states that “the asset smoothing method should not be selectively reset at market value only when market value is greater than actuarial value.”

We understand that the Alaska Municipal League called this plan one that “goes against best practice”. We strongly urge members of the ARM board to veto it.

We appreciate your careful, honest consideration of this proposed plan. We are grateful for your respect of the very real and frightening effect it can have on citizens of Alaska who contributed years of good faith service, and now depend on those earned resources.

Sincerely,

Shar Fox and Jim Simard

From:	sally.schlichting@gmail.com
To:	Jones, Alysia D (DOR)
Subject:	Public comment on the proposal to cut contributions to the state retirement system
Date:	Monday, October 11, 2021 10:39:49 AM

Dear Ms. Jones,

I was unable to call into the ARM Board meeting this morning due to short notice. I would like to voice my opposition to the proposal to reduce the state's contributions to funding state employee pensions, specifically, the proposal to cut $65 million this year, with a total of $3 billion in reduced contributions between now and 2039.   The stock market returns for one year (2020) are not indicative of returns over the next 28 years, not by a longshot.   Furthermore, anyone who pays attention to the news can see that stock markets are extremely sensitive to the whims of geopolitics and other exogenous events which are increasing due to a greater number of unstable regimes, extreme global poverty, refugee crises, and climate change, not to mention pandemics.

There is a guarantee in the constitution that the state will make good on its commitment to fund retirements for state employees (Article 12, Section 7).   When the state allowed the PERS/TRS retirement system to become underfunded in the 1990s, we paid the price for years to come. Don't make the same mistake again.

Sincerely,

Sally Schlichting, future state retiree,
[redacted]

From:	Barbara Ward
To:	Jones, Alysia D (DOR)
Subject:	Proposal to reset TRS/PERS fund values
Date:	Monday, October 11, 2021 10:42:45 AM

To ARM Board Members:

As a retired Alaska teacher, I am adamantly opposed to the Department of Revenue Commissioner Linda Mahoney's proposal to reset the values of PERS and TRS retirement funds to their highest market value from their actuarial value as June 30, 2021. This shortsighted and risky action would reduce contributions to TRS/PERS retirement funds leaving them vulnerable to increased potential for underfunded liabilities. This is an unnecessary risk. There is already a five year smoothing process in place which accomplishes the goal of adjusting for gains and losses, which effectively levels out contributions.

I and most other State of Alaska retirees have a vested interest in maintaining the health of TRS and PERS retirement funds. I urge you to defeat this unnecessary and dangerous proposal. Thank you for your service to our retirement system.

Sincerely,

Barbara Ward
[redacted]

From: Steve Bouta
To: Jones, Alysia D (DOR)
Subject: Proposeded reset of PERS, TERS funds
Date: Monday, October 11, 2021 11:28:48 AM

Alysa, and
The Retirement Management Board,

I write to you regarding the proposal to reset the values of PERS and TRS retirement funds to their market value from their actuarial value.

We all know this is irresponsible, a quick gimmick to make current budget numbers look easier.
We also all know that the funds have been historically underfunded.
This proposed action will only make the problem worse, and pass an increased burden on to future managers.
You have a fiduciary responsibility to reject this proposal.

1) Resetting the value of assets at the peak of the longest bull run in market history seems cynically designed to reduce the required contributions to Alaska's PERS and TRS state retirement systems- for budgetary and political gain.

2) This could potentially lead to future unfunded liabilities by underfunding the retirement systems now.

3) According to he Conference of Consulting Actuaries, "The asset smoothing method should not be selectively reset at market value only when market value is greater than actuarial value."

4) Finally, this kind of gimmick could potentially threaten Alaska's credit rating.

Thanks for your time,
Regards,
Steven Bouta
[redacted]

From: Shgen George
To: Jones, Alysia D (DOR)
Subject: oct 11 board meeting
Date: Monday, October 11, 2021 11:36:11 AM

Members of the Alaska Retirement Management Board

I am a recently retired teacher of 22 years. I taught in both Angoon and Juneau schools. I have made significant decisions about my future after teaching based on TRS retirement systems. It has been drawn to my attention that the Governor proposed a reset of the values of our PERS and TERS funds that would negatively impact those of us enrolled in these systems. Please veto this plan.

Gunalchéesh,
Shgen George

From:	Dianne Holmes
To:	Jones, Alysia D (DOR)
Subject:	For Retirement management board --hearing 9-11-21
Date:	Monday, October 11, 2021 11:46:11 AM

Dear AK Retirement Management Board,

It has come to my attention only in the last day or two about the proposal to move from an actuarial to market value valuation for calculating the retirement fund.

While it is very difficult for an ordinary person to grasp the complexities doing this, or managing the fund at all, it appears that this is not in the long term best interest for managing the fund.

I sincerely hope you will consider what many experts believe are best practices and not simply change procedures based on how well things have performed this year.

From what I'm able to understand, it appears that because this year produced a good 'crop,' some feel we can eat our "seed corn."

Changes in the management of the retirement fund are critical to my family.

Also, I believe there is still a huge debt hanging over the retirement fund because of miscalculations by a management firm some years ago. I feel that debt should be paid off soon, but apparently some legislation a few years ago, simply kicked the can down the road and left future generations to pay it off. Consider if it is possible to reduce that debt.

Sincerely,

Dianne Holmes

ALASKA COUNCIL
OF SCHOOL ADMINISTRATORS

234 Gold Street • Juneau, AK 99801
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Alaska Council of School Administrators

October 10, 2021

Mr. Rob Johnson, Chair
Alaska Retirement Management Board
Department of Revenue
P.O. Box 110405
Juneau, AK 99811

Dear Chair Johnson and Trustees of the Alaska Retirement Management (ARM) Board:

We write today to express concern with the proposal to reset the value of the assets of the PERS/TRS retirement system to the market value as of June 30th, 2021. As you take up this issue, we ask you to consider the potential adverse effects this policy change will likely create.

To begin with, this action contradicts well established best actuarial practice. It needs to be noted that the S&P 500 is experiencing the longest-running bull market in its history. We are likely at or near the peak of tremendous market gains. Essentially this decision by the ARM Board amounts to an effort to 'time the market', which is ill-advised at best and a failure to meet fiduciary responsibilities at worst.

As published by the Conference of Consulting Actuaries Public Plans Community "Actuarial Funding Policies and Practices for Public Pension Plans (2014)", "the asset smoothing method should not be selectively reset at market value only when market value is greater than actuarial value."

Additionally, Actuarial Standard 44 provides reasons for which an actuary would "review the appropriateness of the asset valuation method if an event such as the following has occurred", as follows:

- A significant change in the plan provisions affecting cash flow (such as adding a lump sum payment option, or freezing or terminating the plan), in the actuarial cost method or funding policy, or in participant demographics;

- A significant change in the plan's investment policy (such as adding a new asset class or significantly changing the proportion of assets invested in each class);

- A prolonged significant deviation from market value; or

- Changes in relevant law, regulations, or accounting guidance.

Absent one of these events (which have not occurred), the proposal is imprudent. Further, the State of Alaska’s credit rating would likely be negatively impacted by this action, which is a significant risk given the various downgrades that have occurred due to the deterioration in state finances in recent years. Actuarial maneuvers like this are generally viewed negatively for governments' credit quality because they typically just defer costs.

The core concern is straight forward, in that over time this action likely leads to underfunding PERS/TRS liabilities because it is based on one year of significant market gains. Actuarial practice is based on long term returns, not on timing the market.

To conclude, contribution rates and values determined with a five-year “smoothing” process avoids the inherent risk of market peaks by smoothing out big gains and losses. Resetting the value of assets at the peak of the longest bull run is risky and appears intended to reduce the required contributions to Alaska’s PERS and TRS state retirement systems for budgetary reasons rather than actuarial ones. Such budgetary games have led other states into chronically underfunded pensions, which Alaska has avoided to this point in time, to the benefit of all retirees from the system.

We look forward to an ongoing and robust debate on these vital decisions. Amid the largest teacher/educator shortage and most difficult retention issues for K12 public education in Alaska’s history, it is especially problematic to countenance such significant erosion in retiree security.

Thank you for your consideration.

Best regards,

Elizabeth Shiles Parady

Dr. Lisa S. Parady
ACSA/ASA Executive Director

From: Linda Kruger
To: Jones, Alysia D (DOR)
Subject: October 11 Board Meeting
Date: Monday, October 11, 2021 1:10:05 PM

Members of the Alaska Retirement Management Board

I am a retired Alaska public employee and I live in Juneau. During my state career I paid into the PERS retirement system and I am now collecting my state retirement. I am concerned about the governor's proposal. Please veto it! The proposed change would put our retirement at risk. Resetting the value of assets now would negatively affect tens of thousands of enrollees who are dependent on these funds in their golden years. The proposal goes against best practices. Not a good plan! Please keep our state retirees in mind!

Linda Kruger
[redacted]

[redacted]

[redacted]

From: John Klapproth
To: Jones, Alysia D (DOR)
Subject: Reduction of payments to the retirement system
Date: Monday, October 11, 2021 1:34:29 PM

Ms. Jones, thank you for taking my call and promising to submit my written statement to the Board of Trustees meeting. I'd appreciate hearing back that my comments were received.

To the Board,

I spent 22 years walking the tiers of Alaska's maximum-security prison. 22 years of dealing with society's worst. Those 22 years earned my pension for me. That pension, along with the savings my wife and I put aside, ensure that I will never be a financial drag on the state or my family. I am opposed to any kind of proposals that might put my pension at risk.

And I believe that the proposal now before you, to cut annual contributions to the retirement system is just such a risk. The Governor may believe that there are some short-term benefits to these cuts but the long-term risks to our retirement funds is enormous. You are gambling that the investment markets will stay up, but we all know that is not ever guaranteed. A few bad years and it's our retirement funds on the chopping block. Other states and companies have had huge problems with this, and pensions have been decreased or lost completely, leaving retirees destitute.

I am asking that you do not try to "fix" something that isn't broken. Leave the contributions as they are and ensure the viability of our retirement system's future. Please remember that you and our Governor are only here for the short time and unless you individually are under the state retirement system, you won't be affected by any future shortfalls the retirement system might encounter under this proposal. We, the retired employees of the State of Alaska ARE here for the long haul, and we will be the ones directly impacted by the future of our retirement system.

Please do not take the short-sighted view the governor hopes you will. Please maintain the current and proper levels of contributions to the public employee's retirement funds. It is my future, and that of my family, along with every other retiree and their families, that you put at risk. Please do not do that. Thank you.

John S Klapproth
[redacted]

P.S. Ms. Jones, I am including my phone number should anyone on the board wish to contact me, but I request it not be made part of the public record.

John Klapproth, a.k.a. AKsailor

From: Margaret Wiedeman
To: Jones, Alysia D (DOR)
Subject: My retirement
Date: Monday, October 11, 2021 1:48:28 PM

I am opposed to the proposal to resettle the market value of assets in the TRS at this time, for many sound financial reasons that I am certain you know.

Margaret Tift Wiedeman

From: Sharon John
To: Jones, Alysia D (DOR)
Subject: Follow accepted practice - do NOT short-fund retirement accounts!
Date: Monday, October 11, 2021 2:09:50 PM

I am a registered voter in Anchorage Alaska and i am also a retired teacher. Governor Dunleavy’s plan to cut funding to Alaska retirement plans and other funds so that he can provide a large PFD is short-sighted. He will guarantee the end of the PFD by over-distributing. Maybe he will even be personally liable, as he was in the lamebrained loyalty pledges he required as a newly elected governor. You and the governor should follow accepted accounting practice and use a five-year average of earnings to make budgeting decisions.

Sincerely,
Sharon D John

Sent from my iPhone

From: Tom Reimer
To: Jones, Alysia D (DOR)
Subject: Governor Dunleavy short sighted plan is foolish.
Date: Monday, October 11, 2021 2:27:48 PM

A copy of this has been sent to both my senator and my representative.

To the Board,

I spent 27 years walking the tiers of Alaska's maximum-security prison. 27 years of dealing with society's worst. Those 27 years earned my pension for me. That pension, along with the savings my wife and I put aside, ensure that I will never be a financial drag on the state or my family. I am opposed to any kind of proposals that might put my pension at risk.

And I believe that the proposal now before you, to cut annual contributions to the retirement system is just such a risk. The Governor may believe that there are some short-term benefits to these cuts but the long-term risks to our retirement funds is enormous. You are gambling that the investment markets will stay up, but we all know that is not ever guaranteed. A few bad years and it's our retirement funds on the chopping block. Other states and companies have had huge problems with this, and pensions have been decreased or lost completely, leaving retirees destitute.

I am asking that you do not try to "fix" something that isn't broken. Leave the contributions as they are and ensure the viability of our retirement system's future. Please remember that you and our Governor are only here for the short time and unless you individually are under the state retirement system, you won't be affected by any future shortfalls the retirement system might encounter under this proposal. We, the retired employees of the State of Alaska ARE here for the long haul, and we will be the ones directly impacted by the future of our retirement system.

Please do not take the short-sighted view the governor hopes you will. Please maintain the current and proper levels of contributions to the public employee's retirement funds. It is my future, and that of my family, along with every other retiree and their families, that you put at risk. Please do not do that. Thank you.

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