State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Relating to a Change in Actuarial Methodology for the
Public Employees' Retirement System and Teachers' Retirement System
Valuation Reports

Resolution 2024-05

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. 220(a)(2) and (3), the Board is to establish and determine the investment objectives and policy for the funds of the Public Employees' Retirement System and Teachers' Retirement System; and

WHEREAS, AS 37.10.210(a) and AS 37.10.071(c) require the Board to apply the prudent investor rule and exercise its fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries with impartiality;

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;

WHEREAS, Buck and GRS discussed an actuarial methodology change related to employer contributions and the interest accrual for the fiscal year, which impacts the normal cost and the unfunded liability amortization amounts that are determined at the beginning of a fiscal year and accrue a full year's interest;

WHEREAS, Buck and GRS determined that the methodology related to the interest accrual on the employer contributions that are received over the course of the fiscal year should be modified as there is a loss of ½ years' worth of interest, which is a contribution timing loss that is separately amortized over a 25-year;

WHEREAS, Buck proposes changing the actuarial methodology that is used to determine employer contributions by (i) adding a ½ year interest adjustment to the Normal Cost and unfunded liability amortizations that are used to calculate the actuarially determined contribution rates for Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS); and (ii) backing out the ½ year interest adjustment when calculating the Additional State Contributions since they are generally contributed at the beginning of each fiscal year, thereby allowing the systems to fund the ½ year interest loss from the employer contributions in the year the loss occurs, rather than funding the loss over 25-years;

NOW THEREFORE BE IT RESOLVED BY THE ALASKA RETIREMENT MANAGEMENT BOARD, that the Board adopt the actuarial methodology change related to the employer contribution interest accrual as described.

DATED at Anchorage, Alaska this 12th day of June, 2024.

Chair

ATTEST:

Secretary

State of Alaska Retirement Systems

Presentation to ARMB Actuarial Committee

Proposed Change in Methodology for Calculating Contribution Rates for PERS and TRS

June 11, 2024

Background

- PERS and TRS are funded by investment income and member/employer/State contributions.
- Member contributions are set by Alaska Statutes.
- Employer and State contributions are determined as follows:
    - PERS non-State employers contribute 22% of total pay. TRS employers contribute 12.56% of total pay. A portion of these employer contribution rates are deposited to the DCR trusts, and the remainder is deposited to the DB trusts.
    - The Additional State Contributions are based on the excess of the actuarially determined contributions for the DB plans over the employer contributions deposited to the DB trusts.
    - Per SB 55 which became effective July 1, 2021, the State pays the actuarially determined contributions for PERS based on the payroll of State employees.

Background (cont’d)

- Timing of employer and State contributions deposited to the DB trusts:
  - Employer contributions – throughout the fiscal year every payroll period
  - Additional State Contributions – generally at the beginning of the fiscal year
- The costs for the year (Normal Cost and unfunded liability amortization amounts) are determined at the beginning of the fiscal year, so they accrue interest for the full year.
- Because the employer contributions are not contributed at the beginning of the year, there is a loss of ½ year’s worth of interest each year.
  - Based on the layered amortization method that was adopted in 2018, each of these “contribution timing” losses is separately amortized (funded) over a 25-year period.
  - This extends the year in which the DB pension trusts are projected to reach 100% funding*.

* The DB healthcare trusts are projected to remain above 100% funded assuming no future adverse experience, so we have focused on the DB pension trusts in this presentation.

Proposed Change in Methodology

- We propose changing the methodology that is used to determine employer contributions:
  - Add a ½ year interest adjustment to the Normal Cost and unfunded liability amortizations that are used to calculate the actuarially determined contribution rates for PERS and TRS.
  - Since the Additional State Contributions are deposited to the DB trusts at the beginning of the year, the ½ year interest adjustment would be backed out when calculating the Additional State Contributions.
  - **In effect, we will be funding the ½ year interest loss from employer contributions in the year the loss occurs, rather than funding the loss over 25 years.**
- Impact of making this change:
  - — The actuarially determined contribution rates for the current year will be ***increased***.
  - — The pension trusts will be projected to reach 100% funding ***sooner***.

Impact of Proposed Change – FY26 and Beyond

- Estimated impact of the proposed change in methodology (assuming post-6/30/23 experience matches the assumptions):
    - Slide 6: FY26 contribution rates
    - Slides 7 and 8: State contributions for FY26-FY39
    - Slide 9: Pension funded ratios
- FY26 contribution rates on slide 6 are expressed as a percentage of projected total payroll (DB/DCR).

Impact on FY26 State DB Contributions
($000's)

The color-shaded cells highlight the NC rates and amortization rates that are increased by ½ year of interest.

		PERS				TRS	
		Non-State Employers		State as Employer			
		Current	Proposed	Current	Proposed	Current	Proposed
1.	DB/DCR Payroll	$ 1,306,175	$ 1,306,175	$ 1,292,661	$ 1,292,661	$ 767,012	$ 767,012
2.	Pension Normal Cost Rate						
2a.	• Total	3.72%	3.85%	3.72%	3.85%	4.58%	4.74%
2b.	• Member Rate	(1.71%)	(1.71%)	(1.71%)	(1.71%)	(2.53%)	(2.53%)
2c.	• Employer Rate [2a + 2b]	2.01%	2.14%	2.01%	2.14%	2.05%	2.21%
3.	Healthcare Normal Cost Rate	1.90%	1.97%	1.90%	1.97%	2.07%	2.15%
4.	Total Normal Cost Rate [2c + 3]	3.91%	4.11%	3.91%	4.11%	4.12%	4.36%
5.	Unfunded Liability Amortization Rate	18.27%	18.92%	18.27%	18.92%	20.82%	21.57%
6.	DB Contribution Rate [4 + 5]	22.18%	23.03%	22.18%	23.03%	24.94%	25.93%
7.	DCR Contribution Rate	6.90%	6.90%	6.90%	6.90%	7.65%	7.65%
8.	DB/DCR Contribution Rate [6 + 7]	29.08%	29.93%	29.08%	29.93%	32.59%	33.58%
9.	Statutory Employer Contribution Rate	22.00%	22.00%	n/a	n/a	12.56%	12.56%
10.	Additional State Contribution Rate						
10a.	• Before back out 1/2 year interest adjustment	7.08%	7.93%	n/a	n/a	20.03%	21.02%
10b.	• After back out 1/2 year interest adjustment	n/a	7.66%	n/a	n/a	n/a	20.30%
11.	State DB Contribution	$ 92,477	$ 100,053	$ 286,712	$ 297,699	$ 153,633	$ 155,703
	• **Increase**		**$ 7,576**		**$ 10,987**		**$ 2,070**

Impact on Projected Additional State Contributions
($000's)

	PERS			TRS		
Fiscal Year	**Current**	**Proposed**	**Incr/(Decr)**	**Current**	**Proposed**	**Incr/(Decr)**
2026	$ 92,477	$ 100,053	$ 7,576	$ 153,633	$ 155,703	$ 2,070
2027	105,622	112,453	6,831	168,992	170,776	1,784
2028	108,660	114,748	6,088	172,484	173,897	1,413
2029	112,308	117,649	5,341	176,420	177,613	1,193
2030	115,980	120,575	4,595	180,658	181,627	969
2031	119,881	123,717	3,836	184,947	185,849	902
2032	124,298	127,496	3,198	189,609	190,193	584
2033	128,684	131,368	2,684	194,454	194,879	425
2034	133,352	135,220	1,868	199,377	199,725	348
2035	137,944	139,118	1,174	204,588	204,854	266
2036	142,443	142,893	450	209,982	209,982	-
2037	147,706	147,247	(459)	215,656	215,563	(93)
2038	152,473	151,533	(940)	221,432	221,242	(190)
2039	157,817	155,893	(1,924)	227,480	227,092	(388)
Total	**$ 1,779,645**	**$ 1,819,963**	**$ 40,318**	**$ 2,699,712**	**$ 2,708,995**	**$ 9,283**

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

Fiscal Year	Current	Proposed	Incr/(Decr)
2026	$ 286,712	$ 297,699	$ 10,987
2027	297,596	308,387	10,791
2028	298,900	308,986	10,086
2029	301,455	310,838	9,383
2030	304,608	313,437	8,829
2031	308,601	316,737	8,136
2032	313,309	321,016	7,707
2033	318,592	325,861	7,269
2034	324,526	331,068	6,542
2035	331,272	337,372	6,100
2036	338,325	343,815	5,490
2037	346,339	351,040	4,701
2038	354,365	358,707	4,342
2039	363,320	366,970	3,650
Total	**$ 4,487,920**	**$ 4,591,933**	**$ 104,013**

Impact on Projected Pension Funded Ratios

	PERS		TRS	
	6/30/39	**FY Reach 100%**	**6/30/39**	**FY Reach 100%**
Current	92%	FY83*	95%	FY52
Proposed	94%	FY51	96%	FY51

* Reflects a change in the amortization period to 15 years beginning in FY61 and 5 years beginning in FY71.

Actuarial Certification

The purpose of this presentation is to provide the ARMB Actuarial Committee with details regarding a proposed change to the methodology that is used to project contribution rates for PERS and TRS.

All calculations are based on the data, assumptions, methods, and plan provisions described in the June 30, 2023 actuarial valuation reports, except as noted in this presentation. The June 30, 2023 actuarial valuation reports contain disclosures required by Actuarial Standards of Practice.

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 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.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the actuarial assumptions, changes in assumptions, changes 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 Bob Besenhofer, 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.

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BUCK

A Gallagher Company