

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Relating to Teachers' Retirement System and Public Employees'
Retirement System Eligibility for Retirement and Medical Benefits
12-Month Employment Requirement and HRA Interest
Resolution 2025-01

WHEREAS, the Alaska Retirement Management Board ("ARMB") was established under AS 37.10.210(a) to serve as trustee to the assets of the State's retirement systems; and

WHEREAS, under AS 37.10.210(a), ARMB, consistent with the standards of prudence, serves as a fiduciary for all the systems, plans, programs and trusts it is responsible for managing under Alaska law; and

WHEREAS, under AS 37.10.390(4) the retirement systems ARMB is responsible for managing include the defined contribution system for the Public Employees' Retirement System ("PERS," AS 39.35.700 – 39.35.990), the defined contribution system for the Teachers' Retirement System ("TRS," AS 14.24.310 – 14.25590), and the Teachers' and Public Employees' Retiree Health Reimbursement Arrangement Plan ("HRA Plan," AS 39.30.300 – 495); and

WHEREAS, under AS 39.35.870(a)(2) and AS 14.25.470(a)(2), employees in PERS and TRS employees are required to (1) have been an active member of PERS or TRS for at least 12 months before application for retirement, (2) reach normal retirement age, and (3) have at least 10 years of membership service to obtain medical benefits in either of the defined contribution ("DC") systems; and

WHEREAS, under AS 39.35.870(b) and 14.25.470(b), "normal retirement age" is defined as the "age set for Medicare eligibility at the time the member retires;" and

WHEREAS, under AS 39.30.390, failure to meet the requirements set out in AS 14.25.470(a)(2) and AS 39.35.870(a)(2) also renders employees ineligible for benefits accumulated under the HRA Plan; and

WHEREAS, ARMB recognizes that members who retire before reaching Medicare eligibility (typically age 65) must pay the full premium costs of the DC systems Retiree Healthcare Plan with personal funds or by applying their HRA Plan account balances; and

WHEREAS, ARMB recognizes that the removal of the 12-month employment requirement would improve the efficiency and utility of members' HRA Plan accounts, allowing members to defer enrollment and strategically manage their HRA Plan account balances to cover full premiums before Medicare eligibility or the reduced premiums after Medicare eligibility; and

WHEREAS, ARMB recognizes the current statutory scheme's 12-month employment requirement imposes unnecessary rigidity on members who have already met the eligibility criteria through years of service, penalizing those who leave employment but are not yet ready to enroll in the plan, forcing them to either delay retirement or seek temporary re-employment to meet the eligibility criteria; and

WHEREAS, ARMB recognizes that a member may terminate employment before meeting eligibility requirements and return to work prior to reaching 65 and complete the eligibility requirements. Interest should be applied to the HRA account for all years; and

WHEREAS, ARMB, as a fiduciary, is compelled to bring attention to the potential detriments to the retirement outcomes of the members it serves; and

WHEREAS, ARMB recognizes that legislation is required to correct any inefficiency or unintended constraints associated with the outcomes dictated by 14.25.470(a)(2) and AS 39.35.870(a)(2); and

WHEREAS, ARMB recognizes that in its role as a fiduciary it may recommend legislation to those branches of government responsible for enacting laws; and

WHEREAS, ARMB has authored a recommendation as to potential changes to 14.25.470(a)(2) and AS 39.35.870(a)(2) summarized in Attachment 1 to this Resolution 2025-01.

NOW THEREFORE BE IT RESOLVED BY THE ALASKA RETIREMENT MANAGEMENT BOARD, that ARMB adopts the recommendations set out in Attachment 1 related to the restructuring of 14.25.470(a)(2) and AS 39.35.870(a)(2) and revisions to AS 39.30.380.

DATED at Juneau, Alaska this 12 day of March, 2025.


Chair

ATTEST:


Secretary

Proposed Removal of 12-month Employment Requirement in TRS and PERS Statutes

The Alaska Retirement Management Board strongly recommends that the Executive and Legislative branches of the Alaska State Government enact the following statutory changes to clarify eligibility requirements for the Defined Contribution (DC) healthcare system. The Board recommends the removal of the statutory language that predicates a member's eligibility to retire on having been an active member for at least 12 months immediately before application for retirement.

Below are the statutes under consideration for amendment.

Words in **boldface and underlined** indicate language being added; words [CAPITALIZED AND BRACKETED] indicate language being deleted.

Teachers' Retirement System (TRS) Statute: Sec. 14.25.470(a)

Sec. 14.25.470. Eligibility for Retirement and Medical Benefits.

(a) In order to obtain medical benefits under AS 14.25.480, **an active or inactive member must have met the membership service requirements.** [A MEMBER MUST RETIRE DIRECTLY FROM THE PLAN.] A member is eligible to retire from the plan if [THE MEMBER HAS BEEN AN ACTIVE MEMBER FOR AT LEAST 12 MONTHS BEFORE APPLICATION FOR RETIREMENT AND]

(1) the member has at least 30 years of service; or

(2) the member reaches the normal retirement age, [AND] has at least 10 years of service, **and was an active member in the DCR Plan for at least 12 months immediately before his or her application for retirement.**

(b) The normal retirement age is the age set for Medicare eligibility at the time the member retires.

(c) A member's surviving spouse is eligible to elect medical benefits under AS 14.25.480 if the member had retired, or was eligible for retirement and medical benefits at the time of the member's death.

(d) A member shall apply for retirement and medical benefits on the forms and in the manner prescribed by the administrator.

(e) Participation in the retiree major medical insurance plan is not required in order to participate in the health reimbursement arrangement.

(f) A person eligible for retirement and medical benefits is not required to participate in the health reimbursement arrangement in order to elect participation in the retiree major medical insurance plan.

(g) An eligible person shall make the irrevocable election to participate or not participate in the retiree major medical insurance plan by reaching 70 1/2 years of age, or upon application for retirement and medical benefits, whichever is later.

Public Employees' Retirement System (PERS) Statute: Sec. 39.35.870(a)

Sec. 39.35.870. Eligibility for Retirement and Medical Benefits.

(a) In order to obtain medical benefits under AS 39.35.880, an active [MEMBER MUST HAVE RETIRED DIRECTLY FROM THE PLAN.] **or inactive member must have met the membership service requirements.** A member is eligible to retire from the plan if [THE MEMBER HAS BEEN AN ACTIVE MEMBER FOR AT LEAST 12 MONTHS BEFORE APPLICATION FOR RETIREMENT AND]

(1) the member has at least 25 years of membership service as a peace officer or firefighter or at least 30 years of membership service for all other employees; or

(2) the member reaches the normal retirement age, [AND] has at least 10 years of membership service, **and was an active member in the DCR Plan for at least 12 months immediately before his or her application for retirement.**

(b) The normal retirement age is the age set for Medicare eligibility at the time the member retires.

(c) A member's surviving spouse is eligible to elect medical benefits under AS 39.35.880 if the member had retired, or was eligible for retirement and medical benefits at the time of the member's death.

(d) Members shall apply for retirement and medical benefits on the forms and in the manner prescribed by the administrator.

(e) Participation in the retiree major medical insurance plan is not required in order to participate in the health reimbursement arrangement.

(f) A person eligible for retirement and medical benefits is not required to participate in the health reimbursement arrangement in order to participate in the retiree major medical insurance plan.

(g) An eligible person must make the irrevocable election to participate or not participate in the retiree major medical insurance plan by reaching 70 1/2 years of age, or upon application for retirement and medical benefits, whichever is later."

Sec. 39.30.380 Termination of employment.

A person who terminates employment before meeting the eligibility requirements of AS 14.25.470 or AS 39.35.870 loses any right to the contributions made on behalf of the person to the teachers' and public employees' retiree health reimbursement arrangement trust fund. If a person returns to employment with a participating employer by December 31 of the year in which the person reaches 65 years of age, the person's account balance shall be restored in the amount recorded on the date of termination from the trust, **and interest payments applied for years after termination** [ADJUSTED FOR INFLATION AT THE RATE OF THE CONSUMER PRICE INDEX FOR ANCHORAGE, ALASKA]. The earlier period of employment with a participating employer shall be credited toward eligibility for medical benefits.

Rationale for Removing the 12-Month Employment Requirement

1. Enhancing Flexibility for Members with Sufficient Years of Service

- The Division of Retirement and Benefits is considering allowing members with the requisite years of service to defer enrollment in the DC Retired Healthcare Plan if they choose. However, this is not yet certain, as current statutes explicitly require members to retire directly into the plan and to have been employed within the previous 12 months.
- Proposed statutory changes would provide greater flexibility by allowing members with the requisite years of service, who have left employment, to gain access to the DC Retired Healthcare Plan without needing to return to covered employment for 12 months.
- The 12-month employment requirement imposes unnecessary rigidity on members who have already met the eligibility criteria through years of service. It penalizes those who leave employment but are not yet ready to enroll in the plan, forcing them to either delay retirement or seek temporary re-employment to meet the eligibility criteria. Removing this requirement would grant members greater flexibility to manage their retirement transitions without the need for redundant employment.

2. Allowing Strategic Use of the Health Reimbursement Arrangement (HRA)

- Members who retire before reaching Medicare eligibility (typically age 65) must pay the full premium costs of the DC Retired Healthcare Plan. They may do so using their personal funds or by applying their Health Reimbursement Arrangement (HRA) account balances.
- Removing the 12-month employment requirement would give members the ability to defer enrollment and strategically manage their HRA account balances. For example, members could choose to preserve their HRA funds to cover reduced premiums after reaching Medicare eligibility, when the plan becomes secondary to Medicare. Alternatively, they might use their HRA account to offset some or all of the full premium costs during the years before they become Medicare-eligible. This flexibility allows members to align their healthcare spending with their broader retirement planning goals.

3. Aligning Policy with the Maturing Plan Population

- Since the DC Retired Healthcare Plan's creation in 2006, no members have yet reached the 25 or 30 years of service typically required for retirement eligibility. While a few members have retired into the plan by reaching the Medicare age threshold, the plan has not yet faced the widespread application of its provisions to a larger, eligible population.
- Addressing the 12-month requirement now, before a significant number of members become eligible for retirement, ensures clarity, fairness, and consistent application of the plan's rules. Proactively revising these provisions will prevent confusion that might arise as more members approach eligibility.