State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Actuarial Amortization Policy
Resolution 2025-04

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, ARMB is required under AS 37.10.220 to exercise certain powers and duties as fiduciary of the retirement systems; and

WHEREAS, one of the duties statutorily prescribed to ARMB set out in AS 37.10.220(a)(8)(B) relates to the annual setting of an appropriation rate for liquidating past service liability; and

WHEREAS, the legislature amended AS 37.10.220(a)(8)(B) in 2014 to read that ARMB "shall 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...(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."

WHEREAS, after the implementation of the 2014 legislative amendments to AS 37.10.220(a)(8)(B), ARMB consulted advisors and consultants to determine the meaning of AS 37.10.220(a)(8)(B) to determine whether the amended statute allowed for actuarial layering of past service liability for future unfunded liabilities; and

WHEREAS, based on its review and consideration, ARMB adopted actuarial layering as a practice it could use based on an annual review of whether it was necessary for any given year; and

WHEREAS, ARMB, in consultation with its actuarial advisors, finds that utilizing an amortization period of less than 25 years for implementing actuarial layering is in line with industry best practices; and

WHEREAS, ARMB's policy regarding actuarial layering and conclusions as to why amortization periods of less than 25 years fit within actuarial best practices that should be employed by ARMB are summarized in Attachment 1 to Resolution 2025-04.

NOW THEREFORE BE IT RESOLVED BY THE ALASKA RETIREMENT MANAGEMENT BOARD, that ARMB reasserts the policy set out in Attachment 1 with respect actuarial layering and adopts its conclusion related to using amortization terms of less than 25 years.

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

Chair

ATTEST:

Michael Williams

Secretary

Attachment 1

Executive Summary: Amortization of Unfunded Liability for TRS and PERS[1]

The Alaska Retirement Management Board (ARMB) is committed to ensuring the financial stability and sustainability of Alaska's Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS). A key element of this responsibility is the careful management and amortization of unfunded liabilities. This commitment reflects the ARMB's dedication to addressing these obligations in a timely and responsible manner, in alignment with actuarial best practices.

Historically, the ARMB has taken a proactive approach to reducing unfunded liabilities, understanding the importance of addressing these obligations promptly to protect the systems' financial health. Delaying the repayment of debt can impose unnecessary burdens on future budgets and participants, and the ARMB has prioritized policies that avoid deferring financial responsibilities too far into the future.

To this end, the ARMB has adopted a flexible approach that allows for the layering of new unfunded liabilities with amortization periods of less than 25 years when appropriate. This practice aligns with actuarial recommendations and helps ensure that obligations are addressed within a timeframe that balances fiscal discipline with manageable funding requirements.

By maintaining this approach, the ARMB reinforces its commitment to retiring unfunded liabilities in a timely manner, safeguarding the stability of TRS and PERS and maintaining trust among stakeholders. This strategy supports the long-term financial integrity of the retirement systems while ensuring that future generations are not disproportionately burdened by today's liabilities.

Alaska's Pension Unfunded Liability Amortization Policies and Changes

Alaska's Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) have undergone significant changes in the amortization policies for their unfunded liabilities. These changes reflect efforts to manage the pension systems responsibly, balance immediate fiscal pressures, and ensure long-term sustainability. The decisions include legislative interventions, funding strategy shifts, and interpretations of statutory responsibilities by the ARMB.

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[1] The ARMB adopted Resolution 2025-04 on March 12, 2025. After adoption, inaccuracies were discovered in the payroll growth data found at pages 4 and 5 of this Attachment 1. While those inaccuracies did not change any of the conclusions made in the resolution, the ARMB sought to correct the errors to provide full transparency. On June 17, 2025, the ARMB passed an amendment to Resolution 2025-04 to correct the payroll growth rates. As a result, this amended attachment replaced the prior attachment and now contains the correct payroll growth assumptions data.

1. Initial Amortization Policies: 2006–2012

- **Original Plan to Pay Off by 2030**:
  - In 2006, the ARMB began managing PERS and TRS. The ARMB adopted a level-percent-of-payroll method with a 25-year amortization schedule.

2. Legislative Relief for Municipalities and School Districts: 2007–2008

- **2007 Temporary Caps**:
  - Employer contribution rates surged, creating significant strain on municipalities and school districts:
    - Fairbanks faced PERS rates of 180.94% of payroll in FY 2008.
    - Anchorage School District saw TRS rates rise from 26% in FY 2007 to 54.03% in FY 2008.
  - The legislature capped employer contributions at 22% for PERS and 12.56% for TRS, with the state temporarily covering the shortfall between these caps and the actuarially required contributions.
- **2008 Permanent Caps**:
  - These caps were made permanent, ensuring municipalities and school districts were protected from unsustainable contribution rates. The state assumed responsibility for the shortfall between capped contributions and actuarially required amounts, relieving local governments of excessive financial burdens.

3. Transition to Level-Dollar Amortization in 2012

- **Accelerating Unfunded Liability Reduction**:
  - In 2012, the ARMB adopted the level-dollar amortization method, requiring fixed annual payments to reduce pension unfunded liabilities more aggressively. This approach minimized long-term interest costs while retaining the 2030 payoff target for the pension systems' unfunded liabilities.

4. Comparison of Level-Dollar and Level-Percent-of-Payroll Amortization

The following table shows the differences between level-dollar and level-percent-of-payroll amortization for a $1 million unfunded liability in Alaska's pension systems, assuming a 7.25% interest rate and 2.75% annual payroll growth:

Year	Level Dollar Liability	Amortization Payment	Level Percent Liability	Amortization Payment
1	$1,000,000	$82,000	$1,000,000	$64,000
2	$985,000	$82,000	$1,004,000	$66,000
3	$968,000	$82,000	$1,007,000	$67,000
4	$951,000	$82,000	$1,007,000	$69,000
5	$932,000	$82,000	$1,006,000	$71,000
6	$912,000	$82,000	$1,003,000	$73,000
7	$890,000	$82,000	$997,000	$75,000
8	$867,000	$82,000	$989,000	$77,000
9	$842,000	$82,000	$978,000	$79,000
10	$815,000	$82,000	$964,000	$81,000
11	$787,000	$82,000	$946,000	$84,000
12	$756,000	$82,000	$925,000	$86,000
13	$723,000	$82,000	$900,000	$88,000
14	$688,000	$82,000	$870,000	$91,000
15	$650,000	$82,000	$836,000	$93,000
16	$609,000	$82,000	$796,000	$96,000
17	$566,000	$82,000	$751,000	$98,000
18	$519,000	$82,000	$700,000	$101,000
19	$469,000	$82,000	$642,000	$104,000
20	$415,000	$82,000	$577,000	$107,000
21	$357,000	$82,000	$505,000	$110,000
22	$296,000	$82,000	$424,000	$113,000
23	$229,000	$82,000	$333,000	$116,000
24	$158,000	$82,000	$233,000	$119,000
25	$82,000	$82,000	$122,000	$122,000

5. Key Takeaways:

1. Payments under level-percent-of-payroll are lower in the first 10 years but increase significantly in later years.
2. Level-percent-of-payroll amortization results in negative amortization during the early years, where payments are insufficient to cover interest. This temporarily increases the unfunded liability before it starts to decrease.
3. Total costs over 25 years are approximately 10% higher under level-percent-of-payroll due to deferred payments.
4. Level-percent-of-payroll amortization assumes that covered payroll will grow each year. Because contributions are calculated as a constant percentage of pay, larger future payrolls translate into larger dollar payments, allowing the unfunded liability to be retired without raising the stated contribution rate. However, when the assumed payroll growth exceeds actual growth for an extended period, those larger dollar contributions never materialize, effectively pushing a portion of the unfunded liability payment schedule into the future.

   The table below compares assumed payroll assumptions with the actual year-over-year payroll changes reported for each system.

FY Ending June 30	Valuation Assumptions			Actual Payroll Increases	
	Inflation	Payroll Growth	Basis Point Difference	PERS DB & DCR	TRS DB&DCR
2006	3.50%	4.00%	50	n/a	n/a
2007	3.50%	4.00%	50	7.69%	1.63%
2008	3.50%	4.00%	50	4.09%	3.73%
2009	3.50%	4.00%	50	6.60%	6.79%
2010	3.12%	3.62%	50	5.65%	5.83%
2011	3.12%	3.62%	50	2.83%	1.84%
2012	3.12%	0.00%	n/a	3.19%	1.68%
2013	3.12%	0.00%	n/a	3.16%	-0.87%
2014	3.12%	3.62%	50	-1.70%	-2.00%
2015	3.12%	3.62%	50	0.16%	3.58%
2016	3.12%	3.62%	50	1.17%	0.23%
2017	3.12%	3.62%	50	-0.72%	0.43%
2018	2.50%	2.75%	25	-1.03%	-1.98%
2019	2.50%	2.75%	25	3.53%	-1.76%
2020	2.50%	2.75%	25	1.10%	2.13%
2021	2.50%	2.75%	25	1.42%	1.25%
2022	2.50%	2.75%	25	1.46%	1.15%
2023	2.50%	2.75%	25	6.01%	-0.61%
2024	2.50%	2.75%	25	8.18%	3.32%

Actual Payroll Increases		
Averages	**PERS DB&DCR**	**TRS DB&DCR**
6/30/06 to 6/30/24		
· Geometric	2.89%	1.44%
· Arithmetic	2.93%	1.47%
6/30/14 to 6/30/24		
· Geometric	2.09%	0.76%
· Arithmetic	2.13%	0.77%

* The payroll growth assumptions shown here are those used to amortize unfunded liability as a level percent of pay. A payroll growth rate of 0% indicates level dollar amortization was used.

6. 2014 Legislative Changes

- **Reversion to Level-Percent-of-Payroll**:
    - In 2014, the legislature reinstated the level-percent-of-payroll method, lowering near-term contributions but deferring substantial costs to later years.
- **Extension to 2039**:
    - The amortization period was extended from 2030 to 2039, spreading payments over nine additional years. While this provided immediate budget relief, it accrued more interest, increasing the total cost.
- **$3 Billion Infusion**:
    - The legislature also contributed $3 billion to the pension systems to bolster funding:
        - The PERS Pension funding ratio increased from 59.5% to 67%.
        - The TRS Pension funding ratio increased from 53.3% to 76.9%.
    - This one-time infusion significantly improved funding ratios for the pension system.

7. Trade-Offs of Level Percent of Payroll and Longer Amortization Period (2014 Change)

The 2014 shift to level-percent-of-payroll and the extension of the amortization period to 2039 brought both advantages and disadvantages for managing Alaska's pension unfunded liabilities:

- **Advantages**:

    1. **Immediate Budget Relief**:

        - Lower payments avoided significant short-term budget reallocations or cuts, providing fiscal flexibility.

2. **Political Feasibility**:

   - Lower annual contributions made the funding schedule more acceptable to legislators and local governments.

- **Disadvantages**:

  1. **Higher Long-Term Cost**:

     - Extending the timeline and implementing the level percent of payroll approach accrued more interest, increasing the total cost of repayment.

  2. **Deferred Liability**:

     - The structure deferred a significant portion of the cost of the unfunded liability to the more distant future.

  3. **Slower Funded Ratio Improvement**:

     - The slower reduction in unfunded liabilities by extending the timeline and applying level percent of pay delayed the progress toward improving Alaska's pension funding ratios.

The 2018 Institute of Social and Economic Research (ISER) report highlighted critical details about the legislative changes made in 2014, stating:

> "Both of the latter changes (stretched-out amortization periods and level-percent of pay methodology) were added in a bill—House Bill 385—that went from introduction to passage in both houses in less than two weeks at the end of the session. … Both of those changes also reduce the short-term cost of paying off the unfunded liabilities while increasing the total costs. David Slishinsky, of the state's principal actuary, Buck Consultants, told the Alaska Retirement Management Board that the legislative changes in 2014 added $5 billion to total retirement costs, and also said the unfunded liability would actually increase for the first eight years of the new regime. Kris Erchinger, a trustee of the Alaska Retirement Management Board who also served as the City of Seward's finance director, pointed out at a meeting of the board that the $1 billion appropriation to PERS 'reduced the [s]tate assistance by $42 million a year and the House Bill 385 changes [re-started amortization schedule and level percent of pay] reduced the [s]tate assistance by $302 million a year.'"

This direct quote from the 2018 ISER report underscores the trade-offs inherent in the 2014 legislative decision, highlighting the balancing act between immediate fiscal relief and the significant long-term costs and liabilities that were deferred to future years.

The funding ratios for PERS and TRS pensions show relatively flat funding ratios since the $3 billion infusion in 2015.

Funded Ratios - PERS and TRS

30-Jun	PERS - Pension	TRS - Pension
2006	78.2%	67.8%
2007	77.8%	68.2%
2008	78.8%	70.2%
2009	63.0%	57.0%
2010	62.4%	54.3%
2011	61.9%	54.0%
2012	57.1%	49.9%
2013	54.5%	48.1%
2014	59.7%	54.5%
2015	67.0%	76.9%
2016	66.4%	75.8%
2017	66.7%	75.9%
2018	64.6%	76.2%
2019	63.7%	75.3%
2020	63.6%	75.0%
2021	67.9%	79.1%
2022	68.1%	78.2%
2023	67.0%	76.8%

8. Adoption of Layered Amortization in 2018

- The Level Percent of Payroll method, by design, defers larger payments to the later years of the amortization period, intensifying financial pressures as the deadline approaches.
- The adopted 2016 ARMB Valuation Reports projected escalating state assistance payments for unfunded liabilities on behalf of municipalities and school districts, with State of Alaska contributions rising from $383 million in 2021 to $808 million by 2039.
- These payments are in addition to the State's obligations for its own employees and assume that investment return targets are achieved and predicted benefit costs remain accurate. However, if a market downturn occurred in the final years before 2039, the resulting contribution requirements could become much higher.
- In 2018, the ARMB recognized the need for greater flexibility and considered implementing a layered amortization approach as a precautionary measure.
- Department of Law Memo:
    - In 2018, a Department of Law Memo clarified that the ARM Board could adopt layered amortization for new unfunded liabilities. However, it also concluded that the 25-year amortization period was fixed for all liabilities, including new layers. In deference to this opinion, the Board adopted layering new unfunded liabilities for 25-year periods starting

in 2018. This resulted in over $2 billion in unfunded liabilities being pushed past 2039. The 2023 valuation baseline projections show unfunded liabilities of $1.7 billion for the PERS pension and $0.5 billion for the TRS pension.

- Trustee Concerns:
  - Trustees advocated for shorter amortization periods for new unfunded liabilities, consistent with actuarial best practices. They argued that continuing with 25-year amortization periods for all new liabilities deferred costs excessively.

9. ARMB's 2025 Understanding of Its Role and Interpretation of Legislative Intent

Interpreting 2014 Legislative Intent

The ARMB interprets the 2014 legislative intent as requiring the original unfunded liability as of 2014 to be fully paid off by 2039 under a 25-year amortization schedule with level-percent-of-payroll. This interpretation is consistent with the legislative framework and reflects the intent to address the pre-existing liability within a fixed timeline.

Assertion of Authority for New Layers

The ARMB asserts its authority to amortize new layers of unfunded liabilities over shorter periods of time, less than 25 years, in alignment with actuarial best practices. This flexibility is supported by the absence of prohibitions in the 2014 legislation on addressing new unfunded liabilities. ARMB recognizes that while layering is a valuable tool for managing fluctuations in liabilities, locking all new layers into 25-year amortization periods is neither efficient nor prudent.

For example:

- **Actuarial Best Practices**: These recommend tailoring amortization periods to the specific nature of the liability. While a 25-year amortization is appropriate for long-term liabilities akin to a mortgage for a home, it is not suitable for addressing year-to-year fluctuations or shorter-term liabilities, which are better handled with shorter amortization periods, akin to financing a car.
- **Year-to-Year Fluctuations**: Short-term variations in smoothed asset returns or benefit cost predictions should not be amortized over a fixed 25-year period, as it unnecessarily compounds long-term obligations and pushes more debt past 2039.

No Immediate Impact from Layering

For the past two years, the ARMB has deliberately set contribution rates to avoid adding new layers for unfunded liabilities. Instead, these liabilities are being paid off within the existing schedule. Each year, the ARMB carefully evaluates whether layering is necessary when setting contribution rates.

Under the Level Percent of Payroll method, contributions are expected to increase substantially in the coming years, placing greater financial strain as the amortization period progresses. In the event of a market downturn for multiple years, the ARMB retains the flexibility to layer new unfunded liabilities over amortization periods of less than 25 years, consistent with best practices. This approach allows the ARMB to respond to financial circumstances without exacerbating long-term liabilities unnecessarily. However, the ARMB remains committed to retiring unfunded liabilities, carefully balancing the flexibility of layering with the need for financial stability.

Conclusion

The ARMB's approach reflects a commitment to balancing fiscal responsibility with flexibility for managing Alaska's pension unfunded liabilities. Under Alaska Statutes 37.10.220 and 14.25.007, the ARMB is charged with managing liabilities prudently to safeguard the sustainability of the retirement systems. This fiduciary responsibility includes making decisions that ensure financial soundness and the long-term viability of the pension systems for the benefit of both retirees and the State of Alaska.

The ARMB's recognizes the importance of avoiding a situation where the Level Percent of Payroll method inadvertently escalates payments in future years, leading to a cycle of extending the payoff period or repeatedly refinancing the debt further and further out. As payments increase in the later years of the schedule, continually adjusting or resetting the amortization period risks turning what was originally a 25-year plan into an extended obligation without an end date. This would not only defer responsibility but also significantly increase long-term costs, undermining financial stability. Additionally, Alaska's pension obligations are expected to persist past the year 2100, as the retirement systems serves the current living population of defined benefit employees and beneficiaries.

Even if the pension systems are 100% funded in 2039, there will be years with surpluses or additional unfunded liabilities as actual asset returns and pension costs inevitably deviate from actuarial predictions. It is critical to establish and adhere to an amortization approach that balances short-term needs with long-term sustainability and avoids decisions that prioritize immediate relief at the expense of future financial health. The path forward must align with Alaska's overall financial situation and ensure that the retirement systems meet their obligations.

The ARMB's decision to avoid adding new layers for the past two years demonstrates its dedication to not unnecessarily pushing additional unfunded liabilities past 2039. However, the ARMB retains the authority to implement layering for new unfunded liabilities, with amortization periods tailored to the specific nature of the liability rather than defaulting to a fixed 25 years. This approach aligns with actuarial best practices, recognizing that while a 25-year amortization period may be appropriate for large, long-term liabilities, it is unsuitable for addressing smaller, short-term fluctuations. By adopting shorter amortization schedules for new liabilities, when necessary, the ARMB aims to provide a more sustainable financial trajectory for Alaska's retirement systems while upholding its fiduciary duty to all stakeholders.