

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Employer Group Waiver Plan (EGWP) Smoothing Strategy
Resolution 2025-05

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) relates to the 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; and

WHEREAS, changes to the Inflation Reduction Act, effective January 1, 2025 significantly impacted Employer Group Waiver Plan (“EGWP”) subsidies, as summarized in Attachment 1 to Resolution 2025-05 (“Attachment 1”), which resulted in EGWP subsidies being 41.7% higher than expected for fiscal year 2025, decreasing healthcare liabilities by \$1B for the Public Employee Retirement System health plan (“PERS”) and \$359M for the Teacher Retirement System health plan (“TRS”); and

WHEREAS, current actuarial valuations results and projections do not incorporate smoothing of the EGWP subsidies for PERS or TRS; and

WHEREAS, future EGWP subsidy levels remain uncertain; and

WHEREAS, ARMB, in consultation with its actuarial advisors, reviewed EGWP smoothing methodologies and impacts on both PERS and TRS, as outlined in Attachment 1 to Resolution 2025-05;


WHEREAS, ARMB concludes that utilizing a 5-year smoothing period to calculate EGWP subsidies is consistent with actuarial best practices.

NOW THEREFORE BE IT RESOLVED BY THE ALASKA RETIREMENT MANAGEMENT BOARD, that ARMB reasserts the policy set out in Attachment 1 with respect to smoothing of EGWP subsidies and adopts the conclusions in Attachment 1 related to using a 5-year smoothing period to calculate those subsidies.

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


Chair

ATTEST:


Secretary

EGWP Smoothing

EGWP Smoothing Alternatives

- Valuation results and projections shown on prior slides do not incorporate smoothing of the EGWP subsidy.
- The ARMB requested that we provide EGWP subsidy smoothing alternatives for discussion at the March 2025 meeting due to (i) the significant increase in the EGWP subsidy for FY25 and beyond caused by the Inflation Reduction Act, and (ii) the uncertainty of future subsidy levels.
- We are proposing two alternative smoothing methodologies for the ARMB to consider. The percentages used to determine the weighted-average subsidy are shown below.

Alternative 1: 3-Year Smoothing	
Current Year	50.0%
Year-1	33.3%
Year-2	16.7%

Alternative 2: 5-Year Smoothing	
Current Year	33.3%
Year-1	26.7%
Year-2	20.0%
Year-3	13.3%
Year-4	6.7%

- Year-1 through Year-4 subsidy amounts are trended to the current year by applicable annual Rx trend rates, then weighted with the current year subsidy using the weights shown above to develop a smoothed subsidy amount for the current year.

Trended EGWP Subsidies at Age 65

Fiscal Year	No Smoothing	3-Year Smoothing	5-Year Smoothing
2025	\$1,924	\$1,666	\$1,586
2026	2,664	2,276	2,065
2027	2,890	2,469	2,240
2028	3,127	2,672	2,424
2029	3,374	2,883	2,616
2030	3,625	3,098	2,811
2031	3,881	3,316	3,009
2032	4,137	3,535	3,207
2033	4,392	3,752	3,405
2034	4,642	3,966	3,599
2035	4,888	4,176	3,789
2036	5,147	4,398	3,990
2037	5,420	4,631	4,202

Fiscal Year	No Smoothing	3-Year Smoothing	5-Year Smoothing
2038	5,707	4,876	4,424
2039	6,009	5,135	4,659
2040	6,328	5,407	4,906
2041	6,663	5,694	5,166
2042	7,010	5,990	5,434
2043	7,367	6,295	5,712
2044	7,736	6,610	5,997
2045	8,115	6,934	6,291
2046	8,508	7,270	6,596
2047	8,912	7,615	6,909
2048	9,331	7,973	7,234
2049	9,765	8,344	7,571
2050	10,210	8,724	7,915

EGWP Smoothing Impacts

Healthcare Actuarial Accrued Liability as of June 30, 2024

\$ in millions	PERS	Pct Increase	TRS	Pct Increase
No Smoothing	\$ 6,584		\$ 2,451	
3-Year Smoothing	\$ 6,944	5.5%	\$ 2,579	5.3%
5-Year Smoothing	\$ 7,137	8.4%	\$ 2,648	8.1%

We expect the percent increase in healthcare Actuarial Accrued Liability for the DCR plans to be of similar magnitude as the percent increase for PERS and TRS.

Healthcare Funded Ratio

	PERS	TRS
As of June 30, 2023	129.6%	135.5%
As of June 30, 2024		
No Smoothing	143.3%	150.1%
3-Year Smoothing	135.8%	142.6%
5-Year Smoothing	132.2%	138.9%

Impact of Inflation Reduction Act on EGWP Subsidies

- The expected reduction in EGWP subsidies for 2025 did not occur. In fact, the EGWP subsidies estimated by Segal for 2025 **increased** significantly.

EGWP Subsidy at Age 65	
FY 2025 Projected	\$ 113.17
FY 2025 Updated	\$ 160.33
Change	41.7%

- The updated EGWP subsidies **decreased** healthcare liabilities by \$1B (PERS) and \$359M (TRS).

Impact of Inflation Reduction Act on EGWP Subsidies (cont'd)

- Key reasons for the increase in EGWP subsidies based on changes to the Inflation Reduction Act effective January 1, 2025:
 - Higher bids from carriers due to improved standard plan benefits.
 - Beneficiary premium (used to calculate plan-specific premium in bid process) is capped to increase at no more than 6%, significantly increasing the direct subsidy.
 - Manufacturer discount program (MDP) replaced coverage gap discount (CGD) as of January 1, 2025. The MDP estimate for 2025 outpaced the 2024 CGD estimate.
 - The federal reinsurance subsidy increased in 2025. Per Segal, the 2024 reinsurance estimate was conservative, thereby skewing the year-over-year comparison.
- The 2025 subsidy levels underscore the volatile state of EGWP subsidies. It will most likely take a few years for the market to fully stabilize. Accordingly, potential swings in subsidy amounts may take place. We will continue to monitor and adjust EGWP subsidies in the future as necessary.
- See slides 2-4 for a discussion of EGWP subsidy smoothing alternatives.

History of Actual vs Expected EGWP Subsidies

- EGWP (Employer Group Waiver Plan) was implemented for the PERS and TRS healthcare trusts effective January 1, 2019. The table below shows the *actual* and *expected* subsidies from implementation through June 30, 2024. Amounts are in \$millions.

	PERS		TRS	
	Actual	Expected	Actual	Expected
FY19*	\$ 7.1	\$ 18.1	\$ 2.5	\$ 7.0
FY20	33.2	38.4	11.7	14.6
FY21	52.4	38.9	18.3	14.5
FY22	54.1	45.7	18.5	16.8
FY23	60.2	55.4	20.4	20.1
FY24	64.1	55.1	21.5	19.9
Total	\$ 271.1	\$ 251.6	\$ 92.9	\$ 92.9

* 6 months only (EGWP was implemented effective 1/1/19).