

State of Alaska  
ALASKA RETIREMENT MANAGEMENT BOARD  
Recommending a One-Time Transfer of Certain HRA Forfeiture-Derived Resources to Support a  
20-Year Retiree Medical Eligibility Option

Resolution 2025-21

WHEREAS, the Alaska Retirement Management Board (Board) serves as the fiduciary for the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) and is responsible for managing the assets of the Health Reimbursement Arrangement (HRA) Trusts established under AS 39.30.300-.495; and

WHEREAS, the HRA Trusts are funded solely by employer contributions and must, under AS 39.30.430, be used exclusively for the medical benefit of participants and beneficiaries and may not revert to employers; and

WHEREAS, current statutes require 30 years of service for most PERS and TRS Defined Contribution (DC) members (and 25 years for peace officers and firefighters) to access the retiree medical plan before age 65, or allow access at normal retirement age with at least 10 years of service and 12 months of covered service immediately preceding retirement; and

WHEREAS, this statutory structure prevents certain long-serving members from accessing the retiree medical plan before age 65, even with a fully vested HRA balance; and

WHEREAS, Resolution 2025-02 directed the preparation of actuarial modeling for a 20-year retiree medical eligibility option, and the February 5, 2025 analysis prepared by Gabriel, Roeder, Smith & Company (GRS), (Exhibit 2) concluded that implementing the 20-year option results in a one-time actuarial cost of approximately \$38 million for PERS and \$8 million for TRS; and

WHEREAS, the Division of Retirement and Benefits' FY2025 HRA Balances and Service Report (Exhibit 1) documents the significant balances in unvested accounts held for former employees who left service before vesting, which remain in the Trust unless reinstated upon a member's return and completion of vesting; and

WHEREAS, a portion of these unvested balances is reasonably expected, under conservative and documented return-to-service assumptions, to remain permanently forfeited (Attachment C, Exhibit 3 Legal Considerations); and

WHEREAS, improving retiree medical eligibility to 20 years of service would enable members who retire before age 65 to apply their HRA funds toward retiree medical premiums, thereby increasing the likelihood that members fully utilize their HRA benefits; and

WHEREAS, based on the information contained in Attachments A, B, and C and Exhibits 1–3, a limited, one-time transfer of forfeiture-derived HRA resources appears to be an appropriate mechanism for funding the one-time actuarial impact of implementing the 20-year retiree medical eligibility option.

NOW THEREFORE BE IT RESOLVED BY THE ALASKA RETIREMENT MANAGEMENT BOARD THAT:

**1. Legislative Recommendation**

The Board recommends that the Legislature amend AS 14.25.470 and AS 39.35.870 to establish a uniform 20-year service requirement for DCR retiree medical eligibility for all members, while retaining the existing provision that a member with at least 10 years of service who retires directly from covered employment and has been employed in a covered position for the preceding 12 months is eligible for retiree medical coverage at normal retirement age (currently 65). This resolution does not modify current premium requirements.

**2. Funding Mechanism**

The Board supports a one-time transfer of approximately \$50 million from forfeiture-derived HRA resources to the Retiree Health Trusts to offset the actuarial impact of the eligibility change.

**3. Scope and Limitations**

The transfer shall be non-recurring and limited to forfeited, unvested balances reasonably expected to revert under conservative return-to-service assumptions. It shall not draw from active or vested balances and shall not establish an ongoing funding source or change premium obligations.

**4. Supporting Documentation**


Supporting documentation for this Resolution includes:

- Attachment A – Statutory References and Proposed Revisions
- Attachment B – Actuarial Summary (from Resolution 2025-02)
- Attachment C – HRA Trust Overview, Fiduciary Limits, and Forfeiture Capacity (2025 Data)
- Exhibit 1 – FY 2025 HRA Balances and Service Data
- Exhibit 2 – Gabriel, Roeder, Smith & Co. February 5, 2025 Memo Supporting Resolution 2025-02
- Exhibit 3 – Legal Considerations Regarding Use of HRA Forfeiture-Derived Resources

DATED at Anchorage, Alaska this 3<sup>rd</sup> day of December 2025.

  
Chair

ATTEST:

  
Secretary

## **Attachment A – Statutory References and Proposed Revisions**

### **PERS (AS 39.35.870)**

Current requirement:

A participant is eligible for retiree medical coverage upon attaining (1) 30 years of credited service, (2) 25 years for peace officers and firefighters, or (3) 10 years of service at normal retirement age if the member retires directly from covered employment and was employed in a covered position during the 12 months preceding retirement.

Proposed revision:

A participant is eligible for retiree medical coverage upon attaining (1) 20 years of credited service for all members, or (2) 10 years of service at normal retirement age (currently 65) if the member retires directly from covered employment and was employed in a covered position during the 12 months preceding retirement.

### **TRS (AS 14.25.470)**

Current requirement:

A participant is eligible for retiree medical coverage upon attaining 30 years of credited service or 10 years of service at normal retirement age if the member retires directly from covered employment and was employed in a covered position during the 12 months preceding retirement.

Proposed revision:

A participant is eligible for retiree medical coverage upon attaining 20 years of credited service or 10 years of service at normal retirement age (currently 65) if the member retires directly from covered employment and was employed in a covered position during the 12 months preceding retirement.

*Reference: See Exhibits 1–3 for supporting documents.*

**Attachment B – Actuarial Summary (from Resolution 2025-02)**

<b>System</b>	<b>Current</b>	<b>Proposed</b>	<b>One-Time Cost (\$ Millions)</b>
PERS DCR	30 YOS (25 P&F)	20 YOS (all)	38.4
TRS DCR	30 YOS	20 YOS	8.3
<b>Total</b>			<b>46.7 (rounded to 50)</b>

GRS calculated this one-time adjustment transfer would preserve full funding

*Reference: See Exhibit 2.*

## **Attachment C – HRA Trust Overview, Fiduciary Limits, and Forfeiture Capacity (2025 Data)**

### **1. Overview of HRA Structure**

- Funded solely by employer contributions under AS 37.30.350.
- Members vest after 10 years of service or upon reaching age 65.
- Unvested members who permanently separate from covered employment do not retain their balances to the plan.
- The remaining balances of vested members who die without an eligible spouse or dependent to the plan.
- Under AS 39.30.430(a), all plan contributions and earnings must be held for the exclusive benefit of participants.

### **2. Fiduciary Limits and Statutory Use of HRA Trust Assets**

Under AS 39.30.300 – .495, the HRA Trust exists solely to reimburse qualified medical expenses of participants and their dependents. Once employer contributions are made, they become irrevocable plan assets that cannot revert to any employer. Neither principal nor earnings may be used for any purpose other than reimbursing participant medical expenses or defraying administrative costs.

Although employer contributions create the initial deposits, a significant portion of the total balance results from levered investment returns credited annually. Over time, these returns form a major share of the Trust's value, meaning the Trusts' balance includes a mix of historical contributions and compounded earnings.

Any perception that unvested or reverted balances represent an employer "windfall" or "surplus" is inconsistent with statutory restrictions and fiduciary duty.

The limited transfer of a portion of unvested HRA resources to cover a one-time actuarial adjustment required to allow retiree medical eligibility to members with 20 years of service is consistent with the exclusive benefit requirements in AS 39.30.430 because it directly enhances member healthcare access and ensures unvested resources continue to benefit active members.

### 3. FY 2025 HRA Balances Summary (as of June 30 2025)

System	Total Balances (\$ M)	Active Participants	Inactive Participants	Inactive Unvested (\$ M)	Inactive Vested (\$ M)
PERS	977	61 830	48 205	270	707
TRS	283	6 724	9 620	64	219
<b>Total</b>	<b>1,260</b>	<b>68 554</b>	<b>57 825</b>	<b>334</b>	<b>926</b>

Inactive unvested participants aged 65 and older (4,650 PERS and 1,034 TRS) hold approximately \$39 million in balances.

### 4. Rationale for Conservative Forfeiture Probabilities

To avoid overstating available resources, the Board applied highly conservative forfeiture probabilities grounded in observed return-to-service patterns and member incentives. Forfeiture estimates are intentionally conservative to ensure that only amounts with a high likelihood of reverting to the plan are considered available. Unvested members who terminate covered employment before reaching 10 years of service forfeit their HRA balances unless they later return to eligible employment and vest. While it is theoretically possible for an unvested member to return to covered service and reclaim the prior balance with CPI-adjusted credit, historical workforce mobility data show that return rates decline steeply after one to two years of separation.

Accordingly, forfeiture probabilities increase for members with fewer years of service, reflecting the low probability that an individual with one or two years of participation would return and complete the remaining eight or nine years needed for vesting. Conversely, the assumptions for members with nine years of service are set very conservatively (only a 10 percent forfeiture probability) because these individuals have the strongest incentive to return, often with substantial existing balances that could be preserved by one additional year of service. Using these cautious assumptions minimizes the risk of overstating available forfeitures and ensures that any proposed reallocation relies solely on funds that are highly likely to remain permanently unclaimed.

**5. PERS Inactive Unvested Participants (48,006 total; \$270 million total balance)**

Years of Service	Total (\$M)	Avg Balance	Return Prob.	Forfeiture Prob.	Expected Forfeiture (\$M)
0-<1	19.2	929	3%	97%	18.6
1-<2	29.7	3,186	4%	96%	28.5
2-<3	31.5	5,684	5%	95%	29.9
3-<4	30.8	8,474	6%	94%	29.0
4-<5	27.3	11,498	7%	93%	25.4
5-<6	34.5	14,762	8%	92%	31.7
6-<7	29.7	18,568	10%	90%	26.7
7-<8	24.3	22,788	12%	88%	21.4
8-<9	23.3	27,102	20%	80%	18.6
9-<10	19.5	32,232	90%	10%	1.9
Total	270.0				231.7



**TRS Inactive Unvested Participants (8,764 total; \$64 million total balance)**

Years of Service	Total (\$M)	Avg Balance	Return Prob.	Forfeiture Prob.	Expected Forfeiture (\$M)
0-<1	1.0	990	3%	97%	1.0
1-<2	5.3	2,316	4%	96%	5.1
2-<3	7.8	4,524	5%	95%	7.4
3-<4	7.4	7,046	6%	94%	7.0
4-<5	7.0	9,913	7%	93%	6.5
5-<6	8.2	12,919	8%	92%	7.5
6-<7	7.2	16,241	10%	90%	6.5
7-<8	7.4	20,042	12%	88%	6.5
8-<9	6.8	23,924	20%	80%	5.4
9-<10	5.7	28,308	90%	10%	0.6
Total	64.0				53.5

Combined Expected Forfeiture of PERS and TRS: \$285 million

## 6. Comparison of Eligibility Standards

Plan / Tier	Eligibility for Retiree Medical Coverage	Member Premium Obligation
PERS Tier I (DB)	Age 55 with 5 years; any age with 20 years (P&F: any age with 20 years)	System-paid at retirement; AlaskaCare becomes secondary to Medicare at 65
PERS Tier II (DB)	Age 60 with 10 years; any age with 30 years (P&F: any age with 25 years)	System-paid at retirement; AlaskaCare becomes secondary to Medicare at 65
PERS Tier III (DB)	Age 60 with 10 years; any age with 30 years (P&F: any age with 25 years)	System-paid at retirement; AlaskaCare becomes secondary to Medicare at 65
TRS Tier I (DB)	Age 55 with 8 years; any age with 20 years	System-paid at retirement; AlaskaCare becomes secondary to Medicare at 65
TRS Tier II (DB)	Age 60 with 8 years; any age with 25 years	System-paid at retirement; AlaskaCare becomes secondary to Medicare at 65
DCR (Current – PERS Tier IV / TRS Tier III)	30 years (25 P&F) or 10 years at normal retirement age (currently 65) if retiring directly from covered employment with 12 months of covered service immediately preceding retirement	Member pays 100 % of premiums before age 65; post-65 cost share per YOS schedule; HRA may be used toward premiums
Proposed (Resolution 2025-21)	20 years (all) or 10 years at normal retirement age (currently 65) if retiring directly from covered employment with 12 months of covered service immediately preceding retirement	Same premium rules as current DCR (no change)

## 7. Conclusion

The FY 2025 data and statutory framework suggest that a carefully limited, one-time use of forfeiture-eligible unvested HRA resources to help offset the actuarial impact of a 20-year service eligibility provision may be appropriate and supportable if structured conservatively and in alignment with existing reinstatement rights. Under this approach, all assets would continue to be used exclusively for participant medical benefits as required by AS 39.30.300–.495, without altering the statutory purpose of the HRA Trusts or the rules governing how members access their medical benefits.

*Reference: See Exhibits 1–3 for supporting documents.*

HEALTH REIMBURSEMENT ARRANGEMENT (HRA)

HRA Participant Balances			Additional HRA Participant Statistics		
PERS					
Balances as of 6/30/25	Benefits (Smillions)	Participants	Average Balance (\$thousands)	Average Service (Years)	Average Age
Active Vested	\$340	6183	\$55	13	48
Active Unvested	\$246	23436	\$10	4	39
Inactive Vested	\$122	2199	\$55	12	55
Inactive Unvested	\$270	48006	\$6	2	45
Totals	\$977	79824			
TRS					
Balances as of 6/30/25	Benefits (Smillions)	Participants	Average Balance (\$thousands)	Average Tenure (Years)	Average Age
Active Vested	\$121	2214	\$55	13	47
Active Unvested	\$52	4510	\$12	4	41
Inactive Vested	\$46	856	\$54	12	53
Inactive Unvested	\$64	8764	\$7	3	47
Totals	\$283	16344			

Inactive Unvested and aged over 65 years on 6/30/25	Benefits (Smillions)	Participants
PERS	\$32	4650
TRS	\$7	1034
Totals	\$39	5684

PERS (Inactive Unvested)			
Service Years	Participants	Total Balance (\$ millions)	Average Balance
0 - < 1	20,676	\$19.2	\$929
1 - < 2	9,319	\$29.7	\$3,186
2 - < 3	5,542	\$31.5	\$5,684
3 - < 4	3,633	\$30.8	\$8,474
4 - < 5	2,374	\$27.3	\$11,498
5 - < 6	2,334	\$34.5	\$14,762
6 - < 7	1,598	\$29.7	\$18,568
7 - < 8	1066	\$24.3	\$22,788
8 - < 9	858	\$23.3	\$27,102
9 - < 10	606	\$19.5	\$32,232

TRS (Inactive Unvested)			
Service Years	Participants	Total Balance (\$ millions)	Average Balance
0 - < 1	1,040	\$1.0	\$990
1 - < 2	2,301	\$5.3	\$2,316
2 - < 3	1,723	\$7.8	\$4,524
3 - < 4	1,053	\$7.4	\$7,046
4 - < 5	708	\$7.0	\$9,913
5 - < 6	635	\$8.2	\$12,919
6 - < 7	446	\$7.2	\$16,241
7 - < 8	369	\$7.4	\$20,042
8 - < 9	286	\$6.8	\$23,924
9 - < 10	203	\$5.7	\$28,308



Date: February 5, 2025

To: Mr. Bob Williams, Chair, Alaska Retirement Management Board

From: Paul T. Wood, ASA, FCA, MAAA  
Bill Detweiler, ASA, EA, FCA, MAAA

cc: Ms. Alysia Jones

Re: **Request for Actuary Feedback on Proposed Changes to DCR Retired Healthcare Service Eligibility**

At your request, we have analyzed the impact of changing the eligibility conditions relating to healthcare members participating in the PERS DCR and TRS DCR Plans.

Under the current system:

- Employees with at least 10 years of service who are Medicare-eligible can access the Plan.
- However, employees with less than 30 years of service (25 years for Public Safety) who are not yet Medicare-eligible do not meet the eligibility requirements for accessing DCR healthcare benefits.

We understand the Working Group is exploring choosing between two options for standardizing and reducing service requirements for employees:

1. **Reducing the eligibility requirement to 25 years of service for all employees.**
2. **Reducing the eligibility requirement to 20 years of service for all employees.**
3. **Reducing the eligibility requirement to 20 years of service for PERS Public Safety employees and 25 years for TRS and PERS Other employees.**

The Working Group also confirmed that they still want the Medicare-eligible with at least 10 years of service eligibility to remain.

Our task is to address the following:

1. **What are the financial and operational implications of reducing service requirements to 25 or 20 years for DC healthcare eligibility?**
2. **Would these changes support the sustainability of the DC Retired Healthcare Plan?**

#### **Comments on the Replication of Results and Assumptions and Methods Used**

As the review actuary for the ARM Board, our role is typically to review the valuation work performed by the DRB retained actuary, Gallagher, on an annual basis via a test life review. As part of that role, we were engaged to perform a full replication of the results for each of the Plans. This project involved an

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independent verification and analysis of the assumptions, procedures, methods, and conclusions used by the retained actuary for all of these Plans to ensure that the conclusions are technically sound and conform to the appropriate Standards of Practice as promulgated by the Actuarial Standards Board. As such we are able to provide some cost analysis that is based on the following:

- The assumptions and methods as used by Gallagher and disclosed in the June 30, 2023 DCR valuation reports dated May 3, 2024.
- The census data used by Gallagher in the June 30, 2023 valuation.
- No changes to the decrement rates, participation assumptions, per capita claims costs, or any other assumptions when measuring the impact of changing eligibility.

In the Appendix, we have included the retirement rates and the participation assumptions from the June 30, 2023 DCR valuation reports. As you can see, the point at which a member is assumed to retire is based on their age. For example, for the TRS Plan, a member age 62 is assumed to have a retirement probability in that year of 10%. Participation at the retirement age will depend on the eligibility conditions. For example, under the current provisions, if the member has less than 30 years of service at age 62, then they would not be eligible to continue in the healthcare Plan. But, if they have 30 or more years of service and, thus, are eligible for continuation, then the participation rates come into play. For an eligible member at the age of 62, it is assumed with 80.75% ( $85\% \times 95\%$ ) probability that the member actually continues coverage and a 19.25% probability that the member chooses not to continue coverage. Under the 20-year study for a member retiring at age 62 with 20 years of service, it is now assumed with 72.25% ( $85\% \times 85\%$ ) probability that the member actually continues coverage and a 27.75% probability that the member chooses not to continue coverage. The participation rates are lower for members at earlier ages because they may be receiving healthcare from a different source or they have made the determination that their HRA accounts cannot support the continued payment of the premiums. These are just two of many reasons participation may be lower at earlier ages.

### **Analysis**

Currently, members retiring prior to age 65 that do not meet the 30-year (25-year for Public Safety) requirement are not eligible for continued coverage in the DCR Healthcare Plans. If the members meet the 30-year (25-year for Public Safety) requirement, then they are eligible to participate in the DCR Healthcare Plans provided the retiree pays the full premium prior to becoming Medicare eligible and a subsidized premium upon reaching Medicare eligibility. We studied the two alternatives of a 25-year eligibility requirement and a 20-year eligibility requirement. As you will see below, in both of these alternatives, the total normal cost will increase because younger members who currently may not be eligible to continue coverage are now much more likely to be eligible for the healthcare Plan.

### **TRS DCR**

As of June 30, 2023, the TRS DCR Healthcare Plan is approximately \$21 million overfunded with a funded ratio of 136%. The contributions to the Plan are equal to the normal cost which is 0.74% of TRS DCR payroll.



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Under the 25-year service eligibility study, the Plan is expected to remain above 100% with an overfunded accrued liability of approximately \$11 million. As a result of the eligibility change, the normal cost as a percent of TRS DCR payroll would increase from 0.74% to 0.86%. This equates to approximately \$601 thousand in additional contributions in the first year. This dollar amount is expected to grow each year in proportion to the growth in TRS DCR payroll. Therefore, because it is expected that the Plan will remain above 100% funded and continue to receive, at a minimum, the normal cost contribution, the Plan with the service eligibility requirement changed to 25 years is expected to remain sustainable.

Under the 20-year service eligibility study, the Plan is expected to drop below 100% funded with an unfunded accrued liability approaching \$10 million. As a result of the eligibility change, the normal cost as a percent of TRS DCR payroll would increase from 0.74% to 1.06%. In addition to this normal cost increase, an additional contribution would be needed to pay down the newly created unfunded liability. In total, this equates to approximately \$2.3 million in additional contributions in the first year. This dollar amount is expected to grow each year in proportion to the growth in TRS DCR payroll until the Plan reaches 100% funded, at which point, just the normal cost contribution is made. Therefore, because it is expected that the Plan will drop below 100% funded, then absent additional contributions to pay down the unfunded accrued liability, the long-term sustainability could be at risk. Lump sum funding of the newly created unfunded liability would enhance the sustainability to the Plan. In order for the Plan to be fully funded, a lump sum contribution amount in excess of \$8 million is needed, and some additional margin should also be considered for any future adverse experience.

#### **PERS DCR**

As of June 30, 2023, the PERS DCR Healthcare Plan is approximately \$42 million overfunded with a funded ratio of 121%. The contributions to the Plan are equal to the normal cost which is 0.86% of PERS DCR payroll.

Under the 25-year service eligibility study, the Plan is expected to remain above 100% with an overfunded accrued liability of approximately \$18 million. As a result of the eligibility change, the normal cost as a percent of PERS DCR payroll would increase from 0.86% to 0.96%. This equates to approximately \$2.0 million in additional contributions in the first year. This dollar amount is expected to grow each year in proportion to the growth in PERS DCR payroll. Therefore, because it is expected that the Plan will remain above 100% funded and continue to receive, at a minimum, the normal cost contribution, the Plan with the service eligibility requirement changed to 25 years is expected to remain sustainable.

Under the 20-year service eligibility study, the Plan is expected to drop below 100% funded with an unfunded accrued liability approaching \$40 million. As a result of the eligibility change, the normal cost as a percent of PERS DCR payroll would increase from 0.86% to 1.19%. In addition to this normal cost increase, an additional contribution would be needed to pay down the newly created unfunded liability. In total, this equates to approximately \$9.0 million in additional contributions in the first year. This dollar amount is expected to grow each year in proportion to the growth in PERS DCR payroll until the Plan reaches 100% funded, at which point, just the normal cost contribution is made. Therefore, because it is expected that the Plan will drop below 100% funded, then absent additional contributions



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to pay down the unfunded accrued liability, the long-term sustainability could be at risk. Lump sum funding of the newly created unfunded liability would enhance the sustainability to the Plan. In order for the Plan to be fully funded, a lump sum contribution amount in excess of \$38 million is needed, and some additional margin should also be considered for any future adverse experience.

Under the 20-year service eligibility for Public Safety employees and 25-year service eligibility for Other employees study, the Plan is expected to remain above 100% with an overfunded accrued liability of approximately \$10 million. As a result of the eligibility change, the normal cost as a percent of PERS DCR payroll would increase from 0.86% to 1.00%. This equates to approximately \$2.7 million in additional contributions in the first year. This dollar amount is expected to grow each year in proportion to the growth in PERS DCR payroll. Therefore, because it is expected that the Plan will remain above 100% funded and continue to receive, at a minimum, the normal cost contribution, the Plan with the service eligibility requirement changed to 20 years for Public Safety employees and 25 years for Other employees is expected to remain sustainable.

### **Summary of Results**

	<b><u>TRS DCR</u></b>			
	<b>Current Eligibility</b>	<b>25 Year Eligibility</b>	<b>25/20 Year Eligibility*</b>	<b>20 Year Eligibility</b>
Accrued Liability	\$ 57,093,000	\$ 67,174,000	\$ 67,174,000	\$ 86,124,000
Actuarial Value of Assets	<u>77,815,000</u>	<u>77,815,000</u>	<u>77,815,000</u>	<u>77,815,000</u>
(Over)/Unfunded Accrued Liability	\$ (20,722,000)	\$ (10,641,000)	\$ (10,641,000)	\$ 8,309,000
Funded Ratio	136%	116%	116%	90%
Normal Cost as a % of TRS DCR Payroll	0.74%	0.86%	0.86%	1.06%
Amort. Payment as a % of TRS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.11%</u>
Total Contribution as a % of TRS DCR Payroll	0.74%	0.86%	0.86%	1.17%
Contribution Dollars Increase in First Year	\$ -	\$ 601,000	\$ 601,000	\$ 2,300,000

	<b><u>PERS DCR</u></b>			
	<b>Current Eligibility</b>	<b>25 Year Eligibility</b>	<b>25/20 Year Eligibility*</b>	<b>20 Year Eligibility</b>
Accrued Liability	\$ 204,540,000	\$ 228,922,000	\$ 237,303,000	\$ 285,371,000
Actuarial Value of Assets	<u>246,953,000</u>	<u>246,953,000</u>	<u>246,953,000</u>	<u>246,953,000</u>
(Over)/Unfunded Accrued Liability	\$ (42,413,000)	\$ (18,031,000)	\$ (9,650,000)	\$ 38,418,000
Funded Ratio	121%	108%	104%	87%
Normal Cost as a % of PERS DCR Payroll	0.86%	0.96%	1.00%	1.19%
Amort. Payment as a % of PERS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.14%</u>
Total Contribution as a % of PERS DCR Payroll	0.86%	0.96%	1.00%	1.33%
Contribution Dollars Increase in First Year	\$ -	\$ 2,000,000	\$ 2,700,000	\$ 9,000,000

\*25 Years for TRS & PERS Others, 20 Years for PERS P/F



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### **Changes in the Context of TRS/PERS DB and DCR Combined Results**

The liabilities and assets for the DCR Plans are relatively small in comparison to the DB Plans and the expected contributions attributable to the TRS and PERS DCR Plans represent less than 25% of the total expected contributions in the upcoming year. The increases in the contribution amounts cited above represent a small increase in the total expected contribution. That is, the expected contributions for the entire PERS and TRS DB and DCR Plans are expected to increase by about 0.26% under the 25-year eligibility study, about 1.16% under the 20-year eligibility study and about 0.34% under the 20-year service eligibility for PERS Public Safety employees and 25-year service eligibility for TRS and PERS Other employees study.

### **Assumptions and Methods**

As noted above, we have relied on the assumptions, methods, and census data from the DRB actuary, Gallagher, as disclosed in the June 30, 2023 DCR valuation reports. Furthermore, changes of this nature may lead to changes in behavior. These potential behavioral changes were not studied as a part of this analysis, therefore, no changes to the assumptions were made in the scenarios studied.

### **Certification**

All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of, where applicable, the Internal Revenue Code and ERISA.

Mr. Wood and Mr. Detweiler are Associates of the Society of Actuaries, and Members of the American Academy of Actuaries. They meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. They are both experienced in performing valuations for large public retirement systems.

Sincerely,

Gabriel, Roeder, Smith & Company



Paul Wood, ASA, FCA, MAAA  
Senior Consultant



Bill Detweiler, ASA, EA, FCA, MAAA  
Consultant





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**Appendix – Assumptions from the June 30, 2023 DCR Valuation Reports****TRS DCR – Retirement Rates**

<b>Age</b>	<b>Rate</b>
< 55	2.00%
55	3.00%
56	3.00%
57	3.00%
58	3.00%
59	3.00%
60	5.00%
61	5.00%
62	10.00%
63	5.00%
64	5.00%
65	25.00%
66	25.00%
67	25.00%
68	20.00%
69	20.00%
70+	100.00%

**TRS DCR – Participation Assumptions**

<b>Death / Disability Decrement</b>		<b>Retirement Decrement</b>	
<b>Age</b>	<b>Percent Participation</b>	<b>Age</b>	<b>Percent Participation*</b>
< 56	75.0%	55	50.0%
56	77.5%	56	55.0%
57	80.0%	57	60.0%
58	82.5%	58	65.0%
59	85.0%	59	70.0%
60	87.5%	60	75.0%
61	90.0%	61	80.0%
62	92.5%	62	85.0%
63	95.0%	63	90.0%
64	97.5%	64	95.0%
65+	100.0%	65+	<b>Years of Service</b>
			< 15      75.0%
			15 – 19    80.0%
			20 – 24    85.0%
			25 – 29    90.0%
			30+        95.0%



Mr. Bob Williams, Chair, Alaska Retirement Management Board

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**Appendix – Assumptions from the June 30, 2023 Valuation Reports (Cont'd)****PERS DCR – Retirement Rates**

Age	Rate
< 55	2.00%
55	3.00%
56	3.00%
57	3.00%
58	3.00%
59	3.00%
60	5.00%
61	5.00%
62	10.00%
63	5.00%
64	5.00%
65	25.00%
66	25.00%
67	25.00%
68	20.00%
69	20.00%
70+	100.00%

**PERS DCR – Participation Assumptions**

Death / Disability Decrement		Retirement Decrement	
Age	Percent Participation	Age	Percent Participation*
< 56	75.0%	55	50.0%
56	77.5%	56	55.0%
57	80.0%	57	60.0%
58	82.5%	58	65.0%
59	85.0%	59	70.0%
60	87.5%	60	75.0%
61	90.0%	61	80.0%
62	92.5%	62	85.0%
63	95.0%	63	90.0%
64	97.5%	64	95.0%
65+	100.0%	65+	Years of Service
			< 15      75.0%
			15 – 19    80.0%
			20 – 24    85.0%
			25 – 29    90.0%
			30+        95.0%



## **Exhibit 3 – Legal Considerations**

### Supporting Resolution 2025-21: Funding the One-Time Actuarial Impact of the 20-Year Retiree Medical Eligibility Option Through Limited Use of HRA Forfeiture-Derived Resources

#### **1. Purpose**

This exhibit outlines the legal and tax considerations associated with using certain Health Reimbursement Arrangement (HRA) Trust balances: specifically, forfeited balances (i.e., unvested accounts of former members who have permanently left covered service and whose balances revert to the plan unless they later return and vest) to fund the one-time actuarial cost of expanding retiree medical eligibility under the Defined Contribution (DC) retirement plan to all members with 20 years of service.

The analysis addresses constitutional non-diminishment principles, statutory limits, reinstatement rules, return-to-service probability estimation, differences between the Defined Benefit (DB) and DC incentive structures, and federal tax-qualification rules. It is intended to identify legal considerations and demonstrate how the proposal can be structured to comply with applicable law and fiduciary obligations.

This exhibit has been prepared by the Alaska Retirement Management Board for its own policy discussions and does not represent legal or tax advice. The analysis and conclusions described here have not been reviewed or endorsed by the Alaska Department of Law or by tax counsel and should not be interpreted as their opinion.

#### **2. Constitutional Protections and the Gallion Diminishment Doctrine**

Article XII, Section 7 of the Alaska Constitution prohibits the State from diminishing or impairing “accrued benefits” owed to members of public retirement systems. In *Municipality of Anchorage v. Gallion*, 944 P.2d 436 (Alaska 1997), the Alaska Supreme Court held that plan assets must remain available to secure participant benefits and cannot be diverted in a manner that reduces accrued entitlements.

Under the HRA statutes, members vest after 10 years of service. A member who leaves covered service before vesting has no current right to the HRA balance, but retains a conditional statutory right to reinstatement if they later return to covered service and complete vesting. Until the opportunity to return has passed, those unvested balances are in an intermediate, contingent status: they are not accrued benefits, but they are also not finally available as free plan assets.

A transfer relying on these balances must therefore incorporate conservative assumptions about who will return. When limited to amounts that, under well-supported return-to-service probabilities, are expected never to require reinstatement, the proposed approach

is unlikely to be interpreted as a diminishment of any accrued benefit under *Gallion*. Because risk cannot be eliminated entirely, caution and conservative estimation are central to the structure of the proposal.

### **3. Statutory Framework: AS 39.30.420(b) and AS 39.30.430**

AS 39.30.420(b) prohibits retroactive plan changes that reduce benefits “accrued to date under the plan by reason of contributions made before the modification or amendment.” Because unvested HRA balances do not represent accrued benefits and cannot be used by the former employee unless vesting is later completed, their transfer, when limited to amounts not reasonably expected to be reinstated, does not implicate this prohibition.

AS 39.30.430 incorporates federal exclusive-benefit and tax-qualification principles. Assets of the HRA Trust:

- Must be used exclusively for participant and beneficiary medical benefits;
- May not revert to employers;
- Must support a qualified HRA structure.

A transfer from the HRA Trust to the Retiree Health Trust for the purpose of improving participant access to retiree medical benefits falls within these boundaries if carefully structured: assets remain dedicated to participant medical benefits, and employers receive no offset, rebate, or refund.

### **4. Status of Unvested Balances and the Need for Probability-Based Estimation**

Under current plan rules:

- A member who leaves covered employment before vesting has no present right to use their HRA balance;
- That balance becomes forfeiture-eligible, remaining in the Trust;
- If the individual later returns and completes vesting, the prior balance must be reinstated with cost-of-living adjustments.

Thus, unvested balances occupy a contingent legal status. They are neither accrued benefits nor fully available plan assets. Because the Board does not know which former employees will return, it cannot treat all unvested balances as freely available, nor must it treat all of them as unavailable. A reasonable, conservative return-to-service estimation is

required to determine which balances should be held in reserve for potential reinstatement and which may prudently be treated as ultimately forfeited.

This probability-based method is necessary to avoid impairing any potential reinstatable right while allowing the Trust to manage resources efficiently and transparently.

## **5. What Return-to-Service Rates Depend On and Why Assumptions Must Be Conservative**

Return-to-service probabilities depend on:

- Years of prior service (incentives peak for those with 8–9 years);
- Time since separation (probability declines sharply with duration);
- Economic value of vesting;
- Member mobility and labor-market conditions;
- The fundamental design of the DC plan compared to prior DB plans.

Under the DB system, many members qualified for system-paid retiree medical coverage after modest service thresholds (commonly 8 or 10 years depending on tier), and others qualified after 25 or 30 years of total membership service. Combined with a lifetime pension annuity, these features created strong incentives for former DB members to return to service if they were close to vesting.

The DC system has different incentives:

- No guaranteed annuity;
- Retiree medical requires 30 years of service, or 25 years for peace officers and firefighters;
- Members retiring before age 65 must pay 100 percent of premiums (out-of-pocket or from their HRA);
- Access at normal retirement age requires 10 years of service plus 12 months of covered service immediately preceding retirement.

Because these incentives are weaker than DB incentives, actual return-to-service rates for DC members are expected to be lower.

Despite that reality, the forfeiture analysis intentionally assumes higher-than-expected return rates, making the estimates conservative. Using conservative assumptions ensures that only balances highly unlikely to be reinstated are counted as available.

## **6. Why Forfeiture Estimates Are Necessary and Conservatively Framed**

The use of forfeiture-derived resources requires a method for determining which unvested balances are ultimately expected to remain forfeited. The conservative framework adopted here:

- Assigns high return probabilities to former members close to vesting (e.g., nine years of service);
- Uses progressively lower probabilities for those with fewer years of service;
- Reflects the empirical reality that most returns occur shortly after separation;
- Applies assumptions that, given DC incentives, understate the actual level of permanent forfeitures.

This ensures the plan does not rely on any balance likely to be reinstated. The methodology is designed to protect all potential member rights while identifying a prudent and limited portion of unvested balances suitable for the one-time transfer.

## **7. Tax-Qualification Considerations**

AS 39.30.430 incorporates federal HRA rules under Internal Revenue Code §§105 and 106. HRAs must:

- Use assets solely for qualified medical expenses;
- Maintain irrevocable employer contributions;
- Avoid functioning as general savings accounts;
- Provide members a realistic opportunity to use the medical benefits accumulated for them.

The tax implications of this proposal merit analysis, but the risk appears manageable. The transferred funds:

- Remain within health-related trusts;
- Continue to support participant medical benefits;

- Do not revert to employers;
- Support access to a medical plan already authorized in statute.

Additionally, earlier eligibility for retiree medical at 20 years may increase members' ability to use their HRA funds, particularly for those retiring before age 65, when premiums must be paid entirely by the member. Greater utilization aligns the HRA more closely with its intended purpose. While federal tax certainty cannot be absolute, the proposal appears well-positioned within the requirements of the Internal Revenue Code.

## **8. Fiduciary Considerations Under AS 37.10.220–.230**

The Board must act solely in the interest of participants, prudently manage trust assets, and ensure all assets are used for their intended purpose. The proposal aligns with these obligations when:

- It relies only on forfeited balances and unvested balances that are, under conservative return-to-service analysis, highly unlikely ever to be reinstated;
- No vested participant account is reduced or impaired;
- All funds remain dedicated exclusively to participant medical benefits;
- The action is documented as a one-time adjustment supporting a statutory benefit enhancement;
- The rationale and conservative assumptions are clearly recorded.

This approach protects reinstatable rights while enabling the Trust to be used efficiently and transparently for participant benefit.

## **9. Conclusion**

When limited to forfeited balances (i.e., unvested accounts of former members who have permanently left covered service and whose balances revert to the plan unless they later return and vest) and to unvested balances that, under conservative return-to-service assumptions, are unlikely to require reinstatement, the proposed transfer to fund a one-time actuarial adjustment for 20-year retiree medical eligibility:

- Is unlikely to constitute a diminishment of any accrued benefit under *Gallion*;
- Can be structured to comply with AS 39.30.420(b) and AS 39.30.430;
- Advances the medical-benefit purpose of the HRA;

- Improves members' ability to access and utilize their HRA accounts; and
- Aligns with fiduciary obligations under AS 37.10.220–.230.

Although no legal or tax analysis can eliminate uncertainty entirely, the risks associated with this proposal appear manageable and can be further mitigated through conservative assumptions, careful documentation, and ongoing legal and tax review.