

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Recommending Action for Disability and Healthcare Coverage Improvements for Disabled
Defined Contribution Members

Resolution 2025-22_A

Updated to Reflect June 30, 2025 Valuation Data

WHEREAS, the Alaska Retirement Management Board (the “Board”) serves as trustee of the retirement trust funds under AS 37.10.210(a) and is charged under AS 37.10.220(a)(4) with assisting in prescribing the policies for the proper operation of the systems and taking other actions necessary to carry out the intent and purpose of the systems in accordance with AS 37.10.210–37.10.390; and

WHEREAS, the Board has received testimony from Defined Contribution (DC) members on occupational disability describing the severe difficulty of being without healthcare coverage while disabled; and

WHEREAS, under the current statutory framework for PERS Tier IV and TRS Tier III, occupational disability benefits do not include healthcare coverage during disability, and non-occupational disability benefits are not provided at all, leaving members without income replacement or healthcare if disabled by illness or injury outside the workplace; and

WHEREAS, the absence of healthcare coverage during disability and the lack of non-occupational disability protection can leave long-serving public employees without income or medical care during periods of disability, including teachers, state troopers, firefighters, and other public workers who have served for decades but are not yet eligible for retiree medical coverage; and

WHEREAS, the DCR Disability Study prepared by Gabriel, Roeder, Smith & Company (GRS) dated November 18, 2025, as supplemented by the February 20, 2026 update reflecting draft June 30, 2025 valuation data (Exhibits 1 and 1A), analyzed the potential cost and funding impact of adding healthcare coverage during disability and adding non-occupational disability coverage for PERS Tier IV and TRS Tier III members; and

WHEREAS, the Disability Study, as supplemented with June 30, 2025 valuation data, indicates that these potential benefit changes would result in modest increases in normal cost and that the relevant Disability and Retiree Medical Trusts are projected to remain fully funded under the modeled scenarios, with funding ratios above 100 percent; and

WHEREAS, based on the updated June 30, 2025 valuation data, the proposed disability improvements would consume a limited portion of existing trust surpluses: for the Occupational Death & Disability Trusts, approximately \$3.8 million of \$9.6 million surplus (TRS) and \$17.7

million of \$74.2 million surplus (PERS) to fund non-occupational disability benefits; and for the Retiree Medical Trusts, approximately \$4.4 million of \$22.7 million surplus (TRS, maintaining 123% funded) and \$22.1 million of \$47.1 million surplus (PERS, maintaining 108% funded) to fund disability healthcare coverage under the combined disability healthcare scenario (Scenario 5); and

WHEREAS, the Board understands that the actuarial modeling in the Disability Study assumed that any such changes would apply to current and future active members and would not apply retroactively to former members or inactive terminated members; and

WHEREAS, legislative and policy background in Exhibit 2 describe prior discussions of disability and death benefit structures for PERS and TRS and provide context for understanding the current statutory framework for PERS Tier IV and TRS Tier III; and

WHEREAS, the Board finds that the gaps in the current DCR disability provisions, specifically the absence of healthcare coverage during disability and of non-occupational disability benefits, create significant financial and medical vulnerability for members who experience disability before reaching eligibility for normal retirement or retiree medical benefits;

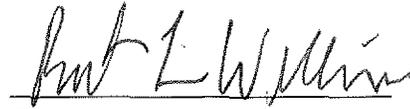
NOW, THEREFORE, BE IT RESOLVED that the Alaska Retirement Management Board recommends potential statutory amendments to:

1. Add healthcare coverage for PERS and TRS Defined Contribution members who are receiving disability benefits (occupational or non-occupational), consistent with the general structure evaluated in the DCR Disability Study; and
2. Extend disability coverage to include non-occupational disabilities for members with at least ten years of covered service.

BE IT FURTHER RESOLVED that the Board requests that the Department of Administration, in coordination with the Board's actuaries, provide separate cost estimates and funding impact analyses for PERS and TRS to assist legislative review.

BE IT FURTHER RESOLVED that the Board notes the following surplus impact based on the June 30, 2025 valuation: the proposed disability improvements, on a standalone basis, would reduce the TRS Occupational Death & Disability Trust from 6,951% funded to 248% funded, the PERS Occupational Death & Disability Trust from 421% funded to 238% funded, the TRS Retiree Medical Trust from 130% funded to 123% funded, and the PERS Retiree Medical Trust from 117% funded to 108% funded. All trust funds remain above 100% funded under all standalone disability improvement scenarios.

DATED at Juneau, Alaska this 18 day of March 2026.



Chair

ATTEST:



Secretary

Attachment A – Disability and Healthcare Coverage Overview by Tier

A. Current Coverage

System / Tier	Plan Type	Disability Coverage	Healthcare During Disability	Non-Occupational Disability
PERS Tier I–III	Defined Benefit	Occupational & non-occupational	Provided	Yes
TRS Tier I–II	Defined Benefit	Occupational & non-occupational	Provided	Yes
PERS Tier IV	Defined Contribution	Occupational only (40% of pay)	Not provided	No
TRS Tier III	Defined Contribution	Occupational only (40% of pay)	Not provided	No

B. Funding Status (as reflected in the DCR Disability Study, June 30, 2025 valuation)

Disability Trusts

- PERS Tier IV Occupational Death & Disability Trust: 421% funded
- TRS Tier III Occupational Death & Disability Trust: 6,951% funded

Retiree Medical Trusts

- PERS Tier IV Retiree Medical Trust: 117% funded
- TRS Tier III Retiree Medical Trust: 130% funded

Actuarial Findings

The DCR Disability Study (GRS, Nov. 18, 2025, as supplemented Feb. 20, 2026) concludes:

- Adding healthcare coverage during disability or adding non-occupational disability results in modest increases to normal cost.
- Under all modeled scenarios, funded ratios remain above 100 percent for every trust fund.
- Disability incidence varies by system and employee classification. For TRS, approximately 85% of disabilities are non-occupational. For PERS Others, approximately 65% of disabilities are non-occupational. For PERS Peace Officers and Firefighters, approximately 30% of disabilities are non-occupational. Under current statutes, all non-occupational disabilities are excluded from any benefit regardless of years of service.
- The number of current DCR disabled members is very small, making the impact manageable.

Surplus Impact of Proposed Disability Improvements (Standalone)

Trust Fund	Baseline Surplus	Surplus Consumed	Remaining Surplus	Post-Change Funded Ratio
TRS OD&D	\$9,591,000	\$3,778,000	\$5,813,000	248%
PERS OD&D	\$74,163,000	\$17,709,000	\$56,454,000	238%
TRS Retiree Medical	\$22,692,000	\$4,434,000	\$18,258,000	123%
PERS Retiree Medical	\$47,144,000	\$22,061,000	\$25,083,000	108%

C. Illustrative Coverage Gaps

Teacher Example

A 62-year-old TRS Tier III teacher with 28 years of service who becomes disabled due to cancer, stroke, or another non-occupational condition:

- Does not qualify for disability income under TRS Tier III.
- Does not receive healthcare coverage during disability.
- Does not qualify for retiree medical (which requires 30 years of service or age 65).

The member loses both income and access to medical coverage after nearly three decades of public service.

Public Safety Example

A state trooper or firefighter seriously injured in the line of duty may survive but not recover enough to continue working. Under the current statutes:

- If separated from employment, the member will lose covered medical coverage.
- Even after a career of dedicated service, the member would not be able to access covered retiree medical until reaching normal retirement age (currently age 65).

Under prior Defined Benefit tiers (PERS Tier III and TRS Tier II), these members would have retained both disability income and medical coverage during disability.

D. Testimony and Board Observations

Public testimony before the ARM Board in September 2025 described the challenges of members on occupational disability being left without covered medical coverage.

Both DC Death and Disability Trusts remain well funded, providing capacity to consider measured benefit improvements without affecting funding integrity. Providing healthcare coverage during disability and adding non-occupational disability coverage would close two major coverage gaps and provide reasonable security to Alaska’s PERS and TRS Defined Contribution members.

Exhibits

The following Exhibits are incorporated by reference into Resolution 2025-22:

- Exhibit 1 – DCR Disability Study – GRS, dated November 18, 2025
- Exhibit 1A – GRS February 20, 2026, Supplemental Letter (June 30, 2025 Data)
- Exhibit 2 – Disability Context for PERS Tier IV and TRS Tier III (Legislative and Policy Background)
- Exhibit 3 – Current PERS Disability Statutes (PERS Tier IV Disability Provisions)
- Exhibit 4 – Current TRS Disability Statutes (TRS Tier III Disability Provisions)
- Exhibit 5 – Recommended Statute Changes for PERS Tier IV and TRS Tier III Disability and Healthcare Provisions

Note: Exhibits 1–5 are unchanged from the originally adopted Resolution 2025-22 (12/03/2025) except for the correction of the GRS date from November 11 to November 18, 2025. Exhibit 1A is new, incorporating the February 20, 2026, GRS supplemental letter based on June 30, 2025 valuation data.



Date: November 18, 2025

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

From: Paul T. Wood, ASA, FCA, MAAA

Cassie Rapoport, ASA, MAAA

cc: Ms. Alysia Jones

Re: Request for Actuary Feedback on Proposed Changes to DCR Plan Disability Benefits

At your request, we have analyzed the impact of including single person pre-Medicare healthcare coverage for members participating in the PERS DCR and TRS DCR Plans who qualify for occupational disability benefits. In addition, we have analyzed the impact of adding non-occupational disability benefits, with and without healthcare coverage, for members participating in the PERS DCR and TRS DCR Plans. Active members would be eligible for non-occupational disability benefits upon reaching 10 years of service.

Under the current provisions:

- Employees who qualify for occupational disability benefits are not eligible for subsidized pre-Medicare retiree medical benefits, and must pay 100% of the cost until the employee reaches normal retirement eligibility.
- Non-occupational disability benefits, both pension and healthcare, are not provided.

We understand the Strategic Review and Action Committee is exploring additional benefits provided by the Occupational Death & Disability and Retiree Medical Plans, including the following:

1. **Adding single person pre-Medicare healthcare coverage for current and future members who qualify for occupational disability benefits.**
2. **Adding non-occupational disability coverage for members with 10 years of covered service.**
3. **Adding non-occupational disability coverage with single person healthcare for members with 10 years of covered service.**

Our task is to address the following:

1. **What are the financial and operational implications of providing single person pre-Medicare healthcare coverage to future retirees who qualify for occupational disability benefits?**
2. **What are the financial and operational implications of providing non-occupational disability benefits to members with 10 years of service?**
3. **What are the financial and operational implications of providing single person pre-Medicare healthcare coverage to future retirees who qualify for non-occupational disability benefits?**
4. **Would these changes support the sustainability of the PERS DCR and TRS DCR Plans?**

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 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, 2024 DCR valuation reports dated April 23, 2025.
- The census data used by Gallagher in the June 30, 2024 valuation.
- No changes to the decrement rates, participation assumptions, per capita claims costs, or any other assumptions when measuring the impact of changing benefit provisions.

In the Appendix, we have included the disability rates and the healthcare participation assumptions from the June 30, 2024 DCR valuation reports.

Analysis

Currently, members who qualify for occupational disability benefits 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 impact of providing single person healthcare coverage at no cost to the member from the time of disability until the member reaches age 65.

Additionally, there are no benefits provided for non-occupational disability under the current provisions for the Retiree Medical Plan. We studied the impact of providing single person healthcare coverage at no cost to the member from the time of disability until the member reaches age 65, as well as a subsidized premium upon reaching Medicare eligibility.

Finally, we studied the impact of providing for non-occupational disability benefits under the Occupational Death and Disability Plan.

For purposes of our analysis, we assumed that coverage applies to current and future members only. This analysis does not include inactive members or former employees.

In order to analyze the impact of these changes to the Plan, we modeled the following scenarios:

- Scenario 1 – Provides for non-occupational disability benefits under the Occupational Death and Disability Plan.
 - For the TRS plan, the non-occupational disability benefit is equal to 40% of salary at date of disability. Disabilities are assumed to be occupational 15% of the time.



- For PERS Others, the non-occupational disability benefit is equal to 40% of salary at date of disability. Disabilities are assumed to be occupational 35% of the time.
- For PERS Peace Officer/Firefighters, the non-occupational disability benefit is equal to 40% of salary at date of disability. Disabilities are assumed to be occupational 70% of the time.
- To be eligible for non-occupational disability benefits, an employee must have 10 years of covered service.
- Scenario 2 – Provides for single person pre-Medicare healthcare coverage under the Retiree Medical Plan for future disabled retirees receiving occupational disability benefits.
- Scenario 3 – Provides for single person post-Medicare healthcare coverage under the Retiree Medical Plan for future disabled retirees receiving non-occupational disability benefits.
- Scenario 4 – Provides for single person pre and post-Medicare healthcare coverage under the Retiree Medical Plan for disabled retirees receiving non-occupational disability benefits.
- Scenario 5 – Combination of Scenarios 2 and 4.

TRS DCR

As of June 30, 2024, the TRS DCR Occupational Death & Disability Plan is approximately \$8 million overfunded with a funded ratio of 5,172%. The contributions to the Plan are equal to the normal cost which is 0.08% of TRS DCR payroll.

Under Scenario 1, the Occupational Death & Disability Plan is expected to remain above 100% funded, with an overfunded accrued liability of approximately \$4.8 million. As a result of providing non-occupational disability benefits, the normal cost as a percent of PERS DCR payroll would increase from 0.08% to 0.13%. This equates to approximately \$0.3 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. 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 Occupational Death & Disability Plan with the non-occupational disability benefits is expected to remain sustainable. It should be noted that this is a significant change to the benefit structure as it is currently assumed that 85% of disabilities are non-occupational. Under this change, those 85% of disabilities would be eligible for benefits when they previously were not.

As of June 30, 2024, the TRS DCR Retiree Medical Plan is approximately \$22 million overfunded with a funded ratio of 134%. The contributions to the Plan are equal to the normal cost, which is 0.75% of TRS DCR payroll.

Under Scenario 2, the Retiree Medical Plan is expected to remain above 100% with an overfunded accrued liability of approximately \$22 million. As a result of providing pre-Medicare healthcare coverage to future retirees receiving occupational disability benefits, the normal cost as a percent of TRS DCR payroll would increase from 0.75% to 0.77%. This equates to approximately \$0.2 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. 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 pre-Medicare healthcare coverage for future retirees receiving occupational disability benefits is expected to remain sustainable.

Under Scenarios 3 and 4, the Retiree Medical Plan is expected to remain above 100% funded with an overfunded accrued liability of approximately \$21 million under Scenario 3, and \$19 million under Scenario 4. As a result of providing pre and/or post-Medicare healthcare coverage to future retirees receiving non-occupational disability benefits, the normal cost as a percent of TRS DCR payroll would increase from 0.75% to 0.76% and 0.80%, under Scenarios 3 and 4, respectively. This equates to approximately \$0.1 million in additional contributions in the first year under Scenario 3, and \$0.3 million in additional contributions under Scenario 4. 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 pre and post-Medicare healthcare coverage for future retirees receiving non-occupational disability benefits is expected to remain sustainable.

Under Scenario 5, the proposed provisions from Scenarios 2 and 4 have been combined under one model. As a result of providing healthcare coverage for future retirees receiving either occupational and non-occupational disability benefits, the normal cost as a percent of TRS DCR payroll would increase from 0.75% to 0.82%. This equates to approximately \$0.5 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. 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 Retiree Medical Plan with pre and post-Medicare health coverage for future disabled retirees is expected to remain sustainable.

PERS DCR

As of June 30, 2024, the PERS DCR Occupational Death & Disability Plan is approximately \$63 million overfunded with a funded ratio of 399%. The contributions to the Plan are equal to the normal cost which is 0.31% of PERS DCR payroll.

Under Scenario 1, the Occupational Death & Disability Plan is expected to remain above 100% funded with an overfunded accrued liability of approximately \$47 million. As a result of providing non-occupational disability benefits, the normal cost as a percent of PERS DCR payroll would increase from 0.31% to 0.37%. This equates to approximately \$1.4 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 Occupational Death & Disability Plan with the non-occupational disability benefits is expected to remain sustainable. The impact on the PERS DCR is relatively less than the impact to the TRS DCR because a higher proportion of disabilities are already assumed to be occupational.



As of June 30, 2024, the PERS DCR Retiree Medical Plan is approximately \$48 million overfunded with a funded ratio of 121%. The contributions to the Plan are equal to the normal cost which is 0.82% of PERS DCR payroll.

Under Scenario 2, the Retiree Medical Plan is expected to remain above 100% funded with an overfunded accrued liability of approximately \$45 million. As a result of providing pre-Medicare healthcare coverage to future retirees receiving occupational disability benefits, the normal cost as a percent of PERS DCR payroll would increase from 0.82% to 0.94%. This equates to approximately \$2.5 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 pre-Medicare healthcare coverage for future retirees receiving occupational disability benefits is expected to remain sustainable.

Under Scenarios 3 and 4, the Retiree Medical Plan is expected to remain above 100% funded with an overfunded accrued liability of approximately \$45 million under Scenario 3, and \$34 million under Scenario 4. As a result of providing pre and/or post-Medicare healthcare coverage to future retirees receiving non-occupational disability benefits, the normal cost as a percent of PERS DCR payroll would increase from 0.82% to 0.84% and 0.88%, under Scenarios 3 and 4, respectively. This equates to approximately \$0.3 million in additional contributions in the first year under Scenario 3, and \$1.4 million in additional contributions under Scenario 4. 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 pre and post-Medicare healthcare coverage for future retirees receiving non-occupational disability benefits is expected to remain sustainable.

Under Scenario 5, the proposed provisions from Scenarios 2 and 4 have been combined under one model. As a result of providing healthcare coverage for future retirees receiving either occupational and non-occupational disability benefits, the normal cost as a percent of PERS DCR payroll would increase from 0.82% to 1.00%. This equates to approximately \$3.9 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 Retiree Medical Plan with pre and post-Medicare health coverage for future disabled retirees is expected to remain sustainable.



Summary of Results

TRS DCR - Occupational Death & Disability

Scenario	Baseline	(1) Non-Occupational Disability Benefits
Accrued Liability	\$ 165,000	\$ 3,777,000
Actuarial Value of Assets	<u>8,533,000</u>	<u>8,533,000</u>
(Over)/Unfunded Accrued Liability	\$ (8,368,000)	\$ (4,756,000)
Funded Ratio	5172%	226%
Normal Cost as a % of TRS DCR Payroll	0.08%	0.13%
Amort. Payment as a % of TRS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of TRS DCR Payroll	0.08%	0.13%
Contribution Dollars Increase in First Year	\$ -	307,000

PERS DCR - Occupational Death & Disability

Scenario	Baseline	(1) Non-Occupational Disability Benefits
Accrued Liability	\$ 21,094,000	\$ 37,097,000
Actuarial Value of Assets	<u>84,077,000</u>	<u>84,077,000</u>
(Over)/Unfunded Accrued Liability	\$ (62,983,000)	\$ (46,980,000)
Funded Ratio	399%	227%
Normal Cost as a % of PERS DCR Payroll	0.31%	0.37%
Amort. Payment as a % of PERS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of PERS DCR Payroll	0.31%	0.37%
Contribution Dollars Increase in First Year	\$ -	1,400,000



TRS DCR - Retiree Medical

Scenario	Baseline	(2) - Occupational Pre-65 Coverage	(3) - Non- Occupational Post- 65 Coverage	(4) - Non- Occupational Pre & Post-65 Coverage	(5) - Scenarios 2 and 4 Combined
Accrued Liability	\$ 65,338,000	\$ 65,476,000	\$ 66,146,000	\$ 68,930,000	\$ 69,068,000
Actuarial Value of Assets	<u>87,558,000</u>	<u>87,558,000</u>	<u>87,558,000</u>	<u>87,558,000</u>	<u>87,558,000</u>
(Over)/Unfunded Accrued Liability	\$ (22,220,000)	\$ (22,082,000)	\$ (21,412,000)	\$ (18,628,000)	\$ (18,490,000)
Funded Ratio	134%	134%	132%	127%	127%
Normal Cost as a % of TRS DCR Payroll	0.75%	0.77%	0.76%	0.80%	0.82%
Amort. Payment as a % of TRS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of TRS DCR Payroll	0.75%	0.77%	0.76%	0.80%	0.82%
Contribution Dollars Increase in First Year	\$ -	163,000	65,000	303,000	466,000

PERS DCR - Retiree Medical

Scenario	Baseline	(2) - Occupational Pre-65 Coverage	(3) - Non- Occupational Post- 65 Coverage	(4) - Non- Occupational Pre & Post-65 Coverage	(5) - Scenarios 2 and 4 Combined
Accrued Liability	\$ 233,700,000	\$ 237,249,000	\$ 237,340,000	\$ 248,338,000	\$ 251,887,000
Actuarial Value of Assets	<u>281,915,000</u>	<u>281,915,000</u>	<u>281,915,000</u>	<u>281,915,000</u>	<u>281,915,000</u>
(Over)/Unfunded Accrued Liability	\$ (48,215,000)	\$ (44,666,000)	\$ (44,575,000)	\$ (33,577,000)	\$ (30,028,000)
Funded Ratio	121%	119%	119%	114%	112%
Normal Cost as a % of PERS DCR Payroll	0.82%	0.94%	0.84%	0.88%	1.00%
Amort. Payment as a % of PERS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of PERS DCR Payroll	0.82%	0.94%	0.84%	0.88%	1.00%
Contribution Dollars Increase in First Year	\$ -	2,500,000	300,000	1,372,000	3,900,000



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 0.15% under Scenario 1, about 0.24% under Scenario 2, about 0.03% under Scenario 3, about 0.15% under Scenario 4, and about 0.40% under Scenario 5.

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, 2024 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 Ms. Rapoport 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



Cassie Rapoport, ASA, MAAA
Consultant



Appendix – Assumptions from the June 30, 2024 DCR Valuation Reports

TRS DCR – Disability Rates

Age	Male	Female	Age	Male	Female
<31	0.0337%	0.0612%	50	0.0601%	0.1093%
31	0.0337%	0.0613%	51	0.0634%	0.1152%
32	0.0337%	0.0613%	52	0.0666%	0.1211%
33	0.0342%	0.0622%	53	0.0746%	0.1356%
34	0.0347%	0.0631%	54	0.0826%	0.1501%
35	0.0353%	0.0641%	55	0.0905%	0.1645%
36	0.0357%	0.0650%	56	0.0985%	0.1790%
37	0.0362%	0.0659%	57	0.1064%	0.1935%
38	0.0371%	0.0674%	58	0.1245%	0.2263%
39	0.0379%	0.0689%	59	0.1426%	0.2592%
40	0.0387%	0.0703%	60	0.1606%	0.2920%
41	0.0395%	0.0718%	61	0.1787%	0.3249%
42	0.0403%	0.0733%	62	0.1967%	0.3577%
43	0.0423%	0.0770%	63	0.2253%	0.4096%
44	0.0443%	0.0806%	64	0.2572%	0.4677%
45	0.0464%	0.0843%	65	0.2933%	0.5332%
46	0.0483%	0.0879%	66	0.3343%	0.6079%
47	0.0504%	0.0916%	67	0.3812%	0.6930%
48	0.0536%	0.0975%	68	0.4345%	0.7900%
49	0.0569%	0.1034%	69	0.4953%	0.9006%
			70+	0.5647%	1.0267%

Disabilities are assumed to be occupational 15% of the time.

TRS 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%



Appendix – Assumptions from the June 30, 2024 Valuation Reports (Cont’d)

PERS DCR – Disability Rates

Peace Officer/Firefighters						Others					
Age	Male	Female	Age	Male	Female	Age	Male	Female	Age	Male	Female
<23	0.0179%	0.0112%	46	0.1247%	0.0780%	<23	0.0327%	0.0376%	46	0.1125%	0.1154%
23	0.0244%	0.0153%	47	0.1337%	0.0836%	23	0.0360%	0.0400%	47	0.1208%	0.1236%
24	0.0310%	0.0194%	48	0.1462%	0.0914%	24	0.0392%	0.0424%	48	0.1329%	0.1360%
25	0.0374%	0.0234%	49	0.1588%	0.0993%	25	0.0425%	0.0448%	49	0.1451%	0.1484%
26	0.0440%	0.0275%	50	0.1714%	0.1071%	26	0.0456%	0.0472%	50	0.1572%	0.1608%
27	0.0505%	0.0316%	51	0.1839%	0.1150%	27	0.0489%	0.0496%	51	0.1694%	0.1734%
28	0.0526%	0.0329%	52	0.1965%	0.1228%	28	0.0501%	0.0510%	52	0.1815%	0.1858%
29	0.0548%	0.0343%	53	0.2294%	0.1434%	29	0.0513%	0.0524%	53	0.2132%	0.2168%
30	0.0570%	0.0356%	54	0.2624%	0.1640%	30	0.0524%	0.0538%	54	0.2450%	0.2478%
31	0.0591%	0.0370%	55	0.2954%	0.1846%	31	0.0536%	0.0554%	55	0.2766%	0.2788%
32	0.0612%	0.0383%	56	0.3283%	0.2052%	32	0.0548%	0.0568%	56	0.3084%	0.3098%
33	0.0634%	0.0397%	57	0.3613%	0.2258%	33	0.0566%	0.0586%	57	0.3401%	0.3408%
34	0.0657%	0.0411%	58	0.4112%	0.2570%	34	0.0584%	0.0606%	58	0.4068%	0.4096%
35	0.0679%	0.0425%	59	0.4611%	0.2882%	35	0.0602%	0.0624%	59	0.4736%	0.4784%
36	0.0702%	0.0439%	60	0.5110%	0.3194%	36	0.0620%	0.0644%	60	0.5405%	0.5470%
37	0.0724%	0.0453%	61	0.5610%	0.3506%	37	0.0638%	0.0662%	61	0.6072%	0.6158%
38	0.0757%	0.0473%	62	0.6109%	0.3818%	38	0.0669%	0.0696%	62	0.6740%	0.6844%
39	0.0789%	0.0493%	63	0.6109%	0.3818%	39	0.0701%	0.0728%	63	0.8526%	0.8450%
40	0.0822%	0.0514%	64	0.6109%	0.3818%	40	0.0734%	0.0762%	64	1.0314%	1.0054%
41	0.0854%	0.0534%	65	0.6109%	0.3818%	41	0.0765%	0.0794%	65	1.2101%	1.1660%
42	0.0886%	0.0554%	66	0.6109%	0.3818%	42	0.0797%	0.0826%	66	1.3889%	1.3264%
43	0.0977%	0.0611%	67	0.6109%	0.3818%	43	0.0879%	0.0908%	67	1.5675%	1.4870%
44	0.1066%	0.0667%	68	0.4073%	0.2546%	44	0.0962%	0.0990%	68	1.0451%	0.9914%
45	0.1157%	0.0723%	69	0.2036%	0.1273%	45	0.1043%	0.1072%	69	0.5225%	0.4956%
			70+	0.2036%	0.1273%				70+	0.5225%	0.4956%

Disabilities are assumed to be occupational 70% of the time for Peace Officer/Firefighters, and 35% of the time for Others.



Appendix – Assumptions from the June 30, 2024 Valuation Reports (Cont'd)

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%





Date: February 20, 2026

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

From: Paul T. Wood, ASA, FCA, MAAA

Cassie Rapoport, ASA, MAAA

cc: Ms. Alysia Jones

Re: **2025 Update - Request for Actuary Feedback on Proposed Changes to DCR Plan Disability Benefits**

At your request, we are providing this letter that supplements the letter dated November 18, 2025 (Request for Actuary Feedback on Proposed Changes to DCR Plan Disability Benefits). This letter provides the estimated results of the original study based on the draft June 30, 2025 actuarial valuation results.

Under the current provisions:

- Employees who qualify for occupational disability benefits are not eligible for subsidized pre-Medicare retiree medical benefits, and must pay 100% of the cost until the employee reaches normal retirement eligibility.
- Non-occupational disability benefits, both pension and healthcare, are not provided.

We understand the Strategic Review and Action Committee is exploring additional benefits provided by the Occupational Death & Disability and Retiree Medical Plans, including the following:

1. **Adding single person pre-Medicare healthcare coverage for current and future members who qualify for occupational disability benefits.**
2. **Adding non-occupational disability coverage for members with 10 years of covered service.**
3. **Adding non-occupational disability coverage with single person healthcare for members with 10 years of covered service.**

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 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 draft June 30, 2025 DCR valuation reports dated January 9, 2026.
- The census data used by Gallagher in the June 30, 2025 valuation.
- No changes to the decrement rates, participation assumptions, per capita claims costs, or any other assumptions when measuring the impact of changing benefit provisions.

Benefits paid from the Occupational Death & Disability Trust

The following tables show the original analysis based on the June 30, 2024 valuation as well as the estimated results based on the June 30, 2025 valuation for the TRS and PERS DCR plans.

TRS DCR - Occupational Death & Disability

Original Analysis Based on the June 30, 2024 Valuation

Scenario	Baseline	(1) Non-Occupational Disability Benefits
Accrued Liability	\$ 165,000	\$ 3,777,000
Actuarial Value of Assets	<u>8,533,000</u>	<u>8,533,000</u>
(Over)/Unfunded Accrued Liability	\$ (8,368,000)	\$ (4,756,000)
Funded Ratio	5172%	226%
Normal Cost as a % of TRS DCR Payroll	0.08%	0.13%
Amort. Payment as a % of TRS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of TRS DCR Payroll	0.08%	0.13%

Updated Analysis Based on the June 30, 2025 Valuation

Scenario	Baseline	(1) Non-Occupational Disability Benefits
Accrued Liability	\$ 140,000	\$ 3,918,000
Actuarial Value of Assets	<u>9,731,000</u>	<u>9,731,000</u>
(Over)/Unfunded Accrued Liability	\$ (9,591,000)	\$ (5,813,000)
Funded Ratio	6951%	248%
Normal Cost as a % of TRS DCR Payroll	0.08%	0.13%
Amort. Payment as a % of TRS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of TRS DCR Payroll	0.08%	0.13%



PERS DCR - Occupational Death & Disability
Original Analysis Based on the June 30, 2024 Valuation

Scenario	Baseline	(1) Non-Occupational Disability Benefits
Accrued Liability	\$ 21,094,000	\$ 37,097,000
Actuarial Value of Assets	<u>84,077,000</u>	<u>84,077,000</u>
(Over)/Unfunded Accrued Liability	\$ (62,983,000)	\$ (46,980,000)
Funded Ratio	399%	227%
Normal Cost as a % of PERS DCR Payroll	0.31%	0.37%
Amort. Payment as a % of PERS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of PERS DCR Payroll	0.31%	0.37%

Updated Analysis Based on the June 30, 2025 Valuation

Scenario	Baseline	(1) Non-Occupational Disability Benefits
Accrued Liability	\$ 23,070,000	\$ 40,779,000
Actuarial Value of Assets	<u>97,233,000</u>	<u>97,233,000</u>
(Over)/Unfunded Accrued Liability	\$ (74,163,000)	\$ (56,454,000)
Funded Ratio	421%	238%
Normal Cost as a % of PERS DCR Payroll	0.31%	0.37%
Amort. Payment as a % of PERS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of PERS DCR Payroll	0.31%	0.37%

Benefits paid from the Retiree Medical Trust

The following tables show the original analysis based on the June 30, 2024 valuation as well as the estimated results based on the June 30, 2025 valuation for the TRS and PERS DCR plans.



TRS DCR - Retiree Medical

Original Analysis Based on the June 30, 2024 Valuation

Scenario	Baseline	(2) - Occupational	(3) - Non-	(4) - Non-	(5) - Scenarios 2
		Pre-65 Coverage	Occupational Post-65 Coverage	Occupational Pre & Post-65 Coverage	and 4 Combined
Accrued Liability	\$ 65,338,000	\$ 65,476,000	\$ 66,146,000	\$ 68,930,000	\$ 69,068,000
Actuarial Value of Assets	<u>87,558,000</u>	<u>87,558,000</u>	<u>87,558,000</u>	<u>87,558,000</u>	<u>87,558,000</u>
(Over)/Unfunded Accrued Liability	\$ (22,220,000)	\$ (22,082,000)	\$ (21,412,000)	\$ (18,628,000)	\$ (18,490,000)
Funded Ratio	134%	134%	132%	127%	127%
Normal Cost as a % of TRS DCR Payroll	0.75%	0.77%	0.76%	0.80%	0.82%
Amort. Payment as a % of TRS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of TRS DCR Payroll	0.75%	0.77%	0.76%	0.80%	0.82%

Updated Analysis Based on the June 30, 2025 Valuation

Scenario	Baseline	(2) - Occupational	(3) - Non-	(4) - Non-	(5) - Scenarios 2
		Pre-65 Coverage	Occupational Post-65 Coverage	Occupational Pre & Post-65 Coverage	and 4 Combined
Accrued Liability	\$ 76,563,000	\$ 76,786,000	\$ 77,509,000	\$ 80,774,000	\$ 80,997,000
Actuarial Value of Assets	<u>99,255,000</u>	<u>99,255,000</u>	<u>99,255,000</u>	<u>99,255,000</u>	<u>99,255,000</u>
(Over)/Unfunded Accrued Liability	\$ (22,692,000)	\$ (22,469,000)	\$ (21,746,000)	\$ (18,481,000)	\$ (18,258,000)
Funded Ratio	130%	129%	128%	123%	123%
Normal Cost as a % of TRS DCR Payroll	0.76%	0.78%	0.77%	0.81%	0.84%
Amort. Payment as a % of TRS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of TRS DCR Payroll	0.76%	0.78%	0.77%	0.81%	0.84%



PERS DCR - Retiree Medical

Original Analysis Based on the June 30, 2024 Valuation

Scenario	Baseline	(3) - Non-		(4) - Non-		(5) - Scenarios 2 and 4 Combined
		(2) - Occupational Pre-65 Coverage	Occupational Post-65 Coverage	Occupational Pre & Post-65 Coverage		
Accrued Liability	\$ 233,700,000	\$ 237,249,000	\$ 237,340,000	\$ 248,338,000	\$ 251,887,000	
Actuarial Value of Assets	<u>281,915,000</u>	<u>281,915,000</u>	<u>281,915,000</u>	<u>281,915,000</u>	<u>281,915,000</u>	
(Over)/Unfunded Accrued Liability	\$ (48,215,000)	\$ (44,666,000)	\$ (44,575,000)	\$ (33,577,000)	\$ (30,028,000)	
Funded Ratio	121%	119%	119%	114%	112%	
Normal Cost as a % of PERS DCR Payroll	0.82%	0.94%	0.84%	0.88%	1.00%	
Amort. Payment as a % of PERS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
Total Contribution as a % of PERS DCR Payroll	0.82%	0.94%	0.84%	0.88%	1.00%	

Updated Analysis Based on the June 30, 2025 Valuation

Scenario	Baseline	(3) - Non-		(4) - Non-		(5) - Scenarios 2 and 4 Combined
		(2) - Occupational Pre-65 Coverage	Occupational Post-65 Coverage	Occupational Pre & Post-65 Coverage		
Accrued Liability	\$ 277,128,000	\$ 281,901,000	\$ 281,419,000	\$ 294,416,000	\$ 299,189,000	
Actuarial Value of Assets	<u>324,272,000</u>	<u>324,272,000</u>	<u>324,272,000</u>	<u>324,272,000</u>	<u>324,272,000</u>	
(Over)/Unfunded Accrued Liability	\$ (47,144,000)	\$ (42,371,000)	\$ (42,853,000)	\$ (29,856,000)	\$ (25,083,000)	
Funded Ratio	117%	115%	115%	110%	108%	
Normal Cost as a % of PERS DCR Payroll	0.83%	0.94%	0.84%	0.89%	1.01%	
Amort. Payment as a % of PERS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
Total Contribution as a % of PERS DCR Payroll	0.83%	0.94%	0.84%	0.89%	1.01%	



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, 2025 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. Also, as this is a supplemental letter, it is subject to all the disclosures found in the letter dated November 18, 2025. Additional details can be found in that letter. You will find a copy of the November 18, 2025 letter attached.

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.

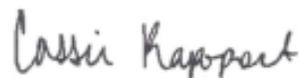
Mr. Wood and Ms. Rapoport are Associates of the Society of Actuaries, and Members of the American Academy of Actuaries. They meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. They are both experienced in performing valuations for large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

Sincerely,

Gabriel, Roeder, Smith & Company



Paul Wood, ASA, FCA, MAAA
Senior Consultant



Cassie Rapoport, ASA, MAAA
Consultant





Date: November 18, 2025

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

From: Paul T. Wood, ASA, FCA, MAAA

Cassie Rapoport, ASA, MAAA

cc: Ms. Alysia Jones

Re: Request for Actuary Feedback on Proposed Changes to DCR Plan Disability Benefits

At your request, we have analyzed the impact of including single person pre-Medicare healthcare coverage for members participating in the PERS DCR and TRS DCR Plans who qualify for occupational disability benefits. In addition, we have analyzed the impact of adding non-occupational disability benefits, with and without healthcare coverage, for members participating in the PERS DCR and TRS DCR Plans. Active members would be eligible for non-occupational disability benefits upon reaching 10 years of service.

Under the current provisions:

- Employees who qualify for occupational disability benefits are not eligible for subsidized pre-Medicare retiree medical benefits, and must pay 100% of the cost until the employee reaches normal retirement eligibility.
- Non-occupational disability benefits, both pension and healthcare, are not provided.

We understand the Strategic Review and Action Committee is exploring additional benefits provided by the Occupational Death & Disability and Retiree Medical Plans, including the following:

1. **Adding single person pre-Medicare healthcare coverage for current and future members who qualify for occupational disability benefits.**
2. **Adding non-occupational disability coverage for members with 10 years of covered service.**
3. **Adding non-occupational disability coverage with single person healthcare for members with 10 years of covered service.**

Our task is to address the following:

1. **What are the financial and operational implications of providing single person pre-Medicare healthcare coverage to future retirees who qualify for occupational disability benefits?**
2. **What are the financial and operational implications of providing non-occupational disability benefits to members with 10 years of service?**
3. **What are the financial and operational implications of providing single person pre-Medicare healthcare coverage to future retirees who qualify for non-occupational disability benefits?**
4. **Would these changes support the sustainability of the PERS DCR and TRS DCR Plans?**

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 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, 2024 DCR valuation reports dated April 23, 2025.
- The census data used by Gallagher in the June 30, 2024 valuation.
- No changes to the decrement rates, participation assumptions, per capita claims costs, or any other assumptions when measuring the impact of changing benefit provisions.

In the Appendix, we have included the disability rates and the healthcare participation assumptions from the June 30, 2024 DCR valuation reports.

Analysis

Currently, members who qualify for occupational disability benefits 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 impact of providing single person healthcare coverage at no cost to the member from the time of disability until the member reaches age 65.

Additionally, there are no benefits provided for non-occupational disability under the current provisions for the Retiree Medical Plan. We studied the impact of providing single person healthcare coverage at no cost to the member from the time of disability until the member reaches age 65, as well as a subsidized premium upon reaching Medicare eligibility.

Finally, we studied the impact of providing for non-occupational disability benefits under the Occupational Death and Disability Plan.

For purposes of our analysis, we assumed that coverage applies to current and future members only. This analysis does not include inactive members or former employees.

In order to analyze the impact of these changes to the Plan, we modeled the following scenarios:

- Scenario 1 – Provides for non-occupational disability benefits under the Occupational Death and Disability Plan.
 - For the TRS plan, the non-occupational disability benefit is equal to 40% of salary at date of disability. Disabilities are assumed to be occupational 15% of the time.



- For PERS Others, the non-occupational disability benefit is equal to 40% of salary at date of disability. Disabilities are assumed to be occupational 35% of the time.
- For PERS Peace Officer/Firefighters, the non-occupational disability benefit is equal to 40% of salary at date of disability. Disabilities are assumed to be occupational 70% of the time.
- To be eligible for non-occupational disability benefits, an employee must have 10 years of covered service.
- Scenario 2 – Provides for single person pre-Medicare healthcare coverage under the Retiree Medical Plan for future disabled retirees receiving occupational disability benefits.
- Scenario 3 – Provides for single person post-Medicare healthcare coverage under the Retiree Medical Plan for future disabled retirees receiving non-occupational disability benefits.
- Scenario 4 – Provides for single person pre and post-Medicare healthcare coverage under the Retiree Medical Plan for disabled retirees receiving non-occupational disability benefits.
- Scenario 5 – Combination of Scenarios 2 and 4.

TRS DCR

As of June 30, 2024, the TRS DCR Occupational Death & Disability Plan is approximately \$8 million overfunded with a funded ratio of 5,172%. The contributions to the Plan are equal to the normal cost which is 0.08% of TRS DCR payroll.

Under Scenario 1, the Occupational Death & Disability Plan is expected to remain above 100% funded, with an overfunded accrued liability of approximately \$4.8 million. As a result of providing non-occupational disability benefits, the normal cost as a percent of PERS DCR payroll would increase from 0.08% to 0.13%. This equates to approximately \$0.3 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. 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 Occupational Death & Disability Plan with the non-occupational disability benefits is expected to remain sustainable. It should be noted that this is a significant change to the benefit structure as it is currently assumed that 85% of disabilities are non-occupational. Under this change, those 85% of disabilities would be eligible for benefits when they previously were not.

As of June 30, 2024, the TRS DCR Retiree Medical Plan is approximately \$22 million overfunded with a funded ratio of 134%. The contributions to the Plan are equal to the normal cost, which is 0.75% of TRS DCR payroll.

Under Scenario 2, the Retiree Medical Plan is expected to remain above 100% with an overfunded accrued liability of approximately \$22 million. As a result of providing pre-Medicare healthcare coverage to future retirees receiving occupational disability benefits, the normal cost as a percent of TRS DCR payroll would increase from 0.75% to 0.77%. This equates to approximately \$0.2 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. 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 pre-Medicare healthcare coverage for future retirees receiving occupational disability benefits is expected to remain sustainable.

Under Scenarios 3 and 4, the Retiree Medical Plan is expected to remain above 100% funded with an overfunded accrued liability of approximately \$21 million under Scenario 3, and \$19 million under Scenario 4. As a result of providing pre and/or post-Medicare healthcare coverage to future retirees receiving non-occupational disability benefits, the normal cost as a percent of TRS DCR payroll would increase from 0.75% to 0.76% and 0.80%, under Scenarios 3 and 4, respectively. This equates to approximately \$0.1 million in additional contributions in the first year under Scenario 3, and \$0.3 million in additional contributions under Scenario 4. 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 pre and post-Medicare healthcare coverage for future retirees receiving non-occupational disability benefits is expected to remain sustainable.

Under Scenario 5, the proposed provisions from Scenarios 2 and 4 have been combined under one model. As a result of providing healthcare coverage for future retirees receiving either occupational and non-occupational disability benefits, the normal cost as a percent of TRS DCR payroll would increase from 0.75% to 0.82%. This equates to approximately \$0.5 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. 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 Retiree Medical Plan with pre and post-Medicare health coverage for future disabled retirees is expected to remain sustainable.

PERS DCR

As of June 30, 2024, the PERS DCR Occupational Death & Disability Plan is approximately \$63 million overfunded with a funded ratio of 399%. The contributions to the Plan are equal to the normal cost which is 0.31% of PERS DCR payroll.

Under Scenario 1, the Occupational Death & Disability Plan is expected to remain above 100% funded with an overfunded accrued liability of approximately \$47 million. As a result of providing non-occupational disability benefits, the normal cost as a percent of PERS DCR payroll would increase from 0.31% to 0.37%. This equates to approximately \$1.4 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 Occupational Death & Disability Plan with the non-occupational disability benefits is expected to remain sustainable. The impact on the PERS DCR is relatively less than the impact to the TRS DCR because a higher proportion of disabilities are already assumed to be occupational.



As of June 30, 2024, the PERS DCR Retiree Medical Plan is approximately \$48 million overfunded with a funded ratio of 121%. The contributions to the Plan are equal to the normal cost which is 0.82% of PERS DCR payroll.

Under Scenario 2, the Retiree Medical Plan is expected to remain above 100% funded with an overfunded accrued liability of approximately \$45 million. As a result of providing pre-Medicare healthcare coverage to future retirees receiving occupational disability benefits, the normal cost as a percent of PERS DCR payroll would increase from 0.82% to 0.94%. This equates to approximately \$2.5 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 pre-Medicare healthcare coverage for future retirees receiving occupational disability benefits is expected to remain sustainable.

Under Scenarios 3 and 4, the Retiree Medical Plan is expected to remain above 100% funded with an overfunded accrued liability of approximately \$45 million under Scenario 3, and \$34 million under Scenario 4. As a result of providing pre and/or post-Medicare healthcare coverage to future retirees receiving non-occupational disability benefits, the normal cost as a percent of PERS DCR payroll would increase from 0.82% to 0.84% and 0.88%, under Scenarios 3 and 4, respectively. This equates to approximately \$0.3 million in additional contributions in the first year under Scenario 3, and \$1.4 million in additional contributions under Scenario 4. 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 pre and post-Medicare healthcare coverage for future retirees receiving non-occupational disability benefits is expected to remain sustainable.

Under Scenario 5, the proposed provisions from Scenarios 2 and 4 have been combined under one model. As a result of providing healthcare coverage for future retirees receiving either occupational and non-occupational disability benefits, the normal cost as a percent of PERS DCR payroll would increase from 0.82% to 1.00%. This equates to approximately \$3.9 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 Retiree Medical Plan with pre and post-Medicare health coverage for future disabled retirees is expected to remain sustainable.



Summary of Results

TRS DCR - Occupational Death & Disability

Scenario	Baseline	(1) Non-Occupational Disability Benefits
Accrued Liability	\$ 165,000	\$ 3,777,000
Actuarial Value of Assets	<u>8,533,000</u>	<u>8,533,000</u>
(Over)/Unfunded Accrued Liability	\$ (8,368,000)	\$ (4,756,000)
Funded Ratio	5172%	226%
Normal Cost as a % of TRS DCR Payroll	0.08%	0.13%
Amort. Payment as a % of TRS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of TRS DCR Payroll	0.08%	0.13%
Contribution Dollars Increase in First Year	\$ -	307,000

PERS DCR - Occupational Death & Disability

Scenario	Baseline	(1) Non-Occupational Disability Benefits
Accrued Liability	\$ 21,094,000	\$ 37,097,000
Actuarial Value of Assets	<u>84,077,000</u>	<u>84,077,000</u>
(Over)/Unfunded Accrued Liability	\$ (62,983,000)	\$ (46,980,000)
Funded Ratio	399%	227%
Normal Cost as a % of PERS DCR Payroll	0.31%	0.37%
Amort. Payment as a % of PERS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of PERS DCR Payroll	0.31%	0.37%
Contribution Dollars Increase in First Year	\$ -	1,400,000



TRS DCR - Retiree Medical

Scenario	Baseline	(2) - Occupational Pre-65 Coverage	(3) - Non- Occupational Post- 65 Coverage	(4) - Non- Occupational Pre & Post-65 Coverage	(5) - Scenarios 2 and 4 Combined
Accrued Liability	\$ 65,338,000	\$ 65,476,000	\$ 66,146,000	\$ 68,930,000	\$ 69,068,000
Actuarial Value of Assets	<u>87,558,000</u>	<u>87,558,000</u>	<u>87,558,000</u>	<u>87,558,000</u>	<u>87,558,000</u>
(Over)/Unfunded Accrued Liability	\$ (22,220,000)	\$ (22,082,000)	\$ (21,412,000)	\$ (18,628,000)	\$ (18,490,000)
Funded Ratio	134%	134%	132%	127%	127%
Normal Cost as a % of TRS DCR Payroll	0.75%	0.77%	0.76%	0.80%	0.82%
Amort. Payment as a % of TRS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of TRS DCR Payroll	0.75%	0.77%	0.76%	0.80%	0.82%
Contribution Dollars Increase in First Year	\$ -	163,000	65,000	303,000	466,000

PERS DCR - Retiree Medical

Scenario	Baseline	(2) - Occupational Pre-65 Coverage	(3) - Non- Occupational Post- 65 Coverage	(4) - Non- Occupational Pre & Post-65 Coverage	(5) - Scenarios 2 and 4 Combined
Accrued Liability	\$ 233,700,000	\$ 237,249,000	\$ 237,340,000	\$ 248,338,000	\$ 251,887,000
Actuarial Value of Assets	<u>281,915,000</u>	<u>281,915,000</u>	<u>281,915,000</u>	<u>281,915,000</u>	<u>281,915,000</u>
(Over)/Unfunded Accrued Liability	\$ (48,215,000)	\$ (44,666,000)	\$ (44,575,000)	\$ (33,577,000)	\$ (30,028,000)
Funded Ratio	121%	119%	119%	114%	112%
Normal Cost as a % of PERS DCR Payroll	0.82%	0.94%	0.84%	0.88%	1.00%
Amort. Payment as a % of PERS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of PERS DCR Payroll	0.82%	0.94%	0.84%	0.88%	1.00%
Contribution Dollars Increase in First Year	\$ -	2,500,000	300,000	1,372,000	3,900,000



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 0.15% under Scenario 1, about 0.24% under Scenario 2, about 0.03% under Scenario 3, about 0.15% under Scenario 4, and about 0.40% under Scenario 5.

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, 2024 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 Ms. Rapoport 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



Cassie Rapoport, ASA, MAAA
Consultant



Appendix – Assumptions from the June 30, 2024 DCR Valuation Reports

TRS DCR – Disability Rates

Age	Male	Female	Age	Male	Female
<31	0.0337%	0.0612%	50	0.0601%	0.1093%
31	0.0337%	0.0613%	51	0.0634%	0.1152%
32	0.0337%	0.0613%	52	0.0666%	0.1211%
33	0.0342%	0.0622%	53	0.0746%	0.1356%
34	0.0347%	0.0631%	54	0.0826%	0.1501%
35	0.0353%	0.0641%	55	0.0905%	0.1645%
36	0.0357%	0.0650%	56	0.0985%	0.1790%
37	0.0362%	0.0659%	57	0.1064%	0.1935%
38	0.0371%	0.0674%	58	0.1245%	0.2263%
39	0.0379%	0.0689%	59	0.1426%	0.2592%
40	0.0387%	0.0703%	60	0.1606%	0.2920%
41	0.0395%	0.0718%	61	0.1787%	0.3249%
42	0.0403%	0.0733%	62	0.1967%	0.3577%
43	0.0423%	0.0770%	63	0.2253%	0.4096%
44	0.0443%	0.0806%	64	0.2572%	0.4677%
45	0.0464%	0.0843%	65	0.2933%	0.5332%
46	0.0483%	0.0879%	66	0.3343%	0.6079%
47	0.0504%	0.0916%	67	0.3812%	0.6930%
48	0.0536%	0.0975%	68	0.4345%	0.7900%
49	0.0569%	0.1034%	69	0.4953%	0.9006%
			70+	0.5647%	1.0267%

Disabilities are assumed to be occupational 15% of the time.

TRS 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%



Appendix – Assumptions from the June 30, 2024 Valuation Reports (Cont’d)

PERS DCR – Disability Rates

Peace Officer/Firefighters						Others					
Age	Male	Female	Age	Male	Female	Age	Male	Female	Age	Male	Female
<23	0.0179%	0.0112%	46	0.1247%	0.0780%	<23	0.0327%	0.0376%	46	0.1125%	0.1154%
23	0.0244%	0.0153%	47	0.1337%	0.0836%	23	0.0360%	0.0400%	47	0.1208%	0.1236%
24	0.0310%	0.0194%	48	0.1462%	0.0914%	24	0.0392%	0.0424%	48	0.1329%	0.1360%
25	0.0374%	0.0234%	49	0.1588%	0.0993%	25	0.0425%	0.0448%	49	0.1451%	0.1484%
26	0.0440%	0.0275%	50	0.1714%	0.1071%	26	0.0456%	0.0472%	50	0.1572%	0.1608%
27	0.0505%	0.0316%	51	0.1839%	0.1150%	27	0.0489%	0.0496%	51	0.1694%	0.1734%
28	0.0526%	0.0329%	52	0.1965%	0.1228%	28	0.0501%	0.0510%	52	0.1815%	0.1858%
29	0.0548%	0.0343%	53	0.2294%	0.1434%	29	0.0513%	0.0524%	53	0.2132%	0.2168%
30	0.0570%	0.0356%	54	0.2624%	0.1640%	30	0.0524%	0.0538%	54	0.2450%	0.2478%
31	0.0591%	0.0370%	55	0.2954%	0.1846%	31	0.0536%	0.0554%	55	0.2766%	0.2788%
32	0.0612%	0.0383%	56	0.3283%	0.2052%	32	0.0548%	0.0568%	56	0.3084%	0.3098%
33	0.0634%	0.0397%	57	0.3613%	0.2258%	33	0.0566%	0.0586%	57	0.3401%	0.3408%
34	0.0657%	0.0411%	58	0.4112%	0.2570%	34	0.0584%	0.0606%	58	0.4068%	0.4096%
35	0.0679%	0.0425%	59	0.4611%	0.2882%	35	0.0602%	0.0624%	59	0.4736%	0.4784%
36	0.0702%	0.0439%	60	0.5110%	0.3194%	36	0.0620%	0.0644%	60	0.5405%	0.5470%
37	0.0724%	0.0453%	61	0.5610%	0.3506%	37	0.0638%	0.0662%	61	0.6072%	0.6158%
38	0.0757%	0.0473%	62	0.6109%	0.3818%	38	0.0669%	0.0696%	62	0.6740%	0.6844%
39	0.0789%	0.0493%	63	0.6109%	0.3818%	39	0.0701%	0.0728%	63	0.8526%	0.8450%
40	0.0822%	0.0514%	64	0.6109%	0.3818%	40	0.0734%	0.0762%	64	1.0314%	1.0054%
41	0.0854%	0.0534%	65	0.6109%	0.3818%	41	0.0765%	0.0794%	65	1.2101%	1.1660%
42	0.0886%	0.0554%	66	0.6109%	0.3818%	42	0.0797%	0.0826%	66	1.3889%	1.3264%
43	0.0977%	0.0611%	67	0.6109%	0.3818%	43	0.0879%	0.0908%	67	1.5675%	1.4870%
44	0.1066%	0.0667%	68	0.4073%	0.2546%	44	0.0962%	0.0990%	68	1.0451%	0.9914%
45	0.1157%	0.0723%	69	0.2036%	0.1273%	45	0.1043%	0.1072%	69	0.5225%	0.4956%
			70+	0.2036%	0.1273%				70+	0.5225%	0.4956%

Disabilities are assumed to be occupational 70% of the time for Peace Officer/Firefighters, and 35% of the time for Others.



Appendix – Assumptions from the June 30, 2024 Valuation Reports (Cont'd)

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%



The Alaska Retirement Management Board received several inquiries and testimonies regarding occupational disability benefits. This prompted an examination into the current PERS IV and TRS III occupational disability benefit. We found discussions that the legislature had intended these benefits to mirror the PERS III and TRS II benefit. This did not happen. Medical coverage between termination of employment and retirement was omitted. Non-occupational disability coverage was omitted. This creates situations in which a state trooper or firefighter who is badly injured in the line of duty and lives but does not fully recover from their injury can be terminated from employment and not have health insurance coverage until they are eligible for retirement. A 62 yr. old teacher with 28 years of covered service that experiences a non-occupational disability does not receive the disability benefit or healthcare coverage a TRS Tier II teacher would receive. There were legislative discussions for the new defined contribution (DC) plan to provide disability benefits that were like those in the Public Employees' Retirement System (PERS) Tier 3 and Teachers' Retirement System (TRS) Tier 2 plans for certain groups, particularly concerning occupational death and disability¹.

Initially, there was a statement indicating that disability insurance was "decided not to add it," implying individuals would need to purchase it themselves, with workers' compensation covering on-the-job injuries. However, this stance evolved during the legislative process.

Following are details of the intent to mirror PERS 3 and TRS 2 benefits.

Explicit Mandate for Mirroring PERS Tier 3 Disability Benefits:

The House version of the legislation explicitly "brought the existing death and disability benefits from Tier III into the new program"¹.

This was intended to ensure that the new plan would "provide the same benefits that are provided under the current plan for workers' compensation for death and disability," and these benefits would be in addition to workers' compensation benefits².

For Teachers' Retirement System (TRS) members, the Legislature's discussion included that "the death and disability benefits would agree with the statutorily defined benefits for Tier 2 and Tier 3 TRS members". The TRS language for these benefits specifically "used existing PERS statutes on defined benefits," indicating a direct mirroring approach rather than creating entirely new statutes³.

There was an understanding that an amendment aimed to treat a public employee hired under the DC plan, if killed or injured in the line of duty, "as if they were hired under Tier 3"⁴. While potential cost issues and fundamental structural differences were noted, the intent to align the treatment was present⁴.

Benefit Structure and Funding for Disability:

Employer contributions were designated to fund these occupational disability and death benefits: 0.40 percent for peace officers and firefighters and 0.30 percent for all other employees². This was described as a composite rate with individual calculations.

These employer contributions would be directed into a system-wide trust account, separate from individual DC accounts.

The actuarial calculations for these benefits were based on Mercer numbers, and it was stated that future calculations would be performed annually to ensure sufficient funding for these benefits.

Protection of Individual Accounts During Disability:

A disabled member or the survivor of a deceased member would not be entitled to elect distributions from their individual DC account while receiving disability or survivor benefits³⁴. This is because the employer would continue to make contributions into the individual's DC account during the period of disability or survivor benefits, thereby preserving the account for the individual at their normal retirement age².

Service Credit for Medical Benefits:

Periods during which an individual received disability or survivor benefits would count as "membership service" for the purpose of eligibility for retirement medical benefits, including the Health Reimbursement Arrangement (HRA)².

Medicare Eligibility on Disability Termination:

If disability or survivor benefits were terminated due to eligibility for normal retirement, the person would be treated as though they were eligible for Medicare, regardless of their actual age².

IRS Compliance for Hybrid Structure:

The Division of Retirement and Benefits Director, MS. Millhorn stated the new plan was intended to be a "hybrid" system, specifically referred to as a 414(k) Plan, which incorporates both defined benefit (DB) elements (such as these fixed and guaranteed occupational death and disability benefits) and defined contribution (DC) elements².

Consultants were engaged to ensure these provisions "comport with" Internal Revenue Code (IRS) requirements and to secure "positive favorable plan determination letters" from the IRS². This indicates that the chosen structure for disability benefits was designed to fit within IRS regulations for a hybrid plan.

In summary, despite initial consideration to exclude disability insurance, the legislative discussions solidified to specifically integrate and mirror the existing occupational death and disability benefits from PERS Tier 3 and TRS Tier 2 into the new defined contribution plan^{1,2}. However, unlike the DB disability benefit where medical coverage is provided at termination of employment as a benefit for those occupationally disabled, the DC Plan ceases medical coverage after termination of employment. Coverage is available again after they accumulate enough years of service to qualify for normal retirement. Occupationally disabled employee post-employment medical coverage did not get written into legislation. It appears to have been missed as it was listed under Sec. 14.25.168 and Sec. 39.35.410 Medical benefits.

REFERENCES

The following references are from the detailed minutes of the legislature. Time stamps and footers remain for ease of locating.

1. May 9, 2005 CONFERENCE COMMITTEE ON SB 141

MR. MILES BAKER, staff to Senator Stedman, told members the House version brought the existing death and disability benefits from Tier III into the new program. This costing is based on a projection of what it would cost the state to self-insure or buy a policy. The details need to be worked out by the department. That is the amount required to provide that benefit based on the incident rate that currently exists in death and disability benefits for the current population. It has to be set in statute initially because the board will not be up and functioning until later this year. He continued, "From here on out, they will actuarially calculate to make sure that enough is going into that fund to continue to pay those benefits."

REPRESENTATIVE WEYHRAUCH said that while the discussion has revolved around firefighters and police that get killed on the job, other employees are killed in the line of duty, such as fish and game officers.

12:22:26 PM

SENATOR SEEKINS replied, "The contribution at this point, because it's less dangerous in a larger universe, is .30."

2. 2006-05-04 ALASKA STATE LEGISLATURE SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

MS. MILLHORN stated that both annual inflation proofings comport with the existing formula that is found under the defined

SENATE CRA COMMITTEE -5- May 4, 2006

benefit plans for Tier 2 and Tier 3 TRS members. She reminded members that the Legislature wanted the death and disability benefits to agree with the statutorily defined benefits for Tier 2 and Tier 3 TRS members so that is accomplished here.

Sections 16, 20, 55, and 59 clarify that a disabled member or the survivor of a deceased member is not entitled to elect distributions from the member's individual account while receiving disability or survivor benefits. That's important because the employer continues to make contributions into the account while the individual is receiving either disability or survivor benefits. Therefore the account is preserved and will be available to the individual at normal retirement age.

Sections 13, 16, 51 and 55 clarify that a period of disability or survivor benefits constitutes membership service for purposes of eligibility for the retirement medical benefits including the Health Reimbursement Arrangement.

Sections 22 and 61 provide that a person whose disability or survivor benefits are terminated due to eligibility for normal retirement will be treated as though the person is eligible for Medicare regardless of age.

Sections 11 and 49 deal with anti selection and require that members who waive the medical benefit must provide proof of insurability.

4:24:12 PM

MS. MILLHORN reviewed plan provisions related to the Internal Revenue Code. Consultants from Ice Miller were hired in December 2005 and they provided expert tax advice so that the new hybrid plan provisions comport. In order to receive plan determination letters from the IRS the new hybrid plan must have a certain structure. Certain benefits are fixed and guaranteed while others are defined contribution plan.

Sections 5, 6, 9, 10, 23, 43, 44, 47, 48, and 62 provide conforming provisions for a favorable plan ruling from the IRS. The hybrid plan established by SB 141 contains both defined benefits and defined contributions and is referred to as a 414(k) Plan. She noted that Ice Miller conformed the benefits in SB 141 to meet legislative intent and to get positive favorable plan determination letters.

SENATE CRA COMMITTEE -6- May 4, 2006

3. 05/20/2005 Senate 2ND FREE CONFERENCE COMMITTEE ON SB 141

4:41:06 PM

TRACI CARPENTER, staff to Lyda Green, said Amendment 1 cleans up Public Employee Retirement System (PERS) disability statutes. Drafting inadvertently created a scenario where a disabled person, once he reached normal retirement age, would be able to receive a retirement from both the defined benefits (DB) system and the defined contribution (DC) system.

MS. CARPENTER explained that Amendment 1 applies to the Teachers' Retirement System (TRS) statutes and increases the employer contribution from 5 percent to 7 percent. It also adds the death and disability benefits that are similar to the PERS statutes. References to firefighters and police officers have been removed.

4:42:59 PM

REPRESENTATIVE BERKOWITZ moved to divide the question and asked if there is a fiscal assessment of what the increase in employment contribution would mean to the employers.

MS. CARPENTER replied that right now, under SB 141, the total normal cost rate is approximately 10.25 percent. This would add 2 percent on to that for TRS employees.

REPRESENTATIVE BERKOWITZ asked what that would mean to the Anchorage School district or to the State of Alaska.

MS. CARPENTER responded that every 1 percent increase to the employer rate base for the entire population of PERS and TRS employers is approximately \$22 million. The payroll for the school districts is \$522 million.

REPRESENTATIVE BERKOWITZ asked if this would be a \$10 million increase to the school districts.

MS. CARPENTER replied that is correct.

CHAIR GARY STEVENS asked if that was statewide. MS. CARPENTER replied yes.

4:45:04 PM

SENATOR BEN STEVENS asked if this is an employer contribution increase, not an employee contribution increase.

MS. MILLHORN, Director, Division of Retirement and Benefits, Department of Administration (DOA) answered yes.

SENATOR BEN STEVENS asked if this contribution only applies to new employees on school district payrolls or existing Tier 2 employees, as well.

MS. MILLHORN replied that it applies only to new employees, not to Tier 2 employees.

SENATOR BEN STEVENS pointed out that he didn't think applying the employers' 2 percent to the whole payroll was accurate since they were talking only about new employees. It might apply to only 10 percent of new employees, which would only be \$50 million and 2 percent of that is \$1 million.

MS. CARPENTER replied that he was absolutely correct. MS. MILLHORN agreed.

REPRESENTATIVE BERKOWITZ restated his motion to divide the question on page 1, line 4, the death and disability component, from the increase in benefits component.

SENATOR BEN STEVENS objected.

A roll call vote was taken. Representatives Berkowitz and Senators Guess voted yea; Representatives Elkins and Ramras and Senators Ben Stevens and Gary Stevens voted nay; and Amendment 1 to Amendment 1 failed.

4:48:35 PM

REPRESENTATIVE RAMRAS asked if it was fair to interpret this as a 40 percent increase to the employers' defined contribution plan over what they had been working with previously.

MS. CARPENTER replied that there are other employer costs involved than just the contribution to the defined contribution account – a 1.75 percent for medical, 3 percent for health reimbursement and approximately .3 percent for death and disability. "It would go from 10 percent roughly to 12 percent."

REPRESENTATIVE RAMRAS said his understanding is that the employer contribution to retirement was previously at 5 percent and that is being moved to 7 percent. He interpreted that as being a 40 percent increase to new teachers coming into the system.

MS. CARPENTER agreed.

REPRESENTATIVE BERKOWITZ said the rate of turnover in different districts varies considerably. Increasing the employer contribution from 5 percent to 7 percent would have a disproportionate impact on districts that have higher turnover and he was concerned that there is no fiscal assessment of what that means to those districts or to the state.

MS. CARPENTER responded that there has not been any assessment at either level.

REPRESENTATIVE BERKOWITZ asked how many new teachers the state hires in a year.

MS. MILLHORN responded in 2004 57 TRS employers hired 1,200 new TRS positions.

4:52:26 PM

SENATOR GUESS asked her to explain why the change from 5 percent to 7 percent is needed.

MS. CARPENTER replied that the concern is that teachers do not participate in social security and have no safety net. It is thought that an increase to their defined contribution account would offset that.

REPRESENTATIVE RAMRAS shared Senator Guess' concerns. He calculated that 1,200 new teaching positions would cost \$800,000. Hundreds in the teaching community related that they don't participate in SBS and don't have access to social

security. They felt they weren't getting a fair bite at the apple compared to those in the private sector who are eligible for the federal plan. This compromise was an opportunity to offset that concern and his caucus hoped it would help attract teachers and retain current ones.

REPRESENTATIVE ELKINS commented that teachers as a whole make \$20,000 more on an average than people in PERS. So a 2 percent bump to teachers is a lot of money in reality. This doesn't pick up what they would get through social security, but it gets real close.

SENATOR GUESS asked Ms. Carpenter to explain the second part of the amendment and asked if it is modeled after other occupational disability benefits or statutes.

MS. CARPENTER replied that the TRS language used existing PERS statutes on defined benefits. They are not dealing with a brand new statute.

REPRESENTATIVE BERKOWITZ asked if anyone else in the teaching community would testify in support of this provision or not.

CHAIR GARY STEVENS replied that no one is scheduled to speak to the committee.

REPRESENTATIVE BERKOWITZ pointed out that the assumption is that 2 percent equates to the amount of social security and SBS benefits that are being given up and he wanted to know if that is true.

SENATOR BEN STEVENS explained that SBS is available to PERS employers. Of the 160 PERS employers, 16 participate in the program. It is a misconception that all employees in the PERS system participate in SBS, because it is up to the employer to provide that. School districts choose to not provide SBS for their PERS employees.

The action here is to say because school districts don't provide SBS, PERS is available to those political subdivisions that choose it. We looked at a concept to say how [indisc.] SBS for TRS, but because the state cannot force an employer to implement the SBS or an SBS-type system for TRS, the way to make up for it is to increase the contribution from the employer side. The employee side - it's still the same at 8 percent. The employer now goes from 5 to 7

percent. So the increase to defined contribution now is at 15. That's how this came about. To compare it to a PERS system from the TRS system is inaccurate - because TRS does not have SBS [indisc.]....

REPRESENTATIVE BERKOWITZ said it was presented that the additional 2 percent would somehow equate to the fact that there's no social security benefits and he wanted to know where that figure came from and if it's a fair representation.

REPRESENTATIVE RAMRAS said his name is on the amendment and, "I think it's a fair bite at the apple." He wants to see teachers stay in Alaska, but at the same time doesn't want to unfairly burden school districts. He said the education community savings rate is [indisc.] and the employer rate is at 7 percent. There is some parity

to the self-employment rate in the private sector. Someone who wants to save in addition to that would do so with his own additional vehicles.

MS. MILLHORN added that it's important to recognize that even if teachers did participate in social security in 1983, the federal government enacted the Windfall Elimination Provision and the Government Pension Offset, both of which reduce social security benefits as a result of receiving a state pension. The Government Pension Offset is a pure dollar for dollar elimination. The Windfall Elimination Provision calculates pensions individually.

A roll call vote was taken on adopting Amendment 1. Representatives Elkins and Ramras, Senators Ben Stevens, Guess and Gary Stevens voted yea; Representative Berkowitz voted nay; and Amendment 1 was adopted.

141 COMMITTEE

-14-

May 20, 2005

4. May 1, 2005 HOUSE FINANCE COMMITTEE

1:36:52 PM

Representative Hawker understood that the amendment would include juvenile correction officers killed by a juvenile offender. Representative Seaton pointed out that changing existing statute was not addressed in Amendment #8A.

Ms. Millhorn said that Amendment #8A specifies the definition in AS 39.35.680; in that section, they would not be covered. Representative Hawker believed that class of employee deserves death benefits. Ms. Millhorn noted that currently, individuals classified under existing statute are given the benefit, however that group was not included.

1:39:24 PM

Representative Seaton reiterated that it is in existing law and that there is other legislation trying to make that correction.

Representative Hawker argued that one injustice does not justify another.

Representative Croft understood that current law covers members and does not limit who receives the death benefit. He pointed out that the proposed legislation does limit and affects an entire class of State employees being cut out.

Representative Kelly explained that the purpose of the amendment was to work from the system causing the problems. The intent of the amendment addresses police and fire fighters not covered by the death benefit. He noted other options for employees to buy term life insurance.

1:41:17 PM

Co-Chair Meyer summarized that under the previous system, everyone was covered, and in the proposed legislation peace officers would be covered as defined in statute.

Representative Joule asked about the Village Public Safety Officers (VPSO). Ms. Millborn replied that they would not be covered under the police and fire fighter component.

Representative Joule inquired about inclusion of health insurance benefits for surviving dependants and spouses. Ms. Millhorn did not think it was provided, however, she offered to research it.

HOUSE FINANCE COMMITTEE 5 05/01/05 1:18 P.M.

1:42:59 PM

Representative Croft stated that he preferred Amendment #14, which had been withdrawn on 4/30/05. (Copy on File). He MOVED to substitute the text of that amendment into Amendment #8A, which would keep the current death and disability benefit. Representative Kelly OBJECTED. Co-Chair Meyer understood that Amendment #14 had already been discussed and it was determined to be unworkable.

Representative Weyhrauch argued that there had been no determination that it was not workable. Instead, discussion ended in determining where the payment would come from to finance the mechanism for the amendment.

The government needs to be held responsible to pay. He stressed that these people are putting their lives on the line and being killed in the line of duty. Their families would be left destitute. He stated that he could not morally vote for any reduction in benefits to any widow or child. The State government must pay for that benefit. 1:46:20 PM

Co-Chair Meyer accepted Amendment #14 as an amendment to the amendment. He reiterated concern that Amendment #14 had previously been withdrawn. Co-Chair Meyer OBJECTED to the MOTION to AMEND Amendment #8A.

Representative Hawker stated that peace officers receive 50% wage benefit plus are granted medical provisions. He asked if the amendment to the amendment would restore both the wage and medical factor.

Co-Chair Meyer pointed out previous concerns with the amendment and asked if they still exist. Ms. Millhorn stated that the death and disability benefits under the PERS and Teachers Retirement System (TRS) were structured in such a way [and not under a defined benefit type of plan], which determines the benefit based on member's retirement calculation as a stream of payment to that individual. That is the difference between the two structures. She summarized the structure and funding of the two would be different.

Representative Seaton referenced Section D of the bill, regarding major medical coverage elected by the surviving spouse of the eligible member.

1:50:05 PM

Representative Croft noted that most of the persons being referenced [as killed on the job] would not have been "retired". The above language references retirees.

HOUSE FINANCE COMMITTEE 6 05/01/05 1:18 P.M.

Representative Seaton responded that SB 141 was a retirement bill and that there was a different section for the active employees. Representative Croft argued that the above referenced language does not identify the person killed on the job.

Vice-Chair Stoltze noted his concern that the death benefit be included in the legislation.

Co-Chair Meyer asked if it could be workable under the defined contribution plan. Ms. Millhorn stated that current provisions are structured in such a way that they work well with the defined contribution (DC) plan. The manner in which that benefit is calculated has the same design, but would create issues under a DC plan.

Co-Chair Meyer asked if it could work under the defined contribution plan. Ms. Millhorn responded it might be problematic.

1:54:23 PM

Representative Weyhrauch questioned if a public employee hired under the defined contribution plan, were killed or injured in the line of duty, would they be treated as if

they were hired under Tier 3. Ms. Millhorn understood that the amendment was intended to do that, however, there are cost issues associated with that action. She added that fundamental structures would need to be in place for that design as opposed to the defined contribution plan. A DC plan would make it indeterminate.

1:55:38 PM

Representative Hawker agreed that it would be “problematic”. He pointed out the overriding federal regulations in the way. It becomes problematic with the construct regarding the death benefits for peace officers. He agreed that the amendment to the amendment was problematic and was found to be an invalid attempt and illustrates the problem of the entire situation. He would not support Amendment #8A. Co- Chair Meyer agreed that Amendment #8A could be broader.

Representative Kelly summarized his understanding. He said that the amendment does not include “other” employees. It would be difficult to do that and should be addressed in a separate amendment. He submitted that Amendment #8A does “generously” address benefits for the police and fire employees, especially when linking it together with the federal contribution amount of

¼ million dollars. He encouraged member’s support. 1:59:00 PM

HOUSE FINANCE COMMITTEE 7 05/01/05 1:18 P.M.

Co-Chair Meyer asked about broadening Amendment #8A. Representative Kelly stated that he could not “support” that. He commented that Amendment #11 offers different options.

Representative Croft pointed out that those affected would prefer the current system – “It works for these people”. The State does not know how the proposed system would work. In other States, problems have resulted. He recommended that costs be covered through the General Fund.

2:01:54 PM

A roll call vote was taken on the motion to place the verbiage of Amendment #14 into Amendment #8A.

IN FAVOR: Joule, Stoltze, Weyhrauch, Croft

OPPOSED: Foster, Hawker, Holm, Kelly, Moses, Meyer, Chenault The MOTION

FAILED (4-7). 2:02:45 PM

Representative Hawker recommended a defined benefit structure and asked if police and firefighters should be left in the existing defined benefit structure. Then the defined contribution structure could apply to non-public safety employees. He worried about prejudicing one class of employee over another.

Representative Hawker voiced concern that the amendment “places a dollar value on certain lives”.

2:05:10 PM

Representative Weyhrauch asked to make a conceptual amendment to Amendment #8A. The conceptual language would read:

“For any employee hired after the effective date of this act, who is killed or disabled in the course of their employment, the provision of AS 14.25.157, 160, 162, or 39.35.410, 415, 420, 430, and 440 as they existed before the effective date of this act, shall apply.” Representative Hawker OBJECTED.

Representative Weyhrauch stated that the language would replace Amendment #8A and if the employee was killed or injured in the line of duty, they would not be treated the same as they would in the defined contribution plan but rather the same as they

would be in the Tier 3 plan.

Ms. Millhorn thought the concept returned the Committee to that of Amendment #14. Representative Weyhrauch stated that

HOUSE FINANCE COMMITTEE 8 05/01/05 1:18 P.M.

the language was more “elegant and would provide a more simple approach”.

2:07:35 PM

Representative Kelly maintained that the original Amendment #8A was a “great offer” and provided an annuity option. He reiterated it was generous and that select term insurance was also available and affordable.

Vice-Chair Stoltze thought that the proposed amendment would “narrow the scoop” of the discussed language and that it would fit the death benefits for police and firefighters. He pointed out that the occurrences were rare and that the system could absorb it.

2:09:05 PM

Co-Chair Meyer did not believe the proposed language would be the correct fix.

2:09:39 PM

A roll call vote was taken on the motion to adopt the conceptual amendment to Amendment #8A.

IN FAVOR: Croft, Hawker, Joule, Moses, Stoltze, Weyhrauch OPPOSED:
Foster, Holm, Kelly, Chenault, Meyer

The MOTION PASSED (6-5).

AS 39.35.890. Occupational disability benefits and reemployment of disabled employees.

(a) An employee is eligible for an occupational disability benefit if employment is terminated because of a total and apparently permanent occupational disability before the employee's normal retirement date.

(b) The occupational disability benefits accrue beginning the first day of the month following termination of employment as a result of the disability and are payable the last day of the month. If a final determination granting the benefit is not made in time to pay the benefit when due, a retroactive payment shall be made to cover the period of deferment. The last payment shall be for the first month in which the disabled employee

- (1) dies;
- (2) recovers from the disability;
- (3) fails to meet the requirements under (f), (j), or (m) of this section; or
- (4) reaches normal retirement age.

(c) If the disabled employee becomes ineligible to receive occupational disability benefits before the normal retirement date, the disabled employee shall then be entitled to receive retirement benefits if the employee would have been eligible for the benefit had employment continued during the period of disability. The period of disability constitutes membership service in regard to determining eligibility for retirement.

(d) The monthly amount of an occupational disability benefit is 40 percent of the disabled employee's gross monthly compensation at the time of termination due to disability. Notwithstanding AS 39.35.790(b), at the time a member is appointed to disability, the member becomes fully vested in the employer contributions made under AS 39.35.750(a). A disabled member is fully vested in the contributions to the member's individual account made under this subsection. An employee is not entitled to elect distributions from the employee's individual contribution account under AS 39.35.810 while the employee is receiving disability benefits under this section. While an employee is receiving disability benefits, based on the disabled employee's gross monthly compensation at the time of termination due to disability, the employer shall make contributions

- (1) to the employee's individual account under AS 39.35.730 on behalf of the employee, without deduction from the employee's disability payments; and
- (2) on behalf of the employee under AS 39.35.750.

(e) An employee is not entitled to an occupational disability benefit unless the employee files an application for an occupational disability benefit with the administrator within 90 days after the date of terminating employment. If the employee is unable to meet a filing

requirement of this subsection, the filing requirement may be waived by the administrator if there are extraordinary circumstances that resulted in the employee's inability to meet the filing requirement.

(f) A disabled employee receiving an occupational disability benefit shall undergo a medical examination as often as the administrator considers advisable, but not more frequently than once each year. The administrator shall determine the place of the examination and engage the physician or physicians. If, in the judgment of the administrator, the examination indicates that the retired employee is no longer incapacitated because of a total and apparently permanent occupational disability, the administrator may not issue further disability benefits to the employee.

(g) A disabled employee's occupational disability benefit terminates the last day of the month in which the disabled employee first qualifies for normal retirement. At that time, the employee's retirement benefit shall be determined under the provisions of AS 39.35.820 – 39.35.840, 39.35.870, and 39.35.880. An employee whose occupational disability benefit terminates under this subsection shall be considered to have retired directly from the plan.

(h) Notwithstanding (g) of this section, at the time a peace officer or firefighter receiving occupational disability benefits under this section first attains eligibility for normal retirement, the employee shall irrevocably elect to receive retirement benefits in the amount calculated as the

(1) employee's retirement benefit calculated under the provisions of AS 39.35.820 – 39.35.840; or

(2) employee's retirement benefit calculated as if the provisions of AS 39.35.370(c) were to apply; however, pension benefits paid under this paragraph must be paid first from the peace officer's or firefighter's individual contribution account, and the remaining benefits must be paid from the trust account established under AS 39.35.750(e); the peace officer or firefighter may not elect other distributions from the peace officer's or firefighter's individual contribution account under AS 39.35.810.

(i) Notwithstanding (b)(3) of this section, a peace officer or firefighter who retires under (h) of this section is not subject to the requirements of (f) or (j) of this section during retirement.

(j) An employee appointed to disability benefits shall apply to the division of vocational rehabilitation within 30 days after the date disability benefits commence. The employee shall be enrolled in a rehabilitation program if the employee meets the eligibility requirements of the division of vocational rehabilitation. Unless the employee

demonstrates cause, benefits shall terminate at the end of the first month in which a disabled employee

(1) fails to report to the division of vocational rehabilitation;

(2) is certified by the division of vocational rehabilitation as failing to cooperate in a vocational rehabilitation program;

(3) fails to interview for a job; or

(4) fails to accept a position offered.

(k) Upon the death of a disabled employee who is receiving or is entitled to receive an occupational disability benefit, the administrator shall pay the surviving spouse a surviving spouse's pension, equal to 40 percent of the employee's monthly compensation at the time of termination of employment because of occupational disability. If there is no surviving spouse, the administrator shall pay the survivor's pension in equal parts to the dependent children of the employee. While the monthly survivor's pension is being paid, the survivor is not entitled to elect distributions from the employee's individual contribution account under AS 39.35.810. The first payment of the surviving spouse's pension or of a dependent children's pension shall accrue from the first day of the month following the employee's death and is payable the last day of the month. The last payment shall be made the last day of the last month in which there is an eligible surviving spouse or dependent child, or the last day of the month in which the employee would have first qualified for normal retirement if the employee had survived, whichever day is sooner. A retirement benefit shall be determined under the provisions of AS 39.35.820 – 39.35.840, 39.35.870, and 39.35.880 based on the date the employee would have first qualified for normal retirement if the employee had survived. In addition to payment of the member's individual account, the surviving spouse or, if there is no surviving spouse, the surviving dependent children of the member, shall receive an additional benefit in an amount equal to the accumulated contributions that would have been made to the deceased member's individual account under AS 39.35.730(a) and AS 39.35.750(a), based on the deceased member's gross monthly compensation at the time of occupational disability, from the time of the member's death to the date the member would have first qualified for normal retirement if the member had survived. Earnings shall be allocated to the additional benefit calculated under this subsection based on the actual rate of return, net of expenses, of the trust account established under AS 39.35.750(e) over the period that the contributions would have been made. This additional amount and allocated earnings shall be paid in the same manner as determined for the member's individual account under AS 39.35.820 – 39.35.860 to the extent permitted by the Internal Revenue Service. For the purpose of determining eligibility of an employee's survivor who is receiving a benefit under this subsection for medical benefits under AS 39.30.300 – 39.30.495 and AS 39.35.700 –

39.35.990, an employee who died while receiving disability benefits shall be considered to have retired directly from the plan on the date the employee would have first qualified for normal retirement if the employee had survived. The period during which the employee was eligible for a disability benefit and the period during which a survivor's pension is paid to a survivor under this subsection each constitute membership service for the purposes of determining eligibility for medical benefits under AS 39.30.300 – 39.30.495 and AS 39.35.700 – 39.35.990.

(l) While a survivor under (k) of this section is receiving a survivor's pension, the employer of the deceased employee shall make contributions with respect to the survivor based on the deceased employee's gross monthly compensation at the time of termination due to disability

(1) that would have been paid to the employee's individual account under AS 39.35.730 and AS 39.35.750(a), to the trust account established under AS 39.35.750(e), without deduction from the survivor's pension; and

(2) to the appropriate accounts and funds under AS 39.35.750(b) – (e).

(m) In this section, "occupational disability" means a physical or mental condition that the administrator determines presumably permanently prevents an employee from satisfactorily performing the employee's usual duties or the duties of another comparable position or job available to the employee for which the employee is qualified by training or education; however, the proximate cause of the condition must be a bodily injury sustained, or a hazard undergone, while in the performance and within the scope of the employee's duties and not the proximate result of the willful negligence of the employee.

Exhibit 4

AS 14.25.485. Occupational disability benefits and reemployment of disabled members.

(a) A member is eligible for an occupational disability benefit if employment is terminated because of a total and apparently permanent occupational disability before the member's normal retirement date.

(b) The occupational disability benefits accrue beginning the first day of the month following termination of employment as a result of the disability and are payable the last day of the month. If a final determination granting the benefit is not made in time to pay the benefit when due, a retroactive payment shall be made to cover the period of deferment. The last payment shall be for the first month in which the disabled member

- (1) dies;
- (2) recovers from the disability;
- (3) fails to meet the requirements under (f), (h), or (j) of this section; or
- (4) reaches normal retirement age.

(c) If the disabled member becomes ineligible to receive occupational disability benefits before the normal retirement date, the disabled member is then entitled to receive retirement benefits if the member would have been eligible for the benefit had employment continued during the period of disability. The period of disability constitutes membership service in regard to determining eligibility for retirement.

(d) The monthly amount of an occupational disability benefit is 40 percent of the disabled member's gross monthly compensation at the time of termination due to disability. Notwithstanding AS 14.25.390(b), at the time a member is appointed to disability, the member becomes fully vested in the employer contributions made under AS 14.25.350(a). A disabled member is fully vested in the contributions to the member's individual account made under this subsection. A member is not entitled to elect distributions from the member's individual contribution account under AS 14.25.410 while the member is receiving disability benefits under this section. While a member is receiving disability benefits, based on the disabled member's gross monthly compensation at the time of termination due to disability, the employer shall make contributions

- (1) to the member's individual account under AS 14.25.330; and
- (2) on behalf of the member under AS 14.25.350(a).

(e) A member is not entitled to an occupational disability benefit unless the member files an application for an occupational disability benefit with the administrator within 90 days after the date of terminating employment. If the member is unable to meet a filing requirement of this subsection, the filing requirement may be waived by the administrator if

there are extraordinary circumstances that resulted in the member's inability to meet the filing requirement.

(f) A disabled member receiving an occupational disability benefit shall undergo a medical examination as often as the administrator considers advisable, but not more frequently than once each year. The administrator shall determine the place of the examination and engage the physician or physicians. If, in the judgment of the administrator, the examination indicates that the disabled member is no longer incapacitated because of a total and apparently permanent occupational disability, the administrator may not issue further disability benefits to the member.

(g) A disabled member's occupational disability benefit terminates the last day of the month in which the disabled member first qualifies for normal retirement. At that time, the member's retirement benefit shall be determined under the provisions of AS 14.25.420–14.25.440, 14.25.470, and 14.25.480. A member whose occupational disability benefit terminates under this subsection shall be considered to have retired directly from the plan.

(h) A member appointed to disability benefits shall apply to the division of vocational rehabilitation of the Department of Labor and Workforce Development within 30 days after the date disability benefits commence. The member shall be enrolled in a rehabilitation program if the member meets the eligibility requirements of the division of vocational rehabilitation. Unless the member demonstrates cause, benefits shall terminate at the end of the first month in which a disabled member

- (1) fails to report to the division of vocational rehabilitation;
- (2) is certified by the division of vocational rehabilitation as failing to cooperate in a vocational rehabilitation program;
- (3) fails to interview for a job; or
- (4) fails to accept a position offered.

(i) Upon the death of a disabled member who is receiving or is entitled to receive an occupational disability benefit, the administrator shall pay the surviving spouse a surviving spouse's pension equal to 40 percent of the member's monthly compensation at the time of termination due to occupational disability. If there is no surviving spouse, the administrator shall pay the survivor's pension in equal parts to the dependent children of the member. While the monthly survivor's pension is being paid, the survivor may not elect distributions from the member's individual contribution account under AS 14.25.410. The first payment of the surviving spouse's pension or of a dependent child's pension shall accrue from the first day of the month following the member's death and is payable the last day of the month. The last payment shall be made the last day of the last month in which there is an eligible surviving spouse or dependent child, or the last day of the month in

which the member would have first qualified for normal retirement if the member had survived, whichever day is sooner. A retirement benefit shall be determined under AS 14.25.420–14.25.440, 14.25.470, and 14.25.480 based on the date the member would have first qualified for normal retirement if the member had survived.

In addition to the member's individual account, the surviving spouse or children shall receive an additional benefit equal to the accumulated contributions that would have been made to the deceased member's individual account under AS 14.25.330(a) and 14.25.350(a), from the date of disability to the date the member would have first qualified for normal retirement, including earnings based on the actual rate of return of the trust fund.

(j) While a survivor under (i) of this section is receiving a survivor's pension, the employer of the deceased member shall make contributions based on the deceased member's gross monthly compensation at the time of termination due to disability
(1) that would have been paid to the member's individual account under AS 14.25.330 and AS 14.25.350(a), without deduction from the survivor's pension; and
(2) to the appropriate accounts and funds under AS 14.25.350(b)–(e).

(k) In this section, "occupational disability" means a physical or mental condition that the administrator determines presumably permanently prevents a member from satisfactorily performing the member's usual duties or the duties of another comparable position or job available to the member for which the member is qualified by training or education; however, the proximate cause of the condition must be a bodily injury sustained, or a hazard undergone, while in the performance and within the scope of the member's duties and not the proximate result of the willful negligence of the member.

RECOMMENDED STATUTE CHANGES

PERS IV (AS 39.35.890) and TRS III (AS 14.25.485)

Prepared for Policy Consideration

I. Purpose

These recommended statute changes modernize the disability provisions of the PERS IV and TRS III Defined Contribution plans to:

1. **Add a non-occupational disability benefit** with a 10-year service requirement;
 2. **Ensure immediate retiree major medical coverage** for all members receiving disability benefits—occupational or non-occupational;
 3. **Preserve all existing statutory provisions** regarding occupational disability, survivor benefits, vocational rehabilitation, termination conditions, and retirement conversion; and
 4. **Provide disability-related healthcare coverage and a non-occupational disability benefit for Defined Contribution members in a manner that reflects key protections available under prior Defined Benefit tiers, while recognizing that the specific eligibility requirements and scope of coverage differ. These additions offer protections to DC members that do not exist under current statute.**
-

II. What Remains Unchanged (PERS and TRS)

The following statutory provisions remain **unchanged** in both PERS and TRS:

1. Occupational Disability Eligibility and Definition

- Total and apparently permanent occupational disability standard
- Requirement that the disability result from an injury or hazard in the scope of duties
- Existing definition of “occupational disability”

2. Benefit Structure for Occupational Disability

- Monthly benefit = **40% of gross monthly compensation**

- Employer must continue contributions to the member’s defined contribution account
- Member may not take distributions from the DC account while receiving disability benefits
- Disability counts as membership service for retirement eligibility

3. Filing Requirements and Qualifications

- 90-day application deadline
- Annual medical examinations
- Required participation and cooperation in vocational rehabilitation
- Termination of benefits upon recovery, non-compliance, or normal retirement age

4. Survivor Provisions

- Surviving spouse or dependent children receive continuing benefits
- Survivor DC contribution requirements remain unchanged
- Survivor medical eligibility rules remain unchanged

5. Retirement Conversion

- Upon reaching normal retirement age, the disabled member is treated as if retiring directly from the plan
- Retirement benefits are calculated under existing retirement sections
 - **PERS:** AS 39.35.820–880
 - **TRS:** AS 14.25.420–480

III. New Recommended Statutory Additions – PERS (AS 39.35.880; AS 39.35.890)

Add the following to AS 39.35.880(g).

(3) a disabled member is not required to make premium payments if not eligible for Medicare.

Add the following subsections **(n)–(t)** to AS 39.35.890.

(n) Nonoccupational disability.

A member is eligible for a nonoccupational disability benefit if

- (1) the member has 10 or more years of service;
- (2) the member becomes totally and apparently permanently disabled due to a nonoccupational injury or illness;
- (3) the disability occurs before the member's normal retirement age; and
- (4) employment is terminated as a result of the disability.

(o)

The monthly nonoccupational disability benefit is 40 percent of the member's gross monthly compensation at the time of termination due to disability.

(p)

While receiving a nonoccupational disability benefit, the employer shall make contributions

- (1) to the member's individual account under AS 39.35.730; and
 - (2) to the trust account under AS 39.35.750(e),
- based on the member's gross monthly compensation at the time of disability and without deduction from the disability benefit.

(q)

A member receiving a nonoccupational disability benefit may not elect distributions from the member's individual contribution account under AS 39.35.810.

(r)

A nonoccupational disability benefit terminates the last day of the month in which the member

- (1) dies;
- (2) recovers from the disability;
- (3) fails to meet the requirements of this section; or
- (4) reaches normal retirement age.

(s)

When a nonoccupational disability benefit terminates under (r)(4), the member's retirement benefit shall be determined under AS 39.35.820–39.35.840, 39.35.870, and 39.35.880 as if the member had remained employed during the disability period. The disability period constitutes membership service for purposes of determining eligibility for retiree medical benefits.

(t) Medical benefits for disabled members.

A member receiving an occupational disability benefit under this section or a nonoccupational disability benefit under (n) is eligible for system-covered retiree major medical insurance coverage under AS 39.35.880. Coverage begins the first day of the month after the administrator approves the disability and continues until the earliest of the month in which the member

- (1) reaches normal retirement age;
- (2) recovers from the disability;
- (3) fails to meet the requirements of this section; or
- (4) dies.

IV. New Recommended Statutory Additions – TRS (AS 14.25.485)

Add the following as a **new section (AS 14.25.487)**:

AS 14.25.487. Nonoccupational disability benefits.

(a) Eligibility.

A member is eligible for a nonoccupational disability benefit if

- (1) the member has 10 or more years of service;
- (2) the member becomes totally and apparently permanently disabled due to a nonoccupational injury or illness;
- (3) the disability occurs before the member’s normal retirement age; and
- (4) employment is terminated as a result of the disability.

(b) Benefit amount.

The monthly nonoccupational disability benefit is 40 percent of the member’s gross monthly compensation at the time of termination due to disability.

(c) Employer contributions.

While receiving a nonoccupational disability benefit, the employer shall make contributions

- (1) to the member’s individual account under AS 14.25.330; and
 - (2) to the trust account under AS 14.25.350(a),
- based on the member’s gross monthly compensation at the time of disability and without deduction from the disability benefit.

(d) Distribution restriction.

A member receiving a nonoccupational disability benefit may not elect distributions from the member's individual contribution account under AS 14.25.410.

(e) Termination.

A nonoccupational disability benefit terminates the last day of the month in which the member

- (1) dies;
- (2) recovers from the disability;
- (3) fails to meet the requirements of this section; or
- (4) reaches normal retirement age.

(f) Retirement conversion.

When a nonoccupational disability benefit terminates under (e)(4), the member's retirement benefit shall be determined under AS 14.25.420–14.25.440, 14.25.470, and 14.25.480 as if the member had remained employed during the disability period. The period constitutes membership service for purposes of determining eligibility for retiree medical benefits.

(g) Medical benefits for disabled members.

A member receiving an occupational disability benefit under AS 14.25.485 or a nonoccupational disability benefit under this section is eligible for system-covered retiree major medical insurance coverage under AS 14.25.480. Coverage begins the first day of the month after the administrator approves the disability and continues until the earliest of the month in which the member

- (1) reaches normal retirement age;
- (2) recovers from the disability;
- (3) fails to meet eligibility requirements; or
- (4) dies.

V. Summary of Recommended Changes

These recommended statutory additions:

- **Maintain all existing occupational disability provisions**
- **Add a nonoccupational disability benefit** for PERS and TRS with a 10-year service requirement

- **Provide immediate healthcare coverage** for both types of disabled members
- **Ensure disability time counts toward retiree medical eligibility**
- **Introduce disability protections to DC tiers that currently have none**, using concepts present in prior DB tiers but adapted to the DC structure