State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD

Recommendation to the Commissioner of Administration Regarding the Judicial Retirement System (JRS) Funding Policy and Payroll Growth Assumption

Resolution 2025-23

WHEREAS, the Alaska Retirement Management Board (Board) serves as trustee of the assets of the Judicial Retirement System (JRS) and is charged under AS 37.10.210–.390 with investing those assets prudently to meet plan liabilities and obligations; and

WHEREAS, under AS 37.10.220 and AS 22.25.048(c), the Board may recommend to the Commissioner of Administration actuarial assumptions, funding methodologies, and related policies that support sound fiduciary management and long-term sustainability of the State's retirement systems; and

WHEREAS, the JRS is a defined benefit plan that remains open to new members and provides benefits based on the current salary of the corresponding judicial position, rather than on a member's own final average compensation, which makes the plan uniquely sensitive to changes in judicial salaries; and

WHEREAS, this structure causes all active and retired members' benefits to adjust whenever judicial salaries change, leading to plan liabilities that move directly with pay levels and creating additional volatility due to the plan's relatively small payroll base; and

WHEREAS, Gallagher, the actuary for the Division of Retirement and Benefits, identified that under the prior layered amortization method, a positive amortization payment was still being calculated even when the JRS was more than 100 percent funded, and in consultation with the Board implemented a fresh-start amortization reset in September 2025 establishing a new 15-year period with a minimum contribution equal to the normal cost to eliminate the artificial amortization payment and restore transparency; and

WHEREAS, Gabriel, Roeder, Smith & Company (GRS) subsequently provided guidance to the Board on developing a long-term funding policy for the JRS, including best practices for managing both surplus and deficit conditions, as presented to the Strategic Review and Action Committee on October 9, 2025 (Exhibit 1); and

WHEREAS, GRS recommended a framework under which:

- When the plan is under 100 percent funded on an actuarial value of assets basis, normal cost plus a 15-year layered amortization of the unfunded accrued liability should be applied to balance contribution stability with meaningful progress toward full funding;

- When the plan is at or above 100 percent funded on an actuarial value of assets basis, all amortization layers should be reset, and contributions should continue at least equal to the normal cost; and

- When the plan is significantly overfunded (for example, 125 percent or greater on an actuarial value of assets basis), the surplus accrued liability may be amortized over 100 years as an offset to the normal cost to moderate further growth in the funded ratio; and

WHEREAS, Gallagher and GRS have noted the current JRS payroll growth assumption of 2.75 percent may no longer reflect experience or long-term salary trends for Alaska's judiciary, and suggested consideration of a reduction of the payroll growth assumption in a similar manner as the Board's lowering of the payroll growth assumption for the PERS and TRS systems; and

WHEREAS, lowering the payroll growth assumption to 1.5 percent provides a more realistic reflection of experience, aligns with inflation expectations, and promotes a consistent approach across the State's retirement systems.

NOW, THEREFORE, BE IT RESOLVED THAT:

1. The Alaska Retirement Management Board recommends that the Commissioner of Administration adopt the funding policy framework proposed by GRS for the Judicial Retirement System (JRS), consistent with the September 2025 Gallagher fresh-start adjustment, as follows:
    - When the plan is under 100 percent funded on an actuarial value of assets basis, employ a 15-year layered amortization method of the unfunded accrued liability plus normal cost to balance contribution stability and progress.

    - When the plan is at or above 100 percent funded on an actuarial value of assets basis, reset all outstanding layers and continue contributions equal to at least the normal cost.

    - When the plan is significantly overfunded at 125% or more on an actuarial value of assets basis, amortize the surplus over 100 years as an offset to the normal cost to maintain the funded ratio near the target level.

2. The Board further recommends that the Commissioner of Administration, in consultation with Gallagher, revise the JRS payroll growth assumption from 2.75 percent to 1.5 percent to better align with experience, inflation expectations, and the assumptions used for PERS and TRS.

3. The Board requests that these recommendations be incorporated into the next actuarial valuation for the Judicial Retirement System and that the Division of Retirement and Benefits coordinate the implementation consistent with statute and established administrative practice.

DATED at Anchorage, Alaska this 3rd day of December, 2025

Chair

ATTEST:

Secretary

Attachment A – Judicial Retirement System (JRS) Overview and Funding Policy Context

1. Overview of the Judicial Retirement System (JRS)

The Judicial Retirement System (JRS) is a defined benefit plan that remains open to new members and is structurally distinct from Alaska's other retirement systems. It covers a small group of sitting and retired judges whose benefits are determined by the current salary of the judicial position, not by their own highest years of pay.

Under AS 22.25.046, a retired judge's benefit automatically adjusts whenever the corresponding judicial salary changes. Consequently, every salary adjustment for active judges increases the benefits of all current retirees and active members. This structure makes the JRS highly sensitive to judicial pay levels and unique among Alaska's defined benefit systems.

2. Sensitivity to Salary Changes and Payroll Scale

Because benefits for both active and retired members are tied to the same underlying salary schedule, JRS liabilities move almost one-for-one with judicial salary changes. Even modest pay adjustments increase the plan's total liabilities immediately.

The plan also has a very small active payroll relative to its accrued liability, amplifying contribution rate volatility. Small differences in investment performance or actuarial assumptions can cause large swings in the contribution rate when expressed as a percentage of payroll.

3. Funding Status and Identified Issue

As of the June 30, 2024 valuation, JRS was 101.7 percent funded, with a normal cost of 41.87 percent and a total contribution rate of 60.78 percent. However, the legacy layered amortization method still produced a positive unfunded liability payment even though the plan was over 100 percent funded. The Board recognized this inconsistency and sought corrective action to ensure transparency and consistency in future funding calculations.

4. September 2025 Fresh-Start Adjustment and Policy Development

Gallagher, actuary for the Division of Retirement and Benefits, worked in consultation with the Alaska Retirement Management Board to implement a fresh-start amortization reset in September 2025, setting a new 15-year period with a minimum contribution equal to the normal cost. This eliminated the unnecessary amortization payment and re-established a clear funding baseline.

Subsequently, Gabriel, Roeder, Smith & Company (GRS) provided technical guidance to the Board on establishing a long-term policy framework. The GRS presentation to the Strategic Review and Action Committee on October 9, 2025 (Exhibit 1) outlined a recommendation to employ a 15-year layered amortization when underfunded, reset layers and maintain normal cost contributions when fully funded, and consider a 100-year surplus amortization when over 125 percent funded.

5. Board Observations and Intent

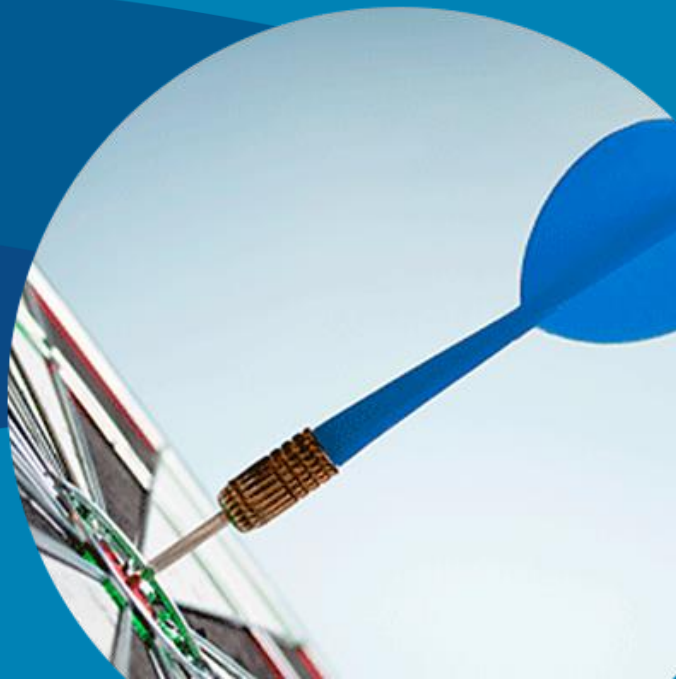
The Board found that the prior amortization approach could create unfunded liability payments even when the plan exceeded full funding. The September 2025 fresh-start adjustment and the subsequent GRS guidance together represent a prudent, forward-looking framework for stabilizing the plan's funding status.

While the Board does not set contribution rates or actuarial assumptions directly, it has a fiduciary duty under AS 37.10.220 to advise the Commissioner of Administration on funding strategies that support long-term sustainability and fairness among participants and employers. This attachment reflects the Board's best current thinking on maintaining a stable, well-funded Judicial Retirement System that is open, small, and sensitive to judicial salary levels.

JRS Funding Policy

Paul Wood, ASA, FCA, MAAA
Cassie Rapoport, ASA, MAAA

Strategic Action and Review Committee
October 9, 2025



JRS Funding Policy

Identifying the Challenge

- As of the initial June 30, 2024 valuation, the JRS pension funded ratio was 101.7%, the normal cost was 41.87%, and the total contribution rate was 60.78%
- Using the historical layered amortization approach, a positive amortization payment was being calculated even though the funded ratio was north of 100%
- As a result, the ARMB reset the amortization period to 15 years with a minimum contribution equal to the normal cost
- How do we move forward?

JRS Funding Policy

Resource Documents

- The American Academy of Actuaries recently issued a report on surplus funding policies
- https://actuary.org/wp-content/uploads/2024/04/retirement-brief-surplus.pdf

JRS Funding Policy

Assumptions and Methods

- Are the assumptions and methods reasonable?
- Current Discount rate: 7.25%
- Current Payroll Growth Rate: 2.75%
- Some attention could be given to the payroll growth rate assumption
  - Recent history has pointed to lower total payroll growth so a change similar to the change made to PERS and TRS could be considered
- Furthermore, as a plan approaches or exceeds 100% funded, it is a reasonable strategy to start to back off on the discount rate
  - But given there is a floor on the contribution rate of the normal cost, lowering the discount rate would tend to increase cost

JRS Funding Policy

Amortization Strategy

- The main decision point is how to handle a surplus when it comes to calculating the contribution rates
- The most conservative approach would be to contribute, at a minimum, the normal cost
  - This would help ensure that the funded status remains above 100% and potentially continues to grow
  - This is the current policy
- To the extent that the contribution is lower than the normal cost, the funded ratio will tend to move back to 100% over time
- Recommend that the current practice of contributing the normal cost be maintained, for the most part

JRS Funding Policy

Amortization Strategy

- But what happens if the JRS drops below 100% funding in the future?
- Given the relative size of the payroll to the accrued liability (more specifically, the inactive member liability), regardless of the amortization method there will be a fair amount of volatility in the contribution rates
  - That is, even a small unfunded amount could move the contribution rate up significantly

JRS Funding Policy

Amortization Strategy

- If the JRS were to drop to 95% funded

Funded Ratio	Amortization Period	Amortization Rate	Total ER Rate
95%	10	10.62%	45.84%
95%	15	7.80%	43.02%
95%	20	6.43%	41.65%
95%	25	5.63%	40.85%
95%	30	5.12%	40.34%

- Again, because the payroll is relatively small compared to the accrued liability, there is inherent volatility

JRS Funding Policy

Amortization Strategy - Recommendation

- When the JRS is under 100% funded, employ a 15 year layered amortization approach
  - This will help balance between contribution volatility and meaningful funding progress
- When the JRS becomes over 100% funded, reset all outstanding layers and contribute the normal cost at a minimum
- In the event the JRS becomes super funded, consider reducing the contribution below the normal cost by amortizing the surplus over a 100 year period
  - This will keep the funded ratio at the desired target

JRS Funding Policy

Amortization Strategy - Recommendation

- Employing this strategy would help ensure the following:
  - When the JRS is underfunded, a reasonable contribution is made (15 year amortization) while limiting the year to year volatility (layered approach)
  - When the JRS eclipses 100% funded, the normal cost contribution is still made which will help keep the funded ratio above 100%
  - When the plans becomes funded at a level of 125% (or some other agreed upon amount), the contributions can be lowered below normal cost to prevent continued increase in the funded status

JRS Funding Policy

Conclusions

- The current policy of contributing the normal cost when over funded is quite strong
- Having a plan in place now in the event the JRS falls below full funding is prudent
- Managing the inherent volatility in the contribution rates through the layered amortization approach remains reasonable.

APPENDIX

JRS Funding Policy

Appendix – Projections

- Reviewed how various amortization policies react under both deterministic and stochastic projections
- This gives insight into the range of possible outcomes as well as a demonstration on how the plan would react to being over funded, then underfunded, and then super funded

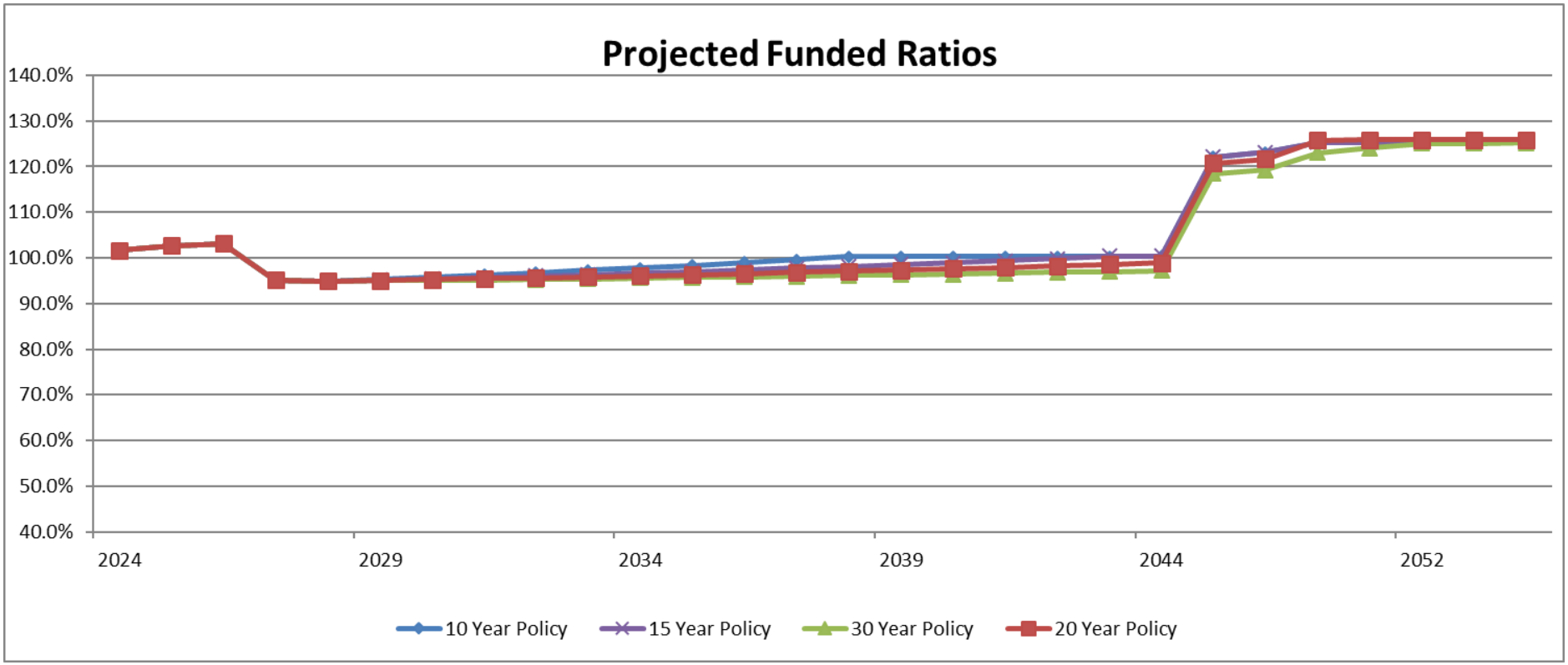
JRS Funding Policy

Appendix – Deterministic Projections

- In all scenarios, it is assumed the plan returns -1.0% in year three, 7.25% thereafter until there is a 30% return in year 20 that bring the JRS close to 125% funded
- The following charts show the projected funded ratios, projected employer contribution rates and projected employer contributions dollars under the following amortization methods
  - 10 Year, Layered
  - 15 Year, Layered
  - 20 Year, Layered
  - 30 Year, Layered

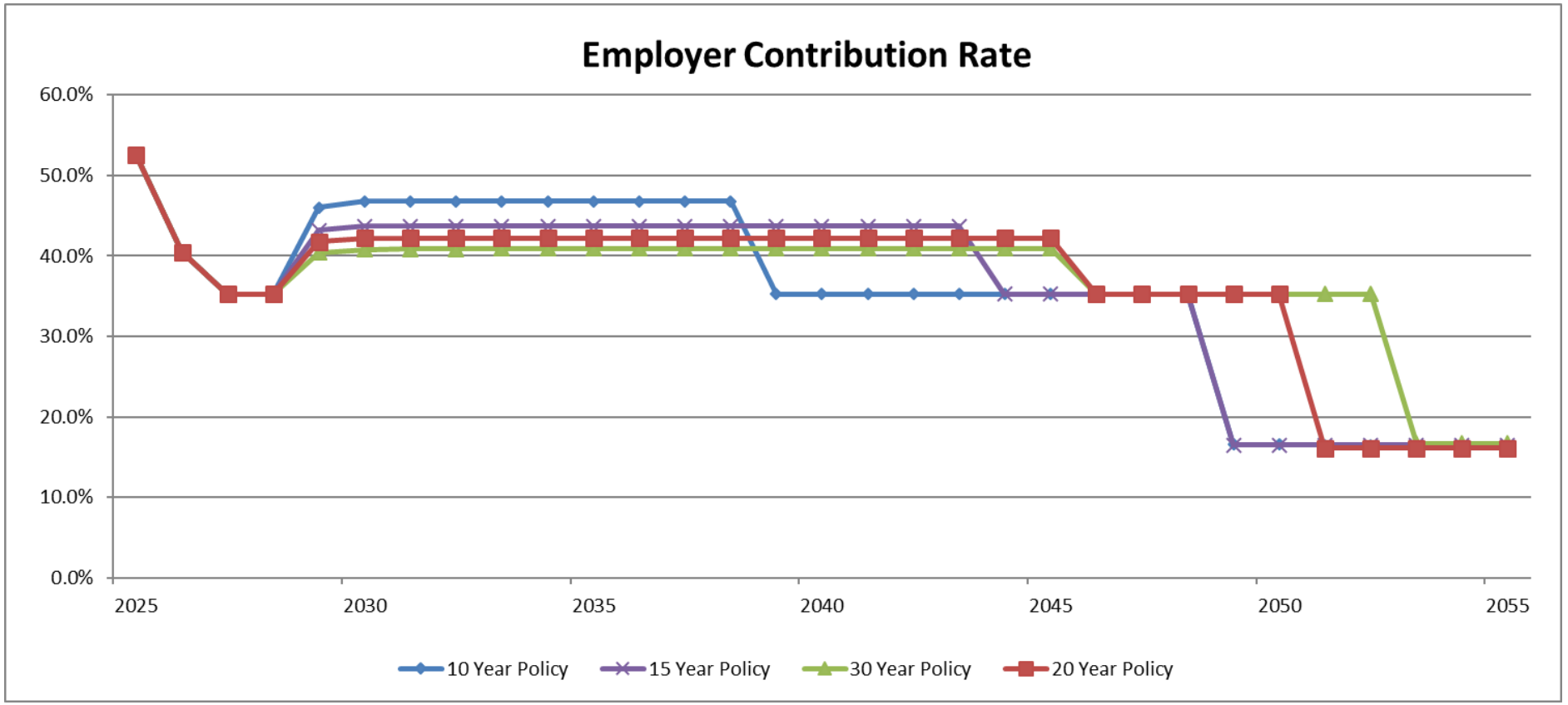
JRS Funding Policy

Appendix – Deterministic Projections



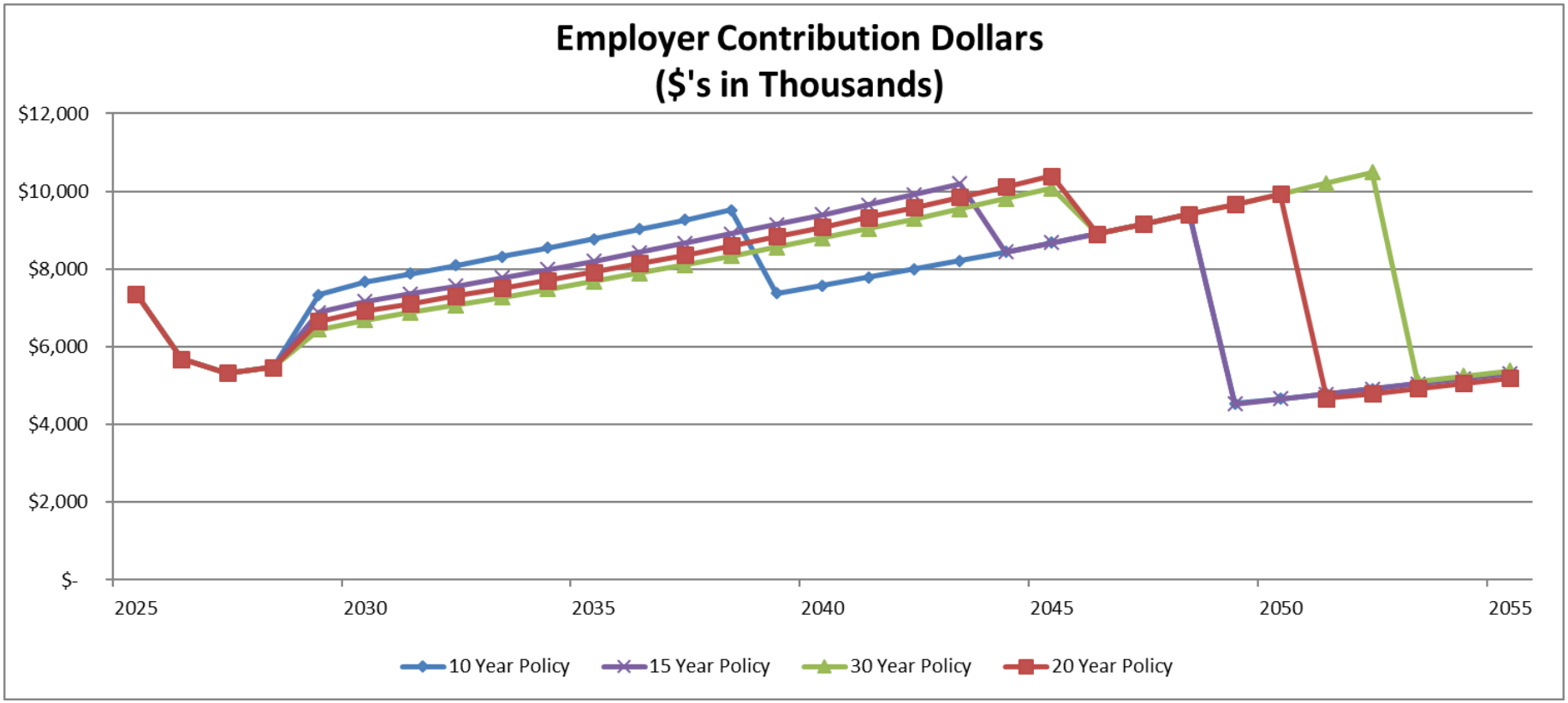
JRS Funding Policy

Appendix – Deterministic Projections



JRS Funding Policy

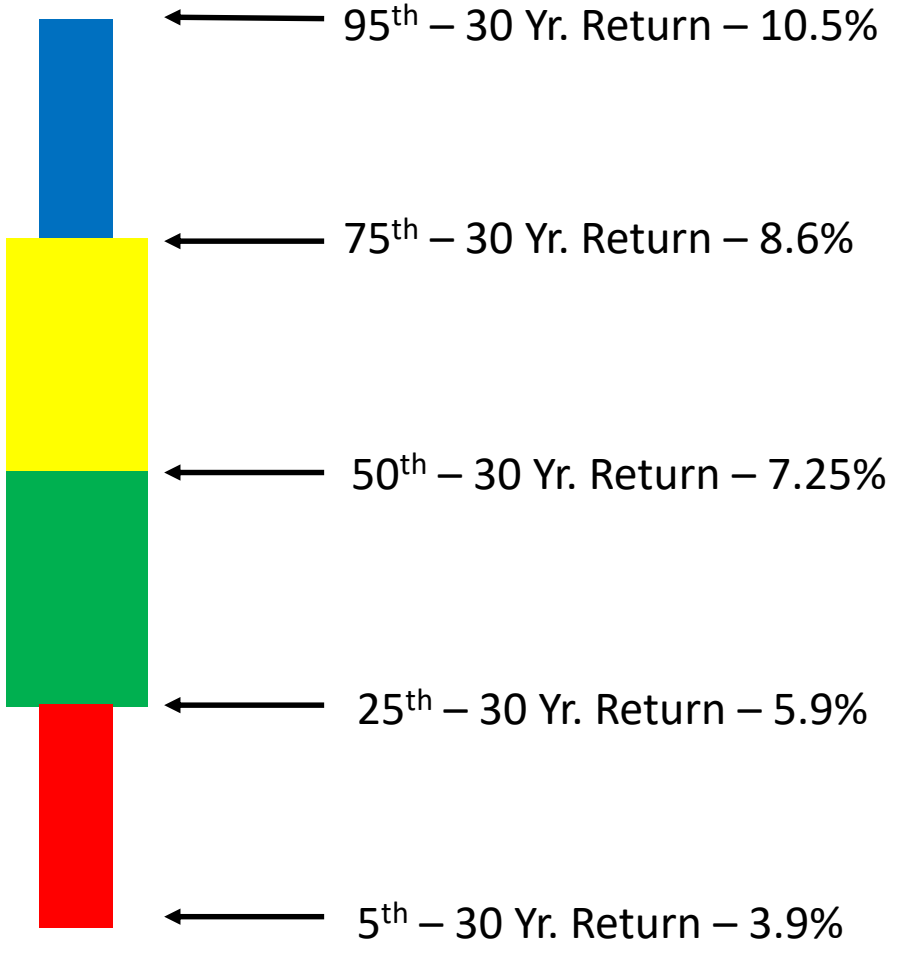
Appendix – Deterministic Projections



JRS Funding Policy

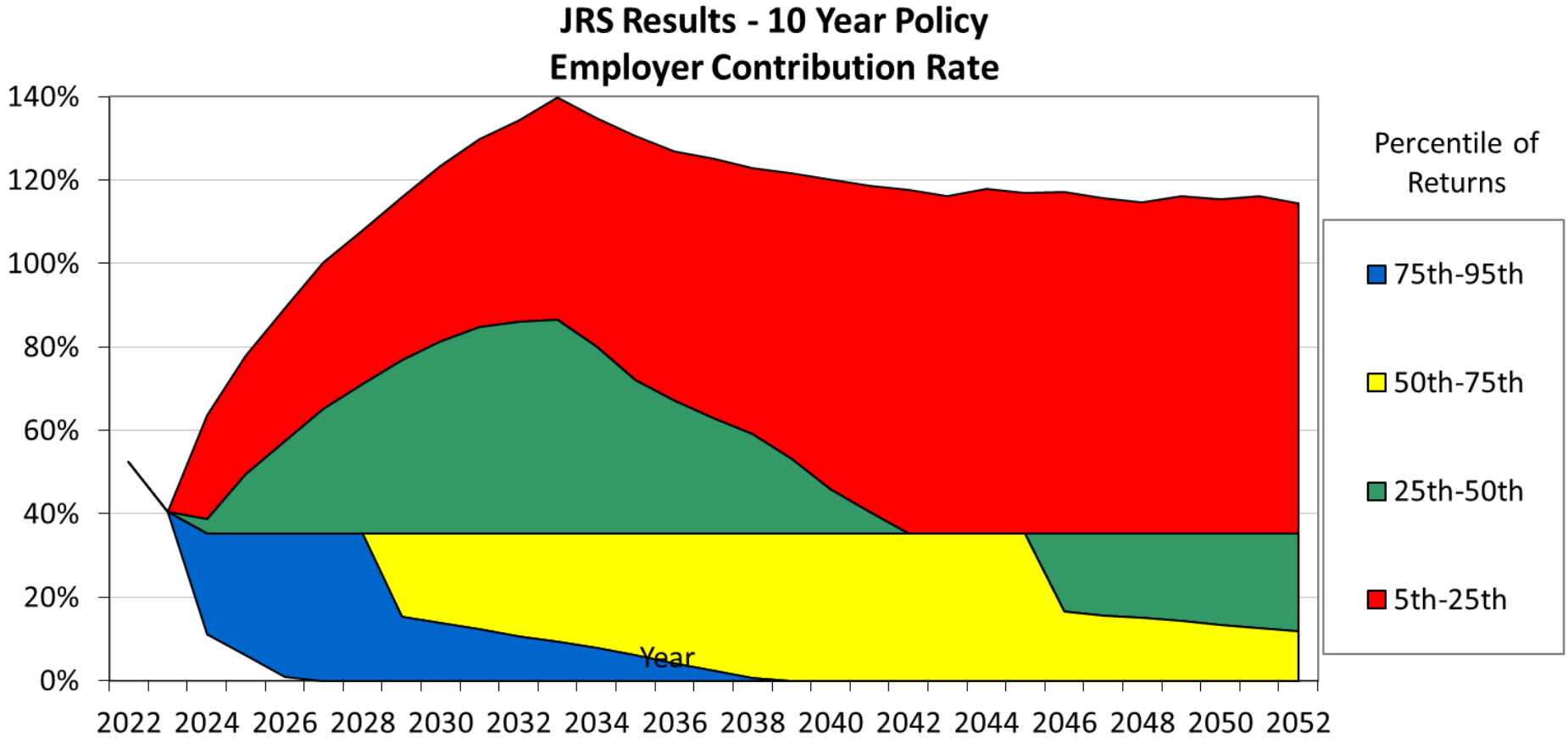
Appendix – Stochastic Projections - Cone of Uncertainty

- Interpreting stochastic results
  - 95th percentile
    - Exceeds 95% of all forecasts
    - Overly optimistic outcome
  - 75th percentile
    - Exceeds 75% of all forecasts
    - Optimistic outcome
  - 50th percentile
    - Exceeds 50% of all forecasts
    - Median outcome
  - 25th percentile
    - Exceeds 25% of all forecasts
    - Pessimistic outcome
  - 5th percentile
    - Exceeds 5% of all forecasts
    - Overly pessimistic outcome



JRS Funding Policy

Appendix – Stochastic Projections – Employer Contribution Rate



JRS Funding Policy

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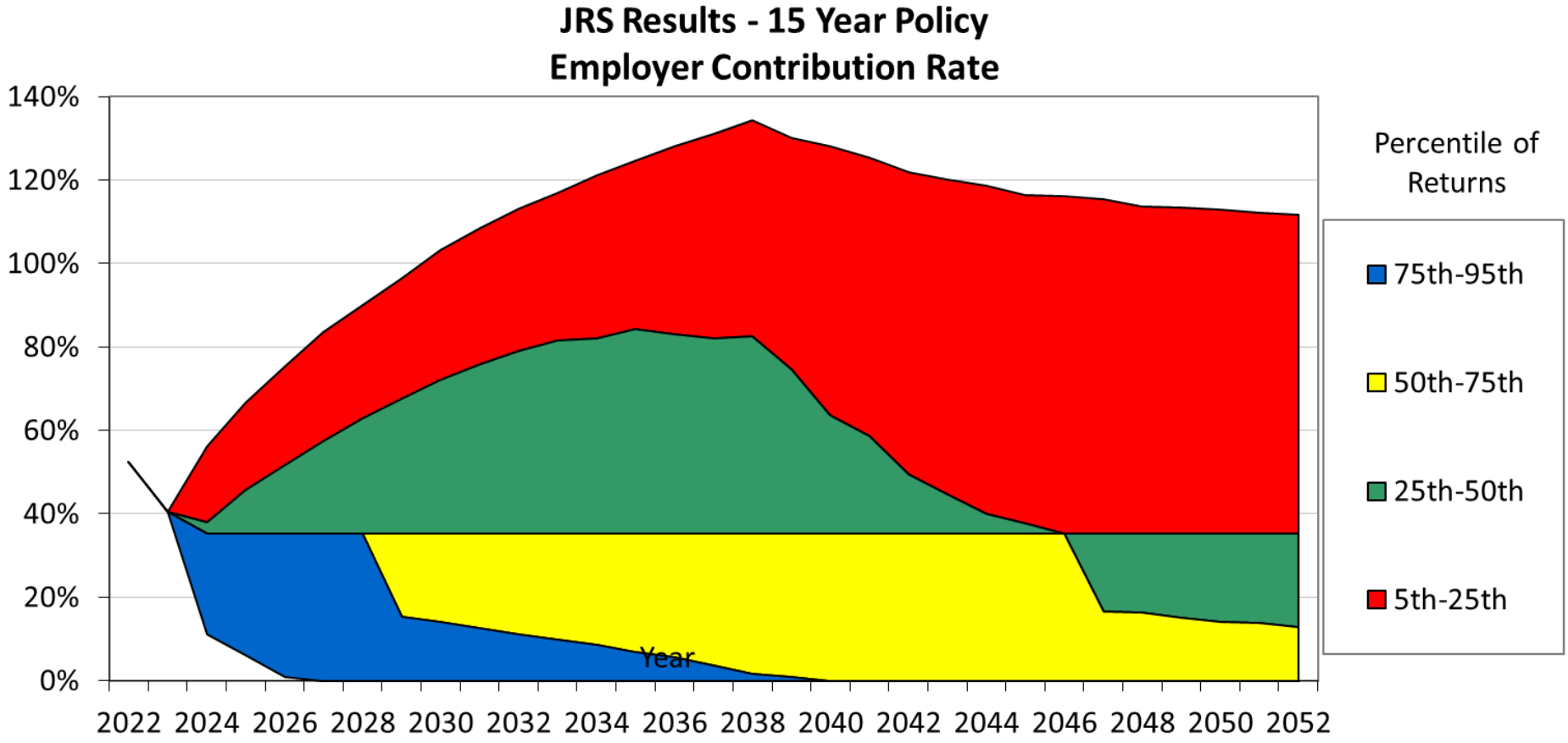

JRS Funding Policy

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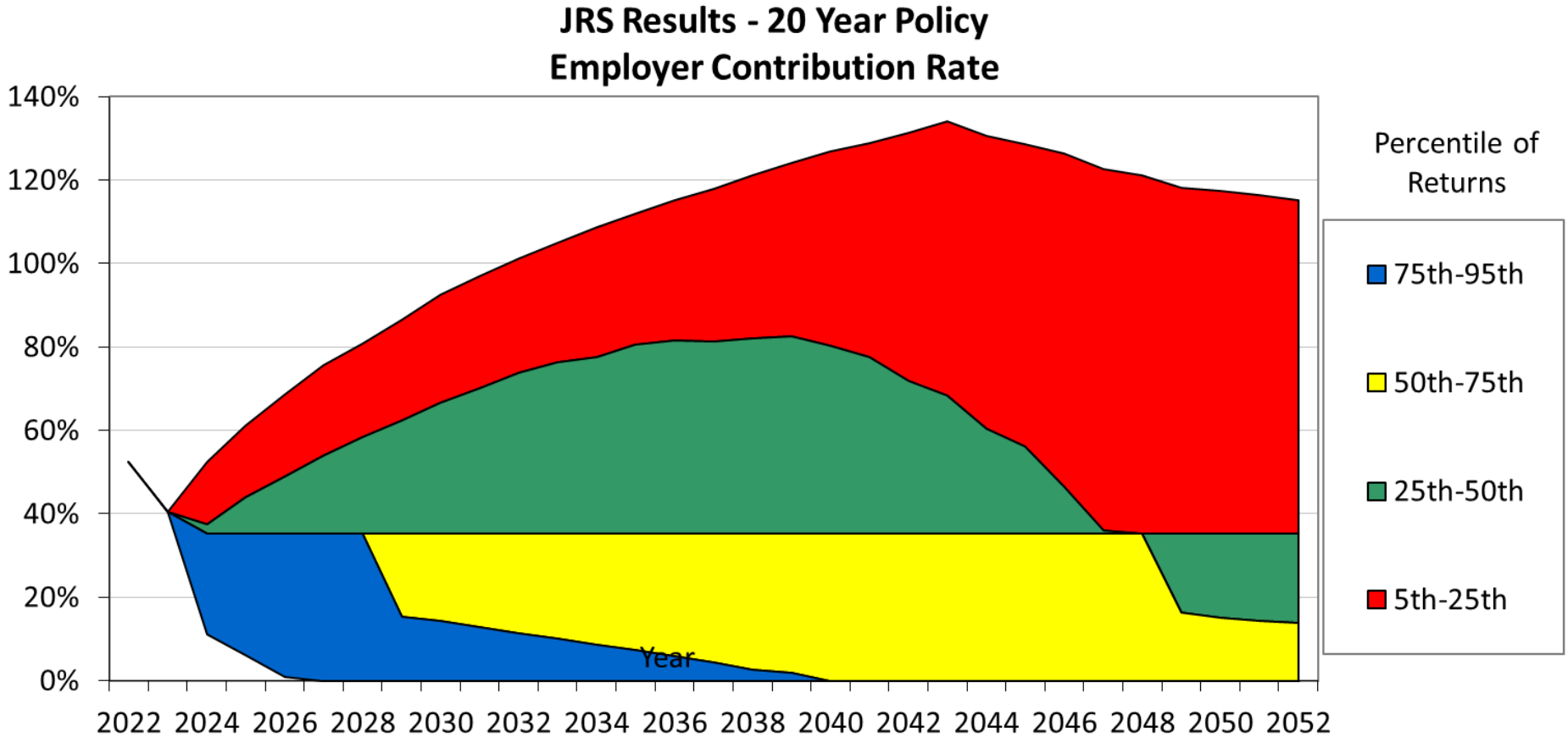

JRS Funding Policy

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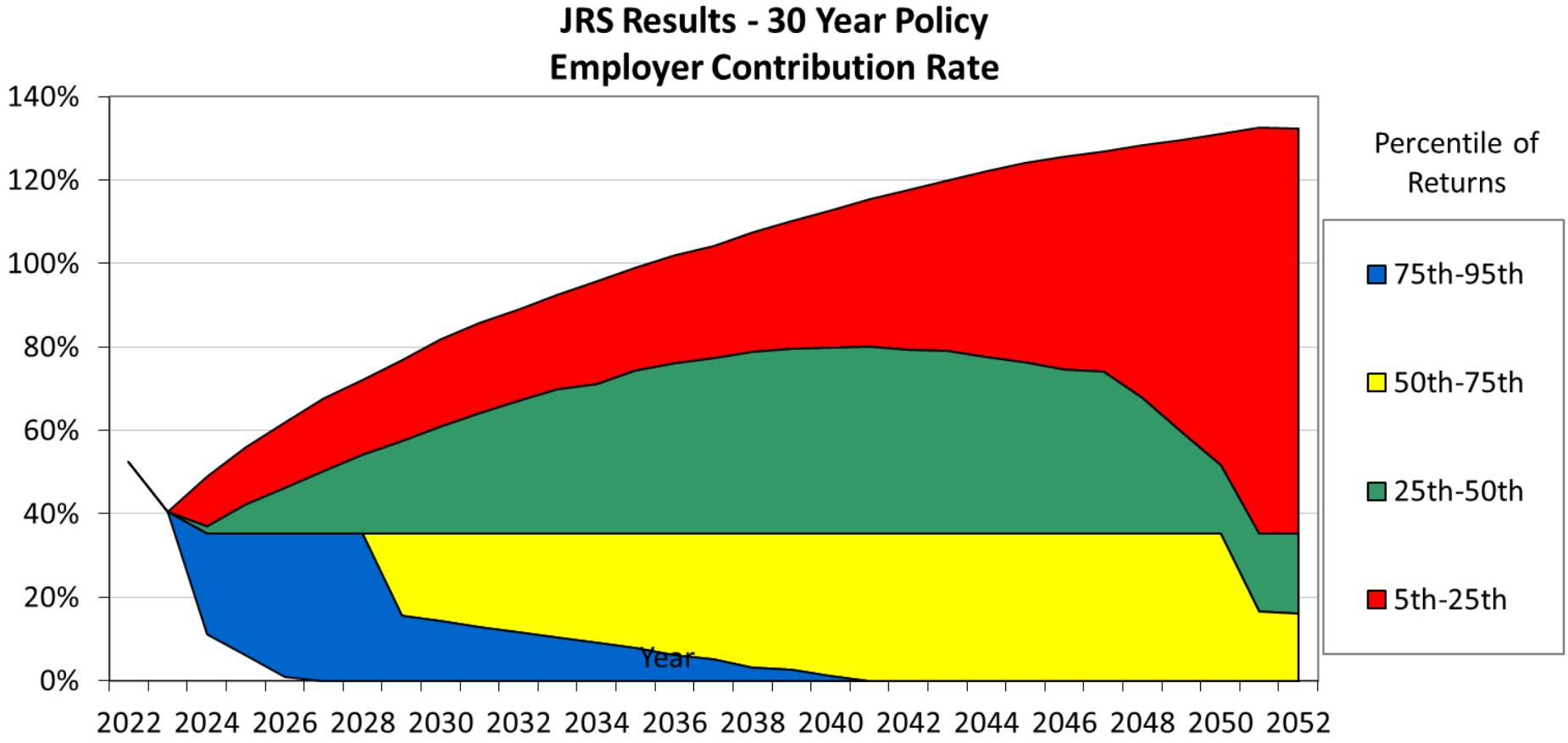
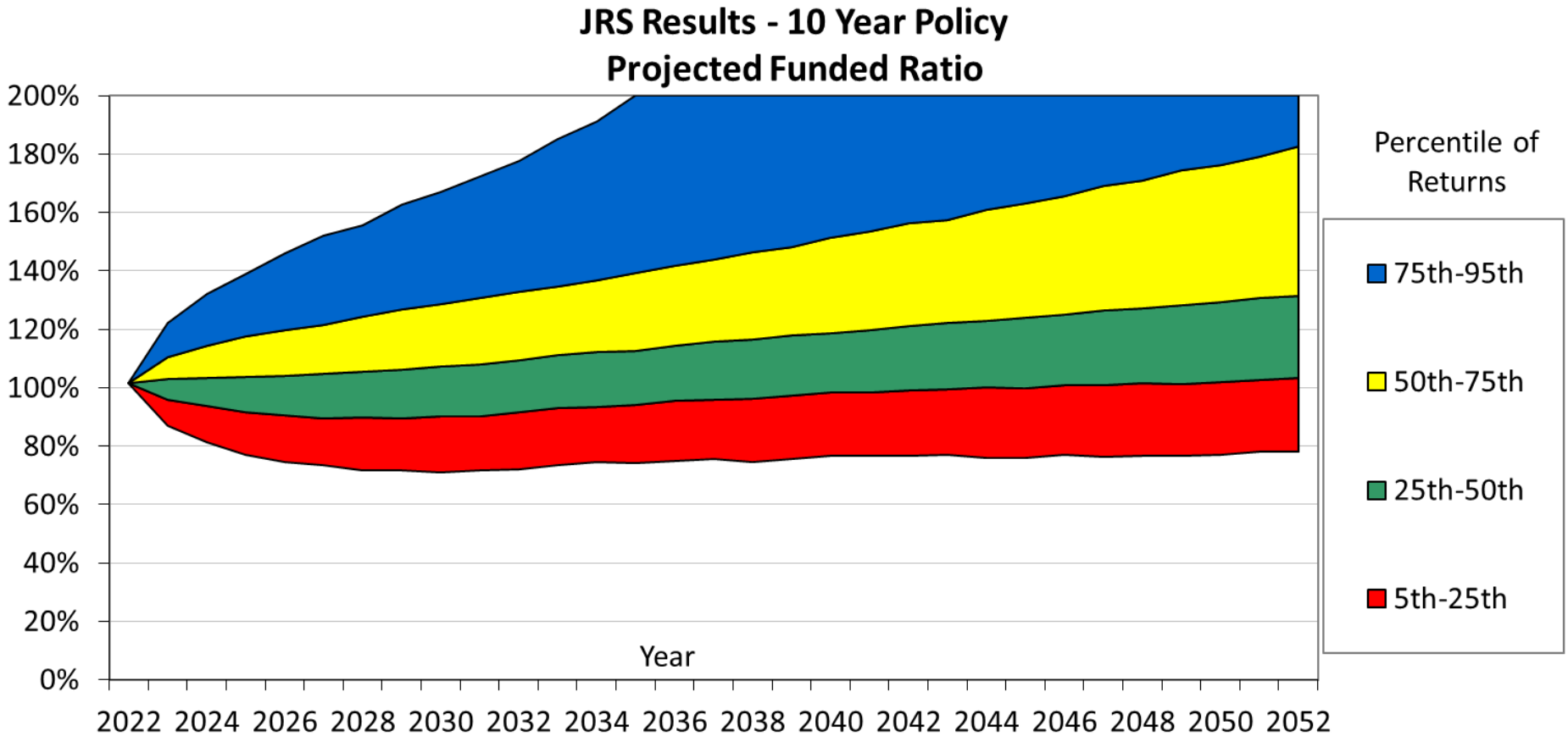


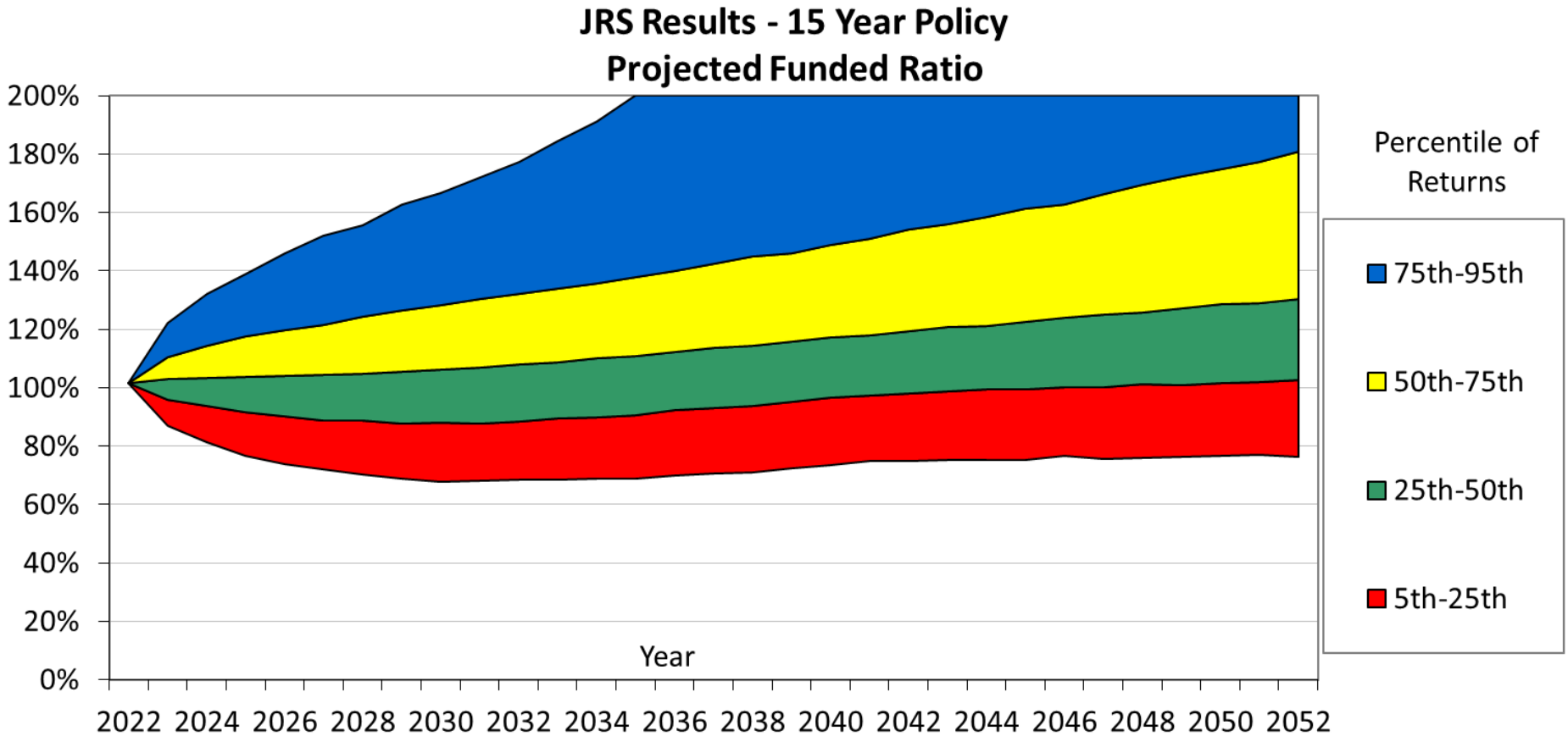
JRS Funding Policy

Appendix – Stochastic Projections – Funded Ratio



JRS Funding Policy

Appendix – Stochastic Projections – Funded Ratio



JRS Funding Policy

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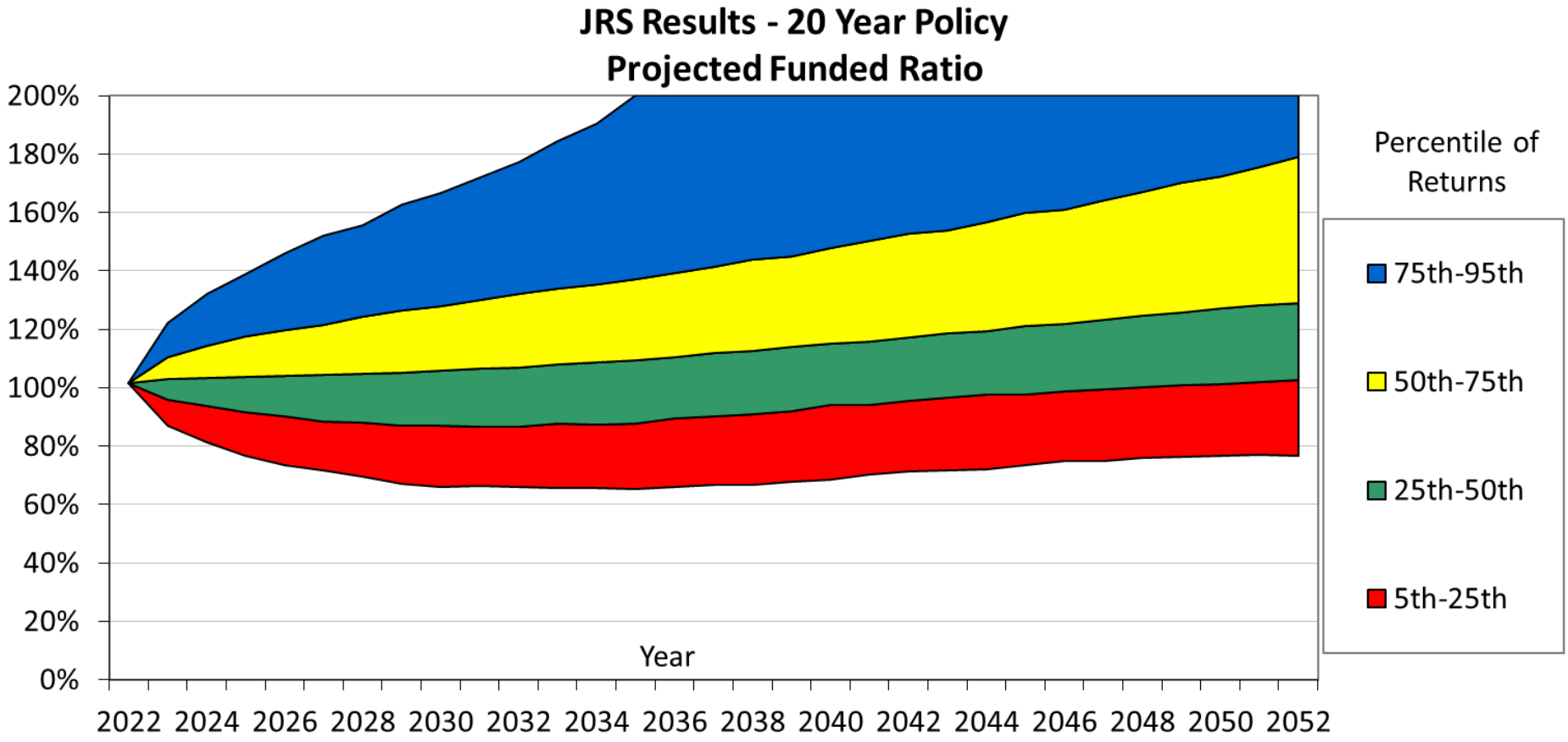
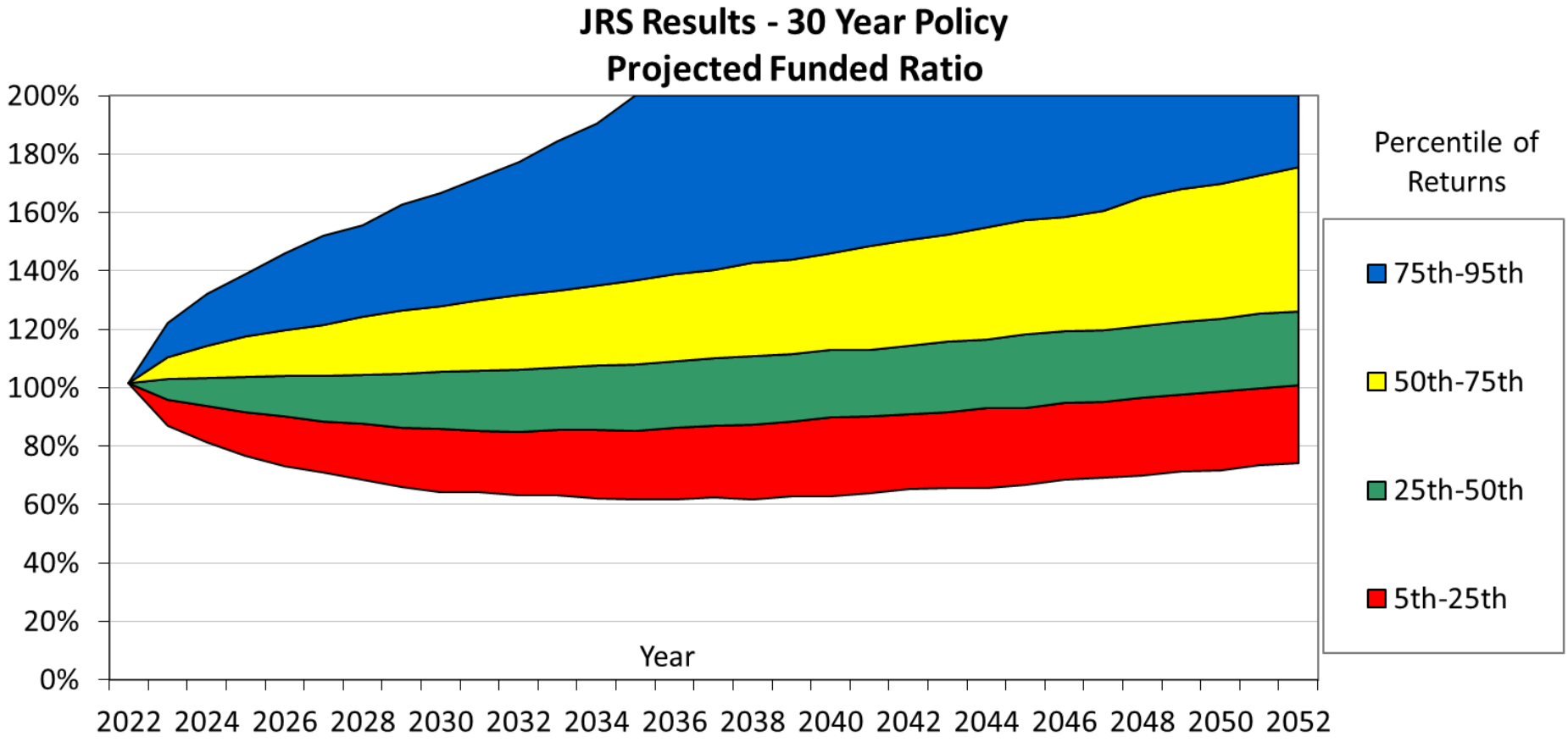


JRS Funding Policy

Appendix – Stochastic Projections – Funded Ratio



Questions?