

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD

**Combined Fiscal Impact of Simultaneous Implementation of DCR Healthcare Eligibility
and Disability Benefit Improvements and the Cost of Delayed Action
Resolution 2026-01**

WHEREAS, the Alaska Retirement Management Board (“ARMB”) was established under AS 37.10.210(a) to serve as trustee to the assets of the State’s retirement systems; and

WHEREAS, ARMB is 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, ARMB has adopted Resolution 2025-02 (recommending a reduction in years of service required for DCR retiree healthcare eligibility), Resolution 2025-21 (recommending implementation of a 20-year retiree medical eligibility option funded by a one-time transfer of HRA forfeiture-derived resources), and Resolution 2025-22 (recommending legislative action to add healthcare coverage during disability and extend non-occupational disability coverage to DC members); and

WHEREAS, both the healthcare eligibility reduction recommended in Resolutions 2025-02 and 2025-21 and the disability healthcare coverage recommended in Resolution 2025-22 increase accrued liabilities within the same Retiree Medical Trusts, meaning the combined fiscal impact of simultaneous implementation is not simply the sum of the standalone impacts; and

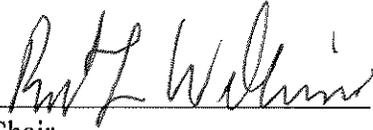
WHEREAS, at the Board’s request, Gabriel, Roeder, Smith & Company (GRS) prepared a supplemental combined impact analysis dated February 12, 2026, using draft June 30, 2025 valuation data, which is summarized together with the Board’s analysis and observations in Attachment 1; and

WHEREAS, the combined analysis demonstrates that the actuarial cost of these benefit improvements increases with each year of delayed action as normal cost contributions needed to support expanded benefits are not being collected, accrued liabilities grow as the workforce ages, and existing trust surpluses that make these improvements feasible are subject to erosion; and

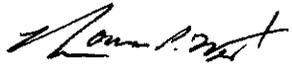
WHEREAS, ARMB’s combined fiscal impact analysis, observations regarding the preferred combined approach, recommendations for separate actuarial tracking of disability healthcare costs, and analysis of the cost of delayed action are set out in Attachment 1 to this Resolution.

NOW THEREFORE BE IT RESOLVED BY THE ALASKA RETIREMENT MANAGEMENT BOARD, that ARMB adopts the combined fiscal impact analysis, observations, and recommendations set out in Attachment 1, for consideration in connection with any action arising from Resolutions 2025-02_A, 2025-21_A, and 2025-22-A.

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


Chair

ATTEST:


Secretary

Attachment 1

ARMB Resolution 2026-01 – Combined Fiscal Impact Analysis

(Resolutions 2025-02, 2025-21, and 2025-22)

Based on GRS Supplemental Letter dated February 12, 2026

1. Purpose

This attachment presents a consolidated analysis of the fiscal interaction that occurs when the DCR healthcare eligibility improvements (Resolutions 2025-02 and 2025-21) and the DCR disability benefit improvements (Resolution 2025-22) are enacted simultaneously. Each resolution was originally analyzed on a standalone basis against the current plan baseline. However, both sets of improvements draw upon the same Retiree Medical Trust surplus, and the combined impact is not simply the sum of the standalone impacts.

The analysis is based on the supplemental combined impact letter prepared by Gabriel, Roeder, Smith & Company (GRS) dated February 12, 2026 (DRAFT), attached as Exhibit 1, which uses draft June 30, 2025 valuation data.

2. Baseline Trust Positions (June 30, 2025 Valuation)

Trust	Assets	Accrued Liability	Surplus	Funded Ratio
TRS OD&D	\$9,731,000	\$140,000	\$9,591,000	6,951%
TRS Retiree Medical	\$99,255,000	\$76,563,000	\$22,692,000	130%
PERS OD&D	\$97,233,000	\$23,070,000	\$74,163,000	421%
PERS Retiree Medical	\$324,272,000	\$277,128,000	\$47,144,000	117%

3. Which Trust Is Affected by Which Resolution

The healthcare eligibility reduction (Resolutions 2025-02/2025-21) affects only the Retiree Medical Trusts. The disability improvements (Resolution 2025-22) affect both the Occupational Death & Disability Trusts (for non-occupational disability income benefits) and the Retiree Medical Trusts (for disability healthcare coverage). The OD&D Trusts have very large surpluses and are not at risk. The interaction that matters is the combined demand on the Retiree Medical Trusts, which absorb cost increases from both the eligibility reduction and the disability healthcare benefit.

Resolution	OD&D Trusts	Retiree Medical Trusts
2025-02 / 2025-21 (Healthcare Eligibility)	No impact	Increased accrued liability from expanded eligibility
2025-22 (Disability Benefits)	Increased accrued liability from non-occupational disability income	Increased accrued liability from disability healthcare coverage (occ. and non-occ.)

4. Combined Scenario 1: 25/20 Healthcare Eligibility + Full Disability Package

Healthcare eligibility: 20 years for PERS peace officers and firefighters, 25 years for all TRS and other PERS members. Plus: non-occupational disability income, occupational disability healthcare, and non-occupational disability healthcare.

Trust Fund	Baseline Surplus	Post-Change	Surplus Consumed	Funded Ratio
TRS				
OD&D	\$9,591,000	\$5,813,000 surplus	\$3,778,000	248%
Retiree Medical	\$22,692,000	\$3,897,000 surplus	\$18,795,000	104%
TRS Combined				110%
TRS First-Year NC Increase			\$1,385,000	
PERS				
OD&D	\$74,163,000	\$56,454,000 surplus	\$17,709,000	238%
Retiree Medical	\$47,144,000	\$20,630,000 SHORTFALL	\$47,144,000 + \$20,630,000	94%
PERS Combined				109%
PERS First-Year NC Increase			\$9,650,000	
PERS Amortization (15-yr)			\$549,000	
PERS Total First-Year Contrib.			\$10,199,000	
TOTAL FIRST-YEAR NC INCREASE			\$11,035,000	
TOTAL FIRST-YEAR AMORTIZATION			\$549,000	
TOTAL FIRST-YEAR CONTRIBUTION			\$11,584,000	
TO RESTORE PERS RM TO 100%			\$20,630,000	

Under Scenario 1, the PERS Retiree Medical Trust drops to 94% funded, creating a \$20.6 million shortfall. All other trust funds remain above 100%. The first-year total contribution of \$11.6 million includes \$11.0 million in normal cost increases and \$549,000 in amortization of the PERS shortfall over 15 years.

5. Combined Scenario 2: 20-Year All Employees + Full Disability Package

Healthcare eligibility: 20 years for all TRS and PERS members. Plus: the same full disability improvement package.

Trust Fund	Baseline Surplus	Post-Change	Surplus Consumed	Funded Ratio
TRS				
OD&D	\$9,591,000	\$5,813,000 surplus	\$3,778,000	248%
Retiree Medical	\$22,692,000	\$21,753,000 SHORTFALL	\$22,692,000 + \$21,753,000	82%
TRS Combined				87%
TRS First-Year NC Increase			\$3,603,000	
TRS Amortization (15-yr)			\$1,082,000	
TRS Total First-Year Contrib.			\$4,685,000	
PERS				
OD&D	\$74,163,000	\$56,454,000 surplus	\$17,709,000	238%
Retiree Medical	\$47,144,000	\$85,092,000 SHORTFALL	\$47,144,000 + \$85,092,000	79%
PERS Combined				94%
PERS First-Year NC Increase			\$16,698,000	
PERS Amortization (15-yr)			\$3,501,000	
PERS Total First-Year Contrib.			\$20,199,000	
TOTAL FIRST-YEAR NC INCREASE			\$20,301,000	
TOTAL FIRST-YEAR AMORTIZATION			\$4,583,000	
TOTAL FIRST-YEAR CONTRIBUTION			\$24,884,000	
TOTAL TO RESTORE BOTH RM TO 100%			\$106,845,000	

Under Scenario 2, both Retiree Medical Trusts drop below 100% funded. The total shortfall to restore both to 100% is approximately \$106.8 million. The first-year total contribution of \$24.9 million includes \$20.3 million in normal cost increases and \$4.6 million in amortization of shortfalls over 15 years.

6. Disability Healthcare: A Structurally Different Cost

The disability healthcare benefit proposed in Resolution 2025-22 creates a fundamentally different cost obligation within the Retiree Medical Trust:

Feature	Standard Retiree Medical	Disability Healthcare
Coverage Timing	Primarily post-65	Pre-Medicare (until age 65)
Medicare Relationship	Secondary to Medicare	Primary (no Medicare)
Member Premium	100% pre-65; subsidized post-65	Fully plan-paid (\$0 member cost)
Per Capita Cost	Lower (Medicare pays first)	Higher (plan pays full premium)
Population	Retirees meeting YOS threshold	Disabled members (small, younger)
Cost Driver	Longevity, healthcare inflation	Disability incidence, duration

Any implementing legislation should require separate actuarial tracking of disability healthcare costs within the Retiree Medical Trust.

7. The Cost of Delay

The ARMB notes that there are fiscal consequences associated with delay. Each year that action on these benefit improvements is deferred, the cost of eventual implementation is likely to increase for several reinforcing reasons:

A. Normal Cost Contributions Not Being Collected

Under the current statutory framework, employer contributions to the Retiree Medical Trust are set at the normal cost rate based on the current benefit structure. This means contributions do not reflect the cost of benefits the Board has recommended but that have not yet been enacted. Each year of delay is a year in which the normal cost contributions needed to support the expanded benefits are not being collected.

For example, under the 25/20 healthcare eligibility scenario, the normal cost rate for PERS would increase from 0.83% to 0.96% of payroll. That 0.13% differential represents approximately \$2.9 million per year in contributions that are not being made. For TRS, the rate increase from 0.76% to 0.87% represents approximately \$600,000 per year. These uncollected contributions compound with each year of delay.

B. Growing Accrued Liabilities

As the DCR workforce ages and accumulates service, the number of members approaching the proposed eligibility thresholds increases. The one-time actuarial cost has already increased from \$46.7 million (2023 valuation) to \$80.3 million (2025 valuation) for the 20-year option, an increase of 72% in just two years.

C. Surplus Erosion from Normal Fluctuations

The existing Retiree Medical Trust surplus provides the financial margin that makes these improvements feasible. That surplus is not guaranteed. It reflects favorable investment returns

and conservative actuarial assumptions. A period of poor investment returns could significantly reduce the surplus, narrowing or eliminating the fiscal space for benefit improvements. Acting while the surplus exists is more prudent than assuming it will persist indefinitely.

D. The Compounding Effect

These factors interact and compound. Each year of delay means:

- One more year of under-collected normal cost contributions
- A growing population approaching eligibility thresholds, increasing accrued liabilities
- Potential erosion of existing surplus from market conditions
- Additional years of DC members serving without adequate disability protection
- Additional members reaching career milestones without access to the retiree medical plan, undermining recruitment and retention

The Board's original analysis was based on the June 30, 2023, valuation. In two years, the cost of the 20-year option increased by \$33.6 million (72%). If a similar rate of increase were to continue, the cost would exceed \$100 million within a few additional years, potentially rendering the HRA forfeiture funding mechanism insufficient.

E. Conclusion on Timing

Enacting these improvements sooner results in more sustainable changes. The current fiscal environment — with trust surpluses, a substantial HRA forfeiture pool, and a growing but still manageable population of eligible members — represents the best opportunity to implement these long-overdue improvements. Further delay compounds the cost and reduces the likelihood that the changes can be implemented within existing trust resources.

F. Actuarial Point-in-Time Caveat

The Board notes that all actuarial figures in this analysis represent a single point-in-time measurement as of June 30, 2025. When measured at a different date, costs may differ due to changes in investment returns, demographic experience, and actuarial assumptions. Transferring the exact amounts referenced in the GRS analyses does not guarantee that the plans will remain at or above 100% funded. Any funding mechanism should be structured to accommodate actuarial adjustments identified in subsequent valuations.

8. Board Observations

Based on the combined impact analysis, the Board makes the following observations:

1. Standalone vs. Combined Analysis

Each resolution's standalone actuarial analysis remains valid for understanding the cost of that individual improvement. However, if both healthcare eligibility changes and disability

improvements are enacted in the same session, the combined impact should govern fiscal planning and funding decisions.

2. Scenario 1 (25/20 + Disability) Is the More Sustainable Combined Path

The combined Scenario 1 maintains all trust fund totals above 100% funded (TRS at 110%, PERS at 109%). The PERS Retiree Medical Trust specifically drops to 94%, creating a \$20.6 million shortfall that could be addressed through a modest supplemental transfer from HRA forfeitures or through regular amortization payments over 15 years (\$549,000 per year).

3. Scenario 2 (20-Year + Disability) Creates Significant Combined Fiscal Exposure

Under Scenario 2, the total shortfall to restore all trust funds to 100% is approximately \$106.8 million, requiring \$4.6 million in annual amortization payments in the first year. If both the 20-year eligibility change and disability improvements are desired, additional funding mechanisms beyond HRA forfeitures should be considered.

4. Disability Healthcare Costs Require Separate Tracking

The disability healthcare benefit's cost structure (pre-Medicare, fully subsidized, primary coverage) differs fundamentally from the standard retiree medical benefit (post-Medicare, secondary to Medicare, member-paid premiums). Implementing legislation should require separate actuarial reporting of disability healthcare experience.

5. Action Should Not Be Delayed

The actuarial cost of these improvements has increased 72% in just two years (from \$46.7M to \$80.3M for the 20-year option). Each year of delay means uncollected normal cost contributions, growing accrued liabilities, and potential surplus erosion. The current fiscal window with trust surpluses and a robust HRA forfeiture pool is the right time to act.



Date: February 12, 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: Supplemental Letter on the Combined Changes to DCR Plan Disability Benefits and DCR Retired Healthcare Service Eligibility

At your request, we are providing this letter that supplements the letters dated February 5, 2025 (Request for Actuary Feedback on Proposed Changes to DCR Retired Healthcare Service Eligibility) and November 18, 2025 (Request for Actuary Feedback on Proposed Changes to DCR Plan Disability Benefits). This letter provides the combined effect of the two studies and uses those two studies to estimate the change based on the draft July 1, 2025 actuarial valuation results.

Under the current provisions:

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

This letter provides the combined impact of the following benefit changes:

Scenario 1

Benefits paid from the Occupational Death & Disability Trust

- Provide 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.

Benefits paid from the Retiree Medical Trust

- Reducing the eligibility requirement to 20 years of service for PERS Public Safety employees and 25 years for TRS and PERS Other employees.
- Provide single person pre-Medicare healthcare coverage under the Retiree Medical Plan for future disabled retirees receiving occupational disability benefits.
- Provides for single person pre- and post-Medicare healthcare coverage under the Retiree Medical Plan for disabled retirees receiving non-occupational disability benefits.

Scenario 2

Benefits paid from the Occupational Death & Disability Trust

- Provide 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.

Benefits paid from the Retiree Medical Trust

- Reducing the eligibility requirement to 20 years of service for all employees.
- Provide single person pre-Medicare healthcare coverage under the Retiree Medical Plan for future disabled retirees receiving occupational disability benefits.
- Provides for single person pre- and post-Medicare healthcare coverage under the Retiree Medical Plan for disabled retirees receiving non-occupational disability benefits.

Thus, the only difference between Scenarios 1 and 2 is the eligibility conditions for accessing DCR healthcare benefits.

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.

The tables on the following two pages show the impact on the TRS and PERS DCR plans.

TRS DCR

Occupational Death & Disability

Scenario	Baseline	Scenario 1	Scenario 2
Accrued Liability	\$ 140,000	\$ 3,918,000	\$ 3,918,000
Actuarial Value of Assets	<u>9,731,000</u>	<u>9,731,000</u>	<u>9,731,000</u>
(Over)/Unfunded Accrued Liability	\$ (9,591,000)	\$ (5,813,000)	\$ (5,813,000)
Funded Ratio	6951%	248%	248%
Normal Cost as a % of TRS DCR Payroll	0.08%	0.13%	0.13%
Amort. Payment as a % of TRS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of TRS DCR Payroll	0.08%	0.13%	0.13%
Contribution Dollars Increase in First Year	\$ -	285,000	285,000

Retiree Medical

Scenario	Baseline	Scenario 1	Scenario 2
Accrued Liability	\$ 76,563,000	\$ 95,358,000	\$ 121,008,000
Actuarial Value of Assets	<u>99,255,000</u>	<u>99,255,000</u>	<u>99,255,000</u>
(Over)/Unfunded Accrued Liability	\$ (22,692,000)	\$ (3,897,000)	\$ 21,753,000
Funded Ratio	130%	104%	82%
Normal Cost as a % of TRS DCR Payroll	0.76%	0.95%	1.15%
Amort. Payment as a % of TRS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.38%</u>
Total Contribution as a % of TRS DCR Payroll	0.76%	0.95%	1.54%
Contribution Dollars Increase in First Year	\$ -	1,100,000	4,400,000

Total - Occupational Death & Disability and Retiree Medical Combined

Scenario	Baseline	Scenario 1	Scenario 2
Accrued Liability	\$ 76,703,000	\$ 99,276,000	\$ 124,926,000
Actuarial Value of Assets	<u>108,986,000</u>	<u>108,986,000</u>	<u>108,986,000</u>
(Over)/Unfunded Accrued Liability	\$ (32,283,000)	\$ (9,710,000)	\$ 15,940,000
Funded Ratio	142%	110%	87%
Normal Cost as a % of TRS DCR Payroll	0.83%	1.07%	1.28%
Amort. Payment as a % of TRS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.38%</u>
Total Contribution as a % of TRS DCR Payroll	0.83%	1.07%	1.67%
Contribution Dollars Increase in First Year	\$ -	1,385,000	4,685,000



PERS DCR

Occupational Death & Disability

Scenario	Baseline	Scenario 1	Scenario 2
Accrued Liability	\$ 23,070,000	\$ 40,779,000	\$ 40,779,000
Actuarial Value of Assets	<u>97,233,000</u>	<u>97,233,000</u>	<u>97,233,000</u>
(Over)/Unfunded Accrued Liability	\$ (74,163,000)	\$ (56,454,000)	\$ (56,454,000)
Funded Ratio	421%	238%	238%
Normal Cost as a % of PERS DCR Payroll	0.31%	0.37%	0.37%
Amort. Payment as a % of PERS DCR Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contribution as a % of PERS DCR Payroll	0.31%	0.37%	0.37%
Contribution Dollars Increase in First Year	\$ -	1,399,000	1,399,000

Retiree Medical

Scenario	Baseline	Scenario 1	Scenario 2
Accrued Liability	\$ 277,128,000	\$ 344,902,000	\$ 409,364,000
Actuarial Value of Assets	<u>324,272,000</u>	<u>324,272,000</u>	<u>324,272,000</u>
(Over)/Unfunded Accrued Liability	\$ (47,144,000)	\$ 20,630,000	\$ 85,092,000
Funded Ratio	117%	94%	79%
Normal Cost as a % of PERS DCR Payroll	0.83%	1.14%	1.32%
Amort. Payment as a % of PERS DCR Payroll	<u>0.00%</u>	<u>0.09%</u>	<u>0.35%</u>
Total Contribution as a % of PERS DCR Payroll	0.83%	1.23%	1.68%
Contribution Dollars Increase in First Year	\$ -	8,800,000	18,800,000

Total - Occupational Death & Disability and Retiree Medical Combined

Scenario	Baseline	Scenario 1	Scenario 2
Accrued Liability	\$ 300,198,000	\$ 385,681,000	\$ 450,143,000
Actuarial Value of Assets	<u>421,505,000</u>	<u>421,505,000</u>	<u>421,505,000</u>
(Over)/Unfunded Accrued Liability	\$ (121,307,000)	\$ (35,824,000)	\$ 28,638,000
Funded Ratio	140%	109%	94%
Normal Cost as a % of PERS DCR Payroll	1.14%	1.51%	1.69%
Amort. Payment as a % of PERS DCR Payroll	<u>0.00%</u>	<u>0.09%</u>	<u>0.35%</u>
Total Contribution as a % of PERS DCR Payroll	1.14%	1.60%	2.04%
Contribution Dollars Increase in First Year	\$ -	10,199,000	20,199,000



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 two letters dated February 5, 2025 and November 18, 2025. Additional details can be found on those letters.

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.

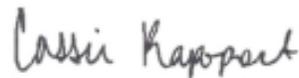
Mr. Wood and Ms. Rapoport are Associates of the Society of Actuaries, and Members of the American Academy of Actuaries. They meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. They are both experienced in performing valuations for large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

Sincerely,

Gabriel, Roeder, Smith & Company



Paul Wood, ASA, FCA, MAAA
Senior Consultant



Cassie Rapoport, ASA, MAAA
Consultant