

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Relating to the Fiscal Year 2024 Employer Contribution Rate
For the Teachers' Retirement System

Resolution 2022-07

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee to the assets of the State's retirement systems; and

WHEREAS, under AS 37.10.210-220, the Board is to establish and determine the investment objectives and policy for each of the funds entrusted to it; and

WHEREAS, AS 37.10.071 and AS 37.10.210-220 require the Board to apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries thereof with impartiality; and

WHEREAS, AS 37.10.220(a)(8) requires the Board to coordinate with the retirement system administrator to conduct an annual actuarial valuation of each retirement system to determine system assets, accrued liabilities and funding ratios, and to certify to the appropriate budgetary authority of each employer in the system an appropriate contribution rate for normal costs and an appropriate contribution rate for liquidating any past service liability determined by a level percent of pay method based on amortization of the past service liability for a closed term of 25 years; and

WHEREAS, AS 14.25.070 establishes a statutory employer contribution rate of 12.56 percent and AS 14.25.085 requires additional state contribution to make up the difference between 12.56 percent and the actuarially determined contribution rate; and

WHEREAS, the Buck schedule dated September 1, 2022 determines that the actuarially determined contribution rate for pension benefits is 18.49 percent composed of the normal cost rate of 2.05 percent and past service rate of 16.44 percent; and

WHEREAS, the Buck schedule dated September 1, 2022 determines that the actuarially determined contribution rate for postemployment healthcare benefits is 2.41 percent composed of the normal cost rate of 2.41 percent and past service rate of negative 9.08 percent; and

WHEREAS, due to the funded status of the postemployment healthcare trust, the Board has the authority under AS 37.10.220(a)(8) to adopt a rate that is appropriate, and the Board has determined that the appropriate contribution rate for the postemployment healthcare benefits is 0.00 percent; and

WHEREAS, the Buck schedule dated September 1, 2022 presents the employer rate incorporating the total cost of the Defined Contribution Retirement Plan of 7.03 percent;

NOW THEREFORE, BE IT RESOLVED BY THE ALASKA RETIREMENT MANAGEMENT BOARD, that the Fiscal Year 2024 actuarially determined contribution rate attributable to employers participating in the Teachers' Retirement System is set at 25.52 percent, composed of the contribution rate for defined benefit pension of 18.49 percent, the contribution rate for postemployment healthcare of 0.00 percent, and the contribution rate for defined contribution pension of 7.03 percent.

DATED at Anchorage, Alaska this 15th day of September, 2022.



Chair

ATTEST:



Secretary



September 1, 2022

Mr. Ajay Desai
Director
Alaska Department of Administration
Division of Retirement & Benefits
PO Box 110203
Juneau, AK 99811-0203

Dear Ajay,

As requested, we have calculated the allocation between the pension and healthcare trusts of the FY24 Additional State Contributions for the State of Alaska Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and Judicial Retirement System (JRS).

All results are based on the June 30, 2021 valuation reports, except the results for PERS and TRS reflect FY22 asset performance as shown in the preliminary June 30, 2022 asset statements that were provided to us on August 31.

Summary of Results

For PERS and TRS, the FY24 Additional State Contributions are allocated 100% to pension since the healthcare trusts are projected to be more than 100% funded at June 30, 2023. Similarly, we assumed the FY23 Additional State Contributions were made 100% to pension because the healthcare trusts were projected to be more than 100% funded at June 30, 2022.

Attached to this letter are three exhibits. Each exhibit is the same except for the portion of the FY24 healthcare Normal Cost that is assumed to be deposited to the healthcare trust¹.

- Exhibit 1 – **100%** of the FY24 healthcare Normal Cost is assumed to be deposited to the healthcare trust.
- Exhibit 2 – **0%** of the FY24 healthcare Normal Cost is assumed to be deposited to the healthcare trust.
- Exhibit 3 – **50%** of the FY24 healthcare Normal Cost is assumed to be deposited to the healthcare trust.

¹ In Exhibits 2 and 3, the portion of the FY24 healthcare Normal Cost not contributed to the healthcare trust was added to the pension Past Service Cost in order to keep the total employer contribution rate at 22% (PERS non-State employers) and 12.56% (TRS).

For all three exhibits:

- Liabilities as of June 30, 2021 were rolled forward two years based on the June 30, 2021 valuation projections. For FY22, actual (pension) and expected (healthcare) benefit payments were used in the liability roll-forward. For FY23, expected benefit payments (pension and healthcare) were used in the liability roll-forward.
- Assets as of June 30, 2021 were rolled forward one year using actual FY22 investment return, contributions, subsidies, benefit payments, and administrative expenses based on the preliminary June 30, 2022 asset statements. Assets as of June 30, 2022 were rolled forward one year based on the expected FY23 investment return and cash flows from the June 30, 2021 valuation projections.
- The Unfunded Actuarial Accrued Liability is amortized under the 25-year layered approach adopted by the Alaska Retirement Management Board (ARMB) effective June 30, 2018.
- Investment gains and losses are recognized over 5 years beginning June 30, 2014.
- All contribution rates are based on total payroll of Defined Benefit (DB) and Defined Contribution Retirement (DCR) combined.
- For PERS, contributions were allocated between non-State employers and the State as an employer per the provisions of SB 55. The payroll of the State's PERS employees was assumed to be 49.79% of total PERS payroll based on the June 30, 2021 valuation data.

For JRS, the allocation of the FY24 past service cost rate between pension and healthcare is shown below. The FY24 past service cost rate is based on the June 30, 2021 valuation, but not less than zero.

JRS			
	Projected Pay	FY24 Past Service Cost Rate	FY24 Past Service Contribution Amount
Pension	\$ 13,157,000	19.71%	\$ 2,593,000
Healthcare	\$ 13,157,000	<u>0.00%</u>	<u>\$ 0</u>
Total		19.71%	\$ 2,593,000

Data, Provisions, Assumptions, and Methods

The data, plan provisions, actuarial assumptions, and methods used for the PERS, TRS, and JRS plan costs are described in the June 30, 2021 actuarial valuation reports. These reports include detailed information related to potential risks associated with funding of the plans (ASOP 51), as well as information regarding our use of models (ASOP 56).

Preliminary June 30, 2022 asset statements for PERS and TRS were reflected as noted above.

Actuarial Standards of Practice No. 27 (ASOP 27) and No. 35 (ASOP 35) require the actuary to disclose the information and analysis used to support the actuary's determination that the assumptions selected by the plan sponsor do not significantly conflict with what, in the actuary's professional judgment, are reasonable for the purpose of the measurement. In the case of the ARMB's selection of the expected return on assets (EROA), the signing actuary has used economic information and tools provided by Buck's Financial Risk Management (FRM) practice. A spreadsheet tool created by the FRM practice converts averages, standard deviations, and correlations from Buck's Capital Markets Assumptions that are used for stochastic forecasting into approximate percentile ranges for the arithmetic and geometric average returns. It is intended to suggest possible reasonable ranges for EROA without attempting to predict or select a specific best estimate rate of return. It takes into account the duration (horizon) of investment and the target allocation of assets in the portfolio to various asset classes. Based on the actuary's analysis, including consistency with other assumptions used in the valuation and the percentiles generated by the spreadsheet tool described above, the actuary believes the EROA does not significantly conflict with what, in the actuary's professional judgment, is reasonable for the purpose of the measurement.

Please call me at 602-803-6174 if you have any questions.

Sincerely,



David J. Kershner, FSA, EA, MAAA, FCA
Principal
Buck

Attachments

cc: Mr. Jim Puckett, State of Alaska
Mr. Kevin Worley, State of Alaska



Exhibit 1

State of Alaska Allocation of Projected FY24 Employer and Additional State Contributions

Based on June 30, 2021 Valuations
with Liabilities Rolled Forward Two Years and
Assets Rolled Forward One Year and Smoothed

Portion of FY24 Healthcare Normal Cost Contributed to Healthcare Trust: 100%

	PERS					TRS	
	Non-State Employers		State as an Employer		All Employers		
Projected FY24 DB Payroll		\$ 357,303,000		\$ 354,314,000	\$ 711,617,000		\$ 270,617,000
Projected FY24 DCR Payroll		866,626,000		859,376,000	1,726,002,000		491,467,000
Projected FY24 Total Payroll		<u>\$ 1,223,929,000</u>		<u>\$ 1,213,690,000</u>	<u>\$ 2,437,619,000</u>		<u>\$ 762,084,000</u>
	Percent of Total Payroll	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount
Employer Contributions							
DB Pension Plan							
1. Normal Cost	2.14%		2.14%			2.05%	
2. Past Service Cost	<u>10.73%</u>		<u>16.33%</u>			<u>1.07%</u>	
3. Total: (1) + (2)	12.87%	\$ 157,520,000	18.47%	\$ 224,169,000	\$ 381,689,000	3.12%	\$ 23,777,000
DB Healthcare Plan							
4. Normal Cost	2.50%		2.50%			2.41%	
5. Past Service Cost	<u>0.00%</u>		<u>0.00%</u>			<u>0.00%</u>	
6. Total: (4) + (5)	2.50%	30,598,000	2.50%	30,342,000	60,940,000	2.41%	18,366,000
7. DCR Plan	<u>6.63%</u>	81,146,000	<u>6.63%</u>	80,468,000	161,614,000	<u>7.03%</u>	53,575,000
8. Total: (3) + (6) + (7)	22.00%	\$ 269,264,000	27.60%	\$ 334,979,000	\$ 604,243,000	12.56%	\$ 95,718,000
Additional State Contributions to DB							
9. DB Pension Plan	5.60%	\$ 68,540,000	0.00%	\$ 0	\$ 68,540,000	15.37%	\$ 117,132,000
10. DB Healthcare Plan	<u>0.00%</u>	0	<u>0.00%</u>	0	0	<u>0.00%</u>	0
11. Total: (9) + (10)	5.60%	\$ 68,540,000	0.00%	\$ 0	\$ 68,540,000	15.37%	\$ 117,132,000
Total DB							
12. DB Pension Plan: (3) + (9)	18.47%	\$ 226,060,000	18.47%	\$ 224,169,000	\$ 450,229,000	18.49%	\$ 140,909,000
13. DB Healthcare Plan: (6) + (10)	<u>2.50%</u>	30,598,000	<u>2.50%</u>	30,342,000	60,940,000	<u>2.41%</u>	18,366,000
14. Total: (12) + (13)	20.97%	\$ 256,658,000	20.97%	\$ 254,511,000	\$ 511,169,000	20.90%	\$ 159,275,000
Total DB and DCR: (7) + (14)	27.60%	\$ 337,804,000	27.60%	\$ 334,979,000	\$ 672,783,000	27.93%	\$ 212,850,000

Notes:

1. Projected FY24 payroll is based on the June 30, 2021 valuation projections assuming 0% population growth.
2. Additional State Contributions for FY23 were assumed to be made 100% to pension.
3. All contribution rates are expressed as a percentage of total payroll of DB and DCR combined.
4. FY22 investment return, contributions, subsidies, benefit payments, and administrative expenses are based on preliminary June 30, 2022 asset statements provided by the State. FY23 investment return, contributions, subsidies, benefit payments, and administrative expenses are based on the June 30, 2021 valuation projections assuming 0% population growth. Investment gains and losses are recognized over 5 years beginning June 30, 2014.
5. Total contribution rates for pension and healthcare are not less than the Normal Cost rates.
6. For PERS under SB 55, payroll for the State's PERS employees was assumed to be 49.79% of total PERS payroll based on the June 30, 2021 valuation data.
7. Data, plan provisions, assumptions, and methods are as described in the June 30, 2021 actuarial valuation reports, except as noted above.

Exhibit 2

State of Alaska Allocation of Projected FY24 Employer and Additional State Contributions

Based on June 30, 2021 Valuations
with Liabilities Rolled Forward Two Years and
Assets Rolled Forward One Year and Smoothed

Portion of FY24 Healthcare Normal Cost Contributed to Healthcare Trust: 0%

	PERS					TRS	
	Non-State Employers		State as an Employer		All Employers		
Projected FY24 DB Payroll		\$ 357,303,000		\$ 354,314,000	\$ 711,617,000		\$ 270,617,000
Projected FY24 DCR Payroll		866,626,000		859,376,000	1,726,002,000		491,467,000
Projected FY24 Total Payroll		<u>\$ 1,223,929,000</u>		<u>\$ 1,213,690,000</u>	<u>\$ 2,437,619,000</u>		<u>\$ 762,084,000</u>
	Percent of Total Payroll	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount
Employer Contributions							
DB Pension Plan							
1. Normal Cost	2.14%		2.14%			2.05%	
2. Past Service Cost	<u>13.23%</u>		<u>16.33%</u>			<u>3.48%</u>	
3. Total: (1) + (2)	15.37%	\$ 188,118,000	18.47%	\$ 224,169,000	\$ 412,287,000	5.53%	\$ 42,143,000
DB Healthcare Plan							
4. Normal Cost	0.00%		0.00%			0.00%	
5. Past Service Cost	<u>0.00%</u>		<u>0.00%</u>			<u>0.00%</u>	
6. Total: (4) + (5)	0.00%	0	0.00%	0	0	0.00%	0
7. DCR Plan	<u>6.63%</u>	81,146,000	<u>6.63%</u>	80,468,000	161,614,000	<u>7.03%</u>	53,575,000
8. Total: (3) + (6) + (7)	22.00%	\$ 269,264,000	25.10%	\$ 304,637,000	\$ 573,901,000	12.56%	\$ 95,718,000
Additional State Contributions to DB							
9. DB Pension Plan	3.10%	\$ 37,942,000	0.00%	\$ 0	\$ 37,942,000	12.96%	\$ 98,766,000
10. DB Healthcare Plan	<u>0.00%</u>	0	<u>0.00%</u>	0	0	<u>0.00%</u>	0
11. Total: (9) + (10)	3.10%	\$ 37,942,000	0.00%	\$ 0	\$ 37,942,000	12.96%	\$ 98,766,000
Total DB							
12. DB Pension Plan: (3) + (9)	18.47%	\$ 226,060,000	18.47%	\$ 224,169,000	\$ 450,229,000	18.49%	\$ 140,909,000
13. DB Healthcare Plan: (6) + (10)	<u>0.00%</u>	0	<u>0.00%</u>	0	0	<u>0.00%</u>	0
14. Total: (12) + (13)	18.47%	\$ 226,060,000	18.47%	\$ 224,169,000	\$ 450,229,000	18.49%	\$ 140,909,000
Total DB and DCR: (7) + (14)	25.10%	\$ 307,206,000	25.10%	\$ 304,637,000	\$ 611,843,000	25.52%	\$ 194,484,000

Notes:

- Projected FY24 payroll is based on the June 30, 2021 valuation projections assuming 0% population growth.
- Additional State Contributions for FY23 were assumed to be made 100% to pension.
- All contribution rates are expressed as a percentage of total payroll of DB and DCR combined.
- FY22 investment return, contributions, subsidies, benefit payments, and administrative expenses are based on preliminary June 30, 2022 asset statements provided by the State. FY23 investment return, contributions, subsidies, benefit payments, and administrative expenses are based on the June 30, 2021 valuation projections assuming 0% population growth. Investment gains and losses are recognized over 5 years beginning June 30, 2014.
- Total contribution rates for pension and healthcare are not less than the Normal Cost rates.
- For PERS under SB 55, payroll for the State's PERS employees was assumed to be 49.79% of total PERS payroll based on the June 30, 2021 valuation data.
- Healthcare past service rates are allowed to reduce the total Healthcare rates to zero. The Pension past service rates are adjusted to keep the total contribution rates at 22% (PERS non-State employers) and 12.56% (TRS).
- Data, plan provisions, assumptions, and methods are as described in the June 30, 2021 actuarial valuation reports, except as noted above.

Exhibit 3

State of Alaska Allocation of Projected FY24 Employer and Additional State Contributions

Based on June 30, 2021 Valuations
with Liabilities Rolled Forward Two Years and
Assets Rolled Forward One Year and Smoothed

Portion of FY24 Healthcare Normal Cost Contributed to Healthcare Trust: 50%

	PERS					TRS	
	Non-State Employers		State as an Employer		All Employers		
Projected FY24 DB Payroll		\$ 357,303,000		\$ 354,314,000	\$ 711,617,000		\$ 270,617,000
Projected FY24 DCR Payroll		866,626,000		859,376,000	1,726,002,000		491,467,000
Projected FY24 Total Payroll		\$ 1,223,929,000		\$ 1,213,690,000	\$ 2,437,619,000		\$ 762,084,000
	Percent of Total Payroll	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount	Estimated Dollar Amount	Percent of Total Payroll	Estimated Dollar Amount
Employer Contributions							
DB Pension Plan							
1. Normal Cost	2.14%		2.14%			2.05%	
2. Past Service Cost	11.98%		16.33%			2.27%	
3. Total: (1) + (2)	14.12%	\$ 172,819,000	18.47%	\$ 224,169,000	\$ 396,988,000	4.32%	\$ 32,922,000
DB Healthcare Plan							
4. Normal Cost	1.25%		1.25%			1.21%	
5. Past Service Cost	0.00%		0.00%			0.00%	
6. Total: (4) + (5)	1.25%	15,299,000	1.25%	15,171,000	30,470,000	1.21%	9,221,000
7. DCR Plan	6.63%	81,146,000	6.63%	80,468,000	161,614,000	7.03%	53,575,000
8. Total: (3) + (6) + (7)	22.00%	\$ 269,264,000	26.35%	\$ 319,808,000	\$ 589,072,000	12.56%	\$ 95,718,000
Additional State Contributions to DB							
9. DB Pension Plan	4.35%	\$ 53,241,000	0.00%	\$ 0	\$ 53,241,000	14.17%	\$ 107,987,000
10. DB Healthcare Plan	0.00%	0	0.00%	0	0	0.00%	0
11. Total: (9) + (10)	4.35%	\$ 53,241,000	0.00%	\$ 0	\$ 53,241,000	14.17%	\$ 107,987,000
Total DB							
12. DB Pension Plan: (3) + (9)	18.47%	\$ 226,060,000	18.47%	\$ 224,169,000	\$ 450,229,000	18.49%	\$ 140,909,000
13. DB Healthcare Plan: (6) + (10)	1.25%	15,299,000	1.25%	15,171,000	30,470,000	1.21%	9,221,000
14. Total: (12) + (13)	19.72%	\$ 241,359,000	19.72%	\$ 239,340,000	\$ 480,699,000	19.70%	\$ 150,130,000
Total DB and DCR: (7) + (14)	26.35%	\$ 322,505,000	26.35%	\$ 319,808,000	\$ 642,313,000	26.73%	\$ 203,705,000

Notes:

- Projected FY24 payroll is based on the June 30, 2021 valuation projections assuming 0% population growth.
- Additional State Contributions for FY23 were assumed to be made 100% to pension.
- All contribution rates are expressed as a percentage of total payroll of DB and DCR combined.
- FY22 investment return, contributions, subsidies, benefit payments, and administrative expenses are based on preliminary June 30, 2022 asset statements provided by the State. FY23 investment return, contributions, subsidies, benefit payments, and administrative expenses are based on the June 30, 2021 valuation projections assuming 0% population growth. Investment gains and losses are recognized over 5 years beginning June 30, 2014.
- Total contribution rates for pension and healthcare are not less than the Normal Cost rates.
- For PERS under SB 55, payroll for the State's PERS employees was assumed to be 49.79% of total PERS payroll based on the June 30, 2021 valuation data.
- Healthcare past service rates are allowed to reduce the total Healthcare rates by half. The Pension past service rates are adjusted to keep the total contribution rates at 22% (PERS non-State employers) and 12.56% (TRS).
- Data, plan provisions, assumptions, and methods are as described in the June 30, 2021 actuarial valuation reports, except as noted above.