

ALASKA DEPARTMENT OF REVENUE
News Release

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Retirement Management Board Adopts New Assumptions

The Alaska Retirement Management Board held a 3-day public meeting in Anchorage this week. The actuary, Buck Consultants, reported that experiences in several areas departed from assumed or forecasted numbers sufficiently to warrant revising the assumptions to more closely align with actual plan experience. The board approved those assumptions for the coming actuarial review to set employer contribution rates for fiscal year 2009, the year that begins July 1, 2008. All actuarial data is reviewed by a second actuary, Gabriel Roeder Smith & Company.

Had those assumptions been available and adopted for setting fiscal year 2008 rates, the average PERS rate would have been 46.64% instead of 39.76%, and the TRS rate would have been 59.56% instead of 54.03%. For example, data shows that TRS retirees are living longer than expected, members from both plans are retiring earlier, and pre-retirement mortality has been lower than expected. Consequently, revising the assumptions to reflect actual plan experience over the last five year period has resulted in increased costs. This illustrates that under a defined benefit plan, when retiree costs rise the employers must make larger payments.

Board Trustee and Department of Administration Commissioner Scott Nordstrand said, "The unfunded liability and the corresponding employer contribution rates necessary to pay the debt off over the coming 25 years are apparently misunderstood by one gubernatorial candidate. Tony Knowles has said, this is a "fabricated crisis" and "you don't have to pay off a 30-year mortgage in one year." What he apparently fails to understand is that the \$505 million employer rate increase approved by the ARM Board is just part of payment number 1 on that mortgage, and 24 more annual payments will follow. The Knowles plan to roll back the rates, hire a third actuary to check the calculations of the first two, and have a "sit down" with the ARM Board, public employees, retirees, and the Legislature is a prescription for a true crisis."

Board Chair Gail Schubert said, "One way of looking at this deficit is that in the fiscal year just ended we earned about 11.75% on the \$14 billion we invest. The actuary assumes earning 8.25% so our performance helps pay down the liability. However, we also needed to earn 8.25% on the \$7 billion that is missing; we earned nothing on that asset component because while it is owed to plan beneficiaries it has yet to be paid by employers."

Chair Schubert and Trustee Nordstrand said they would be happy to discuss retirement

systems issues with any candidate for statewide public office. The board continues to support Governor Murkowski's plan to use \$505 million to cover FY08 employer contribution increases and to make a \$500 million payment into plan assets to reduce the unfunded liability. The board has made plans to receive and invest those funds.

The new defined contribution plans provide that beginning last July 1, new employees build their own portable retirement accounts. Therefore the defined benefit plan population is no longer growing, and over time the commitments will be paid down. Eventually, employers will work out from under these liabilities as the defined contribution component gains ground and necessary employer contribution rates begin to be paid.

The Alaska Retirement Management Board will next meet on November 28 and 29 in Anchorage. The public, employer representatives, and enrolled employees and retirees are encouraged to attend. The board is composed of 2 public members who cannot be plan beneficiaries, 4 union representatives (2 from teachers' bargaining units and 2 from public employees' bargaining units), a school district or municipal finance officer, and the commissioners of Administration and Revenue. One teachers' seat is open at this time. The board has met 10 times since inception one year ago. Most meetings are 2 to 3 days in length.

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