Alaska Retirement Management Board

Unfunded Liability Work Session

August 8, 2013
Work Session purpose and outcomes

**Outcomes**

1. Open dialogue between ARMB, legislature and State administration, regarding the unfunded liability
2. Shared understanding of impact to State budgets resulting from the current approach to paying down the unfunded liability (status quo)
3. Identify and discuss options to address the unfunded liability and to reduce the impact on the state budget
4. Determine acceptability of potential solutions
5. Determine points of consensus regarding potential solutions, criteria and next steps
6. Develop a white paper that captures discussion and outcomes, including any recommendations from participants

**Purpose**

Provide a forum for the ARMB trustees and stakeholders to discuss potential solutions to pay down the retirement systems' unfunded liability and to mitigate the impact of increasing retirement system contributions on future state budgets.
Problem Definition

At $11.8$ Billion as of June 30, 2012, the unfunded liability of the retirement systems creates pressures on the state budget which will increase in the coming years as the annual contributions exceed $1$ billion per year under the current amortization schedule.
• Status quo: $608M in 2013 rises to $975M in 2015 (62% increase); > $1 Billion for 8 years; remains > $850M through 2029
• PERS/TRS unfunded liability grew $889 Million last year as a result of insufficient assets upon which to earn interest.

• Typically, approx. 70% of pension and health benefits are funded through interest earnings. When the system is underfunded employer contributions must fill the void.
The Alaska Retirement Management Board has taken actions to address the pension systems' unfunded liability and other issues over the past seven years including:

- Supporting cost-sharing multiple employer system for PERS
- Supporting direct appropriations to PERS and TRS
- Supporting pension obligation bonds
- Reducing the earnings assumption rate to 8%
- Adopting level-dollar amortization to fund costs sooner rather than later
- Outreach to Legislature

[A Detailed Chronology is included in the packet]
Where We Have Been

The Alaska Retirement Management Board evaluated 40 potential scenarios in 2011.

Recommended:
- 25-year or 30-year amortization
- Lump-sum contributions with continued State assistance
- Change to level dollar amortization

Rejected:
- Lump-sum contributions with no further State assistance > 22%
- Cost-shifting from State to municipalities and vice-versa
- Requiring assets outside trust fund be used to set rates
- Extension of amortization if significantly higher costs than status quo
At its February 2013 meeting ARMB passed Resolution 2013-02 requesting:

....that the Alaska Legislature, in addition to state assistance, appropriate in each of the next four sessions the sum of $500 million toward retirement of the unfunded liability of the Alaska Public Employees' Retirement System and Teachers' Retirement System.

*Resolution included in packet*
Details of Funding Request

FY 2014-2017 appropriation cycle = $2B infusion

* $250 Million to PERS x 4 years
* $250 Million to TRS x 4 years

Current Actuarial Assumptions Remain in Place

* 8% Earnings Assumption
* Level Dollar Amortization
<table>
<thead>
<tr>
<th>Baseline State Assistance PERS and TRS Contributions (2013-2031)</th>
<th>State Assistance after FY14-17 Appropriations $250 Million Each to PERS/TRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>$16.7 Billion</td>
<td>$14.9 Billion</td>
</tr>
</tbody>
</table>

$1.7 Billion Savings in State of Alaska Assistance Contributions
[$91.8 Million Savings Each Year]

$33 Million Savings in Employer Contributions 2013-2031
[$1.65 Million Savings Each Year – Includes Savings to State as an Employer]
State Assistance: Baseline vs. $2B injection

Total cost savings to State is $1.7 Billion over 19 years, equaling $91.8 Million per
Added Interest Earnings with $2B injection

Total additional interest earnings is $1.6 Billion which results in equivalent cost savings to the State over the 20-year
## Annual Savings from $2B (vs. status quo)

### Level Dollar and 8% return PLUS $250M to PERS and $250M to TRS each year FY14 - FY17

<table>
<thead>
<tr>
<th>Year</th>
<th>PERS</th>
<th>TRS</th>
<th>PERS + TRS</th>
<th>PERS</th>
<th>TRS</th>
<th>PERS + TRS</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>310,528</td>
<td>298,101</td>
<td>608,629</td>
<td>310,528</td>
<td>298,101</td>
<td>608,629</td>
<td>-</td>
</tr>
<tr>
<td>2014</td>
<td>319,456</td>
<td>315,053</td>
<td>634,509</td>
<td>569,456</td>
<td>565,053</td>
<td>1,134,509</td>
<td>(500,000)</td>
</tr>
<tr>
<td>2015</td>
<td>519,676</td>
<td>455,904</td>
<td>975,580</td>
<td>769,676</td>
<td>705,904</td>
<td>1,475,580</td>
<td>(500,000)</td>
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<tr>
<td>2016</td>
<td>572,439</td>
<td>489,935</td>
<td>1,062,374</td>
<td>815,639</td>
<td>733,165</td>
<td>1,548,804</td>
<td>(486,430)</td>
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<tr>
<td>2017</td>
<td>576,925</td>
<td>502,245</td>
<td>1,079,170</td>
<td>787,294</td>
<td>712,891</td>
<td>1,500,185</td>
<td>(421,015)</td>
</tr>
<tr>
<td>2018</td>
<td>563,734</td>
<td>503,650</td>
<td>1,067,384</td>
<td>486,636</td>
<td>426,968</td>
<td>913,604</td>
<td>153,780</td>
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<tr>
<td>2019</td>
<td>566,220</td>
<td>511,074</td>
<td>1,077,294</td>
<td>446,414</td>
<td>392,443</td>
<td>838,857</td>
<td>238,437</td>
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<tr>
<td>2020</td>
<td>549,597</td>
<td>510,979</td>
<td>1,060,576</td>
<td>397,960</td>
<td>360,845</td>
<td>758,805</td>
<td>301,771</td>
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<tr>
<td>2021</td>
<td>530,984</td>
<td>511,071</td>
<td>1,042,055</td>
<td>372,455</td>
<td>354,025</td>
<td>726,480</td>
<td>315,575</td>
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<td>2022</td>
<td>511,130</td>
<td>510,919</td>
<td>1,022,049</td>
<td>348,993</td>
<td>350,213</td>
<td>699,206</td>
<td>322,843</td>
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<td>2023</td>
<td>490,148</td>
<td>510,769</td>
<td>1,000,917</td>
<td>327,713</td>
<td>349,007</td>
<td>676,720</td>
<td>324,197</td>
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<td>2024</td>
<td>469,924</td>
<td>510,255</td>
<td>980,179</td>
<td>307,485</td>
<td>347,931</td>
<td>655,416</td>
<td>324,763</td>
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<td>2025</td>
<td>449,483</td>
<td>509,478</td>
<td>958,961</td>
<td>287,253</td>
<td>347,339</td>
<td>634,592</td>
<td>324,369</td>
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<tr>
<td>2026</td>
<td>429,310</td>
<td>508,993</td>
<td>938,303</td>
<td>267,492</td>
<td>347,179</td>
<td>614,671</td>
<td>323,632</td>
</tr>
<tr>
<td>2027</td>
<td>407,509</td>
<td>508,033</td>
<td>915,542</td>
<td>245,981</td>
<td>346,594</td>
<td>592,575</td>
<td>322,967</td>
</tr>
<tr>
<td>2028</td>
<td>384,751</td>
<td>506,783</td>
<td>891,534</td>
<td>224,501</td>
<td>345,865</td>
<td>570,366</td>
<td>321,168</td>
</tr>
<tr>
<td>2029</td>
<td>360,954</td>
<td>505,441</td>
<td>866,395</td>
<td>201,123</td>
<td>344,827</td>
<td>545,950</td>
<td>320,445</td>
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<tr>
<td>2030</td>
<td>10,870</td>
<td>291,874</td>
<td>302,744</td>
<td>-</td>
<td>262,474</td>
<td>262,474</td>
<td>40,270</td>
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<tr>
<td>2031</td>
<td>-</td>
<td>230,333</td>
<td>230,333</td>
<td>-</td>
<td>213,718</td>
<td>213,718</td>
<td>16,615</td>
</tr>
<tr>
<td>2032</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,023,638</strong></td>
<td><strong>8,690,890</strong></td>
<td><strong>16,714,528</strong></td>
<td><strong>7,166,599</strong></td>
<td><strong>7,804,542</strong></td>
<td><strong>14,971,141</strong></td>
<td><strong>1,743,387</strong></td>
</tr>
</tbody>
</table>

**Savings:** 857,039 886,348 1,743,387
For every $1 contributed today, the State saves an additional $1 in required future State assistance.

$500M added contribution for four years saves > $300M per year over ten years, at a time when oil production is declining and the State budget is strained.
Where Do We Go From Here

The Alaska Retirement Management Board recognizes that funding for the retirement systems and the increasing amounts to pay down the unfunded liability compete with other needs for the residents of Alaska.
Where Do We Go From Here

Moving forward, working together, discussing and considering all possible solutions to solve the problem while mitigating the impact on the state budget:

Status Quo – Current Amortization Schedule in Place to Pay Down the unfunded liability by 2032

Funding Sources – Traditional, Non-Traditional and Creative Ways to solve this problem
POSSIBLE SOLUTION TOPICS

Outside the Box

- Loan to Retirement Fund (AS37.10.089)
- 
- 

Traditional Funding

- Status Quo
- Direct Appropriation
- Pension Obligation Bonds
- 
- 
Thank You

Thanks very much for attending our work session and contributing your thoughts and ideas toward solving our unfunded liability issues and its impact on our state's budget and resources.