**ALASKA MUNICIPAL LEAGUE**

**POSITION PAPER**

**PUBLIC EMPLOYEE RETIREMENT PENSION SYSTEM**

**UNFUNDED LIABILITY**

The approximate unfunded liability of the PERS/TRS system is approximately $12 billion dollars. The State government and non-state government employers (including municipalities) are tasked with making up this liability. The funded ratio of PERS is 61% and TRS is 52.1% as of June 30, 2012.

Under legislation passed in 2008, the PERS system was blended in order for all to share equally in the task of making the system whole. Municipalities were capped at paying 22% of their salary, while the State picks up the additional amount up to the actuarial rate (which is now approximately 39% and known as State Assistance). Of the 22% paid by municipalities, a bit over 12% is credited towards the unfunded liability and the remainder is for current actuarial costs. The 22% rate provides significant rate relief to local taxpayers, provides municipal budget predictability, affordability and stability to local governments and is crucial to the financial health of Alaska’s municipalities and school districts. This State Assistance, however, only sees approximately 38% of those funds going to municipalities. The remaining 62% is used for State assistance.

This year, the Governor has included in his FY15 budget, a $3 billion cash infusion into the Retirement Trust Funds. The Alaska Municipal League believes this cash infusion is good for the retirement system, the State and municipalities. Annual state assistance contributions would be reduced to a more predictable and sustainable $500 million per year, while increasing the funded status of the PERS/TRS by 10% and honoring the State’s previous commitment to pay PERS employer contribution rates in excess of 22%. Without this cash infusion, State Assistance payments will be up to $1 billion a year by FY16. Capping the State’s payment to $500,000 rather than $1 billion is what causes the payback time to be stretched for five more years. The plan would allow for future interest earnings to offset future contribution requirements, reducing pressure on future State and local government budgets, strengthening the credit rating of the State of Alaska and its municipalities, increasing future flexibility at a time when oil production is anticipated to decline, and solving the problem right now, when reserves are available, rather than passing the problem to future generations.

Any proposal to place the proposed $3 billion into a reserve fund, rather than directly into the retirement trust funds, gives a potentially false assurance that funded levels of the retirement trust funds are adequate to pay pension benefits, thereby reducing required employer contributions into the system. Future tapping of the reserve fund, however, would significantly exacerbate the unfunded liability at a time when Alaska has diminished flexibility to address the problem due to lower oil production and likely lower reserves.

While supporting the Governor’s proposal, AML and municipalities are mindful of the fact that we will be extending the amortization period an additional five years, costing municipalities approximately $1.5 billion dollars in additional liability payments.