State of Alaska
Elected Public Officers
Retirement System

Actuarial Valuation Report
As of June 30, 2005

Submitted By:
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Contents

Highlights

This report has been prepared by Buck Consultants, an ACS Company, to:

(1) Present the results of a valuation of the State of Alaska Elected Public Officers Retirement System as of June 30, 2005;

(2) Review experience under the plan since the last actuarial valuation;

(3) Determine the contribution rate for the Elected Public Officers Retirement System;

(4) Provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

This report is divided into three sections. Section 1 describes the basis of the valuation. It summarizes the plan provisions, provides information relating to the plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

Section 2 contains the results of the valuation. It includes the current annual costs and reporting and disclosure information.

Section 3 contains the information required by GASB 25.

The principal results are as follows:

Funding Status as of June 30		**2005**
(a)	Valuation Assets	$ 0
(b)	Actuarial Accrued Liability	20,028,323
(c)	Accrued Benefit Funding Ratio *(a) ÷ (b)*	0%

Recommended Contribution Rates		**2005**
(a)	Normal Cost Rate	36.58%
(b)	Past Service Cost Rate	844.91%
(c)	Total Annual Cost Rate	874.49%
(d)	Total Annual Recommended Contribution	$ 1,539,188

Highlights *(continued)*

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data and financial information provided to us by the State of Alaska, to determine a sound value of the plan liabilities. We believe that this value and the method suggested for funding it are in full compliance with the Governmental Accounting Standards Board, the Internal Revenue Code, and all applicable regulations.

Respectfully submitted,

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Principal and Consulting Actuary

Michelle Reding DeLange, F.S.A., E.A., M.A.A.A.
Director, Actuary

The undersigned actuary is responsible for all assumptions related to the average annual per capita health claims cost and the health care cost trend rates, and hereby affirms his qualification to render opinions in such matters, in accordance with the qualification standards of the American Academy of Actuaries.

Leonard C. "Trey" Sarsfield, A.S.A., M.A.A.A.
Senior Consultant, Health & Welfare

Analysis of Valuation

Actuarial Assumptions

This actuarial valuation report is for the Elected Public Officers Retirement System of the State of Alaska. Plan benefits are not prefunded, but are paid when due. In order to discount the value of future benefit payments, we have assumed an interest rate of 5.00% per year. This is reflective of the expected long-term rate of return of general fund assets, the source of benefit funding. So long as the plan is operated on a "pay-as-you-go" basis, and no assets are accumulated in the Plan, this will be a relatively unimportant assumption. However, the interest assumption is necessary in order to develop present values and other liability calculations which are desired by the Governmental Accounting Standards Board. We have assumed that salaries and therefore, retiree benefits, will increase at 4% per year. Because benefits of retired elected public officers are subject to increases along with increases in the salaries for active public officers, this is an important assumption.

Actuarial vs. Pay-As-You-Go-Funding

Since inception in 1976, benefits under EPORS have been paid for on a "pay-as-you-go" basis. This means that just enough money has been appropriated each year to pay the benefits as they come due. Under this method, no fund is built up and therefore, no investment earnings offset the State's cost. In Section 2.3 of this report, we have projected the total benefit payments under EPORS for the next 35 years. Annual benefit payments are projected to increase from their current levels, which are slightly above $1,500,000 per year, before decreasing.

This valuation uses the Projected Unit Credit Actuarial Funding Method to disclose costs and liabilities. This actuarial funding method amortizes all unfunded liabilities over 25 years in level dollar payments. There is also a normal cost component for each active member. Because most of the costs and liabilities of EPORS are associated with inactive members, and because there are no assets in an EPORS fund, the large majority of costs associated with EPORS are "past service costs."

Projections this far in the future are only valid if actual experience tracks closely with the actuarial assumptions. We have used our "best guess" in an attempt to predict long-term future rates of inflation, investment performance and salary increases for elected public officers. These estimates are subject to short-term volatility. Nevertheless, we believe that the assumptions, in the aggregate, are reasonable and that the projections provide a starting place to determine costs under EPORS. If it is decided to prefund these benefits, the discount rate should be reviewed to be reflective of the expected rate of return given the fund's asset allocation.

Section 1
Basis of Valuation

In this section, the basis of the valuation is presented and described. This information – the provisions of the plan and the census of participants – is the foundation of the valuation, since these are the present facts upon which benefit payments will depend.

A summary of plan provisions is provided in Section 1.1 and participant census information is shown in Section 1.2.

The valuation is based upon the premise that the plan will continue in existence, so that future events must also be considered. These future events are assumed to occur in accordance with the actuarial assumptions and concern such events as the number of participants who will retire, die, terminate their services, their ages at such termination and their expected benefits.

The actuarial assumptions and the actuarial cost method, or funding method, are described in Section 1.3.

(1) Employees Included

The governor, lieutenant governor, and members of the Alaska State Legislature, holding office between January 1, 1976 and October 14, 1976.

(2) Employee Contributions

(a) Mandatory employee contribution: 7% of salary.
(b) Interest Credited: 4.5% compounded semi-annually on June 30 and December 31.
(c) Voluntary Refund at Termination: Return of contributions with interest.
(d) Refund at Death: If no eligible survivors, return of contribution with interest to designated beneficiary or beneficiaries.

(3) Normal Retirement Benefit

(a) Eligibility: Age 60 with 5 or more years of paid service.
(b) Type: Life with automatic 50% joint and survivor benefit if married at least one year prior to date of death. If the accrued benefit formula percentage is less than 60% at the time of death, the survivor benefit may not be less than 30% of the current base salary of the judicial office.
(c) Amount: Members may irrevocably choose between two types of benefit calculations at the time of retirement: variable Alaska Statute (AS) 39.37.050(a)(1) and fixed AS 39.37.050(a)(2). Under the variable method, benefits are calculated based on the active salary of the office from which the member retired. Benefits may raise or lower depending on the change in the active salary. The fixed method bases the calculation on the average monthly compensation as defined in AS 39.35.680. Benefits calculated under the fixed method do not change when the active salary changes. Benefit calculation is 5% for each year of elected public officer service plus 2% for any PERS service performed prior to January 1, 1976 to a maximum of 75% times either the salary of the office from which the member retired or the average monthly salary depending on which option is chosen.
(d) Variable Benefit Increases/Decreases: Members who elect a variable benefit will have their benefit recalculated when the active salary of the position they retired from changes. If the salary lowers, retirement benefits will also be lowered.
(e) Cost of Living Increases: Retired members are eligible for post retirement pension increases regardless of whether they choose the fixed or variable option at retirement (Sec. 1 ch 91, SLA 2001) if they have been receiving benefits without an increase for at least 10 years. Benefits will be increased by 75% of the cost of living increase calculated from the date of the last benefit adjustment or the date when the member retired, whichever is later. The member may not receive another cost of living increase until the base retirement calculation exceeds the benefit amount adjusted for prior increases or until another 10 years has elapsed, whichever is first.

(4) Early Retirement Benefit

(a) Eligibility: Age 55 with 5 or more years of paid service or any age with 20 or more years of paid service.

(b) Type: Life benefit with automatic 50% joint and survivor benefit if married at least one year prior to date of death. If the accrued benefit formula percentage is less than 60% at the time of death, the survivor benefit may not be less than 30% of the current base salary of the judicial office.

(c) Amount: Normal retirement benefit based on service to early retirement date reduced 0.5% per month for each month which precedes normal retirement date. Members may irrevocably choose between two types of benefit calculations at the time of retirement: variable AS 39.37.050(a)(1) and fixed AS 39.37.050(a)(2). Under the variable method, benefits are calculated based on the active salary of the office from which the member retired. Benefits may raise or lower depending on the change in the active salary. The fixed method bases the calculation on the average monthly compensation as defined in AS 39.35.680. Benefits calculated under the fixed method do not change when the active salary changes. Benefit calculation is 5% for each year of elected public officer service plus 2% for any PERS service performed prior to January 1, 1976 to a maximum of 75% times either the salary of the office from which the member retired or the average monthly salary depending on which option is chosen.

(d) Variable Benefit Increases/Decreases: Members who elect a variable benefit will have their benefit recalculated when the active salary of the position they retired from changes. If the salary lowers, retirement benefits will also be lowered.

(e) Cost of Living Increases: Retired members are eligible for post retirement pension increases regardless of whether they choose the fixed or variable option at retirement (Sec. 1 ch 91, SLA 2001) if they have been receiving benefits without an increase for at least 10 years. Benefits will be increased by 75% of the cost of living increase calculated from the date of the last benefit adjustment or the date when the member retired, whichever is later. The member may not receive another cost of living increase until the base retirement calculation exceeds the benefit amount adjusted for prior increases or until another 10 years has elapsed, whichever is first.

(5) Deferred Vested Benefit

(a) Eligibility: Vested with 5 or more years of paid service. Benefits may commence at Early or Normal retirement.

(b) Type: Normal or Early retirement benefit.

(c) Amount: Calculated in the same manner as a Normal or Early retirement benefit.

(d) Variable Benefit Increases/Decreases: Same provisions as Normal or Early retirement.

(e) Cost of Living Increases: Same provisions as Normal or Early retirement.

(6) Disability Benefit

(a) Eligibility: Incapacitated from performing the duties of their position at any age with five or more years of paid service.

(b) Type: Monthly benefit received until death or recovery.

(c) Amount: Calculated in the same manner as a Normal retirement except benefits commence the first of the month following an approved recommendation of the disability review board.

(d) Variable Benefit Increases/Decreases: Same provisions as Normal retirement.

(e) Cost of Living Increases: Same provisions as Normal retirement.

(7) Death Benefit Before Retirement

Provided the deceased member accrued at least 2 years of credited service and had been married for at least 1 year the spouse is entitled to an automatic survivor benefit of 50% of the accrued benefit at the time of death. If the accrued benefit formula percentage is less than 60% at the time of death, the survivor benefit may not be less than 30% of the current base salary of the judicial office. If there is no surviving spouse but there are dependent children at the time of death, 50% of the above benefit may be divided in equal shares to the dependent children for the duration of their dependency. If there is no spouse or dependent children, the contribution account balance, plus interest, will be paid to the designated beneficiary or beneficiaries.

(8) Medical Benefits

Each retiree is provided with medical and prescription drug benefits with no premium payment required. These benefits are available for the lifetime of the retiree and for the lifetime of the spouse if a survivor benefit is payable. Benefits are also available to eligible dependents for the duration of their dependency.

Section 1.2
Member Information

		As of **June 30, 2005**
Active Members		
(1)	Number	2
(2)	Average Age	62.01
(3)	Average Service Years	12.43
(4)	Average Annual Pay	$80,090
Vested Terminated Members		
(1)	Number	1
(2)	Average Age	54.88
(3)	Average Service	7.00
Retirees and Beneficiaries		
(1)	Number	38
(2)	Average Age	73.46
(3)	Average Monthly Benefits	$2,826

Section 1.3
Actuarial Method and Assumptions

Valuation of Liabilities

A. Actuarial Method

Projected Unit Credit	The unfunded accrued benefit liability, including accumulated actuarial gains and losses, is amortized over 25 years on a level dollar basis. The annual required contribution will not be less than the expected benefit payments for the upcoming year.

B. Actuarial Assumptions

1. Interest	5.00% per year, compounded annually, net of investment expenses. Inflation is assumed to be 3.50% per year.
2. Salary Scale	4% per year, compounded annually.
3. Mortality	
a. Post-retirement	1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year.
b. Pre-retirement	None.
4. Turnover	None.
5. Retirement	Age 60 for active members, age 55 for deferred members.
6. Disability	None.
7. Dependent Children	None.
8. Benefit Option	Members are assumed to elect the variable method of benefit calculation. Members who are married as of the valuation date are assumed to be married at retirement. Single members are assumed to remain single. Husbands are assumed to be 4 years older than their wives.

9. Health Benefits	For FY06, the average age 65 expected benefit, before adjustment for Medicare, is calculated as $8,328 for Medical Benefits and $1,936 for Prescription Drug Benefits. The average age 65 expected benefit, after adjustment for Medicare, is calculated as $1,507 for Medical Benefits and $1,522 for Prescription Drug Benefits. These benefits are adjusted by age, and projected forward to anticipate the increasing future costs of healthcare. The Medical assumed increase is 9.5% for FY06, 9.0% for FY07, declining by 0.5% annually to an ultimate rate of 5.0%. The Prescription Drug assumed increase is 14% for FY06, 13% for FY07, declining by 1% annually to an ultimate rate of 5.0%.

C. Valuation Assets None.

Section 2
Valuation Results

This section sets forth the results of the actuarial valuation.

Section 2.1 shows the actuarial present values as of June 30, 2005.

Section 2.2 develops the total contribution rate.

Section 2.3 estimates total benefit payments for the next 35 years.

Section 2.1
Breakdown of Actuarial Accrued Liability
(as of June 30, 2005)

	Normal Cost	Actuarial Accrued Liability
Active Participants		
Retirement Benefits	$ 44,756	$ 1,486,867
Health Benefits	13,841	532,308
Subtotal	$ 58,597	$ 2,019,175
Retirees and Survivors		
Retired Members' Benefits		$ 14,686,574
Health Benefits		2,966,356
Subtotal		$ 17,652,930
Vested Terminations		
Deferred Retirement Benefits		$ 173,804
Health Benefits		182,414
Subtotal		$ 356,218
Total		$ 20,028,323

Section 2.2
Calculation of Total Annual Contribution

(1)	Total Normal Cost	$	58,597
(2)	Total Salaries	$	160,181
(3)	Total Normal Cost Rate (1) / (2)		36.58%
(4)	Average Employee Contribution Rate		7.00%
(5)	Employer Normal Cost Rate (3) – (4)		29.58%
(6)	Actuarial Accrued Liability	$	20,028,323
(7)	Assets		0
(8)	Total Unfunded Liability (6) – (7)	$	20,028,323
(9)	Amortization Factor (25 years at 5%)		14.798642
(10)	Past Service Payment (8) / (9)	$	1,353,389
(11)	Past Service Rate (10) / (2)		844.91%
(12)	Total Actuarial Contribution Rate (5) + (11)		874.49%
(13)	Annual Actuarial Contribution at Beginning of Year (12) x (2)	$	1,400,767
(14)	Interest		70,038
(15)	Annual Actuarial Contribution at End of Year (13) + (14)	$	1,470,805
(16)	Expected Benefit Payments for the Upcoming Year	$	1,539,188
(17)	Annual Recommended Contribution (Greater of (15) and (16))	$	1,539,188

Section 2.3
Estimated Cash Flow

Year Starting July 1	Annual Contributions	Estimated Annual Payments
2005	$5,266	$1,539,188[1]
2006	5,476	1,544,633[2]
2007	475	1,615,490
2008	0	1,588,012
2009	0	1,541,105
2010	0	1,514,340
2011	0	1,492,263
2012	0	1,453,727
2013	0	1,421,760
2014	0	1,359,149
2015	0	1,304,863
2016	0	1,247,820
2017	0	1,204,155
2018	0	1,160,534
2019	0	1,117,147
2020	0	1,074,691
2021	0	1,033,343
2022	0	992,720
2023	0	952,704
2024	0	912,485
2025	0	871,965
2026	0	830,690
2027	0	788,489
2028	0	745,118
2029	0	700,516
2030	0	654,933
2031	0	608,510
2032	0	561,321
2033	0	513,696
2034	0	465,889
2035	0	418,564
2036	0	372,247
2037	0	327,575
2038	0	285,012
2039	0	244,979
2040	0	207,882

(1) Actual FY05 contributions made for Pension and Healthcare Benefits were $1,560,483.
(2) Actual FY06 contributions made for Pension and Healthcare Benefits were $1,630,202.

Section 3

Section 3 sets forth the information required by GASB 25.

3.1 Summary of Accrued and Unfunded Accrued Liabilities

Valuation Date	Aggregate Accrued Liability	Valuation Assets	Assets as a Percent of Accrued Liability	Unfunded Accrued Liabilities (UAL)	Annual Active Member Payroll	UAL as a Percent of Annual Active Member Payroll
June 30, 2005*	$ 20,028,323	$ 0	N/A	$ 20,028,323	$ 160,181	12,503.57%

**This is the first valuation to be completed since GASB 25 was adopted.*

3.2 Schedule of Employer Contributions

Year Ended June 30	Total Annual Required Contribution	Total Percentage Contributed
2006	$ 1,630,202	100%
2005	N/A	N/A

The annual required contribution is the greater of the annual recommended contribution and the statutorily required contribution described in AS 39.37.110.

3.3 Actuarial Assumptions, Method and Additional Information

Valuation Date	June 30, 2005
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level dollar basis
Equivalent Single Amortization Period	25 years
Asset Valuation Method	None
Actuarial Assumptions:	
Investment rate of return*	5.00%
Projected salary increases	4% per year, compounded annually
*Includes inflation at	3.5%

This is the first valuation to be completed since GASB 25 was adopted.