

State of Alaska Elected Public Officers Retirement System

Actuarial Valuation Report
as of June 30, 2014

October 2015



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David H. Slishinsky
Principal & Consulting Actuary
David.Slshinsky@xerox.com
720.359.7773

Todd D. Kanaster
Senior Consultant
Todd.Kanaster@xerox.com
720.359.7762

Melissa A. Bissett
Senior Consultant
Melissa.Bissett@xerox.com
720.359.7735

Buck Consultants, LLC.
1200 17th Street
Suite 1200
Denver, CO 80202
Fax: 720.359.7701

October 6, 2015

State of Alaska
Department of Administration
Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

To the Commissioner of Administration:

Actuarial Certification

The bi-annual actuarial valuation required for the State of Alaska Elected Public Officers Retirement System has been prepared as of June 30, 2014 by Buck Consultants. The purposes of the report include:

1. a presentation of the valuation results of the Plan as of June 30, 2014;
2. a review of experience under the Plan for the year ended June 30, 2014;
3. a determination of the appropriate contribution amount which will be applied for the fiscal year ending June 30, 2015; and
4. the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits. The employee data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. Actuarial methods, medical cost trend, and assumed blended medical premiums were also reviewed.

The contribution requirements are determined as a level dollar amount to reflect the cost to amortize the unfunded liability over a fixed 25-year period. A summary of the actuarial assumptions and methods is presented in Section 1.3 of this report. The actuarial assumptions have been revised since the last actuarial valuation as of June 30, 2012 based on a review of experience for the State of Alaska's retirement systems to more accurately reflect expected experience. The assumptions, when applied in combination, fairly represent anticipated future experience of the System.

Future contribution requirements may differ from those determined in the actuarial valuation because of:

1. differences between actual experience and anticipated experience based on the actuarial assumptions;
2. changes in actuarial assumptions or methods;
3. changes in statutory provisions; or
4. differences between the contribution rates determined by the actuarial valuation and those adopted by the Board.

Both of the undersigned are Associates of the Society of Actuaries and Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions in this report. This report has been prepared in accordance with all Applicable Actuarial Standards of Practice. We are available to answer any questions on the material contained in this report, or to provide explanations or further details as may be appropriate.

We believe that the assumptions and methods used for funding purposes and for the disclosures presented in this report satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 67 and 43.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Respectfully submitted,



David H. Sliskinsky, ASA, MAAA, FCA
Principal, Consulting Actuary



Todd D. Kanaster, ASA, MAAA, FCA
Senior Consultant

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 her qualification to render opinions in such matters, in accordance with the qualification standards of the American Academy of Actuaries.



Melissa Bissett, FSA, MAAA
Senior Consultant, Health & Productivity

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Report Highlights

This report has been prepared by Buck Consultants for the State of Alaska Elected Public Officers Retirement System to:

1. Present the results of a valuation of the State of Alaska Elected Public Officers Retirement System as of June 30, 2014;
2. Review experience under the plan since the last actuarial valuation;
3. Determine the contribution 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 members, 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 67 and 43.

Future actuarial valuation measurements and projections may differ from the current measurements presented in this report to such factors as plan experience different from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

The principal results are as follows:

| Funding Status as of June 30 | | 2012 | 2014 |
|------------------------------|--|------------------|------------------|
| (a) | Valuation Assets | \$ 0 | \$ 0 |
| (b) | Actuarial Accrued Liability | \$ 22,143,248 | \$ 20,057,265 |
| (c) | Accrued Benefit Funding Ratio, (a) ÷ (b) | 0% | 0% |
| Recommended Contribution | | 2012 | 2014 |
| (a) | Normal Cost | \$ 0 | \$ 0 |
| (b) | Past Service Cost | <u>1,531,983</u> | <u>1,387,664</u> |
| (c) | Total Annual Cost, (a) + (b) | \$ 1,531,983 | \$ 1,387,664 |
| (d) | Expected Annual Benefit Payments and Claim Costs | \$ 1,791,744 | \$ 1,631,129 |
| (e) | Total Annual Recommended Contribution [Greater of (c) and (d)] | \$ 1,791,744 | \$ 1,631,129 |

Analysis of the Valuation

Actuarial Assumptions

This actuarial valuation report is for the Elected Public Officers Retirement System (EPORS) 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 4.75% 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.

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 decrease from their current levels, which are approximately \$1,600,000 per year.

This valuation uses the Entry Age Actuarial Cost Method to disclose costs and liabilities. The actuarial funding method amortizes all unfunded liabilities over 25 years in level dollar payments. There is also no normal cost component because there are no longer any active members in EPORS. Since all of the costs and liabilities of EPORS are associated with inactive members and because there are no assets in an EPORS fund, the costs associated with EPORS are past service costs only.

The results 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, general fund investment performance and life expectancy for retired 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 results 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.

Analysis of the Valuation

Changes Since Prior Valuation

There were two changes in assumptions from the prior valuation in 2012. The first change is the result of an experience analysis performed on the population experience of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) from July 1, 2009 through June 30, 2013. Effective for the June 30, 2014 valuation, the Alaska Retirement Management Board adopted the changes to the demographic and economic assumptions recommended by the actuary at the December 2014 Board meeting. This change includes changing the post-termination mortality to be consistent with PERS. The second change involved updating the healthcare cost trend assumption.

Development of Actuarial Gain/(Loss)

| | Pension | Healthcare | Total |
|--|---------------------|------------------|---------------------|
| (1) Accrued Liability, June 30, 2012 | \$ 18,220,782 | \$ 3,922,466 | \$ 22,143,248 |
| (2) Expected Accrued Liability as of June 30, 2014 | \$ 16,894,845 | \$ 3,233,491 | \$ 20,128,336 |
| (a) Change in mortality assumptions, and medical trend rates | 1,081,021 | 102,849 | 1,183,870 |
| (b) Change in actual increases versus expected increases in variable benefits and COLA | <u>(1,507,266)</u> | <u>0</u> | <u>(1,507,266)</u> |
| (3) Expected Accrued Liability as of June 30, 2014 | \$ 16,468,600 | \$ 3,336,340 | \$ 19,804,940 |
| (4) Actual Accrued Liability, June 30, 2014 | <u>16,776,167</u> | <u>3,281,098</u> | <u>20,057,265</u> |
| (5) Liability Gain/(Loss), (3) - (4) | \$ (307,567) | \$ 55,242 | \$ (252,325) |

Section 1: Basis of the Valuation

In this section, the basis of the valuation is presented and described. This information – the provisions of the plan and the census of members – 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 member 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 members 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.

Section 1.1: Summary of the Alaska Elected Public Officers Retirement System Plan Provisions

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 other PERS service performed 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 who select the variable option are eligible for post-retirement pension increases (Chapter 91, Section 1 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 adjustment based on the salary and, if appropriate, allowances established under AS 24.10.110, authorized for the office from which the member retired until the resultant increase in benefits equals or exceeds the increase based on the post retirement pension adjustments. Increases in benefit payments under the post retirement pension adjustment are effective July 1 of each calendar year.

4. Early Retirement Benefit

- a. Eligibility: At least 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 other PERS service 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 who select the variable option are eligible for post-retirement pension increases (Chapter 91, Section 1 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 adjustment based on the salary and, if appropriate, allowances established under AS 24.10.110, authorized for the office from which the member retired until the resultant increase in benefits equals or exceeds the increase based on the post retirement pension adjustments. Increases in benefit payments under the post retirement pension adjustment are effective July 1 of each calendar year.

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. Retirement for Incapacity 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.
- 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 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 Census Information

| | As of June 30, 2012 | As of June 30, 2014 |
|---|------------------------|------------------------|
| Active Members | | |
| (1) Number | 0 | 0 |
| (2) Average Age | 0.00 | 0.00 |
| (3) Average Service Years | 0.00 | 0.00 |
| (4) Average Annual Pay | \$0 | \$0 |
| Vested Terminated Members | | |
| (1) Number | 0 | 0 |
| (2) Average Age | 0.00 | 0.00 |
| (3) Average Service | 0.00 | 0.00 |
| Retirees and Beneficiaries | | |
| (1) Number | 38 | 35 |
| (2) Average Age | 76.13 | 77.44 |
| (3) Average Monthly Retirement Benefits | \$3,336 | \$3,318 |

Section 1.3: Summary of Actuarial Assumptions, Methods and Procedures

Valuation of Liabilities

a. Actuarial Method

Entry Age Actuarial Cost

Projected pension and postemployment healthcare benefits were determined using the Entry Age Actuarial Cost Method. The actuarial accrued liability for retired members and their beneficiaries currently receiving benefits was determined as the actuarial present value of the benefits expected to be paid. No future normal costs are payable for these members.

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 and claim costs for the upcoming year.

b. Actuarial Assumptions

- 1. Investment Return /Discount Rate 4.75% per year, compounded annually, net of investment expenses.
- 2. Inflation Rate 3.12% per year.
- 3. Salary Scale None.
- 4. Mortality
 - a. Post-retirement 96% of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with Projection Scale BB.
 - b. Pre-retirement None.
- 5. Turnover None.
- 6. Retirement None.
- 7. Disability None.

- | | |
|--------------------------------|--|
| 8. Dependent Children | None. |
| 9. Spouse Assumptions | Members are assumed to be married at retirement. Husbands are assumed to be 3 years older than their wives. |
| 10. Health Benefits | The assumptions used to determine the cost of medical benefits are exactly the same as those shown in Section 6.2(C) and 6.3 of the 2014 valuation report for the Teachers' Retirement System. |
| 11. Variable Benefit Increases | 3.62% per year, compounded annually. |

| | |
|----------------------------------|---|
| c. Valuation Asset Method | Actuarial Value of Assets equals Fair Value of Assets |
|----------------------------------|---|

Section 2: Valuation Results

Section 2 sets forth the results of the actuarial valuation.

Section 2.1 Breakdown of Actuarial Present Values as of June 30, 2014

Section 2.2 Calculation of Total Annual Contribution for Fiscal Year Ending June 30, 2015

Section 2.3 Estimated Cash Flows

Section 2.1: Breakdown of Actuarial Present Values as of June 30, 2014

| | Normal Cost | Actuarial Accrued Liability |
|-------------------------------|-------------|-----------------------------|
| Active Participants | | |
| Retirement Benefits | \$ 0 | \$ 0 |
| Health Benefits | <u>0</u> | <u>0</u> |
| Subtotal | \$ 0 | \$ 0 |
| Retirees and Survivors | | |
| Retirement Benefits | | \$ 16,776,167 |
| Health Benefits | | <u>3,281,098</u> |
| Subtotal | | \$ 20,057,265 |
| Vested Terminations | | |
| Retirement Benefits | | \$ 0 |
| Health Benefits | | <u>0</u> |
| Subtotal | | \$ 0 |
| Total | | \$ 20,057,265 |

The Medicare Part D subsidy is included in the calculation of the postemployment healthcare actuarial accrued liability.

Section 2.2: Calculation of Total Annual Contribution for Fiscal Year Ending June 30, 2015

| | |
|---|---------------|
| 1. Total Normal Cost | \$ 0 |
| 2. Total Salaries | 0 |
| 3. Expected Employee Contribution | <u>0</u> |
| 4. Employer Normal Cost [(1) – (3)] | \$ 0 |
| 5. Actuarial Accrued Liability | \$ 20,057,265 |
| 6. Assets | <u>0</u> |
| 7. Total Unfunded Actuarial Accrued Liability [(5) – (6)] | \$ 20,057,265 |
| 8. Amortization Factor (25 years at 4.75%) | 15.140538 |
| 9. Past Service Payment [(7) / (8)] | 1,324,739 |
| 10. Annual Actuarial Contribution at Beginning of Year [(4) + (9)] | 1,324,739 |
| 11. Interest at 4.75% | <u>62,925</u> |
| 12. Annual Actuarial Contribution at End of Year [(10) + (11)] | \$ 1,387,664 |
| 13. Expected Benefit Payments and Claim Costs for the Upcoming Year | \$ 1,631,129 |
| 14. Annual Recommended Contribution [Greater of (12) and (13)] | \$ 1,631,129 |

Section 2.3: Estimated Cash Flows

| Year Starting July 1 | Annual Contributions | Estimated Annual Payments |
|----------------------|----------------------|---------------------------|
| 2014 | \$ 0 | \$ 1,631,129 |
| 2015 | 0 | 1,608,931 |
| 2016 | 0 | 1,602,554 |
| 2017 | 0 | 1,590,209 |
| 2018 | 0 | 1,556,722 |
| 2019 | 0 | 1,531,889 |
| 2020 | 0 | 1,502,700 |
| 2021 | 0 | 1,450,794 |
| 2022 | 0 | 1,412,888 |
| 2023 | 0 | 1,372,444 |
| 2024 | 0 | 1,329,720 |
| 2025 | 0 | 1,284,926 |
| 2026 | 0 | 1,238,341 |
| 2027 | 0 | 1,189,778 |
| 2028 | 0 | 1,139,133 |
| 2029 | 0 | 1,086,382 |
| 2030 | 0 | 1,031,575 |
| 2031 | 0 | 974,497 |
| 2032 | 0 | 915,230 |
| 2033 | 0 | 854,218 |
| 2034 | 0 | 791,896 |
| 2035 | 0 | 729,033 |
| 2036 | 0 | 666,619 |
| 2037 | 0 | 605,443 |
| 2038 | 0 | 546,151 |
| 2039 | 0 | 489,511 |
| 2040 | 0 | 436,036 |
| 2041 | 0 | 385,951 |
| 2042 | 0 | 339,649 |
| 2043 | 0 | 297,184 |
| 2044 | 0 | 258,452 |
| 2045 | 0 | 223,426 |
| 2046 | 0 | 191,860 |
| 2047 | 0 | 163,592 |
| 2048 | 0 | 138,468 |
| 2049 | 0 | 116,266 |

Section 3: GASB 67 and 43 Information

Section 3 sets forth the information required by GASB 67 and 43.

Section 3.1 Historical Exhibits

Section 3.2 Pension – GASB 67

Section 3.3 Postemployment Healthcare

Section 3.4 Notes to Trend Data

Section 3.1: Historical Exhibits

The exhibit below shows the pension disclosure under GASB No. 25 for fiscal years ending in 2005 through 2012.

| 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 ¹ | \$ 20,028,323 | \$ 0 | 0% | \$ 20,028,323 | \$ 160,181 | 12,503.57% |
| June 30, 2006 | \$ 16,264,560 | \$ 0 | 0% | \$ 16,264,560 | \$ 93,576 | 17,381.12% |
| June 30, 2008 | \$ 22,194,484 | \$ 0 | 0% | \$ 22,194,484 | \$ 0 | N/A |
| June 30, 2010 | \$ 19,550,666 | \$ 0 | 0% | \$ 19,550,666 | \$ 0 | N/A |
| June 30, 2012 | \$ 18,220,782 | \$ 0 | 0% | \$ 18,220,782 | \$ 0 | N/A |

| Year Ended June 30 | Total Annual Required Contribution | Total Percentage Contributed |
|--------------------|------------------------------------|------------------------------|
| 2013 | \$ 2,027,451 | 100% |
| 2012 | 2,005,829 | 100% |
| 2011 | 1,993,326 | 100% |
| 2010 | 2,079,786 | 100% |
| 2009 | 1,832,107 | 100% |
| 2008 | 1,747,475 | 100% |
| 2007 | 1,670,005 | 100% |
| 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.

¹ This is the first valuation completed since GASB 25 was adopted.

Section 3.2: Pension – GASB 67

Notes to the Financial Statements for the Year Ended June 30, 2014

Summary of Significant Accounting Policies

Method used to value investments. Investments are reported at fair value, if any.

Plan Description

Plan administration. The Commissioner of Administration is responsible for administering EPORS. The plan has no invested assets and benefits are provided on a pay-as-you-go basis.

Plan membership. At June 30, 2012, pension plan membership consisted of the following:

| | |
|---|----------|
| Inactive plan members or beneficiaries currently receiving benefits | 38 |
| Inactive plan members entitled to but not yet receiving benefits | 0 |
| Active plan members | <u>0</u> |
| Total | 38 |

Benefits provided. Please see Section 1.1 of the 2012 actuarial valuation report for a summary of plan provisions.

Contributions. Contributions are made from State general revenues in an amount sufficient to meet all benefits when payable. For the year ended June 30, 2014, the State of Alaska contributed \$1,450,133 to the plan.

Investments

N/A.

Receivables

N/A.

Net Pension Liability (Asset)

The components of the net pension liability (asset) at June 30, 2014, were as follows:

| | |
|--|---------------|
| Total pension liability | \$ 18,559,772 |
| Plan fiduciary net position | <u>0</u> |
| Employers net pension liability (asset) | \$ 18,559,772 |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 0% |

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2012, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2014:

| | |
|---------------------------|--|
| Inflation | 3.12% |
| Salary increases | N/A |
| Investment rate of return | 3.66%, based on the S&P Municipal Bond 20 Year High Grade Index weighted average yield |

Mortality rates were based on the 1994 Group Annuity Mortality (GAM) Table, sex distinct, 1994 Base Year without margin, projected to 2013 using Projection Scale AA for males and a 1-year setback for females table for post-termination mortality.

The actuarial assumptions used in the June 30, 2012 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions to better reflect expected future experience.

Discount rate. The discount rate used to measure the total pension liability was 3.66%. The plan benefits are funded on a pay-as-you-go basis from State general revenue. Therefore, in accordance with GASB 67 parameters, the discount rate was set using an index rate for 20-year, tax-exempt general obligation municipal bonds with a high grade quality rating.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability, calculated using the discount rate of 3.66%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.66%) or 1-percentage-point higher (4.66%) than the current rate:

| | 1% Decrease (2.66%) | Current Discount Rate (3.66%) | 1% Increase (4.66%) |
|-------------------------------|---------------------------|-------------------------------------|---------------------------|
| Net Pension Liability (Asset) | \$ 20,372,685 | \$ 18,559,772 | \$ 17,010,921 |

Schedules of Required Supplementary Information

Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios

| | FYE June 30, 2013 | FYE June 30, 2014 |
|--|--------------------|--------------------|
| Total pension liability | | |
| Service cost | \$ 0 | \$ 0 |
| Interest | 707,288 | 674,450 |
| Changes of benefit terms | 0 | 0 |
| Differences between expected and actual experience | 0 | 0 |
| Changes of assumptions | 0 | 0 |
| Benefit payments | <u>(1,505,329)</u> | <u>(1,450,133)</u> |
| Net change in total pension liability | \$ (798,041) | \$ (775,683) |
| Total pension liability-beginning | <u>20,133,496</u> | <u>19,335,455</u> |
| Total pension liability-ending (a) | \$ 19,335,455 | \$ 18,559,772 |
| Plan fiduciary net pension | | |
| Contributions – employer | \$ 1,514,159 | \$ 1,712,390 |
| Contributions – members | 0 | 0 |
| Net investment income | 0 | 0 |
| Benefit payments, including refunds of member contributions | (1,505,329) | (1,450,133) |
| Administrative expenses | (8,830) | (2,257) |
| Other | <u>0</u> | <u>(260,000)</u> |
| Net change in Plan fiduciary net position | \$ 0 | \$ 0 |
| Plan fiduciary net position-beginning | <u>0</u> | <u>0</u> |
| Plan fiduciary net position-ending (b) | \$ 0 | \$ 0 |
| Plan’s net pension liability (asset)-ending (a)-(b) | \$ 19,335,455 | \$ 18,559,772 |
| Plan fiduciary net position as a percentage of the total pension liability | 0% | 0% |
| Covered-employee payroll | N/A | N/A |
| Net pension liability (asset) as a percentage of covered-employee payroll | N/A | N/A |

Notes to Schedule

Benefit changes. None.

Changes of assumptions. None.

Schedule of Employer Contributions

| | FYE June 30, 2013 | FYE June 30, 2014 |
|--|-------------------|-------------------|
| Actuarially determined contribution | \$ 1,514,159 | \$ 1,712,690 |
| Contributions related to the actuarially determined contribution | <u>1,514,159</u> | <u>1,712,690</u> |
| Contribution deficiency (excess) | \$ 0 | \$ 0 |
| Covered employee payroll | N/A | N/A |
| Contributions as a percentage of covered employee payroll | N/A | N/A |

Notes to Schedule

Valuation date: June 30, 2012

Actuarially determined contribution rates are calculated as of June 30th, two years prior to the fiscal year in which contributions are reported.

Methods and assumptions used to calculate plan liabilities:

| | |
|---------------------------------------|---|
| Actuarial cost method: | Entry Age Normal. |
| Amortization method | Level dollar, open. |
| Amortization period | 25 years |
| Equivalent single amortization period | N/A |
| Asset valuation method | Actuarial Value of Assets equals Fair Value of Assets |
| Inflation | 3.12% per annum. |
| Investment rate of return | 3.66%, based on the S&P Municipal Bond 20 Year High Grade Index weighted average yield. |
| Retirement age | None. |

Mortality

Mortality rates were based on the 1994 Group Annuity Mortality (GAM) Table, sex distinct, 1994 Base Year without margin, projected to 2013 using Projection Scale AA for males and a 1-year setback for females table for post-termination mortality.

Other information

Please see Section 1.3 of the 2012 actuarial report.

Section 3.3: Postemployment Healthcare (\$'s in 000's)

The exhibit below shows the postemployment healthcare disclosure without regard to the Medicare Part D subsidy under GASB No. 43.

| 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, 2006 | \$ 2,982,910 | \$ 0 | 0% | \$ 2,982,910 | \$ 93,576 | 3,187.69% |
| June 30, 2008 | \$ 5,168,446 | \$ 0 | 0% | \$ 5,168,446 | \$ 0 | N/A |
| June 30, 2010 | \$ 4,707,442 | \$ 0 | 0% | \$ 4,707,442 | \$ 0 | N/A |
| June 30, 2012 | \$ 4,353,245 | \$ 0 | 0% | \$ 4,353,245 | \$ 0 | N/A |
| June 30, 2014 | \$ 3,614,458 | \$ 0 | 0% | \$ 3,614,458 | \$ 0 | N/A |

Section 3.4: Notes to Trend Data

Actuarial Assumptions, Methods and Additional Information under GASB

| | |
|---------------------------------------|--------------------|
| Valuation Date | June 30, 2014 |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level dollar basis |
| Equivalent Single Amortization Period | 25 years |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Investment rate of return* | 4.75% |
| Projected salary increases | None |
| *Includes inflation at | 3.12% |

GASB 43 requires that the discount rate used in the valuation be the estimated long-term yield on investments that are expected to finance postemployment benefits. Depending on the method by which a plan is financed, the relevant investments could be plan assets, employer assets or a combination of plan and employer assets. The investment return should reflect the nature and the mix of both current and expected investments and the basis used to determine the actuarial value of assets.

The State of Alaska Elected Public Officers Retirement System's retiree healthcare benefits are fully funded using the pay-as-you-go method. For this system, the pay-as-you-go cost exceeds the annual required contribution (ARC). GASB states that for plans that contribute more than the ARC, the discount rate used in the valuation should reflect the long-term investment yield on plan assets. The State of Alaska is utilizing a discount rate of 4.75% as of June 30, 2014 to be used for fiscal 2015 disclosure.

Using the GASB 43 discount rate above and disregarding future Medicare Part D payments, the fiscal 2015 employer ARC for accounting purposes is \$290,361 for healthcare benefits.