

State of Alaska Elected Public Officers' Retirement System

Actuarial Valuation Report as of June 30, 2025



Gallagher

Insurance | Risk Management | Consulting



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June 16, 2026

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

Certification of Actuarial Valuation

Dear Members of The Alaska Retirement Management Board, The Department of Revenue, and The Department of Administration,

This report summarizes the actuarial valuation results of the State of Alaska Elected Public Officers' Retirement System (EPORS) as of June 30, 2025 performed by Gallagher Benefit Services, Inc. (Gallagher).

The actuarial valuation is based on member data provided by the Division of Retirement and Benefits and medical enrollment data provided by the healthcare claims administrator (Aetna), as summarized in this report. The benefits considered are those delineated in Alaska statutes effective June 30, 2025. The actuary did not verify the data submitted, but did perform tests for consistency and reasonableness.

All costs, liabilities, and other factors under EPORS were determined in accordance with generally accepted actuarial principles and procedures. An actuarial cost method is used to measure the actuarial liabilities which we believe is reasonable. Gallagher is solely responsible for the actuarial data and actuarial results presented in this report. This report fully and fairly discloses the actuarial position of EPORS as of June 30, 2025.

The contribution requirements are determined as a level dollar amount based on amortization of the unfunded liability over a closed 25-year period that began on June 30, 2021. The calculations of the State contributions are reasonable actuarially determined contributions as defined in Actuarial Standard of Practice No. 4 (ASOP 4). When determining the amortization period for the unfunded actuarial accrued liability, the following items were considered: (i) the balance among benefit security, intergenerational equity, and stability of actuarially determined contributions, (ii) the timing and duration of expected benefit payments, and (iii) the nature and frequency of plan amendments.

The Alaska Retirement Management Board (Board) and staff of the State of Alaska may use this report for the review of the operations of EPORS. Use of this report for any other purpose or by anyone other than the Board or staff of the State of Alaska may not be appropriate and may result in mistaken conclusions due to failure to understand applicable assumptions, methodologies, or inapplicability of the report for that purpose. Because of the risk of misinterpretation of actuarial results, Gallagher recommends requesting its advanced review of any statement to be based on information contained in this report. Gallagher will accept no liability for any such statement made without its prior review.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the actuarial assumptions, changes in assumptions, changes expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. In particular, retiree group benefits models necessarily rely on the use of approximations and estimates and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes in actuarial measurements. An analysis of the potential range of such future differences is beyond the scope of this valuation.

In our opinion, the actuarial assumptions used in the valuation are reasonable, taking into account the experience of the plan and reasonable long-term expectations, and represent our best estimate of the anticipated long-term experience under the plan. In our professional judgment, the combined effect of the assumptions is expected to have no significant bias. The actuary performs an analysis of plan experience periodically and recommends changes if, in the opinion of the actuary, assumption changes are needed to more accurately reflect expected future experience. The last full experience analysis was performed for the period July 1, 2017 to June 30, 2021. Based on that experience study, the Board adopted new assumptions effective beginning with the June 30, 2022 valuation to better reflect expected future experience. The mortality assumptions from that experience study that apply to the Judges' Retirement System (JRS) were assumed to apply to EPORS and are reflected in this valuation. The Board also adopted changes to certain assumptions used to value healthcare benefits, and those new assumptions are reflected in this valuation.

Based on our analysis of recent claims experience, changes were made to the healthcare per capita claims cost rates effective June 30, 2025 to better reflect expected future healthcare experience.

A summary of the actuarial assumptions and methods used in this actuarial valuation is shown in Section 4. We certify that the assumptions and methods used for funding purposes, as described in Section 4 of this report, meet the requirements of all applicable Actuarial Standards of Practice.

Actuarial Standard of Practice No. 27 (ASOP 27) requires the actuary to disclose the information and analysis used to support the actuary's determination that the assumptions selected by the plan sponsor do not significantly conflict with those that, in the actuary's professional judgment, are reasonable for the purpose of the measurement. Gallagher provides advice on reasonable assumptions when performing periodic experience studies. The Board selects the assumptions to be used in the valuation, and the signing actuaries review the assumptions through discussions with the Board staff and analysis of actuarial experience.

Risk Information

Actuarial Standard of Practice No. 51 (ASOP 51) applies to actuaries performing funding calculations related to a pension plan. ASOP 51 does not apply to actuaries performing services in connection with other post-employment benefits, such as medical benefits. Accordingly, ASOP 51 does not apply to the healthcare portion of EPORS. See Section 5 of this report for further details regarding ASOP 51. Section 5 also contains information on the Low-Default-Risk Obligation Measure (LDRM) required to be disclosed under Actuarial Standard of Practice No. 4 (ASOP 4).

Use of Models

Actuarial Standard of Practice No. 56 (ASOP 56) provides guidance to actuaries performing actuarial services that involve designing, developing, selecting, modifying, using, reviewing, or evaluating models. Gallagher uses third-party software to perform annual actuarial valuations and projections. The model is intended to calculate the liabilities associated with the provisions of the plan using data and assumptions as of the measurement date under the funding methods specified in this report. Gallagher also uses internally developed models that apply applicable funding methods and policies to the liabilities derived from the third-party software and other inputs, such as plan assets and contributions, to generate many of the exhibits found in this report.

Gallagher maintains an extensive review process in which the results of the liability calculations are checked using detailed sample life output, changes from year to year are summarized by source, and significant deviations from expectations are investigated. Other funding outputs and the internal models are similarly reviewed in detail and at a higher level for accuracy, reasonability, and consistency with prior results. Gallagher also reviews the third-party model when significant changes are made to the software. This review is performed by experts within Gallagher who are familiar with applicable funding methods, as well as the manner in which the model generates its output. If significant changes are made to the internal models, extra checking and review are completed.

Additional models used to value health benefits are described later in the report.

This report was prepared under our supervision and in accordance with all applicable Actuarial Standards of Practice. David Kershner is a Fellow of the Society of Actuaries, an Enrolled Actuary, a Member of the American Academy of Actuaries, and a Fellow of the Conference of Consulting Actuaries. Kevin Spanier is an Associate of the Society of Actuaries, an Enrolled Actuary, a Member of the American Academy of Actuaries, and a Fellow of the Conference of Consulting Actuaries. Brett Hunter is a Fellow of the Society of Actuaries, an Enrolled Actuary, a Member of the American Academy of Actuaries, and a Fellow of the Conference of Consulting Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

We are available to discuss this report with you at your convenience. David can be reached at (602) 803-6174, Kevin can be reached at (770) 916-4184, and Brett can be reached at (260) 423-1072.

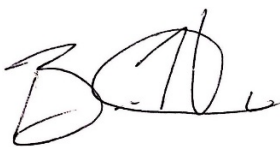
Respectfully submitted,



David J. Kershner, FSA, EA, MAAA, FCA
Senior Vice President



Kevin Spanier, ASA, EA, MAAA, FCA
Senior Vice President



Brett Hunter, FSA, EA, 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 his qualification to render opinions in such matters in accordance with the Qualification Standards of the American Academy of Actuaries. Robert can be reached at (312) 399-9339.



Robert Besenhofer, ASA, MAAA, FCA
Director

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Executive Summary

Overview

The State of Alaska Elected Public Officers' Retirement System (EPORS) provides pension and postemployment healthcare benefits to eligible participants. The Commissioner of the Department of Administration is responsible for administering the plan. This report presents the results of the actuarial valuation of EPORS as of the valuation date of June 30, 2025.

Purpose

An actuarial valuation is performed on the plan when requested by the State of Alaska, generally every two years, as of the end of the fiscal year. The main purposes of the actuarial valuation detailed in this report are:

1. To determine the State contribution necessary to meet the Department's funding policy for the plan;
2. To disclose the liability measures as of the valuation date;
3. To review the current funded status of the plan and assess the funded status as an appropriate measure for determining future actuarially determined contributions;
4. To compare actual and expected experience under the plan; and
5. To report trends in contributions and liabilities over the last several years.

Since inception in 1976, benefits under EPORS have been paid for on a pay-as-you-go basis. This means that just enough money is 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 order to discount the value of future benefit payments, we have assumed an interest rate of 4.75% per year. Due to pay-as-you-go funding and in consideration of mitigating volatility, the rate is determined as a long-term estimate of government bond rates. In Section 2.1 of this report, we have projected the total benefit payments under EPORS for the next 35 years.

The actuarial valuation provides a "snapshot" of the liabilities of EPORS based on the plan provisions, membership data, and actuarial methods and assumptions as of the valuation date.

Retiree group benefits models necessarily rely on the use of approximations and estimates, and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes in actuarial measurements.

The key results of the June 30, 2025 and June 30, 2023 valuations are shown below.

Funded Status as of June 30	2023	2025
Pension		
a. Actuarial Accrued Liability	\$ 11,353,206	\$ 9,440,467
b. Valuation Assets	<u>0</u>	<u>0</u>
c. Unfunded Actuarial Accrued Liability, (a) - (b)	\$ 11,353,206	\$ 9,440,467
d. Funded Ratio, (b) ÷ (a)	0%	0%
Healthcare		
a. Actuarial Accrued Liability	\$ 1,551,312	\$ 1,395,543
b. Valuation Assets	<u>0</u>	<u>0</u>
c. Unfunded Actuarial Accrued Liability, (a) - (b)	\$ 1,551,312	\$ 1,395,543
d. Funded Ratio, (b) ÷ (a)	0%	0%

Executive Summary

Total Contribution ¹	FY24	FY26
Total		
a. Normal Cost	\$ 0	\$ 0
b. Past Service Cost	<u>934,283</u>	<u>826,669</u>
c. Actuarially Determined Contribution, (a) + (b)	\$ 934,283	\$ 826,669
d. Expected Annual Benefit Payments and Claims	\$ 1,169,966	\$ 1,081,608
e. Total Contribution, greater of (c) and (d)	\$ 1,169,966	\$ 1,081,608

1. 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 is 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 2.1 of this report, we have projected the total benefit payments under EPORS for the next 35 years. Annual benefit payments are projected to gradually decrease from their current levels, which are about \$1,100,000 per year.

This valuation uses the Entry Age Normal Cost Method to determine costs and liabilities. The actuarial funding method amortizes all unfunded liabilities on a level dollar basis over a closed 25-year period that began June 30, 2021. There is no normal cost component because there are no active participants. Accordingly, the actuarial costs associated with EPORS are past service costs only.

Expected benefit payments exceed the past service cost for the upcoming year.

2. Demographic Experience (Pension)

Section 3 provides statistics on active and inactive participants. The number of active participants and vested terminated participants remained at zero as of June 30, 2025. The number of retirees and beneficiaries decreased from 21 to 19, and their average age increased from 80.27 to 81.95.

Actual increases in variable benefits and post-retirement pension increases were less than expected, which generated a gain of \$792,000. This gain was combined with a gain of \$221,000 due to demographic experience over the last two years. As a result, the net pension gain was \$1,013,000.

3. Retiree Medical Claims Experience

As described in Section 4.2, recent medical claims experience and changes in healthcare enrollment data provided to us for the June 30, 2025 valuation generated a loss of \$17,000. Healthcare benefits paid during FY24 and FY25 were more than expected, which generated a loss of \$232,000. As a result, the net retiree medical loss was \$249,000.

4. Changes in Methods Since the Prior Valuation

There were no changes in actuarial methods since the prior valuation.

¹ Contributions are determined separately for Pension and Healthcare as shown in Section 1.2. They are aggregated solely for purposes of display in this exhibit.

Executive Summary

5. Changes in Assumptions Since the Prior Valuation

Healthcare claim costs are updated annually as described in Section 4.2. As a result of changes to the Standard Medicare Part D plan under the Inflation Reduction Act, EGWP subsidies are expected to be higher than originally anticipated for 2025 and beyond. EGWP subsidies were updated based on estimates provided by Segal Consulting. Because of the significant increase in the EGWP subsidy for FY25 and beyond due to the Inflation Reduction Act, and uncertainty regarding future subsidy levels, the ARMB has adopted a smoothing of EGWP subsidy estimates over five years. In addition, the prescription drug and EGWP trend assumption was updated to reflect recent survey information indicating higher initial trend rates in part due to the recent higher-than-expected inflationary environment. The changes to the EGWP subsidy and the prescription drug trend assumption generated a net gain of \$66,000.

There were no other changes in actuarial assumptions since the prior valuation.

6. Changes in Benefit Provisions Since the Prior Valuation

There were no changes in benefit provisions valued since the prior valuation.

1 Actuarial Funding Results

1.1 Actuarial Liabilities and Normal Cost

As of June 30, 2025	Normal Cost	Actuarial Accrued (Past Service) Liability
Active Members		
Retirement Benefits	\$ 0	\$ 0
Medical and Prescription Drug Benefits	0	0
Subtotal	\$ 0	\$ 0
Vested Terminated Members		
Retirement Benefits		\$ 0
Medical and Prescription Drug Benefits		0
Subtotal		\$ 0
Retirees and Beneficiaries		
Retirement Benefits		\$ 9,440,467
Medical and Prescription Drug Benefits		1,395,543
Subtotal		\$ 10,836,010
Total	\$ 0	\$ 10,836,010
Total Pension	\$ 0	\$ 9,440,467
Total Healthcare	\$ 0	\$ 1,395,543

1 Actuarial Funding Results

1.2 Actuarial Contributions as of June 30, 2025

	Pension	Healthcare
1. Normal Cost	\$ 0	\$ 0
2. Actuarial Accrued Liability	\$ 9,440,467	\$ 1,395,543
3. Valuation Assets	0	0
4. Unfunded Actuarial Accrued Liability, (2) - (3)	\$ 9,440,467	\$ 1,395,543
5. Funded Ratio, (3) ÷ (2)	0%	0%
6. Past Service Cost Amortization Payment ¹	\$ 687,546	\$ 101,637
7. Actuarially Determined Contribution at Beginning of Year, (1) + (6)	\$ 687,546	\$ 101,637
8. Interest at 4.75%	32,658	4,828
9. Actuarially Determined Contribution at End of Year, (7) + (8)	\$ 720,204	\$ 106,465
10. Expected Benefit Payments and Claims for Upcoming Year	\$ 947,366	\$ 134,242
11. Total Contribution, greater of (9) and (10)	\$ 947,366	\$ 134,242

¹ Calculated as a level-dollar amount over a closed 25-year period that began June 30, 2021.

1 Actuarial Funding Results

1.3 Actuarial Gain/(Loss) for FY24 and FY25

	Pension	Healthcare
1. Expected Actuarial Accrued Liability		
a. Actuarial Accrued Liability as of June 30, 2023	\$ 11,353,206	\$ 1,551,312
b. Normal Cost for FY24	0	0
c. Interest on (a) and (b) at 4.75%	539,277	73,687
d. Benefit Payments during FY24	(969,549)	(236,396)
e. Interest on (d) at 4.75%, adjusted for timing	(24,680)	(5,549)
f. Expected Actuarial Accrued Liability as of June 30, 2024 (a) + (b) + (c) + (d) + (e)	\$ 10,898,254	\$ 1,383,054
g. Normal Cost for FY25	0	0
h. Interest on (f) and (g) at 4.75%	517,667	65,695
i. Benefit Payments during FY25	(938,405)	(230,928)
j. Interest on (i) at 4.75%, adjusted for timing	(23,887)	(5,421)
k. Change in Actuarial Assumptions	0	(66,105)
l. Plan Change	0	0
m. Expected Actuarial Accrued Liability as of June 30, 2025 (f) + (g) + (h) + (i) + (j) + (k) + (l)	\$ 10,453,629	\$ 1,146,295
2. Actual Actuarial Accrued Liability as of June 30, 2025	9,440,467	1,395,543
3. Liability Gain/(Loss), (1)(m) - (2)	\$ 1,013,162	\$ (249,248)

2 Cash Flows

2.1 Projected Benefit Payments

Year Starting July 1	Pension	Healthcare
2025	\$ 947,366	\$ 134,242
2026	924,003	126,748
2027	896,747	125,844
2028	866,872	124,250
2029	835,261	122,070
2030	802,418	119,157
2031	768,571	115,628
2032	733,785	111,540
2033	698,055	106,860
2034	661,387	101,840
2035	623,825	96,553
2036	585,485	90,874
2037	546,563	84,944
2038	507,289	78,959
2039	467,937	72,792
2040	428,814	66,750
2041	390,227	60,797
2042	352,484	54,750
2043	315,873	48,912
2044	280,666	43,320
2045	247,104	38,051
2046	215,393	33,122
2047	185,733	28,565
2048	158,287	24,344
2049	133,172	20,517
2050	110,492	17,049
2051	90,297	13,955
2052	72,593	11,281
2053	57,344	8,961
2054	44,454	6,985
2055	33,774	5,335
2056	25,118	3,989
2057	18,263	2,915
2058	12,966	2,080
2059	8,977	1,447

3 Member Data

3.1 Summary of Members Included

As of June 30	2023	2025
Active Members		
1. Number	0	0
2. Average Age	N/A	N/A
3. Average Service	N/A	N/A
4. Average Annual Pay	N/A	N/A
Vested Terminated Members		
1. Number	0	0
2. Average Age	N/A	N/A
3. Average Service	N/A	N/A
Retirees and Beneficiaries		
1. Number	21	19
2. Average Age	80.27	81.95
3. Average Monthly Pension Benefit	\$ 4,299 ¹	\$ 4,137

¹ Reflects the benefit increase effective in February 2024.

4 Basis of the Actuarial Valuation

4.1 Summary of Plan Provisions

Membership

The Governor, Lieutenant Governor, and Alaska State Legislature members holding office between January 1, 1976 and October 14, 1976.

Member Contributions

Mandatory Contributions

Members are required to contribute 7% of their salaries.

Interest

Member contributions earn 4.5% interest, compounded semi-annually on June 30 and December 31.

Refund of Contributions

Terminated members may receive refunds of their contributions with interest at termination. For deceased members, a refund of contributions with interest is payable at death to the designated beneficiary or beneficiaries if there are no eligible survivors.

Normal Retirement

Eligibility

Age 60 with at least 5 years of paid service.

Benefit Amount

5% for each year of elected public officer service plus 2% for any other PERS service to a maximum of 75% times either (i) the salary of the office from which the member retired under the variable option, or (ii) the average monthly salary under the fixed option.

Variable Option

Benefits are calculated based on the active salary of the office from which the member retired. Benefits are recalculated when the active salary of the office changes. Benefits may increase or decrease depending on the change in the active salary of the office.

Members are eligible for post-retirement pension increases 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. Increases in benefit payments under the post-retirement pension adjustment are effective July 1 of each year.

Members 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.

Fixed Option

Benefits are calculated based on the average monthly compensation defined in AS 39.35.680. Benefits do not change when the active salary of the office changes.

Benefit Type

Automatic 50% joint and survivor benefit if married at least 1 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 monthly salary authorized for the office at the time or 30% of average monthly compensation.

4 Basis of the Actuarial Valuation

Early Retirement

Eligibility

- a. Age 55 with at least 5 years of paid service, or
- b. Any age with at least 20 years of paid service.

Benefit Amount

Calculated in the same manner as Normal retirement benefit based on service at early retirement date. Benefit is reduced 0.5% per month for each month that precedes normal retirement date.

Benefit Type

Same as Normal retirement benefit.

Deferred Vested Retirement

Eligibility

Vested with at least 5 years of paid service. Benefits may commence at Early or Normal retirement.

Benefit Amount

Calculated in the same manner as Early or Normal retirement benefit.

Benefit Type

Same as Early or Normal retirement benefit.

Disability Retirement

Eligibility

Incapacitated from performing the duties of their position at any age with at least 5 years of paid service.

Benefit Amount

Calculated in the same manner as Normal retirement, except that benefits commence on the first of the month following an approved recommendation of the review board.

Benefit Type

Monthly benefit received until death.

Death 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 monthly salary authorized for the office at the time or 30% of average monthly compensation.

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.

4 Basis of the Actuarial Valuation

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.

Medical, prescription drug, dental, vision, and audio coverage is provided through the AlaskaCare Retiree Health Plan. Health plan provisions do not vary by retirement tier or age, except for Medicare coordination. Participants in dental, vision, and audio coverage pay a full self-supporting rate and those benefits are not included in this valuation.

Starting in 2022, prior authorization is required for certain specialty medications for all participants. There is no change to the medications that are covered by the plan.

Participants are covered under the following benefit design:

Plan Design Feature	Amounts
Deductible (single / family)	\$150 / \$450
Coinsurance (most services)	20%
Outpatient Surgery / Testing	0%
Maximum Out-of-Pocket (single / family, excluding deductible)	\$800 / \$2,400
Rx Copays (generic / brand / mail-order), does not apply to OOP max	\$4 / \$8 / \$0
Lifetime Maximum	\$2,000,000

The plan coordinates with Medicare on a traditional Coordination of Benefits Method. Starting in 2019, the prescription drug coverage is through a Medicare Part D EGWP arrangement.

Changes in Benefit Provisions Valued Since the Prior Valuation

There were no changes in benefit provisions since the prior valuation.

4 Basis of the Actuarial Valuation

4.2 Description of Actuarial Methods and Valuation Procedures

Actuarial Cost Method

Liabilities and contributions shown in the report are computed using the Entry Age Normal Actuarial Cost Method.

Any funding surplus or unfunded accrued liability is amortized over a closed 25-year period that began June 30, 2021 on a level dollar basis. The remaining period is 21 years.

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. Accordingly, no future normal costs are payable for these members.

Valuation of Assets

Not applicable since there are no plan assets.

Changes in Methods Since the Prior Valuation

There were no changes in the asset or valuation methods since the prior valuation.

Valuation of Retiree Medical and Prescription Drug Benefits

This section outlines the detailed methodology used in the internal model developed by Gallagher to calculate the initial per capita claims cost rates for the EPORS postemployment healthcare plan.

Base claims cost rates are incurred healthcare costs expressed as a rate per member per year. Ideally, claims cost rates should be derived for each significant component of cost that can be expected to require differing projection assumptions or methods (i.e., medical claims, prescription drug claims, administrative costs, etc.). Separate analysis is limited by the availability and historical credibility of cost and enrollment data for each component of cost. This valuation reflects non-prescription claims separated by Medicare status, including eligibility for free Part A coverage. Prescription costs are analyzed separately as in prior valuations. Administrative costs are assumed in the final per capita claims cost rates used for valuation purposes, as described below. Analysis to date on Medicare Part A coverage is limited since Part A claim data is not available by individual, nor is this status incorporated into historical claim data.

Benefits

Medical, prescription drug, dental, vision and audio coverage is provided through the AlaskaCare Retiree Health Plan and is available to employees of the State and subdivisions who meet retirement criteria based on the retirement plan tier in effect at their date of hire. Health plan provisions do not vary by retirement tier or age, except for Medicare coordination for those Medicare-eligible. Dental, vision, and audio claims (DVA) are excluded from data analyzed for this valuation because those are retiree-pay all benefits where rates are assumed to be self-supporting. Gallagher relies upon rates set by a third-party for the DVA benefits. Gallagher reviewed historical rate-setting information and views contribution rate adjustments made are not unreasonable.

4 Basis of the Actuarial Valuation

Administration and Data Sources

The plan has been administered by Aetna since January 1, 2014.

Claims incurred for the period from June 2023 through May 2025 were provided by the State of Alaska from reports extracted from their data warehouse, which separated claims by Medicare status. Monthly enrollment data for the same period was provided by Aetna.

Aetna also provided census information identifying Medicare Part B only participants. These participants are identified when hospital claims are denied by Medicare. Aetna then flags that participant as a Part B only participant. Gallagher added newly identified participants to our list of Medicare Part B only participants. Gallagher assumes that once identified as Part B only, that participant remains in that status until we are notified otherwise.

Aetna provided a snapshot file as of July 1, 2025 of retirees and dependents that included a coverage level indicator. The monthly enrollment data includes double coverage participants. These are participants whereby both the retiree and spouse are retirees from the State and both are reflected with Couple coverage in the enrollment. In this case, such a couple would show up as four members in the monthly enrollment (each would be both a retiree and a spouse). As a result, the snapshot census file was used to adjust the total member counts in the monthly enrollment reports to estimate the number of unique participants enrolled in coverage. Based on the snapshot files from the last two valuations, the total member count in the monthly enrollment reports needs to be reduced by approximately 12-13% to account for the number of participants with double coverage.

Aetna does not provide separate experience by Medicare status in standard reporting, so the special reports mentioned above from the data warehouse were used to obtain that information and incorporate it into the per capita rate development for each year of experience (with corresponding weights applied in the final per capita cost).

Methodology

Gallagher projected historical claim data to FY26 for retirees using the following steps:

1. Develop historical annual incurred claim cost rates – An analysis of medical costs was completed based on claims information and enrollment data provided by the State of Alaska and Aetna for each year in the experience period of June 1, 2023 through May 31, 2025. The experience periods are shifted one month earlier compared to the prior valuation.
 - Costs for medical services and prescriptions were analyzed separately, and separate trend rates were developed to project expected future medical and prescription costs for the valuation year (e.g., from the experience period up through FY26).
 - Because the reports provided reflected incurred claims, no additional adjustment was needed to determine incurred claims to be used in the valuation.
 - An offset for costs expected to be reimbursed by Medicare was incorporated beginning at age 65. Alaska retirees who do not have 40 quarters of Medicare-covered compensation do not qualify for Medicare Part A coverage free of charge. This is a relatively small and closed group. Medicare was applied to State employment for all employees hired after March 31, 1986. For the “no-Part A” individuals who are required to enroll in Medicare Part B, the State is the primary payer for hospital bills and other Part A services. Claims experience is not available separately for participants with both Medicare Parts A and B and those with Part B only. For Medicare Part B only participants, a lower average claims cost was applied to retirees covered by both Medicare Part A and B vs. retirees covered only by Medicare Part B based upon manual rate models that estimate the Medicare covered proportion of medical costs. To the extent that no-Part A claims can be isolated and applied strictly to the appropriate closed group, actuarial accrued liability will be more accurate.
 - Based on census data received from Aetna, approximately 2% of the current retiree population was identified as having coverage only under Medicare Part B. We assume that 2% of actives

4 Basis of the Actuarial Valuation

hired before April 1, 1986 and current retirees who are not yet Medicare eligible will not be eligible for Medicare Part A.

- Based upon a reconciliation of valuation census data to the snapshot eligibility files provided by Aetna as of July 1, 2024, and July 1, 2025, Gallagher adjusted member counts used for duplicate records where participants have double coverage (i.e., primary coverage as a retiree and secondary coverage as the covered spouse of another retiree). This adjustment is to reflect the total cost per distinct individual/member which is then applied to distinct members in the valuation census.
 - Gallagher understands that pharmacy claims reported do not reflect rebates. Based on actual pharmacy rebate information provided by Optum, rebates were assumed to be 29.8% of pre-Medicare and 19.8% of Medicare prescription drug claims for FY24; and 29.2% of pre-Medicare and 22.8% of Medicare prescription drug claims for FY25. These rebate assumptions were used for the experience periods starting and ending one month prior to the respective fiscal years.
2. Develop estimated EGWP reimbursements – The estimated CY26 reimbursements under EGWP were provided by Segal Consulting, who worked with the EGWP administrator (Optum) to develop those estimates. These amounts are applicable only to Medicare-eligible participants. The estimated reimbursements under EGWP from FY22 through FY26 were trended to FY26 and then blended to develop the EGWP subsidies for the June 30, 2025 valuation. The first-year trend rate applied to EGWP per capita costs was also adjusted to reflect the increase in EGWP subsidies from CY25 to CY26.
 3. Adjust for claim fluctuation, anomalous experience, etc. - Explicit adjustments are often made for anticipated large claims or other anomalous experience. Due to group size and demographics, we did not make any large claim adjustments. We do blend both Alaska plan-specific and national trend factors as described below. Gallagher compared data utilized to lag reports and quarterly plan experience presentations provided by the State and Aetna to assess accuracy and reasonableness of data.
 4. Trend all data points to the projection period – Project prior years' experience forward to FY26 for retiree benefits on an incurred claim basis. Trend factors derived from historical Alaska-specific experience and national trend factors are shown below in item 5.
 5. Apply credibility to prior experience – Adjust prior year's data by assigning weighting factors to recent periods, as shown at the right of the table below. The Board approved a change in the weighting of experience periods beginning with the June 30, 2017 valuation. We averaged projected plan costs by applying 75% weight to Alaska-specific trends and 25% weight to national trends.

Alaska-Specific and National Average Weighted Trend from Experience Period to Valuation Year

Experience Period	Medical, Pre-Medicare	Medical, Medicare	Prescription Drugs	Weighting Factors
6/1/2023 to 5/31/2024	6.8%	8.9%	12.0%	50%
6/1/2024 to 5/31/2025	6.1%	10.0%	17.8%	50%

Trend assumptions used for rate development are assessed annually and as additional/improved reporting becomes available, we will incorporate into rate development as appropriate. Due to the one-month lag in claims experience, all claims were trended an additional month to FY26.

6. Develop separate administration costs – No adjustments were made for internal administrative costs. Third party retiree plan administration fees for FY26 are based upon total fees projected to 2026 by Segal Consulting based on actual FY25 fees. The annual per participant per year administrative cost rate for medical and prescription benefits is \$353.

4 Basis of the Actuarial Valuation

Healthcare Reform

Healthcare Reform legislation passed on March 23, 2010 included several provisions with potential implications for the State of Alaska Retiree Health Plan liability. Gallagher evaluated the impact due to these provisions.

Because the State plan is retiree-only, and was in effect at the time the legislation was enacted, not all provisions of the health reform legislation apply to the State plan. Unlimited lifetime benefits and dependent coverage to age 26 are two of these provisions. We reviewed the impact of including these provisions, but there was no decision made to adopt them, and no requirement to do so.

Because Transitional Reinsurance fees are only in effect until 2016, we excluded these for valuation purposes.

The Further Consolidated Appropriations Act, 2020 passed in December 2019 repealed several healthcare-related taxes, including the Cadillac Tax.

The Tax Cuts and Jobs Act passed in December 2017 included the elimination of the individual mandate penalty and changed the inflation measure for purposes of determining the limits for the High Cost Excise Tax to use chained CPI. It is our understanding the law does not directly impact other provisions of the ACA. While the nullification of the ACA's individual mandate penalty does not directly impact employer group health plans, it could contribute to the destabilization of the individual market and increase the number of uninsured. Such destabilization could translate to increased costs for employers. We have considered this when setting our healthcare cost trend assumptions and will continue to monitor this issue.

The Inflation Reduction Act (IRA) was signed into law on August 16, 2022. The law contains several provisions that are expected to impact Alaska's Medicare prescription drug plan (EGWP) due to design and funding changes, the most meaningful of which occurred in 2025. The IRA is also expected to bend the trend curve through price control measures such as HHS's ability to negotiate prices for older, high-cost single source brand drugs (first effective in 2026) and through the imposition of rebates for drugs that increase in excess of inflation (first effective in 2023). We have adjusted the EGWP subsidy and the first-year trend that is applied to these subsidies for the June 30, 2025 valuation based on estimated reimbursements provided by Segal Consulting. As further guidance and projections regarding the impact of the IRA become available, updates to these assumptions may be made for future measurement dates if deemed appropriate.

We have not identified any other specific provisions of healthcare reform or its potential repeal that would be expected to have a significant impact on the measured obligation. We will continue to monitor legislative activity.

4 Basis of the Actuarial Valuation

Data

In accordance with actuarial standards, we note the following specific data sources and steps taken to value retiree medical benefits:

The Division of Retirement and Benefits provided pension valuation census data, which for people currently in receipt of healthcare benefits was supplemented by coverage data from the healthcare claims administrator (Aetna).

Certain adjustments and assumptions were made to prepare the data for valuation:

- All records provided with retiree medical coverage on the Aetna data were included in this valuation and we relied on the Aetna data as the source of medical coverage for current retirees and their dependents.
- Some records in the Aetna data were duplicates due to the double coverage (i.e., coverage as a retiree and as a spouse of another retiree) allowed under the plan. Records were adjusted for these members so that each member was only valued once. Any additional value of the double coverage (due to coordination of benefits) is small and reflected in the per capita costs.
- Covered children included in the Aetna data were valued until age 23, unless disabled. We assumed that those dependents over 23 were only eligible and valued due to being disabled.
- For individuals included in the pension data expecting a future pension, we valued health benefits starting at the same point that the pension benefit is assumed to start.
- Some records in the pension data were duplicates due to being a covered spouse in the Aetna data. Records were adjusted for these members so that each inactive member was only valued once, removing the record that came in through the pension data.

We are not aware of any other data issues that would be expected to have a material impact on the results and there are no unresolved matters related to the data.

The following chart shows the basis of setting the per capita claims cost assumption, which includes both PERS and TRS.

4 Basis of the Actuarial Valuation

	Medical		Prescription Drugs (Rx)	
	Pre-Medicare	Medicare	Pre-Medicare	Medicare
A. Fiscal 2024				
1. Incurred Claims	\$ 211,522,877	\$ 124,759,268	\$ 71,627,927	\$ 301,319,664
2. Adjustments for Rx Rebates	0	0	(21,315,243)	(59,698,014)
3. Net incurred claims	\$ 211,522,877	\$ 124,759,268	\$ 50,312,684	\$ 241,621,650
4. Average Enrollment	15,459	51,852	15,459	51,852
5. Claim Cost Rate (3) / (4)	13,682	2,406	3,255	4,660
6. Trend to Fiscal 2026	1.139	1.207	1.337	1.337
7. Fiscal 2026 Incurred Cost Rate (5) x (6)	\$ 15,581	\$ 2,905	\$ 4,352	\$ 6,232
8. Adjustment Factor for 2022 Plan Changes	1.000	1.000	0.976	0.976
9. Adjusted Fiscal 2026 Incurred Cost Rate (7) x (8)	\$ 15,581	\$ 2,905	\$ 4,247	\$ 6,081
B. Fiscal 2025				
1. Incurred Claims	\$ 205,404,879	\$ 139,592,893	\$ 75,467,663	\$ 367,360,515
2. Adjustments for Rx Rebates	0	0	(22,038,554)	(83,667,013)
3. Net incurred claims	\$ 205,404,879	\$ 139,592,893	\$ 53,429,108	\$ 283,693,502
4. Average Enrollment	14,289	52,441	14,289	52,441
5. Claim Cost Rate (3) / (4)	14,375	2,662	3,739	5,410
6. Trend to Fiscal 2026	1.066	1.109	1.194	1.194
7. Fiscal 2026 Incurred Cost Rate (5) x (6)	\$ 15,325	\$ 2,951	\$ 4,463	\$ 6,458
8. Adjustment Factor for 2022 Plan Changes	1.000	1.000	0.986	0.973
9. Adjusted Fiscal 2026 Incurred Cost Rate (7) x (8)	\$ 15,325	\$ 2,951	\$ 4,401	\$ 6,283

	Medical		Prescription Drugs (Rx)	
	Pre-Medicare	Medicare	Pre-Medicare	Medicare
C. Adjusted Incurred Cost Rate by Fiscal Year				
1. Fiscal 2024 A.(9)	15,581	2,905	4,247	6,081
2. Fiscal 2025 B.(9)	15,325	2,951	4,401	6,283
D. Weighting by Fiscal Year				
1. Fiscal 2024	50%	50%	50%	50%
2. Fiscal 2025	50%	50%	50%	50%
E. Fiscal 2026 Incurred Cost Rate				
1. Rate at Average Age C x D	\$ 15,453	\$ 2,928	\$ 4,324	\$ 6,182
2. Average Aging Factor	0.813	1.224	0.838	1.149
3. Rate at Age 65 (1) / (2)	\$ 19,003	\$ 2,393	\$ 5,158	\$ 5,381
F. Development of Part A&B and Part B Only Cost from Pooled Rate Above				
1. Part A&B Average Enrollment		51,897		
2. Part B Only Average Enrollment		544		
3. Total Medicare Average Enrollment B(4)		52,441		
4. Cost ratio for those with Part B only to those with Parts A&B		3.300		
5. Factor to determine cost for those with Parts A&B (2) / (3) x (4) + (1) / (3) x 1.00		1.024		
6. Medicare per capita cost for all participants: E(3)		\$ 2,393		
7. Cost for those eligible for Parts A&B: (6) / (5)		\$ 2,337		
8. Cost for those eligible for Part B only: (7) x (4)		\$ 7,712		

4 Basis of the Actuarial Valuation

Following the development of total projected costs, per capita claims costs were distributed by age by allocating total projected costs to the population census used in the valuation. The allocation was done separately for each of prescription drug and medical costs for the Medicare eligible and pre-Medicare populations. The allocation weights were developed using participant counts by age and assumed morbidity and aging factors. Results were tested for reasonableness based on historical trend and external benchmarks for costs paid by Medicare. The results of our analysis are summarized in the table below.

Per Capita Claims Costs by Age for July 1, 2025 through June 30, 2026

Age	Medical and Medicare Parts A & B	Medical and Medicare Part B Only	Prescription Drug	Medicare EGWP Subsidy
45	\$ 11,597	\$ 11,597	\$ 3,310	\$ 0
50	\$ 13,121	\$ 13,121	\$ 3,931	\$ 0
55	\$ 14,845	\$ 14,845	\$ 4,669	\$ 0
60	\$ 16,796	\$ 16,796	\$ 4,907	\$ 0
65	\$ 2,337	\$ 7,712	\$ 5,381	\$ 2,106
70	\$ 2,580	\$ 8,515	\$ 5,970	\$ 2,337
75	\$ 2,849	\$ 9,401	\$ 6,624	\$ 2,593
80	\$ 3,176	\$ 10,482	\$ 6,525	\$ 2,554

4 Basis of the Actuarial Valuation

4.3 Summary of Actuarial Assumptions

Discount Rate

4.75%

Salary Scale

N/A

Total Inflation

Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 2.50% annually.

Variable Benefit Increases

3.00% per year.

Mortality (Pre-Commencement)

N/A

Mortality (Post-Commencement)

Retiree mortality in accordance with the following tables:

- Pension: Pub-2010 General Retiree table, above-median, amount-weighted, and projected with MP-2021 generational improvement.
- Healthcare: Pub-2010 General Retiree table, above-median, headcount-weighted, and projected with MP-2021 generational improvement.

Beneficiary mortality in accordance with the following tables. These tables are applied only after the death of the original member.

- Pension: Pub-2010 Contingent Survivor table, above-median, amount-weighted, and projected with MP-2021 generational improvement.
- Healthcare: Pub-2010 Contingent Survivor table, above-median, headcount-weighted, and projected with MP-2021 generational improvement.

Turnover

N/A

Disability

N/A

Retirement

N/A

Percent Married and Spouse Age Difference

Marital status and spouse ages are based on the valuation census data.

Healthcare Participation

100% participation is assumed since medical benefits are provided at no cost to the retiree.

Medicare Part B Only

N/A. All participants are eligible for Medicare Parts A and B.

4 Basis of the Actuarial Valuation

Healthcare Per Capita Claims Cost

Sample claims cost rates for FY26 are shown below. These costs are adjusted to age 65. Members are assumed to attain Medicare eligibility at age 65.

	Medical	Prescription Drugs
Pre-Medicare	\$ 19,003	\$ 5,158
Medicare Parts A & B	\$ 2,337	\$ 5,381
Medicare Part D – EGWP	N/A	\$ 2,106

The smoothed FY26 EGWP subsidy assumption reflects a weighted blend of estimated reimbursements from FY22 through FY26. Since we received the estimated CY26 EGWP subsidy from Segal Consulting, the FY27 estimated subsidy is estimated as 6 months of the CY26 subsidy plus 6 months of this subsidy trended by the prescription drug trend table. This leads to a larger FY27 trend of 25.6%. Thereafter, the EGWP subsidy is assumed to increase in future years by the trend rates shown on the following pages. No future legislative changes or other events are expected to impact the EGWP subsidy. If any legislative or other changes occur in the future that impact the EGWP subsidy (which could either increase or decrease the plan's Actuarial Accrued Liability), those changes will be evaluated and quantified when they occur.

Healthcare Morbidity

Morbidity rates (also called aging factors) are used to estimate utilization of healthcare benefits at each age to reflect the fact that healthcare utilization typically increases with age. Separate morbidity rates are used for medical and prescription drug benefits. These rates are based on 2017-2021 actual experience.

Age	Medical	Prescription Drugs
0 - 44	2.0%	4.5%
45 - 54	2.5%	3.5%
55 - 64	2.5%	1.0%
65 - 74	2.0%	2.1%
75 - 84	2.2%	(0.3%)
85 - 94	0.5%	(2.5%)
95+	0.0%	0.0%

Healthcare Third Party Administrator Fees

\$353 per person per year; assumed to increase at 4.50% per year.

4 Basis of the Actuarial Valuation

Healthcare Cost Trend

The table below shows the rate used to project the cost from the shown fiscal year to the next fiscal year. For example, 6.20% is applied to the FY26 pre-Medicare medical claims costs to get the FY27 pre-Medicare medical claims costs.

Fiscal Year	Medical Pre-65	Medical Post-65	Prescription Drugs / EGWP
FY26	6.20%	5.40%	8.50% ¹
FY27	6.05%	5.35%	8.20%
FY28	5.85%	5.35%	7.90%
FY29	5.65%	5.30%	7.45%
FY30	5.45%	5.30%	7.05%
FY31	5.30%	5.30%	6.60%
FY32	5.30%	5.30%	6.15%
FY33	5.30%	5.30%	5.70%
FY34-FY38	5.30%	5.30%	5.30%
FY39	5.25%	5.25%	5.30%
FY40	5.20%	5.20%	5.30%
FY41	5.10%	5.10%	5.20%
FY42	5.05%	5.05%	5.10%
FY43	4.95%	4.95%	5.00%
FY44	4.90%	4.90%	4.90%
FY45	4.80%	4.80%	4.85%
FY46	4.75%	4.75%	4.75%
FY47	4.70%	4.70%	4.70%
FY48	4.60%	4.60%	4.65%
FY49	4.55%	4.55%	4.55%
FY50+	4.50%	4.50%	4.50%

For the June 30, 2014 valuation and later, the updated Society of Actuaries' Healthcare Cost Trend Model is used to project medical and prescription drug costs. This model estimates trend amounts that are projected out for 80 years. The model has been populated with assumptions that are specific to the State of Alaska.

Changes in Assumptions Since the Prior Valuation

Healthcare claim costs are updated annually as described in Section 4.2. As a result of changes to the Standard Medicare Part D plan under the Inflation Reduction Act, EGWP subsidies are expected to be higher than originally anticipated for 2025 and beyond. EGWP subsidies were updated based on estimates provided by Segal Consulting. Because of the significant increase in the EGWP subsidy for FY25 and beyond due to the Inflation Reduction Act, and uncertainty regarding future subsidy levels, the ARMB has adopted a smoothing of EGWP subsidy estimates over five years. In addition, the prescription

¹ The FY26 trend rate applied to the EGWP subsidy is 25.60%.

4 Basis of the Actuarial Valuation

drug and EGWP trend assumption was updated to reflect recent survey information indicating higher than initial trend rates in part due to the recent higher-than-expected inflationary environment.

There were no other changes in actuarial assumptions since the prior valuation.

5 Risk Information

5.1 Risk Overview

Funding future retirement benefits prior to when those benefits become due involves assumptions regarding future economic and demographic experience. These assumptions are applied to calculate actuarial liabilities, current contribution requirements, and the funded status of the plan. However, to the extent future experience deviates from the assumptions used in the valuation, variations will occur in these calculated values. These variations create risk to the plan. Understanding the risks to the funding of the plan is important.

Actuarial Standard of Practice No. 51 (ASOP 51)¹ requires certain disclosures of potential risks to the plan and provides useful information for intended users of actuarial reports that determine plan contributions or evaluate the adequacy of specified contribution levels to support benefit provisions.

Under ASOP 51, risk is defined as the potential of actual future measurements deviating from expected future measurements resulting from actual future experience deviating from actuarially assumed experience.

It is important to note that not all risk is negative, but all risk should be understood and accepted based on knowledge, judgment, and educated decisions. Future measurements may deviate in ways that produce positive or negative financial impacts to the plan.

In the actuary's professional judgment, the following risks may reasonably be anticipated to significantly affect the pension plan's future financial condition and contribution requirements. Due to the pay-as-you-go funding of the plan, these risks are primarily those that could cause future benefit payments to be different than expected.

- Investment Risk – potential that the investment return will differ from the rate assumed in the actuarial valuation (if the plan were to be pre-funded)
- Longevity Risk – potential that participants live longer than projected under valuation mortality assumptions
- Benefit Increase Risk – potential that future increases in variable benefits will differ from the valuation assumptions

Pay-as-you-go funding may increase the solvency risk of the plan since there is not a protected fund from which to make benefit payments should the State become unable to make the payments.

The following information is provided to comply with ASOP 51 and furnish beneficial information on potential risks to the plan. This list is not all-inclusive. It is an attempt to identify the more significant risks and how those risks might affect the results shown in this report.

Note that ASOP 51 does not require the actuary to evaluate the ability or willingness of the plan sponsor to make contributions to the plan when due, or to assess the likelihood or consequences of potential future changes in law. In addition, this valuation report is not intended to provide investment advice or to provide guidance on the management or reduction of risk.

¹ ASOP 51 does not apply to the healthcare portion of the plan. Accordingly, all comments in this section relate to the pension portion.

5 Risk Information

5.2 Assessment of Risks

Investment Risk

Actuarial Standard of Practice No. 4 (ASOP 4) requires the actuary to disclose a Low-Default-Risk Obligation Measure (LDROM) of the plan's pension liability and provide commentary to help the intended users of this report understand the significance of the LDROM with respect to funded status, contributions, and participant benefit security.

The LDROM is based on discount rates derived from low-default-risk fixed income securities whose cash flows are reasonably consistent with the pattern of pension benefits expected to be paid in the future. The LDROM shown here represents what the plan's pension liability would be if the plan invested its assets solely in a portfolio of high-quality bonds whose cash flows approximately match future pension benefit payments. Consequently, the LDROM shows the cost to pre-fund the pension plan at the valuation date with low investment risk by investing only in high-quality bonds.

As of June 30, 2025, the LDROM is \$8.8 million for the pension plan based on an interest rate of 5.29%. The interest rate used for the LDROM was determined by calculating a single equivalent discount rate using projected pension benefit payments and the Gallagher Above Median Yield Curve as of June 30, 2025. Please note that the interest rate used for the LDROM is based on bond yields as of the measurement date and will therefore vary for different measurement dates. All other assumptions are the same as those used for funding purposes as shown in this report.

Since the pension plan is not pre-funded, the LDROM does not indicate the plan's pension funded status or progress, nor does it provide information on necessary plan contributions.

Regarding participant benefit security, if this plan were to be funded on an LDROM basis, participant benefits currently accrued as of the measurement date might be considered more secure, since there would be assets specifically available to the plan for pension benefit payments. However, a large portion or the entirety of the LDROM would need to be invested early to recognize any potential increased benefit security due to pre-funding. As long as the pension benefit payments of the plan remain affordable for the plan sponsor, participant benefits will be secure.

Longevity Risk

Plan costs will be increased as participants are expected to live longer.

- Benefits are paid over a longer lifetime when life expectancy is expected to increase. The longer duration of payments leads to higher liabilities.
- Health care has been improving, which affects the life expectancy of participants. As health care improves, leading to longer life expectancies, costs to the plan could increase.
- The mortality assumption for the plan mitigates this risk by assuming future improvement in mortality. However, any improvement in future mortality greater than that expected under the current mortality assumption would lead to increased costs for the plan.
- The cost-of-living adjustments for the variable benefits increase longevity risk because members who live longer than expected will incur more benefit payment increases than expected and therefore increase costs.

Benefit Increase Risk

Plan costs will be increased if actual increases in the variable benefits are larger than expected.

Glossary of Terms

Actuarial Accrued Liability

Total accumulated cost to fund pension or postemployment benefits arising from service in all prior years.

Actuarial Cost Method

Technique used to assign or allocate, in a systematic and consistent manner, the expected cost of a pension or postemployment plan for a group of plan members to the years of service that give rise to that cost.

Actuarial Present Value of Projected Benefits

Amount which, together with future interest, is expected to be sufficient to pay all future benefits.

Actuarial Valuation

Study of probable amounts of future pension or postemployment benefits and the necessary amount of contributions to fund those benefits.

Actuary

Person who performs mathematical calculations pertaining to pension and insurance benefits based on specific procedures and assumptions.

Normal Cost

That portion of the actuarial present value of benefits assigned to a particular year in respect to an individual participant or the plan as a whole.

Unfunded Actuarial Accrued Liability (UAAL)

The portion of the actuarial accrued liability not offset by plan assets.

Vested Benefits

Benefits which are unconditionally guaranteed regardless of employment.

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