buckconsultants A Xerox Company

March 14, 2011

VIA EMAIL

Mr. Craig Chapman
Finance Director
Kenai Peninsula Borough
144 N. Binkley St.
Soldotna, AK 99669

Re: Kenai Peninsula Borough – Elected Officials Positions Termination Study

Dear Mr. Chapman:

At your request, we have performed a termination study for the Kenai Peninsula Borough – Elected Officials Positions assuming termination from PERS as of June 30, 2010.

We have estimated that terminating these positions increases healthcare liabilities by $313 and does not increase pension liabilities. These members are currently retired and are receiving pension and healthcare benefits from TRS. Termination liabilities were calculated as of June 30, 2010 based upon the member data, assumptions, methods, and provisions summarized in this report. However, Alaska statutes require that the Kenai Peninsula Borough continue to pay the past service cost rate until the unfunded liability for PERS has been fully paid off. This rate is 18.63% for Fiscal Year 2011.

We have assumed that the members chose to become immediately vested in their pension benefits rather than receive a refund of their account balance. The total liability for these members has been estimated by prorating each member's service at the Kenai Peninsula Borough over the member's total service.

The undersigned are members of the American Academy of Actuaries and the Society of Actuaries, are fully qualified to provide actuarial services to the State of Alaska, and are available to answer questions regarding this report.

If you have any questions, please feel free to call either of us at (720) 359-7700.

Sincerely,

David H. Slishinsky

David H. Slishinsky, ASA, EA, MAAA
Principal, Consulting Actuary

Michelle M. DeLange

Michelle Reding DeLange, FSA, EA, MAAA
Director, Consulting Actuary

/mlp

c: Ms. Teresa Kesey, State of Alaska
Ms. Kathy Lea, State of Alaska
Mr. Jim Puckett, State of Alaska

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Contents

Development of Termination Liability at June 30, 2010

(1) Pension Cost of Termination	Total Liability	Liability Allocated to the Kenai Peninsula Borough *
(a) Accrued Pension Liability Prior to Termination		
Tier 1	$ 0	$ 0
Tier 2	63,925	7,807
Tier 3	184,422	29,065
Total	$ 248,347	$ 36,872
(b) Pension Termination Liability		
Tier 1	$ 0	$ 0
Tier 2	80,265	9,802
Tier 3	84,274	13,281
Total	$ 164,539	$ 23,083
(c) Pension Cost of Termination (b-a, not less than $0)		**$ 0**
(2) Healthcare Cost of Termination		
(a) Accrued Healthcare Liability Prior to Termination		
Tier 1	$ 0	$ 0
Tier 2	135	16
Tier 3	852	134
Total	$ 987	$ 150
(b) Healthcare Termination Liability		
Tier 1	$ 0	$ 0
Tier 2	1,048	128
Tier 3	2,128	335
Total	$ 3,176	$ 463
(c) Healthcare Cost of Termination (b-a, not less than $0)		**$ 313**
(3) Total Cost of Termination (1(c)+2(c))		**$ 313**

*The liability allocated to the Kenai Peninsula Borough is the sum of each member's liability multiplied by the ratio of the member's Kenai Peninsula Borough service to total member service.

Member Information

The following member information was used to determine the termination liability for the Kenai Peninsula Borough – Elected Officials Positions as of June 30, 2010:

Elected Officials Positions		
Number of Members		2
Average Age as of June 30, 2010		60.71
Average Service at the Kenai Peninsula Borough as of June 30, 2010		1.69
Average Total Benefit Service as of June 30, 2010		12.29
Average Annual Compensation as of June 30, 2010	$	43,631
Average Estimated Monthly Pension Benefit Amount	$	572.25
Average Estimated Annual Pension Benefit Amount	$	6,866.94

State of Alaska
Kenai Peninsula Borough
Elected Officials Positions

Termination Study
as of June 30, 2010

Submitted By:
Buck Consultants
1200 Seventeenth Street, Suite 1200
Denver, CO 80202

Summary of the Provisions of the Alaska Public Employees' Retirement System

The plan provisions used for this study are the same as those used in the draft June 30, 2010 valuation for the State of Alaska Public Employees' Retirement System.

Plan Provisions

The Alaska PERS plan pays benefits according to the coordination of benefits (COB) guidelines outlined in the Alaska retiree healthcare summary plan document. The secondary payor is liable for the balance of eligible healthcare expenses after the primary payor benefit payments are applied, but not more than it would pay as a primary payor. This is generally equal to the beneficiary out-of-pocket cost – the deductible and any coinsurance.

Once a beneficiary is Medicare eligible, the TRS plan pays secondary to Medicare. Under the COB guidelines, TRS will generally pick up the balance after Medicare pays which leaves a zero-dollar balance and hence no liability for PERS.

Actuarial Basis

The actuarial assumptions and methods used for this study are the same as those described in the draft June 30, 2010 valuation for the State of Alaska Public Employees' Retirement System which were adopted by the ARM Board in December 2010, unless otherwise noted below.

- Liability was allocated to the Kenai Peninsula Borough by the ratio of each member's Kenai Peninsula Borough service to the member's total service.
- We assumed that the members would elect to become vested in their pension and healthcare benefits and not take a refund of their contributions. We assumed they will start their pension and healthcare benefits on the earliest date that they are eligible for unreduced benefits.
- We assumed that 80% of males and 70% of females are married upon termination.
- The members' balance and service were taken from the June 30, 2010 valuation data. The final average earnings were provided by Kathy Lea in February 2011.

Buck examined the Alaska retiree healthcare system rules for coordination of benefits (COB) to determine where the PERS would incur a liability for retiree healthcare benefits and to estimate the per capita cost of that liability.

In this case, TRS is the primary payor of healthcare benefits for both elected officials in this study and PERS will pay secondary to the TRS system. According to the COB guidelines, the secondary payor is generally liable for the excess of eligible healthcare expenses over the primary payor's benefit is applied; i.e. the beneficiary out-of-pocket expenses. Those expenses are the deductible, $150 per person, and the 20% coinsurance on the next $4,000 of eligible healthcare expenses.

We estimated the proportion of the population expected to attain the deductible and the weighted average of the proportion expected to incur expenses subject to coinsurance and the amount of coinsurance to estimate the average beneficiary out-of-pocket expense; approximately $285 per member per year. This amount is not adjusted for aging or trend because the deductible and out-of-pocket maximum thresholds are fixed. While more people will incur expenses that attain the deductible and coinsurance over time, this is offset to some degree by those exceeding the out-of-pocket max and resulting in similar proportion attaining out-of-pocket exposure each year. We also modeled the expected beneficiary out-of-pocket over time to examine the effect of trend and found there was a small range and the increases were not consistent year over year. Since the PERS plan liability is limited to pre-Medicare, we selected a mid-range value to estimate the annual per capita cost while these participants are not Medicare-eligible.