

State of Alaska

Termination Study for Sitka Community
Hospital

July 2017

July 11, 2017

VIA EMAIL

Mr. Rob Allen
CEO
Sitka Community Hospital
209 Moller Avenue
Sitka, AK 99835

Re: Sitka Community Hospital Termination Study

Dear Mr. Allen:

At your request, we have performed a termination study for Sitka Community Hospital (SCH) assuming termination from the State of Alaska Public Employees' Retirement System Defined Benefit (PERS DB) and Defined Contribution Retirement (PERS DCR) plans as of February 1, 2018.

We have estimated that terminating Sitka Community Hospital's participation in PERS DB and PERS DCR as of February 1, 2018 increases pension liabilities by \$0 and increases healthcare liabilities by \$645,548. Therefore, the one-time payment as of February 1, 2018 due to PERS for the total cost of termination is \$645,548. This amount excludes SCH's future annual payments toward the PERS DB unfunded past service liability as explained below.

In addition to the one-time payment shown above, Alaska Statutes (AS) Section 39.35.625(a) requires SCH to contribute to the system, each payroll period until the past service liability of PERS DB is extinguished (which is currently projected to be Fiscal Year 2040), an amount calculated by applying the current past service contribution rate adopted by the Alaska Retirement Management Board (ARMB) to the greater of total base salaries paid:

- 1) During the payroll period to employees in positions for which coverage has been terminated;
- 2) At the time of termination to employees in positions for which coverage has been terminated;
- or
- 3) During the payroll period for the fiscal year ending June 30, 2008 to employees in positions for which coverage has been terminated.

This rate is 15.28% of pay for Fiscal Year 2018 (as adopted by the ARMB in September 2016). This rate is recalculated each year as part of the annual actuarial valuation of PERS DB. Based on SCH's current estimated salaries shown in Section 2, SCH's current annual payment for the PERS DB unfunded liability is approximately \$1.6 million (approximately \$0.7 million for Fiscal Year 2018 based on a termination date of February 1, 2018).

Termination liabilities were calculated based upon the member data, assumptions, methods, and plan provisions summarized in this report.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing 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. An analysis of the potential range of such future differences is beyond the scope of this valuation.

This report was prepared under my supervision and in accordance with all applicable Actuarial Standards of Practice. I am a Member of the American Academy of Actuaries and the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report.

If you have any questions, please feel free to call me at (602) 659-6924.

Sincerely,



David J. Kershner, FSA, EA, MAAA, FCA
Principal

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 A. Bissett, FSA, MAAA
Senior Consultant, Health & Productivity

cc: Ms. Kathy Lea, State of Alaska
Mr. Kevin Worley, State of Alaska

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Section 1: Development of Termination Liability at February 1, 2018

	Total Liability	Liability Allocated to Sitka Community Hospital*
(1) Pension Cost of Termination		
(a) Accrued Pension Liability Prior to Termination		
PERS DB		
Tier 1	\$ 1,496,805	\$ 1,492,272
Tier 2	4,421,481	4,017,887
Tier 3	<u>4,268,098</u>	<u>4,198,616</u>
Total PERS DB	10,186,384	9,708,775
PERS DCR	<u>11,542</u>	<u>10,999</u>
Grand Total	\$ 10,197,926	\$ 9,719,774
(b) Pension Termination Liability		
PERS DB		
Tier 1	\$ 1,765,776	\$ 1,760,413
Tier 2	4,513,164	4,141,758
Tier 3	<u>3,306,160</u>	<u>3,245,978</u>
Total PERS DB	9,585,100	9,148,149
PERS DCR	<u>0</u>	<u>0</u>
Grand Total	\$ 9,585,100	\$ 9,148,149
(c) Pension Cost of Termination (b-a, not less than \$0)	\$ 0	\$ 0
(2) Healthcare Cost of Termination		
(a) Accrued Healthcare Liability Prior to Termination		
PERS DB		
Tier 1	\$ 569,417	\$ 567,604
Tier 2	1,608,035	1,464,781
Tier 3	<u>2,775,422</u>	<u>2,732,259</u>
Total PERS DB	4,952,874	4,764,644
PERS DCR	<u>815,275</u>	<u>789,760</u>
Grand Total	\$ 5,768,149	\$ 5,554,404
(b) Healthcare Termination Liability		
PERS DB		
Tier 1	\$ 791,531	\$ 788,916
Tier 2	2,312,425	2,102,095
Tier 3	<u>3,209,459</u>	<u>3,156,871</u>
Total PERS DB	6,313,415	6,047,882
PERS DCR	<u>153,695</u>	<u>152,070</u>
Grand Total	\$ 6,467,110	\$ 6,199,952
(c) Healthcare Cost of Termination (b-a, not less than \$0)	\$ 698,961	\$ 645,548
(3) Total Cost of Termination (1(c)+2(c))	\$ 698,961	\$ 645,548

*The liability allocated to Sitka Community Hospital is each member's liability multiplied by the ratio of the member's Sitka Community Hospital service to their total service in PERS.

Section 2: Member Information

The following member information was used to determine the termination liability for Sitka Community Hospital.

Number of Members	153
Average Age as of February 1, 2018	46.91
Average Service with Sitka Community Hospital as of February 1, 2018	7.05
Total Average Benefit Service as of February 1, 2018	7.26
Average Annual Compensation as of February 1, 2018	\$ 68,570

Section 3: Summary of Plan Provisions of the Alaska Public Employees' Retirement System DB and DCR Plans

The plan provisions used for this study are the same as those shown in the June 30, 2016 valuation reports for the State of Alaska Public Employees' Retirement System (PERS DB) and Defined Contribution Retirement (PERS DCR) plans.

Section 4: Actuarial Basis

The actuarial assumptions and methods used for this study are the same as those described in the June 30, 2016 valuation reports for the State of Alaska Public Employees' Retirement System (PERS DB) and Defined Contribution Retirement (PERS DCR) plans, except as noted below:

- Each member's compensation and service was taken from the June 30, 2016 valuation data and rolled forward to the termination date using valuation actuarial assumptions. This data was compared to the data received from the Department of Administration for consistency.