Actuarial Method Used to Calculate Termination Costs

This information represents a general description of the calculation of termination costs and is intended to be used to describe the process at a summary level.

The actuary will review the employee(s) salary to determine the percent of increase, if any, from the last PERS valuation to the present. Increases in salaries will lead to an increase in total termination costs.

When the cost is calculated the actuary calculates the difference between:

1) "active" liability: liability as if the person was terminated and would retire at first eligibility (this represents the "change in retirement behavior" referred to by the actuaries); and

2) "terminated" liability: liability as if the person remained active and followed the assumptions as laid out in our valuation. The actuary assumes an expected retirement age based on the experience of the plan itself. While the employee(s) being excluded might be normal retirement age according to plan rules, their benefit is not fully funded until they meet the expected retirement age. For example:

   - Employee being removed is Tier 1 and is age 58.8.
   - Expected retirement age in the plan is age 62.
   - The termination liability calculates the amount the funding is short by the member retiring earlier than expected due to termination, i.e. 3.2 years of funding in this example.

The calculation takes into account and assumption used in the prior valuation for the percent probability the member would have retired. An example would be:

Age	Probability of Retiring	Age	Probability of Retiring
62	100%	58	20%
61	80%	57	15%
60	60%	56	10%
59	40%	55	5%

3) The total funding on hand to fund future retirement benefits for the member to retire today under 1) is subtracted from the total funding that would have been provided if the member had continued actively in the plan until the expected retirement age in 2). The difference is the termination cost liability.

4) As assumptions change with each annual valuation the expected retirement age will change as well. Calculations of termination costs will reflect these changes so comparing a cost calculated in a previous valuation with a current cost will not be an accurate comparison.

For more information regarding termination costs, please contact your Regional Counselor toll free at (800) 821-2251 or in Juneau at (907) 465-4460.

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