SOUTHEAST ALASKA POWER AGENCY

Special Board Meeting
AGENDA

(Held Electronically[1])

Friday, September 4, 2020 | 10:00 a.m. AKDT

For Telephonic Participation via Zoom:
Dial 1.888.475.4499[2]

1. Call to Order
   A. Roll call

2. Approval of the Agenda

3. Old Business:

   A. Executive Session Re Contract Negotiations Update Re Submarine Cable Replacement Project
   B. Consideration and Approval of Submarine Cable Replacement Contract

4. New Business:
   A. Consideration and Approval of SEAPA 2021 Administrative Employee Group Benefits

5. Adjourn

[1] Due to recommendations from the Center for Disease Control and its social distancing guidelines, this meeting of the Board of Directors of the Southeast Alaska Power Agency will be held electronically.
[2] The connectivity with Zoom fails from time to time. In the event of a failure, the meeting shall continue by telephonic participation as has been conducted in the past. A back-up plan to continue the meeting is to dial 1.800.315.6338 and use Code 73272# for the regular session. A separate back-up plan phone number and code will be provided by email for the Executive Session.

MEMORANDUM
ATTORNEY-CLIENT COMMUNICATIONS

TO: Chairman
Southeast Alaska Power Agency

FROM: Joel R. Paisner, Ascent Law Partners, LLP

DATE: September 1, 2020

RE: Suggested Motion for Executive Session

The Board of Directors will enter into an executive session during a Special Board Meeting to be held on September 4, 2020 for an update on the Agency's negotiations regarding its Submarine Cable Replacement Contract.

I recommend the following motion be made:

> I move to recess into Executive Session to be conducted pursuant to SEAPA's Bylaws consistent with Alaska Statute 44.62.310 for an update on the Agency's negotiations regarding its Submarine Cable Replacement Contract, the immediate knowledge of which would clearly have an adverse effect upon the finances of the Agency, the Projects, or any of the Member Utilities of the Board.

OLD BUSINESS
AGENDA ITEM 3B

Consideration and Approval of Submarine Cable Replacement Contract

[Information to be provided following the Executive Session]

SOUTHEAST ALASKA POWER AGENCY

2021 ADMIN BENEFITS

To:	Trey Acteson, CEO	Date:	August 21, 2020
From:	Kay Key, Controller	Subject:	**FY2021 Administrative Employee Benefits**

National Rural Electric Cooperative Association (NRECA) has issued their renewal rates for calendar year 2021 group benefits. These rates apply to administrative employee benefits. Our deadline for group enrollment is September 25. A summary of all administrative employees' benefits immediately follows this memo.

SUGGESTED MOTION
I move to renew the NRECA 2021 employee group benefit plans and Administrative Employee Benefits as presented.

Health & Welfare – NRECA (National Rural Electric Cooperative Association) 2021 base premium rates for all group benefit medical plans are being held steady at 2020 premium levels (a **0%** increase) in recognition of the financial impacts from the COVID-19 pandemic that participants are facing now and in the coming months. The "2021 Renewal Rates" document attached to this memo display Current Rates for calendar year 2020, Renewal Rates for calendar year 2021, and the percentage of change between the two.

Employees contribute 10% of the medical, prescription, dental, and vision premiums:

Annual Premiums	CY17	CY18	CY19	**CY20**	**CY21**
Single Med, RX, Dental, Vision	$16,641	$17,749	$18,764	$19,668	$19,668
Family Med, RX, Dental, Vision	$36,036	$37,755	$40,119	$41,768	$41,768
Life Insurance, Disability	2.20%	2.20%	2.07%	2.10%	2.10%
Defined Contribution Plan (457b)	3%	3%	3%	3%	3%
Defined Benefit Plan (RS Plan)	36.49%	37.41%	37.78%	38.53%	39.69%

457(b) Deferred Compensation Plan - SEAPA contributes 3% of base salary to administrative employees' accounts after they contribute 1%.

Retirement Security Plan - SEAPA participates in NRECA's defined benefit plan, the RS Plan. Calendar year 2021 billing rates for SEAPA's defined benefit pension plan increased 1.16%. The increase is due to continuing historically low interest rates, which result in higher lump-sum payments to participants and reduces the plan's funding level; increased longevity of participants; and a lower-than-expected rate of return. These downward pressures on the Plan's funding are offset by legislation (SECURE Act) that created $30M in annual savings by reducing Pension

Benefit Guarantee Corporation (PBGC) premiums. PGBC is the agency responsible for insuring pension plans.

Please review the attached “NRECA-sponsored Retirement Security Plan 2021 Rates” 5-page flyer for a more detailed explanation of changes to this year’s rate.

A comparison of SEAPA’s 2020 budget and an estimate of the FY2021 SEAPA benefits, based upon 2020 wages, is displayed below for your reference.

Budget Item	2020 Budget	2021 Budget (Est.)
Wages	$918,000	$918,000
Taxes	65,000	65,000
H&W	222,000	222,000
Retirement	378,000	389,000
Total	$1,583,000	$1,594,000

Attachments:

FY2021 Administrative Employee Benefits (2 pages)
2021 Renewal Rates for Admin H&W Benefits (NRECA)
NRECA Retirement Security Plan Billing Rate History graph
NRECA-sponsored Retirement Security Plan 2021 Rates (5 pages)

SOUTHEAST ALASKA POWER AGENCY

Administrative Employee Benefits
Calendar Year 2021

Non-represented employees are eligible for these benefits provided by National Rural Electric Cooperative Association (NRECA).

Nat'l Rural Electric Cooperative Assn. (NRECA) Plans	**Coverage:** No waiting period IN – In Network • OUT – Out of Network	**Employer Contrib.**	**Employee Contrib.**
Medical PPO	IN: Deductible: $300 individual, $600 family	90%	10%
	OUT: Deductible: $600 individual, $1200 family		
	Out-of-Pocket Maximums:		
	IN: Coinsurance: $0 individual, $0 family		
	OUT: Coinsurance: $1200 individual, $2400 family		
Prescription	Coinsurance Max: $2000/individual, $5000/family		
Dental	Deductible: Preventive - $0 / Basic - $50 per participant	90%	10%
Vision	Deductible: $10 exam, $20 glasses	90%	10%
Retirees -Medical coverage is available to retirees after completing 5 years of continuous service with the Agency.			
Basic Life & AD&D Insurance*	2x Base Salary	100%	---
Supplemental Life*	1x Base Salary	100%	---
Supplemental AD&D	Available	0	100%
Supplemental Family AD&D	Available	0	100%
Spouse Life*	$10,000	100%	---
Child Life*	$10,000	100%	---
Retired Life*	Available	0	100%
Business Travel Insurance	$100,000	100%	---
Short-Term Disability	66-2/3% of weekly earnings, $1500/wk maximum. Benefits begin on day 8 and are limited to 13 weeks.	100%	---
Long-Term Disability	66-2/3% of annual salary paid until age 65 if totally disabled. Benefits begin after 13 wks.	100%	---

*Group term life insurance coverage in excess of $50,000 is taxable income.

Homestead Plan (a division of NRECA)	**Summary**	**Employer Contribution**	**Employee Contribution**
457(b) Government Deferred Compensation Plan (SEAPA Irrevocable Trust)	Eligible on the first day of the month after one full month of completed service. Employee minimum contribution required; maximum subject to IRS limitations.	3% of base wage after employee minimum	1% of base wage minimum

Retirement Security Plan (sponsored by NRECA)	**Employer Contribution**	**Employee Contribution**
Defined Benefit Pension Plan – Participation begins first of the month following the first full year of employment. Benefit based on 2% of participant's final average effective salary. Subject to vesting schedule.	100%	---

SOUTHEAST ALASKA POWER AGENCY

Administrative Employee Benefits
Calendar Year 2021

Payroll, PTO & Holidays	Description
Payroll	Bimonthly pay periods are the 1st – 15th and 16th-last day of the month. Pay dates are the 7th and 22nd of the month.
Paid Time Off	Employee starts earning 6 hrs per pay period in first year and increases to 10 hours per pay period in year seven. (Maximum 60-day PTO cash-out upon termination.)
Holidays	10 holidays + 2 Floating Holidays annually. No carryover of floating holidays.

Retirement Security Plan - Vesting Schedule	
Years of Vesting Service	**Vested Percent**
One year of service	10%
Two years of service	20%
Three years of service	30%
Four years of service	40%
Five or more years of service	100%
If participating at age 55, regardless of years of service	100%

HOLIDAYS
New Year's Day
Presidents Day
Memorial Day
Independence Day
Labor Day
Veterans Day
Thanksgiving Day and the following Friday
Christmas Eve and Christmas day
2 Floating Holidays

2021 Renewal Rates

Subgroup: 0102192001 - SOUTHEAST ALASKA PWR AGENCY - AK

Renewal Date: 1/1/2021

These are your subgroup's renewal billing rates. Your plan design may have changed. Check your plan's renewal options for more information.

Coverages	Current Monthly Rates	Renewal Monthly Rates	Change
Business Travel Accident Insurance Plan			
bta1	$27.00	$27.00	0.0%
Dental Plan			
ePDental1			
INDIVIDUAL	$64.78	$64.78	0.0%
INDIVIDUAL + DEPENDENT	$194.93	$194.93	0.0%
Life Insurance Plan			
basicLife1	$0.304/$1,000	$0.289/$1,000	-4.9%
Long Term Disability Plan			
ltd66Ss1	$0.0605/$100	$0.0623/$100	3.0%
Medical and Prescription Drug Plan			
ppo2			
INDIVIDUAL	$1,558.34	$1,558.34	0.0%
INDIVIDUAL + DEPENDENT	$3,241.90	$3,241.90	0.0%
MEDICARE	$342.83	$342.83	0.0%
Short Term Disability Plan			
std1	$0.0596/$100	$0.0605/$100	1.5%
Vision Plan			
visPpoEnh1			
INDIVIDUAL	$15.89	$15.89	0.0%
INDIVIDUAL + DEPENDENT	$43.85	$43.85	0.0%

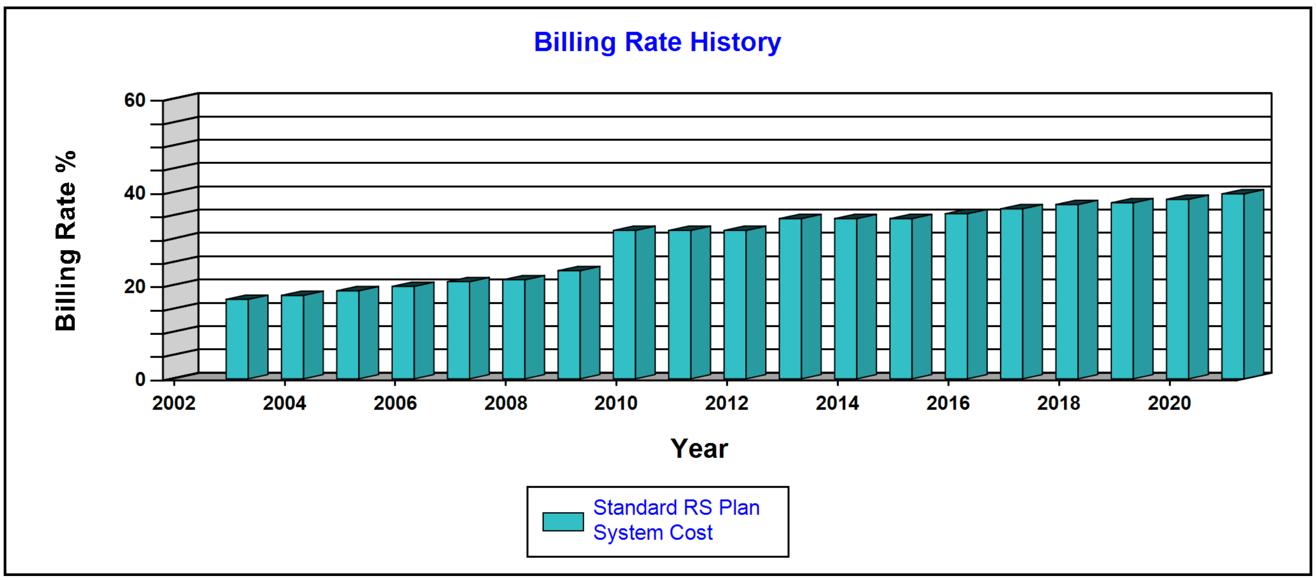
NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Retirement Security Plan

System #:	01-02192-001	Standard RS Plan:	A
Name:	SOUTHEAST ALASKA PWR AGENCY		

Standard RS Plan: A

Year	Benefit Level	System Cost	Employee Contribution	Plan	COLA	Average Age	100% Death Benefit	Salary Type
2003	2.00	17.06	0.00	62	Yes	51	No	BS
2004	2.00	17.91	0.00	62	Yes	52	No	BS
2005	2.00	18.90	0.00	62	Yes	63	No	BS
2006	2.00	19.84	0.00	62	Yes	51	No	BS
2007	2.00	20.84	0.00	62	Yes	56	No	BS
2008	2.00	21.25	0.00	62	Yes	51	No	BS
2009	2.00	23.21	0.00	62	Yes	49	No	BS
2010	2.00	31.85	0.00	62	Yes	50	No	BS
2011	2.00	31.85	0.00	62	Yes	50	No	BS
2012	2.00	31.85	0.00	62	Yes	57	No	BS
2013	2.00	34.39	0.00	62	Yes	56	No	BS
2014	2.00	34.39	0.00	62	Yes	55	No	BS
2015	2.00	34.39	0.00	62	Yes	56	No	BS
2016	2.00	35.43	0.00	62	Yes	56	No	BS
2017	2.00	36.49	0.00	62	Yes	56	No	BS
2018	2.00	37.41	0.00	62	Yes	58	No	BS
2019	2.00	37.78	0.00	62	Yes	55	No	BS
2020	2.00	38.53	0.00	62	Yes	54	No	BS
2021	2.00	39.69	0.00	62	Yes	55	No	BS



Note: The System Cost is the total of the Trust Contribution and the Administrative Fee.

Your Retirement Security Plan's salary type is "base salary." As a result, your contribution cost (system cost plus employee contribution rate shown above) is applied as a percentage of each participant's annualized base rate of pay in effect on November 15, 2020, which is that participant's effective salary for the 2021 plan year. Beginning with your January 2021 monthly statement, the estimated amount due will be based on this percentage. Rates shown are for the plan in effect as of January 1 for each year.

NRECA-sponsored Retirement Security Plan 2021 Rates

The Retirement Security (RS) Plan base contribution (billing) rates for 2021 have increased by 3% compared with the rates for 2020. The following answers to frequently asked questions regarding the rate increase have been developed to help participating employers and members understand these changes.

How does the 3% increase affect my co-op's contribution rate?
The 3% increase is a proportional rate increase, not an additional 3% on top of your current rate. For example, if your plan's contribution rate is 20% of payroll, the increase would be 3% of 20%, or 0.6% (0.03 x 20%). After the increase, your total contribution in dollar terms would be 20.6% of payroll (20% + 0.6%), assuming that you do not make any other changes to the design of your RS Plan and that the average age of your eligible participant population does not change significantly.

Has the administrative fee portion of the contribution rate changed?
No, the administrative fee rate remains at 3% of the total contribution for 2021 (before reflecting the 2013 prepayment program discount), the same as in 2020.

My co-op's 2021 contribution rate increased more (or less) than 3% as compared with the 2020 rate. Why?
The change in contribution rates for a particular plan may not equal exactly 3% for the following reasons:

- Due to changes in a co-op's participant population, the average participant age used for the 2020 rate may differ from the average age used for the 2021 rate. Other things being equal, a lower average age among participants will result in a lower contribution rate, and vice versa. Age changes in participant subgroups with lower average ages have a larger impact on the contribution rate than age changes for older populations.
- Plan design changes that apply to the 2021 rate, but which did not apply to the 2020 rate (such as changes in benefit levels, the normal retirement age, or employee contribution rates) can also cause a difference in contribution rates.

What caused the 2021 base contribution rates to rise?
In any given year, there are many elements that affect the base contribution rates. The decision to increase the 2021 base contribution rates is the result of a combination of factors, including:

- **Changes in the actuarial assumptions used to measure plan liabilities**—RS Plan actuaries and investment professionals expect that long-term future investment returns and interest rates will be lower than expected by previous actuarial assumptions. As a result:
    - The expected investment rate of return has been reduced from 7.25% to 7.00%;
    - The future lump sum interest rates have been lowered by 0.50%.

  Because these two changes in assumptions increase liabilities, higher future base contribution levels are necessary to fund them.

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- **Investment returns below the expected rate of return**—While the investment return for 2019 was a very favorable 20.8%, the excess return above the actuarial assumption will be smoothed in over a five-year period. This will help stabilize base contribution rates in the longer term, but only allocates one-fifth of that excess return to the 2020 actuarial valuation process. The investment return through June 30, 2020, was -2.2%, significantly below the actuarial assumption of 7%. When asset returns don't meet or exceed actuarial assumptions, employer contribution levels generally need to be higher to make up the difference.
- **Low lump sum interest rates**—When interest rates are low, lump sum amounts that are paid out of the RS Plan are higher. This leads to higher-than-expected plan liabilities and lower-than-expected asset levels. Currently, longer-term interest rates are at historic lows and have been for some time.

How will the decrease in assets in 2020 affect future base contribution rate increases?
The RS Plan operates under special multiple-employer funding rules that our participating members helped us achieve under the Cooperative and Small Employer Charity Pension Flexibility Act (CSEC) in 2014. These rules allow the RS Plan to average investment returns over several years, with any asset losses in the current year spread into costs over the next five years. Also, prudent plan management, including further diversification of invested assets over time, has helped keep recent increases in the single digit range. This is in contrast to 2010, when a similar downturn in the economy and heightened volatility in the capital markets in 2009 necessitated a 35% increase in base contribution rates.

What is the current funding level for the plan?
There are many measures of the RS Plan's funding level, each based on different required assumptions and methods. Under CSEC rules, the current funded level of the RS Plan is 88%. This is the measure of funded ratio (the actuarial value of assets divided by RS Plan liabilities) that is reported on government forms and is comparable to how other pension plans like the RS Plan report their funded statuses.

Using the more conservative actuarial assumptions and methods for determining annual base contribution rates, the RS Plan's funded ratio on the actuarial valuation date of January 1, 2020, was 81%. In comparison, using the same basis, the funded ratio was 86% on January 1, 2019. These funded ratios are based on benefit liabilities earned as of the valuation date, and the actuarial value of assets, which is determined by smoothing investment returns that differ from what is expected over a five-year period. This smoothing of investment returns helps reduce the volatility of changes in base contribution levels from year to year.

It is important to note that the funded ratio used for determining base contributions differs from the CSEC funded ratio above as well as the funded ratio that is determined for other purposes. For example, the plan's annual funding notice that is mailed to participants each April shows different funding levels because of the unique assumptions and methods that are required for the annual notice. Specifically, the asset amounts shown in the annual funding notice include contributions received during the first 8½ months of a given plan year. But for determining required annual funding for contribution rates, these receivable contributions are excluded. Excluding receivable contributions offers a more conservative snapshot of the RS Plan's funded status. Shown below are amounts with and without including the receivable contributions in the assets.

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Valuation Date	Funded Ratio Including Receivable Contributions in Assets (CSEC Ratio)	Funded Ratio Excluding Receivable Contributions in Assets (Contribution Ratio)
January 1, 2018	95% (from annual funding notice provided in 2019)	86%
January 1, 2019	96% (from annual funding notice provided in 2020)	86%
January 1, 2020	88% (estimated, will appear on annual funding notice provided in 2021)	81% (estimated)

Could there be future base contribution increases?
Base contribution rates are reviewed each year as part of a process designed to move the plan over time toward a 100% funded ratio. This annual review takes into consideration:

- **Results of the annual actuarial valuation**—Funding rules used in the annual valuation determine a contribution level that is designed to eventually achieve a 100% funded ratio for the RS Plan over the anticipated funding period.
- **Potential impact of key cost drivers**—Key factors that could affect future base contribution rates include further regulatory changes and the outlook for investment returns and interest rates.

The decreasing funded ratio was the primary cause for rate increases from 2016 to 2021 and if it does not improve, it could be necessary to again increase rates. Because the valuation process includes methods to reduce contribution volatility, any changes in costs would be gradual.

Some cost factors have been slow to improve. How does this affect the RS Plan in the long term?
The two primary sources of RS Plan funding are investment returns and employer contributions. As expectations for future investment returns decline, participating employers must pick up the difference through increased contributions (as seen in recent base contribution rate increases). The RS Plan, along with most large pension plans, has decreased its long-term investment return assumption five times in the past 10 years. (It was 8.5% for the January 1, 2011, assumption; currently it is 7%.)

Other factors have had an inflationary effect on the cost of benefits, and therefore contributions, including:

- **Falling interest rates**—As interest rates remain historically low, pension plans like the RS Plan must pay larger lump sums than previously expected. At the same time, low interest rates can also elevate the level of Pension Benefit Guaranty Corporation (PBGC) premiums the RS Plan must pay each year.
- **Increasing longevity**—People are living longer and, as a consequence, drawing on their pensions for longer periods of time, also increasing the overall cost of benefits.

While RS Plan actuaries expect interest rates to move back toward historical norms over time, increasing participant longevity is likely to continue.

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Does the funding level in the RS Plan differ between employers that participated in the 2013 prepayment program, and those that did not?

Yes. The accelerated contributions that employers prepaid into the RS Plan under the 2013 prepayment program immediately improved their individual funding levels, as compared with employers that decided not to participate in that program. This is what allowed for the 25% reduction in future base contribution rates for prepayers compared with those that did not prepay.

It is important to note, however, that while non-prepayers may have a lower individual funding level at any given point in time, the higher relative contribution rates they are paying into the RS Plan will result over time in an improvement in their funding levels, eventually catching up to the average funding levels of the prepayers. When NRECA implemented the prepayment program in 2013, it was estimated the process would take approximately 15 years (although several factors, including actual investment returns, interest rates, and other actuarial experience, could cause the actual timing to differ slightly from the original 15-year estimate).

Below is a chart comparing the average RS Plan funding levels for prepayers versus non-prepayers, based on accrued benefit liabilities and the actuarial value of assets as of January 1, 2020:

	RS Plan Total	Avg. for Prepayers	Avg. for Non-prepayers
CSEC Funded Level*	88%	92%	76%

**Includes RS Plan contributions payable in 2020.*

Regardless of whether they are prepayers or not, does each participating employer pay to fund only its own benefit obligations under the RS Plan?

Yes. Despite the fact that we only perform a single actuarial valuation for the RS Plan each year, the contributions that each employer is required to make, regardless of being a prepayer or a non-prepayer, are designed to fully fund the benefit obligations of its own unique population and plan design by the time each employee retires and draws his or her benefit from the RS Plan. The same is true for active plans versus frozen plans. Regardless of their status, each participating employer is only paying its fair share of the total cost based on its plan design features, eligible employee demographics, and unique compensation.

Was the passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act at the end of 2019 supposed to immediately reduce annual base contribution rates for participating employers by approximately $30 million?

No, but it is expected to reduce the annual expenses of the RS Plan by at least that amount each year going forward, which is an important victory for employers participating in the RS Plan. While we understand that some members may have interpreted the $30 million savings in annual PBGC premiums as synonymous with an immediate reduction in base contribution rates or a refund of prior contribution amounts, that is not how the determination of required contributions and management of assets in the RS Plan works under federal law and regulations.

So how are the savings in PBGC premiums due to the SECURE Act benefiting participating employers?

Even though the reduced PBGC premium schedule under the SECURE Act rule change did not result in an immediate reduction in base contribution rates, participating employers are already benefiting from this important legislative victory. The RS Plan's actuaries originally projected an

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increase in base contribution rates for 2021 in the range of 4% to 5%, but because of the increase in plan assets due to the recovery of excess premiums paid to the PBGC for the 2019 plan year, along with the reduction in 2020 PBGC premium levels and other factors, that projected increase dropped to 3%.

The RS Plan's actuaries currently estimate that the annual premium savings will accumulate to over $750 million in projected financial improvement for the RS Plan over the next 10 years, through a combination of base contribution savings and increased asset levels, split as follows:

- Cumulative base contribution rate increases over the next few years that are 5% lower than previously expected, estimated to represent nearly $400 million in accumulated base contribution savings over the next 10 years;
- Average base contribution rates over the next 10 years estimated to be 3% lower than under the prior PBGC premium rules;
- RS Plan assets projected out to 2030 that could be $350 million higher than previously expected, contributing to projected funding level improvement of nearly 3%.

Note: These projections and estimated savings are based on the January 1, 2020, actuarial assumptions and valuation results, as performed in accordance with the CSEC funding rules applicable to the RS Plan.