

# INTERNAL AUDIT REPORT

2025-06

---

Police and Fire Retiree Medical Trust  
Five-Year Review

Human Resources Department

October 15, 2025

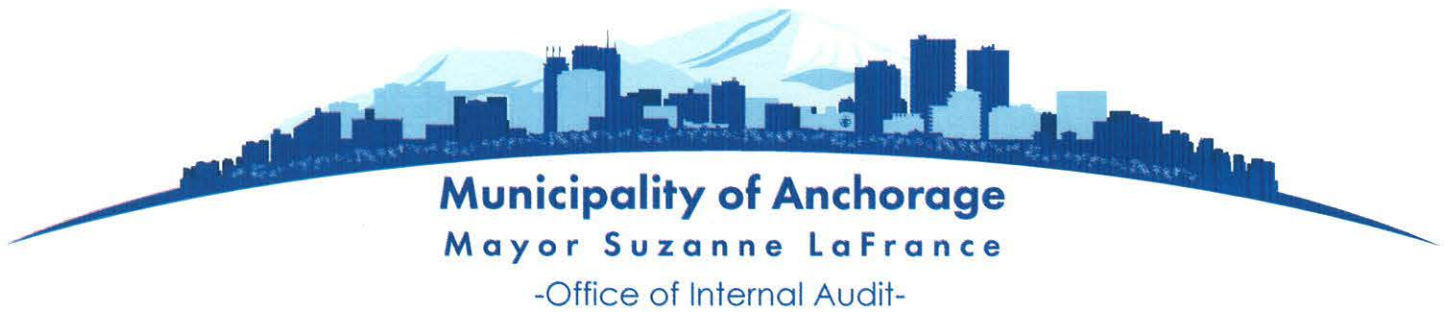
---

MUNICIPALITY OF ANCHORAGE  
Office of Internal Audit  
632 W 6th Avenue, Suite 710  
P.O. Box 196650  
Anchorage, Alaska 99519-6650  
[www.muni.org/departments/internal\\_audit](http://www.muni.org/departments/internal_audit)



OFFICE OF INTERNAL AUDIT  
Alden Thern  
Director  
Phone: (907) 343-4438

E-Mail: [alden.p.thern@anchorageak.gov](mailto:alden.p.thern@anchorageak.gov)



October 15, 2025

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review the Internal Audit Report 2025-06, Police and Fire Retiree Medical Trust Five-Year Review, Human Resources Department. A summary of the report is presented below.

In accordance with the 2025 Audit Plan, we performed an audit of Police and Fire Retiree Medical Trust Five-Year Review. The objective of this audit was to perform the sixth five-year (January 1, 2020, through December 31, 2024) review of the operation of the Program as required by Anchorage Municipal Code subsection 3.87.070.A. Specifically, we reviewed the operation of the Program to determine whether it was being operated in compliance with Anchorage Municipal Code chapter 3.87, including the accuracy of monthly trust contributions and participant transactions.

Overall, based on our review, we found the Retiree Medical Funding Program for Police Officers and Firefighters was operated in compliance with Anchorage Municipal Code chapter 3.87. Trust contributions were properly adjusted annually for the Medical Consumer Price Index. In addition, we found that members' individual Health Reimbursement Agreement accounts were properly credited with the correct monthly contribution amount matching the members' class. Finally, we found that Prefunding was adequately funded as required by the Anchorage Municipal Code 3.87.060 and correct payments being made from Prefunding to the Retiree Medical Funding Program for Police Officers and Firefighters.

There was no finding in connection with this audit.

Alden P. Thern

Director, Internal Audit





October 15, 2025

**Internal Audit Report 2025-06**  
**Police and Fire Retiree Medical Trust Five-Year Review**  
**Human Resources Department**

**Introduction.** Anchorage Municipal Code (AMC) chapter 3.87, *Retiree Medical Funding Program for Police Officers and Firefighters*, establishes the Retiree Medical Funding Program for Police Officers and Firefighters (Program). The Program’s purpose “. . . is to provide those retirees receiving retirement benefits under the police and fire retirement system and who qualify as members of the program with a health reimbursement agreement (HRA) to cover the eligible medical expenses of the members, their spouses and eligible dependents.” In 2009, AMC section 3.87.050, *Eligibility for active municipal health insurance plan*, was amended to provide a monthly discount from the stated premium to all members purchasing municipal health insurance. The Program is staffed by a Plan Administrator and one administrative assistant. As of September 2025, there were 367 Program participants who received into their HRA accounts a monthly trust contribution ranging from \$548.62 to \$1,038.12 for a total of \$2,840,435 for the first nine months of 2025.

- **Municipal Contributions:** Program contributions are made solely by the Municipality of Anchorage (Municipality). The Municipality’s responsibilities under this funding program are limited to the following:
  - An initial prefunding contribution of \$2 million.
  - Monthly contribution for the benefit of each member of \$490 starting January 1, 1995, adjusted annually based on a set percentage of the national Medical Consumer Price Index (MCPI).



- An amount equal to 50 percent of the Medicare Part A Premium that the member is required to pay for part A coverage if, upon reaching the age of Medicare eligibility, a member is not eligible to participate in Medicare without paying the Medicare Part A Premium.
  - A payment in 2006 of \$9.8 million.
  - Funding for a trust program staff to administer the Program.
- **Health Reimbursement Arrangement:** The Program reimburses members and, as applicable, surviving spouses and dependents for medical expenses eligible under Section 213 of the Internal Revenue Code, including eligible long-term care premiums. According to AMC subsection 3.87.060J, *Eligible expense reimbursements*, “The program will not reimburse an expense incurred before the date . . . an employee first becomes enrolled in the HRA. The maximum dollar amount reimbursable shall not exceed the balance in the member’s account.”
  - **Surplus Distribution:** According to the Program’s Policy and Procedure Manual (Manual), “In 1995, the Trust received a \$2 million contribution from the Municipality. These funds are for expenses incurred in the Trust administration and to offset members’ increasing medical expense.

“The assets remaining after paying the projected administrative expenses during the life of the Trust are referred to as ‘surplus’.

“A surplus analysis will be performed annually by the Plan Administrator at the end of the third quarter and presented to the board for review. It is the board’s discretion whether to distribute the surplus after reviewing the analysis each year. A distribution WILL NOT occur in any year that an analysis does not indicate a surplus.”

The Program has distributed a monthly surplus payment to participants since 2013. For example, in 2025 the surplus paid each month to each participant ranged from \$68.33 for Class 4 members to \$112.46 for Class 1 members.

- **Monthly Premium Discount:** In 2009, AMC section 3.87.050 was amended to provide a monthly discount to all members purchasing municipal health insurance. For 2025, the discount was \$1,295.88. In addition, benefits provided to a surviving spouse and dependents were extended.
- **Prefunding Program:** Anchorage Municipal Code chapter 3.88, *Prefunding of Police and Fire Retiree Medical Program*, was “. . . established for the purpose of managing the funding necessary to meet the obligations of the municipality for the police and fire retiree medical funding program . . . and making contributions to the retiree medical funding program trust on the behalf of eligible members . . . .” The objective of the investment program is to accumulate Municipal assets “. . . though a 34-year prefunding program of regular annual deposits by the municipality and accumulated interest earnings so that the municipal obligation is fully funded, requiring no further deposits.” An annual municipal deposit to the investment program was established and has been adjusted as necessary to ensure full funding at the end of the year 2028. The prefunding included a payment by the Municipality of \$9.8 million in 2006, paid for with proceeds from the Retirement Certificates of Participation Debt Service Fund. The amount was based on the results of actuarial valuations and recommendations of the investment board. An actuarial valuation of the Municipality’s obligations to the funding program and the funding status of the investment program is completed, at a minimum, every three years. Although the prefunding program was not part of this audit, the information was included to help the reader understand Program funding.

- **Assembly Review:** Anchorage Municipal Code subsection 3.87.070A, *Assembly review*, states that “Every five years from January 1, 1995, the assembly will review the operation of the program including the amount of the initial monthly contribution established in Section 3.87.060 to be made by the municipality.”
- **Internal Audit Review:** Anchorage Municipal Code subsection 3.87.070B, *Internal audit review*, requires that “The Internal Auditor will perform an audit of the trust at least once every two years. The scope of the audit may include, but is not limited to, evaluating trust administrative costs, and reviewing enrollment and payment records for members purchasing health insurance through the Municipality.”

**Objective and Scope.** The objective of this audit was to perform the sixth five-year (January 1, 2020, through December 31, 2024) review of the operation of the Program as required by AMC subsection 3.87.070.A. Specifically, we reviewed the operation of the Program to determine whether it was being operated in compliance with AMC chapter 3.87, including the accuracy of monthly trust contributions and participant transactions.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**Overall Evaluation.** Based on our review, the Program was operated in compliance with AMC chapter 3.87. Trust contributions were properly adjusted annually for the MCPI. In addition, we found that members’ individual HRA accounts were properly credited with the correct monthly contribution

Internal Audit Report 2025-06  
Police and Fire Retiree Medical Trust Five-Year Review  
Human Resources Department  
October 15, 2025

amount matching the members' class. Finally, we found that Prefunding was adequately funded as required by the AMC 3.87.060 and correct payments being made from Prefunding to the Program.

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on October 9, 2025.

Audit Staff:  
Scott Lee