



## **Representative Lindsey Holmes**

### **House Bill 247 Sponsor Statement**

**An Act relating to the Protective Occupation Retirement Council; relating to participation of certain employees in the defined benefit and defined contribution plans of the public employees' retirement system; and providing for an effective date."**

In 2005, Alaska moved away from a defined benefit (DB) to a defined contribution (DC) retirement system for public employees hired after July 1<sup>st</sup>, 2006. The DC system, while protecting employers and taxpayers from incurring any additional unfunded liability, failed to mandate participation in social security or SBS, leaving many public safety employees without secure or sufficient income replacement. The DC system also did not take into account the shorter nature of careers in public safety. Failure to adequately fund any retirement system increases the likelihood of increased usage of the social welfare system.

Both the DB and DC plans contain risks and benefits to employees and employers. With a DB plan comes the advantage of professional money management, lower fees, pooled risk and long term investment strategies. However, employers carry significant risk if investment returns fall short or actuarial predictions prove inaccurate, which they are shielded from in a DC plan. Taking both of these points of view into account, the Variable Benefit Retirement System (VBRS) was developed.

The goal of the VBRS is to fund a retirement system for public safety employees through employee and employer contributions that will provide for self-sufficient retirees and protect employers and taxpayers from the liability suffered in the event of plan shortfalls. It affords public safety employees the distinct advantages and efficiencies of a DB plan by guaranteeing a benefit level and medical stipend, and affords employers the fiscal discipline and control of a DC plan by maintaining a fixed 22% employer contribution and adjusting benefit levels to address any changes in the size of the fund. Other features of the plan include:

- The ability to adjust COLA, minimum retirement ages, adjustable medical stipend and adjustable employees contribution rates to deal with shortfalls and maintain a healthy fund
- Protection against overtime-spiking
- Lower assumed growth rate (7%) to provide cushion against shortfalls

Alaska's public safety employees are faced with extremely taxing careers. Longevity is not assured and must be factored into any plan design created for public safety organizations. The VBRS represents not only a compromise between employees and employers, but presents those who risk their

lives to protect our state with a better opportunity to achieve security and self-sufficiency in retirement. Please join me in supporting our police and firefighters, and House Bill 247.