

# Alaska State Legislature

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## **REPRESENTATIVE Paul Seaton**

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### **HB 349 Sponsor Statement**

HB 349 would create a retirement reserve subaccount within the constitutional budget reserve (CBR) fund for the purpose of holding \$3 billion from which annual transfers would be made to the PERS/TRS Trust Fund, only in the amount for annual retirement system payments, and only if needed.

There is concern for the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) unfunded liability (when assets are less than accrued liability). Accrued liability is the expected value of pension benefits earned through a particular point in time. Alaska closed its defined benefits program in 2006 and the number of active employees earning defined benefit pension rights is declining, slowing the upward trend in accrued liability. However, state retirement assistance will soon exceed \$1 billion annually and is a major contributor to the state's projected budget deficits. The state's unfunded liability demands action so the legislature must decide where payments will come from, how much should be paid and when they will pay it.

HB 349 directs the Alaska Department of Revenue to move \$3 billion of the CBR into the retirement reserve subaccount of the CBR, created by this bill. This structure will assure that long-term investments can grow and are not spent down. We can then continue with lower annual payments as the combined assets of the PERS/TRS trust fund plus the reserve account lowers the unfunded liability, making it both more affordable to the state and appropriate for a closed retirement system.

Two scenarios may cause the unfunded liability to disappear at some future date. Actions are currently being considered by other committees to lower acceleration of healthcare costs, and investment returns could be higher than projected. If the unfunded liability disappears the legislature could recover the general tax revenues that were deposited into the reserve account. If the general fund tax dollars were deposited into the existing PERS/TRS trust fund, they could not be recovered and would need to be given to Defined Benefit retirees as Post Retirement Pension Adjustments in addition to the Cost of Living Allowance.

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