HB 55- Shared-Risk Hybrid Retirement Plan for Peace Officers and Fire Fighters

Features

A hybrid between a pension (defined benefit system) and Tier 4's defined contribution system.

Risk in this plan is shared between employees, employers, and retirees. This plan has many features—or "levers"—that have been designed to keep the plan solvent.

Cost Saving Features

- No retirement medical insurance, medical benefit is the same as Tier 4 (a Health Reimbursement Arrangement).
- Fixed age of retirement: age 55 with 20 years of service or 60 years with 5 years of service (instead of any age after 20 years of service in earlier DB tiers).
- Retirement income calculation is an average of consecutive high 5 salary years (instead of 3 years in prior PERS tiers).
- No Cost-of-Living Adjustment (COLA).

Plan Asset Enhancement/Adjustments

- Post Retirement Pension Adjustment (inflation proofing): may be withheld if plan's funding level falls below 90%.
- Employee contributions rates can be increased by the ARM Board.
- Employer contribution to employee retirement benefit 22% (same as other Tiers) with 12% mandatory to employee benefit, remaining 10% to current plan unfunded liability.

Recruitment and Retention- The Cost of the Status Quo

A major challenge for public safety employers across the state is recruitment and retention. **The high turnover of employees is a serious drain on public resources.**

- Public safety leaders from across the state have testified that Alaska has become a training ground and public safety employees are being recruited by other states and political subdivisions with more attractive retirement options.
- Retirement benefits are a key factor in recruitment and retention of quality staff- "… the inability to provide a defined benefit retirement system [has] placed the department at critically low staffing levels." *-DPS Recruitment and Retention Plan Overview 2018-2023*
- Average training cost for a new public safety employee is $120,000 (some job classes like Airport Police and Fire have training costs twice as high). Using an estimate of 3% turn over (lower than most employers are currently experiencing) would mean a training cost of $12,240,000 statewide annually.
- Other unforeseen costs include:
    - Increased overtime costs due to inadequate staffing
    - Loss of operational capabilities
    - Loss of experience and future leadership
    - Rise in organizational stress levels

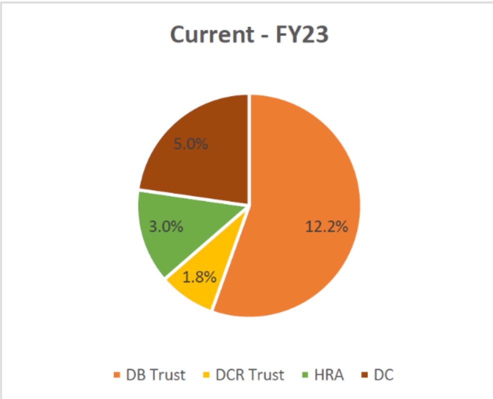
Cost of the Plan

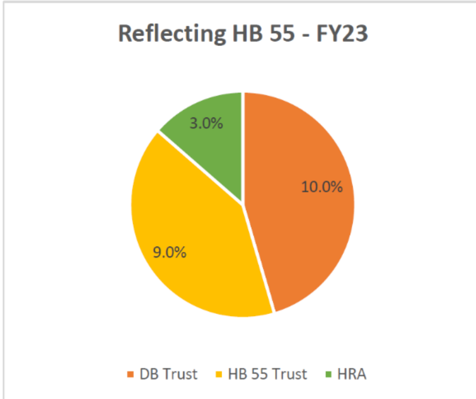
The fiscal note for this bill is based on an analysis by Buck Global, the actuary for the Division of Retirement and Benefits. It reflects an increase in the amount the state would need to pay to its own defined benefits trust toward paying off the unfunded liability. **This is not an increased cost directly related to the administration of the new tier.**

Currently, under AS 39.35.280, the state contribution rate is based on the actuarially determined rate and all other employers have a determined rate of 22%. The state pays the difference between the 22% and the determined state contribution rate.

The additional contributions needed under HB 55 result from 2.2% more of employer contributions to the plan going towards employee retirement benefits instead of paying down the PERS unfunded liability.

- In other plans 12.2% of employer contributions goes to the Defined Benefit Trust to offset the unfunded liability.
- HB 55 provides that only 10% of employer contributions go towards the PERS unfunded liability so the state will have to make up the 2.2% difference.





($ millions)	FY23	FY24	FY25	FY26	FY27	5-Year Total
Increase in Additional State Contributions Under HB 55	$5.3	$5.6	$6.1	$5.7	$5.7	$28.4

Sustainability of the plan

The shared-risk hybrid plan is designed conservatively and specifically aims to avoid any future unfunded liability.

- Flick Fornia of Pension Trustee Advisors analyzed this plan in various 20-year market scenarios-
  - Best case scenario- 1986 to 2006
  - Middle scenario- 1995 to 2015
  - Worst scenario- 2000 to 2020- In the worst-case market scenario this plan would dip below 90% funded (causing the ARM board to put the built-in triggers into action) but would recover quickly.