

Via Electronic Mail

March 20, 2025

Representative Chuck Kopp
House District 10
Alaska House Majority Leader

Re: Estimates of the Impact of HB 78

Dear Representative Kopp:

At your request, Cheiron has prepared estimates of the projected costs of HB 78. The purpose of this letter is to present the results of our analysis and to provide a summary of the information we relied upon and the methods and assumptions employed in our analysis.

In preparing our estimates, we relied on information (some oral and some written) supplied by the Alaska House of Representatives and Gallagher/Buck. Information provided by the Alaska House of Representatives included the benefit provisions contained in House Bill 78, namely:

1. HB 78 Summary Table
2. HB 78 Version A
3. HB 78 Sectional Analysis

Information provided by Gallagher/Buck included detailed worksheets for four scenarios, used for their analysis of SB 88 in 2024, as follows:

1. Scenario 1A – 100% of current DC members and future hires join the DB plan, using the DB retirement/turnover assumptions
2. Scenario 1B – 0% of current DC members and 100% of future hires join the DB plan, using the DB retirement/turnover assumptions
3. Scenario 2A – 100% of current DC members and future hires join the DB plan, using the DC retirement/turnover assumptions
4. Scenario 2B – 0% of current DC members and 100% of future hires join the DB plan, using the DC retirement/turnover assumptions

The data underlying the Gallagher/Buck scenarios was the June 30, 2023 census data, which was used for their June 30, 2023 actuarial valuations.

The provisions of HB 78 generally mirror SB 88 from the 2024 Session, with the following notable changes that impact our cost estimates:

1. Safety members will receive HRA contributions of 4% instead of 3%.

2. We removed the 50% reduction for the PRPA COLA for members who move outside of the State of Alaska.

Our methodology initially involved reviewing and verifying the Gallagher/Buck results for the four scenarios. We then made adjustments to the Gallagher/Buck scenarios in order to estimate the impact of the HB 78 benefit design changes noted above.

The results of our analysis of the four scenarios are summarized in the table below, which presents the present value as of July 1, 2025 of total State cost increase/(decrease) over the current plan for fiscal years 2026 through 2039.

		Present Value of Cost*		
		% Transfer	Increase/(Decrease)	
Scenario	Assumptions	to DB	FY 2026-2039	
1A	DB	100%	\$	583.7
1B	DB	0%	\$	467.3
2A	DCR	100%	\$	(124.7)
2B	DCR	0%	\$	85.5

We have attached a table which breaks down the cost impact in greater detail.

Actuarial Assumptions

1. The assumptions used in this analysis are the same as those underlying the Gallagher/Buck Scenarios, which are outlined in their SB 88 Fiscal Note Analysis letter dated April 15, 2024. These are generally reasonable and are the same assumptions used in the Gallagher/Buck June 30, 2023 State of Alaska Actuarial Valuations, except for modifications made to the turnover and retirement assumptions. With respect to those modifications, we are unable to verify their reasonableness, which is why we present four scenarios with varying turnover and transfer rates.
2. Assumptions required for our estimates of the impact of the HB 78 benefit design changes are the same assumptions used in the preceding paragraph.

Economic Impact

Our analysis was limited to the potential actuarial impact of HB 78 on the State's retirement plan costs. It is important to recognize that HB 78 will also have a significant economic impact on the State. For example, if one believes that the passage of HB 78 will not impact membership turnover,

then it is most likely that the pension cost impact will be a savings to the State close to those shown in Scenario 2A. If one believes that HB 78 will impact membership behavior, then the likely pension cost of the Bill would be closer to (but less than) the cost impact shown in Scenario 1A. If that were to occur, then by definition, there will be significantly more plan members that remain longer in State employment, which as we understand, is one of the goals of HB 78. (Attached are some slides prepared by the National Institute on Retirement Security (NIRS) which indicate that Alaska's turnover experience has been much higher than other states,)

In order to quantify the economic impact, a qualified economist should be retained to:

- examine the trends in Alaska's turnover since the DB plan was closed, comparing it to states maintaining DB plans,
- explore the economic costs of recruitment and training due to increased turnover,
- estimate the potential savings from retaining experienced employees,
- review academic literature on how DB plans affect employee satisfaction and productivity,
- examine case studies from other states that have either reinstated or maintained DB plans, and
- model the long-term fiscal and economic impacts of reinstating a DB plan in Alaska.

Disclosures

The estimates in this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of HB 78 could vary from our results.

This report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. I am not an attorney, and our firm does not provide any legal services or advice.

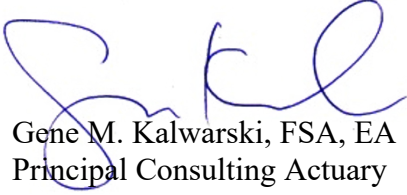
This report was prepared exclusively for the Alaska House of Representatives for the purpose described herein. Other users of this report are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to such other users.

The results provided herein for the four Scenarios are estimates of the impact of HB 78. We understand that these estimated results will be replaced by the Gallagher/Buck HB 78 Fiscal Note analysis, which is expected to become available in late April. It is our understanding that the Gallagher/Buck Fiscal Note costs will be based on updated census data as of the June 30, 2024 census and could potentially include different assumptions than were used for their SB 88 analysis in 2024.

Rep. Chuck Kopp
March 20, 2025
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Please let me know if you have any questions regarding our analysis.

Sincerely,
Cheiron



Gene M. Kalwarski, FSA, EA
Principal Consulting Actuary

Attachment

cc: Brodie Anderson
Julia O'Connor
Michael Moehle, Cheiron

ATTACHMENT

Summary of Results Based on June 30, 2023 Valuation									
Projected Contributions from FY 2026-2039 (\$ Millions)									
	Current	HB 78	Inc/(Dec)	Current	HB 78	Inc/(Dec)	Current	HB 78	Inc/(Dec)
Scenario 1A - DB Assumptions and 100% Transfer									
Additional State Contributions (PERS and TRS)									
	PERS*			TRS			Sum of State Costs FY 2026-2039		
Total	1,779.6	2,184.4	\$ 404.7	2,699.7	2,716.9	\$ 17.2	10,575.6	11,654.7	\$ 1,079.2
State-as-an-Employer Contributions (PERS/PERS DCR)									
	DB			DCR			Present Value as of July 1, 2025		
Total	4,487.9	6,154.7	\$ 1,666.8	1,608.3	598.8	\$ (1,009.5)	6,324.0	6,907.6	\$ 583.7
Scenario 1B - DB Assumptions and 0% Transfer									
Additional State Contributions (PERS and TRS)									
	PERS*			TRS			Sum of State Costs FY 2026-2039		
Total	1,779.6	2,196.3	\$ 416.7	2,699.7	2,772.2	\$ 72.5	10,575.6	11,507.9	\$ 932.3
State-as-an-Employer Contributions (PERS/PERS DCR)									
	DB			DCR			Present Value as of July 1, 2025		
Total	4,487.9	5,591.4	\$ 1,103.5	1,608.3	947.9	\$ (660.4)	6,324.0	6,791.2	\$ 467.3
Scenario 2A - DCR Assumptions and 100% Transfer									
Additional State Contributions (PERS and TRS)									
	PERS*			TRS			Sum of State Costs FY 2026-2039		
Total	1,779.6	1,843.0	\$ 63.4	2,699.7	2,466.5	\$ (233.2)	10,575.6	10,502.4	\$ (73.1)
State-as-an-Employer Contributions (PERS/PERS DCR)									
	DB			DCR			Present Value as of July 1, 2025		
Total	4,487.9	5,634.5	\$ 1,146.6	1,608.3	558.4	\$ (1,049.9)	6,324.0	6,199.2	\$ (124.7)
Scenario 2B - DCR Assumptions and 0% Transfer									
Additional State Contributions (PERS and TRS)									
	PERS*			TRS			Sum of State Costs FY 2026-2039		
Total	1,779.6	1,960.2	\$ 180.6	2,699.7	2,599.7	\$ (100.0)	10,575.6	10,828.4	\$ 252.9
State-as-an-Employer Contributions (PERS/PERS DCR)									
	DB			DCR			Present Value as of July 1, 2025		
Total	4,487.9	5,326.2	\$ 838.3	1,608.3	942.3	\$ (666.0)	6,324.0	6,409.5	\$ 85.5