

# **The Economics and Fiscal Effects of House bill 78**

**Teresa Ghilarducci, Ph.D.**

**Bernard L. & Irene Schwartz Professor of Economics**

**The New School**

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# The Fiscal Note: Incomplete By Design

- **Projected additional cost of HB 78**  
(\$1.15B (FY27–FY39) (\$89M per year– maximum cost)
- **Fiscal note does NOT include economic dynamic factors:**
  1. Vacancy-driven premium pay due to excess exits
  2. Recruitment and training expenses due to excess exits
  3. Productivity losses from workforce instability
  4. Investment efficiency differences (DB vs DC)

# HB 78 Reduces Premium Pay: \$140M

- FY20: \$83.8M: FY25: \$150M (79% increase)
- FY26 projection: \$200M;
- Budgeted baseline: \$60.7M
- **Excess vacancy-driven premium pay ≈ \$140M**

Agency	FY20 Premium Pay	FY25 Premium Pay	% Increase (FY20–FY25)
Transportation & Public Facilities	\$28,041,998	\$53,713,071	92%
Corrections	\$20,517,829	\$39,280,387	91%
Public Safety	\$10,104,757	\$17,392,554	72%
Natural Resources	\$6,764,107	\$10,999,071	63%
<b>TOTAL (All Agencies)</b>	<b>\$83,762,467</b>	<b>\$149,693,080</b>	<b>79%</b>

# HB 78 Reduces **Direct Turnover Costs \$62M**

- **Estimated replacement costs:**
  - ~ **\$124M per year**
- **Assume 50% reduction →**
  - ~ **\$62M annual savings**
  
- Workforce: 30,000 employees
- Average salary: \$69,000
- Turnover rate: 6% annually

# HB 78 Increases Investment Return: \$14M

- DB vs DC returns: DB plans earn  $\approx$  0.7 percentage points more
- Alaska DC assets:  $>$  \$2B

**Estimated annual return differential:  $\approx$  \$14M**

# **The Fiscal Comparison: Benefits are Higher than the Costs**

## **Identifiable instability costs (annual):**

- Excess premium pay: \$140M
- Turnover replacement savings (50%): \$62M
- Investment differential: \$14M

**Total: \$216M**

**Annual HB 78 cost: \$89M**

**Net estimated annual savings: ~\$127M**

# Conclusion

- **HB 78 is not a pension expansion.**
- **HB 78 IS a workforce stabilization policy**
- **Pension design affects retention**
- **Retention affects operating costs**
- **Current instability costs exceed projected reform costs.**