



# Equable Testimony on Alaska's Retirement Options

Senate Finance Committee Hearing

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# WHO IS EQUABLE?

Equable is a bipartisan nonprofit that works with public retirement system stakeholders to solve complex pension funding challenges with data-driven solutions. It is also our belief that retirement plans offered to public employees can be sustainable and offer all public employees an opportunity to be put on a path to a secure retirement.

# ASSESSMENTS WITH THE RETIREMENT SECURITY REPORT

## The Retirement Security Report (RSR for Short) aims to:

- Offer an objective measurement of the quality of benefits against a series of measures that reflect best practices or if plan members are being placed on a path to a secure retirement.
- Weighs plans against these measures, not against one another.
- Assesses the quality of benefits for members across the entirety of their careers, not just whether they will be taken care of after a full career in the plan.

# RETIREMENT SECURITY REPORT BREAKDOWN:

<u>Short-Term Workers (10 YOS or Less)</u>	<u>Medium-Term Workers (10-20 YOS)</u>	<u>Full Career Workers (More than 20 YOS)</u>
<b>Income Adequacy (15 points)</b>	<b>Income Adequacy (15 points)</b>	<b>Income Adequacy (25 points)</b>
<b>Eligibility: Vesting (5 points)</b>	<b>Flexibility &amp; Mobility: Refunding Policy (5 points)</b>	<b>Income Adequacy: COLA Policy (5 points)</b>
<b>Flexibility &amp; Mobility: Refunding Policy (5 points)</b>	<b>Flexibility &amp; Mobility: Crediting Interest Rate (5 points)</b>	
<b>Flexibility &amp; Mobility: Crediting Interest Rate (5 points)</b>	<b>Income Adequacy: COLA Policy (5 points)</b>	

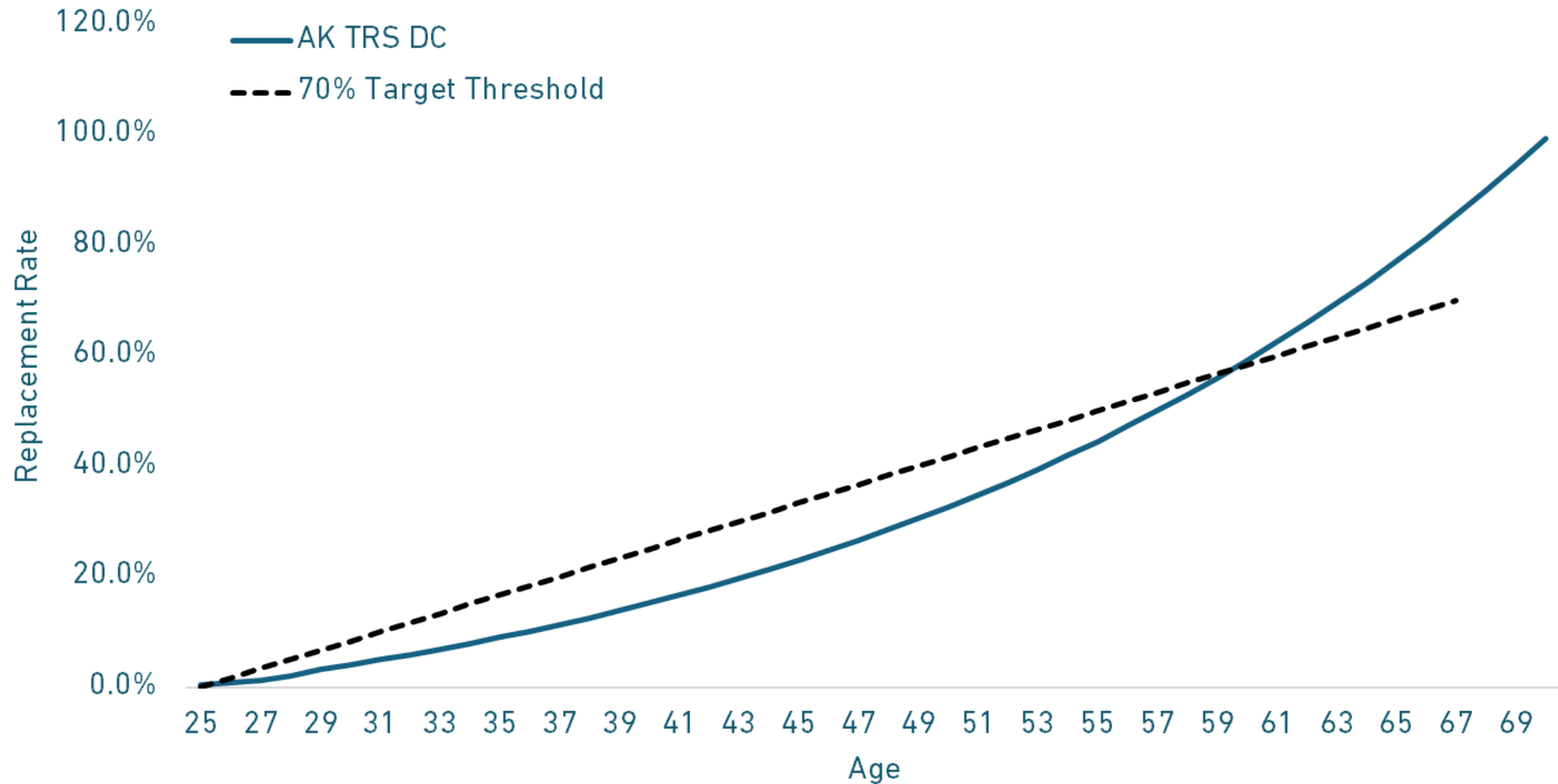
Grading criteria differ by plan type. Blue cells represent criteria used in all plan types. White cells are those that are adjusted for DC plans. Yellow cells are those only for FAS Pensions or Hybrid plans.

# ALASKA'S CURRENT BENEFITS AT A GLANCE:

	<u>Short-Term Workers</u>	<u>Medium-Term Workers</u>	<u>Full Career Workers</u>	<u>Overall</u>
Public Employees Retirement System-General (PERS)	<b>15.51 out of 30 (51.70%)</b>	<b>15.70 out of 30 (52.34%)</b>	<b>30 out of 30 (100.00%)</b>	<b>20.40 out of 30 (68.01%)</b>
Public Employees Retirement System-Public Safety (PERS)	<b>12.38 out of 30 (41.27%)</b>	<b>11.54 out of 30 (38.47%)</b>	<b>24.81 out of 30 (82.69%)</b>	<b>16.24 out of 30 (54.14%)</b>
Teachers Retirement System (TRS)	<b>15.85 out of 30 (52.85%)</b>	<b>16.88 out of 30 (56.28%)</b>	<b>30 out of 30 (100.00%)</b>	<b>20.91 out of 30 (69.71%)</b>

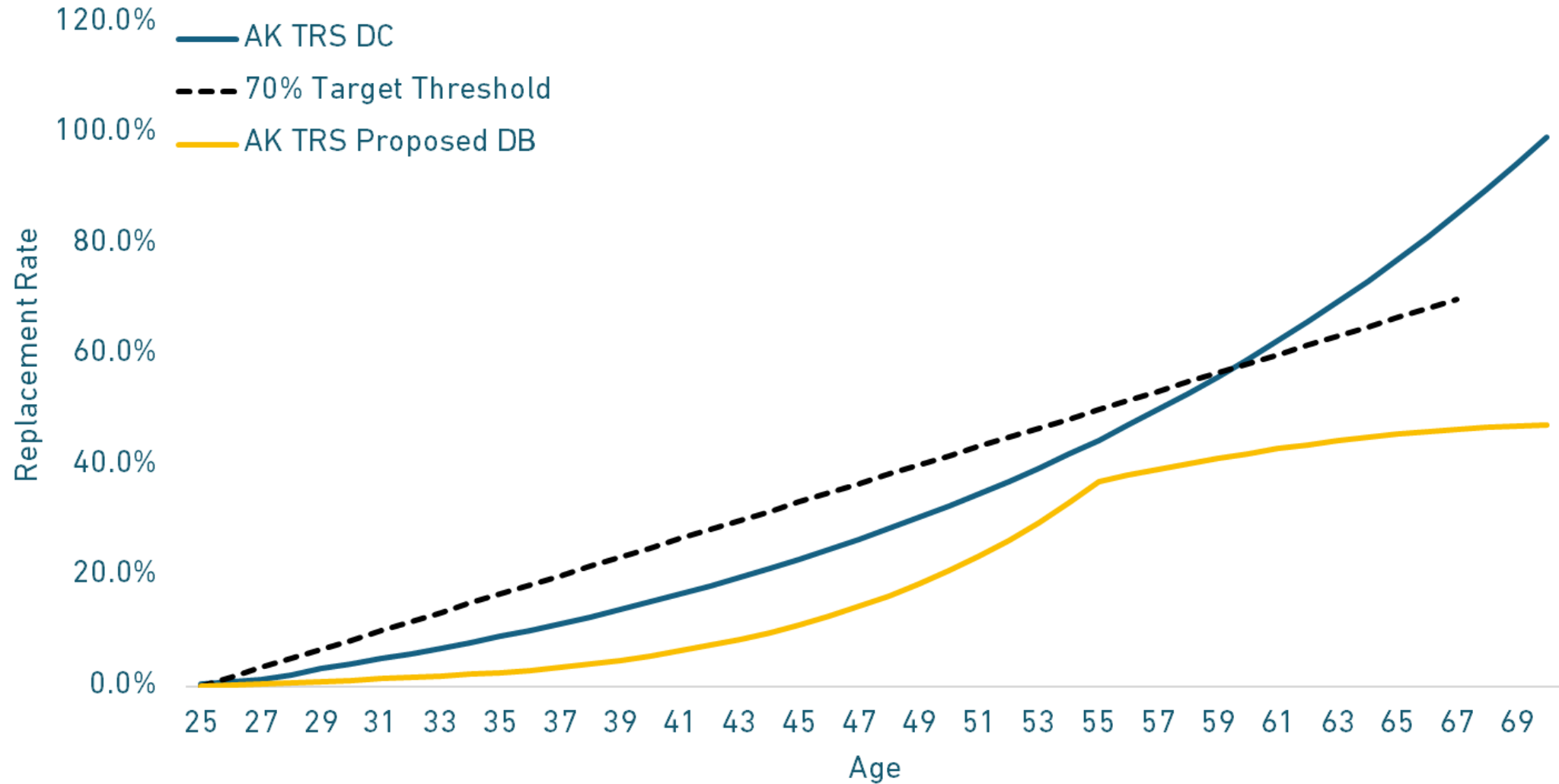
# A CLOSER LOOK AT ALASKA TRS

ESTIMATED VALUE OF BENEFITS | CONTRASTED AGAINST 70% REPLACEMENT TARGET LINE



# HB78 BENEFITS BY COMPARISON FOR ALASKA TRS

ESTIMATED VALUE OF BENEFITS | COMPARING BOTH EXISTING AND PROPOSED VS TARGET



Using our modeling criteria, the new pension proposed under HB78 performs a little worse across the board, leaving us to conclude that it would be a slightly worse benefit.

## COMPARING PERFORMANCE

AK TRS DC VS HB78 | SCORES BY GROUP

<u>GROUP</u>	<u>AK TRS DC</u>	<u>AK TRS DB UNDER HB78</u>
Short-Term Workers	<b>15.85 out of 30 (52.84%)</b>	<b>11.98 out of 30 (39.92%)</b>
Medium-Term Workers	<b>16.88 out of 30 (56.28%)</b>	<b>14.51 out of 30 (48.38%)</b>
Full Career Workers	<b>30 out of 30 (100.00%)</b>	<b>20.62 out of 30 (68.74%)</b>
Overall	<b>20.91 out of 30 (69.71%)</b>	<b>15.70 out of 30 (52.35%)</b>

# LIMITATIONS TO THE RSR AND CAVEATS

- Recall the objective of the RSR is not to compare plans, but to compare them against benchmarks and best practices. Simply because a plan performs worse here, does not mean that all public employees will be worse off under the proposed plan.
- While the estimated benefits for the new pension are worse than the existing defined contribution plan those estimates operate on the assumption that markets remain stable, and the DC plan earns a consistent return.
- The RSR does not factor in funding policy in its evaluation and is limited to the measures we examine.

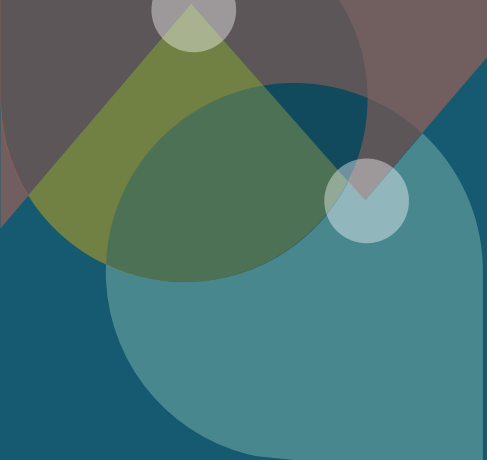
# RETIREMENT POLICY CHANGES REQUIRE TRADE-OFFS

## Positive Elements of HB78

- The pension includes risk-sharing policies that will help ensure funding stability and protect against unfunded liabilities.
- Pensions provide guaranteed income which removes longevity risk and can provide some members greater security.
- The variable multiplier would reward members that remain in the system for longer periods of time, which might encourage retention.

## Negative Elements of HB78

- Funding policies proposed do NOT include a reduction in actuarial assumptions, namely the assumed rate of return, which exposes the new pension to investment risk.
- Pensions offer reduced portability which matters for both Short- and Medium-Term workers.
- Removing the DC plan as an option limits the share of members being served by the plan.



The decision whether a new pension makes sense for Alaska's workers is up to the legislature. HB78 as proposed has several good policies and is well thought out. But it also has areas that could be improved, such as modifying the funding assumptions and retaining the DC plan as an option for workers that won't remain for their full career.

