

REBUTTAL BRIEF: Equable Institute Analysis of House Bill 78

DISTRIBUTED BY OFFICE OF REP. CHUCK KOPP

This brief explains the technical limitations of the Equable Institute's Retirement Security Policy Scorecards evaluating HB 78.

WHAT EQUABLE MEASURED

Equable compares the projected retirement value of Alaska's current Defined Contribution (DC) system to the proposed Defined Benefit (DB) system under HB 78. They calculate a 'total value' using assumed long-term investment returns and standard actuarial discount rates. Notably, their conclusion of "moderately worse" is based on projected average outcomes under stable market assumptions—not on risk-adjusted or real-world volatility scenarios.

THE DETERMINISTIC RETURN ASSUMPTION

Equable assumes that DC investments grow at a steady long-term average return. In reality, markets do not grow smoothly. Returns are volatile. Because the model assumes smooth growth, it does not account for market crashes or downturns occurring at critical moments—such as right before or just after retirement.

SEQUENCE-OF-RETURNS RISK

Sequence-of-returns risk means the order of investment gains and losses matters. If a retiree experiences large market losses early in retirement while withdrawing funds, their account may never recover, even if average returns later are strong. Defined Contribution plans expose individuals to this timing risk. Defined Benefit pensions remove that risk by pooling investment performance across all members.

RISK VS. AVERAGE RETURN

Equable compares expected average account value in a DC plan to guaranteed lifetime income under a DB plan using similar discount assumptions. However, a guaranteed benefit and a market-dependent account are not equivalent. Proper financial comparison would adjust for volatility and downside risk. That adjustment is not included in the scorecards.

LONGEVITY RISK

In a DC plan, individuals risk outliving their savings. In a DB pension, longevity risk is pooled across the system and actuarially managed. Equable measures projected value but does not measure probability of running out of money.

PUBLIC SAFETY OUTCOMES

Equable's own projections show that medium-term and full-career public safety officers receive higher projected lifetime retirement benefits under the proposed HB 78 structure. The lower overall rating does not mean benefits decline across the board. It reflects how their scoring system weights portability and early-career mobility. DC plans score well when you prioritize short-term flexibility. But Alaska's problem isn't portability — it's retention. We are losing trained employees and paying extraordinary premium pay to backfill those vacancies. HB 78 is designed to stabilize that workforce and improve lifetime income security for career public safety professionals. The Equable score reflects a methodological preference, not diminished outcomes for the men and women who dedicate their careers to protecting Alaskans.

FUNDING SAFEGUARDS IN HB 78

HB 78 includes shared-risk features such as contribution adjustments if funding drops below certain levels, and conditional benefit adjustments. These safeguards differ significantly from legacy pension designs. The Equable analysis acknowledges these features but does not dynamically model how they stabilize funding over time.

ALASKA DRB YEAR-FOR-YEAR DB VS DC COMPARISONS (FEB. 23, 2023 — SENATE FINANCE)

In February 2023, the Department of Administration's Division of Retirement and Benefits (DRB) presented a direct, year-for-year comparison of Alaska's closed DB tiers versus the current DC tiers, using consistent assumptions for salary growth, investment returns, and annuity conversion. This provides an Alaska-specific illustration of why "average return" modeling overstates DC retirement security and understates the value of pooled lifetime income.

KEY DC ASSUMPTIONS USED IN DRB COMPARISON

- 2.75% annual wage growth
- 7.00% annual investment return
- Retirement at age 60
- Average life expectancy to age 85
- DC balance converted to annuity using 5.89% payout rate (25-year payout period)

DB DELIVERS HIGHER INCOME EARLIER AND MORE PREDICTABLY —REPLACEMENT RATES

PERS (All Other): Tier III (DB) vs Tier IV (DC)

Years of Service	DB %	DC %	Years of Service	DB %	DC %
5 years	9.48%	5.75%	20 years	40.29%	31.99%
10 years	18.96%	12.80%	25 years	52.13%	44.92%
15 years	29.62%	21.42%	30 years	63.98%	60.77%

PERS (Peace Officers/Firefighters): Tier III (DB) vs Tier IV (DC)

Years of Service	DB %	DC %	Years of Service	DB %	DC %
5 years	9.73%	5.75%	20 years	43.81%	31.99%
10 years	19.47%	12.80%	25 years	55.97%	44.92%
15 years	31.64%	21.42%	30 years	68.14%	60.77%

TRS (Teachers): Tier II (DB) vs Tier III (DC)

Years of Service	DB %	DC %	Years of Service	DB %	DC %
5 years	9.73%	6.64%	20 years	38.94%	36.91%
10 years	19.47%	14.76%	25 years	51.11%	51.84%
15 years	29.20%	24.72%	30 years	63.28%	70.12%

What it implies for policy: Matching DB outcomes in DC requires materially higher employer contributions and still does not remove timing or longevity risk.

DRB also modeled how much employer contribution would need to rise in DC to approach DB-level replacement. For example, increasing the PERS DC employer contribution from 5% to 7% raises projected replacement for "All Other" members at 25 years from 44.92% to 51.84%, and at 30 years from 60.77% to 70.12%. This illustrates that DC "value" is extremely sensitive to contribution levels and still depends on favorable market timing.

ACTUAL ALASKA DC EXPERIENCE (2/1/2023): MOST MEMBERS ARE BELOW PROJECTED DC SCENARIOS

DRB compared projected DC replacement rates to actual outcomes for current DC members grouped by comparable salaries, all salaries, and those whose balances were at or above a 7% return projection. The data show that most members fall short of the projected DC replacement rates, and only a subset achieve balances consistent with a 7% return path.

EXAMPLES:

- PERS All Other, 10 years of service: DB projected 18.96%; DC projected 12.80%; actual DC replacement ~11.06% across all salaries (402 members), and 13.97% among those whose balances met or exceeded the 7% return projection (56 members).
- TRS Teachers, 10 years of service: DB projected 19.47%; DC projected 14.76%; actual DC replacement ~12.48% across all salaries (196 members), and 15.91% among those meeting or exceeding the 7% return projection (10 members).

Taken together, the DRB presentation reinforces the core critique of Equable's approach: deterministic, average-return modeling can make DC appear "close" to DB on paper, while Alaska's own year-for-year and actual-data comparisons show the DB structure delivers more reliable income and the DC structure routinely under-delivers unless contribution rates are increased and market timing cooperates.

WHAT IS NOT MODELED

The Equable scorecards evaluate retirement benefit value only. They do not model workforce impacts:

- Vacancy-driven overtime and premium pay growth
- Recruitment and retention costs
- Payroll instability caused by turnover

While these factors fall outside traditional pension math, they are fiscally relevant when evaluating system design.

CONCLUSION

The Equable analysis is incomplete. It compares expected average DC wealth under stable assumptions to guaranteed DB income without adjusting for volatility, timing risk, or longevity risk.

Policymakers should interpret Equable's "moderately worse" label as a reflection of expected-value modeling under smooth return assumptions—not as a full risk-adjusted retirement security analysis.