

Department of Administration

Division of Retirement and Benefits

HB 78 - Public Employees' Retirement System (PERS),
Teachers' Retirement System (TRS)

Senate Finance Committee

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Defined Benefit (DB) History

- First DB plan established 1875 by the American Express Company
 - Age 60 or older with 20 years of service
 - Life expectancy in 1875 was 40 to 44 years
 - Many employees did not reach retirement eligibility or received benefits for very few years
- PERS established 1962, TRS established 1955
- As unfunded liability increased, each plan created new tiers of lesser benefits
- PERS Tier II-1986, Tier III-1996, Change to Defined Contribution (DCR) 2006
TRS Tier II 1990, Change to DCR 2006
- HB 78 retirement is 30 years service
 - Life expectancy in 2026 is 81 for women, 76 for men
 - Current DB tiers are paying benefits for longer than members worked to earn them in many instances



Updated DB and DCR Benefit Comparison



PERS Peace Officers/Firefighters

Comparison of Tier III (DB) vs Tier IV (DC)

	Sample Employee #1 - Retire at Age 50				Sample Employee #2 - Retire at Age 55			
	DB	DC	DC	DC	DB	DC	DC	DC
		10% Return	12% Return	12.8% Return		10% Return	12% Return	10.7% Return
Years of Service at Retirement	25	25	25	25	30	30	30	30
Salary at Retirement	\$ 118,222	\$ 118,222	\$ 118,222	\$ 118,222	\$ 135,396	\$ 135,396	\$ 135,396	\$ 135,396
Annual Benefit at Retirement	\$ 64,403	\$ 51,102	\$ 68,525	\$ 77,199	\$ 89,794	\$ 94,384	\$ 136,114	\$ 106,571
Annual Benefit at 10 Years After Retirement	\$ 69,387	\$ 51,102	\$ 68,525	\$ 77,199	\$ 97,340	\$ 94,384	\$ 136,114	\$ 106,571
Annual Benefit at 20 Years After Retirement	\$ 81,520	\$ 51,102	\$ 68,525	\$ 77,199	\$ 117,210	\$ 94,384	\$ 136,114	\$ 106,571
Present Value of Benefit at Retirement*	\$ 1,511,032	\$ 1,000,229	\$ 1,341,258	\$ 1,511,032	\$ 1,935,661	\$ 1,714,316	\$ 2,472,258	\$ 1,935,661
Total Employee Contributions	\$ 158,786	\$ 169,372	\$ 169,372	\$ 169,372	\$ 205,626	\$ 219,334	\$ 219,334	\$ 219,334

	Sample Employee #3 - Retire at Age 60				Sample Employee #4 - Retire at Age 65			
	DB	DC	DC	DC	DB	DC	DC	DC
		10% Return	12% Return	9.3% Return		10% Return	12% Return	8.0% Return
Years of Service at Retirement	35	35	35	35	40	40	40	40
Salary at Retirement	\$ 155,066	\$ 155,066	\$ 155,066	\$ 155,066	\$ 177,592	\$ 177,592	\$ 177,592	\$ 177,592
Annual Benefit at Retirement	\$ 121,203	\$ 174,010	\$ 270,814	\$ 149,191	\$ 159,842	\$ 324,139	\$ 545,994	\$ 194,938
Annual Benefit at 10 Years After Retirement	\$ 142,396	\$ 174,010	\$ 270,814	\$ 149,191	\$ 192,472	\$ 324,139	\$ 545,994	\$ 194,938
Annual Benefit at 20 Years After Retirement	\$ 171,465	\$ 174,010	\$ 270,814	\$ 149,191	\$ 231,763	\$ 324,139	\$ 545,994	\$ 194,938
Present Value of Benefit at Retirement*	\$ 2,468,709	\$ 2,879,385	\$ 4,481,228	\$ 2,468,709	\$ 2,870,466	\$ 4,772,951	\$ 8,039,773	\$ 2,870,466
Total Employee Contributions	\$ 259,270	\$ 276,554	\$ 276,554	\$ 276,554	\$ 320,707	\$ 342,087	\$ 342,087	\$ 342,087

*PV of DB benefit includes future PRPAs. PV of DC benefit does not include future increases. If the DC member were to use their accumulated account balance to purchase an increasing annuity, the amount of the initial benefit would be less than what is shown in this exhibit.



PERS Others

Comparison of Tier III (DB) vs Tier IV (DC)

	Sample Employee #1 - Retire at Age 55				Sample Employee #2 - Retire at Age 60			
	DB	DC	DC	DC	DB	DC	DC	DC
		10% Return	12% Return	10.3% Return		10% Return	12% Return	9.0% Return
Years of Service at Retirement	30	30	30	30	35	35	35	35
Salary at Retirement	\$ 135,396	\$ 135,396	\$ 135,396	\$ 135,396	\$ 155,066	\$ 155,066	\$ 155,066	\$ 155,066
Annual Benefit at Retirement	\$ 84,311	\$ 94,384	\$ 136,114	\$ 100,064	\$ 114,440	\$ 174,010	\$ 270,814	\$ 140,868
Annual Benefit at 10 Years After Retirement	\$ 91,396	\$ 94,384	\$ 136,114	\$ 100,064	\$ 134,451	\$ 174,010	\$ 270,814	\$ 140,868
Annual Benefit at 20 Years After Retirement	\$ 110,053	\$ 94,384	\$ 136,114	\$ 100,064	\$ 161,898	\$ 174,010	\$ 270,814	\$ 140,868
Present Value of Benefit at Retirement*	\$ 1,817,466	\$ 1,714,316	\$ 2,472,258	\$ 1,817,466	\$ 2,330,972	\$ 2,879,385	\$ 4,481,228	\$ 2,330,972
Total Employee Contributions	\$ 185,063	\$ 219,334	\$ 219,334	\$ 219,334	\$ 233,343	\$ 276,554	\$ 276,554	\$ 276,554

	Sample Employee #3 - Retire at Age 65			
	DB	DC	DC	DC
		10% Return	12% Return	7.7% Return
Years of Service at Retirement	40	40	40	40
Salary at Retirement	\$ 177,592	\$ 177,592	\$ 177,592	\$ 177,592
Annual Benefit at Retirement	\$ 151,545	\$ 324,139	\$ 545,994	\$ 184,819
Annual Benefit at 10 Years After Retirement	\$ 182,481	\$ 324,139	\$ 545,994	\$ 184,819
Annual Benefit at 20 Years After Retirement	\$ 219,732	\$ 324,139	\$ 545,994	\$ 184,819
Present Value of Benefit at Retirement*	\$ 2,721,459	\$ 4,772,951	\$ 8,039,773	\$ 2,721,459
Total Employee Contributions	\$ 288,636	\$ 342,087	\$ 342,087	\$ 342,087

*PV of DB benefit includes future PRPAs. PV of DC benefit does not include future increases. If the DC member were to use their accumulated account balance to purchase an increasing annuity, the amount of the initial benefit would be less than what is shown in this exhibit.



TRS

Comparison of Tier II (DB) vs Tier III (DC)

	Sample Employee #1 - Retire at Age 50				Sample Employee #2 - Retire at Age 55			
	DB	DC 10% Return	DC 12% Return	DC 11.0% Return	DB	DC 10% Return	DC 12% Return	DC 9.5% Return
Years of Service at Retirement	25	25	25	25	30	30	30	30
Salary at Retirement	\$ 118,222	\$ 118,222	\$ 118,222	\$ 118,222	\$ 135,396	\$ 135,396	\$ 135,396	\$ 135,396
Annual Benefit at Retirement	\$ 58,803	\$ 58,964	\$ 79,067	\$ 68,495	\$ 83,380	\$ 108,905	\$ 157,055	\$ 98,959
Annual Benefit at 10 Years After Retirement	\$ 61,036	\$ 58,964	\$ 79,067	\$ 68,495	\$ 90,387	\$ 108,905	\$ 157,055	\$ 98,959
Annual Benefit at 20 Years After Retirement	\$ 71,708	\$ 58,964	\$ 79,067	\$ 68,495	\$ 108,838	\$ 108,905	\$ 157,055	\$ 98,959
Present Value of Benefit at Retirement*	\$ 1,340,676	\$ 1,154,111	\$ 1,547,605	\$ 1,340,676	\$ 1,797,400	\$ 1,978,057	\$ 2,852,605	\$ 1,797,400
Total Employee Contributions	\$ 183,134	\$ 169,372	\$ 169,372	\$ 169,372	\$ 237,155	\$ 219,334	\$ 219,334	\$ 219,334

	Sample Employee #3 - Retire at Age 60				Sample Employee #4 - Retire at Age 65			
	DB	DC 10% Return	DC 12% Return	DC 8.3% Return	DB	DC 10% Return	DC 12% Return	DC 7.1% Return
Years of Service at Retirement	35	35	35	35	40	40	40	40
Salary at Retirement	\$ 155,066	\$ 155,066	\$ 155,066	\$ 155,066	\$ 177,592	\$ 177,592	\$ 177,592	\$ 177,592
Annual Benefit at Retirement	\$ 113,857	\$ 200,781	\$ 312,478	\$ 140,150	\$ 151,429	\$ 374,006	\$ 629,993	\$ 184,678
Annual Benefit at 10 Years After Retirement	\$ 133,766	\$ 200,781	\$ 312,478	\$ 140,150	\$ 182,342	\$ 374,006	\$ 629,993	\$ 184,678
Annual Benefit at 20 Years After Retirement	\$ 161,073	\$ 200,781	\$ 312,478	\$ 140,150	\$ 219,565	\$ 374,006	\$ 629,993	\$ 184,678
Present Value of Benefit at Retirement*	\$ 2,319,090	\$ 3,322,368	\$ 5,170,648	\$ 2,319,090	\$ 2,719,389	\$ 5,507,251	\$ 9,276,661	\$ 2,719,389
Total Employee Contributions	\$ 299,024	\$ 276,554	\$ 276,554	\$ 276,554	\$ 369,882	\$ 342,087	\$ 342,087	\$ 342,087

*PV of DB benefit includes future PRPAs. PV of DC benefit does not include future increases. If the DC member were to use their accumulated account balance to purchase an increasing annuity, the amount of the initial benefit would be less than what is shown in this exhibit.



HB 78 Enrollment and DCR Conversion

Current DCR Employees

- 180 days to opt into HB 78 Tier within DB
- The DCR member's DC balance will be actuarially converted to service credits. *This may create an indebtedness for the member to address*

New Employees

- Automatically enrolled into HB 78 Tier within DB



DCR to HB 78 Tier Conversion process

Step 1:

Calculate each member's DB pension Actuarial Accrued Liability (AAL) based on all of their DCR service. The AAL is based on the actuarial assumptions specified in AS 14.25.040(g) and AS 39.35.159(g).

Step 2:

Compare the AAL from Step 1 with the member's DC account balance.

- If the DC account balance exceeds the AAL, the member will be credited with all of their DCR service in the DB plan.
- If the AAL exceeds the DC account balance, the member will be credited with a portion of their DCR service in the DB plan. Alternatively, an indebtedness can be created for the shortfall.

Step 3:

Transfer the amounts used to purchase DB service in Step 2 to the HB 78 pension sub-trusts. If any excess DC account balance remains, it is returned to the member's DC account.

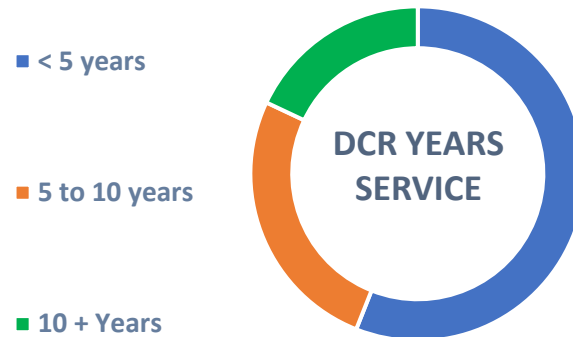


Source: Gallagher

Defined Contribution Retirement Plan (DCR) PERS Tier IV and TRS III - June 30, 2025

PERS & TRS Employers: 149

DCR Active members: 35,144



Sources:
DRB Member Statistics 2025
DOA/DOP State of Alaska Workforce Profile, Fiscal Year 2024. (< 5 Years 56%, 5 – 10 Years 26%, 10 + Years 18%)

Unfunded Liability Risk Management

HB 78 provides two risk-sharing provisions if the funded status of the HB 78 sub-trusts falls below 90%:

- The Alaska Retirement Management Board (ARMB) can reduce the Postretirement Pension Adjustments (PRPAs) for HB 78 members
- The ARMB can increase the HB 78 members' **employee contribution** rate from 8% to as much as 12%

Gallagher assumed future experience matches the valuation assumptions, therefore the funded status of the HB 78 sub-trusts is *not* projected to fall below 90%

Depending on future experience, it is possible that the funded status of the HB 78 sub-trusts will fall below 90%, in which case these risk-sharing provisions *would* be triggered



Source: Gallagher

Unfunded Liability Risk

The major risks facing the HB 78 sub-trusts are similar risks to **any** Defined Benefit Plan:

Investment Risk:	<i>Asset returns will be below the expected return (This is the most significant)</i>
Long-Term Return on Investment Risk:	<i>Changes in long-term capital market assumptions or plan's asset allocation that result in a change in the investment return assumption</i>
Contribution Risk:	<i>Actual contributions will be less than the actuarially determined contributions (ADC)</i>
Longevity Risk:	<i>Participants live longer than expected</i>
Salary Increase Risk:	<i>Salary increases are greater than expected</i>
Inflation Risk:	<i>Inflation will be greater than expected</i>



Source: Gallagher

Unfunded Liability Risk – Investment Risk Example

Event: Market returns are 0% for three consecutive fiscal years (FY2027 through FY2029)

- In this case, the projected funded status of the HB 78 sub-trusts as of June 30, 2030 would be **88%** (PERS) and **89%** (TRS)
- Because these funded ratios are below 90%, the ARMB would need to decide whether to increase the HB 78 members' *employee contribution* rate and/or reduce the PRPA benefits for HB 78 members
- *For example:* to avoid an increase in FY2031 State contributions, one of the following actions would be needed:
 - Increase the HB 78 members' contribution rate to *more than 9%*, or
 - Increase the HB 78 members' contribution rate to *9%* *and* reduce PRPAs
- *The above choice(s)* would negatively impact retirees and/or active employees:
 - Active employees could see their *take-home pay* reduced as contributions are increased
 - Retirees could see their benefits reduced in *real terms* with the adjustment to PRPA
 - In the event that PRPA is reduced by the ARMB, there is not a function to restore the buying power of the member when the conditions causing the adjustment have improved



Source: Gallagher

Why Are State Contributions Projected to Increase?

Benefits Comparison: Current DCR vs HB 78 DB Plan

DCR Member Benefits	HB 78 Member Benefits
Occupational death & disability	Death and disability benefits
Healthcare	Healthcare *
Employer contributions to the member's HRA account (3% of pay)	Employer contributions to the member's HRA account (4% of pay for PERS P/F, 3% of pay for PERS Others and TRS)
Employer contributions to the member's DC account (5% of pay for PERS DCR, 7% of pay for TRS DCR)	Lifetime pension
	Postretirement Pension Adjustments (PRPAs) <i>(Risk adjustable)</i>

The underlying benefits to be provided to HB 78 members under the DB plans have **greater value** than they currently receive as a member of the DCR plans, and therefore **more costly**



Source: Gallagher

* The actuarial cost of the HB 78 Tier Healthcare benefits is higher due to expected increase in employee retention

Why Are State Contributions Projected to Increase?

The additional costs due to HB 78 will fall directly to the State.

Additional State Contributions

Due to the higher cost of HB 78 benefits, the Actuarially Determined Contribution (ADC) rate is expected to increase if HB 78 is enacted.

The current ADC rate already exceeds the Statutory employer rates of 22% (PERS non-State employers) and 12.56% (TRS). Therefore, the higher ADC rate due to HB 78 will increase the Additional State Contributions.

State-as-an-Employer Contributions

Because the State pays the full ADC rate for PERS based on the payroll its employees, the higher PERS ADC rate due to HB 78 will increase the State-as-an-Employer contributions.



Source: Gallagher

Example: Development of FY2030 PERS State-as-Employer Contribution

\$ millions	Current	HB 78
Total Pay	\$ 1,423	\$ 1,500
Current DB		
Pension Normal Cost	\$ 16	\$ 13
Healthcare Normal Cost	16	15
Past Service	274	273
Total	\$ 306	\$ 302
DCR	\$ 109	\$ 0
HB 78		
Pension	\$ 0	\$ 83
Healthcare	0	27
HRA	0	41
Total	\$ 0	\$ 151
State-as-Employer Contribution	\$ 415	\$ 453



Source: Gallagher

Example: Development of FY2030 PERS Additional State Contributions

\$ millions	Current	HB 78
Total Pay	\$ 1,431	\$ 1,508
Current DB	\$ 308	\$ 304
DCR	110	0
HB 78, including HRA	0	152
Total	\$ 418	\$ 456
Statutory Employer Contribution (22%)	\$ 315	\$ 332
Additional State Contribution		
Before Interest Adjustment*	\$ 103	\$ 124
After Interest Adjustment*	\$ 99	\$ 120

* Half-year interest adjustment is made because Additional State Contributions are usually deposited to the trust at the beginning of the fiscal year.



Source: Gallagher

Example: Development of FY2030 TRS Additional State Contributions

\$ millions	Current	HB 78
Total Pay	\$ 820	\$ 849
Current DB	\$ 205	\$ 204
DCR	73	0
HB 78, including HRA	0	81
Total	\$ 278	\$ 285
Statutory Employer Contribution (12.56%)	\$ 103	\$ 107
Additional State Contribution		
Before Interest Adjustment*	\$ 175	\$ 178
After Interest Adjustment*	\$ 169	\$ 172

* Half-year interest adjustment is made because Additional State Contributions are usually deposited to the trust at the beginning of the fiscal year.



Source: Gallagher

Normal and Past Service cost comparison: PERS Non-State Employers and TRS – FY2030 Projection (\$ millions)

	PERS (Non-State Employers)		TRS		Combined	
	Current	HB 78	Current	HB 78	Current	HB 78
Distribution of Employer Contribution						
Legacy DB Pension Normal Cost	\$16	\$13	\$10	\$9	\$26	\$22
Legacy DB Healthcare Normal Cost	16	16	10	10	26	26
Legacy DB Past Service Cost	173	151	10	7	183	158
DCR (ODD, Healthcare, DC, HRA)	110	0	73	0	183	0
HB 78 (Pension, Healthcare, HRA)	0	152	0	81	0	233
Total Statutory Employer Contribution (PERS 22% TRS 12.56%)	\$315	\$332	\$103	\$107	\$418	\$439
Legacy DB Past Service Cost						
Actuarial Determined Amount	\$275	\$275	\$185	\$185	\$460	\$460
Employer Portion	173	151	10	7	183	158
State Portion	102	124	175	178	277	302
Additional State Contribution						
Before Interest Adjustment	102	124	175	178	277	302
After Interest Adjustment	99	120	169	172	268	292
Total Payroll	\$1,431	\$1,508	\$820	\$849	\$2,251	\$2,357
Pension only:						
	PERS (Non-State Employers)		TRS		Combined	
Normal Cost (Legacy + HB 78)	\$16	\$97	\$10	\$56	\$26	\$153
Past Service Cost	\$275	\$275	\$185	\$185	\$460	\$460
Pension and Healthcare Costs (Excl DCR and HRA):						
Pension Costs	\$291	\$372	\$195	\$241	\$486	\$613
Health Care	\$16	\$43	\$10	\$23	\$26	\$66
Total	\$307	\$415	\$205	\$264	\$512	\$679



Source: Gallagher

Department of Administration
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For more information, please contact christopher.novell@alaska.gov