

HB 78 Modeling and Analysis

Senate Finance Committee
March 11, 2026
Legislative Finance Division

Outline

- HB 78 Comparative Modeling for Employees
 - Varying assumptions for investment return, inflation, etc.
- Cost Shifting and Who Pays
- Historical Retention Data

HB 78 Comparative Modeling

- LFD built a model of various retirement tiers on an individual employee level.
- It compares PERS Tier III, PERS Tier IV, TRS Tier II, Tiers Tier III, and HB 78, both with and without SBS.
 - The model can also compare Public Safety and non-Public Safety members, but we've hidden that comparison for simplicity since the differences are minor.
- The modeling makes it easier to understand how the policy choices in HB 78 affect retirees compared to current systems.

Employee Contributions

- The tiers have varied employee contributions, which is not addressed in the modeling for simplicity. If employees choose to invest the difference in employee contributions, that could affect the results.

| System | Employee Contribution |
|------------------------------------|-----------------------|
| PERS Tiers I-III - School District | 9.60% |
| PERS Tiers I-III - Police and Fire | 7.50% |
| PERS Tiers I-III - All Others | 6.75% |
| PERS Tier IV | 8.00% |
| TRS Tiers I and II | 8.65% |
| TRS Tier III | 8.00% |
| HB 78 | 8.00% to 12.00% |
| SBS | 6.13% |
| Social Security | 6.20% |

Baseline Assumptions

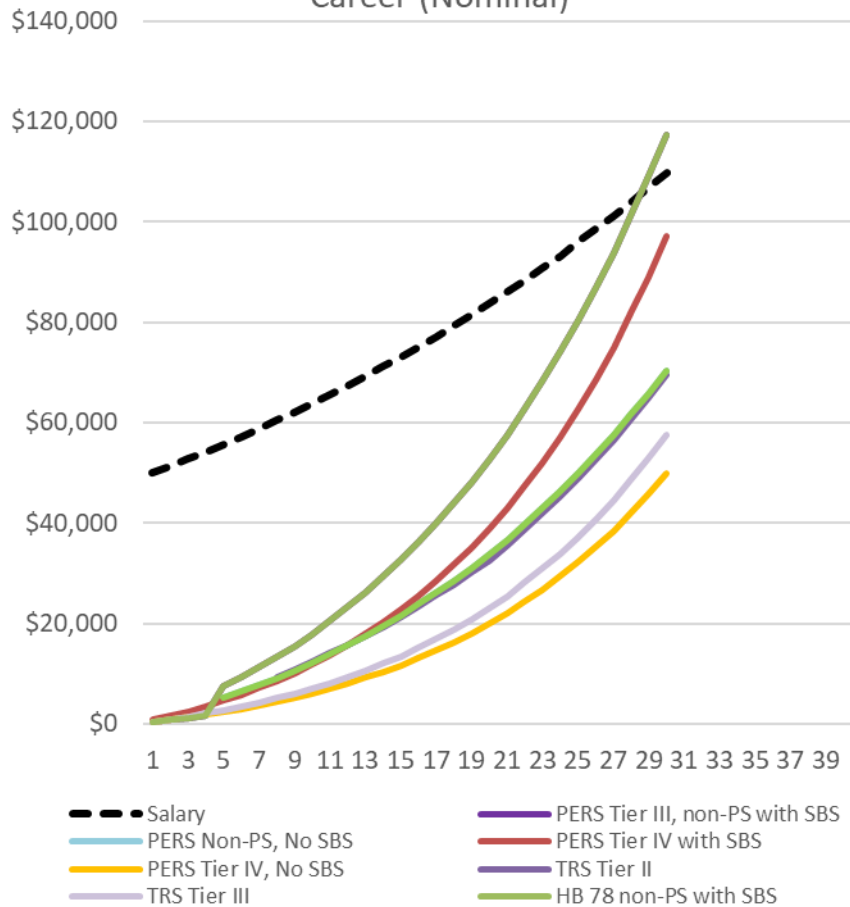
| Key Assumptions | | Notes |
|--------------------------------|----------|--|
| Salary Growth | 2.75% | Annual salary growth rate assumed for all tiers |
| Starting Age | 25 | Employee starting age (career begins at this age) |
| Career Length | 30 | Years of service (max 40, min 20 for modeling purposes) |
| Investment Scenario | 7% Fixed | Return sequence applied to DC/SBS balances — select from References sheet |
| Inflation Rate | 2.50% | Annual inflation used for real-value adjustments and COLA calculations |
| DC/SBS Annuity Conversion Rate | 5.89% | Annual annuity payout as % of account balance at retirement |
| HB 78 PRPA | 100% | Post-Retirement Pension Adjustment (can be reduced by ARM Board) |
| Alaska Resident in retirement | Yes | Alaska residency affects 10% increase in existing PERS Tier III and TRS Tier II and PRPA for HB 78 |

- Most of the baseline assumptions are taken from a 2023 Division of Retirement and Benefits presentation that analyzed DC plan performance.
- The annuity conversion for DC and SBS is used to compare directly between DC and DB plans. In practice, annuity rates can vary significantly between retirees depending on life circumstances.

Baseline Comparison

| Key Assumptions | |
|--------------------------------|----------|
| Salary Growth | 2.75% |
| Starting Age | 25 |
| Career Length | 30 |
| Investment Scenario | 7% Fixed |
| Inflation Rate | 2.50% |
| DC/SBS Annuity Conversion Rate | 5.89% |
| HB 78 PRPA | 100% |
| Alaska Resident in retirement | Yes |

Retirement Calculations During Working Career (Nominal)

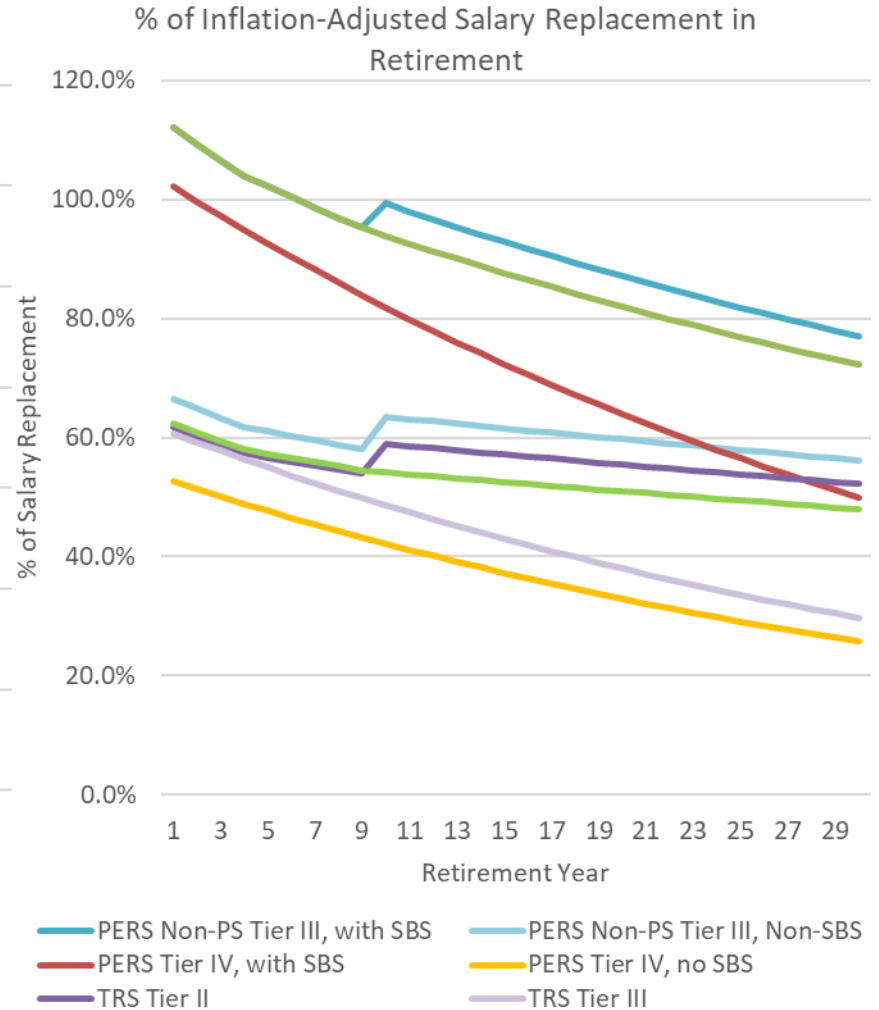
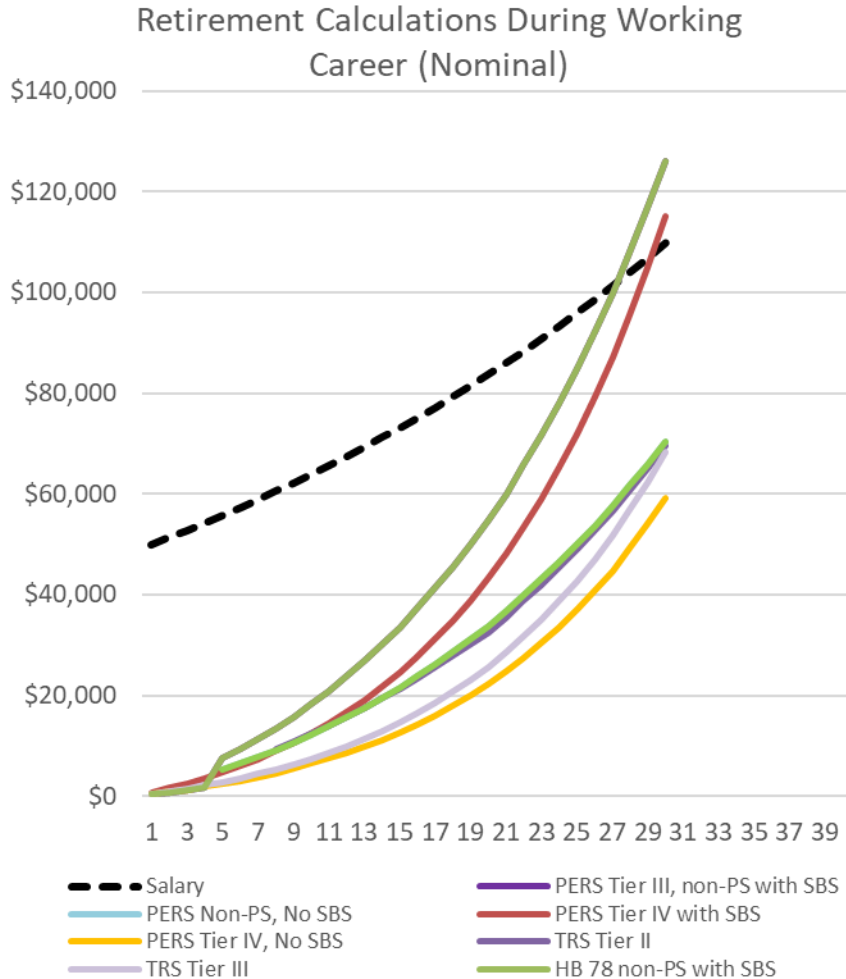


% of Inflation-Adjusted Salary Replacement in Retirement



8% Investment Return

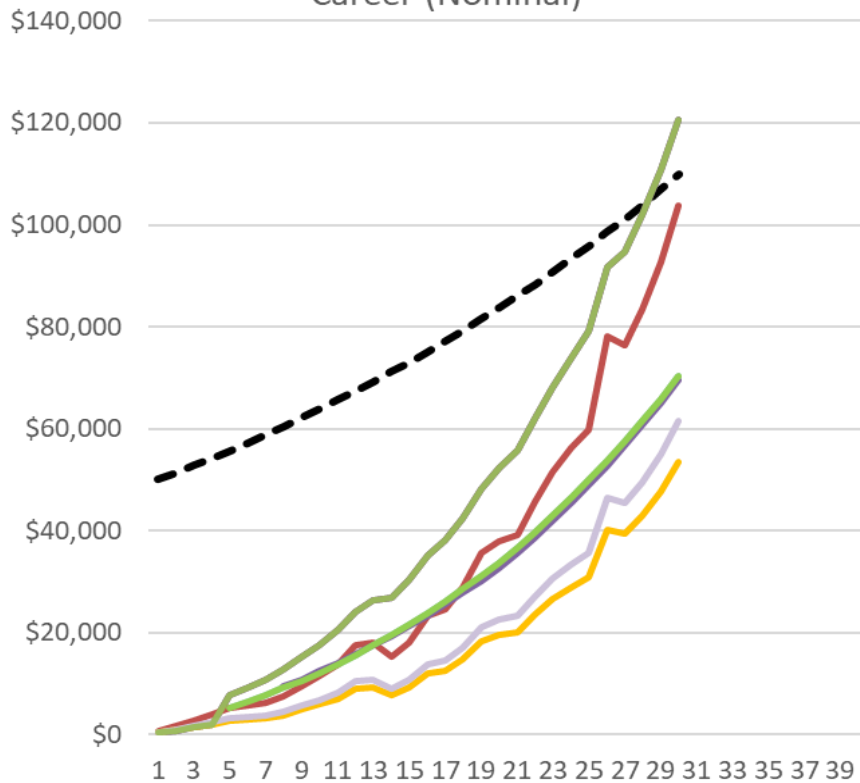
| Key Assumptions | |
|--------------------------------|----------|
| Salary Growth | 2.75% |
| Starting Age | 25 |
| Career Length | 30 |
| Investment Scenario | 8% Fixed |
| Inflation Rate | 2.50% |
| DC/SBS Annuity Conversion Rate | 5.89% |
| HB 78 PRPA | 100% |
| Alaska Resident in retirement | Yes |



8% Average, Investment Return, PERS 30-Year Actual Sequence

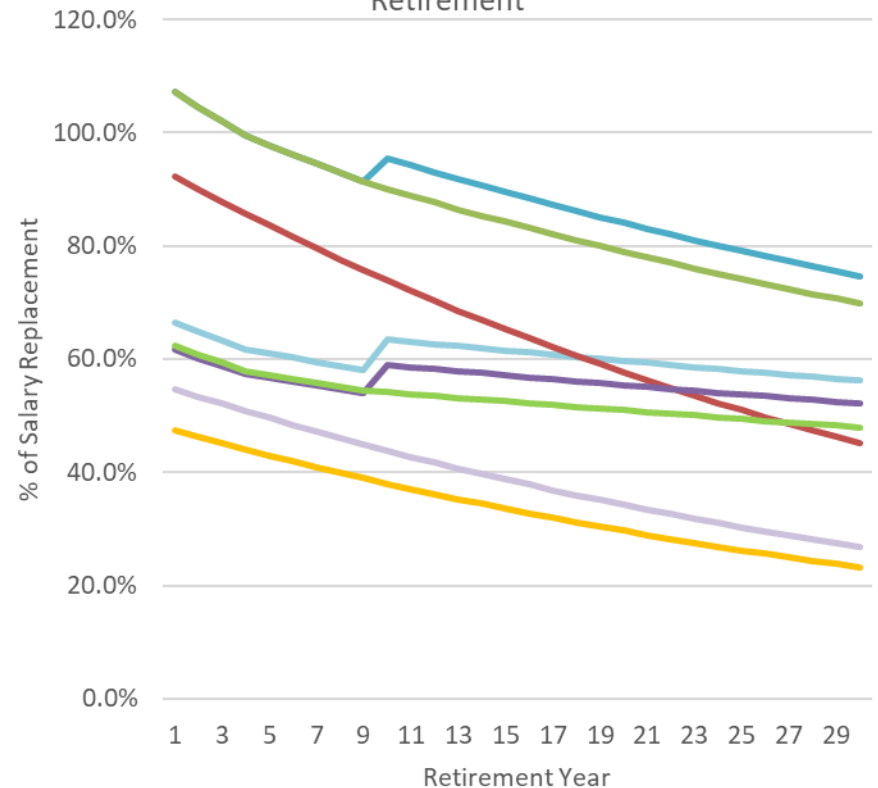
| Key Assumptions | |
|--------------------------------|---------------------|
| Salary Growth | 2.75% |
| Starting Age | 25 |
| Career Length | 30 |
| Investment Scenario | PERS FY96-25 Actual |
| Inflation Rate | 2.50% |
| DC/SBS Annuity Conversion Rate | 5.89% |
| HB 78 PRPA | 100% |
| Alaska Resident in retirement | Yes |

Retirement Calculations During Working Career (Nominal)



- Salary
- PERS Non-PS, No SBS
- PERS Tier IV, No SBS
- TRS Tier III
- PERS Tier III, non-PS with SBS
- PERS Tier IV with SBS
- TRS Tier II
- HB 78 non-PS with SBS

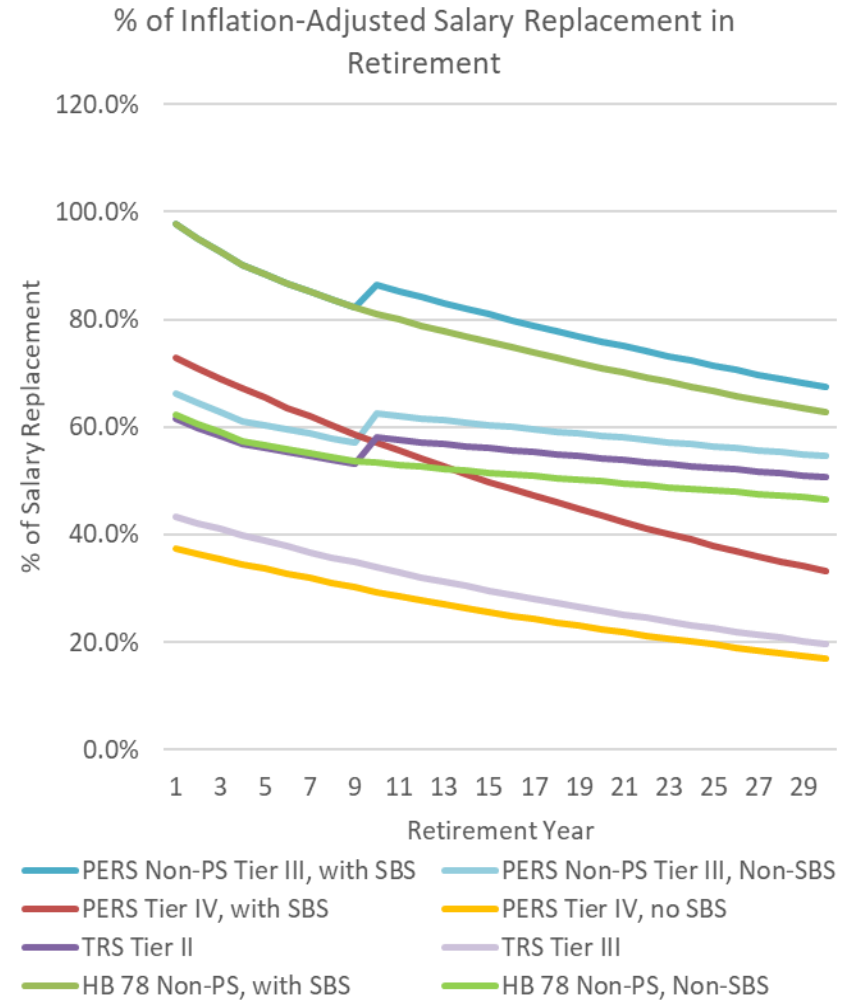
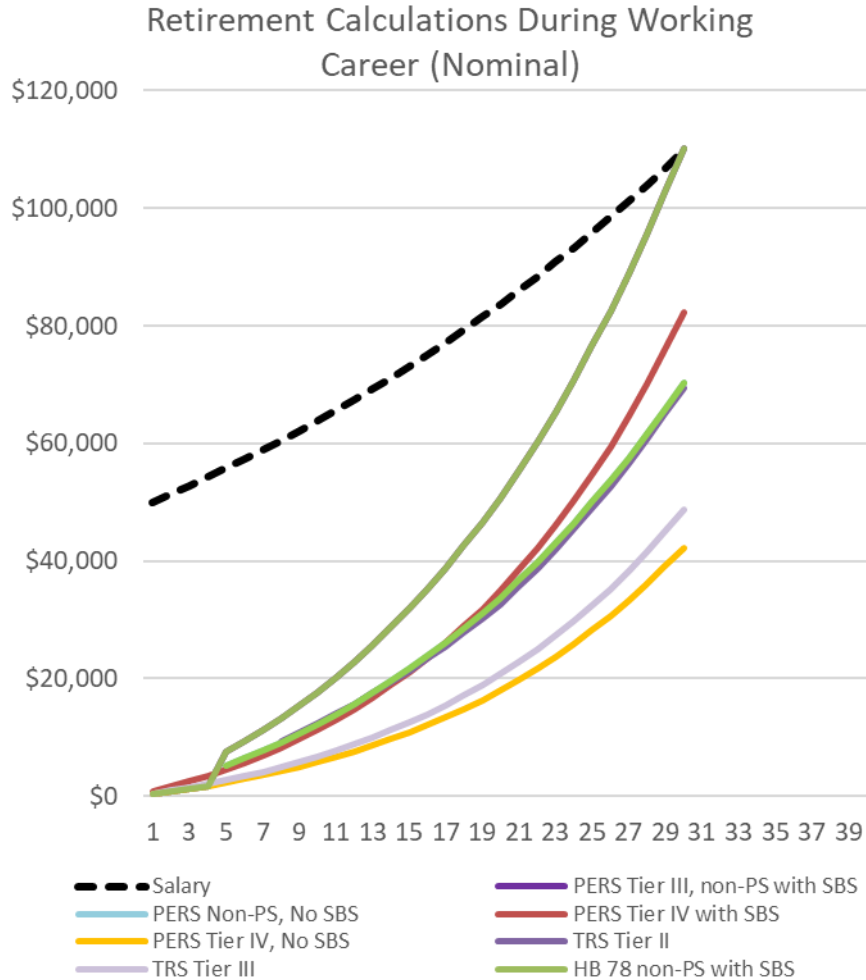
% of Inflation-Adjusted Salary Replacement in Retirement



- PERS Non-PS Tier III, with SBS
- PERS Tier IV, with SBS
- TRS Tier II
- HB 78 Non-PS, with SBS
- PERS Non-PS Tier III, Non-SBS
- PERS Tier IV, no SBS
- TRS Tier III
- HB 78 Non-PS, Non-SBS

6% Investment Return

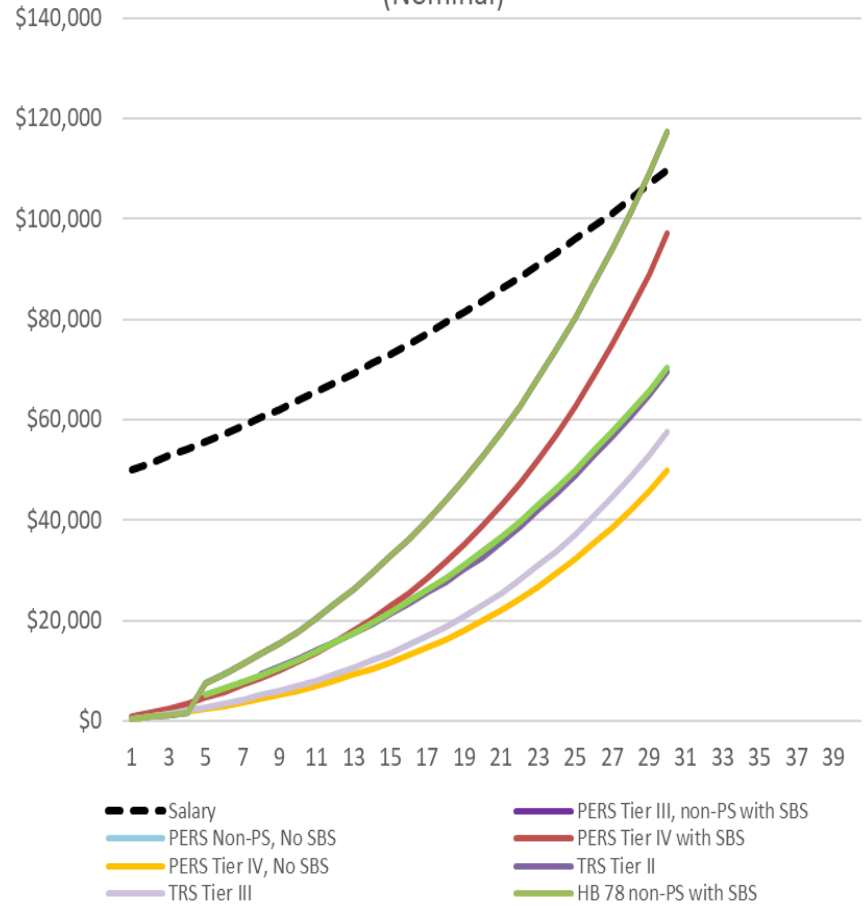
| Key Assumptions | |
|--------------------------------|----------|
| Salary Growth | 2.75% |
| Starting Age | 25 |
| Career Length | 30 |
| Investment Scenario | 6% Fixed |
| Inflation Rate | 2.50% |
| DC/SBS Annuity Conversion Rate | 5.89% |
| HB 78 PRPA | 100% |
| Alaska Resident in retirement | Yes |



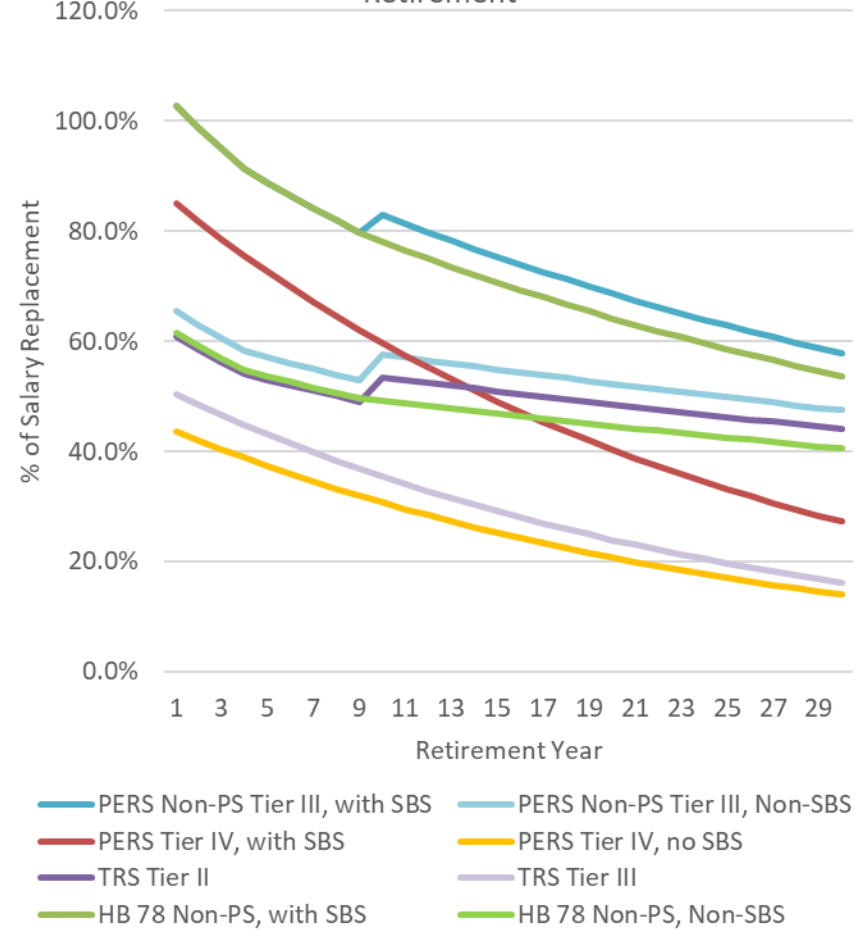
7% Investment Return, 4% Inflation

| Key Assumptions | |
|--------------------------------|----------|
| Salary Growth | 2.75% |
| Starting Age | 25 |
| Career Length | 30 |
| Investment Scenario | 7% Fixed |
| Inflation Rate | 4.00% |
| DC/SBS Annuity Conversion Rate | 5.89% |
| HB 78 PRPA | 100% |
| Alaska Resident in retirement | Yes |

Retirement Calculations During Working Career (Nominal)



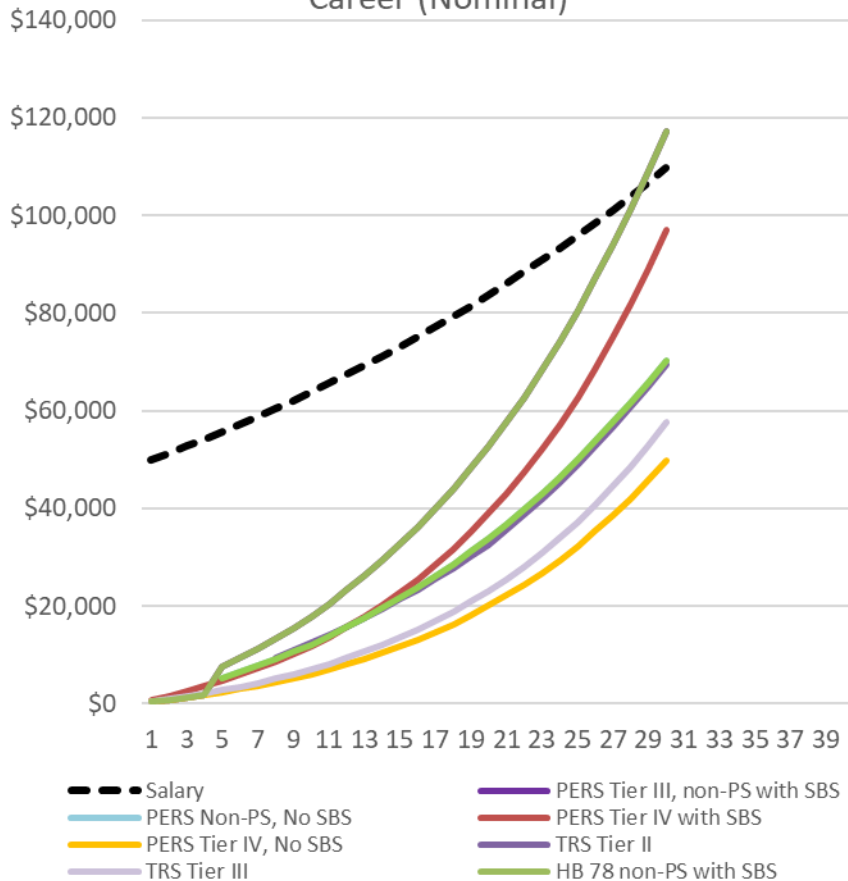
% of Inflation-Adjusted Salary Replacement in Retirement



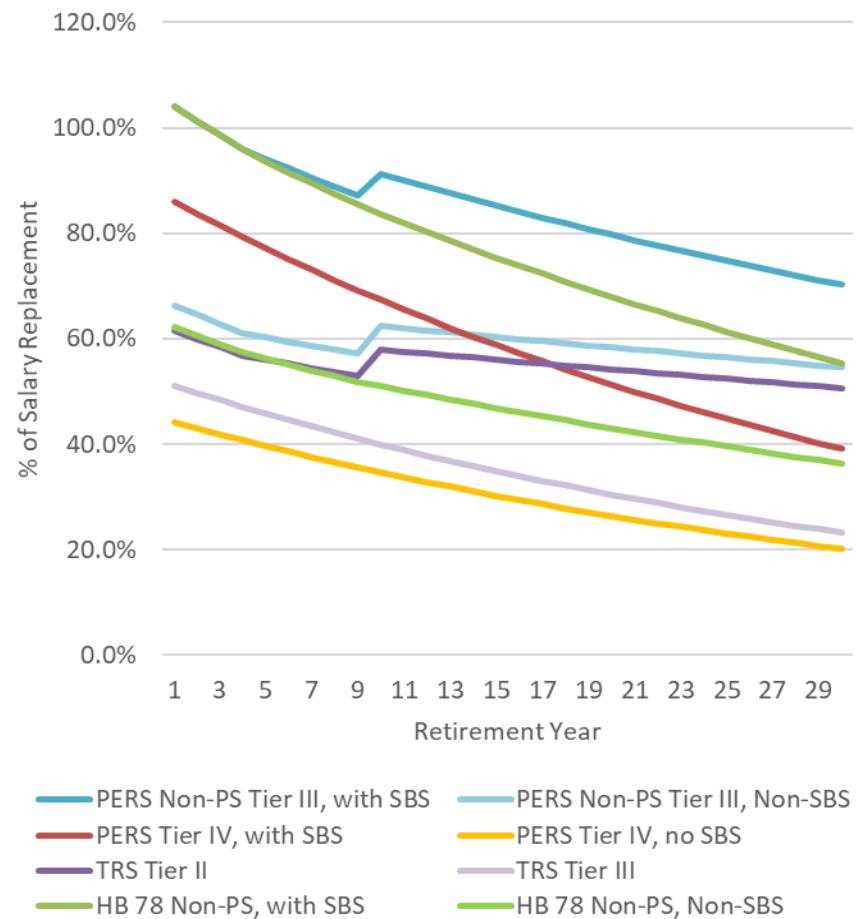
7% Investment Return, Partial HB 78 PRPA

| Key Assumptions | |
|--------------------------------|----------|
| Salary Growth | 2.75% |
| Starting Age | 25 |
| Career Length | 30 |
| Investment Scenario | 7% Fixed |
| Inflation Rate | 2.75% |
| DC/SBS Annuity Conversion Rate | 5.89% |
| HB 78 PRPA | 50% |
| Alaska Resident in retirement | Yes |

Retirement Calculations During Working Career (Nominal)



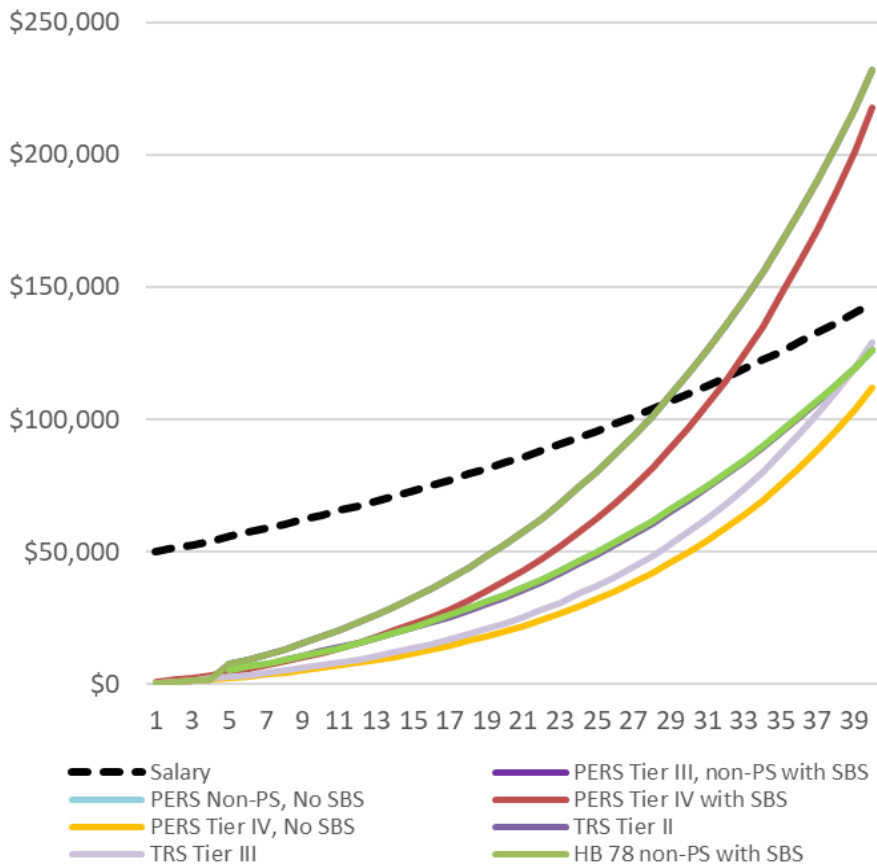
% of Inflation-Adjusted Salary Replacement in Retirement



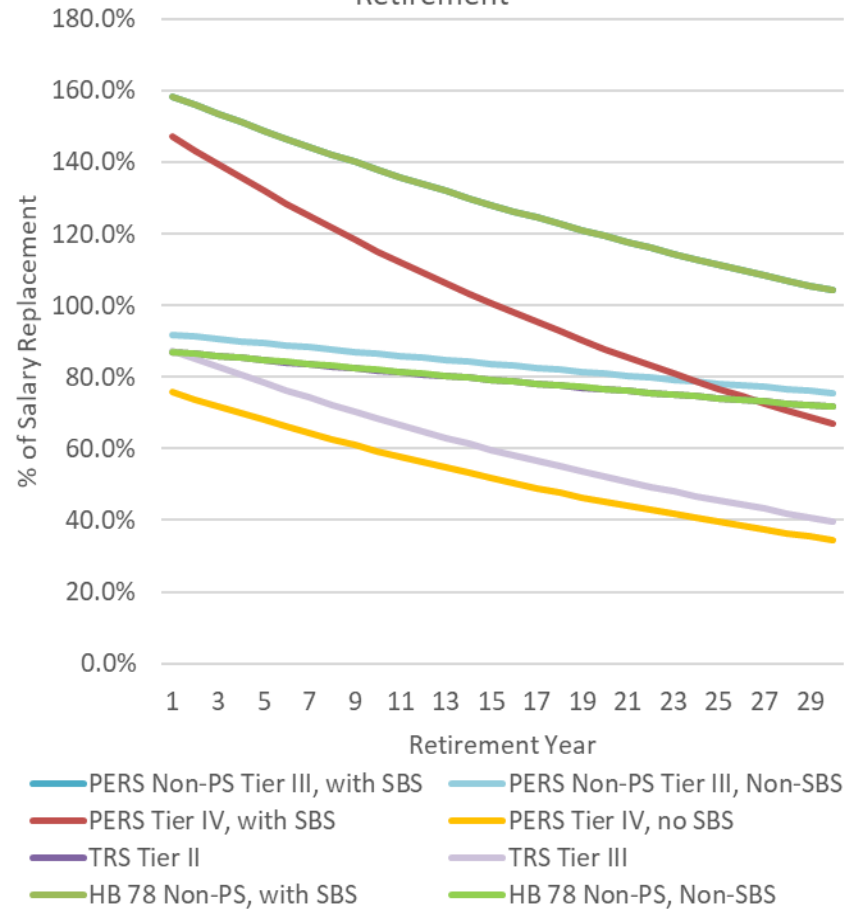
7% Investment Return, 40-Year Career

| Key Assumptions | |
|--------------------------------|----------|
| Salary Growth | 2.75% |
| Starting Age | 25 |
| Career Length | 40 |
| Investment Scenario | 7% Fixed |
| Inflation Rate | 2.75% |
| DC/SBS Annuity Conversion Rate | 5.89% |
| HB 78 PRPA | 100% |
| Alaska Resident in retirement | Yes |

Retirement Calculations During Working Career (Nominal)



% of Inflation-Adjusted Salary Replacement in Retirement



Cost Shifting and Who Pays

- HB 78's actuarial cost and its fiscal cost to the State are not equivalent.
- The State as an employer pays the uncapped total PERS cost and spreads that cost onto multiple fund sources. In FY27, 50.4% of that cost is paid by UGF, the rest by other fund sources.
- The amount that other employers pay is capped (22.00% for PERS, 12.56% for TRS) and the State pays everything above the cap.
- Gallagher's analysis of HB 78 assumes that one effect of the legislation is to increase employer payrolls due to improved employee retention. Higher payrolls for non-State employers means that the existing unfunded liability is spread across a larger payroll, meaning that the State pays a smaller proportion of that cost.
 - This partially offsets the increased actuarial cost of HB 78 versus the DCR tiers.
 - The increased State payroll assumption also shifts State payments from state on-behalf payments to State-as-an-employer payments.
- Since TRS employers are school districts, a higher payroll implies either a higher Base Student Allocation, increased local contributions, or districts increasing spending on payroll versus other categories.

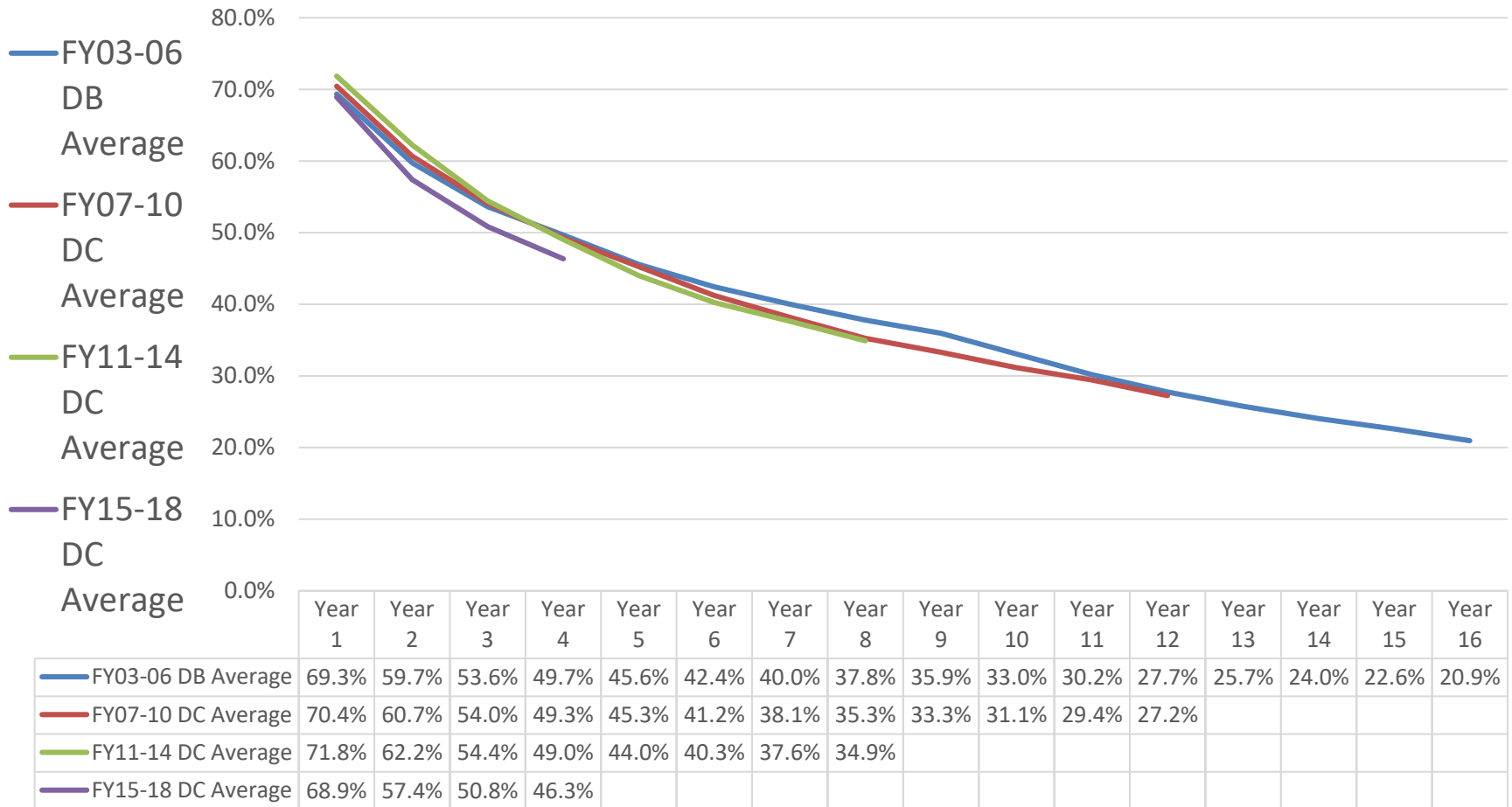
Cost Shifting and Who Pays (Cont.)

- Through FY39, the cost of HB 78 is primarily borne by the State because employer contributions exceed the capped amount regardless (other than the cost shifting described on the previous slide).
- After FY39, PERS employer payments are projected to be below the 22.00% cap without HB 78. With HB 78's higher actuarial cost, employers would pay that cost up to 22.00% (including the State as an employer).
- If Gallagher's analysis were extended beyond FY39, the UGF cost of the bill would drop substantially in those later years because of this cost shift. Other PERS employers would likely remain below the 22% cap, but would see a smaller decrease in costs in FY40 than without HB 78.
- For TRS, employers are projected to be above the cap regardless, so the cost of HB 78 would continue to be paid entirely by the State.

Historical Retention Data – About the Data Source

- The Division of Retirement and Benefits provided data on employee retention from FY03-22. We have not received newer data, so this is the same analysis that was presented to the committee in 2023.
- The data shows whether employees hired in a given fiscal year are still employed by the same PERS employer in subsequent years.
- The data is broken out by employer in three categories: the State as an employer, other SBS employers, other non-SBS employers.
- It's further broken out for TRS, PERS public safety and fire employees (PERS P/F), and all other PERS employees. This presentation will only cover PERS “non-P/F” employees.
- Finally, it distinguishes between employees in a DB or DC system.
- One limitation of this data: if an employee leaves and comes back, they show up as a new employee when they return. This may skew the comparisons for the early years of the DC system if returning employees and new employees have meaningful differences in retention.

Retention Rate by Class Year, PERS Non-P/F, State Only

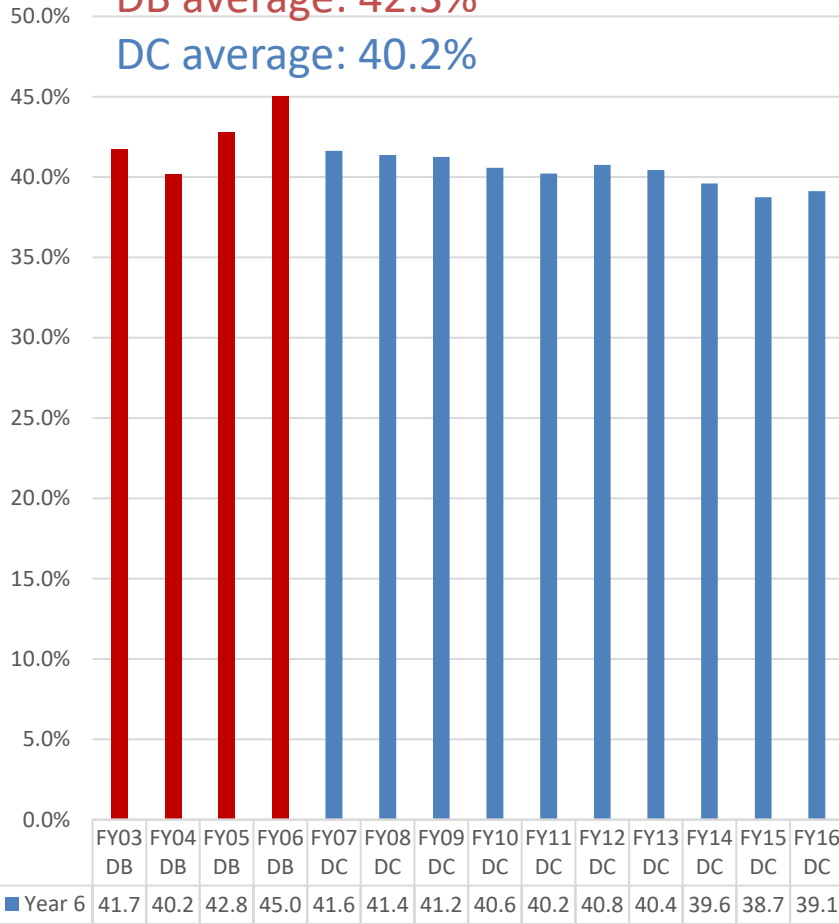


Year 6 and 11 Retention, PERS All Others, State Only

Year 6

DB average: 42.3%

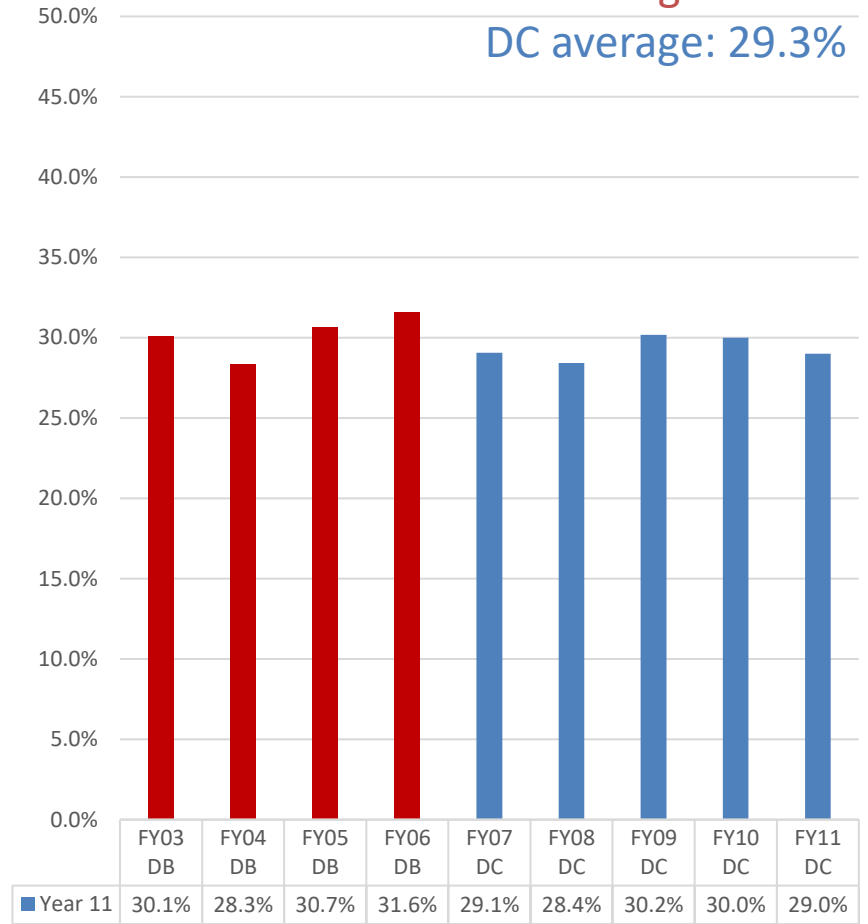
DC average: 40.2%



Year 11

DB average: 30.2%

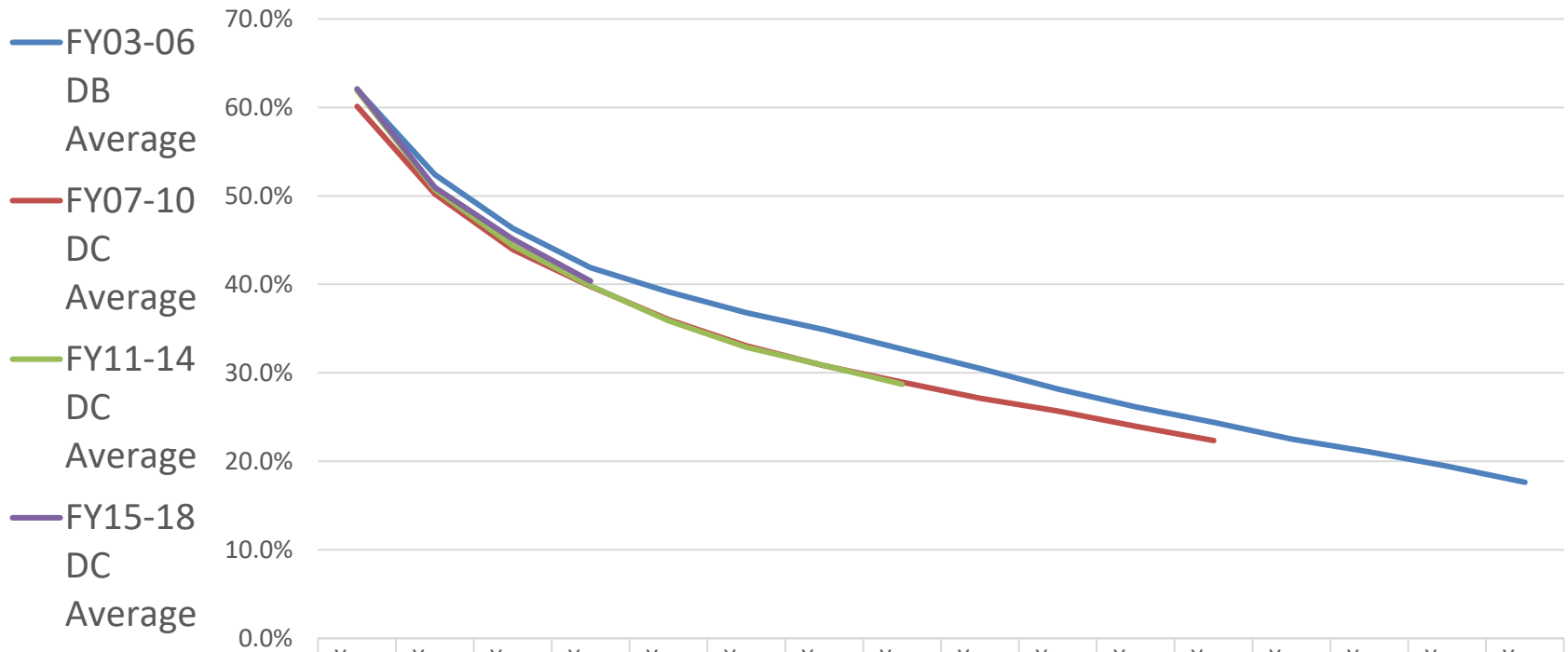
DC average: 29.3%



Non-State Employers in Social Security/SBS

- In addition to the DB or DC system, all State of Alaska employees are in the Supplemental Annuity Plan (SBS), which is a defined contribution plan with a 6.13% employee contribution, matched by 6.13% employer contribution. This system essentially replaces Social Security for these employees.
- Non-State PERS employers have varied supplemental plans. As of 2023, of the 14,163 non-State, non-P/F PERS employees in the DC system, 7,473 are in Social Security, 1,645 are in SBS, and 5,045 are in neither plan.

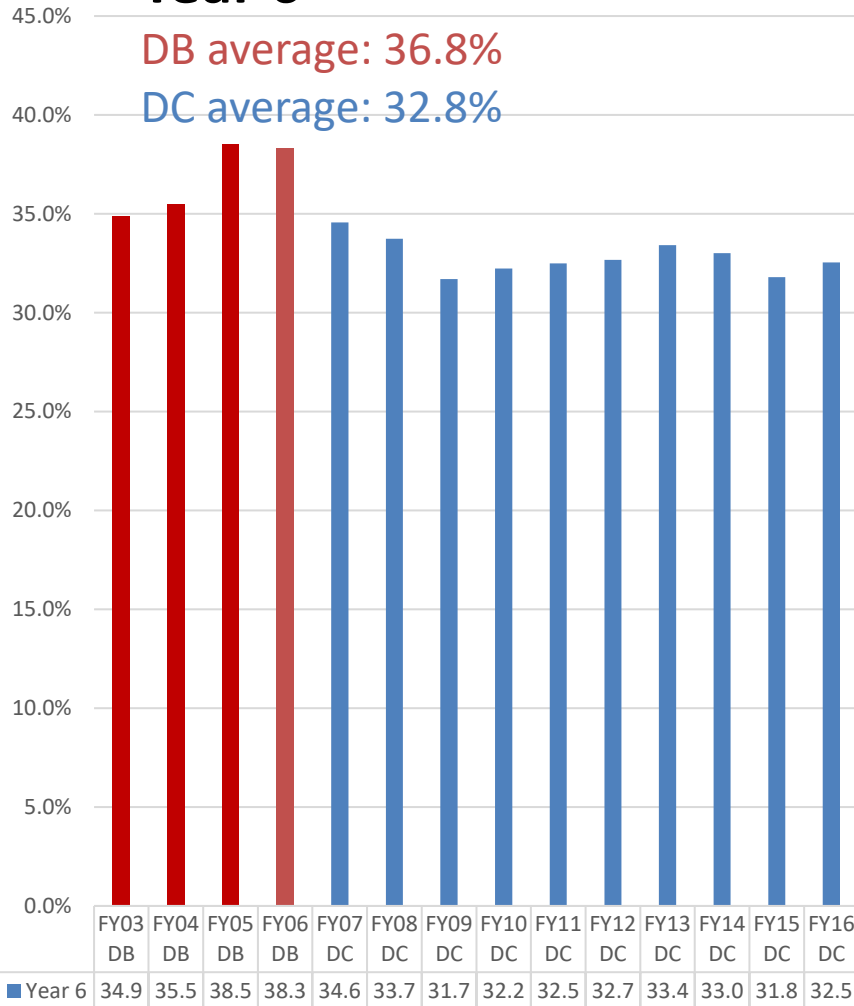
Retention Rate by Class Year, PERS Non-P/F, Non-State, Non-SBS Only



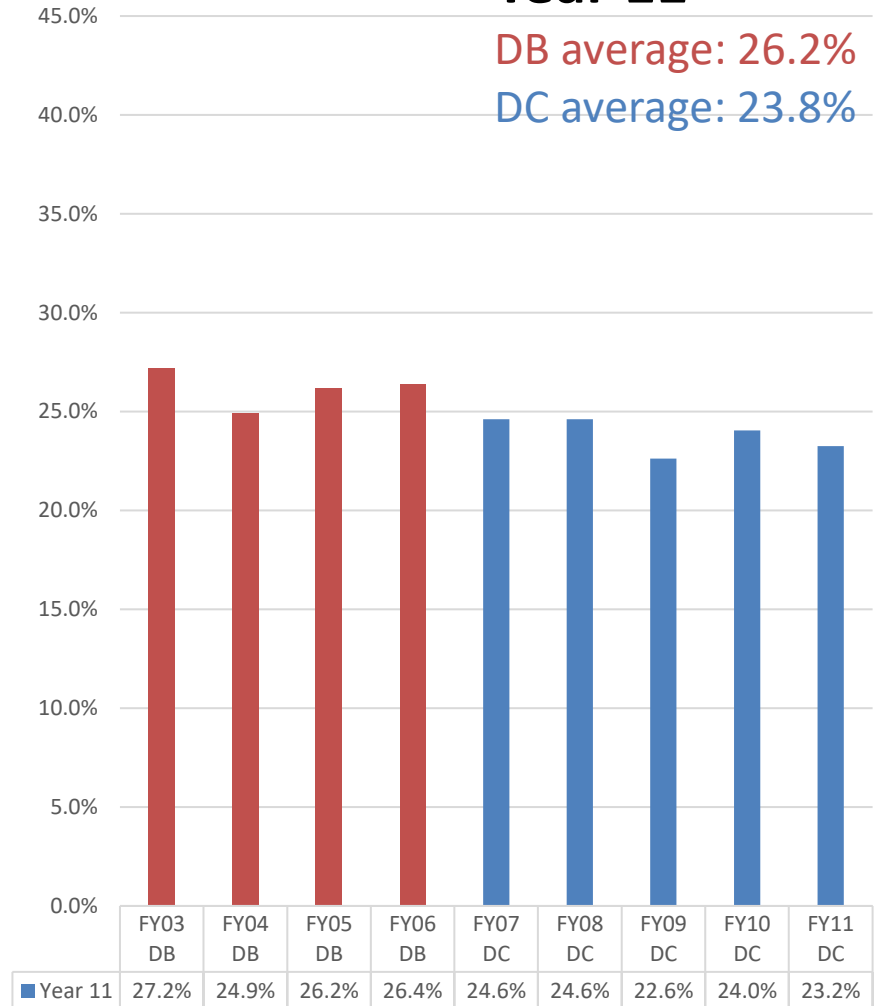
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 11 | Year 12 | Year 13 | Year 14 | Year 15 | Year 16 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|
| FY03-06 DB Average | 62.0% | 52.4% | 46.3% | 41.9% | 39.2% | 36.8% | 34.9% | 32.7% | 30.5% | 28.2% | 26.2% | 24.4% | 22.5% | 21.1% | 19.5% | 17.6% |
| FY07-10 DC Average | 60.1% | 50.2% | 43.9% | 39.8% | 36.0% | 33.1% | 30.8% | 29.0% | 27.1% | 25.7% | 24.0% | 22.4% | | | | |
| FY11-14 DC Average | 61.9% | 50.7% | 44.4% | 39.8% | 35.9% | 32.9% | 30.8% | 28.7% | | | | | | | | |
| FY15-18 DC Average | 62.1% | 50.9% | 45.1% | 40.4% | | | | | | | | | | | | |

Year 6 and 11 Retention, PERS Non-P/F, Non-State, Non-SBS Only

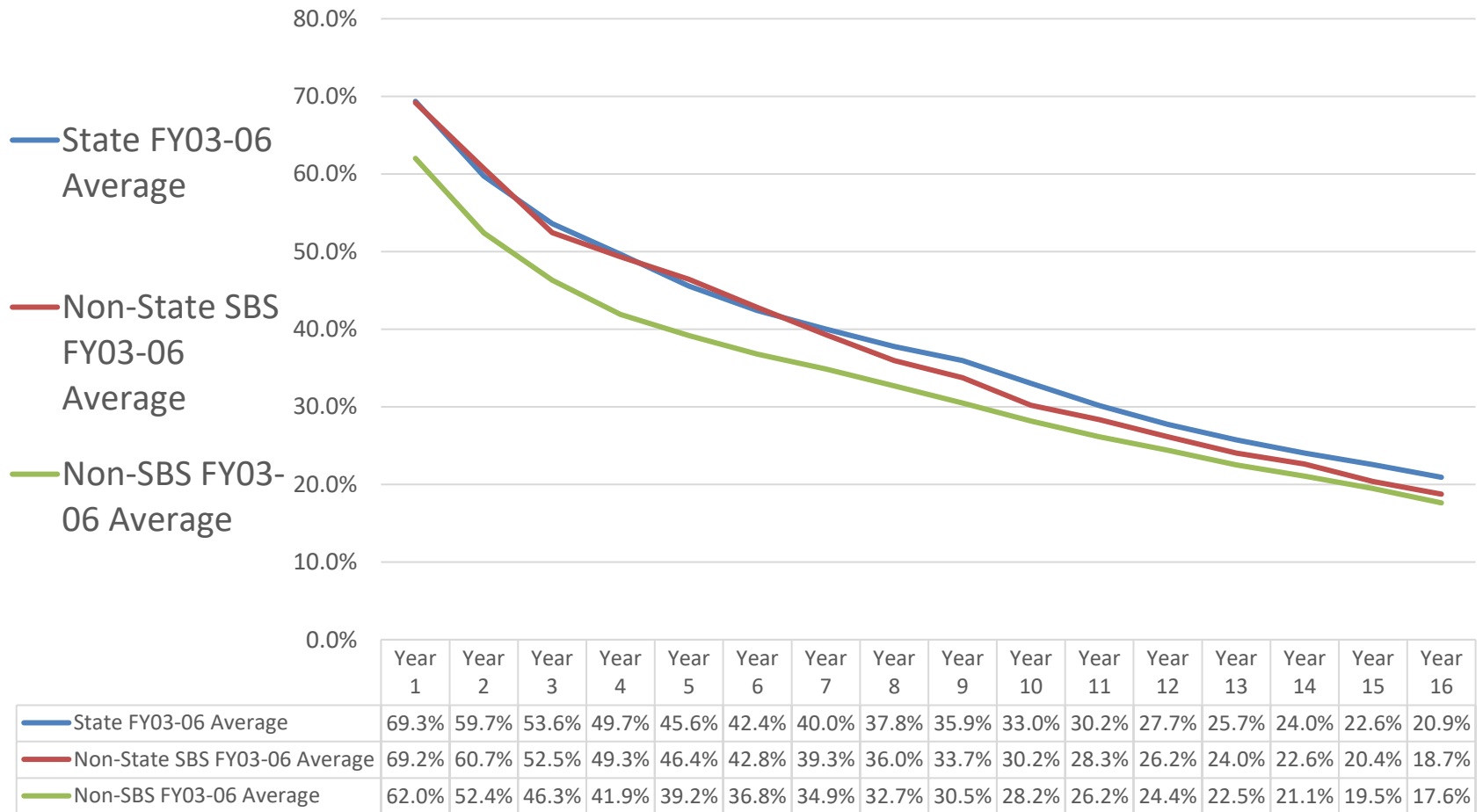
Year 6



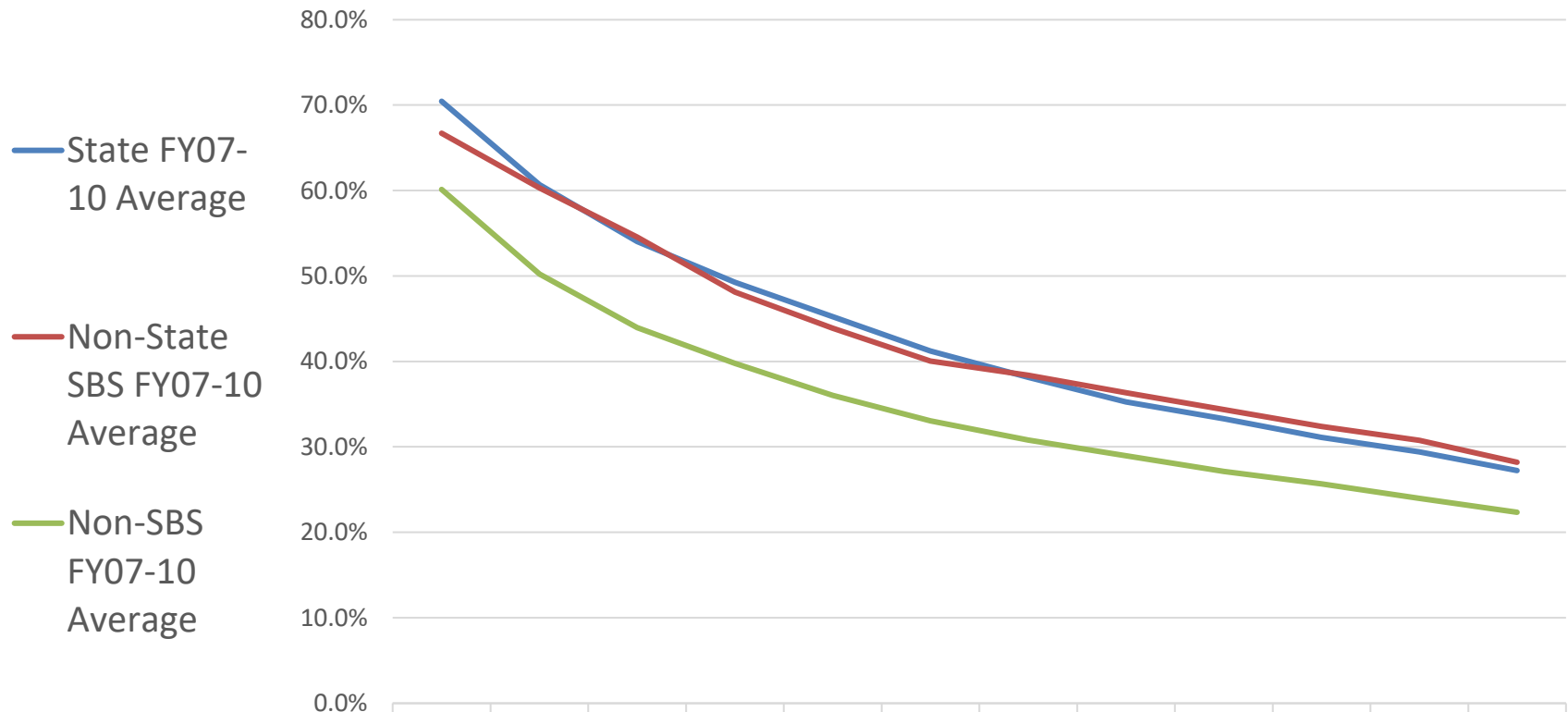
Year 11



Retention Rate by Employer Type, PERS Non-P/F – FY03-06 (DB) only



Retention Rate by Employer Type, PERS Non-P/F – FY07-10 (DC) only



| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 11 | Year 12 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| State FY07-10 Average | 70.4% | 60.7% | 54.0% | 49.3% | 45.3% | 41.2% | 38.1% | 35.3% | 33.3% | 31.1% | 29.4% | 27.2% |
| Non-State SBS FY07-10 Average | 66.7% | 60.3% | 54.6% | 48.1% | 43.9% | 40.0% | 38.4% | 36.3% | 34.4% | 32.4% | 30.8% | 28.2% |
| Non-SBS FY07-10 Average | 60.1% | 50.2% | 43.9% | 39.8% | 36.0% | 33.1% | 30.8% | 29.0% | 27.1% | 25.7% | 24.0% | 22.4% |

Questions?

Contact Information

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