

Alaska
Department of
Administration
**SB 121: Making
Promises And
Keeping Promises**



Senate Finance
Mike Barnhill, Deputy Commissioner
March 30, 2012



Making DB Promises

- Defined Benefit Plan Promises
 - Pension up to 67% of average salary
 - Annual cost of living increases
 - System-paid medical premiums
- Membership: 95,667

PERS	TRS
Tier I: 29,832	Tier I: 12,124
Tier II: 16,738	Tier II: 9,771
Tier III: 27,202	

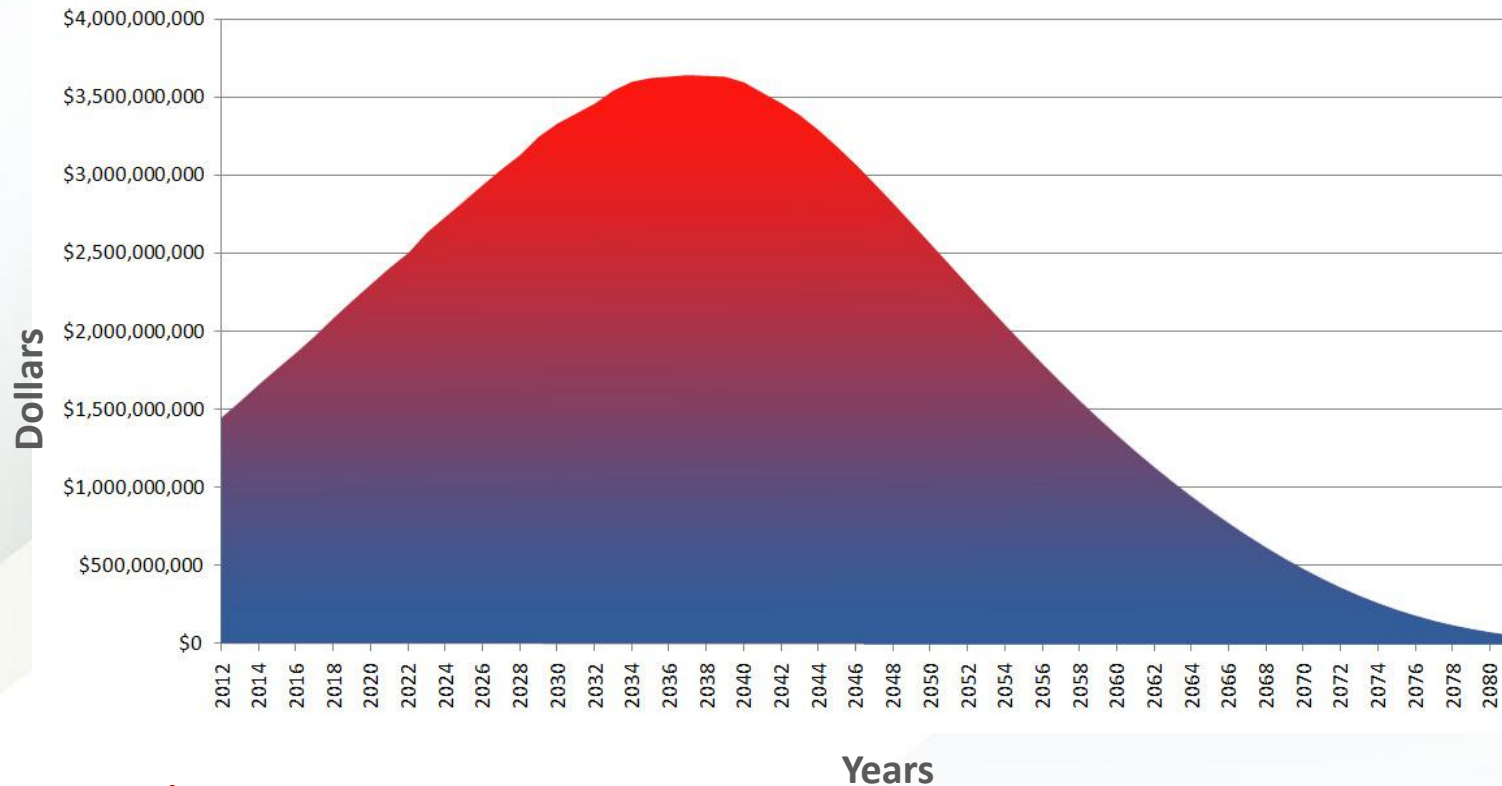


Current DB Promises Must be Kept

- “Accrued benefits of these [retirement] systems shall not be diminished or impaired.”
Alaska Constitution, Article XII, Section 7
- Benefit payments –
 - at least \$1 billion per year from now until 2063
 - \$3 billion per year from 2027-2046



Cost of keeping existing PERS and TRS promises



Pay **\$141 billion** in benefits payments over next 70 years

Current PERS/TRS account balance: **\$15.4 billion**

Unfunded Liability: **\$11.1 billion**



How Long Will We Keep DB Promises?

At least through 2080...probably longer...

📅 02/10/2012

U.S. Government Still Pays Two Civil War Pensions

By [LAUREN FOX](#)

Despite the fact that the Civil War ended April 9, 1865 (53,630 days ago, for reference), the government is still paying out veterans' pensions.

Records from the [Department of Veterans' Affairs](#) show that two children of Civil War veterans, as of September, are receiving pensions from their fathers' service.

The Civil War ended 147 years ago....



Lessons Learned: DB Pensions Need Revenue Backstops

- Alaska's experience from the 2000s
- Unfunded liabilities arise for a variety of reasons, negligent and non-negligent
 - Rising medical costs
 - Longer life spans
 - Actuarial negligence
 - Investment loss
- When unfunded liabilities have developed in the Alaska, by and large the GF has provided the solution

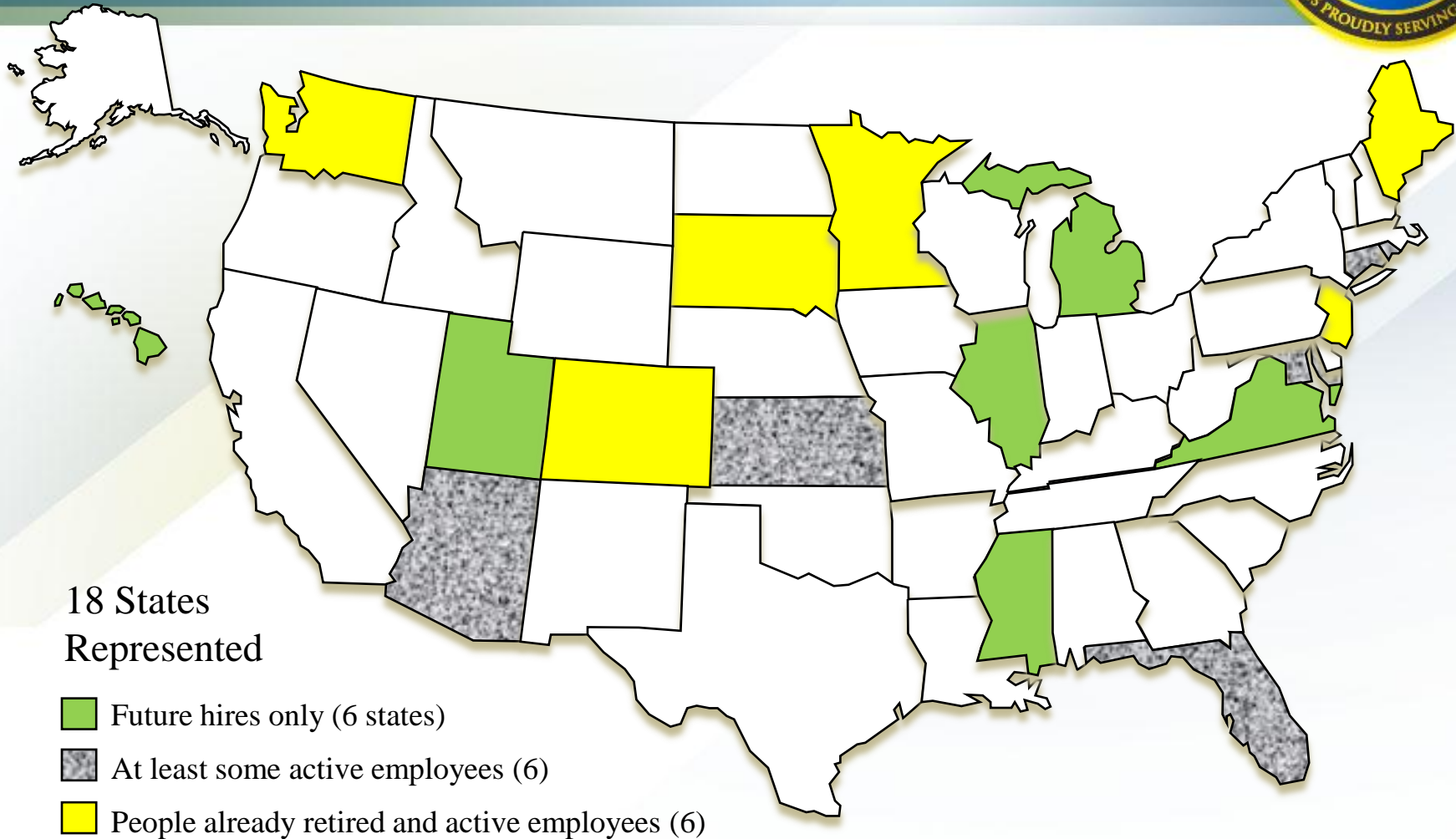


Breaking Promises

- Retirement promises have been broken elsewhere
- Private employer retirement plan defaults prompted federal passage of ERISA in 1974
- Current threat of public pension defaults across the country (Jefferson County, AL; Vallejo, CA; Central Falls, RI; Harrisburg, PA)
- Some states have broken promises and cut benefits to retirees
- Alaska has moral and constitutional obligation to keep its promises



Reduced Post-Retirement Benefit Increases Enacted in 2010 and 2011 (NCSL)





Pension Headlines

California Pension May Lower Assumed Return for First Time Since Recession

Bloomberg, March 6, 2012

States Facing 'Sleeping Cancer' in 96% Unfunded Retiree Benefits

Bloomberg, March 6, 2012

Pension Benefit Costs Cut by Record 43 States, Study Says

Bloomberg, March 14, 2012

STATE AND LOCAL GOVERNMENT PENSION PLANS

Economic Downturn Spurs Efforts to Address Costs and Sustainability

GAO Report, March 2012

EDITORIAL: State pensions in the red Public employee retirement system crisis continues to worsen

The Washington Times March 1, 2012

Falling short

People in rich countries are living longer. Without big reforms they will not be able to retire in comfort

Special Report, Economist, Apr 7th 2011

Federal benefits, pensions explode; Retirement plans almost as costly as Social Security

USA TODAY, September 29, 2011



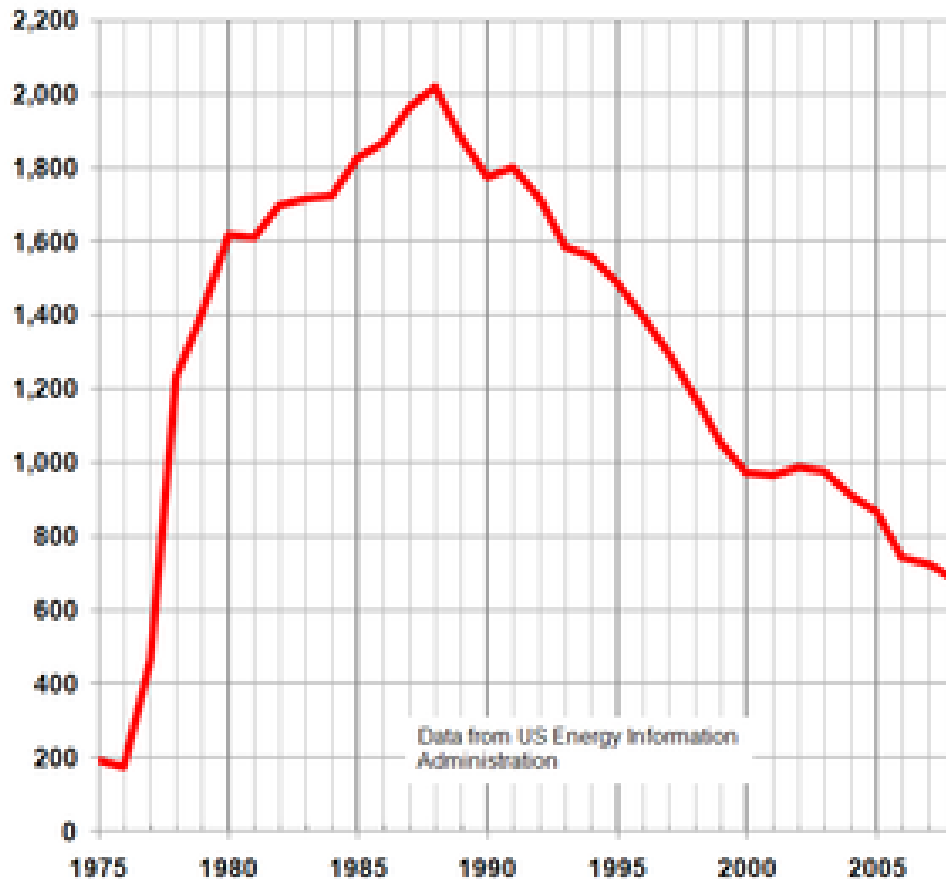
SB 121: Making New DB Promises

- SB 121 makes new DB retirement promises to the next generation of state employees
- The State will need to keep those promises until at least 2080-2090
- \$3 billion in current annual DB payment obligations will extend beyond 2047
- Where is the GF income in the future to backstop these new DB retirement promises in 2070, 2080, 2090....?



What is the Long-Term Future of GF Revenues?

Alaska Crude Oil Production
(thousand barrels per day)



Can we make new promises that retirees and their families will be able to rely on in 2060-2090?



Will SB 121 Save Money?

- SB 121 will cost employers the same or less than the current DCR plan if all of the ARMB-adopted actuarial assumptions remain true indefinitely
 - Inflation
 - Mortality
 - Retirement date
 - Investment return



PERS / TRS Annualized Returns

Annualized Returns through 6/30/2011	PERS	TRS	Average
1 Year	21.18%	21.36%	21.27%
3 Year	2.36%	2.41%	2.39%
5 Year	4.32%	4.36%	4.34%
10 Year	5.43%	5.46%	5.44%



What is the appropriate rate of return?

- ARM Board: 8.0 %
- CalPERS: 7.5 %
- Fitch: 7.0%
- Prof. Josh Rauh: 4.0%
(default-free government bond yield)
- Senate Finance ??



Impact of DCR Plan on Retention?

Executive Branch – Separation Total



Source: <http://doa.alaska.gov/dop/resources/publications/>



Retirement security is important

Defined Contribution Retirement (DCR) Contributions...

	Employee	Employer
DCR Contributions	5%	8%
SBS Contributions	6.13%	6.13%
Total Contributions	11.13%	14.13%
<i>25.26% of payroll for State of Alaska employees goes to individual retirement accounts</i>		



Administration Position re SB 121

- Keep the retirement promises we have made to date
- Don't make the problem worse
- Don't make new DB retirement promises that we are not sure we can keep
- A revenue backstop is necessary to ensure new promises are kept; until Alaska's long term fiscal situation is solved this discussion is premature



SB 121 Actuarial Fiscal Note Timeline

AS 24.08.036:

Before a bill which would have an effect on the retirement systems of the state is reported to the rules committee, there shall be attached to the bill an analysis of the long-term and short-term costs to the state if the bill is adopted, as well as the impact of the bill on the actuarial soundness of the fund. The analysis is in addition to the fiscal note requirements of AS 24.08.035.

04/07/2011: SB 121 introduced (version I)

04/14/2011: Hearing Senate State Affairs

04/17/2011: Regular session adjourns

08/04/2011: Governor's legislative office transmits actuarial fiscal note (version I) to sponsor and Senate State Affairs

09/07/2011: Kiehl asks DRB whether actuary (Buck) correctly understands bill

09/15/2011: Hearing Senate State Affairs; DOA acknowledges actuarial fiscal note in error

10/07/2011: DOA transmits revised actuarial fiscal note (version I) to sponsor and Senate State Affairs

10/13/2011: Hearing in Senate State Affairs; revised actuarial fiscal note discussed; actuary explains why the actuarial note is positive; DOA agrees to make actuary available to achieve neutral actuarial note

01/26/2012: Hearing in Senate State Affairs; version R. introduced

02/07/2012: DOA provides Buck 30 year actuarial analysis on version R to sponsor and Senate State Affairs; analysis shows that note will remain positive; DOA offers to refrain from filing a second positive fiscal note pending amendment to version R.

02/09/2012: Hearing in Senate State Affairs; amendment R.2 introduced

02/16/2012: Hearing in Senate State Affairs; version R, amended, moved from committee

03/09/2012: Governor's legislative office transmits indeterminate actuarial fiscal note (version R, amended) to sponsor and Senate Finance



Thank you!

www.DOA.alaska.gov for more information.

Questions?