Testimony of Keith Brainard to the
Alaska House Finance Committee
February 11, 2025

Members of the committee: my name is Keith Brainard and I serve as research director of NASRA, the National Association of State Retirement Administrators. NASRA members are the directors and administrators of roughly 90 state and local public retirement systems. In Alaska, our member is Kathy Lea, who is the director of the division of retirement and benefits. My opinions do not necessarily reflect those of Ms. Lea or her office.

Rather than speak to the particular details of HB 78, I want to focus my remarks on retirement plan design in general. My overarching message is that it is possible to design and implement a retirement benefit for public employees in Alaska that meets the legitimate needs of all stakeholder groups: public employees, public employers, and taxpayers.

I have been in my present role since 2002, and I remember when Alaska closed its defined benefit plans to new hires. Before and after that closure, many in Alaska pointed to defined benefit plans as fundamentally and irredeemably flawed. That message has been repeated countless times, that DB plans are inherently defective and unaffordable and will surely lead the state and its political subdivisions to a fiscal crisis.

I am here to tell you that that notion is completely false.

If the objective of the Alaska Legislature is to avoid unfunded liabilities and to manage retirement plan costs, those objectives are reasonable and attainable. There are retirement plans in the public sector that have achieved these objectives, and that continue to achieve these objectives year in and year out.

My employer, NASRA, does not endorse any one type of retirement plan, such as a defined benefit or a defined contribution plan. What NASRA does support is a retirement plan that contains features that are known to achieve key objectives for all plan stakeholders: employers, employees, and taxpayers.

What are these key stakeholder objectives? Employers need to attract and retain qualified employees needed to perform essential public services, such as teaching in schools, providing public safety, building and maintaining roads and infrastructure, and so forth. Employees want a competitive compensation package that includes a decent retirement benefit. And taxpayers want public services provided at a cost that is reasonable and predictable.

Before I describe the elements of retirement plan design that are known to facilitate a mutual attainment of stakeholder objectives, I will point out to you three examples of retirement plans sponsored by states that have stable costs and unfunded liabilities that are either nonexistent or negligible and entirely manageable.

- The South Dakota Retirement System operates with fixed contribution rates for employees and employers: six percent of pay paid by both employees and employers; eight percent each for public safety officers. The retirement system has a funding policy that keeping those required costs and maintaining a fully funded pension plan are essential. And the retirement plan has done so for years. The SDRS is a traditional defined benefit plan.

- The Wisconsin Retirement System is similar: their required contribution rates are comparatively low and stable, and the plan has remained fully funded or nearly so for many years. The Wisconsin Retirement System also is a traditional defined benefit plan.
- The Texas Municipal Retirement System is a cash balance plan, which is very similar to a traditional defined benefit plan, with the primary differences being that retirement benefits are affected by the plan's investment performance and by the participant's age at retirement. TMRS employers are more than 900 municipalities throughout the state. Employers may choose from a range of benefits packages, and each employer pays for benefits based on their employees' actuarial experience. TMRS unfunded liabilities are relatively small and their costs are modest and stable.

I could give you other examples of public retirement plans that feature stable costs and minimal unfunded liabilities, but you get the idea. The overarching message I want to convey is that a good retirement plan is defined not by its label—defined benefit, defined contribution, hybrid—but rather by the way the plan is designed. Building flexibility into the plan design is key.

At a 50,000-foot level, HB 78 appears to provide the type of flexibility that is needed for all plan stakeholder groups—employers, employees, and taxpayers—to accomplish their primary objective.

Thank you for the opportunity to speak with you today and I would happy to answer any questions.

Certain characteristics of retirement plan design are known to facilitate these objectives. These characteristics include

- Cost sharing between employers and employees. That means that employers and employees alike should contribute to the cost of the plan.
- Assets that are pooled and professionally managed, an arrangement that can and usually does earn higher returns with less risk.
- Targeted income replacement. Structuring a retirement plan to replace a certain percentage of pre-retirement wages at a specified age and/or years of public service promotes retirement security for employees and an orderly progression of personnel for employers.
- Lifetime benefit payouts, meaning that once an employee qualifies for a retirement benefit and elects to retire, that employee should be able to receive a benefit they cannot outlive.
- Survivor and disability benefits should be integrated into retirement programs, a feature that is particularly important for positions involved in hazardous duty, or a public safety plan.

These core features of retirement plan design are known to promote employees' retirement security, to reduce expenses, and to enhance the ability of employers to attract and retain employees.

In 2005, when Alaska switched from a defined benefit to a defined contribution plan, risk-sharing plans were far less common and less developed than they are today. Over the last 18 years, we have witnessed a significant evolution in public retirement plan design. Risk-sharing plan designs are more common and better developed and understood than they were in 2005. NASRA published a paper in 2019 describing many examples of innovative risk-sharing retirement plan designs in use among states and local government. Many of these new plan designs were developed just in the last 10 or 15 years.

At the core of these plan designs are essential features of a sound retirement plan: cost-sharing between employees and employers; pooled assets invested by professionals; a benefit that cannot be outlived; targeted income replacement; and survivor and disability benefits.

Incorporating risk-sharing elements into a retirement plan with these essential features can provide the best of all worlds: a retirement plan that meets the needs of all stakeholders while also protecting employers and taxpayers against unsustainable increases in unfunded liabilities and costs.

I'd like to finish by providing you with three specific examples of retirement plans where this is done:

- The South Dakota Retirement System has offered all public employees in that state a traditional pension plan for decades with fixed contribution rates. Since 2002, that contribution rate for employees and employers has been 6.0 percent; 8.0 percent for public safety personnel. The SDRS also has no unfunded liability, and generally has not had one for years. The retirement system accomplishes this by making benefits variable. When the plan's actuarial experience falls short of expectations, benefits are adjusted so that the plan remains fully funded and the fixed contribution rate remains adequate.

- In 2018, Colorado established risk-sharing features in its retirement plan for teachers and employees of state and local government. This plan allows for incremental increases in employee contribution rates, up to two percent in total, and adjustments in the cost-of-living adjustment, if specified actuarial and funding targets are not met.

- The third example I want to share with you is from the City of Houston, Texas. This plan design was created in 2017 and applies to each of the city's three retirement plans, for firefighters, police officers, and general employees. The central feature of the Houston plans is a contribution corridor arrangement that restricts the change in the employer contribution rate to five percent of pay. If the required cost of the plan strays from the target rate by more than five percent, a series of specified changes take effect to bring the contribution rate back into the five percent corridor.

SB 88 proposes a trigger to increase employee contribution rates should the plan funding level fall below 70 percent and would prohibit paying a COLA if the plan's funding level is below 90 percent. These provisions will help protect the plan against higher liabilities and costs and are consistent with many other retirement plans that have been developed or reformed in recent years: they also contain risk-sharing mechanisms designed to shield public employers and taxpayers from the effects of negative actuarial experience while still promoting the ability of employers to retain qualified workers and of employees to retire with an adequate income.

I want to commend the bill's authors for your work in proposing such a thoughtful retirement plan design. This retirement plan would return Alaska to the mainstream of public retirement policy and strengthen the ability of schools, police and fire departments, and other public employers to attract and retain qualified and essential public employees. I urge the committee and the legislature to approve this bill. Thank you.