ALASKA STATE LEGISLATURE

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Sponsor Summary

Senate Bill 81

In 2006, Alaska instituted a new defined contribution retirement tier for employees in both the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). When the state implemented the new tier IV (PERS) and tier III (TRS) defined contribution retirement plans, it was extremely challenging to determine the individual participant's unfunded liability, with some showing surpluses and some showing deficits. The magnitude of the deficits of several municipal employers were so significant that financial insolvency was apparent. To avoid financial insolvency and potential legal issues for municipalities, the state limited the unfunded liability payment to 22% of the total employer payroll. This cap has been in place since 2008. The state is required to meet its employer obligation and to contribute any amount that exceeds 22% of payroll for other employers. Approximately 13% of total payroll is allocated to the unfunded liability while the remaining balance is applied to the normal cost of retirement savings for active employees.

For the past two decades, the unfunded liability has significantly impacted both the participants' and the state's finances. This trend is expected to continue for several more decades. Over the past ten years, the unfunded liability has increased from $5.3 billion in FY13 to $5.7 billion in FY23. Despite a total contribution of $2.5 billion to address this issue, the unfunded liability has still grown by $447 million, indicating a troubling trajectory.

To aid in reducing the unfunded liability, the Alaska Retirement Management Board requires the flexibility to adjust the 22% contribution rate. This rate could be increased or decreased at the Board's discretion, with municipal employer input, to assist in the state's goal of eliminating the unfunded liability.

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