



Senate Bill 88

A Shared Risk Public Employee Retirement Approach



*Senate Labor and Commerce
by Senator Cathy Giessel
March 13, 2023*

CHALLENGE

Alaska's Recruitment and Retention Crisis

CAUSE (WHY?)

2005 Alaska withdrew from Defined Benefit retirement

SOLUTION

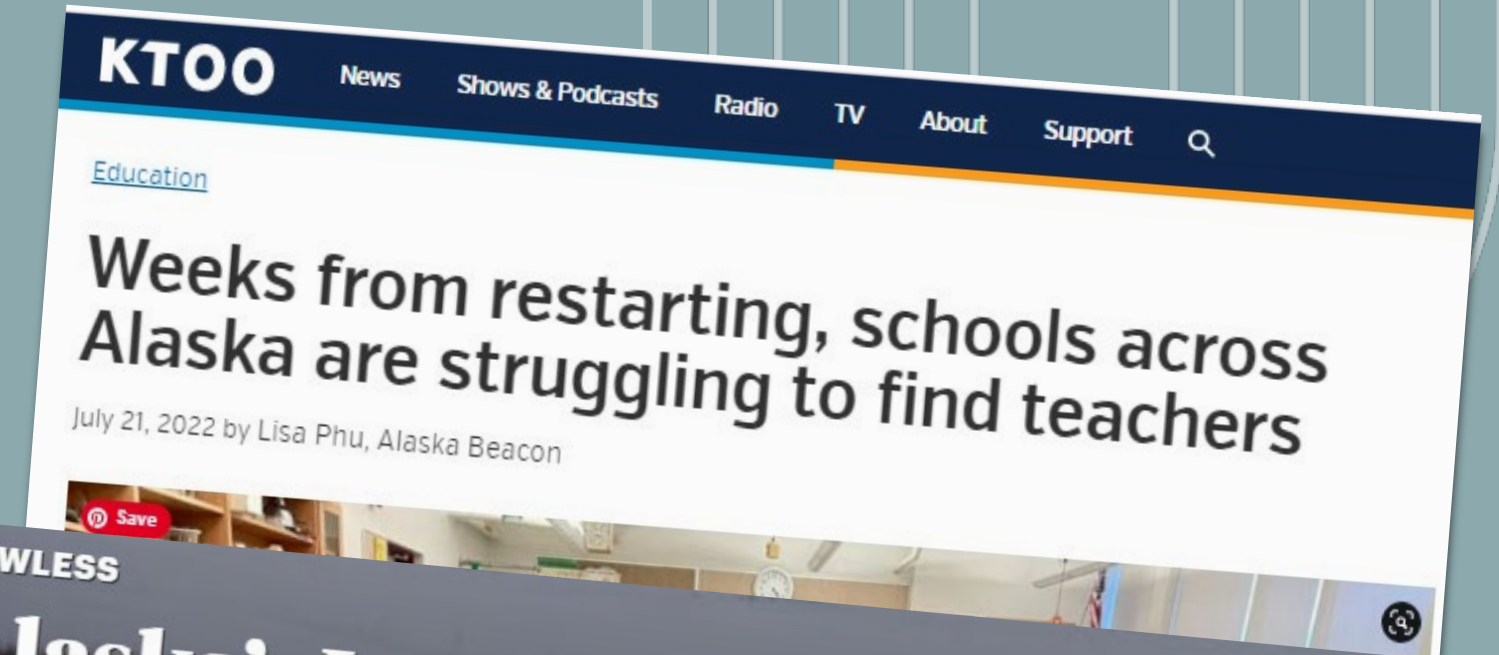
A retirement plan with reasonable costs and fair benefits

SUMMARY

Alaska has a strong interest in ensuring quality public servants fill the ranks of our public service agencies

CHALLENGE

- Recruitment and Retention has collapsed
- Staggering vacancy rates



“We’re sending troopers to domestic violence by themselves. Bad things happen. Either we end up hurting the person... or a Trooper gets assaulted and gets hurt. I mean this is ridiculous, really, when you think about it.”

DPS Commissioner James Cockrell, Joint House and Senate State Affairs, February 7, 2023

WHY IS THIS HAPPENING?

*“A lot of our vacancies and our cyclic throughput on employees really began increasing since 2006. If you remember that was the break point between Tier III and Tier IV employees for the State of Alaska so **once the pension benefits disappeared** and we became contribution or matching based employer, those benefits became transportable. **Our ability to retain employees, really much longer than four or five years anymore, and no more than ten years became largely impacted by trends and portability of those benefits.**”*

***-Wolfgang Junge, DOT&PF Central Region Director,
House Finance, February 15, 2022***



CHALLENGE

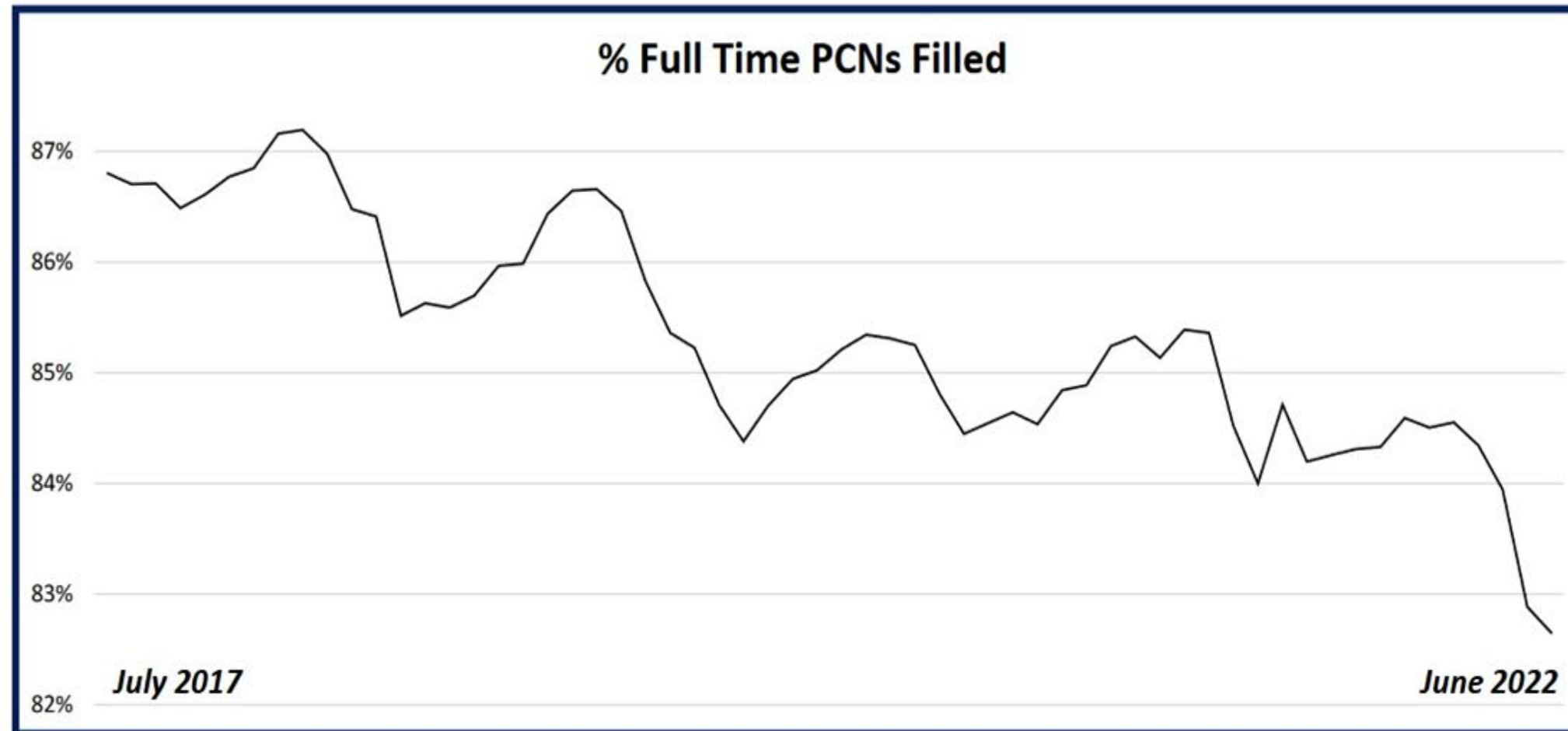
The collapse of recruitment and retention has created the inability to meet basic service obligations in all agencies



DPS, DNR, OCS, AMHS, DOT&PF, DOH, DEC, DCCED, & MORE...

Budget Challenges - Vacancy

% Vacant PCNs	December 2022
DOA	14.4%
DCCED	19.1%
DOC	17.8%
DEED	15.5%
DEC	15.6%
DFG	19.3%
Gov	14.0%
DOH	22.8%
DFCS	19.5%
DOL&WD	20.8%
Law	11.4%
DMVA	12.2%
DNR	23.4%
DPS	17.4%
DOR	21.1%
DOT&PF	16.5%
Total	17.6%



- Most departments are experiencing significantly greater vacancy than pre-pandemic levels.
- Recruitments are taking longer and are less likely to result in a hire.
- Recruitment incentives being used to address most critical public needs.

FY22 Unspent Personal Services	
Working Reserve	8.3
Group Health Life	9.5
Catastrophic Reserve	12.4
CBR	39.3

(Dollars in Millions)

*“...probably the biggest challenges that faces our state agencies right now in terms of executing on the programs in the appropriations they've been entrusted with, and that is **the challenge of recruiting and retaining the staff to actually do the work.**”*

*OMB Director Neil Steininger
S FIN 1-24-23*

DB vs DC Comparison

PERS - Tier III and Tier IV Comparison Peace Officers/Firefighters

(From Slide# 8)

Hypothetical Salaries			V/S	Actual Salaries as of 2022					
PERS PO/FF	DB Plan	DC Plan (Projected ROR=7%)		Actual Plan Data (as of 2/1/2023)					
Total Service	A: Salary Replacement Ratio	B: Salary Replacement Ratio		Comparable Salaries		All Salaries		RoR >= 7% Projection	
				Members	C: Salary Replacement Ratio	Members	D: Salary Replacement Ratio	Members	E: Salary Replacement Ratio
5	9.73%	5.75%		1	4.92%	48	4.90%	1	5.80%
6	11.68%	7.05%		3	6.16%	87	5.72%	3	7.71%
7	13.63%	8.40%		2	6.95%	81	6.58%	1	8.69%
8	15.58%	9.81%		1	7.81%	75	8.08%	7	10.54%
9	17.52%	11.27%		2	9.80%	67	8.98%	2	11.80%
10	19.47%	12.80%		4	10.27%	55	10.09%	3	14.49%
11	21.90%	14.38%		5	12.06%	56	12.21%	8	16.41%
12	24.34%	16.04%		3	15.14%	51	14.17%	12	17.32%
13	26.77%	17.76%		1	14.31%	22	14.24%	1	18.12%
14	29.20%	19.55%		1	18.39%	31	15.19%	2	19.76%
15	31.64%	21.42%		1	19.08%	65	16.87%	5	22.29%
16	34.07%	23.37%		2	19.17%	31	16.99%	2	24.78%
17	36.51%	25.39%		0		3	18.91%	0	
Total Actual Members:>				26		672		47	

Additional details for the analysis are shown in the appendix (Slides 23 and 24)

PERS - Tier III and Tier IV Comparison

All Other Members

(From Slide# 7)

Hypothetical Salaries			V/S	Actual Salaries as of 2022					
PERS All Other	DB Plan	DC Plan (Projected ROR=7%)		Actual Plan Data (as of 2/1/2023)					
Total Service	A: Salary Replacement Ratio	B: Salary Replacement Ratio		Comparable Salaries		All Salaries		RoR >= 7% Projection	
				Members	C: Salary Replacement Ratio	Members	D: Salary Replacement Ratio	Members	E: Salary Replacement Ratio
5	9.48%	5.75%		23	5.29%	296	5.27%	48	6.44%
6	11.37%	7.05%		25	6.53%	480	6.22%	53	8.46%
7	13.27%	8.40%		28	7.65%	445	7.39%	56	9.22%
8	15.17%	9.81%		24	9.34%	448	8.73%	59	11.46%
9	17.06%	11.27%		21	9.71%	419	9.91%	56	12.42%
10	18.96%	12.80%		28	11.68%	402	11.06%	56	13.97%
11	21.09%	14.38%		10	13.58%	324	12.84%	47	16.21%
12	23.22%	16.04%		18	13.96%	303	14.25%	55	17.63%
13	25.36%	17.76%		12	16.40%	215	15.80%	42	19.28%
14	27.49%	19.55%		10	16.69%	214	16.65%	27	21.20%
15	29.62%	21.42%		10	19.22%	207	17.96%	20	23.55%
16	31.75%	23.37%		5	20.11%	138	18.67%	8	25.84%
17	33.89%	25.39%		0		10	20.98%	1	25.99%
Total Actual Members:>				214		3,901		528	

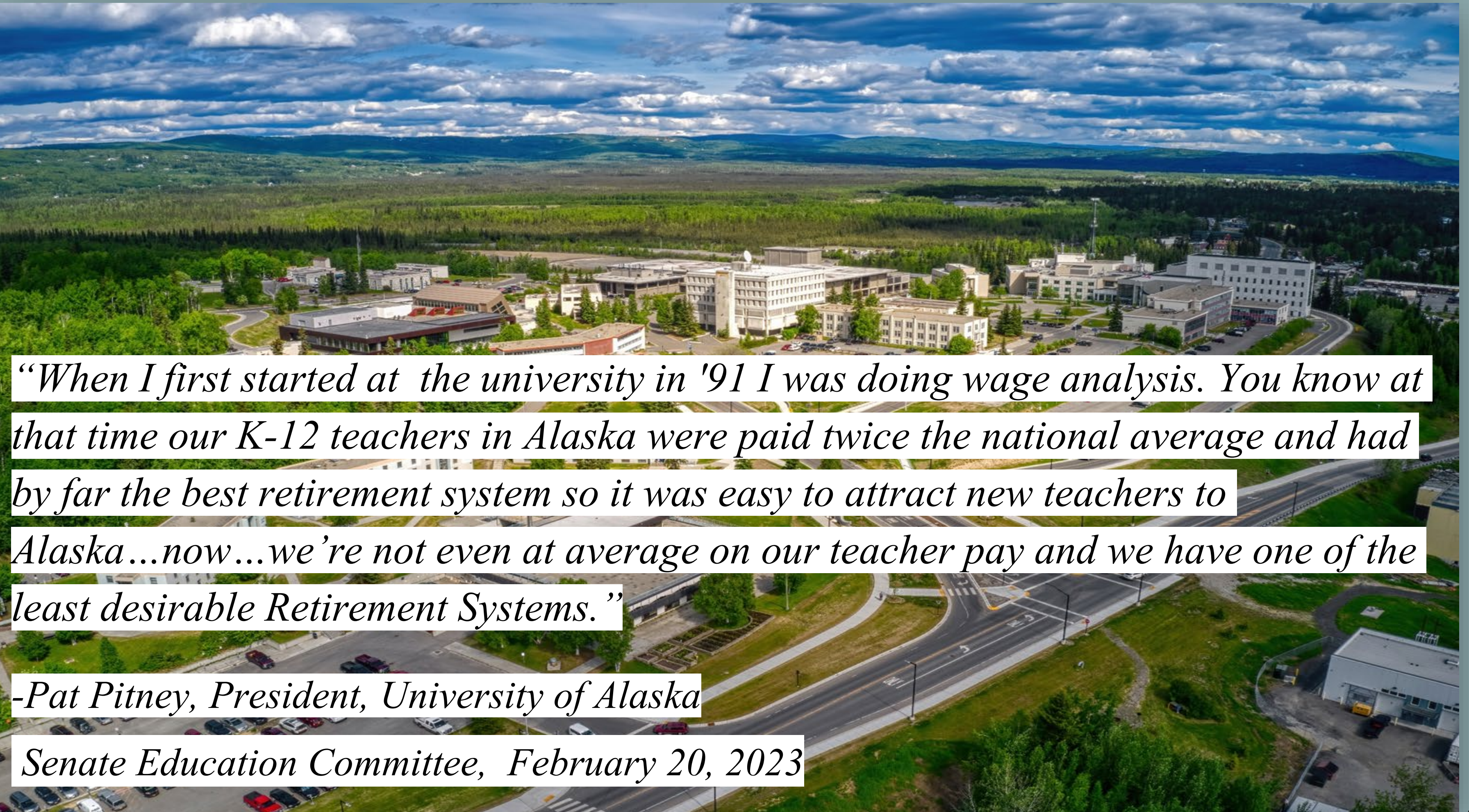
Additional details for the analysis are shown in the appendix (Slides 23 and 24)

TRS - Tier II and Tier III Comparison Teachers

(From Slide# 9)

Hypothetical Salaries			V/S	Actual Salaries as of 2022					
TRS	DB Plan	DC Plan (Projected ROR=7%)		Actual Plan Data (as of 2/1/2023)					
Total Service	A: Salary Replacement Ratio	B: Salary Replacement Ratio		Comparable Salaries		All Salaries		RoR >= 7% Projection	
				Members	C: Salary Replacement Ratio	Members	D: Salary Replacement Ratio	Members	E: Salary Replacement Ratio
5	9.73%	6.64%		2	6.28%	35	5.77%	2	7.44%
6	11.68%	8.13%		14	6.93%	226	6.66%	14	9.22%
7	13.63%	9.69%		28	8.18%	214	7.93%	7	10.92%
8	15.58%	11.31%		21	9.52%	252	9.49%	19	12.45%
9	17.52%	13.00%		18	11.22%	198	10.76%	8	14.21%
10	19.47%	14.76%		25	13.21%	196	12.48%	10	15.91%
11	21.42%	16.60%		22	15.03%	152	14.05%	10	18.12%
12	23.36%	18.51%		15	17.03%	153	15.90%	13	19.58%
13	25.31%	20.49%		8	19.05%	124	17.64%	8	22.46%
14	27.26%	22.56%		16	20.16%	149	19.25%	9	26.26%
15	29.20%	24.72%		15	19.59%	120	19.78%	3	27.09%
16	31.15%	26.96%		19	21.99%	109	21.08%	1	27.36%
17	33.10%	29.30%		12	23.70%	60	22.30%	1	29.89%
Total Actual Members:>				215		1,988		105	

Additional details for the analysis are shown in the appendix (Slides 25 and 26)

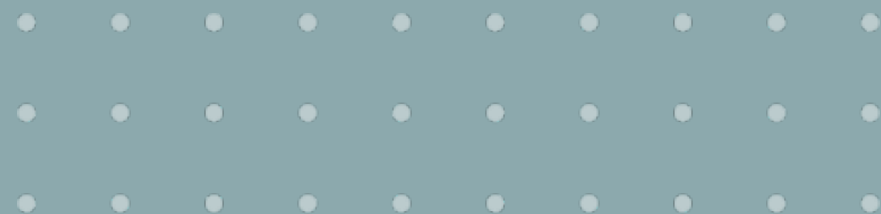


“When I first started at the university in '91 I was doing wage analysis. You know at that time our K-12 teachers in Alaska were paid twice the national average and had by far the best retirement system so it was easy to attract new teachers to Alaska...now...we’re not even at average on our teacher pay and we have one of the least desirable Retirement Systems.”

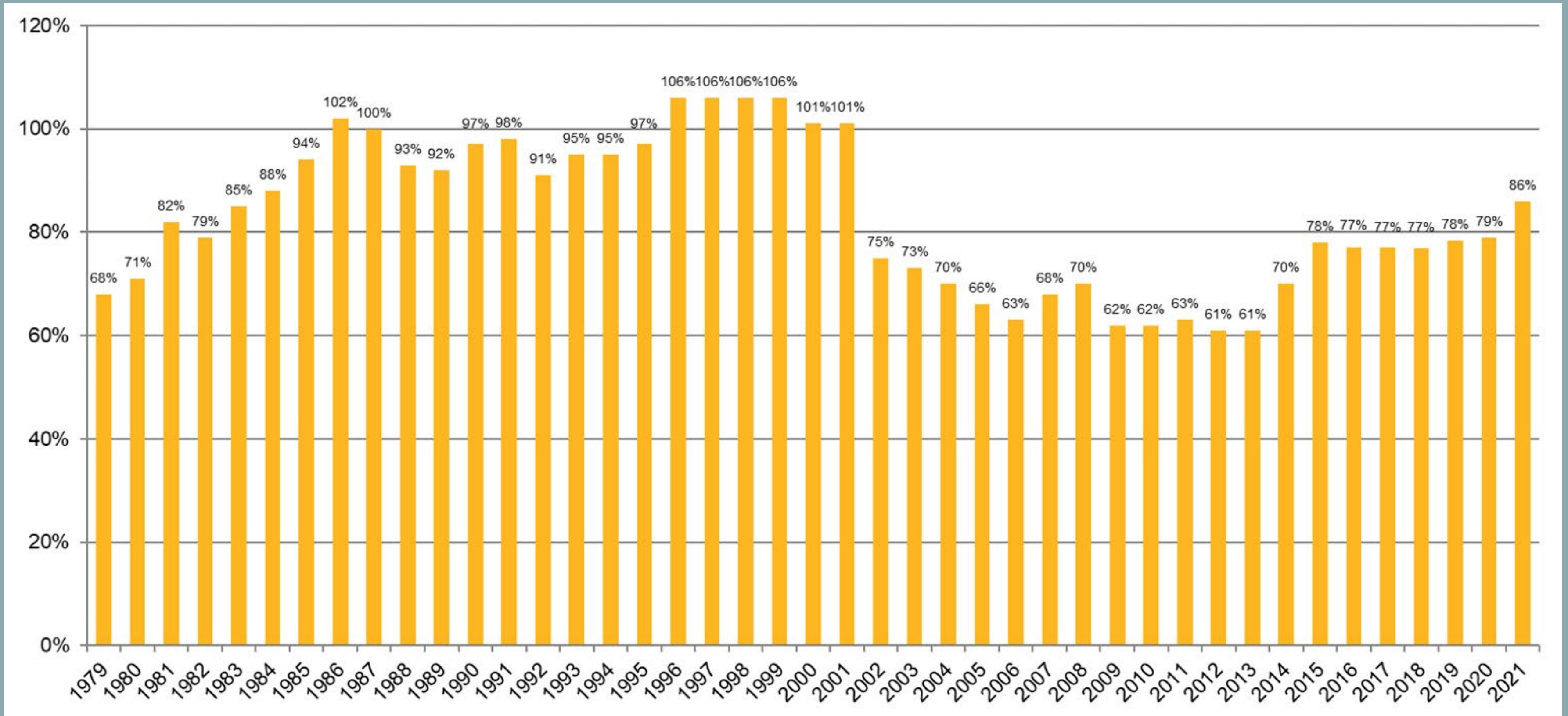
*-Pat Pitney, President, University of Alaska
Senate Education Committee, February 20, 2023*

CAUSE & HISTORY

- Prior to 2002 the DB system was well funded
- 2002 to 2004 - Erroneous actuarial advice by Mercer compromised the DB plan
- 2006 - The DC system was implemented
- 2007 State of Alaska ARM Board filed suit against Mercer for covering up its malpractice, SOA prevailed



DB System Funded Ratio History



Source: Buck Actuarial Valuation Report - May 2022

Will this happen again?

**NOT
LIKELY!**

Triple Safeguards Since 2006

1. Buck Consulting, (State Actuary) provides annual review of pension assets and liabilities
2. ARM Board Actuary reviews Buck's work every year
3. Every 4th year a third Actuary reviews ARMB and Buck actuarial reports

A Proposed Solution

Senate Bill 88

A retirement plan with reasonable costs
and fair benefits



Structural Features of SB 88

- Builds on best practices of other states
- Shares risk between employees, employers, and retirees
- Ensures plan will remain solvent

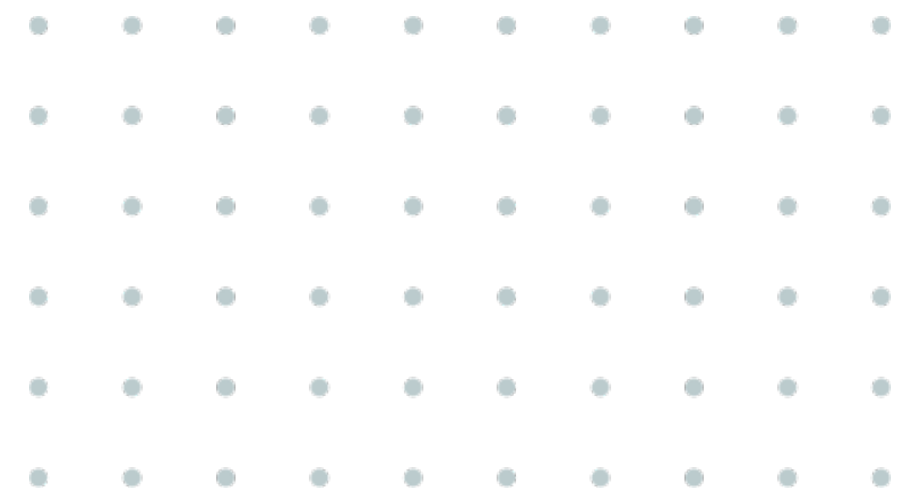


SB 88 Structure

EMPLOYEE CONTRIBUTION

PERS & TRS

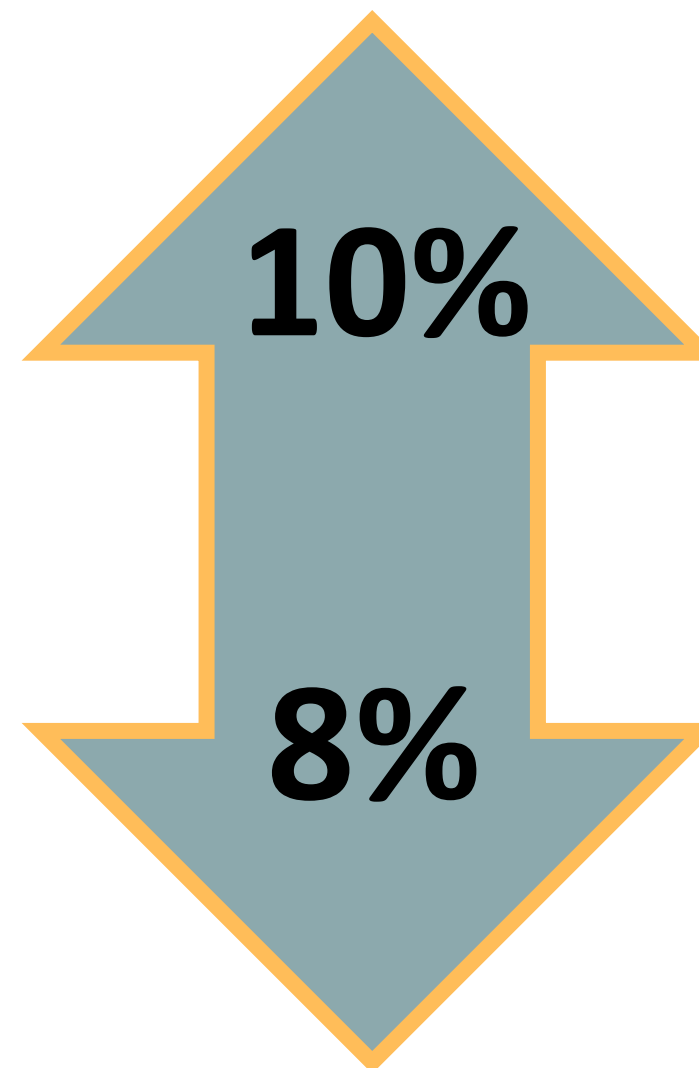
- 8- 10% adjustable by ARM Board
- Employees share the risk contributing more during poor market returns



EMPLOYEE CONTRIBUTION

States that use a Variable Employee Contribution Rate

- Arizona
- Colorado
- Idaho
- Iowa
- Maine
- Montana
- Nevada





SB 88 Structure

EMPLOYER CONTRIBUTION

- Remains the same and aligns with rates set by prior Defined Benefit (DB) tiers.
- The State continues to pay the full normal and past service cost of the system.
- Sets 12% hard floor for long term success of the plan





SB 88 Structure

EMPLOYER CONTRIBUTION

PERS

- 22% = existing limit of 22%

TRS

- 12.56% = existing limit of 12.56%



2024 ACTUAL EMPLOYER CONTRIBUTION RATES

	PERS				TRS			
	FY24 PERS Total Payroll *		\$	2,437,619,000	FY24 TRS Total Payroll		\$	762,084,000
	Preliminary	Contribution	Adopted	Contribution	Preliminary	Contribution	Adopted	Contribution
DB Pension Plan - Normal Cost	2.14%	52,165,000	2.14%	52,165,000	2.05%	15,623,000	2.05%	15,623,000
DB Pension Plan - Past Service Cost	16.33%	398,063,000	16.33%	398,063,000	16.44%	125,287,000	16.44%	125,287,000
DB Health Plan - Normal Cost	2.50%	60,940,000	0.00%	-	2.41%	18,366,000	0.00%	-
DCR Plan	6.63%	161,614,000	6.63%	161,614,000	7.03%	53,575,000	7.03%	53,575,000
	27.60%	672,782,000	25.10%	611,842,000	27.93%	212,851,000	25.52%	194,484,000
State Of Alaska Contributions	27.60%	334,978,000	25.10%	304,636,000				
Non-State Employer Contributions	22.00%	269,264,000	22.00%	269,264,000	12.56%	95,718,000	12.56%	95,718,000
Additional State Contributions	5.60%	68,540,000	3.10%	37,942,000	15.37%	117,132,000	12.96%	98,766,000

* PERS Non-State Employers Total Payroll: \$ 1,223,929,000
 PERS State as an Employer Total Payroll: 1,213,690,000
 FY24 PERS Total Payroll: \$ 2,437,619,000

Total Savings: \$60,940,000 (PERS) + \$18,366,000 (TRS) = \$ 79,306,000

(NOTE: some totals may not add due to rounding)



Source: ARM Board packet, September 2022 (information consolidated for presentation and some amounts may be off due to rounding)

Source - Senate Finance Committee February 14, 2023

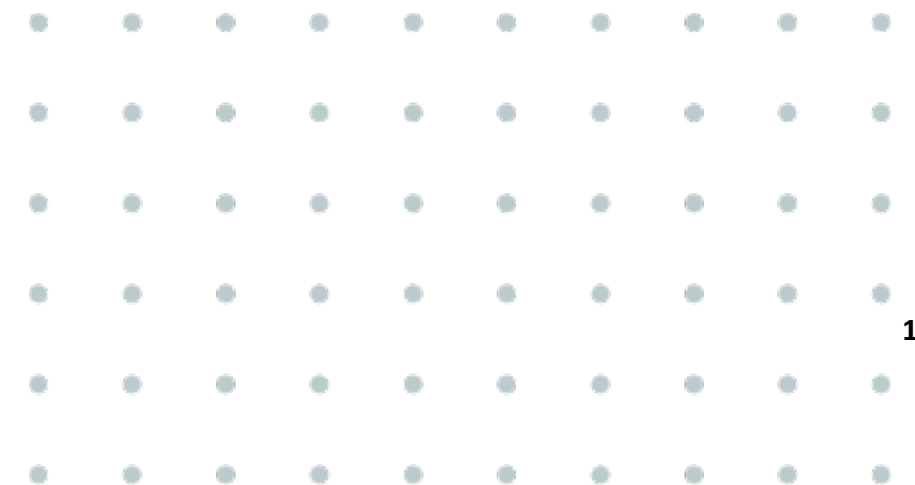


SB 88 Structure

VESTING

PERS and TRS

- Vested at 5 years for both PERS and TRS
- Consistent with current Defined Contribution (DC) plans





SB 88 Structure

QUALIFICATION FOR RETIREMENT

PERS- (Public Safety only)

- 50 years of age with 25 years of service

OR

- 55 years of age with 20 years of service

- Allows Public Safety employees to reach retirement eligibility prior to 60 years of age



SB 88 Structure

QUALIFICATION FOR RETIREMENT

PERS- (Non - Public Safety)


TRS- (Teachers)

- 60 years of age **OR** 30 years of service



BENEFIT CALCULATION FORMULA

PERS- (Public Safety only)

- 2.00% first 10 years
 - 2.50% thereafter
 - New Plan is consistent with PERS Tier III
- 



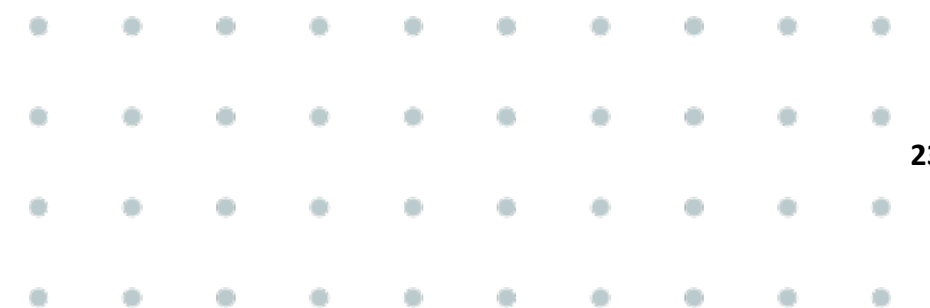
SB 88 Structure

BENEFIT CALCULATION FORMULA

PERS (Non - Public Safety)

- 2.00% first 10 years
- 2.25% next 10 years
- 2.50% thereafter

- New plan is consistent with prior PERS Tier III : : :



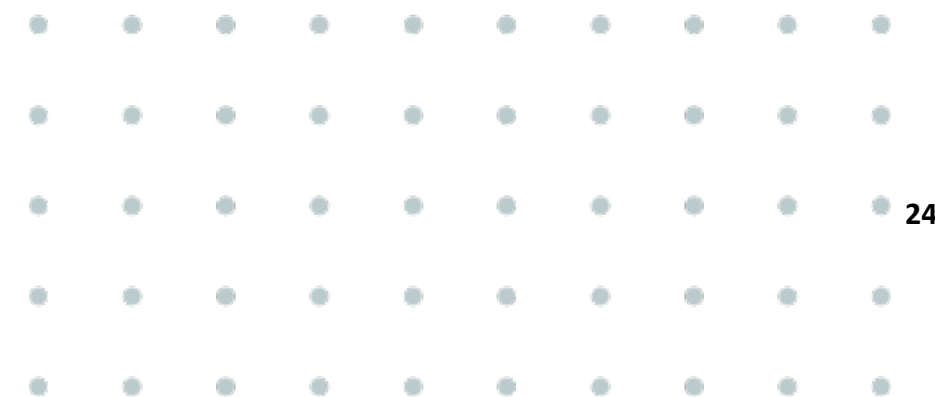


SB 88 Structure

BENEFIT CALCULATION FORMULA

TRS- (Teachers)

- 2.00% first 10 years
- 2.25% next 10 years
- 2.50% thereafter
- New plan is consistent with prior PERS Tier III.





SB 88 Structure

FINAL AVERAGE SALARY

PERS and TRS

- Highest **5** consecutive years of service
- Teacher retirement was previously based on highest **3** contract salaries in TRS II
- New plan is consistent with **PERSTier III**. Aligns **TRS** with **PERS** final average salary calculation



SB 88 Structure

ALASKA COST OF LIVING (COLA)

PERS and TRS

- No COLA is provided for new **PERS** or **TRS** Defined Benefit (DB) plans
- Keeps the plan solvent





SB 88 Structure

POST RETIREMENT PENSION ADJUSTMENTS (PRPA) (Inflation Protection)

- ARM Board may provide PRPA to employees if Defined Benefit (DB) Trust Fund values are equal to or greater than **90%** funded
- The ARM Board will have the ability to withhold PRPA if the Defined Benefit (DB) Trust Fund values fall below **90%** funded
- This keeps the plan solvent regardless of funding level

POST RETIREMENT PENSION ADJUSTMENTS (PRPA) (Inflation Protection)

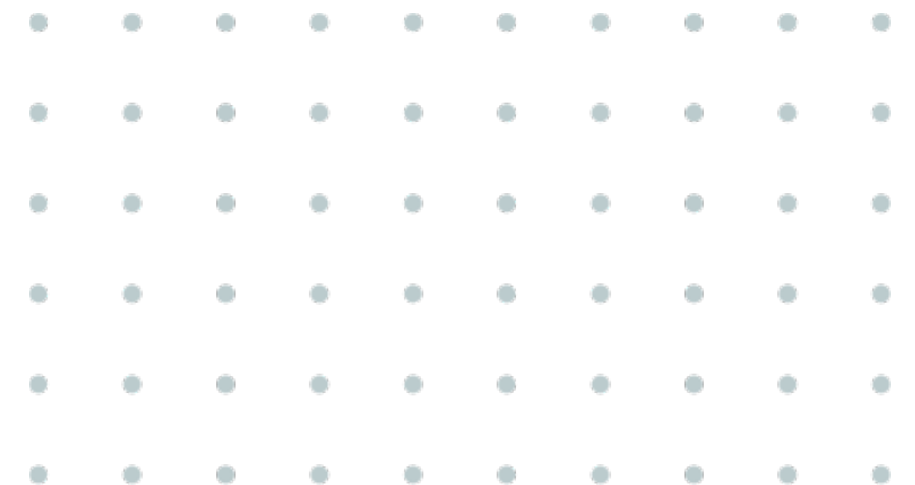
States with PRPA contingent on fund performance

- Louisiana
- Maryland
- Massachusetts
- Nebraska
- South Dakota
- Wisconsin

RETIREMENT MEDICAL COVERAGE

PERS & TRS

- Coverage is consistent with PERS Tier IV and TRS Tier III Defined Contributions (DC) Plans for all employees
- Employer makes contribution of **3%** to employee Health Reimbursement Account (HRA)
- (HRA) can be used for any qualifying medical need
- Keeps the plan solvent



DEATH & DISABILITY BENEFIT PERS

- Non-occupational disability benefits are calculated as normal retirement, death benefit is provided
- Occupational disability or death provides **40%** of the gross monthly compensation
- Added non - occupational benefits to provide minimal protection to employees and families should they have career ending injuries or disabilities occur off the job

DEATH & DISABILITY BENEFITS

TRS

- Non-occupational disability benefits are calculated as normal retirement, death benefit is provided
- Occupational disability or death provides **40%** of the average base salary
- Added non - occupational benefits to provide minimal protection to employees and families should they have career ending injuries or disabilities occur off the job

What will happen to CURRENT employees hired after 2006?

PERS & TRS

- Current PERS IV and TRS III members would have the option to convert from their Defined Contribution (DC) plan to the new Defined Benefit (DB) plan within a four month, (120 day) window

What will happen to NEW employees after
SB 88 effective date?

PERS & TRS


- New employees would automatically be enrolled in the Defined Benefit (DB) system



SB 88 Structure

What will happen to new employees after
SB 88 effective date?

PERS & TRS

- Alaska's workforce challenges recruiting and retaining public workers are the primary motivation driving this legislation.
 - Pensions remain the best fiscal choice for the state to meet these goals.
- 

Senate Bill 88

CHALLENGE

Alaska's
Recruitment and
Retention Crisis

CAUSE

Alaska withdrew
from DB retirement
program in 2005

SOLUTION

A retirement plan w/
reasonable costs and
fair benefits

Summary

Alaska has a strong interest in ensuring quality public servants fill the ranks of our public service agencies

THANK YOU

Questions ?

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