

# Senate Bill 88

# A Shared Risk Public Employee Retirement Approach

*Senate Labor and Commerce*

*Senator Cathy Giessse*

*March 13, 2023*





## CHALLENGE

Alaska's Recruitment and Retention Crisis

## CAUSE (WHY?)

2005 Alaska withdrew from Defined Benefit retirement

## SOLUTION

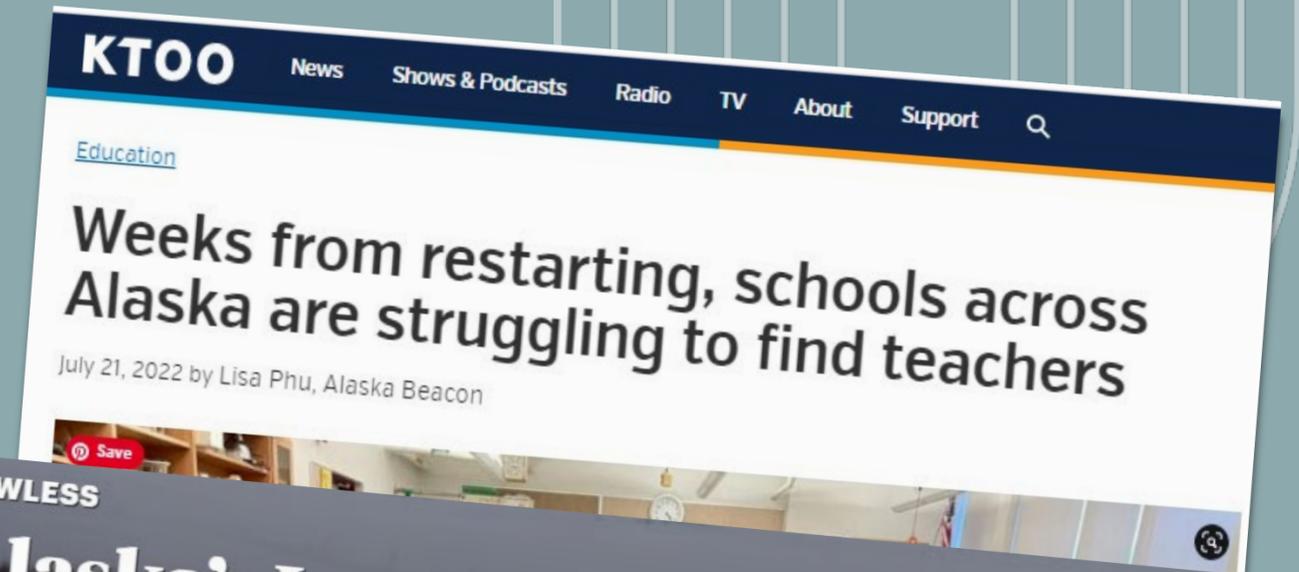
A retirement system with reasonable costs and fair benefits

## 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

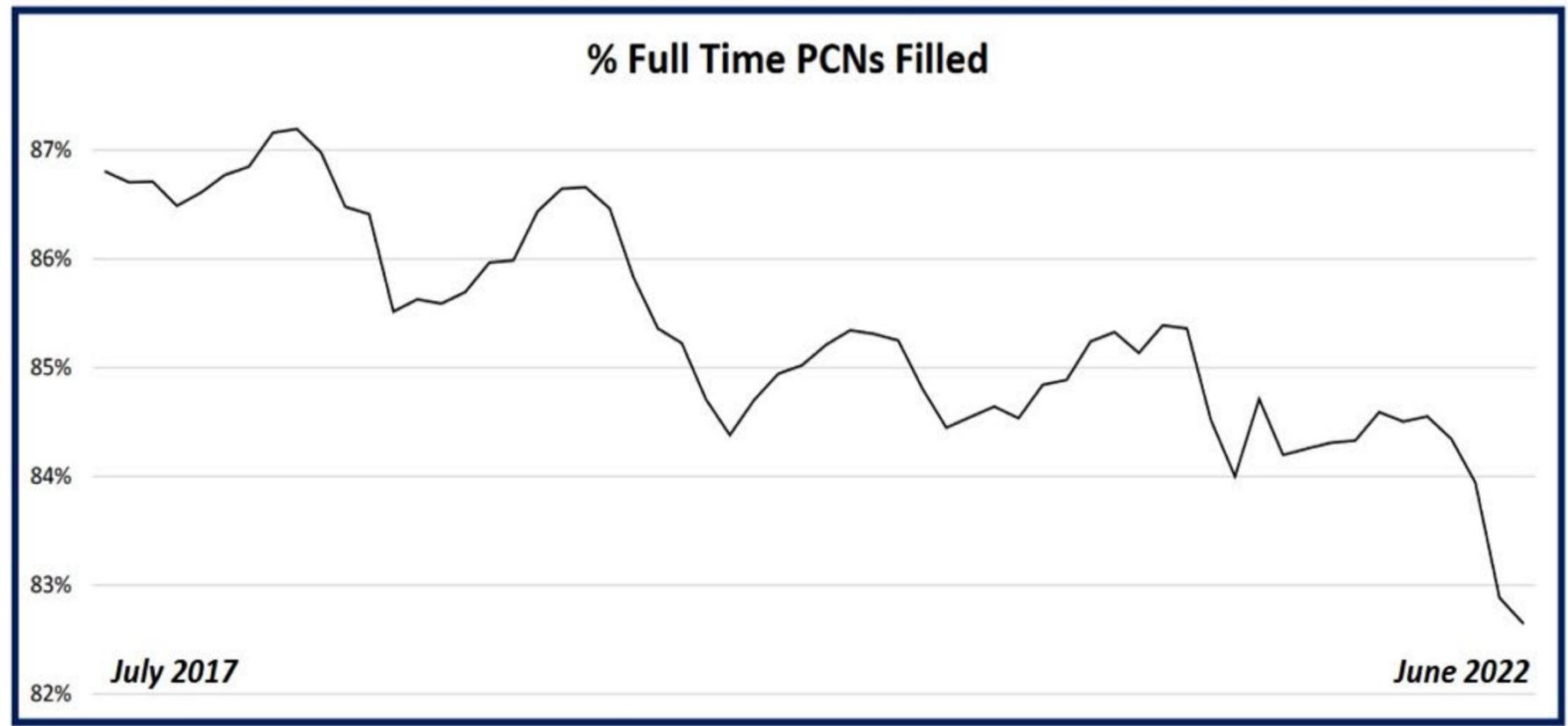
The collapse of recruitment and retention has created the inability to meet basic service obligations in all agencies



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%
<b>Total</b>	<b>17.6%</b>



- 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 Steinger  
S FIN 1-24-23*



# DB vs DC Comparison

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

(From Slide# 8)

Hypothetical Salaries			Actual Salaries as of 2022					
PERS PO/FF	DB Plan	DC Plan (Projected ROR=7%)	Actual Plan Data (as of 2/1/2023)			RoR >= 7% Projection		
			Members	C: Salary Replacement Ratio	D: Salary Replacement Ratio	Members	E: Salary Replacement Ratio	Members
Total Service	A: Salary Replacement Ratio	B: 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			Actual Salaries as of 2022					
PERS All Other	DB Plan	DC Plan (Projected ROR=7%)	Actual Plan Data (as of 2/1/2023)			RoR >= 7% Projection		
			Members	C: Salary Replacement Ratio	D: Salary Replacement Ratio	Members	E: Salary Replacement Ratio	Members
Total Service	A: Salary Replacement Ratio	B: 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			Actual Salaries as of 2022					
TRS	DB Plan	DC Plan (Projected ROR=7%)	Actual Plan Data (as of 2/1/2023)			RoR >= 7% Projection		
			Members	C: Salary Replacement Ratio	D: Salary Replacement Ratio	Members	E: Salary Replacement Ratio	Members
Total Service	A: Salary Replacement Ratio	B: 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	

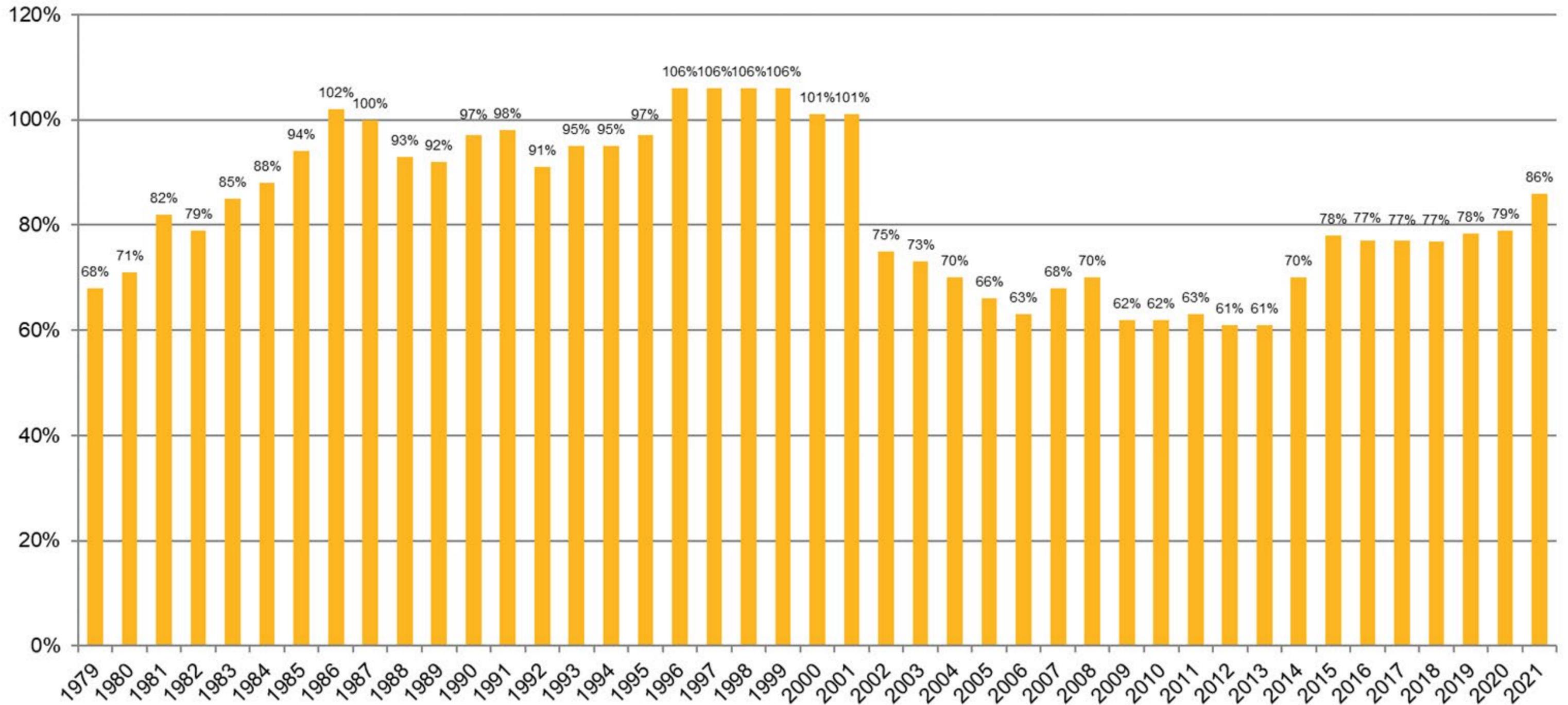


Additional details for the analysis are shown in the appendix (Slides 25 and 26)

# CAUSE & HISTORY

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

# DB System Funded Ratio History



# 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

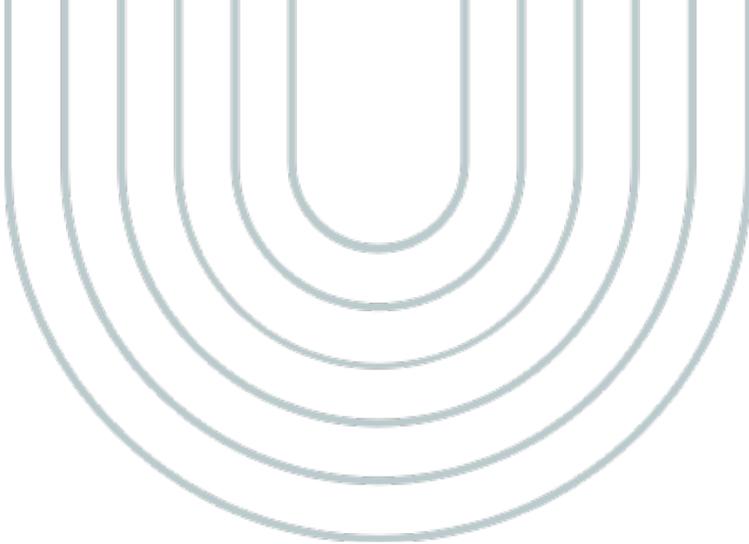
## Senate Bill 88

A retirement system 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 system will remain solvent

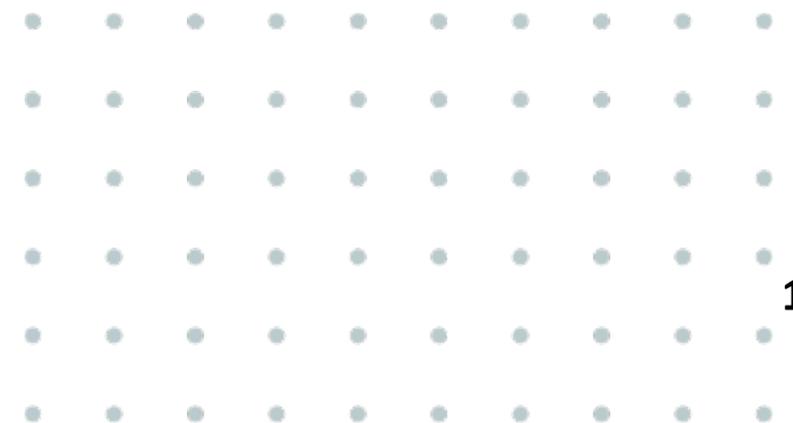


# SB 88 Structure

## EMPLOYEE CONTRIBUTION

### **PERS & TRS**

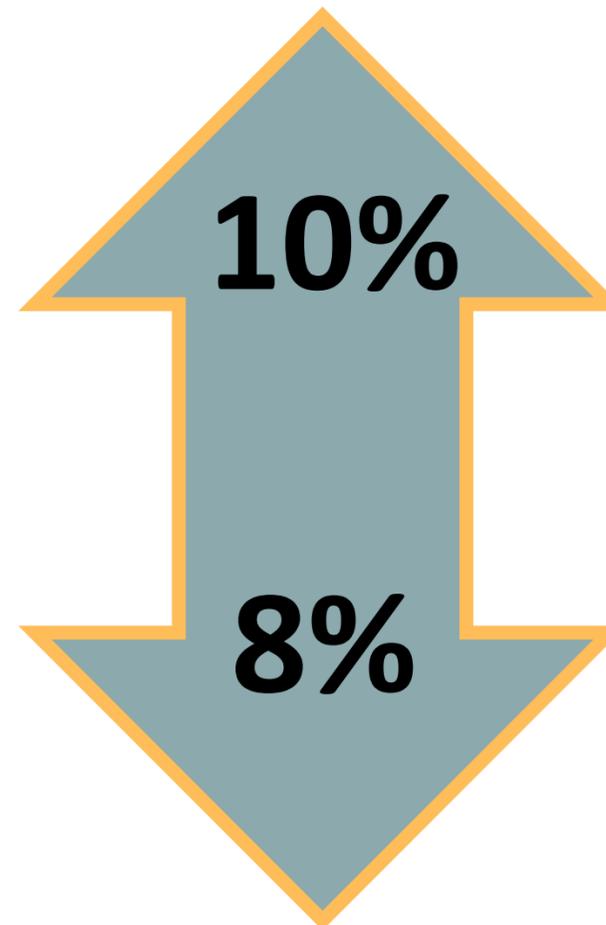
- 8- 10% adjustable by ARM Board
- Employees share the risk contributing more during poor market returns



## 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
	<b>27.60%</b>	<b>672,782,000</b>	<b>25.10%</b>	<b>611,842,000</b>	<b>27.93%</b>	<b>212,851,000</b>	<b>25.52%</b>	<b>194,484,000</b>
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

# PENSION AND HEALTHCARE TRUST COMBINED VALUATION

## Funded Status – Valuation Results (\$000's)

### Defined Benefit Total (Pension and HealthCare Combined)

	PERS			TRS		
	2020	2021	2022 (DRAFT)	2020	2021	2022 (DRAFT)
a. Actuarial Accrued Liability	\$22,316,075	\$22,276,145	\$22,750,748	\$9,936,711	\$9,911,490	\$10,246,623
b. Actuarial Value of Assets (AVA)	\$17,703,068	\$19,047,864	\$19,941,441	\$8,608,347	\$9,178,106	\$9,537,420
c. Unfunded Actuarial Accrued Liability based on AVA	\$4,613,007	\$3,228,281	\$2,809,307	\$1,328,364	\$733,384	\$709,203
<b>d. Funded Ratio based on AVA</b>	<b>79.3%</b>	<b>85.5%</b>	<b>87.7%</b>	<b>86.6%</b>	<b>92.6%</b>	<b>93.1%</b>
e. Fair Value of Assets (FVA)	\$17,282,672	\$21,696,450	\$19,685,274	\$8,398,260	\$10,454,512	\$9,418,862
f. Unfunded Actuarial Accrued Liability based on FVA	\$5,033,403	\$579,695	\$3,065,474	\$1,538,451	(\$543,022)	\$827,761
<b>g. Funded Ratio based on FVA</b>	<b>77.4%</b>	<b>97.4%</b>	<b>86.5%</b>	<b>84.5%</b>	<b>105.5%</b>	<b>91.9%</b>



Source: Buck, Actuarial Valuation Reports as of June 30, 2021, and 2022 draft results for PERS and TRS DB

5

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



# QUALIFICATION FOR RETIREMENT

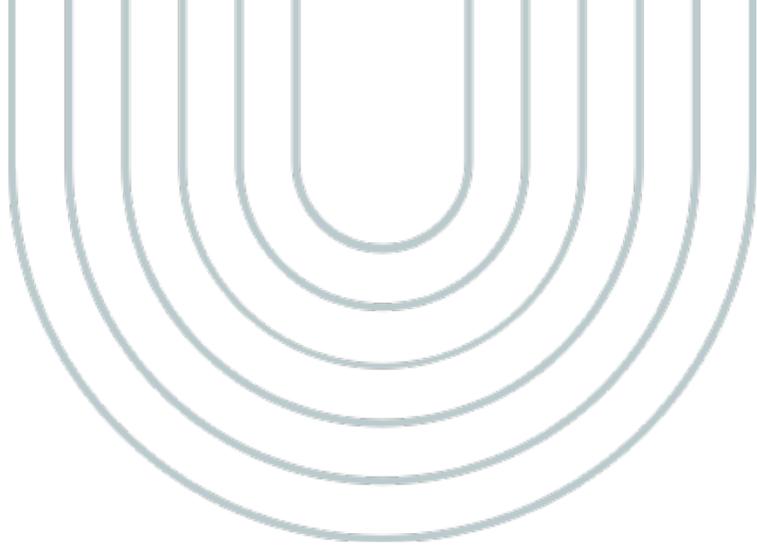
## **PERS- (Public Safety only)**

- 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



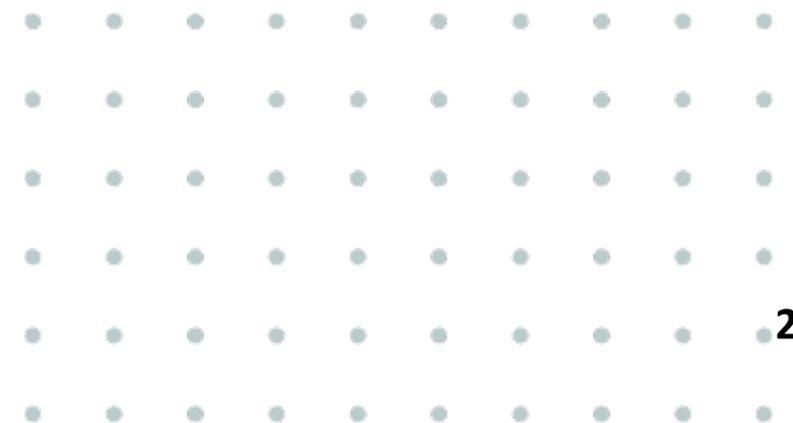
# SB 88 Structure

## QUALIFICATION FOR RETIREMENT

**PERS- (Non - Public Safety)**

**TRS- (Teachers)**

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



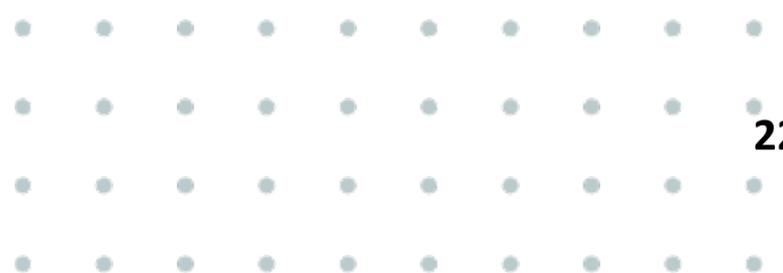


# SB 88 Structure

## BENEFIT CALCULATION FORMULA

### **PERS- (Public Safety only)**

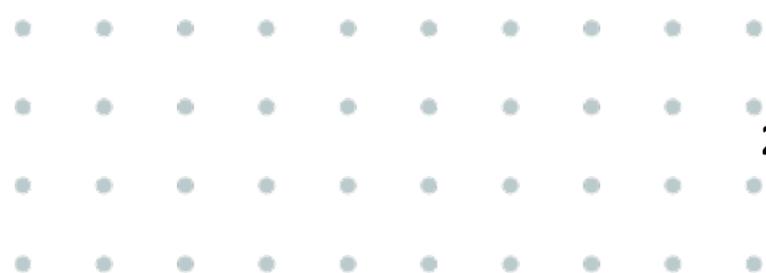
- 2.00% first 10 years
- 2.50% thereafter
- New Plan is consistent with PS PERS Tier III



# BENEFIT CALCULATION FORMULA

## **PERS (Non - Public Safety)**

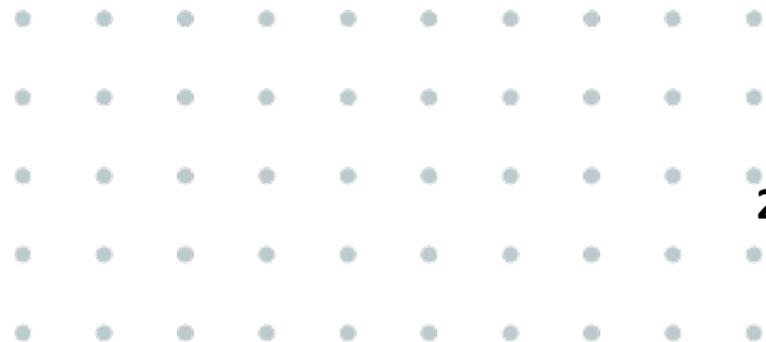
- 2.00% first 10 years
- 2.25% next 10 years
- 2.50% thereafter
  
- New plan is consistent with prior PERS Tier III : : :



## 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



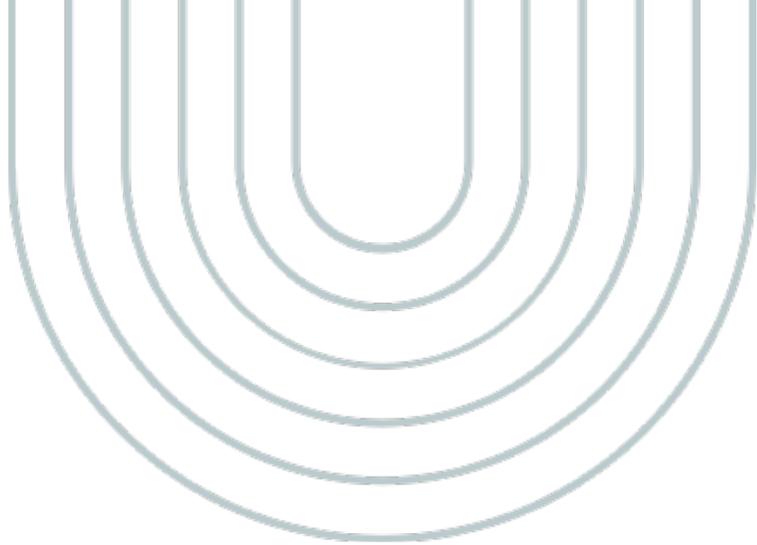


## SB 88 Structure

### 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) aka 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 Arrangement<sup>29</sup> (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) system by November 1, 2024.



# SB 88 Structure

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



## CONCLUSION

- 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: recruitment and retention.

# Senate Bill 88

## CHALLENGE

Alaska's  
Recruitment and  
Retention Crisis

## CAUSE

Alaska withdrew  
from DB retirement  
system 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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*District E*

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# Addendum



# 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	Actual Plan Data (as of 2/1/2023)						
		(Projected ROR=7%)	Comparable Salaries		All Salaries		RoR >= 7% Projection		
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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%	
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17	33.89%	25.39%	0		10	20.98%	1	25.99%	
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# PERS - Tier III and Tier IV Comparison

## Peace Officers/Firefighters

(From Slide# 8)

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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%	
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# TRS - Tier II and Tier III Comparison

## Teachers

(From Slide# 9)

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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)