Senate Bill 88

Defined Benefit Pensions

Update on Process to Date

Senate Finance Committee

January 23, 2024

Current Defined Contribution System in Place since 2006

- Alaska's public employees (PERS) and teachers (TRS) had a traditional "defined benefit" pension system from 1961 (PERS) or 1955 (TRS) until 2006
- Beginning in 2002, Alaska started seeing growing "past service cost," driven in part by bad actuarial advice and under-contribution to the system
- SB141 passed in May 2005; the new "tier" for both PERS and TRS took effect for all new employees beginning on July 1, 2006
    - New plans also changed the retirement health care system, putting most of the costs on retirees and the Medicare system
- Subsequent legislation from 2008 established a process for the state to make additional contributions to the system to help pay down the unfunded liability

Various Proposals to Restore Defined Benefit in Recent Years

- Proposals to return to Defined Benefit have been introduced in every legislature beginning in 2007
- There have been bills for full repeal / restoration, hybrid systems, and plans limited to certain worker groups such as teachers or public safety employees
- Proposals coalesced around principles of:
  - Restoring Defined Benefit for all employees
  - Minimizing chance of accruing new past service costs
  - Keeping the current retirement health system

Specific Concerns on Recruitment and Retention

- High vacancy rates / reduced customer service
- High turnover / high training & recruitment costs
- Increasing number of employees taking their training, and their portable retirement accounts, to jobs out of state
- Growing use of bonuses and other work-arounds

It is unclear to what extent this is related to the pension system, but many employers and employee groups believe there is a strong correlation. There is also a growing body of research indicating this.

Major Provisions of Bill

SB88 was introduced on March 1, 2023 and has 11 co-sponsors

- Pension accrual of 2% to 2.5% per year of service comparable to pre-2006 tiers
- Variable employee contribution rate between 8% and 12% that can be increased by the ARM board when the fund is stressed
- Variable employer contribution that can be reduced when well funded
- Variable post-retirement (inflation) adjustments to keep the plan funded at greater than 90%
- No changes to the current retirement health system (both the "Health Reimbursement Arrangement" (HRA) and the share of major medical premium costs). Major savings vs. the legacy health plan
- New employees enrolled in new system
- Option for current active Defined Contribution employees to transition to new system. Division of Retirement and Benefits will calculate how to convert each employee's DC account balance into years of service

Process in Senate Labor and Commerce Committee

- Eight hearings in March and April

Major changes of Committee Substitute:

- Increased maximum employee contribution rate and made employer contribution rates able to flex lower when adequately funded
- TRS "high 5" years to determine basis for pension can be non-consecutive
- 50% reduction to post retirement inflation adjustment (PRPA) for non-residents
- Tighter requirement for ARM Board to separately track the accounting for the new tier
- Provision added to allow employees transitioning from DC to the new plan to buy back any time if their funds are inadequate
- Former DC employees who return to service can also opt into new plan

Process to Date in the Finance Committee

- Five hearings between May 2 and the end of session, including public testimony
- Work draft Committee Substitute \O adopted on May 12. The CS made a handful of mostly technical changes
- Two additional amendments received, incorporated in new CS \T
- We've heard from three separate actuaries:
  - The Finance Committee hired an actuary, Gene Kalwarski (Cheiron), who presented his report and analysis on May 12
  - The stakeholders' actuary, Flick Fornia, also presented on May 12
  - The Department of Administration's actuary, David Kershner (Buck) presented his analysis and fiscal note on May 13

Actuarial Analysis and Fiscal Notes

- All analyses have separately modeled three different employee groups: PERS general, PERS public safety, and TRS
- Cheiron “base case” was more or less fiscally neutral
- Buck analysis showed a cumulative $1.2 billion cost to the state over 16 years, with $700 million for state employees and $500 million in additional state contributions towards municipal and school district employees
- The first six years of the Buck analysis was used for the two major fiscal notes attached to the bill

General Concerns with Fiscal Notes

Cheiron's analysis was an "apples to apples" comparison assuming the same employee base for both the status quo and if the bill passed

Buck's analysis assumed rapid and substantial improvements to recruitment and retention should the bill pass. Because of this:

- The bill led to longer-tenured, higher paid employees and lower vacancy rates, and a significantly higher payroll than the status quo. By the last year of the analysis (2039), there was a $250 million difference in payrolls
- The Buck analysis also increases the state contribution rate when needed, without concurrently adjusting the employee contributions

The bulk of the fiscal note cost is due to the larger payrolls and the bill's "success" in solving our workforce problems.

<u>**If it doesn't actually work, those costs won't be incurred**</u>

THANK YOU

Feel Free to Call or Email with Any Questions

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