



House Bill 55

"An Act relating to participation of certain peace officers and firefighters in the defined benefit and defined contribution plans of the Public Employees' Retirement System of Alaska; relating to eligibility of peace officers and firefighters for medical, disability, and death benefits; relating to liability of the Public Employees' Retirement System of Alaska; and providing for an effective date."

Sponsor: Representative Andy Josephson

Staff: Elise Sorum-Birk

Sections of Note in HB 55

Section 14: Allows employee contribution rate to be increased from 8% to 10% if needed.

Section 18: Sets employer contribution at 22%- 12% to employee and 10% remaining to unfunded liability.

Section 21: Establishes age of retirement at 55 years with 20 years of service or 60 years with 5 years of service.

Section 25: Allows for the post retirement pension adjustment to be withheld if the plan if unfunded liability on the new tier is greater than 10%.

Section 29: New section outlines medical benefit eligibility for the new tier.

Section 30: Outlines the “high five” rule for the new tier.

Sections 35 and 36: Uncodified sections that outline process for current employees to buy in to the new tier.

Public Safety Pension Fix

Many years of work are encapsulated in this legislation-

HB 247 in 28th Legislature,
Sponsor: Rep. Holmes

HB 113 in 29th Legislature
Sponsor: Rep. Millett

HB 395 in 30th Legislature
Sponsor: Rep. Millett

HB 79 in 31st Legislature
Sponsor: Rep. Kopp

Now HB 55 in 32nd Legislature

Details of Tier IV

401(a) is made up of 13% of payroll:
Employee=8%, Employer=5%

HRA = 3% of average PERS salary

Medicare coverage with 25 years of
service for Public Safety

Disability similar to Tier III


***Most municipal employees not
covered by Social Security or SBS***

Three independent looks show inadequacy

William Fornia of Pension Trust Advisors says Tier 4 will replace 31% of income after 25 years.



DOA estimated 38.5% income replacement-Used a fixed time frame of 30 years.



Bob Mitchell, the CIO of the State of Alaska put the probability of a 25-year Public Safety employee replacing 70% of income for 30 years at 6% and a 30-year employee at 22%.

Issues with Tier IV Retirement



Recruitment
difficulties



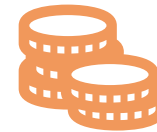
Retention costs



Workers'
compensation costs



Operational
capabilities



Unforeseen costs

Cost Containment Measures in HB 55

Reduces benefits significantly from Tier III

Plan built on more conservative assumptions with reasonable costs

Requires a steady level of contributions from both employee and employer

Includes mechanisms for dealing with adverse experience

Shares risk between employees, employers and retirees

Benefit Reductions in Tier V

No pre-Medicare coverage

Elimination of the 10% COLA on pensions

Final calculation based on 5 years as opposed to 3 years

Requires a minimum age of 55 with 20 years of service to collect benefits

Best Practices

Built on a lower expected rate of return-7%

Require steady contribution from employees and employers

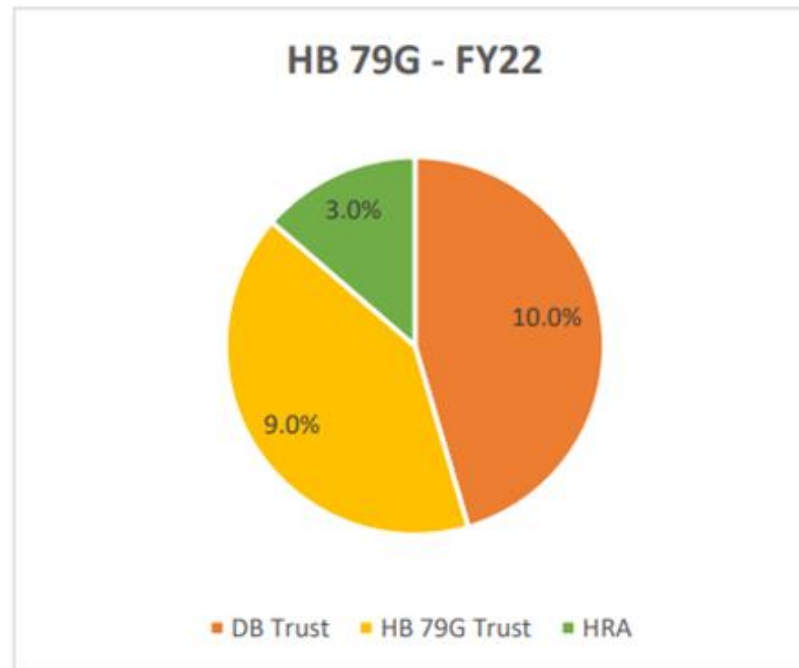
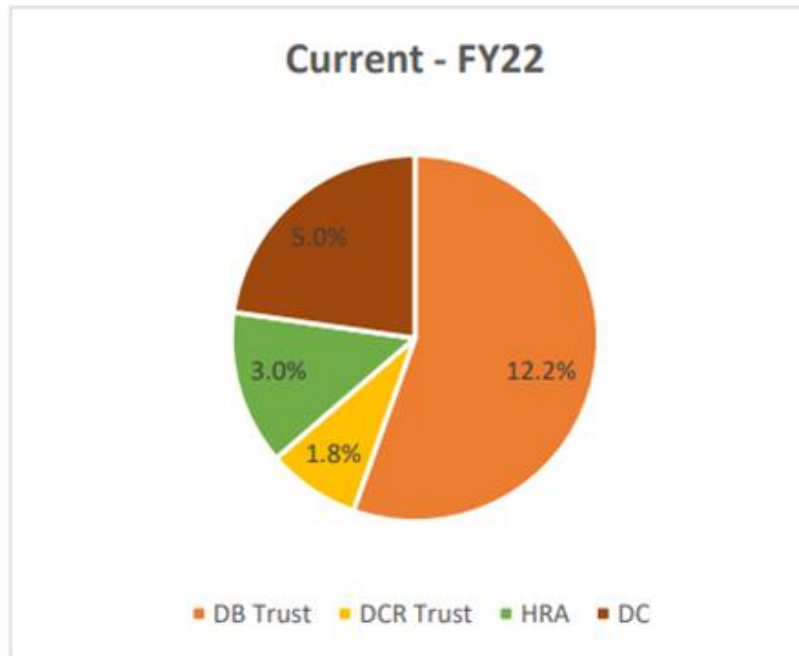
Allow the employee contribution to go up to 10% but not fall below 8%

Allow the PRPA (inflation proofing) to be withheld when funding falls below 90%

Replicates Tier IV defined contribution medical

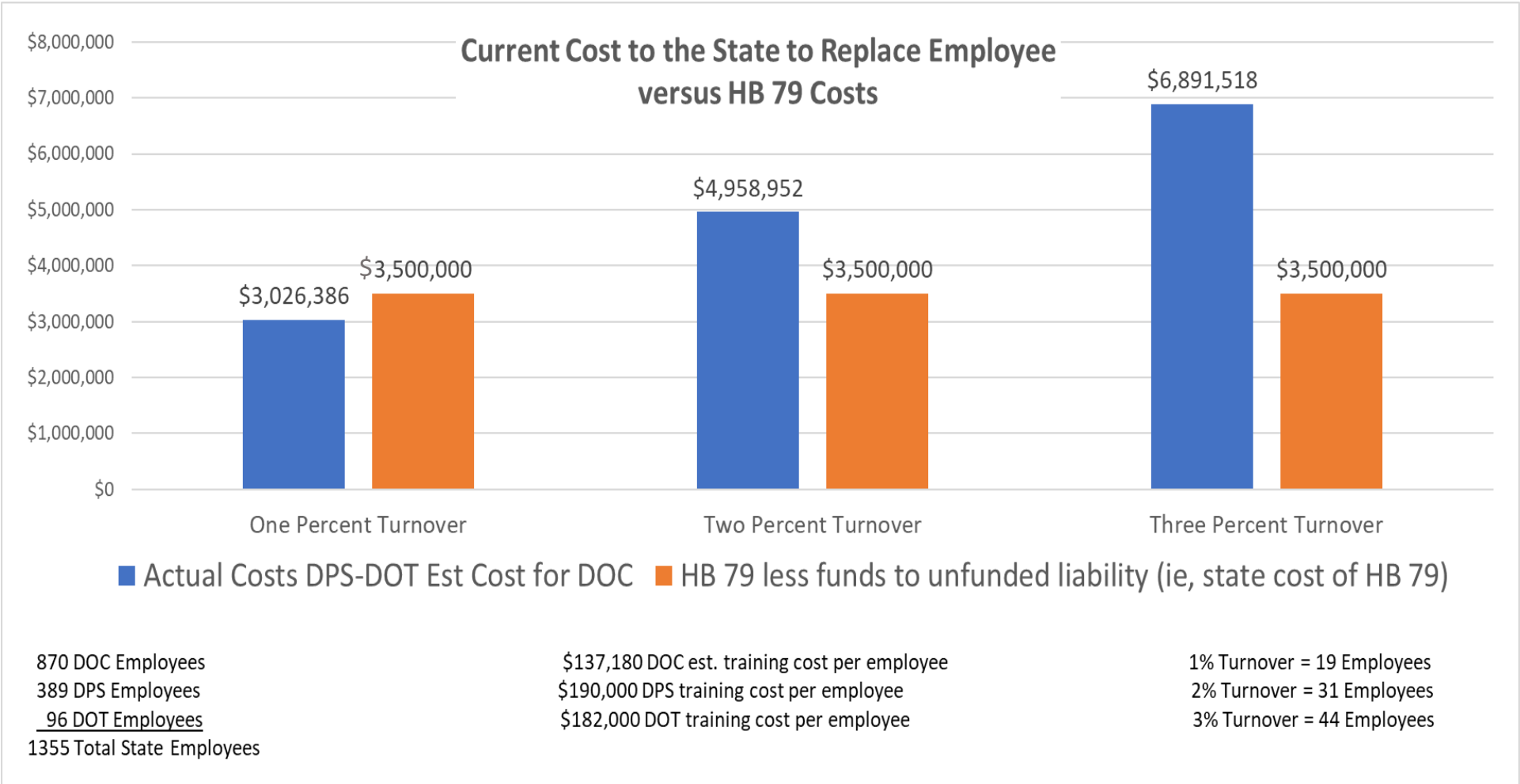
Reasonable employer costs

State's Actuarial Analysis of HB 55 Cost (Feb. 2020)



“The primary reason for the increase in Additional State Contributions during the 5-year period shown above is illustrated in the pie charts below. These show the distribution of the 22% of pay employer contribution for FY22 for HB 79G* members among the various trusts (similar distributions would apply to other years). **Because the percentage being deposited to the DB trust decreases (from 12.2% to 10.0%), the Additional State Contribution increases.**”

*HB 78G refers to bill version analyzed by state actuarial consultant Buck



Questions?
