



# 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."

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**Sponsor: Representative Andy Josephson**

**Staff: Elise Sorum-Birk**

# Sections of Note in HB 57

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

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

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

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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%.

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Section 29: New section outlines medical benefit eligibility for the new tier. Fairly long and I need to know better.

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

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

# Public Safety Pension Fix

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Many years of work are encapsulated in this legislation-

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HB 247 in 28<sup>th</sup> Legislature,  
Sponsor: Rep. Holmes

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HB 113 in 29<sup>th</sup> Legislature  
Sponsor: Rep. Millett

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HB 395 in 30<sup>th</sup> Legislature  
Sponsor: Rep. Millett

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HB 79 in 31<sup>st</sup> Legislature  
Sponsor: Rep. Kopp

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Now HB 55 in 32<sup>nd</sup> Legislature

## Details of Tier IV

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401A is made up of 13% of payroll:  
Employee=8%, Employer=5%

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HRA = 3% of average PERS salary

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Post-secondary Medicare coverage  
with 25 YOS for Public Safety

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Disability similar to Tier 3

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***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



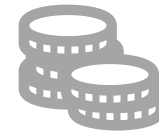
Retention costs



Workers'  
compensation costs



Operational  
capabilities



Unforeseen costs

# Cost Containment Measures in HB 55

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Reduced benefit significantly from Tier 3

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Plan built on more conservative assumptions with reasonable costs

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Requires a steady level of contributions from both employee and employer

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Includes mechanisms for dealing with adverse experience

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Shares risk between employees, employers and retirees

# Benefit Reductions in Tier V

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No pre-Medicare coverage

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Elimination of the 10% COLA on pensions

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Final calculation based on 5 years as opposed to 3 years

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



# Best Practices

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Built on a lower expected rate of return-7%

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Require steady contribution from employees and employers

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

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

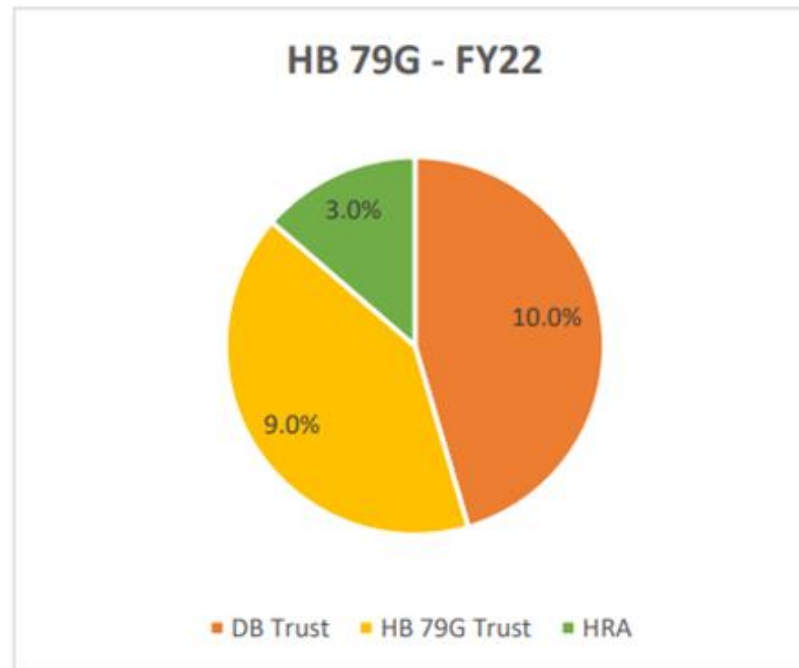
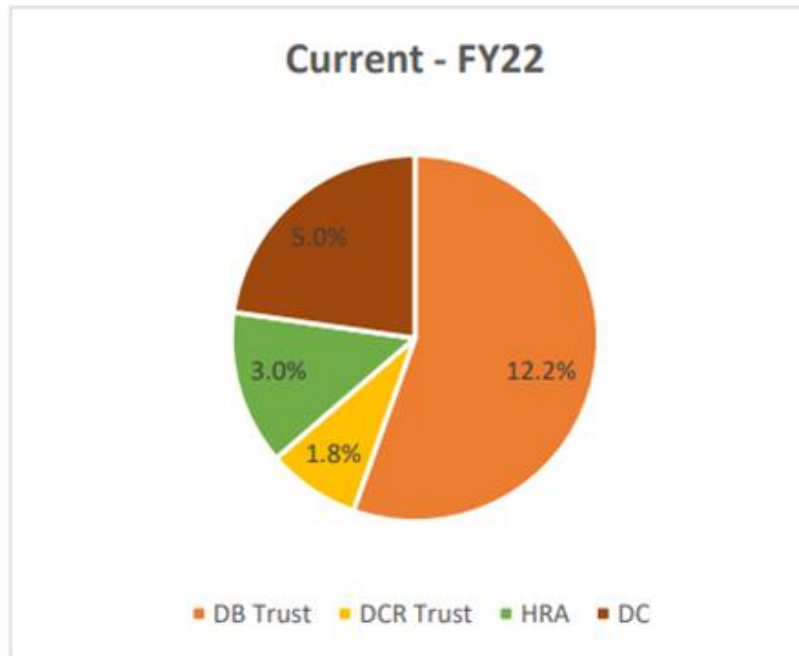
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Replicates Tier 4 defined contribution medical

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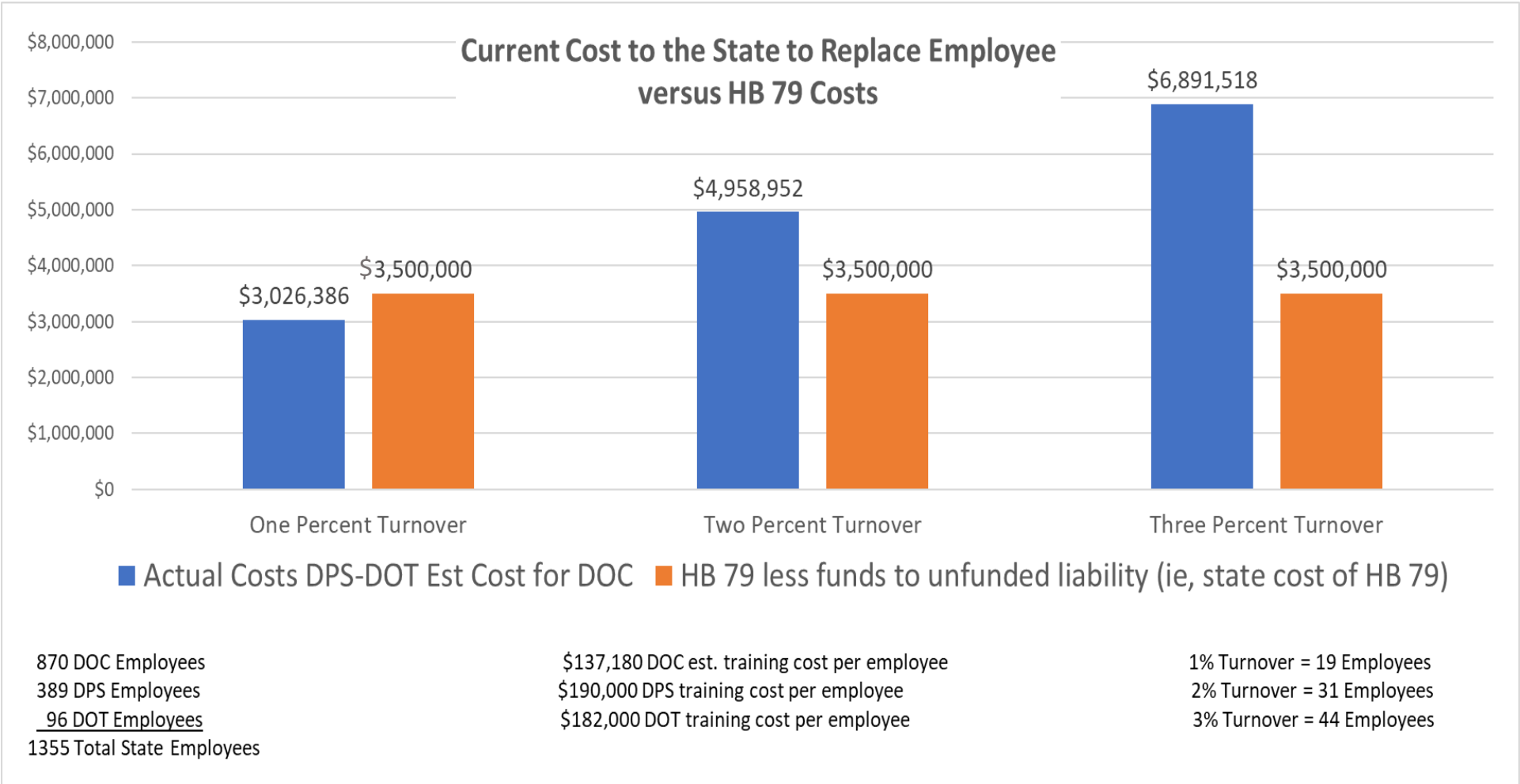
Reasonable employer costs

# 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



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Questions?

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