



Senate Bill 88

Public Employee Retirement Fix

Overview

Tier 4

Why is change necessary?

Details of HB 22

Status Quo Costs

What have other jurisdictions done?

The History

2006 - Alaska opens a Defined Contribution retirement system known as Tier 4

Change motivated by unfunded liabilities of legacy Defined Benefit system

Little to no thought given to benefits provided by Tier 4

Major factors contributing to the unfunded liabilities were:

- Bad actuarial advice,
- Underfunding in the “good” years
- Explosion in health care costs.

Details of Tier 4

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

HRA = 3% of average PERS salary

Post-secondary Medicare coverage
with 25 YOS for PS

Disability similar to Tier 3

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

Inadequacy
drives our
desire to see
change

“Public employees who are not covered by Social Security will need higher contribution rates to meet income replacement objectives. These contribution rates would need to be around 18-20 percent of pay depending on salary levels. Public safety employees would need to have significantly higher contribution rates in order support earlier retirement ages common to those job classifications.”

TIAA-CREF Institute, DEFINED CONTRIBUTION
PENSION PLANS IN THE PUBLIC SECTOR: A BEST
PRACTICE BENCHMARK ANALYSIS

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 prior CIO of the State of Alaska put the probability of a 25-year PS employee replacing 70% of income for 30 years at 6% and a 30-year employee at 22%

Losing Dollars, Experience, Operational Capabilities



Recruitment
difficulties



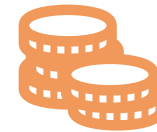
Retention costs



Workers
compensation costs



Operational
capabilities



Unforeseen costs

Non- competitive benefits affecting recruitment

“Alaska cannot compete with agencies offering defined benefit plans. This has left us with vacancies in multiple academies as applicants decide to pursue career elsewhere.”
Retired Anchorage Police Chief Doll

“The number of individuals wanting to work at the Fairbanks Fire department has declined drastically over the last several years.” Former Fairbanks Fire Chief Styers

“Our FF alumni populate most Alaska career fire departments. The 42 young men and women in my program are far more aware of financial planning and retirement concerns than I was at their age. It is troubling that the majority of them are testing and interviewing for jobs in other states.” Former UFD Chief Schrage

Retention

“The turnover of career staff appears to be higher than Fitch’s experience compared with other clients. In addition to career staff turnover, a significant amount of those leaving are paramedics. Turnover not only has a financial effect on the department, but it also loses valuable experience” Fitch and Associates Consultant Report Capital City Fire and Rescue

“...the inability to provide a defined benefits retirement system have placed the department at critically low staffing levels.” DPS Recruitment and Retention plan overview 2018-2023

We are seeing our highly trained , qualified, and experienced officers leave APD to work out of state for other law enforcement agencies offering competitive defined benefit retirement systems.” Retired APD Chief Doll.

Look for Tier 4
to cause
increased
Workers Comp
costs.

- “Firefighters 55 years and older, however, have an MSD injury rate that is more than double that of the youngest firefighters and more than ten times greater than that of private-sector workers of the same age. Comparing Figures 2.3 and 2.4, it is apparent that older firefighters are associated with much higher rates of reported workplace injuries than both younger firefighters and private-sector workers. Moreover, this difference is more pronounced for MSDs than it is for all injuries combined. This is consistent with the notion that the rigorous physical demands of firefighting subject them to trauma throughout their working lives, making them more subject to MSDs in later years”
Rand Corporation Study on California Fire fighters

Unforeseen costs

- Increased OT due to inadequate staffing
- Increased training costs
- Loss of operational capabilities
- Loss of experience and future leadership
- Retention problems increase as we work toward 100% portable public safety workforce
- Rise in organizational stress levels



Finding a solution

- Identify mistakes of the past and avoid repeating them
- Study the most successful plans in the nation- Wisconsin, LEOFF 2 and South Dakota
- Capture the best practices of the most successful plans

Plans we looked to model

- Washington State Leoff 2
- Wisconsin Retirement System
- South Dakota Retirement System

How we built our plan

Reduced benefit significantly from Tier 3

Build plan on more conservative assumptions with reasonable costs

Require a steady level of contributions from both employee and employer.

Include mechanisms for dealing with adverse experience

Share risk between employees, employers and retirees

Benefit Reductions

No pre-Medicare coverage

Elimination of the 10% COLA on pensions

Final calculation based on 5 years as opposed to 3 years

Require a minimum age of 50 with 25 years of service to collect benefits or age 55 with 20 years of service for public safety. Age 60 with 30 years of service for all others.

Best Practices

Built on a lower expected rate of return-7%.
ARM Board currently uses 7.25%

Require steady contribution from
employees and employers

Allow the employee contribution to go up
to 12% but not fall below 8%

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

Replicate Tier 4 defined contribution
medical

Reasonable employer costs



Retention costs

- **3,400** = Number of public safety employees in Alaska
- **\$120,000** = Average training cost for public safety employees
- Some agencies report costs as high as \$240,000 (Airport Police & Fire)

$3,400 \times 0.02 = 68$ employees

$68 \times \$120,000 = \$8,160,000$ cost per year

$5 \times \$8,160,000 = \$40,800,000$ 5-year cost

$20 \times \$8,160,000 = \$160,200,000$ 20-year cost

2% of workforce leaving due to pension benefits

Utah Police and Fire Pensions

Pension reduced in 2011

Utah experienced a drastic reduction in applicants for PS jobs

Bill to restore pensions introduced and passed by Republican controlled legislature in Spring of 2019.

Rep. Paul Ray R-Clinton UT, described pensions as ‘vitally important , not just for law enforcement but for the communities so that we can have the officers to actually do the job for us.’



Alaska can do better

- Each of us joins public safety intending to help people and serve our community.
- We take that promise to fight fires, treat injuries, protect the community seriously. In return for a professional lifetime spent serving our communities, public safety employees should receive an adequate retirement.
- We have a shared interest in ensuring quality servants fill the ranks of Alaska's public safety agencies. Adopting an adequate retirement plan with reasonable cost, fair benefits and shared risk will help us in this mission