



Memo

May 13, 2023

To: Alaska Senate Finance Committee

From: Alaska Public Pension Coalition

Re: Buck actuarial analysis of Senate Bill 88

The Alaska Public Pension Coalition has reviewed the Buck Actuarial Analysis being presented to the Senate Finance Committee. In general, the assumptions and analysis by Buck Consulting of Senate Bill 88 are quite similar to the analysis by Cheiron.

Some of the differences in inputs include:

- The Buck analysis projected 2025 and Cheiron projected 2024.
- The Buck analysis had 2022 census data and Cheiron used 2021 census data.

This led to some modest initial differences in projected savings:

- The Buck analysis shows \$1 million in employer savings in 2025 and the Cheiron analysis shows \$5.5 million in 2024.
- On a total employer contribution of \$110 million, the Buck and Cheiron numbers are only 3.8% different.

However, Buck made some new and very different assumptions in their PROJECTIONS.

- Buck is making a brand-new assumption that re-opening a defined benefit system will result in more employees staying and becoming eligible for health benefits.
- Buck DID NOT make this same assumption in their analysis of HB 220 during the 32nd Alaska State Legislature.
- Despite including additional costs for improved employee retention in their analysis, Buck included NO SAVINGS for improved employee retention. The staggering costs of poor retention are well-documented in both public safety and teachers (\$20,000 per teacher and \$75,000 per administrator, ISER and Rand analysis)

Further concerns:

- We do not see how the Buck analysis incorporates the HRA. There is no change to the HRA in SB88, but the Buck analysis includes it only in the "SB88" columns and not the "current" columns.
- This analysis was not expected based on prior Buck analysis of similar legislation. Buck assumes that if SB88 passes, our state payroll would increase as early as 2025. That should not enter into this analysis. If payroll increases, many other events would occur which are not being considered here. We'd have to budget more for payroll. We'd have different recruitment costs and many others which are not being evaluated.
- The fiscal analysis should look at what would change under SB88. The HRA does not change. The health care benefits do not change. The amount of money going to the legacy DB will not change.
- The only thing that would change is there would no longer be 5% (or 7%) going into the DCR accounts, plus a bit more going into the trust for occupational death and disability trust. Instead, the employer would be putting that into the SB88 sub-trust. Buck has calculated this amount as 4.13% on page 4 for PERS and 6.93% on page 5 for TRS.

- The purpose for SB88 is to: Replace a bit more than 5% with 4.13% for PERS and replace a bit more than 7% with 6.93% for TRS. So this plan does save money. It is the opinion of the Alaska Public Pension Coalition that everything else on this analysis is a distraction.
- If there is something else here not intended by SB88, let's fix it. SB 88 was written to save money: For PERS, replace 5% DCR with a DB that costs less than 5% and for TRS replace 7% DCR with something which costs less than 7%. Buck has shown that we are doing this.
- The Buck report does not attempt to do the projections that the Cheiron report did. However, it does show a cost that is problematic. We believe that the fallacies of the Buck report are that:
 - (1) they compare the current cost on one future population model with the SB88 cost on a different future population model. It's like comparing the size of an apple with the size of an orange. We want to compare the size of two apples.
 - (2) And they are putting in extraneous information. The policy represented in SB 88 is replacing a 5% PERS DCR plan with a 4.13% (page 4 line 3a) PERS DB plan and a 7% TRS DCR plan with a 3.79% (page 6 line 3a) TRS DB plan. Buck is saying that health costs will be different, SB 88 did not change health provisions in SB88.
- Cherion's analysis compared costs assuming an identical future workforce. The Buck analysis is comparing two future scenarios with totally different workforces. For example, they assume that under SB88, we will have higher payroll costs, and more people will stick around to get healthcare. We could argue that this is not a fair comparison. Look at 2035, for example. Buck assumes that the Alaska payroll would be $1,445,746 + 1,421,660 + 902,185 = 3,769,591$ under current. But under SB88, it would be 6% bigger: $1,534,451 + 1,508,866 + 953,958 = 3,997,275$

- We feel we'd be getting much more public services for this extra 6% in payroll. And there would be offsetting lower training costs and better retention. Both of these seem to not be addressed in the Buck analysis.
- However, this 6% payroll increase explains only some of why the 2035 costs go up: $120+431+188=739$ under current versus $182+492+193=867$ under SB88. That's a 17% increase, so payroll only explains part of it.
- Note that Buck reports 2025 current DCR employer rates are 6.73% for PERS and 7.29% for TRS. But on their page 10 for current employer contributions they say: *"The DCR contribution rate is comprised of (i) the actuarially determined contribution rates for occupational death & disability benefits and retiree medical benefits, (ii) 5% (PERS) and 7% (TRS) to the members' defined contribution accounts, and (iii) 3% to the members' HRA accounts. The DCR contribution rates are based on the payroll of DCR members"*
 - This adds up to more than 6.73% and 7.29%. This appears like it might be the 5% and 7% plus occupational death & disability and retiree medical. But may not include the HRA. That could explain a lot of the difference between Cheiron's (which is consistent with AKPPC estimates) and Buck's.

We do not see any charts expressing the modeling prediction required for evaluation, this is a major flaw in this Buck report. This means the Buck Actuarial Report is questionable as a tool for predicting if this plan (SB 88) will remain solvent.

The Alaska Public Pension Coalition encourages the Senate Finance Committee to review our concerns and comparisons to make an informed decision.