

HOUSE FINANCE COMMITTEE
March 8, 2022
1:32 p.m.

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CALL TO ORDER

Co-Chair Merrick called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter via teleconference
Representative Bryce Edgmon
Representative DeLena Johnson
Representative Andy Josephson
Representative Bart LeBon
Representative Sara Rasmussen
Representative Steve Thompson
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Representative Grier Hopkins, Sponsor.

PRESENT VIA TELECONFERENCE

Lisa Parady, Executive Director, Alaska Council of School Administrators (ACSA); Dan Doonan, Executive Director, National Institute on Retirement Security (NIRS).

SUMMARY

HB 220 RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.

HB 220 was HEARD and HELD in committee for further consideration.

Co-Chair Merrick reviewed the agenda for the meeting. The committee would be hearing a presentation on House Bill (HB) 220.

#hb220

HOUSE BILL NO. 220

"An Act relating to the Public Employees' Retirement System of Alaska and the teachers' retirement system; providing certain employees an opportunity to choose between the defined benefit and defined contribution plans of the Public Employees' Retirement System of Alaska and the teachers' retirement system; and providing for an effective date."

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REPRESENTATIVE GRIER HOPKINS, SPONSOR, would providing a PowerPoint presentation, "House Bill 220" (copy on file). He shared that HB 220 was generally formatted similar to HB 55, legislation that passed in the prior year. He continued HB 220 did not create a new pension fund, but rather it reopened the last active pension fund.

Representative Hopkins stated that the bill did not change the current healthcare costs. He was working on having multiple actuarial analyses that would be looking at some of the larger questions including how much the plan would cost the state.

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Representative Hopkins began his presentation with slide 2 asking why HB 220 was needed.

Representative Hopkins turned to slide 3:

Alaska is facing an unprecedented recruitment and retention crisis

Representative Hopkins continued to slide 4. The Department of Public Safety (DPS) stated that "the department has struggled to be an employer of choice due to internal and external perceptions of the department being underfunded and understaffed, combined with the lack of a competitive pay and benefits package."

Representative Hopkins advanced to slide 5:

Turnover among Alaska educators is dismal and at crisis levels

Most of Alaska's turnover was educators leaving Alaska or the profession. Statewide turnover rates from 2012/13 to 2017/18 remained steady for teachers but varied for principals and superintendents. Nearly 60 percent of teacher turnover involved "leavers" - individual who left Alaska or remained in the state but were no longer educators. For example, in 2017/18, 13 percent of teachers left the profession or their position, while 9 percent of teachers went to a new district or school but remained in the Alaska public school system.

Representative Hopkins moved to slide 6:

Turnover among Alaska educator's is dismal and at crisis levels. It's even worse in rural Alaska.

Rural schools have much higher teacher and principal turnover than urban or urban-fringe schools, with 64 percent of rural-remote teachers who turn over leaving the state or the profession.

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Representative Hopkins continued to slide 7 regarding teacher retention.

Co-Chair Merrick asked why teachers did not pay into Social security.

Representative Hopkins responded that several years ago teachers elected to opt out of paying into social security.

Representative Wool pointed to items 1, 2, and 5 related to salary on slide 7.

Representative Hopkins responded that it was capped out and limited. He suggested that if the cap was removed the numbers would increase significantly.

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Representative LeBon referred to social security. He asked how common was it for states to not pay into social security.

Representative Hopkins responded that all 50 states had a different system Alaska, however, was the only state that did not have a specific pay into social security.

Representative LeBon asked if a social security benefit could be offered or was it too late.

Representative Hopkins responded that it was not too late to be able to opt back into Social security. It would be a 7 percent of their salary along with a 7 percent contribution from the districts.

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Representative LeBon asked if the supporters of a defined benefit plan would be satisfied with opting for social security.

Representative Hopkins replied that looking at other states, it was likely not enough.

Representative LeBon asked that if Alaska returned to a defined benefit plan, we would still have to land in a competitive plan, as there was compensation for talent.

Representative Hopkins indicated that Alaska had to bring in about 1000 teachers into Alaska every year. Alaska used to be one of the highest paying state for educators, so it was a needed incentive for new teachers and retention.

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Representative Johnson thought the issue deserved proper consideration. She had real concerns with not having the financial analysis. She was very uncomfortable with the bill hearing without the financial analysis.

Representative Hopkins indicated that they would be available at the following hearing. He was not interested in moving the bill without more information.

Co-Chair Merrick indicated Representative Johnson's point was well taken and the committee would be hearing on the financial analysis.

Representative Rasmussen asked about the expectations on the timeline on the bill. She wondered when the fiscal note would be released.

Representative Hopkins replied that he was working on scheduling a meeting with the financial analysis. He estimated that it would be some time April when the analysis would come out.

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Representative Hopkins addressed teacher turnover costs on slide 9:

Teacher Turnover Costs

- 7,812 teachers employed by Alaska on average between 2017 - 2021.
- According to Department of Education and Early Development website
- 23 percent annual teacher turnover rate in Alaska
- Educator Retention and Turnover Under the Midnight Sun. REL Northwest.
- $7,812 \times 23 \text{ percent} = 1,797$ Alaska teachers a year leave their position
- It costs \$20,431 in recruitment and training to replace departed teacher
- Center for Alaska Education Policy Research 2017
- $\$20,431 \times 1,797 = \$36,714,507$ spent annually on teacher turnover expenses

Representative Hopkins turned to slide 10, "Public Safety Turnover Costs":

- DPS and DOC reported to the Legislature that non-retirement separations are greater than 6 percent
- Conservative training costs for public safety is \$120,000, not increased for inflation over 20-year period
- $3,400 \times 0.03 = 102$ Employees
- $102 \times \$120,000 = \$12,240,000$ cost per year to replace departed employees

Representative Hopkins turned to the total cost on slide 11:

Total Estimated Annual Turnover Cost for Teachers and
Public Safety
 $\$36,714,507 + \$12,240,000 = \$48,954,507$

Representative Wool asked what the turnover costs.

Representative Hopkins indicated the actuaries would be sharing demographic assumptions. He did not have an answer, but stated that it would be a large number.

Representative Wool asked if Representative Hopkins had data from previous decades.

Representative Hopkins agreed to provide that information.

Vice-Chair Ortiz did not think the turnover number reflected the cost of the effects on lost learning and other impacted areas.

Representative Hopkins looked at slide 13, "HB 220 Establishes Employee Choice":

- At time of hire, new PERS and TRS employees make a onetime choice between a Defined Contribution and Defined Benefit retirement systems
- Upon passage of HB 220, existing PERS IV and TRS III employees will have 90 days after the effective date to choose between keeping their DC plan or convert to new DB system
- Existing PERS 4 and TRS 3 employees can use their 401k accounts to buy years of service credit in the new system, holding current employees harmless

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Representative Johnson referred to slide 13, she wondered how funding would be transferred.

Representative Hopkins replied that there were factors that were impacted by the stock market, but the goal was about moving one retirement account to a new retirement account.

Representative Josephson asked Representative Hopkins to explain being held harmless.

Representative Hopkins provided an example.

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Representative Hopkins moved to slide 14, "Variable Employee Contribution Rate":

- Public Safety/Teachers - ARM Board will set the rate between 8 percent and 10 percent for employee contributions to the Pension Fund to share risk when the market takes a downturn
- All other PERS employees - 6 percent to 8 percent set by the ARM Board based on actuarial analysis and

Representative Hopkins turned to slide 15, "Vesting and Retirement Age":

- Vesting for DB - 5 years of public service to vest in pension option
- Years of service to retire and collect full DB pension
 - Public Safety/Teachers - Retire at 55 with 20 years of service or at 60 with 5 years
 - All other PERS Employees - Retire with 30 years of service at any age or at age 60 with 5 years of service
- Average Salary - Five highest consecutive years of average salary for calculation of pension benefit upon retirement

Representative Wool wondered whether the teachers who were on a defined benefit plan had a retirement of 55 years old with 20 years employment.

Representative Hopkins indicated it was the same as the Tier II system, where teachers could retire at 55 with 20 years of service.

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Representative Josephson thought it depended on which system was referred to as previously.

Representative Hopkins reported that Tier 1 different retirement age than Tier II.

Representative Hopkins moved to slide 16, "HB 220 Features":

- COLA - 10 percent increase in pension amount if recipient is eligible for PFD
- PRPA - When DB system is 90 percent funded, pension amount to be adjusted by increase in CPI for Anchorage
- DB plan includes Death and Disability Coverage - eliminates "Occupational" requirement, allowing widows and depends to receive employee's accrued benefits
- Provides constitutional protection against diminishment of retirement benefits

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Representative Hopkins turned to the final slide, "HB 220 Does Not Change Current Health Plan":

- Health Plan under current system would remain in place for employees
 - 0 - 9 years of service - No employer provided health insurance after retirement.
 - 10 - 14 years of service - Employee pays 30 percent of insurance premium. Employer pays 70 percent of Insurance premium after 10 years of service.
 - 15 - 19 years of service - Employee pays 25 percent of insurance premium. Employer pays 75 percent of insurance premium after 15 years of service.
 - 20 - 24 years of service - Employee pays 20 percent of insurance premium. Employer pays 80 percent of insurance premium after 20 years of service.
 - 25 - 29 years of service - Employee pays 15 percent of insurance premium. Employer pays 85 percent of insurance premium after 25 years of service.
- HB220 does remove requirement for employees to retire directly from public service to receive health plan upon individual's Medicare eligibility

Co-Chair Merrick indicated Representative Edgmon had joined the meeting.

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Representative Josephson relayed that HB 55 required the money be spent upon leaving the system, and the current bill did not have a requirement to be spent at the time of retirement. He queried the reason for the current system.

Representative Hopkins did not know the policy decision that began Tier IV.

Representative LeBon returned to the subject of retirement age. He wondered if 60 was the most common retirement age. He wondered if the representative had considered an older retirement age for teachers.

Representative Hopkins replied that there would be an examination of the specific age in the upcoming weeks through work with the actuaries.

Representative LeBon asked if the bill would allow for a retirement age of 55.

Representative Hopkins replied in the affirmative, with a higher contribution out of that employee's paycheck.

Representative LeBon thought it would be interesting to see a comparison with other states.

Representative Hopkins would come with some of that information.

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Representative Josephson noted that another difference was the PRPA.

Representative Hopkins indicated the ARMB would set that amount.

Representative Josephson thought it looked roughly the same.

Co-Chair Merrick indicated they would hear from invited testimony.

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LISA PARADY, EXECUTIVE DIRECTOR, ALASKA COUNCIL OF SCHOOL ADMINISTRATORS (ACSA) (via teleconference), introduced herself and provided some background about her association. She appreciated the seriousness of the consideration of the bill. The issue was important to all of the members of her association.

Ms. Parady pointed out that, currently, Alaska had the worst administrator and teacher recruitment and retention in the state's history. The state had lost its competitive advantage on teacher recruitment and retention. She would walk through some of the data her association was seeing. She stressed that a nationally competitive salary and benefit package was essential in attracting quality teachers.

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Representative Edgmon thanked Ms. Parady for her testimony. He saw what was being discussed. He saw teachers coming and going from his district. He thought the cost to children was real and could not be dismissed.

Vice-Chair Ortiz asked about reading scores.

Ms. Parady relayed that the information came from a study done by Institute of Social and Economic Research (ISER). The schools with the highest turnover had the lowest assessment scores.

Co-Chair Merrick invited Mr. Doonan to begin his presentation.

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DAN DOONAN, EXECUTIVE DIRECTOR, NATIONAL INSTITUTE ON RETIREMENT SECURITY (NIRS) (via teleconference), discussed a presentation, "Testimony to the Alaska House Finance Committee" (copy on file). He began with slide 1 which showed a diagram of a variety of plan designs in the public sector. The chart showed a defined contribution plan versus a defined benefits. He continued to slide 2 to share a couple of resources.

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Mr. Doonan turned to slide 3, "Better Bang for the Buck 3.0:"

3 Reasons Why DB Plans Save Money

1. Pooling the longevity risks of large numbers of individuals, providing each the security of a lifetime pension without the risk of outliving their savings.
2. Are "ageless" and therefore can perpetually maintain an optimally balanced investment portfolio rather than the typical individual strategy of downshifting over time to a lower risk/return asset allocation.
3. Achieve higher investment returns as compared to individual investors because of professional asset management and lower fees.

Mr. Doonan continued to slide 4 which showed a visual of life expectancy for 1000 teachers.

Mr. Doonan advanced to slide 5 that showed under the defined contribution plan, 15 percent of assets were never used for retirement.

Mr. Doonan turned to slide 6 which showed the expected returns.

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Representative Josephson referred to slide 5 and unused defined contribution assets. He wondered how it differed. He thought there was nothing wrong with leaving resources behind.

Mr. Doonan responded that much of the money would not be used in retirement because it was impossible to predict mortality.

Mr. Doonan addressed the inefficiency, by stated that much of the time at 30 years old it was easy to take a certain position about retirement. However, post retirement was a time when defined contribution plan inefficiencies show themselves.

Representative Wool asked for the definition of inefficiency as it related to retirement.

Mr. Doonan explained that it was related to cost.

Representative Wool suggested that a person in a defined contribution plan who wanted to have the same experience as a person in a defined benefit plan would pay 40 percent more post retirement for the same monthly amount.

Mr. Doonan responded in the affirmative.

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Mr. Doonan turned to slide 10 showing a chart of the number of people enrolled in a traditional teacher program.

Mr. Doonan turned to the chart on slide 12 that showed the annual turnover rates for teachers hired at age 25. Once a teacher had taught for 5 years there was less turnover. He thought pensions were an easy way for teachers to retire, but stressed that it was also a retention tool.

Representative Wool referenced the bottom of the graph, which outlined other states' retirement programs.

Mr. Doonan indicated there were not a lot of states without a pension program.

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Representative Wool asked for the number of states that had pension plans for teachers.

Mr. Doonan thought most states had a plan, but agreed to provide more information.

Mr. Doonan moved to the states listed on slide 13 He continued to slide 14 and explained that Michigan SERS offered a warning.

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Representative LeBon returned to slide 13 with a question about Texas.

Mr. Doonan replied that there were new tiers that required a few more years of work.

Representative LeBon asked about the age requirement of 60 in Connecticut.

Mr. Doonan would get back to the committee with the retirement provisions in Texas, and agreed to provide more information about Connecticut.

Co-Chair Merrick reviewed the agenda for the following meeting.

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ADJOURNMENT

3:04:04 PM

The meeting was adjourned at 3:04 p.m.