

**ALASKA STATE LEGISLATURE**  
**HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

Anchorage, Alaska

November 8, 2021

4:01 p.m.

**MEMBERS PRESENT**

Representative Zack Fields, Co-Chair  
Representative Ivy Spohnholz, Co-Chair  
Representative Calvin Schrage  
Representative James Kaufman  
Representative Liz Snyder (via Teams)

**MEMBERS ABSENT**

Representative David Nelson  
Representative Ken McCarty

**OTHER LEGISLATORS PRESENT**

Representative Kelly Merrick (via Teams)

**COMMITTEE CALENDAR**

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."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 220

SHORT TITLE: RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.

SPONSOR(S): REPRESENTATIVE(S) HOPKINS

05/19/21	(H)	READ THE FIRST TIME - REFERRALS
05/19/21	(H)	L&C, FIN
11/08/21	(H)	L&C AT 4:00 PM ANCH LIO DENALI Rm

**WITNESS REGISTER**

REPRESENTATIVE GRIER HOPKINS  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** As prime sponsor, presented HB 220.

DAN DOONAN, Executive Director  
National Institute on Retirement Security  
Washington, D.C.

**POSITION STATEMENT:** Presented a PowerPoint with invited testimony during the hearing on HB 220.

LISA PARADY, Executive Director  
Alaska Council of School Administrators  
Juneau, Alaska

**POSITION STATEMENT:** Provided invited testimony in support of the goals of HB 220.

JORDAN ADAMS, Business Manager/Secretary-Treasurer  
Public Employees Local 71  
Juneau, Alaska

**POSITION STATEMENT:** Provided invited testimony in support of HB 220.

JEFF KASPER, Political Director and Southeast Regional Manager  
Alaska Public Employees Association  
Juneau, Alaska

**POSITION STATEMENT:** Provided invited testimony in support of HB 220.

#### **ACTION NARRATIVE**

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**CO-CHAIR ZACK FIELDS** called the House Labor and Commerce Standing Committee meeting to order at 4:01 p.m. Representatives Spohnholz, Schrage, Kaufman, and Fields were present at the call to order. Representative Snyder (via Teams) arrived as the meeting was in progress. Also present was Representative Kelly Merrick (via Teams).

#### **HB 220-RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.**

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CO-CHAIR FIELDS announced that the only order of business would be 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, Alaska State Legislature, as prime sponsor, presented HB 220. He said the proposed legislation would give employees the option to choose between defined contribution and defined benefit plans of Alaska's public employee retirement system; the defined benefit plan was removed as an option for employees hired in 2006 and forward.

REPRESENTATIVE HOPKINS began a PowerPoint presentation [hard copy included in the committee packet]. He said employees have been asking for a plan that will allow them a career path in public service with a guarantee of what will be provided at retirement. He stated that there is a recruitment and retention crisis; some employees on the 401K plan cannot collect social security benefits; and HB 220 would avoid additional medical costs and protect the state from unfunded liabilities by sharing the risk with employees.

REPRESENTATIVE HOPKINS said the City of Fairbanks police have nine vacant positions and are offering a \$20,000 sign-on bonus [slide 3]. He said the Department of Public Safety (DPS) has reported that it is struggling to attract applicants as the perception is the department is underfunded, understaffed, and lacks a competitive pay and benefits package [slide 4].

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REPRESENTATIVE HOPKINS discussed the critical turnover rate of Alaska's educators, including teachers, principals, superintendents, and support staff [slide 5]. There are "leavers" who either leave the state or leave education work for something else. He talked about the expense of training educators and the drain to the state when they leave after being trained. He directed attention to key findings [slide 6], wherein a Rand Corporation study shows that 6 percent is a normal turnover nationally, while in Alaska that rate is 22-25 percent. He said Governor Mike Dunleavy is conducting a \$300,000 study to figure out the cause and solution for this attrition. Representative Hopkins said turnover in education is worse in rural areas [slide 7]. The average turnover in urban Alaska is 19 percent for teachers and principals; in rural

Alaska, the numbers increase to 36 percent for teachers and 38 percent for principals. This affects students' ability to learn.

REPRESENTATIVE HOPKINS related that teacher retention and recruitment survey results, compiled by the Department of Education and Early Development (DEED), April 2001, [slide 8], show eight influence items, three of which pertain to a lack of [an adequate] retirement system. He said these factors rank Alaska as the worst place to retire as a teacher. Representative Hopkins displayed a graph showing the value of a teacher's 401K after 30 years in the system [slide 9], pointing out that the graph shows that a teacher would not be able to maintain a positive balance.

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REPRESENTATIVE HOPKINS described how HB 220 would work [slides 9-13]. He said the proposed legislation would restore the option for a modest pension for Alaskans, while protecting the state from potential unfunded liabilities, and it would be cost neutral to Alaska, establishing a pension option using the existing contribution amount to the defined contribution plan. It would protect Alaska tax payers with a variable contribution rate; if the plan's funding falls below 90 percent, then employee contribution rates can rise from 6-8 percent. He said the proposed legislation would establish employee choice: Those hired in Tier 3 of the Teachers' Retirement System (TRS) or Tier 4 of the Public Employees' Retirement System (PERS) could choose between a defined contribution or defined benefit plan and use their defined contribution accounts to buy years of service credit in the new system; all future hires would have 90 days to make the choice. Representative Hopkins said employees are eligible for retirement after 30 years of employment or at age 60, with reduced time for those working in public safety. The bill would maintain the status quo for health care benefits; it would include the same health care benefits as PERS 4 and TRS 3.

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REPRESENTATIVE HOPKINS listed the following benefits of HB 220 [slides 17-18]: improved recruitment and retention; long-term expertise and career; competitiveness with other states; improved education and public safety results; and efficient use of state dollars. That concluded the PowerPoint presentation.

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REPRESENTATIVE HOPKINS, in response to a question from Co-Chair Spohnholz, clarified that the retirement eligibility of 30 years' work or 60 years of age is determined by whichever occurs first. He added that under HB 220, a person no longer has to "retire straight out of the system" but would not "get the state support" until age 65.

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CO-CHAIR FIELDS announced the committee would hear invited testimony.

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DAN DOONAN, Executive Director, National Institute on Retirement Security, presented a PowerPoint [hard copy included in the committee packet] to highlight research done by the National Institute on Retirement Security as it pertains to the issues being address under HB 220. He noted there is a variety of plan designs in the public sector [slide 2], including defined benefit and defined contribution, and variable combinations of those. A vertical combination offers defined contribution after a certain level is reached with defined benefit. There is the horizontal defined benefit and defined contribution, where the differences occur depending on how much money is put in each. A third system is to offer employees a choice. He discussed risk sharing. He said other states customize their defined benefit plans. In response to Co-Chair Fields, he described the horizontal plan as being a "skinny" defined benefit with "a savings-based plan on the side."

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MR. DOONAN shared resources on risk-sharing and state reforms [slide 3]. He showed a graph chart [slide 4] depicting changes in enrollment in traditional teacher programs since the recession of 2017-2018. The national average is down about 47 percent; Alaska is lower. He highlighted pension rates [slide 5] of six defined benefit states, and the graph demonstrates high retention in middle years for educators in these states. He followed with a table [slide 6] showing projected teacher age and service years at exit, which for the six states is a median of 25 service years and 58 years of age at retirement. Following that was a figure showing median years of tenure [slide 7], which hovers around eight years for the public sector and half that for the private sector.

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MR. DOONAN touched on the reasons that the defined contribution plan costs almost twice as much for same benefits as the defined benefits plan [slide 8]. In response to Co-Chair Fields, he said it is less efficient to generate income from a low interest rate. He moved on to show that under the defined contribution plan, 15 percent of assets are not used for retirement [slide 9]. A table shows total benefit and estate payments under the defined contribution plan. Finally, he stated that Michigan serves as a warning for where Alaska is heading with a "closed plan" [slide 10]. About 12 percent of assets are going to pay benefits from the trust; contributions are about 5 percent of the asset base; and expected investment returns are 7 percent annually. If they don't make the 7 percent, they start to sell investments to make benefit payments, which is negative cash flow. He emphasized that the cashflow situation is important to think about with a closed plan; either invest more conservatively to prevent that from happening or don't, but recognized there will be higher risks on the same investments made. He said Alaska is at about 9.6 percent with PERS and TRS combined. That concluded his presentation and he offered to answer questions from the committee.

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MR. DOONAN, in response to Co-Chair Fields, explained that in particular he worries about the negative cash flow plans when there is a crash in the stock market. With an open plan, more money comes in, which maintains balance. He said that in general, the average public plan will be less cash flow negative than a closed plan. In response to Co-Chair Spohnholz, he defined an "open plan" as one where new employees join when hired; a "closed plan" can mean new hires are not allowed in, or the current employee is cut off. With the closed plan, he said, over time [the employer] ends up with a lot of retirees and few workers. In the ratio of financial risk, the payroll grows greater over time, he concluded.

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LISA PARADY, Executive Director, Alaska Council of School Administrators (ACSA), said the council is an umbrella organization for several associations of superintendents and principals. She stated that ACSA supports the goals of HB 220, specifically the ability to attract and retain educators. She

said the association advocates for public education and works collaboratively to draft joint position statements to list priorities for education, and recruitment and retention is a top priority. She said ACSA supports programs that bring in and retain high-quality educators, and that is the focus of HB 220. She said the association promotes the strengthening of statewide recruiting efforts. She commented that years ago Alaska was competitive and there were "lines [of teacher applicants] out the door." Now Alaska has fallen to be one of the least competitive states in terms of its retirement benefit system for educators.

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MS. PARADY said the latest report from DEED notes a turnover rate of 28 percent of school administrators throughout the state. She indicated a loss of 100 years of experience. She emphasized the cost of this kind of loss. She explained that each school spends \$20,000 or more per teacher hired, around \$20 million annually for recruitment and training of new teachers. That amount is \$75,000 per principal. She said teacher turnover disrupts student learning. She further relayed that principal turnover increases teacher turnover rates. Teachers and administrators are asking that this problem be addressed. She concluded that educators in Alaska need competitive compensation and benefits. She reiterated ACSA's support of the goals of HB 220.

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JORDAN ADAMS, Business Manager, Secretary/Treasurer, Public Employees Local 71, described his responsibilities and expressed support for HB 220. He said Alaska has a problem in retaining employees. He credited those who have showed up to work during the pandemic, such as first responders. He said when PERS changed to Tier 4 [defined contribution] in 2006, the legislature recognized that wages would need to increase by 21 percent to retain workers. He reported that [the state's] skilled positions are earning 15-30 percent less than the median wage currently being paid by the Municipality of Anchorage, and "the disparity grows" in the private industry. He said skilled workers are refusing to take jobs, which results in "a revolving door" of unskilled applicants. The state is losing its skilled Tier 1-3 employees. He spoke about a next mass exodus of workers. He indicated there was a survey question regarding leaving state employment over the issue of wages and benefits, and he said there was "a survey yield of 95 percent positive."

He opined that wages and benefits are the answer, and HB 220 can be the first step towards Alaska's recovery. He said he would be supplying financial reports to the next committee [of referral], and he offered to answer questions.

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JEFF KASPER, Political Director and Southeast Regional Manager, Alaska Public Employees Association (APEA), said the association is affiliated with the American Federation of Teachers and represents nearly 7,000 people and 25 bargaining units across Alaska. He listed the three strikes that Alaska's public employees have against them: those hired after 2006 will not have a reliable pension when they retire; the majority of public employees are ineligible to receive their earned social security benefits from private sector work due to the federal Windfall Elimination Provision; and Alaska law bars public employees from earning social security for their public sector work. He said these factors make recruitment of public employees increasingly difficult.

MR. KASPER said Alaska's defined contribution plan is not competitive in today's market place and provides little incentive to attract quality applicants. Worse, without new employees contributing to the pension funds, the closed defined benefit system for PERS and TRS has [exacerbated] the unfunded liability rather than solving it, he said. Mr. Kasper echoed previous speakers regarding Alaska's issues related to recruitment and retention. He said the most recent review commissioned by [the Legislative Budget and Audit Committee] concluded that the cost to replace employees earning between \$50,000 and \$75,000 a year averages about 20 percent of the salary for that position. Further, the study showed that high turnover has a negative impact on the quality and quantity of services provided. He talked about novel hiring techniques required as a result of turnover. He mentioned that the annual cost of teacher turnover for school districts is approximately \$20 million. Mr. Kasper said APEA's internal polling has shown that the return to the defined benefit plan is its members' top priority since its end in 2006. He pointed to other surveys showing support for defined benefit and public pensions. He stated APEA's support of HB 220, and he offered to answer questions.

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CO-CHAIR SPOHNHOLZ reemphasized Mr. Kasper's point about public employees being ineligible to earn social security benefits.

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CO-CHAIR FIELDS stated his desire to move the proposed legislation quickly when regular session resumes in 2022. He talked about the challenges around teacher recruitment.

[HB 220 was held over.]

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#### **ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 5:10 p.m.