

SENATE FINANCE COMMITTEE
May 16, 2022
9:04 a.m.

[9:04:42 AM](#)

CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson
Senator Natasha von Imhof
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Andy Josephson, Sponsor; William "Flick" Forna, Pension Trust Advisor; Tom Wescott, Former President, Alaska Professional Firefighters Association; Kerry Crocker, Staff, Representative Louise Stutes.

SUMMARY

CSHB 55 (FIN)

PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS

CSHB 55 (FIN) was HEARD and HELD in committee for further consideration.

CSHB 322 (TRA)

AK MARINE HWY FUNDS, HIGHER ED INVES FUND

CSHB 322 (TRA) was HEARD and HELD in committee for further consideration.

#hb55

CS FOR HOUSE BILL NO. 55 (FIN)

"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."

9:06:04 AM

REPRESENTATIVE ANDY JOSEPHSON, SPONSOR, introduced the legislation. He stated that HB 55 aims to create a new hybrid retirement plan option for state and municipal peace officers and firefighters under the Alaska Public Employees' Retirement System (PERS) with new protections for the state against unforeseen future liabilities. Alaska ended the defined benefit plan in 2006 after we discovered that those accounts were too underfunded to meet anticipated retiree obligations. Since these plans were eliminated, one of Alaska's greatest public safety challenges has become employee retention and recruitment. Alaska is one of the few jurisdictions that does not presently offer a defined benefit type retirement for new public safety employees. Additionally, many municipal public employees do not participate in Social Security or the Supplemental Annuity Plan (SBS-AP). HB 55 is crafted to retain and attract quality peace officers and firefighters while protecting the state from unnecessary financial risks in the future. The proposed option would allow future peace officers and firefighters under the PERS system and current ones under the PERS Tier IV plan to join the defined benefit plan. The proposal includes several safeguards modeled after the most fiscally responsible plans in the nation. These safeguards provide stability and would provide the state with fiscal certainty about their ability to maintain adequate funding for this plan into the future. These provisions include a minimum retirement age of 55 with 20 years of service, flexibility setting employee contribution rates, minimum 12 percent employer contribution rates, mechanisms to prevent costly "pension spiking," and the ability to withhold post-pension retirement adjustments should the plan's funding drop below 90 percent. The new tier will closely mirror Tier III of

PERS for public safety employees, with the exception of two cost saving measures: the continued inclusion of the Tier IV defined contribution retirement plan's health reimbursement arrangement (HRA) and the absence of cost-of-living adjustments. HB 55 will be a step toward making Alaska more attractive to public safety employees. The nature of the jobs that peace officers and firefighters hold are uniquely physically demanding and hazardous compared to other public employees, and all Alaskans pay the cost for understaffed public safety agencies.

[9:14:56 AM](#)

Co-Chair Bishop wondered what other state did not have a defined benefit for firefighters.

Representative Josephson replied that he did not know.

[9:15:26 AM](#)

AT EASE

[9:16:00 AM](#)

RECONVENED

[9:16:25 AM](#)

WILLIAM "FLICK" FORNIA, PENSION TRUST ADVISOR, introduced himself.

[9:16:38 AM](#)

TOM WESCOTT, FORMER PRESIDENT, ALASKA PROFESSIONAL FIREFIGHTERS ASSOCIATION, introduced himself.

Mr. Fornia discussed the presentation, "Shared Risk Hybrid Retirement Program for Public Safety, HB 55 - Actuarial Implications" (copy on file). He looked at slide 2, "William B. Fornia, FSA Credentials":

- Highest Actuarial Credentials
 - Fellow of the Society of Actuaries (1986)
 - Enrolled Actuary under ERISA (1984)
 - Member of the American Academy of Actuaries (1983)
 - Elected to Board of Directors of 35,000-member Society of Actuaries
- Author and Frequent Speaker

- "Still A Better Bang for the Buck" (with National Institute on Retirement Security), 2014
- "Are California Teachers Better off with a Pension or 401(k)" University of California Berkeley Labor Center and Journal of Retirement, 2016
- Frequent Testimony to Legislatures and City Councils
- Regular Expert Witness (Detroit, Stockton)

Mr. Fornia pointed to slide 3, "Sample Work History":

- Corporate actuary for Boeing 1980-1984
- Founded Pension Trustee Advisors in 2010
- Alaska related experience
 - ARMB first ongoing review actuary 2005-2006
 - Audited Alaska PERS/TRS actuarial valuations 2009
 - Former leader of Buck Consultants' Denver retirement practice
 - Advisors to labor groups since 2011, including testimony
- Consulting services for 23 statewide retirement systems in Alaska, Colorado, Missouri, North Dakota, Oklahoma, Puerto Rico, Utah, Texas, Wyoming and others.
 - Served as system actuary for most of these (including CO, MO, ND, OK, WY)
 - Ongoing consultant to Ohio Retirement Study Council, including reform
- Expert testimony and consulting for governments, pension systems, and labor groups
- Other clients have included the US Department of State, Cities of Baltimore, New York and Philadelphia, IBM, US WEST and Ford

[9:18:38 AM](#)

Mr. Fornia addressed slide 4, "Shared-Risk Hybrid Retirement Program for Public Safety":

- How did we get here?
- Why is change necessary?
- Actuarial Implications
- Illustration of Financial Projections

Mr. Fornia pointed to slide 5, "Shared-Risk Hybrid Retirement Program for Public Safety."

Co-Chair Bishop stated that he would manage the table.

Mr. Fornia addressed slide 6, "Illustration of hypothetical police/fire benefits: \$80,000 Final Average Salary."

[9:23:16 AM](#)

Senator von Imhof queried the findings within the private sector for workers with only a 401K retirement account.

Mr. Fornia replied that the answer was mostly related to the amount of money saved in a 401K. He stressed that those making a median or lower income level who would see the most impact.

Senator von Imhof wondered what private companies were doing for their employees.

Mr. Fornia replied that those companies were putting 6 percent of pay into social security.

[9:25:35 AM](#)

Senator von Imhof felt that the public safety employees should be considered separate from other public employees, because they put their lives at risk. Therefore, she found aspects of the bill attractive. She pointed out, however, that defined benefits were very expensive. She wondered whether there could be a reentry into social security contributions.

Mr. Fornia replied that he did not know.

Co-Chair Stedman recalled that at the time of establishing the Tier IV system, it was comparative to Tier III in order to avoid multiple contrasting tiers. He wondered whether there was an alternative way to enter into social security, specifically whether it could be optional.

Mr. Fornia replied that a person could not opt out of social security.

[9:31:52 AM](#)

Co-Chair Stedman asked for a summary of the supplemental benefits system.

Mr. Fornia replied that the supplemental benefit system was similar to social security, which was a defined benefit plan. He remarked that individuals within social security could not opt in, unless they get another job that paid into social security.

Co-Chair Stedman remarked that the state had a supplemental benefit system, because the state had opted out of social security.

[9:36:32 AM](#)

Senator von Imhof recalled that the teachers union conducted a study about what it would take to opt in to social security, which found that it required a vote from the local school board. She stated that any single district could allow a vote to opt back into social security.

Senator Wielechowski wondered what happened when a person retires during a time of low market, and how it impacted the Tier IV defined contribution benefit.

Mr. Fornia noted that there would be some people that "did well" under Tier IV if they retire at a point when the market is at an escalation. He stressed that the bill would cost employers much less than paying into social security.

[9:40:56 AM](#)

Co-Chair Stedman recalled that the supplemental benefit system cost the state billions of dollars.

Senator Wilson wondered whether the bill would change the benefits for the municipal public safety employees.

Mr. Fornia replied in the affirmative and stated that the fiscal note identified additional cost, which would be picked up by the state.

Co-Chair Bishop noted that Senator Olson had joined the meeting.

Mr. Fornia continued to discuss the fiscal note and the fiduciary risk to the state. He looked at slide 7, "Key

Considerations with Shared-Risk Hybrid Retirement Programs":

- DB Plans are more cost effective at providing retirement benefits
 - DB pension plans pool "longevity risks"
 - DB pension plans can maintain a better diversified portfolio because, unlike individuals, they do not age
 - DB pension plans achieve better investment returns because of professional asset management and lower fees
- DC Plans are more consistent with individual responsibility
 - Benefit is a clearly defined contribution from the employer and employee to a trust
 - Benefit is more under the control and full ownership of the individual
 - Benefit is much more portable
 - No risk of unfunded liabilities to employer
- Shared-Risk Hybrid Plans have many features of both
 - Cost-effectiveness of DB plans
 - But not all of the actuarial risk is borne by the employer

Mr. Fornia discussed slide 8, "Actuarial Implications of HB 55":

- Buck Fiscal note shows modest cost
- Risk to State is "Adverse Plan Experience"
- HB 55 Plan has Safeguards to mitigate this risk
- We have performed simulations to analyze this risk

Mr. Fornia displayed slide 9, "How does HB 55 strike a compromise?"

- Start with 12 percent fixed employer contribution and manage plan within that target as possible
- Design current target benefit levels
 - Consider benefits provided by DCR and latest DB
- Build in benefit and/or employee contribution adjustment mechanisms
- These provide cushion against adverse experience

Mr. Fornia pointed to slide 10, "Safeguard 1: Reduce benefits vis-à-vis Tier 3":

- Minimum Age 55 eligibility
- Five-year average salary
- Eliminate Alaska 10 percent COLA
- Eliminate pre-Medicare health coverage
- Suspend Post-Retirement Pension Adjustment when not well funded
- Increase employee and employer contributions up to 2 percent each if not well funded
 - Amended to permit employee increase by 4 percent

Mr. Fornia looked at slide 11, "Safeguard 2: Actuarial Methods":

- Build in margin in actuarial assumptions
- Build reserves in good times to provide added funding during bad times
- Compare 12 percent + 8 percent = 20 percent contributions with costs above
 - 16.35 percent cost for pension based on 7.00 percent returns
 - HRA and Medicare Supplement are another 2.92 percent
 - This provides cushion of 0.73 percent
 - Additional 8.04 percent available through PRPA suspension and additional 4 percent+2 percent employee and employer contributions

[9:45:05 AM](#)

Mr. Fornia discussed slide 12, "Safeguard 3: Reduced Discount Rate":

- Target the pension benefits of the latest DB tier and health care benefits of the current DC tier
- Determine the costs based on 7 percent discount rate rather than 7.38 percent assumed by PERS actuary
- Seek additional funding for this level, and then commit to this fixed employer contribution rate going forward
 - This is 12 percent employer contribution for Police and Fire employers
- Monitor experience and adjust benefits and/or contributions as necessary going forward

Mr. Fornia addressed slide 13, "Benefit Plan Return Thresholds":

- ARMB Actuary assumes 7.38 percent return
- We've built HB55 plan around 7.00 percent
- If we earn 6.62 percent each year, will not be below 90 percent funded for fifty years
- If we earn 6.49 percent each year, employee contribution increases will be triggered
- If we earn 5.43 percent each year, will also have frequent suspension of PRPA

Mr. Fornia looked at slide 14, "Benefit Plan Simulations - 2019 Baseline":

- We modelled how plan might have worked under various returns
- If fund earns 6.6 percent for next ten years, as ARMB investment consultant estimates, then 7.38 percent (consistent with long-term PERS actuarial consultants) thereafter
 - Plan will grow to 107 percent funded by 20 years
 - Never below 100 percent funded
 - Funded ratios based on conservative 7.00 percent
 - Current actuary uses 7.38 percent

Mr. Fornia discussed slide 15, "Benefit Plan Simulations - Historical":

- We modelled how plan might have worked under various returns consistent with PERS returns
- Considering each 20-year period from 1980-2000 to 2000-2020
 - Median case was if 1995-2015 was replicated
 - 9.1 percent average return
 - Never falls below 90 percent
 - Worst case was if 2000-2020 was replicated
 - 8.6 percent average return
 - Falls below 90 percent for 3 of those 20 years, by end would be 99 percent funded
 - 75 percentile best case was if 1986-2006 replicate
 - 10.2 percent average return
 - Would be 133 percent funded after 20 years

Mr. Fornia addressed slide 16, "Benefit Plan Simulations - Historical." He discussed the orange line which represented

50 percentile Median Case 1995-2015. He stressed that the idea was to avoid being poorly funded. He spoke of the tech bubble burst in 2000 and the recession of 2008. He said that the plan had been stress tested.

Co-Chair Bishop felt that the wrong people had been bailed out by the federal government in 2008.

Senator Wielechowski thought that the bill was timely and reasonable.

[9:50:36 AM](#)

Co-Chair Bishop asked whether the slide had been modeled on the entire state workforce.

Mr. Fornia said that it would not matter the size of the group.

Co-Chair Stedman voiced concern that adding a new tier that shifted the risk to an employee could be detrimental to future employees and retirees.

Mr. Fornia thought that Co-Chair Stedman made a good point. He said that the retirees would have skin in the game

Co-Chair Bishop asked about the other clients.

Mr. Fornia said they were public sector.

Senator Wilson asked how many other states fared with retention of public safety employees.

Mr. Wescott replied that public safety employees had left the state because of retirement and benefits.

Senator Wilson asked about retention of new officers and firefighters nationwide.

Mr. Wescott said that people who were leaving were not leaving service but moving to other states.

[9:58:37 AM](#)

Co-Chair Stedman stressed that it was voluntary for communities to buy into the state system.

Mr. Wescott believed that there had been legislation that required PERS members to stay in the system.

[10:00:44 AM](#)

Co-Chair Stedman felt that a community could start their own retirement tier.

Senator von Imhof requested an analysis of the turnover rate of the employees.

Senator Wielechowski stressed that the public safety employees were taking a risk everyday at work. He wondered whether the bill would cost the state additional money.

Mr. Fornia replied that the fiscal note that it would cost approximately 2 percent of the employer pay.

[10:06:17 AM](#)

Senator von Imhof stressed that felt that the cost was small to keep people safe.

CS HB55 (FIN) was HEARD and HELD in committee for further consideration.

#hb322

CS FOR HOUSE BILL NO. 322(TRA) am

"An Act relating to the Alaska marine highway system fund; relating to the Alaska marine highway system vessel replacement fund; relating to the Alaska higher education investment fund; and providing for an effective date."

[10:07:29 AM](#)

KERRY CROCKER, STAFF, REPRESENTATIVE LOUISE STUTES, introduced the legislation. He stated that the bill would move the Alaska marine highway system fund and the vessel replacement fund to the state treasury from the general fund.

Senator Wilson wondered whether the bill would create "winners and losers" about which funds would be sweepable.

Mr. Crocker replied that the process showed that the product added two funds to the list.

Senator Wilson felt that eleven more funds could be added to the list.

[10:10:47 AM](#)

Co-Chair Stedman felt that the marine highways funds had specific requirements, so there should be a different determination of those funds.

Senator Wilson felt that the crime victim compensation funds was more important for his district. He felt that there were many funds in the account that benefitted many Alaskans.

Co-Chair Bishop OPENED and CLOSED public testimony.

[10:13:51 AM](#)

AT EASE

[10:14:14 AM](#)

RECONVENED

Co-Chair Bishop discussed the afternoon meeting's agenda.

CSHB 322(TRA) was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

[10:14:37 AM](#)

The meeting was adjourned at 10:15 a.m.