

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

April 4, 2022

1:30 p.m.

MEMBERS PRESENT

Senator Mia Costello, Chair
Senator Peter Micciche
Senator Gary Stevens
Senator Elvi Gray-Jackson

MEMBERS ABSENT

Senator Joshua Revak, Vice Chair

COMMITTEE CALENDAR

Alaska Worker's Compensation Board
Christopher Dean - Fairbanks

- CONFIRMATION ADVANCED on 5/2/2022

Mathew Barth - Anchorage

- SCHEDULED BUT NOT HEARD

Board of Nursing
Lena Lafferty - Anchorage

- CONFIRMATION ADVANCED on 5/2/2022

Fishermen's Fund Advisory & Appeals Council
Clay Bezenek - Ketchikan

- CONFIRMATION ADVANCED on 5/2/2022

Board of Social Work Examiners
Gabriel King - North Pole

- CONFIRMATION ADVANCED on 5/2/2022

Real Estate Commission
Devon Doran - Wasilla

- CONFIRMATION ADVANCED on 5/2/2022

Chad Stigen - Palmer

- SCHEDULED BUT NOT HEARD

Board of Dental Examiners

Dominic Wenzell - Girdwood

- SCHEDULED BUT NOT HEARD

Board of Certified Real Estate Appraisers

Valery Kudryn - Wasilla

- SCHEDULED BUT NOT HEARD

Board of Certified Direct-Entry Midwives

Hannah St. George - Fairbanks

- SCHEDULED BUT NOT HEARD

Board of Chiropractic Examiners

Taylor Friend - Kodiak

- SCHEDULED BUT NOT HEARD

Alcoholic Beverage Control Board

Janice Hill, Haines

- CONFIRMATION ADVANCED on 5/2/2022

Board of Architects, Engineers, & Land Surveyors

Sterling Strait - Anchorage

- SCHEDULED BUT NOT HEARD

COMMITTEE SUBSTITUTE 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."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 55

SHORT TITLE: PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS

SPONSOR(S): REPRESENTATIVE(S) JOSEPHSON

02/18/21 (H) PREFILE RELEASED 1/15/21
02/18/21 (H) READ THE FIRST TIME - REFERRALS
02/18/21 (H) STA, FIN
03/13/21 (H) STA AT 1:00 PM GRUENBERG 120
03/13/21 (H) Heard & Held
03/13/21 (H) MINUTE(STA)
03/27/21 (H) STA AT 1:00 PM GRUENBERG 120
03/27/21 (H) Heard & Held
03/27/21 (H) MINUTE(STA)
04/13/21 (H) STA AT 3:00 PM GRUENBERG 120
04/13/21 (H) Heard & Held
04/13/21 (H) MINUTE(STA)
04/15/21 (H) STA AT 3:00 PM GRUENBERG 120
04/15/21 (H) Moved HB 55 Out of Committee
04/15/21 (H) MINUTE(STA)
04/16/21 (H) STA RPT 3DP 4AM
04/16/21 (H) DP: CLAMAN, TARR, KREISS-TOMKINS
04/16/21 (H) AM: STORY, EASTMAN, KAUFMAN, VANCE
04/21/21 (H) FIN AT 9:00 AM ADAMS 519
04/21/21 (H) Heard & Held
04/21/21 (H) MINUTE(FIN)
04/23/21 (H) FIN AT 9:00 AM ADAMS 519
04/23/21 (H) Heard & Held
04/23/21 (H) MINUTE(FIN)
04/27/21 (H) FIN AT 9:00 AM ADAMS 519
04/27/21 (H) Heard & Held
04/27/21 (H) MINUTE(FIN)
05/05/21 (H) FIN AT 1:30 PM ADAMS 519
05/05/21 (H) Heard & Held
05/05/21 (H) MINUTE(FIN)
05/14/21 (H) FIN AT 1:30 PM ADAMS 519
05/14/21 (H) Moved CSHB 55(FIN) Out of Committee
05/14/21 (H) MINUTE(FIN)
05/17/21 (H) FIN RPT CS(FIN) 5DP 1DNP 3NR
05/17/21 (H) DP: ORTIZ, WOOL, JOSEPHSON, FOSTER,
MERRICK
05/17/21 (H) DNP: CARPENTER
05/17/21 (H) NR: EDGMON, LEBON, THOMPSON
05/19/21 (H) LIMIT ALL DEBATE TO 2 MIN EACH Y23 N16
E1
05/19/21 (H) MOTION TO REMOVE 2 MIN DEBATE LIMIT
FAILED Y12 N27 A1
05/19/21 (H) TRANSMITTED TO (S)

05/19/21 (H) VERSION: CSHB 55 (FIN)
 01/18/22 (S) READ THE FIRST TIME - REFERRALS
 01/18/22 (S) L&C, FIN
 01/28/22 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
 01/28/22 (S) -- MEETING CANCELED --
 01/31/22 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
 01/31/22 (S) Heard & Held
 01/31/22 (S) MINUTE (L&C)
 04/04/22 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

CHRISTOPHER DEAN, Appointee

Alaska Workers' Compensation Board
 Department of Labor and Workforce Development (DOLWD)
 Fairbanks, Alaska

POSITION STATEMENT: Testified as an appointee to the Alaska Workers' Compensation Board.

CLAY BEZENEK, Appointee

Fishermen's Fund Advisory and Appeals Council
 Department of Labor and Workforce Development (DOLWD)
 Ketchikan, Alaska

POSITION STATEMENT: Testified for reappointment to the Fishermen's Fund Advisory and Appeals Council.

DEVON DORAN, Appointee

Real Estate Commission
 Department of Commerce, Community and Economic Development
 Wasilla, Alaska

POSITION STATEMENT: Testified as appointee to the Real Estate Commission.

GABRIEL KING, Appointee

Board of Social Work Examiners
 Department of Commerce, Community and Economic Development
 North Pole, Alaska

POSITION STATEMENT: Testified as an appointee to the Board of Social Work Examiners.

LENA LAFFERTY, Appointee

Board of Nursing
 Department of Commerce, Community and Economic Development
 Anchorage, Alaska

POSITION STATEMENT: Testified for reappointment to the Board of Nursing to the registered nurse seat.

JANICE HILL, Appointee
Alcoholic Beverage Control Board
Department of Commerce, Community and Economic Development
Haines, Alaska

POSITION STATEMENT: Testified as appointee to the Alcoholic Beverage Control Board.

DAVID KERSHNER, FSA, EA, MAAA, FCA,
Principal and Consulting Actuary, Buck
Estero, Florida

POSITION STATEMENT: Discussed the cost analysis for the updated version of HB 55.

WILLIAM FORNIA, President
Pension Trustee Advisors, Inc. and
Actuary for the Washington State Firefighters Association
Greenwood Village, Colorado

POSITION STATEMENT: Testified in support of HB 55 on behalf of his clients.

RYAN FROST, Policy Analyst
Pension Integrity Project
Reason Foundation
Los Angeles, California

POSITION STATEMENT: Raised concerns during his testimony on HB 55.

BRAD FLUETSCH, representing self
Santa Fe, New Mexico

POSITION STATEMENT: Raised concern with the Buck Actuarial Report during the hearing on HB 55.

ACTION NARRATIVE

[1:30:26 PM](#)

CHAIR MIA COSTELLO called the Senate Labor and Commerce Standing Committee meeting to order at 1:30 p.m. Present at the call to order were Senators Gray-Jackson, Micciche, and Chair Costello. Senator Stevens arrived during the course of the meeting.

CONFIRMATION HEARING(S)
Alaska Workers' Compensation Board
Fishermen's Fund Advisory & Appeals Council
Real Estate Commission
Board of Social Work Examiners
Board of Nursing

Alcoholic Beverage Control Board

[1:31:04 PM](#)

CHAIR COSTELLO announced the consideration of Governor Appointees to Boards and Commissions. She asked Christopher Dean to tell the committee about his interest in serving on the Alaska Workers' Compensation Board and to share any challenges he sees the board might be facing.

[1:31:51 PM](#)

CHRISTOPHER DEAN, Appointee, Alaska Workers' Compensation Board, Department of Labor and Workforce Development (DOLWD) Fairbanks, Alaska, stated that he moved to Alaska when he was in high school, continued his education at the University of Alaska Fairbanks, and established his career in Fairbanks after graduation. He related that his background is in the health care field, both care delivery and administration. He currently fills a number of roles working for Foundation Health Partners (FHP). As a licensed athletic trainer, he serves the community by providing direct health care, safety advocacy, and education to all levels of athletes. Additionally, he oversees a robust sports medicine outreach on behalf of FHP. He has a long history of professional and civic service at the local, state, and national levels. He looks forward to the opportunity to serve the state on this board, should he be confirmed.

[1:33:10 PM](#)

CHAIR COSTELLO asked if he had served on this board in the past.

MR. DEAN answered no it's a new appointment. His appointment last year to the labor seat was rescinded and this year his appointment was to an industry seat.

CHAIR COSTELLO advised all the appointees that she would forward all the names in one batch.

CHAIR COSTELLO invited Clay Bezenek to tell the committee about his interest in serving on the Fishermen's Fund Advisory and Appeals Council and whether this was a new or reappointment.

[1:34:37 PM](#)

CLAY BEZENEK, Appointee, Fishermen's Fund Advisory and Appeals Council, Department of Labor and Workforce Development (DOLWD), Ketchikan, Alaska, stated that he had served on the board since he was appointed by Governor Palin. He said it has been an honor to serve on a board that was started before Statehood. He highlighted that 100 percent of the money that has flowed

through the fishermen's fund has come from the sale of permit cards and crew licenses. He related that he finds it encouraging that fishermen have been interested in taking care of fellow fishermen for such a long time. [His testimony was interrupted when his dog caught sight of a deer wandering through the yard.]

MR. BEZENEK relayed that he also served on the North Pacific Salmon Commission as the fisherman representative.

CHAIR COSTELLO thanked Mr. Bezenek for his service and for sharing the information about the deer.

[1:37:09 PM](#)

CHAIR COSTELLO invited Devon [Doran] to tell the committee about her interest in serving on the Real Estate Commission.

[1:37:22 PM](#)

DEVON DORAN, Appointee, Real Estate Commission, Department of Commerce, Community and Economic Development (DCCED), Wasilla, Alaska, stated that she is a lifelong Alaskan and currently is the broker/owner of Signature Real Estate Alaska in the MatSu Valley. She learned early in her career that it is important to stay involved and give back to the industry. She has served in a number of leadership roles and has served as a local, state, and national director for the local Board of Realtors. In 2017 she served as the President of the Alaska Association of Realtors. She has been interested in serving on the Real Estate Commission for a number of years and has attended the meetings regularly. She opined that she would bring the perspective of the MatSu Valley and Anchorage to the commission. She noted that she is also a licensed trainer, educator, and mediator. Since her appointment, she has helped with the guidelines for continuing education for the next cycle of real estate licensees. She expressed her excitement about serving and shared that she enjoys reading statutes and regulations.

CHAIR COSTELLO shared that two constituents who are competitors sent emails supporting her appointment.

SENATOR MICCICHE commented that it speaks volumes to be endorsed by a competitor.

MS. DORAN said real estate is unique in that it requires cooperation among competitors to be successful.

SENATOR GRAY-JACKSON shared that a friend sent an email supporting the appointment of Ms. Doran.²

CHAIR COSTELLO thanked her for her willingness to serve.

1:42:01 PM

At ease

1:44:07 PM

CHAIR COSTELLO reconvened the meeting and asked Gabriel King to tell the committee about his interest in serving on the Board of Social Work Examiners and if this was a reappointment.

1:44:44 PM

At ease

1:44:57 PM

CHAIR COSTELLO reconvened the meeting.

1:45:15 PM

GABRIEL KING, Appointee, Board of Social Work Examiners, Department of Commerce, Community and Economic Development (DCCED), North Pole, Alaska, stated his interest in serving on the board as a public member. If confirmed, this would be his first term. He came to Alaska in 2016 with the military, was discharged in 2018, and thereafter established a photography business. He is currently pursuing a bachelor's degree in political science at the University of Alaska Fairbanks. He would like to serve on the Board of Social Work Examiners as a way to give back to the community. He said mental health and social services are important and it is important that all Alaskans have safe access to quality providers. He believes he will bring a fresh perspective to the matters the board faces.

SENATOR GRAY-JACKSON asked if he was still a volunteer firefighter.

MR. KING answered no; he resigned in May 2021 to run his business full time.

CHAIR COSTELLO asked if he had any financial interest in the social work field.

MR. KING answered no.

CHAIR COSTELLO wished him luck and restated that all the names of appointees would be forwarded in one batch at a later time.

CHAIR COSTELLO asked Lena Lafferty to tell the committee about her interest in serving on the Board of Nursing, the seat to which she was appointed, and if this was a first or reappointment.

[1:48:34 PM](#)

LENA LAFFERTY, Appointee, Board of Nursing, Department of Commerce, Community and Economic Development (DCCED), Anchorage, Alaska, stated that she served for one year and this is a reappointment to the registered nurse seat. She related that she came to Alaska about 16 years ago with her husband who was in the military. She was previously in the Navy as a hospital corpsman and became a registered nurse about eight years ago. She works in the operating room at Providence Hospital. She hopes to be reappointed to complete the board's ongoing work to allow Army and Air Force LPNs to sit for the LPN Boards in Alaska. A goal for the next term is to allow hospital corpsmen to challenge the LPN Boards. She relayed that working with the board to further the nursing profession by easing some burdens during the pandemic was challenging but rewarding.

CHAIR COSTELLO observed that her experience and background was suited to the board. She thanked her for her past service and interest in continuing to serve.

[1:52:40 PM](#)

CHAIR COSTELLO turned to the appointment of Janice Hill to the Alcoholic Beverage Control Board.

[1:52:54 PM](#)

JANICE HILL, Appointee, Alcoholic Beverage Control (ABC) Board, Department of Commerce, Community and Economic Development (DCCED), Haines, Alaska, stated that she is a lifelong resident of Haines and she has many years of experience serving her community, the region and state, most recently for four terms as the mayor of Haines. She reported that she currently serves on the Southeast Conference Board, the Chilkoot Indian Association Tribal Council, the Southeast Alaska Regional Health Consortium (SEARHC) Board, the Alaska Miners Association Board, the Lynn Canal Icy Strait Resource Advisory Committee, and various other committees in Haines. She said her interest in serving on the ABC Board stems from her work as a tribal health representative on the Title IV rewrite steering committee. She is familiar with the statutes and would be able to bring a small town perspective to the board. She had attended three meetings thus far and enjoyed it very much.

CHAIR COSTELLO observed that she seemed well qualified to serve on this board.

SENATOR MICCICHE thanked her for serving on the Title IV steering committee, and agreed that she was well qualified and that her small community perspective would be helpful.

[1:56:21 PM](#)

CHAIR COSTELLO opened public testimony on the governor appointees the committee heard from today. Finding none, she closed public testimony.

CHAIR COSTELLO advised that the committee would hear from the remaining appointees on Monday April 11.

CHAIR COSTELLO restated that the names of all appointees would be forwarded in one batch at a later time.

[1:57:22 PM](#)

At ease

HB 55-PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS

[1:58:05 PM](#)

CHAIR COSTELLO reconvened the meeting and announced the consideration of 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."

CHAIR COSTELLO asked Mr. Kershner and Mr. Young to brief the committee on the updated fiscal note for HB 55.

[1:58:43 PM](#)

DAVID KERSHNER, FSA, EA, MAAA, FCA, Principal and Consulting Actuary, Buck Global LLC., Estero, Florida, stated that he was the lead retirement actuary for the State of Alaska, Division of Retirement and Benefits (DRB) retirement systems. He introduced Scott Young as the lead health actuary for the work Buck does for DRB. He advised that he and Mr. Young would discuss the updated fiscal note cost analysis for HB 55, all of which is covered in the letter dated March 4, 2022.

MR. KERSHNER said there are three basic differences between the 2021 fiscal note and the 2022 update, but the analysis did not change. The first difference reflects the change in actuarial valuations resulting from changes in the participant data between 2020 and 2021.

The second difference is that last year's analysis did not reflect SB 55, which changed the way the state-as-an-employer makes contributions to the PERS trusts. That bill went into effect July 1 2021. The updated analysis reflects both the additional state contributions and the state-as-an-employer contributions.

The third difference reflects the change in the effective date of HB 55 from 7/1/2021 to 7/1/2022.

[2:01:50 PM](#)

MR. KERSHNER said that under both analyses, Buck is projecting increases to the state contributions to PERS. The reason is that HB 55 gives the current active members in the DCR Plan for peace officers and fire fighters a one-time election to stay in the Defined Contribution Retirement (DCR) plan or switch to the HB 55 Defined Benefit (DB) plan. Additionally, under HB 55 all future peace officer and firefighter hires will enter the Defined Benefit Plan rather than the Defined Contribution Plan.

Because the participants are projected to shift from the DCR Plan to the DB Plan, there will be a shift in contributions as well as the new allocation of those contributions.

[2:03:58 PM](#)

MR. KERSHNER said the table on page 2 of the March 4, 2022 letter summarizes the increases in the additional state contributions as well as the state-as-an-employer contributions to PERS for FY23 through FY28. The pie charts show the current distribution of the 22 percent of pay employer contributions and the distribution under HB 55.

The pie chart on the left shows that PERS employers currently contribute five percent of employee pay to the Defined Contribution Accounts; three percent (green) to employee Health Reimbursement Accounts (HRA); 1.5 percent (yellow) to the DCR Trust for occupational death and disability benefits and retiree health care benefits; and 12.5 percent to the Defined Benefit Trust to help pay down the unfunded liability in that plan.

[2:06:17 PM](#)

MR. KERSHNER directed attention to the pie chart on the right that shows the distribution of the 22 percent employer contributions, should HB 55 become law. The three percent of pay contribution employers make to HRAs on behalf of peace/fire members affected by HB 55 is shown in green; the minimum nine percent that will be contributed to the HB 55 Trust that is proposed to be set up within the Defined Benefit Trust is shown in yellow; and the ten percent that will be distributed to the Defined Benefit Trust is shown in orange. Employers are still contributing 22 percent, but the state will have to make up the 2.5 percent shortfall between the 12.5 percent that is currently being deposited to the DB Trust to pay down the unfunded liability and the 10 percent that will be deposited to that account should HB 55 pass.

MR. KERSHNER stated that the increases in the state-as-an-employer contributions are due to a couple of things. First, under SB 55 the state-as-an-employer contributes the full actuarial contribution rate to both the DB Trust and DCR Trust. Under HB 55, those contribution rates are projected to increase slightly because retention rates are expected to rise when employees have the opportunity to receive a defined benefit pension. In sum, employee retention is expected to be higher after HB 55 than before, so projected payroll is expected to be higher. Because the dollar amounts are the contribution rate times the projected payroll, that leads to the higher state-as-an-employer contributions, as shown on page 2.

[2:11:10 PM](#)

MR. KERSHNER explained that two mitigating provisions are built into HB 55. One is that the ARM Board can increase the member contribution rates from eight percent of pay up to 12 percent of pay. The other is that the ARM Board can also reduce the Post Retirement Pension Adjustment (PRPA) benefits, which are linked to changes in the consumer price index (CPI).

Under the provisions of HB 55, the ARM Board can reduce PRPA benefits if the status of the HB 55 Trust falls below 90 percent. The trust will be nearly 100 percent funded with the transfer of assets under the proposed bill, and it is expected to remain funded well above 90 percent if it earns according to the assumptions the ARM Board has adopted. Because of that projection, the Buck cost analysis did not reflect any reduction in PRPA benefits. Similarly, the analysis did not assume any increases to the eight percent member contributions. That is an action the ARM Board would have to take because unlike the PRPA,

there is no threshold under which member contributions would be increased automatically.

[2:13:54 PM](#)

MR. KERSHNER clarified that HB 55 does not offer these new DB members the ten percent Alaska residency cost of living allowance (COLA) that retired PERS members who continue to reside in Alaska currently receive. The only COLA that HB 55 members would receive is PRPA.

MR. KERSHNER offered to answer questions about the updated cost analysis.

[2:14:49 PM](#)

CHAIR COSTELLO referenced page 5 of the letter and noted that 708 peace and fire employees don't have the ability to transfer all their existing service in the DCR plan to the DB plan, so they would be indebted to the state. She asked what would happen to those individuals if HB 55 were to pass and they opted to change to the DB plan.

MR. KERSHNER explained that at the time of the analysis those 708 employees did not have sufficient funds in their defined contribution accounts to purchase all the service they have under the DCR plan. The assumption was that they would transfer the entire DCR account and assume an indebtedness for the remainder that would need to be paid down according to the indebtedness rules governing all PERS members. The analysis did not assume that any of those members would purchase the additional service outright because, on an actuarial basis, there is no net effect in doing so.

[2:18:28 PM](#)

CHAIR COSTELLO asked why HB 55 assumes a 7.38 percent return on investment when the ARM Board projects a 6.6 percent return over the next decade.

[2:19:12 PM](#)

SENATOR STEVENS joined the committee.

MR. KERSHNER replied he didn't know the basis for the 6.6 percent return, but the Buck analysis assumed a return of 7.38 percent because that is the rate the ARM Board adopted in 2019, based on the 2017 experience study. Changing expectations in the capital market caused the return rate to drop from eight percent to 7.38 percent. Buck is currently in the middle of the next

experience study that is conducted once every four years and the new assumptions will become effective with the 2022 valuations.

CHAIR COSTELLO asked if Buck's March 4, 2022 letter satisfied the statutory requirement for an actuarial report on any bill of this nature.

MR. KERSHNER answered that it does.

SENATOR MICCICHE commented that the drop four years ago from eight percent to 7.38 percent was fairly significant. He asked what would cause that sort of reduction from one experience study to the next.

MR. KERSHNER said the general explanation is that capital market expectations and asset allocations change over time and those changes are reflected when a new actuarial experience study is done every four years. The ARM Board sets new assumptions at that time based on the new expectations. The eight percent return assumption was set in 2014 and was based on the 2013 experience study. The expected equity returns in 2018 were lower in general than they were in 2014 and the ARM Board adopted the 7.38 percent return assumption at that time, based on the latest experience study. Four years from now there will be new expectations

[2:25:41 PM](#)

SENATOR MICCICHE calculated that the drop from eight percent to 7.38 was .62 percent. He asked how the HB 55 DB plan would be affected if the next experience study resulted in another .62 percent drop in expected returns.

MR. KERSHNER replied that the liabilities in the plan increase whenever the assumed return is decreased. For example, more money needs to be set aside today to pay a \$1,000 benefit in five years if the expected return is 7.38 percent, as opposed to eight percent. He noted that if Buck had done the analysis using a 6.5 percent return instead of 7.38 percent, all the contribution numbers pre-HB 55 would be higher than what is currently projected, but the difference pre- and post-HB 55 should be relatively similar.

MR. KERSHNER reminded the committee that one of the motivating factors in the 2006 decision to close the defined benefit plans to future hires was to reduce some of the risk the state bears in having defined benefit pensions promised to retirees. He pointed out that the first page of the March 4, 2022 letter

states that by opening the DB plan to peace officers and fire fighters, the state will take on more risk because the DB plan will continue to get larger as opposed to the current situation where it is projected to reach an apex then get smaller and smaller as the covered population retires, leaves state employment without a retirement benefit, or dies. Reopening the DB plan to peace officers and fire fighters increases the risk to the state. He acknowledged that some of the risk is mitigated by the levers the ARM Board can control, but the risk cannot be eliminated entirely.

[2:32:10 PM](#)

SENATOR MICCICHE questioned whether the existing liabilities would actually grow as Mr. Kershner indicated, or just shrink more slowly.

MR. KERSHNER stated that without HB 55, the liabilities of the current defined benefit plan are expected to continue to increase for a certain period of time. After that the active population will get smaller because there are no new hires and some employees will retire, some will leave employment without a retirement benefit, and some people will die before retirement. Ultimately, the assets in the plan will be depleted once the benefit is paid to the last retiree.

By contrast, HB 55 opens the defined benefit plan to peace officers and fire fighters so that portion of the plan's population will continue to grow. It is also expected to be more stable because of the defined benefit, so that portion of the plan's liabilities will not peak and then decline as in the current situation.

[2:35:55 PM](#)

SENATOR MICCICHE said he would like to see a graph that shows how adding a small subset of state employees to the DB plan will affect the overall unfunded liability of the state over time.

[2:37:01 PM](#)

SENATOR GRAY-JACKSON pointed out that not only does HB 55 not offer the ten percent COLA for retirees who remain in Alaska, it also sets the minimum age of 55 to collect the retirement benefit and it does not offer a Cadillac health care plan. She noted the current difficulties associated with retaining police officers and fire fighters and asked if he expects HB 55 to help with that.

MR. KERSHNER said he didn't know the particulars but the general expectation is that the defined contribution plan workforce is more mobile and those workers typically take their defined contribution account balance when they move. By comparison, defined benefit plans provide incentives for people to stay and ultimately receive the lifetime defined benefit pension.

MR. KERSHNER continued to explain that Buck's ongoing actuarial valuations make assumptions about all future events, one of which is the withdrawal assumption. That is that a certain percentage of people at various ages will terminate employment during the year. A comparison of the withdrawal rates for the two plans shows that the withdrawal rates for the defined benefit plan are lower because of that assumed decreased mobility. He said the expectation is that the retention rate for members in a defined benefit plan is higher, but he did not have the details to know how that translates to the actual experience for the state.

SENATOR GRAY-JACKSON pointed out that both the state and the Municipality of Anchorage were having problems with retention of police officers and fire fighters. She also asked for a brief explanation of how raising employee contributions and withholding inflation adjustments from retirees will reduce the risk for the state.

MR. KERSHNER answered that if the ARM Board were to raise the member contributions, less money would be required from the participating employers and the state. For example, if the member contributions were increased from 8 percent to 10 percent, those contributions would fund a larger portion of the pension benefit liabilities.

CHAIR COSTELLO thanked Mr. Kershner and suggested that if the members had more questions they could submit them in writing to her office.

[2:42:17 PM](#)

CHAIR COSTELLO listed the individuals waiting to comment on the report and the bill. She turned first to William Fornia and asked him to summarize the PowerPoint he provided.

[2:42:59 PM](#)

WILLIAM FORNIA, President, Pension Trustee Advisors (PTI), Inc. and Actuary for Firefighters Association, Greenwood Village, Colorado, began his presentation by pointing to slides 2 and 3

that provide his credentials and a sample of his work history, including his work with the State of Alaska starting in 2005.

MR. FORNIA stated that slide 5 illustrates the necessity of HB 55. The chart of the hypothetical benefits for Tier III defined benefit (DB) retirement versus Tier IV defined contribution (DC) retirement for police/fire employees whose final average salary was \$80,000 demonstrates that the Tier III DB retirement is dramatically higher than the Tier IV DC benefit and only marginally higher than Social Security.

[2:46:08 PM](#)

MR. FORNIA skipped to slide 7 that lists the actuarial implications of HB 55. The slide read as follows:

- 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 mentioned Senator Micciche's question about liabilities going up and clarified that he likely was talking about unfunded liabilities, which are deliberately designed not to go up. He directed attention to slide 8 that talks about how HB 55 strikes a compromise. It read as follows:

- 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 said the plan is targeted to be 114 percent funded but if the actuaries are wrong and the return isn't 7.38 percent, the following safeguards would provide a leaner Tier III:

Safeguard 1: Reduce benefits for the new Tier III DB employees

- Minimum eligibility to qualify for the benefit is age 55
- Benefit is based on five-year average salary, not three years
- Eliminates the 10 percent Alaska residency COLA

- Suspend Post-Retirement Pension Adjustment when the fund is not sufficiently funded
- Increase employee and employer contributions up to 2 percent each if the trust is not sufficiently funded
 - This was amended to permit the employee contribution to increase up to 4 percent

Safeguard 2: Actuarial Margins

- 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 & Medicare Supplement are another 2.92 percent
 - This provides a cushion of 0.73 percent
 - Additional 8.04 percent available through PRPA suspension and additional 4 percent + 2 percent employee and employer contributions

Safeguard 3: Reduced Discount Rate

- Target the pension and health care benefits to be equal to latest tier DB
- 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% employer contribution for Police and Fire employers
- Monitor experience and adjust benefits and/or contributions as necessary going forward

[2:49:21 PM](#)

MR. FORNIA turned to slide 12 and discussed the concept of threshold testing. He pointed out that the Buck analysis used the 7.38 percent annual return that the Alaska Retirement Management (ARM) Board had adopted and that Pension Trustee Advisors (PTI) built its HB 55 plan around a 7.00 percent annual return. PTI's stress testing demonstrated that an annual return of 6.62 percent was the threshold to avoid the plan falling below 90 percent funded for 50 years. To maintain that threshold, increases in employee contributions would be triggered if the annual return was 6.49 percent, and the Post Retirement Pension Adjustment would be suspended if the annual return dropped to 5.43 percent.

[2:50:36 PM](#)

MR. FORNIA directed attention to slide 13 and explained that PTI ran simulations to look at how the funding level would fare under various returns. He noted that the 6.6 percent return Chair Costello asked about probably came from an ARM Board investment consultant who in 2019 projected that return for the next ten years. Observing that the projection was wrong, he said PTI nevertheless tried to test what would happen in that scenario. He pointed to the graph on slide 15 and explained that they looked at the years since inception and took the worst 20 year period, which was 2000 to 2020. He pointed to the gray line.

The stochastic plan simulations that model possible future returns start on slide 16, using some of what the ARM Board uses for their projected volatilities.

[2:52:41 PM](#)

MR. FORNIA skipped to the bar graph on slide 19 and explained that after running 10,000 simulations they determined that after 20 years, there is a 23 percent chance that the plan would be 90 percent funded or below and a 23 percent chance the plan would be 149 percent funded, or above. The key is to aim high, and that's what the chart on slide 19 shows. The plan is very likely to be 110 percent plus funded and reasonably likely to be 149 percent plus funded. He directed attention to the wedges on the last bar that show that the bottom isn't that bad. The reason is there's the ability to suspend the PRPA and increase the employee contributions. The plan was designed as much as possible to build in safeguards.

He noted that the presentation included some examples from other states but in the interest of time he would take questions.

CHAIR COSTELLO advised that the committee would hold their questions to hear from the remaining individuals waiting to provide testimony.

[2:55:07 PM](#)

RYAN FROST, Policy Analyst, Pension Integrity Project, Reason Foundation, Los Angeles, California, stated that he is the senior research and policy manager for the law enforcement officers and firefighters pension system in Washington State. He highlighted that the plan has been one of the top three best funded plans since its inception in the 1970s, primarily because it has kept up to date with best practices in pension planning

and funding design. He reported that his pension team has played a key, pro bono, technical assistance role on 55 pension reform bills in the last six years. The pension reforms they have worked on include the new defined benefit pension tiers, new hybrid design tiers, cash balance tiers, and new defined contribution tiers. He said the team is fairly agnostic on plan design, but most of the reforms they've worked on have a defined benefit component. Each of the reforms has had a way of paying for the system that ensures costs don't eat into state and local budgets and that the benefits earned by employees are fully funded for their retirement.

MR. FROST stated that the new defined benefit tier proposed by HB 55 does far too little to prevent growing unfunded pension liabilities. The tweaks the supporters claim would eliminate the financial risk to the state have undergone extremely minimal actuarial scrutiny and there is no publicly available long-term actuarial forecasting or stress testing to justify such a financially profound policy decision.

MR. FROST advised that his team prepared some preliminary modeling of the proposed new HB 55 tier and the results indicate that HB 55 would likely expose the state to new and growing unfunded liabilities. Assuming all current actuarial and demographic assumptions are met, the bill for employee contributions over an observed 30 year window would be about \$900 million due to the need to service growing unfunded liabilities, not \$722 million.

MR. FROST pointed out that public pension systems operate over generations, but what's been presented is a five year cost projection based on an assumption that the proposed pension tier would hit all of its actuarial assumptions all the time. This is something that Alaska PERS has never once accomplished in its entire history. He noted that despite this, the Alaska House passed the bill out of its chamber last year.

MR. FROST noted that the Buck actuaries admitted that the fiscal note was only updated for results that raised actuarial valuation and the effects of SB 55. His belief, however, is that a proper actuarial analysis of HB 55 has not been conducted. He drew a comparison to a bill recently passed by Washington State for its police and fire system. He said that system has been over funded since its inception in the 1970s and this was the first increase. It was a multiplier increase and that was included in the fiscal note. He said that is a relatively miniscule task compared to a complete pension design overhaul,

but it's a shining example of the level of detail that has to be considered when adjusting a pension benefit.

2:59:46 PM

MR. FROST pointed out that even with the limited scope and rigor of the updated fiscal note, Buck's analysis should raise some concerns for policy makers with the statement that adverse plan experience or more conservative assumptions will increase the PERS defined benefit liabilities, resulting in higher contribution rates or more conservative assumptions.

MR. FROST also highlighted that from day one the plan will have up to 15 years of liability on its books because any member can have all their previously earned service in the DC plan transferred at the unrealistically high discount rate of 7.3 percent. The national median is now under 7 percent and the largest plans in the country are moving down into the mid to upper six percentage range. Transferring service at too high a discount rate sets up a situation where any downturn in market performance or lowering of assumptions will quickly create unfunded liabilities in the system in year two or three.

MR. FROST said Buck also missed the point that the existing defined contribution plan offers almost the exact same retirement benefit as the bill proposes. He said this suggests that increasing the employee contribution and adding annuity purchase options in the current plan could yield an equivalent benefit and provide lifetime income options. The statement in the fiscal note that approximately 94 percent of the DC service as of June 30, 2021 was credited to the PERS DB means that assets in the current DC plan holdings would cover nearly all the equivalent liabilities in the HB 55 pension tier.

MR. FROST suggested that another potential explanation for using 7.3 percent is because using 7 percent would make the service credit purchase actually more expensive at the time of transfer, so members entering this new pension tier would effectively be taking a benefit cut.

3:03:05 PM

MR. FROST said there has been no answer to the question about what it would take to push the actuarial determined rate above the 9 percent employer contribution because there hasn't been a real actuarial analysis done.

MR. FROST said HB 55 is being proposed by groups that claim that recruitment and retention troubles are due to the lack of a DB

pension for the members. However, that doesn't square with nationwide data that indicates that 86 percent of police stations across the U.S. are facing shortages and all except Alaska have a benefit with some defined benefit component to it. In fact, he has an academic working paper that shows teacher retention rates did not change at all when Alaska changed from a DB to a DC plan in 2005.

MR. FROST concluded his testimony stating that HB 55 clearly is not written to put this new tier on a successful path. He offered to work with the committee and stakeholders to help draft a bill that best meets those needs. He offered to answer questions.

[3:04:28 PM](#)

CHAIR COSTELLO stated that the members could submit their questions to her office and she would get the answers. She recognized Brad Fluetsch as the final presenter and asked him to provide his credentials followed by his testimony.

[3:04:51 PM](#)

BRAD FLUETSCH, representing self, Santa Fe, New Mexico, stated that he is a planning and investment officer for the City of Santa Fe. He previously lived in Juneau and his previous work experience includes being an investment officer with the Alaska Permanent Fund Corporation; work with Sealaska Corporation; he ran his own investment company for 17 years; and he has been a student of the pension plan since the early '90s.

MR. FLUETSCH stated that he would confine his comments on HB 55 to a few main topics, the first of which is defined benefit (DB) plans. He offered his belief that the State of Alaska made an excellent decision by dropping the defined benefit plan and moving employees to a defined contribution plan. The reason is that DB plans were designed for employees to work for 30 years and contribute to the plan throughout that time. Then once they retire, the employees typically died within 10 years. The DB plan worked fine in that model, but people live longer now. Someone can work for 30 years and be retired for 40 or 50 years. In that model the DB plan fails in every actuarial study. Employees can't contribute enough and the plan can't earn enough to offset that liability.

[3:06:42 PM](#)

MR. FLUETSCH said his next point is that the only thing you can control in pension funds are the contributions. The market is unpredictable so the return isn't known and in Alaska the

liabilities are also unknown because of what he calls legislative tinkering with the plan. He said HB 55 is legislative tinkering because it is adding benefits and expanding the liabilities without a complete understanding of how the whole plan works. He said the biggest problem with HB 55 are the liabilities associated with the ever expanding life expectancy of Americans. That will be the death knell of defined benefit plans.

[3:08:02 PM](#)

MR. FLUETSCH said the last point he would talk about is the credibility of calling a seven page brief an actuarial report. It doesn't answer questions and it doesn't say what the risks are. It does little more than explain some very basic assumptions. What it should be is a thorough analysis with numbers, demographics, and charts. Buck's actuary said the risk was mitigated. However, states that have mitigated risk generally have had to give more.

MR. FLUETSCH described the City of Santa Fe pension plan to emphasize that the tweaks to the pension plan proposed in HB 55 are unlikely to successfully affect retention. He said the point is that if the state is having difficulty with recruitment and retention it should look at pay policy, work environment, and non-retirement benefits such as child care. He suggested the committee think about what else the state could do with the money it would contribute under HB 55 that would make employment in police and fire more attractive.

[3:11:14 PM](#)

CHAIR COSTELLO restated that any questions the members had for any of the testifiers should be submitted to her office and those would be passed along to the appropriate parties.

CHAIR COSTELLO held HB 55 in committee.

[3:11:35 PM](#)

There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 3:11 p.m.