

# Fiscal Note

State of Alaska  
2024 Legislative Session

Bill Version:	CSSB 88(FIN)
Fiscal Note Number:	3
(S) Publish Date:	1/26/2024

Identifier: SB088CS(FIN)-VAR-ALL-01-25-2024  
 Title: RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.  
 Sponsor: GIESSEL  
 Requester: (S) Finance

Department: Various  
 Appropriation: Various  
 Allocation: All Branches  
 OMB Component Number: 0

**Expenditures/Revenues**

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2025 Appropriation Requested	Included in Governor's FY2025 Request	Out-Year Cost Estimates				
			FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
<b>OPERATING EXPENDITURES</b>	<b>FY 2025</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>
Personal Services	(6,026.0)		(6,191.7)	(6,362.0)	(6,536.9)	(6,716.7)	(6,901.4)
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>(6,026.0)</b>	<b>0.0</b>	<b>(6,191.7)</b>	<b>(6,362.0)</b>	<b>(6,536.9)</b>	<b>(6,716.7)</b>	<b>(6,901.4)</b>

**Fund Source (Operating Only)**

1002 Fed Rcpts (Fed)	(898.6)		(534.5)	(537.9)	(549.1)	(554.7)	(569.9)
1004 Gen Fund (UGF)	(2,831.1)		(4,291.3)	(4,449.4)	(4,584.4)	(4,744.5)	(4,875.0)
1005 GF/Prgm (DGF)	(472.6)		(281.1)	(282.9)	(288.8)	(291.7)	(299.8)
1251 Non-UGF (Other)	(1,823.7)		(1,084.8)	(1,091.8)	(1,114.6)	(1,125.8)	(1,156.7)
<b>Total</b>	<b>(6,026.0)</b>	<b>0.0</b>	<b>(6,191.7)</b>	<b>(6,362.0)</b>	<b>(6,536.9)</b>	<b>(6,716.7)</b>	<b>(6,901.4)</b>

**Positions**

Full-time							
Part-time							
Temporary							

**Change in Revenues**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Estimated SUPPLEMENTAL (FY2024) cost:** 0.0 *(separate supplemental appropriation required)*

**Estimated CAPITAL (FY2025) cost:** 0.0 *(separate capital appropriation required)*

**Does the bill create or modify a new fund or account?** Yes  
*(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)*

**ASSOCIATED REGULATIONS**

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes  
 If yes, by what date are the regulations to be adopted, amended or repealed? TBD

**Why this fiscal note differs from previous version/comments:**

Senate Finance Committee-generated note incorporating updated analysis from the committee's contract actuary in addition to changes made in the committee substitute.

Prepared By: Senator Hoffman Phone: (907)465-4453  
Senate Finance Committee Date: 01/25/2024  
Senator Olson  
Senate Finance Committee

REPORTED OUT OF  
SFC 01/26/2024

## FISCAL NOTE ANALYSIS

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## Analysis

This bill establishes new "tiers" with a Defined Benefit (DB) pension system for all new employees who begin service after the effective date of the bill, July 1, 2024. The tiers would impact both members of the Alaska Public Employees' Retirement System (PERS) and the Alaska Teachers' Retirement System (TRS). Pension accrual rates for years of service are comparable to the pre-2006 DB system.

Current employees who are in the Defined Contribution Retirement (DCR) plans, who began service between July 1, 2006 and June 30, 2024, are able to make a one-time irrevocable election to join the new PERS or TRS Defined Benefit (DB) plan with 180 days to decide. DCR employees who have separated from public service, should they return to service, would also have a 180-day window to elect to convert to the new tier. The Division of Retirement and Benefits (DRB) will calculate, for each eligible employee, the number of years of service that employee can purchase with the funds in their DCR account. If this is less than the employee's actual years of employment, DRB will use existing procedures to enable employees, should they choose, to purchase the additional time.

The healthcare benefit provisions provided in the bill are unchanged from what is currently provided in the current DCR healthcare plans. New sub-trusts will be established for each of the new tiers' DB benefits. This is necessary to account for the financial activity of each respective PERS and TRS defined benefit pension and healthcare plan. The performance is then used to value the separate trusts in the annual actuarial valuation reports, which are used by the Alaska Retirement Management (ARM) Board to adopt future PERS and TRS contribution rates. One feature of this bill is that both employee and employer contribution rates can be changed by the ARM Board in order to keep the trusts adequately funded and minimize the accrual of past service costs.

The previous version of this fiscal note was derived from analysis provided by the Division of Retirement and Benefits' consulting actuary, Buck Global LLC (Buck). Buck's analysis indicated two separate impacts on future state budgets: direct costs for state employees, and "additional state contributions" to municipal and school district employees in excess of the statutory maximum contribution levels.

Buck is in the process of revisiting this analysis, given both updated workforce data as well as the changes made in the Senate Finance Committee Substitute. Because this analysis will not be available for several weeks, the Finance Committee is producing their own fiscal note with the input and assistance of the committee's own contract actuary, Gene Kalwarski of Cheiron. It is understood and expected that the committee's fiscal note will be superseded once the Buck analysis is complete.

Additionally, the committee had concerns with the prior Buck analysis because of the way it incorporated future changes to the workforce. Buck assumed rapid and substantial changes to recruitment and retention levels throughout the workforce. This generated a growing gap between the base case workforce and the "SB88" workforce that reached \$250 million per year by the end of the analysis period. The bulk of the fiscal impacts identified in their analysis was actually the additional employer costs of this larger workforce, rather than any inherent cost increases in the plan change itself.

The Buck analysis also assumed that 100% of the eligible current DCR workforce chose to transition to the new DB tier. Additionally, it did not consider other impacts to the state treasury, or to the economy at large, due to fewer disruptions generated by high turnover, repeated recruitment and training costs, and the bonuses and other incentives currently being paid as "workarounds" to ongoing labor shortages throughout the state.

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**Analysis**

Potential offsets and savings due to passing SB88 were identified by Dr. Teresa Ghilarducci, an economist retained by bill supporters. In her testimony on January 23, she identified savings of at least \$76 million per year. The largest component of this was the recruitment / training / separation costs which she estimated at \$62 million. The next largest was due to the lower rates of return earned on invested assets in the employee-directed DCR plans, at \$14 million. These potential savings are outside the actuarial analysis in this fiscal note.

David Kershner of Buck, testifying in the Senate Finance Committee on January 24, indicated that SB88 would not impact legacy accounts or past service costs tied to prior pension tiers.

The table on the following page contains updated cost data from Cheiron. For the purposes of this analysis, the committee has assumed a static workforce, looking only at the cost impact of changing the pension system. Should successful implementation of a new DB tier result in a larger and better paid public workforce, this would need to be addressed in future budgets.

The Cheiron analysis also assumes a 100% conversion rate, meaning that all eligible DCR employees in both PERS and TRS opt to switch to the new system. Payrolls are estimated to increase with inflation, which is assumed at 2.75% per year. Fund sources are estimated based on the fund source ratios from the May 2023 fiscal notes.

The costs identified are an aggregate total across all jurisdictions. Therefore, this fiscal note replaces both actuarial fiscal notes that were based on the May 2023 Buck analysis: the "State as Employer" note [SB088CS(FIN)-VAR-ALL-05-12-2023] and the "Additional State Contributions" note [SB088CS(L&C)-RET-PERS-05-12-2023].

FISCAL NOTE ANALYSIS

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Analysis

Scenario 1 - Stable Population for Transfers to DB and 100% Transfer					
Summary of Valuation Results Based on June 30, 2021 Census Data					
Results Projected to FY 25					
DRAFT					
	TRS	PERS Other	PERS Safety	Total	
Number of active members	5,521	21,579	2,349	29,449	
Average age	41.9	41.8	36.4	41.4	
Average service	6.9	5.1	5.8	5.5	
Payroll	\$ 442,318,473	\$ 1,423,519,733	\$ 231,482,281	\$ 2,097,320,487	
DCR Account Balance	\$ 676,415,716	\$ 1,519,829,598	\$ 275,197,710	\$ 2,471,443,025	
Present value of future benefits	\$ 1,008,217,282	\$ 2,497,357,108	\$ 749,823,739	\$ 4,255,398,129	
Actuarial liability	\$ 533,975,388	\$ 1,221,567,953	\$ 259,094,822	\$ 2,014,638,163	
Total normal cost	\$ 57,925,480	\$ 181,839,344	\$ 36,178,215	\$ 275,943,040	
DB normal cost rate	13.10%	12.77%	15.63%	13.17%	
<b>Estimated FY 2024 Costs</b>					
(1) DB Gross Normal Cost Rate	13.10%	12.77%	15.63%	13.17%	
(2) Assumed SB 88 Employee Rate	8.00%	8.00%	8.00%	8.00%	
(3) SB 88 Employer Rate (1) - (2)	5.10%	4.77%	7.63%	5.17%	
(4) DCR Employer Rate	<u>7.00%</u>	<u>5.00%</u>	<u>5.00%</u>	<u>5.42%</u>	
Change in Employer Rate (3) - (4)	-1.90%	-0.23%	2.63%	-0.26%	
Change in FY25 Employer Cost	\$ (9,136,413)	\$ (3,491,093)	\$ 6,601,507	\$ (6,025,999)	
Change in FY26 Employer Cost	\$ (9,387,665)	\$ (3,587,098)	\$ 6,783,049	\$ (6,191,714)	
Change in FY27 Employer Cost	\$ (9,645,825)	\$ (3,685,743)	\$ 6,969,583	\$ (6,361,986)	
Change in FY28 Employer Cost	\$ (9,911,086)	\$ (3,787,101)	\$ 7,161,246	\$ (6,536,940)	
Change in FY29 Employer Cost	\$ (10,183,641)	\$ (3,891,246)	\$ 7,358,180	\$ (6,716,706)	
Change in FY30 Employer Cost	\$ (10,463,691)	\$ (3,998,255)	\$ 7,560,530	\$ (6,901,416)	