

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

March 20, 2023

6:03 p.m.

MEMBERS PRESENT

Representative Ben Carpenter, Chair
Representative Jamie Allard
Representative Kevin McCabe
Representative Cathy Tilton
Representative Andrew Gray
Representative Cliff Groh

MEMBERS ABSENT

Representative Kevin McKay

COMMITTEE CALENDAR

PRESENTATION: ANALYSIS OF PROPOSED PENSION REFORMS

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record.

WITNESS REGISTER

ZACHARY CHRISTENSEN, Managing Director
Pension Integrity Project
Reason Foundation
Los Angeles, California

POSITION STATEMENT: Co-offered a PowerPoint, titled "Costs and Risks of Proposed Public Retirement Plan Changes" during the Analysis of Proposed Pension Forms presentation.

RYAN FROST, Senior Policy Analyst
Reason Foundation
Los Angeles, California

POSITION STATEMENT: Co-offered a PowerPoint, titled "Costs and Risks of Proposed Public Retirement Plan Changes" during the Analysis of Proposed Pension Forms presentation.

ACTION NARRATIVE

[6:03:29 PM](#)

CHAIR BEN CARPENTER called the House Special Committee on Ways and Means meeting to order at 6:03 p.m. Representatives Groh, Allard, Gray, and Carpenter were present at the call to order. Representative Tilton and McCabe arrived as the meeting was in progress.

PRESENTATION(S): Analysis of Proposed Pension Reforms

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CHAIR CARPENTER announced that the only order of business would be the Analysis of Proposed Pension Reforms presentation.

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ZACHARY CHRISTENSEN, Managing Director, Pension Integrity Project, Reason Foundation, shared that he has been working on pensions for seven years, and he worked with experts on different reforms and the different ways to analyze pension reforms.

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RYAN FROST, Senior Policy Analyst, Reason Foundation, said he has been working at the Reason Foundation for four years, and previously spent seven years as the Senior Research and Policy Manager at the Police and Fire pension system in Washington state.

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MR. CHRISTENSEN began the PowerPoint presentation, "Costs and Risks of Proposed Public Retirement Plan Changes" [hardcopy included in committee packet], directing attention to slide 2 to talk about the Reason Foundation's Pension Integrity Project; the project is a non-profit think tank that does policy analysis on various subjects across the U.S., but mainly engaging at the state level. He said the project specifically examines pensions and public retirement plans and has engaged in 60 reforms. He said the foundation understands that retirement plans are emotionally important to many people, but that ultimately it is a numbers issue. He said the project's approach to retirement analysis is to de-mystify long-term costs that are involved in retirement decisions with varied and independent actuarial modeling. The foundation seeks to provide an answer to

legislators as to the price tags for different retirement policy options. He said members will see similar challenges state to state, and he will be able to bring that perspective.

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MR. CHRISTENSEN outlined the foundation's policy objectives on retirement plans, while on slide 2. He said the plans should have clear goals and offered that most people would agree on what those goals should be. One is keeping retirement promises; such plans are constitutionally bound and must be paid. Another objective is retirement security, ensuring that the retirement benefit is sufficient following retirement. He said the state being able to predict what the cost of a benefit will be is important. Affordability and attractive benefits provide able competition in the recruiting space. He noted that good governance is also an objective of a retirement plan.

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MR. CHRISTENSEN moved to slide 4 to give a history of Alaska's retirement systems and what the project's perspective is on what is going on in the state. He said the Teacher's Retirement System (TRS) was established in the 1940s, and the Public Employees Retirement System (PERS) was established in 1960. Pension plans at the time were a predictable mechanism for establishing retirement benefits and provided good returns; however, things have changed. In the early 2000s, the state experienced significant growth in unfunded liabilities due to various factors, one of which was market turbulence. He pointed out that pension plans experienced that nationwide. In 2006, pensions were closed to new hires in the state and now the primary retirement plan for public workers is the defined contribution plan. He explained that from 2006 to today, there have been frequent efforts to bring back the defined benefit pension plan via proposed legislation that would give employees the option to switch to the defined benefit plan. This would be done by using the benefits the worker had earned to buy into a defined benefit pension. He said the project conducted an analysis of the bills and has developed actuarial 30-year modeling on TRS and PERS, providing an estimate of what the state would be paying in annual contributions.

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REPRESENTATIVE MCCABE spoke about the varied percentage rates of returns, the fiscal notes, and the debt that would result. He opined that 7.5 percent in anticipated returns seems optimistic.

MR. CHRISTENSEN answered yes. He explained that the plan last year assumed 7.35 percent returns, and that the returns are looked at over the long term. Every year the decline of returns results in pension debt.

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MR. FROST relayed that the reason the dollar figures are high is because of the annuitization mechanism, allowing the years of service to be purchased in a defined benefit plan using a 7.3 percent discount rate as the annuitization factor. In summary, when a higher rate is used, the members will be able to purchase more service credit. Further, when all that is carried over - and there are losses instead of returns - the hit is significant. He noted that if it were just a brand-new tier, the figures would not be as high.

REPRESENTATIVE MCCABE recalled being advised in a previous legislative session that a one of the bills being offered was "conservative" and would cost the state only \$5 million. He said that, now a year later, the cost would have been \$33 million.

MR. FROST answered yes, and he suggested that the fiscal note assumed that going forward, the plan would hit the assumed rate of return. He said the foundation looks at such figures differently.

REPRESENTATIVE MCCABE noted another previously proposed bill would have ended up being six times higher.

MR. FROST answered yes, within year one.

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REPRESENTATIVE GRAY asked about the significant growth in unfunded liabilities from the early 2000s. He offered his understanding that prior to 2002, the defined benefits system was well funded. Further, from 2003 to 2004, the actuarial firm Mercer gave the state bad advice; they advised to invest zero dollars. He said that the stock market crash and increasing healthcare costs followed, which created a "percent storm" that

lead to unfunded liabilities. He reiterated his understanding that, prior to 2002, the state was okay.

MR. FROST answered that's correct, but said he is unsure whether the Mercer advice would have contributed to the total unfunded liability. He pointed to Mr. Christensen's comment that every state experienced dips in the early 2000s and said that the plans that did survive had paired down risks. He said the advice from Mercer was absolutely a contributing factor.

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CHAIR CARPENTER asked if the state could manage the percentage storms and minimize the impact to the state's finances.

MR. CHRISTENSEN answered yes, perfect storms do happen, and the cost analysis addressed such a scenario. He explained that the analysis applies hypothetical perfect storms so that TRS and PERS can survive another 20 years, if "things play out" like the last 20 years did. He said it is valuable to look at scenarios that apply more stress to the plan, and that is the way the foundation calculates the cost evaluations.

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REPRESENTATIVE MCCABE recounted that oil was over \$100 a barrel in the early 2000s; he said there may have been a "storm" at that time, but he is not sure whether he would consider it the perfect storm.

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REPRESENTATIVE GROH spoke on the perfect storm in rising medical costs, noting that healthcare costs in Alaska in the early 2000s were so high that the annual rate of growth of healthcare coverage costs was 14 percent. He said that a settlement was made because the state's actuary saw the healthcare cost increase and refused to believe it, went back to previous assumptions, and lied. He asked if the presenters were aware of what he had just described.

MR. FROST answered that he was not aware how "crazy" the health costs were. He pointed out that the healthcare trust and the pension trust are separate and managed independently, and that for today's presentation, the foundation is focusing on the state's pension trust. He offered his understanding that

Alaska's other post-employment benefit (OPEB) plans are the best funded in the country.

REPRESENTATIVE GROH stressed that two big factors were changes in the stock market, and the tremendous cost increase in healthcare in the early 2000s.

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REPRESENTATIVE ALLARD referred to Mr. Frost's comment that the state's OPEB plan is the best funded in the country.

MR. FROST responded, "One of the best funded." He explained that the healthcare trust for Alaska is 100 percent funded and projected to continue at that rate. The pension trust, however, is \$6.1 billion in debt, and because the trusts are separate, the foundation did not view them the same. He reiterated that the Alaska OPEB plan is better funded than the average plan, while the pension system is in debt and has been closed.

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MR. CHRISTENSEN returned to the presentation on slide 5 and said that the slides ahead will contain graphs with historical data on PERS and TRS. He moved to slide 6 to show a history of PERS funding from 2001 to 2022. He said the chart depicts the growth in unfunded liabilities, or rather, the state's pension debt. He informed members that this debt is accruing interest very quickly at such a rate that when compared to an assumed rate of return of 8 percent, the assumed rate of return is down to 7.25 percent, as of last year. He pointed out in the slide that the 2022 figures are projected figures, as the most recent reporting is from 2021. He noted that the figures on the slide are actuarial numbers and account for the "smoothing" that happens over multiple years. He directed attention to the blue line, which, after dipping down in the early 2000s, then having a small resurgence, came back down and has been slow to recover. The dip has left the account 70 percent funded, meaning that the remaining 30 percent in funding that was promised to state workers is not there. He told members that this is a matter that needs to be dealt with quickly, or else it will be harder to handle later, as interest is accruing. He said the foundation believes that there is a high probability that the current assumed rate of return will go down from 7.25 percent and will reveal more unfunded liabilities. He said that was a main driver for the growth on slide 6, in that assumptions were too high at the time. He said that the price estimate that is

being reported now, by both plans, is very likely understating the issue for the state.

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MR. FROST pointed out that both charts show that there were cash infusions into PERS and TRS in 2014: \$1 billion into PERS and \$2 billion into TRS.

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MR. CHRISTENSEN showed a graph on slide 7 depicting the history of TRS funding, which he said is better funded at 82 percent. He said however that the state does not have the money that it needs to fulfill promises made to teachers. He moved to slide 8 and said that PERS liabilities are growing faster than assets; the orange line represents the promises made to pensioners and members, while the blue line is the asset pool that is supposed to pay for the benefits. He said that the blue line has trouble keeping up with the orange line, which has been consistent for over 20 years.

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REPRESENTATIVE ALLARD referred to slide 6 and stated, "Promise made, promise kept; we give our word, I get it." She asked what would happen if the state's defined benefits were to continue going at the current rate and then more was added to the benefits, like defined benefits for teachers, as an example. She further asked if the future slides provide data for years past 2021.

MR. CHRISTENSEN answered yes and said the intent of this part of the presentation is to provide historical context. He said that that modeling will be shown later in the presentation.

[6:29:03 PM](#)

MR. CHRISTENSEN moved to slide 9 to present a graph on PERS investment return history from 2001 to 2022. He explained that the blue line represents the assumed rate of return, which travels from 8 percent to the current 7.25 percent; but the gray line represents the actual rate of return and is volatile in rates. The orange line represents a 10-year average, and the desired position for the orange line is to be equally above the blue line as it is below it. He said this problem has caused underfunding.

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MR. CHRISTENSEN moved to slide 10 and referred to Representative McCabe's question regarding return assumptions. He explained that each column on the chart is a bell curve, and with many different assumptions on what market returns will be, there is a column on the left that shows various returns ranging from 5 percent to 8 percent, with Alaska's current expectation of 7.25 percent listed as well. He noted that returns have historically hit below 7.25 percent, and using market forecast data from JP Morgan and BNY Mellon, the chart shows what they expect to see for the plan in the next 10 years, with returns forecast to be below current assumption. He said this warns that the current price estimates that are being given are understated.

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MR. CHRISTENSEN, in response to a question from Chair Carpenter, said the funds listed across the top of the chart were chosen for being forecast experts.

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MR. FROST added that most actuarial firms use these same experts when analyzing forecasts.

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MR. FROST, in response to a question from Representative McCabe, said a 7.25 percent assumed rate of return is not recommended. He said that would be the highest of any tier opened for a rate. He said that a number of new tiers have opened, primarily in the 6 percent range for rate of return, but noted that this was four to five years ago, and he would now recommend a lower number.

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MR. CHRISTENSEN presented slide 11 and said it provides takeaways from the chart on the previous slide.

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MR. FROST moved to slide 13, which points to problems with four bills in the current legislature: HB 22, SB 35, SB 11, and SB 88. Problem one is poor plan design, in that the proposed pension plan does little to balance risk between

employees/employers. Problem two is minimal actuarial scrutiny. He said that the Pension Integrity Project modeling of PERS and TRS through a standard stress scenario shows clear costs and added funding challenges that the proposed bills may put on the state. Problem three is that pension cost increases are already coming based on the state's current debt figure; the assumed rate of return is higher than the national average and appears to be a race for pensions to go to a rate of 6 percent. He relayed examples from New York and California. Problem four is that a pension swap won't solve retention issues. He said that the foundation reviews a variety of different pension plans and has not seen any data that would suggest that one plan design retains employees more than another.

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MR. FROST moved to slide 14 to expand on problem one, poor plan design. He said that when making a new plan, accurate plan assumptions are important, but right now planned assumptions are outliers among the other defined benefit plans. Another point is that some bills close the defined contribution plan to all new hires, and the foundation believes that pension plans should benefit all employees and that shorter term employees are better off with a defined contribution plan than a defined benefits plan. Further, some plans cap employee contribution rates from 8 to 10 percent, while employers pay 12 percent or higher in unfunded liabilities. He said because of the contribution cap of 22 percent, opening a new tier would put less money into the underfunded legacy PERS tier.

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MR. FROST, in response to a question from Chair Carpenter about employee contribution rates that fluctuate from 8-10 percent, confirmed that employees are given notice when the board adopts a new rate, and typically, rates are set two years in advance.

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MR. FROST, in response to a question from Representative McCabe as to what will happen if the state cannot pay down the legacy PERS tier and how that might affect retirees, explained that there is a capped contribution rate for non-state employees, at 22 percent. He said since the defined benefit rates are higher than what is going into the current defined contributions plan, the state has to pick up a larger portion of the underfunded liability.

[6:42:08 PM](#)

MR. FROST moved to slide 15 to discuss problem two, minimal actuarial scrutiny. He said that there is no publicly available long-term actuarial forecasting or stress testing performed by the PERS/TRS actuaries; the most seen was a six-year cost estimate using the plans' assumed rates of return. He stated that supporters claim that "tweaks to the new pension would eliminate financial risk to the state," but those claims have faced minimal actuarial scrutiny to support them. He raised the question, "What happens to costs and unfunded liabilities if plan experience differs from expectations?" He explained that for new pension liabilities in the defined contribution plan currently priced at 7.25 percent, any lowering means that the plans are underfunded or the costs of the benefits have risen. He said that the proposed reform rollback would commit Alaska to unpredictable long-term costs.

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MR. FROST, in response to Representative Gray, pointed out that there is an ongoing pension evaluation process that happens every year. When a large pension reform bill comes before a legislature, typically the planned actuary gives a range of cost outcomes of the legislation in question. He said the annual cost evaluation is not going to shed light on what costs may be in 20 to 30 years. He clarified that the foundation is not interested in the ongoing evaluation process, but rather to study what the bills would do and how they could change the plan over a long period of time. In response to further comment from Representative Gray, he stated that the current defined benefit bill before the legislature is better than the previous defined benefit bill; variable rates are better than fixed statutory rates. In talking about best practices for defined benefit plans, instead of the employee contribution of 8 to 10 percent, the foundation would instead recommend a 50/50 split between employee and employer for all costs. He stressed that the first point on slide 14 is the biggest issue, in that the assumptions are outside what the foundation would consider accurate.

[6:48:32 PM](#)

MR. CHRISTENSEN said that the foundation is relaying improvements to help control future runaway costs; it can show those costs in the analysis, but the scope of the improvement will be shown later in the presentation.

[6:49:13 PM](#)

REPRESENTATIVE MCCABE referred to Mr. Frost's comments regarding the minimal stress testing on PERS and TRS. He suggested that this may be what the foundation is talking about when the topic of "actuarial evaluation" is taken up.

MR. CHRISTENSEN answered that's correct, and he explained that the foundation would suggest a stress test that applies several probable scenarios based on the Monte Carlo analysis, so that it is able to show that the state could afford the plan, even in the worst-case scenario. In response to a follow-up question, he confirmed that that is not what Buck is doing; annual reports are standard for actuarial evaluations, but in such reports, stress scenarios are not applied to the plan.

MR. FROST added that the actuarial evaluation is just a one-year look back at the plan and what it experienced; the foundation is analyzing what could happen to the plan in 30 years.

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MR. FROST returned to the presentation on slide 17 to talk about how pension swaps are unlikely to solve retention issues. He stated that the claim that employers are having trouble recruiting and retaining members because of the lack of a defined benefit pension does not hold up to the data, as 86 percent of police stations across the country are facing a shortage of members, and every one of those stations outside of Alaska has a pension with some defined benefit component. He shared that the foundation has an academic working paper that suggests that retention rates did not change when Alaska swapped from defined benefits to defined contribution in 2005, and he noted that the paper specifically covers teachers.

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MR. FROST, in response to Representative Groh, offered that teachers do not receive social security, and that all state employees have access to the social security replacement, known as the Supplemental Benefits System (SBS) plan. He said that non-state employees are more mixed, with one-third having access to either social security or the SBS. In response to a follow-up question, he said he does not consider the defined contribution plan to be less generous than the defined benefit plan, and that the foundation has benefit modeling coming up in

the presentation. He described retirement [savings] as comprising three legs of a stool: pension - whether defined contribution or benefit; social security; and personal savings. He said missing social security or SBS, no matter the plan, would be detrimental to a person's retirement.

REPRESENTATIVE GROH emphasized that every experience he has had in the state tells him that the presenters are "just flat wrong" about what the effects are. He said there is a mountain of evidence that the combination of no social security and the new defined contribution system has caused problems in public employment in the state. He suggested that the issue is that the presenters are "flying around" from state to state and "not having the Alaska experience."

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CHAIR CARPENTER suggested that the committee could evaluate data from the foundation, as well as data that Representative Groh is using to support his statement.

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REPRESENTATIVE MCCABE expressed his disagreement with Representative Groh's comments and lauded the job of the foundation in comparing Alaska with the Lower 48. He noted that the Alaska Department of Public Safety (DPS) has a 5 to 6 percent vacancy rate, and he offered his understanding that the national shortage of emergency medical personnel is over 30 percent. He read information that "many police agencies are discovering that traditional employment models, the promise of a steady job with good fringe benefits, and a pension after 25 years is not enough to keep today's workers from leaving for another police department or another profession." He said the workforce is doing this, not the defined benefits program or pensions. He mentioned a 2019 survey by DPS that supported that premise.

CHAIR CARPENTER requested that Representative McCabe provide that information to staff and committee members when the meeting was concluded.

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REPRESENTATIVE ALLARD concurred with Representative McCabe. She remarked that anytime someone from outside of Alaska [studies] the state, some say the presenter does not know Alaska; however,

she observed that "the numbers don't lie." She mentioned the high salaries of Anchorage police officers. She thanked the presenters for their perspective from the Outside, and she posited that the foundation has nothing to gain from this.

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CHAIR CARPENTER, regarding retention, asked why the state chose not to include social security as part of the retirement system.

MR. FROST responded that every local government had to choose whether or not to be a part of social security. He said he does not know if that option is still there but reiterated that having access to social security or SBS is a very important part of a retirement package.

CHAIR CARPENTER offered his understanding that the entities that are not participating in social security or SBS had opted to do that at the time the new retirement system was created. He pondered whether opting into social security and SBS now might be an alternative to keep on the table.

[7:02:09 PM](#)

MR. FROST, in response to a question from Representative McCabe, said every new public safety officer he has known has been informed of the importance of having a 457 plan.

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MR. CHRISTENSEN returned to the presentation on slide 19, and he said that the next group of slides will include the modeling that the foundation has done on companion bills HB 22 and SB 35. Both bills open the pension for public safety workers, and so the foundation sought to analyze what such an act would do and what pension debt and costs would look like in 30 years.

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MR. CHRISTENSEN moved to slides 20 and 21 and addressed the assertion made by proponents of defined benefits that there will be little to no impact on debt. He said that when an analysis on a bill is made, and there was no stress testing, it would be easy to show that there would be little to no cost to any pension reform being done. In a scenario where the pension plan is opened up again for public safety workers that have worked for 15 years, he said that would have some effect; the chart on

slide 20 shows what the unfunded liability would look like if the worker were to achieve the 7.25 percent return every year. He said that it may appear to not be that costly, but once stress is applied, it would look like the chart on slide 20, which shows PERS modeling. He said if the legislature chooses to open up PERS just to public safety workers, the impact is muted. He said the blue line represents the impact HB 22 and SB 35 would have on the state's pension debt, which would be higher under the proposed bills. As part of the stress test modeling, the chart models for two recessions in the next 30 years, and for the years in between, the "spikes" have a return rate of 6 percent applied instead of 7.25 percent. He said that forecasts show that 6 percent is more likely to be the returns in the short term, and he said that the analysis point to a 5 percent return rate is also likely. In summary, he said the stresses in the test are based off the last 20 years, and if the last 20 years were to happen again, the chart on slide 20 shows what that would mean to PERS.

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MR. CHRISTENSEN moved to slide 21 to discuss the long-term cost impact of HB 22 and SB 35. He explained how to determine the cost of a pension plan: add all annual contributions over the next 30 years plus the cost of the unfunded liability at the end of the 30 years. The equation is the same when applying stress or not. He said that modeling with no stress makes the plan appear no-cost, and such models assume a return rate of 7.25 percent every year for 30 years. He discussed a scenario where stress is applied to the long-term cost, located at the bottom of the chart, which shows that rolling back the state's pension reform could cost the state \$800 million in added costs though just adding public safety workers to PERS.

[7:08:16 PM](#)

MR. CHRISTENSEN moved to slide 22 to talk about SB 11, which seeks to open the state's pension plans, PERS and TRS, to all state workers. He showed a chart on slide 23 showing the impact of SB 11 on Alaska's pension debt, with stress applied. He pointed out that anytime there is a loss, the state's pension plans are going to suffer larger increases in unfunded liability. With stress applied, he said that the unfunded liabilities are still high, meaning that the state is making little progress in fulfilling the promises made.

[7:09:00 PM](#)

MR. CHRISTENSEN moved to slide 24 to show the long-term cost impact of SB 11. If the plan were to open to all new employees, he said, the foundation's modeling shows that the state could be taking on upward of \$9.2 billion dollars in increased costs over the next 30 years. He reiterated that applying stress truly shows what the state is expected to pay if the state were to roll back the pension reforms that were made about 16 years ago.

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MR. CHRISTENSEN moved to slides 26 and 27 and said the next analysis is around SB 88, which would also open up the pension plans to all state workers but contain cost-saving measures. That said, he noted that the cost-saving would not be a lot. He said that while the cost-saving measures may save the state \$600 million in 30 years, the figure is still dwarfed by the increase to long-term budgets. He indicated that under SB 88, the state's responsibility would still amount to \$8.6 billion.

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MR. FROST, in response to a question from Representative McCabe about healthcare in Alaska, said there is no maneuver one can make to "backfill" the costs. He further stated that the costs of healthcare cannot just be moved over to fulfill unfunded pension liabilities.

[7:12:55 PM](#)

MR. CHRISTENSEN moved to slide 28 to talk about recent foundation modeling that compares the actual benefit that can be earned by individuals. He explained that the modeling considers factors like a new employee's age and assumed growth in payroll; the models show how much benefit that employee would earn. He informed members that defined contribution and defined benefit plans each have their own advantages and disadvantages and said that the foundation has worked in other states to set up such plans. He said it is important to see who is benefiting from the retirement plan, who the state is trying to help, and who may be at a disadvantage.

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MR. FROST added that the benefit modeling in the slides ahead compares the current defined contributions plan over the old

defined benefits plan, not the defined benefit packages that are within the bills.

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MR. CHRISTENSEN moved to slide 29 to show a bar graph comparing the annual annuity of the defined benefit plan versus the current defined contribution plan for non-public safety PERS. He explained that the orange bars represent defined contribution annuity, which is when the employee can save their defined contribution benefits and, upon retirement, buy guaranteed monthly payments in perpetuity. He said that this is one benefit such a plan has over a defined benefit plan, in that there is no longevity risk. He pointed out that annuities under a defined contribution plan accrue faster than defined benefit annuity. He explained that a defined benefit plan is designed to "heap on" the promised benefits to workers who stay for a longer amount of time, and that around the 30-year mark, that is when the annuity from a defined benefits plan surpasses annuity benefit from a contributions plan. He said this design means that fewer people are going to be able to take advantage of the defined benefits plan compared to the defined contribution plan.

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MR. FROST, in response to a question from Chair Carpenter, said that the state's workforce has changed over the years. He said there is a study that suggests that the average new hire is expected to work seven to eight jobs during their career, whereas two decades ago, that number was three.

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REPRESENTATIVE ALLARD spoke about the benefit employees have in being able to leave a job and take their defined contribution plans with them instead of having to work a longer period of time to qualify for their benefits under a defined benefits plan.

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REPRESENTATIVE MCCABE noted the term "golden handcuffs" in relation to the 30 years until the defined benefits plan breaks even.

MR. FROST clarified that the chart on slide 29 does not include public safety. He mentioned a "20 and out" feature. He pointed

out that for someone with a 30-year plan, who leaves after 10 years, their benefit plan does not grow over the next 20 years until retirement but rather is frozen in place during that time. Conversely, under the same scenario, a defined contribution plan would continue to grow.

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MR. CHRISTENSEN, in response to Representative Groh, explained that the 7 percent return was chosen for the graph on slide 29 because 7 percent seemed close to what is being selected to project out, according to the current plan. He shared that the foundation is developing a tool where a person can tweak the return value to see the outcome. He said an effect of lowering the return rate is that the bars representing defined contribution annuity will also be lowered since the annuity is not growing as quickly as compared to the current configuration on the slide.

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MR. CHRISTENSEN moved to slide 30 to show a chart similar to the previous slide, but with the public safety section of PERS factored in. He explained that retirement requirements are different for public safety workers. He pointed out that the first 19 years of service is like the rate shown on the previous chart, but by year 20, "20 and out" is triggered. He said the analysis assumes that the benefits accrued in the contribution plan would be cashed in for an early retirement; therefore, the early retirement would lower the annuity the worker would be able to purchase since they would be purchasing the longer retirement. If the public safety worker were to wait until retirement age to purchase the annuity, the bar representation contribution plan annuity would look the same as the previous chart. He noted that 50 percent of new public safety hires are leaving within 10 years of service, which begs the question: What is the purpose of a retirement plan, and what retirement plan is the legislature seeking to establish? He said the foundation would suggest that pension plans primarily benefit the largest group of people, which he said would be the reasoning behind preferring a defined contribution plan over a defined benefits plan.

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MR. FROST added that, because public safety workers have the "20 and out" feature, the state is having to spread out the defined

contribution annuity over 35 years, so the number would be smaller. The defined contribution plan for public safety workers has a graduated multiplier for years of service.

[7:24:31 PM](#)

MR. CHRISTENSEN moved to slide 31 to show a similar chart to the previous slide, but comparing defined benefits contribution to contributions in TRS. He reminded members that the data shown in the chart is of a worker that is just starting their career at age 30, with a 7 percent rate of return. He reiterated that there will be a tool available later to members that will allow them to adjust the values in the chart as members see fit. He explained that in the TRS contribution plan, there is a much faster accrual of annuity, and once the retirement eligibility is met at 20 years, if the contribution account were to be annuitized at the moment of retirement eligibility, the annuity growth rate decreases. He pointed out that near the end of a teacher's career, 30 years, the contribution plan's annuity rate would again be optimal over the defined benefit plan. He noted that 70 percent of new teachers leave within 10 years of service, with an average range of 8 to 18 years of the service.

[7:26:35 PM](#)

MR. CHRISTENSEN moved to slide 32 to outline the presentation's main takeaways. He explained that the foundation's modeling shows the different retirement plans under more realistic return scenarios and what that could mean for the state's budget and long-term costs. He outlined that HB 22 and SB 35 could cost the state an additional \$800 million; SB 11 could cost the state an additional \$9.2 billion with PERS and TRS combined; and SB 88 could cost the state an additional \$8.6 billion. He said the assumptions may be underestimated, considering the return modeling, and that the situation could be worse than suggested in those estimates. He said the foundation does not believe that pensions are the solution to Alaska's recruitment and retention challenges. Other states are experiencing those same challenges, but some of the states are still operating under pensions, so it is difficult to say whether that would be the "magic bullet" to [address] these challenges. He addressed defined contribution rates for public safety, and said that there could be some improvements to ensure that all workers are covered. He suggested that the SBS could also be expanded.

[7:29:11 PM](#)

MR. FROST, in response to a question from Representative Allard, said the foundation has not analyzed whether teachers are a "dying breed." To a follow-up comment, he said the foundation could look at its considerable municipal and state data to consider this issue.

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MR. CHRISTENSEN, in response to Chair Carpenter, said it would be difficult to say the number of states that have moved from a defined benefit plan to a defined contribution plan because there are different combinations of those types of plans among states.

[7:32:44 PM](#)

MR. FROST added that 30 states created a hybrid option between the two plans.

[7:33:16 PM](#)

MR. CHRISTENSEN, in response to a question from Chair Carpenter, relayed West Virginia is the only state that transitioned from a benefits plan to contributions plan and then later switched back.

[7:34:18 PM](#)

MR. CHRISTENSEN, in response to Representative Gray, said the foundation could provide, at a later date, the actuarial assumptions that were made to forecast \$800 million, \$9.2 billion, and \$8.6 billion. He added that the foundation used the same actuarial assumptions as "the plan" does for payroll growth and life expectancy; it used its own adjusted assumption for return rate. In response to further comment by Representative Gray, he agreed that under a defined contribution plan, the risk is to the worker, whereas with a defined benefit plan, the state takes on more risk.

[7:38:13 PM](#)

MR. CHRISTENSEN, in response to a question from Representative Allard as to whether state recruitment has been impacted by the legalization of marijuana in Alaska and if the foundation has analyzed whether this is a problem in other states, answered no.

[7:40:04 PM](#)

MR. FROST, in response to Representative McCabe, confirmed that the foundation gathered its data directly from the State of Alaska retirement system.

[7:42:43 PM](#)

MR. FROST, in response to questions from Representative Gray, explained that the projection for debt being paid off is 2039 if all the assumptions "are hit," and later, if not. He said the figure of \$6 billion is from the PERS actuarial evaluation, and that that figure is the current debt in the pension fund.

[7:44:32 PM](#)

MR. CHRISTENSEN noted that 2021 is the latest year for publicly reported numbers.

MR. FROST proffered that for the most up-to-date dollar figure of plan assets, the quarterly and monthly reports are useful.

[7:45:44 PM](#)

MR. FROST returned to slide 32 and said that a takeaway is that defined contribution rates for public safety could be improved due to shorter careers. He said granting all employees access to the SBS would make Alaska's pension plans some of the best in the country, and he said he knows of no other state that offers a social security replacement "this good," in that it will dwarf the returns a normal social security would provide. He said the SBS is important to factor when discussing retirement plans in Alaska, but for those that do not have social security, having access to SBS would be hard to beat when compared to other SBS programs.

[7:47:16 PM](#)

MR. FROST, in response to Representative McCabe, said that social security invests in bonds and gives the individual a defined benefit based on the number of years. He said the dollar you put into social security, when compared to an SBS invested dollar, are similar, but the return rate benefit from the SBS is better than social security.

[7:48:09 PM](#)

MR. FROST, in response to Representative Allard, explained that if and when social security runs out of money, what would follow would be similar to what happens when a trust fund goes under: every dollar being put in is no longer being invested in the market but instead is going "out the door" to government and pension checks.

[7:49:13 PM](#)

MR. FROST returned to slide 31 and recapped that the current defined contribution plan greatly benefits members who do not work a full career with the same employer. He stated that while the proposed legislation does provide some risk prevention measures, it does not go far enough in preventing runaway costs. He said that such costs include minimal cost sharing not aligned with market expectations, and no improvements to amortization policies.

[7:53:28 PM](#)

CHAIR CARPENTER responded to a comment from Representative McCabe regarding issues to address in the future.

[7:54:14 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 7:54 p.m.