

SENATE FINANCE COMMITTEE
February 23, 2023
9:01 a.m.

9:01:13 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Senator Cathy Giessel; Ajay Desai, Director, Division of Retirement and Benefits, Department of Administration; Mindy Voigt, Retirement and Benefits Manager, Division of Retirement and Benefits, Department of Administration; Representative Andy Josephson.

SUMMARY

PRESENTATION: PERS/TRS TIER COMPARISONS

Co-Chair Stedman discussed the agenda. He noted that there would be an analysis and comparison of the Public Employees' Retirement System (PERS) and Teacher's Retirement System (TRS). He relayed that the presentation would be one of several presentations over the next year. He recounted that historically the state had a defined benefit (DB) plan for many years, and about 16 years previously had closed the new plans and all new employees entered a defined contribution (DC) plan for PERS and TRS.

He noted that a lot of municipalities also participated in the systems.

Co-Chair Stedman recalled that it had been about 16 years since the implementation of the DC plan, and it was time to review the performance and status of the newer tiers relative to the tiers that were replaced. He mentioned the goal of having a healthy and competitive retirement system for employees, and to have the new tiers on par with the tiers that were replaced. He relayed that the Division of Retirement and Benefits (DRB) would give a presentation. He noted that the committee had also requested some retention and turnover analysis, which would be presented at a later time. He mentioned the importance of the state being an attractive employer, and its retention and turnover.

^PRESENTATION: PERS/TRS TIER COMPARISONS

9:06:19 AM

AJAY DESAI, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, discussed a PowerPoint presentation entitled "Defined Benefit Versus Defined Contribution Comparison," (copy on file). He discussed his background. He had been with the division for about six years and had spent 29 years in the private sector. He had worked in the benefits administration arena for 35 years, and had worked with corporate banks, the Walt Disney Company, and the motion picture industry.

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Mr. Desai looked at slide 2, "Defined Benefit v/s Defined Contributions":

- Defined Benefit (DB) plan
 - o Is 'defined' in the sense that the "benefit" formula is defined.
 - o Employer contributions (Normal Cost and Past Service payment) will fluctuate annually based on the actuarial valuation.*
 - o Benefit calculated on set formulas such as the multiplier (percentage), salary history, and duration of employment.
 - o Provide a fixed, guaranteed benefit for employees at retirement based on the formula.

- o Benefits can be paid as monthly payments for a lifetime.

Defined Contribution (DC) plan

- o Is 'defined' in the sense that the "contributions" are defined.
- o Contributions are maintained in an individual account.
- o These contributions are invested on the employee's behalf.
- o Provide an account balance that will fluctuate due to the changes in the value of the investments. The employee will ultimately receive the balance in their account based on contributions plus or minus investment gains or losses.
- o Benefits can be a lump sum, rollover to another retirement plan, or conversion to annuity payments.

Co-Chair Stedman asked how Mr. Desai had compared the DC plan to the DB plan.

Mr. Desai explained that when a person retired and planned for retirement, the most important comparison was the last salary earned with the pension benefit that would be drawn each month. He recounted that many years previously the rule of thumb had been that when a person retired, they must have at least two-thirds of the salary income to retire. Presently the amount was 70 percent. He pondered how to compare the lump sum to the last salary, and how to compare against monthly pension benefits. He relayed that he would try to show a scenario to compare the plans.

[9:12:03 AM](#)

Mr. Desai spoke to slide 3, "Chronology":

PERS

- Defined Benefit Tiers
 - o January 1961: Established
 - o July 1986: Tier II established
 - o July 1996: Tier III established
- Defined Contribution Tier
 - o July 2006: Tier IV established
 - o July 2008: Cost Share with 22% employer contribution rate

TRS

- Defined Benefit Tiers
 - March 1945: Established
 - July 1990: Tier II established

- Defined Contribution Tier
 - July 2006: Tier III established
 - July 2008: Cost Share with 12.56% employer contribution rate

Mr. Desai indicated that in any given year when the actuarial valuation was done to determine the contribution rate, if the rate was over 22 percent, the state contribution would fill the gap. He noted that the state had paid about \$8.2 billion in additional state contributions.

Co-Chair Stedman asked for more detail and history related to the tiers.

Mr. Desai recounted the establishment of the tier I DB system, until July 1986 when tier II was established. He continued that tier II simply changed the eligibility rule from age 55 to age 60. He discussed changes between tiers I and II and tier III, in which the primary calculation changed from 3 years to 5 years.

Mr. Desai discussed the changes in TRS since it was established in 1985. Under the PERS system, tier IV offered a DC plan. He explained that prior years offered DB plans based on a formula with a flat benefit for a lifetime. Under DC tiers, funds were invested in a marketplace and benefits were based on returns. There were multiple options as to how the funds could be managed.

[9:17:06 AM](#)

Co-Chair Stedman asked Mr. Desai about his mention of \$8 billion.

Mr. Desai recounted that two years after the DB plans were ended, a cost-share plan was adopted by the legislature. As a part of the statute, all of the PERS employers would contribute up to 22 percent. He explained that the reason was that at the time, the annual rate was over 30 percent each year and would be cumbersome for employers due to unfunded liabilities. The cost-share plan would offer

employer a flat 22 percent contribution rate, despite the actuarial rate for each year. The gap between the actuarial rate and the flat 22 percent rate would be made through a state contribution for all employers under PERS.

Co-Chair Stedman asked for some of the fundamental reasons as to why tier IV was created. He asked Mr. Desai to discuss the creation of unfunded liability, and to discuss who was responsible.

Mr. Desai relayed that when a pension plan was created, it was created by the employer. An employer had the option of offering an independent single employer plan, or to join into the multi-employer plan. In the private sector it was also known as a multi-employer plan. In the situation being discussed, over 200 employees had come together in the PERS and TRS plans. Each employer was responsible for the nominal cost, which was the valuation of each person working. When the nominal cost was regularly paid, it was added to the trust fund and future benefits would be paid to the retirees. In an environment when the market was not returning what was expected, an unfunded liability was created.

Mr. Desai continued to discuss the unfunded liability. He pondered a return rate calculated with the present value, which was a changing number due to variation in the marketplace and could create unfunded liability. The unfunded liability was the employer's responsibility, and each employer would pay its own share based on its employee pool under the plan. The calculations and annual valuations would include a calculation of nominal cost and unfunded liability for each employer.

Mr. Desai discussed potential different employee costs. He explained that by adopting the 22 percent flat rate for all PERS employers, the state had to step in to fill the gap of owing beyond 22 percent. He mentioned the cost sharing plan started in 2008 and estimated that all the additional gaps for state contribution added up to about \$8.2 billion.

[9:22:40 AM](#)

Co-Chair Stedman summarized that the unfunded liability created by all the tiers added up to \$8.2 billion, and the cost was covered by the employer.

Mr. Desai relayed that the goal of the cost-sharing plan was to cover a 100 percent funding ratio, so that every person in the retirement system was covered regardless of what happened in the market. He noted that actuarial studies showed that the last DB employee would be done at the end of the century.

Co-Chair Stedman rephrased that the liability was projected to last until the end of the century until the state paid it off.

Mr. Desai answered affirmatively. He noted that funding policy had published with the cost sharing plan in 2014.

Co-Chair Stedman wanted to make the point that the liability sat with the employer rather than the employee. He thought there might be confusion that employees were paying for previous tiers, which was not the case.

Mr. Desai agreed. He explained that under the defined benefit plan, the entire responsibility went to the employer.

Co-Chair Stedman thought it was important to understand when contemplating the new tiers on the next slides.

[9:25:50 AM](#)

Co-Chair Olson thought it sounded as though smaller entities such as municipalities would find it easy to go bankrupt with a 22 percent contribution rate. He asked if there were records of which employers had suffered from the negative stock market.

Mr. Desai agreed that each employer did pay 22 percent based on its pool of employees.

Co-Chair Olson asked if the municipality was on the hook for making up the difference with the unfunded liability.

Mr. Desai explained that in the cost-share plan, each employer was equally responsible. He explained that the multi-employer plan was looking to fill the gap for the promises that were made to employees. Before 2008, each employer would have to have paid a much higher cost than the 22 percent that was in effect currently.

Co-Chair Stedman clarified that the legislature put in a 22 percent cap after a concern that some communities (such as Fairbanks) would go broke and would not be able to handle the pension liability. The state had picked up the balance over 22 percent.

Mr. Desai referenced slide 4, which showed a table depicting contribution rates for different tiers. He noted that under PERS, the employee paid about 6.75 percent for all other categories, 7.5 percent for peace officers and firefighters, and 9.6 percent for school district alternate option. Under the DC tier IV, the employee contribution of 8 percent went to the individual account. The employers under tier III paid the nominal cost, currently 22 percent, with additional contributions from the state. Under the DC tiers, the employer paid 5 percent that went toward the individual balance of the employee. Similarly, under TRS the employee contribution rate was 8.65 under tier II, and under tier III it was 8 percent. Under the tier II DBplan, employer contribution was the nominal cost plus the unfunded liability capped at 12.56 percent. The employer contribution on the DC tier was at 7 percent, which went into employee's individual accounts.

Mr. Desai identified that the table below showed the Supplemental Annuity Plan (SBS), which had an employee contribution of 6.13 percent and an employer contribution of 6.13 percent.

[9:31:04 AM](#)

Senator Kiehl thought it looked like the slide only compared the DB pension and the DC individual account cost. He asked if there were healthcare costs under the DC plan that would be included.

Mr. Desai relayed that part of the 22 percent contribution included healthcare costs. The numbers were broken down in the presentation that he had provided the previous week. He explained that the intent of the presentation was more towards the pension comparison between tier III and tier IV. The 12.56 contribution rate also encompassed healthcare costs.

Senator Kiehl asked if the PERS tier IV DC employer numbers did not include the other costs.

Mr. Desai agreed that the 8 percent from the employee and 5 percent from the employer under PERS was directly towards individual account balances for pension only.

Senator Kiehl thought it looked like the state would focus on the pension side. He asked what share of the 22 percent rate paid by employers prefunded the pension check.

Mr. Desai recalled from the most recent actuarial study that about 2.64 percent was the normal cost and about 16 percent was for the unfunded liability.

Mr. Desai turned to slide 5, "Comparison":

- What are we comparing?
 - DB Plans provides fixed monthly benefits based on the pre-defined formulas, where the benefit does not fluctuate
 - DC Plan account balance will fluctuate due to the changes in the value of the investments
- Is it a true or fair comparison?
 - These comparisons are illustrated based on DC account balances calculated assuming the long-term average rate of returns and also assuming the average interest rate for annuity payouts
 - It may derive lower or higher account balances and possibly lower or higher converted annuity payments based on the actual rate of return and the prevailing interest rate

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Mr. Desai considered slide 6, "Formulas and Assumptions," which showed DB plan formulas. He identified that the top section showed the DB plan formulas. He mentioned that for tiers I/II/III of PERS and tiers I/II for TRS, there was some information about how the benefits were calculated and eligibility rules. He highlighted that the normal retirement age had changed for tier I versus tier II. He discussed multipliers, with a 2 percent formula for the first 10 years PERS, and a 2.25 percent for all tiers for years 10 to 20, and 2.5 percent for any years over 20. Similarly, there was a different formula for TRS. He explained that the 2 percent formula simply derived a 20 percent benefit every 10 years. The amounts could fluctuate somewhat based on final average earnings and the formula beyond 10 or 20 years.

Mr. Desai considered the DC plan assumptions listed on the slide. The slide considered entry level salaries for each group, for all employees under PERS, firefighters and police officers, and teachers. The salary was projected with 2.75 percent wage increases per year, then further assumed a 7 percent annual rate of return. Under the assumption there was an average life expectancy of age 85.

Mr. Desai continued that there an approximate 5.89 percent annuity rate payout. He noted that once a person started drawing benefits from the DC plan, there was a reduction each month. He noted that the data on the slide had used a 7 percent market rate to project the account balance.

[9:38:59 AM](#)

Senator Kiehl appreciated the information on the slide. He asked what respective group was used for the entry level salaries.

Mr. Desai thought further slides would show more information related to Senator Kiehl's question.

Co-Chair Hoffman asked about the highest average salary for PERS for the highest three years of earning. He asked if overtime and bonuses were included in the highest three or highest five years of earning for calculating retirement years.

Mr. Desai affirmed that the highest three or five years of earnings used for calculations included overtime and included a differential for police and firefighters.

Co-Chair Hoffman asked if the calculation included bonuses.

Mr. Desai relayed that under the statute, there was no specific description of using a bonus for the highest three or five years of earnings.

Co-Chair Stedman asked for more detail.

Mr. Desai relayed that the definition of compensation included overtime but did not address bonuses.

Co-Chair Stedman asked if bonuses were included in the calculation.

[9:41:16 AM](#)

MINDY VOIGT, RETIREMENT AND BENEFITS MANAGER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, relayed that bonuses were included in the compensation calculation based on the way they were defined. If the bonus was defined as "for services rendered" then it was included. If the bonus was for a person leaving service, it would not be included in the calculation.

Co-Chair Hoffman asked if it was normal for other systems to have overtime included in the calculation for highest years of earnings.

Mr. Desai affirmed that it was normal for a retirement system to use overtime, and other plans even included commission. Whether or not parts of compensation could be used or not used towards a pension benefit calculation was specifically identified.

[9:42:31 AM](#)

Senator Kiehl asked about the 7 percent return assumption for DC participants and asked if there were actuals to show the return.

Mr. Desai relayed that a further slide would show the information.

Senator Kiehl asked for discussion of the annuity payout rate. He had been unable to find the current annuity rates on the state's retirement website. He had found lower rates from other sources. He asked how the state derived what he considered a significantly higher rate.

Co-Chair Stedman suggested that Mr. Desai discussed the definition of annuity.

Mr. Desai explained that an annuity was a total annual payout from a specific source, and there were different annuity calculations. In most cases, annuities involved for-profit insurance companies with much lower rates.

[9:46:10 AM](#)

Senator Kiehl asked if one would expect a person that managed their own withdrawals would try and draw about four percent and then adjust for inflation. He asked why the state would use something significantly higher.

Mr. Desai agreed. He explained that any financial advisor would use a rule of thumb to extend your funds by using four percent, or five percent at most. The illustration that was being considered tried to show as closely as possible the rate of return compared to projections. He considered that after having an assumption of 7 percent earnings, using 5.89 was still comparatively conservative.

Senator Kiehl asked with the 5.89 percent assumption, was there an assumption that the annuity provided an inflation adjustment through the retirement years.

Mr. Desai stated that when assuming the annual rate of return, in general inflation was included as part of the interest rate.

Senator Kiehl asked to restate his question.

Co-Chair Stedman suggested the discussion take place when there were numerics on the slide to consider.

[9:49:51 AM](#)

Mr. Desai displayed slide 7, which showed a table with a comparison of PERS tier III DB and tier IV DC plans. The table used an entry level salary with a mid-range of about \$57,949, assuming a 2.75 percent wage increase per year. On the left side, he pointed out that column A showed total service up to 30 years. The last salary was shown at \$64,591. He noted that based on the formula from tier III, after five years and being vested, there would be about \$6,100 of annual pension benefit, which was about 9.48 percent of the salary. At 30 years, there was about a 64 percent salary replacement ratio.

Mr. Desai addressed the right side of the table on the bottom right of the slide, and noted employee contributions were at 8 percent and employer contributions were at 5 percent. He discussed account balance growth shown in column E. He compared column D and column G, which indicated there was a gap in the salary replacement ratio.

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Senator Kiehl asked how the entry salary was chosen to use as an example.

Co-Chair Stedman asked how the starting salary was chosen.

Mr. Desai recalled that he had tried to pick a middle range rather than the highest or lowest. He noted that slide 16 would show how the exercise came close to the real data.

Co-Chair Stedman did not want the committee to get involved in comparisons of hypothetical situations. He wanted to look at performance and actual results.

Senator Kiehl thought there was some relevance in what was being looked at. He looked at column C for the DB members, and thought it reflected a starting annual benefit with eventual mandatory pension adjustments that accounted for a portion of inflation. He considered column F, and asked if under the assumptions on the model it would be a flat number for the retirees life or if there would be an adjustment.

Mr. Desai affirmed that on the DB side on column C, there was room for post-retirement adjustment for Tier I, which may or may not be for other tiers. He reiterated that on the DC side, the assumptions were based on the assumed rate. If the returns were higher or lower in future years, the numbers would change. He emphasized that that the entire structure of the DC plans solely depended upon market returns. The state could only make assumptions. He agreed that the annuity in column F would also fluctuate.

[9:59:11 AM](#)

Mr. Desai highlighted slide 8, "PERS - Tier III and Tier IV Comparison - Peace Officers/Firefighters," which showed a table. The data used a salary range starting at \$80,000. He observed that the slide would address some of Senator Kiehl's earlier questions. He thought it was interesting that on the DC side that regardless of salary amount, the salary replacement ratio was identical.

Co-Chair Stedman wanted to slow down the process. He mentioned that the presentation was informational for the public. He wanted to ensure the concepts behind the slides

were understood. He wanted the concepts explained so that the average Alaskan would be able to understand.

Mr. Desai explained that the slide showed similar information to slide 7. He pointed out the employee contribution rate of 7.5 percent, compared to a 6.75 rate for others. Because of the formula difference, the annual benefit was a bit higher compared to slide 7, and the salary replacement ration was also slightly higher. On the right side of the slide, it showed the same contribution rate of 8 percent for the employee and 5 percent for the employer. He identified the account balance on column E and annual benefits on column F. The salary replacement ratio was higher for DB plans.

[10:03:13 AM](#)

Mr. Desai looked at slide 9, "TRS - Tier II and Tier III Comparison - Teachers," which was similar to the previous slide. The entry level salary was shown at \$59,581. The employee contribution rate was 8.65. He pointed out the DB calculations and salary replacement ratios. He continued that on the DB side, there was a high salary replacement rate of 63.28 percent after 30 years. The DC side was different in that the employer contribution rate was higher than PERS. He pointed out that the account balance had grown higher in 30 years and resulted in a higher salary replacement rate of 70.12 percent.

Co-Chair Stedman asked Mr. Desai to repeat his conclusion.

Mr. Desai reiterated his comments.

Senator Wilson thought tier III would have the same percentage of salary replacement ratio, regardless of the salary amount.

Mr. Desai agreed.

Co-Chair Stedman reminded that the presentation had to be understandable to the general public and others in the building.

[10:06:30 AM](#)

Mr. Desai addressed slide 10, "Actual Plan Data (as of 2/1/2023)":

- 1st Group: Comparable Salaries
 - Closest match with the projected wage increases with 2.75% at the respective year of comparison
- 2nd Group: All Salaries
 - All comparable salaries plus all salaries higher than hypothetical projected salaries
- 3rd Group: Account Balances higher than the projected balances
 - Actual account balances for those that are equal to or higher than the projected with the 7.00% Rate of Return

Note: For all groups above, the member's minimum account balance must equal or exceed the account balance projected with a 0.0% Annual Rate of Return.

Mr. Desai reiterated that he used projected information for the DC plan side and contemplated how realistic the projected rate of return and payout rates. The division had compared actual data from 18,000 records of plan data to compare with the DB side. He discussed comparing actual salaries with projected salaries. He discussed the replacement percentage. He thought overtime could contribute to the findings of higher actual salaries.

Mr. Desai discussed the second comparison, which had shown that there was a gap between the DB versus DC plans. The division had also found in the actual data study that many people had higher balances than projected balances.

[10:10:18 AM](#)

Mr. Desai advanced to slide 11, "PERS - Tier III and Tier IV Comparison - All Other Members," which showed two tables comparing hypothetical salaries with the salaries of the three groups shown on slide 10.

Co-Chair Stedman asked Mr. Desai to clarify the three groups being compared to the hypothetical salaries.

Mr. Desai explained that the numbers on the left in blue derived from slide 7 and were hypothetical salary replacement projections using the 7 percent rate of return for DB and DC plans. The right hand side of the table

showed 17 years of data for three different groups. Column C was the group that had been considered for actual salary matching projected salary, and findings had shown about 214 employees.

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Mr. Desai discussed the difference in column B and column C, and the gap in projected salary replacement. He addressed column D and the group with real data of all salaries, as compared to the hypothetical salary projections in column A. He addressed column E, which derived information from real account balances. The data showed higher account balances than the projected account balances under column B. The group had about 528 members. He thought the column illustrated that there were people under the DC plan that had drawn account balances with a 7 percent assumption.

Senator Kiehl wanted to understand the proportions on the slide. He estimated that about 12 percent of the members in the three groups did better than the projections. He wondered if the proportion applied to the rest of the members that had DC plans.

Mr. Desai asked Senator Kiehl to repeat his question.

Co-Chair Stedman thought the question was related to the percentage of over-performers.

Mr. Desai relayed that the division had not done the reverse calculation to determine the rate of return for the group. He relayed that he could do further analysis and get back to the committee.

Co-Chair Stedman thought it was a significant minority that had a better actual rate than the projection.

[10:19:19 AM](#)

Mr. Desai looked at slide 12, "PERS - Tier III and Tier IV Comparison - Peace Officers/Firefighters," and addressed the table on the left side, which derived from slide 8 based on hypothetical salaries for DB and DC plans. The analysis on the right-hand table with column C showed the results based on comparable salaries against the projected salaries. The data found 26 people with comparable salaries

to see how balances came out. Since the numbers were low, there was a secondary group with 672 members shown in column D.

Mr. Desai noted that similarly, the last column showed how many members did better than the 7 percent return assumed for projections.

Co-Chair Stedman asked for Mr. Desai to share any difficulties he had finding employees in the data that may have left and come back.

Mr. Desai relayed that the division had found many people in the 18,000 records that were pulled that had very low balances. The division had found that because of the affordability of the plan, many people had intentionally left the plan and withdrawn balances and returned to continue service. He noted many people between 10 and 15 years of service with balances less than \$8,000 or \$9,000. He realized it was not possible to use all the data. He noted that for the comparison purposes, the division had calculated projections based on a zero rate of return to calculate the minimum balance. There were many employees in the group as part of the average that had a very low balance assuming the zero rate, which was one reason for low averages in column C and column D.

Senator Bishop asked what Mr. Desai would attribute the low account balance to when people left and returned to the plan.

Mr. Desai relayed that research would need to be done to see the reasons for leaving the plan. The numbers did not imply that lower balances were indicative of lower returns, but rather implied that there was a significant group of people that had previous terminations and re-employment.

[10:24:59 AM](#)

Senator Kiehl understood the practice of excluding those that had terminated and withdrew their money. He wondered if the table risked excluding people that had experienced market losses to the degree that the returns were below zero percent.

Mr. Desai relayed that it was possible through market loss and lower-than-expected returns that the account balance

would decline from the previous year. He continued that if balances remained un-drawn, the tendency from market history indicated that the balance would grow beyond zero percent.

Mr. Desai showed slide 13, "TRS - Tier II and Tier III Comparison - Teachers," which was identical to the previous slide. The left table showed numbers from slide 9 using hypothetical salaries and projected rates of return. He noted that similarly, the middle column C showed 215 people with respective years with comparable salaries to compare the salary replacement ratio with the projected ratios in column B. He noted that the amounts were close but there was still a gap at the 17 years of service. He pointed out that similarly the entire group with higher salaries was from a little less than 2,000 employees, and the final column showed those that earned more than the projected 7 percent.

Mr. Desai referenced slide 14, "Supplemental Annuity Plan," which was to show the additional benefit from SBS. He cited that the most important part of the slide was the left-hand column, which did not show the DB comparison, since SBS was defined as a DC. As in previous slides, the tables compared hypothetical salary replacement projections with three groups of actual salary data. The one difference was that under SBS the employee contribution and the employer contribution were at 6.13 percent, and as a result, one could see lower account balances.

[10:28:48 AM](#)

Mr. Desai turned to slide 15, "Supplemental Annuity Plan," which showed the SBS for peace officers and firefighters.

Co-Chair Stedman though cities were not included in SBS.

Mr. Desai answered affirmatively. He directed attention to column B and noted that he had been able to pull comparable numbers as there were very few participants under SBS.

Mr. Desai considered slide 16, "PERS - Tier III and Tier IV Comparison," which showed several tables. He noted that there was a gap between the DC salary comparison ratio versus the DB plan. The division had considered if it would make a difference if were to increase the employer or employee contribution. As the previous slide, teachers had

a 7 percent of employer contribution compared to 5 percent for PERS. The left side of the table showed the identical information from slide 7. Smaller tables showed additional employer contribution at 6 percent and 7 percent rates. He pointed out that at the 30-year mark, the 6 percent contribution rate had increased the salary replacement rate to higher than that of the DB rate.

Mr. Desai looked at the last table on the slide, which used a 7 percent employer contribution rate, and the 30-year amount went up to 70.12 percent for the salary replacement ratio. Under the DB plan, the ratio was at 64 percent.

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Senator Wilson wondered what the tables would signify in total state dollars. He asked about the amount for a one percent increase to the contribution rate.

Co-Chair Stedman relayed that he had not asked for the information to be included in the presentation, and the current exercise was for the purpose of comparison. He thought the committee could request the additional information at a later date if necessary.

Mr. Desai displayed slide 17, "PERS - Tier III and Tier IV Comparison," which was a similar analysis for peace officers and firefighters, comparing the 5 percent employer contribution rate to a 6 percent and 7 percent employer contribution. He pointed out the left column, which was similar to slide 8 and showed the current projected information. He pointed out the one percent increase in employer contribution, which resulted in a salary replacement ratio going up from 60.77 percent to 65.44 percent. The projection for a 7 percent employer contribution rose to 70.12 percent, which was higher than the DB salary replacement rate.

Mr. Desai highlighted slide 18, "PERS - Tier III and Tier IV Comparison," which was a similar analysis but specific to teachers. He noted that the slide title should show TRS rather than PERS. He noted that for TRS, currently the employer contribution was at 7 percent, as highlighted on the left side of the table, and showed a projected salary replacement ratio of 70.12 percent compared to DB at 63.28 percent. With an additional one percent contribution, the

ratio would change to 74.79 percent, and an additional two percent would change ratio to 79.47 percent.

Mr. Desai showed slide 19, "Department of Administration - Championing improvement in the state's performance and results." He noted that there were a few slides in the appendix with additional details in the footnotes.

Co-Chair Stedman asked Mr. Desai to present slide 21.

[10:36:14 AM](#)

Mr. Desai advanced to slide 21, "PERS - Tier III and Tier IV Comparison - All Other Members," with a footnote that indicated additional details of the analysis were included in slide 7 and slide 11. The hypothetical and projected information and the middle column showed the tier IV DC projections with a 7 percent rate of return. The right side of the page, starting with column H through column L, showed actual data. He relayed that the state had about 17 years of data for comparisons. He highlighted column I, which showed average annual salary at \$65,116 compared to the projected amount of \$64,591 in column B. At 16 years, highlighted in yellow, there was a projected salary of \$87,000 while the actual data showed five people with a similar salary.

Co-Chair Stedman asked if the appendix contained a comparison of SBS with a DC or DB plan.

Mr. Desai relayed that the SBS information in the appendix did not show comparison details, but he could provide the information at a later date.

Co-Chair Stedman thought it would be good to get the information. He noted that he had asked the department to list all the communities that were in the plan and included in SBS. He noted that some communities had opted out of Social Security but had not opted into SBS, the employees only had a DC plan. He asked for a status update on the information request.

Ms. Voigt relayed that she had sent the information to staff the previous day, and the information would be provided shortly.

Co-Chair Stedman requested that the information be submitted for dissemination to all the committee members. He cautioned care be taken when considering employee benefits. He pondered why communities would opt out of both Social Security and SBS. He thought there might need to be legislation to deal with the situation if necessary.

[10:40:59 AM](#)

Senator Kiehl appreciated help with understanding the comparisons. He would refrain from commenting unless it was the will of the committee.

Co-Chair Stedman noted there would be further presentations and opportunity for comments. He mentioned a request for work on the topic of employee retention and turnover, which he thought was tied to the retirement system. He noted that the Legislative Finance Division (LFD) was working on the information in conjunction with some information on retirement and benefits in other state agencies. He asked for any members with questions to submit them to his office so everyone could benefit from the same information. He mentioned explanation regarding the data sets, and thought the process had been more challenging than anticipated. He thought the director might make some comments on his background.

Mr. Desai relayed that his previous career included work with motion picture industry pension and health plans. Under the plan, there were hybrid benefits offered to employees and participants joined by studios and union representatives. Both defined benefit plans produced a monthly benefit and were 100 percent funded by the employer. He relayed that he had created a program that showed realistic comparisons. He shared that he had pondered whether it was a realistic approach to compare state programs with insurance-provided annuity, and the answers he found had not been encouraging. He understood why people were not interested in converting DC balances into an annuity.

[10:44:25 AM](#)

Mr. Desai continued that it was important to consider how a person could manage a benefit as an active employee, how it would grow if a person started drawing from it at the same pace while it stayed in the marketplace. The model he had

worked on was a simple comparison DB versus DC systems. The model had assisted in explaining information to colleagues and board members. When he came to Alaska and encountered multiple tiers, he already had a comparison tool to use to see how they systems played out against one another. He discussed comparisons of tier I, tier II, and tier III under PERS, which had minimal differences. All three years had an identical formula except for the 5-year average in tier III rather than the earlier 3-year average.

Mr. Desai recounted that the DC plan was introduced in 2006. In 2017 or 2018 there had been a bill in place for firefighters and peace officers, and his comparison had come in handy in sharing information to illustrate differences. He discussed the word "pension," which was defined as a monthly pension, but was simply a benefit drawn after retirement. There was nothing prior to the 1970s, and in 1978 the first DC plan was established and recognized, then the supplemental plan was created. He hoped that he had made some progress in making a side-by-side comparison, and emphasized that both systems had pros and cons.

[10:48:28 AM](#)

Co-Chair Stedman asked if the same analysis one year previously would have shown different numerics.

Mr. Desai answered "yes," and noted that one year previously would have shown a much better position for actual data.

Co-Chair Stedman asked if Mr. Desai had relied on any of the state's actuaries when compiling the information, or if the work was done in-house.

Mr. Desai answered affirmatively, and relayed that no one had a comparison of the two systems. He qualified that drawing the lump sum versus a monthly pension benefit based on a formula was comparing two different things. He mentioned insurance companies that offered an annuity with lifetime benefits, although they were much lower.

Senator Bishop relayed that he had written questions he would provide to the chair's office for the next meeting.

Co-Chair Stedman did not know when LFD would be before the committee with information about retention, but the committee would work through the subject matter in the next couple of months. He thought some of the data would be useful for some of the bill work in the building.

Co-Chair Stedman thanked the department for the work it had put together. He discussed the agenda for the following day.

#

ADJOURNMENT

[10:52:29 AM](#)

The meeting was adjourned at 10:52 a.m.