SENATE FINANCE COMMITTEE
March 9, 2023
9:13 a.m.

9:13:07 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:13 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 David Wilson

MEMBERS ABSENT

Senator Kelly Merrick

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division; Senator Cathy Giessel.

SUMMARY

PRESENTATION: COMPARING RETENTION DATA BETWEEN DEFINED BENEFIT and DEFINED CONTRIBUTION EMPLOYEES

Co-Chair Stedman discussed the agenda. He relayed that the committee would hear a presentation comparing employee retention data between the defined benefit (DB) and defined contribution (DC) plans. He noted that the meeting was only one of several meetings on the topic. The current presentation would consider the Public Employees' Retirement System (PERS) only. The committee would consider the Teachers Retirement System (TRS) in forthcoming meeting. He considered that separating the systems would make the data more clear.

^PRESENTATION: COMPARING RETENTION DATA BETWEEN DEFINED BENEFIT and DEFINED CONTRIBUTION EMPLOYEES

9:14:59 AM

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, addressed a PowerPoint presentation entitled "Vacancies, Recruitment, and Retention," (copy on file).

Mr. Painter looked at slide 2, "Outline":

- State Government Vacancies
  - Historical Comparison
  - National Comparison
  - Current Vacancy Rates
- Retention Data from Retirement and Benefits
  - Retention data for PERS employees of the State of Alaska
  - Retention data for non-State PERS employees

Mr. Painter noted that the presentation had two parts – looking at state government vacancies more broadly, and looking at retention data from the Division of Retirement and Benefits (DRB).

Mr. Painter spoke to slide 3, "Current Vacancies – Explanation of Data Sources":

- Vacancy data in following slides comes from OMB data that shows filled status of positions from state accounting system.
- Data excludes state corporations, University of Alaska, AMHS, the Judiciary, and the Legislature.
- Data shows whether a position was filled as of the 15th of each month.
- To avoid seasonal distortions, these slides use permanent full-time (PFT) positions only.

Mr. Painter referenced slide 4, "State of Alaska Budgeted versus Filled PCNs, 2015-2022," which showed a line graph. The blue line showed budgeted PCN's versus filled PCN's going back to January 2015.

Co-Chair Stedman asked Mr. Painter to define PCN.

Mr. Painter relayed that PCN denoted position control numbers, which were used to track budgeted positions in the accounting system.

Mr. Painter continued to discuss slide 4, and noted that between 2015 and 2018, the number of budgeted PCNs had declined substantially by several hundred. During the period, the state had been reducing the budget and had been deleting long-vacant PCNs. Since that time, the number had ticked up slightly, with the number of filled PCNs steadily dropping. The rate of decrease of filled PCNs was greater than the rate of shedding budgeted PCNs. He summarized that the vacancy rate was not just due to the fact that PCNs were deleted, but had continued despite having removed many PCNs during the period.

9:18:39 AM

Senator Wilson asked if it would be possible to get the percentage between the two over the same time frame.

Mr. Painter turned to slide 5, "Percentage of Full-Time State PCNs Filled, 2015-2022," which showed a line graph depicting the same data as the previous slide reflected in percentages. The slide showed that during the entire period, the percentage filled had decreased. Beginning in 2015, around 89 percent of budget PCNs were filled; and by the end of 2022, the number decreased to about 85 percent. He noted that having more vacancies was not a new trend. He noted that the data started in 2015 because it had been available in the current state accounting system.

Senator Wilson asked when the last job classification studies had taken place.

Mr. Painter cited that there had been a classification study done in 2009 but was not sure when the last study had been implemented.

Mr. Painter considered slide 6, "Full-Time Employee Turnover Rate since FY18," which showed a line graph showing the turnover rate. The blue line depicted the percentage of positions hired each month and the red line showed the percentage of positions vacated each month, while the turnover rate added the two. The turnover rate had the appearance of doubling the change, but it was a standard way of looking at the information. He noted that the turnover rate had increased since mid-2019, and had decreased during the pandemic from 6 percent to 4-5 percent in 2020. The turnover rate had increased again, peaking at 7 percent and hovering in the 5 to 6 percent range in most

months. The time of lowest turnover rate was in 2020 during the pandemic, which he pointed out was unusual among other states.

9:21:41 AM

Mr. Painter displayed slide 7, "Comparison of State of Alaska Turnover to State Governments Nationwide," which showed a line graph comparing Alaska turnover shown by the blue line, with the data from the National Bureau of Labor Statistics. The data showed turnover by job type, and compared the turnover rate for state and local government employees nationally to the turnover rate seem from the Office of Management and Budget (OMB) data. He noted that the data was not seasonally adjusted, but there could be seasonal spikes shown in the national data that might be different than Alaska's. He observed that generally Alaska's turnover rate had been about one to two percent higher than the national rate for state governments.

Mr. Painter highlighted slide 8, "Full-Time PCN Vacancy Percentages by Agency, Calendar Year 2022," which showed a bar graph. He had ordered the agencies by the most PCNs to the least, shown on the table at the bottom. The highest vacancy rates were in the Office of the Governor, the Department of Revenue (DOR), the Department of Labor and Workforce Development (DLWD), the Department of Family and Community Services (DFCS), and the Department of Commerce, Community and Economic Development. The lowest rates were in the Department of Fish and Game (DFG), the Department of Transportation and Public Facilities (DOT), the Department of Environmental Conservation, and the Department of Education and Early Development. The line showed the statewide average of 14.2 percent vacancy rate, and one could observe which agencies were above or below the line.

Mr. Painter continued to address the slide. He noted that following slides would address the reasons for the vacancy rates. He commented that many of the vacant positions were low-wage positions, such as in the Division of Elections, DOR, and DLWD. He noted that DFCS had many positions with high vacancy rates but not all with low ranges. Some of the agencies that had low vacancy rates had career sciences positions that tended to have more stable career paths than positions in lower ranges with more turnover.

9:25:22 AM

Mr. Painter looked at slide 9, "Vacancy Percentages by Range, Calendar Year 2022," which showed a bar graph. He noted that in the state budget, positions were assigned a range between 8 and 30. A range of 30 could signify a position such as the chief psychologist at the Alaska Psychiatric Institute (API). He observed that the highest vacancy rates were range 29, which were mostly psychiatrists or pharmacists. The low range positions had the next highest vacancy rates. The highest vacancy rates were in range 8 to range 11. He noted that the next slide would show position titles with the higher vacancy rates.

Mr. Painter addressed slide 10, "Vacancy Percentages by Location, Calendar Year 2022," which showed a bar graph. He reiterated that the statewide average was about 14 percent. Most of the positions were in Anchorage, Juneau, or Fairbanks, which all had vacancy rates that were close to the statewide average. The Matanuska-Susitna Borough had the lowest vacancy rate. The Kenai-Peninsula Borough (with Seward excluded) had a fairly low vacancy rate. The areas with the highest vacancy rates were Seward, Bethel, Nome, and Ketchikan. He highlighted that most of the positions in Seward worked for either the correctional facility or for the Alaska Vocational Technical Center (AVTEC). The other two locations had vacancies spread across a variety of departments. He cited that some of the areas had in excess of a 20 percent vacancy rate.

9:28:20 AM

Mr. Painter advanced to slide 11, "Position Titles with Highest Vacancy Rates, Calendar Year 2022," which showed a table. He noted that for the position names he had combined job series with multiple levels. He had only included job classes with at least 25 people and listed the top 24 job titles. The vacancy rate for calendar year 2022 was shown. He cited three of the top ten positions were various types of nursing positions, which all had a 24.5 percent vacancy rate or higher. There were also a number of low range positions (range 8 to 12) such as Child Support Specialist or Office Assistant. He mentioned the position of Juvenile Justice Officers and Probation Services Specialist, with vacancy rates in excess of 20 percent. He mentioned probation officer positions.

Mr. Painter observed that there were two positions with wildly higher ranges, because of unions with different pay scales that did not conform to the standard pay scale. He summarized that the positions that were most likely to be vacant were the nursing positions and some of the lower range positions such as office assistants, entry level probation officers, and hard-to-fill professions. He mentioned the challenge the state had with filling maintenance positions due to the inability to compete with private sector wages.

9:31:45 AM

Senator Wilson asked why the University of Alaska (UA) was not on the slide.

Mr. Painter relayed that UA was not part of the state accounting system and did not budget positions like the rest of the state. The positions could be analyzed separately but could not be compared to the other positions.

Co-Chair Stedman thought that UA had a different retirement system.

Mr. Painter looked at slide 12, "Historical Retention Data – About the Data Source":

- The Division of Retirement and Benefits provided data on employee retention from FY03-22.
- The data shows whether employees hired in a given fiscal year are still employed by the same PERS employer in subsequent years.
- The data is broken out by employer in three categories: the State as an employer, other SBS employers, other non-SBS employers.
- It's further broken out for TRS, PERS public safety and fire employees (PERS P/F), and all other PERS employees. This presentation will only cover PERS "non-P/F" employees.
- Finally, it distinguishes between employees in a DB or DC system.
- One limitation of this data: if an employee leaves and comes back, they show up as a new employee when they return. This may skew the comparisons for the early years of the DC system if returning employees and new employees have meaningful differences in

retention.

Mr. Painter noted that slide 12 began the second part of the presentation, which would address historical retention data. He was not confident in the data related to public safety and fire employees, and was working with DRB to ensure the accuracy of the data.

9:33:55 AM

Co-Chair Stedman asked Mr. Painter to pronounce words rather than use acronyms.

Mr. Painter agreed.

Mr. Painter continued to read from slide 12. He added that public employees that began service in 2007 were entered into the defined contribution (DC) system, while employees hired prior to July 1, 2006 were entered into the defined benefit (DB) system. He thought that employees that left and returned to the system would make it appear as if the retention rates were lower than in reality. He discussed manners in which the data could have a margin of error.

Co-Chair Stedman reiterated his request for Mr. Painter not to use acronyms.

Senator Kiehl referenced the second bullet on slide 12, and asked if the state was considered one employer or multiple employers.

Mr. Painter relayed that the state was one employer.

Senator Kiehl asked Mr. Painter to discuss the difference between turnover data and retention data.

Mr. Painter explained that turnover data looked like a percentage of the number of employees, but did not reflect the years of service. He thought about 30 percent to 40 percent of state and municipal employees left within the first year of employment. He thought turnover data showed that people left right away, while retention data was more granular.

9:38:55 AM

Mr. Painter showed slide 13, "Retention Rate by Class Year, PERS Non-P/F, State Only," which showed a line graph comparing the year people entered employment. He explained that he had averaged four years together to make the graph easier to read. He had converted the data so that all employees' first year was on the same line. He thought some of the trends over time were hidden, and relayed that he would present the data in two different ways.

Mr. Painter discussed the blue line that depicted the DB group from FY 03 to FY 06, which showed that about 30 percent of employees did not make it through the first year. The red showed the first four years of the DB system, the green was the following four years, and the last was FY 15 to FY 18. The people who had entered more recently had worse retention, and by year four only 46 percent of the employees were retained versus other groups at 49 percent to 50 percent. He reiterated that the state vacancy rate had steadily increased since 2015. He continued to address the graph on slide 13, and observed the differences between the groups over time.

Senator Bishop asked if the declining line was due to retirements.

Mr. Painter thought some of the decline was due to the change in retirement. He mentioned that there were DC employees that had retired because of years of service with other employers. Some would have left because of retirement, and some for other reasons. He did not have data for all of the years that would distinguish between the two factors. The Division of Personnel had a report that it published between 2005 and 2011 that distinguished reasons for leaving. The division no longer produced the report, but he thought it would be helpful to see the data.

Senator Bishop thought it was important to know.

9:44:51 AM

Senator Wilson observed that FY 15 to FY 18 started lower because of uncertainty within the state budget. He asked if Mr. Painter had an overlay slide of the state budget to combine with the retention data.

Mr. Painter referenced slide 5, which showed the turnover rate since 2015, but noted that the same data was not

consistently available going farther back in time. There was no consistent source of data that would show the turnover rate from 2003 to 2022. Because of changes in the accounting system, it was hard to get data that looked identical from before and after the change in the system.

Senator Wilson was interested to see if turnover changed over time compared with the budgetary system. He asked if there was any data to show generational trends in the retention rate.

Mr. Painter was not certain if DRB could link the age data with the retention data. He noted that DRB had data for the average age of people that entered the system. He offered to ask DRB if it was possible to add the data point.

Senator Wilson wondered if Millennials or younger generations that wanted more flexibility within jobs would show a difference in state service longevity.

Mr. Painter added that looking at FY 03 to FY 06 average, and the FY 07 to FY 10 average and did not think there would be a massive generational difference. He thought it would be possible to observe a gradual change over time on the following slides.

9:47:49 AM

Mr. Painter referenced slide 14, "Year 6 and 11 Retention, PERS All Others, State Only," which showed two bar graphs. He noted that the graphs addressed year 6 and year 11, which were chosen for being right after key vesting years in the retirement and healthcare systems. The employees that remained after the vesting dates helped to provide a comparison of how the vesting dates influenced behavior. He cited that the red showed DB years, and blue showed DC years. The average for the DB years was 42.3 percent versus the DC years was about 40.2 percent. He observed that the retention rate for the DC system had been gradually declining and noted that there was a gradual downward trend for the state.

Mr. Painter addressed the graph on the right, which showed year 11 retention, which showed when DB employees would vest in health insurance. There was not as much of a difference between the two systems after year 11. There was not as much of a slope on the line there was with year 6.

He was uncertain of the reason but noted there was not a clear downward trend as in year 6.

9:50:44 AM

Senator Wilson asked if Mr. Painter would say that retirement was not much of an issue with retention.

Mr. Painter clarified that he was trying to present the data so the decision-makers on the committee could make conclusions.

Senator Wilson asked if statistically speaking there was much of a difference.

Mr. Painter cited that there was about a one percent difference between the two systems at year 11. He reiterated that he did not have the granularity of data available to see if the difference was statistically significant.

Senator Kiehl asked about the potential relevance of economic conditions considering the two charts on slide 14. He considered the chart on the right-hand side and pondered that someone that was employed by the state from FY 03 to FY 14 had the opportunity for many other jobs because it was a good economic period. He contrasted that there had been more economic downturn from FY 11 to FY 22, when there were not as many other jobs. He asked how Mr. Painter had factored in the conditions.

Mr. Painter thought there were many factors that went into why people would leave. He noted that the state's economy had often moved with an inverse relationship with the country's economy, often because of oil prices. He suspected that different job classes could move in and out of the private sector more easily. He could not estimate how much a statistical factor the economic conditions were, but suspected that the economy would affect job classes at different strengths.

9:54:05 AM

Mr. Painter turned to slide 15, "Non-State Employers in Social Security/SBS":

- In addition to the DB or DC system, all State of Alaska employees are in the Supplemental Annuity Plan (SBS), which is a defined contribution plan with a 6.13% employee contribution, matched by 6.13% employer contribution. This system essentially replaces Social Security for these employees.
- Non-State PERS employers have varied supplemental plans. Of the 14,163 non-State, non-P/F PERS employees in the DC system, 7,473 are in Social Security, 1,645 are in SBS, and 5,045 are in neither plan.
- See the handouts for details by employer:
  - Handout 1 shows the employers (including the State) that are in SBS
  - Handout 2 shows the employers that are in Social Security
  - Handout 3 shows the employers that are in neither system

Mr. Painter referenced the three handouts listed on the slide (copy on file). He explained that Handout 1 showed the employers that participated in SBS (no social Security). Handout 2 showed employers that participated in social security (no SBS), and Handout 3 showed employers that participated in neither Social Security nor SBS. He mentioned that the lists included some school district non-teacher employers and noted that teachers would be included in future discussions. The next few comparisons would show non-state employees.

Co-Chair Olson asked if a state employee that was not in SBS and was in Social Security would not get the 6.13 percent employer contribution.

Mr. Painter stated that all state employees were in SBS, while non-state employers could either elect to be in SBS or in Social Security, which had a 6.2 percent contribution by employer and employee.

9:59:13 AM

Mr. Painter considered slide 16, "Retention Rate by Class Year, PERS Non-P/F, NonState, Non-SBS Only," which showed a line graph. He noted that the data had been put into four-year classes for averaging and he had normalized them to the same start year. The retention rate after year one was 60 percent to 62 percent, while the state was roughly 69 or 70 percent. He observed that the employees had a lower

retention rate overall than those employees of the state. The blue line showed DB years from FY 03 to FY 06. The red line showed FY 07 to FY 10 for DC employees. The green line showed FY 11 to FY 14, and the purple line showed FY 15 through FY 18. He explained that there was a little more difference from the state between the FY 03 through FY 06 classes and the other classes. He reminded that the employees on the graph did not have a supplemental system.

Mr. Painter displayed slide 17, "Year 6 and 11 Retention, PERS Non-P/F, NonState, Non-SBS Only," which showed two bar graphs comparing year 6 and year 11 for the employees on the previous slide. He noted that in year six (on the left in red) there were DB years, and on the right in blue it showed DC years. The difference in the average was about four percent, where in year 6 about 37 percent of DB employees remained compared to about 33 percent of DC employees. In year 11, the average for DB was 26.2 percent compared to 23.8 percent for DC employees. Unlike the state, there was not much slope to the DC line. There was not a huge linear trend other than the difference between the DB and the DC groups in FY 05 and FY 06.

Senator Kiehl asked if the employees on slide 17 received Social Security.

Mr. Painter relayed that the data had a mix of employees that did or did not receive Social Security. He estimated that about a bit over half of the people were in Social Security. He thought some of the individuals had a supplemental system and acknowledged that it was not a homogenous group.

10:03:28 AM

Mr. Painter highlighted slide 18, "Retention Rate by Employer Type, PERS Non-P/F – FY03-06 (DB) only," which showed a line graph which compared the three employer types for retention rates to see how the employer type many change retention rates. The blue line showed the state as an employer, the red line showed non-state SBS employers, and the green showed non-state, non-SBS employers. He reminded that the green line could include those who may or may not be in Social Security. The comparison showed a significant and persistent difference between the non-SBS employers and both state and other SBS employees through

year 7. After the period, the state had better retention than either of the non-SBS employers.

Mr. Painter observed that some of the differences could be due to employee movement and pondered that the state had many more employees than any other PERS employer. If an employee moved from Juneau to Anchorage municipal governments they would be shown as leaving employment, while state employees had mobility to move within many agencies and locations. He summarized that it was expected that the state had better retention than other PERS employers because of its statewide presence and number of employees, but it took until year 7 or 8 to show up. The non-SBS employers had worse retention than the state and SBS employers throughout the period.

Mr. Painter looked at slide 19, "Retention Rate by Employer Type, PERS Non-P/F – FY07-10 (DC) only," which showed a line graph comparing "like" employees together. The blue line represented the state as an employer; the red line represented non-state SBS employers; and the green line represented non-state, non-SBS employers. The biggest observable difference was between the SBS employers and the non-SBS employers, where the non-SBS had significantly lower retention rate in all years in the DC plan. The difference was larger than shown in the previous slide because the non-SBS employers that switched to the DC retirement systems showed a larger change in retention as well as an overall lower retention rate.

Co-Chair Stedman asked if the state was telling non-state employers not to be in SBS and not to be in Social Security, or whether it was a voluntary decision.

Mr. Painter relayed that it was a voluntary decision.

10:07:11 AM

Senator Kiehl asked if there was opportunity to reverse the decision regarding Social Security.

Mr. Painter understood that an election could be made to get out of Social Security and into the SBS system, and thought employers could still opt into Social Security and then could immediately transition from Social Security to SBS, but it would require two different votes by the

employee memberships and action by the employer. He thought DRB could discuss the matter in more detail.

Co-Chair Stedman thought that the committee could ask Senator Kiehl's question to the department when it was in committee. He thought the matter needed to be understood. He thought the question of Social Security offsets would come up when the committee had a discussion on TRS.

Senator Kiehl asked if it was fair to say the value of a retirement plan made a difference in retention rates.

Mr. Painter thought there was definitely a difference in the non-SBS employers and the SBS employers. He qualified that it seemed like the SBS system did have value, unless there was some underlying characteristics to the employers he was not aware of.

Senator Wilson thought Mr. Painter had indicated that the state seemed to have better retention than the small municipal employers. He asked if there was exit interview data that might provide information about the work environment.

Mr. Painter agreed that the state did not have exit interviews, particularly for non-state employers. He thought the state did exit interviews but was not certain the data was categorized in a way that was usable. He commented that it was expected that a small employer would have greater turnover over time than a larger employer when it had less room to advance and less opportunity to move geographically. He reminded that he did not know of other systematic differences in the non-state SBS employers and non-state non-SBS employers beyond the retirement systems.

Co-Chair Stedman reminded that there was a breakdown on all the employers in Handout 3. He used the example of the Juneau School District, which had 274 employees that had neither Social Security nor SBS. He thought the fact impacted the ability to accumulate assets for retirement. He thought there was a policy issue that needed to be addressed in the future. He did not think there was any interest in having employees that were not enrolled in either system.

10:12:05 AM

Mr. Painter showed the final slide entitled "Questions?":

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Mr. Painter relayed that there was a lot more data he hoped to get and to provide more in-depth analysis. He thought there were areas to look at in the future.

Co-Chair Stedman relayed that the committee would be having a special meeting on TRS and would consider contribution rates and the inclusion or exclusion of Social Security and SBS, and the potential impact on teacher retention and retirement. He relayed that the committee would be working with DRB to get answers to some questions that had arisen.

Co-Chair Stedman discussed the agenda for the following day.

#
ADJOURNMENT
10:14:10 AM

The meeting was adjourned at 10:14 a.m.