

SENATE FINANCE COMMITTEE

May 2, 2023

9:02 a.m.

[9:02:54 AM](#)

CALL TO ORDER

Co-Chair Olson called the Senate Finance Committee meeting to order at 9:02 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, Sponsor; Sonja Kawasaki, Legal Counsel, Senate Majority.

PRESENT VIA TELECONFERENCE

Doctor John Morris, Appointee, Anchorage; William Fornia, Alaska Public Pension Coalition, Seattle.

SUMMARY

SB 88 RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.

SB 88 was HEARD and HELD in committee for further consideration.

^CONFIRMATION OF GOVERNOR'S APPOINTEE: JOHN MORRIS, ALASKA MENTAL HEALTH TRUST AUTHORITY

[9:04:23 AM](#)

DOCTOR JOHN MORRIS, APPOINTEE, ANCHORAGE (via teleconference), introduced himself, and provided his background related to the position. He stated that successful trustees have abilities in financial management and investment or in service to beneficiaries of the trust. He noted the remarkable trustees on the board, and felt that he had personal experience and education that would benefit the board. He shared that he had lived in Alaska for seven years. He explained his extensive medical education and work in psychiatry.

[9:09:32 AM](#)

Co-Chair Olson wondered about his work as the homeless coordinator in Anchorage.

Dr. Morris replied that the brief time he spent in the mayor's office was a great opportunity to make a positive impact on the issue of homelessness. He expressed disappointment that there was not a more positive impact on the city.

Co-Chair Olson asked why Mr. Morris tenure as homeless coordinator so brief.

Dr. Morris replied that he stayed until he felt that his services were no longer beneficial as an employee.

Senator Bishop wondered whether there were evaluations on the homeless populations, and queried the percentage of the population that had mental illness. He asked whether the position on the board could help those people.

Dr. Morris responded that one of the primary strategic objective was to develop data from surveys about a person's individual experience in homelessness. He stated that implied in those surveys was the presence or absence of mental illness. He explained that they were not able to achieve funding for that survey, but the initiative had begun. He remarked that he had personally met with hundreds of people experiencing homelessness, which was a remarkably diverse population. He said that "all of the stereotypes are true, and none of the stereotypes are true." He felt that the common denominator of a person experiencing homelessness was the inability to adapt to a life experience. He remarked that it could be something that

none of us could adapt to, or something that would conventionally be adaptable.

[9:16:27 AM](#)

Co-Chair Stedman FORWARDED the appointment of John Morris for consideration in accordance with Alaska Statute. He relayed that this did not reflect an intent by any member of the Senate Finance Committee to vote for or against the confirmation of the individuals during any further sessions. There being NO OBJECTION, it was so ordered.

[9:16:54 AM](#)

AT EASE

[9:18:04 AM](#)

RECONVENED

#sb88

SENATE BILL NO. 88

"An Act relating to the Public Employees' Retirement System of Alaska and the teachers' retirement system; providing certain employees an opportunity to choose between the defined benefit and defined contribution plans of the Public Employees' Retirement System of Alaska and the teachers' retirement system; and providing for an effective date."

[9:18:39 AM](#)

SENATOR CATHY GIESSEL, SPONSOR, presented, "Senate Bill 88, A Shared Risk Retirement Plan" (copy on file). She addressed slide 2:

Challenge

Alaska's Recruitment and Retention Crisis

History

2005 Alaska implemented a Defined Contribution plan

Solution

A retirement system with reasonable costs and fair benefits

Why SB 88

Alaska has a strong interest in ensuring quality public servants fill the ranks of our public service agencies

[9:23:41 AM](#)

Senator Giessel pointed to slide 3, "Challenge":

Recruitment and Retention has collapsed
Staggering vacancy rates

Senator Giessel discussed slide 4, "Why Is This Happening?"

"A lot of our vacancies and our cyclic throughput on employees really began increasing since 2006. If you remember that was the break point between Tier III and Tier IV employees for the State of Alaska so once the pension benefits disappeared and we became contribution or matching based employer, those benefits became transportable. Our ability to retain employees, really much longer than four or five years anymore, and no more than ten years became largely impacted by trends and portability of those benefits."

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Wolfgang Junge, DOT/PF Central Region Director,
House Finance, February 15, 2022

[9:24:47 AM](#)

Senator Giessel addressed slide 5, "Budget Challenges - Vacancy." She stated that there were not adequate employees, so there were unsustainable hiring bonuses.

Senator Giessel discussed slide 6. She noted that the slide compared the outcome of a defined contribution system with the defined benefit system. She shared that they were in a larger form in the addendum of the slide deck. She stressed that the defined contribution salary replacement failed to compete with the defined benefit system. However, she noted the outliers on the comparison.

Co-Chair Stedman felt that the snapshot with the rates of return after the market downturn in the previous year. He remarked that nearly every state had a retention problem, and stressed that Alaska was not unique.

Senator Giessel agreed, and stated that it all depended on the time of retirement, so the defined contribution was a volatile system.

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Senator Giessel pointed to slide 7, "HISTORY":

- Prior to 2002 the DB system was well funded
- 2002 to 2004 Erroneous actuarial advice by Mercer compromised the DB system
- 2006 The Defined Contribution plan was implemented
- 2007 State of Alaska ARM Board filed suit against Mercer for covering up its malpractice, SOA prevailed

Senator Giessel addressed slide 8, "DB System Funded Ratio History." She shared that up until 2002, the defined benefit retirement system was well-funded and stable.

Co-Chair Olson wondered whether it was the legislature's responsibility to "watchdog" the actuarial reports.

Senator Giessel replied in the affirmative.

Co-Chair Stedman agreed with most of the statements, but disagreed that there was full funding.

[9:41:16 AM](#)

Senator Bishop asked for the slide to be restated with the deposits. He noted that there was some money from Mercer, but settled for less than what was owed.

Senator Giessel appreciated the comments. She noted the lack of oversight of the funds and the lack of adjustments for changing systems. She stated that the issues were addressed in SB 88.

Senator Giessel looked at slide 9, "Will this happen again?"

Triple Safeguards Since 2006

1. Buck Consulting, (State Actuary) provides annual review of pension assets and liabilities
2. ARM Board Actuary reviews Buck's work every year
3. Every 4th year a third Actuary reviews ARMB and Buck actuarial reports.

Senator Giessel discussed slide 10, "A Proposed Solution Senate Bill 88."

Senator Giessel pointed to slide 11, "Structural Features of SB 88":

- Builds on best practices of other states
- Shares risk between employees, employers, and retirees
- Ensures system will remain solvent

Senator Giessel highlighted slide 12, "Employee Contribution":

PERS and TRS

- 8-12 percent adjustable by ARM Board
- Employees share the risk contributing more during poor market returns

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Senator Giessel discussed slide 13, "EMPLOYEE CONTRIBUTION, SB 88 Structure":

States that use a Variable Employee Contribution Rate

- Arizona
- Colorado
- Idaho
- Iowa
- Maine
- Montana
- Nevada

Senator Merrick looked at page 12, and wondered how often the ARM Board would make adjustments.

Senator Giessel replied that adjustments were made annually.

Co-Chair Stedman noted that the current employer rate for PERS was 8 percent, and the bill would adjust it to 12 percent, and would be set by the ARM Board automatically. He shared his concern about changing clauses.

Senator Giessel said that the question would be addressed later in the presentation.

Co-Chair Stedman understood that there were two components under discussion for current and previous employee payments and the discrepancies between payments made by the two. He hoped for clarity for those listening and addressed slide 14. He

[9:50:44 AM](#)

Senator Giessel addressed slide 14, "Employer Contribution, SB 88 Structure":

PERS

- 22 percent is no longer fixed (22 percent 12 percent)

TRS

- 12.56 percent is no longer fixed (12.56 percent 12 percent)
- Provides relief when full actuarial cost drops below existing contribution rates, to a lower limit of 12 percent
- Remains the same and aligns with current rates set by DB and DC tiers

Senator Giessel said that 22 percent did not disappear. She discussed the criteria. She spoke to the continuation of service costs.

Co-Chair Stedman said that he did not understand the amount under discussion and offered some history.

Senator Giessel replied that the percentage was continually reviewed by the ARM Board, but she remarked that the 22 percent would not be changed because that was the amount paid by the employer.

Co-Chair Stedman stressed that it was a complex issue.

Senator Wilson wondered how the variable rate for employer contribution took effect for termination studies in municipalities.

Senator Giessel replied that there were no changes related to the termination studies.

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Senator Kiehl surmised that the bill accounted separately for the new tiers. He stated that normal and past costs were calculated for the new tier, and they would not "cross-contaminate" with the legacy tiers. He wondered whether the adjustment on the employer side would be based on a blended rate of both the new and legacy trust so they only paid one rate.

Senator Giessel replied in the affirmative.

Co-Chair Stedman asked for clear definition of terms like "termination liability studies."

Senator Giessel explained that termination studies were conducted by communities. She furthered that when an employee retired, the employer had to continue to pay for the retirement of that employee. She stressed that those costs were a burden to communities, but noted that the bill did not address that issue.

Co-Chair Stedman recalled that Sitka had a hospital that was under PERS, and the community wanted to sell the hospital. He stated that selling the hospital could result in the state picking up the cost for retirement. He stated that there was now a requirement for a "past service analysis", which was an analysis of the present value of the unfunded of the liability that required payments by the communities or municipalities.

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Senator Giessel stressed that the termination studies were not addressed in the bill.

Co-Chair Olson wondered how the liabilities may be rectified if the termination studies were not within the bill.

Senator Giessel replied that nothing would change about the past liabilities and the past service costs.

Senator Wilson wondered how the liabilities would be calculated with a variable rate of the employer contribution from 22 percent to 12 percent. He asked whether it would be 22 percent in perpetuity.

Senator Giessel replied that the ARM Board would continue to annually assess the liabilities to balance out the system.

Senator Wilson remarked that there may be too much reliability on the ARM Board and waiting for the possibility of a rate change to impact the municipalities.

Senator Giessel restated that termination studies were currently not an aspect of the bill.

Senator Giessel discussed slide 15, "2024 Actual Employer Contribution Rates."

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Co-Chair Stedman noted that the funding ratio was 90 percent, but could be changed to 22 percent. He wondered how it would interplay with health care costs and pensions.

Senator Giessel replied that it was a component of the full actuarial costs.

Co-Chair Olson queried the definition of "normal costs."

Senator Giessel replied that the normal costs were all the costs of the benefits for all of the active members.

Co-Chair Stedman surmised that the normal costs would be used to calculate the current year for all employees if all projections remained true.

Senator Giessel displaying slide 16, "Employer Fee for Late Contributions PERS and TRS":

SB 88 Structure

- Reduced to normal interest rate from current law of 1.5 x interest rate
- Intended to provide financial relief to employers

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Senator Giessel pointed to slide 17, "Vesting PERS and TRS":

SB 88 Structure

- Vested at 5 years for both PERS and TRS
- PERS is consistent with prior Defined Benefits (DB) plan
- Aligns TRS with PERS vesting period

Senator Giessel addressed slide 18, "Qualification For Retirement":

SB 88 Structure

PERS (Public Safety only)

- 50 years of age with 25 years of service
- OR
- 55 years of age with 20 years of service
 - Allows Public Safety employees to reach retirement eligibility prior to 60 years of age

Co-Chair Stedman wondered whether the schedule would change with attaining 70 percent of salary replacement in year 30.

Senator Giessel remarked that slide 20 would talk about the benefit calculation.

Senator Wilson remarked that there were many state employees that had dangerous and difficult jobs and wondered why there was not a simple system for all those jobs.

Senator Giessel replied that every job was different in the system, and noted that public safety employees had more dangerous jobs.

[10:15:21 AM](#)

Senator Wilson stated that there were jobs that had significant stress.

Co-Chair Stedman remarked that the police and fire jobs was that some communities did not cover their social security and were not included in the supplemental benefit system (SBS). He wondered whether the bill dealt with that issue.

Senator Giessel replied that it was a concerning issue. She noted that it was a modest retirement plan in the bill. The defined benefit retirement system provided significantly more security, but did not solve every issue.

Co-Chair Olson surmised that a new employee could either get a DB or DC route.

Senator Giessel replied in the affirmative.

Co-Chair Stedman stressed that there were a significant number of employees who did not work for the state but had a state-sponsored plan that were underfunded because they were not in social security or SBS.

Senator Giessel agreed.

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Senator Giessel discussed slide 19, "Qualification For Retirement":

- SB 88 Structure
- PER S (Non Public Safety)
- TRS (Teachers)
 - 60 years of age OR 30 years of service
 - Aligns TRS with PERS qualification for retirement.

Senator Giessel displayed slide 20, "Benefit Calculation Formula":

- SB 88 Structure
- PERS (Public Safety)
 - 2.00 percent first 10 years
 - 2.50 percent thereafter
 - New plan is consistent with PS PERS Tier III

Senator Giessel pointed to slide 21, "Benefit Calculation Formula":

- SB 88 Structure
- PERS (Non Public Safety)
- TRS (Teachers)
 - 2.00 percent first 10 years
 - 2.25 percent next 10 years
 - 2.50 percent thereafter
 - Aligns TRS with PERS benefit calculation

Co-Chair Stedman explained that 67.5 percent was the cap after 30 years of service.

Senator Giessel replied with slide 22, "Final Average Salary":

SB 88 Structure

PERS

- Highest 5 consecutive years of service

TRS

- Highest 5 nonconsecutive (contract) years of service

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Co-Chair Olson wondered whether the TRS contracts were union or school districts.

Senator Giessel replied that they were the contracts with the individual school districts.

Senator Kiehl wondered how the slide compared to the legacy TRS.

Senator Giessel replied that she did not know.

Senator Kiehl recalled that Tier one was the highest contract years.

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SONJA KAWASAKI, LEGAL COUNCIL, SENATE MAJORITY, stated that the highest eight contracted consecutive years was in TRS defined benefit.

Senator Kiehl surmised that there were experienced studies to inform the decisions.

Senator Giessel looked at slide 23, "Alaska Cost Of Living (COLA)":

SB 88 Structure

PERS and TRS

- No COLA is provided for new PERS or TRS Defined Benefit (DB) plans
- Keeps the plan solvent

Co-Chair Stedman noted that the diminishment clause protected the employees. He wondered whether there could be a negotiation into the retirement system.

Senator Giessel replied that she could not predict the actions of the future.

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Co-Chair Stedman noted that the other tools could return to the plan, but could not be removed from the plan. He stressed that there needed to be great care in making the changes to the retirement system.

Senator Giessel agreed.

Senator Giessel discussed slide 24, "Post Retirement Pension Adjustments (PRPA) aka Inflation Protection":

SB 88 Structure

- ARM Board may provide or withhold PRPA to retirees if Defined Benefit (DB) Trust Fund valuation drops below 90 percent
- Non-residents receive only 50 percent in PRPA
- This keeps the plan solvent regardless of funding level

Senator Kiehl stated that it was not a full inflation adjustment and asked for more information on that subject.

Ms. Kawasaki replied that the calculation in the statute was based on a formula that compared two calculations, and the PRPA was based on the CPI for Alaska which was based in Anchorage.

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Senator Giessel continued with slide 24.

Senator Giessel looked at slide 25, "Post Retirement Pension Adjustments (PRPA) Inflation Protection":

SB 88 Structure

States with PRPA contingent on fund performance
Louisiana

Maryland
Massachusetts
Nebraska
South Dakota
Wisconsin

In Depth: Risk Sharing In Public Retirement Plans,
National Association of State Retirement Accounts,
2018

Senator Giessel highlighted slide 26, "Retirement Medical Coverage PERS and TRS":

SB 88 Structure

- Coverage is consistent with PERS Tier IV and TRS Tier III Defined Contributions (DC) Plans for all employees

- Employer makes contribution of 3 percent to employee Health

Reimbursement Arrangement (HRA)

- HRA can be used for any qualifying medical need

- Keeps the plan solvent

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Senator Giessel discussed slide 27, "Death and Disability Benefit PERS":

SB 88 Structure

- Non occupational disability benefits calculated as normal retirement, death benefit is provided

- Occupational disability or death provides 40 percent of the gross monthly compensation

- Added non occupational benefits to provide minimal protection to employees and families should they have career ending injuries or disabilities occur off the job

Senator Giessel pointed to slide 28, "Death and Disability Benefits TRS":

- Non-occupational and occupational disability benefits are 50 percent of member's base salary immediately before disability plus 10 percent for each dependent child up to four

- Occupational death provides 40 percent of the average base salary until retirement age and then normal retirement

- Non occupational death provides a lump sum or 50 percent joint and survivor option

Senator Giessel discussed slide 29, "Requirement Of Separate Accounting":

- In the past, no separate accounting for prior DB tiers
- Plan administrator and ARM Board are required to account for and track contributions, assets, earnings, and liabilities of the members of the new plan
- This will maintain separate attribution of assets and liabilities

Co-Chair Stedman surmised that it was the employer to avoid the recent unfunded liability.

Senator Giessel agreed.

Senator Giessel highlighted slide 30, "Requirement Of Sub Trusts":

- Creation of pension and medical sub trusts for the new DB plans, along with existing HRA sub trusts enable better tracking of assets and liabilities and increase protection from prior past service costs
- The ARM Board shall establish the sub trust

[10:45:51 AM](#)

WILLIAM FORNIA, ALASKA PUBLIC PENSION COALITION, SEATTLE (via teleconference), discussed the presentation, "Shared Risk Hybrid Retirement Program SB 88 -Actuarial Implications" (copy on file).

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AT EASE

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Mr. Fornia looked at slide 2, "William B. Fornia, FSA Credentials":

- Highest Actuarial Credentials

- Fellow of the Society of Actuaries (1986)
- Enrolled Actuary under ERISA (1984)
- Member of the American Academy of Actuaries (1983)
- Former Elected Board member and Secretary/Treasurer of 35,000-member Society of Actuaries
- Author and Frequent Speaker
 - American Academy of Actuaries -Fixed Rate Pension Funding, 2023
 - https://www.actuary.org/sites/default/files/2023-02/Fixed_Rate_Pension_Funding_Practice_Note.pdf
 - "A Better Bang for the Buck 3.0" (with National Institute on Retirement Security), 2022
 - "Are California Teachers Better off with a Pension or 401(k)" University of California Berkeley Labor Center and Journal of Retirement, 2016
 - Frequent Testimony to Legislatures and City Councils
 - Regular Expert Witness (Detroit, Massachusetts Bay Transit Authority)

Mr. Fornia addressed slide 3, "Sample Work History":

- Corporate actuary for Boeing 1980-1984
- Founded Pension Trustee Advisors in 2010
- Alaska related experience
 - ARMB first ongoing review actuary 2005-2006
 - Audited Alaska PERS/TRS actuarial valuations 2009
 - Former leader of Buck Consultants' Denver retirement practice
 - Advisors to labor groups since 2011, including testimony
- Consulting services for 23 statewide retirement systems in Alaska, Colorado, Missouri, North Dakota, Oklahoma, Pennsylvania, Puerto Rico, Utah, Texas, Vermont, Wyoming and others.
 - Served as system actuary for most of these (including CO, MO, ND, OK, WY)
 - Ongoing consultant to Ohio Retirement Study Council, including reform
- Expert testimony and consulting for governments, pension systems, and labor groups

- Other clients have included the US Department of State, Cities of Baltimore, New York and Philadelphia, IBM, US WEST and Ford

[10:50:05 AM](#)

Mr. Fornia pointed to slide 4, "Shared-Risk Hybrid Retirement Program":

- How did we get here?
- Why is change necessary?
- Actuarial Implications
- Illustration of Financial Projections

Mr. Fornia discussed slide 5, "Shared-Risk Hybrid Retirement Program."

Mr. Fornia pointed to slide 6, "What might be the objectives of pension reform":

- Provide a benefit which stems retention concerns
- At little or no additional cost
 - To the State
 - To other employers
- With minimal risk of becoming underfunded
- With burdens shared between employer and labor force

Mr. Fornia addressed slide 7, "Illustration of hypothetical teacher benefits -\$50,000 Final Average Salary."

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Mr. Fornia pointed to slide 8, "Illustration of hypothetical police/fire benefits: \$80,000 Final Average Salary."

Co-Chair Stedman looked at slide 7, and remarked that the defined benefit in Tier 2 could be back calculated with the final salary. He queried the variables of the defined contribution plan in Tier 3.

Mr. Fornia replied that the first part of the question could be clarified by saying that the bar was there for an informational purpose, to show the benefit versus social security. He noted that in Tier 4 it showed why the bar was lower than the bars as shown by Senator Giessel, with the adjustment of not knowing life expectancy.

Co-Chair Stedman requested the calculations used in the charts.

Mr. Fornia replied that the Division of Retirement and Benefit (DRB) numbers were strong and told the same story.

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Co-Chair Stedman addressed slide 8, and expressed concern about the communities that were not in social security. He wondered how to deal with those employees.

Mr. Fornia responded that most police and fire employees were not in social security.

Co-Chair Stedman wanted to resolve that issue. He pointed to the data that showed that most employees did not last for forty years. He queried the comparison of the employee that worked ten years in the defined benefit versus a defined contribution. He wondered whether there was a significant difference in the ending balance.

Mr. Fornia replied that most employers did not want to design something for someone that would not stay for many years. He stated that designing a reasonable pension would enhance the retention of the employee.

[11:05:34 AM](#)

Senator Giessel stated that there would be a slide later in the day related to the subject of retention.

Senator Kiehl wondered whether there was a conclusion related to the effect of the structure when examining only a portion of the system.

Mr. Fornia replied that there were three different factors: 1) Alaska, 2) the retention of a young person in TRS Tier 1 in the 1980s, and 3) the difference between the groups. He stated that there would be a presentation that related to teacher retention.

Mr. Fornia discussed slide 9, "Key Considerations with Shared-Risk Hybrid Retirement Programs":

- DB Plans are more cost effective at providing retirement benefits
 - DB pension plans pool "longevity risks"
 - DB pension plans can maintain a better diversified portfolio because, unlike individuals, they do not age
 - DB pension plans achieve better investment returns because of professional asset management and lower fees
- DC Plans are more consistent with individual responsibility
 - Benefit is a clearly defined contribution from the employer and employee to a trust
 - Benefit is more under the control and full ownership of the individual
 - Benefit is much more portable
 - No risk of unfunded liabilities to employer
- Shared-Risk Hybrid Plans have many features of both
 - Cost-effectiveness of DB plans
 - But not all of the actuarial risk is borne by the employer

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Mr. Fornia pointed to slide 10, "Actuarial Implications of SB 88":

- Similar Fiscal notes showed modest cost or savings
- Risk to State is "Adverse Plan Experience"
- SB 88 Plan has Safeguards to mitigate this risk
- We have performed simulations to analyze this risk
 - On similar programs (HB 55 for labor groups and 2021 PERS/TRS for legislature)
- Senate Finance Actuary and/or PERS/TRS actuary will be making similar simulations
 - I expect similar findings
 - I would be pleased to return to discuss if desired

Co-Chair Stedman noted the issue of police and fire not being in social security or SMS, and they worked for the cities. He wondered whether there could be a requirement for the cities to have the police and fire in social security or SBS to not miss half of their retirement.

Mr. Fornia replied that he did not see why no.

[11:15:12 AM](#)

Mr. Fornia addressed slide 11, "How does SB 88 strike a compromise?"

- Start with reasonable employer contribution rate and manage plan within that target as possible
- Reasonable target benefit levels
 - Based on benefits provided by DCR and latest DB
- Build in benefit and/or employee contribution adjustment mechanisms
- These provide cushion against adverse experience

Mr. Fornia addressed slide 12, "Safeguard 1: Reduces benefits vis-à-vis legacy Defined Benefits":

- Tighten retirement eligibility
- Five-year average salary
- Eliminate Alaska 10 percent COLA
- Eliminate pre-Medicare health coverage
- Reduce Post-Retirement Pension Adjustment for non-Alaska-residents

Mr. Fornia pointed to slide 13, "Safeguard 2: Triggers if funding level falls below 90 percent":

- Plan will start out 100 percent funded
- ARMB Board has authority to adjust if below 90 percent funded
 - Suspend Post-Retirement Pension Adjustment
 - Increase employee and employer contributions up to 4 percent each

Mr. Fornia pointed to slide 14, "Benefit Plan Simulations":

- In the real world, returns will not be stable from year to year.
- Even though the anticipated cost is less than the contribution going in, plan still might become underfunded
- To protect against this, plan has additional "safeguards" beyond funding cushion
 - Don't pay Post Retirement Pension Adjustment
 - Increase member contributions by up to 4.0 percent
 - Increase employer contributions by up to 4.0 percent

Mr. Fornia pointed to slide 15, "Benefit Plan Simulations - Stochastic":

- To illustrate this, we simulated potential scenarios for thirty years using "stochastic" modeling
- ARMB investment advisors estimate a "standard deviation" of 13.55 percent for the investment return of the current asset mix
 - This roughly means that in one of every three years, return would be more than 13.55 percent above or below 7.38 percent.
 - Above 21 percent in one-sixth of the years and below minus 7 percent in one-sixth of the years
 - Although this standard deviation is somewhat higher than we typically see, we modelled future returns consistent with ARMB advisors estimates

Above analysis conducted in 2021 based on slightly different provisions. SB 88 analysis expected to be similar

Mr. Fornia pointed to slide 16, "Benefit Plan Simulations":

- We modelled 10,000 random simulations based on ARMB actuaries' assumptions of 7.38 percent return on assets
- In simulations where the funded ratio fell below 90 percent threshold, we activated the triggers
 - Boost contributions by 1 percent (up to 4 percent)
- Presumably shared between employees and employer
 - Suspend the Post Retirement Pension Adjustment

Mr. Fornia looked at slide 17, "Benefit Plan Simulations (cont.)":

- High likelihood (59 percent) that TRS funded ratio will be more than 100 percent in most years
 - 65 percent for Other PERS
- Median funded ratio in 20 years is 108 percent for TRS and 112 percent for Other PERS
- But still about 29 percent chance that TRS funded ratio will be 90 percent or below after 20 years
 - 25 percent for Other PERS

- Only about 14 percent chance that TRS funded ratio will be 75 percent or below after 20 years
 - 11 percent for Other PERS
- Above analysis conducted in 2021 based on slightly different provisions. SB 88 analysis expected to be similar

Mr. Fornia addressed slide 18, "Benefit Plan Simulations (cont.)":

- It's as likely that TRS funded ratio will be above 131 percent than below 90 percent

Mr. Fornia looked at slide 19, "Benefit Plan Simulations (cont.)":

- It's as likely that funded ratio for Other PERS will be above 143 percent than below 90 percent

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Mr. Fornia discussed slide 20, "Benefit Plan Simulations (cont.)":

- Even if we hit our return expectations in the long run, there's likely to be volatility in short run -TRS example

Mr. Fornia looked at slide 21, "Benefit Plan Simulations (cont.)":

- Safeguards are what provides downside protection - TRS example

Mr. Fornia addressed slide 22, "Simulation Conclusions":

- Safeguards have been implemented to protect against downside risk
 - Baseline contributions slightly higher than expected cost
 - Conservative assumed rate or return
 - Triggers if funded ratio fall below 90 percent
 - Increased contributions by up to 4 percent each employee and employer
 - Suspension of Post Retirement Pension Adjustment
- High likelihood of being extremely well funded

- But still some risk of being under-funded

Mr. Fornia pointed to slide 23, "How have other states' shared risk plans operated?"

Mr. Fornia discussed slide 24, "Case Study - Wisconsin":

- Cost of Living Adjustment is dependent on fund returns
- At retirement, each member has a fixed benefit
- A variable benefit is added to this, based on fund returns
- The variable benefit itself can go down as well as up, but the fixed benefit does not decrease
- Following 2008, the variable benefit did decrease, but has recovered

Mr. Fornia pointed to slide 25, "Case Study - FPPA":

- Colorado Fire and Police Pension Association
 - Formed in 1980, creating new statewide plan
 - Contributions are fixed at 8 percent employee + 8 percent employer
 - This level was sufficient for core DB plan
 - Excess contributions went into DC plan during good times
 - Board has discretion over COLA, which kept costs below 16 percent
- But currently, Normal Cost exceeds 16 percent
 - Employees voted by supermajority to voluntarily increase contributions to increase likelihood of COLA

Co-Chair Stedman asked about the salary replacement percentage.

Mr. Fornia replied that the social security was the biggest variable in that percentage.

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Co-Chair Stedman remarked that SBS was the replacement for social security, and wondered if that multiplier was higher than other states in social security.

Mr. Fornia replied that the coverage of SBS and the legacy tiers could result in a higher than average benefit than other states.

Co-Chair Stedman stressed that he needed the data on that comparison.

Mr. Fornia replied that he did not mean to give that impression, and stressed that he had not done that analysis.

Mr. Fornia pointed to slide 27, "Case Study - Ohio":

- Employer contributions are fixed for each of five statewide retirement systems
- Systems were and are required to develop plans to keep funded periods within 30 years
- Major pension reform completed in 2012 leading to new tiers with lesser benefits
- Plans include retiree healthcare (like Alaska), but pension funding takes priority.

Mr. Fornia discussed slide 28, "Many other Shared Risk Plans":

- Colorado Public Employee Retirement Association
- Kentucky Teachers RS
- Missouri PEERS/PSRS
- Utah Retirement System
- Washington State Public Employees Retirement System
- Wyoming Retirement System

Mr. Fornia addressed slide 29, "Recap":

- Alaska has concern with potential future unfunded liabilities
- DCR provides inadequate benefits
- SB 88 Shared-Risk Hybrid Retirement Program is a potential solution
 - If actuarial experience is as expected, benefits will be paid comparable to Tier 3 PERS / Tier 2 TRS
 - If actuarial experience is unfavorable, lower benefits will be paid
 - Individuals do not take this risk, the government does not take this risk; pools of individuals do

Co-Chair Olson discussed the agenda for the afternoon meeting.

SB 88 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

11:30:06 AM

The meeting was adjourned at 11:30 a.m.