

SENATE FINANCE COMMITTEE

May 2, 2023

1:40 p.m.

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CALL TO ORDER

Co-Chair Olson called the Senate Finance Committee meeting to order at 1:40 p.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; Dominic Lozano, Alaska Professional Firefighters Association, Juneau.

PRESENT VIA TELECONFERENCE

Dan Doonan, National Institutes on Retirement Security, California; Keith Brainard, National Association of State Retirement Administrators, Texas.

SUMMARY

SB 88 RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.

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

#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."

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DAN DOONAN, NATIONAL INSTITUTES ON RETIREMENT SECURITY, CALIFORNIA (via teleconference), discussed the presentation, "Alaska Teacher Recruitment and Retention Study: Options and Analysis Supporting Retirement Design" (copy on file). He looked at slide 2, "Most of Those Leaving the DC Plans Are Quitting, Not Retiring." He noted that the slide showed the number of people leaving public service from 2017 to 2022, and the reasons for their leaving.

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Mr. Doonan pointed to slide 3, "Quits Rates Are Much Higher in DC Plans." He remarked that slide showed the termination assumptions, that were based on the experience study.

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Senator Wilson looked at slide 3, and wondered whether the timeframes were overlapping the same similar years of state service in the DC and DB plans.

Mr. Doonan replied that the experience study was published with the valuation report. He noted that the June 2023 experience study that took into account for the same years of the DC and DB plans.

Senator Wilson asked for the plan to begin in 2007, and wondered whether there was an evaluation of the employers before 2007.

Mr. Doonan replied that the data for the green line was the most recent data for the last five years.

Senator Wilson queried data that showed a person in state service in the DC plan later in life.

Mr. Doonan replied that the years of service were a better predictor of behavior.

Co-Chair Stedman wondered why the people quit working.

Mr. Doonan replied that the actuaries collected data, but did not pinpoint the exact reasons.

Mr. Doonan addressed slide 4, "TRS DC Turnover is Much Higher than DB." He displayed slide 5, "Female Teachers: How the Seemingly Small Difference Adds Up":

What this means:

- 100 teachers in DB plan expected to provide 1,792 years of teaching
- 100 teachers in DC plan: 1,093 years of teaching

Mr. Doonan pointed to slide 6, "Male Teachers: Even Larger Impact":

What this means:

- 100 teachers in DB plan expected to provide 1,914 years of teaching
- 100 teachers in DC plan: 935 years of teaching

Senator Wilson asked about the comparison with other states that have DB plans.

Mr. Doonan replied that there was a slide to address that question in the presentation.

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Mr. Doonan addressed slide 8, "Peace Officer DC Turnover Much Higher." He stated that it was a subset of the TRS plan.

Mr. Doonan looked at slide 9, "PERS DC Turnover also Higher." He remarked that the turnover in the DC plan.

Mr. Doonan discussed slide 10, "TRS DC: Early Retention Getting Worse." He noted that it appeared that there was an increase in turnover in the TRS DC plan.

Mr. Doonan pointed to slide 11, "Cumulative Years Taught from 100 newly hired, 25-year Old Teachers Over Next 30 Years."

Mr. Doonan highlighted slide 13, "Variety of Plan Types Available in the Public Sector." He pointed out the differences in different plans and classifications across the country.

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Mr. Doonan looked at slide 14, "Most States Still Offer Educators a DB Pension Plan." He remarked that there were four columns outlining the comparisons with the other states.

Mr. Doonan discussed slide 16, "Cost Stability Strategies and Observations on Other States National." He remarked that there were states that had stable states as related to retirement and health benefits.

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Mr. Doonan addressed slide 17, "IN, SD and WI Have Kept Contribution Rates Stable Over Past Two Decades." He stressed that there were other states that had stable situations. He displayed slide 18, "Contribution Rates Have Been Much Higher in the Two Alaska Plans."

Co-Chair Olson remarked that slide 14 showed that most states had a DC plan, but Alaska was the only one in the section.

Mr. Doonan replied in the affirmative, and stated that Alaska was the only one in the chart that did not contribute to social security.

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Mr. Doonan addressed slide 20, "DB Plans Are More Economically Efficient Than DC Plans." He remarked that there were more aggressive investment strategies within the DB plan.

Mr. Doonan pointed to slide 21, "Conclusion":

- Employer benefits are provided so workers perceive the employer as a good place to work.
- Many states had similar debates about retirement offerings, but few plans followed your lead.

- Retention of teachers and PERS members is problematic in the DC plans, compared to both the DB plans and plans in other states. Workers in the DC plan are where the focus should be to improve retention, too.

Mr. Doonan discussed slide 22, "Conclusion, Continued":

- Unfortunately, all states seem to struggle with retention of newly hired teachers. This problem is exaggerated in Alaska, but nonretirement policies could help with retention of newly hired teachers.
- There are important choices about how benefits are designed and how they are funded, beyond DB versus DC. The tools and examples are available, and a strong case can be made that reopening the DB plans would help in honoring the obligations that already exist in the legacy plans.

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Senator Wilson wondered how consistent pay raises compared to a pay rate only once a decade in terms of retention.

Mr. Doonan replied that he did not have the data on the pay raises as it related to retention.

Senator Wilson wondered whether there was an analysis of the DC plans as it related to generational or economic issues.

Mr. Doonan replied that slide 11 showed that comparison.

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SENATOR CATHY GIESSEL, SPONSOR, began with slide 38 of the presentation titled, "Senate Bill 88, A Shared Risk Retirement Plan" (copy on file). Slide 38 was titled, "Division of Retirement and Benefits Supplement to the Treasury Report":

- Over last 7 months, withdrawals of TRS DC and PERS DC are approximately \$62 million dollars
- 90 percent of these withdrawals came after 5 years, or 100 percent vesting
- On average \$12.4 million/month is being withdrawn from the DC systems

- Hundreds of millions of dollars are leaving the system and potentially the state each year

Senator Giessel looked at slide 39:

Alaska Retirement Management Board (ARMB) Schedule of Non-Investment Changes By Fund

Senator Wilson wondered whether the legislature should determine how an individual uses their retirement funds.

Senator Giessel replied that the point of the bill was about the retention of employees in order to reduce investment in another short-term employee who would cash out retirement and move out of the state. She stressed that she did not make a value judgment on how a person chooses to spend their money.

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Senator Merrick queried the cost of moving from DC to DB.

Senator Giessel replied that the money could be used to purchase years in the DB program.

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KEITH BRAINARD, NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS, TEXAS (via teleconference), read from a prepared testimony, "Testimony of Keith Brainard to the Alaska Senate Finance Committee May 2, 2023" (copy on file):

Members of the committee: my name is Keith Brainard and I serve as research director of NASRA, the National Association of State Retirement Administrators. Our members are the directors and administrators of roughly 90 statewide and local public retirement systems. In Alaska, our member is Ajay Desai, who is the director of the division of

retirement and benefits. My opinions do not necessarily reflect those of Mr. Desai or his office.

I want to focus my remarks on NASRA's position on retirement plan design, and to tell you that it is possible to design a retirement plan that meets the needs of all stakeholders in Alaska, including public employees, employers, and taxpayers. It is possible to design a retirement plan that does not create large unfunded liabilities, or any unfunded liabilities at all, and whose cost you can control. And SB 88 appears to go a long way toward accomplishing those important objectives.

NASRA does not specifically support one type of retirement plan, such as a defined benefit or a defined contribution plan. We do support a retirement plan that contains features that are known to achieve key objectives for plan stakeholders, such as:

- Cost sharing between employers and employees. That means that employers and employees alike should contribute to the cost of the plan.
- Assets that are pooled and professionally managed, an arrangement that can and usually does generate higher investment returns with less risk.
- Targeted income replacement. Structuring a retirement plan to replace a certain percentage of pre-retirement wages at a specified age and/or years of public service promotes retirement security for employees and an orderly progression of personnel for employers. Such an arrangement allows employees to retire at an appropriate point in their physical lives, which facilitates important human resources objectives for employers.
- Lifetime benefit payouts, meaning that once an employee qualifies for a retirement benefit and elects to retire, that employee should be able to receive a benefit they cannot outlive.
- Survivor and disability benefits should be integrated into retirement programs, a feature that is particularly important for positions involved in hazardous duty, or a public safety plan.

These core features of retirement plan design are known to promote retirement security for employees, to reduce overall costs associated with fees and expenses, and to enhance the ability of employers to attract and retain employees.

Compared to the pension plan that was closed in 2006, my understanding is that under SB 88, Alaska public employees would contribute a higher percentage of their salary, they would need to work either longer or until attaining a higher age to qualify to receive a benefit, and any post-retirement adjustment would depend on the fund being in sound actuarial condition. In addition, general employees, that is, those who are not teachers or public safety officers, who work more than 10 years, would receive a lower benefit.

One notable attribute of the plan proposed by SB 88 is its risk-sharing features. In 2005, when Alaska switched from a defined benefit to a defined contribution plan, risk-sharing plans were less common and less developed than they are today. Over the last 18 years, we have witnessed a significant evolution in public retirement plan design. Risk-sharing plan designs are more common and better developed and understood than they were in 2005. NASRA published a paper in 2019 describing many examples of innovative risk-sharing retirement plan designs in use among states and local government. Many of these new plan designs were developed just in the last 10 or 15 years.

At the core of these plan designs are essential features of a sound retirement plan: cost-sharing between employees and employers; assets that are pooled and invested by professionals; a benefit that cannot be outlived; targeted income replacement; and survivor and disability benefits.

Incorporating risk-sharing elements into a retirement plan with these essential features can provide the best of all worlds: a retirement plan that meets the needs of all stakeholders while also protecting employers and taxpayers against unsustainable increases in unfunded liabilities and costs.

I'd like to briefly describe three specific examples of retirement plans where this is done:

- The South Dakota Retirement System has offered all public employees in that state a traditional pension plan for decades with fixed contribution rates. Since 2002, that contribution rate for employees and employers has been 6.0 percent; 8.0 percent for public safety personnel. The SDRS also has no unfunded liability, and generally has not had one for years. The retirement system accomplishes this by making benefits variable. When the plan's actuarial experience falls short of expectations, benefits are adjusted so that the plan remains fully funded and the fixed contribution rate remains adequate.
- In 2018, Colorado established risk-sharing features in its retirement plan for teachers and employees of state and local government. This plan allows for incremental increases in employee contribution rates, up to two percent in total, and adjustments in the cost-of-living adjustment, if specified actuarial and funding targets are not met. These flexible arrangements for employee contributions and cost-of-living adjustments are similar to those proposed in SB 88.
- The third example I want to share with you is from the City of Houston, Texas. This plan design was created in 2017 and applies to each of the city's three retirement plans, for firefighters, police officers, and general employees. The central feature of the Houston plans is a contribution corridor arrangement that restricts the change in the employer contribution rate to five percent of pay. If the required cost of the plan strays from the target rate by more than five percent, a series of specified changes take effect to bring the contribution rate back into the five percent corridor. Those changes include adjustments to actuarial methods and assumptions, benefit levels, and employee contribution rates.

SB 88 proposes a trigger to increase employee contribution rates should the plan funding level fall below 70 percent and would prohibit paying a COLA if the plan's funding level is below 90 percent. These provisions will help protect the plan against higher liabilities and costs and are consistent with many

other retirement plans that have been developed or reformed in recent years.

I want to commend the bill's authors for your work in proposing such a thoughtful retirement plan design. This retirement plan would return Alaska to the mainstream of public retirement policy and strengthen the ability of schools, police and fire departments, and other public employers to attract and retain qualified and essential public employees. I urge the committee and the legislature to approve this bill. Thank you.

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Senator Wilson wondered how many states were represented in his current role.

Mr. Brainard replied that the members were the directors and administrators statewide in all fifty states.

Senator Wilson wondered whether other states with DB plans had similar recruitment and retention issues.

Mr. Brainard replied that public employers were in the labor market.

Senator Wilson wondered whether the other states had recruitment and retention issues.

Mr. Brainard replied in the affirmative.

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DOMINIC LOZANO, ALASKA PROFESSIONAL FIREFIGHTERS ASSOCIATION, JUNEAU, discussed the presentation, "Senate Bill 88 Public Employee Retirement Fix" (copy on file). He began with slide 2, "Overview":

Tier 4

Why is change necessary?

Details of HB 22
Status Quo Costs
What have other jurisdictions done?

Mr. Lozano addressed slide 3, "The History":

2006 - Alaska opens a Defined Contribution retirement system known as Tier 4 Change motivated by unfunded liabilities of legacy Defined Benefit system

Little to no thought given to benefits provided by Tier 4

Major factors contributing to the unfunded liabilities were:

- Bad actuarial advice,
- Underfunding in the "good" years
- Explosion in health care costs.

Mr. Lozano pointed to slide 4, "Details of Tier 4":

401A is made up of 13 percent of payroll: Employee=8 percent, Employer=5 percent

HRA = 3 percent of average PERS salary

Post-secondary Medicare coverage with 25 YOS for Co-Chair Seaton

Disability similar to Tier 3

Most municipal employees not covered by Social Security or SBS

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Co-Chair Stedman wondered whether there was a death benefit in the police and fire specification in the DC plan.

Mr. Lozano replied in the affirmative.

Co-Chair Stedman noted that it was one of the weaknesses within the plan.

Mr. Lozano looked at slide 5, "Inadequacy drives our desire to see change":

"Public employees who are not covered by Social Security will need higher contribution rates to meet income replacement objectives. These contribution rates would need to be around 18-20 percent of pay depending on salary levels. Public safety employees would need to have significantly higher contribution rates in order support earlier retirement ages common to those job classifications."

TIAA-CREF Institute, Defined Contribution Pension Plans In The Public Sector: A Best Practice Benchmark Analysis

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Mr. Lozano pointed to slide 6, "Three independent looks show inadequacy":

William Fornia of Pension Trust Advisors says Tier 4 will replace 31 percent of income after 25 years

DOA estimated 38.5 percent income replacement- Used a fixed time frame of 30 years.

Bob Mitchell, the prior CIO of the State of Alaska put the probability of a 25-year Co-Chair Seaton employee replacing 70 percent of income for 30 years at 6 percent and a 30-year employee at 22 percent

Co-Chair Stedman stressed that there were a number of people that had an inadequate retirement system that needed to be resolved eventually.

Mr. Lozano agreed.

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Co-Chair Stedman stressed that SBS and/or social security could be nearly half of the retirement income.

Mr. Lozano agreed.

Mr. Lozano addressed slide 7, "Losing Dollars, Experience Operational Capabilities." He pointed to slide 8, "Non-competitive benefits affecting recruitment":

"Alaska cannot compete with agencies offering defined

benefit plans. This has left us with vacancies in multiple academies as applicants decide to pursue career elsewhere."

Retired Anchorage Police Chief Doll

"The number of individuals wanting to work at the Fairbanks Fire department has declined drastically over the last several years." Former Fairbanks Fire Chief Styers

"Our FF alumni populate most Alaska career fire departments. The 42 young men and women in my program are far more aware of financial planning and retirement concerns than I was at their age. It is troubling that the majority of them are testing and interviewing for jobs in other states." Former UFD Chief Schrage

Mr. Lozano discussed slide 9, "Retention":

"The turnover of career staff appears to be higher than Fitch's experience compared with other clients. In addition to career staff turnover, a significant number of those leaving are paramedics. Turnover not only has a financial effect on the department, but it also loses valuable experience" Fitch and Associates Consultant Report Capital City Fire and Rescue

"...the inability to provide a defined benefits retirement system have placed the department at critically low staffing levels." DPS Recruitment and Retention plan overview 2018-2023 We are seeing our highly trained, qualified, and experienced officers leave APD to work out of state for other law enforcement agencies offering competitive defined benefit retirement systems." Retired APD Chief Doll

Mr. Lozano looked at slide 10, "Look for Tier 4 to cause increased Workers Comp costs":

- "Firefighters 55 years and older, however, have an MSD injury rate that is more than double that of the youngest firefighters and more than ten times greater than that of private sector workers of the same age. Comparing Figures 2.3 and 2.4, it is apparent that older firefighters are associated with much higher rates of reported workplace injuries than both younger

firefighters and private sector workers. Moreover, this difference is more pronounced for MSDs than it is for all injuries combined. This is consistent with the notion that the rigorous physical demands of firefighting subject them to trauma throughout their working lives, making them more subject to MSDs in later years"

Rand Corporation Study on California Fire fighters

Senator Bishop queried the training requirements for fire fighters.

Mr. Lozano replied that most departments had an entry level physical performance test.

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Mr. Lozano addressed slide 11, "Unforeseen costs":

- Increased OT due to inadequate staffing
- Increased training costs
- Loss of operational capabilities
- Loss of experience and future leadership
- Retention problems increase as we work toward 100 percent portable public safety workforce
- Rise in organizational stress levels

Co-Chair Stedman wondered which slides were the most important.

Mr. Lozano replied that the point was in finding a solution, and he stressed that the examples of state plans should be considered in the evaluation of the bill.

Co-Chair Stedman asked about slides 15 and 16.

Mr. Lozano addressed slide 15, "Benefit Reductions":

No pre-Medicare coverage

Elimination of the 10 percent COLA on pensions

Final calculation based on 5 years as opposed to 3 years

Require a minimum age of 50 with 25 years of service to collect benefits or age 55 with 20 years of service

for public safety. Age 60 with 30 years of service for all others.

Mr. Lozano pointed to slide 16, "Best Practices":

Built on a lower expected rate of return-7 percent.

ARM Board currently uses 7.25 percent Require steady contribution from employees and employers

Allow the employee contribution to go up to 12 percent but not fall below 8 percent Allow the PRPA(inflation proofing) to be withheld when funding falls below 90 percent Replicate Tier 4 defined contribution medical Reasonable employer costs

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Senator Merrick noted that she had cosponsored legislation for public safety retirement.

Senator Kiehl stressed that the bill did not address SBS or social security for police and fire. He queried the benefit of the bill.

Mr. Lozano replied that the goal was retirement security.

Senator Bishop wondered whether Seattle fire fighters were leaving to come to Fairbanks.

Mr. Lozano replied that the last time a Seattle firefighter came to Alaska was in 1997.

Senator Bishop wondered how many Alaskan firefighters left to go to Seattle.

Mr. Lozano replied that it was probably more than he could count.

Co-Chair Olson discussed the following day's agenda.

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

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ADJOURNMENT

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The meeting was adjourned at 3:10 p.m.