

SENATE FINANCE COMMITTEE
May 12, 2023
9:03 a.m.

9:03:05 AM

CALL TO ORDER

Co-Chair Olson called the Senate Finance Committee meeting to order at 9:03 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

Ken Alper, Staff, Senator Donny Olson; Senator Cathy Giessel, Sponsor

PRESENT VIA TELECONFERENCE

Gene Kalwarski, CEO, CHEIRON, Virginia

SUMMARY

SB 88 RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.

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

SB 95 LICENSE PLATES: SPECIALTY ORGANIZATIONS

SB 95 was REPORTED out of committee with six "do pass" recommendations, one "no recommendation",

and with one previously published fiscal note: FN 1 (ADM).

#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."

[9:04:31 AM](#)

AT EASE

[9:04:58 AM](#)

RECONVENED

[9:06:04 AM](#)

GENE KALWARSKI, CEO, CHEIRON, VIRGINIA (via teleconference), discussed the presentation, "Actuarial Estimates" (copy on file). He looked at slide 2, "About Cheiron":

Formed in 2002

Our consultants have decades of experience advising several of the nation's largest public pension plans

Cheiron 2023

- Highest percentage of fully credentialed actuaries in the industry
- National reputation for being proactive, responsive, and innovative
- Often called on to assist in the most politically charged/challenging environments

Mr. Kalwarski looked at slide 3, "Our Public Sector Experience." He spoke to an overview of all the states and organizations which were considered clients.

Mr. Kalwarski pointed to slide 4, "Methodology Used":

- Step 1
 - Run initial valuation to determine purchase liability assuming all DCR service converts to DB service
 - Compare DCR balance to purchase liability
 - If DCR balance exceeds purchase liability, all DCR service converts to DB service
 - If DCR balance is less than purchase liability, only a proportionate amount of DCR service converts to DB service
- Step 2
 - Rerun valuation using only the purchased service from Step 1 which converts to DB service

Co-Chair Stedman queried the ending dates on the accounts, and whether they were run the previous year before the market slide.

Mr. Kalwarski replied that everything was run as of June 30, 2021, so there was not a reflection of the most recent market downslide.

Co-Chair Stedman remarked that June 30, 2021 predated a good portion of the market correction.

Mr. Kalwarski agreed.

Mr. Kalwarski discussed slide 5, "Methodology Used." He remarked that it was a snapshot of the results of the evaluation.

Mr. Kalwarski addressed slide 5, "Key Valuation Results." He noted the line titled, "Actuarial Liability", which showed the total of \$1.169 billion.

[9:10:42 AM](#)

Co-Chair Stedman requested more information, and asked about the assumption of a 100 percent transfer.

Mr. Kalwarski agreed.

Co-Chair Stedman requested more background information with the slides.

Mr. Kalwarski replied that the information is in a more formal report.

Co-Chair Stedman queried the timeline of the report.

Mr. Kalwarski replied that the draft report was submitted, and the final would be submitted following the meeting.

Senator Wilson asked about other simulations that had quartered out other percentage of transferring.

Mr. Kalwarski replied that the table on slide 5 showed the percentages.

Senator Wilson wondered whether the models were done throughout the presentation.

Senator Wilson wondered whether the stress testing projections also assumed 100 percent transfer.

Mr. Kalwarski replied in the affirmative, and stated that other percentages would show the same projections multiplied by that presumption.

Senator Wilson asked that those percentages be provided to the committee.

Mr. Kalwarski agreed to provide that information.

[9:15:48 AM](#)

Co-Chair Stedman agreed that it was unfortunate that they did not have the report in advance.

Mr. Kalwarski stated that beginning on slide 7 showed the impact of the unfunded liability.

Co-Chair Stedman looked at slide 6, and remarked that there was overfunding and asked about more information.

Mr. Kalwarski replied that slide 6 was a generic picture and was not representative of Alaska.

Mr. Kalwarski addressed slide 7, "Baseline Combined."

[9:21:47 AM](#)

Co-Chair Stedman asked for clarification on the red line, which was the portion that would otherwise go to the unfunded liability.

Mr. Kalwarski noted that the red line was the contribution if not for SB 88.

Co-Chair Stedman remarked that the concern was about the \$7 billion unfunded liability.

Mr. Kalwarski replied that the slide did not speak to money going to the legacy plan.

Co-Chair Stedman surmised that it had no impact on the legacy plans.

Mr. Kalwarski agreed.

[9:25:14 AM](#)

Co-Chair Stedman stressed that the existing liability was the state's responsibility.

Mr. Alper replied that there would be a presentation from Buck Consulting address the issue.

Co-Chair Stedman wanted Buck Consulting to address the question in order to prevent more liability from the municipalities be put to the state.

[9:27:23 AM](#)

Mr. Kalwarski looked at slides 8, 9, and 10, which broke out the TRS, PERS Other, and PERS Safety.

Co-Chair Stedman asked about the salary replacement of 67.5 percent over 30 years.

Mr. Kalwarski replied in the affirmative.

Co-Chair Stedman queried how the state would replace 67.5 percent and SBS.

Mr. Kalwarski replied that he did not have that data, but felt that it was in the "middle of the plans" he was working on. He felt there were no outliers.

[9:30:18 AM](#)

Co-Chair Stedman requested a formal answer related to salary replacements.

Mr. Kalwarski stated that slides 7 through 10 were baselines of earnings.

Mr. Kalwarski looked at slide 11, "Combined - Two Strong Investment Returns." He noted that there was a 15 percent increase outlined and evaluated within the slide.

Mr. Kalwarski addressed slide 12, "Combined - Two Poor Investment Returns." He remarked that the slide reflected the impact of poor investment returned.

Co-Chair Stedman looked at the slide related to public safety. He remarked that some communities did not include the public safety employees in SBS or social security. He queried the remedy for that situation.

Mr. Kalwarski replied that there needed to be an increase to the current formula.

Co-Chair Stedman wondered whether there needed to be a split tier to fix that issue.

Mr. Kalwarski replied that the proposed SB 88 gave public employees the chance to earn a pension.

Mr. Kalwarski addressed slide 13, "Combined 1930-1960 Returns." He stated that the slide showed the impact of the Great Depression.

[9:36:29 AM](#)

Senator Kiehl wondered whether there was an evaluation of what would happen to the unfunded liability over time.

Mr. Kalwarski replied that the recognized each year was amortized over a 25 year period.

Senator Wilson wondered when members would draw from the funds.

Mr. Kalwarski replied that the each DCR member projected them through end of life and the probabilities of end of life, so the draw depended on each person.

Senator Wilson wondered whether the assumptions were within the projections.

Mr. Kalwarski replied in the affirmative.

Senator Wilson surmised that it was unknown of the specific year, but based on the assumption of earnings.

Mr. Kalwarski responded that the drawdown began at a different time for everyone.

Senator Wilson wondered whether the projected draw amounts were included in the slides.

Mr. Kalwarski replied in the affirmative.

[9:39:54 AM](#)

Co-Chair Stedman queried the risk to the employee if the state uncapped the employee and matched the increase to 50 percent.

Mr. Kalwarski responded that the risk sharing concept was between 8 and 12 percent, and would increase only when increased by the Alaska Retirement Management (ARM) board.

Co-Chair Stedman wondered whether it was reasonable to cap it at 12 percent.

Mr. Kalwarski replied that most statewide plans in the country did not have the risk sharing concept, so there was a fixed rate.

Co-Chair Stedman wondered whether the other states had the constitutional protections of diminishment of benefits.

Mr. Kalwarski responded that many but not all states had that protection.

Senator Kiehl wondered whether the bill would make changes to how the funds were managed for risk and return.

Mr. Kalwarski replied that the bill did not have that impact.

Senator Kiehl wondered whether other states had employees which had a say in the management of funds.

Mr. Kalwarski replied most systems had more than one employee representative.

Senator Kiehl felt that the bill showed more employee risk with less employee involvement.

Mr. Kalwarski pointed to slide 14, "Combined 1940-1970 Returns." He stated that the time period showed a "rosy" scenario.

[9:45:03 AM](#)

Co-Chair Stedman felt that the slide was better spread over the years. He wondered whether the pink column showed billions of dollars.

Mr. Kalwarski replied that it was a negative, meaning that it was a reduction to the unfunded liability.

Mr. Kalwarski pointed to slide 15, which showed the good returns of the 1950s, but then higher costs in the 1960s and 1970s.

Co-Chair Stedman noted the trigger mechanism.

Mr. Kalwarski replied that the total contribution, but the ARM Board could increase the member contribution at not more than 12 percent.

Mr. Kalwarski discussed slide 16, "Combined 1960-1990 Returns."

Co-Chair Stedman asked about the annual unfunded liability or surplus without averages.

Mr. Kalwarski replied that the pink column was exactly the unfunded liability due to SB 88.

[9:50:01 AM](#)

Co-Chair Stedman asked for more definition on that column.

Mr. Kalwarski replied that it was not a comparison, but rather showed that because of SB 88 there would be an impact on the legacy liability.

Senator Wilson requested the slides restated without the errors.

Mr. Kalwarski agreed to provide that information.

Senator Wilson felt that the slides did not show a delta, because it was fairly negligible. He asked about the difference from the losses and gains.

Mr. Kalwarski replied that comparing slides 18 and 19, showed fully funding, but the bottom chart showed that contributions were greater in slide 19.

Senator Bishop requested a slide on the total average market return from 1930 to present day.

Mr. Kalwarski agreed to provide that information.

Co-Chair Stedman surmised that the gains or losses on previous years were against the forward projected liability.

Mr. Kalwarski replied that it was not a comparison, rather an evaluation of the history of the markets and returns.

[9:56:24 AM](#)

Co-Chair Stedman wondered whether the actuarial report would have more detail.

Mr. Kalwarski replied in the affirmative.

Senator Bishop MOVED to ADOPT the committee substitute for SB 88, Work Draft 33-LS0505\O (Klein, 5/11/23).

Co-Chair Olson OBJECTED for discussion.

[9:57:44 AM](#)

KEN ALPER, STAFF, SENATOR DONNY OLSON, explained the committee substitute. He discussed the Summary of Changes (copy on file):

Change 1 Language was added to clarify that certain former Defined Benefit plan members, who were not vested before the Defined Contribution plan took effect in 2006 and elected at the time to switch to the DC plan, are eligible to transition to the new Defined Benefit plans.

Change 2 Corrects a discrepancy in the previous version regarding how long a TRS retiree under 60 years of age must receive pension benefits before being eligible for the Post Retirement Pension Adjustment (PRPA) benefit. All sections were aligned for this at five years.

Change 3 Clarifies what happens if, in the future, the full actuarial cost of the program for employers declines to less than 12 percent and the 12 percent "floor" in the bill were to take effect. In this case, the additional employer contributions would be deposited into the sub-trusts for the appropriate employee groups.

Change 4 Adds language to account for what happens if a Defined Contribution plan member elects to switch to Defined Benefit, but the amount in their account is more than what is needed to purchase their full-service time. In that case, the excess funds would be transferred either to the employee's SBS account or to another eligible retirement plan.

Change 5 Clarifies language describing which plan members are initially eligible to elect to switch to the new Defined Benefit plan. This applies to those employees who became a member of that plan after June 30, 2006, and are employed on the effective date of the bill.

Change 6 Extends the time period for an employee to choose whether to switch to the Defined Benefit plan from 120 days to 180 days.

[10:04:01 AM](#)

Senator Wilson wondered whether employees would be given consultation on their options to change the plan.

Mr. Alper replied in the affirmative.

Senator Wilson surmised it was not a requirement.

Mr. Alper replied that he believed it was required in the bill.

Senator Merrick surmised that the DB plan, under TRS, saved the state a significant amount of money, PERS was status quo, and PERS safety was more expensive.

Mr. Kalwarski agreed.

Senator Merrick queried the cause of the expense for PERS safety.

Mr. Kalwarski replied that it would be impacted by the retirement eligibility.

Senator Merrick surmised that the combined baseline number from slide 7 showed that the DB plan was slightly less expensive for the state.

Mr. Kalwarski agreed.

Co-Chair Stedman wondered why the new tier would be shut down and not run concurrently with the plan.

Mr. Kalwarski replied that the purpose of the plan was for a pension.

[10:10:01 AM](#)

Co-Chair Stedman requested a better understanding of the longevity of the employees.

Senator Bishop noted that he recalled someone who lost his pension within the trade union due to bad management.

Senator Wilson wondered whether it was better to have one PERS plan or separate PERS plans.

Mr. Kalwarski replied that separate plans were important for mortality risks.

Co-Chair Stedman recognized that the safety employees were employed at the municipal level and did not contribute to

social security and SBS. He felt that one plan was better than two, so the TRS could contribute to SBS.

Mr. Kalwarski replied that it was a policy issue.

Co-Chair Stedman wondered whether other states had a combined plan for efficiency.

Mr. Kalwarski replied that there was a combination in SB 88.

[10:15:35 AM](#)

Co-Chair Stedman disagreed, because TRS could not contribute to SBS and social security. He wondered how to enhance the retirement structure.

Mr. Kalwarski replied that he did not have a good enough familiarity with that issue.

Senator Wilson wondered when the analysis began for SB 88.

Mr. Kalwarski replied that the work had been done for a month.

Senator Wilson wondered who contacted the company for the analysis.

Mr. Alper replied that he was involved in the project before the bill passed from the previous committee.

Senator Wilson wondered whether Buck was involved in the analysis.

Co-Chair Olson replied that there was resistance to using Buck.

Mr. Alper replied that because Buck was on contract with the Executive Branch, the Department of Administration (DOA) stated that it would have been a conflict of interest.

Senator Kiehl appreciated the work on the bill.

[10:22:53 AM](#)

SENATOR CATHY GIESSEL, SPONSOR, explained that the bill had a very positive impact on the retirement system.

[10:27:41 AM](#)

AT EASE

[10:28:02 AM](#)

RECONVENED

[10:28:05 AM](#)

Co-Chair Olson REMOVED his OBJECTION. There being NO OBJECTION, it was so ordered.

Co-Chair Olson stated that the amendment deadline was 5pm.

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

#sb95

SENATE BILL NO. 95

"An Act relating to special request specialty organization registration plates; and providing for an effective date."

[10:28:51 AM](#)

AT EASE

[10:29:34 AM](#)

RECONVENED

[10:29:56 AM](#)

Senator Merrick thanked the committee.

Senator Merrick MOVED to REPORT SB 95 from committee with individual recommendations and attached fiscal note.

SB 95 was REPORTED out of committee with six "do pass" recommendations, one "no recommendation", and with one previously published fiscal note: FN 1(ADM).

[10:30:32 AM](#)

AT EASE

[10:33:07 AM](#)

RECONVENED

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ADJOURNMENT

10:33:25 AM

The meeting was adjourned at 10:33 a.m.