

SENATE FINANCE COMMITTEE
May 13, 2023
10:44 a.m.

10:44:45 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 10:44 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

Pete Ecklund, Staff, Senator Bert Stedman; Alexei Painter, Director, Legislative Finance Division; Senator Cathy Giessel, Sponsor; Ajay Desai, Director, Division of Retirement and Benefits, Department of Administration; Kevin Worley, Division of Retirement and Benefits, In room; Neil Steininger, Director, Office of Management and Budget, Office of the Governor.

PRESENT VIA TELECONFERENCE

David Kershner, Pension Actuary, Buck Global LLC, Florida; Steve Oats, Buck Global, New York; Gene Jawlarski, Cheiron, Virginia

SUMMARY

CSHB 39 am(brf sup maj fld)(efd fld)

APPROP: OPERATING BUDGET/LOANS/FUND; SUPP

SCS CS HB 39(FIN) was REPORTED out of committee with four "do pass" recommendations, two "no recommendations", and one "amend" recommendations.

CSHB 41(FIN) am

APPROP: MENTAL HEALTH BUDGET

SCS CS HB 41(FIN) was REPORTED out of committee with five "do pass" recommendations and two "no recommendations."

SB 88 RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.

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

#hb39

CS FOR HOUSE BILL NO. 39(FIN) am(brf sup maj fld)(efd fld)

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; repealing appropriations; amending appropriations; making reappropriations; and making supplemental appropriations."

[10:45:52 AM](#)

Senator Kiehl MOVED to ADOPT the committee substitute for CSHB 39 am(brf sup maj fld)(efd fld), Work Draft 33-GH1347\T (Marx, 5/12/23).

Co-Chair Stedman OBJECTED for discussion.

[10:46:38 AM](#)

PETE ECKLUND, STAFF, SENATOR BERT STEDMAN, explained the CS. He stated that version T had a document titled "Document A" (copy on file), which he will reference in his explanation. He stated that there was an addition of \$100,000 in the Department of Administration (DOA) as an increment as an "OTI" of UGF.

Co-Chair Stedman requested as definition of "OTI."

Mr. Ecklund replied that an "OTI" was a one-time item. He explained that it would be for an appropriation that would occur for one year, and would not be automatically in the budget the following year.

Mr. Ecklund explained that there was an OTI of \$125,000 to the Palmer Emergency Food Services in the Department of Commerce, Community and Economic Development (DOCED). He noted a fund source change in the Division of Corporations, Businesses and Professional Licensing of \$2.195 million reduction in UGF, and increase in other funds. He noted that there was approval of other funds for an executive director of an OTI of \$160,000 for the Big Game Board. He shared that in the Department of Corrections (DOC), there was intent language added for Regional and Community Jails. He explained that within the Department of Education and Early Development (DEED) there was Alyeska Reading Academy Institute appropriation for \$5 million to replace a structure. He noted the Career and Technical Education Grants of \$1.5 million as an OTI. He shared the existing appropriations as listed in the document.

[10:54:03 AM](#)

Co-Chair Stedman WITHDREW the OBJECTION. There being NO OBJECTION, it was so ordered.

Co-Chair Hoffman MOVED to REPORT SCS CS HB 41(FIN) with individual recommendations. He also directed the Legislative Finance Division and Legislative Legal to make any necessary technical and conforming changes. There being NO OBJECTION, it was so ordered.

SCS CS HB 41(FIN) was REPORTED out of committee with four "do pass" recommendations, two "no recommendations", and one "amend" recommendations.

#hb41

CS FOR HOUSE BILL NO. 41(FIN) am

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

[10:55:42 AM](#)

Co-Chair Hoffman MOVED to REPORT SCS CS HB 39(FIN) with individual recommendations.

10:56:21 AM

AT EASE

10:57:01 AM

RECONVENED

Co-Chair Hoffman MOVED to REPORT SCS CS HB 39(FIN) with individual recommendations. He also directed the Legislative Finance Division and Legislative Legal to make any necessary technical and conforming changes. There being NO OBJECTION, it was so ordered.

10:59:20 AM

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, explained stated that the available revenue numbers had not changed since he most recently presented on the bill. He noted that the Agency Operations on line 5 did not include the \$40 million government shutdown contingency, but did include the \$600 Base Student Allocation (BSA) equivalent outside the formula. He noted that line 11 showed the additions, which showed that the Statewide Items, capital budget, and Permanent Fund Dividend (PFD) numbers showed no change. He stated that the surplus remaining before the additions was \$108.8 million. He remarked that the additions as discussed by Mr. Ecklund totaled \$7.6 million of UGF. He remarked that the fiscal note number increased slightly with the inclusion of SB 22. He remarked that the potential conference committee additions had decreased slightly as some items adopted were already reflected in the House budget.

Co-Chair Stedman queried the net available for appropriations.

Mr. Painter related that line 15 should be \$63.7 million - down to \$23.7 million with a government shutdown.

Co-Chair Stedman thanked the committee and staff for their work on the FY24 Operating Budget. He noted that the budget was balanced.

SCS CS HB 41(FIN) was REPORTED out of committee with five "do pass" recommendations and two "no recommendations."

[11:02:36 AM](#)

AT EASE

[11:06:44 AM](#)

RECONVENE

Co-Chair Stedman HANDED the GAVEL to Co-Chair Olson.

#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."

[11:06:56 AM](#)

SENATOR CATHY GIESSEL, SPONSOR, introduced herself.

[11:08:38 AM](#)

DAVID KERSHNER, PENSION ACTUARY, BUCK GLOBAL LLC, FLORIDA (via teleconference), shared that Buck had been partnering with the state since 2006, and he had been a part of the state's retirement and benefit actuaries since 2015. He shared that Buck performed annual actuarial evaluations for all of the Alaska retirement systems to determine the rates that were ultimately adopted by the Alaska Retirement Management Board (ARM Board). He explained that the day's discussion would be about the Public Employee Retirement System (PERS) and the Teacher Retirement System (TRS).

[11:14:01 AM](#)

Mr. Kershner continued that there was a determination, according to the text with SB 88, that there was a pension through liability if the members in the defined benefit (DB) plan and compare it to their DB account balances on an individual basis. He explained that if there was enough in their account to cover the liability, there was a credit of service to be transferred into the DB plan. He stated that if an individual only had, for example, 75 percent of the

liability was in their balance there was a credit of 75 percent of their service. He explained that the bill allowed for the participants to purchase up to 100 percent of their service by creating an indebtedness that they would pay back into the trust. He stated that the fiscal note analysis did not reflect any indebtedness.

[11:19:15 AM](#)

Senator Kiehl queried the return expectation.

Mr. Kershner replied that the most recent assumptions that were adopted by the ARM Board included an investment return assumption of 7.25 percent.

Senator Kiehl noted the example of the option to buy a percentage of their service time, and wondered how typical that scenario would be.

Mr. Kershner replied that the information was shown in detail of the Buck letter (copy on file). He stated that the accounts did not perform well in FY 22. He stated that the account balances used in the calculations were somewhat depressed than they would be on a better performing year.

Co-Chair Olson wondered whether the report would have been different had it been done a year earlier.

Mr. Kershner replied that there would have been assumptions and data from the time, which would have included the investment return assumption of 7.38 percent. He stated that lowering the investment return assumption results in higher liabilities.

Co-Chair Stedman recalled 2009 and the rate of return from then to 2021. He remarked that nearly one-third of the compounded return would disappear, due to the downturn. He noted that the unfunded liability also increased by about \$1 billion in that timeframe. He requested an analysis run ending in 2021 rather than 2022 to see the numeric differences. He remarked that the bill had the default to hold the money in the account for retirement, and wondered whether that instance would be better than moving to the proposed plan.

[11:25:58 AM](#)

Mr. Kershner replied that the data could be provided, but it would be inappropriate to use those account balances without the other data.

Co-Chair Stedman stressed that they were measuring on one of the lowest market reductions in a decade.

Co-Chair Olson agreed.

Mr. Kershner replied that he would provide that information.

Co-Chair Stedman asked for further explanation about someone who might have an "excess" in PERS, and wondered whether those people would be better in the proposed plan.

Mr. Kershner replied that the valuation must be made on an individual basis.

[11:30:25 AM](#)

Mr. Kershner explained some sections of the letter. He remarked that there was a projected cost of potential impact for FY 25 through FY 39. He stated that FY 39 was the last year of the current state contribution for the plans. He detailed the charts on page 3 of the letter.

[11:35:14 AM](#)

Co-Chair Stedman asked for more references of the numbers. He stressed that the first fifteen years was \$1.3 billion additional dollars.

Mr. Kershner agreed. He explained that the additional state contributions for the fifteen years, the total projected increase was \$480 million for PERS. The total increase in state contributions for TRS was projected to be \$37.5 million. He stated that combining those two showed an increase of about \$517 million.

Senator Bishop queried the return rate for the projection.

Mr. Kershner replied that they used 7.25 percent.

Co-Chair Stedman surmised that the employer was uncapped and unlimited.

[11:39:44 AM](#)

Mr. Kershner replied that all non-state PERS employers were maxed out at 22 percent both currently and under SB 88. He stated that all TRS employers were capped out at 12.56 percent of pay currently and under SB 88. He shared that the state as an employer paid the full actuarial rate. He stated that all calculations assumed all future experiences matched the assumptions, including the graphic and economic assumptions. He stated that the ultimate cost of SB 88 depended on whether after June 30, 2022, there were any future adverse experiences that could increase the plan.

Senator Bishop remarked that the mentioned assumptions were not used, and wondered whether the totals would look different with those assumptions.

Mr. Kershner replied in the affirmative.

Mr. Kershner looked at page 4, and walked the committee through several examples of potential state impact.

Mr. Kershner turned to page 5, which offered numbers for FY 35, to illustrate future numbers.

[11:45:55 AM](#)

Mr. Kershner continued to discuss the letter, and the actuarial analysis. He outlined the payroll of the participants.

Senator Kiehl wondered why the total payroll number was different for SB 88 than for the status quo in the same fiscal year.

Mr. Kershner responded that when projecting payroll figures the projections were based on the actuarial assumptions for members in the DB plan. He furthered that the payroll for the DCR members was projected using the assumptions that the ARM Board adopted for those participants. He explained that there were different assumptions in some cases for DB and DCR participants. He stated that the most obvious difference was the determination rates.

Mr. Kershner said that the highest turnover was generally in DC plans rather than DB plans. He relayed the reasons

for the difference in turnover. He continued to discuss slide 4.

Senator Kiehl remarked that it reflected a year of service aggregated for every employee. He queried the size of the retention benefit with a 2 percent increase in payroll the first year of implementation.

[11:51:34 AM](#)

Co-Chair Olson wondered whether there was a \$24 million uptick for the DB plan within SB 88.

Mr. Kershner replied in the affirmative. He noted the potential differences in the salary increase assumption between members of the DCR plan and members of the DB plan, which was not the case for PERS.

Co-Chair Stedman asked about the delta on line 7.

Mr. Kershner said that the amount would be paid by the state.

Co-Chair Stedman asked about line 5.

Mr. Kershner replied that the bottom half was not under SB55, he pointed out the difference

Co-Chair Stedman assumed that the state paid the outstanding

[11:55:29 AM](#)

Mr. Kershner referred to the top half of page 3, he relayed that the FY 25 column showed the net increase of \$9.560 million.

Mr. Kershner continued on page 4, he relayed that all of the percentages on the tables were on a total payroll basis. He said for the current DB plan there were two cost elements, normal costs, and unfunded liability amortization. He shared that the only unfunded liability would be for the pension trust or line d.

Mr. Kershner continued to discuss page 4. He noted the elements included in line 2.

[12:01:08 PM](#)

Mr. Kershner discussed line 3, and the SB 88 Contribution Rates.

Mr. Kershner continued to discuss page 4. He pointed out that on line 1, the percentage was reduced. He spoke further on the SB 88 column of the boxes on page 4.

[12:05:49 PM](#)

Mr. Kershner continued to discuss the SB 88 columns on page 4. He pointed out that pension and healthcare benefits were provided at a greater cost in the SB 88 column because more people would be receiving the benefits.

Mr. Kershner noted the third component of the SB 88 rate, which was the 3.8 percent SBS contribution rate.

Mr. Kershner relayed the total actuarial rate was 28.75 percent, and employers would continue to contribute 22 percent.

[12:10:24 PM](#)

Senator Kiehl asked for a sense of the health benefit cost for a new tier and how many more people would be expected.

Mr. Kershner said he could provide the numbers. He said that some of the assumptions considered retirement age and the age of covered members.

[12:12:25 PM](#)

STEVE OATS, BUCK GLOBAL, NEW YORK (via teleconference), spoke to Senator Kiehl's question. He stated that the compounding effect of the turnover assumption was very meaningful. He remarked that the turnover rates were slightly less than half for the DB evaluation and SB 88 employees. He stated that there was an expectation of a significant number of people to reach retirement and use those medical benefits.

Senator Kiehl asked about demographic differences.

Mr. Kershner said that the issue was discussed at the bottom of page 1 of the letter. He said that eventually

turnover rates declined. He noted that the DB plan closed in 2006, which meant that there were no employees that were within their first 5 years of employment.

[12:15:42 PM](#)

Mr. Kershner thought that a different set of turnover rates could be crafted, and related the assumptions could be developed in the process.

Senator Kiehl thought that the numbers used in the evaluation looked into a different demographic pool.

Senator Wilson asked about previous data used and wondered whether Buck had looked at turnover rates in other states that had a defined benefits plan.

Mr. Kershner replied in the negative. He said that the data could be looked into and the numbers could be run.

Senator Wilson appreciated an answer to the generational gap in the workforce.

Co-Chair Stedman agreed that analysis should be done on the turnover rate in the state.

[12:20:12 PM](#)

Mr. Kershner moved to the bottom half of page 4. He continued to page 5, which offered the same calculations as page 4, but for FY35. He discussed the projected differences.

[12:26:07 PM](#)

Mr. Kershner noted that the bottom half of page 4 and 5 compared the total actuarial rate by the total payroll.

Senator Wilson summarized the difference between the state and non-state employers combined in the FY 35 projection was \$104 million additional cost to the state.

Mr. Kershner responded that the total difference was 102.6 million.

Mr. Kershner moved to page 6, which offered the TRS figures for FY25 and FY35. He noted that line 5 compared the

portion paid by employers. AHe moved down to the lower graph, which showed the TRS numbers for FY35. He shared that there was a shift from employers to the state that increased overtime. \$4 million.

12:31:05 PM

Senator Kiehl asked whether FY35 was used because after that past service liability would be paid off.

Mr. Kershner said that would be in FY39. He related that when stature changed in 2014 the amortization was changes in statute. He said that the ARM Board adopted it in 2018 - but FY35 was used arbitrarily.

Senator Kiehl thought that the numbers reflected a lower cost in the out years under SB 88.

Mr. Kershner thought that was an accurate assumption. He thought that some years could fluctuate. He felt that based on the assumption, once beyond the unfunded liability, the rate would be 11.42 percent, which would be an increase but the state would not be paying the unfunded liability and employers would cover the increase.

12:36:04 PM

Mr. Kershner expressed the importance of understanding and considering where employee contribution dollar amounts were going. He noted commentary on pages 7 and 8 of the letter. He noted the top of page 7 and the three key reasons:

1. Total payroll is projected to increase because the payroll for SB 88 members and future hires is projected using DB assumptions (SB 88 column) vs DCR assumptions (Current column).
2. The DB contribution rated for current SB members decreases as a percentage of total payroll under SB 88 because (i) the Normal Cost rehire load that is included in the current projects was removed for the SB 88 projections.
3. The key reasons for projected State contributions to change under SB 88 are a combination of:
 - a. The decrease in DB contribution rates for current DB members described in 2 above.

- b. The increase in annual costs for SB 88 members under the DB plans vs the DCR plans.
- c. The shifting of employer contributions between the various trusts.

Co-Chair Stedman asked about legal work for the trust.

Mr. Kershner replied that that could be found on the bottom of page 10:

SB 88 states that pension sub-trusts will be established within the DB plans, but healthcare benefits for SB 88 members will be funded via the current DCR healthcare trusts. We are unsure if healthcare benefits of members of the DB plan can be funded through a trust that belongs to another plan (i.e., the DCR plan). Since this is more a legal issue rather than an actuarial issue, we recommend this issue be further discussed with the State's legal department. For the purposes of this analysis, we have assumed that separate pension and healthcare sub-trusts will be established within the DB plans, and these sub-trusts will be used exclusively to fund the pension and healthcare benefits of SB 88 members.

[12:40:48 PM](#)

Mr. Kershner said that there was a rule about the money coming out of the trust to pay beneficiaries. He understood that separate healthcare trusts within the DB plan would possibly be necessary. He thought that the state should investigate further. He said that the interpretation was a legal one and not actuarial.

Senator Wilson hoped to have Legislative Legal review the questions of the committee.

Mr. Kershner discussed pages 11 and 12 of the letter. He noted that the rest of the letter was actuarial disclosure information.

[12:44:40 PM](#)

Senator Wilson asked about page 11. He wondered about assets transferred to the pension. He asked for the percent of projected state employees that would meet the 100 percent plus threshold.

Mr. Kershner said that all current DCR members were assumed in the letter.

Senator Wilson asked how many employees would meet the 100 percent funded.

Mr. Kershner replied that the fourth bullet, page 13, showed a transfer of \$205 million of those balances which was almost 100 percent of the total account balances.

Senator Kiehl referred to a previous Buck analysis from the previous year on a similar bill, it was twice as many at that time.

Mr. Kershner replied that the previous analysis used the balances from the year prior, but the market was higher. He also shared that the previous analysis used the actuarial assumptions that were in effect at that point, but the ARM Board adopted new assumptions since the previous analysis.

[12:50:51 PM](#)

Co-Chair Stedman wondered whether the two plans were linearly equal in their accumulation.

Mr. Kershner replied that generally the DB assets performed better than the DCR assets.

Co-Chair Stedman thought that the DB plan offered a percentage of the salary based on the number of years worked in the position. He felt that the DCR would equal the DB plan in the beginning.

[12:54:37 PM](#)

Senator Wilson referenced the letter from the Alaska Public Pension Coalition (copy on file), which said that the purpose of SB 88 was to save money. He asked for Buck's opinion.

Mr. Kershner responded that the data and assumptions showed that the proposed benefits under SB 88, which included the lifetime defined benefit pension and cost of living increase adjustments were a richer level of benefit than the current benefits.

Senator Wilson surmised that SB 88 was a greater cost to the state and not a cost saving to the employer.

Mr. Kershner agreed, and spoke to the investment risks and returns.

Mr. Kershner continued to discuss the risk to the state and making up excess cause because of future adverse situations.

[12:59:43 PM](#)

Senator Kiehl understood that everyone was bound by the assumptions. He expressed interest that there were only downside risks.

Mr. Kershner said that healthcare trusts were currently 100 percent funded. He said that contributions had gone into the pension trust.

Mr. Kershner said different projections could be run under different assumptions.

Senator Kiehl asked about the unqualified statement about cost. He asked about the decreased turnover and non-state employers.

[1:04:33 PM](#)

Mr. Kershner walked through the increasing cost in the scenario. He noted that life expectancy was considered within the scenario.

Senator Kiehl remarked that the answer was limited in the bounds of the system.

Senator Bishop asked about the TRS side of the equation. He wondered whether SB 88 offered revenue neutrality.

Mr. Kershner spoke to the projections on page 3 of the letter. He spoke to the 50 year projections for PERS and compared TRS.

[1:11:52 PM](#)

GENE JAWLARSKI, CHEIRON, VIRGINIA (via teleconference), offered a rebuttal to the projections offered by the

previous actuarial. He noted page 3. He disagreed on the health cost numbers.

Mr. Jawlarski spoke to retention and signing bonuses. He said that 1 out of 5 jobs in the state were vacant. He said that using one set of assumptions.

[1:15:01 PM](#)

Senator Wilson asked about government jobs in west coast states.

Mr. Jawlarski replied that he did not have the numbers.

Senator Wilson wondered about job vacancies factors as well as data about DB program retention rates over the past two decades.

Mr. Jawlarski replied that he could provide data to the committee.

[1:17:44 PM](#)

AT EASE

[1:22:04 PM](#)

RECONVENED

AJAY DESAI, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, introduced himself.

KEVIN WORLEY, DIVISION OF RETIREMENT AND BENEFITS, IN ROOM, discussed FN OMB component 2866.

[1:24:51 PM](#)

AT EASE

[1:25:50 PM](#)

RECONVENED

Mr. Desai discussed the fiscal note.

[1:27:02 PM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, discussed the fiscal note for all agencies that covered the cost of the state as the employer, and was spread across several fund sources.

Senator Kiehl asked about the fiscal impacts of turnover.

Mr. Steininger replied that turnover was not in the fiscal note.

Senator Kiehl spoke of testimony from departments and numerical expectations.

Mr. Steininger replied that he would provide some analysis.

Senator Bishop asked whether termination costs were tracked by agency.

Mr. Steininger replied not discreetly - that the costs would be based on assumptions.

Senator Bishop thought that the costs should be considered by both the legislative and executive branches.

[1:31:39 PM](#)

Co-Chair Giessel offered closing comments. She was struck by the differing actuarial analysis, which she felt represented worst and best case scenarios. She thought that the numbers should be rerun by Buck using 2021 data.

Senator Bishop offered some closing comments.

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

#

ADJOURNMENT

[1:36:31 PM](#)

The meeting was adjourned at 1:36 p.m.