

**ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE**

March 13, 2023

1:31 p.m.

MEMBERS PRESENT

Senator Jesse Bjorkman, Chair
Senator Click Bishop, Vice Chair
Senator Elvi Gray-Jackson
Senator Kelly Merrick
Senator Forrest Dunbar

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

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."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 88

SHORT TITLE: RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.

SPONSOR(S): SENATOR(S) GIESSEL

03/01/23	(S)	READ THE FIRST TIME - REFERRALS
03/01/23	(S)	L&C, FIN
03/13/23	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

SENATOR CATHY GIESSEL, District E
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of SB 88.

SONJA KAWASAKI, Senate Majority Counsel
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions on SB 88.

JULIA O'CONNOR, Staff
Senator Cathy Giessel
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented the sectional analysis on SB 88.

ACTION NARRATIVE

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CHAIR JESSE BJORKMAN called the Senate Labor and Commerce Standing Committee meeting to order at 1:31 p.m. Present at the call to order were Senators Dunbar, Bishop, Gray-Jackson, Merrick, and Chair Bjorkman.

SB 88-RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.

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CHAIR BJORKMAN announced the consideration of 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."

CHAIR BJORKMAN invited Senator Giessel to put herself on the record and introduce SB 88.

[This is the first hearing of SB 88.]

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SENATOR CATHY GIESSEL, District E, Alaska State Legislature, Juneau, Alaska, sponsor of SB 88, said she is honored to carry this bill. She began the presentation on SB 88 with the slideshow titled, A Shared Risk Public Employee Retirement Approach [Revised]. She said that she is carrying this bill on behalf of thousands of public employees statewide who have worked together over the past ten years to refine this piece of legislation to an affordable and fair bill. The state faces significant workforce shortages, whether snow plowing in the winter, staffing the Pioneer Homes, teachers in the classroom,

or recruiting public defenders. Two Public Defender Offices in the state have considered declining cases because there are insufficient attorneys to handle the caseload.

SENATOR GIESSEL said SB 88 represents an effort to remedy recruitment and retention issues in the state. She expressed her belief that it will give public employees a secure and livable retirement while the cost to the state is affordable.

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SENATOR GIESSEL summarized slide 2:

CHALLENGE

Alaska's Recruitment and Retention Crisis

CAUSE (WHY?)

2005 Alaska withdrew from Defined Benefit retirement

SOLUTION

A retirement plan with reasonable costs and fair benefits

SUMMARY

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

SENATOR GIESSEL said SB 88 proposes to give public employees the opportunity to have a secure retirement with the ability to support themselves. She emphasized that this system is completely different from the previous defined benefit retirement system. This one is more modest and carefully crafted with belt and suspenders to protect the state and to cautiously share the risks with employees, employers, and retirees.

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SENATOR GIESSEL reviewed slide 3, Challenges. The slide contained these news headlines about recruitment and retention collapses and staggering vacancy rates:

- severe food stamp backlogs due to staff shortages,
- schools struggling to find teachers,
- law enforcement officer shortages are a public emergency, and
- frustrations over the pace of snow removal in Anchorage.

SENATOR GIESSEL said the Alaska Marine Highway System (AMHS) is significantly understaffed and delayed publishing its summer schedule because staff shortages affected sailing schedules.

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SENATOR GIESSEL advanced to slide 4, Why Is This Happening? She said that commissioners and other department leaders are sounding the alarm. They have identified a lack of pension benefits as a significant recruitment barrier. Slide 4 quotes the Department of Transportation and Public Facilities (DOTPF) Central Region Director:

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.**

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

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SENATOR GIESSEL advanced to slide 5, which reads:

Challenge

The collapse of recruitment and retention has created the inability to meet basic service obligations in all agencies

SENATOR GIESSEL said that the state faces this challenge in all its services, including delays in professional licensing and permit processing. The state has to solve these problems to be open for business.

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SENATOR GIESSEL advanced to the chart on slide 6, Budget Challenges - Vacancy. She said this slide originated with the Office of Management and Budget (OMB), the governor's finance office. The slide lists each department and its percentage of vacant position control numbers (PCNs) in December 2022. The

number of full-time filled vacancies has been plummeting since July 2017. Slide 6 reads:

- Most departments are experiencing significantly greater vacancies than pre-pandemic levels.
- Recruitments are taking longer and are less likely to result in a hire.
- Recruitment incentives being used to address most critical public needs.

FY22 Unspent Personal Services

Working Reserve	8.3
Group Health Life	9.5
Catastrophic Reserve	12.4
CBR	39.3

(Dollars in Millions)

...probably the biggest challenge that faces our state agencies right now in terms of executing on the programs in the appropriations they've been entrusted with, and that is **the challenge of recruiting and retaining the staff to actually do the work.**

-OMB Director Neil Steininger
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SENATOR GIESSEL said departments have been offering hiring bonuses to address this issue:

- \$20,000 for a state trooper
- \$10,000 for a corrections officer, and
- 20 percent salary increases for Department of Law attorneys.

SENATOR GIESSEL said hiring bonuses cost the state money. The cost of losing staff is hidden in the expense of onboarding a new firefighter or police officer, which is estimated at \$100,000 in education, training, and mentoring. The Office of Children's Services (OCS) manages the state's foster care system. OCS had 92 staff depart the division in 2022. It costs about \$54,000 to onboard a new staff person, so replacing those 92 employees cost about \$5 million. The estimated cost to onboard a new teacher is \$18,000, which includes the expense of recruitment and mentoring but does not quantify the cost of lost knowledge and skills as employees leave their positions. An effectiveness factor is lost; a new teacher that has never taught in a classroom has a different effectiveness factor than a seasoned teacher.

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SENATOR GIESSEL reviewed three charts on slide 7, which compares the defined benefit (DB) retirement plan to the defined contribution (DC) plan. One chart compares the retirement earnings of peace officers and firefighters, the second chart compares the retirement earnings of teachers, and the third chart compares the retirement earnings of all employees.

SENATOR GIESSEL drew attention to the "PERS - Tier III and Tier IV Comparison All Other Members" chart, which compares all state employees, including peace officers, firefighters, and teachers. She noted the defined contribution plan has been in place for about 16 years. The chart is split into two spreadsheets, "hypothetical salaries" and "actual salaries."

SENATOR GIESSEL said the "hypothetical salaries" spreadsheet compares the salary replacement ratios for the DB and DC plans based on an employee's years of service. She pointed out that the defined contribution plan earned significantly less towards retirement than the defined benefit plan on this spreadsheet.

SENATOR GIESSEL compared the spreadsheet for the "actual salaries" categories:

- Comparable Salaries
The data shows the DC plan salary replacement ratios underperformed the DB plan on the "hypothetical salaries" spreadsheet.
- All Salaries
This category represents 3,901 employees enrolled in the DC plan. Their salary replacement ratios underperformed the "hypothetical salaries."
- Rate of Return (ROR) \geq 7 Percent Projection
She said this small group of DC plan employees are investment overachievers with good salary replacement ratios. However, their investment returns are dramatically smaller than the "hypothetical salaries" DB plan.

SENATOR GIESSEL said the Division of Retirement and Benefits created similar comparison charts for peace officers, firefighters, and teachers; these charts are on slide 7. She emphasized that all three charts demonstrate the defined contribution program earnings are comparatively minimal; she stressed that employees face challenges operating as independent

managers and governing their stock market investments. Most Alaskans are not knowledgeable about stock market management and do not have the time to do it. The charts show how the DC plan has compromised the retirement benefit of employees. The current defined contribution plan fails to earn comparable benefits to the defined benefit plan and fails to give employees retirement security.

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SENATOR GIESSEL reviewed slide 8, the factors that influenced the state's decision to switch from a defined benefit to a defined contribution plan:

Cause & History

- Prior to 2002 the DB system was well funded

SENATOR GIESSEL said escalating health care costs were a minor contributing factor.

- 2002 to 2004 - Erroneous actuarial advice by Mercer compromised the DB plan

SENATOR GIESSEL said the primary factor that influenced the state's decision to switch to a defined contribution plan was inaccurate actuarial assessments provided by the financial services company Mercer. The state hired a second party to audit Mercer and found Mercer made inaccurate predictions. She said that not only did Mercer make erroneous predictions, but they lied about having made those kinds of errors and failed to disclose the errors to the state. They covered up the errors in more than one of their evaluations. Consequently, the state retirement system failed to operate correctly and became unfunded.

- 2006 - The DC system was implemented
- 2007 State of Alaska ARM Board filed suit against Mercer for covering up its malpractice, SOA prevailed

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SENATOR GIESSEL reviewed the bar graph on slide 9, DB System Funded Ratio History. According to a Buck Consulting actuarial valuation report done May 2022, the DB system funded ratio grew from 68 percent in 1979 to over 100 percent in 1986, bounced around between 90 to 100 percent from 1987 to 1995, and spiked

to over 100 percent from 1996 to 2001. After that, the Mercer errors began, illustrated by the drastic drop to 61 percent in 2012.

SENATOR GIESSEL said the state became aware of the downward trend and switched to a defined contribution plan in 2006. Employees enrolled in the DB plan stayed in the program per [art. XII, sec. 7, Constitution of the State of Alaska] which prevents diminishment or impairment of accrued retirement benefits. New hires enrolled in the defined contribution plan. She pointed out that the legislature voted to make a balloon payment of \$3 billion in 2014 to the past service cost deficit, reflected on the bar graph as a bump to 70 percent. The graph shows that the DB system funded ratio grew to 86 percent in 2021.

SENATOR GIESSEL said the legislature intensely debated the defined benefit plan in 2006. They disputed whether the DB plan was broken and a bad idea to continue. Some contended the problem was with the actuary Mercer who had erred significantly. She cited Representative Hawker as saying that it was a disservice to consider this a crisis and that the state should continue with the defined benefit plan. Ultimately, the legislature voted to switch to a defined contribution plan.

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SENATOR GIESSEL advanced to slide 10. She said the legislature believes it is unlikely the state retirement system will find itself in a deficit situation again. She reviewed the prudent changes the legislature made on slide 10:

Will This Happen Again?

Triple Safeguards Since 2006

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

SENATOR GIESSEL said the state has mandatory contribution rates projected to pay off the unfunded liability by 2039.

She reiterated these safeguards are in place to prevent another DB retirement system failure.

[1:52:02 PM](#)

SENATOR GIESSEL advanced to slide 11 to introduce:

A Proposed Solution Senate Bill 88

A retirement system with reasonable costs and fair benefits.

SENATOR GIESSEL said the retirement plan proposed in SB 88 would benefit employees and Alaska. It is a much more modest pension system based on lessons learned from past tiers, and it features the best practices for well-funded and stable plans from around the country. It will provide a reliable, modest retirement for employees. It shares the risk between employees, employers, and the state and does not expose the state to problems experienced in the past.

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SENATOR GIESSEL summarized slide 12, Structural Features of SB 88:

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

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SENATOR GIESSEL reviewed slide 13 to discuss sharing costs, Employee Contribution:

PERS & TRS

- 8 - 10 percent adjustable by ARM Board

SENATOR GIESSEL explained SB 88 allows ARMB to adjust the contribution rate between 8 - 10 percent based on market conditions. ARMB would make incremental rate adjustments and require higher contributions if the market were to tank.

- Employees share the risk contributing more during poor market returns

SENATOR GIESSEL advanced to slide 14, which lists states using a variable 8 to 10 percent employee contribution rate. These states are Arizona, Colorado, Idaho, Iowa, Maine, Montana, and Nevada.

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SENATOR GIESSEL reviewed slide 15, Employer Contribution:

- Remains the same and aligns with rates set by prior Defined Benefit (DB) tiers.

SENATOR GIESSEL explained the Public Employees Retirement System (PERS) employers have a rate ceiling of 22 percent. School districts have a rate ceiling of 12.56 percent. The state covers any gap over these rate ceilings to keep the plan solvent.

- The state continues to pay the full normal and past service cost of the system.
- Sets 12 percent hard floor for long term success of the plan.

SENATOR GIESSEL said SB 88 authorizes ARMB to adjust the employer contribution no lower than 12 percent. She said that lowering the employer contribution is based on whether the program funding is at 90 percent or higher, which is the gold standard for a well-funded, sustainable pension program. The bill lacks the statement that 90 percent funding needs to be present, and she advised this is a criterion the committee might consider clarifying. She emphasized that 90 percent is important and meaningful to local governments. Ninety percent is not an arbitrary number.

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SENATOR GIESSEL advanced to slide 16, which summarizes what the existing Public Employees Retirement System (PERS) and Teacher Retirement System (TRS) employer rate ceilings are:

PERS

- 22% = existing limit of 22%

TRS

- 12.56% = existing limit of 12.56%

SENATOR GIESSEL said SB 88 does not propose to change these rate ceilings.

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SENATOR GIESSEL advanced to the chart on slide 17. The "2024 Actual Employer Contribution Rates" chart shows that the DB plan costs the state one-third less than the DC plan. She explained that a defined benefit plan pools the funds of many employees and is professionally managed. This differs from defined contribution plans managed by employees who may have different expertise or time to manage their retirement funds. The DB plan provides better value for the employee and the employer.

[2:01:32 PM](#)

SENATOR GIESSEL reviewed the chart on slide 18, "Pension and Healthcare Trust Combined Valuation, Funded Status - Valuation Results." The retirement benefit can be divided into healthcare and pension costs. The healthcare component is better funded than the pension. She drew attention to "DB Health Plan - Normal Cost" on slide 17, pointing out that the DB health plan will cost the state \$0 [in FY24]. She said that statutory language keeps the healthcare and pension funds separate.

SENATOR GIESSEL hypothesized what would happen if the healthcare and pension funds were combined. The chart shows that in a merged funds scenario, PERS would be funded at 87.7 percent and TRS over 90 percent. She reiterated that the retirement gold standard is 90 percent or higher. The legislature could combine the funds with a statute change. She said SB 88 does not currently include this language, but it would benefit the state to add it.

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SENATOR GIESSEL reviewed slide 19, Vesting:

PERS and TRS

- Vested at 5 years for both PERS and TRS
- Consistent with current Defined Contribution (DC) plans.

SENATOR GIESSEL said that under the DC PERS and TRS plans, employees may sever service after five years and take whatever percent they have from their employer's contribution as well as their own. They can take that money and leave service. This is happening with police officers and firefighters in particular and is part of the retention problem. They take their retirement funds, training, and expertise to work in other states.

[2:06:14 PM](#)

SENATOR GIESSEL advanced to slide 20 and reviewed the requirements for police officers and firefighters to qualify for retirement under the bill's proposed defined benefit retirement structure:

QUALIFICATION FOR RETIREMENT

PERS - (Public Safety only)

- 50 years of age with 25 years of service
OR
- 55 years of age with 20 years of service

SENATOR GIESSEL said that in the previous defined benefit tiers, police officers and firefighters could retire with 20 years of service. SB 88 recognizes that these public servants need to have the option to retire earlier because they have physically demanding jobs. The bill strikes a balance with earlier retirement, encouraging longer employment patterns and slightly increasing the service requirement.

- Allows Public Safety employees to reach retirement eligibility prior to 60 year of age

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SENATOR GIESSEL advanced to slide 21 and reviewed the requirements for non-public safety employees and teachers to qualify for retirement under the bill's proposed defined benefit structure:

QUALIFICATION FOR RETIREMENT

PERS - (Non-Public Safety)

TRS - (Teachers)

- 60 years of age **OR** 30 years of service

[2:07:55 PM](#)

SENATOR GIESSEL advanced to slide 22 and reviewed the bill's benefit calculation for firefighters and police officers:

BENEFIT CALCULATION FORMULA

PERS - (Public Safety only)

- 2.00 percent first 10 years
- 2.50 percent thereafter

- New Plan is consistent with [prior] PERS Tier III

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SENATOR GIESSEL advanced to slide 23 and reviewed the bill's benefit calculation for non-public safety employees:

BENEFIT CALCULATION FORMULA

PERS - (Non-Public Safety)

- 2.00 percent first 10 years
- 2.25 percent next 10 years
- 2.50 percent thereafter
- New Plan is consistent with prior PERS Tier III

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SENATOR GIESSEL advanced to slide 24 and reviewed the bill's benefit calculation for teachers:

BENEFIT CALCULATION FORMULA

TRS - (Teachers)

- 2.00 percent first 10 years
- 2.25 percent next 10 years
- 2.50 percent thereafter
- New Plan is consistent with prior PERS Tier III

SENATOR GIESSEL said SB 88 proposes calculating the TRS benefit like PERS non-public safety employees. She said the expectation is to encourage employees to stay and work longer because people live longer. She noted a difference from the previous defined benefit tier for teachers, which went from 2 percent in the first ten years to 2.5 percent after ten years. SB 88 proposes a more incremental path toward retirement for teachers.

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SENATOR GIESSEL reviewed slide 25, stating the retirement calculation is based on the average five consecutive high years:

FINAL AVERAGE SALARY

PERS and TRS

- Highest 5 consecutive years of service
- Teacher retirement was previously based on highest 3 contract salaries in TRS II

- New plan is consistent with **PERS** Tier III. Aligns **TRS** with **PERS** final average salary calculation

SENATOR GIESSEL explained the purpose for five consecutive high years. It establishes uniformity for all employee groups. She expressed her belief this will help promote longer career employment, smooth out the averages to prevent employees from cherry-picking random high years, and encourages long-term, uninterrupted terms of service.

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SENATOR GIESSEL advanced to slide 26, stating this slide presents a policy decision for the committee on whether to include cost-of-living allowance (COLA) language in SB 88. She reviewed slide 26:

ALASKA COST OF LIVING (COLA)
PERS and TRS

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

SENATOR GIESSEL said the positive of excluding a COLA benefit is that it keeps the plan solvent; however, the negative is that retirees might consider moving elsewhere without it. She wants to encourage retirees to stay in Alaska. Growing a senior population enriches Alaska with wisdom, knowledge, diverse age groups, and disposable income. She contended that inserting COLA language in the bill might be a good policy decision.

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SENATOR GIESSEL reviewed slide 27, Post Retirement Pension Adjustments (PRPA), aka Inflation Protection:

- ARM Board may provide PRPA to employees if Defined Benefit (DB) Trust Fund values are equal to or greater than **90%** funded
- The ARM Board will have the ability to withhold PRPA if the Defined Benefit (DB) Trust Fund values fall below **90%** funded

- This keeps the plan solvent regardless of funding level

SENATOR GIESSEL said ARMB would annually review actuarial valuations, and every four years their decisions would be examined by a second party to ensure plan solvency. She said this is another piece that can fluctuate to keep the plan solvent.

[2:14:37 PM](#)

SENATOR GIESSEL advanced to slide 28, which lists six states that use inflation protection as part of their retirement plan: Louisiana, Maryland, Massachusetts, Nebraska, South Dakota, and Wisconsin. She emphasized that SB 88 incorporates some of the other states' best practices nationwide.

[2:14:59 PM](#)

SENATOR GIESSEL reviewed slide 29, stating the proposed retirement medical coverage in SB 88 is a huge change from the past DB plan:

RETIREMENT MEDICAL COVERAGE
PERS & TRS

- 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)

SENATOR GIESSEL clarified the state does not deduct the cost of HRA from the employee's paycheck; the employer contributes the funds.

- HRA can be used for any qualifying medical need
- Keeps the plan solvent

SENATOR GIESSEL said that to keep the cost of this program down, the state does not offer more generous medical coverage at retirement.

SENATOR GIESSEL explained the intended use for the HRA. She directed attention to slide 20, stating employees would use this medical coverage if they were to retire before qualifying for

Medicare. Suppose a police officer or firefighter retires today at age 50, they would be eligible for Medicare after 15 years. The retiree could use the HRA to buy into a state health insurance policy until then. The HRA accrues funds with the annual three percent employer contribution. Medicare health insurance takes over when an employee qualifies for it. She noted that the bill does not refer to the qualifying age as 65 because Congress is thinking about raising the age.

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SENATOR GIESSEL reviewed slide 30, stating many public employees are not enrolled in Social Security; consequently, they are not eligible for a death and disability benefit. SB 88 proposes this option:

DEATH & DISABILITY BENEFIT

PERS

- Non-occupational disability benefits are calculated as normal retirement, death benefit is provided
- Occupational disability or death provides **40%** 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

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SENATOR GIESSEL reviewed slide 31, stating SB 88 proposes the same death and disability benefit for TRS employees with one caveat:

- TRS benefits are calculated based on average base salary, while
- PERS benefits are calculated based on gross monthly compensation.

She explained this difference presents the committee with an opportunity to make a policy decision defining "average base salary." A teacher's base salary does not include extracurricular duties, like coaching or supervising an after-school club. Teachers often get compensated for these duties, but the earnings are not included in their base salary. She suggested one option is to pass an amendment inserting language

that defines the "average base salary" for TRS employees. The committee could define it as gross monthly compensation or whatever it deems appropriate.

[2:21:39 PM](#)

SENATOR GIESSEL advanced to slide 32 to explain what happens to current employees hired after 2006 if the state enacts the new defined benefit system proposed by SB 88:

What will happen to CURRENT employees
hired after 2006?

PERS & TRS

- Current PERS IV and TRS III members would have the option to convert from their Defined Contribution (DC) plan to the new Defined Benefit (DB) system by November 1, 2024

SENATOR GIESSEL reminded the committee that 2006 was the year the state moved to the defined contribution plan. DC plan employees could choose whether to convert their retirement savings to the new DB plan.

[2:23:03 PM](#)

SENATOR GIESSEL reviewed slide 33:

What will happen to NEW employees after
SB 88 effective date?

PERS & TRS

- New employees would automatically be enrolled in the Defined Benefit (DB) system

SENATOR GIESSEL explained new employees would be automatically enrolled in the new DB plan because the plan benefits everyone, and a larger participation pool keeps the plan fully funded. She acknowledged that the committee might want to consider a policy decision that gives new hires the choice of enrolling in the DB plan or the DC plan.

[2:24:04 PM](#)

SENATOR GIESSEL advanced to slide 34 and made concluding remarks:

CONCLUSION

- Alaska's workforce challenges, recruiting and retaining public workers are the primary motivation driving this legislation.
- Pensions remain the best fiscal choice for the state to meet these goals: recruitment and retention.

SENATOR GIESSEL said the state's challenges in recruiting and retaining public workers are significant, not minimal. Legislators see and hear about them from constituents every day. These challenges include loss of public defenders, delayed food stamp distribution, snow build-up on roads, and concern about state trooper, police officer, and firefighter attrition rates. Data from the Division of Retirement and Benefits indicates that 90 percent of individuals enrolled in the DC plan:

- do not have the expertise or time to manage their retirement funds,
- their defined contribution plan earnings are falling way behind, and
- they will be unable to support themselves in retirement.

The Division of Retirement and Benefits indicates that the defined benefits plan saves state and local governments money and costs less than the defined contribution plan.

SENATOR GIESSEL said the state's workforce challenges are multifaceted. SB 88 offers one significant way to address the recruitment and retention issue, and she expressed her belief this would produce a substantial improvement, positively affect the economy, and keep families in the state, making Alaska a better place to live. More families mean a more diverse population and a more secure workforce.

[2:26:08 PM](#)

SENATOR GIESSEL advanced to slide 35. The final slide reads:

Senate Bill 88

CHALLENGE

Alaska's Recruitment and Retention Crisis

CAUSE

Alaska withdrew from DB retirement program in 2005

SOLUTION

A retirement plan with reasonable costs and fair benefits

Summary

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

SENATOR GIESSEL said she identified three places in the bill where the committee might consider policy changes:

1. She drew attention to slide 15. SB 88 authorizes ARMB to adjust the employer contribution from 22 percent to no lower than 12 percent based on whether the plan is funded at 90 percent or higher. She advised this is a criterion the committee might consider putting in statute.
2. Combining pension and healthcare funds would bring the funding ratio higher than 90 percent for teachers and just below 90 percent for public employees. Currently, statute requires these funds to remain separate. Combining them would require a statute change.
3. Including COLA in the bill.

[2:27:31 PM](#)

SENATOR GIESSEL mentioned a chart is available on BASIS that identifies various benefits of the bill listed by category. [It is titled SB 88 - Public Employee Defined Benefits Plan Reinstatement Proposal Summary and Bill Section References (3/10/23 Update) Version SB0088A - Work Draft 33-LS0505\B.] The chart defines how SB 88 would affect public safety employees, non-public safety employees, and teachers. It has a column that describes the rationale for the policy choice, and it lists which section and page to find specific policy language.

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SENATOR GRAY-JACKSON thanked Senator Giessel for taking the lead on SB 88 and bringing it forward. She said she is honored to be a cosponsor on the bill and hopes the committee will consider the cost-of-living allowance.

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SENATOR DUNBAR asked about the statutory rationale for keeping the healthcare and pension funds separate.

SENATOR GIESSEL replied that she could not speak to the statutory history. She deferred the question to Sonja Kawasaki.

[2:30:12 PM](#)

SONJA KAWASAKI, Senate Majority Counsel, Alaska State Legislature, Juneau, Alaska, replied that she does not know the legislative history behind the separation. She said there is a separate account for the pension system, the major medical healthcare trust, and the health reimbursement account created for the defined contribution plan. She said she could look into the rationale for separating the healthcare and pension funds, stating it would help to know that before combining the funds.

[2:31:04 PM](#)

SENATOR DUNBAR said he would appreciate that historical perspective if the committee decides to amend the bill.

CHAIR DUNBAR referenced detailed actuarial information and projections based on Senate Bill 55 [Chapter 9, SLA 21] distributed along with the materials for SB 88. He asked about the differences between SB 88 and Senate Bill 55 that might lead to different actuarial projections.

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SENATOR GIESSEL answered that no actuarial assessments have been done on this bill yet. Statute requires SB 88 to have an actuarial assessment before it is considered on the floor. She said one will be done after the Senate Finance Committee amends it. Actuarial assessments are costly, so they get done after the completion of the amendment process, and the bill is in its final form. It is expected to be similar to the previous bill that looked at just public safety.

[2:33:11 PM](#)

CHAIR BJORKMAN drew attention to slides 17 and 19 relating to vesting and the cost differences between the defined contribution and defined benefit plans. He sought confirmation that the defined benefit plan would not be portable and asked if the state is better off keeping the funds within the plan.

SENATOR GIESSEL sought clarification that he was contrasting that to the defined contribution plan where employees can withdraw their money after five years of service and move.

CHAIR BJORKMAN answered that is correct.

SENATOR GIESSEL replied yes, that is key. She said that even without the dollars and cents retirement calculations, it behooves the state on several levels to encourage long-term employment to save on recruiting, retraining, and spending hundreds of thousands of dollars replacing employees.

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CHAIR BJORKMAN sought confirmation that a larger pool of DB plan participants reduces the overall cost to the state and increases the benefit to retiring employees. He reiterated that the proposed DB plan would also incentivize long-term service, decreasing turnover and saving the state on recruiting and training costs.

SENATOR GIESSEL answered absolutely. One hundred thousand dollars is the minimum cost for training a firefighter. Onboarding a new teacher costs \$18,000; that hire is likely a recent graduate. The Department of Law (DOL) has spoken about the difficulty in recruiting attorneys, whether public defenders or prosecutors. DOL is recruiting students right out of law school who require supervision for at least two years before they can manage complex cases independently. She said it is zapping the system.

[2:35:58 PM](#)

At ease.

[2:40:09 PM](#)

CHAIR BJORKMAN reconvened the meeting and asked Ms. O'Connor to put herself on the record and present the sectional analysis.

[2:40:17 PM](#)

JULIA O'CONNOR, Staff, Senator Cathy Giessel, Alaska State Legislature, Juneau, Alaska, presented the sectional analysis which is available on BASIS. She read the sectional analysis for SB 88, version B, Sections 1 through 54.

[2:59:14 PM](#)

CHAIR BJORKMAN stated the committee has run out of time and will resume the sectional analysis on March 15, 2023.

CHAIR BJORKMAN held SB 88 in committee.

[3:00:02 PM](#)

There being no further business to come before the committee, Chair Bjorkman adjourned the Senate Labor and Commerce Standing Committee meeting at 3:00 p.m.