

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

April 26, 2023

3:32 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. 94

"An Act relating to the Board of Pharmacy; relating to the practice of pharmacy; relating to pharmacies; relating to prescription drug manufacturers; relating to prescriptions for epinephrine; relating to the administration of epinephrine; and providing for an effective date."

- MOVED CSSB 94 (L&C) OUT OF COMMITTEE

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

SENATE BILL NO. 123

"An Act relating to commercial motor vehicle drivers' license requirements; and providing for an effective date."

- BILL HEARING CANCELED

**PREVIOUS COMMITTEE ACTION**

BILL: SB 94

SHORT TITLE: PROFESSION OF PHARMACY

SPONSOR(s): SENATOR(s) GIESSEL BY REQUEST

03/08/23 (S) READ THE FIRST TIME - REFERRALS  
03/08/23 (S) L&C, FIN  
04/03/23 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)  
04/03/23 (S) Heard & Held  
04/03/23 (S) MINUTE(L&C)  
04/12/23 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)  
04/12/23 (S) Scheduled but Not Heard  
04/17/23 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)  
04/17/23 (S) Heard & Held  
04/17/23 (S) MINUTE(L&C)  
04/24/23 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)  
04/24/23 (S) Heard & Held  
04/24/23 (S) MINUTE(L&C)  
04/26/23 (S) L&C AT 3:30 PM BUTROVICH 205

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)  
03/13/23 (S) Heard & Held  
03/13/23 (S) MINUTE(L&C)  
03/15/23 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)  
03/15/23 (S) Heard & Held  
03/15/23 (S) MINUTE(L&C)  
03/17/23 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)  
03/17/23 (S) Heard & Held  
03/17/23 (S) MINUTE(L&C)  
03/20/23 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)  
03/20/23 (S) Heard & Held  
03/20/23 (S) MINUTE(L&C)  
03/22/23 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)  
03/22/23 (S) Heard & Held  
03/22/23 (S) MINUTE(L&C)  
03/29/23 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)  
03/29/23 (S) Heard & Held  
03/29/23 (S) MINUTE(L&C)  
04/26/23 (S) L&C AT 3:30 PM BUTROVICH 205

**WITNESS REGISTER**

KONRAD JACKSON, Staff  
Senator Jesse Bjorkman  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented the explanation of changes in the CS for SB 88, work order 33-LS0505\R.

RYAN FROST, Senior Policy Analyst  
Pension Integrity Project  
Reason Foundation  
Salem, Oregon

**POSITION STATEMENT:** Presented an analysis of SB 88.

DAN DOONAN, Executive Director  
National Institute on Retirement Security (NIRS)  
Washington, D.C.

**POSITION STATEMENT:** Presented a slideshow titled "Alaska Teacher Recruitment and Retention Study: Options and Analysis Supporting Retirement Design" and answered questions on SB 88.

#### **ACTION NARRATIVE**

[3:32:10 PM](#)

**CHAIR JESSE BJORKMAN** called the Senate Labor and Commerce Standing Committee meeting to order at 3:32 p.m. Present at the call to order were Senators Gray-Jackson, Bishop, Dunbar, Merrick, and Chair Bjorkman.

#### **SB 94 - PROFESSION OF PHARMACY**

[3:32:55 PM](#)

CHAIR BJORKMAN announced the consideration of SENATE BILL NO. 94 "An Act relating to the Board of Pharmacy; relating to the practice of pharmacy; relating to pharmacies; relating to prescription drug manufacturers; relating to prescriptions for epinephrine; relating to the administration of epinephrine; and providing for an effective date."

He stated that this is the fourth hearing of the bill in this committee, and Amendment 1 is pending adoption from the previous hearing. He removed his objection to Amendment 1. He found no further objection and Amendment 1 was adopted.

[3:34:05 PM](#)

CHAIR BJORKMAN solicited the will of the committee.

[3:34:13 PM](#)

SENATOR BISHOP moved to report SB 94, work order 33-LS0294\U, as amended, from committee with individual recommendations and attached fiscal note(s).

[3:34:28 PM](#)

At ease.

CHAIR BJORKMAN reconvened the meeting and asked Senator Bishop to make a technical correction to the previous motion.

[3:35:26 PM](#)

SENATOR BISHOP rescinded the previous motion.

[3:35:31 PM](#)

SENATOR BISHOP moved to report SB 94, work order 33-LS0293\U, as amended, from committee with individual recommendations and attached fiscal note(s).

CHAIR BJORKMAN found no objection and CSSB 94(L&C) was reported from the Senate Labor and Commerce Standing Committee.

[3:35:59 PM](#)

At ease.

**SB 88-RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.**

[3:37:57 PM](#)

CHAIR BJORKMAN reconvened the meeting and 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."

He stated that this is the seventh hearing of the bill in this committee and there is a committee substitute (CS) for the committee to consider.

[3:38:21 PM](#)

CHAIR BISHOP moved to adopt the committee substitute (CS) for SB 88, work order 33-LS0505\R, as the working document.

CHAIR BJORKMAN objected for purposes of discussion.

[3:39:02 PM](#)

KONRAD JACKSON, Staff, Senator Jesse Bjorkman, Alaska State Legislature, Juneau, Alaska, advised that the following acronyms will be used in the discussion on this bill:

- DB            Defined Benefits
- DC            Defined Contribution
- TRS          Teacher Retirement System
- PERS         Public Employees Retirement System
- HRA          Health Reimbursement Arrangement

MR. JACKSON presented the explanation of changes from version B to version R in the CS for SB 88:

[Original punctuation provided.]

#### **Explanation of Changes**

SENATE CS for Senate Bill 88  
Version 33-LS0505/B to 33-LS0505/R

The Committee Substitute adopts the following changes:

Section 1, page 1, lines 9-11:

- Adds language to clarify the applicability is for teachers eligible for the proposed Defined Benefit (DB) plan and not just for those teachers who are currently members in the Teacher Retirement System (TRS).

Section 2, page 2, lines 5-13:

- Strikes and adds language to clarify eligible teachers may continue in the Defined Contribution (DC) Retirement Plan and choose to not participate in the proposed Defined Benefit Retirement Plan.

Section 3, adds a new section, page 2, line 14 to page 3, line 19:

- Codifies the procedure TRS DB members who are also members of a PERS DB can elect to have their PERS earnings included in their TRS base salary to potentially count toward their pension benefit calculation.

Section 4, adds a new section, page 3, line 20 to page 6, line 11:

- Codifies the procedure for rehired teachers currently enrolled in the DC Plan to elect the proposed DB Plan.

Section 8, page 7, line 28 to page 8, line 8:

- Amending Subsection (e) increases the range of the employee contribution rate from 8-10% to 8-12%.
- Adds Subsection (g) adds that when the funding ratio of the proposed plan falls below 90%, the Alaska Retirement Management (ARM) Board may increase the employee's contribution rate to address the past service liability attributable to the proposed plan. Subsection (g) further stipulates that the ARM Board may not increase the employee contribution rate by more than is needed to address 50% of the gap between the funding level at that point in time, and the 90% or greater threshold.

[3:42:54 PM](#)

MR. JACKSON continued presenting the explanation of changes:

[Original punctuation provided.]

Section 9, page 8, lines 9-23

- Deletes the added subsection (a) language.
- Adds subsection (b) which directs that the employer contributions must be deposited into the retirement fund and the Alaska retiree health care trust at the end of each pay period. The late fee for delinquent employer contributions has been reduced from one and one-half times to the actuarial rate of earnings.

Section 10, page 8, line 24 to page 9, line 7:

- Stipulates that the employer contribution rate may be adjusted between 12-12.56% and is determined by the ARM Board based on the full actuarially determined cost of the new TRS system.

Section 11, page 9, lines 8-11:

- Adds a new section to allow the legislature to appropriate funds to decrease the employer contribution rate.

Sections 12, 13, and 14 pages 9-10:

- Conforms with the CS changes.

Section 15, page 10, lines 22-28:

- Adds a new section to direct the employer contributions on behalf of members of the proposed Defined Benefit plan must be deposited into a new sub-trust of the retirement plan, (other than those needed for Health Reimbursement Arrangement, medical insurance, the Defined Contribution (DC) plan and past service cost.)

Section 16, page 10, line 29 to page 11, line 9:

- Amends language to clarify that the contributions for medical benefits must be accounted for separately and deposited into the health care trust.

Section 17, page 12, lines 4-9:

- Adds a new subsection (a)(2) explaining the qualifications for retirement for those hired after June 30, 2006.

[3:45:24 PM](#)

MR. JACKSON continued presenting the explanation of changes:

[Original punctuation provided.]

Section 18, page 12, lines 10-14:

- Adds a new subsection (b) noting the requirements for early retirement.

Version B's sections 17 and 18 have been removed to align the TRS disability benefits in the proposed DB Plan with the benefit in TRS Tier II.

Section 19, page 12, line 27 to page 13, line 5:

- Changes TRS benefit calculation criteria from the members highest five consecutive years to highest five years of membership service.

Version B's sections 22, 24 thru 33, and 35 have been removed to align the TRS death and duplicate benefits in the proposed DB Plan with the benefit in TRS Tier II.

Section 23, page 14, lines 1-12

- Adds a new subsection (g) that reduces the Post Retirement Pension Adjustment (PRPA) by half for plan beneficiaries who are not Alaska Residents.

Provides that residency is determined using Permanent Fund Dividend eligibility requirements that are currently in law.

- Conforming changes to subsection (h).

Section 25, page 15, lines 13-17:

- Adds language to carry over the eligibility requirement for medical benefits under the DC plan and inserts it into the DB section of statute.

Section 27, page 18, lines 25 to page 19, lines 4:

- Adds a section aligning the definitions of "base salary" and "compensation" to include a teacher's main contract along with any contract addenda.

Section 29, page 19, lines 20-24:

- Deletes the definitions of "non-occupational disability" and "occupational disability."
- Adds the definition of "first became a member after June 30, 2006."

[3:48:06 PM](#)

MR. JACKSON continued presenting the explanation of changes:

[Original punctuation provided.]

Section 30, page 19, lines 25-31, and page 20, lines 1-7:

- Amends language to reflect that applicability of the DC Plan includes those eligible for the proposed DB Plan but who choose not to elect.

Section 32, page 20, lines 11-16:

- Amends language to conform.

Version B's section 43 has been deleted to conform with the CS changes.

Section 37, page 23, line 26 to page 24, line 14:

- Adds two new subsections:
- Subsection (17) directs the ARM board to establish sub-trusts of the pension fund for the proposed DB plans.
- Subsection (18) directs the ARM board to account and track the employer contributions, employee contributions, and the earnings in these sub-trusts.

Version B's section 51 has been deleted to conform with the CS changes.

[3:49:31 PM](#)

MR. JACKSON highlighted a correction on page 3 to the explanation of changes, correcting a typo that read "page 27", that should read "page 28", before continuing the explanation of changes:

[Original punctuation provided.]

Section 41, page 27, line 15 to page 20, line 7:

- Amends language to establish the Health Reimbursement Arrangements for members of the proposed DB plan.

Section 50, page 29, line 30 to page 30 line 7:

- Amends the definition of "employer."

Section 51, page 30 lines 8-14:

- Amends the definition of "member."

Section 52, page 30, lines 15-25:

- Conforms applicability of the current DB plan with the CS changes.

Section 53, page 30, line 26 to page 31 line 8:

- Adds new subsections to provide specific circumstances under which a rehired employee can come back into the DC Plan after this bill's effective date.

Section 54, page 31, lines 9-18:

- Amends language to conform with the CS changes.

Section 55, page 31, line 19 to page 34, line 11:

- Adds new section to codify the procedure for rehired public employees currently enrolled in the DC Plan to elect participation in the proposed DB Plan.

Section 57, page 34, line 26 to page 35, line 21:

- Amends subsection (e) increases the range of employee contribution rate from 8-10% to 8-12% for all PERS members.
- Subsection (g) adds that when the funding ratio of the proposed plan falls below 90%, the ARM Board may increase the employee's contribution rate to

address the past service liability attributable to the proposed plan. Subsection (g) further stipulates that the ARM Board may not increase the employee contribution rate by more than is needed to address 50% of the gap between the funding level at that point in time, and the 90% or greater threshold.

[3:52:17 PM](#)

MR. JACKSON continued presenting the explanation of changes:

[Original punctuation provided.]

Section 58-61, page 35, line 22 to page 37, line 4:

- Specifies how rehired public employees may purchase credited service under the proposed Defined Benefit plan.

Section 62, page 37, lines 5-27:

- This section is amended to say that the employer contribution rate is established by the full actuarially determined contribution rate and is variable being no less than 12% and no greater than 22%.

Section 63, page 37, lines 28-31:

- Adds a new section to allow the legislature to appropriate funds to decrease the employer contribution rate.

Section 64, page 38, lines 1-7:

- Amends language to specify which funds must be put in the proposed plan sub-trusts.

Section 65, page 38, lines 8-19:

- Amends the language to clarify that the contributions for medical benefits must be accounted for separately and deposited into the health care trust.

Section 66, page 38, lines 20-28:

- Conforming change adopting military service credit language from the prior PRS DB system.

Section 66-67, page 38, lines 20 to page 39, line 6:

- Conforming changes to make members of the proposed plan eligible for past service credit options available in the DB sections of statute.

Section 71, page 40, lines 10-21:

- Adds a new subsection (g) that reduces the Post Retirement Pension Adjustment (PRPA) by half for plan beneficiaries who are not Alaska Residents. States residency is determined using Permanent Fund Dividend eligibility requirements.

Section 76, page 42, line 21 to page 43, line 7:

- Amends and adds language to carry over the eligibility requirement for medical benefits under the PERS DC plan and inserts it into the PERS DB section of statute.

[3:55:14 PM](#)

MR. JACKSON continued presenting the explanation of changes:

[Original punctuation provided.]

Section 77, page 45, lines 21-28:

- Adds subsection which directs that the employer contributions must be deposited into the retirement fund and the Alaska retiree health care trust at the end of each pay period. The late fee for delinquent employer contributions has been reduced from 150% to 100% of the actuarial rate of earnings.

Section 79, page 46, lines 20-29:

- Amends the definition of "employer."

Section 80, page 46, line 30 to page 47, line 3:

- Adds the definition of "first became a member after June 30, 2006."

Section 81, page 47, lines 4-16:

- Amends language to reflect that applicability for the PERS DC Plan to include those eligible for the proposed PERS DB Plan but who choose not to elect.

Version B's section 85 has been deleted to conform with the CS changes.

Version B's uncodified section 97 has been partially deleted as the procedures for a DC member choosing to elect the proposed DB plan are now codified. The uncodified implementation of this Act is still in effect in Version R's section 90.

[3:57:26 PM](#)

SENATOR BISHOP drew attention to the explanation of changes page 2, Section 9, page 8, lines 9 - 23 and sought clarification of subsection (b).

MR. JACKSON reread the section, explaining that the CS reduces the late fee penalty for delinquent employer contributions from 1.5 times to 100 percent of the actual actuarial rate.

[3:59:08 PM](#)

CHAIR BJORKMAN advised that he invited two people to talk about the implications of SB 88 and the general state of retirement and benefits for the State of Alaska.

CHAIR BJORKMAN invited Ryan Frost with the Reason Foundation to speak on this legislation.

[4:00:43 PM](#)

At ease.

[4:03:11 PM](#)

CHAIR BJORKMAN reconvened the meeting.

[4:03:27 PM](#)

RYAN FROST, Senior Policy Analyst, Pension Integrity Project, Reason Foundation, Salem, Oregon, provided an analysis of SB 88.

MR. FROST spoke to points on slide 1, "About the Pension Integrity Project":

[Original punctuation provided.]

### **About the Pension Integrity Project**

We offer pro-bono technical assistance to public officials to help them design and implement pension reforms that improve plan solvency and promote retirement security, including:

- *Customized analysis* of pension system design, trends
- *Independent actuarial modeling* of reform scenarios
- Consultation and modeling around *custom policy designs*
- Latest pension reform *research and case studies*

- *Peer-to-peer mentoring* from state and local officials who have successfully enacted pension reforms
- Assistance with *stakeholder outreach*, engagement, and relationship management
- Design and execution of *public education programs* and media campaigns

He clarified that his team is not anti-defined benefit and most of the reforms they have worked on included opening defined benefit plans for new hires. He said it is usually up to the legislators and stakeholders to decide what they want and then the Pension Integrity Project team serves as empires guiding them.

[4:05:18 PM](#)

MR. FROST spoke to points on slide 2, "Policy Objectives."

[Original punctuation provided.]

#### **Policy Objectives**

- **Keeping Promises:** Ensure the ability to pay 100% of the benefits earned and accrued by active workers and retirees
- **Retirement Security:** Provide retirement security for all current and future employees
- **Predictability:** Stabilize contribution rates for the long-term
- **Risk Reduction:** Reduce pension system exposure to financial risk and market volatility
- **Affordability:** Reduce long-term costs for employers/taxpayers and employees
- **Attractive Benefits:** Ensure the ability to recruit 21st Century employees
- **Good Governance:** Adopt best practices for board organization, investment management, and financial reporting

[4:06:22 PM](#)

MR. FROST spoke to points on slide 3, "Brief History of Alaska's Retirement System":

[Original punctuation provided.]

#### **Brief History of Alaska's Retirement Systems**

- **1940s:** TRS established
- **1960s:** PERS established
- **Early 2000s:** significant growth in unfunded liabilities
- **2006:** pensions closed to new hires, offering instead the defined contribution (DCR) plan
- **2006-today:** frequent efforts to bring back the defined benefit (DB) pension plan
- **2022:** DB reforms (HB 55 & HB 220) pass in the House, not the Senate
  - Pension Integrity Project Analysis indicates that if the 2022 bills had passed, the state would have developed new pension debt after -4.08% returns in year one:
    - o \$33 million for public safety (HB 55)
    - o \$254 million for PERS & TRS combined (HB 220)

[4:07:40 PM](#)

MR. FROST advanced to slide 4, "Challenges Facing PERS & TRS." and slide 5, "A History of PERS Funding (2001-2022)," explaining that the slide showed a chart tracking the growth and unfunded liabilities for PERS from in that time period. He said that TERS is underfunded. Between 2013 and 2015, the legislature appropriated approximately \$2 billion into the TERS fund to encourage investment returns.

[4:08:51 PM](#)

SENATOR MERRICK clarified that House Bill 220 did not pass the House in last year's legislature; it died in the House Rules Committee.

[4:09:19 PM](#)

MR. FROST continued with the presentation, speaking to points on slide 8, "PERS Investment Return History, 2001-2022." He explained that Alaska's average for the last 20 years of average market valued returns is 6.8 percent; the last 15 years it was 5.4 percent, and over the last 10 years it was much improved at 8.6 percent due to a 30 percent return in 2021 that boosted many statewide pension systems. He briefly spoke to the charts on slide 6, "A History of TRS Funding (2001-2022)," and slide 7, "PERS Liabilities are Growing Faster than Assets."

[4:10:10 PM](#)

MR. FROST advanced to slide 9, "Probability Analysis: Measuring the Likelihood of Alaska Plans Achieving Various Rates of Return," explaining that the foundation ran a Monte Carlo analysis on the PERS and TRS asset allocations. Based on the

PERS and TRS assumptions as aligned with possible rates of return there is a 50/50 chance of hitting the projected market forecast. Looking at the short-term market forecast, over the next 15 years the expected earnings are 5-6 percent, but if over the next 15 years the returns are far below what is projected, it would add a lot of unexpected costs to the plan.

[4:11:28 PM](#)

MR. FROST advanced to slide 11, "SB 88 Concerns." He commented that the concerns are generally design elements that can be tweaked to align with defined benefit plan reforms that they or other states have been honing.

[4:11:42 PM](#)

MR. FROST spoke to points on slide 12, "Problem #1: Poor Plan Design":

[Original punctuation provided.]

#### **Problem 1: Poor Plan Design**

- Plan assumptions are an outlier among other defined benefit plans.
  - Starting a new pension tier at a 7.25% assumed rate of return is the biggest issue in this bill.
- Closes the DC plan to all new hires
  - DC plans are vastly more beneficial for shorter-term workers.
  - Average new employee holds 7-8 jobs over the course of their career.
- Capped employee contribution rates.
  - Employees: 8%-12%
  - Employers: 12% + all unfunded liabilities
  - **Increases to employee rates are at discretion of board instead of automatic.**
- The small changes made by bill proponents do not, practically speaking, take any of the real risk off the table.
  - Cost sharing, discount rates, longevity are where the needle moves for taking down risk.

[4:14:28 PM](#)

CHAIR BJORKMAN asked whether he assumed the contribution rates would remain static when he costed out the plan.

MR. FROST replied that two methods were used. The first cost achieved under the assumption of all factors being at status quo, at 8 percent in which case everything went great. The second was a poor return scenario in which the employees would then pay the full 12 percent.

CHAIR BJORKMAN sought confirmation that as the plan needs more funding, it is designed to split costs using the Actuarially Determined Employer Contribution (ADEC) model that is preferred by Mr. Frost's organization.

MR. FROST confirmed that was true, as it is a simpler model, though not as common currently.

CHAIR BJORKMAN clarified that the employer contribution amount at 22 percent was chosen as a settlement for employers and local municipalities to pay off past service costs of the legacy tiers.

[4:16:37 PM](#)

MR. FROST continued his review of slide 12. He said that the organization recommendation is to set the rate of return at what the projected earnings are. He stated that if a company allows people to retire early there is a longevity risk, which will increase pension payments.

[4:19:02 PM](#)

MR. FROST spoke to points on slide 13, "Problem 2: Minimal Actuarial Scrutiny":

[Original punctuation provided.]

**Problem 2: Minimal Actuarial Scrutiny**

- There is no publicly available long-term actuarial forecasting or stress testing performed by the PERS/TRS actuaries.
- Supporters claim that "tweaks to the new pension would eliminate financial risk to the state" but those claims have faced minimal actuarial scrutiny to support them.
- What happens to costs and unfunded liabilities if plan experience differs from expectations?
- The proposed reforms would commit Alaska and its government employees to unpredictable long-term costs. It is crucial to consider the costs over decades, not just a few years.

- Recognizing the need for a long-term perspective on funding and costs, we prepared modeling of the proposed reforms.

[4:20:54 PM](#)

MR. FROST spoke to points on slide 14, "Problem 3: Pension Cost Increases Already Coming":

[Original punctuation provided.]

### **Problem 3: Pension Cost Increases Already Coming**

- The bills propose the use of a 7.25% assumed rate of return, discount rate, and DC annuitization rate.
- They also propose the ability to transfer all employee assets from the DC plan into the new DB plan to purchase service credit.
- The legacy pension tier also still uses a 7.25% rate.
- National average is now 6.93% and dropping quickly.
- Survey of largest public pension systems shows they expect to earn around 5.5-6% over the next 10-15 years.
- When Alaska PERS and TRS lowers their investment return assumptions, costs will go up dramatically for both legacy and new tiers.

[4:22:01 PM](#)

MR. FROST spoke to points on slide 15, "Problem 4: Pension Swap Unlikely to Solve Retention Issues":

[Original punctuation provided.]

### **Problem 4: Pension Swap Unlikely to Solve Retention Issues**

- Policymakers are concerned with recruitment and retention challenges.
- Proponents claim they are having trouble recruiting and retaining members due to the lack of a defined benefit pension for their members.
- Across the country, median state employee tenure is 6.3 years.
  - Most state employees have access to a defined benefit plan.
- 86% of police stations across the country are facing a shortage of members.

- o Every one of those stations, outside of Alaska, has a pension with some defined benefit component.
- We have an academic working paper that shows retention rates for teachers did not change when Alaska swapped from a DB to DC in 2005.
  - o Alaska Legislative Finance Division presented to Senate Finance in March and showed similar results for state employees.

[4:23:31 PM](#)

MR. FROST spoke to points on slide 18, "Long-term Cost Impact of SB 88." He said if SB 88 does not pass the state can expect to pay about \$17.7 billion and if the next 20 years of returns match the last 20 years, then they can expect to pay \$5.1 billion more.

[4:23:58 PM](#)

MR. FROST advanced to slide 20, "DB vs DC: Who Does it Benefit?" to show some benefit modeling to the committee.

[4:24:16 PM](#)

SENATOR DUNBAR referred to slides 20-22 in which defined contribution and defined benefit plans are compared. He referred to Mr. Frost's comment that 7.25 percent was an unrealistic rate of return. He stated that individual employees tend to underperform, and asked why he used a 7.25 percent rate of return. He mentioned that Mr. Frost assumed entry dates to new workplaces are around 30 years of age but the average starting age for employees is 46. He asked how that changes the modeling.

MR. FROST replied that the foundation was doing a comparison to the benefit modeling done by the Division of Retirement and Benefits (DRB), so they used exact same outline. He agreed with Senator Dunbar that 7.25 percent is an unrealistic rate of return.

[4:26:27 PM](#)

SENATOR BISHOP requested a copy of the academic working paper that shows retention rates.

MR. FROST replied that he can.

SENATOR BISHOP sought confirmation that his number one issue with the plan is the multiplier, the 7.25 percent figure.

MR. FROST responded that the issue is not the multiplier, but the assumed rate of return, 7.25 percent figure.

SENATOR BISHOP sought confirmation that was his biggest complaint with the whole bill.

MR. FROST replied yes. That is the largest cost driver.

SENATOR BISHOP expressed his belief that the permanent fund rate of return is forecast at 7.02 percent for 10 years.

[4:27:24 PM](#)

CHAIR BJORKMAN brought up a previous question about the 8 to 12 percent range for contribution rate adjustability. He asked if those numbers were reflected on slide 18.

MR. FROST replied yes. The employer's contribution does not increase much. The employee pays 12 instead of 8 percent. If the employee contributed 8 percent, the employer contribution would be about \$3.5 billion more. He said the employer contribution is reduced \$3.5 billion if the employee contributes 4 percent more; meaning, the state will contribute \$5.1 instead of \$8.6 billion.

CHAIR BJORKMAN indicated that \$8.6 billion is not on the slide.

[4:28:38 PM](#)

MR. FROST said the number was removed from the slide. A previous version of the presentation assumed the employee rate would stay at 8 percent and employer contribution increased to \$39.8 billion. He said essentially the employee rate increase by 4 percent saves the employer \$3.5 billion.

CHAIR BJORKMAN asked factors which determine that stress.

MR. FROST replied negative 10. He said taking into consideration the ups and downs of projected recessions, the long-term figure is averaged out at a 6 percent return.

[4:30:27 PM](#)

SENATOR GRAY-JACKSON said his working paper shows that retention rates did not change from the DB to the DC plan. She asked whether he has a working paper that shows the retention rate of public safety officers when moving from a DB to a DC plan.

MR. FROST answered that he believes the Legislative Finance Division has that data.

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CHAIR BJORKMAN invited Mr. Doonan with the National Institute on Retirement Security to put himself on the record and speak to SB 88 and the proposed CS.

[4:32:39 PM](#)

DAN DOONAN, Executive Director, National Institute on Retirement Security (NIRS), presented the slideshow titled "Alaska Teacher Recruitment and Retention Study: Options and Analysis Supporting Retirement Design" and answered questions on SB 88. He emphasized that this bill is not just a black and white take on choosing a DB or a DC plan, but that there are more complex factors and layers to consider when making policy decisions.

He advanced to slide 1, "First: A Workforce Observation." He was hoping to share a subset of the paper to share risk taking mechanisms, and what other states have done.

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MR. DOONAN advanced to slide 2, "Most Leaving the DC Plans Are Quitting; DB Plans See Mostly Retirements." He said that most people leaving the DC plans are quitting. On the other side, most people leaving the DB plans are transitioning into retirement. The point of this slide is to point out that if employers want to improve retention, the focus must be on DC employees.

[4:36:38 PM](#)

MR. DOONAN advanced to slide 3, "Strategies to Produce Stable Costs and Risk-Sharing Observations."

MR. DOONAN spoke to the chart on slide 4, "Cost Stability Strategies and Observations on Other States" He discussed success rates in Wisconsin, South Dakota, Indiana, and Tennessee that employ strategies to produce stable costs.

[4:39:29 PM](#)

MR. DOONAN spoke to the chart on slide 5, "Effectiveness of Risk-Sharing Provisions Changes as a Plan Matures." He explained that the slide shows a conceptual chart that is meant to illustrate a supply and demand curve. He discussed two common types of risk-sharing policies.

[4:42:32 PM](#)

MR. DOONAN spoke to points on slide 6, "Conditional PRPAs Have Greater Impact in More Mature Plans." He used a sample to show how Post Retirement Pension Adjustments (PRPAs) work. In the

case of a Great Recession or a similar event, three PRPAs are skipped. The new tier is not seriously affected, but skipping those PRPAs are effective on the retiree-heavy tier, because a quarter of unfunded liabilities are eliminated.

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MR. DOONAN spoke to the chart on slide 7, "Assuming a Larger Conditional PRPA Has a Greater Impact on Risk-Sharing." He said another thing to think about is if the plan assumes a 3 percent increase each year, then a third of the benefit is not guaranteed. Reducing the cost-of-living-adjustment COLA reduces the mechanism of risk-sharing itself.

[4:44:45 PM](#)

MR. DOONAN spoke to points on slide 8, "Key Takeaways on Risk-Sharing":

[Original punctuation provided.]

#### **Key Takeaways on Risk-Sharing**

- Risk-sharing generally becomes more important as a tier matures.
- Risk-sharing through conditional PRPAs grows more effective as a tier matures. Cost-sharing grows less effective.
- The inflation adjustment assumption is important, with a higher assumption meaning stronger risk-sharing.
- Conditional PRPAs must be pre-funded (or assumed to be provided) for risk-sharing to work.
- The bill before you will align stakeholder interests. Workers, retirees, and state employees have an incentive to keep the plan on track.

[4:45:45 PM](#)

MR. DOONAN advanced to slide 9, "IN, SD & WI Have Kept Contribution Rates Stable Over Past Two Decades."

[4:47:54 PM](#)

SENATOR BISHOP thanked the presenter.

[4:48:26 PM](#)

SENATOR DUNBAR commented that turnover - particularly in the case of teachers - but in general is one of the reasons to consider returning to defined benefit plans. He asked whether DB plans are effective at retaining younger workers.

[4:49:21 PM](#)

MR. DOONAN replied that asking in context does not give the full story.

MR. DOONAN drew attention to slide 29, "Termination: Select Rates - TRS DCR." He pointed out rates of years of service of male and female teachers, noting that there is a loss of 31 percent of female teachers before one year of teaching is complete.

MR. DOONAN drew attention to slide 30, "Quick Comparison of Retention in Other States." About half of Alaskan teachers are lost before five years are complete, which is a better rate than California and some other states.

MR. DOONAN jumped to slide 32, "Cumulative Years Taught from 100 newly hired, 25-year-Old Teacher Over Next 30 Years." He discussed how many teaching years the state gets out of different numbers of teachers.

[4:54:05 PM](#)

CHAIR BJORKMAN drew attention slide 9. He asked where Alaska might fall on the chart with the cost-sharing measures currently in place.

MR. DOONAN replied that he did a chart in which contributions were factored in as pension payroll. He did not add in the DC payroll which is growing. With a shrinking workforce, rates go up as employers pay them off. He said that costs vary in the state, and he figured that costs would be between 5-12 percent.

CHAIR BJORKMAN clarified his questions. He asked if this legislation was adopted, what would Mr. Doonan expect the contribution rates as a percentage of pay to be with the cost-sharing provisions currently in place.

MR. DOONAN replied that there are two pieces to consider. It can't be helped if markets go down and costs go up. If the state wants to create a plan for a funding strategy moving forward that is deliberate about creating more stable costs, then that is possible. New strategies for DB plans can work if their execution is serious and deliberate.

[4:56:41 PM](#)

SENATOR BISHOP asked if he was familiar with the assumption rates in Wisconsin, Indiana, South Dakota, and Tennessee.

MR. DOONAN clarified that Senator Bishop was referring to return assumptions.

SENATOR BISHOP said yes.

MR. DOONAN expressed his belief that Wisconsin and South Dakota are sub seven but that he did not know for sure.

SENATOR BISHOP clarified that he said, "sub seven."

MR. DOONAN said that the National Association of State Retirement Administrators (NASRA) is a good resource, and he would pass that along to the committee. He said even with a low discount rate, if the markets drop, one still must put money in. The low discount rate alone doesn't solve volatility.

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CHAIR BJORKMAN held SB 88 in committee with the motion to adopt the committee substitute (CS) pending.

[4:58:46 PM](#)

There being no further business to come before the committee, Chair Bjorkman adjourned the Senate Labor and Commerce Standing Committee meeting at 4:58 p.m.