

HOUSE FINANCE COMMITTEE
February 11, 2025
1:35 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:35 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Andy Josephson, Co-Chair
Representative Calvin Schrage, Co-Chair(via teleconference)
Representative Jamie Allard
Representative Jeremy Bynum
Representative Alyse Galvin
Representative Sara Hannan
Representative Nellie Unangiq Jimmie
Representative DeLena Johnson
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Representative Chuck Kopp; Teresa Ghilarducci, Director, Schwartz Center for Economic Policy Analysis; Brodie Anderson, Staff, Representative Neal Foster; Representative Bryce Edgmon; Representative Rebecca Himschoot.

PRESENT VIA TELECONFERENCE

Sean Case, Chief, Anchorage Police Department; Kathy Lea, Director, Division of Retirement and Benefits, Department of Administration.

SUMMARY

HB 78 RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.

HB 78 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting agenda. The committee would hear from the Anchorage Police Department followed by the continuation of a presentation and invited testimony.

#hb78

HOUSE BILL NO. 78

"An Act relating to the Public Employees' Retirement System of Alaska and the teachers' retirement system; providing certain employees an opportunity to choose between the defined benefit and defined contribution plans of the Public Employees' Retirement System of Alaska and the teachers' retirement system; and providing for an effective date."

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Co-Chair Foster asked to hear from the Anchorage Police Department (APD) chief of police.

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SEAN CASE, CHIEF, ANCHORAGE POLICE DEPARTMENT (via teleconference), spoke in strong support of the bill and a defined benefit system for police officers. He read from prepared remarks:

House Bill 78 not only provides long term benefits to our officers, but the entire state of Alaska by accomplishing five things. The first ensures financial security for our officers. A defined benefit retirement system guarantees a predictable and stable pension, which is essential for their peace of mind after years of strenuous service.

Number two, it attracts and retains top talent. A competitive retirement package makes Alaska a desirable employer. It encourages experienced officers to stay, reducing turnover and minimizing the significant cost tied to recruiting, training, and onboarding new officers.

Number three, it promotes long-term community stability. Experienced officers build trust, they

understand local issues, and they form lasting relationships with their community, ensuring public safety is maintained by individuals who possess deep knowledge of both the community and policing practices.

Number four, it provides financial stability and predictability. Our current system transfers risk to the individual. Market volatility can jeopardize an officer's retirement savings, leaving them vulnerable in their later years. House Bill 78 offers financial predictability and stability.

Finally, number five, it upholds our commitment to our officers. House Bill 78 is a demonstration of our commitment to the men and women who put their lives on the line every day. Police officers dedicate their lives to ensuring the safety and security of our communities. Their jobs are fraught with risk and challenges. By supporting this bill, we acknowledge their sacrifices and ensure they have the support they need after their service concludes. I urge the committee to support police officers by supporting House Bill 78. This approach not only honors their dedication but strengthens our communities and upholds our state commitment to those who protect and serve. Thank you.

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Co-Chair Foster recognized Co-Chair Schrage online.

Representative Allard thanked Mr. Case for his service. She heard some alarming news earlier in the day. She noted there were three police officers in Eagle River/Chugiak and one roaming officer. She was told that if the bill did not pass, the police officers would be cut from her district. She asked for verification that it was untrue.

Mr. Case replied that he had never heard any conversation about that and passing a bill would not govern how APD determined its staffing levels in any way.

Representative Allard highlighted that the bill pertained to all state employees and was not limited to police officers.

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Co-Chair Foster resumed the presentation from the prior afternoon. He would take questions from committee members every few slides. He listed others available in the room and online.

REPRESENTATIVE CHUCK KOPP, addressed a PowerPoint presentation titled "Strengthening Alaska's Public Workforce: House Bill 78 A Shared-Risk Retirement Plan," dated February 10, 2025 (copy on file). He began on slide 18 and detailed that vesting under HB 78 would require five years of service for the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). He detailed that the timeframe was consistent for PERS with the previous defined benefit (DB) Tier 3 plan and would align PERS and TRS.

Representative Kopp moved to the qualification for retirement on slide 19:

Qualification for Retirement

TRS & PERS (non-public safety)
Age 60 w/5 years of service
or
30 years of service

PERS Public Safety
Age 50 w/25 years of service
or
Age 55 w/20 years of service

Representative Kopp noted that the prior DB pension system starting with Tier 1 was 20 years of service. He detailed that it included a full healthcare benefit. He highlighted that HB 78 did not include a healthcare benefit. He referenced a question from Representative Bynum the previous day about the reason for not including a healthcare benefit. He explained that health actuaries had reported that a health benefit would cost about \$125 million every five years; therefore, it had not been included in the bill. The bill only included a health savings account.

Representative Kopp turned to slide 20 titled "Retirees Skin in the Game." He explained that the DB system in the

bill was a shared risk plan that was made of three groups keeping the plan solvent. He moved to slide 21 and explained that the bill would eliminate the Cost of Living Allowance (COLA), which was a 10 percent, two-year base pension beginning when a person turned 65 years old as long as they remained in Alaska and met Permanent Fund Dividend (PFD) eligibility as an Alaska resident. The bill proposed removing the COLA as a way to remain solvent.

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Representative Kopp moved to slide 22 and discussed post-retirement pension adjustments (PRPA), also known as inflation protection. He explained that the provision aimed to ensure the dollars an employee earned were inflation proofed. Under the bill, the Alaska Retirement Management Board (ARMB) may provide or withhold PRPA to retirees if the DB Trust Fund valuation dropped below 90 percent. For example, it was about 1.5 percent the previous year. He elaborated that members generally annually could look at .75 percent or .5 percent, which could be withheld entirely if the plan dropped below 90 percent. He explained that it would keep the plan solvent. He highlighted that the aforementioned types of risk sharing were used by Wisconsin and South Dakota and both plans were funded at 100 percent for the past 10 years and 20 years respectively.

Representative Kopp moved to slide 23 showing examples of states providing the PRPA contingent on fund performance. He highlighted that South Dakota's plan was funded at 101 percent. He stated that fund valuations were dynamic depending on the returns of any year. He pointed out that all of the states listed on the slide [Louisiana, Maryland, Nebraska, South Dakota, and Wisconsin] were doing better than Alaska's PERS, which was about 68 percent funded (not combined with healthcare). He noted that none of the plans used all of the risk sharing included in HB 78, which incorporated best practices from multiple states.

Representative Kopp addressed retirement medical coverage on slide 24. The coverage was consistent with the current Tier 4 defined contribution (DC) plan. Employees under the DC plan had a health savings account (HSA) only. He detailed that employers took 3 percent of the average wage compensation in a job class from top to bottom. He detailed that the health care cost was the same regardless of their position with the state. The 3 percent was set aside for

employees in an HSA, which amounted to about \$2,400 per year. He elaborated that even after 25 to 30 years of service with the state, it would not result in a substantial amount of money that would have to bridge a person to Medicare. He estimated the amount could be between \$75,000 and \$100,000 depending on market returns. The employer contribution for public safety employees was 4 percent. He detailed that public safety employees retired earlier and had a longer wait to being Medicare-eligible. He noted that the increase resulted in about \$800 more per year in an HSA. A Health Retirement Account (HRA) could be used for any qualifying medical need or premium expenses. The medical coverage provisions kept the plan solvent and did not put the state on the hook for any healthcare aspect of the plan.

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Representative Kopp advanced to slide 25 and explained that under HB 78, any current DC employee had the option to remain in the DC plan or move to the proposed DB plan within 180 days. He detailed that employees would have time to review the actuarial projections and determine which plan would be to their benefit. Under the bill, new employees would be enrolled in the DB plan. He explained that the larger the pension pool, the stronger the lifetime fiscal security of the plan and for pensioners who had paid into the plan.

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Representative Stapp asked about the material difference between PRPA and COLA. He understood that COLA only applied to Alaska and on the federal level it was typically the state's inflation adjusted payment.

Representative Kopp replied that COLA stood for cost of living allowance and was different than inflation proofing. He detailed that COLA was provided by the state in Tiers 1, 2, and 3. He elaborated that a COLA in the amount of 10 percent of a retiree's pension was provided to individuals who were 65 and older who remained in Alaska. He shared that the decision to remove it from the bill had not necessarily been popular, but it was a policy call to reduce the cost of the bill. The PRPA was inflation proofing to protect the value of the dollar from eroding. For example, if a retiree received \$1,100 or \$1,500 per

month in their pension, a standard PRPA may be a 1.5 percent increase on July 1 of each year. He noted that under the bill, the PRPA could be withheld if the plan's funded ratio dropped below 90 percent.

Representative Stapp surmised that the PRPA was basically a COLA due to inflation. He asked if PRPA was considered an accrued benefit.

Representative Kopp answered that the PRPA was a benefit that only came in post-retirement. He explained that it was a built-in plan benefit that the plan lever would either give or take away depending on the funding level.

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Representative Stapp stated it was one of the pillars of the bill that he struggled with. He cited language in Article 12, Section 7 of the Alaska Constitution specifying that accrued benefits from public employees' retirements cannot be diminished by the state. He asked how it would not be considered a reduction in a retiree's accrued benefit if the PRPA was considered a part of the base plan and the ARMB was able to reduce it.

Representative Kopp answered that Alaska's courts did not view it as a reduction of retirement benefits because the employees would be aware of the possibility going into the plan. He explained that the state could not surprise employees with a reduction after they were enrolled in a plan, but it was different if they knew ahead of time that the retirement system was a dynamic model designed to adjust to the market to keep it solvent. He elaborated that it would be a contractual relationship individuals signed up for and it would not be considered a diminishment, but something that was considered necessary to the plan's ongoing viability.

Representative Stapp hoped it would be true, but he had not seen a legal memo stating it was the case. He stated that if he had worked for the state for 30 years and ARMB informed him that he would not be receiving his PRPA, he would sue the state. He referenced the recent Metcalfe v. State of Alaska case where the Alaska Supreme Court ruled an individual who cashed out of a Tier 2 pension could go back and accrue benefits when they were enrolled in Tier 4. He asked if there was anything Representative Kopp could

provide the committee that would make the interpretation "iron clad."

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Representative Kopp answered that it was a matter of well-settled law. He suggested that the Division of Retirement and Benefits (DRB) could answer the question best. The Department of Law could also answer the question. He explained that any retirement plan was a contractual relationship and the key was that an employee needed to understand what they were signing up for when entering the plan.

Co-Chair Foster stated that his intent was to have a wrap up meeting on the bill at some point addressing some of the questions that had come up and tying up loose ends. He highlighted questions related to exit surveys of Alaska State Troopers as an example.

Representative Stapp referenced the HRA and noted that currently when an employee retired, especially a public safety employee, it was a lot of years for them to get to Medicare or Medicaid. He asked what was known about how retirees used HRA funds. He knew HRA funds could be used to pay for premiums through the marketplace. He noted that the problem was it negated any type of subsidy for the plan though an ICHRA [Individual Coverage Health Reimbursement Arrangement] or small employer self-funded HRA. He asked employees currently struggled with HRA funds being sufficient to bridge them to Medicare.

Representative Kopp answered that the HRA would pay for any qualifying medical need or premium expense and it did not limit an individual to a directed state insurance plan. He explained that it was the individual's HRA and the individual was responsible for bridging themselves to Medicare in any way they could manage. The state did not tell individuals how to use the account.

Representative Stapp relayed that when an individual filled out an application for the marketplace insurance, one of the questions was whether the individual had access to an HRA for the purpose of using the funds to fund the premiums. He explained that typically if the applicant answered yes to the question they lost out in a dollar-for-dollar matching amount on the entirety of whatever type of

income-related federal subsidy they would have for their premiums. He elaborated that for a plan on the marketplace, a subsidy would normally cost the individual around \$200 per month, but without it the cost was in the thousands of dollars per month. He explained that if the individual had to pay the full cost of their HRA funds they would exhaust their ability to fund their insurance relatively quickly. He wondered about other mechanisms to mitigate the issue.

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Representative Kopp answered that the marketplace had distinctives that could make it difficult for state employees to maximize the benefit of their premium available money. He did not know the specific situation Representative Stapp was referring to. He remarked that it was important to think about whatever the state could be doing to help bridge employees to Medicare.

Representative Stapp referenced 180-day window for individuals to opt into the plan. He asked for the rationale behind the specific timeframe.

Representative Kopp answered that the timeframe had evolved over time. He explained that the idea was to give employees enough time to avoid a rushed decision on the issue. He detailed that perhaps some employees only intended to work three to five years and they were unsure whether a DB plan was right for them. He noted there may be a number of financial aspects an individual needed to work through to make the decision with DRB. A 90-day window had been contemplated initially and there had been immediate pushback from people requesting more time to make the decision. He recognized the decision was consequential because it was irrevocable. The bill ultimately landed on a six-month window as a good window for every employee to be able to make the best decision for themselves.

Representative Stapp agreed that the decision was large and irrevocable. He provided a scenario where an employee enrolled in the DB plan and left work with the state after vesting in five years. He asked what happened to the individual's accrued benefit.

Representative Kopp answered unless the employee cashed out the benefit, the individual would receive a small pension at 60 years of age.

Representative Stapp continued with the same scenario and asked if the person would still get the PRPA under the situation at the time of retirement.

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Representative Kopp answered affirmatively, as long as a person met retirement eligibility with five years of service and 60 years of age. The individual would be eligible for the PRPA. He noted that it would not happen immediately, but it would happen after the next valuation period by ARMB.

Representative Stapp provided a hypothetical situation where a 19 year old went to work for the Division of Public Assistance. He remarked that most 19 year olds did not think about insurance or pensions. He considered the 19 year old being told they had 180 days to decide whether to opt into the DB plan. He left the idea of leaving the ability for someone to go into a DC plan on the table because he was not certain the younger generation of employees would want to think about the implications of the decision. He asked if there was a reason not to consider leaving the DC plan open to provide individuals with the option.

Representative Kopp answered it was a policy call. He believed Representative Bynum had asked whether there should be a choice between a DB and DC plan coming for new employees. The policy call chosen for the bill was that new employees would be enrolled in the DB plan. He asked if Representative Stapp was asking how DB employees could choose to be in the DC plan instead.

Representative Stapp clarified his question. He considered a scenario where a 19 year old was newly employed with the state and did not know whether they wanted to be a state employee for the rest of their life. He asked if there was a reason not to have a parallel DC plan open alongside a DB plan. He wondered if there was a drawback to having both options.

Representative Kopp replied that it was a better question for DRB. There were rare cases where the state had dual plan members, but that was carryover from the previous PERS/TRS where people had worked in schools (as PERS

employees) who were not teachers who then became certified teachers and TRS plan members. The bill covered the situation and allowed the individuals to consolidate into one plan. He relayed that starting off with a dual plan option had not been considered in the bill. He did not know whether it would be possible. He deferred to DRB.

Co-Chair Foster directed the question to DRB.

KATHY LEA, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION (via teleconference), answered that per Internal Revenue Service (IRS) rules a person could only be in one plan at a time. There were some situations where people came into school districts as PERS employees and later became certified teachers and moved into TRS. She clarified that the individuals could not be enrolled in both plans simultaneously.

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Co-Chair Foster clarified that Representative Stapp was asking why employees could not have the option to choose a DB or DC plan.

Representative Stapp agreed. He explained that if a person was brand new in the workforce they may be scared of making the commitment of working in their first job for life. He asked if there was any drawback to leaving the DC plan option open in the event an individual was uncertain they wanted to work for the state their entire career.

Co-Chair Foster clarified the question. He asked if there was anything preventing the state from doing so in law.

Ms. Lea responded there was an IRS requirement requiring employees to choose one plan within a certain amount of time of their hire date.

Co-Chair Foster clarified the question.

Representative Kopp stated that the situation described by Representative Stapp was possible. The employee would have to separate employment from the state as a DB member and get rehired into the DC plan. He did not know exactly how long the separation would have to be. He asked Ms. Lea to confirm his statement.

Ms. Lea answered that once a person chose and enrolled in their plan, even under a separation of service they would still come back to the plan they had originally been assigned to. She explained that an individual's plan and tier were established at the date of entry into the plan.

Representative Kopp disagreed with the statement by Ms. Lea. He explained that the bill was specifically written to allow former PERS Tier 4 DC employees who had separated to come back into the plan. He would talk to Ms. Lea offline and if he was mistaken he would correct his statement on the record. He noted that the topic had arisen in the Senate and he wanted to ensure that if something in the bill needed to be corrected that it would be done in the House Finance Committee. He wanted to specifically allow members who had left the DC plan to have a path into DB. He noted that Representative Stapp was merely talking about the reverse. He stated that the whole point was flexibility for employee choice. He stated that Representative Stapp's question about a brand new employee just figuring out the job. He relayed that if it was not in the bill, he would like to look at it.

Co-Chair Foster remarked that the issue would be discussed offline.

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Co-Chair Foster recognized Representative Bill Elam in the audience.

Representative Bynum referenced a brief conversation about COLA, which was intended to help retirees be able to stay in Alaska. He understood that through much discussion the provision had been removed from the bill. He highlighted the bill's goal of ensuring a workforce remained in Alaska. He thought it was just as important for retirees to be able to stay in Alaska. He noted the biggest cost issues for attracting employees was the overall affordability of housing, transportation, and energy. He asked about being able to maintain the state's retired workforce in its communities as part of the plan.

Representative Kopp remarked on the importance of the question. He stressed that retiree dollars circulating in communities were powerful economic drivers. He highlighted retired teachers, truck drivers, and police officers as

examples. He underscored the intergenerational stability reasons for keeping retired individuals in Alaska's communities. He stated the issue came down to how fiscally stringent and conservative the plan could be in order to make it affordable. He noted that whether it was the right policy call was up to the legislature as a whole. He recognized that COLA was a real concern for seniors because they were financially at their lowest cashflow and facing the highest costs where any amount of adjustment to their income had a long-term impact. He noted that it was not a decision that had been made lightly. He remarked that it emphasized how unfriendly the bill was to employees and retirees. He stated that for anyone who thought it was a transformative new plan going forward, he did not know whether the bill got it right. He explained that the goal was to keep the plan as fiscally conservative as possible.

Co-Chair Foster recognized Speaker Bryce Edgmon in the committee room.

Representative Bynum responded that it was definitely something for the legislature to continue to consider. He remarked that keeping retirees in Alaska's communities was vital to the communities. He was uncertain how the policy call would be made and by whom, but he intended to ask the co-chairs about it before the meeting ended. He looked at slide 18 related to the vesting period. He understood the bill proposed a new plan and considerations included how to make it affordable over time, how to make it fit the current workforce and next generation, and the expectations for the health of communities and employees. He asked why a longer vesting time had not been considered if the bill was about employee retention. He suggested a longer vesting time of 10 to 15 years. He noted that in a previous meeting Representative Kopp had indicated that current DC plan members were potentially leaving employment and the state after about five years. He asserted that part of the issue was related to the cost and affordability of being in Alaska's communities.

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Representative Kopp replied that the five-year vesting period was standard from state to state. He noted that Alaska was the only state that got out of any form of a pension. One of the reasons for not having a longer vesting period was that the five-year cashouts did not occur in a

DB plan like they did in DC plans. He explained that a pension incentivized time and service where an employee accumulated 2 percent of their base salary every year for ten years, 2.25 percent for the next ten years, and maybe 2.5 percent after that. The incentive was always there for an employee to build their knowledge, investment, skillset in the community, and buy-in to an employer's mission. He noted that it was difficult to get people to buy into an employer's mission when they knew they would be cashing out. The pension always had that and there had not been the reason to hold people there because of vesting because there were other things with a pension structure that incentivized people to hang in with their community and employer.

Representative Bynum stated there was no requirement for someone leaving employment to cash out their plan. He noted an individual could hold onto their plan and go to another city or employer with better pay or lower cost of living.

Representative Kopp agreed and elaborated that if someone worked for the City of Sitka and left at five years, they could go to the City of Ketchikan and pick up their time and service where they left off under the same system. The vesting period in a DB plan did not incentivize a cash out like a DC plan did, which did not reward any time and service beyond five years. He believed it would be a fair question if the incentive for vesting helped in a DB plan. He believed experts would say that the vesting period would have little effect on employee behavior and commitment because the structure of a DB plan was so different from a DC plan.

Representative Bynum asked for verification there was no requirement that a person from holding their earned benefit for retirement at the age of 60 if a person vested as an employee working in Sitka moved to Ketchikan to work in the private sector for better pay and perhaps a lower cost of living.

Representative Kopp agreed that the individual could leave their DB earned that was currently vested. The individual would have whatever they accrued in their HSA and toward their pension.

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Co-Chair Foster planned to hear from testifiers at 3:00 p.m.

Representative Bynum looked at the age requirement on slide 19. He noted that because it led to the viability of the longevity of the plan, he asked if there was a consideration to move the age up for the public safety component. For example, he asked about moving the age to 55 for 25 years of service or 60 for 20 years of service. He highlighted advances in technology, training, and equipment available to public safety employees. He asked if making the change had been evaluated and what kind of impact it would have on the cost of the plan. He shared that in his community and in his communications with troopers he had learned there had been a lot of retirees from the Lower 48 coming to Alaska for employment after they had retired. He knew they were very capable, knowledgeable, and able to perform in the job for five to seven more years.

Representative Kopp answered that the public safety structure was based on best practices across the nation for time in service and retirement timeline actuarial averages. He agreed there were public safety employees who could return to work after a career, but he would not encourage a 50 year old police officer or firefighter to go to work for a busy department where they were expected to field routine calls with several per day involving violence. He noted that a person's decision making ability likely peaked in their 30s and 40s. He stated that people needed to be on their "A game," which was the reason for the desire to have young people in the jobs. He referenced the grind in a high demand department and recognized it could be different in a smaller department and quieter area. He stated there was not a single ideal for every community. He reiterated that the bill included an average representing a best practice. He used an example of an officer or firefighter who started working at 21 and worked 25 years until they were 46 years old. He pointed out that the individual would still have to wait four years before receiving any pension benefits and would have to wait until Medicare age. He explained that they would need to get another job to get healthcare and to support themselves because their pension benefit was not significant. If the individual was 55 years old with 20 years of service, they would still need to wait 10 years until being Medicare eligible and likely 10 years before drawing social security. He explained that by pushing the timeline out it would require people to do a stressful,

high demand job at a much older age. He pointed out that when public safety employees took an oath of office, they promised to always do whatever it took because there was no path of safety except that of duty. He was very reticent to make people do that at an older age.

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Representative Bynum knew the employees in the Ketchikan fire and police departments were high speed into their 60s. He would put them up against anyone in the state. He thought the proposed plan would require individuals to go find additional employment because there was no ability for them to carry health insurance without paying it out of pocket (or finding an employer or spouse to carry the insurance), which diminished their retirement capability.

Representative Allard looked at the ages on slide 19 and the DB and DC plans. She stated that for public employees who worked less than 25 years in PERS, the DC plan would provide a better pension benefit than the DB plan. She asked if there was a slide in the presentation representing the comparisons. She asked if public employees understood they would have a better retirement under the DC plan

Representative Kopp answered that a better retirement plan was employee specific.

Representative Allard clarified she was asking about a pension benefit.

Representative Kopp replied that the previous year in the Senate and House Finance Committees, the Department of Administration showed a 17-year side by side comparison of DB and DC employee in the same job class. He reported that every year the salary replacement ratio was significantly higher under a DB plan shown by the current administration. He elaborated that the numbers included averages and actual employee time and service accounts. He stated the message was clear that a DB plan outperformed a DC plan.

Representative Allard disagreed. She believed the DC plan provided a better benefit for teachers working less than 30 years under TRS.

Representative Kopp replied that teachers in the DC plan vested at five years and could cash out any time after five

years. He explained that a pension had set times a person was able to receive retirement benefits. He stated that DB and DC plans were "two very different animals." He explained that under a DC plan it was possible to turn accumulated funds into an annuity. For example, an insurance company may guarantee a person \$800 per month for the rest of a person's life if they had a balance of \$70,000. He noted that example was likely a very high figure. He stated that under a pension, it was necessary to serve a certain number of years before being qualified to draw funds. The plan included in the bill required five years of service access to the pension at the age of 60. He clarified that a teacher who taught for 30 years could draw their pension and HRA account at any time. A [DB] pension was time and service eligibility and a DC plan did not incentivize time and service. Under a DC plan an individual could take their funds anytime after five years to buy an annuity, a truck, or whatever they wanted.

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Representative Allard referenced Representative Kopp's earlier statement that he wanted public safety officers to be on their "A game." She asked about the oldest age a person could be recruited into the APD.

Representative Kopp answered that he did not know the age for APD. He believed it was 35 or 36 years of age for federal service.

Representative Allard used an example where 35 years of age was the recruitment cap. She considered a public safety officer at the age of 60 with 25 years of service. She viewed individuals under the DB plan as locked into the particular plan under a position they may hate. She noted that nationwide the average time a person moved from one position to another was 6.3 years. She asked if the state was looking to have individuals who did not like their job but were forced to stay because they were in a certain plan.

Representative Kopp replied that he could see how one may think that; however, employee behavior showed otherwise. He had an upcoming slide showing a current internal Department of Public Safety (DPS) employee survey that asked employees for their preference between DB and DC plans. He explained

that it helped to show what real public safety employees wanted.

Representative Allard stated that from 2011 to 2023 there had been a steep decline in public safety officers wanting to remain in their positions. She argued that the numbers mentioned by Representative Kopp were likely not as correct as the numbers and statistics she had. She wanted to compare them.

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Co-Chair Josephson thought Representative Kopp's earlier statement that the bill was not very employee friendly was said somewhat tongue-in-cheek. He asked for verification that the goal of the bill was to be friendlier to employees.

Representative Kopp agreed.

Co-Chair Josephson thought Representative Kopp meant that the plan under the bill was not as gold plated as legacy programs and did not include the full defined health benefit or COLA. He stated his understanding that the decisions had been made by the bill drafters because it was a balancing effort to provide pensions people could live on when working their years in Alaska to help its industries, school systems, and private industries, while finding something that would be in the 90 percent plus range and fully solvent. He asked for verification that some of the "frills" had been pulled from the legacy system to find a better balance.

Representative Kopp replied affirmatively. He underscored that the bill shared the risk between employees, employers, and retirees. He explained his earlier statement that the bill was not employee friendly. He detailed that the risk used to be entirely on the employer and the bill put the risk on employees and retirees as well. He detailed that the bill did not include COLA, had shared risk, the ability to lose inflation proofing, and no healthcare (employees would have an HSA only). He explained that the current plan was so underperforming what employees needed that they overwhelmingly supported the bill because it was a step forward.

Co-Chair Josephson referenced Representative Bynum's statement that there were some first responders who were coming to Alaska in their older years. He thought they were likely coming to Alaska with a fully vested DB plan from another state. He elaborated that the individuals had satisfied an important retirement planning option in a Lower 48 state and they were likely adding to the retirement benefits by working in Alaska. He asked if the scenario was likely what was taking place.

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Representative Kopp agreed. Alaska was the only state that did not provide a pension for teachers and public safety employees. He agreed that if the individual had retired in another state, they would have a base level of income secured.

Representative Bynum appreciated seeing a full room of people. He asked about slide 24 specifically related to the lack of a healthcare component in the bill. He asked if an evaluation had been done to determine what the actual cost of bridging healthcare may be for non-public safety employee who had worked for the state for 30 years and retired at or before the age of 60. He noted there was potentially a 15-year gap between retirement for a public safety employee. He asked if there had been a fiscal evaluation of what the cost would be for the retiree to bridge their healthcare with the current proposed plan.

Representative Kopp replied, "No." The only known information was the average premium currently in the marketplace depending on the desired level of coverage. He stated that everyone wanted a level of coverage that would keep them out of the Obamacare fines. He detailed that the amounts varied by state, and he had seen premiums as low as \$900 to \$1,000 for individual full coverage all the way up to costs seen in Alaska of \$1,600 to \$1,700 and as high as \$2,200 per month. Consideration had been given to what it would cost to include healthcare rather than an employee risk only account. The cost was around \$125 million every five years to the state; therefore, it had not been included.

Representative Bynum asked if the cost was for bridging to Medicare or to Medicare and providing supplemental coverage alongside Medicare to cover additional cost.

Representative Kopp responded that the additional \$125 million would be the cost baked into the plan that the state would pay for someone with a traditional DB plan including healthcare. Under that scenario, when a person reached retirement eligibility they would have a fully paid premium. He addressed Representative Bynum's question about what it would cost out of a health savings account to bridge an individual to healthcare. He stated that the amount the individual would end up with would not be competitive and they would need to get another job. He elaborated that if a person ended up with \$70,000 to \$100,000 after a career of service, they would need at least that amount to bridge them and likely quite a bit more.

Representative Bynum asked if the fiscal evaluation on the cost was readily available for members to evaluate. He wondered what actual healthcare was being used as the metric. For example, a Tier 1 versus Tier 3 plan. He was interested in how the plans covered, who they covered, and for how long.

[2:40:26 PM](#)

Representative Kopp answered that the previous DB plan, healthcare was fully covered for every participant, just like a full coverage plan would be for a legislator. He suggested that he could ask DRB to provide some numbers showing the cost to the state. He noted the numbers would make it very clear why it had not been included in the proposed plan. He relayed that it would be easier and more straightforward to provide the contribution to an HRA per year at a 3 to 4 percent (what the state was putting in for employees and leaving the onus on employees to buy their insurance). Under the previous plans, the healthcare that covered everyone for every health issue was very expensive.

Representative Bynum remarked that in his experience evaluating employees and looking into the market for research, employees found healthcare to be a very important aspect of retirement. He knew that many people delayed retirement because of the specific issue. He asked if there had been a fiscal evaluation done to determine if there was any cost saving offset by having a long-term, 30-year employee staying on because they needed healthcare versus retiring and having healthcare available and the cost

savings that may be passed along to the state because the employee was earning a higher wage and continuing to build into the DB program. Effectively, if an employee retired earlier, it provided an opportunity to move up the ladder of employment and potential cost savings. He asked if an evaluation had been done to determine whether there would be a potential cost saving offset for having employees be able to retire with the security of health insurance.

Representative Kopp answered no. He elaborated that the bill required five years of service, or 60 years of age, or 30 years of service to collect benefits. If a person left employment after 20 years, they would have to wait until the age of 60 to receive a pension benefit. He thought Representative Bynum was asking if it was possible to incentivize anything more than an HRA at 20 years of service.

Representative Bynum considered individuals who started employment with the state or municipality at the young age of 18 to 20. He detailed that at 48 they had worked for 30 years and had the opportunity to do something different. He explained that healthcare was a big concern when they reached retirement eligibility, especially if they had a family. He explained that many individuals would remain employed and had moved up the ladder and were likely in a leadership position with a higher wage. When the individual retired, someone would move up the ladder to fill the position and there would be a difference of cost to the employer. He asked if an evaluation had been done to determine if the cost to the employer would offset some of the costs for the employee to want to retire sooner.

Representative Kopp responded that there was not.

Representative Bynum asked if there had been an evaluation done to look at the workforce as a whole and the movement from preferences of the workforce (i.e., time and service in a position, how often an individual moved from one job to the next, whether a person was moving into or out of the state) to a transient employment, which was more common in younger generations. He asked if there was an evaluation to determine whether the proposed DB plan would detract those individuals from working for the state.

[2:45:53 PM](#)

Representative Kopp responded that the presentation highlighted internal State of Alaska surveys showing that the new generation of employees wanted the plan. Every year, the state did a workforce profile - historical records for the past 20 years were on the Department of Labor and Workforce Development (DLWD) website - that showed the time in service for every job class by gender and department. He explained that DLWD did an exhaustive workforce profile that looked at the issues every year.

Representative Bynum had heard through the presentation from the presenter that "that's a policy call." He remarked that the bill had not been put through a committee process outside of finance. He asked if there were changes that would occur and whether the bill could be improved to help employees. He asked if the policy calls would happen in the House and when they would occur. He wondered if other committees that would have a better ability to answer some of the legal questions such as the Labor and Commerce Committee would have an opportunity to weigh in on how the bill would impact Alaska.

Co-Chair Foster answered that there would be an amendment process for the bill in the House Finance Committee. He thought it was unlikely the bill would go back to other committees. He relayed that any member of the Labor and Commerce Committee could work with finance members to put amendments forward. The formal process would be the amendment process.

Co-Chair Josephson also responded to Representative Bynum. He stated it begged the question about the role of the finance committee. He highlighted that the committee did not just look at numbers, it looked at policy. He relayed that, for example, if a person wanted the bill to include COLA, it could be introduced as an amendment.

[2:49:32 PM](#)

Co-Chair Foster clarified that the intent was not to rush the bill, and he wanted the process to be deliberative where all of the issues were discussed. He noted that Representative Bynum was asking many great questions and clearly had experience with the topic. He wanted to put everything on the table to come up with the best path forward.

Representative Galvin understood that the goal was recruitment and retention. She did not have time to look through all of the documents from SB 88, which she understood was a thoroughly vetted process in the Senate. She was missing the piece on recruitment related to HB 78. She understood that current state employees were asked whether the idea was meaningful. She highlighted the desire to recruit teachers, public safety officers, and other employees from outside of Alaska. She asked how Alaska was compared with other states. She referenced statements by Representative Kopp that the plan in the bill was not a Cadillac plan, there was no COLA, it was not portable. She noted other statements about the PRPA and HRA. She asked for context and assurance that the bill would meet some of the goals. She understood it may not meet all of the goals. She considered that if no one was completely happy, the right balance had likely been struck. She asked about the retention component.

[2:52:10 PM](#)

Representative Kopp answered that in 2022, Governor Mike Dunleavy's administration commissioned a teacher recruitment and retention report to determine how to address the high teacher turnover in Alaska. He noted that the statewide team met for 18 months. One of the top findings was a return to a DB system to keep teachers in the classroom year over year. He would provide the report to the committee. Additionally, the DPS 2017 through 2023 plan report was already in members' bill packets and identified the return to a DB system for troopers as one of the department's top concerns to recruit and retain employees. There was also a recent internal survey by DPS shown on an upcoming slide.

Representative Galvin would appreciate seeing the teacher recruitment [report] showing [a DB plan] would make Alaska attractive.

Representative Stapp referenced Representative Kopp's mention of the popularity of returning to a pension. He remarked that most of the public employees he talked with wanted a pension. He wanted a pension too and did not have one. He was not certain most people understood the mechanisms the committee was talking about. He stated that taking COLA away was basically a 20 percent reduction in benefit from Tier 3. He thought ratcheting down the PRPA

became a scary concept as a retiree to think individuals would not get an inflation adjusted benefit. He referenced Representative Kopp's discussion on polls related to the plan. He asked if people understood there was a potential that ARMB would reduce their PRPA benefit. He explained that one of the most important polls he had seen on the topic was from Dittman and it was a statewide poll showing a 50/50 split over the return to a DB plan. He elaborated that the survey had also asked people whether they thought the legislature would "screw it up" and 90 percent responded affirmatively. He considered a scenario where ARMB had to decide whether to raise existing employee contributions or reduce employee retirement benefits. He asked how ARMB would make the decision.

Representative Kopp responded that ARMB would make the decision based on the plan being 90 percent funded or not. He elaborated that when the plan was 90 percent funded or more, plan participants would receive the PRPA. He noted that employer and employee contributions could be lowered. If the funded ratio dropped below [90 percent] contributions would increase.

Representative Stapp understood what they could do. He believed the composition of the ARMB mattered in terms of what the board would actually do. He considered a scenario where an ARMB member was an active employee. He provided a hypothetical example where he was an active employee and Speaker Bryce Edgmon was a retired employee. As a board member, he would almost certainly make the decision to reduce the retiree benefit instead of paying more money and he assumed the retiree board member would make certain the state paid more money and did not reduce the retiree benefit. He asked how ARMB would discern which lever to pull.

[2:56:36 PM](#)

Representative Kopp replied that the ARMB was checked three ways. It had its own actuary, a second independent actuary, and a third actuary double checking the first two. The actuaries were all required to report on the validity of the valuation of the plan. The state had learned the lesson from the Mercer incident [ARMB sued its former actuarial firm Mercer in 2007 for negligence]. He explained there was no way some board members could "screw around with that and make decisions that are going to be outside." He explained

that the actuaries would "tell us if they're doing a good job or not." He pointed out that a testifier had traveled from the East Coast to present to the committee and he would like to get to their testimony. He was personally available to answer questions and discuss the bill for the rest of the year. He requested moving on.

Representative Stapp stated that ARMB was given the ability to pull levers. He asked what lever the ARMB pulled when it had to make a choice. He wondered how ARMB would choose between increased employee contributions or reducing the PRPA. He asked if both would be done simultaneously.

Representative Kopp replied that the two things would happen together if the plan dropped below 90 percent. He requested to finish the slides.

Representative Allard remarked that if the bill had gone through the regular committee process with hearings in the House Labor and Commerce Committee, there could have been much more public testimony.

Co-Chair Foster noted that it was not his intent to push the bill through the committee. The issue was complex and there would be time to understand and digest it. He asked Representative Kopp to finish the presentation, which would be followed by testifiers.

Representative Kopp moved to slides 26 and 27 and relayed that a statewide survey indicated Alaskans were in strong support of pension reform, recognizing there was a problem with recruitment and retention. He highlighted a recent survey by Patinkin Research Surveys showing that nearly seven in ten Alaskans across all demographics recognize there was an issue, and they were in favor, to some degree, of looking at how the current retirement plan could be reformed into a more competitive and attractive plan. He turned to slide 28 and reported that the proposal appealed across demographics including the Interior, Southeast, Kenai, Anchorage, Fairbanks, and Mat-Su. People around the state recognized that Alaska was not a competitive employer and it was necessary to look at "this benefit" as a piece of the puzzle.

Representative Kopp addressed the DPS survey of 468 employees on slide 29. He detailed that 96.69 percent of employees in the Tier 1, 2, and 3 plans wanted to keep

their current DB plan. He relayed that 3.31 percent of individuals in the DB plan would prefer a DC plan. He elaborated that 75.73 percent of Tier 4 DC employees would prefer the DB plan and 22.98 percent preferred the DC plan. He noted that 1.29 percent did not respond. Slide 30 showed that 82.61 percent of the 458 DPS employees preferred a DB pension.

Representative Kopp turned to slide 31 and explained that the investment was an investment in Alaska's economy to make Alaska attractive, orderly, and safe, producing a strong education and public safety infrastructure, which would attract private investment and families back to Alaska. Slide 32 showed the cost through 2039, which he noted was for the previous version of the bill, SB 88. The graph was put together by the state's actuary Buck Consultants, and the cost breakdown was done by the independent actuary Flick Fornia. Mr. Fornia had used the increase that Buck had come up with. The pension impact was \$275 million, the healthcare impact was \$179 million, and the payroll impact was \$617 million. Buck Consultants projected the numbers to be the total increase from 2026 through 2039, a period of 14 years. The projection included the nominal increase. The present value cost of the plan was just over \$600 million, reflecting a present value per year cost between \$42 million and \$45 million. Currently, the legislature was running recruitment and retention bonus bills for teachers only that approached \$60 million per year (\$15 million per year or more than the projected cost of the proposed plan). The blue line representing the payroll impact showed that most of the cost of the bill was due to a higher number of future employees. The increase in payroll and healthcare showed the bill was projected to do as intended by filling empty positions. He noted that the pension was the smallest portion of the cost at 25 percent.

[3:04:02 PM](#)

Representative Kopp provided wrap up on slide 33 with the economic benefits of HB 78. He emphasized that the savings alone eclipsed the cost of the plan per year. He noted that was not considering the ARMB using the 90 percent lever or the assumption made by the actuary that 100 percent of employees would leave the DC plan for the DB plan. He relayed that the actuary had stated that it would not happen. He stated, "our job is to give you the worst case scenario." He explained that there would be savings. There

was a 90 percent lever that would make the pension cost much less. Additionally, employees would not all opt into the plan. He relayed that the recruitment and retention effort would improve the current environment and would save training cost and lost workforce hours and restore Alaska's ability to provide critically needed services. He concluded on slide 34 and stated that the bill provided a comprehensive new plan that reflected a strategic investment in Alaska's workforce, economy, and future, which would directly address high turnover at a reasonable cost offering a responsible retirement plan. He thanked the committee.

[3:05:24 PM](#)

Co-Chair Foster noted there were questions from members. He intended to move to testimony first.

Representative Kopp requested to hear from Dr. Ghilarducci followed by Lon Garrison.

Co-Chair Foster invited the first speaker to address the committee.

[3:07:39 PM](#)

TERESA GHILARDUCCI, DIRECTOR, SCHWARTZ CENTER FOR ECONOMIC POLICY ANALYSIS, noted that in the interest of time she would not go through her PowerPoint titled "How Pension Reform Affects Alaska's Economic Performance" (copy on file). She was present to answer four questions. The first question was why the legislature needed a labor and pension economist like herself to evaluate the bill. The second question was how much the bill cost. She noted that the cost information was shown on slide 33 of the presentation provided by Representative Kopp. She thought committee members may have questions about how she had come up with the cost savings from the bill. The third question was how the bill would impact Alaska's economy, particularly business investment. She explained that another way to phrase the question was "what is the private business case for the bill?" The fourth question, which she had expertise in, was how DB plans versus DC plans impacted the well-being, health, morbidity, and mortality of retirees. There was a lot of data because the 401K design had been experimented with in the U.S. for 40 years to know the impact on people as they aged. She noted the work was

fascinating, involving brain scans and measurements of cortisol, serotonin, and dopamine levels. She also had expertise in looking at the desires of workers at education and age levels in terms of the composition of compensation. She intended to answer the question about what workers wanted.

[3:09:38 PM](#)

Dr. Ghilarducci addressed why an economist was needed to evaluate the bill. She explained that actuaries the legislature hired to evaluate the bill had an important but narrow role. She detailed that actuaries' professional standards required them to look at past experience to make forecasts about what the plan design combined with the workforce would cost. Actuaries did not have the expertise to evaluate what it would mean in terms of employee behavior, employer behavior, or the effect on the whole economy. She was present to answer any of those questions that a policymaker would have. She stated that the answer was embedded in her evaluation of the cost of the proposed plan.

Ms. Ghilarducci shared that the previous year she had testified to the Senate Finance Committee that the bill would save \$76 million per year. She stated it was composed of two major costs. The first was \$62 million in savings on training, onboarding, and recruitment costs. She remarked that it was amazingly high, but not a surprise to employers. She explained that when employers lost an employee, they had to go through recruitment costs. She remarked that onboarding was one kind of training, but the ongoing training that went with knowledge and experience could last years depending on the occupation (e.g., public safety, teaching). She stated that it took a lot of time to get wise in those occupations. She elaborated that when an employer lost a midcareer employee, they lost the ability to do on-the-job training for people below that position. She relayed that literature in labor and economics showed that the morale of incoming employees was impacted when they saw there was no path for them, that there was not an ecology of commitment signaled through compensation and behavior of the career. After five years of employment, the turnover required employees to make a life decision about whether they would stay or take their money and use it as a lump sum to move. She stated that with compensation like that, it was a signal that an employer wanted people to

consider leaving after five years. Therefore, it made sense that the savings in turnover and training was \$62 million.

Ms. Ghilarducci relayed that the second source of savings came from the system design. She explained that in a 401k or DC plan, the dollar went directly to the employee, and the employee was their own investment manager. They had to figure out the portfolio that would optimize the funding of their long-term liability. She detailed that most people did not have that ability and it was a tricky problem to determine what their portfolio should look like. She expounded that the employees were also buying retail products or assets at the highest price with no bargaining power to lower the fees. The structure of the assets were marked to market and fully liquid, but it was an inappropriate match between the long-term liability an employee was funding for their own financial future. She stated that the 401k plan distorted the asset liability matching. She explained that DB plans were invested by professionals who could optimize a portfolio. Additionally, DB plans had substantial clout, which meant fees could be reduced. Defined benefit plans pooled the financial risk of a situation where a person turned 50 on the year of a financial crash. She shared that she researched what happened to 50 year olds in the 2008 crash and they had never recovered. She remarked that there were many risks that the employee could not mitigate such as living too long. She elaborated there was a tail risk that a person would live into their 90s. Individuals with a DB plan could pool the risk whereas individuals with a DC plan had to fund the risk. She explained there were many people who would die in their 80s, but they had to put aside 25 percent more just for the tail risk that they would live longer.

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Dr. Ghilarducci stated that the \$14 million in savings primarily came from fees and having a more efficient portfolio. The third issue was a calculation she made in the current year showing the impact the bill would have on the Alaskan economy. She referenced her written testimony (copy on file) and explained that the first couple of pages compared the Alaska economy to similar economies in South Dakota and Wyoming (given the sectors the economies were based on). She found that Alaska had tracked Wyoming and South Dakota for many years with the exception of the past

ten years in terms of population decline and gross domestic product (GDP). She was surprised by the business formation indicator. She explained that Alaska was trending below its peers in business formation. She considered what was happening in Wyoming that did not have a business friendly environment. She explained that Wyoming had always been a conservative state that did not have high taxes and viewed itself as business friendly. She highlighted Virginia as a fairly high tax state, which ranked number one in attracting businesses. She offered a quote from Virginia's Governor Glenn Youngkin, "A state that can quickly deliver what companies require to make investment decisions is a state that provides to businesses, permitting confidence, workforce development, utilities, and ancillary factors that enable companies to meet their schedules for becoming operational." She explained that businesses came when they knew they could get a license, a business permit, and when there was reliable physical and human infrastructure. The workforce development was expected to be done by the state, so the business did not have to provide the cost. She noted it was one of the most important aspects as well as the physical infrastructure that included two things: transportation and communication.

[3:18:06 PM](#)

Dr. Ghilarducci had asked an economist to provide her with his input/output model for Alaska. She explained that the model came from Inplan Consulting Services, which sold its services to states and municipalities in order to run a dynamic model of the economy. She noted that he had given her the information for free and they spent three hours looking at the analysis; they both found the results surprising. They discovered that it was an extractive economy, but there were complimentary businesses needed in order to extract efficiently. She detailed that if extraction went up in Alaska, the demand for computer and high-tech services increased because extraction was becoming more high-tech and efficient. Consequently, Alaska needed a workforce to fill the demand. She suspected it was inhibiting business formation. She detailed that a reputation was built over many years and it could be lost within a couple of years. She believed it explained the data she found on slide 3 that business formation was declining.

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Dr. Ghilarducci addressed the effect on the health and wellbeing of retirees at the age of 58 or 65 when they had a lump sum (e.g., \$250,000) or the equivalent of a stream of income worth \$250,000. She stated the difference between the two situations was palpable. The reported levels of depression and anxiety were much higher among retirees with a DC plan. She stated that it made sense because they were asked at an older age to optimize their money to last their whole life and to add in all of the anticipated long-term costs. She remarked that it was a very difficult calculation made at a time when a person likely had the least ability to do it. She pointed out that it meant individuals were prey to a lot of financial predators who took advantage of 75 year olds with \$100,000 in the bank. Individuals were bombarded daily with people wanting to separate them from their money. She noted elders were not stupid, but they needed to have their antennae up for predation. She remarked that after the recent abolishment of the Consumer Financial Protection Bureau at the national level, the protection against predation was even less.

Dr. Ghilarducci stated that a DB recipient had other kinds of anxieties, but the report was much lower because they knew the money was a steady stream of income for the rest of their life. She reported that physical data of brain waves and blood samples showed a DC participant had higher levels of cortisol associated with heart attacks and other cardiovascular disease and lower levels of serotonin (the brain chemical giving people a sense of well-being). Another reason the level of depression and anxiety was high for DC annuitants was due to a sense of shame in not having enough money. She explained that DC plans were "do it yourself" systems where the participant was responsible and if it did not turn out, they blamed themselves. She could answer questions pertaining to the four areas and what other countries and states were doing in terms of pension reform that prevented the surprise billing Alaska had in 2006 when the Mercer error was uncovered.

[3:23:24 PM](#)

Representative Stapp held up a document authored by Dr. Ghilarducci with the New School for Social Research and asked for verification it was the document she was referencing when talking about the work she did for Alaska

[the document was a memorandum addressed to the Senate Finance Committee dated January 16, 2024] (copy on file).

Dr. Ghilarducci responded affirmatively.

Representative Stapp noted that he had read Dr. Ghilarducci's book over the weekend. He stated that she referenced the Center for Retirement Research throughout her work. He asked if it was a place he should go to look at the studies.

Dr. Ghilarducci responded that she hoped she thoroughly referenced every point. She suggested looking at some of the economic studies that emphasized Governor Youngkin's point about what determined business location decisions. She explained that it concluded that a robust public sector (i.e., a developmental state) was needed instead of a cheap public sector. The Center for Retirement Research had been in the business for 25 years and answered many of the questions. She also directed members to the New School for Social Research website.

Representative Stapp asked about the \$76 million in cost savings projected by Dr. Ghilarducci. He looked at page 13 of a packet submitted by Dr. Ghilarducci pertaining to the savings associated with turnover in public safety pensions. He looked at the information specifying a 1 percent turnover rate due to low pay in pensions was over \$4 million. The information was followed by a note reading "I need the citation for this fact." He asked for the citation to help understand how the number had been derived.

Mr. Therriault replied that she would follow up with the information.

Representative Stapp referenced a study [from the Center for Retirement Research] that concluded on the aggregate DB plans had a better rate of return than DC plans at about 70 basis points better over time. He relayed that the Alaska Treasury Division [within the Department of Revenue] told him the DC investments had been performing better than DB investments in terms of rate of return. He asked if he should be more concerned long term about what the aggregate data showed or if he should look to his own individual plans.

[3:27:18 PM](#)

Dr. Ghilarducci answered that the study done by her competitor, The Center for Retirement Research, was very good. She noted they had a big portfolio on public pension plans and the information was a good resource. She emphasized that the differences accumulated over time and could lead to a 25 percent difference in pay. She was interested in seeing the information referenced by Representative Stapp that the DC plan in Alaska outperformed the DB plan because she almost did not believe it. She added it was necessary to adjust the rate of return for risk. The most important thing to any investor was to adjust the return for the risk being taken and to make sure the risk adjusted return was maximized.

Representative Stapp shared that he had staff check with Treasury and he thought they would likely testify to the committee. He referenced the research by The Center for Retirement Research specifying that of all the aggregate plans, the difference in the rate of return was about 70 basis points (7 percent). He noted the research also specified that of the average rate of return of all the DB plans, though higher than the DC plans on aggregate, the rate of return was 6.6 percent. He asked if Dr. Ghilarducci thought it was a good indicator to use for what to expect the rate of return to be.

Dr. Ghilarducci replied that she was a trustee of very large plans, and her plans had been ratcheting down their assumed assumption. Her plans were assuming a rate of return a little higher than 6.8 percent, but to be conservative, 6.2 percent was good assumption.

Representative Stapp was intrigued by the concepts of GRAs [guaranteed retirement account]. He asked about Dr. Ghilarducci's long-term vision about the public retirement crisis nationwide. He asked her to talk to committee members about how Alaska could take steps to implement the vision.

Dr. Ghilarducci answered that she had been working on the topic for 42 years and there was a bill currently in Congress to finally implement the plan. She explained it would bring the U.S. to a more optimal plan in order to get a higher grade. She explained that international studies always ranked the U.S. at a C+ or D because it had such a DC heavy benefit. She elaborated that because universal

coverage was needed and everyone deserved to start saving for their retirement from the moment they begin working, the money needed to be invested wisely at the lowest risk and fees and it needed to have an option of lifetime annuity. She explained that it did not absolve an employee from putting in the money and if Alaska moved to the pension reform [in the bill] with a hybrid plan, it would get closer to her vision of what all Americans needed.

Representative Stapp stated, "Which is guaranteed retirement accounts."

Ms. Ghilarducci thanked Representative Stapp for putting the statement on the record.

Representative Stapp suggested that DOR could likely talk about the rates of return. He would like to have Dr. Ghilarducci hear the information directly from the Treasury Division.

Co-Chair Foster noted that DOR was not online.

[3:31:55 PM](#)

Representative Bynum referenced Dr. Ghilarducci's role as an economist and her discussion about looking at impacts to communities and the importance of a retirement benefit for economic health. He wondered if she had weighed other factors including the cost of housing, schools, energy costs, transportation, actual pay, health insurance, the quality of community services (i.e., healthcare and childcare), workplace culture, and retirement. He asked how to rank the items and what ranked as priority to a working class person.

Dr. Ghilarducci answered that labor economists had been asking workers what they wanted since the post war period. She stated that the items could be ranked by employees. She noted that pay came first, family leave typically ranked last, and career development, respect, and dignity typically ranked in the middle. Economists realized that it was not merely one factor, it was an ecology of compensation that signaled what kind of an employer the employer was and economists then ranked employers and compensation packages to high commitment and low commitment. She relayed that retirement came in after pay and health benefits and often other issues such as housing

became very important as seen in California and areas of New York where people were migrating due to housing.

Co-Chair Foster thanked Dr. Ghilarducci. He noted that the committee had run out of time, and another meeting would be scheduled to address the remaining testifiers.

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Representative Tomaszewski noted there was currently only one fiscal note. He wondered when members would see the fiscal note showing what the bill would cost. He remarked that there were typically fiscal notes attached to bills.

Co-Chair Foster asked his staff and Representative Kopp to come to the table.

BRODIE ANDERSON, STAFF, REPRESENTATIVE NEAL FOSTER, answered that Co-Chair Foster's office had been working with the Department of Administration to request the actuarial report. The report would take about four to six weeks. He explained that ARMB came out with a new set of assumptions and a new actuarial would be required. They would continue to meet over the time period until the actuarial report was provided. Once the actuarial was available it would be presented to the committee, and further discussion would take place.

Representative Kopp clarified that under state law only the House Finance Committee could order an actuarial evaluation of a pension plan. He elaborated that the report could not be ordered from any other committee. He noted it would be done as quickly as possible.

Representative Tomaszewski asked if the bill would sit in committee until the actuarial report was received.

Representative Kopp answered that it was up to the chair to make the decision, but law required that the bill could not be reported to the Rules Committee without the fiscal note.

Representative Tomaszewski remarked that he had asked the question because it was standard procedure.

Representative Kopp answered that it was the law.

Representative Allard stated that she had never seen a bill come before the committee without a fiscal note. She asked if the committee would proceed prior to receiving it.

Co-Chair Foster answered that due the complexity of the topic, the bill concepts and structure were being presented to the committee. He remarked that because the topic had been heard in the past, the committee could hear the core of the bill. Once the actuarial review was received, the finer points could be ironed out.

Representative Allard stated that she hoped the co-chair made exceptions for that for all the bills.

Co-Chair Foster pointed out that there was a fiscal note in the bill packet.

[3:39:01 PM](#)

Representative Kopp clarified that any bill that had to do with a retirement system could only have a fiscal note ordered by the House Finance Committee when the bill was in committee; therefore, it could not show up to the committee with a fiscal note.

Representative Stapp noted that the committee had heard from Dr. Ghilarducci about rates of return. He thought it would save time to ensure the rates of return discussed by Dr. Ghilarducci would be considered in the actuarial report. He noted that previous actuarials from Cherion, Segal, or Buck included rates of return that were "all over the place." He suggested that the actuarial could include a bugle chart of different scenarios of what the plan would look like at 7.5, 6.5, or 8 percent.

Mr. Anderson answered it was early enough that the request could be added for inclusion in the report. He noted that Dr. Ghilarducci had mentioned some additional items that may help with the process, which would also be included.

Representative Bynum asked if the fiscal note would only cover the cost to the state and not the cost to all of the employers and potential cost to employees.

Co-Chair Foster deferred the question to Representative Kopp.

Representative Kopp replied that the fiscal note would show the cost to employers. He explained that for any estimated cost above what local government paid, there would be an additional cost to the state. The information would be broken down by what local governments would pay. He clarified that any additional projected cost would be a cost to the state. The state only paid the full cost for state employees, and it paid the additional cost above the 22 percent for local government.

Representative Bynum asked if the cost to employers would be based on a full count of full staffing and not the current enrollment.

Representative Kopp answered that the actuary would look at existing state staffing. He expounded that either Representative Tomaszewski or Representative Stapp had requested Monte Carlo modeling where various rates of return would be provided. The actuary could provide one version where the bill had the desired goal of filling positions and they could provide a version where no additional hires were made, meaning the additional payroll and healthcare would not be built in. He explained that it would isolate the cost of the pension. He noted that the previous actuary report included various models.

Representative Bynum asked for verification that the fiscal note would include all of the information.

Representative Kopp clarified that the actuarial report would include the modeling of multiple scenarios. The fiscal note was different and would include a single scenario, which was generally the most conservative one.

Co-Chair Foster clarified that the bill had one fiscal note already. The Department of Administration had told his office that it was hesitant to commission an actuarial report without knowing for certain that the bill would go somewhere because actuarial reports were expensive. For example, a PERS/TRS bill could be put forward without going anywhere. The department preferred the committee hear the bill prior to ordering the actuary report.

HB 78 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the schedule for the following morning.

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ADJOURNMENT

3:44:35 PM

The meeting was adjourned at 3:44 p.m.