

HOUSE FINANCE COMMITTEE
February 18, 2025
1:33 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Andy Josephson, Co-Chair
Representative Calvin Schrage, Co-Chair
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

Nolan Klouda, Policy Director, Mayor LaFrance Administration; Tyler Bond, Research Director, National Institute on Retirement Security; Representative Chuck Kopp.

PRESENT VIA TELECONFERENCE

Doug Schrage, Fire Chief, Anchorage Fire Department, Anchorage.

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.

#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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DOUG SCHRAGE, FIRE CHIEF, ANCHORAGE FIRE DEPARTMENT, ANCHORAGE (via teleconference), introduced himself and provided invited testimony. He shared that in addition to his role as Anchorage Fire Chief, he was also a past president and lifelong member of the Alaska Fire Chiefs Association (AFCA). He explained that he was speaking on behalf of dedicated firefighters throughout Alaska, although the majority of his experience was with the Anchorage Fire Department (AFD). The primary point of his testimony was to relay that the lack of a defined benefit (DB) pension system presented a recruitment and retention problem that was costing Alaskan taxpayers. He shared that recruitment numbers for firefighters in Anchorage were not as strong as they had been in the past. However, retention was an even greater challenge, particularly once Tier IV benefits became portable. Some firefighters had left for departments in other states, especially in the Pacific Northwest, where DB pension systems were still available.

Mr. Schrage explained that Anchorage spent millions of dollars each year to recruit and train new firefighters. After graduating from the academy, new firefighters spent their first few years gaining valuable experience and achieving journeyman status while serving the community. In the past, the fire department benefitted from new employees' experience over the course of their careers, which allowed the city to recover the costs of the initial training. However, the department lost its return on investment when firefighters departed within five to seven

years, after receiving full training within the state. He relayed that journeyman firefighters from Alaska were being aggressively recruited by fire departments in the Pacific Northwest and some departments were offering significant signing bonuses. He was aware of one situation in which a \$50,000 signing bonus was offered for paramedics. Lateral transfers were also available and allowed Anchorage-trained firefighters to join other departments after only abbreviated training. He shared that one department had used a former Anchorage employee and his family in a recruitment video that targeted AFD personnel specifically.

Mr. Schrage stated that Anchorage firefighters overwhelmingly identified the lack of a DB pension as the primary reason for their decision to leave the department, which was why AFD had ceased out-of-state recruitment altogether. He explained that the department could not compete effectively because out-of-state applicants were more likely to return to their home states once their benefits became portable. He relayed that AFD was competing for a limited pool of paramedics against fire departments across the nation, and in response, Anchorage had begun paying incumbent firefighters to attend paramedic school. The fire department offered full tuition, benefits, wages, and backfill support, resulting in a cost of approximately \$100,000 per paramedic. He thought it was particularly disheartening when a trained paramedic left for another department after reaching the five-year mark.

Mr. Schrage stated that most Anchorage firefighters were now Tier IV employees and within the next 18 months, the last of the Tier III firefighters would become eligible for retirement. He warned that without deliberate legislative action, turnover would increase and the relative cost of training new hires would rise further over time as employees retired. He appreciated the committee's efforts to reduce the out-migration of Alaska's firefighters expressed his full support of HB 78.

Representative Hannan stated that she did not have a question but congratulated Mr. Schrage on his newest grandchild.

Co-Chair Foster seconded the sentiment.

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NOLAN KLOUDA, POLICY DIRECTOR, MAYOR LAFRANCE ADMINISTRATION, shared that Anchorage Mayor Suzanne LaFrance was unable to testify before the committee but had asked him to convey her strong support for the bill. The legislation was an important measure and he appreciated the efforts to address the issue of pensions and pension reform. He stated that the Anchorage was facing significant labor shortages that affected its ability to deliver essential services. He relayed that Anchorage had implemented a number of policies to improve employee retention, but it would continue to lose employees without a competitive pension system.

Mr. Klouda noted that Mayor LaFrance inherited high vacancy rates when she took office. He shared that the overall vacancy rate across the municipality through 2023 and into 2024 was approximately 16 percent and in some departments, the vacancy rate was even higher. The Anchorage Police Department (APD) had a 20 percent vacancy rate and the Maintenance and Operations Department, which managed road maintenance and snow removal, had a vacancy rate of approximately 18 percent. The Department of Health (DOH) had a vacancy rate of approximately 30 percent and the Municipal Prosecutor's Office experienced a 35 percent vacancy rate in 2024. He shared that the LaFrance Administration had worked hard to implement improvements to address staffing challenges and had seen progress in some areas; however, turnover remained high. He stated that turnover in the Municipal Attorney's Office had at one point approached 60 percent in recent years.

Mr. Klouda reiterated that the vacancies directly impacted the municipality's ability to provide essential services, such as attorneys who prosecuted misdemeanor theft, public health nurses, heavy equipment operators responsible for snow removal, and police officers who patrolled the streets. He stated that all of the listed services had been negatively affected by employee turnover and retention challenges. He further explained that, during the past summer, APD was short by approximately 60 officers, which presented a serious challenge to Anchorage's ability to address public safety in a basic and effective manner. He emphasized that pension reform should be viewed as a public safety issue in addition to its connection to the provision of other critical services. He emphasized that it was a critical public safety issue.

Mr. Klouda reported that the administration had analyzed how retirement systems affected employee retention. There was a recent human resources (HR) study comparing employees with DB pensions to those with defined contribution (DC) plans that examined employees who began work at the same time and measured their length of service. The results showed that employees with DB pensions remained employed for approximately nine years, while those with DC plans stayed for about five years. He emphasized that the results reflected a significant difference in retention between the two plan types.

Mr. Klouda continued that the administration had implemented various retention strategies, but pension structure was one area where state-level policy intervention was essential. He reiterated that municipalities like Anchorage relied on a strong workforce to deliver essential services such as road maintenance and public safety. He concluded by stating that local governments would continue to struggle to recruit and retain workers and to deliver the services communities required if the pension issue was not addressed. He emphasized that anyone concerned about safe streets, clean parks, reliable public services, and infrastructure should also care about pension reform.

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Representative Allard commented that Anchorage faced record levels of homelessness, the school district was ranked last in the nation, and that crime and murders were occurring at alarming per capita rates. She stressed that housing affordability was in crisis. She asked if the DB system was truly the main factor preventing people from staying in Alaska.

Mr. Klouda responded that a number of factors affected Anchorage's ability to recruit and retain employees, and that the challenges were not limited to municipal government but applied broadly across employers. He explained that the municipality did not have control over the Anchorage School District (ASD). He stated that housing remained a major issue for the LaFrance Administration and was a top policy focus. He clarified that the administration did not claim pensions were the only solution to Anchorage's complex problems, but the administration viewed pensions as a critical factor,

especially when reviewing the number of employees lost to other states that offered more competitive retirement systems.

Representative Allard remarked that the Anchorage Assembly voted on ASD's budget and therefore did influence it. She emphasized that crime rates, housing affordability, and homelessness were key reasons why people left Anchorage. She thought that the claim that pension reform was the primary solution would be a "hard sell."

Representative Bynum stated that he appreciated the use of data in the discussion. He understood that DB employees typically remained in their positions approximately nine years, while DC employees stayed around five years. He asked whether the data used for the two groups came from the same data set. He noted that there were no new DB employees currently being hired in Alaska. He asked whether the data for DB employees referred to employees who had started employment during the same period, or if the data spanned different years. He asked for clarification on whether the comparison aligned.

Mr. Klouda responded that he would be able to gather more information regarding the specific analysis. He explained that the HR department had analyzed cases where employees may have started working at the Municipality of Anchorage but had previous service elsewhere under DB plans, such as Tier I or Tier II systems. He stated that in some cases, employees had not started during the time DB pensions were originally active, but were still categorized as DB employees based on prior service. He offered to follow up with more information.

Representative Bynum thought that the information would be helpful to better understand the basis for the retention numbers that had been cited. He added that he was trying to understand the reasons why employees had left the municipality. He understood that some employees left for more competitive pensions and asked whether the municipality had conducted a total compensation analysis comparing its compensation package with those of the employers to which staff had departed. He asked whether the data showed that pensions were specifically the reason for leaving, or whether it reflected broader compensation issues. He emphasized the importance of compensation in

recruitment and retention and asked whether a holistic evaluation had been conducted.

Mr. Klouda replied that he would follow up with more detailed information. He explained that the municipality had conducted extensive surveying of its current workforce, and pension issues consistently ranked at the top of employees' concerns. He referenced prior testimony from Chief Schrage, who described targeted recruitment efforts from out-of-state employers who actively recruited Anchorage firefighters using more generous pensions as an incentive. He thought there was strong reason to believe pension offerings were a key factor in employee retention. He would follow up with survey results and any other relevant materials to further clarify the findings.

Representative Bynum would follow up outside of the meeting for additional information.

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Representative Stapp asked for the municipality's position on the 22 percent contribution rate for the Public Employees' Retirement System (PERS).

Mr. Klouda responded that he did not have an immediate answer and would need to follow up with more information.

Representative Stapp relayed that municipalities often supported a return to DB but expressed concern about bearing additional financial risk or contributing more. He asked whether anything currently prevented Anchorage from creating its own retirement benefit system separate from the state.

Mr. Klouda responded that it was his understanding that the municipality could theoretically create its own pension system. However, such systems benefitted from a larger pool of participants to distribute risk and costs. He thought that a standalone system would lack the necessary scale, which made statewide systems more advantageous.

Representative Stapp stated that some bargaining units and employees in Fairbanks were not enrolled in the Supplemental Benefits System (SBS). He asked whether all employees under the Municipality of Anchorage participated in SBS or if some had opted out.

Mr. Klouda responded that he understood that most of the municipal employees were enrolled in SBS. He did not know the exact number but could follow up.

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TYLER BOND, RESEARCH DIRECTOR, NATIONAL INSTITUTE ON RETIREMENT SECURITY, introduced the PowerPoint presentation "Presentation to Alaska House Finance Committee" dated February 18, 2025 (copy on file). He explained that the National Institute on Retirement Security (NIRS) was a nonprofit, nonpartisan research organization based in Washington, D.C. He clarified that he was not present to testify in support of or in opposition to HB 78, but to share findings from the institute's research on public pension plans in states across the nation. He stated that while the organization conducted research on a wide variety of retirement-related topics, the majority of its work focused on issues affecting public pension plans.

Mr. Bond continued to slide 2 which included a report released by the organization several years earlier that focused specifically on Alaska. He explained that the report evaluated the recruitment and retention of teachers and other education professionals in Alaska and offered an analysis of potential retirement plan design options for the professions. The chart separated states into two categories: those in which all or most teachers and education professionals participated in Social Security, and those in which only some or none did. He stated that the top portion of both sections showed states offering a DB pension. He noted that a majority of states still offered a DB pension plan.

Mr. Bond relayed that there were other retirement plan types listed on the chart under the DB plans, including hybrid plans, cash balance plans, and states that allowed employees to choose their plan type. He pointed out that the very bottom of the chart showed states offering only a DC plan, and that the only state listed in that category was Alaska. He emphasized that Alaska was the only state in the nation that only offered a DC retirement plan to its teachers. He added that if the chart had included other categories of public employees, there would have been a few additional states in which most employees were in a DC

plan. However, he reiterated that Alaska remained an outlier.

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Representative Galvin asked about the accessibility of retirement plan data for prospective employees. She asked if, for example, a 30-year-old police officer or firefighter searching for employment across the country could access retirement plan information online.

Mr. Bond replied that the information was relatively easy to obtain. He explained that public employees in sought-after professions, such as paramedics, could easily access information about which states offered pensions.

Representative Galvin understood that the information was public and it was well-known that Alaska placed at the bottom of the chart. She wanted to clarify that it was not new information to anyone looking for employment.

Mr. Bond responded that if a 30-year old firefighter in Alaska was considering where the remainder of their career might take them, it would be easy to find information online about other employment options. He stated that the information was not necessarily common knowledge, but it was accessible knowledge.

Representative Stapp asked Mr. Bond to explain the meaning of the different plan types mentioned in the presentation. He specifically asked what constituted a cash balance plan and a hybrid plan. He thought a clarification would help both the committee and the public understand what was being discussed.

Mr. Bond responded that the top portion of the chart displayed traditional DB pension plans and the second row detailed DB plans that included a DC component, which was typically referred to as a hybrid plan. He clarified that hybrid plans included a DB component that was smaller than a full DB system. In addition, there was usually a mandatory DC plan layered on top of the reduced DB component. There were several variations of plan choice presented in the chart. Some states allowed workers to choose between a full DB plan and a hybrid plan, such as Washington. Other states designated the DB plan as the default option, but allowed teachers to opt into a DC plan.

He explained that in other states, the choice was between a hybrid plan and a DC-only plan. He relayed that a cash balance plan was somewhat of a hybrid between a DB and a DC plan. Employees under a cash balance plan accumulated interest credits and earnings credits and upon retirement, the credits were converted into an annuity stream. He stated that the plan provisions established the calculations for the interest and earnings credits.

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Representative Stapp asked what the practical differences between a DB plan and a DB plus DC hybrid plan were. He asked how hybrid plans typically differed from full DB plans, particularly in terms of salary percentages and benefit structure.

Mr. Bond responded that the percentage of salary contributed to the DB component in a hybrid plan was typically lower. He explained that in a full DB plan, an employee might contribute 8 percent, whereas in a hybrid plan, the employee might contribute only 4 percent to the DB plan and an additional mandatory 3 percent to the DC plan. The benefit formula for the DB portion of the hybrid plan was based on a smaller benefit multiplier than in the full DB plan. He relayed that participants in a hybrid plan would still receive a guaranteed monthly income from the DB component, but would be expected to supplement the income with savings and investment returns from the DC portion.

Representative Stapp stated that he understood that states utilized hybrid or DC plans to control for risk. He asked if his understanding was correct.

Mr. Bond responded that it was a fair assessment.

Representative Hannan noted that the two columns on the right-hand side of the chart were labeled for teachers and education support professionals (ESP). She asked if NIRS had conducted the same type of analysis for other categories of public sector employees.

Mr. Bond responded that NIRS had not produced a similar chart for other categories of public employees. He stated that the chart was specifically intended to evaluate teacher recruitment and retention in Alaska. He suggested that a similar chart could be created for other categories,

but there would likely be more variation because many public safety retirement plans were sponsored at the municipal level rather than the state level. However, the fundamental structures of the plans would not look significantly different.

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Representative Bynum understood that there had been reference to Alaska appearing at the bottom of the chart. He asked for confirmation that the chart was not intended as a ranking, but rather a reflection of where Alaska fell based on plan type. He asked if his interpretation was accurate.

Mr. Bond responded in the affirmative and clarified that the chart did not reflect any kind of ranking.

Representative Bynum asked whether there had been any evaluation done regarding the option to opt out of or into other retirement options. He understood that Alaska teachers had the option to opt into Social Security in the past. He asked if there had been a study on the impact of the choice and how it related to overall retirement outcomes and decision-making.

Mr. Bond asked whether Representative Bynum was asking specifically about opting in or out of Social Security, or whether the question was about states in which there was a choice between plan types such as DB pensions.

Representative Bynum clarified that he was asking whether the states listed on the chart also provided options for participation in Social Security. He asked if the NIRS analysis only considered plan types or if it also considered the ability to participate in something like Social Security.

Mr. Bond responded that regardless of plan type, most or all teachers in the states listed on the top of the chart participated in Social Security. Only some teachers or sometimes no teachers on the bottom half of the chart participated in Social Security, regardless of plan type. He relayed that most states did not allow employees to choose whether to participate in the pension plan. There was generally no choice regarding participation in Social Security either.

Representative Bynum asked if there had been any evaluation or analysis on the impact of Alaska not being in the top category. He asked if the information on the chart was simply a neutral grouping of data.

Mr. Bond responded that the chart should not be interpreted as any form of ranking. He stated that it was simply a method for grouping states into different categories. The chart was not intended to convey that the DB plan was necessarily superior or inferior to any of the other plans listed. He stated that prior to his time at NIRS, the organization had produced at least one report analyzing several states that had adopted choice options that allowed workers to select which type of retirement plan to participate in. He offered to follow up with the details of the report. He added that one factor which significantly impacted the outcome of the choice was the default option and whether it was set to a DB plan or another option. He relayed that the chosen default appeared to greatly influence which plan workers ultimately selected.

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Representative Allard asked what happened to a DB member's benefits after the member died.

Mr. Bond responded that typically, most plans included an option for the member to elect a survivor benefit. If the member selected that option, at least some portion of their pension would go to a surviving spouse upon the member's death. He stated that if the member did not elect the survivor benefit, the payments would end upon the member's death.

Representative Allard asked if he had studied individuals who were in currently in the DB plan.

Mr. Bond responded in the affirmative.

Representative Allard asked if the DB plan in Alaska had similar survivor benefit options. She asked whether the benefit could be passed on to a family member or next of kin, or whether it would end entirely.

Mr. Bond responded that he would need to follow up with the information.

Representative Allard understood that if an Alaska DC plan member passed away, the remaining funds could be passed on to the next of kin or to the member's children, and the funds could be accessed until they were fully depleted. She asked Mr. Bond if he was aware of the information.

Mr. Bond responded in the affirmative. He explained that the DC plan functioned as an individual savings account, which meant that the participant could designate the beneficiary or beneficiaries to receive the funds, such as a spouse, children, or any other designee.

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Representative Hannan asked whether Mr. Bond knew how many other states did not provide a Social Security benefit to their teachers.

Mr. Bond responded that the bottom half of the chart showed several states where few or no teachers participated in Social Security, such as California, Louisiana, Maine, and Texas.

Representative Allard reiterated that in Alaska's DB system, a portion of the benefit could go to the spouse. However, once the spouse passed away, the benefit would not continue to any other family member.

Mr. Bond responded that he was not aware of any instances in which the benefit passed from a member to a spouse and then to a child.

Representative Bynum asked whether the cost to the employer remained in states with choice plans was the same regardless of the plan the employee selected.

Mr. Bond responded that he would need to review the plan details in states with choice plans to determine the cost implications for employers.

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Mr. Bond continued to slide 3 and explained that the analysis focused on Alaska's experience following the closure of the DB plans and the implementation of the DC plans. He stated that the analysis reviewed changes in

worker count by tenure from 2005, when the DB plans were still open, to 2021, which was the most recent year of available data at the time of the analysis. He stated that the chart illustrated that the number of workers with fewer years of tenure had decreased significantly for the Teachers' Retirement System (TRS). He noted that PERS numbers had also declined, though less sharply. He stated that the decrease pattern suggested lower retention in 2021 compared to 2005, which suggested that the DC plan had not been as effective at retaining employees as the DB plan. He stated that the number of employees with more than 14 years of experience had increased during the time period, which indicated that workers still participating in the DB plans had remained in their positions in order to continue earning pension benefits. He added that newer workers who joined after the implementation of the DC plans did not appear to remain in their positions as long.

Representative Tomaszewski asked whether there was an average rate from the lower 48 states in 2005 that Mr. Bond had used as a point of comparison.

Mr. Bond responded that the data did not compare Alaska to the lower 48 states. He clarified that the analysis only compared tenure counts within Alaska and analyzed the difference between 2005 and 2021. He stressed that all data in the chart was exclusive to Alaska.

Representative Tomaszewski asked whether it would be relevant to include national data in order to determine if other states were in a similar position in 2005. He asked if comparing Alaska to other states would be pertinent.

Mr. Bond responded that such an analysis could certainly be conducted, but that it was not part of the scope of work for the report. He confirmed that the report focused exclusively on Alaska data.

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Representative Bynum thought that Mr. Bond had made an "if then" statement based on the data comparing Alaska in 2005 to 2021. He asked if other major factors affecting retention and employment had been evaluated.

Mr. Bond responded that the analysis had only focused on the retirement plan options, as that was the scope of the

task. He stated that the analysis had not included other factors that may have influenced worker count or changes in workforce over time. He relayed that the absence of a DB plan in 2021 contributed to the lower count of workers with fewer years of tenure, although other factors likely contributed as well.

Co-Chair Josephson understood that if an individual failed to select the survivorship option, no benefit would be paid to the spouse when the member predeceased the spouse. He asked whether that situation would fall under Alaska Title 13, which was the state's trust and estates code. He asked whether it would be within the legislature's authority to make a statutory change allowing the benefit to pass through the estate even if the survivorship box had not been selected, or whether the matter was governed by the Internal Revenue Service (IRS) or another federal authority.

Mr. Bond responded that he did not have the information. The question was more specific and legal in nature and he had not researched it.

Co-Chair Josephson asked what happened to the benefit in such a case. He asked whether the benefit simply ceased or whether it passed to the estate.

Mr. Bond responded that he did not have the information.

Representative Allard remarked that she thought she knew the answer. She understood that the state retained the funds if the survivorship box was not checked. She added that on the bottom of slide 1, the chart listed Alaska as "DC only," which she believed was incorrect because Alaska had a very generous SBS program. She asked why SBS was not included in the slide.

Mr. Bond responded that SBS was mentioned briefly in the report, but it was not the focus of the research.

Representative Allard asked for clarification that Mr. Bond was not asked to include SBS in the slide.

Mr. Bond responded in the affirmative.

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Representative Bynum asked about the chart on slide 3 that included data comparing 2005 and 2021 and the TRS and PERS categories. He asked what the comparison was intended to demonstrate for TRS, for example.

Mr. Bond responded that the analysis reviewed the number of TRS workers in 2005 who had less than five years of experience, those who had between five and 14 years, and those who had more than 14 years. He explained that the same counts were then reviewed for 2021. The chart presented the difference between those two data points. He stated that the number of TRS workers with less than five years of experience was 11 percent lower in 2021 than in 2005.

Representative Bynum asked if the specific cohort of employees transitioning from the DB plan to the DC plan had been tracked. He asked whether the analysis was based on following specific cohorts or whether it simply compared two separate groups of employees at two different stages in their careers.

Mr. Bond responded that the analysis reviewed the total number of participants in TRS. In 2005, the number included only participants in the DB Plan, as it was the only plan offered during that year. In 2021, the total TRS workforce included participants in both the DC plan and DB plan. The analysis focused on 2005 because it was the last full year in which the DB plan was offered throughout the entire year, and 2021 was selected as it was the most recent year of available data at the time of the analysis.

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Representative Hannan remarked that Mr. Bond may not have fully understood Representative Allard's earlier question. She asked whether SBS had been excluded from the evaluation of teachers and university employees because those employees were not eligible for SBS.

Mr. Bond replied that the analysis focused specifically on teachers and other education employees in Alaska. He stated that when the report referenced PERS, it acknowledged that some PERS employees participated in Social Security and others participated in the SBS program. However, SBS was not a focus of the analysis because the report concentrated on employees who were not eligible for SBS.

Representative Hannan asked for confirmation that teachers and other education employees were not eligible for SBS.

Mr. Bond responded in the affirmative.

Representative Allard stated that she wished to clarify that teachers had been eligible for SBS at one time but had opted out.

Co-Chair Josephson noted there was previous discussion about what would happen if a member failed to elect survivorship benefits. There had been a comment indicating that the benefit would revert to the state in the absence of an election. He asked for confirmation that the trust itself was not the state and that the contributions in the DB plan were pooled in a trust for the benefit of members.

Mr. Bond responded that the contributions of DB participants were held in trust for the benefit of the members.

Co-Chair Josephson asked for confirmation that the trust was a separate entity from the state.

Mr. Bond confirmed that the trust was distinct from the state.

Co-Chair Josephson stated that when a public employee elected a survivorship benefit, they agreed to receive a reduced benefit in exchange for providing a survivor benefit to a spouse. He understood that the process was actuarially determined so that the spouse would receive a diminished benefit if they outlived the employee. He asked if his understanding was correct.

Mr. Bond responded in the affirmative. He stated that when a member elected a survivor option, the member's benefit was reduced to provide an actuarially fair benefit to the spouse in the event that the spouse survived the member.

Co-Chair Josephson stated that he hoped such elections were made without coercion and that the decision likely involved consideration of the couple's other assets, the health of the retiring employee, and the financial needs of the surviving spouse. There were many variables that influenced the decision whether to elect a survivorship benefit. He

stated that it might be plausible for someone to conclude that there was no value in the survivorship benefit and to instead retain their full benefit. He asked whether that was a reasonable perspective.

Mr. Bond responded that it was an individual decision that a member and their spouse would make based on their own circumstances and what they determined to be the best option for the situation.

Co-Chair Josephson asked what Mr. Bond's opinion was about the criticism that although DB plan benefits could effectively cover a couple, the benefits did not extend to the next generation. He asked if the DB plan retained more value than the DC plan, even though it could not be passed on to children.

Mr. Bond responded that when comparing DB and DC, it was determined that DB plans were more economically efficient than DC plans. He stated that the NIRS analysis showed that benefits could generally be provided at half the cost through a DB plan. He attributed the efficiency to the pooling of contributions and risks, including longevity and investment risks. He added that professionally managed DB plans typically achieved higher investment returns with lower fees than individually managed DC plans.

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Representative Allard asked what would happen to the benefits if a wife under a DB plan and her spouse were killed in a car accident. She asked whether the benefits returned to the trust.

Mr. Bond responded that the funds would remain in the trust.

Representative Allard asked what would happen if the same situation occurred under a DC plan.

Mr. Bond replied that if beneficiaries had been designated, the funds would be directed to the beneficiaries.

Representative Galvin stated her understanding that if someone passed away without designating a beneficiary, any benefit would be transferred to their estate. From there, the estate process would determine where the benefits were

ultimately directed. She noted that unless there was a specific provision in a contract, estate law generally provided clarity in such cases. She did not think that the committee should delve too deeply into estate planning without the presence of a qualified estate planner.

Co-Chair Foster noted that Director Kathy Lee of the Division of Retirement and Benefits (DRB) was available online to answer detailed questions.

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Mr. Bond continued on slide 4 and explained that when NIRS analyzed the data for Alaska, it reviewed the termination rates determined by actuaries for different categories of public employees. The termination rates for participants in the DB plan were compared to those in the DC plan. The chart on the slide showed what would happen if there were 100 male peace officers in Alaska who were fully vested in their retirement benefit at age 30, meaning they had worked for five years. The chart tracked how many of the individuals would be projected to remain employed over the next 25 years. He explained that at age 54, it was projected that 63 of the 100 fully vested officers would still be working if they were in the DB plan. In contrast, only 17 would still be working as peace officers in Alaska if they were in the DC plan. He relayed that the DB plan provided 67 percent more service after vesting than the DC plan. He stated that the DC plan did not retain peace officers as effectively, which resulted in more officers leaving earlier in their careers. He concluded that the total years of service under DC were lower than what would be expected under DB.

Representative Bynum asked whether the data presented was a projection or an analysis of actual data following a group of employees through the described process.

Mr. Bond responded that it was a projection.

Representative Stapp remarked that it was fairly clear why retention rates would be better under DB due to the guaranteed nature of the benefits compared to DC. However, he thought the structural comparison in the analysis was somewhat flawed. He explained that the DB plan offered fixed incentives for retention because the longer an employee worked, the greater their accrued benefit was

based on salary percentage. He pointed out that the DC plan did not include a comparable metric. For example, the employer match in the DC plan did not increase with tenure, unlike the increasing benefit percentage in the DB plan. He asked how such a significant variable was accounted for. He thought it was an "apples-to-oranges" comparison.

Mr. Bond responded that the best way to address the question was to consider the issue from the perspective of the state or a non-state municipal employer. He agreed that Representative Stapp made an accurate point and that there were provisions that were intentionally included in the DB plan to retain employees longer. He noted that DC plans did not include such provisions and there was higher attrition. From the employer's standpoint, the decision was whether to incentivize long-term retention or to accept a higher rate of turnover by not including such incentives in the plan design.

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Representative Stapp asked if the gap between DB and DC would become greater or lesser if a stair-stepped structure with higher percentages of employer contributions tied to retention was implemented into DC plans.

Mr. Bond responded that such a structure had not been modeled in the analysis. He confirmed that a DC plan could be designed to include increasing contribution percentages over time, but the structure had not been modeled in the analysis.

Representative Stapp stated that he would still expect the DB plan to produce better retention outcomes. He thought that even if such a DC plan were created, it would still likely result in lower retention because the DB plan continued to provide incentives throughout an employee's career. By contrast, the current DC plan structure offered no increased incentives after the five-year vesting period and "dropped off a cliff."

Representative Allard asked if there was a graph in the report that compared Alaska's DB plan retention data with that of another state.

Mr. Bond responded that the report did not include a chart that directly compared retention in Alaska to retention in another state.

Representative Allard asked if retention in Alaska had declined since the DB plan was no longer in place. She wondered if other states that still offered a DB plan had stronger retention rates than Alaska.

Mr. Bond responded in the affirmative. He confirmed that retention was higher in states that offered a DB plan than it was in Alaska.

Representative Bynum remarked that comparing Alaska to other states was difficult due to the unique living conditions and dynamics in Alaska. He expressed concern about making direct comparisons between states. He thought that the actual comparative models on retention between DC and DB structures was not examined. He understood that such models had not been included in the analysis. He asked how difficult it would be to conduct such an analysis.

Mr. Bond explained that to compile the chart on slide 4, NIRS had used the ultimate termination rates provided by the actuary. He stated that the actuary reviewed the experience of both plans and determined the rates based on the observed performance, which provided enough information to project future years of service. He stated that modeling different design changes in a DC plan would be possible, but it was not included in the analysis.

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Co-Chair Schrage commented that although Alaska was unique, the state had already undergone a transition from DB to DC. He emphasized that the change allowed the state to evaluate retention outcomes directly, rather than relying solely on comparisons with other states. He asked for confirmation that Alaska already had the data necessary to demonstrate that retention had declined following the shift to a DC plan.

Mr. Bond responded that social scientists might refer to the change from DB to DC as a natural experiment. He remarked that on one day the state had a DB plan, and on the next, it had transitioned to a DC plan. He thought the change allowed for a direct comparison of data from before

and after the switch. He noted that the data illustrating the differences before and after the change were included in the analysis.

Co-Chair Schrage stated that both Alaska's historical experience and comparisons to other states clearly demonstrated that a DB plan provided a better benefit as well as offered a guarantee and superior outcomes. He asserted that the question was not whether a DB plan was better than a DC plan because the evidence in support of DB was overwhelming. Instead, the relevant question for the committee to consider was whether a transition to a DB plan would be affordable for the state and whether it would introduce excessive risk. He suggested that the issue should be framed strictly in terms of risk and cost. He stressed that academic research and historical evidence consistently showed that a DB plan was more advantageous for employees and improved retention outcomes.

Representative Allard commented that Mr. Bond had said other states had better outcomes, but Alaska's retention rate was at 17.5 percent, which she believed placed the state in the middle. She asked which states with DB plans had higher or lower retention rates than Alaska. She noted that Texas had a 28 percent retention rate and she was not convinced that Alaska was in the middle.

Mr. Bond responded that he had not seen the specific data referenced by Representative Allard and would need to review it in order to respond accurately. He cautioned that Texas had numerous pension plans, including four statewide plans and many municipal pension plans. He expressed strong hesitation about aggregating all the Texas plans into a single retention figure. He stated that the variations among plans and the differing local conditions within municipalities could each affect turnover outcomes. He stressed that he would caution against generalizing such data into a single number for the entire state of Texas.

Representative Allard understood that Mr. Bond had implied Alaska was at the bottom in terms of retention. She noted that she did not believe that statement was accurate and asked how Mr. Bond could make the assertion without referencing specific comparative data. She thought that he should be more precise.

Mr. Bond responded that he had not meant to imply or suggest that Alaska was at the bottom for retention. He clarified that he had not conducted a state-by-state comparison of retention across every DB plan in the country. He would need to review extensive data before making any statement about where Alaska ranked relative to other states. He reiterated that his observations were based solely on comparisons within Alaska's own data. He clarified that retention in Alaska had declined since the transition from DB to DC. He stressed that he was not attempting to make determinations about Alaska's national rank.

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Representative Johnson thought that the chart on slide 4 compared only a limited number of variables. She asserted that the dataset was insufficient for making a comprehensive assessment. She preferred to examine more than a single variable and the chart did not provide substantial information. She was interested in discovering more about the risk and hoped the information would be included on subsequent slides.

Mr. Bond continued to slide 5, which presented a similar comparison chart as the previous slide, but focused on female teachers in Alaska. The chart projected outcomes for 100 female teachers who were fully vested in their retirement plan at age 30. He explained that the chart projected how many additional years of service would be expected for the 100 female teachers. Consistent with the prior slide, the projection indicated that more female teachers would be retained under a DB plan than under a DC plan.

Mr. Bond proceeded to slide 6, which offered another look at similar data and was specific to the TRS DC plan. He explained that actuaries were required to calculate termination rates as part of their actuarial experience studies. He defined termination rates as the percentage of workers expected to leave based on years of service. The column on the left listed years of service beginning with less than one year and increasing to five years. The chart displayed termination rates broken out by gender, showing the current rates used for the TRS DC plan as well as proposed new rates that had been adopted following the experience study. He explained that the proposed

termination rates projected higher turnover earlier in service than the previous rates and more employees were expected to leave earlier in their careers based on the updated data. He asserted that the information was another data point that suggested that actuaries expected that retention would worsen in the future.

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Representative Johnson indicated that she was having difficulty understanding how the chart's predictions were developed without knowing which variables were used to arrive at the figures. She thought that the chart did not clearly show how the transition occurred from the original to the proposed termination rates. She asked for clarification on where the data could be found.

Mr. Bond responded that the link included in the slides led to the actuarial experience study that contained the chart in question. He stated that the actuaries explained their methodology in the document. He explained that in Alaska, actuaries conducted experience studies over four-year periods and for the 2022 study, the actuaries examined the four prior fiscal years, beginning on July 1, 2017, and ending on June 30, 2021. The chart reflected the actual experience of the plan during the four-year time period. He explained that the data was compared to the actuaries' projections to determine what was different from the projections. He stressed that the outcomes could be better or worse and that the actuaries were simply making note of the differences. The data for TRS DC plans showed that retention would be worse in the future because more employees would leave earlier in their careers than they had in previous years of data.

Representative Johnson remarked that there were many variables and there had been a societal shift. Employees were not staying in the same career for 30 years as was common in the past. She understood Mr. Bond's perspective, but she did not think the data was conclusive.

Mr. Bond encouraged the committee to speak with the actuaries. The actuaries were generally eager to discuss their analyses and explain how they arrived at their conclusions. He added that the actuaries would also likely be able to answer many of the specific and technical questions that he could not answer.

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Representative Stapp remarked that he had appreciated most of the presentation but believed the current slide [slide 6] was the weakest. He questioned what the chart was actually depicting. He pointed out that none of the individuals reflected in the data had been vested in any type of retirement benefit. He expressed skepticism about the suggestion that there would be a 50 percent increase in the number of female employees leaving within their first year of employment and thought it was more likely that such early departures were related to dissatisfaction with their supervisors than with the retirement system. He questioned how a retirement plan could be responsible for a 31 percent turnover rate within the first year and expressed disbelief that such a high early departure rate could reasonably be attributed to the lack of a DB plan.

Mr. Bond confirmed that the individuals reflected in the chart were not vested in their benefits. He noted that even by the fifth year of service, full vesting would have just occurred and turnover was consistently higher in the first five years across all DB plans. The first five years typically involved more turnover because new employees were assessing whether the position suited them. He acknowledged that many employees would determine within the first one to three years that the position was not a good fit and would choose to leave. He agreed that the retirement plan was not the only factor contributing to the turnover rates and that other influences were likely at play. However, similar DB plans in other states did not reflect comparable termination rates. He stated that it was unusual to see 31 percent of employees leaving within one year or 21 percent leaving after one year. The numbers suggested that the lack of a DB plan might be contributing to the high early turnover because employees were not being incentivized to remain long enough to reach vesting and earn the benefit.

Representative Stapp suggested that if individuals were leaving within the first year of employment, they would not receive any pension benefits. He questioned how a retirement plan could be considered a cause of early turnover when the departing employees would not receive the benefit regardless. He thought it would be more reasonable to attribute a departure after five years to the pension structure because the employees would be fully vested by

that time and eligible to retain the benefit. He stated that he could not infer anything meaningful from that chart.

Mr. Bond responded that someone who left a job within less than a year would not receive the employer contributions from a DC plan or a pension benefit because they would not have vested in either. He stated that the relevant question was the extent to which the presence or absence of a pension acted as a signal to a new employee that remaining on the job would lead to the opportunity to earn a benefit. Alternatively, the absence of the benefit signaled that the job would not offer any long-term retirement incentive.

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Co-Chair Schrage remarked that he could imagine a scenario in which an employee considered quitting and was encouraged by a supervisor to stay longer, possibly to vest in the plan. He understood that there was a recurring assertion that younger generations no longer valued pensions. As someone in his early thirties, he considered himself part of the younger generation and remained very interested in a pension. He added that his interest was not unique, and that others in his peer group and community expressed strong support for pensions. He noted that even while shopping at Costco, individuals had approached him to voice support for pensions. Employee surveys across professions such as public safety and education had consistently indicated that retirement options such as pensions were viewed as key to recruitment, retention, and workforce development. He reiterated that based on both anecdotal experience and the data he had reviewed, the argument that younger individuals did not care about pensions was inaccurate. He acknowledged that others might present alternative data but maintained that his personal and observed experience strongly contradicted that argument. He clarified that his remarks were a comment rather than a question.

Representative Allard stated that an actuarial analysis was urgently needed. She thought it was important to evaluate examples from other states. She noted that large numbers of individuals had reportedly left the public sector in California, which brought up questions about retirement plan reform. She acknowledged Co-Chair Schrage's experience, but she shared that she had two children in

Generation Z and members of that generation were not focused on defined benefits or retirement planning. She understood that younger people valued flexibility and prioritized personal fulfillment over long-term employment commitments. She expressed concern that requiring long-term service to access benefits could lock individuals into positions they did not enjoy. She emphasized that she would not want to force anyone to remain in a job in which they were unhappy.

Co-Chair Foster invited Representative Chuck Kopp to share updated information on the timeline of the actuarial analysis.

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REPRESENTATIVE CHUCK KOPP, explained that the formal actuarial request had already been made and it was a few weeks out. He relayed that Chiron, a second actuary, had also been engaged to produce the requested information. He agreed with Representative Allard that hearing directly from the actuary was important. He relayed that it was the actuary's responsibility to review actual retention experience retrospectively in order to project future trends. The process informed the assumed return rate used to guide financial planning and the actuary's license depended on the accuracy of that work. He shared that the actuary performed an annual retention study for the state.

Representative Johnson stated that when she considered her children and their peers, many of whom were in their twenties, she believed there was a perception that Alaska offered a good retirement system. She explained that although her children were not state employees, they viewed DC plans positively and believed that state workers were generally well-supported in terms of retirement benefits. She questioned whether the state should be employing a form of "golden handcuffs" by incentivizing employees to remain in their positions for long periods of time to receive benefits. She thought it was valid to consider whether changes to retirement policy could help retain employees who might otherwise leave. She emphasized that legislators had a duty not to overextend the state financially and she was concerned that changes to the retirement system could increase the existing unfunded liability. She stated that her primary considerations were the potential risks the state might incur and if changes were truly necessary in

order to better retain workers. She appreciated the data being presented, but it was unlikely to significantly influence her position.

Representative Kopp appreciated Representative Johnson's remarks regarding risk, responsibility, and the employer's role, which were important considerations. He emphasized that the state asked a great deal of its public employees, including rural teachers and public safety personnel. He stated that teachers were entrusted with the lives and education of children and that the state had already committed significantly to teachers by placing children in their care. He stated that risks between employers and employees were inherently shared. The state would be sharing the risk with individuals like peace officers who put their lives on the line daily. He referenced the law enforcement and firefighter memorial in Anchorage and encouraged others to visit and reflect on the names listed there. He emphasized that the individuals memorialized had taken a significant risk, and he believed Representative Johnson recognized this as well.

Representative Kopp cautioned that if the state was not willing to share in the risk, it needed to proceed carefully, as public safety employees were in service to the public. He emphasized the importance of the state's responsibility in administering the retirement plan. He agreed with Representative Johnson's remarks regarding responsibility and risk but stressed that risk must be recognized as mutual. He stated that any retirement plan or operational service inherently involved shared risk and that the state must remain sensitive to that reality rather than reject options simply because some level of risk existed.

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Representative Johnson stated that she had visited the memorial while serving as the mayor of Palmer and that she took the lives of all police and fire personnel very seriously.

Representative Kopp thanked Representative Johnson and acknowledged that he had seen her at the memorial.

Co-Chair Foster relayed that some committee members had other commitments and would need to leave soon. He noted

that if the committee needed to bring Mr. Klouda back, he would make arrangements, either in person or via phone. He remarked that the presentation was only about one-third completed and that he did not wish to rush through it or continue it without full committee attendance.

Representative Stapp thanked Representative Kopp for the update and stated that he would address his specific questions regarding the actuary offline in order to conserve time. He referenced a report by Mr. Bond titled "Enduring Challenges: Examining the Experiences of States that Closed Pensions" (copy on file). He thought the report contained important information that the committee should discuss. He asked what the difference was between actuarially determined employer contributions and annual required contributions to a plan.

Mr. Bond responded that the two terms essentially referred to the same figure. He noted that while terminology had shifted over time within the actuarial community, both referred to the same contribution value.

Representative Stapp stated that he raised the question because the study showed that since Alaska exited the DB program, the state had contributed over \$7 billion in additional funds in an effort to restore plan funding levels. According to the study, Alaska had underfunded contributions in 10 of the past 14 years. He asked Mr. Bond to comment.

Mr. Bond responded that the study reviewed whether the full actuarial contribution recommended in each year had actually been paid. He confirmed that in 10 of the 14 years examined, the state contributed less than the full amount recommended by actuaries.

Representative Stapp asked what amount should have been contributed in those years to fully meet actuarial recommendations.

Mr. Bond responded that he did not have the specific dollar figure readily available but could provide it as a follow-up.

Representative Stapp stated that the reason he raised the issue was because he thought that a \$7 billion discrepancy due to actuarial underfunding was a big mistake. The

committee should be aware that the state had not contributed the full amount that actuaries recommended, even in addition to the employee contributions collected to fund the plan. He highlighted that there was declining enrollment in the DB plan and financial pressure that was caused by capital outflows from the plan's assets. He asked why the employee-to-retiree ratio within the plan mattered.

Mr. Bond responded that when a DB plan remained open, meaning that new members joined each year while others retired each year, the plan could invest with a longer time horizon. He explained that an open DB plan allowed for a balanced investment strategy that incorporated both risk and safety in order to generate the returns needed to pay future benefits. When a plan closed and ceased to admit new members, the flow of new contributions declined due to the lack of active participants. The shift forced the plan to adopt a more conservative investment approach as it no longer had new inflows to absorb short-term volatility. The conservative investment strategy typically resulted in lower expected returns.

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Representative Stapp asked for more information on what would be considered a healthy ratio of active employees to retirees in a DB plan.

Mr. Bond responded that he did not have a specific recommended ratio but noted that the topic was addressed in a separate report. He explained that NIRS had developed a chart comparing the retiree to active employee ratios for both TRS and PERS in Alaska to the ratios of public pension systems across the U.S. In Alaska, both TRS and PERS had approximately a 4 to 1 retiree-to-active ratio, while the national average was approximately 0.8 to 1. He stated that actuaries described the Alaska plans as significantly more "mature" demographically compared to the broader public pension landscape.

Representative Stapp thought that the demographic information was important because it affected the rate of return and the cash balance of the retirement plan. He stated that such outflows posed a risk, and that his primary concern was to properly assess the risk. He noted that he knew many individuals who wanted a pension. He stressed the importance of relying on accurate data. He

understood that many public employees believed Tier IV was insufficient to meet retirement needs, particularly for those who had not enrolled in SBS. He emphasized that it was a critical policy conversation and the legislature needed to make the right decision.

Mr. Bond added that all mature pension plans had negative cash flows, but tended to be stable. However, the negative cash flows increased in closed plans because a higher percentage of assets of the plan were paid out, which had an impact on the plan's investment strategy.

Representative Stapp asked if it would be fair to summarize the situation by saying that, as the number of retirees increased relative to active employees, it became necessary to divert more funds in order to continue paying benefits. He suggested that it was similar to needing to reallocate resources from one group to another.

Mr. Bond responded that he would not describe it in those exact terms, but generally, as the number of participants in a plan increased and more contributions were made, the plan had more flexibility. The flexibility included more options for managing contributions, making investments, and spreading risk across a broader pool of plan participants.

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Co-Chair Foster stated that the committee would adjourn, as several members needed to attend bill hearings. He confirmed that he would retain the question queue list for future reference.

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

Co-Chair Foster reviewed the meeting agenda for the following day.

ADJOURNMENT

[3:17:45 PM](#)

The meeting was adjourned at 3:17 p.m.