

HOUSE FINANCE COMMITTEE
April 3, 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
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, Sponsor; Nils Andreassen, Executive Director, Alaska Municipal League; Alexei Painter, Director, Legislative Finance Division.

PRESENT VIA TELECONFERENCE

Gene Kalwarski, Chief Executive Officer, Principal Consulting Actuary, Cheiron, Virginia.

SUMMARY

HB 53 APPROP: OPERATING BUDGET; CAP; SUPP

CSHB 53(FIN) was REPORTED out of committee with one "do pass" recommendation, two "no

recommendation" recommendations, and eight "amend" recommendations.

[Note: action on reporting the bill from committee was rescinded on 4/10/25 at approximately 6:30 p.m. The bill was then reported out of committee with no additional changes. See separate minutes dated 4/10/25 1:30 p.m. for detail.]

HB 55 APPROP: MENTAL HEALTH BUDGET

CSHB 55(FIN) was REPORTED out of committee with six "do pass" recommendations, three "no recommendation" recommendations, and two "amend" recommendations.

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 invited testimony on HB 78 and would then continue with amendments to the operating and mental health budgets.

#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 invited Representative Chuck Kopp to make any opening comments.

REPRESENTATIVE CHUCK KOPP, SPONSOR, introduced himself. He expressed that he looked forward to hearing the actuarial analysis on the bill.

GENE KALWARSKI, CHIEF EXECUTIVE OFFICER, PRINCIPAL CONSULTING ACTUARY, CHEIRON, VIRGINIA (via teleconference), introduced himself and a PowerPoint presentation titled "Alaska House Finance Committee: Actuarial Analysis of HB78," dated April 3, 2025 (copy on file). He began on slide 2 and gave an overview of the topics he would be discussing, including Cheiron's experience, defined benefit (DB) vs defined contribution (DC) assumptions, scenarios analyzed, retirement cost impact, and economic impact considerations. He would discuss why different actuarial assumptions were used for DB plans and for DC plans. He explained that the approach was the same as the approach used by the plan's actuary, Buck Consulting, to analyze SB 88 the prior year. He stated that the analysis resulted in a request for four scenarios and he would present the retirement cost impact for each scenario. He would conclude with a discussion regarding the economic impact of HB 78.

Mr. Kalwarski moved to slide 3 and stated that he had been a consulting actuary for over forty years and had worked with or had experience in 30 states. He explained that the locations shown in red on the slide had experienced plan closures, including Alaska, West Virginia, Detroit, and San Diego. He noted that both West Virginia and San Diego had reopened their plans. He relayed that San Diego experienced a financial crisis in 2002 that led to the plan's closure, but since reopening, the plan had become one of the best funded in the country.

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Representative Johnson asked whether a departmental actuarial analysis had been ordered. She understood that an actuarial analysis was required by statute.

Representative Kopp responded that the House Finance Committee had ordered an actuarial analysis and it was expected later in April. He thought that the analysis provided by Mr. Kalwarski was sufficient for the bill because it relied on the same numbers used by the state's actuary, Gallagher. He added that Gallagher was preparing an updated analysis that would align with the presentation.

Mr. Kalwarski added that the computations from the prior year on SB 88 were similar to Gallagher's calculations.

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Mr. Kalwarski advanced to slide 4 and noted that the slide addressed DB versus DC assumptions. The slide read as follows:

- Retirement members behave differently in DB versus DC plans in terms of turnover and retirement
- DC plan turnover rates are much higher than DB plans, especially after 5 years of service
- DB plan members can afford to retire earlier than those under DC plans

Mr. Kalwarski added that DB plans allowed employees to retire earlier because the pension benefit was generally larger than what a DC account could provide, particularly in the absence of Social Security.

Mr. Kalwarski continued to slide 5 and explained that the assumptions shown on the slide were used by Gallagher for the Teachers' Retirement System (TRS) and were similar to the assumptions for the Public Employees' Retirement System (PERS). He noted that the DB turnover assumptions were significantly lower than the DC turnover assumptions and that all assumptions were based on actual experience studies.

Representative Stapp asked why Alaska did not rely solely on Alaska-specific metrics when comparing DB and DC plans. He noted that teacher turnover rates in Alaska, particularly in rural areas, had historically been higher than the 4 percent data point shown on the slide.

Mr. Kalwarski responded by offering reassurance that the data was specific to Alaska and came directly from Gallagher's assumptions for Alaska.

Representative Stapp stated that the 4 percent turnover rate did not align with historical Alaska data from Tier I and Tier II DB plans. He understood that rural teacher retention rates were always in the "double digits." He asked why the assumptions did not track actual experience.

Mr. Kalwarski responded that Gallagher used select and ultimate turnover assumptions. He explained that turnover was higher during the first several years of service and later reverted to lower ultimate turnover rates. He

clarified that the chart reflected ultimate turnover rates for employees with at least five years of service.

Representative Stapp appreciated the clarification and understood that the data was taken from after employees had already invested in a plan.

Mr. Kalwarski responded that Representative Stapp's understanding was correct.

Representative Bynum asked about the assumptions being used to compare DB and DC plans. He stated that assumptions affected outcomes and asked whether the analysis relied on Tier I and Tier II data compared to Tier III, nationwide DB data, or hypothetical assumptions based on HB 78. He stated that he was trying to understand what assumptions were being used to draw conclusions.

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Mr. Kalwarski responded that the chart was not intended to draw conclusions. He explained that the chart extracted assumptions used by Gallagher to value TRS. He stated that the assumptions were based on historical experience specific to Alaska and were not derived from national data or hypothetical scenarios. He explained that the figures were taken directly from actuarial reports and reflected turnover assumptions used to determine planned costs each year.

Representative Bynum stated that he understood the discussion related to turnover rates but sought clarification regarding the broader presentation. He asked what DB plan was being used as the basis for comparison and whether the analysis referenced the former TRS plan, the current DC plan, or the proposal under HB 78. He stated that he was attempting to understand the assumptions underlying the comparison between DB and DC plans.

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Mr. Kalwarski responded that the assumptions shown were those currently used by Buck to determine costs for DB plan members and the assumptions Buck developed for the DC plan. He explained that Buck derived the assumptions through periodic experience studies that statistically measured turnover rates. He stated that no independent assumptions

were being made and that the figures reflected Gallagher's best estimates for teacher turnover in Alaska.

Representative Kopp added that several of the questions that had been raised would be addressed in subsequent slides. He explained that the presentation was structured to build understanding sequentially. He reiterated that the data presented was specific to Alaska and was used by the state actuary.

Representative Johnson stated that she understood that the vertical axis of the chart on slide 5 reflected teacher turnover but asked for clarification on the horizontal axis. She asked whether the figures represented age, calendar year, or years of service. She did not think that the information was clearly labeled.

Mr. Kalwarski responded that the horizontal axis on slide 5 represented ages.

Mr. Kalwarski continued to slide 6 and explained that the horizontal axis again represented age at retirement. He explained that the slide showed that DC plan members delayed retirement longer than DB plan members. He stated that the purpose of the slides was to explain why the state actuary used two different sets of assumptions when performing an actuarial analysis and that the slides were not intended to evaluate HB 78.

Mr. Kalwarski advanced to slide 7 and stated that the next three slides showed national statistics. He explained that slide 7 reflected general employee turnover rates after five years of service. He stated that the dotted lines represented Alaska DC turnover rates for male and female employees. He explained that the solid lines represented neighboring states listed in the legend, including Montana and Idaho. The lower, slightly darker dotted lines represented Alaska DB turnover rates for male and female employees. He noted that the slide showed higher turnover under DC plans and that the pattern was consistent with Alaska and with other systems.

Mr. Kalwarski advanced to slide 8, which showed teacher turnover rates after five years. He stated that the upper dotted lines represented DC turnover rates for male and female teachers, while the lower dotted lines represented DB turnover rates for male and female teachers. He stated

that the figures were shown alongside comparable data from neighboring states.

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Mr. Kalwarski advanced to slide 9 and explained that it showed PERS turnover rates. He stated that the format was consistent with the prior slides, with ages shown on the horizontal axis. He explained that the upper dotted lines represented DC turnover rates and the lower dotted lines represented DB turnover rates. He noted that one state, North Dakota, showed higher turnover than the others but he did not know the reason for the difference.

Mr. Kalwarski advanced to slide 10 and noted that the committee had requested analysis of four scenarios labeled 1A, 1B, 2A, and 2B. He detailed the scenarios from the slide as follows:

- Scenario 1A- 100% of current DC members and future hires join the DB plan using DB assumptions
- Scenario 1B- 0% of current DC members and all future hires join the DB plan using DB assumptions
- Scenario 2A- 100% of current DC members and future hires join the DB plan using DC assumptions
- Scenario 2B- 0% of current DC members and all future hires join the DB plan using DC assumptions

Representative Stapp stated that his understanding was that Mr. Kalwarski was showing assumptions based on how many existing employees opted into the new plan.

Mr. Kalwarski responded in the affirmative.

Representative Stapp asserted that the presentation was not an actuarial analysis. He stated that it had not yet addressed discount rates, assumed rates of return, employee projections, or mortality assumptions, which he stated were factors that affected actuarial outcomes.

Mr. Kalwarski responded that he was presenting the material that had been requested by the committee and that the slides did not represent a full actuarial analysis. Based on experience in other locations such as San Diego, a large share of DC members had transferred into DB plans. He noted that scenarios 1B and 2B were less likely and that outcomes would likely be closer to scenario 1A.

Mr. Kalwarski advanced to slide 11 and reiterated that the scenarios were presented for the purpose of comparison. He explained that the slide showed the present value of the additional cost of HB 78 over a 14-year period and noted that an asterisk appeared next to the present value label. He stated that when the table was repasted onto the slide, the footnote was obscured. He clarified that the analysis used a 7.25 percent interest rate. He stated that the interest rate was higher than the median public sector plan rate, which he believed was closer to 6.75 percent or 6.5 percent. The figures could be recalculated using a different discount rate, and the top number would be approximately \$610 million over the 14-year period if a 6.5 percent rate were used. He stated that all figures shown were in the millions.

Representative Kopp clarified that the 1A scenario reflected DB assumptions in which 100 percent of current and future employees elected to join the DB plan. The DB assumption was that the plan would bring about improved retention and lower turnover. He explained that 2A reflected DC assumptions, meaning that the current turnover rates experienced under the DC plan would continue to apply. He stated that the slide showed that if 100 percent of plan participants opted into the DC plan but retention did not improve, all things being equal, there would be a savings to the state.

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Representative Bynum stated that he understood the phrase "all things being equal" to mean only with reference to the information that had been provided. He did not think the evaluation accounted for the equal cost of each dollar that was invested into either plan and the outcome that would be expected from the investment. He explained that under the current DC plan, the employer contributed 5 percent in addition to some funds that were set aside for health reimbursement arrangements (HRA). Under the proposed DB plan, the employer and employee would contribute a larger total amount. He understood that the analysis was not normalized to compare outcomes per dollar invested but was based on HB 78 and the current 5 percent DC structure. He asked whether his understanding was accurate.

Mr. Kalwarski responded that he was not sure he fully understood the question. He stated that the analysis assumed that every dollar invested earned 7.25 percent.

Representative Bynum clarified that his question was whether the analysis normalized investment amounts between the DC and DB plans. He stated that the contribution levels were not equal between the two plans and that higher total investment would naturally lead to different outcomes. He asked whether the information provided normalized the investment amounts.

Mr. Kalwarski responded that the chart only examined the DB plan under HB 78. He stated that scenarios 1A and 2A assumed 100 percent participation in the DB plan and that there was no DC component in the scenarios. He stated that the chart showed the difference in state cost to the DB plan if HB 78 were enacted compared to the cost if it were not enacted.

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Mr. Kalwarski continued to slide 12 and drew attention to the four numbers on the far right of the slide, including 583.7 and 467.3. The slide presented a table similar to one presented the previous year during the discussion of SB 88. He explained that the same figures appeared on the far right of that table in black. He stated that Buck had provided additional detail beyond present value, including sums of costs over a 14-year period. However, he argued that summing nominal dollars over time was not meaningful because a dollar in a later year did not have the same value as a dollar today. He stated that summing annual amounts effectively assumed a 0 percent discount rate and the analysis focused on present value. The discount rate could be debated and different rates would change the figures, which meant that the table was of limited usefulness.

Mr. Kalwarski advanced to slide 13, which showed the state costs as an employer under scenario 1A and the additional costs paid by the state to non-state employers under the law. He stated that the slide showed the annual increases in costs by year and that the total appeared as the third component of the chart. He explained that the slide expanded on information presented earlier. He moved to

slide 14, which provided the same information for scenario 2A.

Representative Galvin relayed that she was attempting to understand scenario 2A and that she would like more information. She stated that her understanding was that if the shared risk DB plan were adopted, 100 percent of current employees transferred into the plan, and employee turnover rates did not improve, the state would save nearly \$125 million dollars over the next 14 years.

Mr. Kalwarski responded that Representative Galvin's interpretation was correct and that the result was consistent with what Buck had calculated previously in relation to SB 88.

Representative Galvin thought that the scenario suggested the plan would be less costly if it failed to improve recruitment and retention and that the state would save money under those conditions.

Mr. Kalwarski responded in the affirmative.

Representative Galvin requested clarification that the plan would be less costly under current employee separation rates.

Mr. Kalwarski responded that continued high turnover would result in savings to the state based on the assumptions developed by Buck and Gallagher and the earlier comparisons of DB and DC assumptions.

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Representative Stapp understood that the analysis relied on a discount rate based on certain assumptions. He suggested that a 6.5 percent discount rate might be more accurate. He understood that the presentation showed that increased employee retention would reduce turnover and lower recruitment and training costs. The discount rate assumed participation transfers from the DC plan to the DB plan. He asked where the analysis showed the projected rate of return on fund performance over the next 30 years and whether the projection used a 7.25 percent or 6.5 percent rate. He thought that if a 6.5 percent discount rate were used, the assumed rate of return should be similar.

Mr. Kalwarski responded that the analysis used an expected rate of return equal to the discount rate of 7.25 percent. He stated that the numbers could be quickly adjusted to 6.5 percent if requested.

Representative Stapp understood that the beginning of the presentation communicated that the analysis was sufficient. He clarified that he was not questioning the discount rate or the assumptions regarding participation in the plan. He stated that the discount rate represented only one component of a much larger analysis. Earlier in the presentation, the committee had been told it would receive multiple scenarios based on projected rates of return over the life of the plan to evaluate the potential for unfunded liability and the operation of risk levers. He stated that he only saw an assumption of 7.25 percent applied to the discount rate and asked whether additional analysis would be provided. He asked if the committee should wait for Buck and Gallagher to provide the analysis.

Mr. Kalwarski responded that he would address the concerns on the final slide. He reiterated that Cheiron had conducted similar work the previous year on SB 88, which was extremely similar to HB 78. He stated that the prior work included stress testing for higher or lower returns and that he would discuss the topic on the final slide of the presentation.

Mr. Kalwarski continued to slide 15 and stated that HB 78 contained several significant risk sharing elements. If unfunded liabilities increased or investment returns were poor, member contribution rates could be increased up to 12 percent and not below 8 percent, which represented a 4 percent range. He noted that cost of living adjustments (COLA) could be reduced if there was a risk of unfunded liability. He had served as the actuary to the Maine State Retirement System for more than 30 years and he explained that Maine had similar risk sharing elements, particularly related to cost of living adjustments. He relayed that Maine was approximately 90 percent funded and had been approximately 20 percent funded 30 years earlier, but the contribution rates had not changed by more than 1 percent in any single year. He stated that risk sharing plans had become more common in the public sector over the past decade. Under traditional DB plans, the employer bore all risk, which had contributed to prior problems in Alaska, while members bore all risk under DC plans. He stated that

HB 78 reflected an effort to share risk between employers and members. Although stress testing was not included in the current analysis, additional work could be performed if requested.

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Representative Stapp commented that he did not necessarily disagree with the described risk sharing mechanisms. The slide only contained a reference to HB 78 risk sharing elements and did not include data showing stress testing. He expected actuarial analyses to evaluate long term impacts and include stress testing scenarios.

Mr. Kalwarski stated that Cheiron had been brought onto the analysis one month prior and stress testing could not have been completed in time for the meeting, even if it had been requested.

Co-Chair Josephson explained that he was following up on a question from Representative Galvin regarding the DB assumption scenario. He understood that the cost to the state spanned approximately 15 years. When he reviewed the cost breakdown on slide 13, the numbers appeared manageable given the perceived benefits. He referenced an Anchorage Daily News (ADN) article published earlier that day stating that Alaska had received a federal warning and was at risk of losing funding due to food stamp backlogs. He stated that earlier on the House floor, the legislature had "arguably passed" \$12 million to cover a fine resulting from insufficient eligibility technicians in the Supplemental Nutrition Assistance Program (SNAP). The article described the administration investing \$60 million in recent years to address the issue and noted that the reported vacancy rate among the staff positions was 30 percent in March of 2025.

Co-Chair Josephson relayed that the state had a chronic problem retaining employees. The additional state cost totaled approximately \$24 million in FY 26 under scenario 1A using DB assumptions and assuming success in attracting skilled Alaskans to the workforce. He stated that although the budget was challenged, the state would receive maximum potential benefit by addressing workforce retention issues illustrated by the article. He asked whether Cheiron was presenting the same argument as the ADN article.

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Mr. Kalwarski responded that he concluded the presentation with the slide titled "Economic Impact Considerations" in order to discuss the economic benefit. He stated that the economic impacts would exceed any increase in pension costs, which was the outcome that had occurred in West Virginia and Nebraska, in addition to reduced recruitment and training costs. He explained that the state currently needed to exceed standard pay scales to attract employees, but improved benefits would reduce the need. He argued that the retention rates of experienced employees would increase, which was particularly important in public safety and teaching professions. There would be a positive impact on Alaska's economy because individuals with higher pensions would spend money in the state and remain in Alaska. He explained that DB plans achieved superior investment returns because funds were pooled and professionally managed. He noted that there was an error on the slide and he clarified that it should reference lower DC investment expenses. During consideration of SB 88, he had recommended that the state should retain an economist to quantify the impacts, and he would recommend the same approach for HB 78. He concluded the presentation and stated that he was available to answer additional questions.

Representative Tomaszewski noted that Mr. Kalwarski had referenced San Diego earlier in the presentation. He asked for an explanation of how San Diego's plan operated and how it was similar to or different from HB 78.

Mr. Kalwarski responded that San Diego's DB plan multipliers were somewhat similar to the bill. He stated that San Diego's plan did not include the risk sharing elements contained the bill and that member contribution rates in San Diego did not vary based on plan experience. If benefits increased, there was risk sharing in that San Diego members were required to pay half of the cost. He stated that another difference was that the California Supreme Court had mandated the reopening of San Diego's plan and that approximately 90 percent of participants in the DC plan transferred into the DB plan retroactive to 2012. He stated that the situation was different than the proposal under consideration. He did not believe HB 78 retroactively placed DC members back into the DB plan, but he asked for confirmation.

Representative Kopp responded that HB 78 allowed current DC plan members to opt into the DB plan and required future members to enter the DB plan.

Mr. Kalwarski asked whether DC account balances would be transferred into the DB plan and whether past service would count.

Representative Kopp responded in the affirmative.

Mr. Kalwarski shared his understanding that DC account balances would be rolled into DB plans in order to ensure that past service was counted.

Representative Kopp responded that DC balances would be rolled into DB service credit. He stated that the actuary would provide a tool allowing employees to input their DC years of service and account balances to determine comparative buy-in values or credited years of service under the new plan.

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Representative Tomaszewski understood that San Diego transitioned to a DC plan in 2012 and that its funding improved each year. He stated that a judge later ordered San Diego back into a DB plan and that pension costs now exceeded \$500 million annually. He did not understand how the example demonstrated success. He asked Mr. Kalwarski to explain the impact of a lower discount rate based on the stress testing performed for SB 88.

Mr. Kalwarski responded that the \$500 million figure was misleading because it ignored the elimination of DC costs. The figure represented DB costs alone and did not reflect the net change. Costs would appear higher under a DB plan because DC contributions were no longer being made. He stated that during stress testing for SB 88, scenarios mirrored market conditions similar to the Great Recession. He relayed that the scenarios demonstrated how member contribution rates could increase to 12 percent and how COLA could be affected. He offered reassurance that similar stress testing could be performed for House Bill 78.

Representative Tomaszewski asked whether the increase in DB costs resulted from the elimination of DC plans.

Mr. Kalwarski responded that if a DB plan cost \$400 million and a DC plan cost \$100 million and the system merged into a single DB plan with a cost of \$500 million, the DC cost would be reduced to zero. He stated that the net cost would remain the same.

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Representative Galvin relayed that her question concerned slide 15, which appeared to present economic considerations related to improvements in recruitment and retention. She asked whether additional considerations had been evaluated, such as litigation costs. She referenced a previously discussed \$11 million fine incurred by the state due to delays in SNAP benefit processing and stated that the Division of Public Assistance (DPA) lacked sufficient staff. She stated that the Department of Law (DOL) was managing multiple lawsuits. She referenced a case known as "A Better Child" and stated that the cost to the state was approximately \$4 million, which was a cost that she thought was included in the supplemental budget. She did not think that the slide considered potential litigation related to the constitutional obligation to provide an education system. She noted that many classrooms in the state lacked certified teachers. She asserted that the litigation risk should be considered.

Representative Galvin noted that there were economic impacts related to out-migration. She stated that she had heard from families who shared that they did not feel safe due to shortages in public safety officers. She relayed that the positions existed but the positions could not be filled because the state could not compete with retirement opportunities offered in other states. Out-migration had significant multiplier effects on the economy. She added that another problem was slow licensing and permitting processes, and that there were several projects on the North Slope that had been delayed due to staffing shortages. The delays occurred because public service employees were insufficiently resourced. She asked whether these factors should be included as additional economic considerations.

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Mr. Kalwarski responded that the considerations were relevant and that other additional factors could also be identified. He stated that the situation illustrated the reasoning behind his recommendation to retain an experienced economist, which he understood had occurred under SB 88.

Representative Bynum noted that there had been discussion regarding DC members buying into the DB plan and assumptions related to discount rates and scenarios. He asked whether the analysis examined scenarios for a typical employee with 10 years of service, including the cost of buying into the plan, and whether such an employee would retain any remaining DC account balance. He asked whether such evaluations had been performed.

Mr. Kalwarski responded that the figures represented an evaluation of all members. He stated that the analysis was not limited to employees with a specific number of years of service and included all members in the DB and DC plans.

Representative Bynum commented that averages were difficult to interpret without case by case evaluations and clearly defined parameters, and he did not find the information particularly useful for that reason. He explained that his second question related to slide 15. He agreed with several of the listed impact considerations, including lower recruitment costs and lower training costs. He added that improved retention would reduce training expenses and reduce the costs associated with attracting new employees. He acknowledged the importance of a robust package of benefits, including pay, retirement, health care, childcare, vehicles, and housing, and noted that such factors contributed to increased recruitment and retention. He understood that the presentation noted that there were positive impacts of DB retirement plans on Alaska's economy and that retaining employees in the state and compensating the employees adequately produced positive economic affects. He suggested that the presentation's language might be better framed as an effective retirement plan rather than a DB plan.

Representative Bynum noted that the final two bullet points on slide 15 referenced superior DB investment returns and investment expenses. He stated that he did not understand what the bullet points meant. He explained that he had reviewed data on current plan performance and overall

market performance, and the results did not clearly favor the DB plan in terms of investment returns or investment costs. He clarified that he was not asserting that DB plans were problematic, but he thought the bullet points were unclear.

Mr. Kalwarski responded that data reflected a person by person valuation rather than group averages. He explained that numerous studies showed professionally managed commingled funds provided greater access to market opportunities than individually directed investments. He stated that the pattern was well documented nationwide in the public sector. The investment industry strongly supported DC plans because the plans generated significantly higher fees, often close to 100 basis points. In contrast, retirement boards negotiated aggressively with investment consultants about DB plans, resulting in fees closer to 25 to 30 basis points. He stated that the difference in fees explained why the investment industry favored DC plans.

Representative Bynum stated that he looked forward to a more extensive discussion of the topic in the future.

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Representative Tomaszewski asked Mr. Kalwarski whether he had served as the actuary for the San Diego retirement plan.

Mr. Kalwarski responded that he had served as the actuary since 2005, after the issues with the plan had occurred, and clarified that he had not been the actuary at the time of the scandal.

Representative Tomaszewski commented that he understood the City of San Diego had a pension payment of approximately \$533 million due on July 1, 2025, and asked whether that was correct.

Mr. Kalwarski responded that he did not have the specific number memorized.

Representative Tomaszewski stated that he was referencing publicly available information and noted that there were challenges associated with the plan following a court order returning the city to a DB system.

Representative Stapp stated that he appreciated the presentation, though he had expressed earlier concerns about its completeness. He referenced Mr. Kalwarski's comments regarding extensive data on superior DB investment returns. He noted that the state treasury had achieved higher rates of return on DC plans than on DB plans. He asked what a superior DB investment return looked like in practical terms and whether it corresponded with the assumed discount rate of 7.25 percent.

Mr. Kalwarski responded that returns varied by year. He noted that the DB system had recently earned approximately 9.1 percent and he doubted that DC accounts achieved the same result. He emphasized that investment performance fluctuated annually.

Representative Stapp stated that he understood annual variation. He explained that long-term assumptions relied on a fixed rate of return and that the assumed rate would be expected to align with actual performance over time. He asked whether the 7.25 percent discount rate represented Mr. Kalwarski's expectation of long-term returns. He asked if 7.25 percent was considered a superior DB investment return.

Mr. Kalwarski responded that the 7.25 percent figure was an assumption and was not based on an expectation of a superior return relative to DC. The figure was simply the assumption used by the bill. He indicated that he did not fully understand the question.

Representative Stapp shared that one of the economist studies referenced by the presentation, titled "A Better Bang for Your Buck 3.0: Post-Retirement Experience (copy on file)," showed that pension plans generally performed better than DC plans in the market. He stated that the study identified an ideal average rate of return for pension plans of approximately 6.8 percent, which was lower than the assumed rate of return being used in the presentation. He asked how changing the discount rate and long-term rate of return assumption to align with the economist study would impact the long-term performance and liquidity of the fund.

Mr. Kalwarski responded that he would not characterize the difference between 6.8 percent and 7.25 percent as

substantially lower. He stated that the numbers shown on slide 11 reflected that using a 6.75 percent rate would increase the figure from \$583 million to \$610 million.

Representative Stapp asserted that while 45 basis points was not significant in a single year, it would become substantial when amortized over 30 years. He relayed that employees did not retire in their first five years and that a long-term difference of approximately 40 basis points over the life of the plan would have a greater effect than the discount rate alone. He asked whether his understanding was correct.

Mr. Kalwarski responded that the \$610 million versus \$583 million figure represented the long-term difference between what the state was paying under current law and what it would pay under HB 78. He explained that the figure quantified the impact.

Representative Stapp asked for more information about the discount rate.

Mr. Kalwarski replied that if the discount rate changed from 7.25 percent to 6.75 percent, it would produce a higher present value.

Representative Stapp stated that he understood the impact on buy-in costs for employees entering the DB plan. He clarified that his question related to the long-term funding ratio of the plan if the long-term performance assumptions were set even 40 basis points lower than 7.25 percent. He asked how the change would affect the long-term funded status of the plan.

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Mr. Kalwarski responded that the \$610 million versus \$583 million figure was a long-term comparison. He stated that he could not answer the specific impact on the funded ratio without reviewing the reports. He stated that he did not believe the impact would be as large as suggested.

Representative Kopp thanked the committee and stated that he appreciated the questions. He referenced previously provided testimony by a pension economist indicating savings to the state of \$76 million per year. He stated that the per year cost of the plan was eclipsed by the per

year savings resulting from reduced employee turnover. He stated that the administration had introduced a teacher recruitment and retention bill that would have cost the state between \$50 million and \$60 million per year to improve recruitment and retention for a single job class. He explained that the proposal did not advance because of its cost. Under HB 78, the additional state cost began at \$6.8 million in the first year and increased to \$24.1 million, which he characterized as manageable amounts comparable to annual appropriations for wildland fire response.

Representative Kopp stated that discussion had focused heavily on discount rates, but he wanted to emphasize the actual investment experience. The system used five-year smoothing and in 2023, the assumed discount rate was 7.25 percent and the system earned 7.6 percent, and in 2024 the system earned 9 percent. He stated that the five-year smoothed averages were 7.4 percent and 8.0 percent, respectively. He shared that the 40-year average return of the DB plans was 8 percent. While past performance did not guarantee future results, five year smoothing reduced year to year market volatility. The broader question was whether the current plan made the state a competitive employer and whether the benefits offered were reasonable. He stated that public workforce stability was key to private sector economic growth and to attracting businesses and families to Alaska.

Co-Chair Foster noted that the next presentation was from the Alaska Municipal League.

^PRESENTATION: ALASKA MUNICIPAL LEAGUE

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NILS ANDREASSEN, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE, introduced the PowerPoint presentation "Employer Considerations of State-Sponsored Pensions," dated April 2, 2025 (copy on file). He continued to slide 2. He stated that he had been scheduled to testify on behalf of the Alaska Municipal League (AML) the previous day following the presentation from the Division of Retirement and Benefits (DRB). He stated that the prior presentation had provided context beyond the question of DB versus DC by outlining the current status of net pension liability and

unfunded obligations and their impacts on the state, employees, and employers.

Mr. Andreassen commented that he had heard both numerical analysis and acknowledgment that additional information could still be developed for HB 78. He stated that the presentation suggested potential to address workforce recruitment and retention issues. Before beginning his presentation, he wanted to reflect on information presented by the state the previous day, particularly regarding normal costs.

Mr. Andreassen stated that he conducted calculations based on the DRB presentation. He clarified that he was not an economist or actuary, but he had checked the math. He explained that he had reviewed normal costs for PERS, TRS, and police and firefighter retirement costs. The normal cost for a PERS Tier I employee was 28.12 percent and the normal cost for a police and firefighter employee was 34.31 percent. He relayed that adding the past service cost of 19.29 percent to the PERS normal cost resulted in a total rate of 47.41 percent. Combining the normal cost of 28.12 percent to the past service cost of 19.29 percent totaled a rate of 47.41 percent.

Mr. Andreassen reported that the difference for every Tier I employee who was employed by a public employer in Alaska was negative 19.08 percent. For every Tier I police and fire employee, the gap was negative 25.27 percent. He explained that for Tier II employees, the difference was negative 7.53 percent, and for Tier II police and fire employees, it was negative 13.99 percent. He noted that for Tier III employees, the difference was negative 5.57 percent, and for Tier III police and fire employees, the difference was negative 13.29 percent. He added that a similar analysis for TRS showed slightly better results. For Tier I employees, the difference between normal cost plus past service cost and the actual rate was negative 4.35 percent and negative 4.91 percent. For Tier III employees, it was negative 0.88 percent.

Mr. Andreassen emphasized that he wanted the committee to note the figures, as the information may not have been fully conveyed in the prior day's presentation. He explained that under the current system, any shortfall between the actuarially determined rate and the rate actually paid had to be offset through increased returns or

other mechanisms. He relayed that the underlying issues would persist under a new bill. He clarified that Tier I, Tier II, and Tier III DB employees would remain in the system, and any new system would still need to address past funding gaps.

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Mr. Andreassen emphasized the importance of making complete information available to employers and employees. He noted that he was not presenting a position on whether DB or DC plans were better, nor was he offering a critique of HB 78 or other pension legislation. He viewed the discussion as evaluating the structural foundation of the system. He thought that legislators considering a revised DB system through HB 78 needed to understand what the system should achieve for employees, employers, and the retirement system overall. He noted that Cheiron's presentation on HB 78 indicated that the bill would benefit recruitment and retention, but he did not think it would necessarily resolve all system challenges.

Mr. Andreassen relayed that the AML presentation included the statutes governing the Alaska Retirement Management Board (ARMB). He observed that when preparing his remarks, he initially expected to place greater responsibility on the board for current conditions than he ultimately concluded was warranted. He emphasized that responsibility was shared. The presentation would include institutional knowledge passed down among municipal and AML employers and would detail how the state ended up in the situation it was in.

Mr. Andreassen continued to slide 3 and relayed that when PERS was initiated in 1960, employers maintained separate accounting that allowed for clear tracking of contributions. He noted that in 1971, the state created the Retirement Reserve Account (RRA), which resulted in blended accounting about which employers were not fully informed. He noted that the blended accounting limited the state's ability to attribute contributions, expenses, and liabilities by individual employer.

Mr. Andreassen continued to slide 4 and noted that the problems continued for decades. Until almost 2006, blended accounting was compounded by a large number of factors and municipalities and other employers simply followed the

instructions provided by the state. The employers paid into PERS as required, and everyone was surprised when actuarial errors were discovered, revealing a significant net pension liability in the early 2000s.

Mr. Andreassen observed that the state had a net pension liability of approximately \$5 billion in 2015. He emphasized that understanding why the liability existed in the first place required reviewing early history. He explained that actuaries had initially put the state in a poor position, which the state subsequently worked to correct, but it still had to manage the resulting net pension liability.

Mr. Andreassen noted that the numbers he had seen from 2006 could be considered an "original sin" for the net pension liability: PERS had nearly \$2 billion, and TRS had approximately \$1.5 billion. He highlighted that the numbers represented a substantial financial challenge to address.

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Representative Stapp stated that he found the slide informative, and he thought that the historical context was predictive of future actions. He asked whether Mr. Andreassen knew why the state had stopped transferring employer contributions to the RRA in the early 1990s.

Mr. Andreassen responded that he did not know the reason.

Representative Stapp suggested that the reason could be that budgets were lean during the 1990s. He noted that when funding was tight, decisions were often made that favored short-term considerations. He asked if Mr. Andreassen could comment on the long-term impact of not paying the full actuarial valuation of the plan during that time.

Mr. Andreassen replied that he did not have a definitive answer but explained that when action was not taken to address liabilities promptly, the costs were compounded and added to future obligations. He emphasized that the unpaid costs were effectively amortized into the future and that when the state had historically lacked sufficient funds, it made decisions in favor of its own short-term position.

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Mr. Andreassen advanced to slide 5 and explained that during the "middle history" period, the system transitioned from Tier I to Tiers II and III and new structures were implemented to address issues identified by actuaries who had not performed to standard. He added that the state recognized responsibility for unfunded liabilities and reforms such as the 22 percent cap on employer contributions for PERS and the 12.56 percent cap for TRS became standard. At the time, the state could not separate the contributions by individual employer, which contributed to ongoing challenges. He added that because the state could not unpack individual contributions and the assets and liabilities of every employer, the caps were implemented not only to address the net pension liability but also to avoid potential litigation. He emphasized that it was important to understand the origin of the 22 percent cap number and he offered reassurance that discussions would continue on potentially lowering it.

Mr. Andreassen explained that any contributions above 22 percent for PERS or 12.56 percent for TRS had been considered to be either "on-behalf" payments or additional state contributions. He noted that during the middle history period, the state established a fixed 25-year amortization period which had been initially projected to end in 2031. He stated that the net pension liability would have been eliminated within six years if historical assumptions had been accurate. However, the state had made the decision to extend the amortization period to 2039.

Mr. Andreassen relayed that in 2014, the legislature had invested \$1 billion into PERS and \$2 billion into TRS. He reflected that the figures had not been entirely additive. For example, \$2 billion for TRS included \$1.5 billion for TRS and approximately \$800 million to \$850 million for PERS, reflecting amounts already owed rather than new contributions. He emphasized that the extension of the amortization period from 2031 to 2039 had cost non-state employers \$2.5 billion.

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Mr. Andreassen moved to slide 6 and relayed that during his seven years of experience, questions had often arisen about on-behalf payments and why non-state employers had not paid more. He clarified that the contributions were calculated over a long period of time and that historical context had

not always been widely recognized. He cited data from 2013 under the ARMB funding policy that illustrated that in 2027, the state would have been paying \$342 million as the additional state contribution for TRS, compared to a projected \$480 billion under prior assumptions. He noted that the state had made choices to reduce those amounts.

Mr. Andreassen pointed out that at the time, the state had not been considered an employer, which meant that approximately half of the additional state contributions reflected the state's portion up to the full actuarial rate. He emphasized that the entirety of on-behalf payments had not been designated solely for non-state employers and that the state had been included in the calculations. He added that by 2018, the 2027 projected payment had been reduced to \$276 million, and most recently, it was projected to be \$70 million. He noted that the significant reduction between 2018 and 2025 reflected the state becoming an employer and taking on its full costs, rather than a change in methodology. He explained that the decisions demonstrated how the state had been able to push a substantial portion of the liability into future years.

Representative Stapp suggested that it would be helpful to simplify what was intended to happen. He understood that employees and employers were supposed to make contributions, ideally preventing a net pension liability. He understood that due to historic assumptions, the liability had effectively been deferred. He noted that the numbers on slide 6 extended far into the future and remarked that the state had left its DB plan. He asked if the majority of PERS contributions were actually for the unfunded portion or for existing employees.

Mr. Andreassen replied that if the assumptions and rates had been correctly established, the system would have met the total need each year and avoided a net pension liability. He explained that to prevent the scenario, assumptions should have been conservative or aggressive where necessary, and contributions set to meet total actuarial requirements. When a net pension liability occurred, a plan sponsor would have been responsible for addressing the gap.

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Mr. Andreassen turned to slide 7, which discussed the employer perspective and included local governments and all non-state employers. He noted that the state accounted for roughly 50 percent of the overall payroll, down from approximately 64 percent seven years prior. He emphasized that small employers had minimal impact, such as the City of Upper Kalskag at 0.0007 percent. The State of Alaska was the largest employer and had the greatest influence on the system. He highlighted that the Municipality of Anchorage, the next largest employer within PERS after the state, represented 8.74 percent of the system.

Mr. Andreassen stated that the employer base included school districts, municipal hospitals, housing authorities, the Inter-Island Ferry Authority, the North Pacific Fisheries Management Council, medical centers, the Anchorage Parking Authority, and Iñisaġvik College. He stressed the importance of engaging employers in discussions regarding their needs and system structures that would protect them. He observed that when the state shed nearly 3,000 jobs over a four-year period, it caused significant ripple effects on the overall system and contributed to the net pension liability.

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Mr. Andreassen advanced to slide 8, which provided specific FY 24 data to illustrate employer impacts. He reported that school districts paid approximately \$30 million toward the PERS net pension liability beyond normal costs. Local governments contributed \$62 million, housing authorities contributed \$3 million, and hospitals contributed \$7.5 million. He noted that the amounts reflected taxpayer-funded resources and that school district payments were largely covered through the state's Base Student Allocation (BSA). He equated local government contributions to increased local taxes, housing authority contributions to fewer houses, and hospital contributions to higher health care costs. Many employees without current DB coverage were affected in the same way, as the liability applied broadly across the system.

Representative Bynum asked whether the numbers covered all PERS and TRS employees.

Mr. Andreassen responded that he had not extracted TRS numbers for the presentation but could provide the information as a follow-up.

Representative Hannan asked for more information about PERS DB employees. She noted that most individuals who were employed prior to 2006 had left their positions.

Mr. Andreassen replied that the data reflected employers who currently had no DB employees, meaning the normal cost and past service cost applied to the entire payroll and not to current DB participants.

Mr. Andreassen continued to slide 9 and explained that the salary floor for participating employers was another factor impacting contributions. As part of current statute, the salary floor maintained payroll levels at or above the 2008 amount. He noted that the COVID-19 pandemic impacted many communities and some employers had to lay off or defer staff in FY 21. However, employers still paid \$6 million dollars into the system because the salary floor prevented reductions.

Mr. Andreassen continued that in FY 24, the numbers had decreased, but certain communities remained affected by the 2008 salary floor. He stated that for school districts and local governments, the floor required an additional \$285,000 contribution beyond what their current employee base accrued in benefits. He emphasized that attempts to consolidate, reduce, or right-size government payrolls would not reduce contributions toward the PERS liability.

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Mr. Andreassen moved to slide 10 and addressed the challenge of delinquent employers, which was an issue that surfaced periodically. He highlighted that missing payrolls created a structural problem, leaving employers "prisoners of PERS." For example, the City of Noorvik owed \$2 million, and the City of Saint George owed \$1.7 million, representing roughly 400 missing payrolls or 24 years of community assistance payments to clear the debt. He asserted that as the committee considered structural changes, whether returning to DB or other reforms, it needed to account for employer experiences and find better solutions for recruitment, retention, and participation in the system.

Representative Stapp noted that some municipalities on slide 10, such as Selawik and Noorvik, were significantly behind on contributions. He asked for more information on the total liability and requested an explanation of the late fees from accrued interest.

Mr. Andreassen responded that each missed payroll was assessed at 1.5 times the standard rate, which was the accrued interest applied to delinquent contributions.

Representative Stapp understood that the situation could be considered insolvency for some smaller municipalities, noting that 588 missed payrolls plus accrued interest represented a substantial liability. He noted that Selawik's estimated \$700,000 PERS bill was a potentially significant burden. He asked what strategies the state could implement to help municipalities return to compliance.

Mr. Andreassen replied that removing the 1.5 times penalty could be one strategy. He added that implementing an earlier trigger for off-ramps from PERS to alternative systems could help. He noted that the majority of local governments did not participate in PERS, with 64 of 165 local governments outside the system. He explained that the smallest 65 municipal employers made up only 1 percent of the total system, but there was concern that if the smallest employers opted out of PERS, it could destabilize the system. He added that if the state intervened earlier, it could cover the estimated contributions as they came in to prevent compounding of interest and better manage the debt. He noted that the state had previously maintained a "stressed communities" list to actively address the issues, which no longer existed.

Representative Stapp asked whether removing the delinquent employers would truly destabilize the system, given their history of nonpayment since 2003.

Mr. Andreassen responded that he did not have a definitive answer to the question.

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Mr. Andreassen suggested that the bill presented an opportunity to address longstanding challenges. He

explained that the funded status of the program was evaluated every four years and the slide included data for the 2015, 2018, and 2023 valuations. He advanced to slide 11 and relayed that the system was projected to reach only 92 percent funded by 2039. He reminded the committee that the original target had been 100 hundred percent funded. He noted that both PERS and TRS showed little improvement since 2015.

Mr. Andreassen explained that the flat funded ratios for both PERS and TRS had identifiable causes since 2015. He identified the most significant factor as the transition from level-dollar funding to level-percent-of-pay funding. He explained that during a period of fiscal challenges, revenue shortfalls, and budget pressure, the change reduced near-term contributions and deferred substantial costs to later years, which explained why the funded ratios remained flat for an extended period and why progress toward full funding had been limited.

Mr. Andreassen added that the shift in 2014 from level-dollar funding to level-percent-of-pay funding lowered near-term employer contributions but deferred significant liabilities into future years. He referenced the ARMB Resolution 2025-04 and noted that it clearly documented the consequences of the policy decision. He explained that total costs over a 25-year period were approximately 10 percent higher under a level-percent-of-pay approach due to deferred payments. He emphasized that the change did not merely delay costs, but it increased the overall cost of the system.

Representative Stapp expressed appreciation for the prior slide. He thought that repeated reassessments of assumed rates of return consistently resulted in downward revisions. He explained that each reassessment reset expectations lower, resulting in new funding projections that ultimately left the system in roughly the same position as when the process began. He observed that changes such as shifting payroll methods and layered amortization could make projections appear more favorable by extending repayment timelines, but ultimately shifted greater costs into the future. He asked whether Mr. Andreasen's presentation was intended to encourage the state to address the problem sooner rather than later.

Mr. Andreassen responded that addressing the problem sooner rather than later would benefit all parties. He acknowledged that earlier action would cost more in the near term but would reduce total costs over time and shorten the duration of payments.

Mr. Andreassen added that a review of court case documents from the early 2000s showed that Milliman consultants had reviewed the Mercer decision [State of Alaska v. Mercer] and concluded that actuarial projections at the time were conducted too infrequently. He explained that Milliman had recommended annual evaluations rather than five-year intervals. He noted that insufficient review frequency contributed to earlier problems and that assumptions were not reassessed often enough when conditions deteriorated.

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Mr. Andreassen continued to slide 12 and explained that the system had not consistently made progress with respect to pension "fundedness." He noted that when examining past service cost amortization schedules, most years reflected losses rather than gains, which failed to reduce the net pension liability. He noted that the issue had already been discussed during the prior day's presentation from DRB.

Mr. Andreassen noted that ARMB had recently taken steps to adjust actuarial methodology. He referenced Resolution 2025-04 and explained that the change in methodology addressed a prior structure in which the state paid its full obligation up front while other employers paid over time. He explained that the prior approach reduced opportunities for higher investment returns. He reiterated that the updated methodology added half a year of interest to the normal cost, which altered funding outcomes and addressed part of the imbalance. He explained that the change helped explain why the system reached only 92 percent funded by 2039 and why remaining costs extended beyond that date. Without the change, the net pension liability would have extended into FY 83 for PERS and into FY 52 for TRS. He explained that layered amortization and amortization beyond fixed amounts had resulted in higher costs for all employers over time. The change moved the projected payoff date to FY 51, which was 12 years later than the original 2039 target.

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Mr. Andreassen continued to slide 13, which illustrated how amortization had evolved over time. He noted that the pink bars on the charts represented state assistance. He explained that by FY 40, the combined normal cost and past service cost declined to just under 15 percent, which had been the stated goal. He clarified that the continued elevated cost in FY 40 resulted from layered amortization. He stated that ARMB found that layered amortization shifted approximately \$2 billion in costs beyond 2039 and the impact in FY 40 alone totaled \$162.5 million for all employers. At that point, employers paid the rate evenly, meaning that amortization directly affected non-state employers who otherwise would have experienced a normal cost below 10 percent.

Mr. Andreassen reviewed prior rate impacts. He noted that in 2019, the actuarial rate would have exceeded 30 percent without changes related to state costs adopted in 2015. He explained that re-amortization reduced the estimated FY 40 cost to below 10 percent, demonstrating the direct relationship between layered amortization and higher future rates. He stated that in 2011, the state faced an actuarial rate above 40 percent and adopted changes to avoid those costs. The projected normal cost in 2031 would have been below 10 percent but for layered amortization.

Mr. Andreassen advanced to slide 14 and emphasized that actuarial assumptions mattered. He stated that the issue extended beyond the rate of return and included inflation, investment returns, payroll growth, demographic assumptions, and funding method changes from level dollar to level percent of payroll. He explained that each of the factors affected system costs. He added that vacancy rates also played a role and that a 14 percent vacancy rate at the state level resulted in approximately \$36 million in FY 24 not being applied to the net pension liability, based on his calculations.

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Mr. Andreassen continued to slide 15 and noted that actuarial assumptions were adopted every four years, but many of the assumptions had not changed enough. He explained that payroll growth experience remained near 1 percent over time. The payroll growth assumption had been 4 percent in 2004, later declined, and remained at 2.75

percent for approximately 10 years, despite continued experience near 1 percent. He explained that assumption variances contributed to liability growth.

Mr. Andreassen understood that some of the documents related to HB 78 showed that valuation assumption errors related to salary increases added approximately \$94 million to the liability. He noted that errors related to the post-retirement pension adjustment (PRPA) also increased the liability. He asserted that the state should be tracking all relevant assumptions. He added that statute required ARMB to report the rate of return and compare outcomes, and he argued that all actuarial assumptions should be included in the reporting. The chart on the slide illustrated how such tracking could be presented, but the chart was simply an example and did not reflect data specific to Alaska.

Mr. Andreassen moved to slide 16 and addressed earnings assumptions. He stated that smoothing or averaging alone would not resolve the issues. He explained that when the actual rate of return failed to exceed the assumed rate, the system incurred a shortfall that had to be recovered in addition to meeting average expectations. When cumulative differences between actual returns and assumed returns were calculated over time, the result was negative 29.1, which was why the net pension liability had not improved more substantially. He stressed that assumptions mattered.

Representative Stapp commented that he agreed that assumptions mattered and that there were many ways errors could compound over time. He shared that he had asked Mr. Kalwarski from Cheiron about the 30-year assumption, to which he had responded that a 40 basis point difference could result in approximately \$1 billion in additional liability. He noted that he was not satisfied with Mr. Kalwarski's response. He did not believe the state should assume another billion-dollar liability due to inaccurate assumptions related to plan performance and payroll. He thought that increasing payroll costs while plan costs increased created a compounding problem. He asked how Mr. Andreassen would view shifting another \$1 billion liability to AML.

Mr. Andreassen replied that he did not support transferring an additional billion-dollar liability to AML. He moved to slide 17 and added that ARMB had been active in recent years and had adopted multiple resolutions addressing

pension issues. He stated that the board had focused on amortization policy and had encouraged the legislature to review the resolutions to ensure consistency with legislative intent and statutory requirements.

Mr. Andreassen explained that ARMB had considered shortening amortization periods and recognized that layered amortization had shifted approximately \$2 billion in costs beyond 2039. He stated that the board acknowledged that amortization periods did not need to remain fixed at 25 years and that it had authority to adjust the periods. He suggested that such considerations were relevant as the legislature evaluated new pension proposals and bills.

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Mr. Andreassen continued to slide 18 and addressed employer contribution rates. He stated that there was an opportunity cost associated with high past service costs. He noted that past service costs of approximately 20 percent for PERS and TRS limited employers' ability to increase wages, offer deferred compensation, or provide additional benefits. He stated that what mattered most to employees was the combined retirement contribution package. He explained that if past service costs were addressed directly through appropriate funding, accurate assumptions, and avoidance of future liability growth, employers would have significantly greater flexibility in compensating employees. The approach represented another way to address ongoing recruitment and retention challenges.

Representative Bynum commented that Mr. Andreassen appeared to be operating under a time constraint and requested that sufficient time be allowed for the details of the presentation. He thought that the presentation was among the most substantive the committee had received on the topic, and he expressed concern that rushing the final portion would be counterproductive.

Co-Chair Foster agreed and stated that the committee could go over its scheduled end time of 3:30 p.m.

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Mr. Andreassen thanked the committee and continued on slide 19. He stated that several additional proposals had been introduced in the Senate. He relayed that SB 55 would

require employers to participate in Social Security or the Supplemental Benefits System (SBS), which would result in an increase in payroll of approximately 6 percent. He stated that the change would affect 27 local governments, school districts, and the University of Alaska (UA), as well as several housing authorities. He explained that for non-state employers, the 6 percent payroll increase would equate to approximately \$20 million. He and stated that if employers chose to hold employees harmless by increasing salaries to offset the cost, the total impact would be approximately \$42 million. He noted that the proposal would add approximately \$20 million to the UA budget alone.

Mr. Andreassen relayed that PERS and TRS had originally been designed as alternatives to Social Security. He noted that the normal cost of earlier tiers had been approximately 28.12 percent. He argued that the important question was whether a new Tier IV DB plan would function as a replacement for Social Security and SBS. If it would not, the committee would need to consider how to address employers whose needs had previously been met but were no longer adequately served. He explained that employers seeking to exit the system would still carry net pension liability obligations, which were projected to extend into FY 83.

Mr. Andreassen noted that there was another proposal that would require local governments to pay the full actuarial rate for PERS, which would result in approximately \$100 million in increased local taxes for municipal employers. He stated that for TRS employers, the impact would be approximately \$87 million, which would affect education funding.

[3:31:52 PM](#)

Mr. Andreassen advanced to slide 20 and addressed the e-reporting system issue. He expressed appreciation that DRB had been working to resolve the system's inability to accept contributions. He stated that payroll reporting had been unavailable, creating outstanding payrolls that were required to be entered by April 30, 2025. He noted that the roughly four-month reporting gap would impact system funding. He relayed that the payrolls submitted by the State of Alaska and the Municipality of Anchorage had accounted for approximately 68 percent of total payroll, while the remainder of the system experienced delays. He

explained that the issue would have measurable impacts on employer contributions and system operations. He added that the state had committed to reimbursing employees for lost earnings during the time period. He asserted that it was incumbent upon the state to also reimburse the system, which would carry a significant cost. Without action, the liability would be shifted into future years, requiring non-state employers beginning in 2050 to assume obligations that were the responsibility of the state.

Mr. Andreassen highlighted the importance for the legislature to monitor employers' ability to submit outstanding payrolls by the end of the month. He stated that 31 PERS employers and 13 TRS employers currently had pending payrolls. He explained that the committee should ensure these employers did not incur additional costs due to the system outage. He reported that for PERS, six months of payroll equated to \$560 million, with \$123 million representing the associated contributions. For TRS, the contribution during the same period was \$52 million. He emphasized that the earnings losses would compound over time.

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Representative Hannan asked for more information about the calculation of lost contributions. She noted that the committee had included employee lost earnings in the supplemental budget but had not received direction from the state on how to calculate the system impact. She stated that prior testimony demonstrated how liabilities were being deferred. She emphasized the importance of making employees and the system whole. She asked if Mr. Andreassen had a calculation or if the committee should request a calculation from DRB.

Mr. Andreassen agreed that it would be appropriate to request a calculation from DRB or the Legislative Finance Division (LFD). He noted that the impact of lost earnings over time was approximately \$20 million, which could grow further over 25 years if not addressed. He noted that the math was an estimate and he recommended that a qualified party provide the official calculation.

Representative Hannan emphasized that the committee should act to address the shortfall immediately rather than allowing it to become a larger unfunded liability over

time. She noted that the current six-month shortfall should be addressed immediately to avoid compounding the liability.

Mr. Andreassen agreed. He moved to slide 21 and explained that many of the impacted employers had appeared on AML and non-state employer lists for an extended period. He stated that there was an opportunity to update the 2008 salary floor to relieve undue burdens on employers. He suggested that the floor could be adjusted, removed, or averaged depending on legislative direction. He explained that new legislation could incorporate processes such as termination studies to address employer-specific issues. He clarified that termination studies allowed an employer to exit PERS, but the employer incurred the cost of the study and retained any accrued net pension liability. He emphasized the importance of considering whose liability accrued during the process and how termination studies should be approached in the future.

Mr. Andreasen explained that the 22 percent employer contribution was a cap, not a floor, and could be decreased if the state reduced its share. He reported that preliminary calculations suggested each one-percentage-point change would cost the state approximately \$10 million in additional contributions. He stated that the cap should not remain in place beyond 2039, when the rate was expected to decrease to 15 percent. Maintaining the cap beyond that point would hinder retiree hiring without transferring accrued liability between employers. He recommended that the legislature develop an exit strategy for smaller, stressed employers. For example, strategies could include using a five-year audit of terminated employer net pension liability, elimination of high interest rates on past-due payments, locking in net pension liability, providing opportunities to pay down and exit, and creating a strategy to fully address remaining liability. He concluded that these goals represented long-term objectives and that no single bill could solve all issues.

[3:39:45 PM](#)

Representative Bynum asked for more information about the potential opportunities available to employers if net pension liability were eliminated. He asked what improvements municipal governments, school districts,

police, fire, and other employers could achieve if the liability no longer existed.

Mr. Andreassen responded that he had a conversation with an employer who noted that current contributions to PERS severely limited the health care benefits the employer could provide. He explained that the employer could cover employees, but could not cover employees' families. He relayed that employees prioritized health care over retirement benefits. He noted that past service costs of approximately 10 percent to 20 percent prevented deferred compensation, restricted other benefits, and slowed payroll growth over time. He emphasized that eliminating the net pension liability would create significant opportunity for employers to improve employee compensation, benefits, and retention.

Representative Bynum asked if employers would use such savings responsibly or simply retain the funds.

Mr. Andreassen responded that he had not heard from employers that they would "take the money and run." He stated that recruitment and retention remained a key focus and that several local governments were actively conducting salary studies and evaluating compensation packages. He concluded that employers were focused on improving the employee experience rather than retaining unallocated funds.

[3:43:03 PM](#)

Mr. Andreassen advanced to slide 22 and explained that he included Oregon as an example while reviewing how other states addressed employer needs. He stated that the comparison was instructive in demonstrating available options. He outlined several tools used in Oregon, including an employer incentive fund, a rate projection tool, member redirects, and salary limits. He noted that such tools could be made available to employers at the discretion of the plan sponsor as established by the state. He emphasized that while he could not verify whether each tool was effective, he believed that having more options available to employers would be beneficial and that some ideas could be adapted to fit Alaska's system.

Mr. Andreasen concluded that the presentation was not intended to advocate specifically for HB 78 or for a DB

plan versus a DC plan. He stated that the goal was to contribute to a solution that worked for the system, employers, and employees. He emphasized the importance of asking fundamental questions, including what employees needed, whether all employees required the same benefits, whether all employers had the same needs, and how accountability should be managed between employers and the plan sponsor. He thought it was important to examine the role of the state as plan sponsor and how it engaged with employers, particularly when decisions could significantly affect long-term employer costs. He stated that the intent of the presentation was to encourage stepping back from individual bills to evaluate the overall employer experience and the long-term sustainability of the system. He emphasized the need to ensure that normal costs were addressed in the present rather than shifted to future employers or taxpayers.

Representative Jimmie commented that it was difficult for private businesses to offer retirement plans due to high costs, particularly in communities such as Toksook Bay. She noted that the City of Toksook Bay appeared on the list of employers that were behind on payments [slide 10] and she emphasized that the high cost of living made it challenging for both public and private employers to provide retirement benefits.

Mr. Andreassen responded that he had recently spoken with the mayor of Toksook Bay. He explained that the city paid approximately \$25,000 annually into PERS despite having no PERS employees. He expressed concern for communities that continued contributing to the system without receiving corresponding benefits.

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

Co-Chair Foster handed the gavel to Co-Chair Josephson.

[3:46:38 PM](#)

AT EASE

[3:46:43 PM](#)

RECONVENED

Co-Chair Josephson stated the meeting would reconvene at 4:00 p.m.

[3:47:06 PM](#)

AT EASE

[4:03:05 PM](#)

RECONVENED

#hb53

#hb55

HOUSE BILL NO. 53

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making supplemental appropriations; making reappropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 55

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

^AMENDMENTS

Co-Chair Josephson noted that the committee would continue hearing amendments for the operating and mental health budgets.

[4:03:44 PM](#)

AT EASE

[4:05:17 PM](#)

RECONVENED

Co-Chair Josephson MOVED to ADOPT Amendment N 64 (copy on file):

Agency: Health
Appropriation: Public Assistance
Allocation: General Relief Assistance

Transaction Details

Title: Add Funding for Alaskan Food Banks and Pantries
to Promote Food Security

Section: Section 1

Type: IncOTI

Line Items (Amounts are in thousands)

Personal Services:	0.0
Travel:	0.0
Services:	0.0
Commodities:	0.0
Capital Outlay:	0.0
Grants:	1,000.0
Miscellaneous:	0.0
	1,000.0

Positions

Permanent Full-Time:	0
Permanent Part-Time:	0
Temporary:	0

Funding (Amounts are in thousands)

1004 Gen Fund	1,000.0
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Explanation

Representative Stapp OBJECTED.

Co-Chair Josephson explained that Amendment 64 proposed adding \$1 million for the Food Bank of Alaska (FBA). He understood that the committee was nearing the end of the amendments process, but he believed the amendment was important. Excluding statewide functions such as the Alaska Marine Highway System (AMHS) backstop and other additions made by the Senate totaling \$10 million, as well as the \$5 million restoration of the Community Assistance Program (CAP) for one year, the committee had reduced state spending by approximately \$744,000 due to adopted decrements to the budget through amendments. He clarified that the figure excluded the unallocated cut. He explained that although Amendment 64 proposed an additional \$1 million in spending, his rough calculation showed that, excluding those statewide functions, adoption of the amendment would result in a net increase of approximately \$300,000.

Co-Chair Josephson explained that FBA had expressed strong support for Amendment 64. He stated that he had received

written correspondence three days earlier from Chief of Advocacy at FBA, Ms. Rachel Miller, who noted that one in eight Alaskans and one in six Alaskan children experienced hunger. He relayed that Ms. Miller described ongoing backlogs caused by administrative challenges at the Department of Health (DOH), SNAP, and Medicaid. He stated that the backlogs had led to increased demand at food pantries across the state. Food banks and pantries were often the only available option for individuals who were uncertain where their next meal would come from.

Co-Chair Josephson stated that Ms. Miller referenced national policy discussions, including proposals that would require states to absorb a greater share of SNAP costs or significantly reduce SNAP benefits. She indicated that potential reductions in SNAP, Medicaid, or other assistance programs could result in increased demand at food banks and pantries. He referenced a recent article by Iris Samuels titled, "Alaska Receives Federal Warning at Risk of Losing Funding Over Food Stamp Backlog." He explained that the article described a federal penalty related to SNAP administration. He noted that the penalty was in addition to a separate unfunded penalty adopted earlier that day on the House floor by a vote of 21 to 19.

Co-Chair Josephson explained that while SNAP benefits were still being distributed, the program was not functioning effectively due to federal concerns regarding compliance and administration. He added that Ms. Miller shared that FBA and its partners had previously received \$1.68 million and more recently, \$1,011,500.

Co-Chair Josephson stated that he had provided the committee with a spreadsheet (copy on file) listing communities with participating food banks that received food primarily from larger distribution centers such as Anchorage, Juneau, and Fairbanks. He explained that funds appropriated for the current fiscal year would not arrive until January. Despite receipt of those funds, FBA expressed concern about a growing gap in the hunger response network as more Alaskans experienced financial and food insecurity.

[4:10:53 PM](#)

Co-Chair Josephson reiterated that one in eight Alaskans and one in six Alaskan children were affected by food

insecurity, according to FBA's State of Hunger in Alaska report. He explained that the numbers equated to nearly 100,000 individuals, including approximately 30,000 children. In 2024, FBA distributed more than 7.9 million pounds of food, equivalent to 6.7 million meals, to Alaskans in need. He stated that the organization delivered approximately 583,000 meals to children in rural school districts. He also noted that food was distributed to older Alaskans through the Commodity Supplemental Food Program (CSFP). He asserted that the need for food assistance was clearly established. While he supported UA sports programs and appreciated prior committee action to fund the programs, he believed it placed the legislature in an inconsistent position to fund athletics while not providing funding for food banks.

Representative Stapp stated that when food bank appropriations began approximately three years earlier, the funding had been described as temporary assistance to address the SNAP backlog. He referenced the SNAP penalty and noted that earlier committee discussion had established that the penalty resulted from over-issuance of benefits intended to reduce backlog delays. He asked whether the appropriation was becoming an ongoing commitment rather than a temporary measure. He also asked why it took nine to 11 months for the department to distribute funds that were approved to address what was described as an immediate need, noting that the prior year's funds had not been scheduled for distribution until March.

Co-Chair Josephson responded that DPA was experiencing significant administrative challenges. He stated that he was glad the funds were distributed when they were, but he expressed concern that the current grants would expire in January of 2026. He stated that FBA had reported prior distributions of funds, including approximately \$420,000 to the Fairbanks Community Food Bank (FCFB), \$100,000 to the Kenai Peninsula Food Bank (KPFB), and \$150,000 to the Southeast Alaska Food Bank (SAFB). He explained that these figures illustrated how funding was distributed statewide rather than concentrated in a single community.

[4:14:41 PM](#)

Representative Tomaszewski asked where the remaining funds had been distributed beyond the examples provided.

Co-Chair Josephson responded that the figures referenced were from calendar year 2024, when \$4.5 million had been included in the governor's proposed FY 24 budget. He clarified that the \$1.68 million distributed that year was allocated across multiple regions and he had used the examples to demonstrate the statewide distribution model. He emphasized that the funding was not limited to Anchorage.

Representative Tomaszewski asked how much funding remained or whether all funds had been expended.

Co-Chair Josephson responded that he did not have the information available. He suggested that LFD or DOH may have the information.

Representative Tomaszewski asked to follow up on Representative Stapp's question. He stated that the food bank funding appeared to have originated during the COVID-19 pandemic and had initially been described as temporary. He was uncertain whether the original justification still applied, but he understood that Co-Chair Josephson appeared to have researched the issue already. He would like more information on the remaining funds and he thought that the committee should consider the matter further.

Representative Galvin stated that she had reviewed her notes related to FBA after meeting with representatives from the organization multiple times during the year. She wanted to share several observations. She expressed appreciation for Lutheran Social Services of Alaska (LSSA) for visiting her office and she thought the information presented to her was deeply concerning. In Midtown Anchorage alone, approximately 600 seniors received a food box once per month through LSSA. She explained that eligibility was limited to individuals aged 60 years or older with monthly income of \$2,000 or less. She stated that the 30-pound food box was insufficient and seniors continued to experience food insecurity. She emphasized that older Alaskans were going hungry. Government grants and contracts declined from \$6.22 million in 2023 to \$4.24 million in 2024, representing a 31.8 percent decrease year over year. She stated that while federal funding had previously provided support, demand continued to increase and more individuals than ever continued to access pantries and meal programs even after the pandemic.

Representative Galvin stated that while food bank funding had initially been framed as a temporary response to the pandemic, ongoing conditions demonstrated sustained need. She relayed that despite declining funding, rising operational costs, and inflationary pressures, food banks distributed approximately 7.9 million pounds of food and nearly 6.7 million meals in 2024. She asserted that the food was being utilized and not wasted, and that demand remained high, particularly in rural Alaska.

Representative Galvin shared that families were reportedly waiting up to three months or longer to receive SNAP benefits. She argued that food pantries were not an ideal substitute for SNAP because they did not always provide culturally or nutritionally preferred foods, but the food pantries were necessary under current circumstances. She expressed support for Amendment 64 because food insecurity persisted.

[4:20:05 PM](#)

Representative Johnson asked whether the committee could request that LFD Director Alexei Painter address the issue. She suggested that language could be added to reappropriate FY 25 funds into FY 26 or extend FY 25 funding into FY 26 to account for any unspent balances.

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, responded that when the matter was discussed in December of 2024, DPA indicated it planned to begin disbursing the funds in February of 2025. He stated that the department assumed the full amount would be disbursed, but any unspent funds would lapse back to the general fund. If an unspent amount remained, the legislature could choose to extend the appropriation. He explained that the department issued requests for proposals in November of 2024 and likely had full grant agreements in place at that time. A second appropriation that was made in 2024 through the Department of Commerce, Community and Economic Development (DCCED) for food banks had also been fully expended.

Representative Bynum stated that the budget listed \$605,400 under the public assistance line [page 20, line 20]. He asked whether the proposed funding would be added to the existing line item or whether it constituted a new addition to the budget.

Mr. Painter responded that the funding was comparable to a one-time appropriation of \$1.5 million made in the same line item during the previous year. He stated that the current budget proposal would place a smaller amount in the same budget line.

Co-Chair Foster expressed his support for Amendment 64. He stated that he appreciated that the food bank distributed food to 75 communities and organizations. He noted that Alaska had more than 200 villages and he encouraged FBA to expand distribution to additional communities, if possible, particularly given SNAP-related challenges. He shared that that the SNAP backlog represented the most frequent category of constituent calls received by his office during the legislative session. He relayed that constituents experienced long wait times, delays of weeks or months, and disconnections while seeking assistance. He expressed concern for affected individuals and stated that food banks provided an important means of support.

Co-Chair Foster noted that while food banks were not present in every village, hub communities such as Nome sometimes assisted surrounding areas. He stated that increased support would improve outreach. While he generally favored limited government, he viewed food assistance for individuals and families unable to meet basic nutritional needs as an appropriate government responsibility, along with public safety, roads, and sanitation. He noted that it was particularly important when children were involved.

[4:24:32 PM](#)

Representative Hannan indicated that she also supported Amendment 64. If SNAP was not functioning as intended, the state needed to assist through alternative means. She asked Mr. Painter whether funds retained by the state from SNAP-related penalties could be used for direct food assistance. She noted that Alaska was required to pay a \$12 million fine due to having insufficient eligibility technicians for SNAP, with \$6 million repaid to the federal government and \$6 million retained by the state. She asked whether retained funds could be used to support food banks.

Mr. Painter responded that he did not know the details of the settlement and advised that DOL would need to be consulted. He stated that the language submitted to the

legislature specified that retained funds were designated for new SNAP investment projects. He explained that the designation did not include direct food assistance such as funding food banks. He could not speak to whether the limitation resulted from negotiation decisions by DOL.

Representative Hannan commented that the legislature would not be able to achieve such changes before addressing the FY 26 budget. There was concern that the state could again face additional federal penalties due to the ongoing SNAP backlog. She thought the committee should consider whether future negotiations conducted by DOL regarding public assistance penalties might allow funds to be directed toward providing food assistance to individuals who experienced food insecurity, including through food banks. She reiterated that such changes were not achievable within the FY 26 budget process.

Representative Bynum commented that he continued to hear discussion regarding SNAP and whether the program was effectively administered. He stated that speculation regarding the future operation of SNAP appeared to be influencing support for the amendment. He did not believe he had sufficient information to determine whether SNAP services would continue as expected. He had limited time to research the program and was speaking only to the information available to him. When considering food security, particularly in remote communities, he believed support should be narrowly focused on low-income, hard-to-reach, and highly vulnerable areas. He thought there should be less emphasis on communities such as Ketchikan, Anchorage, and Fairbanks, where additional resources and services were available. He would prefer to see funding directed toward communities such as Kake, Hoonah, and Yakutat, which were more vulnerable to food shortages and supply disruptions. He did not yet understand how the program ensured assistance reached the most vulnerable communities. He requested that Co-Chair Josephson provide an additional explanation regarding how the program was intended to protect those communities.

[4:28:58 PM](#)

Representative Allard stated that she found the discussion informative. She stated that she recognized several Anchorage-based organizations listed in the handout provided by Co-Chair Josephson (copy on file), including

Beans Café and the Chugiak Eagle River Food Pantry. She stated that the Municipality of Anchorage provided significant funding to these organizations through grants, bond authorizations, and actions exceeding the tax cap. She did not believe Anchorage qualified as one of the most vulnerable communities, given the level of municipal support available. She emphasized the need to target funding toward the most vulnerable areas of the state. She did not support approving the funding in the current budget cycle because she believed nonprofits were capable of raising funds independently and that continued reliance on government funding was not appropriate. She stated that if funding were provided, it should be narrowly targeted, which she did not believe was occurring under the amendment.

Representative Tomaszewski noted that he could not speak to conditions in Anchorage, Kenai, Southeast Alaska, or other communities that had received funding under the appropriation; however, he could speak to conditions within the Fairbanks community. He explained that FCFB performed extensive food distribution work and that he had volunteered and worked with the organization for many years. He stated that the organization not only raised funds for its own projects but also worked with the state on food distribution, including distributing fish to villages when fish availability was limited. He explained that FCFB served as a distribution hub and sent food throughout the interior region of Alaska. The organization partnered with local grocery stores to donate food weekly, such as Costco and Fred Meyer. He described the work as a coordinated effort to distribute food to people in need and noted the significant contribution of volunteers over many years. He stated that he believed it was a reasonable appropriation to help those in need.

[4:32:57 PM](#)

Representative Stapp expressed appreciation for the comments from Representative Tomaszewski. He noted that the committee had discussed the issue the previous year in relation to separate legislation. He offered a warning that the department would not be able to clear the SNAP backlog. He had cautioned that increasing eligibility conditions would create an additional backlog. As of the current month, the backlog remained unresolved and additional individuals would be added to the program in July of 2025,

which he believed would likely worsen the backlog. He stated that he supported the amendment because he believed the department would continue to face challenges processing applications. He clarified that his comments were not intended to criticize departmental staff, but that his concern was structural rather than personal. Without addressing capacity issues, additional funding for food banks might be required in future years.

Representative Bynum shared that he sought a clearer understanding of how the program functioned in terms of distributing food to communities. He wanted additional information before the committee voted on the amendment regarding how food was transported and allocated. He stated that while the program appeared beneficial, he believed further discussion would be necessary in the future to ensure that the most vulnerable communities were prioritized.

Co-Chair Josephson responded that he was not an expert on food distribution operations, but he had provided the committee with a list showing the number of pallets and pounds distributed to villages (copy on file). He indicated that he believed the information addressed some of the concerns raised. He referenced a September 2023 press release in which the administration reallocated \$1.7 million to support food distribution statewide in response to difficulties processing SNAP applications. He explained that the press release originated from DOH Commissioner Heidi Hedberg and noted that the organization distributed 567,000 pounds of food to 82 partners statewide, from Ketchikan to Bethel and Gambell, in response to food insecurity. He relayed that FBA had a number of testimonials from partner organizations across the state, including Southeast Alaska, the Kenai Peninsula, Bethel Community Services, the Matanuska-Susitna Food Bank, the Bristol Bay Native Association, the Nome Community Center, and the Upper Susitna Food Pantry.

Co-Chair Josephson advised that he could not provide a precise operational breakdown but emphasized that the article he had mentioned earlier by Iris Samuels was concerning. According to federal data cited in the article, the state met required SNAP application processing deadlines only 36 percent of the time, compared to the federal performance standard of 95 percent. He explained that the data helped explain the federal penalty assessed

against the state. He reported that more than 2,700 Alaskans had waited longer than three months for SNAP applications to be processed, despite a federal requirement that applications be completed within 30 days. He added that the article referenced a vacancy rate of 30 percent within the department as of March of 2025 and reported that only three employees were hired between January and March to address the backlog. He characterized the amendment as a reduction rather than an expansion, acknowledging the \$1 million cost and the fiscal challenges facing the state. He stated that the need for food assistance remained evident.

[4:37:47 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Jimmie, Johnson, Hannan, Tomaszewski, Stapp, Galvin, Bynum, Foster, Josephson
OPPOSED: Allard, Schrage

The MOTION PASSED (9/2). There being NO further OBJECTION, Amendment 64 was ADOPTED.

[4:38:37 PM](#)

AT EASE

[4:41:53 PM](#)

RECONVENED

Co-Chair Josephson MOVED to ADOPT Amendment N 95 (copy on file):

Agency: Permanent Fund
Appropriation: Permanent Fund Dividends
Allocation: Dividend Fund 1050

Transaction Details
Title: POMV Draw with \$1000 Dividend
Section: Language
Type: IncOTI

Line Items (Amounts are in thousands)
Personal Services: 0.0
Travel: 0.0
Services: 0.0
Commodities: 0.0
Capital Outlay: 0.0

Grants: 0.0
Miscellaneous: 681,700.0
681,700.0

Positions
Permanent Full-Time: 0
Permanent Part-Time: 0
Temporary: 0

Funding (Amounts are in thousands)
1041 PF ERA 681,700.0

Explanation

Page 57, lines 14 - 17:

Delete all material and insert:

"(1) the amount necessary, estimated to be \$681,700,000, to the dividend fund (AS 43.23.045(a)) for the payment of a permanent fund dividend of \$1,000 and for administrative and associated costs for the fiscal year ending June 30, 2026;"

Page 57, line 18:

Delete "\$1,294,439,328"

Insert "\$3,117,188,398"

Representative Stapp OBJECTED.

Co-Chair Josephson explained that Amendment 95 proposed changing the amount of the 2025 Permanent Fund Dividend (PFD) from the \$3,000 amount proposed by the governor to \$1,000. He wanted to place several points on the record regarding the Permanent Fund and the dividend. He explained that between 1982 and 2015, the legislature appropriated a PFD each year based on the statutory formula. During his initial legislative terms in 2013 and 2014, the legislature did not regularly debate the dividend. He reported that over the 34-year period, the average dividend was \$1,150. He emphasized that during that time, the dividend had no impact on the operating budget and functioned separately from it. He explained that a portion of earnings was distributed as dividends while the remainder stayed in the fund to support growth. During that period, the Permanent Fund grew from approximately \$3 billion to nearly \$53 billion, which materially affected the formula used to calculate dividends.

Co-Chair Josephson relayed that in 2016, Governor Bill Walker introduced legislation to use the fund as an endowment to support state government through a percent of market value (POMV) mechanism. He stated that the approach was enacted in 2018 through SB 26. Following enactment, the POMV framework created a zero-sum dynamic in which each dollar allocated to the dividend reduced the amount available for other general fund needs, and vice versa. He stated that the dynamic was especially pronounced in a fiscal environment where the state did not raise broad-based revenue and did not tax its residents to fund government operations.

Co-Chair Josephson stated that in 2016, the governor vetoed a portion of the dividend appropriation, and that in each year since then, the legislature appropriated a dividend amount smaller than what would have been paid under the historic statutory formula. He stated that the cumulative reduction in dividend payments over the nine-year period totaled \$9.3 billion. He added that when interest was included, the amount exceeded \$12 billion. By comparison, the Permanent Fund currently held just over \$5 billion in uncommitted earnings reserve funds, excluding the \$3.8 billion already committed to the upcoming fiscal year budget. He stated that excluding those funds was necessary because the funds were required to support the budget and included an inflation-proofing transfer scheduled for June of 2025. He stated that without those funds, the state would face serious fiscal risk. He asserted that the state currently lacked the financial capacity to pay historic dividend amounts.

Co-Chair Josephson relayed that in prior years, proposals were offered to pay full dividends or pay back dividends. He stated that such proposals were no longer feasible. He explained that the limitation was not solely due to insufficient funds, nor solely due to the version of the budget under consideration, which allocated approximately 66 percent of the annual draw to the dividend. He stated that the underlying issue was that the historic dividend formula no longer aligned with the structure of the Permanent Fund under the POMV framework. When the legislature was considering SB 26, both the House and the Senate passed versions of the bill that included new dividend formulas tied to POMV. He stated that the Senate version included a dividend allocation equal to 25 percent

of the POMV draw. He explained that under a 25 percent draw, the dividend for the current year payable in October would have been approximately \$1,440. The House version included a 33 percent dividend, which would have resulted in a higher amount than \$1,440. He explained that the conference committee was unable to reach consensus on a new dividend formula, and as a result, the final bill was silent on the issue.

Co-Chair Josephson explained that because no new formula was adopted, the historic dividend formula remained in statute despite being unaffordable. The outcome resulted in an annual debate over the dividend. He wanted to change the dividend formula to an amount the state could realistically afford. If the legislature enacted a new formula, it would be honored and paid. He argued that adoption of a sustainable formula would help frame future budget discussions regarding affordability, but the legislature had not yet reached agreement on a new dividend formula. He relayed that the absence of a realistic formula delayed resolution of essential budget issues until late in the legislative process. The state faced a deficit exceeding \$1.5 billion under a full dividend scenario.

Co-Chair Josephson noted that the committee had spent the prior two months developing the operating budget through subcommittees and full committee work. The range of remaining budget options was limited to tens of millions of dollars. He clarified that the limitation applied to the operating budget itself and not to the dividend. The committee had completed less work on the capital budget but he could reasonably estimate its size. He noted that the legislature was also considering substantial increases to K-12 education funding. The state faced a projected deficit of approximately \$2 billion if the operating budget as proposed was adopted.

Co-Chair Josephson explained that Amendment 95 would provide a \$1,000 dividend to all eligible Alaskans. He stated that adoption of the amendment would increase funds available to the general fund and reduce the deficit by approximately \$1.8 billion. He stated that \$1,000 was within the range the state could afford and he characterized the proposal as realistic and fair.

[4:48:06 PM](#)

Co-Chair Josephson understood that it was widely believed that the dividend would ultimately fall near the \$1,000 range. He stated that few discussions involved amounts lower than the \$1,000 level. He explained that under a residual dividend approach, assuming growth in K-12 funding, the dividend could be approximately \$700. He stated that further discussion was expected. The dividend amount would be changed through the legislative process, including in committee, conference committee, and on the House floor. He stated that he was open to conceptual amendments.

Representative Jimmie stated that the PFD was critically important to her district. She shared that statewide per capita income was approximately \$41,000, but annual income in her district was approximately \$21,000 or less. During recent travel to villages in her district, she encountered a family heating their home with an oven because they could not afford stove oil. She stated that the dividend helped keep approximately 40 percent of her constituents out of poverty.

Representative Tomaszewski believed the PFD should be paid as written in statute. He stated that he would vote against Amendment 95. He viewed reductions to the dividend as regressive and harmful to individuals with the lowest incomes in the state. He argued that a reduction of \$2,000 to the dividend could represent 10 percent or 15 percent of an individual's annual income. The dividend provided significant assistance to retirees, individuals on fixed incomes, and individuals living in poverty. Reducing the dividend disproportionately affected lower-income individuals compared to higher-income earners. He noted that a \$2,000 reduction represented approximately 1 percent of income for someone earning \$200,000 annually but a substantially larger share of income for individuals with lower earnings. He stated that he could not support the reduction.

Representative Allard noted that the legislature frequently emphasized the importance of following the law and adhering to statute. She stated that her opposition to the amendment was because she wanted to represent her community as well as support her colleagues who represented rural communities. She stated that she did not want rural communities to suffer. Regardless of whether an individual was a single parent in Eagle River, Bethel, or Nome, she

wanted to ensure that families could afford medical care, orthodontic care, and education expenses for their children.

[4:52:32 PM](#)

Representative Johnson expressed her opposition to the amendment. She thought that the legislature had an insatiable appetite for spending and that accountability and restraint were lacking. She stated that the dividend allowed individuals to decide how to best meet their needs without government direction. Recipients might choose to spend the dividend on fuel, food, or other necessities rather than government-selected programs. She asserted that the dividend represented the only effective spending cap on government and that public attention to the dividend helped restrain government spending. She expressed concern that support for a larger dividend was sometimes portrayed negatively. She relayed that the dividend helped working families save money, support education, and improve their quality of life. She stated that she could not support the amendment.

Co-Chair Foster shared that he opposed Amendment 95 because he supported paying the full statutory PFD. He shared that his district ranked either the lowest or second lowest in per capita income statewide. He stated that residents in his district relied on the dividend to pay for necessities such as heating oil, food, and medicine. He noted that a reduction of \$1,000 or \$2,000 might not significantly affect some Alaskans, but it had a substantial impact on many of his constituents. He explained that a \$2,000 reduction affected families disproportionately. For a family of five, the reduction equated to \$10,000. He stated that evaluating the reduction as a percentage of income further illustrated the disparity. For example, a \$2,000 reduction represented 2 percent of income for a household earning \$100,000 annually. For a family in a village receiving approximately \$10,000 in cash income supplemented by subsistence, the same reduction equated to a 20 percent loss of total income.

Co-Chair Foster stated that he had visited all of the villages in his district and he had personally observed the high cost of living and economic hardship in those areas. He stated that residents were barely managing financially, especially considering the current challenges related to

SNAP. He asserted that his constituents needed a robust dividend. He supported a larger PFD particularly for rural Alaska and he was in opposition to the amendment.

[4:58:47 PM](#)

Co-Chair Schrage expressed his full support for Amendment 95. He acknowledged that the full statutory dividend was established in law. The committee had made efforts to limit spending but even with reductions, the budget had to balance against available revenues. He asserted that the constitution required passage of a funded budget and that the state could not meet all obligations simultaneously. He noted that members of the committee had supported various budget increments, including funding for dementia awareness, a deaf navigator, fisheries research, and reimbursement for required air quality studies. He stated that these expenditures reduced the funds available for the dividend. He recognized the importance of the dividend, particularly for low-income and rural families, but the committee faced a mathematical constraint that required tradeoffs. He relayed that maintaining essential state functions required acknowledging revenue limitations and reallocating funds accordingly.

Co-Chair Schrage stated that if the committee did not address the imbalance, the responsibility would fall to others, and he did not want to abdicate the responsibility. He wanted the committee to take ownership of the budget, which required acknowledging that the dividend needed to be reduced. The alternatives included drawing large amounts from the Constitutional Budget Reserve (CBR), overdrafts from the Permanent Fund that could eliminate the dividend entirely, or instituting taxes. He stated that he had not observed sufficient will within the committee to pursue the other options. He noted that there was unwillingness among members to draw from the CBR. He stated that the public needed honesty regarding where funding would come from. If the state was unwilling to use savings, overdraw the fund, or impose taxes, the dividend would have to be reduced. He stated that although the vote was difficult, he was willing to take responsibility because the financial reality required it. He thought that the committee needed to accept ownership of the process and be honest about what was required to fund the budget priorities members had supported.

[5:02:57 PM](#)

Representative Galvin expressed hesitant support for Amendment 95. She explained that her hesitation stemmed from the regressive nature of reducing the dividend and she thought that her colleagues from rural Alaska were correct in raising concerns. There were mixed feelings about reducing the PFD in her district, but as a whole, her district understood that the state faced a \$1.6 billion deficit and that action was required. She reiterated that reducing the dividend was regressive, but the state lacked other revenue mechanisms. She relayed that Alaska was the only state without a statewide sales tax or income tax and that the state had previously relied on oil revenue, which had declined significantly. The state currently faced a severe fiscal challenge and could not rely upon oil increasing again in the future.

Representative Galvin suggested that additional revenue options should be considered, including sales taxes, income taxes, modernization of tax systems, and mining revenue. She stated that a \$1.6 billion deficit could not be resolved through cuts alone, regardless of fiscal conservatism. She thought that the committee had prioritized essential services such as food assistance, health care, and legally required obligations and had avoided unnecessary spending. She explained that her votes were cast with statewide interests in mind rather than district-specific benefits. The state needed to remain a place where people wanted to live, with safe communities, strong schools, and opportunities for children. The state was at a difficult juncture that required deciding how it would invest in itself amid fiscal constraints. She wanted to ensure that the legislature was doing what was necessary for rural Alaskans, particularly in regions facing severe hardship. She stated that the PFD issue posed a difficult question for her. She was actively working on ideas to improve the distribution of wealth statewide. She stated that her constituents expected the legislature to balance the budget and adjourn on time. She would vote in favor of the amendment, though reluctantly.

Representative Tomaszewski commented that there had been significant discussions about potential solutions. He noted that Representative Mike Prax had introduced legislation during the past three legislative sessions allowing individuals to voluntarily relinquish their PFD. He

explained that the legislation allowed applicants to check a box to donate their dividend to the general fund. He noted that he was a co-sponsor of the bill. He stated that individuals who did not need the dividend should have the option to return it to the state to reduce the need for difficult budget decisions. He expressed hope that the committee would support the bill.

[5:07:50 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Galvin, Hannan, Schrage, Josephson
OPPOSED: Johnson, Stapp, Allard, Bynum, Tomaszewski, Jimmie, Foster

The MOTION to adopt Amendment N 95 FAILED (4/7).

[5:08:36 PM](#)

Co-Chair Schrage MOVED to REPORT CSHB 53(FIN) out of committee with individual recommendations and with authorization to the Legislative Finance Division and Legislative Legal Services to make any necessary technical and conforming changes.

Representative Johnson OBJECTED.

[5:09:23 PM](#)

AT EASE

[5:10:04 PM](#)

RECONVENED

Co-Chair Josephson asked if the objection was maintained.

Representative Johnson MAINTAINED the OBJECTION.

[5:10:14 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Hannan, Jimmie, Galvin, Foster, Schrage, Josephson
OPPOSED: Johnson, Allard, Bynum, Tomaszewski, Stapp

The MOTION PASSED (6/5).

There being NO further OBJECTION, CSHB 53(FIN) was REPORTED out of committee with one "do pass" recommendation, two "no recommendation" recommendations, and eight "amend" recommendations.

[Note: action on reporting the bill from committee was rescinded on 4/10/25 at approximately 6:30 p.m. The bill was then reported out of committee with no additional changes. See separate minutes dated 4/10/25 1:30 p.m. for detail.]

[5:11:20 PM](#)

Co-Chair Schrage MOVED to REPORT CSHB 55(FIN) out of committee with individual recommendations and with authorization to the Legislative Finance Division and Legislative Legal Services to make any necessary technical and conforming changes.

There being NO OBJECTION, CSHB 55(FIN) was REPORTED out of committee with six "do pass" recommendations, three "no recommendation" recommendations, and two "amend" recommendations.

Co-Chair Josephson noted that the bills would be sent to the House Rules Committee for calendaring.

Co-Chair Josephson reviewed the schedule for the following day.

#

ADJOURNMENT

[5:12:44 PM](#)

The meeting was adjourned at 5:12 p.m.