

SENATE FINANCE COMMITTEE  
April 14, 2025  
9:03 a.m.

9:03:29 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:03 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Donny Olson, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Mike Cronk  
Senator James Kaufman  
Senator Jesse Kiehl  
Senator Kelly Merrick

MEMBERS ABSENT

None

ALSO PRESENT

Kathy Lea, Director, Division of Retirement and Benefits, Department of Administration; Brandon Roomsburg, Retirement Operations Manager, Division of Retirement and Benefits, Department of Administration; Rose Foley, Staff, Senator Bert Stedman; Nils Andreassen, Executive Director, Alaska Municipal League.

PRESENT VIA TELECONFERENCE

David Kershner, Actuary, Arthur J. Gallagher and Company; Heather Arana, Director of Benefits and Compensation, University of Alaska Fairbanks.

SUMMARY

SB 55 TRS CONTR RATE; PERS/TRS SOC SECUR OR SBS

CSSB 57(FIN) was REPORTED out of committee with two "do pass" recommendations, four "no

recommendation" recommendations, and one "amend"  
recommendation.

SB 57            APPROP: CAPITAL/FUNDS/SUPP/AMEND/REAPPROP

SB 55 was HEARD and HELD in committee for further  
consideration.

PRESENTATION: DEPARTMENT OF ADMINISTRATION - DIVISION OF  
REITRMENT AND BENEFITS

Co-Chair Stedman discussed the agenda.

#sb57

SENATE BILL NO. 57

"An Act making appropriations, including capital  
appropriations and other appropriations; making  
reappropriations; making appropriations to capitalize  
funds; and providing for an effective date."

9:04:56 AM

Co-Chair Stedman relayed that the version on the table had  
been adopted on April 10, 2025, and no amendments had been  
received.

Co-Chair Hoffman MOVED to REPORT CSSB 57(FIN) out of  
Committee with individual recommendations and to authorize  
the Legislative Finance Division and the Division of  
Legislative Legal Services to make conforming and technical  
changes. There being NO OBJECTION, it was so ordered.

CSSB 57(FIN) was REPORTED out of committee with two "do  
pass" recommendations, four "no recommendation"  
recommendations, and one "amend" recommendation.

Co-Chair Stedman handed the gavel to Co-Chair Hoffman.

9:06:38 AM

AT EASE

9:09:09 AM

RECONVENED

Co-Chair Hoffman announced a presentation by the Division  
of Retirement and benefits.

^PRESENTATION: DEPARTMENT OF ADMINISTRATION - DIVISION OF  
REITRMENT AND BENEFITS

9:10:26 AM

KATHY LEA, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, introduced herself and discussed a presentation entitled "Alaska Supplement Benefits System-Annuity Plan/PERS Normal Cost and Delinquent Employers" (copy on file).

Ms. Lea provided history on Slide 3, "Alaska Supplemental Benefits System-Annuity Plan (SBS):

- o In 1979, the Legislature created the Alaska Supplemental Benefits System
- o Participation was open to any government employer participating in the Public Employees' Retirement System who wished to use SBS as a replacement to Social Security upon withdrawal from that plan or who had never participated in Social Security
- o In 1980, the State of Alaska held a referendum vote with its employees to cease participation in the federal Social Security System and to enter the SBS as its Social Security Replacement Plan
- o Participation in SBS began for State employees on February 1, 1980
- o Participation in SBS Annuity is mandatory; employees pay 6.13% of wages which is matched 100% by the employer; total contributions to the account are 12.26% of wages; participants are immediately 100% vested
- o SBS is comprised of an annuity plan as well as a voluntary benefits plan that includes voluntary supplemental health, death and disability benefits; members electing any of the voluntary benefits have premiums take on a pre-tax basis from their paychecks; members have a yearly open enrollment to choose from these benefits.

9:12:30 AM

Senator Cronk asked why teachers had been left out of the supplemental benefits system.

Ms. Lea replied that in the statute it indicated that to participate in the supplemental benefits system the employee had to be a PERS employee who had never been in, or had withdrawn from, social security.

[9:13:03 AM](#)

Ms. Lea summarized slides 4 and 5. She stated that if an employee enters SBS, and makes no other choice, they will be defaulted into an age based, target date plan. The target date trusts offer a professionally selected and diversified portfolio in one single investment and the mix of assets changes overtime as the employee approaches retirement.

[9:13:55 AM](#)

Ms. Lea listed the investments options other than the default options highlighted on slide 6:

- U.S. Small-Cap Trust1
- S&P SmallCap 600® Equity Index Fund
- Mid Capitalization Equity Index Fund
- International Equity Fund
- World Equity Ex-US Index Fund
- Environmental, Social, and Governance Fund
- Russell 3000 Index Fund
- S&P 500® Stock Index Fund
- Strategic Completion Fund
- Alaska Long-Term Balanced Trust
- FIAM Core Plus CIT Class
- Passive U.S. Bond Index Fund
- Stable Value Fund
- State Street Treasury Money Market Fund - Inst

She noted that it was a good mix of high and low risk funds.

[9:14:28 AM](#)

Senator Kiehl asked how the fund options were selected and vetted.

Ms. Lea replied that the investment options were chosen by the Alaska Retirement Management Board in conjunction with their advisory committee and with support from the Department of Revenue, Treasury Department.

Senator Hoffman interjected that the actual allocation was directed by the employee.

Ms. Lea responded in the affirmative. She said that employees could direct how they wanted their money invested or could remain in the default target date fund.

[9:15:55 AM](#)

Co-Chair Stedman thought the asset selections and performance were virtually identical to those in TRS.

Ms. Lea said that the investment line-up on slide 6 was similar what was used for the PERS and TRS Defined Benefit Funds, was the same line-up used for the PERS and TRS Defined Contribution Plans and was like the Deferred Compensation Plan.

[9:16:55 AM](#)

Ms. Lea looked at slide 6, "Withdrawal (Disbursement) Options":

Participants must be terminated from employment for 60 days before a withdrawal of funds is allowed. The only exception to payment eligibility earlier than 60 days after termination is for a qualified hardship. The following withdrawal options are available:

- >> Deferred payment until you reach the age for a required minimum distribution (usually age 73)
- >> Lump-sum payment (full or partial)
- >> Five-, 10- and 15-year period-certain annuity
- >> Single life annuity
- >> Single life annuity with 10- or 15-year period certain
- >> 50% or 100% joint/survivor annuity
- >> Periodic payment
- >> Direct rollover to a traditional IRA or Roth IRA or other qualified or eligible plan
- >> Lump-sum payment

Ms. Lea said that people could keep their funds in the plan even after employment termination.

[9:18:29 AM](#)

Ms. Lea advanced to slide 7, "SBS Employee Balances," which showed a table of account balances in the SBS plan. The information had been requested by the committee. She observed that the balance went up to \$4,7 million for 2 employees. She said that employees were able to amass so much in the plan because they had ended their PERS service with salaries of between \$200,000 and \$220,000, had been retired for more than 10 years, and had rolled additional monies into the plan.

[9:19:48 AM](#)

Co-Chair Stedman considered the 556,000 people in SBS and asked about the average length of service for those employees.

[9:20:17 AM](#)

Ms. Lea referenced Appendix B and noted that at 2.25 percent increase in a \$60,000 salary, with a 7.25 percent increase in investment income, the person would have close to a million dollars after 30 years. She pointed out that years of service was illustrated in the lefthand column.

Co-Chair Stedman thought the amounts were significant. He assured the committee that he did not begrudge employees return on investment. He pointed out that SBS was a replacement for Social Security and pondered that it was like for a person who did not have either plan. He announced that nearly all state employees were enrolled in SBS.

[9:23:14 AM](#)

Senator Kaufman asked how the \$60,000 salary was chosen as a starting point for the chart.

Ms. Lea believed that the amount was a median salary and was the same figure used by an actuary to do the defined contribution and defined benefits sample.

[9:23:53 AM](#)

Senator Kiehl considered the balances on the table on slide 7. He asked how the balances compared with the estimated

account balances in the appendix. He wondered about the percentage of SBS participants.

Ms. Lea had not calculated those percentages.

Senator Kiehl thought it helped to have a sense of how the actual account balances compared to the estimated account balances.

[9:25:23 AM](#)

Ms. Lea showed slide 8, "Employer Participation."

BRANDON ROOMSBURG, RETIREMENT OPERATIONS MANAGER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, referenced slide 9, "Employer Participation," which showed a table of that illustrated employer participation in PERS (154), SBS (21), SSA (85), DCP (17), and PERS Only (48). He noted those under the PERS ONLY tab did not participate in Social Security. Participation Agreements and resolutions are passed for plan participation.

[9:27:01 AM](#)

Co-Chair Stedman asked about deferred compensation. He understood that certain percentage of an employee's salary was deferred into the account. He asked how many of the plans had employer match.

Mr. Roomsburg replied that there was one employer that made 6 percent match. He said that the state's plan allowed for a match up to 6 percent but only one employer was making the match.

Co-Chair Stedman asked whether the employer's name was a secret.

Mr. Roomsburg replied in the negative and agreed to follow up with the committee on the name of the employer.

[9:28:08 AM](#)

Ms. Lea referenced the appendix, which listed a breakdown of which plans employees were participating in. She said it showed PERS employers, and only TRS employers that participate in the DCP.

[9:28:54 AM](#)

Ms. Lea showed slides 10 and 11, "PERS Delinquent Employers," :

**Defined Contribution Only Employer**

1. A political subdivision or public organization may request that its participation in the plan be terminated after an adoption of a resolution by their governing body
2. If contributions are not transmitted to the plan, it is in default, and participation in the plan is terminated
3. Upon termination, the amount necessary to actuarially fund the costs to the plan for terminated employees is determined (included cost of health insurance, disability or death benefits); this is their termination cost (AS 39.35.958)

**Defined Benefit/Defined Contribution Employer**

1. In addition to termination costs, terminated employers must pay each payroll period an amount representing the past service rate on the total base salaries of the positions terminated or the 2008 salary floor, whichever is greater; this payment will continue until the past service liability of the plan is extinguished (AS 39.35.625)

Ms. Lea stated the slide showed that there were currently 18 delinquent employers, nine of which were in the process of termination. Termination studies were being conducted to determine future liability of employees who have remained in the plan.

[9:29:08 AM](#)

Ms. Lea showed slide 11, "Delinquent Employers," which showed a table of all delinquent employers. She noted that the last nine listed had been delinquent for a very short amount of time. She noted that interest the accrued on the debt was 1.5 times the base interest rate of 7.5 percent. She said that the liability would still be owed to the plan when an employer left the system and would be reflected as an unfunded liability in the system.

[9:30:59 AM](#)

Co-Chair Stedman mentioned the constitutional protection for the diminishment of benefits. He thought some of the communities listed on the slide were not very economically fluid. He stressed that all the employees from these communities would be paid. He wondered when the liability was folded into the aggregate liability in entirety, would it fall back on the state, or the municipalities in the plan pay a portion of the debt. He noted that many of the older plans involved defined benefits, which was a unique challenge. He asked whether there were communities in arrears for defined contribution plans, which differed in ending value from defined benefit plans.

Ms. Lea relayed that the nine historically delinquent employers were defined benefit employers and had taken a refund that had reduced the liability allocated between the employers and the state. The employees would receive the benefits earned and become part of the general liability. The other nine that currently had interest accruing were participating in the defined contribution plans, which had a different criterion for termination. Those employers were required to pay continuous contributions to the plan until the overall unfunded liability of the plan was extinguished.

[9:34:58 AM](#)

Co-Chair Stedman expressed concern about newer employees and referenced a computer system error that resulted in late paid contributions, which had resulted in a \$2 million request from the administration. He asked what the state could do to protect employees of the nine communities against lack of timely payment. He thought some of the communities might have difficulty meeting the obligations.

Ms. Lea relayed that statutes were silent on the subject area of what to do for the participant in these cases. She relayed that the \$2.7 million requested was due to employers not being able to pay into the plan because the division's systems were down. The state has an obligation to make communities whole if the system is down for more than 90 days. She said that in the case of the communities listed on slide 11, it was the employer's obligation to make the payments.

Co-Chair Stedman was concerned about the employees and thought that further dialogue should occur to ensure employees were taken care of. He did not believe the challenge was insurmountable.

[9:37:47 AM](#)

Ms. Lea turned to slide 12, "Delinquent Employer Process":

**Defined Contribution Only Employer**

1. A political subdivision or public organization may request that its participation in the plan be terminated after an adoption of a resolution by their governing body
2. If contributions are not transmitted to the plan, it is in default, and participation in the plan is terminated
3. Upon termination, the amount necessary to actuarially fund the costs to the plan for terminated employees is determined (included cost of health insurance, disability or death benefits); this is their termination cost (AS 39.35.958)

**Defined Benefit/Defined Contribution Employer**

1. In addition to termination costs, terminated employers must pay each payroll period and amount representing the past service rate on the total base salaries of the positions terminated or the 2008 salary floor, whichever is greater; this payment will continue until the past service liability of the plan is extinguished (AS 39.35.625)

[9:40:20 AM](#)

Senator Cronk thought that the list on slide 11 showed some places that were forced to incorporate that did not have a baseline revenue to support the plans. He noted that a village in his district struggled to pay the debt. He thought some of the places did not have the economic infrastructure to support the plans.

[9:41:29 AM](#)

Senator Kaufman asked Ms. Lea to address item three under the Delinquent Employer Process on slide 12. He queried the use of an actuary to determine the cost in the case of defined contribution.

Ms. Lea explained that there was a defined benefit component to the defined contribution plans, which rested in the retirement health care, disability benefits, or death benefits. If the defined contribution only employer had employees receiving disability or survivor benefits, or who were eligible for health insurance, that was included by the actuary as part of their termination costs.

[9:43:01 AM](#)

Co-Chair Stedman asked whether cities had to be in the state retirement system, or if it was possible for them to use their own system or plan.

Ms. Lea relayed that it was voluntary participation for all government employers except the state.

[9:43:57 AM](#)

DAVID KERSHNER, ACTUARY, ARTHUR J. GALLAGHER AND COMPANY (via teleconference), introduced himself.

[9:44:21 AM](#)

AT EASE

[9:45:08 AM](#)

RECONVENED

Mr. Kershner addressed a presentation entitled "State of Alaska Retirement Systems: Information for Senate Finance Committee, Normal Cost Fundamentals - PERS and TRS." (copy on file)

[9:45:32 AM](#)

Mr. Kershner looked at slide 2, "Normal Cost Fundamentals":

- An actuarial cost method is used to allocate the projected costs of PERS and TRS between past and future periods
- Actuarial terminology:
  - **Present Value of Future Benefits** (PVFB) includes all future expected benefits for active and inactive members as of the valuation date; the PVFB for active

members includes future expected salary increases and future expected years of service

- o **Actuarial Accrued Liability** is the portion of PVFB attributable to past service
- o **Present Value of Normal Costs** is the portion of PVFB attributable to future service
- o **Normal Cost** is the actuarial cost of active members' expected benefit accruals for the upcoming year

[9:48:30 AM](#)

Co-Chair Stedman directed the presenter not to use acronyms and to present in a slow and simple manner for the watching public.

[9:49:21 AM](#)

Mr. Kershner continued to address slide 2. He said the PERS and TRS systems provide pension and healthcare benefits to employees. In actual valuation, projected benefits were based on a series of assumption used to predict future experience with past experience used as guidance. He mentioned the example of future salary increases for active employees, and date of retirement. There was also an assumption about lifespan using mortality tables.

Mr. Kershner said that that the assumption as to expected earnings on invested assets was 7.25 percent. He said present value of all future benefits, discounting the 7.25 percent rate, resulted in the present value of future benefits (PVFB). He furthered that a portion was allocated to past service and a portion to future service, the employer and state contributions were determined based on projected payroll.

[9:52:12 AM](#)

Co-Chair Stedman wondered about how many variables were used in calculating the projections.

Mr. Kershner relayed that for each active employee, there was a myriad of variables. He said that employees were recalculated from year-to-year using many variables. He expounded on the dozens of variables projected for each person based on the mortality assumption.

[9:54:29 AM](#)

Senator Kiehl commented on the number of variables. He asked how often the projections were correct.

Mr. Kershner related that incorrect assumptions were expected. He felt that over the long-term, the assumptions would even out. He said that statute required an experience study every four years to compare assumptions to reality and adjust for better accuracy.

[9:57:54 AM](#)

Mr. Kershner advanced to slide 3, "Normal Cost Fundamentals (cont'd)":

- Normal Costs are calculated individually for each active member
  - Under the Entry Age Normal actuarial cost method, each member's Normal Cost is expected to remain level as a percentage of the member's pay at hire
- Total Normal Cost for the plan is the sum of the individual Normal Costs
  - Normal Costs are calculated separately for Pension and Healthcare benefits
- Normal Costs are paid by members and employers
- Normal Cost rates by tier are expressed as a percentage of pay for that tier
- Normal Cost rates for purposes of adopting contribution rates are converted to a percentage of total (DB and DCR) pay

[10:01:15 AM](#)

Mr. Kershner continued to address slide 3.

[10:02:12 AM](#)

Mr. Kershner discussed slide 4, "Normal Cost Rates for FY25 - PERS," which showed a table of PERS pension and healthcare for peace officers and firefighters as well as all other employees. The first set of columns was for pension benefits and the second was for health care benefits. Columns A-C were the amounts by each Tier. Tier A was anyone hired prior to July 1, 1986. Tier 2 was anyone hired between July 1, 1986, and June 30, 1996. Tier 3 applied to anyone hired between July 1, 1996, and June 30, 2006. Tier 4 was anyone hired on or after July 1, 2006.

Column D was the sum of columns A-C. Column E was the information from column D but converted to a total defined benefit and defined contribution pay basis.

Mr. Kershner described projecting pay for each column on the table. He used the example of 2025 pay for peace officers and firefighters in Tier 1, which was \$1,380,000. The combined total in column D was \$135,062,000. When including DCR members, the projected pay was \$454,700,000.

Mr. Kershner looked Tier 1 total normal cost rate, which was 26.52 percent. He noted the employer normal cost rates in each column once the member contribution was subjected. The overall employer normal cost rate was 4.56 percent. He discussed the same methodology for the jobs marked "All Others" at the bottom of the slide.

[10:07:01 AM](#)

Mr. Kershner considered the right-hand side of the table, which addressed healthcare.

Co-Chair Stedman requested the department get back to the committee with more information regarding healthcare deductibles for both PERS and TRS.

[10:08:51 AM](#)

Mr. Kershner reviewed slide 5, "Normal Cost Rates for FY25 - TRS," which showed the same table as the previous slide but for TRS.

[10:10:04 AM](#)

Co-Chair Stedman asked about the four-year data refresher and asked whether the ARM Board had been on schedule.

Mr. Kershner understood that the process for adoption of contribution rates by the ARM Board occurred each September and set the rates for the fiscal years two years out. Based on 2014 statute the contributions for each fiscal year were based on a value set two years previously.

Co-Chair Stedman asked whether there had been delays or complications with the updates for the experience study.

Mr. Kershner affirmed that the ARM Board was on track for the next experience study. He shared that the last study covered the data through June 2021, and the next four-year study would cover to June 2025. He would expect the ARM Board to adopt the assumptions at the June or September 2026 meetings. He relayed that since he had been involved in the process, there had not been any delays or problems.

[10:13:59 AM](#)

Senator Kaufman wondered if Mr. Kershner could provide an idea of the difference between a state-managed defined benefits plan and a commercially available annuity.

Mr. Kershner thought the main difference was attributed to the belief and expectation that professionally managed assets provided superior investment returns. Without the state-sponsored the purchase of annuities by individuals would also be dependent upon the assumption at the time they decide to annuitize the benefit. He thought that there could also be tax benefits to the state sponsored plan.

[10:16:51 AM](#)

Senator Kaufman questioned the benefit of states taking on the responsibility for paying the liability.

Co-Chair Hoffman asked Mr. Kershner whether he had closing comments.

Mr. Kershner reiterated that the calculations shown today were based on the June 30, 2024, valuations. The fiscal year 2027 valuation rates would be adopted in September 2026, at which time the valuation cycle would begin over again.

#sb55

SENATE BILL NO. 55

"An Act relating to employer contributions in the teachers' retirement system; relating to supplemental employee benefits; and providing for an effective date."

[10:19:18 AM](#)

Co-Chair Hoffman relayed that SB 55 was previously heard on April 8. The committee would hear public testimony.

[10:20:03 AM](#)

ROSE FOLEY, STAFF, SENATOR BERT STEDMAN, explained that SB 55 was an attempt to create a more equitable retirement system for the two retirement systems of the state, PERS and TRS. The bill would allow for those under the TRS plan to join SBS or Social Security.

Co-Chair Bert Stedman, Sponsor, commented that the bill recognized that teachers were not in Social Security or SBS, which left their retirement lacking. He considered the retirement system for the teacher sonly invested 15 percent of their salary. He thought it was clearly recognized that cities that did not include Social Security or SBS left their employees short.

[10:24:16 AM](#)

Co-Chair Hoffman OPENED public testimony.

[10:24:33 AM](#)

NILS ANDREASSEN, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE, testified in support of the bill. He said that PERS and TRS had been devalued over time. He noted the current defined contribution cost of 4.2 percent, which was much lower that the percentage prior to 1986. The plan prior to 1986 offered a great incentive as a valid replacement of Social Security, but this was no longer the case. He urged maximizing choice for employees. He noted that there were 100 local governments that did not participate in PERS that did not face the liability issues faced by the state.

[10:29:22 AM](#)

Mr. Andreassen stressed the concern for public sector employees who were planning for retirement. He wondered whether SBS diminished the incentive to increase payroll at a higher rate. He related that ultimately, this is a compensation package selection that is up to employers, who faced with SB 55's increased contribution requirements of between \$19 and \$42 million would likely have to find trade - offs in what else they currently offer. This is the exact conversation that Congress had in 2021, when evaluating

whether to force all state and local governments into Social Security, irrespective of their own alternatives, such as SBS.

[10:31:19 AM](#)

HEATHER ARANA, DIRECTOR OF BENEFITS AND COMPENSATION, UNIVERSITY OF ALASKA FAIRBANKS (via teleconference), testified in support of the bill.

[10:33:28 AM](#)

Co-Chair Stedman agreed that the University should be carved out of the bill. He added that he believed that the University's retirement plan was weak. He believed, given current budgetary constraints, cost of the bill would need to be phased in. He expressed concern for employees in the state without a reasonable retirement plan.

[10:35:24 AM](#)

Co-Chair Hoffman CLOSED public testimony.

SB 55 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[10:35:43 AM](#)

The meeting was adjourned at 10:35 a.m.