

## ALASKA

### House Bill 55

Alaska is considering changes to plan provisions for public safety members of the Public Employees' Retirement System (PERS), as presented in HB55, introduced in February 2021. The stated intent of the legislation is to improve recruitment and retention of peace officers and firefighters by replacing the current defined contribution plan with a pension plan.<sup>1</sup> Equable Institute has analyzed the proposed changes using methodology from the [Retirement Security Report](#) to measure how changes to benefits would influence current and/or future retirement plan members.

OVERALL RETIREMENT BENEFIT SCORE	
CURRENT PLAN <sup>2</sup>	PROPOSED CHANGES <sup>3</sup>
64.7% of available points	60.7% of available points

EQUABLE'S ASSESSMENT	
CURRENT PLAN	PROPOSED CHANGES
Serves Members Moderately Well	Serves Members Moderately Well

### KEY POLICY CHANGES

- Public safety members of Alaska PERS who are enrolled in the current defined contribution plan will have the option to switch into a pension plan.
- All future public safety members of PERS will be enrolled in a defined benefit pension plan with normal retirement at age 60 with five years of service or age 55 with 20 years.
- Employers will have to pay at least 9% of payroll for the new defined benefit plan, plus continue to pay down the existing PERS unfunded liability.

### WHAT HOUSE BILL 55 WOULD MEAN FOR NEW WORKERS

PERS public safety members would be offered a pension plan with inflation adjusted benefits in exchange for slightly lower overall annual earnings compared to the status quo. Our scoring methodology measures retirement plans based on how the benefit value they provide compares to a 70% replacement rate retirement income adequacy threshold.

#### PERCENTAGE OF BENEFITS POINTS SCORED BY PROPOSED PLAN VS CURRENT PLAN<sup>4</sup>

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
<b>TOTAL HB55 SCORE</b> Status Quo Score	60.7% Current Plan: 64.7%	42.5% Current Plan: 51.4%	59.8% Current Plan: 53.3%	79.7% Current Plan: 89.3%
<b>BENEFIT VALUE v. INCOME ADEQUACY TARGET</b>	39.8% of points Current Plan: 64.2%	18.4% of points Current Plan: 45.7% Earnings Change: -\$3,324/yr	44.3% of points Current Plan: 57.7% Earnings Change: \$954/yr	79.6% of points Current Plan: 89.3% Earnings Change: -\$9,499/yr
<b>COLA &amp; INFLATION PROTECTION<sup>5</sup></b>	80% of points Current Plan: N/A	N/A	80% of points Current Plan: N/A	80% of points Current Plan: N/A
<b>FLEXIBILITY &amp; MOBILITY</b>	40% of points Current Plan: 70%	40% of points Current Plan: 70%	40% of points Current Plan: 70%	N/A

*This table shows the proposed plan's total Benefit Scores, e.g., the percentage of available points for a given category. We also show how proposed changes would improve or decrease the Benefits Score of the current plan (the "score change"). And we show what the material effect would be on an average employee's annual retirement earnings, using salary assumptions used by PERS trustees.*

A full scorecard for the current plan is available in the Retirement Security Report Index [here](#).

For a breakdown of score changes by worker class, please see the next page and our extended analysis [here](#).

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## EQUABLE INSTITUTE'S ANALYSIS

The proposed pension plan under HB55 provides slightly worse benefit values to most PERS public safety members compared to the current defined contribution plan, though overall the benefit values are similar.

- Short-Term Workers are not served well by status quo plan, but they would likely be worse off under the proposed retirement plan.
- Medium-Term Workers could be slightly better off under the proposed plan than the status quo because the pension would adjust for inflation. However, status quo plan's benefit values are higher.
- Those who work more than 20 years for PERS are likely to have a larger benefit under the status quo than the proposed plan.

The underlying benefit provisions of HB55 create a modest benefit, but in the absence of Social Security or other supplemental retirement income benefits HB55's projected benefits are not strong enough to provide all PERS public safety members with a path to adequate retirement income.

Because the proposed pension plan does not provide meaningfully better benefits, it is unclear whether adopting HB55 would achieve the stated goal of its proponents.

Most academic literature suggests that few individuals join public service because of the retirement benefits, and other factors like salary, health benefits, and working conditions are stronger factors for retention than retirement benefits (no matter the plan design).<sup>6</sup>

However, theoretically the underlying concerns about recruitment or retention of public safety employees theoretically could be addressed by (a) improving the benefit values designed in HB55, (b) adding the option of an adequate pension plan alongside the status quo plan, and/or (c) adjusting provisions of the status quo plan to provide a better path to retirement income adequacy.

For further Retirement Security Policy Score analysis, including comments on the funding policy provisions of HB55, visit <https://equable.org/alaska-house-bill-55-retirement-security-policy-score/>.

## FOOTNOTES: 1 - 9

To read more about the methodology behind our scoring system, please reference the notes section in our extended analysis of the proposed legislation [here](#).

## ABOUT THESE SCORES

These scores are based on the averages for 25-year-old entrant and 40-year-old entrant with average starting salaries. This analysis is intended to measure the factors that are most important for measuring retirement income adequacy. It is reasonable to compare plan changes against the status quo, but the most fundamental question is whether any retirement plan (the existing benefits or proposed adjusted benefits) is providing retirement income security to all members of the plan. These scores are based on a comparison against a standard benchmark for retirement income adequacy, but there are other reasonable benchmarks too. We've made additional charts available [here](#) that show how the proposed benefits meet different standards of adequacy.

## ABOUT EQUABLE INSTITUTE

Equable Institute is a bipartisan non-profit that works with public retirement system stakeholders to solve complex pension funding challenges with data-driven solutions. We exist to support public sector workers in understanding how their retirement systems can be improved, and to help state and local governments find ways to both fix threats to municipal finance stability and ensure the retirement security of all public servants.

## PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF ALASKA

## FY2021 AT A GLANCE

RSR SUSTAINABILITY SCORE<sup>7</sup>

## FOR CURRENT PLAN

14 of 27 Points

## EQUABLE'S ASSESSMENT

## FOR CURRENT PLAN

Likely Distressed

FUNDED RATIO (FY 2021):	76.5%
TOTAL PROMISED BENEFITS:	\$15.6 billion
UNFUNDED LIABILITIES:	\$3.7 billion
FUNDING SHORTFALL % OF 2020 STATE GDP:	7.3%
ASSUMED RATE OF RETURN:	7.38%
YEARS UNTIL ASSET SHORTFALL IS PAID OFF:	25
# YEARS ANNUAL BILL FULLY PAID:	11 of previous 20
#YEARS PLAN EARNED THE ASSUMED RETURN:	11 of previous 20
SOCIAL SECURITY	No
FY 2022 EMPLOYER CONTRIBUTION RATE: <sup>8</sup>	Legacy Pension: 22% DC Plan: 5%
FY 2022 MEMBER CONTRIBUTION RATE: <sup>9</sup>	Legacy Pension: 7.5% DC Plan: 8%
RISK-SHARING TOOLS:	No