

PROPOSED LEGISLATION: ALASKA HB78 (2025)

ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM- PUBLIC SAFETY

OVERALL ASSESSMENT



SLIGHTLY WORSE

For more details on how we make this assessment, please visit:
[Equable.org/RSR-Policy-Score-Methodology](https://equable.org/RSR-Policy-Score-Methodology)

PROPOSED LEGISLATION SUMMARY

- Creates a new benefit tier option for public safety employees hired on or after July 1, 2025.
- The new tier is a pension plan that features several cost-sharing measures.
- Provides existing PERS members a 180-day election period to "opt in" to the new pension.
- PERS members in the new pension will pay the same amount as they do for their current DC plan (8% of salary).
- The new pension could adjust member contribution rates and cost-of-living (COLA) rates in the future depending on its funded status

The current plan is a Defined Contribution Plan with normal retirement at age 67.
 The proposed plan is a Defined Benefit Plan with normal retirement at 50 (25-year-old entrant with 25 years of service).

HOW WOULD THE PROPOSED LEGISLATION CHANGE THE PROJECTED VALUE OF BENEFITS OR REPLACEMENT RATES FOR DIFFERENT GROUPS OF WORKERS COVERED BY THE RETIREMENT PLAN?

	SHORT-TERM WORKERS <10 Years of service		MEDIUM-TERM WORKERS 10-20 years of service		FULL-CAREER WORKERS >20 years of service	
SHARE OF ACTIVE PLAN PARTICIPANTS	51%		13%		36%	
AVERAGE RETIREMENT BENEFIT PROVIDED BY THE PLAN						
	ESTIMATED ANNUAL BENEFIT	NORMALIZED REPLACEMENT RATE	ESTIMATED ANNUAL BENEFIT	NORMALIZED REPLACEMENT RATE	ESTIMATED ANNUAL BENEFIT	NORMALIZED REPLACEMENT RATE
CURRENT PLAN	\$8,598	5.4%	\$23,050	14.4%	\$92,616	57.9%
PROPOSED CHANGES	\$3,325	2.2%	\$18,968	12.3%	\$63,787	41.5%
TOTAL VALUE OF BENEFIT EARNED (WITHDRAWN OR TAKEN AS A PENSION)						
CURRENT PLAN	\$147,071		\$394,291		\$1,584,241	
PROPOSED CHANGES	\$98,854		\$563,928		\$1,896,421	
NET CHANGE	-\$48,217 ↓ DECREASE		\$169,637 ↑ INCREASE		\$312,180 ↑ INCREASE	
RSR RETIREMENT BENEFITS SCORE (BASED ON 70% REPLACEMENT RATE TARGET)						
CURRENT PLAN	12.4 out of 30		11.5 out of 30		24.8 out of 30	
PROPOSED CHANGES	11.4 out of 30		14.7 out of 30		18.8 out of 30	
CHANGE IN SCORE	-1.0 points ↓ DECREASE		3.2 points ↑ INCREASE		-6.0 points ↓ DECREASE	

Notes: Benefit figures are in current dollars. The purchasing power of benefits earned may decline significantly for those who leave service years or decades before they are eligible to withdraw benefits. Estimated benefit values are based on a 25-year-old entrant earning an average starting salary and using the plan's salary growth assumptions. "Total Value" is equal to the net present value of benefits using the plan's reported assumptions from their most recent actuarial valuation. **For more information about the Estimated Annual Benefit, Normalized Replacement Rate, and why those values may differ from your pension benefit calculator, please see our methodology article:** <https://equable.org/methodology-replacement-rates/>

EQUABLE'S ASSESSMENT

HB78 would introduce a new defined benefit pension for Alaska PERS as an option for members hired after July 1, 2025. This change would be substantial as AK PERS has offered only a defined contribution plan since 2006. Under the bill the current DC plan will remain open and the default retirement plan for new PERS public safety plan members. However, new members and existing PERS DC plan members would have the option to choose the new pension as their desired benefit.

Our overall assessment is that **the benefits the new pension from HB78 would offer are slightly worse than those currently available with the existing defined contribution plan.**

While the numbers behind our assessment are presented above, the new pension proposed in HB78, like all retirement reforms, offers a series of trade-offs that should be taken into consideration.

One important consideration is related to the significant shift in normal retirement eligibility. Drawing a pension as early as age 50 means a much longer period of time collecting benefit checks than retiring at age 67. This results in less-than-intuitive outcomes like a larger total value for the pension plan, but larger annual benefits for the DC plan (because it pays out over fewer years). There are pros and cons to both pension plans and DC plans, and the proposed HB78 design similarly would mean certain people have improved retirement benefits while others would have diminished values. Much of this concern could be mitigated if new employees had a choice between these plans instead of closing the DC plan to re-establish a pension plan.

Positive Elements of the Proposed Changes:

- The new proposed pension includes many of the best practices in funding policy, including risk sharing policies that both increase employer and employee contributions if the plan falls below 90% funded and reduce contributions if funding improves.
- Pension plans offer guaranteed income, which is preferred by some public employees even if it means the total benefit values would be less than could be earned through a DC plan.
- The variable multiplier for the proposed pension increases the longer a member is in the system, rewarding those who stay in Alaska and continue to remain in public service. In theory, this could support retention, which is a primary objective of lawmakers considering this plan.
- By providing a choice between the existing DC plan and the new proposed pension, Alaska PERS would be giving its members the opportunity to choose which benefit best suits their needs - both those who prefer the portability of a DC plan and those that want the guarantees that come with a pension.

Negative Elements of the Proposed Changes:

- While the funding policies use many best practices, the proposed pension does NOT include changes to the existing actuarial assumptions for PERS, which increases the chance of unfunded liabilities accruing and a contribution rate increase.
- The total estimated value of the proposed pension benefit is nearly \$50,000 less for Short-Term Workers. In contrast, Medium-Term Workers can expect to see nearly \$170,000 more and Full-Career Workers would expect more than \$300,000 more in total benefits. The extended length of retirement also significantly reduces the estimated annual benefit, as it is paid over a much longer period.
- The pension would offer reduced portability when compared to the current defined contribution plan. For those who might leave PERS without working a full career, this means the new plan might not be right for them.
- Allowing existing members to buy out of their DC plans into a pension plan could result in unfunded liabilities (and an increase in contribution rates), if the value of benefits being purchased is not calculated using appropriate actuarial assumptions.

ABOUT THE RETIREMENT SECURITY REPORT (RSR)

The RSR is a universe of in-depth research, interactive tools and other resources to shed light on the quality and value of retirement benefits for all public workers. All RSR projects are based on data from our comprehensive benefit database of retirement plans offered to public workers and use an open-source scoring methodology that accounts for three primary criteria: Eligibility, Income Adequacy (based on a 70% pre-retirement income replacement rate), and Flexibility & Mobility.

ABOUT EQUABLE INSTITUTE

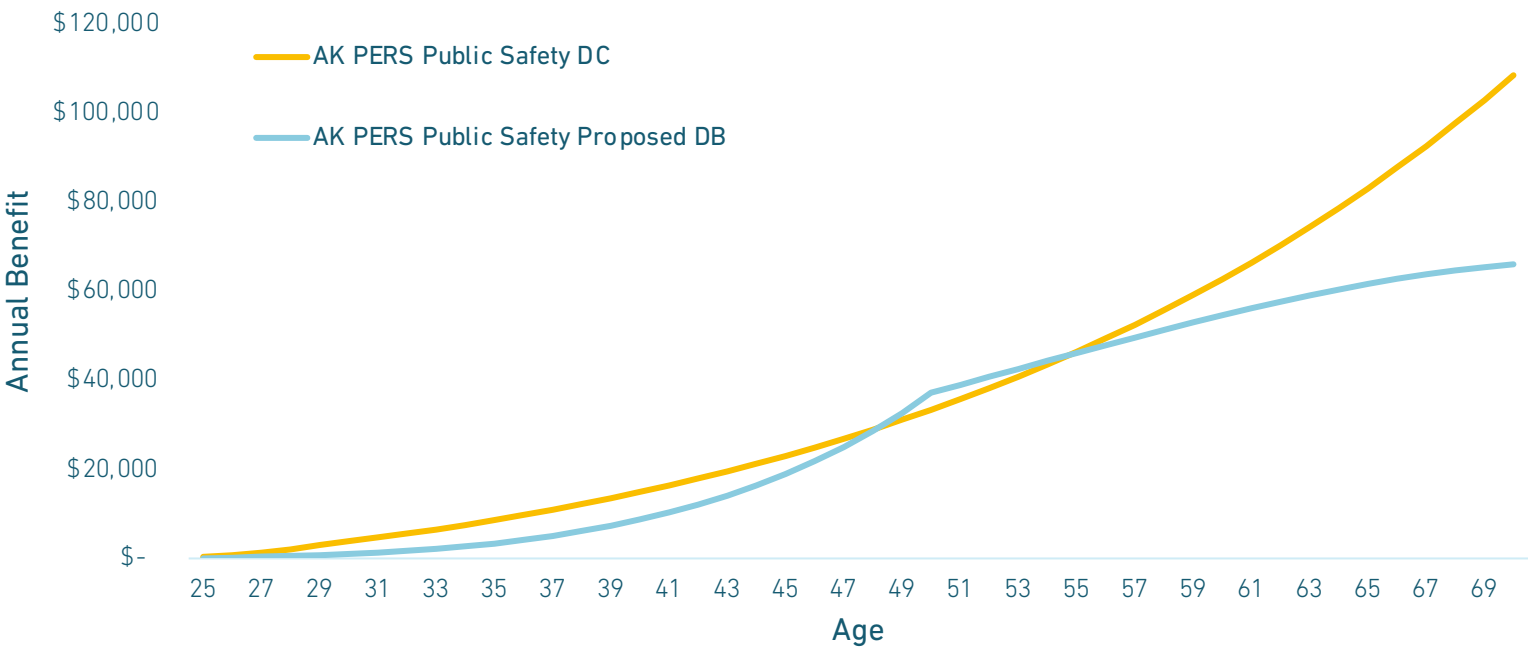
Equable is a bipartisan non-profit that works with public retirement system stakeholders to solve complex pension funding challenges with data-driven solutions. We exist to support public sector workers in understanding how their retirement systems can be improved, and to help state and local governments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

BACKGROUND DETAILS

KEY RETIREMENT PLAN BENEFIT PROVISIONS

	CURRENT DC PLAN	PROPOSED PENSION PLAN
MULTIPLIER	N/A	2.0% for the first 10 YOS, 2.5% for each year beyond 10.
FINAL AVERAGE SALARY	N/A	Calculated as the average of the highest 5-years of a member's salary
NORMAL RETIREMENT ELIGIBILITY	N/A	Age 50 with 25 completed years of service or age 55 with 20 completed years of service.
VESTING	New members must work for 5 years to be fully vested. They begin vesting employer contributions after 3 years.	5 years
MEMBER CONTRIBUTION RATE	Members contribute 8.0% of their salary toward their benefits.	Members contribute 8.0% but that can increase up to 14.0% if the plan is under 90% funded.
REFUNDING POLICY	Members are entitled to their contributions and any interest they have earned. They receive 25% of employer contributions starting at 3 YOS, 50% after 4 YOS, and 100% after 5 YOS.	Members that withdraw are entitled to their contributions with interest.
CREDITING RATES	N/A	The crediting interest is set by the PERS board. Current crediting rate is 4.5%
COST-OF-LIVING ADJUSTMENTS	None	The Alaska Cost of Living Adjustment is eliminated, but there are options for post-retirement pension adjustments if the plan is above 90% funded.

TOTAL RETIREMENT BENEFIT COMPARISON FOR CURRENT PLAN V. PROPOSED CHANGES



This RSR Scorecard has a companion for members in the AK PERS General class of benefits. Scores vary because the underlying benefit provisions for members of the General and Public Safety classes of AK PERS are substantially different. A similar RSR Scorecard for AK TRS is also available.