Alaska Public Employees' Retirement System (PERS)

House Bill 55 Threatens Alaska's Pension Progress

Several states facing major pension challenges have successfully transitioned to lower risk retirement plan designs. House Bill 55 and other active legislation during Alaska's 2022 legislative session attempt to accomplish that goal but currently lack the risk and cost protection measures required to achieve long-term sustainability and resiliency for PERS.

A Successful Retirement Plan: Splits the actuarially determined cost of benefits equally between taxpayers and employees.
House Bill 55: Neither pays the actual cost of earned benefits, nor equally shares those costs between taxpayers and employees.

- ✓ Equally sharing the actuarially determined cost of defined benefits means when investments under perform, or any of the other dozens of economic and demographic assumptions aren't met, employees and employers equally share the paying down of added debt to the pension system.
- ✓ By setting rates in statute and capping those rates for employees, House Bill 55 risks systematically underfunding the Alaska Public Employees' Retirement System (PERS) in the long-term.

A Successful Retirement Plan: Relies on accurate, realistic actuarial assumptions to mitigate risk.
House Bill 55: Relies on the assumption that plan assets will return 7.38% while the median assumed rate of return across the country sits at 7% and continues to fall.

- ✓ Not only does the investment return assumption (7.38%) fail to track with past investment experience in Alaska, but it also severely overestimates the 10–15-year market assumptions used by other public pension systems and institutional investor
- ✓ The California Public Employees Retirement System and the New York State and Local System both assume their investments will earn an average 6% return over the next 10 years.

Did You Know?
PERS still has $3.7 billion in unfunded liabilities and even after historic market returns still sits at only 76% funded.

A Successful Retirement Plan: Balances risk so the pension system maintains proper funding.
House Bill 55: Claims to be "cost neutral" but makes little effort to change the benefit design of the legacy defined benefit plan, which is still $3.7 billion in debt.

- ✓ Overly optimistic investment return assumptions are likely to result in the cap on employee contributions being hit, making the employer rate climb higher due to missed returns, and compound interest.

Bottom-Line: *There is a way forward that can meet the needs of employees, employers and taxpayers but HB55 as currently written falls short of reducing costs and risk*

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