Alaska Public Employees' Retirement System (PERS)

PERS Actuary Highlights House Bill 55 Cost and Risks

No official risk-focused actuarial forecast has been conducted on House Bill 55 (HB55) despite the potential for major financial impacts that could drive unfunded pension liabilities higher.

- Pension systems operate over generations, but legislators have only been presented with minimal 5-year cost projections based on an assumption that the proposed pension tier would do the impossible: get 100% of its assumptions 100% right, 100% of the time.
- Major retirement plan design changes necessitate long-term actuarial analysis and stress testing to ensure financial risks to governments are transparent and clearly understood beforehand.
- Despite these limitations, Buck Global—the PERS system consulting actuary—gives policymakers an idea of the limited information available on the long-term impacts of HB55.

In a March 2022 Fiscal Note on HB55, Buck Global concluded that Alaska taxpayers would see increases in PERS contributions as a result of opening a new defined benefit tier. Buck Global wrote:

- "Adverse plan experience (due to poor asset returns and/or unexpected growth in liabilities) or changes to more conservative assumptions will increase the PERS DB unfunded liabilities, resulting in higher contribution rates."
- "The impact of HB 55 on projected contribution rates depends on how large the PERS DB unfunded liabilities become. "
- "Since HB 55 will increase PERS DB liabilities and actuarial contribution rates, the State-as-an-Employer contributions increase."
- "By shifting active P/F members (and all future P/F hires) from DCR to DB, the State will be taking on greater risk of higher contributions in future years."

Bottom Line: Changes of the magnitude being proposed in HB55 should receive rigorous actuarial and risk analyses that have not yet been conducted.

PENSION INTEGRITY PROJECT CONTACTS

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Questions Policymakers Should Ask About House Bill 55

- ✓ Given the high discount rate used by PERS (7.38%) what is the risk of underfunding in the new tier created by allowing all current DC plan participants to immediately transfer assets to the new pension system?
- ✓ Under HB55, what happens if PERS only achieves a 7%, 6% or 5% long-term average investment return?
- ✓ Do the timing of returns matter to the cost borne by employers? What happens if PERS only achieves a 5-6% average return over the next 10 years—at what point do unfunded liabilities start growing again?
- ✓ What happens if we have another pandemic?
- ✓ What happens if HB55 doesn't solve Alaska's retention issues?
- ✓ What happens if there is an unforeseen major geopolitical challenge in the next several years that results in a major investment underperformance early in the new tier, increasing unfunded liabilities in the legacy plan at the same time costs start rising on the new pension plan?
- ✓ Why does HB55 set the all-important investment return assumption at 7.38% (38 basis points higher than the national median) when ARMB advisors project 6.6% for the next decade?
- ✓ What does it take to push the actuarially-determined employer contribution over the 9% employer contribution floor?
- ✓ Why was the discount rate not adjusted in HB55 as it was in HB79 from 2020?

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