Alaska Public Employees' Retirement System and Teachers' Retirement System

House Bill 78 Exposes Alaska to Significant Additional Costs

Alaska House Bill 78 would reopen the defined benefit (DB) pension systems for new hires and allow all teachers and public workers currently in the defined contribution (DCR) retirement plan to use their DC account balances to purchase past service in the DB pension plan. This "past service" purchase mechanism puts an enormous amount of risk on the state in year one and beyond. Despite adjustments to retirement eligibility, this move could realistically add $11.4 billion in additional costs to future state budgets and reintroduce Alaska to significant pension risk—the same risk that generated over $7.6 billion in state pension debt and spurred the 2005 pension reform that closed Alaska's DB pension plan to new hires in the first place.

HB 78's estimated costs are dependent on a flawed discount rate. The claim that HB 78's proposed changes would not require any additional state funding relies on the pensions' current investment return assumption being met. Alaska's pension plans would need to achieve overly-optimistic 7.25% annual returns on investments for decades to avoid additional costs.

- Overly-optimistic investment return assumptions were a major contributor to the $7.6 billion debt that is still owed on Alaska's legacy pension plans, the Alaska Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS).
- **Since 2001, Alaska's pension plans have earned just 5.8% annual returns on average.**
- Nationally, the average assumed rate of return used by public pension systems is around 6.9%, so Alaska's current return rate assumption is rosier than most other states.
- The discount rate is used when pricing the amount needed from employees to purchase their "past service." The plan continuing to earn under 7.25% or dropping that assumed rate would add hundreds of millions of dollars in new unfunded liabilities.

HB 78 could cost Alaska an additional $11.4 billion over the status quo. Actuarial analysis of Alaska PERS and TRS that anticipates market stress over the next 30 years similar to market stresses from 2001-2024 shows HB 78 likely exposes the state to significant additional costs.

	Status Quo	HB 78
Total Employer Contribution (2023-52)	$30.2 billion	$35.9 billion
Unfunded Liability (2052)	$2.6 billion	$8.3 billion
All-in Cost to Employers	$32.8 billion	$44.2 billion

Source: Pension Integrity Project 30-year actuarial forecast of Alaska PERS and TRS. The scenario applies recession returns in 2025-28 and 2039-42 and 6% returns in all other years. Values are adjusted for inflation.

Bottom Line: *HB 78 could cost Alaska more than $11 billion in the coming decades. Since most public employees leave their positions before being fully eligible for their pension benefits, this could be very costly legislation that only benefits a relatively small group of workers.*

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