

AARP IN THE STATES



OVERVIEW: Alaska Public Employees' Retirement System



The **Alaska Public Employees' Retirement System (PERS)** provides a defined contribution (DC) plan for public employees hired as of July 1, 2006, who do not participate in Social Security. It offers a portable, individual account. The amount of money accumulated in DC retirement accounts at the time the employee decides to retire depends on contributions, investment earnings, and age. Employees hired prior to that date participate in a defined benefit (DB) pension.

Key facts about the plan and its benefits:



12,152

Total active members of Alaska Public Employees' Retirement System.



Varies

After 30 years of contributions and investment returns, the amount of income replaced by the DC plan will depend on the account value, payout option, and age at retirement.



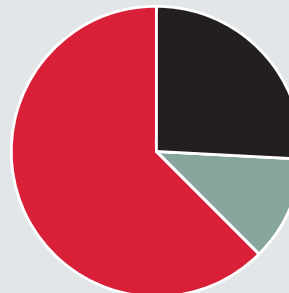
\$1,898

Average plan benefit paid to retired PERS members each month with most still in the DB plan.

Public plans are a good deal for taxpayers:

Funding of public employee pensions is shared by employees and employers. Employees in the PERS DB plan contribute 8% of their pay into the plan. Over time, investment income earned by the plan does most of the work. In fact, between 1993 and 2018, taxpayers (via employer contributions) paid only 26.04% of the cost of the pension benefits in Alaska.

62.4%
Investment Earnings



26.0%
Employer Contributions

11.6%
Employee Contributions

The spending from the retirement checks of the 36,310 retired public employees helps support:



\$1.6 billion

in economic output in Alaska.



8,778 jobs

paying \$490.8 million in wages supported by retirees' spending from public pensions in Alaska.



\$215 million

in federal, state, and local tax revenues based on spending of pension benefits in Alaska.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Alaska taxpayers (employers) in these DB plans supported **\$4.44** in total economic activity in the state.



\$1.00

\$4.44

All data come from retirement system financial reports, Public Plans Database, or the National Institute on Retirement Security.



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PRIMER: Alaska Public Employees' Retirement System

The Alaska Public Employees' Retirement System (PERS) provides benefits to qualified state employees, state police, and employees of cities, towns, and quasi-public organizations. It offers a defined contribution (DC) plan to public employees hired as of July 1, 2006 and a defined benefit (DB) pension to other employees. Alaska's public employees are not covered by Social Security.

Pensions Would Work Better for Alaska Stakeholders



Defined benefit (DB) pensions help recruit and retain effective and experienced public employees, which is essential to delivering high quality service to citizens.



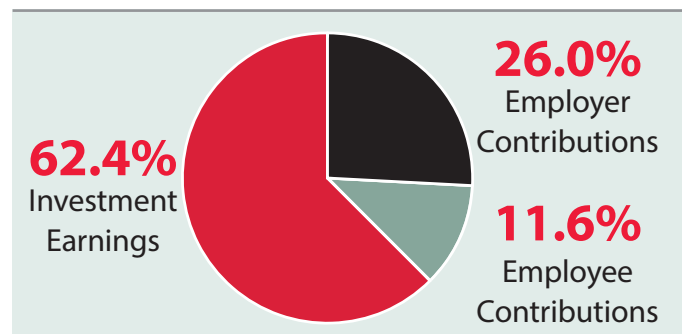
The spending by retired public employees from pension checks supports jobs, greater tax revenues and economic growth in our communities.



Pensions offer employees the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. Employees in the PERS DB plan contribute 8% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers paid only 26.04% of the cost of benefits in Alaska.



Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:



Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 4.3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.



PERS Key Facts



PERS serves 12,152 active employees and 36,310 retired members and survivor beneficiaries.



New employees contribute 8% to PERS.



Employers contribute 5% to the fund for employees.



The average monthly retirement benefit for members in the DB plan is \$1,898.



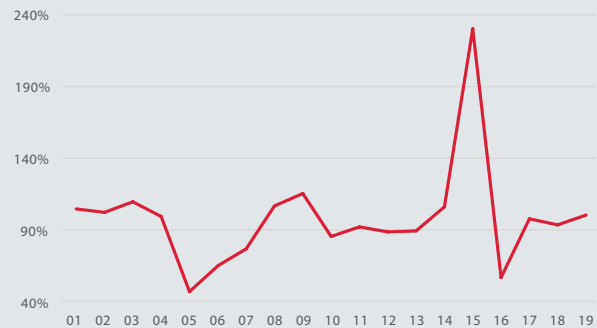
The amount of money accumulated in a DC retirement account at the time the employee decides to retire depends on contributions, investment earnings, and age.

Historical PERS Funding Experience

Alaska established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2019 year, the closed PERS defined benefit (DB) pension had \$9.58 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund is financially sound over time.

Alaska Paid 98.9% of Weighted Average Percent of ADC from FY2001-FY2019 for PERS



Alaska Plan Changes and PERS in Recent Years

After moving new employees to the DC savings plan, Alaska did not make its full contributions to the fund and quickly built up a deficit in the frozen DB pension. To address some of the underfunding, Alaska made a more substantial \$3 billion payment to PERS and TRS in 2014 to reduce the systems' underfunding.

The Economic Impact of Alaska Pensions:



\$1.6 billion

in economic output generated by retirees' spending from public pensions in Alaska.



8,778 jobs

paying \$490.8 million in wages supported by retirees' spending from public pensions in Alaska.



\$215 million

in federal, state, and local tax revenues based on spending of pension benefits in Alaska.

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OVERVIEW: Alaska Teachers' Retirement System



The **Alaska Teachers' Retirement System (TRS)** provides a defined contribution (DC) plan for teachers hired as of July 1, 2006, who are not covered by Social Security. It offers a portable, individual account. The amount of money accumulated in DC retirement accounts at the time the employee decides to retire depends on contributions, investment earnings, and age. Teachers hired prior to that date participate in a defined benefit (DB) pension.

Key facts about the plan and its benefits:



4,044

Total active members of Alaska Teachers' Retirement System.



Varies

After 30 years of contributions and investment returns, the amount of income replaced by the DC plan will depend on the account value, payout option, and age at retirement.



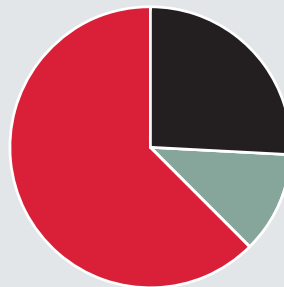
\$2,913

Average plan benefit paid to retired TRS members each month with most still in the DB plan.

Pensions are a good deal for taxpayers:

Funding of teacher pensions is shared by employees and employers. Employees in the TRS DB plan contribute 8% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers (via employer contributions) paid only 26.04% of the cost of pension benefits in Alaska.

62.4%
Investment Earnings



26.0%
Employer Contributions

11.6%
Employee Contributions

The spending from the retirement checks of the 13,491 retired public employees helps support:



\$1.6 billion

in economic output in Alaska.



8,788 jobs

paying \$490.8 million in wages supported by retirees' spending from public pensions in Alaska.



\$215 million

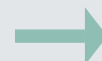
in federal, state, and local tax revenues based on spending of pension benefits in Alaska.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Alaska taxpayers (employers) in these DB plans supported **\$4.44** in total economic activity in the state.



\$1.00



\$4.44



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The Alaska Teachers' Retirement System (TRS) provides benefits to qualified employees of educational institutions in the state. It offers a defined contribution (DC) plan to teachers hired as of July 1, 2006, and a defined benefit (DB) pension to other employees. These employees are not covered by Social Security.

Pensions Work Better for Alaska TRS Stakeholders



Effective teachers are the cornerstone of education quality, but teachers are underpaid. Pensions help schools keep teachers and compensate for low pay.



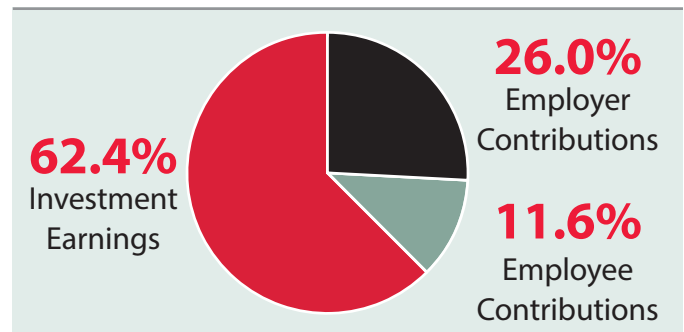
Retaining experienced midcareer teachers boosts student performance. Pensions help keep effective midcareer teachers in the classroom, increasing education quality.



Pensions offer teachers the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. Employees in the TRS DB plan contribute 8% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers paid only 26.04% of the cost of benefits in Alaska.



Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:

10%

cost savings from pooling longevity risk



11%

cost savings from optimal asset allocation



27%

cost savings due to higher returns and lower fees



48%

total cost savings

Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 4.3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.



TRS Key Facts



Alaska TRS serves 4,044 active employees and 13,491 retired members and survivor beneficiaries.



New employees contribute 8% to TRS.



Employers contribute 7% to the fund for employees.



The average monthly retirement benefit for members in the DB plan is \$2,913.



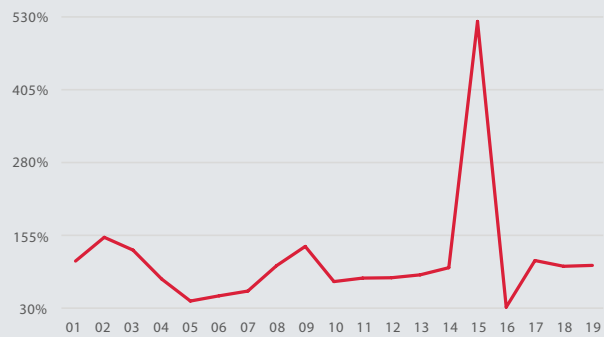
The amount of money accumulated in a DC retirement account at the time the employee decides to retire depends on contributions, investment earnings, and age.

Historical TRS Funding Experience

Alaska established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2019 year, TRS had \$5.56 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund is financially sound over time.

Alaska Paid 116.9% of Weighted Average Percent of ADC from FY2001-FY2019 for TRS



Alaska Plan Changes and TRS in Recent Years

After moving new employees to the DC savings plan, Alaska did not make its full contributions to the fund and quickly built up a deficit in the frozen DB pension. To address some of the underfunding, Alaska made a more substantial \$3 billion payment to PERS and TRS in 2014 to reduce the systems' underfunding.

The Economic Impact of Alaska Pensions:



\$1.6 billion

in economic output generated by retirees' spending from public pensions in Alaska.



8,788 jobs

paying \$490.8 million in wages supported by retirees spending from public pensions in Alaska.



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in federal, state, and local tax revenues based on spending of pension benefits in Alaska.

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Pensions Help Deliver Quality Education in Alaska

There are important policy reasons to continue offering teachers defined benefit (DB) pensions. DB pensions give schools an effective tool to retain high-quality, experienced teachers. These teachers are the most important school-based element that provides positive educational outcomes for our children.

Pension benefits provide teachers an incentive to continue delivering quality education to K-12 students. This incentive becomes all the more important over a teaching career as the erosion of teachers' wages, when compared to the wages of similar college-educated workers, widens for more experienced teachers.

Because pensions help attract and retain workers, Alaska can keep skilled teachers in the classroom and empower students to achieve their highest potential. The nationwide teacher shortage is impacting Alaska, as enrollment in traditional teacher preparation programs has *declined by 57%* between 2009-2010 and 2017-2018.

Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 4.3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 19 percent pay gap relative to comparable private sector workers in 2015. At the same time, teachers' benefits, including pensions, help bridge that gap and allow states to attract and retain highly qualified educators by reducing that overall gap in compensation to 10 percent. In Alaska, teachers experience a 10% wage gap when compared to other college graduates in the workforce.²



19%
teacher
wage gap

offset
by...



9% teacher
benefit
advantage

reduces...



the teacher
compensation
gap to 10%

Americans understand that teacher pensions play an important role in retaining quality teachers and in offsetting the impact of their lower salaries.



83%

83 percent of Americans say pensions are a good way to recruit and retain qualified teachers.



74%

74 percent of Americans agree that teachers deserve pensions to compensate for lower pay.³

Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are better teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.⁴

9.7%



Percentage of Alaska teachers who leave education.

N/A




The number of Alaska teachers retained each year due to the DB pension.






N/A



Savings created by the DB system through reduced teacher turnover costs in school districts across Alaska.



TRS Key Facts

-  Alaska TRS serves 4,044 active employees and 13,491 retired members and survivor beneficiaries.
-  New employees contribute 8% to the fund.
-  Employers contribute 7% to the fund.
-  The average monthly retirement benefit for members in the DB plan is \$2,913.
-  TRS has \$5.5 billion in assets and \$1.8 billion in unfunded actuarial accrued liability.⁵

The Economic Impact of Alaska Pensions

\$1.6 billion



in economic output generated by retirees' spending from public pensions in Alaska.

8,778 jobs



paying \$490.8 million in wages supported by retirees' spending from public pensions in Alaska.

\$215 million



in federal, state, and local tax revenues based on spending of pension benefits in Alaska.⁶

¹ Weller, C. 2017. "Win-Win: Pensions Effectively Serve American Schools and Teachers." Washington, DC. National Institute of Retirement Security (NIRS).

² Allegretto, S. A. and Mishel, L. 2020. "Teacher pay penalty dips but persists in 2019." Washington, DC. Economic Policy Institute.

³ Oakley, D. and Kenneally, K. 2019. "Retirement Insecurity 2019: Americans' Views of the Retirement Crisis." Washington, DC. NIRS.

⁴ Boivie, I. 2017. "Revisiting the Three Rs of Teacher Retirement Systems: Recruitment, Retention, and Retirement." Washington, DC. NIRS.

⁵ All data, unless otherwise noted, as of fiscal year ended 2019.

⁶ Boivie, I. 2021. "Pensionomics 2021: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.