Alaska Teacher Recruitment and Retention Study: Options and Analysis Supporting Retirement Design

Research Presentation

April 12, 2023
Key Findings

- **Turnover is significantly higher in the DC plan**; efforts to improve retention should focus on those in the defined contribution plan.

- **Other states have not followed Alaska** in moving away from offering a pension.

- **Improved retention would increase teacher effectiveness.**

- **There are many important considerations beyond just offering a DB or not**, including plan design, funding strategies, and the use of a reserve fund. All are viable options.
Key Findings (Continued)

- Plan demographics and cashflows may impact decision-making as the TRS and PERS plans move toward a spend-down stage.
- Pensions are more efficient at delivering benefits per dollar of cost.
Teacher Retention Findings
Your Workforce has Changed Since 2005
Most of Those Leaving the DC Plans Are Quitting, Not Retiring

Figure 5: Number Leaving Alaska Public Service During 2017-2021 & Reason

- Total Quits (Vested and Non-Vested)
- Total Retired, Died or Disabled
Quits Rates Are Much Higher in DC Plans
Teacher Turnover is Remarkably Low Throughout Middle of Career in Other States
TRS DC Turnover is Much Higher than DB

Figure 2: Percentage by which TRS DC Quits Are Expected to Exceed TRS DB Quits - Based on Actuarial Experience
Female Teachers: How the Seemingly Small Difference Adds Up

Figure 3: Retention of Female Teachers (TRS): DB & DC Plans Based on Ultimate Termination Rates
Male Teachers: Even Larger Impact

Figure 4: Retention of Male Teachers (TRS): DB & DC Plans Based on Ultimate Termination Rates

- Male DB Teachers Retained
- Male DC Teachers Retained
Plan Types and Benchmarking
Alaska’s Offerings
Variety of Plan Types Available in the Public Sector

Figure 6: Overview of Hybrid Retirement Systems

- DC
- DB
- Cash Balance
- DC with Annuitization

Hybrid:
- Vertical Hybrid: DC, DB
- Horizontal Hybrid: DC, DB
- Choice: /, DB

Combining DB & DC:
- DB, DC

DB Risk Sharing:
- Cost (contribution)
- Benefit (accruals & COLA)
Most States Still Offer Educators a DB Pension Plan

<table>
<thead>
<tr>
<th>DB (Pension)</th>
<th>Teachers</th>
<th>ESPs</th>
<th>HEF</th>
<th>HESP</th>
</tr>
</thead>
<tbody>
<tr>
<td>AL, AZ, AR, CA, DE, GA, HI, IA, ID, MD, MN, MS, MT, NE, NH, NJ, NM, NY, NC, ND, OK, SD, VT, WV, WI, WY</td>
<td>AL, AZ, AR, CA, DE, DC, GA, HI, ID, IL, IA, MD, MN, MO, MS, MT, NE, NH, N3, NM, NY, NC, OK, SD, WV, WI, WY</td>
<td>AL, AZ, AR, CA, DE, DC, GA, HI, IA, ID, KS, MD, MN, MS, MT, NE, NH, NJ, NM, NY, NC, OK, SD, WV, WI, WY</td>
<td>AL, AZ, AR, CA, DE, DC, GA, HI, IA, ID, KS, MD, MN, MS, MT, NE, NH, NJ, NM, NY, NC, OK, SD, WV, WI, WY</td>
<td>AL, AZ, AR, CA, DE, DC, GA, HI, IA, ID, KS, MD, MN, MS, MT, NE, NH, NJ, NM, NY, NC, OK, SD, WV, WI, WY</td>
</tr>
<tr>
<td>DB, Plus DC Component</td>
<td>OR, RI, TN, VA</td>
<td>OR, RI, TN, VA</td>
<td>OR, RI, TN, VA</td>
<td>OR, RI, TN, VA</td>
</tr>
<tr>
<td>Choice: DB or Combo (DB/DC)</td>
<td>WA</td>
<td>WA, KY</td>
<td>WA, KY</td>
<td>WA</td>
</tr>
<tr>
<td>DB; Optional DC Choice</td>
<td>SC</td>
<td>MT, ND, SC, VT</td>
<td>CA, SC</td>
<td>CA, MT, ND, SC, VT</td>
</tr>
<tr>
<td>Choice: Combo or DC</td>
<td>FL, MI, IN, PA, UT</td>
<td>FL, MI, IN, PA, UT</td>
<td>FL, MI, IN, PA, UT</td>
<td>FL, MI, IN, PA, UT</td>
</tr>
<tr>
<td>Cash Balance</td>
<td>KS</td>
<td>KS</td>
<td>KS</td>
<td>KS</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Social Security States (Some, Few/None)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teachers</td>
</tr>
<tr>
<td>CA, CO, CT, DC, IL, KY, LA, ME, MA, MO, NV, TX</td>
</tr>
<tr>
<td>DB, Plus DC Component</td>
</tr>
<tr>
<td>Choice: DB or Combo (DB/DC)</td>
</tr>
<tr>
<td>DB; Optional DC Choice</td>
</tr>
<tr>
<td>Choice DB, DC or Combo</td>
</tr>
<tr>
<td>DC-Only</td>
</tr>
</tbody>
</table>

Note: The University of Missouri is DC only.
Early Years in a DC Plan Generate the Most Life Income
Plans Without Social Security Coverage Tend to Have Higher Benefit Multipliers
Strategies to Produce Stable Costs and Risk-Sharing Observations
Effectiveness of Risk-Sharing Provisions Changes as a Plan Matures

Figure 10: Effectiveness of Two Common Risk-Sharing Policies in a New Pension or Tier
Conditional PRPAs Have Greater Impact in More Mature Plans

Table 2: Evaluating Conditional PRPAs in HB 220 as Plan Matures

<table>
<thead>
<tr>
<th>Plan Maturity</th>
<th>% of Participants Receiving Benefits</th>
<th>% of Liabilities for those Receiving Benefits</th>
<th>Liabilities as % of Payroll</th>
<th>Reduction in UAL if 3 PRPAs Skipped</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newer Tier</td>
<td>11%</td>
<td>22%</td>
<td>199%</td>
<td>8%</td>
</tr>
<tr>
<td>Established Tier</td>
<td>31%</td>
<td>49%</td>
<td>444%</td>
<td>18%</td>
</tr>
<tr>
<td>Retiree-Heavy Tier</td>
<td>77%</td>
<td>76%</td>
<td>2288%</td>
<td>28%</td>
</tr>
</tbody>
</table>
Assuming a Larger Conditional COLA Has a Greater Impact on Risk-Sharing
Cost Stability Strategies and Observations on Other States

<table>
<thead>
<tr>
<th>State</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wisconsin WRS</td>
<td>Automatic Benefit Adjustments &amp; Cost Sharing</td>
</tr>
<tr>
<td>South Dakota SDRS</td>
<td>Automatic Process Triggered by Policy</td>
</tr>
<tr>
<td>Indiana INPRS</td>
<td>Funding Policy</td>
</tr>
<tr>
<td>Tennessee CRS</td>
<td>Use of Reserve Fund &amp; Risk Sharing</td>
</tr>
</tbody>
</table>
IN, SD & WI Have Kept Contribution Rates Stable Over Past Two Decades
Contribution Rates Have Been Much Higher in the Two Alaska Plans
The Role of Plan Demographics: A Warning from Multiemployer Systems
Funded Percentages of Private Sector Multiemployer Plans Have Diverged

Study of Form 5500 data by Segal. Graph shows median funded percentages based on market value of assets at plan year end. Plans are grouped by 2021 zone status.
Investment Returns Among Private Multiemployer Plans Have Been Similar
Multiemployer Plans Facing Greatest Challenges Have Increased Contributions Most

![Annualized Investment Returns Table]

<table>
<thead>
<tr>
<th>2021 Zone Status</th>
<th>2001-2015</th>
<th>2001-2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Zone</td>
<td>4.8%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Endangered</td>
<td>4.6%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Critical</td>
<td>5.5%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Declining</td>
<td>4.6%</td>
<td>5.6%</td>
</tr>
<tr>
<td>All Plans</td>
<td>4.7%</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

Study of Form 5500 data by Segal. Exhibit shows cumulative net investment returns for calendar year plans. Plans are grouped by 2021 zone status.
Plan Demographics Have Had the Greatest Impact on Multiemployer Plans

Historical Demographic Maturity Ratio

Study of Form 5500 data by Segal. Graph shows median ratios of non-active participants to active participants at plan year end. Plans are grouped by 2021 zone status.
Plan Demographics for the Two AK Plans Have Diverged from Other Public Plans
Benefit Payments Account for a Higher Percentage of Assets in Closed Plans

Figure 19: Benefit Payments as a Percent of Assets: AK TRS & PERS and MI SERS
Pensions are More Efficient
DB Plans Are More Economically Efficient Than DC Plans

Figure 20: Cost of DB and DC Plan as Percentage of Payroll, Baseline Scenario

- 49% savings
- 22.6%
- 3.8%
- 2.3%
- 16.5%

DB Plan: Lower returns/higher fees
Ideal DC: Less balanced portfolios
Individually Directed DC: No longevity pooling
DB cost
DB Plans Deliver a More Consistent Investment Return Than DC Plans
Most DC Inefficiency Occurs During Retirement

*Retirees need income after their working years end, not a large account balance during their working years. Thus, this data suggests the biggest problem with 401k’s isn’t your provider, it is the years after you leave them.

<table>
<thead>
<tr>
<th>Table 5: DC Plan Efficiency Gap</th>
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<tbody>
<tr>
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<tr>
<td>-----------------------------</td>
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<tr>
<td>Post-Retirement Inefficiency</td>
</tr>
<tr>
<td>Pre-Retirement Inefficiency</td>
</tr>
<tr>
<td>Total Inefficiency</td>
</tr>
</tbody>
</table>
Conclusion

• Employer benefits are provided so workers perceive the employer as a good place to work.

• Many states had similar debates about retirement offerings, but few plans followed your lead.

• Retention of teachers and PERS members is problematic in the DC plans, compared to both the DB plans and plans in other states. Workers in the DC plan are where the focus should be to improve retention, too.
• Unfortunately, all states seem to struggle with retention of newly hired teachers. That challenge is likely better addressed by policies outside of retirement offerings. However, there is potential to do much better with those who stay past the first few years.

• There are important choices about how benefits are designed and how they are funded, beyond DB versus DC. The tools and examples are available, and a strong case can be made that reopening the DB plans would help in honoring the obligations that already exist in the legacy plans.
Questions
Additional Data for PERS Plans
PERS DC Turnover also Higher
PERS DB Also Retaining Workers Better

Retention of Males in PERS (Non-Peace Officers)
Similar Trend for Females in PERS

Retention of Females in PERS (Non-Peace Officers)

- Female DB PERS Retained
- Female DC PERS
Peace Officer DC Turnover Much Higher

Percentage Peace Officer DC Quits is expected to Exceed DB-Based on Actuarial Experience

Female vs. Male
Male Peace Officer Retention is Much Lower in the DC Plan
Female Peace Officer Retention is Also Lower in the DC Plan

Retirement of Female Peace Officers

- Female D8 Peace Officers Retained
- Female DC Peace Officers

[Bar chart showing retention rates for female peace officers by age, with lower retention rates for female DC peace officers compared to female D8 peace officers.]