



Alaska's Experience Moving Public Employees from Pensions to Defined Contribution Plans

Webinar

June 12, 2023



**NATIONAL INSTITUTE ON
Retirement Security**

Reliable Research. Sensible Solutions.

Agenda

- Logistics and Introductions
- State of the Public Workforce in Alaska
- New Research Review
- Q&A



Logistics

- Attendees in listen only mode.
- Questions are welcome. Submit using “Question” function on control panel
- Audio/technical issues during webinar: call GoToWebinar at 1-800-263-6316
- Webinar replay and slides will be posted at nirsonline.org/events.

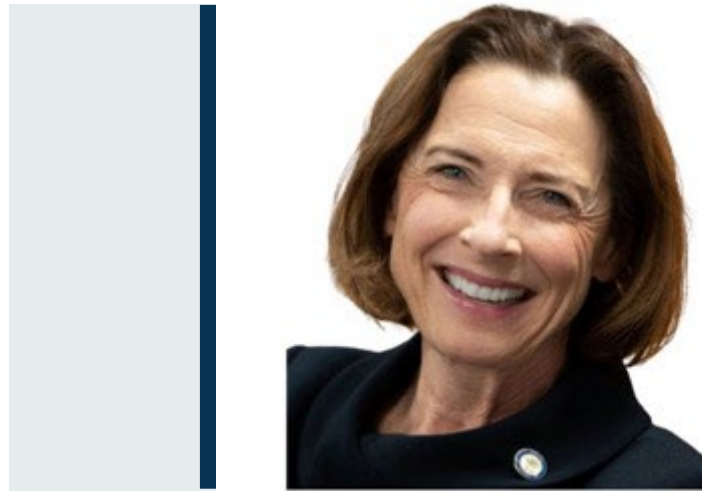


Speakers



Dan Doonan

NIRS Executive Director



Cathy Giessel

Alaska State Senator, Majority Leader,
Bipartisan Coalition



Chuck Kopp

Former Member of Alaska House of
Representatives and Retired Alaska
Police Officer

Alaska's Experience: Defined Contributions vs. Pensions

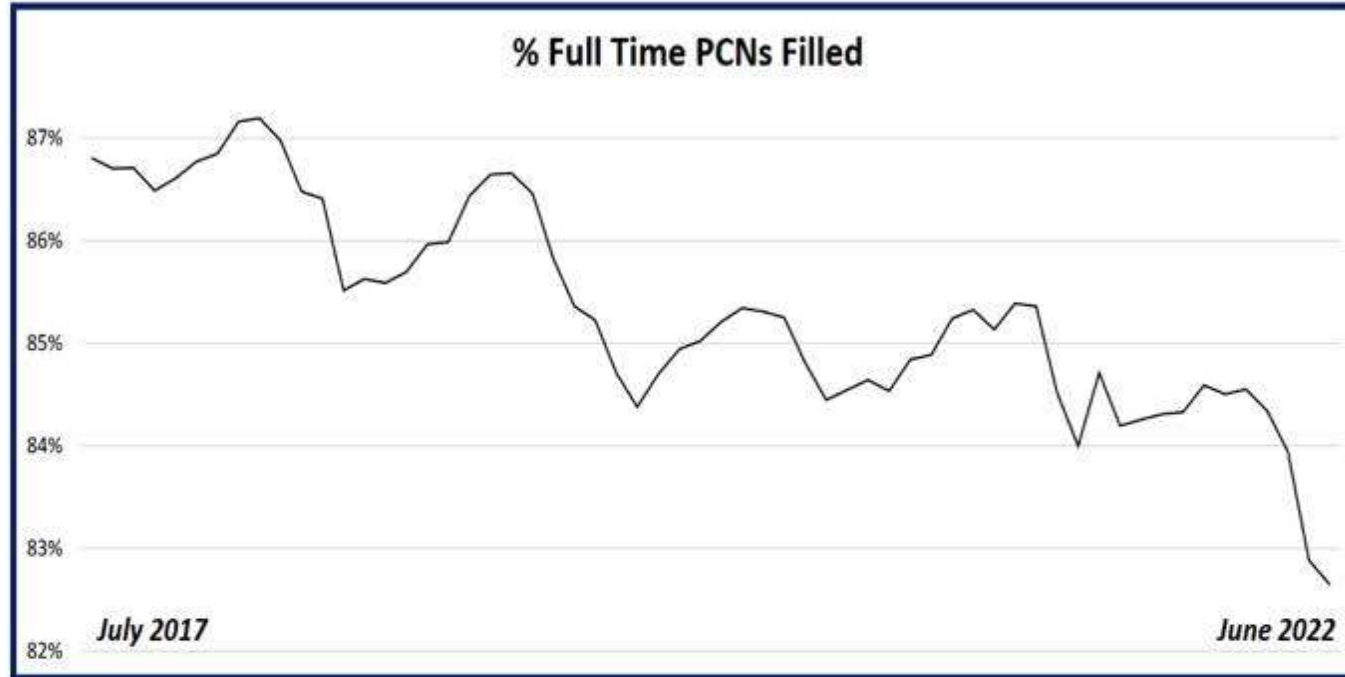


NIRS Presentation – June 12, 2023

*Alaska State Senator Cathy Giessel
&
AKPPC Consultant Chuck Kopp*

Budget Challenges - Vacancy

% Vacant PCNs	December 2022
DOA	14.4%
DCCED	19.1%
DOC	17.8%
DEED	15.5%
DEC	15.6%
DFG	19.3%
Gov	14.0%
DOH	22.8%
DFCS	19.5%
DOL&WD	20.8%
Law	11.4%
DMVA	12.2%
DNR	23.4%
DPS	17.4%
DOR	21.1%
DOT&PF	16.5%
Total	17.6%



- Most departments are experiencing significantly greater vacancy than pre-pandemic levels.
- Recruitments are taking longer and are less likely to result in a hire.
- Recruitment incentives being used to address most critical public needs.

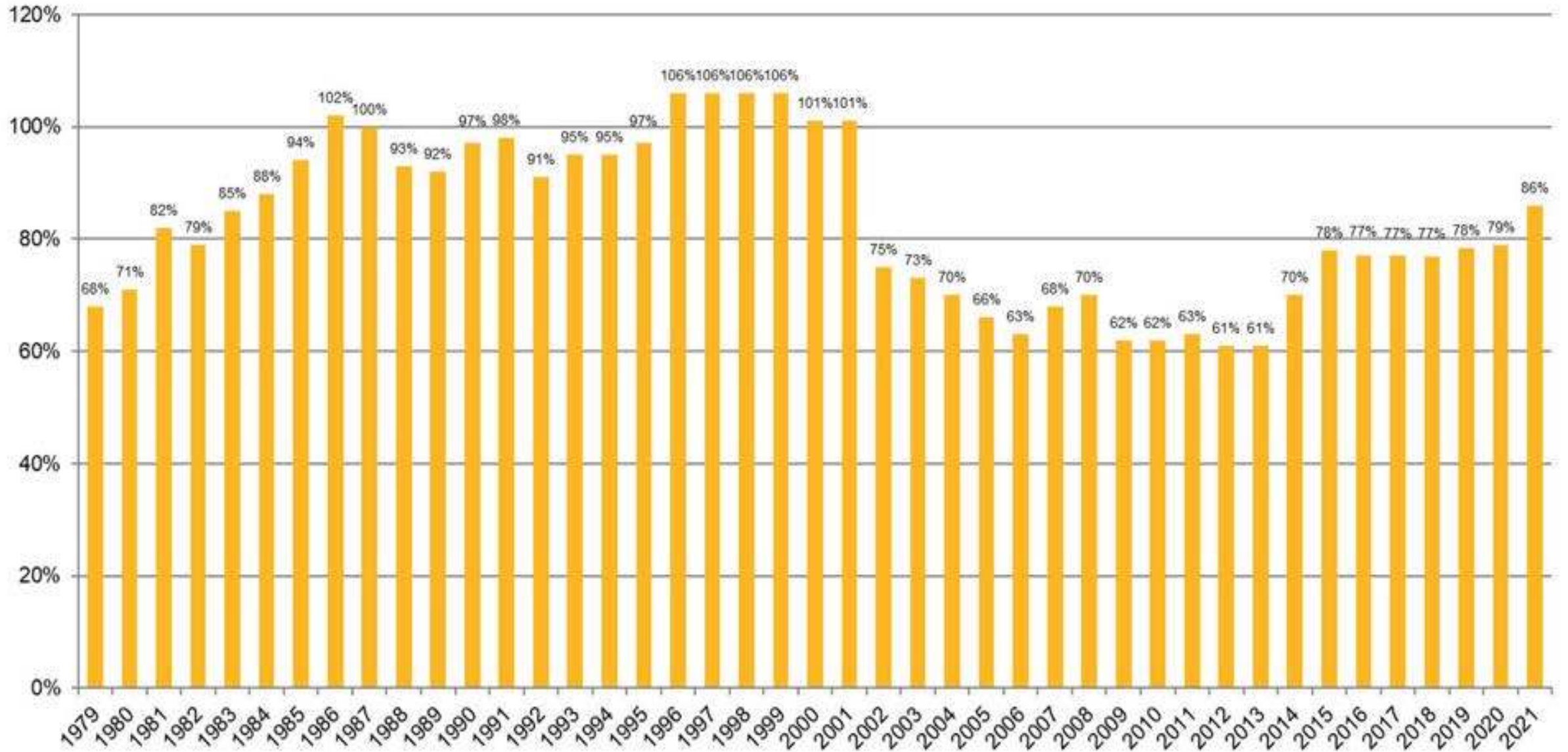
**NEARLY
1 IN 5
ALASKA STATE JOBS
ARE VACANT!**

*"...probably the biggest challenges that faces our state agencies right now in terms of executing on the programs in the appropriations they've been entrusted with, and that is **the challenge of recruiting and retaining the staff to actually do the work.**"*

OMB Director
Steininger
S FIN 1-24-23

Neil

DB System Funded Ratio History



RECRUITMENT DESPERATION IN ALASKA !



Alaska State Troopers **25%**
Salary increase in the past two
years!
27% higher than national
average!

Fairbanks, Alaska -

Ordinance No. 6248 before City Council on June 19 amending the incentive bonus program with the Fairbanks Police Department for Recruitment and Hiring from **\$20k** to **\$60k** with finder's fees of **\$5k** encouraging city employees to assist in recruitment process.



CHALLENGE

- Recruitment and Retention has collapsed
- Staggering vacancy rates



"We're sending Troopers to domestic violence by themselves. Bad things happen. Either we end up hurting the person... or a Trooper gets assaulted and gets hurt. I mean this is ridiculous, really, when you think about it."
DPS Commissioner James Cockrell, Joint House and Senate State Affairs, February 7, 2023

ARM Board Schedule of Non-Investment Changes By Fund

ALASKA RETIREMENT MANAGEMENT BOARD SCHEDULE OF NON-INVESTMENT CHANGES BY FUND (Supplement to the Treasury Division Report) For the Seven Months Ending January 31, 2023

PARTICIPANT DIRECTED DISBURSEMENTS BY PLAN AND TYPE

Type	PERS DCR Plan	TRS DCR Plan	Supplemental Annuity Plan	Deferred Compensation	TOTAL	% of Total
Payment to Beneficiary	\$ 151,031	\$ 2,582	\$ 577,993	\$ 159,991	\$ 891,597	0.3%
Death Benefit	1,495,951	718,906	7,598,035	2,336,717	12,149,609	4.3%
Disability / Hardship	3,115	-	48,223	198,746	250,084	0.1%
Minimum Required Distribution	128,069	62,714	10,973,521	4,370,787	15,535,091	5.5%
Determining Acct Balance Distribution	-	-	-	4,856	4,856	0.0%
Qualified Domestic Relations Order	1,002,290	44,279	2,325,425	99,695	3,471,689	1.2%
Separation from Service / Retirement	47,806,811 *	15,126,867 *	125,976,100	58,882,266	227,791,644	80.1%
Purchase of Service Credit	10,390,551 *	1,493,575 *	2,447,301	24,862	14,356,289	5.4%
59½ In-service Distribution	-	-	-	1,037,381	1,037,381	0.4%
Qualified Birth / Adoption Expense	-	-	-	22,627	22,627	0.0%
CARES Act Distributions	-	-	-	-	-	0.0%
DCR to DB Conversion	7,101,829 *	1,308,317 *	-	-	8,410,146	3.0%
TOTAL	\$ 68,079,247	\$ 18,757,240	\$ 149,946,598	\$ 49,137,928	\$ 283,921,013	100.0%

*Employer distributions sent to the DB plan are shown as "DCR to DB Conversion". Employee funds sent to the DB plan are included with "Purchase of Service Credit". Excess employee money sent to employee after conversion are included in "Separation from Service".

This report is only for the previous 7 months

But, it shows that \$227 million was withdrawn from the system. It shows withdrawals of PERS DC, TRS DC, Supplemental Annuity (SBS) and Deferred Compensation (voluntary)

PERS & TRS PARTICIPANT DIRECTED DISBURSEMENTS BY PLAN AND VESTED PERCENTAGE

Vesting	PERS DCR Plan	TRS DCR Plan	TOTAL	% of Total
100% Vested	\$ 62,385,184	\$ 16,452,889	\$ 78,838,073	90.7%
75% Vested	1,064,359	811,555	1,875,914	2.2%
50% Vested	1,408,813	461,232	1,870,045	2.2%
25% Vested	1,136,679	499,981	1,636,660	1.9%
0% Vested	2,084,212	531,583	2,615,795	3.0%
TOTAL	\$ 68,079,247	\$ 18,757,240	\$ 86,836,487	100.0%

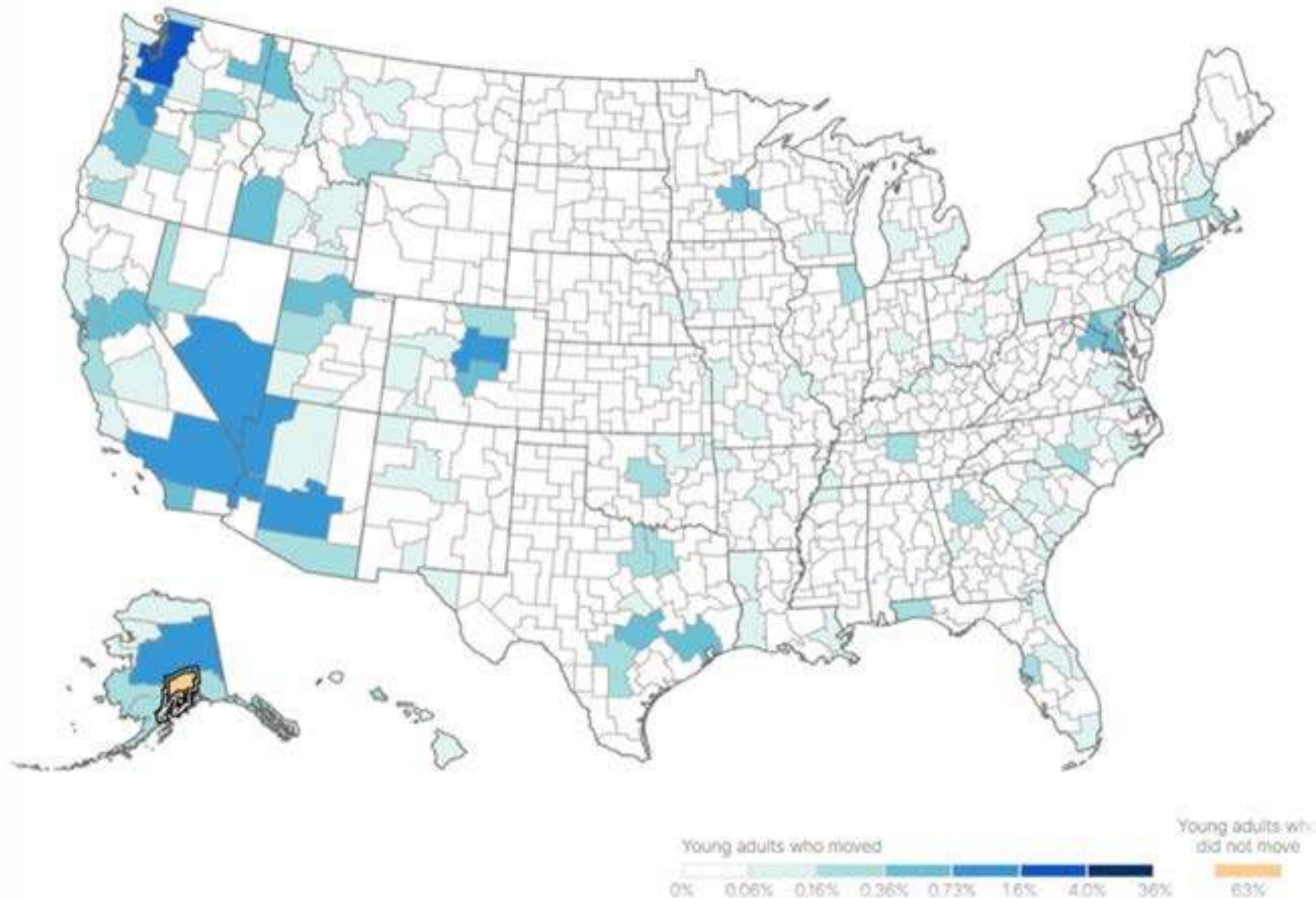
Withdrawals from the TRS DC and PERS DC plans alone were north of \$62 million dollars

A very interesting and notable point is that 90% of these withdrawals came after 5 years, or 100% vested. People waited to leave until they could take all of their employer contributions?

DEFINED BENEFIT REFUNDS BY PLAN, TIER, CONTRIBUTION TYPE AND VESTED STATUS

Contribution Type	PERS DB Pension Plan				TRS DB Pension Plan			TRS DB Pension Plan		TOTAL DB Pension Plan
	Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Total	DB Pension Plan	DB Pension Plan	
Mandatory Vested	\$ 30,829	\$ 638,049	\$ 1,002,442	\$ 1,671,320	\$ -	\$ 83,465	\$ 83,465	\$ -	\$ -	\$ 1,754,785.00
Mandatory Non-Vested	107,694	172,848	471,736	752,278	222,034	600,419	822,453	-	-	1,574,731
Geographic Differential	-	142,534	62,514	205,048	-	-	-	-	-	205,048
Voluntary Full	211,010	924,533	1,115,387	2,250,930	-	-	-	-	-	2,250,930
Indebtedness, Lagging & Partial	14,050	83,347	174,949	272,346	-	54,310	54,310	-	-	326,656
TOTAL	\$ 363,583	\$ 1,961,311	\$ 2,827,028	\$ 5,151,922	\$ 222,034	\$ 738,194	\$ 960,228	\$ -	\$ -	\$ 6,112,150

WHERE ARE WORKING AGE ALASKANS GOING?



63% Stay in Anchorage

3.1% Move to Areas in
Alaska

34% Other States



Washington (3.4%)
Oregon (1.6%)
California (1.2%)
Arizona (1.1%)
Colorado (1.0%)

SOURCE: AEDC Presentation June 2023



A PROPOSED SOLUTION SENATE BILL 88

A Retirement System with Reasonable Costs and Fair Benefits

- ***Strength of a United Coalition
vs.
Single Employee Groups***
- ***Safeguards in Place to
Prevent Underfunding***
- ***Cost Savings***



OPPOSITION

Billionaire funded groups are spending hundreds of thousands and preaching to the public...

- ***They say switching to a DC system was a smart decision and changes have been positive.***
- ***They are pushing scare tactics that passing SB 88 will lead to increased taxes and financial distress.***

CONCLUSION

- The Defined Contribution system is **NOT** working!
- The previous changes resulted in today's staggeringly **HIGH** public service agency **VACANCY** rates.
- Has affected public safety, education, state services, road maintenance, licensing, permitting, public assistance, foster care and more.
- Alaska's **workforce challenges**, recruiting and retaining public workforce are the **primary motivation** driving this legislation.
- **Pensions remain the BEST fiscal choice** for the state to meet these goals: Recruitment and Retention.



THANK YOU



*Alaska State Senator Cathy Giessel
&
AKPPC Consultant Chuck Kopp*

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Protectpensions.org

New Research

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



Key Findings

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

Benchmarking Alaska's Offerings

RETIREMENT PLAN

Time to Retirement

Current Age	40
Retirement Age	60

Retirement Income Sources Weekly

Social Security	
Pension	
Investment Income	
Interest Income	
Other Retirement Plan	
Other Income	
Total	

Housing Expenses

Mortgage/Rent	
Real Estate Tax	
Maintenance and Repair	
House Insurance	
Total	

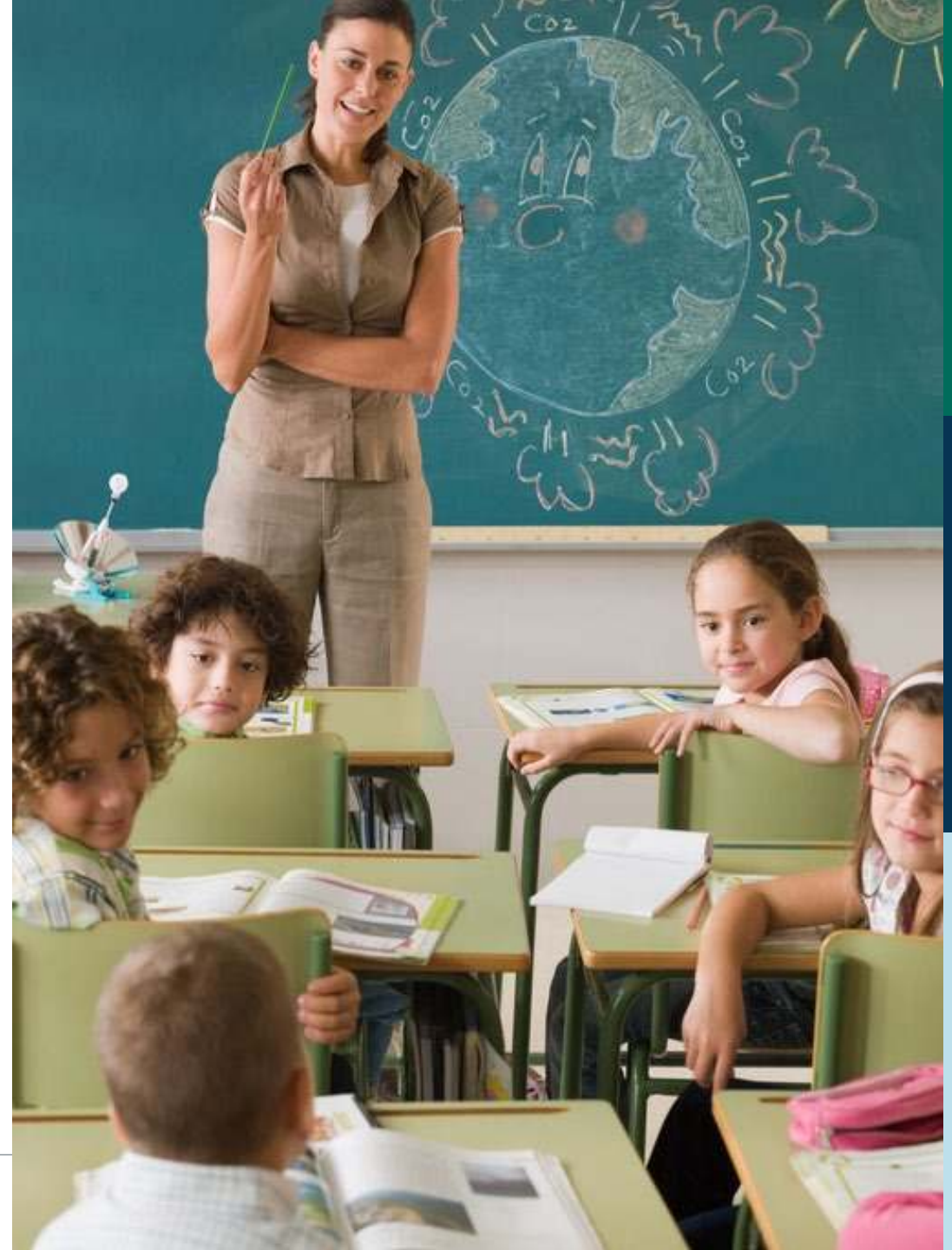
Personal Expenses

Personal Care	
Clothing	

Most States Still Offer Educators a Pension Plan

Table 1: Summary of Benefit Offerings Among State-Level Plans for Teachers, Faculty, and Support Professionals				
Social Security States (All or Most)				
	Teachers	ESPs	HEF	HESP
DB (Pension)	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	AL, AZ, AR, CA, DE, DC, GA, HI, ID, IL, IA, MD, MN, MO, MS, MT, NE, NH, NJ, NM, NY, NC, OK, SD, WV, WI, WY	AL, AZ, AR, CA, DE, DC, GA, HI, IA, ID, KS, MD, MN, MS, MT, NE, NH, NJ, NM, NY, NC, ND, OK, SD, WV, WI, WY	AL, AZ, AR, CA, DE, DC, GA, HI, IA, ID, MD, MN, MO, MS, MT, NE, NH, NJ, NM, NY, NC, OK, SD, WV, WI, WY
DB, Plus DC Component	OR, RI, TN, VA	OR, RI, TN, VA	OR, RI, TN, VA	OR, RI, TN, VA
Choice: DB or Combo (DB/DC)	WA	WA, KY	WA, KY	WA
DB; Optional DC Choice	SC	MT, ND, SC, VT	CA, SC	CA, MT, ND, SC, VT
Choice: Combo or DC	FL, MI, IN, PA, UT	FL, MI, IN, PA, UT	FL, MI, IN, PA, UT	FL, MI, IN, PA, UT
Cash Balance	KS	KS		KS
Non-Social Security States (Some, Few/None)				
	Teachers	ESPs	HEF	HESP
DB (Pension)	CA, CO, CT, DC, IL, KY, LA, ME, MA, MO, NV, TX	CA, CO, CT, GA, KY, LA, ME, MA, NV, TX	CA, CO, CT, KY, ME, MA, MO, NV	CA, CO, CT, KY, ME, MA, NV
DB, Plus DC Component			IL	IL
Choice: DB or Combo (DB/DC)	WA	WA	WA	WA
DB; Optional DC Choice			CO, LA, TX	CO, LA, TX
Choice DB, DC or Combo	OH	OH	OH	OH
DC-Only	AK	AK	AK	AK
Note: The University of Missouri is DC only.				

Teacher Retention Findings

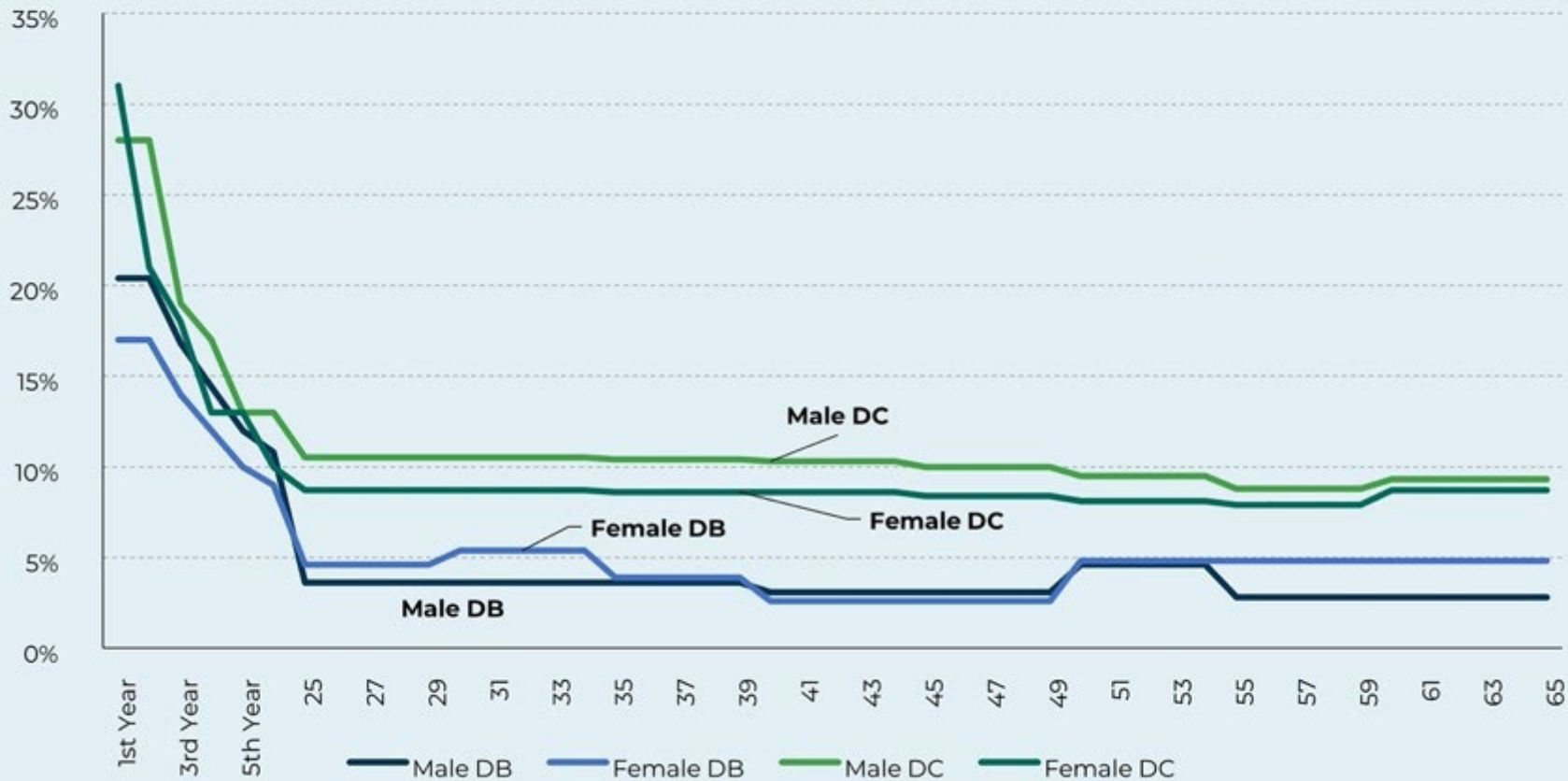


Most of Those Leaving the DC Plans Are Quitting, Not Retiring

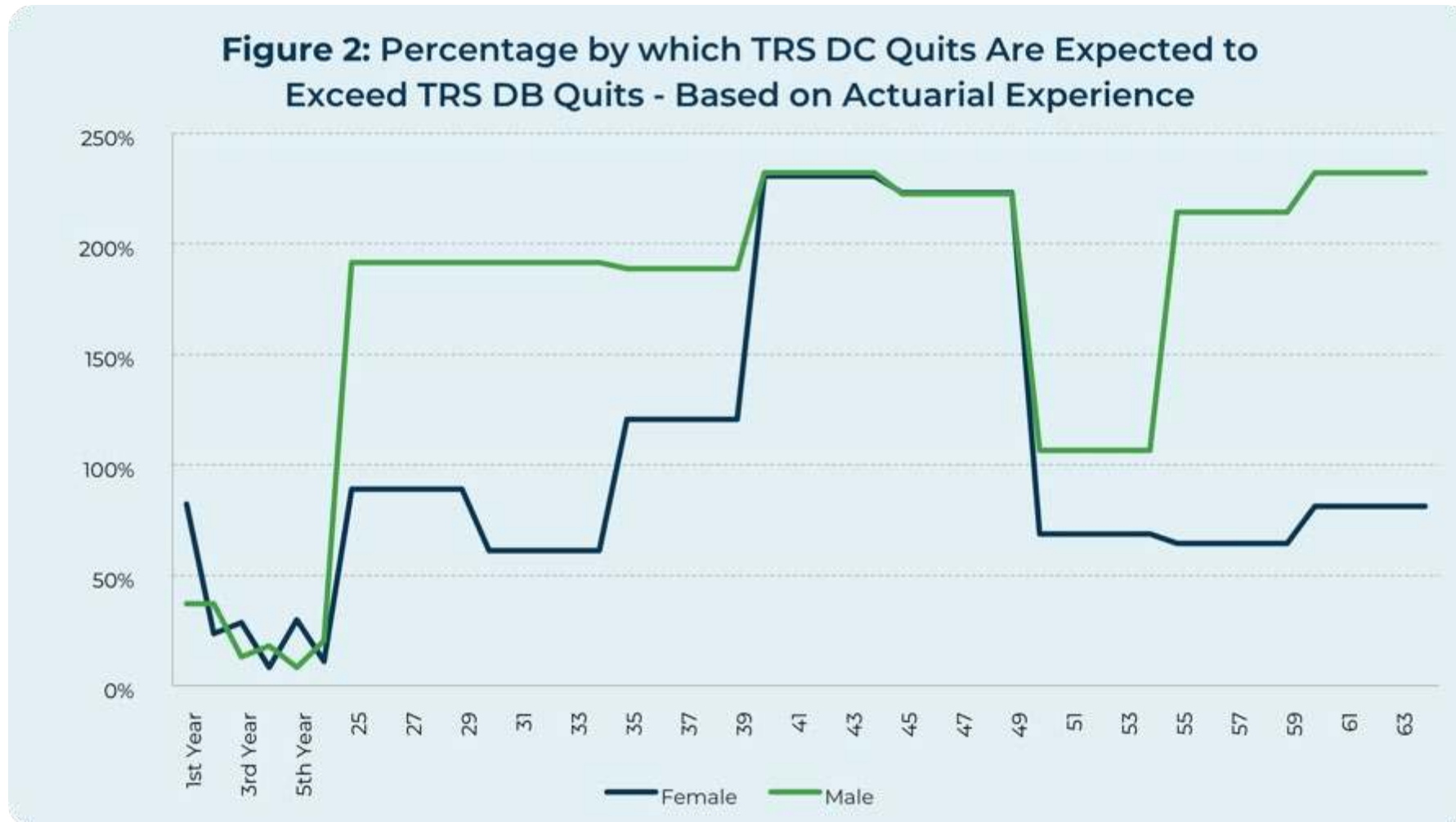


Quits Rates Are Much Higher in DC Plans

**Figure A3: Termination Assumptions for Alaska's TRS Plans-
Based on Actuarial Experience**



TRS DC Turnover is Much Higher than DB

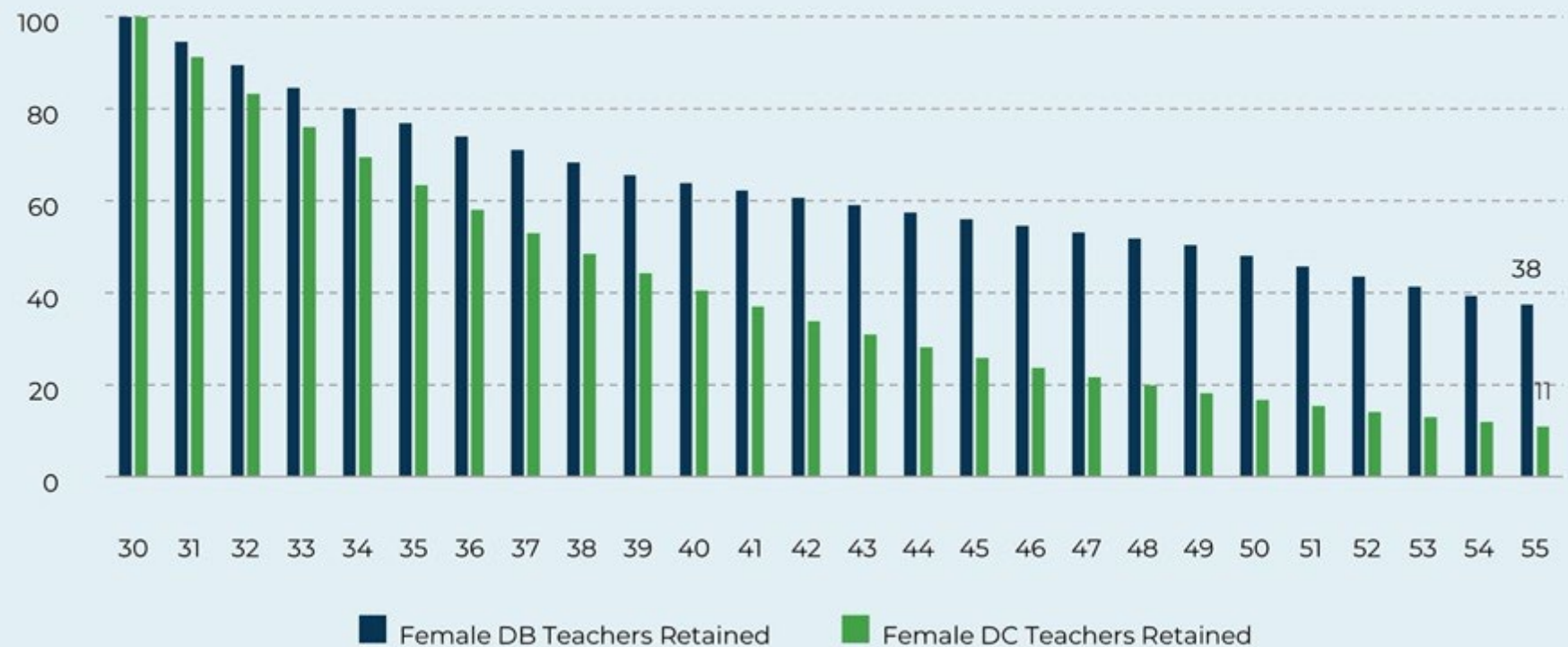


Female Teachers: How the Seemingly Small Difference Adds Up

What this means:

- 100 teachers in DB plan expected to provide 1,792 years of teaching
- 100 teachers in DC plan: 1,093 years of teaching

**Figure 3: Retention of Female Teachers (TRS): DB & DC Plans
Based on Ultimate Termination Rates**

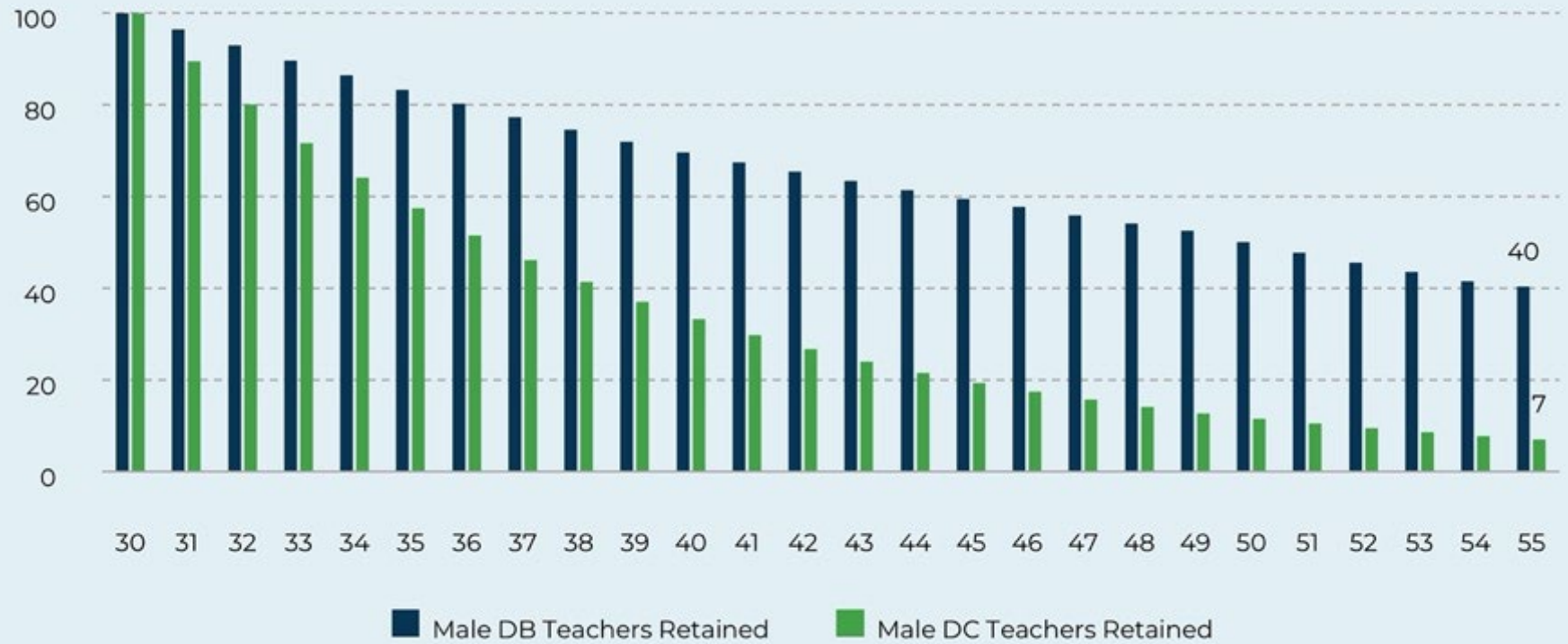


Male Teachers: Even Larger Impact

What this means:

- 100 teachers in DB plan expected to provide 1,914 years of teaching
- 100 teachers in DC plan: 935 years of teaching

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



TRS DC: Early Retention Getting Worse

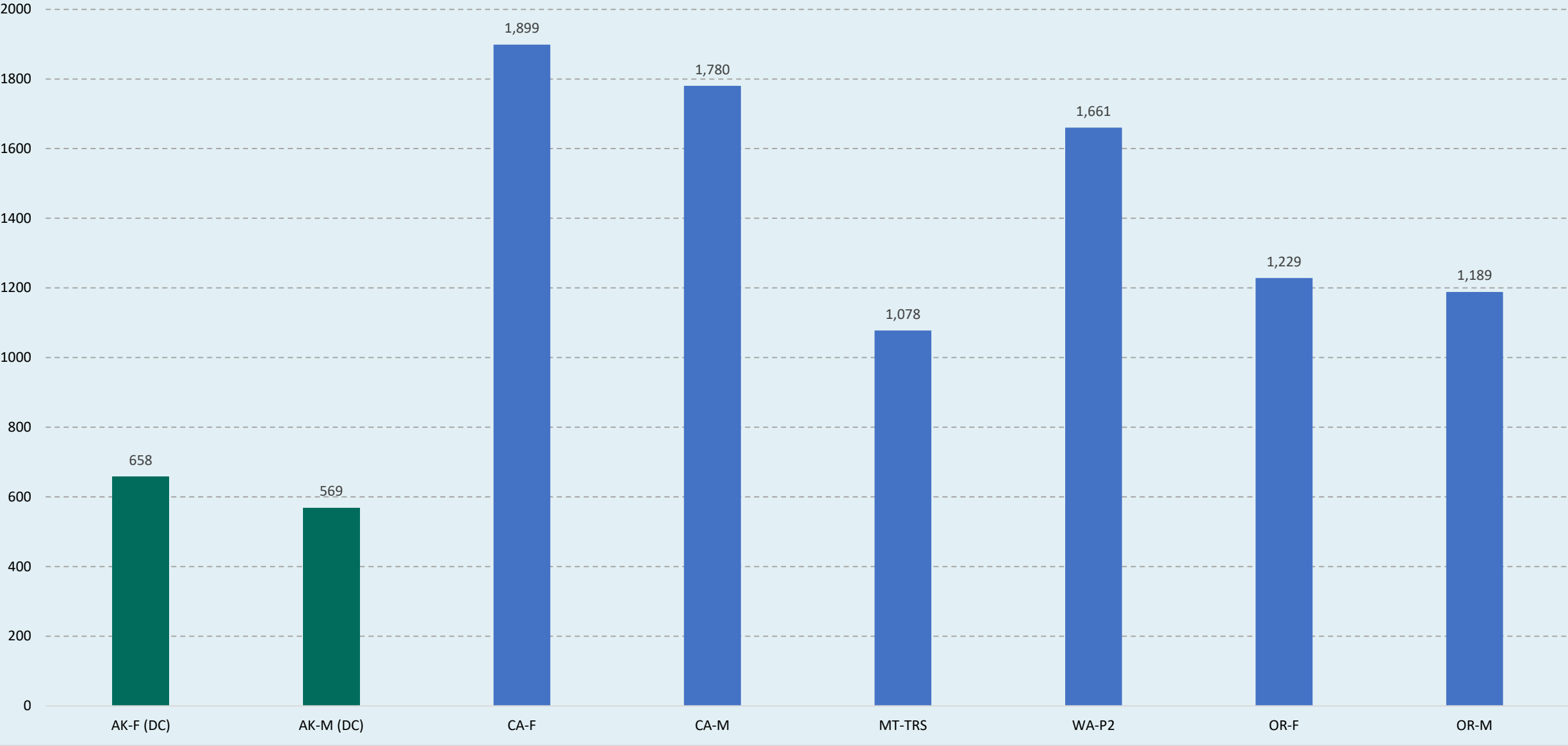
Termination: Select Rates – TRS DCR

Years of Service	Current		Proposed (Adopted)	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
<1	20.70%	21.80%	28.00%	31.00%
1	19.55%	18.70%	28.00%	21.00%
2	16.10%	15.40%	19.00%	18.00%
3	13.80%	13.20%	17.00%	13.00%
4	11.50%	11.00%	13.00%	13.00%
5	7.32%	8.05%	13.00%	10.00%

Source: Actuarial Experience Study for the Period 7/1/2017 to 6/30/2021

https://drb.alaska.gov/docs/valuations/ActuarialExperienceStudy_2022.pdf

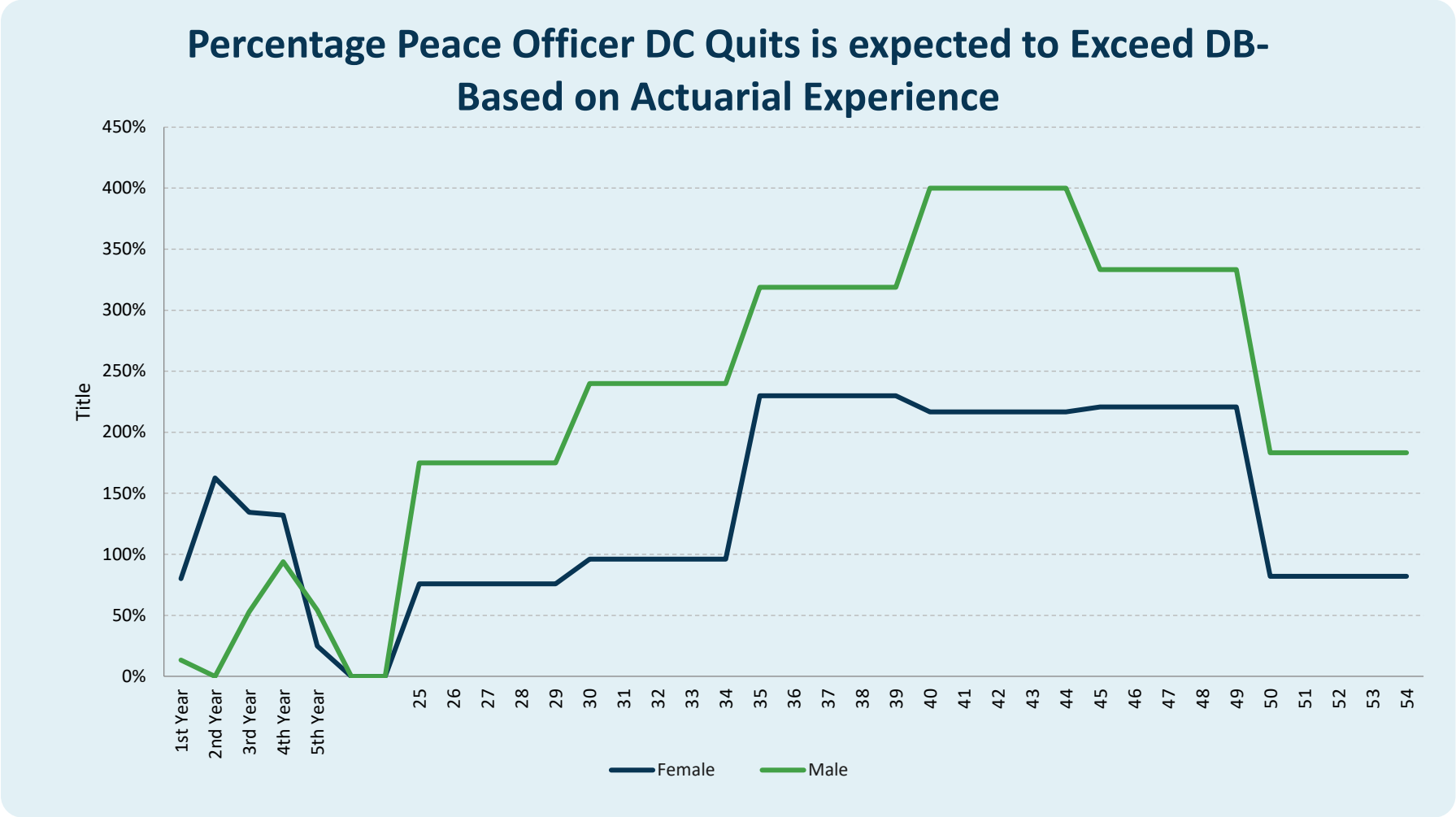
Cumulative Years Taught: 100 newly hired, 25-year Old Teachers Over 30 Years (Select and Ultimate Periods)



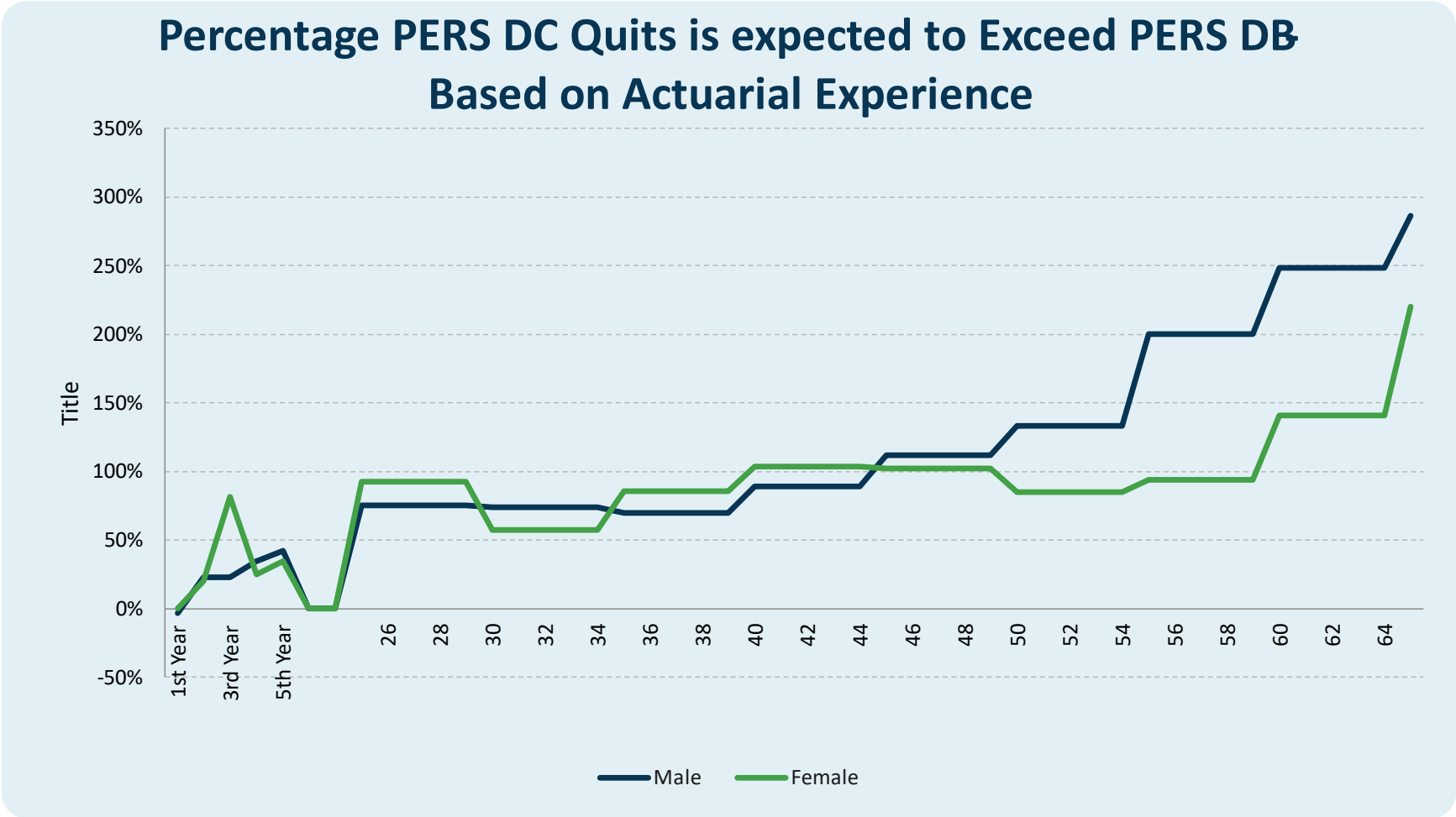
Additional Data for PERS Plans



Peace Officer DC Turnover Much Higher



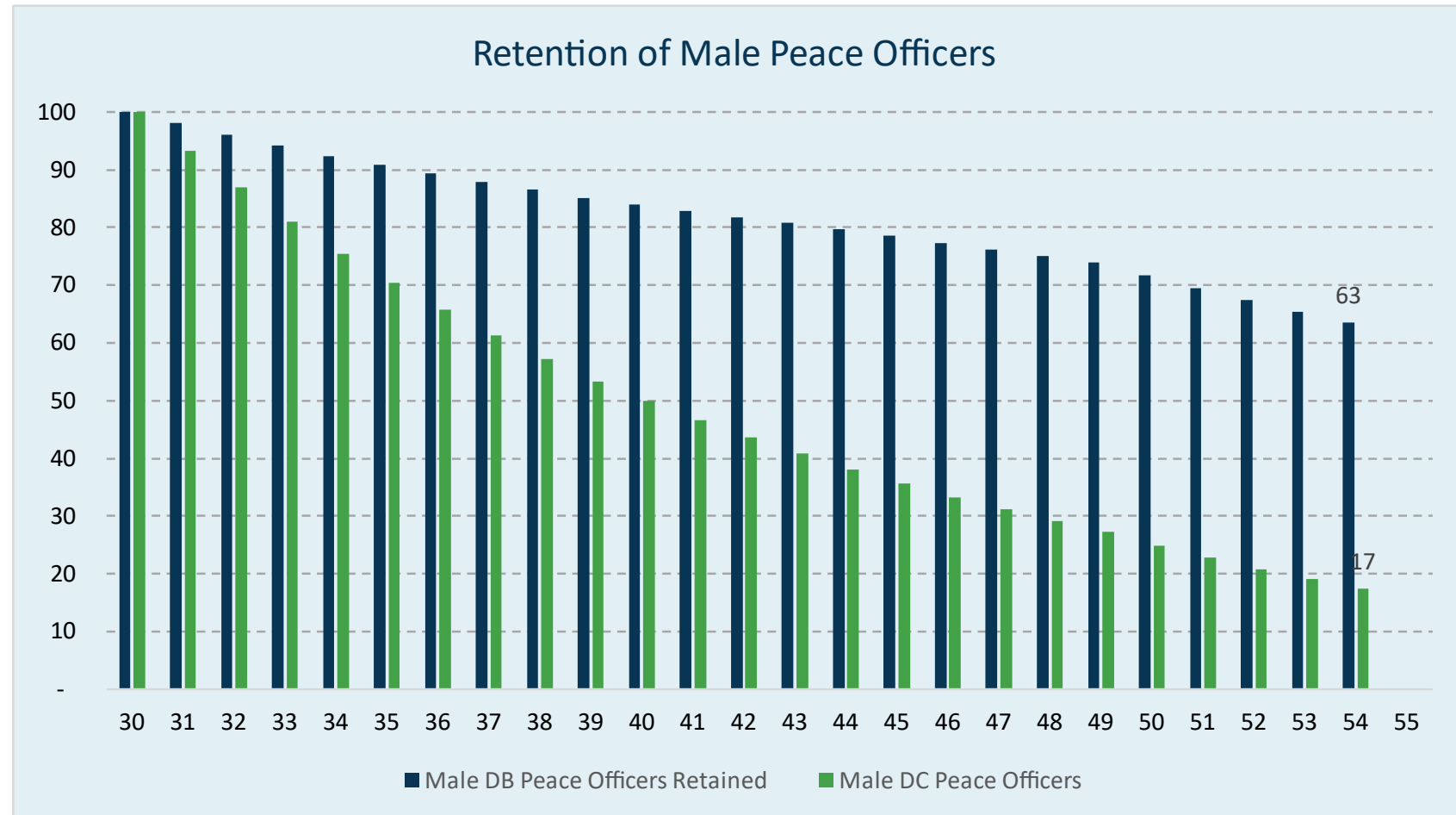
PERS Non-Peace Officer DC Turnover Also Higher



Male Peace Officer Retention is Much Lower in the DC Plan (Ultimate Rates)

What this means:

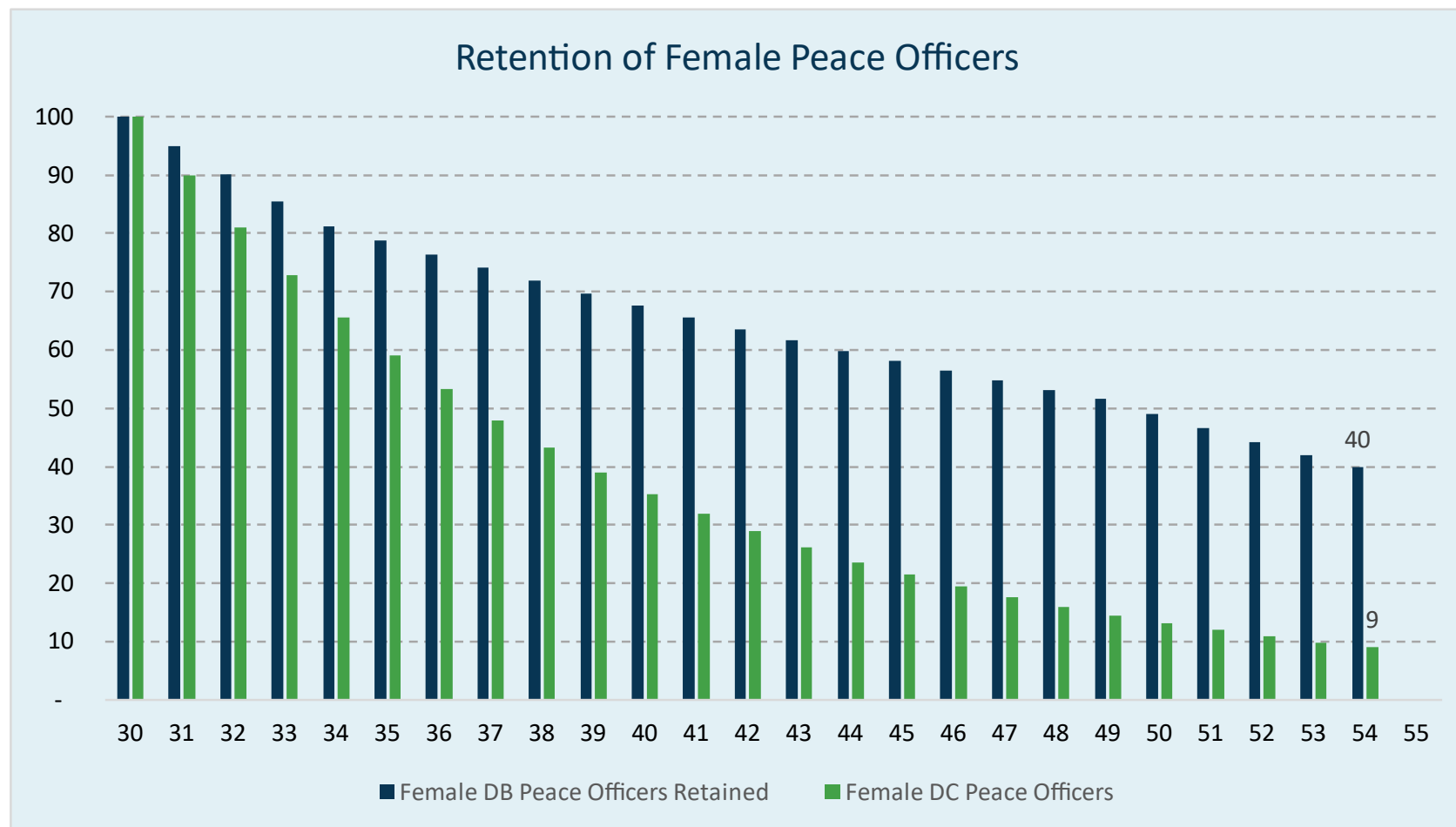
- 100 Male Peace Officers in DB plan expected to provide 2,048 years of service
- 100 Male Peace Officers in DC plan: 1,225 years of service



Female Peace Officer Retention is Also Lower in the DC Plan (Ultimate Rates)

What this means:

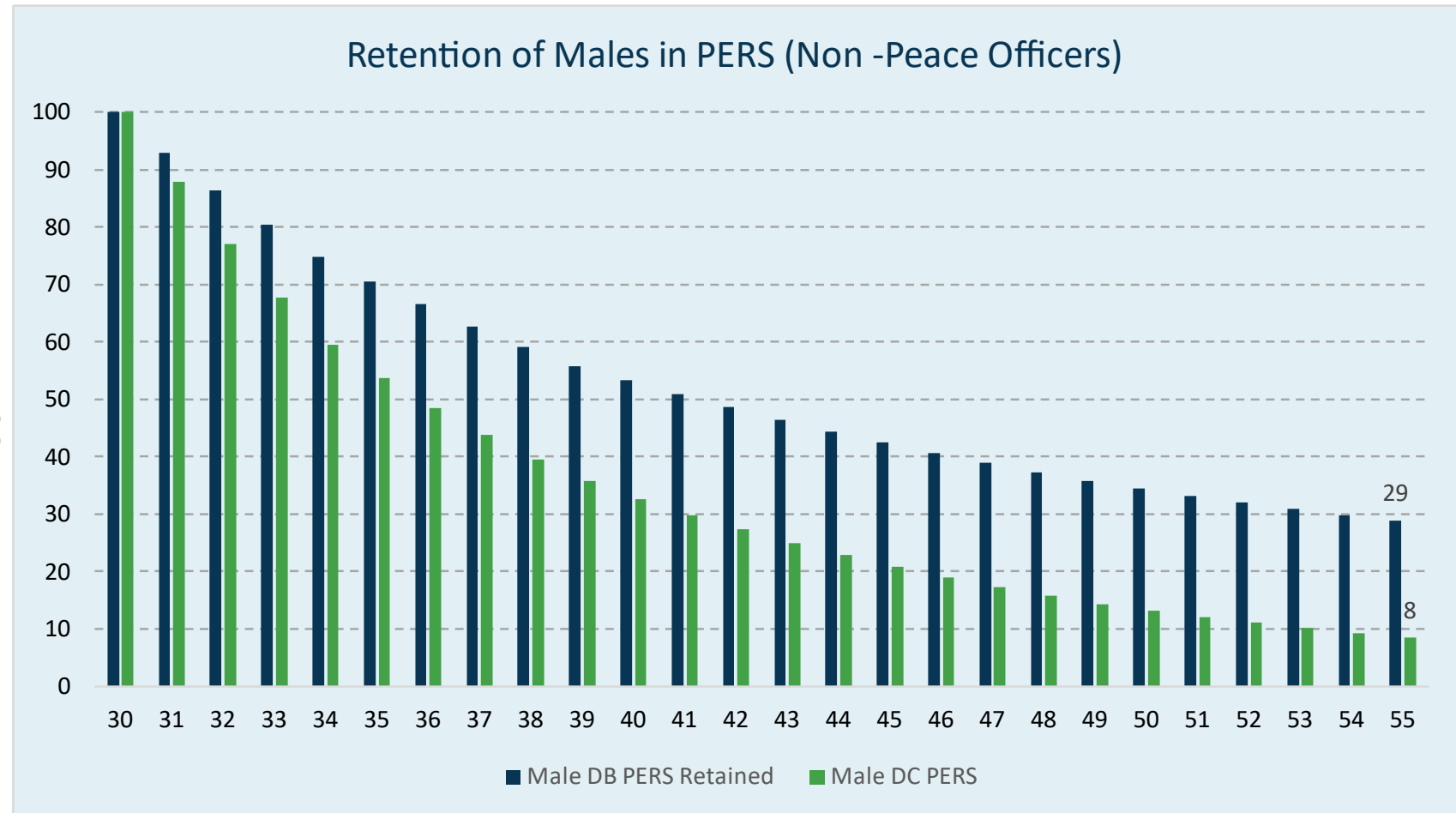
- 100 Female Peace Officers in DB plan expected to provide 1,636 years of service
- 100 Female Peace Officers in DC plan: 942 years of service



PERS DB Also Retaining Workers Better (Ultimate Rates)

What this means:

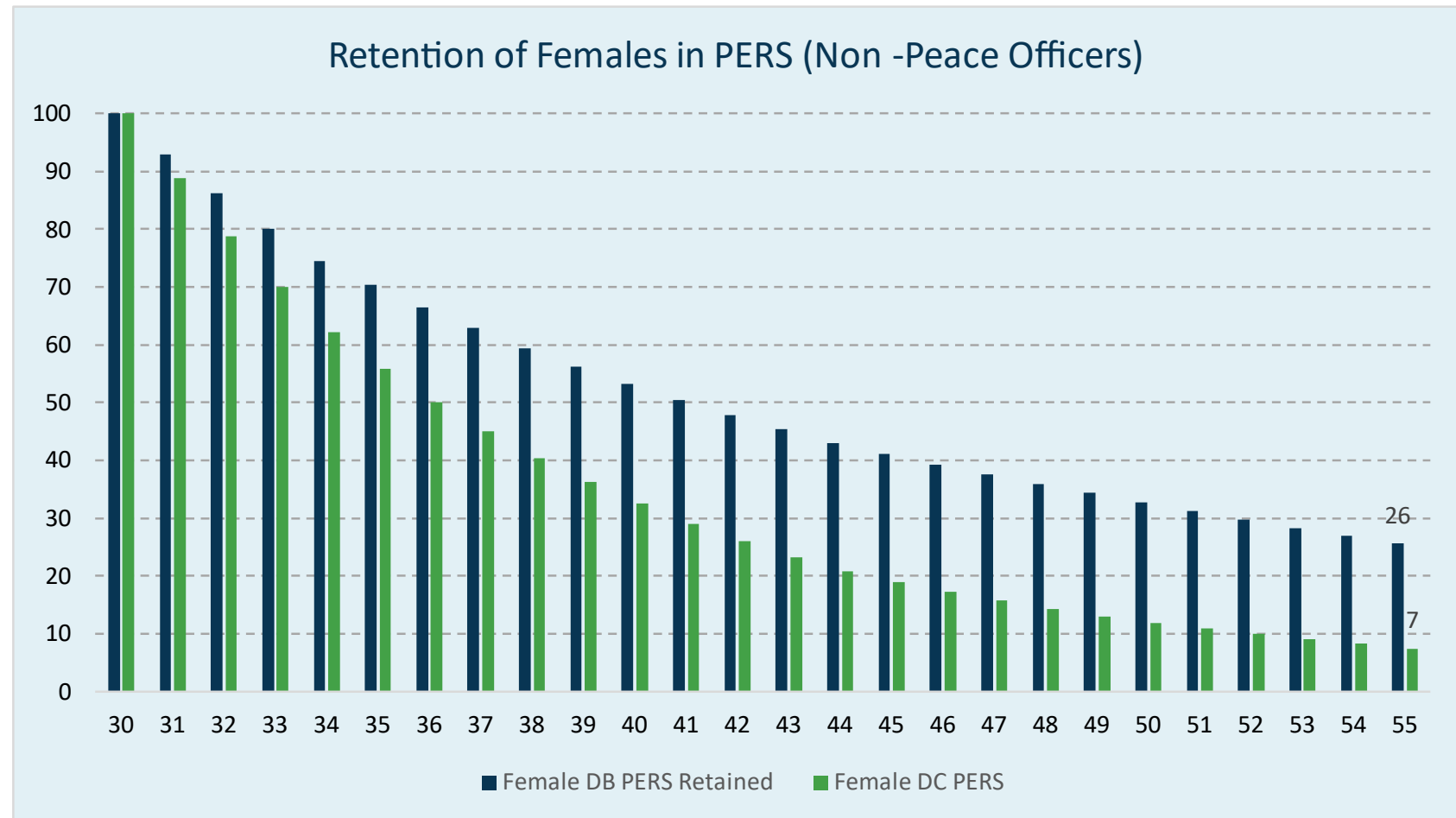
- 100 Males in PERS in DB plan expected to provide 1,377 years of service
- 100 Males in PERS DC plan: 902 years of service



Females in PERS: Trend Again Holds (Ultimate Rates)

What this means:

- 100 Females in PERS in DB plan expected to provide 1,352 years of service
- 100 Females in PERS DC plan: 895 years of service



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 have followed Alaska's 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.

Conclusion (continued)

- **Unfortunately, all states seem to struggle with retention of newly hired teachers.** This problem is exaggerated in Alaska, but non-retirement policies could help with retention of newly hired teachers.
- **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

