



ONE SEALASKA PLAZA, SUITE 302 • JUNEAU, ALASKA 99801
TEL (907) 586-1325 • FAX (907) 463-5480 • WWW.AKML.ORG

Member of the National League of Cities and the National Association of Counties

RE: Public Testimony for HB 78

April 4, 2025

First, we want to thank you for the opportunity to present to the House Finance Committee on April 3, 2025. This was an incredibly meaningful chance to present a municipal perspective about a complex issue that goes beyond HB 78, and it's not one we've had recently. At the same time, there are direct and consequential lessons to be learned from what we reviewed as it applies to this bill.

With that in mind, please consider the following as testimony that continues to highlight what we think are important considerations that would strengthen any attempt to address deficiencies within the State's pension system. We want to be clear about what our members have said, which is expressed in [Resolution 2023-05](#), beginning with that which is most relevant to this bill:

- The Alaska Municipal League supports all tools possible for recruitment and retention and expresses concern about the introduction of a defined benefit plan to PERS/TRS, without the State addressing the current net pension liability; and
- The Alaska Municipal League supports reform to PERS that includes a complete pay-down of the unfunded liability; and
- The Legislature should amend statutes to accommodate a reduction to the non-state employer cap, such that it reduces in relation to the total cost while the additional state contribution is maintained at levels that advance the reduction of the unfunded liability; and
- The Alaska Municipal League conditionally requests that the State of Alaska also conduct termination studies, that small or struggling employers be allowed to opt out of the system, and that the high interest rate on non-payment be eliminated.

What does this mean for HB 78?

We recognize that any single piece of legislation can't do everything, and we don't expect that HB 78 results in taking on some of the financial commitments we're asking for. That said, we can work together to ensure that if there's a return to defined benefit, that the State as the plan sponsor has done everything in its power to address current challenges or burdens. We've also appreciated ongoing discussions with the bill sponsor and know how much work has gone into this effort. Below are amendments that would help to address considerations that are consistent with the interests as identified by AML members, while recognizing that individual employers may – and we hope will – offer their own perspective on the bill.

HB 78 has a number of measures that help protect against adding to the net pension liability, and yet they still might be insufficient if, as we've seen from historical experience, it is not actively managed to avoid an increased liability. There are likely a variety of measures to consider to improve performance:

1. Ensure that assumptions reflect actuals as closely as possible, and that the plan sponsor err on the side of more conservative numbers when in doubt. We've seen payroll growth at about 1% for at least the last decade, and assumptions that are still pegged at 2.75%. Assumptions must be managed aggressively, or no bill will have enough flexibility to offset the liability without costs to the sponsor and employers.
2. That means that all the assumptions are tracked, too, and statute should be amended to ensure that the Legislature is updated each year on the actuals vs the estimated for all assumptions, and the impact that has on the gain or loss of the liability.

3. Conducting valuation and updating assumptions more regularly than every four years would improve the responsiveness of the system. When the State took Mercer to court, documents show that Milliman recommended adjusting assumptions annually as a corrective.

Experience has shown that the State makes decisions about the pension system based on its own financial stability, and not necessarily in the best interests of employers or the system. In fact, there are multiple instances where the State has reamortized the net pension liability to avoid paying the current liabilities due. This has the effect of increasing the total costs of that liability not just for the State but for all employers, and for longer.

4. The ARM board currently has a policy of layered reamortization. The Legislature should be clear in what the law allows in that regard, and what the right number of years is, when it is triggered, and to whom it applies.
5. Blended accounting or the pool structure currently in place could be replaced with some type of fencing between employer types, to ensure that there are effective mechanisms for balancing liability accordingly. For instance, the State could be responsible for its own liability, fenced off from passing on that liability to school districts, municipalities, and other employers. Each employer group could be fenced off similarly. Another way to do this would be by size.
6. As the plan sponsor, the State should have to take some responsibility for when it gets it wrong, and the continued assumption of the additional state contribution is appropriate. The cap on employer contributions is a critical component of this. That cap is not a floor, and the State can buy down that cap when feasible. The current cap – 22% for PERS and 12.56% for TRS – should also be reduced at the very least as of 2040, when the expected rate is less than 15%, which would be a reasonable expectation of a cap.

There are employers that really struggle within the confines of the current system, and also to get out. There are operational improvements that could be made to reduce the burden experienced.

7. HB 78 should address and remove the 2008 salary floor, which is anachronistic at this point, and unnecessarily adds costs to employers that are trying to right-size their budgets.
8. HB 78 should remove the penalty on late payments, and introduce a new system for identifying stress within the system. We recognize the need for good behavior, but the State needs a more efficient way to address nonpayment than through a penalty.
9. Part of the answer here could be to set in place additional flexibility for the department to negotiate termination with employers no longer able to make their contribution. This includes being able to reduce the ongoing payments to the net pension liability, when possible. This could be implemented by setting in place an assumption that accounts for what in some financial statements would be considered “bad debt,” and which the plan sponsor would account for.
10. We understand that the net pension liability follows the employee, and it could be that fencing off that liability by employer would enable employees to move between employers more easily, without making the new employer fearful of accruing that liability. This could include retiree hiring to fill the positions needed.

We had committed to following up from our presentation to the Committee by providing numbers that we began with. Part of the point that we are making is that currently the system is being managed such that the actuarially determined rate seriously misses the mark of the total cost of the normal and past service cost. HB 78 does nothing to address this (nor is it meant to, we understand). What’s important is that these are the headwinds it will have to contend with. No matter how well-constructed it is, without addressing some of these bigger picture issues, we’ll have a defined benefit system that continues to be haunted by not just a significant net pension liability (that is currently scheduled to be in place until FY 53), but a continued accrual of liability for prior tiers.

PERS	Active	Normal Cost	Past Service	Total	Actuarial Rate	Difference
Tier 1	359	28.12	19.29	47.41	28.33	-19.08
Tier 2	1392	16.57	19.29	35.86	28.33	-7.53
Tier 3	5092	14.61	19.29	33.9	28.33	-5.57
Tier 4	26119	8.98	19.29	28.27	28.33	0.06
Police/Fire	Active	Normal Cost	Past Service	Total	Actuarial Rate	Difference
Tier 1	9	34.31	19.29	53.6	28.33	-25.27
Tier 2	87	23.03	19.29	42.32	28.33	-13.99
Tier 3	692	22.33	19.29	41.62	28.33	-13.29
Tier 4	2798	9.33	19.29	28.62	28.33	-0.29
TRS	Active	Normal Cost	Past Service	Total	Actuarial Rate	Difference
Tier 1	65	14.21	21.47	35.68	31.33	-4.35
Tier 2	2411	14.77	21.47	36.24	31.33	-4.91
Tier 3	7257	10.74	21.47	32.21	31.33	-0.88

While this new plan will start fresh, and entrants won't inherit these past liabilities, it's also true that they won't go away for employers. Employees who are joining a new DB plan should be clear-eyed about the risk they inherit when it is now shared with employees. Sometimes we thinking about the net pension liability as an "old" problem, but the layered amortization in recent years, again, has resulted in shifting \$2 billion to future years. If this were to occur under a plan initiated by HB 78, instead of cost-shifting to employers it will be employees who bear that liability, and as much as a 4% contribution increase beyond what they are planning for. The cost-sharing provisions that protect the State will mean that current and future employees bear a greater burden than past employees have, which may undermine some of the promises that the bill has to offer.

In addition, we would flag the following:

- Under Section 10 – Language instead could say the cap or the normal cost, whichever is less.
- Section 37 could be strengthened to ensure that
 - In (a)(3), and throughout statute, "appropriate" is defined to ensure aggressive limitation of potential liability.
 - In (a)(8)(B) statute could clarify the layered amortization process that is now underway.
 - The Legislature may want to consider putting in place a level dollar amount so that the additional state contribution does not increase beyond the State's means.
 - In (a)(9), assumptions are updated more regularly than every four years
 - In (a)(13), reporting to the Legislature includes all assumptions,
- Section 53 (and likely the TRS portion too) – This should include any earnings that accrued.
- Section 67 – Striking (a)(1)(B) could address the salary floor burden.
- Section 84 – In the definition of employer (18), we suggest adding "and that has not withdrawn from the plan by the same" to (B). This could be one way for us to address participation agreements and the opportunity to exit the system.
- Section 97 – Employers would benefit from at least a year's evaluation, budgeting, and operationalization of a new system, and 2026 at least would be a more reasonable estimate of the time it takes to implement.