Alaska’s Experience: Defined Contributions vs. Pensions

Alaska Common Ground
September 28, 2023

Alaska State Senator Cathy Giessel
&
AKPPC Lobbyist Fate Putman
...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.”

NEARLY 1 IN 5 ALASKA STATE JOBS ARE VACANT!

OMB Director
Neil Steininger
S FIN 1-24-23

- Most departments are experiencing significantly greater vacancy than pre-pandemic levels.
- Recruitment 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!
DB System Funded Ratio History

Source: Buck Actuarial Valuation Report - May 2022
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
Total PERS & TRS withdrawals including Supplemental Annuity and the Deferred Compensation plan are almost $500 million dollars.

Total PERS & TRS withdrawals exceed $145 million dollars.

A very interesting and notable point is that 90% of these withdrawals came after 5 years, or 100% vested. People waited to take until they could take all of their employer contributions?
This report is the DRB supplement to the Treasury Division’s Financial Report. It expands the “Net Contributions/(Withholdings)” column into contributions and expenditures. It shows contributions received from both employees and employers, contributions from the State of Alaska, and other non-investment income. This report also expands expenditures into benefits, refunds & disbursements, and administrative & investment expenditures.

The net amount of total contributions and total expenditures, presented as “Net Contributions/(Withholdings)”, agrees with the same column in the Treasury Division’s Report. Page one shows the year-to-date totals for the first twelve months of Fiscal Year 2023, while page two shows only the month of June 2023.

Highlights – On page one, for the twelve months ending June 30, 2023:

- **PERS DB Pension** – Average employer and employee contributions of $43.1 million per month, benefit payments of approximately $84.8 million per month, refunds average $829 thousand, and administrative and investment expenditures of $519 thousand per month (DOR and DRB).
- **PERS DB Healthcare** – Average employer contributions of $391 thousand per month, and benefit payments of approximately $45.7 million per month. Other income of $28.5 million from OptumRx EGWP subsidies (most recently received in May for May 2023), $55.9 million from OptumRx pharmacy rebates (most recently received in May for 1st Qtr 2023), $32.7 million from OptumRx EGWP coverage gap discount program (CGDP) (most recently received in April for 4th Qtr 2022), $1.5 million from Aetna pharmacy rebates (most recently received in June for 4th Qtr 2022), and average administrative and investment expenditures of $1.7 million per month (DOR and DRB).
- **PERS DC Pension** – Average employer and employee contributions of $18.5 million per month, participant disbursements average $9.3 million per month, and average administrative and investment expenditures of $475 thousand per month (DOR and DRB).
- **PERS DCR Health** – For HRA, RMP, and OD&D only, employer contributions average $6.5 million per month on behalf of participating employees, and benefit payments of approximately $237 thousand per month. Currently, 15 benefits are being paid from the Occupational Death & Disability plans, 175 retirees are participating in RMP, and 239 retirees are participating in HRA. Other income of $109 thousand from OptumRx EGWP subsidies (most recently received in May for May 2023), $112.5 thousand from OptumRx pharmacy rebates (most recently received in May for 1st Qtr 2023), $70.9 thousand from OptumRx EGWP coverage gap discount program (CGDP) (most recently received in April for 4th Qtr 2022), and average administrative and investment expenditures were approximately $41 thousand per month (DOR and DRB).
- **TRS DB Pension** – Average employer and employee contributions of $6.6 million per month, benefit payments of approximately $44.9 million per month, refunds average $117 thousand, and average administrative and investment expenditures of $276 thousand per month (DOR and DRB).
- **TRS DB Healthcare** – For HRA, RMP, and OD&D only, average employer contributions of $257 thousand per month, and benefit payments of approximately $14.2 million per month. Other income of $10.0 million from OptumRx EGWP subsidies (most recently received in May for May 2023), $17.1 million from OptumRx pharmacy rebates (most recently received in May for 1st Qtr 2023), $10.7 million from OptumRx EGWP coverage gap discount program (CGDP) (most recently received in April for 4th Qtr 2022), $640 thousand from Aetna pharmacy rebates (most recently received in June for 4th Qtr 2022), and average administrative and investment expenditures of $613 thousand per month (DOR and DRB).
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 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**
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

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