Alaska PERS and TRS

Examining an Alaska Pension Reform Counterfactual

A look at what would have happened to the Public Employee Retirement System (PERS) and Teacher Retirement System (TRS) if proposed pension reforms from 2021 had been enacted.

2021 House Bill 55:

HB 55 would've placed all prospective public safety employees into a new tier of the currently closed defined benefit plan.

Allowed an employee's past service, dating back to 2005, to be annuitized into years of service in the new pension tier.

2021 House Bill 220:

HB 220 would've placed all prospective state employees, public safety employees, and teachers into new tiers of PERS and TRS.

Also included the same mechanism to allow past service in the DC plan to be annuitized into a DB pension benefit in the new tier.

In 2021, advocates of Alaska House Bill 55 and HB 220 claimed that proposed changes were cost-neutral and would not add unfunded liabilities. **Both proposals would have annuitized defined contribution (DC) account balances into defined benefit (DB) pension services using an unrealistically high discount rate of 7.38%.** Using an overly optimistic rate of investment return was a significant contributor to Alaska's current $6 billion pension debt.

Most capital market forecasts expect public pension systems' investment returns to average 5%-6% for the next 10-to-15 years. Opening a new tier at such a high discount rate is imprudent.

Last year, the state's pension investments were expected to earn 7.38%, but Alaska's pension funds lost -4.08% on investments. The 2021 legislation would've transferred 16 years' of liabilities from the DC into the DB plan at once, adding to the current unfunded liabilities.

If HB 55 was enacted in 2021…

$33 million would have been already been added to PERS' unfunded liability.

If HB 220 was enacted in 2021…

$199 million would have already been added to PERS' unfunded liability and $55 million would have been added to TRS' unfunded liability.

Bottom Line: *Transferring years of service from a DC to a DB plan would create new liabilities for Alaska and immediately expose the state to potential pension debt if investment returns fall below the state's overly optimistic assumptions. Undoing previous pension reforms could generate hundreds of millions of dollars in new costs after just one year of poor market results.*

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