

# HB 78: THE DETAILED ANSWERS



House Bill 78 offers a stable and dignified defined benefit (DB) retirement to Alaska's public servants, providing them with a guaranteed lifetime pension.

## 1. WHY DO WE NEED A NEW RETIREMENT OPTION?

Public servants deserve a retirement they can count on—and the current defined contribution retirement system isn't cutting it. **Only defined benefit pensions promise a lifetime of retirement security after a career of public service.**

Additionally, retention in critical public sector jobs is at an all-time low. Secure retirement benefits, paired with livable wages and affordable healthcare, are key factors in employee satisfaction and retention.

## 2. WHAT IS A DEFINED BENEFIT (DB) PLAN?

Guaranteed monthly income based on years of service and average salary. Both employer and employee contribute, and the plan's investment performance determines funding status. Assets are professionally managed in pooled and diversified investment vehicles offering an economy of scale advantage over volatile individual accounts.

## 3. WHAT IS A DEFINED CONTRIBUTION (DC) PLAN?

Income is solely based on the amount contributed to the individual employee account and investment performance. Employees face longevity risk alone—that in many cases, employees risk outliving their nest egg. Managing savings in a DC account requires luck and a level of financial acumen that many employees may not have. Defined contribution accounts are also prone to leakage as employees face the temptation of using their DC accounts as emergency savings, which can devastate the long term value of their accounts.

## 4. WHAT ABOUT SOCIAL SECURITY?

**Most public employees do not contribute to Social Security, so they do not receive Social Security benefits when they retire.** So if a retired Alaska employee loses their 401(k) in a market downturn, there is no Social Security check as a backup.

## 5. WHAT ARE THE CONTRIBUTION RATES?

**Employees contribute 8% of their salary towards their pension plan;** this can temporarily increase to as much as 12% if the pooled pension trust dips below 90% of the funds needed to pay out all pension benefits at one time. *This is a risk-sharing feature to prevent an unfunded liability as Alaska experienced in past pension plans, and is modelled on modern state-of-the-art plan design in states such as Wisconsin, Idaho, Nevada, and Montana.*

Employer rates are determined by the Alaska Retirement Management Board, alongside employee rates, to maintain fairness and fiscal stability. The employer rate is more flexible than the current law, which results in anticipated savings for the public.

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## 6. WHEN DO EMPLOYEES BECOME VESTED?

Employees are vested after 5 years of service.

## 7. WHEN CAN EMPLOYEES RETIRE?

Non-public safety employees, including teachers, are eligible to retire at age 60, or before 60 with 30 years of service. Public Safety employees are eligible to retire at age 50 with 25 years of service, or at age 55 with 20 years of service.

## 8. IS THERE INFLATION PROTECTION?

**Yes.** Inflation protections, which are referred to as the **Post-Retirement Pension Adjustment (PRPA)**, are provided. If the fund drops below 90% funded, the ARM Board could lower or suspend PRPA payments temporarily until the fund recovers. Fortunately, in practice, these reductions are typically short-term micro adjustments. *This risk-sharing provision is modeled after the successful plan design utilized by the South Dakota Retirement System. As a result, SDRS is fully funded and has not experienced unfunded liability.*

## 9. HOW IS THE PENSION CALCULATED?

**Annual Pension = Years of Service × Multiplier × Average Salary (High Five)**

Most PERS and TRS employees, after a full 30-year career, will receive a final benefit of just over two-thirds (67.5%) of their highest 5-year average income, every month for life. Employees who work a shorter career will also be eligible to receive the benefits they earned. Benefits equal 2% of their salary for the first 10 years, 2.25% for the next 10, and 2.5% for each year after 20, based on the highest 5 consecutive years of pay.

**For Example:** After a 30-year career, a city worker has a final high-five salary of \$80,000.

Step 1: Calculate Portion of Salary Earned

- First 10 years: **10 years × 2% of salary = 20% of final pension benefit**
- Next 10 years: **10 years × 2.25% of salary = 22.5% of final pension benefit**
- Final 10 years: **10 years × 2.5% of salary = 22.5% of final pension benefit**

Step 2: Total Pension Percentage

- **20% + 22.5% + 25% = 67.5%**

Step 3: Calculate Annual Pension

- **0.675 × 80,000 = 54,000**

**Result:** This employee would receive \$54,000 per year in retirement.

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## 10. WHAT MEDICAL COVERAGE IS AVAILABLE TO RETIREES?

Retirement medical coverage will be similar to the current DC plans, but with some key improvements to make it more accessible to retirees. HB 78 would remove the requirement that employees must “retire directly” from the plan in order to be eligible for major medical coverage and gain access the Health Reimbursement Account (HRA). HB 78 would also lower the years of service required to access major medical coverage. These employee-friendly provisions come from recommendations brought forward by the ARM (Alaska Retirement Management) Board.

## 11. ARE THERE DISABILITY AND DEATH BENEFITS?

**Yes.** Coverage is consistent with prior DB plans, including occupational and nonoccupational disability and death benefits. Unlike the DC plan, the HB 78 plan would provide members and their families with meaningful financial security in the case that a member dies or is no longer able to work and provide for their family.

## 12. HOW ARE PLAN FUNDS MANAGED?

Similar to the legacy pension tiers, the Alaska Retirement Management Board would invest and manage the pooled retirement funds for the benefit of the members in the plan. The ARM Board would keep separate accounting for each plan (PERS-public safety, PERS-non-public safety, and TRS) and create sub-trusts for pensions and medical benefits to prevent commingling with DC funds.

## 13. WHAT IF I'M A CURRENT DC EMPLOYEE HIRED AFTER 2006?

**Participation in the new system is your choice.** If HB 78 passes, current employees (hired after 2006) will have a choice between staying in their existing DC plan or switching to the new DB plan. The member's account balance would be valued for DB service time using an actuarial calculation converting dollars into years of service.

## 14. WHAT IF MY DC ACCOUNT DOESN'T MATCH THE DB SERVICE CREDIT?

If the value of your DC account covers fewer years than you have worked, you may pay the difference through a pre-tax payment plan handled by your employer or by paying a lump sum. Alternatively, you could choose to buy only the years of service you have money for and receive a lower pension payment.

If the money in your DC account exceeds the cost of the comparable years of service in the DB plan, the excess can be rolled over into a DC or similar investment account as a supplement to your pension.

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## 15. WHAT IF I'M A NEW EMPLOYEE HIRED AFTER HB 78 TAKES EFFECT?

New employees hired after HB 78 takes effect will have the opportunity to enroll in the DB plan.

## 16. WHAT IF I'M A FORMER DC EMPLOYEE RETURNING TO SERVICE?

**If your DC account is active:** You can opt into the new DB plan within 180 days of re-hire with the same criteria for buying credit in the new plan.

**If your DC account was closed:** You'll automatically join the new DB plan as a new employee would, unless you roll your prior funds into an IRA and then transfer it back into the DC plan.

## 17. HOW CAN I HELP HB 78 PASS?

**Take action now!**

*Commit to contacting your legislators.*

*Commit to talking to other Alaskans about retirement security.*

*Commit to sharing this information with my coworkers and neighbors.*

## SCAN THIS QR CODE TO TAKE ACTION!



*Simply point your camera at the QR code  
and click the link that populates.*

*Or, visit [publicpensions.org/AlaskaNeedsPensions](https://publicpensions.org/AlaskaNeedsPensions)*