

Introduced by: Council Members Cleworth and Clark  
Finance Committee Meeting: February 8, 2022  
Introduced: February 14, 2022

## **RESOLUTION NO. 5005**

### **A RESOLUTION OPPOSING HB 55 REESTABLISHING A DEFINED BENEFIT PROGRAM**

**WHEREAS**, in 2003, financial analysts working for the State of Alaska announced that the two largest public employee retirement systems in Alaska, the Public Employees Retirement System (PERS) and the Teachers Retirement System (TRS), had a combined \$5 billion unfunded liability; and

**WHEREAS**, the PERS and TRS unfunded liability reached \$12.4 billion in 2013; and

**WHEREAS**, the Senate Finance Committee, in 2005, attributed a number of factors leading to the unfunded liability, including inaccurate actuarial assumptions, historical understatement of system liabilities, rising health care costs, bearish periods in financial markets, declining interest rates, unfavorable demographic changes, artificially low contribution rates in good times, timing of the recognition of market losses, and legislation increasing benefits; and

**WHEREAS**, the average rate paid on PERS salaries to pay down the unfunded liability between FY2008 and FY2020 was 20.15%; and

**WHEREAS**, PERS employers paid over \$5.5 billion between FY2008 and FY2020 to pay down the unfunded liability; and

**WHEREAS**, the State of Alaska injected an additional \$3 billion into PERS and TRS in 2014; and

**WHEREAS**, the City of Fairbanks paid over \$23 million between FY2008 and FY2020 to pay down the unfunded liability; and

**WHEREAS**, instead of paying for current or future programs and services, current public dollars go to pay for benefits earned in the past; and

**WHEREAS**, the Alaska Retirement Management (ARM) Board estimates systemwide actuarial assets of \$32.19 billion at the end of FY 2021 with unfunded actuarial liabilities totaling \$3.97 billion; and

**WHEREAS**, the ARM Board projects systemwide pension benefit payments to total over \$1.5 billion annually between FY2022 and FY2050, with ongoing pension benefit payments running out to approximately FY2100; and

**WHEREAS**, AS 39.35.255 establishes a statutory non-State employer contribution rate of 22% and the actuarially determined contribution rate for the State as an employer; and

**WHEREAS**, AS 39.35.280 requires additional State contributions to make up the difference between 22% for non-State employers and the actuarially determined contribution rate; and

**WHEREAS**, every year since 2015 the City of Fairbanks has advocated that the State maintain the PERS employer contribution rate at 22% of salaries; and

**WHEREAS**, the ARM Board projects the need for \$1.86 billion in additional State contributions beyond the 22% employer rate between FY2023 and FY2039, assuming an actuarial earnings rate of 7.38%; and

**WHEREAS**, HB 55 proposes to (1) allow for the transfer of Peace Officer/Firefighter (P/F) active members from the State of Alaska PERS Defined Contribution Retirement (DCR) Plan to the PERS Defined Benefit (DB) Plan, and (2) provide that all future P/F hires automatically enter the PERS DB Plan rather than the PERS DCR Plan; and

**WHEREAS**, as of June 20, 2020, there were 2,228 P/F active members in the PERS DCR Plan with approximately \$159.2 million of DC account balances; and

**WHEREAS**, the State's actuary consultant has determined that if the contribution rate for P/F members' pension and healthcare benefits exceeds 9%, then HB 55 will lead to larger increases in additional State contributions compared to what would happen without HB 55; and

**WHEREAS**, by shifting active P/F members and all future P/F hires from the DCR Plan to the DB Plan, PERS employers will be taking on greater risk of higher contributions in future years; and

**WHEREAS**, the actuarially determined contribution rates for PERS between FY2008 and FY2020 averaged 31.30%, with a low of 25.01% and a high of 44.03%; and

**WHEREAS**, public funds discount future liabilities by the expected rate of return on their investment assets – the lower the earnings/discount rate, the greater the principal required to generate a given stream of income – thus, a high rate presents a low bar for success and a low rate, a high bar; and

**WHEREAS**, the State has control over pension plan promises, and the financial consequences with every pension benefit decision should be clearly understood; and

**WHEREAS**, persistent low-interest rates and greater uncertainty of future investment returns have created an environment where such pension promises have become increasingly expensive; and

**WHEREAS**, possibilities of sustained recessions can severely undermine projected rates of return similar to 2009 when PERS had a rate of return of -20.49%; and

**WHEREAS**, Article XII, Section 7 of the Alaska Constitution provides that “Membership in employee retirement systems of the State or its political subdivisions shall constitute a contractual relationship. Accrued benefits of these systems shall not be diminished or impaired”; and

**WHEREAS**, the Alaska Supreme Court has interpreted this provision to mean that “system benefits offered to retirees when an employee is first employed and as improved during the employee’s tenure may not be ‘diminished or impaired’”; and

**WHEREAS**, the proposed Tier 5 is only offered to certain individuals which raises a serious fairness issue and an inevitable desire by others to be included; and

**WHEREAS**, inclusion of overtime pay in determining an employee’s wages in the past DB program was a serious problem and will continue to be so in HB 55 when determining the high five years, especially with public safety employees where annual overtime earned can actually exceed their annual base pay; and

**WHEREAS**, the City of Fairbanks has many different tools that can be used for employee retention that do not carry the risks and costs that DB programs bring with them.

**NOW, THEREFORE, BE IT RESOLVED** that the Fairbanks City Council is opposed to returning to a defined benefit program where legal promises are made to retirees regardless of the ability to pay for them; and

**BE IT FURTHER RESOLVED** that the billions of dollars that have been lost funding DB debt over the years has greatly hurt both the State of Alaska and municipalities in providing services to residents which should be the primary focus and mission; and

**BE IT FURTHER RESOLVED** that the City Clerk is directed to forward copies of this Resolution to members of the Alaska State Legislature.

**PASSED and APPROVED** this 14th day of February 2022.

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**Jim Matherly, Mayor**

AYES:  
NAYS:  
ABSENT:  
APPROVED:

ATTEST:

APPROVED AS TO FORM:

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D. Danyielle Snider, MMC, City Clerk

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Paul Ewers, City Attorney