

ALASKA



ALASKA PERS/TRS DEFINED CONTRIBUTION RETIREMENT PLAN

TYPE OF PLAN: Mandatory Defined Contribution Plan

YEAR EFFECTIVE: 2006

WORKERS COVERED: All general state government employees and teachers hired after July 1, 2006. (Employees hired before this date who were not yet vested in the defined benefit plan were given a 12-month window to opt into the defined contribution plan).

ACTIVE PARTICIPANTS: 29,412 general employees (as of 2010); 2,269 teachers (as of 2010).

CONTRIBUTION RATE: Members contribute 8 percent of salary. Employers contribute 5 percent for general employees and 7 percent for teachers. Members do not participate in Social Security.

VESTING SCHEDULE: Employer contributions are vested as follows: 25 percent after two years, 50 percent after three years, 75 percent after four years, and 100 percent after five years.

INVESTMENT OPTIONS: 27 different mutual funds, including index and asset allocation funds. The default is one of 10 target-date funds or the Alaska Balanced Trust – a combination of equity and fixed income – based on the member's date of birth.

ORIGIN OF PLAN: In 2005, Alaska became the second state to switch to a mandatory defined contribution plan for its state employees. Proponents of the change were concerned with the underfunding of the state's existing defined benefit plan. They argued that a defined contribution plan would control the state's growing unfunded liability. Republican Governor Frank Murkowski, a key supporter, said that it would "stop the bleeding" and "bring more stability to the retirement system."

Some were concerned by the proposed switch. Because the final balance of an individual account depends on investment performance, state employees would be taking on more risk than they were previously. The bill was generally supported by Republican legislators and opposed by Democrats. It passed the State Senate and the State House of Representatives on largely party-line votes.

LEARN MORE

- Alaska Department of Administration, Retirement and Benefits. Online at: <http://www.state.ak.us/drb>.
- Jenna Gottlieb. 2005. "Defined Contribution: Alaska Puts New Hires in 401(a) Plan; Looking to Succeed Where California So Far Has Not." *Pensions and Investments* (May 30).