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.

**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.