Alaska Center for Public Policy

advancing public policy that benefits low- and medium-income families in Alaska

Testimony in front of the House Labor and Commerce Committee
Regarding HB 30
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The other day I took a stroll through Senate Bill 141 Memory Lane. I was reviewing some of the documents that had come across my desk in 2005 and 2006. One in particular caught my eye. It is entitled "fact sheet for: Senate Bill 141." this one-page fact sheet had been produced by proponents of the bill and was dated April 6, 2005. The fact sheet has three parts to it: a summary of the bill, a one-paragraph background of the events leading up to this bill, and a third part of this fact sheet entitled "benefits."

I recall that Senate Bill 141 was pushed through the policymaking system very quickly. There was extremely little time for public debate. There was a notable absence of unbiased research and analysis. I don't recall much consideration of alternative public policies that may have better addressed the perceived problems. In my view the issue was framed in a way that precluded considered, responsible analysis, and in such a way that urged immediate action however ill informed. It appeared to me that the precepts of good public policy process were violated time and again. It is no wonder then, that the benefits touted by those who were supporting this bill failed to materialize.

The first stated benefit in this fact sheet is, and I quote, "this bill strengthens management and fiduciary oversight of the state's retirement systems." In fact this bill greatly reduced management and oversight of the state"s retirement systems because it privatized them. By doing this the state renounced responsible management and fiduciary oversight of the funds in these retirement systems.

The second touted benefit is that the bill "constrains growth of the unfunded liability." Based on actuarial analysis by the state's own consultants, we now know this to be untrue. We could have known this well prior to the passage of Senate Bill 141 had there been the will to embraced due diligence in the policymaking process.

And finally, the third benefit touted in this fact sheet is that Senate Bill 141, "establishes a portable defined contribution plan for new employees that, over time, reduces the state's dependence on riskier and less predictable defined benefit plans." Let's look at this benefit a little more closely. The "portable defined contribution plan for new employees" has generally fared much worse than the traditional pension plan in terms of the benefits accruing to retired or retiring employees. These 401(k) type plans have generally lost a lot of money and they have seen their potential growth crippled by high administrative expenses. The fact that this retirement plan is portable increasingly appears to be contributing to a growing brain drain of younger professionals trained in Alaska but seeking secure employment elsewhere. At the same time the replacement of a traditional pension plan with a meager and insecure 401(k) type plan increasingly appears to be contributing to the inability of the state to attract trained and experienced professionals to the public sector. There does not seem to be any benefit here.

The second part of the third benefit asserts that moving to a defined contribution plan will "reduce the state's dependence on riskier and less predictable defined benefit plans." I am compelled to ask, "riskier and less predictable" for whom? This strategy shifted a great deal of financial risk from the state, which has effective tools and experts to manage this kind of risk, to tens of thousands of Alaskan families who may have no financial reserves, and few if any tools to manage a volatile or disappearing retirement fund other than perhaps bankruptcy or the goodwill of the food bank. This hardly seems like a benefit to the people of Alaska, nor even a benefit to the State of Alaska.

So there is a lesson in this stroll down Senate Bill 141 Memory Lane. The lesson is that a poor public policy process is likely to lead to poor public policy. Further, that poor public policy is unlikely to have the anticipated benefits, and that poor public policy is likely to have adverse unanticipated consequences such as those which have become increasingly apparent during the last two or three years. Ultimately, the lesson is that a defined benefit pension plan for the public employees of Alaska is good policy for the state and is good policy for thousands of Alaskan families, and it is likely to remain good policy for generations to come.