

My name is Larry Semmens and I am the City Manager of the City of Soldotna. I was also a Trustee on the Alaska Retirement Management Board for the first three years of its existence and have fairly extensive knowledge of PERS and TRS issues. I am a certified public accountant with over 25 years experience in local government in Alaska.

I am against repealing the pension plans commonly known as the 'defined contribution plans' PERS tier IV and TRS tier III, which were effective July 1, 2006. I will refer to these plans as the DC plans, but in reality these plans are blended plans that have both defined contribution and defined benefit attributes.

I want to say upfront that the City of Soldotna is not having problems hiring or retaining personnel with the current tier IV retirement plan. Since implementation we have successfully hired several police officers, both inexperienced and experienced, equipment operators and office personnel. The vacancies were created primarily from retirements.

NO SBS for Soldotna or Kenai *One position we were not able to fill was that of Engineer - The MGT salary we offer is not that great. Doesn't make up.*

The reason I am against going back to the full DB plans is that they are too costly and the total cost cannot be known until the last person in the plans dies, let alone at the time wages are paid. Our current situation is a case in point. Prior to a few years ago we were all blithely going along thinking our pension plans were fully funded. Surprise - they were not and recently the investment markets have dealt us another staggering blow. The result was, is and may continue to be, skyrocketing contribution rates. With the DC plan the cost is known, the employer pays it one time at the same time that the services are rendered. If we find it difficult to hire employees we will need to raise wages, but at least that is a local control decision.

At June 30, 2007, which is the date of the last Actuarial Valuation, the total unfunded liability for PERS and TRS was \$7.5 billion. Since then investment returns have not met the actuarial assumption of 8.25%. Although we do not have a more current actuarial valuation, I think it is reasonable to predict that the unfunded liability will be up at June 30, 2008 because investment returns were negative, about 3%. That is over 11% short of the actuarial assumption. This fiscal year investment returns are over 20% negative and if it doesn't turn around I can absolutely predict that the unfunded liability will be up at June 30, 2009. This will put upward pressure on the 2012 contribution rates. At June 30, 2007 total assets of the PERS and TRS pension funds were \$15.8 billion. At June 30, 2008 assets were \$15.5 billion and as of January 31, 2009 the latest available financial statements show total market value of assets to be \$12.1 billion, a decrease of \$3.7 billion since the last valuation. Clearly, assets are going in the wrong direction. Ideally

we would have been making progress on paying down the unfunded liability, but we have not. I do not want to be critical of the investment performance, nearly every pension system in the country is experiencing similar returns.

As an employer I like the DC plan for the certainty of cost that such a plan provides. The employer is responsible to pay the retirement contribution one time only and the cost is known. Ten years from now employers will not be asked to make additional contributions to cover investment losses or for the many other reasons that defined benefit pension plans become underfunded. The private sector has fled DB plans because they need to know how much it costs to produce their products. They cannot go to their customer 10 years later and say they should have charged them more because it has come to light that pension benefits earned back then actually cost more than they figured into the sales price. Should the public sector be any different? Shouldn't we tell our constituents how much it will cost to plow the streets or run the ice rinks without the specter of revising that cost years later due to changes in retirement costs?

Please consider carefully before you make promises to future employees that the residents of Alaska will provide them with guaranteed retirement benefits the cost of which you cannot possibly know. My experience of the last several years tells me that even the experts may not be able to reasonably predict such costs. Please ask yourselves the question - is it right to require future generations of Alaskans to pay the cost increases that seem to inevitably beleaguer defined benefit plans? Major corporations have gone bankrupt due their inability to fund these pension plans. I am very concerned that governments are headed down the same path. I am very concerned that the City of Soldotna will not be able to continue the service levels that our residents enjoy today if our PERS contribution rates increase any more than they already have. Remember that in 2004 the PERS rate was about 6%, currently it is 35%. It is true that currently the City's contribution rate is capped at 22%, but I wonder if the State will be able to afford to pay the difference in 22% and the actuarially required rate if State revenue streams remain under pressure. Usually something has to give and it wouldn't surprise me if this rate went up in the next 5 years.

To me, it seems unwise and perhaps even irresponsible to change course on our pension plans, especially now when it is abundantly clear that investment returns are volatile and may not produce the returns that our defined benefit plans depend upon. Imagine the contribution rates that will be necessary to pay off the unfunded liability in the event that investment returns do not return to normal quickly. Just last year the TRS rate was 54% of payroll. The contribution of the State of Alaska and the employer of a teacher making \$50,000 was \$27,000 to the retirement system. This does not seem sustainable to me.

I would also ask that you consider carefully whether it is right, in a moral sense, for you to promise new employees benefits that may be impossible to pay for 30 to 50 years from now. If the answer is yes, then I must ask is it right, in a moral sense, to make such a promise not knowing what future generations of Alaskans will have to sacrifice in order to pay for this promise. This is the time for conservatism. The private sector has certainly embraced defined contribution plans. You will be hard pressed to find private sector employers that offer defined contribution plans similar to tiers II and III.

Please hold this bill in your committee and let the rest of the U.S. catch up to the pioneering and difficult work that the Alaska legislature did when it adopted the blended retirement plans we have now. This is the fiscally responsible thing to do, and in my opinion it is the right thing to do.

Thank you for hearing me today. I would be happy to try to answer any questions.