Written Testimony of Tom [illegible]

1. Good afternoon. My name is Tom Boutin. I am speaking entirely for myself. I have been an Alaskan for 36 years. I have mostly worked in the private sector but have also worked for the State of Alaska. We made a management decision at the state organization where I worked during the SB141 process to avoid involvement. My representative is a prime sponsor of HB30, and it is her good example that prompts me to come here this afternoon.
2. I listened to last week's hearing twice. This is a very complex topic. I think the clean-up bill for SB141 was 100 pages long. The state had to hire a special law firm just to extricate itself from Internal Revenue Code conflicts in SB141. The hearing last week had some misunderstood questions and answers. One clarifying idea that might have cleared some of the fog last week is that paying the employer contributions as a percentage of payroll is merely a convention.
3. A second point is that the unfunded liability and the risk of it growing now or after reverting to defined benefits is a red herring and leads to poor decisions. I believe that the actual unfunded liability would be lower had SB141 not been enacted, and I will point out that despite the defined benefits systems now not accepting new enrollees for 3 years the unfunded liability continues to grow.
4. There is no way that any proper accounting could show that defined contribution has saved money, and in fact a good accounting would show a net cost. The letters from Buck certainly show that.
5. However, there are more and greater costs in defined contribution. Representative Munoz described one of the larger ones last week so I won't restate it. Defined contribution proponents have said wages need to be raised to private sector levels. One problem with that is the public sector has job types that the private sector doesn't have. Telling a police officer, firefighter, correctional officer or even a teacher that if their 401K doesn't perform well and on time then they need to work until Social Security kicks in avoids the realities of those jobs. When you call 9-1-1 you don't expect to have to help the police officers get out of their police cruiser. A 67 year-old firefighter rushing up the fire escape to save families in a burning house is not going to happen. Adopting defined contribution tells these people that when their knees give out they need to look at Walmart for jobs. But that may not happen in all cases either. When logging industry workers became too old and slow to fall timber or jump from log to log with 90 pound blocks, or when industry cutbacks coincided with aging of many workers, long term disability settlements were part of what the industry faced. That is reality. How realistic is it to tell a police officer that at 60 years of age he or she must continue to run down the bad guys? People do what they have to do; when I was running logging camps and we cut back on providing health care we found that then when a fellow got pneumonia he still went to town on our dollar but this time he found he had a back injury in order to go to town and be treated for the pneumonia on a workmen's compensation claim instead of a health insurance claim; so our workmen's compensation rates went up when we provided less health care, and workmen's compensation is a far more expensive way to provide health care. Defined contribution sets up the same algorithm. Too often government claims to have saved money but then later a full accounting shows that there has in fact been substantial unaccounted costs.
6. Another cost of raising wages for everyone to compensate for defined contribution is that wages are then raised for the defined benefit tiers as well, and ironically, that increases the cost of the

now closed defined benefit plans. The takeaway message here is that governments typically do not pay new hires on an individual basis but the private sector does.

7. The analysis of SB141 continues to be markedly deficient even as HB30 is evaluated. The horse had left the barn long before SB141 came along. SB141 couldn't bring that horse back but I heard people speaking as if they thought they were doing that. Please don't do that this time; learn how much of the unfunded liability lies in each tier and please don't allow handwringing over the unfunded liability to misconstrue the numbers. Employers have just as much risk and largely the same risks with defined contribution as they do with defined benefit.
8. Apart from financial costs there is a contract associated with public employment that includes a reasonable retirement. When government hires a fisheries biologist they offer long-term employment at a very modest salary but that new biologist knows that if she dedicates herself to a career in a very specific discipline she will have an interesting career followed by that reasonable retirement. In return, government obtains a career individual that learns science specific to particular our Alaskan habitat, species and industries; and science that is not written in any book. If they find ways to protect fisheries while allowing the public and private companies to hit a home run on oil or mineral returns there will be no huge financial bonus coming to the biologist. Defined contribution breaks this contract.
9. There is an important actuarial benefit forgone by any employer adopting defined contribution and there is no way for an individual employee to make it back. This is why the financial services industry prefers defined contribution. Individuals saving for their own retirement must each save as if they will live to be 100 years of age; they cannot risk running out of money before they die. A large plan however can have actuaries create a population profile that substantially reduces the total amount that must be set aside for the population by accounting for the combined mortality of that population under a defined benefit plan. In adopting defined contribution the State of Alaska forfeited this efficiency without any compensating benefit going to anyone but the financial services industry.
10. Please move HB30 to the next committee. I hear many people talking about working this bill over the interim and I think that is a very poor idea. The defined contribution cohort continues to grow. Next year may be absorbed with the Lower 48 recession reaching Alaska, issues related to the Permanent Fund dividend, gas line matters, election year ideas, and issues we cannot foresee. Every day we don't fix this cost employers money, and the experience so far would suggest that it costs the defined contribution enrollees money as well.
11. I would try to answer any questions. Thank you very much for hearing this bill, and for taking the time to listen to what I have to say.

ANSWERS TO QUESTIONS

1. **I worked at the Department of Revenue during the SB141 process.** We were an interested agency. The bill did away with our Pension Investment Board and gave us the Retirement Management Board for instance. But we decided we already had a war going on with one department and we couldn't fight a war on two fronts. Later there was an event that showed us we made the right decision because any resistance to SB141 we had mustered would have been overruled anyway. I believe it is completely fair to say that everyone working at Revenue was very unhappy with SB141 and the process the led to its enactment.
2. **Reducing investment volatility and increasing liquidity.** Whenever PERS and TRS issues are discussed there are factors that are not understood very well yet those factors have big dollar implications. One factor has been previously mentioned, that no matter how much money put in the investments, unless the funding ratios are substantially over 100 percent, closing the defined benefits tiers means that the funds on hand must more and more be invested for more liquidity and less volatility, lowering the rate of return projected by the actuaries. A positive factor is that if national health care is adopted there easily could be a huge reduction in the projected health care costs of all plans.
3. **Unfunded liability.** The unfunded liability is the failure to fund up a commitment. If you don't make your mortgage payment on time the news will become worse and worse. But the question in HB30 is whether the payment amount diminishes with defined contribution as compared with defined benefit and the answer is no. There is no cost savings. You have to meet the commitment you make as an employer either way.
4. **Personal background.** Retirement matters are technically challenging and I have a very shallow background in them so I am not suggesting I am an actuary nor am I a chartered financial analyst.
5. **SB141 process.** While as I said, I am not a chartered financial analyst nor am I an actuary, and I think the SB141 process should have included many of those, I don't believe you need to do nearly as much technical analysis to return to the defined benefit tiers that were closed as should have been done in looking at closing them in the first place. The tiers SB141 replaced were clearly and demonstrably better than what is in place today, and you know much more about that now than anyone knew when SB141 was signed into law.
6. **Confusion about DC/DB.** Paying as a percent of the payroll for both defined contribution and defined benefit enrollees is a convention. What is needed by the system is dollars, not percents or widgets. Paying as a percent of the payroll of all bald-headed guys would also work; the amount of dollars needed would not change.
7. **Wildland firefighters.** There will be a time when defined contribution wildland firefighters reach an age when they are too likely to be injured when jumping out of a helicopter with a bladder pump on their backs and chain saws and gas cans in their hands, and they may indeed qualify for long-term disability if their defined contribution cannot by then spin off an annual income to support them.

8. **Private sector jobs.** A final point to make about raising wages to compensate for defined contribution is that government does not and practically cannot adopt private sector compensation plans. If a private company happens upon a salesman who can bring in $5 million a year then they can offer him or her $1 million in salary and come out. If a particular type of engineer is in short supply, and a private sector must have more of those engineers they can raise wages for only those new hires. Government cannot do that; it violates labor contracts and is politically unacceptable. In any event, there are substantial and material costs associated with defined contribution that are not accounted, and they should have been evaluated before demolishing the defined benefit plans.
9. **SB141 confusion.** During the SB141 process there were committee hearings where the then proposed defined contribution plans were compared solely with Tier 1 as if there was some sort of legislative fix to Tier 1 costs.
10. **Employer risk.** No one knows that all the risks they took last year have been completely accounted and paid. If a municipal grader runs into a car full of people the lawsuits and claim settlements take years. No one can say that all the costs of plowing snow this winter will be known by spring. What we do know is that actuaries do a good job of assessing future costs.
11. **Plight of new teachers today.** Finally, I have a request of you. Please seek a numerical evaluation of reality for teachers being hired today fresh out of school and enrolling in defined contribution. I haven't done the research but I think you will find that without SBS or Social Security, and with this defined contribution as their sole plan, new teachers will realistically either have to leave the profession today or reconcile themselves to being on Medicaid and welfare at the completion of their teaching careers.