ALASKA STATE LEGISLATURE

Sponsor Statement – House Bill 30

Providing defined benefit retirement for teachers & public employees

HB30 repeals the defined contribution retirement plan for teachers and public employees – and replaces it with a defined benefit retirement plan.

In 2005, the Legislature and the Administration enacted a defined contribution retirement plan for public employees hired after July 1, 2006, thus preventing new hires from participating in the defined benefit retirement plan. The defined contribution plan is similar to a 401(k) savings plan; while the defined benefit plan assures a monthly pension for future retirees.

Here are some reasons to repeal the defined contribution system:

- Employees bear the financial risk of outliving accumulated assets and poor investment returns. A series of poor investment returns during the first few years of retirement can devastate the retiree's accumulated assets. Recent downturns in the stock market have impacted individual retirement accounts greater than the negative impact to the accumulated assets of defined benefit employees.

- During periods of extended inflation, individual accounts tend not to produce benefits that keep pace with the cost of living.

- While having the perceived advantage of portability, evidence suggests that short-term employees who terminate prior to retirement eligibility will take a lump sum distribution and use the money for other than savings toward retirement.

By providing a retirement plan which is totally portable (such as a 401[k] or 457 plan), we risk employees leaving their positions for other opportunities. The result will be higher employee turnover, less loyalty from the employees, fewer experienced employees and educators, and a more transitory workforce. Per dollar of benefits paid, a defined contribution plan is more expensive than a defined benefit plan.

Employer contributions to the defined benefit plan are based on a benefit formula that calculates the investments needed to meet the defined benefit. These contributions are actuarially determined. Actuaries use statistical analysis to calculate the cost of future risks. The calculation takes into consideration the employee's life expectancy and normal retirement age, possible changes to interest rates, annual retirement benefit amount, and the potential for employee turnover.

Alaska should implement defined benefits as an incentive for teachers and public employees to provide effective and efficient services.