

HOUSE FINANCE COMMITTEE
April 23, 2005
10:17 A.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [10:17:24 AM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Richard Foster
Representative Mike Hawker
Representative Jim Holm
Representative Reggie Joule
Representative Mike Kelly
Representative Carl Moses
Representative Bruce Weyhrauch

MEMBERS ABSENT

Representative Eric Croft

ALSO PRESENT

House Speaker John Harris; Representative Ethan Berkowitz; Representative David Guttenberg; Senator Bert Steadman; Senator Lyda Green; Melanie Millhorn, Director, Division of Retirement and Benefits, Department of Administration; Traci Carpenter, Staff, Senator Lyda Green; Miles Barker, Staff, Senator Bert Steadman; Kevin Brooks, Deputy Commissioner, Department of Administration; Katie Shows, Staff, Representative Paul Seaton.

Also in Juneau:

Kevin Ritchie, Executive Dir., Alaska Municipal League
Jerry Patterson, NEA-Alaska
Bruce Ludwig, APEA/AFT
Tim Parker, NEA-Alaska, Fairbanks
Tom Richards, Fairbanks Education Association
Jamie Marks, Teacher,
James Conley, Anchorage Police Department
Paul Honeman, Lieutenant, Anchorage Police Department
Mike Coutirer, Officer, Anchorage Police Department
Everett Rollins, Officer, Anchorage Police Department
Gerard Asselim, Officer, Anchorage Police Department
Michelle Bucher, Sergeant, Anchorage Police Department
Debra Seely
Dave Boddy, Alaska Professional Firefighters
Debbie Hull, Teacher
Mike Davidson, Alaska Professional Firefighters

Dominic Lozano, Alaska Professional Firefighters
Jeff Manns, Public Safety Employees Association
Craig Persson, Public Safety Employees Association
Keith Perrin, Public Safety Employees Association
Deedie Sorensen, Teacher
Amy Martin, Teacher, Juneau School District
Linda Frame, Teacher, Juneau School District
Julie Van Driel, Educator, Juneau Public School
Margo Waring, Juneau
Jim Ashton, Public Employees Association
Sam Trivette, Juneau
Tom Harvey, NEA-Alaska
Kristina Tornquist
Mary Graham, Juneau
Carol Comeau, Superintendent of Schools, Anchorage
Cindy Spanyers, APEA/AFT

PRESENT VIA TELECONFERENCE

Anchorage:

John Dickens,
Marian Taylor
Duane Moran, APEA/AFT
Ada Gleason,
Tyler Grosshuesch, Alaska Public Employees Association
Mania cookson, Anchorage
Sarah Grosshuesch, NET-AK AEA
Dave Campano,
Pat Luby, AARP Gerry Guay
John Dickenson
R. Lorriane Campbell
Robin Swinford

Delta Junction:

Jackie Nelson, Teacher, Delta Junction
Whitney Aillaud, Teacher, Delta Junction,
Cindy Lou Aillaud, Educator, Delta Junction,

Fairbanks:

James Orr,
Irene Matheis
Tammy Smith, Fairbanks Education Association
Dave Parsons, ESSA
Laura Petrovich
Patricia Cramer, FEA
Jim Fiorenzi
Karen Eddy

Ketchikan:

Charlie Arteaga,
Sara Justine Black

Kenai:

Fred Sturman, Soldotna
John Wesley, KPBSD

Ed Martin Sr., Cooper Landing

Matsu:

Kathy Summers, Matsu Education Association
Lynn Kracke, Matsu Education Association
Glen Ramos, Matsu Education Association
Bette Reed, NEA-Alaska
Contessa Gossett MatSu Division of Juvenile Justice
Andrea Andrews, MatSu Division of Juvenile Justice

Offnets:

Kathy Christopherson, Bethel
Vi Jerrel, Anchor Point
Ronnie Stanford, Alaska Teacher of the Year

#SB141

CS FOR SENATE BILL NO. 141(FIN)

An Act relating to the teachers' and public employees' retirement systems and creating defined contribution and health reimbursement plans for members of the teachers' retirement system and the public employees' retirement system who are first hired after July 1, 2005; relating to university retirement programs; establishing the Alaska Retirement Management Board to replace the Alaska State Pension Investment Board, the Alaska Teachers' Retirement Board, and the Public Employees' Retirement Board; adding appeals of the decisions of the administrator of the teachers' and public employees' retirement systems to the jurisdiction of the office of administrative hearings; providing for nonvested members of the teachers' retirement system defined benefit plans to transfer into the teachers' retirement system defined contribution plan and for nonvested members of the public employees' retirement system defined benefit plans to transfer into the public employees' retirement system defined contribution plan; providing for political subdivisions and public organizations to request to participate in the public employees' defined contribution retirement plan; and providing for an effective date.

[10:20:01 AM](#)

SENATOR BERT STEADMAN, SPONSOR, provided the Committee with a handout, "Retirement Security Act, SB 141 - Presentation to the House Finance Committee". (Copy on File).

He highlighted the handout, which demonstrates how a retirement system works, the current status of Alaska's system, comments on what went wrong and the conclusions indicating a need for SB 141.

[10:22:13 AM](#)

Senator Steadman referenced Page 4, which describes how the retirement system works, explaining the three main components:

- Funding policies
- Investment policies and
- Benefit policies

He pointed out that all three systems must be working in balance in order to have an adequate and secure retirement system.

Page 5 provides a graphic illustration of how the retirement system works. The employee and member contributions flow into the net system assets, driven by the funding policies. The investment gains and losses are driven by investment policies. The administrative and investment expenses are driven by benefit policies. He pointed out that the net system assets must be sufficient to pay future benefits.

[10:25:12 AM](#)

Senator Steadman noted that Page 6 indicates the status of the Alaska system, which Page 7 provides the status of the current system as of June 2004. The employee and employer contributions are indicated at roughly \$175 million each. Investment results have brought forth approximately \$1.6 million dollars. The Public Employee Retirement System (PERS) and the Teacher Retirement System (TRS) total a combined \$5.7 billion dollar unfunded liability. Last year, the portfolio provided only a 15% growth rate. Liabilities continue to outstrip assets, due to the calculation of the increases and the maximum raised at 5%. He reiterated that PERS and TRS combined equal a \$5.7 billion dollar unfunded liability.

[10:30:11 AM](#)

Senator Steadman referenced Page 8, which provides a historical chart of the PERS and TRS funding ratio. The system has gone from 28,000 active employees to 43,000. He pointed out the substantial change since the 1970's, suggesting that the State should be concerned because of the magnitude of the differential.

[10:32:38 AM](#)

Senator Steadman continued, Page 9 charts the PERS payroll contribution trend and provides the forecast. The employer pays the majority of normal costs and all of past service costs. He noted the fixed costs and mentioned that normal

service costs could be enough to cover all liabilities. Contributions today are set at a normal service cost and are expected to pay all future liabilities.

Representative Joule pointed out that in 1987, the changing line and asked if it was due to a tier change. Senator Steadman explained that when there is an adjustment to the contribution amount, it must be held neutral, acknowledging the tier change.

[10:35:31 AM](#)

Senator Steadman stated that the 1998 funding status estimation of liabilities was questionable. He commented on the anticipated expectation by not addressing the unfunded pension liability concerns now. It will become the employer's responsibility to meet that obligation. The increase is shown as an actuarial rate change. The employers are capped at a 5% increase. The under-funding amount is amortized over a 25-year period. He added that it is important to distinguish between normal and past service costs.

[10:37:59 AM](#)

Senator Steadman highlighted Page 11, indicating what went wrong for the State system. The actuary adjusts the asset market value in an effort to bring more order and predictability to the employer contribution rate and to smooth out year-to-year market fluctuations. Prior to 2002, Mercer used a "corridor method". Beginning in 2002, they switched to a 5-year smoothing method. The State has been understating their liabilities for the past several years. He reiterated the \$5.7 billion dollar shortfall.

[10:39:52 AM](#)

Senator Steadman stated that Page 12 highlights what went wrong in the retirement system. He pointed out that the change in 2000 claimed that the employees wanted to lower their contribution rate below the normal service costs. The manner in which assets are calculated was changed, pushing the value of the assets down. There was an audit in 2000, with adjustments on the growth rates, leading to an adjustment of liabilities. Unfortunately, at the same time, the equity markets experienced downward pressure. The question remains where did the under-funding come.

[10:43:36 AM](#)

Senator Steadman stated that the slide on Page 13 demonstrates a combination of factors, which create the current situation:

- Inaccurate assumptions
- Historical understatement of system liabilities
- Rising health costs
- 3-year bear market
- Declining interest rates
- Unfavorable demographic changes
- Timing of the recognition of market losses
- Artificially low contribution rates in good times
- Legislation that has increased benefits
- Awarding of post pension retirement adjustments

[10:45:43 AM](#)

Senator Steadman stated that SB 141 was never intended to deal with the unfunded pension liability. The first issue was to address structural changes within the system and then deal with the under-funding status. The restructuring of the unfunded liability is a separate concern.

[10:47:09 AM](#)

Senator Steadman explained that the slide on Page 14 highlights the factors contributing to the 10.83% PERS employer rate increase. From 1998 to 2004, there was a 10.8% change in the required employer contribution. Most of that change [35%] came from the actuary assumption changes.

[10:49:17 AM](#)

Senator Steadman referenced Page 16, identifying the conclusions and the control system drivers. The funding drivers are:

- Retiree medical costs
- Mortality rates
- Retirement turnover rates
- Past service liabilities

The investment drivers are:

- Inflation
- Market performance
- Economic performance
- Risk tolerance

The benefit drivers are:

- Health care costs
- New legislation

- Salary increases
- Recruitment & retention goals
- Age of the workforce
- Cost-of-living-adjustment (COLA)

Senator Steadman pointed out that the constraints in place because of the statutory provisions through the Alaska Constitution, the system cash requirements, the federal regulations, the bargaining agreements and the size of the asset pool, which are difficult to control.

[10:51:05 AM](#)

Senator Steadman noted that the slide on Page 17 addresses the board structure and that SB 141 provides for a board consolidation. The bill moves the PERS/TRS board. Under the current structure, the two boards establish the contribution rates; contributions are set in statute. The chart indicates the PERS/TRS controls and oversight:

- PERS/TRS Boards
- Tier Structure and statutes
- Alaska State Pension Investment Board (ASPIB) and Division of Retirement and Benefits
- ASPIB
- Tier Structure, Legislature & Statues

The responsibility and oversight is fragmented among to many different entities.

[10:54:49 AM](#)

Senator Steadman stated that the slide on Page 18 indicates the current retirement system organization. The chart highlights that the Department of Administration, housing the TRS & PERS Boards, and the Department of Revenue, houses the Alaska State Pension Investment Board (ASPIB). ASPO+IB establishes the investment policies while managing and investing retirement funds.

[10:56:29 AM](#)

Senator Steadman noted that the slide on Page 19 indicates the manageable system drivers, consisting of:

- Funding drivers, including the targeted funding ratio, the employer contribution rates and the actuarial assumptions
- Benefit drivers, including the new legislation, waivers and appeals and the tier benefits

- Investment drivers, including the asset allocation policy, asset/liability equation, and the investment expenses

Senator Steadman foresaw the need for system parts to be better managed. He added that the manageable controls consist of the retirement boards, some statutory provisions, plan provisions, department regulations, and management structure.

[10:58:06 AM](#)

Senator Steadman discussed Page 20, highlighting important conclusions:

- System assets & liabilities must be jointly managed
- System volatility needs to be reduced
- Cost predictability and controls must be improved
- Employer contribution rates must be stabilized
- Liability growth must be contained
- Existing liability must be reduced

[10:59:17 AM](#)

Senator Steadman addressed the slide on Page 22 - the key elements in SB 141:

- Replaces the existing boards with a new 9-member Alaska Retirement Management Board (ARMB);
- Provides more employer representation on the board; strengthens the board's fiduciary responsibilities; gives the board responsibility for setting employer contribution rates and for adopting actuarial assumptions
- Transfers the responsibility for hearing waivers and appeals to the Office of Administrative Hearings
- Increases payroll contributions for existing employees by 0.5% annually until employers and employees share normal costs 50/50
- Establishes a defined contribution (DC) Plan, Retiree Medical Benefit and Health Retirement arrangement for new employees

[11:05:51 AM](#)

Senator Steadman continued, the slide on Page 23 highlights the organization of the Alaska Retirement Management Board (ARMB). Their responsibilities include:

- Manage and invest the Trust
- Assets in a manner that is sufficient to meet the liabilities and obligations of the system
- Establish investment policies and options
- Set annual PERS/TRS employer contribution rates
- Review and adopts actuarial assumptions

The Department of Administration would be in charge of the Office of Administrative Hearings and the Division of Retirement and Benefits. The Department of Revenue would house ARMB and the Treasury Division.

[11:10:49 AM](#)

Senator Steadman referenced the slide on Page 24, which provides a side-by-side analysis of the defined contribution system and the defined benefit system. In the defined benefit system, the active member and employer contribute to the pooled investment account; in the defined contribution system, the active member and the employer contribute funds to the employee's individual account.

[11:14:53 AM](#)

Page 25 defines the contribution plan and provides the FY06 normal cost comparisons for the TRS Tiers II and PERS Tier III versus the SB 141 proposals. Senator Steadman noted it is important that the system remain attractive to the employees, guaranteeing employee retention.

[11:17:59 AM](#)

In conclusion, Senator Steadman discussed the slide on Page 26, which stipulates the primary objectives:

- Maintain the ability to recruit and retain talent
- Maintain the attractiveness of the public sector employment
- Ensures the solvency of Alaska's retirement system

He added that SB 141 could:

- Strengthen management and fiduciary oversight
- Improve the State's ability to predict and control costs
- Constrains the growth of the unfunded liability
- Provide near term financial relief to employers
- Pave the way for developing a long-term financial fix

[11:19:57 AM](#)

Senator Steadman provided a brief overview of the sectional analysis. (Copy on File).

REPRESENTATIVE ETHAN BERKOWITZ asked if there was an analysis provided by Legislative Legal. Senator Steadman said there was not.

[11:20:47 AM](#)

Senator Steadman overviewed the handout, outlining the changes made to the House State Affairs version of the legislation.

Defined Contribution Plan Elements

Required contributions

- Employee / 8%
- Employer / 4.5%

Optional contributions

- A member may elect to contribute additional earnings not to exceed the limits established by the Internal Revenue Code

Rollovers

- Employees can take their individual account with them when they leave employment
- Employees can "roll" in other qualified funds when they are hired

Vesting

- All members of the DC plan are immediately vested in their own contributions and related earnings
- Members are generally vested in the employer contributions and related earnings on a certain scale

Investment of accounts

- The Alaska Retirement Management Board will provide a range of investment options
- Participants direct the investment of their funds

Distribution of accounts

- Employee may elect a distribution of funds upon termination of employment after 60 days
- Subject to IRC regulations
- May receive funds prior to 60 days for financial hardship

[11:26:01 AM](#)

Senator Steadman referenced Page 2:

Medical Program elements

Required contribution by employer

- 1.75% of employee compensation
- Contribution is made to group health and life insurance trust fund to be used for employer share of retiree's monthly medical premiums

Eligibility

- Listed the criteria for a member to be eligible to elect medical benefits

Benefits

- Medical benefits include access to major medical insurance and the health reimbursement arrangement (HRA)
- Access means that an eligible person may not be denied insurance coverage except for failure to pay the required premium
- An eligible person may participate in the medical insurance, the HRA, or both
- An irrevocable decision to elect major medical insurance must be made by age 70.5

Major Medical Insurance

- Insurance coverage for an eligible member includes the member's spouse and the member's dependent children
- Insurance coverage for a surviving spouse includes the member's dependent children if they are dependent on the surviving spouse
- Retirees who meet the required years of service, but who are less than Medicare age eligible (presently 65), must pay the full premium to receive coverage
- Retirees who are Medicare age eligible will pay only a portion of monthly medical premiums depending on years of service
- Only one premium per retiree and family
- Different premiums developed for single retirees and retirees with spouse and/or children

[11:28:32 AM](#)

Senator Steadman noted that Page 3 highlights the Medical Program elements:

Health reimbursement arrangements (HRA)

- Employer fund

- Required contributions
- Termination of employment
- Reimbursements

[11:32:26 AM](#)

Senator Steadman referenced Page 4.

Other Plan elements:

Option to convert from DB to DC plan:

- Unvested, active members of PERS and TRS are eligible to convert to DC plan
- Employer must first make the choice to offer the option to all their employees.
- Participation in DC plan is in lieu of the DB plan; all rights to DB plan are forfeited
- A member's individual account balance will be rolled into a new account under the DC plan
- A member's employer shall make a 100% matching contribution with new funds
- A member's years of service under the DB plan would be counted toward the years of service required for medical benefits eligibility

Participating employers:

- Mechanism is included for political subdivisions and public organizations that do not currently participate in PERS to join the DC plan in the future
- Includes specific employers already participating in PERS and TRS to allow their future employees to participate in the DC Plan

[11:34:08 AM](#)

Changes to Existing Retirement system:

The employee and employer contributions to the defined benefit plans:

- The employee contribution rate is changed to the greater of the amount set in statute prior to enactment of the bill or ½ of the normal cost rate as determined by the ARM Board
- The employer contribution rate is changed so that it may not be less than the difference between the employee contribution and the normal cost rate that is set by the ARM Board

Ad-hoc post retirement pension adjustments:

- Defines "financial condition of the retirement fund" for the ad-hoc post retirement pension adjustment as a 110% ratio of assets to liabilities

[11:34:57 AM](#)

Senator Steadman moved to Page 5, addressing changes to the existing retirement system.

University optional retirement program (ORP):

- Changed statute giving the Board of Regents flexibility to design both optional and mandatory retirement programs for future University employees
- Specifies the University's retirement programs are not subject to collective bargaining
- Provides one-time option for current employees who chose to participate in PERS and TRS to transfer into the existing ORP

Consolidation of Boards:

- Eliminates PERS and TERS Board & the Alaska State Pension Investment Board (ASPIB)
- Creates a new Alaska Retirement Management Board (ARM Board)

Powers and Duties of ARM the Board:

- Manage the assets and set the investment objectives of the defined benefit trust fund to meet pension liabilities
- Annual actuarial valuation of system plans, coordinating with the retirement system administrator
- Analysis of actuarial assumptions experience, including a second opinion
- Audit of actuary not less than every four years

[11:36:40 AM](#)

Senator Steadman moved to Page 6, noting the powers and duties of the ARM Board:

- Rate setting
- Provide a range of investment options for all employee-directed accounts

Other duties of the former PERS and TRS Boards transferred:

- To the Commission of the Department of Administration
- To the Office of Administrative Hearings

Conditional Service Retirement Benefits:

- Changes the credited service requirements to 120-days for legislative employees

Repeal:

- Refunded prior members

Fiscal note:

- Appropriates \$69.5 million dollars directly to the retirement trust funds on behalf of all PERS participating employers (includes small amount of TRS). The amount represents a 5% increase in PERS employer costs from FY2005 to FY2006
- PERS and TRS for school districts is rolled into the BSA at \$4,919

[11:38:13 AM](#)

Representative Holm voiced appreciation for the work done on SB 141. He asked about goals for balancing assets and liabilities. Senator Steadman responded that an acceptable variance would be plus or minus 5%; outside of that, there are State issues. Unlike the private sector, the State does not have the option to declare bankruptcy. Alaska has ability to secure wealth from Permanent Fund access.

Senator Steadman noted that he had asked the State Pension Board if they could "grow" the State out of the current problems. They said no and consequently, a shift resulted in the portfolio risk. It is impossible to put political pressure on that board to close the gap.

[11:42:35 AM](#)

Representative Holm questioned the intent for changing the board. Senator Steadman responded that the board would be lucky this year to make 8.25% interest.

[11:43:29 AM](#)

Representative Berkowitz commented on the focus of the unfunded liability, making a proposal to shift to a defined contribution. He asked what that shift would do to member contributions needed for funding the existing system. Senator Steadman replied the intent is not to deal with the unfunded issue. He admitted that the concern is complicated and confusing but must to be addressed.

[11:45:25 AM](#)

Senator Steadman commented that when a new tier is created, outside the current structure, would it be adversely

affecting cash flow. The new employees will not be required to pay off the liability. The liability accrued are for benefits promised in the past and that will not change the cash flow, only the percentage. He reiterated that there would be no effect on the cash flow shift.

[11:47:20 AM](#)

Representative Berkowitz asked what will happen in 20-years if there is a shift to a defined contribution system. It is important to be able to quantify the impact.

Senator Steadman responded that the State couldn't expect an employee hired in July 1st, 2005 to pay for the retirement benefits of current retirees - that would be unfair. It should be clear that the financial burden is not being shifted to the future population. The obligation is bore solely on the employer - the State of Alaska.

[11:50:01 AM](#)

Representative Berkowitz requested numerical statistics. Senator Steadman stated he did not have that but was willing to provide it at a later date.

Co-Chair Meyer understood that the new system would not be burdened with paying for Tier I, II or III employees. Senator Steadman agreed.

[11:51:41 AM](#)

Representative Berkowitz estimated that there would be a cost to the State of Alaska and asked what it would be. Senator Steadman replied, \$5.7 billion dollars.

Representative Berkowitz concluded that a shift to a defined contribution plan would have no impact on solving the State's unfunded liability problems. Senator Steadman disagreed, noting that shifting to a defined contribution plan will alleviate potential impacts to the employer and that a future "surprise" would be taken off the table. Under SB 141, health insurance remains, requiring actuarial work.

Senator Steadman stressed that the new board will be mandated to formulate and rank options to provide the Legislature goals for restructuring that liability. There are options in addressing these problems.

[11:56:47 AM](#)

In response to Vice-Chair Stoltze, Senator Steadman acknowledged that there is still work to be done on the issues in the legislation.

[11:58:09 AM](#)

Representative Hawker pointed out that the pension obligation bond authority does not currently exist. He wondered if it would be appropriate to place that authority in statute.

Senator Steadman provided examples of an obligation bond option with a strategy that has been used around the country. He stated that he was inclined to let the new board do the work through the process including pension obligation bonds, but that he would not "fall on his sword" if that were included.

[12:01:34 PM](#)

Representative Hawker clarified that he is not proposing offer bonds, but to grant the municipal bond banks to offer bonds if the municipality has gone through a due and diligent process.

Senator Steadman acknowledged the need to give the municipalities "breathing room"; however, stressed the need to "work through this process".

[12:03:57 PM](#)

Co-Chair Meyer referred to a chart comparison of other states. (Copy on File.) Senator Steadman observed that the defined benefit plan is more popular than the defined contribution plan. Most public entities have defined benefit plans and that Alaska rests somewhere in the middle of the chart.

[12:06:04 PM](#)

Senator Steadman spoke to the disadvantages of the defined contribution plan. The current system is inflexible. He added that in solving the problems, the State is better off concentrating on the short-term rather than long-term concerns.

[12:07:55 PM](#)

Co-Chair Meyer asked if Senator Steadman was specifically proposing a new Tier 4, using the defined contribution plan. Senator Steadman replied yes and that in any event, the State could always add a defined benefit component to attract workers. Components can always be added in the future.

Co-Chair Meyer pointed out that the last time the system had been changed was in 1996. He asked if demographics was a

driver for the change. Senator Steadman commented that the actuary was slow at updating the mortality rate and that the retirement system cost calculations could be misinterpreted.

[12:10:32 PM](#)

Co-Chair Meyer suggested that rising health care costs are the biggest driver.

Representative Berkowitz said he was confused by the response made to Representative Hawker, regarding the defined contribution and the defined benefit plan. He asked about hidden costs to the general fund.

Senator Steadman addressed the funds running short. When the Senate Finance Committee (SFC) requested the Administration to address the situation, tier reviews were undertaken. Rather than starting from scratch, SFC chose the hybrid plan with the 100% defined contribution plan. The process was then started. The SFC Committee decided to move forward with the 100% defined contribution plan as it provides more flexibility. That plan provides the individual more flexibility to self-direct. A major concern with the hybrid plan was that the benefit portion could not be removed.

The current system is very inflexible and issues are handled by selection. Normally, a retirement system would not want an employee who works for 25 to 30 years to run out of money and live a substandard life. There is nothing in the bill to put retirement money into something that guarantees income. At some point, the individual has to take responsibility without disadvantaging himself or the State.

Representative Berkowitz disagreed. He referenced problems resulting in the State of Nebraska from such changes. He asked if there had been an analysis done regarding the number of people on a defined contribution system, who use up their contributions and then what costs are placed on the State as a result.

[12:18:37 PM](#)

Senator Steadman thought that would be impossible to calculate. He mentioned the Permanent Fund "blessing", while making comments on the Supplemental Benefit System (SBS) pension system. He thought that there could be similar results with a defined contribution plan.

[12:20:50 PM](#)

Representative Hawker requested more information on the general circumstances with less detail. He pointed out that the State's pension program is being funded at a 70% funding

ratio; nationwide the average is about 74%, placing Alaska in the top third. He agreed that in terms of absolute numbers, Alaska is in a situation, which needs to be addressed. Representative Hawker stated it is a disservice to create the image of immediate crisis.

Senator Steadman responded that depending on the definition, there is not a cash flow problem for paying benefits and that is not the issue. He thought that they could look at how to meet the cash flow crunch with increased employer contribution rates. Responding to that increase, without cutting back services, or reducing payroll increases, would place it on to the local level. That would be expensive, about a \$350 million dollar shift of cash flow to pay the increased cost of the unfunded liability. To get a revenue shift would require roughly half of the general fund. He admitted that it is not a crisis, however, the liability is sitting over \$6 billion dollars. He stated that the obligation should not be shifted to the next generation.

[12:27:14 PM](#)

Representative Hawker addressed increased employer rates as mentioned in a "crisis" nature. He thought that was the right objective as long as the system is still working and added that the State could deal with the situation over time. "Time target funding" is appropriate but needs to be worked out over time. Representative Hawker recommended that the easiest way to come up with the \$6 billion dollars would be through the Permanent Fund.

[12:29:41 PM](#)

Senator Steadman believed that the issue of the funding target was more applicable to the private sector than the public sector and that the State does not have the ability to lower the funding target.

Representative Hawker commented it could be changed statutorily. Senator Steadman did not agree.

RECESSED: [12:32:17 PM](#)

RECONVENED: [1:12:49 PM](#)

KATIE SHOWS, STAFF, REPRESENTATIVE PAUL SEATON, referred to the handout: "SB 141 Bill Version Comparison" and explained the changes between CSSB 141 (STA) and the House Finance Committee substitute (CS) for SB 141. She noted that the House State Affairs Committee (HSTA) held extensive hearings on SB 141. She noted that the HSTA Committee was concerned with changes to medical coverage, which only allowed coverage of employees who were of the Medicare eligible age of 65. The 2004 Mercer study of employers and employees identified medical coverage as the number one most important

element of a retirement plan. The HSTA Comitmttee wanted to allow medical coverage before the age of 65. The HSTA version of SB 141 allows access to the medical plan for those that are pre-Medicare eligible: age 60 or 60 months (5 years before Medicare eligibility). Medicare eligibility is defined as age 65 and 60 months; pre-Medicare eligibility is defined as age 60. The terms Medicare and pre-Medicare eligibility were used to prevent an unfunded liability should the federal government change the eligibility age. The state retirement system will move with federal changes. The HSTA Committee felt that the Senate version, which provided a 70 percent subsidy after 10 years of service favored short-term employees. The Committee changed the subsidy percentages from 70 percent at 10 years of service to 30 percent. The percentage increases to 90 percent at 30 years of service.

[1:16:59 PM](#)

Ms. Shows explained that increases in health care costs are shared between the retiree and the plan through a subsidy base. She explained that the subsidy base would be set at the same rate as the premium (approximately \$6,000) when the legislation is enacted. The subsidy base would be increased to no more than 5 percent annually and the percentage premium received by the retiree is taken from the subsidy base. The retiree will absorb the portion of health care increases over 5 percent. The structure would be for both pre and post Medicare eligibility. The percentage subsidy [for the state] will decrease after Medicare eligibility begins, since there is a 50 percent federal match. She noted that Mercer anticipates that health care premiums would be \$42,000 a year in 30 years. Increasing health care benefits would increase the cost by 2 percent for the declared medical plan (3.75 percent for TRS and 3.5 percent for PERS). She noted that combined employer contribution under the HSTA version of SB 141 would be 10.25 percent for TRS and 10 percent for PERS, which is below the 24-year average of employer costs. The normal cost has been 11.11 percent for TRS and 10.86 percent for PERS. Employer contribution groups support the provision.

[1:20:27 PM](#)

Ms. Shows contrasted the differences in the health reimbursement arrangement (HRA). In the original version, employees would forfeit access to their HRA if they left employment for over five years. If an employee returned before the five-year lapse, their account would be reinstated to the balance at termination. The provision was changed to eliminate any time limit between times of service, since the funds belong to the employee. Any changes in market value would be included. Members would be allowed to access their HRA with 10 years of service at their normal

retirement age. The intent is to encourage employees to work at least 10 years of service.

[1:22:13 PM](#)

Ms. Shows referred to the Alaska Retirement Board. An amendment was introduced to increase the number of PERS and TERS representatives from one to two retired members in each. The Committee acknowledged that the members should have a voice in their retirement system. These members would also have to meet stringent professional requirements. It was felt that the original proposal for three members of the general public that were not or had not been a member of PERS or TRS would eliminate too many people. The HSTA also changed the legislation from appointments by the governor to elected participation of the member group. The term limits were extended from 3 - 6 years, staggered by three years, to allow a continuous Board.

Ms. Shows discussed changes to existing Tiers. The increase in employee contribution for current employees would be repealed. An amendment was adopted, which put a limit on the employer contribution rate of 10 percent for PERS and 11 percent for TRS. She spoke to fraud and noted that, under current law, fraud is handled differently in PERS and TRS. Fraud would be a class A misdemeanor under both programs. Provisions to forfeit all rights to any future benefits were deleted from the TRS program.

[1:25:49 PM](#)

Ms. Shows noted that Department of Labor and Workforce Development instructors would remain TRS, regardless of whether or not the teaching position required a teaching certificate.

[1:26:46 PM](#)

Representative Hawker asked for the dollar effect on employers and employees between the two versions. Ms. Shows observed that there would be an increase of 2 percent to cover the difference in the medical plan for the HSTA version. Ms. Shows did not have the dollar effect; the difference has been identified in percentages. She noted that the 2004 Mercer study included the dollar amount and offered to provide that information.

[1:28:34 PM](#)

MELANIE MILLHORN, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, provided members with the Administration's perspective. She spoke strongly in favor of a defined contribution plan. The TRS study began about a year and a half ago and involved participation by

stakeholders: employers for PERS and TRS and the involved union parties. A survey was collected, which asked the questioned of employers: What do you want to see in the new tier? Almost 90 of a 155 employers responded. She added that 36 of 57 school districts participated. She discussed the survey results. The survey concluded that the system should provide medical benefits at retirement, which would require employees to retire from the system in order to receive the benefit. The benefit should favor long service members. The employer contribution amounts need to be predictable and stable. Employer and employee should share health care inflation. Only one union elected to participate in the survey. The department widely published the public meeting held in November at Anchorage. She listed those present at the meeting. Employers recognized that a new tier would not provide immediate relief, but felt that a new tier should go forward.

[1:32:54 PM](#)

Ms. Millhorn spoke about actuaries and audits regarding health trends and rising health care costs, which are difficult to predict. A defined contribution plan will lower reliance on actuarial predictions. The Division spends \$450 - \$500 thousand a year on actuarial services. There are five employees, which support the defined contribution SBS system.

Ms. Millhorn spoke about past experiences counseling workers on their retirement plans. She spoke in support of a defined contribution plan.

[1:37:48 PM](#)

Co-Chair Meyer asked which cities were in support of a defined contribution plan. Ms. Millhorn noted that Anchorage and Kenai, the Kenai Peninsula Borough supported a pure defined contribution plan. Other employers supported the need to provide recommendations for a new tier.

[1:39:05 PM](#)

Representative Weyhrauch pointed out that the interests of employers and employees need to be balanced. He questioned how a defined contribution plan would be in the interest of police, and firefighters. Ms. Millhorn responded that these people move in their careers and often have multiple retirement accounts. Individuals need to look at their retirement plans; not every employer can provide for their entire needs. There are differences between TRS and PRS.

[1:41:38 PM](#)

Representative Weyhrauch asked if a person should seek to supplement their plans. He gave the example of a 28-year-old man, with three kids, becoming a paraplegic by falling off a fire-training center. Ms. Millhorn clarified that benefits are available to members under a defined contribution plan. Members can select supplemental benefits for accidental death.

[1:43:52 PM](#)

Representative Weyhrauch asked if assets from PERS and TRS could be used for startup costs. Ms. Millhorn replied that those funds couldn't be used in that manner. The start up costs will come from general funds.

[1:45:07 PM](#)

KEVIN RITCHIE, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE, observed that the League represents employers. There is a \$5.7 billion unfunded liability in the PERS system. He added that 63 percent of the under funding belongs to school districts, municipalities and the University. The League has been working with communities and boards to educate people. The League has identified three objectives: stabilize cost for municipal employers, request two years of financial assistance from the state, and find a method to reduce the overall debt, such as pension bond authority. He stressed that pension obligation bonds would be a useful tool for municipalities.

[1:47:54 PM](#)

Mr. Ritchie opined that there is a crisis for municipalities regarding budget increases for their retirement systems. Municipal rates for public employee retirement systems are increasing every year at 5 percent of salary, which represents a 3 to 3.5 percent total budget increase every year. He noted that TRS is one large system and every district pays the same rate, but every municipal PERS system is accounted individually. Municipalities are going from 7 percent of salary to 30 percent of salary, plus any percentage for unfunded liability for their retirement systems. The unfunded liability above the 30 percent is averaging (an additional) 5 - 15 percent. The state charges each municipality 8.25 percent on the unfunded liability. He noted that the Fairbanks North Star Borough has an unfunded liability of \$21 million (2003). The Fairbanks North Star Borough would be charged an additional 8.25 percent on the \$21 million each year. Municipalities can save money if they can borrow at 5 percent to pay the 8.25 percent charged by the state.

[1:50:50 PM](#)

Mr. Ritchie referred to written testimony indicating the League's support of defined contribution systems for municipalities. He also noted the need to control health benefits, which are the largest part of the unfunded liability. He reiterated the League's three objectives.

[1:51:36 PM](#)

Representative Hawker argued that the legislature does not represent employers, but all employees. Mr. Ritchie acknowledged that municipalities also represent employees.

Representative Hawker explained that the 8.25 percent referred to by Mr. Ritchie, represents a lost opportunity of an 8.25 percent increase that would have been realized if the funds had been in the system to be invested. The state is not charging, but is missing out on the ability to make 8.25 percent. Mr. Ritchie agreed with Representative Hawker's remarks.

[1:53:21 PM](#)

JERRY PATTERSON, NEA ALASKA RETIRED, expressed concern with SB 141 [see written testimony on file]. He noted that the plan would close the defined benefit plan and observed that closed funds are small and 100 percent funded. He stressed that he knew of no model to follow. Normally there would be a 25-year rolling amortization time period. He observed that SB 141 requires that an active member's retirement be fully funded before they retire. He gave an example of a person close to retirement. He maintained that there has not been accurate actuarial data and observed that SB 141 requires that only active employees be covered. Current retirees will be paid by direct appropriation. He listed numbers of retiring employees and predicted PERS would be broke by 2026. He questioned the funding source. He noted that wages times the contribution rate would shrink. There would be no new employees entering the system. Non-vested members would be allowed to move to the defined contribution plan, taking their accumulated accounts plus and employer contributions with them. He maintained that the plan would result in a loss of a billion dollars a year and suggested getting the best actuarial numbers possible.

[1:58:08 PM](#)

BRUCE LUDWIG, APEA/AFT, testified in opposition to the legislation. He spoke of salary schedules compared to inflation. He compared employees to capital assets. He agreed with the structure of the administration of the fund. He discussed the makeup of the board calling it a political system. He addressed the defined contribution issue and maintained that there is no data to support claims that it is attractive to employees. In Ohio, which has an optional

defined contribution plan, only 10 percent of employees pick the defined contribution plan. These employees have only earned 1.86 percent on their funds over the last five years. He maintained that professional investment officers could earn more. He asserted that the amount going into the defined contribution and medical benefits are inadequate. He asked why university employees would be treated worse than other employees. He recommended looking at this issue over time and investigating the actuarial recommendation, time of retirement, and reduction of abuses. He pointed out that the state of West Virginia returned to a defined benefit rather than defined contribution plan, which was too expensive.

[2:05:10 PM](#)

TIM PARKER, NEA-ALASKA, FAIRBANKS, testified against SB 141. He suggested that the Committee remain focused on letting public employees retire with dignity. He opined that this bill leaves employees drastically short. He maintained that the actuarial predictions don't fit Alaska. He observed that teachers do not qualify for social security, which compounds the problem. He stressed the need to show public sector employees how a defined contribution plan would not adversely affect employment.

[2:08:26 PM](#)

TOM RICHARDS, PRESIDENT, FAIRBANKS EDUCATION ASSOCIATION, spoke of concerns with SB 141. He felt that the basic premise of recruitment and retention of teachers would not be met. He gave an example of a teacher comparing wages of the defined contribution plan to private sector advantages. He concluded that the private sector would win out. Teaching suffers from a loss in the profession after 5 and 7 years of employment. Teachers may not stay in Alaska with the defined contribution plan. The defined benefit plan has the incentive of a COLA. The defined contribution plan would not provide the COLA incentive. He felt that defined contribution would work toward the detriment of recruitment and retention. He expressed concern with the analysis of the \$5.6 billion unfunded liability. He noted that there would be no Tier II retirements during 2011 - 2016, yet contributions would still go into the Fund. He felt that the unfunded liability would decline during this time. He asked the Committee to take the time necessary to answer these questions.

[2:12:51 PM](#)

JAMIE MARKS, TEACHER, DZ MIDDLE SCHOOL, related his experience as a teacher. He noted that poor investments and planning could result in more demand on the welfare system and stressed that he has no time to manage personal investments. He acknowledged that the defined contribution

plan would benefit the state, but maintained that employees should be able to expect good benefits when they retire. High quality persons need reasons to become teachers. He felt the defined contribution system would be one more roadblock.

[2:16:13 PM](#)

JAMES CONLEY, ANCHORAGE POLICE DEPARTMENT, REPRESENTS POLICE DEPARTMENT EMPLOYEE ASSOCIATION, expressed concern with the lack of death benefits for police officers. He showed a photograph of a young girl whose father was killed in duty. The man mentioned had a death benefit, but would not be covered under the proposed plan.

[2:19:39 PM](#)

PAUL HONEMAN, LIEUTENANT, ANCHORAGE POLICE DEPARTMENT, representing himself, spoke against the defined contribution plan. He stressed that he would not continue working in the public system under the plan and noted that he would not recommend that his son follow him into the profession under the defined contribution plan.

2:22:24 PM

MIKE COUTIRER, SERGEANT, ANCHORAGE POLICE DEPARTMENT, testified against the legislation. He spoke of recruiting and retention issues. The present program poses a problem for recruiting. He observed that the current plan does not compete nationally and the Tier IV plan would be the worse in the nation. Applicants would seek employment elsewhere. He spoke in opposition to SB 141.

[2:25:54 PM](#)

EVERETT ROBBINS, PRESIDENT, OFFICE, ANCHORAGE POLICE DEPARTMENT EMPLOYEES ASSOCIATION, spoke against the legislation. He acknowledged the problem. He provided members with a fact sheet demonstrating that defined contribution plans cost more (copy on file). He maintained that Mayor Beigich is not in favor of a 100 percent defined contribution plan. He felt more time was needed to come up with a better plan. He referred to the stat of Florida's plan where 90 percent of employees have chosen a defined benefit plan.

[2:31:06 PM](#)

GERARD ASSELIM, OFFICER, ANCHORAGE POLICE DEPARTMENT, testified in opposition to the legation. He spoke about non-sworn support employees, which accounts for one-third of their membership such as dispatcher, clerks, and technicians. It has been a huge challenge to hire and retain

dispatchers. He maintained the legislation would hurt recruiting efforts.

[2:34:13 PM](#)

MICHELLE BUCHER, SERGEANT, ANCHORAGE POLICE DEPARTMENT, testified in opposition to SB 141. She spoke of injuries incurred on duty, responsibilities as an officer, and hazards of the job. She related stories of on-duty police injuries. This bill would eliminate disability benefits for police officers and leave out medical coverage for a family of a disabled officer.

[2:38:24 PM](#)

DEBRA SEELY, wife of a police officer killed in duty, spoke in opposition to SB 141. She noted the legislation would eliminate the pension and death benefits for families. She spoke of personal concerns about paying bills after the death of her husband and how families count on the security of having death benefits.

[2:44:13 PM](#)

CHARLIE ARTEAGA, KETCHIKAN, PRESIDENT OF NEA ALASKA-RETIRED, testified via teleconference, in opposition to SB 141. He maintained that the bill would not protect the future of teachers. He stressed the need to prevent teachers from leaving service after 5 or 6 years. He stressed that SB 141 would not retain and attract employees or provide security for future employees.

[2:47:59 PM](#)

SARA JUSTINE BLACK, KETCHIKAN, testified via teleconference in opposition to the legislation. She urged legislators to slow down and reconsider this legislation. She stressed that she would not want to have to manager her own retirement.

[2:49:20 PM](#)

KATHY CHRISTOPHERSON, BETHEL, testified via teleconference, in opposition to SB 141. She spoke of her experience as a teacher in Bethel. She spoke of the promise of a defined benefit program and the advantages that it provided. She related the high rate of teacher turnover and suggested that the bill would increase the rate.

[2:52:29 PM](#)

VI JERREL, ANCHOR POINT, testified via teleconference, against SB 141. She spoke in opposition to a new board being formed. She noted that members were not able to vote.

[2:55:38 PM](#)

RONNIE SANFORD, 2005 Alaska Teacher of the Year, testified via teleconference in opposition to the legislation. He stressed that teachers are the single most important factor in education. The defined contribution plan would further erode teachers' retirement system and result in a loss of teachers. He maintained the defined contribution plan is not a reliable way to provide for retirement. Alaska is falling behind in recruitment and retention of teachers.

[2:57:33 PM](#)

JOHN WESLEY, KPBSD, KENAI, testified via teleconference in opposition to SB 141. He expressed concerns regarding the proposed changes in the legislation. He suggested using the interim to understand the retirement system and crafting a plan that works.

[2:59:39 PM](#)

FRED STURMAN, SOLDOTNA, testified via teleconference in opposition to SB 141. He suggested that the tiers be developed more like a private enterprise. He stated that there is no equity under the defined contribution plan.

[3:01:44 PM](#)

ED MARTIN, SR., COOPER LANDING, testified via teleconference against the legislation. He agreed with Mr. Sturman's testimony. He opined that everyone should be on social security rather than create two classes of people. He felt it was a matter of fairness.

[3:04:30 PM](#)

KATHY SUMMERS, PRESIDENT, MATSU EDUCATION ASSOCIATION, testified via teleconference, in opposition to SB 141. She suggested slowing down and working with NEAAlaska. She pointed out that MatSu is the fastest growing area in the state and would feel the impact the most. She quoted remarks by Representative Kott regarding the loss of legislative per diem and noted that the same concerns apply to teachers.

[3:05:54 PM](#)

LYNN KRACKE, MATSU EDUCATION ASSOCIATION, testified via teleconference, against SB 141 and the changes in the TRS/PERS board. She maintained that the defined contribution plan would adversely affect retention and recruitment of employees and suggested further analysis of the actuarial numbers.

[3:06:55 PM](#)

GLEN RAMOS, SCHOOL PSYCHOLOGIST, MATSU EDUCATION ASSOCIATION, testified via teleconference, in opposition to SB 141. He stressed that he and other employees want to retire with dignity. He compared the defined contribution plan to "switching the deal in the middle". He suggested slowing the process down and looking at Alaska data.

[3:08:40 PM](#)

BETTE REED, NEA ALASKA-RETIRED, testified via teleconference, against the defined contribution plan in SB 141. She shared experiences in other states regarding such plans. She maintained that a bad state retirement plan would reduce previously earned social security benefits. She asked that current retirement system not be changed.

[3:10:52 PM](#)

JOHN DICKENS, BETHEL, testified via teleconference, in opposition to SB 141. He spoke of unintended consequences. He felt that the legislation would be detrimental. He related that Bethel is in a crisis concerning police officers. He related problems in bush communities.

[3:14:57 PM](#)

MARIAN TAYLOR, SPECIAL EDUCATION TEACHER, ANCHORAGE, testified via teleconference, against SB 141. She suggested the Committee slow down and reconsider the bill. She reported that she was disillusioned by the response she got in Juneau from legislators regarding this bill. She opined that the actuarial advice is wrong. She shared some of the problems in education if this bill is passed.

[3:20:21 PM](#)

DUANE MORAN, APEA/AFT, testified via teleconference, against SB 141. He argued a point made earlier by Ms. Millhorn, regarding long-term disability. He pointed out that long-term disability is not available to members of the Anchorage school district. He questioned where Alaska fits in the 21st Century global economy. He related statistics about graduation in Alaska. He compared salaries of Florida with those of Alaska.

[3:23:05 PM](#)

ADA GLEASON, ANCHORAGE, RETIRED STATE EMPLOYEE, testified via teleconference, in opposition to SB 141. She focused on the restriction of ad hoc post retirement pension adjustments. She suggested redoing this part of the bill. She spoke for future employees of the defined contribution plan, which provides no floor. She spoke in favor of a death

benefit for police officers and against the defined contribution plan.

[3:26:27 PM](#)

JAMES ORR, FAIRBANKS, testified via teleconference, in opposition to SB 141. He suggested that Ms. Millhorn's point about 6 different incomes coming in is not the norm. He urged the members to reconsider this bill.

[3:28:09 PM](#)

IRENE MATHEIS, FAIRBANKS, testified via teleconference, against SB 141. She spoke about recruitment problems and suggested taking more time to reconsider this bill.

[3:29:17 PM](#)

TAMMY SMITH, FAIRBANKS EDUCATION ASSOCIATION, testified via teleconference, against SB 141. She maintained that the defined contribution plan would damage the quality education that parents have come to expect. She concluded that the defined contribution plan, which increases yearly is unfair.

[3:32:10 PM](#)

CONTESSA GOSSETT, PROBATION OFFICER, MATSU DIVISION OF JUVENILE JUSTICE, MATSU, PALMER, testified via teleconference, against SB 141. She maintained that the PERS and TRS systems would be destroyed by the legislation. She spoke against the loss of medical benefits and noted that states that have changed to the defined contribution system are now changing back. She spoke about reconsidering her career if the bill passes. She spoke against changing the board. She suggested developing an alternative plan.

[3:34:37 PM](#)

ANDREA ANDREWS, DIVISION OF JUVENILE JUSTICE, MATSU, testified via teleconference, in opposition to SB 141. She shared her concerns about the MatSu area. She felt that the bill is being fast-tracked.

[3:37:33 PM](#)

DAVE BODDY, ALASKA PROFESSIONAL FIREFIGHTERS, JUNEAU, spoke of a concern about the lack of death and disability benefits. He shared a story about a firefighter who became disabled in an accident. He said the bill would also affect the ability to recruit new applicants.

[3:40:18 PM](#)

DEBBIE HULL, TEACHER, JUNEAU, testified against SB 141. She spoke of personal experience managing costs when teachers and other public employees bear the brunt of increased costs. She said teachers are again being asked to bear the brunt of reductions.

[3:42:48 PM](#)

MIKE DAVIDSON, ALASKA PROFESSIONAL FIREFIGHTERS ASSOCIATION, testified in opposition to SB 141. He spoke of a concern about lack of death and disability benefits in SB 141. He related what would happen to families if there were an accidental death. He said there is not another source of funding for this benefit.

[3:45:22 PM](#)

DOMINIC LOZANO, ALASKA PROFESSIONAL FIREFIGHTERS, FAIRBANKS, testified in opposition to SB 141. He noted that there are large unknowns in the bill. He suggested taking more time to study this bill.

[3:47:30 PM](#)

JEFF MANNS, PUBLIC SAFETY EMPLOYEES ASSOCIATION (PSEA), expressed concerns about the bill and stated his opposition to SB 141. He related that defined benefits provide a variety of opportunities. It is currently difficult to recruit state troopers. A defined contribution plan does not encourage longevity.

[3:49:57 PM](#)

CRAIG PERSSON, POLICE OFFICER, PERAMEDIC, PUBLIC SAFETY EMPLOYEES ASSOCIATION, asked the committee to slow down the process. He maintained that police officers and firefighters do not understand actuarials, but they do their job. He spoke against SB 141.

KEITH PERRIN, RETIRED STATE TROOPER, PSEA, testified against SB 141 and listed names of troopers who have died [in the line of duty]. Officers put themselves in jeopardy every day. He asked the committee to not abandon these officers.

[3:53:47 PM](#)

DEEDIE SORENSEN, TEACHER, JUNEAU SCHOOL DISTRICT, testified in opposition to SB 141. She related that the quality of the future in education and other areas would be detrimentally impacted by this legislation. She shared a story about her students and the need to be objective. She suggested the legislators do the same.

[3:55:49 PM](#)

AMY MARTIN, TEACHER, JUNEAU SCHOOL DISTRICT, spoke against the legislation. She related both private sector and public education experiences and expressed concerns with the removal of the death benefit. She urged the Committee to reconsider the legislation.

[4:01:15 PM](#)

LINDA FRAME, TEACHER/ACTING PRINCIPLE, JUNEAU PUBLIC SCHOOL SYSTEM, testified against the proposed legislation. She expressed concerns that the legislation would be detrimental to teacher recruitment and would pull teachers from rural communities. She maintained that people of the State are not supportive of the bill.

[4:04:14 PM](#)

JULIE VAN DRIEL, EDUCATOR, JUNEAU PUBLIC SCHOOL, spoke against the legislation. She pointed out that it is not uncommon for a teacher to spend 12 hours a day in the classroom. She addressed the number of students that enter the penal system. She pleaded that the bill not be moved from Committee.

[4:06:49 PM](#)

JACKIE NELSON, TEACHER, DELTA JUNCTION, testified via teleconference, against the proposed legislation. She maintained that the calculations used in the Mercer actuarial are faulty. She applauded efforts to seek a second actuarial opinion. She acknowledged that the [retirement] system is ill, but maintained that it could be made whole and viable. She requested that the bill be slowed down and asserted that defined contribution systems do not work.

[4:09:22 PM](#)

WHITNEY AILLAUD, TEACHER, DELTA JUNCTION, testified via teleconference, in opposition to the proposed legislation. He maintained the defined contribution plan was based on bull market calculations and was poorly crafted and has not had enough review. He felt that the legislation was being railroaded through in a non-election year. He commented that it would encourage educators to move out of state.

[4:11:17 PM](#)

Cindy Lou Aillaud, Educator, Delta Junction, testified via teleconference, in opposition to the legislation. She stated that the bill would be detrimental to teachers within the system and it would drive public servants out of State. She observed that NEA Alaska is willing to work in the summer

and fall to craft a better solution. She urged that the bill not pass from Committee.

[4:13:21 PM](#)

TYLER GROSSHUESCH, ALASKA PUBLIC EMPLOYEES ASSOCIATION (APEA), ANCHORAGE, testified via teleconference, on behalf of school custodians. He understood that the House State Affairs version removed areas of concern for school custodians. He maintained that school custodians cannot afford a pay cut and that the defined contribution plan would not work for those toward the bottom of the pay wage. He expressed concern with the effect the plan would have on retaining quality faculty. The University has an optional plan that is only available for the higher paid professors and recommended that it be made optional to higher paid state employees.

[4:16:39 PM](#)

SARAH GROSSHUESCH, NET-AK AEA, TEACHER, ANCHORAGE, testified via teleconference, and voiced grave concern with the proposed legislation. She spoke to the need for retiring with a "quality of life". She urged that legislators consider all state employees when determining the consideration. She urged reconsideration and asked the Committee to move more slowly with the legislation.

[4:19:07 PM](#)

MANIA COOKSON, ANCHORAGE, testified via teleconference, against the legislation. She maintained that SB 141 does not take the interest of State employees into account. She pointed out that social security was removed in 1980. The new proposal for the state system is moving too fast for review. She encouraged legislators to seek a better foundation that would benefit all citizens of Alaska.

[4:22:09 PM](#)

DAVE CAMPANO, STATE EMPLOYEE, ANCHORAGE, testified via teleconference, in opposition to SB 141. He discussed the benefits of state employees. He stated that the bill would further remove the buying power of state employees. He commented on the benefit package. He observed that the State is currently having a difficult time recruiting employees. The market forces of the past have established the current problem. He stressed that SB 141 does not address how to appropriately fund the system. He asked that some of the health benefit experience be considered.

[4:27:03 PM](#)

PAT LUBY, ADVOCACY DIRECTOR, ALASKA ASSOCIATION OF RETIRED PERSONS (AARP), ANCHORAGE, testified via teleconference, against the legislation. He stated that there is a 'fatal flaw' in SB 141, in that it would be possible to out live the defined contribution. He pointed out that, while other private employers participate in a defined contribution plan, they also participate in Social Security, which is basically a defined benefit plan. The state of Alaska does not participate in social security. You cannot outlive the current PERS or TRS defined benefit plan. Without social security or a defined contribution plan, employees will be able to outlive their contribution plan. No one knows what life expectancy will be in three or four years. Changing the retirement system is serious business with serious consequences. He noted that AARP encourages the Committee to slow the bill down.

[4:30:20 PM](#)

DAVE PARSONS, EDUCATOR/ESSA, FAIRBANKS, testified via teleconference, against the proposed legislation. He stressed the legislation would have a devastating affect on all support staff in the education system. He pointed out that SB 141 does take into consideration the needs of public employees. He maintained that adequate school funding is the real crisis.

[4:34:37 PM](#)

LAURA PETROVICH, FAIRBANKS EDUCATION ASSOCIATION, testified via teleconference in opposition to SB 141. She observed that a defined benefit plan is one of the primary reasons to work in the public sector as opposed to the better-paid private sector. She suggested the people are the state's greatest resource.

[4:36:10 PM](#)

PATRICIA CRAMER, TEACHER, FAIRBANKS, testified via teleconference in opposition to SB 141. She noted the rate of return. She felt it would be difficult to attract certified teachers under a defined contribution plan. She will not receive social security. There is no safety net for teachers.

[4:38:06 PM](#)

JIM FIORENZI, FAIRBANKS, FAIRBANKS EDUCATION ASSOCIATION, testified via teleconference, in opposition to SB 141. He maintained that teachers are a human resource. He observed that it is already difficult to replace employees.

[4:42:12 PM](#)

KAREN EDDDY, FAIRBANKS, testified via teleconference in opposition to the legislation. She maintained that the legislation needs revision. She noted that there is only one public employees' retirement system in the state of Alaska. She expressed concern that young people will leave the state.

[4:46:15 PM](#)

GERRY GUAY, ANCHORAGE, testified via teleconference in opposition to the legislation. He suggested that SB 141 would not value dedicated workers. The legislation assumes that workers can invest as well as the current fund managers. He observed that his \$200 thousand in SBS after almost 20 years would only last a few years. He questioned how the state could be expected to entice dedicated workers and felt that the legislation would jeopardize the system.

[4:50:32 PM](#)

JOHN DICKENSON, ANCHORAGE, testified via teleconference in opposition to the legislation. He noted the difficulty of finding qualified workers and maintained that the defined contribution plan would reward portability at the cost of long-term employment. He emphasized the expense of hiring and training. He felt that the legislation would result in inexperienced staff and unacceptable service, which would result in high turnover.

[4:53:16 PM](#)

LORRIANE CAMPBELL, ANCHORAGE, testified via teleconference in opposition to the legislation. She did not feel that the situation was an emergency and asked the Committee to further reflect on the problem. She observed that it takes a quality retirement system to attract quality teachers.

[4:56:01 PM](#)

ROBIN SWINFORD, ANCHORAGE, testified via teleconference in opposition to the legislation. She noted that all agencies are under-funded, overworked and stressed. She maintained that SB 141 would adversely affect all state agencies. She urged the Committee to reconsider the legislation.

[4:59:24 PM](#)

MARGO WARING, JUNEAU spoke in opposition to the legislation. She noted that state employees are prohibited from stacking benefits such as social security. She spoke in support of maintaining the Employees Retirement Board. She maintained that SB 141 would tilt the power too far toward employers. She urged members to study the options.

[5:03:34 PM](#)

JIM ASHTON, BUSINESS MANAGER, PUBLIC EMPLOYEES ASSOCIATION LOCAL 71, testified against the legislation. He observed that there are minimal employment qualifications, which are becoming harder to find. He felt that the legislation would make it virtually impossible to recruit new employees or that employees would be hired and trained than leave for better pay and better benefits. He asserted that the public sector is losing employees to the private sector.

[5:06:50 PM](#)

SAM TRIVETTE, PRESIDENT, PUBLIC EMPLOYEES ASSOCIATION OF ALASKA, JUNEAU, spoke in opposition to the legislation. He acknowledged problems with the system but maintained that benefits that are not fully funded should not be allowed at all. See written testimony (copy on file.)

[5:11:57 PM](#)

TOM HARVEY, EXECUTIVE DIRECTOR, NEA-ALASKA, testified in opposition to the legislation. He provided members with written testimony (copy on file.) He spoke in support of the House State Affairs Committee version. He referred to page four of his testimony, which looked at a defined contribution plan for a hypothetical Sitka teacher with a starting salary of \$35,571. He concluded that after 30 years the employee would not have sufficient funds to cover projected health insurance costs and would be in debt by the age of 62. He maintained that employees would not be able to retire in dignity, if they could retire at all.

Mr. Harvey recommended a highbred plan, such as one suggested by the Tier Committee. He stressed that a solution to the death and disability issue, needs to provide a death and disability benefit. He hoped to find a real solution.

Mr. Harvey addressed what the total start up costs should be. He commented on the issue of cost of closing the present system. He observed that the state of West Virginia is now indicating \$1.4 to \$1.8 billion dollars in savings after going back to a defined benefit plan. He pointed out that a solution needs to be done now and not in an election year.

[5:21:25 PM](#)

KRISTINA TORNQUIST, EDUCATOR, JUNEAU, spoke against SB 141. She stated that it would not fund or give relief for past service costs. It would have a devastating affect on future retirees. Public school retirees do not have the option for the Social Security. She noted that there are loopholes and maintained that under-funded retirement incentive programs

have not served the system well. She stressed that adequately funded schools and quality retirement system will attract good teachers for the system and that the State of Alaska can afford it.

[5:26:10 PM](#)

MARY GRAHAM, STATE EMPLOYEE, JUNEAU, spoke against the proposed legislation. She noted that she was a hiring manager. She maintained that with passage of the bill would make hiring more difficult. It is a big job of hiring managers and it is difficult to find qualified candidates. She commented on the use of state resources. The retirement package has always been an incentive for hiring employees. State agencies function better when they can attract career employees. She opposed the bill.

[5:28:45 PM](#)

CAROL COMEAU, SUPERINTENDENT OF SCHOOLS, ANCHORAGE SCHOOL DISTRICT, recommended that SB 141 be separated from the base school allocation issue. She maintained that the issues need to be separated and solutions need to be found. She did not feel that the life of the bill, one month, was not enough. She pleaded that the legislation be carried into the interim and stressed that the entire state should be part of the solution. She reiterated that HB 1 must be separated from SB 141.

Co-Chair Meyer noted that they tried hard to fully fund education this year. He noted that they did not concur with the Senate changes.

[5:31:23 PM](#)

CINDY SPANYERS, APEA/AFT, JUNEAU, testified against the legislation. She noted that APEA/AFT represents school districts and state employees across the state. She questioned if portability was a positive attraction for state employment. She referred to a May 2004 Mercer report. She noted that the report concluded employees do not prefer defined contribution plans. She urged that the state stick with a defined benefit plan. She noted that several states have returned to defined contribution plans, while in other states employees are opting not to participate in defined contribution plans. She maintained that many employees could not hope to retire under a defined contribution plan. She noted that there are many occupations that have the risk of injury, such as fish and wildlife technician, school employees, social workers, child support enforcement, and others. She urged that the Committee look at real life situations in the state of Alaska. She asked that the Committee support education.

5:36:40 PM

Senator Steadman acknowledged that it is expected that the House Finance Committee will come forward with recommendations. He spoke in support of the current provisions for death benefits. He noted that testimony was emotional, and stressed that there is no intention to put the state at a disadvantage. There are population trends affecting nationwide.

Representative Kelly thanked for all the work put into the legislation.

SB 141 was HELD in Committee for further consideration.

#

ADJOURNMENT

The meeting was adjourned at 5:40 PM