

ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE

April 19, 2005

8:08 a.m.

MEMBERS PRESENT

Representative Paul Seaton, Chair
Representative Carl Gatto, Vice Chair
Representative Jim Elkins
Representative Bob Lynn
Representative Jay Ramras
Representative Berta Gardner
Representative Max Gruenberg

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative John Harris

COMMITTEE CALENDAR

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."

- HEARD AND HELD

HOUSE JOINT RESOLUTION NO. 12

Proposing amendments to the Constitution of the State of Alaska relating to the repeal of the budget reserve fund.

- SCHEDULED BUT NOT HEARD

HOUSE BILL NO. 238

"An Act relating to contribution rates for employers and members in the defined benefit plans of the teachers' retirement system and the public employees' retirement system and to the ad-hoc post-retirement pension adjustment in the teachers' retirement system; requiring insurance plans provided to members of the teachers' retirement system, the judicial retirement system, the public employees' retirement system, and the former elected public officials retirement system to provide a list of preferred drugs; relating to defined contribution plans for members of the teachers' retirement system and the public employees' retirement system; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: SB 141

SHORT TITLE: PUBLIC EMPLOYEE/TEACHER RETIREMENT/BOARDS

SPONSOR(S): FINANCE

03/14/05	(S)	READ THE FIRST TIME - REFERRALS
03/14/05	(S)	FIN
03/16/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/16/05	(S)	Heard & Held
03/16/05	(S)	MINUTE(FIN)
03/17/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/17/05	(S)	Heard & Held
03/17/05	(S)	MINUTE(FIN)
03/21/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/21/05	(S)	Heard & Held
03/21/05	(S)	MINUTE(FIN)
03/22/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/22/05	(S)	Heard & Held
03/22/05	(S)	MINUTE(FIN)
03/23/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/23/05	(S)	Heard & Held
03/23/05	(S)	MINUTE(FIN)

03/29/05 (S) FIN AT 4:30 PM SENATE FINANCE 532
 03/29/05 (S) Heard & Held
 03/29/05 (S) MINUTE(FIN)
 03/30/05 (H) FIN AT 9:00 AM HOUSE FINANCE 519
 03/30/05 (S) Heard & Held
 03/30/05 (S) MINUTE(FIN)
 03/31/05 (H) FIN AT 9:00 AM HOUSE FINANCE 519
 03/31/05 (S) Heard & Held
 03/31/05 (S) MINUTE(FIN)
 04/01/05 (H) FIN AT 9:00 AM HOUSE FINANCE 519
 04/01/05 (S) Heard & Held
 04/01/05 (S) MINUTE(FIN)
 04/02/05 (S) FIN AT 10:00 AM SENATE FINANCE 532
 04/02/05 (S) Heard & Held
 04/02/05 (S) MINUTE(FIN)
 04/03/05 (S) FIN AT 10:00 AM SENATE FINANCE 532
 04/03/05 (S) Heard & Held
 04/03/05 (S) MINUTE(FIN)
 04/04/05 (S) FIN AT 9:00 AM SENATE FINANCE 532
 04/04/05 (S) Scheduled But Not Heard
 04/05/05 (S) FIN AT 9:00 AM SENATE FINANCE 532
 04/05/05 (S) Heard & Held
 04/05/05 (S) MINUTE(FIN)
 04/06/05 (S) FIN AT 9:00 AM SENATE FINANCE 532
 04/06/05 (S) Moved CSSB 141(FIN) Out of Committee
 04/06/05 (S) MINUTE(FIN)
 04/08/05 (S) FIN RPT CS 5DP 1DNP 1AM
 NEW TITLE
 04/08/05 (S) DP: GREEN, WILKEN, BUNDE, DYSON,
 STEDMAN
 04/08/05 (S) DNP: HOFFMAN
 04/08/05 (S) AM: OLSON
 04/12/05 (S) ENGROSSED
 04/14/05 (S) TRANSMITTED TO (H)
 04/14/05 (S) VERSION: CSSB 141(FIN)
 04/14/05 (H) READ THE FIRST TIME - REFERRALS
 04/14/05 (H) STA, FIN
 04/14/05 (H) STA AT 8:00 AM CAPITOL 106
 04/14/05 (H) <Pending Referral>
 04/16/05 (H) STA AT 9:30 AM CAPITOL 106
 04/16/05 (H) <Bill Hearing Canceled>
 04/19/05 (H) STA AT 8:00 AM CAPITOL 106

WITNESS REGISTER

SENATOR BERT STEDMAN
 Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Presented SB 141 as sponsor.

MELANIE MILLHORN, Director
Health Benefits Section
Division of Retirement & Benefits
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Answered questions on behalf of the division during the hearing on SB 141.

GINGER EVENS

Petersburg, Alaska

POSITION STATEMENT: Testified on behalf of herself in opposition to SB 141.

DORIS TANNER

Willow, Alaska

POSITION STATEMENT: Testified on behalf of herself to urge the committee to postpone a decision on SB 141 until further research has been conducted.

CONTESSA GOSSETT

Palmer, Alaska

POSITION STATEMENT: Testified on behalf of herself in opposition to SB 141.

ANDREA ANDREWS

Palmer, Alaska

POSITION STATEMENT: Testified on behalf of herself in opposition to SB 141.

KEVIN BRENNAN

Kodiak, Alaska

POSITION STATEMENT: Testified on behalf of himself in opposition to SB 141.

PAT HOLMES

Kodiak, Alaska

POSITION STATEMENT: Asked the committee to put off a decision regarding SB 141 until further information and options have been considered.

CARLENE AUGER

Salcha, Alaska

POSITION STATEMENT: Testified on behalf of herself during the hearing on SB 141.

BONNIE SULLIVAN
Fairbanks, Alaska
POSITION STATEMENT: Offered comments and concerns about SB 141.

TIM VIAVANT
Fairbanks, Alaska
POSITION STATEMENT: Testified in opposition to SB 141.

SCOTT LEIGH
Fairbanks, Alaska
POSITION STATEMENT: Testified in opposition to SB 141.

MARTIN BRANVILLE
Fairbanks, Alaska
POSITION STATEMENT: Testified on behalf of himself during the hearing on SB 141.

JEFF JABUSCH, Finance Director
City of Wrangell
Wrangell, Alaska
POSITION STATEMENT: Testified during the hearing on SB 141 to express that the bill is generally on the right track.

BOB PLUNELLA, City Manager
City of Wrangell
Wrangell, Alaska
POSITION STATEMENT: Indicated his concurrence with the testimony of Mr. Jabusch, during the hearing on SB 141.

LESLIE SIMMONS
Anchorage, Alaska
POSITION STATEMENT: Testified on behalf of herself and the southcentral state supervisors [APEA AFT-SU] during the hearing on SB 141.

PAT LUBY, Advocacy Director
AARP-Alaska
Anchorage, Alaska
POSITION STATEMENT: Discussed the consequences of switching from a defined benefit plan to a defined contribution plan, during the hearing on SB 141.

STACY OATES
Anchorage, Alaska

POSITION STATEMENT: Testified on behalf of herself to relate three main issues she has with SB 141, and to ask the legislature to slow down it's process.

STEVE HOFFMAN

Ketchikan, Alaska

POSITION STATEMENT: Testified on behalf of himself during the hearing on SB 141, and warned that a new tier may erode the capability of the state to attract good employees.

CHARLIE ARTEAGA

Ketchikan, Alaska

POSITION STATEMENT: Testified on behalf of himself in opposition to portions of SB 141, including those related to changing to a defined benefit plan and lowered medical benefits.

DUANE MORAN, President

Anchorage Council of Education

Anchorage, Alaska

POSITION STATEMENT: Testified on behalf of the council during the hearing on SB 141, and said a defined contribution plan would make it easier for employees to leave the state.

SANDRA BESSER, President

Fairbanks North Star Borough Employee Association

Local 6125 APEA AFT

Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to SB 141.

BURNS COOPER

Fairbanks, Alaska

POSITION STATEMENT: Testified on behalf of himself during the hearing on SB 141 to address issues regarding recruitment, retention, and the challenges of saving for retirement.

GERRY GUAY, Chair

Southcentral chapter, state supervisory, [APEA AFT-SU]

Cordova, Alaska

POSITION STATEMENT: Testified during the hearing on SB 141, and related concerns regarding the benefits and recruitment.

SANDRA BOATWRIGHT

Fairbanks, Alaska

POSITION STATEMENT: Testified on behalf of herself in opposition to SB 141.

PAULETTE WILLE

Fairbanks, Alaska

POSITION STATEMENT: Testified on behalf of herself in opposition to SB 141.

VIOLA "VI" JERREL, Ph.D.

Homer, Alaska

POSITION STATEMENT: Testified in opposition to SB 141.

TIM JESTER

No address provided

POSITION STATEMENT: Testified on behalf of himself in opposition to SB 141.

LUKE HOPKINS

Fairbanks, Alaska

POSITION STATEMENT: Suggested that the committee consider holding SB 141 through the interim and establishing a review committee that would move around the state and take testimony from the public.

MIKE DAVIDSON

No address provided

POSITION STATEMENT: Testified on behalf of the Alaska Professional Fire Fighters Association in opposition to SB 141.

BEN STEWART

Fairbanks, Alaska

POSITION STATEMENT: Testified on behalf of himself during the hearing on SB 141, and asked the committee to slow the process down and listen to constituents.

MIKE HARBAUGH

Palmer, Alaska

POSITION STATEMENT: Testified on behalf of himself in opposition to SB 141.

JOE DINNOCENZO

Kodiak, Alaska

POSITION STATEMENT: Testified on behalf of himself to address the issue of recruitment and retention as it relates to SB 141.

JOHN DICKENSON

Anchorage, Alaska

POSITION STATEMENT: Testified as a supervisory employee representative to APEA AFT-SU, during the hearing on SB 141.

ROSS MARLEY

Homer, Alaska

POSITION STATEMENT: Testified on behalf of himself in opposition to SB 141.

BARBARA RICH

Fairbanks, Alaska

POSITION STATEMENT: Testified on behalf of herself during the hearing on SB 141, and answered questions from the committee.

JIM DUNCAN, Business Manager

Alaska State Employees' Association (ASEA)

Anchorage, Alaska

POSITION STATEMENT: Testified on behalf of the approximately 8,000 current active ASEA members in opposition to SB 141.

DOUG STARK, DPA

Homer, Alaska

POSITION STATEMENT: Testified on behalf of himself during the hearing on SB 141.

MARY GRAHAM

Juneau, Alaska

POSITION STATEMENT: Testified on behalf of herself in opposition to SB 141.

KEVIN RITCHIE, Executive Director

Alaska Municipal League (AML)

Juneau, Alaska

POSITION STATEMENT: Testified on behalf of AML in support of the efforts being made by the legislature, and to explain the percentage increases being faced by municipalities.

TOM BRICE

Alaska State District Council of Laborers

Juneau, Alaska

POSITION STATEMENT: Testified on behalf of the council and answered questions from the committee during the hearing on SB 141.

JIM HORNADAY, Mayor

City of Homer

Homer, Alaska

POSITION STATEMENT: Testified in support of some provisions in SB 141.

TOM HARVEY, Executive Director

NEA-Alaska

Anchorage, Alaska

POSITION STATEMENT: On behalf of NEA-Alaska, made suggestions for changes to SB 141 and answered questions from the committee.

RON KING

Juneau, Alaska

POSITION STATEMENT: Testified on behalf of himself during the hearing on SB 141, to discuss the issue of competition from the private sector, and to answer questions from the committee.

BETH WYTHER

Homer, Alaska

POSITION STATEMENT: Testified on behalf of herself to express concerns regarding SB 141.

KEVIN BROOKS, Deputy Commissioner

Office of the Commissioner

Department of Administration

Juneau, Alaska

POSITION STATEMENT: Answered questions on behalf of the department during the hearing on SB 141.

ACTION NARRATIVE

CHAIR PAUL SEATON called the House State Affairs Standing Committee meeting to order at [8:08:51 AM](#). Representatives Gatto, Elkins, Ramras, and Seaton were present at the call to order. Representatives Lynn, Gardner, and Gruenberg arrived as the meeting was in progress.

SB 141-PUBLIC EMPLOYEE/TEACHER RETIREMENT/BOARDS

CHAIR SEATON announced that the first order of business was 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."

SENATOR BERT STEDMAN, Alaska State Legislature, presented SB 141 as sponsor. He reviewed that several years ago, some actuaries asked another actuary group to perform an actuarial audit, the result of which was that there were some adjustments to the liability portion of the state retirement plan that caught the state, school system, and municipalities by surprise. The liabilities in one year jumped up a few billion dollars, and people wanted to know why. Last year was the second year that the numbers were "out" and, with no plan in place to deal with the escalations, the legislature approached the administration, who began a process of having the boards that oversee the retirement systems consider possible alternatives, solutions, or recommendations.

[8:13:48 AM](#)

SENATOR STEDMAN said the boards looked for comparisons with other states and with major competitors in the state, and they produced two new tier proposals: one was a 100 percent defined contribution plan, and the other was a combination of a defined contribution plan and a defined benefit plan. He offered his understanding of the history of the events that occurred between that time and the present. He said this issue affects every employee and those retired.

[8:16:56 AM](#)

SENATOR STEDMAN said the Senate Finance Committee took both plans and started the process of finding the pros and cons of each. He said the first two goals of that committee were to: address the issue of retention and remain competitive, not only in Alaska, but also in the Northwest.

[8:18:54 AM](#)

SENATOR STEDMAN remarked that the existing Tier I retirement plan is "extremely rich." Some adjustments were made in compiling the Tier II plan, and still further adjustments were made to create the Tier III plan. He said [the Senate Finance

Committee] chose to use a 100 percent defined contribution plan, because it felt it was more portable. He noted that today's employees typically have multiple careers and move around a lot. He stated that, over the last decade, the federal government has modified the retirement rules to make things more portable between the different retirement plans and systems that it has around the country. Senator Stedman said there are some liability issues with a defined contribution plan that "we're all struggling with." He clarified that there is little ability to move and adjust the current tier structures. He noted that the defined contribution plan, on the other hand, is much more flexible; it allows the employer to respond in the event that there are financial conditions - both positive and negative - or in the event that "you become at a disadvantage in attracting or retaining your employees."

8:22:10 AM

SENATOR STEDMAN acknowledged that the House State Affairs Standing Committee began a process similar to the Senate's in reviewing alternative plans. He observed that there are many similarities between the House's bill and SB 141. Both bodies began with plans from the tier review committee and moved forward from there.

8:23:27 AM

SENATOR STEDMAN addressed the key issues of the plan. He directed attention to a handout in the committee packet entitled the "CSSB 141(FIN) Walkthrough," and indicated that he would offer a synopsis of it. He stated his intent is to provide some background information because there seems to be a lot of misinformation concerning the issue.

SENATOR STEDMAN listed the key elements of SB 141: to establish a defined contribution plan, a retiree medical benefit plan, and a health reimbursement arrangement; to replace the [Public Employees' Retirement System (PERS)] board, the [Teachers' Retirement System (TRS)] board, and the [Alaska State Pension Investment Board (ASPIB)] with a new, 9-member Alaska Retirement Management Board; to establish the new board's role to balance the assets and liabilities, possibly over a decade or two; to transfer the quasi-judicial responsibility of hearing appeals to the Office of Administrative Hearings [within the Department of Administration]; to transfer to the commissioner of administration the responsibility for adopting system regulations, and review and waver requests; and to set the

actuarial computed normal cost rate as a floor to the annual employer contribution rates.

SENATOR STEDMAN listed the benefits of SB 141: to strengthen management in fiduciary oversight; to improve the ability to protect and control costs; to provide near-term financial relief to employers; and to pave the way for developing a long-term financial fix. He said the bill would not address the under funding liability of \$5.7 billion. He explained the reason for that is that there are structural problems with how the system is set up, and if the state pours hundreds of millions of dollars into the problem, it will never be fixed. He said there is a two-step process. The first step is to restructure the board system to have more accountability and control, and the second is to ask the new board to do a review and return to the legislature with recommendations next year.

[8:28:43 AM](#)

SENATOR STEDMAN said the following was done over the last year: employer surveys, member focus groups, benchmarking benefit levels, demographic projections, implications of Medicare changes, consideration of trans issues and alternatives, and cost analyses and projections. Senator Stedman made comparisons between the current and proposed plans. Under the current plan, the benefit is based on salary and length of service and is "paid to life" and to the survivors, which may or may not be a benefit to the employer. Under the proposed plan, the benefit would be based on the amount of money invested and what is earned over time and is paid until such time as the funds run out or the money is transferred to the retiree's heirs. He mentioned that the defined contribution plan is portable; it can be rolled over to the next generation. Senator Stedman said the future benefit payments under the defined benefit plan are not affected by the plan funding level; it makes no difference to the beneficiaries under the current plan if the plan is over or under funded. He said the liabilities of the school system are basically pushed back to the state, because of the constitution. The liabilities of the municipalities are not an obligation of the state; however, at times when there is substantial distress within the finance community on issues like this, the state has the obligation to step up and help.

[8:32:21 AM](#)

SENATOR STEDMAN said PERS and TRS are examples of a defined benefit plan, while the state's supplemental benefit plan (SBS)

is an example of a defined contribution plan. He said the advantages of the defined benefit plan are the pooling of longevity risk, a guarantee of income stream, and that the system favors longer service and older employees. The advantages to the defined contribution plan are its portability, the fact that it's self directed and predictable - particularly regarding cash flow to the employer, and its stable costs and lower long-term administrative costs. The challenges on the current system are that the employer bears all the investment risk, the liabilities have to be estimated, health care costs are rising, and other costs are uncontrollable. The disadvantages to the defined contribution plan are that the employee bears the investment risk and there must be employee education and accurate retirement planning.

[8:34:46 AM](#)

SENATOR STEDMAN noted that the contribution rate is the simple percentage of payroll required to pay the benefits earned. He said currently it's split approximately 60/40, but SB 141 would adjust that split to roughly a 50/50 split at "50 basis points per year change," which he said is one half of 1 percent. It does not include the past service cost or the unfunded liability - that's the responsibility of the employer, which is [the state]. He continued as follows:

That change for the average [PERS] employee earns \$43,800 a year. The first year it's going to cost them \$18 before tax - roughly \$14 after tax. After it's fully implemented over 6 years, the change before tax is \$121 a month - after tax is about \$96. In today's dollars it's \$81 a month. And that's before collective bargaining works its magic. And we all understand how that works The TRS numbers are fairly similar. The average TRS employee's right under \$54,000. It would cost, the first year, \$22 a month - after ... tax about \$18 per month. After it's fully implemented, \$125 - in today's dollars about \$86 - and it would take five years to get there.

[8:37:06 AM](#)

SENATOR STEDMAN said SB 141 would place the system assets and liabilities with one board and increase the frequency of review any time there is "a reporting and adopting of the actuarial assumptions." The bill would also increase the employer representation on the board. He explained that the employer has

the ultimate responsibility for the liabilities and needs to be "plugged in" and have more influence on calling the shots, because when things go wrong, the employer is the one that has to come to the table and cover the liabilities. He stated that the bill would establish minimum professional qualifications of the board. He said it's no benefit to the employer to have a board that doesn't spend much time dealing with the actuarial issues involved.

SENATOR STEDMAN reiterated that the bill would move the appeal process to the Office of Administrative Hearings and power the commissioner of the Department of Administration to do the day-to-day and system operations. He noted that currently the PERS and TRS Boards spend roughly 80 percent of their time on appeals; as a result, 80 percent of what those boards do will disappear. The other two responsibilities of the board are to set the employer contribution rate and accept the actuarial assumptions. Those two functions belong in the group that manages the assets, he said, thus those two items would be shifted to the new board and the entire work of the PERS and TRS Boards would disappear. He said there is a classic asset and liability mismatch, much like when the savings and loan associations "all went broke."

[8:40:56 AM](#)

SENATOR STEDMAN addressed the health reimbursement arrangement (HRA). He noted that currently, if a person is qualified to retire, the state picks up the health insurance "from there forward." Under the proposed plan, the state would pick up the health benefit cost when the person reaches Medicare eligibility, which currently is age 65. The plan has a health reimbursement arrangement to supplement the insurance premiums, if needed. Employer contributions would be set at 2 percent of the average PERS group salary and would go "into the pot." He explained that that is a 100 percent employer contribution that compounds, tax-deferred, and comes out tax-free. Contributions would be recorded on an individual account balance, managed by the new Alaska Retirement Management Board, with interest credited annually. The reimbursement would be limited to the individual's account balance until it's exhausted, and terminated employees would forfeit the right to individual accounts, unless they are reinstated back into the work force [within] five years. He said there is a lot of federal control regarding health reimbursement; basically the only thing the legislature can do is to change the contribution amount.

[8:42:59 AM](#)

SENATOR STEDMAN said the proposed legislation also focuses on trying to control liability costs. He said a lot of that control should not be set in legislation, but should be left up to the board. He stated that the contribution level or benefit formulas between the employer and employees would be 11.5 percent a year, but that may be amended. He said the vesting schedule won't affect the employees, but there would be a 5-year vesting schedule for employers. He offered his understanding that an amendment may be offered to shorten that time. He said the bill has a five-year vesting schedule, which is "zero the first year [and] escalates 25 percent a year for the next four years." He explained that that is a claim that the employee has on the employer contributions upon separation in that time frame. He said the employer contribution into the defined contribution amount is 4.25 percent, plus 1.75 percent for medical and 2 percent for health reimbursement. The total cost of the employer is 8.25 percent.

[8:45:53 AM](#)

SENATOR STEDMAN said:

There is a smaller liability issue with the medical, being that we assume, as a state, at age 65. So, we get rid of the actuarial work out of the retirement plan for virtually all of it, except for that one component. We still need some actuarial assumptions and drivers ... driven to make sure that we fund [at the] appropriate level to deal with that.

SENATOR STEDMAN said the medical plan would be the same no matter what tier level a person is.

[8:46:21 AM](#)

SENATOR STEDMAN mentioned the subject of the proposed board restructuring, but suggested that that subject be saved for later.

[8:47:38 AM](#)

REPRESENTATIVE RAMRAS stated his support of SB 141. He noted that he participated in a town hall meeting in Fairbanks last weekend, in which he tried to suggest that if the retired teachers present had been on a defined contribution plan in the

60s, their retirement would likely be better today than it is as a result of the defined benefit plan. He asked if that was an accurate suggestion.

[8:49:35 AM](#)

SENATOR STEDMAN said he thinks that statement is true.

[8:49:45 AM](#)

CHAIR SEATON said the committee would get into that topic later. He said the answer to that question depends on the level of contribution into the defined contribution plan.

[8:50:05 AM](#)

REPRESENTATIVE LYNN said he thinks the consolidation of boards is probably a good idea, but he doesn't understand the need to change the balance of the makeup of the board. He asked how the state compares with other state boards' return of investments. He stated that he is also concerned that the proposed composition of the board may be too top heavy, and he indicated that he would like to see more of a balance in the parties involved. He said that issue will likely determine how he votes on the bill.

[8:52:02 AM](#)

SENATOR STEDMAN indicated that the proposed reorganization of the boards is "not a personality issue," but has to do with the fact that SB 141 will make the individual PERS and TRS Boards unnecessary for the reasons that he previously stated. He said it's a legitimate question to ask if the employees are adequately represented on the board. He asked the committee to keep in mind that the liabilities are borne by the employer, not the employee. He noted that under the current board structure there are three independent members that are not beneficiaries who have not worked for the state, schools, or municipalities. He stated, "The benchmark has been raised for the qualifications to sit on the board." He reemphasized the importance of grasping the issue of assets and liabilities.

[8:56:32 AM](#)

REPRESENTATIVE LYNN said it is important to keep employment in the state attractive. He says he has no problem having a public member on the board, but three may be "overkill."

[8:57:34 AM](#)

SENATOR STEDMAN said none of the appeal work would be heard by the board, but would be heard by administrative judges.

[8:58:30 AM](#)

REPRESENTATIVE GATTO offered an example of an employee who quits after four years. He asked what that employee would get.

[8:59:17 AM](#)

SENATOR STEDMAN answered that that employee would get all his/her individual contributions. He added, "Plus, on the vesting schedule, at four years, you would get most of the employer's." He estimated it would be about 75 percent. He reiterated that the employee is never at risk "from his or her contributions if [he/she separates] after a year or two years of service."

[9:00:46 AM](#)

SENATOR STEDMAN, in response to another question from Representative Gatto, confirmed that under the defined contribution plan, the heirs of a deceased plan member have a connection to the plan.

REPRESENTATIVE GATTO said it's a great opportunity to be able to leave benefits to one's heirs.

[9:01:02 AM](#)

REPRESENTATIVE RAMRAS asked if a "new member to PERS" would be able to choose to switch from a defined benefit to defined contribution plan. Second, regarding investing, he asked how much harm a person can do to his/her [retirement].

[9:01:42 AM](#)

SENATOR STEDMAN said the answer to the first question is yes, but there are restrictions regarding the time frame. He said he doesn't think it would be beneficial for employees presently on Tier I and II to switch, particularly those on Tier I. Regarding the second question, he said there would be portfolios like in a money market account, which is risk free. The board could also offer a fixed rate, bond fund, a balanced fund, and

perhaps something more aggressive like the [Standard & Poor's (S&P)] 500 index. Employees could pick their assets depending on their risk comfort level. He offered further details.

SENATOR STEDMAN said when people who testified "on the other side" were asked if they like their SBS accounts, they said yes. He added, "Well, this virtually is very similar to that."

9:06:04 AM

REPRESENTATIVE RAMRAS said one of the issues that he has been presented with is the anxiety component. He said there is an irrational fear held by current retirees. He mentioned the issue of attraction and retention. He asked what SB 141 would do as a vehicle to address the concerns of people. He said he is was "beat on over the weekend" by concerned people with irrational fears; the message they gave him was to "go slow" and "be pensive."

9:07:35 AM

SENATOR STEDMAN responded that a lot of the concern is from misinformation. The state of Alaska is not going to relinquish its obligation to take care of the retired people who have worked in the system for many years. He said it is not their fault that there has been a "mismatch in assets and liabilities." Regarding current employees, he mentioned cost controls. He admitted that the 50-basis-point increase to employees is an issue, because it's a real cost increase to the employees. He stated his belief that a one-half of 1 percent change a year is something the employees can handle. He said it would be foolish not to recognize the effects of collective bargaining.

SENATOR STEDMAN said the effort is being made to create a healthy system, and the current system is only being tweaked a little bit. The major change would affect future employees that would start on or after July [2005]. He emphasized that there has been no discussion toward abolishing Tiers I, II, or III. Regarding addressing the concerns of constituents, he said he would stand up and explain the reason behind the proposed changes - changes that are being made in "a slow and methodical way." He said people want this problem fixed.

SENATOR STEDMAN indicated that if the state steps up to the plate, the cost of carrying the contribution increase is about \$350 million. He said it gets worse when considering the

general fund. He explained that half of the general fund is out of [the legislature's] control - it's formula driven. The other half - a little over \$2 billion - is "relatively within our control." He said, "That \$350 million is going to come out of that one half of the budget." He said that's a huge impact. He noted that "some of us" would like to "solve this problem sooner than later," because the financial redirection of capital is huge and "it's starting this year."

[9:12:03 AM](#)

REPRESENTATIVE GRUENBERG asked what kind of disability coverage would exist under SB 141.

[9:12:33 AM](#)

SENATOR STEDMAN replied that a discussion was held regarding disability insurance, and it was decided not to add it. If individuals want that insurance, it would be up to them to purchase it.

[9:12:53 AM](#)

CHAIR SEATON clarified that active employees are covered for disability under active employment.

[9:13:06 AM](#)

SENATOR STEDMAN said, "There's a workers' [compensation] issue, but ... the structure's different from under [today's] tier plan." He deferred further comment to Melanie Millhorn.

[9:13:54 AM](#)

MELANIE MILLHORN, Director, Health Benefits Section, Division of Retirement & Benefits, Department of Administration, in response to Representative Gruenberg's previous question, explained that active employees who are injured on the job are covered by workers' compensation. They also have the option of paying a premium to obtain additional disability benefits. In response to a follow-up question from Representative Gruenberg, she said that would not be affected by the proposed legislation.

[9:16:10 AM](#)

REPRESENTATIVE GRUENBERG asked about long-term care.

[9:16:18 AM](#)

MS. MILLHORN responded that long-term care is available as an elective coverage. She stated that there is a high percentage of employees that elects to have long-term care. She said that's a premium paid for by the member and would not be affected by the legislation.

REPRESENTATIVE GRUENBERG asked, "So, that wouldn't be affected by either bill?"

MS. MILLHORN answered that's correct.

REPRESENTATIVE GRUENBERG asked what happens when a person with a defined contribution plan outlives his/her retirement plan, particularly for those without social security.

[9:16:44 AM](#)

SENATOR STEDMAN responded that it's theoretically possible, but unlikely. He surmised that it could be possible if the person didn't work long enough with the state to accumulate assets in a retirement plan, or if there may have been economic events that were detrimental to the person's long-term financial well being. He said the state offers SBS - a replacement for social security. He also mentioned deferred compensation and the retirement system. He stated, "There is no guarantee, under this plan, for a life income, unless - at the time of retirement - ... they decided as an option under a defined contribution plan to do an annuity, which you can do."

[9:18:54 AM](#)

REPRESENTATIVE ELKINS asked if the chair of the board would be selected by the governor or by the board itself.

[9:19:13 AM](#)

SENATOR STEDMAN stated his assumption that the board would select, because it is not specified in the bill.

[9:19:31 AM](#)

REPRESENTATIVE ELKINS stated that he has a problem with having the governor pick the chair, because "they tend to end up being dictators"

[9:19:39 AM](#)

SENATOR STEDMAN directed attention to page 47, line 22, which shows that the board would select its chair.

[9:20:16 AM](#)

REPRESENTATIVE GRUENBERG asked how retirees are faring under defined contribution plans in the private sector.

[9:20:36 AM](#)

SENATOR STEDMAN stated that the private sector has moved away from defined benefit plans [because those plans] bankrupted numerous corporations. Those corporations that have not are paring back benefit levels in an effort to manage the system. Unlike the public sector, he explained, the private sector can go bankrupt and restructure. He said the State of Alaska doesn't have that option.

[9:21:31 AM](#)

REPRESENTATIVE GRUENBERG asked if there are any changes in that practice under the new bankruptcy law.

[9:21:46 AM](#)

SENATOR STEDMAN said he doesn't know.

[9:21:55 AM](#)

MS. MILLHORN also said she doesn't know that answer.

[9:22:18 AM](#)

SENATOR STEDMAN offered further examples of the differences between the private and public sectors.

[9:22:54 AM](#)

REPRESENTATIVE GRUENBERG asked what the startup costs would be for SB 141 and how they would be covered.

[9:23:13 AM](#)

SENATOR STEDMAN said the costs would be covered in a fiscal note.

[9:23:34 AM](#)

CHAIR SEATON noted that there are fiscal notes in the committee packet.

[9:23:58 AM](#)

REPRESENTATIVE GRUENBERG asked if other, less drastic, alternatives had been considered as a way to protect workers' retirement security and to reduce costs, and, if so, what were the pros and cons of those alternatives.

[9:24:13 AM](#)

SENATOR STEDMAN prefaced his answer by saying that he would categorize this plan as neither drastic nor fast moving. He reminded Representative Gruenberg that there were two alternatives that were produced by the PERS and TRS Boards. One was the hybrid defined contribution/defined benefit plan, and the other was solely a defined contribution plan. He warned, "You can always, in the future, add a defined benefit portion to your retirement plan, but once it's in, you can never get it out." He said he thinks the State of Alaska, as employer, should maintain as much flexibility as possible in its system to be able to respond to changing market conditions.

[9:25:15 AM](#)

REPRESENTATIVE GRUENBERG returned to the issue of when a retiree dies. He mentioned that, due to the repeal of the death tax, people are concerned about estate planning. He offered his understanding that Senator Stedman had said that if a person dies before accessing all of his/her benefits in a defined contribution plan, those assets would become part of the person's estate.

[9:26:02 AM](#)

SENATOR STEDMAN responded that that could be the case, depending on "how it's structured." In response to a follow-up question from Representative Gruenberg, he explained that annuities would generally expire upon a person's death, unless "you pick ... your spouse and yourself." He indicated that people will "roll it" into their IRA, which opens up the possibility of moving the money from generation to generation. He mentioned beneficiaries and money passing from a spouse to children. In response to a

question from Representative Gruenberg, he confirmed that a person could decide to give the money to his/her children directly. He explained that a person can have a list of beneficiaries. He said the employer rarely gets restrictive on these types of issues, because the employer wants the employee to have a happy retirement. In response to a follow-up question from Representative Gruenberg, he confirmed that there are no restrictions in the bill. He offered his understanding that the new board would set up the investments, the retirement mechanisms, and some of the selections. He said he's sure the board could attach restrictions, but most likely the focus would be on what can be done, not what can't.

[9:29:49 AM](#)

CHAIR SEATON clarified that upon retirement there's a list of selections that a person can make regarding investments; it is the person's account to do [with as he/she wishes]. For the benefit of the public, he clarified that the board cannot take the account away or restrict access to it.

[9:30:07 AM](#)

REPRESENTATIVE GRUENBERG clarified that his question is related to restriction on transferability at death.

[9:30:32 AM](#)

SENATOR STEDMAN opined, "You don't want to put this type of structure in statute. You want it in regulation; you want the board to create it. And then you want the board to bump up against federal guidelines." He indicated that emphasis would be to have as many options and as much flexibility to employees as possible.

[9:32:11 AM](#)

CHAIR SEATON moved Amendment 1, which read as follows:

Page 15, line 18:
Delete "eight"
Insert "11"

Page 16, line 8:
Delete "4.5"
Insert "5.25"

Page 81, line 17:
Delete "eight"
Insert "ten"

CHAIR SEATON explained that Amendment 1 would change the contribution rate in PERS and TRS.

[9:32:39 AM](#)

REPRESENTATIVE RAMRAS objected to Amendment 1. He said he thinks savings rates are difficult for most Americans to achieve, because "we're extraordinarily concerned about consumption." He stated that although a better savings rate is better for people, it's not the responsibility of the legislature to "do this."

[9:33:24 AM](#)

CHAIR SEATON referred to an eight-page handout in the committee packet showing a comparison of contribution rates and projected benefits for HB 238 and SB 141. He said there are two scenarios for each. Page 1 and page [7] compare [TRS projected benefits for the two bills]. He also noted that page 1 of the handout correlates with the proposed changes in Amendment 1. He said the projected benefits would accumulate faster with Amendment 1, and he offered an example. He also noted that the employer contribution rates included in Amendment 1 are basically the employer contribution rates for the normal costs, as they are now. He noted that, in the past 20 years, the average contribution rate for the employer has been 11.16 [under TRS] and 10.68 under PERS.

[9:37:20 AM](#)

SENATOR STEDMAN noted that the tier review committee recommended the 11.5 percent, and the Senate Finance Committee changed that number to 12.5 [percent]. He stated that if the House State Affairs Standing Committee is comfortable changing that to 15.25 percent, that would definitely create a larger pool of assets available for retirement for the employees.

[9:38:17 AM](#)

CHAIR SEATON asked if the average normal cost rate for employers in the past has been about 11 percent.

[9:38:33 AM](#)

SENATOR STEDMAN responded, "Thereabouts." He said, "This is a whole different mechanism than the defined benefit." Generally speaking, he noted, when trying to save for retirement, "10 percent is kind of a base number to start with."

[9:39:25 AM](#)

REPRESENTATIVE GATTO asked if an employee can "elect a lower number."

[9:39:42 AM](#)

SENATOR STEDMAN answered that the number is fixed; it is set in statute. However, he said the employee does have the ability through deferred compensation to contribute more.

[9:42:12 AM](#)

A roll call vote was taken. Representatives Gruenberg and Seaton voted in favor of Amendment 1. Representatives Elkins, Lynn, Ramras, and Gatto voted against it. Therefore, Amendment 1 failed by a vote of 2-4.

[9:42:26 AM](#)

CHAIR SEATON moved Amendment 2, which read as follows:

Page 18, line 12:

Delete "five"

Insert "three"

Page 18, lines 15 - 17:

Delete all material and insert:

"(1) 50 percent with one year of service;

and

(2) 75 percent with two years of service."

[9:42:31 AM](#)

REPRESENTATIVE RAMRAS objected to Amendment 2.

[9:42:40 AM](#)

CHAIR SEATON addressed Amendment 2. Through the proposed bill, members would be vested fully in the defined contribution account after 5 years on a graduated scale, incrementing 25

percent each year with 0 percent for the first year. He said Amendment 2 would change that so that a member is vested after three years, with the member vesting in 50 percent of the employer contribution after one year of full service, and 75 percent after two years. He said the plan outlined in Amendment 2 is similar to what the State of Colorado adopted. He said the purpose for changing to a defined contribution plan is to have a means by which to attract employees. A number of employees come to the state thinking that they will be here a very short time. Having a portable plan that takes longer to vest in would lower the ability to attract people to the plan.

[9:43:53 AM](#)

REPRESENTATIVE RAMRAS explained his opposition to Amendment 2. He said the amendment favors short-term employees and he likes "people that make a longer term commitment to the state." He revealed that he employs 300 people and one of his greatest expenses is training employees.

[9:44:33 AM](#)

SENATOR STEDMAN stated that the reason for deciding on the 5-year vesting schedule was due to a request by NEA-Alaska because of its concern for teacher retention. Notwithstanding that, he said he is open to the wishes of the House State Affairs Standing Committee.

[9:45:36 AM](#)

CHAIR SEATON said the two purposes of "the benefit package" are to attract and retain. He added, "And the purpose of this earlier vesting schedule is so that we have a more attractive package for attracting people initially to come into this system, as well as giving some incentive for remaining longer in service."

[9:46:03 AM](#)

A roll call vote was taken. Representatives Gruenberg and Seaton voted in favor of Amendment 2. Representatives Lynn, Ramras, Gatto, and Elkins voted against it. Therefore, Amendment failed by a vote of 2-4.

[9:47:16 AM](#)

CHAIR SEATON directed attention to Amendment 3, which read as follows:

Page 18, line 18, through page 19, line 11:
Delete all material.

Page 48, lines 10 - 17:
Delete all material and insert:
"(A) AS 39.30.150 - 39.30.180 (State of Alaska Supplementary Annuity Plan); and
(B) AS 39.45.010 - 39.45.060 (public employees' deferred compensation program);"

Page 84, line 16, through page 85, line 9:
Delete all material.

CHAIR SEATON stated the following:

One of the big perceived problems with a defined contribution ... program is that ... people tend to invest too conservatively and not build up their accounts over time. However, this option would not give employees enough options. And so, I'm not going to offer this amendment. What we will do is ... request ... a new investment option that would mirror [the Alaska Retirement Management board's (ARM)] investment strategy, so that they could get the same return rate ... like ASPIB has right now.

[9:47:52 AM](#)

CHAIR SEATON moved to adopt [Conceptual] Amendment 4, as follows [original punctuation provided]:

To become eligible for medical coverage under SB 141 you must be Medicare eligible with at least 10 years of service, or of any age with 25 years of service for police/fire and 30 for all others. If you terminate employment before Medicare eligible age but have fulfilled the minimum service requirement, you will receive access-only to the medical plan but will be required to pay the full premium. At Medicare eligible age the member receives a percentage subsidy of the premium based on the years of service ranging from 70% for 10 years of service to 90% for 30+ years of service. Retirees and their dependents are eligible, however, a different premium will be

established for a single member from that of a member with dependents.

Amendment number 4 substitutes the language from HB 238 regarding the medical plan discussed extensively in committee, which provides medical coverage for members 60 months pre-Medicare eligible age.

Delete p. 26 line 3 to page 28 line 1, and p. 28 lines 12-19, Insert medical language provided and amended as necessary for drafting purposes. Corresponding medical language for PERS is found on p. 92 line 20 through p. 93 line 27.

Minor changes will have to be made throughout the bill to make SB 141 congruent with the inserted language from HB 238.

[9:48:25 AM](#)

CHAIR SEATON indicated that [Conceptual] Amendment 4 would provide medical coverage for members ["60 months pre-Medicare eligible age"]. He asked if there was any objection to [Conceptual] Amendment 4. There being none, [Conceptual] Amendment 4 was adopted.

[9:48:40 AM](#)

CHAIR SEATON moved Amendment 5, which read as follows:

Page 46, line 30, following "system":

Insert "selected from a list of three to five persons nominated by the members of the system"

Page 46, line 31, following "system":

Insert "selected from a list of three to five persons nominated by the members of the system"

Page 47, line 2:

Following "terms of":

Delete "three"

Insert "six"

Following "total of":

Delete "three"

Insert "two"

Page 47, line 3, following "served":

Delete "three"
Insert "two"

Page 105, line 26, following "AS 39.05.055(7).":

Insert "Notwithstanding AS 39.05.055(7), the terms of the two finance officers appointed under AS 37.10.210(b)(2) and (3), as repealed and reenacted by sec. 59 of this Act, shall be set so that the term of one of the finance officers expires three years apart from the term of the other finance officer, and the terms of the two members of the retirement systems appointed under AS 37.10.210(b)(4) and (5), as repealed and reenacted by sec. 59 of this Act, shall be set so that the term of one of the members expires three years apart from the term of the other member."

[9:48:48 AM](#)

REPRESENTATIVE RAMRAS objected [to Amendment 5].

[9:49:18 AM](#)

CHAIR SEATON addressed Amendment 5. He explained that SB 141 would require a board of nine members, two of which must be active or retired PERS or TRS employees, and all of which would be appointed by the governor. Amendment 5 would effect changes regarding the Alaska Retirement Management Board, including a requirement that the nominees for PERS and TRS representatives be chosen from candidates put forth by the appropriate bargaining units. He said it would generate more continuity over time by ensuring that the process is not "a political appointee kind of situation."

[9:50:05 AM](#)

REPRESENTATIVE RAMRAS stated that he likes SB 141 as it is and the formulation of the board as the bill outlines it. He said, "I'm more interested in managing this like it's a business."

[9:50:52 AM](#)

CHAIR SEATON clarified that Amendment 5 would not change any of the membership of the board; it simply would lengthen the term of service and would allow a system for nomination of the members.

[9:51:22 AM](#)

A roll call vote was taken. Representatives Gruenberg, Gatto, Lynn, and Seaton voted in favor of Amendment 5. Representatives Ramras and Elkins voted against it. Therefore, Amendment 5 passed by a vote of 4-2.

[9:52:33 AM](#)

REPRESENTATIVE LYNN moved to adopt [Conceptual] Amendment 6, which read as follows [original punctuation provided]:

Conceptual Amendments to Section 37.10.210

Page 46 Line 21: Include one trustee from
 general public
 Line 29: Include two trustees from PERS
 Line 31: Include two trustees from TRS

REPRESENTATIVE RAMRAS objected to [Conceptual] Amendment 6.

REPRESENTATIVE LYNN said the [board membership] structure needs to be balanced, because it's too top-heavy with the administration. He opined that the PERS and TRS members need to have more control over what happens to their own money.

[9:54:07 AM](#)

REPRESENTATIVE RAMRAS said he likes the fact that "the governor's held accountable to manage this." He added, "If the permanent fund would have been as mismanaged as PERS and TRS is, heads would have rolled."

[9:55:01 AM](#)

REPRESENTATIVE LYNN said he doesn't know that the current PERS and TRS members have mismanaged the investments. He stated, "Whatever they've got, the legislature put it together - not the PERS and TRS Board." He said the board was stuck with what it was given and worked well with it, and he stated his hope that it would continue to do so with whatever new structure the legislature puts together.

[9:55:41 AM](#)

CHAIR SEATON stated his opposition to Amendment 6. He indicated that there was or would be many members of PERS on the board, including the commissioner of the Department of Administration.

9:56:15 AM

REPRESENTATIVE LYNN noted that the commissioner reports to the governor.

CHAIR SEATON said he understands that.

9:56:22 AM

REPRESENTATIVE GRUENBERG stated that was his concern. He illustrated that it could be said that anybody representing management is technically a member of the retirement system; however, their loyalty is to management, not to labor. He said that's a real conflict and may be "one of the most important flash points in the bill."

9:57:04 AM

CHAIR SEATON said, "We do have a totally changed board that has a fiduciary responsibility; it's going to be managing assets and ... liabilities. The decisions on benefits will have to come back through the legislature."

9:57:11 AM

REPRESENTATIVE GRUENBERG said the question is not a technical one regarding a fiduciary responsibility, because the current board has the same fiduciary responsibility. He said the question is who decides who's on the board. He stated the following:

These funds are funds that belong to the employees. The employer loses the funds when the funds are contributed. They are held in trust for the employees, and to give the employees no more than a pittance in the makeup of the board really doesn't give the employees the respect they need - the respect they deserve. This is their money - at least give them a couple extra people on the board

9:58:13 AM

A roll call vote was taken. Representatives Gruenberg, Gatto, and Lynn voted in favor of [Conceptual] Amendment 6. Representatives Elkins, Ramras, and Seaton voted against it. Therefore, [Conceptual] Amendment 6 failed by a vote of 3-3.

9:58:54 AM

REPRESENTATIVE GRUENBERG indicated that he would like to revisit Conceptual Amendment 6 later in the meeting when the full committee was present.

9:59:07 AM

9:59:31 AM

REPRESENTATIVE GRUENBERG [asked that the committee again vote on whether to adopt Conceptual Amendment 6].

9:59:39 AM

A roll call vote was taken. Representatives Gruenberg, Gatto, Lynn, and Seaton voted in favor of Conceptual Amendment 6. Representatives Elkins and Ramras voted against it. Therefore, Conceptual Amendment 6 passed by a vote of 4-2.

10:00:45 AM

CHAIR SEATON [moved] to adopt [Conceptual] Amendment 7, which read as follows [original punctuation provided]:

p. 58 line 16. Delete "AS 14.25.470" insert "(b) of this section". Delete p. 58 line 16 starting at "or" through line 21 ending at "adjustment". Insert "If a person resumes employment the balance of their account is restored plus any accumulated interest."

Insert line 22, (b) A member has access to their Health Reimbursement Arrangement after 10 years of service, whether or not they retire directly from the system. However, the member is not allowed to draw from that account until they reach the age 60 months pre-Medicare eligible, or any age with 30 years of service as defined in AS 14.25.470.

*Note: all changes in the TRS section should be reflected in the subsequent PERS section.

CHAIR SEATON asked if there was any objection to [Conceptual] Amendment 7. There being no objection, [Conceptual] Amendment 7 was adopted.

[10:02:15 AM](#)

CHAIR SEATON directed attention to a page labeled, "Changes to CSSB 141 to be incorporated in a House State Affairs CS." [That page shows Amendments 8-13, although some of the amendment numbers were later changed.]

CHAIR SEATON [moved to adopt Amendment 8], which read as follows [original punctuation provided]:

p. 3 line 12. Insert "(e) A report of the valuation of the plan's projected liabilities."

CHAIR SEATON explained that Amendment 8 would require the Alaska Retirement Board to evaluate the plan's projected liabilities annually. He asked if there was any objection to Amendment 8. There being none, Amendment 8 was adopted.

[10:04:19 AM](#)

CHAIR SEATON [moved to adopt] Amendment 9, which read as follows [original punctuation provided]:

p.8 line 10. Delete "less than" and insert "the lesser of"
line 11 after "active members" insert "11 percent for TRS employer [sic] and 10 percent for PERS employers"

CHAIR SEATON explained that Amendment 9 would establish a floor for employer contributions at 11 percent for TRS and 10 percent for PERS. He stated the purpose of the amendment is to avoid a situation under the current retirement plan where a rate is adopted and "we dig ourselves into the hole."

[10:05:31 AM](#)

REPRESENTATIVE RAMRAS objected to Amendment 9.

[10:05:39 AM](#)

SENATOR STEDMAN said he thinks the issue has been addressed, but in a different way - by saying that the amount cannot be lowered below the normal cost. He posited that Amendment 9 might "make it a little bit more restrictive on the ability to manage the plan."

[10:06:06 AM](#)

CHAIR SEATON stated that is the purpose; the intent is to prevent the board from adopting the rate and subsequently having a swing that makes the adopted rate be too low. He reiterated that this would be for the current plan.

[10:07:24 AM](#)

CHAIR SEATON announced that Amendment 9, with its objection, would be held to address later.

[10:07:39 AM](#)

CHAIR SEATON [moved to adopt] Amendment 10, which read as follows [original punctuation provided]:

p. 15. line 13. After "contribution retirement plan."
Add "A teacher becomes a member on their first date of
employment."

CHAIR SEATON explained that Amendment 10 would clarify that membership to the system commences for teachers on their first day of employment.

[10:08:19 AM](#)

SENATOR STEDMAN said he has no objection to Amendment 10.

[10:08:26 AM](#)

CHAIR SEATON asked if there was any objection to Amendment 10. There being none, Amendment 10 was adopted.

[10:08:38 AM](#)

CHAIR SEATON moved to adopt Amendment 11, which read as follows [original punctuation provided]:

p. 32 line 10, insert "'member contribution account'
means the member's contributions to their [sic]
defined contribution account plus any accumulated
interest."

[10:08:54 AM](#)

SENATOR STEDMAN said he has no objection to Amendment 11 at this time.

10:09:06 AM

REPRESENTATIVE GRUENBERG stated his assumption that the contribution, if it's in stocks, would include any appreciation of depreciation.

CHAIR SEATON said, "Yes, it means ... 'plus accumulated interest' would fall under this."

10:09:22 AM

REPRESENTATIVE GATTO asked, "Would you rather say 'gain'?"

10:09:32 AM

CHAIR SEATON announced that Amendment 11 would be held until later.

10:09:41 AM

CHAIR SEATON [moved to adopt] Amendment 12, which read as follows [original punctuation provided]:

p.35 line 31. Delete "65 years of age" and insert "60 months pre-Medicare eligible age"

p.54 line 26. Delete "age 65" and insert "60 months pre-Medicare eligible age"

p. 101 line 28. Delete "65 years of age" insert "60 months pre-Medicare eligible age"

CHAIR SEATON explained that Amendment 12 would make revisions to accommodate overall changes to the medical portion of the bill.

10:10:00 AM

SENATOR STEDMAN stated his need to leave to attend the Senate Finance Committee meeting. He said it would be nice if a decision could be made tonight regarding the bill.

10:10:56 AM

CHAIR SEATON asked if there was any objection to Amendment 12. There being none, Amendment 12 was adopted.

[10:11:27 AM](#)

CHAIR SEATON [moved to adopt] Amendment 13, which read as follows [original punctuation provided]:

p.14 line. 19. Insert "(D) a full-time or part-time instructor of the Department of Labor and Workforce Development who is a non certificated employee who enters employment covered under AS 25.009 may elect to retain coverage under AS 29.009."

CHAIR SEATON clarified that Amendment 13 would allow instructors from the Department of Labor & Workforce Development to choose between PERS and TRS.

[10:11:57 AM](#)

REPRESENTATIVE GRUENBERG asked Ms. Millhorn [who was standing at the back of the room off microphone] if there is anybody else who would fall into this category who should be included in the amendment. He indicated that Ms. Millhorn shook her head no. He said, "I remove my objection."

[10:12:29 AM](#)

CHAIR SEATON announced that, [hearing] no further objections, Amendment 13 was adopted.

[10:12:39 AM](#)

REPRESENTATIVE GRUENBERG [moved to adopt] Amendment 14, labeled 24-LS0637\L.9, Craver, 4/18/05, which read as follows:

Page 13, following line 11:

Insert a new bill section to read:

"* **Sec. 26.** AS 14.25.210(a) is amended to read:

(a) A person who knowingly makes a false statement, or falsifies or permits to be falsified any record of this plan [SYSTEM], in an attempt to defraud this plan [SYSTEM], is guilty of a class A misdemeanor [AND FORFEITS ALL RIGHTS UNDER THIS CHAPTER]."

Renumber the following bill sections accordingly.

Page 29, line 30, following "**Fraud.**":

Insert "(a)"

Page 30, following line 1:

Insert a new subsection to read:

"(b) In this section, "knowingly" has the meaning given in AS 11.81.900(a)."

Page 95, line 29, following "**Fraud.**":

Insert "(a)"

Page 95, following line 31:

Insert a new subsection to read:

"(b) In this section, "knowingly" has the meaning given in AS 11.81.900(a)."

Page 105, line 25:

Delete "sec. 59"

Insert "sec. 60"

Page 108, line 25:

Delete "14.25.210"

Page 109, line 19:

Delete "SECTIONS 139 AND 140"

Insert "SECTIONS 140 AND 141"

Page 109, line 20:

Delete "secs. 139 and 140"

Insert "secs. 140 and 141"

Page 109, lines 21 - 22:

Delete "secs. 139 and 140"

Insert "secs. 140 and 141"

Page 109, line 23:

Delete "89 - 94, 107, 114, and 131"

Insert "90 - 95, 108, 115, and 132"

Page 109, line 25:

Delete "Section 141"

Insert "Section 142"

Page 109, line 26:

Delete "secs. 142 and 143"

Insert "secs. 143 and 144"

10:13:06 AM

CHAIR SEATON objected for discussion purposes.

[10:13:12 AM](#)

REPRESENTATIVE GRUENBERG stated that there are two provisions - one in Title 14 and one in Title 39 - regarding a person who knowingly makes a false statement. He said he considered current language. He said, "We have made them congruent so that anybody who makes a false statement is guilty of a Class [A] misdemeanor, but they ... no longer will 'forfeit all rights under this chapter'." He noted that the definition of "knowingly" is in criminal code. He said Amendment 14 is basically a technical amendment, except that "it says you don't forfeit all your rights."

CHAIR SEATON removed his objection to Amendment 14. He asked if there was any further objection. There being none, Amendment 14 was adopted.

[10:14:42 AM](#)

CHAIR SEATON stated:

By the way, the amendments that we adopted earlier were the conceptual amendments, and now we have ... those amendments by [Legislative Legal and Research Services] - the actual language. And so, what I'd ask is [that] the committee ... accept the [Legislative Legal and Research Services] terminology for the ones we adopted

CHAIR SEATON asked, "Is there any objection to that?" [None was stated.] He announced that there would be further amendments to be discussed when the committee reconvenes later tonight. In response to a request from Representative Gruenberg, he said the committee would have a committee substitute before them tonight [incorporating the amendments adopted thus far].

The meeting was recessed at [10:16:05 AM](#) to a call of the chair at 6:00 p.m.

CHAIR SEATON called the meeting back to order at [6:12:22 PM](#). Present at the call back to order was Representative Seaton. Representatives Gatto, Elkins, Lynn, Ramras, Gardner, and Gruenberg arrived as the reconvened portion of this meeting was in progress.

6:12:56 PM

GINGER EVENS testified on behalf of herself in opposition to SB 141. She told the committee that she is a teacher in Petersburg, Alaska. She stated that the defined contribution retirement plan, as outlined in [SB 141] is not good for PERS and TRS [members]. She said the current defined benefit retirement system "provides retirement security for all." Ms. Evens indicated that [the plan under SB 141] would not attract new teachers to the state and Alaska's school districts would suffer. She opined that in order to attract and retain good quality educators, the retirement system needs to stay the same. Educators, she explained, tend to stay in the system for their entire career; therefore, having a portable retirement is a moot point. She noted that she has "sent in quite a few [public opinion messages (POMs)] regarding this issue."

6:14:31 PM

DORIS TANNER, testifying on behalf of herself, told the committee that she began working for the State of Alaska in 1982 and currently works with the Department of Corrections. She said she is also an officer on the statewide supervisory unit's executive board, under APEA AFT. She said she is testifying on two issues: the cost of the legislation to individual employees and the lack of research and planning required to fix "the PERS problem." She mentioned a document that she sent that demonstrates the impact of the proposed legislation on base-level employees at a range 15 - a middle of the road range beginning at \$1,571 semi-monthly. She said a single parent with one child cannot meet reasonable monthly expenses, even without the proposed increase. She predicted that "the scenario's going to deteriorate" in the coming years.

MS. TANNER noted that, in the last 20 years, state employees have only seen increases in pay for 10 of those years. Last year, she said, the legislature approved no increase for fiscal year (FY) 04 and a small 1.5 percent increase in wages for employees effective July 1, 2005. She indicated that there is appreciation for the increase, even though it is not large. However, under "some of the PERS legislation being proposed," the increase will be negated by an increase in the employee cost of retirement. She added, "At a minimum, a .5 percent increase a year will still disable income levels."

MS. TANNER opined that the options available have not been exhausted, nor does anyone know the exact size of the problem.

She said she's seen a lot of different figures. She continued as follows:

Similar to what is occurring in our current procurement legislation, the legislature, in my opinion, has failed to seek the advise of the people most affected and the people closest to the issue. You need to ask for suggestions and seek solutions from within - [from] those that can best answer the questions. Unfortunately, the legislation's just moving too quickly for anyone to really take the time to pull this information together. I believe there's consensus that we have a significant problem with PERS; I just believe that it deserves due input, research, and analysis before a solution can be proposed.

MS. TANNER urged the committee to postpone any decision regarding the bill until such time as that research can be effectively accomplished.

[6:17:28 PM](#)

CONTESSA GOSSETT testified on behalf of herself in opposition to SB 141. She told the committee that she is an employee of the State of Alaska, in the Division of Juvenile Justice, within the Department of Health & Social Services. She stated concern that the proposed legislation would freeze the retirement costs for present employees and substitute an inferior investment-based retirement plan for new employees. She offered her understanding that supporters of the bill are willing to trade away a generation of qualified and professional state employees to avoid extending retirement system benefits, and that the bill would actually transfer the risk of investments and decisions from the employer to the employee.

MS. GOSSETT indicated that it makes sense for the employees to have a say regarding the members on the board. Ms. Gossett also expressed concern that state salaries have not been keeping up with inflation, which will make it difficult to recruit new employees. She noted that other states currently participating in defined contribution plans - such as West Virginia and Nebraska - are returning to defined benefit plans. She stated another concern is that passage of SB 141 would mean replacing the existing PERS, TRS, and ASPIB boards with a 9-member board that would be appointed by the governor.

6:19:29 PM

CHAIR SEATON asked Ms. Gossett if she is opposed to the administrative hearing procedures. He clarified that the state has a series of administrative hearing officers - judges that just hear appeals, and that's who would be hearing the appeals. Currently, those appeals are mostly heard by the PERS and TRS Boards.

6:20:18 PM

MS. GOSSETT responded that she is new to this topic; however, she shared her feeling that as a state employee she would "want to have more involvement."

6:20:38 PM

ANDREA ANDREWS testified on behalf of herself and "other state employees" in opposition to SB 141. She told the committee that she is a union steward and a state employee in the Department of Health & Social Services. She said the first issue she has regarding the bill is the cost increase to state employees, and the second issue is that the bill would not make working for the state attractive. Ms. Andrews indicated that, as a single mother trying to make ends meet, it's difficult to support a plan that would take more money out of her paycheck. She said she would like to see further investigation done to seek other alternatives. She applauded Senator Elton for his arguments against the bill. She said that although Senator Stedman's reasoning for supporting the bill exists, there are other alternatives to consider.

CHAIR SEATON asked those testifying to refrain from discussing what the intentions of legislators may be regarding the legislation and to focus instead on the legislation itself.

6:22:49 PM

KEVIN BRENNAN, testifying on behalf of himself in opposition to SB 141, revealed that he has been a public servant employed by the Alaska Department of Fish & Game for over 20 years. He stated that he has given many uncompensated hours and forgone higher pay in the private sector because he believes in what the state has stood for. In return, he receives a stable retirement benefit. He emphasized how much it bothers him to see some of the bills being put forth [regarding PERS and TRS] and "what that will do to the quality of the people that we have in state

service." He predicted that it would become increasingly difficult to hire anyone who has any interest in staying with the state or providing good service. He said the bill would punish workers who didn't cause the problems. He stated his belief that the bill would not do anything to resolve the unfunded problems of PERS and TRS. He indicated that state salaries have not kept up with inflation and "this will only make it more difficult for us to do the jobs that we need to do."

[6:25:09 PM](#)

MR. BRENNAN, in response to a question from Representative Gatto, said a study was done that shows that there is "a potential for under funding at a future date." He said he would like a study done to see if that's correct. He would also like to see more options explored before a big step is made into creating a new tier for the retirement systems.

[6:25:47 PM](#)

REPRESENTATIVE GATTO restated his question to ascertain whether or not Mr. Brennan feels that the current system he enjoys now is in jeopardy.

[6:25:57 PM](#)

MR. BRENNAN answered that he feels the system was underfunded, but that that was "not a problem of the employees."

[6:26:01 PM](#)

PAT HOLMES told the committee that he has been an Alaskan most of his life and worked 18 years in the private sector and 25 years with the state. He said he is retired and suggested it could be said that he is speaking for all the retirees in his area. He agreed with the former testifier, Mr. Brennan, that there should be more information on the premises made regarding the potential shortfall, before the legislature [performs] "major surgery." He suggested that the legislature hold back on the bill and get a second opinion. He expanded on his surgery analogy.

MR. HOLMES said he thinks having a single board or relying on administrative hearings is "not in the best interest." He asked, "How can you have an administrative person that understands what it is to be a teacher?" He stated his strong

objection to the concept of having a government-appointed board doing the management and review, because he thinks, "a person should have some choice as to who sits on their retirement board."

MR. HOLMES revealed that one of his last projects with "the department" was out in the Aleutians. He said, "Basically you get what you pay for." He said that, since his retirement, he has seen a salmon-related area management job that has remained open for more than two years. He said when he started back in 1973, there would have been 30 people lined up to get that job. He offered his understanding of a study done a few years ago "for the department" which showed that people who left the department and went to work for the federal government earned 15 percent more, while those who transferred to the private sector earned 30 percent more. He recalled that when he was active in union negotiations, several times the [pay] increase was stayed in order to maintain benefits over the long run. He noted that, in 1997, there were hearings to reduce benefits and wages for state employees, and he invited the Senate committee reviewing that issue to join him on his aerial salmon surveys in the Aleutians. He said no one came.

MR. HOLMES observed that state employees, particularly the ones in the ADF&G, "give their heart, their soul, their family for what they contracted for." He complimented the committee for working after hours on the issue, and he indicated that there are "tough calls" to be made. He reiterated that he would like the committee to put aside a decision until more information and other options are found.

[6:30:24 PM](#)

CARLENE AUGÉ, testifying on behalf of herself, told the committee that she is attending school part-time while she works full-time for the State of Alaska Pioneer's Home at a Custodial range 1 - an entry level. She said she can no longer recommend working for state to her children, because "we're constantly under attack from the administration." She said [SB 141] has frightened many people, including her coworkers. She asked, "Why are you hurting us? Why are you constantly trying to find ways to eliminate us, and get rid of us, and cut our pay and benefits? It's not right. One of these days you're going to push people too far and then we're going to start voting against you."

[6:31:31 PM](#)

CHAIR SEATON, for the purpose of clarification, stated that a new tier would not affect anybody who is a current PERS or TRS employee. He said the benefits of those current employees are guaranteed constitutionally; they are secured, paid at the scheduled rate, and will not be diminished. He added that he doesn't mean that anyone who is currently employed in PERS or TRS cannot oppose the bill; he just wants them to know they "don't need to fear that their benefits are in any way being changed."

[6:32:23 PM](#)

BONNIE SULLIVAN testified on behalf of herself. She stated that the labor, trades, and crafts members currently in PERS are "depending on the state's retirement to help them through their golden years." She said the fault of the unfunded liability is not the fault of current or future employees. She stated that SB 141 does not address or resolve the unfunded liability of PERS/TRS. She opined that all workers deserve to know how much of a monthly income they will be getting when they retire, and SB 141 would not guarantee that for new hires.

MS. SULLIVAN noted that there are states currently in defined contribution plans that are returning back to defined benefit plans. She said there is a reason they are doing that and she doesn't understand why Alaska's legislators are not contacting those states to find out why. She also questioned why the legislators aren't waiting for the second analysis, which she said she believes has been requested and is in progress, before pushing forward a bill. She said the State of Alaska has been committed to a sound retirement system since before statehood, and as a voting member of District 10, she said she would like to see that system stay in place for current and new employees.

[6:34:01 PM](#)

TIM VIAVANT, Employee, Alaska Department of Fish & Game, testified in opposition to SB 141. He urged the legislature not to act to modify PERS and create a new tier without further research and more planning. He said, in relation to many other states' pension systems, Alaska's PERS and TRS funding is actually in better shape, and the shortfall in funding is more related to the effect of future health care costs than it is to pension payments. He continued as follows:

I'd also like to point out that one of the ... causes of the anticipated shortfall in PERS is that retirees in both systems receive automatic cost-of-living adjustments that are based on the Anchorage CPI, while existing wage earners have not received wage adjustments that are equal to those of retirees. So, obviously, the pool of people paying in -- rate of increase is rising more slowly than those of retirees.

I'd like to state that, [regarding] changes in makeup on the PERS and TRS Boards, I fail to understand how preventing members from serving on the boards is supposed to fix this problem. And I must state that I feel that this aspect of this bill is politically motivated and has very little to do with solving the problem.

MR. VIAVANT said creating a new tier and increasing current employees' contributions will hurt recruitment of new employees and retention of current employees - particularly those who are not vested in the system. He concluded, "All of those things will contribute to hurting the existing workforce."

[6:37:04 PM](#)

SCOTT LEIGH testified on behalf of himself in opposition to SB 141. He noted that he has been a State of Alaska employee for the past 11 years, and he is the northern region chair for the APEA AFT Local 4900 supervisors. He said he understands that there is a perceived and potential problem, but he also believes that "this is a window of opportunity to work with the public employees of this state to provide a win/win scenario." He said that can only happen after all the facts - including second opinions - are known. He said the current system has loopholes that should be patched before adding additional funding "on the backs of current and future public employees."

MR. LEIGH said that, as a professional engineer, State of Alaska employee, and a hiring manager, he finds his job of recruiting, hiring, training, and retaining qualified employees becoming increasingly difficult. He said in the years of bounty the state reduced contributions, to the detriment of public employees. Now, after some lean years, the [public employees] are being asked to bear additional burden "with additional charges against our retirement system." Mr. Leigh stated his belief that SB 141 begins to treat public servants as a liability, rather than as the resource they are. He encouraged

looking into other options. He stated, "Public employees did not cause this problem, but given the chance I believe that they can be proactive in a solution that is in the best interest of the State of Alaska."

6:39:13 PM

MARTIN BRANVILLE, testifying on behalf of himself, said he is a state employee, a heavy equipment operator, and is close to retirement. He said he is Tier I, so the proposed legislation would not affect him; however, he stated his belief that it would affect the quality of personnel that will be available to recruit "from here on out." He revealed that his father retired after 13 years "out of Local 302," and his retirement is more than Mr. Branville's will be after 25 years. He also noted that a friend of his working in the private sector, who will be retiring at about the same time, will receive a retirement pension of between \$9,000 and \$11,000 a month. He stated, "So, I think for you to keep cutting the retirements of future employees is only going to hurt the State of Alaska and cause a lot of problems down the road that you're going to have to go back and try and fix again. And you'll be in the same problem you are in now, only you're going to be going the other way."

6:41:29 PM

JEFF JABUSCH, Finance Director, City of Wrangell, stated that one concern is the rapid increase of the employers' share. He said, "Next year, our share will be about \$126,000. We also got word that our group insurance is going up 22 percent, so for another \$153,000." He said Wrangell is attempting to rebound its economy. He said, "Something like this - we applaud the bill in general. I think we're on the right path to help save some of these communities." Mr. Jabusch warned that if things continue as they are without a funding mechanism to at least bridge the next couple years, [the City of Wrangell] is looking at the possibility of laying off close to 15 percent of its general work force, including police, fire, library, and schools. He said he doesn't know how Wrangell can survive without some change, and he said he thinks the bill may need some tweaking, but in general is on the right track towards "balancing some of these budgets." He recommended, "Any help the legislature could give communities to funding the PERS shortfall here in the next couple of years ... would be greatly appreciated." He mentioned Wrangell's timber industry-related problems.

[6:44:41 PM](#)

BOB PLUNELLA, City Manager, City of Wrangell, said he hasn't had time to study the entire bill, but indicated his concurrence with the testimony of Mr. Jabusch.

[6:45:28 PM](#)

CHAIR SEATON noted that SB 141 would allow for \$69.5 million, which would basically be for PERS funding in the next few years.

[6:45:44 PM](#)

MR. PLUNELLA said that sounds good, and he told the committee to keep up the good work.

CHAIR SEATON noted that many people think there has only been a second opinion requested; however, Legislative Legal and Research Services has requested a third opinion. He said nothing will be passing the House today; the bill still has to be heard by the House Finance Committee.

[6:46:51 PM](#)

LESLIE SIMMONS, testifying on behalf of herself and representing the southcentral state supervisors [APEA AFT-SU], informed the committee that she is an employee of the Department of Environmental Conservation (DEC). She said she supports the legislature's attempts to find solutions for the problems facing the state government; however, she believes that the proposed plan is no solution. She said SB 141 will create additional problems and does not resolve the problems at hand. State employees as a whole are a benefit to the state, she said, and thus deserve to be regarded as such.

[6:47:47 PM](#)

PAT LUBY, Advocacy Director, AARP-Alaska, returned to a question by Representative Gruenberg earlier in the morning regarding whether someone could outlive a defined contribution pension plan. He said the answer is yes. He noted that PERS and TRS employees do not participate in social security, which is basically a defined benefit plan. He confirmed that it's true many companies in the private sector have switched from a defined benefit to a defined contribution plan; however, the private employees all participate in social security and retain the defined benefit provision of social security. He stated

that a person cannot outlive social security, but he/she can outlive a defined contribution plan. Should Alaska adopt a defined contribution plan and drop the defined benefit plan for new hires, it should seriously consider that some of the state's future retired educators, municipal retirees, and state retirees may very well outlive their defined contribution plan - particularly those in the lower pay grades. He questioned how the state would be able to deal with those people in the future when they have no social security and have outlived the PERS or TRS contributions. He said none of us knows how long we will live, nor can we predict what inflation will be in the future and the damage it may reek on a defined benefit contribution.

MR. LUBY emphasized that changing the retirement system is serious business with serious consequences. He said AARP recommends that the House State Affairs Standing Committee consider delaying action on SB 141 and all related bills until 2006, and to hold hearings throughout the state during the Interim, involving the various employers and potential employees that may be impacted. He said AARP has a number of retired educators in its membership who remain vitally concerned about the quality of education throughout the state and worry about Alaska not being attractive to young teachers who can go Outside and find better benefit programs. He added, "Frankly, we have the same concern about not being attractive to young police officers and fire fighters - anyone who might wish to work in municipal or state government." He said he knows Senator Stedman has indicated that he has worked on the issue for over a year; however, constituents and AARP members have many questions related to a bill they only found out about when it was put forward in the last few weeks.

[6:50:47 PM](#)

STACY OATES, testifying on behalf of herself, told the committee that she is an accountant for the Division of Motor Vehicles, a hiring official, and a vested PERS member. She said she has three basic issues with the bill. First, as a hiring official with the state, it's already a challenge to get good employees. She remarked that what makes [the state] marketable is its benefits, "since our spending power as state employees has decreased so dramatically in the five years, or so." She illustrated that five years ago she had 50 applicants for most of her Accounting Clerk II positions; now she's luck to get 25. Second, Ms. Oates stated her concern about changing the board. She posited that any board should be approved by the affected members; retirees and current employees should have a vote. She

specified that she does not feel that board members should be appointed by one political person. Third, Ms. Oates said this issue is too important to decide quickly; therefore, she urged the legislature to slow down and obtain more information. She stated that the system is not in immediate jeopardy and more deliberation should be done.

[6:52:26 PM](#)

STEVE HOFFMAN, testifying on behalf of himself, told the committee that he worked for the Alaska Department of Fish & Game for 28 years, and for a majority of that time held a supervisory position. He said in the last 5-10 years, recruiting new employees has become increasingly difficult. Potential employees are comparing the state's wages and benefits to that of the federal government and private sector, and they are "finding more lucrative opportunities in those arenas." He stated that the development of a Tier IV plan would further erode the ability to recruit long-term, devoted employees who are interested in doing the best job for the State of Alaska.

[6:53:40 PM](#)

CHARLIE ARTEAGA, testifying on behalf of himself, revealed that he is a 37-year resident of Alaska, a retired former educator, and the most recently retired member of the TRS Board, which he chaired for a number of years. He stated that SB 141, HB 238, and the initial report brought out to the PERS and TRS Boards by its internal committee are all similar. He said, "They are a piece of a 'well bill,' if you will, that I do not care for." Mr. Arteaga specified that he opposes the defined contribution elements of all those reports and bills. He also stated opposition to the minimal provisions of the medical portion of the proposed benefits. He said:

We have been here before: Back in the late 70s/early 80s the funding ratio in TRS was something like 68-69 percent, and we got close to 100 percent by the year 2000. The same with PERS - they were actually over 100 percent back in the year 2000. The major problem that we have encountered in the last five years, of course, is the decrease in the market. And the second item, of course, is a humungous increase in medical insurance premiums. That's where the problem lies. To diminish the benefits of future employees in Alaska because of those two reasons, to me seems completely and totally out of line. If you're going to do

something, it seems to me that you need to do it right; I don't think you need to be blackmailed into poor decisions. I think you need to take a look, over a period of time, as to what is best for the future employees of this state.

MR. ARTEAGA said he resents when it is stated that [a change to employee benefits] does not affect him because he is retired. He compared that to the President [of the United States] saying if a person is over 55 a new social security would not affect him/her. He stated that he has a son that is currently getting ready to become a teacher, and he speculated that he might have grandchildren who might want to come to Alaska to teach, and "it will definitely affect them." He urged the committee to "take your time, take a long look, and make the right decision." In regard to hearing procedures, Mr. Arteaga said he thinks PERS and TRS must have member representation, preferably elected versus appointed. He said it's important that active and recently retired members have a body that will hear them, will know their concerns, and are familiar with the issues of their employment.

[6:56:59 PM](#)

DUANE MORAN, President, Anchorage Council of Education, which is affiliated with APEA AFT, testified on behalf of the council. He said he has been in Alaska for 27 years, but only 7 years in public service. Regarding the bill's potential impact to current employees, he proffered, "I know for my bargaining group, for the next fiscal year starting July 1 we have a 0 percent increase. Even [with] a .5 percent [increase] we would be ... going further behind, let alone anti-inflationary impact." Regarding the retention of qualified employees, he said one of the things that has always struck him meeting people who work in the public sector is that they tend to stay when there is an incentive to stay, for example, when there is a better retirement the longer an employee stays. He said there is a cost associated with employee turnover, because of having to train new employees. Changing to a defined contribution plan, he predicted, would "make the portability for people to leave that much easier." Mr. Moran stated that it's been reported that there is a major problem, which he said he can't dispute; however, he equated the situation with surgery. He clarified that it is important to get as many opinions as possible, in order to make the best decisions possible. He emphasized the appropriateness of prudent steps during deliberation.

CHAIR SEATON reiterated that the committee would be getting a third opinion regarding the actuarials, and there would be an additional opportunity [for the public to testify] before the House Finance Committee, if SB 141 moves from the House State Affairs Standing Committee.

[6:59:47 PM](#)

SANDRA BESSER, President, Fairbanks North Star Borough Employee Association, Local 6125 APEA AFT, said she is an 18-year employee of the borough speaking in opposition to SB 141. She said the projected shortfalls have occurred for a number of reasons, none of which are because of the employees. She recommended a thorough review of all the options for addressing the shortfalls, rather than "just jumping on one of the easiest, which is passing it off to the employee." She said, "We're having an increasingly difficult time recruiting qualified employees right now; we have some positions that have been vacant for extended periods of time." She said the effect of SB 141 would not only affect employees, but also consumers. She said, "I want to look at the quality of my child's teacher and know that they have someone that is qualified and is more than just walking in and taking a paycheck because they don't make enough to care." She said she feels the same about fire fighters, policemen, and "all these people ... who are out here giving our hearts to the state." Ms. Besser said there are a lot of jokes circulating about government on the low bid. She stated that she doesn't want to see the day when that's how people look at public employees. She indicated that the reason she is testifying is because, "as Alaskans, we too are looking at the future of our state and those it ... employs" She urged the committee not to pass SB 141.

CHAIR SEATON said the purpose of listening to all this testimony is to hear "the full breadth of comments."

[7:02:26 PM](#)

BURNS COOPER, testifying on behalf of himself, stated that he has been an employee of the University of Alaska Fairbanks for 15 years. He pointed out that any plan that raises contributions is, in fact, a cut in benefits. A retirement plan for PERS and TRS members is two-pronged, he said: the pension plan provides some basic security, but it doesn't cover all of an employee's retirement expenses. Employees are expected to put away as much as possible into other savings plans, such as

[tax-sheltered annuities (TSAs)]. He said, "These plans have already been hurt by other financial forces - rising health care premiums are taking another bite out - so, our ability to save and be ready for what's going to happen in retirement is already compromised, and taking more out of our paychecks is just going to make that worse."

MR. COOPER emphasized his agreement with former testifiers that this crisis was not created by employees, but was created primarily by bad management, persistent under funding, management transferring costs from other areas into the pension funds for things like early retirements, and a lot of other factors. He stated that weakening the pension system is just going to add to the already existing problem of recruitment and retention. He revealed that he has been in on the hiring processes for three different job positions this year and several candidates were lost to other jobs offering higher salary and benefits. He concluded that the worse the benefits package gets, the harder it will be [to find and retain employees]. In response to a question from Chair Seaton, he said he is a participant of TRS.

[7:05:15 PM](#)

GERRY GUAY, Chair, Southcentral chapter, state supervisory, [APEA AFT-SU], testified on SB 141. He said, "As a state supervisor, I think we all recognize the value of good workers to the mission of our respective departments. We believe the proposed change in our retirement system would only serve to jeopardize the quality of state workers in the future." Mr. Guay said workers receive compensation for the work they do. He said, "Our total compensation package is comprised of a base pay, a medical coverage, and a retirement. And if we worked in industry, there's probably bonuses and all kinds of other stipends that state workers never get a chance to see." He said while many state workers have forgone higher paychecks, which would have enhanced their daily life, they "except the promise of a fair retirement package that will sustain them through their golden years." He stated that SB 141 would only jeopardize that promised package and make the hiring of skilled replacement workers much more difficult than it currently is.

MR. GUAY said he works in the Department of Environmental Conservation as a hiring manager. He said he has difficulty finding qualified workers who will continue to provide the level of service state workers currently provide. He said he is currently attempting to hire somebody. Federal workers in a

comparable position level would make slightly more than in the level for the state; however, the federal worker gets a 25 percent nontaxable Cost of Living Allowance (COLA). He noted that in [the private sector] that level job would provide two to three times the amount of money that he can offer his prospective employee. The private sector employee is offered a 401K plan, "but they get a lot of money up front." He concluded, "So, I guess if you want to keep good workers in the future, and you want to take away the good retirement system that we have - which is a guaranteed retirement system - then you're going to need to double our pay to give us the 401K retirement."

[7:08:13 PM](#)

SANDRA BOATWRIGHT, testifying on behalf of herself in opposition to SB 141, told the committee that she is a staff member at the University of Alaska Fairbanks. She said she thinks the legislature should not consider passing the bill without a lot more study. She noted that her own health care costs increased a great deal last year and will be raised again in July. She added, "And now it sounds like my employee contributions are going to go up, as well." She said when she took her job 12 years ago, she made her choice for PERS/TRS based upon the plans that were offered and the contract that was shown to her. She said she has invested her money based on that plan. She said, "I think I've lived up to my part of the bargain. I'm a good employee and I've given all my work to this job, and it's not fair for you to change what I was promised." She also pointed out, "This just seems to be part of a trend of pushing costs off onto employees, and I think there are better ways to deal with this." She stated that she thinks the proposed governor-appointed board is a bad idea, because that would completely divorce the stakeholders from the people who going to actually be managing the money and the benefits.

[7:09:46 PM](#)

PAULETTE WILLE testified on behalf of herself in opposition to SB 141. She noted that she is in agreement with many of the comments made by previous speakers. She stated her belief that SB 141 "sort of throws the baby out with the bath water." She described the bill as "a Draconian measure" that won't deal with the financial problems currently faced in PERS and TRS. [Those problems], she indicated, seem to be the result of bad investments that the entire country has suffered under for the last few years, and also poor management decisions. She

indicated that she does not support having the board populated by political appointees, because stakeholders in the system who vote for representatives on the board have a real vested interest in seeing that the board is managed properly.

MS. WILLE revealed that she has worked almost 30 years either with the University of Alaska or, more recently, the State of Alaska, and every pay period she made her contribution to PERS and her employer made a contribution along with her. She noted that over time, as she made contributions to the retirement system and towards health insurance, she has had increasingly less money to contribute to her personal savings accounts, which include a tax sheltered annuity with the state and deferred compensation with the university. She stated her point is simply that she thinks plenty of state employees who are contributing to the system face the same situation. She said, unfortunately, there is a national and state effort to devalue public employees of all kinds. She said she is not surprised by that effort in the state, but she is disappointed by it. She echoed the sentiments of [Mr. Arteaga] regarding being concerned with more than just one generation. She added, "I'm concerned about the health of the system as a whole and the services that the State of Alaska provides to itself and to members of the private sector." She said she thinks the move to defined contribution retirement systems wouldn't just affect public employees, but also would affect private employees. She said she's heard the issue of hiring and retention for years. She said if people don't think they can afford to retire in Alaska because benefits will be reduced, "they'll go someplace else." She recommended "going slowly on this and reviewing it carefully" in order to benefit the entire state.

[7:14:41 PM](#)

VIOLA "VI" JERREL, Ph.D., testified in opposition to SB 141. She said she thinks "the five-year eligibility should be deleted for the ... council members, assembly members, and so forth." She indicated her support of voting for board members, rather than having them appointed. She said, "I read in there somewhere a line about ... the state having ... control, or having prescriptions ... purchased in the state, and so forth. I absolutely object to that." She indicated wanting to keep Aetna insurance.

DR. JERREL expressed appreciation that there are a number of attorneys serving as legislators. She noted that last week Representative Gruenberg was citing statutes related to the

legislation being discussed and she appreciated that, because that allows people to tell what a certain statute is before making decisions during committee meetings. She noted that last week a speaker gave potential reasons and background as to why there is a shortfall of money and made the point that it isn't the fault of the employees. She stated she thinks it's important to oppose SB 141 and find a better way, without using a quick fix.

7:17:09 PM

TIM JESTER testified on behalf of himself in opposition to SB 141. He noted that he is a former elementary teacher, a parent, and currently a professor at the University of Alaska Anchorage. He stated concern that SB 141 would undermine the quality of public education in the state, by making it much more difficult to attract qualified individuals to teach. As a result, the children of the state would not receive the kind of education they deserve and [the state] is obligated to provide. He asked the committee members that, if they believe that issues exist related to the retirement system, they slow down the process and thoroughly examine the problems in a systematic, formal process, and then make a deliberate decision that will improve the state's education system.

7:18:41 PM

LUKE HOPKINS, testifying as an [employee] of the State of Alaska, after 30 years of service at the University of Alaska Fairbanks, asked the committee to consider holding the bill [and related bills] through the interim and establishing a review committee that would move around the state and take testimony from the public. He suggested the committee could [research] other states' actions in changing back [from a defined contribution plan] to a defined benefit plan, and make that information available to the public. He also recommended establishing an advisory board of citizens from around the state that could review the actions of the current PERS and TRS Boards. That advisory board could then advise the legislature. He stated his personal view is that [this legislation] is moving too fast.

MR. HOPKINS, speaking now as a member of the Fairbanks North Star Borough assembly, stated the following:

I am concerned ... [about] the actions that are, in my view, holding some of the funding that the governor

set aside in the passage of these bills, both for the school district funding of PERS and TRS share - which in Fairbanks is about \$4 million, I believe, and for the borough administration it would be about almost \$900,000. And soon we'll be ... back to the cycle of issuing pink slips. And if something happens where this money isn't (indisc. -- coughing) from the bill for some other reason, ... we're going to have a ... major effect on jobs, and therefore on families in this community.

7:22:47 PM

MIKE DAVIDSON testified on behalf of the Alaska Professional Fire Fighters Association in opposition to SB 141. He stated his belief that the proposed legislation is an attempt to solve a problem that has not been clearly defined, and he said it would be imprudent to push such legislation through. He said the proposal is a "radical reinvention of the state's retirement system" and raises concerns about both recruitment and retention. He reported that the Anchorage Fire Department has had great difficulty attracting and retaining employees, particularly paramedics. He said those employees consider their retirement once they are employed and are open to outside offers. He indicated that portability is one of the key elements being discussed, but that trait is not desirable in his line of work; once employers get employees, they want to keep them. He mentioned the high cost of job training. Mr. Davidson said he thinks the state should slow down the process to allow for a "thorough vetting of the problems" and to define the exact issues that led to the problems within PERS and TRS.

7:25:36 PM

BEN STEWART, testifying on behalf of himself, told the committee that as a 36.5-year, Tier I state employee, at first he didn't think the bill would affect him; however, he thought of his children. He stated that the bill is moving too fast, and he said he would like the legislature to back off, take a better look at the issues, and listen to the constituents. He said the retirement system was good when he started working in 1968. Each tier that has been added has eroded the system a little bit more. Now, recruitment of qualified employees is difficult. When an employee is not up to the level he/she needs to be, then more money must be spent towards training. He pointed to bad management in municipalities, as well as both a lack of foresight and procrastination. He stated that he would like to

see the PERS/TRS Boards remain unchanged. He offered his understanding that, due to decisions made by the boards in fiscal year 2004, there was a nearly 15 percent return on the retirement investment.

[7:28:35 PM](#)

MIKE HARBAUGH, testifying on behalf of himself in opposition to SB 141, revealed that he works in maintenance for the Department of Corrections and is a Tier II employee. He said he is also representing his wife, children, and grandchildren. Regarding whether the legislation would affect him as a Tier II employee, he answered yes. He explained that it would affect the contribution rate and, thus, would affect an employee's take-home pay in the future. Regarding the management board, he said he could not have confidence in a board whose members he cannot vote for. He said it may be true that the current board did not do such a good job and there may be a reason for eventually increasing the amount of the contribution by a small amount. He said, "I'm willing to do that if the state's willing to do the same. But to put it all on us isn't fair, and therefore I'm against ... SB 141 and any other attempt right now to change the current and future PERS/TRS retirement benefit." He stated his belief that the legislature should do further research and conduct large meetings with stakeholders to come up with a solid way to fix the current problem without throwing the system away. He continued as follows:

I don't believe you're getting pertinent and correct information on a lot of the things that you're asking. I heard this morning there was a Senator that was testifying and the Director of [the Division of Retirement & Benefits] was with him, and you asked them if there was a current disability included in the current Tier II system, and they said there wasn't, but there is. I don't know if they didn't know that or what the problem was, but that was an incorrect answer; you're not getting all the right answers.

MR. HARBAUGH reported that plumbers are getting \$5 an hour more on the street than state plumbers are. He said he already has difficulty hiring a plumber, and he indicated that it would be more difficult to do so if the state benefits are cut further.

CHAIR SEATON clarified that when the committee talks about the proposed legislation not affecting those in Tier I, II, or III,

it only means that those employees would not be converted to the new tier.

7:33:36 PM

REPRESENTATIVE GARDNER clarified that, under AS 39.35.095-680, there are disability benefits under current regulations, and she doesn't believe that those benefits would continue under SB 141, for anyone hired after July 1, 2005.

CHAIR SEATON said he would be inviting the [Division of Retirement & Benefits] to clarify that issue.

7:34:13 PM

JOE DINNOCENZO, testifying on behalf of himself, said he has been a state employee within the Alaska Department of Fish & Game for 20 years, spread out over the last 32 years. He said he has been listening to the prior testimony and thinks the strongest theme is in relation to recruitment and retention. He said he thinks the legislature has a strategic choice to make whether it wants a state workforce with high turnover versus dedicated employees that are paid at a better rate. He said, "Anything you do at this point to devalue the benefit package that is currently being offered state employees is only going to make the problem of recruitment and retention worse, and probably make state government programs less efficient." He explained that the changes will not affect his retirement; however, it will affect state government, which concerns him as a citizen of the state. He said he sympathizes with the plight of Wrangell, but said his family has "those same increased costs in insurance, in fuel, and, on top of that, [in] city property and sales taxes. He indicated that any increased contributions required in PERS would be on top of those costs.

MR. DINNOCENZO said:

The state government runs ... partly on the good will and devotion of state employees to the mission they are assigned to, and over my career I've seen that diminish in the work force that I work with. I certainly wouldn't like that trend to continue; it's pretty alarming for me.

... I think fairness demands accountability of whatever board governs decisions about PERS; whether it's the board we have now, or some combined board.

And I think it's essential that beneficiaries have a way to help select who's on that PERS Board.

7:37:51 PM

CHAIR SEATON noted that the committee had passed an amendment regarding the selection of the board members.

7:38:24 PM

JOHN DICKENSON, supervisory employee representative, testifying on behalf of APEA AFT-SU, said he was born in the Territory of Alaska and was in the sixth grade when Alaska was made a state. He has a degree in Civil Engineering from the University of Alaska. He offered his work history. He said he is a Tier I employee, who is concerned about the quality of life that he would enjoy as a citizen of the state. He said he wants his state government staffed by competent people who know what they're doing. He also stated concern for his fellow employees who have less time in service than he does. Regarding the issue of recruitment and retention, he said he thinks the Department of Transportation & Public Facilities has been "a really good place to work with so far" for reasons he listed. However, he related a difficult hiring experience. In conclusion, Mr. Dinnocenzo suggested that the committee look at the positions that are currently being advertised through Workplace Alaska and consider the listed minimum qualifications and how easy [or difficult] it would be to fill those positions.

7:43:07 PM

ROSS MARLEY (ph), testifying on behalf of himself in opposition to SB 141, said he recently spent a year and many dollars to get a teaching degree, but then decided to go for a career path in the private sector instead. He said he realized if he were to go into teaching, he would never have "a financial leg to stand upon." He continued, "This is unfortunate, because teaching is an intrinsically rewarding career path; I simply cannot afford to choose it. Passing SB 141 will simply confirm my choice as a highly qualified job candidate to leave the public service and pursue a career path in the private sector."

7:44:34 PM

BARBARA RICH, testifying on behalf of herself, told the committee that she is a retired teacher who used to be a "watch dog" in Juneau for the retirement system. She stated that the

retirement system is "in better shape than most people are trying to say it is." She said most of the problems exist because of high medical costs. She noted that when a bill for a retirement incentive program (RIP) was brought before the legislature in the past, "we testified wholeheartedly against this" but were not listened to; the legislation was passed quickly. She added, "Something similar to SB 141." She stated her hope that the legislature would listen to testifiers this time. Ms. Rich offered an example of the effects of the RIP, illustrating just how much money would have been in the retirement system now if the multiple RIPs had not taken place. She asked that the legislature does not rip apart the retirement program. She echoed the previous comments of Ms. Luby that social security is a safety net where it is offered, but said there is no safety net for teachers, and they can outlive their defined contribution. She said the actuaries are not doing a good job and there is a need to find people who will do a good job. She asked the committee to take its time.

[7:47:51 PM](#)

REPRESENTATIVE GARDNER asked Ms. Rich if she knows of any reason that the existing PERS and TRS Boards should be changed.

[7:48:19 PM](#)

MS. RICH answered no. She said those boards have done an excellent job. Regarding TRS, she noted that there are two people on the board who have done such a good job that no one runs against them. She reported that 40 percent of all prescription drugs used now are generic drugs, because the TRS Board requested that people take generic drugs [which save the system money].

[7:49:36 PM](#)

REPRESENTATIVE GARDNER noted that the committee had heard previous testimony that over the past 20 years, the PERS and TRS Boards did not take the actuary's advise in terms of setting rates, which ended up benefiting the system. She asked Ms. Rich, "Would you concur with that?"

[7:51:24 PM](#)

MS. RICH answered no.

[7:51:32 PM](#)

REPRESENTATIVE RAMRAS thanked Ms. Rich; he recollected that she was a school counselor.

7:52:05 PM

JIM DUNCAN, Business Manager, Alaska State Employees' Association (ASEA), testified on behalf of the approximately 8,000 current active ASEA members in opposition to SB 141. He stated his belief that the issue before the legislature is a complex one that deserves serious and comprehensive review. He urged the legislature to take more time. He noted some of the reasons for the current problem are: the poor returns on investments in the stock market, the rising cost in health care costs, increased longevity of retirees, and the fact that the state actuaries did not recognize some of these factors and make the right assumptions and projections. None of the problems, he said, were, or will be caused by current or future employees, but the bill asks those employees to assume the responsibility. He stated for the record that he thinks that's wrong.

MR. DUNCAN reviewed the ways that SB 141 would make those employees pay: by increasing the employee contribution for all active employees by .5 percent per year until it reaches a cap of 11.75 percent. He said that doesn't sound like much, but for those working at a range 8 or lower, any amount of money out of their take-home pay is a lot of money. He continued as follows:

I believe strongly that that's an unconstitutional provision in this bill; that to increase the contribution rate on active employees violates the state constitution. And I would let you know that if this legislature should pass that, ... my union will be challenging that in court, and I'm sure other unions will be doing likewise

I heard this morning, Senator Stedman - who I've talked to many times about this bill - say, "Look, don't worry too much about the .5 percent because they all have collective bargaining agreements; they'll just go back to the table and recoup that .5 percent." There's a problem with that: It's been very difficult to get ... cost-of-living increases at all for state employees. In fact, my union has gone for ... almost three years without an increase, and this year, on July 1, we're going to get 1.5 percent, and the .5 percent's going to go to the retirement system if this

passes. ... The problem is we don't go back to [the] table for a new contract until ... July 1, [2007], ... so to use an argument to justify this ... is wrong.

7:55:27 PM

[Second], you're asking our ... future members to pay for this problem by moving from a defined benefit system to a defined contribution system. What you're saying is the state no longer wants to take the risk with the stock market; you want the employee to take the risk and have their benefits hinge on the return on the investment. And that is not a good ... scenario for the members that we represent or will be representing in the future. It takes some sophistication to have good investments, and I'm not convinced at all this has that sophistication, but you're asking our employees to assume that.

Third, this defined contribution system does not have a provision for disability payments. It does not even have a real good death benefit, because if a retiree should pass away, the survivor will only get a death benefit as long as there's still money left in the defined contribution system. And that survivor, that spouse, that wife, may very well outlive that payment, and at that point they've got a very serious problem.

... There is no safety here for future retirees ..., and in the State of Alaska, our state employees don't even have social security to fall back on. Now, other states have talked about moving from a defined benefit to a defined contribution system. Some have done that - Nebraska and West Virginia - and now they've moved back, because they found it didn't work. One state was just recently talking about that - the State of California. Governor Schwarzenegger had it as one of his major, major initiatives, and just a week ago he backed off because he also understood, or the folks he was going to do this to understood, that it wasn't going to work for them. And his plan, just like this plan, didn't have a disability, or ... a death benefit. I think you need to very carefully need to consider what this bill will do to future employees.

7:57:35 PM

MR. DUNCAN continued as follows:

There are some things that I think you should do, and you are doing some of those and I congratulate you on that. Another opinion: Have another set of actuaries look at those assumptions that were made and make a determination as to how real this problem is and what it's going to look like into the future

Secondly, I think you should ask that actuary to look at what's going to be the impact on those current employees who remain in [PERS]. When you ... no longer have a pool of new folks coming in to contribute to [PERS] - all of a sudden there are no new additions - what really does happen to the valuation of [PERS] for those current employees, and what will they be required to do in order to ... continue to make that system whole?

MR. DUNCAN also recommended that the committee consider the impact of the proposed legislation on recruitment and retention. He said, "As someone who ... was in the legislature for 24 years, I know that the State of Alaska has a problem with recruitment and retention." He indicated he saw that problem as a former commissioner of administration. He said he knows that when a defined benefits system is changed to a defined contribution system, the hard-to-fill jobs become impossible to fill. He continued as follows:

I heard ... a member of the legislature testify the other day ...: "Wait a minute, don't worry about this; we're about number three in the nation now with our retirement system. This will put us right in the middle of the pack, and that's where we should be." I couldn't disagree more. We should never be in the middle of the pack. We should always be at the top of the list, and not in the middle of the list. We have many other problems to overcome to get people to come to this state to work; ... we need to have a more attractive system.

[7:59:34 PM](#)

MR. DUNCAN encouraged asking the state to look at what liability the actuaries that made the assumptions over the past few years might have "in this whole situation." He said he thinks there should be consideration whether some of the under funding could

be recovered from the actuarial firms who gave the wrong assumptions. He noted that when he was commissioner of administration, the last valuation report he received in March 2002 did not indicate a problem. When an audit was done in December 2003, a major problem was reported. He stated, "Things don't change that quickly."

MR. DUNCAN concurred with those who testified before that the legislation does not need to pass this year. He warned, "once you put something in place, it's going to be impossible to remove it."

[8:00:50 PM](#)

CHAIR SEATON stated for the record that there may be conflicting legal opinions regarding raising rates for benefits. He asked Mr. Duncan if the questionnaire sent out by TRS was filled out and returned by ASEA.

[8:01:53 PM](#)

MR. DUNCAN responded that he has been the business manager of ASEA since February 2003, and he does not recall receiving a questionnaire from the board. He said if he had received one, he would have participated.

CHAIR SEATON offered his understanding that NEA-Alaska was the only union to respond, but he said, "You never know what happened in the mail." He said he just wanted to get it on the record that there has been requests for information.

[8:02:40 PM](#)

DOUG STARK, DPA [Doctor of Public Administration], testifying on behalf of himself, noted that he began work as a PERS employee in the governor's office in 1968, and since then has held 8-10 public sector jobs around the state. He continued as follows:

When I went to work for the City of Homer three years ago, I opted out of PERS, because I felt it was an abuse of the ... system to accumulate additional years at my pay rate of \$50 a month as a councilman. Having worked through three budget cycles, I found that the increase in required contributions to PERS by the city is causing intolerable burden on the city and its citizens. Defined contributions [are] replacing defined benefits on a nationwide basis because of the

exorbitant cost to employers, and a number of employers have completely gotten rid of their retirement systems and sent it over to the federal pension benefit corporation - which is not good news for anybody.

DR. STARK said SB 141 is not totally sufficient to solve the existing problems, but it is necessary in order to solve the problems in the long term. He said work needs to be done in the area of health benefits. He concluded by stating, "Your job is to listen to and represent public employees, but - most important - to represent all the citizens of Alaska, including the silent majority, so to speak."

[8:04:49 PM](#)

MARY GRAHAM, testifying on behalf of herself in opposition to SB 141, told the committee that she has been a state employee for approximately 15 years and is a member of APEA AFT. She concurred with the statements made by former testifiers that employees did not create the existing problems, but it seems they and the future employees are the ones being made to pay. She directed attention to page 5, lines 21-24, as numbered on Amendment 4, which read:

"Sec. 39.35.870. Retirement. (a) In order to obtain medical benefits under AS 39.35.870 an active member must retire directly from the plan. A member is eligible to retire from the plan if the member has been an active member for at least 12 months before application for retirement and

MS. GRAHAM asked, "What happens if someone works 10 months into the year that they're ready to retire and, because of budget cuts or whatever, their job's gone ... - they get laid off and they're in a rural part of Alaska where there's not going to be another PERS-type job for them to go to? A long-term employee could lose their ability to have health insurance." She said she doesn't think that's the intent of the drafter of the bill. She recommended that the committee slow down and really consider "all the consequences of what's going to happen here." She said her own Tier I plan was attractive to her for the health insurance it gives, but that may not be available for other [tiers]. She remarked that she is also a hiring manager who is having a difficult time filling positions. She said, "I don't say anything about retirement and benefits when I try to attract people, because it's not that attractive. And it's going to be

a lot less attractive if we go to this defined contribution system."

8:09:17 PM

KEVIN RITCHIE, Executive Director, Alaska Municipal League (AML), stated that 63 percent of the \$5.7 billion problem is "owned by municipalities, schools, and the university." He continued as follows:

Where PERS rates are rising is 30 percent of salary or above, which, in a normal city which spends about 70 percent of its budget on salary, can be as much as a 20 percent overall increase in total spending for that community. Schools [are] much higher, because many times I think that 90 percent or so of their budget may go into salaries. So, this is part of a long-range plan. Municipalities [have been] working at the table with the legislature [and] with PERS/TRS Boards for the past year. We've been working with a group of school district business officials, municipal finance officers, elected officials, [and] some representatives from the university along every step of the way.

MR. RITCHIE said SB 141 is similar to the concepts that have been discussed for the past year by the PERS and TRS Board [and] by the House and the legislative committees working on this issue. He reported that AML adopted its policy a year ago. He indicated that two of the more relevant issues are: stabilization of the cost of the PERS/TRS system to municipalities and help with funding unexpected massive increases in the cost of the PERS/TRS system. He said [AML] provided a letter to the committee on April 2, which has more detailed comments [included in the committee packet]. He said PERS rates of 30 percent are projected out for the next 25 years, so "there's not a relief in sight." The proposed legislation "or something similar to it" provides some hope that those rates will go down over time.

MR. RITCHIE stated that [AML] will continue to work with the legislature on SB 141. He mentioned some amendments that were made earlier today, which seemed to make some significant improvements on both access to health care and access to the health reimbursement account. He concluded:

I guess we'd just say that we're in support of the efforts that you're making to bring the system under control for the long term in this effort. And [I] just want to emphasize that providing some help -- the state simply has more money than its communities. There's some communities that are in fiscal crisis or are sliding backwards in the fiscal crisis, and we want to just emphasize the governor's budget amount of providing at least some funding for the next few years to the municipalities and to have a chance of kind of digging themselves out of the hole.

8:13:00 PM

REPRESENTATIVE GATTO said Mr. Ritchie made a salient point regarding the school districts.

8:13:51 PM

REPRESENTATIVE GARDNER expressed her appreciation of Mr. Ritchie's explanation of the percentage increases that municipalities are facing. She asked Mr. Ritchie to confirm that SB 141, in creating a new tier, would put the risk on the employee, reduce the risk to the employer, and reduce the amount of the growth of the shortfall; however, it would not address the problem that the state is already facing, other than "the one-time direct funding grant thing." She asked if that was an accurate summation.

8:14:36 PM

MR. RITCHIE answered yes. He said the \$5.7 billion shortfall is still there, which is the biggest crux of the problem. He added, "However, when you look at that over 25 years, whether that liability goes up or those rates continue to go up, or those rates stabilize or continue to go down, that's a function of changes to the system, as well."

8:15:49 PM

TOM BRICE testified on behalf of the Alaska State District Council of Laborers, which consists of two private unions and one public union: Laborers Local 341, Laborers Local 942, and Public Employees Local 71, respectively. He said the central issue of SB 141 is the proposed change of the state's retirement system from a defined benefit plan to a defined contribution plan. He said that fundamental change would not address the

issues that the actuaries pointed to regarding the under funding, and it would seriously erode the employees' ability to have a safety net upon retirement. He said neither the House State Affairs Standing Committee nor any other committee has held a serious discussion about "how a defined program should work." Instead, the focus has been on the negative aspects of a defined benefit plan. Mr. Brice reported that the employees he represents in the private sector enjoy a defined benefit program that is stable and secure. He said he thinks the discussion has to be turned away from defined contribution and focused on the defined benefits programs currently being enjoyed in the private sector.

[8:18:58 PM](#)

REPRESENTATIVE GARDNER asked Mr. Brice to provide the committee with a list of some of the [private] companies that he feels provide stable and solid defined benefit programs.

[8:19:14 PM](#)

MR. BRICE offered the following names: Brice, Inc; Wilder [Construction Company]; Secon; and Coogan [Construction]. He added that the list is long and extensive. He explained, "Those are union employers. They know that if they invest into their employees and they're able to provide their employees safe, reliable retirements, ... they'll get better employees. Regarding the previously mentioned surveys sent out by the PERS/TRS Boards, he said he's certain those surveys were not sent to the private unions or the private retirement trust. He concluded, "And I think there could be a real good lesson learned from the way those programs are administered and the benefits they're able to provide ... our members."

[8:20:23 PM](#)

REPRESENTATIVE GARDNER said it is known that nationally there are longstanding companies that have gotten into trouble with defined benefit plans. She asked, "Do you have any idea what the common elements are of the plans that you think are safe and secure?"

[8:20:49 PM](#)

MR. BRICE answered that one of the primary common elements is that they are jointly administered; representatives of the employees have a say equal to the employers, regarding the

administration of the trust. Mr. Brice also recommended consideration of how many various employers are "engaged in that retirement trust." He explained, "These programs that I'm speaking of ... have hundreds of contractors participating in them, so there's a wide variety of insights and input into the way that program's administered to meet the needs of the working people."

[8:21:42 PM](#)

REPRESENTATIVE GARDNER said there has been a lot of testimony that one of the biggest problems that has led to the under funding of the retirement systems is the massive and unexpected increase in health care costs. She asked, "Do you know how these programs have dealt with that, or do they limit the access to health care or the total amount that can be spent?"

[8:22:00 PM](#)

MR. BRICE noted that under the Laborers Local 341 and Laborers Local 942 programs, medical care is not necessarily a vested benefit; it is available to employees if they want to purchase it, but it's not a vested benefit. Furthermore, he said members have to spend a certain amount of time in the trade - approximately 20,000 hours for the laborers - before being able to purchase the health benefit.

[8:22:57 PM](#)

CHAIR SEATON asked Mr. Brice if he has any information showing that public sector employees would support eliminating health benefits in their retirement plan and instead be responsible for purchasing their own benefits. He noted that, based on the surveys he's seen, employees in the public sector have said the health benefit is the most important part of the benefit package.

[8:23:52 PM](#)

MR. BRICE responded that he thinks "it would be a point of conversation to start." He said he is not the local business manager of Local 71 and would defer to that person's judgment. In terms of the entire debate, he said what's been missing is bringing the organizations that represent the employees to the table in a meaningful manner and presenting options.

[8:25:06 PM](#)

JIM HORNADAY, Mayor, City of Homer, testified in support of the provisions in SB 141 "providing some \$69 million over the next two years, as the governor recommended, to offset the cost of the state-required ... temporary help ... [to] pay the municipal PERS increase for the next two years." He said he realizes that this is just a temporary approach, but the City of Homer hopes to have increased retail sales "that should help in this." If the money is not included in the bill, for example, the City of Homer will have to pay an additional \$245,000 per year, and there may be decreased city services. He remarked, "We're told that Homer now owes \$6 million in the PERS situation." The citizens of Homer recently increased the city sales tax, and he offered his understanding that the Kenai Peninsula Borough is about to increase its sales tax. He added, "So, we do believe that the State of Alaska should share in these increased PERS costs." Mr. Hornaday concluded, "I certainly wouldn't predict what the supreme court is going to do, but if you haven't already included it in your bill, you might include the provision that just because one provision is [stricken], it doesn't strike down the other provisions."

[8:26:48 PM](#)

REPRESENTATIVE GARDNER asked Mr. Hornaday if he would still support SB 141 if it didn't include the \$69 million or any amount of money to help the municipalities.

[8:27:21 PM](#)

MR. HORNADAY responded, "That is on our next agenda; there's a resolution to that effect, and we can tell you that after the council votes on it this next Monday night." He offered his understanding that the Alaska Municipal League has taken the position of being in general favor of the bill; however, he said he would rather have AML speak directly to that. He stated that as a retired Tier I state employee and a person who has run 5 small businesses, he understands the problem and sympathizes with the way in which the legislature is trying to address it.

[8:28:09 PM](#)

REPRESENTATIVE GRUENBERG noted that there is a general severability clause in Title I "that would apply."

[8:28:27 PM](#)

REPRESENTATIVE ELKINS asked Mr. Hornaday how many people within the PERS and TRS retirement systems come from school boards, borough councils, and city councils within his area.

[8:28:53 PM](#)

MR. HORNADAY estimated 20 people are elected municipal officials, but he said he doesn't know the numbers for the school board.

[8:29:39 PM](#)

CHAIR SEATON asked if the City of Homer has "looked at that in any detail." He noted that "the city's liability is basically yearly proportional to retirement and benefits." He asked if the city has discussed that issue.

[8:30:17 PM](#)

MR. HORNADAY said the issue will be addressed.

[8:30:41 PM](#)

REPRESENTATIVE ELKINS stated that there are a lot of people who drew \$150 a month for five or six years and are now retired in Tier I and II and are drawing the medical benefits. He said, "It's a big burden on cities when they didn't contribute anything start with."

[8:31:25 PM](#)

TOM HARVEY, Executive Director, NEA-Alaska, told the committee that NEA-Alaska covers 12,500 public school employees. He offered happy birthday wishes to Representative Elkins. Regarding the composition of a new board, he said the passage of Amendments 5 and 6 this morning was appreciated; however, he stated a preference that the boards be elected as the PERS members are now, because that is an essential process of ownership of the systems by the participants, as well as part of the democratic process of the country.

[8:33:21 PM](#)

MR. HARVEY, in response to a question from Chair Seaton regarding how TRS Board members are selected, explained that, presently, the associations that represent teachers and public school employees make nominations, and the governor makes the

appointment. In response to a follow-up question, he clarified that the preference is for both PERS and TRS Board members to be elected, [rather than appointed by the governor].

[8:34:04 PM](#)

REPRESENTATIVE GRUENBERG noted that Mr. Harvey included an amendment idea in his testimony [included in the committee packet].

[8:34:47 PM](#)

MR. HARVEY said the earlier adopted amendment took care of "the numbers part of what we were talking about." He directed attention to page 1, line 29, through page 2, line 11, of his handout, which addresses "the election part." He urged the committee to consider an amendment there.

[8:36:13 PM](#)

MR. HARVEY stated that NEA-Alaska also believes that the powers and duties of the Alaska Retirement Management (ARM) Board should include hearings. He quoted Richard Solie, Ph.D., as follows:

Because the boards act as a jury of peers, in essence, I believe the board approach reduces the risk of future litigation and gives the [beneficiaries] a greater sense that their cases have been truly heard.

MR. HARVEY stated, "We would urge you to consider an amendment that would provide that. You could do it through a subcommittee. It would not have to be, and should probably not be, the whole board that would do that particular provision, but we do believe that their function has served well in that capacity."

MR. HARVEY, regarding the employee/employer contribution to a defined benefit plan, stated that it is disturbing to [NEA-Alaska] that the contribution of the present employees would be increased at .5 percent a year until it equals the normal rate, divided in half between the employer and the employee. He continued as follows:

In fact, at first it sounds like a very small thing. But if you look at what happens in 2020, according to the actuaries ... it's going to require 52 percent.

That would mean 26 percent from the employer, under this bill, and 26 percent from the employee. That's how the bill read, I believe.

[8:37:14 PM](#)

CHAIR SEATON clarified that SB 141 only deals with the normal service cost. He said, "The bill that you were talking about is the normal and the past service cost, which was [HB] 177, which we passed out of committee so that Representative Kelly could work on it, and that split the normal and the past service cost."

[8:37:57 PM](#)

MR. HARVEY suggested that - "even at the split of the normal service cost, as being presently projected" - a present employee is going to end up paying a lot more than he/she currently does. He said, "What you're really going to do is allow them to have a decision to leave the system." He clarified that employees will be faced with a choice of paying more for the same benefits they are presently receiving, or retire now and get the benefits for a longer period of time, which he said will "add to that liability situation that you're talking about." He said that's a serious flaw in [SB 141].

MR. HARVEY, again regarding increasing the employees' contribution without increasing the corresponding benefits, said, "This is clearly charting a course through the troubled legal waters through the Alaska [State] Constitution." He continued as follows:

And I've heard your comment earlier. I think I would say to you, sir, that we have a legal opinion from a former member of this body who has been quite successful at enforcing the rights of the employees and their retirement benefits. But I would just as much say you need to look at what Dr. Richard Solie said, who is also being counseled. They did not consider this approach, because of the concern about the response of the judiciary. I think the numbers are pretty clear at this point in time. If anything, if you don't think that that's true, I would suggest that you look at another avenue to get a legal opinion - maybe even a referral to the House Judiciary [Standing Committee] - same as you did with [HB] 177. That would be able to take care of the matter.

MR. HARVEY offered his understanding that Amendment 1 failed this morning. He said it's clear to [NEA-Alaska] that 8 percent and 4.5 percent, equaling a total of 12.5 percent, is not enough for a person to have invested so that they can end up with an annuity that they can retire with dignity. He said, "We've worked the numbers; 12.5 percent doesn't get you there. We would suggest to you that ... the rate should be closer to 19.25. We would suggest that the ... employers' contribution should be 14 percent total, of which a portion of that 8.25 [percent] would go to the pension, and that the employees' contribution at 11 percent - as in another bill before this committee - ... would in fact get you to at least a 19.25." He stated that the defined contribution plans with which he is familiar require about 20 percent minimum in order for the employee pension to be one that they can retire on.

MR. HARVEY said SB 141 asks employees to provide more, which would be wonderful if the employees were compensated at a higher rate; however, as public employees, they are not.

CHAIR SEATON let Mr. Harvey know that time was limited and he indicated that he would like to move to committee questions.

[8:41:44 PM](#)

REPRESENTATIVE RAMRAS asked Mr. Harvey if he could name a private sector employer offering 19 percent.

[8:42:03 PM](#)

MR. HARVEY answered that NEA-Alaska is as private sector employer that offers 20 percent.

[8:42:18 PM](#)

REPRESENTATIVE GARDNER opined that since Mr. Harvey represents 12,500 people, it is appropriate to allow him more time than is given other testifiers who represent themselves.

CHAIR SEATON said he has been attempting to do that.

[8:42:47 PM](#)

MR. HARVEY noted the amount of time spent on bill discussion and amendments and said he thinks the 2-plus hours given to public testimony on a 109-page complex bill is insufficient.

8:44:27 PM

MR. HARVEY said the previously adopted Amendments 8, 10, and 12-14 are appreciated. He thanked Chair Seaton and Senator Stedman for the hours spent with NEA-Alaska regarding [SB 141]; however, he stated that that time cannot serve as a substitute for meetings of all the stakeholders to provide a complete analysis of the legislation and its effects on public servants.

MR. HARVEY directed attention to the second page of his written testimony - the last paragraph, which read as follows [original punctuation provided, with some formatting changed]:

If a teacher starts their career in Sitka this fall, they will have a salary of \$35,571 (SEE ATTACHMENT 2A & B). After a thirty-year career (That is 3 more years than the present average), the teacher will have \$800,129 in their account. That assumes a return on investment of 8.3%, which is 2.3% higher than an individual averages presently and is more the rate of return by ASPIB. They will also have ... [a health reimbursement account (HRA)] of \$131,772. Their access to major medical insurance will cost \$96,602 in the first year (given an 8% annual inflation of medical costs). At age 62 the public servant will have no medical coverage or be in debt by \$141,897.
This is not retirement with dignity.

MR. HARVEY added, "That's retirement eating cat food, and eating it outside, because they lost their house." He stated that SB 141 is not a good bill; however, he said he believes there are improvements that can be made with cooperation between NEA-Alaska, and the legislature. He concluded, "I believe we can find a good retirement system that is better than the present TRS [Tier] II and PERS [Tiers] II and III, but we need a little time."

8:47:22 PM

REPRESENTATIVE RAMRAS, regarding the issue of time given to testimony, recognized Mr. Harvey's dissatisfaction, but said the committee has been addressing the PERS/TRS issue since February. He complimented Chair Seaton for his efforts to create a constructive environment and address "the broader issue of how we're going to integrate a better solution for PERS and TRS."

8:48:09 PM

MR. HARVEY agreed that the committee has spent a lot of time on this issue and he recognized the excellent job Chair Seaton [and his staff] have done on research towards the House's version of PERS/TRS legislation. However, he said, "Instead of taking the best of two products, we've apparently made a decision [at] some point to rush to judgment."

8:48:58 PM

RON KING, testifying on behalf of himself, told the committee that he is both a state employee and a hiring manager. He indicated that he could tell many stories illustrating the difficulty in hiring employees. He made the comparison that 15 years ago there were 10-15 highly qualified job applicants, whereas today [hiring managers are] lucky to get one, and sometimes it takes months of waiting to find a good candidate. He told of a bright employee being urged by a private entity to take a job at twice the price. That employee chose to serve Alaska and return to the state "something that it gave to him."

8:50:41 PM

MR. KING said when his son graduated with honors from college, the Department of Administration's Division of Personnel offered him a chance to come back to Alaska to work, and his student loans would be forgiven. His son opted to continue his education to get his Masters degree in computer sciences, and he received more as an intern in college than the state paid the analyst programmers at that time. He continued working for [the computer company for which he interned]. He said his son doesn't have a defined benefit plan, but basically has a "stock profit-sharing plan." Mr. King noted that his son's medical benefits are the same as his own, but after nine years of working, his son can retire with a net worth of 4-5 times what Mr. King has in PERS, SBS, and deferred compensation combined. He revealed that his son listed two reasons a person would work for government: One is because a person believes in what he/she does, and thus is willing to work for less in order to try and make a difference. The other reason is for the benefits. Mr. King said the benefit packages have been significantly decreasing. He expressed his appreciation for the tough job of the state, borough, and city officials.

8:53:08 PM

MR. KING asked the committee not to rush into a decision that may be regretted in the future. He said the problems may or may not have been entirely the responsibility of the legislature, local governments, and the actuarials, but he indicated that he does not want the legislature to rush through decisions of such magnitude, even with the extensive discussions and debate that has taken place since February. He said, "Our future is the generations we leave behind us, the services we want them to enjoy, and the life we want." He said he will never see his son back in Alaska, but hopefully the beauty of the state and the benefits provided [in public jobs] will still attract a few people. He predicted that if the benefits diminish further, "we probably will not see that kind of migration again."

[8:55:04 PM](#)

CHAIR SEATON said he has heard from several people in the human resources business that the current retirement package does not attract people, and he asked Mr. King if he thinks a portable system will attract people if it is at a high enough rate.

MR. KING responded that there are two competing factors: one is the benefit package. He indicated that when those who are in Tier III realize what their benefits are, "they're not exactly enthused." He said, "The legislature, I think, made some changes here that if they stayed for an extended period of time, [et cetera], they might be able to ... buy their medical benefits." He said there are options like that he thinks the unions would be open to discuss, or at least he would be willing to look at some adjustments. He said he is not happy with the company presently handling insurance claims. He stated that one of the biggest problems is the salaries. He said, "You could probably do some things with the benefit package if you had a salary commensurate to what my counterparts are in private industry: 50-70 percent more than what I'm making right now. He said he just lost an engineer at the department who went to work for a private company for 1.7 times his salary. He said the state will hire people right out of college and cover the expense of training them, and he has seen those people leave after between 3-7 years to work in the private sector at many times the salary.

[8:58:11 PM](#)

MR. KING revealed that he is a range 22, is in longevity, and he estimated that he has one more merit step. He noted that the last small increase that was given did not set his operating

costs. When that type of situation exists, people make decisions. He said he is at the end of his career and made choices to turn down offers outside Alaska. He said employees are the single most valuable asset.

8:59:20 PM

BETH WYTHE testified on behalf of herself. She explained that although she is on the Homer City Council, that council has not yet given a decision on the issue. She said the bill, in and of itself, is not a bad idea; however, there are valid concerns. One concern is people outliving the existence of their benefit. She said she was glad to see the removal of the option for employees not to have any opportunity to direct their investment if they are going to have a defined contribution. She said most employees feel better if they have the ability "to say where it goes," and having the option of advice given to the employees as to how to invest conservatively or aggressively is helpful. Ms. Wythe revealed that she works in the field of human resources and helps employees with their 401K and pension benefits on a regular basis, which is why she said she has a concept of what employees think when putting money into a fund.

MS. WYTHE said she had been in Juneau less than 24 hours and had already heard three different variations regarding the problem with the PERS/TRS issue. She said the only one that is consistent is that the majority of the problem arises from the escalating health insurance benefits. She said she heard that the actuarial evaluation currently being used is based on a 12.5 percent increase for two years, which then would drop back to a 5 percent increase. She said, "Having the luxury of looking at our benefit on an annual basis, ... [they] have been escalating between 15-25 percent for ten years. So, presuming that it's going down to something less than 15 percent any time soon I think would be a short-sighted actuarial evaluation."

9:02:22 PM

MS. WYTHE offered her understanding that a two-year funding amount of \$37.5 million, to be used by municipalities to "get through the initial phases of transfer" and new tier related alterations, has been removed from the budget and tied to the passage of [SB 141]. She said, "Whether the bill passes or doesn't pass, I think that portion of it really needs to be looked at" Ms. Wythe reported that the City of Homer is facing a \$250,000 increase per year, for three years, which means paying \$750,000 in three years, in addition to the regular

increase in the expense of the PERS program. She indicated that the increased costs would stretch through approximately 20 years before it would "drop back." Furthermore, Ms. Wythe noted that, over the last few years, the City of Homer has experienced "reduced revenue sharing to the tune of about \$800,000." The basic costs of running the city equal "a staggering barrier ... to get across." She said, "We did have a 1 percent sales increase this year, which, if we absolutely change nothing about the way we run our city, will be exhausted just paying for the increase of insurance in the next two [to] three years." Ms. Wythe said the City of Homer has one of the highest sales taxes in the state, at 6.5 percent; therefore, "it's not like raising our sales tax is going to resolve this issue."

MS. WYTHE stated that she understands and recognizes the concerns regarding recruitment. She said municipalities are not high-paying employers, but they have always been able to offer a good benefit package. She said she hears employees of the City of Homer saying that that benefit package is getting worse by the year, "and they're not even talking about the retirement portion, particularly."

[9:04:35 PM](#)

MS. WYTHE continued as follows:

I would like to see, at a minimum, that the state would - as they walk through this process - come up with a mechanism for funding that 8.25 percent interest that is on that \$5.7 million bill, which, ... in and of itself, is a staggering amount of money. I've heard comments that they were considering maybe a bond issue, or something, that would be able to ... pay it down and bring it in at a lower interest rate that would help people with that.

MS. WYTHE said SB 141 is not a bad idea and the legislature is on a good track; however, she stated her belief that spending more time on the issue and hearing public comment [would be beneficial]. She said it has been interesting to hear the testimony and "the state side of it." She said under funding is essentially the problem of management. She echoed the question of a previous testifier by asking, "Is there money out there that could be somehow recaptured as an errors and omissions funding opportunity, and have we really exhausted those options?" She stated that a better future evaluation process with more regular reviews is needed to avoid a repeat of the

current situation; however, requiring current employees to pay for something that's already happened is not necessarily the right mechanism.

[9:06:05 PM](#)

REPRESENTATIVE GRUENBERG asked Ms. Wythe to expound on her comment regarding errors and omissions.

MS. WYTHE explained:

In our business, we buy our retirement insurance from a corporation, and if they should fail to properly assess us, so that we fell back to this point, we would be going back to them and accessing their errors and omissions. They made an error in your actuarial evaluation somewhere. Have we explored thoroughly whether there is a fund out there that should be helping recapture these funds? That's what I'm asking.

REPRESENTATIVE GRUENBERG said he has asked related questions and is "not totally satisfied with the answer."

[9:07:19 PM](#)

MS. WYTHE, in response to a question from Representative Gatto, said the City of Homer currently has a position open for an equipment operator that it will have trouble filling. She explained that that job in the private sector pays \$40 per hour, while the city's position will pay \$20 per hour. In response to a follow-up question from Representative Gatto, she said she doesn't work with the city, thus she doesn't know if the city ever asks an applicant why he/she turned down a job offer in order to know if they can "sweeten the pot." She said a review of salary rates is done every five years, but the city doesn't have a means by which to offer more during an interview process to entice the applicant to accept the offer. She also noted that the hiring competition is not between the state and municipality, but between those two entities and the private sector.

CHAIR SEATON noted that part of the bill deals with the subject of having more frequent actuarials.

The committee took an at-ease from [9:09:54 PM](#) to [9:23:56 PM](#).

MELANIE MILLHORN responded to a request from Chair Seaton to answer previously asked questions. She recalled that Representative Gardner had asked a question about disability. She said Representative Gruenberg had observed to Senator Stedman that SB 141 does not include disability benefits, and Senator Stedman confirmed that is accurate. She explained that, under SB 141, employees would have disability benefits under workers' compensation and, additionally, could purchase disability benefits "to supplement that particular area." She noted that Representative Gardner had observed that there are disability benefits under AS 39.35.410, under the defined benefit plan, which she said is accurate.

[9:28:05 PM](#)

MS. MILLHORN, in response to a question from Chair Seaton, said [under the current defined benefit plan] active employees who are injured on the job have benefits for that particular on-the-job injury, in addition to workers' [compensation], and are covered for non-occupational disability benefits after they vest.

[9:29:34 PM](#)

MS. MILLHORN, in response to a question from Representative Gruenberg, explained that there are two distinctly different disability benefits available for non-occupational circumstances: "One would be after you're vested and you would have that benefit through PERS or TRS," and the other would be the additional short- and long-term disability benefits that can be chosen during the Select Benefits open enrollment period, including optional life insurance. In response to a question from Representative Gruenberg, she clarified that short- and long-term disability addresses income replacement.

[9:30:24 PM](#)

MS. MILLHORN, in response to questions from Representative Gruenberg, stated that for non-occupational disability under SB 141, a member can, through a premium, purchase short- and long-term disability benefits. Under the current [defined benefit system, the employee pays a premium for that short-term and long-term disability under Select Benefits Supplemental.

REPRESENTATIVE GRUENBERG expressed confusion over what is covered versus what is optional in PERS and TRS.

[9:31:47 PM](#)

CHAIR SEATON clarified as follows:

Under active employment - ... under supplemental benefits - you can purchase long-term and short-term disability. There's also disability benefits under the current defined benefit plan. And so, in the future the employees will be able to purchase long-term or short-term under the active or supplemental benefits, but the defined contribution plan does not ... incorporate a disability death benefit under [SB] 141.

MS. MILLHORN responded, "That is absolutely correct."

REPRESENTATIVE GRUENBERG said, "But we weren't talking about death benefits."

CHAIR SEATON explained that it's the same thing.

REPRESENTATIVE GRUENBERG asked Ms. Millhorn what exactly the employees will lose that they currently have.

MS. MILLHORN said what would not be there would be occupational and non-occupational disability. She said, "They have to vest in order to be eligible for non-occupational disability." In response to follow-up questions from Representative Gruenberg, she said new members would be able to purchase short-term and long-term disability benefits by paying the premium for those benefits. In order to be more specific about the change to current benefits, Ms. Millhorn said she would need to look through a booklet. She offered to provide that information in writing to the committee.

[9:34:11 PM](#)

REPRESENTATIVE GARDNER mentioned a press release by the administration, dated April 26, 2004. She said she doesn't have a copy of it, but that the last sentence said that PERS and TRS compare favorably to other pension plans and are "well-positioned to weather the current pension storm." She asked if that is still the position of the administration.

[9:35:19 PM](#)

KEVIN BROOKS, Deputy Commissioner, Office of the Commissioner, Department of Administration, testifying on behalf of the administration, indicated that that statement was not inaccurate a year ago but should be put into context of all the discussion and debate that has occurred since that time. He mentioned the \$5.7 billion dollar problem that needs to be addressed. He said he thinks plans across the country are facing the same problems that Alaska is facing. He stated his belief that SB 141 is "a responsible approach to trying to address a very significant problem." In response to a follow-up question from Representative Gardner, he clarified that he doesn't think the press release statement is accurate any longer, given all that has transpired.

[9:37:31 PM](#)

CHAIR SEATON remarked that the full faith and credit of the state is pledged behind its pension system. He said the permanent fund can weather the storm, but it's a choice of how much of the revenue stream should be dedicated to solving the problem.

[9:38:13 PM](#)

REPRESENTATIVE GARDNER said that's accurate, but she explained that the context of the previously mentioned press release was that there wasn't really a huge problem, which she said she doesn't think is accurate, and she just wanted to hear the administration's current official position.

[9:38:39 PM](#)

REPRESENTATIVE GARDNER mentioned a \$1 million or \$2 million lifetime cap on medical expenses and \$4 million if the retiree is married. She asked if that is part of the new plan and, if so, what effect having a cap would actually have on the system.

[9:40:58 PM](#)

MS. MILLHORN responded that in 1999 there were some plan changes that were made to the retiree health plan, and one of them included changing a \$1 million lifetime cap to \$2 million. There were eight or nine changes that occurred, and out of those changes were increases and corresponding decreases in benefits. She said, "The design was to ... offset one another so it would be neutral to the system." Those changes were challenged by the Retired Public Employees of Alaska (RPEA) and NEA-Alaska; the

State of Alaska was sued for those changes. The case was remanded back to the superior court. In response to a follow-up question from Representative Gardner, she noted that the argument that went forward was that the framers of the Alaska State Constitution could not possibly have included health care benefits, because health care benefits were not available to members until 1970. The court did not agree with that position and remanded the case back to the Alaska Superior Court to do further analyses of the approximately nine changes that took place back in 1999, in order to consider the increases and decreases.

[9:42:10 PM](#)

MS. MILLHORN, in response to a question from Representative Gatto, said the cap is not often reached; however, she related one case that was \$3.8 million. In response to a question from Representative Gardner, she confirmed that she has made the request of Aetna to send a report showing what the average medical cost is.

[9:42:54 PM](#)

REPRESENTATIVE GARDNER said the committee has repeatedly heard that a huge part of the problem is medical costs, and she said she thinks the legislature should seriously consider ways to control medical costs. In order to do that, she said, it is imperative to know what the average person spends on medical costs.

CHAIR SEATON noted that the actual figures show that 38 percent of the unfunded liability comes from medical costs.

MS. MILLHORN confirmed that is correct.

CHAIR SEATON noted that 11 percent of the unfunded liability came from investment; "the rest is retirement." He said although [38] percent is a significant portion, people are overlooking that it's less than half of the problem. He said, "It's the combination of two that are really kicking us ... and causing the problem that we're trying to solve."

[9:44:16 PM](#)

REPRESENTATIVE GARDNER asked if the actuaries have been queried regarding the possible effect of a new defined contribution plan in terms of loss of input to the system.

MS. MILLHORN replied that there was significant analysis performed that looked at modeling and introduction of a new tier. She said, "It doesn't provide immediate relief, but after a number of years it pulls down the line, and then there's a period of time when ... it goes down below the contribution rate that would be in existence had a new introduction of a new tier not taken place." She reminded Representative Gardner that "all of that modeling is available and is in the tier presentation information."

[9:45:21 PM](#)

CHAIR SEATON asked Representative Gardner to remember that the modeling rates are "going to be across the employer's total wage base ..., so, the past service cost is going to be charged on the entire wage base." However, if a decision was made to extend under a defined benefit program, it would be possible to create new, unfunded liabilities under that program, as well, such as the adoption of the 2002 mortality table. Staying with a defined benefit program would "create a new past service cost with that."

[9:47:04 PM](#)

SENATOR STEDMAN, in response to an invitation from Chair Seaton to offer closing remarks, stated that it's the obligation of the current generation to take care of the current generation's liabilities, and it's not in the best interest of the state to pass the \$5.7 billion past service liability off to the next generation. He said, "So, the quicker we get at the final solution here, the better off we are." He said \$5.7 billion is 19 percent of the permanent fund; "it's \$26,000 an hour, 24 hours a day, seven days a week, for 25 years." He said the Senate Finance Committee respectfully disagrees with those who testified before it saying that it isn't a problem. She said the problem needs to be dealt with in a methodical and thoughtful way.

[9:50:59 PM](#)

REPRESENTATIVE GARDNER asked if there is a sectional analysis.

SENATOR STEDMAN responded that there is "a walk-through and ... multiple levels of detail, depending on what you want to read between now and 8:00 a.m." He said he has data in his office. [Later he related that a 40-page sectional analysis was

available in the committee packet, but suggested his one-page summary sheet may be more beneficial.]

REPRESENTATIVE GARDNER noted that the bill is 109 pages long and has not been available until recently. She said she thinks having a sectional analysis is not only standard, but also helpful, and she feels the lack of it in trying to understand the bill.

SENATOR STEDMAN responded, "That's what we've been explaining - what it really does." He said there has been a lot of misinformation and misinterpretation. For example, he said tonight comments were made that the employees would be funding the past service cost, which is not the case at all. He said he has tried to very careful and concise in what SB 141 does and doesn't do. He added, "But there are other bills in the system that do different things, and it's very easy to confuse them."

[9:53:31 PM](#)

CHAIR SEATON closed public testimony.

REPRESENTATIVE RAMRAS [moved to adopt] Conceptual Amendment [15], as follows:

On page 7, line 30:

Between "annually" and "."
Insert "and may not exceed ten percent"

On page 69, line 13:

Between "annually" and "."
Insert "and may not exceed ten percent"

REPRESENTATIVE RAMRAS noted that in Mr. Harvey's [written] testimony, he indicates that NEA-Alaska recommends an increase in the employers' contribution rate to 8.25 percent and in the employees' contribution rate to 11 percent. He said 10 percent would be a full point below, but it is a tithing rate and a reasonable savings rate.

[9:55:35 PM](#)

REPRESENTATIVE GRUENBERG calculated that the total may not be 10 percent.

REPRESENTATIVE RAMRAS answered yes.

9:56:35 PM

CHAIR SEATON objected to Conceptual Amendment 15.

SENATOR STEDMAN said he thinks that a 10 percent limit would be reasonable if the committee wishes to make that change. He said a normal service cost is roughly 20 percent. He added, "If you go to a 50-50 split between employees and employers, that's roughly 10 percent."

9:58:06 PM

REPRESENTATIVE GATTO asked if Conceptual Amendment 15 refers to 20 times .5 percent increases, or "when it hits 10 percent it stops."

CHAIR SEATON said it's a cap [at 10 percent]. He asked Representative Ramras if he would accept an amendment to Conceptual Amendment 15, to change the language to be added from "and may not exceed 10 percent" to "and the employees' rate cannot exceed 10 percent". He reminded everyone that it is a conceptual amendment, so Legislative Legal and Research Services will draft it. He also said there may be other areas that need that language added, but that his understanding of Representative Ramras' goal is that, wherever applicable, the language should read that the employee contribution rate will not exceed 10 percent.

CHAIR SEATON removed his objection to Conceptual Amendment 15 [as amended]. He asked if there was any further objection to Conceptual Amendment 15 [as amended]. There being none, [Conceptual] Amendment 15 [as amended] was adopted.

REPRESENTATIVE LYNN moved that the committee adopt Conceptual Amendment 16.

10:01:35 PM

REPRESENTATIVE LYNN clarified [Conceptual Amendment 16] as follows:

On [page 46, lines 29-30 and page 47, lines 6-7] where this occurs, I would insert: "These two PERS trustees shall be elected by PERS membership" and "These two [TRS] trustees shall be elected by [TRS] membership".

And then I was going to add two sentences: "At each election, the candidate who receives the most votes cast in the election is elected to the seat, and the governor shall fill a vacancy in the unexpired elected term by appointment of a member of the system for the period remaining before the next regularly scheduled election held under this subsection."

REPRESENTATIVE LYNN, in response to Chair Seaton, clarified that the language would be added to relate to both TRS and PERS.

REPRESENTATIVE GRUENBERG objected. He moved to adopt an amendment to Conceptual Amendment 16, to replace the language suggested by Representative Lynn with "the language that was in an earlier version of this bill." He continued as follows:

And this is language I passed out. It's at the bottom of page 46, starting on line 29, and going through line 11 on page 47. This was the language that [Legislative Legal and Research Services] drafted to do just what Representative Lynn wants to do. ... In case it has to be tweaked, I'll offer that as a conceptual amendment [to Conceptual Amendment 16], but I believe this is the proper drafting.

[The following is the language as Representative Gruenberg referred to it, with original punctuation provided from a two-page handout included in the committee packet - an excerpt from Mr. Harvey's written testimony - which shows the added language in bold, underlined type, inserted at the end of subsection (b), after paragraph (3):]

Two trustees shall be members of the Public Employees' Retirement System elected by the members of the system. Elections shall be conducted by the board. The two members shall have overlapping terms. At each election, the candidate who receives the most votes cast in the election is elected to the seat. The governor shall fill a vacancy in an unexpired elective term by appointment of a member of the system for the period remaining before the next regularly scheduled election held under this subsection.
Two trustees shall be members of the Teachers' Retirement System elected by the members of the system. Elections shall be conducted by the board. The two members shall have overlapping terms. At each election, the candidate who receives the most votes

cast in the election is elected to the seat. The governor shall fill a vacancy in an unexpired elective term by appointment of a member of the system for the period remaining before the next regularly scheduled election held under this subsection.

REPRESENTATIVE LYNN responded, "I have no objection if it accomplishes the same purpose."

REPRESENTATIVE GRUENBERG answered, "It does."

[The committee treated Representative Gruenberg's amendment to Conceptual Amendment 16 as adopted.]

CHAIR SEATON objected to [Conceptual Amendment 16, as amended] for discussion purposes.

REPRESENTATIVE LYNN stated that he thinks it is important that the general membership of PERS and TRS be able to buy into any new system that might be put forward. He said the language would give the membership a direct voice; when people are part of the process, they are more likely to support board decisions.

[10:05:55 PM](#)

CHAIR SEATON maintained his objection. He explained, "We have set forward a way in which the bargaining unit for these employees can nominate members for selection. The testimony has been that the PERS election costs about \$80,000 a year." He said that with staggered terms, that means there would be four \$80,000 elections to accomplish the same thing that could be accomplished through a nominee process by the bargaining unit. Furthermore, he said the bargaining units are large and spread across the state, including many municipalities and school districts, and the chance that people will have knowledge of the candidates is slim. He indicated that the bargaining unit system making nominations will ensure that the employees are well represented.

REPRESENTATIVE GRUENBERG offered his understanding that Chair Seaton's argument is regarding cost and lack of knowledge [about the candidates]. Regarding the cost, he said the board can conduct the vote by e-mail, which would be virtually without cost. Furthermore, the nominating process would take place without the amendment being discussed, and that could involve an election, which would also have a cost. Regarding the lack of knowledge, he said the candidate's biography, telephone number,

and e-mail address are provided and the electorate is knowledgeable. He indicated that if the committee members have previously chosen to give people a choice of investments, and if people can make that choice, they certainly ought to be able to elect the members of the board.

[10:09:32 PM](#)

CHAIR SEATON said there are guidelines that [the board members] must meet, which are simple for the bargaining unit to ensure.

CHAIR SEATON, in response to a question from Representative Gruenberg, stated that the amendment to Conceptual Amendment 16 had been adopted.

A roll call vote was taken. Representatives Elkins, Lynn, Gardner, and Gruenberg voted in favor of Conceptual Amendment 16, [as amended]. Representatives Gatto, Ramras, and Seaton voted against it. Therefore, Conceptual Amendment 16, [as amended], passed by a vote of 4-3.

[10:12:52 PM](#)

REPRESENTATIVE GRUENBERG [moved to adopt] Amendment 17, labeled 24-LS0637\L.12, Craver, 4/19/05, which read as follows [original punctuation provided]:

Page 7, lines 9 - 30:
Delete all material.

ReNUMBER the following bill sections accordingly.

Page 8, lines 9 - 10:
Delete "calculated under AS 14.25.052,"

Page 68, line 15, through page 69, line 13:
Delete all material.

ReNUMBER the following bill sections accordingly.

Page 72, lines 5 - 6:
Delete "calculated under AS 39.35.162,"

Page 105, line 23:
Delete "sec. 59"
Insert "sec. 57"

Page 108, line 21, following "14.25.047,":
Insert "14.25.050(a),"

Page 109, line 19:
Delete "SECTIONS 139 AND 140"
Insert "SECTIONS 135 AND 136"

Page 109, line 20:
Delete "secs. 139 and 140"
Insert "secs. 135 and 136"

Page 109, lines 21 - 22:
Delete "secs. 139 and 140"
Insert "secs. 135 and 136"

Page 109, line 23:
Delete "Sections 11, 12, 14, 15, 20, 89 - 94,
107, 114, and 131"
Insert "Sections 6, 10, 12, 13, 18, 85 - 90, 103,
110, and 127"

Page 109, line 25:
Delete "Section 141"
Insert "Section 137"

Page 109, line 26:
Delete "secs. 142 and 143"
Insert "secs. 138 and 139"

REPRESENTATIVE GRUENBERG stated that all existing TRS and PERS members were hired with the reasonable expectation that their contribution rates were fixed at a contractual rate. Sections 7 and 8 currently provide for "increases to the contribution rate paid by the existing tiers of TRS members," and Sections 87 and 88 provide for "increases to the contribution rate paid by existing tiers for PERS members." The current cap, amended this morning, is 11.75 percent for PERS employees and 13.65 percent for TRS employees. He added, "The bill language is uncapped, though it calls for up to one half the normal rate." He said that is a change from what is currently 6.75 percent of salary for 30 years for PERS employees and something similar for TRS employees. The proposed amendment would allow the legislature and committee to "address the current employees in a deliberate fashion, without the specter of a constitutional lawsuit." He reminded the committee that Article 12, Section 7, says a contractual relationship exists and, "under the language here, it's probably unconstitutional."

REPRESENTATIVE LYNN requested that Amendment 17 be tabled until the committee meets again the following morning.

REPRESENTATIVE GRUENBERG responded that he would accept that.

CHAIR SEATON said there is a motion to table Amendment 17. He asked if the committee wanted to vote on it.

REPRESENTATIVE GATTO said, "I object."

REPRESENTATIVE GRUENBERG said he is withdrawing Amendment 17 and said, "I'll just serve notice that I will offer it again."

[SB 141 was held over.]

The committee took an at-ease from [10:15:20 PM](#) to [10:16:44 PM](#)
ADJOURNMENT

The meeting was recessed at [10:17:17 PM](#). The meeting reconvened April 20, 2005.