

MINUTES
SENATE FINANCE COMMITTEE
March 29, 2005
4:43 p.m.

CALL TO ORDER

Co-Chair Green convened the meeting at approximately [4:43:59 PM](#).

PRESENT

Senator Lyda Green, Co-Chair
Senator Con Bunde, Vice Chair
Senator Fred Dyson
Senator Bert Stedman
Senator Lyman Hoffman
Senator Donny Olson

Also Attending: SENATOR GARY STEVENS; GAYLE HARBO, Member, Teachers Retirement Board; KERRY JARRELL, Certified Public Accountant, Assistant Superintendent, Bering Strait School District, and Teacher Retirement System Board Member; KEVIN RITCHEE, Executive Director, Alaska Municipal League; JOHN ALCANTRA, Government Relations Director, National Education Association, Alaska

Attending via Teleconference: There were no teleconference participants.

SUMMARY INFORMATION

SB 141-PUBLIC EMPLOYEE/TEACHER RETIREMENT

The Committee considered provisions of the bill pertaining to Normal Cost Rate and Existing Employee Contributions. Public testimony was taken and the bill was held in Committee.

#SB141

SENATE BILL NO. 141

"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; 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; and providing for an effective date."

This was the fifth hearing for this bill in the Senate Finance Committee.

Co-Chair Green noted the discussion at this hearing would focus on the normal cost rate and a proposal to change the employee contribution rate.

Senator Stedman gave a presentation referencing a handout titled, "Retirement Security Act, SB 141, Discussion Topic: Contribution Rate of Existing Employees, March 29, 2005" [copy on file.]

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Contribution Rate Setting Process

- Each year, the actuary computes the Normal Cost Rate for the next contribution year
- The Normal Cost Rate is simply the percent of payroll required to pay for the benefits expected to be earned by all members during the coming contribution year
- The process runs two fiscal years in advance - for example, the FY 07 Normal Cost Rate was estimated this month by the State's actuary

FY 07 Normal Costs:

PERS

Medical cost component	8.86%
Pension component	11.27%
Normal Cost Rate	20.13%

TRS

Medical cost component	8.75%
Pension component	13.69%
Normal Cost Rate	22.44%

Senator Stedman defined the normal cost rate as the percentage of members' payroll required to pay the benefit for all members during a benefit year.

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Contribution Rate Setting Process

- If our economic, demographic, and financial projects were always correct - the annually reviewed Normal Cost Rate would fully fund the retirement system
- Unfortunately, those projects can never be 100% accurate
- If too much was contributed, the system is overfunded; if too little, it is underfunded
- The actuary amortizes the unfunded amount over 25 years and computes a Past Service Rate
- The Past Service Rate is the additional percent of payroll required to begin paying off the unfunded liability

Senator Stedman stated that if projects were correct, the normal cost rate would fully fund the plan. However, the economy and other factors change the actual required need.

Senator Stedman stressed the substantially different rate between the current normal cost rate of today and the past service rate, the rate that is used to fund benefits accrued in the past.

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Contribution Rate Setting Process

- Once the Normal Cost Rate and the Past Service Rate are known, the employer's total contribution rate is calculated as follows:

FY 07 Contribution Rates		
PERS		
Normal Cost Rate		20.13%
Less		
Employee Contribution*	-6.81%	
Equals		
Employer Normal Cost	13.32%	
Plus		
Past Service Rate	14.87%	
Total		
Employer Contribution	28.19%	
TRS		
Normal Cost Rate		22.44%
Less		
Employee Contribution*	-8.68%	
Equals		
Employer Normal Cost	13.76%	

Plus	
Past Service Rate	28.02%
Total	
Employer Contribution	41.78%

*Employee Contribution Rate shown is the average rate for all members of the systems. Actual rates vary by employee class and are 6.75%, 7.5 % or 9.6% for PERS or 9.65% for TRS

Senator Stedman noted these figures are averaged.

Senator Stedman remarked that the employer must not only pay the current benefit costs but also the benefits that had been accrued previously.

Senator Stedman stated that the past service rate is larger for both the Public Employees Retirement System (PERS) and the Teachers Retirement System (TRS) than the employer normal cost. The biggest challenge is "dealing with history".

Senator Bunde pointed out that the normal cost rate and past service rate for TRS is somewhat higher than that for TRS. He asked if this is due to economy of scale and why the groups differ.

Senator Stedman responded that the plans differ in benefit structures and contribution amounts. He would detail this later in the presentation.

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Weakness of the Process

- The Employee Contribution rate is set in statute, so any increase in the Normal Cost Rate is borne entirely by the employer [Graph from Page 6 is shown with Employee Contribution and Employer Contribution amounts highlighted]
- These are the actuary's recommended rates...currently, the PERS and TRS boards may adopt different rates
- When the boards adopt lower rates, our unfunded liability increases

Senator Stedman emphasized that the employer contribution rate is the amount recommended by the actuarial. When the boards adopt lower rates, the liability of the system would expand.

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1. Sets the employee's contribution to the greater of:
 - Current statutory rate or
 - 1/2 of the Normal Cost Rate
 - With the additional provisions that the increase may not exceed 0.50% annually (Current SB 141 language sets the maximum annual increase at 5.0%, but we are now proposing that be reduced to 0.50%)
2. Requires the new Alaska Retirement Management Board (ARMB) to adopt a contribution rate that is no less than the actuarially computed Employer Normal Cost Rate

Senator Stedman outlined this information. He emphasized the intent that the employee increase would not exceed 50 basis points annually. He stressed that the employee increases would only be for the normal service cost and not for the past service rate. This would equalize employer and employee contributions somewhat.

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Historical & Projected Total Normal Cost Rate

[Line graph showing the TRS Total Normal Cost and the PERS Total Normal Cost for the years 1983 through 2031.]

FY 83 - FY 07

PERS
Mean: 17.82%
StdDev: 1.17%
Range: 16.05% - Low
20.14% - High

TRS
Mean: 19.22%
StdDev: 1.98%
Range: 16.35% - Low
23.47% - High

FY 08 - FY 32

PERS
Mean: 19.52%
Range: 19.21% - Low
19.92% - High

TRS
Mean: 23.13%
Range: 21.71% - Low
24.92% - High

Senator Stedman qualified the projections for the years following 2007 are estimates. He pointed out that the rates change from year to year due to volatility.

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Employers are Paying the Majority of the Normal Cost

FY 07 Normal Cost Rates

Total Normal Cost

PERS	20.13%
Share	100%
TRS	22.44%
Share	100%

Employee Cost*

PERS	6.81%
Share	33.8%
TRS	8.68%
Share	38.7%

Employer Cost

PERS	13.32%
Share	66.2%
TRS	13.76%
Share	61.3%

*Employee Contribution Rate shown is the average rate for all members of the systems. Actual rates vary by employee class and are 6.75%, 7.5% or 9.6% for PERS and 8.65% or 9.65% for TRS

Currently, increases in the Normal Cost are borne entirely by the employer

Senator Stedman compared the percentage of the burden paid by the employer compared to the employee. The policy discussion is whether to maintain this practice or whether the rate should be "floated" between the employee and employer split. This legislation proposes an equal share for each the employer and the employee.

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Employee Contributions Rates Haven't Increased Since 1987 in PERS and 1991 in TRS

Statutory Changes in Employee Contribution Rates

PERS

Before 1/1/87	
Police/Fire	5.0%

	All Others	4.25%
	School Districts*	4.25
Since 1/1/87		
	Police/Fire	7.5%
	All Others	6.75%
	School Districts*	6.75
Since 7/1/99		
	Police/Fire	7.5%
	All Others	6.75%
	School Districts*	9.6%
FY 07 Average		6.81%
TRS		
Before 1/1/91		
	Most Members	7.0%
	Supplemental Plan**	8.65%
Since 1/1/91		
	Most Members	8.0%
	Supplemental Plan**	9.65%
FY 07 Average		8.68%

*Beginning in 7/1/99, school district PERS members can elect the higher 9.6% contribution rate and receive a full year of service credit for 9 months vs. contributing 6.75% for 12 months

**TRS Members who joined the system before 7/1/82 and elected to participate in the supplemental contributions provision are required to contribute an additional 1% of their salaries

Senator Stedman pointed out that the normal employee cost rate has changed. He reiterated that the proposed normal cost rate increase would not include the past cost rate. This increase would address only the cost of benefits accrued "today".

Senator Bunde relayed that he received a publication from the National Education Association (NEA) and was unsure if information it contained was a distortion due to lack of knowledge or intentional. He indicated the publication asserts that this legislation would "take money from all current employees checks to help pay off the multi-billion dollar shortfall." He had understood that no employee contribution would go toward past service rates.

Senator Stedman affirmed. He could not speak to the intent of the misstatement.

Senator Bunde gave another reference in the NEA publication charging, "this legislation and other legislation like it, would reduce school district contributions far below current levels."

Senator Stedman remarked this was also distorted and inaccurate

information.

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Constitution of the State of Alaska

Article XII - Section 7

Retirement Systems. Membership in employee retirement systems of the State or its political subdivisions shall constitute a contractual relationship. Accrued benefits of these systems shall not be diminished or impaired.

Normal Cost Rate is the cost of benefits expected to be earned during the coming contribution year

- We contend that employee contributions applied towards the Normal Cost Rate are not part of the accrued benefit to which members are entitled
- An accrued benefit is one that has already been earned - not one that has yet to be earned
- Benefit rights accrue as they are earned - year to year
- Employee contributions cannot be changed retroactively to pay for past benefits (Past Service Costs or any unfunded liability), but they can be changed prospectively to pay for future benefits

Senator Stedman stated this explains why the NEA allegations could not occur. These statements are important in considering not only restructuring of the current system, but also in addressing the unfunded liability of \$5.7 billion.

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PERS Employee Normal Rate Projections

[Spreadsheet of PERS - Average All Employees showing Total Normal Cost; Projections at Current Rate for: Employee Normal Cost Rate, Employee Share of Total Normal Cost, and Employer Share of Total Normal Cost; and Projections at SB 141 Rate for: 50% of Total Normal Cost, SB 141 Employee Rate, Resulting Employee Share, and Increase Over Previous FY, for the years 2006 through 2032.]

- SB 141 Proposes to split the Total Normal Cost 50/50 between Employer and Employee
- However, the Employee Rate could never increase by more than 0.50% a year

- Based on current Mercer projections, it would take 6 years to reach the 50/50 shared rate
- If Normal Costs drop in the future, employer and employee rates would drop accordingly

Senator Stedman outlined the information on this table.

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Effect of Employee Contribution Rate Increases on Average PERS Employee

[Spreadsheet showing the Normal Cost of 20.13%; 50% of Normal Cost of 10.07%; Current Rate @ 6.75%; and SB 141 Proposed Pre-Tax Payroll Deductions (every 2 weeks) for the years FY 06 through FY 12 and the Cumulative Increase; for various salary ranges and the Average PERS Members. A notation reads: Estimate is based on FY 07 Total Normal Cost for PERS "Other" and assumed to be fixed for FY 07 to FY 12. The figures for the Average PERS Members are as follows:

Annual Earnings	\$43,823.00
Normal Cost	3,651.92
50% Normal Cost	1,825.96
Current Rate 6.75%	123.25
SB 141 Proposed	
FY 06 - 7.25%	132.38
FY 07 - 7.75%	141.51
FY 08 - 8.25%	150.64
FY 09 - 8.75%	159.77
FY 10 - 9.25%	168.90
FY 11 - 9.75%	178.03
FY 12 - 10.07%	183.78
Cumulative Increase	60.53]

Senator Stedman explained this demonstrates the impact of this legislation.

Senator Stedman qualified that it should be expected that collective bargaining units could negotiate "back" these increased payroll deductions.

Senator Stedman remarked that the increases in payroll deductions are intended to ease the impact of any hardships to employees. He pointed out that the figures in the spreadsheet are pre tax dollars. The year-to-year increase of \$9.13 to the average PERS members would equal \$7.50 in after taxed dollars.

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TRS Employee Normal Rate Projections

[Spreadsheet of TRS - Average Rate showing Total Normal Cost; Projections at Current Rate for: Employee Normal Cost Rate, Employee Share of Total Normal Cost, and Employer Share of Total Normal Cost; and Projections at SB 141 Rate for: 50% of Total Normal Cost, SB 141 Employee Rate, Resulting Employee Share, and Increase Over Previous FY, for the years 2006 through 2032.]

- Based on current Mercer projections, it would take 5 years to reach the 50/50 shared rate in TRS

Senator Stedman noted this spreadsheet is similar to that on page 12, although applied to the TRS system.

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Effect of Employee Contribution Rate Increases on Average TRS Employee

[Spreadsheet showing the Normal Cost of 22.97%; 50% of Normal Cost of 11.49%; Current Rate @ 8.69%; and SB 141 Proposed Pre-Tax Payroll Deductions (every 2 weeks) for the years FY 06 through FY 12 and the Cumulative Increase; for various salary ranges and the Average TRS Members. A notation reads: Estimate is based on FY 07 Total Normal Cost for TRS and assumed to be fixed for FY 07 to FY 11. Salaries are based on the 2004-05 Anchorage School District salary schedule. The figures for the Average TRS Members are as follows:

Annual Earnings	\$53,948.00
Normal Cost	4,495.67
50% Normal Cost	2,247.83
Current Rate 8.69%	195.34
SB 141 Proposed	
FY 06 - 9.19%	206.58
FY 07 - 9.69%	217.82
FY 08 - 10.19%	229.05
FY 09 - 10.69%	240.29
FY 10 - 11.19%	251.53
FY 11 - 11.49%	259.16
FY 12 - 2.80%	183.78
Cumulative Increase	62.83]

Senator Stedman outlined this information, noting that the after tax impact would also be approximately \$7.50 per month year-to-year increase to the average TRS member salary.

Senator Bunde remarked that most teachers are paid on a monthly basis and asked if the data on the spreadsheet represents monthly or bi-monthly paychecks.

Senator Stedman replied that the spreadsheet indicates payments every two weeks to allow comparison with the PERS system.

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Board Adopted Employer Contribution Rates - FY 90 thru FY 07
[Spreadsheet showing: Funding Ratio, Employer Normal Rate plus Past Service Rate = Actuarial Computed Rate - Board Adopted Rate = Diff Computed Rate, and the corresponding Mercer Data Year, Board Adopted Year, and Rate for FY, for PERS and TRS for the years 1987 through 2007.]

- Currently, the PERS/TRS boards set the annual Employer Contribution Rate
- When the boards adopt a rate below the Employer Normal Cost Rate, the unfunded liability may increase
- SB 141 requires the Board to adopt an Employer Contribution Rate no-less-than the Employer Normal Cost Rate

Senator Stedman noted that the normal rate changes continually. This spreadsheet presents a history of the actuarial computed rates compared to the boards' adopted rates.

Senator Stedman remarked that this legislation is drafted to ensure that the boards' adopted rate is never again less than the actuarial computed rate. The fund could become overfunded in the future; but that would not occur for many years. In that event, the legislature could adopt statutory changes to allow for lower contribution rates.

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PERS Payroll Contribution Trend & Forecast

[Bar Graph showing percentages for: Employer Past Service Cost, Employer Normal Cost, Employee Contribution, and Total PERS Payroll Contribution, for the years 1983 through 2031.]

Senator Stedman overviewed this graph.

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TRS Payroll Contribution Trend & Forecast
[Bar Graph showing percentages for: Employer Past Service Cost, Employer Normal Cost, Employee Contribution, and Total TRS Payroll Contribution, for the years 1983 through 2031.]

Senator Stedman told of the significant documentation from Mercer Consulting Inc. utilized in preparing these graphs. He commented that in addressing the employer contribution rate, it is "easy to forget" the employee contribution rate.

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PERS Payroll Contribution Trend & Forecast

Senator Stedman pointed out that the payroll contribution rate has historically been less than 20 percent until FY 05, when the rate increases to 35 percent then up to 60 percent in future years.

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TRS Payroll Contribution Trend & Forecast

Senator Stedman listed the current calculated rate at approximately 42 percent under the latest actuarial study and is forecasted to increase to over 60 percent.

Senator Stedman noted that the unfunded liability is demonstrated as light blue bars on this graph. He asserted that these funds should not be redirected from goods and services, social services and education needs. However, the funds are being diverted to this expense. He gave this a dollar value of approximately one half billion dollars statewide in four years. The sooner the issue is addressed and rectified, the better off the State would be.

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Co-Chair Wilken asked how the proposed employee contribution is reflected in this graph.

Senator Stedman responded the proposed increase is not reflected on this graph. He explained that the yellow bar representing employee contribution would rise and the darker blue bar representing the employer contribution would shorten until the length of both bars are equal.

Senator Stedman indicated he would prepare another graph to demonstrate increased employee contributions that would show that the total employee and employer contribution would not increase,

although the percentage of each would change.

Co-Chair Wilken asked if this change would lower the total PERS payroll contribution amount reflected on the graph.

Senator Stedman answered it would not. This legislation does not address the unfunded liability to the plan. The intent is that once this law is passed, the newly created board would make recommendations to the legislature on how to best address the unfunded liability. Options include: paying off the liability entirely; ignore the liability and allow the system to eventually drain of cash in several years; lower the employee contribution rate and targeted rate and allow the liability to increase over years, and; direct the pension board to reinvest for a higher rate of return, which assumes higher risk. The unfunded pension liability of approximately \$5.7 billion is a separate issue than that of normal cost. This discussion pertains to whether the contribution rate should remain as it is or be changed. The cost of health care is substantially higher currently than it was ten years prior. The employee contribution rate should be periodically reviewed to determine whether it is appropriate.

Co-Chair Wilken asked the value of the proposed employee contribution rate increase on the State's general fund.

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Co-Chair Green estimated the increase would generate approximately \$2.2 billion.

Senator Stedman calculated the increase at 3.32 percent of the entire payroll.

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Senator Hoffman referenced the past service rate of 14.87 percent for PERS and 28.02 percent for TRS necessary to fund the \$5.7 billion liability. He asked if these percentages are fixed over time until the liability is paid. He also noted the schedules of pages 17 and 18 demonstrate the liability would substantially decline in the year 2028 and asked the year the liability would be paid. At that time, he asked if the past service rate would be eliminated from the employers contribution.

Senator Stedman replied that the past service cost does fluctuate from year to year. If substantial gains in the portfolio were realized, the contribution rate would be "shorted" or "shallowed". In years in which performance of the portfolio is less than the

targeted rate. In determining the contribution rate, the actuary averages any gain over the target 8.25 percent earnings rate over five years and averages in any loss. Substantial profits are anticipated for the following year. Theoretically, once the unfunded liability is paid, the past service rate would be zero.

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Senator Hoffman asked the distribution of the \$5.7 billion unfunded liability between the PERS and TRS programs.

Senator Stedman replied he would calculate the amount. He estimated the unfunded liability for PERS is \$3.2 billion.

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Senator Hoffman surmised it conceivable in the future that the unfunded liability would be paid for one plan and an obligation would remain for the other plan.

Senator Stedman agreed the repayment for the plans would not be identical. He furthered that members of the police and fire systems are included in PERS, and benefits are calculated differently for those members.

Senator Stedman also pointed out differences of liability structure for the various municipal employers. He pointed out that the PERS system for one municipality located in State Senate District A is actually overfunded.

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Senator Hoffman asked the percentage of the \$5.7 billion liability is the obligation of the State.

Senator Stedman would calculate the amount.

Senator Stedman stressed the focus of this hearing is not the unfunded liability. The unfunded liability is figured to the community level.

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Senator Hoffman regardless of the market performance, the obligation currently is a finite amount of \$5.7 billion. For budgetary purposes, he asked why a fixed rate over time was not adopted.

Senator Stedman explained the repayment of the unfunded liability is amortized over 25 years at 8.25 percent. Years of higher and lower returns would cause the actual amount to fluctuate.

Senator Hoffman understood that the amount is fluctuating and therefore the actual date the unfunded liability would be paid could not be determined.

Senator Stedman affirmed that not all factors could be predicted, particularly future returns on the portfolio and future normal costs. Also, the actuary recalculates the past service cost of the unfunded liability and that cost is re-amortized. Currently, increases to employer contribution rates are limited, although the rate is below the actuarial recommended rate. One year from now, the liability would be increased to \$6.1 billion.

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Senator Hoffman contended this matter is before the Committee because of the unfunded liability. He questioned the proposal to change from a defined benefits system to a defined contributions system, when the "main thrust" should be stabilizing the situation and addressing the shortfall.

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Senator Stedman expressed intent to stabilize the system first by reconstituting the boards and establishing a better relationship between the liabilities and the assets of the plan.

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Senator Hoffman cited the graphs on pages 17 and 18 showing the normal cost rate stable at approximately 20 percent. This legislation would make employee and employer contributions equal, which would decrease the State's obligation and increase the employees' obligation. Addressing Senator Bunde's earlier comments regarding taking money from "employee's pockets", Senator Hoffman asserted this proposal would "be digging into employees' pensions."

Senator Stedman agreed that dividing the normal service cost equally between the employer and the employee would impact the employees. However, he surmised that when the initial system was created, the health care situation was different.

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Senator Hoffman countered that increased health care costs that

would result in increases to the normal service cost is not reflected in these charts; but rather shows that the normal service cost would remain at about 20 percent. If health care costs would continue to increase, the overall normal service cost should increase.

Senator Stedman characterized the unchanged normal cost rate shown on the graphs as a distortion. Although the normal cost rate has been relatively unchanged for current years, historically the rate has experienced volatility and similar volatility would be expected in the future. The issue is whether to "freeze" employee volatility or fluctuate with market conditions.

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Senator Hoffman opined the employee contribution rate should remain frozen. Employee salaries are unchanged. The issue is how to remedy the unfunded liability, not to "change the rest of the game."

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Senator Bunde remarked the issue is a "philosophical call". The Committee has the choice between continuing the current practice with the "majority of Alaskans paying the cost" or "asking" beneficiaries to pay more. The unfunded liability shown on the graphs as light blue bars represents the "money of all Alaskans" and subsequently money that all Alaskans could utilize. If the current practice were unchanged, the unfunded liability would continue to increase.

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Senator Stedman pointed out that the employee contribution rate would gradually increase and not be fifty percent of the normal cost rate contribution for several years. Meanwhile, the liability would continue to increase.

Senator Bunde clarified that if no changes were made to the current system, the unfunded liability would continue to increase.

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Senator Stedman replied that depending upon how much time passes before the matter is addressed the unfunded liability would continue to increase. No "robust capital markets" are anticipated for the portfolio during the current fiscal year and employer contribution rates are not meeting actuarial recommendations.

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Senator Bunde understood that if substantial changes were made, the unfunded liability would continue to increase over time. If changes were made, the unfunded liability would continue to increase over a shorter period of time.

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Senator Stedman affirmed if employer rates were not increased the unfunded liability would continue to increase. This liability would redirect hundred of millions of dollars in Alaska away from goods and services. Municipal officials have been writing letters to legislators about the challenges local governments are having meeting other financial obligations.

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Senator Bunde calculated the potential employer contribution rate to the retirement system in 20 years for employees in the PERS plan would be fully one-third of the employee's salary. The rate for TRS employees would be substantially higher. He asked why the same scenario applied to TRS employees is fifty percent.

Senator Stedman responded he would provide detailed information. TRS employees are required fewer years of service and subsequently the retirement system is different. Also, the TRS board has adopted different employer contribution rates.

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Senator Bunde therefore surmised that if a single board governed the process the differences in adopted rates would "tend to level out", as one group would be making decisions based on the actuarial data.

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Senator Stedman predicted that a combined retirement board would likely result in one rate adopted for both PERS and TRS and that the board would not recommend contribution rates below the actuarial recommendation for one plan and not the other.

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Co-Chair Wilken expressed that the data contained on the charts of pages 17 and 18 raise so many questions as to make one "almost ill." He asked, "What the hell happened?" This situation could not

have been predicted.

Senator Stedman explained that many years during the 1990s, the liability of the fund was substantially underestimated, which provided faulty data that was used in the decision making process. At the time the fund was said to be overfunded, it likely was not such. The current situation did not occur "overnight", no "perfect storm" occurred, and the investment market was not the primary factor. The miscalculation of the liability was.

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Co-Chair Green asked the number of additional employees that could be hired if the liability did not exist. This liability would redirect funds from classrooms, teachers, supplies, etc. Fewer employees could be hired in the future as a result of this situation.

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Senator Bunde calculated the amount of the liability could fund a fifty percent increase in the number of teaching positions.

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Senator Hoffman calculated the past service rate, as demonstrated on page 5, to be almost three times the amount of the debt and significantly higher than the employer normal service cost rate. He understood inflation and rounding of figures are a factor.

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Senator Stedman informed that the actuary has provided a dollar calculation utilizing a discount rate of 8.25 percent. If the portfolio earns a higher rate over the next 25 years, the unfunded liability would be less; likewise, if the portfolio earns less than 8.25 percent, the liability would be higher. The likelihood of earning less than 8.25 percent is low. The value of the dollar over time must also be considered. The issue is complex.

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Senator Hoffman noted that in some years a past service cost was imposed, but rarely. He asked if this is a new concept intended to separate past service costs from normal service costs.

Senator Stedman replied that in some years during the 1990s, the fund had a potential surplus. He qualified that during this time,

the figures misstated the liabilities. Once the liabilities were restated and corrected, the unfunded liability portion increased significantly. This unfortunately occurred at the same time as "challenges" in the financial market.

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Senator Hoffman clarified that the past service costs are mislabeled and are actually under-funded rates.

Co-Chair Green asked if this "speaks to" the difficulty in calculating the funding status at exactly 100 percent needed for a given year. To be cautious, the fund could be calculated at 103 percent before it is considered fully funded.

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Senator Stedman indicated the ranges are under consideration as well as other technical issues.

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Co-Chair Green announced further questions could be addressed at a later time.

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GAYLE HARBO, Member, Teacher Retirement Board, recited her written testimony into the record, which reads as follows.

I have been a resident of Alaska since 1957, most of the time living in Fairbanks. I taught in Fairbanks for 25 years, most of the time at Lathrop High School and was the Chair of the Math Dept. and Advanced Placement Coordinator for almost 20 years. I am here as a member of the Teacher Retirement Board. The joint boards thank Senator Stedman for his willingness to teleconference with us on Friday Mar. 25. We are sorry that his plans changed but since he could not teleconference hope he and the Committee will read the verbatim transcript of the morning's discussion so they realize the debt of true concern that each Board member has regarding all the bills, which seriously impact a retirement system, which has worked well for 50 years. The only significant changes that have been made in recent years have been enhancements of benefits due to legislation. The Joint Boards have sent letters to the Legislature these past two years asking that you not introduce any bills, which enhance benefits and the Administration has

agreed to testify against these bills because all would increase the unfunded liability.

I am going to address three topics in my remarks and will be happy to answer any questions. If I don't know the answer I will try to find out.

My first issue is the interaction of the three pension boards. As you know the main work of the TRS and PERS boards is listening to appeals of members, recommending employer contribution rates and adopting actuarial assumptions every five years based on the recommendations of the commission of [the Department of] Administration and the actuary. ASPIB manages and invests the contributions to the system. The Joint Board members have great admiration and respect for the way ASPIB and the staff of [the Department of] Revenue, who work with Gary Bader, invest and care for our funds. Over the past ten years the funds have earned almost 9% annually, at or near the assumed rate of our actuary. Earnings are not the problem causing the unfunded liability.

This leads to my second issue. The main driver of the decrease in the funding ratio has been the rapid increase in health care costs, a problem not unique to Alaska. You have seen in past presentations that without the inclusion of medical costs the funding ratio is a respectable 91% for TRS and 120% for PERS. Health care costs have accounted for 50 % of the employer contribution rate increases in past few years. The Administration can make changes in the Health Care plan without legislation. First, changes can be made to the plan for current tiers if they do not diminish benefits, but are a matter of choice or convenience. (An example would be requiring members use hospitals, both in and out of Alaska, which are preferred providers so significant savings could be negotiated - Providence in Anch is not a PP yet over 80 % of retirees go there, the hospitals in Juneau and Sitka are owned by their respective cities. They are not preferred providers and there is little savings to the state.) Secondly, significant changes can be made to the plan for employees hired after a specific date.

About 5 years ago the Joint Boards recommended an education program to encourage members to use Generic Drugs. The members responded and now 42% of the drugs used are generic. Every percent of brand name drugs replaced by generics saves the plan 1M (see Oct. '04 Newsbreak). The Health Care Committee has for several years recommended the state pilot a disease mgt. program particularly for diabetes, but we were told that

the start up cost of \$240,000 was too much. In speaking with other health plan administrators who utilize disease mgt. I have been told that the cost savings in the first years are considerable and would more than recoup the start up costs. Mr. Mike Humphries, from the benefits division at the U of A, the NEA Health Trust and, perhaps Mr. Jarrell, our new trustee from Bering Straits School District, indicate their plans incorporate this element. For retirees this past year, 474 members had claims of over \$50,000 each and accounted for 53M of the medical expenses to the State plan. Surely disease mgt could have reduced some of this cost. Other than the generic drug campaign no substantive cost savings measures have been taken. The Health Care Committee has presented a list of several cost savings measures that we, and the entire Jt. Board, would like to see initiated. The Boards can only recommend, however not implement. I feel we would not be at this juncture, with drastic changes recommended to the system, if this Administration and past Administrations had held a Forum with employers, legislators, representatives of unions and the Municipal League and medical professionals to discuss methods of resolving these skyrocketing costs. We all recognize the problem and would like to be part of the solution, not adversaries. Senator Seaton has a bill regarding generics and closed formularies. This does not have to be legislated - the Administration can make those changes now as long as they do not diminish benefits to the current tiers.

My third issue deals with the comments by some that the Boards have not been responsible in recommending the employer contribution rate and with the awarding of the ad hoc PRPA. Wrt TERS and the employer rate, it is a recommendation, the Administration can set the rate higher. The Boards act with information provided them by the Administration and the actuary. In the early '90's the TRS Bd adopted a 12% employer rate and to ensure stability for employers for future planning, they intended this rate be used for at least 20 years. In 2000 and 2001, however, when setting the rates for FY 02 and FY 03, Mercer, our actuary, recommended rates as low as 7.09% and 8.29% for those fiscal years. The TRS Bd did, in those two years drop the rate to 11%; had they not, the employers may have been upset. In '03 we set the rate at 16%, though the first motion was for 17%. The contribution rate has been higher - in FY 83 and '84 the combined rate for state and school district was close to 18%. When I started teaching in the '60's, employee, employer and the state each contributed 7%. The employee population at the University that is not under TRS, but under private accounts, has a match by the employer of roughly two to one.

The other issue of Ad Hoc PRPA's apparently needs to be clarified since you were given a paper dated Mar. 18 from Mercer regarding the funding status due to plan changes, mostly enhancements through legislation, and Ad Hoc PRPAs. As you know the Boards recommend Ad Hocs on the basis of information provided by the actuary and the Commissioner of Administration. The Boards have only made recommendations when the funds were healthy. No Ad Hoc has been recommended since 2003. A retiree gets either the Ad Hoc or the automatic PRPA, not both. In the past years when the Ad Hoc has been awarded it only causes a small "blip" in the increase of the employer contribution rate, probably less than .06%. The Mar. 18 letter fails to indicate that probably 99% of the ad hoc cost mentioned, resulted from the settlement of a lawsuit in the mid '90's. The state lost the lawsuit and as a result had to make all retirees whole, from the time they retired, wrt the PRPA. The dollars paid out include not only past prpas but the interest earned. Many individual retirees who had been retired 30 to 40 years received checks close to \$10,000. The lawsuit, as many of you may remember resulted because past administrations had not awarded a prpa when the fund was "healthy".

The Mar. 18 letter also attributes nearly 1B of the increase to the unfunded liability to benefit enhancements by the legislature. The Boards have said many times that "tinkering" with the tiers, once they have been established has not been in the best interest of the funds and for some of these changes the actuary has not accurately predicted the rapid rise in health care costs. In the assumptions adopted by the Boards, the last time in Dec. of 2000, Mercer had a Medical assumption rate of 5.5%. We now know was not a realistic assumption. The Boards requested an Actuarial Audit in 2001 and the resulting report indicated that we should look at Medical assumptions on an annual basis. You also know that the RIP programs advocated by the Legislature in the early '90's were to be cost neutral, but this past year Mercer indicated they have had a negative affect on the funding ratio, primarily because of escalating Medical costs. Despite this poor advice, if you examine Mercer's budget line item over the past few years, you will see there has been a 100% increase in their fees.

I thank you again for your time and hope you will carefully consider whether drastic measures need to be taken at this time. We all agree there is a problem and we hope by working together we can begin to solve it, but please do not burden

future hires for the mistakes of others. Changes can be made, without legislation, to control current and future costs. Please let us work together to make Alaska continue to be the place young people will want to come to work, as you and I once did.

[6:03:59 PM](#)

Senator Stedman expressed that he did not know individual board members when this process was undertaken and therefore this matter is not a personality issue. He noted that currently two boards address appeals and one addresses assets, but no board addresses liabilities. Correcting this is not a matter of changing members serving on these boards, but rather changing the structure of the process. To continue without a structural change would not be prudent; rather the problem of "how we got here" must be solved. The next step is to address the underfunding issue. The goal is to have the assets and liabilities balanced.

Senator Stedman determined that the ad hoc, PRPA issue has impacted the cost to employers. The ad hoc comprised approximately 1.5 percent of the entire 7.36 percent employer contribution, which is "fairly small". The most significant issue is the assumption changes that increased the liabilities; the second most significant factor is investment experience and health care costs. Additional information is available on the Internet [address not specified].

[6:06:29 PM](#)

Co-Chair Wilken announced that Ms. Harbo taught two of his children. He asked the definition of PRPA.

Ms. Harbo defined PRPA as: post retirement pension adjustment.

Co-Chair Wilken asked if this adjustment was a retroactive "surprise".

Ms. Harbo told of automatic PRPAs and ad hoc PRPAs, which are tied to the Consumer Price Index (CPI). Members could receive either one or the other.

Co-Chair Wilken asked the process of the PRPA.

Ms. Harbo compared this to the cost of living adjustment (COLA) applied for social security benefits, which is automatically awarded. The State COLA is a ten percent increase paid to members residing in Alaska.

[6:08:26 PM](#)

Co-Chair Wilken recalled the lawsuit of the 1990s. He told of a friend who was a retired Alaska State Trooper and department commissioner who received a check for \$340,000.

Ms. Harbo disputed this, surmising it must be related to a different lawsuit. The highest payment she knew of was between \$3,000 and \$4,000. She received \$25.

[6:09:19 PM](#)

Senator Bunde referenced Ms. Harbo's testimony to "legislative initiative on early retirement". He remarked that the early retirement program was requested by school districts as a cost reduction measure that would have no impact on the retirement system.

[6:10:03 PM](#)

KERRY JARRELL, Certified Public Accountant, Assistant Superintendent, Bering Strait School District, and Teacher Retirement System Board Member, read his written testimony into the record as follows.

Rhetoric in the press has described the current condition of the retirement systems as the "PERS/TRS meltdown". The combined conditions have been characterized in the SB 141 White Paper as the "perfect storm". It is important to understand that, contrary to the recent rhetoric, the factors that led us to this point were not immediate, not rapidly developing, and do not represent a meltdown. I am not suggesting that the issues are not real, but I am suggesting that they need to be viewed in their proper context.

Retirement systems are like supertankers that respond slowly to environmental conditions and corrective actions. The seeds of the problems as well as the successes of the plans were planted and nourished over the past twenty-five years. When critics speak of the funding "crises" or "meltdown" of today, they are actually looking twenty-five years into the future and projecting what cumulatively will occur over that period. Just as actuaries may have erred on many projections over the past quarter of a century, current actuarial estimates will no doubt miss the mark over the next quarter of a century. Minor changes in assumptions can cause enormous changes in the funding status of the plans. Consider that a 2% change up or down in the estimate of the rate of growth of health care

would change the unfunded liability of the plans by over a billion dollars.

Actuaries will be the first to admit that their projections are far from an exact science. It is evident today that many of the assumptions throughout the 1900's were incorrect. Health care costs were growing much faster than we realized for nearly a decade before actuarial assumptions were revised around 2002. The retirement plans that appeared fully funded in the late 1900's were obviously under funded. Correcting those assumptions in 2002 resulted in a multi-year adjustment that startled everyone. Those adjustments did not reveal mismanagement of the assets by the ASPIB, the boards, or the administration. They simply revealed that the state, its municipalities, and its school districts had been underpaying the necessary contributions for health care to keep the system healthy. Had more accurate rates been imposed earlier, the unfunded liability would not sit on the books of the retirement systems, it would be reflected on the books of the municipalities, boroughs, and school districts.

I would like to offer the following observations and recommendations for the legislature to consider.

1. The major problem with our retirement plans is health care. In the 1980s' and early 1990's health care was relatively more affordable than it is today. For the eleven-year period from 1992 to 2003, 69% of the increase in unfunded liabilities, amounting to roughly \$3.7 billion, came from excess increases in health care costs. I use the term "excess" to mean that health care costs were \$3.7 billion more than the plan benchmark or estimate for that period. If it weren't for that \$3.7 billion deficit, we would not be here today and there would be no discussion of overhauling the retirement system.

2. The retirement super tanker has developed several leaks. By leaks, I mean benefits have been provided that have not been funded or calculated into the contribution rates. These leaks mandate payments greater than the plan ever intended. For example, there is no correlation between the earnings and contributions of part-time local public officials and the eventual benefits provided to those individuals. Under current provisions, a school board member or council member earns and pays little into the system, but they receive free medical coverage at 55 or 60. Their contribution to the retirement system could be as low as \$1,000 over their entire career, yet they could receive almost unlimited medical for them and their dependents for up to a generation.

Additionally, many schemes have been used by employees to boost eligible salaries in the final years of employment. Consequently, salary rates are often considerably higher than they should be. Termination bonuses have recently been identified in the press, but service credits, overtime, final year pay increases, etc. can produce large increases in benefits without reasonable contributions to the systems to offset them. These practices create unfunded liabilities.

One of the most overlooked leaks in the super tanker is masked in the benefit formula itself. Using the high three years for benefit calculation produces built in losses for the system. This piece of the formula, which has been considered sacred until now, consistently created an unfunded liability for every single participant.

3. Much has been spoken about reducing the risk to the employers by moving to defined contribution plans. While the change to a defined contribution plan may limit the exposure for local and state governments, any plan that undermines the retirement security of public employees will eventually drive good people from public service. Retirement plans, by their very nature, are structured to protect employees, not to take advantage of them. A blended approach that gradually introduces the concept will spread risk equally among employers, the state, and employees.

Recommendations:

1. Immediate changes need to be made to the health plan in order to maximize savings in every area possible. Aggressive steps should be taken to initiate preferred provider networks. Preferred prescription providers and the use of generic drugs should become mandatory under the plan. Increasing co-payments for drugs and services would spread the cost of services among beneficiaries and the plan. Disease management and large case management have been extremely beneficial in reducing unnecessary procedures and limiting hospital stays. I have personally administered a large self-funded plan for out school district for the past ten years. We have successfully implemented all of these procedures and realized considerable savings from them. The PERS/TRS Health Plan is large enough to wield considerable influence in negotiating savings with service providers.

2. Implement the changes in health care access that were recommended in the PERS & TRS Tier Proposals. These included

limiting entry into the system until beneficiaries reach the age of 65 and assessing premiums based on years of service. Limiting access to health care for part time elected officials would also help relieve the unfunded liability.

3. Stop the leaks caused by unfunded benefits. Any provision in the current statutes that drains from the system should be identified and corrected. Make the necessary changes to statutes that currently allow supplemental earnings to boost the wage base for retirement calculations.

4. Amend the formula for retirement benefits to create a more reasonable base period for eligible salaries. A minimum of ten years of earnings should be used for benefit calculation purposes. This will dilute the effects of any large payouts in the final years of employment and will help ensure the benefits more evenly match contributions.

5. Take a very conservative approach in implementing elements of a defined contribution plan. The Division of Retirement and Benefits has offered PERS and TRS Tier Proposals that incorporate a defined contribution plan that is more gradual. It provides significantly more protection for the State and the employer without totally abolishing the benefits of the current plan. The plans are healthy in terms of their ability to pay pension benefits. In spite of all of the bear market, low interest rates, legislative changes, etc., the pension portion of the plans were well funded and were in the top ten percent of state retirement systems as measured by one of the top pension experts, Wilshire Research. The success of that portion of the plans should be preserved to the extent possible.

The plans have served the State and its residents well for many years and can continue to do so in the future. Rather than dismantling the plan, we urge you to consider a combination of mid-course corrections and prospective changes.

We thank you for the opportunity to address these issues. I would be happy to answer any questions from the Committee.

[6:19:07 PM](#)

Senator Bunde understood the witness' three recommendations and the premise that if the retirement plan were changed, employment would be "less attractive" to potential employees. However, the recommendations would also make the plan less attractive.

Mr. Jarrell replied that the gradual shift to a defined contribution or hybrid plan, as considered by the boards, could be done responsibly without "driving people out of the plan". The recommendations for changes to the health care benefits would not compromise the quality of the health plan, but rather force the administrators to be aggressive in delivering a more efficient product. His proposed changes to the "leaks" in the system relate to "abuses".

Senator Bunde countered that activities considered abuses could also be considered incentives.

Mr. Jarrell acquiesced.

Senator Bunde understood the witness' assertion that implementing changes slowly would not "drive people out." The end result is the same. He commented, "In many cases, reality changes and the people who are in the new reality probably make their judgments based on that information and not on what someone did or had available to them 15 to 20 years ago."

[6:21:12 PM](#)

Senator Stedman noted the witness' reference to a document characterizing the situation as a "perfect storm". He requested the source of this document.

[6:21:37 PM](#)

Senator Stedman made the following statement.

Through all the presentations and talk here we've always recognized that there is no issue of solvency in the plan immediately, [be]cause we've got \$11.9 billion in assets. So we have a substantial amount of assets sit there and the benefit payments last year were \$826 million. So we could run for years.

So we're not saying the house is crumbling. But the issue here at this table is "we're responsible for appropriating capital in the State." And we were hoping that the boards would come back with recommendations: new tier structures, help us with [the] unfunded issue, cost containments. They did nothing. Nothing. You guys wouldn't be here if we weren't working on Senate Bill 141. The reason we are is because the boards didn't come to the table.

We're not going to sit here-at least I'm not going to sit

here-for the next three years we're going to have another \$370 million statewide of capital to meet these obligations redirected. These are huge numbers. And we certainly can't sit here and let the liability continue to grow.

I'm sure that when the actuary comes in and sits down in that seat that you happen to be in, I'm sure it's going to get a little warm. We need the most accurate projections we can get and then we'll deal with whatever the numbers are, set the policy through a good public process and move forward. But we can't do nothing. We can't wait for non-responsive boards to come to the table with solutions.

So we looked at the tier proposals that the board reviewed. Went back read the minutes, talked about the hybrid plan pros and cons, defined benefit plan pros and cons, defined contribution plan. We decided that the defined benefit plan that we currently have, the risk levels are too high for us to deal with. So that comes back to the two alternatives that the boards reviewed: the hybrid plan and the defined contribution plan. We decided to go forward with the defined contribution plan. I would grant you that the hybrid plan has some risk aversion factors in it for the employee, just because it has a defined benefit portion; and then the employer takes responsibility.

In the private marketplace, private enterprise, you can't get a plan like the state of Alaska has. [One] doesn't exist. You'd go broke. We need to come somewhere from where we're at and still stay competitive, still stay attractive as an employer, still be able to go out and compete in the Northwest for teachers and retain the people we have with whatever plan we come out with today.

If we look at the proposals from the actuary, and granted there's probably [indiscernible] and he's probably, hopefully he's close. But under TRS, he's talking about a 41.7 percent contribution rate. The health care portion's, excuse me, the health care portion's eight. So if we just took that off, we'd be roughly putting 35 percent into a defined contribution plan. We'd have people stacked up from here all the way down to the shorefront for the job. Those are huge, huge numbers. So it's not that the defined contribution plan is some inferior product that can't attract and retain employees, and it's only a defined benefit plan, it's the level of the two benefits they produce.

We're going to sit here and look at tier three and we're going

to try to keep the State and the schools competitive. Quite frankly, if I was a new employee and I knew the employer was going to be paying 42 percent of my base salary to a benefit package, I'd say "hey, why don't you give me 30 percent of that for my pension, my retirement plan, put it into my own individual account and the rest to medical." I'd be out of here in 20 years as a fat cat. These are phenomenal numbers.

I am a little impatient, and again it's the structure of the boards and how they interrelate versus the people on the boards. But we've got a serious issue here. Going forward and doing nothing is not an option. At least not with me. You know I'm not going to sit here and reallocate \$370 million in capital and just think everything is going honky dory.

I recognize your comments. I like your comments about cost containment because I think when we look at, not only the current three theirs there is what some of us would call as an abuse. Some would call an abuse; some would call it a benefit. Some of those benefits are protected by the Constitution and we can't deal with them. But there is some cost containment issues that we need to look at and we need help from the board, whether it's TRS and PERS or it's a new board to do those things. Also we need to have cost containment issues even on the new tier going forward.

So cost containments are an issue and funding the underfunded position \$5.7 billion of some magnitude has to be addressed. The do nothing strategy doesn't work and I will agree with you that they're all estimates and when you forecast out 25 years, it's a lot more accurate to forecast out five. And it's easier for us to work in the shorter time horizon. Assumptions change, returns change, but it's so far out of whack now that we have to do something. If we don't we're, in my opinion, neglecting responsibility that the citizens put us here to make tough decisions.

I want to treat the employees fairly and I certainly don't want to have the state of Alaska or the school system in a competitive disadvantage for employment or retention. That was a first issue on the table when we sat down: what are we going to put together; we've got to meet those two goals. We'll sit here in the couple days.

We're going to talk about contribution rates. We've talked a little bit about it today and you can see there's not hundred percent agreement, just on the normal service cost. But eventually we're going to get into talking about how much

should we contribute if we have a hundred percent defined contribution plan. Should it be 11.25? Should it be 15? Should it be 20? Should it be 5? You know, we're using 11.25 as a starting mark. I think that's pretty close and I'm certainly not casting concrete on it. I'm going to work that number out and look at the effect on the employee of the health care costs that they're going to have to pay when they retire under the new plan, to make sure that there isn't a burden shift.

It's a dynamic working process and I do appreciate your coming forward and testifying and pointing out some of the issues.

[6:30:08 PM](#)

Co-Chair Green expressed that some points mentioned by the witness should be incorporated into the legislation.

[6:30:41 PM](#)

Mr. Jarrell assured his intent is not that the legislature do nothing. He did not join the board until after it rejected the tier proposals. He is on record in support of those proposals. A board member who was serving at the time the proposals were under consideration would be at future Committee hearing to speak to the boards actions. Mr. Jarrell assured that his "head is not in the sand on this issue." However, throughout the 1990s the boards assumed the actuarial assumptions were correct and acted accordingly. It has now been stated those assumptions were not correct. The new assumptions could not be proven correct until 25 years has passed and the experiences have occurred. He encouraged changes to the current system, but warned they must be made slowly and carefully.

[6:32:22 PM](#)

Senator Stedman reported he and others have been working on this issue for about a year and have given the matter significant considerations. He was pleased the witness was not serving on the board at the time the tier proposals were under consideration and during the time that the legislature was looking to the boards for suggestions. He apologized for his assertions that the witness was responsible and suggested the comments should have been directed to another board member.

Senator Stedman then referenced the witness' testimony on the funding ratio of the health care versus pension. He pointed out that the assets were "used twice". He surmised that the witness, as an accountant, would agree that the assets could not be spent

twice.

Mr. Jarrell replied he would review the information.

Senator Stedman furthered that the actuaries have done this, despite the legislature directing other wise.

[6:33:29 PM](#)

Senator Hoffman commented that Senator Stedman the prime presenters of this legislation have claimed to be "here to listen" and requested input. This is what the witness has done, and should not be criticized for doing so. Senator Hoffman surmised the current language of SB 141 would be amended, and therefore the extended hearings are intended to hear comments and recommendations. Those suggestions should be taken and incorporated into a final plan. There are many different ways to solve this problem to make the retirement plan solvent.

Senator Hoffman continued that the underlying goal is to ensure that employees could be attracted and retained. He referenced Senator Stedman's statement that the employer contribution of 41.7 percent should have employees "lining up at the door". Senator Hoffman countered that if the full amount of these contributions were made directly to the employees' benefit, this could be the case; however, 28 percent is utilized to repay past service rates. The rates are high, but would not entirely benefit employees.

Senator Hoffman noted Mr. Jarrell attested that problems do exist with the current system. Senator Hoffman exemplified an employee working for an annual salary of \$18,000 until the final three years before retirement at which time, the employee secures a position at \$90,000 per year, and subsequently collects a higher pension payment. This creates an imbalance to the system. He agreed this should be addressed and the system should be restructured; however, this legislation "goes way, way beyond just structural changes."

[6:36:04 PM](#)

KEVIN RITCHEE, Executive Director, Alaska Municipal League, relayed that the League had a meeting with school district officials and municipal officials on this matter. The parties appreciated that the annual employee increases would be no more than 0.5 percent. It is likely fair to increase employee contributions. Bargaining units could address this issue, as well as any offset to the increased deductions from employees' salaries.

[6:37:16 PM](#)

Co-Chair Green expressed frustration that municipality and school district officials have "rallied" and pled for the legislature to fund the PERS and TRS increases for their jurisdictions. The amount necessary to fully fund the system is much more than the State could afford. Capital funding should be available for constructing new schools, bridges and other capital projects.

[6:38:46 PM](#)

JOHN ALCANTRA, Government Relations Director, National Education Association, Alaska, testified to the reference to the Association's newsletter, The NEAA Activist, which is distributed to over 12,000 members. The recent edition, Senator Bunde had cited, was printed on March 15, and is now reaching its readership. SB 141 was introduced on March 14 and contains language on page 7 to provide an increased member contribution rate "not to exceed five percent" annually, as opposed to the currently discussed one-half percent. Therefore, the article speaks to the original language. Senator Stedman and staff have met with the Association several times and have been helpful in addressing concerns. Although Senator Stedman has stated for the record intent that the annual employee contribution increase would be one-half percent, the original language, providing for a five percent increase, remains in the bill.

[6:40:41 PM](#)

Co-Chair Green remarked that the witness' comments do not speak to the inaccuracy of the article.

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ADJOURNMENT

Co-Chair Green adjourned the meeting at 06:41 PM