

**ALASKA STATE LEGISLATURE  
SENATE JUDICIARY STANDING COMMITTEE**

March 26, 2008

1:36 p.m.

**MEMBERS PRESENT**

Senator Hollis French, Chair  
Senator Bill Wielechowski  
Senator Gene Therriault

**MEMBERS ABSENT**

Senator Charlie Huggins, Vice Chair  
Senator Lesil McGuire

**COMMITTEE CALENDAR**

Confirmation Hearing

Public Offices Commission: Kathleen Frederick  
CONFIRMATION ADVANCED

SENATE BILL NO. 235

"An Act relating to shipping, sending, transporting, or bringing alcohol to a local option area and providing alcohol to others in the local option area, including penalties for violations; relating to furnishing alcohol to a minor and to civil penalties for licensees whose agents or employees furnish alcohol to a minor; relating to manslaughter as a direct result of ingestion of alcoholic beverages brought in violation of a local option prohibition; relating to reports of the court concerning certain alcohol violations by minors; making conforming amendments; and providing for an effective date."

MOVED CSSB 235(JUD) OUT OF COMMITTEE

SENATE BILL NO. 183

"An Act repealing the defined contribution retirement plans for teachers and for public employees; making conforming amendments; and providing for an effective date."

HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 235

SHORT TITLE: ALCOHOL: LOCAL OPTION/LICENSING/MINORS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/18/08 (S) READ THE FIRST TIME - REFERRALS  
 01/18/08 (S) CRA, JUD, FIN  
 01/31/08 (S) CRA AT 3:30 PM BELTZ 211  
 01/31/08 (S) -- MEETING CANCELED --  
 02/05/08 (S) CRA AT 3:30 PM BELTZ 211  
 02/05/08 (S) Scheduled But Not Heard  
 02/07/08 (S) CRA AT 3:30 PM BELTZ 211  
 02/07/08 (S) Heard & Held  
 02/07/08 (S) MINUTE(CRA)  
 02/12/08 (S) CRA AT 3:30 PM BELTZ 211  
 02/12/08 (S) Moved CSSB 235(CRA) Out of Committee  
 02/12/08 (S) MINUTE(CRA)  
 02/15/08 (S) CRA RPT CS 2DP 1NR 2AM NEW TITLE  
 02/15/08 (S) DP: THOMAS, KOOKESH  
 02/15/08 (S) NR: STEVENS  
 02/15/08 (S) AM: OLSON, WAGONER  
 03/03/08 (S) JUD AT 1:30 PM BELTZ 211  
 03/03/08 (S) Heard & Held  
 03/03/08 (S) MINUTE(JUD)  
 03/14/08 (S) JUD AT 1:30 PM BELTZ 211  
 03/14/08 (S) Heard & Held  
 03/14/08 (S) MINUTE(JUD)  
 03/26/08 (S) JUD AT 1:30 PM BELTZ 211

BILL: SB 183

SHORT TITLE: REPEAL DEFINED CONTRIB RETIREMENT PLANS  
 SPONSOR(S): SENATOR(S) ELTON

05/16/07 (S) READ THE FIRST TIME - REFERRALS  
 05/16/07 (S) L&C, STA, JUD, FIN  
 01/29/08 (S) L&C AT 1:30 PM BELTZ 211  
 01/29/08 (S) Heard & Held  
 01/29/08 (S) MINUTE(L&C)  
 02/14/08 (S) L&C AT 1:30 PM BELTZ 211  
 02/14/08 (S) Moved SB 183 Out of Committee  
 02/14/08 (S) MINUTE(L&C)  
 02/15/08 (S) L&C RPT 2DP 1DNP 1NR  
 02/15/08 (S) DP: ELLIS, DAVIS  
 02/15/08 (S) DNP: BUNDE  
 02/15/08 (S) NR: HOFFMAN  
 03/18/08 (S) STA AT 9:00 AM BELTZ 211  
 03/18/08 (S) Heard & Held  
 03/18/08 (S) MINUTE(STA)  
 03/19/08 (S) STA RPT 2DP 2DNP 1NR  
 03/19/08 (S) DP: MCGUIRE, FRENCH  
 03/19/08 (S) DNP: GREEN, BUNDE  
 03/19/08 (S) NR: STEVENS

03/19/08 (S) STA AT 9:30 AM BELTZ 211  
03/19/08 (S) -- Continued from 03/18/08 --  
03/26/08 (S) JUD AT 1:30 PM BELTZ 211

**WITNESS REGISTER**

KATHLEEN FREDERICK, Appointee  
Alaska Public Offices Commission  
Wasilla, AK

**POSITION STATEMENT:** Appointee to the Alaska Public Offices Commission.

SENATOR KIM ELTON  
Alaska State Capitol  
Juneau, AK

**POSITION STATEMENT:** Sponsor of SB 183.

JESSE KIEL, Staff  
to Senator Kim Elton  
Alaska State Capitol  
Juneau, AK

**POSITION STATEMENT:** Answered questions related to SB 183.

JERRY PATTERSON, Past President  
NEA-Alaska  
Juneau, AK

**POSITION STATEMENT:** Spoke in support of SB 183.

JIM DUNCAN, Business Manager  
Alaska State Employees Association (ASEA)  
Juneau, AK

**POSITION STATEMENT:** Spoke in support of SB 183.

PAT SHIER, Director  
Division of Retirement and Benefits  
Department of Administration (DOA)  
Juneau, AK

**POSITION STATEMENT:** Said the administration opposes of SB 183.

SEAN RICE, Public Employee  
Fairbanks, AK

**POSITION STATEMENT:** Spoke in support of SB 183.

FRANCIS MCLAUGHLIN, Regional Planner  
Municipality of Anchorage  
Anchorage, AK

**POSITION STATEMENT:** Spoke in support of SB 183.

SARAH GROSSHUESCH, Public Employee  
Anchorage, AK

**POSITION STATEMENT:** Spoke in support of SB 183.

LARRY WEISS, Retired Research Professor  
Executive Director, Alaska Center for Public Policy  
Editor, Alaska Health Policy Review  
Anchorage, AK

**POSITION STATEMENT:** Spoke in support of SB 183.

PAT LUBY, Advocacy Director  
AARP-Alaska  
Juneau, AK

**POSITION STATEMENT:** Testified that AARP strongly supports SB 183.

JEFF BRIGGS, Firefighter  
Anchorage, AK

**POSITION STATEMENT:** Spoke in support of SB 183.

#### **ACTION NARRATIVE**

**CHAIR HOLLIS FRENCH** called the Senate Judiciary Standing Committee meeting to order at [1:36:49 PM](#). Senators Therriault and French were present at the call to order. Senator Wielechowski arrived during the introductory comments.

#### **ALASKA PUBLIC OFFICES COMMISSION CONFIRMATION**

[1:37:06 PM](#)

**CHAIR FRENCH** announced the confirmation hearing of Kathleen Frederick for the Public Offices Commission.

**KATHLEEN FREDERICK**, Appointee, Alaska Public Offices Commission, said she is an attorney with about 25 years of experience. She has practiced in various areas of the law including civil litigation, administrative law, and employment law. She believes in community service and this is a way of serving her larger community, the state of Alaska. She is a hard-working person, and this might be a place where she can contribute.

**CHAIR FRENCH** asked if she has been involved in any campaign financing.

**MS. FREDERICK** replied she may have given a donation here or there, but she has never run a campaign.

1:39:20 PM

CHAIR FRENCH asked if she has hosted any fundraisers.

MS. FREDERICK said she hosted a coffee in her house for a friend who was a candidate. She didn't donate to that campaign prior to being appointed to this commission and she hasn't contributed since.

CHAIR FRENCH asked if she lived in Juneau for a time and now resides in Wasilla.

MS. FREDERICK replied she still has a home in Juneau and will be there from April through September, but her home is on the market and she intends to move to the greater Anchorage area.

1:40:26 PM

CHAIR FRENCH asked if she currently maintains a law practice.

MS. FREDERICK said she does. She worked in Juneau for Baxter, Bruce and Sullivan until this last February and now she has her own practice.

CHAIR FRENCH asked how it came about that she's a vice president of a homeowner association in Haines.

1:41:19 PM

MS. FREDERICK explained that she bought property in Haines when she first wanted to move to Alaska in the mid 1990s. She wasn't able to move to the state at that time because she had younger children and there were custody issues related to moving them out of state. She hasn't been on the association for a year or two and has since sold the property.

CHAIR FRENCH asked if her children are grown.

MS. FREDERICK said she has a married daughter in college and a son in high school. Both attend school in other states.

SENATOR WIELECHOWSKI moved to forward the name of Kathleen Frederick to the full body for consideration.

CHAIR FRENCH said the motion does not reflect an intention by any member of the committee to vote for or against the confirmation. Finding no objection, he announced that the nomination of Kathleen Frederick as appointee to the Alaska Public Offices Commission is advanced.

**SB 235-ALCOHOL: LOCAL OPTION/LICENSING/MINORS**

1:43:13 PM

CHAIR FRENCH announced the consideration of SB 235 and noted that there is a committee substitute.

SENATOR WIELECHOWSKI moved to adopt committee substitute (CS) for SB 235, 25-GS2035\M, Luckhaupt, as the working document.

CHAIR FRENCH objected for discussion purposes. He said there were three changes since the last discussion of the bill. The CS takes a precautionary step and removes the manslaughter provision because it was difficult to predict how it would be used. Since there are already laws about over serving alcohol to people, the language didn't seem necessary. There was much discussion on how to handle a licensee that incurs a lot of violations. Now there is no penalty; the only way to go after a licensee is to take their license away. Page 2 Section 3, provides a flat \$1,000 for each violation. Testimony showed that many licensees can serve thousands of customers and not incur a single violation, but the Alcoholic Beverage Control Board (ABC) indicates that other licensees incur lots of violations. The flat \$1,000 fine is reasonable and simpler than adopting a complex escalating series of fines.

1:45:49 PM

CHAIR FRENCH explained that the last change is on page 4, subsections (i) and (j). The definition of "previously convicted" was adopted on advice from the Legislative Legal and Research Services Division. Otherwise the bill is much the same. He removed his objection and asked if there was further objection.

SENATOR THERRIAULT asked if the language dealing with mandatory minimum sentences for bootlegging is in this version.

CHAIR FRENCH replied that's in Section 5 and it's unchanged. It adopts a scheme that's similar to a DWI.

SENATOR THERRIAULT asked to what offense the C felony applies.

CHAIR FRENCH said that page 3, paragraph (3) provides a C felony for bootlegging, and the next section spells out the term of imprisonment for that crime.

SENATOR THERRIAULT said he has no objection.

CHAIR FRENCH said that public testimony was closed at the previous hearing so the people who want to articulate their views with respect to this CS can do so before the finance committee. Unfortunately, part and parcel of a 90-day session is the need to keep things moving, he said.

[1:48:14 PM](#)

SENATOR WIELECHOWSKI motioned to report, Version \M, [SB 235] from committee with individual recommendations and attached fiscal note(s).

CHAIR FRENCH announced that without objection CSSB 235(JUD), 25-GS2035\M, is moved from the Senate Judiciary Committee.

### **SB 183-REPEAL DEFINED CONTRIB RETIREMENT PLANS**

CHAIR FRENCH announced the consideration of SB 183 and noted that he is working from work draft Version \L, 25-LS0566\L, Wayne.

SENATOR KIM ELTON, Sponsor of SB 183, said the bill has a simple premise of taking the state back to hiring people in the Tier III PERS system for state employees and Tier II TRS system for teachers. It doesn't get rid of all the changes that were adopted in the change to a defined contribution plan, but it's the largest effect of this bill. Tier III PERS and Tier II TRS offer much better benefits to public employees at about the same cost. The fiscal note concludes that the cost for Tier III and Tier II in the PERS/TRS system is roughly \$5.00 a month more per public employee or teacher. He would argue that the cost is probably less than that for several reasons.

First, the nature of a pooled system is much easier. The kinds of investment that are made for a defined benefit plan aren't as conservative as those often made for defined contribution plans. Administratively it's easier to manage a pooled account than many individual accounts. Defined contribution accounts are individual, not pooled. Studies by other states and actuaries suggest that the cost for managing a defined contribution plan (DCP) is about three times the cost of managing a defined benefit plan (DBP). Another important issue that needs to be accounted for when comparing the plans is forfeitures. In the DCP an employee who leaves before they are invested in the state can take their money and the money the state contributed. DBP employees cannot do that. When a DBP employee leaves before

vesting, the employer dollars are forfeited. They stay in the fund and continue working for all the other employees that stick around. That's a significant difference between the plans and a significant savings for the state. Anyone who suggests that switching to the DCP has reduced the unfunded liability or that by switching it will go down is wrong, he said. It's still a liability and the state still has to pay for it. He believes that the unfunded liability might become more difficult to control because of the forfeiture issue. A completely different system has been created; it isn't a drag on the Tier III/Tier II system and it isn't a boost. It's different.

[1:55:11 PM](#)

SENATOR ELTON said that what this state did was unusual. Eight other states have given employees a choice between DBP and DCP, but Michigan is the only state that's gone entirely to defined contribution. The difference between Michigan and Alaska is that Michigan employees contribute to the social security program so they have that defined benefit safety net below their defined contribution program. That doesn't exist for public employees in Alaska.

He relayed that employers have begun to say that without a DBP, recruitment for state employees becomes more difficult because a professional working in the private sector can make more money. What's always been attractive to potential public employees is that they would get a defined benefit program for retirement that's better than in the private sector. That is an inducement for public service even though pay may be lower. That inducement has been taken away with a defined contribution plan. No retirement benefit is gained by accepting a public service job here in Alaska. Even worse, the state has set up a situation where an employee can begin their professional career in Alaska and then after five years, they can take their money and transfer to a public service jurisdiction with a defined benefit plan.

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SENATOR ELTON said when he was young he never thought about retirement, but after he got married he began to look ahead. What Alaska has done is tell smart young people that once they get their on-the-job training here, they can take the money they contributed and their employer contributed and move on to a defined benefit program that protects their retirement. Under the DCP there is not a provision for a cost of living allowance (COLA) for retirees, but Tier I, II, and III retirees that stay in the state get that added benefit. That encourages retirees to

stay in the state and spend their money. It creates an economy that's worth about \$1.5 billion per year. That economy might not go away, but without protection it's at risk.

[2:00:31 PM](#)

SENATOR ELTON said one thing that happened when the legislature talked about moving to a DCP was that it was couched in terms of the DBP being one very expensive bucket. He admits that it was an expensive bucket, but not because of PERS Tier III or TRS Tier II. It was expensive because of PERS Tier I and Tier II and TRS Tier I. Over time the state reduced the benefits for incoming employees because of the great expenses associated with those early tiers. It was to the benefit of those who advocated for the DCP to talk about DBP being more expensive, but that obscured an essential truth. That essential truth is that the new DCP creates no more savings to the state than would have accrued to the state if it had stayed with PERS Tier III and TRS Tier II. We can quibble about minor amounts, but it's essentially a wash.

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SENATOR ELTON said this bill doesn't change the good things that were done. It doesn't change: the requirement for a second actuary, the required mandatory experience studies, the ARM Board structure, the provision for elected officials making \$25,000 or less, or the 2010 deadline for earlier tier employees coming back into service to buy back their time.

He noted that the proposed CS makes one substantive change in Sections 4, 5, and 28. It shifts responsibility for making the determination for when the funds are healthy enough to make an inflation-adjustment payout to retirees from the commissioner of administration back to the ARM Board. It also contains a few other technical changes. It updates the conversion election at the end of the bill and makes minor adjustments to accommodate SB 123, which was the big fix-it bill for DCP. Also it uses some different kinds of language; the original bill refers to the former AS 14 and this refers to provisions of AS 14 for the citation. That flexibility is important to retain and protect a few provisions, such as forfeiting defined contribution benefits when convicted of corruption.

[2:05:59 PM](#)

CHAIR FRENCH asked how this bill treats Tier IV employees.

SENATOR ELTON explained that defined contribution employees will have the option of changing to the defined benefit plan as either a PERS Tier III or TRS Tier II.

CHAIR FRENCH asked if their defined benefit amount begins to accrue when they make the transition, or would they receive a benefit for the service accrued.

SENATOR ELTON replied those employees will be held harmless, but the commissioner of administration will need to make some adjustment to make sure that the transition doesn't hurt either the state or the employee.

[2:07:03 PM](#)

CHAIR FRENCH asked if the transition will be open ended.

SENATOR ELTON replied the deadline is 90 days, and it's irrevocable.

SENATOR THERRIAULT asked why the language that talks about when the fund is healthy enough to give an additional benefit was struck from Sections 4 and 5.

[2:07:44 PM](#)

JESSE KIEL, Staff to Senator Elton, said the change in Sections 4, 5, and 28 dropping the 105 percent standard isn't new in the CS; it was in the bill as originally introduced. They're known technically as the ad hoc retirement pension adjustments. When the balance of the trust fund is healthy enough, these allow the retirees' pension benefit to fully keep up with inflation. SB 141 inserted a 105 percent standard, which is generally considered to be an unattainable and undesirable result. A great many actuaries and pension consultants consider maintaining a funded ratio of 90 percent to be best practices; not 100 percent and certainly not 105 percent. This change, combined with returning administration to the ARM Board, would allow those with fiduciary duty to the fund to make the decision about when the trust funds are healthy enough.

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SENATOR THERRIAULT said he can understand that 105 percent might be unattainable, but he isn't sure he would agree to drop any standard and turn the decision over to the ARM Board.

SENATOR ELTON said the difficulty might instead be who sets the standard. He's knows he's uncomfortable with 105, but he can't say with certainty that 90 is too low. Given the experience in

this state he anticipates that the ARM Board and its advisors will have a better idea. Experts who have a better understanding of the dynamics of investments and how to protect pension plans are better prepared to do this than the legislature by setting a firm number in statute.

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SENATOR WIELECHOWSKI asked if public employees in any other state have neither social security nor a defined benefit plan through the state.

SENATOR ELTON relayed that eight states either have a choice between DBP or DCP, or have a hybrid. The only other state that has a straight DCP for newly hired employees is Michigan, but it does have social security as a safety net.

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CHAIR FRENCH asked the source of the data that indicates that returning to DBP is would cost about \$5.00 more per employee per month.

SENATOR ELTON said that came from the Department of Administration (DOA). Although that's not a large cost, he assumes the cost will be closer to parity or less because defined contribution plans, by nature, are more expensive to administer. However, he's willing to give DOA the benefit of the doubt since the difference is miniscule.

CHAIR FRENCH clarified that this doesn't provide more or less benefits than the old PERS Tier III and TRS Tier II.

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SENATOR ELTON said there is nothing new being created. The administrators are already managing a Tier III and Tier II system. We need to have a discussion about the health care benefit because there is almost universal acceptance that health benefits will end before the retiree dies. That creates a problem for the retiree and it shifts the costs to other parts of government. This restores a health plan that will last as long as the person lasts.

SENATOR WIELECHOWSKI pointed out that for Tier II and Tier III the state only pays for the few years until Medicare starts at age 65.

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SENATOR ELTON said that is his understanding.

JERRY PATTERSON, Past President, NEA-Alaska, said he will address two aspects of the DCP. First is portability. The DCP has been touted as being very good for portability, but there was portability under the DBP. Under the DBP any teacher could take their retirement to move between school districts. They could also move to PERS and combine service for a benefit. Up to 10 years of teaching service could be brought in from other states as long as it was paid for. They could pay for it with cash, a payroll deduction plan, or by rolling their 401b, 403b or IRAs into the retirement plan. So there was portability. These measures were provided to encourage teachers to stay in Alaska and teach until retirement. In comparison the DCP makes it easy for a person to take the money and run, but the Windfall Elimination Provision (WEP) of the social security act levies a heavy penalty for doing that. Any social security that a person earns is subject to a reduction of up to 60 percent. The test was when a state employee vested. State employees vested in five years and teacher vested in eight years and so for that period of time they weren't subject to the WEP. Under SB 141 a teacher or public employee became subject to WEP when they came into service because the law says that they are vested upon employment. So if a person is looking at going to work for the state his view is that DCP doesn't enhance portability whatsoever.

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MR. PATTERSON said the second aspect of the DCP is the potential additional wage cost to school districts. He knows that PERS Tier III is slightly advantageous and TRS Tier II is slightly more costly than the DCP, but when he was on the TRS Board there were about 300 retirements each year and the average age of the retiree was 53.5. Under the DCP a person must be age 60 to collect the medical benefit so a teacher would have to put in an additional seven years of service to gain that medical benefit. When you calculate the difference between the high-end salary of an experienced teacher opposed to a beginning teacher's salary, there is a considerable cost to the state to keep those teachers in the additional years. Over several years the aggregate cost rises to between \$50 million and \$70 million each year, he said.

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MR. PATTERSON said you can't just compare costs of TRS Tier II to the DCP, you have to compare the costs of how the DCP will impact retirement decisions of the people involved. It appears that the DCP will increase the labor costs of school districts

considerably. That will far outweigh any savings accrued from the DCP.

JIM DUNCAN, Business Manager, Alaska State Employees Association (ASEA), Juneau, said he represents about 8,500 state and municipal employees. He is also here on behalf of the Alaska Public Pension Coalition (APPC), a group of 16 unions and associations statewide that have come together to support SB 183. He noted that he provided the presentation he gave to the last committee. He highlighted four reasons why APPC supports returning to a defined benefit plan. First, the DCP does not provide a secure pension upon retirement. Public servants should have a good standard of living in their retirement and have a secure pension. The DCP will not give a secure pension and those employees won't even have a social security benefit. Second is the lack of medical coverage to retirees under the DCP. That is important to all, but the DCP doesn't provide that. To access retiree medical, individuals have to retire directly from the system and they have to pay 100 percent of their premiums until eligible for Medicare. Although they can pay the premiums out of the health care reimbursement account, that account will likely expire within two to three years. But the most onerous provision is that the state may terminate or change the medical plan at any time.

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MR. DUNCAN said the third reason to return to a DBP is the increasing problem of recruitment and retention of career public employees. The state is touting the mobility of the DCP by encouraging people to come and get their DCP and telling them that when they leave they can take their money. That doesn't encourage career state employees and that's a step backward.

The fourth reason is that there is no overall cost saving. The underfunding was really being generated by PERS Tier I and TRS Tier II and the legislature addressed the issue years ago by moving to PERS Tier III and TRS Tier II. The most recent information from Buck Consultants dated February 11, 2008 shows that the DBP for TRS Tier II costs about three percent less than the DCP and PERS Tier III costs about three fourths of a percent more so there wasn't an overall cost savings. That information is based on an estimate as of June 30, 2005. There will be estimates as of June 30, 2007 in the next few weeks.

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MR. DUNCAN said there have been no cost savings and it will not be more costly to return to a DBP. The DCP doesn't have a secure

pension, it has inadequate medical coverage, it doesn't encourage recruitment and retention of career employees, and it doesn't save money. He said he hasn't reviewed the CS, but he believes that his group would support it. Changing the decision making about the health of the fund from the DOA to the ARM Board is appropriate.

[2:31:08 PM](#)

SENATOR THERRIAULT noted that years ago he attended a Local 71 meeting and afterwards a gentleman relayed that after working for the state for 20-25 years, he was sitting on \$500,000 in SBS. He asked how that figures into the discussion here.

MR. DUNCAN explained that the defined contribution system of SBS was put in place when the state opted out of the defined benefit system of social security. Teachers don't pay into SBS. So when someone retires and is able to take their SBS at age 59.5, they have an amount based on investment returned. Some folks probably did better than others with their SBS, but they had to make individual decisions and pay attention to their investments. Not everyone pays that much attention or has the expertise to do that. What the SBS system did is shift all the risk to the employee. That was compounded when the state went to a defined contribution system for all employees hired after July 1, 2008.

[2:33:21 PM](#)

SENATOR THERRIAULT asked if he has any evidence that it's more difficult for the state to attract employees than private sector firms.

MR. DUNCAN said there isn't any firm data and the state is not doing exit interviews, but over the past year the actual state employment turnover rate has increase from 23 percent to 30 percent. People come and they leave and he attributes much of the 7 percent increase to the change that became effective July 1, 2008. He isn't saying that wages don't have something to do with it, but he believes the data shows that the defined contribution plan doesn't encourage employees to stay. In the private sector most folks have the defined benefit of social security plus a 401k type retirement offered by their employer.

[2:35:06 PM](#)

PAT SHIER, Director, Division of Retirement and Benefits, Department of Administration (DOA) said the administration opposes the passage of SB 183. It shifts 100 percent of the risk back to the employer along with future cost increases. The retirement plan isn't yet mature because more people are being

added to the state's health plan than are leaving. There was a 5.4 percent increase in the retiree population of the health plan and a slight decrease in the active population. That is just for the select benefits plan, it doesn't include the union trusts. In spite of assurances to the contrary, one of the prime drivers is currently off limits to the administrators of the retirement plan. That is the health care plan for Tiers I, II, and III. Currently for retirees it's a \$150 deductible plan with certain co pays that are fairly rare in the market place, he said.

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CHAIR FRENCH commented that that deductible isn't part of his plan.

MR. SHIER said part of the issue is that that is stuck in time. There have been attempts to modify and modernize the plan to a net no loss, but some individuals decided that that was a diminishment and the court agreed. He believes that any more time spent to re-describe the retiree plan in that environment is a waste of time. While the department is looking at other options going forward, such as an optional retiree health plan that may include preventative care, it can't really do anything to modernize the retiree health plan. Any addition to a defined benefit plan may increase the actuarially assumed unfunded liability because the employer has all the risk.

SENATOR WIELECHOWSKI referred to statistics in the bill packet showing high and increasing turnover in the executive branch, in particular 40 percent in public safety, and asked if he disagrees with the figures and what the administration will do to resolve the issue.

[2:39:08 PM](#)

MR. SHIER said he hasn't looked at the underpinnings of the figures, but he has no reason to doubt them. The administration is aware that it is facing issues with recruitment and retention just as other employers are. The state is not unique in having this challenge.

SENATOR WIELECHOWSKI asked if the loss of the DBP is having an impact on the administration's ability to retain and recruit.

[2:40:24 PM](#)

MR. SHIER replied the record shows that people come and go under both plans. Exit interviews aren't conducted so he can't say why in any case.

SENATOR WIELECHOWSKI asked if the administration would support public employees contributing to social security.

MR. SHIER said he could find out. That same inquiry came in earlier in the year and was passed on to the governor's office. He didn't see the response.

[2:41:31 PM](#)

SENATOR THERRIAULT said that the Tier I and Tier II system wasn't set up to hand the state a \$9 billion hole to fill, but that's what happened. Isn't there that potential with a defined benefit system?

MR. SHIER said with the DBP, the entire liability is with the state. Also, under SB 125 anything over 22 percent, which is a component of the normal cost rate and past service cost, is entirely the state's responsibility.

SENATOR WIELECHOWSKI asked if he has seen the letter from Buck Consultants.

MR. SHIER said he has a copy.

[2:42:48 PM](#)

SENATOR WIELECHOWSKI asked if the administration disputes the figures about the cost for maintaining status quo or going back to defined benefit.

MR. SHIER said the administration doesn't dispute that that's the normal cost estimate going forward. He said he called Buck Consultants for an explanation of those figures when they came through because the defined contribution plan appeared to be more expensive. He was told that this year there was good performance in the stock market and the state experienced an extraordinarily low 2 percent increase in the retiree and active health plan. We're happy about that, he said, but that creates great volatility in the short run because those good experiences are part of the basis for the foundation from which the actuary looks forward to determine normal cost. We know that it will be different next year, possibly by as much as 10 percent.

SENATOR WIELECHOWSKI asked if any change in statute would gain the administration's support for returning to a defined benefit plan.

MR. SHIER said he'd prefer to have that discussion in a broader audience including the commissioner of administration and the governor's office. In conclusion he said he'd like to mention that other options like deferred compensation are available, which can be turned into annuities. All employees are encouraged to attend informational classes and doing so is considered time at work. "We're hopeful for the future," he said.

[2:46:59 PM](#)

SEAN RICE, representing himself, said he works with the Fairbanks public works department. He is not on the PERS program anymore, but he works closely with the Fairbanks police and fire department. When the defined contribution issue came up there was a lot of gripe and if he had to make that choice he probably wouldn't work with the city any more. Speaking as a worker he wants to work until he retires and then stay retired. He hears the police and fire departments are having a hard time getting positions filled because of the defined contribution plan.

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FRANCIS McLAUGHLIN, Regional Planner, Municipality of Anchorage, said he was born and raised in North Pole and went outside for college. He worked as an urban and regional planner down south and returned to Alaska to fulfill his career goal. He was hired by the Anchorage planning department and he works with seven planners, four of which qualify for retirement right now. If they retire, there will be a crisis in terms of loss of knowledge and experience. His boss wants him to make his career in Fairbanks, but he won't unless PERS Tier IV is repealed. He will work for four more years to get 100 percent vested, and will return to work in the private sector where he'll receive more pay and essentially the same retirement benefits. Or he'll move to a state that offers a defined benefit plan and guaranteed retiree health insurance. He has no incentive to continue working for the Anchorage planning department because he has a 401k rather than a pension plan and the medical benefit is no good. If he works 35 years, he'd still need to buy health insurance for the rest of his life and pray his health reimbursement didn't run out. That isn't a risk he's willing to take. Tier III employees don't have to make that choice since they receive health insurance in retirement after working for 10 years. SB 183 is about being fair to all civil service employees over the long term. It's good policy and it's the right thing to do.

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SARAH GROSSHUESCH, Public Employee said she moved to Alaska about five years ago. She taught in the Anchorage school system for four years and was a member of the TRS system. She went back to school and in October 2006 began a career in public health with the Municipality of Anchorage. She's now a Tier IV PERS member and her four years of service is trapped in the TRS system. Previously the systems were compatible and she would have vested last year with five years service, but they are no longer compatible. When she moved to Alaska in 2002, she bought a house and started a family and now she is deciding whether to stay or move to another state. She can make more money in the private sector with the same benefits that Alaska offers, but that doesn't have the same draw for her as public service. She was trained in Alaska by the Anchorage school district and the University of Alaska graduate program, but she has to look out for her family's well being so she may have to take her knowledge to the Lower 48. Her research indicates that 90 percent of state and local government employees are covered by defined benefit plans so there's lots of opportunity there. She would rather stay in Alaska, but it's likely she'll have to go elsewhere. She asked the committee to support SB 183.

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LARRY WEISS, Retired Research Professor, Executive Director for the Alaska Center for Public Policy, and Editor of the Alaska Health Policy Review, said he when he looked at what SB 141 did to retiree health plans he was taken aback. He supports SB 183 because a number of obstacles were put up to make employees get off the health plan early or force them off altogether. Employees must work longer and retire later, they have to retire directly from the state, and regardless of length of service they have to pay the full premium until they're eligible for Medicare. He noted that he submitted a paper that discusses his points in more detail. The new health plan is insufficient in a number of areas, but in particular it says the retiree health plan can be changed or terminated at any time. Sec. 14.25.490 - Amendment and termination of plan - says, "The state has the right to amend the plan at any time and from time to time, in whole or in part, including the right to make retroactive amendments... ." It further says that at its discretion it may terminate the plan in whole or in part without liability. This does not serve the retirees of Alaska or the state. He supports SB 183 to reinstate a far more effective and efficient health care system.

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CHAIR FRENCH noted that the committee had received a letter from Marie Darlin with AARP.

PAT LUBY, Advocacy Director, AARP-Alaska, said AARP strongly supports SB 183. Some and perhaps many public employees outlive their defined contributions; 29 percent of women who live to age 65 reach age 90 and 18 percent of men who live to age 65 will live to age 90. AARP doesn't believe people can save enough to last 25 years, particularly considering inflation. The DCP has no annual COLA, and without the social security defined benefit there will be police officers, firefighters, and teachers who will outlive their contributions and end up on public assistance. They deserve better than that.

JEFF BRIGGS, Firefighter from Anchorage, said he supports SB 183. Firefighters deserve a secure defined benefit retirement plan in return for the years of risking their lives and health serving their community. Alaska is the only state that requires its firefighters to be in a defined contribution system. A few other states offer a DCP, but employees have the option of selecting a DBP. It's expensive to recruit and train new hires and the cost for that is paid by municipal tax payers. If this system isn't fixed, Anchorage tax payers will continually pay to train new hires rather than using those same tax dollars to expand coverage and purchase new equipment. Every new hire he's asked would prefer a defined benefit plan. He doesn't foresee an event such as 911 taking place in this state, but it shouldn't take that to show the state the need to take care of its first responders. He urged the committee to pass SB 183.

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CHAIR FRENCH closed public testimony and announced he would hold SB 183 in committee for further work.

There being no further business to come before the committee, Chair French adjourned the meeting at [3:03:54 PM](#).