

**ALASKA STATE LEGISLATURE**  
**SENATE STATE AFFAIRS STANDING COMMITTEE**

March 18, 2008

9:03 a.m.

**MEMBERS PRESENT**

Senator Lesil McGuire, Chair  
Senator Gary Stevens, Vice Chair  
Senator Hollis French  
Senator Lyda Green  
Senator Con Bunde

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

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

SENATE BILL NO. 259

"An Act repealing certain provisions relating to applications for medical assistance coverage; making certain provisions of ch. 96, SLA 2006, retroactive; providing for an effective date by repealing an effective date section in ch. 96, SLA 2006; providing for an effective date for certain sections of ch. 96, SLA 2006; and providing for an effective date."

SCHEDULED BUT NOT HEARD

SENATE BILL NO. 260

"An Act making corrective amendments to the Alaska Statutes as recommended by the revisor of statutes; and providing for an effective date."

SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

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

**WITNESS REGISTER**

SENATOR KIM ELTON

Alaska State Legislature

Juneau AK

**POSITION STATEMENT:** Presented SB 183 as sponsor.

FRANCIS MCLAUGHLIN, Regional Planner

Municipality of Anchorage

Anchorage AK

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

SARAH GROSSHUESCH, Public Employee

Anchorage AK

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

SHANE POWERS, Firefighter/Paramedic

City of Fairbanks

Fairbanks AK

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

JIM DUNCAN, Business Manager

Alaska State Employees Association (ASEA)

Juneau AK

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

BOB CLAUS, Trooper

Department of Public Safety

Klawock AK

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

JEFF BRIGGS, Senior Fire Captain

Anchorage AK

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

JEFF THIEDE, Teacher  
Palmer AK

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

KURT FREDRIKKSON, Retiree  
Juneau AK

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

PAUL ORTNER, Psychiatric Nurse  
Alaska Psychiatric Institute  
Anchorage AK

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

RICK FOSTER, Teacher  
Homer AK

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

KATHY LEA, Retirement Manager  
Division of Retirement and Benefits  
Juneau AK

**POSITION STATEMENT:** Answered questions regarding SB 183.

PAT SHIER, Director  
Division of Retirement and Benefits  
Juneau AK

**POSITION STATEMENT:** Answered questions regarding SB 183.

BEN WALKER, Teacher  
Anchorage AK

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

JAKE TODD, Teacher  
Anchorage AK

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

SCOTT MCDONALD, Teacher  
Anchorage AK

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

#### **ACTION NARRATIVE**

**CHAIR LESIL MCGUIRE** called the Senate State Affairs Standing Committee meeting to order at [9:03:54 AM](#). Senators Bunde, Green, Stevens, and McGuire were present at the call to order. Senator French arrived soon thereafter.

## SB 183-REPEAL DEFINED CONTRIB RETIREMENT PLANS

CHAIR MCGUIRE announced the consideration of SB 183.

[9:04:39 AM](#)

SENATOR KIM ELTON, Alaska State Legislature, said SB 183 would hire new employees into the old tiers - Tier III for PRS and Tier II for TRS - which will give employees more benefits for almost the same cost as the new defined contribution plans (DCP). The fiscal note highballs some of the costs, but estimates about \$5.00 per month per employee. Studies show that 401k plans earn an average of 1.0 percent less than pensions, and the DCP has no COLA [Cost of Living Allowance] to encourage retirees to stay in Alaska. Retirees are a \$1.5 billion per year industry in Alaska. Experts note that the retirement accounts will often not last as long as a retiree. If the retiree has a family as part of the plan, the health accounts can run out in a matter of a few short years.

SENATOR ELTON said recruitment and retention is a big issue in Alaska. In any other state in the nation a public employee will end up with a defined benefit pension plan (DBP) and a social security safety net that protects them in their retirement years. The new DCP makes retention especially difficult. Employees can come here, get training, and then leave the state in a few years to go to other public jurisdictions across the nation, taking with them the money they and the state put into the retirement system. It encourages people to leave. They can leave with a large nest egg and go somewhere that gives them social security and a defined benefit. "They can buy a house with the ... money they took from [Alaska's] system." It is worth knowing that the employer dollars do leave.

SENATOR ELTON said that has a cost to the system. One of the advantages of the old system is that the forfeitures add to the benefit for those who stay. The bill also has an option for those who have been hired into the DCP to be able to switch, and that has a slight cost to the state. The bill doesn't change the mandate for a second actuary or the mandate for experience studies. "Elected officials are still out," he said. The 2010 deadline for buying back time remains. The bill is fair and will help attract and keep good employees. It adds back the COLA incentive for retirees to stay in Alaska, so they can spend their money in restaurants, grocery stores, and pharmacies, which is a \$1.5 billion economy.

[9:08:54 AM](#)

FRANCIS MCLAUGHLIN, Regional Planner, Municipality of Anchorage, said he supports SB 183. He was born and raised in Fairbanks and has worked as a professional planner outside of Alaska for five years. He was hired as a regional planner by Anchorage last year. He is well-qualified, and as a single person he can choose to work anywhere. He is excited to be back in his home state. If he were older or married he would not be able to be a civil servant in Alaska because there are too many disincentives in the retirement system for Tier IV employees. He has no defined benefits and his wages are too low, as compared to the private sector, to compensate him enough to invest his way to retirement. If he works 35 years as a civil servant in Alaska, he will not have guaranteed health insurance. He will have a "health reimbursement account" to buy health insurance, "and I would pray that that would not be exhausted before my future wife and I die." Who knows how much health insurance will cost in 2043? None of this is the case for Tier III employees - they have a defined benefit and health insurance for retirement. This is about being fair to public employees. The state should be trying to recruit and retain the best employees. His friend in New York is a planner and his retirement benefits are similar to Alaska's Tier III. He will have a pension and health insurance when he retires.

MR. MCLAUGHLIN said he has some incentive to work for the municipality because he is still young; he can get experience and then leave to work in the private sector or for another state. There is no incentive to stay once the job offers start to roll in. Older, more experienced people have no incentive to be employed by the municipality - they will have to work until they are 80 in order to afford to retire. His director hopes that one day he will become a senior planner or director because his current staff qualify for retirement today, and they are chomping at the bit to retire. But there is no one with the knowledge and experience to replace them. The only way he will continue to work for the municipality will be if it is forced to hire him as a contractor. SB 183 is good policy and the right thing to do.

[9:13:07 AM](#)

SARAH GROSSHUESCH, Public Employee, Anchorage, said she was a high school science teacher for four years and then pursued a Master's degree in Public Health in Anchorage. She planned to transition from a traditional teaching position to a combination role of health and education. She has always wanted to remain in public service. After the state changed its retirement system, she took a job with the Municipality of Anchorage as a public

health educator. It was a perfect fit, except she lost her four years of previous service in PERS/TRS. She knows of many other people who pursued teaching certificates while working as teachers' aides who will now be placed in a much less desirable DCP. "Not only have I lost my defined benefit retirement, in 2010 all that money wisely invested by the PERS/TRS board will have to be removed." What is the plan for the system then? How much money that is propping up retirements now will be forced out of the system? The changes in PERS/TRS don't just affect future recruitment, it impacts current workers. When she began as a public employee it was with the promise of secure retirement. She can make more money in the private sector. She made the choice to forgo the extra money up front. She finds public service more rewarding. She and her husband started a family and have been active members of her community, "but these changes in the retirement system have caused us to think about whether we can stay here or if we need to move to a state which provides for its public employees and recognizes them for the service that they provide."

SENATOR GREEN asked where she first worked.

MS. GROSSHUESCH said she worked from 2002 to 2006 as a teacher for the Anchorage School District. In October - after the July deadline -- she accepted a position with the municipality, and that is a PRS position. It used to be that a person could transfer the TRS years of service to PRS, but the DCP won't allow it, so she has four years stuck in the TRS system that she cannot add money to.

[9:16:57 AM](#)

SHANE POWERS, Firefighter/Paramedic, City of Fairbanks, said he is representing himself. He started in June 2006 and may be one of the last Tier III employees in the state. He considers himself fortunate. The new DCP system is harmful to both employees and government entities. Tier IV employees receive less compensation than their coworkers and the private sector. A Tier IV firefighter receives the same hourly wage as a Wal-Mart employee, and both Wal-Mart and the city contribute to employee retirement accounts, but state employees are shorted on social security. The state has created a system where it is better to wear a blue vest at Wal-Mart than to save lives as a paramedic. Since he started, the Fairbanks Fire Department has hired two people. One was previously enrolled in PERS, and the other has spent his entire work with the department searching for other jobs. His last day is April 9. The cost of training this person will be lost to another state. The department has recently

initiated a hiring process, and on completion it expects to have only half of the applicants it had when Mr. Powers participated three years ago. He has several friends seeking employment in the fire service, and several are from Alaska. When they learned that Fairbanks was hiring they had no interest because of the retirement system. Training is expensive, and local governments cannot afford replacing people, so costs have shifted from the state to the local level. Not only will turnover increase, but with a reduced number of applicants, the quality of employees will decrease. "Do you really want the bottom of the class treating you in the back of an ambulance?" This is a chance to fix a horribly broken system. SB 183 is very important.

[9:19:33 AM](#)

JIM DUNCAN, Business Manager, Alaska State Employees Association (ASEA), Juneau, said he represents about 8,500 state and municipal employees. He is also representing the Alaska Public Pension Coalition. The APPC is a group of unions and other organizations that have come together to help repeal the defined contribution plan. They include the Anchorage Police Department Employees Association, Alaska State Employees Association, Alaska AFL-CIO, Alaska Professional Firefighters Association, Public Safety Employees Association, National Education Association of Alaska, Retired Public Employees of Alaska, AARP-Alaska, and others.

MR. DUNCAN said there are four reasons this coalition opposes the DCP. First, it does not provide a secure pension on retirement; second, it provides inadequate medical coverage for retirees; third, there is an inability to recruit and retain public employees; and fourth, there is no overall cost saving from the previous plans.

MR. DUNCAN said national studies by the Horton School of Business show that more than two thirds of DCP participants cash out their account when terminating employment, leaving them with little or no funds for retirement. Another study by the Center for Retirement Research in 2006 showed that the median 401k fund balance for households headed by 55 to 64 year olds was \$60,000. That means they will have a \$400 per month annuity income over their lifetime, which is not sufficient.

[9:22:50 AM](#)

MR. DUNCAN said there is no post-retirement pension adjustment to help keep up with inflation. The return on investment of the DCP is less than it is with a DBP. TRS and PERS financial report verifies this and shows the DCP return was 11.5 percent and the

return from the DBP was 18.9 percent. That occurs for a variety of reasons, but clearly professionals can invest with more people. He said it is important to note that teachers and most public employees in the DCP, unlike private sector employees, will not receive social security and will have no DBP at all. The DCP provides inadequate medical coverage for retirees. They will not have a good plan to cover medical expenses. They must retire directly from state service to access the medical benefit, and that often doesn't happen. They will have to have a minimum of ten years of service to access medical coverage at Medicare-eligible age, or if they work long enough, they could access it at any time with 25 years of service if they are peace officers and firefighters. But all other employees have to have 30 years of service. "So the access to the medical plan is severely restricted." They have a health reimbursement account under the DCP and may use that to pay premiums, but once that is gone, the retiree must self-pay. The estimate is that the account may last two to three years, and then retirees will have to pay the premium.

[9:25:17 AM](#)

MR. DUNCAN said retirees must pay 100 percent of the premiums of the plan until eligible for Medicare. Upon reaching Medicare eligibility the retiree must pay ten to thirty percent of the premiums depending on their years of service, but they must work thirty years to pay just 10 percent. "This one is a real zinger in my mind: the state may terminate a retiree medical plan at any time - or change it." Retirees under the DCP will have no decent medical benefit, if they have any at all.

[9:26:05 AM](#)

MR. DUNCAN said there is the increasing inability to recruit and retain public employees. The DCP encourages public employees to move on to other employers. Even the Division of Retirement and Benefits encourages this, he said, with a website promotion of the DCP. It says, "Get it to go, your savings move right along with you as you blaze your career trail." "We have made the new retirement plan just as modern and mobile as our most adventurous Alaskan employees; when you're ready to move on, just take your savings with you." "When you change employers, move your savings and take your money with you." Those clearly are statements that encourage people to come and then leave. There is an annual report by the personnel division, and it said: there have been noticeable changes in employee movements since the 2005 report; the turnover rate has increased and continues to be higher than the hire rate by three percent. He said the turnover rate in 2005 was 24 percent, exceeding the

hire rate of 22 percent. The DCP came into place on July 1, 2006, and the turnover rate increased by 5 percent. The corollary seems clear. The department with the highest turnover rate is public safety at 40 percent. He did a separate analysis of just the general government unit union, and it shows that in 2007 the turnover rate for employees with less than 2 years of service is 30 percent. After that it drops to 23 percent, but when people first come, they leave very quickly.

[9:28:51 AM](#)

SENATOR GREEN asked if the executive branch turnover rate is unusual since it was an election year.

MR. DUNCAN said there is some turnover with the change in an administration, but not more than 5 percent. The turnover rate for his members, who aren't political appointees, was 30 percent. There have not been exit interviews, but he sees the jump in turnover rate due to the DCP.

SENATOR GREEN said the highest turnover rate is the public safety staff, and that seems to be an ongoing problem. In the last three to five years there is the "aging out of public safety members." The turnover rate is high but it would be nice to see a chart on the trends and if it's attributable to the DCP or "if it's just the 20 or 25 and out."

[9:30:54 AM](#)

MR. DUNCAN said his unit had a 20 percent turnover rate and now there is a 30 percent turnover rate.

CHAIR MCGUIRE asked about a survey for departing employees.

MR. DUNCAN said he has recommended that to the Department of Administration to determine why employees are leaving.

[9:31:57 AM](#)

CHAIR MCGUIRE said there has been some reduction in the number of state employees since she has been here. Alaska is not decreasing the number of public employees, but it's more inefficient because of the constant cycle of retraining individuals. A lot of time is spent training people only to have them pick up and leave. It is a morale and inefficiency issue.

MR. DUNCAN said there is no overall cost savings in moving from the defined benefit plan to DCP. Buck Consultants did an analysis in February 2008 that shows that the TRS Tier II plan cost 3 percent less than the Tier III DCP. The PERS Tier III

defined benefit plan cost slightly more: 0.75 percent more than the Tier IV plan, but there is no overall cost savings. The DCP did not reduce overall costs.

[9:33:44 AM](#)

SENATOR BUNDE said he has heard that, but it is a snapshot that is not indicative of the long-term impacts of the DBPs. "We can all find statistics - 100 percent of people that ate pickles in 1880 are now dead, but I don't know that pickles cause death."

CHAIR MCGUIRE said that is the point of the hearing -- to figure out if the actions taken in 2006 were the right ones. The statistics should show the impacts, financially and with regard to retention and recruitment. There are some indicators, and the goal is to get to the bottom of it. If there are consultants or individuals that can add to the dialogue, she would be happy to hear their testimony.

MR. DUNCAN said he has presented the analysis by Buck Consultants to the Division of Retirement and Benefits, and he can only assume that it is factual. The DCP is not working for the state or its employees. It does not provide a secure pension at retirement. It has inadequate medical coverage for retirees. The figures show an increase in the inability to recruit and retain public employees. There is no overall cost savings. On the other hand, a defined benefit plan works best. It provides a stable pension that will enable retirees to stay in Alaska. It has a medical plan that will enable retirees to meet their medical needs. It encourages public employees to make public service in Alaska a career - and that's what we should be all about. A DBP does all this at a lower cost. He said SB 183 is the right approach.

[9:36:54 AM](#)

SENATOR FRENCH said he is impressed at the people coming forward on this, because they won't benefit personally. Mr. Duncan's retirement won't change.

SENATOR GREEN said, "We should all be so lucky."

SENATOR FRENCH said there are people here today who passionately believe that the DCP is bad policy, and whose retirements are set by the constitution and won't benefit by the bill. It is well-meaning people who are on the ground and see the effects of this policy and are very, very concerned of having a substandard workforce executing important government functions.

[9:37:53 AM](#)

SENATOR BUNDE said he is sure Senator French didn't mean that anyone hired recently is substandard. There are different points of view on personal benefits. Unions thrive on numbers, and if they can recruit more numbers, it strengthens the union. It isn't just a matter of their own personal retirement; it's their political influence in the state.

MR. DUNCAN said the union's prime goal is to ensure that people who work in the public sector have a good wage and good benefits, and when they retire, they can stay in Alaska with a stable pension so they can continue to contribute to the state. Many of his members were hired before July 1, 2006, but the goal is to be sure that those individuals that are coming along now will have a pension and medical plan. The other goal is to provide a service to the citizens of Alaska through the public employees. That is done by hiring people who want to make public employment a career, and they will need to see that they can retire, support themselves and their spouse, take care of their medical needs, and remain in Alaska as active citizens.

[9:39:44 AM](#)

CHAIR MCGUIRE said she will not be affected by the DCP, and she can see both sides. At her age, she wants to look to the teachers, firefighters, and employees managing Alaska's vast natural resources, and "we have already decided that these are state functions and that we're going to have state employees doing those jobs, and we want the best people to do them." Minds can differ in opinion, but we are looking at the impacts. She would hate to see Alaska get so far down the line that the state is not attracting and retaining qualified people in areas that are important. If not, maybe someone else should do those jobs.

[9:41:19 AM](#)

BOB CLAUS, Trooper, Klawock AK, said SB 183 is an important bill. He has worked proudly as a trooper all over the state for 22 years. He has been in Klawock for the past 14 years and plans to retire in May under the defined benefits system. He is training a new 22-year-old recruit, who was hired under the DCP. Defined benefits were an essential part of the state's ability to recruit and retain its valuable workforce. It takes hundreds of thousands of dollars and several years to train a new trooper in rural Alaska. Why would a person want to take a trooper job? They face the harshest working conditions of any law enforcement job in America. It is physically dangerous, and constant transfers make it economically risky for trooper families. When deciding to become a trooper, he was a Marine Corps veteran and

recent college graduate from an elite university, and his father had just retired after 20 years as a firefighter/paramedic. For perhaps the first time in his life he followed his father's advice to seek public employment with a solid pension plan. The DBP was a huge factor in his decision to apply. His brother chose not to take that advice. He is working in private industry; he changes jobs every few years and takes his money with him. He makes \$300,000 per year. "I really don't think the state wants to get in that kind of bidding war."

MR. CLAUS asked why someone would stay in a trooper job, where a person has more than their fair share of bad days. There are a number of agencies willing to hire well-trained officers. As a 22-year trooper, he has had frustrations over the years and considered leaving, but with a DBP, it never made sense to leave. He is training a 22-year old from Michigan; he has family, a girlfriend, his friends, and some property in Michigan. He was attracted to the troopers for the adventure of Alaska and the fun of being a cop. But when the romance of the work wears thin and the work gets hard, this DCP will allow him to take his money, training, and skills and go back to Michigan. The Michigan police have a similar pay package, and there is nothing holding him here. This personal story is more typical than not. He asked the committee to support SB 183.

[9:45:46 AM](#)

SENATOR BUNDE said this is one of the problems he sees. "You're frustrated, you're unhappy with your job, but you're sticking around for the retirement." There is a downside to that as well as an encouragement to keep people in state employment. He taught for a long time, and he knows teachers that teach for four reasons: June, July, August, and early retirement. That is unfortunate that we have people who hang around just for the retirement. He said he understands the other point of view, "but there is an opposite to that as well."

CHAIR MCGUIRE asked if there was discussion in the past about people who collect retirement and voluntarily put it back into the system to help offset financial concerns. "When the overall look was made at eliminating the DB plan, was there any consideration for those of the different generation who are already collecting their retirement checks, sort of voluntarily giving those defined benefits up?"

SENATOR BUNDE said that will be after people volunteer to pay income tax.

[9:47:40 AM](#)

CHAIR MCGUIRE said it is interesting where the responsibility shifted. Many people are secure and collecting retirement, and there was a concern that the system was broken and "therefore we're going to shift that responsibility to the next generation."

SENATOR BUNDE said, "I think your comments are aimed at me." Oil development began shortly after he began teaching, and the state could not afford to match those oil wages. "I could have easily left teaching and at least tripled, if not quadrupled, my wages on the pipeline." He didn't because he preferred teaching and didn't like what the pipeline was doing to Alaska. The state offered substantial benefits, but it was a saddler's mattress ranch -- buy now and no payments until 2006. The payments are due. The state was using its best judgment, but it was creating an unfunded mandate. "That was then, this is now, and we have to make some changes."

[9:49:22 AM](#)

CHAIR MCGUIRE asked if [the benefits] had an impact on staying in teaching.

SENATOR BUNDE recollected that wages were far more important than retirement.

CHAIR MCGUIRE said maybe it was the time and place, but she finds that young teachers in her district want secure retirement. They love teaching and would love to stay, but the low wages and benefits is such a great sacrifice.

SENATOR BUNDE said conditions change. His salary started at \$12,000 per year. If wages were \$30,000, like they are now, he may have looked at it differently. Every dollar that went into retirement was a dollar that didn't go into his wages, and he was far more concerned with wages.

SENATOR GREEN said it is quizzical that TRS would be the responsibility of the district that employs them, and "if I were doing labor contracts for school districts ... I would probably hold back on the request for higher wages and request a plan that the district participates in." The state is not going to step in and take over the teacher's district's responsibility for offering that employment package. "I haven't noticed anyone doing that yet." The state is not going to pay that plan; it is up to the district, and that may be where some of the shortfall comes in. "When we were doing the research and comparing states,

counties, boroughs, municipalities, school districts and all units of government, the Alaska plan for - in most areas -- was probably within the top 90-95 percent of plans." In "admin's" comparison of the features of the tiers, the more significant changes came in Tier II to Tier III, not Tier III to Tier IV. "As the bill was being written, we were trying to find offsets in supplemental." She was concerned with retirees paying for medical coverage, but in Tier III, employees with less than 10 years and their survivors must pay the full premiums as long as they wish to continue medical coverage. That is the same as Tier II, but employees must accrue a minimum of 10 years of service to have system-paid coverage at age 60. Then there is an infusion of the health reimbursement arrangement and a percentage based on years of employment. She can't imagine that anyone thinks that "if you'd only been with the state a few years that there should be a fully-paid health plan at the end of those few years." That is where a balance was sought - an employer-paid reimbursement account. It was not punitive; it was trying to "balance out how we get things paid for." The irony is that at 65, a person is in the Medicare track anyway.

[9:54:21 AM](#)

CHAIR MCGUIRE said Senator Bunde is one of the few people in the building that have good retirement, and it is humane to come to the end of your life and have a secure retirement. It is a quality-of-life issue. People are proud of teaching and serving the state, and that reflects the quality of people that Alaska has been able to attract. The only reason for this dialogue is that she wants there to be open minds. It may be that the change didn't need to be as drastic as a DCP, but rather just to continue to ratchet down on health costs and years of service.

SENATOR BUNDE said the day after he retired he started another job. Because of his personal experience, he thinks wages are more important for recruiting young people than a distant retirement plan. He hoped that money saved would be placed in salaries. If the state is not saving money, that is a challenge. "We may not save money but your ... children may save money."

[9:56:55 AM](#)

CHAIR MCGUIRE said it is a good point and asked about salaries. That was the trade off - the portability and attraction of a higher wage, but she doesn't know if that is occurring.

SENATOR GREEN said in Alaska there is no ability to look back and change the system, unless an offset is done that is equal or better. The unfunded liability was the "genesis of trying to

find a solution, and that solution had to do with the sharing in the future." The state was no longer able to keep up with the unfunded liability created by the DBP. "That would be the difference as you/we had earlier, that the defined benefits plan costs less than the defined contribution plan, but I would also like to see what's happening to the indebtedness for the future, and if we've made any kind of headway into changing that scenario." It has been the legislature's desire to invest in that plan to make sure it is well funded. Alaska, by prefunding the health benefits, which often skewed the statistics, was ahead of the curve because now all entities are required to do that. The federal government has come out with a new requirement, so "we're a little ahead of the curve - perhaps unknowingly." "I think those things entered into it because we had tried for several years to get -- when Senator Bunde and I were on finance, we asked questions about the condition. Information was not particularly forthcoming." She said she asked for suggestions, and "after no response, we said we have to do something or the unfunded liability is just going to get out of hand."

9:59:36 AM

SENATOR FRENCH said, "We are not of a uniform view on this topic." He said the unfunded liability did prompt this, but it wasn't the fault of the plan. It wasn't giving some people a defined benefit plan that created an unfunded liability. It was the financial decisions over the years. It wasn't the workers or the promise they were given. It was the way that the people above them handled that obligation. It is unfair to ascribe that to the misplaced promise made to a trooper or a teacher. There were bad stock market performances and bad projections on health care costs. Those were exacerbated by certain financial decisions made inside this building about contribution rates and how well to fund that program over the years.

CHAIR MCGUIRE said it was easier to contribute less.

SENATOR FRENCH said the testimony from Trooper Claus really illustrates something to the contrary of Senator Bunde. What prompted that trooper to take that job was his father's advice to pursue a secure retirement. "There are plenty of fathers across the country that tell their young sons to give up a little bit on income but get a secure retirement, because you don't know what's going to happen in the future." Many state workers may tell themselves that their job doesn't pay the best, but there is a pot of gold at the end of the rainbow - "and that's me not living in peonage somewhere without any medical

care." State workers hired today do not get social security. "I can't say that often enough." The only thing they have is what they accumulate in their 401ks, and 401ks don't perform as well as DBPs on a case by case basis. It is important to keep in mind that there are strong reasons for going back to the previous state plan. There are reasons why other states have gone back.

10:02:23 AM

CHAIR MCGUIRE said Alaska is the only state in the nation with the plan. The premise is that people will be experts in investing, and their 401ks will perform as well as a DBP.

SENATOR BUNDE said he has another meeting. He added that he ignored his father's advice to stay in the military to retire in 20 years. "But vegetating for 20 years was not worth the price."

CHAIR MCGUIRE said it is in Alaska's best interest for an individual to stay in a job. In teaching and other professions, the longer someone stays the more institutional knowledge is gained and Alaska benefits from that -- instead of using Alaska as a training ground and then packing up their money and leaving.

10:04:03 AM

JEFF BRIGGS, Senior Fire Captain, Anchorage, said he is a lifelong Alaskan. Firefighting is dangerous, and when responding to an emergency he must weigh the risks. One of his biggest fears is having a new recruit, who was hired under the DCP, get a permanent occupational disability. That firefighter will receive 40 percent of his or her salary. "I can't imagine having to raise a family and save for retirement on 40 percent of my wage." An article said that one in four 401ks has less than \$7,000 in it. In 2002, *Moody v. Delta Western Inc.*, the Alaska Supreme Court ruled that firefighters and police are not allowed to sue third parties to recover damages that stem from negligent acts. The rule states that police and fire fighters are compensated with salaries and enhanced benefits. "I can't name any enhancements that these new firefighters have." Since they have no enhanced benefits, passage of this bill is a step in the right direction. The Anchorage fire department has trouble recruiting and retaining paramedic firefighters, and he expects that to get worse. He also expects that by the fourth year, new hires will be searching for new jobs with defined benefits. They will take their nest egg with them, and Alaska will be a training ground for fire departments across the nation.

Mr. BRIGGS said he did the same thing. The company he worked for had a 401k with matching contributions, and he decided to take a chance at being a firefighter, which had a more realistic retirement plan than what he had. He cashed out his 401k, paid the penalty, and enrolled in a firefighter academy. He feels fortunate to be in Tier II. "I certainly would not have quit my higher-paying private-sector job to become a firefighter in Alaska today." Anchorage has a fire academy with 32 recruits. A few of them are working on their second careers, and they were shocked to find out that they would be losing most of their social security benefits when they retire. "As you can probably guess, none are happy with the current retirement plan that they have." Traditional retirement adds 30 percent to the value of one's salary, so they are working for 30 percent less compensation than others in the same job. The DCP plan is perfect for short-term employees. It allows them to take their money when they leave to start their careers. It has been proven over and over how employees are not able to save enough to survive on if it is left to them. Most aren't even able to afford health insurance for more than a couple of years. Alaska is the only state in the nation that mandates that firefighters be in a DCP. The other states that offer DCPs also offer a choice of a DBP, and they also allow the firefighters to be eligible to receive social security benefits. Alaskans are dismayed when they learn this. He believes most residents would agree with him that public safety employees who put their lives on the line for the welfare of others deserve to have security in their retirement.

[10:08:27 AM](#)

JEFF THIEDE, Teacher, Palmer, said he is the athletic director at Palmer High School and a former Marine. He recently moved to Alaska with his wife, who is a fifth-generation Alaskan. He left Nevada in 2006 for a \$12,000 increase in salary. He arrived 15 days too late for Tier II, so his income is really only \$300 more, which is drastically different than what he expected. Nevada has a DBP and he can move back within five years and regain his eligibility. "I left three years of retirement there." His wife has seven years. One major problem is the lack of ability of people with children and mortgages to contribute to another retirement plan. It's almost paycheck to paycheck with no benefits in sight. His long-range plan was to retire in Alaska, but at this point moving back to Nevada almost sounds more lucrative than staying. The cost of living is cheaper, and he and his wife will be in a retirement system that has the gold at the end of the rainbow. Teachers will leave. He has heard

from other teachers telling him that. Other states offer better plans.

[10:12:24 AM](#)

KURT FREDRIKKSON, Retiree, (Former DEC Commissioner), said he is here on behalf of the Retired Public Employees of Alaska (RPA) in support of SB 183. RPA is a voluntary organization and is made up 2,300 retirees. He volunteers his time on the executive board. RPA believes Alaska should support Alaska families who have built careers. Leaders should encourage Alaskans to stay active members of their communities after retiring. Retirees should not have to go to a state with a lower cost of living. SB 183 will restore the incentives to stay. There are few if any incentives for employees under the DCP to stay and contribute to Alaska after they retire. There are 18,000 retired public employees living in Alaska, and 23 percent of retired Alaskans are public employee retirees. They all brought in \$1.46 billion into the state, and that is equal to what Alaska fishers were paid for their catch or the value of zinc, gold, and other metals mined in Alaska in 2004. Alaska's retired public employees make a significant contribution to Alaska's economy. In addition to the financial benefit, they volunteer significantly. He said he receives the Alaska cost of living allowance that was established in 1966 to assist retirees who elect to stay in Alaska. That is 10 percent of the base retirement benefit or a minimum of \$50 per month. This is not provided under the DCP. As a retiree, he also gets a post retirement pension adjustment based on increases in the annual consumer price index for Anchorage. That is not provided by the DCP. He also receives health care coverage until he is 65, and then the state's coverage becomes secondary to Medicare. "Unfortunately public employees covered under the defined contribution program run a much greater risk of finding themselves with far less coverage for health insurance when they retire."

[10:16:31 AM](#)

MR. FREDRIKKSON said Alaskans reaching 65 often have to prepare financially for a long retirement. He said 29 percent of women and 18 percent of men who are 65 will also reach the age of 90. With the very limited medical benefits under the DCP, RPA fears the exodus of retirees from Alaska will increase and seriously affect Alaska's economy and jobs. When he began his career 30 years ago, he was promised health care coverage and a retirement pension based on a fair percentage of his working salary that includes reasonable cost of living adjustments while living in Alaska, which is denied to new employees.

10:18:02 AM

PAUL ORTNER, Psychiatric Nurse, Alaska Psychiatric Institute, Anchorage, said he has a defined contribution retirement plan, and he is approaching 20 years of service. "As someone who already has a defined benefit, you may ask what horse I have in this race." It is the ongoing viability of the hospital he works at. Wages have never been what draw people to jobs like his. The promise of a secure retirement has allowed him to grow in his career and develop an attachment with the facility he works in. Despite perceptions that public service is overpaid, it is not true. The facility is losing long-term employees in roles that are best served by experienced people. Direct care to acutely ill patients is very difficult, and the facility is mainly attracting new graduates to fill direct-care vacancies, and after a couple of years of developing the experience needed to serve this population, they will likely move out of state to the greener pastures of the private sector. It is increasingly difficult to move employees into roles of increasing responsibility internally because new employees see no advantage of ongoing state employment.

MR. ORTNER said quality applicants from outside the hospital are few or not there. When qualified persons are found, it requires advanced-step hiring to get them, and holding them is unlikely. "The defined contribution retirement plan provides positive incentives for employees to stay with API and grow their careers." API provides comprehensive, sophisticated care that requires a distinct set of skills that develops with experience. It becomes challenging to provide safe and capable care without a stable population of experienced employees. Positions, like his, are best served by people with experience, who have risen up through the ranks of the hospital and have institutional knowledge. The possibility of that has been removed by making the state workforce a transient workforce. This is not a phenomenon exclusive to API nurses. A medical records manager left after 25 years, and it was a blow for the hospital because having a well-run records department is crucial to patient care and helps protect the hospital from litigation. Her job had to be downgraded to find someone. The hospital was lucky to have found a bright, young, and capable person, but once she has experience, her opportunities outside of the API will be considerable, and it is unlikely she will stay for more than a few years. This is occurring in each department, he said. The negative impact on the level of service API can provide is real. "We are constantly trying to orientate a workforce to this very specialized care only to see them leave." API has shown

improvement and has been very responsive to the needs of the entire state. It provides innovative care, but it will have to shift resources to training and recruitment, which will decrease API's ability to meet its mission, and it exposes the hospital to increased risk and liability.

[10:22:48 AM](#)

RICK FOSTER, Teacher, Homer, said he is a first-year teacher in a village at the head of Kachemak Bay. He teaches history and biology, after he worked many years for resource agencies. He has a PhD in resource ecology and has worked in the private sector in Alaska and has taught in California and Nevada. He also taught at the University of Alaska. Recently he worked for the Alaska Department of Fish and Game as a habitat biologist. He is vested in PERS III and just 32 months short of the ten years needed to get his medical coverage. That is the part that frightens him. "As I understand it ... state employees will have no certainty when we retire from the defined contribution plan, and the whole social security." He paid into social security but he is not sure how that works. He thought he could link his seven years with PERS to his current retirement system. But he can't do it with the DCP. It is important to have experienced teachers with numerous skills. Alaska will not be able to attract teachers from outside with the DCP. He feels it is desirable for teachers to come from the other jobs, public or private, before teaching. Alaska will not be able to attract topnotch resource scientists - not with the salaries the state pays unless there are defined benefits. He loves teaching so he will have to leave the state or he could go back to the PERS system. Friends from Homer work for the legislature to get their additional three years. He could also get a non-certified job in his school. "I could actually clean up the classroom and get my PERS time." SB 183 is positive for Alaskans and its children.

[10:27:24 AM](#)

SENATOR STEVENS said a person used to be able to go between TRS and PERS. He is surprised to learn that it is not possible now. How did that come about, and where does it say it?

MR. FOSTER said a specialist told him he couldn't link the two systems. "My choice was to either leave the state because I was not going to be able to collect those additional three years, or ... go back into the PERS system through another job."

SENATOR STEVENS said, "As I recall from prior retirement systems in the state, you can take PERS service into TRS together, and

use them together for one single retirement." It sounds like that can't be done now.

[10:28:47 AM](#)

KATHY LEA, Retirement Manager, Division of Retirement and Benefits, said that is correct. There is no connection between the defined contribution plans. "In the defined benefit plans, there are two different ways -- if you have service in both PERS and TRS -- that you can obtain a benefit. If you're vested in one system and you have at least two years in the other, you can have what's called a conditional service benefit. So you can get a benefit from both plans. If you are not vested in either, but you have at least three years in PERS, you can transfer your TRS service to PERS. And if you have at least five years, you can qualify for a public service benefit." So there are two ways in the DBPs to use the years you have in both systems, but in the DCP, there are no connections. "So if you do start in one and move to the other, the service does not combine."

SENATOR FRENCH said those changes came from SB 141.

MS. LEA said yes.

SENATOR STEVENS asked the cost of combining the two. "It's a good system to allow people to take years from PERS and take years from TRS and combine them together, but I assume it's a matter of cost." He asked about changing "that one little section."

[10:31:54 AM](#)

PAT SHIER, Director, Division of Retirement and Benefits, asked if he means combining the service credit for qualifying for vesting.

SENATOR STEVENS said maybe not just for vesting. "Prior to this, you could retire, say, in TRS, and if you had some PERS service, that would combine for one retirement package - isn't that true - say ten years ago?"

MS. LEA said not quite; it is one check, but it is two separate benefits with separate health eligibilities. People with a PERS benefit and a conditional TRS benefit would have two health plans that would coordinate together. Under the DCPs, a person would have to determine how she or he wanted to combine the two plans. There is also a requirement under the DCP that a person terminate from active employment in order to access the medical.

SENATOR STEVENS said he is not prepared to ask this question.

10:33:25 AM

CHAIR MCGUIRE said Senator Stevens is probably asking about the vesting. She noted that his constituent, Mr. Foster, was a biologist with excellent training who now wants to teach in Homer. He brings his experience to teaching. And prior to SB 141, he could have combined his time in the teaching system toward his overall vesting term of service. SB 141 eliminated that, and she thinks Senator Stevens wants to know the costs of fixing that part of what happened in SB 141.

SENATOR STEVENS said that is what he would have asked.

10:34:25 AM

BEN WALKER, Teacher, Anchorage, said he works in Romig Middle School and grew up in Ketchikan and Anchorage. He taught English in South America. His mom was a teacher, and he found it to be a good profession. While in the master's program at UAA in 2005, the benefits package changed. Romig hired him before July 1, but due to the processing, he didn't sign a contract until after that, so he is under the new plan. He was given a questionnaire when he became part of the plan, which put him in a particular level of money management. For the last quarter of 2007, he lost \$154.00 and had to pay \$12.00 to do that. In the private sector, it was similar, but the employer picked up the management fees. "So if I did lose money I didn't have to pay to do it." Since being in the plan, he has put in \$8,400 and now has \$8,500. For almost two years he has earned 0.9 percent. If he could put it in a savings account, that would be nice. "It's actually not going to be a very decent retirement." He is engaged to another teacher, and they will have to face a choice of one of them stopping teaching or moving to another state.

10:37:38 AM

CHAIR MCGUIRE said he is a teacher, not a financial manager. On top of sacrificing on salary, "we're trying to become financial experts as well."

10:38:28 AM

JAKE TODD, Teacher, Anchorage, said he is not a financial planner and doesn't care to be. He teaches at the same high school he graduated from, and it is the same school where his parents taught. "I am a fourth generation educator and a second generation Alaskan." His parents taught Senator Bunde's and Senator Green's kids. He left Alaska to go to college and came

home. He wants to spend his life here. It was at great expense to return to Alaska. He didn't have to move a family, but it was still difficult, and it is an expensive place to live. "And now I'm leaving. I'm quitting my job because I cannot make it here." What police officers, teachers, and firefighters need is to be able to retire with dignity and security. The DCP doesn't provide either. The other 49 states do, and they are looking nice now. It cost the Anchorage school district \$12,000 to train him this year, and now he is walking away. He knows of three other first-year teachers who are also quitting. He said the previous retirement system wasn't broken, "you guys just got some bad advice." "Way to throw the baby out with the bath water, because you threw out my retirement plan with it and my dreams of coming back to being an Alaskan for the rest of my life." He is not eligible for social security - "all my eggs are in the basket of the market, which is facing the largest recession in recent memory." It doesn't help him sleep at night to see the Fed lowering interest rates again. "Anybody who truly believes this retirement plan is worth it, put it up. Trade me." He noted that the people he really wanted to address today left the meeting. "I don't think that I deserve any less than Con Bunde for doing the same service to the state of Alaska -- just in different time periods." So during this lapse in common sense, he has volunteered to serve his county in the Middle East for the next two years. When he comes back, he wants this problem solved, or else Alaska will lose a homegrown teacher. "I want to teach school; I don't want anything else, and right now I'm unable to do that."

[10:42:56 AM](#)

SCOTT MCDONALD, Teacher, Anchorage, said his testimony is on behalf on many people who couldn't be here. He has chosen public service and teaches at an elementary school. He was born and educated in Alaska. He has a tough class with English language learners and homeless students, but he has the education to deal with it. "I work hard." He is 35 years old and cannot see himself retiring until at least 65. His father told him to do what he was passionate about but to make sure he can make a living. He is passionate about teaching, and he doesn't want to be a financial planner. "I don't know about the correlation between pickles and death in 1880 as Mr. Bunde pointed out." He will be vested in three years and hopes he can retire in Alaska, but he is shopping around. Other states are looking good. There are other states with mountains and ski slopes, but it is a foreign land to him, but he might have to join it.

[10:45:32 AM](#)

CHAIR MCGUIRE said she will make sure this the testimony will be distributed to the members in the committee who missed it.

10:45:46 AM

CHAIR MCGUIRE recessed the meeting to the call of the chair. [SB 183 was heard again the following day when the meeting continued.]