

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

March 23, 2009

3:19 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Mike Chenault
Representative John Coghill
Representative Bob Lynn
Representative Robert L. "Bob" Buch
Representative Lindsey Holmes

MEMBERS ABSENT

Representative Mark Neuman, Vice Chair

COMMITTEE CALENDAR

HOUSE BILL NO. 30

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

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 30

SHORT TITLE: REPEAL DEFINED CONTRIB RETIREMENT PLANS

SPONSOR(S): REPRESENTATIVE(S) HARRIS, HAWKER, MUNOZ

01/20/09	(H)	PREFILE RELEASED 1/9/09
01/20/09	(H)	READ THE FIRST TIME - REFERRALS
01/20/09	(H)	L&C, STA, FIN
03/18/09	(H)	L&C AT 3:15 PM BARNES 124
03/18/09	(H)	Heard & Held
03/18/09	(H)	MINUTE(L&C)
03/23/09	(H)	L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

PAT SHIER, Director
Division of Retirement & Benefits
Department of Administration (DOA)

Juneau, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of HB 30.

REPRESENTATIVE CATHY MUNOZ

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Testified as one of the joint prime sponsors of HB 30.

KEVIN BROOKS, Deputy Commissioner

Office of the Commissioner

Department of Administration (DOA)

Juneau, Alaska

POSITION STATEMENT: Testified and answered questions on HB 30.

JOSEPH MINNICK

Kenai, Alaska

POSITION STATEMENT: Testified in support of HB 30.

TOM BOUTIN

Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 30.

PATRICK OWEN

Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 30.

BOB DOLL, State President

Retired Public Employees Association (RPEA)

Juneau, Alaska

POSITION STATEMENT: Testified on behalf of the RPEA in support of HB 30.

HOLLY ABEL, Psychologist

Kenai Peninsula Education Association (KPEA) (NEA-AK)

Kasilof, Alaska

POSITION STATEMENT: Testified during the discussion of HB 30.

GARY MILLER

Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 30.

CLIFFORD COLE

Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 30.

LEE BUTTERFIELD
Anchorage, Alaska
POSITION STATEMENT: Testified during the discussion of HB 30.

JILL SHOWMAN, President
Mat-Su Education Association (MSEA)
Wasilla, Alaska
POSITION STATEMENT: Testified during the discussion of HB 30.

SHAWN ARNOLD, Teacher
Wasilla, Alaska
POSITION STATEMENT: Testified during the discussion of HB 30.

BARB ANGAIK, President
National Education Association, Alaska (NEA-Alaska)
Anchorage, Alaska
POSITION STATEMENT: Testified in support of HB 30.

REPRESENTATIVE CHRIS TUCK
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Testified during the discussion of HB 30.

LADAWN DRUCE
President
Kenai Peninsula Education Association (KPEA)
Soldotna, Alaska
POSITION STATEMENT: Testified during the discussion of HB 30.

MELODY DOUGLAS
Chief Financial Officer
Kenai Peninsula School District
Soldotna, Alaska
POSITION STATEMENT: Testified during the discussion of HB 30.

DON GRAY, Volunteer
Alaska Retired Educators Association (AREA)
Fairbanks, Alaska
POSITION STATEMENT: Testified in support of HB 30.

CHARLEY WALTON, Representative
Alaska Local 302 and Local 71
Fairbanks, Alaska
POSITION STATEMENT: Testified during the discussion of HB 30.

RYAN MARQUIS
Kenai, Alaska

POSITION STATEMENT: Testified in support of HB 30.

FRANCIS MCLAUGHLIN
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 30.

DAMON JACKSON, Police Officer
Anchorage Police Department
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 30.

JAMES DOKKEN
Wasilla, Alaska

POSITION STATEMENT: Testified during the discussion of HB 30.

LAWRENCE WEISS, Executive Director
Alaska Center for Public Policy
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 30.

PAT LUBY, Advocacy Director
AARP
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 30.

ACTION NARRATIVE

[3:19:40 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 3:19 p.m. Representatives Buch, Chenault, Coghill, Holmes, and Olson were present at the call to order. Representative Lynn arrived as the meeting was in progress. Representatives Doogan, Kelly, and Seaton were also in attendance.

HB 30-REPEAL DEFINED CONTRIB RETIREMENT PLANS

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CHAIR OLSON announced that the only order of business would be HOUSE BILL NO. 30, "An Act repealing the defined contribution retirement plans for teachers and for public employees; providing a defined benefit retirement plan for teachers and public employees; making conforming amendments; and providing for an effective date."

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REPRESENTATIVE BUCH referred to a letter he received dated February 12, 2009 from the Legislative Research, but noted that he did not have any backup for the \$202 million in savings the consultants indicated the state has saved under the defined contribution (DC) plan in the past three years.

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PAT SHIER, Director, Division of Retirement & Benefits, Department of Administration (DOA), explained that any savings would be due to the difference in the contributions the state must make on behalf of municipalities and the state to bridge the gap between the 22 percent statutory rate and the rate calculated by the actuary. He reiterated that calculations for savings post Senate Bill 141 were determined by taking the 22 percent public employers' rate and any additional amount that the actuarial projects.

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CHAIR OLSON recalled that in 2007 - 2008 the City of Fairbanks rate was 124 or 125 percent. He stated that the state paid the difference between 22 percent and the 124 percent figure. He offered his belief that 2007 was the last year for individual rates. After that the rates are blended rates, he opined. He further recalled that the amounts varied between political subdivisions throughout the state. He mentioned that the committee anticipates receiving a breakout that will provide additional details. He stated that the Fairbanks rate was 124.66, with the 2008 rate of 135.91, and the 2009 rate would have been 140 percent but it was a blended rate. Thus, the state picked up a significant portion of the cost.

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REPRESENTATIVE CATHY MUNOZ, Alaska State Legislature, recalled the discussion of the \$200 million figure at the last meeting. She stated that it is very difficult to ascertain the information source. She said this is the first time she has heard reference to the contribution rates throughout the state. She reviewed the Buck Consultant's projections and the actual fiscal note, which do not match. Thus, she was not certain about the \$200 million.

CHAIR OLSON reiterated that the committee will receive additional information. He offered his belief that the bulk of the amount is what the state is absorbing from various political subdivisions.

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KEVIN BROOKS, Deputy Commissioner, Office of the Commissioner, Department of Administration (DOA), introduced himself.

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REPRESENTATIVE HOLMES comparing the Buck Consultants' letter related her understanding that the TRS plan cost more than the defined benefit (DB) plan, but it does not seem to mesh with the fiscal notes. She asked to have the fiscal notes explained. In response to Mr. Brooks, Representative Holmes referred to the February 12, 2009 letter from Buck Consultants.

MR. BROOKS opined that it is important to note that the letters from Buck Consultants are responses to very specific questions. He stated in the first one, the state asked for a comparison of cost between two tiers: the new tier and the last defined contribution (DC) tier. He explained that in subsequent memos, the state asked for the cost to the state in order for the division to have the ability to prepare the fiscal notes on the bill. Thus, the matter becomes somewhat complex because Buck Consultants uses the total DB payroll, which is significantly higher than the DC system. Thus, different rates are assessed against both of them, with different normal cost for each employee.

MR. SHIER referred to Buck Consultants letter dated February 12, 2009, to last sentence of the first paragraph, which read: "The rates were determined using the payroll applicable to each group and are not based on total payroll." He referred to page 2 of the letter, to the Teachers' Retirement System to the total of 8.96 percent. He explained that is 8.96 percent divided by the TRS DB payroll only. He further explained that on page 2, the Defined Contributions Retirement Plan (DC) is a sum of the contributions in that column. Thus, the total is 11.40 percent which is applied to payroll. However, he pointed out that these are only the normal cost rates, without any consideration of past service cost, which is a feature of the DB plans. More important, the denominator is separate.

MR. SHIER explained that in arriving at the overall rate for the DC plan, the DCR payroll is included in the denominator. He noted that the denominator ranges from \$1.5 billion to \$1.9 billion for the combined systems. He reiterated that Mr. Brooks aptly pointed out that when the division asked the consultant the question, "Can you compare the rates for us?" that it received this letter. Thus, the division soon realized that it was not useful to help determine the actual fiscal effect. Therefore, the division asked the next question, "What are the fiscal effects using the current method of arriving at employer rates, keeping in mind that the statutory rate is 22 [percent]; that the state is on the hook for everything above 22 [percent]. Tell us that number for a fiscal note period of significance."

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MR. SHIER stated that those numbers are reflected in the fiscal note. He highlighted that Buck Consultants performed a calculation, as actuaries do, which is to take the entire payroll and attempt to project the DB rate. Under the current scenario, the consultant used an assumed level of 75 percent for the anticipated DB, and calculated how that would affect the actuarial calculation of the rate. He opined the fiscal notes are reflective of an increase between 22 percent and what the actuarial rate would be in future periods.

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REPRESENTATIVE HOLMES related her understanding that the DB system is closed. She recalled testimony with respect to timelines for investing, that once the system is closed, that rates of returns are reduced. Thus, for those employees in the closed DB system, the state may actually end up funding more over time since the system is closed. She inquired as to what effect that has to counterbalance some of the differences in cost between the two systems.

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MR. SHIER stated that if the DB plan were to close for new participants, but also for new funds, that would have a dramatic effect in having to rebalance asset allocation. However, passage of Senate Bill 123 allowed the assessment in the employer rate of an additional amount above the DC contributions. He referred to the Buck Consultants' letter of February 12, 2009, to the figure for Public Employees' Retirement System (PERS) (All members) to the DC Plan Tier 4

total of 9.23 percent. Yet, employers are paying 22 percent, for the total payroll. Thus, the difference between 9.23 percent and 22 percent continues to flow into the DB plans to help pay down the unfunded liability. As the DB payroll continues to grow, currently at 20 percent of the PERS payroll, the funds are a constant source of new investment and new cash, which delays any need to reallocate assets. He highlighted that "there are a lot of other moving parts". He surmised that if the current markets dictate that assets should be reallocated, it could result in a different assumed rate of return. Additionally, changes could affect the actuarial projections such that 8.25 percent might be considered too high.

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MR. SHIER recalled a conversation with the department's chief investment officer. The investment officer recalled asking Buck consultants when asset reallocation might take place and the consultants projected that might happen in 2025, based on this change alone. Thus, he related he did not want to suggest that asset allocation will never change. He surmised that it could not be predicted. He further surmised that as a result of the state changing to a DC plan that asset reallocation is far in the future, if at all, and depends on a variety of factors.

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REPRESENTATIVE BUCH stated that some information in members' packets suggests that the DB investments out perform the DC investments. He inquired as to whether the most current fiscal note (FN) reflects this.

MR. SHIER explained that the FN is a description of the impact on the General Fund for the state's contribution above 22 percent in the event of this change. He offered his belief that it is a best guess and discusses a 75 percent rate of individuals choosing to participate. He opined there are differences, with respect to the rates of return comparatively between the hybrid DC and the DB plan.

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REPRESENTATIVE BUCH opined that he has been calculating those differences as a function of performance. He stated that one component of the discussion when reviewing cost analyses should be to review the impact that investments have on retirees as well as the state, the board, and the ending balance.

MR. SHIER advised that losses that individuals in DC plan have sustained are not included in the fiscal note.

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REPRESENTATIVE DOOGAN referred to the fiscal note dated 3/16/09, labeled "Statewide". Per the fiscal note, for FY 2011 the operating expenditures are projected at \$15.6 million. He related his understanding that the figure represents the difference between actuarial projections and the 22 percent employer rate cap for PERS and the 12.56 percent employer rate for TRS. He asked the reason for such a large difference.

MR. BROOKS explained that the Division of Retirement and Benefits asked the actuaries for the cost impact on the systems if the changes are made. He highlighted that one of the biggest changes going back to DB system is the impact of health care costs for retirees. Currently if an individual retires from the DC plan, the retiree must be 65, or retire from the system. Depending on years of service, there is a co-pay portion, but the health care benefits are limited by the DC plan. Thus, by returning to the DB plan, the state must also cover health care costs for anyone 60 years and older with 10 years of service. Thus, the additional health benefits for returning to a DB plan will cost the state. He opined that health insurance is the largest driving factor. He related the state covers the full cost of retirement between 60 and 65 years of age for anyone with 10 years of service. Thus, a person can work from 50 to 60 years of age and retire, or work from 20 to 30 years of age, and leave the state. However, once the person turns 60 they are eligible for health care coverage at 100 percent, until he/she reaches 65 years of age and the state's system becomes secondary to Medicare. He reiterated that the increased cost associated with the DB plan contributes significantly to the increased annual cost reflected in the fiscal note.

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MR. BROOKS related his understanding that there is not an increase to the unfunded liability since the bill is written such that an individual in a DC plan returning to a DB plan would only be able to bring whatever service he/she could afford with their prior earnings. He related a scenario in which a person works under a DC plan for two years. In the event that HB 30 passes, the individual's account would only buy him/her one year in a DB plan. Therefore, the change in systems would

not increase the state's unfunded liability. Instead, the state would accrue increased costs by returning to a "richer" retirement plan.

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REPRESENTATIVE DOOGAN related his understanding that the fiscal note is based on a certain number of retirees, which is not reflected in the analysis section of the fiscal note since the \$15.6 million increment for FY 2011 would only reflect the additional cost of reverting to a DB plan.

MR. BROOKS agreed that the fiscal note reflects the increased cost. He explained that the actuaries would provide an employer rate as a percentage of the state's payroll that would result in a \$15.6 million increase.

REPRESENTATIVE DOOGAN asked if that increase would be due to health care benefits.

MR. BROOKS answered that overall health care benefits is a significant factor. He explained that the model used actually accounts for each person's age, and health.

REPRESENTATIVE DOOGAN related his understanding that big cost causers were Tier 1 and Tier II retirement plans. He related his understanding that according to the fiscal note the difference between the Tier III costs and the DC plan is nearly \$16 million.

MR. SHIER explained that earlier tiers appear on the actuarial report. The actuarial was specifically asked to compare costs between the most recent tiers for PERS and TRS, and DCR. Thus, the fiscal note reflects an increment over the current retirement costs. He offered his belief the costs are due to the DCR returning to the most recent tier. Thus, the fiscal note reflects an increment between the DC and the Tier III retirement plan, for example.

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REPRESENTATIVE HOLMES asked whether a breakout is available for the health care.

MR. SHIER referred to a letter from Buck Consultants that break out the effects on normal cost of health care for both pensions.

CHAIR OLSON requested the information. He announced that he would take public testimony and asked testifiers to indicate if they are participants of a DB or DC plan, and if so, which tier.

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JOSEPH MINNICK stated that he is a state employee under the Tier IV retirement plan. He offered his support for HB 30 and urged the committee to support the bill. In 2006, he applied for employment with the State of Alaska under the DB, Tier III retirement plan. He received an invitation for training and relocated to Alaska at his own expense. He stated that as training began he learned that the retirement system was changed and new hires as of July 2006 would fall under the Tier IV, DC plan.

MR. MINNICK mentioned that he is cannot participate in the Social Security system. Thus, he is denied yet another opportunity to establish a DB plan. He related upon retirement under his Tier IV DC plan, that he will have a 401(k) investment after 25 years of service, without health benefits or DB retirement. He informed members that he and his wife have decided that they need to have a DB retirement plan such as those offered in Tiers I, II, and III service. He related that as of March 2009, contributions to his Tier IV retirement plan total \$20,482. He highlighted that his Tier IV retirement plan is currently valued at \$12,433, which reflects a 66 percent loss. He opined that the current benefits do not outweigh the future losses in a poor retirement system. He surmised that on his fifth anniversary of state employment in 2011 that he will reevaluate his employment if a DB plan is not restored.

MR. MINNICK further opined that the longer a peace officer works the more valuable he/she becomes to the public's safety. He related that the years of service that an officer invests has real monetary value. He offered his belief that losing a public safety employee is similar to losing a valuable asset. The loss is exacerbated since more funding must be spent to select, train, and prepare a replacement. The Department of Public Safety (DPS) indicates that it costs approximately \$9,500 to get a prospective trainee to the police academy. He pointed out that only 74 percent of trainees complete the academy, and of those 84 percent finish field training. He surmised that training a recruit could easily cost \$150,000 when academy and field training costs are considered. He emphasized that a DB plan that includes health care coverage is a valuable tool to attract and retain quality police officers. He stated for the

financial well-being of his family that he will be forced to evaluate the retirement plan to determine if he will continue to work for the state. He urged members to consider voting in favor of HB 30 and return to a DB retirement plan.

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REPRESENTATIVE BUCH asked Mr. Minnick about any personal experience he has had with co-workers who are in the same situation.

MR. MINNICK stated he could not speak for anyone else, but related his understanding that his co-workers have also expressed concern about the DC Tier IV retirement plan.

3:52:30 PM

TOM BOUTIN stated that he is a retired Tier I public employee. He stated that he has been an Alaskan for 27 years, primarily working in the private sector. He noted he also worked for state. He mentioned he listened to last week's hearing twice. He asked to clarify several points. He opined that paying employer contributions as a percentage of payroll is merely a convention. He further opined that the unfunded liability and risk of it growing now or after DB is a red herring and leads to poor decisions. He offered his belief that the actual unfunded liability would be lower today if Senate Bill 141 had not been enacted.

MR. BOUTIN stated that despite DB not accepting new enrollees, the unfunded liability continues to grow. He emphasized there is no way any proper accounting could show that DC is saving money, in fact, an audit would show a net cost, which are demonstrated by the letters from Buck Consultants. However, there are greater costs with DC. He recalled that Representative Munoz described one of the larger ones last week. He further recalled that DC proponents state that wages need to be raised to private sector levels. However, the public sector has job types that the private sector does not, such as police officers, correctional officers, and firefighter. He opined that people would need to work longer and it is not feasible for older people to climb ladders. He further opined that adopting DC sends the message that when their knees give out they need to look to Wal-Mart for jobs. He stated that he operated logging camps for many years, and when people became too old to fell timber, the people qualified for disability. He recalled that when the employer provides health insurance, that workers will

get treatment for pneumonia. If the same worker does not have health insurance, he discovers he has a "bad back" and goes to town on a Workers' Compensation claim and still gets treated for pneumonia. He emphasized that DC sets up the same situation. He surmised that too often, government claims savings but a full accounting provides unaccounted cost. He urged members to move HB 30 to the next committee.

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PATRICK OWEN explained that he is a 45 year Alaska resident and has worked in construction and merchant marine employment. He stated that he is a retired Tier 1 employee. He opined that a lot of good people need DB and suggested reverting back to the DB plan. He offered his belief that the state would be able to hire good employees and retain them.

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BOB DOLL, State President, Retired Public Employees Association (RPEA), on behalf of the RPEA, stated that he is a Tier IV retiree from his service to the Department of Transportation & Public Facilities (DOT&PF) in 2003, but that he has less than 10 years of service. He applauded his representative for sponsoring HB 30. He asked to speak in support of HB 30. He explained the RPEA represents 2,200 retired teachers and other public employees. He offered that RPEA believes that Alaska's public policy should be to support Alaska's families from young to old. Alaska's leaders should encouraged Alaskans who built careers and raised families in Alaska to remain active members of the community as retirees.

MR. DOLL related that RPEA supports HB 30 because it will restore incentives the state can provide to public employees to continue to live in Alaska after retirement. He opined that without the changes proposed in HB 30, there are few incentives for state employees covered by DC plan to stay and contribute to Alaska after retirement. Currently, over 18,000 retired public employees reside in Alaska. According to a September 2006, study by the University of Alaska's Institute of Social and Economic Research (ISER), 23 percent of retirees were public employees. The study found that in 2004, Alaska's retirees brought an estimated \$1.46 billion into the state, roughly equal to what Alaska's fishermen were paid for their seafood harvest or the value of resources mined in Alaska in 2004. He summarized that Alaska retired public employees make a significant contribution to Alaska's economy.

MR. DOLL stated that their spending creates many year round jobs, from low wage jobs to high paying jobs in health care. In addition to substantial financial contributions to the economy, retirees provide significant volunteer work. If for no other reason than the strength and health of Alaska's economy, Alaska's public employees should be encouraged to live out their retirement years in Alaska and not relocate to some other state or country that would reap the economic benefits of their retired investments. Others have testified about the DB program and that it provides a financial safety net compared to what is offered by the DC system. He asked to draw attention to the potential to restore the 10 percent Alaska cost of living allowance (COLA), post retirement pension adjustment and post retirement health care benefits. Retired public employees under the DB benefits receive the COLA established in 1966 as an allowance to assist retirees who elect to remain in the state to defray the higher cost of living in Alaska. He pointed out that the COLA is not awarded to employees in the DC plan. The retired employee under the DB plan is entitled to a post-retirement adjustment when the cost of living increase is based on a consumer price index for Anchorage. Like the COLA benefit, current law does not provide a pension adjustment under the DC program. In summary, 50 years ago Alaskans achieved a life-long dream. Alaskans gained the legal status as a state and could determine its own future and how its resources were developed. He said, "To reach these goals, as it does today, required a workforce that could make the case on Alaska's behalf." The Alaskans of that day attracted and retained the talent necessary to give us the advantages we now enjoy. That effort has not ended. He said:

If we want to compete with our sister states, we need to find the same kinds of talent. We're at a disadvantage, however. A person starting a career with the State of Alaska today is denied a reliable retirement pension with very little limited access to post-retirement health care coverage and no cost of living adjustments. REPA asks that the Labor and Commerce Committee move HB 30 out of committee with a favorable recommendation. Thank you, Mr. Chairman, for your time and attention.

[4:03:49 PM](#)

HOLLY ABEL, Psychologist, Kenai Peninsula Education Association (KPEA) (NEA-AK), stated that she was born in Soldotna and was

raised in Kasilof. She explained that her parents were lifetime educators who retired under the Tier I TRS system. She said she was disappointed to learn about the retirement. She explained that she was excited to come home. She stated that she does not have social security and does not know what to expect. She explained that this is unsettling and she wants to have something secure for her retirement. She offered her gratitude that her parents have a good retirement system. She related that she worries about becoming a parent and what type of burden her children would inherit. She said she considered private practice to make more money. She apologized, explaining that this is an emotional issue for her. She said, "I'm very scared and anxious about how I'm going to, whether I can stay in my home, which is Alaska, or if I should look somewhere else. It would be really heartbreaking for me to have to leave. I suppose it would be a possibility, but I prefer to stay. I'd like to see HB 30 pass."

[4:06:51 PM](#)

GARY MILLER, stated he is a Tier I retiree. He offered his belief that his retirement system is very good. However, he noted that he just qualifies for social security, has 27.5 years with the state and a year and a half with the City and Borough of Juneau that his social security will be reduced. He related that he does not have any deferred compensation since he paid for his children and home. He stated that he has Supplemental Benefits System (SBS) annuity. However, since the market crashed he said he does not dare touch his SBS. He opined that if he did not have a DB system, he would need to consider going back to work. He urged members to vote yes and pass out HB 30.

[4:08:20 PM](#)

CLIFFORD COLE stated that he has been a Juneau resident for 45 years. He related he and his wife are retired public employees and receive pension checks from their DB plan. He stated he strongly endorses the DB plan and finds the stability of their plan makes it possible to stay in Alaska. He opined that the DC plan is more of lottery such that the retiree hopes to get a return. He offered his belief that the defined benefit plan was the reason they went to work for the state. He related that their private sector experience in accounting and construction management was a benefit to the state. In turn, they could count on a retirement. He questioned where funds to keep the retirement system solvent would come from if the DB plan is not continued for new employees. He urged members to please move

the HB 30. He mentioned that he came to work at age 50, after running his own companies. He stressed his inability to obtain sufficient funds for retirement in the private sector. At that time, health insurance plans were just developing in the private sector. He also mentioned he had performed contracting for the state so it was an easy transition. He said, "I would hate to see this slip by and not be, and not have the benefits that I've been able to acquire to stay in the state and keep working here."

4:11:31 PM

LEE BUTTERFIELD stated that he currently teaches at Hanshaw Middle School in Anchorage. He indicated that he was introduced during the legislative session as a two-time combat veteran. During that time, he suffered having his left arm paralyzed, lost some motor function in his left hand, his right hip was pulled from the socket during an explosion and he received eight traumatic brain injuries during five days. He said, "If there is any question on whether I know the true price of serving my community, I hope they are now gone." He presented himself as three identities: as a 28-year old father of a four-year old who will attend the Turnagain Elementary School, as a homeowner who pays property taxes, and as a Tier III TRS employee. He offered his hope that the committee would move forward HB 30 to address each of his identities. First, as a Tier III employee his retirement is determined by the legislature's decisions, which are sometimes "whims of people throwing paper around in a room where I never see and I have no control over it." He opined that he does not like putting a dollar into a slot machine to risk receiving a return of seven cents.

MR. BUTTERFIELD related that as a homeowner, he recognizes police and firefighters keep his community, neighborhood, and family safe. He opined that someone who has worked in his community for 20 years knows the area "like the back of their hand" is going to keep it that way, rather than someone who is present for three to five years and leaves due to deficient retirement systems. He further opined that raises his property values and taxes that he pays. He said he is willing to pay the taxes. He related that as a father he wants his daughter to have teachers who are willing to stay and learn to teach in Alaska. He offered his belief that teaching in Alaska is different. He explained that he came from Montana, and graduated with honors from the University of Montana, Missoula. He reiterated teaching is different in Alaska. He said he wants his daughter to have teachers that understand that and are

willing to stay long enough to understand children in their classrooms. He concluded by saying, "Policemen and firefighters protect, are present in order to give a secure and safe future, and teachers are responsible for bringing every person that contributes to society up in this world, including those people who run our state and federal governments. Thank you for letting me be here. I'm honored to be in front of you."

[4:14:44 PM](#)

JILL SHOWMAN, President, Mat-Su Education Association (MSEA), stated that she is a Tier II TRS employee. She related that she represents about 1,200 educators from Glacier View Elementary School to Trapper Creek Elementary School. She recalled prior testimony, that the community is concerned about retention and recruitment of teachers. She offered that in the past three years, teacher turnover is 90 to 100 teachers per year, which is close to 8 to 10 percent turnover. She emphasized that the school district is having a difficult time finding and keeping educators, primarily due to the DC plan and the lack of social security benefits. She highlighted that recruitment efforts span many Lower 48 states, and in job fairs to supplement job fairs held in Alaska. She opined each time the school district hires a teacher who is new to the district that the district must provide professional development including materials and training that costs upwards of \$100,000. She stressed training is a burden to the school district.

MS. SHOWMAN provided personal information, reiterating that she is a Tier II TRS employee, who has been in Alaska 12 and a half years, relocating from Iowa. She highlighted when former students ask her about teaching in Alaska that she tells them with the current TRS retirement system in Alaska they should look outside the state for employment or should choose a different occupation. She said, "That is very disheartening to me because education is the soul of our community. And without good public schools we won't have a future. Thank you very much for this opportunity." She urged members to pass HB 30 and thanked them for their service.

[4:18:01 PM](#)

SHAWN ARNOLD stated that he is a Tier III TRS teacher. He also stated he is currently an English teacher in the Matanuska-Susitna Valley at Colony High School. He offered that he is in his second year of teaching, but spent 12 years in the military in Air Force and the Army. While he is not originally from

Alaska, he says he fell in love with the state when he first arrived in Alaska. He mentioned that he joined the military to complete his college education. He knew he wanted to be a teacher. He reenlisted after 9/11 to serve his country for another four years. However, once he began teaching, he realized the retirement system had changed. He recalled the military retirement such that after 20 years service he would have been under a plan that is similar to a DB plan. He stressed that the military takes care of their enlistees.

[4:20:10 PM](#)

MR. ARNOLD asked why troops and teachers should not be supported. He opined that with the current DC retirement plan the support is not there. He said, "The support for my country would have been rewarded but now my support for my service in my community, in my service there, isn't going to be rewarded and helped out." He thanked members and urged the committee to move the bill forward.

[4:21:22 PM](#)

BARB ANGAIAK, President, National Education Association, Alaska (NEA-Alaska) stated that the NEA-Alaska has 13,000 members statewide. She offered NEA-Alaska's support for HB 30. She offered that NEA-Alaska is very concerned about new people and for the future of our children. She related that she is a Tier I TRS employee and a 28-year middle school math veteran. She opined that she has a great retirement system. She expressed concerned about the future, if the system is not repaired. She noted that she served three years as a statewide mentor, a program that helps first and second year teachers become familiar with classroom teaching and to reduce time to become comfortable in the classroom. She explained that research shows it takes teachers five years to hit their stride and become effective teachers. Good mentoring can reduce that time by two to three years. She recalls young teachers who relate that five years will give them a glimpse their overall career path. However, she stressed that if teachers of five or less years decide to leave Alaska our children will suffer.

MS. ANGAIAK provided her personal history. Her daughter was born and raised in Bethel. She is currently attending Brown University, an Ivy League college. She opined that her daughter received a good public education in Alaska. However, she said she worries about the future education of Alaska's students and whether teachers will be able to offer high quality programs.

4:25:11 PM

CHAIR OLSON inquired as to the retirement plan that the National Education Association (NEA) has for its own employees.

MS. ANGAIK answered that NEA offers two plans, depending on when employees came into the system.

CHAIR OLSON remarked that is similar to the state's retirement system which is based on when employees enter the system.

MS. ANGAIK noted her agreement. She pointed out that the difference is that NEA also offers social security benefits to employees, which provides a safety net.

CHAIR OLSON mentioned that the state also provides the Supplemental Benefits System (SBS).

4:25:57 PM

REPRESENTATIVE SEATON asked for clarification. He related his understanding that any new NEA employees have a DC retirement plan.

MS. ANGAIK responded that new NEA employees have a 401(k), but also have social security benefits.

4:26:22 PM

REPRESENTATIVE CHRIS TUCK, Alaska State Legislature, stated that he is not in the state retirement system. He related that he has a DB plan through the International Brotherhood of Electrical Workers (IBEW) Local 1547. He further related that he has both a DB retirement plan and a DC plan both of which are paid on his behalf through his employers. He stated that IBEW members vote on the total package of benefits that are negotiated. He said he is proud of the membership since it votes in favor of a DB plan. He opined that it is "the most bang for the buck per participant." He offered his belief that it is almost like putting money in a slot machine. He recalled after 9/11, many plans were hard hit. He explained that the IBEW has a partnership between employers and employees. He acknowledged some adjustments were made such as for past service credit, health plan, and the definition of the contribution and amount paid out. Fortunately, by making those adjustments and by recognizing the potential for unfunded liability, the fund

has grown and IBEW has been able to add additional employee benefits. He said, "So it never made sense to me when the state had a \$6, 7, 8 billion in unfunded liability it was facing why you would stop future contributions into a defined benefit plan by rolling it into a defined contribution." He opined that if it continued the DB plan, the state could continue investing, continue its support, and bail itself out. He stated that in serving in the legislature that he takes a three month absence from his IBEW job, which results in a 25 percent reduction to his retirement. He concluded by stating that he would like to see Alaskans retire with dignity without being a burden on society.

[4:30:06 PM](#)

REPRESENTATIVE SEATON related his understanding the IBEW has a DB plan but due to unfunded liability, the union voted to cut some benefits for awhile.

REPRESENTATIVE TUCK agreed for future contributions. He related under the Taft-Hartley Act, also known as the Labor-Management Relations Act, the IBEW has an obligation.

REPRESENTATIVE SEATON recalled that the amount of benefits evened out for employees.

REPRESENTATIVE TUCK stated that if he understands the question, for the unfunded liability obligation that future contributions will benefit the plan

REPRESENTATIVE SEATON asked how IBEW structures its plan and pays beneficiaries when the plan has an unfunded liability. He further asked who incurs the liability.

[4:31:54 PM](#)

REPRESENTATIVE TUCK answered that the plans are federally regulated and federally backed similar to banks that have FDIC insurance. He stated that the IBEW has a Pension Benefit Guarantee Corporation (PBGC). He recalled that until 2004 that PBGC has not changed its rate due to the stability of the DB plans.

CHAIR OLSON offered his belief that the initial portion of the bailout funds into industries that had significant shortfalls on their DB programs, such as the auto and airline industries. He

recalled that 30 percent of the funding went to fund plans that were collapsing.

4:33:09 PM

REPRESENTATIVE BUCH related that his retirement plan is similar and financially allows him to be in the legislature. He related that his union uses a system that assesses about a dozen actuarial services that project 100 years. He offered that since 2002 instead of paying a thirteenth check to retirees, the union reduced retiree's benefits by eliminating the check. Additionally, in 1998, one option was to provide a supplemental to be 401(k). He recalled some members wished to be active in control of their money. Thus, retirees can opt to select investment strategies. He opined that some accounts have lost half their value and the union is working to rebuilding the funds. He offered his belief that the accounts are viewed as savings accounts and not retirement accounts.

4:35:51 PM

LADAWN DRUCE, President, Kenai Peninsula Education Association (KPEA), stated that the KPEA is an affiliate of the National Education Association (NEA). She related that she is a Tier II public employee and her husband is a Tier I public employee. She asked the committee members to move HB 30 to the next hearing. She thanked the bill sponsors. She opined that members obviously know her position as president of the KPEA. She recalled speaking to Chair Olson and Representative Chenault on several occasions. She mentioned that she received an e-mail today from a Tier III teacher who would like to have a conversation with her about social security and her retirement. She related that with respect to social security benefits, the NEA is fighting at the national level to right the injustice. She said she would love to report that her legislators are anxious to "do the right thing" and return Alaska to a DB system. She agreed with the sponsor's statement that the bill would provide an affordable retirement plan, that it would help reduce employee turnover. She said she would really like to keep people like Holly Abel and her expertise in the Kenai Peninsula. Further, she would like to keep Matt Johnson, who is a second year teacher in Soldotna who just took the basketball team to the state playoff last Saturday for the first time in Soldotna's history. She stated that these are the people she would like to keep in Alaska, teaching and working with students in the school. She also appreciated Representative Buch's statement of the necessity for a cost analysis for all parties,

including retirees. She asked to characterize the DC plan as a failed experiment. She concluded by urging members to move HB 30.

[4:39:05 PM](#)

REPRESENTATIVE SEATON recalled statistics that indicated that the last two years in which there was a DB plan only, the state experienced a 59 percent two-year retention rate for teachers. For those hired under the first two years of the DC plan the state experienced a 64 percent retention rate. He asked if the Kenai Peninsula is experiencing the same level of teacher retention.

[4:39:54 PM](#)

MS. DRUCE asked for clarification that the statistics are showing teachers are staying longer with a DC plan.

REPRESENTATIVE SEATON answered yes. He reiterated that from July 2003 to June 2004 the retention rate for teachers was 59 percent, while those who were hired between July 2006 and June 2007 under the DC plan had a retention rate of 64 percent.

MS. DRUCE stated she did not have statistics. However, she related from her own experience as a member of the education community that it takes teachers a couple of years to get settled. She opined that once they have three to five years of experience, they tend to think about their retirement. She mentioned this year, the district as a whole is "not non-retaining non-tenured people." Thus, the statistics for the DB plan, the Kenai district was not retaining non-tenured employees. She surmised a lot of people probably left the state for that reason and not due to the DB plan. She offered her belief that it is not really sufficient time to provide proof. She said, "What I can tell you is people are looking long and hard after that second and third year and saying, "I may not be able to afford to stay in education in Alaska"."

[4:42:18 PM](#)

MELODY DOUGLAS, Chief Financial Officer, Kenai Peninsula School District, stated on behalf of the Kenai Peninsula School District (KPBSD) that she has been actively communicating the KPBSD's concerns with the PERS and TRS retirement plans since 2003. She related that the missing component in the discussion is how to limit the growth of debt and the ability to pay the

debt. She asked the committee to consider her letter as part of the official record concerning maintaining the DB and blended DC currently in place. She read:

My comments will focus on the district's general fund using audited FY 08 information. Thank you for the \$19.3 million dollar: \$17.2 TRS and \$2.1 for PERS, in on behalf retirement funding provided to KPBSD in FY 08, and similar funding planned for FY 09. Continued legislative support for supplemental funding is critical for KPBSD to maintain the current education program.

KPBSD is proud of making [adequate yearly progress] (AYP) as a district in FY 07 and FY 08 and is pleased to note that the Kenai Peninsula Borough funds Kenai schools to the maximum allowed per state statute. KPBSD FY 08 employer percentage rates for TRS relative to on-behalf approximate for TRS 41.7 percent and for PERS 14.48 percent. KPBSD had 596 fulltime equivalency certified teaching staff in FY 08. Had the legislature not provided on-behalf payments the most likely method of addressing a \$17 million shortfall in TRS funding would be to reduce staff since approximately 80 percent of our budget consists of salary and benefits. A \$17 million reduction would mean a loss of approximately 274 teaching positions or 46 percent of general teaching staff. This means that without the on-behalf funding class sizes would have practically doubled and AYP would have probably vaporized for the district. This picture for KPBSD is the same on a go forward basis for as long as an unfunded liability exists in the retirement systems. My guess is all school districts in Alaska are in the same boat. I concur and support the testimony provided by Larry Semmens to this committee on March 18, 2009. I will not reiterate his points but instead talk about the DC plan relative to hiring staff at KPBSD. Frankly, I believe it is premature to evaluate the effect of implementation of the DC plan on July 1, 2006 on hiring as we are in year three of the DC plan. However, in discussing this matter with the district's HR department, the DC plan has not been an issue in hiring. KPBSD is actively involved in recruiting statewide and by traveling outside annually to several job fairs. The district hired 76 teachers in FY 08, 107 teachers in FY 98, and is expected to hire

approximately 75 teachers for FY 10. To date, none of the teachers hired has expressed concern to HR over the DC plan. It will be a surprise if this matter is an issue in the upcoming hiring season, particularly in light of teachers being laid off by many outside school districts.

[4:46:24 PM](#)

MS. DOUGLAS read:

In addition, none of the interviews conducted with exiting teachers included concerns about the DC plan. In conclusion, much work has been done to implement a blended DC plan, managed by knowledgeable investment professionals. This arrangement benefits employees more than a straight DC plan would. Essentially, by the next time the numbers are released all the various changes to the retirement plans, skyrocketing health care cost, and unrealized investment earnings over the years have created what will likely be a \$10 billion debt that now must be paid. Employers, including school districts cannot function viably under retirement rates like 54 percent for TRS, and 36 percent for PERS indicated for KPBSD in FY 08, until the unfunded liability is finally paid some 25 years or more down the road. The public sector can no longer fund a DB plan. The course of action implemented July 1, 2006, is the best solution to the problem. Please stay the course set at that time. Thank you, Mr. Chairman, for the opportunity to comment on a matter of such importance to Alaska's economic future and to the students who are committed to paying the debt already incurred.

[4:47:48 PM](#)

DON GRAY, Volunteer, Alaska Retired Educators Association (AREA), stated that he has been a resident since 1970. He provided his work history, noting that he taught at Lathrop High School for twenty-three years, was a financial advisor for two brokerage firms for 11 and a half years, then retired. He related that he is a Tier I TRS retiree. He related that he is a volunteer for the Alaska Retired Educators Association (AREA), and is also the legislative chair of the AREA's education committee.

MR. GRAY stated that he is speaking in favor of passing HB 30. He said that he thinks the state should examine the reason for a pension plan. He stated the whole idea is to maintain a similar standard of living. He opined that teachers in Alaska do not have social security. He related the goal is to have a pension plan effectively that provides the lowest cost to taxpayers yet still maintains adequate retirement benefit. He recalled last week's testimony raised concerns about the growing and unpredictable retirement obligation, and projecting an enormous unfunded liability. He offered his belief that describes the future cost of health insurance which is not known. The retirement benefit components are the pension plan, DB pension plan for Tier I and Tier II, and health care. He mentioned that health care is provided under that plan until Medicare is provided at age 65, at which time the PERS/TRS health care becomes secondary. He explained that when he began teaching he only had a DB plan. In the mid-1970s since teachers were leaving to work on the pipeline construction, the state negotiated health care benefits for retirement.

[4:51:08 PM](#)

MR. GRAY related that he was a young teacher and did not pay too much attention. After he retired he realized how important it was to have the health care benefit. He opined the DB pension is predictable and it is not too difficult to calculate the benefit. He recalled testimony from the researcher at the National Institute on Retirement Security that longevity risk pooling can be used. Thus, all the contributions are lumped together. While one cannot predict when people will die, it is possible to predict when a group will die, which is the basis for life insurance. He explained with investment diversification, that the state can invest for the maximum return. Therefore, the two elements make the cost predictable. He concluded by stating that the goal is to provide the benefit and does not cost too much. He pointed out that health insurance component is separate from DB. He offered his belief that more discussion needs to happen, that changes at the national level will address the health care costs. He surmised that we do not know what the health care cost will be in 25 years. He mentioned that 25 years ago hip transplants that are commonplace were not being done.

[4:53:38 PM](#)

CHARLEY WALTON, Representative, Alaska Local 302 and Local 71, stated that he is a 45 year resident, and lifetime member of

Local 302, and Local 71. He related that he has been a union steward and a lifetime union member. He offered his belief that he is fortunate to have a pension, social security benefits, and Tier III pensions. He also mentioned he had a DB plan to cover costs of heart bypass surgery three years ago. He opined that without a DB plan that the public sector is losing workers. He said, "You can't outlive social security, but you can outlive a contribution plan." He stated that was a quote from Ann Seacrest. He related statistics such that 29 percent of the women who reach 65 years of age will reach 90 years of age. He said 18 percent of men who reach 65 years of age will reach 90. He asked, "What will Alaska do with all these teachers, police officers, firefighters, public works people when they have outlived their contributions. Alaska's got the largest growing seniors per capita in the United States." He explained that is due to the pipeline workers who are relocating their aging parents. He surmised that at some point the health care issues will be put forth to the Alaskans. He stated that the cost of retaining someone in his department at the Fairbanks International Airport is enormous. He detailed the skills and training that are safety related. He emphasized that it takes five to six years to train people and that the airport cannot be a revolving training ground or have unqualified people that cannot be trained. He opined that the DC plan is "not a way to do it." He said, "I support HB 30 very, very highly."

RYAN MARQUIS stated that he is a public employee of the Kenai Peninsula Borough and a PERS Tier IV employee. He expressed concern with the DC system. He related his fear of the negative impacts of a DC system on the future of the public sector. He stated that he has discussed the retirement plans with some of the newer employees that he works with and the responses are less than comforting. He opined that there appears to be two different groups of people in the workplace. The first group does not realize what type of system they are in such that they did not realize they would outlive their retirement and their retirement security is in someone else's hands. They do not understand how they can retire on what amounts to a savings account when they do not have an option to choose how much they can contribute. Many believe that chances are slim that their retirement will provide them with secure future. Others have expressed they do not intend to work until retirement.

MR. MARQUIS stated that the second group likes the DC plan. They plan on working for five years until they are vested and then plan to work some place else for a more secure retirement, either in a DB plan or in a job with higher wages. He surmised

that these people will leave the system with all the investments that the employer has invested in training and the employer contributions made over those five years. He stated that he does not want to pick either group since he loves his job and the satisfaction gained from providing public service. However, he noted that he must be mindful of his future. He stressed that his concerns are more about Alaska's public sector. He expressed concerned that with employees leaving the state with employer contributions and training, that the public sector will have a hard time attracting quality employees. He urged legislators to work to help secure Alaska's future.

[4:58:57 PM](#)

FRANCIS MCLAUGHLIN stated that he would like to speak in support of HB 30. He explained that it is time to repeal Tier IV. It is about fiscal responsibility in that a pension system such as Tier I, II, and III only work when younger people pay into the system while retirees draw retirement funds. Since Tier IV employees are not paying into the pensions system it has become a "giant Barney Madoff Ponzi scheme." The pension system will be depleted unless the Tier IV DC system is repealed and the Tier IV employees are put back into the DB system. He offered his belief that the Tier IV created the unfunded liability problem for the state. He further opined that it would be cheaper to place the Tier IV employees into the DB system than to bail out Tier's I, II, and III. He stated that he was born in North Pole, has a Master's degree in community planning, and has worked as an urban regional planner. He was educated Outside and always planned on returning home. He explained that he was hired by the Municipality of Anchorage Planning Department three years ago and bought his first house in Anchorage. He said, "I'm stuck in a Tier IV category which only encourages me to take my 401(k) and move to another state when I'm vested in two more years. My boss is hopeful that I will make my career in the Anchorage Planning Department and take up the slack when the senior planners begin to retire next year." He offered his belief that he will not be able to do so unless Tier IV is repealed. He related his intention to move to another state such as New York, that offers a pension and health insurance upon retirement. He related that he does not have any incentives to work for Anchorage since he has a 401(k) plan without a pension or health insurance. He highlighted that if he works for 35 years in Anchorage that he still would not have guaranteed health insurance. Instead, he would have to buy health insurance for the rest of his life. He said, "That is not a risk that I am willing to take. That is not a choice that

Tier III employees have to make since they obtain health insurance upon retirement. Furthermore, Tier III employees also get a pension." He offered his belief that this is about being fair to employees in the long run. He emphasized that Alaska should try to recruit and retain the best qualified public servants. He recalled his best friend in New York City is an urban planner, whose retirement is the same as PERS Tier III. Thus, he will have a pension and health insurance in retirement. He said, "That's what I want. That is what I'll get when I move to New York City or another similar city." He urged members to support for HB 30. He said, "It is good public policy, the only fiscally responsible thing to do, and simply the right thing to do for the future of the state."

[5:02:14 PM](#)

DAMON JACKSON, Police Officer, Anchorage Police Department, stated that he is a PERS Tier IV police officer and works the swing shift patrol at the Anchorage Police Department. He explained that he is also a Staff Sergeant in the Alaska National Guard. He provided a brief history, explaining that he was born in Los Angeles and started his career there. He said he loved his job but could not complete education due to his schedule. He joined the U.S. Air Force, completed his degree, as well as obtained a Master's degree in Human Resource Management. After ten years of service he was deployed to Kuwait. He move to Anchorage in 2004, and joined the APD in November 2007 but was not aware that he had DC plan and not a DB plan. He related that with a single family income and two special needs children that it is especially important for him to have a DB plan. He opined that the current DC plans place he and others like him in tough positions. He emphasized that the military took care of us. He offered his belief that a change in the retirement system would show support for law enforcement.

[5:04:59 PM](#)

JAMES DOKKEN stated that he is a Tier IV PERS employee, employed by the APD, and is a member of the Anchorage Police Department Employees Association. He has resided in Alaska five years, served in Iraq, and decided to remain in Alaska when his service was completed. He applied for the Anchorage Police Department and completed their academy. He said, "I felt I wanted to contribute my skills to a more local standpoint than in the [U.S.] Army, and I felt that Anchorage was a great place to work." He liked the community. He recalled testimony today and the main argument to return to a DB plan is the cost to the

state. He further recalled last week's testimony that there is a cost with a DB plan, but it provides more at retirement. He expressed concern that a 401(k) plan will not secure his future, and he will have to reevaluate his position. He opined that if he leaves Alaska to acquire a better pension that it is unlikely he would return since it is isolated. He related one reason people work as teachers, firefighters, and police officers is for the security. However, a DC plan will not provide security without raising salaries. He opined that a DC plan will attract the wrong kind of people to public service. He offered the goal should be to attract people who want to return something to their community after retirement. He recalled another reason for a DB plan is for stability as retirees spend in the community. He thanked members of the committee.

[5:09:22 PM](#)

LAWRENCE WEISS, Executive Director, Alaska Center for Public Policy, stated that he a Tier I retiree in TRS. He related that he formerly taught at the University of Alaska Anchorage. He related he wanted to discuss the approach many people have taken with respect to a DB plan. He recalled that Mr. Semmens used the concept of unfunded liability frequently. He offered his belief that this method of viewing the pension plan obscures the facts and the actual status of the plan. He characterized that approach as a means of framing the issue as a scare tactic. He described another way of viewing the issue. When a person buys a house he/she owes \$500,000 in a 30-year mortgage. He/she could develop heart palpitations because he/she earns \$70,000 per year and there is no way to come up with the \$500,000 to pay off that "unfunded liability." However, you owe \$500 thousand over 30 years, which comes out to a planned payment of \$2,000 per month. He stressed that the only way to feel good about taking out a mortgage is to look at the entire 30 years, not just the "unfunded liability" at one point in time. He offered his belief that unfunded liability is similar to pensions since they must be analyzed over 25 to 30 years in order to really understand what they mean. He said, "In fact, the definition of unfunded liability is the amount by which the liabilities of a program exceed program assets at a given date. The last phrase is very important. What will the unfunded liability be in 10 years, or 20 years, or 30 years when perhaps it will be paid off, he asked. Actuaries can tell you that, and it is far more useful information than harping on the unfunded liability at one point in time, particularly at this point in time. It really does not carry the conversation forward in a productive way." He provided an example. He asked to quote a note sent to him by

a colleague who was close to the actuarial reports that were issued at the time.

5:12:38 PM

MR. WEISS said, "She says, Proponents of [Senate Bill] 141", of course, [Senate Bill] 141 is the legislat[ion] that got us to where we are now - destroyed the pension system. "Proponents of [Senate Bill] 141 should have done a bit more homework before imposing a defined contribution on new employees. They should have paid more attention to funding ratios rather than dollar amounts." By dollar amounts, of course she is referring to the unfunded liabilities. "For the 2005 valuation performed by the new actuary, Buck Consultants, the PERS funding ratio for total benefits was 70 percent. In 1979 the funding ratio was 68 percent - less - yet the funds recovered without Draconian measures." Thus, a crisis was framing the issue as an unfunded liability, a huge scary figure, rather than a funding ratio, with historical precedent, even here in Alaska. He opined that it really was not a crisis at all. He offered his belief that one additional way of viewing the cost is by evaluating the various tiers and what they cost. He read: "The PERS Tier III defined benefit employees are just slightly more expensive, according to Buck Consultants than the new defined contribution employees and the new TRS defined contribution employees are very slightly more expensive than the TRS Tier II defined benefit employees." This means that before Senate Bill 141 went into effect, before it obtained a defined contribution system, the problems had already been addressed.

5:14:40 PM

PAT LUBY, Advocacy Director, AARP, stated that lifetime financial security is a cornerstone of the American dream. He said, "If you work hard, follow the rules, you'll be able to retire without financial worries." AARP has a major concern. Most of our public employees do not participate in federal social security. He said, "You cannot outlive social security." He opined that in the past it did not matter so much that our public employees did not participate since they had a DB plan that would last as long as they live. However, now they are without a DB plan and social security. He said:

The American dream of a secure financial retirement no longer exists for Alaska's duly hired public employees. It is possible to make a defined contribution plan work for you as long as you don't

live too long. But, most of us will live into our mid 80s, many of us into 90s. If a defined contribution plan is to work for you, you need to know your life expectancy. If married, how long will your spouse live. Will you be healthy right up until your heart stops beating or will you need some form of long-term care? Medicaid does not pay for home health or nursing homes. You're responsible for that bill. What will inflation be for the next 20 years? Defined benefits and social security provide annual [Cost of living allowances] COLAs. The new DC plan doesn't. Will there be inflation in health care costs over the next 20 years? Any chance your utility bills will go up? What are the odds that fuel oil or natural gas may cost more? How about gasoline? You better have a crystal ball to make DC plan work. It is true that many companies switched from defined benefits to defined contribution plans over the past few years. But all of all of us who work in the private sector have social security. No matter how much or how little we save in 401(k)'s or [Individual Retirement Accounts] IRAs we will always have the defined benefit plan of social security that will last as long as we live. Our public employees used to have the same financial security before Senate Bill 141. No matter how long they lived, no matter what bad luck life circumstances dealt them, they would not starve. They would not end up on public assistance. AARP members rely on our public servants. They teach our grandchildren. They put out our home fires. They respond when we call for police assistance. We don't want these honorable public servants to help us their entire career, then worry about their health coverage and whether they will outlive their savings when they retire. They deserve better than that. Please support HB 30 and give them the security they deserve.

[5:17:37 PM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 30.

[5:17:49 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 5:17 p.m.