

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

February 12, 2009

1:34 p.m.

MEMBERS PRESENT

Senator Joe Paskvan, Chair
Senator Joe Thomas, Vice Chair
Senator Bettye Davis
Senator Kevin Meyer
Senator Con Bunde

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 1

"An Act increasing the minimum hourly wage, and creating an annual adjustment to the minimum hourly wage based on the rate of inflation; and providing for an effective date."

HEARD AND HELD

SENATE BILL NO. 23

"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: SB 1

SHORT TITLE: ALASKA MINIMUM WAGE

SPONSOR(S): SENATOR(S) WIELECHOWSKI, ELLIS, THOMAS, DAVIS,
FRENCH

01/21/09	(S)	PREFILE RELEASED 1/9/09
01/21/09	(S)	READ THE FIRST TIME - REFERRALS
01/21/09	(S)	L&C, FIN
02/05/09	(S)	L&C AT 1:30 PM BELTZ 211
02/05/09	(S)	Heard & Held
02/05/09	(S)	MINUTE(L&C)
02/12/09	(S)	L&C AT 1:30 PM BELTZ 211

BILL: SB 23

SHORT TITLE: REPEAL DEFINED CONTRIB RETIREMENT PLANS

SPONSOR(S): SENATOR(S) ELTON

01/21/09 (S) PREFILE RELEASED 1/9/09
01/21/09 (S) READ THE FIRST TIME - REFERRALS
01/21/09 (S) L&C, STA, FIN
02/12/09 (S) L&C AT 1:30 PM BELTZ 211

WITNESS REGISTER

SENATOR WIELECHOWSKI
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Sponsor of SB 1.

MARIE DARLIN, Coordinator
AARP Capital City Task Force
Juneau, AK

POSITION STATEMENT: Supported SB 1.

JACK AMON, owner
Marx Brother's Café and Marx Brother's Catering
Anchorage, AK

POSITION STATEMENT: Opposed SB 1 without a tip credit.

DAVE LAMBERT
Non profit Support
Fairbanks, AK

POSITION STATEMENT: Opposed SB 1.

BOB CARL
Restaurant owner
Wasilla, AK

POSITION STATEMENT: Opposed SB 1.

BRUCE BURNETT, owner
T.G.I. Friday's Restaurant
Wasilla, AK

POSITION STATEMENT: Supported SB 1 with a tip credit.

GLORIA BURCELL, restaurant owner
Fairbanks, AK

POSITION STATEMENT: Opposed SB 1.

TAMMY GRIFFIN, Chair
Alaska Hotel and Lodging Association

POSITION STATEMENT: Commented on SB 1.

DALE FOX, President and CEO
Cabaret Hotel, Restaurants and Retailer Association (CHARR)
Alaska Chapter

POSITION STATEMENT: Opposed SB 1.

LARRY HACKENMILLER
National Federation of Independent Business (NFIB)

POSITION STATEMENT: Opposed SB 1.

SENATOR ELTON
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Sponsor of SB 23.

MICHAEL LAMB, representing himself
Fairbanks, AK

POSITION STATEMENT: Commented on SB 23.

DANIEL GARCIA, Police Officer
Anchorage Police Department (APD)
Anchorage, AK

POSITION STATEMENT: Supported SB 23.

BRETT GILLAN
West High School teacher
Anchorage, AK

POSITION STATEMENT: Supported SB 23.

ACTION NARRATIVE

[1:34:48 PM](#)

CHAIR JOE PASKVAN called the Senate Labor and Commerce Standing Committee meeting to order at 1:34. All members were present at the call to order.

SB 1-ALASKA MINIMUM WAGE

[1:36:53 PM](#)

CHAIR PASKVAN announced SB 1 to be up for consideration.

SENATOR WIELECHOWSKI, sponsor of SB 1, said he would talk about issues brought up in the last Labor and Commerce meeting. He said a question was raised about the impact of increasing the minimum wage on small business owners and business in general.

This question was posed last year in this committee when the minimum wage bill discussed. An expert testified at that time by the name of Dr. Paul Wolfson of Dartmouth College, and he described a study by David Card from the University of California Berkley and Alan Kruger of Princeton University that examined fast food restaurants on either side of the Pennsylvania/New Jersey border, comparing employment before and after a minimum wage increase in New Jersey. That study found no evidence that employment in New Jersey declined after the increase.

SENATOR WIELECHOWSKI said that Dr. Wolfson also quoted Robert Solow, an MIT economist and Nobel Prize winner, who did similar research and concluded that the evidence of job loss is weak and that suggests that at the most job loss is small. Dr. Wolfson also talked about the work of Dr. Alan Blinder, a Princeton economist and former vice president of the Federal Reserve System, who after much study, stated "What's changed in the last 10 to 15 years is an accumulation of evidence that the employment problem is not very significant."

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SENATOR BUNDE said he mentioned that one report said poverty levels fell after the increase in minimum wage and asked if this bill passes and the minimum wage become \$8.74, would that bring Alaskan people above poverty level.

SENATOR WIELECHOWSKI answered yes; poverty level for a single person is roughly \$14,000/yr.; this will increase that wage by roughly \$1500/yr. or \$2000/yr.

CHAIR PASKVAN said there are three components to this bill: the rate, the cost of living allowance, and whether or not there is a tip credit provision.

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SENATOR WIELECHOWSKI explained that historically Alaska has always had a higher minimum wage than the federal minimum wage by about 0.50 cents. Prior to 2003, we were at 0.50 cents or \$1.00 above minimum wage. In July Alaska will be below the federal minimum wage for the first time in the state's history and we'll be 40th in the nation. This is one of the reasons he felt strongly about having some sort of an index that at least keeps us in line with the federal minimum wage. When this was discussed in 2003, Alaska's minimum wage was increased from about \$5.00 to \$7.15, and we were several dollars above the federal minimum wage. And it had little impact on jobs.

On the cost of living allowance, Senator Wielechowski said the problem we have is that costs for everyone increase every year, particularly for low income Alaskans, and we know since 2003 costs have increased dramatically for fuel and food. If the cost of living allowance adjustment been kept in, we would be at \$8.78 next year, and he wouldn't be here today. Now in going to \$8.78 people are saying that's too big of a jump. "And so, you are never able to keep pace with inflation with that circular argument."

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SENATOR WIELECHOWSKI said he didn't support the tip credit. "I don't support taking wages out of the pockets of hard working tip earners. It's not something I philosophically support; it's not something that is found in many of the west coast states, for instance." Washington, which next year will have a minimum wage at \$8.78, does not have a tip credit and neither does Oregon.

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SENATOR MEYER asked if most states have a tip credit.

SENATOR WIELECHOWSKI replied yes.

SENATOR MEYER asked if the federal minimum wage is tied to an index.

SENATOR WIELECHOWSKI answered no; the federal minimum wage has a stair-step approach to the point where in July it will be \$7.25.

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MARIE DARLIN, Coordinator, AARP Capital City Task Force, supported SB 1. She pointed out that Alaska's cost of living is the highest in the nation and it's becoming increasingly difficult to get by on the minimum wage. Seniors are having to go back in to these minimum wage positions, and that is another reason to support higher wages.

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JACK AMON, owner, Marx Brother's Café and Marx Brother's Catering, had serious concerns about how SB 1 would affect restaurants. While the intentions behind SB 1 are good, the benefit would accrue only to the highest paid employees because they are the servers and already make at least \$20/hr. in tips. While the perception is that a minimum wage increase would help back-of-the house employees such as dishwashers, the opposite is

true. Hourly rates are not their main source of income; what shifts they work are. It's more important than how long they work.

MR. AMON said he felt there is a lack of understanding of tipped income. The federal government has included a tip credit since the enactment of the Fair Labor Standards Act. It is required to be reported and is subject to matching FICA and ESC contributions. One-third of his taxable wage base is from tipped income. Nationally, restaurants net between 7-9 percent of gross sales; labor is a more significant expense comprising an average of 20-30 percent of gross sales. The impact of this legislation will be disproportionately borne by the restaurant industry, and "Saying the increased costs can be passed on to consumers is a fallacy. In these uncertain and troubling economic times, dining out is considered a luxury and increasing prices can directly lead to declines in business."

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CHAIR PASKVAN asked if one-third of his income base is from declared tipped income, where the \$7.15 fits in.

MR. AMON replied that \$7.15 is the wage he pays, but he is also required to pay matching taxes on his employee's tips. "It often happens that the tipped income is so great that employees generate a negative paycheck." Most servers make three times as much in tips as their minimum paid wage of \$7.15.

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DAVE LAMBERT, Fairbanks, said he contracts with nonprofits to raise money for them. The maximum price he can charge per item is fixed by state law; so he cannot raise prices. His employees survive on tips; he has employees at minimum wage who claim they make \$80,000/yr. There needs to be some way to credit for tips; 39 states have a tip allowance. He said he would like his job to be guaranteed inflation-proofed, too, and if they do that, they would do it for all state contracts, too.

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BOB CARL, Wasilla restaurant owner, said he employs 27 people. He has been hammered this past year by raising costs - a 30 percent increase in freight costs and utility expenses going through the roof - and he didn't know how he could bear an increase in labor costs. Eighty percent of his employees still live at home. You are not supposed to be able to live on the minimum wage; it is a learning wage. "Somebody's got to teach kids how to get into the workforce....accountability,

responsibility, how to report to a job." People get moved up as they become more proficient. A lot of these jobs are not intended to be career jobs; his industry can't pass the costs on and he has already absorbed other costs. He will likely eliminate 5-7 jobs if this passes. But if this ultimately drives him out of business, all 27 jobs will be lost.

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BRUCE BURNETT, owner, T.G.I. Friday's Restaurant, Wasilla, supported having a tip credit. He said it is misconstrued that Alaska has the highest cost of living; at least Hawaii and San Francisco are higher; also, 46 other states have tip credits. Fuel costs went up 30 percent last year and he is already working on a small margin. This bill would cost him 2 percent of his bottom line, and he would have to let one manager and others go if SB 1 passes.

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CHAIR PASKVAN asked what he has in mind in terms of tip credit.

MR. BURNETT answered that Texas and Florida have a minimum wage of \$2.13 for tipped employees and he would suggest starting with that. They should at least freeze wages where they are for the hospitality industry.

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GLORIA BURCELL, restaurant owner, Fairbanks, opposed SB 1. She said the wait staff are the only employees who make minimum wage and they are the highest paid in her establishment. It was already hard enough to get through the winter and she would have to cut jobs; there isn't any other way to make it.

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TAMMY GRIFFIN, Chair, Alaska Hotel and Lodging Association, said she is the director of operations for a hotel management company. She is a life-long Alaskan, and when she first started out in the industry she lived on tips, alone; she didn't get a paycheck.

MS. GRIFFIN looked at the Wage and Hour Division of the U.S. Department of Labor website that indicate on January 1, 2009 forty-three states offered a definition of tipped employees and a minimum dollar amount they can make so that no tipped employee would ever go below a minimum wage. Most states have specified \$20/hr.-\$30/hr. The 2007 Wage Watch Survey sponsored by the Alaska Hotel Alliance indicated there are literally zero job classifications within the hotel industry that are at or even

close to minimum wage other than tipped employees who are often the highest paid.

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DALE FOX, President and CEO, Alaska Cabarets Hotel, Restaurants and Retailer Association (CHARR), opposed SB 1. There is a national crisis out there, he said, and some people feel it has passed Alaska by. But he cited how all tourism bookings are down and said that retail sales are down to the lowest in years. Unemployment is the highest in five years and restaurants are seeing their seventh consecutive month of declines. Revenues are down significantly and expenses are up. He said most minimum wage earners in Alaska are tipped employees or young people who are growing job skills. He has heard from members that an average wait person in a restaurant earns \$40,000-\$60,000/yr. in tips alone. He asked them to consider inserting tip credits into SB 1.

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LARRY HACKENMILLER, National Federation of Independent Business (NFIB), said he is also a small business man. He opposed SB 1. He said he couldn't understand why in this particular bill, the sponsors are so against tipping credit, but they are using the poverty level as their argument to increase the minimum wage.

Economists made these statements in 2006 and they are probably the same ones who have been at the helm for the last three years; so he wouldn't put a lot of credit in that. He also stated that the consumer price index (CPI) is inflationary, and he didn't know why the minimum wage had to be connected to it. He would have to pay more Workers' Compensation (CPI) because that is based on gross salaries, along with more federal and state taxes. The only reason this came up is because the sponsors wanted to attach the CPI to the minimum wage years ago. When it comes to poverty level, you aren't dealing with the 7 percent that they say makes the minimum wage or less. Those economists are dealing with the 93 percent of workers who make good money and they have no idea of how to run a small business.

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CHAIR PASKVAN ended public testimony and encouraged letters and email on SB 1; he then held SB 1 for further work.

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CHAIR PASKVAN called an at ease at 2:15.

SB 23-REPEAL DEFINED CONTRIB RETIREMENT PLANS

[2:16:56 PM](#)

CHAIR PASKVAN called the meeting back to order at 2:16 and announced SB 23 to be up for consideration.

SENATOR ELTON, sponsor of SB 23, said this measure is exactly the same as it was introduced last year. He explained that four years ago a previous legislature passed and the previous governor signed SB 141 that created a new defined contribution (DC) retirement system for teachers in the TRS program and employees in the state and municipal program (PERS) into law. The plan shifted risk from the state to new and future teachers and public employees. One of the major impetuses for it was the existing unfunded liability in both plans of about 70 percent.

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He used the analogy of a family's unfunded liability being how much they have in their savings if the bank pulls their mortgage. Actuaries use the unfunded liability as a tool to control liability, but it is very rare that any plan is funded 100 percent. It is also important to note, Senator Elton said, that the unfunded liability problem is not fixed.

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SENATOR ELTON said it took a special session to get the DC plan through and the argument used was true on its face, but not quite so true in its application. Advocates of a DC plan said it would save the state money when compared to the defined benefits plans (DB) with an emphasis on the plural. He didn't disagree in comparing the new DC plan to the defined benefit (DB) plans. But it obscured a central fact that was very important to the debate. The debate should have been whether or not the DC plan saves the state and school districts money if compared to Tier III in the PERS plan and Tier II in the TRS plan. The answer to that question is no; it was probably a wash.

It's important to note, he said, Tier I - a "Cadillac plan" - has been closed for 20 years. New employees don't go into Tier I; they would go into Tier III. The employer cost for those new employees is essentially the same whether it's DC or the old Tier III; same for the TRS plan.

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SENATOR ELTON said it's important to note that the unfunded liability for a Tier I PERS person is 13 times that of a Tier III PERS person and there are almost exactly the same number of employees or retirees in the Tier I plan as there are in the

Tier III plan. This is what created the vast majority of the unfunded liability.

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It's also important to note, he said, that the 2005 debate was on employer costs - how much it would cost a school district or a municipality or the state government to contribute to a DC plan as compared to contributing to the old Tier III or Tier II plans. "And it's almost a wash; it was almost a wash then and it's almost a wash now."

SENATOR ELTON said the state has just received new numbers from Buck Consultants, actuaries, that demonstrate that the employer contribution for the PERS DC plan is slightly lower than the employer contribution for the old Tier III plan; for the TRS DC plan the employer contribution is slightly higher than the contribution that was made to the old TRS Tier II plan. He said that graphs and charts in the coming days would illustrate that they are talking about slight differences in cost - one slightly up and the other slightly down. But he also hoped they would read some of the verbiage that accompanies the charts. For instance a quote from the actuary says, "For both PERS and TRS the normal cost rate of the DB plan is less than the DC employer contribution rate."

They don't have to rely on just what the actuaries say, but there is experience elsewhere. A couple of states had gone to a DC plan well before Alaska did. Nebraska had a DC plan for 20 years and they went back to a DB plan because it was less expensive. West Virginia had a DC plan for teachers and they went back to a DB plan because it was cheaper.

SENATOR ELTON said he thought it was easier to have cost discussions today because they are now dealing with more facts, and the facts along with experiences elsewhere demonstrate that going back to a DB plan is not going to be expensive and they already know it doesn't do anything to lower the unfunded liability that the plans have.

A couple of minutes ago he said that savings to the state of the new DC plan was essentially a wash. His analysis when he said that was narrow because it spoke to the employer contributions to the new and old retirement plans only. But there are significant sometimes quantifiable losses the state incurs with a DC plan and he wanted to speak to two of them because they are easily understood and pertinent to the discussion: recruitment and retention.

He said that smart, talented, new employees tend to think ahead when they make a decision about where they are going to work, and what they are going to do, and who they are going to do it for. They can make a choice - they can work for the feds, for another state, or for municipalities outside the state of Alaska. And if they make that choice, one of the things they will consider is if they should work in Alaska where there is no DB plan or for a public employer that has two defined benefit plans. The first DB plan would be the one that is provided by the other public employers; the second DB plan would be the social security plan. "We're not competitive any more. Alaska has neither of those safety net defined benefit plans. So I think that does get in the way when a new person is deciding where they are going to go to work."

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He stated that the nub of this is retention - how to keep a new state or school employee on the farm once they are hired - and the new DC plan has created an incentive for them to leave. Because they can stay for five years; maybe they get to age 28; they're married; they want a family and they are starting to wonder how they can afford a house - in Juneau, for instance - but after five years he said:

We have made that decision for them to leave easier, because they can take the money they put into the defined contribution plan; they can take the money the employer put into the defined contribution plan; they can go someplace else outside the boundaries of the State of Alaska; they have a nice nest egg of money they can use as a down payment on a home and they can find an employer that will give them a defined benefit, give them two defined benefits - social security and what every other public employer around the nation does.

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SENATOR ELTON said he would anticipate a question based on arguments they no longer need to anticipate - it goes like this. PERS/TRS changes are complex and they deserve all the time we need to study and review, talk to professionals - it takes a lot of time. "Let's not rush." Sometimes this argument is made because it's easier to kill a bill than to pass a bill; it's even easier to kill a bill in 90 days than in 121 days. Sometimes the argument is used honestly and sometimes it's used by opponents, but it is flawed here on several levels. The first

is this bill doesn't create anything new; there is nothing in this bill that isn't already in law. This bill doesn't change Tier III; it just says new employees are going to Tier III if they are a PERS employee or Tier II if they have a TRS employer. "Nothing new," he said, "I mean the state is managing a Tier III and a Tier II plan for PERS employees and TRS employees." So that is one of the things that would mitigate against the argument of waiting.

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The second argument he said is this year they can talk about facts and figures. When the DC plan was passed in 2005, they were debating concepts. Now managers can actually say it's hard to hire because Alaska is not competitive - because we're not competitive on a benefits package - and we're unfortunately not competitive on wages in many cases, as well. So, they don't need to wait because they have facts and figures that can lead them to a good conclusion and support this bill.

Another argument that mitigates against the waiting approach is that it's not like they are starting the debate on this bill right now. This debate has happened outside the walls of this building for three years. It's happened in constituent meetings; it's happened during campaigns. It also occurred inside the building - this bill moved through two committees in the previous legislature.

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Finally, Senator Elton said, the fourth reason against the waiting argument "gets my goat." The take our time approach to getting back to a plan the state already has is that in 2005 the legislature adopted a DC contribution plan, and the Senate discussion and debate on that brand new plan, which wasn't prepared by an actuary or professionals - it was prepared by politicians - took 28 days!

I just leave you with this final thought. If we can adopt a radical brand spanking new pension plan that nobody else had - no other public jurisdiction had - if we can do that in 28 days, and I don't want to sound sarcastic here, but it may come across that way, it would seem to me that they can make a decision to utilize a pension plan that is already on the books, that we've had 20 years of experience with. We ought to be able to make that decision in two weeks. Let's not fall into the trap that this is complicated stuff - we're creating something new. We're not creating

anything new. We're just going back to a plan that we had for 20 years, a plan that doesn't cost employers more, a plan that doesn't inflate the unfunded liability, but also a plan that provides a secure and safe retirement. It provides a benefit package for retirees that won't die before they do. And I would suggest that that's very, very important because the retirement economy in the State of Alaska is a \$1.5 billion economy. Those are dollars that are spent in restaurants and drug stores, hospitals, car lots, to landlords, and we don't want to stick with a plan in which a brand new retiree says, 'Okay, this is a lot more iffy than a defined benefit package. Maybe I should live someplace where the cost of living isn't higher by a factor of 1.36 than it is in Anchorage, Juneau, Fairbanks, Kenai, MatSu and considerably higher than that in bush communities.'

SENATOR ELTON said that he and his staff, Jesse Kiehl, would answer questions.

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MICHAEL LAMB, representing himself, said he is CFO of the Fairbanks North Star Borough. He stated that he spent a great deal of time researching the two systems and the issues that got us into the unfunded state we are in now. He stated that neither the mayor nor the assembly have had discussions on the DB versus the DC plan; these are his own comments. He also stated that he has not talked with Senator Elton, but he concurred with a lot of what he said. He fully acknowledged that there are differing valid views on this issue.

He concurred with the recruitment and retaining employees comments in the sponsor statement for SB 23 and believed that it will become a bigger issue in the future as the boomer demographics changes continue to occur.

MR. LAMB said that most new public employees are put at greater risk as relates to their retirement capabilities using individual savings plans because these accounts earn much less than professionally managed pension funds.

Third, he agreed that oversight of the state's pension funds has been beefed up substantially with two actuaries and all the other systemic improvements.

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MR. LAMB said he wanted to make four points. The first point is that he would continue both plans. The development of both plans has been paid for, and they are both being maintained. In most instances the DB plan should be used, but sometimes it is beneficial to both the employee and the employer for a particular employer to enter into a DC plan. For example, many short term employees intend to be short term and those are better in a DC plan. When Melanie Milhorn was the director and Charlie Morrison was the CFO for the Division of Retirement and Benefits, they did analysis that showed within 15-17 years an individual was better off in a DC plan if they got out of a plan. Employees who actually retire from the DB plan and who could go back and provide service to employers once they retire should only be allowed to come back and be part of a DC plan.

His second point is that the cost to the employer for both plans is about the same - the DB might be cheaper depending on what year you are talking about. The FY10 normal cost rate is to be 9.46 percent for PERS as compared a DC rate of slightly over 10 percent. Further, in the DB plan, if an employee leaves before they are vested, the employer's contribution into the plan on behalf of that employee over their employment period remains with the plan.

Thirdly, he said, PERS created a short term problem, a mid-term and then a long-term issue. The short term problem, which they are all dealing with right now, really impacts budgets across the state because of increased costs that resulted from the very large past service cost rate - that part of the component that paid for and is paying for the unfunded obligation. The mid-term issue is focused around the entities' ability to actually be competitive in the market place and their ability to hire and retain employees to provide the programs and services that they are charged with delivering. Mr. Lamb said he believed we have been, and are now feeling the effects of, the hiring and retaining issue. "I believe that without reinstating a DB option, I am quite fearful that our abilities to hire and retain will only get progressively worse."

In the long term, decades, he really feared that not going back to a DB will surely create a situation where another huge component of our population will not be prepared for retirement and will, in the end, actually cost the government more to provide assistance to them than if the government had managed a DB plan on their behalf in the first place.

He said the underpinnings of his thoughts about this are analogous to the discussions that occurred several years when some wanted a portion of employees' pay to not go into the social security system, which is, in fact, a DB plan, but to be individually managed. He stated:

But recent times should have made abundantly clear that there are very few individuals that are knowledgeable enough, that are informed enough, that are disciplined enough that are long-term horizoned enough to set up and manage a multi-decade retirement plan with proper allocation of their assets. Should they have been disciplined enough to set aside a proper amount on a continuous basis throughout their lifetime, I'm fearful that even with a well-set-up DC plan, most individuals are, in fact, emotional investors, the result being that they'll be ill-prepared financially for retirement. A DB plan is a great equalizer for hard working persons who don't have the time, the knowledge or the inclination to diligently manage their retirement funds over decades.

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The fourth point he thought weighed on legislators' with regards to their decision about the DB versus the DC and that is that the existing unfunded liability issue is really not relevant in this decision. He reasoned:

For this position and statement to not be true - for what I said to not be true - one would have to be willing to argue that future normal cost rates are going to be set lower than they should be by the actuary.

The rate an individual employer pays as we know is comprised of two components, the normal cost rate and the past service cost rate. When the normal cost rate is set properly, there is no need for a supplemental past service cost rate. If normal cost rates had been set properly in prior years, there would be no past service cost component or it would be an immaterial amount and there would be no discussion with regards to PERS and TRS.

Essentially, the normal cost rate is set, and it's set properly, and we pay that amount throughout the year; it doesn't matter whether we end/stop service as an

entity and all those employees are gone, whether somebody retires or not. But if that amount is set properly, then the amount of funding that should be available in those future decades to provide the payments should be there.

The unfunded liability that drives this discussion so often - that in fact drove to a DC plan - which I think was - the analysis of what caused it I do not believe is correct - because the research I did came to the same conclusion as Senator Elton stated also - that if you go back and you look at the amount of unfunded obligations, they reside - the vast majority of them come from Tier 1 retirements, which also ended 20 years ago.

The unfunded liability which a lot of people thought about and I'm sure are going to be concerned about right now was not driven by investment problems. And many people believe that. The Callan & Associates conveyed on 10/20/06 to the ARM Board that PERS and TRS have achieved annualized full returns of 8.89 and 8.96 percent respectively. The expected rate of return on investments to pay those future benefits is 8.25 percent. And in the two years after Callan & Associates had done their analysis, the rates of return were, as I recalled, something like 17 or 19 percent. The Department of Revenue does an outstanding job, professionally managing the state's funds including the retirement funds. There is and I have it here and I could go through it if you wanted to, but there is substantial testimony that has been made to the legislature on the fact that the unfunded costs were really driven by actuarial - let me use the work 'miscalculations.' There is a report that was done by the Alaska Division of Legislative Audit in January 06 that stated the same thing. If you look at the lawsuit that was filed by the ARM Board against Mercer, it states clearly that they made - Mercer - here's what it - never left, made fundamental errors in methodology and even in basic calculations and failed to find competent experienced personnel.

The whole history of the unfunded obligation, which I'm fearful will become the lynch pin of where decisions get made of moving on and not moving on, really would never have occurred and really has no

impact on the future as long as the normal cost rates are correct. And as we talked about - I said in the very beginning - and as is noted in the sponsor statement - that Alaska has beefed up its oversight of the pension system. I have a lot of difficulty imagining in the near term, the next decade or whatever, that we are going to take our eyes off of what the actuary produces. And if that's the case, then we're right back to - does the DB plan cost more than a DC plan, which gets to the basic question of - is the normal cost rate higher than the DC cost. And the projection for next year for PERS, 9.46 percent, is lower.

So, in short, let me just restate that unless you believe the future normal cost rates are going to be set as irresponsibly as those brought forth by Mercer in the late 90s, the existing unfunded liability is not relevant to a DB versus a DC discussion.

[2:55:34 PM](#)

Again, I still believe that quite frankly - I've been a CFO for almost 20 years - that we have two tools that have been set up. They're established, they're maintained and in my world, we would have both available with a majority of employees going into the DB plan.

[2:56:36 PM](#)

CHAIR PASKVAN asked if he would be available on Thursday next week to discuss this bill.

[2:56:58 PM](#)

DANIEL GARCIA, Police Officer, Anchorage Police Department (APD), supported SB 23. He supported Senator Elton's comments and said his concerns are all the same as his. He related his personal story that he came to Alaska in 2005 as a law clerk for a superior court judge in Anchorage. He was a temporary full-time employee so he wasn't in PERS at that point - although he was paying into SBS. When he concluded his clerkship in August 2006, he went to the District Attorney's Office where he was an assistant district attorney. So he was Tier IV by 1.5 months. He went to the APD in November 2007 which is where he is now. He said the Anchorage Police Employees Association has approximately 100 Tier IV members. His academy class graduated 25; 23 of those were Tier IV. He'll vest in 2.5 years and at that point he will have 3.5 years of police experience. He could

take that experience with the law degree, licensed in Colorado and Alaska, as Senator Elton said, to the feds - to anywhere. He loves Alaska; he is starting a family here; he doesn't want to leave, but he may be forced to.

SENATOR BUNDE said he understands that police officers are actually coming to Alaska because of the economic downturn in the Lower 48 and that the APD has plenty of applicants of experienced police officers.

MR. GARCIA said he had a meeting in Anchorage a little while back where a sergeant who is the director of recruiting testified that recruiting for APD has "gotten more and more difficult as Tier IV has come into effect." There are a lot of applicants, but qualified applicants is a different story.

SENATOR BUNDE asked if the news account was inaccurate that the APD is hiring experienced police officers from the Lower 48 because they are looking for jobs.

MR. GARCIA answered yes.

3:00:48 PM

BRETT GILLAN, West High School teacher, Anchorage, said that teacher recruitment especially in the fields of math and science is incredibly difficult. He guaranteed that within 10 years if he doesn't have defined benefits, even though he loves Alaska, he will take the money he has invested and go somewhere that will give him a safe retirement. He sees more and more of what he thinks of as mercenary teachers who come up for five years; then leave to spend their money somewhere else where they can have the surety of a defined benefit retirement. "And then they can use your money to see if they can make some on top." It is bad for the state's finances and it is an awful trend for the state's schools where, "You lose your leadership."

3:03:01 PM

CHAIR PASKVAN thanked all the people who testified today and held SB 23 for further hearings and adjourned the meeting at 3:03.