

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

February 19, 2009

1:30 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. 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 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
02/12/09	(S)	Heard & Held
02/12/09	(S)	MINUTE(L&C)
02/19/09	(S)	L&C AT 1:30 PM BELTZ 211

WITNESS REGISTER

MICHAEL LAMB, representing himself
Fairbanks, AK

POSITION STATEMENT: Supported both the DB and the DC plans since they are both set up and working.

PAT SHIER, Director
Division of Retirement and Investments
Department of Administration (DOA)
POSITION STATEMENT: Commented on SB 23.

KEVIN BROOKS, Deputy Commissioner
Department of Administration
POSITION STATEMENT: Commented on SB 23.

JOHN CYR, Executive Director
Public Safety Employees Association
POSITION STATEMENT: Supported SB 23.

LYDIA GARCIA, Executive Director
National Education Association Alaska (NEA)
POSITION STATEMENT: Supported SB 23.

JERRY PATERSON, representing himself
Juneau, AK
POSITION STATEMENT: Supported SB 23.

DOUG MOLLINEAU, representing himself
POSITION STATEMENT: Supported SB 23.

PENNY VAVLA, representing herself
Soldotna, AK
POSITION STATEMENT: Supported SB 23.

JOHN BROWN, representing himself
Fairbanks, AK
POSITION STATEMENT: Supported SB 23.

PAUL ORTNER, representing himself
POSITION STATEMENT: Supported SB 23.

CARL ROSE, Executive Director
Association of Alaska School Boards
POSITION STATEMENT: Supported SB 23.

PAT LUBY, Advocacy Director
AARP
POSITION STATEMENT: Supported SB 23.

JIM DUNCAN, Business Manager
Alaska State Employees Association Local 52 (ASEA)
POSITION STATEMENT: Supported SB 23.

ACTION NARRATIVE

[1:30:51 PM](#)

CHAIR JOE PASKVAN called the Senate Labor and Commerce Standing Committee meeting to order at 1:30 p.m. Present at the call to order were Senators Meyer, Bunde, Davis and Paskvan.

SB 23-REPEAL DEFINED CONTRIB RETIREMENT PLANS

[1:31:42 PM](#)

CHAIR PASKVAN announced SB 23 to be up for consideration.

MICHAEL LAMB, CFO, Fairbanks North Star Borough, said that his comments expressed today are his own and that the Borough had not yet taken a position on this issue. He summarized his previously stated position that he thinks both the defined benefit (DB) and the defined contribution (DC) plans should be continued since they are both set up and working; and the unfunded liability issue is not relative to the argument either way. He asked for questions.

[1:34:55 PM](#)

SENATOR BUNDE asked if adding more people to Tier II TRS and Tier III PERS would expand the liability.

MR. LAMB answered no; if a new person entered the Tier III system, he would have no prior obligation attached to him and for any of the benefits he would be earning in the next fiscal year, the normal cost rate should be applied to his salary. If the rate is correct, that person should not have one impact on the unfunded obligation.

SENATOR BUNDE asked if he had calculated the impacts that would have on the employer.

MR. LAMB answered that as a CFO, he does care about money, but in addition to that, he needs to be able to attract the personnel to fulfill his professional obligations. When he compares the cost of the DC plan to the DB Tier III plan, the dollars are about the same. In fact, in fiscal year (FY) 2010, the DC plan is slightly more than the DB plan at \$9.46. A Buck Consultant letter to Mr. Shier, dated February 12, showed the DB rate going up slightly more in 2011 than the DC rate. One of the questions he had about that analysis is that the rates were not based on total payroll and the current rates are.

He continued saying that all in all, when he sees the DB and DC figures being very materially close, he then worries about the cost to train and retain people who leave and those are hard figures to quantify when you're just talking about rates. Whether or not an employee takes a position or stays in a position based upon whether they are getting a DB or a DC plan also has an impact. The short answer to his question is that the numbers do matter, but only presuming a Tier III rate for the employee with no past service cost component versus a DC component.

SENATOR BUNDE said his ongoing challenge is that a dollar available for benefits isn't necessarily a dollar available for salary.

[1:39:52 PM](#)

CHAIR PASKVAN asked Mr. Lamb to expand on an employee's ability to manage his own money.

MR. LAMB responded:

I simply believe that the reality is that most individuals are not capable or qualified or diligent in setting aside the money that they should properly diversifying that money, then through up and down cycles not to be an emotional investor that buys and sells based on emotion rather than long term.

Put another way, he said if an employer puts a dollar into a DB system managed by professionals or a DC system that is managed by the employee, in 20 or 40 years, he believed that the pile of money that would be available to cover retirement and pension costs would be larger in the DB pile than it would be in the DC pile. There is no way that average citizens who have enough struggles and other things taxing their time are going to be capable of getting the same returns as a group of professionals who have a larger portfolio that can allow for greater diversification.

MR. LAMB said the DB plan is better because it's more strategically managed and the money is eventually made available on a monthly basis for that retiree in a methodical way - versus a DC plan where that retiree can get to the money whenever circumstances in his life dictate he thinks he needs it. He would not be as disciplined in limiting the drawdown of those funds.

1:43:53 PM

SENATOR BUNDE said Mr. Lamb just insulted about 75 percent of the people in Alaska and less than 30 percent of the people work for the state. People in private enterprise make these decisions every day. If they follow his logic, the state should cover everyone's retirement in the state because they aren't capable of making good decisions.

MR. LAMB responded that he did not intend to insult anyone. He clarified that he was trying to say "the Department of Revenue wins hands down in terms of being the better investor" in comparing a system where individuals make their selections for their investments versus having them professionally managed. Several years ago the social security system, a DB system, was also discussed nationally and the question was asked whether some of the money should be set aside for individuals to manage themselves, and the conclusion was the same. He wasn't being disrespectful, but the reality is that the general population does not have, nor should they be expected to have, all of the training necessary to understand investment markets and the discipline.

Also, he pointed out that others who don't work for the state will have the benefits of a social security benefit plan as one of their legs on their retirement stool. His concern, long term, is that another large segment of our population becomes not quite as prepared at retirement because they are not in a DB system; and at some point, governments generally end up stepping in to help.

CHAIR PASKVAN said he didn't perceive disrespect in Mr. Lamb's comments. He asked why he thought it appropriate to retain both systems and who would be best suited to a DC system.

1:47:20 PM

MR. LAMB answered that great regard needs to be given to creation of the DC plan and the work that was done on SB 141. Time has shown they are two great plans. There remains a place for both plans as demographics continue to shift, boomers retire and the population gets smaller. The difficult task would be having the legislature carve out under what circumstances a potential employee would invest in the DB versus the DC plan.

He said some people have retired out of the DB system and there could be a very legitimate need to get them back for one or two years; a DC plan would be perfect for them. They shouldn't be

allowed to go back into the DB plan because all the circumstances regarding the benefits have to be addressed. He said the state has 70,000 retired military, about 10 percent of the population; and the military basically has a DB program. He remarked that it would be great to have the option to have those people who have been trained, who have a good work ethic, and all the things that go with retired military enter into a system for a short-term period and offer them a DC plan where they are going to be slightly better off than in a DB plan.

[1:50:52 PM](#)

CHAIR PASKVAN asked him if the DB plan has met its expectations in terms of rate of return.

MR. LAMB replied that he has great accolades for the Department of Revenue (DOR) that according to Callan & Associates, over the last 14.75 years, has achieved at total annualized rates of return of 8.89 percent and 8.96 percent for PERS and TRS respectively. The rate of return the systems have to achieve to serve the normal and past service costs is 8.25 percent. So in the long haul, the average rate of return is over the 8.25 percent point and any return over that goes to help reduce the unfunded obligation.

He recalled that 60 or 70 percent of the money that is actually used to pay pension benefits comes from investment earnings over the life of those monies and not from the actual withholdings from employees' pay. Historically, and before Callan's 2006 report, the rate of return was slightly over 9 percent.

[1:54:15 PM](#)

CHAIR PASKVAN asked him to comment on the unfunded liability related to the Mercer litigation.

MR. LAMB said that the legislature had heard a lot of testimony on this since 2005 and in the end, state documents indicated there were errors in the actuarial calculation, especially for the medical calculation. The normal cost rate was seriously understated; but what's worse is that Mercer actually advised the legislature in early 2000 to expand health care medical benefits five more years as a way to get the funding down to 102 percent. However, Senator Elton said in his sponsor statement that a lot had been done to correct that problem.

MR. LAMB summarized again that investments are an animal onto themselves, and they are critical for peoples' retirements. He concluded that most of the general public is not qualified to

invest like professionals and he didn't mean that to be an insult.

SENATOR BUNDE waved a letter from Buck Consultants [February 12, 2009] to Mr. Shier saying he wanted Mr. Shier's version of it.

[1:59:09 PM](#)

SENATOR JOE THOMAS joined the committee.

PAT SHIER, Director, Division of Retirement and Investments, Department of Administration (DOA), said the letter shows the differences in ongoing plan costs for all the tiers. A normal cost rate of 10.95 percent for PERS Tier III DB plan and 9.23 percent for Tier IV; under TRS tier II the DB plan was at 8.96 percent compared to 11.4 percent for the DC plan. Those are the normal costs based on the draft actuarial evaluation reports, which haven't been presented to the ARM board yet.

CHAIR PASKVAN asked what that means for a true Tier III analysis as opposed to a blended cost analysis of Tier I plus Tier II plus Tier III.

MR. SHIER replied these are simply normal costs; they don't contemplate the past service cost. SB 123 and SB 125 spread the DB past service cost assessment across the entire payroll. The DC contributions area calculated only on the DC payroll. Because the DC payroll is used to help collect money from employers to pay off the unfunded liability, they wanted to make that distinction. Once the liability is paid off, the DC plan is fully funded; there is no further obligation to the state or other TRS or PERS employers in the future. But, the DB plan might accrue additional liabilities in the future depending on fluctuations in health care costs, mortality tables and investments.

CHAIR PASKVAN asked if he would anticipate any unfunded liability going forward, assuming a normal cost rate were to be adequately set over the long term.

MR. SHIER replied no.

[2:03:40 PM](#)

SENATOR BUNDE said they had that assumption before getting into trouble before. He asked why there was a difference in past service adjustment (PSA) and the numbers that Buck Consultants came up with and if those figures included the ongoing medical costs and potential medical costs for retirees.

MR. SHIER replied the employer contribution to the DC PERS plan is 5 percent plus disability and the medical health reimbursement arrangement (HRA); it's 7 percent in the TRS system. Those rates don't include any contemplation of past service costs for medical, but they do include a levy of about .85 percent for future medical costs. He said it's often misunderstood that the health plan going forward into the new tiers is actually a DB health plan with a health reimbursement arrangement attached. In other words, the .85 percent is the normal cost rate going forward that the actuary says is enough to fund the employer-provided health plan, which has a feature of cost sharing in it that even retirees have to pay a portion of the premium going forward.

[2:05:47 PM](#)

CHAIR PASKVAN said he understands litigation has commenced against Mercer relating to some actuarial computations and he asked if the unfunded liability is a cause of miscalculations by Mercer as compared to a fault in the concept of the plan.

MR. SHIER replied that he hadn't read the allegations in the case so he couldn't comment.

SENATOR BUNDE asked why there is a significant difference between the medical normal cost rates under both plans, because it appears to be the most expensive part of the package.

MR. SHIER answered that is an accurate observation. The most recent DB plan requires a relatively short term of service in the system in exchange for coverage of health care from age 60 on; five of those years are prior to the advent of Medicare becoming primary - a very significant issue. An individual can work in the state for 10 years and leave, but under the new tier the state is not on the hook for their health plan. They have to stay longer and retire out of that system in order to gain access to that health care plan. Part of that is reflected in the much lower normal cost rate for health care going forward.

[2:08:13 PM](#)

Part of it also is that the old tier plan has a low deductible and that won't be adjusted going forward. The new tier, on the other hand, has the flexibility to introduce some elements of cost sharing; those are very powerful drivers in terms of cost.

SENATOR BUNDE wanted him to clarify why the cost of health care couldn't be changed.

KEVIN BROOKS, Deputy Commissioner, Department of Administration, explained that the reason the state has multiple tiers is because the Alaska Constitution doesn't allow a "diminishment" of that retirement benefit. That is why the new tiers are prospective for new employees going forward.

[2:10:25 PM](#)

CHAIR PASKVAN asked him if the unfunded aspect is related to an actuarial miscalculation.

MR. BROOKS said actuarial evaluations are based on 25 separate variables ranging from earnings and health care assumptions to mortality tables. Since this is active litigation, he couldn't address it publicly. The Department of Law (DOL) has hired contract attorneys to address the Mercer case.

SENATOR BUNDE asked if this bill passes, would we simply go back to the existing tier.

MR. BROOKS said that is his understanding.

[2:13:01 PM](#)

JOHN CYR, Executive Director, Public Safety Employees Association, supported SB 23 and returning to a DB program. Anecdotally, he said they have been collecting information from members who are in Tier IV who are absolutely considering leaving public service when they get their five years in and taking what they have and going outside where they can insure their families.

MR. CYR asked if they had considered the sheer cost of training and the expertise they lose when someone leaves, especially police officers. It takes somewhere around \$150,000 to put a new recruit through the academy, doing field training and keeping him on the force for just a year - so he is off probation and minimally competent.

SENATOR THOMAS asked if he had collected statistics on these folks that have moved out.

MR. CYR answered that he didn't have the exact numbers.

SENATOR BUNDE asked if he would agree with Mr. Lamb's theory that state employees need government to monitor their investments.

MR. CYR remarked that it's clear in looking at his 401K that he can't monitor his own investments.

2:16:53 PM

LYDIA GARCIA, Executive Director, National Education Association Alaska (NEA), said less than one month ago, the annual assembly for NEA convened and over 450 educators and school employees from across the country came together to establish their priorities and returning the state to a DB system is their number one priority for many of the reasons they heard earlier. The Association held a number of forums across the state attended by over a thousand Alaskans and over a dozen lawmakers. During those opportunities, many state and municipal workers related what it will take for them to consider staying in the state, and it will take having a future they can rely on.

2:19:34 PM

She said that Alaskan school districts still hire 70 percent of their teachers from the Lower 48 and that number has remained constant over a decade. It costs roughly about \$12,000 to train a new educator, she said, and Alaskan districts are spending over \$8 million a year to train teachers from outside the state. So, they should be looking at every way possible to retain these educators here and have them here for longer than just an "Alaskan experience."

She said turnover has definitely accelerated even though it has always been high. Yesterday she heard the University of Alaska speak powerfully about teacher retention and recruitment. They talked about the fact that they graduate only about 30 percent of the teachers here and that they want to do everything they can to keep Alaska's teachers in the state.

2:21:16 PM

JERRY PATERSON, representing himself, said he and his wife are retired teachers, and how his wife worked post-election as a substitute for another person. When she got her check, it had a mandatory deduction of \$24 for the retirement system. They were told it was mandatory because the state doesn't use federal social security. To get her money out, she eventually had to fill out eight pages of paperwork and have both their signatures notarized. She ended up having \$35 in expenses deducted from her final check and paying a \$7.77 separation from service fee. Had she been under the old DB plan, she could have applied and gotten her \$24 contribution back. He observed that the only happy people are those who are collecting the fees and urged the committee to pass SB 23.

[2:25:04 PM](#)

DOUG MOLLINEAU, representing himself, said he is a fisheries biologist in the Alaska Department of Fish and Game (ADF&G). He is also a member of the supervisory unit of the Alaska Public Employees Association. Since 1989 his work has focused on the Kuskokwim area salmon fisheries, an area that accounts for half the statewide annual subsistence harvest of King salmon. It also supports commercial salmon fisheries, which are poised to expand with the development of a new fish processing plant. Salmon are also by-catch in the lucrative Bering Sea pollock fishery, and concern over that by-catch threatens costly restrictions on the pollock fishery. A quality salmon monitoring program has been developed that allows them to emerge from a cautionary management style to better optimize commercial harvest and to avoid unnecessary restrictions. Their ability to implement and maintain that program is at risk now, because they are having difficulty in recruiting, training and retaining staff to build and maintain the institutional knowledge needed for long-term effectiveness. There are multiple reasons for the recruitment and retention problem, but one of the big ones is the Tier IV PERS, which fails to provide a guaranteed pension to new employees. The recent plummeting of investment values under Tier IV makes the shortfall all the more poignant.

A common scenario for them is to hire someone, increasingly a non-resident, provide him or her with training, and then after a few years, lose him to a more lucrative position in the federal or private sector. Recruitment is also a problem; in the past few months key positions such as the regional supervisor, Yukon area research biologist, multiple bio-nutrition and fishery scientist positions all have had recruitment periods spanning months with multiple extensions and nation-wide advertisement - and still they get an insufficient hiring pool. He has observed the problem getting worse since the inception of Tier IV. "New and perspective employees are just not satisfied with what the state of Alaska is offering. Tier IV is not the only problem, but it's a big part of the problem."

SENATOR BUNDE asked if state salaries are competitive.

MR. MOLLINEAU said combined with the poor retirement plan, it is one of the big three issues.

[2:28:31 PM](#)

SENATOR THOMAS asked who hires in his department. Is it done internally?

MR. MOLLINEAU replied yes; the department uses its own process. They advertise a variety of ways through professional organizations, the American Fisheries Society, biometrics publications and organizations, but they have found they need more of those. In-house hiring through Workplace Alaska has not been adequate.

SENATOR THOMAS asked if the department is alarmed at those statistics along with the much longer timeframes for hiring.

MR. MOLLINEAU answered that he personally doesn't keep statistics, but he assumed the Department of Administration would. His experience, and it's a common discussion point among his colleagues in the supervisory unit, is that this has been an ongoing problem and seems to be getting worse.

[2:30:47 PM](#)

PENNY VAVLA, representing herself, Soldotna, said she is on the school board there and supported SB 23. It's really important that the state be able to attract and retain quality teachers to continue promoting a quality education for all students in Alaska. The cost of training and retraining teachers is very expensive and she firmly believed that the state is losing some of these quality teachers because of the DC system in Tier IV.

[2:33:03 PM](#)

JOHN BROWN, representing himself, Fairbanks, supported SB 23. The cost/benefit ratio of retention is just undisputable, he said. Just the fees for the DC plan are 6-7 percent more than the DB plan. He urged them to try to find anyone who has retired on a DC plan that they earned from their employer, because "it doesn't happen." Providing a DB plan is also the right thing to do for people who have dedicated their whole lives to the service of the state.

[2:34:47 PM](#)

PAUL ORTNER, representing himself, said he is the Quality Improvement Coordinator for the Alaska Psychiatric Institute (API). He said he had worked there for 12 years because he believes in its mission and commitment to provide the most progressive acute psychiatric care available. Recently, US News and World Report ranked API 26th nationally on its list of best psychiatric hospitals - an astounding accomplishment for any state hospital. However, he said, "The ability to maintain that level of care is being severely challenged by the defined

contribution retirement plan that the state now offers new employees."

He said resources that could otherwise be used to provide high quality psychiatric care are being shifting toward recruitment and retention costs. Instead of finding qualified applicants, the hospital is being forced to find lower quality employees with little or no experience who need training to do their job adequately, an additional burden to the hospital. But, he said, "Unfortunately that just provides them the experience to leave state employment when they realize they have no retirement future."

Another point he made is that the hospital's education department has a limited ability to maintain or increase staff competency as their resources become overwhelmed with constant new-hire orientation. Nursing positions are constantly turning over. Some real examples of how unattractive state employment has become can be seen in several areas: nursing vacancies were at 16 percent in the last quarter, four newly hired nurses are straight out of college and it isn't likely the hospital will retain them once they become experienced. After months of a vacancy, the hospital was finally able to hire a health information manager by lowering the position's qualifications. That person is now trained and certified, but she probably won't stay beyond three years because opportunities are better elsewhere.

MR. ORNTER stated that the safety officer's role in the hospital is critical and that position remains vacant; it used to be filled internally as people moved up in the organization. "No one is moving up, because no one is sticking around." Only two of the hospital's six licensed independent practitioner positions are filled; this forces the hospital to contract with temporary licensed independent practitioners at a much higher cost, and orienting this rotating group eats up valuable staff time. API will soon be on its third human resource manager, a job that is becoming increasingly difficult to fill without a secure retirement program. All these challenges impact the hospital's ability to provide quality patient care.

[2:39:37 PM](#)

SENATOR BUNDE said API has been struggling to keep staff as long as he has been here.

MR. ORTNER responded that he had been with API for 12 years and he has seen considerable change in the hospital's ability to

retain staff in that time. Just today he talked to someone about two new, young, social workers who are doing great work, but who won't stick around without a defined retirement system. He agreed that while nursing has had a consistent rollover of staff, it hasn't been as high as it is now and this leaves the hospital open to liability, especially without a safety officer.

[2:41:22 PM](#)

CARL ROSE, Executive Director, Association of Alaska School Boards, supported SB 23. The members think being able to attract and recruit quality teachers is important, and a previous teacher-tenure conversation with the legislature identified four important areas to consider in this respect: quality, performance, accountability and fairness. The issue of fairness is the one that is paramount here. They already have some good employees, but the districts need to attract more. "So, I would ask you to consider as you look at this piece of legislation. It's the value that it brings; it's the incentive that it will cause. It's the quality they we're trying to attract." Who would see the value in a DB plan if it included the unfunded liability? People look at the whole package.

[2:43:53 PM](#)

SENATOR BUNDE said he understands that teacher recruitment is difficult throughout the entire United States.

MR. ROSE replied yes, it is.

CHAIR PASKVAN asked if he believed that recruitment is more difficult with the DC plan.

MR. ROSE replied that after November 2008 it became more difficult. Sometimes young folks didn't care much about retirement plans, but that is not a good reason to offer an insufficient one. In one way, we take advantage of youth in offering them employment here, he said, because 5 or 10 years hence they figure it out and the incentive really is there to take their money and move. He didn't think anyone thought about it when the DC plan was created, but that is the case now.

SENATOR THOMAS asked if the Association of School Boards keeps statistics.

MR. ROSE replied that the Association doesn't have those kinds of statistics, because this is a fairly new event for them. The real impact has come as a result of the downturn in the economy. They have always had some difficulty recruiting into Alaska

based on the salaries, but the total package is becoming an increasing disincentive.

2:47:06 PM

SENATOR BUNDE asked if he heard what Mr. Lamb said that a majority of the funding really comes from investment returns rather than contributions; so the down market would certainly affect the money that is available for defined benefits. And the state is required constitutionally to make that up and with a finite amount of dollars, he asked if it is reasonable to assume that those dollars would come from some other area of state service.

MR. ROSE answered by saying one of the issues here is market performance, but a DC program also has a larger contribution, as well. "So, I don't think they are mutually exclusive. But absolutely the performance of the market is going to affect almost everything we do and it will affect the defined benefit program, but it also has that depressing effect on the defined contribution program, as well."

2:48:29 PM

PAT LUBY, Advocacy Director, AARP, supported SB 23. He said lifetime financial security is a cornerstone of the American dream. AARP's major concern is that most of its public employees and retirees don't participate in the social security system. In the past it didn't matter so much that our public employees did not participate in the social security system; they had a defined benefit plan that would last as long as they lived. "But now they have no defined benefit and they have no social security. The American dream of a secure financial retirement no longer exists for Alaska's newly hired public employees."

MR. LUBY said, "It is possible for defined contribution to work for you as long as you don't live too long." Most people will live into their mid-80s or 90s. With a DC plan you have to know your life expectancy and if married, how long your spouse will live, if you will be healthy right up until you stop breathing or if you will need long-term care, home care or a nursing home. Medicare doesn't pay for that; you have to pay for that yourself.

He asked if anyone knew what inflation would be for the next 20 years. Defined benefits and social security provide annual cost of living increases; the new DC plan doesn't. Health care costs will also have inflation over the next 20 years.

[2:50:26 PM](#)

He said it's true that many private companies have switched from DB to DC plans over the past few years, but all of those who work in the private sector also participate in social security. They are guaranteed a check as long as they live. Alaska's public employees used to have the same financial security before SB 141. AARP members rely on public servants; they teach, put out fires and police respond. They deserve more than outliving their retirement.

In response to Senator Bunde, Mr. Luby said, it isn't about Big Brother. It's about using expertise. Every private pension plan has professional managers and the professionals managing the DB plan are making about 10 percent more than members in the DC plan even over the economic downturn. "So, professional management is really critical if we're going to maximize our investments."

SENATOR BUNDE said he didn't disagree, and that professional management is available to anyone who wants to purchase it. He asked Mr. Luby if he really thought social security was a defined benefit; it might be around for our lifetime, but maybe not for our great grandchildren.

MR. LUBY responded that social security is fully funded until 2042. Changes are needed, but people have to make sure that the promise of social security is there. "Social security is a family protection plan, not just a retirement plan," he said. A third of those checks in Alaska go to children, disabled folks and spouses of folks who have died or become disabled themselves.

[2:53:31 PM](#)

JIM DUNCAN, Business Manager, Alaska State Employees Association Local 52 (ASEA), supported SB 23. He stated that Senator Bunde wasn't in this Body when the retirement system was moved from Tier I, to Tier II to Tier III, but he was. Contrary to what some folks may think, it is okay to continue to evaluate the programs that are in place to see if changes need to be made to allow them to work more efficiently and more effectively for those who they serve.

MR. DUNCAN said he was the sponsor of the Tier II legislation. They held to four important principles in changing the defined benefits plan and he asked them to consider whether or not the DC plan meets those four principles. One is does it provide a secure pension upon retirement; the answer is no. Secondly, does

it provide adequate medical coverage for retirees; and the answer is no. In fact, the answer to Senator Bunde's question about why the cost of the DB plan for PERS and TRS is so much higher than for Tier IV that the DB plans do contain medical coverage. The DC plan has minimal medical coverage. In fact, when the bill was passed two years ago, it was estimated that those folks who did access their medical care at 60 years of age would deplete that within two years, and the next three years before they reached Medicare age they would not have medical coverage.

He said the third principle they always considered is answer what it does to the state's ability to recruit and retain employees, and it's clear in his mind that they tried to maintain this principle in Tier I, Tier II and Tier III. It is clear that the DC system does not do that.

People have asked for figures showing that to be the case, but he has listened to the problems teachers and troopers are having with recruitment; he knows that two years ago the turnover rate in his unit of 8,500 people was 20 percent/yr., and now it's over 30 percent/yr. He also knows that recruitment of positions in his general government unit is becoming more and more difficult. One of his retiree members talked to him recently and indicated that the job he retired from is still not filled. Before he retired, they used to have more applicants than they could ever get through for those types of positions. Less people are applying, they are harder to recruit and the turnover rate has increased.

The fourth principle they always looked at is what the cost of providing the first three principles would be. If the DC plan would cost a whole less, then maybe they could say they gave up some of those principles to save some money, but the Buck Consultants' report in 2008 and the letter they were presented today indicates the cost between Tier III PERS, Tier II TRS and the DC plan is about a wash. He urged them to keep these principles in mind as they move forward.

[2:59:20 PM](#)

SENATOR BUNDE asked why the state moved from the *Elected Public Officers Retirement System* (EPORS) in the tier directions.

MR. DUNCAN answered that Tier I was the first retirement system; EPORS was a short-time retirement system that certain people participated in, but it no longer exists for new members. When they first evaluated Tier I, he represented Juneau and a major part of his constituents were state employees. He became very

knowledgeable about it and was very protective, but it became clear that as they moved through the years, Tier I was becoming more expensive; and changes were made to maintain that adequate retirement system and medical coverage. Legislators made sure they maintained those four principals, but at the same time tried to address the increasing cost. For instance, Tier II increased the amount of time to be in service before accessing medical coverage.

[3:01:23 PM](#)

CHAIR PASKVAN said as a matter of both social and economic policy he favors returning to a DB system and he ended the public testimony.

SENATOR DAVIS said she supported the bill, and asked what direction it was going to take since she hadn't heard of any suggestions.

CHAIR PASKVAN answered that he thought the bill would move next week if the committee chose. [SB 23 was held in committee.]

[3:03:37 PM](#)

There being no further business to come before the committee, Chair Paskvan adjourned the meeting at 3:03 p.m.