

**ALASKA STATE LEGISLATURE**  
**SENATE LABOR AND COMMERCE STANDING COMMITTEE**

February 26, 2009

1:36 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. 84

"An Act relating to bonding limitations and confidentiality of records and information of the Alaska Industrial Development and Export Authority; and providing for an effective date."

MOVED CSSB 84(L&C) OUT OF COMMITTEE

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."

MOVED CSSB 23(L&C) OUT OF COMMITTEE

HOUSE BILL NO. 104

"An Act adjusting certain fees for treatment or services under the Alaska Workers' Compensation Act to reflect changes in the Consumer Price Index; and providing for an effective date."

Pending Referral

**PREVIOUS COMMITTEE ACTION**

BILL: SB 84

SHORT TITLE: AIDEA: BONDING LIMITS; CONFIDENTIALITY

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

|          |     |                                 |
|----------|-----|---------------------------------|
| 01/26/09 | (S) | READ THE FIRST TIME - REFERRALS |
| 01/26/09 | (S) | L&C, FIN                        |
| 02/17/09 | (S) | L&C AT 1:30 PM BELTZ 211        |

02/17/09 (S) Bills Previously Heard/Scheduled  
02/24/09 (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  
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  
02/19/09 (S) Heard & Held  
02/19/09 (S) MINUTE(L&C)  
02/26/09 (S) L&C AT 1:30 PM BELTZ 211

#### **WITNESS REGISTER**

TED LEONARD, Executive Director  
Alaska Industrial Development and Export Authority (AIDEA)  
**POSITION STATEMENT:** Supported SB 84.

JESSE KIEHL, aide to Senator Elton  
State Capitol  
Juneau, AK  
**POSITION STATEMENT:** Supported SB 84.

KEVIN BROOKS, Deputy Commissioner  
Department of Administration (DOA)  
**POSITION STATEMENT:** Commented on SB 84.

PAT SHIER, Director  
Division of Retirement and Benefits  
Department of Administration (DOA)  
**POSITION STATEMENT:** Commented on SB 84.

BETH ALMEIDA, Executive Director  
National Institute on Retirement Security  
**POSITION STATEMENT:** Presented a study on SB 84 issues.

#### **ACTION NARRATIVE**

[1:36:10 PM](#)

**CHAIR JOE PASKVAN** called the Senate Labor and Commerce Standing Committee meeting to order at 1:36 p.m. Present at the call to order were Senators Davis, Thomas, Bunde and Paskvan.

**SB 84-AIDEA: BONDING LIMITS; CONFIDENTIALITY**

[1:39:01 PM](#)

CHAIR PASKVAN announced SB 84 to be up for consideration.

SENATOR THOMAS moved to adopt conceptual Amendment 1 to add a sunset date of July 1, 2014 to the bill.

SENATOR BUNDE said he understands that all this amendment would do is put a sunset date on the bill.

SENATOR THOMAS agreed that was correct; it would establish a five-year sunset date rather than it being in perpetuity as it is now.

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TED LEONARD, Executive Director, Alaska Industrial Development and Export Authority (AIDEA), supported Amendment 1 and said it included the refunding bond language that is necessary for them to get the best rates.

SENATOR THOMAS said a refunding bond is like refinancing your home and can actually decrease the bond rate for a project or facility.

SENATOR THOMAS repeated his motion to adopt Amendment 1. There were no objections and it was so ordered.

SENATOR THOMAS moved to report CSSB 84(L&C) from committee with individual recommendations and attached fiscal note. There were no objections and it was so ordered.

CHAIR PASKVAN called an at ease at 1:44 p.m. and called the meeting back to order at 1:45 p.m.

**SB 23-REPEAL DEFINED CONTRIB RETIREMENT PLANS**

CHAIR PASKVAN announced SB 23 to be up for consideration.

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SENATOR THOMAS moved to bring CSSB 23(L&C), version 26-LS0172\P, before the committee for discussion purposes. There were no objections and it was so ordered.

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SENATOR ELTON, sponsor of SB 23, explained the CS adopts the approach that was suggested by one of the committee's professional testifiers, Mr. Michael Lamb. It allows those potential employees who come into the system and who already are vested in a defined benefit (DB) system exclusive of social security to choose the existing defined contribution (DC) plan that the state now has for everyone.

SENATOR BUNDE said it's his understanding that someone who has worked in the private sector and qualifies for social security and then comes to work for the state could not choose the DC plan.

SENATOR ELTON answered no; he was trying to suggest if someone came with a DC plan and social security, that the social security would not be defined for this purpose as a defined benefit.

JESSE KIEHL, aide to Senator Elton, said the biggest single change in the CS is the repealer section that got a whole lot shorter. The bulk of the statutes that would no longer be deleted related to the DC retirement plan.

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He said a number of sections, 1,2,5,7, and 10 are technical and clarify that DB statutes do not apply to anyone who is already in one of Alaska's DC retirement plans.

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The more substantive sections, sections 3 and 4, are unchanged from the original version; they repeal the requirement that before a DB payment can be fully inflation-adjusted the funds must be 105 percent funded. They also shift the responsibility of making the decision whether to grant an inflation adjustment from a plan administrator to the Alaska Retirement Management Board, which has investment experts on it.

Section 6 on page 3 almost perfectly mirrors section 11 for the TRS. It governs which new hires are permitted to choose the DC retirement plan. These are new employees who are fully vested in a DB system other than PERS and TRS, like a military retiree. It might help public employers recruit new people. The choice must be made within 60 days.

The only other change in the CS is found in the repealer section, section 12, on page 7, line 15, that repeals two sections of session law that are scheduled to go into effect in 2010. These sections would have provided that under no circumstance can an employee who refunded his contribution from the DB system and who returns to work on or after July 1, 2010 participate in a DB plan.

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SENATOR BUNDE asked why they chose to exclude those who receive social security as qualifying for a DB.

MR. KIEHL answered the two primary thoughts underlying that decision in the CS were the government pension offset and windfall elimination provisions that dramatically reduce what social security will pay someone who has a DB pension. Another thought is the availability of DB health coverage which social security does not provide.

SENATOR BUNDE disagreed as someone who has qualified to get social security; it's not a dramatic decrease in the amount of social security.

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CHAIR PASKVAN asked if this CS advances sound public policy.

SENATOR ELTON responded that the changes in the CS "are not toxic to the bill," and it goes "an awful long way" to solve the recruitment/retention issues they are beginning to see with the sole DC approach.

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SENATOR DAVIS asked what the department felt about the CS.

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KEVIN BROOKS, Deputy Commissioner, Department of Administration (DOA), thanked the committee for its diligence in working through this bill, but the administration had not yet taken a position on it. Their focus is on what the costs will be and he will brief the governor.

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MR. BROOKS pointed out that actuarial costs are an averaged figure, and that giving new employees a choice creates a different dynamic for the actuaries, because certain age groups will pick one plan over the other, something called "adverse selection." The normal costs (the cost that is required to

contribute to accrue enough money to pay an earned benefit) for a 25-year old are small, but for someone who is older they are higher. So you end up with a result "that is not one-to-one." That change will take more actuarial review. He also needed clarification on what part of the plan was closed on July 1, 2010.

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MR. BROOKS also commented that retirement systems, pensions and health care plans are very complicated, and you have to be exceedingly precise with questions to really "tease out" the answer. He heard some mention that Nebraska and West Virginia have gone back to a DB plan; but he found that they did that for the pension only, not for health care. So, as they contemplate these changes, he urged them to be precise in the questions they are asking and the comparisons they are making. He also assured them that they are still "looking hard" at the unfunded liability and what impact there might be on that. Some estimates indicate it has grown to over \$9 billion now.

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He reported that the recruitment and retention issues have been taken seriously, and the governor created a task force through Administrative Order 237 to look at it. The administration has negotiated responsible contracts and passed HB 417 last year that adjusted pay for many non-covered employees. So, they are looking at pay and alternate work weeks. Data has indicated that the new tier has 7,200 new employees. In the TRS system out of 11,000 employees, 2,100 are active in the DC plan. So, in 32 months, 20 percent of active workers are in the new tiers. So, data does not support that it's now harder to hire people across the board.

The demographics of the workforce are very interesting. The average for PERS is 45 years old with 10 years of service; the average for TRS is 45 years old with just under 12 years of service. The State of Alaska as an employer has an average of 45 year olds with 9 years of service.

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SENATOR MEYER joined the committee.

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SENATOR BUNDE asked if the fiscal note applies to CS.

MR. BROOKS replied no.

SENATOR BUNDE said employer rates are capped at 22 percent, and it is likely that the unfunded liability for school districts and municipalities will go up, and that will continue to be a state responsibility.

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MR. BROOKS said that was accurate. Since the passage of SB 125, the state assumed the liability for anything over 12.56 percent for TRS and 22 percent for PERS. Last year's was a combined \$400 million.

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CHAIR PASKVAN asked if the \$16-million expenditure for 2012 is a worst-case scenario when everyone elected into the DB system.

MR. BROOKS replied they made the assumption that all members would transfer into the DB system.

CHAIR PASKVAN said he was trying to recognize that the document references a 4 percent annual wage increase; so when one references the \$16 million in 2012, it's in relation to a \$3 billion gross payroll.

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SENATOR BUNDE asked Mr. Brooks to take a message back to the commissioner that he is receiving lots of emails on this subject, and some of them are from state employees on state computers. It's inappropriate to use state resources to lobby state legislators.

MR. BROOKS said this issue came up in the last couple of weeks; it wasn't about the use of email, but rather about employees testifying on legislation. The administration encourages that right of civic participation. But word has gone out that people do it on their own time and that they identify themselves and who they are representing accurately.

PAT SHIER, Director, Division of Retirement and Benefits, Department of Administration (DOA), said on the recruitment and retention issue that the division looked at a four-year period of time with the change from DB to DC right in the middle. They looked at all the people who were brand new public employees in the PERS system who came to work during the prior two years as one universe and in the other universe was a number of individuals who came to work for public service under the DC plan. To date, more individuals that came to work under the DB system actually refunded out of system, took their employee

contributions and left on a percentage basis than did the DC folks. To say categorically that that's proof positive that the DC system is better than the DB can't be asserted without talking to those people and getting more data.

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SENATOR BUNDE encouraged them to look at studies of the top 10 reasons for people leave teaching - retirement isn't on that list.

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SENATOR MEYER said it appears the CS makes the retirement plan optional. He's not sure the DC plan has been that bad for recruitment and retention. He asked if he supported the CS.

MR. BROOKS said he had just looked at it and they need an actuarial analysis. The administration has no position on it now.

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SENATOR THOMAS remarked that the DB plan was been in existence for a long time; but the DC plan got adopted within one month after introduction.

MR. BROOKS responded that the implementation happened one year later.

SENATOR THOMAS said he was talking about the one-month time frame on changing the DB to the DC plan was all the time the issue was considered by the legislature.

MR. BROOKS responded that the actual deliberation on that legislation was far longer than that.

SENATOR THOMAS recalled that he asked people who should have been in the know at the time for statistics on the tiers of the plan, specifically on Tier III PERS and Tier II TRS, and the information was not available. A fair amount of supposition was used and there was a bad financial situation at the time as well.

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SENATOR ELTON remarked that Mr. Kiehl was at a noon meeting today that got straight to a couple of the department's assumptions about unfunded liability that could lower the fiscal note by \$15 million. In another the assumptions made on the TRS costs, could be a \$13 million/year. So he was surprised to hear

they had a fiscal note, because his understanding is that they were going to rework it.

He also wanted "to vent just a little bit" that he shared this bill as a prefile with the department, and now this committee has gone through three hearings and has heard an extensive amount of public testimony. He assumed the department would have a fiscal note they were comfortable with by now; and now they are saying they have to review their assumptions. "I can tell you as a person who was here in 2005, it didn't take them that long to do a fiscal note for defined contribution and that was without an awful lot of the data. And that was back when - and I'm going to repeat some words that I heard in the previous testimony - before we even knew what kind of precise questions to ask."

CHAIR PASKVAN said they might be able to move the bill with a forthcoming fiscal note.

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SENATOR ELTON said the forthcoming fiscal note might not address some costs. The training costs are important, and he agreed with previous testimony that they don't have data on recruitment and retention. They didn't have data on recruitment and retention in 2005 either, but certain assumptions were made that led to the very narrow passage of the DC bill. The advantage he thought they would have now, four years later, is having that data. But with the lack of it he suggested they go with anecdotal testimony they have heard from public employees and their employers.

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Finally, he asserted that the unfunded liability issue was raised again and that's the same kind of testimony they heard four years ago. He appreciated the comment about asking precise questions, because at no place did he hear an answer to whether or not Tier IV PERS contributes to or lessens the unfunded liability, nowhere did he hear that Tier III PERS does one or the other or that Tier II or III TRS has any effect on the unfunded liability. They just heard that it exists and that it's growing.

The committee has received testimony from people like Mr. Lamb from Fairbanks and other expert testimony has suggested the unfunded liability wouldn't grow or decrease because of a switch back to the DB system.

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SENATOR MEYER said he understood that the basic change in the CS makes the DB and DC plans optional if you're already vested in a retirement program.

SENATOR ELTON replied it's much more discreet than that. If a new employee already has a DB plan and he is being hired by a public employer, he has the option of selecting a DC. The choice is to a discrete number of potential employees.

SENATOR MEYER asked why the options are limited to certain groups.

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SENATOR ELTON replied that two things were compelling to him when he wrote the bill. Studies have shown that the DC plan investments have been hammered much more heavily in this market than the DB investments. He said some bright young person might be able to handle a DC plan over a long period of time, but there probably isn't a perfect recipe on how to do it to protect all future retirees. The Finance Committee recently heard testimony from Michael O'Leary of Callan and Associates, who said one of the problems with DC plans is that they are especially vulnerable when the market tanks. If Mr. O'Leary has a defined contribution plan, he is probably wondering now about how many more years he will have to work to get to the retirement he thought he would have. Finally, he felt that a bright young person who is capable of making good investment decisions would be doing it outside his retirement system also in a way that would make the DB retirement even better.

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SENATOR MEYER said he liked the CS; it had come a long way in meeting his concerns. But they have heard consistently that the state needs more tools to recruit bright young people, and why not be able to offer both programs to those people.

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SENATOR ELTON agreed that he might be right, but the bigger concern is their retention. And they just heard that employees in the DB plan are now leaving and taking the money they put in. The problem with the DC plan is they can leave with the money they put in as well as the money the employer put in.

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BETH ALMEIDA, Executive Director, National Institute on Retirement Security, a non-profit, non-partisan research

organization that does research on retirement issues, Washington D.C., said she would speak to them about the findings of an important analysis released today. The title of the report is "Pensionomics: Measuring the Economic Impacts of State and Local Pension Plans."

Economists believe that DB plans act as an automatic stabilizer in economies like the one we are in now. Even in tough times retirees with a reliable pension can maintain spending on basic needs. That has stabilizing effects on national, state and local economies.

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MS. ALMEIDA said they focused on state and local pensions for this study because the census bureau publishes data on state and local pension plans that is fairly detailed at the state level.

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They found that in 2006, expenditures made out of state and local retirement benefits supported 2.5 million jobs that paid \$92 billion in income, \$358 billion in economic output nationwide and \$57 billion in federal, state, and local tax revenue.

In Alaska (2006) they found retirement benefit expenditures supported 6,270 jobs that paid \$385 million in income, had \$1 billion in economic output statewide and \$155 million in federal, state, and local tax revenue.

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For each dollar paid out in benefits to Alaskan retirees, \$1.25 worth of economic activity was seen in the state. Every \$1.00 contributed by taxpayers to state and local retirement systems resulted in \$6.35 in economic activity in the state.

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According to the U.S. Census Bureau data, close to 35,000 Alaskans received pension benefits from state and local pensions in 2006, the most recent year available for the state, for a total of \$819 million. The average pension was \$1,953/mo. or \$23,440/yr.

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Where does the money come from to finance these systems? Their data goes back to 1993 and they found over that period investment earnings and employee contributions were doing the lion's share of the work of financing retirement benefits.

Investment earnings accounted for about 70 percent of system revenues, employee contributions about 12.5 percent and employer or taxpayer contributions were responsible for the remaining portion of about 18 percent.

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How do pension plans have economic impacts? Pension plans can have economic impacts through several different channels. For instance, a benefit channel would be when retirees receive benefits and they go out and spend them in the local economy. By virtue of that expenditure, other folks in the local economy receive income.

Pension plans also have economic impacts through their investment channel. This means assets which are in a pension trust are invested and through those investments, businesses are provided capital to develop new products and technologies and create jobs. This study focuses on the benefit channel rather than on the investment channel.

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Slide 11 showed an economic multiplier effect or the direct impacts of, for example, a retired school teacher who uses her pension check to buy a new car. The people who work for the sales company see an immediate economic benefit from that and this is called a direct impact. When the owner of the car dealership or the salesman receives that income, they can go out and spend it. This is called an indirect impact of that initial expenditure that the retiree made. When those people expend their income, there is a third impact, an induced impact, that happens when the companies that were involved with the production of the car hire additional employees to replenish their inventory as a result of that increased business and those employees go out and spend their paychecks in the local economy. This is referred to as the multiplier effect and it explains how the initial spending of a pension benefit ripples through an economy. To measure the size of that ripple effect, again they used the U.S. Census Bureau's State and Local Government Employee Retirement System Survey data.

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CHAIR PASKVAN asked her to focus on the conclusions, because they were running short on time.

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MS. ALMEIDA said using software called "Implan" they were able to estimate the economic impacts of the benefit payments both nationally and within the State of Alaska. The expenditures made out of these benefit payments support about 6,270 jobs statewide that paid about \$385 million in income. These benefits supported \$1 billion in economic output statewide and about \$155 million in federal, state and local tax revenue.

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Slide 15 showed the total economic impact of \$1 billion broken down into the direct, indirect and induced impacts. The tax revenue impacts were broken down into their federal, state, local and other corporate tax categories. The \$155 million tax impact was fairly evenly divided between federal taxes paid out of pension benefits and federal taxes that resulted from those expenditures of \$87.5 million, state and local tax revenues of \$67.8 million and other corporate taxes of about \$200,000. The estimated impacts are on an annual basis.

MS. ALMEIDA said the industries where the most severe economic impacts were felt were 1,300 jobs in health care and social assistance for \$119 million in economic impact, about 1,300 jobs in retail trade with about \$97 million in economic impact, 839 jobs in the accommodation and food services, and then real estate rental and leasing with \$51 billion in impacts. She provided a detailed slide of economic impacts by the top 10 industries.

The pension benefit multiplier indicated that every \$1.00 paid to retirees in Alaska resulted in \$1.25-worth of total economic activity. For every \$1.00 of taxpayer contribution to state and local pensions a total of \$6.35 of economic activity was created.

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Slide 20 showed that the taxpayer contribution factor is quite a significant on each \$100 they are investing in the pension plans.

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The conclusions were that state and local pension plans have a large economic footprint both nationally and within Alaska. They have significant ripple effects and sizable multipliers. The upfront investment of taxpayer dollar goes a long way.

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MS. ALMEIDA summarized that state and local pensions do more than provide a critical source of reliable income for 7.3 million retired Americans and 35,000 retired Alaskans. They support 2.5 million American jobs and \$358 billion in national economic activity. They support 6,270 Alaskan jobs and \$1 billion in economic activity. It keeps the retirees continuing to chug along, and this steadiness helps others in the community as well.

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SENATOR BUNDE asked why they chose to study Alaska.

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MS. ALMEIDA replied that this is part of a national study that was released earlier today.

SENATOR BUNDE asked who paid for it.

MS. ALMEIDA replied that they are a non-profit, non-partisan research institute funded by a broad membership that includes trade associations, financial service providers, and pension plans across the country.

SENATOR BUNDE said any dollar that flows through the economy follows through her economic multiplier and investment returns are the largest portion that supports a DB plan, much larger than worker contributions. With a prolonged down market, he asked if it wasn't true that the state will end up providing the majority of the defined benefits because investment returns no longer do it. So, the notion that this is a stabilizer is only valid as long as there is money in the account.

MS. ALMEIDA referred him back to slide 9 that indicated the period of time over which they did their calculation covered the years 1993-2006, which encompassed both bear and bull markets. She said one of the benefits of a DB system is the long-term nature of the system. A state sponsored pension system spans decades or even more than a century. This is quite different than the timing and planning horizon of an individual in a DC plan. It allows for a better kind of diversification of investment risk, which makes a dollar contributed to a DB go a lot further. DC investors must invest much more conservatively.

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SENATOR THOMAS moved to report CSSB 23(L&C) from committee with individual recommendations and forthcoming fiscal note.

SENATOR BUNDE objected to comment that people have not looked at other states. State workers deserve this, he said, but at what cost? He said he has lost confidence in the sponsor of SB 141. He then removed his objection and CSSB 23(L&C) moved from committee.

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There being no further business to come before the committee, CHAIR PASKVAN adjourned the meeting at 3:08 p.m.