

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

April 14, 2011

9:02 a.m.

MEMBERS PRESENT

Senator Bill Wielechowski, Chair
Senator Joe Paskvan, Vice Chair
Senator Albert Kookesh
Senator Kevin Meyer
Senator Cathy Giessel

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Cathy Muñoz

COMMITTEE CALENDAR

SENATE BILL NO. 121

"An Act relating to the public employees' retirement system and the teachers' retirement system; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 121

SHORT TITLE: TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

SPONSOR(s): SENATOR(s) EGAN

04/07/11	(S)	READ THE FIRST TIME - REFERRALS
04/07/11	(S)	STA, FIN
04/14/11	(S)	STA AT 9:00 AM BUTROVICH 205

WITNESS REGISTER

SENATOR DENNIS EGAN
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Sponsor of SB 121.

JESSE KIEHL, Staff to Senator Dennis Egan
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Presented SB 121 for Senator Egan, the sponsor.

BRETT GILLAN, Teacher
NEA Alaska
Anchorage, AK

POSITION STATEMENT: Testified in support of SB 121.

JOSH FOSTER
Anchorage Fire Fighter and Tier IV participant
Anchorage, AK

POSITION STATEMENT: Testified in support of SB 121.

STEVEN CHAYKOWSKI
Anchorage Police Department (APD)
Anchorage, AK

POSITION STATEMENT: Testified in support of SB 121.

MIKE BARNHILL, Deputy Commissioner
Department of Administration (DOA)
Juneau, AK

POSITION STATEMENT: Testified in opposition to SB 121.

ACTION NARRATIVE

9:02:09 AM

CHAIR BILL WIELECHOWSKI called the Senate State Affairs Standing Committee meeting to order at 9:02 a.m. Present at the call to order were Senators Paskvan, Meyer, Giessel, and Chair Wielechowski. Senator Kookesh arrived shortly thereafter.

Chair Wielechowski said this would probably be the last meeting of the Senate State Affairs Standing Committee this legislative session. He thanked each member of the committee for their hard work, saying the committee considered 31 pieces of legislation and moved 29 out of the committee. Ten of those passed both bodies. The committee also held several informative sessions on topics ranging from housing for homeless veterans to effects of the Japanese nuclear crisis in Alaska. The committee had been smart, thorough, and efficient in its consideration of the bills referred to it.

He also took a moment to thank the recording secretary, Katherine Ellis, and the LIO teleconference staff who have connected the committee to Alaskans across the state.

He looked forward to continued work during the Interim, including looking for government efficiencies. His office has a website which seeks suggestions from Alaskans on how to improve state government effectiveness and efficiency. He said he also hoped to hold hearings during the interim. He also thanked his committee staff member, Michelle Sydeman.

SENATOR KOOKESH joined the meeting.

SB 121-TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

[9:04:01 AM](#)

CHAIR WIELECHOWSKI announced the consideration of SB 121, which would let Alaska public employees choose between a defined contribution and a defined benefit pension system. This bill was introduced recently by Senator Dennis Egan and has a companion bill in the House.

[9:04:07 AM](#)

SENATOR DENNIS EGAN, sponsor of SB 121, introduced his staff member Jesse Kiehl. Senator Egan noted the key point of SB 121 is to give employees a choice between defined benefits and defined contributions. Thus, a military retiree signing on for a few more years of service with a city government will be able to choose defined contributions; a state trooper who will put his life on the line for decades will be able to choose defined benefits.

SENATOR EGAN said the new tier would be less expensive and more predictable, thanks to the change in medical benefits. There is no big surprise in this legislation. It keeps all of Senate Bill 141 safeguards in place, and would be cheaper for the state, municipalities, and school districts. In time this will free up several million dollars per year. When the Lower 48 gets out of the recession, Alaska will again have to compete for teachers and engineers. Defined benefit checks are a shock absorber for the Alaskan economy. The actuarial analysis shows lower cost for better benefits. This is the right thing to do for Alaskans. He said that hopefully the committee will be able to hear the bill in more detail during the Interim.

[9:08:25 AM](#)

CHAIR WIELECHOWSKI asked Mr. Kiehl to walk through the bill.

JESSE KIEHL, staff to Senator Dennis Egan, said SB 121 would add a new tier to the state's defined benefit retirement systems. The Public Employees Retirement System (PERS) covers employees of the state, of municipalities, and a few school district employees. The Teachers Retirement System (TRS) covers certificated teachers in the state of Alaska; a few additional employers also participate. Article 7, Section 12, of the Alaska Constitution protects an accrued benefit in the retirement system of the state. When the state makes changes, it has to protect new hires. This bill gives new hires a choice between the current defined contribution tier, which is Tier IV in the PERS system and Tier III in the TRS system, and a new defined benefit tier.

[9:10:02 AM](#)

Sections 1 and 2 are meant to clarify that the TRS defined benefit statutes apply only to employees who are participating in the Defined Benefit (DB) and did not convert; no employee can participate in both plans. Section 1 also puts all TRS employers on an equal footing by requiring them to offer new employees this choice.

CHAIR WIELECHOWSKI asked if he anticipated how many employees would choose Defined Contribution (DC) versus Defined Benefit (DB).

MR. KIEHL said he didn't have a solid estimate. One challenge will be looking at the actuaries' estimates for how many people will make that choice, and whether that changes the expectations of the systems.

MR. KIEHL continued with the overview. He said that Sections 3 and 4 of the bill require a person who receives disability benefits to seek work if he or she is able and to receive a medical examination. This is a safeguard to ensure that people receiving disability benefits under the system would be reevaluated on a regular basis.

CHAIR WIELECHOWSKI recognized Representative Muñoz joined the meeting.

[9:12:49 AM](#)

Sections 5 and 6 establish a new eligibility standard for TRS retiree medical benefits. This is the primary change in the new tier. A teacher with 25 years of service may receive medical benefits paid for by the system. With less than 25 years but at

least 8 years, the system would pay benefits once the person is Medicare eligible. The accrued benefit in this tier would depend on what the federal government does with Medicare. That is a crucial change, also reflected in the PERS changes later in the bill. This reduces the volatility of future medical liability and reduces costs because the retiree medical system will be a Medicare supplement for many of its beneficiaries.

The bill does retain system-paid medical benefits for those on disability. If a retiree does not have system-paid medical benefits, he or she can purchase insurance through the system.

[9:15:25 AM](#)

CHAIR WIELECHOWSKI asked if under the new provision there is no vesting until 25 years.

MR. KIEHL responded under TRS it is 8 years. That is the minimum service requirement, but the retiree can't collect the benefit until he or she becomes Medicare eligible.

CHAIR WIELECHOWSKI asked for confirmation that a teacher under Tier III who retires at age 60 has no health insurance from the system until age 65, unless he or she pays the insurance premiums.

MR. KIEHL agreed.

CHAIR WIELECHOWSKI asked how many years of service would be required for a public employee to vest.

MR. KIEHL answered the minimum service requirement is ten years for both Tier III and the new tier and the individual would be Medicare eligible before he or she could collect the benefit.

CHAIR WIELECHOWSKI asked if the basic difference is that the new tier eliminates the five-year gap where people are without insurance unless they pay the premiums.

MR. KIEHL suggested members review the comparison chart of the current defined benefit tiers in the bill packet. It provides a good description of the defined benefits for both TRS and PERS.

CHAIR WIELECHOWSKI asked Mr. Kiehl to continue with the sectional analysis.

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MR. KIEHL said Section 7 contains clarifying language that makes it clear that the defined contribution statutes apply only to employees who participate in the defined contribution plan and do not convert to the new defined benefit system. No employee may participate in both DC and DB plans.

Section 8 puts all TRS employers on an equal footing by requiring them to offer all new employees the same choice. Section 9 contains the provisions that give a new hire teacher that has no previous service in TRS, a one-time, irrevocable choice of defined benefit or defined contribution. New employees are put in the DB system, but within 60 days they may elect to participate in the DC system. The Division of Retirement and Benefits has raised concern about the workability of that timeframe and the sponsor is willing to work to ensure that it's workable for school districts and the division.

[9:20:22 AM](#)

Section 10 makes it clear that the defined benefit statutes only apply to DB employees. It also puts all PERS employers on equal footing, by requiring them to provide the choice to new employees.

Section 11 sets the same minimum earning threshold for elected officials in the new defined benefits tier as the 2004 reform bill implemented. There was significant concern when Senate Bill 141 passed, about some elected officials, usually at the municipal level, who are paid an honorarium rather than a salary, and were in previous years gaining credit for their work, and their employers' contributions were out of proportion to the benefits they earned. This maintains that safeguard explicitly in the new tier.

Sections 12 and 13 extend disability medical checkups to PERS employees. Section 14 contains the new medical requirements for PERS members. This is more complicated in PERS because there are two categories: police and fire, and all others.

[9:22:06 AM](#)

In the new DB tier, a police officer or fire fighter full career is 25 years, with benefits paid no matter the age at retirement. For others a full career is 30 years. For those who work less than the full career amount, 10 years is the minimum to vest but medical benefits are not collectible until the retiree becomes Medicare eligible.

Sections 15 and 16 have language requiring all PERS employers to offer a choice between DB and DC. Section 17 clarifies that the defined contribution statutes apply only to DC employees. Section 18 puts all employers on equal footing and requires all PERS employers to offer the choice between DB and DC.

Section 19 contains the mechanics of giving the choice to newly hired public employees; at the date of hire the default the defined benefit system, but the employee has the option of converting 60 days to convert to the defined contribution system if desired.

Section 20 contains repealers to existing statutes that let non-vested defined benefit employees convert to the defined contribution system. That would go away under this plan because new hires have the choice. It also repeals the sections related to political subdivisions, such as cities, that don't offer the choice.

[9:24:43 AM](#)

It also requires returning employees who took their money out and then return to work to be given the same choice as a new hire, since they would have no money in the system.

Section 21 gives those in the defined contribution system who did not have a choice an opportunity to convert to the new defined benefits tier. Funds in their accounts would be transferred into the PERS or TRS trust fund. Employees who make that choice would receive full service credit for the time worked. An actuary would calculate how much time that buys; to ensure there is no unfunded liability, this bill requires the deficiency to be paid up front.

It is important to note that defined benefit systems work to prefund liabilities. Contributions pay the future cost of the benefit. Section 23 gives the commissioner of the Department of Administration authority to promulgate regulations; Section 24 is the effective date.

[9:28:44 AM](#)

MR. KIEHL noted that Senator Egan asked him to leave the committee with the information that the defined benefit system pays a more valuable benefit down the road than the defined contribution system. It does this for comparable or even less cost.

The committee packet contains this analysis by an actuary very familiar with the PERS and TRS systems. His analysis shows that the new tiers would cost less than prior tiers and less than defined contributions. It would provide public employees with a dependable benefit. Most PERS and TRS retirements are not rich; average retirements are in the \$20-\$30 thousand per year. But they don't go down when the stock market tanks. Employees who rely only on individual investment accounts have to decrease their spending when the market goes down, and the impacts of that ripple through the economy.

It is also important to note that most PERS retirees do not receive social security. A defined benefit payment is a tremendous stabilizer to the state economy. It gives greater benefit for less cost. It makes good economic sense and is good public policy from a hiring and retention standpoint.

CHAIR WIELECHOWSKI opened public testimony.

9:32:10 AM

BRETT GILLAN, representing NEA Alaska, testified in support of SB 121. He is a math teacher at West Anchorage High School, and his wife teaches science at Golden View Middle School in Anchorage. Roughly two years ago he was invited by NEA Alaska to fly to Juneau and speak about the need to return to a defined benefit plan. His message then was simple; by offering only a defined contribution plan, the state was creating a class of mercenary teachers with little incentive to stay in Alaska for the entirety of their careers. The state's benefit plan made it so easy to work for a short while and then relocate to another state with a more secure retirement package, even while retaining the money sunk into retirement from Alaska. The DC plan actively encouraged this class of mercenary teachers. These teachers were here to reap the benefits of impressive starting salaries, only to leave for states with secure retirement options after a few years.

At the time he was told that his message would be more powerful if he could provide examples. He said he has returned here in his third and final year as an Alaska teacher to reiterate his message and offer himself as an example. He loves teaching at West Anchorage High; the outstanding and diverse student body combined with a professional and motivated staff has created a unique atmosphere of academic excellence that he has not experienced anywhere before, and does not expect to find again. His wife, also a teacher, feels the same about her own school, Golden View Middle School. It is physically painful for him to

consider moving to another state, and yet he and his wife were forced to evaluate where they would be best situated for the long haul.

[9:35:17 AM](#)

There were many factors to weigh when considering their options; however, a decision made by the state of Alaska six years ago clarified their thinking. Neither is willing to risk their family's well being by depending on an insecure retirement. Knowing they do not have the stability of Social Security to rely on, and knowing they do not have the stability of a defined benefit retirement, he and his wife are not willing to gamble on the prospect of a defined contribution plan.

The stock market drop in 2008, which devastated his parents' retirement, made it clear how risky that proposition would be. The question for him and his wife became not whether they would leave, but when. They have resigned from their jobs and are returning to New Mexico and a defined benefit retirement.

Last week he visited the capital with a colleague from Mat-Su whose son, a special education teacher, and daughter-in-law, a physics teacher, were packing their bags for states with a more secure retirement. When he returned home, his wife told him to make sure the committee knew that three of the four seventh grade science teachers in her school were leaving, for the same reason. They cannot afford the risk of retirement in Alaska under a defined contribution plan. The state is losing three out of four science teachers at Goldenview Middle School, a flagship school in Anchorage; this is a serious problem.

Some in this room believe this problem can be put off. They say jobs are tight outside, so no one will risk a move. However, the teachers he listed: math science, and special education, are in high demand and will find work quickly. They can afford to move regardless of the economic climate. He said, "Unless you believe that the state does not need high quality, committed, science, math, and special education instructors do not believe that a tight economic climate means this can wait."

Starting pay for teachers in Alaska is still very appealing, and the state has no problem attracting new teachers. But the current system actively encourages them to walk out the door within three to five years, just when they are hitting their peak effectiveness. He said, unless it is your intent that Alaska become a training ground for teachers in other states, the State cannot afford to put this off any longer. Those with

defined benefit retirements are staying as educators in Alaska. His brother and wife, both middle school teachers, moved here eight years before him, but with confidence in the security of their defined benefit retirement. With retirement as it is now, he does not have a choice. With no option of guaranteed retirement stability, staying is too great a risk. The decision was made for him.

[9:40:45 AM](#)

MR. GILLAN said that he is on his way out the door. It is too late to keep him here; he urged the committee to pass SB 121 and give future educators in Alaska the option to plan from the moment they start here to stay here, and become excellent teachers throughout their careers in Alaska.

[9:41:23 AM](#)

JOSH FOSTER, Anchorage Fire Fighter and Tier IV participant testified in support of SB 121. He was born and raised in Alaska, attended Diamond High school, attended UAA and UAF and received a bachelor's degree in Fire Service Administration. He was part of the first group hired under the DC system; the lack of a defined benefit retirement option is a big concern for the group of 30 firefighters who were hired in that group. There is talk of taking lateral transfers to the Lower 48, where most firefighters participate in a defined benefit system. A few members of the group have already tested for departments in other states but pulled out at the last minute, hoping for a retirement fix in Alaska. He intends to remain in Alaska, but it is difficult to remain in a job without a defined benefit for retirement. He urged the committee to pass SB 121.

[9:43:24 AM](#)

STEVEN CHAYKOWSKI, Anchorage Police Department (APD), said he is a patrol officer with the APD and is speaking on behalf of his fellow police officers. He graduated from Bartlett High and left for college, then returned to UAA where he graduated from the ROTC program and served four years in the Air Force. After living in many places with the Air Force, he decided to return to Alaska. He left a military pension to return here.

At that time defined contribution was in the works; when he arrived he learned that defined contribution was real. His job is the most rewarding thing he could do. Most people wouldn't want to do what he does, but it is rewarding for him. Forty percent of those trained as police officers for the APD don't make it to the street.

[9:46:58 AM](#)

OFFICER CHAYKOWSKI said he was testifying in place of Officer Garcia, who testified previously and has now moved away from Alaska, for a job with secure retirement. Another officer he knows has gone to the U.S. Marshalls. He knows many who are looking at other options; he himself has an offer from the Air Force to go back. He could easily leave the state and have a defined benefit retirement system. He took a pay cut to return to Alaska.

He doesn't know what he will be able to provide for his family, or even if he will go home. He works the night shift in Mountain View, where he has been involved in homicides and officer involved shootings. He has actually had to tell a mother that her child did not survive. His wife has said--you don't even have a retirement--what if something happens to you while you are at work? With all of that, he still loves his job.

He personally loaded an officer into the ambulance after she was shot on duty. The worst part was his wife didn't know who was shot; she learned on the news that morning an East Anchorage officer was shot in the line of duty, and spent the entire day wondering if it was him.

OFFICER CHAYKOWSKI said his job is very hard on his family; a lack of secure retirement makes it even worse. He would like to keep his family here in Alaska, but doesn't know if he can do that under the current system. The defined contribution system makes him think of leaving. He needs the security of a defined benefit plan. It is hard for him to do his job while in the back of his mind he is worrying about how much he has in his 401(K) or how much retirement money he has; at the same time he is on his way to help someone.

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OFFICER CHAYKOWSKI said his fellow officers are currently being actively recruited by other departments down south. They view this as a chance to get the best trained officers, and are actively seeking Alaskans because they can offer a defined benefit. He is hoping he can stay here and sustain his job, and hopes that SB 121 will allow him that chance. It is hard for him to turn down the Air Force when they call. He would rather serve Alaskans; SB 121 would help him do that.

[9:51:29 AM](#)

CHAIR WIELECHOWSKI thanked him and the others for their testimony and their service. He noted the administration was present to testify.

[9:51:54 AM](#)

MIKE BARNHILL, Deputy Commissioner, Department of Administration (DOA), said he is testifying on behalf of the DOA and the Office of the Governor in opposition to SB 121. He said they recognize and understand the good intentions of the sponsor; they recognize and understand the concerns of the employees who testified, and are also very gratified for the excellent service state employees provide. The administration's primary concern centers on the belief that the state does not have the financial capability to extend defined benefit promises to a new generation of state employees. The state needs to fix its long-term fiscal situation. To potentially have a situation where people relied on pensions and then discovered they were not there would be unacceptable.

[9:54:52 AM](#)

CHAIR WIELECHOWSKI noted that Alaska is the only state in the country that does not offer either Social Security or a defined benefit for public employees.

MR. BARNHILL responded that Alaska is not the only state that has opted out of Social Security.

CHAIR WIELECHOWSKI reiterated that Alaska is the only state that has opted out of Social Security and also does not offer a defined benefit plan.

MR. BARNHILL said he would have to check on that. He is aware that many states are considering ending defined benefit programs and moving to defined contribution. If Alaska is the only state today, that is not likely to last.

CHAIR WIELECHOWSKI asked if he knew what the state's total accumulated savings is.

MR. BARNHILL answered \$14 billion, and the permanent fund balance is \$40 billion.

CHAIR WIELECHOWSKI asked if it's fair to say that Alaska has the largest savings account in the United States, and is probably in the best financial condition of any state.

MR. BARNHILL said in the short term yes, but these promises are made for 70 to 80 years. The oldest PERS retiree died recently at the age of 106. So if the state makes a new promise today to a defined benefit employee who is 20 years old, that promise is for 70, 80, or even 90 years.

CHAIR WIELECHOWSKI said actuaries figure out how much to pay out in benefits and how much to take in, and it should equal out.

MR. BARNHILL said theoretically it should, but in practice it has not worked in this state for the last 10 years.

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There are many reasons why it hasn't worked. Sometimes it is actuarial negligence, but that's not always the case because assumptions change over time and people live longer. Now the state has an unfunded liability. Even with the best actuary it cannot predict medical advances that change mortality. An actuarial study done under Senate Bill 141 found out people on average are living longer and now the state's unfunded liability has increased \$1 billion in the space of one year.

CHAIR WIELECHOWSKI asked if that isn't why actuaries are hired.

MR. BARNHILL replied they base mortality assumptions on experience.

CHAIR WIELECHOWSKI asked what the initial cost of malpractice estimate was in the Mercer case.

MR. BARNHILL answered \$1.3 billion, which was attributable to a number of factors including negligence. The figure was subsequently increased to \$2.3 billion, based on the discovery of fraud.

CHAIR WIELECHOWSKI asked how much the state settled for.

MR. BARNHILL replied \$500 million.

CHAIR WIELECHOWSKI asked if the state fully funded the defined benefit system during that time.

MR. BARNHILL answered the state did not fully fund the system during that time, for reasons attributable to actuarial negligence and other reasons. In 2003 the actuarial audit from FY02 was released, and the state first learned it had a \$4.4

billion unfunded liability. That increased for a variety of reasons, including investment losses.

[10:01:24 AM](#)

MR. BARNHILL said the theme of his presentation is the distinction between making promises and the hard work it takes to keep them. He would explain why the state can't extend new promises to a new generation of state employees. To date, a pension after 30 years amounts to 67.5 percent of annual salary; the state provides annual cost of living increases and system-paid medical premiums. That promise has been made to 100,000 people and their families. There is a high, long-term cost. The state has a constitutional and a moral obligation to keep those promises. Actuaries currently project those benefits will be paid until 2080.

[10:03:07 AM](#)

Starting from today and for the next 50 years, those hard liabilities will be in excess of \$1 billion per year. They will crest for a twenty year period; from 2026 to 2047 the benefit payments made by the system will exceed \$3 billion per year.

SENATOR PASKVAN asked if those were nominal dollars.

MR. BARNHILL answered they are nominal dollars, not discounted dollars. He said that people are living longer than expected, retiring earlier than expected, and health costs have substantially exceeded the rate of inflation. He described how the state plans to keep its promises to those employees; the State of Alaska will make all benefits payments when due.

In order to meet these promises they are turning to the general fund. The Senate Bill 125 general fund draw is projected to exceed \$1 billion a year by the end of this decade; it will exceed \$1.4 billion by the middle of the next decade. Total employer contribution rates for PERS are now over 30 percent; they will increase in FY13 to close to 33 percent. For TRS, it will approach 50 percent. So in order to meet the promises, they are currently turning to the general fund.

SENATOR PASKVAN asked what the base wage percentage is.

MR. BARNHILL answered the normal cost for PERS is just over 9 percent; it fluctuates between 8 and 10 percent. The normal cost plus the employers' contribution is about 11 percent. So about 11 percent goes to normal costs and the defined contribution

costs, leaving a balance of 11 percent being paid on past service costs.

[10:07:17 AM](#)

SENATOR PASKVAN asked what the gross payroll is for PERS employers.

MR. BARNHILL said he did not have the figure available but would get it for the members.

SENATOR PASKVAN asked if the past service cost at 11 percent is being channeled toward the unfunded liability.

MR. BARNHILL answered yes.

SENATOR PASKVAN asked how much in total is going to the unfunded liability at this time.

MR. BARNHILL answered for FY12 under Senate Bill 125 the state is contributing \$474 million to the unfunded liability; TRS employers don't contribute, but PERS municipal employers pay a meaningful amount, probably several million dollars.

SENATOR PASKVAN asked if in FY11 the payment was in excess of \$800 million when the Mercer settlement monies were added.

[10:09:13 AM](#)

MR. BARNHILL said the Mercer settlement netted about \$400 million. The Senate Bill 125 payment for FY11 was \$300 million, so added together the total was \$700 - 800 million.

MR. BARNHILL said the final point is the state plans to make all benefit payments when due. The cost of promised benefits keeps increasing; the unfunded liability is now projected to exceed \$11 billion, PERS and TRS rates are increasing. Some things cannot be predicted by actuaries, such as changes in mortality and investment losses, and those will continue to create unfunded liabilities from now until the last defined benefit retiree expires. That is a fact of life with defined benefit plans.

CHAIR WIELECHOWSKI asked if the administration has any plans to increase current employees' retirement age or reduce current employees' benefits.

MR. BARNHILL said there is no plan to reduce current retirement benefits. That is prohibited under the state constitution. The

Alaska Supreme Court has held that benefit promises the state extends cannot be reduced. The Court noted it would consider diminishment in case of a fiscal crisis.

[10:12:12 AM](#)

SENATOR PASKVAN asked how he would define fiscal crisis.

MR. BARNHILL answered he would not try to define it, and they did not want to hear it.

CHAIR WIELECHOWSKI answered they do. He asked is the administration having any discussions about what it would be.

MR. BARNHILL said the state is not in a fiscal crisis at this time. Funding of plans is poor, but the state has assets and revenue streams. He is not suggesting there is cause for alarm with respect to current retirees. But extending these kinds of benefits would be unwise. Especially when the state relies on oil production and that trend is steadily down. TAPS could extend to 2047, maybe 2065. That will secure current promises. If the state has to extend defined benefits to 2080 or 2090, there is no way to make that guarantee, to guarantee that the general fund will be there at the end of this century to make good on the promises made today.

[10:14:54 AM](#)

CHAIR WIELECHOWSKI said the spring forecast revenue projections indicate throughput decline itself is declining. The Department of Revenue (DOR) is projecting a decline down to 2.1 percent; the price of oil is up. He asked if it would that create a fiscal crisis if the state removed \$2 billion per year from the general fund.

MR. BARNHILL said he would not go there. He said if the state pays off the unfunded liability over a five year time period, that would not solve the problem. The state would still be exposed to the future risk of mortality changes, increasing health costs, and investment losses, and unfunded liabilities could crop up at any time.

[10:16:36 AM](#)

CHAIR WIELECHOWSKI asked what the state's credit rating is.

MR. BARNHILL answered triple A; the best there is.

CHAIR WIELECHOWSKI asked is it triple A even with the unfunded liabilities.

MR. BARNILL answered the state issues 30 year bonds, and the state has no problems for 30 years. But the talk today is about 70 year promises.

SENATOR PASKVAN said he is not so pessimistic about Alaska's future. He asked if we don't have a definition of economic crisis, how we know when we are operating with an objective standard. In the context of throughput, the technological advances of heavy oil and shale oil, and potential for other areas opening up, we should not be pessimistic.

MR. BARNHILL said he is not pessimistic. He said it will be clear that the state is on the right path when the crude oil production chart shows an uptick. He cautioned against counting the chickens before they hatch. He noted the legislature has heard some exciting news this session; hydro fracking on the North Slope, the gas line, off-shore drilling. He is optimistic those things will come to pass. When there is a meaningful, sustained uptick in oil production, then is the time to have this conversation. Don't make promises that can't be guaranteed.

10:19:35 AM

SENATOR PASKVAN asked if the administration had factored in the risk to Alaska losing highly competent police officers, teachers, and other employees. He asked have they factored in that loss for 80 years.

MR. BARNHILL said those concerns are real, and he does not diminish them. He has to balance which is worse; telling employees the truth about the state's long-term finances, and giving them the choice while they are young to go somewhere else if they want a defined benefit plan, or making a promise the state doesn't know it can keep when it is needed most. He believes the defined contribution plan is the most honorable and moral way for the state to proceed at this time.

SENATOR PASKVAN noted there is an obligation the state owes to its current public employees. It is not acceptable to tell them to look elsewhere.

MR. BRANHILL responded he respected his opinion.

CHAIR WIELECHOWSKI said it is a basic math equation. He asked why we can't figure out a system that works.

MR. BARNHILL replied this discussion is playing out in state legislatures all across the country.

CHAIR WIELECHOWSKI noted we don't care how they do it outside.

MR. BARNHILL said the bottom line is, in a defined benefit plan, the risks are all on the employer. The risks will continue to be present until the day it closes.

CHAIR WIELECHOWSKI said when asking each person to manage their own retirement, that person doesn't know if they will live to 65 or to 100. The state can smooth that out actuarially; it is extremely difficult for one single person to figure out. He noted the state can ask for more contributions from its employees.

MR. BARNHILL agreed that investing in the aggregate has efficiencies. He said the status quo for PERS Tier IV and TRS Tier III does provide meaningful benefits to these employees. A range 16 employee who works for the state for 30 years in PERS, invested at four percent annual return, will end up with a DC account at the end of that time of approximately \$400,000. They will end up with an SBS account of approximately \$400,000. That totals \$800,000, which is a meaningful amount.

[10:25:25 AM](#)

CHAIR WIELECHOWSKI said for a range 16 who retires after 30 years with \$800,000, no social security, and no other pension, they can only pull out -- at four percent -- \$32,000 a year. He asked how a person 30 years from now can live on \$32,000 a year.

MR. BARNHILL said people make do with what they have. He said \$800,000 is a meaningful amount of money that people can plan for and live on during retirement. He agreed it was probably not as good as a defined benefit plan.

SENATOR PASKVAN asked isn't the purpose of defined benefit that the long-lived employee takes advantage of the short-lived employee. If retirement benefits are not paid out, that money funds the person who lives longer. What if you live to 90 or 95 or 100?

MR. BARNHILL agreed that is a benefit to the defined benefit plan.

[10:27:50 AM](#)

CHAIR WIELECHOWSKI asked Mr. Barnhill to wrap up, and said he hopes to have another hearing on this bill over the Interim.

MR. BARNHILL said the administration looks forward to having further discussions over the Interim and into the next session. Even though they oppose this bill, they recognize the concerns that drive it. He said the Division of Retirement and Benefits will supply all information as timely and effectively as possible.

The administration has not yet submitted a fiscal note; the actuary has to evaluate on a case-by-case basis the transfer of service credit into the defined benefit plan. Those employees have been contributing 13 percent to the defined contribution accounts. Those defined contribution accounts got hit by the Great Recession. In the meantime the state has been contributing close to 30 percent for defined benefit employees. The chance of doing a one-for-one transfer of service credit is nonexistent. There will be a general fund impact.

He asked if SB 121 actually saves money. He believes, with all due respect to Senator Egan, a defined benefit is more valuable. Therefore it has to cost more. The state contributes five percent to the defined contribution system. Right now normal cost for the defined benefit is nine percent; that will go up. The overall contribution rate is much higher in the defined benefit plan.

The risks to the state are much higher with a defined benefit plan. It will cost more money in the long term. Transferring account balances into the defined benefit trusts would not make a meaningful dent in the unfunded liability. It would not change contribution rates, since they are calculated on the combined payroll DB and DC base. The administration would love to see a defined benefit system that actually saved costs, but it does not exist. That is why states across the country are seeking to follow Alaska's example.

[10:31:49 AM](#)

He thanked the Chair for the opportunity to present the administration's position in opposition to the bill. The state wants to keep its retirement promises. It does not want to make new retirement promises that it cannot keep. Until Alaska's long-term fiscal situation is resolved, this discussion is premature.

CHAIR WIELECHOWSKI said the committee would continue to work with the stakeholders and the administration, and look for common ground. He thanked the committee, the recording secretary, LIO staff, and his committee staff Michelle Sydeman. [SB 121 was held in committee.]

10:32:20 AM

There being no further business to come before the committee, Chair Wielechowski adjourned the Senate State Affairs Standing Committee meeting at 10:32 a.m.