

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

March 27, 2014

8:59 a.m.

MEMBERS PRESENT

Senator Fred Dyson, Chair
Senator Cathy Giessel, Vice Chair
Senator John Coghill
Senator Bill Wielechowski

MEMBERS ABSENT

Senator Bert Stedman

COMMITTEE CALENDAR

SENATE CONCURRENT RESOLUTION NO. 20
Proclaiming April 2014 as Sexual Assault Awareness Month.

- MOVED SCR 20 OUT OF COMMITTEE

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 19(RLS)(EFD AM)
"An Act relating to permanent motor vehicle registration in the unorganized borough and in a municipality that has elected to allow permanent registration; relating to the registration fee for noncommercial trailers and to the motor vehicle tax for trailers; and providing for an effective date."

- MOVED CSHB 19(RLS)(EFD AM) OUT OF COMMITTEE

SENATE BILL NO. 30
"An Act relating to new defined benefit tiers in the public employees' retirement system and the teachers' retirement system; providing certain employees an opportunity to choose between the defined benefit and defined contribution plans of the public employees' retirement system and the teachers' retirement system; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 284
"An Act relating to an interstate compact on a balanced federal budget."

- BILL HEARING CANCELED

PREVIOUS COMMITTEE ACTION

BILL: SCR 20

SHORT TITLE: SEXUAL ASSAULT AWARENESS MONTH

SPONSOR(s): FINANCE

03/14/14 (S) READ THE FIRST TIME - REFERRALS
03/14/14 (S) STA
03/27/14 (S) STA AT 9:00 AM BUTROVICH 205

BILL: HB 19

SHORT TITLE: PERM. MOT. VEH. REGISTRATION/TRAILERS

SPONSOR(s): STOLTZE, KELLER

01/16/13 (H) PREFILE RELEASED 1/7/13
01/16/13 (H) READ THE FIRST TIME - REFERRALS
01/16/13 (H) TRA, FIN
02/07/13 (H) TRA AT 1:00 PM BARNES 124
02/07/13 (H) Heard & Held
02/07/13 (H) MINUTE(TRA)
02/14/13 (H) TRA AT 1:00 PM BARNES 124
02/14/13 (H) Moved CSHB 19(TRA) Out of Committee
02/14/13 (H) MINUTE(TRA)
02/15/13 (H) TRA RPT CS(TRA) 3DP 4NR
02/15/13 (H) DP: GATTIS, FEIGE, LYNN
02/15/13 (H) NR: KREISS-TOMKINS, ISAACSON, JOHNSON,
P.WILSON
02/28/13 (H) FIN AT 1:30 PM HOUSE FINANCE 519
02/28/13 (H) Heard & Held
02/28/13 (H) MINUTE(FIN)
03/19/13 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/19/13 (H) Moved CSHB 19(TRA) Out of Committee
03/19/13 (H) MINUTE(FIN)
03/20/13 (H) FIN RPT CS(TRA) 6DP 4NR 1AM
03/20/13 (H) DP: THOMPSON, T.WILSON, MUNOZ, NEUMAN,
COSTELLO, STOLTZE
03/20/13 (H) NR: HOLMES, GARA, EDGMON, AUSTERMAN
03/20/13 (H) AM: KAWASAKI
02/18/14 (H) RLS AT 5:00 PM BARNES 124
02/18/14 (H) Moved CSHB 19(RLS) Out of Committee
02/18/14 (H) MINUTE(RLS)
02/24/14 (H) RLS RPT CS(RLS) NT 7DP
02/24/14 (H) DP: GRUENBERG, HAWKER, OLSON, CHENAULT,
KELLER, HERRON, JOHNSON
03/12/14 (H) TRANSMITTED TO (S)
03/12/14 (H) VERSION: CSHB 19(RLS)(EFD AM)

03/14/14 (S) READ THE FIRST TIME - REFERRALS
03/14/14 (S) STA, FIN
03/27/14 (S) STA AT 9:00 AM BUTROVICH 205

BILL: SB 30

SHORT TITLE: TEACHERS & PUB EMPLOYEE RETIREMENT PLANS
SPONSOR(S): EGAN

01/22/13 (S) READ THE FIRST TIME - REFERRALS
01/22/13 (S) STA, FIN
03/27/14 (S) STA AT 9:00 AM BUTROVICH 205

WITNESS REGISTER

EDRA MORLEDGE, Staff
Senator Kevin Meyer
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced SCR 20 on behalf of the sponsor.

DARRELL BREESE, Staff
Representative Bill Stoltze
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced HB 19 on behalf of the sponsor.

REPRESENTATIVE BILL STOLTZE
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of HB 19.

AMY ERICKSON, Director
Division of Motor Vehicles
Department of Administration

POSITION STATEMENT: Answered questions related to HB 19.

SENATOR DENNIS EGAN
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of SB 30.

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

POSITION STATEMENT: Provided an overview of SB 30 on behalf of the sponsor.

WILLIAM FORNIA, President
Pension Trustee Advisors

POSITION STATEMENT: Delivered a PowerPoint presentation in support of SB 30.

MIKE BARNHILL, Deputy Commissioner
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Expressed concerns with SB 30.

JACOB BERA, Teacher
Chugiak, Alaska

POSITION STATEMENT: Testified in support of SB 30.

BRANDEN WINEBARGER, Teacher
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of SB 30.

DEREK HSIEH, President
Anchorage Police Department Employees Association (APDE)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SB 30.

BEVERLY BRILL
Alaska State Employee Association
Sitka, Alaska

POSITION STATEMENT: Testified in support of SB 30.

ACTION NARRATIVE

[8:59:33 AM](#)

CHAIR FRED DYSON called the Senate State Affairs Standing Committee meeting to order at 8:59 a.m. Present at the call to order were Senators Giessel, Wielechowski, and Chair Dyson.

SCR 20-SEXUAL ASSAULT AWARENESS MONTH

[9:00:56 AM](#)

CHAIR DYSON announced the consideration of SCR 20.

[9:01:02 AM](#)

EDRA MORLEDGE, Staff, Senator Kevin Meyer, Alaska State Legislature, Juneau, Alaska, introduced SCR 20 on behalf of the sponsor. She said the resolution proclaims April 2014 as Sexual

Assault Awareness Month. It is part of a national campaign to raise awareness and educate communities on the crimes of sexual assault and how to prevent sexual violence. This is a serious, widespread public health problem that affects both men and women. The Center for Disease Control (CDC) reports that one in five women and one in seventy one men have been victims of violent sexual assault at some point in their life. In Alaska the rates are estimated to be about 2.5 times higher than the national average, but it's probably more than that because many victims don't report.

MS. MORLEDGE concluded saying that sexual violence impacts health in many ways and can lead to long-term physical and mental health problems. Bringing awareness to the crime of sexual assault by a resolution helps to lift the veil of secrecy that so often hides these horrific crimes, she said.

[9:03:06 AM](#)

CHAIR DYSON remarked that part of the value of the resolution is to increase awareness.

SENATOR GIESSEL moved to report SCR 20, labeled 28-LS1601\A, from committee with individual recommendations and attached zero fiscal note(s).

CHAIR DYSON announced that without objection, SCR 20 was reported from the Senate State Affairs Standing Committee.

[9:04:08 AM](#)

At ease.

HB 19-PERM. MOT. VEH. REGISTRATION/TRAILERS

[9:05:00 AM](#)

CHAIR DYSON reconvened the meeting and announced the consideration of HB 19. CSHB 19(RLS)(efd am), labeled 28-LS0130\N.A, was before the committee.

[9:05:49 AM](#)

DARRELL BREESE, Staff, Representative Bill Stoltze, sponsor of HB 19, stated that this legislation provides the option for Alaskans to obtain permanent registration for noncommercial motor vehicles that are at least eight years old and noncommercial trailers. The bill is modeled after similar legislation that passed in Montana. The sponsor chose the eight-year benchmark because motor vehicle tax rates remain flat once a vehicle is eight years old.

MR. BREESE highlighted that the House Rules committee amended HB 19 and added the requirement for municipalities and boroughs to opt-in to the program by passing an ordinance. He said it's important to note that the Division of Motor Vehicles (DMV) takes in about \$38 million more in registration fees than it needs to operate.

[9:08:33 AM](#)

REPRESENTATIVE BILL STOLTZE, Alaska State Legislature, Juneau, Alaska, speaking as sponsor of HB 19, described the bill as a matter of philosophy as well as finance. He said he doesn't dispute the fiscal notes because DMV has to be conservative in its estimates, but he believes that a lot of people are willing to spend more money to keep from dealing with government so often, particularly on the issue of noncommercial trailers. He noted that the bill had been modulated by municipality concerns but he thought that at least the Mat-Su Borough would look at the legislation seriously.

[9:12:02 AM](#)

SENATOR EGAN joined the committee.

CHAIR DYSON asked if there was discussion about someone who buys a permanently registered motor vehicle and doesn't bother to change the registration.

REPRESENTATIVE STOLTZE replied that problem exists with or without the bill and it's something that DMV should be able to fix.

MR. BREESE pointed out that Sections 2 and 4 address the fact that the permanent registration is nontransferable. When the vehicle sells and the seller sends in the slip, the permanent registration expires.

CHAIR DYSON asked if an organized municipality would have to pass an ordinance before this would be effective.

REPRESENTATIVE STOLTZE confirmed that the bill is permissive and that a municipality would need to pass an ordinance for it to take effect.

CHAIR DYSON questioned the term "shall" on page 1, line 8.

REPRESENTATIVE STOLTZE offered his understanding that it means in conformance with DMV registration requirements. He deferred further explanation to DMV.

[9:16:29 AM](#)

SENATOR WIELECHOWSKI asked for an estimate of the fiscal impact.

MR. BREESE replied the current fiscal note is indeterminate because it's difficult to tell which municipalities and boroughs would pass an ordinance allowing the permanent registration.

SENATOR WIELECHOWSKI reviewed the fiscal note dated 3/20/13 attached to CSHB 19(TRA), and asked if that had changed.

[9:17:34 AM](#)

MR. BREESE replied that fiscal note was changed when the bill was amended with the opt-in provision. Not knowing which municipalities will opt in makes it difficult to estimate how many vehicles will be eligible for permanent registration. He surmised that the 3/20/13 fiscal note would probably apply if all municipalities and boroughs opt in.

SENATOR WIELECHOWSKI asked if the bill would cause a fiscal loss to municipalities or boroughs.

REPRESENTATIVE STOLTZE replied it's a local option.

SENATOR WIELECHOWSKI asked if the state receives 100 percent of vehicle registration fees or if some of it goes to municipalities.

MR. BREESE explained that 16 municipalities currently add on to the state motor vehicle registration tax; the rate varies by area and the age of the vehicle. Thus, it's possible that municipalities would see a loss if the bill passes. He noted that Section 7 allows municipalities to set motor vehicle registration tax rates for a vehicle that will be registered permanently.

[9:19:50 AM](#)

SENATOR COGHILL joined the committee.

SENATOR WIELECHOWSKI asked what the tax is in Anchorage so he could get an idea of how much this would cost his community.

REPRESENTATIVE STOLTZE replied it would only cost Anchorage money if the municipality makes the decision to opt in. He noted that Mayor Sullivan doesn't support the bill.

MR. BREESE added that the Municipality of Anchorage adds a \$70 tax to the motor vehicle registration fee for a motor vehicle that is eight years or older. He suggested that DMV could probably provide an estimate using that figure.

[9:21:22 AM](#)

SENATOR WIELECHOWSKI calculated that based on the DMV estimate that 478,000 vehicles would qualify statewide and the fact that Anchorage has 42 percent of the population, the municipality could lose \$7 million per year if it opts in to the program.

MR. BREESE agreed with the estimate based on those figures and then reiterated that the exact math is only a best guess.

SENATOR GIESSEL pointed out that if municipalities structure and collect the tax they will be 8 percent ahead because DMV currently keeps 8 percent of the municipality's tax as an administrative fee.

MR. BREESE agreed.

CHAIR DYSON commented that the title was confusing.

REPRESENTATIVE STOLTZE clarified that this applies to both noncommercial motor vehicles and noncommercial trailers.

[9:23:52 AM](#)

SENATOR WIELECHOWSKI remarked that in an earlier bill he introduced a floor amendment to cut DMV fees by 15 percent and it was rejected. He asked if the sponsor would support a similar amendment to HB 19.

REPRESENTATIVE STOLTZE replied he doesn't have a position on the proposed amendment but it's not the focus of HB 19.

[9:25:07 AM](#)

AMY ERICKSON, Director, Division of Motor Vehicles, Department of Administration, offered to answer questions.

CHAIR DYSON asked her expectation of the impact of HB 19 on DMV.

MS. ERICKSON replied DMV doesn't expect an impact per se. DMV already offers a permanent "P tab" registration to people 65

years of age and older and thus could issue a P tab to any municipality that opts in.

CHAIR DYSON asked for an estimate of reduced staff time if DMV had 5,000 fewer vehicles to register each year.

MS. ERICKSON conceded that the division hadn't contemplated that.

[9:26:23 AM](#)

SENATOR WIELECHOWSKI referenced the 3/20/13 fiscal note that projects a \$22 million loss in 2019. He asked if she agrees, assuming that municipalities opt in.

MS. ERICKSON confirmed that the figures were that large when the bill was mandatory for all municipalities.

CHAIR DYSON asked her sense of the language on page 1, line 8 of version N.A.

MS. ERICKSON replied it's no different than current statute.

[9:27:25 AM](#)

At ease.

[9:27:59 AM](#)

CHAIR DYSON reconvened the meeting and solicited a motion.

[9:28:02 AM](#)

SENATOR GIESSEL moved to report CSHB 19, labeled 28-LS0130\N.A, from committee with individual recommendations and attached fiscal note(s).

[9:28:18 AM](#)

SENATOR WIELECHOWSKI declared a potential conflict because he owns two vehicles that meet the bill requirement.

CHAIR DYSON announced that without objection CSHB 19(RLS)(efd am) was reported from the Senate State Affairs Standing Committee.

[9:28:39 AM](#)

At ease

SB 30-TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

[9:29:42 AM](#)

CHAIR DYSON reconvened the meeting and announced the consideration of SB 30.

9:29:46 AM

SENATOR DENNIS EGAN, sponsor of SB 30, introduced the bill speaking to the following sponsor statement:

SB 30 lets teachers, Troopers, firefighters and other public employees choose one of two state retirement systems: an individual defined contribution retirement account, or earning a defined benefit pension.

A defined benefit pension takes time to earn, but rewards a record of public service by paying a guaranteed monthly benefit and, for long-term employees, health insurance. An individual defined contribution account is portable from one employer to another, and flexible in how it can be used, but makes no guarantees. SB 30 lets newly hired public servants in Alaska choose the one that fits best.

SB 30 creates a new more stable, more predictable defined benefit pension tier for public employees. In 2005, Alaska beefed up oversight of the pension system. Now we have two actuaries analyzing the health of the pension trusts, there are more frequent experience studies and the law bars the practice of sometimes paying less than the cost of benefits. SB 30 keeps these smart reforms, making Alaska pensions stronger than ever.

And because the defined benefit pensions for new employees include sharing the risk of rising health costs, they will never cost employers more than the defined contribution system, saving money for schools, municipalities, and the State of Alaska.

Alaska's public servants don't earn the private sector's defined benefit of Social Security, and many even lose Social Security benefits they earned in past jobs. So for most, a defined benefit pension makes sense. Other employees will choose individual defined contribution accounts because they prefer flexibility, portability, and control, or because they don't plan on long-term public sector work. SB 30 lets them choose an individual account instead.

The teachers who educate our children, the police and firefighters who protect our families, and the public employees who plow the roads and serve our state and cities will be able to choose the benefit that best fits their service.

SENATOR EGAN reported that an analysis of a previous version of the bill showed that it would save the state more than \$70 million over five years and be cost-neutral in the long run. It shares the risk of rising healthcare costs between employers and employees and doesn't add to the unfunded liabilities from the past.

CHAIR DYSON asked about portability.

[9:33:19 AM](#)

JESSE KIEHL, Staff, Senator Dennis Egan, explained that the structure of SB 30 creates a one-time choice for a newly hired employee between the current defined contribution system and the new defined benefit system. The funds in an employee's individual defined contribution account are entirely portable, subject to a vesting schedule for the employer's contribution. The defined benefit system provides an employee with a pension, and those funds generally are not portable.

For the defined benefit program, the system aims to put away enough money each year to fund the future benefits that employees earned in that year. That's referred to by actuaries as the normal cost rate. Both employees and employers put money into the system and those funds are invested in trust funds. With an open defined benefit (pension) system, trust funds are invested for the long term and that enables them to earn returns comparable to Alaska's Permanent Fund. Historically they have been just more than 8 percent. Those earnings are important because 55 percent to 60 percent of the benefits that PERS and TRS pay in their defined benefit pension system come from investment earnings. He noted that the average annual PERS pension is in the low to middle \$25,000 range and the average TRS pension is about \$34,000 a year. Those pensions take a long time to earn and with longer service an employee can earn retiree health insurance. Under the pension tier created in SB 30, the employee will always pay a portion of the monthly insurance premium.

MR. KIEHL highlighted that SB 30 does not change the current defined contribution system. One of the benefits of that system is that employees are able to control their own investments.

Employees that are skilled investment managers have the opportunity to create a retirement nest egg that will pay better than the pension system, but there are no guarantees. He noted that economists talk about America's looming retirement crisis because the average American employee age 55-64 has \$165,000 in retirement savings. More than half of U.S. workers have put away just \$10,000.

MR. KIEHL said it's important to note that the state is always the payer of last resort. There is no trust fund for the state's share of senior Medicaid benefits, senior care, or the state's heating program. Those all have a zero percent funded ratio, unlike Alaska's Defined Benefit System. Another consideration is the high cost of recruitment and retention. For example, to recruit, hire and train a biologist in the first year is in the neighborhood of \$15,000. For peace officers the cost for the first two years can reach \$150,000. Employers are rightly concerned because it's difficult to continue to pay for high turnover. The option for employees to choose a defined benefit system removes the incentive for employees to vest in the employer contributions and then move to a state that offers a pension.

MR. KIEHL reviewed the changes in the new pension tier that SB 30 creates. Most employees will pay in at a significantly higher percent of their payroll; general government workers will go from 6.75 percent of their pay to 8 percent of their pay. That's a genuine reduction of their take home pay to fund their benefit, he said.

[9:38:32 AM](#)

MR. KIEHL said that SB 30 takes longer for retirees to earn help in paying for their retiree health insurance. For most employees that threshold is Medicare eligibility. If the federal government moves the current age of eligibility, Alaska won't be expected to pay for the gap years. The other important consideration is sharing the risk with employees. The new pension tier in SB 30 adjusts the retiree's portion of the health insurance premium so it doesn't cost the state more than the defined contribution tier that the state currently offers and will continue to offer under the bill. That's an important risk-sharing element to help keep the state and municipal employers whole in terms of paying that normal cost and prefunding benefits.

MR. KIEHL said the bill gives current employees in the defined contribution system one opportunity to switch. The switch would

be irrevocable and at the employee's cost. If the current value of their individual account isn't enough to prefund the full time they've served, they would only get credit for the time they've served unless the employee chooses to make up the difference to fully prefund that service time. Under no circumstance could an employee convert and get credit for more time than they served.

[9:41:33 AM](#)

MR. KIEHL said the analysis of the fiscal note by the system actuary, Buck, shows that over the first years, SB 30 should save the state just under \$69 million. He recalled that after 4-5 years in PERS and 12 years in TRS, the system will be cost-neutral when the adjustments take effect, as compared to the defined contribution system. He noted that the sponsor takes exception to a line in the administration's fiscal note that refers to creating an unfunded liability once the adjustments take effect. In fact, the sponsor's intent and understanding of the bill is that when the adjustments take effect, the retirees' medical premiums will fund that additional liability. He noted that an actuary would speak to that.

He concluded that everyone is aware that there is no such thing as a riskless retirement system. SB 30 invests carefully and wisely for the future, it saves the state and municipalities in the near term, it saves money on turnover and recruitment costs, and it shares the risk for remaining cost neutral.

[9:43:43 AM](#)

CHAIR DYSON

[9:44:24 AM](#)

WILLIAM FORNIA, President, Pension Trustee Advisors, delivered a PowerPoint presentation in support of SB 30. He noted that this bill is somewhat similar to Senate Bill 121 that was introduced several years ago. He reviewed the three point agenda of the presentation: 1) discuss the advantages of including a defined benefit plan option; 2) discuss the financial analysis of the defined benefit plan option; and 3) discuss how actuarial assumptions impact unfunded liabilities.

MR. FORNIA discussed the findings:

- The defined benefit plan option is more economical for the state.
 - It provides more efficient delivery of retirement benefits.
 - It helps retain jobs in Alaska.

- It provides the safety net others have from Social Security.
- SB 30 has structured a defined benefit choice alternative of \$10 million in FY 2017 savings.
 - Health cost risk is shifted to the employees
 - Employee contributions are higher than the current defined benefit system.
 - It has employee health cost sharing.

MR. FORNIA reviewed why Alaska public employees should have a defined benefit option.

- By their nature, defined benefit plans provide workers what they need for retirement in terms of pension benefits.
- Defined benefit plans deliver benefits more efficiently than defined contribution plans, thereby saving money for the same retirement benefit.
- This is particularly necessary because a majority of Alaska public employees are not covered by Social Security.

MR. FORNIA reviewed a chart of the benefit differential between defined benefit tier employees hired just before 2006 and defined contribution tier employees hired after 2006. It shows that the average teacher was hired at age 34, works 25 years, and retires at age 59. If they were hired before 2006, they would have a defined benefit of about 58 percent of their average annual pay. If they were hired after 2006 their contributions would generate benefits of 33 percent of pay. That's a 25 percent reduction of benefit and is the reason workers are asking for the option of being in a defined benefit program.

MR. FORNIA displayed a graph showing hypothetical teacher benefits from a \$50,000 final average salary. The Tier 2 defined benefit amount is about \$30,000, the Tier 3 defined contribution amount is about \$17,000, and Social Security is about \$13,000.

MR. FORNIA reviewed the three reasons that it is more economically efficient and effective to provide a defined benefit.

- Longevity risk pooling. Because defined benefit plans cover large numbers of retirees, they can pay out over the average life expectancy, not maximum life expectancy. An individual under a defined contribution plan will want to avoid the risk of running out of money if they live a long life. Because individuals must plan for a maximum life expectancy, much more money must be accumulated in a

defined contribution plan compared to a defined benefit plan. A graph showing pension payments and "over-savings" for a pool of 1,000 teachers who retired at age 62 under a defined contribution plan shows that 24 percent of the assets passed to the estate rather than being used during retirement.

- Maintenance of portfolio diversification. Defined benefit plans can maintain a well-diversified portfolio over time. By contrast, individuals in defined contribution plans are advised to shift to more conservative investments as they age, sacrificing some expected return. Lower returns mean that more money must be contributed to deliver the same level of benefits.
- Superior returns. Assets in defined benefit plans are professionally managed. Pooled investments in defined benefit plans can lower expenses. Studies generally have shown that defined benefit plan returns outperform defined contribution plans by at least one percent annually.

[9:54:44 AM](#)

MR. FORNIA said the concerns about unfunded liabilities are legitimate. A new defined benefit program puts the state at some risk of increasing liabilities, but if the pool of assets grows at more than eight percent it would decrease the unfunded liabilities for the state.

MR. FORNIA displayed a chart showing the anticipated \$70 million savings over fifteen years. The point is that the bill is designed to be cost-neutral. In conclusion he said the defined benefit plan is more economical for the state because it's more efficient, helps keep jobs in the state, and provides the safety net others have from Social Security. The plan is structured to provide about \$10 million in savings in the first year and \$70 million over 15 years. This is done by shifting some of the risk to the employees as opposed to the tiers from the pre 2006 years.

[9:57:42 AM](#)

SENATOR WIELECHOWSKI asked if he'd discussed the \$70 million savings with the administration and if their actuaries agree or disagree with the number.

MR. FORNIA replied the numbers are from the administration's report.

SENATOR WIELECHOWSKI asked if the current unfunded liability is due primarily to defined benefit pensions or healthcare.

MR. FORNIA said he didn't know the exact split, but healthcare is clearly a huge portion of the unfunded liability.

SENATOR WIELECHOWSKI asked if he was aware of any other states whose public employees do not receive Social Security or some sort of defined benefit plan.

MR. FORNIA answered that he wasn't aware of any other states or major employers whose public employees receive neither.

10:00:33 AM

CHAIR DYSON asked if the defined benefit pension envisioned in SB 30 is based on high years of earnings, the circumstances under which the employer contribution changes, the history of the state opting out of the Social Security system, and if the state will make up the difference if an employee outlives the assets in their account.

MR. KIEHL replied the pension calculations work the same way as the most recent pension tiers. For PERS Tier III it's based on the highest five consecutive years of compensation. He offered to follow up with how employer costs change and history of how public employees opted out of Social Security.

CHAIR DYSON asked Mr. Barnhill to respond to the information presented.

10:03:24 AM

MIKE BARNHILL, Deputy Commissioner, Department of Administration, said the administration has concerns with any proposal for a defined benefit plan for state employees and school districts. As a result of promises made in the past, the state is struggling with how to deal with the \$11.9 billion unfunded liability. Looking forward 10-40 years there is a fair amount of uncertainty on how to meet the fiscal needs of state government and its citizens. He pointed out that a defined benefit promise for a 20-year-old new state employee would have to be kept for up to 70 years. The state has the resources to meet the promises it made decades ago, but there is uncertainty looking forward 30-40 years if a new unfunded liability should arise. From an employee's viewpoint a defined benefit makes sense, but the state has to look at its balance sheet and revenues to see where the resources will come from if there is a financial downturn in the investment markets in the 2030s, 2040s, or 2050s. He suggested addressing the promises the state has made to date and the fiscal uncertainty the state faces

today before making new promises to a new generation of defined benefit employees.

SENATOR COGHILL asked if the Supplemental Benefit System partially offsets the loss of a Social Security benefit.

MR. BARNHILL explained that in 1981 federal law opened to allow public entities, state governments, and local municipalities to opt out of the Social Security System by opting in to a qualified Social Security replacement. The State of Alaska designed the Supplemental Annuity System (SBS) as the qualified Social Security replacement system. The basic structure is a defined contribution structure where the employer contributes 6.13 percent of the employee's salary and the employee matches that for a total of 12.26 percent. Those percentages are the same as what Social Security was charging employers and employees in 1981. Some municipalities in the state opted out of Social Security but rather than opting into SBS, they adopted PERS as the qualified Social Security replacement. The mechanism for opting out was a referenda conducted by each employer that opted out. The State of Alaska employees held a referendum and voted to opt out of Social Security into SBS.

SENATOR COGHILL asked about the Teacher Retirement System (TRS).

MR. BARNHILL said he believes that goes back to when Social Security was enacted in the 1930s, although teachers generally did not participate in Social Security.

SENATOR COGHILL summarized his understanding of the risk of rising healthcare costs under the bill.

[10:10:01 AM](#)

MR. BARNHILL agreed that under the structure of SB 30 the risk of increasing healthcare costs does fall on the retiree. That can be seen in the Buck chart that shows that starting in FY 2022 the retiree premiums start going up. He continued to say that Buck is concerned that those premiums could rise so sharply that retirees will stop electing retiree health and the plan won't have sufficient participation to work. The risks in any defined benefit plan are driven by what the actuary projects with respect to investment return, inflation, mortality, and date of retirement. If the actuary makes any wrong projection those risks can create a new unfunded liability.

MR. BARNHILL opined that the bill doesn't address the primary risk of not earning eight percent in year one, which is why the

administration's fiscal note is indeterminate. The administration's actuary did come up with the numbers that produce the \$70 million saving over 15 years but an investment loss in the first year could offset any savings.

SENATOR WIELECHOWSKI said this subject has been debated the entire time he's been in the legislature, but the point remains that Alaska is the only state in the nation whose public employees don't have a defined benefit or Social Security. He questioned whether the bill moving through the House could be a compromise because it removes the state's liability and gives the employees a defined benefit.

MR. BARNHILL replied that particular vehicle is complex and he'd defer as to whether the administration would support it, but there is room for compromise.

CHAIR DYSON opened public testimony.

[10:15:39 AM](#)

JACOB BERA, Teacher, Chugiak, Alaska, stated support for SB 30. He said it would allow public employees a choice between a defined contribution and a defined benefit plan. He and his wife did some research after they completed their schooling and in 2003 decided that Alaska offered a positive job outlook. The good pay and secure retirement along with the natural beauty of the state were deciding factors, but based on the current job outlook and retirement plan they'd make a different decision today. A recent report to the Alaska Retirement Management (ARM) Board shows that of the 3,037 teachers hired since July 1, 2006, only 632 have stayed more than five years. Of the 12,297 PERS employees hired in that same period, only 989 stayed. He said he believes that restoring the ability to earn a secure retirement can create the incentive to stay in Alaska and help turn the trend around.

MR. BERA said he's been working with legislators for years to find a better retirement option for his colleagues. Most agree that the lack of a secure retirement and the inability for public employees to contribute to Social Security puts the state at risk as the payer of last resort. Legislators on both sides of the aisle have expressed support for a blended system that offers the choice of a defined contribution or a defined benefit as long as it doesn't put the state at risk due to rising healthcare costs. SB 30 addresses these issues.

[10:18:51 AM](#)

BRANDEN WINEBARGER, Teacher, Fairbanks, Alaska, stated support for SB 30. He said he moved to Alaska and began his career in education in August 2006, just after the introduction of the defined contribution plan. Since then he's seen many good teachers come and go. They arrive with excitement that slowly erodes due in part to an increasing awareness of the poor teacher retirement system. He said it's almost as though Alaska is renting teachers for 2-4 years at a time. This high turnover rate erodes a school's staff the ability to function effectively or develop cohesiveness and limits the overall ability to serve the needs of the students.

MR. WINEBARGER said the uncertainty of the defined contribution plan makes it difficult to plan for the future and for retirement, and the fact that Alaska's public school teachers do not receive any Social Security benefits adds further uncertainty when making retirement plans.

SENATOR COGHILL said he's open to the discussion but it appears that the structure of SB 30 will increase risk to individual teachers. He asked Mr. Weinberger if he'd "seen any credible proposals on the Social Security question outside of this."

MR. WEINBERGER answered no.

VICE-CHAIR GIESSEL stated that Chair Dyson stepped out and she would preside over the rest of the meeting.

[10:24:01 AM](#)

DEREK HSIEH, President, Anchorage Police Department Employees Association (APDE), Anchorage, Alaska, stated support for SB 30. He said APD is suffering staffing problems and the May police academy is unlikely to fill the 28 positions. To his knowledge, APD is the only metropolitan police department in the U.S. where the police employees have no access to a defined benefit plan or Social Security. He said APD's primary source of police applicants is the military. These people earn Social Security while serving, but once they're hired at APD they essentially lose their Social Security credit because of the Windfall Elimination Provision (WEP). This is a major impediment and APD is seeing younger police employees leaving the department for positions in the Lower 48.

[10:27:26 AM](#)

BEVERLY BRILL, Alaska State Employee Association, Sitka, Alaska, stated support for SB 30. She said she's participated in PERS and SBS for 24 years as a Tier II employee with a defined

benefit plan, which she appreciates. She said the change in the retirement system from defined benefit to defined contribution does not attract or retain long-term employees. It also causes inequity in the workforce when people working side-by-side have different retirement plans. She further said that all public employees need a reliable retirement system that will allow them to provide for themselves and their family after leaving the workforce. Hopefully they will also be able to afford to continue to live in the state of Alaska. To ensure that future generations are provided services by the best teachers, state and municipal employees, it's important to offer a reasonable benefit package that allows them the choice of either a defined benefit or defined contribution in their retirement plan.

VICE-CHAIR GIESSEL stated that SB 30 would be held in committee and public testimony on would remain open.

10:30:02 AM

There being no further business to come before the committee, Vice-Chair Giessel adjourned the Senate State Affairs Standing Committee hearing at 10:30 a.m.