

ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE

March 24, 2016

8:09 a.m.

MEMBERS PRESENT

Representative Bob Lynn, Chair
Representative Wes Keller, Vice Chair
Representative Louise Stutes
Representative David Talerico
Representative Liz Vazquez
Representative Jonathan Kreiss-Tomkins
Representative Ivy Spohnholz

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 324

"An Act relating to the Violent Crimes Compensation Board."

- MOVED CSHB 324(STA) OUT OF COMMITTEE

HOUSE BILL NO. 280

"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."

- MOVED HB 280 OUT OF COMMITTEE

HOUSE JOINT RESOLUTION NO. 30

Urging the American Psychiatric Association to change the term "post-traumatic stress disorder" or "PTSD" to "post-traumatic stress injury" or "PTSI"; and urging the governor to support usage of the term "post-traumatic stress injury."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 324

SHORT TITLE: VIOLENT CRIMES COMP BOARD MEMBERSHIP
SPONSOR(s): REPRESENTATIVE(s) LEDOUX

02/22/16 (H) READ THE FIRST TIME - REFERRALS
02/22/16 (H) STA
03/24/16 (H) STA AT 8:00 AM CAPITOL 106

BILL: HB 280

SHORT TITLE: TEACHERS & PUB EMPLOYEE RETIREMENT PLANS
SPONSOR(s): REPRESENTATIVE(s) KITO

01/29/16 (H) READ THE FIRST TIME - REFERRALS
01/29/16 (H) STA, L&C, FIN
03/24/16 (H) STA AT 8:00 AM CAPITOL 106

WITNESS REGISTER

COURTNEY ENRIGHT, Staff
Representative Gabrielle LeDoux
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 324 on behalf of
Representative LeDoux, prime sponsor.

KATE HUDSON, Executive Director
Violent Crimes Compensation Board (VCCB)
Department of Administration (DOA)
Juneau, Alaska

POSITION STATEMENT: Testified on HB 324.

REPRESENTATIVE SAM KITO
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 280, as prime sponsor.

JASON DUNCOMBE
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 280.

WILLIAM FORNIA, President
Pension Trustee Advisers, Inc. (PTA)
Centennial, Colorado

POSITION STATEMENT: Provided information and presented a
PowerPoint related to HB 280.

ROBERT GROVE, Legislative Information Director
Retired Public Employees of Alaska (RPEA)

Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 280.

NATHAN COUTSOUBOS

National Education Association of Alaska (NEA-Alaska)

Dillingham, Alaska

POSITION STATEMENT: Testified in support of HB 280.

CHRIS BENSHOOF

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 280.

JACOB BERA

Chugiak, Alaska

POSITION STATEMENT: Testified in support of HB 280.

BRINNA WOJTALEWICZ

Eagle River, Alaska

POSITION STATEMENT: Testified in support of HB 280.

SAM TRIVETTE

Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 280.

GREG COLLEN

Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 280.

ACTION NARRATIVE

[8:09:21 AM](#)

CHAIR BOB LYNN called the House State Affairs Standing Committee meeting to order at 8:09 a.m. Representatives Kreiss-Tomkins, Talerico, Stutes, Keller, Vazquez, and Lynn were present at the call to order. Representative Spohnholz arrived as the meeting was in progress.

HB 324-VIOLENT CRIMES COMP BOARD MEMBERSHIP

[8:09:57 AM](#)

CHAIR LYNN announced that the first order of business would be HOUSE BILL NO. 324, "An Act relating to the Violent Crimes Compensation Board."

[8:10:13 AM](#)

COURTNEY ENRIGHT, Staff, Representative Gabrielle LeDoux, Alaska State Legislature, presented HB 324 on behalf of Representative LeDoux, prime sponsor. She stated that the proposed legislation would amend the membership of the Violent Crimes Compensation Board (VCCB) to expand the possibilities for board appointees and to aid in recruitment. She explained that VCCB asked for this change because of the difficulty in recruiting and retaining physicians for the board. In response to Chair Lynn, she further explained that physicians often have limited time, and a nurse practitioner has suitable medical knowledge for the needs of the board.

[8:11:24 AM](#)

REPRESENTATIVE KELLER moved to adopt Amendment 1, labeled 29-LS1479\A.1, Bruce, 3/22/16, which read as follows:

Page 1, line 7, following "physician":
Insert ", a physician assistant."

REPRESENTATIVE STUTES objected for purpose of discussion.

[8:12:24 AM](#)

REPRESENTATIVE SPOHNHOLZ opined that the amendment to add physician assistant to HB 324 would serve to recognize the broad scope of paraprofessionals [in Alaska] and widen the range and number of potential applicants that are available for VCCB. She added that both nurse practitioners and physician assistants practice independently and provide a high level of care.

MS. ENRIGHT confirmed for Chair Lynn that the proposed legislation with the amendment would add nurse practitioners and physician assistants to the range of medical professionals eligible for appointment by the governor to the seat that now must be filled by a physician.

[8:14:12 AM](#)

The committee took an at-ease from 8:14 a.m. to 8:15 a.m.

[8:14:37 AM](#)

REPRESENTATIVE STUTES withdrew her objection to Amendment 1.

REPRESENTATIVE KELLER withdrew Amendment 1.

[8:15:04 AM](#)

REPRESENTATIVE SPOHNHOLZ moved to adopt Amendment 2, labeled 29-LS1479\A.1, Bruce, 3/22/16, which read as follows:

Page 1, line 7, following "physician":
Insert ", a physician assistant."

REPRESENTATIVE STUTES objected for discussion, then removed her objection. [Without further objection, Amendment 2 was treated as adopted.]

[8:15:38 AM](#)

REPRESENTATIVE KELLER asked if there were times when the board was unable to function because of the absence of the physician board member or if there were times it was functioning without medical expertise.

MS. ENRIGHT replied that the absence of the medical professional at board meetings created a challenge for the board to achieve a quorum, since VCCB is only a three-member board. She added that the board's discussion of crimes requires a certain depth of medical expertise, and not having that expertise creates issues.

[8:16:37 AM](#)

KATE HUDSON, Executive Director, Violent Crimes Compensation Board (VCCB), Department of Administration (DOA), cited two separate year-long periods in VCCB's recent history where it has been difficult for the board to function. She went on to say that for a one-year period there was a physician on the board who was an absentee board member - unable to attend meetings and not responding to emails. She related another one-year period in which the board was not able to find a physician to serve on the board. She expressed the difficulties of coming to agreements on claims when there are only two board members, since there are often disagreements and a majority vote is needed.

[8:18:01 AM](#)

CHAIR LYNN asked if VCCB members are paid or receive travel reimbursement.

MS. HUDSON said that they are volunteers and therefore neither paid nor receive stipends. She conceded that they receive travel reimbursement if away from their home town, but that does not often occur.

[8:18:29 AM](#)

REPRESENTATIVE VAZQUEZ referred to a letter from Gerad Godfrey, Chair, VCCB, in the committee packet, and relayed that in the letter, Mr. Godfrey explains the importance of a medical professional serving on the board. Representative Vazquez asked Ms. Hudson to elaborate.

MS. HUDSON responded that VCCB often looks at cases where someone has been physically injured as the result of a crime. She went on to say that the board assesses the appropriateness of reimbursements for medical treatment, physical therapy, and prescriptions and, in her opinion, it is imperative that someone on the board have the medical knowledge to make these determinations.

[8:19:40 AM](#)

REPRESENTATIVE KELLER asked Ms. Hudson to describe the duty of VCCB.

MS. HUDSON stated that VCCB reviews claims - the nature of a crime and the nature of an injury - and decides eligibility under the statutes and reasonable expenses. She added that after those two decisions are made, the board signs an order form and payment is made.

[8:20:51 AM](#)

REPRESENTATIVE VAZQUEZ asked how many cases were processed in the past year.

MS. HUDSON responded that through fiscal year 2016 (FY 16) there were over 960 claims processed - that is, new applications received - but not all were awarded. She added that there are usually between 800 and 900 claims per year, and last year had a record number.

REPRESENTATIVE VAZQUEZ asked if VCCB gets direct referrals from the district attorney's office.

MS. HUDSON responded in the affirmative and added that referrals also come from law enforcement, hospitals, victim advocates, and other sources.

REPRESENTATIVE VAZQUEZ asked Ms. Hudson for the most common type of claim that VCCB processes in terms of cost and injury.

MS. HUDSON expressed that the question was a difficult one to answer. She offered that typically many of the claims fall under two categories. She described the first as assaults of young men with facial injuries and orbital fractures resulting in about \$10,000 in medical costs. The second category, she said, is child abuse cases in which payment is for mental health counseling costing anywhere from \$2,000 to \$10,000.

[8:23:22 AM](#)

REPRESENTATIVE VAZQUEZ asked how VCCB is funded.

MS. HUDSON responded that there are two sources of funding: one, an appropriation from the permanent fund dividend, which consists of a small portion of the dividends that are not paid to incarcerated felons; and two, an annual federal grant under the Victims of Crime Act.

REPRESENTATIVE VAZQUEZ asked Ms. Hudson what the total funding was for VCCB for FY 15.

MS. HUDSON responded that in FY 15, the total funding for VCCB was \$2.5 million - \$2.1 million for victim payments and \$400,000 for operating costs.

REPRESENTATIVE VAZQUEZ asked what the staffing level was for VCCB.

MS. HUDSON replied that VCCB has three staff, including herself, and they are located in Juneau.

[8:24:46 AM](#)

REPRESENTATIVE KELLER moved to report HB 324, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 324(STA) was reported from the House State Affairs Standing Committee.

[8:25:03 AM](#)

The committee took an at-ease from 8:25 a.m. to 8:27 a.m.

HB 280-TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

[Contains discussion of SB 88.]

[8:27:15 AM](#)

CHAIR LYNN announced that the final order of business would be HOUSE BILL NO. 280, "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."

[8:27:17 AM](#)

REPRESENTATIVE SAM KITO, Alaska State Legislature, presented HB 280, as prime sponsor. He relayed that HB 280 would provide an opportunity for state employees currently covered under Tier IV or new to state employment to choose between a defined benefit (DB) plan and a defined contribution (DC) plan. He confirmed that the passage of Senate Bill 141 in 2006 put every new employee under a defined contribution plan. He said that the proposed legislation would give current defined contribution employees a limited time to transition to a defined benefit plan if they so desire. He added that HB 280 would allow new employees interested in pursuing a public career as a teacher or public employee to elect a defined benefit plan or, if they prefer, a defined contribution plan.

REPRESENTATIVE KITO explained that when the State of Alaska originally set up the defined benefit program, the Internal Revenue Service (IRS) allowed the state to opt out of Social Security, which it did. He went on to say that the state then established the Supplemental Benefit System (SBS), a defined contribution component similar to a 401(k). He opined that one of the problems the state encounters in being able to recruit and retain employees is that now with SBS and the defined contribution system, employees have two 401(k) plans but no ability to participate in Social Security or any component of a defined benefit plan. He offered that the proposed legislation would give employees wishing to be career employees the opportunity to sign up for a defined benefit plan. He added that the vesting requirement for the proposed retirement plan

would be five years, and the vesting requirement for the more expensive medical plan would be ten years.

REPRESENTATIVE KITO stated that the fiscal analysis of HB 280 indicates that the proposed legislation, properly "actuarialized," could save the state about \$70 million over ten years.

[8:31:20 AM](#)

CHAIR LYNN asked if the actuarial projections are current.

REPRESENTATIVE KITO responded that he is working with the Department of Administration (DOA) to obtain an updated actuarial analysis to produce the fiscal note on HB 280.

CHAIR LYNN opined that some of the actuarial analyses that the state relied upon in the past were faulty, contributing to current [liability] problems with the state's retirement systems, and he asked if there are now better analyses.

REPRESENTATIVE KITO responded that two factors contributed to the poor actuarial projections: one, between the 1960s and now there has been a significant increase in life expectancy so that the actuarial assumptions have changed; and two, market performance was not as expected, creating a significant liability for the state retirement system. He added that state law now requires the state to do an actuarial analysis of its retirement plan every three to five years to ensure the plan is actuarially sound.

REPRESENTATIVE KITO emphasized that due to the increasing cost of healthcare, the medical component of a retirement plan is the greater driver of retirement costs compared with the retirement component. He said that under the proposed legislation, in order to receive healthcare benefits, a retired firefighter or public safety officer must have 25 years of service or a minimum of ten years and be eligible for Medicare. For a public employee, the requirement is a minimum of 30 years of service or a minimum of ten years, plus Medicare eligibility. Otherwise the retiree pays a percentage of or the full amount of the healthcare premiums.

[8:34:07 AM](#)

REPRESENTATIVE KELLER referred to the sponsor statement, which claims HB 280 would save money, and he asked who would bear the risk if medical costs do exceed the amounts projected.

REPRESENTATIVE KITO responded that there would be a shared risk. He said that under HB 280, a fully vested retiree on Medicare would be eligible for state healthcare benefits, but since those benefits become secondary to Medicare, the cost of the healthcare benefits through the state would be the smaller of the two. He further explained that individuals who are not Medicare eligible would pay the full healthcare insurance premium and reiterated the considerable service years necessary to qualify for a graduated or full medical benefit.

REPRESENTATIVE KELLER noted that even with a shared risk, the benefit amounts paid would vary depending on the increase in healthcare costs. He alluded to previous assurances given to the legislature that the retirement system was in sound condition, and he opined that these assurances can sometimes be wrong. He cited that other states and Puerto Rico are having problems funding retirement systems.

REPRESENTATIVE KITO answered yes, that there would be a shared risk.

[8:37:51 AM](#)

CHAIR LYNN cited the potential conflict of interest in moving the proposed legislation in that all legislators are state employees.

[8:38:53 AM](#)

JASON DUNCOMBE testified that he was a police officer for the Anchorage Police Department (APD). He stated that with a wife and four children, an option for retirement benefits would help his family in many ways. He expressed a concern that he shares with other officers - that is, without retirement benefits there isn't a future for them. He offered that there are other police departments that do offer retirement benefits, and that having that option available elsewhere would undoubtedly affect retention at APD. He maintained that he loves Alaska and considers it his home. He asserted that he loves his job and APD is like a family to him. He lamented that without retirement benefits, he doubts there is a future for himself and his family [in Alaska].

8:41:26 AM

WILLIAM FORNIA, President, Pension Trustee Advisers, Inc. (PTA), relayed that he is a consulting actuary and has been working with the Alaska Public Pension Coalition (APPC) on various matters since 2011. He stated that he has also worked as an advisory actuary for the Alaska Retirement Management (ARM) Board in 2005 and 2006, and he performed an audit of [Alaska's] Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) in 2008. He cited the wide variety of clients for which he has worked - government, pension fund companies, labor organizations, and third parties. He reported that up until a year ago, he was special advisor to the Puerto Rico Employees Retirement System (ERS). He also mentioned that he worked for the banks involved in the Detroit bankruptcy and testified in court on behalf of the banks. He noted that he has also testified in federal district courts and 12 state legislatures.

MR. FORNIA presented a PowerPoint titled, "Alaska Pension Option Legislation SB 88/HB 280." He referred to slide 3, "Key Features of SB 88/HB 280," and said that the proposed legislation would give employees a choice between a defined benefit and a defined contribution plan. He offered that some employees would prefer a defined contribution plan, typically those who are younger or those who expect a shorter length of service, and defined benefit plans are particularly popular among career workers. He went on to say that HB 280 is structured to be cost neutral or better, with the goal being to avoid unfunded liabilities or additional cost to the state. He said the fiscal note from a couple years ago showed a \$10 million saving the first year, and an updated fiscal note is forthcoming. He claimed that worker contributions for the defined benefit plan would be the same as for the current Tier IV plan. He also reported that the proposed legislation would generate short term cost savings and shift much of the risk for increasing healthcare benefit costs from the employer to the workers through reduced benefits.

8:46:15 AM

MR. FORNIA referred to slide 4, "Findings," to explain that having an option is more economical because more benefit can be provided per dollar through a defined benefit structure as opposed to a defined contribution structure. He reiterated that the proposed plan was designed to be cost neutral.

[CHAIR LYNN passed the gavel to Representative Keller. The gavel was passed back to Chair Lynn at an unspecified time, but before the hearing on HB 280 ended.]

[8:47:23 AM](#)

REPRESENTATIVE SPOHNHOLZ asked Mr. Fornia to clarify the concept of a defined benefit structure being more economical as opposed to a defined contribution structure, as her understanding was that the state changed to a defined contribution structure because it was more economical.

MR. FORNIA responded that the defined benefit plan is riskier to the employer but [the defined contribution plan] is not more economical, because the employers are better positioned to take the risk. He explained that if an employee is forced to take the risk, he/she will make decisions that are not as economical as would the employer taking the risk. He promised more detail later in the presentation.

MR. FORNIA referred to slide 6, "Benefits Available from DCR Program are Substantially Lower than from Latest DB Tier," which shows the level of retirement benefits as percentage of pay for three different categories of employees - teachers, firefighters, and other PERS employees - and demonstrates the reduced retirement benefit under the defined contribution plan compared with the defined benefit plan.

MR. FORNIA moved on to slide 7, "Illustration of Hypothetical Teacher Benefits - \$50,000 Final Average Salary," to further demonstrate the reduced retirement benefit for a teacher under the Tier III defined contribution plan compared with the Tier II defined benefit plan and with Social Security. The Social Security benefit is slightly lower than the Tier III benefit. He emphasized that the benefit levels under Tier III for teacher and Tier IV for PERS aren't adequate for retirement.

[8:50:44 AM](#)

MR. FORNIA referred to slide 8, "Why DB? - More Economically Efficient," and a report cited on slide 8, "Still A Better Bang for The Buck," which he coauthored with the National Institute on Retirement Security in 2014. He referenced the report to answer Representative Spohnholz's question about which retirement structure is more economical. He said that the defined benefit structure is more economically efficient because investment decisions are made by investment experts and are

based on a large pool of people and not an individual. He claimed that the three variables - life expectancy, investment risk, and investment expertise - can all be managed better by experts working with a pooled group of employees.

[8:53:34 AM](#)

VICE CHAIR KELLER asked for clarification that the study described by the report was based on the same employer and employee contributions for both plans, DB and DC.

MR. FORNIA confirmed that the study is based on the same amount of money going into each plan up front. Conversely, he said, a fixed benefit level requires varying amounts of input.

MR. FORNIA went on to say that slide 9, "1st Strength of DB Plans Longevity Risk Pooling," summarizes the information about longevity risk pooling, and slide 10, "Under a DC Plan 24% of Assets Are Not Used for Retirement - 1,000 Sample Teachers," graphically illustrates the extra savings put into a DC plan by a sample of 1,000 teachers in order to achieve a target level of retirement benefit. He asserted that the chart demonstrates that under the DC plan, individuals would save extra and receive less in retirement benefits.

[8:57:44 AM](#)

REPRESENTATIVE KREISS-TOMKINS asked for clarification of slide 10 - that teachers who live longer than expected need to supplement their retirement benefit, while teachers who die earlier than expected have an unrealized retirement benefit in the form of a death benefit. He added that either way the outcome is less than ideal.

MR. FORNIA responded that Representative Kreiss-Tompkins was exactly right. He added that unfortunately, the retiree does not know his/her life expectancy, whereas PERS and TRS uses average life expectancies, thus, not as much money is needed in the DC system.

[8:59:09 AM](#)

REPRESENTATIVE VAZQUEZ referred to slide 10 and asked from what geographic location the sampling was taken and what assumptions were made.

MR. FORNIA responded that the sampling was performed about four years ago on a national basis using standard mortality tables. He conceded that Alaska's mortality data may be different, but asserted that the shape of the graph would be the same, and the general concept would fit any population.

REPRESENTATIVE VAZQUEZ asked for the list of assumptions made for slides 10 and 6 and stated her belief that the ages and lengths of service may not reflect Alaska. She added that she would like to see charts with Alaska data.

MR. FORNIA responded that slide 6 does consist of Alaska data from 2012. Twenty-five years of service for teachers, police, and firefighters was chosen based on what the proposed legislation requires for the retiree getting healthcare benefits, and the PERS retirement age of 60 was chosen because that is the typical retirement age in Alaska. He further stated that he would provide the bill sponsor with the assumptions underlying slide 6 and slides 10-14 by tomorrow.

[9:03:06 AM](#)

VICE CHAIR KELLER asked for a definition of "over-savings" on slide 10.

MR. FORNIA explained that "over-savings" is the amount of extra money put into the retirement system due to an individual not knowing his/her life expectancy. He reiterated that a pooled pension fund only pays in the amount needed to fund retirement benefits.

MR. FORNIA referred to slide 13, "3rd Strength of DB Pension Plans Pooled, Professionally-Managed Assets," which cites the results of several studies comparing average returns of defined benefit plans with those of defined contribution plans. He added that the studies show that the DB plan returns outperform those of the DC plans by at least 1 percent annually, and the DC plan provides about half the level of benefits compared with the DB plan for the same amount of money put into the plan. He stated that the studies cited on slides 8-13 represent national studies showing similar results as that seen in slide 6, which reflects Alaska data.

MR. FORNIA briefly mentioned that slide 14, "Recent Research," lists the four reports that have been updated and the findings shown on slides 15-23. He went on to slide 15, "Update on Economically Efficiency Research," to discuss the misconception

that defined contribution plans inherently save money. He contended that a DC plan only saves money if less money is put into the plan; without less money put into the plan, there are no savings and it yields lower benefits. Mr. Fornia stated that the report, "Better Bang for the Buck - Economic Efficiencies of Defined Benefit Plans," has been updated in response to changes that occurred between 2008 and 2014.

[9:07:24 AM](#)

MR. FORNIA said that slide 16, "NIRS Case Studies on States which switched from DB to DC - What NIRS did," and slide 17, "NIRS Case Studies on States which switched from DB to DC - Common Trends," summarize a report in the committee packet titled, "Public Pension Resource Guide: Case Studies of State Pension Plans that Switched to Defined Contribution Plans." He stated that the report describes the experience of three states that made the switch from defined benefits to defined contributions, Alaska being one of them. He said that the report reviews various issues resulting from the switch, and slide 17 summarizes the conclusions. He offered that the report concludes that switching to DC did not solve the underfunding problem and, in many cases, increased the cost of the plan. He said that the report also shows that workers in the new [DC] plan had increased levels of insecurity towards retirement. He further claimed that the best way to address the underfunding problem is not to make the switch but to have a responsible funding policy.

[9:09:20 AM](#)

MR. FORNIA then referred to slide 18, "Findings from Buck Actuarial Experience Investigation." He said that every few years Buck Consultants (Buck), a human resource consulting firm, compares the expected actuarial experience with the actual actuarial experience for the purpose of correcting for wrong assumptions and changing faulty assumptions going forward. Mr. Fornia stated that this was last done by Buck in September, 2014, and reported in November, 2014. He said that the assumptions include mortality age, retirement age, employee turnover, employee terminations, withdrawals, investment returns, and salary growth.

MR. FORNIA went on to say that he was particularly interested in employees who resigned in less than five years and less than eight years, as evidence that the new plan discouraged employment longevity. He referred to slide 23, "Findings from

Buck Actuarial Experience Investigation - Data," to point out that teacher turnover in the first eight years was 12 percent higher than expected and police and firefighter turnover in the first five years was 4 percent higher than expected. He emphasized that the time period for the study, 2009-2014, was at a time during which lower turnover would have been expected due to the recession.

[9:12:50 AM](#)

MR. FORNIA referred to slide 19, "Are Teachers Better off with Pension or 401(k)? - Purpose of Study," and supporting slides 20-23, which show the results of a study by the University of California to determine if teachers in California are better off with a 401(k) or a pension. He relayed that the conclusion was that the vast majority of teaching was performed by long-term career teachers; consequently, they were better off with pensions.

MR. FORNIA referred to slide 24, "What about Unfunded Liabilities?" and opined that Senate Bill 141, passed in 2005, wasn't designed to solve the unfunded liability problem and hasn't solved the problem. He stated that the DB option designed for the proposed legislation is specifically designed to not increase unfunded liability and may even decrease the liability. He said that the plans would be funded in advance to avoid future problems. Mr. Fornia referred to the conclusions in slide 25, "Findings," which state that a DB plan helps provide a safety net for employees, encourages long term service, and is designed to be cost neutral or favorable.

[9:15:56 AM](#)

REPRESENTATIVE VAZQUEZ asked what the projected benefit to the existing retirement benefits underfunding situation would be if the DB retirement structure was implemented.

MR. FORNIA responded that the program is not designed to improve the unfunded liability; however, if the new fiscal note confirms some savings, then that could be used towards the unfunded liability. He added that the proposed plan is not anticipated to increase the unfunded liability and may even have some positive impact on the unfunded liability. He reiterated that the intention of the proposed legislation is not to pay down the unfunded liability.

MR. FORNIA confirmed Chair Lynn's observation that any money saved through the proposed retirement system could be used to pay down the unfunded liability or anything else in state government.

[9:17:55 AM](#)

ROBERT GROVE, Legislative Information Director, Retired Public Employees of Alaska (RPEA), stated that RPEA has chapters in Fairbanks, Anchorage, and Juneau. He revealed that he has lived in Alaska 46 years and has retired twice - the first time from the fire service in 2000 and the second time from the University of Alaska Fairbanks Geophysical Institute in 2007. He added that collectively he and his wife have over 52 years of public service in Alaska. He said that like many retirees, he and his wife made the decision to remain in Alaska after retiring to be near their families, and they wish to spend the rest of their lives in Alaska.

MR. GROVE reported that according to the [University of Alaska Anchorage] Institute of Social and Economic Research (ICER), the impact of Alaska seniors on the economy in 2015 was more than \$3 billion. He went on to say that ICER research points out that the income stream from seniors does not depend on oil, fish, or gold, is not influenced by world markets, and is not seasonal. He added that the volunteer work by seniors amounts to a contribution to the state of about \$52 million annually and an additional \$47 million in the performance of care-giving activity.

MR. GROVE testified that RPEA supports HB 280 and its companion bill SB 88, which would afford new state employees the opportunity to choose to participate in today's defined contribution retirement account, also known as Tier IV, or to participate in a new defined benefit pension plan. He claimed that retiree expenditures, along with state and local pension plan benefits, supported 16,054 jobs in Alaska in 2014. Mr. Grove said that HB 280 would create a new, more stable, more predictable defined benefit pension plan for teachers, fire fighters, and other public employees. He reiterated Mr. Fornia's testimony that it is in the best interest of the State of Alaska and retirees to have more retirees contributing to the PERS and TRS pension trust, which the proposed legislation would make possible. Mr. Grove said that on behalf of himself and RPEA, he urges the House State Affairs Standing Committee to support the proposed legislation and move it out of committee.

He concluded by saying that there were 39,679 PERS and TRS retirees.

[9:20:56 AM](#)

NATHAN COUTSOUBOS, National Education Association of Alaska (NEA-Alaska), testified that he was a science, speech, and debate teacher for the Dillingham City School District and has lived in Dillingham for six years. He stated that he supports the proposed legislation, which would allow public employees, including teachers, to choose between a defined contribution and a defined benefit retirement plan. He claimed that HB 280 would create significant advantages for Alaska by keeping experienced educators in Alaska, making it easier for the schools, especially in the Bush, to attract new talent, and using Alaska's education dollars more efficiently.

MR. COUTSOUBOS declared that his testimony would focus on the efficient use of education dollars. He stated that teacher turnover is an enormous concern for Alaska, especially in the Bush. He said that in Dillingham there is a great new cohort of young early career teachers - ten to 12 out of a staff of about 40. He claimed that the school administration and veteran teachers on staff have invested a great deal of money, time, and effort in training the new teachers and helping them to have a positive impact on the students. He lamented that every one of the new teachers plans to leave Dillingham in the next couple of years.

[9:23:37 AM](#)

MR. COUTSOUBOS maintained that Dillingham is somewhat of a "teacher graduate school" for other states. He asserted that the scenario he just described portrays an extremely inefficient use of education dollars. He further stated, "It takes a really big investment to make a good teacher. Teachers are made. They're not born. You have to invest. You have to train them up." He went on to say that as new teachers leave because of the current retirement system, the school districts and the state have to make that investment over and over again.

MR. COUTSOUBOS opined that HB 280, by providing an attractive retirement option, would help keep teachers in Alaska and would help avoid that constant, financially inefficient pattern of teacher turnover. He contended that the proposed legislation would provide a significant, meaningful, and critical step to

keeping good teachers in Alaska and using education dollars wisely. He requested the committee members support HB 280.

9:25:00 AM

CHAIR LYNN alluded to his own retirement from teaching in the California system. He claimed that teaching has frustrations and he might not have continued teaching had it not been for California's defined benefit retirement plan for teachers. He added that the same was true for his military career.

REPRESENTATIVE KREISS-TOMKINS asked for clarification of Mr. Coutsoubos' testimony that often young teachers start their teaching career in rural Alaska and, after achieving some level of proficiency and experience, start looking at the long-term considerations of family and retirement and decide to move on.

MR. COUTSOUBOS confirmed that is correct. He relayed the necessity for Alaska to import 70 percent of its teachers and opined that strong incentives are needed to retain them as they get professionally proficient. He contended that for these young teachers, the rational choice is to move out of state, closer to family, to a better retirement system offered by every other state.

REPRESENTATIVE KREISS-TOMKINS asked why the new, young teachers come to Alaska in the first place.

MR. COUTSOUBOS claimed that many teachers come to Alaska for the adventure and because it is easier for a professional to start a career in Alaska than elsewhere.

REPRESENTATIVE KREISS-TOMKINS asked if anyone has retired under Alaska's Tier III and Tier IV retirement plans and what health benefits those retirees have.

MR. COUTSOUBOS responded that he didn't know of anyone, as the system has been in place just ten years. He offered that he has assessed his benefits at retirement and concluded that the "numbers" are not encouraging.

REPRESENTATIVE KREISS-TOMKINS asked Mr. Coutsoubos to identify what, in regard to healthcare benefits at retirement, is not encouraging.

MR. COUTSOUBOS replied that healthcare in general is very expensive, and that the risk of that expense will be borne by himself and his family.

[9:28:28 AM](#)

REPRESENTATIVE STUTES asked Mr. Coutsoubos if his six-year tenure as a teacher is one of the longest at the Dillingham School District.

MR. COUTSOUBOS responded that he is a veteran teacher even though he is only in his sixth year. He maintained that there is still a strong cohort of Tier I and Tier II teachers, but they are approaching retirement. He relayed that among the Tier III teachers, there is a constant turnover, and he has been there the longest. He added that he is one of only two Tier III teachers who have bought a house in Dillingham since 2007.

CHAIR LYNN asked if Mr. Coutsoubos had taught anywhere else before Alaska.

MR. COUTSOUBOS responded no. He said that he was a biologist for many years, with about six of those years in Alaska, before switching to education.

[9:30:05 AM](#)

REPRESENTATIVE VAZQUEZ cited the attrition of teachers historically and the difficulty recruiting and retaining teachers in the Bush. She expressed her desire to see the attrition rates before and after Tier II, Tier III, and Tier IV were implemented.

[9:31:04 AM](#)

CHRIS BENSHOOF testified that he teaches Mathematics, Statistics, Computer Science, Engineering, and Robotics at Lathrop High School in Fairbanks. He declared that he is in support of HB 280 because it would provide educators and public employees the option of either a defined contribution or a defined benefit retirement system. He claimed that in his eight years of teaching, he has been recognized as the 2013 state teacher of the year and the 2014 national teacher of excellence, and he is now a finalist for the 2015 presidential award for excellence in mathematics and science teaching. He maintained that during those years, Alaska's defined contribution

retirement system has harmed its recruitment and retention efforts to acquire the excellent teachers it needs.

MR. BENSHOOF went on to say that he was hired as a fulltime Mathematics teacher in 2008 and was told at the time that he was one of 65 applicants for the position. He considered himself very fortunate to have been hired from such a deep pool. He maintained that as understanding of the defined contribution retirement system has grown, interest in teaching in Fairbanks has fallen drastically. He offered that last fall his school needed to hire another fulltime Mathematics teacher and, after more than a month, there were only three applicants. He claimed that in addition to harming recruitment efforts, the other major impact of the defined contribution retirement system has been in retention of teachers. He stated that in the eight years he has been teaching, many of his peers have left the profession for other careers or for other states offering defined retirement benefits. He relayed that more and more the conversations with his fellow teachers, also under the Tier III defined contribution retirement system, are not about the long-term success of the school but about short-term job options and the question, "How long are you staying?"

MR. BENSHOOF said that in two years, having paid off his students loans and having completed his Ph.D. program, he will be faced with the serious decision of whether to continue to remain an educator in Alaska or to move on to something else. He declared that his first master's degree is in education and that teaching is his preference and where his community needs him. He went on to say that his second master's degree is in economics, and he is torn knowing that the smarter economic decision is to teach in a different state or to move into private industry. He maintained that in making his decision about whether to remain a teacher in Alaska, his top concern is the retirement system. He urged the committee members to support HB 280 so that Alaska can return to attracting and retaining the quality educators that the students and the communities need.

[9:33:51 AM](#)

JACOB BERA testified that he is an art teacher at Eagle River High School. He said that he and his wife came to Alaska from Wisconsin in 2003, attracted by the scenery and the adventure. He offered that both he and his wife came from economically challenged families and looked to Alaska for the opportunity of financial security through hard work. He said that he and his

wife found out about teaching in Alaska at a job fair in Minneapolis and, after researching Alaska's TRS, found that the Tier II system was attractive enough to encourage them to move 3,500 miles away from their loved ones. Mr. Bera claimed that since then he and his wife have done well: they have three children, own a house, and volunteer in their community. He maintained that he loves his job, his students, and has become a national board certified teacher. He went on to say that his colleagues who were hired after 2006 are very nervous about what their financial situation will be in 10-15 years.

MR. BERA expressed his empathy for the challenges of the legislators and stated that he, too, wants a healthy fiscal future for the state. He referred to his grandfather, who "saved a little bit more, he bought a little bit nicer things, and he made them last a long time," and claimed that the state needs to take the same view for investing in its teachers and other public employees. He opined that HB 280 represents a very good effort to accomplish that and to avoid recruiting and training people who will leave in five years. He concluded by saying that Alaska is unique among the states in offering a defined contribution only plan for public employees and, at the same time, precluding participation in Social Security.

[9:37:50 AM](#)

BRINNA WOJTALEWICZ testified that she is a special education teacher at Central Middle School in Anchorage, Alaska. She relayed that she is originally from Minnesota, took a trip to Alaska with her father when she was young, and moved up in 2007 intending to stay one year. She said that she now owns a house and has no plans to leave. Ms. Wojtalewicz mentioned that she sees her colleagues leaving, and she maintained that the lack of a secure retirement through a defined benefit retirement system definitely is a factor. She alluded to the loss last year of two amazing teachers, both of whom wanted to raise a family but did not foresee a secure future in Alaska. She expressed her concern for the students and claimed that the loss of teachers has a direct effect on students. She claimed that currently the quality of education in Alaska is excellent, but she contended that without the recruitment and retention of excellent teachers, Alaska could lose that excellence. Ms. Wojtalewicz stressed the importance of the proposed legislation, which would allow Alaska to attract and retain the teachers needed by the state and by the students to maintain an excellent education system.

[9:41:11 AM](#)

SAM TRIVETTE testified that he is a volunteer with Retired Public Employees of Alaska (RPEA) and the vice chair of the Alaska Retirement Management (ARM) Board. He said that the defined contribution system has been in place for about ten years, and the defined contribution committee of the ARM Board has been gathering data on the system. He stated that his testimony would give the conclusions of that analysis. Mr. Trivette relayed that he is a PERS retiree with 33 years of service with the Department of Corrections (DOC) and the Department of Transportation & Public Facilities (DOT&PF), has been retired for 18 years, and has been a resident of Alaska since 1954.

MR. TRIVETTE related that in answering the question of how well the defined contribution retirement plan is working, he looked at three areas: the health savings account balances, the DC account balances, and the disbursement behavior of employees leaving state employment. He stated there are about 35,700 active public employees: 17,000-plus under the DB retirement system and 18,000-plus under the DC retirement system. He went on to say that there are 5,609 active teachers under the DB retirement system and 4,965 under the DC retirement system. He also mentioned that there are over 32,700 retirees and beneficiaries in PERS and 12,429 retirees and beneficiaries in TRS.

[9:44:57 AM](#)

MR. TRIVETTE reported that one result of Senate Bill 141 was the shift from "system-paid" health care to a health reimbursement arrangement (HRA) for retirees. He explained that under HRA each employee has an account, and someone who worked all ten years would have about \$17,500 in their HRA upon leaving. He expressed that without system-paid healthcare, \$17,500 would not last long when paying for healthcare premiums.

MR. TRIVETTE went on to say that the average DC account balance is \$73,957, which would be what an employee has for retirement upon leaving employment. He specified the average account balances for two age groups: \$119,450 for ages 59-62 and \$39,659 for ages 41-48.

[9:47:05 AM](#)

MR. TRIVETTE went on to talk about the reimbursement behavior among employees upon separation from employment and listed the three options for the DC account: cash it out, roll it over to an individual retirement account (IRA), or retire with it. He reported that 76 percent of the people who terminated employment and took their money out or rolled it over did not go to an advisement seminar before making those decisions. He said that in FY 2011, PERS employees cashed out about \$7.1 million, and by FY 15, that amount was up to \$21 million, which accounts for over 76 percent of all of the money dispersed in the five years. He claimed that if former employees are not rolling their money over to an IRA but are using it for expenses, then when they do retire they won't have much money. Mr. Trivette cited a National Institute of Retirement Securities (NIRS) study that shows that older Americans who don't have a defined benefit income are about 39 percent more likely to be on means tested public assistance, which is state funded, and across the U.S. that amounted to over \$7.3 billion in 2006 dollars. He opined that not having a defined benefit system will cause problems in Alaska years from now. He stated that he personally knows Alaskans who have been in the state for many years and who, even though they had low wages, were able to stay in Alaska because they had a defined benefit. He restated the fact that the state, which opted out of Social Security for its employees in 1980, has put its employees in a very bad situation, which will in turn put the state in a bad situation. Mr. Trivette stated that he strongly supports HB 280, and he urged the House State Affairs Standing Committee to move it from committee.

REPRESENTATIVE VAZQUEZ clarified that public assistance is not only state money but is 50 percent federally funded.

[9:51:30 AM](#)

GREG COLLEN testified that he works in the information technology (IT) department of the City & Borough of Juneau School District and supports HB 280. He thanked Representative Kito for introducing the legislation. He mentioned that he has been in the Tier IV retirement system for seven years and claimed that his issue with the system is the uncertainty it presents due to the unknowns: longevity, investment performance, and length of service. Mr. Collen declared that having a defined benefit system under the proposed legislation would offer security to employees.

CHAIR LYNN closed public testimony on HB 280.

9:54:03 AM

REPRESENTATIVE STUTES moved to report HB 280 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 280 was reported out of the House State Affairs Standing Committee.

9:55:21 AM

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 9:55 a.m.