

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

March 24, 2016

3:31 p.m.

MEMBERS PRESENT

Senator Click Bishop, Chair
Senator Dennis Egan

MEMBERS ABSENT

Senator Bert Stedman, Vice Chair
Senator Lyman Hoffman
Senator Anna MacKinnon

COMMITTEE CALENDAR

SENATE BILL NO. 88

"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

PREVIOUS COMMITTEE ACTION

BILL: SB 88

SHORT TITLE: TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

SPONSOR(S): SENATOR(S) EGAN

03/25/15	(S)	READ THE FIRST TIME - REFERRALS
03/25/15	(S)	CRA, FIN
04/09/15	(S)	CRA AT 3:30 PM BELTZ 105 (TSBldg)
04/09/15	(S)	Heard & Held
04/09/15	(S)	MINUTE(CRA)
03/24/16	(S)	CRA AT 3:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

SENATOR DENNIS EGAN
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of SB 88.

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

POSITION STATEMENT: Provided an overview of SB 88.

WILLIAM B. FORNIA, Consultant
Alaska Public Pension Coalition
Denver, Colorado

POSITION STATEMENT: Conducted a presentation on SB 88 regarding a Direct Benefit Pension Option for Alaska's public employees.

CHRISTOPHER BENSHOOF, Teacher
Lathrop High School
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of SB 88.

JEROME KRISTJANSON, representing himself
Juneau, Alaska

POSITION STATEMENT: Testified in support of SB 88.

JUSTIN HERNANDEZ, Police Officer
Anchorage Police Department-Municipality of Anchorage
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SB 88.

GREG COLLEN, representing himself
Juneau, Alaska

POSITION STATEMENT: Testified in support of SB 88.

ACTION NARRATIVE

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CHAIR CLICK BISHOP called the Senate Community and Regional Affairs Standing Committee meeting to order at 3:31 p.m. Present at the call to order was Senator Egan and Chair Bishop.

SB 88-TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

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CHAIR BISHOP announced the consideration of SB 88.

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SENATOR DENNIS EGAN, Alaska State Legislature, Juneau, Alaska, provided a sponsor's statement on SB 88 as follows:

SB 88 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. Analysis of a previous version of this bill showed it would save the state about \$70 million in the first 5 years and any revenue in this day and age is a good thing; it is cost neutral in the long term, it shares the risk of rising healthcare costs between employees and employers, and it adds nothing, not one red-cent to the unfunded liabilities of the past. Mr. Chair, my staff and your staff have worked hard with the Administration to get an up-to-date fiscal analysis and I know they are working hard on it right now and we should have it very soon. I talked a lot about this bill last year, so I'd like to thank the Alaska Public Pension Coalition for bringing on an actuary to present SB 88 to us today.

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JESSE KIEHL, Staff, Senator Egan, Alaska State Legislature, Juneau, Alaska, stated that he would address the major changes that were made to SB 88. He specified that SB 88 leaves completely intact the current Defined Contribution (DC) system and the option would continue for newly hired employees. He detailed that SB 88 would also create a new Defined Benefit (DB) pension tier option.

MR. KIEHL specified that the DB pension tier in SB 88 differed in very important ways from past DB tiers as follows:

- Majority of employees would pay 8 percent of their income rather than 6.75 percent.
- Earning retiree health insurance benefits would take longer where an individual would have to first be Medicare eligible.
- Individuals would have to share in the cost of retiree-healthcare coverage.

He set forth that SB 88 was written so that the new DB plan does not cost the State of Alaska, municipalities, and school districts any more than the DC plan. He noted that Senator Egan insisted that as a safeguard, no added cost be written into SB 88. He pointed out that the SB 88 would allow individuals

working in the DC system a one-shot option to switch to the DB tier at their cost. He specified that SB 88 does not add any unfunded liability for an employee who switches to the DB plan. He added that the Department of Administration was working on a full-fiscal analysis of SB 88. He summarized that SB 88 would provide a recruitment benefit and reduce the high cost of turnover by allowing employees to choose either a DC or DB pension plan.

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CHAIR BISHOP asked how many states have pension options similar to the SB 88 proposal.

MR. KIEHL replied that he did not know. He noted that a couple of states allow an employee to revisit their pension option, but Senator Egan insisted that a one-time irrevocable decision be written into SB 88 in order to predict costs.

CHAIR BISHOP asked that information be provided as to how many states went to a DC plan and reverted back to a DB plan.

MR. KIEHL replied that a case study that addressed pension changes made by a couple of states was submitted to committee members.

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WILLIAM B. FORNIA, Consultant, Alaska Public Pension Coalition, Denver, Colorado, noted that Nebraska and West Virginia switched from a DC plan back to a DB plan.

MR. FORNIA explained his actuarial history as a pension consultant as follows:

- Actuary for the Alaska Retirement Management (ARM) Board in 2005 and 2006.
- Consultant for Alaska Public Pension Coalition (APPC) since 2011.

He detailed that his work with APPC had focused on crafting pension legislation that brought forth savings or no added cost to the state.

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He specified that the bill's key feature was providing employees with a choice between a DC or DB plan. He pointed out that SB 88 would not cost the state or other public employers more money. He added that any risk of increased healthcare cost would be

shifted to the workers where employees would share in higher costs.

MR. FORNIA pointed out that public employees hired since 2005/2006 do not have a Social Security safety net. He opined that employees who do not invest reasonably well or encounter negative-financial markets might not have any safety net.

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CHAIR BISHOP remarked that more DB-plan retirees would stay in the state. He asserted that retirees that stay in Alaska add so much value to their communities and to the state.

MR. FORNIA set forth that DB plans were designed to actually define a retirement benefit by providing pensions whereas DC plans try to build wealth.

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He explained that benefit levels were compared between the latest DB tier for teachers, Tier 2, and the current DC tier, Tier 3. He revealed that Tier 2 would have a pension of 58 percent of pay and Tier 3 would only have 33 percent, 25 percent less than Tier 2. He noted that numbers between tiers were similar for police and firefighters as well. He remarked that the disparity between the two tiers demonstrated why a DB alternative was needed. He added that the Tier 3 pension would not be much more than an individual receiving Social Security.

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He disclosed that he had co-authored a paper with the National Institute on Retirement Security (NIRS) in 2008 that was updated in 2014. He detailed that the paper demonstrated that a DB plan would provide a higher level of benefits than a DC plan. He set forth that Longevity Risk Pooling (LRP) was one factor for the DB plan's higher benefits level. He detailed that LRP annually has people of the same age retiring, whereas an individual does not know how long they are going to live and consequently has to save more.

CHAIR BISHOP asked if there was a risk difference between DB and DC plans.

MR. FORNIA replied that the risk for DB and DC plans was identical.

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MR. FORNIA explained that additional reasons for a higher return from a DB plan was due to portfolio diversification and professional management.

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He reported that research on economic efficiency had shown DB plan costs were 46 percent less than a DC plan for the same benefit level. He remarked that a misperception exists where DC plans inherently save money. He said the only reason DC plans save money was due to employers putting less money in, but employees receive a severe reduction in benefit levels.

He remarked that DC plans have gotten a lot better in the last 10 years with lower fees, new asset allocations, and the introduction of Target Date Funds where workers receive help in asset allocation that is based on an individual's retirement date.

He revealed that NIRS did a study on three states that changed from DB plans to DC plans: West Virginia, Michigan, and Alaska. He said the conclusions indicated that going from DB to DC did not help with the unfunded liability at all and the plan costs actually went up.

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CHAIR BISHOP asked if the overfunding of 24 percent by individuals in a DC plan would provide savings.

MR. FORNIA replied not quite. He explained that an individual has to overfund their DC plan in order to receive the same level of benefits through a DB plan because a person does not know how long they are going to live. He specified that overfunding by an individual in a DC plan does not have much to do with the state's unfunded liability for the legacy-DB plan. He summarized that the best way to address the underfunding problem was just to fund it, to have a responsible funding policy, make the full contribution each year, and to adjust the state's assumptions as necessary over time.

CHAIR BISHOP opined that DB plans work, but the state has to be honest with the multiplier and contribution rate.

MR. FORNIA replied that Chair Bishop's point was proven by California in 1999. He recalled that the markets were booming in the 90s and there was a view that the markets would go up forever. He detailed that California set a high multiplier called "3 at 50" where an individual would get 3 percent of pay

for each year of service at age 50. He said California thought they were over-funded, but their pension strategy came back to bite them. He agreed that a state has to be honest with its multiplier and assumptions.

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MR. FORNIA referenced a study from California that refuted the claim that DC plans were better for teachers than DB plans. He admitted that DC plans might be better for a few teachers that did not teach for a full career, but 89 percent of California teachers taught for 10 years or more and were better off with a DB pension plan rather than a DC plan:

- 0-4 years (6 percent)
- 5-9 years (5 percent)
- 10-19 years (14 percent)
- 20-29 years (26 percent)
- 30+ years (49 percent)

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He referenced an actuarial study from 2014 that addressed whether Alaska's DC plan encouraged workers to quit and move back to the Lower 48. He said the report revealed that the turnover rate for teachers in their first 8 years was 12 percent higher than expected, police and firefighters was 4 percent higher than expected, and the turnover rate for "other" Public Employees' Retirement System (PERS) workers in the first 5 years was 15 percent less than expected. He summarized that the report might provide evidence that the state was indeed losing teachers, police, and firefighters more than expected.

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CHAIR BISHOP asked if monetary numbers had been assigned that take into account the time and money invested in professional development for workers that quit.

MR. FORNIA answered no. He concurred that training costs were substantial, especially for public safety, but the actuarial study was done for a totally different purpose.

CHAIR BISHOP suggested that the sponsor and the committee take turnover cost into account in order to move the DB legislation forward.

MR. FORNIA replied that he agreed. He noted that the actuarial report was done during a recession when individuals tend to hang

on to their jobs. He opined that the report was more evidence that the turnover rate could be a significant ongoing issue, especially when data was gleaned during a recession.

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MR. FORNIA revealed that Alaska's unfunded liability had grown by more than \$3 billion since the DC program's implementation. He pointed out that the bill for the DC program was not designed to solve the unfunded liability. He reiterated that SB 88 had safeguards to try and manage any additional unfunded liabilities, primarily on the healthcare side. He detailed that if healthcare costs go up more than expected, there would be a greater cost-sharing by employees and retirees. He specified that the bill's advance-funding plan should result in no new-unfunded liability if the actuarial assumptions were accurate. He disclosed that the actuarial assumptions in the DC plan were conservative and could result in a small surplus.

He set forth that the DB plan in SB 88 was designed to:

- Be economical.
- Keep jobs in Alaska.
- Keep retirees in Alaska.
- Provide a safety net that everyone else has from Social Security.
- Be cost neutral.

He stated that the bill's pension benefits would basically be the same as the tiers that were switched in the 90s. He revealed that retiree health benefits would be stronger than the DC plan, but not as strong as the benefits in the 90s. He added that employees in either the DC or DB plans would both contribute 8 percent of their income.

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He summarized that the DB plan in SB 88 would do the following:

- Provide better benefits for workers.
- Provide better healthcare benefits for workers.
- Workers would no longer have the health-retirement account contributions, but they would have a retiree health program instead.
- Designed so the employer costs would not increase.
- Depending on the pending fiscal note, would actually save money for the state.

CHAIR BISHOP stated that he was a DB plan recipient and glad to have spent 40 years working to get it. He recalled that he read an article where Congress had passed a provision that allowed pension plans to write-down their unfunded debt and the result would be decreased monthly benefit payments.

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MR. FORNIA replied that Chair Bishop was referring to multi-employer plans that would affect Teamsters trucking companies and some of the airlines. He explained that the provision would not affect state or local governments, and no single-employer pensions. He specified that the federal government has no jurisdiction and the issue related to states' rights. He noted that Social Security was an example of Alaska refusing to participate and that was the reason why the state has its own pension.

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CHRISTOPHER BENSHOOF, teacher, Lathrop High School, Fairbanks, Alaska, testified in support of SB 88. He disclosed that he taught math, statistics, computer science, engineering, and robotics at Lathrop High School in Fairbanks. He noted that he was recognized as the 2013 Alaska Teacher of the Year, 2015 National Teacher of Excellence, and a finalist for the 2015 Presidential Award for Excellence in Math and Science Teaching. He asserted that Alaska's DC plan had harmed the state's recruitment and retention efforts for teachers.

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JEROME KRISTJANSON, representing himself, Juneau, Alaska, testified in support of SB 88. He commented that the better the benefit package, the higher the quality and number of job applicants. He asserted that individuals want the option to either control their own retirement funds through a DC plan or rely on the leadership of trained financial experts for a set return through a DB plan.

CHAIR BISHOP stated that he concurred with Mr. Kristjanson's comments.

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JUSTIN HERNANDEZ, Police Officer, Anchorage Police Department-Municipality of Anchorage, Anchorage, Alaska, testified in support of SB 88. He remarked that he had longevity concerns under the PERS-Tier 4 plan in regards to financial and medical stability as he pursued his law-enforcement career. He asserted that a retention and recruitment problem existed in the field of

law enforcement in Anchorage due to the current retirement program.

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GREGORY COLLEN, representing himself, Juneau, Alaska, testified in support of SB 88. He disclosed that he has been on the PERS-Tier 4 plan for seven years at the Juneau School District. He stated that wanted the option to switch to a DB plan.

CHAIR BISHOP advised that Mr. Collen continue to save at an early age for his retirement. He commented that perhaps someday Mr. Collen will have a DB plan option.

He asked that Mr. Fornia comment on a statistic that he recalled where 70 percent of retirees in the U.S. retired at or below the poverty level.

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MR. FORNIA replied that 70 percent sounded too high and maybe did not take Social Security into consideration. He admitted that the country has a serious retirement crisis, primarily in the private sector. He remarked that people have not saved adequately.

SENATOR EGAN asserted that SB 88 had a lot of support. He stated that he hoped DB plan legislation would someday pass. He thanked Chair Bishop for co-sponsoring the bill.

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CHAIR BISHOP closed public testimony and announced he would hold SB 88 in committee.

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There being no further business to come before the committee, Chair Bishop adjourned the Senate Community and Regional Affairs Standing Committee at 4:52 p.m.