

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

March 25, 2017

1:02 p.m.

MEMBERS PRESENT

Representative Sam Kito, Chair
Representative Andy Josephson
Representative Chris Birch
Representative Gary Knopp

MEMBERS ABSENT

Representative Adam Wool, Vice Chair
Representative Louise Stutes
Representative Colleen Sullivan-Leonard
Representative Mike Chenault (alternate)
Representative Bryce Edgmon (alternate)

OTHER LEGISLATIVE MEMBERS PRESENT

Representative Justin Parish
Senator Dennis Egan

COMMITTEE CALENDAR

HOUSE BILL NO. 83

"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: HB 83

SHORT TITLE: TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

SPONSOR(S): REPRESENTATIVE(S) KITO

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|----------|-----|---------------------------------|
| 01/27/17 | (H) | READ THE FIRST TIME - REFERRALS |
| 01/27/17 | (H) | L&C, STA, FIN |
| 03/25/17 | (H) | L&C AT 1:00 PM BARNES 124 |

WITNESS REGISTER

BIANCA CARPENETTI, Staff
Representative Sam Kito
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 83 on behalf of Representative Kito, prime sponsor.

KATHY LEA, Chief Pension Officer
Division of Retirement and Benefits
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Responded to questions regarding HB 83.

BAILEY CHILDERS, Executive Director
National Public Pension Coalition
Washington, D.C.

POSITION STATEMENT: Testified in support of HB 83.

JUSTIN HERNANDEZ, Officer
Anchorage Police Department Employees Association
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 83.

AARON PETTUS, Officer
Anchorage Police Department
Anchorage, Alaska

POSITION STATEMENT: During the hearing of HB 83, testified in support of a defined benefits plan.

DAVID BRIGHTON, President
Kenai Peninsula Education Association
Kenai, Alaska

POSITION STATEMENT: Testified in support of HB 83.

JACOB BERA, Teacher
Chugiak, Alaska

POSITION STATEMENT: Testified in support of HB 83.

LADAWN DRUCE, Teacher
Kenai, Alaska

POSITION STATEMENT: Testified in support of HB 83.

TOM WESCOTT, President
Alaska Professional Fire Fighters Association

POSITION STATEMENT: Testified in support of HB 83.

JIMAEEL JOHNSON
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 83.

NADINE LEFEBVRE, Southeast Representative
Alaska State Employees Association (ASEA)
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 83.

ALICIA HUGHES-SKANDJIS
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 83.

PATRICK ROACH, Teacher
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 83.

AMBER BARNEY
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 83.

BOB MURPHEY
Kodiak, Alaska

POSITION STATEMENT: Testified in support of HB 83.

JAN CONITZ
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 83.

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

POSITION STATEMENT: During the hearing of HB 83, testified as to the Senate companion bill, SB 52.

ACTION NARRATIVE

[1:02:32 PM](#)

CHAIR SAM KITO called the House Labor and Commerce Standing Committee meeting to order at 1:02 p.m. Representatives Kito, Knopp, and Josephson were present at the call to order. Representative Birch arrived as the meeting was in progress.

^#hb83

HB 83-TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

[1:03:28 PM](#)

CHAIR KITO announced that the only order of business would be HOUSE BILL NO. 83, "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."

[1:04:04 PM](#)

CHAIR KITO, prime sponsor of HB 83, noted it is a companion bill to SB 52 sponsored by Senator Egan. He explained that HB 83 would establish a Tier V program that would allow state employees and teachers to choose either a defined benefit or a defined contribution depending on the employee's plans for employment. Somebody intending to be employed and retire from the State of Alaska might choose the defined benefit program. Somebody coming into the system and planning to be there for a short period of time before moving on might choose the defined contribution program. He said the fiscal notes are still being prepared so none are available at this time. However, he continued, past actuarial activity indicates the proposal can be accomplished with a reasonable savings to the state and in an affordable manner that will increase recruitment and retention of state employees and teachers.

[1:05:09 PM](#)

BIANCA CARPENETI, Staff, Representative Sam Kito, Alaska State Legislature, presented HB 83 on behalf of Representative Kito, prime sponsor. She said she will discuss some of the advantages of a defined benefit (DB) system, touch on key safeguards that HB 83 keeps in place from the current defined contribution (DC) system, and touch on some of the notable components of the bill itself. She stated that the fiscal notes would be provided to committee members once finalized.

MS. CARPENETI explained that a defined benefit (DB) system is a defined pension paid for from a pension trust. This type of system provides a secure and predictable retirement income, she

said. In contrast, a defined contribution (DC) system is essentially an individual's retirement savings account. These accounts are often described as participant directed in that the individual decides how to save, how to invest, and how to withdraw the funds upon retirement.

MS. CARPENETI reviewed the strengths of a DB system. She said the first strength is that DB systems give more "bang for the buck" in that they are more economically efficient. The biggest economic efficiencies that drive cost advantages for DB plans are longevity pooling, portfolio diversification, and enhanced investment returns from reduced expenses from economies of scale and professional management of assets. A pension trust has to save for the average lifespan, she noted, whereas an individual has to self-insure longevity risks and save for the maximum life expectancy. Maintenance of portfolio diversification leads to higher investment returns and broad diversification is a tenant of modern-day portfolio theory, she continued. Open DB systems are long lived with a perpetual investment horizon, whereas in DC plans an individual's sensitivity to risk of financial market shock increases as he or she approaches retirement. Risk is harder to bear for DC individuals as they age. Regarding enhanced investment returns, Ms. Carpeneti said it is hard for an individual in a DC system to match the performance of investments under professional management in a pension trust. Another economic benefit of a DB system, she pointed out, is that it acts as an economic shock absorber. For instance, last year the DB system paid out roughly \$1 billion to Alaskan residents, which in turn benefited the state's economy. It is a predictable income stream for recipients and for Alaska.

MS. CARPENETI said the second strength of a DB system is the issue of choice. She related that Alaska's public employees and teachers for the most part 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 many people, a defined benefit pension makes sense. Alternatively, though, a DC system makes sense for those people who prefer the flexibility, portability, and control. She noted that HB 83 leaves in place a DC system for the state, thereby preserving that choice for employees.

MS. CARPENETI stated that the third strength of a DB system is the issue of recruitment and retention. Turnover of teachers and public employees is an issue in Alaska, she pointed out. When turnover happens, the state bears the cost of recruiting and training qualified staff. Too often, she added, skilled

individuals are enticed to leave Alaska for positions that offer defined benefit plans.

MS. CARPENETI addressed the key safeguards that HB 83 would keep in place from the DC plan that was established by Senate Bill 141, passed in 2005. She said the first safeguard that would be kept is the Alaska Experience Studies. The system's actuarial adjustments would use data from Alaska rather than data from national analyses, keeping the system better aligned with the reality in the state of Alaska. The second safeguard that would be kept, she continued, is to maintain the second actuarial analysis. It is crucial to have a second review on this system, as was demonstrated by the state's experience of receiving poor actuarial advice from Mercer Inc. The third safeguard that would be kept, she stated, is the Alaska Retirement Management (ARM) Board, which has a fiduciary responsibility for the assets of the state's retirement systems.

MS. CARPENETI reviewed the sections of HB 83. Sections 1-11, she explained, deal with the Teachers Retirement System (TRS), notably establishing the new defined benefit plan, Tier IV, in Sections 1-8. Sections 12-23 deal with the Public Employees Retirement System (PERS), likewise establishing the new defined benefit, Tier V, in Sections 12-20.

MS. CARPENETI pointed out that source statute requires some technical differences in the drafting, but that overall both DB systems include five elements. The first is that an employee cannot participate in both plans at once. The second is that the employee contribution is set at 8 percent while leaving prior tier employees' contributions unchanged. The third is that a person receiving disability benefits under the DB tier is required to seek work and to receive an occasional medical examination; this also matches the DC plan. The fourth element is that the eligibility standards for retiree medical benefits are established in the DB tier in Section 8 for TRS and in Section 18 for PERS. Notably, Ms. Carpeneti said, these two sections set out the premium share schedule for retirees to pay a portion of their health insurance premium and require actuarial adjustment to keep the pre-funding rate of the new DB tier no higher than the cost of the DC plan. Unlike the old system, this premium share schedule ensures that employees have skin in the game. Additionally, this premium share schedule is a key part of the bill's cost savings. For most folks the state wouldn't be paying the pre-Medicare coverage, which is the most expensive and most unpredictable element of retirement healthcare. In effect, Medicare Supplement is cheaper than

major medical coverage. The fifth element, she said, is said is that the bill defines the choice of DB versus DC for newly hired employees as a one-time, irrevocable choice. So, employees cannot be switching back and forth between the two systems.

MS. CARPENETI continued her overview of the bill's provisions. She said Sections 25 and 26 outline the conversion option and the process. The bill itself, she noted, offers a one-time conversion option for employees who are currently in the DC system who want to change to the DB plan. Section 26, she continued, outlines the actuarial process for that conversion. It is notable that this process is set up so that it does not create new unfunded liability. She said the remaining sections of the bill detail the regulation and effective dates.

[1:13:04 PM](#)

REPRESENTATIVE BIRCH requested a recap of the percentage that would be set aside for medical, retirement, and the social security alternative for a new employee making \$100,000 a year.

MS. CARPENETI replied she doesn't have the breakdown in front of her for each of those. However, she said, the pre-tax employee contribution for Tier IV in PERS and Tier III in TRS is 8 percent for all employees.

REPRESENTATIVE BIRCH calculated that an employee making \$100,000 a year would have \$8,000 come out of that and would go to PERS Tier I.

MS. CARPENETI clarified that this is for Tier IV for PERS and Tier III for TRS.

REPRESENTATIVE BIRCH asked whether there would be a Social Security equivalent [such as the] Supplemental Benefit System.

MS. CARPENETI responded that for the most part public employees and teachers do not pay into Social Security, but there is the state's Supplemental Benefit System (SBS) component. She noted, though, that she doesn't have that information in front of her.

CHAIR KITO suggested this question be asked of someone from the Department of Administration.

[1:15:33 PM](#)

REPRESENTATIVE BIRCH restated his question regarding the benefit contributions, including medical, retirement, SBS, individual retirement accounts (IRAs), and deferred compensation.

KATHY LEA, Chief Pension Officer, Division of Retirement and Benefits, Department of Administration, answered the question for each of the state's three groups of employees - State of Alaska employees, political subdivision employees, and teachers. She explained that for State of Alaska employees the State of Alaska does not participate in Social Security and instead uses the Supplemental Benefit System (SBS) as a replacement, to which employees contribute 6.13 percent of their base salary and the State of Alaska as the employer matches that contribution. For the PERS Defined Contribution Retirement (DCR) Plan, employees make an 8 percent contribution and as the employer the state makes a 5 percent contribution. As well, the state has a 457 Plan to which an employee can contribute a minimum of \$50 a month in a pre-tax option or a post-tax Roth option, but for which there is no employer match. Ms. Lea said the state has 20 political subdivisions that participate in the SBS Annuity Plan, with employees contributing 6.13 percent and the employer providing a 6.13 percent match. These employees also pay 8 percent and the employer 5 percent [to the PERS DCR Plan]. Each employee would be a member of whatever 457, 403(b), or 401(k) plan that is offered by their employer. She noted that about 70 small employers in the state do not participate in Social Security and use PERS as their Social Security replacement. Ms. Lea said teachers pay an 8 percent contribution to the DCR Plan and their employers pay 7 percent. Teachers can participate in the 403(b) plans offered by their school districts, as well.

REPRESENTATIVE BIRCH inquired as to the matches for police, fire, and other people in public safety today and how they might differ from Tier I.

MS. LEA replied that there is no difference in the contribution for police and fire versus all other employees. However, she said, they can retire and meet eligibility for medical benefits with 25 years of peace officer or fire fighter service.

REPRESENTATIVE BIRCH asked whether the 6.13/6.13 percent SBS contributions are put into an accumulating annuity account.

MS. LEA responded that 100 percent of the contributions of both the employee and the employer go into the employee's investment account. The employee can choose which investment among 25

investment options to put their money in, and if they make no choice they're defaulted in an age-based target date fund.

1:20:50 PM

REPRESENTATIVE KNOPP requested a description of the components of the Defined Contribution Retirement (DCR) Plan. He further asked whether it is substantially different than what is being proposed in HB 83.

MS. LEA answered that the DCR Plan is a hybrid plan that has DC annuity benefits, along with defined benefit components in the occupational death and disability benefits and in the medical benefits. In the DC component, she said, the employee can invest his or her contribution and the employer's contribution in any option the employee chooses. The plan offers investing advice and financial assistance for employees who need more information or who want help to manage their accounts, or for a fee of 0.45 percent employees can choose professional management of their accounts. On the occupational death and disability side, she stated, a member suffering an occupational disability is provided a monthly benefit that is the same calculation as the Tier III PERS DB Plan. This benefit would be received until the member reaches Medicare age. While receiving the benefit the member's employer must pay its contributions and the employee's contributions to the employee's annuity account and the employee cannot withdraw his or her annuity account until reaching Medicare age. Ms. Lea said the same is true for the survivor benefit for an occupational death. The survivor receives a monthly benefit just like the Tier III would have been, and in that case in the disability and survivor benefits there is a difference for police and fire. All other members receive 40 percent of their salary while the police and fire receive 50 percent. The survivor receives that until eligible for Medicare and during that time the employer is making contributions to the annuity account based on the employee and employer contributions. Then, at the time that the disability or the survivor benefit stops, the member has access to that account.

REPRESENTATIVE KNOPP asked whether the benefits would stop at the Medicare eligibility age of 65 and the employer would continue making contributions until the person reached age 65.

MS. LEA replied yes, the employer would continue to make those contributions until the member or survivor reaches Medicare age. She noted there are also contributions that go into the health

reimbursement arrangement that employees have. This helps them pay for either their premiums when they reach Medicare age or for any other qualified medical expenses they may have.

[1:24:35 PM](#)

CHAIR KITO inquired whether survivor benefits and disability are provided with or without having to opt-in for them on payroll.

MS. LEA responded that they are provided automatically. The employer contributes to those accounts every pay period on behalf of the employee, she explained. The employee does not have to opt-in to that coverage.

[1:25:23 PM](#)

REPRESENTATIVE BIRCH asked whether the committee would be having a discussion regarding the current liability of PERS/TRS.

CHAIR KITO replied that such a discussion could be had. In further response to Representative Birch, he confirmed that a fiscal note for the bill has not yet been received.

CHAIR KITO opened invited testimony.

[1:26:12 PM](#)

BAILEY CHILDERS, Executive Director, National Public Pension Coalition, testified in support of HB 83. She stated that America is in the midst of a retirement security crisis. A recent Pew Charitable Trust study, she related, found that only 60 percent of workers in the state of Alaska have access to a retirement savings vehicle through work and many more workers are financially unprepared for retirement. For public employees like teachers, fire fighters, and nurses, a secure retirement in Alaska has unique challenge because a majority of those workers are not eligible to participate in Social Security. She said HB 83 is an important bill and would re-open Alaska's pension to public employees while offering flexibility for workers. She urged the committee to advance the bill.

MS. CHILDERS discussed two reasons why it is important to offer a pension option to fire fighters, nurses, and teachers. First, she said, in a state where public employees are not eligible for Social Security a pension provides a more secure retirement. Pensions are pooled, professionally managed accounts where risk is shared between the employer and employees so no one

individual employee will be left to the whims of the market, like many were during the 2008 recession. A pension provides a guaranteed monthly benefit upon retirement, much like Social Security, and this regular payment that a worker can count on is critical to security in retirement. Ms. Childers said the second reason a pension option is important is that pensions are more cost effective for the state, an important consideration at a time when Alaska is experiencing multi-billion-dollar deficits. She related that in 1991 West Virginia closed its defined benefit pension plan for teachers and put new hires into a defined contribution 401(k) style system. With no new member contributions, the unfunded liability in the teachers' retirement system grew and by 2005 the plan fell to a funded status of 25 percent. When West Virginia began studying the option of re-opening the defined benefit plan, she continued, it found that the normal cost of the teachers' retirement system was half the required employer contribution to the defined contribution plan. So, West Virginia re-opened the teachers' retirement system in 2008 and 78 percent of teachers switched back to the defined benefit plan. By July 2013 the plan achieved a funding status of 58 percent and is expected to be fully funded by 2034.

MS. CHILDERS recalled that Alaska had unique problems with its pension system in the early 2000s when errors made and covered up by an actuary resulted in a large unfunded liability. The state should have been paying more each year for its annually required contribution, she explained, but the actuary had miscalculated that figure for years. Alaska won a judgment against the firm but still had a large unfunded liability to address. However, she continued, closing attention exacerbates rather than solves underfunding. West Virginia experienced this as well and went back to offering a defined benefit to its teachers. Correcting these errors of the past, she said, will be beneficial for the state budget and the fire fighters, teachers, and other public employees who serve the state.

[1:30:00 PM](#)

REPRESENTATIVE KNOPP shared that he has received many e-mails that reference the lack of employees being able to make Social Security contributions. He asked how Alaska's Supplemental Benefit System (SBS) is advantageous to the federal system.

MS. CHILDERS replied that she would get back to the committee with an answer that provides various comparisons. She noted

that about 25 percent of public employees across the U.S. do not receive Social Security.

[1:31:37 PM](#)

REPRESENTATIVE BIRCH inquired whether Ms. Childers has a sense of the movement away from or toward a defined benefit program within the private sector such as Fortune 500 companies.

MS. CHILDERS responded she doesn't have those numbers but said there has been some movement away from defined benefit plans in the private sector. She opined that that is part of what is contributing to the overall retirement security crisis in the U.S. The 401(k) by itself has proven not to be a great vehicle for average workers to accumulate the savings they need in retirement, and the average balance of those accounts is inadequate for retirement. The accounts in most states took a big hit with the recession, she continued. Pensions suffered just as individual accounts did, so states have looked at their defined benefits plans, and many have made adjustments, but most states have decided to stick with their defined benefit for several reasons. Some are more applicable to the public sector, she said, but the recruitment and retention of employees is a big driver for the public sector, as well as the cost efficiencies of providing a defined benefit. When looking to provide a certain level of retirement security for public employees, a pension is the more cost-effective way to do that. She offered to provide more information if requested.

REPRESENTATIVE BIRCH said it would be helpful to have the information given the state relies on taxpayers to support its state and local governments, and certainly at a national level. For people who don't work in the public sector, he said, it would be helpful to find out how that is trending and how it is working. He suggested that looking at Fortune 500 companies would be a good place to start.

MS. CHILDERS agreed to do so. She stated that a great thing about the pension is that it is a cost-effective way for the taxpayer to be able to provide employment to public employees.

CHAIR KITO pointed out that employees in the private sector that have a 401(k) are also eligible for Social Security, and therefore they do have a defined benefit in a sense. So, he continued, they have Social Security regardless of whether that 401(k) program is working.

[1:34:24 PM](#)

CHAIR KITO inquired whether there are studies or information available about how well the 401(k) programs for retirement have been preparing workers for retirement.

MS. CHILDERS answered that there is a lot of information and it is not a good picture for most people. She said she believes that the average 401(k) balance is only about \$18,000. The National Institute for Retirement Security, she added, has looked at preparedness for retirement, plus she has information as well. It has been found that for most American workers a 401(k) is not getting them where they need to be in retirement. The State of Michigan, she related, put its state employees in a 401(k) system in 1997 and the median account balance for the folks who have been in this system for 20 years is around \$36,000 and the average is around \$76,000; for people nearing retirement it is a bit higher. When looking at a length of 10-20 years of retirement, those balances are not getting where they need to be. Even if a person buys an annuity with his or her 401(k), the amount of money that would be received each month would not be enough to cover basic expenses. She said she would provide the committee with the Michigan study.

CHAIR KITO responded that he would like to receive the study for distribution to committee members.

CHAIR KITO opened public testimony on HB 83.

[1:36:50 PM](#)

JUSTIN HERNANDEZ, Officer, Anchorage Police Department Employees Association, testified that HB 83 is a fantastic bill. He noted he is a college-educated person, lifelong Alaskan, and employee in law enforcement, and will soon become vested. Lower 48 departments, he advised, are actively recruiting Alaskan officers because they understand that law enforcement training in Alaska is very good. Recruits to Lower 48 departments can buy back their time in a defined benefit package, he noted. The Lower 48 departments are basically getting an officer that has been trained at the financial burden of the State of Alaska, so Alaska is becoming a training ground. He said he has seen this firsthand with colleagues who know that once they get vested at their five-year mark, they can take all that money with them to another department that has a defined benefit program, which does not help recruitment and retention in Alaska. He said HB 83 would give Alaska the ability to compete with these Lower 48

departments. As a lifelong Alaskan, he added, he doesn't want to leave but eventually he must do what is good for his family and if other departments are recruiting that can be an issue.

1:39:30 PM

AARON PETTUS, Officer, Anchorage Police Department, testified that a defined benefits program is extremely important to him. He said he came from a larger law enforcement agency in Los Angeles where he had a pension, which was enormous if an officer stayed 30 years because the pension was light at the end of the tunnel. Pensions allow for sense of security, he explained. An officer can leave his or her career knowing there will be a stable and predictable source of income in retirement after sacrificing countless hours away from his or her own family, missing important events, and everything else that comes along with being a public servant. Pensions benefit the employee as well as the employer and they act as a recruitment and retention tool, he advised. Not only do they grow the applicant pool, they allow for employers to compete with other agencies that offer more than just defined contributions. Even in his short year and a half at the Anchorage Police Department (APD) he has seen the department invest immense amounts of man hours on recruiting applicants and training recruits just to see them take their quality training elsewhere that offers them better benefits. As crime, violence, and terrorism increases, officers are being asked to do more. The Anchorage Police Department wants to be able to compete and even increase its competitive edge, Mr. Pettus said, and a defined benefits plan would be a great start in helping retain quality employees.

1:41:11 PM

DAVID BRIGHTON, President, Kenai Peninsula Education Association, testified in support of HB 83. He said committee members probably would not hear from many friends of his that are teachers because many of them have left the state. With a defined contribution, teachers work in Alaska for a few years, become vested in a short time, and then leave the state. Alaska is losing many of its best and brightest teachers because after a few years they realize that they may never be able to retire. He shared that he has been working as a teacher for about 10 years and has a little over \$80,000 in his retirement account. He calculated that if he worked another 20 years, he could retire with about five or six years before he dies. Of course, he continued, he doesn't know when he is going to die so he doesn't know when he will ever be able to retire. If he had the

option of being a member of Social Security, it would be much easier because he would have two sources of income, one of which would be a defined benefit that he doesn't now have. It is difficult being a teacher in Alaska, he stated. While he loves Alaska and his students, and loves working with students and teachers, he has begun looking for other jobs even though he doesn't want to leave. He said he recently applied to a different job because he knows he cannot stay in the course he is in and ever plan on a retirement system. This makes him sad and he knows there are many others in the same position, he continued. Alaska is losing teachers and other public service employees because they cannot rely on a stable retirement income source. He strongly urged that HB 83 be passed.

[1:43:54 PM](#)

JACOB BERA, Teacher, testified in support of HB 83. He offered his belief that HB 83 would help attract qualified educators that are needed in Alaska, as well as address the problems of teacher turnover and the high cost of education. He noted that he has testified on previous retirement bills and talked about the data of the large number of teachers who have left the profession in Alaska. The numbers that he has seen are that 65-70 percent of teachers working in Alaska come from out of state. The state is hoping that those teachers are the most qualified and are willing to stay. The state is also hoping that they want to work and live in communities that need them most. But that is the problem, he opined. Alaska's retirement plan for public employees is having a direct impact.

MR. BERA related that when he and his wife decided to move to Alaska in 2003, he had just finished his teaching degree program along with his service in the U.S. Marine Corps Reserve. He and his wife were excited to start their new adventure and were attracted to the beauty of Alaska and to start a family. They did their research and factors that were important to them were job security, pay benefits, and the retirement plan. In 2003 he and his wife had the option to participate in the defined benefit plan, which is important to them. In weighing that, they also noted that health care costs in Alaska were much more expensive, but they were still willing to take the risk of moving to Alaska to try it out. So far, he continued, he and his wife are blessed to still call Alaska home and have three kids.

MR. BERA pointed out that the case has been very different for too many of his colleagues. One teacher who worked with

challenged students at Service High School recently left because of the lack a secure retirement. Another couple, both teachers with kids, moved back to the Midwest because it was more competitive, secure, and closer to home. Young colleagues at his school are watching this issue, he related, hoping that something will change, and weighing their options. Yesterday he said in a meeting with a special education teacher of two years who is already one of the most inspiring and effective teachers he has ever come across. He stressed that Alaska needs to keep folks like this young teacher.

MR. BERA said he and his wife are still weighing their options, given that the Midwest is a very attractive place to teach and their kids would grow up closer to family. He and his wife are trading a lot to build financial security for their family and serve Alaska's students. But, he emphasized, if the defined contribution plan was the only option, he and his wife would already be gone. Too many of his colleagues have already made that choice, he said, and he believes retirement plays a big role and HB 83 would go a long way to help address that.

[1:46:55 PM](#)

LADAWN DRUCE, Teacher, testified in support of HB 83. She noted that she is currently in Barrow serving as a long-term substitute school counselor at an elementary school. She said she is in favor of HB 83 even though it doesn't affect her personally because she is a retired Tier II teacher and her husband is a retired Tier I teacher. However, she continued, having been in Alaska since 1993, she knows people in education who have left the state because of not having a defined benefit. As with the police, Alaska is a training ground for teachers. Teachers come to Alaska, have a wonderful experience, and get wonderful training, and then - when they reach that fifth or sixth year and become fully vested in the DC system - they leave.

MS. DRUCE noted that prior to Mr. Brighton, she was president of the teachers' association in the Kenai Peninsula Borough School District, and five years ago over 50 percent of the Kenai Peninsula's teachers were in the Tier III level. She offered her understanding that 50 percent in Tier III is the current level statewide. She pointed out that the State of Alaska changed the regulation that disallowed a retired teacher with a lifetime certificate from being able to substitute for 20 consecutive days up to 120 days and said she surmises this was to address the shortage of teachers. Teachers are leaving

Alaska because they literally cannot afford to stay in a state that doesn't offer some type of defined benefit, she said. She urged the passage of HB 83.

[1:49:29 PM](#)

TOM WESCOTT, President, Alaska Professional Fire Fighters Association, testified in support of HB 83 and a return to defined benefits. He said his association represents fire fighters around the state. Most fire fighters in Tier IV are neither covered by Social Security nor SBS, nor are they allowed to join. "Those decisions," he pointed out, "were made prior when we were in the DB system and cannot be revisited." He noted that a fire fighter in Fairbanks places 8 percent into a 401(a) and the employer matches with 5 percent, which is less than Social Security. He further pointed out that there is no distinction between public safety and any other career field, so the shorter duration with the physical demands of public safety are not considered.

MR. WESCOTT said that with the advent of Tier IV the state created a more expensive vehicle to save for retirement with higher fees. It put in less money and put amateurs, the employees, in charge of investment decisions and gave fire fighters one short career window in which to make what they need to be self-sufficient in retirement. Pensions aren't magic, he continued. Today after the great recession, the dotcom bubble, and other market hiccups, a look around the country will find fully funded, well managed plans in Wisconsin and the Washington state employees fire plan. It is about doing the right thing - reasonable benefits. Benefits of a defined benefit system include pool risk, professional management, and lower fees due to economies of scale. Additionally, he noted, over 60 percent of the benefits paid out come from market returns, not contributions. He encouraged returning to a defined benefit system because the 10 years of experience with the current systems is not tracking to put people on a path to being self-sufficient in retirement.

[1:52:15 PM](#)

JIMAEL JOHNSON testified in support of HB 83. She noted she works for the State of Alaska Department of Health and Social Services [but is speaking on behalf of herself]. Like other witnesses, she said, she is experiencing the effects of the defined contribution system versus a defined benefit system. Many of her colleagues have chosen to leave state employment

after five years of service, she related, and some left the state with all the money that they had earned. The turnover rate of caseworkers for the most vulnerable population is extremely high, causing a great deal of problems within the department as well as the community. She stated that HB 83 is a good alternative to what the state has right now.

[1:53:52 PM](#)

NADINE LEFEBVRE, Southeast Representative, Alaska State Employees Association (ASEA), testified in support of HB 83. She noted that she is speaking as a Tier III employee. Almost half of ASEA's 8,000 members are in Tier IV, she pointed out, and there is a high turnover of almost 30 percent per year in the workforce. With that kind of turnover comes the expense of recruitment and retention - it costs nearly one-third of an employee's annual salary to train them and bring them up to speed, so they can become productive and adhere to program integrity.

MS. LEFEBVRE advised that most Tier IV folks are young people who are looking to establish themselves in the future. After five years they can take that money and invest in another state. This is not an opportunity for them to invest in Alaska. She further advised that with these Tier IV contributions the money is not being put back into the people who are drawing from Tier I, Tier II, and Tier III. This undermines the state's own pre-existing systems, which is true folly. She noted that employees who are in a defined benefit system and retire in the state are contributing and reinvesting in Alaska's economy. They pay property tax, sales tax, contribute to the school systems, and do volunteer work in every community. Retirement pensions gave \$1.7 billion to the Alaska economy in 2010, she reported, and these retirees still contribute to the workforce in the state. She stated ASEA's support for HB 83.

[1:56:06 PM](#)

REPRESENTATIVE BIRCH asked whether Ms. Lefebvre has a sense of how many of her neighbors were not in the public sector and receive a defined benefit plan from the private sector.

MS. LEFEBVRE replied that while there are retired people in her neighborhood, they don't talk about their personal retirement. She said there are so many instruments of investment opportunity in the marketplace today that people must look at what their own personal situation is to see if an individual retirement account

(IRA), Roth IRA, or a supplemental 401(k) might work for their family depending on their income now and proximity to the retirement of the primary wage earner. So, she added, while she cannot speak to that as a program issue, it is good to know that people in her neighborhood are keeping their homes.

1:57:26 PM

ALICIA HUGHES-SKANDJIS testified in support of HB 83. She said she is a State of Alaska Department of Health and Social Services employee but is speaking on behalf of herself. She said she feels like she is the poster child of somebody who might benefit from this legislation. She has been employed by the state for almost four years, is well trained, and has a good skill set thanks to the state's training and expense. But she is at a crossroads of deciding, she continued. She loves Alaska and has been in the state for 13 years. It is not about whether she stays in Alaska, but whether she stays in state service. In some ways, she said, she thinks it might seem like a volatile time, it almost seems like an ask from a public employee, but in her opinion this is actually the perfect time to switch to something like HB 83 because there are lots of dedicated state employees and public employees of all kinds who want to keep the jobs they have and want to think of them as a career.

MS. HUGHES-SKANDJIS said she knows several people in the private sector who lost a lot of money as they were nearing retirement age due to recent economic events. A sharing between the state and the individual of that volatility and risk, she continued, would be enough of a guarantee for her to be able to contribute to the economy by buying a house or a better house. The bill would benefit her personally as well as benefit the state. She is a union steward, she noted, and her moment of trying to decide is quite common. She related that she works with some Tier I employees in her office, but that the rest are Tier IV and many of them are staying until about three years when they have a better-looking resume.

REPRESENTATIVE KNOPP stated Ms. Hughes-Skandjis is the perfect candidate for this discussion because she is in that age group. He said he remembers when in the private corporate world, the switch was made from pensions to defined contributions. One of the arguments was that the new generations didn't stay in the same position long and at that time there was a lot of advocacy for defined contributions because employees could just pick up and go whenever they were ready, which happens a lot today unlike in his early years. But, he continued, if employees

didn't have the option to just pick up the money and leave, they might be more inclined to stay and see it through to the end if they had a long-term pension that they couldn't touch until retirement age. While he doesn't doubt that people close to retirement age lost a lot of money recently in the markets, he said that that is somewhat the same issue that got the state in trouble with its current PERS/TRS situation.

REPRESENTATIVE KNOPP stated that there are pros and cons with both types of systems and that many people say the SBS is much superior to Social Security. He posed a scenario of an employee making \$60,000 a year with a contribution rate of 6.13/6.13 for a total of 12.26 percent over 30 years. He calculated that with no compounded interest and no investment returns, the actual contributions would total about \$225,000 in 30 years, which could end up at \$500,000 with interest and returns after 30 years. He further calculated that if at age 65 the employee began withdrawing \$4,000 a month, [the money] would last 10 years. He said he is looking forward to the fiscal analysis to see whether it is really a better system and added that he is not convinced that Social Security is a better system than what the state has. He inquired as to what state employees think about the SBS versus [Social Security].

MS. HUGHES-SKANDJIS answered she doesn't have any numbers in front of her, but that she thinks Alaska's current package is a cut above what exists in the Lower 48 and she further thinks that people who have the SBS are aware of that. She said she would think that Alaska would want to hold to that standard of being a cut above.

[2:04:16 PM](#)

REPRESENTATIVE BIRCH opined that at times the mobility aspect is good. He related that 20 years ago friends of his in the oil industry called their defined benefits the "golden handcuffs" because they didn't give the latitude. The benefits would be substantially reduced if a person retired even one day prior to reaching retirement age or timeline. He said people he knew were happy when it went to a linear line where if they left at any point along their career, they could take the money that had accumulated. He allowed that this does put more onus and responsibility on the individual. He inquired whether the state provides counseling and guidance to employees regarding retirement and benefits.

MS. HUGHES-SKANDJIS replied that in her experience the [Division of Retirement and Benefits] does a great job of informing employees. She said it is almost a "you can lead a horse to water" situation in that she doesn't think a large segment of the average Tier IV state worker is taking advantage of that. She noted that she has attended training sessions and made appointments to talk to the division. Regarding golden handcuffs, she said she doesn't think she would be speaking in support of this if it were not a choice because it isn't right for everybody. She knows people who are happy with how it is and have their life charted out, she continued, and providing a choice is valuing the employee.

2:08:03 PM

PATRICK ROACH, Teacher, testified in support of HB 83. He said he is currently an English teacher at Thunder Mountain High School in Juneau. He has been teaching for ten years, eight of them within Alaska, and he has received three Teacher of the Year awards during that time, he noted. He has lived in Alaska for 20 years and received his undergraduate at the University of Alaska Fairbanks (UAF) and his masters at the University of Alaska Southeast (UAS). He loves Alaska and he loves teaching, he continued, but is seeing many alarming trends in education in Alaska. The pupil to teacher ratio is rising as teachers are cut, electives are dying, and more and more students are receiving instruction from digital sources and taking classes where they never interact with a certified teacher, he related. Local teacher unions all over the state are accepting contracts that don't even keep up with inflation, much less the rising cost of health insurance premiums. None of this bodes well for teachers.

MR. ROACH stated that because he loves teaching, he could deal with the aforementioned if he knew his future was secure and that after putting in 20 or 30 years, he was guaranteed some sort of retirement. However, he continued, he is Tier III and therefore that is not the case. With such an uncertain future, he related, it is hard to hear from a friend who is a principal in New York City that with his resume she could find him a job making \$81,000 per year with a guaranteed pension. That is an instant pay raise and a defined benefit, he said, and he'd never have to fear losing 40 percent of his retirement overnight as so many did in 2008. When he got into teaching 10 years ago, he was told that to teach in Anchorage, Fairbanks, or Juneau, Alaska, a teacher would first have to do their time in a rural area, but this is no longer the case. And just as Alaska's

rural areas were once the proving ground for its urban centers, Alaska will become the proving ground for Lower 48 teachers, he advised, and he has already seen it happen. Just last year one of Juneau's best young teachers left to work in [Washington, D.C.] because he couldn't count on his job in Alaska and because D.C. offered a pension. To attract and retain quality teachers for the children of Alaska, he said, they need to be offered a future.

[2:10:07 PM](#)

REPRESENTATIVE BIRCH asked whether there is a number per hour per year or rate that could be used to offset an employer-provided pension; for example, if earnings were twice as much a year. He asked whether it is too much for the employer to expect that employees would have the initiative to set aside for themselves for their future; in other words, that the onus be on the employer.

MR. ROACH replied that fear of a market crash happening again is always present. Regarding the earlier mention of compound interest, he pointed out that a financial advisor at the rate of 0.5 percent adds up to a lot. The state has economy of scale, he said, and because as a teacher he does not have SBS, the uncertainty of his 403(b) is what scares him. He intends to stay in Alaska, he continued, but he has already informed his principal that next year is his last year of teaching in Alaska. A lack of pension was definitely a part of his reasoning.

REPRESENTATIVE KNOPP allowed Mr. Roach made some good points. He related that when he was employed in the private sector, he made 401(k) contributions. But the financial world has changed, he noted. It used to be that good stock and mutual funds could be purchased a good rate of return and could be counted on. Regarding the talk about uncertainty for Mr. Roach as well as for anybody planning for retirement, he allowed there is uncertainty in the overall financial markets today, unlike years ago. He said that years ago he quit using financial investors and fund managers and started doing it himself because they were making more money every year than he was. He said he doesn't think the state's contribution rates under the SBS and defined contributions are bad. But, he continued, not everybody is a financial genius and it takes a lot of work to understand how to invest money and he has always thought that was one of the downfalls of the current 401(k) system. He inquired whether Mr. Roach thinks the financial world as it is today is a big

contributing factor to people's unrest versus what the state actually contributes to the plans.

MR. ROACH replied that he would say so. He said the union and the state do a good job of offering choices and services as best they can, but still there is that overall uncertainty with the market. Regarding being asked for his working life to put in 30 or 40 years, he countered with the question: "Is it too much of me to ask the state to assume the liability of my retirement, to take that burden if I'm going to take on the burden of educating its children?"

CHAIR KITO stated that risk sharing is one issue, but pooling is a big issue. As a person putting money away in a 401(k), he said, he doesn't know how long he is going to live, so he is trying to plan for an outcome of living to 90. Right now, however, he is planning on living to 80 because that is as far as his money gets him and family-wise that's the age many of his relatives have lived to be. When saving individually in a 401(k), he opined, everyone is being asked to estimate how long he or she is going to live, and the tendency is to put money into it at an accelerated rate to ensure getting the retirement that is being asked for. A benefit of a pooled plan, he noted, is that actuarial age difference is spread across many people, providing the ability to invest differently to bring a return to cover that inevitability.

[2:16:04 PM](#)

AMBER BARNEY testified in support of HB 83. She noted she is a Tier IV employee with the State of Alaska Department of Revenue [and is speaking on behalf of herself]. She further noted that her brother is a law enforcement officer with the Anchorage Police Department. She said she has been with the state for about three years and her brother with the Anchorage Police Department for just over two years. She loves Alaska and her job, she continued, but in less than two years she will be vested with the state and at that time she has intention of going elsewhere because there is no incentive for her as an employee to stay with the State of Alaska.

MS. BARNEY recognized that some people like to pick up and move and that others like being able to have a defined benefit plan. However, she said, the issue is that right now there is only one option, which is a defined contribution plan and there is no incentive. Currently [the state] is in a fiscal crisis and is spending approximately one-third of an employee's annual salary

for recruitment and training costs. For public safety employees the state spends about \$150,000 to train each employee. However, she continued, her brother has no intention of staying long term as a police officer. The state spent six months giving him a set of skills that he can take to the Lower 48 and know that after he has dedicated his life and put his life on the line that he will be guaranteed a set amount every month and not have to figure out if he retires at a certain age he will have \$3,000 a month for 20 years to live on; and if he goes past that age, he has nothing. There is just no incentive for state employees or public employees to continue to be here, she reiterated. Plus, those people taking their training to the Lower 48 are also more likely to retire in the Lower 48. So, Alaska is losing revenue as well by forcing people out of the state by not giving them a reason to stay and work in the state. Therefore, she said, she fully supports HB 83.

2:19:20 PM

BOB MURPHEY testified in support of HB 83. He said he is a long-term state employee, is TIER II under PERS, and is a member of the Alaska Public Employees Association. He has seen many changes during his long time with the state, he related, the most significant being the change from the defined benefit retirement plan to a defined contribution retirement account. He said he can say with certainty that having state employees and teachers work in the same position or field for a long time is a direct benefit to the people of the state versus the alternative of turnover every several years because the incentive to keep working for the state is just not there. He stated that HB 83 would help in recruiting and retaining employees and, as well, would attract the best for long term. He urged the committee to support HB 83.

2:20:30 PM

JAN CONITZ testified in support of HB 83. She said she has been in public service during most of her career and has lived in Alaska for most of her adult life. She has worked as a teacher and as an employee of the University of Alaska in fisheries and marine science research and is currently an employee of the Alaska Department of Fish and Game. She said she is benefitting from the defined benefits program and has seen from her older friends, neighbors, and family that it promotes the development of a stable, long-term workforce. It encourages people to stay and complete a career with the State of Alaska or another public employer, she continued, and it gives them the sense that they

are getting something from the state and they will stay and give back. Retirees staying in the state contribute financially as well as volunteer or go to work for non-profits or other areas where they can still contribute.

MS. CONITZ related that she was opposed to implementing the switch to Tier IV and thinks it extremely unfair to see people working next to her and not getting any of the security that she and her other colleagues have. She said it encourages high turnover, lowers morale, and gives people the feeling that the employer has no commitment to the employee, which undermines the success of public programs. Most public programs are long-term efforts and many of the positions are knowledge-based positions. This knowledge is developed over a long career and a price cannot be put on that long-term knowledge, she advised. The importance of people that commit to the state and to staying in the state cannot be overstated. She urged the passage of HB 83.

[2:24:26 PM](#)

JESSE KIEHL, Staff, Senator Dennis Egan, Alaska State Legislature, testified on behalf of Senator Egan, prime sponsor of SB 52, the companion bill to HB 83. Regarding the issue of volatility in investment returns, he noted that the substantial body of research over many years shows that pension systems bring a number of benefits that help reduce volatility and help improve returns because of the economic efficiency of these pension systems. Depending on the research being read, he advised, professional investors tend to average on the very long term anywhere from 80 to 120 basis points better returns, thus 0.8 to 1.2 percent year over year. That allows defined benefit pension systems to provide a great deal more of their benefits from investment earnings than from individual or employer contributions, which is important for the legislature to keep in mind when looking at the broad strokes of Alaska's economy and public employers.

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REPRESENTATIVE JOSEPHSON remarked that the idea that a public employee would need to be anchored to Alaska doesn't seem to be accurate. Someone who is vested, he said, would at the appropriate retirement age suffer a 10 percent penalty but would enjoy a reduced albeit regular and dependable monthly pension. So, he concluded, it is portable in that sense.

MR. KIEHL replied that different pension plans have different designs. This one provides significant incentives to stay but tends not to function as golden handcuffs where a person must stay for 30 years and be of a certain age or else suffer a much-reduced benefit. The structure of the chairman's bill would be that a public employee vests in the pension check when they have 10 years of service, he advised. They must be the minimum age before they begin to collect those pension checks, but the value is not lost when that eligible age is reached. He further advised that the healthcare benefit grows in value to the employee over the course of his or her time working for a public-sector entity in Alaska, but there isn't that instant cliff designed into this plan. Built into this plan is an incentive to retire in Alaska - the pension check is 10 percent higher if the retiree is an Alaska resident when drawing the check. That, among other things, has been very effective in benefitting Alaska's economy with retirees staying in the state. He offered his belief that 80-90 percent of PERS and TRS pension checks are paid to Alaskans. It has been an effective tool, he added, and this proposal maintains that.

[2:29:15 PM](#)

REPRESENTATIVE BIRCH returned to the earlier hypothetical scenario of a state employee earning \$100,000 a year with a total set aside of 25 percent (6.13/6.13 percent SBS, 8.00/5.00 percent PERS). He calculated that with interest the set aside would grow to a couple million dollars, which when put in an annuity at the end would produce generous checks. He related that legislators have recently been discussing using the permanent fund, earnings from the permanent fund, and what is an appropriate percent of market value (POMV) draw from the earnings of the permanent fund. He asked what the potential is for an employee to, if not invest in the permanent fund, at least invest in a state managed account that tracks the permanent fund. He allowed he doesn't know if that is a possibility, but said the state is spending a lot of money to hire good people to manage the permanent fund and perhaps this expertise could be taken advantage of. He asked who manages the retirement savings for the individual public employee given there has been testimony that some employees may not pay close attention to that.

MR. KIEHL responded that the Division of Investments, Department of Revenue, manages the PERS and TRS trusts under the direction of the Alaska Retirement Management (ARM) Board. He said this has been great management over the management that occurred

before Senate Bill 141. The Division of Investments implements that policy with some state employee investment officers and some outside managers. The permanent fund, he continued, is always in the process of trying to improve what it is doing and finding the most economically efficient way to do that with a mix of in-house and outside help. He deferred further response to the Permanent Fund Corporation, noting that prior legislatures have discussed an Alaska permanent fund mutual fund. He offered his belief that the corporation has been somewhat cool to the notion in terms of the costs that would be incurred given it would involve having to keep track of tens of thousands of clients as opposed to just the State of Alaska and the Alaska Mental Health Trust. The choice element in HB 83, he added, would help maintain the state's robust defined contribution system, which has been well managed and has low management fees - it is a best of both worlds approach.

[2:34:09 PM](#)

CHAIR KITO, regarding the current defined contribution plan, noted that someone departing state service prior to vesting takes the money that they have put in. He asked what happens to the funds that the state has set aside for that account.

MR. KIEHL answered that after two years of service employees in the defined contribution plan can take with them 25 percent of the employer's contributions net of investment earnings. After three years the employee can take 50 percent, after four years 75 percent, and after five years the employee is fully vested in the employer's contributions as well as their own.

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CHAIR KITO announced public testimony would be held open. He held over HB 83.

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[2:36:03 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 2:36 p.m.