

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

April 16, 2019

3:31 p.m.

MEMBERS PRESENT

Senator Click Bishop, Chair
Senator Chris Birch, Vice Chair
Senator Lyman Hoffman

MEMBERS ABSENT

Senator Mia Costello
Senator Elvi Gray-Jackson

COMMITTEE CALENDAR

SENATE BILL NO. 46

"An Act relating to restoration of tenure for certain disabled individuals; relating to the Public Employees' Retirement System of Alaska 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 of Alaska and the teachers' retirement system; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 46

SHORT TITLE: TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

SPONSOR(S): SENATOR(S) KIEHL

02/08/19	(S)	READ THE FIRST TIME - REFERRALS
02/08/19	(S)	CRA, FIN
04/16/19	(S)	CRA AT 3:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

SENATOR JESSE KIEHL
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of SB 46, introduced the bill.

DAN DOONAN, Executive Director
National Institute on Retirement Security
Washington, D.C.

POSITION STATEMENT: Provided an overview of the defined benefit retirements plans pertaining to SB 46.

JUSTIN BRANDT, Probation Officer
Bethel Probation Office
Alaska Department of Corrections
Bethel, Alaska

POSITION STATEMENT: Testified in support of SB 46.

TIM PARKER, President
National Education Association-Alaska
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SB 46.

ROBERT MURPHY, representing self
Kodiak, Alaska

POSITION STATEMENT: Testified in support of SB 46.

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 were Senators Hoffman, Birch, and Chair Bishop.

SB 46-TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

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CHAIR BISHOP announced the consideration of Senate Bill 46 (SB 46).

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SENATOR JESSE KIEHL, Alaska State Legislature, Juneau, Alaska, sponsor of SB 46, stated that most committee members have seen in some form of this legislation in the past. SB 46 would allow teachers, troopers, firefighters, and other public employees that are new hires to choose between one of two retirement systems. These are the current defined contribution system where an employee has an individual account that they are responsible for investing, or a defined benefit pension system. SB 46 also allows employees currently working in the defined contribution systems in Alaska a one-time choice to convert to the new

defined benefit tier. The new defined pension tier created by SB 46 is designed to be more predictable, more affordable, and more stable than the legacy pension systems the state once had. SB 46 keeps in place all the smart reforms that were put into the law a few years back in terms of predictability and stability of the pension system, multiple actuaries, a retirement management board with disinterested board members, and regular Alaska experience studies.

SENATOR KIEHL detailed that SB 46 puts in place an element of risk sharing to protect against the possibility of future unfunded liabilities. The risk sharing in SB 46 comes in on the health benefit. The health benefit for retirees has been the hardest to predict over time. SB 46 provides that the employees will share in the risk of rising health insurance costs during their retirement years.

He summarized that the teachers who educate Alaska's children, the police and firefighters who protect families, the biologists who manage natural resources, and other public employees who serve Alaska and its cities will be able under SB 46 to choose the benefit that best fits their service. Past actuarial analysis of similar bills has shown that the this structure will save the state money in the near term and will be cost neutral or better in the long term.

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CHAIR BISHOP asked if the bill will provide an option for a person in Tier IV to participate in a defined benefit plan.

SENATOR KIEHL answered yes. He explained that someone who is currently working as a public employee in the Tier IV Defined Contribution Retirement Plan will have a one-time-irrevocable opportunity to convert to the new defined benefit tier. The balance of the person's defined contribution account would buy their service years in the pension system up to their actual years worked. However, if the individual's account has a loss, the state will not pick up the difference. The person can either receive credit for fewer years in the system or pay the difference out of pocket. SB 46 is written so that an unfunded liability is not created from conversions. There is a conversion, but the conversion is not free.

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SENATOR BIRCH remarked that he has not seen a defined benefit program that has not put an additional burden on the state and taxpayers. He asked what the current unfunded liability is to

the state from the PERS/TRS liability and will the bill add or decrease the liability.

SENATOR KIEHL answered that the Alaska Retirement Management (ARM) Board recently revisited the unfunded liability from old defined benefit systems for PERS and TRS. The current unfunded liability is approximately \$8 billion.

He emphasized that there is no risk-free retirement system in the world. The state's current defined contribution system leaves the risk of an employee outliving their assets on the individual retiree. The state does not have a trust fund for senior benefits or other elder care programs.

He explained that SB 46 is designed to have as much stability and predictability as possible, but with a risk-sharing element. There have been other ideas brought forward for sharing risk between employee and employer. The legacy systems put 100 percent of the risk on the employer side, the state, the municipalities, and the school districts. Currently, the defined contributions system puts 100 percent of the risk on the individual employee. The current defined contribution system makes sense for retirees with military retirement benefits or individuals who don't plan to stay in Alaska long enough to vest. However, for those people who do plan to make a career in Alaska and whose skills will benefit the state over the long term, the defined benefit pension system set forth in SB 46 is designed to minimize risk of unfunded liability.

He said he would be happy to work with the committee if there are other risk sharing elements deemed essential in designing the bill going forward.

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CHAIR BISHOP said the committee will work with Senator Kiehl during the next session but now he'd like to hear from the scheduled presenters.

SENATOR BIRCH reiterated his concern that the bill might increase the existing \$8 billion liability. He noted that he brought the same question up during last year and was told that providing actuarial information on the net present value of the liability was expensive. He emphasized that the committee needs to understand the impact to the state and Alaskans.

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CHAIR BISHOP announced that the committee will hear invited testimony for SB 46.

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DAN DOONAN, Executive Director, National Institute on Retirement Security (NIRS), Washington, D.C., provided an overview titled, "Defined Benefit Retirement Plans and the Public Sector Workforce." He discussed the slide DB Pensions Are Cost Efficient: Still a Better Bang for the Buck" as follows:

- Cost Comparison:
 - NIRS looked at the cost to replace 53 percent of final income under 3 retirement plan structures.
 - The defined benefit pension cost 48 percent less than using individual accounts in a direct contribution savings plan to provide the same amount of income.

He addressed, "3 Key Reasons Why Defined Benefit Pension (DB) Plans Cost Less than Defined Contribution (DC) Plans" as follows:

1. Pool the longevity risks.
2. Maintain optimally balanced investment portfolio, avoid need to down-shift (risk/return) as nearing retirement.
3. DB plans have higher investment returns and lower fees compared to individual investors in DC accounts.

He explained that pensions can pool longevity risks. On an individual level there's a lot of variation in retiree longevity and lifespan. An individual should be concerned about having enough to last through retirement, but for large groups longevity can be estimated. There is an efficiency in planning and pooling longevity risk. In the past, pensions have updated longevity assumptions periodically, but many plans now use generational mortality tables that anticipate future mortality improvements.

He said pensions can also maintain consistent portfolios. Individuals should be changing their investments to be more conservative as they approach and enter retirement. By pooling investments pensions have a mathematical advantage over the do-it-yourself type plans.

MR. DOONAN said pensions also benefit from the economies of scale in professional management. Pension funds systemically rebalance and tend to not chase the market because a fund did badly the previous year.

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He addressed, "DB Plan's Role in the Public Sector: Workforce Management" as follows:

- Improve public sector productivity.
- Help recruit and retain quality workers.
- Address teacher shortage.

He noted that the median tenure for public employees is nearly twice as long as in the private sector. Reasons for the tenure difference includes the impact of incentives and employee benefits.

He addressed, "Pensions Help Deliver Strong Mid-career Retention." He referenced a chart from a study that looked at teacher pensions and retention in six different states. There is significant turnover in the early years, some people move jobs or realize the teaching profession is not a good fit. Once a teacher stays several years and grows into their job, the retention rates improve dramatically - generally until teachers are eligible for retirement. Retirement provisions in the different systems is the key takeaway for stronger retention for mid-career workers.

He addressed, "Result: Career Employment Becomes Commonplace" referencing a NIRS report on teacher pension vs. 401(k)s in six states where the median age a teacher leaves employment is 58 with 25 years of service.

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He addressed, "Case Studies: Risk-Sharing" from a National Association of State Retirement Administrators (NASRA) report on "In-depth: Risk Sharing in Public Retirement Plans" as follows:

- Variable Employee Contribution Rates.
- Contingent or Limited Cost-of-Living Adjustments.
- Cash Balance Hybrid Plans.
- Direct Benefit and Direct Contribution Hybrid Plans.

MR. DOONAN explained that new public retirement plans blend the provisions from the traditional pensions and the 401k plans.

He addressed, "What Resources are Needed to Maintain your Standard of Living?" and referenced research from Aon that took a deeper look at retirement needs. He said the private need is a

large bucket that includes employer plans that suggest 11 times pay at retirement, which is a multiple that seems high to many people given American's savings levels. Financial advisors often begin conversations about drawing down assets by using the four percent rule, which is an amount that could be too aggressive given the current low interest rates. The report from Aon looks at different factors that would lead to more customized savings targets based on age and income levels. For example, Millennials should have higher savings targets than Baby Boomers because health care costs are likely to grow faster than wages and longevity improvements are likely to continue.

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He addressed, "Retire Readiness Checkpoints" as follows:

- The average employee needs to accumulate 11.1 times pay by age 67 to maintain their preretirement standard of living throughout retirement, after Social Security.
- Employee savings milestones throughout their career, targets include Social Security participation:
 - Age 35: 2.0 multiple of pay saved;
 - Age 45: 4.0 multiple of pay saved;
 - Age 55: 7.0 multiple of pay saved;
 - Age 60: 8.5 multiple of pay saved;
 - Age 65: 10.5 multiple of pay saved;
 - Age 67: 11.1 multiple of pay saved.

He said for many Alaska public sector employees, knowing how much to save is hard because they are not covered by Social Security. The "Retirement Readiness Checkpoints" is a good idea for private savings in addressing the retirement problems from volatile returns, low interest rates, runaway health costs, life expectancies, and the broad challenges for retirement in general.

SENATOR BIRCH asked him to confirm that the retirement readiness checkpoint for age 35 is a multiple of 2, which means a 35-year-old should have saved double their income towards their retirement to maintain their pre-retirement standard of living.

MR. DOONAN answered yes.

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He addressed, "Economic Impact of Alaska's Public Retirees Spending" as follows:

- Expenditures by public sector retirees' DB pensions provide steady economic stream to Alaska. In 2016, these expenditures supported the following in Alaska:
 - Over 11,791 jobs that paid \$580 million in wages.
 - \$1.89 billion in total economic output.
 - Each dollar in DB benefits supported \$1.25 in total economic activity.
 - \$319 million in federal, state and local tax revenues.
 - Each taxpayer dollar "invested" in plans supported \$4.77 in total economic activity in the state.

He opined that the economic impact of pensions generally gets less attention. The contributions into the retirement plan does not disappear, the money gets paid out to real people that live in communities who spend their money in grocery stores and restaurants.

He addressed, "83 percent of Americans: Public Pensions a Good Way to Recruit and Retain Employees" as follows:

- Strongly agree: 45 percent.
- Somewhat agree: 38 percent.
- Somewhat disagree: 7 percent.
- Strongly disagree: 2 percent.
- Don't know: 8 percent.

He said NIRS recently did public opinion research on retirement security. Americans are generally concerned about retirement security, health care costs in retirement, long-term-care costs, saving enough, and longevity. Americans have a good view of their retirement challenges and their concern is not polarized. NIRS asked if pensions are a good way to recruit and retain public employees and 83 percent of respondents strongly agreed or somewhat agreed with the question.

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CHAIR BISHOP stated that his intent is to have Mr. Doonan back in person when the bill is heard again in 2020.

CHAIR BISHOP announced that the committee will hear invited testimony on SB 46.

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JUSTIN BRANDT, Probation Officer, Bethel Probation Office, Alaska Department of Corrections, Bethel, Alaska, testified in support of SB 46. He said the Bethel field office is seeing high

job turnover. Trainees have been known to complete their state-paid academy training and then leave for positions in the Lower 48, mainly due to retirement benefits and a lower cost of living. Because Bethel is in a remote area, there is no personnel back up. Probation officers based in Bethel cover an area the size of Oregon that includes 56 villages outside of Bethel.

CHAIR BISHOP asked how long he had been with the Bethel Probation Office.

MR. BRANDT answered five years.

CHAIR BISHOP asked if he came from another state.

MR. BRANDT replied that he graduated from college in West Virginia and came to Alaska on his first assignment. Some states require candidates to pay their own way through the academy training process, but Alaska hires personnel and pays for their training.

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TIM PARKER, President, National Education Association-Alaska (NEA-Alaska), Anchorage, Alaska, testified in support of SB 46. He said the issue that SB 46 addresses is the serious problem with teacher turnover, particularly in rural areas of Alaska, that is attributed to the current retirement system. The retirement issue pertains to people in the Teachers' Retirement System (TRS) Tier III and Public Employees' Retirement System (PERS) Tier IV. TRS-III is considered the worst in the country and the system affects the ability to attract and retain quality educators to Alaska. TRS-III and PERS-IV are nicknamed the death tiers because an employee does not feel like they can ever retire because of the incredible amount of risk that they have to carry.

He noted that TRS-III and PERS-IV changed in 2006, but the change still needs more work. So much risk has been placed on employees and the change has been especially hard on the TRS-III group because they have no Social Security. Under the defined contribution system, 69 percent of educators will probably outlive their savings and face the prospect of being destitute.

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MR. PARKER addressed the TRS group history in not having Social Security, explaining that the Territory of Alaska decided in 1951 that teachers would not participate in Social Security and

the PERS group did the same in 1978. A change was made in 2006 on the PERS side where a Supplemental Benefits System (SBS) was added, but nothing was done on the TRS side, there is just a defined contribution into a savings account.

He said another issue that TRS-III faces is the federal government Windfall Elimination Provision that targets states that are not in the Social Security program and a penalty is placed on earnings in an individual's life. All the noted factors increase the retirement risk factor that makes employee attraction and retention challenging.

He noted that more than 50 percent of the state's teachers and support professionals are in the defined contribution system. No one is attending the state job fairs to fill the nearly 1,000 openings that occur on an annual basis. Positions are going unfilled through the entire year and that is standard for most Alaska school districts.

He pointed out that salaries in Alaska, especially in the teaching field, are not keeping up. The state continues to drag behind inflation and the rest of the country has noticed that there is a teaching shortage and they are increasing salaries. More than 20 governors proposed increases in teacher salaries as part of their budgets in 2019 while Alaska has not. Washington state had increases of 15 to 20 percent across the board and a fair number of Alaskan teachers have applied for jobs and moved there.

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He summarized that relying on a savings account is just too risky. One hundred percent of the risk has been placed on the shoulders of teachers, plus they do not have an SBS; there is no other employee group that has that. Teachers are not looking for something that they do not pay for, but the state needs to make sure that teachers have a decent system and SB 46 is a solution that NEA-Alaska favors.

SENATOR BIRCH asked if SBS is a system that school districts can opt into.

MR. PARKER answered no.

SENATOR BIRCH pointed out that the state has an \$8 billion unfunded liability with respect to the current PERS and TRS legacy accounts. He said he struggles with the idea of increasing the current unfunded liability that burdens future

generations. He opined that defined benefit programs are fading away. He asked at what point should an individual employee be responsible for setting aside what they need to take care of themselves when they cease to work.

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MR. PARKER answered that the idea that the employee should save some percentage of money is what the private sector does, but the employees in the private sector have a Social Security option. Teachers in Alaska embrace setting aside money with a return to the Social Security system. Alaska is the only state that has direct-contribution-only option for teachers. The savings account is all a retired TRS-III teacher has and 69 percent are projected to run out of their savings during their retirement.

CHAIR BISHOP asked how many states currently have direct benefit plans for teachers.

MR. PARKER answered that approximately 50 percent of the states offer direct benefit plans for teachers with many opting for hybrid plans. He reiterated that Alaska is the only state with a direct-contribution-only retirement plan.

CHAIR BIRCH asked if he has exit survey data on teachers leaving employment in Alaska that are TRS-III.

MR. PARKER answered that school districts do the exit surveys, but NEA-Alaska does not have a good look at the entire state. He detailed that every year, Alaska has approximately 9,000 teachers and 1,000 teaching positions come available.

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CHAIR BISHOP asked how long teachers stay employed at TRS-III.

MR. PARKER answered that a lot of teachers leave on a regular basis and close to 50 percent of teachers leave in the first 5 years.

CHAIR BISHOP suggested that NEA-Alaska focus on exit surveys to get to the root of the problem and let the data help drive the discussion. He agreed that wages and retirement motivate employment. He noted Mr. Parker's recollection that in the 1990s there were over a thousand surplus teachers applying for positions and today there are basically zero. He said the legislature knows there is a problem and referenced a bill that passed the previous year for rehiring retired teachers.

MR. PARKER concurred that the need to rehire retired teachers has grown because the state is having a hard time attracting and retaining teachers.

He said he is telling TRS-III teachers to save an additional 25 percent for retirement due to the inefficient retirement system for teachers.

CHAIR BISHOP noted that improving student outcomes is important and the importance of investing in teachers for the long run to improve outcomes. He noted that in the Finland model, one teacher is with the same kids for seven years.

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ROBERT MURPHY, representing self, Kodiak, Alaska, testified in support of SB 46. He disclosed that he is a PERS-II person who has seen many changes since he started working for the Alaska Department of Fish and Game in the 1980s. He said the department has gone from the premier agency to work for in the state to an agency that has a difficult time competing with positions in the federal government or private sector. He opined that the difficulty in hiring and retention is attributed to the decline in benefits that are offered.

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CHAIR BISHOP said considering that the legislature is near the end of the session, SB 46 will be held in committee and addressed early in the next session. He noted that he is a co-sponsor of the bill and emphasized that he believes a direct-benefit plan does work, but the legislation must be honest with the multiplier.

SENATOR KIEHL responded that he looks forward to working with Chair Bishop during the interim. He said his staff will get back to the committee with the requested information.

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CHAIR BISHOP held SB 46 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 meeting at 4:27 p.m.