

SENATE FINANCE COMMITTEE
March 30, 2023
9:02 a.m.

[9:02:28 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator David Wilson

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair
Senator Kelly Merrick

ALSO PRESENT

David Teal, Consultant to the Senate Finance Committee

SUMMARY

PRESENTATION: RETIREMENT INCOME COMPARISONS - PENSIONS VS. 401(k)

Co-Chair Stedman discussed the agenda. He relayed that the committee would consider a presentation from David Teal, who was a consultant for the Senate Finance Committee after working as the director of the Legislative Finance Division for many years.

^PRESENTATION: RETIREMENT INCOME COMPARISONS - PENSIONS VS. 401(k)

[9:04:29 AM](#)

DAVID TEAL, CONSULTANT TO THE SENATE FINANCE COMMITTEE, introduced himself and discussed his background. He had worked as the Legislative Finance Director for 20 years. He

had been involved with the pension issue in 2004 and 2005 when the state had switched from its Tier III pension plan to a Tier IV, Defined Contribution Plan.

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Mr. Teal discussed a presentation entitled "Comparing Potential Retirement Income Under Defined Benefit and Defined Contribution Plans Offered to Non-Public Safety Employees under the Alaska Public Employees Retirement System (PERS)," (copy on file).

Mr. Teal turned to slide 2:

Retirement is a straightforward concept—people set aside money while they work so they can eventually live on sources of income other than work.

While simple in concept, discussion/evaluation of retirement is complicated by several factors:

- there is no set retirement age,
- retirement lifestyle requirements depend on individual preferences and financial circumstances, and
- the method of saving money during working years is not the same for everyone.

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Mr. Teal spoke to slide 3:

There are three categories of retirement plans:

1. Social Security is a federal government retirement plan that most workers join—not necessarily by choice.
2. At the other extreme, many individuals save on their own (often in traditional IRAs, Roth IRAs or deferred compensation plans).
3. The middle ground is employer sponsored retirement plans that both employer and employees contribute to.

Mr. Teal commented that Social Security was more of a "safety net" and was not necessarily meant to be primary income. He commented that the presentation was a little "data dense," with many tables and graphs. He relayed that

he would share his conclusions first and then present the accompanying data.

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Mr. Teal referenced slide 4:

Conclusions – Public Employees Retirement System (PERS) only – excludes police and firefighters and those in the Teachers Retirement System (TRS)

1. Available data do not support the conclusion that Alaska's Tier IV defined contribution plan is inferior to a Tier III pension, particularly regarding employee retention.

2. Whether a 401(k) plan or a pension is a "better" retirement system is not clear.

1. In most cases, a 401(k) plan offers greater potential retirement income.

2. Individual circumstances and preferences vary. Some people would prefer the certainty of a pension—even if it provides less income—while others prefer the advantages of a 401(k) plan.

3. For those fortunate employees that participate in the Supplemental Benefits System (SBS) as well as the 401(k) plan, 25% of their salary is set aside for retirement. Given at least 15 years of service and a well-managed nest egg, they can look forward to retirement income of at least 70% of final salary.

4. Some employees have neither SBS nor Social Security, and retirement options for them could be improved.

Mr. Teal noted that he would further refer to the Tier III, Defined Benefits Plan as "pension" and the Tier IV, Defined Contribution Plan as a 401k. He noted that no plan was best for everyone, and that people had various reasons to choose which plan worked best for them. He said that after 30 years of service an employee would end up with 64 percent of final salary, not 70 percent, but he believed using a 70 percent target was appropriate.

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Mr. Teal continued to address slide 4. He noted that there were many PERS employers that did not offer either SBS or Social Security, which he believed was a situation that could be improved.

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Co-Chair Olson considered number 3 on slide 4 and considered a "well-managed nest egg." He queried the rate of return of a well-managed rest egg.

Mr. Teal relayed that he had looked at several rates of return. He thought 7 percent was too high He thought 6 percent was a reasonable return over the long term, but to expect fluctuations.

Co-Chair Olson was concerned that if a person was managing their own account (as in a defined contribution account) the numbers were not as high as someone using professional investors.

Mr. Teal thought that people using professional managers should get a higher rate of return. He mentioned the issue of a pooled retirement account having a longer time horizon without the same investment restrictions on investments that a single investor would have. He pointed out that the other problem with managing one's own money was not the return on investment, but that there was no return on investment because people took their money out early. He reiterated that preferences and circumstances differed, and that there was not a plan that fit all people.

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Senator Bishop looked at number 3 on slide 4:

For those fortunate employees that participate in the Supplemental Benefits System (SBS) as well as the 401(k) plan, 25% of their salary is set aside for retirement. Given at least 15 years of service and a well-managed nest egg, they can look forward to retirement income of at least 70% of final salary.

Senator Bishop asked whether it was being assumed that the funds were being kept full for 30 years of service.

Mr. Teal answered in the affirmative.

Senator Bishop considered that not everyone knew how to manage their own money. He noted that 90 percent of withdrawals in the last 7 months came from people with only 5 years vested.

Co-Chair Stedman thought some of the issues would be covered by upcoming slides, such as people that did not stay employed for the full 30 years.

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Mr. Teal relayed that he had intended to address income under a 401k plan and the pension, but late in the process had decided to put in slides pertaining to retention, which seemed to be the topic that was driving the retirement discussion. He thought some believed that the 401k plan was so bad that the state could not attract employees. He felt that the problem was not an employee, but rather an employer problem, which would lead to a public service problem.

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Mr. Teal turned to slide 5:

Employee Retention

There is little argument that employee retention is a problem in Alaska.

The question is: How much of the retention problem is due to the retirement system?

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Mr. Teal considered slide 6, which was a graph addressing employee retention rates, by class year. He noted that the slide was used with permission from a previous presentation by current Legislative Finance Director Alexei Painter. He cited that the graph showed that 30 percent of employees did not make it past the first year of employment, with 45 percent failing to meet the 5-year vestment time.

Mr. Teal emphasized that retention was not just a state and or retirement system problem, Rather it was a national problem and a private sector problem. He referenced Senator

Bishop's question and pondered how much of the retention problem was due to the retirement system.

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Senator Kiehl observed that the slide was prepared with a limited data set. He wondered whether the retention rates were better when considering all PERS employees, rather than only the State of Alaska.

Mr. Teal was not familiar enough with the data to know what was included. He expressed shock that retention in the state was such a large problem.

Senator Kiehl explained that he had asked because in the PERS financial reports, turnover rates were considered, and the defined benefit and defined contribution were compared. He said that when the totality of a career of all employees in the system it had been found that there was a 1.5 percent higher turnover rate with defined contribution employees than with defined benefit employees.

Co-Chair Stedman asked whether Senator Kiehl was including police and fire, non-SBS or Social Security, or factoring them out.

Senator Kiehl thought that the actuarial analysis was based on non-police/fire but included non-SBS and Social Security.

Co-Chair Stedman explained that the PERS employees that did not participate in Social Security or SBS had been separated out in the data. He referenced Attachment 2 of a four-page document (copy on file), "Employers that Participate in the Supplemental Benefits System (SBS)," which indicated that 22 of the non-state PERS employers were included.

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Senator Kiehl noted that the actuarial reports broke the data down and included police/fire.

Mr. Teal pointed out that the graph showed that for non-police/fire and TRS, the 401k and pension plans barely differed in retention rates.

Mr. Teal emphasized that the graph only indicated what was happening but not why it was happening. He stressed that there was no information on why people left employment. He said that according to the data people who fell under defined benefit plans and those who fell under defined contribution plans, left employment at the same rate.

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Senator Kiehl clarified that the slide was state-only, and the data was limited in scope.

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Senator Bishop asked about the defined benefit numbers from 2003 to 2006. He wondered what year what year of service each tier was in and was their exit the result of a regular work to retirement cycle.

Mr. Teal agreed with Senator Bishop and relayed that he would want to consider the age of those represented on the graph, he admitted that sometimes the data resulted in more questions than answers.

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Mr. Teal displayed slide 7, which showed retention for defined contribution only, and looked at whether the group had SBS. He noted that the slide was also sourced from LFD. He shared that SBS added money to retirement, and without SBS, the retention rate dropped to 60 percent within the first year of employment. The curve followed all years of service. The employers that offered SBS had a much lower degree of retention problem. He did not know how much of the difference was due to retirement issues or compensation issues.

Mr. Teal reiterated that the graph demonstrated what happened but not why. He lamented that the slide did not answer questions about retention. He thought the graph showed that money helped with retention. He explained that SBS was roughly a replacement system for Social Security. He recounted that approximately 40 years previously, governments were given the opportunity to opt out of the Social Security system and the state replaced Social Security with SBS; the pension plan was replaced by the 401(k) plan.

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Mr. Teal discussed why the state opted out of Social Security, and thought it was perhaps fear of bankruptcy, or the payment levels. He discussed potential for SBS to replace more wages and provide for more flexibility than a Social Security plan.

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Co-Chair Stedman referenced a four-page handout (copy on file) with a list of employers that were not in SBS and not in Social Security. There were 52 employers that were in neither system. There were 22 non-state employers that were in SBS who employed 11,000 Alaskans. He stressed that there were large gaps in how communities dealt with the various plans.

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Mr. Teal turned to slide 8. He recalled that Mr. Desai had had described in his February 23, 2023, presentation described the characteristics of the two plans and provided a chronology of the retirement system. He summarized that both pension plans and 401(k) plans had employer contributions, one being a pool and the other being individual accounts. When the state replaced the pension plan in 2006 with the 401(k) plan it was intended to provide comparable levels of retirement income and comparable levels of cost.

He discussed slide 8, "Things to Remember":

1. The rate of return on investments is critical to any discussion of retirement plans.

- Earnings on contributions generally provide far more retirement income than contributions themselves. This is true of both pensions and 401(k) plans.

- Example: 10 years of work at \$100,000 in annual pay with 13 percent of payroll contributed (employee and employer combined) gives total contributions of \$130,000. A pension for 10 years of work with a 2 percent multiplier for each year of service gives a pension of 20 percent of salary, or \$20,000. The pension would burn through

\$130,000 in 6 ½ years. What magic allows people to collect a pension for 30 years? The magic is compound interest on investments.

2. The rate of return is instrumental in determining both the payout under a 401(k) plan and the actuarial soundness of a pension system.
3. Future rates of return are unknown, so must be projected.

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Mr. Teal looked at slide 9:

Things to Remember (continued):

4. If earnings are less than projected, either the employee or the employer will be disappointed.
 - a. In a 401(k) plan, the employee bears the risk that investment returns will not support the anticipated level of retirement income.
 - b. With a pension, retirement benefits are not merely anticipated, they are specified by a formula that includes years of service and salary, but not investment returns. A defined benefit often means that employees bear no risk of poor investment performance.
5. Timing of service affects a 401(k) payout but does not affect a pension

Mr. Teal noted that poor investment performance with a pension plan resulted in the employer making up for the lower rates of return. A pension does not grow overtime but loses value to inflation the more time between beginning work and termination of employment.

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Mr. Teal said that the conclusion by the press and others from information previously presented by Mr. Desai was that a pension always provided a higher retirement income than a 401(k) plan. He concluded that the idea was not necessarily accurate.

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Mr. Teal turned to slide 10, "Salary Replacement for Public Employees Retirement System (PERS) Employees other than Police and Firefighters". He said that the slide had been prepared to help to see and understand the data presented by Mr. Desai in an easily consumed spreadsheet. He noted that the 401(k) payout on his slide differed from what had been previously offered. He explained that Mr. Desai had used a 5.8 percent rate of return to annuitize payment. He believed that the rate was too low and that the balance should not be annuitized but rather treated like a mortgage. He said that the payout year amount did not change the conclusions reflected on the slide.

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Mr. Teal advanced to slide 11, which showed a graph using the data from the previous slide. The graph showed a retirement and benefits scenario that assumed a 7 percent rate of return on a 401(k) balance while employed, but no change in the balance between termination and age 60. He noted that the pension line exceeded the 401(k) payout.

Mr. Teal explained that he had expanded the service years from 30 to 40, out of curiosity.

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Senator Kiehl understood the assumption was a 7 percent rate of return, 25 percent less than what professional managers would make.

Mr. Teal relayed that he had used the rate used by Mr. Desai, which was 7 percent. He said that the rate of 7.25 was in actuarial reports, but all of Mr. Desai's slides had used 7 percent.

Senator Kiehl asked whether the assumptions had any adjustment to investment risk based on the age of the investor.

Mr. Teal replied in the affirmative; only years of service had been used.

Senator Kiehl understood that the notion of a 30-year payout at the age of 60 meant that "when you drew your last dollar when you drew your last breath."

Mr. Teal answered affirmatively.

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Co-Chair Stedman asked for assistance understanding the structural difference of the pension plan versus the 401(k) plan.

Mr. Teal noted that the pension was determined by years of service and salary and continued to grow regardless of the interest rate. The 401(k) payout was determined by interest rates, and the graph showed a 7 percent rate of return. He said that at 7 percent the fund grew, and the longer it had to compound interest, the more it would grow. He noted that two things affected the 401(k): the rate of return and time.

Co-Chair Stedman thought that the topic would be discussed later and in further detail.

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Mr. Teal looked at slide 12:

- **The conclusion that a pension nearly always provides more retirement income than a 401(k) plan is flawed** because the comparisons reflect a retirement income based on the balance of a 401(k) account at the end of service. That is, the conclusion is based on an assumption that
 - a person transitions immediately from employment to retirement, or
 - a 401(k) account earns no interest from the date of termination until the date of retirement.
- The numbers provided by the Division of Retirement and Benefits (R&B) are not wrong, they simply show one scenario. And that scenario is unlikely to occur.
- **Scenarios in which the balance of a 401(k) plan continues to accumulate earnings until age 60 reach the opposite conclusion.**

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Mr. Teal showed slide 13, which showed a table demonstrating how alternate scenarios could be developed. He pondered a scenario of someone at 10 years of service with a rate of return of 7 percent; 10 years of services at

a salary would result in the same pension, regardless of what age the person was when they began working. The 401(k) balance in the retirement and benefits scenario, which was 10 years of service until the age of retirement, would provide \$14,000 pension and a 401(k) payout of \$10,000 because it had no time to compound. He said that younger employees would have longer for their 401(k) balance to compound.

Mr. Teal discussed "The Rule of 72," which was a mathematical relationship that indicated if the rate of return number were divided into 72, the answer would be how many years for your investment to double.

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Senator Kiehl queried the likelihood of each of the scenarios considering the demographics of the workers in the state.

Mr. Teal replied that he had no idea because he did not have the data.

Senator Kiehl thought the average age of a first-time state employee was approximately 45 years old. He was curious about the averages of each potential scenario.

Mr. Teal commented that he had a spreadsheet that he could bring up that would offer multiple scenarios for rates of return for various starting ages.

Co-Chair Stedman thought the slide was trying to show that the mathematical relationship between the two plans was fundamental. He thought it was clear that an older person would lean toward a defined benefit plan, and the younger would lean toward defined contribution.

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Senator Bishop commented that the slide assumed that one could manage their money and not drain their 401(k).

Co-Chair Stedman felt that some of the data was being cleaned up and organized for better interpretation.

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Mr. Teal referenced slide 14:

Does slide 13 prove that 401(k) plans are always better than pensions?

Not necessarily. 401(k)s can generate higher retirement income at similar contribution levels, but returns are uncertain.

And the potential for higher retirement income may not be the deciding factor.

Preferences depend on individual circumstances.

Mr. Teal pondered if it was the state's responsibility versus the individual to manage their own money. He noted that employees did not get to make a choice of plans upon employment. He suggested that the state could offer a choice of plans, but that was currently not an option.

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Mr. Teal turned to slide 15, "Pension versus 401(k) Payout," which showed a graph utilizing the data from slide 13 in bar graph form. He observed that the 401(k) consistently and substantially paid more than a pension.

Mr. Teal emphasized that the two plans would join and eventually cross. He said that 401(k) plans eventually turned downward because money earned at the end did not compound, while the pension continued to grow. He noted that the issue could cause some confusion and that starting salaries did not change the numbers. He stressed that rate of return, and age of service, were the drivers.

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Senator Kiehl asked how the chart would change when one did not know when they would die.

Mr. Teal stated that it did not and indicated that there was no math to knowing when one would die. He contemplated that if one retired, and then died two years later, 50 percent of the pension would go to the spouse. He provided several hypotheticals for each plan. He stressed that the scenarios would be based on individual choice.

Senator Kiehl asked what financial advisors suggested people do regarding payout rates when faced with outliving their 401(k) account.

Mr. Teal cited various ways to manage the retirement funds. He said that one could do a required minimum distribution approach, which would mean that the amount drawn would decrease over time, but the money would never run out. He

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Mr. Teal considered slide 16, "Pension versus 401(k) Payout," which showed a graph utilizing the data from slide 13, but with an assumption using retirement and benefit values for salary, contribution rates and pension formula with the payout beginning at age 60. He stated that if the employee started work at age 25 and worked the indicated number of years, the rate of return for the entire period was 6 percent. He pointed out that under the scenario the pension provided a stable income.

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Mr. Teal displayed slide 17, "Pension versus 401(k) Payout," which showed a graph utilizing the data from slide 13 but with the assumption of a 5 percent rate of return. He thought that 5 percent might be low, but using the lower rate of expected return could result in less disappointment.

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Mr. Teal highlighted slide 18, "Pension versus 401(k) Payout," which showed a graph utilizing the data from slide 13, with the same graph with the assumption of a 6 percent return starting work at age 40. He commented that time was an important aspect and starting young was better for compound interest and rate of return.

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Senator Kiehl asked about the earlier start ages.

Mr. Teal went back to slide 15 and explained the pension would be decided by how much the employee made, their contribution, and their rate of return.

Senator Kiehl pondered whether another conclusion from the graphs could be to start young and work a little while, then go do something else while the money compounded.

Mr. Teal thought the best opportunity for a Tier I employee would be to start young, let the money sit for a long time, then come back at 55 years old as a special assistant to the governor and use those later years as your "high three".

Co-Chair Stedman asked Mr. Teal to explain the significance of the "high three" and how it might affect the pension when returning to service.

Mr. Teal explained that a pension was based on the years of service and the years at the highest rate of pay. For Tier I, it was the highest three years. If an employee came back into service, the pension would be based on the most recent highest paid years.

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Mr. Teal continued that the smart thing with a pension was to work young, leave for a while, and come back later. If one had a 401(k) the same system advantage was not available. He noted that a 401(k) plan was a percent of actual salary accounting for the entire working career. He agreed that it was the interest rate of return that determined a 401(k) payout.

Co-Chair Stedman thought that working the pension system is such a way created unfunded liability. He thought there was nuance that was not being addressed.

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Senator Kiehl appreciated Mr. Teal's description of the Tier I system. He mentioned Tier III did not allow for such flexibility. He thought that the smart financial move for a person would be setting up a 401(k) plan with the state and then leaving for federal employment and a federal pension.

Mr. Teal did not know how much employees scrutinized the matter. He agreed that if one sat down and did the math, which he thought few people engaged in, one could determine a financial life plan. He noted that life does not often go as planned. He thought that people made employment

decisions more based on how much they will make per paycheck, rather than what kind of retirement is offered.

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Mr. Teal looked at slide 19:

Takeaways:

1. Projected income at retirement age is the only appropriate way to compare pension benefits to 401(k) payouts.

a. Pensions are not affected by rate of return or timing of service and do not gain value over time.

b. Income from a 401(k) plan is affected by rate of return on investments and timing of service.

c. Comparing a 401(k) balance at age 40 to a pension earned at age 40 is biased in favor of pensions because doing so ignores the continued compounding of earnings applicable to a 401(k) plan.

2. As the rate of return on investments falls, 401(k) payouts fall but pensions are unaffected.

a. That point should now be obvious, and some use it to conclude that a pension generally provides greater retirement income than a 401(k).

b. The conclusion is not supported by data.

c. In most situations (even with investment returns as low as 5%) a 401(k) payout is greater than a pension.

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Senator Bishop asked to discuss number 1 on the slide and asked for help unpacking the takeaway. He understood that rates of return mattered regarding funded or unfunded status.

Mr. Teal relayed that the presentation did not dig very far into unfunded liability, which he acknowledged was critical. He noted that the presentation compared retirement income rather than the actuarial soundness of the systems. He stressed that pension benefits were not affected by rates of return. He agreed that from an employer's perspective, Senator Bishop was correct in that the system generates unfunded liability, which the was the employer's responsibility.

Co-Chair Stedman reminded that there was a constitutionally protected provision for the pension plan.

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Mr. Teal addressed slide 20:

Takeaways (continued):

3. A less obvious point is that the same low returns that reduce 401k payouts could throw a pension system out of actuarial balance—meaning that the trust fund balance would be insufficient to pay projected pensions.

4. Failing to consider the costs of maintaining an actuarially sound pension system is a dangerous path.

a. Benefits matter. But they are not the only thing that matters.

b. Employer costs also matter.

c. Projected contribution rates and projected rates of return on investment can make a pension system appear to be much cheaper than it can be when assumptions do not match reality.

d. In comparing retirement plans, the big issue is risk, not merely contribution rates.

Mr. Teal thought that point 3 and point 4 addressed Senator Bishop's question. He highlighted that it did not take an investment loss to generate unfunded liability.

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Mr. Teal advanced to slide 21:

Takeaways (continued):

5. Anything that increases salaries also increases employer and employee contributions—and eventually, retirement income.

a. For this reason, we should not expect to be able to return to a pension system at the former levels of contributions.

- Contribution rates under the former pension system were designed to fund benefits based on salary schedules in place when rates were set. That schedule had 5- 6- and 7-year holds at longevity steps. Within each salary range, the maximum step was reached at 20 years of service.

- Salary schedules now in place provide increases every two years with no cap on steps. With each step increase equivalent to a 3.25% raise, final salaries—and pensions—can be 20% or more above the amounts achievable under the old salary schedules.

6. As legislators, you must balance employee benefits and state costs.

a. Unfortunately, these move in opposite directions.

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Senator Kiehl asked whether Mr. Teal was comparing the cost of plans, or risk of plans.

Mr. Teal did not think it was possible to have a full discussion of cost without considering risk.

Senator Kiehl thought that the comparisons in the presentation had de-risked the 401(k) plan by 100 percent. He thought Mr. Teal had given oblique answers to questions at the table and wondered whether Mr. Teal was interested in having a balanced conversation on the matter.

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Mr. Teal continued to address slide 21.

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Mr. Teal looked at slide 22, "Pension versus 401(k) Payout," which showed a graph depicting the 401(k) plan and pension with assumptions of retirement and benefits values for salary, contribution rates, and pension formula for an employee starting work at age 30 and working the indicated number of years at a rate of return for the entire period of 6 percent. Payout would begin at age 60. He pointed out that neither the pension or 401(k) plan reached the target of 70 percent, even after 30 years of service, which meant benefits would flatten out. He noted that neither system climbed to a 70 percent wage-replacement. He thought that there was some weight in the argument that retirement income was insufficient with both plans. He summarized that returning to a Tier III pension plan did not address the issue for anyone with service of less than 25 years and going back to a pension plan would reduce potential retirement income. He pointed to the dotted lines

representing SBS. He said that SBS approximately doubled the retirement available under a 401(k) plan.

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Mr. Teal turned to slide 23:

The graph prompts many questions:

1. Does any state offer a retirement system as financially attractive as Alaska's "401(k) plus SBS" system?
 1. Have proponents of returning to a pension plan come forward with plans from other states and said "this is why Alaska's retirement plan isn't competitive"?
2. Do employees understand how attractive Alaska's retirement system is?

Co-Chair Stedman considered the graph on slide 22 and thought it was important to recognize employees and employers that were not included in SBS or Social Security. He contended that there were substantially different results for those who were included versus those that were not. He did understand how an employer could not be included in Social Security or SBS.

Co-Chair Stedman referenced Senator Kiehl's comment about age of employment, and duration of employment. He noted that the committee had asked the administration to investigate and refine the data.

Co-Chair Stedman thought slide 22 was important. He suggested that the committee could change some of the assumptions but that the conclusion would not change.

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Mr. Teal shared that he did not believe that there was another state that offered a retirement system as financially attractive as the one offered to state workers.

Mr. Teal continued to address slide 23:

2. Are considerations other than the potential amount of retirement income driving the controversy?

3. Is the push to return to a pension driven by employees who work for employers that do not offer SBS?

4. Would returning PERS workers (with SBS) to a pension plan fix a part of the retirement system that isn't broken?

5. Can the State encourage employers without SBS or Social Security to offer a retirement system in addition to the PERS 401(k) plan?

Mr. Teal suggested that roughly 18,000 workers in PERS had a 401(k) plan, plus SBS, but there were many employers in the state that did not offer SBS. He asserted that those working for a government employer that did not offer SBS or Social Security, he offered the example of teachers and Anchorage firefighters and police, were in a broken system. He was unsure how the state could get those employers to add SBS or Social Security to the 401(k) plan.

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Mr. Teal referenced slide 24:

Recap

1. Available data do not support the conclusion that Alaska's 401(k) plan is inferior to a Tier III pension, particularly regarding employee retention.

2. Whether a 401(k) plan or a pension is a "better" retirement system is not clear.

1. In most cases, a 401(k) plan offers greater potential retirement income.

2. Individual circumstances and preferences vary. Some people would prefer the certainty of a pension—even if it provides less income—while others prefer the advantages of a 401(k) plan.

3. For those fortunate employees that participate in the Supplemental Benefits System (SBS) as well as the 401(k) plan, 25% of their salary is set aside for retirement. Given at least 15 years of service and a well-managed nest egg, they can look forward to retirement income of at least 70% of final salary.

4. Some employees have neither SBS nor Social Security, and retirement options for them could be improved.

Mr. Teal asserted that there were no clear answers as to which plan was better.

Mr. Teal thought Co-Chair Stedman had some attachments that were not part of the presentation.

Co-Chair Stedman shared that his office had prepared the document available on the back table (copy on file). He stressed that the state had a retention issue at the lower end of the salary scale. He hoped to gather data and dive deeper into the issue.

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Senator Kiehl thought some of the conclusions were indisputable. He thought it would be helpful to examine the risk factor and how it impacted employee behavior.

Co-Chair Stedman offered that the unfunded liability created under the pension system was also part of the discussion about risk.

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Senator Bishop asserted that legislation would be necessary to address the problem. He thought that employees should have options to choose from.

Co-Chair Stedman noted that the subject was broad and would require more analysis and discussion.

Co-Chair Stedman discussed housekeeping.

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ADJOURNMENT

[10:52:59 AM](#)

The meeting was adjourned at 10:52 a.m.