

**SB**

**111**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

DATE: 2/11/93

FURTHER:

Date of 5-Day Notice: 2-25-93  
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: \_\_\_\_\_

**Died in SFC 1994**  
The Finance Committee considered SB 111

Establishing the defined contribution retirement plan for public employees; requiring the preparation of certain actuarial valuations and actuarial and financial experience analyses of the teachers' retirement system; requiring the teachers' retirement system and the public employees' retirement system to be fully funded before granting a post retirement pension adjustment; efd.

and recommends:

- replace with \_\_\_\_\_ CS \_\_\_\_\_ (FINANCE)
- or  adopt previous \_\_\_\_\_ CS \_\_\_\_\_
- attaches amendment(s)

- same title
- new title
- technical title change (HB only)

adopts \_\_\_\_\_ Letter of Intent

further referral to the \_\_\_\_\_

do pass

do not pass

no recommendation

individual recommendations

### NEW FISCAL NOTES

Department	Date	Zero	Fiscal

### PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

### DO PASS:

---



---



---



---



---

### OTHER RECOMMENDATIONS:

---



---



---



---



---

1. \_\_\_\_\_  
Co-Chair: Signature/Recommendation

2. \_\_\_\_\_  
Co-Chair: Signature/Recommendation



**SENATE-HOUSE HISTORY Continued**

19	<p>Received from the House Version: _____</p> <p>Concur in House amendment Y ___ N ___ E ___ A ___ _____ Efd same or Y ___ N ___ E ___ A ___</p> <p>Failed to concur in House amendment, ask House recede Y ___ N ___ E ___ A ___</p> <p>House failed to / receded from amendment Y ___ N ___ E ___ A ___</p> <p>CC appointed by Senate _____ Chair _____</p> <p>CC appointed by House _____ Chair _____</p> <p>(S) Granted Limited Powers of Free Conference</p> <p>(H) Granted Limited Powers of Free Conference</p>
----	--

19	<p>(S) Adopted CC Rpt _____ Y ___ N ___ E ___ A ___ _____ Efd same or Y ___ N ___ E ___ A ___</p> <p>(H) Adopted CC Rpt _____ Y ___ N ___ E ___ A ___ _____ Efd same or Y ___ N ___ E ___ A ___</p> <p>To enrolling Received from enrolling Sent to Governor</p> <p>_____ By Governor</p> <p>Chapter Number _____</p> <p>Filed with Lieutenant Governor</p>
----	---

# FISCAL NOTE

STATE OF ALASKA  
1993 LEGISLATIVE SESSION

BILL NO. SB 111

Revision Date: \_\_\_\_\_ Dept. Affected: Administration  
 Title: An Act establishing the defined contribution plan for BRU: Retirement and Benefits  
public employees; requiring the preparation of certain actuarial Component: Retirement and Benefits  
valuations.....  
 Sponsor: Senate Finance Committee  
 Requestor: \_\_\_\_\_ COMPONENT SERIAL NO. 64

**Expenditures/Revenues: (Thousands of Dollars)**

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
PERSONAL SERVICES	1091.6	1091.6	1091.6	1091.6	1091.6	1091.6
TRAVEL	12.0	6.0	6.0	6.0	6.0	6.0
CONTRACTUAL	1031.3	779.8	1000.5	1377.6	1394.2	1561.7
SUPPLIES	7.2	6.0	6.0	6.0	6.0	6.0
EQUIPMENT	297.4	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	<b>2439.2</b>	<b>1883.4</b>	<b>2104.1</b>	<b>2481.2</b>	<b>2497.8</b>	<b>2665.3</b>

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE FUND SOURCE:	0	0	0	0	0	0
----------------------	---	---	---	---	---	---

**FUNDING:**

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	2439.2	1883.4	2104.1	2481.2	2497.8	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
Other	0	0	0	0	0	2665.3
<b>TOTAL</b>	<b>2439.2</b>	<b>1883.4</b>	<b>2104.1</b>	<b>2481.2</b>	<b>2497.8</b>	<b>2665.3</b>

**POSITIONS**

FULL-TIME	24	24	24	24	24	24
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year (FY93) impact: \$ zero

**ANALYSIS:** (attach a separate page if necessary.) Detailed analysis for administrative costs above is found on pages 2-4 attached. An analysis of projected PERS and TRS systemwide costs is found on pages 5-6.

Prepared By: Robert F. Stalnaker *Robert F. Stalnaker* Phone: 465-4470  
 Division: Retirement and Benefits Date: March 30, 1993  
 Approved by Commissioner: Nancy Bear Usery *Nancy Bear Usery* Date: 3/31/93  
 Agency: Department of Administration

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**

For further distribution information call the Governor's Legislative Office

Senate Bill 111  
Fiscal Note Analysis  
Prepared by Division of Retirement and Benefits  
Department of Administration  
March 30, 1993

**Analysis:** This bill proposes a new retirement system for public employees and teachers. The existing Public Employees' (PERS) and Teachers' (TRS) Retirement Systems would be closed to new entrants. All state employees, and all public employees and teachers of participating employers, first hired on or after July 1, 1993 would participate in the new retirement system: the Defined Contribution Retirement Plan (DCRP). The DCRP establishes defined contributions to be paid by both the employer and the employee.

This fiscal note represents the administrative costs associated with establishing a new retirement plan and is based on the following assumptions:

- \* The current PERS Board will oversee the DCRP
  - \* The administration of the DCRP will be in the Division of Retirement & Benefits
  - \* The proposed level of staffing is needed to administer the DCRP
  - \* The current level of PERS and TRS staffing will continue in the short run and is estimated to begin decreasing after approximately six years
  - \* The administration of the DCRP is subject to the Alaska procurement code and personnel rules
  - \* Participant directed recordkeeping will be maintained by a contracting recordkeeper
  - \* There will be an in-house data processing system to collect contributions, transmit contributions to recordkeepers and audit accounts
  - \* Current employers in the PERS and TRS will also participate in the DCRP
  - \* DCRP membership will grow based on the turnover rates of the PERS and TRS and assuming a 3% per year population growth rate for PERS and a 1% rate for TRS
  - \* The effective date of commencement is July 1, 1993
  - \* Approximately 20% of the current PERS and TRS members will transfer their contributions to the DCRP within the first year
  - \* The employer rate will be 9.65%
  - \* The employee rate will be 6.75%
  - \* The current PERS and TRS system assumptions will continue over the next 25 years
- \* A start up time of at least five years will be required. Contributions in the first few years will be insufficient to cover the administrative charges. During start up the state would pay the administrative costs from the general fund. Thereafter, the DCRP would be self sufficient and able to pay its own operating expenses.

Senate Bill 111  
 Fiscal Note Analysis  
 Prepared by Division of Retirement and Benefits  
 Department of Administration  
 March 30, 1993

The total estimated administrative cost to the division by fiscal year is as follows:

	<u>FY 94</u>	<u>FY 95</u>
<b>PERSONAL SERVICES</b>		
1 Retirement & Benefits Manager	66.7	
3 Retirement Specialist III	175.5	
2 Retirement Specialist I/II	102.6	
2 Retirement Technician I/II	84.0	
1 Accountant IV	66.7	
1 Accountant III	58.5	
1 Accounting Technician III	51.3	
2 Accounting Technician II	45.3	
2 Accounting Clerks III	75.6	
1 Accounting Clerk II	34.6	
1 Clerk IV	37.8	
2 Clerks III	67.2	
1 Micrographics Equipment Operator	42.0	
1 Programmer/Analyst V	71.4	
1 Programmer/Analyst III/IV	63.6	
1 Programmer/Analyst I/II	<u>48.8</u>	
Total Personal Services Cost.....	\$1091.6	1091.6
<b>TRAVEL</b>		
Traveling to various locations throughout the state to counsel members	6.0	6.0
Additional Board travel to establish DCRP	<u>6.0</u>	<u>0.0</u>
Total Travel Costs.....	12.0	6.0
<b>CONTRACTUAL</b>		
Computer system design	500.0	0
Actuarial consulting, independent audit, recordkeeping, and investment management	477.4	726.2
Computer services	28.8	28.8
Printing, postage	15.0	15.0
Telephone service for 24 permanent phones	4.8	4.8
Long distance call expense	<u>5.0</u>	<u>5.0</u>
Total Contractual Costs.....	1031.3	779.8

Senate Bill 111  
 Fiscal Note Analysis  
 Prepared by Division of Retirement and Benefits  
 Department of Administration  
 March 30, 1993

	<u>FY 94</u>	<u>FY 95</u>
<b>SUPPLIES</b>		
Office supplies	7.2	6.0
<b>EQUIPMENT</b>		
24 Work stations	72.0	
30 Chairs	12.0	
24 Personal computers	132.0	
Other office equipment (calculators, etc.)	12.0	
24 Phones (1100/instrument)	26.4	
Imaging equipment	25.0	
1 Computer Output Printer	<u>18.0</u>	
Total Equipment Cost	<u>297.4</u>	<u>0.0</u>
TOTAL Cost.....	<u>\$2439.2</u>	<u>\$1883.4</u>

Senate Bill 111  
Retirement System Financial Impact  
Prepared by Division of Retirement & Benefits  
Department of Administration  
March 30, 1993

Establishing a new retirement system will have an impact on the future employer contribution rates of the PERS and TRS. The affect of closing the PERS and TRS to new entrants will be an increase in the employer contribution rates over the long term as the PERS and TRS covered salaries decline. The overall contributions will, of course, decrease as the amount of contributions to the DCRP increase.

The chart on the next page shows, in one column, the anticipated amount of employer contributions to the PERS and TRS over the next 25 years assuming no changes to the retirement systems; and, in the second column, the amount of anticipated employer contributions to the DCRP and to the PERS and TRS under SB 111 with the PERS and TRS systems closed to new entrants. The third column shows the net difference in the estimated amount of employer contributions on a systemwide basis with the passage of SB 111.

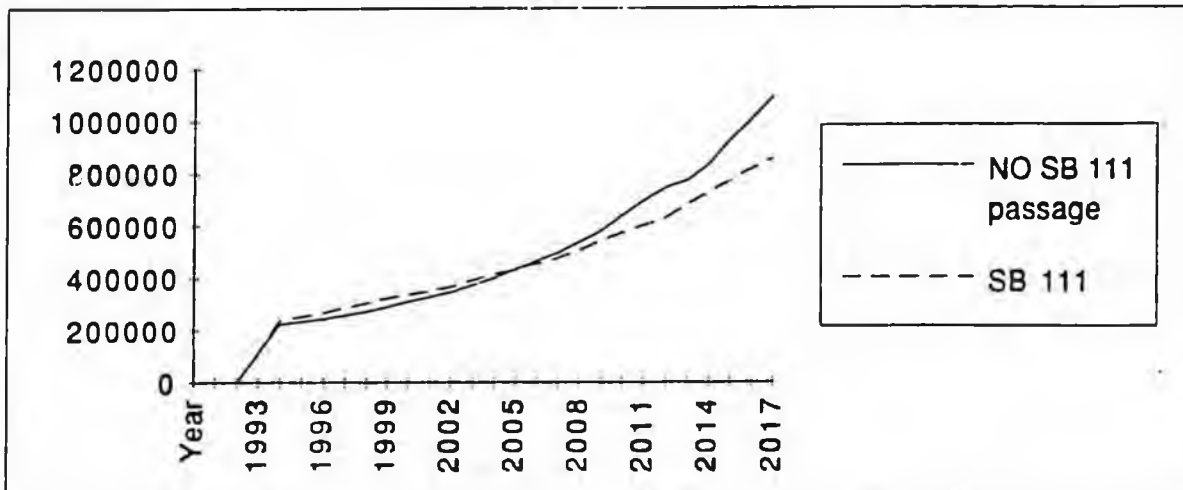
The initial affect to the new system will be to increase combined net employer contributions for the first 14 years; thereafter, the combined contributions will decline and the savings should grow yearly.

The graph at the bottom of page 6 displays the affect of SB 111 when compared to the current actuarial projections of contributions to the PERS and TRS with no changes to those systems.

The figures were produced by the PERS and TRS actuary assuming growth rates of the DCRP equal to those of the PERS (3%) and TRS (1%).

Senate Bill 111  
 Retirement System Financial Impact  
 Prepared by Division of Retirement & Benefits  
 Department of Administration  
 March 30, 1993

Calendar Year	NO SB 111 passage Projected PERS & TRS Future Employer cost in (000's)	SB 111 DB & DC in (000's)	Difference Between Employer cost with SB 111 and without in (000's)
1993	\$106,323	\$113,792	\$7,469
1994	\$223,117	\$240,056	\$16,939
1995	\$233,461	\$251,735	\$18,274
1996	\$244,149	\$267,755	\$23,606
1997	\$255,880	\$286,148	\$30,268
1998	\$271,857	\$304,880	\$33,023
1999	\$289,554	\$322,701	\$33,147
2000	\$309,765	\$337,253	\$27,488
2001	\$329,559	\$352,211	\$22,652
2002	\$348,212	\$367,794	\$19,582
2003	\$374,817	\$391,647	\$16,830
2004	\$400,591	\$416,768	\$16,177
2005	\$433,476	\$435,161	\$1,685
2006	\$465,500	\$454,659	(\$10,841)
2007	\$495,637	\$474,425	(\$21,212)
2008	\$536,973	\$507,017	(\$29,956)
2009	\$578,576	\$542,645	(\$35,931)
2010	\$638,094	\$572,839	(\$65,255)
2011	\$692,767	\$601,832	(\$90,935)
2012	\$743,883	\$630,177	(\$113,706)
2013	\$771,447	\$677,573	(\$93,874)
2014	\$832,686	\$725,735	(\$106,951)
2015	\$924,351	\$771,541	(\$152,810)
2016	\$1,005,367	\$815,711	(\$189,656)
2017	\$1,093,134	\$855,448	(\$237,686)



# FISCAL NOTE

STATE OF ALASKA  
1993 LEGISLATIVE SESSION

BILL NO. CS SB 111 (fin)

Revision Date: \_\_\_\_\_ Dept. Affected: Administration  
 Title: An Act establishing the defined contribution plan for BRU: Retirement and Benefits  
public employees; requiring the preparation of certain actuarial Component: Retirement and Benefits  
valuations.....  
 Sponsor: Senate Finance Committee  
 Requestor: \_\_\_\_\_ COMPONENT SERIAL NO. 64

**Expenditures/Revenues: (Thousands of Dollars)**

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
PERSONAL SERVICES	349.6	811.1	811.1	811.1	811.1	811.1
TRAVEL	12.0	6.0	6.0	6.0	6.0	6.0
CONTRACTUAL	580.4	323.1	597.9	844.3	1067.3	1275.8
SUPPLIES	7.2	6.0	6.0	6.0	6.0	6.0
EQUIPMENT	231.2	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	<b>1180.4</b>	<b>1146.2</b>	<b>1421.0</b>	<b>1667.4</b>	<b>1890.4</b>	<b>2098.9</b>

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE FUND SOURCE:	0	0	0	0	0	0
----------------------	---	---	---	---	---	---

**FUNDING:**

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	1180.4	1146.2	1421.0	1667.4	1890.4	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
Other	0	0	0	0	0	2098.9
<b>TOTAL</b>	<b>1180.4</b>	<b>1146.2</b>	<b>1421.0</b>	<b>1667.4</b>	<b>1890.4</b>	<b>2098.9</b>

**POSITIONS**

FULL-TIME	8	17	17	17	17	17
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year (FY93) impact: \$ zero

**ANALYSIS:** (attach a separate page if necessary.) Detailed analysis for administrative costs above is found on pages 2-4 attached. An analysis of projected PERS and TRS systemwide costs is found on pages 5-6.

Prepared By: Robert F. Stalnaker *Robert F. Stalnaker* Phone: 465-4470  
 Division: Retirement and Benefits Date: April 2, 1993

Approved by Commissioner: Nancy Bear Usura Date: \_\_\_\_\_  
 Agency: Department of Administration

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**  
 For further distribution information call the Governor's Legislative Office

Finance Committee Substitute for Senate Bill 111  
Fiscal Note Analysis  
Prepared by Division of Retirement and Benefits  
Department of Administration  
April 2, 1993

**Analysis:** This bill proposes a new retirement system for public employees and teachers. The existing Public Employees' (PERS) and Teachers' (TRS) Retirement Systems would be closed to new entrants. All teachers of participating employers first hired on or after July 1, 1994 would participate in the new retirement system: the Defined Contribution Plan (DCRP). All state employees, and all public employees of participating employers, first hired on or after January 1, 1995 would participate in DCRP. The DCRP establishes defined contributions to be paid by both the employer and the employee.

This fiscal note represents the administrative costs associated with establishing a new retirement plan and is based on the following assumptions:

- \* The current PERS Board will oversee the DCRP
  - \* The administration of the DCRP will be in the Division of Retirement & Benefits
  - \* The proposed level of staffing is needed to administer the DCRP
  - \* The current level of PERS and TRS staffing will continue in the short run and is estimated to begin decreasing after approximately six years
  - \* The administration of the DCRP is subject to the Alaska procurement code and personnel rules
  - \* Participant directed record keeping will be maintained by a contracting record keeper
  - \* There will be an in-house data processing system to collect contributions, transmit contributions to record keepers and audit accounts
  - \* Current employers in the PERS and TRS will also participate in the DCRP
  - \* DCRP membership will grow based on the turnover rates of the PERS and TRS and assuming a 3% per year population growth rate for PERS and a 1% rate for TRS
  - \* The effective date of commencement is July 1, 1994 for teachers and January 1, 1995 for state and political subdivision employees
  - \* Current members of the PERS and TRS members cannot join the DCRP
  - \* The employer rate will be 5.0%
  - \* The employee rate will be 4.5%
  - \* The current PERS and TRS system assumptions will continue over the next 25 years
  - \* The fiscal note assumes a participation level which will increase over time; any additional staffing needs will be addressed in the future.
- \* A start up time of at least five years will be required. Contributions in the first few years will be insufficient to cover the administrative charges. During start up the state would pay the administrative costs from the general fund. Thereafter, the DCRP would be self sufficient and able to pay its own operating expenses.

Finance Committee Substitute for Senate Bill 111  
 Fiscal Note Analysis  
 Prepared by Division of Retirement and Benefits  
 Department of Administration  
 April 2, 1993

The total estimated administrative cost to the division by fiscal year is as follows:

	<u>FY 94</u>	<u>FY 95</u>
<b>PERSONAL SERVICES</b>		
1 Retirement & Benefits Manager	66.7	66.7
1 Retirement Specialist III	58.5	58.5
1 Retirement Specialist I/II		51.3
1 Retirement Technician I/II		42.0
1 Accountant III	43.9	58.5
1 Accounting Technician III		51.3
2 Accounting Technician II	22.6	90.6
2 Accounting Clerks III		75.6
1 Accounting Clerk II		34.6
1 Clerk IV		37.8
2 Clerks III	33.6	67.2
1 Micrographics Equipment Operator	21.0	42.0
1 Programmer/Analyst V	55.6	71.4
1 Programmer/Analyst III/IV	<u>47.7</u>	<u>63.6</u>
Total Personal Services Cost.....	\$349.6	\$811.1
<b>TRAVEL</b>		
Traveling to various locations throughout the state to counsel members	6.0	6.0
Additional Board travel to establish DCRP	<u>6.0</u>	<u>0.0</u>
Total Travel Costs.....	\$12.0	\$6.0
<b>CONTRACTUAL</b>		
Computer system design	400.0	0
Actuarial consulting, independent audit, record keeping, and investment management	125.0	270.9
Computer services	28.8	28.8
Printing, postage	20.0	15.0
Telephone service for phones	1.6	3.4
Long distance call expense	<u>5.0</u>	<u>5.0</u>
Total Contractual Costs.....	\$580.4	\$323.1

Finance Committee Substitute for Senate Bill 111  
 Fiscal Note Analysis  
 Prepared by Division of Retirement and Benefits  
 Department of Administration  
 April 2, 1993

	<u>FY 94</u>	<u>FY 95</u>
<b>SUPPLIES</b>		
Office supplies	\$7.2	\$6.0
<b>EQUIPMENT</b>		
17 Work stations	52.0	
30 Chairs	12.0	
17 Personal computers	93.5	
Other office equipment (calculators, etc.)	12.0	
17 Phones (1100/instrument)	18.7	
Imaging equipment	25.0	
1 Computer Output Printer	<u>18.0</u>	
Total Equipment Cost	<u>\$231.2</u>	<u>0.0</u>
<b>TOTAL Cost.....</b>	<b><u>\$1180.4</u></b>	<b><u>\$1146.2</u></b>

Finance Committee Substitute for Senate Bill 111  
Retirement System Financial Impact  
Prepared by Division of Retirement & Benefits  
Department of Administration  
April 2, 1993

Establishing a new retirement system will have an impact on the future employer contribution rates of the PERS and TRS. The affect of closing the PERS and TRS to new entrants will be an increase in the PERS and TRS employer contribution rates over the long term as the PERS and TRS covered salaries decline. The overall state contributions, however, will decrease as the amount of contributions to the DCRP increase.

The chart on the next page shows, in one column, the anticipated amount of employer contributions to the PERS and TRS over the next 25 years assuming no changes to the retirement systems; and, in the second column, the amount of anticipated employer contributions to the DCRP and to the PERS and TRS under SB 111 with the PERS and TRS systems closed to new entrants. The third column shows the net difference in the estimated amount of employer contributions on a system wide basis with the passage of SB 111.

The initial effect of the new system will be to increase combined net employer contributions for the first 2 years; thereafter, the combined contributions will decline and the savings should grow yearly.

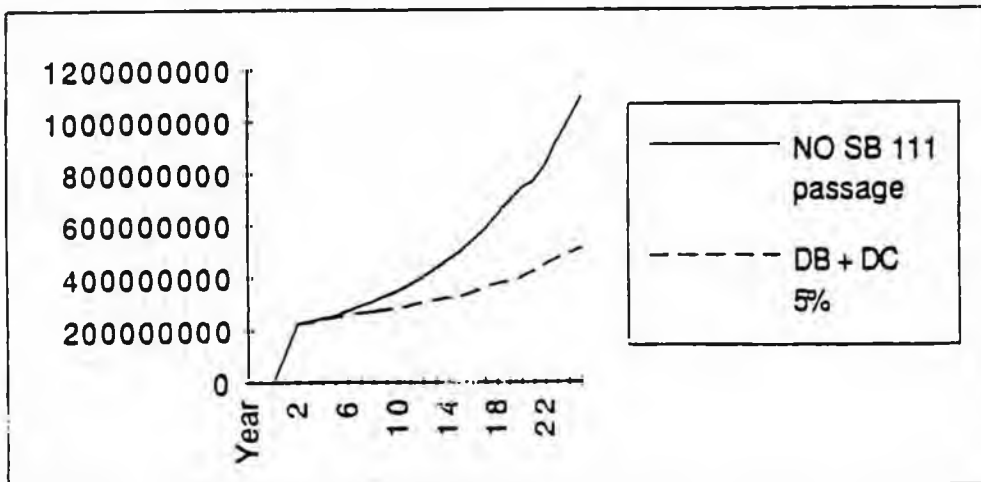
The graph at the bottom of page 6 displays the affect of SB 111 when compared to the current actuarial projections of contributions to the PERS and TRS with no changes to those systems.

The figures were produced by the PERS and TRS actuary assuming growth rates of the DCRP equal to those of the PERS (3%) and TRS (1%).

The State of Alaska should experience approximately 40% of the net effect due to it's number of employees. As an example, in year two, the chart shows an increase in net cost by \$795,067. The state's share of that increase would be estimated to be \$318,027. In year five, the chart shows an estimated savings to the systems' employers of approximately \$8,903,311. The state's share of that savings is estimated to be \$3,561,324.

Finance Committee Substitute for Senate Bill 111  
 Retirement System Financial Impact  
 Prepared by Division of Retirement & Benefits  
 Department of Administration  
 April 2, 1993

Fiscal Year	NO SB 111 passage Projected PERS & TRS Future Employer cost	DB + DC 5% at .05 Emp Cost	Difference Between Employer cost with SB 111 and without
1	\$106,323,000	\$109,482,661	\$3,159,661
2	\$223,117,000	\$223,912,067	\$795,067
3	\$233,461,000	\$228,093,725	(\$5,367,275)
4	\$244,149,000	\$236,531,093	(\$7,617,907)
5	\$255,880,000	\$246,976,689	(\$8,903,311)
6	\$271,857,000	\$256,639,021	(\$15,217,979)
7	\$289,554,000	\$265,389,870	(\$24,164,130)
8	\$309,765,000	\$270,872,202	(\$38,892,798)
9	\$329,559,000	\$276,760,052	(\$52,798,948)
10	\$348,212,000	\$283,273,383	(\$64,938,617)
11	\$374,817,000	\$294,805,088	(\$80,011,912)
12	\$400,591,000	\$307,605,275	(\$92,985,725)
13	\$433,476,000	\$313,676,979	(\$119,799,021)
14	\$465,500,000	\$320,854,166	(\$144,645,834)
15	\$495,637,000	\$328,298,870	(\$167,338,130)
16	\$536,973,000	\$344,001,492	(\$192,971,508)
17	\$578,576,000	\$362,739,632	(\$215,836,368)
18	\$638,094,000	\$376,043,772	(\$262,050,228)
19	\$692,767,000	\$388,146,912	(\$304,620,088)
20	\$743,883,000	\$399,602,052	(\$344,280,948)
21	\$771,447,000	\$423,675,772	(\$347,771,228)
22	\$832,686,000	\$448,515,974	(\$384,170,026)
23	\$924,351,000	\$470,999,694	(\$453,351,306)
24	\$1,075,367,000	\$491,847,415	(\$513,519,585)
25	\$1,093,134,000	\$508,262,617	(\$584,871,383)





# NEA-ALASKA

*Affiliated with the National Education Association*

## NEA-ALASKA POSITION PAPER SB 111

**SB 111:** *An Act establishing the defined contribution retirement plan for public employees; requiring the preparation of certain actuarial valuations and actuarial and financial experience analyses of the teachers' retirement system; requiring the teachers' retirement system and the public employees' retirement system to be fully funded before granting a post retirement pension adjustment; and providing for an effective date.*

NEA-Alaska opposes this legislation as a regressive approach toward caring for those educational employees who serve our public education institutions. The current defined benefit plan ties a promised benefit to the earnings of the employee, factors in length of service and for vested employees pays a percentage of the employees final average salary. A defined contribution plan pays benefits at retirement based on money accumulated in the employee's retirement account. Changing from a defined benefit retirement program to a defined contribution retirement plan would create a greater burden on educational employees to manage long-term personal financial resources because defined benefit plans are not designed to specifically provide stated retirement benefit levels.

A defined benefit plan provides the ability for the employer to design plans that attempt to satisfy stated retirement income objectives for vested employees. A defined contribution plan outlined in SB 111 will take employer and employee contributions and for all practical purposes, allocate these contributions to individual accounts. Under this approach there is no way of knowing in advance the exact amount of assets that will be in the employee's account at retirement. The size of the account will be affected by the amounts contributed, the impact of investment gains or losses and the value of reallocated benefit forfeitures.

NEA-Alaska believes that defined contribution plans should be used to supplement an existing defined benefit plan. We would support such a program.

This bill, while based on good intentions, only sets up a second bureaucracy to manage another benefit plan which will likely offer no better means for providing and managing for retirement needs of educational employees than the current system. If the intent of SB 111 is to trim or redirect the state's future retirement obligation, it should not be accomplished on the backs of those who will begin work next year. There are better ways to utilize retirement options to affect savings.

Generally the reasons many organizations consider changing from defined benefit packages to defined contribution retirement benefits have to do with fear of large unfunded liabilities. By limiting the employers' maximum contribution, such organizations believe they can control and contain costs. A defined benefit plan can minimize unknown cost commitment by projecting future interest earnings, mortality rates, personnel turnover and salary increases thus, they attempt to establish a reasonable level funding pattern. Moreover the retirement system boards and managers should be evaluating the defined benefit plan's assets and liabilities at least annually allowing for contribution adjustments if needed.

Understandably, a shift to a defined contribution plan is very unattractive because it erodes benefits. The courts have considered retirees' defined benefits, under some circumstances, as vested benefits that cannot be taken away. Current public and educational employees have been paying into the system with the expectation that they will have a guaranteed level of benefits upon retirement. Creation of a two tier system, NEA-Alaska believes, will be confusing and divisive because employees would continually compare the benefits associated with the two plans.

We are concerned about the affect this change will have on the overall stability and soundness of the current defined benefit plan. SB 111 provides that beginning in the 93-94 school year new hires will enter the defined contribution plan. What will the actuarial impact be in the short and long term to the current system? Will employees in the current plan be forced to increase their contribution in the system in order to control an increase in unfunded liability to the defined benefit plan?

It appears that investments made under the defined contribution plan will be made by a company. We feel that under the plan it will be too easy for the employer to not be concerned about future impact poor investments will have. Risk to the employer is minimized since the employer is required to only pay an established amount (9.65%) on a regular basis. In our defined benefit plan the risk is shared because the goal of the plan is to pay for promised benefits.

We urge the Committee to vote against SB 111. Don't make Alaska the first state to require a defined contribution plan for employees.

3/5/93

A M E N D M E N T

OFFERED IN THE SENATE  
TO: SB 111

BY SENATOR RIEGER

Page 4, line 8:

Delete "Inclusion"

Insert "For state employees and for employees of political subdivisions and public organizations that have chosen to participate in the plan, inclusion"

Page 13, line 11, after ".":

Insert "A teacher or member first contracting for service on or after July 1, 1993, with an employer that has elected not to participate in the defined contribution retirement plan under AS 39.38 is subject to this chapter unless the teacher has elected to participate in the defined contribution retirement plan or the optional university retirement program."

Page 13, line 31, through page 14, line 1:

Delete "and before July 1, 1993,"

Page 14, line 21:

Delete "and"

Page 14, line 22, after "plan":

Insert ", or a person first hired on or after July 1, 1993, who is an employee of an employer that has chosen to continue participation in the system and who is otherwise eligible to participate in the system, and is, in either case"

Page 16, line 25, after "1993,":

Insert "or who was hired on or after that date and who is employed by a political

subdivision that has chosen to participate in the system"

Page 16, line 29, after "1993,":

Insert "and for an employee hired after that date who is employed by a political subdivision that has chosen to participate in the svstem."

Page 17, line 24, through page 18, line 9:

Delete all material.

Renumber the following bill sections accordingly.

Page 18, line 13, after "1993,":

Insert "or who was first hired after that date by a political subdivision that has chosen to participate in the system."

Page 18, line 13, after "is":

Insert ", in either case."

# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P. O. Box 113300  
Juneau, AK 99811-3300  
(907) 465-3830  
FAX (907) 465-2347

### MEMORANDUM

RECEIVED FEB 23 1993

TO: Members of the Legislative Budget and Audit Committee

FROM: Randy S. Welker *Randy*  
Legislative Auditor

DATE: February 12, 1993

RE: Teachers' Retirement Fund Unfunded Liabilities

At your request, this memo discusses the main reasons for increases in the Teachers' Retirement Fund (the Fund) unfunded liabilities.

Unfunded liabilities represent the excess of the accrued pension obligation over the assets available to pay for those accrued obligations. Unfunded liabilities and funding ratio of the Fund for the past five fiscal years have been reported as:

	<u>Unfunded Liability</u>	<u>Funding Ratio</u>
June 30, 1987	\$ (14.1) million	101.2%
June 30, 1988	15.9 million	98.8%
June 30, 1989	77.3 million	95.0%
June 30, 1990	232.8 million	87.7%
June 30, 1991	295.9 million	85.7%

As described in greater detail in our audit report, *Department of Administration, Teachers' Retirement System, Review of Selected Funding Issues* dated January 11, 1993, there are various factors which affect unfunded liabilities, most all of which are impacted by actuarial assumptions. The major factors are:

- Assumed and actual investment returns
- Assumed and actual salary increases
- Assumed and actual employer contributions
- Unfunded benefit increases
- Changes in actuarial assumptions

According to the State's actuary, the increase in unfunded liabilities from \$77 million as of June 30, 1989 to \$233 million at June 30, 1990 is mainly attributed to the statutory changes in the teachers' retirement system made by Chapter 97, SLA 1990 when a two-tiered benefit plan was established. A significant change was made by the introduction of the automatic post retirement pension adjustment (PRPA) feature in the pension plan. Alaska Statute 14.25.143 was repealed and reenacted to read, in part:

- (a) *Once each year, the administrator shall increase benefit payments to eligible disabled members, to persons age 60 or older receiving benefits under this system in the preceding calendar year, and to persons who have received benefits under this system for at least eight years who are not otherwise eligible for an increase under this section.*
- (b) *The increase in benefit payments applies to total benefit payments except for the cost-of-living allowance under AS 14.25.142. The amount of the increase is a percentage of the current benefit equal to*
  - (1) *the lesser of 75 percent of the increase in the cost of living in the preceding calendar year or nine percent, for recipients who on July 1 are at least 65 years old and for members receiving disability benefits; and*
  - (2) *the lesser of 50 percent of the increase in the cost of living in the preceding calendar year or six percent, for recipients who on July 1 are at least 60 but less than 65 years old or for recipients who on July 1 are less than 60 years old but who have received benefits from the system for at least eight years.*

Another, although less significant, change was made in the multiplier used to calculate the amount of retirement benefit based on years of service.

The State's actuary has estimated that the fiscal impact on the Fund's unfunded liabilities as a result of the statutory amendments to the benefit levels was approximately \$260 million. However, it is estimated that over the next 20 years the new legislation enacted in 1990 would be cost neutral as the impact of the reduced cost of benefits for tier 2 employees are recognized. According to the actuary, this amount represents the past service cost of increased benefits, mainly attributable to the PRPA, for which funding had not been made up to the date of the passage of the PRPA. The normal cost for current and active employees for future PRPA is "pre-funded" through the annual calculation of the employers contribution rate. Offsetting the increase in unfunded liabilities due to the past service cost of the increased benefits were actuarial gains on other assumptions, resulting in a net increase in unfunded liabilities between 1989 and 1990 of approximately \$156 million. The actuary

has indicated that the impact of actuarial gains and losses from individual actuarial assumptions is not readily available and would require extensive analysis.

Under the retirement plan provisions, the \$260 million increase in unfunded liabilities resulting from the PRPA and the change in the benefit multiplier is amortized over 25 years, or approximately \$10.5 million per year. Under the past service cost amortization schedule, this would indicate that of the \$296 million in unfunded liabilities at June 30, 1991, approximately \$250 million is due to the unamortized portion of the past service costs attributed to the changes made by Chapter 27, SLA 1990. The remaining \$46 million (2.3% of fund balance) of unfunded liabilities results from actuarial assumptions not having been precisely achieved.

**1993 LEGISLATION  
POSITION PAPER  
DEPARTMENT OF ADMINISTRATION**

**Bill No.:** SB 111

**Bill Title:** "An Act establishing the defined contribution retirement plan for public employees; requiring the preparation of certain actuarial valuations and actuarial and financial experience analyses of the teachers' retirement system . . ."

Senate Bill 111 proposes to add a third tier to the State's retirement systems by establishing a defined contribution plan. Presently, the retirement system administers a defined benefit plan, which pays a predetermined, guaranteed level of benefits to plan participants upon retirement. The present system has different benefit plans for employees hired before and after July 1986. The defined contribution plan proposed in SB 111 would instead guarantee the employer's level of contributions to the plan, and the plan's benefits would depend upon the value of an individual employee's account at retirement. Under the bill, participation in the defined contribution plan would be mandatory for new State employees. Current employees could elect either to continue under the current plan or convert to the new plan.

Although we are continuing to analyze the specific ramifications of moving to a defined contribution plan, the department supports the defined contribution concept. It would stabilize the State's pension costs, which now fluctuate based on actuarially determined needs to fund the guaranteed benefits. In addition, a defined contribution plan would not have the residual liabilities associated with plans which guarantee a benefit level. It would also provide increased portability of the contributions if an employee wished to transfer them to another employer plan. Under the present system, service may be transferred only within the participating Alaska public employers. Defined contribution plans are widely used in the private sector when pension plans are provided.

The department is presently assessing the specific impacts the plan proposed under SB 111 would have on employer costs, employee pension benefits, and the continued solvency of the present retirement systems. This assessment is necessary in order to develop meaningful fiscal projections as well as to evaluate the structural effects of such a change.

**Signature:** Nancy Bear Usera **Date:** 3/4/93  
Nancy Bear Usera  
Commissioner  
Department of Administration

**Senate Bill 111**  
**Recommended Changes**

**Section 1**

**AS 39. Chapter 38.**

- 010 Change effective date-- January 1, 1995 for PERS and July 1, 1994 for the TRS. This would provide time for many things; developing the plan document and getting an IRS tax qualification.**
- 020 No separate Board-- The DCRP board should consist of either a composite of the PERS and TRS boards or both boards combined.**
- 040 Unnecessary without a new board--- amend 14.25 and 39.35 to identify the additional duties of the boards.**
- 050 Change lines 6 & 7 page 3 to read-- "retirement plan as are provided in AS 39.30.175 for the state Supplemental Benefits Plan. The first priority for investment of assets is with the investment"**
- 100 Unclear about which employers, besides the state, are required to participate. Currently, TRS employers are required to participate in the TRS.**
- 110 Delete Sec. 39.38.110 (a), (b), (c), (d), and (e) beginning on line 13, page 4 and replace with--- A person who is a member of a state retirement system or who was first hired under a state retirement system prior to July 1, 1994 if having participated under AS 14.25. or January 1, 1995 if having participated under either AS 39. 35. or under AS 22.25.**

**130 (b) Change lines 5 and 6, page 6 to read-- "paid from allocated federal funds, is included in the plan if the council elects to participate as an employer under the plan."**

**(d) Delete this subsection -- Remove NEA, since they are currently ineligible to participate in any of the state retirement plans.**

**(f) Delete this subsection-- only makes sense in the PERS**

**210 (a) Change line 31 page 6 to read--- "participating in the plan an amount equal to 5 percent of the employee's**

**There are several issues pertaining to the amount of employer and employee contributions allowable that we intend to discuss with the committee during testimony.**

**(b) Change lines 3 through 6 page 7 to read--- "amount equal to 4.5 percent of the employees' compensation.**

**(d) add language at the end of line 11 page 7 -- " The payments shall be made from accounts established by the administrator on behalf of each member. These accounts shall consist of all employer contributions made on behalf of the employee as specified in (a), the employee contributions as specified in (b) and all earnings accruing or losses attributable to the member's account."**

**(e) NEW SUBSECTION -- "All costs of administering the program established under AS 39.38 must be paid from the contributions made under this section."**

(f) **NEW SUBSECTION** -- The member should vest in the employers' contributions over a seven year graduated vesting period. i.e.: 20% after 3 years, 40% after 4 years, 60% after 5 years, 80% after 6 years and 100% after 7 years.

**2 2 0** Change lines 13 and 14 on page 7 to read -- plan is the responsibility of the company or other entity designated by the retirement board and is not the responsibility of the...

Payments of benefits are the administrative responsibility of the plan, the DCRP and the administrator, not the Pension Investment Board.

Additional language should be added, as in the SBS, which better defines the types of benefit annuity options. This section needs major changes to address vesting requirements and other benefit eligibility requirements.

**3 1 0** Delete

**3 2 0 (a)** Change line 29, page 8 to read--- to the administrator.

**Section 4** Delete--- refers to NEA participation

**Section 7**

Delete -- Any change to this statute will only affect future employees and since no future employees are to be included, no one will be affected.

**Section 8**

Change lines 20 through 22, page 14 to read as follows--- 1993. who is eligible to participate in the system, and who is covered by the system, limited to

**Section 9**

Delete the new language contained in line 11 through 14, page 15.---- this language refers to allowing transfers

**Section 10** Delete this section---administrator of Court  
System transfer

**Section 13 and Section 14**

All references to allowing employees to transfer  
should be deleted.

**Section 15**

Delete -- for the same reasons as stated in Section 7.

**Section 23**

Delete this section.--- Defined Contribution Board  
reference-- no new board, no need

**Repealers**

Repeal AS 14.25.045

Repeal AS 39.35.170(a)(1)

## SECTION 415 LIMITS DISCUSSION

- \* IRC Section 415 establishes limits which apply to the amount that an can be contributed to a qualified plan by both the employer and employee and establishes limits on the amount of benefits which can be paid from qualified plans.
  
- \* A trust can be disqualified for tax favored treatment if an employer in the trust exceeds these limits, even if it is a multi-employer trust.
  
- \* The limits under 415(c) apply to defined contribution plans by limiting the amount of contributions allowable to the trust.
  - \* That limit is currently 25 percent of the employees covered compensation, or
  
  - \* \$30,000
  
- \* The limits under 415(b) apply to Defined Benefit plans by limiting the amount of the benefit the member can receive at various ages.
  
- \* When the employer provides both a Defined Benefit and Defined Contribution plan, 415(e) provides a formula which is to be used. Clearly, the formula gives the employer more latitude under the limitations.
  
- \* Section 415 limits exclude contributions made under the Social Security System.
  
- \* There have been attempts for the last 5 years to make changes to the code to address several concerns which public sector plans have with how the limits can impact multi-employer plans, disability benefits and 20 year retirements.

# Alaska State Senate

SENATOR STEVE RIEGER  
District 1

Senate Finance Committee  
Chair, Senate Health, Education  
and Social Services Committee  
Vice Chair, Senate Rules Committee  
Vice Chair, Senate Labor and  
Commerce Committee

State Capitol  
Room 516  
Juneau, Alaska 99801  
(907) 465-3879

## SENATE BILL 111 SPONSOR STATEMENT

Senate Bill 111 creates a new Defined Contribution Retirement Plan. The plan would apply to state employees first hired after July 1, 1993.

The bill proposes a two-tiered system. This means that all employees who are first hired before July, 1993 would continue their participation in the existing PERS and TRS systems.

Municipalities and school districts may join the plan; if not, new employees of those subdivisions would continue to enroll in the existing PERS or TRS systems.

In its basic nature, a defined contribution retirement plan is a plan in which the plan specifies the level of employer and employee contribution. From the date of the contribution forward, the principal and earnings on that contribution are invested, and separately accounted for in the name of that employee. In contrast, a defined-benefit plan specifies the level of benefits payable to an employee. The contributions of the employer and employee are pooled, and retirement payments to a retiree are drawn from the pool. PERS and TRS are defined-benefit plans.

One of the problems of defined-benefit plans is that an employer can short-fund the system. This is because the contribution levels are not defined. When short-funding happens, the fund can end up with insufficient funds to pay the retirees. Both PERS and TRS are at present each estimated to be \$300 million underfunded, (\$600 million total).

The advantages of a defined-contribution plan over a defined-benefit plan include:

- Removes the question about whether the retirement pool is of sufficient size to cover all retirement benefits. This is because each employee's contributions and earnings belong 100% to that employee and cannot be short-funded nor used to pay the benefits of another employee;

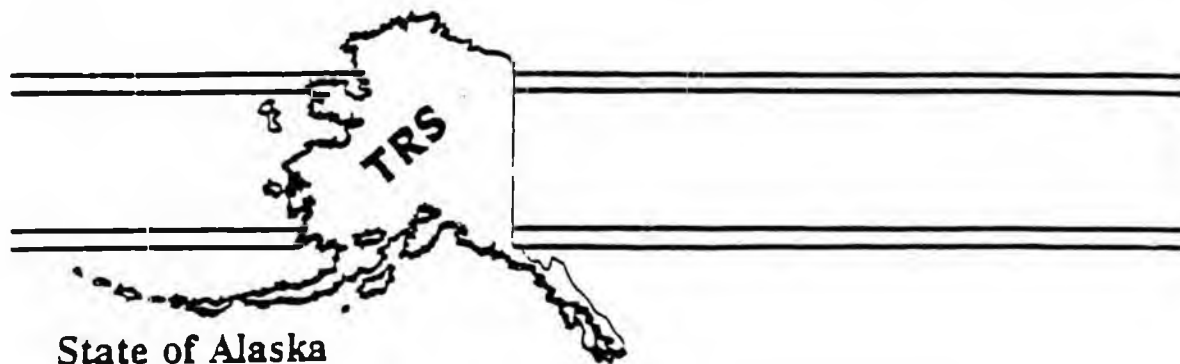
- The employer and employee know and receive the full cost and full value, respectively, of the retirement contributions made on that employee's behalf;

- Retirement accounts are more easily portable, meaning transferable to a different retirement account if an employee changes employers;

- Employees can gain more control over the investment of their retirement funds if the plan offers investment options; (the state's deferred-compensation plan is an example of this.)

WILLIAM M.  
**MERCER**

*Seelen*



State of Alaska

Teachers' Retirement System

Actuarial Valuation Report  
as of June 30, 1991

Prepared by:

William M. Mercer, Incorporated  
One Union Square, Suite 3200  
600 University Street  
Seattle, WA 98101-3137

**1.3(a) Development of Total Employer Contribution Rate - FY94  
(in thousands)**

Normal Cost Rate

(1)	Total Normal Cost	\$ 75,452
(2)	Total Salaries	422,655
(3)	Normal Cost Rate, (1) / (2)	17.85%
(4)	Average Member Contribution Rate	8.80%
(5)	Employer Normal Cost Rate, (3) - (4)	9.05%

Past Service Rate

(1)	Accrued Liability	\$ 2,075,405
(2)	Valuation Assets	1,779,579
(3)	Total Unfunded Liability, (1) - (2)	295,826
(4)	Amortization Factor (25 year)	10.706612
(5)	Past Service Cost, (3) / (4)	27,630
(6)	Total Salaries	422,655
(7)	Past Service Rate, (5) / (6)	6.54%

Total Employer Contribution Rate 15.59%

### 1.3(b) Three-Year Smoothing of Total Employer Contribution Rate

<u>Valuation Date</u>	<u>For Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Three-Year Average</u>
6-30-83	FY86	17.36%	
6-30-84	FY87	17.36%	
6-30-85	FY88	13.28%*	16.00%
6-30-86	FY89	11.16%	13.93%
6-30-87	FY90	8.19%	10.87%
6-30-88	FY91	12.27%	10.54%
6-30-89	FY92	15.16%	11.87%
6-30-90	FY93	19.65%**	15.69%
6-30-91	FY94	15.59%***	16.80%

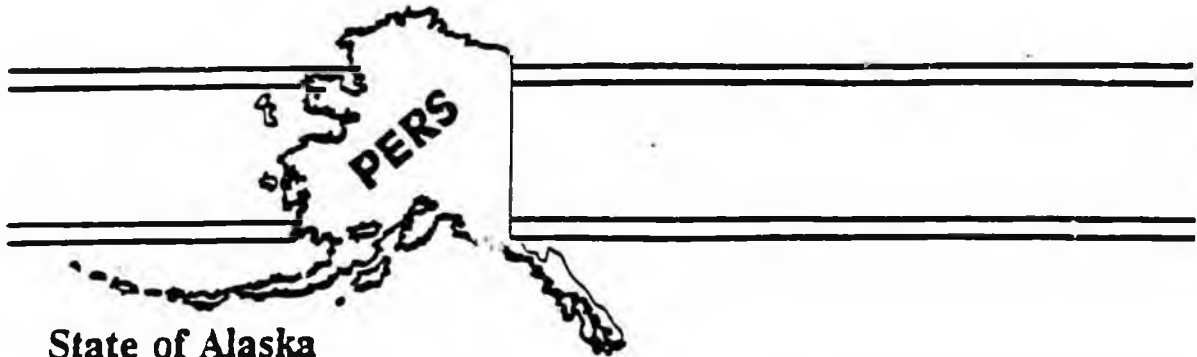
\* A change in actuarial assumptions on June 30, 1985 lowered the contribution rate from 16.68% to 13.28%

\*\* A change in Plan provisions on June 30, 1990 increased the contribution rate from 12.89% to 19.65%.

\*\*\* A change in actuarial assumptions on June 30, 1991 reduced the contribution rate from 18.10% to 15.59%.

WILLIAM M.  
**MERCER**  
INCORPORATED

---



**State of Alaska**

**Public Employees' Retirement System**

**Actuarial Valuation Report  
as of June 30, 1991**

**Prepared by:**

William M. Mercer, Incorporated  
One Union Square, Suite 3200  
600 University Street  
Seattle, WA 98101-3137

The effect of the second tier is already being felt in PERS because second tier participants began entering the System in 1986. Over 50% of current active participants are already second tier. For this reason, contribution rates are already reflecting some of the cost savings provisions of tier 2 and are not expected to decline in the short run. Another factor which retards the expected decline in contribution rates is the anticipated increases in future health premiums.

As contribution rates are not expected to decline significantly for about 20 years, we recommend the Board adopt the calculated rate of 13.72%, instead of the smoothed rate of 13.25%, for FY94. We will continue to monitor the expected pattern of future rates to take into account actual tier 2 patterns, System experience and changes in the Statute. Some smoothing of the contribution rate may be appropriate in the future, depending on how these factors affect projected contribution rates.

#### Summary

The following table summarizes the sources of change in the total employer contribution rate:

(1) Last year's average employer contribution rate .....	13.58%
(2) Decrease in past service rate due to retiree medical insurance .....	(1.30%)
(3) Decrease in consolidated rate due to retiree medical insurance .....	(1.87%)
(4) Increase due to investment performance .....	0.48%
(5) Increase due to salary increases .....	0.26%
(6) Increase in past service rate due to employee data .....	1.33%
(7) Increase in consolidated rate due to employee data .....	0.69%
(8) Increase in average employer contribution rate due to change in actuarial assumptions .....	0.55%
(9) Average employer contribution rate this year .....	13.72%

# MARKET NEWS & INVESTING

Money Market Funds .....	C17	NYSE Stocks .....	C3
Interest Rates .....	C20	Odd-Lot Trading .....	C5
Money Funds .....	C22	OTC Focus .....	C6
Nasdaq Stocks, ADRs .....	C1,8	Stock Market Data Bank .....	C2
New Securities Issues .....	C25	Treasury/Agency Issues .....	C14
NYSE Bonds .....	C14	U.S. Regional Markets .....	C9
NYSE Highs & Lows .....	C5	World Markets .....	C10

**JOURNAL PHONE** NEWSUPDATES AND CURRENT QUOTES  
SEE GUIDE ON PAGE 94 FOR DETAILS **1-900-JOURNAL**

## Aggressive Rate Assumptions Put Pension Funds at Risk

By SUSAN PULLIAM

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—Despite a lackluster stock market and the lowest long-term interest rates in 20 years, many of the nation's largest companies are avoiding large contributions to their pension funds by making aggressive assumptions about what they will earn on their pension investments.

In a survey of 1,600 corporate and public pension funds and endowments, consultants Greenwich Associates found that about 400 funds, or 25%, are projecting investment returns for their pension funds higher than 8.75%. Greenwich says any return assumption above 8.75% is risky. Many funds are assuming double-digit investment returns, the survey found.

By assuming they will earn high rates on their investments, companies can put off adding money to their retirement plans, based on the notion that the extra investment income will cover any shortfall in the funds. But such a strategy is leaving these pension plans and their retirees in a potentially risky situation, the Greenwich

study says.

Not all pension consultants believe that an adjustment to assumptions on rates of return is necessary now. Many industry experts stress that companies' investment assumptions are long-term estimates and shouldn't fluctuate based on one year's results.

The Greenwich study argues, however, that pension plans can no longer count on the high returns that they earned in the 1980s to continue. "In terms of return rates, the 1980s was an exceptional decade," the study says, with the investment return on bonds the highest in 50 years, and the return on stocks the highest since the 1950s.

According to Greenwich, 17% of the 1,600 pension plans they surveyed expect annual investment returns averaging better than 11% for the Standard & Poor's 500-stock index over the next five years. About 19% are expecting annual returns above 8% from their bond portfolios. The survey included interviews with 1,106 large corporate pension plans and 314 public pension plans. It also included interviews

with 174 endowments and foundations.

Among the companies assuming returns of more than 9% annually are General Motors Corp., Inland Steel Industries Inc. and Marsh & McLennan Cos.

Most pension funds have large holdings of both stocks and bonds. With the total return on the S&P 500, including reinvested dividends, dropping to about 7% last year, and yields on 30-year bonds currently at 6.8%, pension funds need to make adjustments, says Rodger Smith, a Greenwich partner. "Assumptions should be done in a long-term context, but long-term yields on bonds are sufficiently below these assumptions that it raises questions about whether we should re-evaluate," he says.

Companies that are avoiding costly contributions to their pension plans through too-high investment assumptions are "practicing deficit spending," Mr. Smith says. While these high return assumptions allow companies to avoid adding to their pension fund now, their losses could be magnified if the stock market takes a tumble, he says. Even a 10% drop in

the stock market could leave many pension funds with big deficits, the Greenwich study says.

Equally as troubling is the possibility that pension funds will take on large amounts of risky investments to try to achieve the high returns they have projected, Mr. Smith says. "We've learned that some plans have increased their risk levels to meet their actuarial assumptions."

Pension funds are sidestepping adding money to their retirement funds at a time when concern is high about the growing number of companies with underfunded pension plans. Last year, the government's Pension and Benefit Guaranty Corp. said the shortfall in underfunded corporate pension plans grew by \$10 billion to \$50 billion. The PBGC itself, which is supposed to serve as a backstop for corporate retirees' pensions, has a current deficit of about \$2 billion.

At the end of each year, pension plans judge whether their liabilities, which are their obligations to current and future

Please Turn to Page C21, Column 1

# Estimates of Rates Of Return May Put Pension Funds at Risk

Continued From Page C1

retirees, exceed their assets, or investments. If their liabilities exceed their assets, they are then required to add money to the pension plan.

If a corporation makes a contribution to its pension plan, its earnings may be hurt. "In an environment where corporate profits are under pressure, no one wants to increase contributions to the pension fund because it has a negative impact on earnings," Mr. Smith says.

Public pension funds, meanwhile, may need to put additional demands on taxpayers to make up their shortfalls, he adds.

A GM spokesman says the company's return assumption reflects its long-term expectations for future returns. A spokesman for insurance broker Marsh & McLennan says the company "has exceeded a 9% return in the past and expects to in the future." He adds that Marsh's pension fund is "substantially weighted in equities."

An Inland spokesman says the rate of return on that company's pension fund exceeded 9.5% last year, in part because of successful junk-bond investments. He says the company thinks it will continue to earn returns above that level.

During the 1980s, when interest rates were as high as 20%, many pension funds assumed they would earn rates of return of about 8%, Mr. Smith says. But, with the historically high returns on stock and bond investments in the 1980s, pension plans were able to earn even higher returns than they had anticipated, allowing them to build up a financial cushion. As a result, a large number of pension funds have been able to avoid adding money to their pension plans over the past few years.

Still, the cushions built up by pension plans are dwindling. And, Mr. Smith adds, pension plans' surplus funds will shrink very rapidly if they fail to meet high return assumptions.

## Consumer Savings Rates

Money Market Deposits-a	2.60%
Interest Checking-a	1.90%
Six-month Certificates-a	2.92%
One-year Certificates-a	3.17%
Thirty-month Accounts-a	3.84%
Five-Year Certificates-a	5.02%
U.S. Savings Bonds-b	5.04%

a-Average rate paid yesterday by 100 large banks and thrifts in the 10 major metropolitan areas as compiled by Bank Rate Monitor.

b-Current forecast yield. Guaranteed minimum 4% for bonds held five years or longer.



**Someone's home alone in one household in four** About 22 million people lived alone in 1989, says the Census Bureau in a new report on hous-



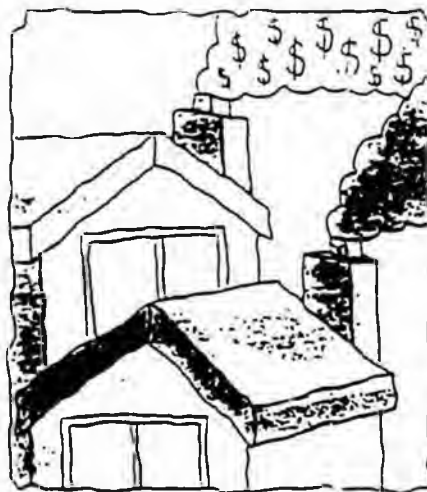
ing characteristics. That's twice as many as in 1970. Women living alone outnumbered solo men by three to two, were older (median age 66 vs. 42) and were more likely to own their own homes (53 percent vs. 38 percent). However, people living alone were more likely to rent (53 percent) than own (47 percent) their homes.



**Early voting procedures bring out crowds** Voters turned out in large numbers to cast their ballots early in Colorado, Oklahoma and Texas, the three states that offered early voting last November. In Texas, 73 percent of those registered voted in the 1992 general election and about 30 percent of those voters took advantage of the opportunity to vote in person before election day. (Statistics for Colorado and Oklahoma were not available at press time, but officials expected comparable percentages.) In every state, eligible residents can mail in absentee ballots before the scheduled election date, but this was a new wrinkle: Residents were allowed to vote in person, before election day, at designated polling places. Oklahomans could vote before Election Day at county board of election offices. Most of Colorado's early voting was at county clerks' offices, although local jurisdictions were authorized to designate additional locations. Early voters in Texas could cast their ballots in a variety of polling places, including shopping malls and mobile voting booths in some jurisdictions.



**Barking up the wrong log** Woodburning stoves and fireplaces create about 22 percent of Denver's visible air pollution (the "brown cloud"), so last fall Denver and its suburbs started offering a combination of waivers of sales taxes and permit fees to homeowners who switch to cleaner natural gas and other heating systems. Gas logs are the cheapest alternative, and some 2,500 homeowners have collected about \$75,000 in rebates to install them. Now, however, the Regional Air Quality Control Council says the gas logs are very energy-inefficient, sending 85 cents of every natural-gas dollar straight up the flue, sucking the warm air out of a house and pulling cold air in. (Adding to the



problem is the requirement that fireplace dampers remain open 24 hours a day to prevent carbon monoxide buildup.)



**New research on education finance** Analysis of federal aid to education by Deborah Versteegen, an associate professor at the University of Virginia Curry School of Education, showed that federal aid was significantly higher in states that spent the most on education and that the linkage grew stronger over the 1980s. Federal aid to education was significantly higher in wealthy states than in poor states, and significantly lower in states with higher percentages of poor and minority students. In short, she writes, "These data show that federal aid to education exacerbates disparities between the states. . ."



**Early retirement programs may not save money** According to a story in *The New York Times*, a number of states that have tried to save money by setting up early retirement programs in fact have increased expenses by millions of dollars because they had not only to pay retirees' pensions, they had to replace the workers who retired. New York managed to save money in 1991 by limiting its early-retirement offer to workers in positions that were going to be eliminated. A survey of early retirement programs over two years found that incentives offered by 19 states included state-paid health insurance policies, credit for several years' employment, enhanced pension payments and cash bonuses. Specifics about costs and savings were lacking because the states did not monitor their programs closely. An official of the National Association of State Budget Officers said that often early retirement programs "merely transfer many costs from state operating budgets to the state retirement systems." Actuaries make the point that programs should be set up in such a way that the cost of the retirements and of administration do not outweigh the savings from payroll and benefits.



**Get those air quality plans in by November** The Clean Air Act requires states to submit plans to the Environmental Protection Agency by Nov. 15 for programs to reduce air pollution from stationary sources. These plans must include the sale of permits by the state agency responsible for air quality to industry for pollutants. The greater the pollution, the higher the fee. Permit fees are expected to amount to \$300 million a year nationwide and will help pay for enforcement. About 15 states have adequate enabling legislation to develop their programs. Failure to develop a program will trigger sanctions such as loss of highway funds. For a copy of the EPA's "Legislative Outreach Briefing Notebook" containing helpful information for state legislators, call Joanna Swanson at (919) 541-5392 or Kirtley Cox (919) 541-5399.

11/16/92

# EARLY RETIREMENTS TO REDUCE BUDGETS COST STATES MONEY

POOR PLANNING IS BLAMED

Failures to Limit Programs to  
Workers in Expendable Jobs  
Means More Are Hired

By MICHAEL deCOURCY HINDS

Early-retirement programs for state workers, adopted in recent years as cost-cutting measures in 19 states, are actually costing millions of dollars, fiscal experts and state officials say.

The experts said many of the programs had been poorly planned and had failed to cut workers whose jobs were no longer needed, forcing states to hire replacement workers at the same time they were paying retirement benefits to those who had just left.

Many programs also ended up being fiscal schemes in which legislators shifted expenses from state budgets to pension systems, creating heavy future liabilities that will have to be picked up by taxpayers.

### Many Retirees Replaced

In 1960, for example, Rhode Island offered generous retirement incentives to 1,500 employees. After the program had been offered, actuaries determined that the state would lose money even if the positions were left vacant for 10 years. The state had to replace virtually all the retirees within a matter of months.

New York is one of the few states that actually handled the program properly, but only because of its bitter experience with a 1963 program that was supposed to save \$50 million and ended up costing \$50 million. Last year, the state limited its retirement offer to workers in positions that were going to be eliminated. It expects \$120 million in savings.

"Most of the early retirement programs," said Ronald [redacted] state finance for the National Conference of State Legislatures. "It's a triumph of hope over experience, as Samuel Johnson said about second marriages in the 18th century."

### Fellow-Ups Are Lacking

Early retirement programs come in various forms. Some apply only to workers within a few years of retirement. Some specify length of employment and could affect workers in their

New York Times  
11/16/92

# States Early Retirement Plans Are Costing Millions of Dollars

Continued From Page A1

health benefits after they retire, which has proved to be expensive. Some offer cash incentives and increased pension payments.

But what the problem programs have in common is that they offer the incentives to all eligible state workers without regard to whether their jobs are essential.

Public employee unions support such programs as humane alternatives to layoffs. Legislators like them because they promise savings. And the programs carry little political risk because states rarely go back and analyze how much the programs ended up costing.

"Governments tend not to document the effectiveness of many of their programs," said David Kahler, director of the New Jersey Public Affairs Research Institute. "And they have very little incentive to document something that may be a failure."

## Many Long-Term Burdens

In most recent programs, states encouraged older employees to retire as many as 10 years early by offering them incentives, ranging in cost from \$20,000 per employee to more than \$100,000, said Albert Pike 2d, the senior pension consultant at A. Foster Higgins and Company of Washington, which advises state and local governments on retirement policies.

The Higgins survey of early retirement programs in the last two years found that incentives offered by 10 states had included state-paid health insurance policies, credit for several years' employment, enhanced pension payments and cash bonuses.

Though the survey described the terms of the programs, it was not able to provide many specifics about costs and savings because, the company noted, the states did not monitor their programs closely.

But based on interviews with state officials, Mr. Pike said that when states had carefully managed their programs, especially ones for teachers, they had succeeded in reducing expenses.

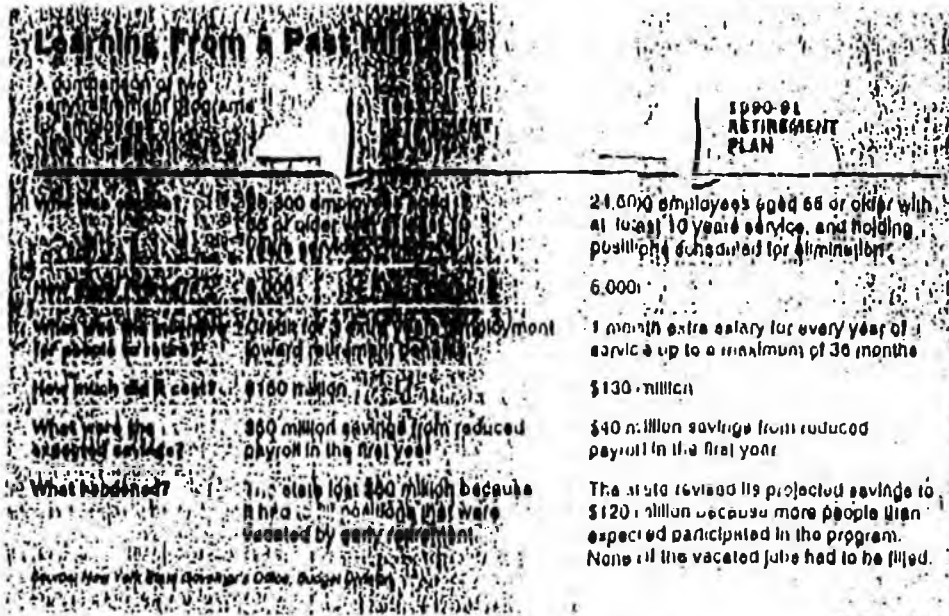
But Mr. Pike said he found that most states were filling vacancies left by retiring workers. And he said that as these positions were filled, the states found their savings evaporating.

## York Times

A valuable learning habit

## SSROOM RATES

Information about our call 1-800-631-1222.



## Few states follow early retirement programs to see if they really work.

In trying to determine why states offered programs that have proved burdensome elsewhere, Mr. Pike said, officials in many state agencies told him they were reluctant to be openly critical of plans that were strongly supported by colleagues, unions and legislators. "The information is out there about these retirement programs," he said, "but people don't like talking about it because they say it can be politically embarrassing."

Other officials in states that offered early retirement in the last few years blame ignorance more than politics. "There's just a blind faith that these things work," said Chuck Polan, Secretary of the West Virginia Department of Administration and a former State Senator.

West Virginia pension officials said that 7,000 people had participated in an early retirement plan offered in 1989, raising the state's annual retirement costs about 20 percent, or more than \$10 million a year. But at the same time, they said, state agencies found they needed the departing workers and soon replaced them, incurring the payroll and benefits costs they had hoped

to eliminate. In addition to the retirement costs, the consequence was a "huge liability" a fifth the state could ill afford it, he said.

## Most Programs Mismanaged

"It is common knowledge that these are costly programs, which merely transfer many costs from state operating budgets to the state retirement systems," said Brian M. Rohnerty, executive director of the National Association of State Budget Officers in Washington. In such cases, he said, the state retirement systems usually finance the costs, which sometimes exceed \$100 million in larger states, over two or more decades.

Actuaries say that it is essential to set up the program in such a way that the cost of the retirements and of administering the program will not outweigh the savings from payroll and benefits.

But in practice, studies show, most states mismanage some aspect of the programs and end up spending the money they save. While some states fill vacant positions, others give promotions and raises to remaining employees as they gain seniority.

In Pennsylvania, legislators intentionally ignored the experience of other states last year when they offered an early retirement program, said state Senator Robert J. Mellow, the Republican minority leader and an accountant. "We felt, the studies done in other states would be totally irrelevant," Mr. Mellow said in an interview. "We had to find our own innovative ways to control costs and be humane in downsizing government."

Pennsylvania's program gave automatic credits for service and free health care, two of the most expensive incentives. In April 1990, just before the program took effect, Mr. Mellow told reporters he estimated 3,000 employees would take advantage of the program and, if only 10 percent of the vacancies were filled, the state would save \$85 million in payroll expenses in the first year.

## Retirees Paid as Consultants

It is not yet clear if the state will meet its goal that with few limits on participation, 6,700 employees took early retirement, many of them nurses, professors, engineers and others in crucial positions. That led many state agencies to rehire a number of the departing employees as consultants for as long as three months at their old jobs. The state ended up paying them both as retirees and as advisers.

Earlier this year, in a move to reduce staffing in selected agencies and job categories, Pennsylvania laid off 2,000 of its 120,000 employees. But at the same time agencies were laying off workers, they were also permanently filling positions left vacant by early retirees. As of June 30, agencies had filled 3,800 vacancies and had authorization to fill 1,600 others this year.

Vicente R. Vergara, a civil engineer with 25 years seniority, was among the early retirees who continued to work as a consultant. Mr. Vergara, 62 years old, said his early retirement benefits included health care and \$57,000 in monthly payments over three years. In addition, he earned more than \$10,000 working three months as a consultant.

And he said he may be called back for more consulting.

"The program made sense for those who took advantage of it," he said. "But it might have created some disruption because there was no time to turn over responsibilities in an orderly way."

## Rapidly Shrinking Expectations

The program's cost to the Pennsylvania retirement system was \$127 million in payments that began immediately, and the state has already scaled down its projections of payroll savings to \$20 million in the first year from \$85 million. "Once you go beyond replacing 50 percent of the retired employees, savings become very difficult," said Anthony Salomone, executive director of Pennsylvania's State Public Employee Retirement Study Commission.

In New Jersey, 2,400 state employees took advantage of an early retirement program last year. State agencies have already filled 1,000 of the positions and may fill the rest, said Richard McGrath, a spokesman for the state Treasury Department. Even so, he said the \$160 million program was expected to generate \$80 million in payroll savings the first year, and less in succeeding years. "If everything holds steady, we will break even in three years," Mr. McGrath said.

New York is one of the few states that monitored its programs and learned from its mistakes. A 1991 program that was supposed to save \$50 million wound up costing \$50 million, said Claudia S. Hutton, a spokesman for Gov. Mario S. Cuomo's budget office. "We had the double whammy of paying for the retirement incentives and replacing nearly everybody," she said.

In 1990 and 1991, the state again offered retirement programs, but Ms. Hutton said they were a part of a larger restructuring effort in which the state offered incentives only to employees in positions it intended to eliminate.

Ms. Hutton said that 4,000 employees participated and that the state expected to save \$120 million by eliminating their positions. The estimate is based on payroll savings for 18 months, which, on average, was the length of time each employee would have remained on the job without the early retirement program.

If New York's experience is any lesson, budget experts say, it is that programs hastily concocted during budget crises will probably not fare well.

"These programs seem to take the heat off the budget for a while, but nobody goes back to see how they really work," said Rita Horwitz, executive director of the Texas Pension Review Board, which surveyed state programs in 1990. "The best we could tell was that the programs were expensive."

More national news appears on page A14.

# Pension fund temporarily short

By ED SCHOENFELD

THE JUNEAU EMPIRE

Alaska's public school teachers retirement fund is nearly \$300 million short of what it will need to pay its anticipated debts over the next two decades.

But a study by the Legislature's auditors says the amount is not unusual for a fund its size — about \$2 billion.

And, teacher and school district payments will make up the missing money by the time it is needed, said Randy Welker, who runs the Legislature's audit office.

"It's not that there is any inability to pay current retirees," Welker said.

National Educational Association-Alaska president Claudia Douglas said her group, which represents many of Alaska's public school teachers, agrees with Welker's assessment.

"We're cautiously optimistic that the projections do indicate in the long run that those unfunded liabilities will be made up," she said Friday.

The fund pays pensions to about

3,600 eligible persons, most of whom are retired teachers. Another 9,240 teachers are paying into the program with the expectation that they, too, will earn benefits.

The unfunded portion of the anticipated debt — \$296 million at last count — essentially equals the anticipated pension costs for those teachers still at work.

That part of the anticipated debt, called an unfunded liability, stems largely from changes the Legislature made to the Teachers Retirement System in 1990, said state retirement and benefits director Bob Stalnaker.

The changes created two tiers of fund beneficiaries — teachers hired before June 30, 1990, and those hired after that date.

Those hired earlier were grandfathered into an older, more expensive retirement system that allows retirees to collect a pension at age 55, or 50 under early retirement.

Teachers hired later are in a less expensive system. They have to wait until age 60 to collect a pension, or 55 if they take early retire-

ment. They also have to pay their own health insurance premiums during the time they collect pensions before they turn 60.

The Legislature's changes also included some provisions, such as a more predictable system of cost-of-living raises for pensioners, that have driven up short-term costs.

That, said Stalnaker, has driven up the anticipated debt.

"You get hit with the liability right off the bat, but you experience the savings as you bring on more less-expensive employees," Stalnaker said.

Rather than pay a lot more into the fund for a few years and then greatly reduce payments after that, the system's managers have decided to average out the costs over several decades.

That's why the system's anticipated debt includes an unfunded liability of \$296 million, a figure that is expected to grow higher before it drops, Stalnaker said.

Studies cited by the audit project the unfunded liability will peak at somewhere between \$400 million and \$600 million 10 to 15

years from now, then drop to more than \$160 million in the following five to 10 years.

If the number of teachers in the system grows by as much as 2 percent a year, the fund could end with a surplus of almost \$670 million in about 25 years.

Welker did question the earnings projections of the fund, pointing out that they are higher than those of similar funds elsewhere.

Stalnaker, however, said earnings so far have generally been higher than projected, not lower.

Employees and employers contribute a percentage of wages into the fund, based on annual determinations of how much money is needed to maintain a financially sound account.

There have been concerns about the decision to average out annual contributions over several years, which came from political pressure to part from to reduce school district costs by decreasing employer contributions to the fund.

The auditors, however, determined the decision to average costs was not political.

**Evening:** Juneau residents this evening, as an offshore low moves south from the southern Gulf of Alaska to Yakutat and rain. The National Weather Service is warning for the Juneau area.

led with the low system moving through the Juneau area will be buffeted by winds from Stockton, forecaster with the

evening is calling for rain, suspended with gusts to 65 mph, and winds should diminish somewhat

ed at the Federal Building this morning reported morning gusts of 63 mph recorded at Mellakalla's boat har-

**Tuesday and Wednesday:** The winds on the district's 1993-1994 budget day at district offices at 12th and 7 p.m. Wednesday at Floyd

a budget shortfall of more than \$1 million, Helen McIntyre said today. Administrators, teachers prepared a list of potential cuts in the budget, McIntyre said.

narly due to increases in costs from the state and federal dollars re-

at would not impact directly the said.

**School-funding plan:** Gov. Walter E. Burke's support of three Fairbanks-Valdez Board of Regents for instruction and repair.

Fairbanks Mayor Jim Hayes

## Boy breathes life into his best friend

THE ASSOCIATED PRESS

**KETCHIKAN** — Call it a turn of events about an old cliché. Rob Swift is his dog's best friend.

Hearing neither breathing nor a heartbeat, Rob placed his mouth over the dog's nose and exhaled.

"I had some trouble getting a seal around the nose," he said.



## Imperiled Promises

### Risk to Retirees Rises As Firms Fail to Fund Pensions They Offer

The Tab May Have to Be Paid  
By U.S. Guaranty Agency  
And Healthy Companies

#### Chance of Taxpayer Bailout

By ALBERT R. KARR

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — As Pan American World Airways struggled to survive in the 1980s, the now-defunct airline sent letters to workers' homes, assuring them their pensions were protected under federal law, should worse come to worst.

But after Pan Am entered Chapter 11 bankruptcy proceedings and terminated the pension plan, workers got a jarring surprise. Says Tom Christie, who was a jet-engine repair manager at New York's Kennedy airport: "You think your pension is intact, and then you find out it's not."

Mr. Christie, who lives in North Merrick, N.Y., had been promised that if he left Pan Am, he would get a pension of more than \$1,000 a month when he turned 55 in late 1991. But the federal Pension Benefit Guaranty Corp., which took over the Pan Am plan, determined that it is obliged to pay him only \$596 a month. After being out of work for 10 months, Mr. Christie has taken a job as an aircraft-maintenance analyst at less than half his former pay.

#### Many Broken Promises

As more giant companies fall on hard times, retirees may face a wave of broken promises. The government, through the PBGC, backstops the pensions of 41 million Americans who have the plans that the U.S. has promised to insure. But often, as with Pan Am's Mr. Christie, pensions promised by employers aren't fully covered by the agency.

Although 85% of PBGC-insured plans are fully funded, the system falls far short of what many pensioners are led to believe is universal government protection under the 1974 law that created the agency. The PBGC currently sets a maximum guarantee at \$29,250 a year. It also discounts retirement payments according to the retiree's age; these reductions can amount to a two-thirds cut for younger retirees. And it doesn't cover most early-retirement supplements, among other exemptions.

SB 111

Not only pensioners stand to lose: healthy corporations and taxpayers are at risk, too. With more and more troubled companies underfunding their pensions, the PBGC could someday face an avalanche of terminated plans, much as the federal deposit insurers were snowed under by hundreds of failed thrift institutions in the late 1980s. As a result, companies' premiums to the PBGC could rise.

To cover a growing shortfall in its own funding, in fact, the PBGC says it will have to raise premiums for the pension funds it covers. Unless the government imposes new constraints on corporate underfunding, premiums would have to triple, the agency says — a prospect that angers many companies with fully funded plans. The higher premiums could accelerate the current flight of about 10% of the corporate plans from the PBGC system every year, widening the agency's financing problem by reducing its premium income.

Ultimately, the taxpayers could be left to pick up a sizable tab if a bailout proves necessary.

#### Relying on the Government

Particularly disturbing to the PBGC is the fact that many companies are doing what Pan Am did — holding back on pension contributions, with the assurance that the government will at least partly honor their promises to their workers. Indeed, many companies have not only short-changed their existing pensions but also made their plans more generous without increasing their contributions.

The plans that the government says are underfunded do meet minimum funding requirements under the law. Pan Am, for example, obtained Internal Revenue Service waivers in the 1980s letting it forgo its usual pension contributions. Companies taking these so-called funding holidays say they will plow money into their plans later, perhaps when times are rosier. But those times may never arrive, and, in the meantime, the underfunders are taking a gamble with their retirees, other companies paying PBGC premiums — and taxpayers.

"Too many employers continue to operate severely underfunded pension plans," says Rep. J.J. Pickle, chairman of the House Ways and Means Committee's oversight subcommittee. The Texas Democrat says they have deliberately continued, "year after year, to make empty pension promises — promises they cannot or do not keep." He warns that unless the pattern stops, "inevitably, Congress will be called upon to bail out the PBGC."

General Motors Corp., for example, has agreed to raise pension benefits frequently since 1983, including \$3 billion of new benefits in 1990, even as its pension-plan underfunding increased \$13 billion, the PBGC says. GM recognizes the pension shortfall and plans to contribute more to its underfunded plans. "Our goal over the long-time horizon is to be fully funded on a real-world or economic basis by the end of the century," a GM spokesman says.

Trans World Airlines and Continental Airlines have each added \$100 million in pension benefits while under Chapter 11 bankruptcy protection, with the bank-

Please Turn to Page A8, Column 1

PAGE 1 OF 3

# Imperiled Promises: Underfunding of Pensions Poses Risk for Guaranty Agency, Retirees and Taxpayers

Continued From First Page

ruptcy judges' blessing. And Uniroyal-Goodrich, a Michelin Group unit, lifted benefits in one pension fund by 50% to 80% between 1988 and 1991 from several earlier union contracts, even though the plan was woefully underfunded, the PBGC says. The company disputes the PBGC estimate of how much the plan was expanded.

Many employers, if they're low on funds, "take the path of least resistance" to worker demands for improved wages or benefits, says Howard Weizmann, vice president for benefits consulting at Aetna Life Insurance Co. Since more generous pension benefits are costs that aren't incurred for years — and may be picked up by the government anyway — some companies would rather promise bigger pension benefits than face the immediate costs of higher wages. Mr. Weizmann, a former executive director of the Association of Private Pension and Welfare Plans, an employer group, says many companies consider the PBGC backstop, paid for by corporate insurance premiums, as part of their financial resources. And they regard pension increases as "written on PBGC's account," Mr. Weizmann says. "You can increase benefits because you know that other employers support the system."

Meanwhile, companies can mislead employees as to just how far-reaching that pension support is. On Oct. 5, 1990, the PBGC terminated Eastern Airlines' pension plans, but 20 days later, the airline's pension and insurance director wrote Eastern retirees assuring them that no benefits would be cut and early-retirement payments would continue.

In addition, a later PBGC brochure said the agency guarantees disability payments for disabilities existing before plans are terminated.

## Dismayed Former Pilot

Frank Dysart, a former \$60,000-a-year Eastern pilot on disability retirement since 1959 because of an inoperable ruptured disk in his back and a heart condition, says he was assured by the PBGC and Eastern's management that his disability pay wouldn't be affected. But the PBGC slashed it to \$984 a month from \$2,200. And he has written off a promised increase of \$2,500 a month under the company plan.

Mr. Dysart's only health coverage is Medicare even though he now is only 49 years old. And the Pine Lodge, Ga., man says, "I can't even get a job as a newspaper boy, because of my disability." Without \$1,100 a month in Social Security disability benefits, "I don't know what the hell I'd do," he says.

In the fiscal year ended last Sept. 30, the PBGC took over terminated pension plans covering 52,000 people, double the year-earlier total of 26,000. In all, it has assumed responsibility for more than 1.7 million plans, involving 424,000 retirees and workers.

The government insures only "defined-benefit" plans, under which employers promise specific pension payments when a worker retires, and it has to come up with

the money to pay those benefits. Companies with defined-benefit plans must participate in the system, and those choosing to withdraw from it must first restructure their pension plans.

In 71 terminated plans recently studied by the General Accounting Office, the congressional watchdog agency, participants in 31 of the plans lost a total of 12% of the plans' promised benefits.

"Certainly, participants can suffer if their plans terminate," says James Lockhart, who was the PBGC executive director until leaving two weeks ago with the change in administrations. President Clinton hasn't named a replacement.

## Lawsuits by Retirees

The PBGC has been sued by some retirees, who have charged that the agency unfairly interpreted the law and refused to pay promised benefits. In some cases, the PBGC has been ordered to make certain payments or has agreed to a settlement.

Kathleen Utgoff, who headed the agency until 1989, says it has developed "a basic bunker mentality." The view now is one of "an S&L situation, and they do everything they can to reduce claims," she says. Mr. Lockhart says the agency merely adheres to restrictions under the law.

Addressing the corporate pension underfunding that leads to all these PBGC troubles, Rep. Pickle plans a hearing today on legislation that he introduced along with Sen. James Jeffords, a Vermont Republican. It would force companies with underfunded plans to narrow the funding gap and would limit their ability to raise pension benefits without a commensurate increase in fund assets.

"We want to be careful that legislation doesn't put companies out of business or into bankruptcy" from being forced by Congress to speed up funding, comments Christopher Bowlin, an employee-benefits official at the National Association of Manufacturers. The NAM says scenarios rosier than the one advanced by the PBGC are just as likely, and it doesn't want legislation based on predictions that may not pan out. It also says employees are better off if a company maintains its overall viability, rather than jeopardizing it by trying to fully fund pension plans.

Yet many large PBGC-insured plans — especially in the troubled auto, tire, airline and steel industries — fall short of being fully funded. To spotlight the problem, the PBGC issues a controversial "top 50" list of companies with underfunded plans, ranked by percentage of liabilities — benefit promises — not covered by plan assets.

Mr. Lockhart notes that many companies on the list are in good financial shape and that their pension plans aren't in danger of folding. But he warns that some are so weak that their plans could well be terminated in coming years, transferring the liability to the PBGC and posing a serious financial problem for the agency.

In another House hearing, on Tuesday, Mr. Lockhart said the agency now has a "pessimistic projection" that its \$2.5 billion deficit — the excess of its liabilities over its assets — as of last Sept. 30 could

climb to a \$16 billion to \$28 billion range in a decade. Last year, its worst-case forecast was an \$18 billion deficit in 10 years.

"There are some scenarios where we could get to be a very major crisis," Mr. Lockhart says. "It's hard to predict where the big hits are going to occur, but the big hits can be very, very big."

How did so many pension funds get in this fix? As employers struggle to make ends meet, it's relatively easy to give short shrift to pension plans. The money isn't paid out until workers retire, and then only in monthly increments over decades. Funding can be postponed until a hoped-for sunnier day.

Many companies' malnourished pension plans are traceable to mergers and acquisitions in recent years. When companies acquire a weak operation, they often end up with some underfunded pension plans as well. National Intergroup, for example, took on some sour funds when it acquired Weirton Steel Corp. Also inheriting badly underfunded plans through acquisitions have been American National Can Co., Anchor Glass Container Corp. and Ravenswood Aluminum.

Labor unions play a major role in pension-benefit increases that worsen the underfunding problem. Rather than nailing down hard-cash wage increases, they often find it easier to win benefit gains that won't be paid for years and will be covered by the PBGC if the company falters.

"Instead of increased wages, we bought benefit-type packages every year," says Timothy Buckston, a Cleveland-based official of the United Steelworkers of America. Speaking of benefit increases that the union wrung out of troubled LTV Corp., now under Chapter 11, he says, "They knew the PBGC protection was there." But when the PBGC took over that plan in 1987, it refused to pay a \$400 monthly supplement covering early retirement for shutdowns. The pension dispute exploded into a protracted wrangle between LTV and the PBGC, prolonging the bankruptcy proceedings.

In 1991, Goodyear Tire & Rubber Co., another company on the PBGC top-50 list, granted the United Rubber Workers union a 28% pension-benefit increase when it was heavily underfunded.

## New Report Due

At today's congressional hearing, the GAO is expected to release a report on pension-benefit increases granted in 1990 and 1991 by eight large companies with underfunded plans. In that study, the GAO found that the two biggest companies in each of the auto, steel, airline and tire industries had a combined \$5 billion widening of their underfunding gap. The GAO found that 40% of the increase was attributable to moves to expand benefits.

Although many companies with underfunded plans contend that the PBGC overstates the problem, the agency says it may well be underplaying the danger because underfunding often balloons when a plan must be terminated. And the GAO agrees that corporate figures may understate the problem. In a recent report on "hidden liabilities," it said the PBGC had determined that 44 plans it studied had total unfunded liabilities of \$2.7 billion when the plans were terminated, or 58% more than what the companies had shown in their last filings with the government.

No one predicts an immediate crisis. But the problems are building. "We can hide it for a while, but it's going to get worse," Mr. Lockhart warns.

PAGE 2 OF 3

## Unfunded Pension Liabilities

The 50 companies with the largest unfunded pension liabilities, as a percent of total liabilities. Ranked by funding ratio, the percent of total that's funded. All figures, unless otherwise stated, are in millions of dollars, as of Dec. 31, 1991.

COMPANY	PLAN ASSETS	TOTAL BENEFIT LIABILITY	UNFUNDED BENEFIT LIABILITY	FUNDING RATIO	GOVERNMENT GUARANTEED BENEFIT LIABILITY
Raytheon and Alouette	\$ 10	\$ 90	\$ 80	11%	\$ 85
LTV	425	3,415	2,990	12	3,244
John Morrell	51	124	73	41	118
Unirex Goodrich Tire	391	945	554	41	898
Krylane Consolidated	85	205	120	42	195
New Valley	331	712	381	46	677
Leavitt	129	277	147	47	263
Starn Steel	122	243	121	50	231
Laclede Steel	70	132	63	53	126
Carrier Hauling Hubs	81	151	70	54	143
Chrysler	4,855	8,874	4,019	55	8,430
Rockwell Int'l	437	797	360	55	741
American Nat'l Can	516	929	413	56	883
Borg-Warner	121	217	96	56	206
Bridgestone-Firestone	305	546	241	56	519
Anchor Glass Container	159	281	122	57	267
Nat'l Intergroup	434	758	325	57	721
Trans World Airlines	592	986	394	60	936
Occidental Petroleum	115	187	72	62	177
ACF Industries	124	199	75	62	189
Budd	333	520	188	64	494
Cyclops Industries	275	424	149	65	403
Tenneco	191	294	103	65	279
Bathlehem Steel	3,492	5,347	1,854	65	5,079
White Consolidated Ind.	230	345	116	67	322
Foxboro	129	189	60	68	180
Crown Cork & Seal	528	723	195	73	687
Varity	243	332	89	73	315
Allegheny Ludlum	313	426	113	73	405
Deere	1,185	1,613	428	73	1,417
B.F. Goodrich	490	661	171	74	628
Navistar Int'l	2,050	2,759	709	74	2,621
James River	214	281	68	76	267
Maxxon	617	810	193	76	769
ASI Holding	199	257	58	77	244
General Motors	38,903	50,730	11,827	77	48,194
Clark Equipment	234	305	71	77	290
Northwest Airlines	357	460	102	78	437
Arco Steel	672	867	195	78	737
Reynolds Metals	542	691	149	78	657
Rohr	326	406	81	80	386
Honeywell	367	456	90	80	433
CSX	815	1,008	193	81	958
RJR Nabisco Holdings	727	897	169	81	852
Goodyear Tire & Rubber	1,146	1,402	256	82	1,332
Burlington Northern	431	523	93	82	497
Pacificorp	478	578	100	83	549
Nat'l Steel	482	572	90	84	543
Westinghouse Electric	4,275	4,999	724	86	4,749
Kimberly-Clark	780	853	73	91	838
<b>TOTAL</b>	<b>\$70,377</b>	<b>\$99,795</b>	<b>\$29,420</b>	<b>71%</b>	<b>\$94,615</b>

Source: Pension Benefit Guaranty Corp.

Page 3 of 3

# Municipality of Anchorage



P.O. BOX 196650  
ANCHORAGE, ALASKA 99519-6650  
(907) 343-4433  
TOM FINK,  
MAYOR

OFFICE OF THE MUNICIPAL MANAGER

April 7, 1993

Senator Drue Pearce, Co-Chair  
Senate Finance Committee  
State Capitol  
Juneau, Alaska 99801

Re: SB 111, Defined Contribution Plan

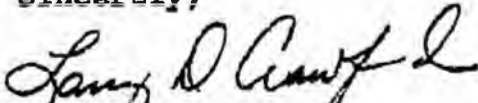
Dear Senator Pearce:

During the course of analyzing the impact to the Municipality of Anchorage of SB 111, Defined Contribution Plan, we consulted with our pension consultants at the Wyatt Company. The attached letter from the Wyatt Company outlines what they consider to be the most major and critical questions they have regarding the proposed legislation.

The Municipality supports the concept of a defined contribution plan since the employee and the employer can plan on the outcome. Under the current system both have to depend upon too many variables in determining funding levels. The amount obligations of many plans in the past have grown at a rate that was never expected. This has been particularly true of retirement medical costs. I'm sure you are aware of what private companies have been going through with Financial Accounting Standards Board (FASB) 106.

We would appreciate the Committee's consideration of these questions prior to taking any action on the legislation, and would like to work closely with you on any proposed changes to the Public Employees Retirement System.

Sincerely,

  
Larry B. Crawford  
Municipal Manager

cc: Senate Finance Committee Members

The Wyatt Company  
Consultants and Actuaries

Suite 1910  
701 Fifth Avenue  
Seattle, Washington 98104-7053

Telephone 206 625 1125  
Fax 206 447 8867

*Wyatt*

March 19, 1993

Ms. Susan Lindemuth  
Manager  
Records and Benefits  
Municipality of Anchorage  
P.O. Box 196650  
Anchorage, AK 99159-6650

RECEIVED  
MAR 22 1993

Municipality of Anchorage  
PERSONNEL OFFICE

Re: Bill to Create D.C. Plan

Dear Susan:

Thanks for your letter of March 15, 1993. The idea of a statewide defined contribution plan is quite intriguing. As requested, we have prepared a list of major issues and concerns, many of which are reflected in your March 9, 1993 memo to Larry Crawford. The issues are organized under separate subheadings to facilitate your review.

Basic Plan Design

Should employees be covered under a defined benefit or defined contribution plan?

- (a) Do the Bill's sponsors realize that young terminees will get much larger benefits than under the current program (contribution will be stilted away from retirees toward younger terminees)?
- (b) Do the Bill's sponsors realize that they will lose the ability to define a specific retirement target, tailor early retirement incentives (if necessary), disability benefits, or provide post-retirement adjustments?
- (c) Do the Bill's sponsor realize that employee directed investments tend to under perform when compared with employer managed investments?

Ms. Susan Lindemuth  
Manager  
March 19, 1993  
Page Two

*Wyatt*

Plan Legal Authority

Can the employer "pick-up" a variable employee contribution under IRS Code Section 414(h)? [This appears to negate the legislative change which precluded public employers from sponsoring 401(k) plans.]

- (a) Are there any discrimination requirements?
- (b) Are there any maximum contribution limitations?
- (c) Are there coordination problems with existing plans?

Actuarial Impact

How would contribution rates change for existing covered employees?

- (a) Would current/future retirees ever get cost-of-living adjustments?
- (b) What happens to future actuarial gains/losses?
- (c) What happens to an employer who has no active defined benefit participants, only retirees?
- (d) Would future contributions be based on separate contributing employer characteristics?

Specific D.C. Plan Design Questions

What is the nature of the new plan?

- (a) What are vesting requirements?
- (b) What are investment options?
- (c) What are administrative details?
- (d) Are guarantee burdens placed on sponsoring employers?

Ms. Susan Lindemuth  
Manager  
March 19, 1993  
Page Three

*Wyatt*

Side Questions

Who would be eligible to purchase health coverage?

Susan, we could certainly provide many, many more detailed questions; but the above ones are so major and critical, it seems like it is best to get them answered, before proceeding further.

I'm interested to see how all of this turns out.

Sincerely,

*Dick*

Richard R. Joss  
Consulting Actuary

RRJ/set  
(07969/20/012)

(713-26-1110/00007)

FELY DELOSANTOS  
1713 LARCH STREET  
KODIAK, AK 99615

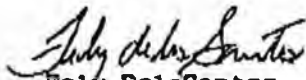
Senator PEARCE  
State Capitol  
Juneau AK 99801-1182

I am strongly opposed to the passing of senate bill III and I think it wrong to discriminate and segregate state employees when it comes to new or old hire and certified or classified employee retirement benefits.

State employees have worked long and hard years while looking forward to their future retirement. Why take that privilege away from us now? There are people in Alaska who neither work for the state or just move here in order to receive a permanent dividend while some people who have lived here for years and should rightfully receive one are being questioned. Those are the problems that need your attention. Why try to fix it when it isn't broken? Hard working employees needn't be sacrificed at the expense of others.

Please share this letter with the rest of the committee and assure them that I am not the only one with the same view of this subject.

Thank-you for your attention.



Fely DeLoSantos  
Kodiak Island Borough School District  
Classified Employee

1fah

OFELIA F. AURE  
1317 LARCH STREET  
KODIAK, AK 99615

Senator PEARCE  
State Capitol  
Juneau Ak 99801-1132

Please share this letter with the rest of the committee that I am opposed to the passing of senate bill III. I think it is discriminating to segregate the state employees whether it is certified or classified; new or old hire when it comes to retirement benefits.

As a state employee, I have worked long faithful years while looking forward to future retirement benefits. Why is it that the state is giving away dividends to people who do not even reside in Alaska long enough to be justified worth receiving a dividend or to some people who have moved to Alaska just to receive the benefit when they do not even work for the state? Why sacrifice your hardworking employees when obviously we aren't really the major problem at hand.

Please consider my views on this subject which I am sure aren't going to be the only ones on this matter. Other people feel quite the same as I.

Thank-you for your time.

*Ofelia F. Aure*

Ofelia F. Aure  
Kodiak Island Borough School District  
Classified Employee

1fah

APR 06 1993

April 06, 1993

Senator Pearce  
State Capitol  
Juneau, Ak. 99801-1182

I am writing you in regards to Senate Bill 111, which deals with and if passed will have an effect on the current TRS/PERS system. After having read the SB111 I feel that SB111 would not be advantageous to current TRS/PERS members or new employees, and would in fact probably be the beginning of the end of TRS/PERS. I would request that you help defeat SB111 now while it is in committee.

Respectfully;



Kenneth R. Parker  
P.O. Box 3335  
Kodiak, Alaska 99615

APR 06 1993

April 06, 1993

Senator Pearce  
State Capitol  
Juneau, Ak. 99801-1182

Ref. Senate Bill 111

Dear Senator Pearce,

Senate Bill 111 is of great concern to me and most people I've spoken with who are in the PERS/TRS retirement systems. With a new plan in place, what guarantees do we (who are currently on the PERS/TRS systems) have that the current program will have monies left when our turn at retirement occurs?

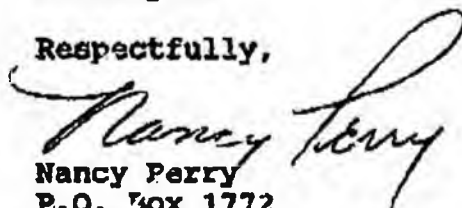
If this bill was a good bill, why was it not made public enough for the unions to hear about it or why are the Senators exempt from it?

Too many questions for a bill to just be passed without the issues being faced first.

Please help us stop this bill while it is still in committee.

Thank you.

Respectfully,



Nancy Perry  
P.O. Box 1772  
Kodiak, Ak. 99615

April 6, 1993

**VIA FAX - 465-3872**

Dear Senator Pearce:

As an employee of the Kodiak Island Borough and participant in PERS, I **strongly** urge you and your fellow members of the Senate Finance Committee to vote **AGAINST** Senate Bill 111.

I have spoken with the majority of the employees here at the Borough and at the School District, and it the overwhelming consensus that **no one** wants our retirement program changed.

This new bill would introduce a plan that has not been proven, and would only benefit the few insurance people involved by giving them a commission on someone else's money. Our current retirement program is a good plan and should be left alone.

Please use the power you have been elected to use to truly represent the people who have elected you, and **VOTE AGAINST SENATE BILL 111.**

Sincerely,



Eileen Probasco  
PO Box 3149  
Kodiak, Alaska 99615

April 6, 1993

**VIA FAX - 465-3872**

Dear Senator Pearce:

As an employee of the Kodiak Island Borough and participant in PERS, I **strongly** urge you and your fellow members of the Senate Finance Committee to vote **AGAINST** Senate Bill 111.

I have spoken with the majority of the employees here at the Borough and at the School District, and it the overwhelming consensus that **no one** wants our retirement program changed.

This new bill would introduce a plan that has not been proven, and would only benefit the few insurance people involved by giving them a commission on someone else's money. Our current retirement program is a good plan and should be left alone.

Please use the power you have been elected to use to truly represent the people who have elected you, and **VOTE AGAINST SENATE BILL 111.**

Sincerely,



James Woitel  
1818 Mission Road  
Kodiak, Alaska 99615

APR 06 1993

\*\*\*\*\*FAX\*\*\*\*\*

4-6-93

To: Senate Finance Committee Members:

Steve Frank  
Drue Pearce  
George Jacko  
Tim Kelly  
Steve Rieger  
Bert Sharp  
Jay Kerttula

From: Craig Persson  
P.O. Box 82324  
Fairbanks, AK 99708  
Phone #: 457-3727  
Work Phone #: 474-2555

REGARDING: Senate Bill 111- Defined Contribution Retirement Plan

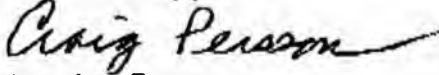
SB111, the Defined Contribution Plan, is a law that will basically set up a two tiered retirement system. I am opposed to this piece of legislation. I offer the following reasoning to my opposition of this bill:

1. Under this bill, the state or public employer has no accountability or responsibility to insure an employee in this new plan receives or maintains a retirement. If another Executive Life fiasco happens with the employee's or retiree's funds the employee or retiree could be left with no or little retirement.
2. This bill contains health insurance coverage for retirees of the new system, but at the retiree's expense. Health insurance is not even partially covered under this bill. In times when health care is so costly this speaks for itself.
3. Under SB111 existing employees may choose to stay in PERKS, TRS, Judicial Retirement System or the University Retirement System. All new employees hired after July 1, 1993 would be under the new Defined Contribution Retirement Plan. The main problem with closing the system to new participants is THE WHOLENESS AND SECURITY OF THE PRESENT RETIREMENT SYSTEMS!!!! New employees in many public and private pension plans, including social security, rely on payments from participants who replace retirees to keep the retirement system sound for the future. Do the underwriters of this bill know what the long term effects will be to

future retirees who stay in the current systems? In 20 to 30 years there will be no one paying into the old systems, but there will probably be at least ten thousand retirees drawing their pension from the old systems. What effect will this have on the PERS, TRS, JFS and University retirement systems?

The current retirement systems in Alaska are sound and have worked well for many years. Splitting the public employee retirement systems into a two tier system will create two systems that are both unknown and insecure for public employees and public employee retirees. The current systems are secure and fair to all employees and retirees.

Sincerely,



Craig Persson

4-6-93

SENATOR PEARCE  
SENATE CAPITAL  
JUNEAU, AK. 99801-1182

Dear Senator Pearce,

It is my understanding that Senate Bill 111 is being heard in the Senate Finance Committee tomorrow morning, 4-7-93. I believe that this bill is not in the best interests of the State of Alaska or those employees who are now in the PERS retirement system, or those who will enter the system in the future. It is my recommendation and request that you vote AGAINST this bill. Following are my reasons:

1. With no new monies coming into the OLD system, it will not be long before the old system is broke, thus stranding those employees who worked so hard and gave so much to the system and their employers.
2. I do not believe for one minute that this bill was submitted to benefit the employees, rather it appears to me that the sole beneficiary of this bill are those who are connected with insurance agencies and banks who deal with private retirement programs. In other words, this bill is not for us, but is a special interest bill designed by someone who will no doubt benefit from it in some way, either directly or indirectly.
3. The present retirement system works exceptionally well as it is, and yearly REP early retirement offerings will strengthen the system more than any other offering, while at the same time provide new employment opportunities and promotional opportunities for others, thus making employment in Alaska civil service something that can draw the best people.

Again, it is my request and recommendation that you VOTE AGAINST SENATE BILL 111.



MICHAEL H. ANDRE  
KODIAK POLICE SERGEANT

April 7, 1992

Senator Pearce  
State Capital  
Juneau AK 99801-1182

Dear Senator Pearce:

It is my understanding that Senate Bill 111 is being heard at 9:00 am on Wednesday in the Senate Finance Committee. I implore you to vote AGAINST BILL 111.


This bill does not appear to be in the best interest of employees currently working under the PERS/TRS system. There are no guarantees that funds will be available in the new plan at the time of my retirement, and if I choose to remain in the old (current) plan, no new monies will be invested into the plan, which could possibly result in bankruptcy at retirement. Either way, it is too much of a gamble to take.

Currently, our present retirement system is satisfactory, some say it is the best in the country; I am against any change that could possibly jeopardize this.

I ask that you please share this letter with the rest of the Committee, and encourage them to VOTE AGAINST SENATE BILL 111.

Thank you for your consideration in this matter.

Sincerely,



Lauri Whiddon  
Admn. Asst./City of Kodiak  
112-A Five Fingers Court  
Kodiak AK 99615

(907) 487-2761/home  
(907) 486-8000/work

Senator Pearce:

I am ~~presently~~ planning to retire at the end of this school year. However, Senate Bill 111 has me extremely concerned. Its passage could very well destroy my expectations of a financially secure ~~retiree~~ retirement. I have paid into TRS/PERS for 22 years and want the system to continue as previously ~~exp~~ promised. Please defeat SB 111 immediately.

Sue L. Platt  
920 Reynolds  
Kodiak  
486-5325

Dear Mr. Pearce:

4/6/93

I strongly oppose Senate Bill 111. If this bill becomes law it will greatly jeopardize the current TRS/PERS system 20-30 yrs from now. I paid in to this system for many years + count on it to sustain me for the rest of my life. Please tell the other Senators of my objection. Vote no!

Sincerely,  
Mr. & Mrs. Beecher Koduk

April 6, 1993

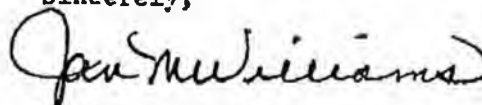
Senator Frank  
State Capitol  
Juneau, Alaska 99801-1182

Dear Senator Frank:

I have 20 years in PERS. It has worked well! Please do not allow our Retirement System to be changed by "special interest groups".

I would appreciate your help in defeating SB111 and also support from your committee members to defeat this Bill. Thank you.

Sincerely,



Jan M. Williams  
P.O. Box 76  
Kodiak, Alaska 99615  
(907)486-3168

jmw

April 6, 1993

Senator Pearce  
Senate Office  
Juneau, AK 99801-1182

Dear Senator Pearce:

SB 111 is not supported by the majority. I don't believe there has been sufficient research to implement a change now. I strongly urge you to NOT support SB 111.

Sincerely,



Jennifer Spencer  
(907) 486-3183

/js

April 6, 1993

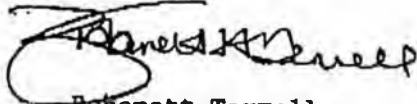
Senator Pearce  
State Capitol  
Juneau, Alaska 99801-1182

Dear Senator:

In regards to SB 111, give me a break! Why take something away that we as contributing employees have relied on and depend on upon retirement?

I am urging you to take whatever means necessary to DEFEAT SB 111. It is a crock, and is very unfair.

Sincerely,



Robenett Terrell  
(907) 486-8245

/RT

April 6, 1993  
Kodiak, Alaska

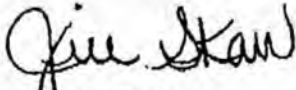
Senator Frank  
State Capitol  
Juneau, Alaska 99801-1182

Dear Senator:

I am writing in regard to SB 111. I am requesting your support in defeating this piece of legislation. I feel strongly that our retirement system is working very well. Why alter it now? I am baffled about SB 111 and wonder who could possibly benefit by it.

I appreciate your consideration in defeating SB 111.

Sincerely,



Bill Skaw  
PO Box 842  
Kodiak, AK 99615  
(907) 486-5066

April 6, 1993

Senator Pearce  
State Capitol  
Juneau, AK 99801-1182

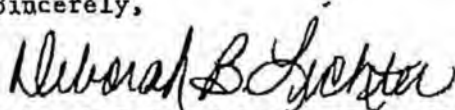
RE: SB 111

I have been involved with the TRS/PERS retirement system since 1974. After paying into it off and on over the past twenty years, I am questioning the reasoning for the change as asked for in Senate Bill 111. I don't believe that the alternative has been researched adequately. Since I am eligible to retire in another 15 years, I am wondering if there will be funds in it for my retirement.

I am writing to ask that you not support this bill. There is not enough legitimate research to support a change in the current TRS/PERS program.

Thank you for your consideration.

Sincerely,



Deborah Bain Lichter, CPS (907) 486-2572

/dbl

cc: Mr. Reiger

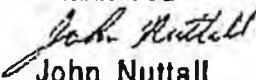
April 8, 1993

Senator Pearce  
State Capitol  
Juneau, Ak 99801-1182

Dear Senator Pearce,

I am writing to you because I am very concerned about SB 111. I see it as possibly the biggest financial burden to be put on the State since the Mental Health Lands screw up. With the State having the obligation to pay all the present people in the State's Retirement Program, with No new money coming in from new hires, the fund can not last for 50 to 60 years which is the life expectance of the people presently in the system. If the fund runs out of money, which it surely will, the State will find itself with the burden of providing retirement to thousands of retired teachers and public employees who have earned a retirement check. This money will then have to come out of the General Fund rather than from all the employees because the State will have set up a second retirement fund from which they can not draw interest. I urge you to vote No on SB 111 and save the young people of our state this unneeded burden, when the burden should be on the employees of the State as it now is. Don't try to fix something that is not broke just so Insurance companies and investment brokers can make big bucks off the employees of the State of Alaska.

Thank You



John Nuttall

Box 2554

486-5594

Kodiak, Alaska 99615

APRIL 6, 1993

SENATOR PEARCE  
CO-CHAIRMAN SENATE FINANCE COMMITTEE  
STATE CAPITOL  
JUNEAU, AK 99801-1182

DEAR SENATOR PEARCE,

I AM WRITING TO EXPRESS MY CONCERN REGARDING SB 111 WHICH  
ADDRESSES CHANGES TO THE STATE EMPLOYEE RETIREMENT SYSTEM.

I FEEL THIS BILL WILL HAVE THE EFFECT OF JEOPARDIZING  
RETIREMENT BENEFITS FOR PRESENT WORKERS AND THOSE CURRENTLY  
DRAWING BENEFITS.

I AM REQUESTING YOU TO OPPOSE THIS BILL.

SINCERELY,

*Marcia A. Stelzer*

MARCIA A. STELZER  
BOX 2412  
KODIAK, AK 99615

Honorable Senator Pearce  
State Capitol  
Juneau, AK 99615

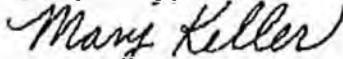
April 6, 1993

Dear Senator Pearce:

I am writing concerning SB 111. I do not feel that the consequences of changing to the proposed system have been thoroughly weighed. Will both systems be solvent at the time of and during all employees retirements?

I hope you will oppose this bill.

Sincerely,



Mary Keller

2886 Turner Lane  
Kodiak, AK 99615  
486-9231 WK. 486-6325 HM.

April 6, 1993  
Kodiak, Alaska

Senator Drew Pearce  
State Capitol  
Juneau, Alaska 99801-1182

Dear Senator Pearce,

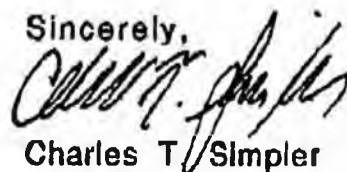
I am writing to obtain your support in opposition to SB 111. This ill-advised piece of legislation serves the interest of no one who is currently under TRS or PERS. In addition, the financial implications of this legislation are at best unknown, and could have the State involved in costly litigation for years to come.

When a system is working, as ours is, why is a major change under way when no one in the system wants to change it? Is this legislation being promoted for the personal interests of those involved in its drafting? I certainly question their motives in coming up with such a piece of irresponsible legislation.

Has this legislation been submitted to the retirement system for financial analysis by their actuaries and if not, why not?

I respectfully request your assistance in supporting the defeat of SB111 and the continuation of our retirement system as it currently is.

Sincerely,



Charles T. Simpler  
P.O. Box 465  
Kodiak, Alaska 99615  
(907) 486-5897

Box 1313  
Kodiak, Alaska 99615  
April 6, 1993

Senator Druc Pearce, Co-Chair  
FAX 465-3872  
Senate Finance Committee  
State Capitol  
Juneau, Ak 99801-1182

Dear Senator Pearce,

I am very concerned about SB 111, from a number of standpoints. I have been teaching in Alaska since 1970. I love what I am doing and feel that I still have something to contribute, so I have no immediate plans to retire. However, I expect the system to be solvent when I do retire and that it will continue to be solvent while I am retired. I believe solvency is in jeopardy with this plan, as no new monies would be injected into the plan.

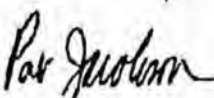
It is my understanding that the current retirement system is in excellent shape. Further it is self-sustaining. Why correct something which isn't broken? Who will this benefit? Will a special interest group benefit at the expense of all public employees? Where are the studies on how the money will be invested, what my return will be, etc.?

I really do not see where the push for this bill is coming from. It seems to me that when we have an excellent system in place, which is self-sustaining, why try to change it? If there is a perceived need to change it, then why not do some studies to see if the concerns are justified and to try to make educated decisions on the best remedy to pursue.

Although I am not one of your constituents, I have been impressed observing you as a legislator for several years and trust that you will continue to make thoughtful, conservative decisions.

Thank you for your time.

Sincerely,

  
Pat Jacobson  
486-3954

April 5, 1993

Senator Steve Frank and Senator Drue Pearce, Co-Chairpersons  
Senate Finance Committee  
State Capitol  
Juneau, Alaska 99801-1182

Dear Finance Committee,

It was a shock to me to learn about Senate Bill 111. This is to let you know that I am opposed to the passage of this bill. Please do not vote to move this bill out of committee. If it does go to the whole Senate for a vote, I ask you to defeat it.

I am a member of TERS and have serious fears about the viability of that system if you choose to suddenly change to this new proposal. Not only do I think that this has not been studied enough to know the long term ramifications, but I personally believe that they will be negative. I cannot see how this move can do anything but harm to the present system and create a weak and undesirable system for future employees.

I am looking forward to the news that this objectionable bill has died in committee.

Sincerely,



Daniel L. Busch  
Box 1162  
Kodiak, Alaska 99615  
907-486-5310

March 31, 1993

Senator Drue Pearce  
Senate  
State Capitol  
Juneau, Alaska 99801-1182

Dear Senator Pearce,

Recently, I have been made aware of Senate Bill 111 and the effect that it will have upon not only my own retirement but the retirement of future Alaskans. This is to let you know that I am vehemently opposed to SB 111.

This bill looks like nothing less than some misguided attempt to throw business to insurance agents who will be able to sell newly retired, older Alaskans a health plan and a paid-up annuity. It also appears to be a sure way to reduce or eliminate the future retirement benefits of present members of PERS and TERS when that fund is depleted. How can supporters of this bill justify themselves? Alaska should be proud to have one of the best and most successful retirement systems in the United States. Why tamper with it?

I certainly hope that you will listen to the opponents of this bill. Please do not vote to move this out of the Finance Committee. If it does go to the floor for a vote, please do not vote in favor of it.

Sincerely,



Randy Reichmann Busch  
Box 1162  
Kodiak, Alaska 99615  
(907) 486-5310

**THE FOLLOWING DOCUMENT  
HAS NOT BEEN FILMED  
BUT IS AVAILABLE IN THE  
ORIGINAL FILE**

# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P. O. Box 113300  
Juneau, AK 99811-3300  
(907) 465-3830  
FAX (907) 465-2347

January 11, 1993

Members of the Legislative Budget  
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

### DEPARTMENT OF ADMINISTRATION TEACHERS' RETIREMENT SYSTEM REVIEW OF SELECTED FUNDING ISSUES


January 11, 1993

Audit Control Number

02-4447-93

The audit addresses the circumstances surrounding the April 1992 decision of the Teachers' Retirement System Board to adopt an enhanced actuarial projection methodology utilizing population and asset projection features. Additionally, the audit discusses the impact of the enhanced actuarial projection methodology on employer contribution rates and projected funding ratios. It also addresses concerns common to public pensions.

The audit was conducted in accordance with government auditing standards. Fieldwork procedures utilized in the course of developing the findings and discussion presented in this report are discussed in the Objectives, Scope, and Methodology section of this report.

  
Randy S. Welker, CPA  
Legislative Auditor